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SEMI-ANNUAL OVERVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

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Executive Summary

The euro area's economic activity remained solid in the first quarter of this year, albeit with lower growth than last year; the Russian military aggression that began in late February and the sanctions imposed in response have worsened the economic outlook, most notably sharply increasing the risk of a long period of elevated inflation. *Given the introduction of more stringent containment measures and the supply chain bottlenecks, GDP growth had already slowed at the end of last year, and remained relatively low in the first quarter of this year according to short-term indicators. The shock to international relations in late February was reflected in March's downturn in the assessments of the evolution of demand by manufacturing and retail firms. The ECB projections released in March do not envisage a drastic slowdown in economic growth in the euro area: the current forecast is for economic growth of 3.7% this year, or 2.3% under the severe scenario, still above the long-term average. Our assessment is that the risk of higher inflation has increased sharply: it is forecast at 5.1% this year, and could even exceed 7.0% under the severe scenario. Inflation in the euro area has hit its highest level to date, reaching 7.5% in March, and inflationary pressures are being further raised by the current situation on international markets for energy, commodities and food. The high inflation is affecting purchasing power: average wage growth in the euro area was negative in real terms in the final quarter of last year. The significant downturn in international relations has also increased the negative risk to the public finances, in connection with the extension of measures to mitigate the impact of higher energy prices, aid for refugees, rising defence expenditure and an increased focus on food security.*

The financial markets showed a sharp increase in volatility amid thin liquidity in the first quarter of this year, particularly in more risky assets. *The war in Ukraine and the significant downturn in international relations drove investors to safe-haven investments, which was reflected in a higher price of gold, while the value of equities and bonds with higher credit risk fell sharply. Amid forecasts of higher, more sustained inflation, a number of global central banks have signalled a faster withdrawal of accommodative monetary policy. According to inflation swaps, market participants anticipate that inflation in the euro area might remain above 2.0% over the medium term. The increased market expectations for this year's key interest rates hikes at the ECB and the Fed were reflected in considerably higher euro area and US government bond yields. The market conditions stabilised significantly in the second half of March. Volatility decreased, while the credit and liquidity risk indicators recovered. Commodity prices fell from their multi-year highs, and there was a major reversal on global equity markets.*

The nowcasts for Slovenia's economic growth in the first quarter of this year are favourable, but the deterioration in international relations has made the outlook for the remainder of the year more uncertain. *According to the latest figures, GDP in Slovenia in the final quarter of last year was up 5.4% on the previous quarter, significantly more than in other euro area countries. Various activity indicators suggest that domestic economic developments remained favourable in the first quarter of this year, and this is confirmed by the nowcasts. Estimated on 30 March, on average they suggest quarterly GDP growth of 1.0% in the first quarter, and already take account of the decline in confidence caused by the war in Ukraine and the resulting harsh sanctions against Russia. The economic sentiment did deteriorate significantly in March, but much less than at the outbreak of the global economic and financial crisis in autumn 2008 or the outbreak of the pandem-*

ic in March and April 2020. It also remained on a higher level than in March of last year, when the economy was already recovering quickly. For now, the loss of confidence is affecting manufacturing and consumers, and most firms have already reduced their assessments of the evolution of demand. The uncertainty surrounding future economic developments thus increased.

Real growth in the wage bill in the private sector remains high, despite rising inflation, while unit labour costs are still above their pre-pandemic level despite last year's favourable developments. *Employment is continuing to rise, while registered unemployment according to the seasonally adjusted figures is now lower than its previous low of 2008, although the share of hard-to-employ people among the unemployed is increasing. Given that employment expectations at firms remain high, while the availability of workers on the domestic labour market continues to decline, the hiring of foreign workers is still increasing. Firms are mainly hiring in low-skilled occupations. The average nominal gross wage was down 2.7% in year-on-year terms in January, while the real gross wage bill was down 1.7%. In both cases the main driver is the normalisation of wage levels in public services after the expiry of most pandemic-related wage bonuses. Amid the ongoing rise in employment and wages, real growth in the wage bill in the private sector remained high at 5.6%, despite the high inflation. Cost pressures as measured by real unit labour costs eased sharply in the final quarter of last year (given the high GDP growth, the decline was also seen at the annual level), but this did not outweigh the deterioration in cost competitiveness over the preceding two years.*

The sharp downturn in the geopolitical situation could curtail the strong year-on-year growth in international trade seen since March of last year. *In SORS survey conducted in March, manufacturing firms significantly lowered their assessments of export expectations over the next three months, while the Purchasing Association of Slovenia also reported a fall in export orders. According to the balance of payments figures, merchandise exports in January were up 26.3% in year-on-year terms, while imports were up fully 41.9% amid strong domestic demand and sharp rises in import prices. This is rapidly bringing a reversal in the merchandise trade balance, where 12-month surplus amounted to just EUR 240 million in January. If the surplus generated with Russia, Ukraine and Belarus is excluded, the position has been in deficit since December of last year, something that has not happened since August 2014. Services trade continued to expand rapidly, and the surplus is gradually returning to its pre-pandemic level, with exports of travel services now making a significant contribution. With a slightly larger deficit in income, mainly because of last year's outflows of dividends, the 12-month current account surplus amounted to just over EUR 1.5 billion in January, down more than EUR 1.9 billion in year-on-year terms.*

Given the large current account surpluses over recent years, Slovenia's net international investment position improved sharply, and the private sector has relatively low debt levels ahead of the start of a new turbulent period. *The negative net financial position vis-à-vis the rest of the world amounted to just 7.1% of GDP at the end of last year, well above the European Commission's indicative external imbalance threshold of 35.0% of GDP, and also better than most other EU Member States. The private sector's debt indicators are also relatively favourable. According to financial accounts figures, the gap between the year-on-year increases in financial assets and liabilities at non-financial corporations and households did gradually widen last year in the direction of liabilities, which was to be expected given the high growth in private consumption and investment. In the household sector increases in long-term loans are now exceeding their pre-pandemic levels, although they remain significantly lower than before the global economic and financial crisis, which means that household indebtedness remains low, and well below the euro area average. This is also the case for non-financial corporations; the breakdown of the increase in their liabilities indicates that they are primarily financing themselves via internal resources and intrasectoral resources.*

The invasion of Ukraine and the resulting sanctions against Russia are a shock to the energy and commodities markets, and have additionally strengthened inflationary pressures and further increased supply chain disruptions. *Alongside rising energy prices, there are increasing risks of further rises among other groups, particularly food prices. Year-on-year inflation in Slovenia as measured by the HICP stood at 6.0% in March, and according to our rough estimates would have been more than 2 percentage points higher in the absence of the government measures to mitigate the impact of surging energy prices. High energy prices are increasingly passing through into prices of other goods as there is a rising share of goods and services included in the HICP basket that are seeing high inflation. Amid the lasting supply chain disruptions and the strong domestic price factors, prices of non-energy industrial goods and services continued to rise in March, taking core inflation to 4.7%. Firms are expecting further price rises, and the indicator of consumers' 12-month inflation expectations reached its highest level to date in March according to SORS figures.*

In the context of strong economic growth the Slovenia's fiscal position improved last year and in the early part of this year, although the risks are increasing as a result of the implementation of several permanent discretionary measures, the Russian invasion of Ukraine, and the situation on energy markets. *The general government deficit amounted to 5.2% of GDP last year, 2.6 percentage points less than in the previous year. Amid strong private consumption and the buoyant labour market, general government revenues were up 11.9%, while growth in general government expenditure was approximately a half lower at 6.1%, thanks to a high base effect caused by the measures to mitigate the impact of the pandemic. The government sector strongly increased its investment last year. The general government debt amounted to 74.7% of GDP at the end of the year, down 5.1 percentage points on the end of 2020. The decline was largely attributable to the high economic growth. Recent months have seen the adoption of various stimulus measures not related to the anti-coronavirus legislation, mostly with a permanent impact on the public finances, which have been costed at approximately 1.5% of GDP for this year. The largest of them comprise changes in the area of personal income tax, an irregular pension increase, and temporary measures in response to high energy prices. In the absence of new resources or a sustained reduction in expenditure, the permanent measures in particular are increasing the public finances' vulnerability to an economic downturn. Given the anticipated normalisation of monetary policy, interest rates on borrowing will rise at the same time, which over time could increase interest expenditure, thus reducing the space for financing other government expenditure. Technical assessments of the impact of a rise in interest rates on interest expenditure are given in the selected theme section on page 67.*

Main macroeconomic indicators

	2019	2020	2021	21Q2	21Q3	21Q4	2019	2020	2021	21Q2	21Q3	21Q4
			Slovenia						*euro area*			
Economic developments						*y-o-y growth rates in %*						
GDP	3.3	-4.2	8.1	16.1	5.0	10.4	1.6	-6.4	5.3	14.9	4.0	4.4
- industry	6.9	-3.3	9.7	26.9	6.3	4.9	0.2	-6.8	7.8	22.9	5.6	1.7
- construction	8.1	-2.0	2.8	8.7	2.5	0.4	2.0	-5.3	5.0	18.9	1.3	0.7
- mainly public sector services	1.7	3.0	1.8	2.7	0.2	2.7	1.1	-3.0	3.6	9.9	2.0	2.3
- mainly private sector services	3.8	-4.5	8.4	17.2	6.0	10.6	1.7	-7.1	5.6	15.8	4.6	4.9
Domestic expenditure	3.3	-4.6	10.8	18.6	9.7	13.9	2.5	-6.2	4.2	12.4	3.7	5.3
- general government	2.0	4.2	3.9	4.4	3.2	7.0	1.8	1.1	3.8	7.9	2.6	2.4
- households and NPISH	4.8	-6.6	11.6	17.9	7.2	22.8	1.3	-7.9	3.5	12.3	2.8	5.8
- gross capital formation	0.6	-7.3	15.5	36.3	24.5	0.8	5.8	-9.0	6.2	17.5	7.3	7.2
- gross fixed capital formation	5.5	-8.2	12.3	20.4	10.5	11.0	6.8	-7.0	4.3	19.2	3.0	3.5
- inventories and valuables, contr. to GDP growth in pp	-0.9	0.1	0.8	3.2	2.4	-2.0	-0.1	-0.5	0.4	-0.3	0.9	0.8
Labour market												
Employment	2.5	-0.6	1.4	1.4	2.6	2.7	1.3	-1.5	1.1	1.9	2.1	2.2
- mainly private sector (without OPQ)	2.6	-1.2	1.1	1.0	2.5	2.7	1.3	-2.3	0.8	1.7	2.1	2.3
- mainly public services (OPQ)	1.8	2.2	2.6	2.9	2.7	2.4	1.4	0.9	2.1	2.8	2.1	2.0
Labour costs per employee	5.0	3.5	5.4	8.4	5.6	1.3	2.1	-0.6	4.0	7.4	3.4	3.2
- mainly private sector (without OPQ)	4.5	1.7	5.5	8.2	5.8	5.7	2.1	-1.9	4.9	9.6	3.8	4.4
- mainly public services (OPQ)	6.5	9.5	4.9	13.0	13.0	4.9	2.3	2.4	1.8	2.2	2.3	0.6
Unit labour costs, nominal*	4.2	7.7	-1.3	-5.4	3.2	-5.8	1.9	4.6	-0.3	-4.7	1.5	1.0
Unit labour costs, real**	1.9	6.3	-3.6	-7.3	-0.3	-8.6	0.2	2.9	-2.2	-5.3	-1.4	-1.9
						in %						
LFS unemployment rate	4.5	5.0	4.7	4.3	4.5	4.5	7.6	7.9	...	7.9	7.4	...
Foreign trade						*y-o-y growth rates in %*						
Current account balance as % of GDP***	6.0	7.4	3.3	6.1	5.1	3.3	2.3	1.9	2.6	2.8	2.8	2.6
External trade balance as contr. to GDP growth in pp	0.3	-0.1	-1.6	-0.8	-3.7	-2.3	-0.8	-0.4	1.4	2.8	0.5	-0.6
Real export of goods and services	4.5	-8.7	13.2	30.5	11.6	12.1	2.7	-9.1	10.9	27.3	10.8	8.3
Real import of goods and services	4.7	-9.6	17.4	36.1	19.1	16.8	4.7	-9.0	8.7	22.4	10.7	10.6
Financing						*in % of GDP*						
Banking system's balance sheet	88.0	98.2	94.9	99.6	97.0	94.9	260.1	296.1	287.3	297.6	295.6	287.3
Loans to NFCs	19.9	20.2	19.3	19.5	19.2	19.3	36.0	40.1	38.1	38.9	38.3	38.1
Loans to households	22.0	22.9	21.7	22.0	22.0	21.7	49.0	53.2	51.6	52.3	52.0	51.6
Inflation						*in %*						
HICP	1.7	-0.3	2.0	2.1	2.3	4.5	1.2	0.3	2.6	1.8	2.8	4.6
HICP excl. energy, food, alcohol and tobacco	1.9	0.8	0.9	0.4	0.8	2.4	1.0	0.7	1.5	0.9	1.4	2.4
Public finance						*in % of GDP*						
Debt of the general government	65.6	79.8	74.7	80.1	79.7	74.7	83.5	97.3	...	98.2	97.5	...
One year net lending/net borrowing of the general government***	0.4	-7.8	-5.2	-6.6	-6.5	-5.2	-0.6	-7.2	...	-6.9	-6.2	...
*- interest payment****	1.7	1.6	1.3	1.4	1.4	1.3	1.6	1.5	...	1.5	1.5	...
*- primary balance****	2.1	-6.2	-3.9	-5.1	-5.1	-3.9	1.0	-5.7	...	-5.4	-4.8	...

Note: Data is not seasonally and working days adjusted.
** Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.*
*** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.*
**** 4-quarter moving sum.*
Source: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.

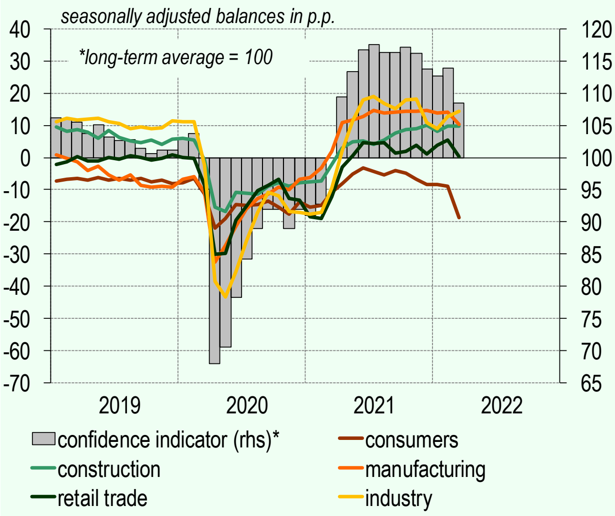
1 | Economic Developments in the Euro Area

The outlook is highly uncertain because of the war in Ukraine and the resulting harsh sanctions. In the wake of the renewed tightening of containment measures, GDP growth in the euro area was slowing even at the end of last year, and developments remained similar in the first quarter of this year according to short-term indicators. The shock to international relations caused a downturn in the outlook for the remainder of the year. One of the first signs was a decline in the economic sentiment indicator in March, although it was significantly less pronounced than during the first wave of the pandemic. There was also a downturn in the outlook for the coming months, which for now is mostly being seen in a reduction in assessments of demand expectations by manufacturing and retail firms. As a result of high energy prices, a decline in confidence at firms and among consumers, and the disruption to trade, this year's economic growth will be lower than forecast by the ECB's December projections at between 2.3% (severe scenario) and 3.7% (core scenario), while inflation could exceed 7.0% under the severe scenario. According to the ECB's March projections, amid the buoyant labour market GDP growth will approach its long-term average over the medium term, despite the expiry of support measures and the scaling-back of accommodative monetary policy, while inflation will fall below 2.0%. There is no expectation of a recession or lasting high inflation, but there are large risks associated with the forecast, primarily as a result of the uncertainty surrounding the progress of the war and the impact of sanctions against Russia.

Monthly economic activity indicators

The high-frequency indicators for the first quarter suggest that quarterly economic growth in the euro area was low. The composite PMI declined again in March following the outbreak of the war in Ukraine, by 1 point. It averaged 54.1 points over the first quarter, down slightly on the final quarter of last year, when quarterly growth slowed to 0.3%. Amid lengthening supply terms and large rises in input commodity prices, the manufacturing PMI in particular declined, where, primarily as a result of a fall in new orders, export demand declined for the first time since July 2020 and the arrival of the economic recovery following the first wave of the pandemic. The further relaxation of containment measures meant that the deterioration in services was less pronounced. The economic sentiment indicator also declined as expected in March, but remained 8.5 percentage points higher than a year earlier (see Figure 1.1). The monthly decline of 5.4 percentage points was the largest since the beginning of the pandemic in April 2020, when it amounted to 27.1 percentage points, and was just 1.2 percentage points smaller than in the crisis year of 2008. The main deterioration in confidence was in manufacturing and retail, while confidence actually increased in other private-sector services, and remained virtually unchanged in construction. Consumers meanwhile became significantly more pessimistic. The current outlook for the second quarter is highly uncertain, which is reflected in the decline in assessments of the evolution of demand by manufacturing and retail firms (see Figure 1.2), and also in the increasing difficulties for construction firms caused by shortages of material and labour.[1] Given the escalation of geopolitical tensions, including sanctions, on 10 March under the aegis of the ECB we cut this year's economic growth forecast for the euro area by 0.5 percentage points to 3.7%, while the worst-case scenario envisages GDP growth of 2.3% and inflation of more than 7.0%.

Figure 1.1: Confidence indicators in the euro area



Source: Eurostat.

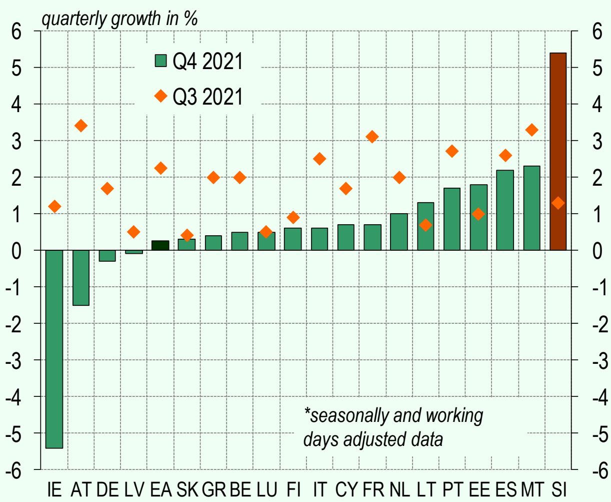
Figure 1.2: Expected demand in the euro area

Source: Eurostat.

GDP in the final quarter of 2021

Quarterly economic growth in the euro area slowed to 0.3% in the final quarter of last year. The epidemiological situation worsened again in the final months of 2021, which curtailed the service sector as containment measures were tightened. Firms also faced an additional shortage of labour caused by surging case numbers and the large number of people in quarantine, and reduced availability of raw materials and semi-finished goods. The growth was mainly driven by gross fixed capital formation, which was up 3.5% on the third quarter, although our broad estimates suggest that fully 2.2 percentage points of this figure was attributable to a surge in investment in intellectual property in Ireland. Private consumption declined by 0.6% in the wake of the worsening epidemiological situation, while net trade also made a negative contribution as import growth significantly outpaced export growth, which was attributed to the import component of investment. On the production side growth in activity in private-sector services slowed to just 0.5%, while the disruptions to supply chains, the shortage of labour and rising energy prices meant that growth in value-added in

Figure 1.3: Quarterly economic growth* in the euro area countries in the second half of 2021



Source: Eurostat.

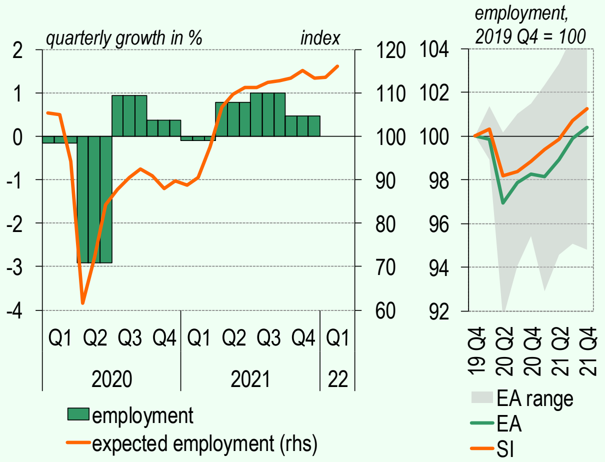
[1] In March 35.7% of construction firms reported shortages of materials, up 5.5 percentage points on February, the highest increase to date with the exception of May 2021 and November 2000.

industry and construction remained low. Our assessments are that the low aggregate growth was mainly attributable to Ireland and Germany (which reduced it by 0.2 percentage points and 0.1 percentage points respectively), while the majority of euro area countries recorded growth higher than the euro area average (see Figure 1.3). According to the figures currently available, Slovenia recorded by far the highest quarterly growth of 5.4%, followed by Malta, Spain and Estonia, with growth of approximately 2%. GDP in the euro area was up 5.3% in 2021, and in the final quarter of the year was up 0.2% on the same period of 2019.

Situation on the labour market

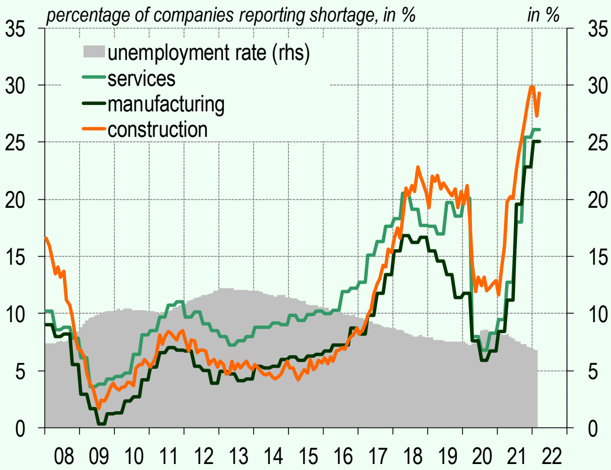
The buoyant euro area labour market is heightening structural imbalances. Employment in the final quarter of last year was up 0.5% on the previous quarter according to seasonally adjusted figures, and surpassed its pre-crisis level from the final quarter of 2019 (see Figure 1.4). Year-on-year growth in employment in the final quarter of last year stood at 2.2%, and was broadly based across sectors and countries. The rising employment growth at the end of last year was also reflected in the job vacancy rate, which stood at 2.8% in the final quarter, up 0.9 percentage points in year-on-year terms. The euro area labour market remained buoyant in the early part of this year. The seasonally adjusted surveyed unemployment rate hit a record low of 6.8% in February, down 0.1 percentage points on the previous month. Employment growth also remained robust in the early months of this year according to survey figures. Employment expectations in February were at their highest levels of the last two decades. With unemployment at a record low, these are strengthening structural imbalances on the labour market, which are being reflected in large shortages of labour (see Figure 1.5). The developments on the labour market, together with the high consumer price inflation, are strengthening the upward pressure on wages. An ECB survey of large European enterprises suggests that wage growth could strengthen this year, the respondents citing high inflation as the main reason. Nominal year-on-year wage growth as measured by compensation

Figure 1.4: Employment and expected employment in the euro area



Note: Data is seasonally adjusted. For the expected employment indicator value 100 represents the long-term average.
Source: Eurostat, Banka Slovenije calculations.

Figure 1.5: Shortage of workers and unemployment rate in the euro area



Note: Data is seasonally adjusted.
Source: Eurostat.

per employee stood at 3.2% in the final quarter of last year, but consumer price inflation meant that wages actually fell by 1.3% in real terms. There is uncertainty surrounding future developments on the labour market, as it is not yet possible to precisely assess the impact on economic activity from the sharp downturn in international relations. Its time dimension is also unknown.

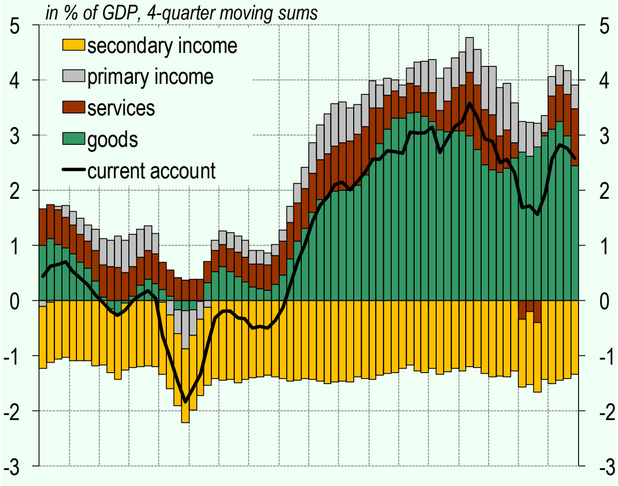
Current account and selected competitiveness indicators

As a result of the gradual decline in the merchandise trade surplus, the 12-month current account surplus

declined to 2.6% of GDP in the final quarter of last year, but remained slightly higher than a year earlier (by 0.6 percentage points). The euro area thus provided current financing to the rest of the world in the amount of around EUR 320 billion. The rapid increase in merchandise imports meant that the 12-month merchandise trade surplus of 2.4% of GDP in the final quarter of last year was also smaller in year-on-year terms (by 0.5 percentage points, see Figure 1.6), in which the deterioration in the terms of trade was a significant factor, as import prices rose by 22.7% in year-on-year terms, while export prices were up 10.9%.[2] An even larger decline in the current account surplus continued to be prevented by the narrowing deficit in income, and in particular by the services trade surplus, which over the 12 months to the final quarter of 2021 doubled in year-on-year terms to 1.0% of GDP, the largest figure of the last two and a half years.

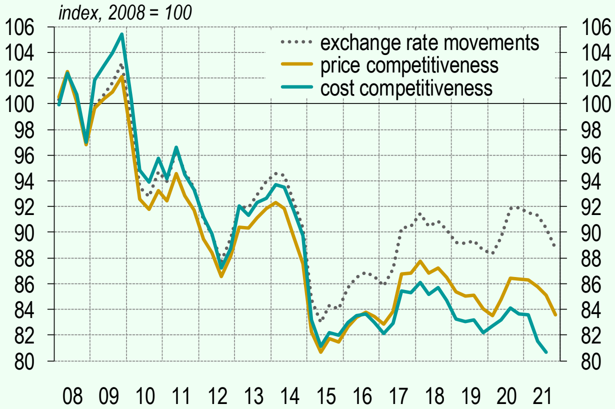
The price and cost competitiveness of the euro area economy improved gradually over the course of last year, returning to their pre-pandemic levels and even surpassing them, and were both significantly better than a decade earlier. The price competitiveness indicator measured against the 19 most important trading partners[3] remained unchanged overall in 2021, as were the price and exchange rate components. The developments during the year were driven primarily by the euro's value against the selected basket of currencies, as euro area inflation remained relatively unchanged compared with inflation in trading partners. After rising in year-on-year terms in the first half of the year, the euro increasingly lost value over the remainder of the year, which restored the competitive position of euro area exporters to its level before the outbreak of the pandemic (see Figure 1.7). The biggest improvements in the euro area were recorded by Malta and Greece, primarily as a result of favourable relative price effects. Conversely, the position was worst in Lithuania and Luxembourg, primarily as a result of high domestic inflation, while Slovenia was in the top third of performers. The cost competitiveness of the euro area economy against the same group of trading partners[4] over the first three quarters of last year was better in year-on-year terms (the indicator was down 1.7%), on account of a decline in relative unit labour costs.[5] The biggest improvement was in Greece, while the worst deteriorations were in Lithuania and Latvia. Like most euro area countries, Slovenia recorded an improvement, but it was among the smallest.

Figure 1.6: Current account balance of the euro area



Source: ECB SDW, Eurostat, Banka Slovenije calculations.

Figure 1.7: External competitiveness of the euro area against 19 trading partners



Note: The exchange rate movements of the euro against the basket of partners' currencies is reflected by NEER, the price competitiveness by REER, deflated by HICP, and the cost competitiveness by REER, deflated by ULC. The increase in indicators signals the pressure on competitiveness and vice versa.
Source: ECB.

[2] The figures relate to the final quarter of 2021, namely the index of import prices of industrial goods and the index of industrial producer prices on the foreign market (outside the euro area).

[3] The HICP-deflated effective exchange rate of the euro. Similar developments to those against the group of the 19 most important trading partners were also recorded vis-à-vis the narrowest and widest groups of 12 and 42 trading partners.

[4] The ULC-deflated effective exchange rate of the euro.

[5] Relative unit labour costs are domestic unit labour costs compared with those of trading partners.

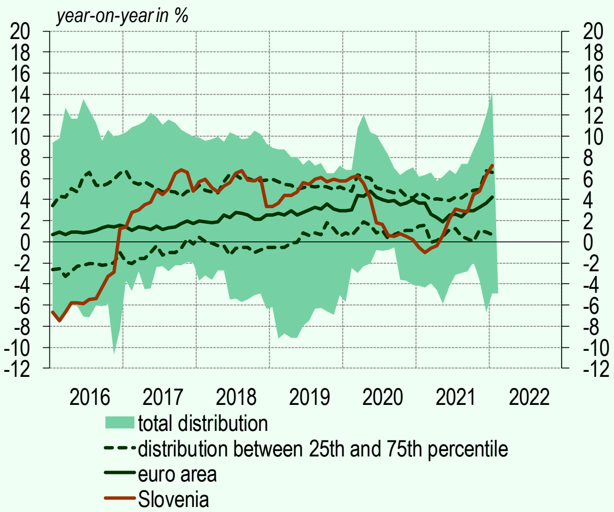
Bank lending activity

Amid the economic recovery and the favourable financing conditions, lending to the non-banking sector increased in the euro area. Average year-on-year growth in loans to the non-banking sector increased gradually and evenly in the final quarter of last year and the early part of this year. The rate stood at 4.3% in January, although there were significant differences from country to country. It was particularly high in the Baltic states, and fully 14.3% in Lithuania. Some countries continued to record weak growth, and certain countries saw a year-on-year decline in the stock of loans. These were predominantly in southern Europe, most notably Greece, where the stock of loans was down 4.9% in year-on-year terms. Lending to non-financial corporations increased faster over the aforementioned period than before the pandemic, with a significant increase in growth in December in many countries. Average growth in loans to non-financial corporations in the euro area slowed slightly in January, but at 3.7% it remained close to its peak from last year. There remain significant differences in year-on-year growth from country to country. In some countries the rate remains negative. Year-on-year growth in household loans in the euro area remained stable in the early part of this year, averaging 4.4%, but pronounced differences between countries emerged. Year-on-year growth in housing loans exceeded 8.0% in nine countries, and in three countries was actually higher than 10.0%, while two countries were continuing to see a contraction in the stock of housing loans, most notably Greece, where the stock was down fully 16.4% in year-on-year terms in January. The impact of the pandemic on household consumption continues to be strongly reflected in consumer lending: year-on-year growth averaged 2.2% in the euro area in January, and was still weaker than before the pandemic. The differences between countries are becoming increasingly pronounced, with roughly half of them recording negative or zero growth, while certain countries are seeing extremely high growth.[6]

Inflation

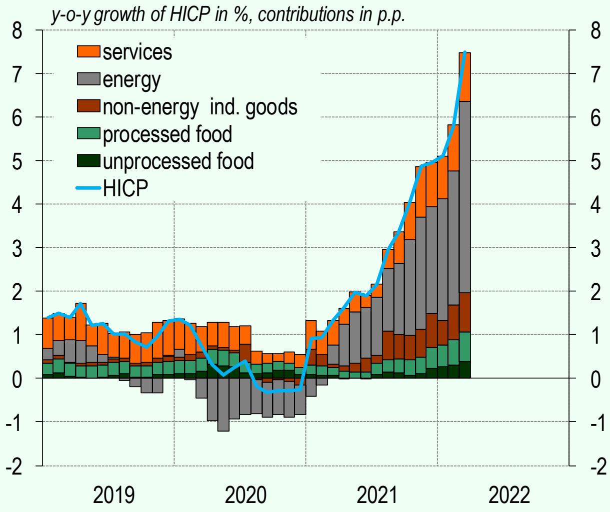
Euro area inflation rose to 7.5% in March following the outbreak of the war in Ukraine and the resulting imposition of harsh sanctions against Russia. Inflation as measured by the HICP has hit a new record high. Energy prices, which were up 44.7% in year-on-year terms, again accounted for more than half of headline inflation (see Figure 1.9). The rise in energy prices, which since last spring had been driven by the rapid recovery of demand amid the improved epidemiological outlook, was given even greater impetus by the situation in Ukraine, to which global energy markets responded by further raising prices. With oil prices at historic highs, some countries

Figure 1.8: Comparison of growth in loans to the non-banking sector between Slovenia and the euro area



Source: Banka Slovenije, ECB SDW, Banka Slovenije calculations.

Figure 1.9: Contribution to headline HICP inflation – euro area

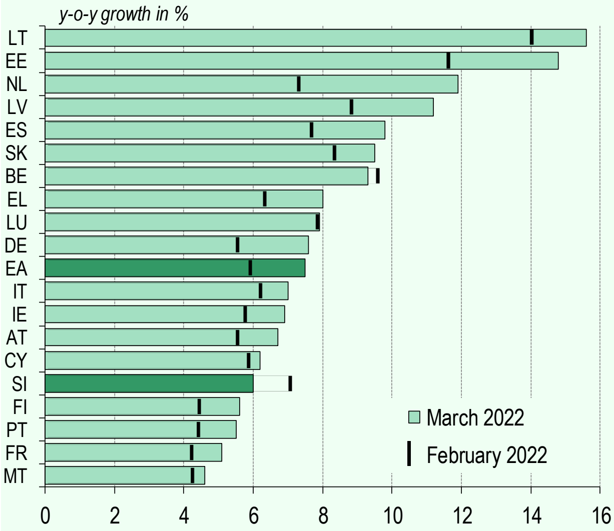


Source: ECB, Eurostat, Banka Slovenije calculations.

[6] The largest year-on-year declines in January were recorded by Estonia (25.9%) and the Netherlands (20.2%), while the largest increases were recorded by Lithuania (22.9%) and Luxembourg (21.0%).

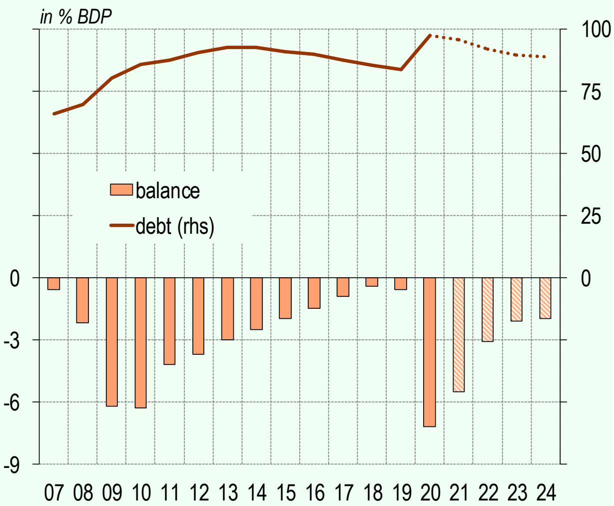
have already adopted various temporary measures to reduce fuel prices at the service stations, while other euro area members are still agreeing on such measures or are planning them in April. Food prices are also rising continually: they were up 5.0% in year-on-year terms, with prices of unprocessed food up 7.8% alone. In addition to energy prices, the food price inflation is being driven by rises in basic food commodities, most notably grains and oil crops, whose supply might be sharply curtailed this year by the loss of the Ukrainian harvest and restrictions on Russian exports. Core inflation excluding energy, food, alcohol and tobacco rose to 3.0% in March. The rise reflects the progress in prices of non-energy industrial goods, as rising input prices of energy, materials and semi-finished products put increasing pressure on retail prices. Supply chain disruptions pose an additional concern as they were deepened by the war in Ukraine and the rigorous sanctions against Russia, and the temporary lockdown of regions in China amid rising Covid-19 case numbers. Service price inflation has also slightly risen compared to previous months. The gap between euro area countries widened again (see Figure 1.10), with Malta recording the lowest inflation rate of 4.6% and Lithuania the highest rate of 15.6%. Year-on-year inflation rose in all euro area countries other than Slovenia and Belgium.

Figure 1.10: Inflation in the euro area member countries



Source: Eurostat.

Figure 1.11: General government balance and debt in the euro area



Source: Eurostat, ECB March 2022.

Public finances

The latest estimate of last year's general government deficit in the euro area is slightly better than the previous estimates, and the deficit is forecast to narrow to 3.1% of GDP this year. According to the ECB's March projections, last year's deficit amounted to 5.5% of GDP, 0.4 percentage points less than had been estimated in December (see Figure 1.11). The improvement is attributable to more favourable estimates of both revenues and expenditure. Government debt in the euro area was estimated at 96% of GDP last year, and is forecast to decline to 92% of GDP by the end of this year. Eurostat will release the public finance figures for last year in the second half of April. The forecast of 3.1% of GDP for this year's deficit has not been revised. The narrowing relative to last year primarily reflects a decline in expenditure related to the pandemic, while economic growth remains solid.

The negative risks to the public finances were increased by the war in Ukraine. The main fiscal risks relate to the extension of measures to mitigate the impact of higher energy prices, aid for refugees, rising defence spending and an increased focus on food supply.

Economic developments outside the euro area

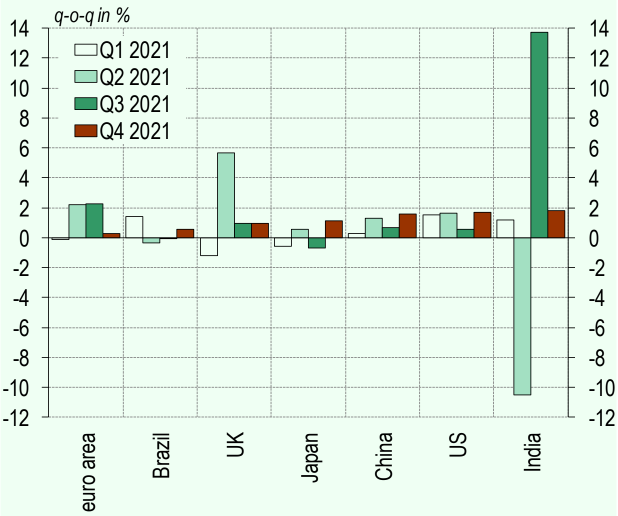
The outbreak of the war in Ukraine has made the global economic situation highly uncertain. A slowdown in global economic growth had already been expected in the first quarter of this year, despite the relatively positive developments in February, when the JPMorgan PMI recorded its largest rise in more than a year and a half as the pandemic waned. The outlook for the second quarter is less favourable: further growth will depend above all on the duration of the geopolitical crisis and its impact on confidence. According to the OECD's latest forecasts released on 17 March, which were accompanied by great uncertainty, the war in Ukraine is expected to reduce global GDP growth in the year following its outbreak by more than 1 percentage point,[7] while certain European countries in particular will suffer a greater impact from the crisis. Consensus also lowered its economic growth forecasts in March, although growth in foreign demand for Slovenian products and services is expected to remain above its long-term average this year and next year (see Figure 1.12).

Last year's global economic growth of 5.9% was one of the highest rates of the last 80 years, despite the slowdown in the second half of the year as a result of the worsening epidemiological picture and the disruptions to supply chains.[8] The situation in numerous economies improved in the final quarter of last year. Amid the waning pandemic, GDP in Japan strengthened by 1.1% following a decline in the previous quarter, while Brazil emerged from recession (see Figure 1.13). An economic revival before the Winter Olympics and new year celebrations raised quarterly economic growth in China to 1.7%, the highest figure in the last year, despite more-stringent containment measures in certain regions, disruptions to the electricity supply, and the cooling real estate market. GDP increased by about the same amount in the US, while GDP growth in the UK, where GDP is still down 0.4% on its pre-pandemic level, remained at 1.0%. After rebounding strongly in the previous quarter, economic growth in India slowed significantly (to 1.8%), while GDP growth in the euro area was also significantly slower (at 0.3%), primarily as a result of the resurgence of the pandemic and the disruptions to supply chains.

Figure 1.12: Weighted monthly forecasts of GDP growth for Slovenia's trading partners for 2022 and 2023

*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 (February 2021-January 2022; 21 trading partners with a total share of 85.8%) and all the other countries as a difference of up to 100%. The growth forecasts for 2022 and 2023 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2021 the weighted outcome and the December weighted forecast are shown. *Weighted average of GDP growth, since records began.*
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

Figure 1.13: Economic growth in major economies



Source: OECD.

[7] In its previous projections from December of last year, which included all analytical data, it forecast global economic growth of 4.5% for this year.

[8] Taking account of the latest forecasts by the IMF and the World Bank.

2 Monetary Policy and Financial Markets

The war in Ukraine and the significant downturn in international relations have been reflected on global financial markets in increased volatility, investor flight to safe-haven investments, and curtailed liquidity in financial instruments carrying higher credit risk. The uncertainty surrounding further exports of energy products and other commodities from Russia and Ukraine led to a pronounced rise in commodity prices, which further encouraged market participants' expectations of the faster normalisation of monetary policy by major global central banks. Overnight index swaps indicate that the ECB will raise the interest rate on the deposit facility to close to zero by the end of the year, while the Fed is expected to raise its key interest rate to close to 2.5%. The prospect of faster normalisation of monetary policy by the ECB and the Fed drove a significant rise in euro area and US government bond yields. The rise in private-sector bond yields was even more pronounced, driven by a rise in the credit risk premium amid increased geopolitical tensions in Europe. The anticipated implications for the global economy from the war in Ukraine also triggered a significant correction on global equity markets. The uncertainty on the markets eased in the second half of March. With volatility declining, indicators of credit and liquidity risk improved, and numerous global indices surpassed their levels from before the outbreak of the war.

Monetary policy of the ECB and other central banks

Amid strong inflationary pressures, further increased by the rise in commodity prices following the outbreak of the war in Ukraine, numerous central banks embarked on a faster withdrawal of accommodative monetary policy. At its monetary policy meeting in March the Governing Council of the ECB confirmed the discontinuation of the pandemic emergency purchase programme (PEPP) at the end of March. It also announced a reduction in the envelope of purchases under the asset purchase programme (APP) over the coming months, and the discontinuation of net purchases in the third quarter provided that the medium-term inflation outlook does not weaken. The gradual adjustment of the ECB's key interest rates should begin some time after the end of net purchases under the APP. After the meeting the financial markets reinforced their previous expectations regarding the conclusion of the APP in the third quarter, and a first rise in the interest rate on the deposit facility in September (by 0.25 percentage points). The Fed by contrast had already raised its key interest rate in March (by 0.25 percentage points), floated the possibility of six additional rises this year, and raised the possibility of beginning to downsize its balance sheet in May. The actions of the Bank of England have been even more decisive: it has raised its key interest rate at each of the last three meetings (by 0.65 percentage points in total). Conversely the central banks of Japan, Switzerland and Australia have left their monetary policy almost unchanged. The expectations of market participants with

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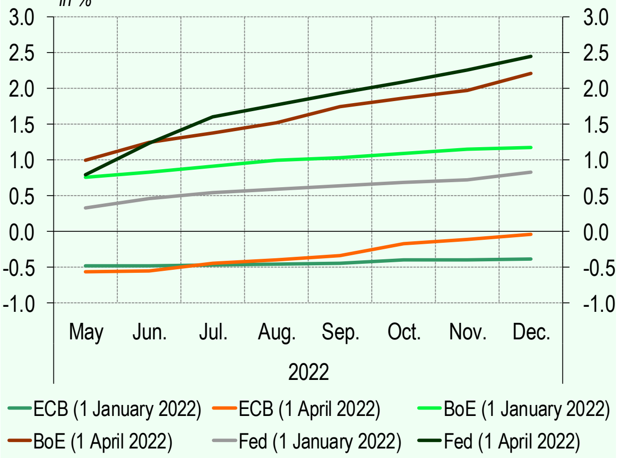
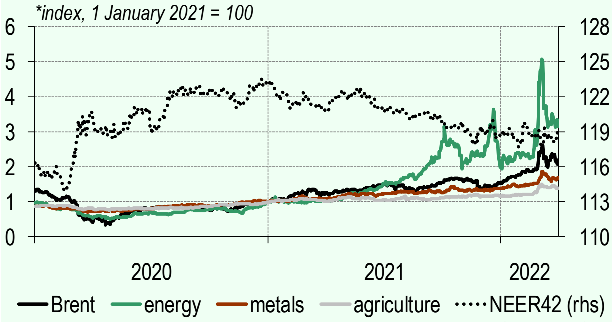
Figure 2.1: Implied policy rate levels for ECB, Fed and BoE



Note: Calculated from Overnight Index Swaps (OIS). ECB as European Central Bank, BoE as Bank of England, Fed as Federal Reserve System.
Source: Bloomberg, Banka Slovenije calculations.

Figure 2.2: Prices of metals, energy, agriculture products* and NEER42



Note: Energy as a simple average of Brent, ICE London gas, coal (Rotterdam) and Nordic Electricity prices. All prices for the first future contract, except for Brent. Metals as simple average of LME (London Metal Exchange) prices of copper, aluminum, lead, tin, zinc and nickel. Agriculture as simple average of first future contract prices for sugar, wheat, corn, soybeans and live cattle. NEER42 (nominal effective exchange rate) as weighted average of bilateral exchange rates between euro and a basket of 42 trade partners, where weights are based on trade in manufactured goods and services.
Source: Bloomberg, Banka Slovenije calculations.

regard to the pace of the rise in interest rates over the remainder of the year vary among individual central banks, but overall have strengthened significantly since the beginning of the year (see Figure 2.1). The current overnight index swaps (OIS) suggest that rises in the interest rate on the ECB's deposit facility to close to zero and in the Fed's key interest rate to close to 2.5% by the end of the year have been priced in.

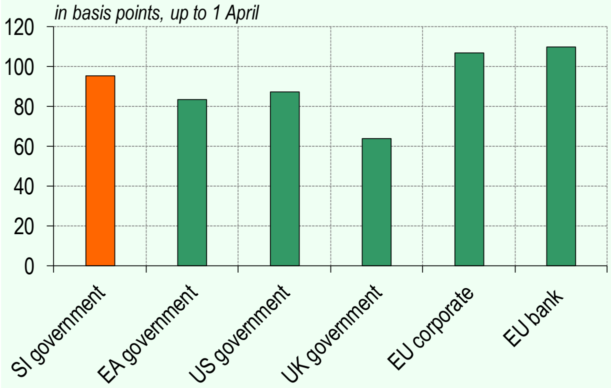
Money and capital markets, and commodity prices

As a result of the war in Ukraine and the drastic deterioration in international relations, the main developments on the financial markets in the first quarter of this year were investor flight to safe-haven assets and a sharp increase in volatility amid thin liquidity, particularly in more risky assets. The military conflict and the numerous economic sanctions imposed on Russia led to a pronounced rise in commodity prices (see Figure 2.2). The price of Brent crude hit close to USD 140 per barrel in the first week of March for the first time since the global economic and financial crisis (having stood at less than USD 80 at the beginning of the year), while natural gas prices jumped by more than 100% amid fears of interruptions to supply from Russia. The fear of curtailed supply from two of the world's most important commodity exporters was also evident on the metals market and the markets for agricultural products, where prices also surged. Growing demand from investors for safe-haven assets also led to a rise in the price of gold, which hit a nearly record price (USD 2,070 per ounce) in the first week of March. News of progress in the peace talks between Russia and Ukraine slightly eased the sharply increased uncertainty on commodity markets, and prices slid from their multi-year highs in the second half of March. As a result of the war in Ukraine and its expected adverse implications for the European economy, the euro fell against other major global currencies in early March, but then made up almost all of the lost ground over the rest of the month as a result of the expectation of the faster withdrawal of accommodative monetary policy by the ECB.

The surge in commodity prices raised concerns over future inflationary pressures in the euro area. Inflation swaps indicate that inflation in the euro area might remain above 2.0% over the medium term. Given the high volatility and the expectations of the faster withdrawal of accommodative monetary policy by the ECB, euro area government bond yields rose sharply (see Figure 2.3). Despite the higher demand for safe-haven assets following the outbreak of the war in Ukraine, investors were requiring a yield of more than 0.60% on 10-year German government bonds (up almost 80 basis points on the beginning of the year, and the highest figure since May 2018), while two-year German government bond yields entered positive territory, albeit briefly, for the first time since May 2014. The uncertain geopolitical situation in Europe also raised credit risk premiums, which was reflected in a rise in private-sector bond spreads over government bonds. The Slovenian government bond yields rose sharply, and at one point investors required a yield on 10-year government bonds that was more than 100 basis points above the German benchmark. Another indication of the turmoil on the financial markets from the perspective of credit risk and liquidity came from the 10-year euro interest rate swap spread over German government bonds, which in early March rose to close to its record levels from the global financial crisis of 2008 and the European debt crisis of 2011. The situation eased later in the month amid news of progress in peace talks between Russia and Ukraine, with credit risk premiums on bonds mostly returning to their levels from before the outbreak of the war. The rise in government bond yields in the US was even more pronounced than in the euro area. Amid further encouraging data from the labour market, the rise in inflation to its highest level since 1982, and the Fed's inclination to tighten monetary policy more quickly, the rise in yields was particularly pronounced on short-term bonds, as a result of which the slope of the yield curve in the US declined sharply. Investors required similar yields on two-year and 10-year government bonds (compared with a spread of approximately 80 basis points at the beginning of the year). The yield curve in the US actually inverted in several sections, i.e. the required yields on bonds of shorter maturities were higher than those of longer maturities.

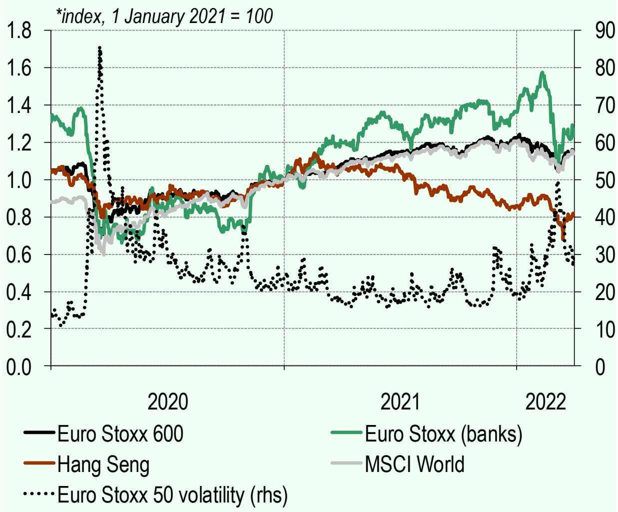
Global equity indices recorded sharp losses in the early part of the year, as the war in Ukraine raised concerns of a slowdown in the global economy. Alongside the impact of the war, including a fundamental deterioration in international relations, and amid the long-lasting disruptions to supply chains and uncertainties with regard to the pandemic, market participants feel that central banks might also play a part in cooling the global economy through overly aggressive monetary policy tightening. Equity prices in Europe and developing countries, banks in particular, suffered the largest declines, on account of their greater exposure to Russia and Ukraine (see Figure 2.4). Halfway through March Europe's Euro Stoxx Banks and Hong Kong's Hang Seng were down more than 20% on the beginning of the year, while Slovenia's SBI TOP was down more than 15%. There was a strong upward correction in equity prices in the second half of March, driven primarily by the optimism surrounding the peace talks and the Chinese government's commitment to support the domestic capital markets and economy, and numerous equity indices surpassed their values from before the outbreak of the war amid much-reduced volatility. Another sign of the calming of investors on equity markets came from the pronounced decline in purchases of put options, which can be used to hedge against falling equity prices.

Figure 2.3: 10-year bond yield year to date changes



Note: EA government bond yield represents an average of GDP weighted government bond yields of euro area members except CY, EE, LT, LU, LV and MT. EU corporate / bank bond yield represents a Bloomberg index yield constructed with EUR denominated senior unsecured fixed rate bonds issued by Investment Grade European companies / banks.
Source: Bloomberg, Banka Slovenije calculations.

Figure 2.4: Equtiy indices* and Euro Stoxx 50 volatility



Source: Bloomberg, Banka Slovenije calculations.

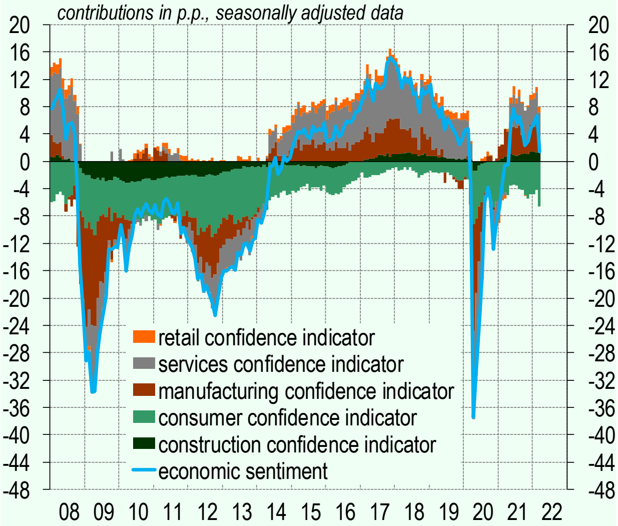
3 Domestic Economic Activity

From its pronounced heights in the final quarter of last year, economic growth is thought to have slowed in the early part of this year but to have remained robust, although the drastic deterioration in international relations means that the outlook for the remainder of the year has become rather uncertain. According to the latest figures, GDP in Slovenia increased by 5.4% in the final quarter of last year, a significant outlier from other euro area countries. Various activity indicators suggest that economic developments remained favourable in the first quarter of this year, and this is confirmed by the nowcasts. Estimated on 30 March, on average they suggest quarterly GDP growth of 1.0% in the first quarter, and already take account of the sharp decline in confidence caused by the war in Ukraine and the resulting harsh sanctions against Russia. The economic sentiment remained more favourable than in March of last year, when the economy was already recovering fast, and for now only manufacturing and consumers have seen a loss of confidence. Given that firms have mostly lowered their estimates of the evolution of demand, a slowdown in economic growth can be expected later in the year, although the uncertainty of its duration should be emphasised.

Economic sentiment indicators

A decline in confidence was expected in March, given the drastic deterioration in geopolitical relations, but it has been limited to manufacturing and consumers. The economic sentiment indicator was down 5.2 percentage points on February, a small decline compared with that seen in the autumn of 2008 when the recession associated with the global economic and financial crisis hit, or with that seen in March and April 2020 when the most-stringent containment measures in connection with the pandemic were in force. The indicator also remained above its level of March of last year, when the economy was already recovering strongly (see Figure 3.1). The decline in confidence nevertheless points to a weaker economy, for now mainly in the merchandise export sector, although the uncertainty surrounding its duration should again be emphasised. Manufacturing firms sharply reduced their assessments of output and export expectations for the second quarter of this year. This was confirmed by the Purchasing Association of Slovenia's March

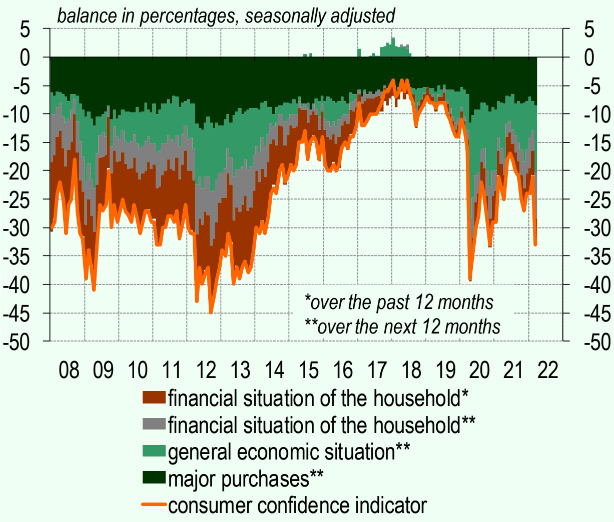
Figure 3.1: Economic sentiment indicator for Slovenia



Source: SORS, Banka Slovenije calculations.

survey, which showed a sharp decline in the index of new orders from the rest of the world. The drastic deterioration in international relations has for now not had any major adverse impact on sectors primarily reliant on the domestic market, as confidence in retail, other private-sector services and construction remained high in March. Services firms did become more cautious in their assessments of demand over the next three months, while retail firms also highlighted low inventories. By contrast there was a large decline in consumer confidence, the indicator approaching its levels of 2020 when the economy was in recession. Consumers expect sharp deterioration in the financial situation of households and the general economic situation in the country (see Figure 3.2), while their inflation expectations rose sharply from an already elevated level.

Figure 3.2: Decomposition of consumer confidence indicator



Source: SORS, Banka Slovenije calculations.

High-frequency activity indicators

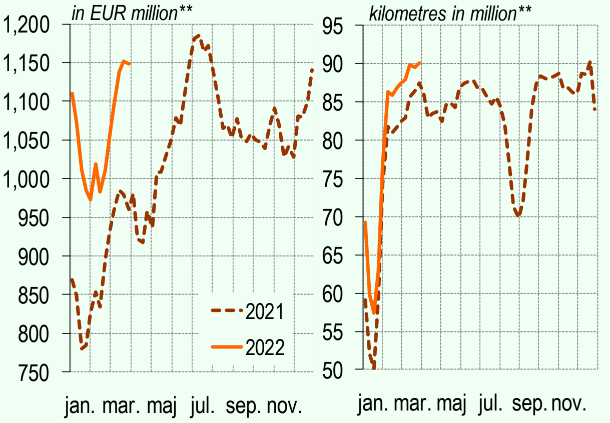
The activity indicators available for the first quarter of this year suggest that the economy remained in good shape. After rising in March, the total value of payments at POS terminals, online payments and cash withdrawals at ATMs remained well above the levels from the first quarter of last year, and the same is true of freight vehicles' mileage on motorways (see Figure 3.3). This is an indication that domestic demand and foreign demand remained strong in the first quarter of this year. On this occasion the real indices of the amount of construction put in place were more in line with the indicators from the economic sentiment survey, and show significant monthly and year-on-year increases in construction activity in January (see Figure 3.4). Industrial production was unchanged in monthly terms in January, as a result of a decline of 1% in manufacturing activity. The high-tech sectors were notable for their decline, although they typi-

Table 3.1: Economic activity – volume indices

	12 m. to Dec.20	12 m. to Dec.21	2021 Nov.	2021 Dec.	2022 Jan.	2021 Oct.	2022 Jan.
			*y-o-y in % **			*monthly****	
Industrial production – total	-6.4	10.1	8.9	11.9	9.9	0.4	6.6
Manufacturing	-6.2	11.7	10.0	11.9	7.3	0.5	5.5
Construction – total	-0.7	-0.5	-13.7	-9.7	5.9	-1.1	0.3
Non-residential buildings	-10.2	-36.7	-38.4	-38.1	-10.1	13.9	16.5
Residential buildings	-0.6	14.4	-17.3	-16.7	5.3	-9.8	4.5
Civil engineering	2.7	5.9	-8.6	0.7	10.0	1.2	-0.3
Trade and service activities* – total	-9.7	12.2	20.2	19.8	21.6	4.9	0.5
Wholesale and retail trade and repair of motor vehicles and motorcycles	-14.5	8.2	19.0	22.5	2.3	1.2	-3.2
Retail trade, except of motor vehicles and motorcycles	-5.9	16.3	35.8	34.4	27.4	4.7	1.9
Other private sector services	-11.6	12.4	19.4	17.7	22.6	7.3	-0.9
Transport and storage	-8.8	13.7	14.1	9.3	10.3	3.6	1.8
Accommodation and food service activities	-37.7	14.2	189.2	218.8	243.1	27.4	-3.9
Information and communication	-0.8	7.4	10.7	8.3	9.8	4.0	0.7
Professional, scientific and technical activities	-3.6	9.9	12.6	5.1	11.7	-0.9	5.3

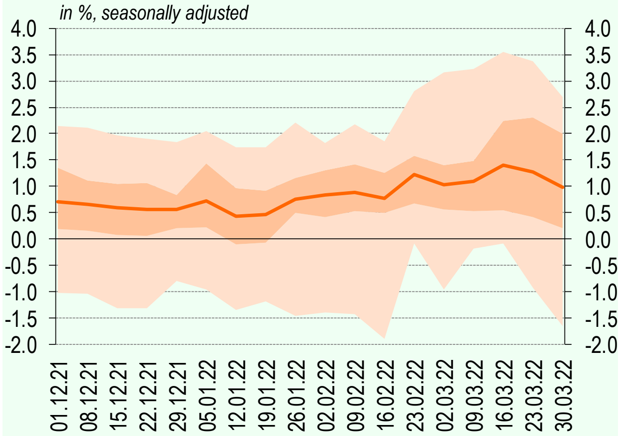
*Note: *Excluding financial services. **Working days adjusted data. ***3-month moving average compared to the corresponding moving average 3 months earlier in %, seasonally adjusted data.*
Source: SORS, Banka Slovenije calculations.

Figure 3.3: Value of card payments and ATM withdrawals* (lhs) and freight transport on motorways (rhs)



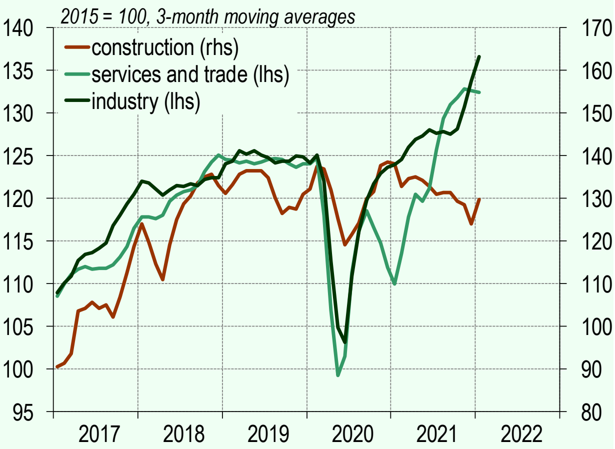
*Note: *Source of data is Bankart, which takes into account more than 80% of all card payments and more than 90% of all ATMs in Slovenia. **4-week moving sums.*
Source: DARS, Bankart, Banka Slovenije calculations.

Figure 3.5: Model estimates of quarterly GDP growth – Q1 2022



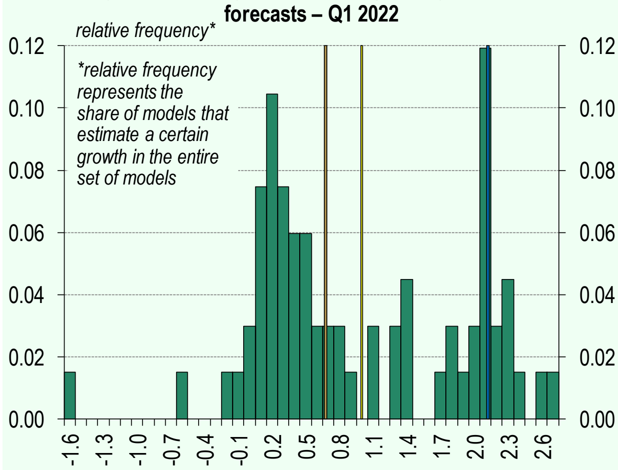
Note: The graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and 75th percentiles of all estimates. Average model estimate of quarterly GDP growth rate is represented by the line. Date of estimate: 2.3.2022.
Source: Banka Slovenije calculations.

Figure 3.4: Monthly indicators of economic activity



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

Figure 3.6: Histogram of quarterly GDP growth rate forecasts – Q1 2022



Note: Distribution of model estimates of quarterly GDP growth in Q1 2022. The vertical brown line shows the median, yellow the average, and blue the mode of all estimates. Date of estimate: 2.3.2022.
Source: Banka Slovenije calculations.

cally see significant monthly fluctuations in output according to SORS figures. Further evidence that industry remained robust in January came from the high year-on-year growth, which approached 12.0%, while in manufacturing it was only certain segments of the car industry that faced genuine difficulties.

Nowcasts for GDP growth in the first quarter of this year

The average nowcast from the comprehensive set of nowcasting models suggests that GDP growth stood at 1.0% in the first quarter of this year, although the risks inherent in the geopolitical situation are for now only being reflected in a deterioration in certain survey indicators. The nowcast is entirely model-based, and does not incorporate any expert assessment of current macroeconomic developments. The set of 67 forecasting models consists of various dynamic factor models, and also PC, (U)MIDAS, (B)VAR, ARDL and bridge models. The changes in quarterly GDP growth nowcasts over the reference quarter are largely related to releases of the high-frequency data that is included in the model infrastructure, while some fluctuations are to a lesser extent also caused by re-estimation of the model parameters. The nowcasts suggest realised quarterly GDP growth of between 0.8% and 1.0% (with an average of

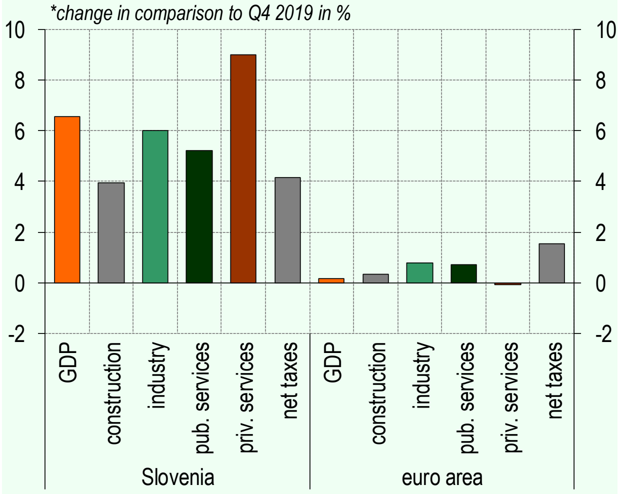
1.0%), where the distribution of the nowcasts is indicative of risks being slightly on the downside (see Figure 3.6). This is largely a reflection of the changing international situation, which for now is only being reflected in a weaker economic sentiment in Slovenia, most notably in manufacturing and consumer confidence.

GDP in the final quarter of 2021

Quarterly GDP growth was extremely high in the final quarter of last year, and the economic activity well above its pre-crisis level. The surge in quarterly growth from 1.3% in the third quarter to 5.4% in the final quarter was unexpected, as this period was affected by the deterioration in the epidemiological situation, disruptions to supply chains and an impending energy crisis. According to the currently available national accounts figures, economic growth also exceeded expectations based on developments in the monthly activity indicators, particularly in construction and certain services. GDP in the euro area increased by just 0.3% overall at the same time, with Germany, Austria and Croatia, some of Slovenia's most important trading partners, actually recording economic contractions. According to original figures, year-on-year GDP growth in Slovenia stood at 10.4%, the highest rate in the EU and 6.0 percentage points higher than the euro area average. The rebound in GDP was also high relative to the level of activity in the final quarter of 2019, while its strength and structure also differed significantly from the euro area average. GDP in the final quarter of last year was up 6.6% on its pre-crisis level, compared with the euro area average of just 0.2%. All sectors were worthy of note on the output side, most obviously private-sector services (see Figure 3.7). All the main aggregates of domestic demand were also worthy of note: they were all well above their pre-crisis levels, in contrast to much of the euro area, as a result of which there was also a large difference in the intensity of the rebound in imports (see Figure 3.8).

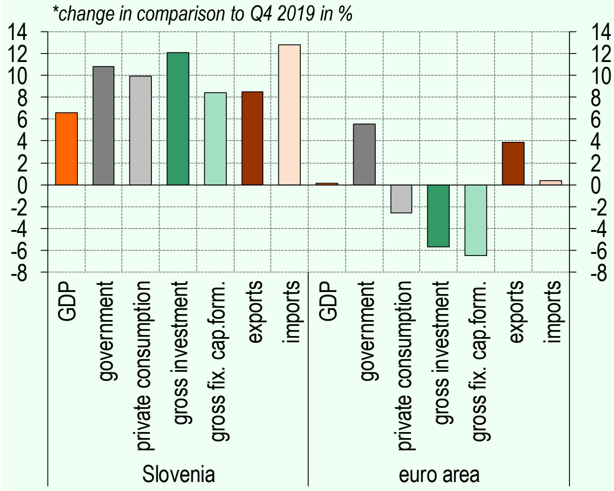
Quarterly growth in value-added was also high in the final quarter of last year, albeit less than GDP growth. It reached 3.2%, up 1.0 percentage points on the third quarter, but 2.2 percentage points less than the simulta-

Figure 3.7: GDP and its production components – Q4 2021 in comparison to pre-crisis* levels



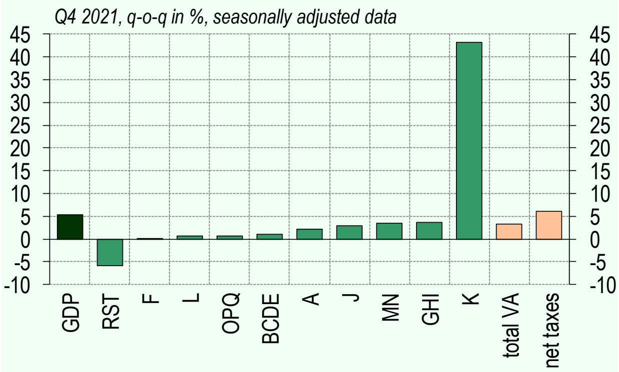
Source: Eurostat, Banka Slovenije calculations.

Figure 3.8: GDP and its expenditure components – Q4 2021 in comparison to pre-crisis* levels



Source: Eurostat, Banka Slovenije calculations.

Figure 3.9: Growth in value added across activities



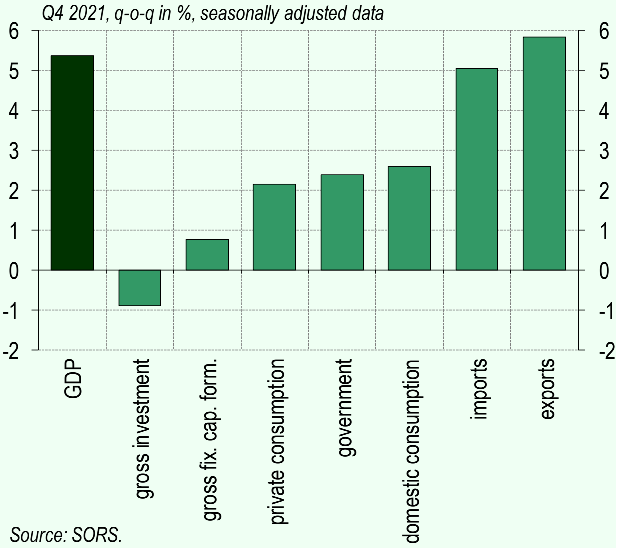
Note: RST – other service activities, F – construction, L – real estate activities, OPQ – public services, A – agriculture, forestry and fishing, J – information and communication, MN – Professional, scientific, technical, administrative and support services, GHI – trade, transportation and storage, accommodation and food service activities, K – financial and insurance activities.
Source: SORS.

neous increase in GDP. According to currently available data, financial and insurance activities are particularly notable for its growth in value-added of more than 43% (see Figure 3.9). Although the aforementioned sector accounted for just 4.1% of total value-added in the economy in the final quarter of last year, it accounted for fully 1.7 percentage points of the total growth according to our rough estimates. Activity in other private-sector services also continued to increase, albeit more slowly than in the third quarter, as the containment measures were tightened in the autumn and disrupted contact-intensive services. Value-added in public services also increased, in line with the rise in employment. Growth in value-added in industry continued to slow, primarily on account of the car industry, but the vast majority of other sectors continued to strengthen output, despite the disruptions to supply chains, the shortage of labour and the high capacity utilisation. Construction continued to face weak growth, as it struggled to keep up with strong demand. This is attributable to high prices and reduced availability of materials, and to shortages of labour and production capacities. Year-on-year growth in aggregate value-added reached 9.4% in the final quarter of last year, but was partly attributable to a low base effect in services that faced stringent containment measures and a consequent decline in activity in late 2020.

Quarterly growth in the main aggregates of domestic demand in the final quarter of last year was lower than the simultaneous increase in GDP. Quarterly growth in aggregate domestic consumption stood at 2.6%, up 1.4 percentage points on the third quarter, but 2.8 percentage points less than the currently published rate of economic growth. The closure of the crisis gap meant that the increase in final household consumption slowed to a still-high 2.2%, an indication of adaptation to the epidemiological situation and also the less-stringent containment measures compared with the first and second waves of the pandemic. Household consumption is being driven by high employment and real growth in the total wage bill in the private sector, and in the final quarter of last year exceeded its level from the final quarter of 2019 by 9.3%. The government sector also contributed to the sharp increase in domestic demand with an increase of 2.4% in final consumption, the largest since the first quarter of 2020, largely as a result of spending on health amid the resurgence of the pandemic. By contrast, there was a decline in gross investment for the second consecutive quarter, which given the weaker but positive growth in fixed capital formation was an indication of the rundown of inventories. The structure of investment growth shifted towards construction, as the quarterly increases in investment in machinery and equipment and in research and development stopped. In contrast to the developments in value-added in manufacturing, exports increased strongly in quarterly terms, outpacing the corresponding increase in imports (see Figure 3.10). Year-on-year growth in aggregate domestic consumption in the final quarter of last year reached 13.9%, partly as a result of the low base, private consumption in particular having been strongly curtailed in late 2020 by the stringent containment measures.

Figure 3.10: Growth in expenditure aggregates

Q4 2021, q-o-q in %, seasonally adjusted data



Source: SORS.

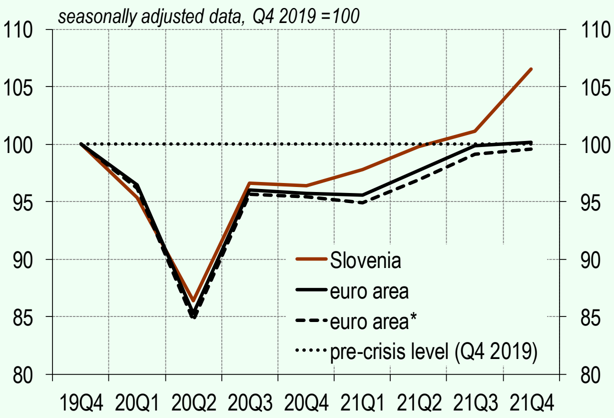
Box 3.1: Decomposition of the difference in economic activity performance between Slovenia and the euro area over the period 2020-2021

The Slovenian economy was hit hard by the pandemic, but less so than the euro area overall. In 2020, when containment measures to mitigate the spread of the virus were the strictest, real GDP in Slovenia contracted by 4.2%, while in the euro area it dipped further, contracting by 6.4%. In 2021, as containment measures relaxed and became increasingly more targeted, activity in both Slovenia and the euro area overall recovered, albeit to a different extent. According to currently available figures, economic growth in Slovenia reached 8.1% last year, bringing the level of real GDP 1.1% above pre-pandemic levels already in the third quarter of the year. For the euro area overall, growth in real GDP stood at 5.4%, with pre-pandemic levels barely reached by the last quarter of last year (see Figure 1).

The difference in the pace of the economic recovery between Slovenia and the euro area can be attributed to several factors. Given the nature of the crisis, the heterogeneous epidemiological developments and, more importantly, the ensuing heterogeneous response of local authorities to contain the spread of the virus resulted in different dynamics in economic activity across countries. Beyond epidemiological-related factors, the structural composition of the economy as well as the underlying (trend) growth dynamics, especially for catching-up economies such as Slovenia, have also played a role. Moreover, other factors, such as the size, composition and effectiveness of the enacted policy measures to mitigate more adverse effects from the crisis, could have also contributed. Given the range of factors, the aim of the analysis presented in this box[1] is to numerically evaluate the successive contribution of two sets of factors to the difference in economic activity performance between Slovenia and the euro area overall[2] for the period 2020-2021. The first set pertains to two so-called core factors, which include the underlying (trend) growth and the sectoral composition of the economy, and the second set to two pandemic-related factors, namely containment measures (*de jure* mobility) and additional voluntary mobility beyond what is implied by containment measures (additional *de facto* mobility; see Figure 2).

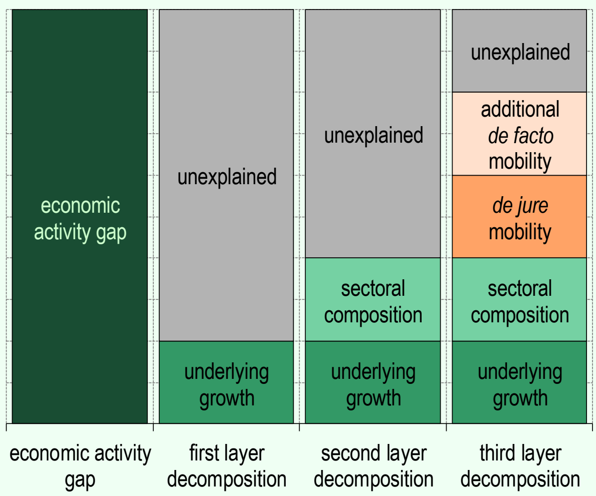
Pandemic-related developments and sectoral composition explain the largest part of the activity gap in 2020 (see Figure 3). In the first quarter of 2020, Slovenia's economy performed worse than that of EA, primarily on account of a more pronounced voluntary containment, i.e.

Figure 1: Level of real GDP in Slovenia and the euro area in the period 2020-2021



Note: *Approximate euro area GDP calculated from seasonally adjusted GDP data of the countries included in the sample analysed (BE, DE, EE, ES, FR, IT, LV, LT, NL, AT, PT, SK, FI). The countries included represent 94% of total euro area GDP.
Source: Eurostat, Banka Slovenije calculations.

Figure 2: Decomposition of the economic activity gap



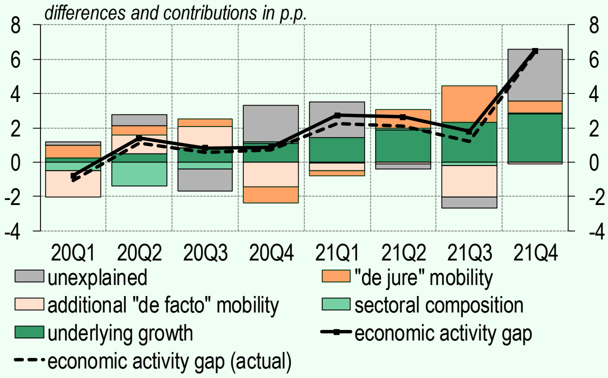
Source: IMF, Banka Slovenije.

additional *de facto* mobility, despite looser containment measures than in the euro area overall, reflected in the positive contribution of *de jure* mobility. In the second quarter, Slovenia's economy contracted by less than that of the euro area, as suggested by the positive activity gap. This was primarily driven by slightly less stringent containment measures in Slovenia than in euro area overall (see Figure 4), and more pronounced *de facto* mobility (i.e. less self-confinement following the lifting of some of the most stringent containment measures in mid-May). While pandemic-related factors contributed positively to the gap, the sectoral composition of the economy, where the share of industry is significantly larger than the euro area average, had a negative impact (see Figure 3). Given the relatively similar shares of contact-intensive services, which were hit hardest during the pandemic, the negative contribution of the sectoral composition came primarily from the impact of the containment measures on industry,[3] where value-added in Slovenia declined by more than 15.0% in year-on-year terms in the second quarter. For the remainder of the year the Slovenian economy outpaced that of the euro area, despite more-stringent domestic containment measures, which can be explained in part by the gradual restoration of pre-crisis patterns in the underlying economic growth dynamic.

Underlying growth and less-stringent containment measures, i.e. *de jure* mobility, were the main drivers of Slovenia's faster rebound in economic activity relative to the euro area (see Figure 3). The less-stringent containment measures supported a faster rebound in activity in the Slovenian economy from the second quarter of 2021 onwards, most notably in the third quarter, when they were significantly less stringent than the euro area average (see Figure 4). While pandemic-related factors were broadly supportive in allowing the economy to recover, underlying (trend) growth stood out as the main driver of the positive activity gap throughout 2021, contributing an average of 2.0 percentage points. As a catching-up economy, on average, Slovenia records higher growth rates relative to EA: over the period 2000-2019, the average annual growth in real GDP in EA has been 1.1% while in Slovenia 2.1%. For the last quarter of last year, while half of the activity gap is explained by underlying (trend) growth and *de jure* mobility on account of somewhat looser containment measures, the rest remains unexplained by the current methodological framework, reflecting other factors not accounted for in the analysis.

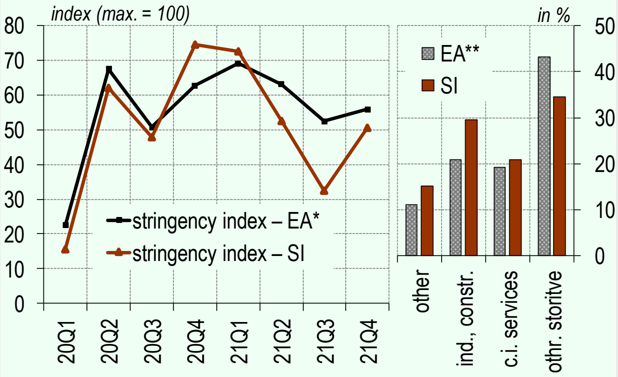
Albeit not identified within the methodological approach set forth in this analysis, the fiscal measures enacted in Slovenia and the euro area overall have played a crucial role in shaping the respective economic activity dynamics. The unprecedented fiscal response unleashed to mitigate the adverse effects of the pandemic, in particular to sustain households' income and survival of affected firms, has allowed the economy, in both Slovenia and the euro area overall, to bounce back swiftly as the containment measures have eased and/or become more targeted. Relative to the euro area, Slovenia enacted a larger fiscal package associated with Covid-19 related measures, which accounted for more than 5.0% of nominal GDP in 2020, compared to around 4.0% in the euro area overall.[4] The aforementioned difference might have had a significant impact on the response of the two economies, in both of the years under observation, given some lagged materialization of the effect of fiscal policy measures due to prevailing containment measures. In 2021, however, the prevailing packages were comparable: the measures amounted to around 4.5% of GDP in Slovenia, and slightly less in the euro area.[5] The differences in the size and composition of fiscal packages can not only explain part of the unexplained gap in economic growth between Slovenia and the euro area, but also implicitly affect other factors considered in the decomposition which in turn have driven the stronger rebound in activity in Slovenia relative to the euro area overall.

Figure 3: Decomposition of economic activity gap between Slovenia and the euro area*



*Note: *The activity gap between Slovenia and the euro area is calculated as the GDP weighted average of the activity gaps estimated for the countries included in the sample (BE, DE, EE, ES, FR, IT, LV, LT, NL, AT, PT, SK, FI), which cover 94% of the total euro area GDP. The gap reflects differences in GDP growth compared to Q4 2019. All data are seasonally adjusted.*
Source: Eurostat, ECB, Oxford Economics, Google, Banka Slovenije estimates and calculations.

Figure 4: Comparison of the stringency index and weights of economic sectors for Slovenia and the euro area



*Note: *The stringency index for EA is calculated as a GDP weighted average of the stringency indices of the individual countries included in the sample (BE, DE, EE, ES, FR, IT, LV, LT, NL, AT, PT, SK, FI). **The sectoral weights for EA are calculated based on 2019 sectoral data for the countries included in the sample. Other (act. A and net taxes), industry and construction (acts. BCDE and F), contact-intensive services (acts. GHI and RST), and other services (act. J, K, L, MN and OPQ).*
Source: Eurostat, Oxford Economics, Banka Slovenije calculations.

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IMF (April 2021). Differences in output performance between Europe and the United States during Covid-19. Regional Economic Outlook Update – Europe.

Národná Banka Slovenska (2021). Why has Slovakia's economy been more resilient than Germany's during the pandemic? Economic and Monetary Developments.

[1] The analysis follows the IMF methodology published in the April 2021 Regional Economic Outlook Update Europe (IMF 2021) in Box 1: Differences in output performance between Europe and the United States during Covid-19, which was used by the Slovakian central bank in its autumn 2021 issue of Economic and Monetary Developments (Národná Banka Slovenska 2021). In the analysis Slovenia's activity gap with regard to a given country *j*, where j = {BE, DE, EE, FR, IT, LT, LV, NL, AT, PT, SK, FI}, is defined as the difference between real GDP growth in Slovenia (relative to Q4 2019) and real GDP growth in country *j* (relative to Q4 2019). The activity gap is formally defined as follows:

$$\Delta^G Y_t^j = \Delta^L Y_t^{SI} - \Delta^L Y_t^j = \left(\left(Y_t^{SI} / Y_{19Q4}^{SI}\right) * 100 - 100\right) - \left(\left(Y_t^j / Y_{19Q4}^j\right) * 100 - 100\right).$$

The contribution of underlying growth is defined in the same way as the activity gap, however, using December 2019 BMPE projections for GDP for the period 2020-2021. As the projections prepared in December 2019 BMPE were prepared under normal assumptions, the resulting outlook for GDP across countries reflects an approximation of trend growth that would have prevailed in the absence of the pandemic shock. As the analysis is undertaken in a quarterly frequency, the countries without quarterly projections, i.e. Cyprus, Ireland, Greece, Luxembourg and Malta are excluded from the analysis. Even though Slovenia is also one of the EA countries that prepares only annual projections, for the purpose of the analysis, internal quarterly projections of real GDP have been used. The contribution of sectoral composition makes use of the sectoral-based formula of the activity gap expressed as the sum of the weights of individual sectors and of the sectors' value added (where w_i^j denotes the weight of sector *i* in country *j*). Formally:

$$\Delta^G Y_t^j = \Delta^L Y_t^{SI} - \Delta^L Y_t^j = \sum_{i=1}^{11} w_i^{SI} \Delta^L Y_{i,t}^{SI} - \sum_{i=1}^{11} w_i^j \Delta^L Y_{i,t}^j = \sum_{i=1}^{11} \left(w_i^{SI} - w_i^j\right) \Delta^L Y_{i,t}^{SI} + \sum_{i=1}^{11} w_i^j \left(\Delta^L Y_{i,t}^{SI} - \Delta^L Y_{i,t}^j\right),$$

with weights referring to 2019 sector-specific weights. The component approximating the contribution of sectoral composition to the activity gap of Slovenia relative to country *j* pertains to the first component of the last part of the equation, i.e. $\sum_{i=1}^{11} (w_i^{SI} - w_i^j) \Delta^L Y_{i,t}^{SI}$. The contribution of *de jure* and additional *de facto* mobility is assessed within a panel framework. In the first step, using a panel of all countries included in the sample, *de facto* mobility is regressed on *de jure* mobility on a weekly frequency for the period 2020-2021. The residuals of the first step are used to approximate additional *de facto* mobility, which should reflect additional voluntary mobility/self-isolation beyond that implied by stringency measures. In the second step, weekly additional *de facto* mobility and *de jure* mobility are averaged to quarterly frequency, and fed into 11 sector specific panel regressions (for sectors A, BCDE, F, GHI, J, K, L, MN, OPQ, RST and net taxes, NDAV) including all countries in the sample. The predicted values from the sector specific panel regressions, using constant coefficients for countries, are then aggregated using country-specific 2019 sector value added weights. The contributions from each layer are sequentially subtracted from the activity gap of Slovenia relative to a given country *j*, with the remainder referred to as *unexplained* by the methodological framework. In the final step, the resulting decomposed activity gaps of Slovenia relative to all countries in the sample, i.e. 13 countries, feed into the computation of a bottom-up aggregate for the activity gap of Slovenia relative to EA. Formally: $\Delta^G Y_t^{EA} = \Delta^L Y_t^{SI} - \sum_{k=1}^{13} W_k^j \Delta^L Y_t^j$. The aggregation employs GDP weights of the countries in the sample over the sample period as in the analysis, i.e. 2020Q1-2021Q4. The data on GDP and value-added across all sectors used for the estimations and computations in this analysis are seasonally and calendar adjusted and in real terms.

[2] For the purposes of this analysis, aggregate euro area GDP includes the following countries, which account for 94% of total GDP in the euro area: BE, DE, EE, FR, IT, LT, LV, NL, AT, PT, SK, FI. Ireland is excluded from the analysis on account of the misleading influence of multinationals, Greece on account of missing quarterly data for the second half of 2021, while Cyprus, Malta and Luxembourg are excluded because they do not draw up quarterly projections within the framework of the Eurosystem's broad macroeconomic projections, which are necessary for the approximation of underlying growth in the decomposition of the activity gap.

[3] A strict lockdown of much of the economy was in force between mid-March and early May 2020.

[4] For more details on the fiscal measures for Slovenia, see *Box 1: Projections of general government balance and debt* in the December 2021 issue of Macroeconomic Projections for Slovenia. For more details on the fiscal measures for the euro area, see *The initial fiscal policy responses of euro area countries to the Covid-19 crisis*, published as part of the ECB Economic Bulletin, Issue 1/2021 (europa.eu).

[5] See Footnote 4.

Box 3.2: Situation in supply chains

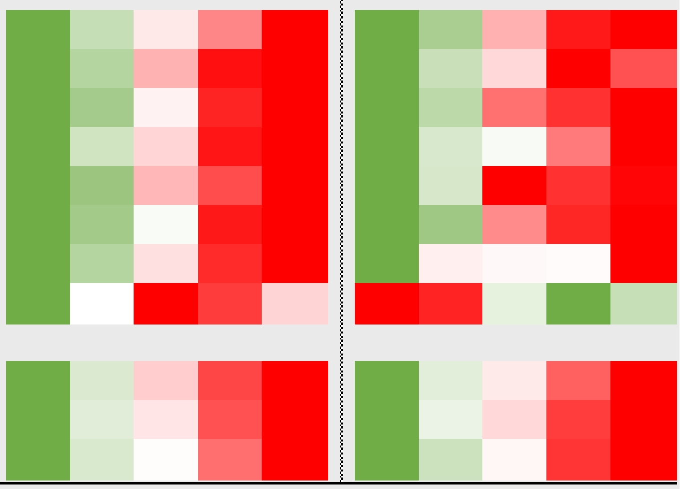
The resurgence of the pandemic and the extremely strong demand that followed the relaxation of the most-stringent containment measures caused a major global shortage of raw materials and semi-finished goods in 2021. The disruptions to supply chains increased sharply in the second half of the year, which strengthened cost pressures, played a part in raising inflation, and curtailed economic growth. The IMF for example estimates that in the absence of the constraints on supply, manufacturing output in the euro area in the autumn of 2021 would have been around 6.0% higher and GDP would have been 2.0% higher, while producer price inflation would have been approximately a half lower.[1] With an increasing number of firms reporting issues with labour shortages at the same time, in part because of the bad epidemiological picture and the resulting level of quarantining, the disruptions to supply worsened in the first quarter of this year (see Table 1). An additional deterioration can be expected in the coming months because of the war in Ukraine and the harsh sanctions against Russia, alongside disruptions in China caused by regional lockdowns amid rising case numbers.

Although domestic manufacturing firms are also facing a shortage of raw materials and intermediate goods that is the largest since the data was first available (since 1996), it was only a real issue in a small number of sectors; elsewhere there were signs of the problem easing when the downturn in international relations occurred (See Table 2). The shortage of semi-finished goods was heavily curtailing firms in the manufacturing of computers, other electronic products and miscellaneous machinery and appliances at the end of last year, and the share of firms facing issues increased in the early part of this year as a result of the global shortage of semiconductors. According to information on the contraction in output, it was in parts of the Slovenian car industry where the issues remained the worst. Conversely the shortage of raw materials was more widely present across manufacturing sectors, but this year eased in the majority of sectors compared with last year's peak (See Table 2). It was a different story in retail, where issues relating to low inventories have actually increased this year, while construction firms also faced major issues with the supply of materials.[2]

The easing of still-difficult disruptions to supply chains reported by domestic firms is in all likelihood temporary. Disruptions to supply are likely to further increase as a result of the war in Ukraine, the harsh sanctions and withdrawal of firms from Russia, and China's response to rising case numbers, while the crisis with the shortage of semiconductors and various electronic parts is deepening. There is therefore a great likelihood that many manufacturing firms face a deterioration in business conditions over the coming months. Al-

Table 1: Supply-side limiting factors and price expectations

	euro area 21				euro area 22Q1	Slovenia 21				Slovenia 22Q1
Limiting factors										
shortage of material and/or equipment in construction										
shortage of material and/or equipment in manufacturing										
shortage of skilled labour, total*										
… shortage of skilled labour in construction										
… shortage of skilled labour in manufacturing										
… shortage of skilled labour in services										
volume of stocks, retail trade										
stock of finished products, manufacturing										
Price expectations										
Price expectations in construction										
Price expectations in manufacturing										
Price expectations in services										



Note: The data has been standardised for the period 2021–Q1 2022. The colour scale denotes the direction and size of the deviation in an individual time series from its average (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed for the inventories indicator.
**Banka Slovenije estimate based on share of value-added.*
Source: Eurostat, Banka Slovenije calculations.

Table 2: Shortage of raw materials and semi-finished products in manufacturing

	shortage of semi-finished products					shortage of raw materials				
	21				22Q1	21				22Q1
Manufacturing, total										
… food products										
… beverages										
… textiles										
… wearing apparel										
… leather and related products										
… wood and of products of wood and cork										
… paper and paper products										
… printing and reproduction of recorded media										
… chemicals and chemical products										
… rubber and plastic products										
… other non-metallic mineral products										
… basic metals										
… fabricated metal products										
… computer, electronic and optical products										
… electrical equipment										
… machinery and equipment n.e.c.										
… motor vehicles, trailers and semi-trailers										
… other transport equipment										
… furniture										
… other manufacturing										
… repair and installation of mach. and eq.										

Note: The data has been standardised for the period of 2021 to Q1 2022. The colour scale denotes the direction and size of the deviation in an individual time series from its average over the observation period (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The sectors for which no data is available are marked in grey.
Source: SORS, Banka Slovenije calculations.

ready high, inflation expectations strengthened sharply in March amid the surge in energy and commodity prices, while the likelihood of significant wage pressures is also increasing amid widespread labour shortages.

[1] Source: IMF (February 2022). Supply Disruptions Add to Inflation, Undermine Recovery in Europe.

[2] In March 30.5% of construction firms reported shortages of materials, up 8.3 percentage points on February, the highest increase to date with the exception of November 2021.

4 | Labour Market

The labour market is at record heights in many respects, which is deepening structural imbalances. The year-on-year rise in the number of persons in employment excluding self-employed farmers strengthened further in January, to reach its highest level of the last three years. The rise in employment was driven by the transition from inactivity to employment, and also by a fall in unemployment, which according to the seasonally adjusted figures is now lower than its previous low of 2008. With the availability of labour on the domestic market diminishing, while employment expectations remain high, firms continue to address the difficulty of recruiting skilled workers by hiring foreign nationals. Year-on-year developments in average gross wages in January of this year were largely driven by the year-on-year impact of measures related to the pandemic. The nominal decline in the average gross wage thus reflected the end of payments of pandemic-related bonuses in mostly public services, while conversely the average gross wage per employee in the private sector on the basis of paid hours remained at its average level of the last two years. The year-on-year decline in the wage bill in January stood at 1.7% in real terms amid high inflation. The decline was largely attributable to the normalisation of wage levels in mostly public services following the end of pandemic-related bonus payments, while real growth in the wage bill in the private sector remained high at 5.6%. The uncertainty surrounding future developments on the labour market increased in March in response to the sharp deterioration in geopolitical relations and the resulting loss of confidence in the economy.

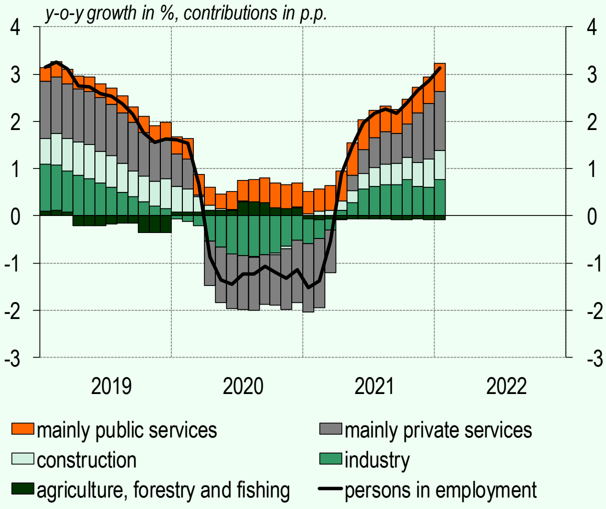
Employment

Year-on-year employment growth increased further in the early part of the year. The number of persons in employment excluding self-employed farmers was up 3.3% in January on a year earlier, the largest year-on-year rate of growth since February 2019.[1] The rise was broadly based across sectors, and was again highest in construction and in accommodation and food service activities. Employment has now surpassed its pre-crisis level in the majority of sectors (see Figure 4.1). The rise in the number of persons in employment continues to be driven by the fall in unemployment, the transition from inactivity to employment, and the hiring of foreign labour. The labour force activity rate and the employment rate in the 15 to 64 age group stood at 75.8% and 72.4% respectively in the final quarter of last year, each up approximately 1 percentage point on a year earlier.[2] The number of persons in employment excluding

[1] Employment increased by 1.4% last year according to national accounts figures, to stand at 8,500 more than its previous peak of 2019. Because the amount of work done by employees increased after the job preservation measures expired, the rise of 5.5% in the number of hours worked outpaced the rise in employment.

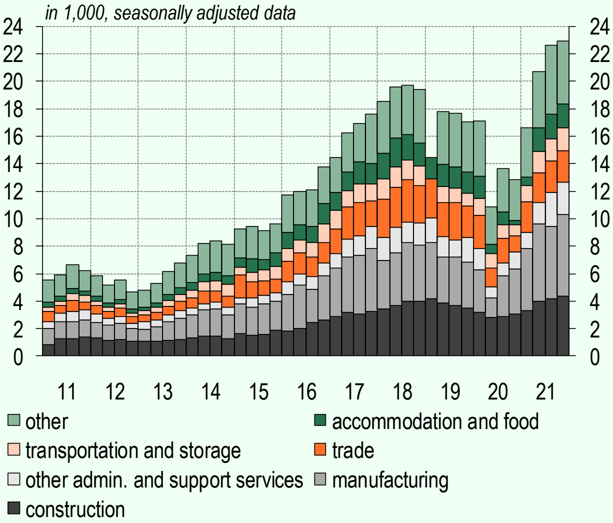
[2] Year-on-year comparisons of the labour force activity rate and the employment rate have been made harder by methodological changes. More detailed information can be found in Box 3.1 of the July 2021 issue of Economic and Financial Developments.

Figure 4.1: Growth in the number of persons in employment, by sector



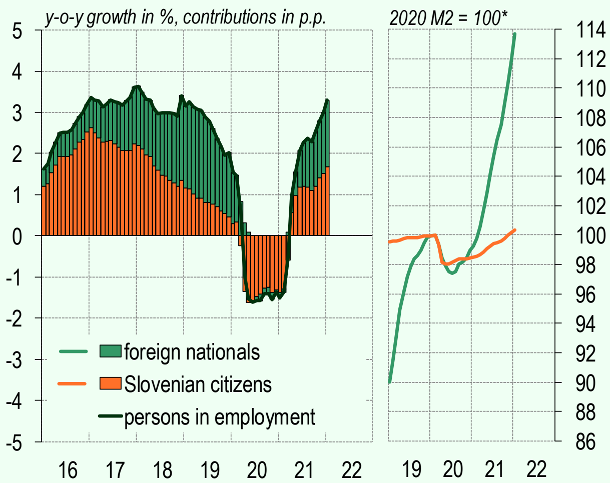
Source: SORS, Banka Slovenije calculations.

Figure 4.3: Vacancies



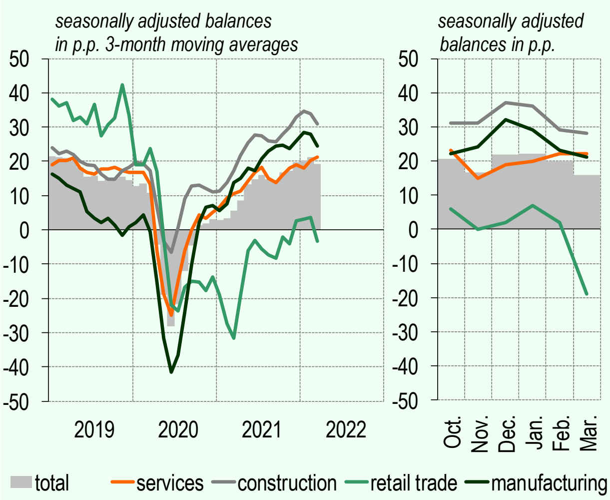
Source: SORS, Banka Slovenije calculations.

Figure 4.2: Persons in employment excluding self-employed farmers



Note: *Seasonally adjusted using Tramo/Seats method.
Source: SORS, Banka Slovenije calculations.

Figure 4.4: Expected employment in the next three months



Note: Aggregate indicator is calculated using shares in total value added.
Source: SORS, Banka Slovenije calculations.

self-employed farmers in January included 14.1% more foreign nationals than last year, who accounted for approximately half of the year-on-year rise (see Figure 4.2).

While demand for labour remains high, firms are continuing to face difficulties in recruitment. According to seasonally adjusted SORS figures, the number of vacancies and occupied posts in the final quarter of last year was up again on the previous quarter, while the job vacancy rate remained at a record high, reaching 2.8%. There were more than 22,900 vacancies available, again the highest figure to date. The largest number of vacancies were notified in manufacturing and construction (see Figure 4.3), where according to Employment Service figures firms are mainly hiring in elementary occupations, i.e. those where the skill requirements are low. Employment expectations declined in both sectors in the first quarter of this year according to seasonally adjusted SORS figures, but remain high, and indicative of further growth in employment over the next three months (see Figure 4.4). Given the diminishing supply on the domestic labour market and the persistence of high demand for labour, firms are continuing to face difficulties in recruitment. According to SORS figures, just over a third of manufacturing firms reported difficulties in the first quarter of this year on account of a shortage of skilled labour, approximately the same as in the previous quarter.

Unemployment

Registered unemployment is extremely low. The number of registered unemployed stood at 64,783 in February, down 26.4% on a year earlier. The February figure was only 5,500 short of the previous record low from September 2008, while it has already surpassed it according to seasonally adjusted figures. In structural terms the main year-on-year increases were in the long-term unemployed and the unemployed aged over 50, i.e. the most vulnerable and hard-to-employ people. The unemployment rates are also falling, in line with the developments in employment and unemployment. The registered unemployment rate stood at 6.9% in January, down 2.5 per-

Table 4.1: Demography, unemployment and employment

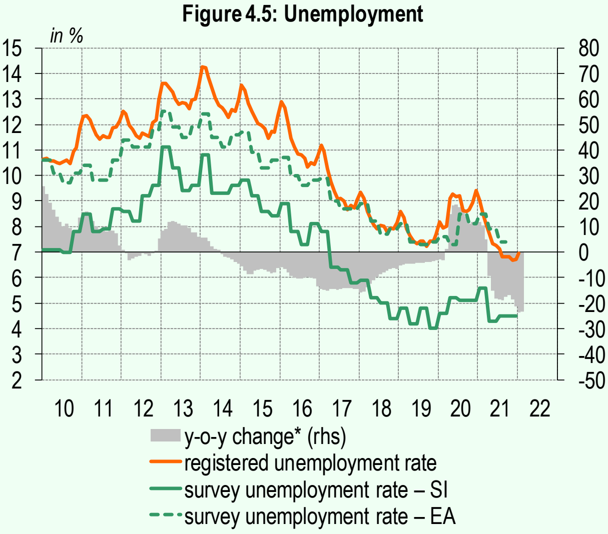
	2017	2018	2019	2020	2021	20Q4	21Q1	21Q2	21Q3	21Q4
					in 1,000					
Working age population[1]	1,362	1,352	1,350	1,362	1,336	1,367	1,341	1,337	1,335	1,331
					in %					
Activity rate[2]	74.2	75.1	75.3	74.6	75.1	74.9	72.3	75.2	76.9	75.8
Employment rate[3]	69.3	71.1	71.9	70.9	71.5	71.1	68.1	71.9	73.4	72.4
					in 1,000					
Registered unemployed persons	88.6	78.5	74.2	85.0	74.3	85.0	87.4	75.2	68.7	66.0
Unemployment rate					*in %*					
- LFS	6.6	5.1	4.5	5.0	4.7	5.1	5.6	4.3	4.5	4.5
- registered	9.5	8.3	7.7	8.7	7.6	8.7	9.0	7.7	7.1	6.7
Probability of transition between employ. and unemploymer					*in %*					
- probability to find a job[4]	19.2	19.5	18.9	19.0	20.1	16.4	22.0	22.9	19.0	16.4
- probability to lose a job[5]	2.1	1.9	1.8	2.5	1.5	2.2	2.1	1.1	1.4	1.6
					in 1,000					
Total employment[6]	989	1,021	1,046	1,040	1,054	1,041	1,039	1,044	1,066	1,069
					year-on-year growth rates in %					
Persons in paid employment	3.3	3.4	2.6	-0.9	1.2	-1.4	-1.3	1.3	2.4	2.5
Self-employed	1.4	2.5	1.7	0.6	2.2	0.4	0.6	1.6	3.1	3.5
By sectors										
A Agriculture, forestry and fishing	-1.0	-0.4	-0.6	-0.9	-1.7	-1.2	-1.4	-1.5	-1.8	-2.0
BCDE Manufacturing, mining and quarrying and other industry	3.1	4.3	2.4	-1.5	1.5	-1.9	-0.8	1.6	2.8	2.3
F Construction	2.3	6.5	9.1	1.9	4.2	1.3	1.9	4.2	5.3	5.5
GHI Trade, accommodation, transport	3.5	3.5	3.2	-1.5	0.3	-2.8	-3.6	-0.5	1.9	3.4
J Information and communication services	3.4	4.6	3.5	3.7	3.7	3.1	2.4	3.6	4.2	4.5
K Financial and insurance activities	-1.5	-0.9	-0.8	-2.7	-2.2	-3.3	-2.9	-1.9	-2.0	-2.0
L Real estate activities	7.9	6.5	4.6	3.6	1.1	2.9	1.4	1.4	0.0	1.4
MN Professional, technical and other business activities	5.2	3.0	0.4	-3.7	2.1	-4.0	-3.1	2.4	4.7	4.3
RSTU Other activities	3.5	3.3	4.0	0.4	0.0	-1.2	-1.9	0.0	1.0	1.0
- mainly private sector (without OPQ)[7]	3.0	3.4	2.6	-1.2	1.1	-1.9	-1.7	1.0	2.5	2.7
- mainly public services (OPQ)[7]	2.5	2.2	1.8	2.2	2.6	2.5	2.3	2.9	2.7	2.4
Total employment[6]	2.9	3.2	2.5	-0.6	1.4	-1.1	-0.9	1.4	2.6	2.7

[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 the 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 the 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, Banka Slovenije calculations.

centage points in year-on-year terms, while the surveyed unemployment rate remained at 4.5% in the final quarter of last year, down 0.6 percentage points in year-on-year terms (see Figure 4.5).

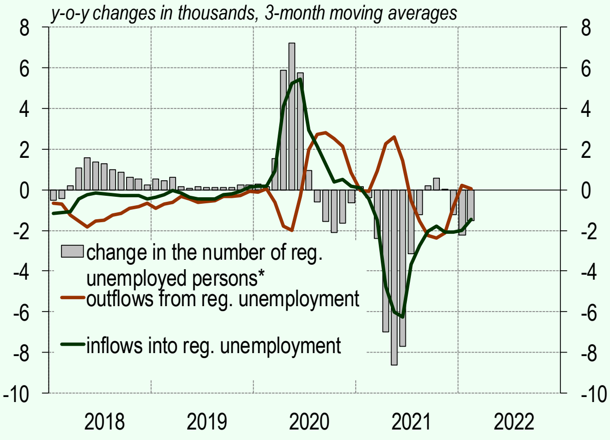
Inflows into and outflows from registered unemployment over the first two months of the year were both down in year-on-year terms (see Figure 4.6). The number of persons newly registering as unemployed was down 17.1% on the same period last year. In sectoral terms the main declines were in inflows from manufacturing, wholesale and retail trade and repair of motor vehicles and motorcycles, and accommodation and food service activities, while in terms of the category of unemployment the decline in inflows was mainly attributable to a smaller number of terminations of temporary employment and redundancies. Outflows from unemployment were down 4.5% on the same period last year, primarily as a result of a decline in new hires. Given that employment expectations were relatively high at the beginning of the year, this is an indication that firms are finding it increasingly difficult to recruit qualified workers from the ranks of the unemployed. Conversely the number of outflows in January and February for reasons other than employment was up significantly in year-on-year terms, most notably outflows for breaches of obligations, for example failure to seek work, and self-deregistrations.

Figure 4.5: Unemployment



*Note: *Year-on-year change of registered unemployed persons in 1,000.*
Source: Employment Service of Slovenia, SORS, Banka Slovenije calculations.

Figure 4.6: Inflows, outflows and changes in the number of unemployed persons



Note: Change in the number of registered unemployed persons calculated as a year-on-year change in the number of registered unemployed persons on a monthly basis.
Source: Employment Service of Slovenia, Banka Slovenije calculations.

Wage developments

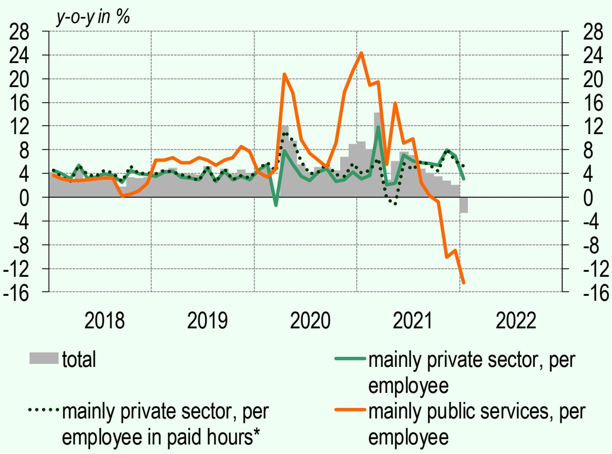
Year-on-year developments in average gross wages in January of this year were largely driven by the year-on-year impact of measures related to the pandemic. The average gross wage per employee in January was down 2.7% on January of last year (see Figure 4.7). The decline was primarily attributable to the ending of pandemic-related bonus payments in mostly public services, which saw average wages in the sector fall by 14.4%. By contrast, year-on-year growth in the average gross wage per employee in the private sector stood at 3.1%, or 5.3% on the basis of paid hours.[3] The latter figure did not deviate significantly from the average of the last two years (5.7% in 2020, and 5.0% in 2021). Our assessment is that the year-on-year impact of the expiry of job preservation measures also had a positive impact on the developments in year-on-year wage growth in the private sector, as employees that were included in these measures last year had lower earnings during their time

[3] Monitoring wage statistics remains difficult because of the year-on-year impact of job preservation measures. Only payments and compensation covered by the employer count towards the labour cost statistics, while wage recipients include anyone who received at least some pay from an employer, irrespective of whether they were included in a job preservation measure for part of the month. By contrast, the number of employed persons who received a wage on the basis of paid hours takes account of the time of the employee's attendance at work relative to the payments received by the employee that were covered by the employer. The current dynamics in labour costs are thus better reflected by the figures for average gross wage per employee on the basis of paid hours. A more detailed explanation can be found in Box 3.2 of the July 2020 issue of Economic and Financial Developments and in the *Wage developments* section of the January 2022 issue of Economic and Financial Developments.

of absence from work. High consumer price inflation meant that January's real year-on-year decline of 8.2% in the average gross wage was the largest since 2005, when SORS figures first became available.

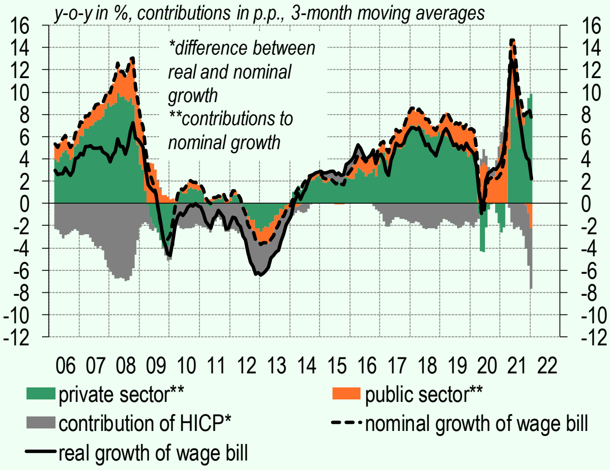
In January high consumer price inflation significantly widened the gap between nominal growth and real growth in the wage bill. Nominal year-on-year growth in the wage bill stood at 4.2% in January, down 4.9 percentage points on the previous month, while high consumer price inflation meant that in real terms the wage bill recorded a year-on-year decline of 1.7% (see Figure 4.8). In addition to high inflation, in recent months there has also been an adverse impact on the year-on-year develop-

Figure 4.7: Average gross wage growth



Note: *Average wage per employee relates to employees at legal persons, while average wage per employee in paid hours relates to employees at legal persons that are not budget users.
Source: SORS, Banka Slovenije calculations.

Figure 4.8: Contributions to wage bill growth



Notes: Wage bill is calculated as the product of average gross monthly wages for employees who received pay and the number of employees who received pay. Due to rounding, the sum of the sub-components does not always equal the total growth.
Source: SORS, Banka Slovenije calculations.

Table 4.2: Labour costs

	2017	2018	2019	2020	2021	20Q4	21Q1	21Q2	21Q3	21Q4
	in EUR									
Average gross wage	1,626	1,681	1,754	1,858	1,970	1,957	1,978	1,985	1,905	2,012
	y-o-y growth in %, nominal									
Average net wage	3.1	2.9	3.7	6.8	5.0	7.0	9.3	3.7	4.7	2.5
Average gross wage	2.7	3.4	4.3	6.0	6.0	6.8	10.6	5.5	5.4	2.8
- mainly private sector (without OPQ)[1]	2.7	3.8	3.6	3.9	5.7	3.2	6.1	3.8	5.9	6.8
- mainly public services (OPQ)[1]	2.8	2.4	6.5	10.7	6.7	16.1	20.9	10.2	4.2	-6.8
Average gross wage in manufacturing	3.2	4.0	3.5	3.2	6.2	2.7	4.6	6.0	7.0	7.2
Average real net wage[2]	1.5	1.0	2.0	7.1	2.9	8.1	10.0	1.6	2.4	-1.9
	y-o-y growth in %									
Unit labour costs,[3,4] nominal	1.2	2.7	4.2	7.7	-1.3	9.0	3.9	-5.4	3.2	-5.8
Unit labour costs,[3,4] real	-0.3	0.6	1.9	6.3	-3.6	7.9	2.6	-7.3	-0.3	-8.6
Labour costs per employee,[4] nominal	3.0	3.9	5.0	3.5	5.4	6.8	6.4	8.4	5.6	1.3
Labour productivity, nominal	3.3	3.3	3.0	-2.5	9.3	-1.0	3.8	17.0	5.8	10.8
Labour productivity, real	1.8	1.2	0.8	-3.7	6.6	-2.1	2.4	14.5	2.3	7.6
HICP	1.6	1.9	1.7	-0.3	2.0	-0.9	-0.6	2.1	2.3	4.5
GDP deflator	1.5	2.1	2.2	1.2	2.6	1.1	1.3	2.1	3.4	3.0

[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, Banka Slovenije calculations.

ments in the wage bill from wages in mostly public services, owing to the aforementioned year-on-year impact of the ending of pandemic-related bonus payments. The real decline in the wage bill amounted to fully 16.9% in January. By contrast, real year-on-year growth in the wage bill in the private sector remained high at 5.6%, comparable to the pre-crisis year of 2019, when it stood at 5.1%. The persistence of high consumer price inflation could have an adverse impact on further developments in private consumption.

5 Current Account and Competitiveness Indicators

The growth outlook for the domestic export sector worsened following the serious downturn in international relations. An SORS survey of manufacturing firms conducted in March reveals a significant decline in export expectations over the next three months, while assessments of current demand on foreign markets remained at the level of the previous month. These developments could curtail the strong growth in international trade seen since March 2021, which was strongly biased towards nominal growth in imports given the rapid growth in domestic demand and import prices. The 12-month merchandise trade surplus amounted to just EUR 240 million in January of this year. If the surplus generated with Russia, Ukraine and Belarus is excluded, the position has been in deficit since December of last year, something that has not happened since August 2014. Services trade continued to expand rapidly until January, while the surplus is gradually returning to its pre-pandemic level, despite the issues in international tourism. With a slightly larger deficit in income, largely as a result of a large outflow of dividends, the 12-month current account surplus amounted to just over EUR 1.5 billion in January, down more than EUR 1.9 billion in year-on-year terms.

The euro's deepening year-on-year depreciation against the basket of trading partners' currencies in the late part of last year brought a further improvement in Slovenia's price competitiveness in the second half of the year, despite the waning effect of low relative prices. Developments remained favourable for the third consecutive year, the price competitiveness position of exporters thereby remaining within favourable bounds, and significantly better than a decade ago. Cost competitiveness remained unchanged in year-on-year terms over the first three quarters of last year, but as a result of the previous deterioration over several years it is no better than it was a decade ago; the increase in domestic unit labour costs has also strongly outpaced the euro area average in recent years.

12-month current account position

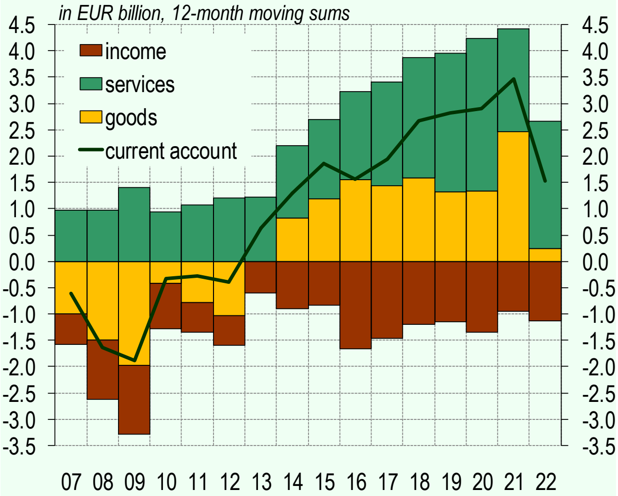
The 12-month current account surplus is continuing to decline rapidly. It amounted to just over EUR 1.5 billion in January, down more than EUR 1.9 billion in year-on-year terms. Amid strong domestic consumption and pronounced growth in import prices (they were up 26.4% in year-on-year terms in January), a reversal in the merchandise trade balance is fast approaching. The 12-month surplus amounted to just EUR 240 million in January, down more than EUR 2.2 billion in year-on-year terms, while at the monthly level there have been deficits since August of last year, despite the ongoing rapid growth in merchandise exports. The deficit in income has also increased over the last year, surpassing EUR 1.1 billion in January, up EUR 180 million in year-on-year terms, largely as a result of an increase in the deficit in FDI income. The narrowing of the current account surplus is being slowed by the strengthening of services exports, where there have been notable nominal increases over the last year in transport services, construction services, miscellaneous business services and, amid the less-stringent containment measures, travel services. The 12-month services trade surplus thus exceeded EUR 2.4 billion in January, and was up approximately EUR 0.5 billion in year-on-year terms.

Merchandise trade

Manufacturing firms' expectations with regard to exports in the second quarter have deteriorated significantly following the escalation of tensions between Russia and the West. The export expectations indicator in March hit its lowest level since the summer of 2020, when the recovery in foreign demand arrived after the relaxation of the majority of containment measures, and the monthly decline was comparable to that seen in March of that year (see Figure 5.2). The conditions for Slovenian exporters are becoming more difficult as the war continues and sanctions against Russia are tightened, and the crisis in the European car industry is deepening. Another factor in the latter is lockdowns in the Chinese economy in response to rising case numbers, which is leading to more widespread shortages of semiconductors and various electronic parts, which in turn is causing huge problems for the domestic car industry.

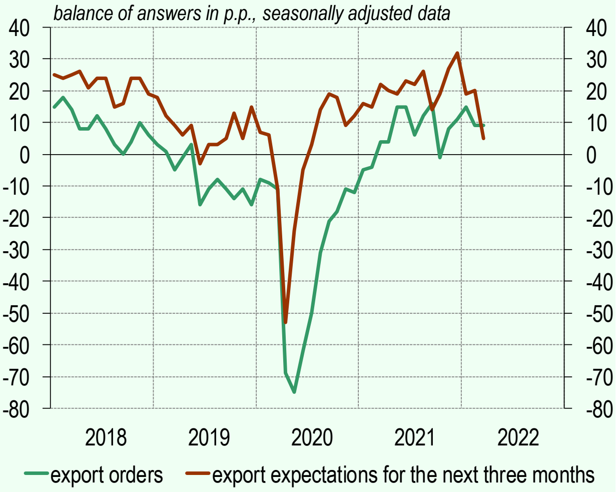
Merchandise trade has already swung into deficit at the monthly level amid rising import prices for industrial goods. The 12-month surplus slid to EUR 240 million in January, well down on a year earlier, when it approached a record EUR 2.5 billion. The balance is already in deficit at the monthly level (see Figure 5.3), and also at the annual level if the merchandise trade surplus with Russia, Ukraine and Belarus (around EUR 540 million in total; see Box 5.1) is excluded. Nominal year-on-year growth in merchandise imports, which has been profoundly impacted by the extremely high growth in import prices, is strongly outpacing the otherwise high year-on-year growth in merchandise exports. This strengthened to 26.3% in January according to balance of payments figures, up 3.9 percentage points on the previous quarter, with the majority of

Figure 5.1: Current account components



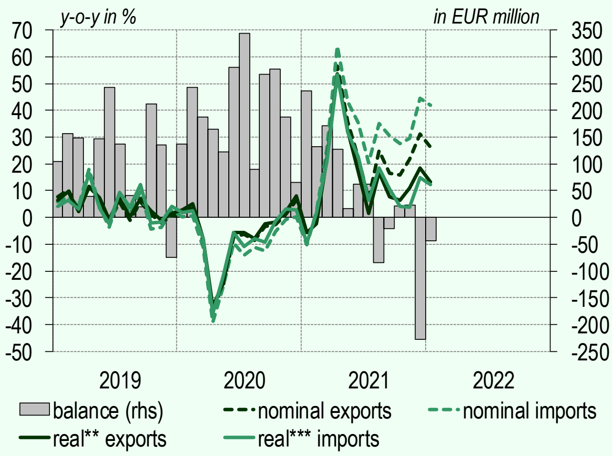
Note: Data for January for individual years are shown.
Source: Banka Slovenije.

Figure 5.2: Export orders and export expectations in manufacturing



Source: SORS.

Figure 5.3: Merchandise trade*



*Note: *Balance of payments data. **Deflated using the index of producer prices for industrial products on the foreign market.***Deflated using the import price index.*
Source: SORS, Banka Slovenije.

Box 5.1: Importance of Russia, Ukraine and Belarus to Slovenia's merchandise trade balance

Slovenia runs a merchandise trade surplus with Russia, Ukraine and Belarus, which has stood at around EUR 710 million over the last 12 years.[1] The majority of the surplus is generated in trade with Russia, in the amount of approximately EUR 500 million, mostly through sales of medical and pharmaceutical products, and electrical machinery and appliances. The trade surplus with Ukraine is significantly smaller, at around EUR 170 million, while the trade surplus with Belarus is just EUR 50 million.

Slovenia's 12-month merchandise trade balance has been in deficit since December of last year if the surpluses run with Russia, Ukraine and Belarus are excluded. The previous reversal in the merchandise trade balance came in early 2013, but if the aforementioned countries are excluded it arrived approximately a year and a half later, in the autumn of 2014. Without the aforementioned countries the 12-month surplus would have averaged half what it did between 2014 and 2020 (in 2020 it would have been lower by EUR 770 million and would stand at EUR 1.6 billion), and last year the balance would have been in deficit. The 12-month deficit stood at EUR 540 million in January, more than double what it had been in December, while the aggregate merchandise trade surplus amounted to just EUR 240 million.

Figure 1: Merchandise trade balance

Source: Banka Slovenije.

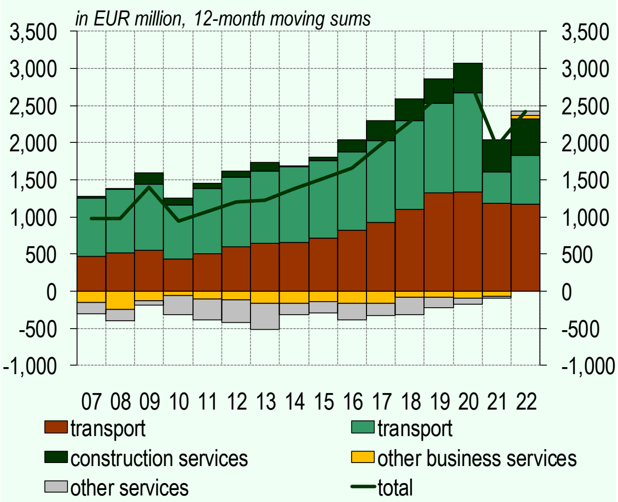
[1] For more details, see the Review of Macroeconomic Developments, March 2022.

product categories seeing high export growth, most notably road vehicles and other transport equipment. The increase in nominal growth in merchandise imports was even more pronounced: it reached 41.9% in January, with imported industrial goods rising in price by fully 26.4% in year-on-year terms, driven mainly by extremely high growth in energy prices.

Services trade

The services trade surplus is gradually approaching its pre-crisis level. Over the 12 months to January it amounted to more than EUR 2.4 billion, EUR 520 million less than its peak in February 2020, but EUR 480 million more than a year earlier (see Figure 5.4). Approximately half (EUR 230 million) was attributable to an increase in the 12-month surplus of trade in travel services, which at EUR 660 million remains at an extremely low level, with exports of tourism services still down 44.4% on their pre-pandemic level.[1] Construction services also made a significant contribution to the aggregate surplus, while trade in miscellaneous business services recorded a small surplus (of around EUR 50 million) following a pronounced increase in exports. Conversely the 12-month surplus of trade in transport services, where growth in imports (39.3%) was approximately double that in exports (18.6%), declined slightly, to below EUR 1.2 billion. Nomi-

Figure 5.4: Balance of services trade



Note: Data for January for individual years are shown.
Source: Banka Slovenije.

[1] The shortfall in the 12-month total of imports of travel services is slightly smaller (38.6%).

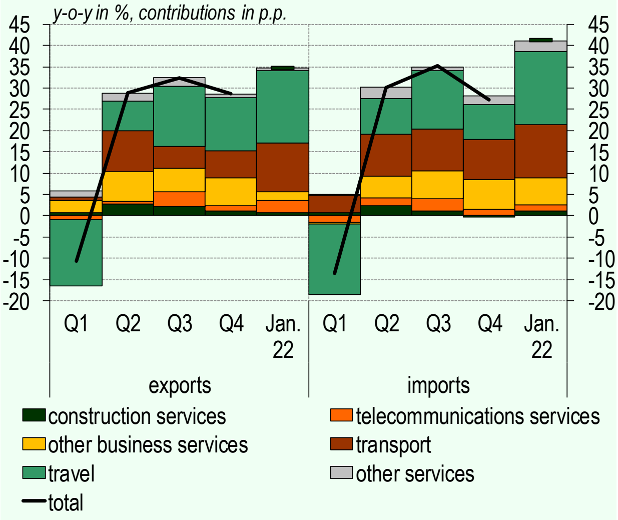
nal services exports over the 12 months to January were up 24.8% in year-on-year terms, while imports strengthened by the same amount. Growth in services trade in January was strongly biased towards imports, which were up 41.0% in year-on-year terms, 6.4 percentage points more than the growth in exports. The main reason was the larger increase in imports of miscellaneous business services (see Figure 5.5).

Primary and secondary income

The 12-month deficit in primary income for now remains smaller than before the pandemic. It amounted to EUR 653 million in January, EUR 155 million more than a year earlier, but EUR 155 million less than in January 2020 (see Figure 5.6). This remains significantly less than its peak in February 2016, when the impact of the recovery and resolution of the banking system pushed it past EUR 1.3 billion. The deficit in primary income declined during the economic crisis triggered by the pandemic as a result of a decline in the deficit in FDI income. This was largely attributable to the worsening performance of domestic firms under foreign ownership, and to macroprudential policy measures which restricted the payment of dividends in the domestic banking sector. The government sector's surplus in primary income increased at the same time, thanks to an increased inflow of EU subsidies. The deficit in FDI income deepened again last year amid the high economic growth, but was driven primarily by the June payment of dividends in connection with a change of ownership at a major retail firm. Remittances increased as the economy improved in Austria and Italy, thus increasing the surplus in labour income. With expenditure on interest on long-term securities falling and payments to foreign portfolio investors increasing, the 12-month deficit in income from securities remained practically unchanged in year-on-year terms at EUR 156 million in January.

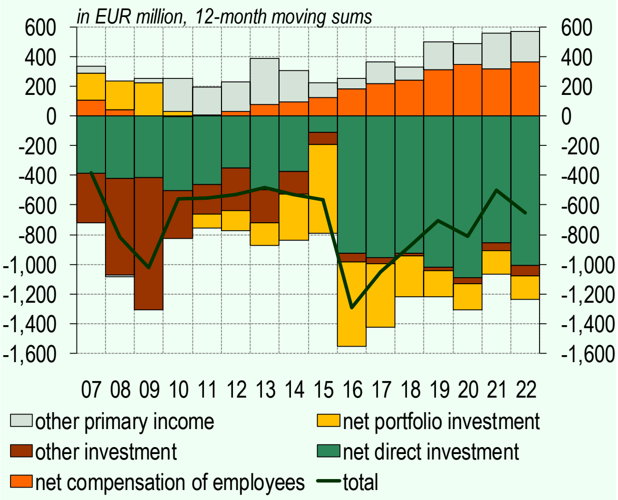
The deficit in secondary income also remains smaller than before the pandemic. It amounted to EUR 479 million over the 12 months to January, EUR 23 million more than a year earlier, but EUR 51 million less than in January 2020 (see Figure 5.7). The gov-

Figure 5.5: Services trade



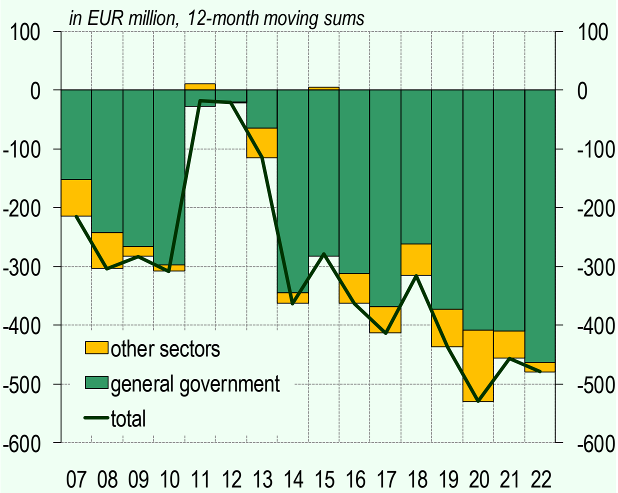
Source: Banka Slovenije.

Figure 5.6: Net primary income



Note: Data for January for individual years are shown.
Source: Banka Slovenije.

Figure 5.7: Net secondary income



Note: Data for January for individual years are shown.
Source: Banka Slovenije.

ernment sector's deficit in secondary income did not change during the crisis, which can be attributed in part to a slight decline in payments into the EU budget on the basis of VAT and gross national income, which had increased significantly over the two previous years of good economic performance. The deficit in other sectors' secondary income narrowed at the same time. Last year's soaring growth in consumption brought a renewed increase in payments into the EU budget on the basis of VAT and gross national income, which was one of the drivers of the increase in the government sector's deficit in secondary income. The deficit in other sectors' secondary income contrastingly narrowed again, thanks in part to a significant increase in receipts of net non-life insurance premium, which over the 12 months to January exceeded EUR 200 million, an indication of the good performance of domestic insurance corporations on foreign markets.

Table 5.1: Current account components

				in 12 months to							
	2019	**2020**	**2021**	**Jan.21**	**Jan.22**	**20Q3**	**20Q4**	**21Q3**	**21Q4**	**Jan.21**	**Jan.22**
						in EUR million					
Current account balance	2,898	3,462	1,736	3,458	1,532	797	963	368	144	302	98
1. Goods	1,311	2,366	519	2,466	239	700	530	-43	-183	236	-44
2. Services	2,907	1,996	2,395	1,946	2,425	561	522	707	692	143	173
2.1. Transport	1,326	1,202	1,154	1,182	1,168	307	309	271	300	85	99
2.2. Travel	1,344	482	636	428	660	183	82	271	204	27	50
2.3. Other	-335	-401	-243	-238	-356	-12	-78	-54	-78	-38	-46
3. Primary income	-811	-426	-672	-498	-653	-371	7	-203	-237	-4	15
3.1. Labour income	340	324	363	319	365	82	94	84	100	26	28
3.2. Investment income	-1,318	-997	-1,225	-1,060	-1,224	-445	-195	-307	-334	-92	-91
3.3. Other primary income	167	247	190	243	206	-8	108	20	-2	62	78
4. Secondary income	-509	-473	-507	-456	-479	-93	-96	-93	-128	-74	-46
						in % of BDP					
Current account balance	6.0	7.4	3.3	7.4	2.9	6.5	7.8	2.8	1.0	8.0	2.2
1. Goods	2.7	5.0	1.0	5.3	0.5	5.7	4.3	-0.3	-1.3	6.3	-1.0
2. Services	6.0	4.3	4.6	4.2	4.6	4.6	4.3	5.3	5.0	3.8	3.9
2.1. Transport	2.7	2.6	2.2	2.5	2.2	2.5	2.5	2.0	2.1	2.3	2.2
2.2. Travel	2.8	1.0	1.2	0.9	1.3	1.5	0.7	2.0	1.5	0.7	1.1
2.3. Other	-0.9	-1.1	-0.7	-0.7	-1.0	-0.1	-0.8	-0.6	-0.8	-1.2	-1.4
3. Primary income	-1.7	-0.9	-1.3	-1.1	-1.2	-3.0	0.1	-1.5	-1.7	-0.1	0.3
3.1. Labour income	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.6	0.7	0.7	0.6
3.2. Investment income	-2.7	-2.1	-2.4	-2.3	-2.3	-3.6	-1.6	-2.3	-2.4	-2.4	-2.0
3.3. Other primary income	0.3	0.5	0.4	0.5	0.4	-0.1	0.9	0.2	0.0	1.7	1.8
4. Secondary income	-1.1	-1.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.7	-0.9	-2.0	-1.0
						nominal year-on-year growth rates in %					
Export of goods and services	4.5	-10.1	19.2	-11.1	22.5	-10.5	-2.9	18.8	23.6	-9.7	27.6
Export of goods	3.9	-7.4	19.1	-7.9	21.9	-5.9	1.2	15.4	22.4	-5.9	26.3
Export of services	6.6	-20.3	19.6	-22.5	24.8	-25.1	-17.2	32.4	28.8	-25.6	34.6
Transport	3.3	-7.2	15.5	-8.1	18.6	-8.7	1.2	16.0	18.2	-8.1	29.5
Travel	5.2	-57.8	26.1	-63.1	50.6	-52.3	-74.0	52.2	158.3	-78.3	195.1
Other	10.5	2.0	20.2	1.5	20.9	-1.4	2.1	31.5	17.4	1.0	11.6
Import of goods and services	4.0	-11.7	26.3	-12.8	31.1	-14.1	-3.4	29.3	32.6	-12.5	41.8
Import of goods	4.0	-11.1	27.6	-11.9	32.2	-12.6	-2.1	28.2	33.6	-10.3	41.9
Import of services	4.6	-14.7	19.5	-17.3	24.8	-21.1	-10.3	35.1	27.3	-25.6	41.0
Transport	7.1	-4.8	36.3	-4.7	39.3	-11.8	9.3	49.4	37.7	4.1	41.2
Travel	1.2	-52.1	22.1	-58.5	48.0	-45.7	-75.6	54.8	169.6	-87.1	410.4
Other	5.3	-0.2	12.6	-2.0	14.6	-5.3	1.9	21.0	13.7	-9.9	17.3

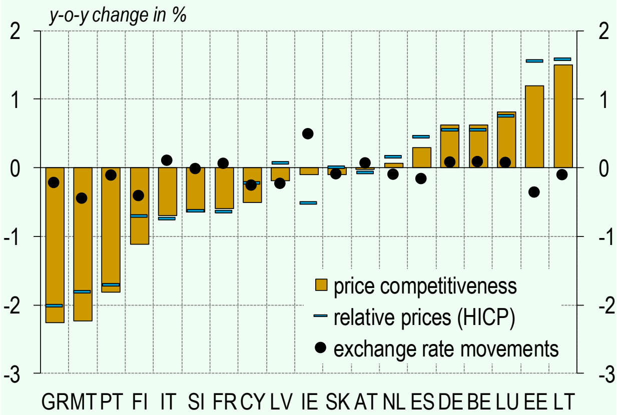
Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Banka Slovenije.

Selected competitiveness indicators

The favourable developments in the price competitiveness of the economy continued at the end of last year. There was also an improvement on average over the year, and from a longer-term perspective.[2] The price competitiveness indicator in the final quarter was down 1.0% (an improvement) in year-on-year terms, as a result of the euro's depreciation against the basket of partners' currencies. Domestic inflation surged, which entirely neutralised the favourable impact of relative prices over the last two years, when domestic prices fell more or rose more slowly than prices in competitor countries (thereby making a significant contribution to the maintenance of domestic exporters' favourable price competitiveness position, see Figure 5.9). The indicator averaged 0.7% less (an improvement) over the year, against the euro area partners and non-euro-area partners alike, as exchange rate developments had an entirely neutral impact. Last year Slovenia was among the better performers in the euro area in terms of developments in its price competitiveness position (see Figure 5.8), and the developments were also favourable from the perspective of a longer time horizon. Since the last global economic and financial crisis, it was only in 2015 that a slightly lower value of the indicator was recorded.

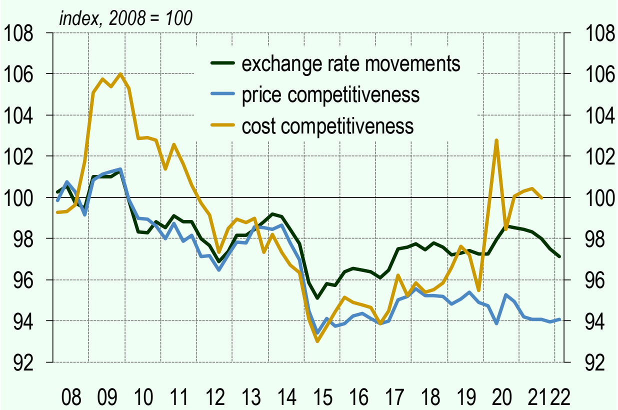
The developments remained relatively encouraging over the first two months of this year. The price competitiveness indicator remained unchanged in year-on-year terms (down 0.1%), despite an increase in relative prices (1.2%), the euro having lost value against the basket of currencies of the 37 most important trading partners (1.3%). The position deteriorated against euro area partners (by 1.1%), because Slovenia's domestic inflation was among the highest in the euro area, but improved

Figure 5.8: Price competitiveness against 37 trading partners, 2021



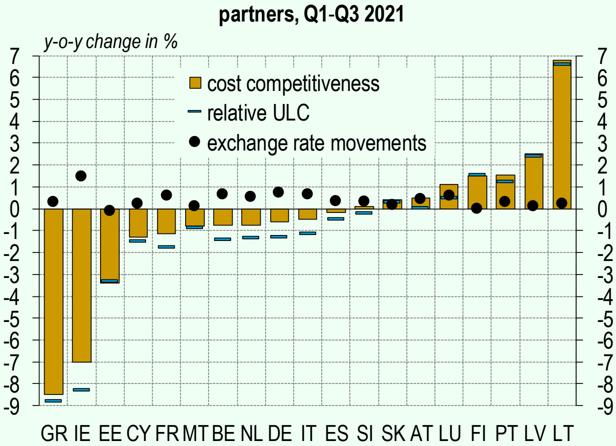
Note: The exchange rate movements of the euro against the basket of partners' currencies is reflected by NHCI, the price competitiveness by RHCI deflated by HICP and the difference between the two is explained by relative HICP. The increase in indicators signals the pressure on competitiveness and vice versa. Source: ECB, Banka Slovenije calculations.

Figure 5.9: External competitiveness of Slovenia against 37 trading partners



Note: The exchange rate movements of the euro against the basket of partners' currencies is reflected by NHCI, the price competitiveness by RHCI, deflated by HICP, and the cost competitiveness by RHCI, deflated by ULC. The increase in indicators signals the pressure on competitiveness and vice versa. Source: ECB.

Figure 5.10: Cost competitiveness against 37 trading partners, Q1-Q3 2021



Note: The exchange rate movements of the euro against the basket of partners' currencies is reflected by NHCI, the cost competitiveness by RHCI deflated by ULC and the difference between the two is explained by relative ULC. The increase in indicators signals the pressure on competitiveness and vice versa. Source: ECB, Banka Slovenije calculations.

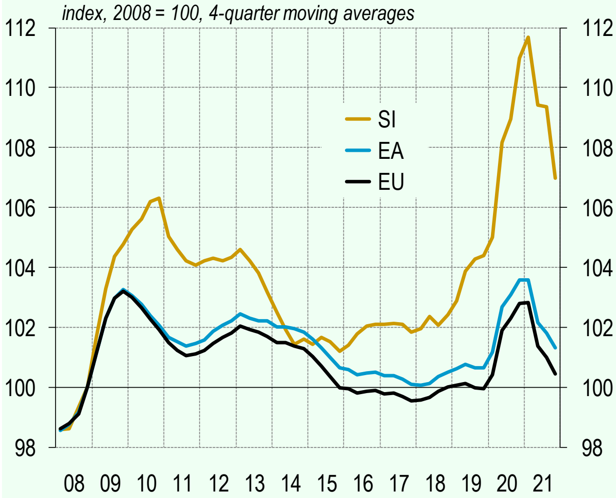
[2] Price and cost competitiveness are measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index or unit labour costs respectively. Unless stated otherwise, it is in relation to 37 trading partners (18 euro area and 19 non-euro-area). Relative prices are domestic prices compared with those of trading partners, while relative unit labour costs are domestic unit labour costs compared with those of trading partners.

against non-euro-area partners (by 1.7%), as the fall in the euro prevailed over the rise in relative prices. Caution is advised in the interpretation of all competitiveness indicators, as they do not necessarily present a true picture of developments, given the difficulties in measuring inflation and also unit labour costs, which are examined below.[3]

After five years, the deterioration in cost competitiveness came to an end last year, but it is nevertheless no better than a decade ago. The cost competitiveness indicator[4] remained unchanged in year-on-year terms on average over the first three quarters of last year (up 0.1%), with negligible contributions from both exchange rate and cost components (see Figure 5.10). The position deteriorated slightly against euro area partners but improved against non-euro-area partners, by 0.6% overall, where the decisive factor in both cases was the rise or fall in relative unit labour costs. Last year's slightly more encouraging developments in cost competitiveness were nevertheless negligible compared with the previous deterioration, particularly over the last two years (see Figure 5.9). They were also worse than in the majority of euro area countries, where there was an improvement in the indicator as a result of domestic unit labour costs outperforming those in partner countries (see Figure 5.10).

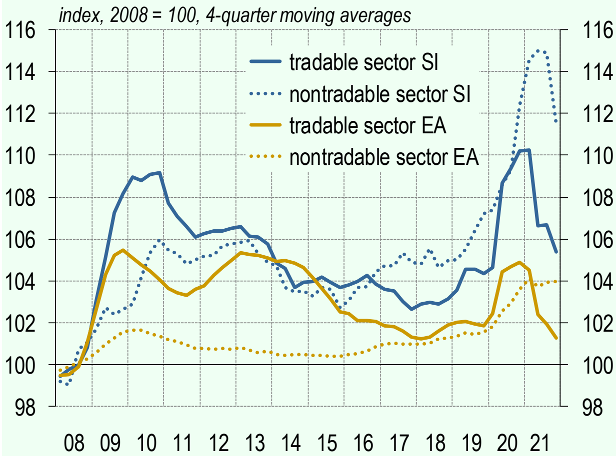
Cost pressures eased profoundly in Slovenia in the final quarter of last year, significantly more than in the euro area overall, but this did not outweigh the deterioration over the preceding two years. Domestic growth in real unit labour costs[5] (RULCs) over 2019 and 2020 was among the higher figures in euro area countries, and almost three times higher than the euro area average (see Figure 5.11). Last year's decline in domestic RULCs (of 3.4%) outpaced the euro area average by 1.3 percentage points, but they nevertheless remained well above their level before the surge in 2019, and above the euro area average level. The decline was driven by a strong rebound in value-added and thus in labour productivity (6.7%), which was larger than in the euro area overall (4.4%). Domestic compensation per employee was also up on the previous year (by 2.9% in real terms[5]), but outpaced the comparable growth in the euro area overall by just 0.9 percentage points.

Figure 5.11: Real unit labour costs



Note: GDP based calculation.
Source: Eurostat, Banka Slovenije calculations.

Figure 5.12: Real unit labour costs in tradable and nontradable sector



Note: Value added based calculation. For definition of sectors, see footnote 6 in the chapter.
Source: Eurostat, Banka Slovenije calculations.

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[3] For details, see Box 3.2 in the July 2020 issue of Economic and Financial Developments, Box 6.1 in the April 2020 issue of Economic and Financial Developments, and Box 6 in the December 2020 issue of Macroeconomic Projections for Slovenia.

[4] 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 might differ from those illustrated in Sections 3 and 4.

[5] 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.

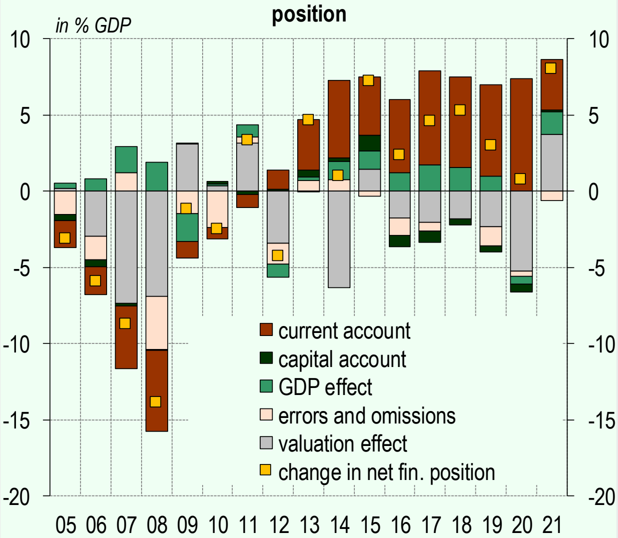
Box 5.2: Net international investment position and external debt

Over the last decade Slovenia's surplus of domestic saving over investment has significantly improved (reduced) its negative net international investment position. The position has been negative since 2003, and has exceeded the net external debt this whole time, particularly over the last four years (see Figure 1). The difference between the two figures, which arises in the segment of equities with derivatives, narrowed slightly last year, but nevertheless amounted to EUR 4.5 billion at the end of the year. External liabilities in this segment declined by EUR 0.4 billion last year, but residents' equity holdings in the rest of the world rose by even more (EUR 2.4 billion). In the debt instruments segment, which nevertheless account for the majority (around three-quarters) of all of Slovenia's external financial claims and liabilities, the increase in claims slightly exceeded the increase in liabilities.

Slovenia's negative net international investment position improved (declined) by a record EUR 3.4 billion last year to EUR 3.7 billion. As a ratio to GDP it declined by 8.0 percentage points to 7.1%, the smallest figure since 2003, making seven consecutive years that it has been inside the European Commission's indicative threshold of external imbalance (-35.0% of GDP). This was attributable primarily to revaluations of financial accounts, particularly in connection with repricing of securities, and financial flows, i.e. the current account surplus, and to a slightly lesser extent to economic growth (see Figure 2). Conversely, an even greater improvement was prevented by net errors and omissions. Slovenia has the smallest negative net international investment position of any EU Member State other than Finland, while approximately a third of the countries are net creditors of the rest of the world (see Figure 3).

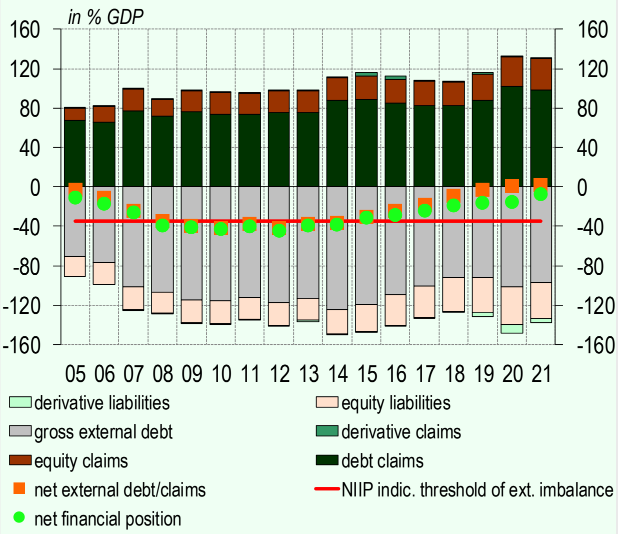
Last year's discernible improvement in Slovenia's net debtor position was attributable to a significantly larger increase in the stock of residents' assets in the rest of the world (EUR 5.7 billion) than in the stock of liabilities (EUR 2.3 billion). The breakdown by instrument reveals that the largest increase in the stock of assets was in other investments,[1] in the amount of EUR 2.3 billion, primarily in holdings of currency and deposits by the central bank and non-financial corporations' trade credits. There was also an increase in the financial sector's[2] holdings of foreign securities

Figure 2: Breakdown of the annual change in net financial position



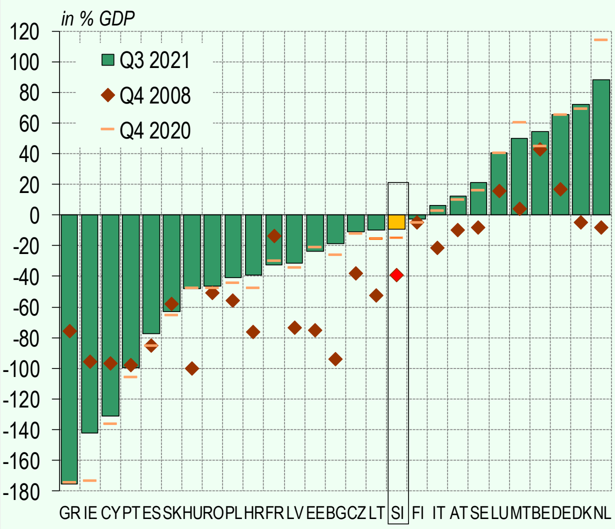
Source: Banka Slovenije.

Figure 1: Breakdown of the net financial position



Source: Banka Slovenije.

Figure 3: Net financial position of the EU countries



Source: Eurostat, Banka Slovenije.

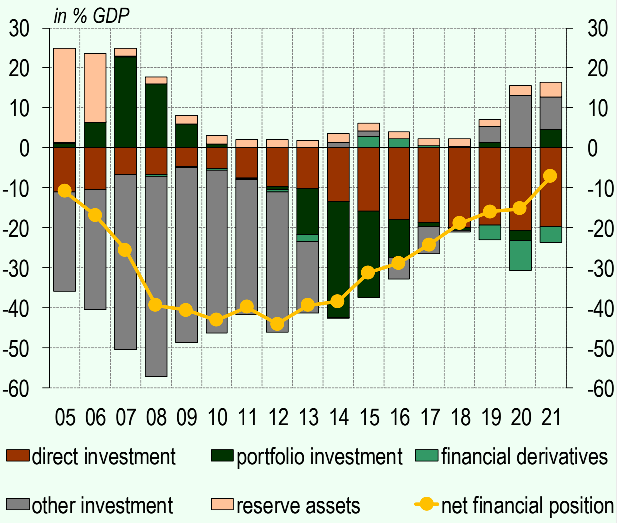
(by EUR 1.7 billion), equities in particular, and domestic non-financial corporations' holdings of outward FDI (by EUR 1.0 billion). On the liability side there was a notable increase of EUR 2.3 billion in holdings of currency and deposits at the central bank, and also increases of EUR 1.6 billion and EUR 1.3 billion in domestic non-financial corporations' holdings of direct financing and trade credits.

Slovenia's largest negative net international investment position remains that in direct investments, which deepened to EUR 10.3 billion last year. The deepening of the position was more pronounced than in the previous two years, as the increase in investors' holdings of inward FDI in Slovenia (EUR 1.8 billion) strongly outpaced the increase in residents' holdings of outward FDI (EUR 1.1 billion). The net debtor position in the derivatives category, in particular that of the government sector, which Slovenia has recorded for the last three years, last year narrowed slightly by contrast (to EUR 2.0 billion). Liabilities in this category declined by EUR 1.6 billion, the government having entered into more transactions in derivatives over the previous two years, in the total amount of approximately EUR 4 billion. Conversely the net international investment position in securities turned positive again after a year (in the amount of EUR 2.5 billion), primarily as a result of a decline of almost EUR 3 billion in the government sector's liabilities to foreign portfolio investors. Other investments have also recorded a net creditor position over the last three years; it amounted to EUR 4.1 billion last year.

Non-financial corporations and the government sector remain net financial debtors to the rest of the world. After extensive borrowing in 2020 to finance its anti-coronavirus measures, the latter slightly reduced its net financial liabilities to non-residents (by EUR 1.6 billion), but they remain extremely high at more than EUR 19 billion (see Figure 5). By contrast, the private sector's net external claims have increased sharply over the last three years, and amounted to more than EUR 6 billion at the end of last year. The main driver of the increase was financial corporations' increased outflows into foreign securities, equities in particular, new bank loans, and the ongoing repayment of loans by financial corporations. Non-financial corporations' net debtor position deteriorated slightly last year (to EUR 12.2 billion) for the second consecutive year, primarily as a result of increased net inflows of FDI, while households' net claims against non-residents increased slightly as a result of increased investments in securities.

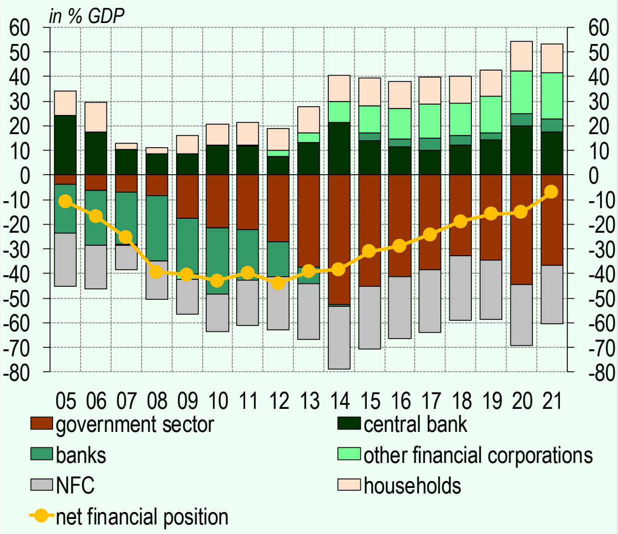
Slovenia's gross external debt[3] has increased by a fifth over the last three years, since it stopped declining. It amounted to EUR 50.5 billion at the end of last year, up EUR 8.3 billion on 2018, when it stood at its lowest figure since 2013. It was up EUR 2.7 billion on 2020, but the high economic growth meant that its ratio to GDP actually declined by 4.8 percentage points last year to 97.0%. In terms of institutional sector, the central bank and the sector of households, non-financial corporations and various financial institutions recorded an increase in external debt last year. The debt of the last of these, including business-to-business loans, has remained relatively stable over the last decade (EUR 16.8 billion last year), as has their share of the total gross external debt, at approximately a third, while the debt of the central bank has increased in recent years (to EUR 7.6 billion, see Figure 6). After a significant increase in the previous year, the government sector reduced its debt by

Figure 4: Net financial position's breakdown by instruments



Source: Banka Slovenije.

Figure 5: Net financial position's breakdown by sectors



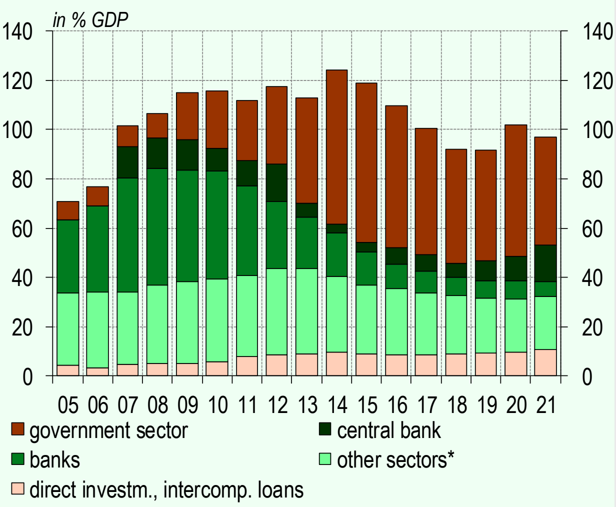
Source: Banka Slovenije.

EUR 2.1 billion last year to EUR 22.9 billion, thereby bringing it close to its pre-pandemic level, taking its share of the total to the lowest level of the last eight years. Banks also continued to reduce their external debt, having trimmed their external indebtedness the most over the last decade. It amounted to EUR 3.2 billion at the end of last year, less than a fifth of the record high recorded in 2008.

In terms of maturity, it was only short-term external debt that increased last year (by EUR 4.0 billion), while in terms of guarantee, it was mainly private unguaranteed debt that increased (by EUR 2.2 billion). Short-term debt[4] reached a record high of EUR 15.3 billion at the end of 2021, and its share of total debt exceeded a third for the first time, if loans between capital affiliates are excluded. Long-term debt fell below EUR 30.0 billion, the value around which it has fluctuated for the last six years, and its share consequently fell below two-thirds. Public and government-guaranteed debt increased for the third consecutive year, but only by EUR 0.5 billion to EUR 32.0 billion, a significantly smaller increase than in the previous two years, when it increased by more than EUR 4 billion overall. Last year's increase in private unguaranteed debt was the largest of the last five years, taking it to EUR 18.5 billion, but it was nevertheless significantly lower than at the outbreak of the previous global economic and financial crisis, when it stood at more than EUR 30.0 billion. Since 2017 it has accounted for more than a third of the total gross external debt, but at its peak in 2007 it accounted for fully three-quarters.

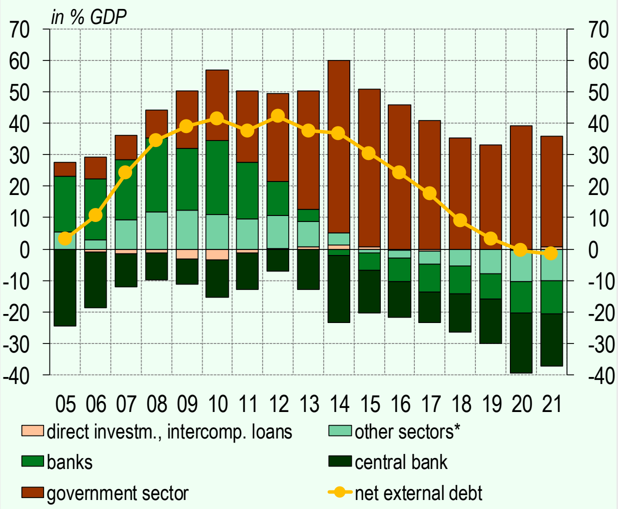
Despite further borrowing, Slovenia had no net external debt last year for the second consecutive year.[5] This is attributable to growth in external debt claims over the last seven years outpacing liabilities, the latter having actually declined between 2015 and 2018. Gross debt claims against the rest of the world increased by EUR 3.3 billion last year to reach EUR 51.3 billion or 98.6% of GDP. Net external claims from debt instruments have increased by just over EUR 600 million over the last year, to stand at approximately EUR 820 million or 1.6% of GDP. Only the government sector has remained a net external debtor over the last few years (see Figure 7). Last year it succeeded in reducing its debt slightly, but it still exceeds EUR 18.0 billion. The private sector increased its net creditor position against the rest of the world in debt instruments slightly further, to EUR 10.7 billion. Slovenia ranks as one of the least-indebted countries in the euro area in terms of gross external debt, while roughly half of the euro area countries hold net debt claims against the rest

Figure 6: Sectoral breakdown of gross external debt



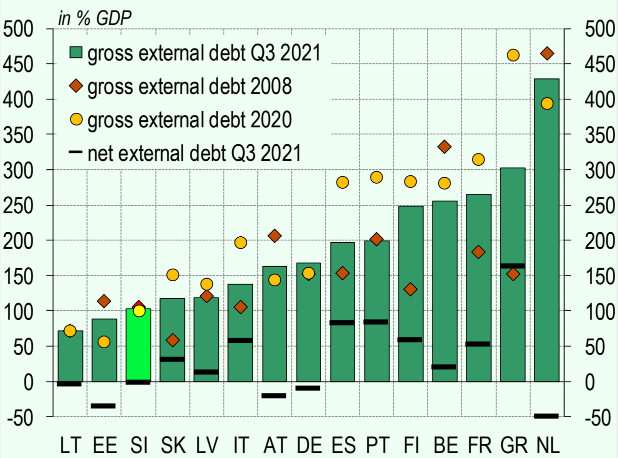
*Note: *Households, NFC and other financial corporations.*
Source: Banka Slovenije.

Figure 7: Sectoral breakdown of net external debt



*Note: *Households, NFC and other financial corporations.*
Source: Banka Slovenije.

Figure 8: External debt of the euro area countries



Note: Gross and net external debt in Q3 2021 in % of GDP for MT (657% and -142%), IE (667% and -288%), CY (849% and 266%) and LU (4744% and -2595%) are not shown in the figure.
Source: ECB.

of the world like Slovenia, and the other half are net external debtors (see Figure 8).

[1] Other investments include, alongside currency and deposits, other equity, loans, insurance, pension and standardised guarantee schemes, trade credits and advances, and other accounts payable/ receivable.

[2] Financial corporations (S.12) excluding the central bank (S.121).

[3] The gross external debt is the total amount of debt liabilities that residents hold vis-à-vis non-residents, and includes the principal and the accrued interest on principal. The financial instruments of the gross external debt are debt securities, trade credits, loans, currency and deposits, and other debt liabilities.

[4] The point of distinction between short-term and long-term debt is one year.

[5] The net external debt is the difference between all debt financial liabilities (the gross external debt) and claims vis-à-vis the rest of the world.

After rising for two years, RULCs declined last year in the tradable and non-tradable sectors[6] alike. The decline in the latter was just 0.6%, and so the majority of the aggregate decline in RULCs came from the decline (of 4.0%) in the tradable sector, which was attributable to above-average growth in value-added in manufacturing, wholesale and retail trade, transport, accommodation and food service activities, and professional, scientific and technical activities. It was a similar picture in the euro area overall, where RULCs only declined significantly in the tradable sector (by 3.3%), but remained broadly at the level of the previous year in the non-tradable sector (0.4%). Despite last year's deep decline in domestic RULCs in the tradable sector, their level is only now approaching the pre-pandemic level, while in the euro area overall they are already below (better than) the pre-pandemic level (see Figure 5.12). The deterioration in the domestic non-tradable sector relative to the pre-pandemic level is significantly larger, primarily as a result of the increase in wage growth in public services and construction in 2020, where both sectors saw a fall in productivity. RULCs in the non-tradable sector are also significantly higher than a decade ago, which is not the case of the tradable sector.

[6] 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), while the non-tradable sector consists of all other sectors under the SKD 2008.

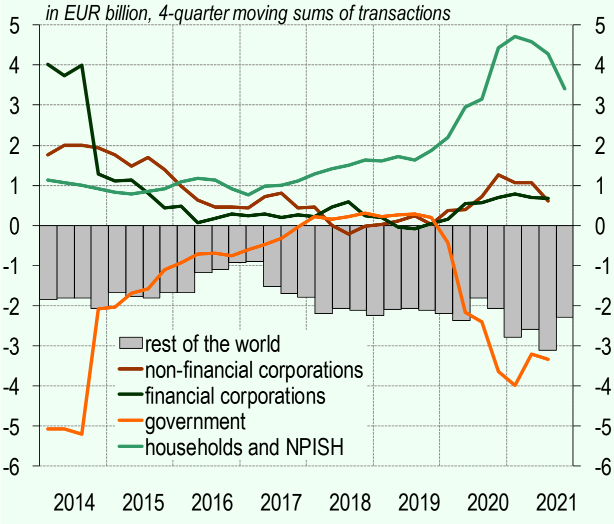
6 Financial Standing of Non-Financial Corporations, Households and Banks

The aggregate net credit position of the domestic institutional sectors against the rest of the world almost halved last year according to the financial accounts figures, but nevertheless remained close to its average of the last ten years. From quarter to quarter its structure became increasingly similar to that before the pandemic, with all institutional sectors reversing their trends in behaviour from 2020. There was a sharp decline in the net saving surplus of households and non-financial corporations, but it remains at historically high levels and continues to largely be directed into bank deposits. The decline is attributable to the easing of general uncertainty and an improvement in economic sentiment, which brought impetus to consumption and investment. Last year the only curb on the decline in the aggregate saving-investment gap came from the government sector, with a significant reduction in its net debtor position created by the heavy borrowing to alleviate the impact of the Covid-19 crisis the previous year. The gap between the year-on-year increases in financial assets and liabilities at non-financial corporations and households gradually widened last year in the direction of liabilities. In the household sector increases in long-term loans are now exceeding their pre-pandemic levels, although they remain significantly lower than before the last economic and financial crisis, which means that household indebtedness remains low, and well below the euro area average. This is also the case for non-financial corporations; the breakdown of the increase in their liabilities indicates that they are primarily financing themselves via internal resources and intrasectoral resources.

Saving-investment gap by institutional sector

At the end of last year, the aggregate net creditor position of the domestic institutional sectors was the lowest of the last four years, while its structure is increasingly resembling that seen before the pandemic. With the relaxation of containment measures, the improvement in the economic sentiment, and the increase in final consumption, net saving by non-financial corporations, households and financial corporations declined significantly last year, and closed in on its pre-pandemic levels. It remains furthest away in the household sector, where surplus saving was still at a historically

Figure 6.1: Savings-investment gap



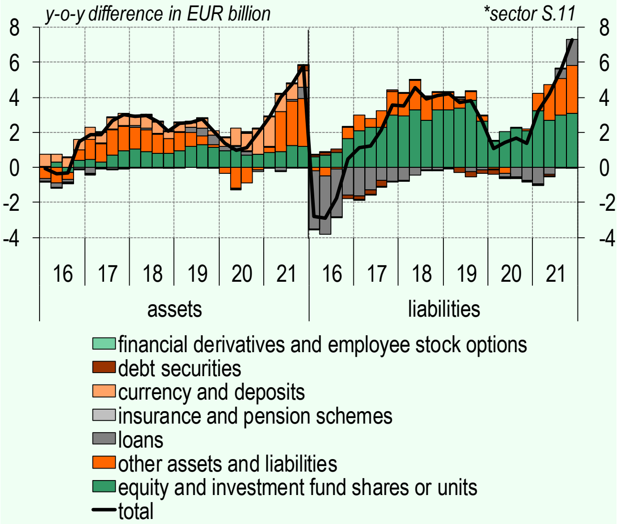
Source: Banka Slovenije.

high level at EUR 3.4 billion. By contrast, the government sector has reduced its net debtor position by a quarter over the last year (to EUR 2.7 billion), the position having arisen through heavy borrowing to finance emergency measures. This significantly mitigated the decline in the domestic institutional sectors' aggregate surplus of saving over investment, which amounted to EUR 1.6 billion at the end of 2021 (see Figure 6.1).

Financial assets and financing of non-financial corporations

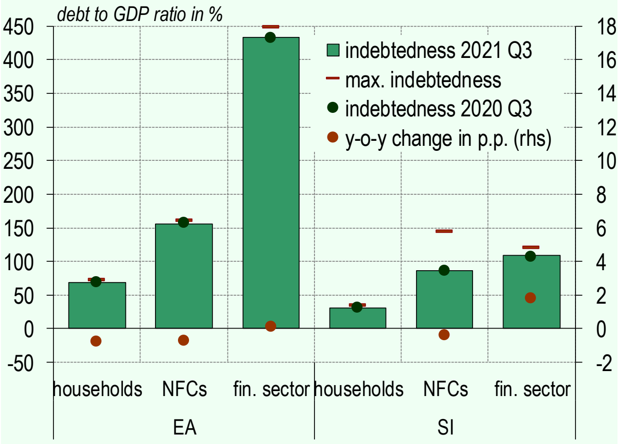
The increase in non-financial corporations' financial assets and even larger increase in their liabilities picked up further pace last year, most notably in trade credits. Non-financial corporations' financial assets at the end of the year were up EUR 5.8 billion in year-on-year terms, the largest increase since 2008 (see Figure 6.2). They recorded an extremely large increase in trade credits granted (EUR 2.6 billion) for the third consecutive quarter, and also saw a larger increase in holdings of equity and investment fund shares (EUR 1.2 billion).[1] Their holdings of bank deposits were also up in year-on-year terms (EUR 920 million), albeit more slowly than a year earlier, which is attributable to the decline in general uncertainty and the corresponding need to maintain liquidity. Non-financial corporations' financial assets in the rest of the world increased significantly: they were up EUR 2.5 billion last year, the fastest increase since records began in 2005.[2] Alongside the sharp increase in financial assets, last year's increase in non-financial corporations' financial liabilities was even more pronounced: at the end of the year they were up EUR 7.3 billion in year-on-year terms, the largest increase of the last 13 years. The main increases were in liabilities in the form of equity (by EUR 3.1 billion)[3] and trade credits (by EUR 2.7 billion). For the first time since 2012, there was also a year-on-year increase in non-financial corporations' liabilities to banks in the form of loans, in the amount of EUR 1.5 billion, which in our assessment might have been attributable to the improved economic climate and a new cycle of investment in the environment of persistently low interest rates. After a year's interruption, non-financial corporations' liabilities to the rest of the world also increased rapidly, and ended the year up EUR 3.1 billion in year-on-year terms, the largest increase to date.[4] Given that it was primarily internal resources and intrasectoral resources that non-financial corporations used to strengthen financing last year, their

Figure 6.2: Financial assets and liabilities of NFCs*



Source: Banka Slovenije.

Figure 6.3: Comparison of indebtedness* in Slovenia and the euro area



*Note: Households – sector S.14, NFCs – sector S.11, fin. sector – S.12 excl. S.121. *Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities.*
Source: ECB, Eurostat, Banka Slovenije calculations.

[1] An increase in transactions was responsible for approximately half of the increase, and revaluations of existing assets for half.

[2] The majority of this was driven by trade credits granted, but it was also attributable to holdings of foreign equity, bonds, and loans granted.

[3] Transactions accounted for merely around a quarter of the change, and revaluations of existing liabilities for the remainder.

[4] The largest increase was in trade credits, but there were also discernible increases in equity and loans.

indebtedness remains low, and well below the euro area average (see Figure 6.3). It was equivalent to 85.8% of GDP, approximately half of the euro area average and one of the lowest figures among euro area countries.

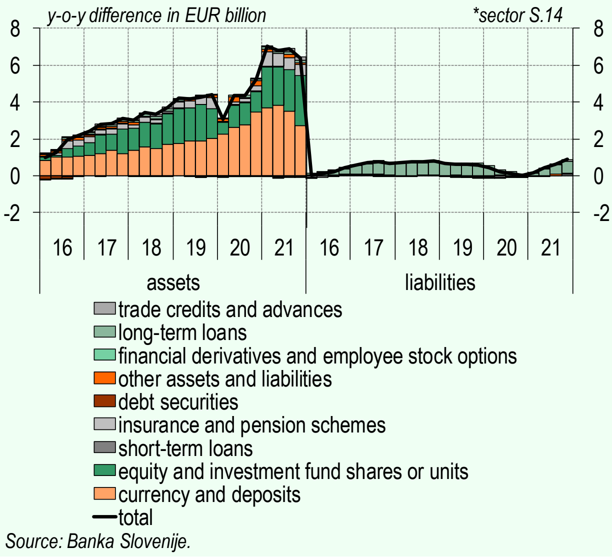
Financial assets and financing of households

Last year saw a record increase in savings by households, while their holdings of bank loans once again began to rise rapidly.[5] Households' financial assets were up EUR 6.4 billion in year-on-year terms at the end of the year (see Figure 6.4). With income rising, they continued to place their surplus savings in three major investment pillars: currency and deposits (EUR 2.7 billion), equity and investment fund shares (EUR 2.7 billion), and insurance, pension and standardised guarantee schemes (EUR 598 million). The stock of the last two of these increased at its fastest rate of the last ten years not only on account of positive revaluations of existing assets,[6] but also as a result of a significant increase in transactions, i.e. new investments. Conversely the increase in households' (transferable) bank deposits slowed slightly last year, but nevertheless remains at record high levels, thanks partly to the conservative investment policies of Slovenian households, and partly to the continuing desire to hold liquidity. The increase in households' financial liabilities strengthened again last year, and they have now surpassed their pre-pandemic level. They ended the year up EUR 887 million on a year earlier. The main driver was the increase in long-term loans, which amounted to EUR 648 million, up significantly on the total of just EUR 103 million a year earlier. In the much-improved economy, this confirmed households' renewed optimism with regard to spending and investment, although their inflows of loans are significantly lower than before the outbreak of the previous economic and financial crisis. Household indebtedness thus remains low, and well below the euro area average (see Figure 6.3).

Financial assets and financing of banks

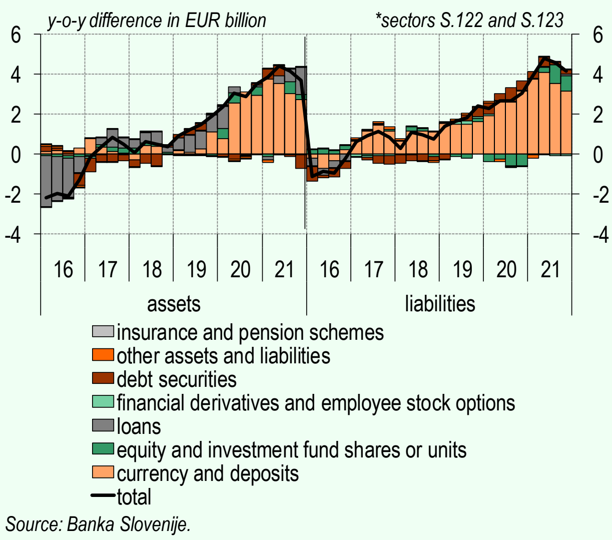
The build-up of the non-financial sectors' savings at banks remained extremely large last year, while on the asset side the banks strengthened their lending activity again. The banking sector's financial liabilities increased by EUR 4.2 billion last year, the largest increase of the last 12 years (see Figure 6.5). The main factor was again the increase in deposits (EUR 3.1 billion), although the year-on-year increase slowed over the course of the year. The year-on-year increase in liabilities

Figure 6.4: Financial assets and liabilities of households*



Source: Banka Slovenije.

Figure 6.5: Financial assets and liabilities of banks and money-market funds*



Source: Banka Slovenije.

[5] Year-on-year growth in loans stood at 5.6% at the end of last year, having been zero a year earlier.

[6] They accounted for two-thirds of the year-on-year increase in holdings of equity and investment fund shares, and transactions for the remainder.

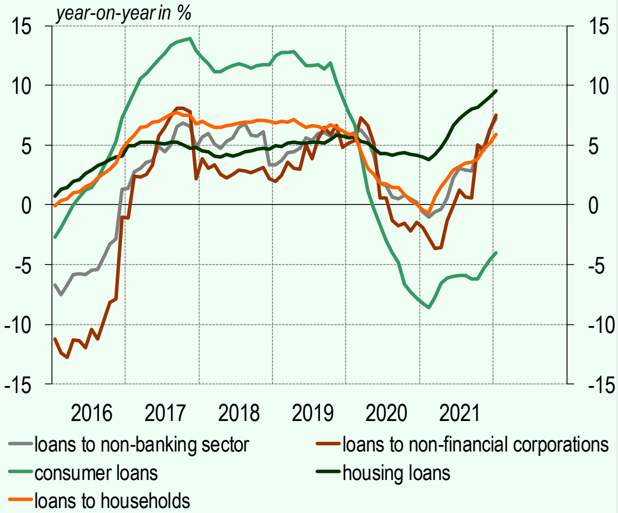
Box 6.1: Bank performance

The trend of strengthening growth in loans to the non-banking sector seen since May of last year continued in the early part of 2022. The banks expanded their lending to non-financial corporations in particular, while growth in household loans also strengthened. Similarly to last year, the latter is being driven by a continued increase in housing loans, while the year-on-year contraction in consumer loans remains primarily attributable to repayments of loans from previous years. Asset quality as measured by the NPE ratio and the share of Stage 2 exposures in January remained at its level of the previous month, but individual segments of the portfolio are displaying different trends. Similarly to December, household deposits increased again in the early part of this year, while December's pronounced increase in deposits by non-financial corporations was followed by a sharp downward correction in January. With income growing and further releases of impairments and provisions being made, the banking system's pre-tax profit in January was up a fifth on the same month last year. The banking system's capital adequacy remained solid, and liquidity remained high.

As it had in late 2021, the balance sheet total strengthened again in January, increasing by EUR 123 million to end the month at EUR 48.4 billion. Despite the monthly increase, the year-on-year rate of growth slowed to 7.3%, as a result of a base effect from a monthly increase almost three times larger in January of last year. In the early part of this year the banks increased their purchases of securities, and increased their lending to the non-banking sector, non-financial corporations in particular. On the funding side there were increases in issued debt securities and household deposits, but also a significant outflow of deposits by non-financial corporations.

Year-on-year growth in lending to the non-banking sector increased to 7.2% in January, driven primarily by stronger lending to non-financial corporations. The stock of loans to non-financial corporations increased by EUR 271 million to EUR 9.6 billion, raising the year-on-year rate of growth to 7.5%, a level similar to that before the outbreak of the pandemic in March 2020 (see Figure 1). The majority of the banks saw increased lending to non-financial corporations, with borrowing undertaken by large enterprises and SMEs alike. Similarly to the non-financial corporations segment, household lending also continued to strengthen in January. Year-on-year growth in household loans increased to 5.9%, once again driven solely by an increase in the stock of housing loans. They were up 9.5% in year-on-year terms, while the year-on-year contraction in the stock of consumer loans slowed again (to 4.0%). Amid stable monthly inflows of new consumer loans, the year-on-year contraction remains primarily attributable to repayments of loans from previous years, when consumer lending was well above average.

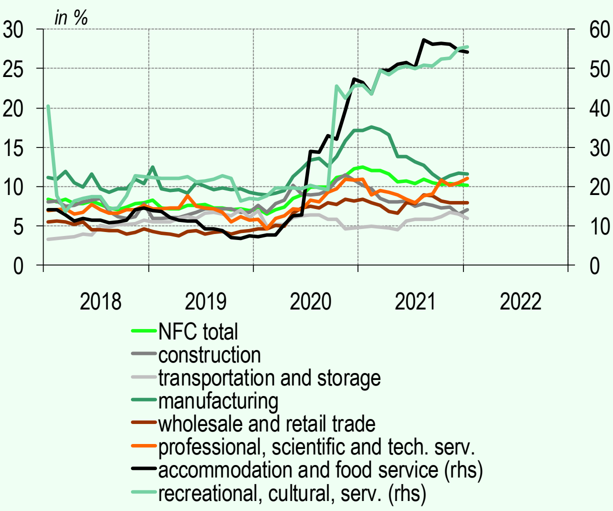
Figure 1: Growth of loans to the non-banking sector



Source: Banka Slovenije.

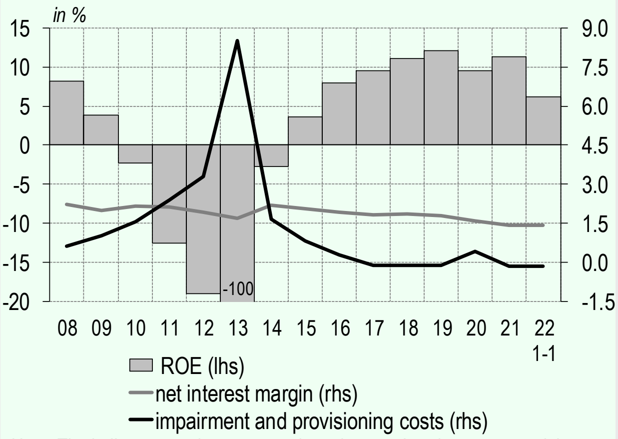
The banking system's non-performing exposures (NPEs) remained low in January of this year, with the majority of the portfolio maintaining a trend of decline. The NPE ratio stood at 1.2% in January, unchanged from December, and also remained unchanged in the non-financial corporations segment at 2.3%. After a long period of increase, the NPE ratio in accommodation and food service activities declined slightly, but remains significantly higher than in other sectors at 12.9%. The NPE ratio in the housing loans portfolio continued to decline, reaching 1.5% in January, while the NPE ratio in the consumer loans portfolio has remained at 3.7% since July. Other evidence of a certain deterioration in portfolio quality comes from the changes in the breakdown by credit risk stage: after declining in the first half of last year, the share accounted for by Stage 2 (increased credit risk) rose by 0.3 percentage points in the second half of the year to 5.8%, and remained at that level in January of this year. The reversal in the trend was particularly pronounced in professional, scientific and technical activities, and slightly less pronounced in wholesale and retail trade and transportation; the share of Stage 2 exposures ranged between 5.9% and 11.1% in the aforementioned sectors. During the pandemic there was an extremely sharp deterioration in portfolio quality according to

Figure 2: Share of exposure in credit risk stage 2 by activities



Source: Banka Slovenije.

Figure 3: Selected bank performance indicators



Note: The indicators net interest margin on interest-bearing assets and the ratio of impairment and provisioning costs to total assests are calculated over the preceding 12 months. The last figure for ROE is calculated for the first eleven months of 2021.
Source: Banka Slovenije.

this indicator in arts, entertainment and recreation (a figure of 55.5% in January), and in accommodation and food service activities, where despite easing over the three preceding months the figure stood at a still-high 54.0% in January (see Figure 2). All of these sectors other than accommodation and food service activities are still seeing a trend of decline in the NPE ratio.

Growth in deposits by the non-banking sector continued to slow in the early part of this year. January's decline of EUR 188 million in deposits by the non-banking sector slowed their year-on-year rate of growth to 6.7%. Household deposits recorded a seasonal increase in December and January, but less than in the same period a year earlier, when saving was still very much under the influence of measures related to the pandemic. Year-on-year growth in household deposits thus slowed to 6.0%, its lowest figure since April 2018. Deposits by non-financial corporations are continuing to see high monthly volatility. After increasing sharply in December, they plummeted in January, slowing the year-on-year rate of growth to 8.9%. Deposits by the non-banking sector have remained a stable source of funding for Slovenian banks, even after the downturn in international relations caused by the war in Ukraine. One factor in this was the quick and successful solution applied to Sberbank banka d.d. in Slovenia, which was forced to temporarily suspend operations after the outbreak of the military aggression in Ukraine.

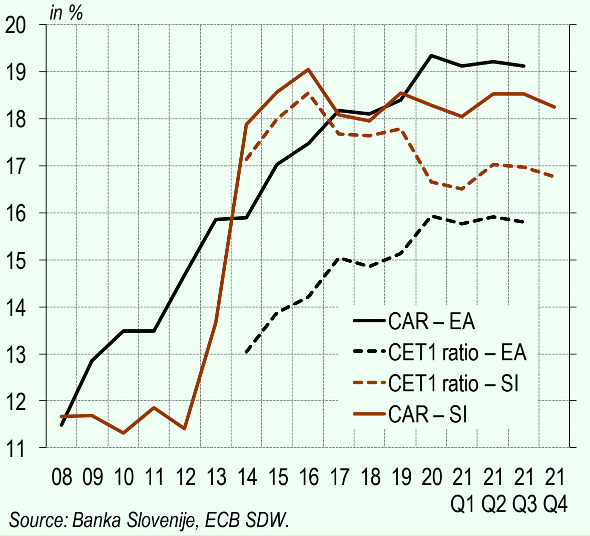
Amid further improvements in income developments, and net releases of impairments and provisions, the banking system's pre-tax profit amounted to EUR 25.8 million in January, up a fifth on the same month last year. Net income was up more than a quarter in year-on-year terms, as the year-on-year increase in gross income (8.8%) outpaced the year-on-year increase in operating costs (4.6%). The increased lending activity means that year-on-year growth in net interest income is gradually strengthening, while the increase in net fees and commission is making a significant contribution to the year-on-year increase in net non-interest income. The decline in the net interest margin slowed over the final months of last year; it stood at 1.41% in January, unchanged from the previous month (see Figure 3). The banking system released impairments and provisions in the total amount of EUR 5.0 million in January, similar to the net release in January 2021. Pre-tax ROE stood at 6.2% in January, compared with 5.4% in the same month last year.

The banking system's liquidity position remained sound, despite a slight deterioration in certain indicators. The liquidity coverage ratio (LCR) at the level of the banking system declined by 7 percentage points in January to stand at 305%, but remained well above the regulatory requirement of 100%. This means that the banking system's ability to cover net liquidity outflows for a one-month stress period remained high on average, although there remain considerable variations from bank to bank. The strengthening of the banking system's resilience in 2021 was attributable to an increase in primary liquidity,[1] as the banks did not direct the sharp increase in deposits by the non-banking sector entirely into lending or other yield-generating assets, and therefore mainly built up balances at the central bank. Primary liquidity declined slightly in January, but still accounted for a high 23.4% of the balance sheet total at the end of the month.

The banking system's capital position remained solid last year, but there are still considerable variations from bank

to bank. In the wake of a minimal decline to 18.2%, the total capital ratio of the Slovenian banking system on a consolidated basis remained below the euro area average (see Figure 4).[2] The common equity Tier 1 capital ratio rose slightly in 2021 to 16.8%, and remained above the euro area average, but below the median of the euro area countries. The declines in capital ratios were mainly seen at banks where strengthening lending to non-financial corporations and households meant that the increase in risk-weighted assets outpaced the increase in regulatory capital. The increase in the latter was mainly driven by retained earnings from the previous financial year, which will remain a major factor in the maintenance or strengthening of capital adequacy in the future. There remain considerable variations from bank to bank in the capital surpluses above overall capital requirements, and thus in their resilience to systemic risks. The banks with lower capital surpluses will find it harder to deal with any adverse effects that might occur in the event of the realisation of systemic risks or during sudden stress events.

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



Source: Banka Slovenije, ECB SDW.

[1] Primary liquidity comprises cash on hand, balances at the central bank and sight deposits at banks.

[2] The latest available data for the euro area is for the third quarter of 2021.

from issued debt securities also slowed, to EUR 203 million, while issuance of equity and investment fund shares strengthened significantly to almost EUR 800 million, albeit almost entirely as a result of revaluations of existing liabilities. The banks' liabilities to the rest of the world were up just EUR 183 million on a year earlier. The indebtedness of the Slovenian financial sector thus remains low, and well below the euro area average (see Figure 6.3). The banks' financial assets were also up strongly compared with a year earlier, in the amount of EUR 3.7 billion.[7] The increase was mostly driven by holdings of deposits (primarily at the central bank) in the amount of EUR 2.7 billion, and bank lending activity also strengthened again last year. The stock of bank loans granted,[8] primarily to domestic households and non-financial corporations, increased by EUR 1.4 billion last year, in contrast to the total stagnation in bank lending activity the previous year. Holdings of equity and investment fund shares also increased slightly last year (by EUR 227 million), while holdings of debt securities declined (by EUR 680 million). The changes in bank performance in the early part of this year are analysed in Box 6.1.

[7] A fifth of the year-on-year increase came from investments in the rest of the world (mainly in the form of loans granted, equity and bond purchases).

[8] 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 6.1.

7 Price Developments

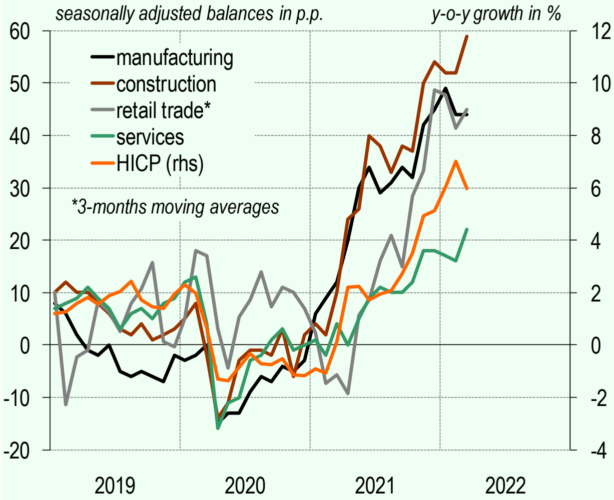
Year-on-year inflation as measured by the HICP stood at 6.0% in March, down 1 percentage point on February. The fall was attributable to a decline in the contribution by energy prices thanks to a fall in electricity prices for households applied as part of the government measures to mitigate the impact of high growth in energy prices on the wholesale markets. The contribution to headline inflation by energy prices thus declined to just over a quarter, but the rise in their wholesale prices is increasingly passing through into prices of other goods. Core inflation remained high in March at 4.7%, driven in particular by current rises in prices of goods. An increasing share of products and services in the consumer basket are recording higher inflation.

The outbreak of the war in Ukraine is a shock to the energy and commodities markets, and has additionally strengthened inflationary pressures and further increased supply chain disruptions. The war and the accompanying fundamental downturn in international relations are not just putting upward pressure on energy prices, but are also raising the risk of continuing food price inflation as agricultural fertilisers are recently recording sharp rises in price while the supply of certain primary food commodities might be sharply curtailed.

Survey assessments of expected price developments in March

Firms' expectations of future price developments increased further. The indicator showing the difference between the share of firms expecting prices to rise over the next three months and the share of firms expecting prices to fall increased in all sectors in March, most notably in services and construction. The figure for construction indeed hit a new record high of 59 percentage points (see Figure 7.1). Construction firms are highlighting rising material costs as one of the main factor limiting their output. In addition, manufacturing firms emphasize this concern too. Amid the sustained rise in import prices, which has been exacerbated by the drastic downturn in international relations, and the long-lasting supply chain disruptions, price pressures are expected to continue passing through into final prices of products. Price expectations have also increased in the retail sector, where despite fierce competition firms are unable to absorb the price pressures from rises in producer prices of food and other goods. The elevated price expectations in services are

Figure 7.1: Price expectations according to Business Tendency Survey



Source: SORS, Eurostat, Banka Slovenije calculations.

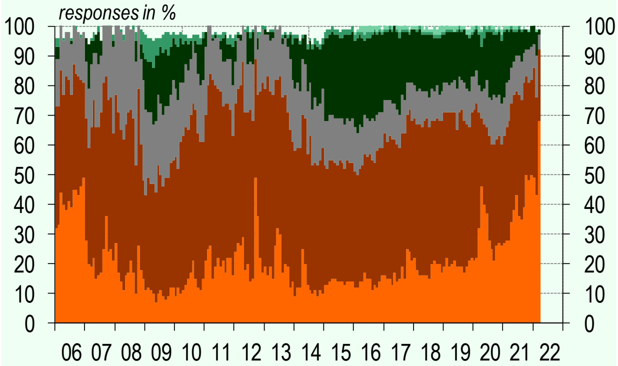
largely attributable to the anticipated rise in wages amid the increasing difficulties in hiring sufficient numbers of qualified workers.

Consumer inflation expectations are at their highest level to date. The indicator of price developments over the next 12 months, which has been undergoing a sustained rise since the end of the first wave of the pandemic, surged again in March after the outbreak of the war in Ukraine, hitting 78 percentage points, the highest figure since record began. This means that consumers have never expected price rises to the degree that they do now. The vast majority of respondents believe that prices will continue rising, with more than two-thirds expecting the rate to accelerate (see Figure 7.2). There was a sharp increase in this figure compared with February, when half of consumers were expecting faster price rises. Price expectations in the euro area overall follow a similar trajectory to Slovenian's, except at a level that is 20 percentage points lower.

Structure of inflation and core inflation indicators

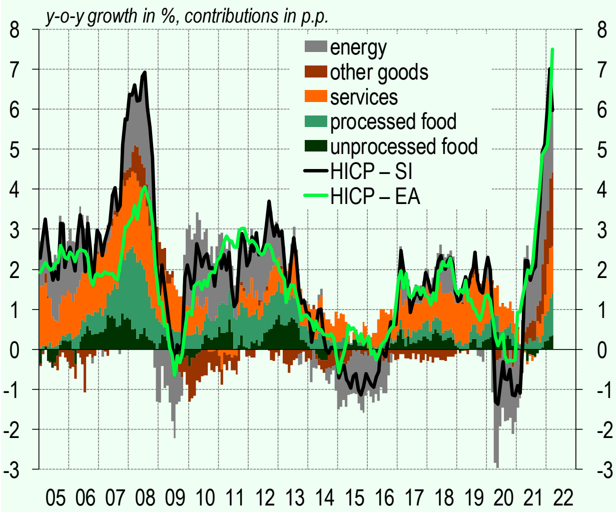
After rising for months, year-on-year inflation as measured by the HICP slowed to 6.0% in March. The slowdown was attributable to a decline in the contribution by energy prices (see Figure 7.3) whose monthly deflation of 5.7% is a consequence of government measures in connection with electricity price cuts. High energy prices and other commodity prices are nevertheless increasingly passing through into rises in prices of food, other goods and services. Amid rising input costs in agriculture, food prices were up 5.7% in year-on-year terms, with equal contributions from processed food and unprocessed food. Due to higher costs of energy, primary commodities and supply chains disruptions, prices of non-energy industrial goods are also rising, and were up 6.0% in year-on-year terms in March. Service prices have also continued to rise: they were up 3.5% in year-on-year terms in March. Alongside current price rises, the service price inflation was also attributable to a low base effect as activity in numerous services sectors was restricted by containment measures in the first quarter of last year.

Figure 7.2: Consumer survey, one-year ahead price expectations



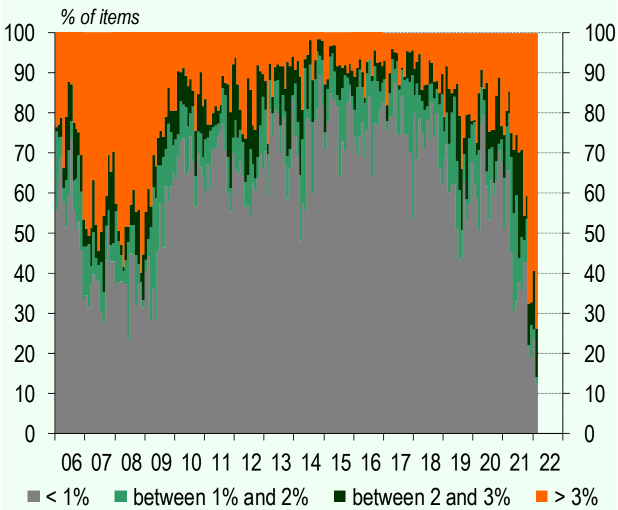
Note: Due to rounding the totals may not add up to 100. Data up to December 2015 might exhibit even greater discrepancies as the data collection procedure changed in January 2016.
Source: SORS.

Figure 7.3: Contributions to headline HICP inflation



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.4: Inflation distribution among HICP items

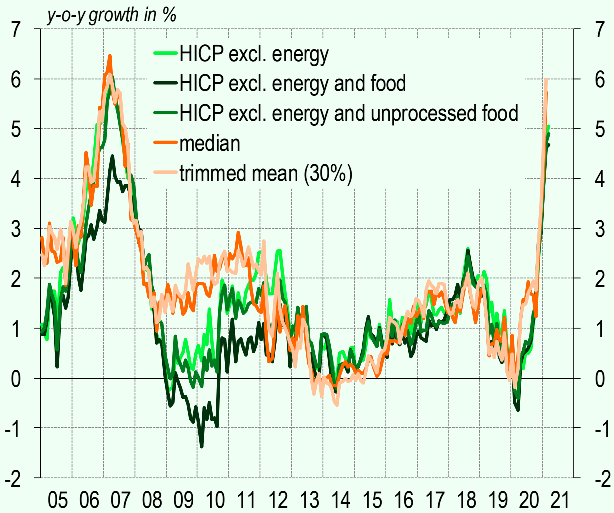


Source: Eurostat, Banka Slovenije calculations.

Amid rising price pressures inflation is also spreading across the basket of consumer goods. From February of last year, when less than a fifth of all products were recording inflation of 3% or more, the share of such products had risen to 73.6% by February of this year (see Figure 7.4).

In addition to factors related to the opening of the economy following the slowdown of the pandemic, the high core inflation also reflects the growing indirect impact of rising energy prices. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco, has been strengthening since the summer of last year, and reached 4.7% in March (see Figure 7.5). It is being driven by rising prices of non-energy industrial goods, and rising services prices, their contributions having almost tripled since October of last year. Similar goes for the other two core inflation indicators which reflect the increasing pass-through of rising energy and commodity prices into final prices of products, while additional pressure on prices comes from the increasing supply chain disruptions following the drastic downturn in international relations. A number of service sectors saw rising prices in the first quarter, a reflection of private consumption rising to above its level of 2019, and growing pressure from the labour market, where growth in the average gross wage in the private sector based on paid hours exceeds 5%. Inflation is also becoming increasingly broad based. The average rise in prices in the set of products that excludes the 30% of the basket recording the largest price chang-

Figure 7.5: Measure of core inflation



Source: Eurostat, Banka Slovenije calculations.

Table 7.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2022	2017	2018	2019	2020	2021	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1
HICP	*100.0%*	1.6	1.9	1.7	-0.3	2.0	-0.9	-0.6	2.1	2.3	4.5	6.3
Breakdown of HICP:												
Energy	*13.2%*	4.7	6.0	0.8	-10.8	11.3	-12.7	-5.1	16.1	14.2	22.2	19.0
Food	*22.7%*	2.2	2.4	1.6	2.8	0.7	2.1	0.5	0.1	0.4	1.8	5.2
processed	*18.4%*	1.4	1.4	1.4	1.9	1.2	1.9	0.6	1.1	1.3	1.9	4.9
unprocessed	*4.3%*	5.7	6.6	2.5	6.6	-1.3	3.3	0.2	-3.5	-3.2	1.6	6.7
Other goods	*31.5%*	-0.7	-0.8	0.3	-0.5	1.3	-0.9	-0.9	1.1	1.7	3.3	5.3
Services	*32.6%*	1.8	2.4	3.1	1.8	0.6	1.3	0.4	-0.1	0.4	1.5	3.6
Core inflation indicators:												
HICP excl. energy	*86.8%*	1.1	1.4	1.8	1.3	0.8	0.8	0.0	0.4	0.7	2.3	4.6
HICP excl. energy and unprocessed food	*82.5%*	0.9	1.1	1.8	1.0	1.0	0.7	0.0	0.6	0.9	2.3	4.5
HICP excl. energy, food, alcohol and tobacco	*64.1%*	0.7	1.0	1.9	0.8	0.9	0.3	-0.2	0.4	0.8	2.4	4.4
Other price indicators:												
Industrial producer prices on domestic market*		1.3	1.9	1.9	0.7	6.1	0.9	1.9	4.2	8.0	10.1	15.5
GDP deflator		1.5	2.1	2.2	1.2	2.6	1.1	1.3	2.1	3.4	3.0	...
Import prices**		3.2	2.6	-0.6	-2.3	7.6	-2.7	1.5	5.7	8.9	13.4	...

*Note: *Figure for 22Q1 comprise January and February data only. **National accounts data.*
Source: SORS, Eurostat, Banka Slovenije calculations.

es according to weighted data was merely just over 1 percentage point below aggregate measured inflation in February. Such development applies also for a median rise in prices of products.

Inflation factors

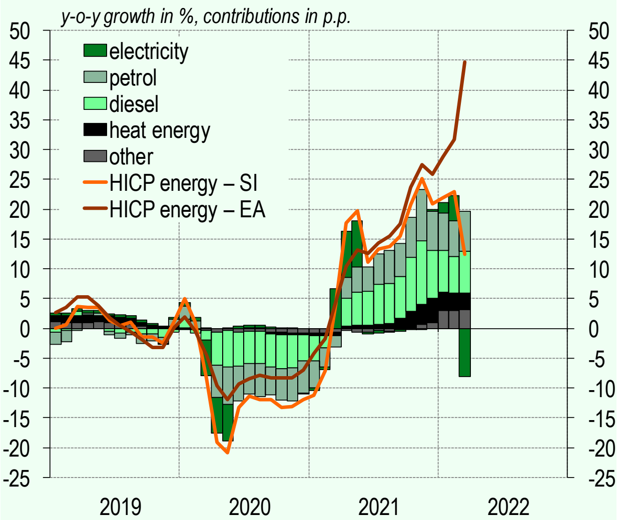
Foreign inflationary pressures increased further in March. The high energy and commodity prices caused by supply being unable to keep up with the sharp recovery in demand following the relaxation of the most stringent containment measures increased further with the outbreak of the war in Ukraine. Having undergone a sustained rise since the end of the first wave of the pandemic, oil prices surged in March, albeit amid great volatility, to average USD 116.3 per barrel over the month. Gas prices were subject to even greater volatility, and eased slightly in the second half of March, but remain at around one-fifth higher levels compared to those in January and the first half of February. Alongside the high dependence on Russian energy, additional pressure is coming from the rising prices of fertilisers, of which Russia is also a major exporter. Given the direct inclusion of natural gas in their production, fertilisers were already rising sharply in price late last year, and the risk of the direct loss of Russian fertilisers from western markets is increasing the pressure on food prices. It is a similar situation with grains, where Russia and Ukraine hold a significant global market share, and certain other producers have already resorted to food protectionism. The shock of the drastic downturn in international relations has raised prices of practically all primary commodities, and thus import prices, which in the euro area are being further driven up by the euro's depreciation against the US dollar.

Domestic price factors are continuing to strengthen alongside foreign price pressures. High input costs contributed to the rise in domestic producer prices that were up 18.4% in year-on-year terms in February, among them year-on-year growth in the energy category reaching 61.5%. Furthermore, prices of intermediate goods, capital goods and consumer goods have also been strengthening in the past months. The war in Ukraine and the resulting sanctions against Russia, which led to a decline in supply and breaks in specific supply channels, have further increased price pressures in March. The labour market situation and the high growth in the wage bill in the private sector could also be an additional factor in future inflation, particularly in services prices. Given the uncertain economic situation, we expect gradual easing of demand and price pressures, while the situation on wholesale energy and commodity markets will remain the main factor in consumer price developments over the coming months.

Price developments by subcategory

The rise in energy prices on the wholesale markets was accompanied in the first quarter by government measures aimed at mitigating the impact of energy price inflation on households. Cuts in electricity prices reduced year-on-year growth in energy prices to 12.5% in March (see Figure 7.6), the rate having exceeded 20% since October of last year. Given the deteriorating situation on global energy markets, numerous providers had set new price lists for natural gas and electricity by the early part of this year, and bills were hit by January's rise in network charges too.[1] Therefore, the government adopted temporary measures with the aim of mitigating the situation, under which for a period of three months excise duties would be cut, and payments of network

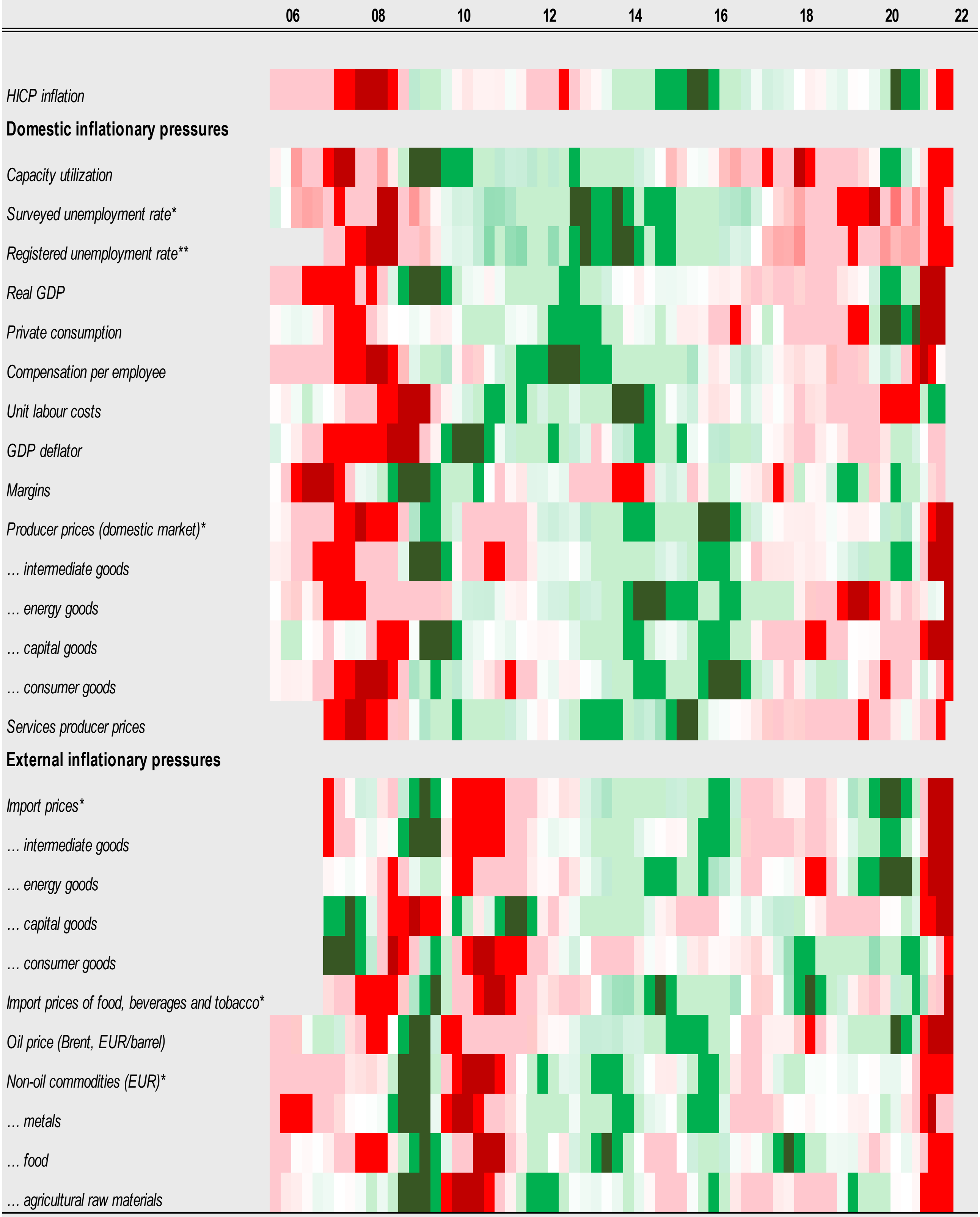
Figure 7.6: Contributions to the growth in energy prices



Source: ECB, Eurostat, Banka Slovenije calculations.

[1] The Energy Agency raised the tariff network charge for the distribution system by 14% in January of this year for electricity consumers.

Table 7.2: Inflationary pressures

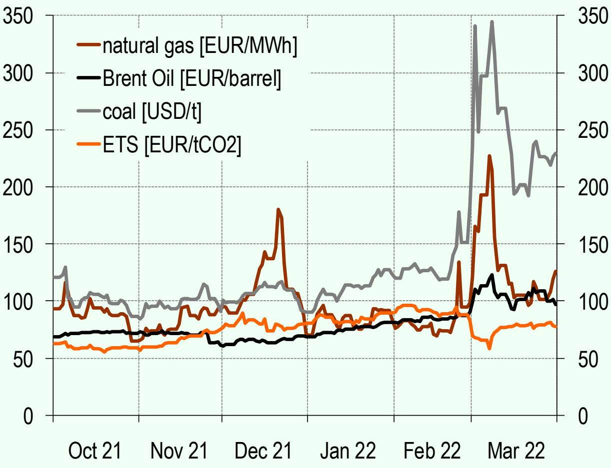


Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilization and the unemployment rate, which are expressed in percentages. The data has been standardized. The colour scale denotes the direction and size of the deviation in an individual time series from its long-term average (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed for the unemployment rate.
**The figure for first quarter of 2022 encompasses latest available data (*February, **January).*
Source: SORS, Employment Service of Slovenia, Eurostat, ECB, Banka Slovenije calculations.

charges and the contribution for CHP and renewables would be frozen.[2] Electricity prices consequently fell by almost 40% in March, reducing year-on-year energy price inflation by 8.1 percentage points. The situation then worsened in February because of the outbreak of war in Ukraine, which led to a sharp rise in wholesale energy prices (see Figure 7.7). These developments are a particularly hard hit for the EU, which imports almost half of its gas and coal, and a quarter of its oil and refined petroleum products from Russia. Prices of liquid and motor fuels hence rose sharply in early March, which was followed by a government measure restricting selling prices of petrol and diesel for 30 days.[3]

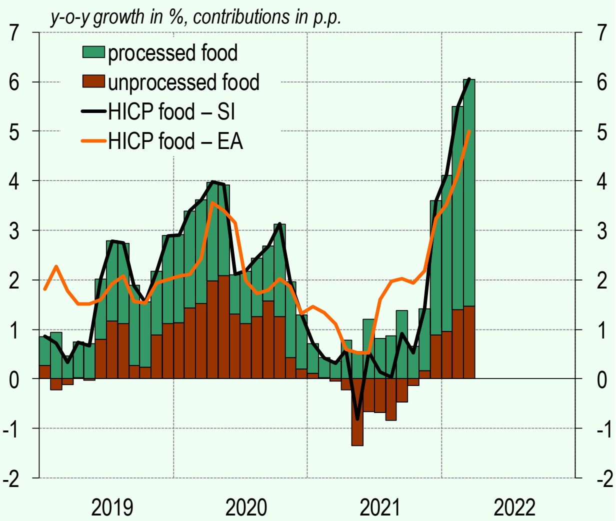
The anticipated difficulties in food production and the limited supply indicate that food price inflation will rise over the coming months. Food prices were up fully 6.1% in year-on-year terms in March, as the contributions of processed and unprocessed food rose significantly relative to November (see Figure 7.8). Prices of unprocessed food were up 7.7% and prices of processed food were up 5.7% in March, as price rises spread throughout the set of food products. Inflation can be expected to remain high over the following months, with no sign of price pressures in agriculture and the food industry waning. Food prices depend highly on the price of natural gas, as it is the main input cost in the production of artificial fertilisers. As a result of the sharp rises in prices of fertilisers (prices of nitrogen fertilisers were up more than 200% in January), feed and energy, producer prices of agricultural products are also rising: they were up 16.7% in year-on-year terms in January (see Figure 7.9). In addition to constraints on the supply of Russian fertilisers, which ac-

Figure 7.7: Wholesale energy price developments



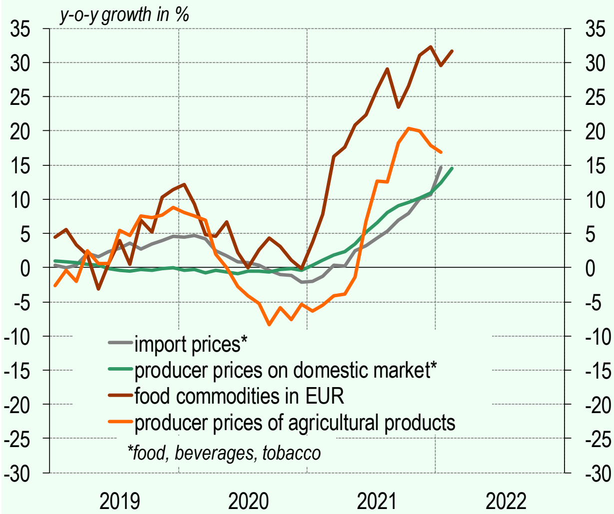
Note: Natural gas data refer to a one month ahead Dutch TTF Gas future whereas coal data show a Rotterdam Coal future for January 2023.
Source: Bloomberg, ICE.

Figure 7.8: Contributions to the growth in food prices



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.9: Price developments of food production inputs



Source: ECB, SORS.

[2] To address rising energy prices, as part of its emergency measures the government halved excise duties on electricity and excise duties on heating energy products (heating oil and natural gas) for the period of 1 February to 30 April 2022. It also cut excise duties on motor fuels (petrol by 5%, and diesel by 15%). Under the Act on Emergency Measures to Mitigate the Impact of Rising Energy Prices, it then put measures in place over the same period to exempt household consumers from paying the contribution for combined heat and power (CHP) electricity production and renewables, and to make further cuts to the network charges for the electricity system.

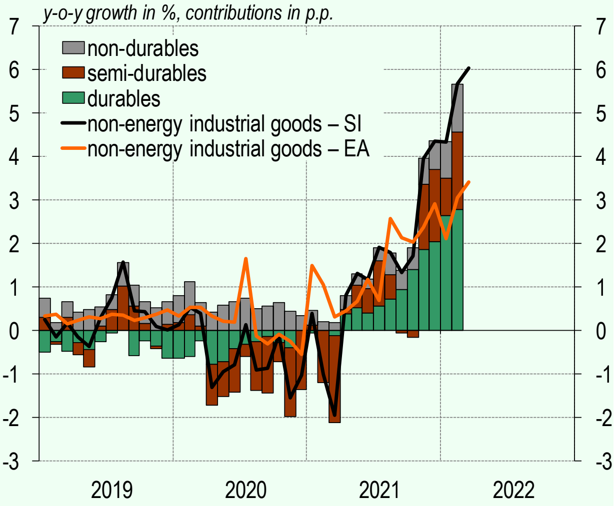
[3] For a period of 30 days starting from 15 March the maximum selling prices are EUR 1.541 for a litre of diesel, and EUR 1.503 for a litre of 95-octane petrol.

count for approximately a quarter of Slovenia's fertiliser imports, the significant loss of harvest in Ukraine and the temporary ban on exports of Russian grains to European and certain other markets will significantly reduce the global supply of primary agricultural commodities. Among them, prices of wheat, corn and oil seeds are expected to increase the upward pressure on food price inflation. Another concern is posed by the restrictions on exports of grains in Hungary, from where Slovenia imports a significant share of its wheat to plug the gap in domestic production.

Prices of non-energy industrial goods are strengthening as higher input costs increasingly pass through into final prices of products. They were up fully 6.0% in March (see Figure 7.10), and the drastic downturn in international relations and the vast uncertainty surrounding the availability and price developments of energy products, natural gas in particular, will further increase the pass-through effect. New concerns are arising in supply chains, which could hit production of durables in particular once again. Having mostly fallen during the financial crisis and the pandemic crisis, prices of durables have been rising persistently since the end of the second wave of the pandemic. They were up 7.5% in year-on-year terms in February, driven by prices of cars and furniture. Prices of semi-durable and non-durable goods are also rising. Inflation in the non-energy industrial goods category is also becoming increasingly broad based, with the majority of the items already recording a rate of more than 2%.

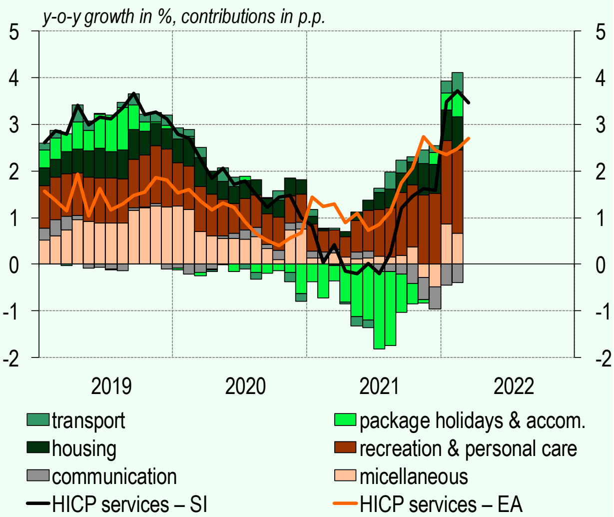
The waning of the pandemic is funnelling demand into services, where prices of contact-intensive services in particular rose in the first quarter. Year-on-year service price inflation hit 3.5% in March (see Figure 7.11). It was driven by prices of package holidays and accommodation, and recreation and personal care, which were up 7.5% and 5.8% respectively in year-on-year terms in February. Price rises in other categories are also evident, most notably housing, where year-on-year growth in rents has exceeded 18% since the end of last year. Alongside current price rises, the rise in service price inflation is also attributable to the low base effect in connection with the containment measures in place during the second wave of the pandemic in the same period last year. Service price inflation in Slovenia has been outpacing the euro area average by approximately 1 percentage point since January, primarily due to differences in the recreation and personal care category, which mostly comprises restaurants, cafés, and sports and recreation activities.

Figure 7.10: Contributions to the growth in prices of non-energy industrial goods excluding energy



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.11: Contributions to the growth in services prices



Source: ECB, Eurostat, Banka Slovenije calculations.

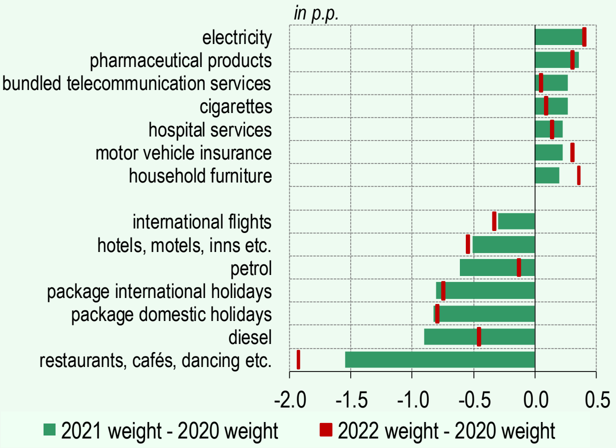
BANKA SLOVENIJE

EVROSISTEM

Box 7.1: Changes in weights for this year's calculation of inflation using the HICP

This year's change in the weights for calculating the HICP was smaller than last year's, and is therefore not expected to have a major impact on measured inflation. With the aim of making the weights for calculating the HICP this year conform as far as possible to last year's patterns of consumption, at the beginning of the year the SORS adjusted the weights in accordance with the Eurostat recommendations.[1] According to the figures on the weights, there was no significant change in the structure of consumption last year.

Figure 1: Changes in HICP weights



Note: Changes in HICP weights compared to the pre-epidemic weights (2020 weights) are shown for the 14 products and services, which displayed the largest weight changes due to the epidemic outbreak (2021 weights).
Source: Eurostat, SORS, Banka Slovenije calculations.

While the weights for fuels for cars have to a considerable extent moved back towards their pre-crisis levels this year, the adjustment of the weights for services related to tourism and food service activities has been smaller (see Figure 1). The weights for accommodation and restaurants have been reduced again, while the weights for package holidays remain practically unchanged. Given the minor change in weights, no major impact on measured inflation is expected this year. The change reduced inflation by 0.1 percentage points during the first two months of the year, while the fundamental changes in patterns of consumption at the outbreak of the pandemic had a notably negative impact on inflation last year, and reduced it by 0.6 percentage points on average over the year.[2]

[1] The methodological note for the derivation of HICP weights for 2022 is available on this link. According to the SORS clarification found on this link, the weights are based on accurate data for 2020 and estimated national accounts data on household expenditure for 2021, and take into account the average change in prices between the 2021 average and December 2021.

[2] The impact of the weight is expressed as the difference between the official year-on-year growth in the HICP computed using the weights for the current year, and the year-on-year growth in the hypothetical HICP computed using the weights from the previous year. Here the impact depends on the change in the weight and on growth in prices of individual categories of products and services. The impact on last year's inflation is examined in detail in the April 2021 issue of Economic and Financial Developments.

8 Public Finances

The reduction in the general government deficit and debt in 2021 was significantly larger than forecast by government plans, however both remained high. With significant expenditure still concentrating on measures to alleviate the impact of the pandemic, the deficit amounted to 5.2% of GDP. Revenues were up 11.9%, slightly more than economic activity, while growth in general government expenditure was approximately lower by half. Another notable component of expenditure was government investment, which increased significantly over the course of the year, driving up general government expenditure and GDP. A year-on-year improvement in the government balance in the final quarter was primarily a result of a reduction in expenditure to alleviate the impact of the pandemic, which was significantly lower in the second half of the year than in the first half. The general government debt amounted to 74.7% of GDP at the end of the year, having been reduced by high economic growth and the utilisation of pre-financing.

The fiscal indicators continued to improve in the early part of this year, and the plans for this year and the coming years will be evident in the updated Stability Programme. According to the previous plans from October's draft budget, the main impact will come from the significant improvement in 2021 outcome, the tenth anti-coronavirus package of measures, and a number of other stimulus measures not related to anti-coronavirus measures with a sustained impact on the public finances. The measures adopted in recent months have been costed at approximately 1.5% of GDP for this year. The largest of them comprise changes in the area of personal income tax, an irregular pension increase, and temporary measures in response to high energy prices.

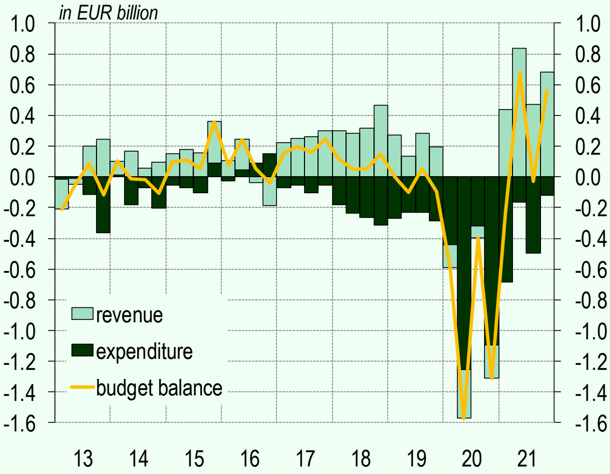
The risks to the public finances have increased this year as a result of the war in Ukraine and the resulting sanctions, which entail additional uncertainty with regard to future economic developments. This is also why the conditions for deactivating the general escape clause from European fiscal rules, which on the basis of the European Commission's winter projections had been anticipated in 2023, will be reassessed on the basis of its spring projections.

General government balance

Although the measures to alleviate the impact of the pandemic remained sizeable, the general government deficit narrowed amid high economic growth, most notably in the second and the final quarter. It amounted to EUR 2.7 billion, or 5.2% of GDP, slightly less than the euro area average according to the ECB's March estimate (5.5% of GDP). This was 2.6 GDP percentage points less than in the previous year, and was better by almost the same amount than the government forecasts in the October draft budget plans. The key factors in last year's developments were the significant recovery in revenues in the fast-growing economy, the persistent size of the measures to alleviate the impact of the pandemic (see Box 8.2), and the fast rise in government investment. The primary balance improved last year, and the ratio of interest to GDP continued to fall amid the low interest rates. Growth in revenues remained high in the final quarter of last year, while the high base from the previous year meant that the year-on-year increase in expenditure was relatively small, thanks to the downsizing of pandemic-related measures.

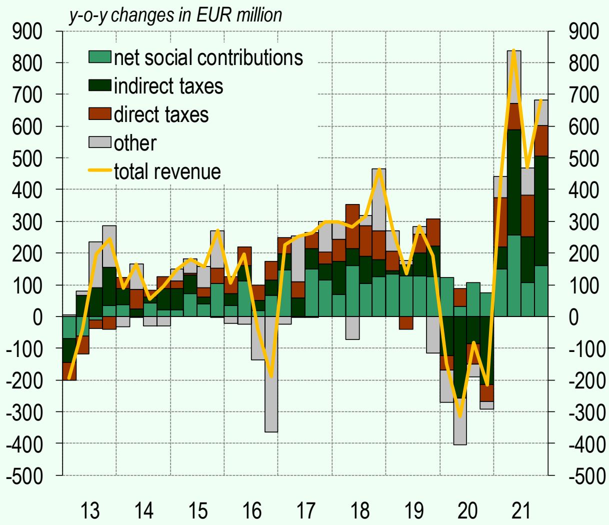
General government revenues increased by 11.9% last year, driven by the buoyant labour market and household consumption. General government revenues were up EUR 2.4 billion last year, their growth outpacing economic growth. They amounted to 43.9% of GDP, slightly higher than in the two previous years. The largest increases in tax revenues were recorded by indirect taxes, a reflection of the recovery in private consumption. There was particularly pronounced growth in VAT revenues, which significantly surpassed their pre-pandemic levels, while revenues from excise duties also increased significantly but failed to reach their pre-pandemic levels. The high growth in revenues was also driven by social security contributions and personal income tax, a reflection of the favourable developments on the labour market. Growth in corporate income tax was estimated at 10.5% by the SORS. Revenues from property, which include interest and dividends, were also up in year-on-year terms.

Figure 8.1: Contribution of government revenue and expenditure to y-o-y changes in general government budget balance



Note: Budget balance and expenditure do not include bank recapitalisations.
Source: SORS, Banka Slovenije calculations.

Figure 8.2: General government revenue



Source: SORS, Banka Slovenije calculations.

Table 8.1: General government deficit and debt in Slovenia, 2016-2023

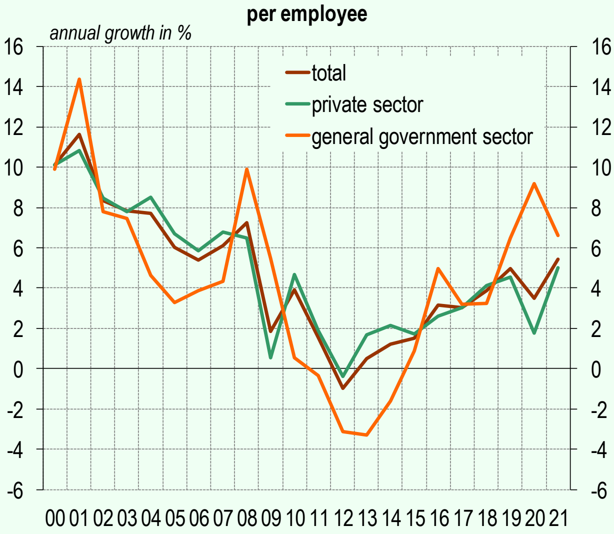
% GDP	SORS						Draft Budgetary Plan		European Commission		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2021**	**2022**	**2021**	**2022**	**2023**
Revenue	44.2	44.0	44.2	43.8	43.5	43.9	43.7	43.5	43.7	43.5	42.9
Expenditure	46.2	44.1	43.5	43.3	51.3	49.1	51.2	48.9	50.9	48.7	47.3
of which: interest	3.0	2.5	2.0	1.7	1.6	1.3	1.4	1.3	1.4	1.3	1.2
Net lending (+) / borrowing (-)	-1.9	-0.1	0.7	0.4	-7.8	-5.2	-7.5	-5.4	-7.2	-5.2	-4.4
Primary balance	1.1	2.5	2.8	2.1	-6.2	-3.9	-6.1	-4.1	-5.8	-3.9	-3.2
Structural balance	…	…	…	…	…	…	-7.7	-6.3	-7.6	-6.2	-5.5
Debt*	78.5	74.2	70.3	65.6	79.8	74.7	78.5	77.5	77.7	76.4	76.0
Real GDP *(growth, %)*	3.2	4.8	4.4	3.3	-4.2	8.1	6.1	4.7	6.4	4.2	3.5

*Note: *Debt refers to the end of the year.*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, October 2021), European Commission (November 2021).

Box 8.1: Employee compensation in the government sector

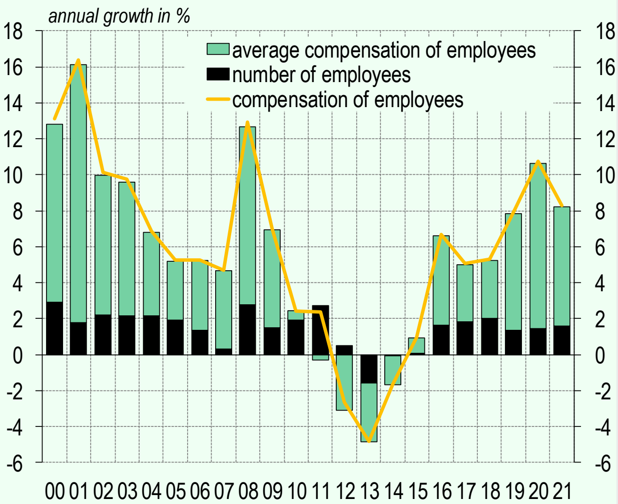
Labour costs in the government sector rose sharply during the pandemic period, driven primarily by payments of pandemic-related bonuses, and employee compensation amounted to 12.6% of GDP last year. This figure is higher than the 10-year average before the outbreak of the pandemic (11.7%), but lower than in 2020 (12.9%), the highest figure to date, in part because of the decline in GDP. Over those two years the government sector accounted for close to a quarter of total employee compensation in the Slovenian economy, because of wage rises under agreements, and above all because of payments of various pandemic-related bonuses to employees, most notably in the health sector.[1] Out of approximately EUR 5.0 billion general government pandemic-related expenditure up to date, a total of EUR 1.0 billion has been earmarked for various government employees bonuses. The largest share of the payments were based on the collective agreement for the public sector, Article 39 which stipulates a 65% bonus to the basic wage for a public employee for work during an epidemic.[2] Various other bonuses were enacted in the anti-coronavirus legislation, the majority of which are no longer available.[3] Since the end of the official epidemic declaration in mid-June of last year, there has no longer been any entitlement to major wage bonuses, which has been reflected in a year-on-year decline in wages over the recent period.[4] As might be expected, the human health and social work activities sector saw the largest rises in wages during the pandemic, and it is now seeing the largest declines.

Figure 1: Nominal growth rate of compensation of employees per employee



Source: SORS, Banka Slovenije calculations.

Figure 2: Decomposition of nominal growth of compensation of employees in the general government sector

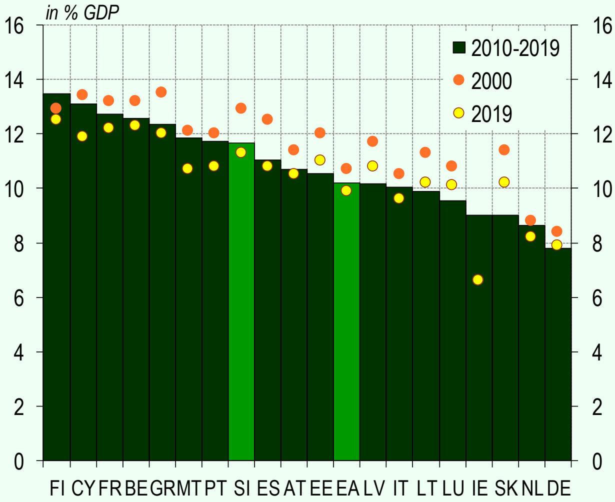


Source: SORS, Banka Slovenije calculations.

The measures in connection with the labour market during the pandemic were an additional reason for growth in employee compensation in the government sector outpacing the private sector, the two sectors having seen similar rates of growth over the two previous decades under a different structure. While payment of wage bonuses was the largest factor in the high growth in the wage bill in the government sector throughout the pandemic, growth in private-sector wages during the first year was heavily affected by the furlough scheme, within which employees received lower wages. It is evident from Figure 1 that the cumulative growth in the average wage in the government sector over the last two years outpaced average growth in the private sector by slightly more than in 2008 and 2009, when the introduction of a public wage system reform led to a large rise in public-sector wages. In the period before and after the reform, which coincided with the economic and financial crisis, growth in the average wage in the government sector was outpaced by growth in the private sector after 2010. There was also an unusual fall in nominal wages in the public sector between 2011 and 2014 as a result of austerity measures. Over the longer time horizon (2000 to 2019), employee compensation in the government sector and the private sector have increased by similar amounts in nominal terms, that is by almost 160%. The drivers of the growth were different however. While the average wage in the private sector increased more than the average wage in the government sector, employment in the latter increased more markedly.[5]

Employee compensation typically accounts for a large share of general government expenditure, and Slovenia has one of the highest figures in the euro area as a ratio

Figure 3: Compensation of employees in the general government sector in the euro area



Source: Eurostat, Banka Slovenije calculations.

to GDP. Labour costs in the government sector vary considerably among euro area countries, which is partly dependent on the institutional arrangements for the provision of services, for example in healthcare.[6] Figure 3 illustrates that the domestic labour costs of the government sector as a ratio to GDP have always exceeded the euro area average. Spending was heavier between 2010 and 2019 in Finland, Cyprus, France, Belgium, Greece, Malta and Portugal, and lowest in the Netherlands and Germany. Wages are also an important factor in the aggregate ratio of general government expenditure.[7] In Slovenia the ratio stood at approximately 24.0% over the decade before the pandemic, while in the euro area overall it was approximately 3 percentage points lower.

In Slovenia annual employee compensation in the government sector depends on agreements between the government and the public sector unions, and on employment growth, as wages in the public sector are not indexed to inflation, which is also the case for the majority of euro area countries.[8] In Slovenia and most other euro area countries there is no wage indexation to inflation.[9] Analysis of euro area countries reveals that indexation is relatively limited, and only covers roughly a fifth of euro area government sector employee compensation aggregate.[10] This is attributable in part to the long period of low inflation. In the environment of the current high inflation there have already been proposals by trade unions in Slovenia for wages to be indexed to inflation in the previous year.

The size of this year's expenditures on wages in the government sector is not yet certain, given the numerous wage pressures and other uncertainties. Given that pandemic-related bonuses are mostly no longer available, average compensation per employee could decline, as was predicted in Banka Slovenije's December projections, but numerous upward pressures on wages in the public sector are appearing. Over the last few months the government has agreed a wage adjustment for employees in health and social care with the trade unions (carried out in November of last year), which was costed at EUR 123.0 million annually, and has reached an agreement with physicians and dentists that would need another EUR 113.5 million at the annual level, although this is yet to be realised.[11] It has also set its negotiating positions for continuing negotiations with the unions in health and social care in the amount of close to EUR 6.0 million annually, and starting positions for negotiations with the unions in the public sector on the adjustment of wage grades on the wage scale and elements of the wage system reform in the sense of higher remuneration for performance. Wage rises are also being demanded by other trade unions, but no new agreements are expected before the election.

[1] Wage agreements also had an impact on growth in the average wage in 2020 and 2021. Wages in the government sector rose in 2020 as a result of the year-long effect of the measures taken in the previous year, the additional rise in wages for certain positions, and the ending of restrictions on the payment of ordinary performance bonuses and heavy workload bonuses from the middle of the year. In 2021 there was an increase in the annual leave allowance and the meal allowance, and another agreement for health and social care was adopted at the end of the year. The growth over this period was also driven by rises in the minimum wage, of 6.1% in 2020 (with the additional exclusion of bonuses from the minimum wage definition) and 8.9% last year, and civil service promotions.

[2] An epidemic was declared in Slovenia for the first time between 12 March and 31 May 2020, and for the second time between 19 October 2020 and 15 June 2021, for a total of approximately ten and a half months.

[3] For a more detailed look at the categories of bonuses under the anti-coronavirus legislation, see the Fiscal Council's Monthly Information, December 2021 (fs-rs.si).

[4] The year-on-year decline in the average gross wage in the government sector was minimal in October of last year according to the monthly statistics, but averaged around 10% between November of last year and January of this year.

[5] A comparison for the decade before the pandemic (2010 to 2019) shows that growth in employee compensation in the private sector was higher because of higher growth in the average wage amid roughly similar growth in the number of employees.

[6] See, for example, Box 10 in the ECB's Monthly Bulletin June 2007 (europa.eu).

[7] Wages (alongside social transfers) represent expenditures that are of a relatively fixed nature from a budget perspective, and are difficult to adjust to the economic situation or public finance capacities, as it is necessary to reach agreement with the social partners on any changes. Expenditures on subsidies and investment financed by the domestic budget are more flexible in nature.

[8] According to the standard classification of economic activities, which is used for compiling the national accounts, the public sector consists of the government sector and public enterprises. In wage negotiations the public sector is a category taken from the Public Sector Salary System Act, which encompasses a very similar group of public employees as the government sector according to national accounts statistics.

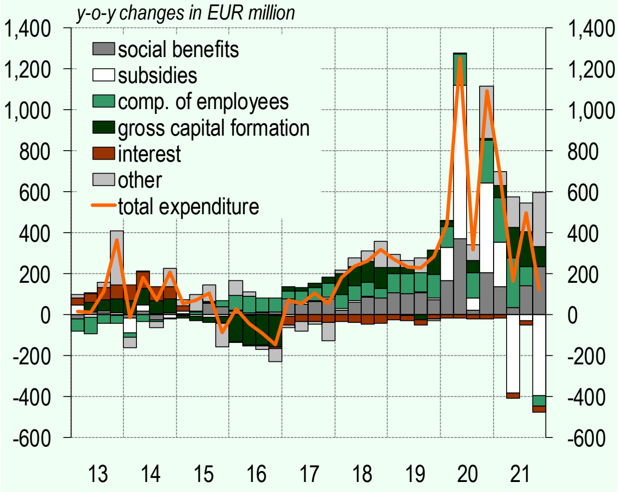
[9] Wage indexation was abolished in Slovenia even before the public wage system reform in 2008. In the years before that it could only be partial, e.g. 85% in certain years, and exceptionally wage increases could be tied to expected inflation. Currently only some expenditure on wages is tied to inflation developments, e.g. the meal allowance is adjusted every six months for growth in prices of food products, while certain other benefits (separate living allowance, daily allowance for business trips inside Slovenia, loyalty bonuses and solidarity assistance) are adjusted once a year for consumer price inflation.

[10] Cristina Checherita-Westphal: Public wage and pension indexation in the euro area, February 2022, ECB Economic Bulletin Issue 1, 2022 (europa.eu). Wages are indexed in part or in full to inflation (past inflation or expected inflation, where certain products may be excluded from the inflation index used for indexation) in Belgium, Italy, Luxembourg, Cyprus and Malta.

[11] Until it makes a final decision, the Constitutional Court has stayed the implementation of Article 48 of the tenth anti-coronavirus law, which raised the maximum wage grade for physicians and dentists by the end of this year (from 57th to 63th grade).

Growth in general government expenditure was slower than the corresponding figure on the revenue side at 6.1%, and was particularly low in the second and the final quarter as a result of a base effect. General government expenditure increased by EUR 1.5 billion last year. Expenditure as a proportion of GDP had increased sharply in 2020, as a result of the high expenditure related to the pandemic and also the decline in GDP, but the figure declined to 49.1% last year amid higher economic growth. This is still well above its pre-crisis level, in part because expenditure related to the pandemic is still sizeable (see Box 8.2). On the expenditure side there was a notable increase of 26.2% in government investment, which nevertheless lag behind government plans. Growth in employee compensation was again high, and was driven by agreed rises (e.g. payment of ordinary performance bonuses and heavy workload bonuses since mid 2020), civil service promotions, and the payment of pandemic-related bonuses, the majority of which were available until mid-June. Employment was up 1.6% in year-on-year terms, human health and social work activities recording the largest increase. More funds were again earmarked for social security benefits, where pensions account for the largest proportion. These rose by 5.4% last year (according to cashflow) as a result of regular and irregular pension increases, while the number of pensioners remained unchanged. Last year's largest declines were in subsidies, which had been extremely high in the first year of the pandemic, given the need to preserve jobs and economic potential, and in interest.

Figure 8.3: General government expenditure excluding support to financial institutions



Source: SORS, Banka Slovenije calculations.

General government debt and government guarantees

The deficit produced a nominal rise in general government debt, however the debt nevertheless declined sharply as a ratio to GDP amid high economic growth. It amounted to 74.7% of GDP, down 5.1 percentage points on the previous year. It increased by EUR 1.4 billion in nominal terms, less than the deficit, which was partly financed by the run-down of funds built up in previous years. These are disclosed in Table 8.2 in the row entitled deficit-debt adjustments. This year the government again followed the practice of borrowing more heavily in the early part of the year, which proved to be a good decision following the later rise in required yields. This also ensured the increased availability of funds for debt refinancing, which this year was heaviest in March.

The stock of government guarantees declined again last year. The trend of decline in guarantees seen since the economic and financial crisis continued last year, the stock amounting to EUR 4.7 billion or 9.1% of GDP at the end of the year. The year-on-year decline of almost 2.0 percentage points of GDP was driven mostly by a decline in guarantees granted to DARS and the BAMC. The stock of guarantees granted for reason of the pandemic began to fall after the main guarantee schemes were closed, and amounted to EUR 222 million at the end of the year. A new guarantee law was passed in March, which will augment the guarantees for half of the investment in the construction of the third motorway development axis and for the expansion of the Ljubljana ring road. The guarantees will be raised gradually, when the funding for these investments begins to be assembled. With an estimated investment of EUR 785 million, the maximum possible guarantee under the aforementioned law is just under EUR 400 million.

Planned developments in general government balance and debt

In increased uncertainty environment, the budget plans for this year and the following years will be revealed in the Stability Programme. However, according to the previous plans and the available forecasts a further decline in the general government deficit and debt can be expected. The general government balance was overwhelmingly under the influence of the pandemic in 2020 and 2021, but the expiry of fiscal measures to alleviate the pandemics is expected to bring an improvement this year in particular. According to current forecasts, the continuing growth of the economy should also have a favourable impact on public finance developments this year, and the last year outcome is significantly better than in the October government forecasts as the deficit was 2.3 GDP percentage points narrower than forecast by the government. However, a number of stimulus measures of a predominantly permanent nature have been adopted, and these will worsen the (structural) fiscal position. The government confirmed the irregular pension increase (costed at 0.3% of GDP annually), passed a law on long-term care (an impact of between 0.1% and 0.5% of GDP annually), and made changes in the area of personal income tax, which will reduce personal income tax revenues by around 0.45% of GDP this year alone according to the forecasts from the draft law, and by around 1.3% of GDP following the full implementation of the changes in 2025. The Digital Inclusion Promotion Act (costed at less than 0.1% of GDP annually) was also passed, and temporary measures were adopted in response to high energy prices (0.4% of GDP) including one-off support for households, businesses, agriculture and a temporary cut in excise duties on electricity and energy products. The main additional risks are rising wages in the public sector (see Box 8.1), while additional measures in response to high energy prices are also possible.

The war in Ukraine and the resulting sanctions are also raising negative risks to the public finances. The change in the situation will have an impact on fiscal developments, both directly and indirectly. A slowdown in economic growth could be reflected in a larger general

Table 8.2: Contributions of components to change in general government debt

% GDP	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
debt	78.5	74.2	70.3	65.6	79.8	74.7
debt change	**-4.1**	**-4.4**	**-3.8**	**-4.7**	**14.2**	**-5.1**
of which: primary balance	-1.1	-2.5	-2.8	-2.1	6.1	3.9
interest rate-growth differential ("snowball effect")	-0.2	-2.2	-2.6	-2.0	3.7	-6.6
deficit-debt adjustment	-2.7	0.3	1.5	-0.6	4.4	-2.4

Source: SORS, Banka Slovenije calculations.

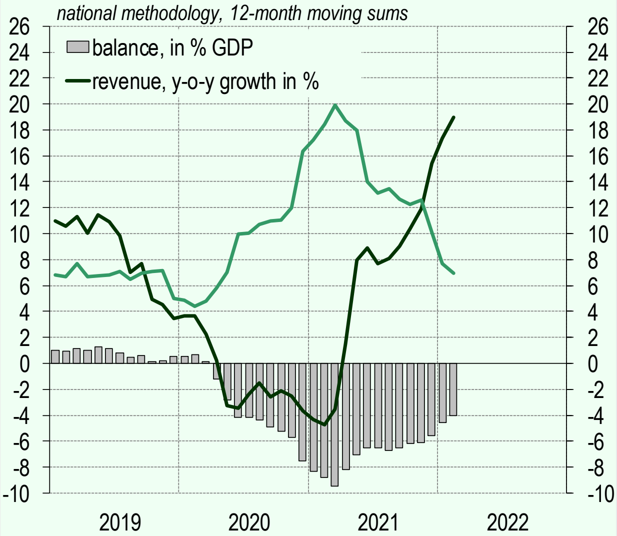
Box 8.2: Public finance developments according to the cashflow methodology

The consolidated general government deficit continued to narrow in year-on-year terms in the first two months of this year, and over the 12 months to February amounted to EUR 2.2 billion or 4.1% of estimated GDP. In both months the improved position was attributable to strong growth in revenues driven by the economy upswing, while an additional factor in the year-on-year improvement in January was a significant decline in expenditure to alleviate the impact of the pandemic. The state budget recorded a surplus of EUR 93 million in the first two months of this year, compared with a deficit of EUR 659 million in the same period last year. Local government recorded a surplus position overall (EUR 27 million), while the HII was in deficit (EUR 10 million).

Consolidated general government revenues rose in the early part of the year as a result of the ongoing high economic growth, which according to indicators continues to be driven by growth in household consumption and the buoyant labour market, while the decline in expenditure was the result of reduced expenditure in connection with the pandemic. There were sharp increases on the revenue side in tax revenues and revenues from the EU budget. There was notably high growth in VAT revenues, which is in line with the figures on high growth in invoices registered with tax authorities and payments. This is indicative of the ongoing

Figure 1: Public finance developments

national methodology, 12-month moving sums



Source: Ministry of Finance, Banka Slovenije calculations.

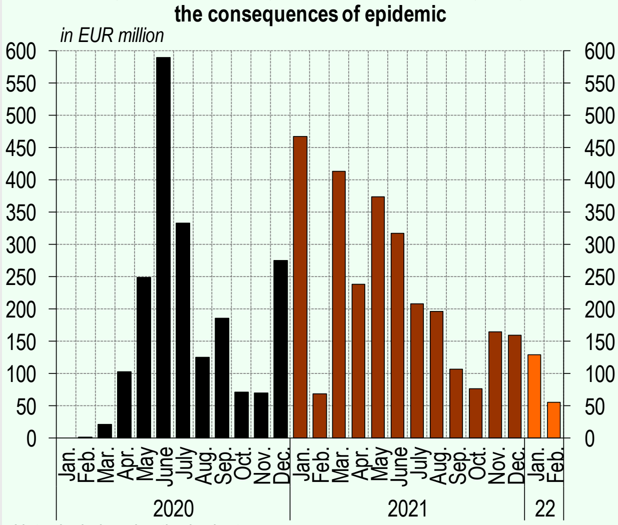
Table 1: Consolidated balance sheet* of public finance

	2021	last 12 months to Feb. 22			2021 Jan.-Feb.	2022 Jan.-Feb.	Jan.-Feb.22
	EUR million		% GDP	y-o-y, %	EUR million		y-o-y, %
Revenue	**21,382**	**22,041**	**41.4**	**19.0**	**3,159**	**3,818**	**20.9**
Tax revenue	18,784	19,223	36.1	17.7	2,818	3,257	15.6
- goods and services	6,359	6,611	12.4	25.4	855	1,106	29.4
- social security contributions	7,928	8,015	15.1	9.1	1,271	1,358	6.8
- personal income	2,845	2,879	5.4	13.6	496	529	6.9
- corporate income	1,115	1,144	2.2	50.6	126	156	23.4
From EU budget	951	1,109	2.1	43.8	97	255	163.3
Other	1,647	1,709	3.2	20.7	244	306	25.3
Expenditure	**24,297**	**24,206**	**45.5**	**6.9**	**3,791**	**3,700**	**-2.4**
Current expenditure	10,394	10,427	19.6	13.2	1,509	1,543	2.2
- wages and other personnel expenditure (incl. contributions)	5,751	5,671	10.7	11.0	931	851	-8.6
- purchases of goods, services	3,352	3,406	6.4	13.0	434	489	12.6
- interest	732	666	1.3	-6.3	107	41	-61.4
Current transfers	11,317	11,180	21.0	-1.2	1,995	1,858	-6.9
- transfers to individuals and households	9,168	9,043	17.0	4.8	1,647	1,523	-7.6
Capital expenditure, transfers	1,957	1,990	3.7	28.7	126	158	25.6
To EU budget	629	609	1.1	8.3	162	141	-12.5
Surplus (+) / Deficit (-)	**-2,915**	**-2,165**	**-4.1**		**-632**	**118**	

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

strong growth in household consumption. There was also an increase in other tax revenues and, thanks to the buoyant labour market, in social security contributions. The rise in revenues from the EU budget was driven primarily by an increase in funding under the recovery and resilience plan, while the high price of emissions allowances drove growth in capital revenues. Conversely, as expected, expenditure was lower, with fewer pandemic-related measures available this year than in the same period last year. Expenditure on wages, transfers to individuals and households, and subsidies, where the main pandemic-related expenditures were recorded last year, were all down in year-on-year terms.

Figure 2: State budget expenditure for mitigating the consequences of epidemic



Note: Includes also the budgetary reserves.
Source: Ministry of finance, Banka Slovenije calculations.

government deficit overall, with lower activity leading to lower revenues, while the aforementioned fiscal policy measures put in place would become less covered by revenues. Slower economic growth would make it harder to reduce government debt, which is higher in nominal and relative terms (i.e. as a ratio to GDP) than before the pandemic. Furthermore, the expectation is that impact of the decline in interest expenditure, which in recent years had contributed to the narrowing of the deficit, will diminish over time, or in the event of a larger rise in borrowing costs will disappear entirely (see Selected Theme 9.1).

Next year could see the deactivation of the general escape clause from the fiscal rules, but the decision will again be weighed on the basis of the European Commission's spring projections. The expectation on the basis of the winter projections was that the escape clause would be deactivated in 2023, but in light of the drastic downturn in international environment the assessment will be weighed up again on the basis of the spring projections. Fiscal policy needs to be ready for a fast response and for potential new measures because of the changing circumstances. The European Commission will make its recommendations with regard to public finances for 2023 in May 2022. It will again draw them up more qualitatively, taking account of the quantitative basis. In making its recommendations it will follow several principles, including ensuring debt sustainability through gradual and high-quality fiscal adjustment and economic growth, fostering investment and promoting sustainable growth.[1]

[1] See Council of the European Union (3 March 2022): Communication from the Commission to the Council, Fiscal policy guidance for 2023. Available online at pdf (europa.eu).

9 Selected Themes

9.1 Impact of a rise in interest rates on government interest expenditure

Amid accommodative monetary policy, the financing conditions for the government and other sectors have been extremely favourable over the past medium term. This gave the government a certain amount of additional manoeuvring room during the pandemic for the measures needed to preserve economic potential and to protect public health. With the resumption of economic growth and the rise in inflation and in inflation expectations, central banks are withdrawing from accommodative monetary policy, thereby gradually raising interest rates on borrowing, which will in turn raise interest expenditure. Because the timing and size of the interest rate rises cannot be precisely foreseen, this selected theme merely provides a technical assessment of the impact of a rise in interest rates on interest expenditure.

According to the analysis, a rise in interest rates of 1 percentage point over the medium term would not entail a significant rise in interest expenditure under the current interest rate structure of existing debt. This is primarily because the debt to fall due over the medium term is debt that was created by borrowing at high interest rates during the economic and financial crisis and also in the period of the resolution of the banking system in 2013 and 2014. Later, when the debt created during the period of low interest rates begins to fall due, its replacement with more expensive borrowing might prove more problematic, as this would cause a rise in interest expenditure. In the event of a pronounced rise in interest rates, a larger impact on interest expenditure could occur earlier.

Introduction

Given the rise in inflation and inflation expectations, the faster withdrawal of accommodative monetary policy is anticipated, which will raise government borrowing costs, including for Slovenia. In just over a decade Slovenia moved from a period of economic and financial crisis with extremely difficult borrowing terms into a period of low interest rates needed to provide economic stimulus and fight deflationary pressures, and then the coronavirus crisis. In addition to driving fluctuations in the budget balance, all of this also had an impact on the government's interest expenditure, which soared to 3.2% of GDP during the economic and financial crisis, before gradually declining to 1.3% of GDP last year. In light of the higher inflation and inflation expectations, central banks have recently begun scaling back the accommodative nature of monetary policy. The financial markets' current expectations and the central bank rhetoric suggest that this process might be faster than originally envisaged, meaning that government borrowing costs would also rise faster.

Given the huge uncertainty over the timing and size of the interest rate rises, any assessment of the impact of interest rate rises on government borrowing costs is merely technical in nature. Assessments of this type need a number of assumptions about the future in relation to developments in nominal GDP, the general government balance and the process of interest rate normalisation, which cannot be forecast precisely. The assessment process therefore uses a very technical estimate of the aforementioned assumptions for the next ten years, which at least provides a rough indication of the potential impact on the public finances.

Assumptions and methodology in assessing the impact of a rise in interest rates on government interest expenditure

Higher interest rates on borrowing are directly reflected in a rise in government interest expenditure. This could lead *ceteris paribus* to a deterioration in the general government balance, or other adjustments could be made so that there is no deterioration in the balance. The latter refers to fiscal consolidation, which is done by reducing non-interest expenditure, raising revenues, or a combination of both. The general government debt (in the simplified interpretation) only changes if the general government balance changes. This means that there is not necessarily any impact on government debt from a change in interest rates, but that higher interest rates could begin to crowd out other expenditure.

To assess the impact on interest expenditure from a rise in interest rates on government borrowing, we make use of entities from the debt accumulation equation. Government debt is generated by the accumulation of past deficits, and is reduced in nominal terms when the budget is in surplus. It also declines as a ratio to GDP when the latter increases. By decomposing the deficit into interest and the remainder, i.e. the primary balance, we can analyse the impact of a rise in interest rates on government interest expenditure. Government interest expenditure arise from the financing of debt that has not yet fallen due, from the financing of deficit in the current year, and from the refinancing of debt falling due in the current year. The entities derived from the debt accumulation equation for the purposes of this analysis can be illustrated as follows:[1]

$$D_t = D_{t-1} + S_t$$

where:

$S_t = PS_t + O_t$

$O_t = O_{nd} + O_{dd} + O_s$

$O_t = i_{nd} * D_{nd,t} + i_{oc,t} * D_{dd,t} + i_{oc,t} * S_t$

D_t ....government debt in year t
D_{t-1}....government debt in year $t-1$
$D_{nd,t}$ ...government debt not falling due in year t
$D_{dd,t}$ ...government debt falling due in year t
S_t ....government balance in year t
PS_t ......primary government balance in year t
O_t.........government interest expenditure in year t
O_{nd}......government interest expenditure on non-due debt in year t
O_{dd} .....government interest expenditure on due debt in year t
O_s ....government interest expenditure for financing the deficit in year t
i_{nd}........interest rates on financial instruments included in non-due debt
$i_{oc,t}$ ......expected market interest rates in year t

For the payment of interest on the non-due debt O_{nd}, we use the existing coupon rates on the non-due debt i_{nd}. For the payment of interest on the due debt O_{dd} and for financing the deficit generated in the current year O_s, we use the market interest rates expected when the government borrows $i_{oc,t}$. The latter reflect monetary policy and also certain other factors, e.g. the country risk premium, and various market uncertainties.[2] If the required yields on government borrowing rise, this will raise government

[1] The debt accumulation equation is explained for example in the technical manual entitled *A Practical Guide to Public Debt Dynamics* (Escolano, 2010).

[2] For more on developments in the required yields of government securities, see for example the selected theme in the January 2022 issue of Economic and Financial Developments. The risk premium has been discussed for example by Bernoth et al (2006).

interest expenditure for the due debt and for financing the deficit. They have no impact on interest expenditures for existing non-due debt. Because estimating the deficit requires interest in addition to the primary deficit, and interest also depends on the deficit, the estimation is done by iteration. In the first iteration the deficit S_t is estimated using interest expenditure from the previous year, then interest from the current year is taken into account in later iterations. All components of the debt accumulation equation can also be expressed as a ratio to GDP.

To assess the impact of higher interest rates on interest expenditure, we drew up a baseline scenario and scenarios of higher interest rates. The baseline scenario serves as a reference based on which we can determine the size of the impact of a change in the interest rate on interest expenditure O_t. The initial position of all key items, encompassing interest expenditure, the primary deficit, nominal GDP and government debt, is from 2021 data. We also take account of the profile of maturing debt according to borrowing up to mid-March of this year. The following assumptions are made for the next ten years:

a) Baseline scenario:

- The assumption for expected market interest rates on government borrowing i_{oc} over the next ten years is determined on the basis of the forward curve of the 10-year €STR swap rate as at 15 March 2022, to which a sovereign risk premium for Slovenian bonds is added. The forward curve of the 10-year €STR swap rate represents current market expectations for the trajectory of 10-year risk-free interest rates in the euro area. The premium for Slovenian bonds was determined with regard to the average over the four years prior to the pandemic, and is approximately 60 basis points. In the analysis the premium is gradually converged to the average over the course of one year from the slightly lower level seen in mid-March.
- The assumption for the size of the primary balance is determined as a primary surplus in the amount of 0.4% of GDP after ten years of linear improvement. This has been the average level of the primary general government balance in Slovenia since 2000 in periods when the economy was close to being in balance. This mainly eliminates crisis periods. The 10-year convergence in the analysis gives an average primary balance in the amount of -1.4% of GDP between 2022 and 2032, which is close to the long-term average, which amounts to -1.5% of GDP over the last 27 years.
- Growth in nominal GDP is determined at 4.6% annually, with the exception of this year, when the rate is higher owing to higher projected inflation. The growth of 4.6% is derived from last autumn's European Commission forecasts for growth in potential GDP, which amount to 2.6% for the year before and the year after the coronavirus crisis, and the ECB's inflation target, which is set at 2.0% over the medium term.

b) Scenarios of higher interest rates:

- The assumption for expected market interest rates on government borrowing is 1 percentage point higher than the baseline scenario in all years to 2032. Rises of 2 percentage points and 3 percentage points are also given for comparison. In this way we try to show how much a rise in interest rates can entail increased pressure on the public finances even in the short term. Everything else is the same as under the baseline scenario. The interest rates under the baseline scenario and the scenarios of higher interest rates, and the interest rates on bonds that are included in debt due during the next ten years, are disclosed in Table 9.1.1.

Results of the assessment of the impact of a rise in interest rates on interest expenditure

The results indicate that in the event of a rise of 1 percentage point in interest rates, interest expenditure would begin to rise relative to the base year after 2027, but would already be 0.4 GDP percentage points higher than under the baseline scenario by

Table 9.1.1: New financing and due bonds weighted interest rate

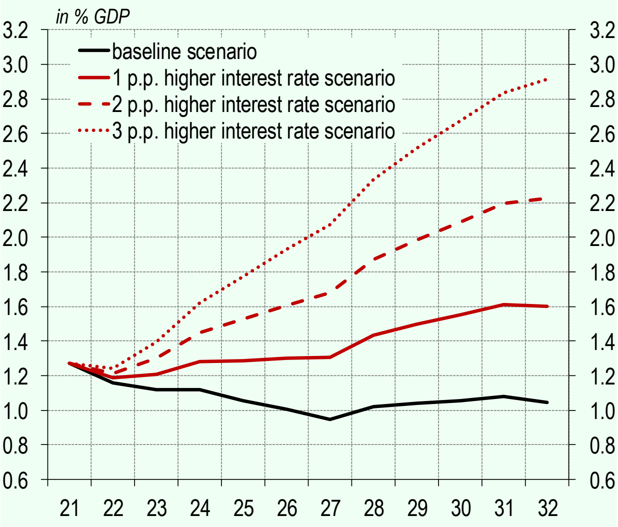
	due bonds weighted interest rate	new financing interest rate			
		baseline scenario	1 p.p. higher	2 p.p. higher	3 p.p. higher
2022	2.8	1.1	2.1	3.1	4.1
2023	0.8	1.5	2.5	3.5	4.5
2024	4.2	1.6	2.6	3.6	4.6
2025	2.1	1.7	2.7	3.7	4.7
2026	2.8	1.7	2.7	3.7	4.7
2027	1.3	1.8	2.8	3.8	4.8
2028	1.0	1.8	2.8	3.8	4.8
2029	1.2	1.8	2.8	3.8	4.8
2030	0.5	1.8	2.8	3.8	4.8
2031	0.0	1.7	2.7	3.7	4.7
2032	2.3	1.7	2.7	3.7	4.7

Note: Weights in the due bonds weighted interest rate are set according to share of the bond principal in the principal of all bonds maturing in a given year.
Source: Bloomberg, Banka Slovenije calculations.

that point. Under the scenario of interest rates that are 1 percentage point higher, interest expenditure remains relatively stable at close to 1.3% of GDP until 2027, despite the gradual rise in interest rates, and then begins to increase. At the same time interest expenditure would be up 0.4 GDP percentage points on the baseline scenario by 2027, and up almost 0.6 percentage points within ten years, which can also be interpreted as the consolidation necessary to maintain the same balance and debt as under the baseline scenario. If the rise in interest rates were larger (2 or 3 percentage points for example), the ratio of interest to GDP would rise above its initial level even in the short term (see Figure 9.1.1). The estimated government interest expenditure under the different scenarios expressed in EUR million is illustrated in Figure 9.1.2.

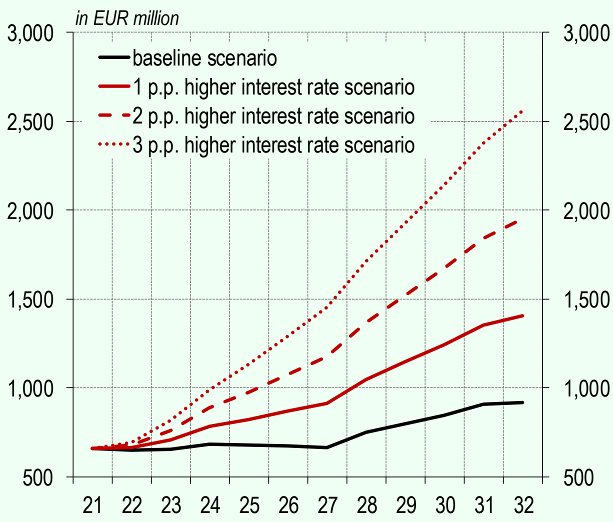
The reason that the impact of a rise in interest rates on interest expenditure is limited at first – for a small rise in interest rates – lies in the relatively high interest rates on the debt that falls due for payment first. Debt from the period of borrowing at low interest rates begins to fall due later, and the new interest rates are assumed to be higher than the interest rates on due debt. It is evident from Table 9.1.1 that weighted interest rates on maturing government bonds, which account for the largest share of debt, are at first higher than

Figure 9.1.1: Interest burden



Source: SORS, Banka Slovenije calculations.

Figure 9.1.2: Interest burden



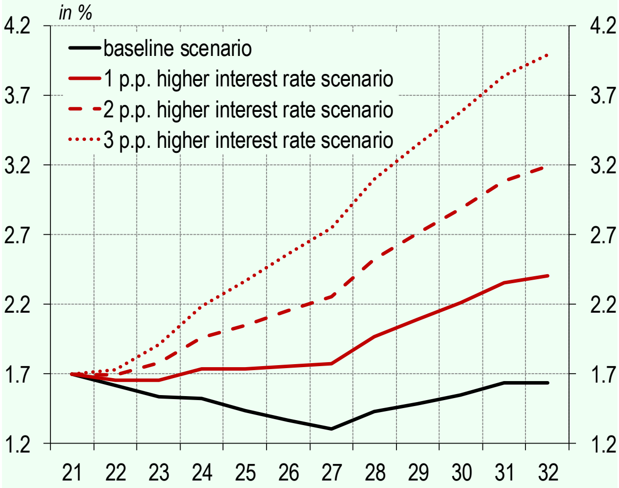
Source: SORS, Banka Slovenije calculations.

the interest rates on new borrowing under the baseline scenario and the scenario of interest rates that are 1 percentage point higher. The debt that falls due first was mostly created during the economic and financial crisis and the resulting recovery and resolution of the banking system, when interest rates were high. After 2027 debt created during the period of low interest rates begins to fall due to a greater extent, and the ratio between old and new interest rates reverses, which means that it is more expensive to finance due debt and the current deficit than in the past. Under the scenarios where interest rates rise by even more (i.e. 2 or 3 percentage points), interest expenditure begins to rise even over the short term, as the interest rates on new borrowing are almost immediately higher than the interest rates on the debt falling due.

The evolution of the implicit interest rate thus reflects the initial falling-due of debt from the period of high interest rates, and then from the period of low interest rates. The implicit interest rate is computed as the ratio of interest expenditure to debt. Under the baseline scenario it initially declines and then begins to increase after 2027, which reflects the difference between the interest rates on new borrowing and on borrowing from previous years. In the event of a rise of 1 percentage point in interest rates, it remains stable, but then begins to rise similarly after 2027. Under the larger rises in interest rates, the rise in the implicit interest rate begins even over the short term (see Figure 9.1.3).

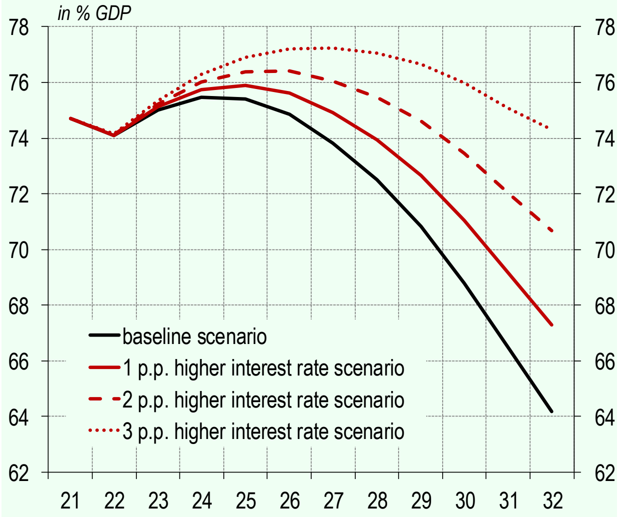
Under the given assumptions, the ratio of debt to GDP will decline over the long term. This year it would decline as a result of the high growth in nominal GDP, as inflation exceeds the inflation target this will result also in a high GDP deflator. Later growth in nominal GDP is assumed to be relatively moderate and constant at 4.6%. After this year the ratio of debt to GDP first increases and then declines. The decline begins in various years, and depends on the interest rate rise scenario. In general it begins when the effect of growth in nominal GDP exceeds the effect on debt from the primary deficit and interest expenditure. In line with the assumptions, the primary balance improves equally under all scenarios (approximately by 0.4% of GDP annually). This means that the debt rises because of the primary balance, as

Figure 9.1.3: Implicit interest rate



Note: Implicit interest rate is calculated as interest expenditure divided by debt.
Source: SORS, Banka Slovenije calculations.

Figure 9.1.4: Relative debt

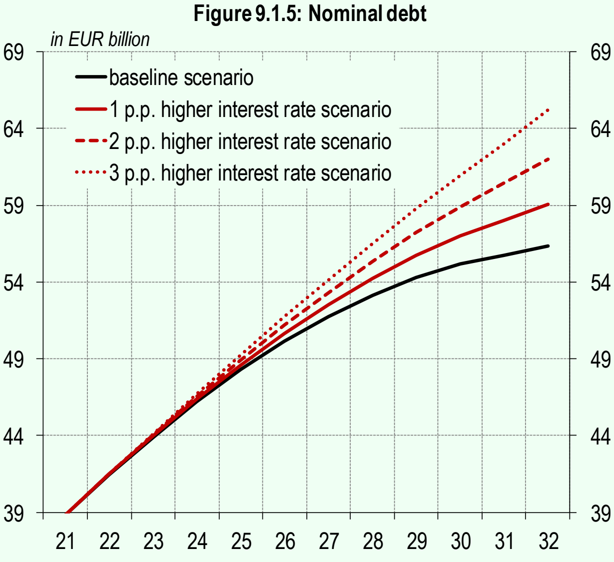


Source: SORS, Banka Slovenije calculations.

long as primary balance is negative, but the effect diminishes over time. If interest expenditure rise, then debt rises too. The ratio of debt to GDP begins to decline a year later under each scenario, as each has a higher assumption of interest rates (see Figure 9.1.4). Figure 9.1.5 illustrates the debt under various scenarios. At the same time it should be reiterated that the illustrated values are not Banka Slovenije forecasts, but merely the outcomes of technical scenarios.

Finally we should note that the size of the impact of higher borrowing rates on interest expenditure and government debt depends on the chosen assumptions, and the assessment in this analysis do not represent Banka Slovenije forecasts. The assumptions were determined by taking account of past experience and current data. The basic findings are not significantly different under slightly different assumptions, at least over the short term, most likely on account of the impact of the existing interest rate structure of debt falling due. It should nevertheless be borne in mind that the uncertainties in the international environment are currently very high, and the period covered by the analysis is relatively long. Additionally, in 2018 the Ministry of Finance embarked on a programme of hedging against a rise in interest rates that aims to limit the impact of a rise in interest rates on interest expenditure after 2027, which has not been taken into account in the simulations, as it is difficult to predict to what extent and in which years the ministry might use this instrument.

Figure 9.1.5: Nominal debt



Source: SORS, Banka Slovenije calculations.

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10 Statistical Appendix

The appendix cites a selection of statistics drawn up by the Banka Slovenije, 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 Banka Slovenije bulletin and on the statistics pages of the Banka Slovenije 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 Banka Slovenije bulletin.

BANKA SLOVENIJE
EVROSISTEM

Table 10.1: Consolidated balance sheet of monetary financial institutions

EUR million	2018	2019	2020	21Q2	21Q3	Dec.21	Jan.22	Feb.22
1.1. Claims of the Banka Slovenije	8,168	10,594	13,842	16,518	17,407	16,572	17,850	18,410
1.2. Claims of other MFIs	8,279	8,342	9,336	9,887	9,675	9,906	10,066	10,189
1. Claims on foreign sectors (foreign assets)	**16,447**	**18,936**	**23,179**	**26,406**	**27,082**	**26,477**	**27,916**	**28,599**
2.1. Claims of the Banka Slovenije on central government	7,165	7,719	11,805	13,268	14,332	14,460	14,546	14,391
2.2.1.1. Loans	1,174	1,048	918	841	783	796	790	777
2.2.1.2. Securities	3,763	3,648	3,602	3,769	3,399	2,742	2,868	2,903
2.2.1. Claims on central government	4,937	4,696	4,520	4,610	4,183	3,538	3,658	3,680
2.2.2.1. Loans	580	602	639	621	627	693	706	698
2.2.2.2. Securities	-	-	-	-	-	-	-	-
2.2.2. Claims on other general government	580	602	639	621	627	693	706	698
2.2. Claims of other MFIs on general government	5,517	5,297	5,159	5,230	4,810	4,230	4,364	4,378
2.3.1.1. Loans	9,177	9,290	9,094	9,251	9,273	9,571	9,843	9,957
2.3.1.2. Securities	319	298	270	246	238	257	269	266
2.3.1. Claims on nonfinancial corporations	9,497	9,587	9,364	9,497	9,511	9,828	10,113	10,223
2.3.2. Households and non-profit institutions serving households	10,370	10,981	10,997	11,137	11,365	11,556	11,583	11,638
2.3.3.1. Loans	1,070	1,248	1,213	1,285	1,301	1,374	1,388	1,408
2.3.3.2. Securities	432	412	428	421	425	228	228	229
2.3.3. Claims on nonmonetary financial institutions	1,502	1,661	1,640	1,706	1,726	1,602	1,616	1,637
2.3. Claims of other MFIs on other non-MFIs	21,369	22,229	22,002	22,341	22,603	22,986	23,311	23,498
2. Claims on domestic non-MFIs	**34,050**	**35,245**	**38,965**	**40,839**	**41,745**	**41,677**	**42,221**	**42,268**
3. Remaining assets	**1,477**	**1,660**	**1,613**	**1,494**	**1,450**	**1,501**	**1,506**	**1,554**
Total assets	**51,974**	**55,842**	**63,757**	**68,739**	**70,278**	**69,655**	**71,643**	**72,420**
1.1. Banka Slovenije	63	134	51	611	638	731	705	654
1.2. Other MFIs	3,986	4,342	4,412	4,653	4,220	4,120	4,356	4,355
1. Obligations to foreign sectors (foreign liabilities)	**4,049**	**4,476**	**4,463**	**5,264**	**4,858**	**4,852**	**5,061**	**5,009**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,655	5,847	6,473	6,685	6,795	6,970	6,948	6,986
2.1.1.2. Overnight deposits at other MFIs	19,877	21,699	25,622	27,796	28,509	29,555	29,586	29,776
2.1.1.3.1. Non-monetary financial institutions	76	296	327	370	372	403	338	411
2.1.1.3.2. Other government sector	100	111	170	306	313	284	295	293
2.1.1.3. Overnight deposits at the Banka Slovenije	176	407	497	677	685	687	633	704
2.1.1. Banknotes and coins and overnight liabilities	25,708	27,953	32,593	35,158	35,989	37,212	37,167	37,466
2.1.2.1. Deposits at the Banka Slovenije	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	5,727	5,697	5,107	4,568	4,214	3,955	3,820	3,796
2.1.2. Time deposits	5,727	5,697	5,107	4,568	4,214	3,955	3,820	3,796
2.1.3. Deposits reedemable at notice up to 3 months	492	541	524	470	407	370	383	363
2.1. Banknotes and coins and deposits up to 2 years	31,927	34,190	38,224	40,195	40,610	41,537	41,371	41,626
2.2. Debt securities, units/shares of money market funds and repos	78	55	70	56	56	54	60	73
2. Banknotes and coins and instruments up to 2 years	**32,006**	**34,246**	**38,294**	**40,251**	**40,666**	**41,591**	**41,430**	**41,699**
3. Long-tern financial obligations to non-MFIs	**1,314**	**1,285**	**1,256**	**1,266**	**1,330**	**1,358**	**1,325**	**1,300**
4. Remaining liabilities	**15,675**	**17,232**	**21,171**	**23,381**	**24,889**	**23,374**	**24,596**	**25,187**
5. Excess of inter-MFI liabilities	**-1,069**	**-1,396**	**-1,428**	**-1,423**	**-1,465**	**-1,521**	**-770**	**-774**
Total liabilities	**51,974**	**55,842**	**63,757**	**68,739**	**70,278**	**69,655**	**71,643**	**72,420**

Table 10.2: Balance sheet of the Banka Slovenje

EUR million	**2018**	**2019**	**2020**	**21Q2**	**21Q3**	**Dec.21**	**Jan.22**	**Feb.22**
1.1. Gold	115	138	158	151	152	165	164	174
1.2. Receivable form IMF	372	381	405	413	1,103	1,192	1,203	1,201
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	1,464	3,661	6,952	9,965	10,344	9,451	10,954	11,524
1.5. Securities	6,114	6,271	6,103	5,678	5,476	5,393	5,100	5,063
1.6. Other claims	103	142	225	311	332	371	428	447
1. Claims on foreign sectors (foreign assets)	**8,168**	**10,594**	**13,842**	**16,518**	**17,407**	**16,572**	**17,850**	**18,410**
2.1. Claims on central government	7,165	7,719	11,805	13,268	14,332	14,460	14,546	14,391
2.2.1. Loans	1,102	995	1,385	2,485	2,343	2,363	2,363	2,363
2.2.2. Other claims	3	51	85	95	95	125	133	146
2.2. Claims on domestic monetary sector	1,105	1,046	1,470	2,580	2,439	2,489	2,496	2,509
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**8,271**	**8,767**	**13,277**	**15,850**	**16,773**	**16,951**	**17,044**	**16,902**
3. Remaining assets	**314**	**396**	**347**	**331**	**346**	**355**	**349**	**363**
Total assets	**16,753**	**19,757**	**27,467**	**32,699**	**34,525**	**33,878**	**35,242**	**35,675**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,655**	**5,847**	**6,473**	**6,685**	**6,795**	**6,970**	**6,948**	**6,986**
2.1.1.1.1. Overnight	3,391	4,348	7,097	9,159	9,309	9,890	9,707	9,331
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	3,391	4,348	7,097	9,159	9,309	9,890	9,707	9,331
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	3,391	4,348	7,097	9,159	9,309	9,890	9,707	9,331
2.1.2.1.1. Overnight	3,704	3,120	5,407	7,240	7,736	6,086	7,899	8,947
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	3,704	3,120	5,407	7,240	7,736	6,086	7,899	8,947
2.1.2.2. Foreign currency	5	6	6	6	6	6	8	8
2.1.2. General government	3,708	3,126	5,413	7,246	7,742	6,092	7,907	8,955
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	76	296	327	370	372	403	338	411
2.1.3. Other domestic sectors	76	296	327	370	372	403	338	411
2.1. Domestic sectors	7,176	7,770	12,838	16,775	17,423	16,386	17,952	18,698
2.2. Foreign sectors	63	134	51	611	638	731	705	654
2. Deposits	**7,238**	**7,904**	**12,888**	**17,387**	**18,061**	**17,117**	**18,658**	**19,352**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**262**	**266**	**254**	**259**	**947**	**962**	**971**	**969**
5. Capital and reserves	**1,945**	**2,763**	**3,388**	**2,976**	**2,930**	**2,778**	**2,478**	**2,038**
6. Remaining liabilities	**1,653**	**2,976**	**4,462**	**5,393**	**5,792**	**6,051**	**6,188**	**6,331**
Total liabilities	**16,753**	**19,757**	**27,467**	**32,699**	**34,525**	**33,878**	**35,242**	**35,675**

Table 10.3: Balance sheet of other monetary financial institutions								
EUR million	**2018**	**2019**	**2020**	**21Q2**	**21Q3**	**Dec.21**	**Jan.22**	**Feb.22**
1.1.1. Cash	425	432	455	459	492	479	453	455
1.1.2. Accounts and deposits at the Banka Slovenije, other cl	3,391	4,348	7,097	9,159	9,309	9,890	9,707	9,331
1.1.3. Securities of the Banka Slovenije	-	-	-	-	-	-	-	-
1.1. Claims on Banka Slovenije	3,817	4,780	7,552	9,618	9,802	10,369	10,161	9,786
1.2.1. Loans	865	788	729	672	648	541	547	535
1.2.2. Debt securities	18	94	135	171	171	170	165	177
1.2.3. Shares and other equity	1	0	8	8	7	6	5	4
1.2. Claims on other MFI's	883	882	872	850	826	717	717	716
1.3.1. Loans	22,371	23,168	22,861	23,135	23,351	23,989	24,310	24,478
1.3.2. Debt securities	3,797	3,674	3,607	3,740	3,379	2,732	2,870	2,906
1.3.3. Shares and other equity	717	683	693	697	684	495	496	493
1.3. Claims on nonmonetry sectors	26,885	27,526	27,160	27,571	27,413	27,216	27,675	27,876
1. Claims on domestic sectors (domestic assets)	**31,585**	**33,187**	**35,585**	**38,039**	**38,040**	**38,302**	**38,553**	**38,378**
2.1.1. Cash	35	40	43	44	36	35	35	33
2.1.2. Loans	1,681	1,640	1,836	2,035	1,881	1,869	1,834	1,780
2.1.3. Debt securities	1,311	1,312	1,567	1,669	1,686	1,689	1,668	1,598
2.1.4 Shares and other equity	578	578	973	998	998	998	1,274	1,284
2.1. Claims on foreign monetary sectors	3,605	3,570	4,419	4,746	4,601	4,590	4,811	4,695
2.2.1. Loans	1,023	1,103	1,392	1,493	1,490	1,653	1,617	1,623
2.2.2. Debt securities	3,346	3,364	3,257	3,374	3,310	3,385	3,485	3,719
2.2.3. Shares and other equity	305	305	268	275	275	277	152	151
2.2. Claims on foreign nonmonetary sectors	4,674	4,772	4,917	5,141	5,075	5,315	5,255	5,494
2. Claims on foreign sectors (foreign assets)	**8,279**	**8,342**	**9,336**	**9,887**	**9,675**	**9,906**	**10,066**	**10,189**
3. Remaining assets	**762**	**1,136**	**1,239**	**1,209**	**1,149**	**1,202**	**511**	**563**
Total assets	**40,626**	**42,666**	**46,161**	**49,136**	**48,865**	**49,409**	**49,130**	**49,130**
1.1.1. Deposits, loans from the Banka Slovenije	1,102	995	1,385	2,485	2,343	2,363	2,363	2,363
1.1.2. Deposits, loans from other MFIs	931	917	856	849	834	727	731	755
1.1.3. Debt securities issued	-	16	15	51	51	51	51	51
1.1. Laibilities to monetary sectors	2,033	1,928	2,256	3,385	3,228	3,141	3,146	3,170
1.2.1.1. Overnight	19,396	21,191	25,120	27,220	27,855	29,011	29,033	29,085
1.2.1.2. With agreed maturity	7,477	7,418	6,637	6,037	5,758	5,631	5,432	5,377
1.2.1.3. Reedemable at notice	561	622	610	545	485	442	468	460
1.2.1. Deposits in domestic currency	27,434	29,232	32,368	33,802	34,099	35,084	34,934	34,922
1.2.2. Deposits in foreign currency	626	613	682	746	771	805	804	826
1.2.3. Debt securities issued	15	68	55	74	74	74	75	75
1.2. Liabilities to nonmonetary sectors	28,075	29,913	33,104	34,623	34,944	35,964	35,813	35,823
1. Obligations to domestic sectors (domestic liabilities)	**30,108**	**31,840**	**35,360**	**38,008**	**38,171**	**39,105**	**38,958**	**38,993**
2.1.1. Deposits	1,550	1,282	1,535	1,578	1,205	1,059	988	715
2.1.2. Debt securities issued	111	428	897	923	923	971	1,278	1,275
2.1. Liabilities to foreign monetry sectors	1,660	1,710	2,432	2,501	2,127	2,030	2,266	1,990
2.2.1. Deposits	1,693	1,910	1,261	1,388	1,329	1,327	1,325	1,600
2.2.2. Debt securities issued	22	85	84	127	127	127	128	128
2.2. Liabilities to foreign nonmonetary sectors	1,715	1,994	1,344	1,515	1,456	1,453	1,453	1,729
2. Obligations to foreign sectors (foreign liabilities)	**3,375**	**3,704**	**3,777**	**4,016**	**3,583**	**3,484**	**3,719**	**3,719**
3. Capital and reserves	**4,886**	**5,097**	**4,946**	**5,094**	**5,178**	**5,169**	**5,855**	**5,841**
4. Remaining liabilities	**2,256**	**2,024**	**2,078**	**2,018**	**1,933**	**1,651**	**597**	**577**
Total liabilities	**40,626**	**42,666**	**46,161**	**49,136**	**48,865**	**49,409**	**49,130**	**49,130**

Table 10.4: Interest rates of new loans and deposits in domestic currency to households and nonfinancial corporations

in % on annual level	2017	2018	2019	2020	Nov.21	Dec.21	Jan.22
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	7.85	7.81	7.77	7.74	7.77	7.78	7.75
Households, extended credit	7.75	7.63	7.52	7.83	7.67	7.69	7.69
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.44	4.65	4.60	4.47	4.61	4.69	4.74
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.92	6.04	6.03	5.89	5.98	6.02	5.96
Loans, households, consumption, over 5 years initial rate fixation	6.20	6.29	6.27	5.98	5.88	5.98	6.00
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.69	3.74	3.26	3.45	3.60	3.70	3.83
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	4.89	5.11	4.37	5.00	5.78	5.67	5.59
C. loans, households, consumption, over 5 year initial rate fixation	5.19	5.06	5.34	5.05	3.83	4.19	4.43
APRC, Loans to households for consumption	7.73	7.64	7.88	7.15	7.54	7.70	7.66
Loans, households, house purchase, floating and up to 1 year initial rate fixation	1.99	1.89	1.81	1.76	1.53	1.59	1.49
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.75	3.22	3.15	2.39	1.73	1.77	1.66
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.65	2.74	2.50	2.00	1.67	1.69	1.66
Loans, households, house purchase, over 10 years initial rate fixation	2.91	2.95	2.70	2.20	1.74	1.73	1.70
C. loans, households, house purchase variabel and up to years initial rate fixation	1.99	1.87	1.84	1.77	1.56	1.59	1.55
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.38	3.01	2.48	2.42	1.72	1.75	1.40
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.34	2.56	2.28	1.85	1.58	1.62	1.64
C. loans, households, house purchase, over 10 years initial rate fixation	2.85	2.89	2.69	2.21	1.74	1.73	1.70
APRC, Loans to households for house purchase	2.77	2.75	2.52	2.36	2.01	2.01	1.97
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.58	3.68	3.82	3.69	4.16	3.44	3.95
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.30	4.78	4.85	4.39	3.53	3.25	4.39
Loans, households, other purposes, over 5 years initial rate fixation	5.35	6.73	6.38	2.94	4.72	4.03	4.33
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	2.41	2.22	2.23	2.26	1.91	1.94	1.79
S.11, extended credit	-	-	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	2.69	2.32	2.30	2.50	2.19	1.95	2.36
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	2.89	2.50	2.68	2.60	2.33	2.20	2.30
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	3.98	3.72	3.91	3.79	3.33	2.85	2.79
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	4.03	4.24	4.70	4.39	3.82	3.10	3.29
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	3.51	4.16	5.18	4.18	3.16	3.17	3.03
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	2.22	4.25	3.84	3.18	1.10	2.06	1.31
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	1.89	2.04	1.91	1.82	1.74	1.56	1.60
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.09	2.09	1.98	2.40	2.20	2.13	2.04
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	1.94	1.87	1.81	2.17	2.24	1.24	1.36
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	-	1.31	1.31	1.60	1.45	0.69	2.19
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	2.57	1.74	1.81	3.09	1.72	1.69	2.21
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	-	-	2.62	-	2.10	1.71
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.23	1.85	1.10	1.42	1.11	1.32	1.64
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.58	1.76	2.81	2.21	1.82	1.68	1.84
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	-	0.75	0.89	0.18	0.10	1.43	1.56
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	1.15	-	0.84	1.56	-	0.65	1.34
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	-	1.47	1.77	1.72	1.19	0.98	0.77
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	1.88	2.04	2.20	3.03	1.76	1.55	1.76
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.01	0.01	0.01	0.01	0.00	0.00	0.00
Deposits, households, agreed maturity up to 1 year	0.14	0.17	0.18	0.13	0.15	0.05	0.04
Deposits, households, agreed maturity over 1 and up to 2 years	0.51	0.54	0.29	0.21	0.18	0.19	0.17
Deposits, households, agreed maturity over 2 years	0.69	0.89	0.65	0.61	0.28	0.33	0.38
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.04	0.00	0.01	0.00	0.01	-0.14	0.01
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.12	0.19	0.09	0.06	0.03	0.02	0.01
Deposits, S.11, agreed maturity over 2 years	0.26	0.19	0.32	0.14	0.07	0.09	0.07
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.00	0.00	0.00	-0.06	-0.31	-0.35	-0.37
Deposits redeemable at notice, over 3 months notice	0.52	0.89	0.93	0.08	0.62	0.67	0.85

Table 10.5: International investment position

EUR million		2018	2019	2020	21Q1	21Q2	21Q3	21Q4
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-8,689**	**-7,714**	**-7,110**	**-4,229**	**-3,738**	**-4,727**	**-3,696**
1	**ASSETS**	**49,355**	**56,014**	**62,450**	**66,449**	**66,874**	**68,316**	**68,147**
1.1	**Direct investment**	**8,825**	**10,256**	**10,534**	**10,853**	**10,921**	**11,224**	**11,632**
1.1.1	Equity	4,754	5,594	5,911	5,999	6,068	6,165	6,368
1.1.2	Debt instruments	4,071	4,662	4,623	4,854	4,853	5,058	5,265
1.2	**Portfolio investment**	**20,618**	**22,449**	**23,607**	**24,315**	**24,559**	**24,408**	**25,043**
1.2.1	Equity and investment fund shares	4,849	5,723	6,373	7,046	7,469	7,701	8,304
1.2.2	Debt securities	15,769	16,725	17,234	17,269	17,090	16,707	16,739
1.3	**Financial derivatives**	**384**	**562**	**675**	**602**	**576**	**574**	**576**
1.4	**Other investment**	**18,712**	**21,843**	**26,564**	**29,575**	**29,696**	**30,255**	**28,893**
1.4.1	Other equity	1,336	1,378	1,381	1,328	1,329	1,330	1,333
1.4.2	Currency and deposits	7,844	10,633	15,359	17,572	17,440	17,671	16,187
1.4.3	Loans	2,593	2,936	3,270	3,426	3,420	3,398	3,621
1.4.4	Insurance, pension and standardized guarantee schemes	141	155	159	164	166	178	178
1.4.5	Trade credit and advances	5,206	5,212	4,921	5,611	5,821	6,063	5,992
1.4.6	Other accounts receivable	1,593	1,528	1,474	1,473	1,520	1,615	1,581
1.5	**Reserve assets**	**816**	**905**	**1,071**	**1,103**	**1,121**	**1,855**	**2,002**
1.5.1	Monetary gold	115	138	158	147	151	152	165
1.5.2	Special drawing rights	242	246	235	241	239	927	998
1.5.3	Reserve position in the IMF	131	136	171	175	174	176	194
1.5.4	Other reserve assets	329	385	508	540	557	600	646
2	**LIABILITIES**	**58,044**	**63,728**	**69,560**	**70,678**	**70,612**	**73,043**	**71,842**
2.1	**Direct investment**	**17,972**	**19,595**	**20,147**	**20,674**	**21,284**	**21,978**	**21,921**
2.1.1	Equity	13,905	15,023	15,653	15,965	15,844	16,132	16,245
2.1.2	Debt instruments	4,067	4,572	4,494	4,709	5,441	5,846	5,676
2.2	**Portfolio investment**	**20,867**	**21,799**	**24,876**	**25,232**	**23,741**	**24,280**	**22,590**
2.2.1	Equity and investment fund shares	1,751	2,012	1,891	1,921	2,198	2,381	2,525
2.2.2	Debt securities	19,116	19,787	22,985	23,312	21,543	21,898	20,065
2.3	**Financial derivatives**	**206**	**2,374**	**4,182**	**2,466**	**2,499**	**2,581**	**2,569**
2.4	**Other investment**	**18,999**	**19,961**	**20,355**	**22,306**	**23,088**	**24,204**	**24,763**
2.4.1	Other equity	44	42	43	45	25	23	27
2.4.2	Currency and deposits	3,226	4,244	5,029	5,828	6,737	7,102	7,388
2.4.3	Loans	10,025	9,840	9,423	10,182	9,786	9,444	9,248
2.4.4	Insurance, pension and standardized guarantee schemes	228	263	357	429	456	468	468
2.4.5	Trade credit and advances	4,602	4,625	4,471	4,686	4,957	5,171	5,792
2.4.6	Other accounts payable	612	680	779	875	869	1,047	878
2.4.7	Special drawing rights	262	266	254	261	259	947	962

Table 10.6: Gross external debt

EUR million	2018	2019	2020	21Q2	21Q3	21Q4	jan.22
TOTAL (1+2+3+4+5)	**42,139**	**44,277**	**47,792**	**50,046**	**51,925**	**50,477**	**51,683**
1 GENERAL GOVERNMENT	**21,094**	**21,687**	**24,964**	**24,353**	**24,959**	**22,883**	**23,983**
1.1 Short-term, of that	**732**	**832**	**1,100**	**1,241**	**1,464**	**1,065**	**1,155**
Debt securities	85	19	18	205	211	22	107
Loans	336	510	614	495	502	464	435
Trade credit and advances	35	34	36	49	79	45	51
Other debt liabilities	276	268	433	491	672	535	562
1.2 Long-term, of that	**20,362**	**20,855**	**23,864**	**23,112**	**23,495**	**21,818**	**22,828**
Debt securities	18,602	19,171	22,021	20,397	20,753	19,072	20,085
Loans	1,758	1,681	1,839	2,712	2,710	2,728	2,728
2 CENTRAL BANK	**2,661**	**3,828**	**4,638**	**6,118**	**7,240**	**7,606**	**7,707**
2.1 Short-term, of that	**2,399**	**3,562**	**4,384**	**5,859**	**6,293**	**6,644**	**6,736**
Currency and deposits	2,399	3,562	4,384	5,851	6,293	6,640	6,732
2.2 Long-term, of that	**262**	**266**	**254**	**259**	**947**	**962**	**971**
Special drawing rights (allocations)	262	266	254	259	947	962	971
3 DEPOSIT TAKING CORPORATIONS, except the Central Bank	**3,344**	**3,544**	**3,511**	**3,749**	**3,306**	**3,178**	**3,363**
3.1 Short-term	**927**	**946**	**894**	**1,132**	**1,035**	**1,067**	**999**
Currency and deposits	669	601	618	864	791	731	745
Debt securities	...	...	...	...	...	...	...
Loans	251	310	235	223	206	295	216
Trade credit and advances	...	...	...	...	...	...	...
Other debt liabilities	7	35	41	45	38	41	37
3.2 Long-term	**2,418**	**2,598**	**2,617**	**2,617**	**2,271**	**2,112**	**2,364**
Currency and deposits	159	82	27	22	19	17	17
Debt securities	88	316	672	738	738	775	1,030
Loans	2,162	2,196	1,911	1,854	1,512	1,313	1,313
Trade credit and advances	7	4	6	2	1	5	2
Other debt liabilities	1	1	1	2	2	2	2
4 OTHER SECTORS	**10,973**	**10,646**	**10,184**	**10,386**	**10,574**	**11,134**	**10,941**
4.1 Short-term, of that	**5,182**	**5,303**	**4,997**	**5,802**	**5,971**	**6,557**	**6,292**
Debt securities	1	2	...	...	...	...	...
Loans	375	446	384	691	708	650	647
Trade credit and advances	4,540	4,567	4,399	4,878	5,041	5,707	5,443
Other debt liabilities	267	288	213	233	223	200	202
4.2 Long-term, of that	**5,791**	**5,343**	**5,188**	**4,584**	**4,603**	**4,577**	**4,650**
Debt securities	340	279	275	202	197	196	196
Loans	5,145	4,698	4,439	3,810	3,806	3,798	3,873
Trade credit and advances	17	16	26	26	28	25	25
Other debt liabilities	289	350	448	546	573	557	555
5 DIRECT INVESTMENT: intercompany lending	**4,067**	**4,572**	**4,494**	**5,441**	**5,846**	**5,676**	**5,689**
NET EXTERNAL DEBT POSITION	**4,107**	**1,564**	**-192**	**-1,174**	**-387**	**-819**	**-1,127**

Table 10.7: Balance of payments

EUR million	2018	2019	2020	21Q2	21Q3	21Q4	jan.22
I. Current account	**2,731**	**2,898**	**3,462**	**469**	**368**	**144**	**98**
1. Goods	**1,272**	**1,311**	**2,366**	**206**	**-43**	**-183**	**-44**
1.1. Export of goods	**30,808**	**32,013**	**29,656**	**8,783**	**8,506**	**9,797**	**3,067**
Export f.o.b.	30,858	33,548	32,925	9,807	9,696	10,588	3,495
Coverage adjustment	-309	-1,928	-3,742	-1,175	-1,364	-1,029	-461
Net export of goods under merchanting	238	367	444	145	168	233	33
Nonmonetary gold	21	25	28	6	5	4	0
1.2. Import of goods	**29,535**	**30,702**	**27,290**	**8,577**	**8,549**	**9,980**	**3,111**
Import c.i.f.	30,706	34,082	32,111	10,236	10,639	12,334	3,918
Coverage adjustment	-363	-2,521	-4,128	-1,454	-1,880	-2,138	-717
Valuation adjustment	-853	-886	-786	-246	-246	-287	-90
Nonmonetary gold	45	27	92	42	37	72	0
2. Services	**2,624**	**2,907**	**1,996**	**498**	**707**	**692**	**173**
2.1. Export of services, of that	**8,124**	**8,659**	**6,900**	**1,858**	**2,412**	**2,396**	**615**
Transport	2,431	2,512	2,330	652	653	765	233
Travel	2,704	2,843	1,200	246	757	379	117
Construction services	497	592	650	186	205	204	48
Telecomm., computer and inform. services	540	631	659	167	215	216	53
Other business services	1,368	1,451	1,440	417	411	632	107
2.2. Import of services, of that	**5,500**	**5,751**	**4,904**	**1,361**	**1,705**	**1,704**	**442**
Transport	1,107	1,185	1,128	365	382	465	134
Travel	1,483	1,500	718	174	486	174	67
Construction services	177	200	220	70	71	69	19
Telecomm., computer and inform. services	546	606	610	156	174	198	45
Other business services	1,467	1,525	1,528	404	427	569	112
3. Primary income	**-769**	**-811**	**-426**	**-132**	**-203**	**-237**	**15**
3.1. Receipts	**1,633**	**1,758**	**1,645**	**468**	**394**	**427**	**216**
Compensation of employees	486	536	493	156	137	145	42
Investment	802	845	713	188	185	186	59
Other primary income	345	378	439	124	71	96	114
3.2. Expenditure	**2,401**	**2,569**	**2,071**	**600**	**596**	**664**	**201**
Compensation of employees	173	195	169	53	53	45	15
Investment	2,024	2,164	1,710	496	492	520	150
Other primary income	204	211	192	50	51	98	36
4. Secondary income	**-396**	**-509**	**-473**	**-103**	**-93**	**-128**	**-46**
4.1. Receipts	**873**	**934**	**972**	**318**	**265**	**277**	**94**
4.2. Expenditure	**1,270**	**1,443**	**1,445**	**420**	**358**	**405**	**140**

Table 10.8: Balance of payments, continued

EUR million	2018	2019	2020	21Q2	21Q3	21Q4	jan.22
II. Capital account	**-203**	**-187**	**-226**	**-11**	**95**	**-193**	**6**
1. Nonproduced nofinancial assets	-24	-24	-63	19	56	-111	31
2. Capital transfers	-178	-163	-163	-29	39	-82	-25
III. Financial account	**2,548**	**2,094**	**3,052**	**453**	**-47**	**259**	**466**
1. Direct investment	**-934**	**-762**	**266**	**-520**	**-269**	**468**	**-59**
Assets	373	1,157	697	81	269	408	111
Equity and reinvested earnings	443	676	578	69	98	202	21
Debt instruments	-70	482	119	12	171	206	90
Liabilities	1,307	1,919	431	600	538	-60	170
Equity and reinvested earnings	1,088	1,697	585	-140	277	113	155
Debt instruments	220	223	-154	740	261	-174	15
2. Portfolio investment	**744**	**734**	**-1,826**	**1,630**	**38**	**1,677**	**-1,627**
Assets	492	696	877	-64	-9	341	-197
Equity and investment fund shares	117	-3	456	132	196	192	51
Debt securities	375	699	421	-196	-205	149	-248
Liabilities	-252	-38	2,704	-1,694	-47	-1,336	1,430
Equity and investment fund shares	543	83	-6	0	-5	5	-3
Debt securities	-795	-121	2,709	-1,694	-42	-1,341	1,433
3. Financial derivatives	**-81**	**-163**	**53**	**10**	**-21**	**5**	**2**
4. Other investment	**2,767**	**2,248**	**4,394**	**-675**	**-502**	**-1,988**	**2,086**
4.1. Assets	**2,054**	**3,250**	**4,856**	**115**	**384**	**-1,388**	**1,826**
Other equity	68	27	4	2	0	3	10
Currency and deposits	1,508	2,811	4,753	-132	213	-1,501	1,617
Loans	215	438	342	-10	-23	218	-88
Insurance, pension and stand. guar. schemes	-7	13	1	1	12	...	...
Trade credits and advances	303	29	-224	207	101	-75	334
Other assets	-33	-69	-20	47	81	-33	-48
4.2. Liabilities	**-713**	**1,002**	**462**	**791**	**886**	**600**	**-260**
Other equity	2	2	4	-42	1	3	0
Currency and deposits	-524	1,009	800	909	371	290	107
Loans	-491	-149	-409	-373	-403	-124	-118
Insurance, pension and stand. guar. schemes	20	27	55	27	8	...	...
Trade credits and advances	331	62	-134	275	66	596	-270
Other liabilities	-51	50	146	-5	169	-167	22
Special drawing reights (SDR)	0	0	0	0	675	0	0
5. Reserve assets	**52**	**37**	**166**	**7**	**707**	**97**	**64**
IV. Net errors and omissions	**20**	**-616**	**-184**	**-5**	**-510**	**308**	**362**

Table 10.9: Non-consolidated financial assets, outstanding amounts

EUR million	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector								
Total	207,512	222,276	238,096	245,444	256,019	261,778	266,379	269,539
Monetary gold and SDRs	356	385	404	392	387	390	1,079	1,163
Currency and deposits	51,976	57,381	69,447	71,797	78,991	81,100	82,246	80,967
Debt securities	29,251	30,731	33,664	35,193	35,731	36,328	36,931	36,594
Loans	36,350	37,693	37,805	37,546	38,065	38,308	38,773	40,001
Shares	19,566	20,206	19,162	20,406	21,396	22,460	22,937	23,867
Other equity	32,288	35,782	37,209	38,384	38,127	38,277	38,627	39,702
Investment fund shares/units	4,466	5,736	5,835	6,352	7,093	7,537	7,891	8,639
Insurance and pension schemes	8,073	8,705	8,868	9,025	9,161	9,341	9,438	9,585
Other	25,187	25,657	25,700	26,350	27,068	28,035	28,456	29,022
Non-financial corporations								
Total	47,289	49,357	50,425	51,300	52,849	53,973	55,150	57,071
Currency and deposits	7,523	7,736	8,827	9,156	9,751	9,382	9,713	10,115
Debt securities	112	111	130	131	126	127	138	392
Loans	5,494	6,054	6,203	5,935	6,012	6,106	6,304	6,575
Shares	2,325	2,304	2,134	2,214	2,229	2,263	2,303	2,298
Other equity	14,026	15,051	15,357	15,880	15,948	16,149	16,345	16,818
Investment fund shares/units	58	209	205	211	252	280	308	359
Insurance and pension schemes	442	453	500	459	471	465	454	417
Other	17,309	17,439	17,068	17,313	18,060	19,201	19,586	20,097
Monetary financial institutions								
Total	56,596	61,452	69,861	72,723	78,008	81,097	82,716	82,768
Monetary gold and SDRs	356	385	404	392	387	390	1,079	1,163
Currency and deposits	9,327	12,533	18,142	19,191	23,358	25,568	25,807	25,432
Debt securities	21,894	22,654	25,389	26,721	27,413	28,071	28,551	28,015
Loans	23,365	24,226	24,209	24,273	24,615	24,659	24,860	25,644
Shares	771	690	692	1,110	1,120	1,239	1,276	1,330
Other equity	383	408	421	412	426	415	403	412
Investment fund shares/units	3	48	102	131	193	221	246	285
Insurance and pension schemes	41	39	37	44	44	45	46	49
Other	456	468	466	449	452	488	446	438
Other financial institutions								
Total	18,414	20,165	20,249	20,892	21,674	22,195	22,674	23,651
Currency and deposits	1,188	1,342	1,254	1,214	1,316	1,357	1,395	1,481
Debt securities	6,601	7,223	7,446	7,622	7,501	7,475	7,562	7,534
Loans	2,865	2,731	2,632	2,592	2,583	2,643	2,696	2,808
Shares	3,684	4,057	3,845	4,085	4,456	4,706	4,784	5,088
Other equity	857	1,027	1,226	1,374	1,385	1,384	1,464	1,660
Investment fund shares/units	2,208	2,706	2,758	3,006	3,339	3,490	3,663	3,946
Insurance and pension schemes	204	219	249	233	246	249	258	251
Other	808	860	840	766	849	891	852	884
General government								
Total	31,907	33,517	36,837	37,457	38,734	37,627	38,176	36,522
Currency and deposits	8,481	8,227	11,378	11,194	12,557	11,570	11,956	10,125
Debt securities	421	509	497	515	505	512	506	505
Loans	3,398	3,415	3,369	3,349	3,441	3,370	3,362	3,412
Shares	9,677	9,935	9,181	9,465	9,805	10,308	10,483	10,857
Other equity	5,943	7,223	7,720	8,036	7,616	7,345	7,284	7,194
Investment fund shares/units	297	364	371	394	430	427	415	439
Insurance and pension schemes	23	26	27	19	4	5	5	6
Other	3,666	3,818	4,294	4,484	4,377	4,089	4,164	3,983
Households and NPISHs								
Total	53,306	57,786	60,724	63,073	64,755	66,887	67,662	69,528
Currency and deposits	25,457	27,543	29,846	31,042	32,010	33,224	33,376	33,814
Debt securities	222	234	203	205	187	143	174	148
Loans	1,227	1,267	1,391	1,396	1,414	1,531	1,550	1,561
Shares	3,109	3,220	3,310	3,532	3,787	3,945	4,091	4,294
Other equity	11,080	12,073	12,486	12,682	12,752	12,984	13,131	13,617
Investment fund shares/units	1,900	2,410	2,399	2,609	2,879	3,118	3,258	3,610
Insurance and pension schemes	7,363	7,968	8,056	8,269	8,396	8,577	8,675	8,863
Other	2,948	3,071	3,033	3,338	3,331	3,366	3,407	3,621
Rest of the world								
Total	58,567	64,513	70,232	70,475	71,505	71,682	74,076	73,210
Monetary gold and SDRs	263	267	260	254	261	259	947	962
Currency and deposits	5,650	6,760	6,992	7,190	7,964	8,831	8,833	9,034
Debt securities	19,516	20,148	23,466	23,316	23,468	21,804	22,130	20,350
Loans	10,345	10,235	10,149	10,071	10,889	11,122	11,525	11,309
Shares	6,428	7,031	6,877	7,119	7,322	7,806	8,054	8,248
Other equity	9,201	10,169	10,537	10,692	10,836	10,617	10,816	11,123
Investment fund shares/units	29	40	40	44	61	65	84	120
Insurance and pension schemes	228	263	366	357	429	456	468	424
Other	6,906	9,600	11,545	11,431	10,274	10,721	11,221	11,641

Table 10.10: Non-consolidated liabilities, outstanding amounts

EUR million	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector								
Total	217,001	230,933	247,269	253,516	260,836	266,161	271,435	273,398
Monetary gold and SDRs	263	267	260	254	261	259	947	962
Currency and deposits	48,450	52,161	59,753	62,316	67,810	70,704	71,565	71,872
Debt securities	32,629	33,837	39,940	40,983	41,639	40,900	42,034	39,617
Loans	41,871	42,546	42,443	41,901	43,018	43,658	44,387	45,097
Shares	22,332	23,161	21,913	22,673	23,491	24,642	25,209	25,898
Other equity	36,722	40,260	42,085	43,314	43,179	43,078	43,517	44,659
Investment fund shares/units	2,396	3,008	2,974	3,231	3,637	3,921	4,147	4,628
Insurance and pension schemes	8,161	8,813	9,075	9,223	9,425	9,632	9,728	9,825
Other	24,177	26,881	28,828	29,622	28,376	29,367	29,902	30,841
Non-financial corporations								
Total	86,942	89,560	89,985	90,926	92,353	94,141	95,548	98,199
Debt securities	977	732	716	693	683	619	643	671
Loans	22,646	22,521	22,382	21,755	21,957	22,475	22,947	23,269
Shares	13,139	13,394	13,301	13,596	13,970	14,620	14,811	15,106
Other equity	32,515	34,898	36,010	36,802	37,091	37,017	37,467	38,372
Other	17,664	18,015	17,576	18,081	18,652	19,410	19,681	20,782
Monetary financial institutions								
Total	55,284	60,634	68,475	71,405	76,708	79,959	81,739	81,946
Monetary gold and SDRs	263	267	260	254	261	259	947	962
Currency and deposits	47,534	51,274	58,920	61,477	67,041	69,837	70,771	70,998
Debt securities	148	600	1,067	1,050	1,051	1,182	1,192	1,253
Loans	218	236	262	269	273	283	287	349
Shares	4,744	4,936	4,146	4,334	4,502	4,815	5,073	5,129
Other equity	1,957	2,797	3,253	3,489	3,077	3,024	2,957	2,782
Investment fund shares/units	79	56	71	71	54	57	56	55
Other	340	468	496	461	450	501	455	417
Other financial institutions								
Total	17,801	19,647	19,497	20,066	20,899	21,512	21,953	23,081
Debt securities	113	232	198	193	195	145	146	142
Loans	2,558	2,590	2,446	2,420	2,396	2,483	2,527	2,563
Shares	2,682	2,911	2,464	2,656	2,794	2,853	2,897	3,082
Other equity	1,511	1,676	1,924	2,059	2,062	2,075	2,125	2,427
Investment fund shares/units	2,317	2,952	2,903	3,160	3,583	3,864	4,090	4,573
Insurance and pension schemes	8,161	8,813	9,075	9,214	9,416	9,623	9,719	9,816
Other	459	472	487	364	452	469	450	478
General government								
Total	42,786	46,315	54,478	56,328	56,033	55,492	56,722	54,480
Currency and deposits	916	887	833	839	769	867	793	873
Debt securities	31,390	32,272	37,958	39,047	39,711	38,954	40,054	37,552
Loans	4,091	4,195	4,300	4,400	5,285	5,149	5,077	5,146
Shares	1,767	1,920	2,001	2,087	2,225	2,354	2,429	2,580
Other equity	738	888	898	964	950	962	968	1,078
Other	3,884	6,153	8,488	8,990	7,093	7,206	7,400	7,251
Households and NPISHs								
Total	14,187	14,777	14,834	14,792	14,843	15,058	15,474	15,693
Loans	12,358	13,004	13,053	13,057	13,106	13,268	13,549	13,770
Other	1,829	1,773	1,782	1,735	1,737	1,789	1,925	1,923
Rest of the world								
Total	49,078	55,855	61,058	62,402	66,688	67,300	69,019	69,351
Monetary gold and SDRs	356	384	403	392	387	390	1,078	1,162
Currency and deposits	9,176	11,981	16,686	16,671	19,145	19,227	19,514	18,129
Debt securities	16,138	17,042	17,191	17,527	17,560	17,232	17,027	17,326
Loans	4,823	5,382	5,511	5,716	5,937	5,772	5,911	6,213
Shares	3,663	4,076	4,126	4,852	5,228	5,624	5,782	6,218
Other equity	4,767	5,692	5,661	5,762	5,784	5,817	5,925	6,166
Investment fund shares/units	2,099	2,768	2,901	3,165	3,517	3,682	3,828	4,131
Insurance and pension schemes	141	155	160	159	164	166	178	184
Other	7,916	8,376	8,417	8,159	8,966	9,389	9,775	9,822

Table 10.11: Net financial assets

EUR million	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector	-9,488	-8,657	-9,174	-8,072	-4,817	-4,382	-5,057	-3,859
Non-financial corporations	-39,654	-40,204	-39,560	-39,626	-39,504	-40,167	-40,398	-41,128
Monetary financial institutions	1,312	818	1,387	1,318	1,299	1,138	977	822
Other financial institutions	613	518	751	826	775	683	722	571
General government	-10,879	-12,798	-17,641	-18,871	-17,299	-17,865	-18,546	-17,958
Households and NPISHs	39,119	43,010	45,889	48,281	49,912	51,830	52,189	53,835
Rest of the world	9,489	8,657	9,174	8,073	4,817	4,383	5,057	3,859

Table 10.12: Non-consolidated transactions in financial assets, four quarter moving sum of flows

EUR million	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector								
Total	7,755	8,116	19,293	21,095	26,144	21,380	23,630	19,821
Monetary gold and SDRs	1	1	0	0	0	0	675	733
Currency and deposits	5,159	5,347	15,405	14,503	17,710	11,528	12,781	9,077
Debt securities	1,032	608	2,710	3,823	5,518	4,715	3,822	2,564
Loans	829	1,993	706	198	-399	443	967	2,473
Shares	-863	-712	249	714	839	857	870	431
Other equity	572	635	374	632	615	571	690	749
Investment fund shares/units	101	216	339	477	738	828	903	1,043
Insurance and pension schemes	165	305	285	232	273	276	276	347
Other	759	-278	-775	518	850	2,163	2,646	2,405
Non-financial corporations								
Total	1,445	1,099	986	1,773	2,353	3,352	3,836	4,823
Currency and deposits	425	229	1,016	1,419	1,687	965	898	943
Debt securities	21	-14	-6	1	-3	11	13	267
Loans	47	612	320	-33	57	-202	49	600
Shares	41	-179	104	87	90	71	86	61
Other equity	285	533	344	314	309	291	461	436
Investment fund shares/units	1	-31	-20	20	35	42	36	52
Insurance and pension schemes	-8	8	33	17	-28	-49	-56	-52
Other	632	-59	-804	-52	205	2,224	2,348	2,515
Monetary financial institutions								
Total	2,522	4,354	11,928	11,220	15,250	12,436	13,211	10,751
Monetary gold and SDRs	1	1	0	0	0	0	675	733
Currency and deposits	1,251	3,195	9,080	6,693	9,750	6,892	7,658	6,203
Debt securities	837	131	2,351	3,568	5,194	4,500	3,667	2,261
Loans	528	1,131	165	131	-19	504	693	1,444
Shares	-13	-71	397	826	394	455	456	9
Other equity	23	-31	9	2	13	-6	-22	-1
Investment fund shares/units	1	40	61	70	97	98	103	105
Insurance and pension schemes	1	-2	-4	5	6	7	10	5
Other	-107	-40	-130	-75	-182	-16	-29	-8
Other financial institutions								
Total	273	524	598	452	739	891	979	1,341
Currency and deposits	36	131	-103	-102	-82	49	121	274
Debt securities	137	415	352	259	332	206	138	48
Loans	38	-32	-38	-95	-73	7	33	167
Shares	-8	-210	194	184	234	213	210	244
Other equity	9	42	57	69	64	48	40	44
Investment fund shares/units	36	124	167	224	361	377	421	448
Insurance and pension schemes	4	16	25	14	-17	-8	15	22
Other	19	37	-56	-101	-80	-2	1	95
General government								
Total	975	-447	2,382	3,097	2,800	-370	613	-1,446
Currency and deposits	1,733	-287	2,588	2,984	2,617	-249	574	-1,094
Debt securities	13	88	22	10	13	25	19	3
Loans	18	220	84	47	-537	3	68	132
Shares	-929	-194	-466	-442	9	15	6	-10
Other equity	19	38	1	-1	1	-11	-13	-12
Investment fund shares/units	16	3	-6	13	6	-9	-29	-27
Insurance and pension schemes	-2	2	-4	-5	-1	-1	-2	1
Other	108	-317	164	491	693	-143	-8	-439
Households and NPISHs								
Total	2,540	2,585	3,398	4,554	5,001	5,071	4,991	4,352
Currency and deposits	1,713	2,080	2,825	3,508	3,738	3,871	3,530	2,750
Debt securities	23	-11	-9	-15	-18	-27	-15	-15
Loans	198	61	175	147	174	130	124	129
Shares	46	-59	21	59	112	103	112	127
Other equity	236	53	-36	248	228	248	224	282
Investment fund shares/units	47	79	136	149	239	320	372	465
Insurance and pension schemes	170	280	236	201	313	326	309	371
Other	106	101	51	256	215	100	335	242
Rest of the world								
Total	511	2,372	4,122	3,409	4,638	2,184	4,603	4,132
Monetary gold and SDRs	0	0	0	0	0	0	675	675
Currency and deposits	-647	1,095	822	447	1,099	1,690	1,842	1,843
Debt securities	-583	-522	2,834	2,508	1,738	-1,935	-1,129	-1,600
Loans	-242	-242	-625	-238	533	612	1,271	1,086
Shares	860	843	78	85	142	140	187	110
Other equity	781	831	727	560	622	335	410	370
Investment fund shares/units	0	0	1	2	12	15	12	22
Insurance and pension schemes	20	27	30	55	46	54	56	21
Other	321	341	256	-10	446	1,273	1,279	1,604

Table 10.13: Non-consolidated transactions in liabilities, four quarter moving sum of flows

mio EUR	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector								
Total	5,521	5,917	17,220	18,301	23,556	18,257	21,340	18,255
Monetary gold and SDRs	0	0	0	0	0	0	675	675
Currency and deposits	2,847	3,670	10,810	10,228	14,358	11,432	11,812	9,497
Debt securities	154	-465	5,286	6,001	6,403	2,177	2,675	810
Loans	345	1,097	-281	-403	-420	842	1,893	3,090
Shares	-99	130	149	164	220	154	195	122
Other equity	944	880	734	1,096	1,141	828	843	737
Investment fund shares/units	5	86	134	150	296	375	406	523
Insurance and pension schemes	191	318	309	286	313	327	315	346
Other	1,133	201	79	780	1,246	2,122	2,527	2,454
Non-financial corporations								
Total	1,455	1,084	271	501	1,278	2,290	3,219	4,486
Debt securities	-12	-251	-53	-54	-63	-135	-76	-27
Loans	-133	231	-422	-626	-790	-320	493	1,390
Shares	6	61	97	122	147	65	82	80
Other equity	825	848	693	1,054	1,100	792	813	639
Other	768	195	-43	5	884	1,888	1,907	2,404
Monetary financial institutions								
Total	2,356	4,225	11,538	10,772	14,716	11,988	12,796	10,454
Monetary gold and SDRs	0	0	0	0	0	0	675	675
Currency and deposits	2,824	3,701	10,845	10,270	14,454	11,400	11,853	9,473
Debt securities	-229	454	679	467	338	463	128	192
Loans	17	18	45	33	38	21	26	80
Shares	-110	67	59	54	97	112	136	60
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	25	-10	15	16	-35	-16	-14	-16
Other	-171	-5	-105	-68	-176	8	-8	-10
Other financial institutions								
Total	192	604	414	201	497	649	727	1,125
Debt securities	1	119	56	-35	-4	-53	-52	-52
Loans	-89	47	-83	-152	-145	-22	53	127
Shares	0	0	-7	-12	-24	-23	-23	-18
Other equity	109	31	41	42	40	36	30	98
Investment fund shares/units	-20	96	119	134	330	391	420	539
Insurance and pension schemes	191	318	309	277	304	318	306	346
Other	-1	-10	-22	-53	-5	2	-6	85
General government								
Total	660	-641	4,793	6,741	6,799	2,843	3,947	1,289
Currency and deposits	23	-34	-35	-42	-96	33	-41	24
Debt securities	395	-787	4,604	5,622	6,133	1,902	2,676	698
Loans	-206	106	-89	209	261	722	785	753
Shares	5	1	0	0	0	0	0	0
Other equity	10	0	0	0	0	0	0	0
Other	433	73	313	951	501	187	528	-187
Households and NPISHs								
Total	858	645	204	86	266	488	651	901
Loans	755	696	268	132	216	441	536	739
Other	103	-52	-64	-46	50	47	115	162
Rest of the world								
Total	2,745	4,571	6,195	6,204	7,226	5,306	6,893	5,698
Monetary gold and SDRs	1	1	0	0	0	0	675	733
Currency and deposits	1,665	2,773	5,416	4,721	4,452	1,785	2,811	1,423
Debt securities	295	551	258	331	853	603	18	153
Loans	242	653	361	363	554	213	346	469
Shares	96	1	178	634	761	843	862	419
Other equity	409	586	367	96	96	78	257	383
Investment fund shares/units	96	130	206	329	454	468	509	541
Insurance and pension schemes	-7	13	6	1	5	3	17	22
Other	-52	-138	-598	-271	51	1,314	1,398	1,556

Table 10.14: Net financial transactions, four quarter moving sum of flows

EUR million	2018	2019	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Domestic sector	2,234	2,199	2,073	2,795	2,588	3,122	2,290	1,566
Non-financial corporations	-10	15	715	1,272	1,075	1,062	617	337
Monetary financial institutions	166	129	390	448	534	448	415	297
Other financial institutions	81	-80	184	250	242	242	252	217
General government	316	194	-2,411	-3,644	-4,000	-3,213	-3,334	-2,735
Households and NPISHs	1,682	1,940	3,194	4,468	4,735	4,583	4,340	3,451
Rest of the world	-2,234	-2,199	-2,073	-2,795	-2,588	-3,122	-2,290	-1,566

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 a 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 Banka Slovenije 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 Banka Slovenije discloses the balance sheet of the Banka Slovenije 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.