Short economic and financial analyses

Financial Position of the Slovenian Economy in 2022

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April 2023

BANKA SLOVENIJE

EVROSISTEM

Collection: Short economic and financial analyses

Title: Financial Position of the Slovenian Economy in 2022

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Issue: April 2023

Place of publication: Ljubljana

Issued by:
Banka Slovenije
Slovenska 35, 1505 Ljubljana, Slovenia
www.bsi.si

Electronic edition:

https://www.bsi.si/en/publications/research/short-economic-and-financial-analyses

Kataložni zapis o publikaciji (CIP) pripravili v Narodni in univerzitetni knjižnici v Ljubljani

COBISS.SI-ID 153389059
ISBN 978-961-6960-86-1 (PDF)

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Last year brought a reversal in the saving-investment gap in the Slovenian economy after ten years. According to the financial accounts figures, it became a net financial debtor to the rest of the world in the amount of 1.7% of GDP, having provided net financing to the rest of the world in the amount of 3.6% of GDP in the previous year. The reversal in the aggregate position was attributable primarily to the behaviour of non-financial corporations and households. Last year the latter significantly reduced their net saving surplus in the form of the one-year flow of transactions, while non-financial corporations actually saw their financial position shift from net creditor to net debtor. Last year's net financial surplus of financial corporations was similar to that recorded in the previous year, while the one-year net debtor position of the government sector was slightly improved compared with a year earlier, and more than halved relative to the pandemic trough from early 2021.

The year-on-year increases in the financial assets and liabilities of non-financial corporations, households and banks have slowed sharply over the last year, while the gap between non-financial corporations' liabilities and assets reached a record high, on account of the faster increase in liabilities over the last five years. The opposite record was set in the household sector, which is the largest net saver sector in the economy, in that last year their surplus of financial assets over liabilities was the largest to date, while the ratio between the two in the banking sector remained relatively balanced. The indebtedness of Slovenian non-financial corporations, households and banks as measured by the ratio of debt to GDP has been gradually declining over the last ten years, and remains significantly below the euro area average, and one of the lowest figures in all euro area countries.

Introduction

The purpose of the analysis is to examine the saving-investment gap of the Slovenian economy as a whole, and separately for its three most prominent institutional sectors, namely non-financial corporations, households and banks. The dynamics in the stocks and flows of financial assets and liabilities are presented for all of them, along with their debt ratios compared with the euro area average and individual euro area countries. The analysis relies on Banka Slovenije's financial accounts figures, while data from the ECB and Eurostat is also used for the international comparisons. The data relates mostly to 2022, although here and there the indicators also illustrate a slightly longer horizon of comparison or a long-term average.

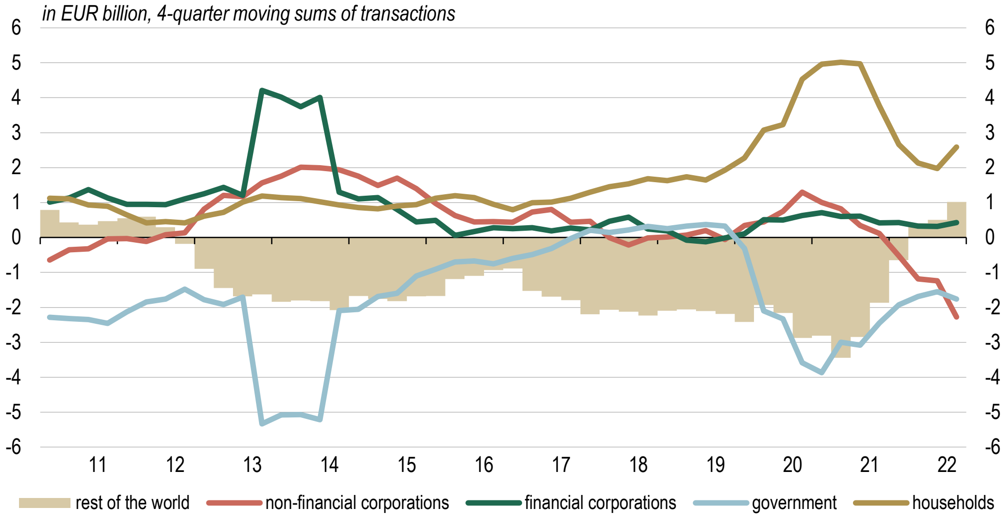
1 Saving-investment gap of the Slovenian economy

Last year the saving-investment gap of the Slovenian economy turned negative for the first time in ten years.

The reversal in the aggregate balance, i.e. the one-year net financial flow of transactions, occurred in the first half of the year according to the financial accounts figures, then the domestic institutional sectors' net debtor position against the rest of the world deepened further and amounted to EUR 1.0 billion or 1.7% of GDP[1] in the final quarter (see Figure 1). The last time it was so negative was in 2010 and 2011. In 2021, the saving-investment gap of the Slovenian economy was positive at EUR 1.9 billion or 3.6% of GDP, which means that the domestic institutional sectors disclosed a net financial surplus vis-à-vis the rest of the world, i.e. they financed it.

The majority of last year's reversal was attributable to non-financial corporations,[2] whose net debtor position at the end of the year amounted to EUR 2.3 billion, in contrast to their net saving over the two preceding years, which amounted to EUR 1.3 billion in the pandemic year of 2020 (see Figure 1). Their surplus investment in 2022 was primarily attributable to a year-on-year decline of EUR 1.9 billion in asset transactions, primarily via loans granted (EUR 780 million), trade credits and other accounts receivable (EUR 400 million), and purchases of debt securities (EUR 340 million) and equity (EUR 310 million; see Figure 4). Investments in the rest of the world accounted for 80% of the decline in the total flow of assets. Last year's negative saving-investment gap in the non-financial corporations sector was further deepened by a year-on-year increase in the flow of liabilities (of EUR 470 million), particularly in equity and loans.

Figure 1: **Saving-investment gap**



Source: Banka Slovenije.

[1] The non-financial sectoral accounts also disclose a net debtor position against the rest of the world. Last year the total economy's surplus with (or net lending to) the rest of the world moved into deficit after ten years according to the SORS data. It amounted to around EUR 600 million or 1.0% of GDP, while the previous year had seen a surplus of EUR 2.1 billion or 4.1% of GDP (SORS). Methodological differences mean that values do not match fully between the financial and non-financial sectoral accounts.

[2] The terms non-financial corporations and/or companies in this analysis refer to the non-financial corporations sector (S.11).

Net saving by households[3] also declined in 2022, by almost a third to EUR 2.6 billion (see Figure 1). The decline was driven by a decline of more than a fifth or EUR 1 billion in the flow of asset transactions (most notably in equity, but also in insurance, pension and standardised guarantee schemes), while at the same time the flow in their liabilities increased by EUR 180 million in year-on-year terms (see Figure 6). Amid last year's high inflation and robust household consumption, the pace of households' surplus saving slowed sharply over the course of the year, reaching its pre-pandemic level in the third quarter. The one-year flow in households' net saving had strengthened slightly by the end of 2022, but was down approximately a half on its peak in mid-2021.[4] The main decline was in the position vis-à-vis domestic institutional sectors (of EUR 1.0 billion), while the position vis-à-vis the rest of the world was down only EUR 170 million on the previous year.

The surplus in saving over investment by financial corporations remained stable at around EUR 430 million last year, broadly comparable in year-on-year terms, while banks[5] mainly saw a sharp decline in the inflow of deposits (by EUR 1.8 billion; see Figure 8), driven by a decline of EUR 2.5 billion in liabilities to the Eurosystem, while the balance (i.e. EUR 730 million[6]) consisted of an increase in inflows of deposits by other institutional sectors. The one-year net debtor position of the government sector stood at EUR 1.8 billion at the end of last year as the fiscal position deteriorated, but this nevertheless constituted a year-on-year improvement of EUR 680 million, and was less than half of the worst figure of the pandemic period from early 2021 (see Figure 1). The one-year flow in the government sector's liabilities increased by EUR 920 million in year-on-year terms, most notably vis-à-vis foreign portfolio investors. The strengthening in the government sector's flow of assets was even more pronounced (at EUR 1.6 billion), and was driven primarily by deposits in the rest of the world.

2 Indebtedness and leverage

The indebtedness of the domestic institutional sectors as measured by the ratio of debt to GDP is significantly below the euro area average.

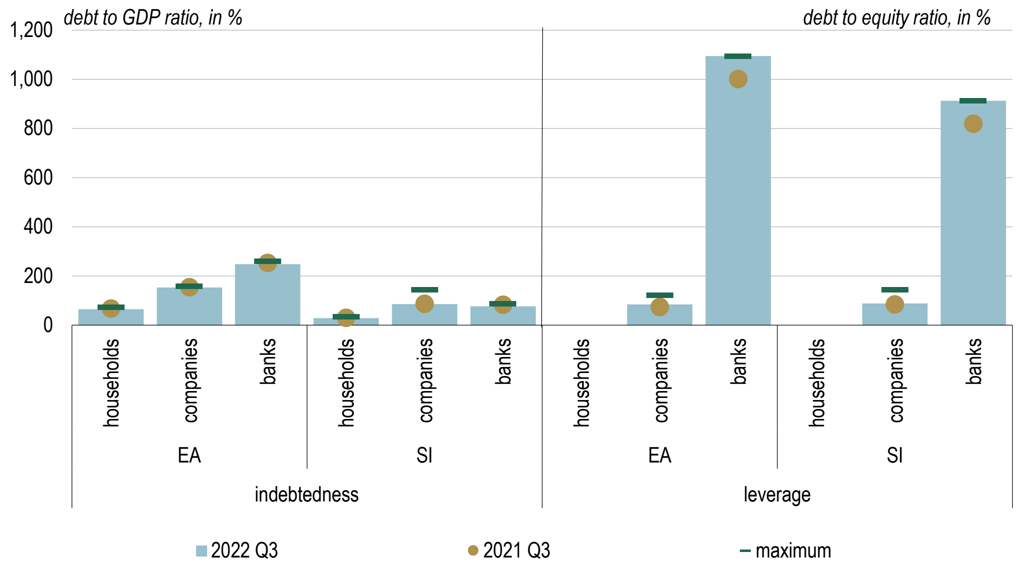
Domestic non-financial corporations held debt (defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guarantee schemes, and other accounts payable) in the amount of 85.8% of GDP at the end of last year, significantly below the euro area average[7] (153.1%), and among the lowest figures in any euro area country (see Figures 2 and A1). The indicator for Slovenian non-financial corporations has been gradually diminishing over the last ten years (see Figure 3), and is down 54 percentage points on its peak in 2012. The indebtedness of euro area non-financial corporations has by contrast been increasing since 2004, when the data first became available.

[3] The term households refers to the sectors of households and NPISHs (S.14 and S.15).
[4] The long-term average was nevertheless exceeded by EUR 1.1 billion or 75%.
[5] The term banks is used in this analysis to refer to the sector of other monetary financial institutions (S.122 and S.123).
[6] Mainly from the rest of the world, and from households among the domestic institutional sectors.
[7] The data for the euro area in this section refers to the third quarter of 2022 for the indicators of all institutional sectors.

Household indebtedness also remains low (28.2% of GDP), well below the euro area average (65.4%; see Figure 2). In the euro area lower indebtedness is seen only in two Baltic states, Lithuania and Latvia (see Figure A2). Household indebtedness in Slovenia has been slowly declining since its peak of 35.2% of GDP in 2012. The trend of decline stalled for a while in 2020, before continuing (see Figure 3).

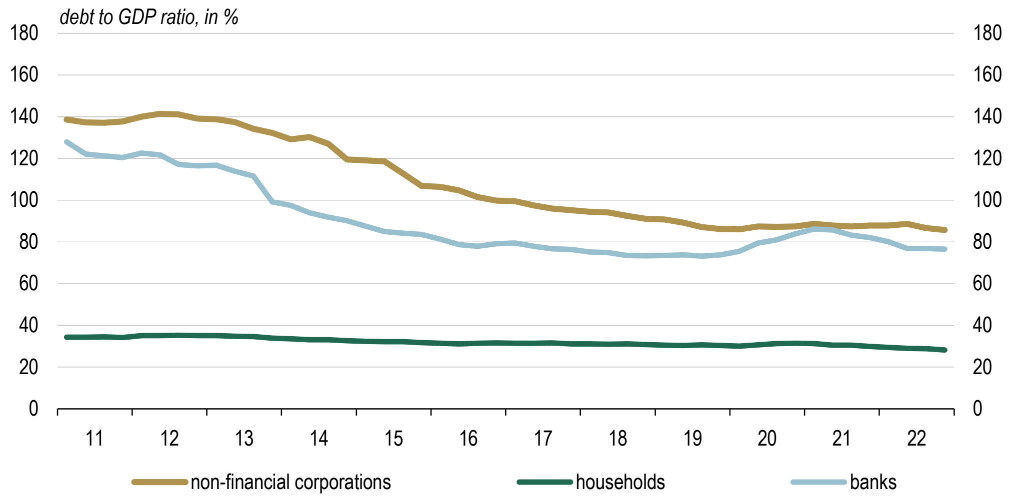
Domestic banks hold debt of 76.5% of GDP, the largest deviation from the euro area average of 250%, and one of the lowest figures in the euro area (see Figures 2 and A3). It increased slightly during the pandemic, to 86.1% in early 2021, similarly to the euro area (where it hit 259.4%), but has been gradually declining everywhere since then.

Figure 2: **Indebtedness and leverage in Slovenia and the euro area**



Note: Debt is defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guarantee schemes and other accounts payable.
Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 3: **Indebtedness in Slovenia, 2011 to 2022**



Note: Debt is defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guarantee schemes and other accounts payable.
Source and calculations: Banka Slovenije.

In terms of leverage, non-financial corporations and banks in Slovenia are comparable to those in the euro area overall.

When it comes to leverage, an indicator that reflects the ratio of debt financing to equity financing, Slovenian non-financial corporations are much more aligned with their counterparts in the euro area overall (88.9% versus 84.2% respectively; see Figure 2). The ten-year trend of decline in leverage at non-financial corporations in Slovenia and the euro area overall came to an end last year, but the figures are down 56 percentage points and 39 percentage points on their respective peaks in 2010 and 2009.

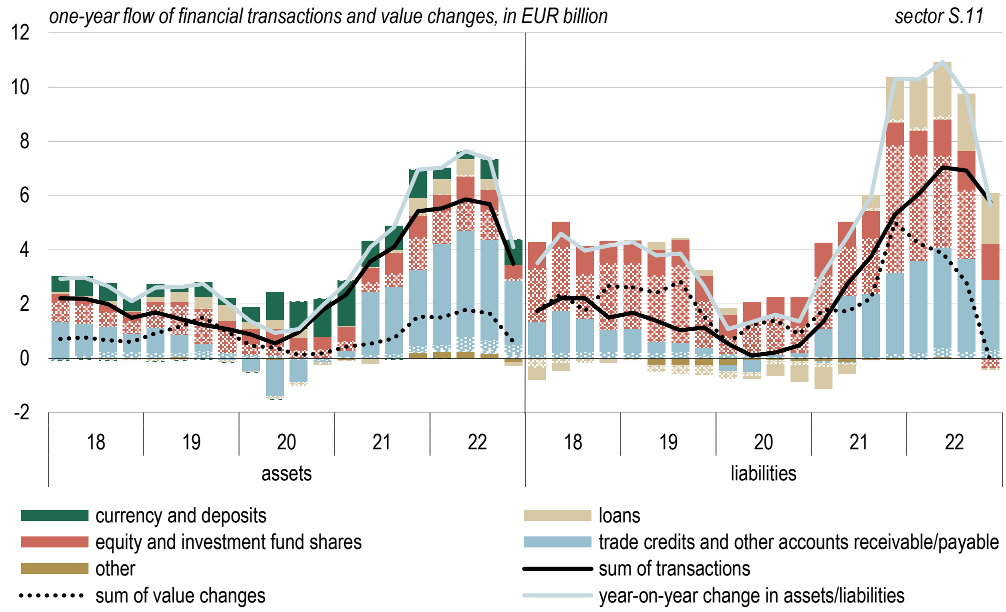
The banking sector in Slovenia is slightly less reliant on debt funding than the banking sector in the euro area overall, but the specifics of banking, where deposits account for many liabilities, mean that both are well ahead of non-financial corporations in this respect (see Figures 2 and 9). The debt-to-equity ratio in the domestic banking system is 878%, compared with 1095% in the euro area overall. Both figures have shown a trend of increase over the last eight years. They rose again last year, and according to the latest data are more than 100 percentage points above their long-term averages.

3 Non-financial corporations

The increase in non-financial corporations' financial assets and liabilities slowed significantly in late 2022.

Non-financial corporations' financial assets at the end of last year were up EUR 4.1 billion in year-on-year terms, almost a half less than the year-on-year increase seen in the middle of the year, which was a post-2007 peak (see Figure 4). The slowdown was primarily driven by reduced inflows in non-financial corporations' main asset classes, namely equity and trade credits. Despite diminishing, the increase in the latter remained high (EUR 2.4 billion), while at EUR 560 million the increase in equity reached merely around 30% of its average value of the preceding four quarters, primarily as a result of a significant decline in positive revaluations of existing assets. In an environment of persistently high uncertainty and with the need to maintain liquidity, non-financial corporations only strengthened the year-on-year increase in bank deposits in the final quarter (by EUR 960 million), mostly in the form of sight deposits. The strengthening of financial assets in the rest of the world, which account for approximately 30% of non-financial corporations' total holdings of financial assets, also slowed significantly late in the year.

Figure 4: **Flows in non-financial corporations' financial assets and liabilities**



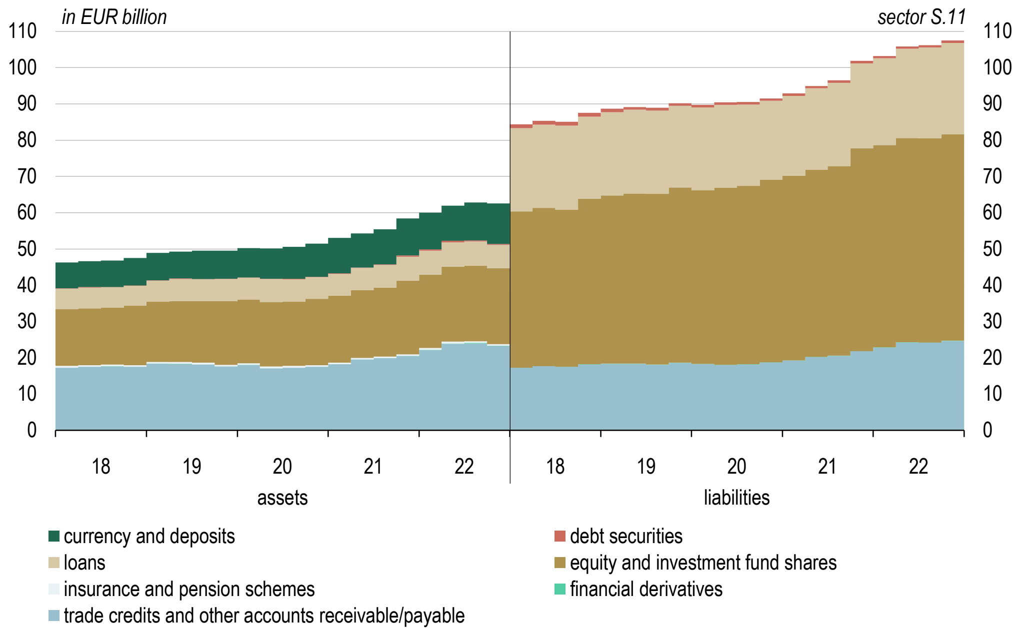
Note: The solid columns show transactions and the shaded columns show the value changes of financial instruments. The sum of transactions together with the sum of changes in value reflect the year-on-year change in assets or liabilities.
Source and calculations: Banka Slovenije.

Growth in non-financial corporations' financial liabilities also slowed, vis-à-vis domestic institutional sectors and the rest of the world alike. They were up EUR 5.7 billion in year-on-year terms in total at the end of the year, an increase of just over half of the 14-year peak seen in the second quarter. The largest decline last year was in the year-on-year increase in equity, which slowed by EUR 4.6 billion to EUR 1.0 billion, albeit solely as a result of the revaluation of existing liabilities (see Figure 4). The increase in loans to non-financial corporations stood at EUR 1.8 billion at the end of the year, the lowest figure of the year, and mostly raised with domestic banks. The increase in short-term loans, which non-financial corporations raise for current operations, was slightly larger than in the previous year, while the increase in long-term loans remained unchanged. Our assessment is that this was attributable to the slower pace of investment by non-financial corporations in an environment of reduced confidence in the economy, weaker foreign demand, an uncertain outlook, and fast-rising interest rates. The increase in trade credits was similar to the previous year.

Non-financial corporations' negative net financial position last year was the largest to date.

The year-on-year increase in non-financial corporations' financial liabilities outpaced the increase in assets last year for the fifth consecutive year, by as much as just over EUR 3 billion in the first half of the year, before the gap halved by the end of the year. The gap between the stock of non-financial corporations' financial liabilities and assets nevertheless reached its largest figure to date in the final quarter (EUR 44.9 billion; see Figure 5). Despite a decline over the last two years, the share of liabilities accounted for by equity (52.9%) remains significantly above its long-term average.

Figure 5: **Stocks of non-financial corporations' financial assets and liabilities**



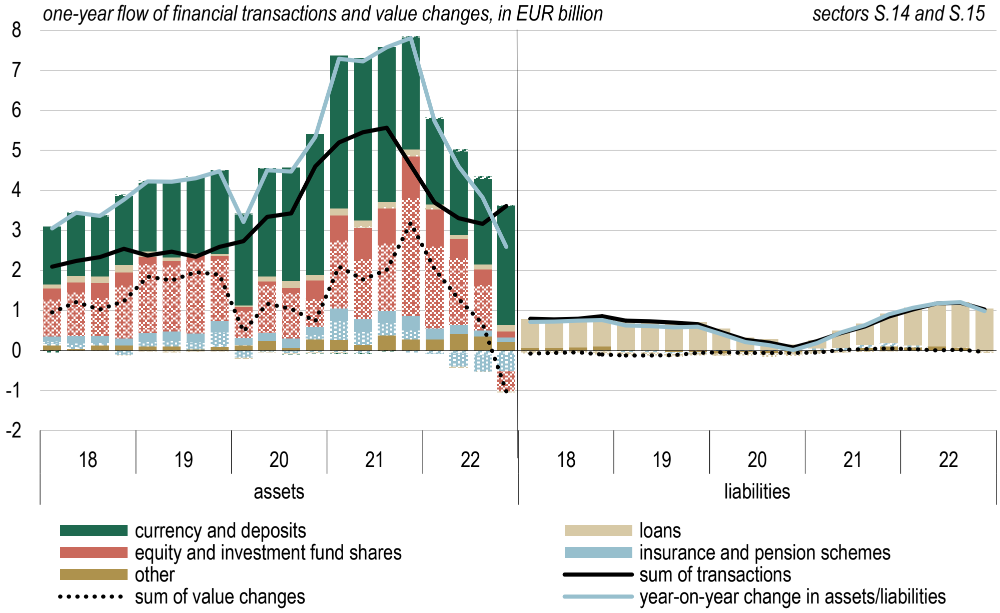
Source: Banka Slovenije.

4 Households

Growth in households' financial assets slowed sharply last year. Growth in liabilities also slowed slightly towards the end of the year, but was still above its pre-pandemic level.

After record growth in households' financial assets in 2021, the year-on-year increases slowed from quarter to quarter last year. Their financial assets were up EUR 2.6 billion at the end of the year (of which the rest of the world accounted for EUR 1.0 billion, mostly in the form of currency and deposits), just a third of the increase in the previous year. This was attributable to year-on-year declines in the stock of equity and of insurance, pension and standardised guarantee schemes, each of EUR 330 million, as a result of negative revaluations of existing asset instruments and a decline in the one-year flow of transactions (see Figure 6). Amid an increase in nominal income, households continued to direct their excess saving into the prevailing asset classes, i.e. currency and bank deposits (EUR 3.0 billion). The increases in the latter strengthened again over the course of the year, and remain close to the record highs seen in 2021, partly on account of the conservative investment stance of Slovenian households, and partly on account of the need to maintain liquidity, although interest rates on deposits remain significantly lower than those in the euro area overall, and well below the inflation rate.

Figure 6: **Flows in households' financial assets and liabilities**



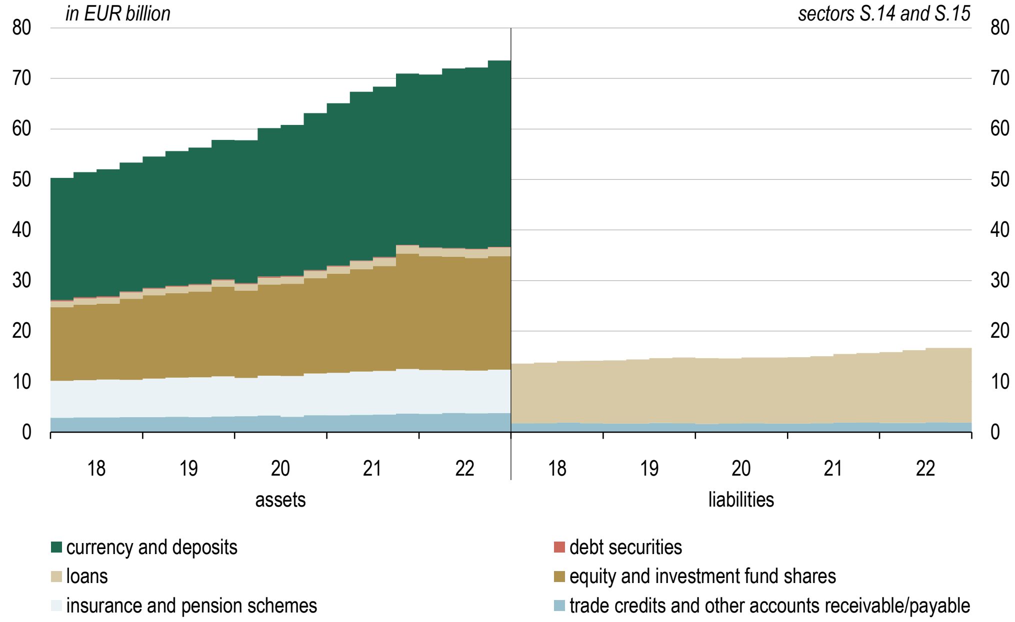
Note: The solid columns show transactions and the shaded columns show the value changes of financial instruments. The sum of transactions together with the sum of changes in value reflect the year-on-year change in assets or liabilities.
Source and calculations: Banka Slovenije.

Households' financial liabilities ended the year up EUR 1.0 billion in year-on-year terms (see Figure 6). They increased solely vis-à-vis domestic institutional sectors, most notably banks. As usual the main increase was in long-term loans, which are mostly intended for financing the purchase of residential real estate. The increase peaked at just over EUR 1 billion in the third quarter, before diminishing slightly in the final quarter, most likely as a result of the sharp rise in interest rates and the very high prices of residential real estate amid a shortage of supply. After two pandemic years of very subdued increases in loans, there was a significant rise in pace last year despite the decline in consumer confidence and real household income, but the figures remain significantly lower than before the outbreak of the previous economic and financial crisis in 2008, when they approached EUR 1.9 billion. The stock of loans to households raised in the rest of the world declined further last year, and they now account for less than 2% of the total according to the latest figures.

Households' positive net financial position reached a record high at the end of last year.

Households are the largest net savers in the Slovenian economy, and their stock of financial assets always exceeds their liabilities. The year-on-year increases in assets have exceeded the increases in liabilities for the last eleven years without interruption. The gap peaked in early 2021 at over EUR 7 billion, before slowing to EUR 1.6 billion by the end of last year, below the long-term average, and the lowest figure since 2016. The positive net financial position of households, i.e. the gap between their stocks of financial assets and liabilities, nevertheless reached its highest value to date in the final quarter of last year (EUR 56.9 billion; see Figure 7).

Figure 7: **Stocks of households' financial assets and liabilities**



Source: Banka Slovenije.

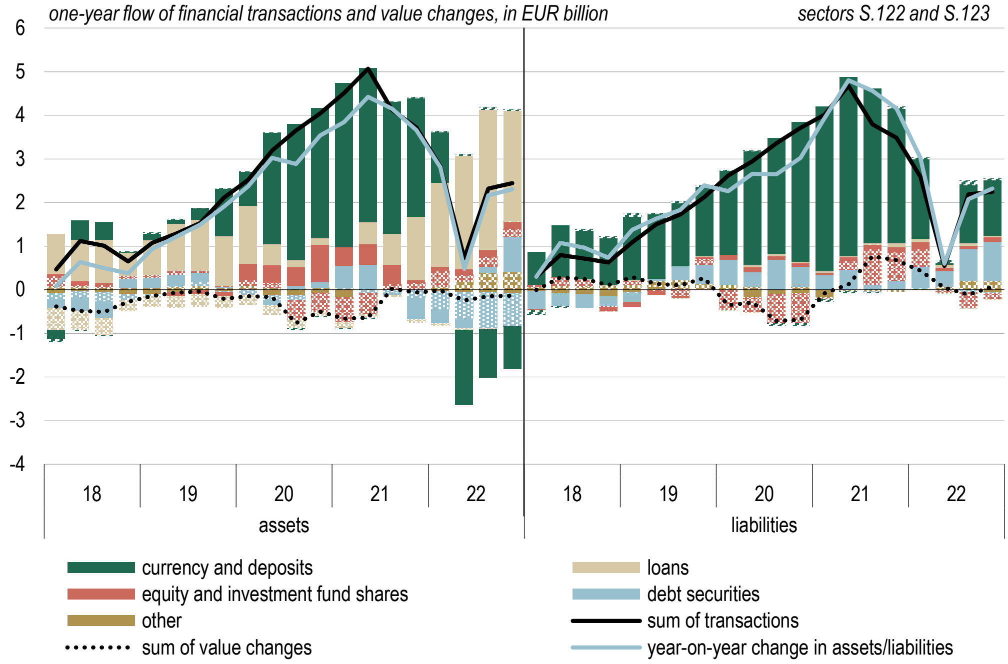
5 Banks

The main factors in the changes on bank balance sheets over the last year have been a decline in liabilities to the Eurosystem and the continued strengthening of lending activity.

Banks' financial liabilities increased by EUR 2.3 billion last year, down just over a half on a year and a half ago, when it reached its peak of the last 12 years (see Figure 8). Deposits again recorded the largest increase (EUR 1.3 billion), albeit with the largest slowdown in the year-on-year rate of growth. Banks' liabilities to the Eurosystem declined by EUR 1.6 billion last year, as a result of the partial repayment of liabilities under the TLTRO-III. This decline was more than compensated for by the increase in liabilities to the non-banking sector: household deposits increased by EUR 1.9 billion, and deposits by non-financial corporations by EUR 650 million.[8] Revaluations brought a slight year-on-year decline in the stock of banks' liabilities in the form of equity, while the increase in liabilities for issued debt securities strengthened by EUR 870 million, primarily vis-à-vis non-residents. Banks' total liabilities to the rest of the world at the end of the year were up EUR 880 million in year-on-year terms.

[8] Transferable or sight deposits make up the vast majority of deposits by the non-banking sector. Their share of the total has almost doubled over the last ten years (from 44.5% at the end of 2012 to 86.9% at the end of 2022). This means that the average maturity and the average repricing period are considerably shorter on the liability side than on the asset side, where fixed-rate loans (to households and non-financial corporations) account for a significant share (45% at the end of last year, increasing slightly further in the early part of this year). With the normalisation of monetary policy, higher interest rates could pass through faster into deposits than into loans, although the banks' high liquidity and the large stock of deposits mean that in the current situation there is no need to raise interest rates on deposits (for more, see Volk, M., 2023: Is the ECB monetary tightening effective? The role of bank funding and asset structure).

Figure 8: **Flows in banks' financial assets and liabilities**



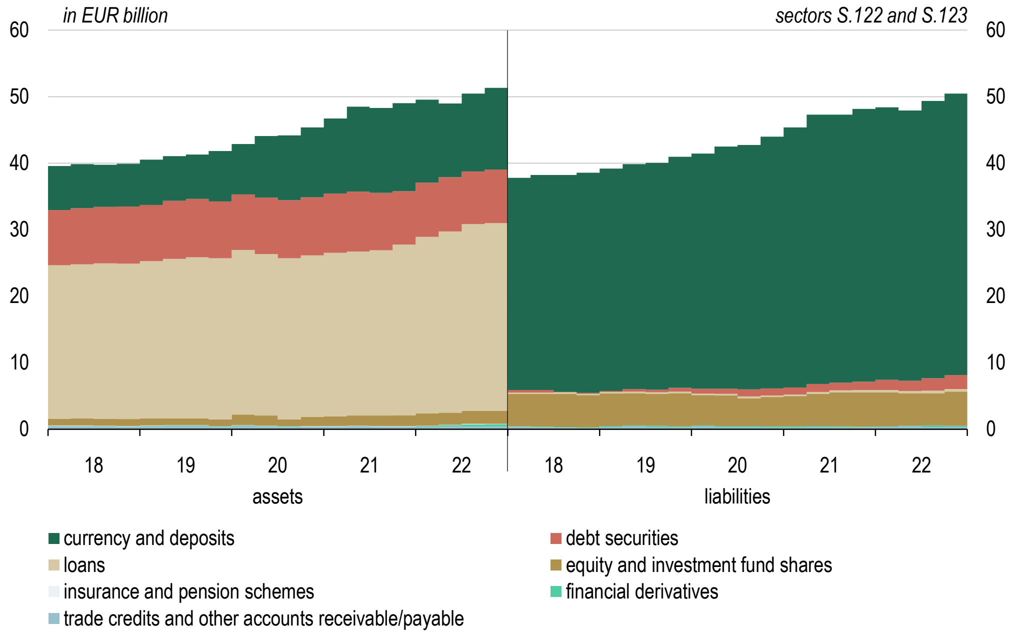
Note: The solid columns show transactions and the shaded columns show the value changes of financial instruments. The sum of transactions together with the sum of changes in value reflect the year-on-year change in assets or liabilities.
Source and calculations: Banka Slovenije.

The increase in banks' financial assets also slowed discernibly last year (see Figure 8). They were up EUR 2.3 billion in year-on-year terms in the final quarter, with the domestic economy accounting for half of the increase, and the rest of the world for half. The growth was driven primarily by strengthened lending activity, which previously had come to a complete halt in 2020 during the pandemic. The stock of bank loans granted ended last year up EUR 2.5 billion in year-on-year terms (EUR 1.2 billion via loans to non-financial corporations, and EUR 890 million via household loans), slightly less than in the previous quarter, when the figure of EUR 3.2 billion was the largest year-on-year increase since 2009. Last year also saw slight increases in banks' holdings of equity (by EUR 350 million) and derivatives (EUR 290 million), the latter only as a result of revaluation of existing assets. Banks' holdings of currency and deposits declined last year (by EUR 960 million), as their liquid assets held in accounts at the central bank were down EUR 850 million in year-on-year terms as a result of the partial repayment of liabilities under the TLTRO-III.

The ratio of financial assets to liabilities is relatively balanced at banks.

Banks' net financial position measured as the difference between the stocks of their financial assets and liabilities remains positive, but very close to balance: at the end of last year, their assets exceeded their liabilities by just EUR 870 million, the lowest figure to date (see Figure 9). This was attributable to the increase in banks' liabilities over the last eight years outpacing the increase in assets.

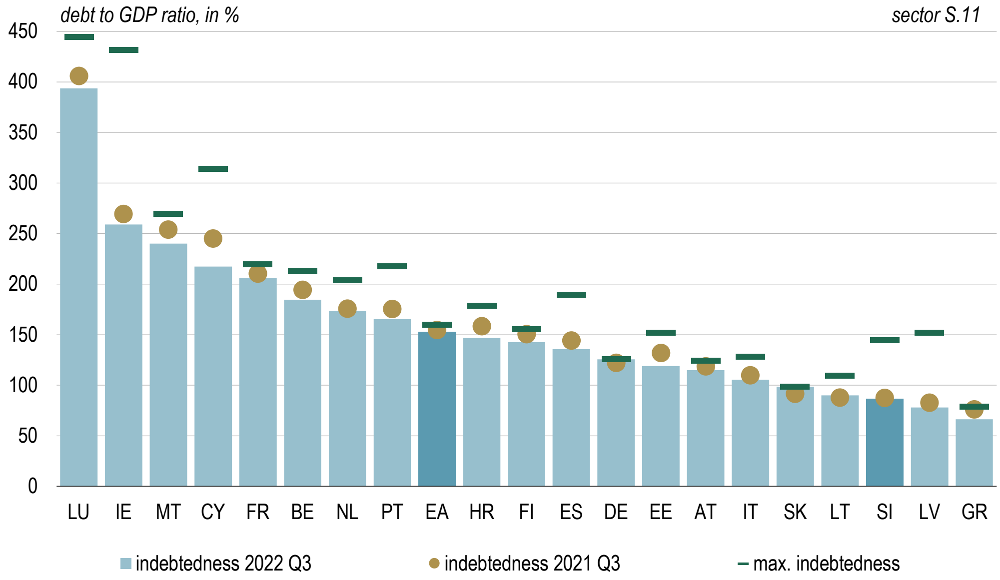
Figure 9: **Stocks of banks' financial assets and liabilities**



Source: Banka Slovenije.

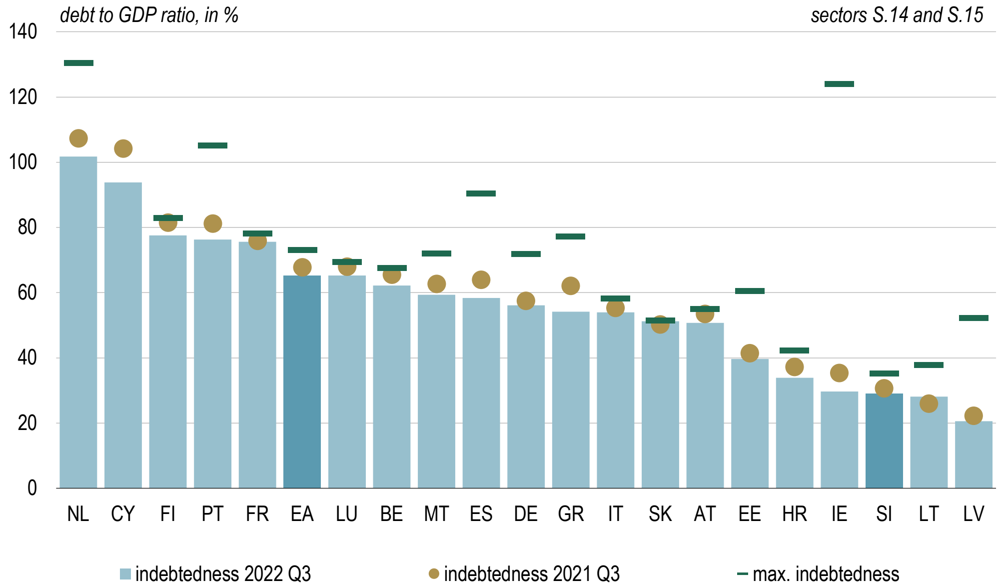
6 Appendix

Figure A1: **Indebtedness of non-financial corporations in Slovenia and the euro area**



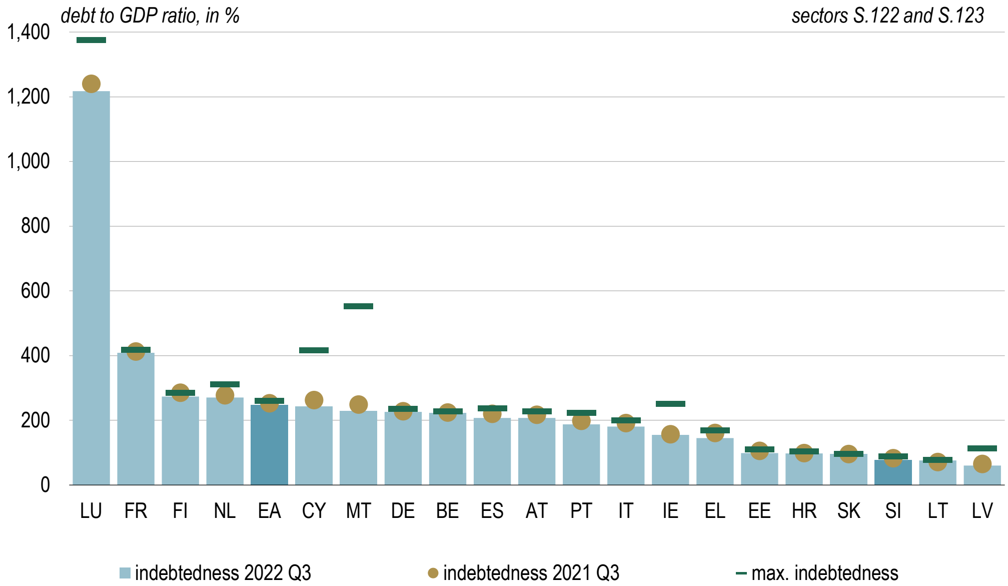
Note: Debt is defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guaranteed schemes and other accounts payable.
Source: ECB, Eurostat, Banka Slovenije calculations.

Figure A2: **Household indebtedness in Slovenia and the euro area**



Note: Debt is defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guarantee schemes and other accounts payable.
Source: ECB, Eurostat, Banka Slovenije calculations.

Figure A3: **Indebtedness of banks in Slovenia and the euro area**



Note: Debt is defined as the sum of currency and deposits, debt securities, loans, insurance, pension and standardised guaranteed schemes and other accounts payable.
Source: ECB, Eurostat, Banka Slovenije calculations. Latest data for CY for Q2 2022.

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