BANKA SLOVENIJE

EVROSISTEM

ECONOMIC AND FINANCIAL DEVELOPMENTS

JANUARY 2022

BANKA SLOVENIJE
EVROSISTEM

Title: Economic and Financial Developments
No.: January 2022

Published by: BANKA SLOVENIJE

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Analysis is based on data available up to 24 January 2022. The content of the report was discussed at the Banka Slovenije Governing Council meeting on 25 January 2022.

This publication is also available in Slovene.

ISSN 2385-9784

Table of contents:

BANKA SLOVENIJE
EVROSISTEM

Figures, tables and boxes:

Figures:

Tables:

Boxes:

Executive Summary

Despite the scale of the pandemic, activity indicators in the euro area were at high levels at the end of last year, but the risks remain significant. *Firms saw their business conditions become more challenging, which was reflected for example in the composite PMI and the economic sentiment indicator, although they are both still above their pre-crisis levels. After two quarters when quarterly growth stood at more than 2%, economic activity in the euro area is likely to have slowed in the final quarter of last year, which can be primarily attributable to difficulties in private-sector services as the containment measures were gradually tightened. The situation varied greatly from sector to sector: the aggregate confidence indicators in manufacturing and in construction reached their highest levels to date in December, despite shortages of raw materials and semi-finished products, and a rise in production costs. Production is also hampered by labour shortages amid falling unemployment, and in the short term by absences from work caused by the record case numbers under the omicron wave. In a situation of surplus demand and strong price pressures in the international environment, inflation in the euro area reached 5.0% in December, the highest figure to date. The Eurosystem's December projections expect GDP growth in the euro area to reach 4.2% this year, and 2.9% in 2023, while inflation should slow to 1.8% over the same period. These projections are again accompanied by major risks and uncertainties.*

The mood on the financial markets in the final quarter of last year mainly reflected the faster scaling-back of accommodativeness by central banks, which is also being signalled by the ECB, although its monetary policy stance remains among the more supportive in the eyes of market participants, compared with other central banks in advanced economies. *Market interest rates in the euro area rose further, and suggest that the financial markets see a possibility of emerging from the negative interest rate environment significantly more quickly than was anticipated before the pandemic. The rise in borrowing costs for the government sector and the private sector was moderate in the euro area in the final quarter of last year, and the level reached in the early part of this year was still comparable to before the pandemic. The financing conditions for euro area businesses remain sufficiently supportive, and with them the conditions for economic growth. This is also being reflected in bank lending to the non-banking sector, which was up 3.3% in year-on-year terms in November. The high growth and volatility in energy futures prices in the final quarter of last year are indicative of the significant uncertainty surrounding future developments in prices. Market participants are nevertheless still expecting annual euro area inflation to fall to just below 2.0% over the medium term, i.e. from 2023, in line with the latest Eurosystem projections.*

According to current figures, the adverse impact on the domestic economy from the deterioration in the epidemiological situation is relatively small for now, but the risks are significant. *The economic growth in Slovenia has been slowing since it regained its pre-crisis level of GDP, and amid heavy government investment is being driven markedly by domestic demand, which is significantly stronger than the euro area average. Growth in exports also remains high. Despite rising indicators of labour shortages and disruptions to supply chains, the monthly activity indicators mostly remained encouraging over the autumn, as only a small number of sectors were genuinely affected. The economic sentiment improved in December, and firms' as-*

sessments of the strength of demand were again high. Activity continued to rise going into the new year: the total value of card payments and ATM withdrawals, and freight vehicles' mileage on domestic motorways remain well above their pre-crisis levels. Our assessment is that the macroeconomic risks remain significant: case numbers have reached record levels, making absence from work a burning issue, while many firms have been hit hard by high energy costs. The surge in inflation might also depress private consumption, with the average gross wage already showing zero year-on-year growth in real terms in October.

With employment at a record high, labour shortages are increasingly evident in the domestic economy. *The number of persons in employment again reached a record high in November, and rising employment is evident in almost all sectors. With domestic unemployment falling fast, firms are increasingly seeking to hire foreign nationals, who last autumn accounted for approximately half of the year-on-year rise in the number of persons in employment excluding self-employed farmers. The increased hiring of foreign workers is mitigating the adverse effects of the structural imbalances on the domestic labour market, and is consequently reducing wage pressures. Year-on-year growth in the average gross wage slowed, following the reductions in crisis bonuses in the public sector. It stood at 3.6% in October, although wage growth in the private sector remained above 5%, more than 2 percentage points higher than in 2019. With employment rising, and growth in nominal average wages persisting at high levels, year-on-year growth in the total wage bill also remained high in the third quarter of last year, at 8.2% according to national accounts figures.*

High import prices and strong domestic demand are being increasingly reflected in the current account. *The merchandise trade surplus over the 12 months to November declined to the level seen in early 2013, when austerity measures had the economy in a phase of fiscal and balance-of-payments consolidation. A major factor in the decline, the largest seen to date, was the high growth in import prices, which left nominal merchandise imports over the first eleven months of last year up fully 27.2% in year-on-year terms. Exports also remained robust after picking up again in November: over the first eleven months of last year they were up 18.2% in year-on-year terms. Only exports of road vehicles remained down on their pre-crisis level, as supply difficulties with components hit the car industry inside and outside Slovenia. Services trade is strengthening sharply at the same time, although due to containment measures the recovery in trade in travel services remains gradual at best, and still subject to considerable uncertainty, at least in the short term. The highlight in factor income is increased outflows for dividends from FDI. The 12-month current account surplus amounted to EUR 1.8 billion in November, down fully EUR 1.5 billion in year-on-year terms. Last year's growth in domestic demand was not only reflected in the current account position, but also in the net financial position of the private sector, as its saving-investment gap began to shift slowly towards investment.*

Inflation stood at 5.1% in December, its highest rate of the last 13 years, with an increasing share of goods in the HICP basket seeing rising prices. *The share of products and services recording inflation of more than 2.0% stood at 61.4% in December, while almost 85% of the consumer basket is now seeing rising prices. Inflation is still being driven mainly by the high energy prices accompanying strong global economic growth and geopolitical tensions. High growth in prices of agricultural products and food commodities drove up food price inflation, the year-on-year rate reaching 3.6% in December. Amid strong domestic demand, prices of non-energy industrial goods are also rising alongside services prices as input costs rise. This is strengthening core inflation, which had reached 2.9% by the end of the year, 0.3 percentage points more than the euro area average. Via the weights for calculating the HICP, the official inflation rate is still being held down by the effect of pandemic-induced changes in consumption patterns. Had the weights remained unchanged, headline inflation would have reached 5.9%, and core inflation 3.3%. Despite the signs of more broadly based inflation,* *our expectation for the second half of the year is for a certain slowdown due to easing excess demand, strong base effect, and resolving issues in supply chains and in the energy markets.*

The general government deficit and debt are declining as a ratio to GDP, although the debt is significantly higher than in 2019 in nominal terms. *The general government deficit over the first nine months of last year amounted to 5.2% of GDP, down 1.8 percentage points in year-on-year terms. Growth in general government revenues was high at almost 11%, thanks to strong economic growth driven largely by booming final consumption, and high increase in employment and wages. Growth in general government expenditure was around 4 percentage points lower. Growth in government investment was high at 26%, and the year-on-year rate hit approximately 40% in the third quarter. The volume of the anti-coronavirus measures in the second half of the year was smaller than in the first half, following the expiry of the largest measures in June. According to the Ministry of Finance's estimates, the general government debt reached 77.5% of GDP at the end of last year. This was down 7.5 GDP percentage points on its peak in the first quarter of last year, thanks to economic growth, although the nominal debt remains significantly higher than before the pandemic. Amid pronounced monetary policy support, borrowing during the pandemic was undertaken under very favourable terms, which is reducing the interest payment burden despite the nominally higher debt.*

***

Analysis of the impact on the financing conditions in euro area countries from the central bank asset purchase programmes has also been drawn up. *It confirms their effectiveness, and highlights the transmission channels. The monthly envelope of the APP already stood at EUR 20 billion before the pandemic, and in April 2020 the Governing Council of the ECB added the pandemic emergency purchase programme (PEPP), with a total envelope of EUR 1,850 billion. Both aim to ensure that the right monetary policy stance is maintained, while the PEPP also targets homogenous monetary policy transmission throughout the euro area. Our assessments are that the two programmes have successfully supported an accommodative monetary policy. The announcement and implementation of asset purchases reduced risk premiums and interest rate expectations, consequently reducing real required yields on euro area bonds. At the same time they also encouraged a rise in inflation expectations, although the effect of depressing real yields was larger, which meant that nominal required yields were also reduced. All these effects contribute to push the medium-term inflation outlook towards its new symmetrical target of 2%. Conversely, if monetary policy has to respond to high inflation in line with the forward guidance, the reduction in net purchases and later the ending of the reinvestment of maturing principal will help to raise required yields, and will thus contribute significantly to reducing inflation.*

Main macroeconomic indicators

	2018	2019	2020	21Q1	21Q2	21Q3	2018	2019	2020	21Q1	21Q2	21Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	4.4	3.3	-4.2	1.6	16.3	5.0	1.8	1.6	-6.4	-1.1	14.7	4.0
- industry	3.1	6.9	-3.3	2.7	27.0	6.0	1.9	0.2	-6.8	2.9	22.8	5.2
- construction	8.4	8.1	-2.0	0.1	8.7	2.5	2.2	2.1	-5.3	1.1	18.9	2.0
- mainly public sector services	2.0	1.7	3.0	1.7	2.7	0.3	0.7	1.1	-2.9	0.8	10.0	2.0
- mainly private sector services	4.9	3.8	-4.5	0.7	17.4	6.0	2.1	1.7	-7.1	-1.6	15.5	4.3
Domestic expenditure	5.0	3.3	-4.6	1.2	18.9	11.2	1.8	2.5	-6.2	-4.0	12.5	3.8
- general government	3.0	2.0	4.2	1.2	3.3	1.6	1.1	1.8	1.3	2.9	7.8	2.7
- households and NPISH	3.6	4.8	-6.6	-0.5	18.5	9.3	1.5	1.3	-7.9	-6.0	12.3	2.7
- gross capital formation	10.6	0.6	-7.3	5.4	37.2	27.8	3.5	5.8	-9.1	-5.8	17.9	7.9
- gross fixed capital formation	9.7	5.5	-8.2	7.9	20.4	9.6	3.1	6.7	-7.0	-6.4	19.3	3.2
- inventories and valuables, contr. to GDP growth in pp	0.4	-0.9	0.1	-0.4	3.4	3.2	0.1	-0.1	-0.5	0.0	-0.2	1.0
Labour market												
Employment	3.2	2.5	-0.6	-0.9	1.4	2.6	1.6	1.3	-1.5	-1.7	2.0	2.1
- mainly private sector (without OPQ)	3.4	2.6	-1.2	-1.7	1.0	2.5	1.7	1.3	-2.3	-2.7	1.7	2.1
- mainly public services (OPQ)	2.2	1.8	2.2	2.3	2.9	2.7	1.4	1.4	0.9	1.4	2.7	2.0
Labour costs per employee	3.9	5.0	3.5	6.4	8.4	5.6	2.1	2.1	-0.6	2.1	7.2	3.2
- mainly private sector (without OPQ)	4.1	4.5	1.7	2.1	8.2	5.8	2.2	2.1	-1.9	1.9	9.3	3.5
- mainly public services (OPQ)	3.3	6.5	9.5	13.4	13.0	13.0	1.9	2.3	2.4	2.5	2.3	2.3
Unit labour costs, nominal*	2.7	4.2	7.7	3.8	-5.5	3.1	1.9	1.9	4.6	1.5	-4.7	1.3
Unit labour costs, real**	0.6	1.9	6.3	2.4	-7.5	-0.5	0.4	0.2	3.0	0.0	-5.1	-1.4
	in %											
LFS unemployment rate	5.1	4.5	5.0	5.6	4.3	4.5	8.2	7.6	7.9	8.6	7.9	7.4
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	6.0	6.0	7.4	6.8	6.0	4.8	2.9	2.3	1.9	2.6	2.8	2.8
External trade balance as contr. to GDP growth in pp	-0.2	0.3	-0.1	0.5	-0.8	-5.0	0.1	-0.8	-0.4	2.8	2.6	0.3
Real export of goods and services	6.2	4.5	-8.7	1.5	30.5	10.6	3.6	2.7	-9.1	0.1	26.9	10.0
Real import of goods and services	7.1	4.7	-9.6	1.1	36.1	19.9	3.8	4.7	-9.1	-6.0	22.4	10.2
Financing	*in % of GDP*											
Banking system's balance sheet	88.4	88.0	98.2	100.4	99.5	96.8	256.0	260.2	296.3	304.9	298.0	296.2
Loans to NFCs	20.6	19.9	20.2	20.3	19.5	19.2	36.4	36.0	40.2	40.3	39.1	38.4
Loans to households	21.7	22.0	22.9	22.7	22.0	22.0	49.0	49.0	53.2	53.5	52.2	52.1
Inflation	*in %*											
HICP	1.9	1.7	-0.3	-0.6	2.1	2.3	1.8	1.2	0.3	1.1	1.8	2.8
HICP excl. energy, food, alcohol and tobacco	1.0	1.9	0.8	-0.2	0.4	0.8	1.0	1.0	0.7	1.2	0.9	1.4
Public finance	*in % of GDP*											
Debt of the general government	70.3	65.6	79.8	85.0	80.0	79.6	85.5	83.6	97.3	100.0	98.3	...
One year net lending/net borrowing of the general government***	0.7	0.4	-7.7	-8.2	-6.3	-6.3	-0.4	-0.6	-7.2	-8.4	-7.0	...
*- interest payment****	2.0	1.7	1.6	1.6	1.4	1.4	1.8	1.6	1.5	1.5	1.5	...
*- primary balance****	2.8	2.1	-6.1	-6.6	-4.9	-4.9	1.4	1.0	-5.7	-6.8	-5.6	...

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 situation in the euro area economy remained good at the end of last year, albeit with significant short-term risks. The composite PMI declined overall in the final quarter of last year, but in January remained above its pre-pandemic level. The economic sentiment indicator was also high, albeit below last year's peak. After recording quarterly rates of around 2.2% for two consecutive quarters, euro area GDP growth is expected to have slowed in the final quarter of 2021, given the deterioration in private-sector services as a new wave of the pandemic hit. It was a different situation in manufacturing and construction, where confidence reached its highest level to date, although increasing numbers of firms are facing shortages of raw materials. Amid the anticipated high growth in employment, low unemployment and worsening epidemiological picture, labour shortages are also becoming more pressing heading into the new year. The Eurosystem's December projections were for economic growth in the euro area to reach 4.2% this year, and around 3% in 2023, while inflation is expected to fall to below 2%. The current inflationary pressures are primarily related to high energy price inflation and imbalances between supply and demand.

Monthly economic activity indicators

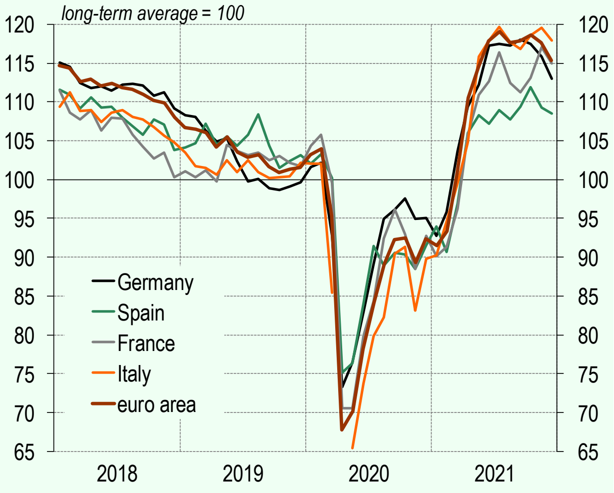
The short-term indicators for the final quarter of last year suggest a slowdown in economic growth in the euro area, but mostly remain at high levels. The composite PMI averaged 54.3 points over the final quarter of last year, down 4.2 percentage points, but remained above its pre-pandemic level, both then and in January. December's resurgence in the pandemic saw it reach its lowest level of the last nine months, mainly as a result of the deterioration in private-sector services. Despite a strong build-up of inventories of raw materials and semi-finished goods, growth in manufacturing output was unchanged in monthly terms, at one of the lowest rates of the last year and a half, as disruptions to supply chains continued to curtail it.[1] The economic sentiment indicator in the euro area was also down, although its average of 117.2 percentage points over the final quarter of last year remained close to the record high achieved in the previous quarter (see Figure 1.1). The decline was driven by a slide of 7.1 percentage points in services confidence, the largest decline since April 2020. Retail confidence also weakened,[2] while there were further improvements in construction and manufacturing, where confidence reached its highest levels to date, despite increasing shortages of raw materials and labour. The overall economic sentiment indicator's average over the final quarter of last year was down on the previous quarter in the majority of countries, most notably Malta. Slovenia's decline of 2.6 percentage points ranked it in the bottom third

[1] According to Markit, the first signs of an easing of the situation in supply chains could supposedly be seen at the end of last year.

[2] The retail inventories indicator increased in December, for the first time since May of last year, by 2.8 percentage points to -4.9 percentage points. The comparable indicator for industry has also been rising over the last few months, but is still in negative territory.

(see Figure 1.2).[3] According to the ECB's December projections, euro area economic activity is forecast to strengthen by 4.2% this year and by 2.9% in 2023. Large downside risks remain, given the resurgence of the pandemic, the high energy prices and inflationary pressures, and the disruptions to supply chains, while geopolitical tensions are also significant.

Figure 1.1: Economic sentiment indicator in major euro area countries

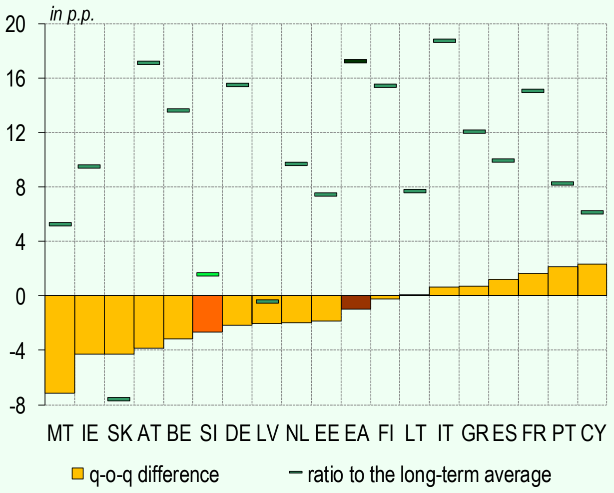


Source: Eurostat.

GDP in the third quarter of 2021

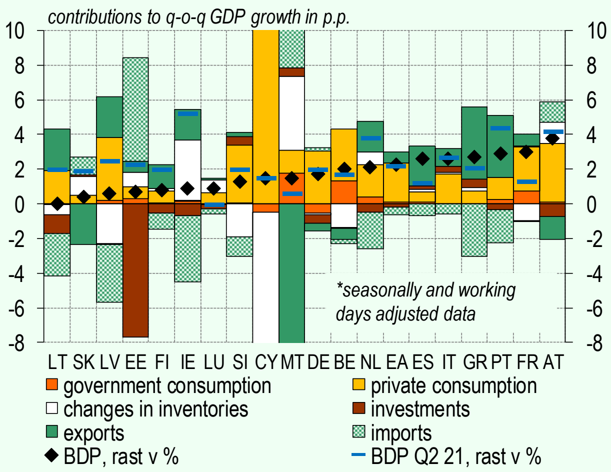
With the containment measures relaxed, quarterly economic growth in the euro area remained high in the third quarter of last year at 2.3%. GDP according to seasonally and calendar-adjusted figures was down just 0.3% on it pre-crisis peak.[4] Private consumption remained the driving factor in quarterly GDP growth, and was up 4.3%, the highest quarterly rate of growth to date, other than the exceptional rebound in the third quarter of 2020. With growth in imports slowing more sharply than growth in exports, the contribution by net trade also turned positive, while gross fixed capital formation reduced GDP growth by 0.2 percentage points. Investment in machinery and equipment was down 1.5% in quarterly terms, while construction investment declined by slightly less, its first decline since the introduction of stringent containment measures in the second quarter of 2020. On the production side, quarterly growth in activity in private-sector services rose to a high 3.7% as restrictions were eased, while value-added in construction was driven down by disruptions to supply chains. Meanwhile industrial production was virtually unchanged from the previous quarter.

Figure 1.2: Economic sentiment indicator in euro area countries in the final quarter of 2021



Source: Eurostat, Banka Slovenije calculations.

Figure 1.3: Quarterly economic growth* in euro area countries in the third quarter of 2021



Note: The full contributions to CY and MT GDP are not shown in the graph due to better visibility of other data.
Source: Eurostat.

[3] The largest improvements in the economic sentiment indicator's quarterly average in the final quarter of last year were recorded by Cyprus, and also by countries that had seen the largest decline in GDP in 2020 and had not yet fully regained the loss by the third quarter. These include Portugal, France, Spain and Italy.

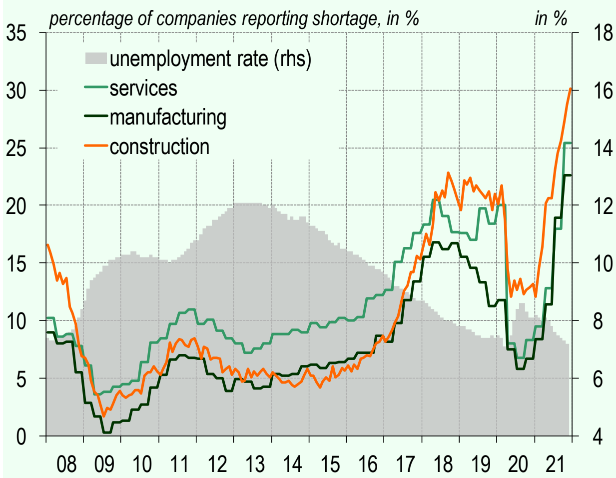
[4] More detailed analysis of economic activity in the euro area and its individual countries relative to the pre-pandemic level is presented in Box 1.1. on page 18.

All euro area countries saw economic activity strengthen in the third quarter of 2021, as in the previous quarter. The smallest increase in GDP was recorded by Lithuania, where it was practically unchanged in quarterly terms, while Austria recorded the highest quarterly growth of 3.8% (see Figure 1.3). Strong recoveries were also seen in Spain, Portugal and Italy, which are yet to regain their pre-crisis GDP levels, and in Greece and France (see Figure 1.4). These countries typically saw a positive contribution by net trade, thanks to rising services exports as the containment measures were relaxed over the summer. Slovenia's GDP growth of 1.3% put it in the middle third of the distribution, with a rate 1.0 percentage points less than the euro area average. Private consumption recovered in all euro area countries, but the contribution to current GDP growth by investment was modest or negative. On the output side, in all euro area countries other than Ireland the main contribution to GDP growth in the third quarter of previous year came from increased value-added in private-sector services, demand for which had been pent up by the stringent containment measures. Slovenia was one of six countries to see value-added strengthen in all sectors.

Situation on the labour market

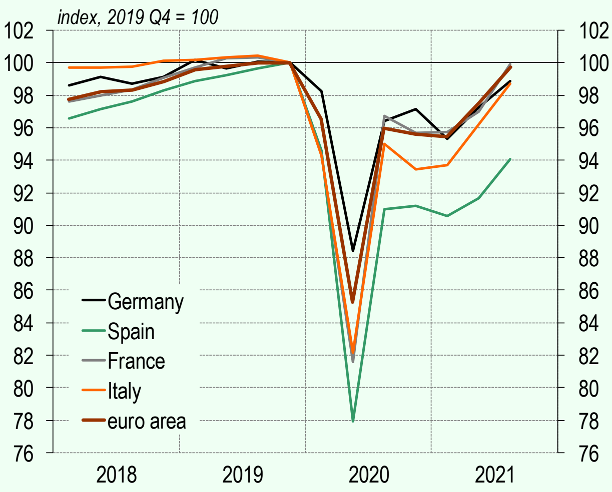
The situation on the euro area labour market continues to improve, although structural imbalances and short-term labour shortages are increasing at the same time because of the deterioration in the epidemiological situation. Year-on-year growth in employment in the third quarter of last year was up 0.1 percentage points on the previous quarter, and was broadly based across sectors and countries. According to seasonally adjusted figures, employment in the third quarter was down just 0.2% on its pre-crisis peak from the final quarter of 2019. Amid the return to work by those who had participated in job retention schemes, quarterly

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



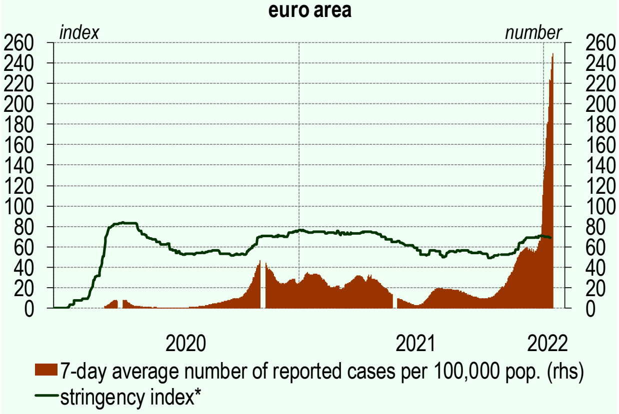
Note: Data is seasonally adjusted.
Source: Eurostat.

Figure 1.4: Level of GDP in major euro area countries



Source: Eurostat, Banka Slovenije calculations.

Figure 1.6: Number of reported Covid-19 cases and stringency in euro area



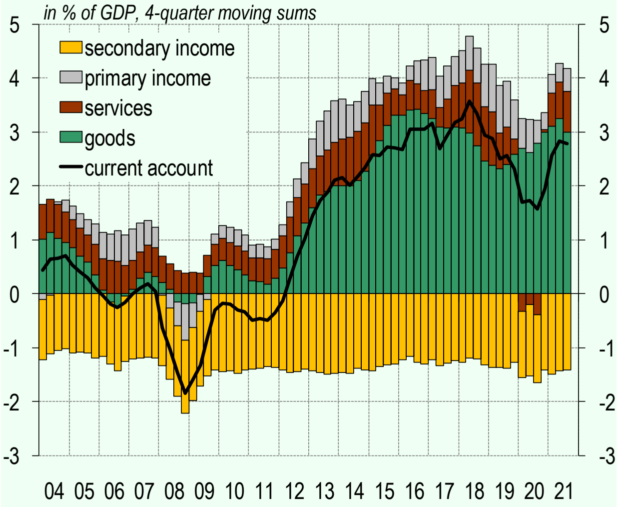
*Note: *The stringency index is an estimate of measures and may underestimate or overestimate real measures in a given period. It's calculated as a weighted average of individual members' indices, weighted bytheir GDP. Cyprus, Greece and Slovakia are not included due to data unavailability.*
Source: Johns Hopkins University CSSE COVID-19 Data, Banka Slovenije calculations.

growth in the number of hours worked again outpaced employment growth in the third quarter of last year, according to seasonally adjusted figures. The seasonally adjusted surveyed unemployment rate stood at 7.2% in November, down 0.1 percentage points on the previous month, its lowest figure since March 2020. Given the high demand for labour and the record low unemployment, labour shortages are increasing, construction again recording the largest shortage in December (see Figure 1.5). Going into 2022, the rise in case numbers and the accompanying increase in absence from work is also causing additional disruption to work processes because of labour shortages (see Figure 1.6). Employment expectations remained high in December, but were down slightly on the previous month. This was primarily attributable to reduced demand for labour in the service sector, most likely as a result of the deterioration in the epidemiological situation and the resulting tightening of containment measures in these service sectors. Year-on-year wage growth as measured by compensation per employee remained high in the third quarter of last year at 3.2%, to a large degree due to a low base in the previous year.

Current account and selected competitiveness indicators

The increase in the current account surplus in the euro area came to an end in the third quarter of last year. The 12-month surplus amounted to 2.8% of GDP, up significantly in year-on-year terms, but down 0.8 percentage points on its peak in the second quarter of 2018 (see Figure 1.7). The euro area thus provided current financing to the rest of the world in the amount of around EUR 330 billion in the third quarter. With the deficit in miscellaneous business services narrowing, the services trade surplus widened further to reach 0.8% of GDP in the third quarter, the largest figure of the last two and a half years. The trade surplus in transport and travel services is continuing to increase.[5] By contrast, after increasing for two years, the merchandise trade surplus

Figure 1.7: Current account balance of the euro area



Source: ECB SDW, Eurostat, Banka Slovenije calculations.

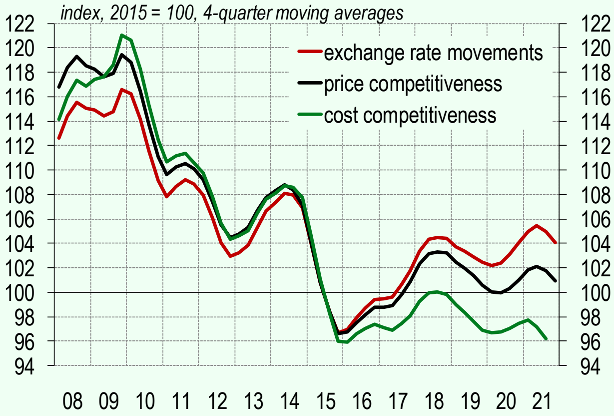
narrowed to 3.0% of GDP, on account of high year-on-year growth in nominal merchandise trade imports amid rising import prices, although it remained slightly higher than a year earlier. The deficit in income continued to narrow. The largest current account deficit in the euro area was recorded by Cyprus, while the largest surpluses outside of Ireland were recorded by the Netherlands and Germany. Slovenia lay just behind them, with a surplus of 5.2% of GDP.

The price and cost competitiveness of the euro area economy improved last year, and in the third quarter were more favourable than a year earlier. The price competitiveness indicator measured against the 19 most important trading partners[6] was down 1.5% in year-on-year terms, entirely as a result of the euro's depreciation against the basket of currencies, as euro area inflation remained unchanged compared with inflation in competitors. Amid an even larger year-on-year fall in the euro in the final quarter, price competitiveness improved even more towards the end of the year (by 3.1%, see Figure 1.8). The most favourable developments over the two quarters were recorded by Malta and Portugal, which are in the best positions in terms of exchange rate and inflation alike. By contrast, the competitiveness position for exporters was least favourable in Lithuania and Estonia, primarily on account of high domestic inflation. Slovenia

[5] The 12-month surplus of trade in transport services in the third quarter of last year surpassed its pre-crisis peak to reach its highest level since records began (in 2008).

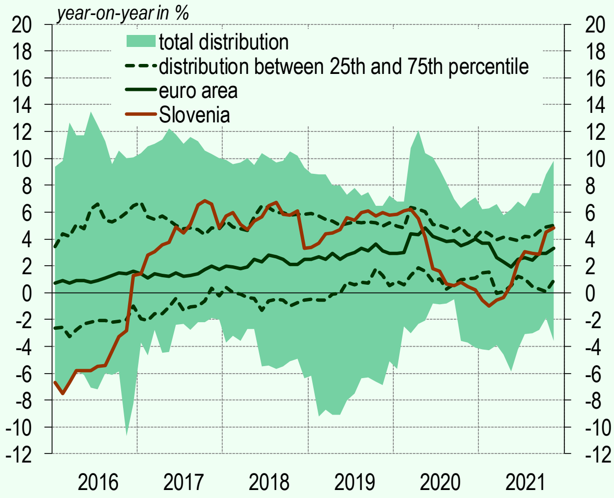
[6] Effective euro exchange rate adjusted by the HICP deflator. Similar developments to those against the group of the 19 most important trading partners were also recorded vis-à-vis the narrowest and widest groups of 12 and 42 trading partners.

Figure 1.8: External competitiveness of 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.

Figure 1.9: Comparison of growth in loans to the non-banking sector between Slovenia and the euro area



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

was not noteworthy in either respect, and was ranked in the middle of the euro area countries. The cost competitiveness of the euro area economy against the same group of trading partners[7] in the third quarter was even more favourable in year-on-year terms (the indicator was down 4.0%), on account of a decline of 2.4% in relative unit labour costs alongside the depreciation in the euro.[8] There remains considerable variation between individual euro area countries. The best improvement in cost competitiveness was again recorded by Greece, while Lithuania and Latvia saw the largest deteriorations. Slovenia was ranked immediately after them, with a slightly smaller year-on-year deterioration. The decisive factor in all of the aforementioned countries was domestic unit labour costs.

Bank lending activity

Average year-on-year growth in loans to the non-banking sector in the euro area has been increasing moderately since May of last year, although rates vary considerably from country to country. The average rate hit 3.3% in November, with four countries recording a contraction in loans, and four countries growth of more than 6%. After slowing between February and August of last year, growth in loans to non-financial corporations had risen slightly by November, but at 2.4% remained significantly lower than growth in the year after the outbreak of the pandemic. The gaps between countries have narrowed, but remain large: six countries were seeing loans to non-financial corporations continuing to contract in year-on-year terms, while four saw growth of more than 5%. Household lending in the euro area continued to expand at rates of more than 4%, as it has since the beginning of the second quarter of last year. The stock of household loans in November was up 4.4% in year-on-year terms. Amid high growth in real estate prices, growth in housing loans continued to increase last year, although it stabilised at 5.5% over the three months to November. The recovery in private consumption saw growth in consumer loans resume in the second quarter of last year, although it remained low, given the large savings built up by households while unable to spend during the past stringent containment measures and while receiving government financial assistance. After several months of stagnation, growth in consumer loans rose to 1.7% in November.

[7] Effective euro exchange rate adjusted by the ULC deflator.

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

Inflation

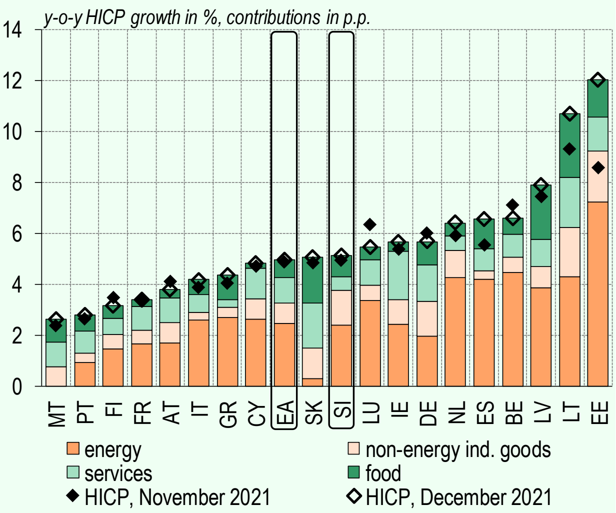
Inflation in the euro area reached 5.0% in December, its highest figure to date. The inflation target of 2% was exceeded in all euro area countries (see Figure 1.10), most notably the Baltic states. The range across euro area countries widened further, with a low of 2.6% in Malta, and a high of 12.0% in Estonia. Slovenia's inflation rate of 5.1% was about the same as the euro area average. Given tight conditions on the European power markets, energy prices were the main factor driving inflation in almost all euro area countries, and were up 25.9% in year-on-year terms on average across the euro area. The exceptions were Malta and Slovakia, where energy inflation was curbed by unchanged prices of natural gas imports, thanks to long-term contracts with suppliers, and government regulation of certain energy prices. With consumers responding quickly to the opening-up of the economy, and the accompanying supply chain disruptions, growth in prices of non-energy industrial goods also began to rise last year. The rate picked up further at the end of the year, and stood at almost 3% in the euro area overall in December. Service inflation has also strengthen due to recovery of sectors that had been heavily curtailed by the containment measures. The low base effect related to the cut in VAT in Germany between July and December 2020 has contributed to the elevated inflation at the end of last year, however, its impact disappears as of January 2022. According to the ECB's projections, inflation is expected to remain high in the early part of this year, before slowing to around 3% in the second half of the year as the disruptions to supply chains are expected to be resolved. Price developments will also be strongly dependent on the dynamics in wage growth.

Public finances

The general government deficit in the euro area is expected to continue gradually reducing, thanks primarily to economic growth and the downsizing of fiscal measures to alleviate the impact of the pandemic. According to Eurosystem estimates from last December, the deficit amounted to 5.9% of GDP last year, and was still being affected relatively heavily by measures to alleviate the impact of the pandemic. The latest figures for last year show a deficit of 6.0% of GDP over the first three quarters of the year. The deficit is forecast to narrow to 3.2% of GDP this year, as the measures are scaled back and economic growth remains resilient (see Figure 1.11).

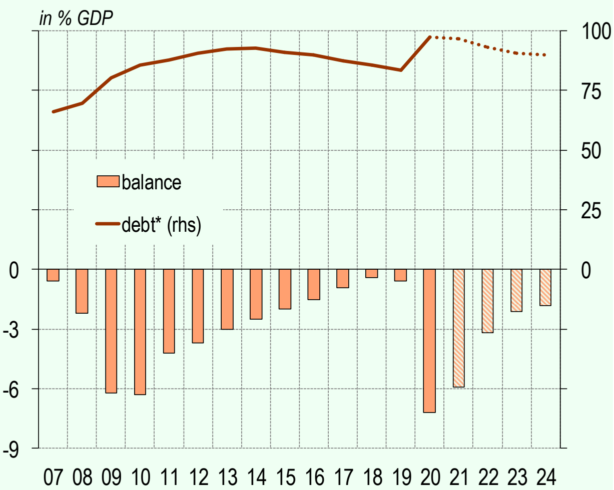
The ratio of debt to GDP will also gradually decline, thanks to the encouraging economic outlook. Debt rose sharply over the pandemic, but will gradually decline in the future as the economy grows and the share of interest payments in the deficit declines (see Figure 1.11). It amounted to 97.7% of GDP at the end of the third quarter of last year. According to the Eurosystem projections,

Figure 1.10: Inflation in euro area member countries



Source: ECB, Eurostat, Banka Slovenije calculations.

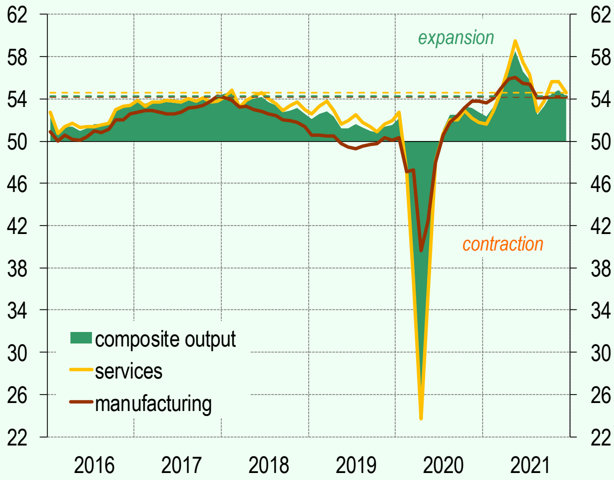
Figure 1.11: General government balance and debt in euro area



Note: *ECB definition.
Source: Eurostat, ECB.

it is forecast to fall below 90% of GDP by 2024, still above its pre-pandemic level. Debt in the euro area increased by around 14 GDP percentage points over the course of the crisis on this occasion, similarly to the decline in the early part of the global financial crisis. In the previous crisis it then kept rising until 2014, when the trend reversed, after a total increase of 27 GDP percentage points. This time the expectation is for a quicker return to debt declining path as a ratio to GDP, which is forecast to happen this year, thanks to the faster economic recovery. An agreement on fiscal rules by EU Member States could also have an impact on future developments in debt.

Figure 1.12: JPMorgan Purchasing Managers' Index (PMI), global



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

Economic developments outside the euro area

The global economic situation remained good at the end of last year. The JPMorgan PMI rose to 54.5 points in the final quarter of last year, up 1.5 percentage points on a year earlier (see Figure 1.12). The resurgence of the pandemic brought a slight slowdown in activity in private-sector services in December, while manufacturing output hit a five-month high as the situation in supply chains appears to have eased. Firms strengthened their optimistic outlook, despite the high uncertainty in the international environment; according to Markit, the first signs of easing price pressures also appeared. A quarterly rise in the PMI was recorded in the final quarter of last year by the majority of major global economies other than the euro area, Brazil and Russia. According to the OECD's December projections, global GDP is forecast to rise by 4.5% this year, and by 3.2% in 2023.[9]

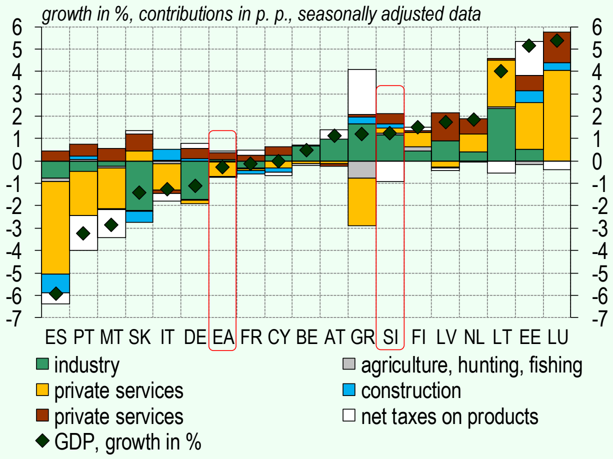
Economic activity was hit in a number of countries in the third quarter of last year by rising prices, reduced access to raw materials and intermediate goods, and a resurgence in the pandemic. After recording modest growth in the previous quarter, GDP in Japan contracted by 0.9%, while a similar decline in economic activity was recorded by Russia. Meanwhile Brazil moved into recession (with a contraction of 0.1%). Amid disruptions to the electricity supply and to supply chains, the resurgence of the pandemic and a cooling real estate market, economic growth in China also slowed sharply to 0.2% according to the OECD figures, comparable to the first quarter of last year and the lowest rate since the imposition of stringent containment measures in the first quarter of 2020. At just over 1% the quarterly GDP growth in the UK also declined significantly, in part because of labour shortages. UK GDP is still down 1.5% on its peak from 2019. Economic growth in the US also slowed significantly in the new wave of the pandemic. By contrast, the relaxation of containment measures amid an improving health situation brought a strong rebound in economic activity in India: after declining by 11.6% in the second quarter, GDP was up 12.7% in the third quarter. The euro area also recorded notable quarterly GDP growth of 2.3%.

[9] In its January projections the World Bank is forecasting global economic growth of 4.1% this year, and 3.2% in 2023.

Box 1.1: Heterogeneity of the economic recovery between euro area countries

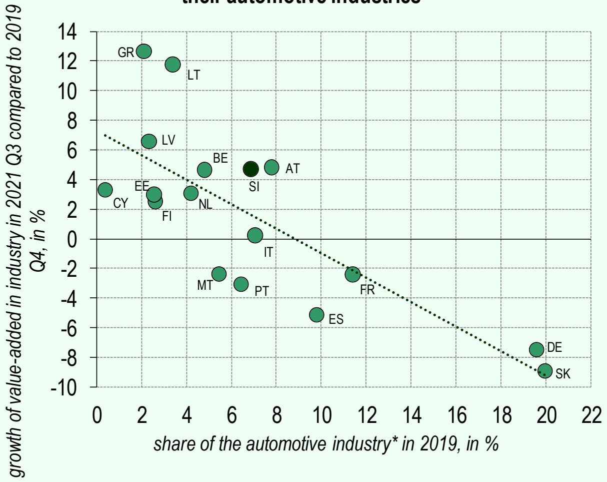
Euro area economic activity in the third quarter came very close to its pre-crisis level in the third quarter of last year, as normality was mostly restored in numerous recreational and tourism-related services. Euro area GDP according to seasonally and calendar-adjusted figures was down just 0.3% on it pre-crisis peak in the final quarter of 2019. The relaxation of containment measures brought a major improvement in private-sector services in particular, where value-added rose by fully 3.7% over the quarter to stand just 1.3% short of the final quarter before the crisis. Most euro area countries had regained the decline in activity since the outbreak of the pandemic by the third quarter of last year.[1] The most notable were Luxembourg and the Baltic states, which alongside Finland had the least stringent containment measures, and also the smallest declines in GDP in 2020.[2] Slovenia has already surpassed its economic activity from the final quarter of 2019, by 1.2%, which ranks it among the top third of the distribution in terms of the pace of the recovery (see Figure 1).

Figure 1: Economic growth in euro area countries in the third quarter of 2021 compared to 2019 Q4, production side



Note: Ireland has been excluded from the analysis because of the strong influence of multinationals.
Source: Eurostat, Banka Slovenije calculations.

Figure 2: Industry value-added and dependence of countries on their automotive industries

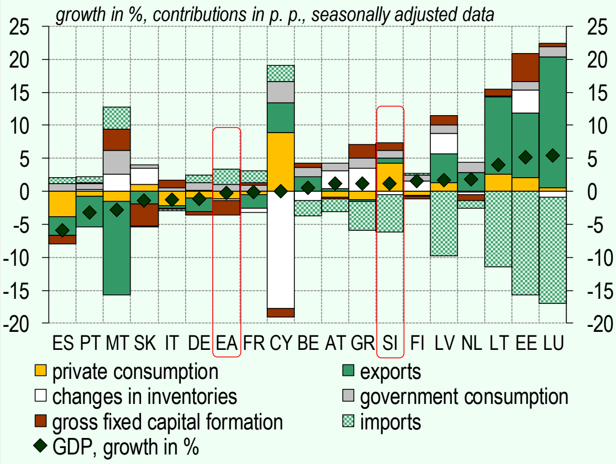


*Note: Data for Luxemburg is not available. *Share of automotive sector (sectors C29 and C30) in industry value-added.*
Source: Oxford Economics, Eurostat, Banka Slovenije calculations.

A third of the euro area countries had still not regained their GDP level of 2019, in particular those heavily dependent on international tourism (see Figure 1). These are most obviously Spain, Portugal, Malta and Italy, who given their large share of output accounted for by contact-intensive services[3] and their extremely stringent containment measures[4] recorded the largest declines in GDP.[5] Value-added in private-sector services in the third quarter of last year was still down on the final quarter of 2019, by amounts ranging from 8.0% (Spain) to 2.3% (Italy). There was also a considerable shortfall of more than 4% in Greece, which has already surpassed its pre-crisis level of economic activity. Conversely, the economic recovery has been hindered in certain countries by the disruptions to global supply chains. GDP remains below its level from the end of 2019 in Slovakia (by 1.4%) and Germany (by 1.1%) because of their heavy dependence on the car industry,[6] which was hit hardest in the crisis by shortages of semiconductors (see Figures 1 and 2). The decline in value-added in industry actually increased in both countries last year, taking the shortfall on its pre-crisis level to 8.9% in Slovakia and 7.5% in Germany in the third quarter.[7]

The relaxation of containment measures and the significant adaptation to the pandemic conditions made by consumers drove a recovery in private consumption by the third quarter of last year in all euro area countries. More than half were nevertheless still down on their pre-crisis levels (see Figure 3). The most notable shortfalls were in Spain (6.8%), and Italy and Malta (approximately 3.5% each). By contrast, Slovenia ranked immediately behind Cyprus, having surpassed its pre-crisis level of private consumption by fully 8.0%. The economic recovery was supported by increased government consumption in all euro area countries, and by increased investment in most of them.[8] Slovenia ranked fifth by this measure, having exceeded its pre-crisis level by 5.5% on average over the first three quarters of the year.[9] Conversely, the regaining of the shortfall in economic activity was mostly hindered by international trade, most notably in Malta, whose merchandise exports are still down almost a third on their pre-crisis level.[10] The negative contribution by net trade also sharply reduced GDP growth in Estonia, Latvia and Slovenia, who alongside Lithuania and Luxembourg were the euro area countries that recorded the largest increases in imports relative to the level from the end of 2019.[11] Their exports also increased significantly, merchandise exports in particular.[12] The sole exception was Luxembourg, where services exports strengthened sharply.[13]

Figure 3: Economic growth in euro area countries in the third quarter of 2021 compared to 2019 Q4, expenditure side



Note: Ireland has been excluded from the analysis because of the strong influence of multinationals.
Source: Eurostat, Banka Slovenije calculations.

1 Ireland is excluded from the analysis on account of the major influence of multinationals.

2 Luxembourg regained its GDP from the end of 2019 by the third quarter of 2020, while Estonia and Lithuania surpassed their pre-crisis levels in the first quarter of 2021, as did Latvia and Finland in the second quarter of 2021.

3 Includes the sectors of wholesale and retail trade, accommodation and food service activities, transport, and arts, entertainment and recreation, which generate approximately a quarter of GDP in the aforementioned countries.

4 The exception is Malta, which had less stringent containment measures.

5 Greece also suffered a large decline in economic activity, but had already regained its pre-crisis level by the third quarter of last year.

6 The car industry (Sectors C29 and C30) accounts for approximately a fifth of value-added in industry in Germany and Slovakia.

7 Value-added in industry in the third quarter of last year was still down on its pre-crisis level in Spain and France, where the car industry is also of major importance (see Figure 2), and in Portugal and Malta.

8 Investment activity in certain countries (Germany, Cyprus, Netherlands, Austria and Finland) in the third quarter of last year was again below its level of the final quarter of 2019. Only Slovakia and Spain were yet to regain their pre-crisis level of gross fixed capital formation by the third quarter of last year.

9 Slovenia had surpassed its peak investment activity from the end of 2019 by the first quarter of 2021.

10 The structure of the decline in exports was somewhat surprising in Malta's case, given that it ranks second out of all euro area countries in terms of the ratio of exports of travel services to GDP, at just under 13.0%. Despite their small share of total exports, the majority of the change relative to the final quarter of 2019 was driven by merchandise exports. Services exports were down just 3.4% on their pre-crisis level.

11 Greece also saw imports rise sharply compared with the quarter before the pandemic, by 11.1%.

12 Apart from Luxembourg, merchandise exports remained down on their pre-crisis levels in Malta, France, Germany, Portugal and Slovakia.

13 Only three euro area countries recorded services exports that were up on the final quarter of 2019: Luxembourg, Cyprus and Estonia.

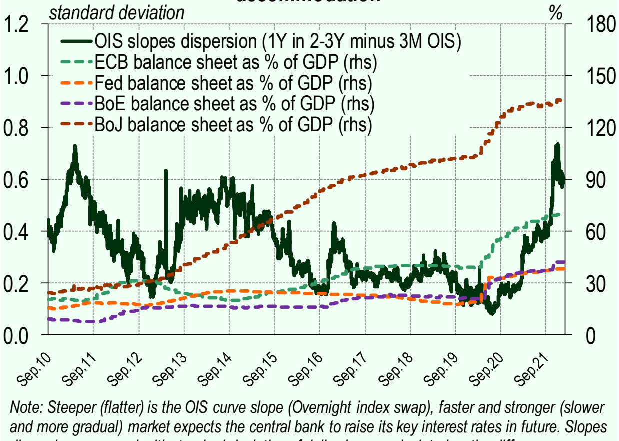
2 Monetary Policy and Financial Markets

Market yields rose moderately in the final quarter of last year and heading into 2022, but remain at levels comparable to the pre-pandemic levels. This is not only true of the countries with solid credit histories, but also of the weaker sovereigns and the higher-risk bonds of private issuers. The sentiment on the equities market also remains positive, with omicron leaving only a temporary mark. Despite the ECB's strong shift in December to scaling back its accommodative stance, the composite indicators of financing conditions in the euro area suggest that the environment will remain supportive for financing and hence for economic recovery. In the eyes of market participants, ECB monetary policy is expected to be more accommodative this year compared with the other central banks in advanced economies. In light of the above, the euro might well slide against other currencies this year, similarly to last year. The main focus of the financial markets at the end of the year was the exceptional volatility in (futures) energy prices. Inspite of this, the market inflation expectations as disclosed by inflation swaps suggest that the markets still feel that annual inflation in the euro area will fall slightly below 2% over the medium term.

Monetary policy of the ECB and other major central banks

The final quarter of 2021 saw a stronger reversal by the ECB in withdrawing its monetary policy support, given the higher and longer-lasting inflationary pressures in the robust euro area economy. At its monetary policy meeting in December the Governing Council confirmed the discontinuation of the pandemic emergency purchase programme (PEPP) at the end of March 2022, while communicating that it is necessary to support the financing conditions via other measures, and thus the economic recovery in all euro area economies. The central banks of the advanced economies have not been uniform in their response to the current situation and outlook, as a result of which the markets anticipate differing dynamics in interest rate hikes (see Figure 2.1). This is an indication that central banks are dealing not only with collective, global factors, but also with specific strengthening domestic inflation factors. The Fed announced the ending of the asset purchase programme in March 2022, and signalled the possibility of three interest rate hikes

Figure 2.1: Differences in the withdrawal of central banks' accommodation



Note: Steeper (flatter) is the OIS curve slope (Overnight index swap), faster and stronger (slower and more gradual) market expects the central bank to raise its key interest rates in future. Slopes dispersion measured with standard deviation of daily slopes, calculated as the difference between 1Y OIS in 2-3Y time and 3M OIS of countries/currencies: EUR, USD, JPY, GBP, CHF (from Aug. 2017), DKK (from Feb. 2013), SEK, NOK (IRS, interest rate swap, on NIBOR instead of OIS), CAD, KRW (3M certificate of deposits instead of OIS), AUD in NZD. ECB, the central bank of euro area, Fed of USA, BoE of United Kingdom and BoJ of Japan.
Source: Bloomberg, Banka Slovenije calculations.

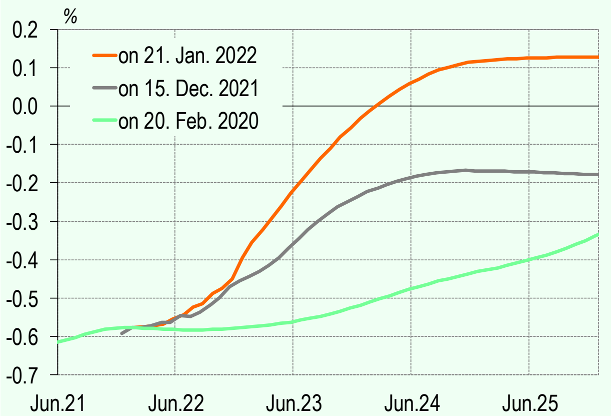
this year (each of 0.25 percentage points), while the central banks of the UK and Norway have already raised their key interest rates. By contrast, the central banks of Japan and Switzerland have left their monetary policy virtually unchanged. The prevailing view of the financial markets is that despite December's reversal, ECB monetary policy will remain more accommodative than the central banks of other advanced economies.

Money and capital markets, and commodity prices

With the announcement of the gradual scaling-back of the ECB's accommodative monetary policy, interest rates rose in several segments of the euro area financial market, but this did not change the favourable financing picture, which is evidenced in the composite market indicators of financing conditions. The €STR curve, which is a frequent benchmark for other euro area interest rates, was rather volatile and rose, and at the beginning of this year had fully priced in the market expectations that the ECB will emerge from the negative interest rate environment over approximately two years, significantly faster than the pre-pandemic expectations (see Figure 2.2). This also brought a rise in required yields on euro area government bonds and private-sector bonds. GDP-weighted 10-year yields in the euro area stood at 0.3% to 0.4% at the beginning of this year (up 50 to 60 basis points on a year earlier), which is still significantly below the average between 2015 and 2019 of 0.8%. Private-sector bond spreads over sovereigns have remained close to or at record lows, further confirmation of the assessment that investors have not significantly raised their required credit risk premiums. Slovenia's Ministry of Finance issued new four-year and 40-year bonds in early January with a total nominal value of EUR 1.75 billion. Investors' total demand for the two bonds amounted to more than EUR 6.6 billion, at a time of increased volatility on the financial markets, the side effects of which are generally more evident in smaller, shallower segments of the financial markets, such as Slovenian government securities. Bond issuance by the non-financial sector in Slovenia remained modest in 2021, according to the KDD figures. Despite the withdrawal of support by central banks, interest rates in other advanced economies also remain at relatively low levels. For example, yields on the 10-year government bond in the US, the global benchmark for the bond market, averaged around 1.75% in January, comparable to the level seen in the spring of 2021. This means that US government bonds are also offering investors negative real returns over the next ten years, according to current market inflation expectations.

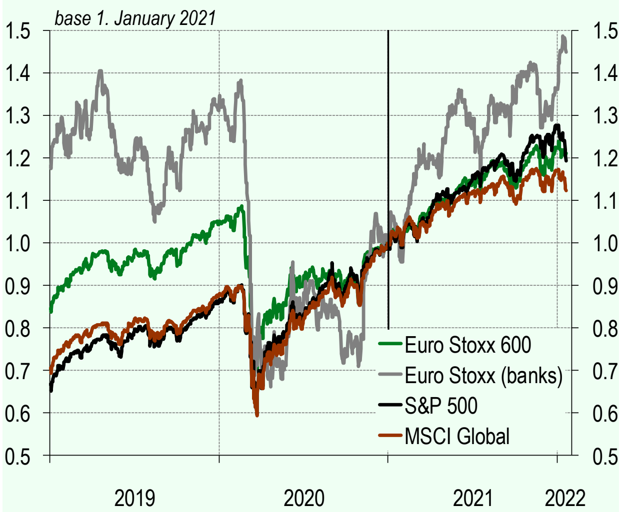
The equities markets ended last year and entered this year in a cautious but constructively positive sentiment, with prices being driven down only temporarily by the omicron wave. The omicron correction in late

Figure 2.2: Forward €STR curve on selected dates



Note: Forward €STR curve is the euro area OIS reference curve (Overnight index swap) that reflects market expectations for a lift-off of ECB key interest rates. Date 20. Feb. 2020 – pre-pandemic, 15. Dec. 2021 – last monetary policy meeting of the ECB Governing Council, 21. Jan. 2022 – latest available data. Source: Bloomberg.

Figure 2.3: Equity indices as index changes

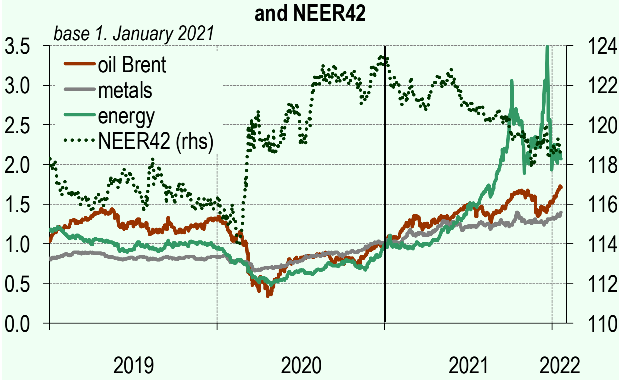


Source: Bloomberg, Banka Slovenije calculations.

November was smaller than the previous correction in October that followed the autumn wave of raised inflationary pressures amid the spread of the delta variant and difficulties in the Chinese real estate market. Both corrections soon gave way to positive factors, where according to market participants primary role went to promising expectations of future profits of public limited companies, growth in which is expected to remain above trend, and investor confidence that public policy is capable of mitigating any new pandemic shocks. Investments in public limited companies recorded positive returns last year, and the Euro Stoxx index gained approximately 20% (see Figure 2.3). One particular highlight was euro area banks, whose shares gained approximately 40% over the year, purportedly driven above all by the expectation of a faster emergence from the negative interest rate environment. Investors in shares remain cautious, judging by the relatively high level of transactions in put options that protect investors against downward corrections in share prices.

With the exception of oil prices, energy futures have been extremely volatile since September of last year (see Figure 2.4). The outlook remains uncertain, other than for oil prices, which are expected to fall slightly this year. The euro lost ground against other major global currencies in the final quarter of last year, as it did throughout the year (see Figure 2.4). Market participants are forecasting similar developments this year, mainly on account of ECB monetary policy, which is expected to remain more accommodative than in most other trading partners. Energy price inflation and the fall in the euro could further add to this year's inflationary pressures in the euro area. Nevertheless the market inflation expectations derived from inflation swaps still suggest that inflation will most likely return to slightly below 2% from 2023.

Figure 2.4: Prices of metals and energy as index changes and NEER42



Note: Energy as a simple average of prices of Oil Brent, ICE London gas, coal (Rotterdam) and Nordic Electricity. All prices are for the 1. future contract, except Oil Brent. Metals as LME (London Metal Exchange) index, calculated from closing prices of copper, aluminium, lead, tin, zinc, nickel. 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.

Box 2.1: Interest rate benchmark reforms

Interest rate benchmarks are publicly accessible interest rates that play a key role in the financial system, and usually represent the costs of bank borrowing over the short term. They have been reformed by their supervisors and administrators in recent years with the aim of ensuring greater reliability, transparency and impartiality. The reforms are a response to the decline in trading in interest rate benchmarks on the unsecured interbank market and the manipulation of their calculation in the period after the global financial crisis of 2008. In the past, interest rate benchmarks were based merely on quotations, but under the reform package their calculation is based as far as possible on actual transactions. In 2013, the International Organization of Securities Commissions adopted standards for setting financial benchmarks, and one year later the Financial Stability Board published recommendations for strengthening the representativeness of interest rate benchmarks. The Benchmarks Regulation[1] was adopted in 2016, with the aim of improving the quality, management and control of the calculation of benchmarks, thereby ensuring increased protection of consumers and investors.

The most important interest rate benchmarks in the euro area are the €STR and the EURIBOR. The €STR has replaced the EONIA, while the EURIBOR has remained in force. Once the European Money Markets Institute (EMMI) had announced that reforming the EONIA was unlikely to succeed, the Eurosystem established the euro short-term rate (€STR), given the great importance of an overnight interest rate to monetary policy transmission. The €STR is an overnight interest rate calculated on the basis of unsecured euro deposits received by reporting banks from other banks and non-banking financial institutions. It is calculated daily, and has been published since October 2019. In January 2022 the €STR finally replaced the EONIA, which since October 2019 had been calculated as the €STR plus 8.5 basis points. The EONIA premium was added because the €STR reflects the cost of bank borrowing, while the EONIA used to reflect the cost of bank lending and was therefore generally higher. The ECB also began calculating compounded €STR average rates for standard maturities of up to one year and a compounded index, which allows for the derivation of compounded interest rates for non-standard maturities. This provided for fallbacks that can be used by parties to contracts as a replacement for the EUR LIBOR or the EURIBOR, when and if these benchmarks are discontinued. The EMMI, which remained the administrator of the EURIBOR, introduced a new hybrid methodology for calculating it in 2019, based as far as possible on actual transactions. It also adjusted its administration of interest rates in accordance with the Benchmarks Regulation.

The LIBOR - the most important benchmark in global terms, which had been calculated in five currencies, was discontinued at the end of 2021, with the exception of the USD LIBOR for certain maturities, where the deadline was extended to 30 June 2023. Until the end of 2021 the LIBOR was being calculated as an interest rate benchmark in euros, US dollars, sterling, Japanese yen and Swiss francs. The UK financial supervisor had announced back in 2017 that the LIBOR would be discontinued, and official confirmation of this came in March 2021.

The LIBOR will be replaced by interest rates based on risk-free overnight interest rate benchmarks, whose ad-

Table 1: Overview of risk-free reference rates by country

	euro area	US	United Kingdom	Switzerland	Japan
Working group	Working Group on Euro Risk-free Rates	Alternative Reference Rates Committee	Working Group on Sterling Risk-Free Reference Rates	National Working Group on CHF Reference Rates	Cross-Industry Committee on Japanese Yen Interest Rate Benchmark
Risk-free rate (RFR)	€STR	SOFR	SONIA	SARON	TONA
Name of RFR	Euro short-term rate	Secured overnight financing rate	Sterling overnight index average	Sviss average overnight rate	Tokyo overnight average rate
Administrator	European Central Bank	Federal Reserve System	Bank of England	SIX Swiss Exchange	Bank of Japan
Secured interest rate	no	yes	no	yes	no
Including wholesale money market	yes	yes	yes	no	yes
Available from	October 2019	April 2018	1997	2009	1992

Source: Websites of working groups of risk-free reference rates.

ministrators are usually central banks. The transition from the LIBOR to other interest rate benchmarks is a major challenge for market participants and supervisors, in Europe and the US alike. Because the LIBOR was calculated for various currencies, the financial industry in individual countries set up working groups on risk-free interest rates, who together with central banks drew up recommendations for the LIBOR to be replaced by interest rates based on overnight interest rate benchmarks, namely the €STR, SOFR, SONIA, SARON and TONA (see Table 1). These are calculated from actual transactions, and may be unsecured or secured, while some of them also include broader wholesale markets with non-bank participants for the sake of greater representativeness (see Table 1).

To replace the LIBOR of standard maturities, it is necessary to convert the risk-free overnight interest rates into longer maturities and add a credit premium. The conversion of overnight interest rates into longer maturities can be done in two ways: i) using a backward-looking methodology based on past overnight interest rate data (e.g. compounded or average rates), or ii) using a forward-looking methodology based on derivatives of overnight interest rates (e.g. interest rate swaps or futures). The two methodologies are not necessarily used in all jurisdictions,[2] and in some a replacement interest rate based on a forward-looking methodology will be developed in the future, once a market in overnight interest rate derivatives is developed. A credit premium also needs to be added to the risk-free interest rate for specific maturities. A fixed spread is most often used for this purpose, namely the spread between the LIBOR and the risk-free overnight interest rate over the last five years.[3]

To avoid any risk to the validity of existing contracts tied to the EONIA and the CHF LIBOR, the European Commission adopted an implementing regulation to replace the two interest rates after the end of 2021. In contracts where the parties have failed to agree a replacement interest rate, the interest rate set out in the regulation applies automatically. The €STR plus 8.5 basis points will be used to replace the EONIA, while the CHF LIBOR at standard maturities will be replaced with the 1-month or 3-month compounded SARON plus a fixed spread determined separately for each standard maturity.

[1] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

[2] The Swiss working group for example announced that it would not calculate interest rates using a forward-looking methodology, as the derivatives market is not liquid enough.

[3] This spread was set out in its legal acts by the International Swaps and Derivatives Association (ISDA) on 5 March 2021, when the UK financial supervisor officially announced the discontinuation of the LIBOR.

3 Domestic Economic Activity

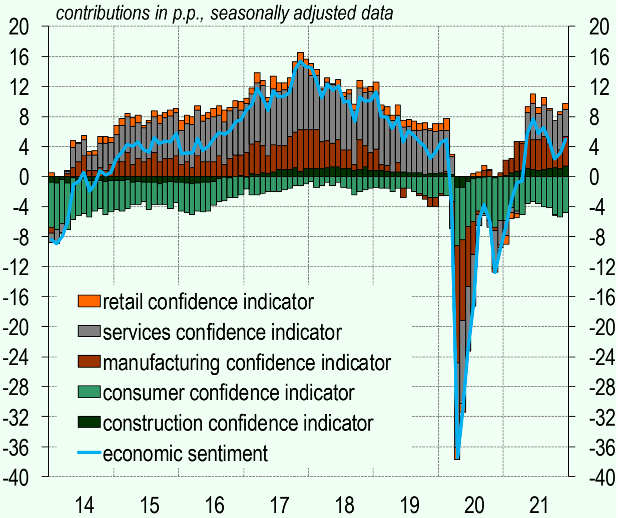
According to current data, the impact on domestic economic activity from the deteriorating epidemiological situation and lasting disruptions to supply has been relatively small. The economic sentiment improved in December as firms mostly reported continuation of strong demand, but also price pressures. Amid labour shortages and disruptions to the supply of raw materials and semi-finished goods, monthly activity indicators mostly remained encouraging over the autumn, as only a small number of sectors have genuinely been affected to date. It can be concluded from alternative high-frequency data that domestic consumption and foreign trade have continued strengthening into the new year. The business conditions are however worsening for many firms, with high energy costs causing difficulties in addition to the resurgence of the pandemic. Slovenia regained its pre-crisis level of GDP in the third quarter of last year, and economic growth has been gradually slowing since. Growth has been driven markedly by domestic demand, which is significantly stronger than the euro area average. On the supply side too, the majority of domestic sectors had surpassed their pre-crisis levels of value-added by the third quarter, with all major sectors well ahead of the euro area.

Economic sentiment indicators

The economic sentiment improved in December despite the worsening epidemiological situation. Confidence rose in all sectors with the exception of private-sector services other then retail, and consumers were also less pessimistic.[1] Manufacturing firms raised their assessment of current demand for the second consecutive month, while the export expectations and output expectations each reached one of their highest levels to date. Construction firms also reported rising orders and activity. In private-sector services retail firms saw a rise in turnover, while firms in other private-sector services became more cautious in their assessments of current demand and demand expectations, although they remain relatively positive despite stringent containment measures. The SURS survey data thus suggest a continuation of domestic and foreign economic growth.

Amid strong demand, problems are continuing on the supply side. The indicators of insufficient demand are at very low levels, and capacity utilisation is high, while firms are not reporting any financial difficulties. On the contra-

Figure 3.1: Economic sentiment indicator for Slovenia



Source: SORS, Banka Slovenije calculations.

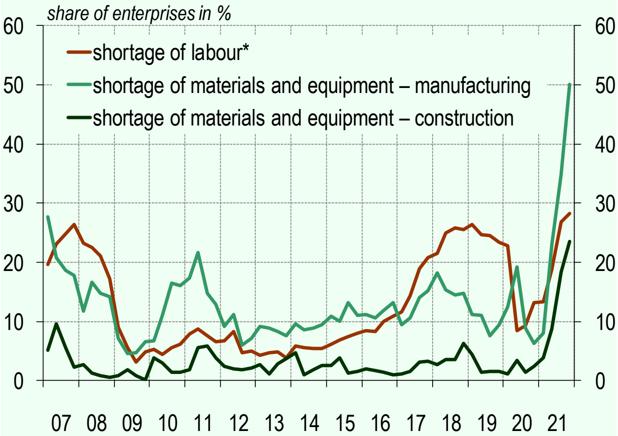
[1] The consumer confidence indicator in January remained at its level from December.

ry, they are expecting the high price growth to continue, and consumer expectations are the same. Shortages of raw materials and rising commodity prices remain evident in manufacturing and construction, while retail inventories are low. The vast majority of sectors are also facing significant labour shortages. In a situation of marked imbalance between excess demand and limited supply, price pressures can be expected to continue rising.

High-frequency activity indicators

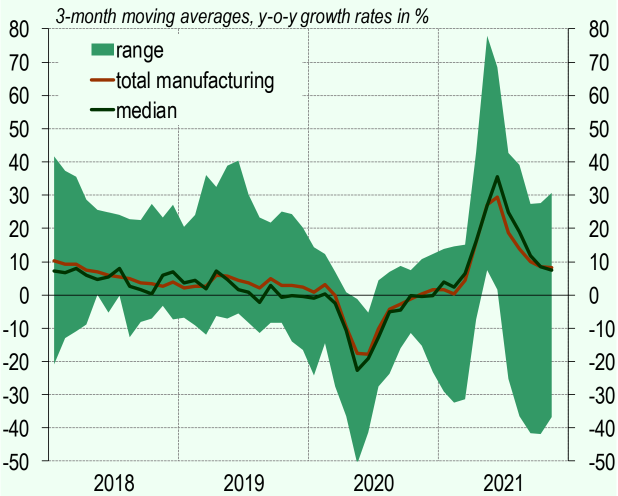
The economic situation has remained favourable in recent months, albeit with a number of difficulties in certain sectors. Monthly growth in industrial production stood at 2.8% in November of last year, its highest figure of the last year, while the year-on-year rate was more than 10%. The impact of the disruption to supply chains is particularly pronounced in two segments of manufacturing, namely the manufacture of motor vehicles and the manufacture of leather products related to the car indus-

Figure 3.2: Limiting factors in Slovenia



Note: *Banka Slovenije's estimate based on shares in value added including enterprises from industry, construction and private services other than trade which reported lack of labour as a limiting factor to production/activity.
Source: Eurostat, Banka Slovenije calculations.

Figure 3.3: Range of production growth rates between manufacturing activities



Source: SORS, Banka Slovenije calculations.

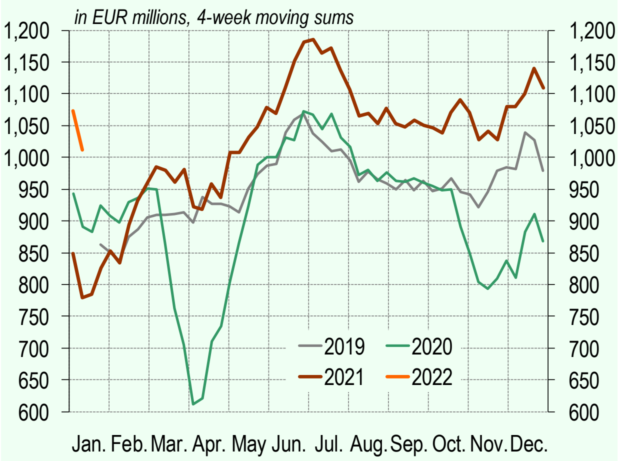
Table 3.1: Economic activity – volume indices

	12 m. to Oct.20	12 m. to Oct.21	2021 Sep.	2021 Oct.	2021 Nov.	2021 Jul.	2021 Oct.
	y-o-y in % **					monthly***	
Industrial production – total	-6.1	8.9	8.1	5.9	10.1	1.3	1.2
Manufacturing	-5.7	10.3	10.2	6.4	11.5	1.5	1.3
Construction – total	-2.7	-2.0	0.8	-10.6	-17.3	-4.9	1.8
Non-residential buildings	-9.1	-30.3	-43.3	-41.0	-45.8	-25.5	13.3
Residential buildings	-5.7	23.8	19.4	-14.4	-16.8	-8.1	-10.5
Civil engineering	-1.1	8.9	16.5	3.0	-8.9	-1.8	1.8
Trade and service activities* – total	-7.9	6.5	11.8	15.7	...	2.5	2.7
Wholesale and retail trade and repair of motor vehicles and motorcycles	-9.9	0.1	-1.8	-3.9	...	-1.3	4.4
Retail trade, except of motor vehicles and motorcycles	-3.9	8.0	15.0	23.1	...	1.7	2.4
Other private sector services	-9.7	6.7	13.0	18.2	...	7.3	7.4
Transport and storage	-9.6	11.8	10.7	11.6	...	-1.6	4.8
Accommodation and food service activities	-26.6	-14.6	12.7	71.1	...	118.1	29.6
Information and communication	0.3	5.1	4.4	10.6	...	-0.3	4.3
Professional, scientific and technical activities	-2.8	7.7	10.0	6.4	...	0.6	-1.6

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.

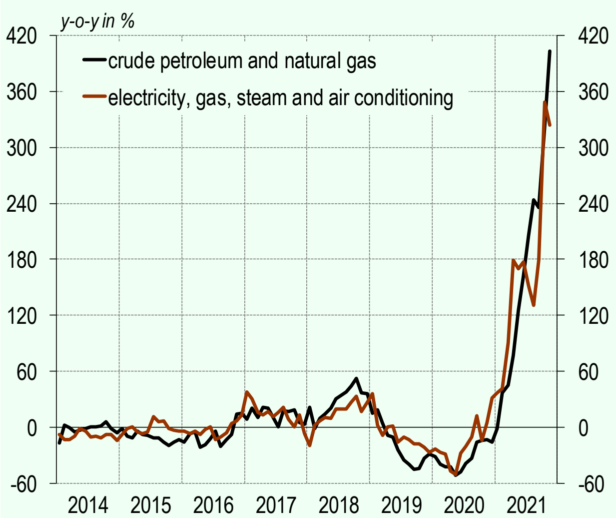
try, where activity was down on a year earlier. The range of year-on-year growth rates across the manufacturing sector widened last year, but only because of a deterioration in business conditions in a small number of segments (see Figure 3.3). The situation in private-sector services worsened as the epidemiological picture deteriorated. After a surge in sales of motor fuels before epidemiological health requirements were tightened in October, monthly growth in retail turnover declined in November according to the initial figures, but in all likelihood the rate remained positive on aggregate thanks to a slight increase in sales of vehicles. The monthly increases in turnover in other services that had been evident since May of last year ended in October, when turnover declined by 1.7%. Construction activity remained volatile and weak last autumn, albeit only according to the value of construction put in place, which in November was down fully 17.3% in year-on-year terms. By contrast, construction firms were reporting strong activity as part of the measurement of the economic sentiment (the survey activity indicator was up 26 percentage points in year-on-year terms), and also a long period of guaranteed work. Positive developments continued going into the new year as total value of card payments and ATM withdrawals, and freight vehicles' mileage on domestic motorways remain well above their pre-pandemic levels. The difficulties lie in high energy costs, which could in particular curtail firms that failed to make timely procurements (see Figure 3.5).

Figure 3.4: Value of card payments and ATM withdrawals



*Note: *Data is given from Bankart, which is a source for over 80% of total card payments and more than 90% of ATM withdrawals in Slovenia.*
Source: Bankart, Banka Slovenije calculations.

Figure 3.5: Energy import prices

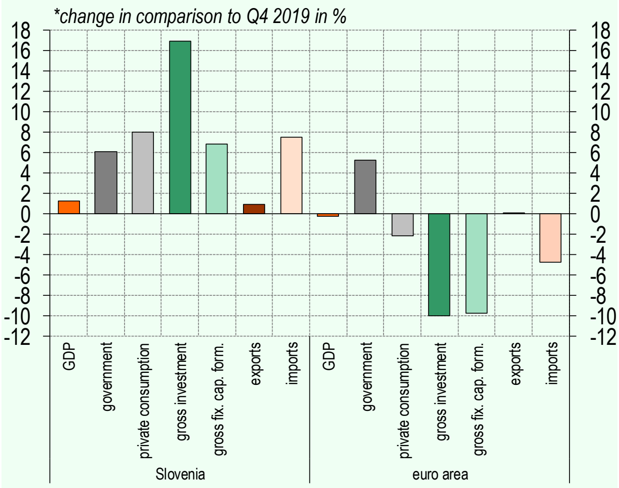


Source: SURS, Banka Slovenije calculations.

GDP in the third quarter of 2021

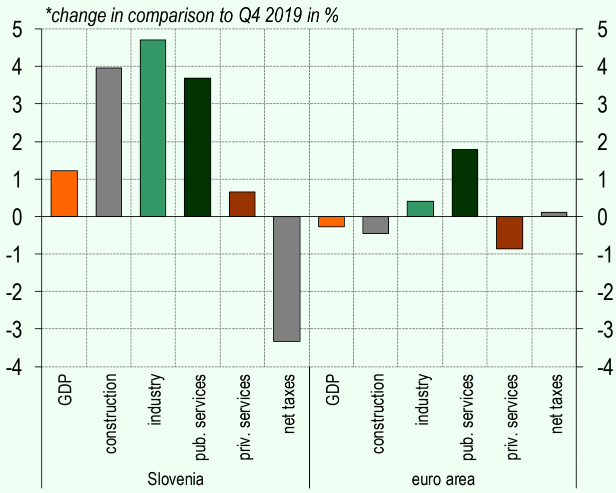
In the third quarter of last year, quarterly GDP growth was again below the euro area average, although GDP has regained its pre-pandemic level in Slovenia. The quarterly rate reached 1.3% in the third quarter, compared with 2.3% in the euro area overall. The reasons for the slower growth were the smaller decline during the pandemic crisis in 2020, and the earlier recovery in the wake of the faster relaxation of containment measures and the resulting faster regaining of the GDP lost in the crisis. From a technical perspective, they also include the much stronger growth in domestic consumption com-

Figure 3.6: GDP and its expenditure components – Q3 2021 in comparison to pre-crisis* levels



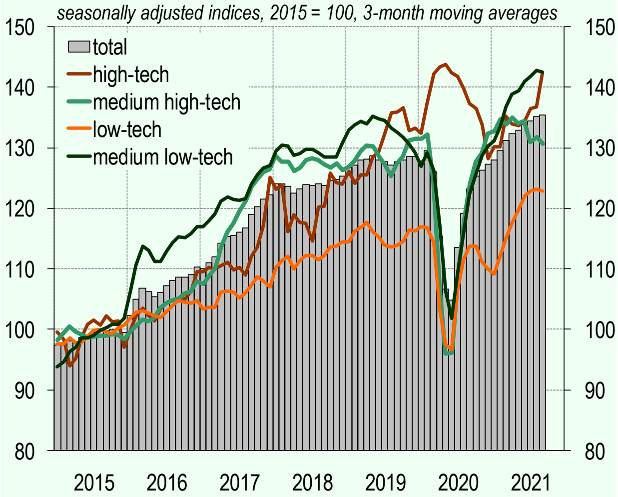
Source: Eurostat, Banka Slovenije calculations.

Figure 3.7: GDP and its production components – Q3 2021 in comparison to pre-crisis* levels



Source: Eurostat, Banka Slovenije calculations.

Figure 3.8: Production in manufacturing according to technological intensity



Source: SORS, Banka Slovenije calculations.

pared with exports, and the resulting negative contribution by net trade. In the third quarter of last year, all main aggregates of domestic demand were well above their pre-pandemic levels, which was not the case across the euro area (see Figure 3.6).[2] The slowdown in growth in value-added in industry amid the disruptions to supply chains is also having a slightly stronger impact on aggregate economic growth: as a ratio to GDP, it is 24% in Slovenia, compared with around 17% in the euro area overall. By the third quarter, the majority of domestic sectors had surpassed their pre-crisis levels of value-added, with all major segments well ahead of the euro area. The differences in the rebound in GDP were reduced by the negative contribution by net taxes on products (see Figure 3.7). Year-on-year GDP growth stood at 5.0%, just over 1 percentage point more than in the euro area overall. Growth in domestic demand stood at 11.2%, compared with 3.8% in the euro area overall. Given the output difficulties of the export sector, there was also a corresponding difference in the contributions by net trade, which technically reduced year-on-year growth in domestic GDP by 5.0 percentage points, while in the euro area overall it increased it by 0.3 percentage points.

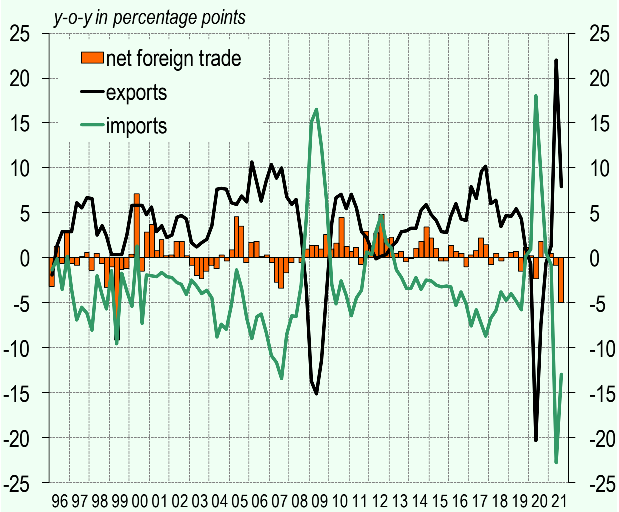
Quarterly growth in value-added remained high in the third quarter of last year, despite the slowdown in industry. It reached 1.7%, down just 0.1 percentage points on the second quarter. The majority of the growth was driven by private-sector services, where the business conditions approached those seen before the pandemic as the containment measures were relaxed. The main exceptions were the sectors related to international tourism, where the fall in arrivals by foreign visitors was largely compensated for by domestic demand, encouraged by government subsidies. After two quarters of decline, value-added also increased in quarterly terms in construction, primarily in connection with the substantial execution of infrastructure projects and increased government investment. Problems began to arise in industry, where growth in value-added slowed to 0.5% in the third quarter of last year. The disruptions to supply chains were the most pressing issue in the car industry, and were reflected in a quarterly decline of 3.1% in the manufacture of medium-high technology products (see Figure 3.8). Aggregate growth was also reduced by declining activity in the energy sector. From a technical perspective quarterly GDP growth was further reduced by net taxes on products. Value-added in the economy was up 5.1% in year-on-year terms, with positive contributions in all sectors.

Strong domestic consumption is being reflected in import growth sharply outpacing export growth. By maintaining household purchasing power and economic potential, the extensive fiscal policy measures and low financing costs allowed for a sharp rise in domestic consumption after the relaxation of the most stringent containment measures. With the release of pent-up demand, final household consumption began strengthening as

[2] The seasonally and calendar-adjusted figures from the final quarter of 2019 are taken as the pre-crisis level.

soon as the first quarter of last year, the quarterly rate of growth reaching fully 12.6% in the third quarter, taking the level of private consumption 8.0% past that seen in the final quarter of 2019. Gross fixed capital formation also increased, although the structure of quarterly growth was not as promising as at the beginning of the year from the perspective of expanding production capacity, as growth in investment in machinery and equipment stalled. Gross fixed capital formation nevertheless significantly surpassed its level from the final quarter of 2019, by 6.8%. Given the great uncertainty in supply chains, there was a pronounced build-up of inventories on precautionary grounds last year. The strength of domestic consumption was also extremely evident in the year-on-year comparisons: gross investment again stood out strongly, with a year-on-year increase of 27.8% in the third quarter, where a central role was again played by inventories. Year-on-year growth in imports in the third quarter of last year stood at 19.9%, outpacing export growth by fully 9.3 percentage points. Exports contributed 7.9 percentage points to GDP growth, but imports reduced it by 12.9 percentage points. The negative contribution to year-on-year GDP growth by net trade was the largest since the second quarter of 1999, when merchandise imports rose sharply before the introduction of VAT (see Figure 3.9).

Figure 3.9: Foreign trade contributions to GDP growth



Source: SURS, Banka Slovenije calculations.

4 Labour Market

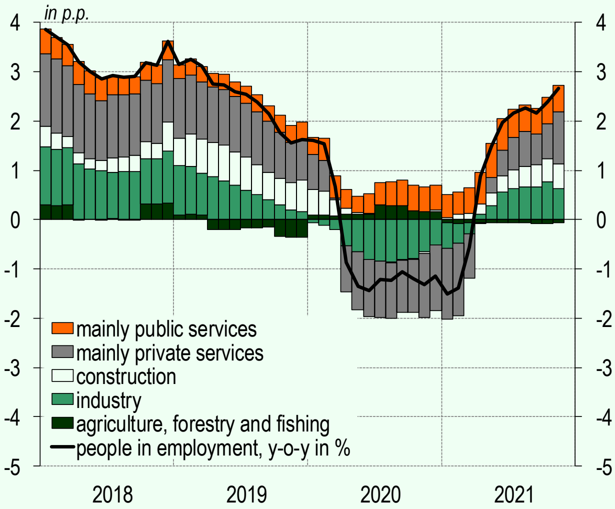
With the economy growing fast, firms are continuing to strengthen hiring. The workforce in employment again hit a record high in November, with the growth broadly based across sectors. Unemployment is also continuing to fall, and represents a diminishing source of available labour for the Slovenian labour market, which is also evidenced in the relatively small outflows from unemployment to employment. The difficulties caused to firms by labour shortages were also exacerbated in the short term by the deterioration in the epidemiological situation, and the accompanying rise in absence from work. Firms are largely resolving their difficulties in recruiting qualified workers by hiring foreign nationals, who last autumn accounted for approximately half of the year-on-year rise in the workforce in employment excluding self-employed farmers. The increased hiring of foreign workers is mitigating the adverse effects of the growing structural imbalances on the domestic labour market, and wage pressures too as a result. Wage developments remain relatively volatile, as a result of uneven growth across different sectors, a low base effect, and the pandemic-related measures and bonus payments. Year-on-year growth in the average gross wage stood at 3.6% in October, the slowdown in growth in mostly public services leaving it down significantly on its average over the first nine months of the year, which remained high at 6.8%. Amid favourable developments on the labour market, year-on-year growth in the total wage bill also remained high in the third quarter of last year, at 8.2%.

Employment

Employment again hit a record high in November of last year, thanks to broadly based year-on-year growth. For the third consecutive month the workforce in employment excluding self-employed farmers set a new record since the SORS began monitoring the registered figures, up 2.8% on a year earlier.[1] Year-on-year growth in the workforce in employment was positive in November in most sectors, most notably in accommodation and food service activities, where employment is approaching its pre-crisis level, and construction (see Figure 4.1). The hiring of foreign nationals accounted for approximately half of the year-on-year rise in the workforce in employment excluding self-employed farmers over the autumn. The share of total employment that they account for rose as a consequence, reaching 12.5% in November, higher than its pre-crisis level from the beginning of 2020 (see Figure 4.2). With the economy recovering and people who had been included in job preservation measures

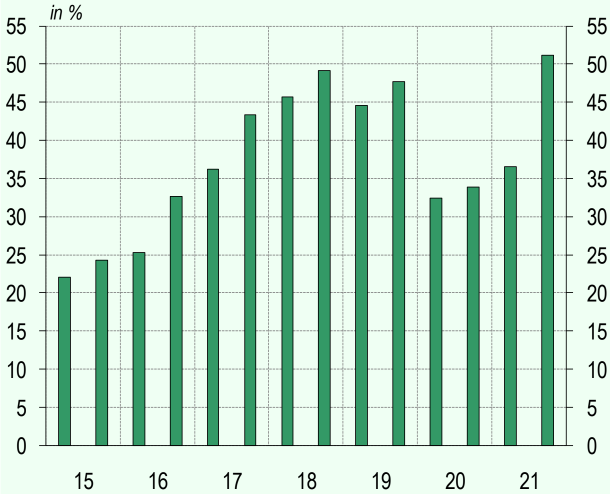
[1] Employment in the third quarter of last year was up 2.6% in year-on-year terms according to national accounts figures, and was up 0.9% on the second quarter according to seasonally adjusted figures. The expiry of the job preservation measures has reduced the mismatch between the year-on-year change in employment, and the number of hours worked, which in the third quarter was up 3.4% in year-on-year terms. According to seasonally adjusted figures, by the third quarter employment had surpassed its pre-crisis level from the final quarter of 2019, but the number of hours worked was still lower.

Figure 4.1: Contributions to y-o-y growth in the number of people in employment



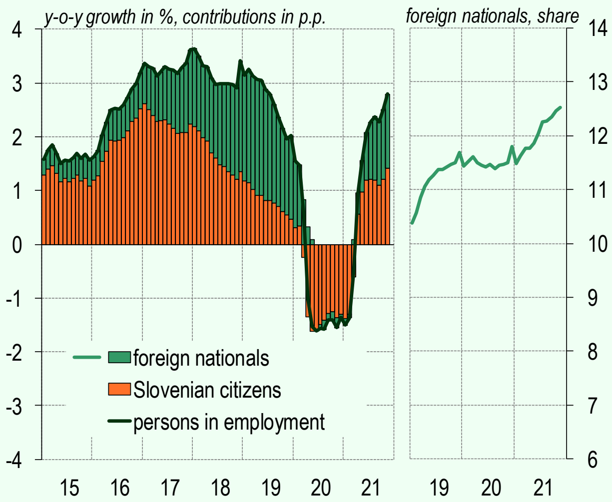
Source: SORS, Banka Slovenije calculations.

Figure 4.3: Share of employers facing shortage of skilled workers



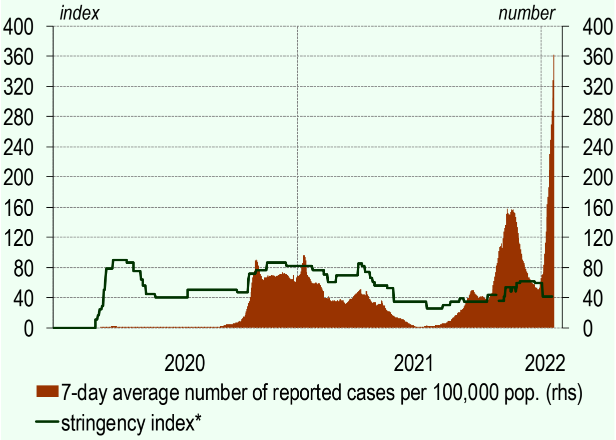
Source: Employment Service of Slovenia (Employment Preview 2021/II), Banka Slovenije calculations.

Figure 4.2: Persons in employment excluding self-employed farmers



Source: SORS, Banka Slovenije calculations.

Figure 4.4: Number of reported Covid-19 cases and stringency in Slovenia



Note: The stringency index is an estimate of measures and may underestimate or overestimate real measures in a given period.
Source: Johns Hopkins University CSSE COVID-19 Data, Banka Slovenije calculations.

returning to work, the labour force participation rate and the employment rate both increased over the course of last year, reaching 76.9% and 73.4% respectively as measured against the working age population (15 to 64).[2]

The exhaustion of the domestic pool of labour is making the structural imbalances on the labour market more and more pronounced, while the deterioration in the epidemiological situation is also causing short-term problems. With the economy growing fast, the outflows from registered unemployment to employment increased significantly, and inflows into unemployment also declined markedly. Unemployment is consequently approaching its record low, which alongside adverse demographic trends is reducing the pool of available labour on the Slovenian labour market, and is causing increasing shortages of qualified workers. According to an Employment Service survey, a majority of firms were already facing a shortage of qualified labour in the second half of last year, more than before the outbreak of the pandemic (see Figure 4.3). The shortage is greatest at large enterprises, while the major sectors with the greatest shortages are construction, accommodation and food service activities, human health and social work activities, and transportation and storage. Two-thirds of firms high-

[2] Year-on-year comparisons of the labour force participation 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.

Table 4.1: Demography, unemployment and employment

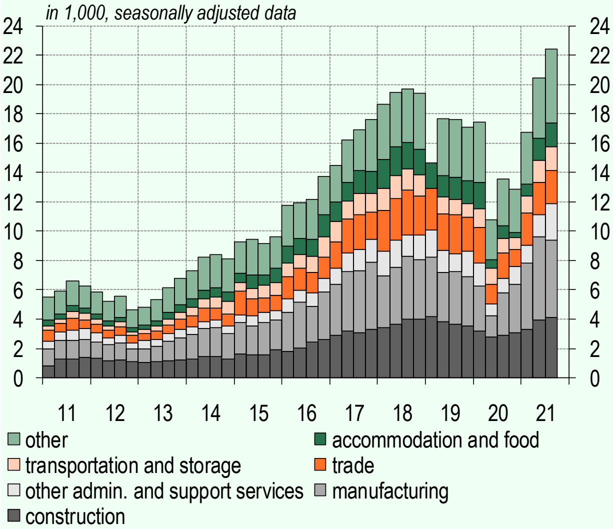
	2016	2017	2018	2019	2020	20Q3	20Q4	21Q1	21Q2	21Q3
						in 1,000				
Working age population[1]	1,371	1,362	1,352	1,350	1,362	1,362	1,367	1,341	1,337	1,335
						in %				
Activity rate[2]	71.7	74.2	75.1	75.3	74.6	74.7	74.9	72.3	75.2	76.9
Employment rate[3]	65.9	69.3	71.1	71.9	70.9	70.8	71.1	68.1	71.9	73.4
						in 1,000				
Registered unemployed persons	103.2	88.6	78.5	74.2	85.0	87.1	85.0	87.4	75.2	68.7
Unemployment rate						*in %*				
- LFS	8.0	6.6	5.1	4.5	5.0	5.1	5.1	5.6	4.3	4.5
- registered	11.2	9.5	8.3	7.7	8.7	9.0	8.7	9.0	7.7	7.1
Probability of transition between employ. and unemploymer						*in %*				
- probability to find a job[4]	18.0	19.2	19.5	18.9	19.0	22.4	16.4	22.0	22.9	19.0
- probability to lose a job[5]	2.3	2.1	1.9	1.8	2.5	2.0	2.2	2.1	1.1	1.4
						in 1,000				
Total employment[6]	961	989	1,021	1,046	1,040	1,039	1,041	1,039	1,044	1,066
						year-on-year growth rates in %				
Persons in paid employment	2.2	3.3	3.4	2.6	-0.9	-1.9	-1.4	-1.3	1.3	2.4
Self-employed	0.2	1.4	2.5	1.7	0.6	1.0	0.4	0.6	1.6	3.1
By sectors										
A Agriculture, forestry and fishing	-1.3	-1.0	-0.4	-0.6	-0.9	-1.0	-1.2	-1.4	-1.5	-1.8
BCDE Manufacturing, mining and quarrying and other industry	2.5	3.1	4.3	2.4	-1.5	-2.8	-1.9	-0.8	1.6	2.8
F Construction	-0.8	2.3	6.5	9.1	1.9	-0.1	1.3	1.9	4.2	5.3
GHI Trade, accommodation, transport	2.5	3.5	3.5	3.2	-1.5	-2.5	-2.8	-3.6	-0.5	1.9
J Information and communication services	4.1	3.4	4.6	3.5	3.7	3.4	3.1	2.4	3.6	4.2
K Financial and insurance activities	-2.0	-1.5	-0.9	-0.8	-2.7	-3.3	-3.3	-2.9	-1.9	-2.0
L Real estate activities	4.6	7.9	6.5	4.6	3.6	2.9	2.9	1.4	1.4	0.0
MN Professional, technical and other business activities	2.2	5.2	3.0	0.4	-3.7	-4.5	-4.0	-3.1	2.4	4.7
RSTU Other activities	2.7	3.5	3.3	4.0	0.4	-0.5	-1.2	-1.9	0.0	1.0
- mainly private sector (without OPQ)[7]	1.8	3.0	3.4	2.6	-1.2	-2.2	-1.9	-1.7	1.0	2.5
- mainly public services (OPQ)[7]	2.1	2.5	2.2	1.8	2.2	2.2	2.5	2.3	2.9	2.7
Total employment[6]	1.8	2.9	3.2	2.5	-0.6	-1.4	-1.1	-0.9	1.4	2.6

[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.

light a shortage of personnel as a cause of recruitment difficulties, which they are mostly addressing by extending the hiring process, hiring foreign nationals and changing the terms of advertised vacancies. Higher wages and increases in other benefits have been offered by less than a tenth of all employers. The shortages of qualified labour have pushed firms into using overtime and also, to a lesser extent, outsourcing, retraining or turning down orders. Work processes are currently being further hampered by the rise in case numbers, which are reaching record levels (see Figure 4.4), which in conjunction with high-risk contacts is driving large-scale absence from work.

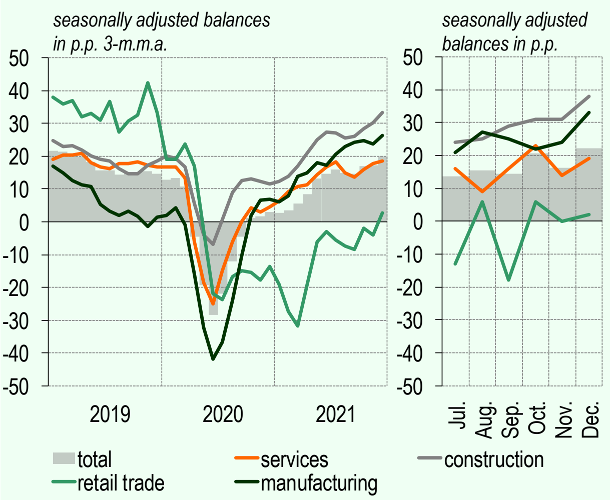
Given the high demand for labour, employment is expected to grow further this year, and will continue to be broadly based. There were more than 22,000 notified vacancies in the third quarter of last year, the highest figure since the SORS began conducting the survey (see Figure 4.5). Demand for labour was up on the previous year in all sectors, and by fully 65% on aggregate. The vacancy rate also reached a record high of 2.8%, with the highest levels being seen in administrative and support service activities, which includes staffing agencies, and in construction. The number of occupied jobs is also continuing to rise, although it is yet to surpass its peak from the first quarter of 2020. The large increase in vacancies was also confirmed by Employment Service figures, where notifications last year were up 36.2% on the previous year. The SORS and Employment Service survey figures indicate that employment will continue rising in all sectors over the first half of this year, most notably construction and administrative and support service activities (see Figure 4.6). The most-sought occupations will be bricklayers, drivers of heavy goods vehicles and tractor units, elementary occupations in manufacturing, welders and sales staff. These occupations are already those where employers are finding it hardest to recruit qualified workers.

Figure 4.5: Vacancies



Source: SORS, Banka Slovenije calculations.

Figure 4.6: Expected employment in the next three months

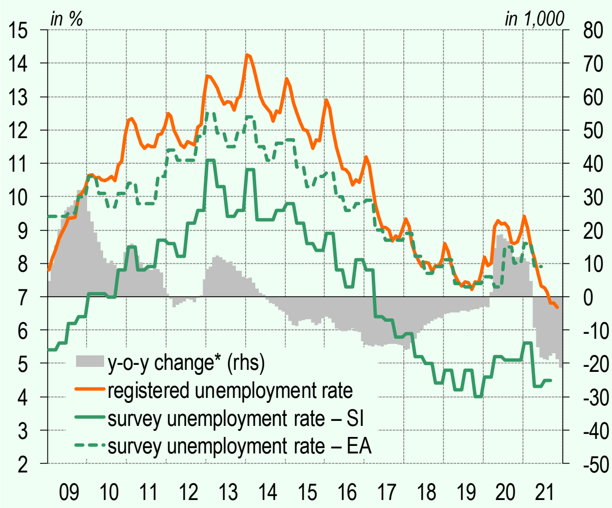


Note: Aggregate indicator is calculated using shares in total value added.
Source: SORS, Banka Slovenije calculations.

Unemployment

Registered unemployment is continuing to fall. The number of unemployed stood at 65,969 at the end of December, down 24.4% in year-on-year terms. Last year's fall in unemployment was primarily attributable to a decline in inflows into unemployment. Over the course of the year approximately 35,000 fewer people newly registered as unemployed than in the previous year, where the largest falls were in permanent redundancies and in those whose temporary employment came to an end. Outflows from unemployment were also down on the previous year. The main decline in outflows was in new hires, an indication that firms are finding it harder to recruit qualified workers from the ranks of the unemployed. The registered unemployment rate stood at 6.7% in November of last year, down 1.9 percentage points on a

Figure 4.7: Unemployment rates



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

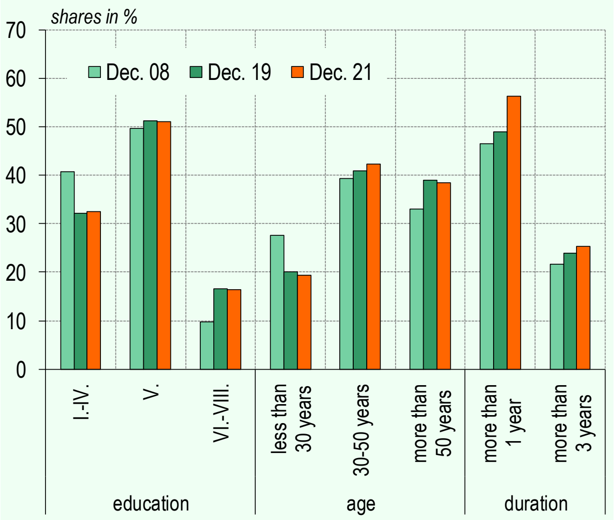
year earlier, while the surveyed unemployment rate stood at 4.5% in the third quarter, down 0.6 percentage points on a year earlier (see Figure 4.7).

In the wake of the sharp fall in unemployment, the number of registered unemployed at the end of last December was only 6,600 more than its low from 2008, while there are also notable differences in the structure of unemployment. Registered unemployment at the end of the year was down on the end of 2019, and the end of 2008, when unemployment stood at record low levels. The qualifications breakdown and age breakdown of unemployment last year were comparable to those from 2019, while the main change compared with 2008 was that there were fewer young people and low-skilled people. Conversely the share of people who have been unemployed for at least one year was 7.5 percentage points higher in December of last year than in December 2019, and fully 10 percentage points higher than at the end of 2008 (see Figure 4.8). Our assessment is that the lower shares of young people and the low-skilled compared with 2008 are attributable to employers' larger demand for workers in these categories, and also to demographic changes and changes in the qualifications breakdown. Judging by the Employment Service survey figures, and the change in the structure of unemployment, employers are showing the greatest demand for these categories of workers, while the share of total population accounted for by young people and the low-skilled has also declined over this period. With regard to the structure of unemployment and employer preferences, the availability of labour from the pool of unemployment in December of last year was comparable to that at the end of 2019, but worse than in 2008. Employer demand is still driven predominantly by labour-intensive occupations with low value-added, which could have an impact on the ongoing structure of economic growth, and hold back growth in productivity.

Wage developments

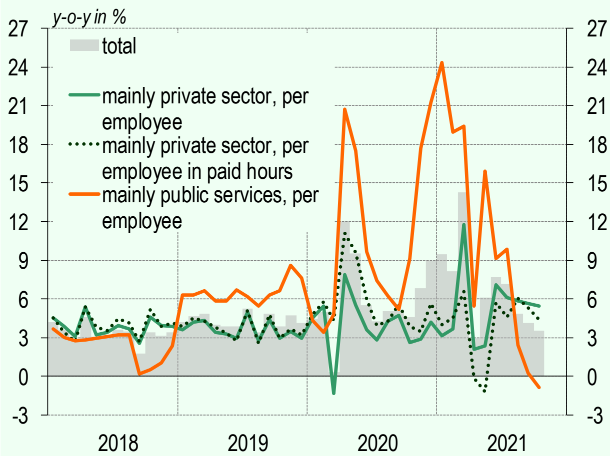
Year-on-year growth in the average gross wage slowed over the autumn as a result of the significant scaling-back or expiry of pandemic-related measures and bonus payments. Year-on-year growth in the average gross wage stood at 3.6% in October of last year, down almost a half on its average over the first ten months of the year, which remained high at 6.8%. Amid the elevated consumer price inflation, real year-on-year growth in the average gross wage was barely positive in October, at 0.1%. Year-on-year growth in the average gross wage in the private sector outpaced mostly public services between August and October, for the first time since February 2020, primarily as a result of a decline in pandemic-related bonus payments (see Figure 4.9). The main measures that were still affecting growth in labour costs in October of last year were payments in healthcare

Figure 4.8: Structure of unemployment



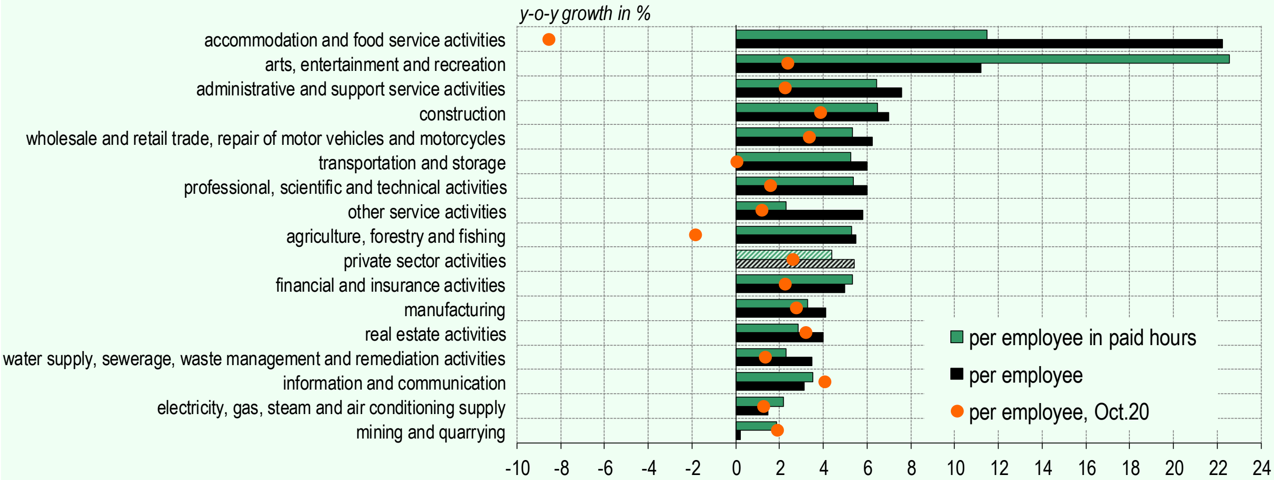
Source: Employment Service of Slovenia, Banka Slovenije calculations.

Figure 4.9: 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 4.10: Growth of average gross wage by private sector activities, October 2021



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

and the subsidisation of the rise in the minimum wage.[3] The minimum wage was raised by 4.9% this year, in line with consumer price inflation, to stand at EUR 1,074.43.

Monitoring wage statistics across segments of the private sector remains difficult because of uneven economic growth and the impact of job retention schemes.[4] Last year's pronounced fluctuations in year-on-year growth in the average gross wage per employee between segments of the private sector were largely attributable to the uneven economic recovery in different sectors, a low base effect and the return to work of people who previously participated in job retention schemes. Year-on-year growth in the average gross wage per employee in accommodation and food service activities stood at fully 22.2% in October, but the rate calculated on the basis of the number of paid hours was approximately a half lower (see Figure 4.10). Accommodation and food service activities is a contact-intensive sector (as are arts, entertainment and recreation, and retail in part), where business is still being hampered by containment measures. A high share of employees in these sectors therefore participated in job retention schemes, which has affected the measurement of wages.[5] The average wage over the first ten months of the year calculated on the basis of the number of paid hours of employees at legal persons that are not budget spending units was up 4.0% in year-on-year terms, with the highest growth being recorded for the aforementioned reasons in accommodation and food service activities, and in arts, entertainment and recreation, where it surpassed 6%. At more than 5%, year-on-year growth in the average wage over this period was also high in construction, where the structural imbalances in the labour market and the impact of the rise in the minimum wage are currently being reflected most evidently.

Year-on-year growth in the total wage bill remained high in the third quarter of last year, boosting growth in private consumption.[6] The total wage bill was up

[3] Several job preservation measures have expired in recent months, including the temporary lay-off scheme and the short-time work scheme.

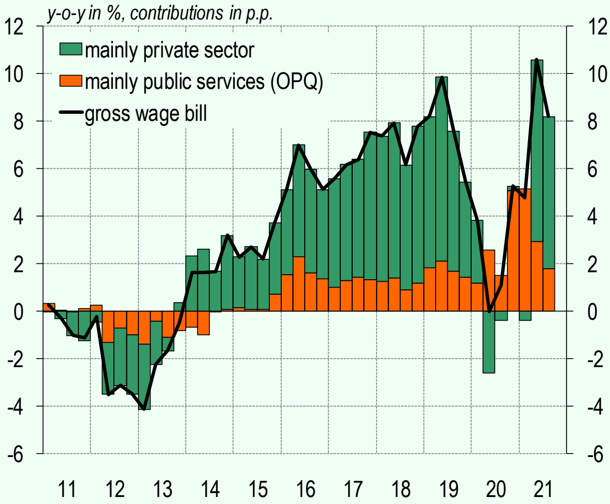
[4] The analysis by activity focuses solely on the private-sector, given the availability of data on the number of people receiving wages on the basis of paid hours.

[5] 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 participated in a job retention scheme 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 return to work of those who had participated in job retention schemes therefore meant that year-on-year growth in the average gross wage per employee was higher than the rate calculated 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.

[6] The analysis takes account of figures for the total wage bill according to the national accounts, which also takes account of payments to employees that participated in job retention schemes.

8.2% in year-on-year terms, down 2.4 percentage points on the previous quarter (see Figure 4.11). Mostly public services continued to make a positive contribution to aggregate year-on-year growth in the total wage bill even in the period of reduced economic activity (in 2020), as a result of the rise in employment and the payments of pandemic-related bonuses. The figure was higher than the contribution by the private sector, even though mostly public services account for no more than a quarter of all employees. The private sector's contribution to aggregate year-on-year growth in the total wage bill did not increase significantly until the second and third quarters of last year, when, with the economy growing, it again surpassed the contribution by mostly public services.

Figure 4.11: National accounts data on gross wage bill



Source: SORS – national accounts, Banka Slovenije calculations.

Table 4.2: Labour costs

	2016	2017	2018	2019	2020	20Q3	20Q4	21Q1	21Q2	21Q3
					in EUR					
Average gross wage	1,584	1,626	1,681	1,754	1,858	1,808	1,957	1,978	1,985	1,905
					y-o-y growth in %, nominal					
Average net wage	1.7	3.1	2.9	3.7	6.8	5.5	7.0	9.3	3.7	4.7
Average gross wage	1.8	2.7	3.4	4.3	6.0	4.8	6.8	10.6	5.5	5.4
- mainly private sector (without OPQ)[1]	1.3	2.7	3.8	3.6	3.9	3.9	3.2	6.1	3.8	5.9
- mainly public services (OPQ)[1]	3.3	2.8	2.4	6.5	10.7	6.3	16.1	20.9	10.2	4.2
Average gross wage in manufacturing	2.1	3.2	4.0	3.5	3.2	3.0	2.7	4.6	6.0	7.0
Average real net wage[2]	1.8	1.5	1.0	2.0	7.1	6.2	8.1	10.0	1.6	2.4
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	1.8	1.2	2.7	4.2	7.7	3.0	9.0	3.8	-5.5	3.1
Unit labour costs,[3,4] real	0.9	-0.3	0.6	1.9	6.3	3.2	7.9	2.4	-7.5	-0.5
Labour costs per employee,[4] nominal	3.1	3.0	3.9	5.0	3.5	3.0	6.8	6.4	8.4	5.6
Labour productivity, nominal	2.2	3.3	3.3	3.0	-2.5	-0.3	-1.0	3.9	17.2	6.1
Labour productivity, real	1.3	1.8	1.2	0.8	-3.7	0.0	-2.1	2.6	14.7	2.4
HICP	-0.2	1.6	1.9	1.7	-0.3	-0.6	-0.9	-0.6	2.1	2.3
GDP deflator	0.9	1.5	2.1	2.2	1.2	-0.2	1.1	1.3	2.1	3.6

[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.

5 Current Account and Competitiveness Indicators

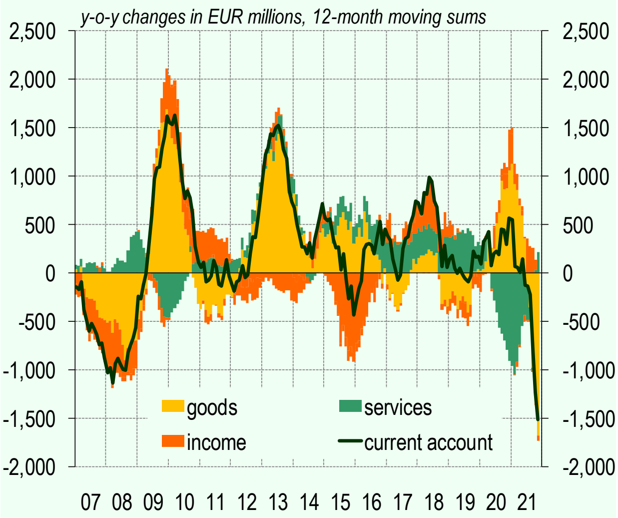
The 12-month current account surplus is declining at an unprecedented rate, amid the high growth in global commodity and energy prices, and strong domestic demand. The merchandise trade surplus over the 12 months to November declined to the level seen in early 2013, the deterioration in the terms of trade accounting for approximately a third of the deterioration. Nominal merchandise imports over the first eleven months of last year were up fully 27.2% in year-on-year terms. Nominal year-on-year growth in merchandise exports in the first eleven months of last year also remained high, at 18.2%, and broadly based. Only exports of road vehicles remained down on their pre-crisis level, as supply difficulties with components hit the car industry inside and outside Slovenia. The outlook for foreign demand is very positive for the first quarter of this year. Services trade is strengthening sharply at the same time, although the recovery in trade in travel services remains very gradual despite the increase in international tourism, and still subject to considerable uncertainty, at least in the short term. The highlight in factor income is increased outflows for dividends from FDI. The year-on-year slide in the 12-month current account surplus amounted to EUR 1,518 million in November, which reduced the surplus to EUR 1,753 million.

The price competitiveness of the economy remained within relatively favourable bounds in the third quarter of last year, and was better than a year earlier, as a result of encouraging exchange rate developments and, even more so, lower growth in domestic prices compared with prices in competitors. Slovenian exporters' price competitiveness position remained favourable at the end of the year, as the euro's depreciation against a basket of trading partners' currencies deepened in the final quarter. The deterioration in cost competitiveness stopped at the end last year, but the position remains worse than a year earlier, and was a negative outlier from the euro area overall for the third consecutive year.

12-month current account position

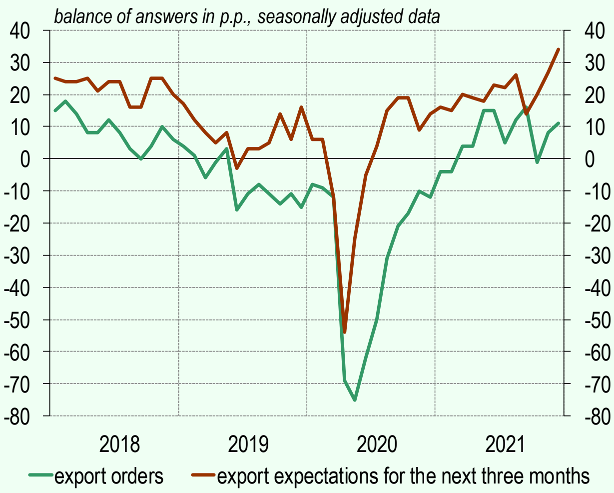
The extremely fast decline in the 12-month current account surplus is attributable to rising price pressures in the international environment and the strong growth in domestic demand. The 12-month surplus amounted to EUR 1,753 million in November, its lowest figure since February 2016 and down EUR 1,518 million in year-on-year terms. Similar pronounced fluctuations in the current account position were also seen in 2009 and between 2012 and 2013, but in the opposite direction and for different reasons (see Figure 5.1). The first upward fluctuation at that time was attributable in part to the bursting of the domestic investment bubble and the fall in

Figure 5.1: Current account components



Source: Banka Slovenije.

Figure 5.2: Export orders and export expectations in manufacturing



Source: SORS.

energy and commodity prices caused by the global economic and financial crisis, while the second was primarily attributable to austerity measures during the resolution of the domestic debt crisis, which suppressed final consumption and investment, but improved the competitiveness position of the economy through an internal devaluation. On this occasion the sharp downward fluctuation is the result of a pronounced deterioration in the terms of trade: the situation on commodity and energy markets means that import prices are rising significantly faster than export prices, while amid robust growth in exports the dynamic in domestic demand is even stronger, and

Figure 5.3: Industrial producer prices

Note: *Measured by industrial producer prices on the foreign market.
Source: SORS, Banka Slovenije calculations.

with it growth in imports. Practically the entire decline is attributable to growth in nominal merchandise imports outpacing exports.[1]

Merchandise trade

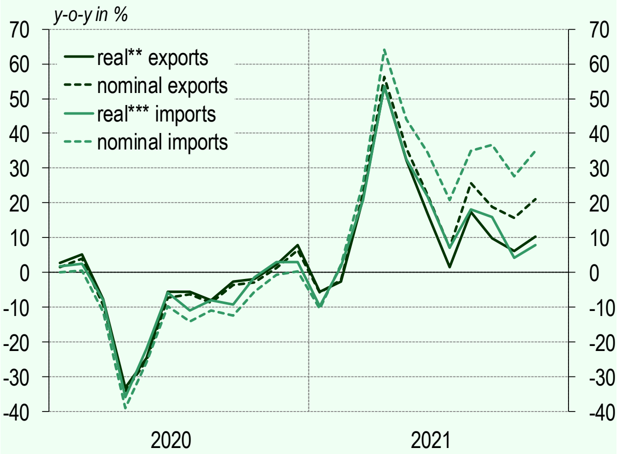
Foreign demand for the products of Slovenian industry is strengthening sharply again, judging by the business trends in manufacturing. Growth in export orders picked up at the end of 2021, and is showing no signs of slowing this year (see Figure 5.2). Manufacturing firms are extremely optimistic with regard to exports in the first quarter of this year: the corresponding indicator strengthened by fully 20.0 percentage points over the final quarter of last year to stand at 34.0 percentage points, comparable to May 2010, when global demand rose sharply after the profound economic shock in late 2008 and early 2009.

The merchandise trade surplus is plummeting amid a sharp rise in import prices of industrial goods (see Figure 5.3). The 12-month surplus declined to EUR 547 million in November, down almost EUR 2 billion on its peak in January 2021, and the lowest figure since the beginning of 2013, which saw the first small surplus since records began. The decline has been driven by the sharp year-on-year increase in nominal merchandise

[1] The merchandise trade surplus over the first three quarters of 2021 amounted to EUR 603 million according to balance of payments figures, down EUR 1,234 million on the same period of the previous year. Our assessment is that the deterioration in the terms of trade reduced the surplus by over a third, or around EUR 440 million.

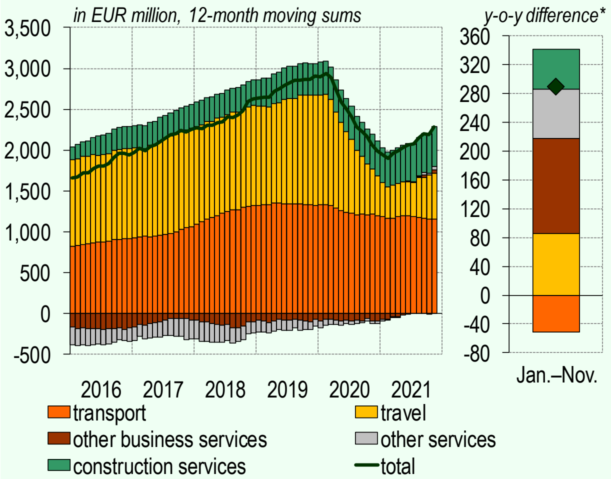
imports, which remained high in October and November according to balance of payments figures, at 31.3%, as prices of imported products rose by almost a quarter at the annual level (see Figure 5.4). Amid the rise in export prices as measured by domestic producer prices of industrial goods on the foreign market, which was slightly lower but nevertheless still almost 10%, year-on-year growth in nominal merchandise exports also increased, reaching fully 21.0% in November. According to the indicator of adjusted merchandise exports,[2] it continued to be driven by growth in exports of miscellaneous machinery[3] and basic metals and fabricated metal products, but an increase was evident in other product categories. In contrast to previous months, and despite the crisis in the global car industry, exports of road vehicles strengthened sharply, by more than a fifth compared with November 2019, but over the first eleven months of the year they were still down approximately 8% on the same period before the crisis.

Figure 5.4: 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.

Figure 5.5: Balance of services trade



*Note: *Change in EUR million in the first eleven months of 2021 compared to the same period of 2020.*
Source: Banka Slovenije.

Services trade

Services trade is continuing to increase as international tourism expands. Amid faster growth in export of miscellaneous business services, nominal services exports over the first eleven months of last year were down just 6.7% on their pre-pandemic level, the shortfall in tourism exports having diminished to less than 50.0%.[4] The shortfall in imports of travel services also diminished, to approximately 42%, which meant that aggregate services imports over the first eleven months of last year had regained their level from 2019, driven by strong imports of transport services, in line with the developments in domestic demand. The export side was significantly weaker, which meant that the 12-month surplus of trade in transport services declined to EUR 1,151 million in November, the lowest figure since the beginning of 2018 (see Figure 5.5). The 12-month services trade surplus nevertheless widened by EUR 216 million in year-on-year terms to EUR 2,285 million in November, driven largely by the increase of EUR 137 million in the surplus of trade in miscellaneous business services. The surplus of trade in travel services is also gradually increasing, but remains extremely low: the 12-month surplus in November was still down EUR 785 million on its peak in February 2020.

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

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

[4] Exports of travel services over the first eleven months of 2021 were down 48.8% on the pre-crisis period, compared with a year-on-year decline of 56.5% recorded over the first eleven months of 2020.

Primary and secondary income

The deficit in primary income is continuing to increase, primarily because of increased outflows of dividends. The aggregate deficit over the first eleven months of last year amounted to EUR 585 million, up EUR 162 million in year-on-year terms (see Figure 5.6). Almost the entire deterioration in the position is the result of the increased deficit in income from FDI, where outflows for dividends increased by EUR 173 million, and inflows by just EUR 27 million. The increase in dividend outflows was driven in part by an increase within the banking system following the expiry of Banka Slovenije's regulation on the restriction of profit distributions by banks at the end of September, and to an even greater extent by a one-off large dividend payment by a major retail firm to the new owners in June. In other asset categories, another factor in the increased deficit was an in-

Table 5.1: Current account components

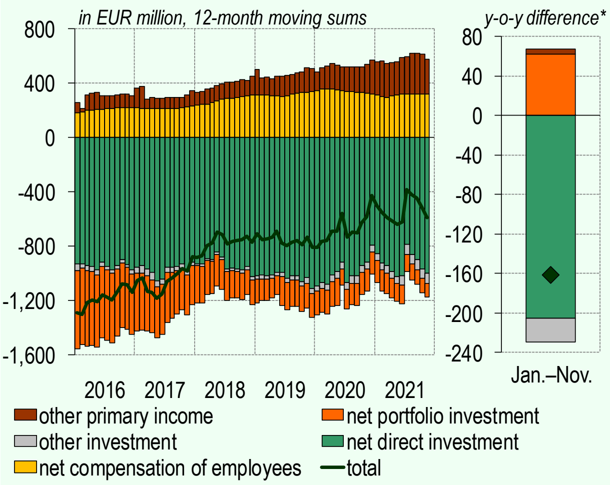
				in 12 months to							
	2018	**2019**	**2020**	**Nov.20**	**Nov.21**	**20Q2**	**20Q3**	**21Q2**	**21Q3**	**Nov.20**	**Nov.21**
					in EUR million						
Current account balance	2,731	2,898	3,462	3,271	1,753	716	797	460	280	276	-37
1. Goods	1,272	1,311	2,366	2,226	547	568	700	203	-128	187	-135
2. Services	2,624	2,907	1,996	2,070	2,285	396	561	497	698	129	222
2.1. Transport	1,324	1,326	1,202	1,215	1,151	253	307	287	271	108	100
2.2. Travel	1,221	1,344	482	550	568	59	183	72	271	12	47
3. Primary income	-769	-811	-426	-582	-588	-116	-371	-147	-197	4	-66
3.1. Labour income	313	340	324	327	324	62	82	83	84	31	32
3.2. Investment income	-1,222	-1,318	-997	-1,122	-1,164	-230	-445	-303	-302	-65	-96
3.3. Other income	141	167	247	213	253	52	-8	74	20	39	-2
4. Secondary income	-396	-509	-473	-443	-492	-132	-93	-94	-93	-44	-58
					in % GDP						
Current account balance	6.0	6.0	7.4	7.0	3.5	6.5	6.5	3.5	2.1	6.8	-0.9
1. Goods	2.8	2.7	5.0	4.7	1.1	5.2	5.7	1.6	-1.0	4.6	-3.1
2. Services	5.7	6.0	4.3	4.4	4.5	3.6	4.6	3.8	5.2	3.1	5.2
2.1. Transport	2.9	2.7	2.6	2.6	2.3	2.3	2.5	2.2	2.0	2.6	2.3
2.2. Travel	2.7	2.8	1.0	1.2	1.1	0.5	1.5	0.6	2.0	0.3	1.1
3. Primary income	-1.7	-1.7	-0.9	-1.2	-1.2	-1.1	-3.0	-1.1	-1.5	0.1	-1.5
3.1. Labour income	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.6	0.6	0.8	0.8
3.2. Investment income	-2.7	-2.7	-2.1	-2.4	-2.3	-2.1	-3.6	-2.3	-2.3	-1.6	-2.2
3.3. Other income	0.3	0.3	0.5	0.5	0.5	0.5	-0.1	0.6	0.2	0.9	0.0
4. Secondary income	-0.9	-1.1	-1.0	-0.9	-1.0	-1.2	-0.8	-0.7	-0.7	-1.1	-1.3
					nominal y-o-y growth rates in %						
Export of goods and services	8.9	4.5	-10.1	-10.1	16.8	-24.8	-10.5	35.1	19.6	-3.7	24.0
Export of goods	8.6	3.9	-7.4	-7.8	17.3	-22.5	-5.9	36.4	16.4	1.2	21.0
Export of services	9.9	6.6	-20.3	-18.8	14.8	-33.8	-25.1	29.1	32.1	-23.1	39.5
Transport	12.3	3.3	-7.2	-7.1	13.5	-19.5	-8.7	26.9	16.0	5.5	16.2
Travel	7.2	5.2	-57.8	-53.1	5.0	-80.4	-52.3	67.8	52.2	-78.5	186.6
Other	10.5	10.5	2.0	2.4	19.6	-1.2	-1.4	23.3	30.9	-13.9	39.3
Import of goods and services	9.8	4.0	-11.7	-11.5	23.6	-25.5	-14.1	43.8	31.4	-2.7	34.2
Import of goods	10.4	4.0	-11.1	-11.0	24.9	-25.5	-12.6	46.2	30.6	-0.7	35.0
Import of services	7.0	4.6	-14.7	-14.3	16.6	-25.5	-21.1	30.4	35.5	-13.9	29.2
Transport	0.8	7.1	-4.8	-5.5	34.1	-13.9	-11.8	39.6	49.2	7.1	40.1
Travel	12.1	1.2	-52.1	-47.8	6.3	-76.8	-45.7	98.6	54.8	-72.3	131.2
Other	7.0	5.3	-0.2	-1.2	12.9	-3.4	-5.3	18.4	21.7	-5.0	16.8

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

crease in outflows of withdrawals from income of quasi-corporations, which was related in commercial terms to aforementioned dividend payment in June. Last year's deficit in primary income was reduced primarily by outflows of interest on long-term securities, which over the first eleven months of the year were down EUR 83 million in year-on-year terms. The decline was attributable to lower government borrowing costs on international financial markets amid the ECB's strongly expansive monetary policy and favourable credit ratings.

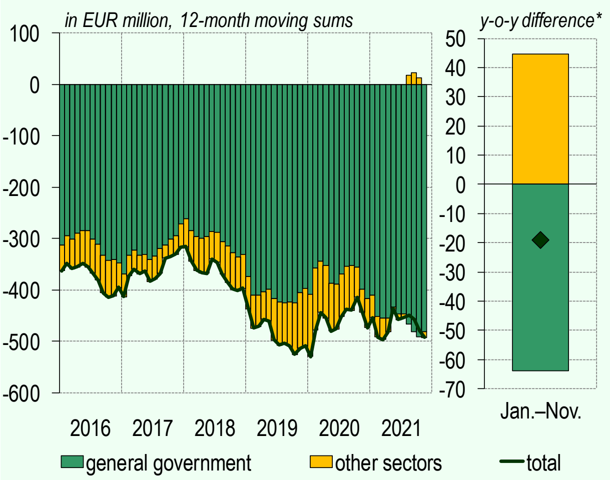
The deficit in secondary income remains stable in year-on-year terms. It amounted to EUR 462 million over the first eleven months of last year, EUR 19 million more than a year earlier (see Figure 5.7). The government sector's deficit in secondary income widened by EUR 64 million, largely because of increased payments into the EU budget based on VAT and gross national income. By contrast, there was a small surplus in other sectors' secondary income because of increased inflows of net non-life insurance premium amid insurance corporations' good performance on foreign markets.

Figure 5.6: Net primary income



Note: *Change in EUR million in the first eleven months of 2021 compared to the same period of 2020.
Source: Banka Slovenije.

Figure 5.7: Net secondary income

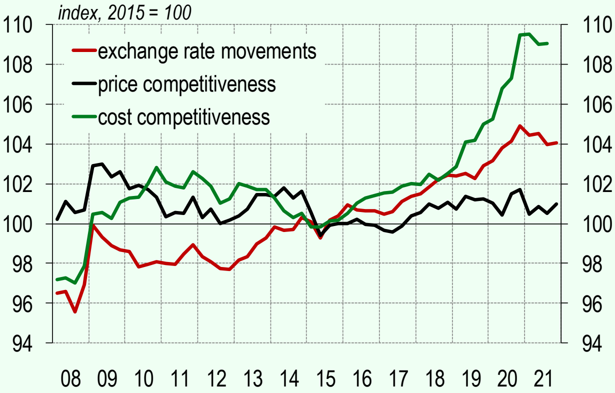


Note: *Change in EUR million in the first eleven months of 2021 compared to the same period of 2020.
Source: Banka Slovenije.

Selected competitiveness indicators

The price competitiveness of the Slovenian economy improved in year-on-year terms in the third quarter of last year, and remained such at the end of the year. The price competitiveness indicator against the group of 39 partners[5] in the third quarter of last year was down 1.0% (an improvement) in year-on-year terms. This was attributable primarily to slower growth in domestic prices compared with price growth in competitors, but also in part to the euro's gentle depreciation of 0.2% against the basket of partners' currencies (see Figure 5.8). Slovenian exporters' price competitiveness position remained favourable at the end of the year (down 0.7%), as the eu-

Figure 5.8: External competitiveness of Slovenia against broad group of 39 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: Banka Slovenije, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

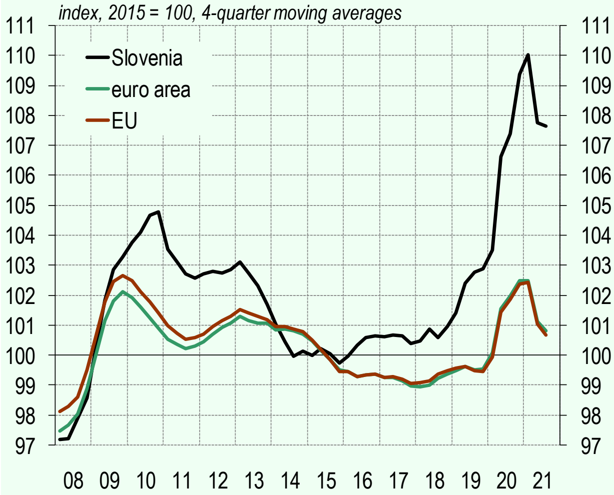
[5] The composite exchange rate indicators of price competitiveness (REER-HICP) and cost competitiveness (REER-ULC) cover 21 other countries in addition to the euro area countries. The indicators are computed using Banka Slovenije's own methodology; for more, see the January 2020 issue of Economic and Financial Developments.

ro's depreciation deepened in the final quarter (by 0.8%). It improved against all groups of countries in the second half of the year, the largest improvement coming vis-à-vis eastern Europe (2.8%) and the smallest vis-à-vis the euro area (0.4%). 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.[6]

The deterioration in cost competitiveness halted last year, but the position remained worse than a year earlier. Year-on-year growth in the effective exchange rate[5] against the composite group of trading partners continued in the third quarter (at 1.6%), although it slowed over the course of the year, which is favourable from the perspective of competitiveness, but the developments (favourable last year) were negligible compared with the deterioration over the previous two years (see Figure 5.8). Similarly to the period of 2019 and 2020, year-on-year growth in the indicator was maintained by growth in relative unit labour costs[7] (1.8%), while the pressure on exporters' cost competitiveness position was eased by the gentle depreciation of the euro. The position remained worse in year-on-year terms against all groups of trading partners, easing against some (the composite group and the euro area countries) while deepening against others (eastern Europe and non-euro area).

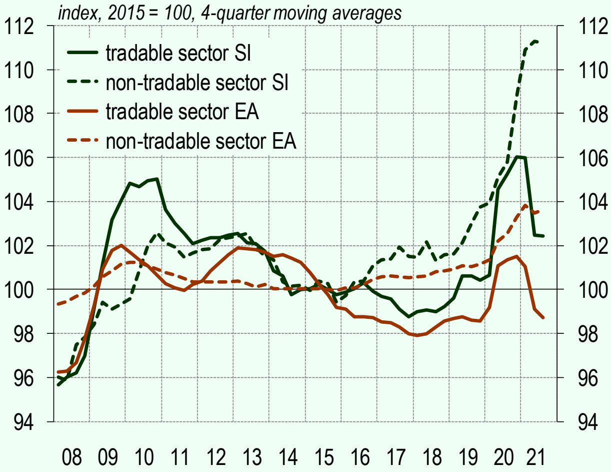
Cost pressures in Slovenia eased slightly further in the third quarter, albeit by less than in the euro area overall, where they had strengthened significantly more slowly over the previous two years (see Figure 5.9). Domestic growth in real unit labour costs[8] (RULCs) over 2019 and 2020 was among the higher figures in the group of euro area countries, and almost three times higher than the euro area average. After a significant decline in RULCs in the second quarter of last year, the decline continued in the third quarter, albeit at a slower pace (0.5%). Real year-on-year growth in labour productivity and compensation per employee slowed relative to the previous quarter (to 2.4% and 1.9% respectively).[9] The latter rate was 1.5 percentage points higher than the comparable rate in the euro area overall, while the figure

Figure 5.9: Real unit labour costs



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

Figure 5.10: Real unit labour costs in tradable and non-tradable sector



Note: GDP based calculation. For definition of sectors see note 10 in the chapter.
Source: Eurostat, Banka Slovenije calculations.

[6] 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.

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

[8] 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 2 and 3.

[9] 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.

for productivity growth was just 0.6 percentage points higher. After rising for two and a half years, RULCs in the non-tradable sector[10] were down in year-on-year terms on this occasion, while RULCs in the tradable sector remained unchanged after a significant decline in the previous quarter (see Figure 5.10).

[10] 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 NACE Rev. 2.

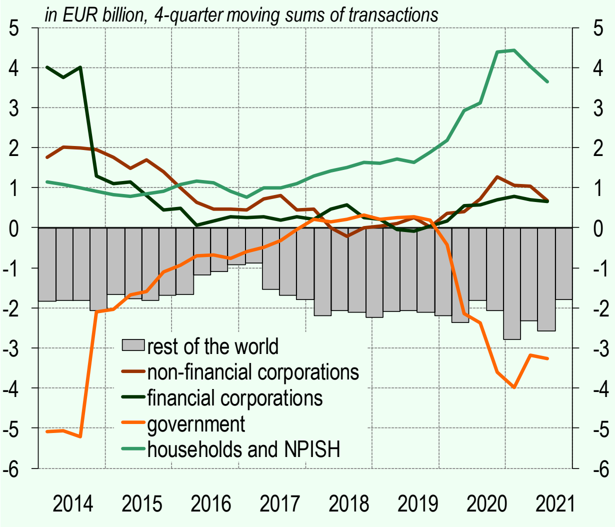
6 Financial Standing of Non-Financial Corporations, Households and Banks

The aggregate net credit position of the domestic institutional sectors against the rest of the world narrowed slightly in the third quarter of last year according to the financial accounts figures, but remained close to its average of the last ten years. The decline in net surplus saving in the economy is attributable to the behaviour of entities in all categories. The government sector again slightly deepened its negative net financial position, although it remains significantly less pronounced than at the depth of the crisis in early 2021. For non-financial corporations and households, who in contrast increased their net savings from quarter to quarter during the first year of the pandemic, the trend came to an end last year (although their savings remain high, and largely placed in bank deposits), which is attributable to the reduction in general uncertainty and rising confidence in the economy, which is giving impetus to consumption and investment. The gap between the year-on-year increases in their financial assets and liabilities is thus slowly moving towards liabilities. In the household sector the increases in long-term loans are now approaching their pre-pandemic levels, although they are still significantly less than before the global financial and economic 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

The aggregate net credit position of the domestic institutional sectors narrowed slightly in the third quarter of last year, with all institutional sectors' transactions making a contribution to this change. Net saving by households and non-financial corporations slowed, while the government sector again slightly increased its net external debt. The aggregate surplus of saving over investment amounted to EUR 1.8 billion according to the latest figures (see Figure 6.1). All institutional sectors have seen significant changes in their positions over the last year and a half, or since the outbreak

Figure 6.1: Savings-investment gap



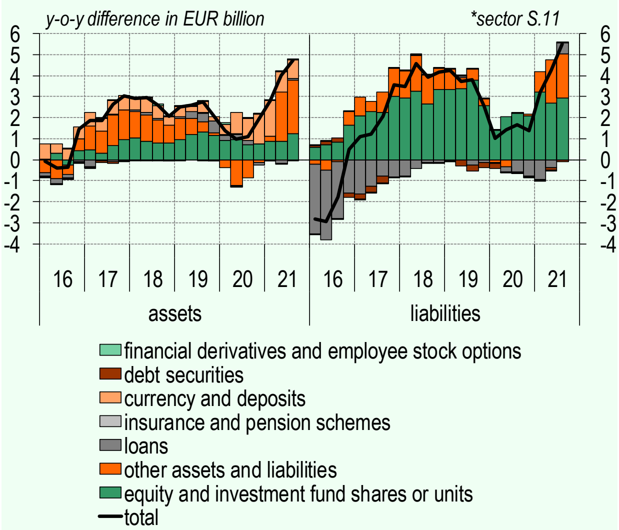
Source: Banka Slovenije.

of the coronavirus crisis. This has been most evident in the government sector, which has again moved from being a net saver to being a net investor. It has nevertheless succeeded in reducing its net debt position by almost a fifth (to EUR 3.3 billion) since the depths of the crisis in early 2021, when it was driven by borrowing to finance the emergency measures. By contrast, other institutional sectors increased their net financial assets from quarter to quarter during the first year of the epidemic, but all saw this trend end last year as the containment measures were relaxed and the economic sentiment rebounded. The most evident is the decline in the household saving surplus, as households were spending significantly last year, but it remains at a historically high level of EUR 3.6 billion.

Financial assets and financing of non-financial corporations

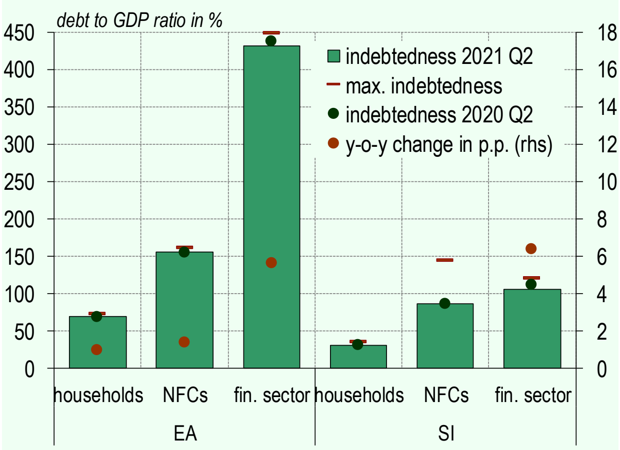
The increase in non-financial corporations' financial assets and even larger increase in their liabilities picked up further pace in the third quarter of last year, with trade credits again to the fore. Non-financial corporations' financial assets at the end of the third quarter were up EUR 4.7 billion in year-on-year terms, the largest increase since 2008 (see Figure 6.2). They recorded a particularly large increase in trade credits granted (EUR 2.1 billion) for the second consecutive quarter, and also saw a larger increase in holdings of equity and investment fund shares (EUR 1.3 billion).[1] Their holdings of bank deposits were also up in year-on-year terms (EUR 869 million), albeit more slowly than a year earlier, which is attributable to the decline in general uncertainty. Non-financial corporations' financial assets in the rest of the world are again increasing fast: they were up EUR 1.9 billion in year-on-year terms, the fastest increase since records began in 2005.[2] Alongside the sharp increase in financial assets, the increase in non-financial corporations' financial liabilities over the same period was even more pronounced: at the end of the third quarter they were up EUR 5.5 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 2.9 billion)[3] and trade credits (by EUR 1.9 million). 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 543 million, which might have been attributable to the improved economic climate and a new cycle of invest-

Figure 6.2: Financial assets and liabilities of NFCs*



Source: Banka Slovenije.

Figure 6.3: Comparison of indebtedness* in Slovenia and 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.

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[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, deposits in accounts in the rest of the world, and loans granted.

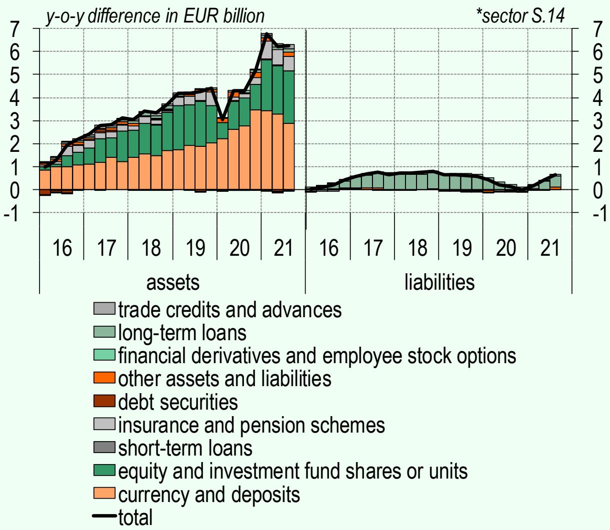
[3] Transactions accounted for around 30% of the change, and revaluations of existing liabilities for 70%.

ment in an environment of persistently low interest rates. After a year's interruption, non-financial corporations' liabilities to the rest of the world also increased rapidly again last year, and were up EUR 2.3 billion in year-on-year terms in the third quarter, the largest increase to date.[4] Non-financial corporations' indebtedness nevertheless remains low, and well below the euro area average (see Figure 6.3).

Financial assets and financing of households

Households are still increasing their savings, but at a slightly slower pace, while their holdings of bank loans have once again begun to rise rapidly.[5] Households' financial assets at the end of the third quarter were up EUR 6.3 billion in year-on-year terms (see Figure 6.4). With income rising, they continued to place their surplus savings in three major investment pillars: bank deposits (EUR 2.2 billion), equity and investment fund shares[6] (EUR 2.3 billion), and insurance, pension and standardised guarantee schemes (EUR 624 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, but also as a result of a significant increase in transactions, i.e. new investments. Conversely the year-on-year increase in households' (transferable) bank deposits gradually slowed 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 last year, reaching its pre-pandemic levels. Liabilities at the end of the third quarter were up EUR 654 million in year-on-year terms. The main factor was a year-on-year increase in long-term loans, which amounted to EUR 489 million, more than double that a year earlier. In the improving economy, this is indicative of households' renewed optimism with regard to spending and investment, although their inflows of loans are significantly lower than before the outbreak of the previous financial and economic crisis. Household indebtedness thus remains low, and well below the euro area average (see Figure 6.3).

Figure 6.4: Financial assets and liabilities of households*



Source: Banka Slovenije.

Financial assets and financing of banks

The build-up of the non-financial sectors' savings at banks remains extremely large, despite slowing slightly, while on the asset side the banks are once again strengthening their lending activity. The banking sector's financial liabilities at the end of the third quarter of last year were up EUR 4.6 billion in year-on-year terms, very close to the largest figure of the last 13 years, which was recorded in the previous quarter (see Figure 6.5). The main factor was again the increase in deposits (EUR 3.5 billion), although the year-on-year increase slowed most compared with the previous quarter. The increase in liabilities from issued debt securities also slowed, to just EUR 124 million, while issuance of equity and investment fund shares strengthened significantly to more than EUR 900 million, albeit mostly as a result of revaluations of existing liabilities. Despite a gentle de-

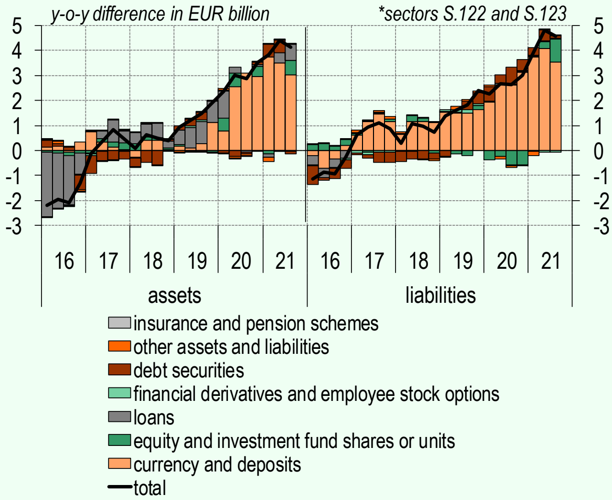
[4] The largest increase was in trade credits, but there were also discernible increases in equity and loans.

[5] Year-on-year growth in loans strengthened by 1 percentage point in the third quarter of last year (to 3.9%), having been zero at the end of 2020.

[6] Revaluations of existing assets accounted for close to 70% of the year-on-year increase in holdings of equity and investment fund shares, and transactions for the remainder.

cline, the banks' financial assets were also up strongly compared with a year earlier, in the amount of EUR 4.1 billion.[7] The increase was mostly driven by holdings of deposits (primarily at the central bank) in the amount of EUR 3.0 billion, and to a lesser extent by investments in equity and investment fund shares (EUR 575 million). Bank lending activity has also strengthened over the last two quarters. The stock of loans granted[8] (primarily to households and non-residents) at the end of the third quarter was up EUR 650 million in year-on-year terms, and was up more than a half compared with the previous quarter, bank lending activity having come to a complete halt over the three previous quarters. The changes in bank performance over the first eleven months of the year are analysed in Box 6.1.

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



Source: Banka Slovenije.

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

[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.

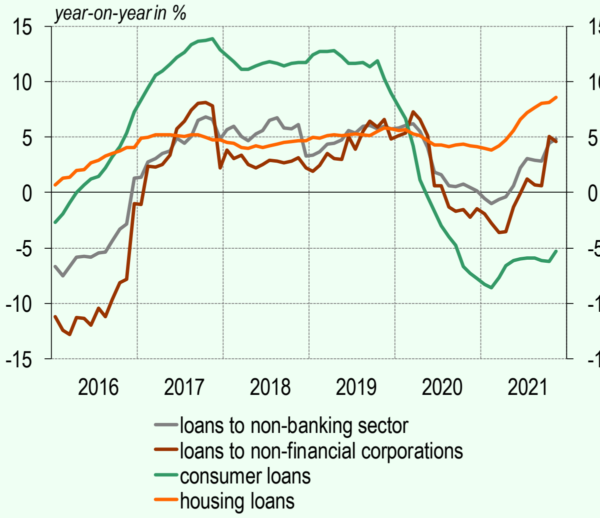
Box 6.1: Bank performance

Year-on-year growth in loans to the non-banking sector has been gradually increasing since May of last year, and had reached 4.8% by the end of November. There was a particular increase in household lending, driven primarily by housing loans. Growth in loans to non-financial corporations rose sharply in October amid strong lending to certain large enterprises in particular, but the volume of and growth in these loans declined again in November. Bank portfolio quality as measured by the NPE ratio remains unchanged, although reclassifications to the stage with increased risk are indicative of a decline in quality in the major portfolio segments. Growth in deposits by the non-banking sector slowed, but in November was still above its pre-pandemic level. Pre-tax profit remained high at system level over the first eleven months of the year. The net release of impairments and provisions was a major factor in the high profits and the ROE of more than 10%. The sustainability of profits generated in this manner remains uncertain, despite a slight improvement in income growth. The capitalisation of the banking system remains good, and liquidity remains high, despite a decline in the liquidity coverage ratio in November.

The balance sheet total increased by EUR 2.9 billion over the first eleven months of the year to stand at EUR 47.6 billion, but the year-on-year rate of growth slowed in the second half of the year, reaching 7.5% in November. The main increases on the funding side were in deposits by the non-banking sector and liabilities to the ECB, which were up EUR 2.0 billion and EUR 1.0 billion respectively, the increase in the latter being driven primarily by certain banks' borrowing via LTROs in June 2021. The largest increases on the investment side were in claims against the central bank (EUR 2.0 billion) and loans to the non-banking sector (EUR 1.3 billion), while holdings of securities declined by EUR 0.4 billion. The increase in the most liquid forms of asset, i.e. claims against the central bank, over the aforementioned period was attributable to the increase in sight deposits by the non-financial sector, and to bank borrowing at the ECB in the middle of the year. The banks further increased their lending over the autumn, between September and November, while reducing their liquid assets and securities holdings. The liabilities side of the balance sheet saw smaller inflows of deposits, while the banks paid down debt on the wholesale markets and to the ECB at the same time.[1]

Year-on-year growth in loans to the non-banking sector increased to 4.8% in November. Growth in loans to non-financial corporations rose in particular in October, while growth in household loans maintained its trend of increase in November. Loans to the non-banking sector in November were up EUR 109 million on October, largely as a result of increases in household loans (EUR 66 million) and loans to non-residents (EUR 78 million). The decisive factor in the continuing increase in year-on-year growth in household loans (to 4.6%) was the stronger growth in housing loans (8.6%). Consumer loans were down in year-on-year terms throughout the first eleven months of the year, but November's contraction of 5.3% was smaller than in previous months. Loans to non-residents were up just over a fifth in year-on-year terms in November, but still accounted for just a small proportion of total assets (3.3%). Loans to large foreign enterprises are prevalent among the loans to non-residents, although lending of this type is only seen at a few of the large banks. After October's pronounced increase in loans to non-financial corporations, driven primarily by loans to a number of large enterprises, the stock contracted again in November, reducing the year-on-year rate of growth by 0.5 percentage points to 4.6%.

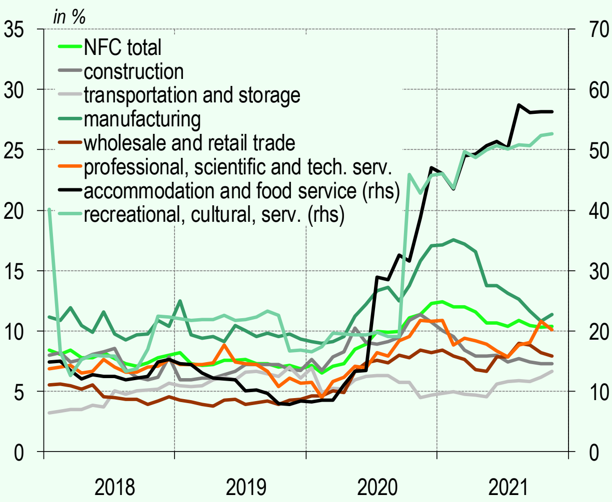
Figure 1: Growth of loans to the non-banking sector



Source: Banka Slovenije.

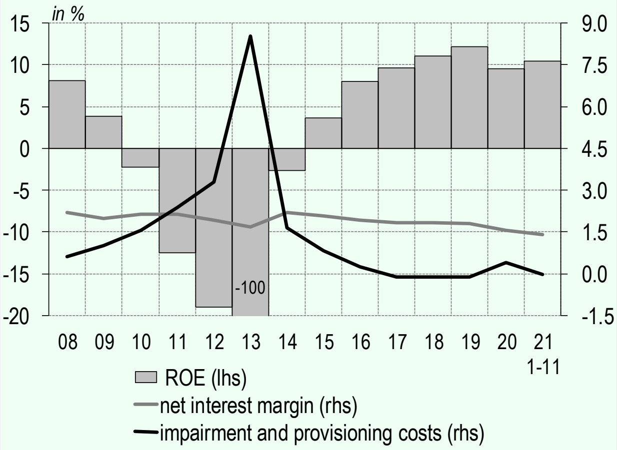
Recent months have seen no major changes to the quality of the bank portfolio on aggregate, although industry segments are showing signs of deterioration. The NPE ratio has remained at 1.3% since August. There is still a trend of rising NPEs in the accommodation and food service activities sector, the NPE ratio reaching 12.7% in November. The majority of loan moratoria had expired by November, and firms are repaying these loans without major arrears. The

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.

NPE ratio in this portfolio segment (7.8%) is nevertheless significantly higher than in the non-financial corporations portfolio overall (2.4%), and is displaying a trend of increase, in contrast to the non-financial corporations portfolio overall. The future evolution of the pandemic and the potential reimposition of containment measures might cause an additional deterioration in the most vulnerable sectors. Recent months have seen a renewed increase in the share of exposures classified in the stage with increased credit risk (Stage 2) in numerous sectors, manufacturing joining their number in November. The share in Stage 2 also increased sharply in November in the household loans portfolio. There was a large increase in the consumer loans portfolio, from 8.3% to 10.0%, which has continued this year's trend of reclassification to higher risk stages, which was only interrupted over the summer. There is also an adverse trend of growth in Stage 2 in other non-housing exposures to households: in just under a year the share in Stage 2 rose from 4.1% at the end of 2020 to 6.9% in November of last year.

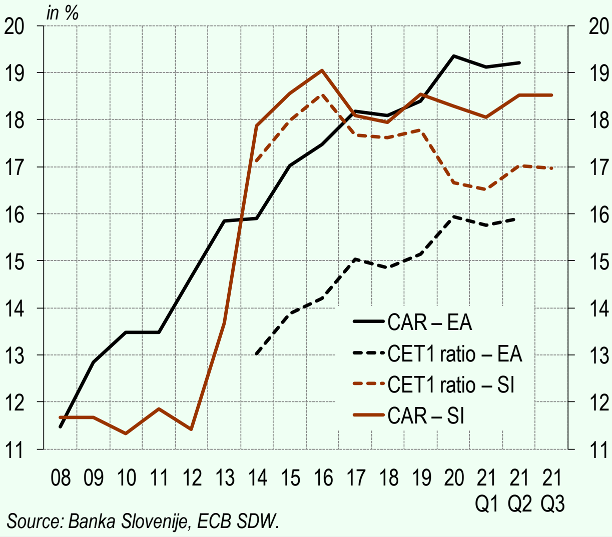
Amid the rise in private consumption, year-on-year growth in household deposits slowed in the second half of last year, reaching 7.6% in November. After three consecutive months of decline, the stock of household deposits increased by EUR 29 million in November. This was merely just over a tenth of the average monthly increase in household deposits seen in the first half of the year, when there was a sharp increase in savings, most likely as a result of precautionary behaviour by savers, but also in part thanks to government financial support in dealing with the impact of the pandemic. Despite the aforementioned contraction for a few months, household deposits increased by EUR 1.3 billion over the first eleven months of the year to stand at EUR 23.7 billion, and remained the main source of funding for Slovenian banks. Year-on-year growth in deposits by non-financial corporations had slowed to 9.2% by November, but was still more than four times higher than the rate of growth before the pandemic. The monthly changes in deposits by non-financial corporations remained volatile because of the varying liquidity needs of firms in their current operations. The uncertain epidemiological situation and low interest rates are continuing to deter savers from fixing their savings, which means that sight deposits have further increased, and accounted for 82.4% of total deposits by the non-banking sector in November.

Pre-tax profit amounted to EUR 473 million over the first eleven months of the year, while ROE stood at 10.5%. The banking system's income performance has improved in recent months, but the main factor in the high profits was the net release of impairments and provisions at more than two-thirds of credit institutions. Pre-tax profit was comparable to the previous year (up 0.3%), despite the one-off increase in profit deriving from the merger of two banks in September 2020. The year-on-year decline in net interest income had slowed to 2.6% by November, thanks to higher growth in loans. The decline in net interest also reduced the net interest margin, which stood at 1.4% over the 12 months to November, but the decline in the latter slowed. Net non-interest income was down a third in year-on-year terms (because of the merger of two banks in 2020); excluding this effect, it would have been up close to 8% on the previous year. Net fees and commission continued to record high growth (14.9%), while operating costs were broadly unchanged in year-on-year terms (down 0.7%). The aforementioned effect in non-interest income meant that gross and net income were both down on the previous year; excluding that effect they would have been up 2% and almost 7% respectively on the previous year. The net release of impairments and provisions amounted to EUR 52 million at system level, in contrast to the net creation of impairments and provisions in the amount of EUR 125 million recorded by the banks in 2020. Had impairment and provisioning costs been at their long-term average, pre-tax profit would merely have been just over a third of that actually observed.

The banking system's liquidity remained high, despite a deterioration in certain indicators. The liquidity coverage ratio (LCR) at system level declined by 21 percentage points over the first eleven months of last year to reach 303%, as net liquidity outflows increased by more than the liquidity buffer. Despite the decline, the LCR remains well above its regulatory requirement (100%), which means that the Slovenian banking system's capacity to cover net liquidity outflows over a short-term stress period remains high. After a slowdown in growth in deposits by the non-banking sector, the increase in primary liquidity[2] also slowed, but it still accounted for more than a fifth of the balance sheet total in November. The maturing of Slovenian government securities and the simultaneous expansion of the balance sheet reduced the ratio of secondary liquidity to the balance sheet total to 15.4%.

The capital adequacy of the banking system improved slightly over the first three quarters of 2021. The total capital ratio increased by 0.2 percentage points to 18.5% on a consolidated basis, while the common equity Tier 1 capital ratio increased by 0.3 percentage points to 17.0%. The rise in

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



Source: Banka Slovenije, ECB SDW.

the capital ratios was driven by the increase in regulatory capital outpacing the increase in risk-weighted assets. Slovenia's total capital ratio has been below the euro area average since the end of 2020, while its CET1 ratio remains above the euro area average. Here it should be reiterated that Slovenian banks vary considerably in their capital positions and their resilience to any adverse situation and stress events, on account of the differences in the structure of their assets and their risk levels, and the resulting differences in their capital surpluses.

[1] The banks still hold a significant share of their assets in highly liquid forms and debt securities, which together account for more than 40% of the total.

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

7 Price Developments

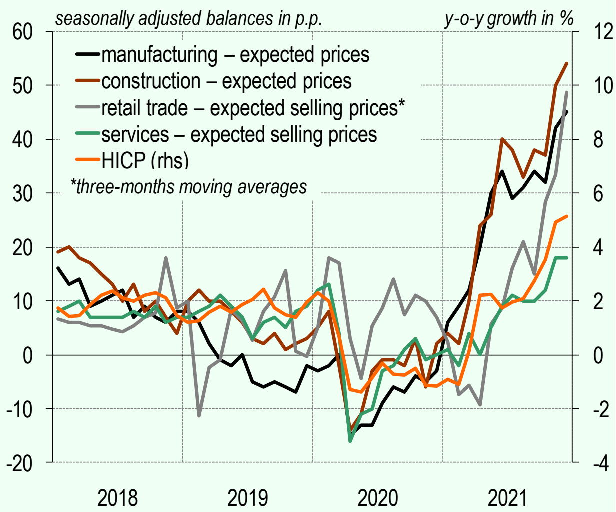
Year-on-year growth in consumer prices as measured by the HICP increased as expected in the final part of last year to reach 5.1% in December. Alongside the strengthened domestic inflationary pressures, it was mainly driven by the high energy prices accompanying the surge in economic growth that followed the relaxation of the most stringent containment measures. Amid high demand for oil, other energy prices are rising alongside fuels, most notably heat energy. High growth in prices of agricultural products and food commodities is driving up food inflation, which has reached 3.6% at the end of last year. Services prices are also rising, as the service sector opened up in the second half of the year and private consumption boomed following the relaxation of containment measures. Core inflation strengthened sharply at the end of the year to reach 2.9%, higher than the core inflation rate of 2.6% in the euro area overall. Alongside services prices, the rise was also driven by prices of non-energy industrial goods, amid rising input costs in connection with rises in prices of raw materials, semi-finished goods and transport, and a low base effect. The change in weights for computing the HICP caused by changes in patterns of consumption following the outbreak of the pandemic was also holding down inflation at the end of the year. Had the weights remained unchanged, headline inflation would have reached 5.9%, and core inflation 3.3%. The rise in inflation has been felt for some time now by consumers, who, like firms, are expecting high inflation to continue in the future. While the accompanying risks are persisting, our assessment remains that the high inflation is temporary in nature, and that it will begin to slow in the second half of this year amid strong base effects and under the assumption that the disruptions to supply chains and on the energy markets are resolved.

Survey assessments of expected price developments

In the strengthening economy, firms again raised their inflation expectations at the end of the year. In addition to construction and manufacturing, where the expectations of future prices have been rising since the beginning of 2021, in the final quarter of last year there were growing numbers of firms in retail and other services that were expecting prices to rise. The indicator showing the difference between the share of firms expecting prices to rise over the next three months and the share expecting prices to fall was highest in construction in December, where it reached a new record of 54 percentage points (see Figure 7.1). Additionally, the indicator for manufacturing firms reaching 45 percentage points in December set a record value too. At the end of last year, both sectors were still facing high costs of commodities and shortages of materials, while high energy prices are also a factor in their elevated price expectations. Price expectations also rose significantly in the retail sector. The indicator averaged almost 50 percentage points over the final quarter of last year, its highest figure to date, driven by rising prices of food and other goods. There has also been a revival of inflation expectations in services, most notably in sports and recreation and in accommodation and food service activities, where the indicator is well above its level from 2019, amid labour shortages and the accompanying wage pressures.

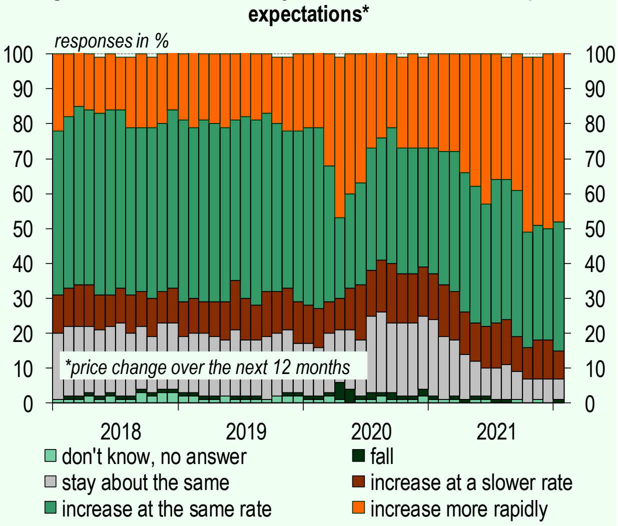
Consumers have been perceiving the rise in inflation for some time now, and their expectations of future price developments remain elevated. The perceived inflation indicator has been strengthening among consumers since the beginning of last year, and reached 70 percentage points in December, its highest figure since 2008, before falling slightly in January (to 67 percentage points). The indicator of price expectations has been similarly strengthening for several months, and stood at more than 60 percentage points in the final quarter of last year and January of this year. The share of consumers expecting inflation to rise is increasing: almost half of them now foresee that prices will rise faster over the next 12 months, the highest figure since the surveying began (see Figure 7.2). Furthermore, the majority of consumers surveyed believe that inflation will continue, with only 6% at the beginning of this year expecting prices to remain unchanged, and just 1% expecting prices to fall. Expectations in the euro area overall have strengthened similarly to those in Slovenia, but remain at about 20 percentage points lower levels.

Figure 7.1: Price expectations according to business survey



Source: Eurostat, SORS, Banka Slovenije calculations.

Figure 7.2: Consumer survey, future trend of consumer prices expectations*

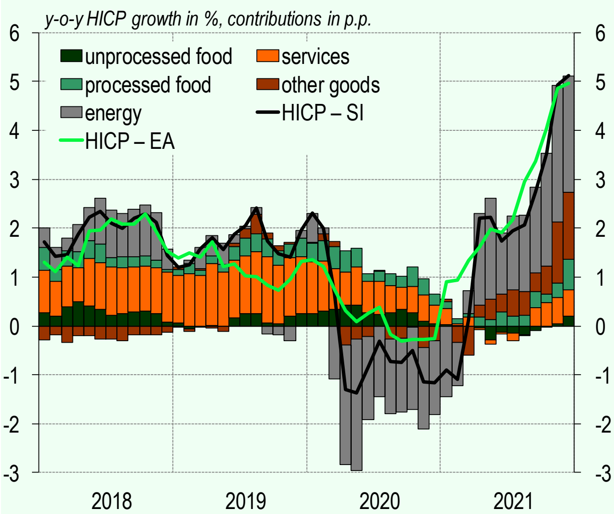


Note: Due to rounding the totals may not add up to 100.
Source: SORS.

Structure of inflation and core inflation indicators

Amid high domestic and foreign price pressures, particularly from energy prices, year-on-year consumer price inflation strengthened again, reaching 5.1% in December. Inflation as measured by the HICP rose sharply in the final quarter of last year. It reached 3.5% in October, 4.9% in November and 5.1% in December (see Figure 7.3), the highest annual rates since 2008. Energy prices accounted for more than half of the average inflation over the final quarter, having been driven higher by tight conditions on the energy markets. The contribution by non-energy industrial goods (e.g. cars, furniture, clothing) also increased significantly. These

Figure 7.3: Contributions to headline HICP inflation

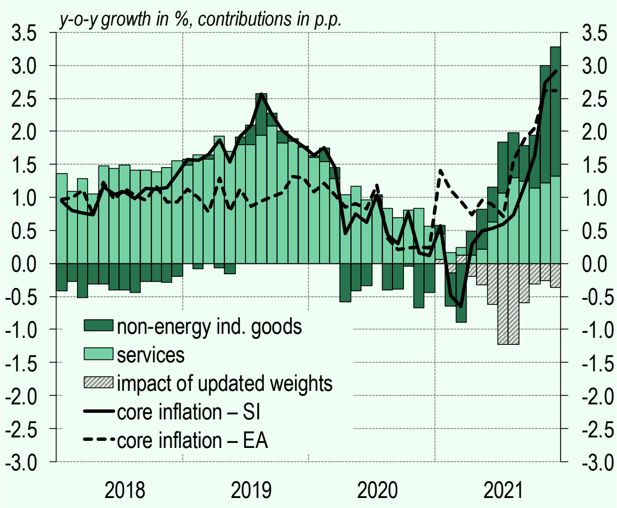


Source: ECB, Eurostat, Banka Slovenije calculations.

prices were up 4.4% in year-on-year terms in December, which contributed 1.4 percentage points to headline inflation. Alongside a low base effect, the rise was attributable to the economic situation, where many firms are still facing rises in prices and shortages of raw materials and semi-finished goods for manufacturing, while high electricity prices represent a growing risk to prices of final products at the turn of the year. Food inflation accounted for 0.8 percentage points of headline inflation in December, double the figure in the previous month, the rise being driven by both processed and unprocessed food. Producers of agricultural products are facing rising prices for fertilisers, seeds and energy, which meant that their prices were up fully 20% in year-on-year terms in November, which is already being partly passed through into prices of final products together with rising food processing costs. The rise in services prices has also made a contribution to headline inflation. It reached 1.6% in year-on-year terms in December, and accounted for 0.5 percentage points of headline inflation. The changes in weights for computing the HICP again mitigated inflation on this occasion: had the weights remained unchanged from 2020, measured inflation would have stood at 5.9% last year. Our expectation is that inflation will remain elevated over the coming months. It is then expected to slow over the second half of the year, as the situation on European energy markets stabilises, the disruptions to supply chains are resolved, and a strong base effect in connection with last year's price rises kicks in.

Core inflation rose sharply at the end of last year, driven by prices of non-energy industrial goods amid

Figure 7.4: Contributions to the narrowest indicator of core inflation



Source: ECB, 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, %					
	2021	2017	2018	2019	2020	2021	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
HICP	*100.0%*	1.6	1.9	1.7	-0.3	2.0	-0.6	-0.9	-0.6	2.1	2.3	4.5
Breakdown of HICP:												
Energy	*11.4%*	4.7	6.0	0.8	-10.8	11.3	-11.8	-12.7	-5.1	16.1	14.2	22.2
Food	*23.2%*	2.2	2.4	1.6	2.8	0.7	2.4	2.1	0.5	0.1	0.4	1.8
processed	*18.8%*	1.4	1.4	1.4	1.9	1.2	1.4	1.9	0.6	1.1	1.3	1.9
unprocessed	*4.3%*	5.7	6.6	2.5	6.6	-1.3	6.8	3.3	0.2	-3.5	-3.2	1.6
Other goods	*31.4%*	-0.7	-0.8	0.3	-0.5	1.3	-0.6	-0.9	-0.9	1.1	1.7	3.3
Services	*34.1%*	1.8	2.4	3.1	1.8	0.6	1.5	1.3	0.4	-0.1	0.4	1.5
Core inflation indicators:												
HICP excl. energy	*88.6%*	1.1	1.4	1.8	1.3	0.8	1.0	0.8	0.0	0.4	0.7	2.3
HICP excl. energy and unprocessed food	*84.3%*	0.9	1.1	1.8	1.0	1.0	0.7	0.7	0.0	0.6	0.9	2.3
HICP excl. energy, food, alcohol and tobacco	*65.4%*	0.7	1.0	1.9	0.8	0.9	0.6	0.3	-0.2	0.4	0.8	2.4
Other price indicators:												
Industrial producer prices on domestic market		1.3	1.9	1.9	0.7	6.1	0.3	0.9	1.9	4.2	8.0	10.1
GDP deflator		1.5	2.1	2.2	1.2	…	-0.2	1.1	1.3	2.1	3.6	…
Import prices*		3.2	2.6	-0.6	-2.3	…	-2.0	-2.7	1.5	5.8	8.9	…

*Note: *National accounts data.*
Source: SORS, Eurostat, Banka Slovenije calculations.

rising input costs and a low base effect. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco, has been strengthening since April of last year, and reached 2.9% in December (see Figure 7.4). Core inflation thus stood at its highest rate since March 2009, and for the second consecutive month was higher than the euro area average of 2.6%. Non-energy industrial goods accounted for 2.1 percentage points of domestic core inflation. Amid strong domestic demand following the relaxation of the most stringent containment measures, and the rising costs of raw materials and semi-finished goods, the high inflation was driven by rising inflationary pressures. The contribution by service price inflation is also increasing, and averaged 0.8 percentage points over the final quarter of last year. Thanks to last year's change in weights for computing the HICP, measured service price inflation, and thus core inflation, remain lower than they would be had the weights remained unchanged. Core inflation would have reached 3.3% in December, in the absence of the damping effect of the change in weights.

Drivers of inflation

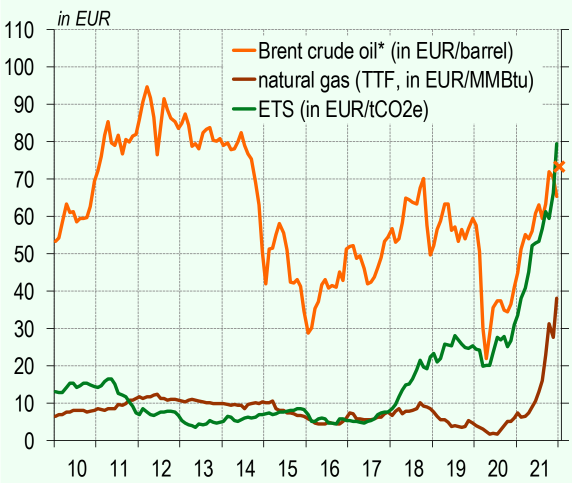
High energy prices have accompanied economic growth since the relaxation of the most stringent containment measures, and are driving inflation. The relaxation of the containment measures gave impetus to business activity and increased mobility, in parallel with demand for energy products growing faster than expected. Therefore, the price of Brent crude also rose over the course of last year, reaching a peak in November. It fell slightly in December, on account of the uncertainty associated with the rise of the omicron variant, to EUR 65.4 per barrel, but was still up almost 60% in year-on-year terms. Other energy prices rose sharply in the final quarter, most notably natural gas, which, like crude oil, is 100% imported in Slovenia. Energy prices are also under the influence of geopolitical tensions, and the costs of the green transition. Energy prices accounted for 11.7 percentage points of November's aggregate year-on-year growth of 22.5% in import prices, while commodity prices accounted for 8.5 percentage points. Primary commodity prices on global markets remain at the record high levels reached in the middle of last year. Metals prices have fallen slightly in current terms in recent months, while prices of food commodities and non-food agricultural produce are continuing to rise.

Domestic inflationary pressures remained strong at the end of last year. Real GDP in the third quarter surpassed its pre-crisis level from the end of 2019, amid a sustained increase in private consumption. Given the rapid increase in demand, which the economy has not been able to fully keep pace with because of disruptions to supply chains, and the higher input costs, industrial producer prices for sale on the domestic market rose sharply. They were up 10.6% in year-on-year terms in December, driven by commodity prices and prices of capital goods, which were up 15.9% and 12.8% in year-on-year terms respectively. Alongside growth in prices of industrial goods, producer prices of services are also strengthening, and reflect the current situation on the labour market. The registered unemployment rate stood at 6.7% in November, the lowest figure since December 2008, and more and more employers are facing a shortage of qualified workers, despite wage rises.

Price developments by subcategory

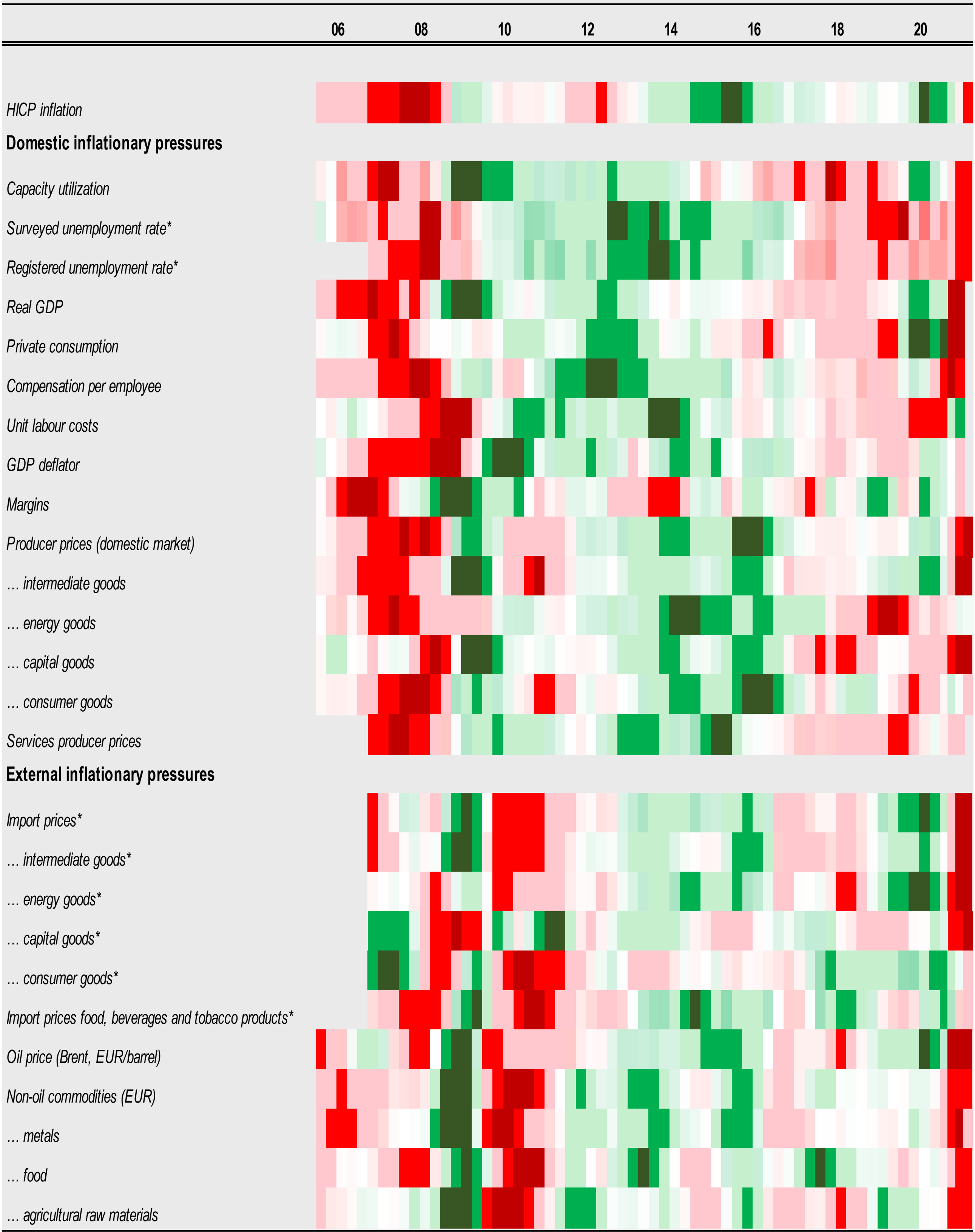
Amid high demand for oil, other energy prices are rising alongside fuels. The situation on global energy markets was extremely uncertain in the final quarter of

Figure 7.5: Energy prices



*Note: *Data for 2022, marked with a cross, show an average daily price up to January 19.*
Source: ECB, MDS, Bloomberg, Banka Slovenije calculations.

Table 7.2: Inflationary pressures

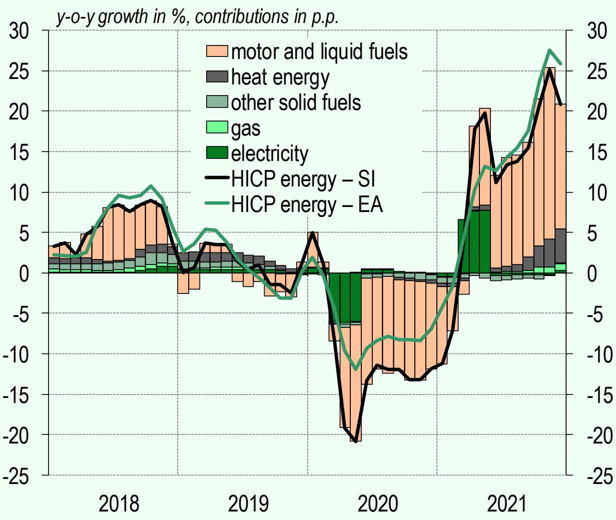


Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilization and the unemployment rate, which are expressed in percentages. The data has been 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 the forth quarter of 2021 encompasses data for October and November (latest available data).*
Source: SORS, Employment Service of Slovenia, Eurostat, ECB, Banka Slovenije calculations.

last year. Demand for oil was hit heavily by the rise of the new coronavirus variant, but the fall in prices was merely temporary following the initial uncertainty. The price of a barrel of Brent crude averaged EUR 73.1 over the first 19 days of January, and had thus regained its level of November (see Figure 7.5). The situation on the natural gas market remains extremely uncertain, with Europe largely dependent on imports on account of its energy insufficiency. Final energy prices for consumers have also risen in parallel with the rises on the wholesale markets. They were up 20.8% in year-on-year terms in December, with motor fuels being the largest driver (see Figure 7.6).[1] In the wake of continual price rises in wholesale energy market as well as rises in prices of emission allowances, last year also saw a sharp rise in prices of heat energy, which were up more than 72% in year-on-year terms in December. Households will also be hit by rising electricity prices this year as a result of higher network charges for the distribution system and the announcement of higher unit rates.[2] Given the high growth in energy prices, which averaged 25.9% across the euro area in December, governments took measures last year to mitigate the impact of the energy crisis on households and businesses, and measures are also being prepared by the Slovenian government.[3]

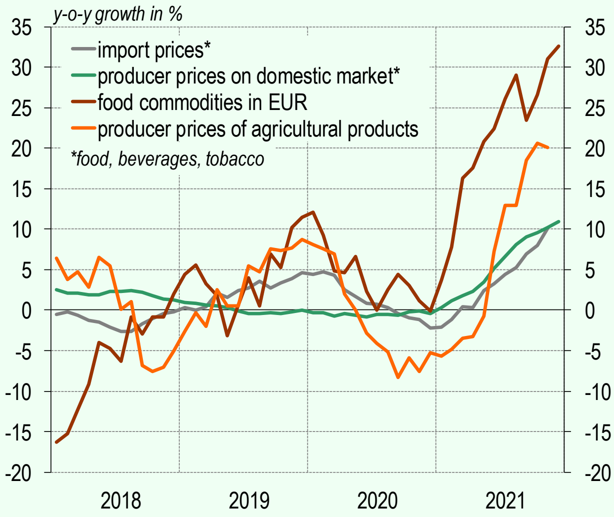
Rising domestic and foreign inflationary pressures drove up food inflation at the end of the year. The year-on-year rate reached 3.6% in December, the surge driven by processed and unprocessed food alike (see Figure 7.8). Last year's price rises were largely attributable to rises in food commodity prices, which were up fully 32.6% in year-on-year terms on global markets in December (see Figure 7.7). Amid rising processing costs in connection with rising prices of energy, fertilisers, fodder and seeds, domestic producer prices of agricultural produce also rose sharply. The rise in food commodity prices also raised food import prices and producer prices on the domestic market, and further rises are expected this year on account of high energy prices. Already retail food prices are to a lesser extent reflecting the worsening situation at the beginning of the processing chain: growth in prices of processed food rose to 3.3% in December, the highest rate since 2013. Prices of unprocessed food were up 4.7% in December, having fallen in year-on-year terms for most of the year.

Figure 7.6: Contributions to the growth in energy prices



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.7: Food prices and prices of food commodities



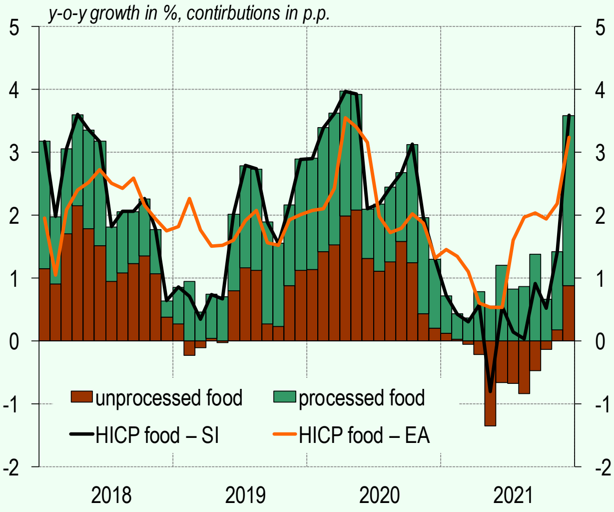
Source: ECB, SORS, Banka Slovenije calculations.

[1] A fall in current oil prices saw diesel and petrol prices fall slightly in December, but they are expected to rise again in January as growth in global oil prices resumes.

[2] The tariff for network charges for distribution system was raised by 14% in January of this year, with the aim of making up the shortfalls in revenue needed to maintain electricity infrastructure that built up in 2020 and 2021.

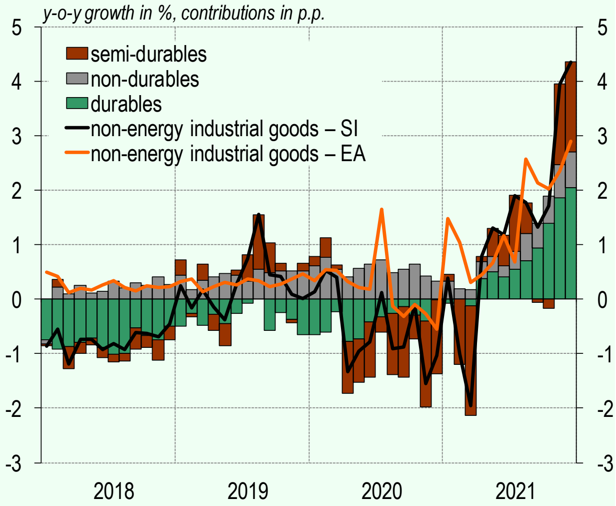
[3] In light of the large price rises and the start of the heating season, the government reintroduced controls on heating oil margins on 9 November 2021. The introduction of energy vouchers to support households is also planned, but negotiations with regard to the size and duration of the measure are still in progress. A decree by which the government would partly cover the indirect costs of carbon emission for energy-intensive firms is also under preparation.

Figure 7.8: Contributions to the growth in food prices



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.9: Contributions to the growth in prices of non-energy industrial goods excluding energy

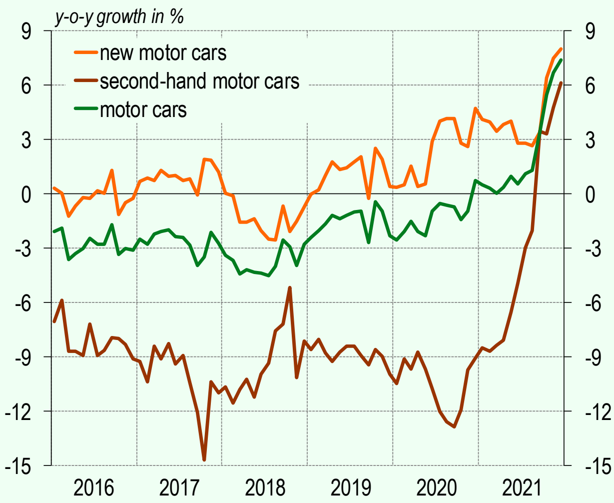


Source: ECB, Eurostat, Banka Slovenije calculations.

As a result of the higher production costs driven by rises in prices of raw materials, semi-finished goods and transport, prices of non-energy industrial goods are continuing to rise. Supply bottlenecks caused disruptions to firms last year, with supply being unable to keep pace with demand following the lifting of the most stringent containment measures. The issues with the availability of raw materials and semi-finished goods arose because of imbalances between the sharp increase in demand and the curtailed supply, which was hit not only by constraints on the production side caused by increased spread of coronavirus infections among workers, but also by disruption to transport. Growth in prices of non-energy industrial goods strengthened sharply in the final quarter of last year to stand at 4.4% in December (see Figure 7.9), driven in part by the low base effect from the price falls in the second wave of the pandemic, alongside current price rises. Prices of semi-durables were up 4.7% in year-on-year terms in December, driven by rises in prices of clothing and footwear, while prices of non-durables and durables were up 2.3% and 5.8% respectively. The largest factor in the high growth in prices of durables were car prices, which rose throughout the year as pent-up demand was released. Owing to shortages of semiconductors, which delayed the supply of new vehicles, car prices rose by 7.4% (see Figure 7.10), while furniture prices were up 7.1% in year-on-year terms.

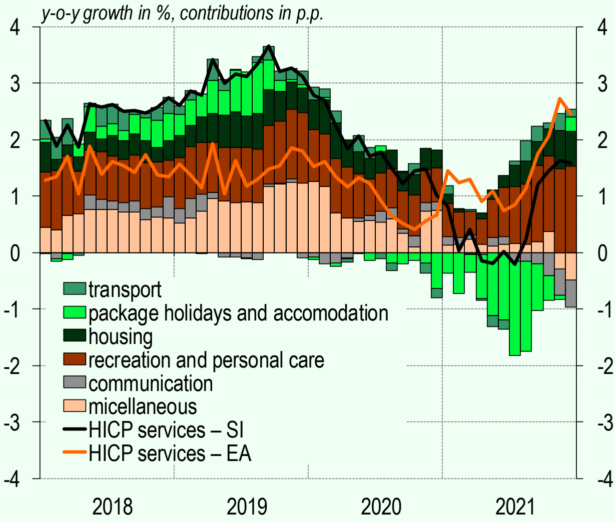
Services inflation strengthened in the second half of last year amid the surge in private consumption. The rate has been above the 1% mark since September, and reached 1.6% in December (see Figure 7.11). Prices of package holidays and accommodation, which had held down aggregate service inflation over the summer, then made their first positive contributions to inflation at the end of the year, while the main driver of inflation throughout the year were services related to recreation and personal care. These are largely accommodation and food services, which were able to resume their business to a greater extent once the most stringent containment measures had been lifted. Because these are labour-intensive services, additional pressure on service prices is coming from the situation on the labour market, where unemployment is at one of its lowest rates and the vacan-

Figure 7.10: Motor car prices



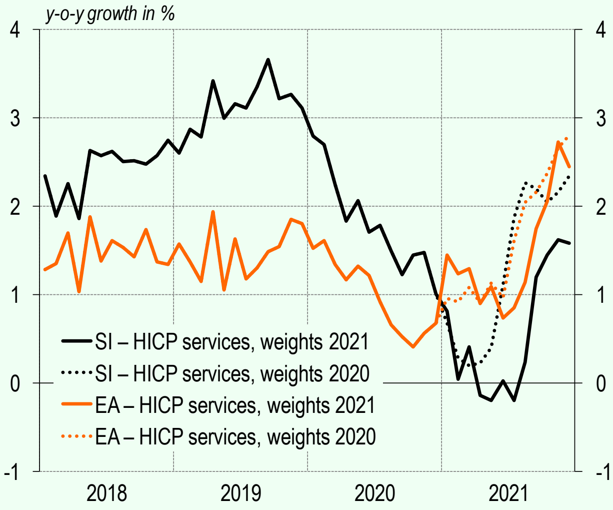
Source: Eurostat.

Figure 7.11: Contributions to the growth in services prices



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 7.12: The impact of updated weights on services inflation



Source: Eurostat, Banka Slovenije calculations.

cy rate is at a record high. Service inflation similarly strengthened in the euro area overall, reaching 2.5% at the end of the year. Alongside a low base effect related to the temporary cut in VAT in Germany, its rise is attributable to a smaller impact of the change in weights compared to domestic figures. Had the weights remained unchanged, service inflation would have stood at 2.8% in the euro area overall and 2.3% in Slovenia in December (see Figure 7.12).

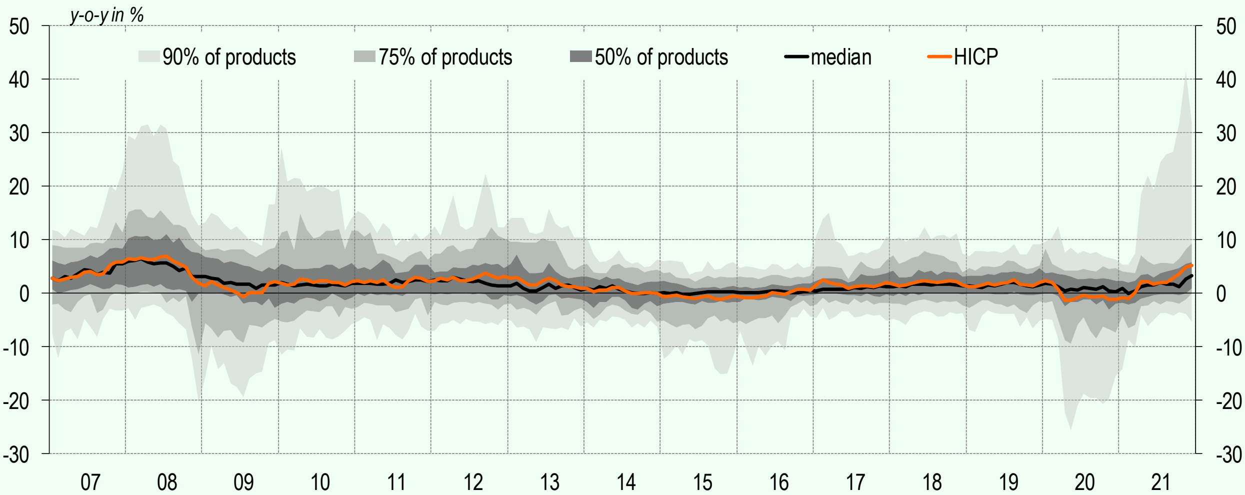
Box 7.1: Analysis of the magnitude of price pressures in the HICP basket

Inflation as measured by the HICP stood at 4.5% in the final quarter of last year, and surpassed 5% in December. Inflation thus reached its highest rate of the last 13 years. This box analyses what is driving it, and whether it is broadly based, or driven by rises in prices of a handful of products in the consumer basket. Our finding is that the majority of products and services were displaying rising inflation in December, amid strengthening inflationary pressures. The share of those recording inflation of more than 2.0% increased over the course of the year to stand at 61.4% in December, when almost 85% of the consumer basket was seeing rising prices. However, despite the broader inflationary pressures, headline inflation remains relatively concentrated, as the majority of the growth continues to be explained by rises in prices of individual products in connection with excess demand in the rebounding economy, the adverse situation on the energy markets and the recovery in services.

The high concentration of price changes indicates that the current elevated inflation is still largely being driven by temporary factors. Distinguishing between broadly based inflation and concentrated inflation is particularly important when measured inflation deviates significantly from the medium-term monetary policy target. Concentrated inflation is a consequence of specific factors affecting the prices of a small number of products and services, and usually does not entail risk of sustained rises in prices. Concentration can be inferred from the distribution of changes in prices of products and services in the consumer basket (see Figure 1). This has widened in recent months, and hit a record high in the final quarter of last year, when 90% of the products in the basket were recording year-on-year growth in the range of -4.2% to 35.0% (the 5th to 95th percentiles). The range for 50% of products was significantly narrower (between 0.1% and 5.3%), while the median year-on-year inflation of 2.4% was almost a half lower than the actual year-on-year inflation as measured by the HICP, an indication that inflation is strongly concentrated. Looking in greater detail, the distribution of price changes in individual components of headline inflation in December 2021 is illustrated in Figure 2, where products and services according to the five-digit European classification of individual consumption according to purpose (ECOICOP) are classified according to year-on-year price growth. Each column represents a particular product or service, while the height and width of the columns represent year-on-year growth and the weight in the consumer basket. Inflation was heavily concentrated in December, with extremely high growth in prices in a handful of categories accounting for a large share of headline inflation. For now the current episode of concentrated inflation thus differs significantly from the comparable inflation in October 2007 (5.1%) and in 2008 (4.7%), when price rises were more evenly distributed.

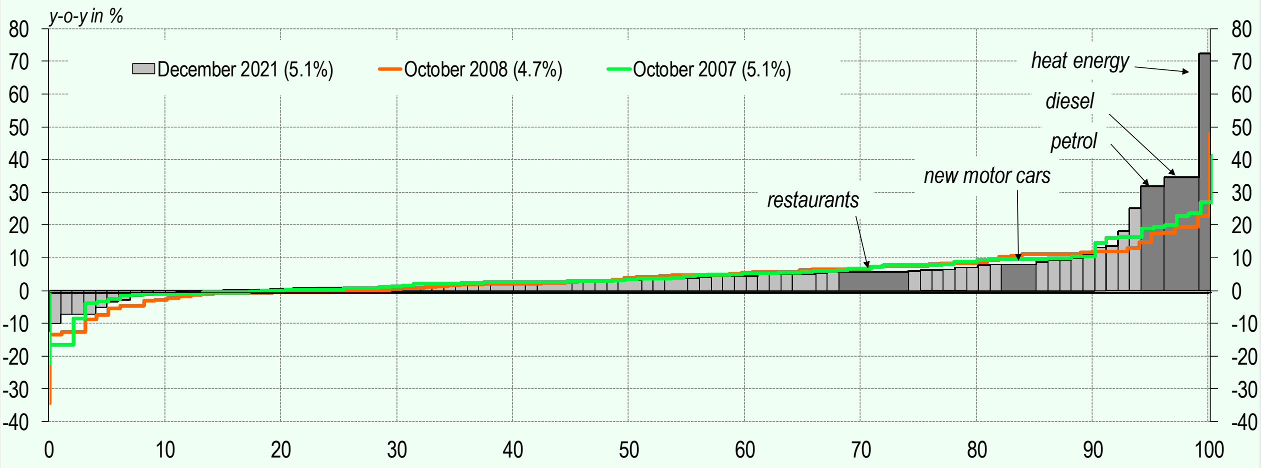
The majority of headline inflation is explained by rises in prices of individual products and services, which are being driven by excess demand in the fast-growing economy, disruptions to supply chains, the adverse situation in the energy markets, and the recovery in services. Five products and services accounted for more than half of headline inflation in the final quarter of last year: diesel, petrol, heat energy, restaurants and new cars (see Figure 3). The price rises in the first three are related to growth in global oil

Figure 1: Distribution of year-on-year price changes by HICP product



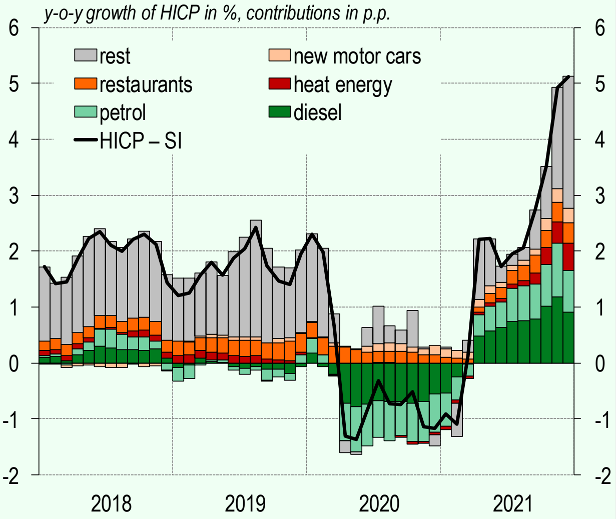
Source: SORS, Eurostat, Banka Slovenije calculations.

Figure 2: Year-on-year price changes by HICP product, December 2021



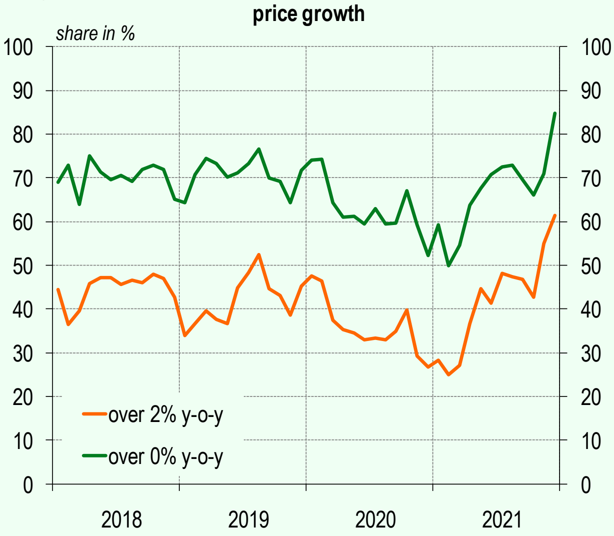
Note: The height of each bar shows the year-on-year growth in prices of individual product, and the width of the bar its weight in the consumer basket (in %).
Source: SORS, Eurostat, Banka Slovenije calculations.

Figure 3: Contributions to inflation



Source: SORS, Eurostat, Banka Slovenije calculations.

Figure 4: The share of products in consumer basket with positive price growth



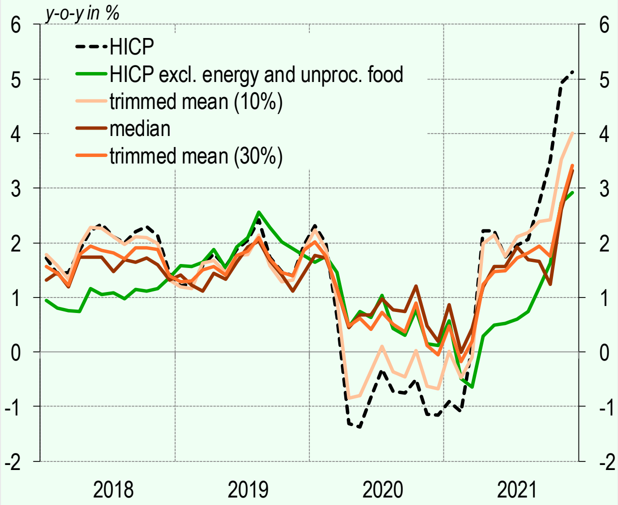
Source: SORS, Eurostat, Banka Slovenije calculations.

prices and other energy prices on the European energy market. The year-on-year rise in diesel prices averaged 40.3% over the final quarter of 2021, while petrol was up 35.0% and heat energy 57.9%. Services in the category of restaurants, cafés and dancing establishments were up 5.3% in year-on-year terms, as since the lifting of containment measures in the spring they have faced a rise in labour costs caused by labour shortages, and a need to compensate for last year's losses. As the economy opened up, the fast recovery in private consumption led to excess demand, which amid the global shortage of semiconductors and the lengthening of delivery times has also been reflected in high growth in prices of new cars. These were up 7.3% on average in the final quarter, while the reduced supply of new cars was also reflected in sharp rises in prices of second-hand cars (6.1% in December).

Although the majority of inflation in the final quarter can be attributed to a small number of rising prices, in December in particular inflation strengthened with regard to the majority of products and services, thereby raising the risk of sustained high inflation. A tenth of the consumer basket was still accounting for more than half of headline inflation in the final quarter of last year, but this proportion is declining, an indication of a more broad based inflation. December brought a significant change, with inflation strengthening despite a slowdown in year-on-year growth in prices of motor and liquid fuels. Some 84.8% of the basket was recording price growth, up 14 percentage points on November, with 61.4% recording inflation of more than 2%, up 6.4 percentage points on November (see Figure 4). The change in the final month of the year was primarily the result of food price inflation and rises in prices of certain other goods, which amid strong demand were the result of rising costs spilling over into prices of a wider range of products and services. The strengthening of general inflationary pressures is also being indicated by the inflation measures that exclude major price changes from the calculation and thus better describe the trend. Figure 5 illustrates core inflation as measured by the HICP excluding energy and food, which has historically displayed higher volatility, and measures calculated as a trimmed mean.[1] These have been significantly lower than headline inflation as measured by the HICP in recent months, but are rising and have surpassed their pre-crisis levels. Despite the considerable concentration of inflation, they are indicative of a broadening inflation.

[1] The trimmed mean excludes a certain proportion of the highest and lowest price changes from the calculation of the price index in a particular month.

Figure 5: Measures of core inflation



Source: SORS, Eurostat, Banka Slovenije calculations.

8 Public Finances

The general government deficit over the first nine months of last year amounted to 5.2% of GDP, down 1.8 percentage points in year-on-year terms. The high growth in revenues of almost 11% reflected the strength of the economy, with pronounced growth in household consumption and a buoyant labour market. The rise in expenditure was around 4 percentage points less, although growth in government investment was notably high. This strengthened further in the third quarter to around 40% in year-on-year terms, which was a factor in the slight year-on-year increase in the deficit during the third quarter. The amount of the anti-coronavirus measures in the second half of last year was smaller than in the first half, following the expiry of the largest measures in June. Given the deterioration in the epidemiological situation, a tenth anti-coronavirus package was adopted at the end of the year.

The general government debt amounted to 79.6% of GDP at the end of September, and according to Ministry of Finance was estimated to have declined to 77.5% of GDP by the end of the year. It is expected to continue declining in the future, primarily on account of economic growth. The heavy borrowing in the early part of this year is still being undertaken at highly favourable terms. The trend of decline in contingent liabilities that has been evident since the last economic and financial crisis also continued.

Amid targeted measures in connection with the pandemic, and strengthening utilisation of EU funds, the key is ensuring that there is no structural deterioration in the fiscal position, government debt having increased sharply during the crisis. Meanwhile additional funding is required because of demographic challenges and the digital and green restructuring of the economy.

General government balance

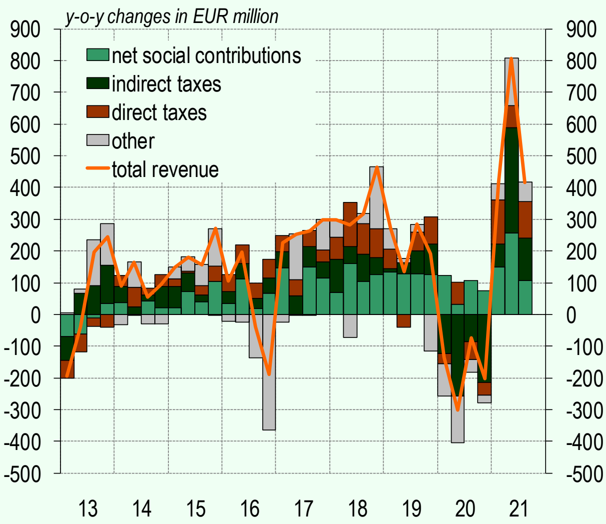
The general government deficit in the third quarter of last year widened slightly in year-on-year terms, primarily in reflection of growth in government investment as the economy strengthened. It amounted to EUR 339 million or 2.5% of GDP. General government revenues increased significantly, while growth in expenditure was slightly higher. The 12-month deficit amounted to 6.3% of GDP at the end of last September, unchanged from the end of June.

General government revenues were again up in year-on-year terms in the third quarter, their growth over the first nine months of the year slightly outpacing the rise in economic activity. Last year's growth in revenues was attributable to a base effect, and the broadly based economic growth, which was supported by the fast growth in private consumption and the buoyant labour market. General government revenues in the third quarter were up EUR 417 million or 7.9% in year-on-year terms. The largest increase in tax revenues came from personal income tax, but other taxes also recorded high growth.

The exception was corporate income tax, which was up just 2% according to SORS estimates. Property income, which includes interest and dividends, was down in year-on-year terms.

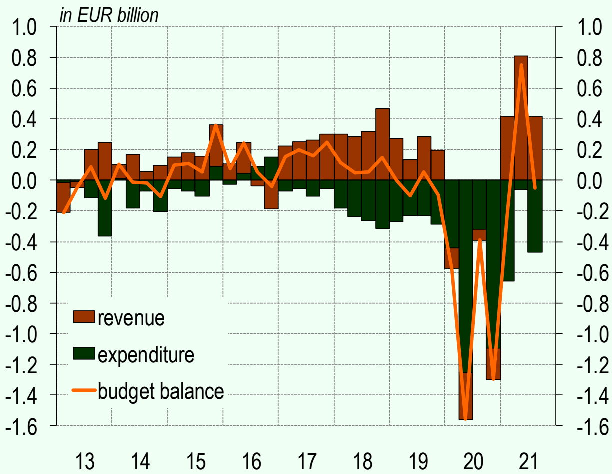
Year-on-year growth in general government expenditure in the third quarter was slightly higher than the growth on the revenue side, and government investment was the main factor in this. Expenditure in the third quarter was up EUR 471 million or 8.5% in year-on-year terms. There was a notable surge in year-on-year growth in government investment, which hit around 40% in the third quarter. Growth in compensation of employees was also high, albeit significantly lower than in the first half of the year, and was driven mainly by agreed rises (e.g. payment of ordinary performance bo-

Figure 8.2: General government revenue



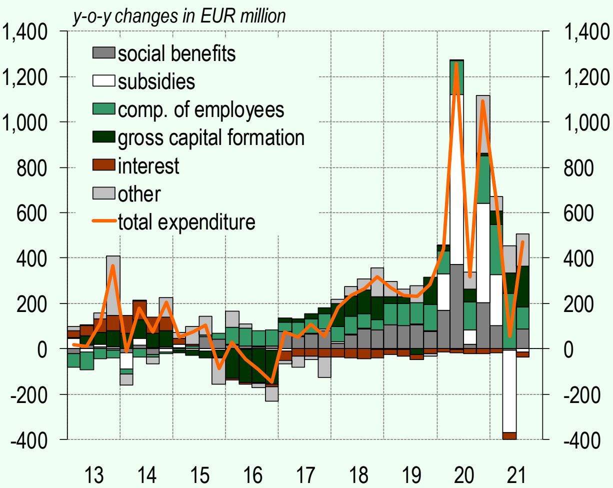
Source: SORS, Banka Slovenije calculations.

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 8.3: General government expenditure excluding support to financial institutions



Source: SORS, Banka Slovenije calculations.

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

	SORS						Draft Budgetary Plan		European Commission		
% GDP	**2016**	**2017**	**2018**	**2019**	**2020**	**21 (1-9)**	**2021**	**2022**	**2021**	**2022**	**2023**
Revenue	44.2	44.0	44.2	43.8	43.6	43.8	43.7	43.5	43.7	43.5	42.9
Expenditure	46.2	44.1	43.5	43.3	51.3	49.0	51.2	48.9	50.9	48.7	47.3
of which: interes	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	-7.7	-5.2	-7.5	-5.4	-7.2	-5.2	-4.4
Primary balance	1.1	2.5	2.8	2.1	-6.1	-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	79.6	78.5	77.5	77.7	76.4	76.0
Real GDP *(growth, %)*	3.2	4.8	4.4	3.3	-4.2	7.4	6.1	4.7	6.4	4.2	3.5

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

Box 8.1: Long-term care

Slovenia has an ageing population, and demand for long-term care is continually increasing. Approximately 21% of the population (around 440 thousand people) was aged 65 or over in 2021. According to SORS figures, a total of EUR 617 million or 1.3% of GDP was spent on around 70 thousand users of long-term care in 2019 (the last year for which data is available). This consisted of almost 1.0% of GDP in public funding, and 0.3% of GDP from private sources. Just over half of the public funding was spent on healthcare in the institutions, while the private funding was mostly spent on social care.

With the aim of regulating care for the elderly, the National Assembly passed the Long-Term Care Act in December of last year. It defines long-term care as measures, services and activities intended for people whose age or other circumstances (e.g. disability) makes them permanently dependent on assistance from others, and also covers people aged under 65. The system includes four basic rights for users: institutional care, home care, care by a family member and support in cash. The exercise of these rights is mutually exclusive. Assignment to a particular type of care is made on the basis of an assessment conducted by the Health Insurance Institute, after receiving an application at entry points. The law represents the first step towards systemic arrangements in this area, and envisages the introduction of further regulations.

The enactment of a law on insurance for long-term care is envisaged by mid-2025, given that the fiscal resources being gathered for this purpose are inadequate. Total government annual expenditure on long-term care will amount to around 1.2% of GDP after the exercise of all of the aforementioned rights. The existing forms of assistance in this area are currently financed by the Pension and Disability Insurance Institute, the Health Insurance Institute and the state budget. Until the introduction of new levies, the difference between the existing resources and the required expenditure will be covered by the state budget. According to estimates by the Ministry of Health, the annual amount of coverage will gradually increase to between 0.1% and 0.5% of GDP (see the row entitled *expected coverage of the difference from the state budget* in Table 1). The rise in expenditure on long-term care over this period is driven primarily by the gradual introduction of rights, but also in part by a rise in the number of beneficiaries. The funding of the rights will be adjusted annually with inflation of the previous year.

The first basic right to be introduced will consist of a number of changes to institutional care in January of next year. This will be followed in mid-2024 with the introduction of the other three rights (home care, care by a family member, and the option of cash support). Institutional care already exists, but certain changes will be made; these will include the way of funding, the personnel conditions, the types of institutions, and the conditions for being accepted in the institution. Accommodation and food costs will still be covered by the beneficiary, but under the new legislation other costs will be covered by the government. The expectation is that 42% of all long-term care users will be included in this form of care and the annual government expenditure will amount to around 0.6% of GDP. The second-largest measure in terms of user numbers and financial requirements will be home care, which is costed at 0.5% of GDP annually. The public funding for care by a family member and cash assistance is projected to amount to just under 0.2% of GDP annually.

New government investments in long-term care are envisaged in the areas of accommodation capacity and care services, which will also be covered by EU funding alongside domestic funding, as existing capacity does not meet the needs. The national recovery and resilience plan envisages the construction of new institutional capacity for 200 users of

Table 1: Long-term care financing estimate

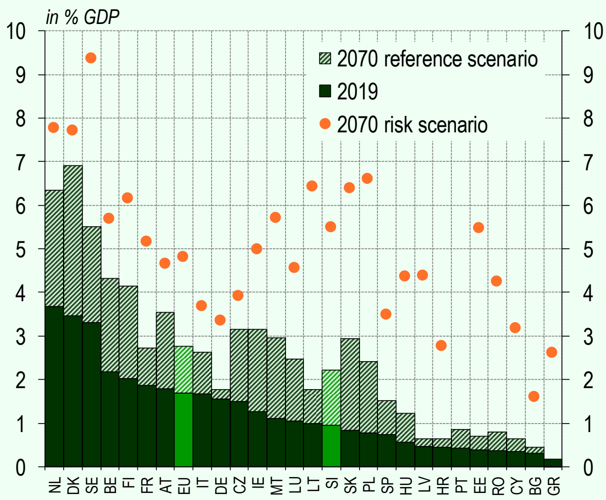
	2022	2023	2024	2025
		in % GDP		
Long-term care expenditure estimation	**0.09**	**0.67**	**0.97**	**1.24**
Transfer from:		0.37	0.42	0.49
- Pension and Disability Insurance Institute		0.1	0.14	0.18
- Health Insurance Institute		0.26	0.27	0.27
- State Budget		0.01	0.02	0.04
expected coverage of the difference from State Budget	0.09	0.3	0.54	0.38
Contributions from long-term care insurance*				0.38

*Note: *Special act on compulsory long-term care insurance is expected to become effective in the second half of 2025.*
Source: Ministry of Health, IMAD, Banka Slovenije calculations.

complex services using grants under the recovery and resilience facility, where the investment is costed at EUR 20 million. The plan also includes EUR 59 million of loans for the construction of institutional capacity for 850 users of less complex long-term care.[1] The investment is expected to be completed by mid -2026. Alongside the funding from the recovery and resilience facility, funding from the React EU programme, which must be drawn down by the end of 2023, and funding from the EU's new financial framework 2021-2027 will also be utilised. The React EU funding is earmarked primarily for overhauling existing infrastructure in institutions to allow for a better response to the impact of the pandemic. The funding from the new financial framework will be earmarked primarily for strengthening the service part of long-term care.

Public funding of long-term care in Slovenia is below the EU average, while the ageing population and other factors mean that expenditure will rise. According to the latest Ageing Report (European Commission, 2021), Slovenia spent 1% of GDP on long-term care from public funds in 2019, while the average across the EU stood at 1.7% of GDP.[2] There are major differences between countries, which depend in part on the comprehensiveness of the long-term care system, the role of informal care, and the amount of private funding of care. On one side are the countries where public funding of long-term care is more than 3% of GDP (the Netherlands, Denmark, Sweden), while on the other side are eight EU Member States that spent less than 0.5% of GDP in 2019, Greece recording the lowest figure. Although future developments are uncertain, the ageing population can be expected to increase the pressure on the public finances. Under the reference scenario, which is a no-policy change scenario, public expenditure on long-term care in the EU is forecast to increase by 1.1 percentage points to 2.8% of GDP by 2070. Despite faster growth, it is forecast to remain lower in Slovenia, at just over 2% of GDP.[3] Given the uncertainty of the projections, the Ageing Report includes ten additional scenarios alongside the reference scenario. Figure 1 illustrates the risk scenario that assumes higher costs and higher coverage of long-term care, and convergence of unit costs and coverage of long-term care on the EU average for those trailing the average. This scenario suggests that the potential pressure on the public finances from the funding of long-term care is significantly higher than under the reference scenario for practically all EU Member States.

Figure 1: Expenditure on long-term care in 2019 and projections for 2070 (reference and risk scenario) for EU member states



Source: European Commission, The 2021 Ageing report.

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Ministry of Health letter of 13 January 2022, on estimate of funding of long-term care after the adoption of the Long-Term Care Act by the National Assembly (internal material).

[1] The costs are estimated exclusive of VAT for both investments. VAT payments will require the state budget to contribute approximately EUR 11 million more on the aforementioned amounts.

[2] Long-term care in this analysis encompasses formal care that is at least partly funded by the public sector, but does not include formal care that is entirely funded from private sources, or informal care provided by relatives or friends.

[3] The forecasts are based on current legislation in the relevant countries, and the assumptions of the model used by the European Commission. These do not yet include the estimates on the basis of the Long-Term Care Act adopted at the end of last year. Half of the increase in expenditure is forecast to occur by 2040, in Slovenia and in the EU overall.

nuses and heavy workload bonuses since mid 2020), and civil service promotions, as the majority of bonuses in connection with the pandemic were no longer available as of mid-June. Employment was up 1.6% in year-on-year terms, human health and social work activities recording the largest increase. More money was again earmarked for social benefits, where pensions account for the largest proportion. According to the Pension and Disability Insurance Institute, pension payments rose by 5.4% last year, although the number of pensioners remained unchanged, in contrast to previous years. There was a decline in subsidies, which had been extremely high in the first year of the pandemic, and even in the first half of last year, given the need to preserve jobs and businesses, and a decline in interest.

General government debt and government guarantees

The general government debt is declining as a ratio to GDP, in line with expectations, but is rising in nominal terms. With the economy growing fast, the ratio of debt to GDP stood at 79.6% at the end of the third quarter of last year, less than at the end of the previous year. It had actually risen by EUR 2.7 billion in nominal terms. In January of this year the Ministry of Finance estimated that it had declined slightly further by the end of the year, to stand at 77.5% of GDP. The government was still borrowing at extremely favourable terms in January, by issuing treasury bills and bonds in the total amount of close to EUR 2.0 billion.[1] The state budget borrowing requirement, which covers this year's planned deficit and maturing debt, is EUR 5 billion according to the government financing programme. A large amount of debt, close to EUR 1 billion, is maturing in March.

Contingent liabilities from guarantees continued to decline. Guarantees are declining both in nominal terms and as a ratio to GDP, and amounted to EUR 4.8 billion or 9.5% of GDP at the end of the third quarter. The trend of decline has been evident since the economic and financial crisis. The main guarantee schemes aimed at addressing the problems caused by the pandemic came to an end last year. The stock of guarantees of this type is relatively low, and remains stable at close to EUR 200 million, or 4% of the total stock of guarantees.

Planned developments in general government balance and debt

The general government deficit and debt are forecast to continue declining, according to the government plans. After the large deficits recorded in 2020 and 2021, the latest forecasts are for the deficit to decline further this year and in the following years.[2] The narrowing of the deficit is expected to reflect the downsizing of pandemic-related measures, and the strengthening economy. Another long-standing factor in deficit reduction is the accommodative monetary policy, which has facilitated the reduction of interest payments. October's Draft Budgetary Plan forecast the deficit to fall below 3% of GDP in 2024, when the debt should fall below 75% of GDP. The further strengthening of government investment is planned, and will be partly covered by an increase in available EU funding, under which the focus of the measures is to shift towards promoting economic growth. Economic growth is also the most important factor in the reduction of the ratio of debt to GDP, although the decline in interest expenditure is also contributing favourably.

The key remains managing the risks of a structural deterioration in the general government position. There was a considerable increase in debt over the pan-

[1] Two bonds were issued in January of this year, by means of which the government borrowed EUR 1.75 billion. The four-year bond with a nominal value of EUR 1.25 billion and a coupon rate of 0.0% achieved the lowest yield to maturity of any Slovenian bond (-0.241%). The 40-year bond with a nominal value of EUR 500 million and a coupon rate of 1.175% augments the maturity profile of the debt, and provides borrowing at an extremely low interest rate over the long term. Treasury bills of various maturities in the total amount of EUR 212 million were also issued at a negative interest rate in January.

[2] According to the available information, the general government deficit in 2021 was smaller than had been forecast (7.5% of GDP). This is indicated by the significantly better realisation in the state budget (see Box 8.2).

demic period, and temporary support measures are still necessary given the epidemiological situation.[3] Funding will have to be provided in the future to help meet climate and digital targets, to finance social security systems and to promote other structural reforms. In the short term this entails higher costs for the government, but it strengthens economic growth over the longer term, thereby mitigating the deterioration in the fiscal position. The planned reduction in the ratio of debt to GDP will strengthen the country's resilience to future shocks, but the key is ensuring that there is no structural deterioration in the fiscal position. After adoption of the Draft Budgetary Plan for 2022 and the approved state budgets for 2022 and 2023, a number of measures that increase general government expenditure have been put in place. These include the Long-Term Care Act adopted in December of last year (see Box 8.1), which entails the beginning of structural reforms in this area, and the decision on an extraordinary pension increase in January of this year. There are also potential (temporary) measures in response to the energy crisis to mitigate the impact of high prices on household disposable income and costs to businesses, and changes in the area of taxation.

[3] December saw the adoption of the tenth anti-coronavirus package (Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of Covid-19), which introduces a solidarity bonus for pensioners with pensions of less than EUR 732 and certain other vulnerable groups, aid for purchasing rapid tests, the extension of the holiday voucher scheme, compensation for any harm suffered after vaccination, and a temporary rise in the highest wage grade for doctors.

Box 8.2: Public finance developments according to the cash flow methodology

The consolidated general government deficit over the first eleven months of 2021 amounted to EUR 2.2 billion, EUR 0.4 billion narrower in year-on-year terms. The majority of the improvement in the position came in the first half of the year, but it improved slightly further between July and November. Only the state budget was in deficit over the first eleven months of the year, while the Pension and Disability Insurance Institute and the local government budgets recorded surpluses of EUR 187 million and EUR 146 million respectively. The state budget recorded a large deficit in December, but it was smaller in year-on-year terms. According to preliminary figures, last year's state budget deficit amounted to EUR 3.1 billion or 6.1% of estimated GDP, significantly less than predicted by the government's September forecasts (EUR 4.0 billion or 7.9% of GDP).

Both revenues and expenditure rose significantly last year, growth in the former outpacing growth in the latter by approximately 4 percentage points over the first eleven months of the year. Growth in revenues remained robust in the second half of the year; the largest factor in the high growth of more than 14% over the first eleven months of the year was the high growth in the second quarter caused by a base effect. All categories of revenue increased. In addition to all types of tax revenue, there were increases in non-tax reve-

Figure 1: Public finance developments

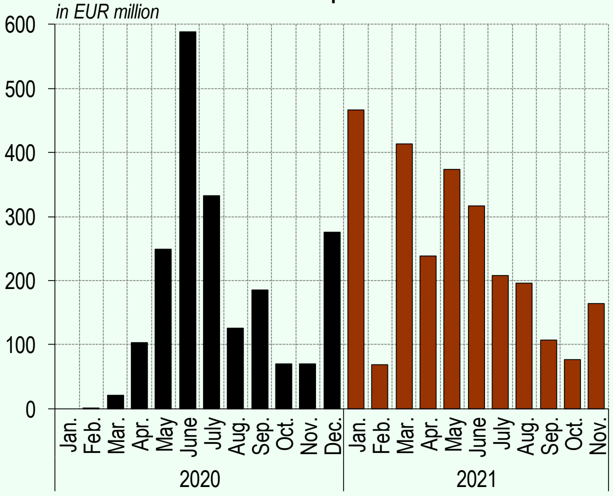
Source: Ministry of Finance, Banka Slovenije calculations.

Table 1: Consolidated balance sheet* of public finance

	2020	last 12 months to Nov. 21			2019 Jan.-Nov.	2020 Jan.-Nov.	2021 Jan.-Nov.	2021 Jan.-Nov.
	EUR million		% GDP	y-o-y, %		EUR million		y-o-y, %
Revenue	**18,529**	**20,931**	**41.3**	**11.9**	**17,417**	**16,888**	**19,290**	**14.2**
Tax revenue	16,460	18,441	36.4	11.3	15,657	15,044	17,025	13.2
- goods and services	5,493	6,141	12.1	10.0	5,660	5,117	5,765	12.7
- social security contributions	7,290	7,865	15.5	8.4	6,357	6,592	7,168	8.7
- personal income	2,487	2,819	5.6	12.2	2,302	2,223	2,555	14.9
- corporate income	773	1,104	2.2	42.5	917	695	1,027	47.7
From EU budget	730	880	1.7	8.1	539	623	774	24.1
Other	1,338	1,609	3.2	21.6	1,220	1,221	1,492	22.2
Expenditure	**22,071**	**24,080**	**47.5**	**12.6**	**17,070**	**19,483**	**21,492**	**10.3**
Current expenditure	9,128	10,189	20.1	15.6	7,472	8,061	9,123	13.2
- wages and other personnel expenditure (incl. contributions)	4,965	5,755	11.3	17.4	4,095	4,525	5,314	17.4
- purchases of goods, services	3,021	3,261	6.4	13.6	2,424	2,565	2,805	9.3
- interest	778	732	1.4	-5.9	778	765	719	-6.0
Current transfers	10,868	11,386	22.4	7.6	7,948	9,828	10,346	5.3
- transfers to individuals and households	8,251	9,150	18.0	12.2	6,719	7,551	8,451	11.9
Capital expenditure, transfers	1,549	1,901	3.7	28.7	1,163	1,114	1,466	31.6
To EU budget	526	604	1.2	19.9	486	480	558	16.2
Surplus (+) / Deficit (-)	**-3,542**	**-3,150**	**-6.2**		**346**	**-2,595**	**-2,202**	

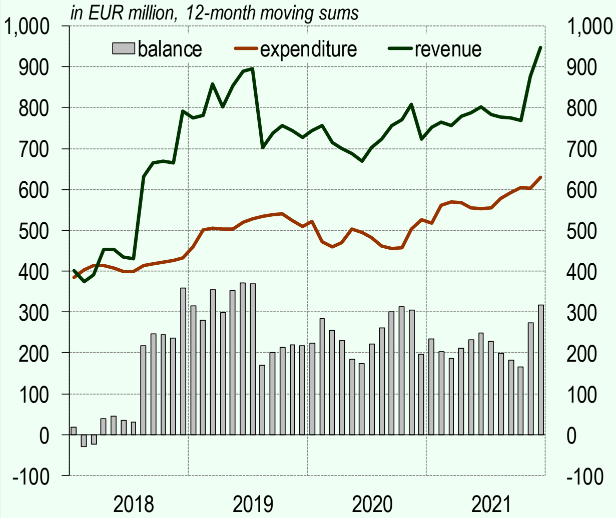
*Note: *Consolidated accounts of the state budget, local government budgets, pension and health fund on cash accounting principle.*
Source: Ministry of Finance, Banka Slovenije calculations.

Figure 2: State budget expenditure for mitigating the consequences of Covid-19 epidemic



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

Figure 3: Flows with the EU budget



Source: Ministry of Finance, Banka Slovenije calculations.

nues, capital revenues and revenues from the EU budget.[1] One highlight among non-tax revenues was the concession fee for frequencies for providing public telecommunications services to end users, while capital income was increased by revenues from the sale of emission allowances, whose price rose sharply last year. Expenditure was up approximately a tenth, investment expenditure recording the most notable increase. Various categories of revenues and expenditures were also higher over the first eleven months of last year than they were in the same period of 2019. The main exceptions were excise duties on energy and electricity and revenues from participation in profits on the revenue side, and interest on the expenditure side, the latter having declined in nominal terms for the fifth consecutive year. Social security contributions, personal income tax and VAT were all up significantly on 2019. The main increases on the expenditure side were transfers to individuals and households, and compensation of employees, in connection with the measures to mitigate the impact of the pandemic. These expenditures were higher last year than in the previous year.[2]

Last year Slovenia recorded a larger surplus in flows vis-à-vis the EU budget than in the previous two years, as the first funding under the recovery and resilience plan was received. The state budget's surplus against the EU budget amounted to EUR 318 million last year, having stood at around EUR 200 million in each of the previous two years. Contributions to the EU budget were up just over EUR 100 million on the previous year, but revenues from the EU budget were up more than double this amount. The majority of the year-on-year increase in revenues consisted of the initial funding under the recovery and resilience plan in the amount of EUR 113 million. Revenues from the structural funds were also up significantly (by EUR 74 million).

[1] The exception was motor vehicle tax, which is less important in revenue terms; the revenues were reduced by changes in taxation.

[2] The Fiscal Council states that state budget expenditure to mitigate the impact of the Covid-19 pandemic amounted to EUR 2.8 billion last year, compared with EUR 2.0 billion in 2020 (Monthly information, January 2022 (fs-rs.si)).

9 | Selected Themes

9.1 Analysis of the effects of daily gross flows of public asset purchases on the financing conditions

To gain a more detailed insight into the transmission mechanism of unconventional monetary policy, we have prepared an empirical analysis with a quantitatively assessment of the effects of daily gross purchases of public bonds on the monetary stance, with a focus on the pass-through to upstream stages indicators of the financing conditions, such as the ten-year GDP weighted yield, via their fundamental components. To this end, we first decompose the upstream indicators into their fundamental components, and continue with estimating a multivariate time series model with exogenous variables. We find that asset purchase programmes, in particular public sector purchase programmes, are useful to maintain supportive financing conditions for the economy, and have a significant impact on compressing yields and rates. The pass-through is based on a compression of credit risk, real term premium and expected real rates that is mitigated by an increase in inflation expectations and inflation risk premium – or a reduction in the deflation risk. From a wider point of view, asset purchases has helped to bring inflation to the target in the vicinity of the effective lower bound, and these results help to motivate and support the implementation of these programmes in the context of a reduced monetary policy space.

Introduction

Unconventional monetary policy has been used by most central banks to offset the negative shock caused by the pandemic. Following the outbreak of the COVID-19 pandemic in March 2020, the Eurosystem announced its Pandemic Emergency Purchase Programme (PEPP), stating "the ECB will ensure that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb this shock".[1] The programme augmented the Public Sector Purchase Programme within the Asset Purchase Programme (APP-PSPP), which was first launched in 2015 and reactivated in November 2019 to support the convergence of inflation to the inflation target. The two programmes differ in their mandate and their implementation. While the APP-PSPP was designed to support the monetary policy stance, the PEPP had an additional mandate to support the transmission of monetary policy across all sectors and jurisdictions. This was reflected also in their implementation, where the purchases within the PEPP were allowed more flexibility across asset classes and among jurisdictions to support the smooth transmission of monetary policy. Following the second recalibration of the PEPP in December 2020, a framework to calibrate the quarterly pace of purchases was agreed upon, whereby the inflation outlook was benchmarked against the favourability of financing conditions. Monitor-

[1] ECB announcement on March 18, 2020 – link.

ing the financing conditions was implemented via a set of indicators along the entire stream of transmission mechanism.

This analysis focuses on the effects of purchases of both purchase programmes on the Upstream Stages Indicators. These indicators comprise the ten-year EA GDP weighted yield, and the ten-year nominal and real EONIA overnight index swaps (OIS) rates. These indicators indirectly consider a measure of inflation expectations – to calculate the real OIS rate. For this reason, we use the inflation link swaps (ILS) rates as a proxy of inflation expectations and obtain the real OIS component.[2]

Estimating the fundamental components of the upstream indicators

The upstream indicators of the financing conditions can be decomposed into fundamental components. These components are classified into two categories:

- Expectations: expected average short nominal rate, expected average short real rate and expected inflation rate;
- Risks: credit risks, liquidity risks, nominal risk term premium, real term premium term and inflation risk.

These components are related as follows:

$$Y_m^{EA} = \underbrace{r_m^e + TP_m^R + \underbrace{\pi_m^e + IRP_m^R}_{ILS_m}}_{OIS_m} + CRP_m + OR_m$$

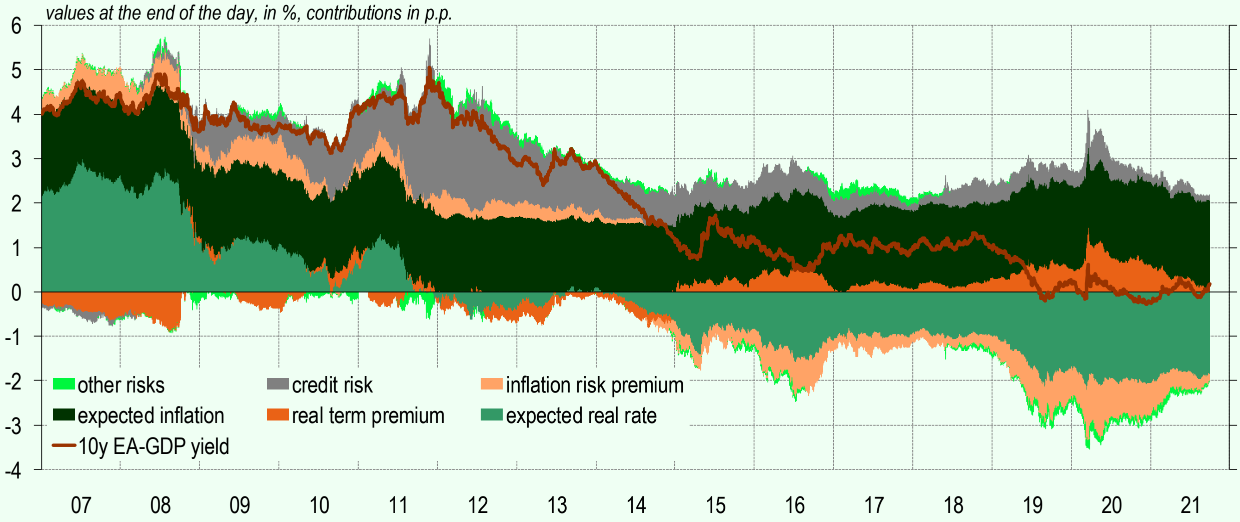
where Y_m^{EA} denotes the EA GDP-weighted yield with maturity m (ten years), and:

- r_m^e denotes the expected average short real rate until maturity (nominal rate net of expected inflation);
- TP_m^R denotes the real term premium, an extra return that investors demand to compensate them for the risk associated with a long-term bond;
- π_m^e denotes the expected inflation at maturity;
- IRP_m^R denotes the inflation risk premium, an extra return that investors require for the possibility that inflation moves away from what they expect over the period in which they hold a bond;
- CRP_m denotes the credit risk premium, the price for bearing sovereign default risk in excess of expected default losses;
- OR_m denotes other risks associated to sovereign bonds.

Based on Adrian, Crump and Moench (2013) and their secular paper entitled »Pricing the term structure with linear regressions«, we estimate these fundamental components.[3] Figure 9.1.1 illustrates the decomposition of the ten-year EA GDP weighted yield. We can

Figure 9.1.1: Ten-year EA GDP weighted decomposition

values at the end of the day, in %, contributions in p.p.



Source: Bloomberg, Banka Slovenije calculations.

[2] The upstream indicators include those indicators that appear in upstream stages of the monetary policy transmission mechanism and provide information on the whole compass of transmission, from the upstream stages to the downstream indicators, such as interest rates on bank loans to firms and households, and required yields on bank bonds and corporate bonds.

[3] This methodology is used by the New York FED to publish their daily estimates of the nominal term premium in the US.

observe that, by March 2020, there was an increment in credit risk and real term premium, while the inflation risk premium and inflation expectations did fall. The effects on expected real rates did not react too much. Following the implementation of PEPP, both credit risk and real term premium significantly decreased, while the inflation risk premium and inflation expectations improved. Thus, these movements suggest that PEPP had an important role in maintaining favourable financing conditions.

Estimating the effects of asset purchases

Once the fundamental components are estimated, we fit an unrestricted Bayesian Vector Autorregresion model with exogenous regressors (B-VARX), to explain the dynamic of these components, with daily data and the following variables:

- Endogenous variables: expected average short real rate, market-based expected inflation rate, real term premium term, inflation risk premium, credit risks, other risks, gross PSPP purchases and gross PEPP-PSPP purchases. Gross purchases imply net purchases and reinvestments;[4]
- Exogenous variables: an unconditional constant, ECB deposit facility rate, the new composite indicator of systemic stress (CISS), and a dummy variable for each announcement date of PEPP net purchases pace recalibration.

Following the estimation, we calculate the impulse-response functions (IRF) of the unrestricted model to obtain the responses of the fundamental components to an unexpected increment in the gross APP-PSPP purchases and gross PEPP-PSPP purchases. IRF describe the evolution of the variables of interest along a specified time horizon after an unexpected shock occur in a specific moment. We emphasize the "unexpected" nature of the shock since IRF measure the effects that the part of the shocking variable that is not explained by the dynamic of the model has on the VAR system, i.e., the effects of error term on the dynamic of the variables of interest. These IRFs will help us to calculate the effects and persistency of a pace of purchases on the fundamental components and, aggregating, in the upstream indicators; and the effects and persistency of the announcements in the fundamental components.

Responses of the fundamental components to a 1 billion increment on daily gross purchases

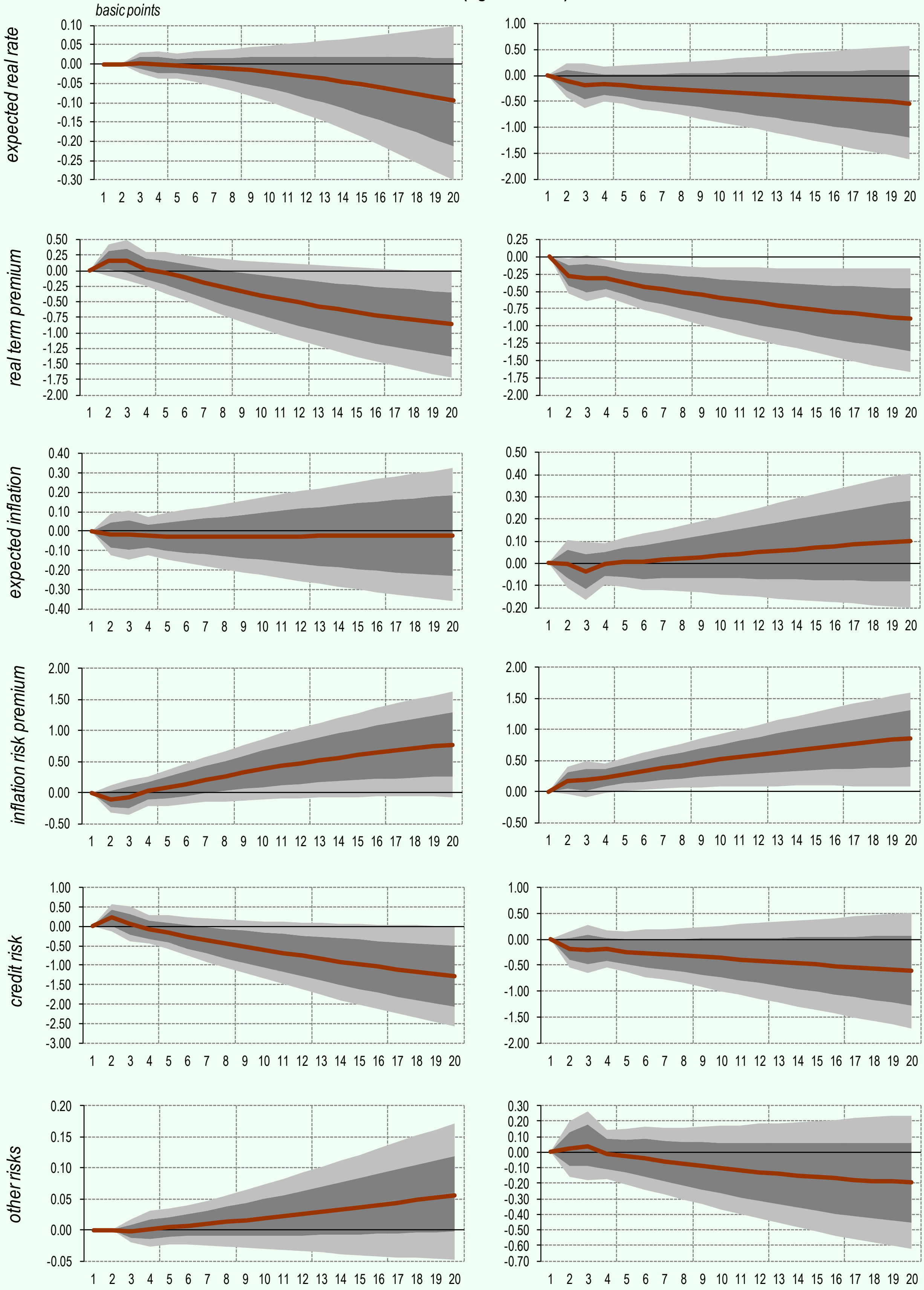
Figure 9.1.2 shows the IRF of the yields fundamental components to an unexpected increment in the volume of gross purchases within APP-PSPP and PEPP-PSPP. In general the results match the predictions that economic theory does about the effects of asset purchase programmes.

First, with regard to the impact on the expected short-term real rates, we observe a compression for both programmes. This compression, while not significant, might be understood as an improvement of the financing conditions, result in line with the target of the purchases. However, when considering the effects on the real term premium, the empirical evidence suggests a significant compression following the unexpected purchase for both programs, especially in the case of the PEPP-PSPP programme – in line with the hypothesis of the duration extraction channel.

Second, with regard to the inflation components as measured by the ILS, we can observe that the effects on the expected inflation are not significant, especially in the case of the APP-PSPP programme. However, in the case of the PEPP-PSPP programme, the model captures an improvement after a month (twenty working days). By contrast, the inflation risk premium increases following the shocks, and considering the timing, it implies that both programs are very effective to escape from the deflationary pressures. These are relevant results, since they contribute to motivate the use asset purchases to achieve the price stability objective, the primary mandate of the ECB.

[4] Most of the studies analysing the effects of asset purchases use net purchases, which is the difference between the balance sheet stocks of assets in two consecutive dates. We calculate the daily gross purchases using intraday granular data provided by BO.

Figure 9.1.2: Impulse Response Functions of a 1-billion increase shock in APP-PSPP (left column) and PEPP-PSPP (right column)



Note: Solid red lines represent the median responses. The bright and dark grey represent 90% and 68% confidence intervals respectively.
Source: Banka Slovenije calculations.

Third, when looking at the specific components of the EA GDP-weighted yields, we find that an unexpected shock within APP-PSPP significantly compresses the credit risk. However, while it is also compressed within the PEPP-PSPP programme, the result is not fully significant. This result suggests that the initial announcement with PEPP's set-up, including its flexibility, was very effective in keeping the credit risk and market fragmentation under control, and therefore the IRF does not fully reflect the effect of the gross purchases on it.

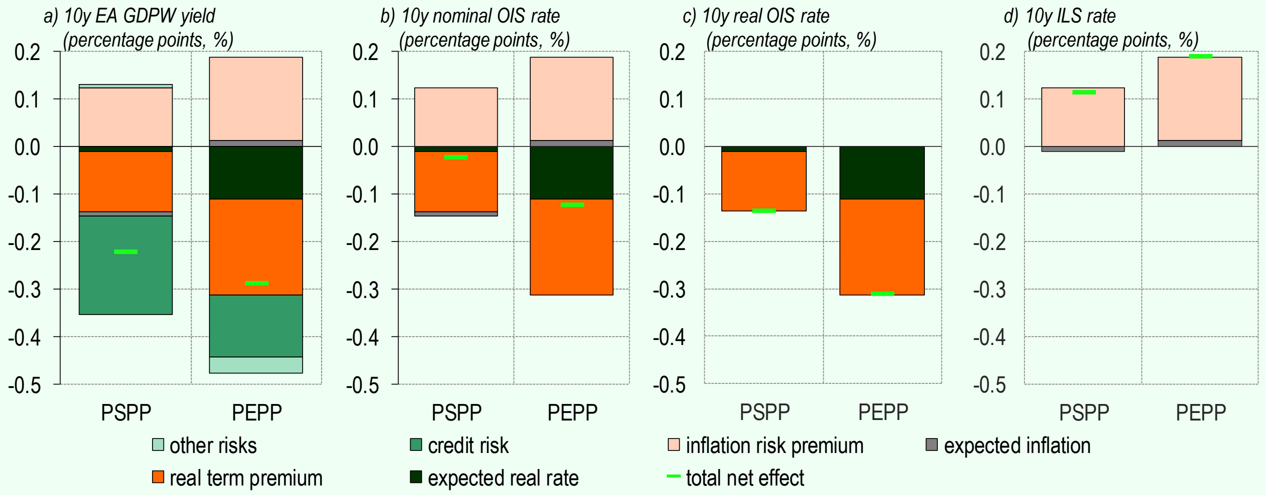
Calibration of a EUR 20 billion increment in the monthly purchases

Figure 9.1.3 illustrates the median impact of an increment of EUR 20 billion in gross purchases under the APP-PSPP and PEPP-PSPP. The aggregate results, in terms of the upstream indicators, indicate that increments in asset purchases have the expected effects, compressing the EA 10y GDP-weighted yield (by -29 and -22 basic points under PEPP and APP respectively), nominal OIS and real OIS, while they increase the inflation compensation as the 10y ILS shows. The effects of both APP and PEPP share the same sign, but in terms of the size, the empirical evidence suggests that PEPP has a stronger impact on yields than APP, which may be attributable to PEPP's flexibility.

The mechanism behind the yields compressions is as follows. Increments in the gross purchases i) reduce the expected average real rate, particularly in the case of PEPP, ii) reduce the real term premium and iii) reduce the credit risk. Moreover, PEPP also contributes to reducing the other risks components. However, purchases increase both components of the inflation compensation, especially PEPP. Thus, the net effects on the nominal 10y OIS rate of asset purchases depend on a trade off between inflation-related effects and the "real" effects, which dominate over the former one according to the empirical evidence.

These results are driven by the portfolio-rebalancing and duration-extraction channels passing through the gross purchases to the final effects in the yields. On the one hand, the portfolio-rebalancing channel works by reducing yields on safer long-term securities, inducing investors to shift their investments towards assets with higher expected returns, and therefore taking on more risk.[5] On the other hand, the duration-extraction channel alter the yield curve by reducing long-maturity bond yields relative to the short-maturity yields, which is reflected in the term premium, taking out duration risk from the market. Thus, while the portfolio-rebalancing channel works across assets with different denominations, the duration-extraction channel works along the same asset.[6]

Figure 9.1.3: Median impact after an increment of 20 billion in gross purchases in a month

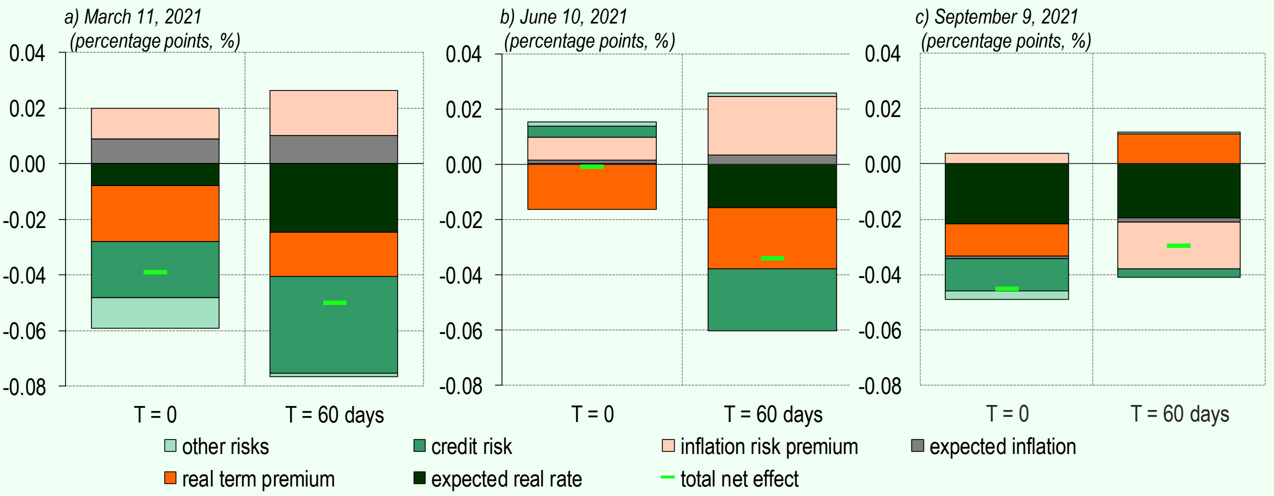


Note: Estimates consider the self-persistency of the unexpected shock. Results based on the point median estimation.
Source: Banka Slovenije calculations.

[5] See, for example, Albertazzi, Becker and Boucinha (2021) for a more detailed description.

[6] See, for example, Eser et al (2019) for a more detailed description.

Figure 9.1.4: Median effects of PEPP announcements on the 10y EA yield



Note: The estimates after an announcement are based on local projections. Results based on the point median estimation.
Source: Banka Slovenije calculations.

Figure 9.1.4 illustrates the median effects of PEPP recalibration announcements. Overall, the announcements seem to have a compressive impact upon the yield on the day of the announcements, indicating that they help to reduce the adverse effects of the uncertainty surrounding the future development of the MP stance. However, the first two announcements, related to a more accommodative stance, have a more persistent impact on compressing the yield – despite the improvement of inflation expectations.[7] However, the third announcement, related to a less accommodative stance, tends to dissipate after some time as consequence of increments in the real term premium and disappearance of the credit risk compression.

Conclusion

The empirical evidence shows that asset purchases are beneficial for maintaining favourable financing conditions. While the effects on the EA GDP-weighted yield, real OIS and the ILS are clear, the net effect on the nominal OIS is, in average, negative. Based on these results, the discontinuation of the PEPP and the reduction of the pace of purchases during 2022 should contribute to a rise in the yields and consequently to a slowdown in the inflation. If monetary policy had to respond faster to high inflation in line with the forward guidance, the reduction in net purchases followed later by an ending of the reinvestments of matured bonds will speed up this process. This would contribute to significantly curbing inflation expectations and thus help to prevent an inflation spiral.

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Lane, P. (2021). The compass of monetary policy: favourable financing conditions. Speech by Phillip Lane, member of the Executive Board of the ECB, at Comissao de Mercado de Valores Mobiliarios. 25 February, 2021.

[7] The announcements indicated that “PEPP over the next quarter to be conducted at a significantly higher pace" in March and “PEPP over the coming quarter to continue to be conducted at a significantly higher pace” in June; while “a moderately lower pace of net asset purchases under the PEPP” in September.

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.

Table 10.1: Consolidated balance sheet of monetary financial institutions

EUR million	2018	2019	2020	21Q1	21Q2	Sep.21	Oct.21	Nov.21
1.1. Claims of the Banka Slovenije	8,168	10,594	13,842	17,261	16,518	17,407	16,461	16,425
1.2. Claims of other MFIs	8,279	8,342	9,336	9,662	9,887	9,675	9,773	9,873
1. Claims on foreign sectors (foreign assets)	**16,447**	**18,936**	**23,179**	**26,923**	**26,406**	**27,082**	**26,234**	**26,298**
2.1. Claims of the Banka Slovenije on central government	7,165	7,719	11,805	12,264	13,268	14,332	14,365	14,736
2.2.1.1. Loans	1,174	1,048	918	844	841	783	784	784
2.2.1.2. Securities	3,763	3,648	3,602	3,812	3,769	3,399	2,977	2,921
2.2.1. Claims on central government	4,937	4,696	4,520	4,656	4,610	4,183	3,762	3,705
2.2.2.1. Loans	580	602	639	638	621	627	627	636
2.2.2.2. Securities	-	-	-	-	-	-	-	-
2.2.2. Claims on other general government	580	602	639	638	621	627	627	636
2.2. Claims of other MFIs on general government	5,517	5,297	5,159	5,294	5,230	4,810	4,389	4,342
2.3.1.1. Loans	9,177	9,290	9,094	9,355	9,251	9,273	9,701	9,642
2.3.1.2. Securities	319	298	270	275	246	238	244	244
2.3.1. Claims on nonfinancial corporations	9,497	9,587	9,364	9,629	9,497	9,511	9,945	9,886
2.3.2. Households and non-profit institutions serving households	10,370	10,981	10,997	11,028	11,137	11,365	11,449	11,514
2.3.3.1. Loans	1,070	1,248	1,213	1,186	1,285	1,301	1,304	1,309
2.3.3.2. Securities	432	412	428	432	421	425	427	428
2.3.3. Claims on nonmonetary financial institutions	1,502	1,661	1,640	1,619	1,706	1,726	1,731	1,737
2.3. Claims of other MFIs on other non-MFIs	21,369	22,229	22,002	22,276	22,341	22,603	23,125	23,137
2. Claims on domestic non-MFIs	**34,050**	**35,245**	**38,965**	**39,834**	**40,839**	**41,745**	**41,879**	**42,214**
3. Remaining assets	**1,477**	**1,660**	**1,613**	**1,688**	**1,494**	**1,450**	**1,472**	**1,492**
Total assets	**51,974**	**55,842**	**63,757**	**68,445**	**68,739**	**70,278**	**69,585**	**70,004**
1.1. Banka Slovenije	63	134	51	168	611	638	715	797
1.2. Other MFIs	3,986	4,342	4,412	4,552	4,653	4,220	4,273	4,277
1. Obligations to foreign sectors (foreign liabilities)	**4,049**	**4,476**	**4,463**	**4,720**	**5,264**	**4,858**	**4,988**	**5,074**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,655	5,847	6,473	6,532	6,685	6,795	6,832	6,859
2.1.1.2. Overnight deposits at other MFIs	19,877	21,699	25,622	26,961	27,796	28,509	28,508	28,823
2.1.1.3.1. Non-monetary financial institutions	76	296	327	511	370	372	375	378
2.1.1.3.2. Other government sector	100	111	170	240	306	313	320	322
2.1.1.3. Overnight deposits at the Banka Slovenije	176	407	497	751	677	685	696	700
2.1.1. Banknotes and coins and overnight liabilities	25,708	27,953	32,593	34,244	35,158	35,989	36,036	36,382
2.1.2.1. Deposits at the Banka Slovenije	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	5,727	5,697	5,107	4,922	4,568	4,214	4,089	3,968
2.1.2. Time deposits	5,727	5,697	5,107	4,922	4,568	4,214	4,089	3,968
2.1.3. Deposits reedemable at notice up to 3 months	492	541	524	542	470	407	452	424
2.1. Banknotes and coins and deposits up to 2 years	31,927	34,190	38,224	39,707	40,195	40,610	40,576	40,775
2.2. Debt securities, units/shares of money market funds and repos	78	55	70	53	56	56	54	55
2. Banknotes and coins and instruments up to 2 years	**32,006**	**34,246**	**38,294**	**39,761**	**40,251**	**40,666**	**40,631**	**40,830**
3. Long-tern financial obligations to non-MFIs	**1,314**	**1,285**	**1,256**	**1,250**	**1,266**	**1,330**	**1,312**	**1,329**
4. Remaining liabilities	**15,675**	**17,232**	**21,171**	**24,177**	**23,381**	**24,889**	**24,096**	**24,240**
5. Excess of inter-MFI liabilities	**-1,069**	**-1,396**	**-1,428**	**-1,463**	**-1,423**	**-1,465**	**-1,442**	**-1,468**
Total liabilities	**51,974**	**55,842**	**63,757**	**68,445**	**68,739**	**70,278**	**69,585**	**70,004**

Table 10.2: Balance sheet of the Banka Slovenje

EUR million	2018	2019	2020	21Q1	21Q2	Sep.21	Oct.21	Nov.21
1.1. Gold	115	138	158	147	151	152	157	161
1.2. Receivable form IMF	372	381	405	416	413	1,103	1,101	1,132
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	1,464	3,661	6,952	10,303	9,965	10,344	9,415	9,315
1.5. Securities	6,114	6,271	6,103	6,114	5,678	5,476	5,441	5,462
1.6. Other claims	103	142	225	281	311	332	347	356
1. Claims on foreign sectors (foreign assets)	**8,168**	**10,594**	**13,842**	**17,261**	**16,518**	**17,407**	**16,461**	**16,425**
2.1. Claims on central government	7,165	7,719	11,805	12,264	13,268	14,332	14,365	14,736
2.2.1. Loans	1,102	995	1,385	1,406	2,485	2,343	2,343	2,343
2.2.2. Other claims	3	51	85	97	95	95	94	103
2.2. Claims on domestic monetary sector	1,105	1,046	1,470	1,503	2,580	2,439	2,438	2,446
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**	**13,769**	**15,850**	**16,773**	**16,804**	**17,183**
3. Remaining assets	**314**	**396**	**347**	**531**	**331**	**346**	**351**	**354**
Total assets	**16,753**	**19,757**	**27,467**	**31,561**	**32,699**	**34,525**	**33,616**	**33,963**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,655**	**5,847**	**6,473**	**6,532**	**6,685**	**6,795**	**6,832**	**6,859**
2.1.1.1.1. Overnight	3,391	4,348	7,097	7,710	9,159	9,309	9,066	9,176
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	3,391	4,348	7,097	7,710	9,159	9,309	9,066	9,176
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	3,391	4,348	7,097	7,710	9,159	9,309	9,066	9,176
2.1.2.1.1. Overnight	3,704	3,120	5,407	8,366	7,240	7,736	6,976	6,747
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	3,704	3,120	5,407	8,366	7,240	7,736	6,976	6,747
2.1.2.2. Foreign currency	5	6	6	6	6	6	7	7
2.1.2. General government	3,708	3,126	5,413	8,372	7,246	7,742	6,983	6,754
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	76	296	327	511	370	372	375	378
2.1.3. Other domestic sectors	76	296	327	511	370	372	375	378
2.1. Domestic sectors	7,176	7,770	12,838	16,593	16,775	17,423	16,424	16,307
2.2. Foreign sectors	63	134	51	168	611	638	715	797
2. Deposits	**7,238**	**7,904**	**12,888**	**16,761**	**17,387**	**18,061**	**17,139**	**17,104**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**262**	**266**	**254**	**261**	**259**	**947**	**946**	**959**
5. Capital and reserves	**1,945**	**2,763**	**3,388**	**3,025**	**2,976**	**2,930**	**2,800**	**3,059**
6. Remaining liabilities	**1,653**	**2,976**	**4,462**	**4,982**	**5,393**	**5,792**	**5,899**	**5,982**
Total liabilities	**16,753**	**19,757**	**27,467**	**31,561**	**32,699**	**34,525**	**33,616**	**33,963**

Table 10.3: Balance sheet of other monetary financial institutions

EUR million	2018	2019	2020	21Q1	21Q2	Sep.21	Oct.21	Nov.21
1.1.1. Cash	425	432	455	481	459	492	464	476
1.1.2. Accounts and deposits at the Banka Slovenije, other cla	3,391	4,348	7,097	7,710	9,159	9,309	9,066	9,176
1.1.3. Securities of the Banka Slovenije	-	-	-	-	-	-	-	-
1.1. Claims on Banka Slovenije	3,817	4,780	7,552	8,191	9,618	9,802	9,530	9,652
1.2.1. Loans	865	788	729	714	672	648	615	578
1.2.2. Debt securities	18	94	135	135	171	171	171	171
1.2.3. Shares and other equity	1	0	8	8	8	7	6	6
1.2. Claims on other MFI's	883	882	872	858	850	826	792	755
1.3.1. Loans	22,371	23,168	22,861	23,051	23,135	23,351	23,866	23,886
1.3.2. Debt securities	3,797	3,674	3,607	3,814	3,740	3,379	2,956	2,899
1.3.3. Shares and other equity	717	683	693	706	697	684	692	693
1.3. Claims on nonmonetry sectors	26,885	27,526	27,160	27,570	27,571	27,413	27,514	27,478
1. Claims on domestic sectors (domestic assets)	**31,585**	**33,187**	**35,585**	**36,619**	**38,039**	**38,040**	**37,836**	**37,884**
2.1.1. Cash	35	40	43	42	44	36	36	34
2.1.2. Loans	1,681	1,640	1,836	2,002	2,035	1,881	1,934	1,883
2.1.3. Debt securities	1,311	1,312	1,567	1,621	1,669	1,686	1,702	1,705
2.1.4 Shares and other equity	578	578	973	973	998	998	998	998
2.1. Claims on foreign monetary sectors	3,605	3,570	4,419	4,638	4,746	4,601	4,670	4,619
2.2.1. Loans	1,023	1,103	1,392	1,495	1,493	1,490	1,510	1,588
2.2.2. Debt securities	3,346	3,364	3,257	3,258	3,374	3,310	3,318	3,389
2.2.3. Shares and other equity	305	305	268	271	275	275	275	276
2.2. Claims on foreign nonmonetary sectors	4,674	4,772	4,917	5,024	5,141	5,075	5,102	5,254
2. Claims on foreign sectors (foreign assets)	**8,279**	**8,342**	**9,336**	**9,662**	**9,887**	**9,675**	**9,773**	**9,873**
3. Remaining assets	**762**	**1,136**	**1,239**	**1,197**	**1,209**	**1,149**	**1,211**	**1,181**
Total assets	**40,626**	**42,666**	**46,161**	**47,479**	**49,136**	**48,865**	**48,820**	**48,938**
1.1.1. Deposits, loans from the Banka Slovenije	1,102	995	1,385	1,406	2,485	2,343	2,343	2,343
1.1.2. Deposits, loans from other MFIs	931	917	856	877	849	834	846	763
1.1.3. Debt securities issued	-	16	15	15	51	51	51	51
1.1. Laibilities to monetary sectors	2,033	1,928	2,256	2,298	3,385	3,228	3,240	3,157
1.2.1.1. Overnight	19,396	21,191	25,120	26,400	27,220	27,855	27,817	28,138
1.2.1.2. With agreed maturity	7,477	7,418	6,637	6,412	6,037	5,758	5,614	5,500
1.2.1.3. Reedemable at notice	561	622	610	613	545	485	540	511
1.2.1. Deposits in domestic currency	27,434	29,232	32,368	33,425	33,802	34,099	33,971	34,149
1.2.2. Deposits in foreign currency	626	613	682	743	746	771	804	807
1.2.3. Debt securities issued	15	68	55	55	74	74	74	74
1.2. Liabilities to nonmonetary sectors	28,075	29,913	33,104	34,223	34,623	34,944	34,849	35,030
1. Obligations to domestic sectors (domestic liabilities)	**30,108**	**31,840**	**35,360**	**36,521**	**38,008**	**38,171**	**38,089**	**38,187**
2.1.1. Deposits	1,550	1,282	1,535	1,539	1,578	1,205	1,154	1,208
2.1.2. Debt securities issued	111	428	897	896	923	923	971	972
2.1. Liabilities to foreign monetry sectors	1,660	1,710	2,432	2,435	2,501	2,127	2,125	2,180
2.2.1. Deposits	1,693	1,910	1,261	1,398	1,388	1,329	1,383	1,333
2.2.2. Debt securities issued	22	85	84	84	127	127	127	127
2.2. Liabilities to foreign nonmonetary sectors	1,715	1,994	1,344	1,482	1,515	1,456	1,510	1,460
2. Obligations to foreign sectors (foreign liabilities)	**3,375**	**3,704**	**3,777**	**3,917**	**4,016**	**3,583**	**3,635**	**3,640**
3. Capital and reserves	**4,886**	**5,097**	**4,946**	**5,004**	**5,094**	**5,178**	**5,157**	**5,167**
4. Remaining liabilities	**2,256**	**2,024**	**2,078**	**2,036**	**2,018**	**1,933**	**1,938**	**1,944**
Total liabilities	**40,626**	**42,666**	**46,161**	**47,479**	**49,136**	**48,865**	**48,820**	**48,938**

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	Sep.21	Oct.21	Nov.21
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	7.85	7.81	7.77	7.74	7.76	7.77	7.77
Households, extended credit	7.75	7.63	7.52	7.83	7.70	7.68	7.67
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.44	4.65	4.60	4.47	4.64	4.64	4.61
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	5.98
Loans, households, consumption, over 5 years initial rate fixation	6.20	6.29	6.27	5.98	5.99	5.98	5.88
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.69	3.74	3.26	3.45	3.10	3.66	3.60
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	4.89	5.11	4.37	5.00	5.77	5.81	5.78
C. loans, households, consumption, over 5 year initial rate fixation	5.19	5.06	5.34	5.05	4.69	4.16	3.83
APRC, Loans to households for consumption	7.73	7.64	7.88	7.15	7.62	7.61	7.54
Loans, households, house purchase, floating and up to 1 year initial rate fixation	1.99	1.89	1.81	1.76	1.57	1.53	1.53
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.75	3.22	3.15	2.39	1.75	1.82	1.73
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.65	2.74	2.50	2.00	1.69	1.63	1.67
Loans, households, house purchase, over 10 years initial rate fixation	2.91	2.95	2.70	2.20	1.77	1.74	1.74
C. loans, households, house purchase variabel and up to years initial rate fixation	1.99	1.87	1.84	1.77	1.59	1.54	1.56
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.38	3.01	2.48	2.42	1.71	1.93	1.72
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.34	2.56	2.28	1.85	1.64	1.64	1.58
C. loans, households, house purchase, over 10 years initial rate fixation	2.85	2.89	2.69	2.21	1.77	1.73	1.74
APRC, Loans to households for house purchase	2.77	2.75	2.52	2.36	2.06	2.03	2.01
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.58	3.68	3.82	3.69	4.03	3.91	4.16
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.30	4.78	4.85	4.39	3.87	3.50	3.53
Loans, households, other purposes, over 5 years initial rate fixation	5.35	6.73	6.38	2.94	3.35	3.57	4.72
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	2.41	2.22	2.23	2.26	2.09	1.92	1.91
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	2.16	2.14	2.19
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	2.17	2.14	2.33
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	3.05	2.91	3.33
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	3.55	3.41	3.82
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	3.53	3.57	3.16
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	2.22	4.25	3.84	3.18	3.96	2.03	1.10
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	1.62	1.48	1.74
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	1.92	1.95	2.20
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	2.08	1.16	2.24
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	1.92	2.10	1.45
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	1.19	2.04	1.72
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	-	-	2.62	1.62	1.92	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.23	1.85	1.10	1.42	1.35	1.27	1.11
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	2.68	2.81	1.82
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	-	0.75	0.89	0.18	1.36	0.95	0.10
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	1.15	-	0.84	1.56	-	-	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	-	1.47	1.77	1.72	1.35	1.20	1.19
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	1.88	2.04	2.20	3.03	1.87	1.69	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	0.13	0.12	0.15
Deposits, households, agreed maturity over 1 and up to 2 years	0.51	0.54	0.29	0.21	0.12	0.20	0.18
Deposits, households, agreed maturity over 2 years	0.69	0.89	0.65	0.61	0.28	0.42	0.28
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	-0.15	0.01	0.01
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.12	0.19	0.09	0.06	0.00	0.01	0.03
Deposits, S.11, agreed maturity over 2 years	0.26	0.19	0.32	0.14	0.03	0.08	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	-0.30	-0.31	-0.31
Deposits redeemable at notice, over 3 months notice	0.52	0.89	0.93	0.08	0.70	0.63	0.62

Table 10.5: International investment position

EUR million		2017	2018	2019	20Q3	21Q4	21Q1	21Q2
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-10,416**	**-8,689**	**-7,714**	**-7,110**	**-4,242**	**-3,776**	**-4,692**
1	**ASSETS**	**46,608**	**49,355**	**56,014**	**62,450**	**66,434**	**66,881**	**68,268**
1.1	**Direct investment**	**8,328**	**8,825**	**10,256**	**10,534**	**10,854**	**10,924**	**11,222**
1.1.1	Equity	4,345	4,754	5,594	5,911	5,999	6,068	6,165
1.1.2	Debt instruments	3,984	4,071	4,662	4,623	4,854	4,856	5,056
1.2	**Portfolio investment**	**20,660**	**20,618**	**22,449**	**23,607**	**24,315**	**24,559**	**24,406**
1.2.1	Equity and investment fund shares	5,028	4,849	5,723	6,373	7,046	7,469	7,699
1.2.2	Debt securities	15,632	15,769	16,725	17,234	17,269	17,090	16,707
1.3	**Financial derivatives**	**302**	**384**	**562**	**675**	**602**	**576**	**573**
1.4	**Other investment**	**16,575**	**18,712**	**21,843**	**26,564**	**29,560**	**29,700**	**30,212**
1.4.1	Other equity	1,274	1,336	1,378	1,381	1,328	1,329	1,330
1.4.2	Currency and deposits	6,328	7,844	10,633	15,359	17,497	17,307	17,486
1.4.3	Loans	2,431	2,593	2,936	3,270	3,426	3,420	3,396
1.4.4	Insurance, pension and standardized guarantee schemes	148	141	155	159	164	166	178
1.4.5	Trade credit and advances	4,801	5,206	5,212	4,921	5,611	5,820	6,049
1.4.6	Other accounts receivable	1,593	1,593	1,528	1,474	1,533	1,657	1,786
1.5	**Reserve assets**	**743**	**816**	**905**	**1,071**	**1,103**	**1,121**	**1,855**
1.5.1	Monetary gold	111	115	138	158	147	151	152
1.5.2	Special drawing rights	235	242	246	235	241	239	927
1.5.3	Reserve position in the IMF	103	131	136	171	175	174	176
1.5.4	Other reserve assets	294	329	385	508	540	557	600
2	**LIABILITIES**	**57,024**	**58,044**	**63,728**	**69,560**	**70,676**	**70,656**	**72,960**
2.1	**Direct investment**	**16,316**	**17,972**	**19,595**	**20,147**	**20,672**	**21,287**	**21,951**
2.1.1	Equity	12,590	13,905	15,023	15,653	15,963	15,845	16,116
2.1.2	Debt instruments	3,726	4,067	4,572	4,494	4,709	5,443	5,835
2.2	**Portfolio investment**	**21,200**	**20,867**	**21,799**	**24,876**	**25,232**	**23,741**	**24,280**
2.2.1	Equity and investment fund shares	1,085	1,751	2,012	1,891	1,921	2,198	2,381
2.2.2	Debt securities	20,115	19,116	19,787	22,985	23,312	21,543	21,898
2.3	**Financial derivatives**	**81**	**206**	**2,374**	**4,182**	**2,466**	**2,499**	**2,487**
2.4	**Other investment**	**19,428**	**18,999**	**19,961**	**20,355**	**22,306**	**23,129**	**24,242**
2.4.1	Other equity	37	44	42	43	45	25	23
2.4.2	Currency and deposits	3,747	3,226	4,244	5,029	5,828	6,778	7,172
2.4.3	Loans	10,377	10,025	9,840	9,423	10,182	9,787	9,445
2.4.4	Insurance, pension and standardized guarantee schemes	219	228	263	357	429	456	468
2.4.5	Trade credit and advances	4,161	4,602	4,625	4,471	4,686	4,956	5,159
2.4.6	Other accounts payable	630	612	680	779	875	869	1,040
2.4.7	Special drawing rights	256	262	266	254	261	259	947

Table 10.6: Gross external debt

EUR million		2018	2019	2020	21Q3	21Q4	21Q1	Nov.21
	TOTAL (1+2+3+4+5)	**42,139**	**44,277**	**47,792**	**50,281**	**50,090**	**51,968**	**51,613**
1	**GENERAL GOVERNMENT**	**21,094**	**21,687**	**24,964**	**26,201**	**24,353**	**24,950**	**23,763**
1.1	**Short-term, of that**	**732**	**832**	**1,100**	**1,162**	**1,241**	**1,464**	**1,478**
	Debt securities	85	19	18	88	205	211	194
	Loans	336	510	614	533	495	502	560
	Trade credit and advances	35	34	36	36	49	79	51
	Other debt liabilities	276	268	433	504	491	672	672
1.2	**Long-term, of that**	**20,362**	**20,855**	**23,864**	**25,039**	**23,112**	**23,487**	**22,285**
	Debt securities	18,602	19,171	22,021	22,287	20,397	20,753	19,542
	Loans	1,758	1,681	1,839	2,749	2,712	2,710	2,731
2	**CENTRAL BANK**	**2,661**	**3,828**	**4,638**	**5,259**	**6,159**	**7,309**	**7,656**
2.1	**Short-term, of that**	**2,399**	**3,562**	**4,384**	**4,998**	**5,900**	**6,362**	**6,697**
	Currency and deposits	2,399	3,562	4,384	4,998	5,892	6,362	6,697
2.2	**Long-term, of that**	**262**	**266**	**254**	**261**	**259**	**947**	**959**
	Special drawing rights (allocations)	262	266	254	261	259	947	959
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**3,344**	**3,544**	**3,511**	**3,660**	**3,749**	**3,306**	**3,354**
3.1	**Short-term**	**927**	**946**	**894**	**1,058**	**1,132**	**1,035**	**1,164**
	Currency and deposits	669	601	618	802	864	791	796
	Debt securities	...	...	...	...	...	...	...
	Loans	251	310	235	217	223	206	326
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	7	35	41	39	45	38	42
3.2	**Long-term**	**2,418**	**2,598**	**2,617**	**2,603**	**2,617**	**2,271**	**2,191**
	Currency and deposits	159	82	27	28	22	19	19
	Debt securities	88	316	672	661	738	738	780
	Loans	2,162	2,196	1,911	1,909	1,854	1,512	1,378
	Trade credit and advances	7	4	6	4	2	1	1
	Other debt liabilities	1	1	1	1	2	2	13
4	**OTHER SECTORS**	**10,973**	**10,646**	**10,184**	**10,453**	**10,387**	**10,565**	**11,023**
4.1	**Short-term, of that**	**5,182**	**5,303**	**4,997**	**5,565**	**5,802**	**5,961**	**6,401**
	Debt securities	1	2	...	...	...	...	...
	Loans	375	446	384	708	691	708	680
	Trade credit and advances	4,540	4,567	4,399	4,617	4,878	5,030	5,431
	Other debt liabilities	267	288	213	239	233	223	291
4.2	**Long-term, of that**	**5,791**	**5,343**	**5,188**	**4,888**	**4,585**	**4,604**	**4,622**
	Debt securities	340	279	275	276	202	197	196
	Loans	5,145	4,698	4,439	4,065	3,811	3,807	3,838
	Trade credit and advances	17	16	26	26	26	28	27
	Other debt liabilities	289	350	448	521	546	573	561
5	**DIRECT INVESTMENT: intercompany lending**	**4,067**	**4,572**	**4,494**	**4,709**	**5,442**	**5,838**	**5,817**
	NET EXTERNAL DEBT POSITION	**4,107**	**1,564**	**-192**	**-941**	**-1,003**	**-145**	**-792**

Table 10.7: Balance of payments

EUR million	2018	2019	2020	21Q4	21Q1	21Q2	Nov.21
I. Current account	**2,731**	**2,898**	**3,462**	**727**	**460**	**280**	**-37**
1. Goods	**1,272**	**1,311**	**2,366**	**528**	**203**	**-128**	**-135**
1.1. Export of goods	**30,808**	**32,013**	**29,656**	**8,237**	**8,771**	**8,580**	**3,365**
Export f.o.b.	30,858	33,548	32,925	9,414	9,794	9,774	3,704
Coverage adjustment	-309	-1,928	-3,742	-1,305	-1,174	-1,367	-396
Net export of goods under merchanting	238	367	444	121	145	168	57
Nonmonetary gold	21	25	28	6	6	5	0
1.2. Import of goods	**29,535**	**30,702**	**27,290**	**7,709**	**8,568**	**8,708**	**3,500**
Import c.i.f.	30,706	34,082	32,111	8,794	10,227	10,802	4,165
Coverage adjustment	-363	-2,521	-4,128	-891	-1,455	-1,880	-564
Valuation adjustment	-853	-886	-786	-222	-246	-251	-101
Nonmonetary gold	45	27	92	27	42	37	0
2. Services	**2,624**	**2,907**	**1,996**	**486**	**497**	**698**	**222**
2.1. Export of services, of that	**8,124**	**8,659**	**6,900**	**1,579**	**1,861**	**2,407**	**752**
Transport	2,431	2,512	2,330	621	652	653	250
Travel	2,704	2,843	1,200	121	246	757	99
Construction services	497	592	650	167	186	204	68
Telecomm., computer and inform. services	540	631	659	147	173	217	64
Other business services	1,368	1,451	1,440	352	415	407	194
2.2. Import of services, of that	**5,500**	**5,751**	**4,904**	**1,093**	**1,364**	**1,709**	**530**
Transport	1,107	1,185	1,128	325	365	382	150
Travel	1,483	1,500	718	43	174	486	52
Construction services	177	200	220	55	70	71	19
Telecomm., computer and inform. services	546	606	610	136	157	177	53
Other business services	1,467	1,525	1,528	353	402	426	170
3. Primary income	**-769**	**-811**	**-426**	**-112**	**-147**	**-197**	**-66**
3.1. Receipts	**1,633**	**1,758**	**1,645**	**446**	**451**	**391**	**141**
Compensation of employees	486	536	493	101	136	132	47
Investment	802	845	713	183	191	187	58
Other primary income	345	378	439	163	124	71	36
3.2. Expenditure	**2,401**	**2,569**	**2,071**	**558**	**597**	**588**	**207**
Compensation of employees	173	195	169	40	53	48	14
Investment	2,024	2,164	1,710	454	494	489	155
Other primary income	204	211	192	64	50	51	38
4. Secondary income	**-396**	**-509**	**-473**	**-175**	**-94**	**-93**	**-58**
4.1. Receipts	**873**	**934**	**972**	**233**	**318**	**263**	**76**
4.2. Expenditure	**1,270**	**1,443**	**1,445**	**408**	**412**	**356**	**134**

Table 10.8: Balance of payments, continued

EUR million	2018	2019	2020	21Q4	21Q1	21Q2	Nov.21
II. Capital account	**-203**	**-187**	**-226**	**144**	**-11**	**95**	**-5**
1. Nonproduced nofinancial assets	-24	-24	-63	70	19	56	-18
2. Capital transfers	-178	-163	-163	74	-29	39	13
III. Financial account	**2,548**	**2,094**	**3,052**	**725**	**354**	**-125**	**52**
1. Direct investment	**-934**	**-762**	**266**	**-182**	**-519**	**-270**	**140**
Assets	373	1,157	697	309	80	268	98
Equity and reinvested earnings	443	676	578	88	69	98	3
Debt instruments	-70	482	119	221	11	170	95
Liabilities	1,307	1,919	431	491	599	538	-42
Equity and reinvested earnings	1,088	1,697	585	300	-140	277	16
Debt instruments	220	223	-154	191	738	261	-58
2. Portfolio investment	**744**	**734**	**-1,826**	**-170**	**1,630**	**38**	**118**
Assets	492	696	877	532	-64	-9	91
Equity and investment fund shares	117	-3	456	287	132	196	60
Debt securities	375	699	421	245	-196	-205	31
Liabilities	-252	-38	2,704	702	-1,694	-47	-27
Equity and investment fund shares	543	83	-6	-17	0	-5	0
Debt securities	-795	-121	2,709	719	-1,694	-42	-27
3. Financial derivatives	**-81**	**-163**	**53**	**-18**	**10**	**-21**	**1**
4. Other investment	**2,767**	**2,248**	**4,394**	**1,083**	**-775**	**-580**	**-231**
4.1. Assets	**2,054**	**3,250**	**4,856**	**2,973**	**57**	**329**	**82**
Other equity	68	27	4	0	2	0	0
Currency and deposits	1,508	2,811	4,753	2,128	-190	160	-190
Loans	215	438	342	153	-10	-23	66
Insurance, pension and stand. guar. schemes	-7	13	1	5	1	12	...
Trade credits and advances	303	29	-224	671	207	101	90
Other assets	-33	-69	-20	15	47	79	115
4.2. Liabilities	**-713**	**1,002**	**462**	**1,889**	**832**	**909**	**313**
Other equity	2	2	4	2	-42	1	1
Currency and deposits	-524	1,009	800	788	950	400	151
Loans	-491	-149	-409	756	-372	-401	83
Insurance, pension and stand. guar. schemes	20	27	55	30	27	8	...
Trade credits and advances	331	62	-134	209	274	66	4
Other liabilities	-51	50	146	103	-5	160	74
Special drawing reights (SDR)	0	0	0	0	0	675	0
5. Reserve assets	**52**	**37**	**166**	**13**	**7**	**707**	**24**
IV. Net errors and omissions	**20**	**-616**	**-184**	**-146**	**-95**	**-500**	**94**

Table 10.9: Non-consolidated financial assets, outstanding amounts

EUR million	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector								
Total	207,578	222,276	236,704	238,067	245,393	255,685	261,259	265,793
Monetary gold and SDRs	356	385	406	404	392	387	390	1,079
Currency and deposits	51,976	57,381	69,622	69,447	71,797	78,741	80,580	81,667
Debt securities	29,251	30,731	31,815	33,664	35,193	35,731	36,328	36,931
Loans	36,350	37,693	38,003	37,805	37,546	38,065	38,291	38,755
Shares	19,566	20,206	19,784	19,162	20,406	21,396	22,460	22,937
Other equity	32,354	35,782	36,854	37,209	38,373	38,127	38,277	38,604
Investment fund shares/units	4,466	5,736	5,581	5,835	6,352	7,093	7,537	7,891
Insurance and pension schemes	8,073	8,705	8,751	8,868	9,025	9,161	9,341	9,438
Other	25,187	25,657	25,888	25,671	26,310	26,983	28,053	28,492
Non-financial corporations								
Total	47,289	49,357	49,975	50,425	51,300	52,813	53,987	55,166
Currency and deposits	7,523	7,736	8,406	8,827	9,156	9,751	9,382	9,713
Debt securities	112	111	102	130	131	126	127	138
Loans	5,494	6,054	6,280	6,203	5,935	6,012	6,088	6,286
Shares	2,325	2,304	2,219	2,134	2,214	2,229	2,263	2,303
Other equity	14,026	15,051	15,396	15,357	15,880	15,948	16,149	16,345
Investment fund shares/units	58	209	190	205	211	252	280	308
Insurance and pension schemes	442	453	504	500	459	471	465	454
Other	17,309	17,439	16,878	17,068	17,313	18,024	19,232	19,620
Monetary financial institutions								
Total	56,596	61,452	69,405	69,861	72,723	78,008	81,097	82,716
Monetary gold and SDRs	356	385	406	404	392	387	390	1,079
Currency and deposits	9,327	12,533	18,691	18,142	19,191	23,358	25,568	25,807
Debt securities	21,894	22,654	23,783	25,389	26,721	27,413	28,071	28,551
Loans	23,365	24,226	24,248	24,209	24,273	24,615	24,659	24,860
Shares	771	690	1,253	692	1,110	1,120	1,239	1,276
Other equity	383	408	419	421	412	426	415	403
Investment fund shares/units	3	48	82	102	131	193	221	246
Insurance and pension schemes	41	39	38	37	44	44	45	46
Other	456	468	486	466	449	452	488	446
Other financial institutions								
Total	18,414	20,165	20,051	20,249	20,893	21,674	22,195	22,651
Currency and deposits	1,188	1,342	1,330	1,254	1,214	1,316	1,357	1,395
Debt securities	6,601	7,223	7,226	7,446	7,622	7,501	7,475	7,562
Loans	2,865	2,731	2,664	2,632	2,592	2,583	2,643	2,696
Shares	3,684	4,057	3,864	3,845	4,085	4,456	4,706	4,784
Other equity	857	1,027	1,202	1,226	1,375	1,385	1,384	1,441
Investment fund shares/units	2,208	2,706	2,624	2,758	3,006	3,339	3,490	3,663
Insurance and pension schemes	204	219	259	249	233	246	249	258
Other	808	860	882	840	766	849	891	852
General government								
Total	31,973	33,517	37,228	36,840	37,460	38,698	37,669	38,233
Currency and deposits	8,481	8,227	11,828	11,378	11,194	12,557	11,573	11,956
Debt securities	421	509	492	497	515	505	512	506
Loans	3,398	3,415	3,451	3,369	3,349	3,441	3,370	3,362
Shares	9,677	9,935	9,161	9,181	9,465	9,805	10,308	10,483
Other equity	6,009	7,223	7,488	7,720	8,036	7,616	7,345	7,284
Investment fund shares/units	297	364	360	371	394	430	427	415
Insurance and pension schemes	23	26	26	27	19	4	5	5
Other	3,666	3,818	4,422	4,297	4,487	4,340	4,128	4,222
Households and NPISHs								
Total	53,306	57,786	60,044	60,692	63,017	64,493	66,312	67,027
Currency and deposits	25,457	27,543	29,367	29,846	31,042	31,760	32,700	32,796
Debt securities	222	234	212	203	205	187	143	174
Loans	1,227	1,267	1,360	1,391	1,396	1,414	1,531	1,550
Shares	3,109	3,220	3,287	3,310	3,532	3,787	3,945	4,091
Other equity	11,080	12,073	12,349	12,486	12,670	12,752	12,984	13,131
Investment fund shares/units	1,900	2,410	2,326	2,399	2,609	2,879	3,118	3,258
Insurance and pension schemes	7,363	7,968	7,924	8,056	8,269	8,396	8,577	8,675
Other	2,948	3,071	3,220	3,000	3,294	3,319	3,314	3,352
Rest of the world								
Total	58,567	64,513	70,390	70,232	70,475	71,510	71,681	74,001
Monetary gold and SDRs	263	267	265	260	254	261	259	947
Currency and deposits	5,650	6,760	7,144	6,992	7,190	7,964	8,831	8,833
Debt securities	19,516	20,148	23,922	23,466	23,316	23,468	21,804	22,130
Loans	10,345	10,235	10,475	10,149	10,071	10,899	11,125	11,507
Shares	6,428	7,031	6,631	6,877	7,119	7,322	7,806	8,054
Other equity	9,201	10,169	10,385	10,537	10,692	10,836	10,617	10,816
Investment fund shares/units	29	40	39	40	44	61	65	84
Insurance and pension schemes	228	263	332	366	357	429	456	468
Other	6,906	9,600	11,196	11,545	11,431	10,269	10,718	11,163

Table 10.10: Non-consolidated liabilities, outstanding amounts

EUR million	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector								
Total	217,067	230,933	246,013	247,240	253,466	260,768	266,183	271,350
Monetary gold and SDRs	263	267	265	260	254	261	259	947
Currency and deposits	48,450	52,161	59,316	59,753	62,316	67,810	70,704	71,565
Debt securities	32,629	33,837	38,995	39,940	40,983	41,639	40,900	42,034
Loans	41,871	42,546	42,956	42,443	41,901	43,028	43,661	44,369
Shares	22,332	23,161	22,425	21,913	22,673	23,491	24,642	25,209
Other equity	36,788	40,260	41,462	42,085	43,303	43,179	43,078	43,494
Investment fund shares/units	2,396	3,008	2,874	2,974	3,231	3,637	3,921	4,147
Insurance and pension schemes	8,161	8,813	8,922	9,075	9,223	9,425	9,632	9,728
Other	24,177	26,881	28,798	28,799	29,581	28,297	29,387	29,857
Non-financial corporations								
Total	87,008	89,560	89,939	89,985	90,926	92,343	94,202	95,493
Debt securities	977	732	728	716	693	683	619	643
Loans	22,646	22,521	22,861	22,382	21,755	21,958	22,476	22,926
Shares	13,139	13,394	13,384	13,301	13,596	13,970	14,620	14,811
Other equity	32,581	34,898	35,575	36,010	36,802	37,091	37,017	37,444
Other	17,664	18,015	17,391	17,576	18,081	18,641	19,470	19,670
Monetary financial institutions								
Total	55,284	60,634	67,888	68,475	71,405	76,708	79,959	81,739
Monetary gold and SDRs	263	267	265	260	254	261	259	947
Currency and deposits	47,534	51,274	58,478	58,920	61,477	67,041	69,837	70,771
Debt securities	148	600	730	1,067	1,050	1,051	1,182	1,192
Loans	218	236	262	262	269	273	283	287
Shares	4,744	4,936	4,511	4,146	4,334	4,502	4,815	5,073
Other equity	1,957	2,797	3,039	3,253	3,489	3,077	3,024	2,957
Investment fund shares/units	79	56	74	71	71	54	57	56
Other	340	468	530	496	461	450	501	455
Other financial institutions								
Total	17,801	19,647	19,432	19,497	20,055	20,899	21,512	21,953
Debt securities	113	232	198	198	193	195	145	146
Loans	2,558	2,590	2,506	2,446	2,420	2,396	2,483	2,527
Shares	2,682	2,911	2,554	2,464	2,656	2,794	2,853	2,897
Other equity	1,511	1,676	1,953	1,924	2,049	2,062	2,075	2,125
Investment fund shares/units	2,317	2,952	2,800	2,903	3,160	3,583	3,864	4,090
Insurance and pension schemes	8,161	8,813	8,922	9,075	9,214	9,416	9,623	9,719
Other	459	472	499	487	364	452	469	450
General government								
Total	42,786	46,315	54,144	54,446	56,284	55,942	55,450	56,659
Currency and deposits	916	887	837	833	839	769	867	793
Debt securities	31,390	32,272	37,339	37,958	39,047	39,711	38,954	40,054
Loans	4,091	4,195	4,435	4,300	4,400	5,285	5,149	5,077
Shares	1,767	1,920	1,975	2,001	2,087	2,225	2,354	2,429
Other equity	738	888	896	898	964	950	962	968
Other	3,884	6,153	8,661	8,456	8,946	7,002	7,164	7,338
Households and NPISHs								
Total	14,187	14,777	14,610	14,837	14,796	14,876	15,061	15,506
Loans	12,358	13,004	12,893	13,053	13,057	13,115	13,269	13,553
Other	1,829	1,773	1,717	1,785	1,739	1,761	1,791	1,953
Rest of the world								
Total	49,078	55,855	61,080	61,058	62,402	66,427	66,756	68,444
Monetary gold and SDRs	356	384	406	403	392	387	390	1,078
Currency and deposits	9,176	11,981	17,450	16,686	16,671	18,895	18,707	18,934
Debt securities	16,138	17,042	16,743	17,191	17,527	17,560	17,232	17,027
Loans	4,823	5,382	5,521	5,511	5,716	5,937	5,755	5,893
Shares	3,663	4,076	3,990	4,126	4,852	5,228	5,624	5,782
Other equity	4,767	5,692	5,776	5,661	5,762	5,784	5,817	5,925
Investment fund shares/units	2,099	2,768	2,747	2,901	3,165	3,517	3,682	3,828
Insurance and pension schemes	141	155	161	160	159	164	166	178
Other	7,916	8,376	8,286	8,417	8,159	8,955	9,384	9,798

Table 10.11: Net financial assets

EUR million	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector	-9,488	-8,657	-9,309	-9,174	-8,072	-5,083	-4,925	-5,556
Non-financial corporations	-39,719	-40,204	-39,963	-39,560	-39,626	-39,530	-40,216	-40,327
Monetary financial institutions	1,312	818	1,517	1,387	1,318	1,299	1,138	977
Other financial institutions	613	518	619	751	837	775	683	699
General government	-10,813	-12,798	-16,915	-17,606	-18,823	-17,245	-17,781	-18,426
Households and NPISHs	39,119	43,010	45,434	45,854	48,221	49,618	51,252	51,522
Rest of the world	9,489	8,657	9,309	9,174	8,073	5,083	4,925	5,557

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

EUR million	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector								
Total	7,753	8,113	20,085	19,263	21,053	25,818	20,889	23,132
Monetary gold and SDRs	1	1	0	0	0	0	0	675
Currency and deposits	5,159	5,347	17,213	15,405	14,503	17,460	11,007	12,201
Debt securities	1,030	606	1,415	2,708	3,821	5,516	4,714	3,821
Loans	829	1,993	1,048	706	198	-398	435	948
Shares	-863	-712	141	249	714	839	857	870
Other equity	572	635	549	374	632	615	571	688
Investment fund shares/units	101	216	342	339	477	738	828	903
Insurance and pension schemes	165	305	235	286	232	272	276	275
Other	759	-278	-858	-804	478	776	2,202	2,751
Non-financial corporations								
Total	1,445	1,099	608	986	1,773	2,317	3,374	3,888
Currency and deposits	425	229	1,022	1,016	1,419	1,687	965	898
Debt securities	21	-14	-33	-6	1	-3	11	13
Loans	47	612	331	320	-33	58	-210	30
Shares	41	-179	95	104	87	90	71	86
Other equity	285	533	521	344	314	309	291	459
Investment fund shares/units	1	-31	-22	-20	20	35	42	36
Insurance and pension schemes	-8	8	17	33	17	-28	-49	-56
Other	632	-59	-1,323	-804	-52	168	2,254	2,422
Monetary financial institutions								
Total	2,522	4,354	11,888	11,928	11,220	15,250	12,436	13,211
Monetary gold and SDRs	1	1	0	0	0	0	0	675
Currency and deposits	1,251	3,195	10,031	9,080	6,693	9,750	6,892	7,658
Debt securities	837	131	1,070	2,351	3,568	5,194	4,500	3,667
Loans	528	1,131	477	165	131	-19	504	693
Shares	-13	-71	379	397	826	394	455	456
Other equity	23	-31	9	9	2	13	-6	-22
Investment fund shares/units	1	40	54	61	70	97	98	103
Insurance and pension schemes	1	-2	-4	-4	5	6	7	10
Other	-107	-40	-128	-130	-75	-182	-16	-29
Other financial institutions								
Total	273	524	547	598	452	739	891	979
Currency and deposits	36	131	-121	-103	-102	-82	49	121
Debt securities	137	415	356	352	259	332	206	138
Loans	38	-32	-14	-38	-95	-73	7	33
Shares	-8	-210	134	194	184	234	213	210
Other equity	9	42	45	57	69	64	48	40
Investment fund shares/units	36	124	183	167	224	361	377	421
Insurance and pension schemes	4	16	33	25	14	-17	-8	15
Other	19	37	-68	-56	-101	-80	-2	1
General government								
Total	974	-449	3,745	2,383	3,098	2,760	-331	667
Currency and deposits	1,733	-287	3,594	2,588	2,984	2,617	-245	574
Debt securities	11	86	33	20	7	11	23	18
Loans	18	220	117	84	47	-537	3	68
Shares	-929	-194	-467	-466	-442	9	15	6
Other equity	19	38	1	1	-1	1	-11	-13
Investment fund shares/units	16	3	14	-6	13	6	-9	-29
Insurance and pension schemes	-2	2	-4	-4	-5	-1	-1	-2
Other	108	-317	455	167	494	655	-106	47
Households and NPISHs								
Total	2,540	2,585	3,297	3,367	4,509	4,751	4,520	4,386
Currency and deposits	1,713	2,080	2,687	2,825	3,508	3,488	3,347	2,950
Debt securities	23	-11	-11	-9	-15	-18	-27	-15
Loans	198	61	137	175	147	174	130	124
Shares	46	-59	-1	21	59	112	103	112
Other equity	236	53	-27	-36	248	228	248	224
Investment fund shares/units	47	79	114	136	149	239	320	372
Insurance and pension schemes	170	281	193	236	201	313	326	308
Other	106	101	205	19	212	215	73	311
Rest of the world								
Total	513	2,374	5,730	4,124	3,412	4,643	2,187	4,574
Monetary gold and SDRs	0	0	0	0	0	0	0	675
Currency and deposits	-647	1,095	1,119	822	447	1,099	1,690	1,842
Debt securities	-581	-520	4,014	2,836	2,511	1,740	-1,934	-1,128
Loans	-242	-242	-99	-625	-238	536	609	1,268
Shares	860	843	131	78	85	127	125	147
Other equity	781	831	739	727	560	622	335	410
Investment fund shares/units	0	0	0	1	2	12	15	12
Insurance and pension schemes	20	27	32	30	55	46	54	56
Other	321	341	-206	256	-10	462	1,294	1,292

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

mio EUR	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector								
Total	5,521	5,917	18,271	17,192	18,260	23,497	18,306	21,349
Monetary gold and SDRs	0	0	0	0	0	0	0	675
Currency and deposits	2,847	3,670	11,181	10,810	10,228	14,358	11,432	11,812
Debt securities	154	-465	5,464	5,286	6,001	6,403	2,177	2,675
Loans	345	1,097	568	-281	-403	-417	838	1,890
Shares	-99	130	198	149	164	205	139	155
Other equity	944	880	726	734	1,096	1,141	828	841
Investment fund shares/units	5	86	101	134	150	296	375	406
Insurance and pension schemes	191	319	258	309	286	313	327	314
Other	1,133	201	-225	50	739	1,200	2,190	2,582
Non-financial corporations								
Total	1,455	1,085	214	272	501	1,253	2,340	3,215
Debt securities	-12	-251	-21	-53	-54	-63	-135	-76
Loans	-133	231	-85	-422	-626	-790	-319	490
Shares	6	61	117	97	122	132	50	42
Other equity	825	848	708	693	1,054	1,100	792	813
Other	768	195	-505	-43	5	874	1,953	1,947
Monetary financial institutions								
Total	2,356	4,225	11,493	11,538	10,772	14,716	11,988	12,796
Monetary gold and SDRs	0	0	0	0	0	0	0	675
Currency and deposits	2,824	3,701	11,198	10,845	10,270	14,454	11,400	11,853
Debt securities	-229	454	339	679	467	338	463	128
Loans	17	18	45	45	33	38	21	26
Shares	-110	67	81	59	54	97	112	136
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	25	-10	13	15	16	-35	-16	-14
Other	-171	-5	-182	-105	-68	-176	8	-8
Other financial institutions								
Total	192	604	393	414	201	497	649	727
Debt securities	1	119	56	56	-35	-4	-53	-52
Loans	-89	47	13	-83	-152	-145	-22	53
Shares	0	0	1	-7	-12	-24	-23	-23
Other equity	109	31	18	41	42	40	36	30
Investment fund shares/units	-20	96	88	119	134	330	391	420
Insurance and pension schemes	191	318	258	309	277	304	318	306
Other	-1	-10	-43	-22	-53	-5	2	-6
General government								
Total	660	-641	5,896	4,761	6,697	6,740	2,845	3,935
Currency and deposits	23	-34	-19	-35	-42	-96	33	-41
Debt securities	395	-787	5,090	4,604	5,622	6,133	1,902	2,676
Loans	-206	106	292	-89	209	261	722	785
Shares	5	1	0	0	0	0	0	0
Other equity	10	0	0	0	0	0	0	-2
Other	433	73	532	281	907	442	189	517
Households and NPISHs								
Total	858	645	276	207	89	292	484	676
Loans	755	696	303	268	132	219	437	536
Other	103	-52	-27	-61	-42	73	47	140
Rest of the world								
Total	2,745	4,571	7,544	6,195	6,204	6,964	4,770	6,356
Monetary gold and SDRs	1	1	0	0	0	0	0	675
Currency and deposits	1,665	2,773	7,151	5,416	4,721	4,202	1,264	2,231
Debt securities	295	551	-35	258	331	853	603	18
Loans	242	653	381	361	363	555	205	326
Shares	96	1	73	178	634	761	843	862
Other equity	409	586	562	367	96	96	78	257
Investment fund shares/units	96	130	241	206	329	454	468	509
Insurance and pension schemes	-7	13	9	6	1	5	3	17
Other	-52	-138	-838	-598	-271	38	1,307	1,461

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

EUR million	2018	2019	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
Domestic sector	2,232	2,196	1,814	2,071	2,792	2,321	2,583	1,783
Non-financial corporations	-10	15	394	714	1,273	1,064	1,034	673
Monetary financial institutions	166	129	395	390	448	534	448	415
Other financial institutions	81	-80	154	184	250	242	242	252
General government	314	192	-2,151	-2,378	-3,599	-3,980	-3,177	-3,268
Households and NPISHs	1,682	1,941	3,021	3,160	4,420	4,460	4,036	3,710
Rest of the world	-2,232	-2,196	-1,814	-2,071	-2,792	-2,321	-2,583	-1,783

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.