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Executive Summary

Although the risks in the international environment are increasing, international institutions have not yet lowered their global GDP growth forecasts for the medium term in a more substantial manner. It is a similar case for the euro area, where growth is expected to be stable, at around 2%. Unlike the US, the increase in economic activity in the euro area will continue to be supported by expansionary monetary policy, as the process envisaged for its normalisation is very gradual. The most recent estimate of weighted economic growth forecasts for Slovenia's main trading partners indicate solid growth in foreign demand for the products of Slovenia's export sector over the medium term. The euro has been down against the US dollar in year-on-year terms since August, which is favourable for euro area exporters. Inflationary pressures from the international environment increased, as oil prices rose sharply as a result of the US embargo against Iran. The price per barrel stood at EUR 68.9 on 18 October, up 38.6% in year-on-year terms.

In the structure of domestic GDP growth, the anticipated reversal in the direction of stronger private consumption has not taken place, and the export orientation of the economy is continuing to increase. In the second quarter, year-on-year GDP growth stood at 3.8%, down 0.7 percentage points on the previous quarter. Growth in private consumption was unexpectedly weak, and indicates the continuation of the pattern seen over the first three quarters of last year, when a rapid improvement in the situation on the labour market was not tracked by increased growth in private consumption. Growth in investment in machinery and equipment also slowed sharply in the second quarter of this year. Should these trends continue, it might already be indicative of the impact of the reduced confidence caused by the tense international situation on investment decisions by the export sector. Judging by the export dynamics, growth in foreign demand remained relatively high at least until August, and, in the wake of weaker growth in imports, net trade was again a significant factor in domestic economic growth. It is rather difficult to estimate GDP growth in the third quarter, as the confidence indicators suggest a continuation of the moderate slowdown, while the available activity indicators suggest that the dynamic from the previous quarter was at least maintained.

Firms are increasingly compensating for the shortage of domestic labour by importing foreign labour, which is most likely one of the reasons that growth in the average gross wage has been curbed. Although in surveys firms are reporting major difficulties in recruiting, and unemployment is falling rapidly towards its pre-crisis lows, growth in employment remains high. The reason is the increasing employment of foreign workers, who again accounted for more than half of the year-on-year increase of 3% in the workforce in employment excluding farmers recorded in August. This is associated with a negative structural impact on growth in the average nominal gross wage, as foreign workers are mostly employed in sectors with below-average wages, while growth in employment in these sectors continues to be above-average. Growth in average real wages has also been reduced this year by higher inflation. Nevertheles, situation remains favourable for growth in private consumption: growth in employment is still high, for which reason real growth in the wage bill also remains high. It stood at 4.8% in August, down only slightly on the pre-crisis period of 2006 to 2008.

The high export orientation of the economy, the rather low growth in private consumption, and debt repayments in the rest of the world have all been reflected in an increasing current account surplus. In August, the 12-month surplus approached 8% of estimated GDP. After declining in the first quarter, nominal growth in exports of merchandise and services strengthened again, although the situation in the international environment deteriorated. At the same time, nominal growth in merchandise imports declined despite an increase in growth in import prices. The net external debt has been *declining since 2015, and fell by almost EUR 2 billion over the last year alone, for which reason the deficit in primary income is also diminishing. Rising household savings, so far moderate fiscal spending, and growth in private investment predominantly on the basis of firms' internal resources suggest a continuation of economic growth that is to a large extend based on exploiting foreign demand. This structure of growth is reducing the economy's dependence on financing on the international financial markets, but at the same time is increasing the risks associated with the current highly uncertain situation in international trade.*

Headline inflation remains above 2%, while core inflation remains low, despite strong domestic economic dynamics. In September, headline inflation was comparable to that in the euro area overall. It stood at 2.2%, and has mostly been above the 2%-mark as of May. The main factors remain unchanged. The notable external factor is higher oil prices, while growth in services prices is highlighted among domestic factors. At the same time, core inflation remains low, and comparable to the average in the euro area overall, despite Slovenia's significantly stronger economic growth. The narrowest core inflation indicator stood at 1.1% in September, up just 0.2 percentage points on the beginning of the year. Domestic unit labour costs have begun to rise, albeit without any notable impact yet on inflation developments.

The fiscal position is continuing to improve, as a result of the favourable cyclical situation, a reduction in the interest burden, and moderate growth in expenditure. Over the 12 months to June, the general government sector recorded a surplus in the amount of 0.6% of GDP. At the end of June, general government debt stood at 72.8% of GDP, and is expected to decline to 70.3% of GDP by the end of the year. In the second quarter, the decline in the general government debt was attributable to payments of maturing bonds. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates. According to the government's plans, a small surplus is expected to be recorded again in the public finances in the coming years. Given the current favourable economic situation, converging on the medium-term fiscal objective will require generation of larger surpluses. From the perspective of the sustainability of public finances, the key is to avoid measures that would cause a deterioration in the structural fiscal position, as general government debt remains high.

* * *

Growth in labour productivity is low, and is indicative of the deterioration in the quality of economic growth after the crisis. Economic growth in the current cycle is comparable to the 4% average annual growth recorded between 1993 and 2005, i.e. before the beginning of the excessive loan financing of growth. Labour productivity increases of around 4% accounted for virtually all of the economic growth in the pre-crisis period, while in the current cycle GDP growth is largely being driven by employment. Growth in labour productivity has averaged just 1.9% over the last two years, and averaged merely 1% in the first half of this year. The large supply of labour from the pool of unemployment created during the crisis has been a factor in the disproportionate growth in employment in recent years. This factor has now largely been exhausted, although GDP growth remains labour-extensive, as the economy is addressing its difficulties with a shortage of domestic labour by importing foreign workers. The continuation of labour-extensive growth is an indication of weak technological progress, and the limited reach of the generation of GDP per employee in today's economic structure. Economic policy therefore needs to be focused away from merely supporting the existing economy, to supporting the restructuring of the economy.

Main macroeconomic indicators

	2015	2016	2017	17Q4	18Q1	18Q2	2015	2016	2017	17Q4	18Q1	18Q2
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	2.3	3.1	4.9	6.3	4.5	3.8	2.1	1.9	2.4	2.5	2.1	2.3
- industry	1.0	4.6	7.7	9.8	5.9	5.1	3.6	3.4	3.1	3.5	2.0	2.9
- construction	-1.5	-3.7	8.5	13.0	11.8	10.6	0.8	1.5	3.2	3.5	3.3	3.8
- mainly public sector services	0.9	2.3	1.6	2.0	2.1	2.2	0.8	1.3	1.1	1.1	1.5	1.5
- mainly private sector services	2.6	3.3	6.0	7.7	4.8	4.4	2.2	2.0	2.6	2.8	2.3	2.6
Domestic expenditure	1.9	2.9	3.9	5.0	5.5	2.3	2.4	2.4	1.7	1.1	1.6	1.7
- general government	2.4	2.7	0.5	1.3	1.2	5.3	1.3	1.8	1.2	1.4	1.1	1.3
- households and NPISH	2.3	3.9	1.9	3.1	3.4	1.1	1.8	2.0	1.6	1.3	1.8	1.3
- gross capital formation	0.1	0.0	13.2	15.3	14.6	2.9	5.1	4.2	2.4	0.2	1.9	3.3
- gross fixed capital formation	-1.6	-3.7	10.7	12.0	10.1	8.2	4.9	4.0	2.6	1.8	3.0	3.3
- inventories and valuables, contr. to GDP growth in pp	0.3	0.7	0.6	0.5	1.1	-0.9	0.0	0.1	0.0	-0.4	-0.2	0.0
Labour market												
Employment	1.3	1.8	2.9	3.0	3.3	3.0	1.0	1.4	1.6	1.6	1.5	1.5
- mainly private sector services	1.4	1.7	3.0	3.2	3.6	3.2	1.0	1.4	1.7	1.7	1.6	1.6
- mainly public sector services	0.8	2.2	2.6	2.3	2.2	2.1	1.1	1.4	1.3	1.3	1.2	1.2
Labour costs per employee	1.3	3.0	3.2	4.4	3.6	4.4	1.4	1.2	1.6	1.7	2.0	2.4
- mainly private sector services	1.5	2.4	3.2	4.5	3.8	4.6	1.5	1.2	1.6	1.8	2.0	2.5
- mainly public sector services	0.7	5.2	3.1	3.1	3.5	3.7	1.1	1.3	1.5	1.5	2.0	2.1
Unit labour costs, nominal*	0.3	1.8	1.2	1.2	2.4	3.6	0.3	0.6	0.8	0.9	1.4	1.6
Unit labour costs, real**	-0.7	1.0	-0.3	-0.4	0.1	0.9	-1.0	-0.2	-0.3	-0.4	0.0	0.2
	in %											
LFS unemployment rate	9.0	8.0	6.6	5.8	5.9	5.2	10.9	10.0	9.1	8.7	8.9	8.2
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	4.5	5.5	7.2	7.2	6.9	7.5	2.9	3.2	3.2	3.2	3.4	3.5
External trade balance as contr. to GDP growth in pp	0.6	0.5	1.3	1.5	-0.4	1.7	-0.2	-0.4	0.8	1.4	0.5	0.7
Real export of goods and services	5.0	6.4	10.7	12.7	8.7	9.3	6.5	3.0	5.2	6.0	3.1	4.2
Real import of goods and services	4.7	6.6	10.3	11.8	10.5	8.3	7.6	4.2	3.9	3.2	2.2	3.1
Financing	*in % of GDP*											
Banking system's balance sheet	106.9	99.3	93.9	93.9	91.8	91.1	281.3	275.7	260.7	260.7	260.6	260.9
Loans to NFCs	26.3	22.6	21.8	21.8	21.5	21.0	38.7	37.8	36.9	36.9	36.9	36.7
Loans to households	21.1	21.1	21.5	21.5	21.5	21.6	49.7	49.4	49.4	49.4	49.1	49.0
Inflation	*in %*											
HICP	-0.8	-0.2	1.6	1.5	1.5	2.1	0.0	0.2	1.5	1.4	1.3	1.7
HICP excl. energy, food, alcohol and tobacco	0.3	0.7	0.7	0.6	0.8	1.0	0.8	0.9	1.0	0.9	1.0	0.9
Public finance	*in % of GDP*											
Debt of the general government	82.6	78.7	74.1	74.1	75.5	72.8	89.9	88.7	86.5	86.5	86.5	...
One year net lending/net borrowing of the general government***	-2.8	-1.9	0.1	0.1	0.5	0.6	-2.0	-1.5	-0.9	-0.9	-0.7	...
*- interest payment****	3.2	3.0	2.5	2.5	2.4	2.3	2.3	2.1	2.0	2.0	1.9	...
*- primary balance****	0.4	1.1	2.6	2.6	2.9	2.9	0.3	0.6	1.1	1.1	1.2	...

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

1 International Environment

Although certain survey monthly indicators suggest a slowdown in the expansion of the global economy, it remains strong, though growth rates are increasingly diverging between individual countries and regions. There is declining growth in global trade, which is increasingly under the impact of trade tensions, while other negative risks are also increasing. International institutions have not yet significantly cut their forecasts for 2018 and 2019. Year-on-year economic growth in the euro area again slowed slightly in the second quarter. The slowdown in growth is expected to continue in the third quarter, but should remain stable over the medium term according to the forecasts of international institutions. From the perspective of Slovenia's export sector, the most recent weighted economic growth forecast for Slovenia's main trading partners also remains relatively favourable. The Fed continued with its gradual tightening of monetary policy by raising the key interest rate in September, while the ECB left interest rates unchanged. This again increased the divergence between the monetary policies of the two central banks. The euro has gradually fallen against the US dollar over the last three months, and is lower than it was a year ago. Year-on-year growth in oil prices is extremely high, while other commodity prices have mostly fallen in the last three months.

Global economy

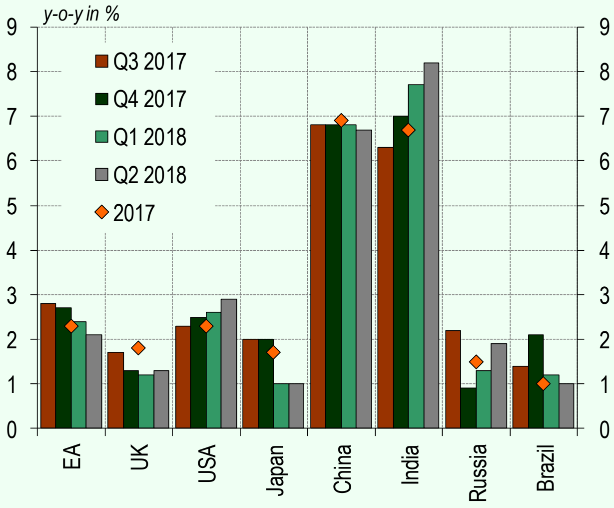
Growth in the global economy remains strong, although growth rates are increasingly diverging between individual countries and regions. Year-on-year growth in the US stood at 2.9% in the second quarter, having strengthened for several consecutive quarters, while the short-term outlook for further growth remains favourable. Growth is gradually slowing or remains low in certain major developed economies, and the outlook for future growth is also down. Economic growth in the euro area stood at 2.1% in the second quarter, having slowed for the third consecutive quarter. Economic growth remained weak in the UK and Japan, at 1.3% and 1.0% respectively. Differences in growth and outlook are also widening between developing economies. The escalation of trade tensions and the currency difficulties of certain economies are already being reflected in weaker growth and reduced future expectations, while recent rises in oil prices have strengthened the outlook for oil exporters.

Certain survey monthly indicators suggest a slowdown in the expansion of the global economy. JP Morgan's composite PMI declined for the third consecutive month, reaching its lowest value of the last two years in September. Growth in activity in the service sector reached its low of the last two years in the third quarter. Growth in manufacturing has been slowing since April and judging by the PMI reached its lowest level since November 2016. Growth in global trade, which is increasingly being adversely impacted by trade tensions, slowed in the first half of the year. The additional restrictions on global trade via new tariffs and the risk of further escalation of tensions have already been reflected in a decline in confidence, which could have an adverse impact on investment, while forecasts of future growth in global trade are already lower.

International institutions are forecasting only slightly lower global growth for 2018 and 2019 than in their previous projections. The IMF and the OECD slightly lowered their global economic growth forecasts, to 3.7% for both years. Of the major global economies, the two institutions left their forecasts for 2018 unchanged for the US, Russia and China, while both lowering their forecasts for the euro area. The OECD is also forecasting slightly lower growth for the UK, while the IMF is forecasting slightly higher growth for Japan. Compared with the spring forecasts, the OECD now expects the high economic growth in India to strengthen further.

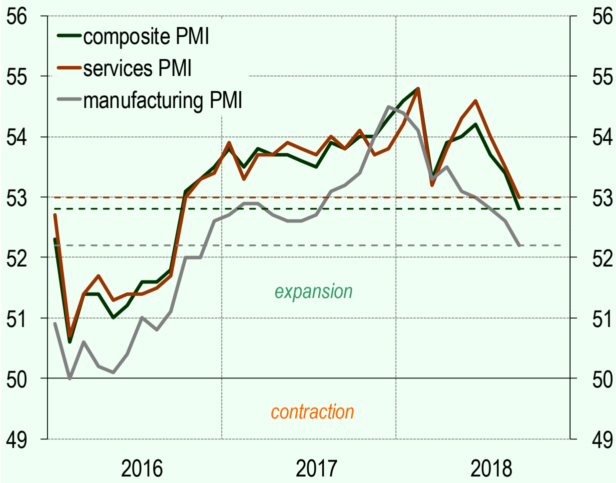
The downside risks to global economic growth are increasing. The introduction of announced tariffs by the US and the retaliatory measures from its trading partners are continuing. This is increasing the risk of weaker global economic growth via less efficient allocation of assets, reduced productivity and, in the long term, weaker investment. There is also considerable risk of a tightening in global financing conditions as a result of the gradual normalisation of monetary policy in the US. There is a pronounced increase in the risk of high oil prices caused by a supply-side shock, which is likely to occur when the US enforces sanctions against Iran. In Europe there is risk in

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



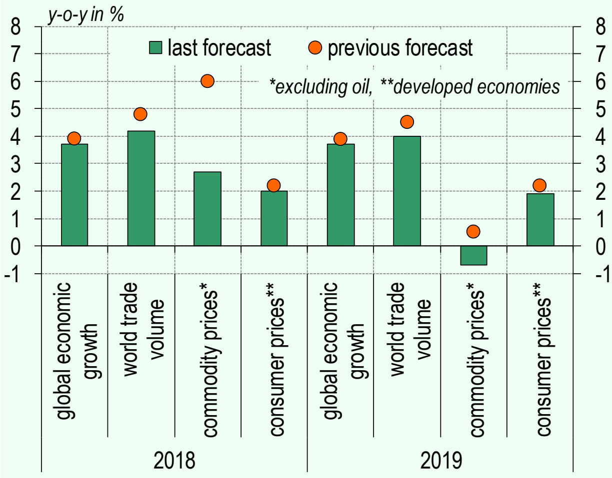
Source: IMF, Tradingeconomics.

Figure 1.2: JPMorgan Purchasing Managers' Index (PMI) – global



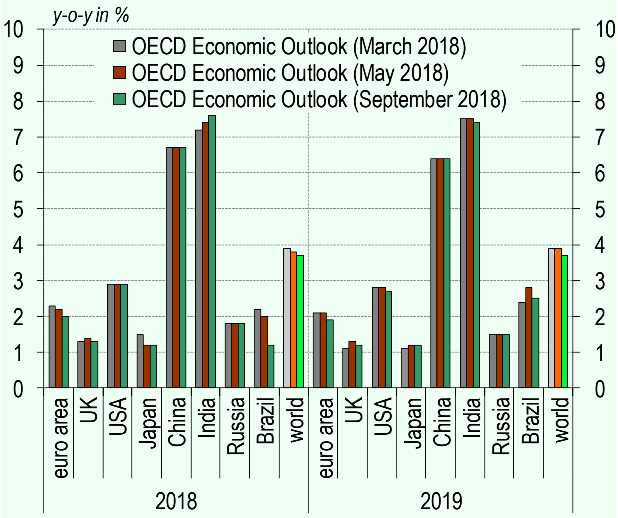
Note: Dashed line represents the value of the last observation.
Source: Bloomberg.

Figure 1.3: Forecasts of global economic growth, trade volume, commodity prices and consumer prices for 2018 and 2019



Note: Last forecast: WEO October 2018, previous forecast: WEO July 2018.
Source: IMF.

Figure 1.4: OECD forecasts of GDP growth in major developed countries and BRIC for 2018 and 2019



Source: OECD.

association with Italy's high debt, which is already being reflected in the financial markets via a rise in spreads on Italian bonds. There also remain risks related to the Brexit negotiations.

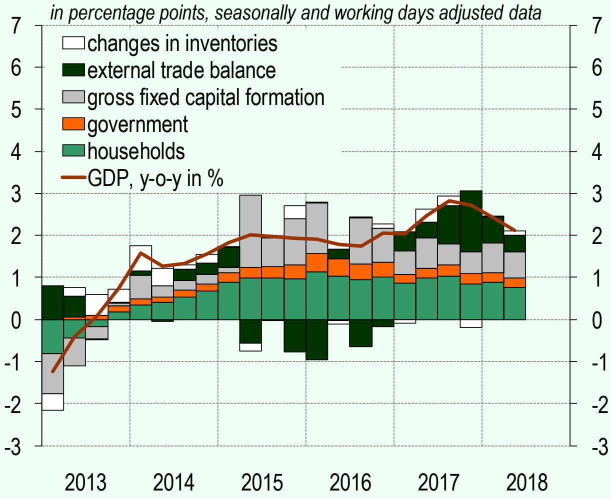
Euro area

Year-on-year economic growth in the euro area again slowed slightly in the second quarter. It stood at 2.1%, down 0.3 percentage points on the first quarter, and down 0.7 percentage points on its peak in the third quarter of last year. The largest contribution to GDP growth on the expenditure side came from private consumption, at 0.7 percentage points, although growth in private consumption slowed, while there were also first signs of a decline in consumer confidence. Growth in investment was also slower than in the first quarter. Weaker growth in foreign demand is being reflected in a lower contribution from net trade, which is the main factor in this year's slowdown in economic growth. On the output side, weaker growth in foreign demand was reflected in lower growth in value-added in industry. In terms of sector, the largest contribution to economic growth was again made by services, at 1.1 percentage points, although this figure was also down on the previous quarter.

The survey indicators of confidence and activity suggest a slowdown in economic growth in the third quarter. The decline in the composite PMI slowed in the third quarter as a result of the stabilisation of growth in

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

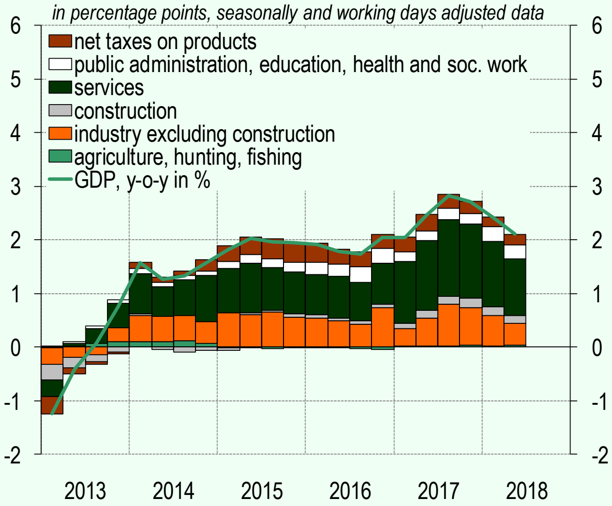
in percentage points, seasonally and working days adjusted data



Source: Eurostat, Bank of Slovenia calculations.

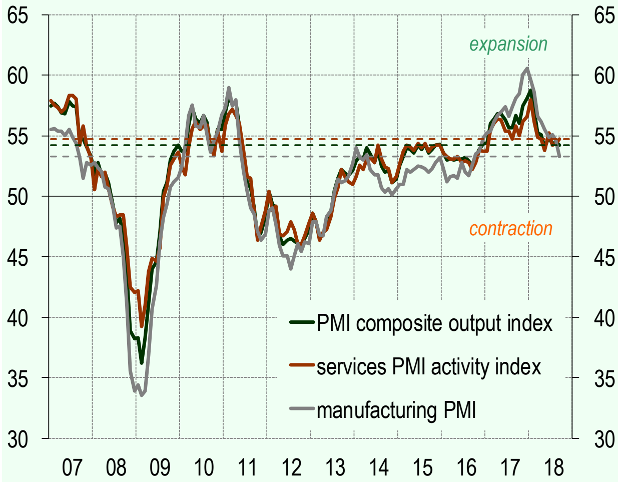
Figure 1.6: Structure of GDP growth in the euro area – production side

in percentage points, seasonally and working days adjusted data



Source: Eurostat, Bank of Slovenia calculations.

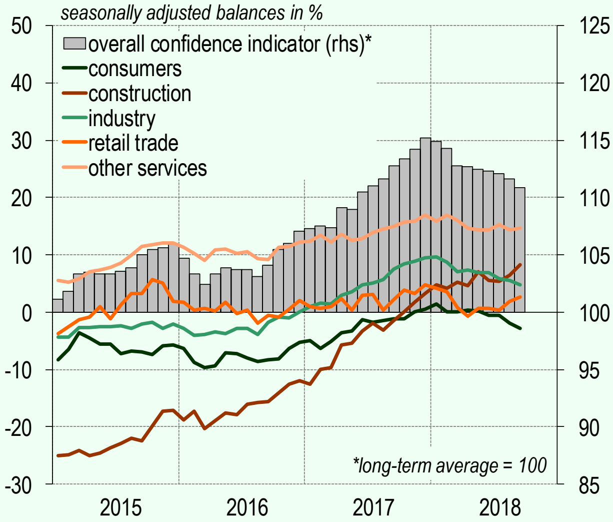
Figure 1.7: Purchasing Managers' Index (PMI) – euro area



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

Figure 1.8: Confidence indicators – euro area

seasonally adjusted balances in %



Source: Eurostat.

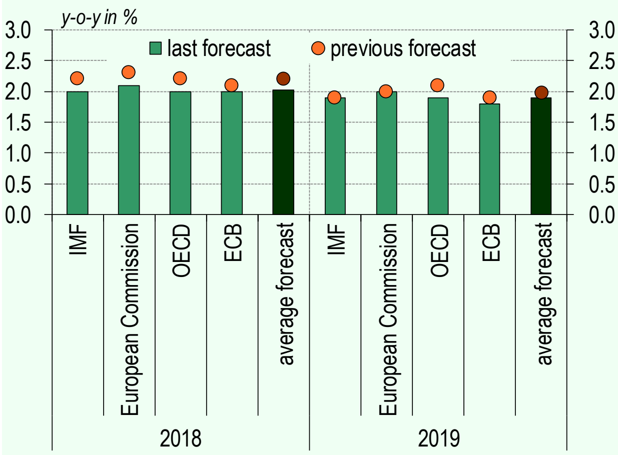
the service sector, while a further slowdown in growth in manufacturing is indicated. The economic sentiment indicator for the euro area is also portraying less optimism than in the second quarter, although it remains well above its long-term average. Confidence is continuing to strengthen in construction, where the confidence indicator is reaching one of its highest values to date, while retail confidence was also up on the second quarter. The trend of declining optimism in industry continued, confidence having continually declined since January's high levels. Recent months have also seen a decline in consumer confidence.

According to international institutions' forecasts, economic growth in the euro area is expected to remain stable in the coming years. The forecasts for 2018 and 2019 have been reduced slightly, but growth is expected to remain stable at 2.0% and 1.9% respectively. The OECD's assessment is that the effects of a stimulative monetary policy and an expansionary fiscal policy, the high growth in employment and the favourable financing conditions could be reflected in strengthened domestic demand, which would have a positive impact on GDP growth.

Slovenia's trading partners

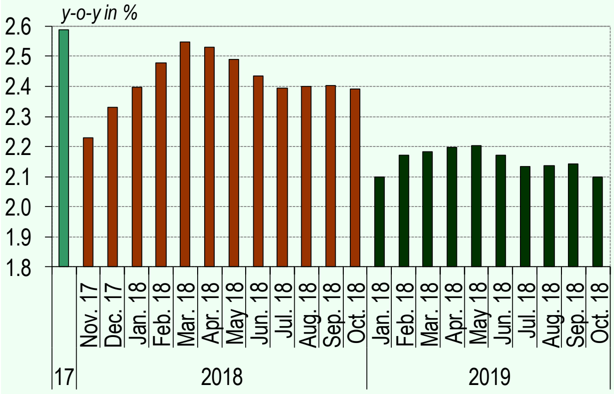
The weighted economic growth forecast for Slovenia's main trading partners for 2018 has stabilised in recent months, while the forecast for 2019 was cut slightly in October. After being lowered in the second quarter and in July, there was no significant change in the weighted forecast for 2018 until October, but there were notable changes at the level of individual countries. In October Consensus reduced its forecasts from June for Germany, Italy and France, and raised them for Croatia, Austria, Poland, Serbia and Hungary. Year-on-year economic growth in Germany, Slovenia's largest trading partner, slowed again slightly in the second quarter. The composite PMI for Germany rose slightly after failing to do so for half a year. The increase was largely a result of an improvement in activity in the services sector, while the indicator for manufacturing declined again in September. The Ifo business climate index has also risen slightly

Figure 1.9: Euro area GDP growth forecasts for 2018 and 2019



Note: Included forecasts are the following: IMF (October 2018, July 2018), European Commission (July 2018, May 2018), OECD (September 2018, May 2018), ECB (September 2018, June 2018).
Source: IMF, European Commission, OECD, ECB.

Figure 1.10: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2018 and 2019



Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (August 2017 – July 2018; 22 trading partners with a total share of 87.4 %). The growth forecasts for the years 2018 and 2019 are weighted with the share of each country in the total exports of goods. For 2017 the weighted outcome is shown. For China, IMF data is used.
Source: SORS, Consensus, IMF, Bank of Slovenia calculations.

Figure 1.11: Forecasts of GDP growth in the eight largest Slovenian trading partners for 2018 and 2019

Note: Shares of the trading partners in total goods exports of Slovenia in the last twelve months (August 2017 – July 2018) are found in parentheses.
Source: Consensus, SORS.

over the last three months, the largest increase being recorded by the business outlook. Consensus is forecasting economic growth of 1.9% in 2018 and 1.7% in 2019 for Germany. After being lowered in July, Consensus's forecasts for Italy for both years were revised downwards again in October. It is forecasting growth of 1.1% in 2018 and 1.0% in 2019. There were also cuts in the forecasts for France, where economic activity is expected to increase by 1.6% in both years. The October forecasts for 2018 for Croatia and Austria were both revised upwards from the second quarter. Of the countries that saw the largest upward revisions, Consensus's highest economic growth forecast for 2018 is for Poland, at 4.7%. Having recorded one of the highest rates of growth of the last decade in the most recent period, Hungary saw its economic growth forecast for 2018 raised to 4.3%. There has also been a significant increase in this year's growth forecast for Serbia, where economic activity is expected to rise by 4.1%.

Euro exchange rate and commodity prices

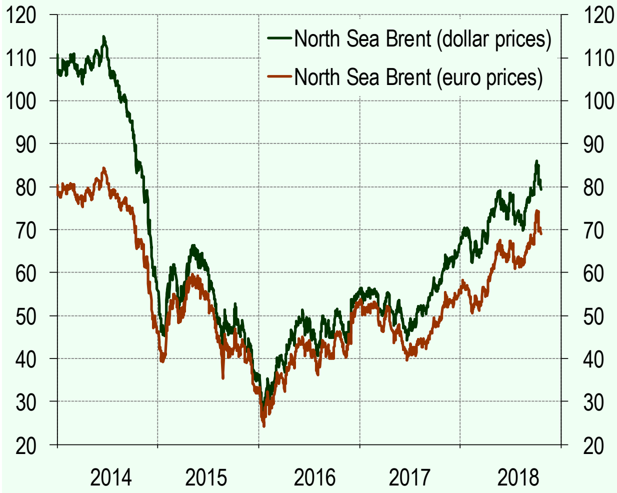
The Fed continued with its gradual tightening of monetary policy by raising the key interest rate in September, while the ECB left interest rates unchanged. The Fed again raised its key interest rate by 0.25 percentage points, to a range of 2.00% to 2.25%. This was this year's third rise in key interest rates, and a fourth is expected in December. By contrast, the ECB is expected to hold its interest rates at current levels at least until the summer of 2019, or long enough for inflation to converge on its target rate. The ECB reduced its monthly securities purchases to EUR 15 billion at the end of September. The euro has gradually fallen against the US dollar in recent months, and is now lower than it was a year ago. The fall in the euro was initially attributable to certain major European banks' exposure to the Turkish economy, while the increasing divergence between the monetary policies of the Fed and the ECB ought to have a longer-term impact. The exchange rate stood at USD 1.15 on 19 October, down 4.1% on the beginning of January.

Oil prices have risen sharply since mid-August, while other commodity prices have mostly been falling in year-on-year terms over the last three months. The oil price passed USD 85 per barrel in early October, the highest level since November 2014. The price had fallen to USD 79.4 per barrel by 18 October, still up 35.8% in year-on-year terms. The high growth in oil prices at the end of the third quarter was primarily attributable to the anticipated supply shock that is expected to follow the enforcement of US sanctions against Iran in early November. The US is also expecting its trading partners to enact similar sanctions against Iran. Not even Saudi Arabia, the largest Opec producer, is expected to be able to make up for the anticipated loss in the global oil supply. Given the size of the supply shock, the expectation is that oil prices will rise further in the final quarter of this year.

Figure 1.12: EUR/USD exchange rate and central banks' interest rates

Source: ECB, Federal Reserve.

Figure 13: Oil prices



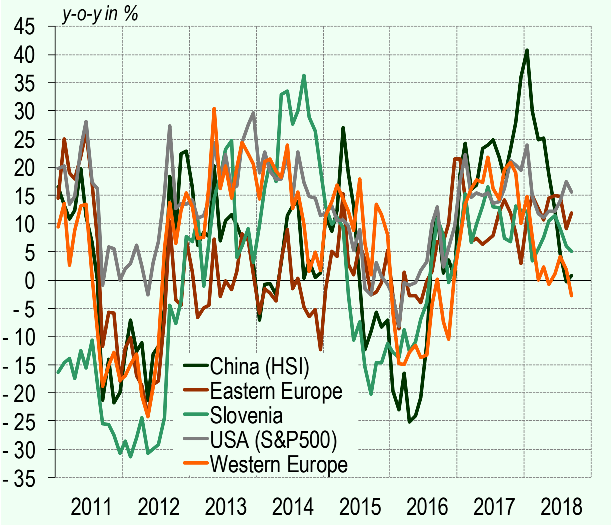
Source: Bloomberg, Bank of Slovenia calculations.

Other global commodity prices were mostly down in year-on-year terms in September, industrial commodities and food recording the largest falls of 6.5% and 5.9% respectively.

International capital markets

There was no particular direction in the summer developments on foreign stock markets. Share prices in the US rose again in the third quarter. The S&P 500 index gained 7.2% in the third quarter alone. The rising share prices were supported by high economic activity, record low unemployment, and the highest wage growth of the last nine years. The unilateral introduction of protectionist trade measures by the US has not had an adverse impact on share prices there. US share indices have undergone a slight downward correction in recent days. By contrast, share prices have fallen overall on European stock exchanges. Despite a major temporary fall, the representative share index for western Europe (SXXE) ended the third quarter at its level from June. The higher inflation forecast, the slowdown in the lively economic growth in the euro area, and increased political uncertainties caused by plans for a higher deficit in Italy were factors that reduced investors' appetite for European shares.

Figure 1.14: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

The news from Italy was again to the forefront on the bond markets. Investors were surprised in the third quarter by the Italian government's draft budget, which envisaged a larger fiscal deficit than had initially been committed to. The Italian government is also facing one of the largest ratios of public debt to GDP in the euro area. This was followed by strong pressure for the sale of Italian bonds by foreign investors, which pushed the spread of Italian 10-year government bonds over the German benchmark to more than 300 basis points.

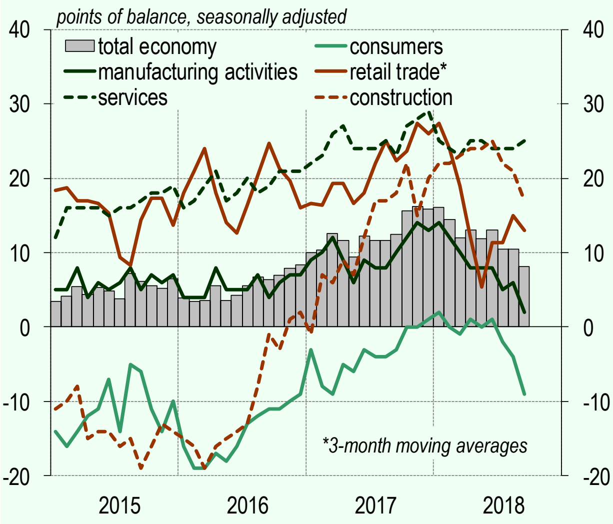
2 Economic Developments

Economic growth slowed again in the second quarter of this year with weaker-than-expected growth in private consumption. Year-on-year growth in GDP stood at 3.8%, down 0.7 percentage points on the previous quarter. Growth in private consumption was unexpectedly weak, and indicates the continuation of the pattern seen over the first three quarters of last year, when a rapid improvement in the situation on the labour market was not tracked by increased growth in household consumption. Growth in gross investment was also weaker in the second quarter of this year. This was primarily attributable to the negative contribution made by inventories, although growth in investment in machinery and equipment also slowed sharply. Should these trends continue, it might already be indicative of the adverse impact of the tense international situation on investment decisions by the export sector. The international environment was still relatively encouraging in the second quarter from the perspective of demand. Consequently, export growth was high. Of the components of domestic demand, construction investment and government consumption were notable for their growth in the second quarter, although this did not prevent a decline in real growth in imports. Net trade remains a major factor in economic growth: its contribution in the second quarter was larger than expected when the June economic projections were being drawn up. Judging by the trajectory of the confidence indicators, the moderate slowdown in GDP growth continued in the third quarter, while the monthly activity indicators suggest that the dynamics from the previous quarter was at least maintained.

Confidence indicators

Economic optimism has declined. In September, the economic sentiment indicator declined to its level from the end of 2016, as optimism fell in manufacturing, in construction and among consumers. Retail trade confidence has increased in recent months, but is down on last year, while services confidence remained high and stable. September saw the manufacturing confidence indicator reach its lowest level since 2014, this year's rapid decline in the assessment of order books being the major concern. Optimism in the construction sector has also begun to decline from its very high level in June. Construction firms reduced their assessment of current

Figure 2.1: Confidence indicators



Source: SORS, Bank of Slovenia calculations.

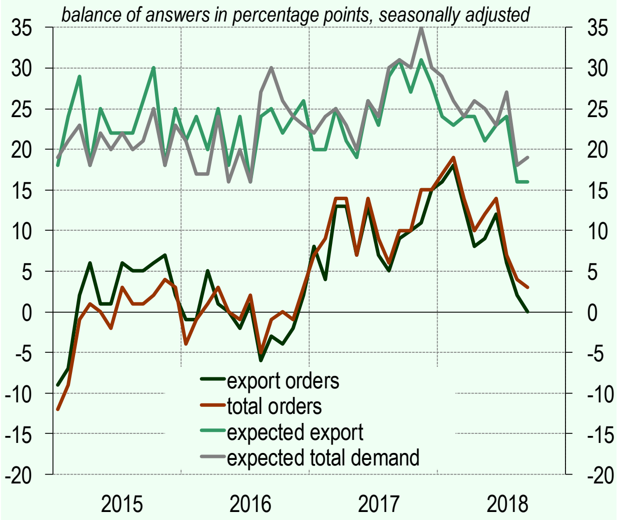
order books, but remained relatively optimistic with regard to demand in the autumn. Consumer confidence declined to its lowest level since March 2017, as assessments of the future economic situation and households' own financial position declined, in contrast to the favourable assessment of the change in unemployment over the next 12 months. In August, retail firms and firms in other services assessed their current and future demand as relatively strong.

GDP

Quarterly economic growth strengthened in the second quarter, while the year-on-year rate was reduced significantly by a calendar effect. GDP was up 0.8% on the first quarter. This is relatively low quarterly growth compared with last year, when it averaged 1.5%, but is nevertheless 0.3 percentage points higher than in the first quarter of this year. Higher quarterly growth in value-added was recorded by a number of sectors, most notably industry, construction, and information and communication. Year-on-year growth in GDP declined again, which was partly attributable to a base effect and a calendar effect. GDP in the second quarter was up 3.8% in year-on-year terms, and up 4.3% after calendar adjustment. The slowdown in year-on-year growth in value-added in industry and private sector services continued. Growth in activity in construction slowed slightly. The contribution to year-on-year GDP growth made by net taxes on products also declined. Despite the slowdown, GDP growth was significantly stronger than in the euro area overall, where it remains stable, albeit at lower levels than last year.

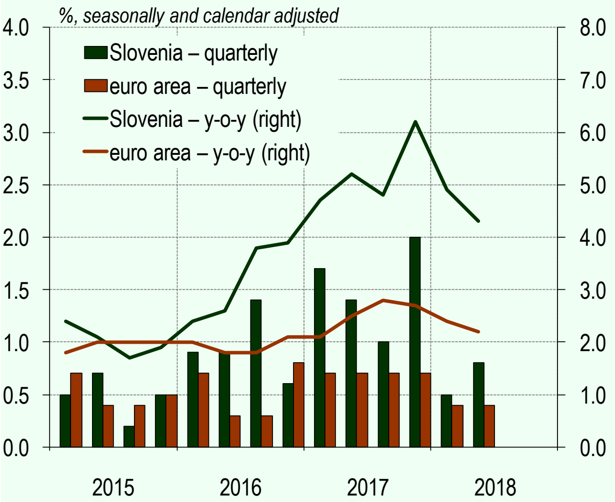
The year-on-year growth in value-added in industry was largely attributable to a pass-through effect, as the current dynamics in the first half of the year were significantly weaker than last year. Quarterly growth in value-added strengthened to 1.4% in the second quarter, a relatively low figure compared with last year's quarterly average of 2.3%. Year-on-year growth in value-added slowed towards 5% in the second quarter. At the same time, the index of industrial production is indicating an even weaker monthly dynamics, while year-on-year

Figure 2.2: Business tendencies in manufacturing



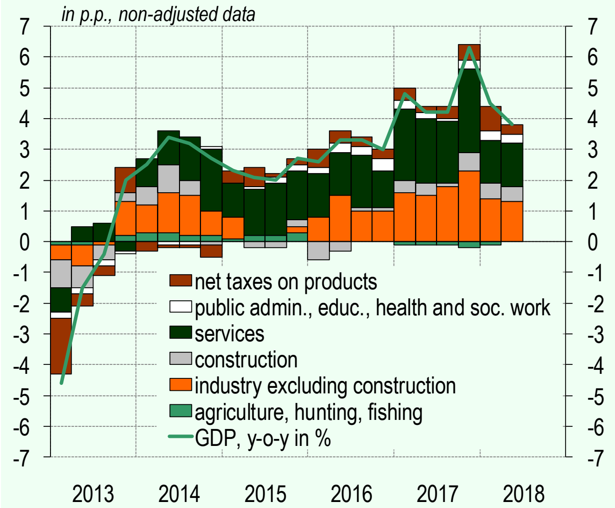
Source: SORS, Bank of Slovenia calculations.

Figure 2.3: GDP growth rate comparison between Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

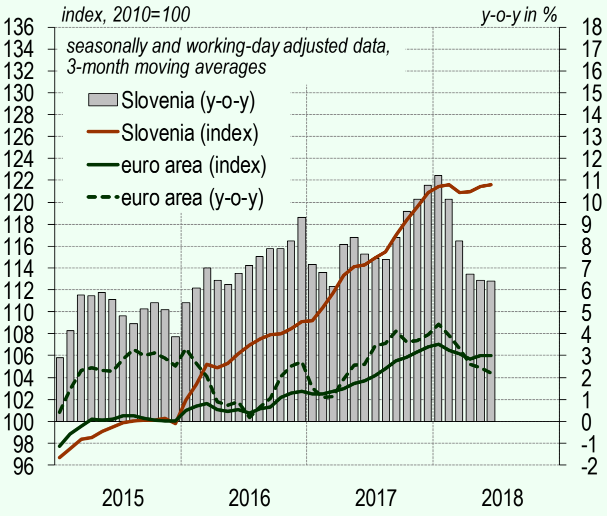
Figure 2.4: Structure of GDP growth in Slovenia, production side



Source: SORS.

growth in industrial production slowed towards 6% by June. This is nevertheless significantly more than in the euro area overall. All categories of technological complexity recorded lower growth in activity this year compared with last year. The most notable was the decline in growth in output of manufacturing of medium-high technological complexity, which was largely attributable to the specific cycle in the manufacture of cars, with growth in output slowing from 44.1% in the final quarter of last year to a still-high 14.0% in the second quarter of this year. The majority of the major segments in manufacturing recorded a slowdown in growth, while there was a similar overall slowdown in growth in demand for industrial goods. Year-on-year growth in turnover has been lower

Figure 2.5: Industrial production

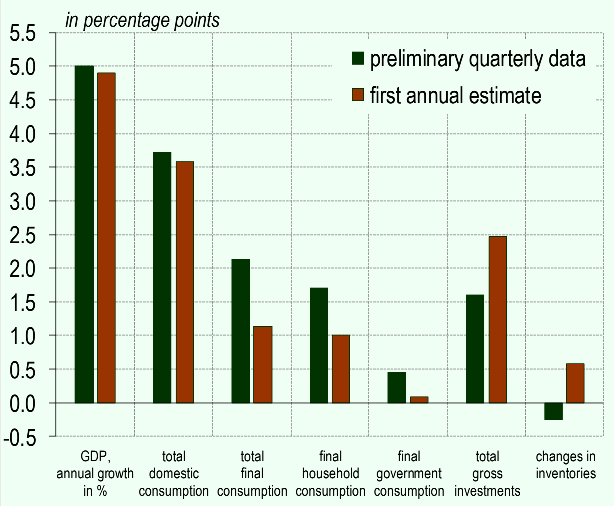


Source: Eurostat, Bank of Slovenia calculations.

Box 2.1: The initial annual estimate of GDP for 2017 demands changes in the interpretation of economic developments in Slovenia

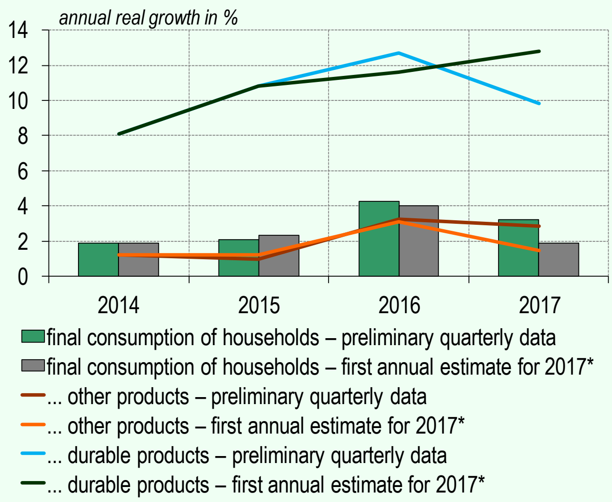
With its initial annual assessment for 2017, the SORS did not significantly reduce the rate of economic growth, but it did significantly change its structure.[1] GDP growth in 2017 is now estimated at 4.9%, just 0.1 percentage points less than the estimate based on the previously published quarterly figures. The changes on the output side of the national accounts are relatively minor, but there are significant changes on the expenditure side. As such, they demand a new interpretation of the structure of economic growth, and changes in the macroeconomic projections. The explanation of inflation dynamics has also been made more difficult. The initial annual estimate saw a sharp reduction in the strength of domestic final consumption – growth was weak in both private consumption and government consumption – while the contribution made to GDP growth by changes in inventories became positive. This means that in 2017 the Slovenian economy did not continue its switch from the generation of growth via exports to stronger domestic private consumption, as would be expected from the perspective of the favourable situation on the labour market, while the government remained committed to fiscal consolidation. Households further increased their saving rate, while the surplus in the general government sector was slightly larger than had previously been estimated.

Figure 1: Changes in contributions to real GDP growth for 2017 – expenditure side



Source: SORS.

Figure 2: Changes in private consumption growth

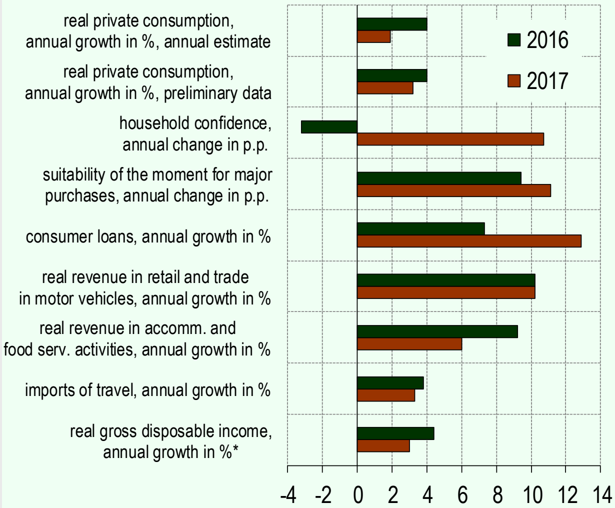


*Note: * Time series was revised for period 2014-2016.*
Source: SORS.

According to the initial annual estimate, growth in private consumption was relatively weak last year compared with the rise in consumer confidence and the growth in consumer loans and turnover in wholesale and retail trade. It stood at just 1.9%. At the same time the consumer confidence indicator increased by 10.7 percentage points last year, consumer loans by 12.9%, and turnover in retail trade and trade in motor vehicles by 10.2% according to monthly figures, the same as in 2016. According to the previously published quarterly national accounts figures, last year's growth in private consumption stood at 3.2%, down 0.8 percentage points on 2016. This decline could be explained by slightly weaker growth in real gross disposable income owing to higher inflation, and lower growth in real turnover in accommodation and food service activities and in residents' expenditures in the rest of the world.[2] The subsequent initial annual assessment reduced nominal private consumption by fully EUR 535 million. According to the SORS, the main reason was lower estimated spending on non-durables, food in particular, and spending on services. The reduced estimate of spending on services was partly the result of the use of a new methodology for estimating imputed rents, which are now lower than under the previous quarterly figures. Spending on durables was stronger last year than had been estimated under the previous figures. Households also increased their investment last year, by EUR 98.6 million. Under the initial annual estimate, the contribution to last year's real GDP growth made by private consumption was revised downwards from 1.7 percentage points to 1.0 percentage points.

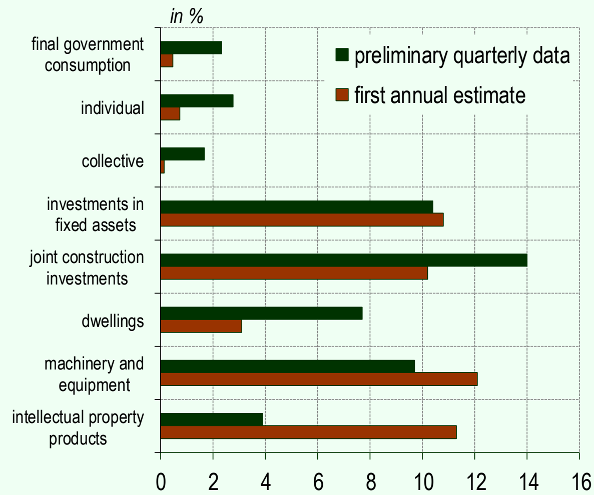
The initial annual estimate shows weak growth in final government consumption and a significant contribution to GDP growth from inventories in 2017. The differences compared with the previous quarterly figures are evident. Annual growth in government consumption was reduced from 2.3% to just 0.5%, and its contribution to GDP growth from 0.5 percentage points to 0.1 percentage points. Growth in both individual and collective government consumption was reduced. According to the SORS, the annual accounts of public institutes and agencies were a significant factor in the reduced estimate. Last year the weak growth in domestic final consumption was compensated for by gross investment, or more precisely by the positive contribution made to GDP growth by the change in inventories. The contribution had been estimated at -0.3 percentage points under the previous quarterly figures, but under the initial annual estimate it stands at 0.6 percentage points. There was also a change in the structure of growth in gross fixed capital formation. Growth in housing investment is notable among construction investment, having

Figure 3: Indicators of private consumption



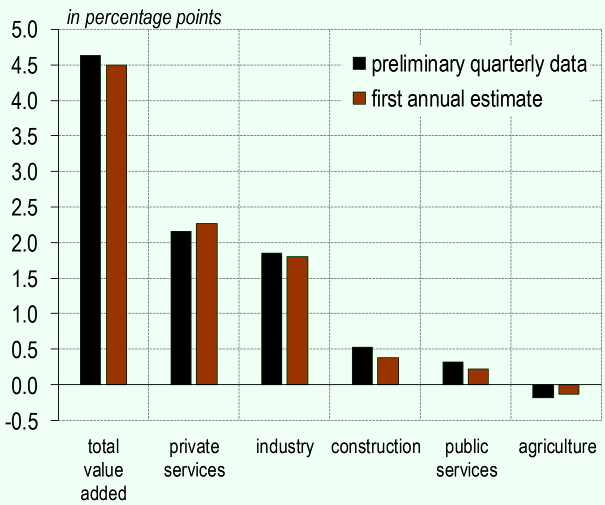
*Note: * Deflated by HICP.*
Source: SORS, Bank of Slovenia calculations.

Figure 4: Changes in growth rates of final government consumption and fixed capital formation for 2017



Source: SORS.

Figure 5: Changes in contributions to real GDP growth for 2017 – production side



Source: SORS.

been reduced by 4.6 percentage points to just 3.1%, despite growth of more than 50% in activity in the construction of residential buildings as disclosed by the monthly indicator of the amount of construction put in place. Inventories of unfinished production (structures) also increased in the construction sector. The estimate for overall growth in gross fixed capital formation was revised upwards slightly on account of higher estimated growth in investment in machinery and equipment and in intellectual property. According to the SORS, the main reason for the changes in investment was the data from statistical surveys of investment.

The changes in the structure of GDP growth are less pronounced on the output side. Growth in aggregate value-added was reduced by 0.1 percentage points under the initial annual estimate for 2017 to 5.2%. The changes in the contributions made to GDP growth by various activities range from 0.1 percentage points to 0.2 percentage points. The activities whose contribution underwent a change of 0.2 percentage points are construction, financial and insurance activities, and professional, scientific and technical activities. Growth in value-added in construction was reduced from 11.6% to 8.7%. Growth in the amount of construction put in place stood at 17.7% according to the monthly figures, but these figures do not capture sole traders. Growth in value-added in financial and insurance activities was revised from 3.2% to -1.1%. The banks, which accounted for more than 60% of aggregate value-added in this group of activities last year, increased their loans to the private sector, and recorded a profit. Value-added in professional, scientific and technical activities increased by 8.7% last year, 1.8 percentage points more than the previous estimate. According to the SORS, figures from corporate annual accounts were the main factor in the revisions in estimated growth in value-added.

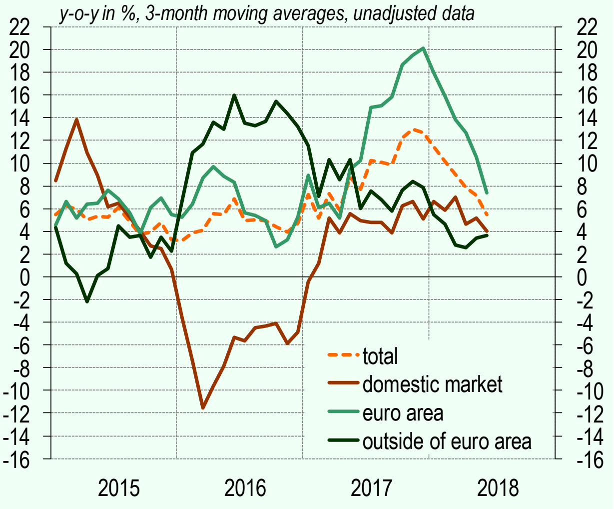
[1] Simultaneous with the initial estimate of GDP for 2017, the SORS also released the revised national accounts for 2014 to 2016, which did not include any major changes to the strength or structure of economic growth.

[2] The difference between growth in private consumption according to the national concept, which is taken into account in the generation of GDP, and growth in private consumption according to the domestic concept was significant last year, on account of the large gap between growth in residents' spending in the rest of the world and non-residents' spending in Slovenia (imports and exports of travel services). Under the initial annual estimate, it widened from 0.2 percentage points to 0.6 percentage points in favour of private consumption according to the domestic concept, partly as a result of a revision to the balance of payments, which most notably resulted in an upward revision in growth in exports of travel services in 2017.

this year on euro area markets and markets outside the euro area, while growth in turnover on the domestic market was also slightly lower in the second quarter of this year compared with the final quarter of last year and the first quarter of this year.

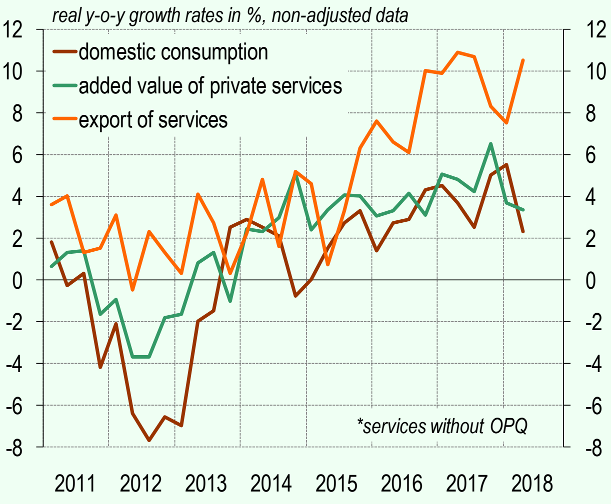
Year-on-year growth in value-added in private-sector services remains relatively high, albeit significantly below last year's rates. Growth exceeded 5% last year, but had slowed to a still-solid 3.4% by the second quarter of this year, as a calendar effect reduced the rate by 0.4 percentage points. The lower growth in the second quarter can be tied to the slowdown in growth in domestic demand, while real growth in exports of services strengthened to return to its level from the middle of last year. The decline in year-on-year growth in value-added in private-sector services is contradicted by the growth in

Figure 2.6: Volume turnover in industry



Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Added value in private sector services* and sources of demand



Source: SORS, Bank of Slovenia calculations.

Box 2.2: Low growth in labour productivity

After a long recession, which generated record levels of unemployment, by the beginning of 2018 the workforce in employment had returned to its previous high from the second half of 2008, and even surpassed it slightly in the second quarter of the year. GDP increased by just 8% over this period, which means that labour productivity in the Slovenian economy has increased by just 7% over the last ten years. By way of comparison, it increased by 35% over the previous decade.[1]

This weak progress in terms of quality in the last decade is not attributable solely to the lost growth during the crisis years, as developments in recent years, when economic growth has again been high, have typically been worse than before the crisis. Economic growth in the current cycle is again comparable to the 4% average annual growth recorded between 1993 and 2005 (i.e. in the period before the beginning of excessive credit financing of growth). Annual GDP growth has averaged 3.5% over the last four years, and even 4.7% over the last two. In these two years Slovenia recorded the highest growth in the EU (after excluding the special cases of Ireland and Malta).

Current economic growth is entirely different from that seen before the crisis in that it is primarily driven by strong growth of employment. Annual growth in the workforce in employment averaged 2.8% over the two years to the second quarter of this year, and 3.1% over the last one year. In the pre-crisis period labour productivity increases of around 4% accounted for virtually all of GDP growth, while in the current cycle GDP growth is largely driven by employment. Annual growth in labour productivity has averaged just 1.9% over the last two years, and even less in the first half of this year. The current rate of growth of employment has already slowed down significantly this year, but with an approximately equivalent slowdown in the current rate of GDP growth.[2]

In Slovenia the growth of labour productivity on the basis of technological advance is concentrated primarily, at least as far as the major sectors are concerned, in manufacturing, where annual growth of labour productivity averaged about 7% before the crisis. After the crisis it has averaged only 2 to 3%. Annual growth of employment in manufacturing was 4.6% in the past one year period and 5.0% in the first half of this year.[3]

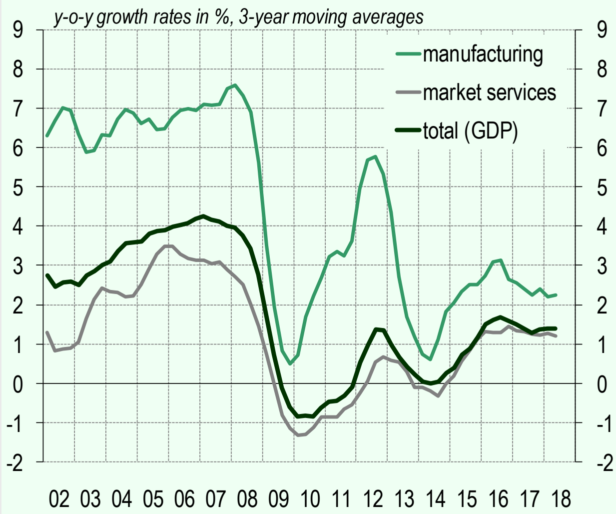
This brief examination does not look into the causes. The copious supply of labour from the pool of unemployment created during the crisis has certainly been a factor in the disproportionate growth in employment in recent years. However, this factor has largely been exhausted in the last year, without sufficient sign of a change in the model of growth from extensive back to intensive. The economy is primarily responding to the change in the situation on the labour market by recruiting foreign workers.

Further evidence of the deterioration in the quality of economic growth after the crisis can be derived from data for the three central European transition economies closest to Slovenia. The almost complete cessation of growth of labour productivity in Hungary should be highlighted in this respect. On the other hand, labour productivity growth in the Czech Republic and Slovakia, which was basically comparable to

Figure 1: GDP, employment and productivity

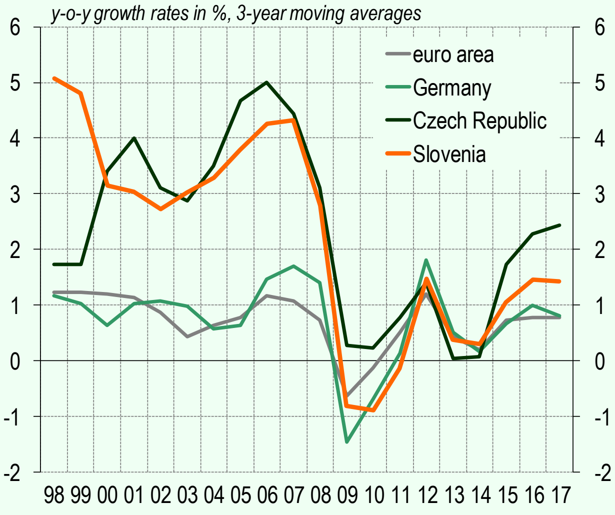
Source: SORS, Bank of Slovenia calculations.

Figure 2: Labour productivity in Slovenia



Source: SORS, Bank of Slovenia calculations.

Figure 3: Labour productivity – international comparison



Source: Eurostat, Bank of Slovenia calculations.

Slovenian performance before the crisis, also declined after the crisis, but significantly less than in Slovenia.

Slovenia is probably already facing the middle income trap, namely the problem of a fading dynamics potential of the output structure that drove past economic growth, but will do so ever less in the future. For almost fifty years now, Slovenian growth has been driven by technological structures based on medium-skilled labour, whose capacity to generate GDP per employee is limited. In this situation economic policy needs to refocus away from merely supporting the existing economy, to supporting the restructuring of the economy.

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[1] Labour productivity in this examination is defined by the ratio between real GDP (or value-added for sectors) and the number of employees according to national accounts figures.

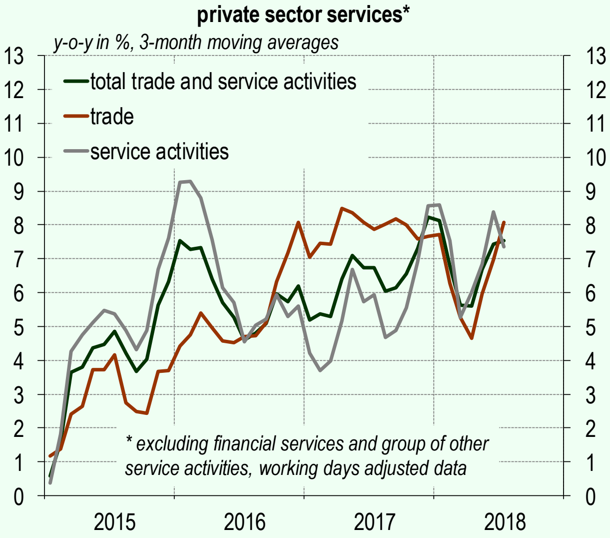
[2] With regard to labour productivity, it is only reasonable to compare its growth in the pre-crisis period with that in the current new growth cycle. The highly volatile shifts in productivity in the interim, i.e. in the crisis years, merely reflect the then highly volatile trajectory of GDP, to which employment was of course not prompt in adjusting. The inelasticity of employment in Slovenia was no greater than, for example, in Germany.

[3] Growth in statistically shown labour productivity in the total economy is below that in manufacturing due to the lower rates of growth in markete services and, in particular, in the mostly government sectors of O, P and Q. The SORS uses growth in employment to approximate real growth of value-added for these sectors, for which reason growth of labour productivity is close to zero by definition.

turnover according to the monthly statistics, which stood at 7.3% in the second quarter, up 2.7 percentage points on the previous quarter. Of the various service sectors, growth was higher in wholesale and retail trade, transportation and storage, accommodation and food service activities, professional, scientific and technical activities, and administrative and support service activities. Only the information and communication sector recorded lower growth in turnover. Activity in real estate activities continued to decline, as the number of transactions in residential real estate has been falling in year-on-year terms since the third quarter of last year. After a large gap in 2017, growth in value-added in public services was again aligned with growth in employment in the second quarter of this year. It stood at 2.2%.

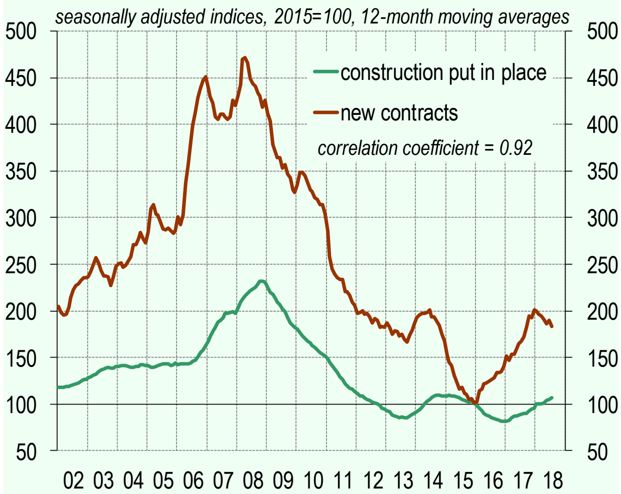
As expected, construction has recorded the highest growth in value-added this year, but the estimated strength of future demand for construction work is

Figure 2.8: Volume turnover in trade and other private sector services*



Source: SORS, Bank of Slovenia calculations.

Figure 2.9: Total value of construction put in place and new contracts in construction



Source: SORS, Bank of Slovenia calculations.

uncertain. Year-on-year growth in value-added in construction in the second quarter stood at 10.6%, down only slightly on the first quarter. The monthly indicators of the amount of construction put in place suggest a continuation of the high activity in construction of non-residential buildings and civil engineering work, where the government is taking a stronger role in financing in line with the improved disbursement of EU funds and the approaching local elections. By contrast, there was a surprising decline in growth in the amount of residential construction put in place from almost 50% in the first quarter to just 7.0% in the second quarter, given that the supply of new housing is far outstripped by demand, and prices are continuing to rise.[1] The strength of future demand for construction work is uncertain, given that the value of new contracts has begun to decline from low levels in comparison to its long-term average.[2] While the decline in the value of new contracts for civil engineering work is in line with the specifics of the local election cycle, the decline with regard to residential buildings is more difficult to explain, as the environment remains encouraging for investments of this type. Only the value of contracts for the construction of non-residential buildings recorded a year-on-year increase in the first half of this year.[3]

Aggregate demand

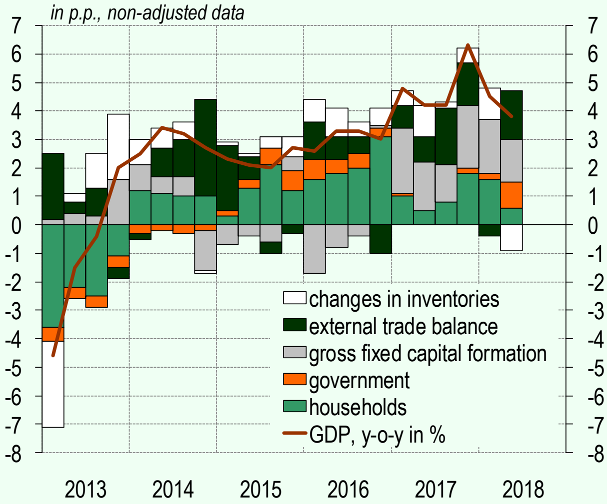
Growth in domestic demand was unexpectedly weak in the second quarter of this year. Year-on-year growth was down 3.2 percentage points on the previous quarter at 2.3%, while its contribution to overall GDP growth declined from 4.9 percentage points to 2.1 percentage points. The reason for the slowdown was weak growth in private consumption, and a decline in inventories, which also sharply reduced growth in gross investment. Growth in gross fixed capital formation slowed at the same time, although it remained relatively high at 8.2%. Growth in government consumption increased sharply, from 1.2% in the first quarter to 5.3% in the second quarter, largely as a result of stronger collective consumption. According to the SORS, the large fluctuations in growth in government consumption during the year are the result of the application of the accrual principle, and the payment of larger amounts in a specific quarter, which is particularly prevalent in healthcare.

Growth in private consumption in the second quarter was significantly weaker than might have been expected on the basis of the broad set of monthly indicators. The year-on-year rate of growth stood at just

Figure 2.10: Value of construction put in place and new contracts in construction – residential buildings

Source: SORS, Bank of Slovenia calculations.

Figure 2.11: Structure of GDP growth in Slovenia, expenditure side

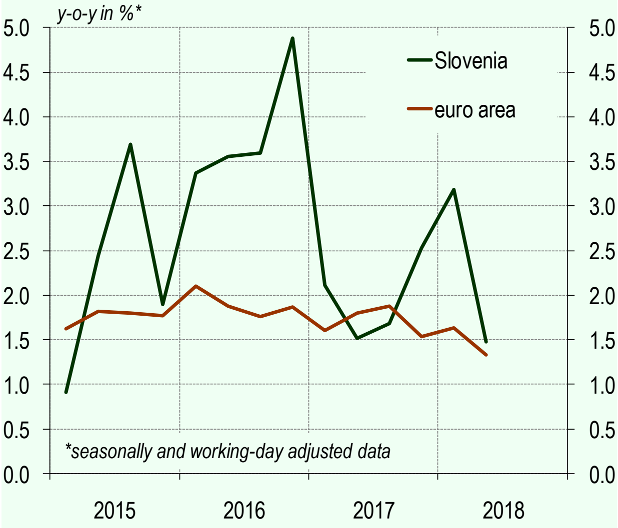


Source: SORS.

[1] According to SORS figures, prices of new residential real estate in the second quarter were up 27.7% in year-on-year terms, while the number of transactions was extremely low, at just 59. The quarterly number of transactions averaged 272 between 2007 and the second quarter of 2018.
[2] The time series measuring the real value of new contracts in construction typically show great volatility.
[3] The figures for building permits are also most likely indicative of weaker future demand for construction work. The number of newly issued building permits was down by 1.5% in 2017, but by 16.2% in year-on-year terms in the second quarter of this year. The floorspace covered by new building permits was also down in year-on-year terms in the second quarter of this year, for the first time since the final quarter of 2014. The figure was down 15.7%.

1.1%, down 2.2 percentage points on the first quarter. A calendar effect reduced the figure by 0.4 percentage points. The contribution made to GDP growth by private consumption declined from 1.5 percentage points to just 0.9 percentage points. This was attributable to a sharp decline in growth in spending on everyday products and services. At the same time, growth in spending on consumer durables strengthened relative to the first quarter, although this only accounts for approximately 10% of overall private consumption. The weak growth in private consumption in the second quarter was contrary to expectations, as consumer confidence remained high, and growth in real turnover in wholesale and retail trade and other private-sector services was also higher than in the first quarter according to monthly statistics. By contrast, the statistics for household income are not so unidirectional. According to national accounts, year-on-year growth in the real wage bill remained at the level of the first quarter at 5.9%, while according to the monthly figures it slowed slightly. Growth in real gross disposable household income in the second quarter declined for the second consecutive quarter.[4] Growth in private consumption in the second quarter did not deviate significantly from the euro area average, although the increase in purchasing power remained stronger. The household saving rate increased in year-on-year terms for the fifth consecutive quarter.

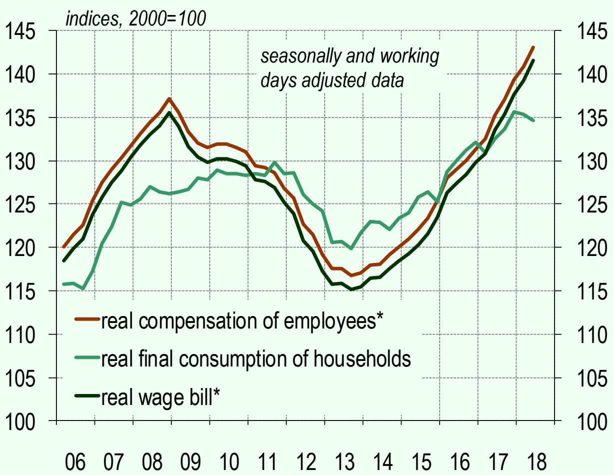
Figure 2.12: Household and NPISH final consumption



Source: Eurostat, Bank of Slovenia calculations.

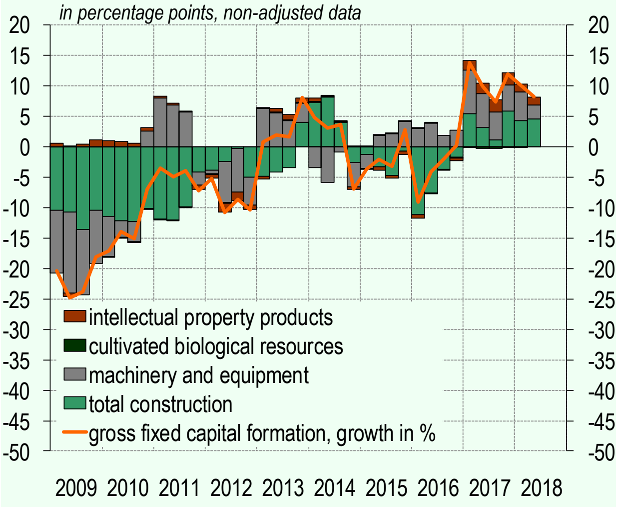
Growth in investment has slowed this year, and there are also indications of changes in its structure. Year-on-year growth in gross fixed capital formation stood at 8.2% in the second quarter, down 1.9 percentage points on the first quarter. The contribution made by investment in machinery and equipment declined, as investment in transport equipment continued to strengthen sharply, while growth in investment in other machinery and equipment slowed to just 2.6%. Because capacity utilisation in manufacturing remains high, the financing conditions remain favourable, and growth in merchandise exports remains robust, the continuation of low rates of growth in investment in machinery could signal reluctance on the part of firms owing to the deterioration in the international

Figure 2.13: Wage bill, compensation of employees and final consumption of households



Note: * Deflated by seasonally adjusted HICP index.
Sources: SORS – national accounts, ECB, Bank of Slovenia calculations.

Figure 2.14: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia



Source: SORS, Bank of Slovenia calculations.

4 The HICP deflator is used for the illustration of real household income metrics.

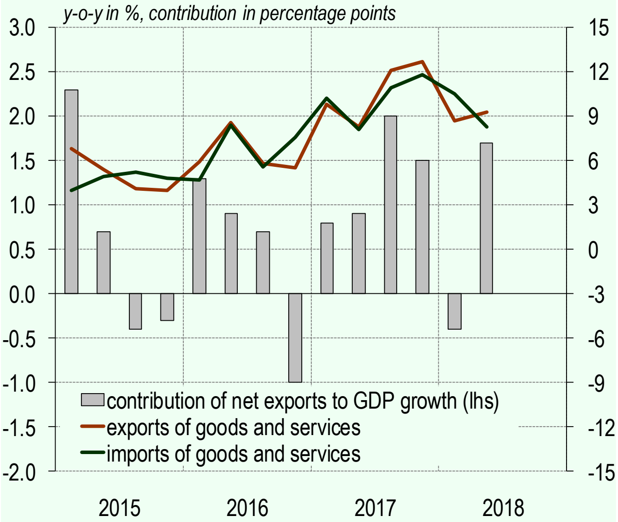
environment. As expected, year-on-year growth in construction investment remained high, but its structure reflects increased government investment: only investment in other buildings and structures recorded high growth in the second quarter. At the same time growth in housing investment was low, at just 4.0%, which is probably not enough to compensate for the gap between supply and demand on the housing market, or to curb rises in prices of residential real estate in the short term.

Net trade remains a major factor in economic growth: its contribution is exceeding the expectations from when the June economic projections were drawn up. The contribution made to year-on-year GDP growth by net trade stood at 1.7 percentage points in the second quarter, significantly more than the average over the period of renewed economic growth after 2013. Quarterly real growth in total exports stood at 2.7% in the second quarter, up 2.1 percentage points on the first quarter, while the year-on-year rate was up 0.6 percentage points at 9.3%. The increase in year-on-year growth is primarily attributable to stronger exports of services, while year-on-year growth in merchandise exports remained practically unchanged at 9.1%, despite the strong quarterly dynamics. The structure of nominal year-on-year growth in merchandise exports reveals that a decline in growth in the second quarter was primarily prevented by stronger re-exports of oil and refined petroleum products. Without this factor, growth in merchandise exports in the second quarter would have been considerably more aligned with the figures for manufacturing turnover on the foreign market. In contrast to exports, aggregate real growth in imports slowed in the second quarter, which coincides with a slowdown in growth in domestic demand.

Economic developments in the third quarter of 2018

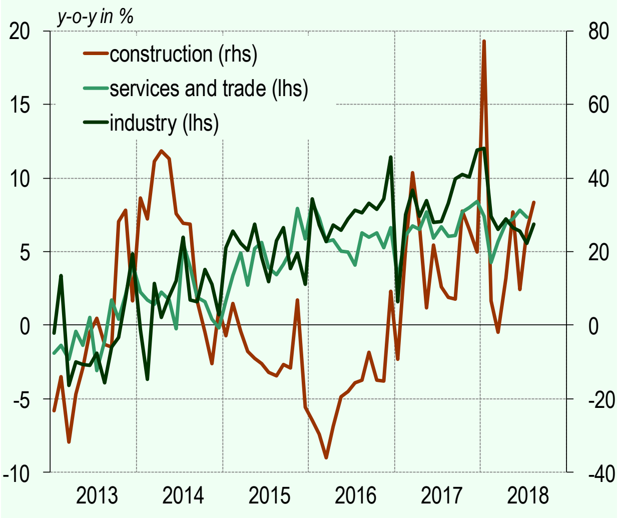
The available monthly indicators of activity suggest a continuation of solid GDP growth in the third quarter. Monthly growth in industrial production was positive in July, while the current rate of growth reached 2.0% in August, its strongest rate of the year. The year-on-year rate of growth thus also strengthened in August, to 7.0%, up 1.6 percentage points on July. Industrial production continues to be driven primarily by growth in exports, which in the summer months was stronger than in the early part of the year. Monthly growth was also relatively strong in the construction sector in July and August, while year-on-year growth in the amount of construction put in place exceeded 33% in August. The structure of construction put in place indicates a strengthening of government investment before the local elections, as activity in civil engineering work is increasing markedly. By contrast, current developments in private-sector services were relatively weak in July. Monthly growth in turnover stood at just 0.3%, with significant variation between different service sectors. The most notable were the monthly de-

Figure 2.15: Foreign trade



Source: SORS – national accounts.

Figure 2.16: Monthly economic activity indicators



Source: SORS, Bank of Slovenia calculations.

Table 2.1: Economic activity – volume indices of production

	12 m. to Jul. 17	12 m. to Jul. 18	2018 Jun. 18	2018 Jul. 18	2018 Aug. 18	2018 Apr. 18	2018 Jul. 18
	y-o-y in % **					monthly***	
Industrial production - total	7.6	8.4	6.2	5.4	7.0	-0.2	0.8
Manufacturing	8.2	9.2	6.6	6.0	7.2	-0.6	1.1
Construction - total	3.0	18.8	9.8	25.7	33.5	-6.3	10.0
Non-residential buildings	17.5	18.8	8.6	38.7	36.3	-9.2	6.1
Residential buildings	54.8	31.4	8.2	-4.2	8.8	-11.8	2.8
Civil engineering	-4.6	17.8	11.2	25.0	35.8	-6.1	11.6
Trade and service activities* - total	6.1	7.0	7.8	7.3	...	0.5	2.5
Wholesale and retail trade and repair of motor vehicles and motorcycles	15.9	15.7	18.1	23.8	...	3.8	5.2
Retail trade, except of motor vehicles and motorcycles	5.7	2.5	1.8	2.5	...	-1.6	2.4
Other private sector services	5.3	6.9	8.4	6.2	...	0.5	1.8
Transport and storage	10.0	10.5	10.0	4.6	...	-1.9	0.9
Accommodation and food service activities	9.3	2.4	1.9	2.7	...	-1.3	3.2
Information and communication	0.4	4.3	1.0	8.4	...	2.1	1.1
Professional, scientific and technical activities	0.5	7.5	15.2	10.4	...	3.5	2.4

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

clines in turnover in professional, scientific and technical activities, and in transportation and storage. At the same time turnover in wholesale and retail trade continued to record relatively moderate monthly growth. Aggregate year-on-year growth in activity in the service sector nevertheless remained high. According to the monthly figures, it was above 7% in July for the fourth consecutive month.

3 Labour Market

The situation on the labour market and the outlook to the end of the year are positive. Year-on-year growth in employment remains high, and it is already higher than its pre-crisis peak according to seasonally adjusted figures. The recruitment of foreign nationals remains high, and in August accounted for more than a half of the aggregate year-on-year increase in the workforce in employment for the second consecutive month. The survey employment indicators remain favourable: the number of vacancies is rising, while employment expectations remain high compared with previous years, although some results show signs of a slowdown. Unemployment is also continuing to fall, and stood at less than 74,000 in September, down 8.9% in year-on-year terms. The unemployment rates are less than 2 percentage points off their pre-crisis low. The registered unemployment rate stood at 8% in August, while the surveyed unemployment rate stood at 5.2% in the second quarter. The average nominal gross wage was up by 3.5% in year-on-year terms in August. Inflation meant that the real growth rate was lower, at 1.7%, which is comparable to the average over years with positive economic growth between 2006 and 2018.

Employment

Employment is higher than its pre-crisis peak, and year-on-year growth in employment remains high.[1] Employment exceeded one million in the final quarter of 2017, and in the first quarter of this year exceeded its pre-crisis peak from the third quarter of 2008 according to seasonally adjusted figures. Seasonally adjusted employment in the second quarter of this year was up 1.1% on the third quarter of 2008, whereby employment in the private sector was down 1.5%, while employment in mostly public services[2] was up 14.1%. Year-on-year growth in employment remains high. The rate stood at 3% in the second quarter of this year. Industry accounted for the largest proportion of the growth, namely a third. Employment growth in the second quarter was again higher in the private sector (3.2%) than in mostly public services (2.2%). Year-on-year growth in the number of employees remains high compared with growth in the number of self-employed.

Growth in employment also remains high according to monthly figures for the workforce in employment. Year-on-year growth in the workforce in employment ex-

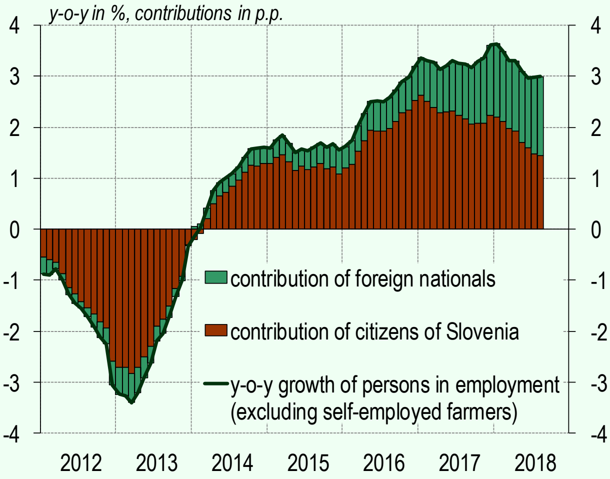
[1] Given the different methodologies of monitoring and the different data sources, employment differs according to the figures from quarterly national accounts, the quarterly figures from the Labour Force Survey, and the monthly registry figures. The national accounts figures for employment from the statistical register of the workforce in employment (the SRDAP) include permanent employees, self-employed and unpaid family workers in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The quarterly figures for the workforce in employment from the Labour Force Survey include persons who performed work of any kind in return for pay (whether in cash or in kind), profit or family gain in the week before the survey was conducted. The workforce in employment also includes employees and self-employed persons who were absent from work in the week before the survey was conducted, and employees on lay-offs, persons on maternity leave and unpaid family workers. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as workforce in employment, the figures being taken from the SRDAP.
[2] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).

cluding self-employed farmers stood at 3% in August, in line with year-on-year growth in the two previous months, and aggregate growth in the workforce in employment. Manufacturing accounted for the largest proportion of aggregate growth in the workforce in employment, namely a third, while the highest year-on-year rates of growth were recorded by transportation and storage, construction, manufacturing, and accommodation and food service activities. The recruitment of foreign nationals, primarily nationals of non-EU countries, accounted for more than a half of the aggregate year-on-year increase in the workforce in employment in August for the second consecutive month. According to provisional figures, the largest contributions to aggregate year-on-year growth made by foreign nationals were recorded by manufacturing, by construction, where the number of Slovenian nationals employed fell in year-on-year terms, and by transportation and storage.

The labour force participation rate and the employment rate are continuing to increase. According to SORS survey data, the labour force participation rate in the age group of 15 to 64 increased by 1.2 percentage points to 75.1% in the second quarter of this year, while the employment rate was up 2 percentage points at 71.1%. As in the previous quarter, the largest increase was recorded by the 55 to 64 age group.

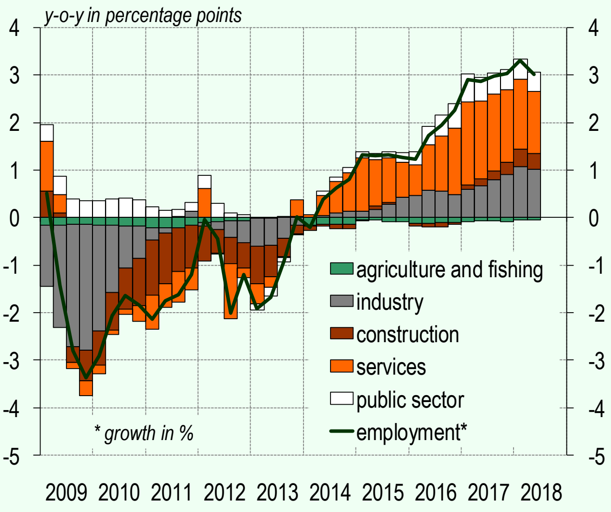
The number of notified vacancies exceeded 20,000 in the second quarter. Employers notified 20,319 vacancies in the second quarter, up 18.4% on last year.[3] More than half of the vacancies were notified in manufacturing, construction, wholesale and retail trade and repair of motor vehicles and motor cycles, and accommodation and food service activities. According to the Employment Service's figures, in September the greatest demand from employers came for drivers of heavy goods vehicles and tractor units, elementary occupations in manufacturing, cleaners, servers and domestic helpers. In the first half of the year, 28.4% of new hires were for permanent posi-

Figure 3.2: Contribution of foreign nationals to growth of the number of persons in employment (excluding self-employed farmers)



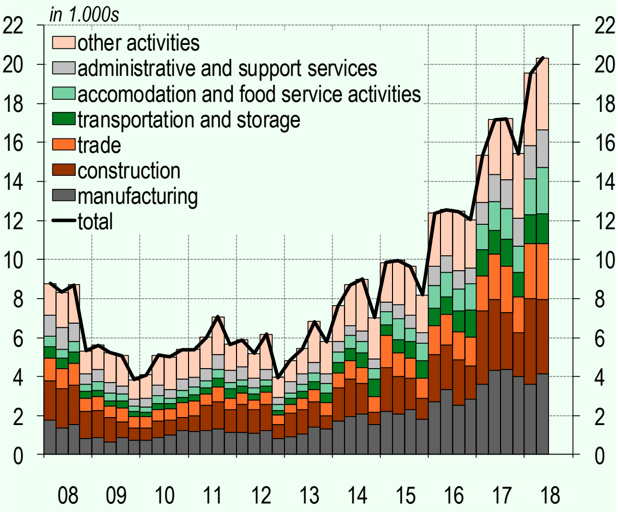
Source: SORS, Bank of Slovenia calculations.

Figure 3.1: Contributions to employment growth



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

Figure 3.3: Job vacancies by activity



Source: SORS, Bank of Slovenia calculations.

[3] In April 2013 the Labour Market Regulation Act abolished the mandatory notification of vacancies at the Employment Service for all employers other than the public sector and firms under majority government ownership. Between April 2013 and the end of 2014 the figures were no longer complete, for which reason the SORS has conducted independent surveying of vacancies since the first quarter of 2015. The sample framework includes all business entities with at least one employee whose primary registered business activity was in one of Sectors B to S.

tions, up 3.5 percentage points on the same period last year.

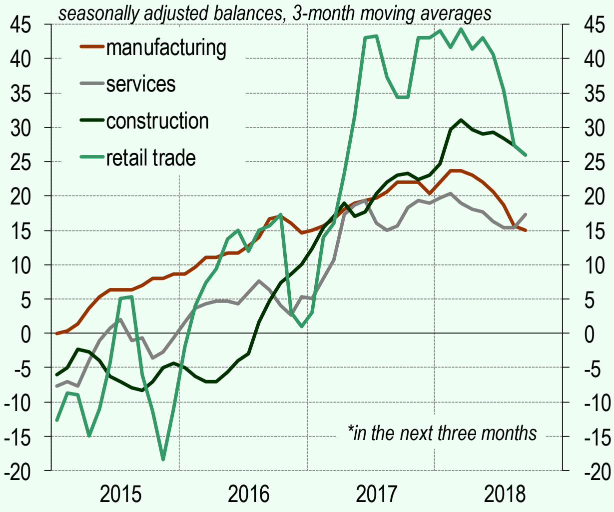
The survey indicators are predicting growth in employment until the end of this year, but do not provide a clear picture of its level. The seasonally adjusted SORS survey data suggests that employment expectations for the rest of the year remain positive in all of the surveyed sectors, albeit with visible signs of a slowdown compared with the beginning of the year. The level of expected employment nevertheless remains high relative to previous years. The largest recruitment is still likely to be in construction and retail, where there has been a significant decline in employment expectations in recent months. More optimistic growth in employment is fore-

Table 3.1: Demography, unemployment and employment

	2013	2014	2015	2016	2017	17Q2	17Q3	17Q4	18Q1	18Q2
					in 1,000					
Working age population[1]	1,404	1,397	1,383	1,371	1,362	1,362	1,362	1,359	1,355	1,356
					in %					
Labour market participation rate[2]	70.6	71.0	71.8	71.7	74.2	73.9	75.2	74.7	74.2	75.1
Employment rate[3]	63.3	63.9	65.2	65.9	69.3	69.1	70.4	70.3	69.7	71.1
					in 1,000					
Registered unemployed persons	119.8	120.1	112.7	103.2	88.6	87.8	83.2	83.5	84.9	76.7
Unemployment rate					*in %*					
- LFS	10.1	9.8	9.0	8.0	6.6	6.4	6.3	5.8	5.9	5.2
- registered	13.1	13.1	12.3	11.2	9.5	9.4	8.9	8.9	9.0	8.1
Probability of transition between employ. and unemployment					*in %*					
- probability to find a job[4]	13.6	15.4	15.7	18.0	19.2	21.0	17.2	16.2	23.6	21.4
- probability to lose a job[5]	2.8	2.6	2.5	2.3	2.1	1.6	1.8	2.2	2.3	1.5
					in 1.000					
Total employment[6]	926.7	930.4	942.6	959.5	987.8	984.0	994.0	1,004.4	1,000.7	1,013.6
					year-on-year growth rates in %					
Persons in paid employment	-2.7	0.6	1.4	2.2	3.3	3.2	3.3	3.4	3.8	3.5
Self-employed	5.8	-0.3	1.1	0.3	1.6	1.6	1.6	1.5	1.2	0.9
By sectors										
A Agriculture, forestry and fishing	0.0	-1.7	-0.8	-1.4	-1.0	-0.9	-0.9	-1.1	-0.7	-0.7
BCDE Manufacturing, mining and quarrying and other industry	-1.9	0.3	1.1	2.3	3.3	3.0	3.5	4.0	4.7	4.5
F Construction	-7.0	-1.1	0.4	-1.0	2.6	2.2	2.8	3.8	6.0	5.2
GHI Trade, accommodation, transport	-1.2	-0.3	1.8	2.4	3.4	3.4	3.2	3.2	3.4	3.1
J Information and communication services	2.3	2.6	3.2	3.6	3.9	4.6	3.1	3.1	4.1	4.0
K Financial and insurance activities	-2.8	-2.1	-1.2	-1.7	-1.6	-1.8	-1.8	-1.4	-1.4	-0.9
L Real estate activities	0.5	0.9	1.4	4.6	7.9	7.0	8.8	8.6	6.7	6.6
MN Professional, technical and other business activities	-0.1	3.3	3.0	2.5	5.0	5.1	5.5	4.6	3.8	2.7
RSTU Other activities	6.0	3.0	2.8	2.7	3.4	3.2	2.9	2.9	3.1	3.6
- mainly private sector (without OPQ)[7]	-1.3	0.4	1.4	1.7	3.0	2.9	3.1	3.2	3.6	3.2
- mainly public services (OPQ)[7]	-0.6	0.4	0.8	2.2	2.6	2.6	2.3	2.3	2.2	2.1
Total employment[6]	-1.1	0.4	1.3	1.8	2.9	2.9	3.0	3.0	3.3	3.0

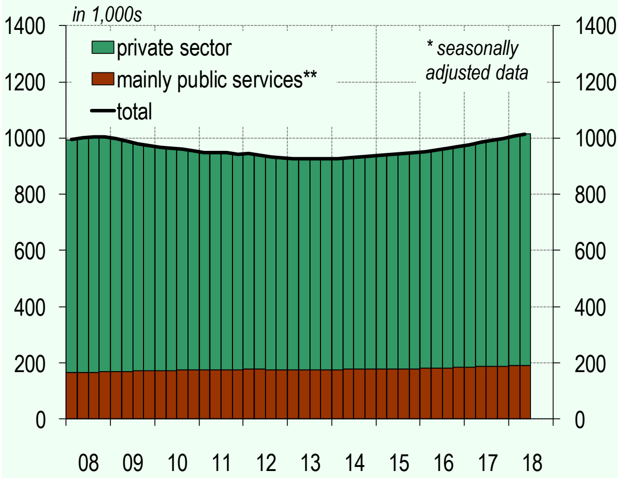
[1] *Working age population comprises all persons aged 15 to 64 years according to the Labour Force Survey (LFS) data.*
[2] *Labour force participation rate represents the labour force as a percentage of the working age population according to the LFS data.*
[3] *Employment rate represents persons in employment as a percentage of the working age population according to the LFS data.*
[4] *Newly employed as a share of registered unemployed persons according to Employment Service of Slovenia. The higher the indicator's value, the better chance of finding a job.*
[5] *Newly registered unemployed due to a job loss as a share of total employment. Calculation is based on Employment Service of Slovenia's data and registered data of total employment. The higher the indicator's value, the higher chance of losing a job.*
[6] *Employed and self-employed persons.*
[7] *Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.*
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.4: Expected employment*



Source: SORS, Bank of Slovenia calculations.

Figure 3.5: Level of employment by national accounts*



Note: ** Public administration, education, human health and social work (activities O, P and Q by SKD 2008).
Source: SORS – national accounts, Bank of Slovenia calculations.

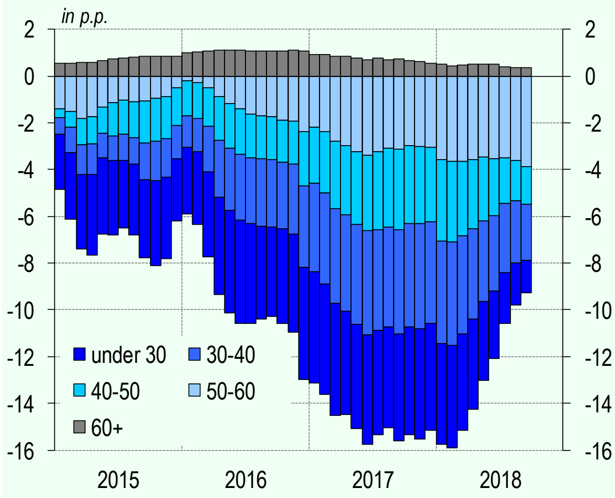
casted by research by Manpower, an HR firm. The seasonally adjusted figures show that employment is likely to reach its high for the year in the final quarter, while the highest expectations are in construction, financial and business services, insurance and real estate activities, and transportation, logistics and communications. The employment outlook for Slovenian employers is the highest in the entire EMEA region (European, Middle East and Africa), and the third highest in the world.

Unemployment

The high demand for labour is bringing a further fall in unemployment. Unemployment stood at 73,781 in September, down 8.9% in year-on-year terms, but up 24% on the pre-crisis low in September 2008. The long-term unemployed accounted for more than half of the unemployed, predominantly people who have been unemployed for three years or more. In terms of the age breakdown, the proportion of the unemployed accounted for by those aged over 60 is continuing to increase in year-on-year terms. As unemployment falls and employment rises, the unemployment rates are also falling. The registered unemployment rate stood at 8% in August, while the surveyed unemployment rate stood at 5.2% in the second quarter.

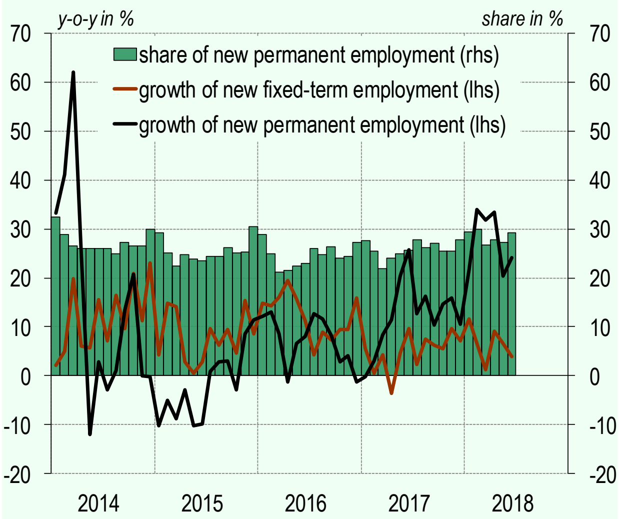
The number of deregistrations over the first three quarters of this year was just over 11,000 more than

Figure 3.6: Contribution to the y-o-y change in the number of registered unemployed by age



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

Figure 3.7: New permanent and fixed-term employment



Source: SORS, Bank of Slovenia calculations.

the number of people newly registering as unemployed. The number of people newly registering as unemployed during the first nine months of this year was 7.7% less than in the same period last year, primarily as a result of a fall in the number of lay-offs, of those whose temporary employment has ended, and of first-time jobseekers. The number of deregistrations over the same period was down 15.4%, among which new hires were down 10.8%. Here it should be noted that the proportion of deregistrations accounted for by new hires has been increasing in year-on-year terms since last October. The figure stood at 74.3% in September.

Wage developments

Year-on-year growth in the average gross wage declined after April, which could partly be attributed to increased employment in sectors with below-average wages. The average nominal gross monthly wage stood at EUR 1,669.5 in August, up 3.5% in year-on-year terms. One of the reasons for the slowdown in growth in the average wage is increased employment in sectors with below-average wages, which in the recent period was mainly evident in the second half of last year and the early part of this year. These were also the very sectors where recruitment of foreign workers was above-average. Taking account inflation, wages recorded a real year-on-

Figure 3.8: Growth in nominal wages

Source: SORS, Bank of Slovenia calculations.

Table 3.2: Labour costs

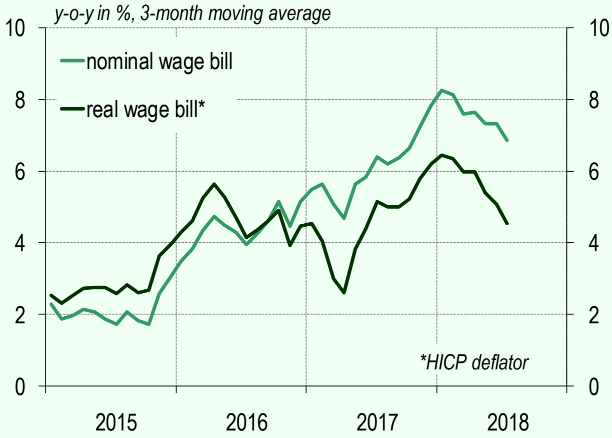
	2013	2014	2015	2016	2017	17Q2	17Q3	17Q4	18Q1	18Q2
					in EUR					
Average gross wage	1,528	1,545	1,556	1,584	1,626	1,602	1,604	1,701	1,656	1,660
					y-o-y growth in %, nominal					
Average net wage	0.6	0.8	0.4	1.7	3.1	2.5	2.9	4.9	3.1	3.1
Average gross wage	-0.2	1.1	0.7	1.8	2.7	2.3	2.8	3.9	3.6	3.6
- mainly private sector (excl. O..Q)[1]	0.7	1.4	0.8	1.3	2.6	2.2	2.6	4.1	3.9	...
- mainly public services (O..Q)[1]	-2.3	0.2	0.6	3.3	2.8	2.8	3.7	3.5	3.2	3.0
Average gross wage in manufacturing	2.8	3.3	2.1	2.1	3.2	2.7	2.8	5.0	4.2	4.1
Average real net wage[2]	-1.4	0.5	1.2	1.8	1.5	1.1	1.6	3.3	1.6	0.9
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	0.5	-1.2	0.3	1.8	1.2	1.5	1.9	1.2	2.4	3.6
Unit labour costs,[3,4] real	-1.0	-2.0	-0.7	1.0	-0.3	-0.3	-0.1	-0.4	0.1	0.9
Labour costs per employee,[4] nominal	0.5	1.3	1.3	3.0	3.2	2.9	3.2	4.4	3.6	4.4
Labour productivity, nominal	1.6	3.4	2.0	2.0	3.5	3.2	3.2	4.7	3.6	3.4
Labour productivity, real	0.0	2.5	1.0	1.3	1.9	1.3	1.2	3.1	1.2	0.8
HICP	1.9	0.4	-0.8	-0.2	1.6	1.4	1.3	1.5	1.5	2.1
GDP deflator	1.6	0.8	1.0	0.8	1.6	1.9	2.0	1.6	2.3	2.6

[1] *Public administration, defense, compulsory social security, education, health and social work services according to the Standard classification of activities 2008. Wage growth in the public and private sector for 2017 is an estimate.*
[2] *HICP deflator.*
[3] *Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).*
[4] *Labour costs calculated on the basis of employee compensation (national accounts).*
Source: SORS, Bank of Slovenia calculations.

year increase of 1.7% in August. Year-on-year growth in wages has been higher in the private sector than in mostly public services since last November, although the average nominal gross wage remains higher in mostly public services. Here it is necessary to take account of the different professional and qualifications structure of the workforce, and the distribution of wages in the two sectors. The average nominal gross wage was up more than 5% in year-on-year terms in August in the sectors of administrative and support service activities, mining and quarrying, information and communication, and accommodation and food service activities. The year-on-year increase in the gross wages of employees at legal entities that are not budget spending units averaged 3.9% over the first seven months of the year, primarily as a result of a rise in wages under collective agreements (of 4.1%), while the wages of employees on individual contracts increased by 0.6%. Growth in wages at registered natural persons is increasing: year-on-year growth in their gross wages averaged 4.6% over the first half of the year.

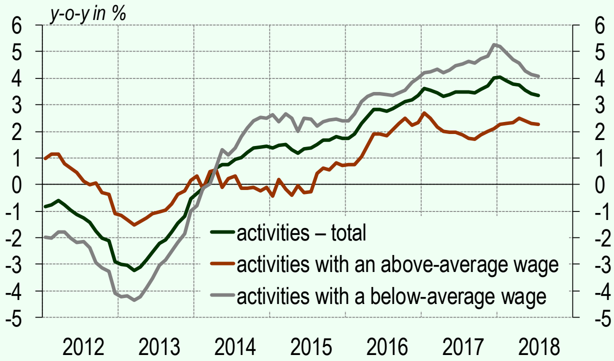
Growth in the nominal wage bill remains high, while growth in the real wage bill is now being significantly lowered by inflation. Year-on-year growth in the nominal wage bill stood at 6.9% in August, while inflation meant that growth in the real wage bill was lower, at 4.8%. Year-on-year growth in the wage bill has been higher in the private sector than in mostly public services since October 2017. Nominal year-on-year growth in the wage bill stood at 8.1% in the private sector in July, compared with 5.1% in mostly public services.

Figure 3.9: Nominal and real total wage bill



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

Figure 3.10: Employed by legal persons according to wage



Note: The below-average wage activities group includes activities in which the average gross nominal wage in July 2018 was lower than the average for the total economy (activities: A, C, E, F, G, H, I, L, N, S), while the above-average wage activities group includes activities in which the average gross nominal wage in July 2018 was higher than the average for the total economy (activities: B, D, J, K, M, O, P, Q, R).
Source: SORS, Bank of Slovenia calculations.

4 Current Account and Competitiveness Indicators

The 12-month current account surplus approached 8% of GDP in August. After declining in the first quarter, nominal growth in exports of merchandise and services strengthened slightly, although the situation in the international environment deteriorated. At the same time, nominal growth in merchandise imports began to trail growth in exports, despite the increased growth in import prices. The net external debt has been falling since 2015, while banks are increasing their net claims, and other sectors excluding the central bank have also disclosed net external claims since 2017. This is reducing deficit in primary income. The level of consumer saving, a fiscal policy that remains moderate for now, and growth in investment predominantly on the basis of firms' internal resources suggest a continuation of economic growth that is largely based on exploiting the international climate. This structure of growth is reducing the economy's dependence on financing on the international financial markets, but at the same time is increasing the risks associated with the current highly uncertain situation in international trade.

In the second quarter the depreciation in the euro ended the trend of moderate deterioration in the price competitiveness of the Slovenian economy in relation to 37 trading partners. The indicator remains up in year-on-year terms, as a result of the past appreciation in the euro, and partly as a result of slightly higher growth in domestic prices relative to the trading partners, but is nevertheless more favourable that its long-term average and the indicators in the majority of euro area countries. Cost competitiveness within the economy, as measured by the ratio of costs per employee to value-added per employee, deteriorated slightly after a year and a half. Wage growth outpaced productivity growth in the second quarter, by more than the average in the euro area and the entire EU, placing Slovenia among the countries with less favourable developments, which for now is not a cause for concern.

12-month current account position

The current account surplus is continuing to increase. It amounted to 7.9% of GDP in the 12 months to August, and is a reflection of the structure of economic growth. Economic growth is largely relying on the performance of the export sector; the contribution made by private consumption is relatively small, as growth in private consumption is being outpaced by growth in consumer purchasing power. The 12-month trade surplus increased by a further EUR 555 million, reaching 10.3% of GDP in August. The current account surplus is also being increased by a narrowing of the deficit in income, which is indicative of the economy's repayment of debt in the rest of the world[1] and the positive impact of the restructuring of public debt. The deficit in primary income over the 12 months to August narrowed by EUR 261 mil-

[1] The net external debt in August was down almost EUR 2 billion in year-on-year terms, at EUR 8.1 billion.

lion in year-on-year terms. The main factor remains the decline in net interest payments on debt securities. In the wake of the rapid recruitment of foreign workers, the increase in the surplus in labour income has come to an end this year. The deficit in secondary income over the 12 months to August was EUR 50 million narrower in year-on-year terms, as a result of a smaller government deficit.

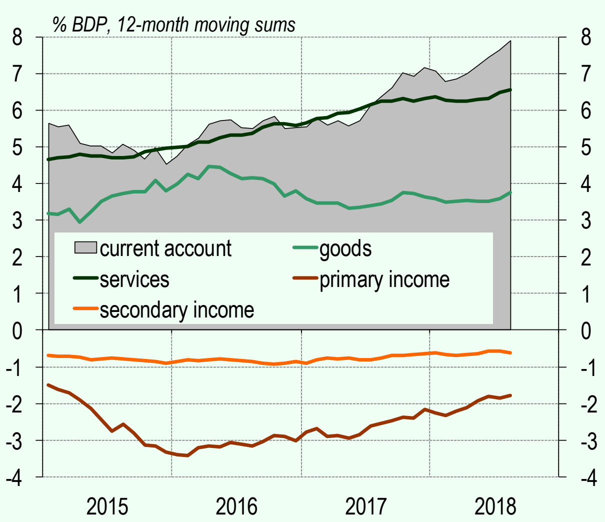
Merchandise trade

Nominal growth in merchandise exports increased after the first quarter, despite the deteriorating situation in the international environment, while the merchandise trade surplus also remains high in the wake of relatively weak growth in domestic final consumption. According to balance of payments figures, nominal year-on-year growth in merchandise exports stood at 11.4% in the second quarter, up 1.6 percentage points on the first quarter, and averaged 13% over July and August. The factor of higher export prices did not play a notable role in this. According to the SORS figures, one of the reasons for the higher growth in the second quarter was increased re-exports of oil. July and August saw stronger average growth in a wide range of product categories, most notably exports of medical and pharmaceutical products. By contrast, the gradual slowdown in growth in car exports continued, in line with capacity utilisation. The geographical structure of growth in recent months has displayed a strengthening of exports to EU Member States outside the euro area. Year-on-year growth in nominal imports was lower than export growth in July and August, and the gap was even more evident if nominal imports are deflated by the import price index. The merchandise trade surplus over the first eight months of the year amounted to EUR 1,106 million, up EUR 118 million in year-on-year terms.

Trade in services

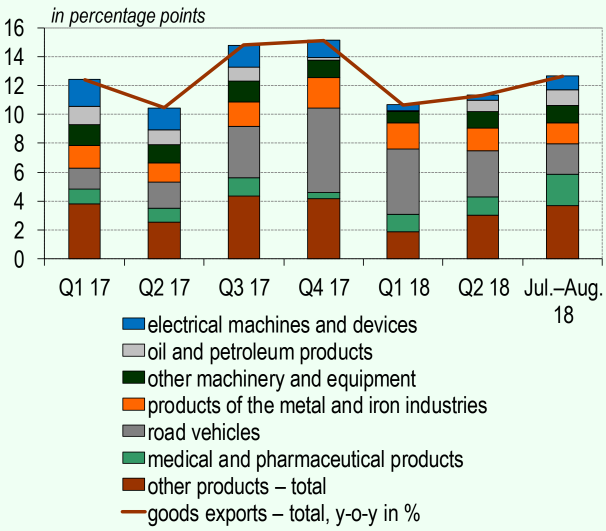
After recording relatively low growth in the first quarter, nominal exports of services began to strengthen sharply, and so again did the surplus of trade in ser-

Figure 4.1: Current account components



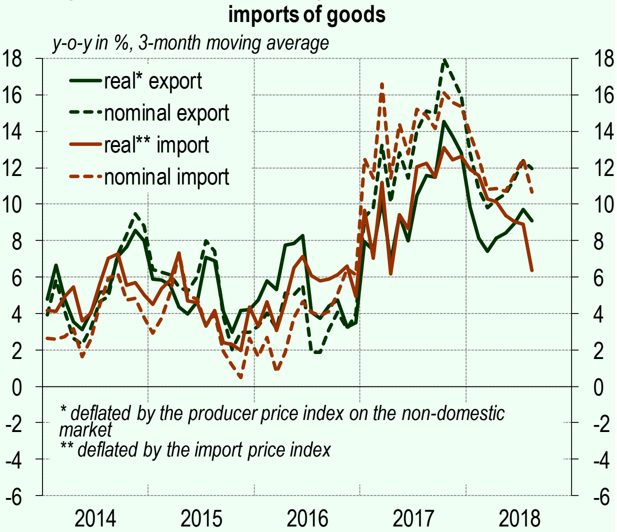
Source: Bank of Slovenia.

Figure 4.2: Structure of nominal goods exports growth



Source: SORS, Bank of Slovenia calculations.

Figure 4.3: Real and nominal growth rates of exports and imports of goods



Source: SORS, Bank of Slovenia.

Box 4.1: Evolution of the merchandise trade balance and methodological differences between foreign trade statistics and balance of payments statistics

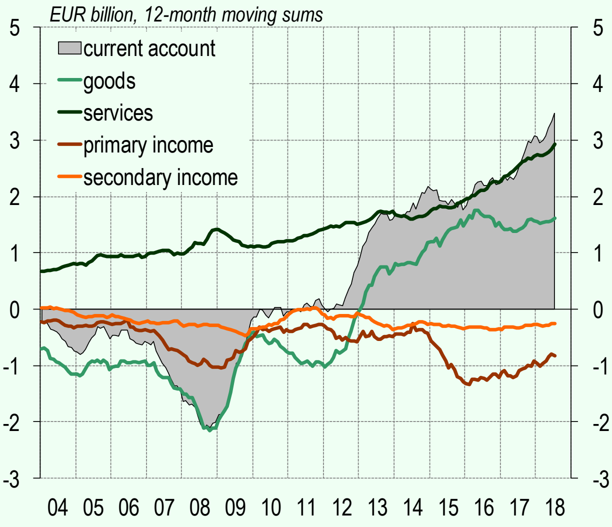
The pronounced reversal in Slovenia's current account position in 2012 was a reflection of major changes in the structure of economic growth in the last decade. During the period of overheating before the crisis, economic growth was driven by an unsustainable increase in domestic demand, which was financed by rapid growth in the external debt. The burden of interest payments on foreign loans increased rapidly, while strong merchandise imports increased the merchandise trade deficit. The crisis in late 2008 brought an end to this model of growth, which was followed by internal adjustment in the economy in the direction of growth generation via the exploitation of foreign demand and weak domestic demand, with simultaneous deleveraging by the private sector. At the very beginning of the crisis there was a break in investment, while government austerity measures in 2012 brought a sharp decline in final consumption. Both led to a significant reversal in the current account position, and then to the creation of a large current account surplus. It remains large this year, and is indicative of the continuation of the model of growth based on a major role for net exports, relatively weak growth in domestic final consumption, and net debt repayments in the rest of the world.

Because the main factor in the reversal in the current account was the shift from a deficit to a surplus in merchandise trade, the question is raised of what the changes are in the structure of the merchandise trade balance. In this case answering the question is not simple, as the merchandise trade balance can be measured by two different statistics, between which there are significant methodological differences, which makes interpretation of the results more difficult. Data on imports and exports of goods (merchandise trade) forms part of foreign trade statistics and balance of payments statistics. Foreign trade statistics are published by the SORS, while balance of payments statistics are published by the Bank of Slovenia. Identifying changes in the merchandise trade balance from the perspective of geographical location is possible by using both statistics, while changes in merchandise structure can only be undertaken by using foreign trade statistics.

Foreign trade statistics encompass data on imports and exports of goods. On the basis of this data it is possible to monitor developments in Slovenia's merchandise trade from the perspective of trade values and quantities, a regional breakdown (by country) and a breakdown by product. Foreign trade statistics are collected by two systems. The Intrastat system is used for data on Slovenia's merchandise trade with EU Member States, while the Ekstrastat system is used for merchandise trade with third countries. The Intrastat system is based on direct reporting by firms, while the Ekstrastat system is based on customs declarations. Goods are valued at the Slovenian border in foreign trade statistics. Value is therefore disclosed FOB for merchandise exports, and CIF for merchandise imports.

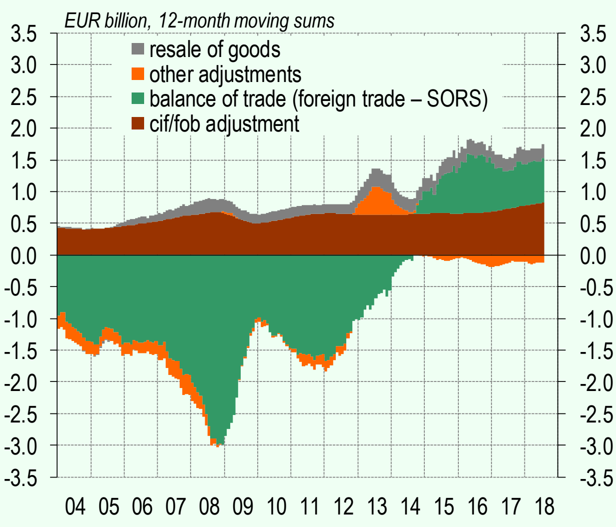
Merchandise trade also forms part of the balance of payments statistics. However, there are several methodological differences between the disclosure or capture of merchandise trade. The main methodological difference is that merchandise trade in foreign trade statistics is based on the crossing

Figure 1: Current account components



Source: Bank of Slovenia.

Figure 2: Structure of trade balance in the balance of payments



Source: SORS, Bank of Slovenia.

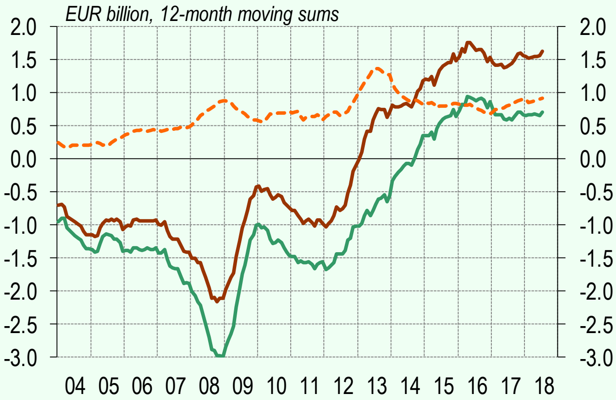
of a border, while merchandise trade in balance of payments statistics is based on a change in ownership. The differences in capture and valuation are as follows:

- In balance of payments statistics both merchandise imports and exports are valued FOB, at the border of the exporter of the goods.
- Merchandise trade in the balance of payments does not include inward and outward processing of goods, because that is part of trade in services.
- Purchases and sales of goods of residents of Slovenia in third countries (without crossing of the Slovenian border) and forwarding of goods are taken into account in merchandise exports in their net value in the balance of payments, but are not captured by foreign trade statistics.
- In the balance of payments statistics merchandise trade includes other goods not captured in foreign trade statistics (not part of the reporting in Intrastat and Ekstrastat). Examples are purchases of fuel by Slovenian road haulage operators in the rest of the world and by foreign road haulage operators in Slovenia, net imports of drugs, and online purchases of goods by Slovenian residents (natural persons).

The methodological differences mean that the merchandise trade balances under the two statistics differ significantly. The gap between the two balances fluctuates from year to year, but is displaying a trend of increase. In general, it is mainly attributable to the adjustment from CIF to FOB, which relates solely to merchandise imports. As merchandise imports increase, so does the CIF/FOB adjustment, and with it the impact on the merchandise trade balance in the balance of payments. In 2008, when the merchandise trade deficit was at its largest, it stood at EUR 2,996 million according to the SORS figures, but EUR 2,114 million according to the Bank of Slovenia figures. The gap between the two balances stood at EUR 882 million. In 2013 the merchandise trade balance had moved into surplus according to the Bank of Slovenia figures, in the amount of EUR 708 million, while according to the SORS figures merchandise trade was still in deficit, in the amount of EUR 565 million. The gap between the two balances had reached EUR 1,274 million, the largest gap from the 2004 to 2018 period illustrated in the majority of the figures. The gap between the two balances amounted to EUR 922 million over the 12 months to July 2018.[1]

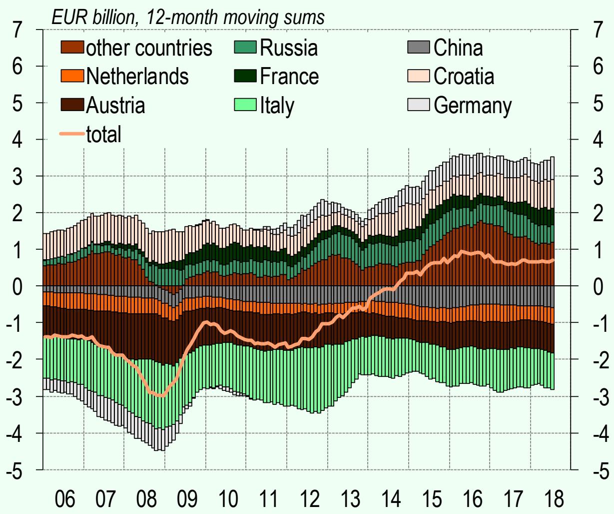
According to the SORS figures, the generation of the merchandise trade surplus was largely the result of the increased geographical diversity of exports, a reversal in the trade balance with Germany and a narrowing of the trade deficit with Italy. Compared with 2008, the merchandise trade deficit narrowed with Austria, remained practically unchanged with the Netherlands, and increased with China. The surplus is now larger in trade with France, while in trade with Croatia it has returned to its pre-crisis level since Croatia joined the EU. The surplus with Russia is similar to that from 2008. There was a significant change in the merchandise trade balance with all other countries. A surplus of EUR 1,200 million was recorded in the 12 months to July of this year, while in 2008 merchandise trade with these countries was actually in a small deficit temporarily. A sharp reversal also occurred in the merchandise trade balance with Germany, from a deficit of EUR 574 million in 2008 to a surplus of EUR 602 million over the 12 months to July of this year. Another major factor in the generation of an overall surplus in merchandise trade was the

Figure 3: Differences in the balance of trade between SORS data and Bank of Slovenia data



Source: SORS, Bank of Slovenia.

Figure 4: Balance of goods trade and contributions of individual countries

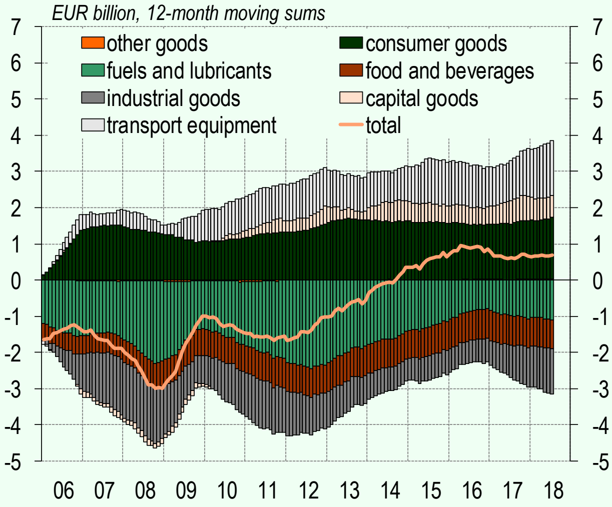


Source: SORS, Bank of Slovenia calculations.

narrowing of the deficit with Italy, from EUR 1,765 million to EUR 983 million.

In terms of categories of goods, the two main factors in the generation of the surplus according to the SORS figures were the surplus of trade in transport equipment, and the reduction of the deficit in trade in fuels and lubricants.[2] Compared with 2008, the surplus of trade in transport equipment over the 12 months to July of this year was EUR 1,264 million larger, which is related to the rapid growth in the Slovenian automotive industry.[3] At the same time, the deficit in trade in fuels and lubricants narrowed by EUR 1,114 million. The difference in oil prices should not be neglected: oil averaged EUR 65.4 per barrel in 2008, and EUR 55.1 per barrel over the 12 months to July of this year. During this period, there was a significant increase in re-exports of oil and refined petroleum products, by EUR 639 million at the annual level. Among the more evident changes is the growing surplus of trade in capital goods, which is partly related to the low level of domestic investment. The ratio of investment to GDP stood at 19.0% in the second quarter of this year, compared with 29.6% in 2008. The deficit in trade in industrial goods has been increasing again since 2017, in connection with the rapid growth in manufacturing output and intermediate consumption by the aforementioned sector. At the same time Slovenia remains a strong net exporter of consumer goods,

Figure 5: Balance of goods trade and contributions of groups of goods



Source: SORS, Bank of Slovenia calculations.

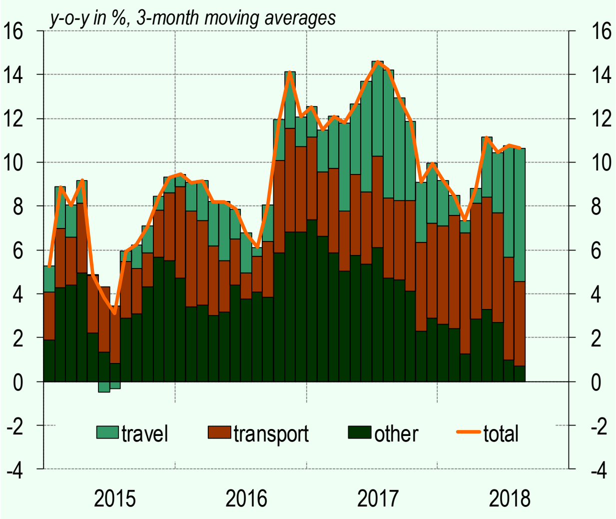
with a high surplus of trade in pharmaceutical products and in electrical machinery, apparatus and appliances.

[1] Rates of growth in merchandise imports and exports may also differ as a result of methodological differences, but in recent years the differences have been very small.

[2] The BEC classification is used.

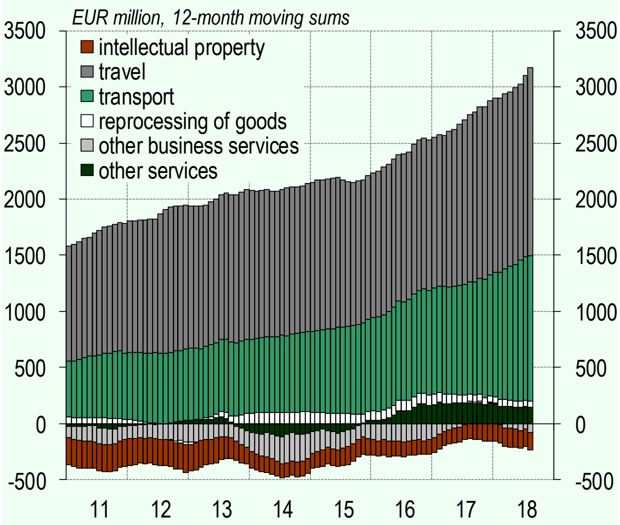
[3] Production of motor vehicles as measured by the monthly index of industrial production over the 12 months to July of this year was up almost 50% compared with 2008, while overall manufacturing output was up just under 15%.

Figure 4.4: Services exports



Source: Bank of Slovenia.

Figure 4.5: Trade in services balance



Source: Bank of Slovenia.

vices. Nominal year-on-year growth in export of services exceeded 10% in the second quarter, and averaged 12% over July and August. The main factor in the higher growth was a sharp increase in exports of travel services during the holiday season. Growth in exports of transport services also remained high. After strong growth in the first half of the year, growth in imports of services slowed to below last year's level, and began to again be significantly outpaced by export growth. According to current estimates, growth in imports of travel services during the peak holiday season was low compared with export growth, while imports of transport services over the first eight months of the year actually declined in year-on-year terms, in contrast to the trajectory in merchandise imports. The main factor in the increase in imports was miscellaneous business services, while imports of construction services were also stronger in year-on-year terms, in line with the growth in construction investment. The surplus of trade in services over the first eight months of the year thus increased by EUR 216 million in year-on-year terms to EUR 2,043 million. The majority of the increase was attributable to strong exports of transport services.

Table 4.1: Current account components

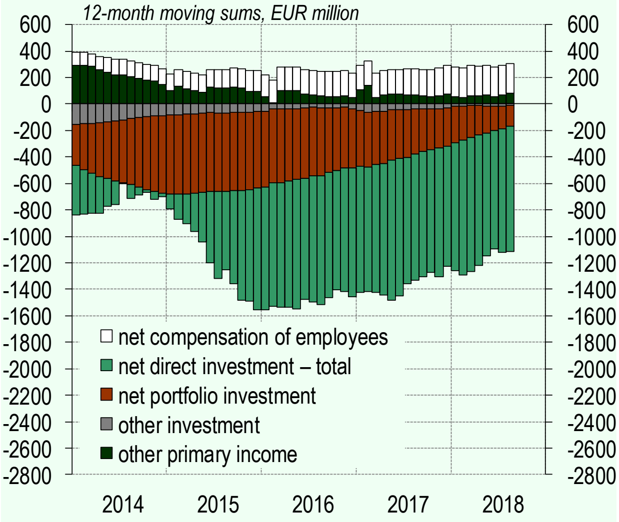
				in 12 months to							
	2015	2016	2017	Aug.17	Aug.18	17Q1	17Q2	18Q1	18Q2	Aug.17	Aug.18
					in EUR million						
Current account balance	1,760	2,224	3,077	2,673	3,539	764	653	678	965	213	341
1. Goods	1,476	1,536	1,561	1,441	1,679	362	421	331	450	32	115
2. Services	1,930	2,251	2,719	2,618	2,935	602	686	615	755	300	338
2.1. Transport	821	932	1,073	996	1,299	240	261	332	346	88	107
2.2. Travel	1,276	1,337	1,552	1,493	1,670	313	383	315	396	198	255
2.3. Other	-167	-18	93	129	-35	49	42	-32	14	13	-23
3. Primary income	-1,294	-1,215	-926	-1,063	-802	-112	-368	-152	-205	-100	-80
3.1. Labour income	159	187	223	194	222	48	57	51	55	16	15
3.2. Investment income	-1,546	-1,448	-1,222	-1,329	-1,105	-261	-442	-296	-270	-105	-93
3.3. Other income	93	46	72	71	80	101	17	92	11	-11	-2
4. Secondary income	-352	-349	-276	-322	-273	-88	-86	-116	-35	-18	-32
					in % GDP						
Current account balance	4.5	5.5	7.2	6.4	7.9	7.7	6.0	6.4	8.3	5.8	8.8
1. Goods	3.8	3.8	3.6	3.4	3.7	3.7	3.8	3.1	3.9	0.9	3.0
2. Services	5.0	5.6	6.3	6.2	6.5	6.1	6.3	5.8	6.5	8.2	8.7
2.1. Transport	2.1	2.3	2.5	2.4	2.9	2.4	2.4	3.1	3.0	2.4	2.7
2.2. Travel	3.3	3.3	3.6	3.6	3.7	3.2	3.5	3.0	3.4	5.4	6.6
2.3. Other	-0.4	0.0	0.2	0.3	-0.1	0.5	0.4	-0.3	0.1	0.4	-0.6
3. Primary income	-3.3	-3.0	-2.2	-2.5	-1.8	-1.1	-3.4	-1.4	-1.8	-2.7	-2.1
3.1. Labour income	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
3.2. Investment income	-4.0	-3.6	-2.8	-3.2	-2.5	-2.6	-4.0	-2.8	-2.3	-2.9	-2.4
3.3. Other income	0.2	0.1	0.2	0.2	0.2	1.0	0.2	0.9	0.1	-0.3	-0.1
4. Secondary income	-0.9	-0.9	-0.6	-0.8	-0.6	-0.9	-0.8	-1.1	-0.3	-0.5	-0.8
					nominal y-o-y growth rates in %						
Export of goods and services	5.1	5.0	13.5	10.7	12.0	13.0	11.9	9.3	11.2	17.4	9.3
Export of goods	4.7	4.0	13.9	10.1	12.5	13.2	11.4	9.8	11.4	19.0	9.3
Export of services	6.8	9.3	12.1	13.2	9.9	12.1	13.7	7.3	10.4	13.0	9.5
Transport	9.3	10.9	13.2	13.2	15.8	12.3	11.1	17.9	17.3	15.6	10.5
Travel	1.8	4.4	11.1	10.1	9.8	7.7	15.6	1.9	8.4	11.8	18.1
Other	10.0	12.8	12.3	16.0	5.5	15.5	14.1	3.2	7.0	12.9	-4.6
Import of goods and services	3.6	4.2	13.6	11.3	11.8	15.1	12.0	10.8	11.5	15.7	5.6
Import of goods	3.6	4.0	14.7	11.8	12.3	16.6	12.8	10.8	11.6	17.5	5.3
Import of services	3.8	5.7	7.6	8.4	8.6	5.9	7.2	10.6	10.7	7.3	7.1
Transport	4.5	8.3	11.2	15.2	1.5	13.4	16.7	-2.5	1.5	14.4	-0.8
Travel	10.4	3.8	3.3	4.5	6.2	25.6	-8.8	4.2	18.5	4.7	2.5
Other	1.3	5.5	7.7	7.3	12.2	-1.1	9.6	18.0	11.9	6.5	13.3

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

Primary and secondary income

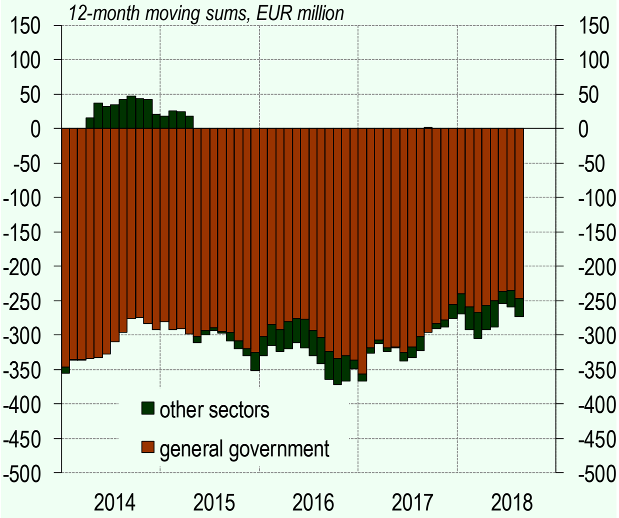
The deficit in primary income has diminished significantly this year, as the deficit in capital income has narrowed. The deficit in primary income over the first eight months of the year amounted to EUR 518 million, a narrowing of EUR 124 million in year-on-year terms. There is an almost identical narrowing in the deficit in capital income. The burden from paying net interest on investments in securities and loans is declining, while the deficit in income on FDI has increased slightly this year as a result of a higher estimated deficit in reinvested earnings. The surplus in income on investments in shares, where part of the current account surplus is invested, is strengthening, while the deficit in income on investments in debt securities is narrowing. Over the first eight months of the year, the former was up EUR 26 million in year-on-year terms, while the latter narrowed by EUR 107 million. The deficit in interest on loans is also continuing to narrow. The domestic economy's debt exposure to the rest of the world is thus continuing to decrease.

Figure 4.6: Net primary income



Source: Bank of Slovenia.

Figure 4.7: Net secondary income



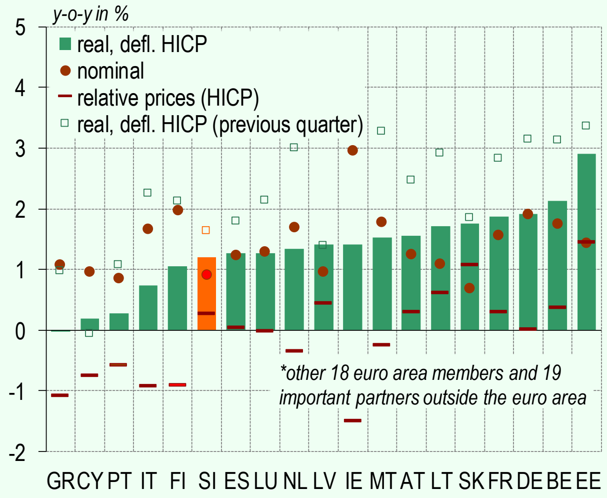
Source: Bank of Slovenia.

There was no significant change in the deficit in secondary income over the first eight months of the year. It amounted to EUR 224 million, having narrowed by EUR 3.6 million in year-on-year terms. The deficit in government secondary income narrowed in the wake of positive changes in transactions in connection with taxes on income and wealth, with relations with EU institutions, and with various current transfers. Other sectors' otherwise negligible deficit in secondary income increased by EUR 5 million.

Selected competitiveness indicators

The depreciation in the euro since the second quarter has continued to gradually mitigate the less favourable developments in the price competitiveness of the Slovenian economy.[2] The price competitiveness indicator against 37 trading partners remained less favourable than a year earlier (up 1.2%) in the second quarter, but had begun to improve (i.e. to decrease). This was the

Figure 4.8: Harmonized price competitiveness indicator against 37 trading partners* in the second quarter of 2018



Source: ECB, Bank of Slovenia calculations.

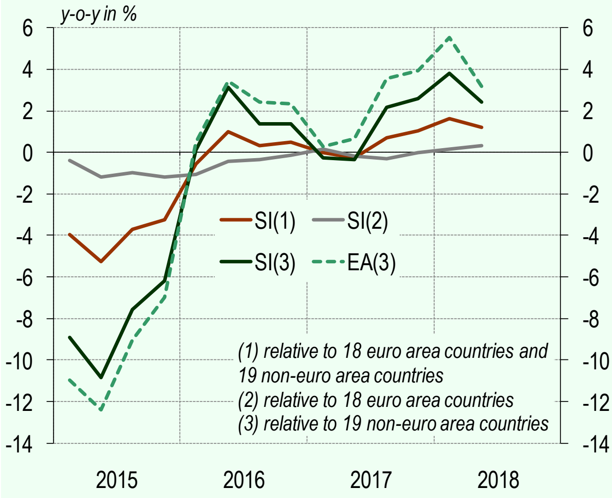
[2] Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP).

result of the euro's fall against other major global currencies, which resulted in a slight gain for euro area exporters. Despite the favourable developments in the euro exchange rate in recent months, the Slovenian indicator remains up in year-on-year terms, as a result of the past appreciation in the euro, and partly as a result of slightly higher growth in domestic prices relative to the trading partners. The indicator was slightly less favourable in the majority of euro area countries, similarly to the last two and a half years (see Figure 4.8). Developments were more favourable for exporters in just five euro area countries, where the developments were encouraged by more favourable ratios in relative prices,[3] while the appreciation in the euro impacted their economies slightly more adversely than Slovenia's.

The position of Slovenian exporters improved slightly on foreign markets outside the euro area, while their position on the euro area market remained virtually unchanged. At 2.4%, the year-on-year increase (indicative of a deterioration) in the price competitiveness indicator against 19 major trading partners outside the euro area was significantly lower than in the previous quarter, and was again one of the lowest in the euro area. The decisive impact on the value of the indicator came from exchange rate developments, as year-on-year inflation in the second quarter in Slovenia was similar to that in the partners. It was slightly higher than overall price growth in the euro area, which brought a slight deterioration in the price competitiveness indicator in this market, which was up 0.3% in year-on-year terms.[4] It nevertheless remains favourable, and below its long-term average, similarly to markets outside the euro area.

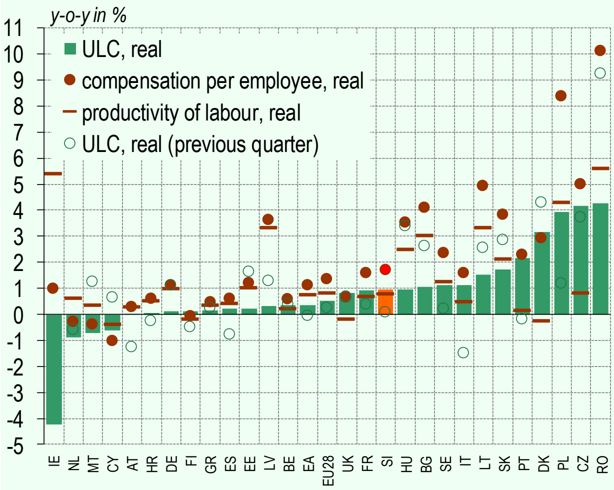
After a year and a half, real unit labour costs rose again, thereby bringing an end to the favourable trend in the cost competitiveness of the economy. Year-on-year growth in compensation per employee having remained within the bounds of the increase in labour productivity in the first quarter of this year, wage growth outpaced growth in labour productivity by 0.9 percentage points in the second quarter.[5] Real unit labour costs also increased in year-on-year terms in the euro area overall and in the EU overall, although the increases there were slightly smaller (0.4% and 0.5% respectively). On this occasion Slovenia did not deviate from the average in the two regions in terms of real productivity growth, which stood at approximately 0.8% everywhere,[6] but its real

Figure 4.9: Harmonised cost competitiveness indicator (deflator HICP / CPI)



Source: ECB.

Figure 4.10: Real unit labour costs in the second quarter of 2018



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

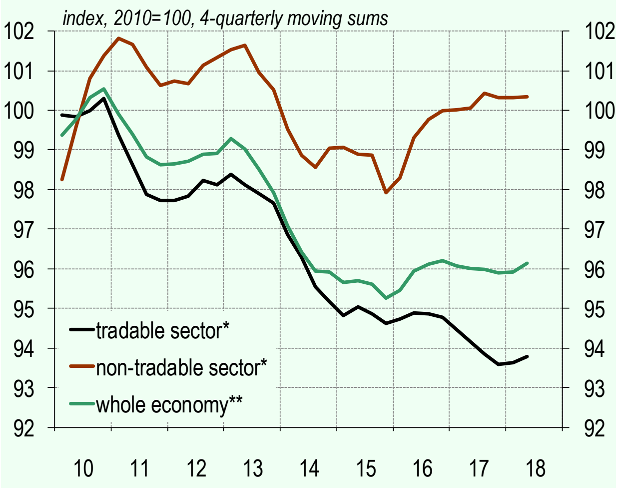
[3] Relative prices are domestic prices compared with prices of trading partners.
[4] Growth in domestic prices as measured by the HICP was around 0.5 percentage points higher than the euro area average. Only Austria, Belgium and the Baltic states recorded higher year-on-year inflation than Slovenia in the second quarter.
[5] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. A GDP deflator is applied to calculate real growth in compensation per employee (wages). In consequence, the relationship between wages and productivity and the dynamic of growth in real wages in this section could differ from that illustrated in Sections 2 and 3.
[6] During the previous two and a half years, real growth in labour productivity had exceeded the comparable overall rates in the euro area and in the EU by 0.9 percentage points and 0.7 percentage points respectively.

growth in compensation per employee was slightly higher (1.7%). For now these developments are not cause for concern, as a number of the other new Member States are recording significantly higher wage growth than Slovenia, which in the majority of cases is even more evidently outpacing growth in labour productivity (see Figure 4.10). By contrast, in a third of EU Member States there are not yet any more evident pressures on cost competitiveness, and it is actually improving in certain countries.

After a long period, real unit labour costs increased only in the tradable sector, information and communication activities recording a particularly strong increase alongside manufacturing. In both sectors[7] real wage growth is now above-average, while in information and communication activities there is additional pressure from a simultaneous decline in labour productivity. Construction again recorded the largest decline in real unit labour costs, as a result of cyclically conditioned high growth in productivity (5.3%), and as a result of lower real wage growth. Despite the favourable cost developments over the last two years, real unit labour costs in the sector are still 6% higher than a decade earlier, which makes it one of the sectors with the least favourable changes over this period.

Following the release of the initial annual estimate for 2017 and the revision of the national accounts for 2014 to 2016, the cost competitiveness picture for 2016 and 2017 became slightly less favourable than had been suggested by the SORS's previous estimates. According to the initial annual estimate, real unit labour costs declined by just 0.3% last year, while the decline had previously been estimated at 1.4%. Last year's growth in compensation per employee has been revised upwards, while productivity growth has been revised downwards. A smaller but substantively similar revision was also made for 2016, as the ratio of labour costs per employee to value-added per employee is now slightly higher (1.0%) than had been initially estimated (0.7%). Growth in real unit labour costs per employee is now 0.3 percentage points higher.

Figure 4.11: Real unit labor costs, Slovenia



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

[7] Developments in real unit labour costs over the last decade have otherwise been completely different in the two sectors: in information and communication they increased almost without interruption and by the second quarter of this year were up just over a quarter, while in manufacturing, where they are currently 5% lower than before the crisis, they have been falling since 2010, with several interruptions.

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

The saving-investment gap of the total economy was affected in the second quarter by an increase in households' net saving. The favourable developments in the economy are reflected in higher household incomes, while household assets continue to increase faster than household liabilities. Growth in the latter remains robust, albeit at a significantly lower pace than before the crisis. By contrast, non-financial corporations' financial liabilities increased faster at the quarterly level than their assets. Non-financial corporations are largely financing themselves intra-sectorally, while growth in bank loans remains low. The domestic banks continue to make debt repayments on the wholesale markets. Their liabilities from deposits by households and non-financial corporations continue to increase. The quality of the credit portfolio is also continuing to improve, providing an indication for the positive outlook with regard to the supply of bank financing.

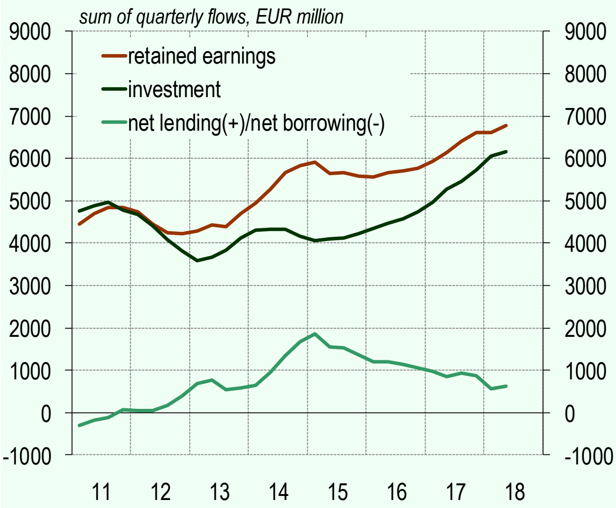
Saving-investment gap by institutional sector

The net financial position of the domestic institutional sectors in the second quarter, expressed as a ratio to GDP, was up 1 percentage point in year-on-year terms. The largest factor in this was a pronounced inflow of financial assets in the household sector, which can largely be attributed to favourable developments on the labour market in the first half of the year. Other factors in the increase in the gap vis-à-vis the rest of the world were government saving, and banks' debt repayments on foreign wholesale markets. In the non-financial corporations sector, the quarterly inflow of financial assets was slightly less than the new liabilities. Non-financial corporations' financing is still primarily proceeding intra-sectorally on the basis of equity and trade credits, while bank loans are accounting for a diminishing proportion of non-financial corporations' total liabilities.

Financial assets and financing of non-financial corporations

Non-financial corporations are meeting more than 80% of their need for new financing within the non-financial corporations sector domestically and in the rest of the world. Financing in the form of trade credits is prevalent, as non-financial corporations covered 10% of their new liabilities in the form of new issuance of debt securities in the second quarter of this year. By contrast, bank financing of non-financial corporations remains weak, and accounts merely for around 9% of non-financial corporations' total liabilities, down 13 percentage points on its peak from 2011. Non-financial corporations' domestic indebtedness, expressed as a ratio to GDP, is one of the lowest in the euro area, and is currently 60 percentage points below the euro area average. Non-financial corporations' low borrowing is attributable to the change in the structure of corporate financing in the post-crisis period, moderate investment activity and high retained earnings. Retained earnings still exceed non-financial corporations' investment, and the surplus is primarily being reflected in strong growth in bank deposits (11% in year-on-year terms). The remainder of the asset side of non-financial corporations' position reflects the picture on the liability side. In the second quarter the largest relative increases were recorded by investments in debt securities issued by other non-financial corporations, and assets in the form of trade credits.

Figure 5.1: NFC investment and retained earnings

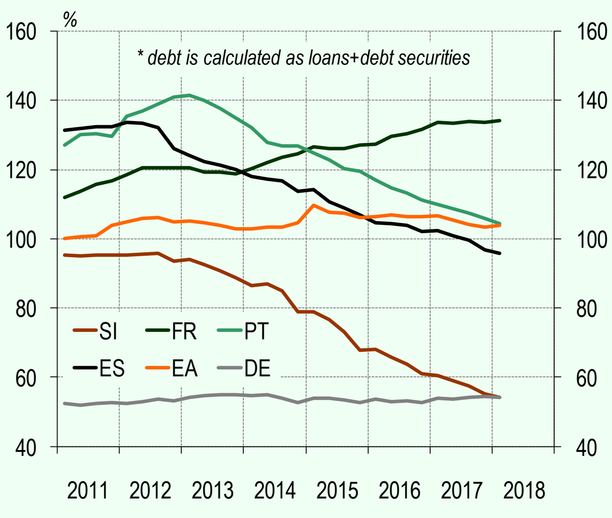


Source: Bank of Slovenia, Eurostat, SORS.

Financial assets and financing of households

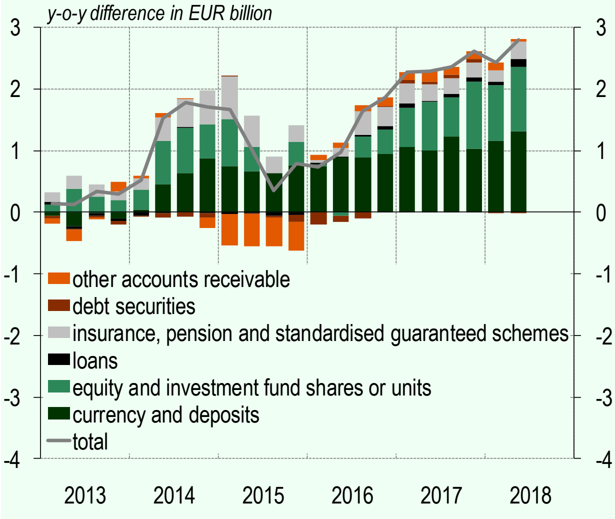
Households' financial assets are continuing to increase faster than their liabilities. This is related to the favourable developments in the economy, which are spilling over into the labour market and higher household income. The strong growth in net financial assets is also attributable to lower growth in spending and to lower growth in borrowing compared with the pre-crisis period. The year-on-year increase in long-term loans,[1] which make up the majority of households' total liabilities, nevertheless remains robust, and amounts to approximately EUR 700 million to date this year, a growth rate of 7%. The increase in households' financial assets in the second quarter amounted to almost EUR 2.8 billion, up 1% in year-on-year terms. All three of the largest asset items are continuing to strengthen, namely bank deposits, shares and other equity, and investments in insurance and pension schemes. The fastest growth in the last year has been recorded by investments in shares and other equity, which at 9% was the highest rate in the post-crisis period.[2] The year-on-year increase of just over EUR 1 billion was exclusively the result of revaluations, i.e. a continuation of the favourable trends on capital markets seen in the last year. Households' bank deposits also continued to increase. They were up EUR 1 billion in

Figure 5.2: Cross country comparison of firms' debt to GDP ratio*



Source: ECB.

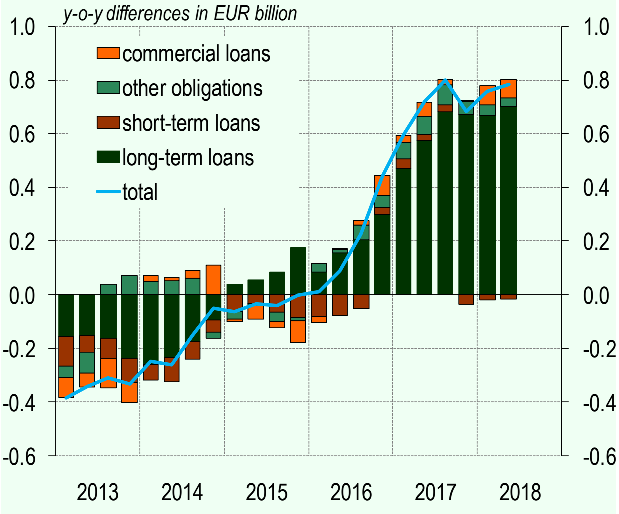
Figure 5.3: Financial assets of households (S.14)



Source: Bank of Slovenia, non-consolidated data.

[1] Gross loans according to the statistical definition, to allow for a direct international comparison.
[2] Year-on-year growth nevertheless remains more than 20 percentage points less than the highest pre-crisis rates.

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



Source: Bank of Slovenia, unconsolidated data.

year-on-year terms, EUR 0.4 billion was in the second quarter of this year alone, the highest quarterly increase in the last year and a half. Growth in sight deposits remained significantly higher than growth in fixed-term deposits. The portfolio of households' financial assets in the form of insurance and pension schemes is also recording stable growth, of around 4% in year-on-year terms.

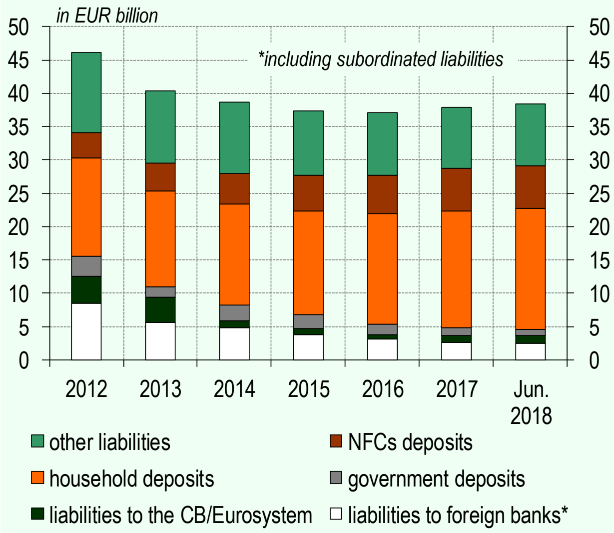
Financial assets and financing of banks

The domestic banks are continuing to make gradual debt repayments on foreign wholesale markets, and to increase their liabilities from deposits by households and non-financial corporations. Gross lending to the non-banking sector in the second quarter was up 2.4% in year-on-year terms, while exposure to other banks and investments in securities and other financial assets are continuing to decline (by 3.3%). The trend of gradual year-on-year decline in domestic banks' liabilities to foreign banks continued in the first half of this year, while household deposits and deposits by non-financial corporations continued to grow (by 5.8% and 10.6% respectively). Government deposits at domestic banks declined, because the government transferred them to the central bank, but bank liquidity from other sources increased. The quality of the banks' credit portfolio continued to improve. The NPE ratio according to the EBA definition had fallen to below 5% by the end of the second quarter.

Domestic financial market

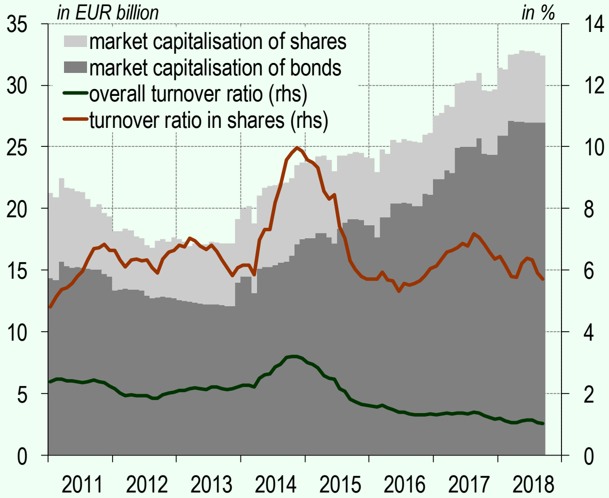
Share prices fell overall on the Ljubljana Stock Exchange in the third quarter of this year, as the SBI TOP fell by 5.6%. The market capitalisation of shares was down 6.4% on the end of June at EUR 5.4 billion, while the volume of trading in the third quarter was down almost a half on the previous quarter at EUR 62 million. The monthly volume of trading in shares averaged EUR 27 million over the first nine months of the year, despite increased M&A activity, which had a positive im-

Figure 5.5: Selected liabilities of domestic banks



Source: Bank of Slovenia.

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



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

Box 5.1: Bank performance

Growth in the balance sheet total remains solid this year. Growth in deposits by the non-banking sector remained relatively high over the first eight months of the year, primarily as a result of growth in household deposits. Lending activity strengthened slightly, again largely as a result of household loans, while bank lending activity to non-financial corporations is lower in terms of both growth and absolute amount. The banks' profitability improved as a result of an increase in income, both net interest income and net non-interest income, moderate operating costs and a net release of impairments and provisions. The quality of the banks' credit portfolio improved further. The capital standing of the Slovenian banking system remains appropriate, and capital adequacy again improved slightly in the first half of this year.

Year-on-year growth in the Slovenian banking system's balance sheet total stood at a solid 3.3% in August. This was up almost 1 percentage point from the end of last year. The balance sheet total increased by EUR 596 million over the first eight months of the year to stand at EUR 38.5 billion. The main factor in the increase on the liability side was household deposits, while on the asset side there were increases in loans to the non-banking sector (NBS) and liquid assets in the form of claims against the central bank and sight deposits at banks, and a decline in investments in securities.

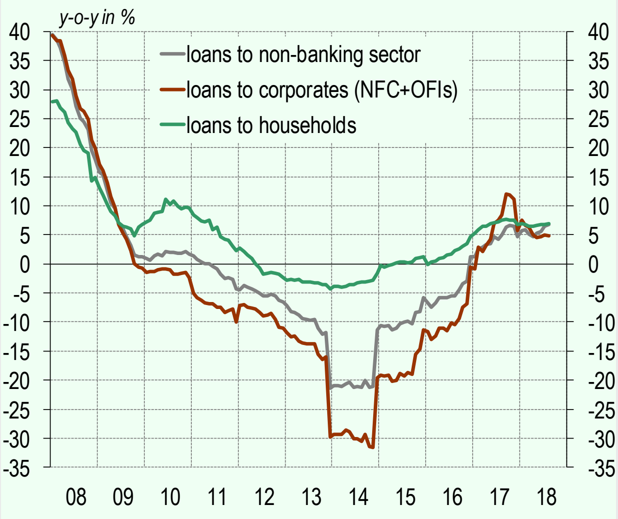
Growth in deposits by the non-banking sector remains solid: the year-on-year rate stood at 5.8% in August. The main factor in the increase was household deposits, year-on-year growth in which strengthened to 6.9% in August, up 1 percentage point on the end of last year. The increase in deposits by the non-banking sector is sufficient to fund the banks' lending activity. The LTD ratio for the non-banking sector also remains stable. It is only sight deposits that are continuing to increase. They accounted for 71.6% of deposits by the non-banking sector and 52.6% of the balance sheet total in August. The banks are continuing to pay down debt on the wholesale markets.

Year-on-year growth in loans to the non-banking sector had strengthened to 6.7% by the end of August. There was a moderate increase in corporate loans of EUR 245 million over the first eight months of the year, the rate of growth reaching 2.8%. Growth is still relatively low, although credit standards were relaxed slightly over the first half of the year according to the BLS. This was primarily the result of good corporate performance. Non-financial corporations are generating high operating surpluses, and have improved their creditworthiness. They also have a relatively high stock of bank deposits, primarily sight deposits (EUR 6.5 billion), which has allowed them to switch to internal resources in recent years. At the same time the banks are primarily focusing on household lending. The banks again anticipated no significant changes in loan terms in the third quarter of this year. Growth in household loans has been relatively stable this year. The year-on-year rate reached 6.9% in August. Household loans increased by EUR 428 million over the first eight months of the year, more than the increase in corporate loans. Year-on-year growth in housing loans remained moderate in August at 4.4%, while growth in consumer loans was relatively high at 11.7%. Consumer lending activity was particularly pronounced last year at certain banks under majority foreign ownership, while this year it has been the largest banks that are more prominent in terms of volume.

The NPE ratio declined to 4.6% in August. Portfolio quality has improved further in 2018 in all sectors and in all client segments. Non-financial corporations account for the majority of NPEs, in the amount of EUR 1.3 billion, or 9.7% of total exposure to the sector. In the wake of an ongoing increase in retail exposures, the NPE ratio in the household segment is relatively low: it stood at 3.3% for consumer loans, and 2.6% for housing loans.

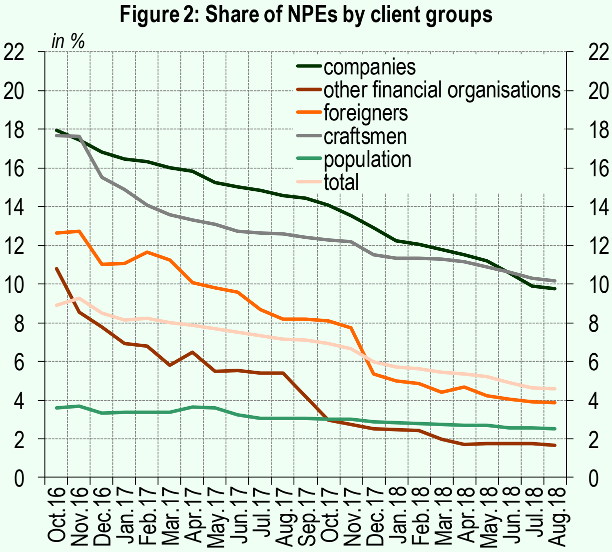
The banking system's pre-tax profit over the first eight months of the year amounted to EUR 407 million, up a fifth on the same period last year. The trend of decline in net interest income came to an end in May, and the year-on-year rate of growth had risen to 3.4% by August. The positive impact on

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



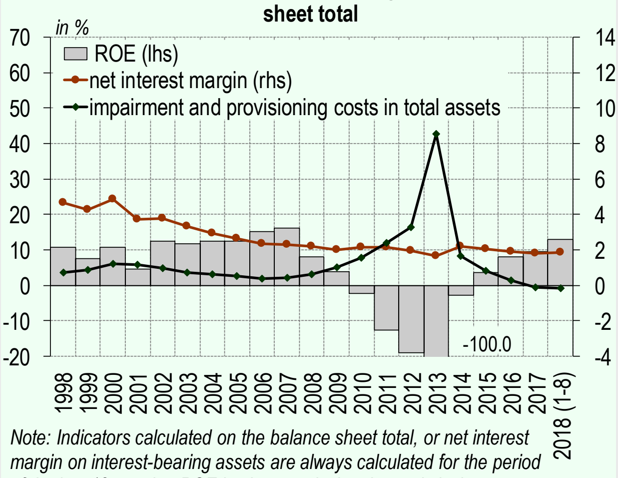
Source: Bank of Slovenia.

Figure 2: Share of NPEs by client groups



Source: Bank of Slovenia.

Figure 3: Return on equity, net interest margin on interest-bearing assets and impairment and provisioning expenses on balance sheet total



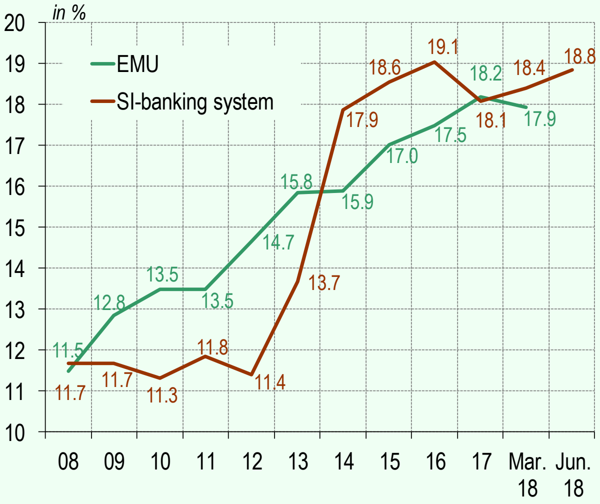
Note: Indicators calculated on the balance sheet total, or net interest margin on interest-bearing assets are always calculated for the period of the last 12 months. ROE is always calculated cumulatively up to and including the last available data within the year.
Source: Bank of Slovenia.

interest income from growth in loans is gradually strengthening. The decline in interest expenses owing to the fall in interest rates and the increase in the proportion of sight deposits also remains a factor in the increase in net interest. Year-on-year growth in the banking system's net non-interest income remains positive, particularly in respect of net fees and commission. The rate stood at 2.1% in August. The banking system's gross income so far this year is up 5% on the same period last year. The net interest margin over the first eight months of the year stood at 1.84%, comparable to last year. The banks' operating costs remain comparable to last year (down 0.5%). The banking system has recorded a net release of impairments and provisions this year, in the total amount of EUR 59 million over the first eight months of the year, an additional factor in the banks' solid performance.

The banks' liquidity position remains favourable, with a high proportion of highly liquid assets (banks' claims against the central bank and claims in the form of sight deposits at banks), which accounted for almost 12% of the balance sheet total in August. The proportion of the balance sheet total accounted for by secondary liquidity remains stable, at just under a fifth. The banks' indebtedness at the Eurosystem is also low, and the pool of eligible collateral at the Eurosystem that is free is high.

The banking system's capital position remains adequate, although there is still significant variation from bank to bank. After declining in 2017, the total capital ratio improved again in the first half of this year. It stood at 20.6% on an individual basis in June, and 18.8% on a consolidated basis. Despite ongoing loan growth, capital requirements increased by less than regulatory capital in the first half of this year. In the wake

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



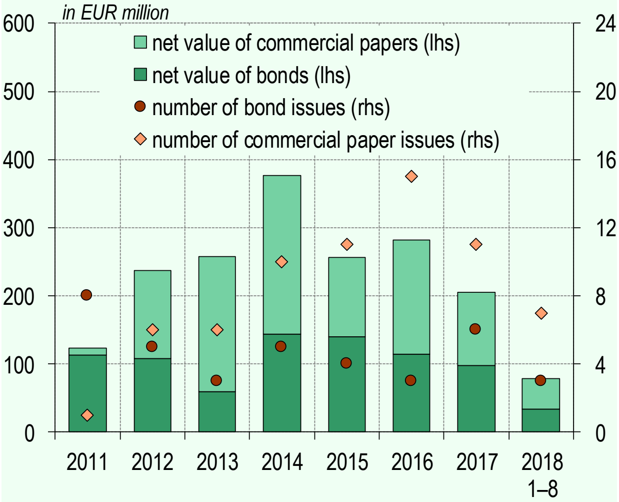
Source: Bank of Slovenia, ECB (SDW).

of the banks' favourable performance, the increase in regulatory capital was primarily attributable to retained earnings, and less to bank recapitalisations. The small domestic banks did improve their capital adequacy in the first half of this year through recapitalisations, although it remains significantly lower than the system average. The ability to generate internal capital will have a significant impact on the maintenance of stable capital adequacy in the Slovenian banking system in the future, particularly in the event of the strengthening of lending activity.

pact on developments in the first half of the year, and remained below the average during the same period last year (EUR 30 million). M&A activity brought a short-term reduction in the high concentration of volume in individual shares, while the proportion accounted for by non-residents increased to 25.1%, up 1.6 percentage points in year-on-year terms.

The market capitalisation of bonds was unchanged in the third quarter, at EUR 27 billion. There were no major bond issues on the Ljubljana Stock Exchange. The volume of trading in bonds did not exceed EUR 0.5 billion in the third quarter. The volume of trading in Slovenian bonds via the MTS platform amounted to EUR 829 million during this period. The spread on Slovenian 10-year government bonds over the German benchmark increased only slightly.

Figure 5.7: Issuance of corporate bonds and commercial papers (excluding the government sector)



Source: KDD, Bank of Slovenia calculations.

6 Price Developments

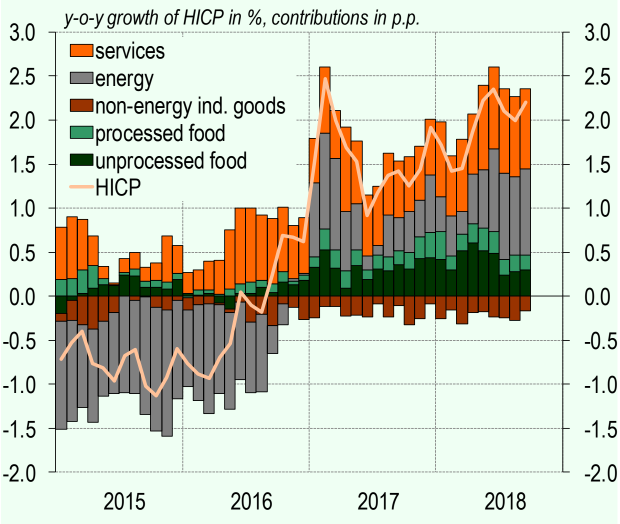
Headline inflation remains above 2%. As measured by the HICP, it outpaced the euro area average by 0.1 percentage points, and averaged 2.1% over the third quarter. The price developments were approximately equally attributable to external factors, which are being reflected in higher growth in import prices, and domestic factors, which have been reflected in growth in services prices. Energy prices and services prices contributed 1.0 percentage points and 0.9 percentage points respectively to headline inflation in the third quarter. Core inflation remains low, and comparable to the average in the euro area, despite Slovenia's significantly stronger economic growth. The narrowest core inflation indicator stood at 1.1% in September, unchanged from the beginning of the year. Domestic unit labour costs have begun to rise, albeit without any notable impact yet on inflation developments.

Structure of price developments and core inflation indicators

Average year-on-year inflation as measured by the HICP remained above 2% for the second consecutive quarter. Having risen to 2.3% in June, primarily as a result of high growth in prices of unprocessed food and energy prices, it slowed slightly in the third quarter, which is being reflected in a slight change in the structure of inflation. The contribution made by prices of unprocessed food declined notably, while the contributions made by energy prices and services prices are up 0.2 percentage points and 0.1 percentage points respectively on the previous quarter. By contrast, the negative contribution made to average headline inflation in the third quarter by prices of non-energy industrial goods was unchanged from the previous quarter. The largest contribution to average headline inflation in the euro area overall during the same period was made by energy prices, while the contributions made by other price categories remained unchanged.

The narrowest core inflation indicator stood at 1.1% in year-on-year terms in September, up just 0.1 percentage points on the previous quarter. The largest factor behind the rise of super-core inflation was the growth in services prices, which is still sharply outpacing the growth in the euro area. The narrowest inflation indicator stood at 1.1% in September, and outpaced the av-

Figure 6.1: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

erage indicator of the euro area, where it fell to 0.9%. In the third quarter the core inflation indicator that excludes energy prices only was down 0.3 percentage points on the previous quarter, as a result of a slowdown in growth in food prices from the first half of the year. The broadest core inflation indicator averaged 1.3% in the third quarter, having slowed to the level of the euro area average.

Drivers of inflation

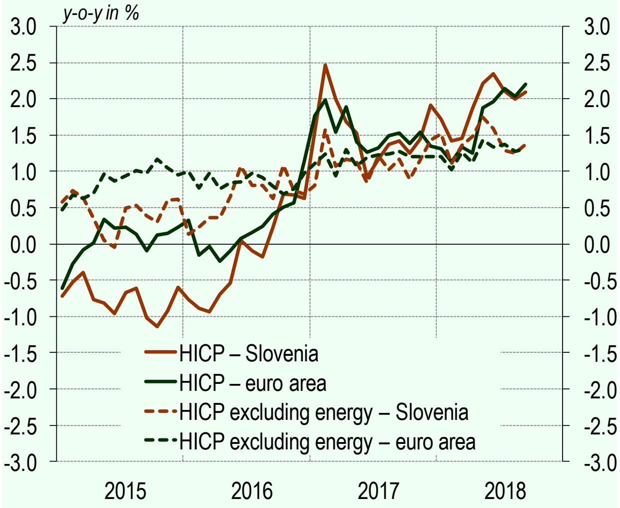
Private consumption had relatively low contribution to economic growth in the second quarter of this year. Compared to the higher growth rates seen at the end of last year, this year's growth in real wages was slower, which reflects the moderation of growth in nominal wages and employment, which is happening amidst the strengthening of headline inflation. Growth in private consumption slowed sharply in the second quarter, while households increased their net saving. There has also been a significant decline in consumer optimism in recent months. However, conditions remain favourable for high growth in private consumption as employment growth remains high, and consequently growth in real wages remains solid compared with its long-term average.

Cost pressures are increasing. Global oil prices have risen sharply, reaching EUR 69.9 in mid-October, up 44.8% in year-on-year terms. This should further raise import prices, which by August were already up 4.4% in year-on-year terms, primarily as a result of higher energy prices. At the same time domestic cost pressures are also likely to gradually strengthen should the ratio of wage growth to productivity growth, which is reflected in growth in unit labour costs, continues to deteriorate.

Price developments by sub-category

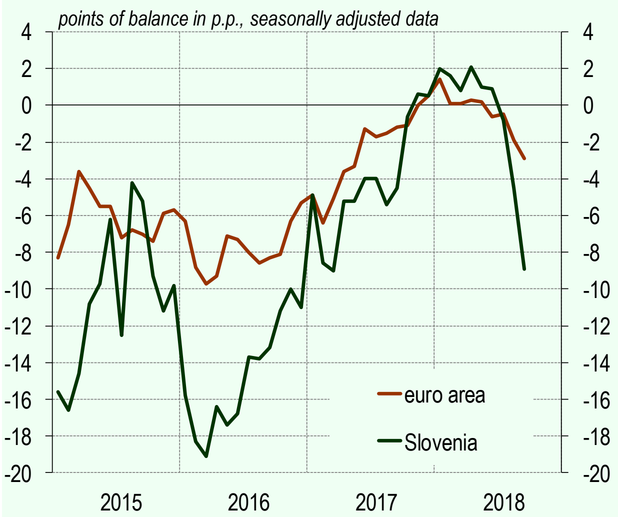
Energy prices made the largest contribution to price developments in the third quarter, both in Slovenia and in the euro area. The main factor driving their dynamics was the rise in oil prices on the global commodity market, which is expected to continue in the coming months following the US restrictive trade policy towards Iran. The higher prices of refined petroleum products con-

Figure 6.2: Headline and core inflation in Slovenia and the euro area



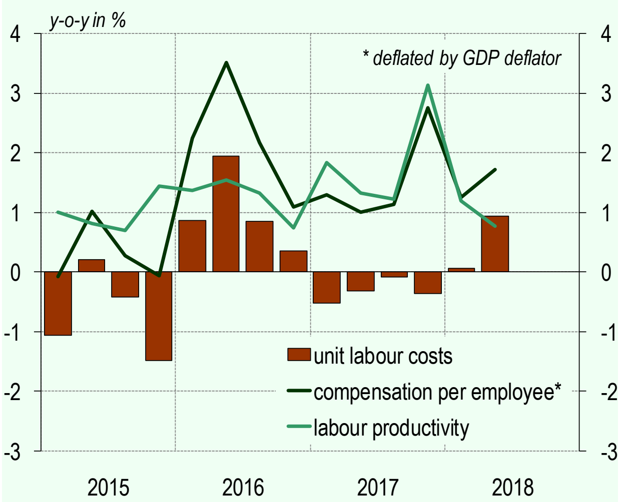
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.3: Consumer confidence indicator



Source: European Commission.

Figure 6.4: Unit labour cost decomposition – whole economy



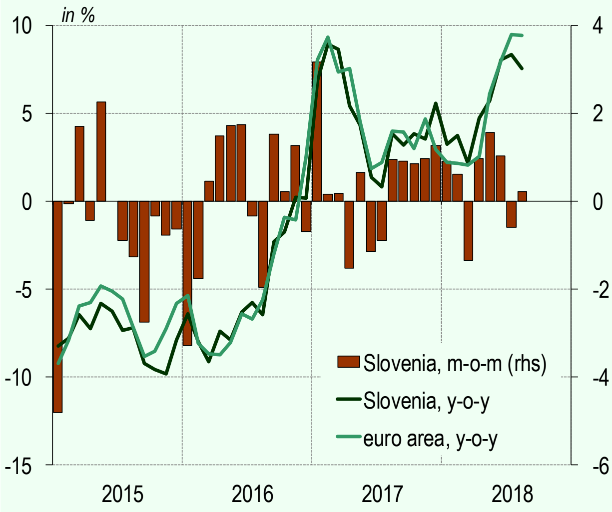
Source: Eurostat, Bank of Slovenia calculations.

tributed 0.5 percentage points to the average year-on-year inflation in Slovenia in the third quarter. Prices of heat energy also rose sharply, which additionally affected the year-on-year increase in energy prices. At the proposal of the ministry of economic development and technology the government passed a new six-month extension of the decree on price setting for refined petroleum products. According to it, retailers will continue to independently set the prices of the 100-octane petrol, and liquid fuels, while 95-octane petrol and diesel remain regulated, except on motorways and expressways.

Growth in food prices slowed significantly, and averaged 2.0% in the third quarter, down 1.4 percentage points on the previous quarter. The decline in growth was broad-based across subcategories. The most notable slowdown was recorded by prices of unprocessed food, year-on-year growth in which averaged 3.5% in the third quarter, down 3.4 percentage points on the previous quarter. This dynamic is primarily resulting from the change in developments in fruit prices, which fell by 1.1% on average over the third quarter, but were growing 14% on average during the first five months of the year, and a base effect in year-on-year growth in vegetable prices. Year-on-year growth in meat prices slowed slightly on the first half of the year to average 5.9% over the third quarter. Year-on-year growth in processed food prices also slowed in the third quarter, to 1.2%, primarily as a result of last year's rise in tobacco prices dropping out of the year-on-year calculation. Growth in food prices in the euro area overall outpaced that in Slovenia in the third quarter, and stood at 2.5%. Commodity food prices on the global market have mostly been falling since 2012.

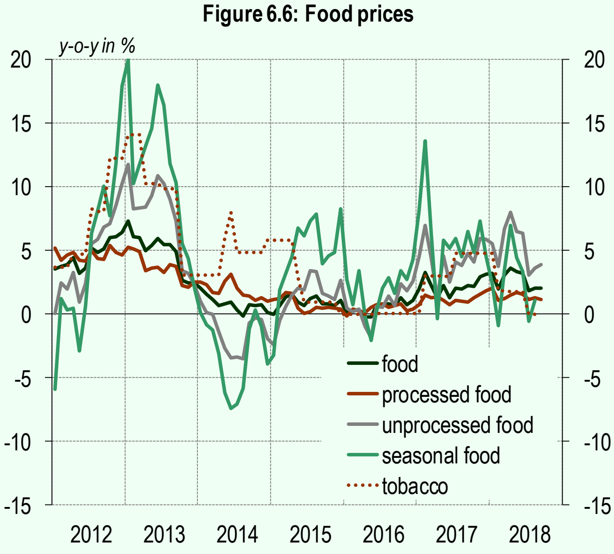
Year-on-year growth in services prices averaged 2.5% in the third quarter, up 0.2 percentage points on the previous quarter, and 1.2 percentage points more than in the euro area overall. The largest factor behind the increase were the prices of transport services, namely prices of passenger air transport services, which after a sharp reversal into positive territory in June continued to maintain very high year-on-year growth rates until August. Services prices in all major sub-categories recorded year-on-year growth overall, in particular prices of restaurants and hotels, and prices of certain public services,

Figure 6.5: Energy prices in Slovenia and the euro area



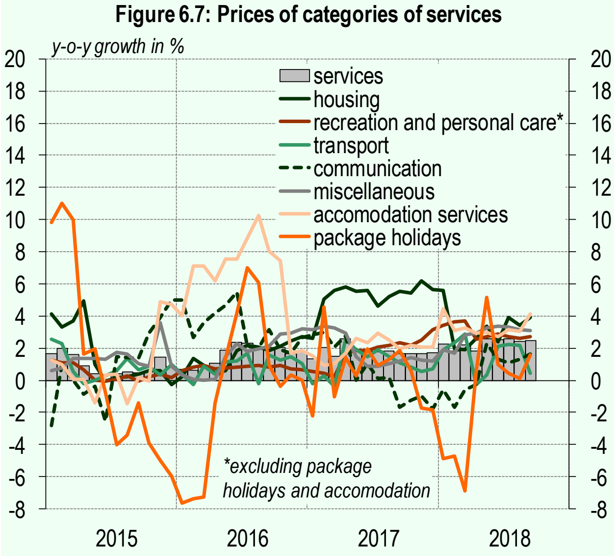
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.6: Food prices



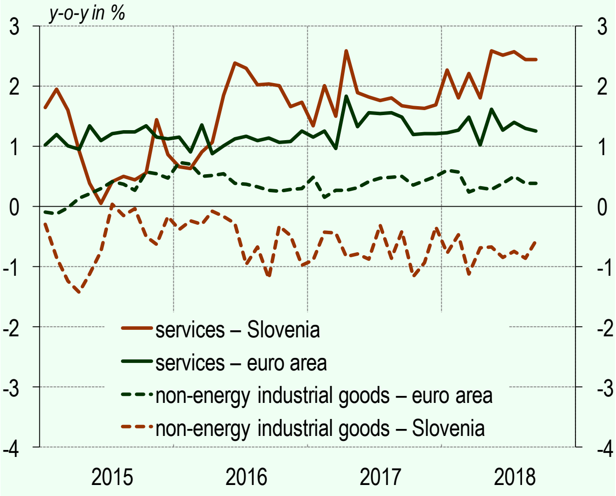
Sources: Eurostat, Bank of Slovenia calculations.

Figure 6.7: Prices of categories of services



Source: Eurostat, Bank of Slovenia calculations.

Figure 6.8: Prices of services and industrial goods excluding energy in Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

while growth in prices of certain marketable services (package holidays, recreational and cultural services, and telephone and internet services) slowed slightly. Growth in services prices in the euro area overall remains lower than in Slovenia. It averaged 1.3% over the third quarter, unchanged from the previous quarter.

Prices of non-energy industrial goods continue to fall in year-on-year terms. They were down 0.7% in year-on-year terms in the third quarter, a comparable decline to the previous quarter. The main factors in this dynamic were the negative contributions made by prices in the two largest categories, namely clothing and footwear, and cars. Prices of audio, video, photo and computer equipment are continuing to fall in year-on-year terms, while only prices of non-durables are recording positive year-on-year growth rates. The developments thus remain contrary to those in the euro area overall, where prices of non-energy industrial goods in the third quarter were again up in year-on-year terms, by 0.4%.

Industrial producer prices

Year-on-year growth in industrial producer prices on the domestic market has strengthened similarly to the HICP this year. Growth in these prices averaged 2.1% over the first eight months of the year, up 0.8 percentage points on last year's average. Prices of products in all categories have been rising in year-on-year terms since the beginning of the year at rates higher than last year's averages. The relatively high growth rate in consumer goods from the beginning of the year is continuing to slow, which could be related to competitive imports of these products, whose prices have been falling since the

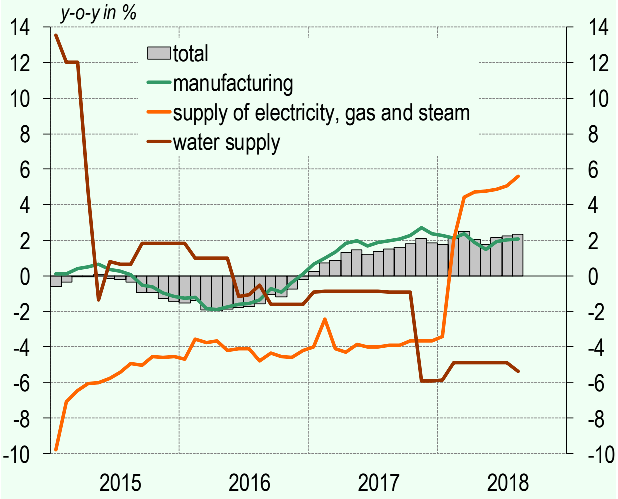
Table 6.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2018	2014	2015	2016	2017	1H18	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
HICP	*100.0%*	0.4	-0.8	-0.2	1.6	1.8	1.4	1.3	1.5	1.5	2.1	2.1
Breakdown of HICP:												
Energy	*11.8%*	-1.4	-7.8	-5.2	4.7	4.6	3.7	2.6	4.3	3.0	6.2	8.1
Food	*22.9%*	0.8	0.9	0.5	2.2	3.1	1.6	2.1	2.8	2.7	3.4	2.0
processed	*15.1%*	1.8	0.7	0.4	1.2	1.5	1.0	1.0	1.5	1.4	1.6	1.2
unprocessed	*7.8%*	-1.4	1.4	0.7	4.4	6.1	2.8	4.2	5.3	5.3	6.9	3.5
Other goods	*28.4%*	-1.0	-0.6	-0.5	-0.7	-0.8	-0.8	-0.5	-0.8	-0.8	-0.7	-0.7
Services	*36.9%*	1.8	0.9	1.6	1.8	2.2	2.1	1.8	1.7	2.1	2.3	2.5
Core inflation indicators:												
HICP excl. energy	*88.2%*	0.7	0.4	0.6	1.1	1.5	1.0	1.1	1.2	1.3	1.6	1.3
HICP excl. energy and unprocessed food	*80.4%*	0.9	0.4	0.6	0.8	1.0	0.9	0.8	0.8	0.9	1.1	1.1
HICP excl. energy, food, alcohol and tobacco	*65.3%*	0.6	0.3	0.7	0.7	0.9	0.8	0.8	0.6	0.8	1.0	1.1
Other price indicators:												
Industrial producer prices on domestic market		-1.1	-0.5	-1.4	1.3	2.0	1.3	1.5	1.9	2.1	2.0	...
GDP deflator		0.8	1.0	0.8	1.6	2.5	1.9	2.0	1.6	2.3	2.6	...
Import prices[1]		-1.1	-1.4	-2.2	3.0	1.2	3.6	2.2	2.0	0.2	2.3	...

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

end of last year. In terms of sector, only prices in non-marketable industrial sectors have been falling, namely in the collection, treatment and distribution of water, while the largest contribution to aggregate price growth came from products in manufacturing, which have been rising stably for one year now. The largest year-on-year growth since the beginning of the year among these prices has been recorded in the manufacturing of motor vehicles and in the manufacturing of metals and fabricated metal products. This year's highest growth has been recorded by prices in electricity, gas, steam and air conditioning supply.

Figure 6.9: Producer prices of manufactured goods by activities in the domestic market



Source: SORS, Bank of Slovenia calculations.

7 Public Finances

The general government sector recorded a surplus in the amount of 0.6% of GDP over the 12 months to June. The strengthening surplus was attributable to the favourable economic situation, which saw revenues continue to strengthen, in particular tax revenues, while interest expenses continued to decline. According to the government's latest plans, which were formulated under a no policy change scenario, there should remain a small surplus in the public finances next year. Given the current favourable economic situation, converging to the medium-term fiscal objective would require generation of larger surpluses.

The general government debt stood at 72.8% of GDP at the end of June, and is forecast to decline further to 70.3% of GDP by the end of the year. The decline in the general government debt in the second quarter was attributable to payments of maturing bonds. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates.

The risks in the fiscal area relate to the ability to maintain the appropriate fiscal policy stance in a favourable economic environment in the context of various upward pressures on expenditure. The key is to avoid measures that would cause a deterioration in the structural fiscal position, as general government debt remains high. The framework for the functioning of fiscal policy consists of domestic legislation on the fiscal rule and the Stability and Growth Pact. There are also risks from potential one-off factors and high growth in implicit and contingent liabilities.

General government balance

The general government surplus increased further in the first half of the year. It amounted to 0.6% of GDP in the 12 months to June. Growth in general government revenues is continuing to outpace growth in general government expenditure. According to the Ministry of Finance's October plans, which were drawn up under the no policy change scenario, a surplus of 0.5% of GDP is forecast. The main factors in the improvement in the position remain the favourable cycle and the reduction in the interest burden. The general government debt stood at 72.8% of GDP at the end of June, and is expected to decline further in relative terms by the end of the year, primarily as a result of growth in nominal GDP.

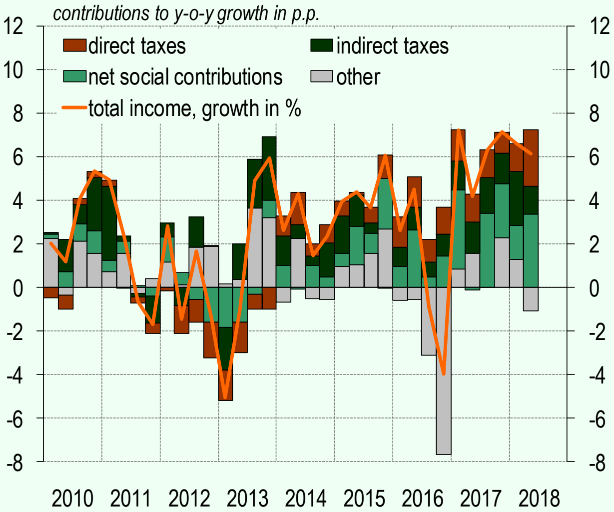
General government revenues are maintaining solid growth, in particular tax revenues related to the wage bill. General government revenues in the first half of the year were up 6.4% in year-on-year terms. Growth in tax revenues was 1 percentage point higher, and slightly outpaced growth in GDP. The highest growth was recorded by revenues from direct taxes on corporate and personal income, which were up for more than a tenth. Revenues from indirect taxes grew slightly slower than GDP, as did nominal household consumption. The main factors in the rise in tax revenues were high employment growth and strengthening wage growth. Revenues from property income were down on the same period last year, as a result of a year-on-year decline in dividend payments in

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

% GDP	SORS 2014	SORS 2015	SORS 2016	SORS 2017	SORS Q1-Q2 18	Draft Budgetary Plan 2017	Draft Budgetary Plan 2018	Draft Budgetary Plan 2019	Stability Programme 2018	Stability Programme 2019	Stability Programme 2020	Stability Programme 2021	EC 2018	EC 2019
Revenue	44.4	44.9	43.4	43.2	43.3	43.2	42.9	42.4	42.3	41.7	40.8	39.8	42.3	41.8
Expenditure	49.9	47.7	45.3	43.2	42.4	43.2	42.4	42.2	41.9	41.5	40.2	38.9	41.8	41.5
of which: interest	3.2	3.2	3.0	2.5	2.1	2.5	2.0	1.7	2.0	1.7	1.6	1.5	2.0	1.7
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.1	1.0	0.1	0.5	0.2	0.4	0.2	0.6	0.9	0.5	0.4
Primary balance	-2.3	0.4	1.1	2.6	3.1	2.6	2.5	1.8	2.4	1.9	2.2	2.3	2.5	2.0
Structural balance	…	…	…	…	…	0.1	-0.2	-0.9	-0.5	-1.0	-0.7	-0.2	-1.1	-1.5
Debt	80.4	82.6	78.7	74.1	72.8	74.1	70.3	66.6	69.3	65.2	61.5	58.3	69.3	65.1
Real GDP (growth, %)	3.0	2.3	3.1	4.9	4.2	4.9	4.4	3.7	5.1	3.8	3.2	3.0	4.7	3.6

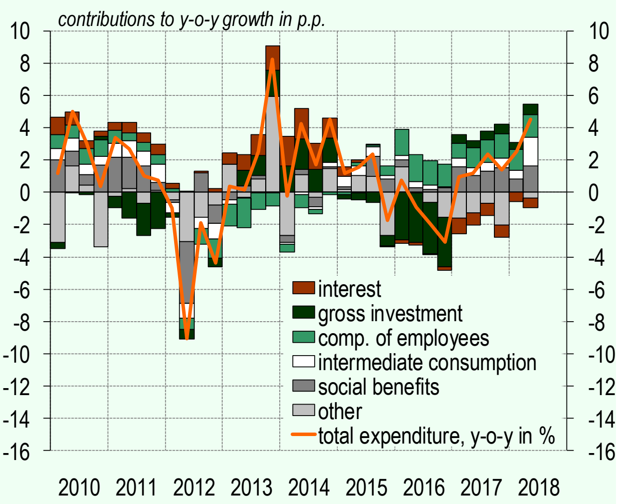
Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2018), Stability Programme (Ministry of Finance, April 2018), European Commission (May 2018).

Figure 7.1: General government revenues



Source: SORS, Bank of Slovenia calculations.

Figure 7.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

the first half of the year. Inflows of capital revenue were also down.

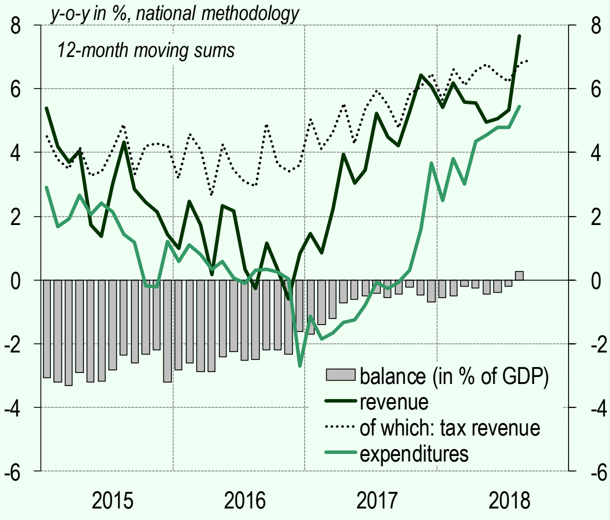
Growth in general government expenditure remains lower than growth in revenues, despite an acceleration in the second quarter owing to strengthened investment and intermediate consumption. General government expenditure in the first half of the year was up 3.5% in year-on-year terms. There was above-average growth in investment and intermediate consumption, which in the second quarter were both up around an eighth in year-on-year terms, and in compensation of employees and subsidies. Compensation of employees in the first half of the year was up 5.1%. The growth was attributable to the relaxation of austerity measures, most notably the relaxation of premiums for supplementary collective pension insurance, promotions, and the elimination of wage anomalies up to the 26th wage grade inclusive. Employment is also growing. Employment in the general government sector in the first half of the year was up 2.1% in year-on-year terms. Social benefits were up 3.1% over the same period, as growth in pensions, which account for the largest proportion, strengthened, largely as a result of a pension increase, while the rise in the number of pensioners remains low. The high growth in sick pay slowed slightly in the first half of the year and transfers to the unemployed have declined. The reduced interest burden is continuing to facilitate the improvement of the fiscal position.

Box 7.1: Public finance developments according to cash flow methodology

The consolidated general government surplus over the first eight months of the year amounted to EUR 397 million. The improvement in the balance is mostly attributable to the state budget, where the surplus amounted to EUR 298 million. There was an extremely high surplus in August, as a result of inflows from the EU budget in connection with the old 2007 to 2013 financial framework. The local government surplus over the first eight months of the year was smaller than the same period last year owing to strengthened investment, which is related to this year's local elections. During this period local government also recorded increased revenues, particularly from personal income tax. The Health Insurance Institute (HII) disclosed a surplus of EUR 42 million over the first eight months of the year, compared with a deficit of EUR 19 million in the same period last year. The improvement in the position of the health sub-sector is a reflection of the favourable developments on the labour market, which have been reflected in high growth in social security contributions. There has also been an increase in transfers from the state budget to the HII intended for wages for interns, secondments and specialization training in healthcare, which is the result of the gradual transfer of this expenditure to the state budget, which began at the end of last year.

General government revenues over the first eight months of the year were up 9.0% in year-on-year terms. The largest

Figure 1: Public finance developments



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

Table 1: Consolidated balance sheet* of public finance

	2017	last 12 months to Aug. 18			2017 Jan.-Aug.	2018 Jan.-Aug.	Jan.-Aug.
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y growth, %
Revenue	**16,803**	**17,797**	**39.7**	**7.7**	**11,033**	**12,026**	**9.0**
Tax revenue	15,162	15,849	35.3	6.8	9,931	10,618	6.9
- goods and services	5,723	5,891	13.1	5.3	3,739	3,908	4.5
- social security contributions	6,092	6,401	14.3	7.8	3,982	4,291	7.8
- personal income	2,197	2,354	5.2	9.1	1,429	1,587	11.0
- corporate income	766	814	1.8	15.1	534	581	8.9
From EU budget	391	635	1.4	48.7	254	497	95.9
Other	1,250	1,313	2.9	4.0	848	911	7.5
Expenditure	**17,102**	**17,674**	**39.4**	**5.4**	**11,057**	**11,630**	**5.2**
Current expenditure	7,733	7,933	17.7	5.2	5,032	5,232	4.0
- wages and other personnel expenditure (incl. contributions)	3,938	4,072	9.1	4.9	2,616	2,749	5.1
- purchases of goods, services	2,627	2,725	6.1	10.8	1,564	1,662	6.3
- interest	985	940	2.1	-11.5	774	728	-5.9
Current transfers	7,913	8,095	18.0	3.5	5,309	5,492	3.4
- transfers to individuals and households	6,665	6,827	15.2	3.5	4,485	4,647	3.6
Capital expenditure, transfers	1,078	1,233	2.7	24.2	465	620	33.4
To EU budget	378	413	0.9	1.3	252	286	13.7
GG surplus/deficit	**-299**	**123**	**0.3**		**-25**	**397**	

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

contribution to the growth came from tax revenues, and in August from revenues from the EU budget, on account of payments settlements in connection with the old financial framework. With the exception of excise duties, all major categories of taxes strengthened. The high growth in tax revenues is the result of improvements in conditions on the labour market, and in corporate performance. According to the latest figures available, revenues from taxes and contributions during the first three quarters of the year were up 6.8% in year-on-year terms.

Consolidated general government expenditure is growing more slowly than revenues: it was up 5.2%. The largest factors in this growth were transfers to individuals and households, most notably pensions, and certain social transfers, which increased in line with government measures in this area (in connection with child benefit and cash social assistance). Other significant factors in the increase were expenditure on wages, as a result of the relaxation of austerity measures, investment expenditure, and expenditure on goods and services. Interest payments are declining, as a result of the favourable financing conditions and the restructuring of debt.

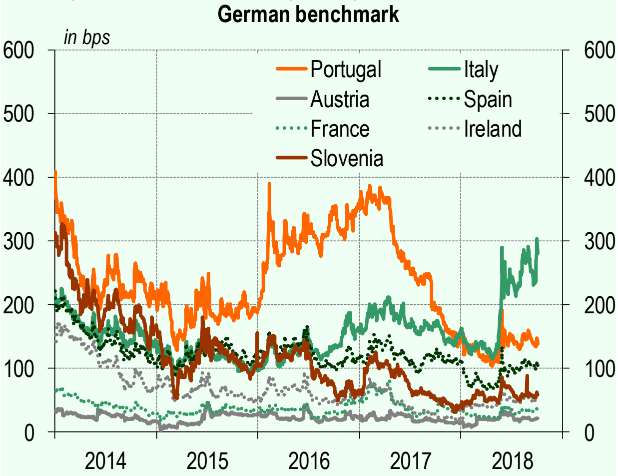
General government debt and government guarantees

The general government debt as a ratio to GDP declined in the first half of the year, as a result of the impact of economic growth. The general government debt amounted to EUR 32,308 million or 72.8% of GDP at the end of June, less than at the end of the first quarter and less than at the end of last year. The majority of this year's government borrowing comes from the first quarter, when a large bond matured. The decline in debt in May was primarily attributable to a maturing bond issued in US dollars, while borrowing in the second quarter was undertaken solely via treasury bills. Debt consequently declined. In the third quarter the sole issuance of treasury bills was in September, and the issuance was lower than the maturing treasury bills during this period. Issuance of treasury bills is still recording negative interest rates as demand is significantly outstripping supply. The debt is expected to decline slightly further by the end of the year, and should stand at 70.3% of GDP according to the forecasts from October's draft budget plan.

The stock of guarantees is continuing to gradually decline. Having been present since 2015, the decline continued to the end of June, when guarantees amounted to EUR 6,002 million or 13.5% of GDP. They were down EUR 177 million on the end of the first quarter. The repayment of a loan by the Eco fund was the largest contribution to the reduction of ordinary guarantees. Of the guarantees incurred during the crisis, the largest reduction came from the guarantees issued for the liabilities of the EFSF and the BAMC. There was consequently a decline in the stock of guarantees included in the general government debt, which amounted to 3.7% of GDP at the end of June. The quota for the issuance of new government guarantees in the state budget for this year is EUR 500 million, but no new government guarantees were issued in the first half of the year. The state budget received commission of EUR 7 million in the first half of the year from issued guarantees. EUR 3 million was earmarked in this year's budget for guarantees called, but there had been no payments by the end of August.

The required yield on Slovenian 10-year government bonds is relatively stable, and remains low. The main factors in developments in the required yields in the euro area periphery countries in the third quarter were the uncertainty regarding fiscal measures in Italy, the changes in US trade relations and the crisis in Turkey. The confirmation of an A- rating with a stable outlook from Fitch in mid-August had a favourable impact on Slovenia's bond

Figure 7.3: Spreads of long-term government bonds over German benchmark



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

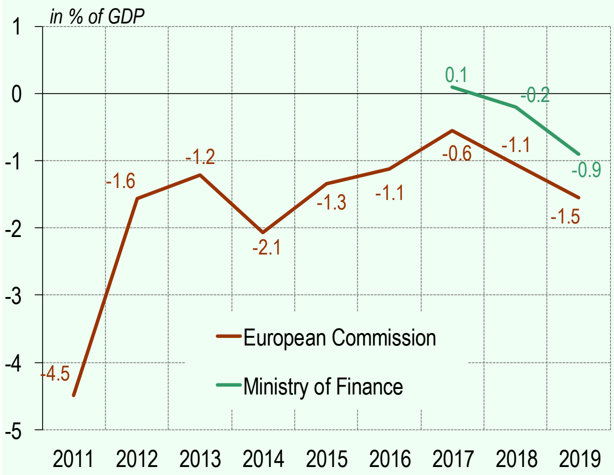
spreads. The required yield on Slovenian 10-year government bonds averaged 1% in September, while the spread over the German benchmark averaged 56 basis points, similar to the first half of the year. The low required yields and spreads already present for some time are in line with the ECB's monetary policy stimulus, and are a favourable factor in fiscal consolidation.

Planned developments in general government balance and debt

The general government sector is expected to register a surplus also in the coming years. The cyclical situation is expected to remain favourable, like this year, in the coming years, and the interest burden is also expected to continue diminishing. In the October Draft Budgetary Plan, which was formulated under a no policy change scenario, the general government surplus for next year is estimated at 0.2% of GDP, the same as in April's update to the Stability Programme. In the April's update the surplus was estimated at 0.6% of GDP in 2020, and 0.9% of GDP in 2021. More relevant estimates that would include the new government's measures can be expected in the future.

The available estimates of the general government structural balance point to the urgency of additional structural measures. According to the estimates, this year and next year Slovenia will fail to meet its medium-term fiscal objective, which is currently defined as a structural surplus in the amount of 0.25% of GDP. The government's latest plans, which were drawn up under a no policy change scenario, suggest a structural deterioration in the public finances in both years. By contrast, the improvement in the structural balance required under the Stability and Growth Pact amounts to 0.6% of GDP this year, whereby growth in (corrected) general government expenditure may not exceed 1.5%. According to European Commission estimates, next year's improvement in the structural balance should amount to 0.65% of GDP, whereby growth in (corrected) general government expenditure may not exceed 3.1%. On the basis of its

Figure 7.4: Public finance structural balance in Slovenia



Source: European Commission, Ministry of Finance – Draft Budgetary Plan, October 2018.

spring forecasts, the European Commission determined that Slovenia is facing the risk of a significant deviation from the rules of the Stability and Growth Pact. In April the Fiscal Council assessed that the planned developments in the general government balance under the Stability Programme are not in accordance with fiscal rules.

Various risks are present in the fiscal area, both short-term and long-term. In the short term they come from increasing upward pressures on expenditure that are accompanied by a slowdown in economic growth and the simultaneous increase in risk of an additional slowdown in growth. The risks on the expenditure side include the negotiations with the public sector unions with regard to wage policy for this year and the following years,[1] and there are also pressures in other areas, namely pensions, social security, defence and healthcare. In the longer term, the upward pressure on general government expenditure will also be strengthened by demographic changes. There is considerable uncertainty with regard to government investment, in connection with planned major investment projects, the local elections and the capacity to speed up the disbursement of EU funds. The new government's coalition agreement cites a large number of measures, but is simultaneously stating that the fiscal rules will be upheld. For now the government has not adopted any measures that would have a major impact on the public finances. Factors of a one-off nature could

[1] Questions remain unresolved in connection with the elimination of anomalies for employees above the 26th wage grade, the wage grade classification of positions and job titles that are comparable to medical positions in terms of content, complexity or any other circumstances, and the relaxation of the remaining austerity measures in the area of wages.

also have an adverse impact on the public finances (e.g. past court judgments).

The further gradual reduction of debt is planned, however structural reforms are necessary to ensure the long-term sustainability of the debt. The significantly higher level of debt compared with before the crisis represents a disadvantageous starting point for fiscal policy in the resolution of any future crises. The ratio of debt to GDP has been gradually declining since 2016, and the reduction is in accordance with the recommendations of the Stability and Growth Pact and is planned to continue in the future, although its long-term sustainability will require structural reforms to be made in the areas of pensions, healthcare and long-term care. Further warning of this comes from the findings of this year's European Commission Ageing Report,[2] where Slovenia is ranked third among EU Member States in terms of the largest increases in general government expenditure by 2070 on account of an ageing population. In addition, the current forecasts for the general government structural balance drawn up under a no policy change scenario suggest that in the good economic situation Slovenia is not creating sufficient reserves for a future reversal in the economic cycle.

[2] Ageing Report, 2018. https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf.

8 Selected Themes

8.1 Effect of unemployment rate on nominal average wage growth

The following analysis examines the effect of the unemployment rate on nominal average wage growth. The relationship has changed during the period of economic recovery, whereby the wage Phillips curve has not only become flatter, it has also shifted outwards. Growth in the average wage during the economic recovery was actually higher than could have been expected under the high unemployment rate with regard to their relationship before 2013. The change in the wage Phillips curve, in which the measure of labour market slack is traditionally given by the surveyed unemployment rate, is attributed in the analysis to a higher natural unemployment rate, which is thought to have risen during the crisis as a result of an increase in structural unemployment. The significant role of structural unemployment in the change of the wage Phillips cure is then confirmed by the greater explanatory power of the model in which the unemployment rate is replaced with the short-term unemployment rate. When the short-term unemployment rate is used as the measure of labour market slack, the argument for the more accurate forecasts is based on the assumption that only the short-term unemployed place pressure on wage growth, as the long-term unemployed have less attachment to the labour market. In addition to the short-term unemployment rate, certain alternative measures of labour market slack outperform the overall unemployment rate in forecasting nominal average wage growth, including the non-employment rate, the inactivity rate and the indicator of the shortage of (skilled) labour.

Introduction

Since the last crisis the labour market saw a weakening of the relationship between the surveyed unemployment rate and nominal average wage growth.[1] The former reached a record high level, averaging 10.1% in 2013, but had fallen to 5.5% by the first quarter of this year, according to the seasonally adjusted figures.[2] During the fall in unemployment, growth in the average wage increased only slowly. From 0.5% in 2013, it increased to 3.2% in 2017, when it began to notably pick up pace, reaching 3.6% in the first quarter of this year. Despite the acceleration, according to the historical parameters of the relationship with the unemployment rate, higher growth in the average wage could have been expected: when the unemployment rate averaged around a comparable 5.5% between 2005 and 2008, wage growth averaged 6.2%.

The relationship between the unemployment rate and the average wage growth is described by the Phillips curve. According to the curve, which was identified by the economist A. W. Phillips in 1958, average wage growth should be faster in periods of low unemployment, and vice-versa. The literature often features diagrams that describe the relationship between the unemployment rate and the nominal average wage growth, but even the

[1] The analysis uses national accounts figures, where the average wage is calculated as compensation of employees per employee.

[2] The surveyed unemployment rate is seasonally adjusted by means of the X12 procedure. X12 is a method of seasonal adjustment that for the purposes of forecasting and seasonal adjustment adjusts the time series for deviations by fitting a regression model with ARIMA time series errors. On the basis of moving averages it then divides the series into the trend-cycle component, a seasonal component and an irregular component, where the seasonally adjusted time series is equal to the sum (in the case of an additive model) or product (in the case of a multiplicative model) of the trend-cycle component and the irregular component.

original Phillips curve also included growth in retail prices. By including price inflation among the explanatory variables, the Phillips curve can be used to examine the effect of the unemployment rate on the real average wage growth.

The fact that average inflation between 2005 and 2008 was almost seven times higher than in the period after the first quarter of 2013 reveals that average growth in the average wage during the economic recovery was actually higher than could have been expected under the high unemployment rate with regard to the historical relationship. Figure 8.1.2 illustrates a scatter plot, where the points for individual quarters illustrate the relationship between real year-on-year growth in the average wage and the surveyed unemployment rate in Slovenia. The observations are divided into those made before and during the economic recovery, whereby a linear relationship is estimated using the ordinary least squares method for both periods.[3] The Phillips curve shifted outwards during the recovery, and the same unemployment rate was accompanied by higher real average wage growth than before 2013, while the slope of the curve has diminished. The slope during the recovery was half of that seen before 2013, while the flatter curve is an indication of the potential slower response of the real average wage growth to changes in the unemployment rate.

In line with change in the relationship between the unemployment rate and the average wage growth, growth in the average wage during the economic recovery was consistently higher than forecast. Figure 8.1.3 illustrates the Bank of Slovenia's spring forecasts, which underpredicted the real average wage growth throughout the 2013 to 2017 period. The underpredicted growth in the average wage was accompanied by an overpredicted unemployment rate, although the forecasting errors in the average wage growth can also be explained by a change in the relationship between the unemployment rate and the average wage growth.[4] The

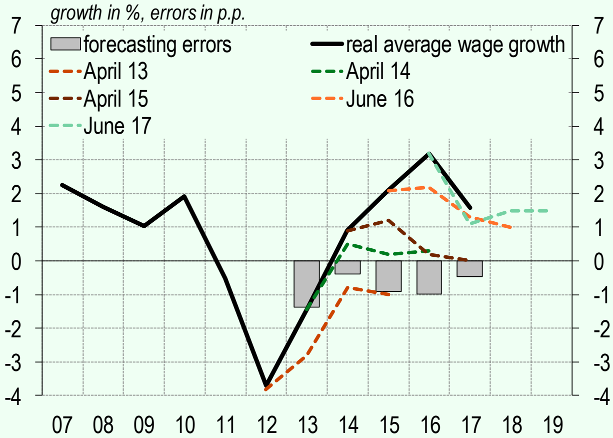
Figure 8.1.1: Nominal average wage growth and surveyed unemployment rate

Note: Unemployment rate is seasonally adjusted.
Source: SORS, Bank of Slovenia calculations.

Figure 8.1.2: Real average wage growth and surveyed unemployment rate

Source: SORS, Bank of Slovenia calculations.

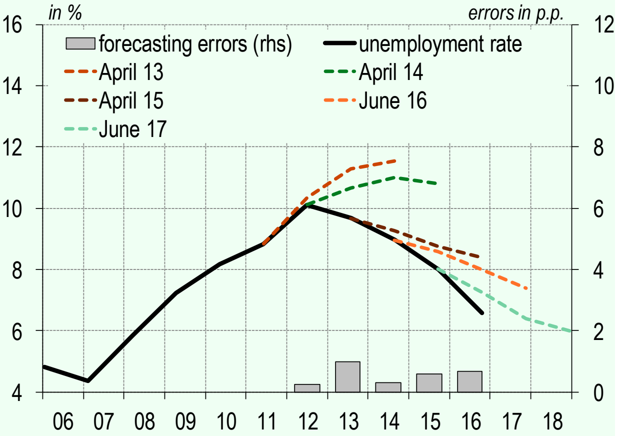
Figure 8.1.3: Real average wage growth and projections



Note: The forecast error is calculated as the difference between the spring projection of each year and the realization of the average wage growth of the same year.
Source: SORS, Bank of Slovenia projections.

[3] To separate the two sub-periods the second quarter of 2013 is used, when the nominal average wage growth turned positive.
[4] Data revisions also contribute significantly to the forecasting errors. The national accounts figures are revised three times, where the final revision of the figures for a particular year is published 44 months after the end of the year.

Figure 8.1.4: Surveyed unemployment rate and projections



Note: The forecast error is calculated as the difference between the spring projection of each year and the realization of the unemployment rate of the same year.
Source: SORS, Bank of Slovenia projections.

analysis tries to explain the background to the change in the Phillips curve, and later also examines the potential inadequacy of the unemployment rate as a measure of labour market slack.

Methodological framework

The simple relationship between the unemployment rate and the nominal average wage growth does not include factors that could cloud the picture because of their significant effect on wage growth. To unbiasedly assess the impact of the unemployment rate on the average wage growth, it is necessary to expand the basic Phillips equation to at least include inflation expectations, which affect workers' demand for higher wages and determine employers' willingness to raise them. Past inflation can be included in the equation as an approximation of inflation expectations, which is particularly reasonable in the case of wage indexation.[5] Based on Blanchard and Katz (1996) and Ball and Moffitt (2001), who combine the supply and demand sides in the formation of the Phillips curve, labour productivity growth has also been included in the Phillips curve here.[6] From the employer's perspective, higher growth in labour productivity means greater value for labour and allows wages to be raised without loss of competitiveness. Due to the wage rigidity, the average wage growth is also dependent on its lagged value, where its coefficient (b_2 in the equation) describes inertia in wage growth (Ball & Moffitt, 2001).

The expanded form of the Phillips curve is estimated below. The equation is estimated using the ordinary least squares method, where year-on-year growth in the average wage is regressed to (i) its first lagged value (w_{t-1}); (ii) the surveyed unemployment rate (γ_t); (iii) real year-on-year growth in labour productivity (z_t); and (iv) past inflation, which is defined as the first lag of the four-quarter moving average of year-on-year growth in the HICP (π_t):

$$w_t = b_1 + b_2 w_{t-1} + b_3 \gamma_t + b_4 z_t + b_5 \pi_t + \epsilon_t$$

The unemployment rate appears in the equation as a variable denoting labour supply, while the coefficient b_3 or the slope of the wage Phillips curve describes wage flexibility. A negative, statistically significant coefficient denotes flexibility in wages in responding to changes in unemployment, while statistical insignificance indicates wage rigidity. Here the response of the average wage to the unemployment rate depends on the gap between the actual and the natural unemployment rate. With the unemployment rate and the constant b_1 in the equation, we implicitly assume a constant natural unemployment rate, which is restrictive, particularly in the presence of labour market reforms. The use of the unemployment rate instead of the unemployment gap is nevertheless justified from the perspective of the inability to observe a gap.[7] In addition, the unemployment rate does not appear in the model in the form of year-on-year changes like other variables, as this form would eliminate the assumption of the existence of a natural unemployment rate (Gordon, 2013).

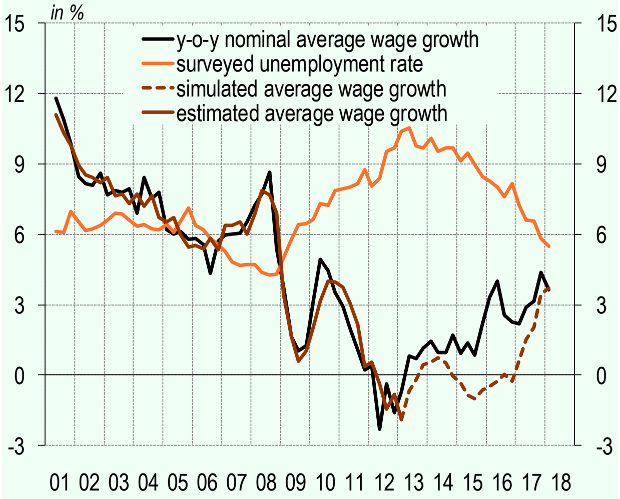
With the help of estimates of the baseline model for the period of Q2 2001 to Q1 2013, the performance of the unemployment rate in forecasting the average

[5] Wage adjustment for anticipated inflation was introduced in Slovenia in 2001.
[6] Blanchard and Katz (1996) introduce productivity into the Phillips curve via the supply side, where alongside the unemployment rate they include labour productivity and the reservation wage in the model. In place of the latter Ball and Moffitt (2001) introduce wage aspirations, i.e. real wages that workers consider fair.
[7] The unemployment gap is the difference between the observed unemployment rate and the natural unemployment rate, where the natural unemployment rate requires estimation. If the estimate of the natural unemployment rate is biased, the unemployment gap will also be biased, and so will the estimate of the slope of the Phillips curve.

wage growth during the recovery was tested within the framework of dynamic simulations.[8] Dynamic simulations for the period of the recovery are generated on the basis of the observed values of all explanatory variables, other than the lagged dependent variable, which is generated endogenously. The results of the dynamic simulations in Figure 8.1.5 reveal that the nominal average wage growth in the model using the surveyed unemployment rate is underpredicted, which is attributable to the change in the relationship between the unemployment rate and the average wage growth.

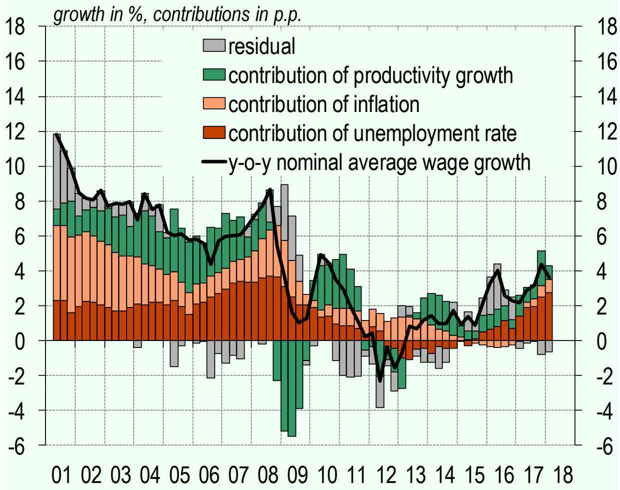
On the basis of estimates for the entire period of Q2 2001 to Q1 2018, the explanatory power of growth drivers was analysed within the framework of the nominal average wage growth decomposition. The contributions made by individual explanatory variables to the nominal average wage growth are illustrated within the framework of the decomposition in Figure 8.1.6, where the contributions are calculated on the basis of long-term coefficients, and the residual reflects the difference between the observed and estimated value of the nominal average wage growth. If the low average wage growth at the beginning of the recovery was primarily the result of the high unemployment rate, then the slow growth from 2015 is primarily attributable to extremely low inflation. Growth in labour productivity had a positive effect on the average wage growth throughout the recovery, although its contribution was significantly smaller than before the crisis. The average wage growth has strengthened over the last three years primarily as a result of a rapid fall in the unemployment rate, and the corresponding growing labour shortage, while additional impetus can be expected from the further labour market tightening and labour productivity growth. The residuals, which reflect the effect of variables not included in the model, can mainly be related to the relaxation of austerity measures in the public sector and to structural shifts. The former explain the positive residuals in 2016, while the negative residuals during the recovery are most likely related to changes in the structure of employment. Namely, the proportion of employees accounted for by sectors with below-average wages has been increasing since mid-2013, reducing the average wage growth in Slovenia.[9]

Figure 8.1.5: Dynamic simulation of nominal wage growth with the surveyed unemployment rate as a measure of labour supply



Source: SORS, Bank of Slovenia calculations.

Figure 8.1.6: Decomposition of nominal average wage growth based on estimates of Phillips curve with unemployment rate



Source: SORS, Bank of Slovenia calculations.

Changes in the wage Phillips curve

The first of the possible explanations offered for the underprediction of the average wage growth is a change in the relationship between the unemployment rate and the average wage growth. The average

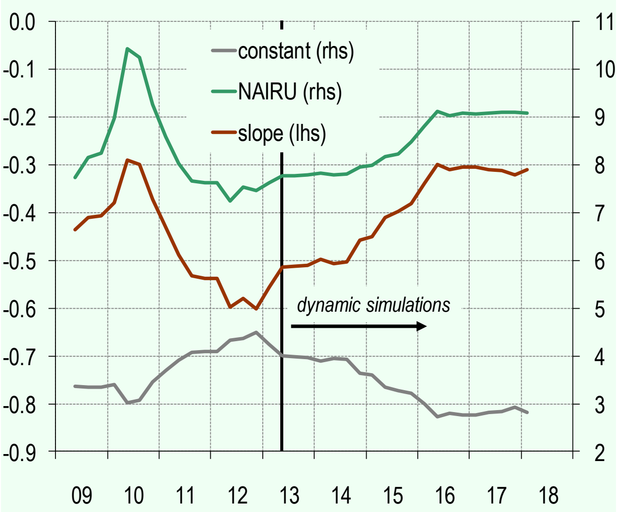
[8] The beginning of the estimation period is determined by the introduction of wage adjustment for anticipated inflation in Slovenia. The first observation (Q1 2001) is as an outlier excluded from the analysis. The high nominal wage growth in the first quarter of 2001 was largely attributable to a wage increase in the public sector.
[9] Potential explanations of residuals are described in detail in the January 2018 Economic and Financial Developments, while the adverse structural shifts and their effect on the nominal average wage growth are described in the April 2018 Economic and Financial Developments.

wage growth in the Phillips curve is driven by the unemployment gap, which depends on the natural rate or the non-accelerating inflation rate of unemployment (NAIRU). When the actual unemployment rate is lower than the natural rate, the pressures on the average wage growth will be positive, and vice-versa, while the average wage growth remains unchanged when the rates are equal. The equation assumes a constant natural unemployment rate, which is defined as the ratio between the constant and the slope of the wage Phillips curve, $-(b_1/b_3)$.

During the recovery the constant and the slope of the curve decreased, while the natural unemployment rate increased. To determine how the NAIRU changed during the recovery, the method of ordinary least squares was used to recursively estimate the equation, where the sample was extended by one quarter each time. The first sample captured the period of Q2 2001 to Q2 2009, and continued to the period of Q2 2001 to Q1 2018. The estimates of the slope and the constant for successive periods are illustrated in Figure 8.1.7, where the x-axis denotes the end of the individual regression period. It can be concluded from the recursive estimates of the equation that the response of the nominal average wage growth to the change in unemployment rate was not stable during the recovery. The slope of the curve increased during the crisis, then decreased during the recovery, and stabilised in 2016.[10] At the same time the constant in the model decreased, and because its decrease was smaller than the decrease in the slope, the NAIRU increased.[11]

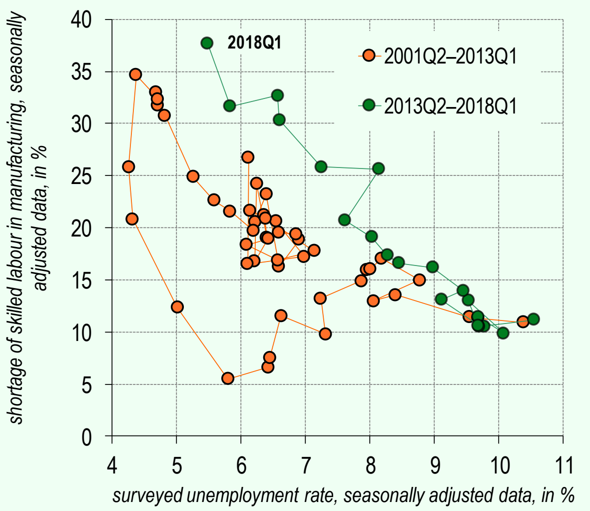
The rise in the natural unemployment rate after the crisis is related to the increase in structural unemployment. The natural unemployment rate consists of frictional and structural unemployment. Frictional or short-term unemployment arises as a result of the time delay between the beginning of employment search and the beginning of employment, while structural or long-term unemployment arises from structural imbalances on the labour market and wage rigidity. The increase in structural unemployment is evident from the Beveridge curve in Figure 8.1.8, which describes the correlation between the indicator of the shortage of skilled labour in manufacturing and the unemployment rate.[12] The outward shift of the curve during the recovery is indicative of an increase in structural unemployment, as a given level of shortage of skilled labour is associated with a higher unemployment rate than before 2013. Similarly, an increase in structural unemployment can also be concluded from observing the share of long-term unemployed in the total number of unemployed. According to survey data, the average share of long-term unemployed during the recovery was 4.4 percentage points higher than the average over the period of Q2 2001 to Q1 2013.

Figure 8.1.7: Change in the wage Phillips curve



Source: SORS, Bank of Slovenia calculations.

Figure 8.1.8: Beveridge curve



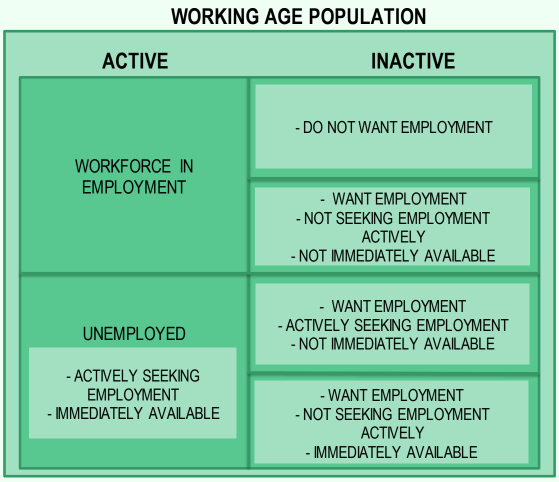
Source: SORS, Bank of Slovenia calculations.

[10] The results of the analysis and a verdict as to the stability of the wage Phillips curve are subject to the choice of model specification.
[11] The natural rate of unemployment in Slovenia began to rise during the crisis, and peaked in 2014 according to the assessments of the OECD and the IMF. Despite a gradual decline, its average during the recovery was higher than before the crisis.
[12] Because of multiple changes in the method of data collection used for the job vacancy rate computation, we use the indicator of the shortage of skilled labour in manufacturing as a proxy for the job vacancy rate in the Beveridge curve.

Alternative measures

The instability of the relationship between the unemployment rate and the average wage growth is indicative of the inadequacy of the unemployment rate as a measure of labour market slack in forecasting the average wage growth. The attempt was made to improve the forecasts by using alternative measures of labour market slack that would better explain wage growth over the last five years. Through estimation of the equation in which the unemployment rate was replaced on each occasion with a different measure of labour slack, dynamic simulations were used to identify the measures that display greater forecasting power during the recovery than the surveyed unemployment rate, including the short-term unemployment rate, the inactivity rate, the non-employment rate and the narrower non-employment rate, and the indicator of the shortage of (skilled) labour in manufacturing. Like the unemployment rate in the baseline model, all the alternative measures enter the

Figure 8.1.9: Structure of the working age population according to the criteria of the labor force survey



$$\textbf{Unemployment rate} = \frac{\text{unemployed}}{\text{active}}$$

$$\textbf{Inactivity rate} = \frac{\text{inactive}}{\text{working age population}}$$

$$\textbf{Non-employment rate} = \frac{\text{inactive} + \text{unemployed}}{\text{working age population}}$$

$$\begin{array}{c}\textbf{Narrower}\\ \textbf{non-employment rate}\end{array} = \frac{\text{inactive wanting employment} + \text{unemployed}}{\text{working age population}}$$

Source: ILO, Bank of Slovenia.

Table 8.1.1: Wage Phillips curve estimates using different labour market slack measures

	unemp		non-emp		inact		shortage_gen		narr_non-emp		shortage_skill		short_unemp	
							2001Q2–2013Q1							
constant	4.24	***	13.29	***	10.32	**	-0.22		1.99		-0.34		*4.48*	***
w(-1)	0.42	***	0.45	***	0.61	***	0.67	***	0.71	***	0.70	***	0.50	***
z	0.33	***	0.38	***	0.33	***	0.23	***	0.25	***	0.21	***	0.23	***
π	0.42	***	0.61	***	0.47	***	0.24	**	0.12		0.17		0.22	**
γ	-0.56	***	-0.40	***	-0.37	**	0.06	*	-0.18		0.03		-0.97	***
Adj. R2	0.94		0.94		0.93		0.92		0.92		0.92		0.93	
RMSE	**1.97**		**1.88**		**1.63**		**1.59**		**1.01**		**1.00**		**0.90**	
							2001Q2–2018Q1							
constant	2.82	***	6.51	***	5.08	*	0.05		2.27	**	-0.25		*3.96*	***
w(-1)	0.59	***	0.65	***	0.73	***	0.73	***	0.68	***	0.72	***	0.55	***
z	0.26	***	0.27	***	0.25	***	0.21	***	0.25	***	0.20	***	0.22	***
π	0.19	***	0.26	***	0.22	**	0.14	*	0.12	*	0.14	*	0.18	**
γ	-0.31	***	-0.19	***	-0.18	*	0.05	*	-0.19	**	0.03	*	-0.84	***
Adj. R2	0.93		0.93		0.93		0.93		0.93		0.93		0.93	

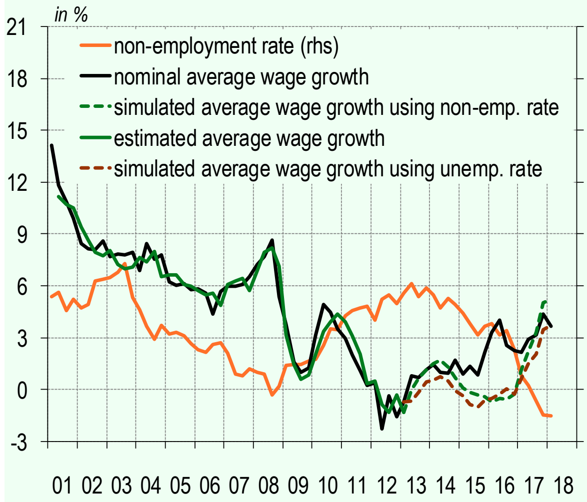
*Note: ***, ** and * indicate that the coefficient is statistically significant at a confidence level of 1%, 5%, and 10%, respectively.*
Source: SORS, Bank of Slovenia calculations.

model at their levels, and before estimation are seasonally adjusted by means of the X12 procedure. For the sake of comparability, on each occasion the model is estimated for observations in the period of Q2 2001 to Q1 2013. The forecasting power of the individual model or the measure of labour market slack is then determined by means of dynamic simulations for the period of Q2 2013 to Q1 2018, and in order to relativize the conclusion of a change in the wage Phillips curve the model is estimated once more for the entire period of Q2 2001 to Q1 2018. The results of the analysis are illustrated in Table 8.1.1.

Available labour force is not necessarily limited to unemployed as it may also include the inactive working age population, whereby it is expressed in form of the non-employment rate. The non-employment rate (*non-emp* in Table 8.1.1) is defined as the ratio of the unemployed plus the inactive population to the working age population. Similar to the unemployment rate, the non-employment rate rose sharply during the crisis, before falling rapidly during the recovery. The number of non-employed has fallen by a fifth over the last five years, while according to seasonally adjusted figures the non-employment rate fell by approximately 7.7 percentage points. As a result of the faster fall in the non-employment rate than in the unemployment rate, the forecast average wage growth is higher and therefore more accurate, albeit only marginally, which is evident from Figure 8.1.10 and the lower root mean square error (RMSE). The forecasting power of the model is similarly improved by the use of the inactivity rate (*inact* in Table 8.1.1), which is expressed as the ratio of the inactive population to the working age population.

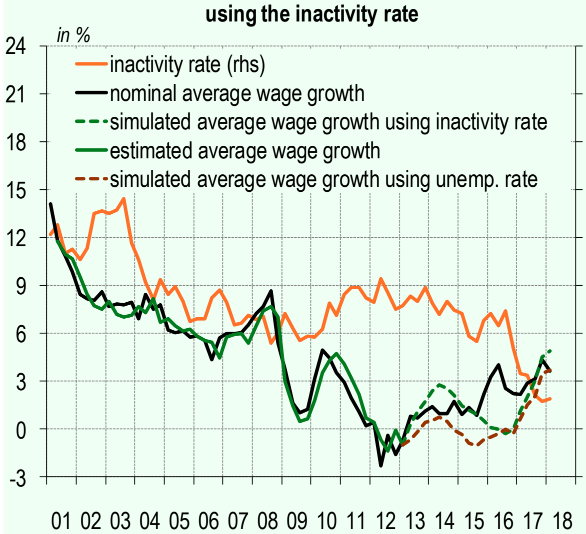
The forecasting power of the non-employment rate is improved by the identification of potential labour force. The weakness of the non-employment rate as a measure of labour market slack derives from the fact that a major share of the inactive population consists of people who do not want to work, and therefore are not in reality part of the labour supply. In addition, the labour force survey further distinguishes three categories of inactive population according to their attachment to the labour market. The first consists of those who want employment, but are not seeking and are not available to accept employment for personal, family or other reasons. Given their traits, the ILO does not class them among the potential labour force. By contrast, those seeking employment but currently unavailable to accept it, and those not seeking employment but currently available and willing to work are included in ILO's definition of the potential labour force.[13] Owing to a lack of data, the potential labour force as defined by the ILO was replaced with a narrowly defined non-employment, which in addition to the unemployed includes all three categories of the inactive popu-

Figure 8.1.10: Simulation of the nominal average wage growth using the non-employment rate



Source: SORS, Bank of Slovenia calculations.

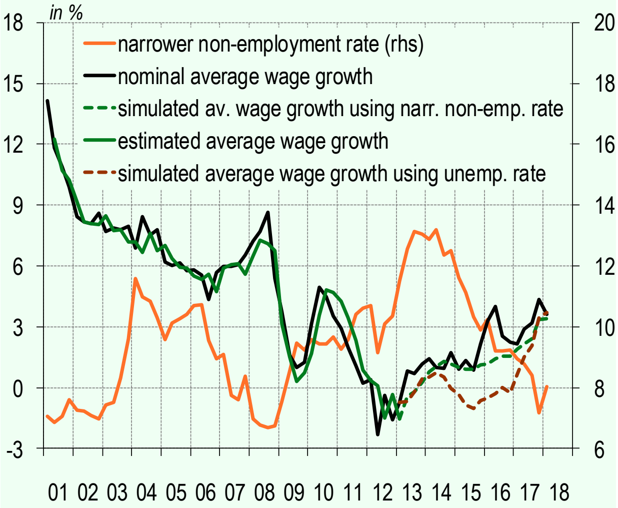
Figure 8.1.11: Simulation of the nominal average wage growth using the inactivity rate



Source: SORS, Bank of Slovenia calculations.

[13] The active job search criterion and the availability criterion are used for the classification of the inactive population. A person who actively sought work in the last four weeks before the week of the survey is classed as an active jobseeker, while a person who is available for paid employment within two weeks of the week of the survey is classed as available to accept employment immediately.

Figure 8.1.12: Simulation of nominal average wage growth using the narrower non-employment rate

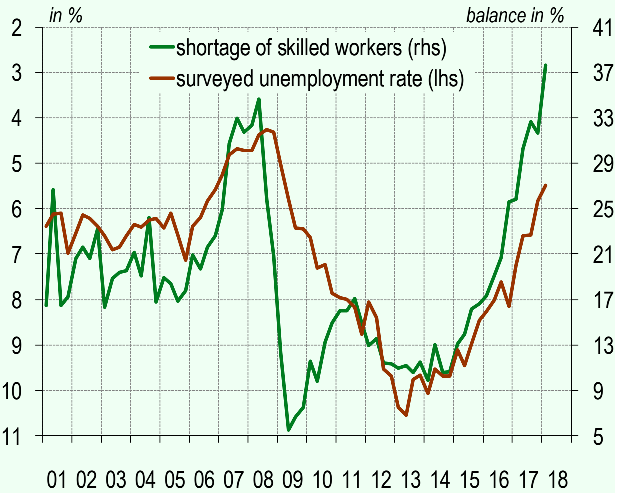


Source: Eurostat, SORS, Bank of Slovenia calculations.

lation who want employment. The narrow non-employment rate (*narr_non-emp* in Table 8.1.1) is thus expressed as a ratio of unemployed plus inactive population willing to work to the working age population. Because the narrow non-employment rate fell faster than the unemployment rate after 2013, particular in 2015 and 2016, when the errors in the forecast were greatest, its use improves the forecasting power of the model, which is evident from the halving of the RMSE and Figure 8.1.12.

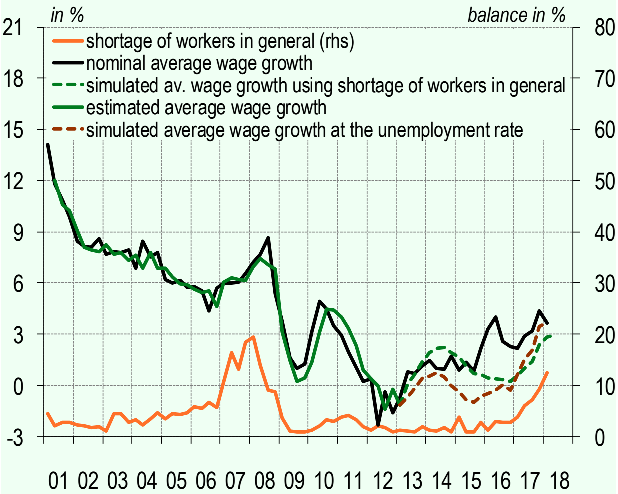
Alternative to indicators of labour supply, labour market slack can be represented by indicators of demand for labour. Indicators of labour shortage are derived from business tendency surveys conducted in construction, manufacturing and services other than trade.[14] In the surveys firms express their position with regard to factors limiting their performance, and the indicator illustrates a balanced proportion of firms facing a shortage of (skilled) labour. The surveys vary from sector to sector: the construction sector reports the shortage of skilled labour, the service sector reports the shortage of labour in general, and both indicators are available for the manufacturing sector. A rise in the indicator means increased difficulty in seeking workers, and indicates a contraction in labour market slack, for which reason wage growth can be expected when the indicator rises.

Figure 8.1.13: Comparison of the unemployment rate with labour shortage indicator in manufacturing



Source: SORS, Bank of Slovenia calculations.

Figure 8.1.14: Simulation of nominal average wage growth using a labour shortage indicator in manufacturing



Source: SORS, Bank of Slovenia calculations.

The best-performing of the labour shortage indicators in forecasting the average wage growth is the indicator of the shortage of skilled labour in manufacturing.[15] In addition to the indicator of the shortage of skilled labour, Figure 8.1.13 also illustrates the surveyed unemployment rate, which is shown with an inverted axis for the purposes of comparison. According to the figure, the dynamics in the unemployment rate were significantly slower than the movement in the indicator of the shortage of skilled labour. The latter fell rapidly at the outbreak of the crisis, while the unemployment rate needed some

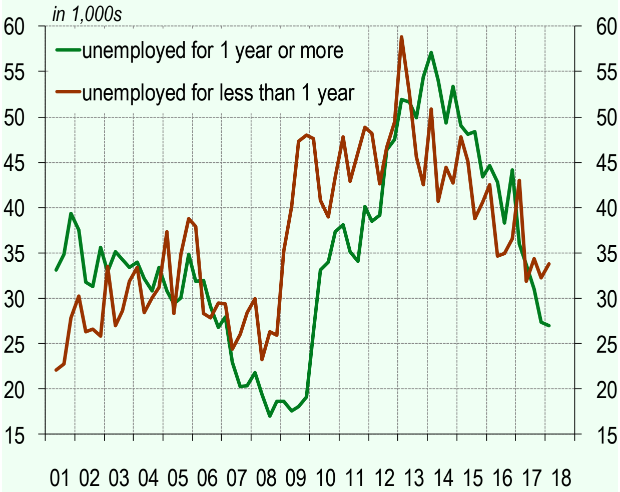
[14] Firms from the retail sector also participate in the surveying, but do not report labour shortages in the questionnaire on limiting factors.
[15] According to the RMSE, the indicator of the shortage of skilled labour in manufacturing is followed by the indicator of the general shortage of labour in services other than trade, although neither of the two models displays a statistically significant slope of the Phillips curve. The estimated slope is significant in the case of the indicator of the general shortage of labour in manufacturing (shortage_gen in Table 8.1.1), where the RMSE is slightly higher.

time to adjust. Similarly, the indicator of the shortage of skilled labour increased faster in the recovery (*shortage_skill* in Table 8.1.1), for which reason the dynamic simulations in Figure 8.1.15 more closely follow the observed average wage growth, whereby the RMSE determined in Table 8.1.1 is half the size.

The explanatory power of the short-term unemployment rate derives from the idea that only the short-term unemployed place pressure on wage growth, as the long-term unemployed are less attached to the labour market.[16] As established by Ball (2009) and Gordon (2013), the long-term unemployed are less attractive to employers, and often are themselves not motivated to seek employment, thus becoming disconnected from the labour market. Consequently a rise in the number of long-term unemployed does not necessarily lead to negative wage pressures. The proportion of short-term unemployed increased rapidly at the beginning of the crisis, and in 2009 averaged almost 12 percentage points more than in 2008. There remained more short-term unemployed than long-term unemployed until the recovery, when the position reversed, as the number of short-term unemployed began to fall in the second quarter of 2013, while the number of long-term unemployed began to fall the following year. In the period of Q2 2013 to Q1 2017, i.e. when the short-term unemployment rate was lower than the long-term unemployment rate, in the assumed absence of downward pressures on wage growth from the long-term unemployed, wage growth would be expected to be higher than the rate expected when the overall unemployment rate is taken into account.

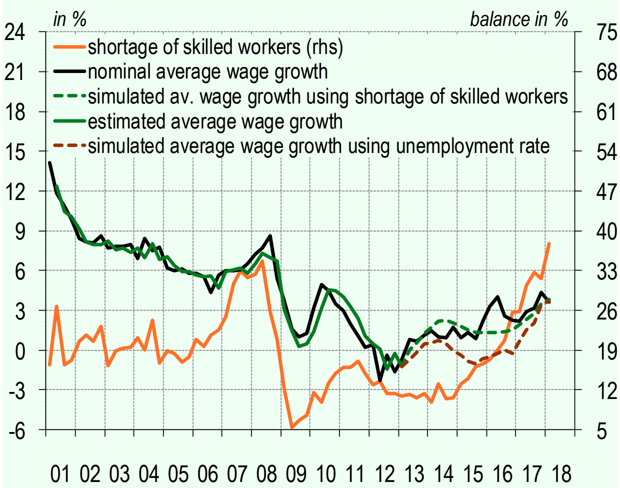
The dynamic simulations reveal the superiority of the short-term unemployment rate in forecasting the nominal average wage growth. Figure 8.1.17 illustrates the simulated values of the nominal year-on-year growth in the average wage obtained using the estimates of both models. While the nominal average wage growth when the overall unemployment rate is used is significantly underpredicted, the simulated value when the short-term

Figure 8.1.16: Number of unemployed according to duration of unemployment



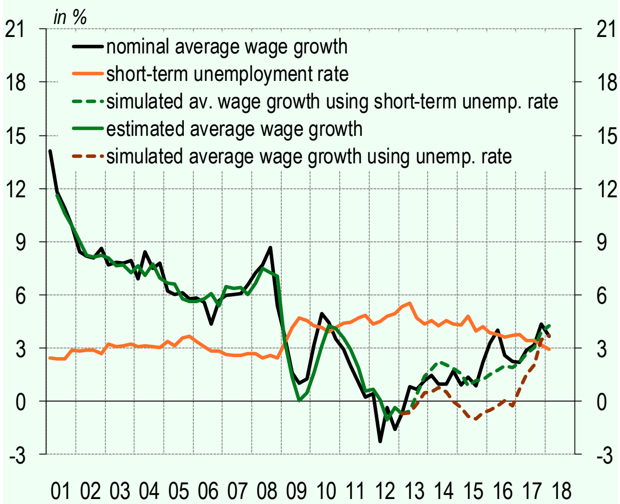
Source: Eurostat, Bank of Slovenia calculations.

Figure 8.1.15: Simulation of nominal average wage growth using a skilled labour shortage indicator in manufacturing



Source: SORS, Bank of Slovenia calculations.

Figure 8.1.17: Simulation of the nominal average wage growth using the short-term unemployment rate



Source: SORS, Eurostat, Bank of Slovenia calculations.

[16] The short-term unemployment rate is defined as the ratio of those unemployed for up to one year to the total active population aged 15 to 74. The data is taken from the labour force survey conducted on a quarterly basis by the SORS.

unemployment rate is used closely tracks the observed values. As suggested by the results in Table 8.1.1, where the estimates of the model with the overall unemployment rate (*unemp*) and the estimates of the model with the short-term unemployment rate (*short_unemp*) are illustrated in the first and last columns respectively, the explanatory power of both models is comparable in the period of Q2 2001 to Q1 2013, but the model with the short-term unemployment rate displays greater forecasting power for the recovery, with a RMSE of less half the size. Using the short-term unemployment rate, the relationship between the average wage growth and the measure of labour market slack is significantly more stable, as the estimate of the coefficient b_3 when the estimation period is extended to Q1 2018 decreases by less than when the overall unemployment rate is used. The increased stability in the slope of the curve for the short-term unemployment rate, which provides for more accurate forecasts, is illustrated in Figure 8.1.18.

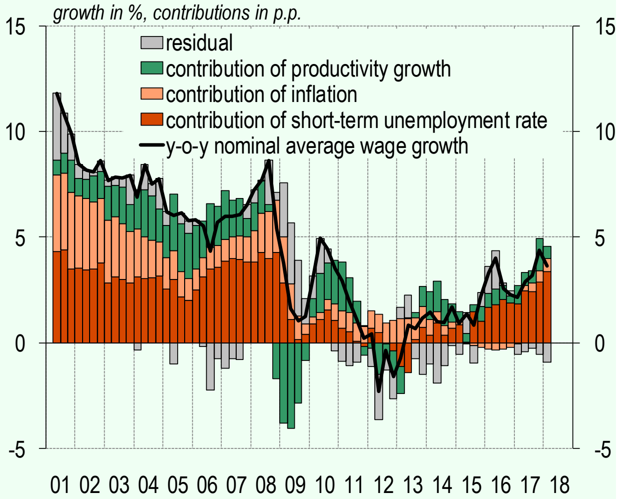
According to the decomposition of the nominal average wage growth, the short-term unemployment rate explains a larger part of the average wage growth than does the overall unemployment rate. Similarly as in the decomposition using the overall unemployment rate, the decomposition of the nominal average wage growth in Figure 8.1.19 calculated on the basis of estimates of the model with the short-term unemployment rate reveals an extremely low contribution of inflation and rising pressures from the labour market during the recovery. The differences between the two decompositions are illustrated by year in Figure 8.1.20, from which the greater explanatory power of the short-term unemployment rate is evident. Additional differences also derive from the residuals. In both models the positive residuals in 2016 can be attributed to the relaxation of austerity measures in the public sector, while the negative residuals can be attributed to structural shifts, whereby the negative structural shifts identified in the recovery are correlated more strongly with the residuals of the model with the short-term unemployment rate than with the residuals of the model with the overall unemployment rate.

Figure 8.1.18: Slope of the wage Phillips curve

Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 8.1.19: Decomposition of average wage growth based on estimates of Phillips curve with short-term unemployment rate

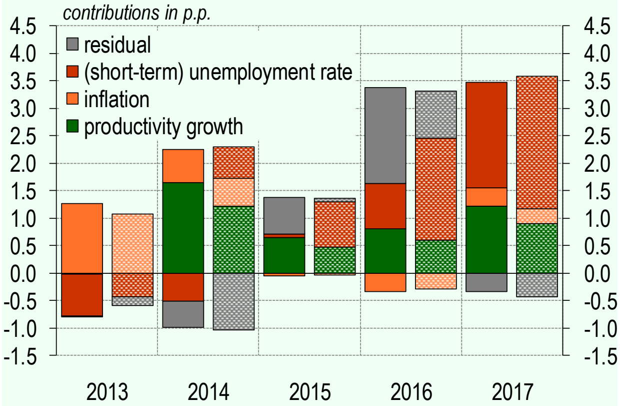
growth in %, contributions in p.p.



Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 8.1.20: Comparison of contributions to nominal average wage growth

contributions in p.p.



Note: Colored columns originate from the decomposition of the nominal average wage growth based on the Phillips curve with the total unemployment rate, while hatched columns originate from the decomposition based on the Phillips curve with the short-term unemployment rate.
Source: SORS, Eurostat, Bank of Slovenia calculations.

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9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2014	2015	2016	17Q4	18Q1	Jun.18	Jul.18	Aug.18
1.1. Claims of the Bank of Slovenia	7,278	5,410	6,544	7,143	6,854	7,395	7,384	7,620
1.2. Claims of other MFIs	8,279	8,266	8,100	8,504	8,645	8,743	8,681	8,461
1. Claims on foreign sectors (foreign assets)	**15,557**	**13,676**	**14,643**	**15,647**	**15,499**	**16,138**	**16,065**	**16,081**
2.1. Claims of the Bank of Slovenia on central government	263	2,327	4,618	6,247	6,471	6,791	6,915	7,042
2.2.1.1. Loans	1,149	1,298	1,506	1,425	1,344	1,245	1,207	1,248
2.2.1.2. Securities	6,105	5,814	4,767	3,744	3,583	3,667	3,663	3,629
2.2.1. Claims on central government	7,254	7,112	6,273	5,170	4,927	4,912	4,870	4,877
2.2.2.1. Loans	671	622	579	571	563	564	560	562
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	671	622	579	571	563	564	560	562
2.2. Claims of other MFIs on general government	7,926	7,734	6,852	5,740	5,491	5,476	5,430	5,439
2.3.1.1. Loans	11,213	10,040	9,306	9,311	9,281	9,299	9,321	9,320
2.3.1.2. Securities	524	462	405	334	317	327	328	326
2.3.1. Claims on nonfinancial corporations	11,737	10,502	9,711	9,645	9,598	9,627	9,648	9,647
2.3.2. Households and non-profit institutions serving households	8,762	8,856	9,154	9,735	9,860	10,033	10,075	10,161
2.3.3.1. Loans	1,087	898	865	1,171	1,130	1,084	1,079	1,066
2.3.3.2. Securities	408	534	543	395	398	527	527	526
2.3.3. Claims on nonmonetary financial institutions	1,495	1,432	1,408	1,566	1,528	1,611	1,605	1,592
2.3. Claims of other MFIs on other non-MFIs	21,995	20,790	20,272	20,946	20,986	21,271	21,329	21,399
2. Claims on domestic non-MFIs	**30,183**	**30,850**	**31,743**	**32,934**	**32,947**	**33,537**	**33,674**	**33,880**
3. Remaining assets	**3,765**	**3,119**	**2,192**	**1,461**	**1,375**	**1,396**	**1,336**	**1,393**
Total assets	**49,505**	**47,646**	**48,578**	**50,042**	**49,821**	**51,072**	**51,075**	**51,354**
1.1. Bank of Slovenia	10	16	1,267	1,506	199	78	111	96
1.2. Other MFIs	7,409	5,920	5,094	4,436	4,215	4,275	4,202	3,895
1. Obligations to foreign sectors (foreign liabilities)	**7,419**	**5,936**	**6,362**	**5,943**	**4,413**	**4,353**	**4,313**	**3,992**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,673	4,956	5,160	5,371	5,333	5,425	5,461	5,479
2.1.1.2. Overnight deposits at other MFIs	10,441	13,057	15,471	17,727	18,140	18,695	19,116	19,166
2.1.1.3.1. Non-monetary financial institutions	44	9	69	11	11	252	61	69
2.1.1.3.2. Other government sector	28	53	62	107	100	101	99	105
2.1.1.3. Overnight deposits at the Bank of Slovenia	71	63	131	118	110	353	160	175
2.1.1. Banknotes and coins and overnight liabilities	15,185	18,075	20,761	23,216	23,583	24,473	24,737	24,820
2.1.2.1. Deposits at the Bank of Slovenia	1	1	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	9,363	7,837	6,864	6,127	6,001	5,824	5,810	5,787
2.1.2. Time deposits	9,365	7,838	6,864	6,127	6,001	5,824	5,810	5,787
2.1.3. Deposits reedemable at notice up to 3 months	379	315	464	473	573	578	553	546
2.1. Banknotes and coins and deposits up to 2 years	24,929	26,229	28,089	29,816	30,157	30,875	31,100	31,152
2.2. Debt securities, units/shares of money market funds and repos	42	56	102	55	57	59	61	64
2. Banknotes and coins and instruments up to 2 years	**24,971**	**26,285**	**28,190**	**29,871**	**30,214**	**30,934**	**31,160**	**31,216**
3. Long-tern financial obligations to non-MFIs	**1,598**	**1,550**	**1,510**	**1,524**	**1,420**	**1,397**	**1,380**	**1,366**
4. Remaining liabilities	**17,229**	**15,378**	**14,100**	**14,035**	**14,946**	**15,485**	**15,355**	**15,749**
5. Excess of inter-MFI liabilities	**-1,712**	**-1,504**	**-1,584**	**-1,330**	**-1,172**	**-1,098**	**-1,134**	**-970**
Total liabilities	**49,505**	**47,646**	**48,578**	**50,042**	**49,821**	**51,072**	**51,075**	**51,354**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2014	2015	2016	17Q4	18Q1	Jun.18	Jul.18	Aug.18
1.1. Gold	101	100	112	111	110	110	106	105
1.2. Receivable form IMF	392	367	361	338	328	335	332	355
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	3,031	699	588	233	236	668	616	771
1.5. Securities	3,651	4,141	5,380	6,359	6,078	6,179	6,227	6,285
1.6. Other claims	103	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**7,278**	**5,410**	**6,544**	**7,143**	**6,854**	**7,395**	**7,384**	**7,620**
2.1. Claims on central government	263	2,327	4,618	6,247	6,471	6,791	6,915	7,042
2.2.1. Loans	1,098	901	714	1,142	1,142	1,122	1,122	1,122
2.2.2. Other claims	3	44	99	98	98	97	98	1
2.2. Claims on domestic monetary sector	1,101	946	813	1,240	1,239	1,218	1,219	1,123
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**1,366**	**3,275**	**5,433**	**7,489**	**7,712**	**8,011**	**8,136**	**8,167**
3. Remaining assets	**2,317**	**1,685**	**973**	**279**	**265**	**252**	**258**	**271**
Total assets	**10,961**	**10,370**	**12,950**	**14,911**	**14,831**	**15,658**	**15,779**	**16,058**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,673**	**4,956**	**5,160**	**5,371**	**5,333**	**5,425**	**5,461**	**5,479**
2.1.1.1.1. Overnight	1,526	1,634	2,252	2,939	2,914	2,982	3,327	3,302
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,526	1,634	2,252	2,939	2,914	2,982	3,327	3,302
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,526	1,634	2,252	2,939	2,914	2,982	3,327	3,302
2.1.2.1.1. Overnight	2,718	1,730	1,949	2,521	3,531	3,749	3,527	3,659
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,718	1,730	1,949	2,521	3,531	3,749	3,527	3,659
2.1.2.2. Foreign currency	94	60	78	56	52	4	5	6
2.1.2. General government	2,812	1,789	2,027	2,577	3,582	3,754	3,532	3,665
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	45	11	69	11	11	252	61	69
2.1.3. Other domestic sectors	45	11	69	11	11	252	61	69
2.1. Domestic sectors	4,383	3,434	4,348	5,527	6,507	6,987	6,920	7,036
2.2. Foreign sectors	10	16	1,267	1,506	199	78	111	96
2. Deposits	**4,394**	**3,450**	**5,615**	**7,033**	**6,705**	**7,065**	**7,032**	**7,133**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**257**	**275**	**275**	**256**	**255**	**261**	**258**	**260**
5. Capital and reserves	**1,515**	**1,533**	**1,748**	**1,883**	**1,837**	**1,903**	**1,896**	**1,915**
6. Remaining liabilities	**122**	**157**	**152**	**367**	**701**	**1,004**	**1,132**	**1,272**
Total liabilities	**10,961**	**10,370**	**12,950**	**14,911**	**14,831**	**15,658**	**15,779**	**16,058**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2014	2015	2016	17Q4	18Q1	Jun.18	Jul.18	Aug.18
1.1.1. Cash	292	294	322	355	357	344	366	372
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,526	1,634	2,252	2,939	2,914	2,982	3,327	3,302
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,818	1,928	2,574	3,294	3,270	3,325	3,693	3,673
1.2.1. Loans	1,719	1,264	1,061	873	898	910	879	884
1.2.2. Debt securities	378	245	256	71	72	62	62	-
1.2.3. Shares and other equity	61	62	2	2	1	1	1	1
1.2. Claims on other MFI's	2,158	1,572	1,319	947	971	973	941	885
1.3.1. Loans	22,883	21,714	21,410	22,213	22,178	22,225	22,242	22,356
1.3.2. Debt securities	6,352	6,050	5,030	3,775	3,618	3,710	3,705	3,671
1.3.3. Shares and other equity	685	759	685	698	680	812	812	811
1.3. Claims on nonmonetry sectors	29,920	28,524	27,125	26,687	26,477	26,746	26,759	26,838
1. Claims on domestic sectors (domestic assets)	**33,897**	**32,024**	**31,018**	**30,927**	**30,718**	**31,044**	**31,393**	**31,396**
2.1.1. Cash	29	34	38	35	37	50	50	47
2.1.2. Loans	2,839	2,767	2,628	2,154	2,360	2,290	2,233	1,969
2.1.3. Debt securities	498	1,027	1,165	1,333	1,375	1,389	1,400	1,393
2.1.4 Shares and other equity	572	567	567	579	579	579	579	578
2.1. Claims on foreign monetary sectors	3,937	4,395	4,398	4,100	4,350	4,307	4,262	3,987
2.2.1. Loans	2,135	1,597	1,155	899	824	931	922	922
2.2.2. Debt securities	1,878	1,870	2,151	3,190	3,157	3,198	3,190	3,245
2.2.3. Shares and other equity	329	405	396	314	313	306	306	306
2.2. Claims on foreign nonmonetary sectors	4,342	3,871	3,701	4,404	4,294	4,436	4,418	4,474
2. Claims on foreign sectors (foreign assets)	**8,279**	**8,266**	**8,100**	**8,504**	**8,645**	**8,743**	**8,681**	**8,461**
3. Remaining assets	**1,399**	**1,314**	**1,074**	**1,015**	**805**	**734**	**685**	**711**
Total assets	**43,575**	**41,603**	**40,191**	**40,447**	**40,168**	**40,521**	**40,760**	**40,568**
1.1.1. Deposits, loans from the Bank of Slovenia	1,098	901	714	1,142	1,142	1,121	1,122	1,122
1.1.2. Deposits, loans from other MFIs	1,733	1,301	1,123	962	977	980	939	943
1.1.3. Debt securities issued	93	38	18	12	10	-	-	-
1.1. Laibilities to monetary sectors	2,925	2,240	1,855	2,115	2,129	2,101	2,060	2,065
1.2.1.1. Overnight	10,129	12,661	15,038	17,287	17,684	18,216	18,620	18,707
1.2.1.2. With agreed maturity	12,481	10,604	9,076	8,125	7,823	7,598	7,592	7,589
1.2.1.3. Reedemable at notice	449	474	615	548	638	650	653	640
1.2.1. Deposits in domestic currency	23,058	23,739	24,729	25,960	26,144	26,464	26,864	26,936
1.2.2. Deposits in foreign currency	463	599	632	593	598	605	624	601
1.2.3. Debt securities issued	176	84	38	15	15	15	15	15
1.2. Liabilities to nonmonetary sectors	23,697	24,422	25,400	26,569	26,758	27,083	27,504	27,553
1. Obligations to domestic sectors (domestic liabilities)	**26,622**	**26,661**	**27,254**	**28,683**	**28,887**	**29,184**	**29,564**	**29,618**
2.1.1. Deposits	3,551	2,578	2,084	1,627	1,594	1,655	1,664	1,682
2.1.2. Debt securities issued	1,344	975	710	327	327	326	326	36
2.1. Liabilities to foreign monetry sectors	4,895	3,553	2,794	1,954	1,920	1,982	1,990	1,719
2.2.1. Deposits	2,052	1,954	1,738	1,975	1,787	1,785	1,703	1,668
2.2.2. Debt securities issued	25	27	23	22	22	22	22	22
2.2. Liabilities to foreign nonmonetary sectors	2,077	1,981	1,761	1,997	1,809	1,807	1,725	1,690
2. Obligations to foreign sectors (foreign liabilities)	**6,972**	**5,535**	**4,555**	**3,952**	**3,730**	**3,789**	**3,715**	**3,409**
3. Capital and reserves	**4,512**	**4,676**	**4,841**	**4,904**	**4,970**	**5,014**	**5,017**	**5,044**
4. Remaining liabilities	**5,469**	**4,731**	**3,540**	**2,908**	**2,581**	**2,534**	**2,463**	**2,498**
Total liabilities	**43,575**	**41,603**	**40,191**	**40,447**	**40,168**	**40,521**	**40,760**	**40,568**

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

in % on annual level	2014	2015	2016	2017	Jun.17	Jul.18	Aug.18
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.20	8.01	7.84	7.85	7.79	7.78	7.81
Households, extended credit	8.02	7.84	7.73	7.75	7.65	7.67	7.67
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.01	4.19	4.23	4.44	4.46	4.48	4.53
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.00	5.64	5.66	5.92	5.90	5.90	5.92
Loans, households, consumption, over 5 years initial rate fixation	7.07	5.28	6.12	6.20	6.24	6.29	6.25
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.47	3.82	3.47	3.69	3.66	3.70	3.97
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	5.61	5.27	4.89	4.93	4.60	4.76
C. loans, households, consumption, over 5 year initial rate fixation	6.53	5.58	5.05	5.19	4.41	5.41	5.17
APRC, Loans to households for consumption	8.28	7.42	7.55	7.73	7.52	7.55	7.66
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.18	2.22	2.04	1.99	1.87	1.90	1.89
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.65	3.87	3.58	2.75	2.75	2.79	2.95
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.06	3.16	2.49	2.65	2.65	2.79	2.62
Loans, households, house purchase, over 10 years initial rate fixation	4.87	3.16	2.56	2.91	2.96	2.97	2.96
C. loans, households, house purchase variabel and up to years initial rate fixation	3.16	2.21	2.02	1.99	1.86	1.90	1.89
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.41	2.63	2.12	2.38	2.78	2.83	2.32
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.03	3.04	2.38	2.34	2.37	2.79	2.43
C. loans, households, house purchase, over 10 years initial rate fixation	4.87	3.12	2.53	2.85	2.90	2.90	2.88
APRC, Loans to households for house purchase	3.55	2.85	2.58	2.77	2.74	2.72	2.77
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.11	3.51	3.49	3.58	3.74	3.46	4.05
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.96	5.93	5.28	5.30	5.31	5.94	5.17
Loans, households, other purposes, over 5 years initial rate fixation	6.44	7.79	5.92	5.35	6.98	7.04	6.96
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.30	3.45	2.81	2.41	2.27	2.21	2.13
S.11, extended credit	7.28	7.16	6.70	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	4.81	3.38	2.74	2.69	2.52	2.62	2.66
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	5.77	3.50	3.31	2.89	2.64	2.72	2.69
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	5.92	4.23	4.52	3.98	4.24	3.64	4.06
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.93	5.36	4.57	4.03	4.06	4.97	4.63
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	5.82	4.87	4.56	3.51	4.71	5.15	5.37
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	5.87	3.34	2.92	2.22	0.53	3.80	3.14
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	4.62	2.49	2.19	1.89	1.86	1.92	1.80
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	5.29	2.57	2.49	2.09	2.15	2.15	2.10
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	5.27	3.06	1.21	1.94	1.90	4.59	2.28
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	5.97	-	1.70	-	-	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.46	3.06	1.94	2.57	2.22	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	6.32	-	2.10	-	2.32	2.22	2.99
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	3.94	2.61	2.61	2.23	1.75	2.59	2.53
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	4.84	1.87	2.35	1.58	1.72	1.86	1.73
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.60	1.00	-	-	6.96	0.85	1.51
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.07	-	1.06	1.15	1.63	-	1.16
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	4.62	1.79	1.92	-	1.68	1.35	1.61
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.35	3.56	2.23	1.88	-	-	1.72
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.07	0.03	0.02	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.98	0.28	0.23	0.14	0.16	0.15	0.18
Deposits, households, agreed maturity over 1 and up to 2 years	1.90	0.70	0.44	0.51	0.32	0.31	0.32
Deposits, households, agreed maturity over 2 years	2.33	1.07	0.72	0.69	0.78	0.75	0.80
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.82	0.02	0.01	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	1.30	0.06	0.05	0.04	0.02	0.04	0.05
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.13	0.57	0.20	0.12	0.15	0.18	0.12
Deposits, S.11, agreed maturity over 2 years	0.63	1.07	0.49	0.26	0.43	0.48	0.17
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	1.85	0.10	0.02	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	1.79	0.93	0.55	0.52	0.24	0.19	0.15

Table 9.5: International investment position

EUR million		2014	2015	2016	17Q3	17Q4	18Q1	18Q2
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,219**	**-15,399**	**-14,858**	**-13,716**	**-13,869**	**-13,570**	**-13,075**
1	**ASSETS**	**39,558**	**42,265**	**42,657**	**43,147**	**43,466**	**43,738**	**44,277**
1.1	**Direct investment**	**6,970**	**7,252**	**7,767**	**8,358**	**8,267**	**8,478**	**8,342**
1.1.1	Equity	3,769	3,959	4,149	4,378	4,287	4,347	4,302
1.1.2	Debt instruments	3,202	3,293	3,618	3,980	3,979	4,130	4,041
1.2	**Portfolio investment**	**12,375**	**14,458**	**16,719**	**18,992**	**19,662**	**19,335**	**19,701**
1.2.1	Equity and investment fund shares	3,193	3,484	3,584	3,917	4,086	4,074	4,178
1.2.2	Debt securities	9,182	10,974	13,135	15,075	15,575	15,261	15,523
1.3	**Financial derivatives**	**241**	**1,266**	**1,166**	**414**	**322**	**133**	**130**
1.4	**Other investment**	**19,135**	**18,502**	**16,300**	**14,617**	**14,473**	**15,078**	**15,389**
1.4.1	Other equity	629	641	642	609	652	652	654
1.4.2	Currency and deposits	10,737	10,301	8,153	5,748	5,929	6,057	6,145
1.4.3	Loans	3,729	3,122	2,670	2,538	2,390	2,343	2,433
1.4.4	Insurance, pension and standardized guarantee schemes	141	129	141	148	148	148	149
1.4.5	Trade credit and advances	3,601	3,737	4,038	4,809	4,617	5,062	5,183
1.4.6	Other accounts receivable	298	571	656	765	738	816	827
1.5	**Reserve assets**	**837**	**787**	**705**	**766**	**743**	**716**	**715**
1.5.1	Monetary gold	101	100	112	111	111	110	110
1.5.2	Special drawing rights	247	264	207	237	235	234	240
1.5.3	Reserve position in the IMF	145	104	154	114	103	94	96
1.5.4	Other reserve assets	345	320	232	304	294	278	270
2	**LIABILITIES**	**56,777**	**57,664**	**57,515**	**56,863**	**57,335**	**57,308**	**57,352**
2.1	**Direct investment**	**11,837**	**13,356**	**14,996**	**15,827**	**16,032**	**16,361**	**16,451**
2.1.1	Equity	8,186	9,804	11,563	12,099	12,320	12,571	12,608
2.1.2	Debt instruments	3,651	3,552	3,433	3,728	3,713	3,791	3,843
2.2	**Portfolio investment**	**23,797**	**23,959**	**21,439**	**22,572**	**21,200**	**22,193**	**21,204**
2.2.1	Equity and investment fund shares	1,030	1,038	966	1,058	1,085	1,101	1,079
2.2.2	Debt securities	22,767	22,921	20,473	21,514	20,115	21,093	20,125
2.3	**Financial derivatives**	**247**	**163**	**139**	**99**	**81**	**79**	**92**
2.4	**Other investment**	**20,896**	**20,186**	**20,941**	**18,365**	**20,023**	**18,675**	**19,605**
2.4.1	Other equity	28	32	36	54	37	37	37
2.4.2	Currency and deposits	3,338	2,965	4,148	2,916	4,556	3,310	3,578
2.4.3	Loans	13,128	12,851	12,155	10,604	10,336	10,097	10,288
2.4.4	Insurance, pension and standardized guarantee schemes	218	221	213	226	219	246	266
2.4.5	Trade credit and advances	3,427	3,433	3,711	3,923	4,156	4,258	4,499
2.4.6	Other accounts payable	500	408	402	384	462	472	697
2.4.7	Special drawing rights	257	275	275	258	256	255	261

Table 9.6: Gross external debt

EUR million		2014	2015	2016	17Q4	18Q1	18Q2	Aug. 18
	TOTAL (1+2+3+4+5)	**47,286**	**46,627**	**44,810**	**43,813**	**43,521**	**43,564**	**42,618**
1	**GENERAL GOVERNMENT**	**23,392**	**24,824**	**22,953**	**21,769**	**22,533**	**21,668**	**21,340**
1.1	**Short-term, of that**	**738**	**1,507**	**1,304**	**481**	**279**	**444**	**433**
	Debt securities	228	15	22	75	80	115	110
	Loans	157	1,201	1,058	273	80	218	214
	Trade credit and advances	21	35	42	35	33	40	44
	Other debt liabilities	331	257	182	98	86	71	65
1.2	**Long-term, of that**	**22,654**	**23,316**	**21,649**	**21,288**	**22,253**	**21,224**	**20,907**
	Debt securities	21,101	21,813	19,877	19,517	20,489	19,482	19,163
	Loans	1,548	1,500	1,768	1,769	1,765	1,742	1,741
2	**CENTRAL BANK**	**2,083**	**2,217**	**3,457**	**3,820**	**2,722**	**2,937**	**3,207**
2.1	**Short-term, of that**	**1,826**	**1,942**	**3,182**	**3,564**	**2,468**	**2,677**	**2,947**
	Currency and deposits	1,825	1,942	3,182	3,564	2,468	2,677	2,947
2.2	**Long-term, of that**	**257**	**275**	**275**	**256**	**255**	**261**	**260**
	Special drawing rights (allocations)	257	275	275	256	255	261	260
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**6,591**	**5,195**	**4,117**	**3,782**	**3,625**	**3,664**	**3,456**
3.1	**Short-term**	**747**	**702**	**817**	**1,058**	**961**	**1,027**	**1,003**
	Currency and deposits	597	490	578	765	644	720	690
	Debt securities	...	...	...	...	...	...	...
	Loans	144	207	221	200	194	237	253
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	6	5	18	92	123	70	60
3.2	**Long-term**	**5,844**	**4,493**	**3,300**	**2,724**	**2,664**	**2,636**	**2,453**
	Currency and deposits	916	534	387	227	198	181	167
	Debt securities	954	652	287	168	167	166	48
	Loans	3,941	3,301	2,620	2,323	2,295	2,283	2,233
	Trade credit and advances	4	7	5	6	3	5	4
	Other debt liabilities	29	0	1	1	2	1	1
4	**OTHER SECTORS**	**11,570**	**10,839**	**10,851**	**10,729**	**10,850**	**11,452**	**10,909**
4.1	**Short-term, of that**	**3,947**	**3,976**	**4,250**	**4,593**	**4,731**	**5,235**	**4,743**
	Debt securities	5	0	2	0	0	2	2
	Loans	453	487	447	281	320	294	385
	Trade credit and advances	3,396	3,385	3,649	4,090	4,197	4,436	4,161
	Other debt liabilities	94	102	153	222	215	504	195
4.2	**Long-term, of that**	**7,623**	**6,864**	**6,600**	**6,135**	**6,118**	**6,217**	**6,166**
	Debt securities	480	441	284	355	357	359	355
	Loans	6,885	6,155	6,041	5,490	5,445	5,513	5,469
	Trade credit and advances	6	7	16	26	25	27	24
	Other debt liabilities	252	260	259	265	291	317	318
5	**DIRECT INVESTMENT: intercompany lending**	**3,651**	**3,552**	**3,433**	**3,713**	**3,791**	**3,844**	**3,706**
	NET EXTERNAL DEBT POSITION	**15,559**	**13,712**	**11,694**	**9,694**	**8,989**	**8,534**	**8,121**

Table 9.7: Balance of payments

EUR million	2015	2016	2017	17Q4	18Q1	18Q2	Aug. 18
I. Current account	**1,760**	**2,224**	**3,077**	**660**	**678**	**965**	**341**
1. Goods	**1,476**	**1,536**	**1,561**	**299**	**331**	**450**	**115**
1.1. Export of goods	**24,039**	**24,991**	**28,462**	**7,428**	**7,541**	**7,942**	**2,268**
Export f.o.b.	23,940	24,971	28,265	7,369	7,543	7,881	2,232
Coverage adjustment	-149	-194	-51	2	-51	9	20
Net export of goods under merchanting	231	186	228	53	46	48	15
Nonmonetary gold	17	29	20	4	3	3	0
1.2. Import of goods	**22,563**	**23,454**	**26,901**	**7,128**	**7,209**	**7,492**	**2,153**
Import c.i.f.	23,305	24,112	27,606	7,304	7,401	7,692	2,191
Coverage adjustment	-115	-5	36	21	2	11	23
Valuation adjustment	-656	-680	-778	-206	-209	-217	-62
Nonmonetary gold	30	27	37	9	15	5	...
2. Services	**1,930**	**2,251**	**2,719**	**627**	**615**	**755**	**338**
2.1. Export of services, of that	**5,936**	**6,487**	**7,275**	**1,888**	**1,672**	**1,945**	**784**
Transport	1,672	1,854	2,099	576	570	599	187
Travel	2,098	2,190	2,434	534	472	625	392
Construction services	292	385	431	119	92	106	41
Telecomm., computer and inform. services	519	552	543	150	111	131	52
Other business services	894	1,006	1,289	382	301	351	81
2.2. Import of services, of that	**4,007**	**4,236**	**4,556**	**1,261**	**1,057**	**1,190**	**447**
Transport	851	922	1,025	285	238	254	80
Travel	823	854	882	170	157	230	137
Construction services	120	104	125	41	26	39	15
Telecomm., computer and inform. services	533	509	514	136	118	114	51
Other business services	1,024	1,147	1,281	418	314	371	107
3. Primary income	**-1,294**	**-1,215**	**-926**	**-226**	**-152**	**-205**	**-80**
3.1. Receipts	**1,314**	**1,487**	**1,669**	**417**	**496**	**440**	**132**
Compensation of employees	281	314	364	108	86	100	29
Investment	511	636	695	181	178	198	61
Other primary income	522	537	610	127	233	142	42
3.2. Expenditure	**2,608**	**2,702**	**2,596**	**643**	**649**	**645**	**212**
Compensation of employees	122	128	141	37	35	45	14
Investment	2,057	2,084	1,917	469	473	469	154
Other primary income	429	490	538	136	140	131	44
4. Secondary income	**-352**	**-349**	**-276**	**-41**	**-116**	**-35**	**-32**
4.1. Receipts	**735**	**724**	**838**	**241**	**192**	**222**	**62**
4.2. Expenditure	**1,087**	**1,073**	**1,115**	**282**	**307**	**257**	**94**

Table 9.8: Balance of payments – continued

EUR million	2015	2016	2017	17Q4	18Q1	18Q2	Aug. 18
II. Capital account	**412**	**-303**	**-324**	**-59**	**-40**	**-32**	**6**
1. Nonproduced nofinancial assets	-37	-45	-76	4	12	15	16
2. Capital transfers	449	-258	-248	-63	-52	-47	-10
III. Financial account	**1,710**	**1,153**	**1,754**	**103**	**521**	**713**	**3**
1. Direct investment	**-1,269**	**-864**	**-414**	**-211**	**-125**	**-161**	**-158**
Assets	292	434	551	16	242	-87	-215
Equity and reinvested earnings	178	273	212	-1	77	-29	145
Debt instruments	114	161	339	17	165	-58	-360
Liabilities	1,560	1,298	966	226	367	74	-57
Equity and reinvested earnings	1,785	1,503	843	250	290	87	79
Debt instruments	-225	-205	123	-24	77	-13	-136
2. Portfolio investment	**2,940**	**5,094**	**2,958**	**2,095**	**-1,335**	**1,539**	**452**
Assets	2,026	2,089	2,819	606	-124	301	160
Equity and investment fund shares	127	-82	280	78	97	17	32
Debt securities	1,900	2,171	2,539	528	-222	285	127
Liabilities	-914	-3,005	-139	-1,489	1,210	-1,238	-292
Equity and investment fund shares	52	48	39	18	-1	-106	-1
Debt securities	-966	-3,053	-178	-1,508	1,211	-1,132	-292
3. Financial derivatives	**-98**	**-216**	**-248**	**-33**	**-6**	**-12**	**5**
4. Other investment	**250**	**-2,764**	**-630**	**-1,737**	**1,999**	**-631**	**-314**
4.1. Assets	**-650**	**-2,340**	**-1,584**	**-69**	**672**	**265**	**-429**
Other equity	10	0	-1	0	1	1	0
Currency and deposits	-516	-2,205	-2,190	186	142	69	-43
Loans	-408	-203	-115	-35	-7	92	-15
Insurance, pension and stand. guar. schemes	-8	10	5	0	1	1	...
Trade credits and advances	-5	156	599	-189	448	96	-196
Other assets	277	-97	119	-31	87	6	-175
4.2. Liabilities	**-900**	**423**	**-954**	**1,668**	**-1,327**	**896**	**-115**
Other equity	11	4	20	0	0	0	0
Currency and deposits	-400	1,175	438	1,644	-1,239	255	146
Loans	-315	-818	-1,854	-262	-237	148	-58
Insurance, pension and stand. guar. schemes	3	-8	5	-8	27	21	...
Trade credits and advances	-100	137	410	223	111	244	-223
Other liabilities	-99	-67	26	70	11	227	20
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-113**	**-97**	**89**	**-12**	**-12**	**-22**	**18**
IV. Net errors and omissions	**-462**	**-768**	**-999**	**-498**	**-117**	**-220**	**-345**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector								
Total	185,986	184,624	188,321	188,846	190,464	192,086	194,345	197,252
Monetary gold and SDRs	363	320	326	310	348	346	344	349
Currency and deposits	46,593	42,485	43,577	43,444	43,417	42,892	44,132	45,064
Debt securities	22,828	26,103	26,642	27,487	28,304	28,482	28,107	28,738
Loans	39,625	37,557	37,914	37,546	37,545	37,748	37,705	37,829
Shares	19,713	18,765	19,582	19,599	19,638	19,566	19,972	20,528
Other equity	23,304	24,753	24,786	24,993	25,303	26,978	27,221	27,341
Investment fund shares/units	3,879	4,049	4,269	4,248	4,368	4,540	4,539	4,654
Insurance and pension schemes	7,406	7,737	7,826	7,884	8,026	8,003	8,035	8,163
Other	22,274	22,856	23,399	23,334	23,513	23,531	24,290	24,586
Non-financial corporations								
Total	41,559	43,159	44,153	44,478	45,007	46,148	47,095	47,423
Currency and deposits	5,826	6,399	6,524	6,447	6,637	7,107	7,080	7,141
Debt securities	142	127	119	114	114	109	113	139
Loans	5,849	5,781	5,839	5,891	5,832	5,776	5,964	6,059
Shares	2,896	2,665	2,809	2,717	2,605	2,507	2,520	2,560
Other equity	11,472	12,185	12,203	12,380	12,621	13,463	13,534	13,441
Investment fund shares/units	99	52	64	63	68	67	69	63
Insurance and pension schemes	427	438	476	488	491	444	476	473
Other	14,849	15,512	16,118	16,377	16,640	16,675	17,337	17,546
Monetary financial institutions								
Total	50,657	51,929	52,962	52,971	53,596	54,397	54,189	55,272
Monetary gold and SDRs	363	320	326	310	348	346	344	349
Currency and deposits	7,560	7,168	7,204	6,283	5,910	6,249	6,375	6,814
Debt securities	15,973	18,971	19,488	20,314	21,149	21,263	21,016	21,557
Loans	25,179	24,099	24,522	24,487	24,579	24,915	24,683	24,741
Shares	641	552	531	707	716	729	750	748
Other equity	299	282	283	302	341	351	419	470
Investment fund shares/units	9	6	6	6	6	5	5	3
Insurance and pension schemes	38	38	39	41	41	40	41	41
Other	595	495	563	522	508	498	557	549
Other financial institutions								
Total	17,134	17,554	18,017	17,872	17,831	18,155	18,249	18,786
Currency and deposits	1,201	1,256	1,328	1,286	1,169	1,163	1,208	1,380
Debt securities	6,040	6,431	6,404	6,413	6,429	6,520	6,388	6,425
Loans	3,033	2,876	2,847	2,798	2,801	2,859	2,859	2,850
Shares	3,427	3,377	3,607	3,531	3,588	3,688	3,743	3,989
Other equity	612	625	618	642	634	686	692	659
Investment fund shares/units	2,001	2,140	2,248	2,213	2,267	2,354	2,370	2,430
Insurance and pension schemes	182	188	213	221	211	199	226	239
Other	639	661	753	769	734	685	763	814
General government								
Total	37,227	30,676	31,313	31,271	31,248	29,467	30,485	30,684
Currency and deposits	12,358	7,060	7,687	8,374	8,251	6,726	7,462	7,332
Debt securities	548	447	448	453	418	416	411	431
Loans	4,911	4,089	3,924	3,624	3,544	3,427	3,365	3,310
Shares	10,048	9,828	10,233	10,221	10,338	10,230	10,563	10,754
Other equity	4,856	4,906	4,889	4,835	4,918	4,915	4,973	5,089
Investment fund shares/units	244	252	270	274	284	296	300	311
Insurance and pension schemes	23	21	14	14	17	16	21	11
Other	4,239	4,073	3,848	3,475	3,478	3,442	3,390	3,445
Households and NPISHs								
Total	39,409	41,306	41,876	42,254	42,781	43,919	44,326	45,088
Currency and deposits	19,647	20,602	20,834	21,055	21,452	21,646	22,008	22,397
Debt securities	125	127	183	192	195	174	179	187
Loans	653	712	782	746	788	771	833	868
Shares	2,701	2,343	2,401	2,423	2,392	2,412	2,396	2,477
Other equity	6,066	6,755	6,794	6,834	6,789	7,563	7,602	7,681
Investment fund shares/units	1,528	1,600	1,681	1,692	1,744	1,818	1,796	1,847
Insurance and pension schemes	6,736	7,053	7,084	7,121	7,266	7,304	7,271	7,399
Other	1,953	2,115	2,117	2,191	2,154	2,231	2,242	2,232
Rest of the world								
Total	58,422	58,175	58,384	58,169	57,420	58,075	57,688	58,038
Monetary gold and SDRs	275	275	274	264	259	257	255	261
Currency and deposits	3,167	4,380	3,451	3,577	3,136	4,771	3,510	3,809
Debt securities	23,331	20,889	21,644	21,842	21,834	20,555	21,299	20,438
Loans	15,304	14,403	14,124	13,550	12,946	12,591	12,368	12,568
Shares	4,539	5,160	5,326	5,176	5,198	5,275	5,339	5,395
Other equity	6,284	7,288	7,483	7,574	7,874	8,114	8,178	8,233
Investment fund shares/units	25	25	27	27	28	29	28	30
Insurance and pension schemes	221	213	232	224	226	219	246	266
Other	5,276	5,541	5,823	5,936	5,919	6,266	6,465	7,037

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector								
Total	202,705	200,949	204,193	204,118	205,607	207,425	209,203	211,812
Monetary gold and SDRs	275	275	274	264	259	257	255	261
Currency and deposits	39,165	38,353	39,232	39,650	40,451	41,409	41,261	42,474
Debt securities	34,824	33,513	34,128	34,456	34,702	33,041	33,774	33,291
Loans	49,917	47,048	47,275	46,314	45,789	45,737	45,597	45,752
Shares	21,615	21,359	22,151	21,877	21,849	21,781	22,248	22,785
Other equity	26,608	29,083	29,393	29,647	30,218	32,146	32,562	32,768
Investment fund shares/units	2,303	2,374	2,481	2,443	2,517	2,572	2,540	2,611
Insurance and pension schemes	7,498	7,810	7,914	7,964	8,105	8,074	8,133	8,280
Other	20,501	21,135	21,345	21,503	21,717	22,408	22,833	23,590
Non-financial corporations								
Total	78,466	78,943	80,120	79,970	80,332	82,529	83,243	84,060
Debt securities	1,179	955	1,015	1,045	1,023	1,010	1,033	1,060
Loans	25,175	23,611	23,787	23,464	23,382	22,821	22,777	22,795
Shares	13,421	12,762	13,253	13,125	12,847	12,810	13,141	13,464
Other equity	24,039	26,319	26,608	26,860	27,466	29,266	29,526	29,595
Other	14,652	15,297	15,456	15,476	15,614	16,622	16,765	17,145
Monetary financial institutions								
Total	47,006	49,224	50,442	50,400	50,974	51,935	51,904	53,098
Monetary gold and SDRs	275	275	274	264	259	257	255	261
Currency and deposits	34,012	37,528	38,390	38,809	39,608	40,521	40,415	41,628
Debt securities	1,149	801	781	675	392	377	377	367
Loans	5,574	4,330	4,564	4,393	4,349	4,349	4,348	4,306
Shares	4,539	4,724	4,791	4,662	4,777	4,875	4,838	4,896
Other equity	1,005	1,091	1,108	1,103	1,122	1,104	1,116	1,155
Investment fund shares/units	56	99	65	74	80	55	57	60
Other	396	375	469	421	387	397	499	425
Other financial institutions								
Total	17,001	16,848	17,359	17,223	17,344	17,508	17,809	18,444
Debt securities	73	118	121	128	128	113	113	115
Loans	3,678	2,924	2,870	2,837	2,715	2,664	2,674	2,649
Shares	2,093	2,154	2,360	2,285	2,388	2,463	2,539	2,618
Other equity	964	1,137	1,143	1,145	1,092	1,225	1,334	1,426
Investment fund shares/units	2,247	2,275	2,416	2,369	2,438	2,518	2,483	2,551
Insurance and pension schemes	7,498	7,810	7,914	7,964	8,105	8,074	8,132	8,280
Other	448	431	536	495	478	449	534	805
General government								
Total	47,926	43,186	43,396	43,480	43,599	42,034	42,615	42,395
Currency and deposits	5,152	825	842	841	843	888	847	845
Debt securities	32,423	31,639	32,211	32,608	33,159	31,540	32,252	31,749
Loans	4,762	5,144	4,861	4,262	3,806	4,229	3,958	3,966
Shares	1,562	1,719	1,747	1,805	1,838	1,633	1,730	1,807
Other equity	600	537	533	540	538	550	586	592
Other	3,427	3,322	3,201	3,425	3,415	3,195	3,242	3,437
Households and NPISHs								
Total	12,306	12,748	12,876	13,046	13,358	13,418	13,632	13,814
Loans	10,728	11,039	11,193	11,358	11,536	11,674	11,839	12,036
Other	1,578	1,709	1,683	1,688	1,821	1,744	1,793	1,778
Rest of the world								
Total	41,702	41,850	42,512	42,897	42,277	42,736	42,829	43,478
Monetary gold and SDRs	363	319	325	310	348	345	344	349
Currency and deposits	10,595	8,512	7,795	7,372	6,102	6,254	6,380	6,399
Debt securities	11,335	13,479	14,158	14,872	15,436	15,996	15,632	15,885
Loans	5,012	4,912	4,764	4,782	4,703	4,601	4,476	4,645
Shares	2,637	2,566	2,757	2,899	2,987	3,060	3,063	3,139
Other equity	2,981	2,957	2,877	2,920	2,959	2,947	2,837	2,806
Investment fund shares/units	1,602	1,700	1,815	1,831	1,879	1,996	2,027	2,073
Insurance and pension schemes	129	141	145	144	148	148	148	149
Other	7,049	7,263	7,877	7,767	7,716	7,388	7,923	8,033

Table 9.11: Net financial assets

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector	-16,719	-16,325	-15,871	-15,272	-15,143	-15,339	-14,858	-14,560
Non-financial corporations	-36,907	-35,784	-35,967	-35,492	-35,325	-36,382	-36,148	-36,637
Monetary financial institutions	3,651	2,706	2,520	2,571	2,622	2,462	2,285	2,174
Other financial institutions	133	706	658	649	487	647	440	341
General government	-10,699	-12,510	-12,083	-12,209	-12,351	-12,567	-12,130	-11,712
Households and NPISHs	27,103	28,558	29,000	29,209	29,423	30,501	30,694	31,274
Rest of the world	16,719	16,325	15,872	15,273	15,143	15,339	14,859	14,561

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

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector								
Total	979	-1,805	2,602	4,860	5,376	5,575	5,162	6,238
Monetary gold and SDRs	0	-56	0	0	43	43	43	43
Currency and deposits	470	-4,118	-662	251	35	571	804	1,759
Debt securities	3,086	2,863	2,648	2,834	2,395	2,369	1,442	1,158
Loans	-3,120	-707	-340	697	1,144	961	823	1,172
Shares	181	-353	-81	175	223	51	76	170
Other equity	474	492	479	288	131	82	154	138
Investment fund shares/units	167	2	37	83	142	242	280	255
Insurance and pension schemes	178	138	128	109	152	146	153	187
Other	-458	-66	392	423	1,111	1,111	1,385	1,356
Non-financial corporations								
Total	374	1,122	1,507	1,697	2,229	2,101	2,199	2,167
Currency and deposits	744	575	668	602	630	732	584	711
Debt securities	-36	-6	-37	-45	-47	-18	-14	18
Loans	-192	-187	-365	-4	-76	-26	106	157
Shares	103	-13	33	59	124	73	53	27
Other equity	294	453	464	267	253	159	223	161
Investment fund shares/units	-3	-28	-20	-19	-13	3	0	-2
Insurance and pension schemes	23	2	-10	10	31	6	-3	-18
Other	-558	326	774	827	1,326	1,173	1,250	1,114
Monetary financial institutions								
Total	-1,797	2,542	3,400	3,686	2,822	2,840	1,706	2,798
Monetary gold and SDRs	0	-56	0	0	43	43	43	43
Currency and deposits	-2,849	-373	-23	-539	-1,358	-821	-743	562
Debt securities	2,764	2,847	2,705	2,832	2,526	2,403	1,565	1,230
Loans	-2,052	303	817	1,511	1,680	1,263	891	919
Shares	141	-91	-61	-25	-23	-24	-4	-14
Other equity	14	56	38	36	61	46	46	101
Investment fund shares/units	-2	-2	-1	0	-1	-1	-1	-1
Insurance and pension schemes	1	0	1	2	2	2	2	1
Other	185	-140	-74	-130	-108	-71	-93	-43
Other financial institutions								
Total	35	-63	-2	-16	-104	92	62	589
Currency and deposits	-133	61	-9	41	-56	-92	-121	110
Debt securities	313	157	84	74	-35	10	-66	-41
Loans	-192	-203	-197	-221	-81	29	48	122
Shares	49	-59	99	61	48	44	70	192
Other equity	15	-35	-28	-26	-46	-9	5	-12
Investment fund shares/units	31	28	24	14	41	105	132	146
Insurance and pension schemes	-34	12	7	16	13	11	12	18
Other	-14	-24	17	26	13	-7	-20	53
General government								
Total	1,403	-6,532	-3,619	-1,786	-939	-770	-381	-1,026
Currency and deposits	1,936	-5,331	-2,338	-844	-419	-318	-208	-1,044
Debt securities	58	-112	-93	-43	-54	-26	-23	-20
Loans	-666	-655	-620	-564	-401	-323	-284	-160
Shares	-69	-57	-69	153	155	-39	-45	-36
Other equity	113	-12	-35	-35	-33	-6	-6	3
Investment fund shares/units	26	-10	-5	11	27	23	35	23
Insurance and pension schemes	0	-1	-5	-2	5	0	7	-3
Other	5	-354	-454	-462	-217	-80	143	211
Households and NPISHs								
Total	964	1,127	1,315	1,280	1,367	1,312	1,576	1,709
Currency and deposits	771	950	1,041	991	1,239	1,069	1,291	1,420
Debt securities	-13	-22	-11	16	4	-1	-20	-29
Loans	-17	35	25	-25	22	18	62	133
Shares	-44	-132	-83	-72	-81	-2	3	2
Other equity	38	30	40	46	-104	-107	-114	-115
Investment fund shares/units	116	14	39	78	89	111	114	89
Insurance and pension schemes	188	126	135	83	101	127	135	189
Other	-76	125	129	162	97	96	106	21
Rest of the world								
Total	-426	-1,359	-1,247	-398	-476	-11	-546	-842
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-350	1,198	-272	135	182	427	12	158
Debt securities	-999	-2,885	-1,616	-474	-314	45	-33	-1,452
Loans	-595	-1,019	-950	-1,305	-1,665	-2,026	-1,909	-1,215
Shares	335	619	446	261	204	236	255	86
Other equity	1,377	775	876	791	724	617	514	551
Investment fund shares/units	3	0	0	-2	-2	-1	-1	0
Insurance and pension schemes	3	-8	0	-20	10	5	13	42
Other	-200	-38	267	216	385	686	604	987

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

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector								
Total	-749	-2,675	1,626	3,547	3,870	4,131	3,300	4,349
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	637	-822	1,635	2,777	2,813	3,179	2,159	2,849
Debt securities	338	-1,971	-1,184	-412	-769	-152	-154	-1,335
Loans	-3,442	-1,628	-1,038	-442	-243	-959	-1,029	-109
Shares	246	359	303	336	313	158	198	146
Other equity	1,883	1,149	1,247	939	728	658	621	695
Investment fund shares/units	142	-1	24	16	43	29	64	72
Insurance and pension schemes	189	120	123	86	156	146	163	224
Other	-742	117	514	245	829	1,072	1,278	1,807
Non-financial corporations								
Total	-1,062	488	937	745	1,219	1,567	1,596	1,943
Debt securities	83	-227	-218	-275	-314	93	47	21
Loans	-2,407	-777	-785	-340	-108	-513	-440	-294
Shares	152	139	93	166	143	192	233	148
Other equity	1,466	1,081	1,177	877	707	635	606	595
Other	-356	273	671	317	791	1,162	1,149	1,472
Monetary financial institutions								
Total	-2,282	2,291	3,177	3,509	2,576	2,615	1,468	2,343
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-146	3,508	3,689	3,771	3,075	3,101	2,139	2,834
Debt securities	-525	-339	-56	-153	-402	-418	-401	-306
Loans	-1,536	-826	-399	38	21	27	-207	-85
Shares	44	17	6	-35	-37	-36	-36	-3
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	19	43	-1	8	-1	-44	-8	-14
Other	-138	-112	-63	-119	-81	-15	-20	-83
Other financial institutions								
Total	73	-189	-115	-188	-104	8	42	540
Debt securities	-72	42	41	-1	3	-8	-8	-14
Loans	-461	-348	-380	-300	-334	-251	-201	-171
Shares	51	4	5	5	7	2	0	0
Other equity	305	67	68	62	21	24	15	100
Investment fund shares/units	123	-44	26	8	45	74	72	86
Insurance and pension schemes	189	120	123	86	156	146	163	224
Other	-62	-30	2	-49	-2	22	1	314
General government								
Total	2,506	-5,775	-3,033	-1,323	-666	-787	-636	-1,306
Currency and deposits	783	-4,330	-2,054	-994	-262	78	20	15
Debt securities	851	-1,446	-951	17	-57	181	208	-1,036
Loans	875	-103	-53	-531	-596	-917	-904	-298
Shares	0	200	200	200	200	0	0	0
Other equity	112	2	2	1	0	0	0	0
Other	-115	-98	-178	-16	49	-129	40	14
Households and NPISHs								
Total	17	509	661	804	846	728	830	829
Loans	87	426	579	692	774	696	722	740
Other	-70	83	82	113	72	32	108	89
Rest of the world								
Total	1,301	-488	-271	916	1,030	1,434	1,316	1,046
Monetary gold and SDRs	0	-56	0	0	43	43	43	43
Currency and deposits	-517	-2,098	-2,570	-2,391	-2,596	-2,182	-1,343	-931
Debt securities	1,749	1,949	2,216	2,772	2,850	2,565	1,563	1,040
Loans	-274	-98	-252	-167	-278	-106	-57	66
Shares	270	-93	62	100	114	129	134	110
Other equity	-32	117	108	140	127	41	47	-7
Investment fund shares/units	28	2	13	65	97	211	215	183
Insurance and pension schemes	-8	10	6	3	6	5	3	5
Other	85	-221	145	394	667	726	711	537

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

EUR million	2015	2016	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2
Domestic sector	1,728	871	976	1,314	1,506	1,444	1,862	1,889
Non-financial corporations	1,436	634	571	952	1,011	534	603	224
Monetary financial institutions	485	250	223	177	247	225	238	455
Other financial institutions	-38	126	113	173	1	84	20	50
General government	-1,103	-758	-585	-463	-272	17	255	280
Households and NPISHs	947	618	654	475	520	584	746	881
Rest of the world	-1,728	-871	-976	-1,314	-1,506	-1,444	-1,862	-1,889

METHODOLOGICAL NOTE

International economic relations

The balance of payments methodology and Slovenia's international investment position are based on the recommendations of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (IMF, 2009). The external debt statistics are based on the External Debt Statistics: Guide for Compilers and Users (IMF, 2014), which was also issued by the IMF and is fully compliant with the aforementioned manual.

The **balance of payments** is a statistical illustration of economic transactions between residents of a certain economy and non-residents taking place during a specific period. A transaction is an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer.

The **international investment position** is statistical statement that shows at a point in time the value of financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets, and the liabilities of residents of an economy to non-residents.

The **gross external debt** is derived from the international investment position. It consists of non-contingent liabilities requiring the repayment of principal and/or interest at a specific period in the future that are simultaneously debt to a non-resident of a specific economy. The net **external debt** is derived from the difference between the claims and liabilities vis-à-vis non-residents via such instruments. The concept of external debt does not include equities or financial derivatives.

Statistics of financial institutions and markets

The methodology for the balance sheets of financial institutions is based on the methodology of the European Central Bank (ECB) and the euro area. The data source is the statistical report by monetary financial institutions.

The features of the methodology are as follows:

- The sector of monetary financial institutions (MFIs) comprises banks, savings banks, credit unions and money-market funds.
- Loans are disclosed in gross amounts.
- The items "loans and deposits" and "debt securities" under claims and liabilities, on account of the inclusion of marketable/non-marketable securities in the items of loans and deposits and securities. According to the ECB methodology non-marketable securities are included under loans and deposits, while marketable securities are included under debt securities.
- Under the ECB methodology relations on behalf and internal relations are included in net amounts.
- The figures for certain items (loans, deposits, securities other than shares, issued debt securities) are disclosed at nominal value in accordance with the ECB requirement. The nominal value for individual instruments means the amount of principal that the obligor owes the creditor under the contract:
  - loans: outstanding principal, excluding accrued interest, commission and other costs,
  - deposits: amount committed for a fixed term, excluding accrued interest,
  - debt securities: nominal value.

The **consolidated balance sheet of monetary financial institutions** discloses the overall (consolidated) balance sheet of the Bank of Slovenia and other monetary financial institutions at the end of the month. Mutual claims and liabilities of sectors S.122 and S.121 are excluded. On the liability side of the balance sheet, liabilities to domestic sector S.1311 are excluded in certain items, and are captured under other liabilities.

The balance sheet of the Bank of Slovenia discloses the balance sheet of the Bank of Slovenia at the end of the month in accordance with ECB's methodology.

The balance sheet of other monetary financial institutions discloses the aggregate balance sheet of other monetary financial institutions, i.e. banks, savings banks, credit unions and money-market funds, at the end of the month.

The legal requirements with regard to interest rate statistics of MFIs are set out in Regulation ECB/2013/34 amended by Regulation ECB/2014/30, which defines the statistical standards according to which monetary financial institutions report their interest rate statistics. The interest rate statistics of MFIs relate to the interest rates on which a credit institution or other institution reach agreement with a client. A new operation is defined as a new agreement between a household or non-financial corporation and a credit institution or other institution. New agreements include all financial contracts whose terms first set out the interest rate on a deposit or loan, and all new negotiations with regard to existing deposits and loans.

Financial accounts statistics

The methodological basis for compiling the financial accounts consists of the ESA 2010, which sets out common standards, definitions, classifications and accounting rules.

The financial accounts disclose the stocks and transactions recorded by individual institutional sectors in individual financial instruments as claims and liabilities.

The **institutional sectors** comprise the domestic sectors and the rest of the world. The domestic sectors comprise non-financial corporations, monetary financial institutions (central bank, deposit-taking corporations, money-market funds), other financial institutions (investment funds, other financial intermediaries, financial auxiliaries, captive financial institutions and money lenders, insurance corporations, pension funds), the general government sector (central government, local government, social security funds), households and non-profit institutions serving households (NPISHs).

Financial instruments comprise monetary gold and SDRs (special drawing rights), currency and deposits, debt securities, loans, shares, other equity, investment fund shares/units, insurance and pension schemes, and other instruments (financial derivatives, other accounts receivable/payable).

Transactions comprise the difference between increases (acquisitions) and decreases (disposals), i.e. the net transactions in an individual financial instrument.

Net financial assets discloses the difference between the stock of financial assets and the stock of financial liabilities, while net transactions discloses the difference between transactions in financial assets and transactions in financial liabilities.

The annual and quarterly stocks at the end of the period and the annual and quarterly transactions (four-quarter moving sums) are given in the table. The figures are unconsolidated, which means that they include claims and liabilities between units within the framework of an institutional sector.