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# Executive Summary

***Following the strong economic performance in the second quarter, which was largely driven by private consumption as the containment measures were relaxed, GDP growth remained high in the euro area in the third quarter.*** *However, the euro area is facing certain problems in supply chains, while inflation has also been driven upwards by rising energy prices. The economic recovery thus lost momentum during the third quarter, although the economic sentiment remained high, despite the supply-side disruptions. With the strong economy the situation on the labour market is improving and firms are increasingly reporting labour shortages. Nonetheless, wage growth remains moderate for now and the cost competitiveness of the euro area is favourable. This was at least partly reflected in the rising current account surplus, which is indicative of the room for additional strengthening of domestic consumption. Inflation is temporarily elevated, driven mostly by rising energy prices, and partly by constraints on the supply side. The effects of administrative measures are also evident. Inflation in the euro area stood at 3.4% in September, while long-term market inflation expectations were also slightly higher. Our assessment remains that the current spike in inflation is temporary, given the number of temporary factors at work, although the risks of continuing inflation are rising.*

***Greater volatility has been evident on the global financial markets since the spring of this year, but the financing conditions remain highly favourable.*** *Given the increased uncertainty surrounding the impact of the renewed spread of the epidemic, borrowing costs on the debt security markets fell during the summer, followed by a rise in September that took them back to the level seen before July. The rise was driven primarily by the temporary rise in inflation and the expectations that certain major central banks would respond by gradually dialling back the accommodative stance of monetary policy. The financing conditions in the euro area nevertheless remained highly favourable in October for the public and the private sector alike. Within the Eurosystem, we decided to maintain our strongly accommodative monetary policy, while remaining alert to current inflationary pressures.*

***After a rapid rebound in the first half of the year, growth also slowed slightly in the domestic economy.*** *The earlier lifting of containment measures saw the recovery in Slovenia begin more quickly this year than in the euro area overall. GDP in the second quarter was up 16.3% in year-on-year terms, which ranks Slovenia in the top half of euro area countries in terms of economic growth. Later in the year growth slowed slightly, as capacity utilisation is high, and the pre-crisis level of activity has been reached, while a shortage of intermediate goods and skilled workers is increasingly evident, and growth in freight transport has also slowed. Year-on-year growth in card payments, ATM withdrawals and invoices registered with tax authorities remained stable in early October, an indication that private consumption remains consistent. Given the favourable economic developments, our assessment is that this year's economic growth will be higher than forecast in June.*

***Labour market conditions remain favourable.*** *The workforce in employment reached almost 902,000 in July, its highest figure to date, while registered unemployment declined further in August and September, providing basis for the government's reduced intervention in the labour market. Firms are increasingly hiring foreign workers, which is easing wage pressures. Evidence that these are not yet elevated comes from the wage dynamics in the private sector, which remain moderate despite this year's rise in the minimum wage.*

*Year-on-year growth in the average gross wage, which stood at 7.1% in July, is still largely being driven by wage increases in the public sector. The temporary lay-off scheme in the private sector preserved employment and consumer purchasing power during the epidemic, while crisis bonuses sharply raised wages in the public sector. The deterioration in cost competitiveness will be at least partly offset by the lifting of the emergency labour market measures and further economic growth.*

***The growth in domestic demand has reduced the current account surplus this year, and the trend of increase in net saving by the private sector has come to an end.*** *The 12-month current account surplus fell below EUR 3 billion in August, the lowest figure since January 2020. The decline this year has been fuelled by strong nominal growth in merchandise imports. Despite the waning effect of a low base, the year-on-year rate hit 33.0% in August, with growth in import prices becoming an increasingly important factor. The slightly lower growth in exports (25.5%) was largely attributable to volatility in car production caused by parts shortages. The situation facing exporters is expected to become more difficult over the remainder of the year, and manufacturing firms are already reducing their short-term export expectations in light of the disruptions to supply chains. There should be fewer complications in services trade, where exports of business services, construction services, and insurance and pension services have strengthened this year. Exports of travel services will continue to recover as restrictions on border crossings in Europe are lifted, but they remain well down on their pre-crisis level, which is also the main reason for a reduced services trade surplus. The developments in the current account reflect the saving-investment gap of non-financial corporations and households, as this year's growth in private consumption and investment has brought an end to the trend of increase in their net financial assets, although the private sector's surplus saving remains high.*

***Inflation stood at 2.7% in September, the main factors remaining temporary in nature.*** *Energy price inflation has risen due to positive base effects and the rise in oil prices. At the same time non-energy industrial goods are rising in price, as firms currently have issues with high commodity prices and disruption to supplies of intermediate goods. Rising costs are also being passed through into final prices on the domestic market in the booming economy. After the relaxation of containment measures in the spring, prices of certain services also began to rise, as providers took advantage of the strong demand to cover rising costs and to compensate for last year's losses. Core inflation stood at 1.2% in September. Measured inflation is being reduced by the change in weights for HICP compilation caused by last year's changes in consumption patterns. Under last year's weights, headline inflation would have stood at 3.5% in September, and core inflation at 1.8%. Our assessment is that the current high inflation is temporary in nature, and will therefore be of limited duration, but there are risks of inflation being higher than current expectations.*

***The fiscal position improved in year-on-year terms in the first half of the year amid the high economic growth.*** *General government revenues grew even more strongly in the second quarter than in the first quarter, thanks to a base effect and a further rise in economic activity, while growth in general government expenditure slowed considerably, which therefore reduced the deficit. The amount of the measures remained large in the first half of the year, but the largest in financial terms expired in June. Various anti-coronavirus measures have nevertheless remained in place in the second half of this year. Having reached 80.0% of GDP by the end of June, the general government debt is forecast to decline to 78.5% of GDP by the end of the year according to the Ministry of Finance, primarily as a result of economic growth and the utilisation of pre-financing. Fiscal policy faces a challenging period, although the option of deviating from fiscal rules remains in place this and next year. In the wake of their reactivation, governments will also have to provide funding for meeting climate and digital targets, and for implementing other structural reforms. Support for this will also be provided by EU funding for national recovery and resilience plans, within the framework of which Slovenia already received pre-*

*financing in September. In fiscal policy the key remains that the structural position is not deteriorating, and the measures in connection with the epidemic remain temporary.*

***

***Given its progressive taxation and high social transfers, income inequality in Slovenia is among the lowest in Europe, and in nominal terms was the same in 2019 as in 2007. But in real terms, taking account of the differing inflation rates across income groups, it has increased slightly.*** *It is also expected to have increased in 2020. Although the official measure of inflation describes the growth in consumer prices being faced by the average consumer, the generalised nature of the measure means that it cannot describe the inflation faced by each individual. Everyone's personal inflation depends on their consumption patterns, which usually correlate with their own income position. Our estimates are that the basket of consumer goods for low-income households has risen more in price than the basket of wealthier households over the last 15 years. The higher inflation is largely attributable to price trends in food and housing. Detailed analysis is provided in a special section at the end of the publication.*

**Main macroeconomic indicators**

| | 2018 | 2019 | 2020 | 20Q4 | 21Q1 | 21Q2 | 2018 | 2019 | 2020 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Slovenia* | | | | | | *euro area* | | | |
| **Economic developments** | | | | | | *y-o-y growth rates in %* | | | | | | |
| GDP | 4.4 | 3.3 | -4.2 | -3.1 | 1.7 | 16.3 | 1.9 | 1.5 | -6.3 | -3.9 | -1.2 | 14.8 |
| *- industry* | 3.1 | 6.9 | -3.3 | 3.6 | 2.7 | 26.6 | 1.9 | 0.3 | -6.9 | -0.2 | 3.1 | 23.2 |
| *- construction* | 8.4 | 8.1 | -2.0 | 1.9 | 0.1 | 8.7 | 2.4 | 2.0 | -5.7 | 0.3 | 1.1 | 17.9 |
| *- mainly public sector services* | 2.0 | 1.7 | 3.0 | 3.2 | 1.7 | 2.8 | 0.7 | 1.0 | -2.6 | -1.0 | 0.9 | 9.9 |
| *- mainly private sector services* | 4.9 | 3.8 | -4.5 | -2.6 | 0.8 | 17.5 | 2.1 | 1.6 | -7.1 | -4.4 | -1.6 | 15.7 |
| Domestic expenditure | 5.0 | 3.3 | -4.6 | -3.4 | 1.3 | 18.3 | 1.8 | 2.4 | -6.2 | -6.2 | -4.1 | 12.5 |
| *- general government* | 3.0 | 2.0 | 4.2 | 3.5 | 0.5 | 1.4 | 1.1 | 1.8 | 1.4 | 3.4 | 2.9 | 7.1 |
| *- households and NPISH* | 3.6 | 4.8 | -6.6 | -11.1 | -0.3 | 18.8 | 1.5 | 1.3 | -7.9 | -7.4 | -5.7 | 12.6 |
| *- gross capital formation* | 10.6 | 0.6 | -7.3 | 12.0 | 6.0 | 35.9 | 3.4 | 5.6 | -9.1 | -11.9 | -6.7 | 17.9 |
| *- gross fixed capital formation* | 9.7 | 5.5 | -8.2 | -2.7 | 7.8 | 19.2 | 3.0 | 6.5 | -7.2 | -9.2 | -6.6 | 18.8 |
| *- inventories and valuables, contr. to GDP growth in pp* | 0.4 | -0.9 | 0.1 | 2.9 | -0.2 | 3.4 | 0.1 | -0.1 | -0.5 | -0.6 | -0.1 | -0.1 |
| **Labour market** | | | | | | | | | | | | |
| Employment | 3.2 | 2.5 | -0.6 | -1.1 | -0.9 | 1.4 | 1.5 | 1.2 | -1.5 | -1.7 | -1.8 | 1.8 |
| *- mainly private sector (without OPQ)* | 3.4 | 2.6 | -1.2 | -1.9 | -1.7 | 1.0 | 1.6 | 1.1 | -2.3 | -2.6 | -2.8 | 1.6 |
| *- mainly public services (OPQ)* | 2.2 | 1.8 | 2.2 | 2.5 | 2.3 | 2.9 | 1.3 | 1.5 | 0.8 | 1.1 | 1.3 | 2.5 |
| Labour costs per employee | 3.9 | 5.0 | 3.5 | 6.8 | 6.5 | 8.4 | 2.2 | 2.1 | -0.7 | 0.9 | 2.0 | 8.0 |
| *- mainly private sector (without OPQ)* | 4.1 | 4.5 | 1.7 | 2.8 | 2.2 | 8.2 | 2.3 | 2.0 | -1.9 | -0.2 | 1.8 | 10.1 |
| *- mainly public services (OPQ)* | 3.3 | 6.5 | 9.5 | 9.5 | 13.5 | 13.1 | 2.0 | 2.2 | 2.4 | 3.3 | 2.4 | 3.2 |
| Unit labour costs, nominal* | 2.7 | 4.2 | 7.7 | 9.0 | 3.7 | -5.5 | 1.9 | 1.8 | 4.6 | 3.1 | 1.4 | -4.2 |
| Unit labour costs, real** | 0.6 | 1.9 | 6.3 | 7.9 | 2.3 | -7.6 | 0.4 | 0.1 | 2.9 | 1.9 | -0.1 | -4.7 |
| | | | | | | *in %* | | | | | | |
| LFS unemployment rate | 5.1 | 4.5 | 5.0 | 5.1 | 5.6 | 4.3 | 8.2 | 7.6 | 7.9 | 8.0 | 8.5 | ... |
| **Foreign trade** | | | | | | *y-o-y growth rates in %* | | | | | | |
| Current account balance as % of GDP*** | 6.0 | 6.0 | 7.4 | 7.4 | 6.9 | 6.2 | 2.9 | 2.3 | 2.0 | 2.0 | 2.6 | 2.9 |
| External trade balance as contr. to GDP growth in pp | -0.2 | 0.3 | -0.1 | 0.0 | 0.5 | -0.3 | 0.1 | -0.8 | -0.4 | 2.2 | 2.8 | 2.7 |
| Real export of goods and services | 6.2 | 4.5 | -8.7 | -0.7 | 1.4 | 30.2 | 3.6 | 2.4 | -9.0 | -3.5 | -0.2 | 25.8 |
| Real import of goods and services | 7.1 | 4.7 | -9.6 | -0.8 | 0.9 | 34.9 | 3.7 | 4.5 | -9.0 | -8.4 | -6.3 | 21.1 |
| **Financing** | | | | | | *in % of GDP* | | | | | | |
| Banking system's balance sheet | 88.4 | 88.0 | 98.2 | 98.2 | 100.3 | 99.4 | 255.9 | 260.3 | 296.5 | 296.5 | 305.2 | 298.1 |
| Loans to NFCs | 20.6 | 19.9 | 20.2 | 20.2 | 20.3 | 19.5 | 36.4 | 36.0 | 40.2 | 40.2 | 40.3 | 39.1 |
| Loans to households | 21.7 | 22.0 | 22.9 | 22.9 | 22.7 | 22.0 | 49.0 | 49.0 | 53.3 | 53.3 | 53.5 | 52.3 |
| **Inflation** | | | | | | *in %* | | | | | | |
| HICP | 1.9 | 1.7 | -0.3 | -0.9 | -0.6 | 2.1 | 1.8 | 1.2 | 0.3 | -0.3 | 1.1 | 1.8 |
| HICP excl. energy, food, alcohol and tobacco | 1.0 | 1.9 | 0.8 | 0.3 | -0.2 | 0.4 | 1.0 | 1.0 | 0.7 | 0.2 | 1.2 | 0.9 |
| **Public finance** | | | | | | *in % of GDP* | | | | | | |
| Debt of the general government | 70.3 | 65.6 | 79.8 | 79.8 | 84.9 | 80.0 | 85.7 | 83.7 | 97.5 | 97.5 | 100.3 | ... |
| One year net lending/net borrowing of the general government*** | 0.7 | 0.4 | -7.7 | -7.7 | -8.2 | -6.4 | -0.5 | -0.6 | -7.3 | -7.3 | -8.4 | ... |
| *- interest payment**** | 2.0 | 1.7 | 1.6 | 1.6 | 1.6 | 1.4 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | ... |
| *- primary balance**** | 2.8 | 2.1 | -6.1 | -6.1 | -6.6 | -5.0 | 1.4 | 1.0 | -5.8 | -5.8 | -6.9 | ... |

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

# 1 Economic and Financial Developments in the Euro Area

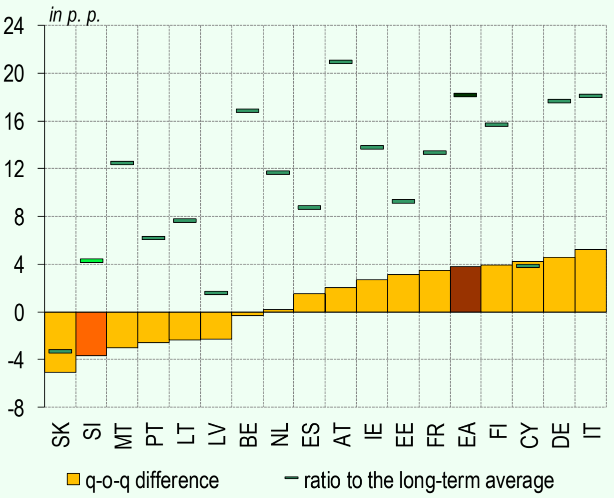
*Economic growth in the euro area remained high in the third quarter, despite the problems in supply chains, which other economies are also facing. The recovery did however lose a little momentum during the quarter, because of disruptions to supply chains, which in September curtailed the performance of certain service providers in addition to manufacturing firms. The situation in manufacturing nevertheless remains very good, and growth in activity in services picked up further pace. The economic sentiment in the euro area remained very high, and bank lending to the private sector is continuing to strengthen at moderate rates. The situation on the labour market is also improving, but even though total employment remains down on its pre-crisis level, the share of firms reporting labour shortages is increasing. For now this is not creating excessive upward pressure on wage growth, which remains moderate, while cost competitiveness remains favourable, which is supporting a growing current account surplus. Amid the prevailing effect of a low base and the current inflationary pressures, inflation in the euro area is also strengthening, and stood at 3.4% in September. In an environment of rising demand, firms find it easier to pass through higher production costs into final product prices. The market inflation expectations have also risen, although the prevailing assessment remains that the current spike in inflation is temporary, given the number of one-off factors at work. As a result of problems in supply chains and the renewed spread of the pandemic, global economic growth is also gradually slowing, and the gaps between the recoveries in different economies are widening.*

*The financing conditions in the euro area remain highly favourable. Over the summer the euro area debt securities markets were affected by the increased uncertainty amid the renewed spread of coronavirus, which strengthened expectations of the continuation of accommodative monetary policy. Consequently, the borrowing costs of the public and private sector debt securities fell. The trend in yields of debt securities reversed in September, in light of the rise in inflationary pressures. The rise in energy prices and higher inflation in the euro area increased market participants' expectations about the ECB dialling back its accommodative stance earlier. Consequently nominal sovereign and private sector bond yields rose, but remain below their spring peaks, and in most cases below the pre-pandemic level. Real interest rates also remain at record lows, and the credit spreads for the government sector and the private sector are significantly compressed. Both indicate that monetary policy is continuing to successfully maintain favourable financing conditions. At the same time, within the Eurosystem we remain alert to ongoing developments in inflation, should they prove more lasting than currently forecast.*

## Monthly indicators of economic activity

**The available figures for the third quarter point to high quarterly economic growth in the euro area.** For the second consecutive quarter a positive current dynamic in GDP growth is being indicated by the composite PMI, whose average over the third quarter (58.5 points) was one of its highest values of the last 23 years. The situation in manufacturing remained very good, albeit not as good as in the previous quarter. Growth in services activity also picked up, as the faster relaxation of containment measures over the summer allowed for more normal business conditions in services reliant on tourism and social contact. The economic recovery did however lose strength during the quarter, primarily because of disruptions to supply chains,[1] which in September curtailed the performance of certain service providers in addition to manufacturing firms. The economic sentiment in the euro area nevertheless remained very high: despite sliding in August, the economic sentiment indicator's average over the third quarter was the highest since the recording of data began in 1980. The gaps between the recoveries in different countries are widening (see Figure 1.1). The indicator declined in approximately a third of the countries, including Slovenia (by 3.7 percentage points), but remained above its long-term average in all of them except Slovakia. The greatest improvement came in Italy and Germany, of around 5.0 percentage points at quarterly level. Economic developments could remain favourable in the final quarter of this year, at least judging by manufacturing firms' extremely optimistic assessments of future demand, while the risk to the ongoing recovery comes mainly from the increase in problems on the supply side and the current high level of energy prices. Amid extensive support from economic policy, high domestic consumption and strong global demand, euro area GDP is forecast to strengthen by 5.0% this year and by 4.6% in 2022 according to the ECB's September projections.

**Figure 1.1: Economic sentiment indicator in euro area countries in the third quarter of 2021**




*Source: Eurostat, Banka Slovenije calculations.*

## GDP in the second quarter of 2021

**Economic activity in the euro area strengthened sharply in the second quarter as expected, despite the difficulties with supply chains.** After declining for two consecutive quarters, euro area GDP increased by 2.2% in the second quarter, one of the highest rates to date, as the containment measures were relaxed.[2] According to seasonally and calendar-adjusted figures, GDP was down just 2.5% on the final quarter of 2019, i.e. before the coronavirus crisis, the shortfall having declined by 2.1 percentage points.[3] The economic growth was driven mainly by stronger private consumption, which was nevertheless still down 6.1% on the quarter before the crisis. By contrast, quarterly growth in gross fixed capital formation was rather low at just 1.1%, and growth in government consumption was approximately the same. There was a strong improvement in private-sector services, where value-added was still down 4.6% on its pre-pandemic level, despite the high quarterly growth (of 2.7%). Amid strong global demand, the increase in activity in industry and construction was somewhat more modest, most likely as a result of supply-side issues, such as shortages of and reduced access to raw materials.

[1] The problems in supply chains (supplier delivery times lengthened further in September according to Markit) are not merely curtailing manufacturing output in the euro area, but are already being reflected in weaker demand for intermediate goods from firms, as indicated by the growth in new orders, which in September hit its slowest rate of the last eight months.

[2] Quarterly GDP growth stood at 12.6% in the third quarter of last year as containment measures were relaxed.

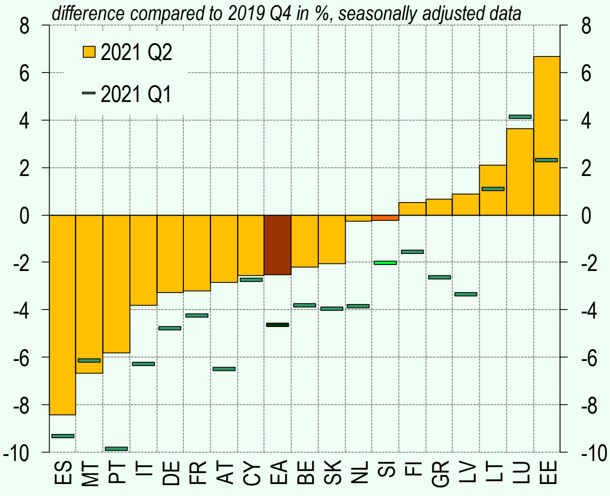
[3] Excluding Ireland, euro area GDP is down 3.3% on its level of the final quarter of 2019.

**Euro area countries have each responded very differently to the new crisis, and their recoveries also vary greatly.** The GDP shortfall on its pre-pandemic peak, i.e. the final quarter of 2019, narrowed significantly in the second quarter in the majority of euro area countries. It nevertheless still amounted to 8.4% in Spain, while economic activity in Estonia has already surpassed its pre-crisis level by 6.7% (see Figure 1.2).[4] Government consumption in the second quarter was higher than before the crisis in all euro area countries, while in the majority the same was true of gross fixed capital formation, although this did not compensate for the shortfall in private consumption. On the production side, value-added in private-sector services is still down on its pre-crisis level in most countries, while last year's decline has already been regained in public services and in industry. Estonia is recovering fastest, having surpassed its pre-crisis level in the previous quarter. It has also succeeded in regaining the loss in private consumption, and its recovery is underway in all sectors, including private-sector services. However, it is the country that was hit least hard by the crisis: its maximum decline relative to the pre-crisis level was 6.3%, compared with 22.1% in Spain. Alongside Estonia, Luxembourg, Lithuania, Latvia, Greece and Finland have also surpassed their peaks from the end of 2019. By contrast, economic activity remains well down in Spain, Malta and Portugal, which were hit hardest during the crisis because of the restrictions on international tourism. Slovenia was approaching its pre-crisis level of GDP in the second quarter, and is one of the faster-recovering economies.

## Situation on the labour market

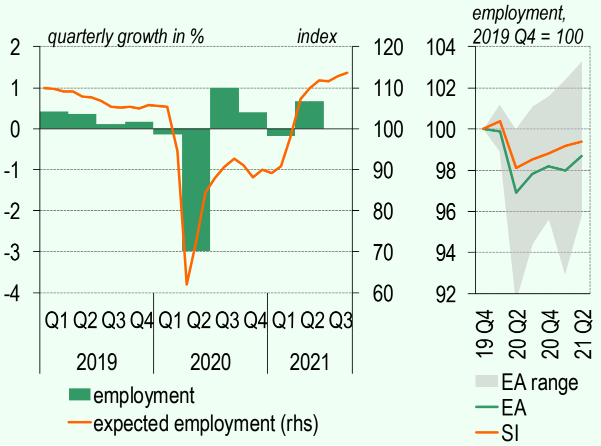
**The situation on the euro area labour market continues to improve, but for the moment still remains worse than before the crisis** (see Figure 1.3). The unemployment rate fell for the fourth consecutive month to 7.5% in August according to seasonally adjusted figures, leaving it down 1.1 percentage points in year-on-year terms. The fall in unemployment reflects the recovery in employment, which rose by 0.7% in seasonally adjusted terms following the pick-up in economic activity in the second quarter. This reduced the shortfall on its pre-crisis level from the final quarter of 2019 to 1.3%. Slovenia's shortfall of 0.6% is below-average. The shortfall remains largest in Spain (4.2%), given its heavy dependence on activities reliant on social contacts, while in five countries[5] employment is already higher than before the epidemic. The current outlook for the remainder of the year is markedly favourable: employment expectations in the euro area remain significantly above their long-term average. Amid the favourable trends and as the shortfall on the

**Figure 1.2: Comparison of catching up with the pre-crisis level of GDP between euro area countries**




Source: Eurostat.

**Figure 1.3: Employment and expected employment in euro area**

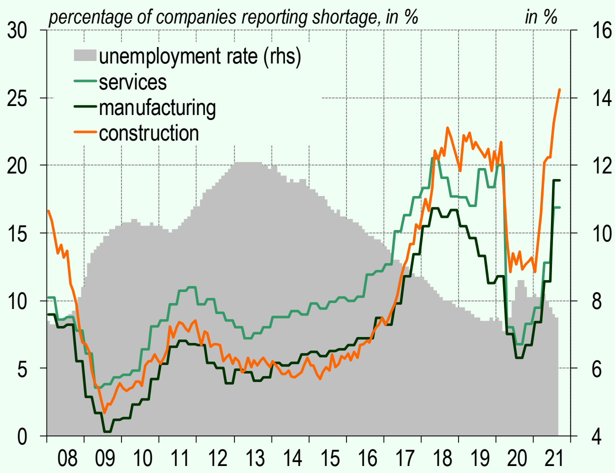



Note: Data is seasonally adjusted. For the expected employment indicator value 100 represents the long-term average.
Source: Eurostat, Banka Slovenije calculations.

[4] Economic activity in Ireland is 20.7% up on its pre-crisis level, but is not illustrated in the figure because of the strong influence of multinationals.

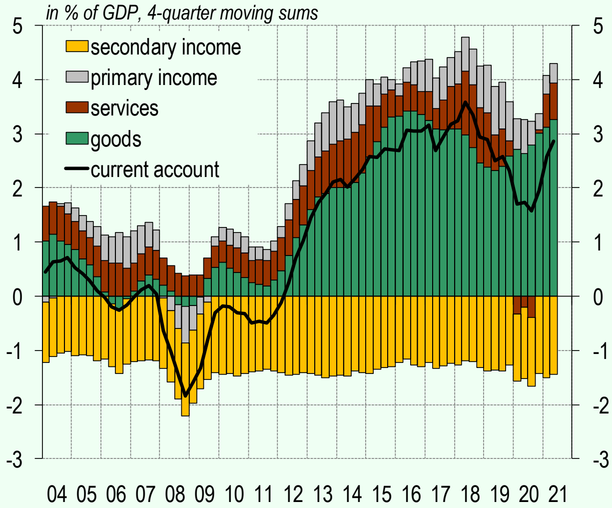
[5] Luxembourg, Belgium, Malta, Portugal and the Netherlands.

**Figure 1.4: Shortage of workers and unemployment rate in euro area**




*Note: Data is seasonally adjusted.*
*Source: Eurostat.*

**Figure 1.5: Current account balance of the euro area**




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

pre-crisis level gradually declines, firms are again increasingly reporting labour shortages. This is most notable in construction (see Figure 1.4) as construction investment activity powers ahead and the real estate market booms. With the exception of services, labour shortages are at their highest levels since the introduction of the euro. Year-on-year wage growth, measured in terms of compensation per employee, strengthened from 2.0% to 8.1% in the second quarter, largely reflecting the effect of last year's low base rather than an actual increase in wage pressures. In the second quarter of last year, wages fell by 4.7% in year-on-year terms as a result of the job preservation measures.

## Current account and selected competitiveness indicators

**After almost three years, the euro area's current account surplus is strengthening again.** After falling during the first and second waves of the epidemic, the 12-month surplus began rising again coming into 2021 (see Figure 1.5). It amounted to 2.9% of GDP in the second quarter, up 1.3 percentage points on the third quarter of last year, when it hit a seven-year low. The services trade balance recorded a surplus in the amount of 0.7% of GDP, primarily on account of a decline in imports of miscellaneous business services, having recorded a small deficit of around 0.3% of GDP over the first three quarters of 2020 amid the decline in exports of travel services caused by the containment measures.[6] The merchandise trade surplus also increased sharply (to 3.3% of GDP), having widened continuously since the third quarter of 2019, and constitutes the majority of the euro area's current account surplus. A slight widening of the deficit in income prevented the growth in the current account surplus from being even larger. The euro area thus provided current financing to other economies in the amount of EUR 337 billion in the second quarter.

**The differences between euro area countries in terms of the structure and relative size of their current account balances widened during the pandemic crisis.** The range between the euro area countries with the largest surplus and the largest deficit amounted to 22.0 percentage points in the second quarter, 7.6 percentage points larger than its average between 2010 and 2019.[7] Slovenia's current account surplus expressed as a ratio to GDP is one of the largest in the euro area. It stood at

[6] The services trade balance moved from surplus into deficit in the first quarter of last year, driven largely by a sharp year-on-year increase (of 66.8%) in imports of miscellaneous business services. The subsequent sharp fall in the surplus of trade in travel services deepened the services trade deficit to 0.4% of GDP in the third quarter of last year.

[7] Ireland has been excluded from the analysis because of the pronounced fluctuations in its current account position, as a result of the volatility in its deficit in trade in services, which is extremely subject to the performance of multinationals. More-detailed analysis of euro area countries is available in the April 2020 issue of Economic and Financial Developments.

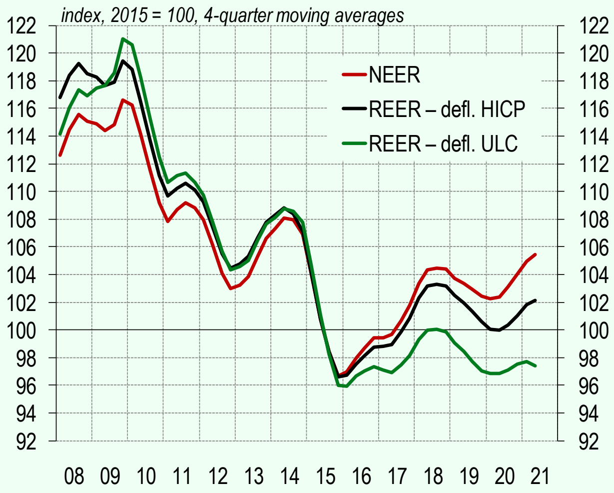
6.3% over the 12 months to the second quarter of this year, down only 0.2 percentage points on a year earlier. Only the Netherlands and Germany recorded larger surpluses, of 8.9% and 7.5% respectively, driven upwards in year-on-year terms primarily by an increase in the trade surplus. By contrast, the largest deficit was recorded for the sixth consecutive year by Cyprus, in the amount of 13.1%. Estonia and Malta also recorded large current account deficits, having still been in surplus a year earlier.

**The price competitiveness of the euro area economy in the second quarter remained less favourable than a year earlier, while its cost competitiveness was more favourable.** The effective exchange rate of euro (EER) against 19 of the most important trading partners deflated by the HICP was up 1.2%, as a result of the persistent adverse movements in the euro exchange rate against a selected basket of currencies[8] (1.9%), while euro area inflation remained lower than in competitors, which mitigated the deterioration in the position (see Figure 1.6). The most favourable developments among euro area countries were recorded by Greece, thanks to the largest fall in relative prices,[9] while the worst developments came in Luxembourg, where competitiveness deteriorated as a result of price developments and exchange rate developments. Slovenia was not noteworthy in either component, and was ranked in the middle of the euro area countries. The markets expect the euro not to strengthen in the coming months, partly on account of the differences between ECB monetary policy and those of the Fed and certain other central banks. Conversely, the EER against 19 trading partners deflated by ULCs in the second quarter of this year was down 1.3% in year-on-year terms, driven by a large decline in relative unit labour costs[10] (of 3.2%). There is considerable variation in cost competitiveness between individual euro area countries. The largest improvement in the second quarter was recorded by Greece, while the largest deterioration came in Lithuania. Slovenia was in the top third with better developments in cost competitiveness.

## Bank lending activity

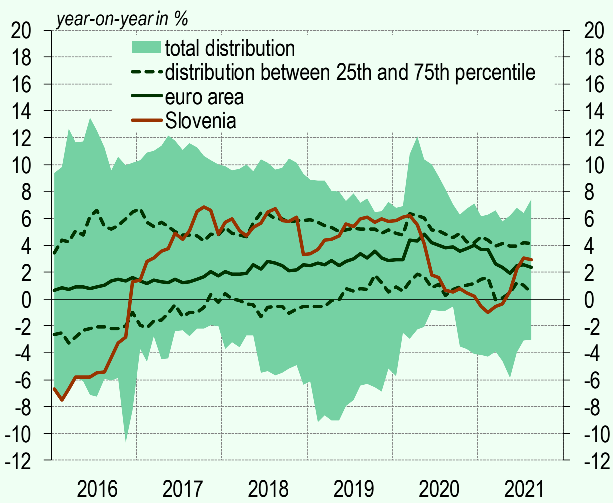
**After rising at the outbreak of the pandemic, average year-on-year growth in loans to the non-banking sector in the euro area had declined by August of this year, and was recording similar rates to previous years.** The initial rise was driven primarily by high year-on-year growth in loans to non-financial corporations in certain major euro area economies, which slowed after

**Figure 1.6: External competitiveness of euro area against 19 trading partners**




Source: ECB.

**Figure 1.7: Comparison of growth in loans to the non-banking sector between Slovenia and the euro area**




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

[8] Exchange rate developments are illustrated in the figure by the nominal effective exchange rate (NEER).

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

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

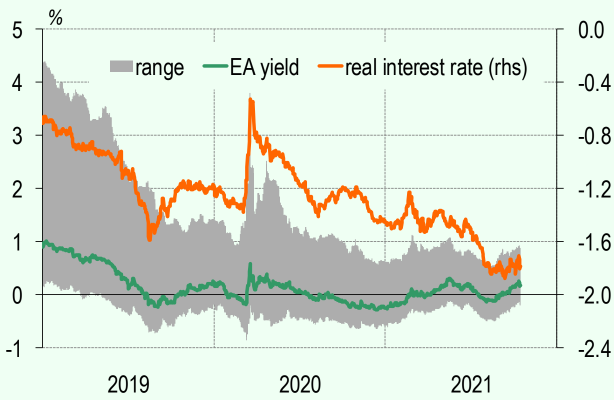
one year. Since the outbreak of the pandemic average year-on-year growth in housing loans has continued to rise, and in August of this year stood at its highest rate of recent years. The outbreak of the pandemic and the large decline in private consumption initially brought growth in consumer loans in the euro area to a complete halt, which turned into a contraction in late 2020 and early 2021. It was positive once again in the second quarter of this year, albeit weak. The growth dynamics of loans to the non-banking sector was more pronounced in Slovenia after the outbreak of the pandemic. After a sharp initial decline in growth in the second quarter of last year, and a contraction in the first months of this year, growth turned positive again in the second quarter, and by July was once again above the euro area average (see Figure 1.7).

## Money market, capital market and commodity prices

**In the last quarter, the euro financial markets saw a period of increased uncertainty driven by the spread of the delta variant, and strengthened expectations of the continuation of the accommodative monetary policy, which led to a decline in market yields, before the trend of declining market yields reversed as of September as a result of the hightened inflationary pressures.** Over the summer, a decline in yields for sovereigns and private-sector bonds alike was witnessed, driven by the ECB's accommodative monetary policy amid the preservation of a larger envelope of net purchases under the PEPP. The GDP-weighted 10-year yield of euro area bonds turned negative again, and fell below -0.1%. Real yields also fell sharply. In September, government bond yields rose again to the levels seen in spring, with the 10-year euro area yield rising to around 0.18% in October. Nominal yields on government bonds nevertheless remain at record lows (see Figure 1.8). Similar developments were witnessed in other advanced economies (e.g. the US, the UK). Slovenia's borrowing costs followed the described trend over the entire period, and thus maintained a favourable position compared with other euro area countries. The yield on 10-year Slovenian government bond stood at 0.17% in October, still close to its record low, and approximately 40 basis points above the benchmark German government bond.

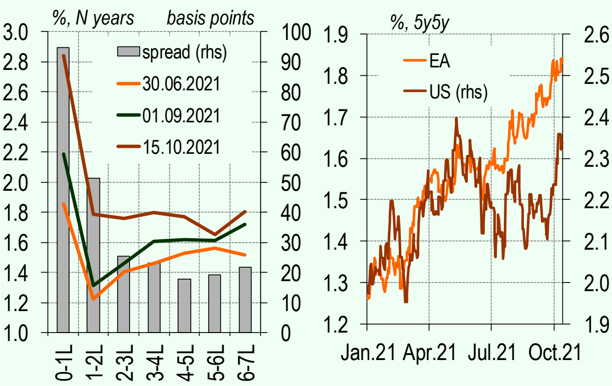
**Autumn's yields rise is largely being driven by higher market inflation expectations for the euro area and the US.** Even during the pandemic the financial markets were expecting increased inflationary pressures, at least in the initial phase of the recovery. These were thought to be temporary and to last for around one year (see Figure 1.9 left, under 0-1y). Since September the markets have been pricing in a higher probability of the temporary inflationary pressures becoming more permanent, which is being reflected in a rise in the one-year, one-year forward inflation rate (see Figure 1.9 left, under "1-2y"). The main

**Figure 1.8: 10 year euro area bond yield and 10 year real interest rate**




*Note: 10y EA yield represents an average of GDP weighted government bond yields of euro area members except CY, EE, LT, LU, LV in MT. 10y real nterest rate as the difference between the 10y nominal EONIA swap and 10y inflation swap.*
*Source: Bloomberg, Banka Slovenije calculations.*

**Figure 1.9: EA 1y market inflation expectations over N years and 5y5y market inflation expectations in EA and US**



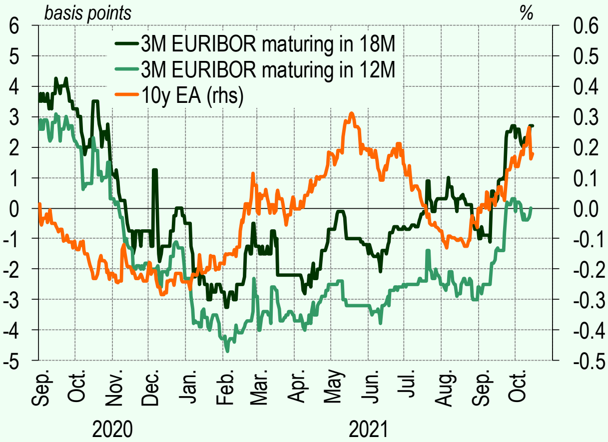

*Note: Left figure: e.g. 2-3y represents 1y inflation between 2. and 3. year; all derived from EA inflation curves. Spread as the difference between the last and the first date. Right figure shows long term market inflation expectations (5y inflation in 5 years). For the US, the breaken inflation was taken instead of inflation swap.*
*Source: Bloomberg, Banka Slovenije calculations.*

factor is high oil price, commonly used by market participants as an approximation for global inflationary pressures, which have been rising rapidly again since August. It can also be attributable to the sustained rise in euro area long-term market inflation expectations, while in the US the inflation expectations have stagnated (see Figure 1.9 right).

**Reversal on the financial markets in September started to reflect on the euro area money markets.** Money market rates are still very stable in the short-term segment, with interest rates well below zero. Conversely, interest rates reaching into the second half of 2022 and beyond, such as the 3-month Euribor forwards, have begun to rise discernibly togehter with the credit, liquidity and other premiums, which are being reflected in higher spreads between the Euribors and the risk-free Eonia swap rates of comparable maturities (see Figure 1.10). Certain market participants attribute part of the rise in premiums to external influences, such as expectations of a less accommodative stance in the monetary policies of the Fed and the Bank of England, in light of growing inflationary pressures. Nevertheless, the very flat yield curves suggest that the markets still do not give high likelihood to the central banks of advanced economies to sharply rise their key interest rates in the current cycle of economic recovery.

**The financing conditions for the private sector in the euro area remain highly favourable, in the equity and debt market alike.** Euro area stock indices rose over the summer, driven by the very good earnings reports of firms in the euro area for the second quarter. A slight downward revision came in September, albeit solely in the non-financial sector. Expectations of the high future coporate earnings in the euro area remain high. Corporate bond yields followed the rise in government bond yields, although credit premiums (€ iBoxx asset swap spreads) priced into the more risky private sector continued to fall, and remain well below their pre-pandemic levels. The Slovenian capital market followed positive market sentiment. Over the summer the SBI passed 1,200 points and had gained almost 30% this year by the end of September, while the Euro Stoxx 600 was up 14%. In contrast to the euro area average, bond issuance

**Figure 1.10: Spreads between 3M EURIBOR forwards and EONIA swap rate (OIS)**




*Note: 10y EA yield represents an average of GDP weighted government bond yields of euro area members, except for CY, EE, LT, LU, LV, in MT.*
*Source: Bloomberg, Banka Slovenije calculations.*

by Slovenian private-sector issuers remains weak this year, and is similar to 2018 and 2019 levels, at around half of the levels seen in the more active period of 2014 to 2017. This can be attributed to the siginificant liquidity in firms, and consequently reduced demand for this type of financing.

**The upward pressures on energy prices has, for now, not fully passed through into prices of other commodities, at least judging by developments in their forward prices.** The post-pandemic recovery in demand, and increased demand amid the transition to more sustainable energy resources have driven prices of natural gas. The composite indices of  metals and food forward prices have remained at similar levels since the spring, although prices of individual commodities making up the indices moved in mixed directions. The strong positive correlation between all commodity prices that prevailed until early spring seems to have diminished.

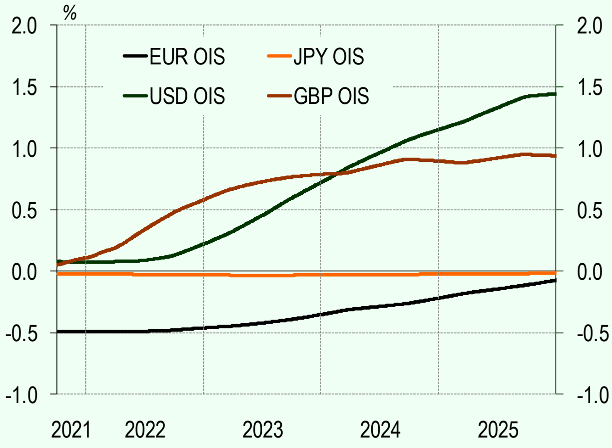
## Monetary policy of the ECB and other major central banks

**Within the Eurosystem we maintain our highly accommodative monetary policy, with some global central banks having signalled the possible start of monetary policy tightening amid elevated inflationary pressures.** At its July meeting the Governing Council of the ECB updated its forward guidance, which now encompasses a new inflation target,[11] which was adopted as part of the monetary policy strategy review. This change signalled that the accommodative monetary policy stance will remain for some time yet, in order to reach the inflation target. The market perception that ECB monetary policy will remain more accommodative relative to other central banks is evident from the Eonia swaps curve (which prices in the market expectations of future central banks rises of its the key interest rate), which is flatter than the curve of interest rate swaps of other countries, with the exception of Japan (see Figure 1.11). In light of the favourable financial conditions and the latest slight upward revision in the macroeconomic projections for economic growth and inflation, at the September meeting of the Governing Council of the ECB we decided to slightly reduce the envelope of PEPP purchases for the final quarter of 2021. This was based on the assessment that the favourable financing conditions can be maintained with a slightly lower level of purchases than in the second and third quarter. Nevertheless, within the Eurosystem we remain alert to current inflationary pressures, should they prove to be more persistent than initially expected. A number of major central banks have signalled a dial-back in the accommodative monetary policy stance amid elevated inflationary pressures. In their most recent monetary policy meetings the Fed and the Bank of England indicated that they might soon dial back the accommodative stance, while the Norwegian central bank was the first advanced economy to raise its key interest rate from zero to 0.25%.

## Inflation

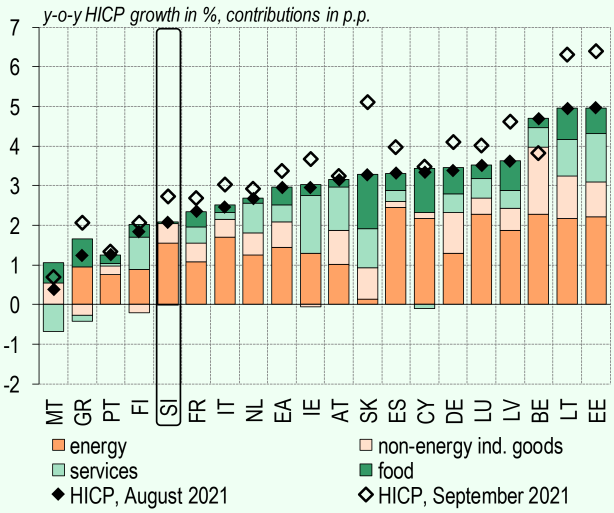
**Euro area inflation rose further in the third quarter, reaching 3.4% in September.** It was up 3.7 percentage points on a year earlier. This year's strengthening is largely attributable to base effects, related to last year's fall in prices during the epidemic, however prices are also being driven upwards by stronger current inflationary pressures. In the wake of the rise in global oil prices, energy price inflation reached 17.4% in September, while prices of non-energy industrial goods are also rising, driven by higher input costs amid shortages of raw materials and semi-finished products (see Figure 1.12). With prices rising in these categories, inflation has risen in all euro area countries in recent months. According to the September figures, the rate has exceeded 2% in all euro area countries other than Malta and Portugal, and has now passed 6% in Lithuania and Estonia. Slovenia's rate of 2.7% ranks it among the countries with lower inflation. Comparisons between countries have been made more

**Figure 1.11: Market expectations of the key interest rates path for selected central banks**




*Note: The graph starts with October 2021. Key interest rate rises are priced in 1m overnight swap (OIS) forwards.*
*Source: Bloomberg, Banka Slovenije calculations.*

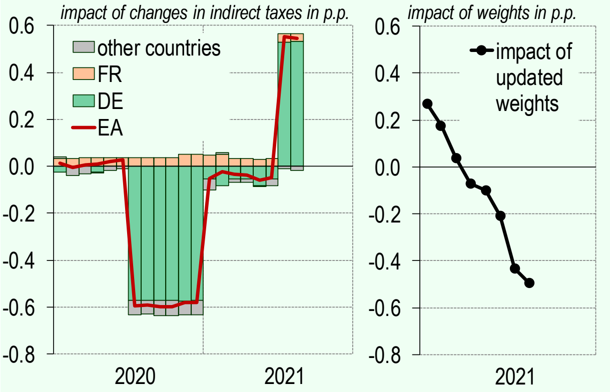
**Figure 1.12: Inflation in euro area member countries**




*Source: ECB, Eurostat, Banka Slovenije calculations.*

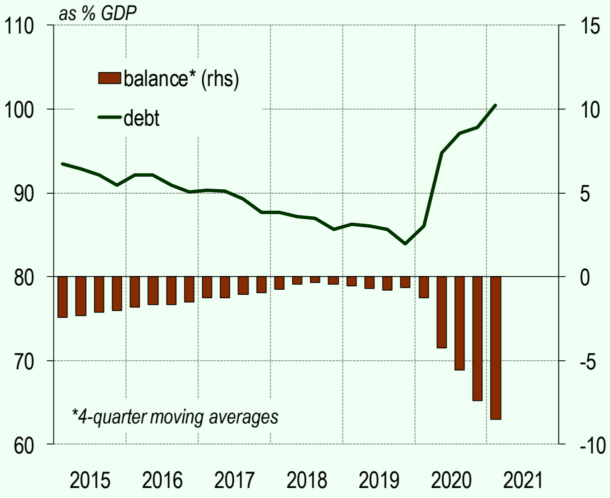
[11] In support of its symmetric 2% inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target.

**Figure 1.13: Impact of changes in indirect taxes and impact of updated weights on y-o-y growth of consumer prices**




*Note: The impact of changes in indirect taxes is calculated as the diff. between the y-o-y growth of the HICP and the y-o-y growth of the HICP at constant tax rates. Impact of updated weights is calculated as the diff. between the y-o-y growth of the HICP using 2021 weights and y-o-y growth of the HICP using 2020 weights.*
*Source: Eurostat, Banka Slovenije calculations.*

**Figure 1.14: General government debt and balance in euro area**




*Source: Eurostat, Banka Slovenije calculations.*

difficult this year by changes to indirect taxation and the impact of updated weights. Tax measures put in place last year with the aim of mitigating the impact of the coronavirus crisis on businesses and households have raised year-on-year inflation in the euro area by almost 0.6 percentage points since July of this year,[12] while the change in HICP weights has had a negative impact in recent months. Had the weights remained unchanged, euro area inflation would have been 0.5 percentage points higher in August (see Figure 1.13).

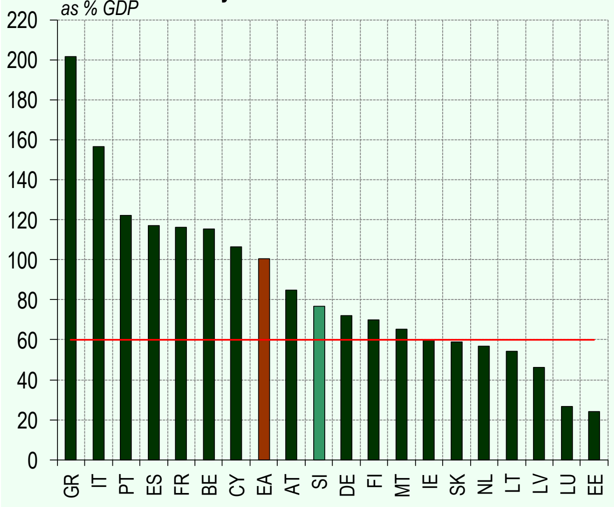
## Public finances

**The general government deficit and debt in the euro area increased significantly last year and in the first quarter of this year as a result of the fiscal measures to alleviate the impact of the epidemic.** The general government debt stood at around 100% of GDP, up almost 17 percentage points on the end of 2019 (see Figure 1.14). The nominal deficit in the first quarter of this year was larger than in the first quarter of last year, when the epidemic was yet to hit fully. This is true for the majority of euro area countries, including all the largest economies. General government revenues were broadly unchanged in year-on-year terms. The deterioration in the position was thus driven by the 9.1% increase in expenditure, a similar rate of growth to last year, which primarily reflects the measures to alleviate the impact of the pandemic. Investment expenditure was also up, and will be additionally supported in the second half of the year by funding from the NextGenerationEU instrument. The forecasts for the year-end deficit are improving. While the European Commission is still forecasting a deficit of 8% of GDP for the euro area, the ECB's September forecast was lower at 7.1% of GDP (close to last year' estimated deficit), partly on account of the improved outlook for economic growth. The European Commission's autumn forecasts will be released in early November.

**Given the large debts accrued by fiscal measures to address the pandemic, meeting the debt reduction rules will be a major challenge when the fiscal rules are reactivated.** The Stability and Growth Pact requires the gradual reduction of government debt when it is above the reference value of 60% of GDP. According to the European Commission's spring forecasts, 14 EU Member States will exceed the reference value in 2022, 12 of which are in the euro area, and the fiscal rules might be reactivated in 2023 (see Figure 1.15). Debt reduction will be particularly challenging for countries where the reference value is exceeded by a large margin. A

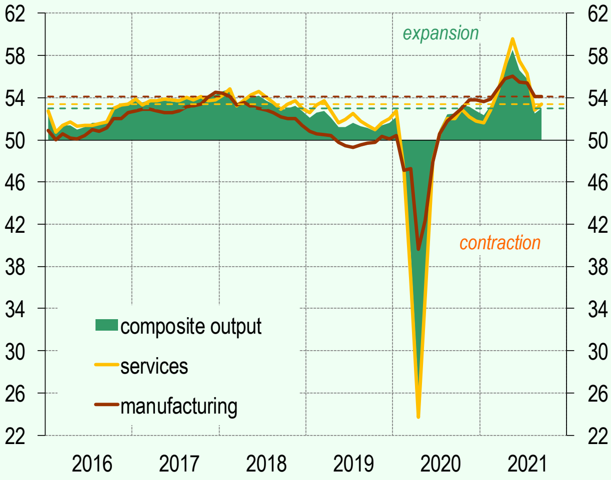
[12] The impact of changes in indirect taxes on year-on-year consumer price inflation is expressed as the difference between the year-on-year growth in the HICP, and the year-on-year growth in the HICP at constant tax rates (HICP-CT). The latter assumes full and immediate pass-through of changes in indirect taxes into consumer prices. The positive impact in the euro area is related to last year's temporary cut in VAT in Germany, which was in place between July and December of last year. Because prices of goods and services fell temporarily in the second half of last year, year-on-year growth has been higher as of July of this year, given that it is calculated with reference to last year's lower base.

**Figure 1.15: General government debt projections for 2022 by euro area countries**




*Source: European Commission, May 2021.*

**Figure 1.16: JPMorgan Purchasing Managers' Index (PMI), global**




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

compromise is being sought between EU Member States and the European Commission in the area of fiscal rules, and needs to be agreed by mid-2022 at the latest, when governments begin drawing up their budgets for 2023.

## Economic developments outside the euro area

**The high global economic growth is gradually slowing amid problems in supply chains and the renewed spread of the pandemic.** This is indicated by the JPMorgan PMI, which rose slightly in September for the first time in three months, but whose average over the third quarter was down 3.5 points on the previous quarter (see Figure 1.16). Although issues with shortages of (skilled) labour are increasingly common, and disruptions to the supply of increasingly expensive commodities are mounting, growth in global manufacturing output strengthened in September, for the first time since May, although the rate was one of the weakest of the last 15 months.[13] The situation in private-sector services also improved slightly in September. According to Markit, the outlook for the coming months remains favourable. Global GDP will rise by 5.9% this year and 4.9% in 2022 according to the IMF's October forecasts, and has already exceeded its pre-crisis level according to the OECD's September estimates.

**There is increasingly heterogeneity in the economic recovery between global economies, on account of the differences in the stringency of the containment measures.** Positive quarterly economic growth was recorded in the second quarter in particular by countries that had put less restrictive measures in place. This was supported above all by the rise in final household consumption that followed the gradual opening up of a broad spectrum of private-sector services. The highest current economic growth rates were recorded by the UK and Russia, in the amount of 4.8% and 3.5% respectively. Euro area GDP growth was also among the highest, but nevertheless remains down on its level before the outbreak of the pandemic. The US has already surpassed its pre-crisis level of economic activity (by 0.9%), and quarterly growth there stood at 1.6% in the second quarter. Quarterly growth in China remained low at just over 1%, while the renewed spread of the pandemic brought weak growth in Japan and Brazil. India recorded a decline in activity of 10.2%. The differences in the strength of the recovery are also being driven by the different vaccination levels in different countries.

[13] The PMI for manufacturing remained at 54.1 points in September, the lowest figure since February of this year.

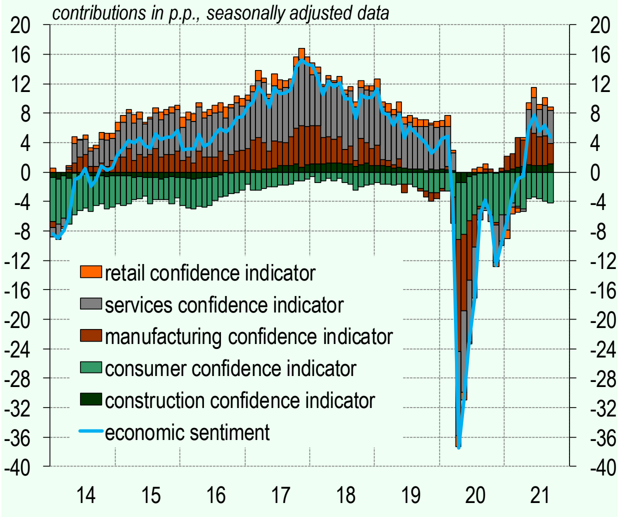
# 2 Domestic Economic Activity

*After a strong rebound in the first half of the year, economic growth has slowed in recent months. With two consecutive quarters of high quarterly growth, GDP in the second quarter was up 16.3% in year-on-year terms, which ranks Slovenia in the top half of euro area countries in terms of the economic recovery. The high capacity utilisation, the disappearance of the crisis-induced gaps in numerous segments of supply and demand, and a shortage of materials and workers in certain parts of the economy all mean that growth is slowing, which is being reflected by the confidence indicators and by high-frequency activity indicators. Despite the problems in supply chains, the high energy prices, and the more stringent containment measures amid the renewed spread of the epidemic, there is no sign so far of any harsher or more broadly based adverse economic shocks. Year-on-year growth in card payments and invoices registered with tax authorities remained stable in early October.*

## Economic sentiment indicators

**The confidence indicators point to a slowdown in economic growth.** The economic sentiment indicator has been gradually declining since June. Manufacturing firms are becoming more cautious in their assessments of export expectations, and in September also reduced their assessment of growth in expected output. The decline in confidence in September was most evident in retail, where according to SORS figures firms reported a sharp decline in sales, problems with inventories and reduced employment expectations. Consumer confidence also declined to a lesser extent, following a deterioration in the assessment of the suitability of major purchases. Both responses coincide with the tightening of containment measures. From this perspective there has been a surprising rise in the optimism of firms in other private-sector services, which were yet to feel the deterioration in the epidemiological situation in their current performance at the time of the survey in September, which is also confirmed by the high-frequency consumption indicators. Their assessment of demand expectations remained well down on this year's peak, but was nevertheless positive. There was an even stronger rise in confidence in construction, where firms are reporting rises in orders and activity, which by August had still not been reflected in the index of construction put in place.

**Figure 2.1: Economic sentiment indicator for Slovenia**

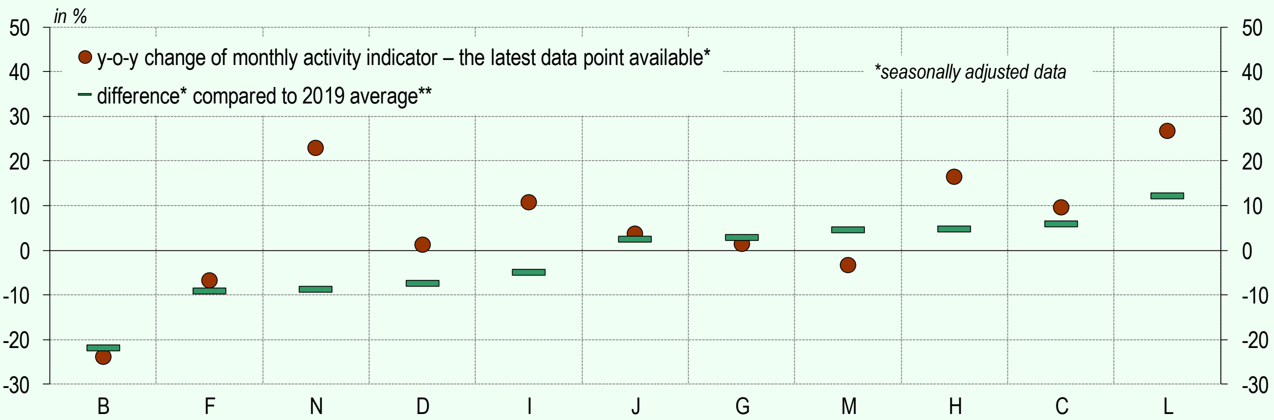



*Source: SORS, Banka Slovenije calculations.*

## High-frequency activity indicators

**Certain segments of the economy are finding it hard to keep pace with strong demand.** This is becoming evident in numerous branches of manufacturing, which are facing shortages of materials and workers (see Box 2.1). The issue is particularly acute in the manufacture of motor vehicles, which is facing a serious shortage of electronic components, which caused a partial shutdown of production in July. Given the low base, activity in August was up 13.5%, but the issues with shortages of materials are ongoing. Amid high capacity utilisation, the first signs of a slowdown could also be seen in aggregate industrial production. Similar issues are being faced by construction, which despite strong demand is not yet recovering, at least according to the indicator of construction put in place. Activity in August was down 6.8% in year-on-year terms, and was weakest in the commercial buildings segment, on account of the postponement of investment during the crisis. Growth also slowed in private-sector services, at least in July: turnover was up only 0.7% on June. As business conditions mostly normalised,

**Figure 2.2: Monthly indicators of economic activity by sectors**




*Note: B – mining and quarrying, F – construction, N – administrative and support service activities, D – electricity, gas, steam and air conditioning supply, I – accommodation and food service activities, J – information and communication, G – wholesale and retail trade, repair of motor vehicles and motorcycles, M – professional, scientific and technical activities, H – transportation and storage, C – manufacturing, L – real estate activities. **Difference between average value of indicator in 2019 and latest data point available (July/August 2021) in %, seasonally adjusted data.*
*Source: SORS, Banka Slovenije calculations.*

**Table 2.1: Economic activity – volume indices**

| | 12 m. to Jul.20 | 12 m. to Jul.21 | 2021 Jun. | 2021 Jul. | 2021 Aug. | 2021 Apr. | 2021 Jul. |
|---|---|---|---|---|---|---|---|
| | | | y-o-y in % ** | | | monthly*** | |
| **Industrial production – total** | -5.1 | 6.8 | 20.4 | 8.8 | 8.3 | 2.8 | 1.3 |
| Manufacturing | -4.6 | 7.6 | 21.9 | 10.2 | 9.8 | 2.9 | 1.4 |
| **Construction – total** | -5.0 | 0.5 | 7.8 | -8.2 | -6.8 | -5.8 | -4.8 |
| Non-residential buildings | -10.0 | -21.7 | -34.6 | -56.9 | -28.8 | -32.2 | -25.9 |
| Residential buildings | -8.8 | 25.7 | 40.3 | 27.3 | 4.7 | 4.3 | -7.7 |
| Civil engineering | -3.9 | 9.4 | 33.4 | 7.6 | -5.1 | 0.4 | -2.2 |
| **Trade and service activities* – total** | -6.0 | 1.5 | 14.2 | 7.8 | ... | 10.8 | 1.9 |
| Wholesale and retail trade and repair of motor vehicles and motorcycles | -9.0 | 0.2 | -4.3 | -13.5 | ... | 17.5 | -1.3 |
| Retail trade, except of motor vehicles and motorcycles | -3.1 | 3.1 | 13.2 | 7.4 | ... | 23.3 | 1.6 |
| **Other private sector services** | -7.5 | 0.5 | 18.3 | 11.8 | ... | 5.4 | 5.6 |
| Transport and storage | -8.5 | 7.5 | 19.0 | 16.4 | ... | 5.4 | -0.5 |
| Accommodation and food service activities | -19.3 | -29.0 | 23.0 | 10.7 | ... | 25.2 | 116.6 |
| Information and communication | -0.8 | 3.6 | 11.0 | 3.6 | ... | 4.4 | -1.1 |
| Professional, scientific and technical activities | -0.4 | 5.3 | 15.6 | -3.4 | ... | 4.7 | -0.3 |

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

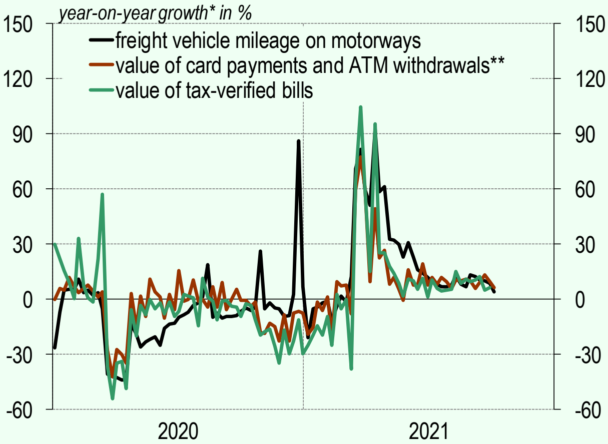
turnover increased sharply in accommodation and food service activities and in arts, entertainment and recreation, and also to a lesser extent in transportation and storage. Other services saw a decline in turnover, most notably wholesale and retail trade, where sales of cars were down in particular amid the supply issues, and professional, scientific and technical activities, most likely in reflection of the hold-ups in construction. The economy is likely to have surpassed its pre-crisis level of activity in the third quarter, although not in leisure services, as expected, and also in construction, somewhat surprisingly. Activity in the domestic supply of electricity, gas and steam is also significantly down on its pre-crisis level, which is somewhat worrrisome given the current high energy price inflation in Europe (see Figure 2.2).

**By early October the weekly activity indicators were not showing any adverse shocks to economic growth.** Year-on-year growth in card payments and ATM withdrawals in early October remained close to their average levels of the last four months (see Figure 2.3). The aggregate value of invoices registered with tax authorities is also indicative of stable year-on-year developments in economic activity. It is a similar case with freight vehicle mileage on Slovenian motorways, which is a good approximation for developments in international merchandise trade (see Section 4). All of the aforementioned indicators point to a slowdown in economic growth as the base effect wanes in the months before last year's reimposition of containment measures. These were more narrowly targeted than in the first wave of the epidemic, and mainly curtailed private consumption.

## GDP in the second quarter of 2021

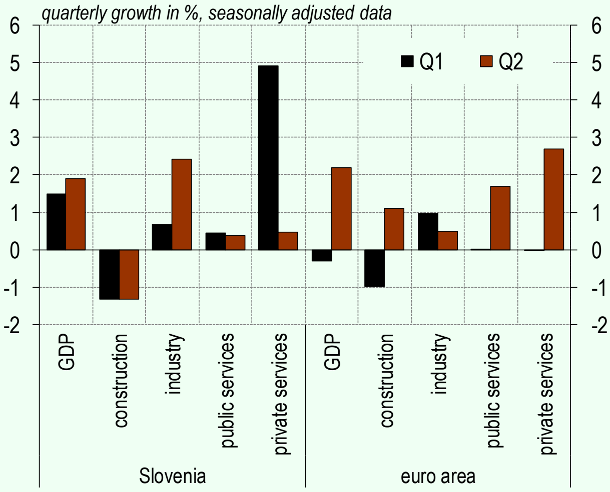
**Quarterly GDP growth rose to 1.9% amid strong foreign demand and the lifting of containment measures.** The main driver was faster growth in value-added in industry, while leisure services also recorded increased growth as their business conditions largely normalised when containment measures were relaxed. Quarterly growth in value-added slowed or even turned negative in the majority of other sectors, as the additional relaxation of containment measures had little impact, while much of the withheld consumption had been released in the first quarter as certain business conditions normalised, particularly in wholesale and retail trade. These factors meant that quarterly GDP growth was 0.3 percentage points lower than in the euro area overall, where the relaxation of measures and thus the economic recovery came later. This is being reflected above all in a different dynamic in value-added in wholesale and retail trade. On the expenditure side the slowdown in quarterly GDP growth was attributable to a quarterly decline in gross fixed capital formation, lower government consumption, and a less favourable ratio between growth in exports and imports. According to original figures, year-on-year growth in GDP stood at 16.3%, 1.5 percentage points higher than the euro area average. The main driv-

**Figure 2.3: High-frequency indicators of economic activity**




*Note: *Approximation for year-on-year comparison is 52 weeks interval. **The source is Bankart, which covers more than 80% of all card payments and more than 93% of all ATM withdrawals in Slovenia.*
*Source: FURS, DARS, Bankart.*

**Figure 2.4: Quarterly GDP growth in 2021 in Slovenia and euro area, production side**



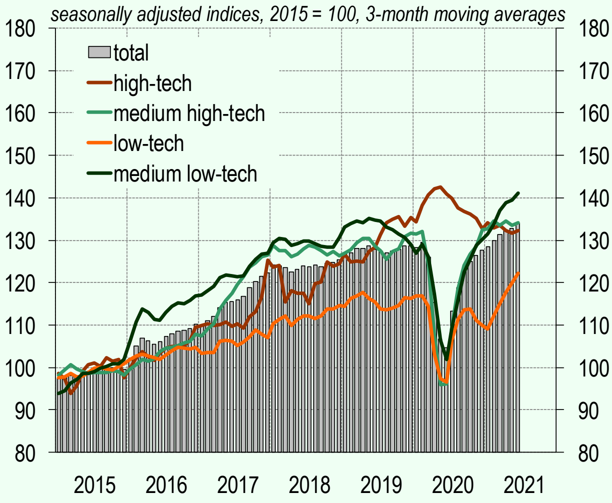

*Source: Eurostat.*

er was the stronger recovery in private consumption amid the improving situation on the labour market.

**The rise in quarterly growth in value-added was driven by strong demand in industry, and the normalisation of most business conditions in leisure services.** Quarterly growth in value-added reached 1.4% in the second quarter, up 0.4 percentage points on the first quarter. With the continued strengthening of foreign demand and a recovery in domestic demand, quarterly growth in value-added in industry strengthened to 2.4%, although the structure of the growth was not the most favourable in terms of technological complexity. The highest quarterly growth was recorded by low-tech sectors, while growth in high-tech production was down in year-on-year terms for a third consecutive quarter amid negative mothly growth figures (see Figure 2.6). This was attributable to lower exports of pharmaceutical products in previous quarters. The situation in leisure services improved significantly with the relaxation of containment measures. For example, real turnover was up by 73.8% on the first quarter in accommodation and food service activities, and by 35.7% in tour operator activities. Quarterly growth in total value-added in private-sector services nevertheless slowed from 4.9% in the first quarter to 0.5% in the second quarter. This was partly attributable to the release of a significant part of the withheld consumption immediately after the partial relaxation of containment measures in mid-February, and to the freeze in growth in sales of motor vehicles, with manufacturers facing considerable supply-chain problems. Value-added in construction fell for the second consecutive quarter, which might be attributable to problems on the supply side amid rising demand.[1]

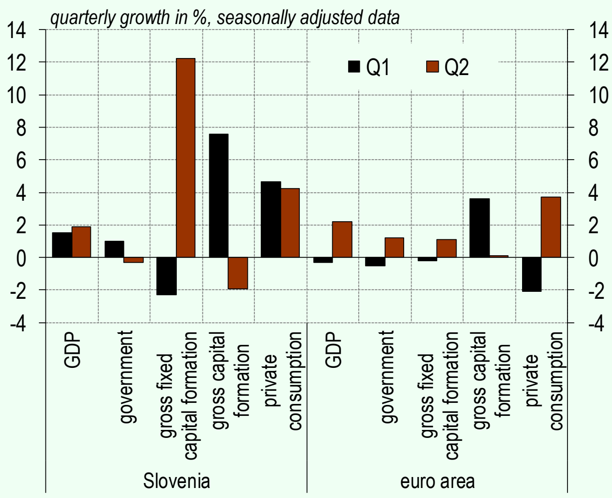
**The increased growth in domestic demand during the second quarter was the result of the build-up of inventories.** Quarterly growth in domestic demand reached 7.0% in the second quarter, up 6.0 percentage points on the first quarter. Growth in final consumption remained above 3%, primarily on account of increased household

**Figure 2.6: Production in manufacturing according to technological intensity**



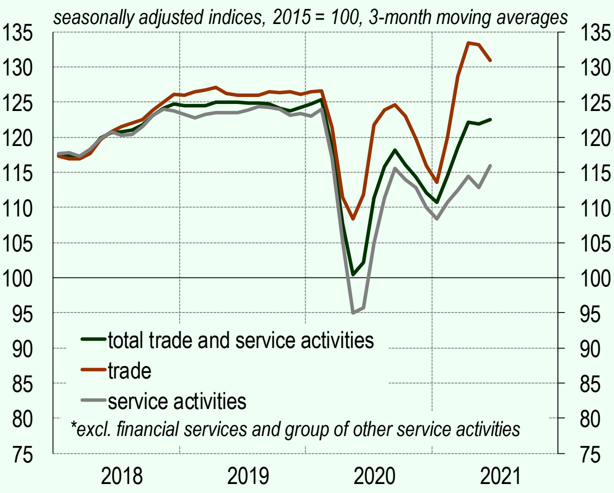

Source: SORS, Banka Slovenije calculations.

**Figure 2.5: Quarterly GDP growth in 2021 in Slovenia and euro area, expenditure side**




Source: Eurostat.

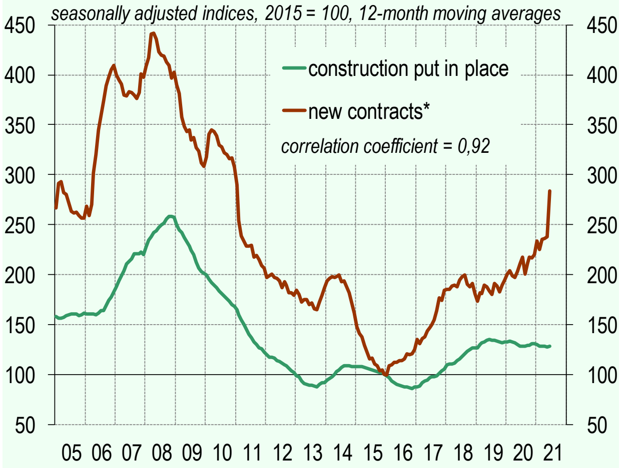
**Figure 2.7: Volume turnover in trade and other private sector services***




Source: SORS, Banka Slovenije calculations.

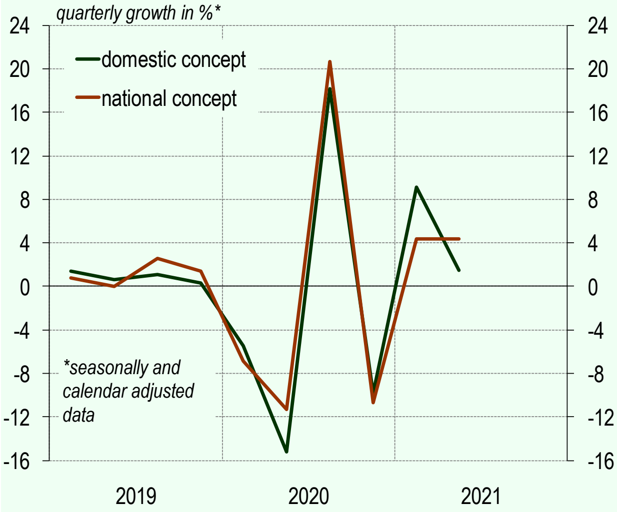
[1] Given the large discrepancy between the survey confidence indicators and the indicators of the amount of construction put in place and value-added, an upward revision in the figures for this year's construction activity is likely.

**Figure 2.8: Total value of construction put in place and new contracts in construction**




Note: *Last year calculations are less reliable due to no publicly available data in particular months.
Source: SORS, Banka Slovenije calculations.

**Figure 2.9: Final consumption expenditure of households**




Source: SORS.

consumption in the rest of the world and the resulting increase in imports of services. At the same time growth in domestic final household consumption slowed sharply, from 9.1% in the first quarter to 1.5% in the second quarter, which coincides with slowing growth in value-added in private-sector services. The changes in gross investment were even larger: it was up 12.2% in quarterly terms, albeit solely on account of the build-up of inventories, largely of commodities and materials in manufacturing according to the SORS. Meanwhile gross fixed capital formation was down by 1.9% in the second quarter following growth of 7.6% in the first quarter. The main reason was the decline in housing investment, which we assess as a temporary decline, given the high demand and the assumption that supply-side problems are temporary.[2] In terms of the expansion of production capacities and the technological modernisation of the economy, the structure of investment remains favourable: investment in machinery and equipment was up significantly for the fourth consecutive quarter, while growth in investment in research and development and in software and databases remained positive. Strong domestic demand saw real growth in imports outpace growth in exports, therefore the contribution made to GDP growth by net trade was negative.

**Figure 2.10: Gross investment in machinery and equipment for Slovenia and the euro area**


Source: SORS, Eurostat.

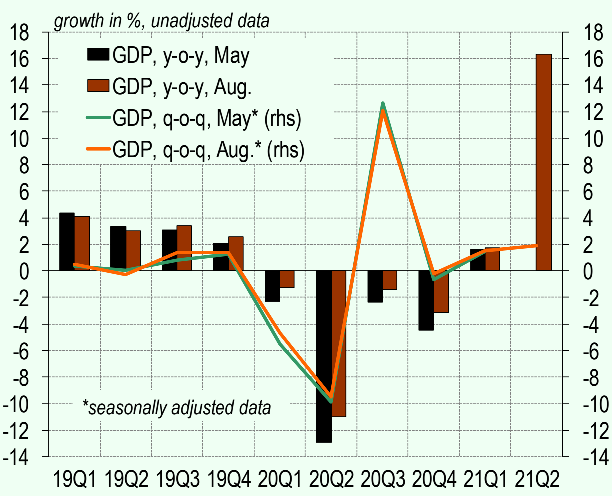
[2] Housing investment in the second quarter was higher than in the first quarter in nominal terms and according to original figures.

### Box 2.1: Illustration of changes during the first annual estimate of GDP for 2020 and the revision to national accounts

**In late August the SORS published its first annual estimate of the national accounts for 2020, and also undertook its regular revision of the data for the 2017 to 2020 period.**[1] The release of the first annual estimate brought changes to both the structure and the dynamics of economic growth. The annual growth in 2019 was broadly unchanged, being revised upwards by 0.1 percentage points to 3.3%, but the quarterly rates within the year did undergo a slight change: growth was revised downwards by 0.4 percentage points for the second quarter and upwards by 0.5 percentage points for the third quarter, while growth in the first quarter and the final quarter was revised upwards by 0.1 percentage points.[2] Major changes were made to last year's figures: the first annual estimate of the year-on-year decline in GDP is now 4.2%, 1.3 percentage points less than the estimate based on the previously published quarterly figures. The seasonally adjusted quarterly growth was revised upwards by 0.9 percentage points for the first quarter of last year, and downwards by 0.5 percentage points for the third quarter, while the quarterly rates of growth in the second quarter and the final quarter were revised upwards by 0.4 percentage points from the previous publication. The figures for the first quarter were also revised when the figures for the second quarter of this year were published. There was no major change overall: both the year-on-year and quarterly rates of GDP growth were strengthened by 0.1 percentage points according to seasonally adjusted figures. The revised figures slightly alter the interpretation of the past economic situation, and affect the accuracy of the economic projections published previously.

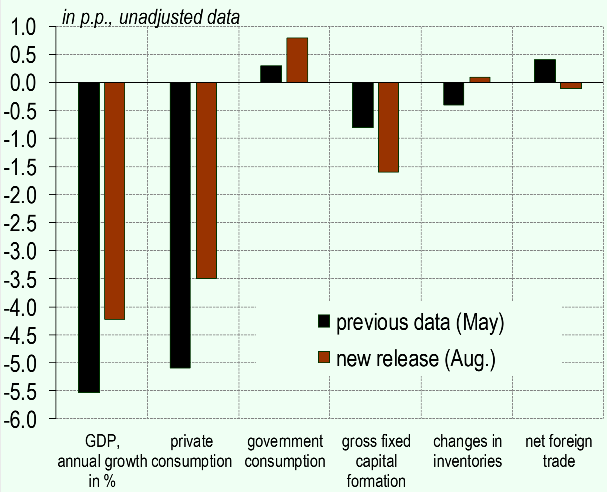
**There was no significant change to the expenditure breakdown of GDP growth in 2019, but the new figures for 2020 indicate the greater importance of domestic final consumption, while the contributions by investment and net trade were revised downwards.** The main factor in the reduction of last year's decline in GDP was private consumption. The contraction in the latter was revised from -9.7% to -6.6% (the nominal revision amounted to EUR 807 million). Its contribution to GDP growth thus amounted to -3.5 percentage points rather than -5.1 percentage points. Another factor was the revision to government consumption, which was up more relative to the previous year than was evident from the prelim-

**Figure 1: Changes in GDP growth data after new release of national accounts**



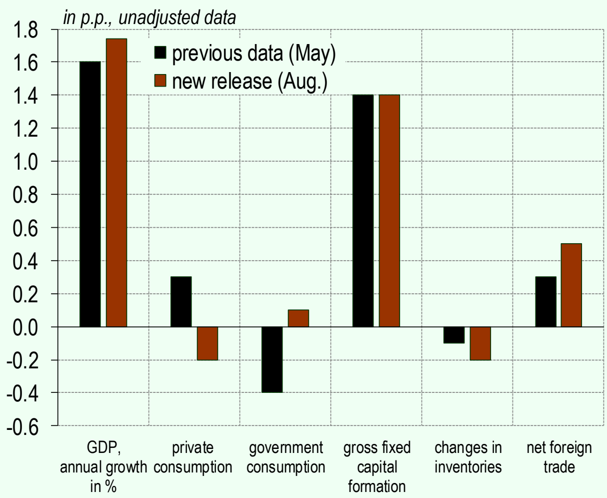

Source: SORS.

**Figure 2: Changes in contributions to real GDP growth in 2020, expenditure side**




Source: SORS.

**Figure 3: Changes in contributions to real GDP growth in the first quarter of 2021, expenditure side**

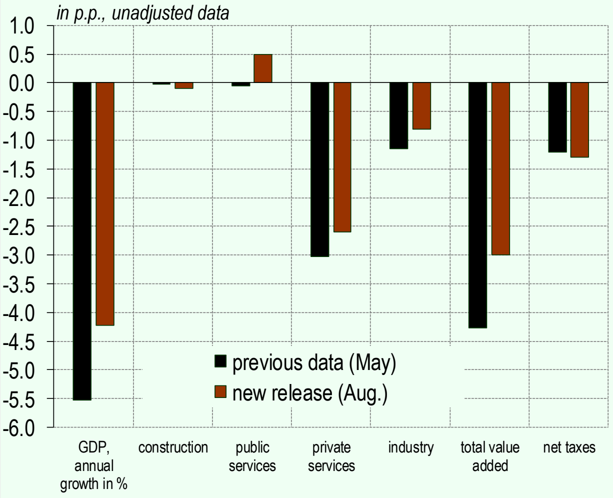



Source: SORS.

inary quarterly figures. The nominal figure for gross fixed capital formation in 2020 was revised downwards by EUR 346 million, reducing its contribution to GDP growth by -0.8 percentage points. The new figures saw reductions in construction investment, and investment in machinery and equipment. As a result of the smaller decline in imports of merchandise and services, the contribution by net trade was revised downwards by 0.5 percentage points to -0.1 percentage points. Year-on-year GDP growth in the first quarter of this year was revised slightly upwards, as a result of an increase in government consumption during the quarter, and also the slightly larger contribution made by net trade on account of larger imports in the first quarter of last year. The contribution made to GDP growth by investment was unchanged under the revised figures, while the contribution made by private consumption was revised from positive to negative as a result of a larger increase in private consumption in the first quarter of last year.

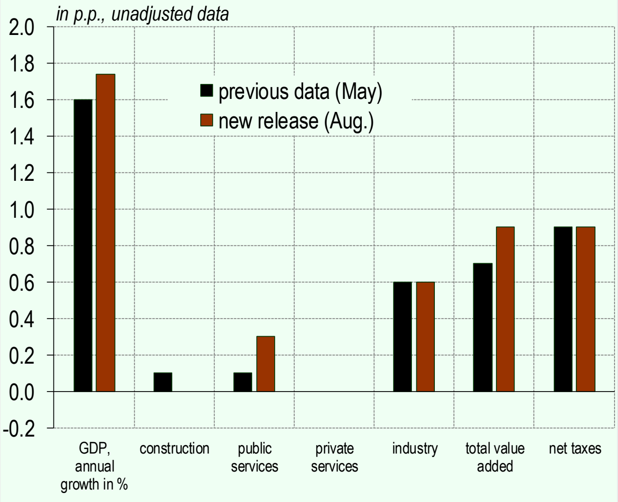
**Taking account of corporate closing accounts, the publication of the first annual estimate for 2020 also changed the breakdown of GDP on the production side.** The contribution to GDP growth in 2019 from total value-added was the same as under the quarterly figures, although the contribution by industry increased slightly at the expense of the contribution by private-sector services. There was a major revision in the figures for 2020, where the contribution by value-added was increased by 1.3 percentage points (and by EUR 629 million in nominal terms) to -3.0 percentage points. Public administration services accounted for 0.6 percentage points of this, having recorded growth of 3.1% last year, rather than the contraction of 0.3% estimated before the revision. The same contribution was made on aggregate by wholesale and retail trade, transportation and storage, and accommodation and food service activities, while the contribution made by manufacturing was slightly smaller at 0.4 percentage points, as its value-added was revised downwards slightly after closing accounts were taken into account. Conversely, the revision to value-added in financial and insurance activities, real estate activities, and professional, scientific and technical activities had a negative impact, while in light of the lower estimate of construction investment, growth in value-added in construction was also slightly reduced. The new figures for the first quarter of this year saw the contribution made to GDP growth by total value-added increase by 0.2 percentage points to 0.9 percentage points as a result of a higher contribution by value-added in public services, while an even larger change was prevented by the revision to

**Figure 4: Changes in contributions to real GDP growth in 2020, production side**



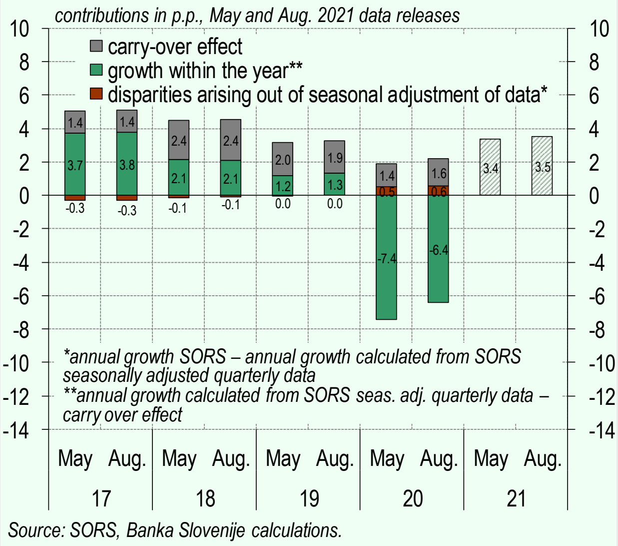

*Source: SORS.*

**Figure 5: Changes in contributions to real GDP growth in the first quarter of 2021, production side**




*Source: SORS.*

**Figure 6: Annual GDP growth in Slovenia, carry-over effect and growth within the year**



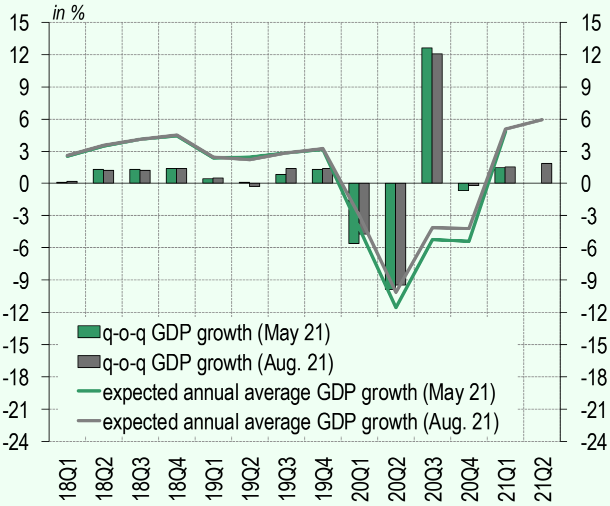

*Source: SORS, Banka Slovenije calculations.*

value-added in construction, where year-on-year growth was revised downwards to almost zero.

**The change in the dynamics of economic growth in the August's publication of the national accounts for 2020 also to a certain extent brought changes to the decomposition of economic growth into growth within the year and the carry-over effect for 2020 and 2021.** The new figures suggest a smaller decline in growth within the year 2020 (the contribution of growth within the year was revised from -7.4 percentage points to -6.4 percentage points), while the carry-over effect from 2019 was increased by 0.2 percentage points to 1.6 percentage points on account of minor revisions to the quarterly growth rates in 2019. The revisions to quarterly growth in real GDP in 2020 averaged to around 0.3 percentage points, where the most pronounced change in the figures was evident for the first and third quarters of last year, in the form of an increase of 0.9 percentage points in the quarterly growth in the first quarter and a decrease of 0.5 percentage points in the quarterly growth in the third quarter. Growth was revised upwards by 0.4 percentage points for the second quarter and the final quarter. The aforementioned changes are reflected in a slightly stronger carry-over effect for 2021, which is now estimated at 3.5 percentage points, 0.1 percentage points higher than had been previously calculated, and is the highest figure in the period of 1996 to 2021. Alongside the release of the new national accounts, there was also a minor revision to quarterly real GDP growth in the first quarter of this year, which was raised from the 1.4% estimated in May of this year to 1.5%. This brought an increase in the estimated average annual growth after the first quarter of this year, from 4.8% to 5.0%. Following quarterly GDP growth of 1.9% in the second quarter, the estimated average annual growth (under the technical assumption of zero economic growth in the second half of this year) now stands at 5.9%. When the model estimates for the second half of the year are taken into account, annual growth would be approximately 0.5 percentage points higher.

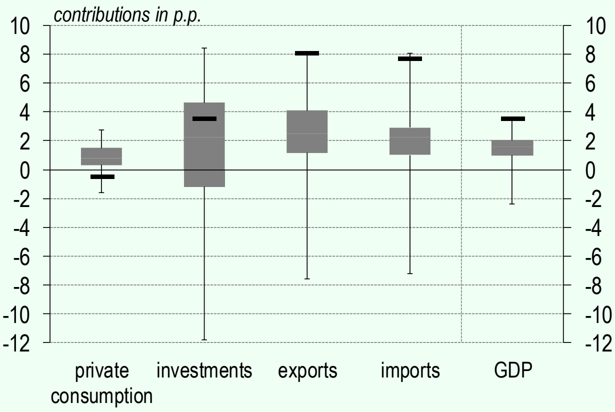
**From a technical perspective, the change in the carry-over effect is also having a significant impact on annual growth in components of real GDP in 2021.** In the case of exports and imports of goods and services, the impact is strongly positive. Annual growth in exports of goods and services is increased for the most ever recorded, namely 8.0 percentage points, while the contribution to growth in real imports of goods and services is 7.7 percentage points, only slightly less than the highest figure recorded in 2007. The aforementioned carry-over effect is adding 3.5 percentage points to annual growth in investment this year, only slightly

**Figure 7: Releases of q-o-q GDP growth rates and expected annual average GDP growth, based on carry-over effect**




*Source: SORS, Banka Slovenije calculations.*

**Figure 8: Contribution of carry-over effect to annual growth in GDP and individual components**




*Note: The interval shows the maximum and minimum contribution of the carry-over effect to the annual growth over the period 1996-2021. The grey colored part shows values between 25th and 75th percentile, and the black line highlights the carry-over effect to the annual growth in 2021.*
*Source: SORS, Banka Slovenije calculations.*

below the 75th percentile of the historical values. By contrast, the carry-over effect on growth in private consumption is due to last year's more stringent containment measures negative, in the amount of 0.5 percentage points, 1.0 percentage points higher than the record low in 2013.

---

[1] Rounding means that the figures disclosed in this analysis might differ to a lesser extent from those in the SORS releases. More detailed information about the first annual estimate of GDP for 2020 and the revision to the national accounts is available on the SORS website at https://www.stat.si/StatWeb/en/News/Index/9792.

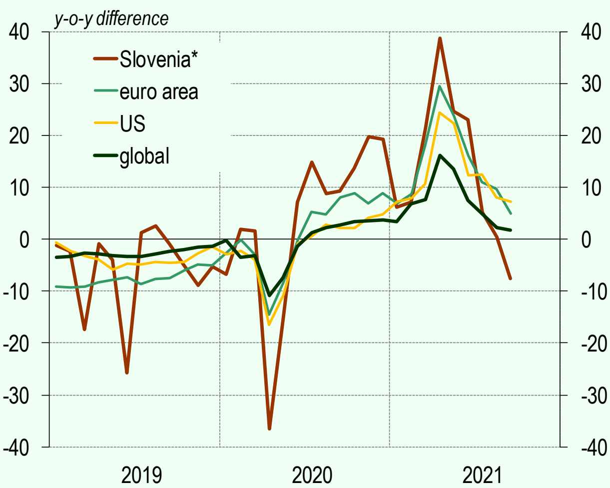
[2] The SORS released extensive revisions to the figures for 2019 last year, which were analysed in Box 2.1. of the October 2020 issue of Economic and Financial Developments.

## Box 2.2: Supply-side limiting factors and cost pressures

**Amid rising demand, growth in global industrial production is being held back by problems in supply chains.** In the wake of the strong rebound in global economic activity and the reimposition of more stringent containment measures to cope with the new variants of Covid-19, particularly in certain Asian countries, a major shortage of commodities and intermediate goods has arisen, the worst to date according to the available figures. With factories closing, backlogs in ports, and natural disasters, supplier delivery times have lengthened considerably,[1] which has caused a surge in prices of shipping. The situation in global industry began to gradually worsen in June, and the PMI in September remained unchanged from the previous month, when it hit its lowest level since February of this year, and its year-on-year dynamic also slowed sharply (see Figure 1). According to this indicator the majority of major economies other than China[2] and Russia are still recording an increase in activity, most notably the US and the euro area.

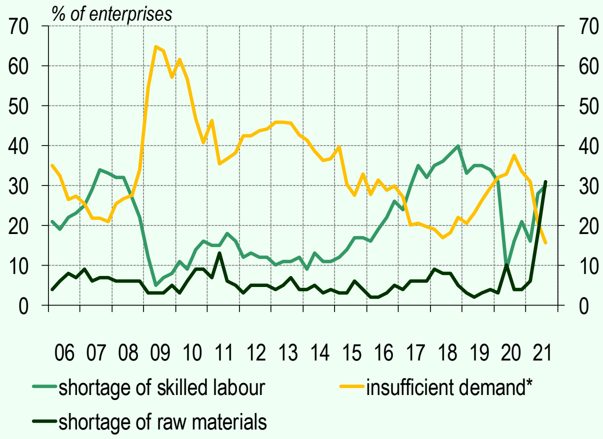
**Growth in Slovenia's industrial production is still encouraging, but it has also slowed down in recent months.** Having surpassed its pre-crisis peak in April, industrial production fell in July before rising by just 1% in August, while the Purchasing Association of Slovenia's manufacturing PMI slid in September to well below its level of a year earlier. Manufacturing firms' production expectations in the autumn are also down slightly, with a wide range of manufacturing sectors facing major delays to supply[3] similarly to the rest of the world, and rising prices of input materials and a shortage of skilled labour (see Figure 2). Demand for their products nevertheless remains strong: according to the survey of business tendencies, only around 15% of firms in industry are facing insufficient domestic or foreign demand, the lowest figure since records began in 1996. The Slovenian economy might be increasingly affected by developments on foreign markets, most notably Germany, where a shortage of commodities and intermediate goods is now being reported by almost 80% of firms covered by the Ifo survey.[4] Further evidence that supply-side bottlenecks are already sharply curtailing output there comes from the PMI, which in September slid to its lowest level since July of last year, when it first moved into the growth zone.[5] The situation is particularly bad in the automotive sector, where fully 96.6% of firms are facing a shortage of chips and other components, which has seen three automotive firms temporarily close their plants in Germany.

**Figure 1: Manufacturing Purchasing Managers' Index (PMI)**



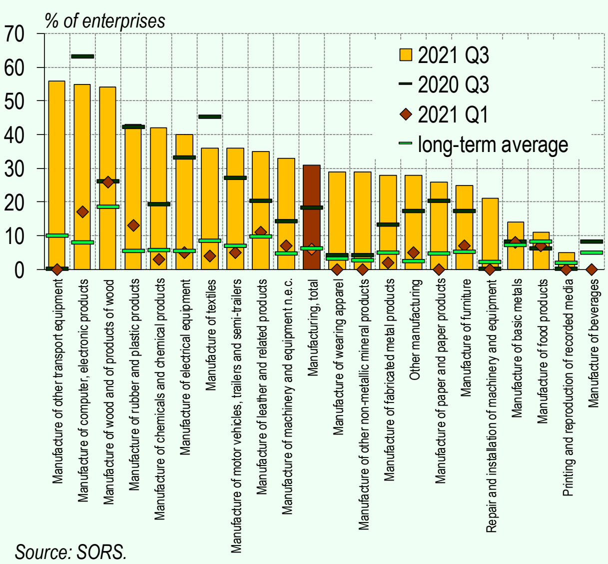

*Note: *Data is not seasonally and working days adjusted.*
*Source: IHS Markit, Združenje nabavnikov Slovenije.*

**Figure 2: Factors limiting production in manufacturing**




*Note: *The indicator is calculated as the average value of insufficient domestic demand and insufficient foreign demand, weighted by the share of generated revenues on the foreign or domestic market.*
*Source: SORS, AJPES, Banka Slovenije calculations.*

**Figure 3: Shortage of raw materials in manufacturing**



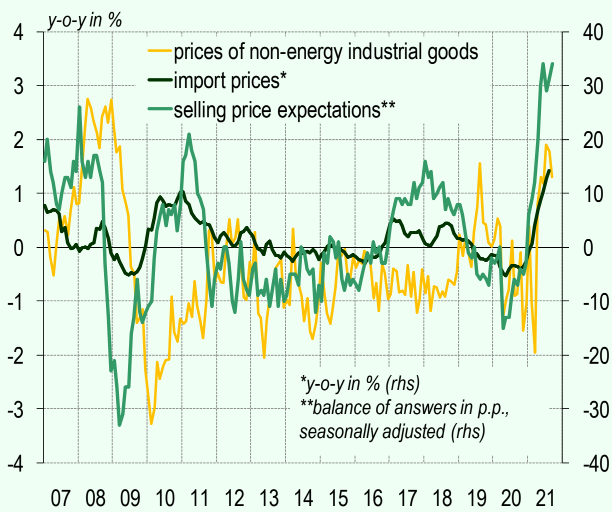

*Source: SORS.*

**Supply-side constraints and strong demand are fuelling price rises.** The rapid recovery in the global economy and the reduced access to raw materials have caused severe disruptions to supply chains, which amid extremely high transport costs has driven a sharp rise in prices of primary commodities on the global market. This has been reflected in year-on-year growth in import prices, which stood at 14.1% in August in Slovenia, driven primarily by a rise in import prices of energy and commodities. Prices of non-energy industrial goods have also risen significantly in recent months (see Figure 4). Growth in these prices increased to 1.7% in the third quarter, its highest level since 2009. Given the difficulties in accessing commodities, similar developments might continue in the final quarter, as firms remain extremely optimistic with regard to future rises in selling prices (see Figure 5).[6] Similar issues, i.e. sharp rises in prices of materials and a shortage of skilled workers, are also being faced by construction firms, who are also expecting sharp rises in prices in the sector (see Figure 6),[7] as are retail firms, who since April have been reporting difficulties in securing inventories, most notably in the sale of cars.

[1] Supplier delivery times have been exacerbated by port closures, insufficient capacity in cargo ships, and shortages of empty containers. Another issue in March was the blockage of the Suez canal by the grounding of a container ship.

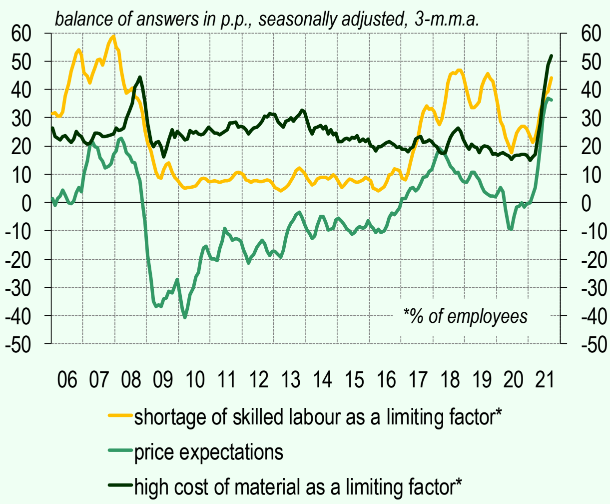
[2] Having fallen to its lowest level of the last 16 months (49.2 points) in August, the PMI for China rose to 50.0 points in September. Manufacturing output then contracted for the second consecutive month, mainly as a result of an outbreak of the epidemic and a major shortage of raw materials. In the last months Chinese industry has also been facing issues with the electricity supply, which could have an additional adverse impact on the functioning of global supply chains.

**Figure 4: Price expectations in manufacturing**



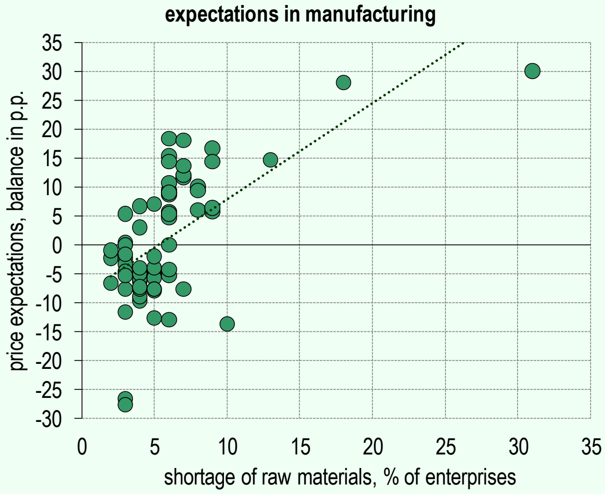

*Source: SORS, ECB, Banka Slovenije calculations.*

**Figure 6: Factors limiting production and price expectations in construction**



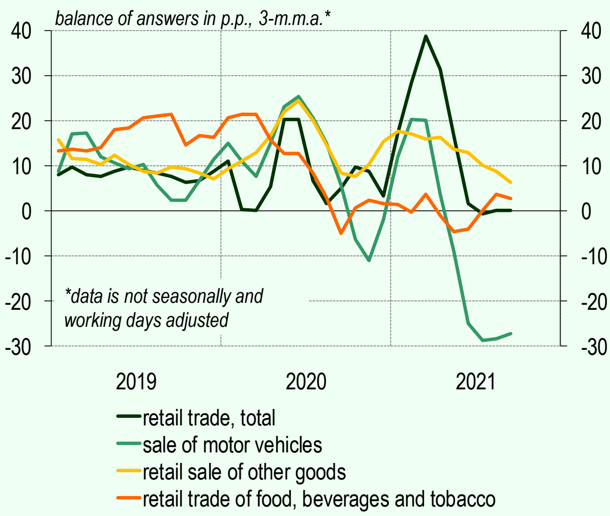

*Source: SORS.*

**Figure 5: Shortage of raw materials as a limiting factor and price expectations in manufacturing**




*Note: Data reflect period from the first quarter of 2005 to the third quarter of 2021.*
*Source: SORS.*

**Figure 7: Volume of stocks in retail trade**




*Source: SORS, Banka Slovenije calculations.*

[3] According to an SORS survey, shortages of raw materials in excess of the long-term average are being seen in all sectors of manufacturing other than the manufacture of beverages (see Figure 3). The worst-hit are firms in the manufacture of motor vehicles and other vehicles, and the manufacture of computers and other electrical appliances, which is attributable to the major problems with the supply of semiconductors, and also firms in the wood industry and the manufacture of plastics, chemicals and chemical products. If this is extended to construction and, given the run-down of inventories, retail of motor vehicles, this issue constitutes a limiting factor for more than 30% of total value-added in the economy.

[4] According to the Ifo, 77.4% of firms in Germany were facing shortages of commodities and intermediate goods in September, 8.2 percentage points more than in August and the highest figure since records began in 1991.

[5] The figure relates to a component of the composite PMI, and illustrates manufacturing output.

[6] The positive correlation between a shortage of raw materials and higher expectations of future price rises is illustrated in Figure 5.

[7] Nominal residential real estate prices in the first quarter were 8.3% above their peak of the third quarter of 2008, i.e. immediately before the bursting of the investment bubble and the sharp decline in GDP at the outbreak of the global economic crisis.

# 3 Labour Market

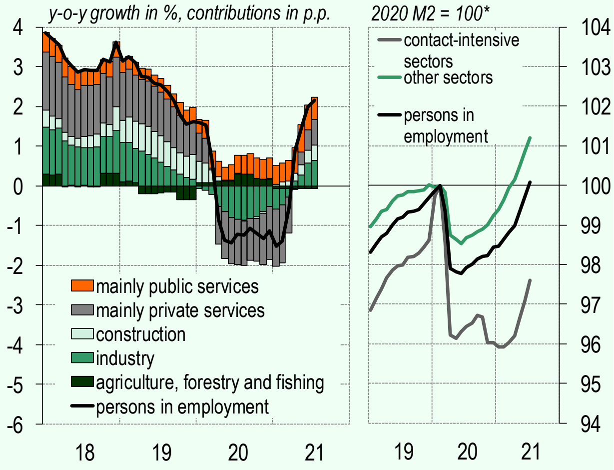
*Thanks to the favourable economic developments, the labour market continues to improve, and is now as buoyant as ever in many regards. The workforce in employment reached almost 902,000 in July, its highest figure to date, while the decline in registered unemployment in August and September suggests that the positive trends on the labour market continued over the summer. The expiry of the temporary lay-off scheme in June did not lead to a worsening of the situation. With unemployment steadily approaching its record lows, problems with labour shortages are increasing, which firms are addressing by expanding their hiring of foreign workers as the domestic labour supply runs short. Vacancy levels were at a record high in the second quarter, and firms are continuing to express great optimism with regard to further growth in employment over the remainder of the year. Against this backdrop, underlying wage pressures could intensify more markedly over time, but current private sector wage dynamics do not yet show this. Year-on-year growth in the average gross wage, which stood at 7.1% in July, is still largely driven by wage rises in the public sector, while in the private sector it is also driven up by the methodology computing the average wage as a result of base effects from last year. Amid the recovery in employment and strong wage growth, the gross wage bill in the second quarter had already surpassed its pre-crisis level by almost 10% according to seasonally adjusted figures, an indication of the strong potential for further growth in household consumption.*

## Employment

**Total employment surpassed its pre-crisis level in July.** The workforce in employment stood at 901,926 in July, up 2.2% in year-on-year terms, its highest level of the last two decades during which the SORS has been publishing the statistics under the current methodology (see Figure 3.1).[1] According to the seasonally adjusted figures, employment has been rising continuously since July of last year, and particularly markedly since the spring of this year. At the same time the recovery is strongest in sectors that are less dependent on direct contact between the provider and the client, where employment in July was already 1.2% up on its pre-crisis

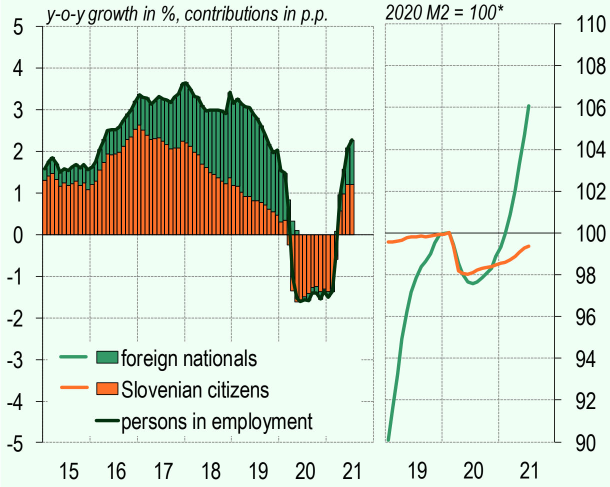
[1] Employment in the second quarter of this year was up 1.4% in year-on-year terms according to national accounts figures, and was up 0.2% on the first quarter according to seasonally adjusted figures. Amid a year-on-year fall in the number of employees included in job retention schemes, the number of hours worked was up fully 13.2% in year-on-year terms. According to seasonally adjusted figures, in the second quarter employment was down just 0.6% on its pre-crisis level from the final quarter of 2019, but the number of hours worked was down 4.4%. The release of the annual national accounts also brought a significant revision to last year's employment figures: employment declined by 0.6% last year, 0.4 percentage points less than the previous estimate.

Figure 3.1: Growth in the number of persons in employment, by sector




Note: Contact-intensive sectors are G, H, I, R and S. *Seasonally adjusted using Tramo/Seats method.
Source: SORS, Banka Slovenije calculations.

Figure 3.2: Persons in employment excluding self-employed farmers



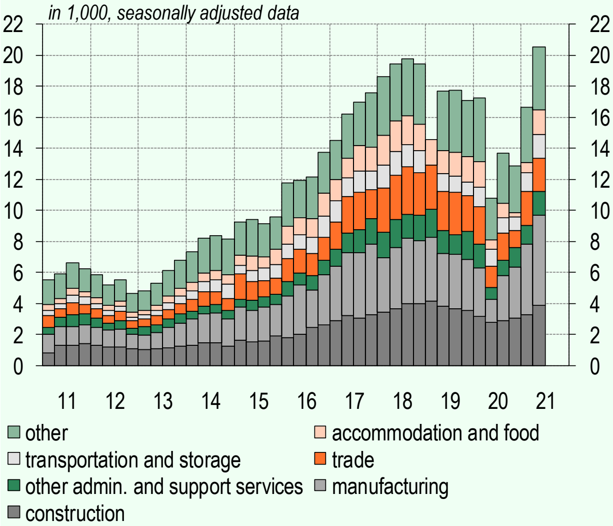

Note: *Seasonally adjusted using Tramo/Seats method.
Source: SORS, Banka Slovenije calculations.

level. Conversely, the workforce in employment in contact-intensive sectors[2] was still down 2.4% on its pre-crisis level in July.

**While the workforce in employment is the highest figure recorded to date, the rise in employment has largely been based on the hiring of foreign nationals.** Almost half of July's year-on-year increase in the workforce in employment came from the hiring of foreign nationals. The number of foreign nationals employed was up 9.3%, well above the rise of 1.4% in employment of Slovenian nationals (see Figure 3.2). Given that foreign nationals accounted for almost three-quarters of the overall growth in employment before the outbreak of the pandemic, the importance of the hiring of foreign nationals could increase even further in the future in light of the low unemployment and the unfavourable demographic outlook. Thanks in part to the faster recovery in sectors that employ more foreign nationals and that are increasingly facing an exhausted pool of domestic labour, employment of foreign nationals had already surpassed its pre-crisis level by 6.1% in July according to seasonally adjusted figures. By contrast, employment of Slovenian nationals was still down 0.6% on its pre-crisis level in July.

**The buoyancy of the labour market is being driven by firms' record demand for workers, which is increasingly bringing the issue of labour shortages to the fore.** Firms reported almost 22,000 vacancies in the second quarter, the largest figure since the beginning of 2008 (see Figure 3.3). Although the high year-on-year growth can largely be attributed to last year's low base, when firms temporarily froze recruitment in the second quarter due to heightened uncertainty following the outbreak of the epidemic, the number of vacancies in the second quarter of this year was also up in quarterly terms, by 23.4% according to seasonally adjusted figures. This was largely driven by increased demand for labour in manufacturing, accommodation and food service activities, and construction, which can be attributed

Figure 3.3: Vacancies




Source: SORS, Banka Slovenije calculations.

[2] The contact-intensive sectors encompass: G: Wholesale and retail trade; repair of motor vehicles and motorcycles; H: Transportation and storage; I: Accommodation and food service activities; R: Arts, entertainment and recreation; and S: Other service activities. The remaining sectors are classed as low-contact.

**Table 3.1: Demography, unemployment and employment**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *in 1,000* | | | | | |
| **Working age population**[1] | 1,371 | 1,362 | 1,352 | 1,350 | 1,362 | 1,362 | 1,362 | 1,367 | 1,341 | 1,337 |
| | | | | | *in %* | | | | | |
| **Activity rate**[2] | 71.7 | 74.2 | 75.1 | 75.3 | 74.6 | 73.9 | 74.7 | 74.9 | 72.3 | 75.2 |
| **Employment rate**[3] | 65.9 | 69.3 | 71.1 | 71.9 | 70.9 | 70.0 | 70.8 | 71.1 | 68.1 | 71.9 |
| | | | | | *in 1,000* | | | | | |
| **Registered unemployed persons** | 103.2 | 88.6 | 78.5 | 74.2 | 85.0 | 89.5 | 87.1 | 85.0 | 87.4 | 75.2 |
| **Unemployment rate** | | | | | *in %* | | | | | |
| - LFS | 8.0 | 6.6 | 5.1 | 4.5 | 5.0 | 5.2 | 5.1 | 5.1 | 5.6 | 4.3 |
| - registered | 11.2 | 9.5 | 8.3 | 7.7 | 8.7 | 9.2 | 9.0 | 8.7 | 9.0 | 7.7 |
| **Probability of transition between employ. and unemployment** | | | | | *in %* | | | | | |
| - probability to find a job[4] | 18.0 | 19.2 | 19.5 | 18.9 | 19.0 | 16.1 | 22.4 | 16.4 | 22.0 | 22.9 |
| - probability to lose a job[5] | 2.3 | 2.1 | 1.9 | 1.8 | 2.5 | 3.2 | 2.0 | 2.2 | 2.1 | 1.1 |
| | | | | | *in 1.000* | | | | | |
| **Total employment**[6] | 961 | 989 | 1,021 | 1,046 | 1,040 | 1,030 | 1,039 | 1,041 | 1,039 | 1,044 |
| | | | | | *year-on-year growth rates in %* | | | | | |
| Persons in paid employment | 2.2 | 3.3 | 3.4 | 2.6 | -0.9 | -1.7 | -1.9 | -1.4 | -1.3 | 1.3 |
| Self-employed | 0.2 | 1.4 | 2.5 | 1.7 | 0.6 | -0.4 | 1.0 | 0.4 | 0.6 | 1.6 |
| **By sectors** | | | | | | | | | | |
| A Agriculture, forestry and fishing | -1.3 | -1.0 | -0.4 | -0.6 | -0.9 | -0.8 | -1.0 | -1.2 | -1.4 | -1.5 |
| BCDE Manufacturing, mining and quarrying and other industry | 2.5 | 3.1 | 4.3 | 2.4 | -1.5 | -1.7 | -2.8 | -1.9 | -0.8 | 1.6 |
| F Construction | -0.8 | 2.3 | 6.5 | 9.1 | 1.9 | 0.3 | -0.1 | 1.3 | 1.9 | 4.2 |
| GHI Trade, accommodation, transport | 2.5 | 3.5 | 3.5 | 3.2 | -1.5 | -2.0 | -2.5 | -2.8 | -3.6 | -0.5 |
| J Information and communication services | 4.1 | 3.4 | 4.6 | 3.5 | 3.7 | 3.8 | 3.4 | 3.1 | 2.4 | 3.6 |
| K Financial and insurance activities | -2.0 | -1.5 | -0.9 | -0.8 | -2.7 | -2.8 | -3.3 | -3.3 | -2.9 | -1.9 |
| L Real estate activities | 4.6 | 7.9 | 6.5 | 4.6 | 3.6 | 4.4 | 2.9 | 2.9 | 1.4 | 1.4 |
| MN Professional, technical and other business activities | 2.2 | 5.2 | 3.0 | 0.4 | -3.7 | -7.8 | -4.5 | -4.0 | -3.1 | 2.4 |
| RSTU Other activities | 2.7 | 3.5 | 3.3 | 4.0 | 0.4 | 0.2 | -0.5 | -1.2 | -1.9 | 0.0 |
| - mainly private sector (without OPQ)[7] | 1.8 | 3.0 | 3.4 | 2.6 | -1.2 | -2.2 | -2.2 | -1.9 | -1.7 | 1.0 |
| - mainly public services (OPQ)[7] | 2.1 | 2.5 | 2.2 | 1.8 | 2.2 | 1.9 | 2.2 | 2.5 | 2.3 | 2.9 |
| **Total employment**[6] | 1.8 | 2.9 | 3.2 | 2.5 | -0.6 | -1.4 | -1.4 | -1.1 | -0.9 | 1.4 |

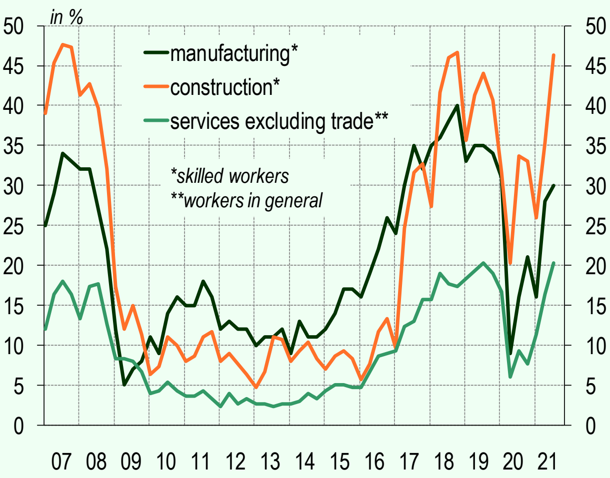
*[1] Working age population comprises all persons aged 15 to 64 years according to the Labour Force Survey (LFS) data.*
*[2] Labour force participation rate represents the labour force as a percentage of the working age population according to the LFS data.*
*[3] Employment rate represents persons in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

to the favourable trends in exports and investment and to the relaxation of containment measures. With increased recruitment activity, structural imbalances in the labour market are also widening, with more and more firms reporting a shortage of (skilled) labour (see Figure 3.4). This is particularly pronounced in construction, where almost half of firms were facing a shortage of suitable workers in the third quarter. Should the favourable economic trends continue, and close to full employment be reached, the problems with labour shortages can be expected to increase further.

**Employment is most likely to continue rising over the remainder of the year, with firms expressing great optimism with regard to their expectations of future**

**employment.** September's aggregate employment expectations indicator based on seasonally adjusted SORS figures remained broadly unchanged from August, and well above its long-term average.[3] It has been in the positive territory denoting the expectation of a rise in employment since August of last year. Employment is forecast to strengthen over the next three months in services, construction and manufacturing, while only in retail more firms still expect employment to fall than to rise (see Figure 3.5). Firms in construction and manufacturing remain the most optimistic with regard to future employment, and are at the same time the most evident in reporting labour shortages when filling vacancies. The still-growing imbalance between supply and demand and the strengthened negotiating power of workers could therefore in the future lead to increased demands for wage rises.

**Figure 3.4: Shortage of workers as a limiting factor**

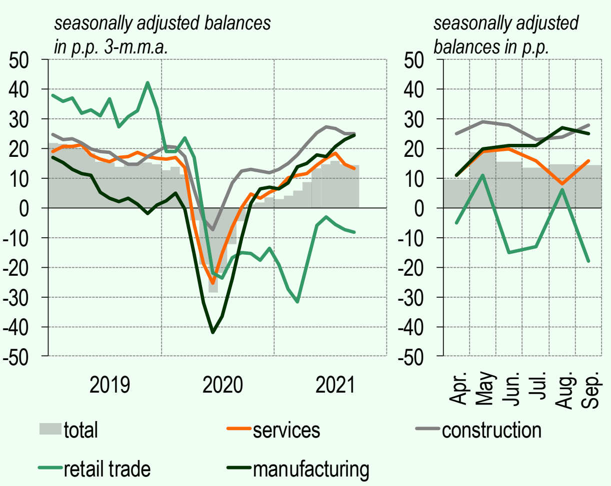



*Note: The figure shows a balanced percentage of companies in a certain activity that indicated the lack of workers as a limiting factor.*
*Source: SORS, Banka Slovenije calculations.*

## Unemployment

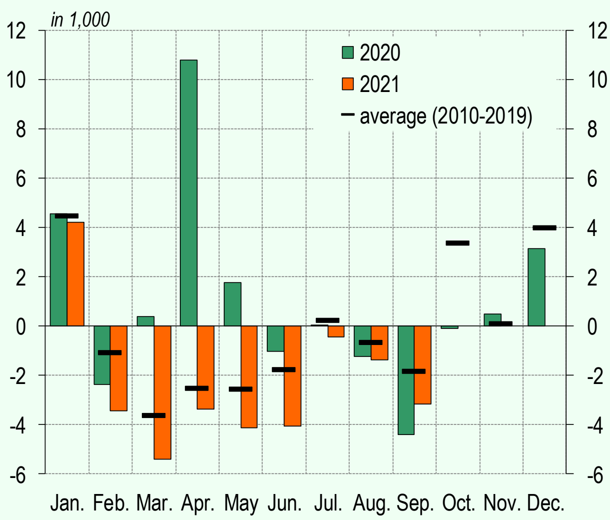
**Unemployment continues to fall rapidly and is approaching record low levels.** Against the backdrop of a broad-based economic recovery, registered unemployment stood at just 66,122 at the end of September, down almost 18,000 on September of last year and almost 4,000 on September 2019. The declines in registered unemployment, which are well above the normal seasonal trends (see Figure 3.6), have not even been interrupted in recent months by the expiry of the temporary lay-off scheme, which, according to the data of the Employment Service, still covered almost 15,000 people in June, the last month in which it was available.[4] This indicates that even in the worst-hit sectors activity over the summer returned to a level that prevents further mass job losses in the absence of major government support for the la-

**Figure 3.5: Expected employment in the next three months**




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

**Figure 3.6: Monthly change of registered unemployed persons**

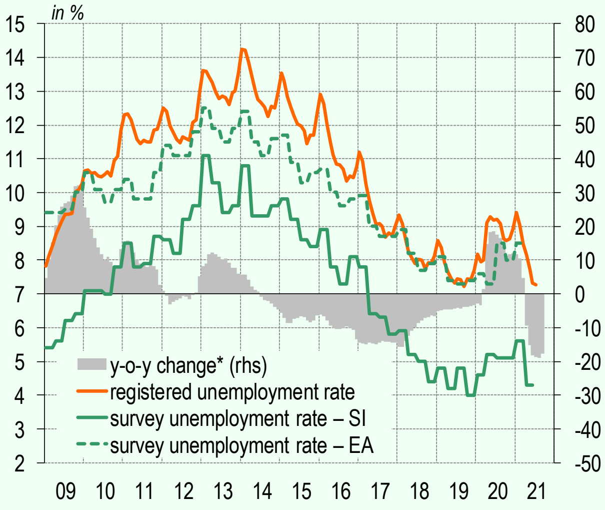



*Source: Employment Service of Slovenia, Banka Slovenije calculations.*

[3] Similarly optimistic forecasts with regard to employment in the final quarter are coming from surveys conducted by Manpower, a staffing firm, according to which the difference between the share of employers who are planning to expand their workforce and the share planning to reduce it is 13 percentage points.

[4] According to provisional figures from the Employment Service of 15 September, there were 14,801 temporarily laid off employees in June, while 12,578 people were on the short-time work scheme.

Figure 3.7: Unemployment rates




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

bour market. Only in certain months of 2008, when the economy was overheating, has registered unemployment been at a lower level since 2000 than it was in September. The favourable trends are also reflected in a fall in the registered unemployment rate, which stood at 7.3% in July, down 1.9 percentage points in year-on-year terms (see Figure 3.7).

**The internationally comparable survey unemployment fell sharply to reach 4.3% in the second quarter, comparable to its level from the second quarter of 2019.** It was down 1.3 percentage points on the first quarter. In addition to the observed fall in the number of surveyed unemployed, the large quarterly decline in the unemployment rate also reflects methodological changes in connection with an overhaul of the Labour Force Survey (LFS).[5] Under the updated methodology, those in employment now no longer include workers who have been temporarily laid off for more than three months, or who expect to be temporarily laid off for more than three months. Thus, the majority of employees included in the temporary lay-off scheme in the first quarter were not counted in the workforce in employment, and consequently workforce in employment according to the LFS fell by significantly more (56,000) than did employment according to the national accounts (2,100). As sectors opened up and the economy recovered, the number of employees participating in the temporary lay-off scheme fell again in the second quarter, which meant that the employment rate rose again by 2.9 percentage points to 56.1% in the second quarter, after a large fall of 2 percentage points in the first quarter. This further reduced the survey unemployment rate, via a rise in the workforce, which is the denominator in the survey unemployment rate.

## Wage developments

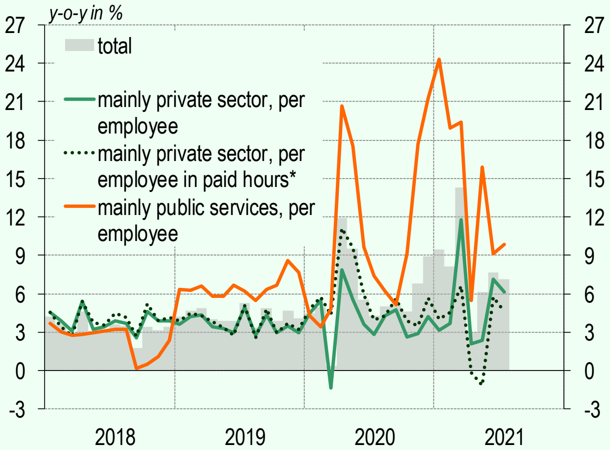
**Despite a significant slowdown compared with the first quarter, year-on-year growth in the average gross wage was still high in July at 7.1%** (see Figure 3.8). Wage growth thus remains almost two-thirds higher than in the pre-crisis year of 2019, when the average gross wage increased by 4.3% at the annual level. This is still largely due to increased wages for employees in the predominantly public services sector, where wages were up by almost one-tenth in year-on-year terms in July, despite the declaration of the administrative end of the epidemic in June. Wage growth in private sector activities slowed by 1 percentage point to 6.1%, and this figure is likely to still be slightly overstating the actual growth in labour costs because of the methodology used to calculate the average wage.[6] The dynamics in labour costs are thus better reflected by the average gross wage per employee on the basis of paid hours, which was up 4.6% in year-on-year terms in July. This is less than 1 percentage point higher than the average growth seen in 2019, an indication that despite January's large rise of 8.9% in the minimum wage and the growing labour shortages, wage dynamics in the private sector currently remain within their historical bounds.

[5] The background to the changes in methodology and their impact on the survey unemployment rate are examined in detail in Box 3.1 of the July issue of Economic and Financial Developments.

[6] As a result of the significant number of employees included in the temporary lay-off scheme and the short-time work scheme, last year the calculated average wage per employed person in the private sector was significantly lower than the average wage calculated by taking into account the number of employees based on paid hours. This was attributable to the fact that under the standard calculation of the average wage the wage bill takes account solely of wages and compensation paid by employers, while the number of employees includes all employees who received them, irrespective of whether they were included in job retention schemes for part of the month and thus received lower payments from the employer.

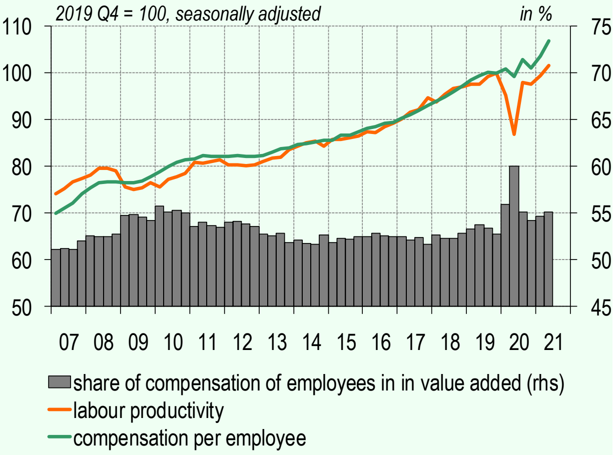
**The labour cost burden on firms increased after the outbreak of the pandemic as a result of the crisis-induced decline in value-added and the ongoing rise in wages.** Wage growth over this period outpaced productivity growth in the private sector, as a result of which the ratio of employee compensation to value-added stood at 55.1% in the second quarter of this year, up 2.4 percentage points on the final quarter of 2019 (see Figure 3.9). Wage growth usually closely tracks growth in labour productivity, but a deviation similar to that seen after the outbreak of the pandemic was also evident in the period after the previous global economic crisis.

**Figure 3.8: Average gross wage growth**




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

**Figure 3.9: Growth of wages and labour productivity in mainly private sector activities**




*Note: Labour productivity and compensation per employee are expressed in nominal terms.*
*Source: SORS, Banka Slovenije calculations.*

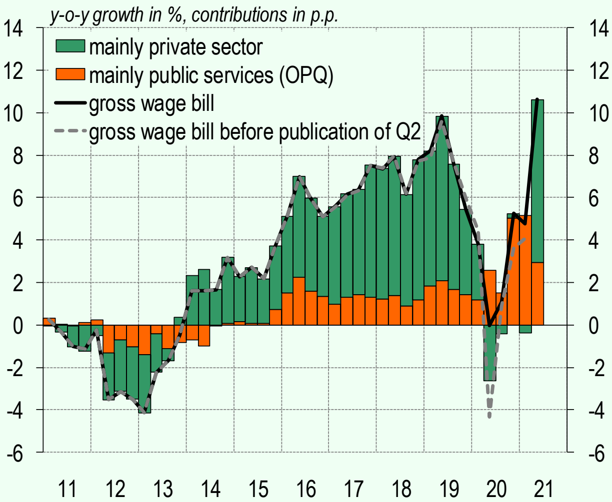
**Table 3.2: Labour costs**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *in EUR* | | | | | | | | | |
| **Average gross wage** | 1,584 | 1,626 | 1,681 | 1,754 | 1,858 | 1,881 | 1,808 | 1,957 | 1,978 | 1,985 |
| | *y-o-y growth in %, nominal* | | | | | | | | | |
| **Average net wage** | 1.7 | 3.1 | 2.9 | 3.7 | 6.8 | 10.5 | 5.5 | 7.0 | 9.3 | 3.7 |
| **Average gross wage** | 1.8 | 2.7 | 3.4 | 4.3 | 6.0 | 9.0 | 4.8 | 6.8 | 10.6 | 5.5 |
| - mainly private sector (without OPQ)[1] | 1.3 | 2.7 | 3.8 | 3.6 | 3.9 | 5.7 | 3.9 | 3.2 | 6.1 | 3.8 |
| - mainly public services (OPQ)[1] | 3.3 | 2.8 | 2.4 | 6.5 | 10.7 | 15.9 | 6.3 | 16.1 | 20.9 | 10.2 |
| **Average gross wage in manufacturing** | 2.1 | 3.2 | 4.0 | 3.5 | 3.2 | 3.0 | 3.0 | 2.7 | 4.6 | 6.0 |
| **Average real net wage[2]** | 1.8 | 1.5 | 1.0 | 2.0 | 7.1 | 11.8 | 6.2 | 8.1 | 10.0 | 1.6 |
| | *y-o-y growth in %* | | | | | | | | | |
| **Unit labour costs,[3,4] nominal** | 1.8 | 1.2 | 2.7 | 4.2 | 7.7 | 13.2 | 3.0 | 9.0 | 3.7 | -5.5 |
| **Unit labour costs,[3,4] real** | 0.9 | -0.3 | 0.6 | 1.9 | 6.3 | 11.4 | 3.2 | 7.9 | 2.3 | -7.6 |
| **Labour costs per employee,[4] nominal** | 3.1 | 3.0 | 3.9 | 5.0 | 3.5 | 2.2 | 3.0 | 6.8 | 6.5 | 8.4 |
| **Labour productivity, nominal** | 2.2 | 3.3 | 3.3 | 3.0 | -2.5 | -8.3 | -0.3 | -1.0 | 4.1 | 17.3 |
| **Labour productivity, real** | 1.3 | 1.8 | 1.2 | 0.8 | -3.7 | -9.7 | 0.0 | -2.1 | 2.7 | 14.8 |
| **HICP** | -0.2 | 1.6 | 1.9 | 1.7 | -0.3 | -1.2 | -0.6 | -0.9 | -0.6 | 2.1 |
| **GDP deflator** | 0.9 | 1.5 | 2.1 | 2.2 | 1.2 | 1.6 | -0.2 | 1.1 | 1.3 | 2.3 |

*[1] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.*
*[2] HICP deflator.*
*[3] Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).*
*[4] Labour costs calculated on the basis of employee compensation (national accounts).*
*Source: SORS, Banka Slovenije calculations.*

**With wages rising and employment recovering, workers' incomes are growing rapidly, indicating strong potential for further growth in domestic consumption.** The gross wage bill was up 10.6% in year-on-year terms in the second quarter according to the national accounts figures, which take account also of all payments to employees included in job retention schemes, up by 5.8 percentage points from the previous quarter (see Figure 3.10). The large increase in year-on-year growth relative to the previous quarter is primarily the product of a pronounced base effect, as in the second quarter of last year, in the context of a sharp fall in employment, many employees also experienced a significant reduction in their incomes as a result of being temporarily laid off. In line with the high growth, the gross wage bill in the second quarter of this year was up fully 9.9% on its pre-crisis level from the final quarter of 2019, according to seasonally adjusted figures. According to significantly upwardly revised national accounts data, it increased by 2.5% last year despite the pronounced contraction in economic activity, driven by the extensive crisis bonus payments in the government sector.

**Figure 3.10: National accounts data on gross wage bill**




*Source: SORS – national accounts, Eurostat, Banka Slovenije calculations.*

# 4 Current Account and Competitiveness Indicators

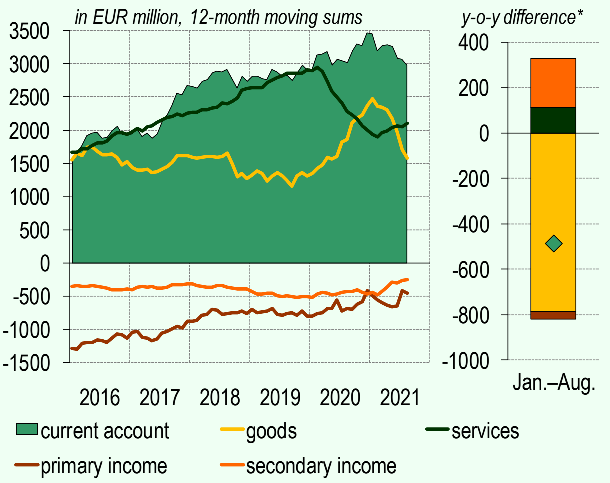
*Growth in foreign trade remains elevated. Despite the waning effect of last year's low base, merchandise trade in August was up around 30% in year-on-year terms. The pick-up in exports was largely attributable to volatility in car production caused by parts shortages. Foreign demand for goods remains strong, although manufacturing firms are already reducing their short-term export expectations as supply chain disruptions mount, while freight transport on domestic motorways also indicates a slowdown in growth over the remainder of the year. Further strong growth can be expected in services trade, where exports of business services, construction services, and insurance and pension services are strengthening this year. Despite a better holiday season and more open borders in Europe compared with last year, exports of travel services remain well down on their pre-crisis level. This year they are also expected to increase towards the end of the year, under the condition of no additional containment measures which virtually shut down international tourism for the majority of last year. The growth in domestic demand and rising import prices are reducing the 12-month current account surplus towards its pre-crisis levels. Its structure is also changing: over the first eight months of this year the impact of the declining merchandise trade surplus was mitigated primarily by the recovery in the services trade surplus and the increase in government sector social transfers paid by non-residents for work done in Slovenia.*

*The price competitiveness of the economy in the second quarter remained within the bounds of its position a year earlier, which in terms of international trade was attributable to favourable relative prices, while the appreciation of the euro, albeit much slower, continued to worsen the position of exporters. Their cost competitiveness thus remains less favourable than a year earlier, despite the easing of pressure from real unit labour costs. Caution is still required in the interpretation of all competitiveness indicators, as they do not necessarily present a genuine picture.*

## 12-month current account position

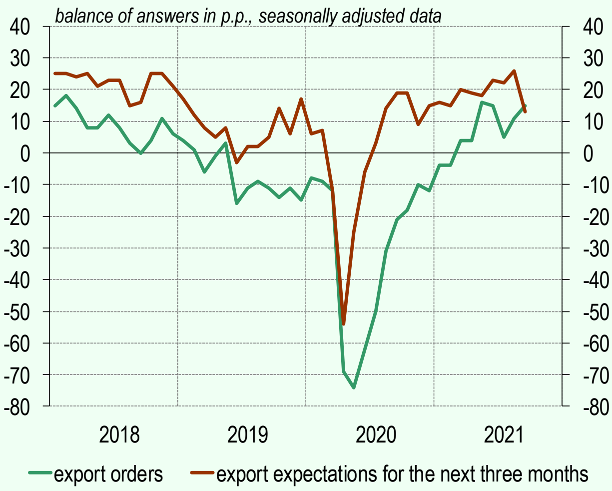
**The strengthening of domestic demand and the deterioration in the terms of trade reduced the 12-month current account surplus over the first eight months of this year.** It stood at EUR 2,975 million in August, down EUR 488 million on its peak in December of last year but broadly unchanged in year-on-year terms (see Figure 4.1). The booming domestic economy and sharp rise in import prices, which were up fully 14.1% in year-on-year terms in August, brought a sharp decline in the 12-month merchandise trade surplus. It amounted to EUR 1,583 million, already down in year-on-year terms, as a result of increased consumption of fuels and industrial goods amid higher import prices, and strong domestic investment. The developments in the services trade position are the opposite, albeit much less intensive. After last year's sharp decline caused by the shock to interna-

Figure 4.1: Current account components




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

Figure 4.2: Export orders and export expectations in manufacturing



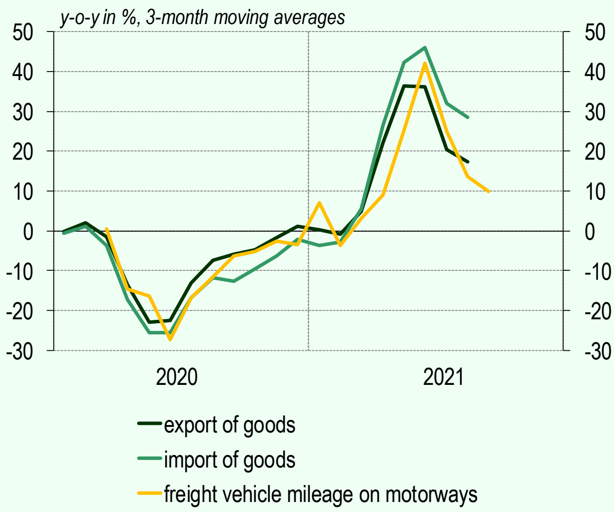

Source: SORS.

tional tourism, the services trade surplus has gradually widened this year. The surplus of trade in construction services and miscellaneous business services is strengthening, while the surpluses of trade in transport and travel services have stabilised. An indication that the recovery in international tourism will be only gradual comes from the 12-month surplus in travel services, which in August was still down EUR 904 million on its pre-crisis peak in February 2020. An even larger decline in the current account surplus is being prevented by the narrowing deficit in income, which to a considerable extent is being driven by an increase in government sector social transfers, while outflows of income from FDI are expected to increase this year amid the high economic growth, following last year's crisis-induced decline.

## Merchandise trade

**Manufacturing firms' expectations with regard to exports in the final months of 2021 have deteriorated significantly, despite large current export orders.** Manufacturing firms' assessments of the strength of current demand were still profoundly optimistic in September: the export orders indicator remained well above last year's figure (up 36 percentage points; see Figure 4.2). In light of the problems in supply chains, firms have already reduced their assessments of export expectations. In September this indicator was down 13 percentage points on the previous month, the largest decline since April of last year, when stringent containment measures hit global trade.

Figure 4.3: Nominal merchandise trade and freight transport




Source: DARS, Banka Slovenije.

**The merchandise trade surplus has narrowed sharply this year, driven in part by a deterioration in the terms of trade.** In keeping with the business trends in manufacturing, year-on-year growth in nominal merchandise exports according to balance of payments figures strengthened from 7.0% in July to 25.5% in August, driven largely by an increase in exports to Germany and France, while growth in nominal merchandise imports was even stronger, at 33.0% (see Figure 4.3). The surge in exports in August was largely attributable to volatility in output in the car industry caused by major parts shortages. Nominal merchandise exports over the

**Table 4.1: Current account components**

| | | | | in 12 months to | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | Aug.20 | Aug.21 | 20Q1 | 20Q2 | 21Q1 | 21Q2 | Aug.20 | Aug.21 |
| | | | | | *in EUR million* | | | | | | |
| **Current account balance** | 2,731 | 2,898 | 3,462 | 3,017 | 2,975 | 986 | 716 | 792 | 527 | 217 | 125 |
| **1. Goods** | 1,272 | 1,311 | 2,366 | 1,863 | 1,583 | 568 | 568 | 545 | 204 | 89 | -31 |
| **2. Services** | 2,624 | 2,907 | 1,996 | 2,288 | 2,108 | 517 | 396 | 484 | 496 | 163 | 224 |
| 2.1. Transport | 1,324 | 1,326 | 1,202 | 1,212 | 1,184 | 332 | 253 | 297 | 290 | 86 | 80 |
| 2.2. Travel | 1,221 | 1,344 | 482 | 785 | 448 | 158 | 59 | 78 | 72 | 58 | 109 |
| **3. Primary income** | -769 | -811 | -426 | -697 | -460 | 53 | -116 | -122 | -172 | -9 | -48 |
| 3.1. Labour income | 313 | 340 | 324 | 338 | 277 | 87 | 62 | 51 | 56 | 27 | 25 |
| 3.2. Investment income | -1,222 | -1,318 | -997 | -1,219 | -1,039 | -128 | -230 | -271 | -302 | -31 | -96 |
| 3.3. Other income | 141 | 167 | 247 | 184 | 302 | 95 | 52 | 98 | 74 | -5 | 23 |
| **4. Secondary income** | -396 | -509 | -473 | -438 | -256 | -152 | -132 | -114 | -1 | -26 | -20 |
| | | | | | *in % GDP* | | | | | | |
| **Current account balance** | 6.0 | 6.0 | 7.4 | 6.4 | 6.0 | 8.7 | 6.5 | 6.8 | 4.0 | 5.3 | 2.9 |
| **1. Goods** | 2.8 | 2.7 | 5.0 | 3.9 | 3.2 | 5.0 | 5.2 | 4.7 | 1.6 | 2.2 | -0.7 |
| **2. Services** | 5.7 | 6.0 | 4.3 | 4.8 | 4.2 | 4.6 | 3.6 | 4.1 | 3.8 | 4.0 | 5.2 |
| 2.1. Transport | 2.9 | 2.7 | 2.6 | 2.6 | 2.4 | 2.9 | 2.3 | 2.5 | 2.2 | 2.1 | 1.8 |
| 2.2. Travel | 2.7 | 2.8 | 1.0 | 1.7 | 0.9 | 1.4 | 0.5 | 0.7 | 0.6 | 1.4 | 2.5 |
| **3. Primary income** | -1.7 | -1.7 | -0.9 | -1.5 | -0.9 | 0.5 | -1.1 | -1.0 | -1.3 | -0.2 | -1.1 |
| 3.1. Labour income | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.8 | 0.6 | 0.4 | 0.4 | 0.7 | 0.6 |
| 3.2. Investment income | -2.7 | -2.7 | -2.1 | -2.6 | -2.1 | -1.1 | -2.1 | -2.3 | -2.3 | -0.7 | -2.2 |
| 3.3. Other income | 0.3 | 0.3 | 0.5 | 0.4 | 0.6 | 0.8 | 0.5 | 0.8 | 0.6 | -0.1 | 0.5 |
| **4. Secondary income** | -0.9 | -1.1 | -1.0 | -0.9 | -0.5 | -1.3 | -1.2 | -1.0 | 0.0 | -0.6 | -0.5 |
| | | | | | *nominal y-o-y growth rates in %* | | | | | | |
| **Export of goods and services** | 8.9 | 4.5 | -10.1 | -8.1 | 9.1 | -1.5 | -24.8 | 1.9 | 34.9 | -13.6 | 27.2 |
| Export of goods | 8.6 | 3.9 | -7.4 | -7.0 | 11.5 | -1.6 | -22.5 | 4.9 | 36.2 | -8.6 | 25.5 |
| Export of services | 9.9 | 6.6 | -20.3 | -12.5 | -0.6 | -1.4 | -33.8 | -11.3 | 28.9 | -27.3 | 33.1 |
| Transport | 12.3 | 3.3 | -7.2 | -7.6 | 9.4 | -1.8 | -19.5 | 2.5 | 27.1 | -12.2 | 21.6 |
| Travel | 7.2 | 5.2 | -57.8 | -36.3 | -36.2 | -16.1 | -80.4 | -70.5 | 67.8 | -49.8 | 47.3 |
| Other | 10.5 | 10.5 | 2.0 | 4.7 | 11.6 | 9.4 | -1.2 | 9.6 | 22.8 | -2.0 | 29.2 |
| **Import of goods and services** | 9.8 | 4.0 | -11.7 | -9.2 | 11.6 | -3.2 | -25.5 | 2.8 | 43.6 | -12.5 | 32.7 |
| Import of goods | 10.4 | 4.0 | -11.1 | -9.3 | 13.3 | -3.8 | -25.5 | 5.6 | 45.9 | -11.0 | 33.0 |
| Import of services | 7.0 | 4.6 | -14.7 | -8.8 | 2.6 | 0.0 | -25.5 | -13.3 | 30.3 | -18.7 | 31.4 |
| Transport | 0.8 | 7.1 | -4.8 | -5.0 | 22.1 | -3.5 | -13.9 | 18.5 | 39.1 | -11.0 | 53.7 |
| Travel | 12.1 | 1.2 | -52.1 | -33.9 | -31.0 | -10.0 | -76.8 | -82.9 | 98.6 | -34.4 | 30.3 |
| Other | 7.0 | 5.3 | -0.2 | 2.7 | 6.7 | 5.5 | -3.4 | -1.2 | 18.4 | -7.4 | 23.9 |

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

first eight months of the year were up 18.0% in year-on-year terms, from a low base, particularly in the second quarter. Compared with the same period of 2019, i.e. before the pandemic, they were up 3.4%. Merchandise imports over the first eight months of the year were also up by the same amount relative to the pre-pandemic period, and were up 24.1% in year-on-year terms. According to the indicator of adjusted merchandise exports[1] the increase in merchandise exports was largely driven by exports of miscellaneous machinery[2] and basic metals and fabricated metal products, while the high year-on-year growth in merchandise imports was largely driven by increased imports of intermediate goods. The merchandise trade narrowed sharply over the first eight

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

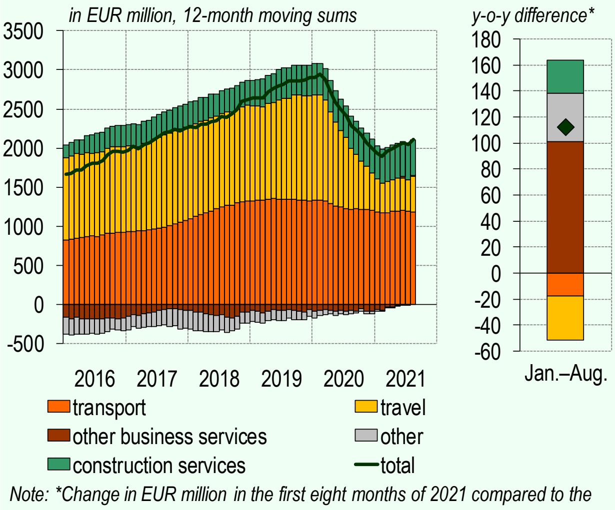
[2] The category of miscellaneous machinery and equipment includes electrical machinery and equipment, industrial machinery, machinery for special types of industry, engines and drives, metal processing machinery and office equipment.

months of this year. It amounted to EUR 786 million, EUR 784 million narrower in year-on-year terms. The decline was also attributable to a deterioration in the terms of trade: import prices of industrial goods in August were up fully 14.1% in year-on-year terms amid sharp rises in energy and commodity prices, while export prices were up only 7.1%.

## Services trade

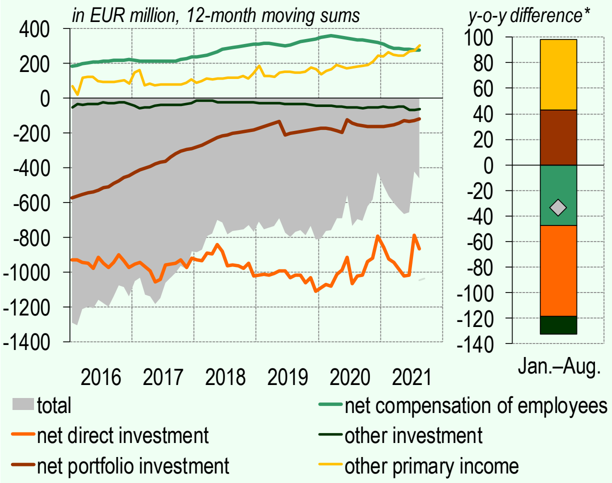
**Amid high growth in exports of miscellaneous business services, the services trade surplus is gradually increasing.** With the relaxation of containment measures, nominal services exports over the first eight months of the year were up 11.9% in year-on-year terms, but were still down 11.6% on the pre-pandemic level, on account of the major loss of tourism export revenue.[3] Amid a strong surge in imports of transport services, year-on-year growth in aggregate services imports over this period stood at 13.0%, and their shortfall on the pre-pandemic period was significantly less, at 4.0%. The services trade surplus over the first eight months of the year amounted to EUR 1,372 million, up EUR 112 million in year-on-year terms, primarily as a result of a reversal in the position in miscellaneous business services (see Figure 4.4). The trade surpluses in construction services and in insurance and pension services also strengthened, while the surplus in travel services remains broadly unchanged in year-on-year terms at EUR 281 million, an extremely low figure.

**Figure 4.4: Balance of services trade**




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

**Figure 4.5: Net primary income**




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

## Primary and secondary income

**Following last year's decline amid poor corporate performance during the crisis, the deficit in primary income over the first eight months of the year was broadly unchanged in year-on-year terms.** It amounted to EUR 432 million (see Figure 4.5). The deficit in income on FDI over the first eight months of the year deepened to EUR 665 million, with major outflows of dividends to foreign owners from one of the large firms in industry in July of last year, and from one of the large firms in retail in June of this year. The individual sums involved were between EUR 200 million and EUR 250 million. By contrast, the deficit in income on investments in securities has continued to narrow, driven still by the reduction in the interest payment burden on public debt amid the very low interest rates. The surplus in the government sector's primary income continues to widen, as receipts of EU subsidies, which are included under this income category, continue to rise. The surplus in labour income was down in year-on-year terms: there was no notable impact from

[3] Imports of travel services during the first eight months of the year were down 46.0% on the same period of 2019, while exports were down 55.7%. The number of overnight stays by foreign visitors over the first eight months of the year was up 13.1% in year-on-year terms, but still down 63.1% on the same period of 2019.

the crisis in the labour market in the first quarter of last year, while stringent containment measures were still in place in Slovenia and in neighbouring countries in the first quarter of this year. The main decline was in inflows of labour income from Austria.

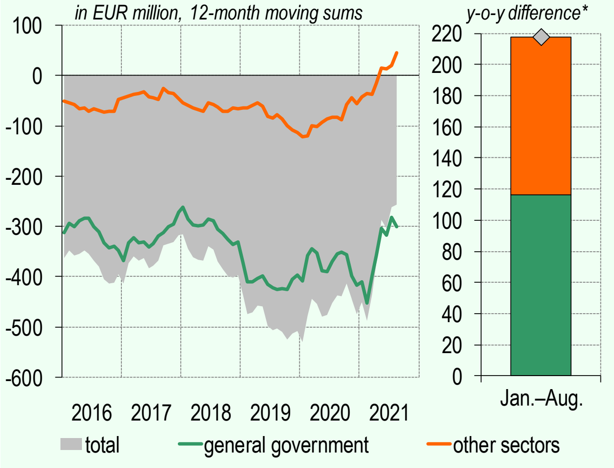
**The deficit in secondary income narrowed sharply over the first eight months of this year.** It amounted to just EUR 125 million, EUR 218 million narrower in year-on-year terms (see Figure 4.6). The majority of the decline was driven by a narrowing of the deficit in the government sector's secondary income, which was driven by a sharp increase in social benefits paid by non-residents for work performed in Slovenia. Over the first eight months of the year they were up EUR 140 million in year-on-year terms. At the same time the position in other sectors' secondary income moved from a deficit to a surplus of EUR 58 million, where inflows of net non-life insurance premium continued to strengthen as firms in the insurance sector increasingly internationalise their operations (over the first eight months of the year they were up EUR 46 million in year-on-year terms).

## Selected competitiveness indicators

**The epidemic has badly impeded the monitoring of external competitiveness.** Caution is therefore advised in the interpretation of competitiveness indicators, as they do not necessarily present a true picture of developments, given the difficulties in measuring inflation and also unit labour costs.[4]

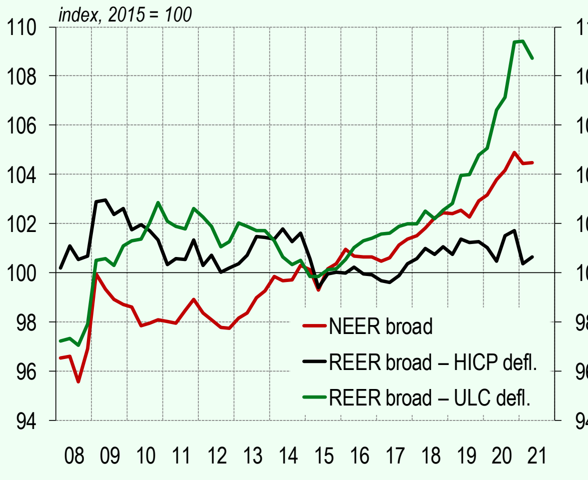
**The price competitiveness of the Slovenian economy in the second quarter of this year was similar to a year earlier.** The effective exchange rate against the broad group of 39 partners was up just 0.2%.[5] This was primarily attributable to the favourable price developments from the perspective of international trade, as the euro continued to appreciate against a basket of foreign currencies, albeit at a lower pace[6] (see Figure 4.7). Price competitiveness against the majority of the trading partners has improved over the last year (see Figure 4.8), most evidently against the newer EU Member States (down 2.6%), while against euro area countries it remained within the bound of last year's position (up 0.2%).

**Figure 4.6: Net secondary income**




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

**Figure 4.7: External competitiveness indicators of Slovenia against 39 trading partners**




*Source: Banka Slovenije, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.*

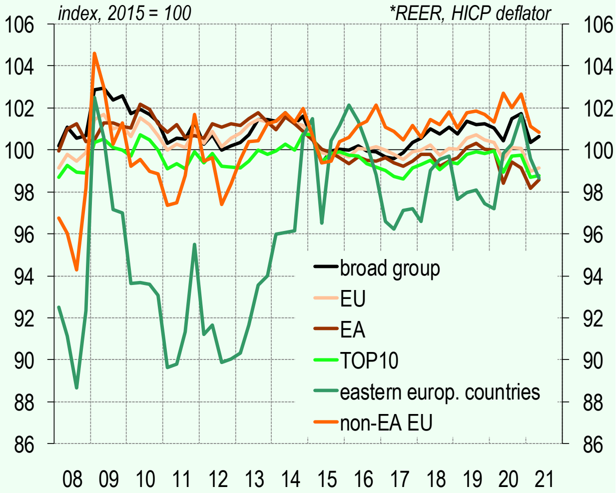
[4] For details, see Box 3.2 in the July 2020 issue of Economic and Financial Developments, Box 6.1 in the April 2020 issue of Economic and Financial Developments, and Box 6 in the December 2020 issue of Macroeconomic Projections for Slovenia.

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

[6] Exchange rate developments are illustrated in the figure by the nominal effective exchange rate (NEER).

**The cost competitiveness of the economy remains less favourable than in the second quarter of last year, although the deterioration has eased slightly.** The year-on-year rise in the effective exchange rate[5] against the broad group of 39 trading partners slowed to 2.0%, of which 0.7 percentage points came from the slower appreciation of the euro, while 1.3 percentage points came from relative unit labour costs.[7] The deterioration slowed vis-à-vis all groups of partners (see Figure 4.9).

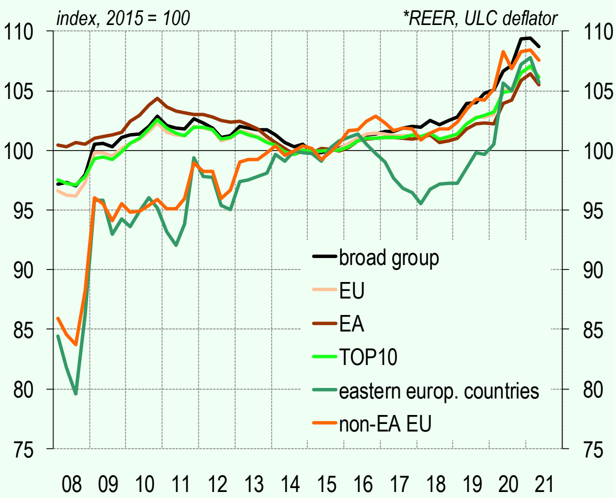
Figure 4.8: Regional price competitiveness* of Slovenia




Source: Banka Slovenije, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

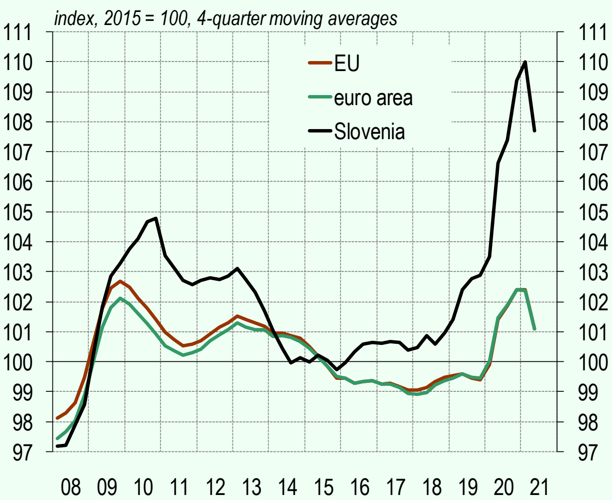
**The cost pressure on competitiveness eased slightly in the second quarter, but has significantly exceeded the euro area average over the last two years.** Domestic growth in real unit labour costs[8] (RULCs) over 2019 and 2020 was among the higher figures in the group of countries, and almost three times higher than the euro area average (see Figure 4.10). Given the effect of the high base and the high economic growth, their decline of 7.6% in the second quarter of this year was therefore one of the largest as expected, and outpaced the euro area average (a decline of 4.7%). Real growth in compensation per employee[9] remained high (6.1%), but below the euro area average, while growth in labour productivity stood at 14.8%, well above the euro area average. The situation was similar in the first half of the year (see Figure 4.11), as RULCs were lower in year-on-year terms in the tradable sector,[10] and higher in the non-tradable sec-

Figure 4.9: Regional cost competitiveness* of Slovenia




Source: Banka Slovenije, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

Figure 4.10: Real unit labour costs




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

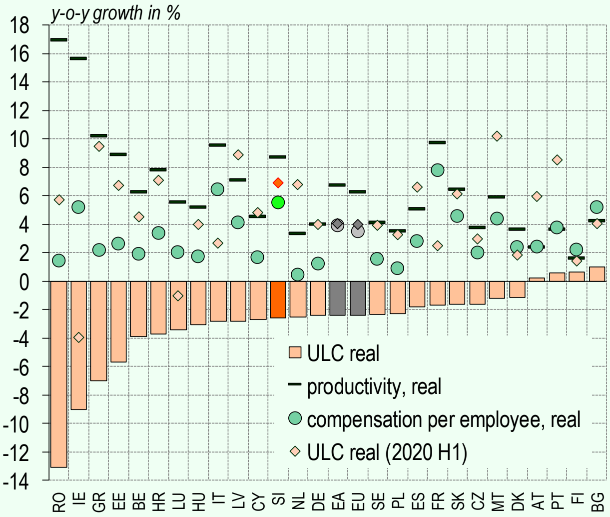
[7] Relative unit labour costs are domestic unit labour costs compared with those of trading partners.

[8] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. The relationship between wages and productivity and the dynamic of wage growth in this section could therefore differ from that illustrated in Sections 2 and 3.

[9] Under the methodology for measuring unit labour costs, the deflator used to calculate real growth in compensation per employee is the same as that used to calculate real growth in productivity, i.e. the GDP deflator.

[10] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food services and transportation (G to I), information and communication (J), and professional, scientific and technical activities and administrative and support service activities (M and N), while the non-tradable sector consists of all other sectors under the SKD 2008.

**Figure 4.11: Real unit labour costs in first half of 2021**




*Source: Eurostat, Banka Slovenije calculations.*

tor. Growth in RULCs in the non-tradable sector outpaced the comparable growth in the euro area overall, while conversely developments in the tradable sector were more favourable than in the euro area overall.

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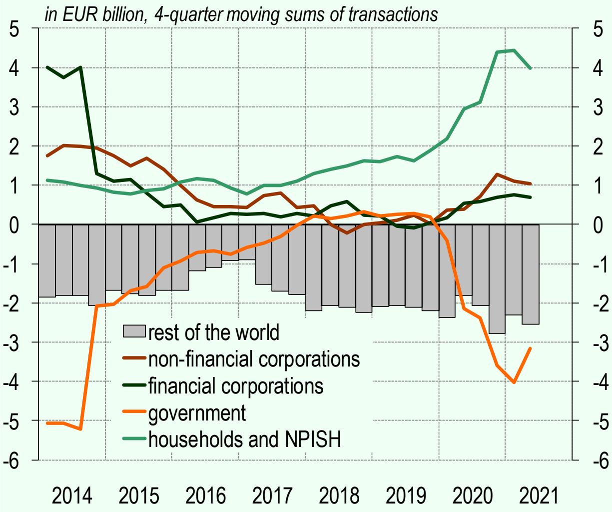
# 5 Financial Standing of Non-Financial Corporations, Households and Banks

*The total net credit position of domestic institutional sectors increased slightly in the second quarter of this year according to financial accounts figures, while the trend seen over the last year and a half in all sectors came to an end. The government sector had seen a sharp increase in its negative net financial position as a result of the introduction of the emergency measures and the corresponding sharp increase in borrowing, but according to the latest figures it declined slightly. For non-financial corporations, households and banks, which by contrast had increased their net financial assets each quarter during the epidemic, the trend came to an end this year. The non-banking sectors nevertheless continue to record a high saving surplus, which is largely being directed into bank deposits, as a result of which the year-on-year increase in banks' financial assets and liabilities remains at its post-2008 peak.*

## Saving-investment gap by institutional sector

**The aggregate net financial position of domestic institutional sectors strengthened slightly in the second quarter, nevertheless all sectors moved away from the trend seen over the last year and a half.** The aggregate surplus of saving over investment amounted to EUR 2.6 billion according to the latest figures, and there has been a major change in its structure since the outbreak of the pandemic (see Figure 5.1). The most pronounced change in its position was recorded by the government sector, which moved from a net saver to a net investor, although it has reduced its debt position slightly over the last quarter (to EUR 3.2 billion). By contrast, other institutional sectors increased their net financial assets from quarter to quarter during the epidemic, but have all seen this trend come to an end this year, most notably in the household sector, whose net saving nevertheless remains high according to the latest figures (EUR 4.0 billion).

**Figure 5.1: Savings-investment gap**

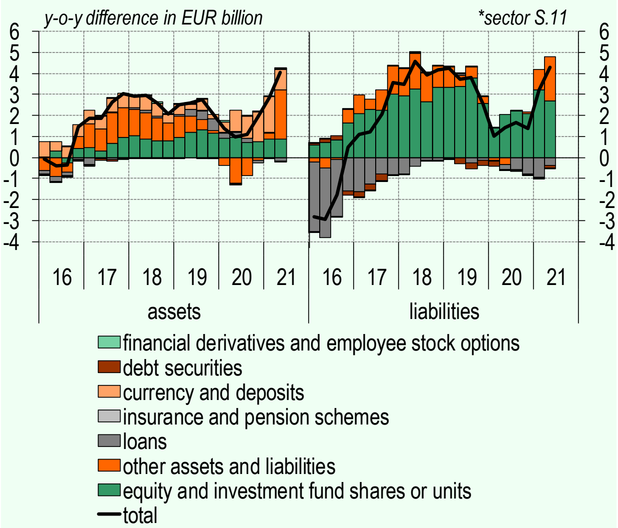



Source: Banka Slovenije.

## Financial assets and financing of non-financial corporations

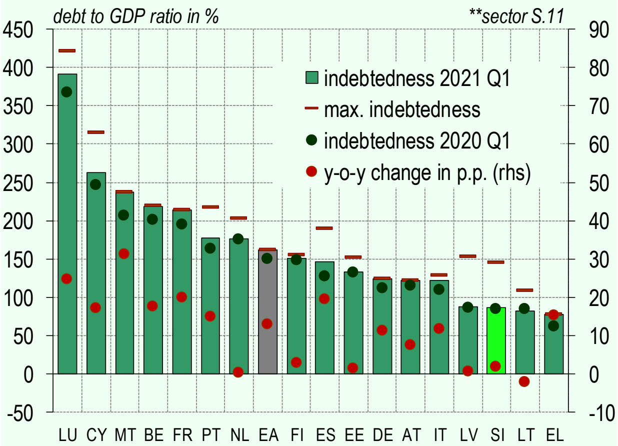
**Growth in non-financial corporations' financial assets and liabilities continued to increase in the second quarter.**[1] Non-financial corporations' financial assets at the end of the second quarter were up around EUR 4.0 billion in year-on-year terms, the largest increase since 2008. On this occasion non-financial corporations recorded a particularly large increase in trade credits granted (EUR 2.1 billion; see Figure 5.2). In the desire to maintain liquidity they have continued to sharply increase their holdings of bank deposits (by EUR 936 million), while also recording a significantly larger increase in their holdings of equity and investment fund shares (in the amount of EUR 879 million).[2] The increase in non-financial corporations' financial liabilities over the last year was even larger, by a little: at the end of the second quarter they were up EUR 4.3 billion in year-on-year terms. The main increases were in liabilities in the form of equity (by EUR 2.7 billion)[3] and trade credits (by EUR 2.1 million), while non-financial corporations have paid down debt in the form of loans and debt securities over the last year (by EUR 488 million in total).

**Figure 5.2: Financial assets and liabilities of NFCs***




*Source: Banka Slovenije.*

**Figure 5.3: Cross country comparison of indebtedness* of NFCs****




*Note: *Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities. Last available data for Ireland and Slovakia is for 2020 Q4.*
*Source: ECB, Eurostat, Banka Slovenije calculations.*

**Corporate indebtedness remains low, and well below the euro area average.** It was equivalent to approximately 87% of GDP, approximately half of the euro area average and one of the lowest figures among euro area countries (see Figure 5.3). Given their significantly lower reliance on debt financing, non-financial corporations' leverage now stands at 80.3%, down significantly on its peak of 145.4% in mid-2010. According to the latest figures, Slovenian non-financial corporations rank very close to the euro area average in terms of this indicator (79.6%), having been well above the average of 110.5% in mid-2010.

## Financial assets and financing of households

**The household sector's surplus of financial assets over liabilities was down slightly in year-on-year terms, but remains high,[4] as does its placement of savings in sight deposits.** Households' financial assets were up EUR 6.2 billion in year-on-year terms (see Figure 5.4). Once again the largest factor in the increase was sight deposits (EUR 2.7 billion), largely on account of

[1] The year-on-year increase in the stock of financial assets has accelerated from 2.0% to 8.1% over the last year, while growth in non-financial corporations' liabilities also strengthened (from 1.6% to 4.8%).

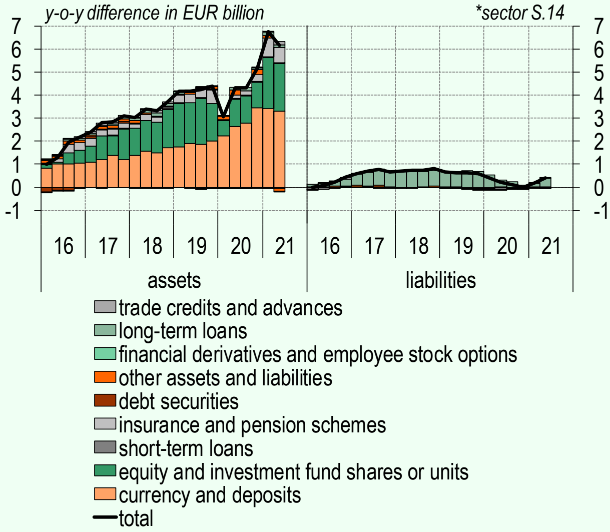
[2] Major transactions were responsible for approximately half of the increase, and revaluations of existing assets for half.

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

[4] Year-on-year growth in household assets slowed from 11.8% to 10.4% in the second quarter, while growth in liabilities strengthened slightly (from 1.3% to 2.8%).

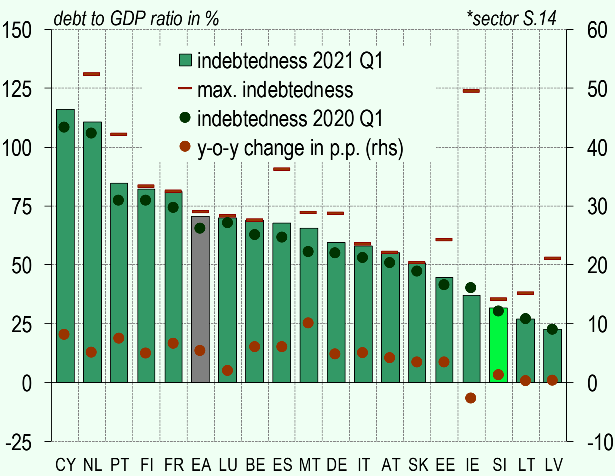
households' limited opportunities to spend during the epidemic of the last year. The figure was down slightly on the previous quarter, a reflection of the relaxation of containment measures and the renewed strengthening of household consumption. Their holdings of equity and investment fund shares also increased, by more than EUR 2 billion, albeit primarily as a result of revaluation of existing assets,[5] as to a lesser extent did their holdings of insurance, pension and standardised guarantee schemes (by EUR 657 million). After a year, the increase in households' financial liabilities again strengthened slightly: in the second quarter they were up EUR 413 million in year-on-year terms. The main factor was the year-on-year increase in long-term loans, which amounted to EUR 369 million, up around a quarter on a year earlier. This most likely already signals increased optimism on the part of households, although the increase in loans was significantly smaller than before the outbreak of the previous economic and financial crisis, as a result of which household indebtedness remains low, and well below the euro area average (see Figure 5.5).

**Figure 5.4: Financial assets and liabilities of households***




*Source: Banka Slovenije.*

**Figure 5.5: Cross country comparison of households* indebtedness****

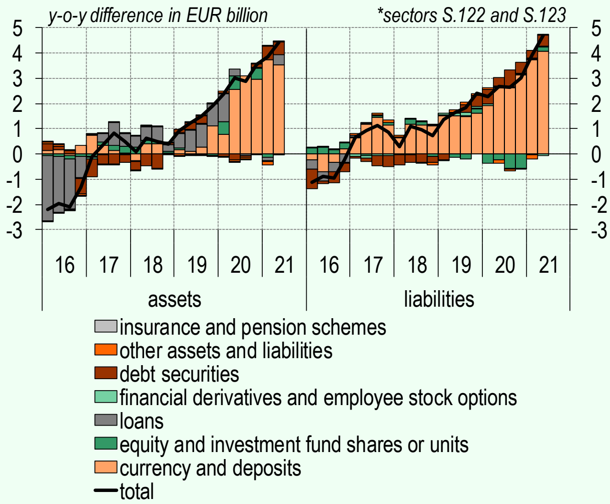



*Note: **Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities.*
*Source: ECB, Eurostat, Banka Slovenije calculations.*

## Financial assets and financing of banks

**Amid the high inflows of household and corporate savings into banks, their financial assets and liabilities are continuing to strengthen sharply.[6]** The banks' financial liabilities ended the second quarter up EUR 4.7 billion in year-on-year terms, again driven mostly by an increase in deposits (EUR 4.1 billion; see Figure 5.6). Other factors in the increase in liabilities were issued debt securities (EUR 452 million) and, to a lesser extent, increased issuance of equity and investment fund shares[7] (EUR 172 million). The indebtedness of the finan-

**Figure 5.6: Financial assets and liabilities of banks and money-market funds***




*Source: Banka Slovenije.*

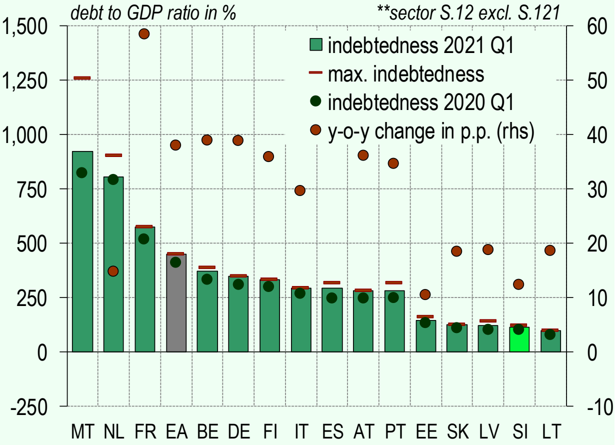
[5] Revaluations of existing assets accounted for close to 70% of the year-on-year increase in holdings of equity and investment fund shares, and transactions for the remainder.

[6] The year-on-year increase in assets stood at 10.0% at the end of the second quarter (compared with 7.4% a year earlier), while the increase in liabilities stood at 11.0% (compared with 6.7% a year earlier).

[7] Approximately half of this was the result of transactions, while half was the result of the revaluation of existing liabilities.

cial sector in Slovenia remains low compared with other European countries, and well below the euro area average (see Figure 5.7). Like their liabilities, the banks' financial assets were also up strongly compared with a year earlier, in the amount of EUR 4.4 billion. The increase was mostly driven by investments in transferable deposits at the central bank in the amount of EUR 3.3 billion, and to a lesser extent by investments in debt securities (EUR 495 million). After a year, bank lending activity to the non-banking sector[8] also began strengthening slightly (by EUR 411 million). The changes in bank performance over the first eight months of this year are analysed in Box 5.3.

**Figure 5.7: Cross country comparison of indebtedness* of financial sector****




*Note: *Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities.*
*Source: ECB, Eurostat, Banka Slovenije calculations.*

[8] Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.3.

## Box 5.1: Impact of credit supply shocks on firm performance

**Supply-side credit shocks can have a significant impact on economic activity.** This became a pressing matter during the global financial crisis, when numerous banks had a capital shortfall, which led to a credit crunch and had an adverse impact on economic activity (Amiti & Weinstein, 2018; Jimenez et al., 2017). At the same time, slovenian banks were heavily burdened with non-performing loans, which further reduced their capacity and willingness to lend, thus curtailing their contribution to the economic recovery.

**This box presents analysis of the impact of supply-side credit shocks on the performance of Slovenian firms between 2000 and 2020.** Supply-side credit shocks are defined in the broader sense, and include all factors affecting the supply of bank loans. These may be exogenous factors such as a change in monetary policy or macroprudential policy, new regulations (such as higher capital requirements), or any other external shock to which banks respond by adjusting the supply of loans. Conversely, supply-side shocks also include endogenous changes in bank balance sheets, such as capitalisation and the level of burden from non-performing loans, which can have an impact on bank lending activity.

**The results show a positive impact of the supply of bank loans on corporate performance, as this leads to increased growth in sales, investment and headcounts.** Credit shocks have a larger impact on the performance of smaller firms, and the impact increases at a time of crisis, such as the economic and financial crisis (2009 to 2013), and in the pandemic year of 2020. The methodology and the key results are presented in brief below.

### Methodology

**The identification of supply-side shocks relies on detailed data from the credit register.** This data allows a decomposition of loan growth into demand-side factors, which are characteristic of a particular firm, and supply-side factors, which reflect the lending capacity of a particular bank. The assessment follows the approach of Khwaja and Mian (2008), where we are restricted to firms that borrow from multiple banks[1] and we estimate the following model:

$$\Delta L_{fbt} = \alpha_{ft} + \beta_{bt} + \epsilon_{fbt} \qquad (1)$$

where $\Delta L_{fbt}$ is growth in the stock of loans to firm $f$ at bank $b$ at time $t$.[2] $\alpha_{ft}$ are the firm-year fixed effects, which encompass all factors affecting growth in loans that do not vary between banks. The key factors here are demand for loans and firm riskiness. Similarly, $\beta_{bt}$ captures the supply-side factors, i.e. the bank's capacity to lend. The identification of the supply-side and demand-side factors in the model estimated above is based on the assumption that demand is not bank-specific, i.e. firms have equal demand for loans at all banks from which they have already borrowed, and similarly the supply of bank loans does not adjust to the particular firm.

**The second step assesses the impact of supply-side credit shocks on corporate performance.** Here we follow the approach of Alfaro et al. (2021), where they assessed the impact of supply-side shocks on sales, investment and headcount at firms in the case of Spain. The following model is estimated to this end:

$$\Delta Y_{ft} = \gamma \overline{\beta}_{ft} + \Theta kontrole_{ft} + \epsilon_{ft} \qquad (2)$$

where $\Delta Y_{ft}$ is a metric of firm performance, which is defined as growth in: (1) investments, (2) sales or (3) number of employees. $\overline{\beta}_{ft}$ represents the supply-side credit shock, which is specific to the individual firm and is calculated as the weighted average of supply-side shocks estimated in equation (1), where the weights are the share of loans from each bank that lends to a particular firm ($c_{fbt}$):

$$\overline{\beta}_{ft} = \sum_{b} \frac{c_{fbt-1}}{\sum_b c_{fbt-1}} \hat{\beta}_{bt} \qquad (3)$$

**In addition to supply-side shocks, the estimates also include other factors affecting firm's growth.** $Kontrole_{ft}$ thus includes firm-fixed effects, the size of the firm as measured by log of total assets, profitability as measured by return on assets, indebtedness as measured by the ratio of debt to total assets, the share of loans in the balance sheet, operating efficiency as measured by the ratio of sales to total assets, growth in trade credits, the average credit rating given by banks, the number of relations with banks, and the demand-side factors estimated in equation 1 ($\alpha_{ft}$).

### Results

**The supply of loans from Slovenian banks peaked in 2007, and bottomed out in 2014.** As illustrated by Figure 1, the supply of bank loans began to fall sharply at the outbreak of the global economic and financial crisis. Given the banks' weak capitalisation and their heavy burden with non-performing loans, the supply of loans held a negative trend all the way to 2014, a year after the extensive recapitalisation of the banking system and the transfer of a significant part of the non-performing loans portfolio to the BAMC. Since 2014 the supply has increased again, and towards the end of the period was approaching its level from before 2007. This was facilitated by the stable macroeconomic and financial environment, by the high capitalisation of the banks and, in the recent period, by the measures to alleviate the impact of the pandemic.

**Figure 1: Credit supply at the aggregate level**


*Source: Banka Slovenije, own estimates.*

**Table 1 illustrates the estimated impact of the supply of loans on growth in investment, sales and number of employees in firms between 2000 and 2020.** Five estimates are illustrated: column (1) shows the basic estimate of the impact of the credit shock for the entire period. The estimates in columns (2) to (5) illustrate the non-linearity of the impact of the supply-side shock depending on the size of the firm, the period of the financial crisis (2009 to 2013), the post-crisis period (2014 to 2019) and the pandemic period (2020 in the analysis).

**The results show a positive impact of the supply of bank loans on corporate performance.** The supply of loans has a highly statistically significant impact on growth in investment, sales and number of employees (estimate (1)). The impact is greatest on investment, where a 1 percentage point increase in the supply of loans leads to a 0.62 percentage points increase in growth in investment. The size of the impact is economically relevant, as a one standard deviation increase in the credit supply increases growth in corporate investment by 5 percentage points, which is 80% of the average growth in

**Table 1: Credit supply impact on firm investment, sales and number of employees[3]**

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| | | | **Investment** | | |
| Supply shock | 0.621*** | 0.628*** | 0.586*** | 0.687*** | 0.551*** |
| Supply shock × ln(Assets) | | -0.086*** | | | |
| Supply shock × Financial crisis | | | 0.123* | | |
| Supply shock × After crisis | | | | -0.152** | |
| Supply shock × Covid crisis | | | | | 0.816*** |
| | | | **Sales** | | |
| Supply shock | 0.496*** | 0.489*** | 0.395*** | 0.704*** | 0.406*** |
| Supply shock × ln(Assets) | | -0.040*** | | | |
| Supply shock × Financial crisis | | | 0.395*** | | |
| Supply shock × After crisis | | | | -0.478*** | |
| Supply shock × Covid crisis | | | | | 1.029*** |
| | | | **Number of employees** | | |
| Supply shock | 0.203*** | 0.154*** | 0.137*** | 0.319*** | 0.169*** |
| Supply shock × ln(Assets) | | -0.020** | | | |
| Supply shock × Financial crisis | | | 0.238*** | | |
| Supply shock × After crisis | | | | -0.268*** | |
| Supply shock × Covid crisis | | | | | 0.393*** |

*Note: The table reports the estimated coefficients of the impact of credit supply shock on the growth of investment, sales and number of employees. The estimates are for the period 2000-2020 and include only firms with multiple relations to banks. The supply shocks are estimated with equation (1) and, for the purpose of estimating its impact on firm performance, aggregated according to equation (3). Financial crisis is defined as a dummy variable, which equals one between 2009 and 2023, whereas After crisis and Covid crisis takes values of one in period 2014-2019 and 2020, respectively. In addition to the variables shown in the table, all the estimates include also the following controls: firm fixed effects, logarithm of total assets, return-on-assets, debt-to-assets, share of bank loans in firm balance sheet, asset turnover ratio, growth of trade credit, average credit rating assigned by banks, number of relations a firm has with banks and demand effects from equation (1).*
*Significance: * (p<0.10), ** (p<0.05), *** (p<0.01). Standard errors are clustered at industry-year level.*
*Source: Banka Slovenije, AJPES, own estimates.*

investment of all firms over the sample period. The estimated impact is averaged over the entire period, and reflects the net impact of the credit supply.[4]

**The supply of loans has a greater impact on the performance of smaller firms.** Estimate (2) captures the interaction between the supply-side shock and firm size measured by log of total assets. The negative coefficient denotes that the impact of supply on the performance of firms diminishes with the size of the firm. The impact of credit supply is thus more pronounced for smaller firms, as their relatively low diversification makes it harder for them to obtain external financing, and their performance is therefore more sensitive to a change in the supply of loans.

**The impact of the supply of loans on corporate performance is greater during a period of crisis.** Estimates (3) and (5) capture the interaction between the supply-side shock and the period of the financial crisis (2009 to 2013) or the pandemic period (2020 in this analysis). The two coefficients show a larger impact of credit supply on corporate performance during a period of crisis, as due to already deteriorated economic situation a change in the supply of loans has a larger impact on growth at firms. The larger impact of credit supply in 2020 is also attributable to the measures put in place to alleviate the impact of the pandemic, which directly[5] or indirectly[6] had an impact on the supply of bank loans.

**The credit supply had a smaller impact on corporate performance in the period between 2014 and 2019.** Estimate (4) illustrates the impact of a supply-side shock in the period after the financial crisis. The smaller impact of the supply of loans in this period is attributable to the restructuring of firms with a larger level of equity, both domestic and foreign, and the increased importance of internal financing for corporate performance.

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[1] The share of firms borrowing from multiple banks is around 20%, while their loans account for 80% of all corporate loans.

[2] The credit register contains monthly data, or quarterly data before 2009. As the analysis subsequently uses AJPES data, which is reported annually, the identification of supply-side shocks is also undertaken on an annual basis. Growth in loans is defined as $\Delta L_{fbt} = ln(L_{fbt}) - ln(L_{fbt-1})$, where the average value of the firm's loans at the banks is taken each year.

[3] The illustrated results are estimated at firms that borrow from multiple banks, which allows for detailed control of individual demand-side factors with fixed effects at the firm-year level ( $\alpha_{ft}$ in equation 1). Another model was estimated as an alternative, where the attributes of firms were controlled with industry-location-size-time fixed effects (Degryse et al., 2019). In this case all firms can be included in the identification of supply-side shocks. This does not alter the conclusions presented in Table 1.

[4] The estimate does not reflect the correlation between aggregate growth in loans and investment, as it only captures the impact of the supply of loans, it is made on a limited sample of firms (those borrowing from multiple banks), and each firm makes an equal contribution to the estimated impact irrespective of its size.

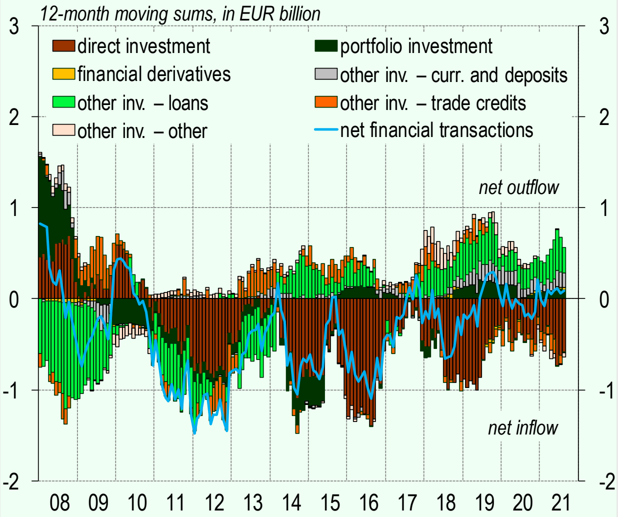
[5] The release of the P2G capital buffer and the restriction on dividend payments increased the capitalisation of banks relative to the capital requirements, which allows for a greater supply of bank loans.

[6] The government guarantee scheme for loans and moratoria could also have an impact on the supply of loans, as the banks take up less risk with a government guarantee, and loan moratoria at least temporarily defer the increase in the NPL ratio, which is a significant factor in the decision to lend.

## Box 5.2: Non-financial corporations' financial transactions with the rest of the world and international investment position

**The non-financial corporations sector's financial account with the rest of the world has been approximately in balance since the outbreak of the pandemic, in contrast to the global economic and financial crisis and the European debt crisis.** Non-financial corporations recorded a modest net outflow of capital to the rest of the world over the 12 months to August 2021. It amounted to EUR 91 million according to balance of payments figures, compared with a net inflow of capital in the amount of EUR 196 million a year earlier.[1] Non-financial corporations' net capital flows over the last year and a half have been very modest, compared with the previous period, when they exceeded EUR 1 billion[2] in individual years (see Figure 1), or with the net flows of other institutional sectors, such as the financial sector,[3] which has recorded an outflow of around EUR 2.5 billion to the rest of the world over the last year. Compared with the crisis year of 2009 and with 2013, the main difference is in net flows of FDI. They practically came to a halt in the previous two cases, but the pandemic crisis did not have such a pronounced impact on them (see Figure 1).

**Figure 1: Financial transaction of NFC with the rest of the world**




Source: Banka Slovenije.

**Loan repayments were again the main feature of non-financial corporations' net outflow of capital to the rest of the world over the last year:** they amounted to EUR 251 million over the last 12 months. At the same time non-financial corporations increased their holdings of currency and deposits in accounts in the rest of the world (EUR 160 million),[4] while recording an additional net outflow of EUR 101 million via transactions in securities. Conversely, a much larger net outflow of financial assets to the rest of the world in the non-financial corporations sector has been prevented over the last year, as in the preceding decade, by a net inflow of FDI (EUR 588 million; see Table 1).

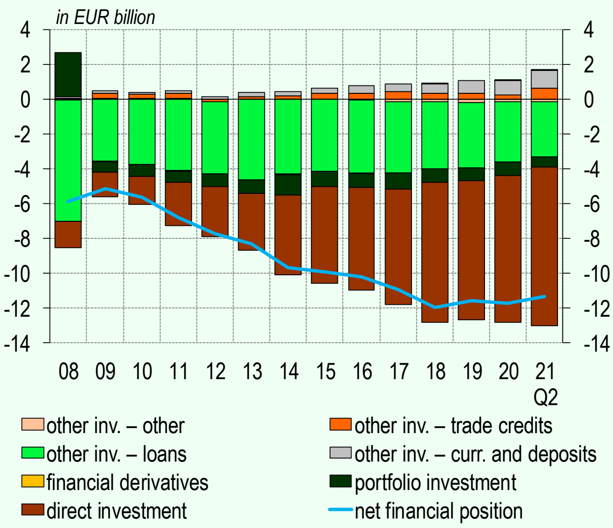
**Table 1: Financial transactions of NFC**

| *12-m. financial flow (sum in EUR million)* | | Dec.08 | Dec.09 | Dec.10 | Dec.11 | Dec.12 | Dec.13 | Dec.14 | Dec.15 | Dec.16 | Dec.17 | Dec.18 | Dec.19 | Dec.20 | Aug.21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Direct investment** | *assets* | 776 | 196 | 62 | -42 | -258 | 162 | 52 | 107 | 338 | 501 | 279 | 1,059 | 187 | 727 |
| | *liabilities* | 591 | -196 | 315 | 599 | 126 | 271 | 835 | 1,170 | 911 | 964 | 1,194 | 1,353 | 390 | 1,315 |
| **Portfolio investment** | *assets* | 198 | 18 | 6 | -8 | -13 | -22 | 0 | 104 | -119 | -1 | 6 | 4 | 73 | 56 |
| | *liabilities* | -57 | 307 | 98 | 99 | 92 | 48 | 334 | -6 | -185 | 103 | -102 | -145 | 3 | -45 |
| **Financial derivatives** | *assets* | -41 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 1 | 7 | 30 |
| | *liabilities* | 1 | 12 | -5 | 2 | 0 | -4 | 8 | -3 | -3 | 2 | 5 | 23 | -24 | 8 |
| **Other investment** | *assets* | 228 | -163 | 213 | 42 | -102 | 122 | -56 | 97 | 202 | 599 | 364 | 189 | -92 | 1,017 |
| | *liabilities* | 1,075 | -394 | 607 | 573 | 222 | 247 | -487 | -283 | 155 | 299 | -33 | -31 | -397 | 460 |
| - currency and deposits | *assets* | -32 | 3 | -6 | 23 | -10 | 102 | -33 | 33 | 58 | 7 | 95 | 163 | 108 | 160 |
| | *liabilities* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - loans | *assets* | 129 | -7 | 3 | -5 | -11 | 5 | 2 | 6 | 8 | -8 | -2 | 13 | 16 | 31 |
| | *liabilities* | 1,163 | 85 | 291 | 449 | -64 | 465 | -354 | -199 | -12 | -190 | -411 | -125 | -238 | -251 |
| - trade credits | *assets* | 142 | -263 | 204 | 55 | -49 | 21 | -20 | 18 | 149 | 589 | 238 | 24 | -214 | 748 |
| | *liabilities* | -71 | -481 | 301 | 122 | 294 | -184 | -138 | -105 | 142 | 412 | 339 | 50 | -133 | 754 |
| - other | *assets* | -12 | 105 | 13 | -32 | -32 | -5 | -5 | 40 | -12 | 11 | 32 | -12 | -2 | 79 |
| | *liabilities* | -17 | 3 | 14 | 2 | -8 | -34 | 5 | 20 | 25 | 77 | 39 | 45 | -27 | -43 |
| **Total assets** | | 1,161 | 51 | 280 | -8 | -373 | 263 | -3 | 307 | 421 | 1,099 | 664 | 1,252 | 174 | 1,830 |
| **Total liabilities** | | 1,609 | -271 | 1,015 | 1,273 | 441 | 562 | 691 | 879 | 879 | 1,368 | 1,064 | 1,200 | -29 | 1,739 |
| **Net financial transactions (- inflow / + outflow)** | | **-449** | **322** | **-735** | **-1,281** | **-814** | **-299** | **-694** | **-571** | **-458** | **-269** | **-401** | **52** | **204** | **91** |

*Source: Banka Slovenije.*

**Non-financial corporations' net financial position against the rest of the world has remained unchanged since the end of 2019.** Non-financial corporations' total net financial liabilities to the rest of the world amounted to EUR 11.4 billion according to the latest figures for the second quarter of this year. The largest negative net positions are in FDI (EUR 9.1 billion) and loans (EUR 3.2 billion). The first is deepening from year to year as non-residents increase their investments in Slovenian firms, while the second has halved since its peak at the end of 2008 on account of extensive loan repayments (see Figure 2).

**Figure 2: Net financial position of NFC to the rest of the world**




*Source: Banka Slovenije.*

**Non-financial corporations have increased their stock of financial assets in the rest of the world and liabilities to the rest of the world by just over EUR 1 billion since the outbreak of the pandemic.** The increase in the stock of financial assets was driven by trade credits granted (EUR 599 million), currency and deposits in foreign accounts (EUR 325 million), purchases of foreign securities (EUR 272 million) and, to a lesser extent, FDI in foreign firms (EUR 121 million). The increase in financial liabilities to non-residents over the same period was driven by FDI in domestic firms (EUR 1.2 billion), and also in part by non-residents' purchases of domestic corporate securities (EUR 123 million), while non-financial corporations paid down more debt via other investments (EUR 229 million), primarily loans (see Table 2).

[1] Non-financial corporations recorded a surplus in the financial account in 2019 and 2020, and in so doing provided net financing to the rest of the world in the amount of EUR 52 million and EUR 204 million, having recorded an average net inflow of capital from the rest of the world of around EUR 600 million each year between 2010 and 2018.

[2] They were highest in 2011 and 2012, when firms in the rest of the world borrowed via loans and trade credits, while at the same time there was an intensive inflow of capital in the form of inward FDI.

[3] The sector encompassing all financial corporations other than the central bank.

[4] Non-financial corporations' flows of trade credits were even larger, but in both directions (EUR 748 million were granted, EUR 754 million were received), as a result of which the net flow of capital in this form was negligible.

**Table 2: International investment position of NFC**

| *stock (in EUR million)* | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Direct investment** | *assets* | 6,504 | 5,899 | 6,089 | 5,983 | 5,550 | 5,439 | 5,475 | 5,612 | 6,016 | 6,487 | 6,638 | 7,795 | 7,598 | 7,916 |
| | *liabilities* | 8,042 | 7,282 | 7,672 | 8,481 | 8,430 | 8,680 | 10,033 | 11,177 | 11,921 | 13,131 | 14,702 | 15,778 | 16,048 | 17,024 |
| **Portfolio investment** | *assets* | 3,017 | 154 | 167 | 145 | 129 | 111 | 91 | 425 | 235 | 251 | 257 | 325 | 408 | 596 |
| | *liabilities* | 525 | 775 | 829 | 810 | 875 | 900 | 1,283 | 1,266 | 1,023 | 1,167 | 1,036 | 1,039 | 1,152 | 1,162 |
| **Financial derivatives** | *assets* | 16 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 0 | 16 | 18 | 26 | 45 |
| | *liabilities* | 16 | 17 | 6 | 7 | 7 | 4 | 13 | 11 | 8 | 10 | 16 | 40 | 17 | 29 |
| **Other investment** | *assets* | 5,215 | 4,035 | 4,302 | 4,402 | 4,234 | 4,252 | 4,188 | 4,463 | 4,881 | 5,439 | 5,918 | 6,051 | 5,917 | 7,008 |
| | *liabilities* | 12,066 | 7,149 | 7,680 | 8,055 | 8,356 | 8,515 | 8,090 | 7,980 | 8,400 | 8,800 | 9,060 | 8,928 | 8,481 | 8,698 |
| - currency and deposits | *assets* | 113 | 114 | 104 | 138 | 157 | 250 | 232 | 317 | 406 | 448 | 548 | 702 | 839 | 1,026 |
| | *liabilities* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - loans | *assets* | 1,028 | 267 | 355 | 345 | 314 | 275 | 265 | 276 | 320 | 326 | 326 | 262 | 280 | 309 |
| | *liabilities* | 7,999 | 3,843 | 4,131 | 4,464 | 4,454 | 4,883 | 4,543 | 4,421 | 4,520 | 4,430 | 4,193 | 3,998 | 3,778 | 3,517 |
| - trade credits | *assets* | 3,980 | 3,489 | 3,661 | 3,757 | 3,642 | 3,612 | 3,576 | 3,713 | 4,006 | 4,503 | 4,830 | 4,880 | 4,601 | 5,479 |
| | *liabilities* | 4,020 | 3,201 | 3,425 | 3,447 | 3,755 | 3,492 | 3,400 | 3,390 | 3,661 | 4,075 | 4,518 | 4,524 | 4,372 | 4,851 |
| - other | *assets* | 95 | 165 | 181 | 162 | 121 | 115 | 115 | 158 | 150 | 163 | 215 | 208 | 198 | 194 |
| | *liabilities* | 48 | 105 | 124 | 144 | 147 | 141 | 147 | 170 | 219 | 295 | 349 | 406 | 331 | 331 |
| **Total assets** | | 14,752 | 10,089 | 10,558 | 10,531 | 9,914 | 9,803 | 9,753 | 10,501 | 11,133 | 12,177 | 12,829 | 14,188 | 13,948 | 15,565 |
| **Total liabilities** | | 20,650 | 15,223 | 16,187 | 17,354 | 17,668 | 18,100 | 19,419 | 20,434 | 21,353 | 23,109 | 24,814 | 25,784 | 25,698 | 26,913 |
| **Net financial position to the ROW** | | **-5,898** | **-5,134** | **-5,629** | **-6,823** | **-7,754** | **-8,296** | **-9,665** | **-9,933** | **-10,220** | **-10,932** | **-11,985** | **-11,596** | **-11,750** | **-11,348** |

*Source: Banka Slovenije.*

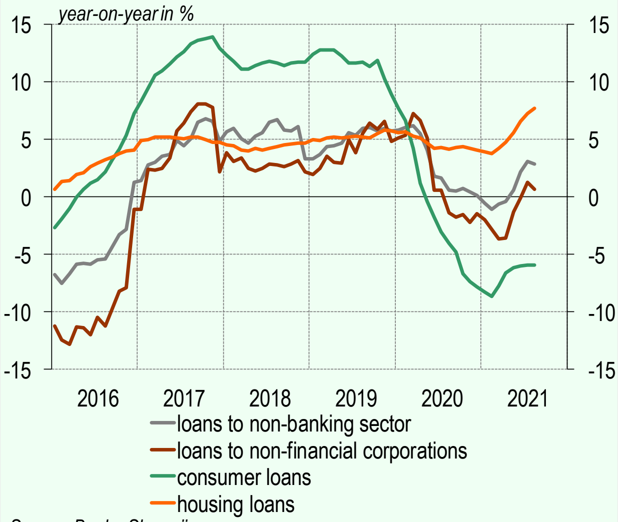
## Box 5.3: Bank performance

**Growth in bank loans to the non-banking sector has been positive since May 2021, and surpassed comparable growth in the euro area overall in July.** Household lending strengthened further over the first eight months of the year as housing loans increased, although the contraction in consumer loans continued. Year-on-year growth in loans to non-financial corporations slowed in August, but nevertheless remained positive. August saw another increase in the share of exposures classed under the stage with increased credit risk, while in certain sectors this trend has been present for several months. Following sharp growth during the first half of this year, household deposits declined slightly in August, while deposits by non-financial corporations were up in July and August after falling in the second quarter. The banking system's pre-tax profit increased as a result of the prevailing net release of impairments and provisions at banks, although the sustainability of profits generated in this manner is questionable. The banking system's capital adequacy remained good, and the liquidity indicators improved again in August.

**The balance sheet total increased by EUR 3.1 billion over the first eight months of the year to stand at EUR 47.8 billion in August, the year-on-year rate of growth slowing over the summer to reach 9.0% in August.** The main factors on the funding side were deposits by the non-banking sector, which have increased by EUR 1.8 billion this year, and liabilities to the ECB, as a result of certain banks' borrowing via long-term refinancing operations in June. The main increases on the asset side were in claims against the central bank (up almost EUR 2.5 billion) and loans to the non-banking sector (EUR 0.6 billion). This year's increase in the most liquid forms of asset, i.e. claims against the central bank, has been driven by several factors: the increase in sight deposits, bank borrowing at the ECB, and the maturing of certain Slovenian government securities in August.

**Year-on-year growth in loans to the non-banking sector slowed to 2.9% in August, as a result of a decline in loans to non-financial corporations, while growth in household loans is increasing, driven by housing loans.** Monthly changes in the stock of loans to non-financial corporations remain relatively volatile. After increasing in July, the stock contracted in August, primarily as a result of a decline in long-term loans to large enterprises. Year-on-year growth in loans to non-financial corporations almost halved to just 0.7% amid August's contraction. Year-on-year growth in household loans has been rising since March of this year, and strengthened to 3.5% in August as a result of the increase in the stock of housing loans. Amid the favourable financing conditions they have increased by EUR 375 million this year, two-thirds of this year's total net increase in bank loans to the non-banking sector. Year-on-year growth in housing loans had increased to 7.7% by August of this year, having stood at 4.1% in December. The stock of consumer loans is still declining, and was down 5.9% in year-on-year terms in August.

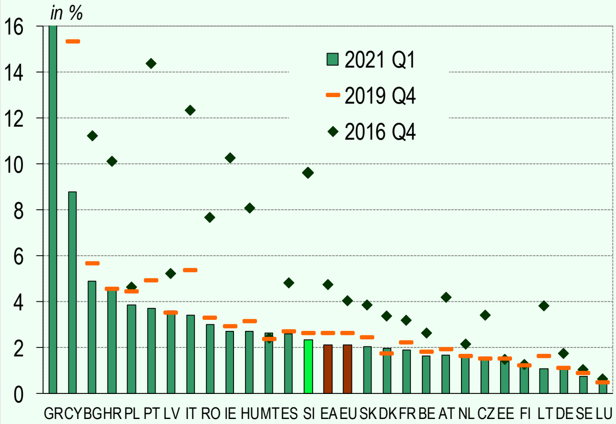
**Figure 1: Growth of loans to the non-banking sector**




*Source: Banka Slovenije.*

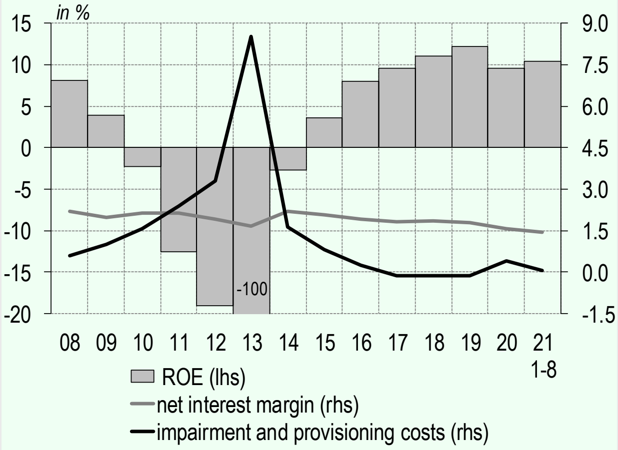
**The stock of non-performing exposures (NPEs) is continuing to decline, and exposures in the stage with increased credit risk are rising again.** Despite the increased credit risk, NPEs declined during the pandemic, as in the majority of EU Member States. The NPE ratio in the Slovenian banking system had declined to 1.3% by August. In addition to the economic policy support measures, these favourable trends were attributable to the economic recovery, except in sectors where containment measures remained in place. NPEs have increased since the outbreak of the pandemic in accommodation and food service activities, the NPE ratio reaching 12.5% in August. The NPE ratio has also been increasing consistently, albeit more slowly, in the consumer loans portfolio, reaching 3.7% in August, while in the housing loans portfolio it remains at a low 1.7%. This year the banks have begun reducing their exposures classed under the stage with increased credit risk, except in sectors where business is restricted (accommodation and food service activities, and arts, entertainment and recreation), where the shares are above 50%. It appears as though recent months have seen a

**Figure 2: NPE ratios in EU countries**




*Note: The data for NPE ratios in EU countries is at the consolidated level. NPEs include exposures from debt instruments, which primarily reduces the denominator and consequently increases the NPE ratio. The figures for Greece and Cyprus are off the scale of the y-axis.*
*Source: ECB SDW, Banka Slovenije.*

**Figure 3: Selected bank performance indicators**




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

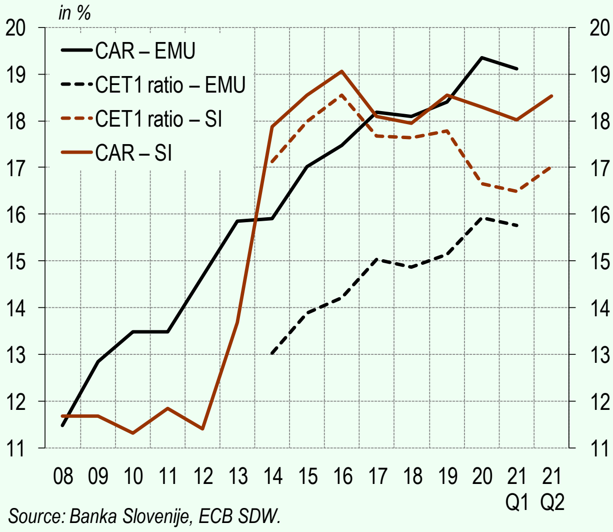
reversal in other sectors, with the share of exposures with increased credit risk (Stage 2 under IFRS 9) rising again except in manufacturing. Wholesale and retail trade has now seen a third consecutive monthly increase. After several months of decline, the share of exposures classed as Stage 2 increased to 10.9% in the non-financial corporations portfolio.

**The high monthly increases of household deposits in the first half of the year came to an end in July and August.** Year-on-year growth in household deposits had slowed to 9.9% by August, but remained higher than before the outbreak of the pandemic in March of last year. Non-financial corporations, who had begun to reduce their savings at banks immediately after the relaxation of containment measures in the spring and the recovery in all sectors of the economy, increased their balances in bank accounts again in the third quarter. This brought an end to the sharp slowdown in year-on-year growth in deposits by non-financial corporations in July, and the rate strengthened to 12.2% in August. The banks are less reliant on other sources of funding. Although liabilities to the Eurosystem increased in June as a result of certain banks' participation in tenders for longer-term refinancing operations (TLTRO-III), the proportion of total funding that they account for remained low at 5.2%.

**Pre-tax profit over the first eight months of the year amounted to EUR 336 million, although it was driven primarily by the net release of impairments and provisions, and the future sustainability of profits generated in this manner remains uncertain.** Profit was up by almost two-thirds (63.6%) on the same period last year. Pre-tax ROE at system level stood at 10.4%, up sharply on the same period last year (6.2%). Net interest income is contracting, although the decline slowed slightly to stand at 4.1% in year-on-year terms in August. The net interest margin has declined for seven consecutive years, and was down by 0.13 percentage points over the first eight months of the year to stand at 1.44% in August. After rising sharply in the spring as a result of one-off effects from the revaluation of assets at certain banks, year-on-year growth in non-interest income has fallen in recent months, and in August it was only slightly up on last year (by 0.9%). Growth in net fees and commission, the most important component of non-interest income, remains relatively high (14.2%). Operating costs were down minimally on the previous year (-0.6%). The banking system's gross income and net income are falling, and the decline relative to the same period last year has been increasing since June. The year-on-year decline in net income had reached 3.8% by August. The net release of impairments and provisions amounted to EUR 46 million at system level, compared with EUR 96 million of net impairments and provisions in the same period last year. Eleven out of the sixteen credit institutions have recorded a net release of impairments and provisions this year.

**The banking system's good liquidity position improved further over the first eight months of this year.** Amid the further increase in deposits by the non-banking sector and the maturing of certain Slovenian government securities, primary liquidity[1] increased again, and with it the capacity to cover net liquidity outflows over a short-term stress period. The liquidity coverage ratio (LCR) increased by 31 percentage points over the first eight months of the year to reach 356% in August, while the ratio of primary liquidity to the balance sheet total increased by almost 4 percentage points to 23.6%. In terms

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




*Source: Banka Slovenije, ECB SDW.*

of the LCR Slovenia continues to be ranked fourth among euro area countries, who are also seeing high growth in primary liquidity.[2]

**The banking system's capital position remained good in the first half of 2021.** The total capital ratio and the common equity Tier 1 capital ratio rose to 18.5% and 17.0% respectively on a consolidated basis. The total capital ratio has remained below the euro area average since the end of last year, when its decline was driven by the merger of two banks, while the CET1 ratio continues to exceed the euro area average. The increase in the capital ratios in the first half of the year was driven by growth in regulatory capital outpacing growth in risk-weighted assets. The banks increased their regulatory capital via retained earnings, while risk-weighted assets primarily increased at the banks that strengthened their credit activity. Although the capitalisation of the banking system remains good, it might deteriorate in the wake of any downturn in the quality of the credit portfolio. The ability to strengthen capital and thus to maintain stable capital adequacy will also depend on bank profitability, which is currently high, although its future sustainability is uncertain. In the future individual banks that opt for profit distributions after the expiry of the macroprudential measure restricting profit distributions by banks might see a decline in their capital adequacy.

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

[2] The comparison takes account of the latest data for euro area countries (the first quarter of 2021) on a consolidated basis.

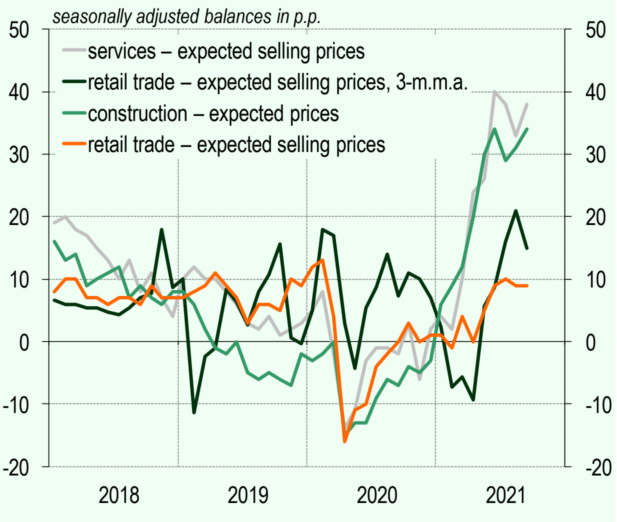
# 6 Price Developments

*Consumer prices were up fully 2.7% in year-on-year terms in September, amid rising domestic and foreign inflationary pressures. Inflation continues to be driven above all by rising energy prices, where the impetus comes from prices of motor fuels as oil rises in price, alongside the base effects. Prices of non-energy industrial goods are also rising, driven by growth in global commodity prices and bottlenecks in supply chains. Their year-on-year growth rate has reached around 1.5% in recent months, the highest since 2008. With the opening up of the economy after the relaxation of containment measures in the spring, prices of certain services also began to rise. The price rises are being facilitated by the rapid recovery in consumption and the improvement in the labour market, and are conditioned by rising costs and the need to compensate for last year's losses. Amid the rise in prices of non-energy industrial goods and services, core inflation reached 1.2% in September. Measured inflation is also being affected by the change in HICP weights caused by last year's changes in consumption patterns. The update of weights meant that headline inflation and core inflation were 0.8 percentage points and 0.6 percentage points lower respectively in September.*

## Survey-based inflation expectations in September

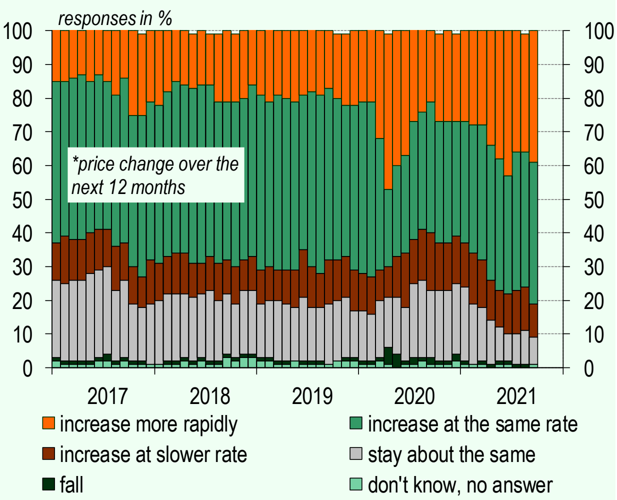
**Firms' inflation expectations are rising, particularly in construction and manufacturing, where activity is being limited by a shortage of increasingly expensive commodities and materials.** The indicators of selling price expectations, which illustrate the difference between the share of firms expecting prices to rise in the next three months and the share of firms expecting them to fall, have risen to record highs in recent months in construction and manufacturing (see Figure 6.1). The sharp increase is tied primarily to the bottlenecks in supply chains, and to rises in prices of commodities, semi-finished products and materials. Given the increase in capacity utilisation, which recovered as the economy opened up, the expectations of services firms have returned to their pre-crisis level. This indicator too was highest in the sectors where shortages of semi-finished products were relevant, and also rose in accommodation and

**Figure 6.1: Price expectations according to business survey**



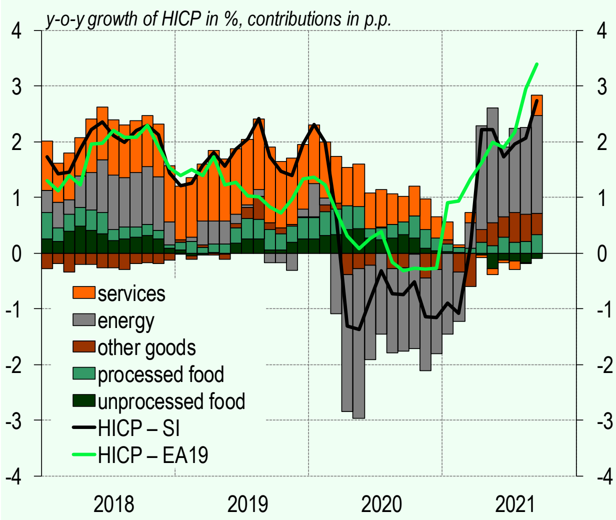

*Source: SORS, Banka Slovenije calculations.*

**Figure 6.2: Consumer opinion survey, consumer prices**




*Note: Due to rounding, the totals do not add up.*
*Source: SORS.*

**Figure 6.3: Contributions to headline HICP inflation**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

food service activities as the economy opened up.[1] The rise in the selling price expectations indicators thus indicates that firms are likely to continue passing rising input costs through into final prices in the coming months.

**In parallel with rising inflation, consumers are also raising their expectations with regard to future price developments.** The perceived inflation indicator has risen sharply since the beginning of the year, and in September reached its highest level since 2008. The expected inflation indicator also rose, reaching 56 percentage points in September according to seasonally adjusted figures. A rise in prices over the next 12 months was expected by 91% of surveyed consumers, while almost 40% were expecting higher inflation than in the previous 12 months (see Figure 6.2). Expectations are similarly strengthening in the euro area overall, although the indicator remains lower than in Slovenia at 33.1 percentage points.

## Structure of inflation and core inflation indicators

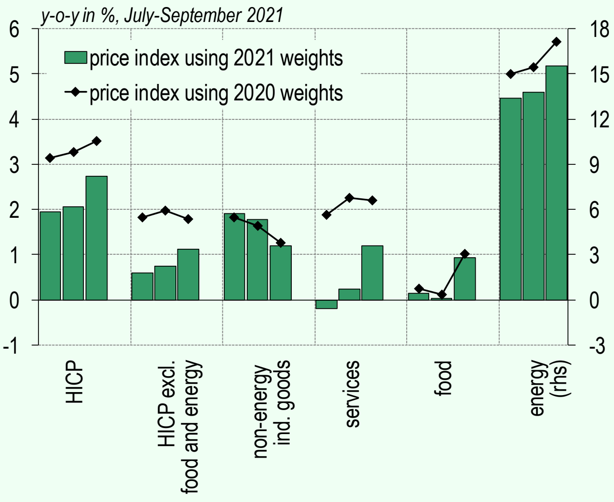
**Amid rising domestic and foreign inflationary pressures, year-on-year inflation as measured by the HICP strengthened further in the third quarter, reaching 2.7% in September.** Similarly to the second quarter, it was driven primarily by energy price inflation (see Figure 6.3). Thanks to a positive base effect in connection with last year's fall in prices of motor fuels, and the ongoing rises in global oil prices, it stood at 15.5% in September. In addition to refined petroleum products, heat energy is also rising in price, in the wake of a rise in prices of emissions allowances and energy prices on European energy market. With food commodities rising in price, food prices have begun to rise, the year-on-year rate reaching 0.9%. The price pressures related to commodity prices are also being reflected in higher growth in prices of non-energy industrial goods. Having declined for the most of the last decade, they have been rising by more than 1% since May. The rise in prices of non-energy industrial goods is mostly tied to the lengthening of delivery times, the rise in commodity prices and prices of semi-finished products, and rises in transport prices. A positive contribution to inflation in September also came from services prices, which were up 1.2% in year-on-year terms. Significant price rises began in this category when the economy opened up, and were most pronounced in services related to accommodation and food service activities, where, alongside rising labour costs amid labour shortages, the rise in prices was driven by the desire to compensate for losses made during the long shutdown.

**September's surge was largely attributable to the change in HICP weights.** Inflation in September was up 0.6 percentage points on the previous month. The rise

[1] The highest average figure over the third quarter of 46 percentage points was recorded by firms in the repair of computers and personal and household goods, which can be attributed to the shortage of computer chips.

was only partly attributable to stronger domestic and foreign price pressures; the majority was attributable to the impact of the change on weights for computing the HICP. These have changed significantly this year as a result of the change in consumption patterns during the epidemic, which has been reflected in the official measure of inflation, given the index compilation.[2] Had the weights remained unchanged, inflation would have stood at 3.3% in August and 3.5% in September, which would entail an increase of 0.2 percentage points. The change in weights has had its largest impact this year on energy price and service price inflation: it reduced average year-on-year inflation in the third quarter by 1.7 percentage points in both categories (see Figure 6.4). The impact on energy price inflation is attributable to the lower weight of motor fuels, which have recorded very high price rises this year, while the impact on service price inflation is related to the lower weight of package holidays, prices of which exhibit pronounced seasonal pattern. The summer rises in prices of package holidays amplified the negative impact of the change in weight, although it began to diminish in September.

**Figure 6.4: Impact of updated weights on inflation rate by HICP special aggregates**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

**Core inflation has been strengthening since the summer, when numerous goods and services rose in price as the economy opened up and cost pressures increased.** The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco, began to strengthen after falling in the first quarter (see Figure 6.5). The price rises, which were largely attributable to rising input costs and the relaxation of containment measures, were made possible by the strong recovery in domestic

**Table 6.1: Structure of the HICP and price indicators**

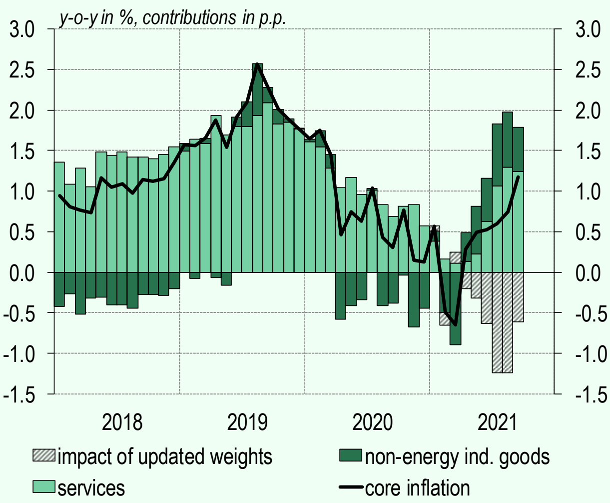
| | weight | average year-on-year growth, % | | | | | year-on-year growth in quarter, % | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2017 | 2018 | 2019 | 2020 | 21H1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 | 21Q3 |
| **HICP** | *100.0%* | 1.6 | 1.9 | 1.7 | -0.3 | 0.7 | -1.2 | -0.6 | -0.9 | -0.6 | 2.1 | 2.3 |
| **Breakdown of HICP:** | | | | | | | | | | | | |
| **Energy** | *11.4%* | 4.7 | 6.0 | 0.8 | -10.8 | 4.7 | -17.8 | -11.8 | -12.7 | -5.1 | 16.1 | 14.2 |
| **Food** | *23.2%* | 2.2 | 2.4 | 1.6 | 2.8 | 0.3 | 3.3 | 2.4 | 2.1 | 0.5 | 0.1 | 0.4 |
| **processed** | *18.8%* | 1.4 | 1.4 | 1.4 | 1.9 | 0.8 | 1.9 | 1.4 | 1.9 | 0.6 | 1.1 | 1.3 |
| **unprocessed** | *4.3%* | 5.7 | 6.6 | 2.5 | 6.6 | -1.7 | 9.2 | 6.8 | 3.3 | 0.2 | -3.5 | -3.2 |
| **Other goods** | *31.4%* | -0.7 | -0.8 | 0.3 | -0.5 | 0.1 | -1.0 | -0.6 | -0.9 | -0.9 | 1.1 | 1.7 |
| **Services** | *34.1%* | 1.8 | 2.4 | 3.1 | 1.8 | 0.2 | 1.9 | 1.5 | 1.3 | 0.4 | -0.1 | 0.4 |
| **Core inflation indicators:** | | | | | | | | | | | | |
| **HICP excl. energy** | *88.6%* | 1.1 | 1.4 | 1.8 | 1.3 | 0.2 | 1.3 | 1.0 | 0.8 | 0.0 | 0.4 | 0.7 |
| **HICP excl. energy and unprocessed food** | *84.3%* | 0.9 | 1.1 | 1.8 | 1.0 | 0.3 | 0.9 | 0.7 | 0.7 | 0.0 | 0.6 | 0.9 |
| **HICP excl. energy, food, alcohol and tobacco** | *65.4%* | 0.7 | 1.0 | 1.9 | 0.8 | 0.1 | 0.6 | 0.6 | 0.3 | -0.2 | 0.4 | 0.8 |
| **Other price indicators:** | | | | | | | | | | | | |
| **Industrial producer prices on domestic market** | | 1.3 | 1.9 | 1.9 | 0.7 | 3.0 | 0.3 | 0.3 | 0.9 | 1.9 | 4.2 | ... |
| **GDP deflator** | | 1.5 | 2.1 | 2.2 | 1.2 | 1.9 | 1.6 | -0.2 | 1.1 | 1.3 | 2.3 | ... |
| **Import prices*** | | 3.2 | 2.6 | -0.6 | -2.3 | 3.7 | -2.4 | -2.0 | -2.7 | 1.5 | 5.8 | ... |

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

[2] The impact of the change in HICP weights on measured inflation is examined in detail in the Section 8.1 of the April issue of Economic and Financial Developments, and in Box 3 of the June issue of the Macroeconomic Projections for Slovenia.

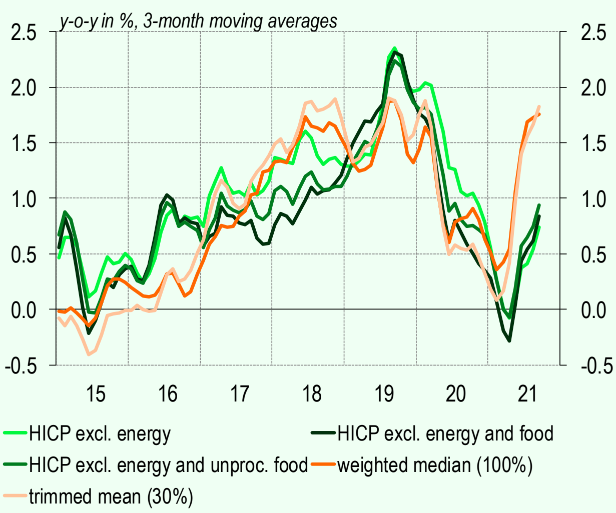
demand. Core inflation thus averaged 0.8% over the third quarter, and reached 1.2% in September.[3] The more modest growth compared with the pre-crisis period is a consequence of the changes to HICP weights. Without the negative impact of updated weights, it would have begun rising in April, and would have reached 1.8% in September (see Figure 6.4). Further evidence of the pronounced rise in inflation comes from the core inflation indicators that eliminate components with extreme price changes from the HICP each month. The trimmed mean, which excludes 30% of such goods and services according to the weighted data, and the median had both reached their pre-crisis levels by September (see Figure 6.6).

**Figure 6.5: Contributions to narrowest indicator of core inflation**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

**Figure 6.6: Measures of core inflation**




*Source: SORS, Eurostat, Banka Slovenije calculations.*

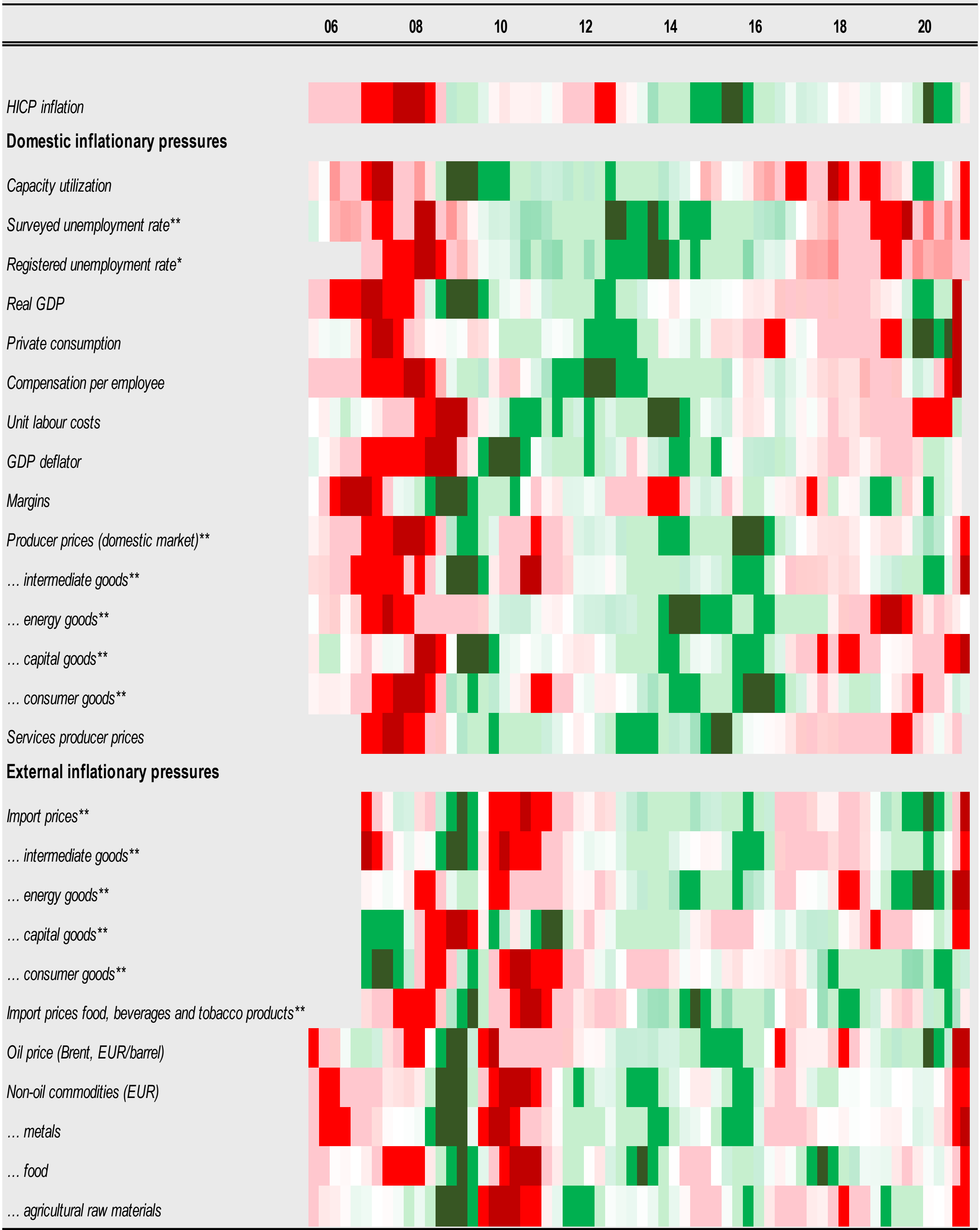
## Drivers of inflation

**The rises in prices on global commodity markets are being reflected strongly in import prices, which have also been driven upwards by the euro's recent depreciation against the US dollar.** Global oil prices have been rising continually since last year's epidemic-induced fall. A barrel of Brent crude cost USD 74.5 or EUR 63.3 in September, the latter up almost 82% in year-on-year terms, and the price passed the EUR 70 mark in October. Other energy prices have also risen sharply in recent months. Prices of natural gas have risen markedly, while electricity prices have also undergone a sustained rise on the wholesale markets in the wake of rises in the prices of natural gas and emissions allowances. Non-energy commodity prices were up 29.1% in year-on-year terms in September and have reached record highs in recent months, having begun to rise in the second half of last year amid shortages and disruptions to supply. The largest rises were recorded by metals, prices of which have stalled in recent months, while prices of food commodities are continuing to rise. The pressures on commodities markets, which are reflected in higher input costs and transport costs, are also being passed through into import prices. In the wake of the recent depreciation in the euro, these were up 14.2% in year-on-year terms in August, as a result of rises in energy prices (66.3%) and commodity prices (21.5%), while growth in import prices of capital goods is now increasing too. Despite strengthening, growth in import prices of consumer goods currently remains relatively weak at 1.7%.

**The opening up of the economy has sharply strengthened domestic inflationary pressures this year.** The relaxation of containment measures was reflected in the second quarter in a rapid recovery in private consumption, while capacity utilisation has returned to its pre-crisis level amid the rise in demand. In addition to the savings accrued during the epidemic, the rise in domestic demand has also been facilitated by the improvement in the

[3] Similar rises over the summer were recorded by core inflation excluding energy and core inflation excluding energy and unprocessed food, which averaged 0.7% and 0.9% respectively over the third quarter.

**Table 6.2: Inflationary pressures**




*Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilisation and the unemployment rate, which are expressed in percentages. The data has been standardised. The colour scale denotes the direction and size of the deviation in an individual time series from its long-term average (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed for the unemployment rate.*
*The figure for the third quarter of 2021 encompasses the latest data (*July; **August).*
*Source: Bloomberg, ECB, Eurostat, SORS, Employment Office, Banka Slovenije calculations.*

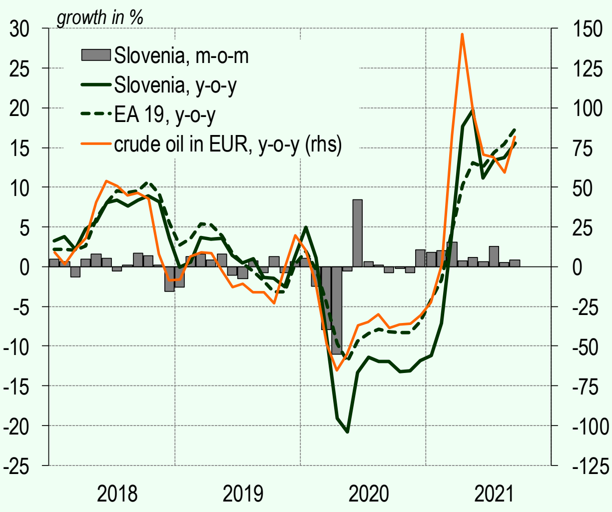
situation on the labour market. The registered unemployment rate fell to 7.3% in July, down on two years earlier, while the workforce in employment has already surpassed its peak from 2019. The problem of a shortage of (skilled) labour is becoming more pressing, and is contributing to a rise in wage pressures. The average gross wage in July was up 7.1% in year-on-year terms, and the higher wage growth could in the future be reflected in services prices in particular. On the producer side, prices of industrial goods for sale on the domestic market rose in the wake of the rise in input costs. Rises in commodity prices meant that the year-on-year rate of growth had reached fully 8.2% by August. Similarly to import prices, growth in prices of capital goods is also strengthening at present amid rising commodity prices, problems in supply chains, and strong demand.

## Price developments by subcategory

**Energy prices are continuing to rise, amid the ongoing rise in oil prices.** They were up 15.5% in year-on-year terms in September, still driven primarily by the base effect in connection with last year's fall in prices of motor fuels, and the ongoing rise in oil prices on global markets (see Figure 6.7). Refined petroleum products have driven a consistent rise in energy prices at the monthly level since December of last year, and heat energy has also risen in price this year. April's rise in the latter was followed by another price rise in September, as a result of higher prices of input materials (coal, natural gas) and emissions allowances. Prices of allowances have risen sharply over the last year, from around EUR 23 per metric tonne to more than EUR 60, while the price of natural gas has also risen by more than 500% over the course of one year as inventories have been run down.[4] Wholesale electricity prices are also rising extremely fast, driven by prices of emissions allowances and natural gas. If the growth in energy prices on the European markets does not let up, the coming months could see rises in energy prices for households. Energy price inflation already averaged 17.4% in the euro area in September, and certain euro area countries are now taking measures to alleviate the burden of high prices on households and businesses amid the worsening situation on the energy market.

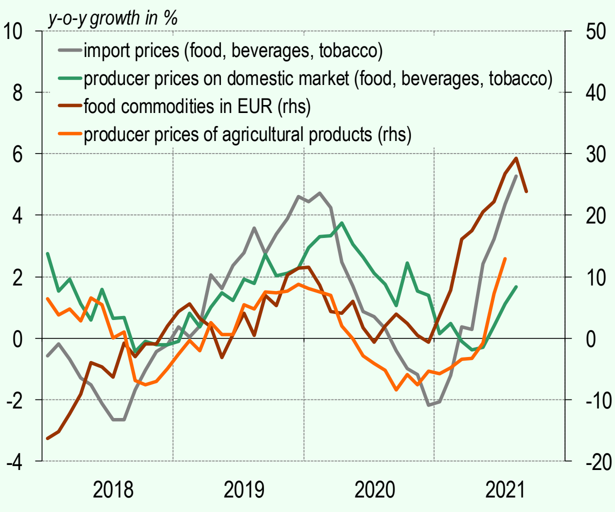
**Year-on-year food price inflation rose in September, and can be expected to pick up further pace in November as a result of a rise in excise duties on tobacco products.** After a period of low growth this year, when food price inflation was reduced by the negative base effects related to last year's price rises during the epidemic, it rose again in September to reach 0.9%. The modest rise is most likely a reflection of rising global prices of food commodities, import food prices and producer prices of food for the domestic market (see Figure 6.8).

**Figure 6.7: Energy prices**




*Source: Eurostat, ECB, Banka Slovenije calculations.*

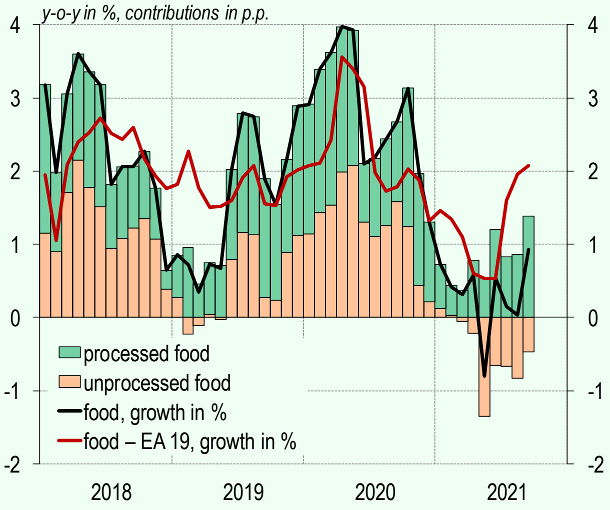
**Figure 6.8: Food prices and prices of food commodities**




*Source: ECB, SORS, Banka Slovenije calculations.*

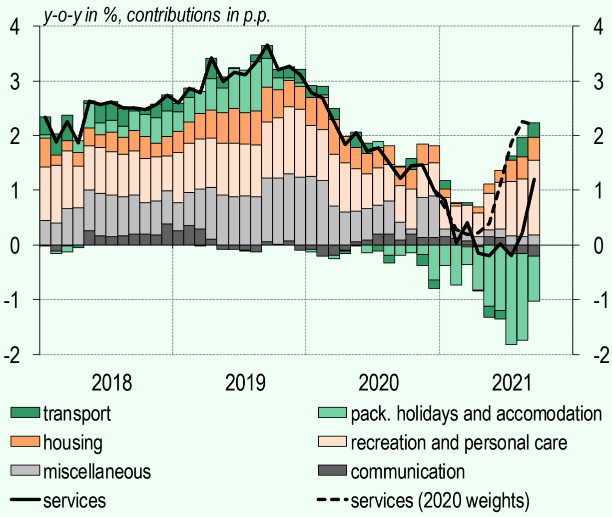
[4] The price of natural gas is expressed as the natural gas futures price for supply in the following month on the Dutch TTF exchange.

**Figure 6.9: Contributions to growth in food prices**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

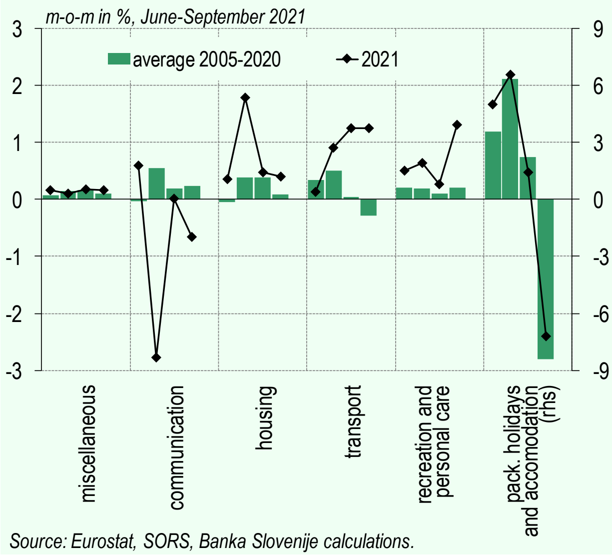
**Figure 6.10: Contributions to services inflation**




*Source: ECB, SORS, Eurostat, Banka Slovenije calculations.*

The rise was driven primarily by prices of processed food, growth in which strengthened in the third quarter to stand at 1.7% in September (see Figure 6.9). Prices of unprocessed food remain down in year-on-year terms, as a result of fresh fruit prices. Amid the price pressures in connection with prices of food commodities, food price inflation can be expected to rise this year (and next year), thanks in part to the two-stage rise in excise duties on tobacco products in November (and April).[5] Food price inflation in the euro area overall has outpaced food price inflation in Slovenia in recent months as a result of higher growth in prices of unprocessed food. It stood at 2% in September.

**Figure 6.11: Monthly growth in services prices**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

**The rises in services prices over the summer, which were made possible by the rapid recovery in private consumption, were attributable to the opening up of the economy and the need to compensate for last year's losses.** Growth in prices of individual services has been rising consistently since June (see Figure 6.10). Above-average monthly price rises were recorded over the summer in the categories of housing, transport, recreation and personal care, and package holidays and accommodation (see Figure 6.11).[6] The last two categories mainly encompass accommodation and food service activities, which were hit hardest by the epidemic. The price rises can therefore be attributed to an attempt to compensate for the losses made last year, and to rising labour costs amid labour shortages. In addition to the rapid recovery in consumption, the rise in prices of accommodation services was also made possible by the issuance of tourist vouchers. Despite faster growth in prices of indi-

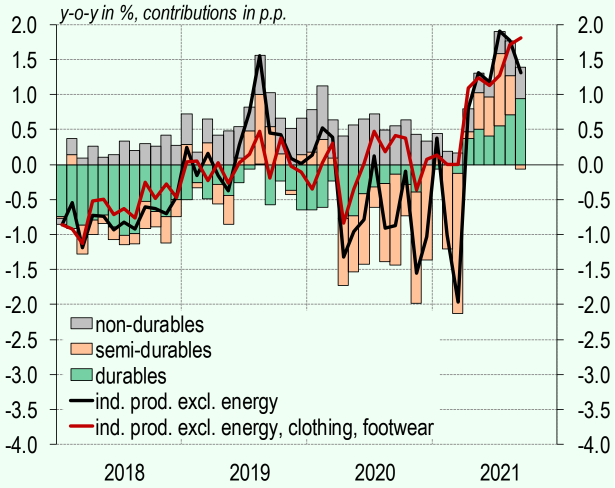
[5] Excise duties on tobacco and tobacco products were last raised in October of last year, and accounted for 1.0 percentage points of the year-on-year growth in prices of processed food by September of this year. While this increase will drop out of the calculation of year-on-year growth in October, which will be reflected in slightly lower growth in prices of processed food, the rise in excise duties in November will increase it again. The Ministry of Finance is expecting that retail prices of cigarettes will rise by approximately 4.6% on average as a result of the two-stage rise in excise duties on tobacco products, first on 1 November 2021 and then on 1 April 2022. Our forecast is that the rise in prices will raise growth in prices of processed food by around 0.4 percentage points between November and March, before the rise in April increases the contribution to 0.8 percentage points.

[6] The higher growth in prices of housing-related services comes from an increase in rents.

vidual services, the change in weights meant that aggregate year-on-year services inflation remained weak over the first eight months of the year, and only increased in September as the effect waned, when it reached 1.2%. Had the weights remained unchanged, service price inflation would have been 1 percentage point higher. Services inflation in the euro area overall rose similarly, reaching 1.7% in September, and was higher than in Slovenia primarily on account of a base effect in connection with last year's temporary cut in VAT in Germany, and a smaller impact from the change in HICP weights.

**The higher costs related to rises in prices of commodities, semi-finished products and transport and the lengthening of delivery times are being reflected in a rise in prices of non-energy industrial goods.** After mostly falling since 2009, they have been recording year-on-year growth of around 1.5% since May following the relaxation of containment measures amid domestic and foreign price pressures (see Figure 6.12). Durables are an increasing factor in this growth (particularly furniture and cars), prices of which were up fully 2.6% in year-on-year terms in September, the highest figure since 2004. Growth in prices of non-durables is also strengthening (and stands at 1.5%), while growth in prices of semi-durables, which is driven largely by prices of clothing and footwear, remains extremely volatile. Prices of clothing were down in year-on-year terms in September: the monthly price rises during the change in seasonal collections were smaller than usual, which might be attributable to the renewed tightening of containment measures amid the deterioration in the epidemiological picture.

**Figure 6.12: Contributions to growth in prices of non-energy industrial goods**




*Source: Eurostat, SORS, Banka Slovenije calculations.*

# 7 Public Finances

*While measures in connection with the epidemic continued to have a significant impact, the general government deficit in the first half of this year narrowed in year-on-year terms, having halved in the second quarter. General government revenues grew even more strongly in the second quarter than in the first quarter, thanks to a base effect and the rapid rebound in economic activity, while growth in general government expenditure slowed considerably. Last year's general government deficit has also been revised down to 7.7% of GDP. Various anti-coronavirus measures remain in place in the second half of this year, but the largest measures in financial terms expired in June.*

*The general government debt stood at 80.0% of GDP at the end of June 2021. Net debt repayments meant that this figure was down on the first quarter, and the Ministry of Finance is forecasting it to reach 78.5% of GDP by the end of the year. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates.*

*In recent months fiscal policy has increasingly focused on economic recovery measures, and on the best possible utilisation of EU funding from the NextGenerationEU temporary instrument and the 2014-2020 EU financial framework. Irrespective of the epidemic, the key is ensuring that there is no structural deterioration in the fiscal position, government debt having increased sharply during the crisis. The escape clause allowing deviations from the fiscal rules is expected to remain in force this year and next year, both domestically and at the European level.*

## General government balance

**The general government deficit in the second quarter halved in year-on-year terms, as a result of the improving economic situation and the smaller scale of epidemic-related measures.**[1] It amounted to EUR 757 million or 5.8% of GDP. General government revenues increased sharply, while growth in expenditure was low. The figures released in September also brought an upward revision to the general government balance in 2020, primarily as a result of a revision to corporate income tax, although there was also an upward revision in employee compensation. Certain other items of revenues and expenditure were also revised. According to the new estimate, last year's deficit was 0.7 percentage points smaller at 7.7% of GDP.

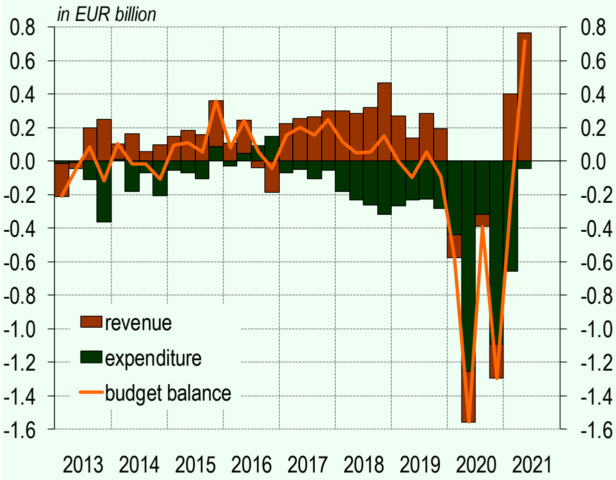
**Similarly to the first quarter, in the second quarter general government revenues more than made up for last year's decline, which was attributable in part to a**

[1] See Figure 3 in Box 7.1. Expenditure in connection with the epidemic peaked in June of last year in cashflow terms.

**sharp increase in private consumption and the buoyant labour market.** General government revenues recorded an even larger increase in the second quarter than in the first quarter: they were up EUR 764 million or 15.3% in year-on-year terms. The growth was attributable to a base effect and the broad nature of economic growth, as performance in the wider service sector improved in the second quarter. In the wake of the limited opportunities to spend last year and in the early part of this year, private consumption strengthened, and with it taxes on consumption and imports, which were up almost a quarter in the second quarter. Another major factor on the revenue side was developments in wages and employment: net social security contributions were up 13.3%, while growth in personal income tax revenues was also high. This year has also seen a slight increase in corporate income tax, which was revised sharply upwards under the revision of the figures for 2020.[2] Non-tax revenues have also risen.

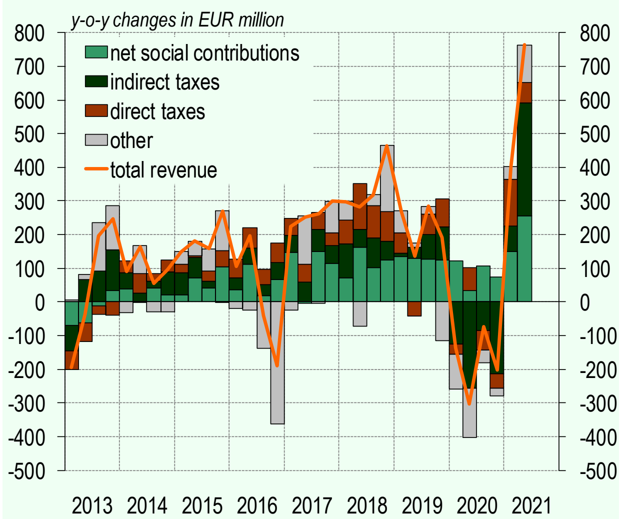
**Year-on-year growth in general government expenditure was low in the second quarter, despite the large expenditure on measures to alleviate the impact of the epidemic.** It was up EUR 45 million or 0.7% in year-on-year terms. It is estimated that the epidemic had the largest impact on general government expenditure in the second quarter of last year, but the scale of the expenditure was again significant in the second quarter of this year. With an epidemic officially declared, there were large payments of bonuses in connection with the epidemic for public sector employees in the second quarter of this year, as there had been in the second quarter of last year. The figures suggest that this year's payments were even larger than last year. Employee compensation in the second quarter was up 17.4%, compared with an increase of just over a tenth in the same quarter of last year. The workforce in employment in the government sector is continuing to rise, primarily as a result of demand in human health and social work activities, and in the second quarter was up 1.9% in year-on-year terms.

**Figure 7.1: Contribution of government revenue and expenditure to y-o-y changes in general government budget balance**



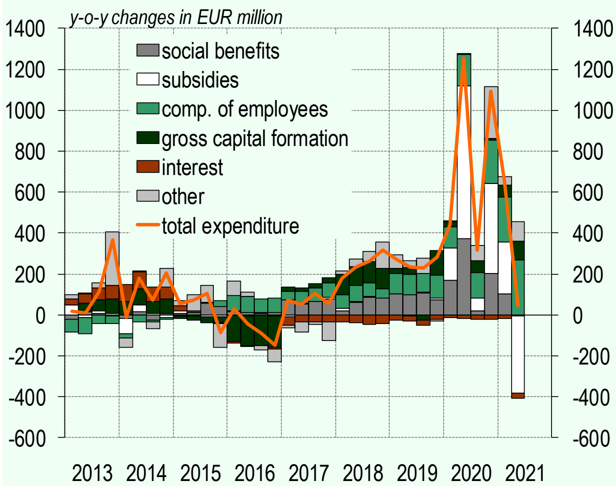

*Note: Budget balance and expenditure do not include bank recapitalisations.*
*Source: SORS, Banka Slovenije calculations.*

**Figure 7.2: General government revenue**




*Source: SORS, Banka Slovenije calculations.*

**Figure 7.3: General government expenditure excluding support to financial institutions**




*Source: SORS, Banka Slovenije calculations.*

[2] The revision was attributable to the final settlements of corporate income tax for 2020, which were not available when the initial estimates for 2020 were published in April.

Having increased sharply last year, subsidies in the second quarter were down EUR 374 million in year-on-year terms, but nevertheless remained above their normal magnitude because of the measures in place.[3] Social transfers were down slightly on the second quarter of last year, having increased sharply at that time. Year-on-year growth in government investment in the second quarter strengthened further relative to the first quarter, and stood at more than a fifth, still significantly less than forecast by the government plans for 2021. Interest expenditure is declining, and amounted to 1.4% of GDP over the 12 months to June, less than half of the peak figure in 2014 and 2015 (3.2% of GDP).

## General government debt and government guarantees

**The general government debt in the second quarter remained above its level from the end of last year.** The movements in debt over the course of the year depend on the date of borrowing and the maturing of liabilities. A major repayment in April in the amount of EUR 925 million meant that at the end of the second quarter the debt was down slightly on the first quarter at EUR 39.4 billion or 80.0% of GDP, but was up around EUR 2 billion on the end of last year in nominal terms. A bond with a total nominal value of EUR 1 billion was issued in July of this year. There was consequently net issuance of government bonds and treasury bills in the third quarter. Bond buybacks were also undertaken, thereby reducing interest payments on the portion of debt bought back. The borrowing terms were favourable: the required yield on 10-year bonds was close to zero, while treasury bills continued to be issued at negative interest rates.

**The process of reducing guarantees is continuing, for the eighth consecutive year now.** Government guarantees had declined to EUR 4.9 billion or 10.0% of GDP by the end of the second quarter, significantly less than at the end of the economic and financial crisis, when the figure at the end of 2013 stood at approximately EUR 8 billion or almost 23.0% of GDP. During this time the largest reduction, in the amount of around EUR 2.4 billion, has been in ordinary guarantees, which date back to the time before the economic crisis (mainly for the purpose of motorway construction, insurance for international trade, and liabilities related to denationalization). Since 2013 there has also been significant decline of around EUR 900 million in guarantees dating from the time of the financial crisis. Guarantees for the purpose of

**Table 7.1: General government deficit and debt in Slovenia, 2016-2022**

| | SORS | | | | | | Draft Budgetary Plan | | European Commission | |
|---|---|---|---|---|---|---|---|---|---|---|
| % GDP | **2016** | **2017** | **2018** | **2019** | **2020** | **2021H1** | **2021** | **2022** | **2021** | **2022** |
| **Revenue** | 44.2 | 44.0 | 44.2 | 43.8 | 43.6 | 44.2 | 43.7 | 43.5 | 43.0 | 43.0 |
| **Expenditure** | 46.2 | 44.1 | 43.5 | 43.3 | 51.3 | 51.0 | 51.2 | 48.9 | 51.5 | 47.7 |
| **of which: interest** | 3.0 | 2.5 | 2.0 | 1.7 | 1.6 | 1.3 | 1.4 | 1.3 | 1.5 | 1.3 |
| **Net lending (+) / borrowing (-)** | -1.9 | -0.1 | 0.7 | 0.4 | -7.7 | -6.8 | -7.5 | -5.4 | -8.5 | -4.7 |
| **Primary balance** | 1.1 | 2.5 | 2.8 | 2.1 | -6.1 | -5.4 | -6.1 | -4.1 | -7.0 | -3.4 |
| **Structural balance** | … | … | … | … | … | … | … | … | -7.7 | -4.7 |
| **Debt*** | 78.5 | 74.2 | 70.3 | 65.6 | 79.8 | 80.0 | 78.5 | 77.5 | 79.0 | 76.7 |
| **Real GDP (growth, %)** | 3.2 | 4.8 | 4.4 | 3.3 | -4.2 | 8.8 | 6.1 | 4.7 | 4.9 | 5.1 |

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

[3] Subsidies largely comprise measures related to the labour market: the furlough scheme, the short-time work scheme, and monthly basic income. Payments of social security contributions for those still in work were also included under subsidies during the first wave last year (the measure was available between 13 March and the end of May last year, and payments totalling around EUR 435 million were made). The measure has not been available this year. The furlough scheme and the monthly basic income were available until the end of June 2021, while the short-time work scheme was in place until the end of September 2021.

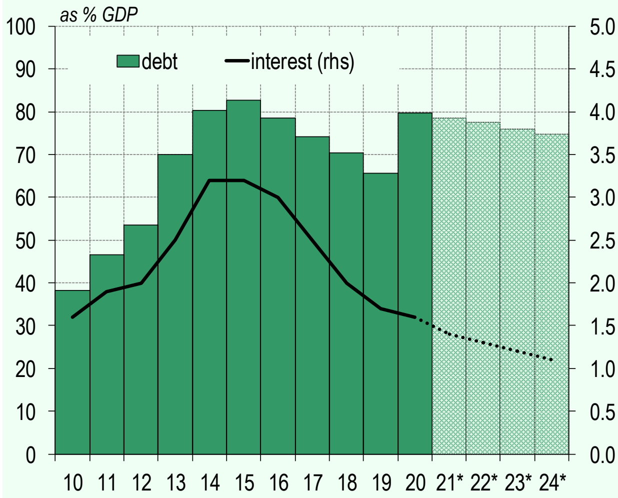
addressing issues in connection with the epidemic are relatively low, and accounted for around 4% of total guarantees at the end of the second quarter of this year.

## Planned developments in general government balance and debt

**The forecast is for the general government deficit to remain large this year, despite the reduced scale of the measures in connection with the epidemic and the higher economic growth.** According to the draft budget plans, this year's general government deficit is forecast at 7.5% of GDP. This is 1.1 GDP percentage points less than the April forecast in the Stability Programme, of which 0.7 GDP percentage points is attributable to more favourable realisation in 2020, while the macroeconomic developments are also in better than predicted in spring. The measures to alleviate the impact of the epidemic are still having a major impact on the deficit this year.[4]

**The narrowing of the general government deficit over the following years will be driven by the withdrawal of the measures to alleviate the impact of the epidemic and the strengthening of the economy.** The deficit is forecast to narrow to 5.4% of GDP next year, and should once again be less than 3% of GDP in 2024 according to the draft budget plan. The budget plans for this year and the next years assume very high government investment, shifting the focus of the measures to promoting economic growth. Slovenia's recovery and resilience plan, which forms the basis for utilising funding under the NextGenerationEU instrument, was approved in July, and Slovenia has already received its first funding from pre-financing (see Box 7.2). Another long-standing factor in deficit reduction is the accommodative monetary policy, which has facilitated the reduction of interest payments. While reducing their excessive deficits and debt, countries will in the future have to provide funding to help meet the EU's

**Figure 7.4: General government debt and interest payments**




*Note: *Projections from Draft Budgetary Plan 2022.*
*Source: SORS, Ministry of Finance, Banka Slovenije calculations.*

climate and digital targets, to finance social security systems and to promote other structural reforms.[5] While the epidemic means that government support is vital at the moment, the key remains that the structural fiscal position is not deteriorating, and the measures in connection with the epidemic are merely temporary. Deficit reduction will also depend on the reactivation of fiscal rules in the EU and the approach to their implementation. Deviations from the fiscal rules are expected to remain in force this year and next year, but then no longer.

**The ratio of debt to GDP is expected to gradually decline this year and next year.** According to the draft budget plan for 2022, which the government submitted to the European Commission in mid-October, the debt is expected to gradually decline to 78.5% of GDP this year and 77.5% of GDP next year. The decline is primarily attributable to the anticipated improvement in the economic situation, although the plan is also to utilise some of the government's accumulated financial assets, the government having borrowed more than was needed to finance the deficits alone during the epidemic on precautionary grounds. When the fiscal rules are reactivated, Slovenia will also be committed to debt reduction, as it will exceed the reference value of 60% of GDP.

[4] According to Ministry of Finance forecasts, the measures in connection with the epidemic are estimated at EUR 2.1 billion or 4.1% of GDP this year, almost EUR 800 million or 1.5 GDP percentage points more than forecast in April in the Stability Programme (the measures amounted to EUR 2.5 billion or 5.4% of GDP last year). The measures are forecast at EUR 243 million or 0.5% of GDP in 2022. The Ministry of Finance states that on the revenue side around EUR 380 million of taxes was unsettled or deferred in 2020, and is forecasting an opposite effect of around EUR 290 million this year.

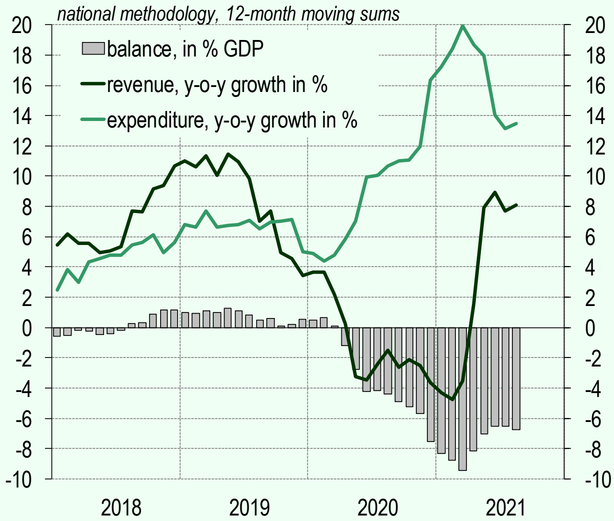
[5] Experience suggests that investment is one of the first items to be cut in the event of a need to consolidate.

## Box 7.1: Public finance developments according to the cashflow methodology

**The consolidated general government deficit over the first eight months of the year amounted to EUR 2.1 billion, down slightly in year-on-year terms, while the epidemic remained a major factor.** In July and August the balance was no longer improving in year-on-year terms, as had been the case in the second quarter. Both revenues and expenditure increased in year-on-year terms over the first eight months of the year, the latter in part because of measures in connection with the epidemic. The state budget was in deficit, in the amount of EUR 2.4 billion over the first eight months of the year. It widened slightly further in September, according to the daily figures.[1] The HII recorded a surplus of EUR 206 million over the first eight months of the year, largely as a result of funding received from the state budget for the settlement of services from the previous year and for coverage of expenditures in connection with the epidemic. Local government also recorded a surplus, in the amount of EUR 131 million.

**Consolidated general government revenues over the first eight months of the year were up 14.5% in year-on-year terms, mostly as a result of the low base caused by last year's anti-coronavirus measures, one-off revenues and the economic recovery.** Revenues were up EUR 1,200 million. All of the key categories of taxes increased: the largest increases were in VAT revenues (by around EUR 400 million) and corporate income tax revenues on account of a base

**Figure 1: Public finance developments**



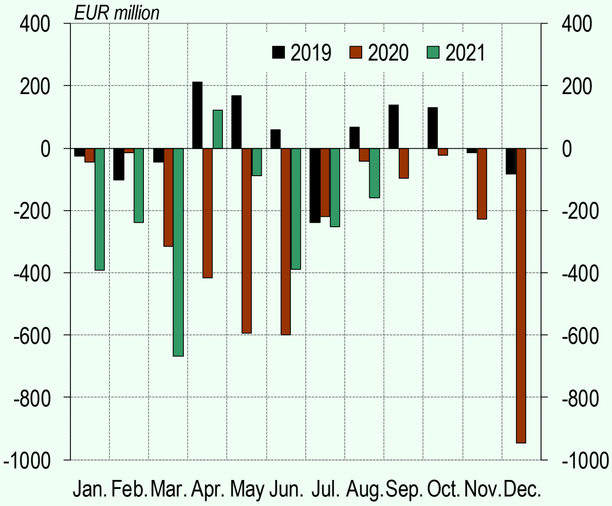

*Source: SORS, Ministry of Finance, Banka Slovenije calculations.*

**Table 1: Consolidated balance sheet* of public finance**

| | 2020 | last 12 months to Aug.21 | | | 2020 Jan.-Aug. | 2021 Jan.-Aug. | Jan.-Aug.21 |
|---|---|---|---|---|---|---|---|
| | EUR million | | % GDP | y-o-y, % | EUR million | | y-o-y, % |
| **Revenue** | **18,529** | **20,273** | **40.7** | **8.1** | **12,006** | **13,751** | **14.5** |
| Tax revenue | 16,460 | 17,964 | 36.0 | 8.0 | 10,681 | 12,185 | 14.1 |
| - goods and services | 5,493 | 5,950 | 11.9 | 5.1 | 3,539 | 3,996 | 12.9 |
| - social security contributions | 7,290 | 7,771 | 15.6 | 8.5 | 4,753 | 5,233 | 10.1 |
| - personal income | 2,487 | 2,766 | 5.5 | 9.4 | 1,549 | 1,828 | 18.0 |
| - corporate income | 773 | 1,078 | 2.2 | 39.0 | 482 | 787 | 63.2 |
| From EU budget | 730 | 784 | 1.6 | 7.8 | 403 | 456 | 13.2 |
| Other | 1,338 | 1,525 | 3.1 | 9.3 | 923 | 1,110 | 20.3 |
| **Expenditure** | **22,071** | **23,640** | **47.4** | **13.5** | **14,252** | **15,822** | **11.0** |
| Current expenditure | 9,128 | 10,037 | 20.1 | 16.4 | 5,870 | 6,779 | 15.5 |
| - wages and other personnel expenditure (incl. contributions) | 4,965 | 5,648 | 11.3 | 16.7 | 3,361 | 4,044 | 20.3 |
| - purchases of goods, services | 3,021 | 3,258 | 6.5 | 16.7 | 1,787 | 2,024 | 13.3 |
| - interest | 778 | 731 | 1.5 | -5.2 | 610 | 564 | -7.6 |
| Current transfers | 10,868 | 11,294 | 22.7 | 10.3 | 7,345 | 7,771 | 5.8 |
| - transfers to individuals and households | 8,251 | 9,054 | 18.2 | 14.4 | 5,518 | 6,321 | 14.6 |
| Capital expenditure, transfers | 1,549 | 1,730 | 3.5 | 14.1 | 699 | 881 | 25.9 |
| To EU budget | 526 | 579 | 1.2 | 25.3 | 338 | 391 | 15.6 |
| **Surplus (+) / Deficit (-)** | **-3,542** | **-3,367** | **-6.8** | | **-2,246** | **-2,071** | |

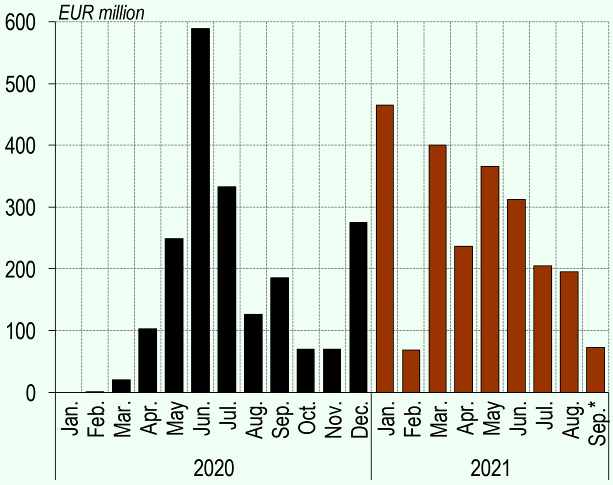
*Note: *Consolidated accounts of the state budget, local government budgets, pension and health fund on cash accounting principle.*
*Source: Ministry of Finance, Banka Slovenije calculations.*

**Figure 2: Budget balance of consolidated public finance budgetary accounts**




*Source: Ministry of Finance.*

**Figure 3: State budget expenditure for mitigating the consequences of Covid-19 epidemic**




*Note: Includes also the budgetary reserves. *Fiscal Council.*
*Source: Ministry of Finance, Fiscal Council, Banka Slovenije calculations.*

effect (as a result of taxes that were not levied or paid last year), but there were also settlements of corporate income tax and personal income tax (each of around EUR 300 million). Taxes were even up on 2019, with the exception of excise duty revenues, and also taxes on motor vehicle transport, as a result of a change in the taxation approach. Another significant factor in May's revenues was the payment of the concession fee for frequencies awarded for public telecommunications services to end users (EUR 164 million).

**Consolidated general government expenditure over the first eight months of the year was up 11.0% in year-on-year terms.** Expenditure increased by EUR 1,358 million. The developments in individual categories of expenditure were heavily impacted by the measures in connection with the epidemic. The largest increases were in transfers to individuals and households, and expenditure on employee compensation, which accounted for the majority of this year's expenditure in connection with the epidemic. The main decline relative to last year was in expenditure on subsidies, as the scale of the subsidy measures in connection with the epidemic was smaller this year than last year. Investment expenditure has been increasing significantly since the summer. Interest payments have declined.

[1] The state budget recorded a deficit of around EUR 40 million in September of this year according to provisional daily figures, compared with a deficit of EUR 125 million in September of last year.

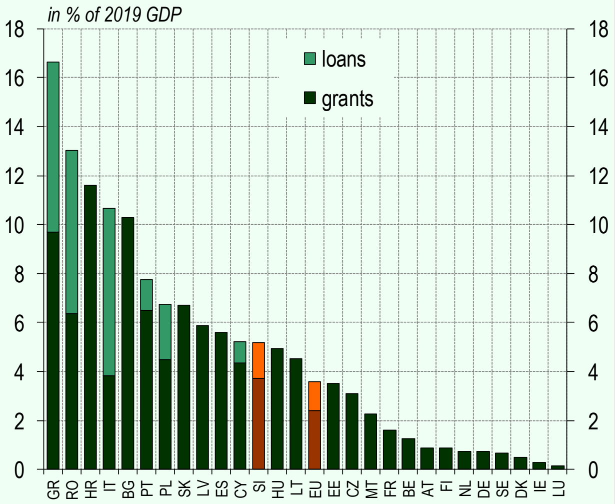
## Box 7.2: Recovery and resilience plans of EU Member States

**In addition to the funds under the 2021-2027 multiannual financial framework, to support the economic recovery in their emergence from the pandemic EU Member States also have at their disposal extensive funding from the NextGenerationEU (NGEU) temporary instrument, which is available until the end of 2026.** This funding is supposed to help speed up the EU's transformation into a more environmentally sustainable and digitally advanced economy. A total of EUR 807 billion is earmarked for the NGEU, comprising EUR 421 billion in grants and EUR 386 billion in loans.[1] The majority, around 90% of the NGEU, consists of the Recovery and Resilience Facility. EU Member States were required to submit national recovery and resilience plans to obtain this funding. They have mostly been submitted to the European Commission, which had approved 22 national plans by the first week of October, the majority of which have also been approved by the European Council. The first payments to countries (i.e. pre-financing), which were allowed after double approval, were made in August. Slovenia's recovery and resilience plan received both approvals in July, and Slovenia received its first funding in September.

**The countries that submitted their recovery and resilience plans to the European Commission mostly applied for the largest possible grants, while only seven countries applied for loans, among them Slovenia** (see Figure 1).[2] Additional loans may be applied for until August 2023. Figure 1 illustrates the grants and loans for which different countries applied in their national plans. For the Netherlands and Bulgaria, who have not yet submitted their plans to the European Commission (the final deadline is mid-2022), the figure assumes that they will apply solely for grants, and will not opt to (also) utilise loans.

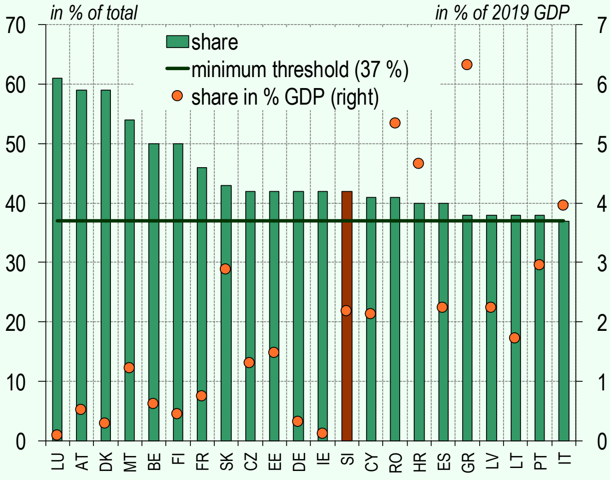
**The national plans need to meet multiple criteria, mostly qualitative, for a positive assessment from the European Commission.** The European Commission assesses whether the projects have a long-term impact, whether they comply with the country-specific recommendations under the European Semester, and whether the milestones and targets are clear and realistic. Projects may not be harmful to the environment, and at the same time adequate procedures for overseeing the implementation of the projects must be put in place. The criteria relating to the environmental and digital objectives are determined numerically. Thus at least 37% of

**Figure 1: Grants and loans in national recovery and resilience plans by EU countries**



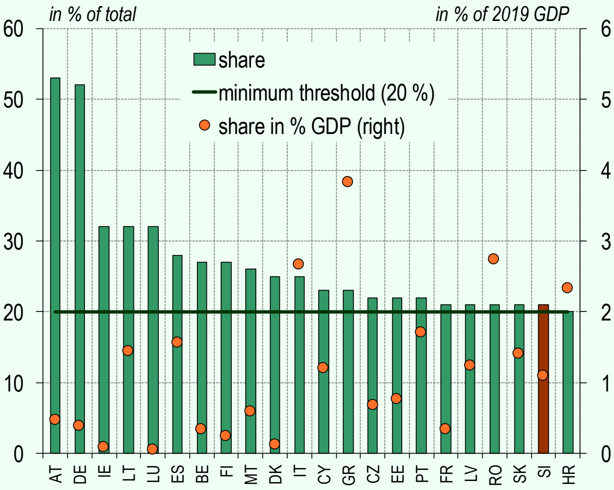

*Source: European Commission, Eurostat, Banka Slovenije clculations.*

**Figure 2: Recovery and resilience funds for green goals***




*Note: *BG, HU, NL, PL and SE data not available.*
*Source: European Commission, Eurostat, Banka Slovenije calculations.*

**Figure 3: Recovery and resilience funds for digital goals***




*Note: *BG, HU, NL, PL and SE data not available.*
*Source: European Commission, Eurostat, Banka Slovenije calculations.*

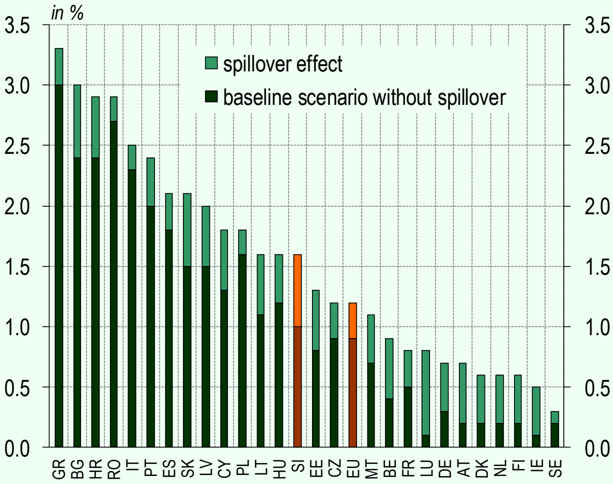
the funding under the national plan needs to be earmarked for green objectives, and at least 20% for digitalisation. The share of green and digital projects in the national plans assessed to date by the European Commission is illustrated in Figures 2 and 3.

**The share of funding for green objectives under the approved plans amounts to 40%, or 1.5% of 2019 GDP on average, while the share for digital objectives amounts to 26%, or 1.0% of 2019 GDP.**[3] Slovenia is earmarking a similar share of funding for green objectives (42%), but a smaller share for digital objectives (21%). The funding earmarked for green objectives by Slovenia as a ratio to GDP is higher than the average of the Member States for which the figures are available, while the gap between its funding for digital objectives and the average is less pronounced.[4] The meeting of the objectives might change during the implementation of programmes by 2026, as the national plans will continue to be adjusted to the capacity to carry out the projects and to other circumstances.

**NGEU funding will have a positive impact on economic growth and the potential of the economy.** Under the assumption that the funding is earmarked for investment, the impact of the NGEU on GDP will vary across different countries, and will largely depend on the amount of funding that each country receives. The NGEU investments will support convergence between EU Member States, as the less-wealthy countries will receive more funding.[5] Furthermore, for more open economies, particularly if they are entitled to relatively little NGEU funding, a significant benefit will come from trade integration, as the projects in the EU are being implemented at the same time (i.e. a spillover effect between countries). In the countries that are not part of the single currency, national monetary policy will also have an impact on the exchange rate: should the value of domestic currency rise, the positive spillover effect on economic growth will decrease (Pfeiffer, Varga and in ’t Veld, 2021). The key is that it NGEU is funding additional investment that would not otherwise get executed, and not merely a change in the source of financing.

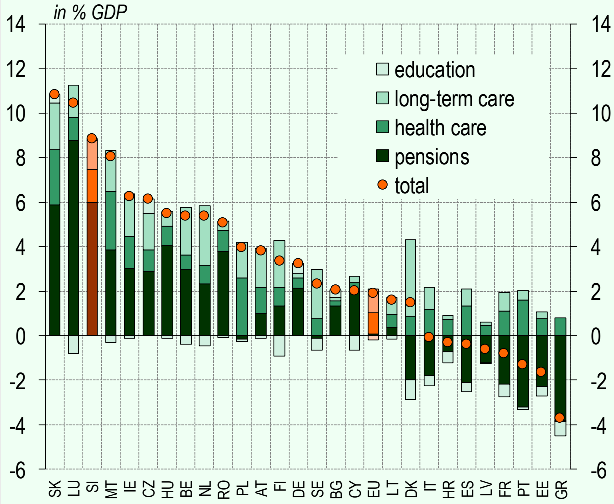
**Pfeiffer, Varga and in ’t Veld estimate the size of total investment that will be undertaken at EU level by 2026 in the amount of 4% of GDP in 2019, based on the loan applications made by each county by June and under the assumption of the full utilisation of grants.** Under the baseline scenario, NGEU investments should raise real GDP level by 1.2% by 2026, when the funding ends.[6] The total impact of the investment in Slovenia, including the spillover effect, is slightly higher than the EU average, although its

**Figure 4: Real GDP level in 2026 compared to GDP level without NGEU investment by EU countries**




Source: Pfeiffer, Varga, in't Veld (2021).

**Figure 5: Ageing cost change between 2019 and 2070 by EU countries**




Source: European Commission.

projected NGEU funding is also higher than average. Figure 4 illustrates the estimated impact of NGEU investment on GDP by country six years after the initial funding, including the spillover effect. The authors emphasise that the model does not take account of all circumstances of the NGEU programme that affect GDP. Most notably it does not estimate the effect of the simultaneous execution of structural reforms, which are conditioned by funding under the NGEU and can further enhance the impact on economic growth.[7] The European Commission estimates made when the national plans were approved are very similar.[8]

**Slovenia’s recovery and resilience plan envisages the implementation of pension and health reforms and reforms to long-term social care, which are vital given the projected demographic developments.** Expenditure in connection with the ageing population is forecast to increase significantly more in Slovenia by 2070 than in the EU overall, by 8.9% of GDP, most evidently on pensions (see Figure 5).[9] Reform is therefore the key to long-term fiscal sustainability. Currently the greatest progress is being made in setting up long-term social care, which Slovenia does not yet have. In June the government approved a legislation proposal on long-term social care, and submitted it to parliament.

**The EU will borrow on the financial markets to fund the NGEU; the first borrowing was undertaken in June of this year.** The borrowing will amount to around EUR 800 billion by 2026, which entails around EUR 150 billion each year, and will consist of funding of various maturities, from less than one year to 30-year financial instruments. The funds will be repaid by 2058. This year's borrowing has mostly been earmarked for the agreed 13% pre-financing of recovery and resilience plans. A prepayment was received by 16 Member States by the end of September, including Slovenia. The ongoing financing of the recovery and resilience plans will be undertaken twice a year, on the condition that the agreed milestones and targets are met. As far as the repayment of this debt is concerned, new own resources are under consideration, and if necessary also a rise in the national contribution based on gross national income. The new own resources under consideration include a national contribution based on non-recycled plastic packaging waste, a carbon border adjustment mechanism, a digital levy and a revised emissions trading system. The European Commission is expected to propose additional resources by June 2024. Options include a tax on financial transactions, and changes to corporate taxation as well (European Commission, 2021c; Bisciari et al., 2021).

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1 Values cited in current prices. The size of the NGEU is EUR 750 billion in fixed 2018 prices.

2 The grant amounts for each country are not yet finalised, as 30% of the available sum will be finally allocated by June 2022 on the basis of Eurostat data. Countries must assign 70% of the grants in 2021 and 2022. The maximum loan that can be obtained by an individual country is 6.8% of its gross national income.

3 Weighted by the GDP of each Member State.

4 In terms of the Digital Economy and Society Index (DESI) calculated by the European Commission, Slovenia was ranked 16th among EU Member States in 2020, just below the EU average.

5 Funds are allocated to countries according to population, the inverse of per capita GDP, and the deviation from the EU average unemployment over the five years preceding the pandemic. The final allocation of 30% of the grants will take place in June 2022 according to the cumulative real decline in GDP in 2020 and 2021 replacing unemployment as a criterion.

6 The key to estimates of this type is choosing the size of the fiscal multiplier for investment. In their determinations under the baseline scenario, the authors follow the widely accepted figure of 0.12 for the mean output elasticity of public capital (Bom & Ligthart, 2014), and take account of differences in the level of the initial capital stock in each country. A low-productivity scenario is also presented alongside the baseline scenario, where the effects of NGEU projects raise real GDP by 0.7% on average in the EU by the end of 2026.

[7] The study referenced by the European Commission in its assessments of the national recovery plans suggests that structural reforms that would halve the gap in structural indicators vis-à-vis best performance in each area would raise real GDP over 12 years by 11% on average in the EU (Varga & in 't Veld, 2014).

[8] Other institutions' forecasts of the impact of the NGEU on GDP have slightly different assumptions, but broadly suggest similar results to Pfeiffer, Varga and in 't Veld (for more, see Bisciari et al., 2021).

[9] The latest forecasts of expenditures in connection with the ageing population were released by the European Commission in May 2021. They include expenditure on pensions, healthcare, long-term social care, education and unemployment for EU Member States. The projected average increase in expenditure caused by the ageing of the population between 2019 and 2070 amounts to 1.9% of GDP for the EU.

# 8 | Selected Themes

## 8.1 Consumer price inflation across income groups, and income inequality

*Slovenia has one of the lowest levels of income inequality in the euro area, calculation of which is affected by differences in the inflation being faced by households in different income groups. Although the official measure of inflation describes the growth in consumer prices experienced by the average consumer, the generalised nature of the measure means that it cannot describe the inflation faced by each individual. Everyone's personal inflation depends on their consumption patterns, which usually correlate with their income. This analysis therefore estimates the inflation faced by different income groups since 2007, and finds that the price of a basket of consumer goods for low-income households has risen more than the price for wealthier households over the last 15 years. Inflation averaged 2.0% for the quintile of households with the lowest income, 0.6 percentage points more than for the wealthiest quintile. The higher inflation is largely attributable to price trends in food and housing, to which low-income households earmark around half of their spending, compared with less than a third for wealthier households. Differences in the inflation rates faced by households in different income groups also have an impact on the calculation of income inequality. Given its progressive taxation and strong social transfers, income inequality in Slovenia is low, and in nominal terms was the same in 2019 as in 2007. But in real terms, taking account of the differing inflation rates across income groups, it has increased. Amid a shortage of data, an increase is also expected to have occurred in 2020, as the epidemic and the containment measures hit those on lower incomes harder. Another factor in the real increase in inequality in 2020 was the widening inflation gap between households at opposite ends of the income distribution.*

### Introduction

**The official measure of inflation reflects the growth in consumer prices faced by the average consumer, but it is not representative of individuals with their own consumption patterns.** The HICP is based on prices of an average basket of consumer goods, and thus measures growth in prices paid for the consumption of the typical household. Although it is a key measure of price developments in the economy, it cannot describe the inflation felt by each individual consumer. Their personal inflation is affected not only by prices of goods and services, but also by their consumption patterns.[1] These usually depend on the individual's income: lower-income consumers earmark a larger share of their income for everyday essentials such as food and housing, while higher-income households have more money left over after purchasing their everyday essentials to spend on luxury goods and other non-essentials. Compared with lower-income households, they spend a larger share of their disposable income on transport, restaurants, hotels, etc. This box analyses inflation across income groups

[1] A personal inflation calculator is available in the online inflation bulletin on the ECB website.

since 2007, with a focus on the epidemic period, when consumption patterns of different income categories converged because of the inability to consume certain goods and services in connection with the containment measures.

**Inflation differentials across income groups have an impact on the calculation of income inequality in the economy.** The nominal disposable income of a household, which in addition to primary income also includes social security benefits, taxes on income and wealth, and other current transfers, has a significant impact on the consumption of the household, but is of little informative value from the perspective of purchasing power or standard of living. Any conclusions about purchasing power need to be drawn from the household's real income. To more accurately reflect the price developments faced by households, in this analysis the average nominal income of each individual income group is deflated by their respective price index, which identifies the impact of inflation differentials on the calculation of income inequality between 2007 and 2019. A similar calculation for the period of 2020 and 2021 cannot be made due to lack of data.

## Estimation of weights for computing inflation

**The analysis of the relevant inflation rates across income groups was drawn up on the basis of SORS survey data on household consumption in Slovenia and Bankart data on card payments.** Data from the Household Budget Survey (HBS) describes the average expenditures of households on individual consumption categories. Households are divided into quintiles according to income or total disposable assets, where the first quintile represents the fifth of households with the lowest income, and the fifth quintile the fifth of households with the highest income. Data on the consumption structure of households in individual income group enter the inflation computation as weights of consumption categories. For the period when the survey was conducted annually, the weights are updated each January, and for the period after 2010 the weights for the computation of price indices are defined by the latest data. Thus, for example, the weights for the period of 2015 to 2017 come from the survey conducted in 2015, while the weights for 2018 and 2019 come from the last survey in 2018. To analyse the impact of the epidemic on inflation rates experienced by households in the different income groups, the consumption structure in 2020 and 2021 was estimated by means of Bankart data on card payments at POS terminals, following the approach of Banco de Portugal. The latest weights for all 12 consumption categories as derived from survey data were adjusted for each income group in line with the ratio of card payments in a particular month of 2020 to payments in the same month of 2019. Consumption structure in 2021 was estimated similarly, and the annual weights were computed as the average of the monthly weights.[2] For the purposes of analysis the household income categories are combined into three groups: low-income (first quintile), medium-income (second to fourth quintiles), and high-income (fifth quintile).[3] The inflation estimate for each income group was drawn up by aggregating HICP classes representing each of the 12 consumption categories. As a result, differences in the consumption structure of each group of households is the sole factor differentiating their inflation rates.

**Low-income households earmark half of their spending for food and housing costs, while high-income households spend less than a third.** According to sur-

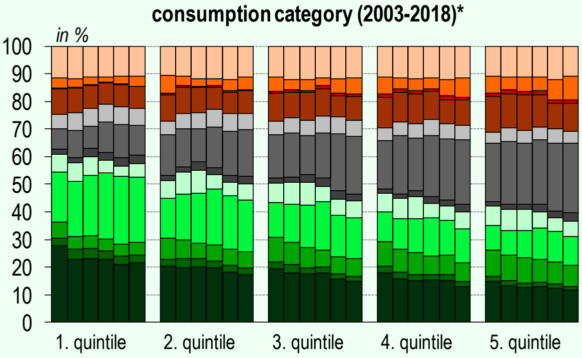
[2] Although the use of card payments data provides for up-to-date monitoring of consumption patterns, there are certain caveats with the chosen methodology for estimating the weights for last year and this year. The first relates to the differing classification of households and holders of payment cards. Holders of payment cards are assigned to quintiles according to monthly card payments, i.e. according to consumption, and not according to monthly disposable income. Although it can be assumed that income and consumption are correlated, mapping between the two data sources introduces additional uncertainty into the analysis. The next deficiency in the methodology is the mapping between the classification of spending between the two data sources. While spending on consumer goods and services in the HBS survey is classified according to the European classification of individual consumption according to purpose (ECOICOP), card payments are classified according to the merchant category code (MCC), and the mapping between the data is not perfect because of the differing classifications. The data on which the estimation is based also captures card payments only, and thus excludes a significant share of cash consumption expenditure, while the shorter data series for 2021 might also reduce the accuracy of the estimation of consumption structure, as the analysis is drawn up on the basis of card payments data up to July 2021.

[3] All calculations are drawn up for five quintiles.

vey data, high-income households spend approximately 3.5 times more on average on consumer goods and services than do low-income households. In keeping with their lower average consumption, poorer households spend a significantly larger share of their income on food (see Figure 8.1.1). It is a similar case with housing, which might also be because renting is more common in this group.[4] While the share of total spending accounted for by consumer essentials decreases as income increases, the share accounted for by certain non-essentials increases. Compared with low-income households, higher-income households spend more of their disposable income on goods and services in the transport category, which in addition to motor fuels and transport services also includes car purchases and air travel, and on clothing, recreation and culture, and hotels and restaurants.

**The outbreak of the epidemic and the containment measures brought changes to the structure of expenditure of all income groups.** Most notably the share of spending on food increased last year, which is attributed to the closure of restaurants, more frequent eating at home, and higher food prices (see Table 8.1.1). Relative consumption in this category increased in all income groups. Although the share remained highest in the low-income group, the inability to consume certain other goods and services meant that the increase was most pronounced in the high-income group. The closure of hotels and restaurants sharply reduced the share of spending in this category, but the largest declines in each

**Figure 8.1.1: Decomposition of household consumption by consumption category (2003-2018)***




*Note: *Results of the survey for 2003, 2006, 2009, 2012, 2015 and 2018 are presented.*
*Source: Household budget survey (HBS) – SORS, Banka Slovenije calculations.*

**Table 8.1.1: Breakdown of consumption of income groups by category of consumption (2019 to 2021)**

| | low income group | | | medium income group | | | high income group | | | total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in %* | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| food, non-alc. beverages | 21.6 | 22.3 | 19.2 | 14.8 | 17.3 | 14.3 | 11.7 | 14.5 | 11.3 | 14.4 | 17.0 | 13.7 |
| alc. beverages, tobacco | 2.9 | 2.8 | 3.0 | 1.9 | 1.9 | 2.0 | 1.3 | 1.2 | 1.2 | 1.8 | 1.7 | 1.7 |
| clothing, footwear | 4.5 | 3.1 | 3.5 | 6.5 | 4.8 | 5.4 | 7.7 | 6.1 | 6.5 | 6.7 | 5.1 | 5.5 |
| housing | 23.6 | 24.1 | 25.6 | 14.6 | 14.6 | 15.2 | 10.3 | 11.5 | 14.3 | 14.0 | 14.8 | 17.4 |
| household equip., maintenance | 4.9 | 5.4 | 5.8 | 6.0 | 6.6 | 6.9 | 5.4 | 6.0 | 5.8 | 5.7 | 6.2 | 6.2 |
| health | 2.9 | 3.7 | 3.5 | 2.8 | 3.2 | 3.1 | 3.1 | 3.4 | 3.4 | 2.9 | 3.2 | 3.2 |
| transport | 11.0 | 10.1 | 10.3 | 20.8 | 18.7 | 19.8 | 25.3 | 21.1 | 20.9 | 21.4 | 18.3 | 18.6 |
| communication | 6.0 | 5.5 | 5.2 | 5.5 | 5.8 | 5.6 | 4.4 | 7.7 | 8.9 | 5.2 | 7.1 | 7.5 |
| recreation, culture | 7.9 | 7.9 | 7.9 | 8.8 | 8.4 | 8.2 | 9.9 | 9.5 | 9.1 | 9.1 | 8.5 | 8.3 |
| education | 0.2 | 0.2 | 0.3 | 0.9 | 0.9 | 1.1 | 1.3 | 1.2 | 1.3 | 1.0 | 0.9 | 1.0 |
| restaurants, hotels | 3.7 | 3.1 | 2.9 | 6.0 | 4.5 | 4.2 | 8.6 | 5.1 | 4.7 | 6.6 | 4.3 | 3.9 |
| miscellaneous goods and services | 10.8 | 11.7 | 12.8 | 11.4 | 13.3 | 14.0 | 10.9 | 12.9 | 12.5 | 11.2 | 12.9 | 13.1 |

*Note: The (percentage) weights for 2019 are determined by the consumption structure from the HBS survey conducted in 2018. The weights for 2020 and 2021 are estimated by means of Bankart data on card payments at POS terminals.*
*Source: Household budget survey (HBS) – SORS, Bankart, Banka Slovenije calculations and estimates.*

[4] The housing category includes rentals for housing, maintenance and repair of the dwelling, water supply and miscellaneous services relating to the dwelling, and electricity, gas and other fuels. Spending in connection with the purchase or renovation of flats or houses is not included in the category.

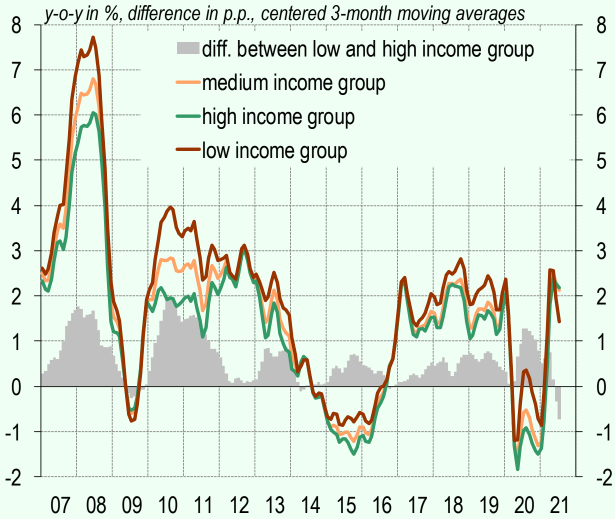
group came in the share of spending in the transport category. This reduced the differences in the structure of the consumer basket between the income groups. With the improvement in the epidemiological picture and the relaxation of containment measures, consumption has begun to recover this year. According to Bankart data, card payments have been rising since February in all income groups, and consumption at households is slowly returning to its pre-crisis patterns.

## Estimated year-on-year inflation across income groups

**The basket of consumer goods for low-income households has risen in price more than the basket for wealthier households over the last 15 years.** Prices for low-income households rose by almost 30% between January 2007 and December 2020, compared with 20% for high-income households. Inflation averaged 2.0% for the poorest households, 0.6 percentage points more than for the highest income group (see Figure 8.1.2 and Table 8.1.2). The higher inflation faced by poorer households is largely attributable to price trends in food and housing. Food prices have generally recorded above-average growth over the observation period, which has raised inflation more for low-income households given the higher weight of food in their consumer basket. Similarly there have been pronounced price rises in the housing category, which accounted for almost a quarter of spending by low-income households on average over the observation period, compared with merely just over a tenth at high-income households. By contrast, price growth in the hotels and restaurants category had a stronger impact on high-income households, and narrowed the inflation gap between the low-income group and the high-income group.

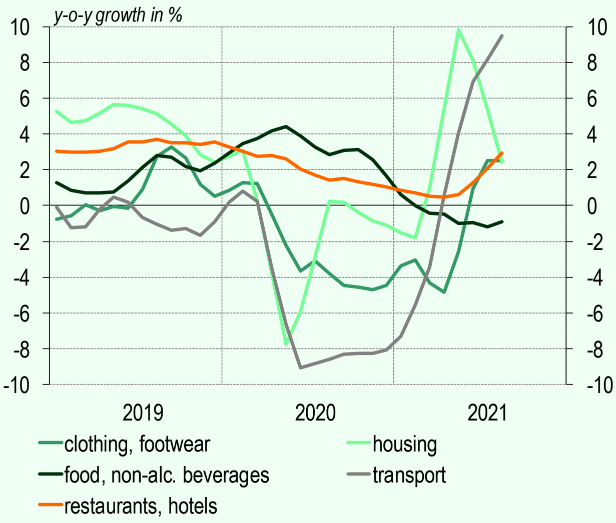
**The inflation gap between households at either end of the income distribution widened further last year**

Figure 8.1.2: Inflation by income group




*Source: Eurostat, SORS, Bankart, Banka Slovenije calculations and estimations.*

Figure 8.1.3: Year-on-year price growth by consumption category



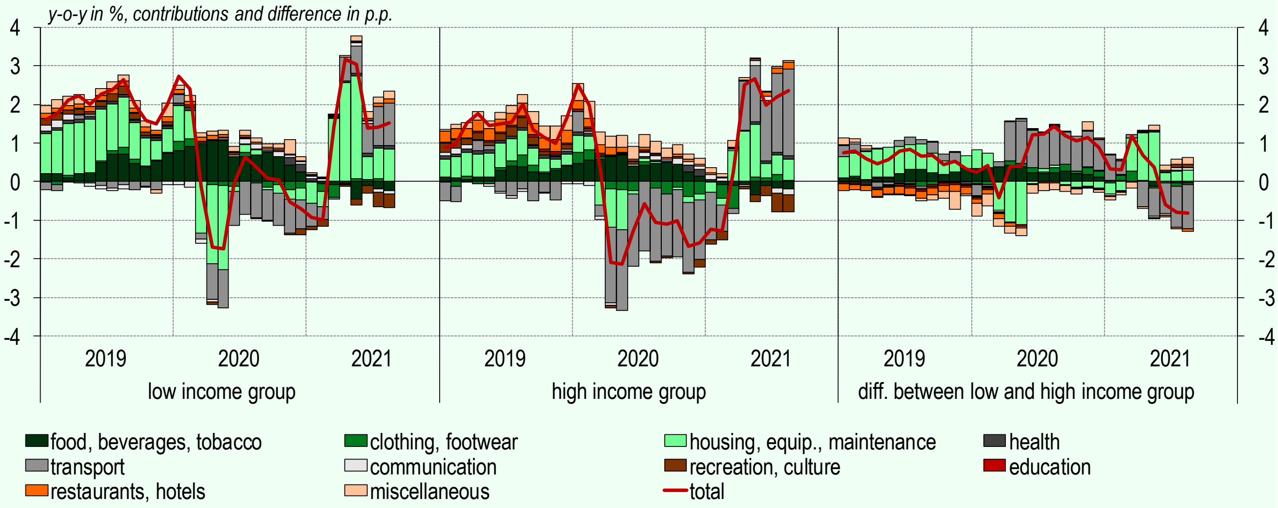

*Source: Eurostat, SORS, Banka Slovenije calculations.*

Table 8.1.2: Estimated consumer price inflation by income group

| *in %* | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **total** | 3.5 | 5.4 | 0.5 | 2.4 | 2.3 | 2.6 | 1.6 | 0.2 | -1.0 | -0.3 | 1.6 | 2.0 | 1.5 | -0.4 | 1.2 |
| **low income group (1)** | 4.1 | 6.3 | 0.5 | 3.3 | 3.1 | 2.7 | 2.1 | 0.3 | -0.7 | -0.1 | 1.8 | 2.3 | 2.0 | 0.1 | 1.3 |
| **medium income group (2)** | 3.6 | 5.6 | 0.5 | 2.5 | 2.4 | 2.6 | 1.7 | 0.2 | -1.0 | -0.3 | 1.7 | 2.0 | 1.6 | -0.4 | 1.3 |
| **high income group (3)** | 3.2 | 5.0 | 0.5 | 1.9 | 1.8 | 2.5 | 1.4 | 0.2 | -1.2 | -0.4 | 1.6 | 1.8 | 1.4 | -0.6 | 1.2 |
| **difference (1)-(3)** | 0.9 | 1.3 | 0.0 | 1.4 | 1.3 | 0.2 | 0.7 | 0.1 | 0.5 | 0.3 | 0.2 | 0.5 | 0.6 | 0.7 | 0.1 |

*Note: *The annual inflation estimate is computed as the average of year-on-year rates of price growth, and for 2021 as the average of year-on-year rates between January and August.*
*Source: Household budget survey (HBS) – SORS, Bankart, Banka Slovenije calculations and estimates.*

**Figure 8.1.4: Difference in year-on-year price growth between low and high income group**




*Source: Eurostat, SORS, Bankart, Banka Slovenije estimations and calculations.*

**amid high divergence in price developments, but an even larger gap was prevented by the convergence of consumer baskets caused by the shutdowns in various sectors.** The epidemic and the accompanying containment measures led last year to pronounced changes in prices of certain goods and services, thereby increasing the divergence in price developments. As a result of higher demand and rising food commodity prices, last year's largest rise came in food prices, at 3.1%, while the largest fall of 6.3% was recorded by transport prices (see Figure 8.1.3). The inflation gap between the low-income group and the high-income group widened further to average 0.7 percentage points over the year. Low-income households saw inflation of 0.1% last year, while the wealthiest households saw a 0.6% fall in prices. The largest factor in the gap was the fall in transport prices, which last year was driven by lower demand for oil and the corresponding fall in global oil prices and prices of refined petroleum products (see Figure 8.1.4). As a result of the containment measures, which sharply curtailed consumption of certain goods and services, consumption patterns of different income groups converged last year, which prevented the gap from widening even further.[5]

**The inflation gap between low-income households and high-income households began to narrow this year, and wealthier households have experienced higher inflation since June.** With the exception of three months when prices in the housing category rose sharply in year-on-year terms, the inflation gap between the first and fifth quintiles has decreased this year.[6] In August when year-on-year inflation stood at 2.1% according to the official statistics, the rise in prices of the consumer basket of high-income households stood at 2.3%, compared with 1.5% for low-income households. The reversal was attributable to a year-on-year rise in transport prices, which make up a larger share of the basket of high-income households (see Figure 8.1.4). Transport prices in August were up 11% in year-on-year terms, driven by the rise in fuel prices amid positive base effects and rising global oil prices.

## Impact of differences in inflation rates on the computation of income inequality

**The inflation experienced by households affects their purchasing power and material wellbeing, which can be estimated by real income.** This is computed as nominal disposable income adjusted for inflation. The data on nominal household disposable income comes from the annual survey on income and living conditions (SILC), which is conducted each year by the SORS and is available for 2008 to 2020. The survey results for each year consist of

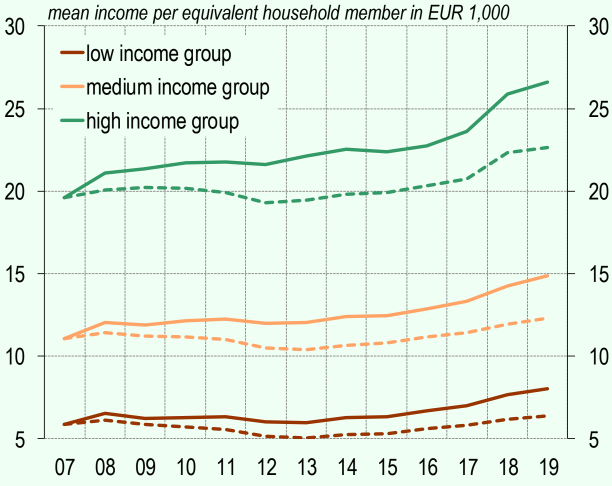
[5] Under an unchanged consumption structure, i.e. using weights derived from the data of the HBS survey conducted in 2018, low-income households would have recorded deflation of 0.1% last year, and high-income households deflation of 1.0%.

[6] The three months of strong growth of prices in the housing category are related to a year-on-year rise in electricity prices as a result of a positive base effect. A government ordinance temporarily cut electricity prices for households and small businesses between March and May of last year.

the income from the previous year, so the data relates to the period of 2007 to 2019. Survey respondents are again classified into quintiles according to equalized income.[7] The average equalized income per household member in each income group is deflated by their own index instead of the aggregate price index.[8] As a result of the consideration of different price indices in each income group, real income will better reflect the inflation faced by the different groups.

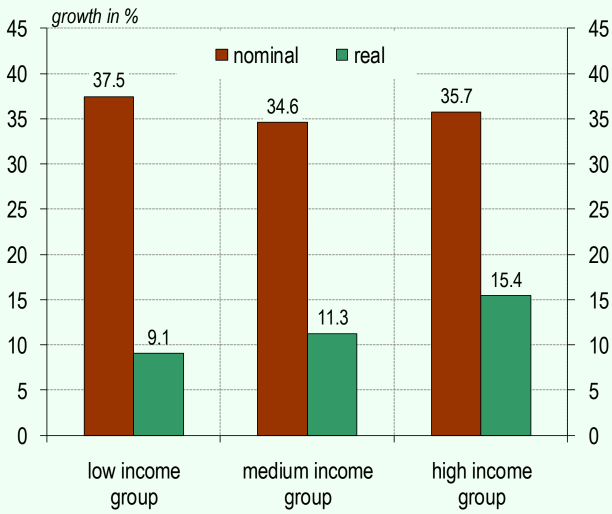
**The average disposable income per equivalent household member increased by more than 35% in nominal terms between 2007 and 2019, and by 12.5% when inflation is taken into account.** The largest increase in nominal terms since 2007 was in the low-income group (see Figures 8.1.5 and 8.1.6). During the previous crisis growth in this group was strongly outpaced by growth in income in the high-income group, and only picked up when the economy recovered. After a series of rises in the minimum wage, nominal average annual income at low-income households reached EUR 8,026 in 2019, up 37.5% on 2007. Income in the high-income group increased by 35.7% over this period; its average of EUR 26,605 in 2019 was three times that of low-income households. Although nominal income in the low-income group recorded the highest growth, the higher inflation in the period to 2019 meant that the real increase was significantly lower than that in the high-income group. The real average income of high-income households was up 15.4% on 2007, while the increase at low-income households was just 9.1%.

**Figure 8.1.5: Average income by income group**




*Note: Solid line represents nominal income and dashed real income.*
*Source: Eurostat, SORS, Bankart, Banka Slovenije estimations and calculations.*

**Figure 8.1.6: Increase in disposable income between 2007 and 2019**




*Source: Eurostat, SORS, Bankart, Banka Slovenije estimations and calculations.*

**After increasing during the previous economic and financial crisis, nominal income inequality began to diminish with the economic recovery.** The income inequality resulting from uneven distribution of income can be expressed by the Gini coefficient. This takes values between zero and one (or 0% and 100%), where a value of zero entails perfect income equality (all equivalent household members have equal income), and a value of one entails perfect income inequality (the population's entire disposable income pertains to a single individual). The Gini coefficient estimated on the basis of data on the nominal average income in each quintile of households shows that income inequality increased up to 2013 (see Figure 8.1.7).[9] With renewed economic growth, which was accompanied by growth in wages and employment in sectors with below-average pay, it began to di-

[7] For more on the data and the survey, see the SORS website.

[8] Because nominal income is deflated by the price indices with a reference year of 2007, the real disposable income is expressed in 2007 prices.

[9] The Gini coefficient is derived from the Lorenz curve, which illustrates income distribution graphically. The curve plots the cumulative share of household income against the cumulative share of households disposing of the income, and the Gini coefficient is the surface area between the Lorenz curve of income distribution and the diagonal line of perfect equality. The closer the Lorenz curve approaches the diagonal, the more evenly income is distributed across the observed population. Because in the analysis the coefficient is estimated on the basis of the average disposable income in the quintiles, the estimate is biased on the downside. Individual points on the Lorenz curve will correlate with the line. The official statistics, which compute the Gini coefficient on the basis of original survey data, are therefore higher throughout the observation period.

minish, and by 2019 had fallen to its level of 2007. Income inequality in Slovenia is otherwise low, and was indeed lower than all other euro area countries on average between 2007 and 2018 (see Figure 8.1.8). The low inequality is attributable to progressive taxation and social transfers, which is evident from the comparison of income inequality before and after taxes and social transfers are taken into account. Inequality before taxes and social transfers, i.e. income inequality on the market, is significantly higher than income inequality after transfers.

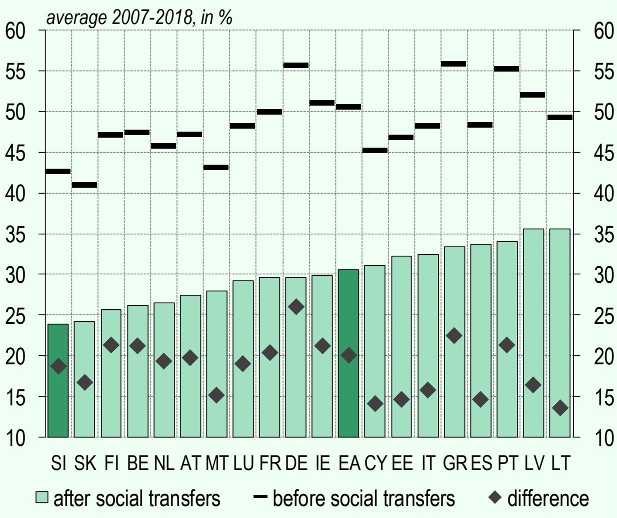
**In real terms income inequality has increased since 2007.** To analyse the impact of inflation or inflation differentials on the computation of income inequality, the real Gini coefficient is also estimated, where the real average disposable income of the household quintiles is used instead of nominal income. Once the differences in the inflation across different income groups are taken into account, income inequality increases (see Figure 8.1.7). Like the nominal Gini coefficient, the real Gini coefficient increased in the period to 2013, then fell, albeit more slowly. As a result of the persistently higher inflation faced by low-income households, it was fully 1.2 percentage points higher than the nominal coefficient in 2019. In contrast to the nominal coefficient, the real coefficient shows inequality to have increased since 2007, an indication of the importance of taking account of inflation differentials.

**Given the heterogeneous nature of the impact of the epidemic and the containment measures, income inequality most likely increased last year, although a larger deterioration was mitigated by the government measures to alleviate the impact of the epidemic.**[10] The outbreak of the pandemic and the containment measures hit low-income households harder, as it was mainly low-pay sectors that faced restrictions. The largest declines in the workforce in employment were in accommodation and food service activities, employment activities, and manufacturing. Even larger job losses and an even larger fall in income were prevented by the government measures, including the temporary layoff scheme and the short-time work scheme, but the employees included in the measures only received 80% of their wage compensation during their absence from work. Because it was employees with below-average wages that were

**Figure 8.1.7: Gini coefficient of income inequality**


*Source: Eurostat, SORS, Bankart, Banka Slovenije estimations and calculations.*

**Figure 8.1.8: Nominal Gini coefficient by euro area countries**




*Source: Eurostat.*

most often laid off, the conclusion is that the largest decline in income from employment was recorded by employees on lower wages. By contrast, employment and the average wage in mostly public services, where wages are above average, increased during the epidemic. The increased inequality on the labour market can be expected to also be reflected in the data on household disposable income last year, and in increased income inequality. It is mainly in the inequality indicator before taxes and social transfers that an increase can be expected, while the impact of the epidemic on income inequality after transfers was mitigated by the extensive fiscal transfers as part of the government measures to alleviate the impact of the epidemic.

[10] The impact of the epidemic on the labour market is examined in detail in Box 3.2 of the April issue of Economic and Financial Developments.

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# 9 Statistical Appendix

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

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

*The concise methodological notes for the statistics are given in this appendix, while more detailed explanations are given in the appendix to the Banka Slovenije bulletin.*

## Table 9.1: Consolidated balance sheet of monetary financial institutions

| *EUR million* | 2017 | 2018 | 2019 | 20Q4 | 21Q1 | Jun.21 | Jul.21 | Aug.21 |
|---|---|---|---|---|---|---|---|---|
| 1.1. Claims of the Banka Slovenije | 7,143 | 8,168 | 10,594 | 13,842 | 17,261 | 16,518 | 16,346 | 16,704 |
| 1.2. Claims of other MFIs | 8,504 | 8,279 | 8,342 | 9,336 | 9,662 | 9,887 | 10,056 | 10,033 |
| **1. Claims on foreign sectors (foreign assets)** | **15,647** | **16,447** | **18,936** | **23,179** | **26,923** | **26,406** | **26,402** | **26,737** |
| 2.1. Claims of the Banka Slovenije on central government | 6,247 | 7,165 | 7,719 | 11,805 | 12,264 | 13,268 | 14,012 | 14,316 |
| 2.2.1.1. Loans | 1,425 | 1,174 | 1,048 | 918 | 844 | 841 | 841 | 840 |
| 2.2.1.2. Securities | 3,744 | 3,763 | 3,648 | 3,602 | 3,812 | 3,769 | 3,682 | 3,485 |
| 2.2.1. Claims on central government | 5,170 | 4,937 | 4,696 | 4,520 | 4,656 | 4,610 | 4,523 | 4,325 |
| 2.2.2.1. Loans | 571 | 580 | 602 | 639 | 638 | 621 | 619 | 628 |
| 2.2.2.2. Securities | 0 - | | - | - | - | - | - | - |
| 2.2.2. Claims on other general government | 571 | 580 | 602 | 639 | 638 | 621 | 619 | 628 |
| 2.2. Claims of other MFIs on general government | 5,740 | 5,517 | 5,297 | 5,159 | 5,294 | 5,230 | 5,142 | 4,953 |
| 2.3.1.1. Loans | 9,311 | 9,177 | 9,290 | 9,094 | 9,355 | 9,251 | 9,320 | 9,243 |
| 2.3.1.2. Securities | 334 | 319 | 298 | 270 | 275 | 246 | 240 | 239 |
| 2.3.1. Claims on nonfinancial corporations | 9,645 | 9,497 | 9,587 | 9,364 | 9,629 | 9,497 | 9,560 | 9,481 |
| 2.3.2. Households and non-profit institutions serving households | 9,735 | 10,370 | 10,981 | 10,997 | 11,028 | 11,137 | 11,223 | 11,299 |
| 2.3.3.1. Loans | 1,171 | 1,070 | 1,248 | 1,213 | 1,186 | 1,285 | 1,279 | 1,287 |
| 2.3.3.2. Securities | 395 | 432 | 412 | 428 | 432 | 421 | 421 | 422 |
| 2.3.3. Claims on nonmonetary financial institutions | 1,566 | 1,502 | 1,661 | 1,640 | 1,619 | 1,706 | 1,700 | 1,710 |
| 2.3. Claims of other MFIs on other non-MFIs | 20,946 | 21,369 | 22,229 | 22,002 | 22,276 | 22,341 | 22,484 | 22,490 |
| **2. Claims on domestic non-MFIs** | **32,934** | **34,050** | **35,245** | **38,965** | **39,834** | **40,839** | **41,638** | **41,760** |
| **3. Remaining assets** | **1,461** | **1,477** | **1,660** | **1,613** | **1,688** | **1,494** | **1,500** | **1,470** |
| **Total assets** | **50,042** | **51,974** | **55,842** | **63,757** | **68,445** | **68,739** | **69,540** | **69,967** |
| 1.1. Banka Slovenije | 1,506 | 63 | 134 | 51 | 168 | 611 | 576 | 540 |
| 1.2. Other MFIs | 4,436 | 3,986 | 4,342 | 4,412 | 4,552 | 4,653 | 4,555 | 4,433 |
| **1. Obligations to foreign sectors (foreign liabilities)** | **5,943** | **4,049** | **4,476** | **4,463** | **4,720** | **5,264** | **5,131** | **4,973** |
| 2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key) | 5,371 | 5,655 | 5,847 | 6,473 | 6,532 | 6,685 | 6,759 | 6,767 |
| 2.1.1.2. Overnight deposits at other MFIs | 17,727 | 19,877 | 21,699 | 25,622 | 26,961 | 27,796 | 28,091 | 28,354 |
| 2.1.1.3.1. Non-monetary financial institutions | 11 | 76 | 296 | 327 | 511 | 370 | 369 | 360 |
| 2.1.1.3.2. Other government sector | 107 | 100 | 111 | 170 | 240 | 306 | 287 | 300 |
| 2.1.1.3. Overnight deposits at the Banka Slovenije | 118 | 176 | 407 | 497 | 751 | 677 | 656 | 660 |
| 2.1.1. Banknotes and coins and overnight liabilities | 23,216 | 25,708 | 27,953 | 32,593 | 34,244 | 35,158 | 35,506 | 35,781 |
| 2.1.2.1. Deposits at the Banka Slovenije | - | - | - | - | - | - | - | - |
| 2.1.2.2. Deposits at other MFIs | 6,127 | 5,727 | 5,697 | 5,107 | 4,922 | 4,568 | 4,390 | 4,286 |
| 2.1.2. Time deposits | 6,127 | 5,727 | 5,697 | 5,107 | 4,922 | 4,568 | 4,390 | 4,286 |
| 2.1.3. Deposits reedemable at notice up to 3 months | 473 | 492 | 541 | 524 | 542 | 470 | 424 | 409 |
| 2.1. Banknotes and coins and deposits up to 2 years | 29,816 | 31,927 | 34,190 | 38,224 | 39,707 | 40,195 | 40,320 | 40,476 |
| 2.2. Debt securities, units/shares of money market funds and repos | 55 | 78 | 55 | 70 | 53 | 56 | 56 | 55 |
| **2. Banknotes and coins and instruments up to 2 years** | **29,871** | **32,006** | **34,246** | **38,294** | **39,761** | **40,251** | **40,376** | **40,531** |
| **3. Long-tern financial obligations to non-MFIs** | **1,524** | **1,314** | **1,285** | **1,256** | **1,250** | **1,266** | **1,289** | **1,323** |
| **4. Remaining liabilities** | **14,035** | **15,675** | **17,232** | **21,171** | **24,177** | **23,381** | **24,150** | **24,585** |
| **5. Excess of inter-MFI liabilities** | **-1,330** | **-1,069** | **-1,396** | **-1,428** | **-1,463** | **-1,423** | **-1,406** | **-1,444** |
| **Total liabilities** | **50,042** | **51,974** | **55,842** | **63,757** | **68,445** | **68,739** | **69,540** | **69,967** |

**Table 9.2: Balance sheet of the Banka Slovenje**

| *EUR million* | 2017 | 2018 | 2019 | 20Q4 | 21Q1 | Jun.21 | Jul.21 | Aug.21 |
|---|---|---|---|---|---|---|---|---|
| 1.1. Gold | 111 | 115 | 138 | 158 | 147 | 151 | 157 | 157 |
| 1.2. Receivable form IMF | 338 | 372 | 381 | 405 | 416 | 413 | 413 | 1,091 |
| 1.3. Foreign cash | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.4. Loans, deposits | 233 | 1,464 | 3,661 | 6,952 | 10,303 | 9,965 | 9,687 | 9,397 |
| 1.5. Securities | 6,359 | 6,114 | 6,271 | 6,103 | 6,114 | 5,678 | 5,770 | 5,732 |
| 1.6. Other claims | 103 | 103 | 142 | 225 | 281 | 311 | 318 | 328 |
| **1. Claims on foreign sectors (foreign assets)** | **7,143** | **8,168** | **10,594** | **13,842** | **17,261** | **16,518** | **16,346** | **16,704** |
| 2.1. Claims on central government | 6,247 | 7,165 | 7,719 | 11,805 | 12,264 | 13,268 | 14,012 | 14,316 |
| 2.2.1. Loans | 1,142 | 1,102 | 995 | 1,385 | 1,406 | 2,485 | 2,485 | 2,485 |
| 2.2.2. Other claims | 98 | 3 | 51 | 85 | 97 | 95 | 97 | 96 |
| 2.2. Claims on domestic monetary sector | 1,240 | 1,105 | 1,046 | 1,470 | 1,503 | 2,580 | 2,582 | 2,582 |
| 2.3. Claims on other domestic sectors | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| **2. Claims on domestic sectors (domestic assets)** | **7,489** | **8,271** | **8,767** | **13,277** | **13,769** | **15,850** | **16,596** | **16,900** |
| **3. Remaining assets** | **279** | **314** | **396** | **347** | **531** | **331** | **338** | **346** |
| **Total assets** | **14,911** | **16,753** | **19,757** | **27,467** | **31,561** | **32,699** | **33,279** | **33,951** |
| **1. Banknotes and coins (ECB key from 1.1.2007 on)** | **5,371** | **5,655** | **5,847** | **6,473** | **6,532** | **6,685** | **6,759** | **6,767** |
| 2.1.1.1.1. Overnight | 2,939 | 3,391 | 4,348 | 7,097 | 7,710 | 9,159 | 8,965 | 9,238 |
| 2.1.1.1.2. With agreed maturity | - | - | - | - | - | - | - | - |
| 2.1.1.1. Domestic currency | 2,939 | 3,391 | 4,348 | 7,097 | 7,710 | 9,159 | 8,965 | 9,238 |
| 2.1.1.2. Foreign currency | - | - | - | - | - | - | - | - |
| 2.1.1. Other MFIs | 2,939 | 3,391 | 4,348 | 7,097 | 7,710 | 9,159 | 8,965 | 9,238 |
| 2.1.2.1.1. Overnight | 2,521 | 3,704 | 3,120 | 5,407 | 8,366 | 7,240 | 7,531 | 7,132 |
| 2.1.2.1.2. With agreed maturity | - | - | - | - | - | - | - | - |
| 2.1.2.1. In domestic currency | 2,521 | 3,704 | 3,120 | 5,407 | 8,366 | 7,240 | 7,531 | 7,132 |
| 2.1.2.2. Foreign currency | 56 | 5 | 6 | 6 | 6 | 6 | 7 | 6 |
| 2.1.2. General government | 2,577 | 3,708 | 3,126 | 5,413 | 8,372 | 7,246 | 7,538 | 7,138 |
| 2.1.3.1. Non-financial corporations | - | - | - | - | - | - | - | - |
| 2.1.3.2. Non-monetary financial institutions | 11 | 76 | 296 | 327 | 511 | 370 | 369 | 360 |
| 2.1.3. Other domestic sectors | 11 | 76 | 296 | 327 | 511 | 370 | 369 | 360 |
| 2.1. Domestic sectors | 5,527 | 7,176 | 7,770 | 12,838 | 16,593 | 16,775 | 16,872 | 16,736 |
| 2.2. Foreign sectors | 1,506 | 63 | 134 | 51 | 168 | 611 | 576 | 540 |
| **2. Deposits** | **7,033** | **7,238** | **7,904** | **12,888** | **16,761** | **17,387** | **17,448** | **17,277** |
| 3.1. Domestic currency | - | - | - | - | - | - | - | - |
| 3.2. Foreign currency | - | - | - | - | - | - | - | - |
| **3. Issued securities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **4. SDR allocation** | **256** | **262** | **266** | **254** | **261** | **259** | **259** | **936** |
| **5. Capital and reserves** | **1,883** | **1,945** | **2,763** | **3,388** | **3,025** | **2,976** | **3,256** | **3,232** |
| **6. Remaining liabilities** | **367** | **1,653** | **2,976** | **4,462** | **4,982** | **5,393** | **5,557** | **5,738** |
| **Total liabilities** | **14,911** | **16,753** | **19,757** | **27,467** | **31,561** | **32,699** | **33,279** | **33,951** |

## Table 9.3: Balance sheet of other monetary financial institutions

| *EUR million* | 2017 | 2018 | 2019 | 20Q4 | 21Q1 | Jun.21 | Jul.21 | Aug.21 |
|---|---|---|---|---|---|---|---|---|
| 1.1.1. Cash | 355 | 425 | 432 | 455 | 481 | 459 | 444 | 486 |
| 1.1.2. Accounts and deposits at the Banka Slovenije, other claims | 2,939 | 3,391 | 4,348 | 7,097 | 7,710 | 9,159 | 8,965 | 9,238 |
| 1.1.3. Securities of the Banka Slovenije | - | - | - | - | - | - | - | - |
| 1.1. Claims on Banka Slovenije | 3,294 | 3,817 | 4,780 | 7,552 | 8,191 | 9,618 | 9,409 | 9,724 |
| 1.2.1. Loans | 873 | 865 | 788 | 729 | 714 | 672 | 653 | 654 |
| 1.2.2. Debt securities | 71 | 18 | 94 | 135 | 135 | 171 | 171 | 171 |
| 1.2.3. Shares and other equity | 2 | 1 | 0 | 8 | 8 | 8 | 7 | 6 |
| 1.2. Claims on other MFI's | 947 | 883 | 882 | 872 | 858 | 850 | 832 | 831 |
| 1.3.1. Loans | 22,213 | 22,371 | 23,168 | 22,861 | 23,051 | 23,135 | 23,283 | 23,298 |
| 1.3.2. Debt securities | 3,775 | 3,797 | 3,674 | 3,607 | 3,814 | 3,740 | 3,661 | 3,464 |
| 1.3.3. Shares and other equity | 698 | 717 | 683 | 693 | 706 | 697 | 682 | 682 |
| 1.3. Claims on nonmonetry sectors | 26,687 | 26,885 | 27,526 | 27,160 | 27,570 | 27,571 | 27,626 | 27,444 |
| **1. Claims on domestic sectors (domestic assets)** | **30,927** | **31,585** | **33,187** | **35,585** | **36,619** | **38,039** | **37,866** | **37,999** |
| 2.1.1. Cash | 35 | 35 | 40 | 43 | 42 | 44 | 44 | 41 |
| 2.1.2. Loans | 2,154 | 1,681 | 1,640 | 1,836 | 2,002 | 2,035 | 2,231 | 2,235 |
| 2.1.3. Debt securities | 1,333 | 1,311 | 1,312 | 1,567 | 1,621 | 1,669 | 1,680 | 1,694 |
| 2.1.4 Shares and other equity | 579 | 578 | 578 | 973 | 973 | 998 | 998 | 998 |
| 2.1. Claims on foreign monetary sectors | 4,100 | 3,605 | 3,570 | 4,419 | 4,638 | 4,746 | 4,953 | 4,968 |
| 2.2.1. Loans | 899 | 1,023 | 1,103 | 1,392 | 1,495 | 1,493 | 1,502 | 1,456 |
| 2.2.2. Debt securities | 3,190 | 3,346 | 3,364 | 3,257 | 3,258 | 3,374 | 3,326 | 3,333 |
| 2.2.3. Shares and other equity | 314 | 305 | 305 | 268 | 271 | 275 | 275 | 275 |
| 2.2. Claims on foreign nonmonetary sectors | 4,404 | 4,674 | 4,772 | 4,917 | 5,024 | 5,141 | 5,103 | 5,065 |
| **2. Claims on foreign sectors (foreign assets)** | **8,504** | **8,279** | **8,342** | **9,336** | **9,662** | **9,887** | **10,056** | **10,033** |
| **3. Remaining assets** | **1,015** | **762** | **1,136** | **1,239** | **1,197** | **1,209** | **1,204** | **1,153** |
| **Total assets** | **40,447** | **40,626** | **42,666** | **46,161** | **47,479** | **49,136** | **49,126** | **49,185** |
| 1.1.1. Deposits, loans from the Banka Slovenije | 1,142 | 1,102 | 995 | 1,385 | 1,406 | 2,485 | 2,485 | 2,485 |
| 1.1.2. Deposits, loans from other MFIs | 962 | 931 | 917 | 856 | 877 | 849 | 865 | 852 |
| 1.1.3. Debt securities issued | 12 | - | 16 | 15 | 15 | 51 | 51 | 51 |
| 1.1. Laibilities to monetary sectors | 2,115 | 2,033 | 1,928 | 2,256 | 2,298 | 3,385 | 3,401 | 3,388 |
| 1.2.1.1. Overnight | 17,287 | 19,396 | 21,191 | 25,120 | 26,400 | 27,220 | 27,440 | 27,710 |
| 1.2.1.2. With agreed maturity | 8,125 | 7,477 | 7,418 | 6,637 | 6,412 | 6,037 | 5,905 | 5,825 |
| 1.2.1.3. Reedemable at notice | 548 | 561 | 622 | 610 | 613 | 545 | 503 | 511 |
| 1.2.1. Deposits in domestic currency | 25,960 | 27,434 | 29,232 | 32,368 | 33,425 | 33,802 | 33,848 | 34,047 |
| 1.2.2. Deposits in foreign currency | 593 | 626 | 613 | 682 | 743 | 746 | 774 | 765 |
| 1.2.3. Debt securities issued | 15 | 15 | 68 | 55 | 55 | 74 | 74 | 74 |
| 1.2. Liabilities to nonmonetary sectors | 26,569 | 28,075 | 29,913 | 33,104 | 34,223 | 34,623 | 34,696 | 34,886 |
| **1. Obligations to domestic sectors (domestic liabilities)** | **28,683** | **30,108** | **31,840** | **35,360** | **36,521** | **38,008** | **38,097** | **38,273** |
| 2.1.1. Deposits | 1,627 | 1,550 | 1,282 | 1,535 | 1,539 | 1,578 | 1,428 | 1,414 |
| 2.1.2. Debt securities issued | 327 | 111 | 428 | 897 | 896 | 923 | 924 | 923 |
| 2.1. Liabilities to foreign monetry sectors | 1,954 | 1,660 | 1,710 | 2,432 | 2,435 | 2,501 | 2,352 | 2,338 |
| 2.2.1. Deposits | 1,975 | 1,693 | 1,910 | 1,261 | 1,398 | 1,388 | 1,439 | 1,331 |
| 2.2.2. Debt securities issued | 22 | 22 | 85 | 84 | 84 | 127 | 127 | 127 |
| 2.2. Liabilities to foreign nonmonetary sectors | 1,997 | 1,715 | 1,994 | 1,344 | 1,482 | 1,515 | 1,566 | 1,458 |
| **2. Obligations to foreign sectors (foreign liabilities)** | **3,952** | **3,375** | **3,704** | **3,777** | **3,917** | **4,016** | **3,918** | **3,795** |
| **3. Capital and reserves** | **4,904** | **4,886** | **5,097** | **4,946** | **5,004** | **5,094** | **5,138** | **5,170** |
| **4. Remaining liabilities** | **2,908** | **2,256** | **2,024** | **2,078** | **2,036** | **2,018** | **1,973** | **1,946** |
| **Total liabilities** | **40,447** | **40,626** | **42,666** | **46,161** | **47,479** | **49,136** | **49,126** | **49,185** |

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

| *in % on annual level* | 2017 | 2018 | 2019 | 2020 | Jun.21 | Jul.21 | Aug.21 |
|---|---|---|---|---|---|---|---|
| **1. Interest rates of new loans** | | | | | | | |
| 1.1. Loans to households | | | | | | | |
| Households, revolving loans and overdrafts | 7.85 | 7.81 | 7.77 | 7.74 | 7.65 | 7.71 | 7.74 |
| Households, extended credit | 7.75 | 7.63 | 7.52 | 7.83 | 7.72 | 7.72 | 7.71 |
| Loans, households, consumption, floating and up to 1 year initial rate fixation | 4.44 | 4.65 | 4.60 | 4.47 | 4.64 | 4.76 | 4.72 |
| Loans, households, consumption, over 1 and up to 5 years initial rate fixation | 5.92 | 6.04 | 6.03 | 5.89 | 5.96 | 5.96 | 5.92 |
| Loans, households, consumption, over 5 years initial rate fixation | 6.20 | 6.29 | 6.27 | 5.98 | 5.95 | 5.99 | 5.96 |
| C. loans, households, consumption, floating and up to 1 year initial rate fixation | 3.69 | 3.74 | 3.26 | 3.45 | 3.19 | 3.30 | 3.85 |
| C. loans, households, consumption, over 1 and up to 5 years initial rate fixation | 4.89 | 5.11 | 4.37 | 5.00 | 5.58 | 5.33 | 4.34 |
| C. loans, households, consumption, over 5 year initial rate fixation | 5.19 | 5.06 | 5.34 | 5.05 | 4.96 | 4.98 | 4.19 |
| APRC, Loans to households for consumption | 7.73 | 7.64 | 7.88 | 7.15 | 7.51 | 7.53 | 7.52 |
| Loans, households, house purchase, floating and up to 1 year initial rate fixation | 1.99 | 1.89 | 1.81 | 1.76 | 1.54 | 1.64 | 1.59 |
| Loans, households, house purchase, over 1 and up to 5 years initial rate fixation | 2.75 | 3.22 | 3.15 | 2.39 | 1.82 | 1.98 | 1.84 |
| Loans, households, house purchase, over 5 and up to 10 years initial rate fixation | 2.65 | 2.74 | 2.50 | 2.00 | 1.66 | 1.69 | 1.65 |
| Loans, households, house purchase, over 10 years initial rate fixation | 2.91 | 2.95 | 2.70 | 2.20 | 1.86 | 1.81 | 1.76 |
| C. loans, households, house purchase variabel and up to years initial rate fixation | 1.99 | 1.87 | 1.84 | 1.77 | 1.59 | 1.68 | 1.62 |
| C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation | 2.38 | 3.01 | 2.48 | 2.42 | 1.86 | 1.74 | 2.00 |
| C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation | 2.34 | 2.56 | 2.28 | 1.85 | 1.65 | 1.64 | 1.66 |
| C. loans, households, house purchase, over 10 years initial rate fixation | 2.85 | 2.89 | 2.69 | 2.21 | 1.86 | 1.81 | 1.75 |
| APRC, Loans to households for house purchase | 2.77 | 2.75 | 2.52 | 2.36 | 2.15 | 2.11 | 2.06 |
| Loans, households, other purposes, floating and up to 1 year initial rate fixation | 3.58 | 3.68 | 3.82 | 3.69 | 3.67 | 3.49 | 4.32 |
| Loans, households, other purposes, over 1 and up to 5 years initial rate fixation | 5.30 | 4.78 | 4.85 | 4.39 | 4.47 | 4.00 | 4.17 |
| Loans, households, other purposes, over 5 years initial rate fixation | 5.35 | 6.73 | 6.38 | 2.94 | 5.78 | 4.84 | 4.65 |
| 1.2. Loans to nonfinancial corporations (S.11) | | | | | | | |
| S.11, bank overdraft | 2.41 | 2.22 | 2.23 | 2.26 | 2.18 | 2.12 | 2.08 |
| S.11, extended credit | - | - | - | - | - | - | - |
| Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation | 2.69 | 2.32 | 2.30 | 2.50 | 2.25 | 2.36 | 2.21 |
| Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation | 2.89 | 2.50 | 2.68 | 2.60 | 2.33 | 2.19 | 2.35 |
| Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation | 3.98 | 3.72 | 3.91 | 3.79 | 3.36 | 4.63 | 2.91 |
| Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation | 4.03 | 4.24 | 4.70 | 4.39 | 3.24 | 3.50 | 3.43 |
| Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation | 3.51 | 4.16 | 5.18 | 4.18 | 4.03 | 3.55 | 3.95 |
| Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation | 2.22 | 4.25 | 3.84 | 3.18 | 3.16 | 2.75 | 3.97 |
| Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation | 1.89 | 2.04 | 1.91 | 1.82 | 1.64 | 1.56 | 1.71 |
| Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation | 2.09 | 2.09 | 1.98 | 2.40 | 1.92 | 1.87 | 2.11 |
| Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation | 1.94 | 1.87 | 1.81 | 2.17 | 2.76 | 2.01 | 2.50 |
| Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation | - | 1.31 | 1.31 | 1.60 | 1.17 | 1.62 | 1.81 |
| Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation | 2.57 | 1.74 | 1.81 | 3.09 | 1.09 | 0.92 | 1.41 |
| Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation | - | - | - | 2.62 | 1.80 | 2.02 | 1.74 |
| Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation | 2.23 | 1.85 | 1.10 | 1.42 | 1.29 | 1.32 | 1.05 |
| Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation | 1.58 | 1.76 | 2.81 | 2.21 | 1.84 | 1.56 | 1.72 |
| Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation | - | 0.75 | 0.89 | 0.18 | - | - | 0.68 |
| Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation | 1.15 | - | 0.84 | 1.56 | 0.80 | 1.40 | 1.95 |
| Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation | - | 1.47 | 1.77 | 1.72 | 0.83 | 0.85 | 0.94 |
| Loans, S.11, over EUR 1 million, over 10 years initial rate fixation | 1.88 | 2.04 | 2.20 | 3.03 | 1.53 | - | 0.93 |
| **2. Interest rates of new deposits** | | | | | | | |
| 2.1. Households deposits | | | | | | | |
| Households, overnight deposits | 0.01 | 0.01 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 |
| Deposits, households, agreed maturity up to 1 year | 0.14 | 0.17 | 0.18 | 0.13 | 0.12 | 0.12 | 0.14 |
| Deposits, households, agreed maturity over 1 and up to 2 years | 0.51 | 0.54 | 0.29 | 0.21 | 0.16 | 0.16 | 0.14 |
| Deposits, households, agreed maturity over 2 years | 0.69 | 0.89 | 0.65 | 0.61 | 0.34 | 0.34 | 0.21 |
| 2.2. Deposits of nonfinancial corporations (S.11) | | | | | | | |
| S.11, overnight deposits | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deposits, S.11, agreed maturity up to 1 year | 0.04 | 0.00 | 0.01 | 0.00 | -0.03 | 0.01 | 0.01 |
| Deposits, S.11, agreed maturity over 1 and up to 2 years | 0.12 | 0.19 | 0.09 | 0.06 | 0.02 | 0.01 | 0.01 |
| Deposits, S.11, agreed maturity over 2 years | 0.26 | 0.19 | 0.32 | 0.14 | 0.09 | 0.09 | 0.10 |
| 2.3. Deposits redeemable at notice of households and nonfinancial sector together | | | | | | | |
| Deposits redeemable at notice, up to 3 months notice | 0.00 | 0.00 | 0.00 | -0.06 | -0.23 | -0.25 | -0.35 |
| Deposits redeemable at notice, over 3 months notice | 0.52 | 0.89 | 0.93 | 0.08 | 0.69 | 0.80 | 0.91 |

## Table 9.5: International investment position

| EUR million | | 2017 | 2018 | 2019 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| | **NET INTERNATIONAL INVESTMENT POSITION (1-2)** | **-10,416** | **-8,689** | **-7,714** | **-7,814** | **-7,110** | **-4,153** | **-3,709** |
| **1** | **ASSETS** | **46,608** | **49,355** | **56,014** | **61,249** | **62,450** | **66,443** | **66,764** |
| **1.1** | **Direct investment** | **8,328** | **8,825** | **10,256** | **10,314** | **10,534** | **10,852** | **10,926** |
| 1.1.1 | Equity | 4,345 | 4,754 | 5,594 | 5,692 | 5,911 | 6,000 | 6,073 |
| 1.1.2 | Debt instruments | 3,984 | 4,071 | 4,662 | 4,622 | 4,623 | 4,853 | 4,852 |
| **1.2** | **Portfolio investment** | **20,660** | **20,618** | **22,449** | **22,718** | **23,607** | **24,315** | **24,412** |
| 1.2.1 | Equity and investment fund shares | 5,028 | 4,849 | 5,723 | 5,821 | 6,373 | 7,046 | 7,449 |
| 1.2.2 | Debt securities | 15,632 | 15,769 | 16,725 | 16,897 | 17,234 | 17,269 | 16,963 |
| **1.3** | **Financial derivatives** | **302** | **384** | **562** | **756** | **675** | **609** | **606** |
| **1.4** | **Other investment** | **16,575** | **18,712** | **21,843** | **26,430** | **26,564** | **29,564** | **29,699** |
| 1.4.1 | Other equity | 1,274 | 1,336 | 1,378 | 1,378 | 1,381 | 1,328 | 1,329 |
| 1.4.2 | Currency and deposits | 6,328 | 7,844 | 10,633 | 15,245 | 15,359 | 17,498 | 17,307 |
| 1.4.3 | Loans | 2,431 | 2,593 | 2,936 | 3,115 | 3,270 | 3,426 | 3,420 |
| 1.4.4 | Insurance, pension and standardized guarantee schemes | 148 | 141 | 155 | 160 | 159 | 164 | 166 |
| 1.4.5 | Trade credit and advances | 4,801 | 5,206 | 5,212 | 5,115 | 4,921 | 5,614 | 5,821 |
| 1.4.6 | Other accounts receivable | 1,593 | 1,593 | 1,528 | 1,416 | 1,474 | 1,533 | 1,656 |
| **1.5** | **Reserve assets** | **743** | **816** | **905** | **1,031** | **1,071** | **1,103** | **1,121** |
| 1.5.1 | Monetary gold | 111 | 115 | 138 | 164 | 158 | 147 | 151 |
| 1.5.2 | Special drawing rights | 235 | 242 | 246 | 239 | 235 | 241 | 239 |
| 1.5.3 | Reserve position in the IMF | 103 | 131 | 136 | 150 | 171 | 175 | 174 |
| 1.5.4 | Other reserve assets | 294 | 329 | 385 | 477 | 508 | 540 | 557 |
| **2** | **LIABILITIES** | **57,024** | **58,044** | **63,728** | **69,063** | **69,560** | **70,596** | **70,472** |
| **2.1** | **Direct investment** | **16,316** | **17,972** | **19,595** | **19,997** | **20,147** | **20,654** | **21,240** |
| 2.1.1 | Equity | 12,590 | 13,905 | 15,023 | 15,280 | 15,653 | 15,946 | 15,796 |
| 2.1.2 | Debt instruments | 3,726 | 4,067 | 4,572 | 4,718 | 4,494 | 4,709 | 5,444 |
| **2.2** | **Portfolio investment** | **21,200** | **20,867** | **21,799** | **24,859** | **24,876** | **25,232** | **23,741** |
| 2.2.1 | Equity and investment fund shares | 1,085 | 1,751 | 2,012 | 1,665 | 1,891 | 1,921 | 2,198 |
| 2.2.2 | Debt securities | 20,115 | 19,116 | 19,787 | 23,193 | 22,985 | 23,312 | 21,543 |
| **2.3** | **Financial derivatives** | **81** | **206** | **2,374** | **4,314** | **4,182** | **2,466** | **2,452** |
| **2.4** | **Other investment** | **19,428** | **18,999** | **19,961** | **19,893** | **20,355** | **22,244** | **23,040** |
| 2.4.1 | Other equity | 37 | 44 | 42 | 44 | 43 | 45 | 25 |
| 2.4.2 | Currency and deposits | 3,747 | 3,226 | 4,244 | 4,772 | 5,029 | 5,828 | 6,778 |
| 2.4.3 | Loans | 10,377 | 10,025 | 9,840 | 9,341 | 9,423 | 10,182 | 9,787 |
| 2.4.4 | Insurance, pension and standardized guarantee schemes | 219 | 228 | 263 | 366 | 357 | 429 | 456 |
| 2.4.5 | Trade credit and advances | 4,161 | 4,602 | 4,625 | 4,234 | 4,471 | 4,688 | 4,957 |
| 2.4.6 | Other accounts payable | 630 | 612 | 680 | 876 | 779 | 875 | 869 |
| 2.4.7 | Special drawing rights | 256 | 262 | 266 | 260 | 254 | 261 | 259 |

**Table 9.6: Gross external debt**

| *EUR million* | | 2017 | 2018 | 2019 | 20Q3 | 21Q4 | 21Q1 | Aug.21 |
|---|---|---|---|---|---|---|---|---|
| | **TOTAL (1+2+3+4+5)** | **43,231** | **42,139** | **44,277** | **47,792** | **50,283** | **50,094** | **51,150** |
| 1 | **GENERAL GOVERNMENT** | **21,980** | **21,094** | **21,687** | **24,964** | **26,201** | **24,353** | **24,799** |
| 1.1 | **Short-term, of that** | **652** | **732** | **832** | **1,100** | **1,162** | **1,241** | **1,349** |
| | Debt securities | 75 | 85 | 19 | 18 | 88 | 205 | 225 |
| | Loans | 273 | 336 | 510 | 614 | 533 | 495 | 588 |
| | Trade credit and advances | 35 | 35 | 34 | 36 | 36 | 49 | 45 |
| | Other debt liabilities | 269 | 276 | 268 | 433 | 504 | 491 | 491 |
| 1.2 | **Long-term, of that** | **21,328** | **20,362** | **20,855** | **23,864** | **25,039** | **23,112** | **23,450** |
| | Debt securities | 19,517 | 18,602 | 19,171 | 22,021 | 22,287 | 20,397 | 20,738 |
| | Loans | 1,809 | 1,758 | 1,681 | 1,839 | 2,749 | 2,712 | 2,710 |
| 2 | **CENTRAL BANK** | **3,011** | **2,661** | **3,828** | **4,638** | **5,259** | **6,159** | **7,087** |
| 2.1 | **Short-term, of that** | **2,755** | **2,399** | **3,562** | **4,384** | **4,998** | **5,900** | **6,151** |
| | Currency and deposits | 2,755 | 2,399 | 3,562 | 4,384 | 4,998 | 5,892 | 6,140 |
| 2.2 | **Long-term, of that** | **256** | **262** | **266** | **254** | **261** | **259** | **936** |
| | Special drawing rights (allocations) | 256 | 262 | 266 | 254 | 261 | 259 | 936 |
| 3 | **DEPOSIT TAKING CORPORATIONS, except the Central Bank** | **3,782** | **3,344** | **3,544** | **3,511** | **3,660** | **3,749** | **3,545** |
| 3.1 | **Short-term** | **1,058** | **927** | **946** | **894** | **1,058** | **1,132** | **992** |
| | Currency and deposits | 765 | 669 | 601 | 618 | 802 | 864 | 746 |
| | Debt securities | ... | ... | ... | ... | ... | ... | ... |
| | Loans | 200 | 251 | 310 | 235 | 217 | 223 | 204 |
| | Trade credit and advances | ... | ... | ... | ... | ... | ... | ... |
| | Other debt liabilities | 92 | 7 | 35 | 41 | 39 | 45 | 42 |
| 3.2 | **Long-term** | **2,724** | **2,418** | **2,598** | **2,617** | **2,603** | **2,617** | **2,552** |
| | Currency and deposits | 227 | 159 | 82 | 27 | 28 | 22 | 23 |
| | Debt securities | 168 | 88 | 316 | 672 | 661 | 738 | 759 |
| | Loans | 2,323 | 2,162 | 2,196 | 1,911 | 1,909 | 1,854 | 1,767 |
| | Trade credit and advances | 6 | 7 | 4 | 6 | 4 | 2 | 1 |
| | Other debt liabilities | 1 | 1 | 1 | 1 | 1 | 2 | 2 |
| 4 | **OTHER SECTORS** | **10,731** | **10,973** | **10,646** | **10,184** | **10,455** | **10,389** | **10,222** |
| 4.1 | **Short-term, of that** | **4,596** | **5,182** | **5,303** | **4,997** | **5,566** | **5,804** | **5,565** |
| | Debt securities | 0 | 1 | 2 | ... | ... | ... | ... |
| | Loans | 281 | 375 | 446 | 384 | 709 | 692 | 701 |
| | Trade credit and advances | 4,094 | 4,540 | 4,567 | 4,399 | 4,619 | 4,879 | 4,655 |
| | Other debt liabilities | 220 | 267 | 288 | 213 | 239 | 233 | 209 |
| 4.2 | **Long-term, of that** | **6,135** | **5,791** | **5,343** | **5,188** | **4,888** | **4,585** | **4,657** |
| | Debt securities | 355 | 340 | 279 | 275 | 276 | 202 | 197 |
| | Loans | 5,490 | 5,145 | 4,698 | 4,439 | 4,065 | 3,811 | 3,890 |
| | Trade credit and advances | 26 | 17 | 16 | 26 | 26 | 26 | 25 |
| | Other debt liabilities | 264 | 289 | 350 | 448 | 521 | 546 | 545 |
| 5 | **DIRECT INVESTMENT: intercompany lending** | **3,726** | **4,067** | **4,572** | **4,494** | **4,709** | **5,444** | **5,497** |
| | **NET EXTERNAL DEBT POSITION** | **7,572** | **4,107** | **1,564** | **-192** | **-997** | **-1,133** | **-983** |

**Table 9.7: Balance of payments**

| *EUR million* | 2018 | 2019 | 2020 | 20Q4 | 21Q1 | 21Q2 | Aug.21 |
|---|---|---|---|---|---|---|---|
| **I. Current account** | **2,731** | **2,898** | **3,462** | **963** | **792** | **527** | **125** |
| **1. Goods** | **1,272** | **1,311** | **2,366** | **530** | **545** | **204** | **-31** |
| **1.1. Export of goods** | **30,808** | **32,013** | **29,656** | **8,001** | **8,241** | **8,760** | **2,523** |
| Export f.o.b. | 30,858 | 33,548 | 32,925 | 8,678 | 9,414 | 9,780 | 2,782 |
| Coverage adjustment | -309 | -1,928 | -3,742 | -822 | -1,300 | -1,171 | -319 |
| Net export of goods under merchanting | 238 | 367 | 444 | 140 | 121 | 145 | 61 |
| Nonmonetary gold | 21 | 25 | 28 | 6 | 6 | 6 | 0 |
| **1.2. Import of goods** | **29,535** | **30,702** | **27,290** | **7,471** | **7,696** | **8,556** | **2,554** |
| Import c.i.f. | 30,706 | 34,082 | 32,111 | 9,126 | 8,784 | 10,220 | 3,270 |
| Coverage adjustment | -363 | -2,521 | -4,128 | -1,461 | -893 | -1,461 | -643 |
| Valuation adjustment | -853 | -886 | -786 | -215 | -221 | -246 | -74 |
| Nonmonetary gold | 45 | 27 | 92 | 20 | 27 | 42 | 0 |
| **2. Services** | **2,624** | **2,907** | **1,996** | **522** | **484** | **496** | **224** |
| **2.1. Export of services, of that** | **8,124** | **8,659** | **6,900** | **1,861** | **1,575** | **1,859** | **784** |
| Transport | 2,431 | 2,512 | 2,330 | 647 | 620 | 653 | 200 |
| Travel | 2,704 | 2,843 | 1,200 | 147 | 121 | 246 | 287 |
| Construction services | 497 | 592 | 650 | 185 | 167 | 186 | 63 |
| Telecomm., computer and inform. services | 540 | 631 | 659 | 190 | 147 | 173 | 63 |
| Other business services | 1,368 | 1,451 | 1,440 | 510 | 353 | 415 | 119 |
| **2.2. Import of services, of that** | **5,500** | **5,751** | **4,904** | **1,338** | **1,092** | **1,362** | **560** |
| Transport | 1,107 | 1,185 | 1,128 | 338 | 324 | 363 | 120 |
| Travel | 1,483 | 1,500 | 718 | 65 | 43 | 174 | 178 |
| Construction services | 177 | 200 | 220 | 73 | 55 | 70 | 21 |
| Telecomm., computer and inform. services | 546 | 606 | 610 | 178 | 136 | 156 | 56 |
| Other business services | 1,467 | 1,525 | 1,528 | 475 | 353 | 402 | 132 |
| **3. Primary income** | **-769** | **-811** | **-426** | **7** | **-122** | **-172** | **-48** |
| **3.1. Receipts** | **1,633** | **1,758** | **1,645** | **479** | **435** | **415** | **143** |
| Compensation of employees | 486 | 536 | 493 | 135 | 89 | 99 | 41 |
| Investment | 802 | 845 | 713 | 182 | 184 | 192 | 61 |
| Other primary income | 345 | 378 | 439 | 162 | 163 | 124 | 41 |
| **3.2. Expenditure** | **2,401** | **2,569** | **2,071** | **472** | **557** | **587** | **191** |
| Compensation of employees | 173 | 195 | 169 | 41 | 38 | 43 | 16 |
| Investment | 2,024 | 2,164 | 1,710 | 376 | 454 | 494 | 157 |
| Other primary income | 204 | 211 | 192 | 54 | 64 | 50 | 18 |
| **4. Secondary income** | **-396** | **-509** | **-473** | **-96** | **-114** | **-1** | **-20** |
| **4.1. Receipts** | **873** | **934** | **972** | **304** | **288** | **392** | **94** |
| **4.2. Expenditure** | **1,270** | **1,443** | **1,445** | **400** | **402** | **393** | **114** |

**Table 9.8: Balance of payments, continued**

| *EUR million* | 2018 | 2019 | 2020 | 20Q4 | 21Q1 | 21Q2 | Aug.21 |
|---|---|---|---|---|---|---|---|
| **II. Capital account** | **-203** | **-187** | **-226** | **-130** | **143** | **-11** | **21** |
| 1. Nonproduced nofinancial assets | -24 | -24 | -63 | -93 | 70 | 19 | 12 |
| 2. Capital transfers | -178 | -163 | -163 | -36 | 73 | -30 | 9 |
| **III. Financial account** | **2,548** | **2,094** | **3,052** | **970** | **785** | **421** | **296** |
| **1. Direct investment** | **-934** | **-762** | **266** | **543** | **-181** | **-526** | **-46** |
| Assets | 373 | 1,157 | 697 | 557 | 309 | 86 | 48 |
| Equity and reinvested earnings | 443 | 676 | 578 | 517 | 88 | 74 | 29 |
| Debt instruments | -70 | 482 | 119 | 40 | 221 | 12 | 19 |
| Liabilities | 1,307 | 1,919 | 431 | 14 | 491 | 612 | 94 |
| Equity and reinvested earnings | 1,088 | 1,697 | 585 | 231 | 296 | -128 | 81 |
| Debt instruments | 220 | 223 | -154 | -217 | 195 | 740 | 13 |
| **2. Portfolio investment** | **744** | **734** | **-1,826** | **740** | **-170** | **1,630** | **544** |
| Assets | 492 | 696 | 877 | 418 | 532 | -64 | 115 |
| Equity and investment fund shares | 117 | -3 | 456 | 157 | 287 | 132 | 61 |
| Debt securities | 375 | 699 | 421 | 261 | 245 | -196 | 54 |
| Liabilities | -252 | -38 | 2,704 | -322 | 702 | -1,694 | -428 |
| Equity and investment fund shares | 543 | 83 | -6 | 11 | -17 | 0 | -1 |
| Debt securities | -795 | -121 | 2,709 | -333 | 719 | -1,694 | -428 |
| **3. Financial derivatives** | **-81** | **-163** | **53** | **27** | **-18** | **10** | **2** |
| **4. Other investment** | **2,767** | **2,248** | **4,394** | **-402** | **1,142** | **-701** | **-907** |
| **4.1. Assets** | **2,054** | **3,250** | **4,856** | **218** | **3,030** | **132** | **-237** |
| Other equity | 68 | 27 | 4 | 0 | 0 | 2 | 0 |
| Currency and deposits | 1,508 | 2,811 | 4,753 | 121 | 2,128 | -191 | -141 |
| Loans | 215 | 438 | 342 | 165 | 153 | -10 | -24 |
| Insurance, pension and stand. guar. schemes | -7 | 13 | 1 | -2 | 5 | 1 | ... |
| Trade credits and advances | 303 | 29 | -224 | -140 | 673 | 207 | -86 |
| Other assets | -33 | -69 | -20 | 74 | 71 | 123 | 15 |
| **4.2. Liabilities** | **-713** | **1,002** | **462** | **620** | **1,888** | **833** | **670** |
| Other equity | 2 | 2 | 4 | 3 | 2 | -42 | 0 |
| Currency and deposits | -524 | 1,009 | 800 | 263 | 788 | 950 | -10 |
| Loans | -491 | -149 | -409 | 131 | 756 | -372 | 83 |
| Insurance, pension and stand. guar. schemes | 20 | 27 | 55 | -9 | 30 | 27 | ... |
| Trade credits and advances | 331 | 62 | -134 | 297 | 208 | 275 | -79 |
| Other liabilities | -51 | 50 | 146 | -65 | 104 | -5 | 1 |
| Special drawing reights (SDR) | 0 | 0 | 0 | 0 | 0 | 0 | 675 |
| **5. Reserve assets** | **52** | **37** | **166** | **62** | **13** | **7** | **704** |
| **IV. Net errors and omissions** | **20** | **-616** | **-184** | **137** | **-151** | **-95** | **150** |

**Table 9.9: Non-consolidated financial assets, outstanding amounts**

| *EUR million* | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| **Domestic sector** | | | | | | | | |
| Total | 207,578 | 222,276 | 224,470 | 236,704 | 238,067 | 245,393 | 255,694 | 261,131 |
| Monetary gold and SDRs | 356 | 385 | 399 | 406 | 404 | 392 | 387 | 390 |
| Currency and deposits | 51,976 | 57,381 | 61,342 | 69,622 | 69,447 | 71,797 | 78,741 | 80,580 |
| Debt securities | 29,251 | 30,731 | 29,706 | 31,815 | 33,664 | 35,193 | 35,731 | 36,328 |
| Loans | 36,350 | 37,693 | 38,746 | 38,003 | 37,805 | 37,546 | 38,068 | 38,296 |
| Shares | 19,566 | 20,206 | 18,489 | 19,784 | 19,162 | 20,406 | 21,396 | 22,344 |
| Other equity | 32,354 | 35,782 | 36,176 | 36,854 | 37,209 | 38,373 | 38,127 | 38,277 |
| Investment fund shares/units | 4,466 | 5,736 | 5,008 | 5,581 | 5,835 | 6,352 | 7,093 | 7,537 |
| Insurance and pension schemes | 8,073 | 8,705 | 8,421 | 8,751 | 8,868 | 9,025 | 9,161 | 9,341 |
| Other | 25,187 | 25,657 | 26,184 | 25,888 | 25,671 | 26,310 | 26,990 | 28,036 |
| **Non-financial corporations** | | | | | | | | |
| Total | 47,289 | 49,357 | 50,012 | 49,975 | 50,425 | 51,300 | 52,861 | 54,009 |
| Currency and deposits | 7,523 | 7,736 | 8,055 | 8,406 | 8,827 | 9,156 | 9,751 | 9,382 |
| Debt securities | 112 | 111 | 109 | 102 | 130 | 131 | 126 | 127 |
| Loans | 5,494 | 6,054 | 5,980 | 6,280 | 6,203 | 5,935 | 6,012 | 6,088 |
| Shares | 2,325 | 2,304 | 2,182 | 2,219 | 2,134 | 2,214 | 2,229 | 2,255 |
| Other equity | 14,026 | 15,051 | 15,206 | 15,396 | 15,357 | 15,880 | 15,948 | 16,149 |
| Investment fund shares/units | 58 | 209 | 182 | 190 | 205 | 211 | 252 | 280 |
| Insurance and pension schemes | 442 | 453 | 487 | 504 | 500 | 459 | 471 | 465 |
| Other | 17,309 | 17,439 | 17,811 | 16,878 | 17,068 | 17,313 | 18,072 | 19,262 |
| **Monetary financial institutions** | | | | | | | | |
| Total | 56,596 | 61,452 | 63,165 | 69,405 | 69,861 | 72,723 | 78,008 | 81,097 |
| Monetary gold and SDRs | 356 | 385 | 399 | 406 | 404 | 392 | 387 | 390 |
| Currency and deposits | 9,327 | 12,533 | 13,629 | 18,691 | 18,142 | 19,191 | 23,358 | 25,568 |
| Debt securities | 21,894 | 22,654 | 21,996 | 23,783 | 25,389 | 26,721 | 27,413 | 28,071 |
| Loans | 23,365 | 24,226 | 24,753 | 24,248 | 24,209 | 24,273 | 24,615 | 24,659 |
| Shares | 771 | 690 | 1,280 | 1,253 | 692 | 1,110 | 1,120 | 1,239 |
| Other equity | 383 | 408 | 408 | 419 | 421 | 412 | 426 | 415 |
| Investment fund shares/units | 3 | 48 | 56 | 82 | 102 | 131 | 193 | 221 |
| Insurance and pension schemes | 41 | 39 | 39 | 38 | 37 | 44 | 44 | 45 |
| Other | 456 | 468 | 605 | 486 | 466 | 449 | 452 | 488 |
| **Other financial institutions** | | | | | | | | |
| Total | 18,414 | 20,165 | 19,169 | 20,051 | 20,249 | 20,893 | 21,648 | 22,201 |
| Currency and deposits | 1,188 | 1,342 | 1,422 | 1,330 | 1,254 | 1,214 | 1,316 | 1,357 |
| Debt securities | 6,601 | 7,223 | 6,901 | 7,226 | 7,446 | 7,622 | 7,501 | 7,475 |
| Loans | 2,865 | 2,731 | 2,694 | 2,664 | 2,632 | 2,592 | 2,583 | 2,643 |
| Shares | 3,684 | 4,057 | 3,405 | 3,864 | 3,845 | 4,085 | 4,456 | 4,714 |
| Other equity | 857 | 1,027 | 1,185 | 1,202 | 1,226 | 1,375 | 1,385 | 1,384 |
| Investment fund shares/units | 2,208 | 2,706 | 2,385 | 2,624 | 2,758 | 3,006 | 3,339 | 3,490 |
| Insurance and pension schemes | 204 | 219 | 265 | 259 | 249 | 233 | 246 | 249 |
| Other | 808 | 860 | 911 | 882 | 840 | 766 | 823 | 889 |
| **General government** | | | | | | | | |
| Total | 31,973 | 33,517 | 34,450 | 37,228 | 36,840 | 37,460 | 38,692 | 37,557 |
| Currency and deposits | 8,481 | 8,227 | 9,952 | 11,828 | 11,378 | 11,194 | 12,557 | 11,573 |
| Debt securities | 421 | 509 | 489 | 492 | 497 | 515 | 505 | 512 |
| Loans | 3,398 | 3,415 | 4,060 | 3,451 | 3,369 | 3,349 | 3,444 | 3,375 |
| Shares | 9,677 | 9,935 | 8,660 | 9,161 | 9,181 | 9,465 | 9,805 | 10,192 |
| Other equity | 6,009 | 7,223 | 7,184 | 7,488 | 7,720 | 8,036 | 7,616 | 7,345 |
| Investment fund shares/units | 297 | 364 | 325 | 360 | 371 | 394 | 430 | 427 |
| Insurance and pension schemes | 23 | 26 | 25 | 26 | 27 | 19 | 4 | 5 |
| Other | 3,666 | 3,818 | 3,754 | 4,422 | 4,297 | 4,487 | 4,332 | 4,127 |
| **Households and NPISHs** | | | | | | | | |
| Total | 53,306 | 57,786 | 57,675 | 60,044 | 60,692 | 63,017 | 64,486 | 66,269 |
| Currency and deposits | 25,457 | 27,543 | 28,283 | 29,367 | 29,846 | 31,042 | 31,760 | 32,700 |
| Debt securities | 222 | 234 | 210 | 212 | 203 | 205 | 187 | 143 |
| Loans | 1,227 | 1,267 | 1,259 | 1,360 | 1,391 | 1,396 | 1,414 | 1,531 |
| Shares | 3,109 | 3,220 | 2,962 | 3,287 | 3,310 | 3,532 | 3,787 | 3,945 |
| Other equity | 11,080 | 12,073 | 12,192 | 12,349 | 12,486 | 12,670 | 12,752 | 12,984 |
| Investment fund shares/units | 1,900 | 2,410 | 2,060 | 2,326 | 2,399 | 2,609 | 2,879 | 3,118 |
| Insurance and pension schemes | 7,363 | 7,968 | 7,606 | 7,924 | 8,056 | 8,269 | 8,396 | 8,577 |
| Other | 2,948 | 3,071 | 3,103 | 3,220 | 3,000 | 3,294 | 3,312 | 3,270 |
| **Rest of the world** | | | | | | | | |
| Total | 58,567 | 64,513 | 67,061 | 70,390 | 70,232 | 70,475 | 71,510 | 71,681 |
| Monetary gold and SDRs | 263 | 267 | 269 | 265 | 260 | 254 | 261 | 259 |
| Currency and deposits | 5,650 | 6,760 | 6,868 | 7,144 | 6,992 | 7,190 | 7,964 | 8,831 |
| Debt securities | 19,516 | 20,148 | 21,510 | 23,922 | 23,466 | 23,316 | 23,468 | 21,804 |
| Loans | 10,345 | 10,235 | 10,302 | 10,475 | 10,149 | 10,071 | 10,899 | 11,125 |
| Shares | 6,428 | 7,031 | 6,354 | 6,631 | 6,877 | 7,119 | 7,322 | 7,806 |
| Other equity | 9,201 | 10,169 | 10,314 | 10,385 | 10,537 | 10,692 | 10,836 | 10,617 |
| Investment fund shares/units | 29 | 40 | 35 | 39 | 40 | 44 | 61 | 65 |
| Insurance and pension schemes | 228 | 263 | 303 | 332 | 366 | 357 | 429 | 456 |
| Other | 6,906 | 9,600 | 11,106 | 11,196 | 11,545 | 11,431 | 10,269 | 10,718 |

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### Table 9.10: Non-consolidated liabilities, outstanding amounts

| EUR million | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| **Domestic sector** | | | | | | | | |
| Total | 217,067 | 230,933 | 233,606 | 246,013 | 247,240 | 253,466 | 260,798 | 266,083 |
| Monetary gold and SDRs | 263 | 267 | 269 | 265 | 260 | 254 | 261 | 259 |
| Currency and deposits | 48,450 | 52,161 | 53,502 | 59,316 | 59,753 | 62,316 | 67,810 | 70,704 |
| Debt securities | 32,629 | 33,837 | 34,752 | 38,995 | 39,940 | 40,983 | 41,639 | 40,900 |
| Loans | 41,871 | 42,546 | 43,694 | 42,956 | 42,443 | 41,901 | 43,030 | 43,666 |
| Shares | 22,332 | 23,161 | 21,214 | 22,425 | 21,913 | 22,673 | 23,491 | 24,526 |
| Other equity | 36,788 | 40,260 | 40,749 | 41,462 | 42,085 | 43,303 | 43,179 | 43,078 |
| Investment fund shares/units | 2,396 | 3,008 | 2,548 | 2,874 | 2,974 | 3,231 | 3,637 | 3,921 |
| Insurance and pension schemes | 8,161 | 8,813 | 8,567 | 8,922 | 9,075 | 9,223 | 9,425 | 9,632 |
| Other | 24,177 | 26,881 | 28,310 | 28,798 | 28,799 | 29,581 | 28,325 | 29,397 |
| **Non-financial corporations** | | | | | | | | |
| Total | 87,008 | 89,560 | 89,134 | 89,939 | 89,985 | 90,926 | 92,350 | 94,230 |
| Debt securities | 977 | 732 | 724 | 728 | 716 | 693 | 683 | 619 |
| Loans | 22,646 | 22,521 | 22,896 | 22,861 | 22,382 | 21,755 | 21,961 | 22,482 |
| Shares | 13,139 | 13,394 | 12,594 | 13,384 | 13,301 | 13,596 | 13,970 | 14,620 |
| Other equity | 32,581 | 34,898 | 35,237 | 35,575 | 36,010 | 36,802 | 37,091 | 37,017 |
| Other | 17,664 | 18,015 | 17,684 | 17,391 | 17,576 | 18,081 | 18,645 | 19,493 |
| **Monetary financial institutions** | | | | | | | | |
| Total | 55,284 | 60,634 | 61,778 | 67,888 | 68,475 | 71,405 | 76,708 | 79,843 |
| Monetary gold and SDRs | 263 | 267 | 269 | 265 | 260 | 254 | 261 | 259 |
| Currency and deposits | 47,534 | 51,274 | 52,632 | 58,478 | 58,920 | 61,477 | 67,041 | 69,837 |
| Debt securities | 148 | 600 | 728 | 730 | 1,067 | 1,050 | 1,051 | 1,182 |
| Loans | 218 | 236 | 235 | 262 | 262 | 269 | 273 | 283 |
| Shares | 4,744 | 4,936 | 4,433 | 4,511 | 4,146 | 4,334 | 4,502 | 4,699 |
| Other equity | 1,957 | 2,797 | 2,751 | 3,039 | 3,253 | 3,489 | 3,077 | 3,024 |
| Investment fund shares/units | 79 | 56 | 90 | 74 | 71 | 71 | 54 | 57 |
| Other | 340 | 468 | 639 | 530 | 496 | 461 | 450 | 501 |
| **Other financial institutions** | | | | | | | | |
| Total | 17,801 | 19,647 | 18,586 | 19,432 | 19,497 | 20,055 | 20,883 | 21,513 |
| Debt securities | 113 | 232 | 199 | 198 | 198 | 193 | 195 | 145 |
| Loans | 2,558 | 2,590 | 2,559 | 2,506 | 2,446 | 2,420 | 2,396 | 2,483 |
| Shares | 2,682 | 2,911 | 2,429 | 2,554 | 2,464 | 2,656 | 2,794 | 2,853 |
| Other equity | 1,511 | 1,676 | 1,873 | 1,953 | 1,924 | 2,049 | 2,062 | 2,075 |
| Investment fund shares/units | 2,317 | 2,952 | 2,458 | 2,800 | 2,903 | 3,160 | 3,583 | 3,864 |
| Insurance and pension schemes | 8,161 | 8,813 | 8,567 | 8,922 | 9,075 | 9,214 | 9,416 | 9,623 |
| Other | 459 | 472 | 501 | 499 | 487 | 364 | 437 | 470 |
| **General government** | | | | | | | | |
| Total | 42,786 | 46,315 | 49,452 | 54,144 | 54,446 | 56,284 | 55,981 | 55,444 |
| Currency and deposits | 916 | 887 | 870 | 837 | 833 | 839 | 769 | 867 |
| Debt securities | 31,390 | 32,272 | 33,101 | 37,339 | 37,958 | 39,047 | 39,711 | 38,954 |
| Loans | 4,091 | 4,195 | 5,030 | 4,435 | 4,300 | 4,400 | 5,285 | 5,149 |
| Shares | 1,767 | 1,920 | 1,758 | 1,975 | 2,001 | 2,087 | 2,225 | 2,354 |
| Other equity | 738 | 888 | 889 | 896 | 898 | 964 | 950 | 962 |
| Other | 3,884 | 6,153 | 7,804 | 8,661 | 8,456 | 8,946 | 7,041 | 7,158 |
| **Households and NPISHs** | | | | | | | | |
| Total | 14,187 | 14,777 | 14,656 | 14,610 | 14,837 | 14,796 | 14,876 | 15,053 |
| Loans | 12,358 | 13,004 | 12,974 | 12,893 | 13,053 | 13,057 | 13,115 | 13,269 |
| Other | 1,829 | 1,773 | 1,682 | 1,717 | 1,785 | 1,739 | 1,761 | 1,784 |
| **Rest of the world** | | | | | | | | |
| Total | 49,078 | 55,855 | 57,925 | 61,080 | 61,058 | 62,402 | 66,405 | 66,730 |
| Monetary gold and SDRs | 356 | 384 | 398 | 406 | 403 | 392 | 387 | 390 |
| Currency and deposits | 9,176 | 11,981 | 14,708 | 17,450 | 16,686 | 16,671 | 18,895 | 18,707 |
| Debt securities | 16,138 | 17,042 | 16,463 | 16,743 | 17,191 | 17,527 | 17,560 | 17,232 |
| Loans | 4,823 | 5,382 | 5,354 | 5,521 | 5,511 | 5,716 | 5,937 | 5,755 |
| Shares | 3,663 | 4,076 | 3,629 | 3,990 | 4,126 | 4,852 | 5,228 | 5,624 |
| Other equity | 4,767 | 5,692 | 5,740 | 5,776 | 5,661 | 5,762 | 5,784 | 5,817 |
| Investment fund shares/units | 2,099 | 2,768 | 2,495 | 2,747 | 2,901 | 3,165 | 3,517 | 3,682 |
| Insurance and pension schemes | 141 | 155 | 157 | 161 | 160 | 159 | 164 | 166 |
| Other | 7,916 | 8,376 | 8,980 | 8,286 | 8,417 | 8,159 | 8,933 | 9,357 |

### Table 9.11: Net financial assets

| EUR million | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| Domestic sector | -9,488 | -8,657 | -9,136 | -9,309 | -9,174 | -8,072 | -5,104 | -4,951 |
| Non-financial corporations | -39,719 | -40,204 | -39,122 | -39,963 | -39,560 | -39,626 | -39,490 | -40,222 |
| Monetary financial institutions | 1,312 | 818 | 1,387 | 1,517 | 1,387 | 1,318 | 1,300 | 1,254 |
| Other financial institutions | 613 | 518 | 583 | 619 | 751 | 837 | 764 | 688 |
| General government | -10,813 | -12,798 | -15,002 | -16,915 | -17,606 | -18,823 | -17,289 | -17,887 |
| Households and NPISHs | 39,119 | 43,010 | 43,019 | 45,434 | 45,854 | 48,221 | 49,611 | 51,215 |
| Rest of the world | 9,489 | 8,657 | 9,136 | 9,309 | 9,174 | 8,073 | 5,104 | 4,952 |

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

| EUR million | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| **Domestic sector** | | | | | | | | |
| Total | 7,753 | 8,113 | 13,693 | 20,085 | 19,263 | 21,053 | 25,837 | 20,886 |
| Monetary gold and SDRs | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 5,159 | 5,347 | 10,457 | 17,213 | 15,405 | 14,503 | 17,460 | 11,007 |
| Debt securities | 1,030 | 606 | 251 | 1,415 | 2,708 | 3,821 | 5,516 | 4,713 |
| Loans | 829 | 1,993 | 2,497 | 1,048 | 706 | 198 | -395 | 440 |
| Shares | -863 | -712 | -191 | 141 | 249 | 714 | 839 | 857 |
| Other equity | 572 | 635 | 621 | 549 | 374 | 632 | 615 | 571 |
| Investment fund shares/units | 101 | 216 | 311 | 342 | 339 | 477 | 738 | 828 |
| Insurance and pension schemes | 165 | 305 | 252 | 235 | 286 | 232 | 272 | 276 |
| Other | 759 | -278 | -506 | -858 | -804 | 478 | 792 | 2,195 |
| **Non-financial corporations** | | | | | | | | |
| Total | 1,445 | 1,099 | 909 | 608 | 986 | 1,773 | 2,364 | 3,404 |
| Currency and deposits | 425 | 229 | 527 | 1,022 | 1,016 | 1,419 | 1,687 | 965 |
| Debt securities | 21 | -14 | -9 | -33 | -6 | 1 | -3 | 11 |
| Loans | 47 | 612 | 278 | 331 | 320 | -33 | 58 | -210 |
| Shares | 41 | -179 | 10 | 95 | 104 | 87 | 90 | 71 |
| Other equity | 285 | 533 | 542 | 521 | 344 | 314 | 309 | 291 |
| Investment fund shares/units | 1 | -31 | -31 | -22 | -20 | 20 | 35 | 42 |
| Insurance and pension schemes | -8 | 8 | 24 | 17 | 33 | 17 | -28 | -49 |
| Other | 632 | -59 | -431 | -1,323 | -804 | -52 | 215 | 2,284 |
| **Monetary financial institutions** | | | | | | | | |
| Total | 2,522 | 4,354 | 6,857 | 11,888 | 11,928 | 11,220 | 15,250 | 12,436 |
| Monetary gold and SDRs | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 1,251 | 3,195 | 5,144 | 10,031 | 9,080 | 6,693 | 9,750 | 6,892 |
| Debt securities | 837 | 131 | -43 | 1,070 | 2,351 | 3,568 | 5,194 | 4,500 |
| Loans | 528 | 1,131 | 1,322 | 477 | 165 | 131 | -19 | 504 |
| Shares | -13 | -71 | 387 | 379 | 397 | 826 | 394 | 455 |
| Other equity | 23 | -31 | -23 | 9 | 9 | 2 | 13 | -6 |
| Investment fund shares/units | 1 | 40 | 47 | 54 | 61 | 70 | 97 | 98 |
| Insurance and pension schemes | 1 | -2 | -2 | -4 | -4 | 5 | 6 | 7 |
| Other | -107 | -40 | 25 | -128 | -130 | -75 | -182 | -16 |
| **Other financial institutions** | | | | | | | | |
| Total | 273 | 524 | 617 | 547 | 598 | 452 | 723 | 898 |
| Currency and deposits | 36 | 131 | 20 | -121 | -103 | -102 | -82 | 49 |
| Debt securities | 137 | 415 | 274 | 356 | 352 | 259 | 332 | 206 |
| Loans | 38 | -32 | -40 | -14 | -38 | -95 | -73 | 7 |
| Shares | -8 | -210 | 62 | 134 | 194 | 184 | 234 | 213 |
| Other equity | 9 | 42 | 53 | 45 | 57 | 69 | 64 | 48 |
| Investment fund shares/units | 36 | 124 | 183 | 183 | 167 | 224 | 361 | 377 |
| Insurance and pension schemes | 4 | 16 | 45 | 33 | 25 | 14 | -17 | -8 |
| Other | 19 | 37 | 20 | -68 | -56 | -101 | -96 | 5 |
| **General government** | | | | | | | | |
| Total | 974 | -449 | 2,602 | 3,745 | 2,383 | 3,098 | 2,754 | -328 |
| Currency and deposits | 1,733 | -287 | 2,486 | 3,594 | 2,588 | 2,984 | 2,617 | -245 |
| Debt securities | 11 | 86 | 41 | 33 | 20 | 7 | 11 | 23 |
| Loans | 18 | 220 | 894 | 117 | 84 | 47 | -534 | 8 |
| Shares | -929 | -194 | -599 | -467 | -466 | -442 | 9 | 15 |
| Other equity | 19 | 38 | 2 | 1 | 1 | -1 | 1 | -11 |
| Investment fund shares/units | 16 | 3 | 16 | 14 | -6 | 13 | 6 | -9 |
| Insurance and pension schemes | -2 | 2 | 2 | -4 | -4 | -5 | -1 | -1 |
| Other | 108 | -317 | -240 | 455 | 167 | 494 | 647 | -107 |
| **Households and NPISHs** | | | | | | | | |
| Total | 2,540 | 2,585 | 2,707 | 3,297 | 3,367 | 4,509 | 4,745 | 4,476 |
| Currency and deposits | 1,713 | 2,080 | 2,281 | 2,687 | 2,825 | 3,508 | 3,488 | 3,347 |
| Debt securities | 23 | -11 | -12 | -11 | -9 | -15 | -18 | -27 |
| Loans | 198 | 61 | 43 | 137 | 175 | 147 | 174 | 130 |
| Shares | 46 | -59 | -51 | -1 | 21 | 59 | 112 | 103 |
| Other equity | 236 | 53 | 47 | -27 | -36 | 248 | 228 | 248 |
| Investment fund shares/units | 47 | 79 | 96 | 114 | 136 | 149 | 239 | 320 |
| Insurance and pension schemes | 170 | 281 | 183 | 193 | 236 | 201 | 313 | 326 |
| Other | 106 | 101 | 120 | 205 | 19 | 212 | 209 | 29 |
| **Rest of the world** | | | | | | | | |
| Total | 513 | 2,374 | 4,260 | 5,730 | 4,124 | 3,412 | 4,644 | 2,188 |
| Monetary gold and SDRs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | -647 | 1,095 | 1,153 | 1,119 | 822 | 447 | 1,099 | 1,690 |
| Debt securities | -581 | -520 | 1,785 | 4,014 | 2,836 | 2,511 | 1,740 | -1,933 |
| Loans | -242 | -242 | -55 | -99 | -625 | -238 | 536 | 609 |
| Shares | 860 | 843 | 354 | 131 | 78 | 85 | 127 | 125 |
| Other equity | 781 | 831 | 767 | 739 | 727 | 560 | 622 | 335 |
| Investment fund shares/units | 0 | 0 | 0 | 0 | 1 | 2 | 12 | 15 |
| Insurance and pension schemes | 20 | 27 | 27 | 32 | 30 | 55 | 46 | 54 |
| Other | 321 | 341 | 229 | -206 | 256 | -10 | 462 | 1,294 |

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

| *EUR million* | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| **Domestic sector** | | | | | | | | |
| Total | 5,521 | 5,917 | 11,326 | 18,271 | 17,192 | 18,260 | 23,538 | 18,330 |
| Monetary gold and SDRs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 2,847 | 3,670 | 6,118 | 11,181 | 10,810 | 10,228 | 14,358 | 11,432 |
| Debt securities | 154 | -465 | 2,029 | 5,464 | 5,286 | 6,001 | 6,403 | 2,177 |
| Loans | 345 | 1,097 | 1,892 | 568 | -281 | -403 | -414 | 843 |
| Shares | -99 | 130 | 127 | 198 | 149 | 164 | 205 | 139 |
| Other equity | 944 | 880 | 797 | 726 | 734 | 1,096 | 1,141 | 828 |
| Investment fund shares/units | 5 | 86 | 108 | 101 | 134 | 150 | 296 | 375 |
| Insurance and pension schemes | 191 | 319 | 273 | 258 | 309 | 286 | 313 | 327 |
| Other | 1,133 | 201 | -18 | -225 | 50 | 739 | 1,237 | 2,209 |
| **Non-financial corporations** | | | | | | | | |
| Total | 1,455 | 1,085 | 540 | 214 | 272 | 501 | 1,260 | 2,368 |
| Debt securities | -12 | -251 | -245 | -21 | -53 | -54 | -63 | -135 |
| Loans | -133 | 231 | 239 | -85 | -422 | -626 | -787 | -314 |
| Shares | 6 | 61 | 59 | 117 | 97 | 122 | 132 | 50 |
| Other equity | 825 | 848 | 763 | 708 | 693 | 1,054 | 1,100 | 792 |
| Other | 768 | 195 | -277 | -505 | -43 | 5 | 879 | 1,976 |
| **Monetary financial institutions** | | | | | | | | |
| Total | 2,356 | 4,225 | 6,807 | 11,493 | 11,538 | 10,772 | 14,716 | 11,988 |
| Monetary gold and SDRs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 2,824 | 3,701 | 6,138 | 11,198 | 10,845 | 10,270 | 14,454 | 11,400 |
| Debt securities | -229 | 454 | 582 | 339 | 679 | 467 | 338 | 463 |
| Loans | 17 | 18 | 6 | 45 | 45 | 33 | 38 | 21 |
| Shares | -110 | 67 | 67 | 81 | 59 | 54 | 97 | 112 |
| Other equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment fund shares/units | 25 | -10 | 29 | 13 | 15 | 16 | -35 | -16 |
| Other | -171 | -5 | -15 | -182 | -105 | -68 | -176 | 8 |
| **Other financial institutions** | | | | | | | | |
| Total | 192 | 604 | 504 | 393 | 414 | 201 | 491 | 660 |
| Debt securities | 1 | 119 | 90 | 56 | 56 | -35 | -4 | -53 |
| Loans | -89 | 47 | 77 | 13 | -83 | -152 | -145 | -22 |
| Shares | 0 | 0 | 1 | 1 | -7 | -12 | -24 | -23 |
| Other equity | 109 | 31 | 34 | 18 | 41 | 42 | 40 | 36 |
| Investment fund shares/units | -20 | 96 | 79 | 88 | 119 | 134 | 330 | 391 |
| Insurance and pension schemes | 191 | 318 | 272 | 258 | 309 | 277 | 304 | 318 |
| Other | -1 | -10 | -52 | -43 | -22 | -53 | -10 | 12 |
| **General government** | | | | | | | | |
| Total | 660 | -641 | 3,020 | 5,896 | 4,761 | 6,697 | 6,779 | 2,839 |
| Currency and deposits | 23 | -34 | -22 | -19 | -35 | -42 | -96 | 33 |
| Debt securities | 395 | -787 | 1,602 | 5,090 | 4,604 | 5,622 | 6,133 | 1,902 |
| Loans | -206 | 106 | 1,032 | 292 | -89 | 209 | 261 | 722 |
| Shares | 5 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other equity | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 433 | 73 | 409 | 532 | 281 | 907 | 481 | 183 |
| **Households and NPISHs** | | | | | | | | |
| Total | 858 | 645 | 454 | 276 | 207 | 89 | 292 | 476 |
| Loans | 755 | 696 | 538 | 303 | 268 | 132 | 219 | 437 |
| Other | 103 | -52 | -84 | -27 | -61 | -42 | 73 | 39 |
| **Rest of the world** | | | | | | | | |
| Total | 2,745 | 4,571 | 6,626 | 7,544 | 6,195 | 6,204 | 6,943 | 4,743 |
| Monetary gold and SDRs | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 1,665 | 2,773 | 5,492 | 7,151 | 5,416 | 4,721 | 4,202 | 1,264 |
| Debt securities | 295 | 551 | 7 | -35 | 258 | 331 | 853 | 603 |
| Loans | 242 | 653 | 551 | 381 | 361 | 363 | 555 | 205 |
| Shares | 96 | 1 | 36 | 73 | 178 | 634 | 761 | 843 |
| Other equity | 409 | 586 | 590 | 562 | 367 | 96 | 96 | 78 |
| Investment fund shares/units | 96 | 130 | 203 | 241 | 206 | 329 | 454 | 468 |
| Insurance and pension schemes | -7 | 13 | 6 | 9 | 6 | 1 | 5 | 3 |
| Other | -52 | -138 | -259 | -838 | -598 | -271 | 17 | 1,280 |

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

| *EUR million* | 2018 | 2019 | 20Q1 | 20Q2 | 20Q3 | 20Q4 | 21Q1 | 21Q2 |
|---|---|---|---|---|---|---|---|---|
| Domestic sector | 2,232 | 2,196 | 2,367 | 1,814 | 2,071 | 2,792 | 2,299 | 2,555 |
| Non-financial corporations | -10 | 15 | 369 | 394 | 714 | 1,273 | 1,104 | 1,036 |
| Monetary financial institutions | 166 | 129 | 50 | 395 | 390 | 448 | 534 | 448 |
| Other financial institutions | 81 | -80 | 112 | 154 | 184 | 250 | 232 | 238 |
| General government | 314 | 192 | -418 | -2,151 | -2,378 | -3,599 | -4,025 | -3,167 |
| Households and NPISHs | 1,682 | 1,941 | 2,254 | 3,021 | 3,160 | 4,420 | 4,453 | 4,000 |
| Rest of the world | -2,232 | -2,196 | -2,367 | -1,814 | -2,071 | -2,792 | -2,299 | -2,555 |

# METHODOLOGICAL NOTE

## International economic relations

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

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

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

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

## Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

## Financial accounts statistics

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

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

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

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

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

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

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