BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

ECONOMIC AND FINANCIAL DEVELOPMENTS

APRIL 2020

BANKA SLOVENIJE
EVROSISTEM

Title: Economic and Financial Developments
No.: April 2020

Published by: BANKA SLOVENIJE
Slovenska 35
1505 Ljubljana
tel.: 01 47 19 000
fax: 01 25 15 516
e-mail: bsl@bsi.si
http://www.bsi.si/

Editors: Luka Žakelj; Ana Selan, MSc

Authors of Economic and Financial Developments (listed alphabetically):

Vida Bukatarević; Romana Jager; Aleš Kavrečič, MSc; Črt Lenarčič, PhD;
Mojca Lindič, PhD; Matjaž Maletič, PhD; Noemi Matavulj; Matic Petriček, PhD;
Franc Remšak; Mojca Roter, MSc; Ana Selan, MSc; Nika Sosič; Vid Starc;
Andreja Strojan Kastelec, MSc; Robert Zorko; Luka Žakelj

Data Preparation, Graphs and DTP:

Nataša Kunc; Vid Starc

 Analysis is based on data available up to 9 April 2020.

This publication is also available in Slovene.

ISSN 2385-9784

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Executive Summary

The global economic situation is deteriorating sharply because of the coronavirus pandemic. The PMIs and certain confidence indicators have already reached extremely low levels. For the euro area they are pointing to a sharp fall in economic activity and a downturn on the labour market as early as the end of the first quarter. The lockdown, the shutdown of much business, and the major disruption to international trade mean that a further fall can be expected in the second quarter. In contrast to the economic shock of 2008 and 2009, on this occasion it is a number of service sectors that will be hit particularly hard, given the nature of the measures to curb the spread of the virus. Signs of this are already evident in survey assessments of firms' future demand. Amid the rapid spread of the pandemic and the great uncertainty surrounding its duration, economic forecasts have been cut sharply over the last few weeks, and this year's recession could therefore be even harsher than currently estimated. The decline in GDP could be even larger than in 2009, when the euro area economy contracted by 4.5%. The demand shock and a producer price war have brought a significant fall in oil prices, which by 9 April were down more than 60% in year-on-year terms, while other commodity prices have also fallen, which is strengthening deflationary pressures in the international environment.

A sharp global shock of this type requires unprecedented action by central banks and governments to prevent financial, economic and social collapse. Under the measures known to date, the direct and indirect aid through fiscal and monetary policy amounts to approximately EUR 5,000 billion in the EU, and fully USD 10,000 billion in the US, a significant share of which is being absorbed by the ECB and the Fed respectively. These measures are of limited use in raising effective demand for goods and services while the pandemic is in progress, but could nevertheless significantly reduce the loss of economic and social potential in different countries, thereby easing the transition back to normality in society after the pandemic ends. The capacity to take action varies greatly from country to country: in the EU the position is particularly difficult for Italy and Spain, who had not yet recovered from the last crisis, and have been hit hardest in this pandemic.[1]

With its extensive anti-crisis measures, the ECB has already demonstrated its willingness and commitment to maintaining stability in the euro area. In response to the pandemic, it first announced an expansion of the asset purchase envelope by EUR 120 billion until the end of the year, with major contributions from the private-sector asset purchase programmes. At the same time it ensured particularly favourable borrowing terms for SMEs through targeted operations. After the situation worsened, it announced an additional EUR 750 billion of asset purchases. Given the depth and nature of the shock, there has also been a rapid response from the European Commission and individual countries. In the first phase, alongside their borrowing on the financial markets, Member States hit harder by the crisis could be entitled to funds from the ESM. Two other measures are under preparation: a guarantee fund operated by the European Investment Bank (EIB), which will provide liquidity to firms, and temporary support to mitigate unemployment risks in an emergency (SURE). The total value of these measures is estimated at EUR 540 billion.

[1] Thorough illustration of monetary and fiscal policy measures can be found in Box 1.1 on page 14 and Box 7.2 on page 70.

Slovenia is also deep in crisis, although the available survey figures do not yet reflect its full magnitude: the SORS survey was completed on 13 March, i.e. before the adoption of rigorous measures to curb the spread of coronavirus in Slovenia and in most other European countries. The economic sentiment deteriorated sharply in March, although the indicator remained above its low of the previous crisis. Firms were still assessing current demand as relatively favourable in March, although the first more serious signs of the difficulties that they now face were revealed in their assessments of demand expectations. These declined sharply in March, by 20 percentage points in manufacturing and by fully 34 percentage points in services other than trade. In both cases this was one of the largest monthly declines ever recorded. The first signs of a downturn on the labour market are also appearing. The number of registered unemployed rose in March, while firms' employment expectations indicators declined sharply. Given the nature of the restrictive measures, it is no surprise that the decline was again steepest in services other than trade, where the employment expectations indicator recorded its largest monthly decline since the outbreak of the previous crisis in November 2008. Bank of Slovenia's current assessment is that this year's fall in economic activity will in all likelihood be larger than in 2009, when GDP declined by 7.5%. Here it should be noted that these forecasts take no account of extensive fiscal and monetary policy measures.[2]

Falling electricity prices saw inflation in Slovenia slow by more than the euro area average in March. Inflation as measured by the HICP was down 1.3 percentage points on February at just 0.7%. Average inflation in the euro area also stood at 0.7%, down 0.5 percentage points on February. The larger slowdown in inflation in Slovenia was primarily attributable to falls in electricity prices, which were cut by almost 30% as part of the measures to alleviate the social and economic impact of the novel coronavirus epidemic. The drop in global oil prices saw further slight falls in fuel prices, although falling oil prices can be expected to have a greater impact on inflation in Slovenia in April. Energy prices reduced headline inflation by 1.1 percentage points in March. The measures to control and alleviate the impact of the epidemic have to date only been reflected in a fall in energy prices. Service price inflation continued to slow in March, but given that the majority of the measures to alleviate the epidemic were adopted after the data was collected, the impact is expected to be greater in April. In light of the anticipated fall in economic activity, private consumption and employment, and the deflationary pressures in the international environment, Bank of Slovenia's assessment is that Slovenia will see deflation this year.

Slovenia's macroeconomic indicators were in good shape as it entered this year's crisis, with both the corporate and financial sectors in a better position. Corporate and household indebtedness remain low, and well below the euro area average. Slovenia's public debt amounted to 66.1% of GDP last year, well below the euro area average, but still significantly higher than at the outbreak of the previous crisis (22.5% of GDP). The negative net international investment position of the country stood at 19.3% of GDP, significantly better than in the previous crisis, and well inside the indicative threshold for external imbalance set at 35% of GDP by the European Commission. The surveyed unemployment rate is one of the lowest in the euro area. The financial sector is also in good shape. Banks have good capital adequacy and a sound liquidity position. The structure of bank funding is also significantly better than in the period before the previous crisis: on this occasion the banks are barely utilising the wholesale market in the rest of the world, but are instead relying almost entirely

[2] Detailed analysis of various scenarios for the evolution of the crisis caused by measures to curb the spread of coronavirus is available at https://bankaslovenije.blob.core.windows.net/publication-files/prikazi-in-analize-marec-2020.pdf.

on primary sources alongside capital (deposits, mainly sight deposits). The majority of these indicators will deteriorate significantly in the crisis, but their current levels provide a solid basis for combatting the crisis.

A number of measures have already been adopted in Slovenia, in areas including healthcare, liquidity support for firms, the preservation of economic activity and jobs, and support for vulnerable population groups. The package of measures adopted on 2 April was costed at approximately EUR 3 billion, more than 6% of last year's GDP. The government's borrowing terms remain favourable at the same time. The measures will help the economy recover faster after the pandemic ends, when the time will come – and not only in Slovenia – for serious deliberation about the importance, strength and level of development of the public healthcare system and social security systems, about the vulnerability of key parts of the economy because of their dependence on global supply chains, and on the ways to sustainably reduce the public debt.

Main macroeconomic indicators

	2017	2018	2019	19Q2	19Q3	19Q4	2017	2018	2019	19Q2	19Q3	19Q4
			Slovenia						*euro area*			
Economic developments						*y-o-y growth rates in %*						
GDP	4.8	4.1	2.4	2.5	2.4	1.7	2.5	1.9	1.2	1.0	1.6	1.0
- industry	7.7	3.6	2.9	3.5	3.7	1.9	3.3	1.8	-1.1	-1.5	-0.6	-1.9
- construction	8.3	8.0	4.0	7.5	-2.1	-0.7	2.6	3.3	3.0	2.7	3.6	1.4
- mainly public sector services	2.1	1.6	1.7	1.5	1.8	1.7	1.6	1.0	1.1	1.0	1.2	1.1
- mainly private sector services	5.8	4.5	2.5	2.9	2.6	1.0	2.8	2.2	1.2	1.1	1.6	0.9
Domestic expenditure	4.0	4.3	2.1	2.0	3.8	0.4	2.2	1.6	1.8	2.4	1.4	1.9
- general government	0.3	3.2	1.6	1.1	3.4	-2.0	1.3	1.1	1.6	1.3	2.1	1.7
- households and NPISH	2.0	2.8	2.7	3.8	3.2	1.3	1.7	1.4	1.3	1.3	1.7	1.2
- gross capital formation	13.8	9.3	1.2	-1.5	5.5	0.1	4.4	2.4	3.3	6.2	0.2	3.8
- gross fixed capital formation	10.4	9.1	3.2	6.7	2.2	-4.5	3.4	2.3	5.7	8.1	3.6	7.0
- inventories and valuables, contr. to GDP growth in pp	0.7	0.2	-0.4	-1.6	0.8	0.9	0.2	0.0	-0.5	-0.4	-0.7	-0.7
Labour market												
Employment	3.0	3.2	2.4	2.6	2.3	1.8	1.6	1.5	1.1	1.2	1.0	1.0
- mainly private sector services	3.1	3.4	2.5	2.8	2.4	1.8	1.8	1.6	...	1.1	0.9	...
- mainly public sector services	2.5	2.1	1.6	1.5	1.7	1.7	1.1	1.3	...	1.3	1.3	...
Labour costs per employee	3.0	3.9	4.5	5.7	4.5	3.6	1.7	2.2	...	2.1	2.3	...
- mainly private sector services	3.0	4.1	4.1	5.4	4.1	3.0	1.6	2.3	...	2.0	2.2	...
- mainly public sector services	3.1	3.5	6.2	4.9	5.7	6.2	1.8	2.0	...	2.4	2.3	...
Unit labour costs, nominal*	1.2	3.0	4.5	5.9	4.4	3.7	0.7	1.8	...	2.2	1.6	...
Unit labour costs, real**	-0.3	0.8	2.0	3.1	1.9	1.4	-0.3	0.5	...	0.5	0.0	...
						in %						
LFS unemployment rate	6.6	5.1	4.5	4.2	4.8	4.0	9.1	8.2	7.6	7.4	7.3	7.4
Foreign trade						*y-o-y growth rates in %*						
Current account balance as % of GDP***	6.3	6.1	6.6	6.1	6.0	6.6	3.1	3.1	3.0	2.7	2.9	3.0
External trade balance as contr. to GDP growth in pp	1.2	0.2	0.5	0.6	-1.0	1.3	0.4	0.4	-0.5	-1.3	0.2	-0.9
Real export of goods and services	10.5	6.1	4.4	6.0	5.3	0.9	5.5	3.4	2.5	1.9	3.3	2.0
Real import of goods and services	10.1	6.6	4.2	5.9	7.4	-0.8	5.0	2.7	3.8	4.9	3.1	4.1
Financing						*in % of GDP*						
Banking system's balance sheet	94.0	88.6	88.8	88.9	88.3	88.8	260.8	256.8	261.8	268.5	272.8	261.8
Loans to NFCs	21.8	20.6	20.1	20.2	20.3	20.1	36.9	36.5	36.2	36.6	36.5	36.2
Loans to households	21.5	21.8	22.2	21.9	21.9	22.2	49.4	49.1	49.3	49.1	49.2	49.3
Inflation						*in %*						
HICP	1.6	1.9	1.7	1.7	2.1	1.6	1.5	1.8	1.2	1.4	1.0	1.0
HICP excl. energy, food, alcohol and tobacco	0.7	1.0	1.9	1.8	2.3	1.9	1.0	1.0	1.0	1.1	0.9	1.2
Public finance						*in % of GDP*						
Debt of the general government	74.1	70.4	...	67.7	68.1	...	87.8	85.9	...	86.4	86.0	...
One year net lending/net borrowing of the general government***	0.0	0.8	...	0.6	0.9	...	-0.9	-0.5	...	-0.7	-0.8	...
*- interest payment****	2.5	2.0	...	1.8	1.7	...	1.9	1.8	...	1.8	1.7	...
*- primary balance****	2.5	2.8	...	2.4	2.6	...	1.0	1.3	...	1.1	1.0	...

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

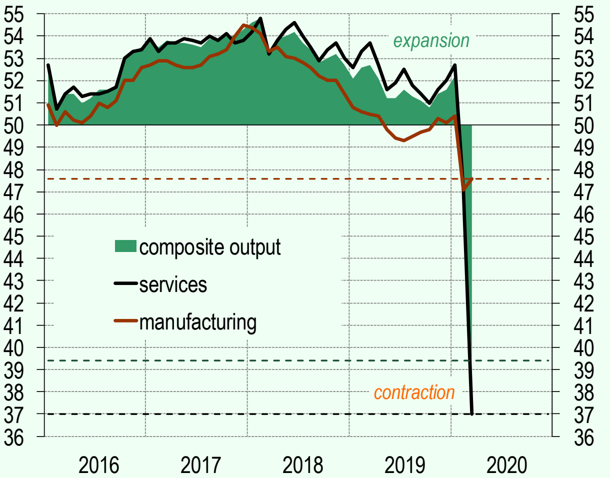
1 International Environment

The global economic situation is deteriorating rapidly because of the coronavirus pandemic, while survey indicators are plummeting to reach record lows in many places. The euro area is thought to already have been in recession in the early part of 2020, and the lockdown and the major disruption to international trade mean that a further fall can be expected in the second quarter. Although in the majority of countries the European Commission survey was conducted just before the more extensive measures were introduced, even in March there was a sharp deterioration in the economic sentiment in the euro area, as firms' survey assessments of future demand expectations declined in particular, most notably in services and trade. At the same time the PMI fell to its lowest value to date, while the first signs of a sharper downturn on the labour market are also appearing. Given the great uncertainty surrounding the duration and scale of the pandemic, economic forecasts have been cut sharply over the last few weeks, and this year's recession could therefore be even harsher than currently estimated, as could the fall in foreign demand for Slovenian products and services. To alleviate the adverse impact of the crisis, at the ECB there was a large expansion of net asset purchases, more favourable terms were secured for new TLTROs and extra LTROs were introduced, while the Fed also adopted extensive measures, among other major central banks. The decline in demand and a producer price war have brought a significant fall in oil prices, which by 9 April were down by 62.3% in year-on-year terms, while other US dollar commodity prices have also fallen, which is strengthening deflationary pressures in the international environment.

Activity and confidence survey indicators in March

The PMI points to a sharp fall in global economic activity in the first quarter of this year. The JPMorgan global composite PMI was already 6 points down in February, mainly due to a sharp contraction in economic activity in China, where the year-on-year decline in GDP in the first quarter of the year has been estimated at 9% by Goldman Sachs. The fall deepened in March as the virus spread to other global economies, and the indicator reached its lowest level in more than 11 years. There was a particular decline in the indicator for services, which in

Figure 1.1: JPMorgan Purchasing Managers' Index (PMI) – global

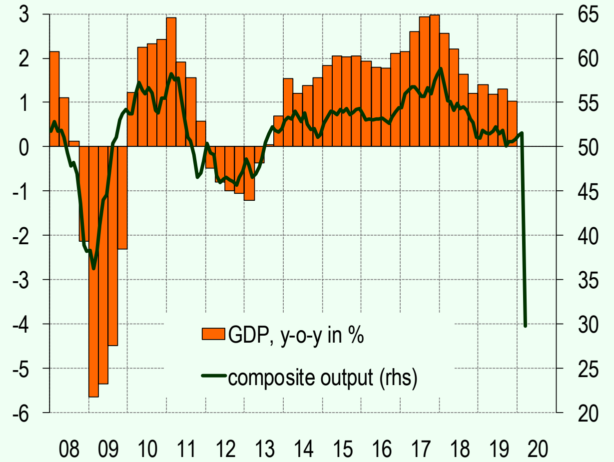


Note: Dashed line represents the value of the last observation.
Source: Bloomberg.

March was down more than 15 points on January, thus reaching its lowest value since measurement began, while there was also a considerable decline in manufacturing activity.

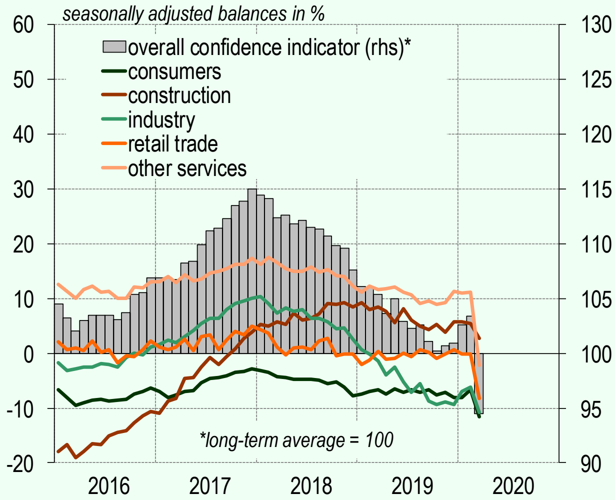
Activity and confidence survey indicators suggest that the euro area was already in recession at the beginning of 2020. A fall in GDP in the first quarter of this year is suggested by the composite PMI, which, after rising above the 50-mark in January and February, declined by more than 20 points in March to reach its lowest level to date. The average level of the indicator over the first quarter of this year was nevertheless higher than its average over the first quarter of 2009, when euro area GDP declined by fully 5.7% in year-on-year terms. In contrast to the crisis year of 2009, the main factor was a sharp decline in services activity, which – judging by the PMI – was the largest to date. Services are being hit harder by measures to curb the coronavirus pandemic, which include strict social distancing requirements. At the same time there was a fourteenth consecutive monthly contraction in manufacturing activity, where the PMI fell to its lowest level since July 2012 as a result of falling demand and wide-ranging production shutdowns in the majority of the large euro area countries.[1] Although in the

Figure 1.2: Purchasing Managers' Index (PMI) and GDP growth in the euro area



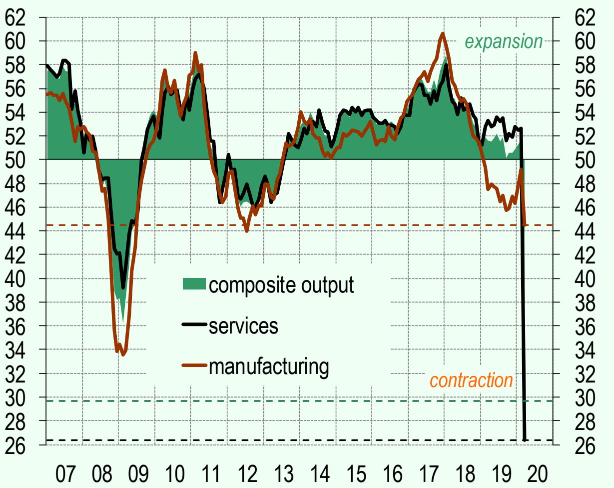
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit, Eurostat, Bank of Slovenia calculations.

Figure 1.4: Confidence indicators – euro area



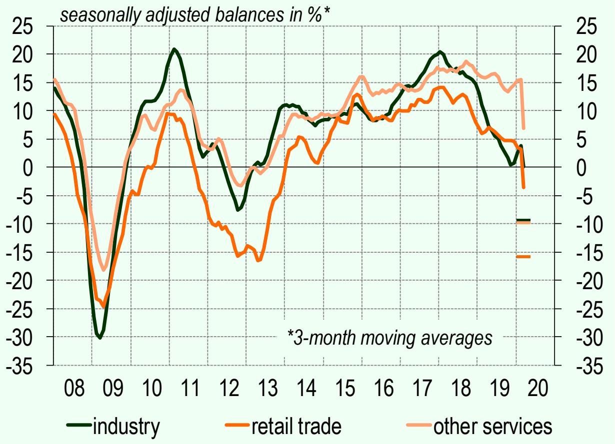
Source: Eurostat.

Slika 1.3: Purchasing Managers' Index (PMI) – euro area



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

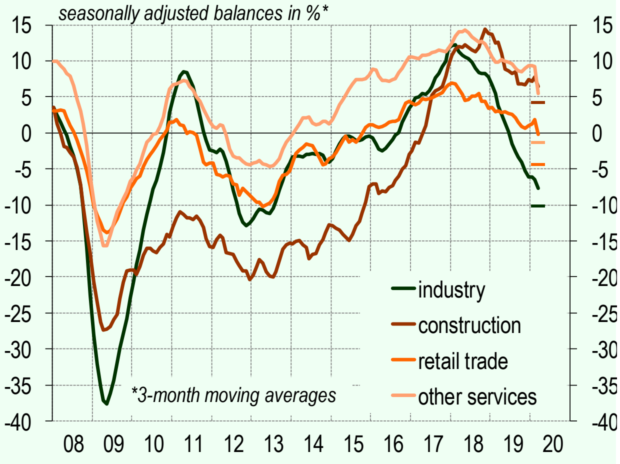
Figure 1.5: Expected demand in the next three months – euro area



Note: The dashes represent data points for March 2020 without moving averages. Eurostat does not publish comparable data for construction.
Source: Eurostat, Bank of Slovenia calculations.

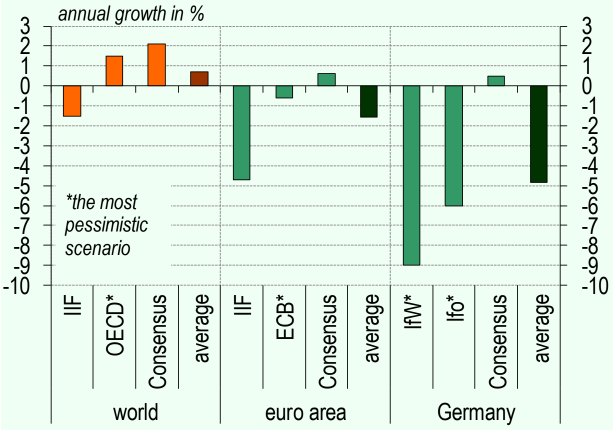
[1] The value of the indicator in March does not reveal the true depth of the decline in activity in manufacturing as it includes a measure of supply chain delays. These are usually an indicator of rising demand, but in the current situation they are a consequence of supply chain disruptions.

Figure 1.6: Expected employment in the next three months – euro area



Note: The dashes represent data points for March 2020 without moving averages.
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.7: GDP growth forecasts for 2020



Note: Included forecasts are the following: IIF (published on 25 March 2020), Ifo (19 March 2020), IfW (19 March 2020), Consensus (12 March), OECD (2 March), ECB (12 March).
Source: IIF, Ifo, IfW, Consensus, OECD, ECB.

majority of countries the European Commission survey was conducted just before the more extensive measures were introduced, there had already been a sharp deterioration in the economic sentiment in the euro area, which in March reached its lowest level since August 2013, following the largest monthly decline to date. In contrast to previous months, the main decline was in the services indicator, which was down more than 13 percentage points. This was primarily attributable to a decline in the demand expectations indicator, which approached the levels seen in June 2009. Firms in retail and manufacturing also sharply reduced their assessments of demand expectations. There is evidence that the current crisis is already hitting the labour market in the form of a decline in the employment expectations indicators, particularly in services, where the indicator declined by more than 10 percentage points to reach its lowest level of the last seven years. Consumers too are expecting a sharp rise in unemployment over the next 12 months.

Economic forecasts

Economic forecasts are being lowered sharply, and suggest a sizeable global recession in 2020. The rapid deterioration in the economic situation has seen a number of institutions quickly lower their forecasts for 2020 in recent weeks, but given the major uncertainty surrounding the duration and scale of the pandemic, there is a considerable chance of the global recession being even worse than currently forecast. To illustrate the rapid deterioration in the economic situation, even the most pessimistic scenarios from the latest forecasts by the OECD and the ECB (the OECD forecast global economic growth of 1.5% for this year on 2 March, while the ECB forecast a decline of 0.6% in euro area GDP on 12 March) have quickly become irrelevant. The IIF forecast this year's decline in global economic activity at 1.5% on 25 March, with a decline of 4.7% in the euro area. The forecasts for Slovenia's main trading partners are also being lowered sharply. While the most pessimistic scenario outlined by Ifo is forecasting a 6% decline in Germany's GDP in 2020, the contraction in the German economy could be as large as 9% according to the IfW. The weighted forecast for economic growth in Slovenia's main trading partners declined sharply in March. Because it is based on Consensus forecasts, which were released just before or a fraction after the more extensive measures were introduced, it does not yet reflect the full magnitude of the crisis, and the fall in foreign demand for Slovenian products and services could be significantly larger than indicated by the forecast.

Economic developments in 2019

Last year's global economic growth was the lowest figure since 2009. It stood at 2.9% according to the latest IMF estimates, down 0.7 percentage points on the previous year. Economic growth slowed again in the final

Box 1.1: Response to the coronavirus pandemic by euro area countries and the ECB, and comparison of measures with the US

In the last few weeks the euro area has faced the challenge of how to stop the spread of coronavirus. The virus has spread across the world, and has hit the global economy hard. It has also made its mark on the lives of Europeans, and has deeply changed our way of life. Slovenia too, was forced to take rigorous measures to curb the epidemic, as the virus spread particularly fiercely in neighboring Italy after its initial outbreak in China.

The spread of coronavirus first hit global supply chains. The majority of employees will be working from home for a long time, which will have an impact on their productivity. The shock has hit the service sector harder than the manufacturing. Schools are closed, as are childcare institutions, restaurants, and shops with non-essential items. Public transport and flights are suspended.

Due to the loss of revenue and an inability to meet payments firms will quickly found themselves facing a liquidity and credit shocks. The hardest-hit countries and firms have been forced to deal with reduced access to financing. Their borrowing costs have risen, most notably through higher credit spreads. Firms have responded to the outbreak of the pandemic by revamping their operations, and have begun to lay off workers. Alongside the great uncertainty, and the resulting increase in saving on precautionary grounds, this will drive a fall in demand, as it will hit consumer purchasing power directly.

The pandemic's impact on the global economy can be best illustrated with the following figures. The latest data (PMIs) shows the service sector in the euro area to have crashed. The PMI declined from 52.6 points in February to 28.4 points in March. A value of more than 50 signifies expansion, while less than 50 means contraction. The PMI for industry declined from 49.2 to 44.8 points over the same period. The US saw unemployment rise by 3.3 million in just one week. Registered unemployment in the US stood at 5.8 million at the end of February (just 3.5% of the total population of working age). In March it jumped to 9 million (5.4% of the total population of working age).

The key in this situation is how fast and how strongly fiscal policy and monetary policy respond to the shock presented by the coronavirus pandemic.

The aim of fiscal policy measures is to directly (via increased government consumption and investment) ensure the stability of the healthcare system by means of government fiscal incentives, to allocate government funds to aid research and the fastest possible discovery of new drugs, to support domestic demand and thus, to a certain extent, to temporarily alleviate the impact on the economy. In the longer term the main aim of the measures is to prevent corporate bankruptcies and job losses, and thus to preserve production capacity.

All countries have seen a fiscal policy response to the pandemic. Firms that have fallen into bankruptcy are not settling their liabilities to banks or suppliers, individuals who lose their jobs fall behind on debt repayments, the numbers of those requesting social assistance rise, while aggregate consumption falls. It is therefore in governments' own interests to take fast, decisive action to prevent bankruptcies and lay-offs. The social costs of the government responding too late or too timidly can be significantly greater than they would otherwise be.

One thing common to the measures in all countries is that they are a combination of direct and indirect support. The direct support comes primarily in the form of subsidies for businesses, equity stakes in firms, tax moratoriums, and direct funding that can be claimed by households, businesses and the self-employed. Other measures provide indirect support: they primarily consist of government-backed guarantee schemes, or guarantees for new loans and for addressing liquidity issues.

In the first phase, alongside their borrowing on the financial markets, countries hit harder by the crisis could be entitled to funds from the European Stabilisation Mechanism (ESM), which is a fund set up to combat crises. It currently has EUR 410 billion available (3.6% of euro area GDP). Under the current proposal, countries could apply to borrow up to 2% of GDP or a total amount of EUR 240 billion from the fund. Two other measures are under preparation: a guarantee fund operated by the European Investment Bank (EIB), which will provide liquidity to firms, and temporary support to mitigate unemployment risks in an emergency (SURE). The total value of these measures is estimated at EUR 540 billion.

The European Commission has already released EUR 40 billion (0.3% of euro area GDP) to combat the pandemic via the European Investment Fund and the European Investment Bank. The Commission will release an additional EUR 37 billion (also equivalent to 0.3% of euro area GDP) via cohesion policy funds. The majority of the funds released by the Commission are likely to go via the ESM. It currently has

EUR 410 billion available (3.6% of euro area GDP). Under the current proposal, countries could apply to borrow up to 2% of GDP or a total amount of EUR 240 billion from the fund.

The German government will provisionally release funding of EUR 156 billion (4.7% of GDP) to address the pandemic. EUR 122.5 billion of this is earmarked for direct incentives for the economy, while the government is expecting a record EUR 33.5 billion shortfall in tax revenues from deferrals and write-offs. The government will also earmark money for a government fund, which will be invested in the form of equity stakes in firms hit by measures to prevent the spread of coronavirus. The fund will provide additional aid to firms in the form of EUR 400 billion of bank guarantees. A similar fund aided firms in distress during the financial crisis of 2008 and 2009. Additional funding in the amount of EUR 100 billion will be earmarked by the government for KfW, the state-owned development bank, which has been tasked with lending to firms and addressing their liquidity problems.

Similar measures, albeit significantly smaller in scale, have been adopted by other euro area countries. France will directly earmark EUR 45 billion (1.9% of GDP) in response to the outbreak of the pandemic. The majority (EUR 32 billion) will be provided by the government in the form of a moratorium on tax payments and social security contributions, while an additional EUR 8.5 billion will take the form of unemployment benefits. The government will also provide EUR 300 billion in the form of bank guarantees via BPI. What the size of the state's capital holdings in the affected firms will be is not yet known. France's finance minister highlighted Air France in particular.

The Spanish government has earmarked EUR 17 billion of direct support (1.4% of GDP) to the fight against the impact of the epidemic, together with EUR 100 billion in indirect support. The latter will be used to address falling liquidity, particularly at SMEs. The majority of the direct support will go to workers. Similarly to Slovenia, employees at firms hit hardest by the virus will be furloughed, and the government will cover 75% of their sickness benefit. The government will introduce a moratorium on mortgage repayments and housing expenses. The government will also partly cover social security contributions for the self-employed. In the second phase the government intends to provide an additional EUR 100 billion of indirect support.

In Italy, the country hit hardest by the pandemic, EUR 25 billion of direct support (1.4% of GDP) will be earmarked in the first phase. Measures include deferrals and relief in payments of taxes and social security contributions, and deferrals on loan repayments for the firms hit hardest by measures to curb the virus. The government is also planning a moratorium on mortgage loan repayments for primary residences. A second aid package is under preparation, and contains an additional EUR 25 billion (1.4% of GDP) in direct support. The government will also earmark EUR 200 million of direct aid for the aviation industry (Alitalia). Vouchers worth a total of EUR 400 million are to be distributed to the public for the purchase of essentials. The government will also provide an additional EUR 340 billion of indirect support.

In addition to fiscal measures, central banks around the world have been significantly loosening monetary policy to further help businesses and households in the fight against the coronavirus pandemic. The aim of monetary policy measures is to inject liquidity into the financial system, to provide low-cost financing to businesses and individuals alike, and to ensure that firms' liquidity difficulties do not turn into solvency issues, i.e. to prevent firms and households from falling into bankruptcy on account of an inability to make loan repayments, thereby easing financial deleveraging.

The ECB adopted a host of measures in response to the pandemic at its latest meeting of the Governing Council. It announced an expansion of the envelope of bond purchases by EUR 120 billion until the end of 2020. In addition it ensured particularly favourable borrowing terms for SMEs through targeted operations. The ECB left the interest rate on the deposit facility unchanged; it has been negative for some time now. The bond purchases and targeted refinancing operations aim to help Member States and businesses in accessing more favourable financing, and to encourage economic activity.

After the situation worsened and the financial markets collapsed, on 18 March the ECB released an additional EUR 750 billion (6.5% of euro area GDP) into the financial system. The Eurosystem is committed to making bond purchases until the pandemic abates. It will also expand the collateral that banks can use to obtain additional liquidity. The message of the pandemic emergency measures is that the ECB will ensure that there is no disruption to monetary policy transmission in any country, and that governments should earmark as much funding as they feel is necessary to combat the crisis, without their first concern being the interest rate at which the extra borrowing is made.

The measures in the US go even further. The US government has adopted a package of measures worth USD 2,000 billion (10% of GDP) to combat the pandemic. It will give a tax break of USD 1,200 to everyone earning less than USD 75,000 a year (or USD 150,000 for married couples), and will provide unemployment benefit of USD 600 a week (for a maximum of 16 weeks). The states and local governments will receive USD 150 billion, and the federal government USD 340 billion. To aid businesses, the government is providing USD 50 billion of direct support to aviation and firms in the military industry. The government is also earmarking USD 349 billion for SMEs and EUR 454 billion for large enterprises. A moratorium on tax and social security payments will give businesses USD 350 billion in extra liquidity.

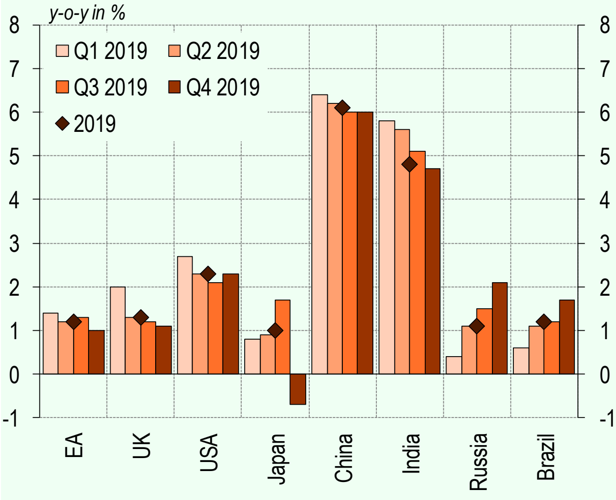
The Fed cut its key interest rate by 150 basis points in two steps, to leave it at the interval of zero to 0.25%. The Fed initially announced USD 500 billion of government bond purchases and USD 200 billion of purchases of mortgage bonds issued by federal agencies (3.4% of GDP). Later, on 23 March, the Fed made the purchases unlimited.

The Fed also announced a series of measures on the repo markets, and further loosened the financing conditions on the lending markets. It is using large-scale operations to target large enterprises on the primary (Primary Market Corporate Credit Facility or PMCCF) and secondary (Secondary Market Corporate Credit Facility or SMCCF) bond markets. The Fed also intervened in the market for financial instruments backed by various asset classes, namely mortgages, consumer loans, credit cards and student loans (Term Asset-Backed Securities Loan Facility or TALF). Additional measures to encourage lending to SMEs are under preparation.

Slovenia has also introduced extensive fiscal measures in the amount of EUR 3 billion (6.6% of GDP). For more on the measures introduced by the Slovenian government, see Box 7.2 on page 70.

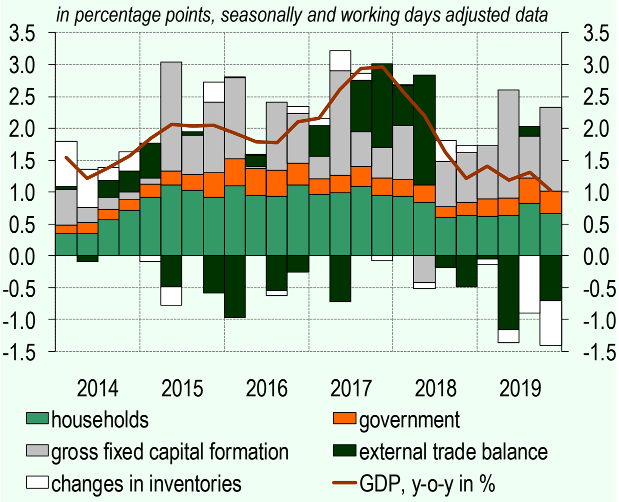
quarter of last year in a number of major economies, most notably India, where the rate of 4.7% was the lowest seen since the first quarter of 2013. This was primarily driven by a sharp decline in gross fixed capital formation because of the high level of non-performing loans and excessive corporate indebtedness. The UK also saw a slowdown in economic growth in the final quarter of last year, to just 1.1%, on account of lower gross fixed capital formation and weak private consumption, while economic activity in Japan fell again after three quarters of low growth. The fall was driven by a sharp decline in domestic demand, as a result of the introduction of a consumption tax in October. Economic growth in the euro area also slowed sharply, and at 1.0% recorded its lowest figure of the last six years. Economic growth in China stood at 6.0%, unchanged from the third quarter of last year, when it recorded the lowest figure since the first quarter of 1992. This was attributable to tensions in international trade, and weak domestic and foreign demand. Year-on-year economic growth in the US strengthened slightly relative to the third quarter of last year, but only to the level of the second quarter. The growth was driven primarily by net trade, which recorded its largest contribution since the second quarter of 2009, mainly on account of falling imports.

Figure 1.8: Economic growth in major developed countries outside the euro area and BRIC



Source: IMF, Tradingeconomics.

Figure 1.9: Structure of GDP growth in the euro area, demand side



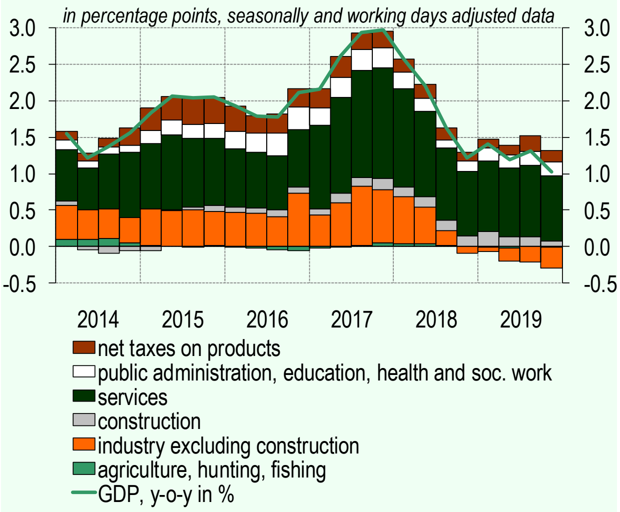
Source: Eurostat, Bank of Slovenia calculations.

Economic growth in the euro area slowed sharply in 2019 for the second consecutive year. According to seasonally and calendar adjusted figures, quarterly GDP growth slowed to 0.1%, down 0.2 percentage points on the third quarter, while the year-on-year rate slowed by 0.3 percentage points to just 1.0%. The main factor on the expenditure side in the slowdown in growth was the negative contribution by net trade. By contrast, the largest contributions to year-on-year GDP growth continued to come from domestic demand, most notably gross fixed capital formation, at fully 1.3 percentage points, albeit primarily on account of an extremely sharp increase in investment in research and development.[2] The main factor on the output side in the slowdown in year-on-year growth was the ongoing decline in value-added in industry, which at 1.7% was the largest decline in almost seven years. Towards the end of the year there was also a sharp slowdown in growth in value-added in construction, to 1.5%, while growth in value-added in private-sector services stabilised to average 1.9% over 2019, having slowed sharply in 2018.

Euro exchange rate and commodity prices

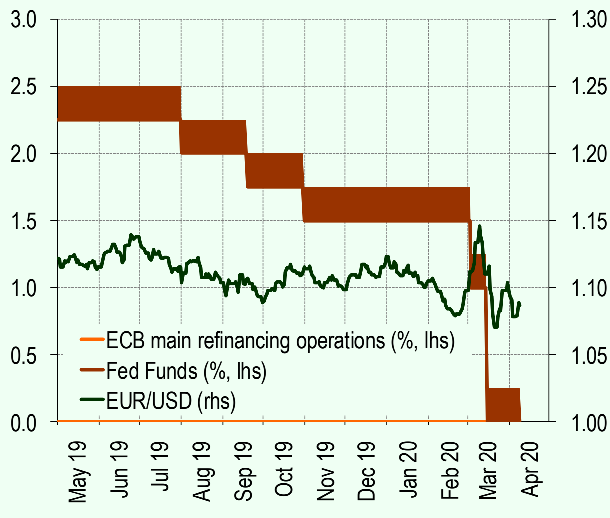
Further extensive measures were taken within the ECB to alleviate the adverse impact of the measures to curb the coronavirus pandemic. Within the ECB we temporarily increased net purchases under the asset purchase programme (APP) by an additional EUR 120 billion until the end of the year, with an emphasis on private-sector bond purchases, and also introduced the PEPP, a completely new emergency asset purchase programme with an envelope of EUR 750 billion. At the same time, we will provide more favourable terms for the third series of targeted longer-term refinancing operations (TLTRO-III) between June 2020 and June 2021, before which we will introduce additional LTROs to bridge any liquidity needs. The key interest rates were left unchanged at their current low levels. Extensive measures were also taken by the Fed, including a second cut in its key interest rate in March, to the interval between 0.00% and 0.25%. It also introduced additional programmes to ensure sufficient liquidity on the US financial market, including unlimited purchases of government bonds and mortgage bonds.[3] After major volatility caused by the central banks' extensive measures, the euro slid against the US dollar in

Figure 1.10: Structure of GDP growth in the euro area, production side



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.11: EUR/USD exchange rate and central banks' interest

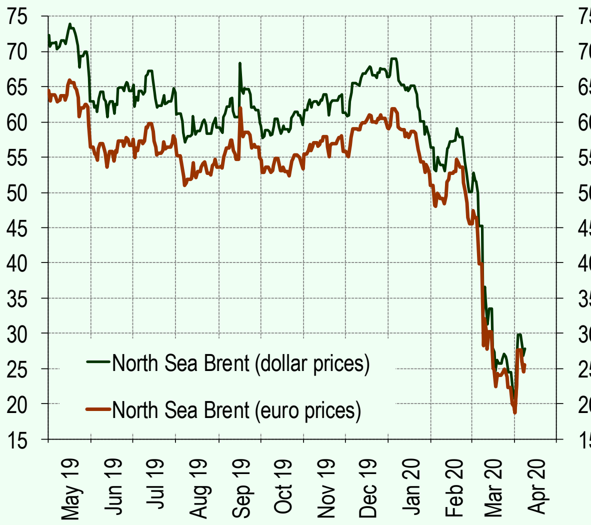


Source: ECB, Federal Reserve.

[2] The contribution by gross fixed capital formation was already very high in the second quarter of last year, again as a result of a sharp increase in investment in research and development. This is largely attributable to a pronounced increase in the latter in Ireland, which is at least partly related to the performance of multinationals.

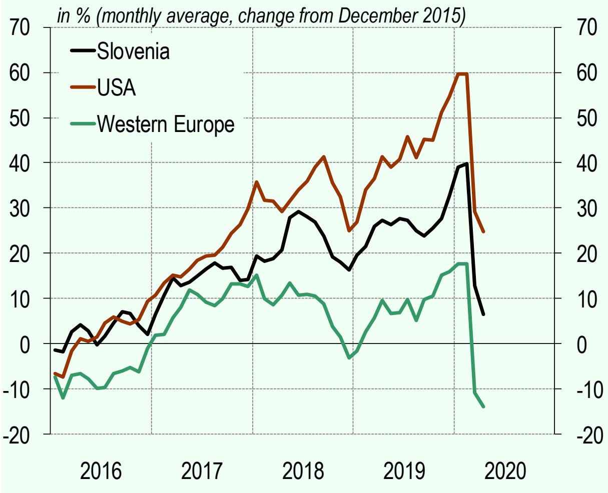
[3] See also Box 1.1 on page 14.

Figure 1.12: Oil prices



Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.13: Stock exchange indices

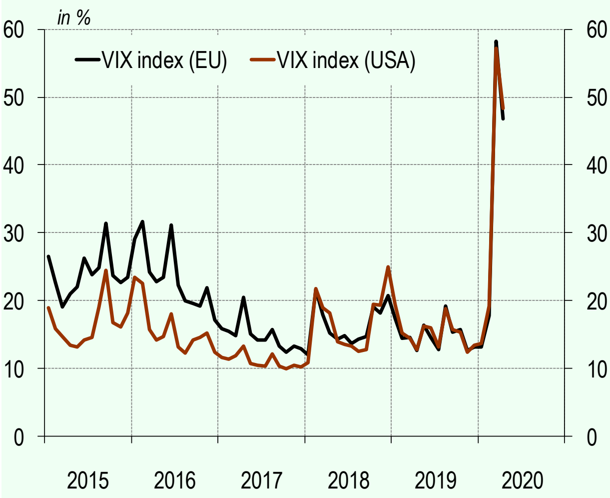


Note: *The illustration includes data available up to 7 April 2020.
Source: Bloomberg, Bank of Slovenia.

the early months of 2020. The euro exchange rate stood at USD 1.09 on 9 April, down 3.6% on a year earlier.

Oil prices fell significantly in March, and in early April reached their lowest levels since February 2002. The price of Brent crude fell by more than 60% from the beginning of March, and reached USD 20.4 on 1 April, down 70% on a year earlier, before bouncing back towards USD 30 on 3 April thanks to expectations of an agreement between Russia and Saudi Arabia to cut pumping. It stood at USD 26.6 on 9 April, down 62.3% in year-on-year terms.

Figure 1.14: Increase in volatility on stoch exchanges



Note: *The illustration includes data available up to 7 April 2020.
Source: Bloomberg, Bank of Slovenia.

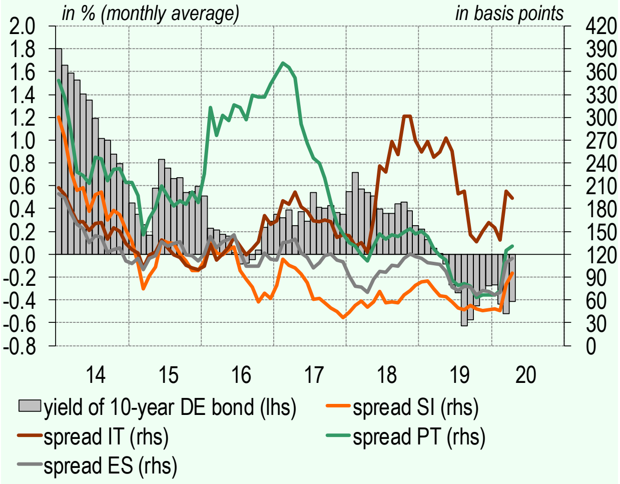
International capital markets

Stock markets have plunged in 2020 with the spread of coronavirus and the declaration of the pandemic. After share indices reached record levels in 2019, stock markets were hit by strong selling pressure in the second half of February, triggered by the rapid spread of coronavirus across Italy and then through other countries in Europe and around the world. Equity markets saw heavy losses on a daily basis, which only picked up further pace in March. Additional downward pressure on share indices was triggered by the failure of Opec+ members to reach an agreement to cut output of petroleum and refined petroleum products. By 7 April the representative share index for Europe was down 26.3% on its peak in 2020, while the US index was down 21.5%.

The extreme rise in uncertainty unleashed such strong selling pressure on stock markets that in March certain share indices were down more than 30% on their highs earlier in the year. This is also being reflected in increased volatility, which in the second half of March approached the peak level seen towards the end of 2008. The uncertainty on the equity markets also spread to the bond markets in March, where selling pressure triggered a rise in required yields. Large rises were first recorded by countries where the initial spread of coronavirus was uncontrolled (Italy, Spain), while the required yield on 10-year German government bonds reached a record low in the same period (-0.86%). The rapid downturn in the economic outlook and the uncontrolled spread of coronavirus saw selling pressures spread to the bond markets of other countries in the second half of March, such as Germany and Austria.

The pandemic is bringing a further increase in global risks to financial stability. These could be reflected in additional selling pressure on the equity and bond markets. Future developments on the stock markets will depend on how the reports of the initial impact that social distancing has had on corporate performance and GDP, the success in curbing the spread of coronavirus, and the government and central bank measures to fight the impact of the pandemic are received. There will be great pressure on the public finances, which will be felt particularly hard by countries that are already highly indebted, but is unavoidable even for other countries. The major global central banks have taken emergency measures to prevent the collapse of the financial markets and the real sector. After their announcement these measures were mostly reflected in an easing of the falls in stock markets in the final days of March and early April. There have been slight rises in the spreads on European government bonds over the German benchmarks, and in the required yields on German government bonds, which nevertheless remain in negative territory.

Figure 1.15: Yield and spreads on selected 10-year government bonds



Note: Data for April take into account data up to 7 April 2020.
Source: Bloomberg, Bank of Slovenia calculations.

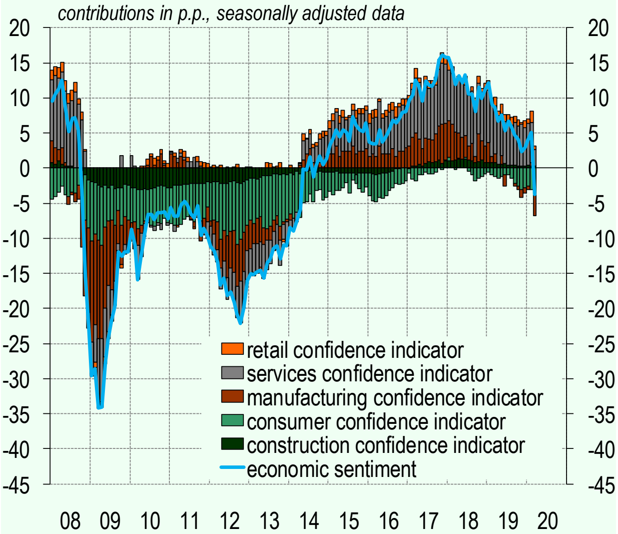
2 Economic Developments

After slowing at the turn of the year, the Slovenian economy also slumped in March under the impact of coronavirus. The measures to prevent the spread of the virus brought a severe decline in the economic sentiment indicators in March, although because the survey was completed before the introduction of rigorous lockdown measures, the figures do not yet fully reflect the actual situation. For now the depth of the crisis is best illustrated by the monthly decline in demand expectations in manufacturing and private-sector services other than trade, which in March was among the largest to date. Although the available figures for March are substantively incomplete, they are already revealing the depth of the crisis, and support the scenarios of economic contraction outlined in Box 2.2.

Year-on-year GDP growth had slowed to 1.7% by the final quarter of last year. The quarterly rate of growth stood at 0.4%, which is a decent performance compared with the virtual stagnation in the euro area overall, although it was primarily driven by net trade, whose positive contribution was the result of a significant fall in domestic demand. Gross fixed capital formation declined by fully 4.0% in the final quarter of last year, its third consecutive quarterly decline. Private consumption was also weak, primarily as a result of a decline in everyday household spending. Weak foreign demand deteriorated business environment for the export sector, which was reflected in a quarterly decline in exports.

Confidence indicators in March

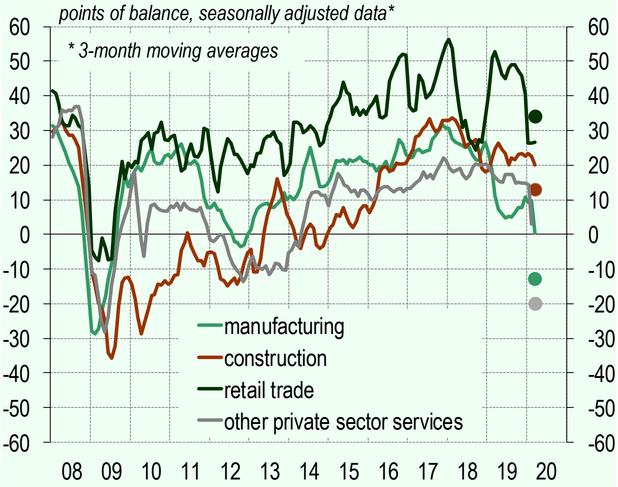
Figure 2.1: Economic sentiment indicator for Slovenia



Source: SORS, Bank of Slovenia calculations.

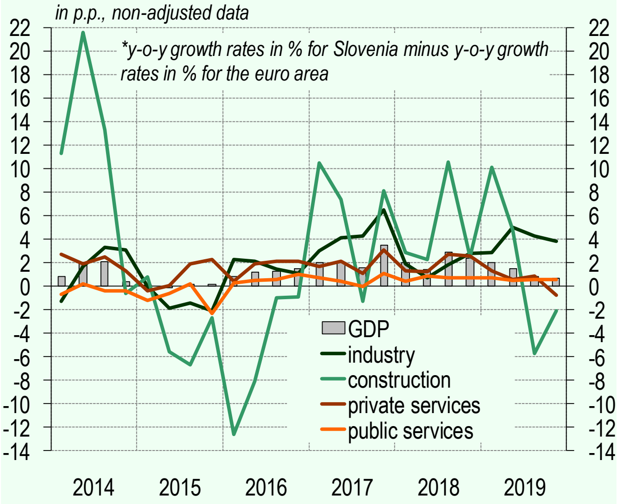
The economic sentiment deteriorated sharply in March, although the survey indicators are not yet reflecting the full magnitude of the crisis. The overall economic sentiment indicator was down 8.8 percentage points on February at -3.7 percentage points, its lowest figure since April 2014, but still significantly above the low from the previous crisis of -29.6 percentage points in January 2009. Excluding the extremely volatile time series for retail, the largest monthly decline in confidence was seen in services, followed by manufacturing. The changes in the construction figures were marginal, while the decline in consumer confidence was also relatively small. Firms were still assessing current demand as relatively favourable in March, although the first more serious signs of

Figure 2.2: Expected demand in the next three months



Note: The dots represent the last value without moving averages.
Source: SORS, Bank of Slovenia calculations.

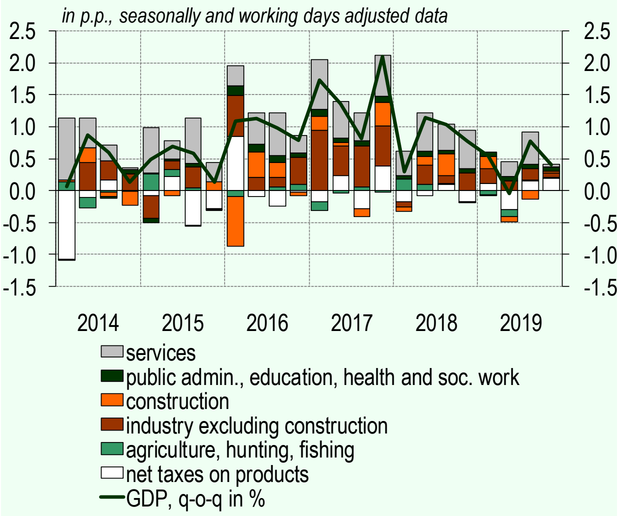
Figure 2.3: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, production side*



Source: Eurostat, Bank of Slovenia calculations.

the difficulties that they now face were revealed in their assessments of demand expectations. These declined sharply in March, by 20 percentage points in manufacturing and by fully 34 percentage points in services other than trade. In both cases this was one of the largest monthly declines ever recorded. Because the SORS survey was completed on 13 March, i.e. before the introduction of rigorous measures to curb the spread of coronavirus in Slovenia and in most other European countries, the figures do not yet reflect the full depth and scope of the crisis, but they do illustrate that the situation is worst in services dependent on the free movement of people. A more precise assessment of the economic situation will be possible when the survey figures for April are released.

Figure 2.4: Contributions of production components to quarterly growth in GDP



Source: ECB.

GDP in 2019: output side

At the end of last year, year-on-year economic growth slowed again in Slovenia and the euro area. The situation in Slovenia nevertheless remained relatively favourable: at 1.7%, growth was still outpacing the euro area average by 0.7 percentage points. A comparison of the structure of growth in market activities reveals that it was only in industry that the situation was better in Slovenia; the situation in the euro area largely reflects the crisis in German manufacturing, which has been going on since the third quarter of 2018. Growth in value-added in public services also remained higher. Quarterly GDP growth in Slovenia also slowed, from 0.8% in the third quarter to 0.4% in the final quarter, which is also a decent performance compared with the virtual stagnation in the euro area overall. Less satisfactory was the structure of the quarterly growth: the majority came from net taxes on production, while there was a significant decline in the contribution by value-added in private-sector services, and the contribution by industry was also down slightly.[1]

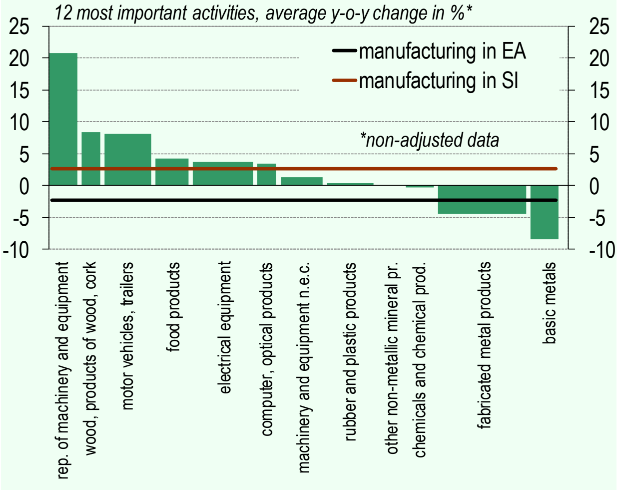
[1] According to the available monthly activity indicators, economic growth remained low in the early part of this year. Industrial production in January was up just 0.3% in year-on-year terms, while growth in turnover in services stood at just 0.7%. However, there was a strong increase in the amount of construction put in place, of close to 7% in year-on-year terms. The breakdown of construction work indicates an increase in government investment activity. More data is available in Table 2.1.

The situation in industry worsened at the end of last year, but remained better than in the euro area overall. Year-on-year growth in value-added in industry slowed to 1.9%, the lowest figure since 2015, but remained relatively high compared with the 1.8% decline in the euro area overall. In contrast to the euro area overall, year-on-year growth in output was positive in all segments classified by technological intensity. High-technology output was alone in recording growth in the euro area, but at 2.9% it was 4.6 percentage points less than in Slovenia. The high growth in Slovenia is primarily attributable to the good performance of pharmaceutical firms. There was a significant downturn in the Slovene metal industry: output in the manufacture of basic metals in the final quarter was down 8.4% in year-on-year terms, while output in the manufacture of fabricated metal products was down 4.4%, as foreign demand for intermediate goods was driven down by the crisis in European industry. The situation in manufacturing varied from segment to segment: activity in the repair and installation of machinery and equipment recorded growth of more than 20%, while the manufacture of leather and related products saw a contraction of 16%.

Growth in activity in private-sector services slowed sharply in the final quarter of last year. Value-added was practically unchanged from the third quarter, which took the year-on-year rate of growth down to just 1.2% in the final quarter, the lowest figure since 2013. The slowdown was attributable to the worsening situation in the international environment, which was primarily expressed in a year-on-year decline in exports of transport and travel services, and also to changes on the domestic market, where year-on-year growth in domestic demand slowed sharply. Turnover in the retail sector excluding motor vehicles was down 1.7% in year-on-year terms, while turnover in project design and technical services also declined in parallel with falling investment. Employment activities have been contracting for quite some time now. The contribution made to year-on-year GDP growth by private-sector services stood at 0.6 percentage points in the final quarter of last year, 1.5 percentage points less than a year earlier; this was the main driver of the slowdown in economic performance. In contrast to private-sector services, year-on-year growth in value-added in public services was not down on its average over the year: it stood at 1.7% in the final quarter, and remains relatively in line with employment growth in the sector.

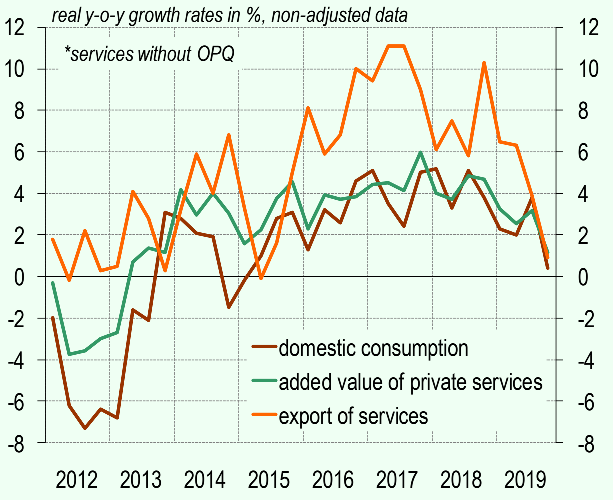
Construction activity was no longer contributing to economic growth in the second half of last year. A negative quarterly dynamic and a high basis meant that value-added was down in year-on-year terms, by 0.7% in the final quarter. Judging by indicators of the amount of construction put in place, the decline in value-added at the end of last year was primarily the result of weaker

Figure 2.5: Manufacturing production: Oct. 2019 – Dec. 2019



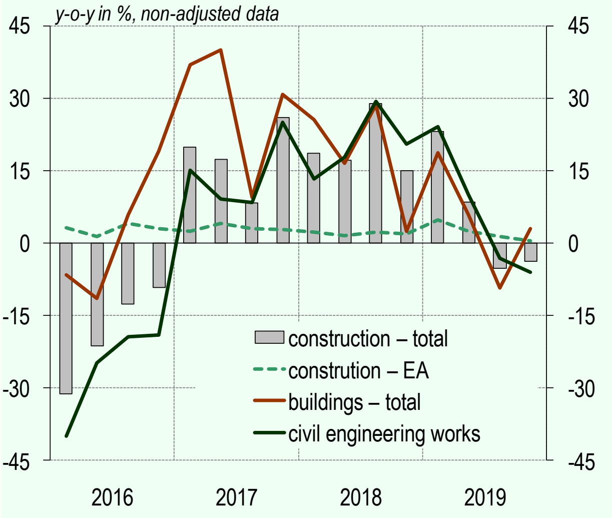
Note: Width of each column represents a share of activity in total value added in manufacturing in 2018. Pharmaceuticals are not included due to data confidentiality.
Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 2.6: Added value in private sector services* and sources of demand



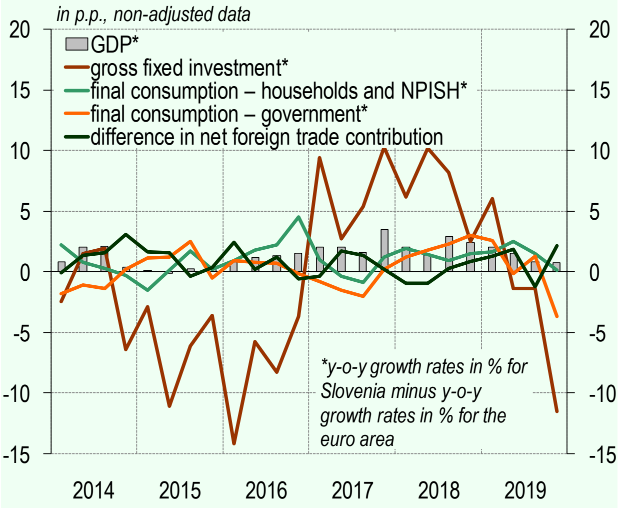
Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Volume of construction put in place



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 2.8: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



Source: Eurostat, SORS, Bank of Slovenia calculations.

investment activity by the government. The civil engineering segment was alone in recording a year-on-year decline in activity, while residential construction in particular continued to expand relatively quickly. The indicators of demand for construction work show mixed signals. Order books increased last year, especially in residential construction, but the number of building permits issued and corresponding floorspace fell at the same time. According to SORS survey data, construction firms have been reporting falling current demand since October of last year, although they remained relatively optimistic in their assessments of expected orders.

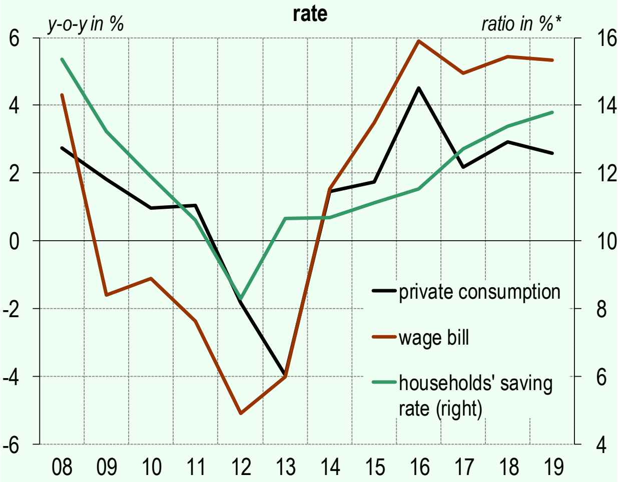
GDP in 2019: expenditure side

Growth in domestic demand slowed significantly below the euro area average in the final quarter of last year. Aggregate domestic demand was down 1.1% in quarterly terms and was up by just 0.4% in year-on-year terms. Domestic final consumption was weaker, particularly government consumption, which was down 2.0% in year-on-year terms, in contrast to its trajectory in the euro area overall. After a significant slowdown in growth in autonomous consumption, growth in private consumption stood at 1.2% in the final quarter of last year and was still comparable to that in the euro area overall. The largest decline was in gross fixed capital formation. It has declined for three consecutive quarters now, and in the final quarter of last year was down fully 4.0% on the previous quarter. Investment was also weak compared with the euro area overall: the year-on-year decline stood at 4.5%, compared with an increase of 7.0% in the euro area overall, although it should be reiterated that this was mainly attributable to an extreme statistical effect in Ireland. The weakness of domestic demand reduced imports, which meant that even a small increase in exports was enough for net trade to account for fully 1.3 percentage points of the year-end GDP growth of 1.7%. The contribution made to GDP growth by net trade in the euro area overall was negative at 0.9 percentage points. Again, this was largely attributable to an extreme statistical effect in Ireland's imports.

Last year's growth in private consumption[2] remained very similar to the previous year at 2.7%, and was again significantly outpaced by growth in employee compensation. It accounted for 1.4 percentage points of the economic growth of 2.4%, down just 0.1 percentage points on 2018. Together with employment growth, growth in private consumption has been gradually slowing since the middle of last year, and stood at just 1.2% in the final quarter. At the end of the year, real growth in compensation per employee also slowed, while

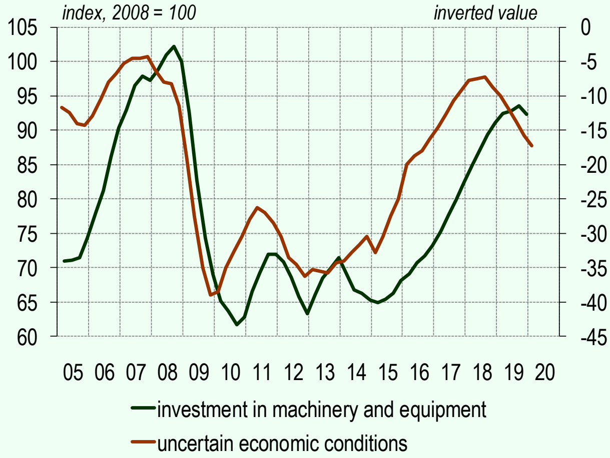
[2] Measured according to the national concept; household expenditure on final consumption according to the national concept is equal to expenditure according to the domestic concept, plus direct purchases by resident households in the rest of the world, minus direct purchases by non-resident households in the domestic market.

Figure 2.9: Private consumption, wages and households' saving rate



*Note: *Households' saving rate is the ratio of gross savings to gross disposable income of households.*
Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 2.10: Investment in machinery and equipment and uncertainty

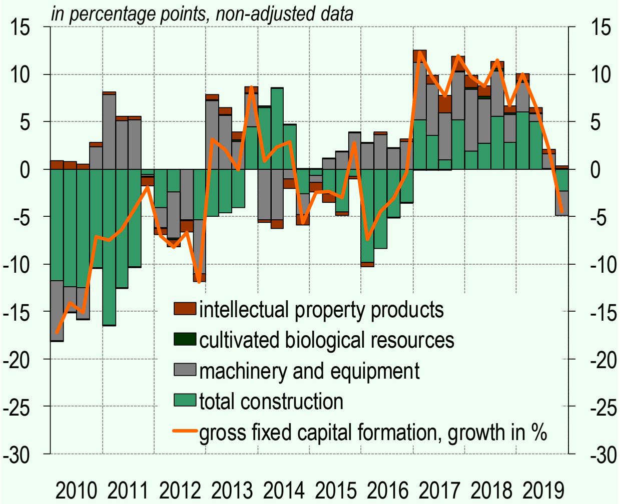


Note: Seasonally adjusted data, 4-quarter moving average, uncertain economic conditions – SORS survey of enterprises in manufacturing.
Source: SORS, Fiscal Council, Bank of Slovenia calculations.

consumer confidence declined sharply. Real growth in social transfers to households was alone in strengthening slightly, to 4.0%. Last year, real growth in employee compensation averaged 5.7%, very similar to the previous year, as employment growth slowed slightly while wage growth picked up pace in annual terms. Households slightly increased their saving rate for the seventh consecutive year. It reached 14.4%, up 1.1 percentage points on 2018. In the breakdown of private consumption, last year saw a sharp slowdown in growth in spending on durables, which averaged 3.1%. According to the monthly retail statistics, there was a particularly sharp slowdown in growth in sales of cars and furniture last year.

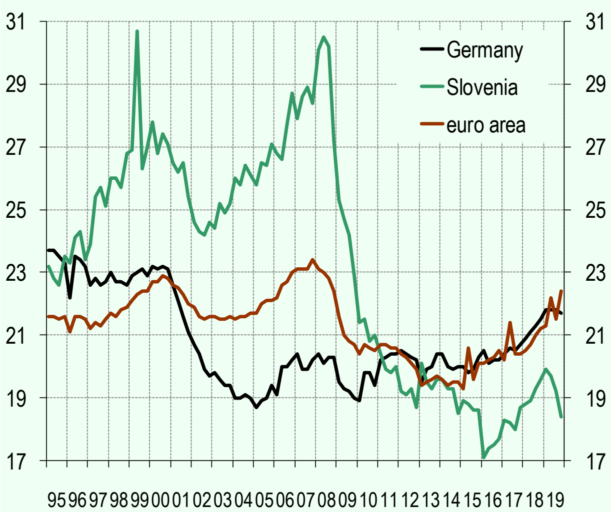
The majority of investment categories were down by the end of the year, and the gap in investment relative to the euro area overall widened again. The uncertainty in the international environment, weaker foreign demand and the fall in construction investment by the general government sector brought a sharp decline in investment in the whole economy. In line with the deterioration in transport and logistics, investment in transport equipment in the final quarter of last year was down in year-on-year terms for the third consecutive quarter, by fully 14.7% on this occasion. Firms also reduced their investment in other machinery and equipment. Falling government investment and the uncertainty in the private sector brought a year-on-year decline of 5.6% in construction investment, despite continuing growth in residential investment. These developments worsened the

Figure 2.11: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia



Source: SORS, Bank of Slovenia calculations.

Figure 2.12: Gross-fixed capital formation in % of GDP



Source: Eurostat.

Table 2.1: Economic activity – volume indices of production

	12 m. to Jan. 19	12 m. to Jan. 20	2019 Nov.	2019 Dec.	2020 Jan.	2019 Oct.	2020 Jan.
			y-o-y in % **			monthly***	
Industrial production – total	4.4	2.7	1.5	1.0	0.3	-0.5	0.3
Manufacturing	4.9	3.4	2.2	1.3	2.5	0.1	0.8
Construction – total	16.6	3.5	-8.7	2.9	6.8	-4.0	4.6
Non-residential buildings	15.0	-0.2	0.4	8.8	-14.1	-7.6	11.3
Residential buildings	5.3	17.2	12.5	25.9	50.5	7.6	15.1
Civil engineering	18.5	3.4	-12.2	-2.0	10.9	-5.3	4.0
Trade and service activities* – total	7.2	2.5	-1.1	0.8	0.7	0.0	-0.2
Wholesale and retail trade and repair of motor vehicles and motorcycles	11.5	2.7	1.2	5.8	4.6	-1.4	1.8
Retail trade, except of motor vehicles and motorcycles	3.5	3.1	-0.7	-1.6	0.6	-0.9	0.9
Other private sector services	7.2	1.9	-1.3	1.1	-0.2	0.2	-1.0
Transport and storage	7.3	2.5	-3.9	-1.2	-0.3	-1.3	-1.9
Accommodation and food service activities	4.7	4.8	2.6	0.8	6.4	1.8	-0.6
Information and communication	6.0	0.7	1.0	4.4	-0.2	-0.3	1.9
Professional, scientific and technical activities	12.9	5.4	4.0	3.0	0.6	3.1	-1.7

*Notes: *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, Bank of Slovenia calculations.

foundation for any growth in investment this year, even ignoring the profound economic shock caused by the coronavirus epidemic. The gap in development with the euro area overall, when roughly measured by the ratio of investment to GDP, widened again. After the investment bubble burst in the previous crisis, the level of investment has lagged behind the euro area overall for about a decade, but the gap widened again at the end of last year. Investment amounted to just 18.4% of GDP in Slovenia in the final quarter of last year, 4.0 percentage points less than the euro area average, and 3.3 percentage points less than in Germany. The gap remains attributable to Slovenia's lower investment in residential construction and in research and development.

Figure 2.13: Export of goods and services

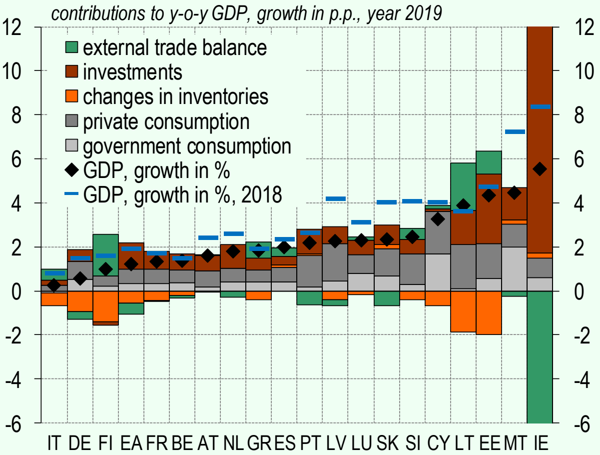
Source: Eurostat.

Slovenia's trade performance in the final quarter of last year was weaker than the euro area overall for the first time since 2015. Merchandise exports recorded their second consecutive quarterly decline, leaving aggregate exports up only 0.9% in year-on-year terms according to seasonally and calendar adjusted figures. This was just over 1 percentage point less than in the euro area overall, and was one of the lowest figures recorded by any euro area country. According to balance of payments figures, growth only remained positive thanks to exports to markets outside the EU; exports to euro area countries and to other EU countries both declined. Import performance was even weaker. Aggregate imports were down 0.5% in year-on-year terms, and Slovenia was

Box 2.1: Economic growth in euro area countries in 2019

Economic growth in euro area countries declined significantly last year. The exception was Lithuania, where growth outpaced its 2018 levels thanks to good performance in the first quarter and the third quarter. There was great variation in the levels of economic growth, and in the changes relative to 2018 between euro area member states. The largest slowdowns were recorded by Malta, Ireland, Latvia, Slovakia and Slovenia, which nevertheless remained among the best-performing economies in the euro area. Average growth in the euro area also declined, primarily on account of weak growth in Italy, Germany and France. Economic growth in the euro area stood at 1.2% last year, the lowest figure since 2013, down 0.7 percentage points on 2018. Sixteen countries outperformed the average, while Finland recorded below-average growth alongside Italy and Germany. There was a notable deterioration in the final quarter, when average year-on-year growth in the euro area stood at 1.0%, down 0.6 percentage points on the previous quarter.[1] The weakest year-on-year performance was again in Italy, while the strongest was in Ireland.

Figure 1: Economic growth in euro area countries by expenditures

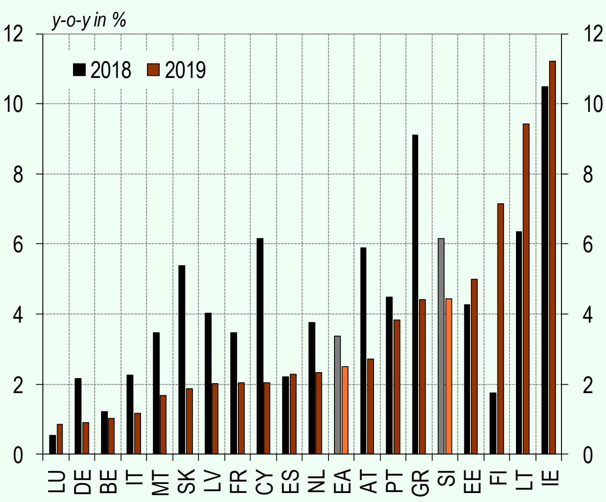


Note: The full contributions to IE GDP are not shown in the graph due to better visibility of other data.
Source: ECB, Eurostat.

The slowdown in economic growth in the euro area was mainly driven by weakening international trade and a decrease in inventories. In contrast to 2018, net trade recorded a negative contribution to average euro area GDP growth, in the amount of 0.5 percentage points. The larger economies where net trade made a negative contribution to growth included Germany, the Netherlands and France. The first two saw a pronounced slowdown in merchandise exports. Lithuania recorded the largest contribution by net trade, at 2.2 percentage points. The contribution by net trade also remained positive last year in Slovenia, albeit as a result of import growth slowing more than export growth. After being mildly positive in 2018, the contribution to euro area GDP growth by inventories was negative last year, in the amount of 0.6 percentage points, which was in line with developments in the majority of the countries, and a notable sign of the weakening economy.

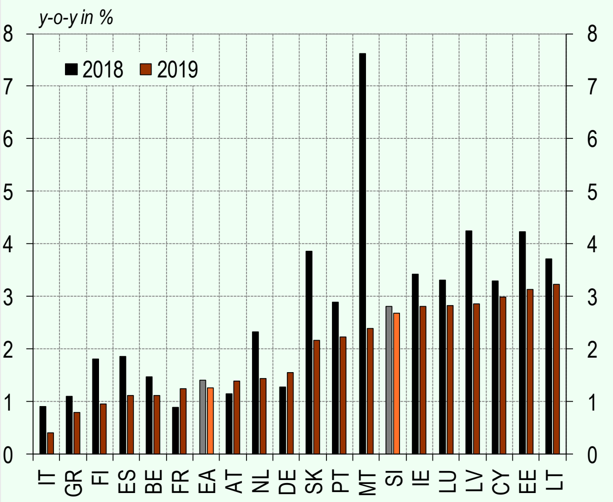
Among the aggregates of domestic demand, there was a sharp increase in the contribution to euro area economic growth by gross investment, although this does not reflect the actual situation in a number of countries. While the contribution was less than 1 percentage point in the majority of the countries, the extremely positive figure in Ireland in the

Figure 2: Total export growth in euro area countries



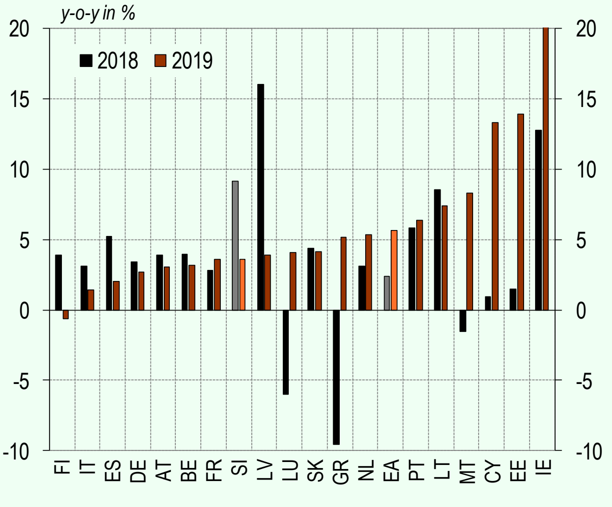
Source: Eurostat.

Figure 3: Private consumption growth in euro area countries



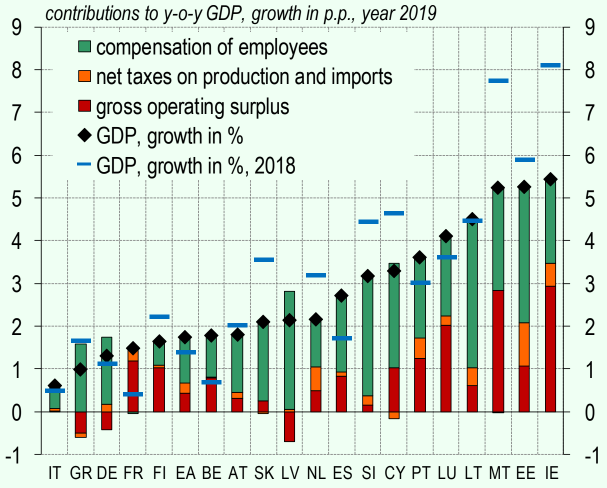
Source: Eurostat.

Figure 4: Gross fixed capital formation growth in euro area countries



Source: Eurostat.

Figure 5: Economic growth in euro area countries by income structure

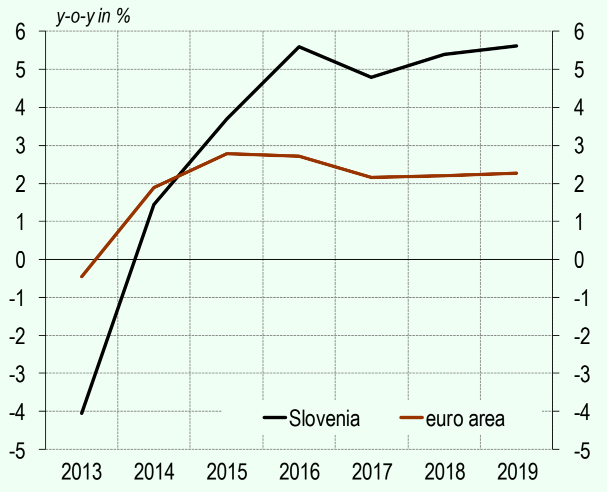


Note: Real data are shown, HICP deflator is used.
Source: Eurostat, Bank of Slovenia calculations.

second and fourth quarters meant that the overall figure for the euro area was higher than in 2018. It stood at 1.2 percentage points, up 0.7 percentage points on the previous year. In the wake of a sharp decline in the final quarter, the contribution by gross investment in Slovenia stood at 0.6 percentage points, down 1.1 percentage points on 2018. Government consumption and private consumption contributed 0.3 percentage points and 0.7 percentage points respectively to average euro area economic growth, similar figures to the previous year, which was largely attributable to the ongoing growth in both aggregates in Germany and France. Due to buoyant labour market and an increase in public transfers to households, strong private consumption was the main factor in Slovenia remaining in the top half of countries in terms of economic growth in 2019, despite the deterioration in the final quarter. The contribution by private consumption was highest in Lithuania, because of the tax reform, at 2.0 percentage points, while the lowest figure of just 0.3 percentage points was recorded by Italy.

The differences between countries did not appear only in expenditure of the economies, but also in their income.[2] This is broadly divided into compensation of employees, gross operating surplus and mixed income,[3] and net taxes on production and imports. In almost all euro area countries the largest contribution to last year's real GDP growth[4] came from compensation of employees, which accounts for the largest proportion in the income structure in most of the countries (see Figure 5). Slovenia stood out with one of the largest contributions by compensation of employees, which at 2.8 percentage points was significantly above the euro area average (of 1.1 percentage points), and was only beaten by

Figure 6: Compensation of employees



Note: Real data are shown, HICP deflator is used.
Source: Eurostat.

two of the Baltic states, while the lowest figures were recorded by France, Italy and Finland. Growth in compensation of employees in Slovenia has outpaced the euro area average by almost 3 percentage points over the last four years (see Figure 6). By contrast, the contribution to economic growth by gross operating surplus in Slovenia was below-average last year, at 0.2 percentage points. The highest figures were recorded by Malta and Ireland, where this category is prevalent in the structure of GDP, while three countries saw negative contributions, Germany among them. Much less variation between countries was seen in the figures for the contribution by net taxes, which account for the smallest proportion in the structure of GDP in all euro area countries.

[1] The structure of GDP and growth rates have been revised for the third-quarter in the majority of countries, which is why the figures in

this publication differ from those published in the the January 2020 issue of Economic and Financial Developments.

[2] Gross domestic income is in theory equal to gross domestic product, but the figures may differ slightly on account of measurement errors, model approximations and/or ineffective registration and recording.

[3] Gross operating surplus is the surplus generated incorporated enterprises, while mixed income is the surplus generated by unincorporated enterprises. On the figure 5 there is illustrated only gross operating surplus, becasuse the figure for mixed income in 2019 was not yet available at the time of writing.The contribution by mixed income is very small, and consequentlythere would not be major differences.

Box 2.2: Impact of the Covid-19 epidemic on the Slovenian economy

Slovenia declared the Covid-19 epidemic on 12 March 2020. Since then, numerous measures have been undertaken to slow the spread of the virus and to "flatten the epidemic curve", including the cancellation of public events, suspension of public transport, and shut down of many services. Measures of this type, which are also in place across Slovenia's main trading partners, while vital to relieve the social pressure on people stemming from potential exposure to the virus or death in the family and to ease the burden on the healthcare system, impose a huge adverse impact on the economy. Every week of the lockdown costs. According to assessments presented in the analysis of the impact of the epidemic,[1] the cost for Slovenia is just over 50% of the value-added generated each day, which averaged around EUR 115 million last year. Each day of lockdown thus costs approximately EUR 60 million of value-added. The analysis shows that the epidemic will have a profound impact on macroeconomic developments in Slovenia: the expectations entail a large decline in GDP, a rise in unemployment, a decline in private consumption, deflation, a jump in government indebtedness, and a large contraction in corporate export activity. The key to alleviating the impact of the epidemic is the active engagement of economic policy, both in Slovenia, and at the level of the euro area and the EU. Only this can prevent a health crisis from turning over time into a long-lasting economic crisis that would lead to mass bankruptcies and a persistent shock on the labour market.

[1] Analysis of the impact of Covid-19 on the Slovenian economy, March 2020, published in a collection of analysis by staff of Bank of Slovenia, and available on the website of Bank of Slovenia. The analysis was made under the assumption of no measures being undertaken to alleviate the economic damage. A more precise assessment of the impact of the measures that have been or will be enacted by the government and by international institutions to alleviate the economic damage will be possible once the measures have been adopted, and a detailed plan for their implementation has been presented.

Table 1: Summary of estimated impacts of the Covid-19 epidemic on considered macroeconomic variables

Variable	***GDP***		***PCR***	***Unemployment rate***	***Employment***	***HICP***
Approach	Production Side	VAR	Component Based	Static Okun's Law elasticies	Static Okun's Law elasticies	Phillips Curve
Scenario 1	-6.2	-7.3	-2.4	6.0	-1.8	-0.1
Scenario 2	-10.2	-10.7	-4.6	7.0	-3.0	-0.6
Scenario 3	-16.1	-15.2	-9.0	8.5	-4.7	-1.1

Note: GDP and private consumption (PCR) in constant prices, reference year 2010. All figures are in year-on-year growth in %, with the exception of unemployment rate.
Source: Assessing the impact of the COVID-19 outbreak on the Slovenian economic outlook, Bank of Slovenia Staff Analysis, March 2020.

3 Labour Market

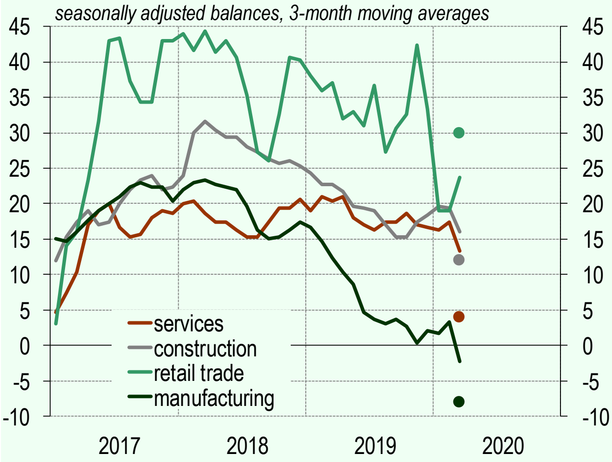
The coronavirus crisis is already being reflected in a downturn on the labour market. March's figures are showing a decline in employment expectations, most notably in services, and a sharp rise in the number of people newly registering as unemployed. The developments in employment and unemployment in the early part of this year remained in line with those of previous months, while nominal year-on-year growth in the average gross wage in January rose to slightly above last year's average. This was primarily attributable to a rise in the minimum wage and a change in its definition, which were agreed late in 2018, and to an increase in extra payments. This meant that after a year when this was not the case, year-on-year growth in the average gross wage in the private sector once again outpaced that in mostly public services, at 4.4% versus 4.3%.

Survey labour market indicators and registered unemployment in March

According to the SORS survey data, employment expectations in March were down on the previous month in all the sectors surveyed. The SORS survey was conducted between 1 and 13 March, and reveals March's employment expectations for the next three months. According to the seasonally adjusted figures, the largest decline relative to the previous month was in services, where the decline was the largest since November 2008. The other sectors did not record such pronounced declines compared with previous months. This suggests that the impact of the coronavirus epidemic has not yet been fully reflected in the survey data. Even though the surveys were conducted before the majority of measures to curb the spread of the virus were introduced, they show that the situation will be worst in services tied to the free movement of people, given the nature of the restrictive measures.

Figure 3.1: Expected employment in the next three months

seasonally adjusted balances, 3-month moving averages



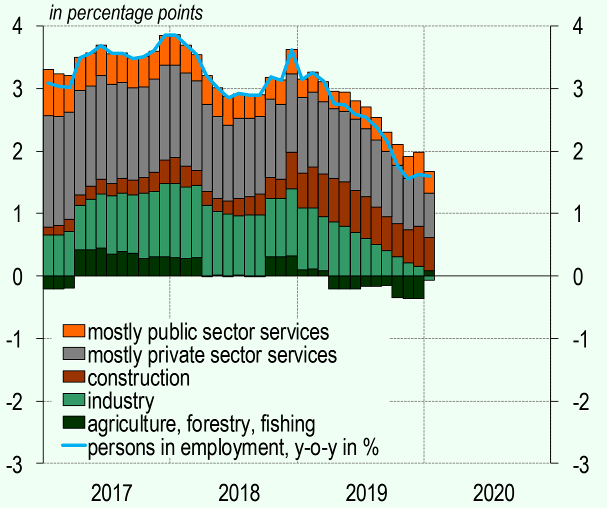
Note: The dots represent data for March 2020 without 3-month moving averages.
Source: SORS, Bank of Slovenia calculations.

The sheer scale of the coronavirus epidemic and the related uncertainty are already being reflected in a rise in the number of people newly registering as unemployed. March's inflow into registered unemployment was up 56.2% in year-on-year terms. The largest number of those newly registering as unemployed consisted of people who lost work as a result of their tem-

Figure 3.2: Registered unemployment

Source: SORS, Employment service of Slovenia, Bank of Slovenia calculations.

Figure 3.3: Contributions to y-o-y growth in the number of persons in employment



Source: SORS, Bank of Slovenia calculations.

porary employment ending, although the number of permanent redundancies was also up significantly on last March. Almost a third came from accommodation and food service activities, while manufacturing and wholesale and retail trade recorded the next highest figures. These adverse developments meant that unemployment in March was up 1.7% in year-on-year terms, the first year-on-year rise in unemployment since June 2014, at 77,855. Despite the relatively good performance in the first two months of the year, inflows into unemployment in the first quarter were up 12.8% on the first quarter of last year, while outflows from unemployment were 7.6% down.

Figure 3.4: Average gross earnings

Note: The dots represent data for January 2020 without 3-month moving averages.
Source: SORS, Bank of Slovenia calculations.

Employment

Year-on-year employment growth remained slow in the early part of this year. Despite a pronounced slowdown in the final quarter of last year, when employment was up 1.8% in year-on-year terms according to national accounts figures, average growth over the year remained high at 2.4%, outperforming the euro area overall by 1.3 percentage points. Employment growth slowed further in January, even before the outbreak of coronavirus in Europe. The year-on-year rise in the persons in employment excluding self-employed farmers stood at 1.5% in January, the lowest figure of the last four years. The year-on-year rise in the persons in employment remained broadly based: the rate in mostly public services slightly outpaced the private sector, at 1.7% versus 1.6%.[1]

Wage developments

Amid a rise in the minimum wage and an increase in extra payments, nominal year-on-year growth in the average gross wage in the private sector once again

[1] Mostly public services: public administration and defence, education, human health and social work activities (Sectors O, P, and Q under the SKD 2008).

Table 3.1: Demography, unemployment and employment

	2015	2016	2017	2018	2019	18Q4	19Q1	19Q2	19Q3	19Q4
						in 1,000				
Working age population[1]	1,383	1,371	1,362	1,352	1,350	1,349	1,351	1,349	1,347	1,352
						in %				
Activity rate[2]	71.8	71.7	74.2	75.1	75.3	75.2	75.0	75.7	75.7	74.6
Employment rate[3]	65.2	65.9	69.3	71.1	71.9	71.8	71.3	72.5	72.1	71.6
						in 1,000				
Registered unemployed persons	112.7	103.2	88.6	78.5	74.2	77.0	80.0	72.2	71.1	73.4
Unemployment rate						*in %*				
- LFS	9.0	8.0	6.6	5.1	4.5	4.4	4.8	4.2	4.8	4.0
- registered	12.3	11.2	9.5	8.3	7.7	8.0	8.3	7.5	7.4	7.5
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	15.7	18.0	19.2	19.5	18.9	16.2	23.1	19.9	16.4	16.0
- probability to lose a job[5]	2.5	2.3	2.1	1.9	1.8	2.0	2.2	1.4	1.6	2.1
						in 1.000				
Total employment[6]	944	961	989	1,021	1,045	1,035	1,032	1,044	1,051	1,053
						year-on-year growth rates in %				
Persons in paid employment	1.3	2.2	3.3	3.3	2.8	3.3	3.3	3.0	2.7	2.1
Self-employed	1.2	0.2	1.6	2.5	0.8	2.4	1.0	0.9	0.7	0.5
By sectors										
A Agriculture, forestry and fishing	-0.9	-1.3	-1.0	-0.5	-1.3	-0.4	-0.7	-1.1	-1.5	-1.9
BCDE Manufacturing, mining and quarrying and other industry	1.7	2.5	3.1	4.3	2.7	4.0	3.9	3.2	2.4	1.3
F Construction	0.5	-0.8	2.3	6.5	7.9	7.5	9.3	8.9	7.3	6.1
GHI Trade, accommodation, transport	1.7	2.5	3.5	3.5	3.0	3.6	3.6	3.3	3.0	2.2
J Information and communication services	2.9	4.1	3.4	4.6	3.9	4.6	3.9	3.5	4.2	4.1
K Financial and insurance activities	-2.8	-2.0	-1.5	-0.9	-0.8	-0.9	-1.4	-0.5	-0.5	-0.9
L Real estate activities	1.4	4.6	7.9	6.5	1.9	4.8	3.1	1.5	1.5	1.5
MN Professional, technical and other business activities	2.6	1.9	5.7	3.0	1.1	2.6	1.2	1.0	1.0	1.1
RSTU Other activities	2.7	2.7	3.5	3.4	3.2	3.0	2.5	3.0	3.5	3.7
- mainly private sector (without OPQ)[7]	1.4	1.7	3.1	3.4	2.5	3.4	3.1	2.8	2.4	1.8
- mainly public services (OPQ)[7]	0.8	2.1	2.5	2.1	1.6	1.9	1.6	1.5	1.7	1.7
Total employment[6]	1.3	1.8	3.0	3.2	2.4	3.1	2.9	2.6	2.3	1.8

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

outpaced that in mostly public services, having failed to do so for a year. The rate stood at 4.4% in the private sector, and 4.3% in mostly public services. January brought a rise of 6.1% in the minimum wage under the law from 2018, and saw all bonuses set out by laws, regulations and collective agreements, bonuses for on-the-job performance, and bonuses for commercial performance agreed by collective agreement or employment contract also excluded from the definition of the minimum wage. Despite the rise in the minimum wage, it was not the activities with the highest shares of minimum wage earners[2] that recorded the highest wage growth in January, but

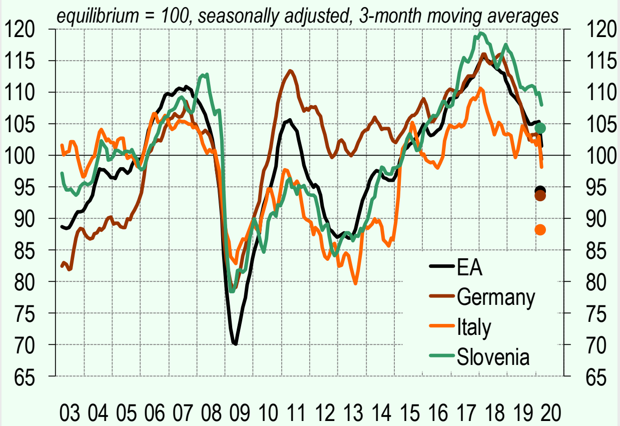
[2] Because the figures for the number of minimum wage earners are not yet available for January, the share of minimum wage earners in each sector was approximated by the figures for 2019.

Box 3.1: Labour market situation in euro area countries

Survey data shows employment expectations to have deteriorated sharply in March in the majority of euro area countries.[1] While employment expectations were still positive in the euro area average in February, they turned negative in the majority of the member states in March. In March the seasonally adjusted employment expectations indicator in the euro area reached its lowest figure since November 2013. This was still some way from the record low recorded in April 2009, although the monthly decline in the employment expectations indicator was the largest ever seen. The previous record was set in November 2008. March's monthly decline in the employment expectations indicator was largest in Belgium, Italy and Ireland, which also recorded the lowest absolute values. Slovenia's decline in employment expectations was smaller than the euro area average, and the indicator nevertheless remained positive, although, similarly to most other countries, this was largely because the strict measures to prevent the spread of coronavirus were mostly introduced after the survey had been completed.

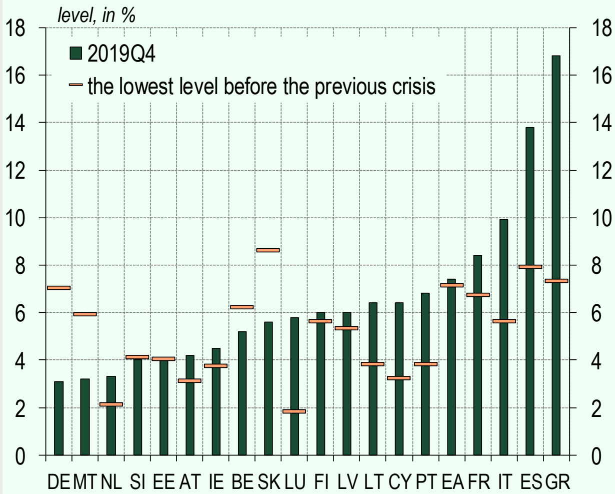
The labour market remained relatively buoyant in the majority of euro area countries at the end of last year. Year-on-year growth in employment averaged 1% in the euro area in the final quarter of last year, approximately at the level of its average over the whole year. Before the previous global crisis, euro area employment level had peaked in the third quarter of 2008, but it was 3.8% higher in the final quarter of last year. The euro area's surveyed unemployment rate of 7.4% in the final quarter of last year was thus one of the lowest on record. The lowest unemployment rates were recorded by Germany, Malta and the Netherlands, while the highest rates were in Greece, Spain and Italy. The rates in the latter were still significantly higher than their levels before the previous global crisis. The labour markets in Italy and Spain, which are currently hit hardest by the spread of coronavirus, had thus not entirely recovered from the previous crisis, which is a poor starting point when a new economic and social crisis hits.

Figure 1: Expected employment in the next three months



Note: The indicator shows the weighted average of expected employment in all four activities surveyed (i.e. industry, services, retail trade, and construction). The dots represent data for March 2020 without 3-month moving averages.
Source: European Commission, Bank of Slovenia calculations.

Figure 2: LFS unemployment rate by EA member states



Source: Eurostat, Bank of Slovenia calculations.

[1] The survey indicator of employment expectations illustrates the weighted average of the employment expectations of employers in the current month for the next three months in four sectors (industry, services, retail, and construction). Average figures for the euro area are available from October 1996. The analysis refers to seasonally adjusted figures.

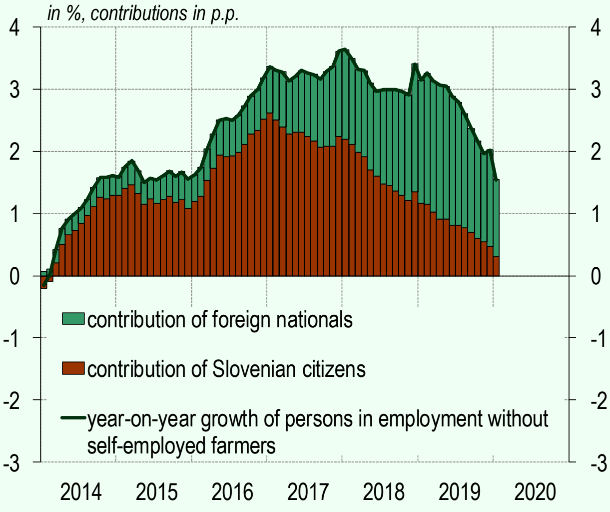
activities with the highest levels of average monthly earnings (electricity, gas, steam and air conditioning supply, information and communication, and financial and insurance activities), thanks to high extra payments. Real growth in the wage bill stood at 3.7%.

Box 3.2: Categories of workers who are potentially more vulnerable in the coronavirus pandemic

In addition to the economic shock, developments on the labour market while measures to curb coronavirus are in place will also depend on structural factors, among them non-standard forms of work. Non-standard forms of work deviate from standard employment, and among others include temporary employment, agency work, self-employment, student work, and part-time work. The boom in atypical forms of work has recently been driven by several factors, including demographic shifts, labour market liberalisation, macroeconomic fluctuations and technological changes (ILO, 2020). The main disadvantages of non-standard forms of work from the perspective of the worker are uncertainty, poor career progress and personal development, lower pay, reduced bargaining power, and adverse health impact, while the benefits include the opportunity to gain work experience, the increased chance of stable, more permanent employment in future, and an improvement in economic position over the short term. For employers however, the main benefits are greater flexibility in headcount, lower labour costs, and faster adaptation to the situation in the economy (Redek et al., 2017).

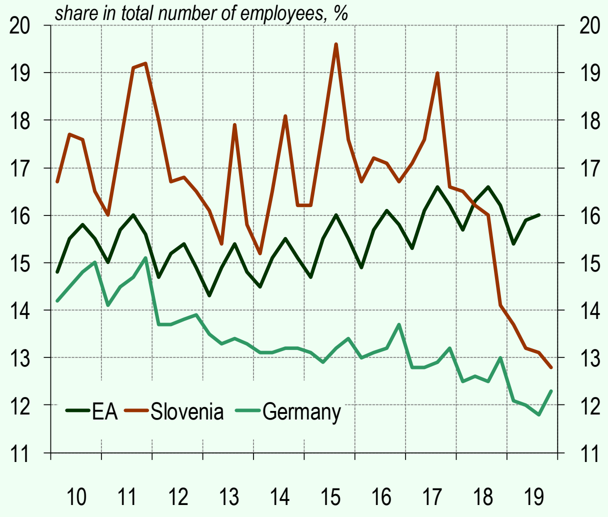
The strong economy, which had been raising demand for labour, and growing structural imbalances on the labour market have recently had a major impact on trends in hiring and on the use of non-standard forms of work. First, the share of the persons in employment accounted for by foreign nationals has increased significantly in recent years. While they accounted for approximately 7% of the total nine years ago, by January of this year the figure had risen to more than 11%. The rise in the employment of foreign nationals has been more pronounced in the last three years, when there has been a sustained increase in the contribution to the year-on-year rise in the persons in employment that they account for. The figure had reached 80% by January of this year. Second, fewer employers have recently been hiring via agencies. The contribution to the rise in the persons in employment made by employment activities, which include staffing agencies, has been negative for just under two years now, although the level of persons in employment in this activity remains high following major hiring in previous years. Third, the relative share of temporary employment in Slovenia was mostly above the euro area average, but has recently fallen below the average. Not least, the proportion of total employment accounted for by the self-employed increased between 2008 and 2013, where encouraging unemployed people to take up self-employment was one of the measures of active employment policy aimed at job creation during this period. The share of self-employment increased over the aforementioned period, and peaked at 20% in the final quarter of 2013. The share had declined by the final quarter of last year, but remained above the euro area average. The strong demand for labour in recent times increased workers' bargaining power, which reduced the use of certain forms of non-standard work, such as temporary contracts, agency work, and self-employment. By contrast, the growing structural imbalances on the labour market drove a rise in the hiring of foreign nationals.

Figure 1: Contribution of foreign workers to growth in persons in employment



Source: SORS, Bank of Slovenia calculations.

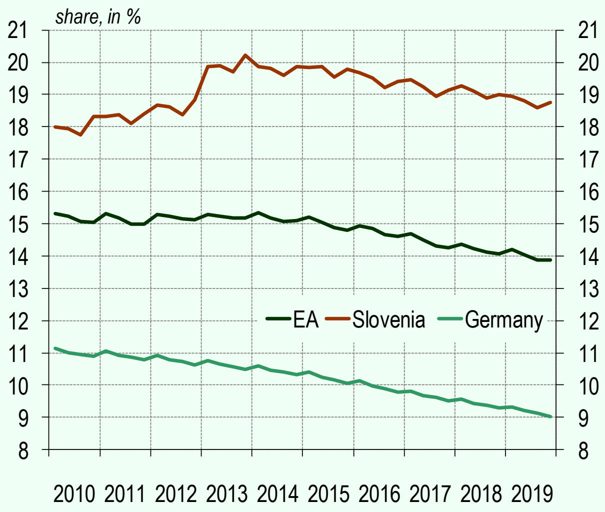
Figure 2: Temporary employment



Source: Eurostat, Bank of Slovenia calculations.

Those in non-standard forms of work will be under greater threat of job losses over the coming months. Firms will most likely be forced to make lay-offs, in light of falling demand, disruptions to global value chains and, not least, lockdown

Figure 3: Share of self-employed in total employment



Source: Eurostat – National accounts, Bank of Slovenia calculations.

measures. The lockdown is vital for flattening the epidemic curve, and is helping to stop the healthcare system from being overwhelmed. It is nevertheless having a brutal impact on the economy, for which reason the government has already taken numerous measures to help the labour market, which will help to preserve Slovenia's economic and social potential, although their true impact will only be known after the situation normalises. The falling demand for labour will reduce the structural imbalances on the labour market, as a result of which bargaining power will swing back to employers. Because non-standard forms of work offer employers greater flexibility, workers in these forms of work will be more exposed to losing their jobs in the crisis. However, the use of these forms of work will increase during the normalisation process after the measures to curb the spread of coronavirus have been lifted, as the economic situation will be worse than before the crisis, and uncertainty will be greater.

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Table 3.2: Labour costs

	2015	2016	2017	2018	2019	18Q4	19Q1	19Q2	19Q3	19Q4
					in EUR					
Average gross wage	1,556	1,584	1,626	1,681	1,754	1,757	1,732	1,726	1,725	1,832
					y-o-y growth in %, nominal					
Average net wage	0.4	1.7	3.1	2.9	3.7	2.9	3.9	3.3	3.8	4.0
Average gross wage	0.7	1.8	2.7	3.4	4.3	3.3	4.6	3.9	4.5	4.2
- mainly private sector (excl. OPQ)[1]	0.8	1.3	2.6	3.9	3.6	4.2	4.1	3.2	4.0	3.2
- mainly public services (OPQ)[1]	0.6	3.3	2.8	2.4	6.5	1.3	6.4	6.1	6.0	7.6
Average gross wage in manufacturing	2.1	2.1	3.2	4.0	3.5	3.5	3.6	3.5	3.9	2.9
Average real net wage[2]	1.2	1.8	1.5	1.0	2.0	1.0	2.5	1.5	1.7	2.3
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	0.6	1.8	1.2	3.0	4.5	3.1	3.9	5.9	4.4	3.7
Unit labour costs,[3,4] real	-0.4	1.0	-0.3	0.8	2.0	1.2	1.5	3.1	1.9	1.4
Labour costs per employee,[4] nominal	1.5	3.1	3.0	3.9	4.5	3.8	4.3	5.7	4.5	3.6
Labour productivity, nominal	1.9	2.1	3.4	3.2	2.5	2.6	2.7	2.6	2.6	2.1
Labour productivity, real	0.9	1.3	1.8	0.9	0.1	0.7	0.4	-0.1	0.1	-0.1
HICP	-0.8	-0.2	1.6	1.9	1.7	2.0	1.3	1.7	2.1	1.6
GDP deflator	1.0	0.8	1.6	2.2	2.4	1.9	2.3	2.7	2.4	2.2

[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, Bank of Slovenia calculations.

4 Current Account and Competitiveness Indicators

The export sector is already facing a deep crisis triggered by the measures to curb the spread of coronavirus. The survey assessments of manufacturing firms' export expectations declined sharply in March to reach their lowest levels since the global financial and economic crisis of 2009. The decline was expected, but it does not yet reflect the full magnitude of the pandemic, as the SORS survey was completed before the vital measures to curb the spread of coronavirus had been taken at a global level. There are no direct indicators of demand for services exports, but the decline in the survey indicators of demand expectations in services points to an even sharper deterioration than in merchandise exports. Because the majority of measures to combat the pandemic were taken in the second half of March, the true magnitude of their impact on the export sector will only be revealed in the April figures.

The current account surplus remained extremely high until January of this year, an indication of the continuing external competitiveness of the economy, but also of the relatively low level of domestic demand. It amounted to 6.5% of GDP, and continued to be largely driven by the surplus of trade in services. After relatively weak performance in the final quarter of last year, trade in services strengthened again in January. There was growth in imports and exports alike, despite zero growth in travel services. Merchandise trade performance remained weak in January, where the main factor on the export side was the ongoing crisis in European industry, while on the import side it was in all likelihood attributable to the weakness of domestic investment.

The external competitiveness of the export sector was in relatively good shape going into the new crisis. The price and cost competitiveness of the Slovenian economy both deteriorated slightly last year, but external competitiveness remained solid overall. The evidence of this comes from the improvement in the breakdown of manufacturing exports by technological intensity, and the continuing rise in Slovenia's market share in merchandise exports.

Survey indicators of export demand in March

Manufacturing firms' assessments are already showing the anticipated pronounced deterioration in the export situation. Although there have been signs of stabilisation in foreign demand for Slovenian products since the second half of last year, at least judging by the survey indicators released by the SORS, nominal year-on-year growth in merchandise exports continued to slow going into 2020, after adjusting for volatility. Developments are thought to have remained similar in February, while March is expected to have seen a significant decline in merchandise exports as a result of the extensive measures to curb the spread of coronavirus in Slovenia and in other EU Member States. Because the SORS survey was completed before these measures were taken, the current crisis is not yet reflected in the export order books indicator, which stood at -11 percentage points in March, still above its low of last year, and significantly higher than its low from the previous crisis recorded in April 2009, when nominal merchandise exports were down 29.6% in year-on-year terms. The first signs of the magnitude of the crisis are being evidenced in firms' assessments of export expectations for the next three months: the indicator fell to its lowest level since June 2009, recording the largest monthly decline since October 2008.

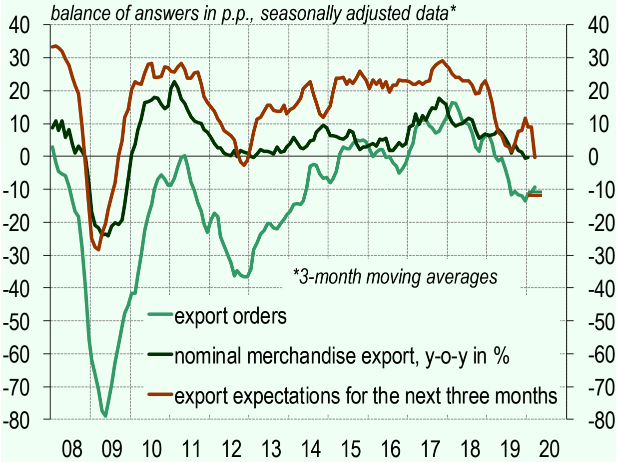
A sharp nominal decline in merchandise imports is also expected. This could be even larger than the 32.5% recorded in the crisis of May 2009, as the decline in imports of consumer goods is likely to be larger than in 2009, given the lockdown measures in place in Slovenia and the accompanying weakness of private consumption, and the closing of borders between EU Member States. Imports of intermediate goods and capital goods will also decline sharply, owing to the fall in industrial production and the investment shock in the corporate sector.

Even more pronounced falls are expected in trade in services, which is being hit even harder by the measures to combat the epidemic. For example, the spotlight might fall on tourism and transport, which together make up three-fifths of all exports and almost half of all imports of services. Such developments are suggested by March's pronounced decline in the survey assessments of demand expectations in services (other than trade), which at 34 percentage points was the largest monthly decline to date. Although the decline in the comparable indicator in construction was less pronounced, trade in construction services is also expected to see a large contraction, on account of the lockdown measures.

Current account position

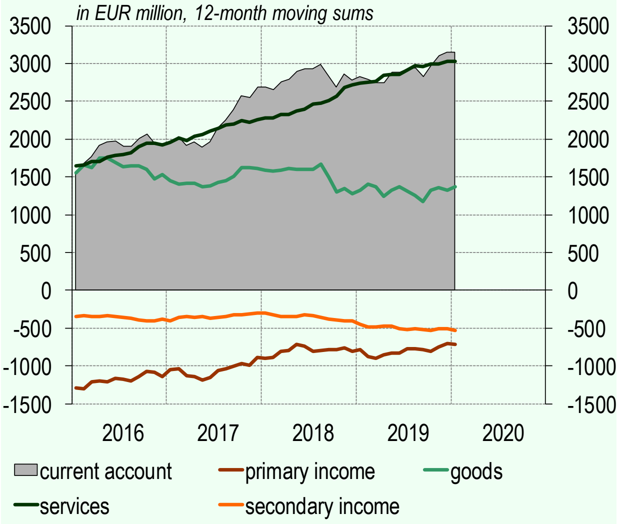
The current account surplus over the preceding 12 months remained extremely large in January. It amounted to EUR 3,148 million, up EUR 319 million in year-on-year terms. It reached 6.5% of estimated GDP. The increase continued to be mostly driven by the surplus of trade in services, as exports of transport services, construction services and miscellaneous information services also strengthened, even as imports of miscellaneous business services picked up in January. The 12-month merchandise trade surplus also remained up slightly in year-on-year terms, although January's developments in this instance were not as favourable as in the case of services. The nominal year-on-year increase in merchandise exports stood at just 1.6%, while merchandise imports were unchanged, which is a bad sign for aggregate growth in domestic demand in the early part of the year.

Figure 4.1: Export orders and export expectations – industry



Note: The dashes represent data points for March 2020 without moving averages.
Source: SORS, Bank of Slovenia calculations.

Figure 4.2: Current account components

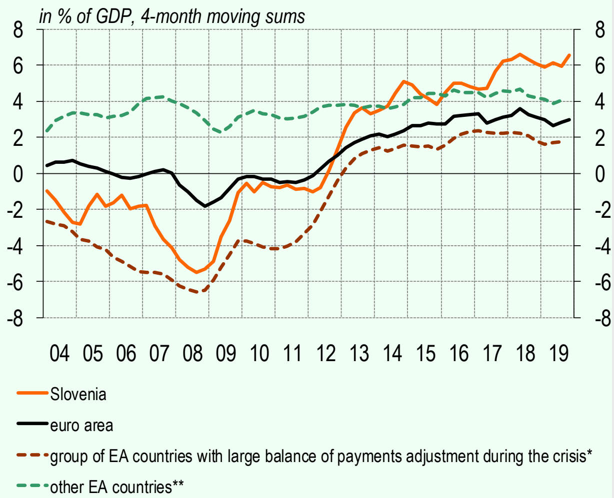


Source: Bank of Slovenia, SORS.

Box 4.1: Differences in the balance of payments positions of euro area countries

Given their different patterns of economic growth, there are great differences between euro area countries in terms of the structure and relative size of their current account balances, and this makes it difficult to make a balance of payments comparison between them. They can be broadly divided into two groups according to the structure of and changes in their positions between 2004 and Q3 of 2019: those who mostly generate surpluses,[1] and those[2] who broadly swung from large deficits into surpluses in the crisis.[3] It should be noted that there are also major balance of payments differences between the countries within each group. Alongside Estonia, Italy and Spain, Slovenia is one of the euro area countries with a pronounced correction in the current account position during the crisis. In terms of the size of its deficit as a ratio to GDP, Slovenia was ranked tenth among euro area countries before the crisis, but since a reversal in 2012 it has been among the countries with the largest current account surpluses.[4] Similar developments over the observation period, albeit to a lesser extent, were also seen in the euro area overall, which moved from a deficit in the amount of 1.8% of GDP in 2008 to a surplus of 2.9% of GDP in 2019.[5] Since 2012 the euro area has generally seen a surplus of saving over investment, and consequently net financing of the rest of the world, which opens space for stronger domestic consumption.

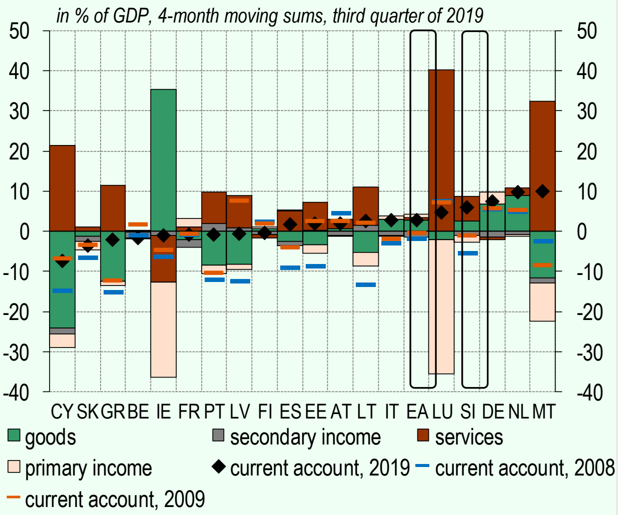
Figure 1: Current account balance



*Note: *EE, ES, GR, IT, LT, LV, PT, SI, SK. **AT, BE, DE, FI, FR, NL.*
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

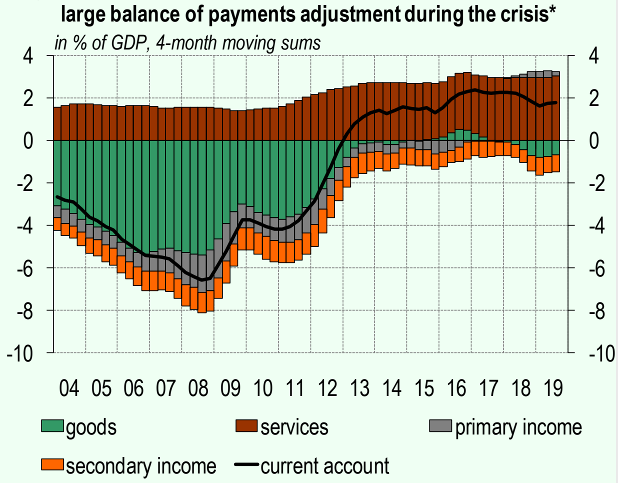
The current account position of the euro area countries making extensive balance of payments adjustments during the crisis has improved significantly over the last 11 years, primarily thanks to a decline in the merchandise trade deficit. The current account deficit in this group of countries widened rapidly leading up to 2008, and reached 6.5% of GDP on aggregate. The main factor was a large merchandise trade deficit, which was largely attributable to imports of capital goods driven by high levels of investment in these countries before the crisis.[6] The aggregate merchandise trade deficit narrowed sharply in these countries at the outbreak of the crisis in 2009, mostly as a result of the bursting of the investment bubble, but partly as a result of weaker private consumption. The countries whose deficit narrowed most sharply because of a decline in gross fixed capital formation were the Baltic states, Slovakia, Slovenia and Italy. These were also the countries in the aforementioned group that saw the largest falls in economic activity in 2009. The aggregate current account position of these countries moved from a deficit to a small surplus in 2013,[7] primarily as a result of merchandise

Figure 2: Current account components of euro area countries



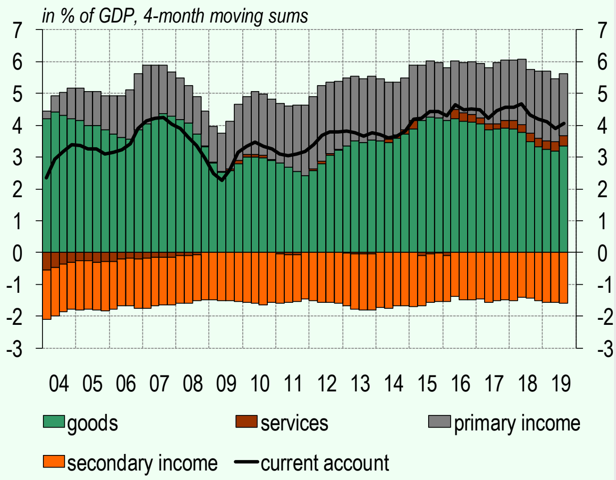
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

Figure 3: Current account components of euro area countries with large balance of payments adjustment during the crisis*



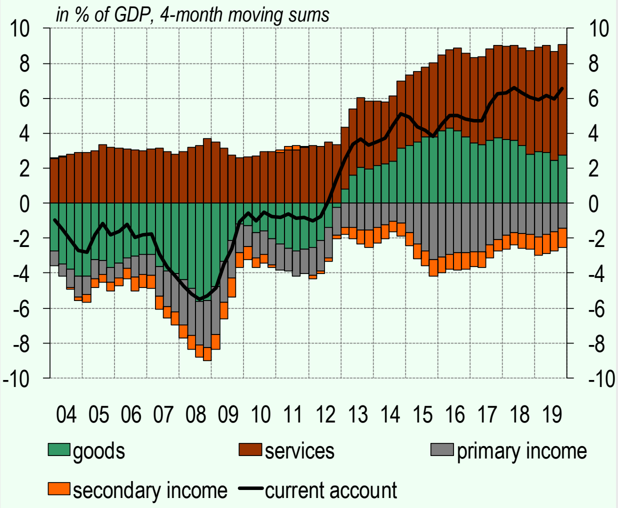
*Note: *Estonia, Spain, Greece, Italy, Latvia, Lithuania, Portugal, Slovenia and Slovakia.*
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

Figure 4: Current account components of other* euro area countries



*Note: *Austria, Belgium, Germany, Finland, France and the Netherlands.*
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

Figure 5: Slovenia's current account balance



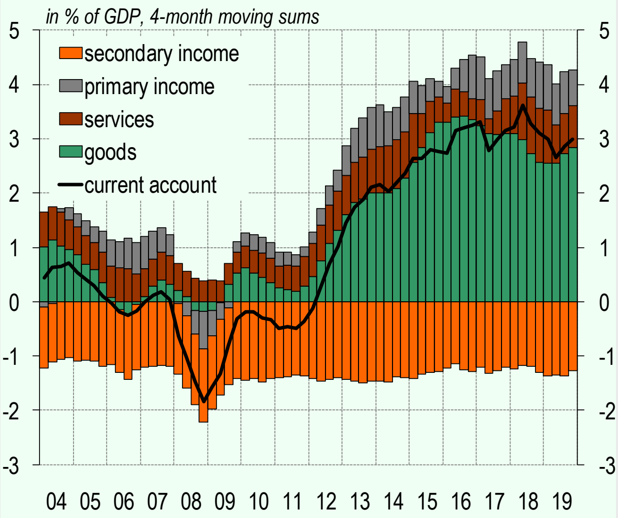
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

exports outpacing imports. In addition to the low level of investment and the decline in private consumption, this was also the result of the improvement in cost competitiveness that followed the internal devaluations in the second part of the crisis.[8] The surplus of trade in services widened further at the same time, while the deficit in primary income only swung into surplus in 2018. Weaker growth in foreign demand means that the current account surplus has narrowed slightly since 2017, but it still exceeds 1.5% of GDP.

There are only minor variations in the structure of the current account position in the euro area countries making balance of payments adjustments during the crisis. The majority of these countries have a relatively similar structure in their current account position: trade in services is mostly in surplus, while merchandise trade is in deficit. The exceptions are Italy, Slovakia and Slovenia, where there was a reversal in the merchandise trade position during the crisis.[9] In Slovenia the merchandise trade deficit narrowed sharply as early as 2009, when the collapse in investment sharply reduced imports of capital goods, before the government austerity measures in 2012 also brought a fall in imports of consumer goods. The gap between the country with the largest surplus and the country with the largest deficit in this group of countries has widened over the last seven years, primarily as a result of the rising current account surplus in Slovenia and the widening current account deficit in Slovakia. It stood at 9.6 percentage points last year, 4.7 percentage points more than in 2012, when it was at its lowest, but still significantly lower than a decade earlier.

The majority of the other euro area countries reached current account surpluses again last year, although there was great

Figure 6: Current account balance of the euro area



Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

variation between them. Last year's largest surplus was recorded by the Netherlands, while the largest deficit was recorded by Belgium, but the entire group of countries has significantly increased net financing of the rest of the world since 2011. This group of countries is typified by surpluses in merchandise trade and primary income, and deficits in secondary income. The latter are attributable to the government sector's large deficits in secondary income, most likely related to payments into EU budget. There is great variation from country to country, as the range in the current account position is larger than in the other group of countries, and has averaged 11.0 percentage points of GDP over the last nine years. There are also major variations in the structure of the current account position. The largest merchandise trade surpluses belong to Germany and the Netherlands, where they average between 7% and 10% of GDP. There are no pronounced deviations in the structure of the positions of the other countries in this group.

Last year Slovenia's current account surplus was again one of the largest in the euro area. It stood at 6.0% of GDP over the 12 months to the third quarter, 3.1 percentage points more than the overall euro area figure.[10] Only Malta, the Netherlands and Germany recorded larger surpluses. Malta's current account surplus remained above 10% of GDP last year for the third consecutive year and, like in Slovenia, was primarily generated by trade in services. It was followed by the Netherlands and Germany, although the majority of their surpluses came from merchandise trade, which in the Netherlands was again largely the result of large re-exports of goods.[11] In contrast, the largest current account deficit was recorded for the fourth consecutive year by Cyprus. It amounted to 7.4% of GDP last year, and was driven by a large merchandise trade deficit.

[1] This group of countries comprises Austria, Belgium, Finland, France, Germany and the Netherlands.

[2] This group comprises Estonia, Latvia, Lithuania, Slovenia, Portugal, Spain, Greece and Italy. The aggregate also includes Slovakia, although the movements in its current account position are slightly atypical of this group of countries; in contrast to the countries whose deficit widened before the crisis, Slovakia's current account deficit began to narrow back in 2006.

[3] Cyprus has been excluded from the aforementioned group of countries because of its short data time series. Ireland has also been excluded from the aggregate, even though it belongs among the countries with a large balance of payments adjustment, because of the pronounced fluctuations in its current account position over the last four years, as a result of the volatility in its deficit in trade in services, which is extremely subject to the performance of multinationals. Despite being one of the countries with a large balance of payments adjustment in the crisis, Malta is also excluded from the aggregate, because of its major deviations from the euro area average, in particular the size of the surplus of trade in services and the merchandise trade deficit, which range from 15% to 35% of GDP. Luxembourg is also excluded from the two groups, despite running a current account surplus, as it deviates notably from the euro area average in the size of the deficit in primary income, which has exceeded 30% of GDP over the last five years and is primarily attributable to a deficit in income from investments in equities (equity and investment fund shares/units). It is also notable for the size of its surplus of trade in services, which has exceeded 40% of GDP since 2015, as a result of a large surplus of trade in financial services.

[4] Slovenia's 12-month current account surplus reached 6.6% of GDP last year, compared with 3.0% of GDP in the euro area overall.

[5] Surplus over the 12 months to the third quarter of 2019.

[6] The ratio of gross fixed capital formation to GDP averaged 25.6% in Estonia, Latvia, Lithuania, Slovenia, Portugal, Spain, Greece, Italy and Slovakia in 2007 and 2008, 3.1 percentage points more than the average of the other group of countries. The figure was approximately 30% of GDP in Latvia, Estonia and Slovenia.

[7] Estonia, Lithuania, Italy and Portugal all moved from deficit to surplus in 2013. Latvia and Greece saw their current account deficits narrow, while Slovenia, Spain and Slovakia saw increases in their current account surpluses.

[8] The implementation of extensive austerity measures brought an improvement in the cost competitiveness of these countries, when real unit labour costs fell by more than in other euro area countries between 2011 and 2013 as productivity growth outpaced wage growth. The austerity measures also curbed private consumption and government consumption, and consequently imports.

[9] Slovenia moved from deficit to surplus in 2013, as Italy and Slovakia had in 2012, although the latter had also recorded a small merchandise trade surplus back in 2009, which moved again into deficit in 2018.

[10] The aggregate current account of euro area countries differs from the official ECB statistics, where only the euro area's transactions with other economies outside the euro area are recorded (excluding transactions between euro area countries). According to the official ECB statistics, the euro area's 12-month current account surplus had reached 2.9% of GDP by the third quarter of last year, while the aggregate current account surplus of euro area countries amounted to 3.1% of GDP.

[11] The Netherlands' re-exports are thought to have increased by 30% over the last four years (source: Statistics Netherlands).

Merchandise trade

After a significant slowdown in the second half of last year, merchandise trade performance remained weak in January. After stagnating in the final quarter of last year, merchandise exports recorded nominal year-on-year growth of just 1.6% in January according to balance of payments figures. According to the adjusted merchandise exports indicator, the low growth was largely attributable to a fall in exports of road vehicles and other transport equipment.[1] At the same time exports of various machinery and equipment recorded a year-on-year decline in January for the third consecutive month, in line with the crisis in the European car industry and weak investment in a number of important trading partners.[2] After declining in the final quarter of last year, nominal merchandise imports were unchanged in year-on-year terms in January, an indication of the weak domestic demand in the early part of this year. Having slowed sharply last year, year-on

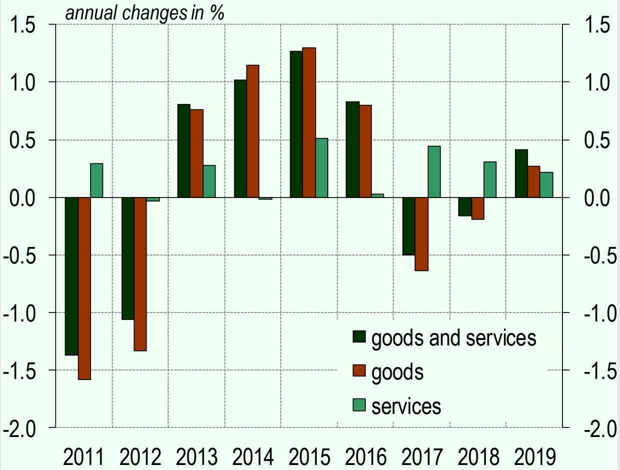
[1] Adjusted merchandise exports exclude exports of medical and pharmaceutical products to Switzerland, and exports of petroleum and refined petroleum products, electricity and gas. The exclusion of exports of medical and pharmaceutical products to Switzerland makes it easier to compare the SORS figures 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.

Box 4.2: Impact of the terms of trade on the current account position[1]

After deteriorating for two years, the terms of trade improved last year. They had previously improved significantly between 2013 and 2016, when the fall in prices of merchandise imports, which were being strongly driven by price developments on international commodity markets, was larger than fall in export prices.[2] The greatest improvement in the terms of trade came in 2015, when oil prices fell significantly, by more than a third. A reversal came in 2017, as a result of growth in import prices outpacing export prices. These price developments continued to a lesser extent in 2018. Last year saw an improvement in the terms of trade, as the fall in prices of merchandise imports driven by falling oil prices outpaced the fall in prices of merchandise exports. In contrast to merchandise prices, prices of services rose between 2013 and 2019. As growth in export prices slightly outpaced growth in import prices on average, last year saw the terms of trade in services improve for the fifth consecutive year. The overall terms of trade improved by 0.4% last year. Merchandise price developments are the dominant influence on the terms of trade, given the large proportion of trade that merchandise accounts for, and oil prices have a major impact on those developments.

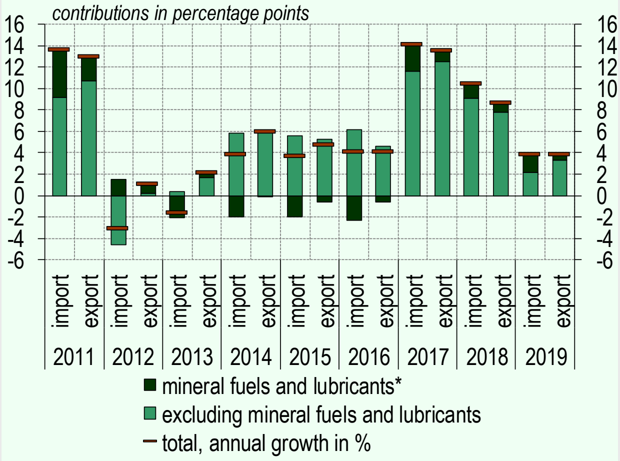
Figure 1: Terms of trade



Note: Terms of trade changes are calculated from export and import price indices based on national accounts, t-1 = 100.
Source: SORS, Bank of Slovenia calculations.

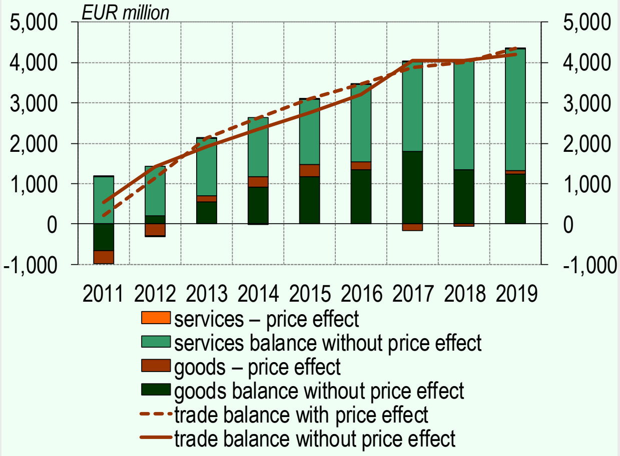
Owing to large price changes and the significant proportion of imports that they account for, mineral fuels and lubricants have had a profound impact on growth in nominal merchandise imports. The proportion of merchandise imports accounted for by mineral fuels and lubricants has increased from 8.4% to 11.0% over the last three years. The proportion of exports that they account for increased from 4.5% to 5.6% over the same period. The reason is oil prices: the annual average price of a barrel of Brent crude in euros has risen by 44% over the last three years, despite a fall of 5% last year. The rise in the value of imports of mineral fuels and lubricants raised the average annual growth in total merchandise imports by almost 2 percentage points between 2017 and 2019. The effect was largest in 2017, when it stood at 2.5 percentage points. The impact on growth in exports via re-exports of mineral fuels and lubricants was significantly smaller, and averaged just 0.8 percentage points over the same period. Excluding imports and exports of mineral fuels and lubricants, growth in merchandise exports would have outpaced growth in imports by 0.4 percentage points in 2017 and 1.0 percentage points in 2019, while in 2018 growth in merchandise imports would have been 1.9 percentage points

Figure 2: Effects of mineral fuels and lubricants on nominal growth of merchandise trade



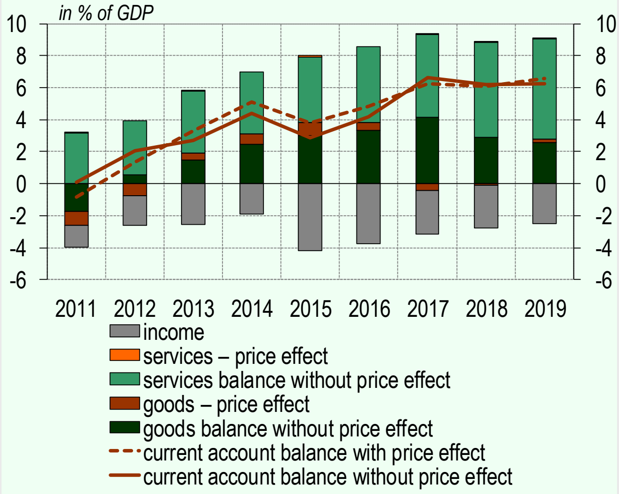
*Notes: *According to one-digit SITC. Aggregate growth rates are based on export and import data from the balance of payments.*
Source: SORS, Bank of Slovenia.

Figure 3: Terms of trade effects on trade balance



Note: Data source for trade in goods and services is balance of payments. Terms of trade effects are calculated from export and import price indices based on national accounts, t-1 = 100.
Source: SORS, Bank of Slovenia.

Figure 4: Terms of trade effects on current account position



Note: Terms of trade effects are calculated from export and import price indices based on national accounts, t-1 = 100.
Source: SORS, Bank of Slovenia.

higher than growth in exports, which is comparable to the gap when fuels and lubricants are included.

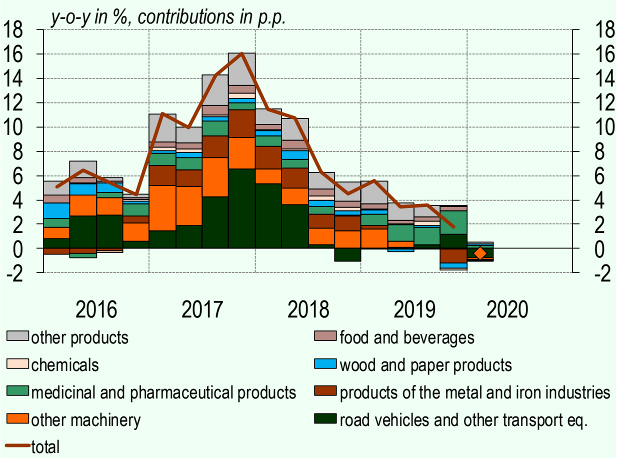
The improvement in the terms of trade contributed EUR 160 million to the trade surplus in 2019. The effect of the improvement in the terms of trade was significantly larger between 2013 and 2016, when it contributed an average of EUR 280 million each year to the trade surplus. A reversal then followed, and the negative impact on the balance of trade averaged EUR 110 million in 2017 and 2018. Last year the improvement in the terms of trade accounted for EUR 160 million of the surplus. The trade surplus would have strengthened even without the improvement in the terms of trade, but only as a result of a larger real increase in exports of services compared with imports. Excluding the terms of trade, the merchandise trade surplus would have declined by EUR 95 million last year (to EUR 1,241 million), while including them it increased by EUR 46 million to EUR 1,327 million.

There would have been a record current account surplus in 2019 even if the terms of trade had been neutral. It amounted to 6.6% of GDP or EUR 3,151 million, and would have been only EUR 101 million smaller had the terms of trade been neutral. After the reversal in 2012, the increase in the current account surplus was primarily the result of the rapid widening of the merchandise trade surplus, which, in addition to the faster growth in export volumes than import volumes, was also attributable to the improvement in the terms of trade. The subsequent increase in the current account surplus was attributable to a sharp increase in the surplus of trade in services, and a decline in the deficit in income.

[1] The terms of trade are calculated on the basis of the indices of the average value of imports and exports from the national accounts figures with a basis in the previous year. The impact of the change in the terms of trade on the balance of trade and consequently on the current account position is illustrated.
[2] Analysis of the terms of trade for the period of 2011 to 2015 can be found in the April 2016 Economic and Financial Developments, on pages 41 and 42 (https://bankaslovenije.blob.core.windows.net/publication-files/Economic_and_Financial_Developments__April_2016.pdf).

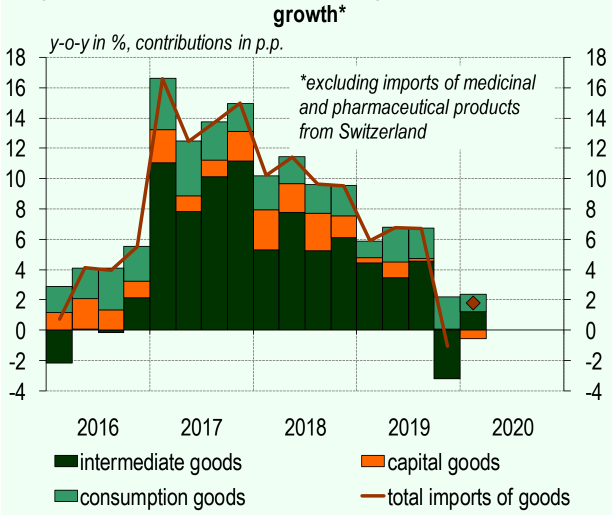
-year growth in imports of capital goods hit negative territory in January. The contribution to aggregate growth in merchandise imports made by consumer goods also declined. The merchandise trade surplus widened slightly

Figure 4.3: Growth structure of adjusted merchandise export*



*Note: *Excluding exports of medicinal and pharmaceutical products to Switzerland, oil and petroleum products, electric energy and gass. For 2020 the January data is shown.*
Source: SORS, Bank of Slovenia calculations.

Figure 4.4: Contributions of main BEC groups to nominal import growth*

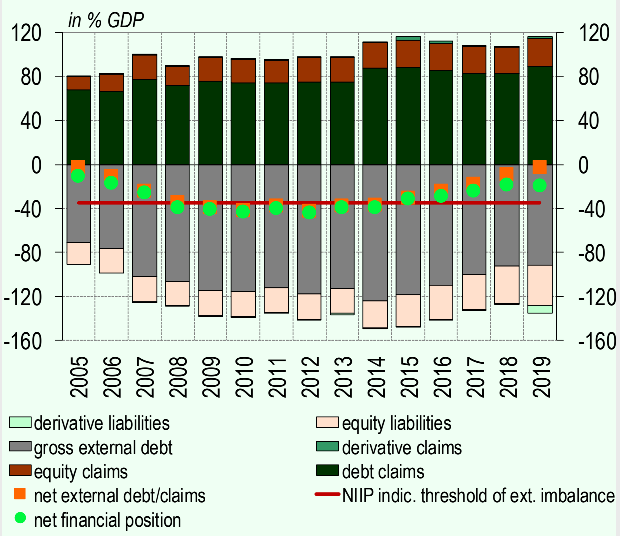


Note: For 2020 the January data is shown.
Source: SORS, Bank of Slovenia calculations.

Box 4.3: Slovenia's net international investment position and external debt

Last year Slovenia acted as a current net financer of the rest of the world for the seventh consecutive year, with a surplus of domestic saving over investment, and consequently has significantly improved its net international investment position[1] over this period. The position has been negative since 2003, and has exceeded the net external debt this whole time. The gap between the two has widened significantly over the last three years, particularly last year, when it exceeded EUR 8 billion at the end of the year (see Figure 1).[2] This was because in debt instruments the increase in claims strongly exceeded the increase in liabilities, while in equity instruments and derivatives the increase in claims was significantly smaller than the increase in liabilities. Debt instruments nevertheless account for the majority of all of Slovenia's financial claims and liabilities vis-à-vis the rest of the world (around three-quarters and two-thirds respectively).

Figure 1: Breakdown of the net financial position

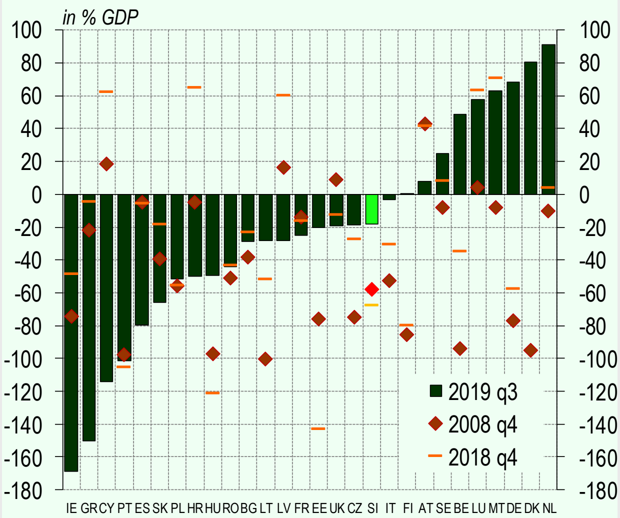


Source: Bank of Slovenia.

Slovenia disclosed a net debtor position against the rest of the world in the amount of EUR 9.3 billion or 19.3% of GDP at the end of 2019. For the fifth consecutive year this was inside the indicative threshold for external imbalance set by the European Commission at -35% of GDP, which Slovenia had transgressed since the outbreak of the previous crisis. The euro area discloses a significantly smaller debtor position against the rest of the world in the amount of 4% of GDP,[3] and Slovenia is somewhere near the middle of the distribution of EU Member States (see Figure 2).[4]

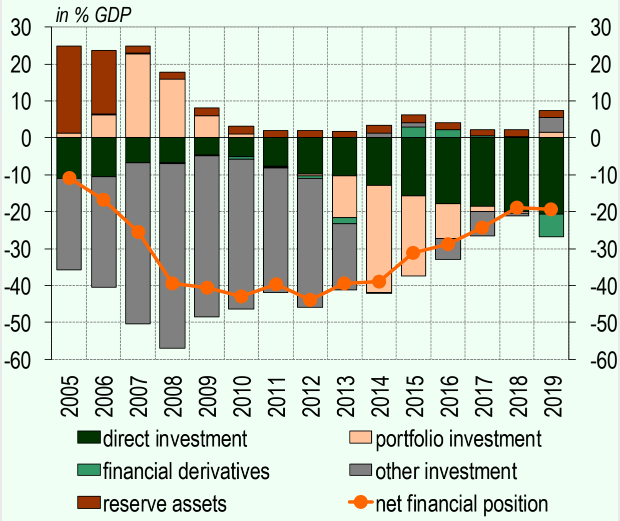
Last year's minor deterioration in Slovenia's net debtor position was attributable to a slightly larger increase in the stock of residents' liabilities in the rest of the world (EUR 7.1 billion) than in the stock of assets (EUR 6.5 billion). The breakdown by instrument reveals that the largest increase in the stock of assets was in other assets, in the amount of EUR 3.4 billion, primarily in holdings of currency and deposits by the central bank and by the government sector.[5] Investments in securities, primarily private-sector, also increased, by almost EUR 2 billion. The highlights on the liability side were an increase of EUR 3.5 billion in the government sector's liabilities from derivatives, an increase of EUR 1.5 billion in liabilities from inward FDI, and an increase of EUR 1.2 billion in non-residents' holdings of currency and deposits in accounts in Slovenia. Slovenia's largest negative net international investment position remains that in direct investments (in the amount of EUR 9.9 billion). This deficit is increasing from year to

Figure 2: Net financial position of EU countries



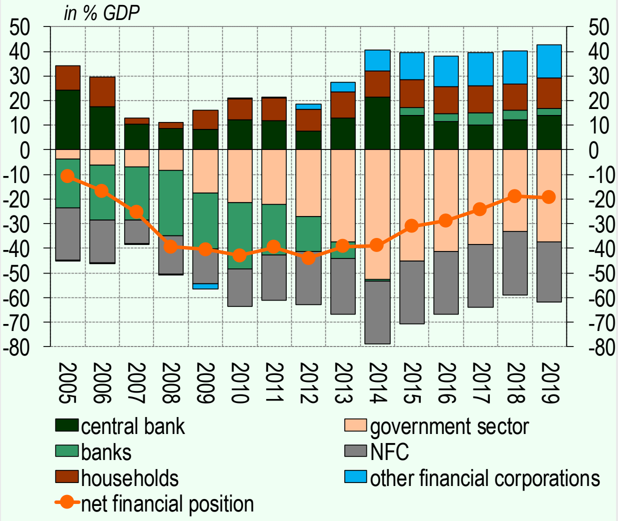
Source: Eurostat.

Figure 3: Net financial position's breakdown by instruments



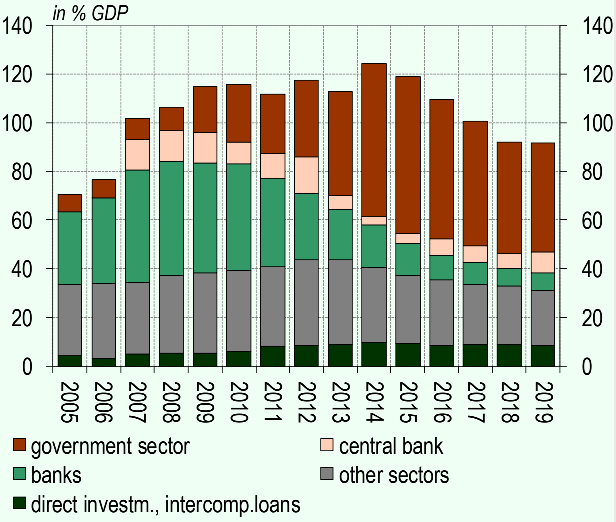
Source: Bank of Slovenia.

Figure 4: Net financial position's breakdown by sectors



Source: Bank of Slovenia.

Figure 5: Sectoral breakdown of gross external debt

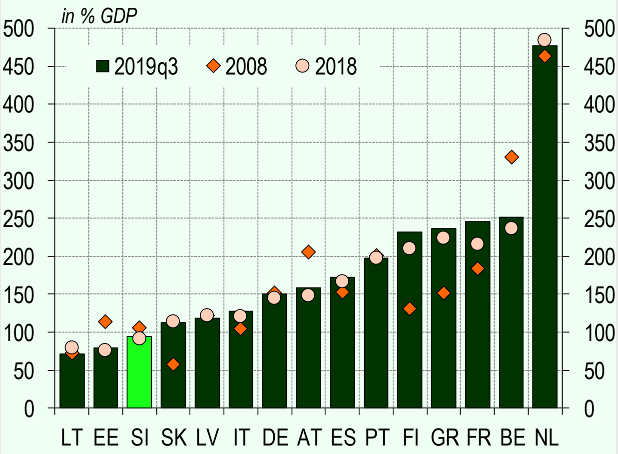


Source: Bank of Slovenia.

year as a result of the sale of holdings in domestic firms, new investment projects in Slovenia by non-residents, and the slower increase in Slovenia's outward investments compared with before the crisis. After several years in positive territory, Slovenia once again recorded a negative net financial position in derivatives (in the amount of EUR 2.9 billion). The position in other assets turned positive after three years, to reach its highest figure of the period for which data is available (EUR 1.9 billion), primarily as a result of increased net outflows of currency and deposits to accounts in the rest of the world and also increased net outflows of private-sector loans to the rest of the world. Slovenia's net position in investments in securities turned positive after eight years, primarily as a result of an increase in financial institutions' investments in foreign securities. It was positive in the amount of around EUR 700 million at the end of 2019.

Since 2014, i.e. after the major repayments of debt to the rest of the world by banks, only non-financial corporations and the government sector still hold net financial liabilities to the rest of the world. After four years of improving its net debtor position, the latter saw a slight deterioration last year, and it remained a net debtor to the rest of the world with EUR 17.9 billion of net liabilities. At the end of last year the private sector's net claims against the rest of the world amounted to EUR 2 billion, up just over EUR 1 billion on a year earlier, compared with net liabilities of more than EUR 15 billion at the outbreak of the crisis at the end of 2008. The main factors in last year's improvement were an increase in financial corporations' outflows into foreign securities, new issuance of bank loans, and further debt repayments to the rest of the world by non-financial corporations and financial institutions.

Figure 6: Gross external debt of EA countries



Note: Data is available only for EA countries. For Malta (716% GDP), Ireland (746 % GDP), Cyprus (956 % GDP) and Luxembourg (5981 % GDP) it is not shown in the figure.
Source: ECB.

Within the private sector, banks and other financial corporations[6] and households are net creditors of the rest of the world in the aggregate amount of EUR 13.8 billion, up EUR 1 billion on a year earlier, while non-financial corporations saw a slight reduction in their negative net position last year (to EUR 11.8 billion).

The gross external debt,[7] which includes two-thirds of Slovenia's total financial liabilities to the rest of the world, amounted to EUR 44.1 billion or 91.8% of GDP at the end of the year. It increased by EUR 2 billion in absolute terms last year, but remained unchanged as a ratio to GDP. Previously it had gradually declined for four years, albeit only the long-term debt, which accounts for around three-quarters of the total, if loans between affiliates are excluded. Both short-term and long-term debt increased slightly last year. The government sector accounts for approximately half of all liabilities to the rest of the world in the form of debt, while non-financial corporations, households and various financial institutions account for just over a third. The remainder is split roughly equally between the central bank and the banks. All institutional sectors other than non-financial corporations, households and other financial institutions recorded an increase in debt last year. In the breakdown of debt in terms of guarantee, last year saw an end to the three-year trend of decline in public debt and debt covered by public guarantee, which at EUR 28.6 billion made up around two-thirds of Slovenia's gross external debt. Private debt has remained at the level of around EUR 15 billion over the last four years, but last year there was a slight increase in loan liabilities, while debt in the form of trade credits remained unchanged.

Gross debt claims against the rest of the world[8] increased last year for the seventh consecutive year, to reach EUR 42.9 billion (up almost EUR 5 billion) or 89.3% of GDP at the end of the year. The net external debt[9] declined for the fifth consecutive year, amid a significantly larger increase in gross claims vis-à-vis the rest of the world than in gross liabilities. It amounted to just EUR 1.2 billion or 2.5% of GDP at the end of the year. Only the government sector has held a net debt to the rest of the world over the last few years, and it amounted to EUR 16.1 billion at the end of 2019. The private sector remained a net creditor of the rest of the world for the fifth consecutive year. The largest net creditors of the rest of the world in debt instruments remained the central bank and banks, which at the end of last year held 60% and 40% respectively of their aggregate net claims against the rest of the world in the amount of around EUR 10.5 billion.

Slovenia ranks as one of the less indebted countries in the euro area in terms of gross external debt and net external debt alike.

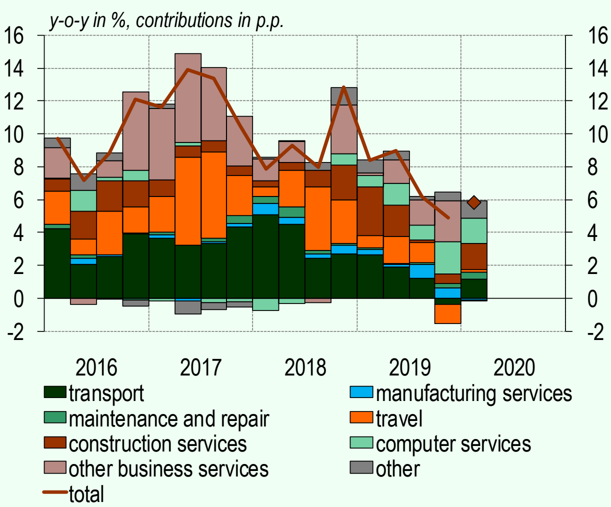
[1] The net international investment position (NIIP) is the statistical illustration of the difference between the stock of residents' financial claims against the rest of the world and the stock of residents' financial liabilities to the rest of the world in value terms (on a specific date, usually at the end of the quarter or the end of the year). If residents' claims against the rest of the world exceed their liabilities to the rest of the world, the country's net international investment position against the rest of the world is positive (the country is a creditor nation), and in the opposite case the country is a debtor nation.
[2] The difference between the net international investment position and the net external debt originates in the segment of equity claims and liabilities.
[3] The euro area includes some countries that are major global financial centres; the ECB data relates to the end of the third quarter of 2019.
[4] The largest positive net international investment positions in the EU, those in excess of 50% of GDP, are disclosed by the Netherlands, Denmark, Germany, Malta and Luxembourg, while the largest debtor nations where the negative net position is more than 100% of GDP are the euro area countries that suffered the worst debt crises (Ireland, Greece, Cyprus and Portugal).
[5] Other investments include, alongside currency and deposits, other equity, loans, trade credits and advances, insurance, pension and standardised guarantee schemes, and other accounts payable/ receivable.
[6] Together they make up the financial corporations sector (S.12) excluding the central bank (S.121).
[7] The gross external debt is the total amount of debt liabilities that residents hold vis-à-vis non-residents, and includes the principal and the accrued interest on principal. It is a stock of debt on a specific date, usually the end of the quarter or the end of the year. The financial instruments of the gross external debt are debt securities, trade credits, loans, currency and deposits, and other debt liabilities.
[8] Gross debt claims against the rest of the world are the total amount of debt claims that residents hold vis-à-vis non-residents on a specific date.
[9] The net external debt is the difference between all debt financial liabilities and claims vis-à-vis the rest of the world.

at the turn of the year. The 12-month moving surplus amounted to EUR 1,369 million in January, up EUR 39 million in year-on-year terms.

Trade in services

January's developments in trade in services were good compared with the final quarter of last year. Year-on-year growth in exports of services has strengthened slightly since October of last year, and reached 5.8% in January, down 1.2 percentage points on its average in 2019, but still 0.9 percentage points higher than its average in the final quarter of 2019. The growth continued to be driven by exports of telecommunications,

Figure 4.5: Services exports



Note: For 2020 the January data is shown.
Source: Bank of Slovenia.

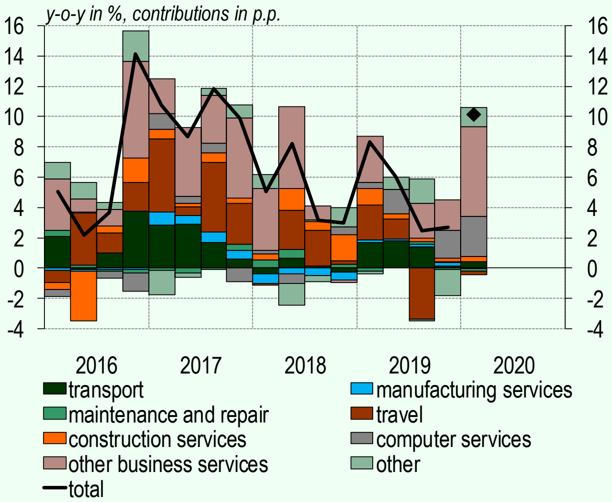
Table 4.1: Current account components

				in 12 months to							
	2017	**2018**	**2019**	**jan 19**	**jan 20**	**18Q3**	**18Q4**	**19Q3**	**19Q4**	**Jan. 19**	**Jan. 20**
					in EUR million						
Current account balance	2,689	2,784	3,151	2,829	3,148	837	530	787	848	269	266
1. Goods	1,617	1,281	1,327	1,329	1,369	399	120	201	277	107	148
2. Services	2,258	2,716	3,030	2,737	3,027	812	713	918	779	211	208
2.1. Transport	1,071	1,328	1,362	1,329	1,367	331	345	338	335	103	108
2.2. Travel	1,201	1,315	1,369	1,306	1,371	440	312	518	287	83	85
3. Primary income	-886	-807	-700	-789	-719	-254	-228	-206	-141	21	2
3.1. Labour income	229	282	253	278	252	60	82	71	81	15	15
3.2. Investment income	-1,226	-1,229	-1,124	-1,257	-1,113	-299	-339	-258	-273	-91	-79
3.3. Other income	110	141	171	190	142	-15	30	-19	50	96	67
4. Secondary income	-299	-406	-506	-448	-528	-120	-75	-126	-67	-70	-92
					in % GDP						
Current account balance	6.3	6.1	6.6	6.2	6.5	7.1	4.5	6.4	6.9	7.2	6.8
1. Goods	3.8	2.8	2.8	2.9	2.8	3.4	1.0	1.6	2.3	2.9	3.8
2. Services	5.3	5.9	6.3	6.0	6.3	6.9	6.0	7.4	6.3	5.6	5.3
2.1. Transport	2.5	2.9	2.8	2.9	2.8	2.8	2.9	2.7	2.7	2.8	2.8
2.2. Travel	2.8	2.9	2.9	2.8	2.8	3.7	2.6	4.2	2.3	2.2	2.2
3. Primary income	-2.1	-1.8	-1.5	-1.7	-1.5	-2.2	-1.9	-1.7	-1.1	0.6	0.1
3.1. Labour income	0.5	0.6	0.5	0.6	0.5	0.5	0.7	0.6	0.7	0.4	0.4
3.2. Investment income	-2.9	-2.7	-2.3	-2.7	-2.3	-2.5	-2.9	-2.1	-2.2	-2.4	-2.0
3.3. Other income	0.3	0.3	0.4	0.4	0.3	-0.1	0.2	-0.2	0.4	2.6	1.7
4. Secondary income	-0.7	-0.9	-1.1	-1.0	-1.1	-1.0	-0.6	-1.0	-0.5	-1.9	-2.4
					nominal y-o-y growth rates in %						
Export of goods and services	13.3	8.8	4.4	8.4	4.1	7.8	8.0	4.2	0.6	7.1	2.4
Export of goods	13.5	8.6	3.8	8.3	3.3	7.8	6.8	3.7	-0.6	7.7	1.6
Export of services	12.4	9.5	7.0	9.0	7.1	8.0	12.8	6.2	4.9	4.5	5.8
Transport	12.9	12.5	4.2	11.3	4.2	9.8	8.8	4.8	-1.4	4.5	3.5
Travel	11.1	7.2	1.8	7.0	1.8	8.8	9.5	2.8	-4.1	-0.1	0.6
Other	13.2	9.5	13.8	9.0	14.1	5.4	18.1	12.2	14.8	8.3	11.6
Import of goods and services	13.5	9.5	3.9	8.8	3.6	8.8	8.9	5.9	-1.8	5.2	1.3
Import of goods	14.1	10.4	3.8	9.7	3.3	10.1	10.1	6.6	-2.6	5.8	0.0
Import of services	10.3	4.7	4.6	4.1	5.2	3.2	3.0	2.4	2.7	1.1	10.2
Transport	9.6	0.1	6.4	0.9	5.9	0.7	-1.4	8.5	0.9	8.8	2.0
Travel	12.4	5.1	-0.5	5.4	-1.1	6.3	1.5	-8.7	0.3	11.8	-1.2
Other	9.6	6.2	6.4	4.7	8.1	1.6	5.0	9.8	4.0	-5.5	18.2

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

computer and information services, but the contribution by exports of other business services, which had previously been very high, was negligible compared with November and December. There was also a significant year-on-year increase in exports of construction services. After recording a year-on-year decline in the final quarter of last year, exports of transport services saw growth strengthen in January, while exports of travel services

Figure 4.6: Services imports



Note: For 2020 the January data is shown.
Source: Bank of Slovenia.

were merely unchanged in year-on-year terms, according to current estimates. After recording relatively low rates in the second half of last year, growth in aggregate imports of services picked up greater pace in January, when the rate of 10.2% was up 5.6 percentage points on the average rate in 2019, primarily driven by higher growth in imports of other business services. The 12-month moving surplus of trade in services amounted to EUR 3,027 million in January, up EUR 290 million in year-on-year terms.

Primary and secondary income

The deficit in primary income narrowed again last year for the fourth consecutive year. According to provisional figures, the deficit amounted to EUR 700 million, more than EUR 100 million less than in 2018 and fully EUR 555 million less than in 2015, when a sharp increase was driven by an inflow of FDI during privatisations. As a result of earlier government borrowing at high interest rates for bank recapitalisations, the deficit in income from investments in debt securities also reached a record high in 2015. The annual deficit in income from direct investment has ranged between EUR 900 million and EUR 1 billion since then, but the deficit in income from investments in debt securities has declined sharply as a result of the improvement in the macroeconomic situation and the fiscal position, and the very loose monetary policy pursued by Eurosystem central banks. It amounted to EUR 157 million last year, EUR 69 million less than in 2018 and fully EUR 475 million less than its peak in 2015, and was thus the dominant factor in the improvement in the primary income balance. Despite the continuing large-scale hiring of foreign workers, the surplus in labour income remained high last year, at EUR 253 million. The deficit in primary income in January of this year was up EUR 19 million in year-on-year terms, albeit only as a result of a decline in inflows of EU subsidies compared with the previous year.

The deficit in secondary income has been widening again since 2017. Last year it exceeded EUR 500 million, the largest figure to date. The increase of EUR 100 million relative to 2018 was largely attributable to increased government sector payments into the EU budget on the basis of VAT and gross national income, while the deficit in secondary income of other sectors also widened for the second consecutive year. The deficit in primary income in January of this year was EUR 22 million wider in year-on-year terms, and the increase was relatively evenly distributed between the government sector and other sectors.

Selected competitiveness indicators

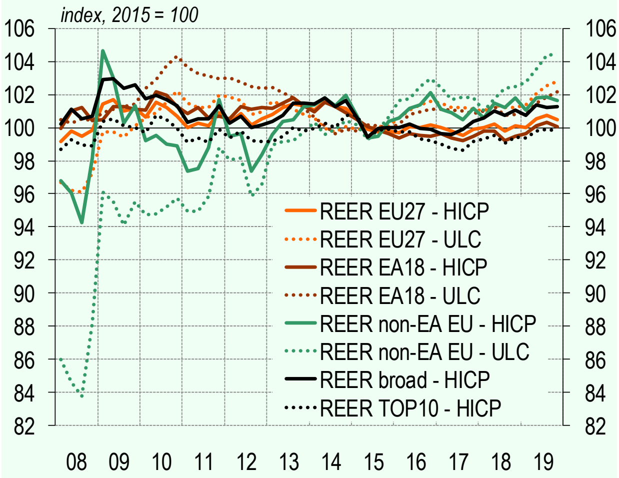
The price competitiveness of Slovenian exporters deteriorated last year.[3] The deterioration was nevertheless not excessive, and the favourable position of the previous five years was virtually maintained, when growth in domestic prices as measured by the HICP did not outpace average euro area inflation. The composite price competitiveness indicator against 39 trading partners increased by just 0.3% in 2019 (see Figure 4.7), on acco-

[3] The composite price competitiveness indicator (REER-HICP) covers 39 trading partners: Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, China, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, India, Ireland, Italy, Japan, Kosovo, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, North Macedonia, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Spain, Sweden, Switzerland, Turkey, the UK and the US. All price competitiveness indicators are calculated using Bank of Slovenia's own methodology, and may differ from the competitiveness indicators of other institutions because of the capture of different trading partners, economic sectors, deflators and weights. For more on the methodology for calculating the composite indicator, see the January 2020 Economic and Financial Developments.

unt of a rise of 0.5% in the effective euro exchange rate. The year-on-year deterioration in the indicator slowed slightly in the final quarter, primarily as a result of a fall in relative prices (by 0.3%).[4]

The deterioration in price competitiveness varied according to region. The Slovenian economy succeeded in maintaining or even improving its competitiveness against certain regions. There was a particular improvement against eastern European countries and newer EU Member States in the final quarter. This was primarily attributable to Slovenia's more favourable domestic price developments compared with those countries. By contrast, competitiveness deteriorated most last year against the Balkan trading partners, as a result of the continuing depreciation in the Turkish lira and the Romanian lev, while Croatia and Bosnia and Herzegovina both recorded lower inflation than Slovenia (see Figure 4.8).

Figure 4.7: External competitiveness indicators of Slovenia vs. different trading partners, HICP and ULC deflators

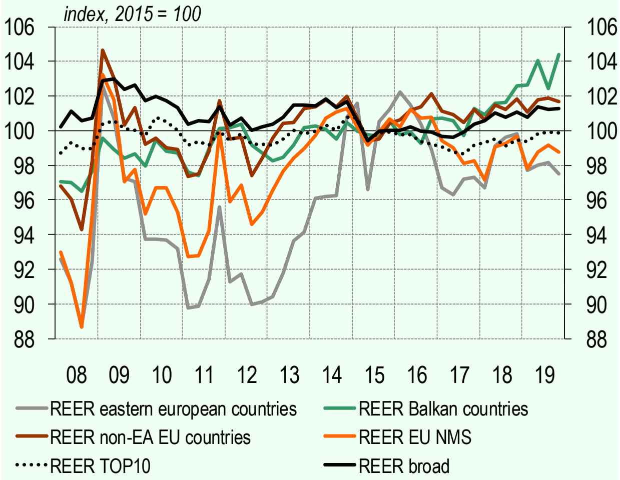


Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

Last year's deterioration in Slovenia's cost competitiveness indicators against 39 trading partners was even more pronounced.[5] This was attributable to rising unit labour costs,[6] which were up 1.7% in year-on-year terms in the final quarter. The effective euro exchange rate was also 0.5% higher, which was reflected in a 2.2% year-on-year rise in the composite cost competitiveness indicator. It rose by 1.4% over the year as a whole, driven primarily by growth in relative unit labour costs (of 0.9%, see Figure 4.9). Last year's largest rises in unit labour costs were relative to certain EU Member States outside the euro area, namely Croatia, Denmark and Sweden.

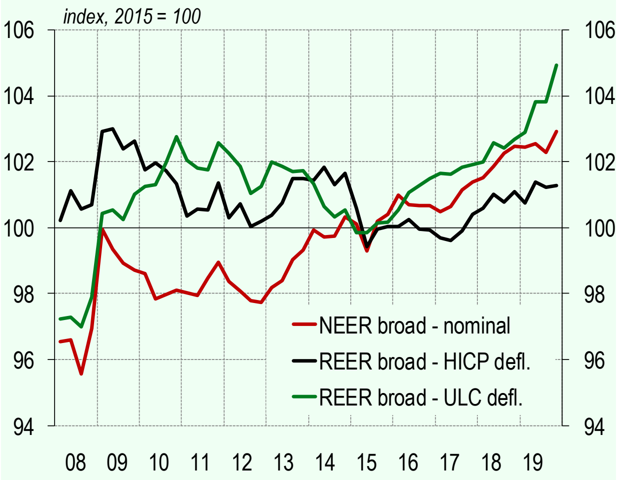
Cost pressures on competitiveness eased slightly in the final quarter of last year, but remained signifi-

Figure 4.8: Regional external competitiveness indicators of Slovenia, HICP deflator



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

Figure 4.9: Broad external competitiveness indicators of Slovenia vs. 39 trading partners



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

[4] The nominal effective exchange rate (NEER) was up 0.5% in year-on-year terms at the end of the year.

[5] All cost competitiveness indicators are calculated using Bank of Slovenia's own methodology. The composite cost competitiveness indicator against 39 trading partners (REER-HICP) is deflated by unit labour costs.

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

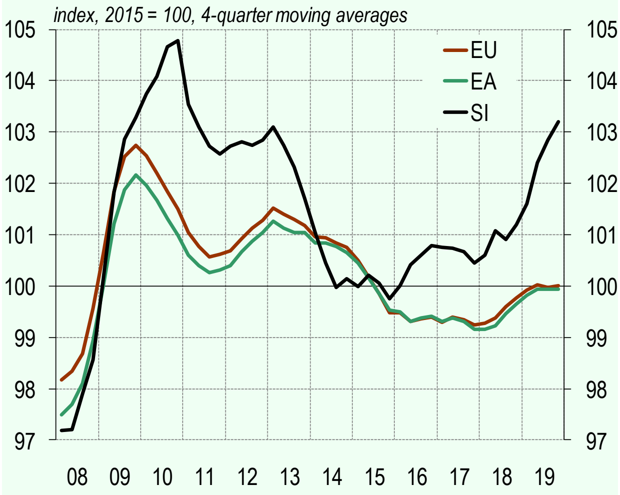
[7] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. The relationship between wages and productivity, and the dynamic of wage growth in this section could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

cantly higher than in the euro area overall during the final quarter and over the year.[7] At 2.0%, last year's growth in real unit labour costs (RULCs) in Slovenia significantly outpaced the average rates in the euro area and the EU (0.3%, see Figure 4.10). The growth was driven primarily by the tradable sector,[8] which recorded a rise of 2.1%, most notably in manufacturing[9] (with a rise of 3.4%), which is the sector most exposed to international competition. In both cases it outpaced the comparable rates across the euro area and the EU. Growth also picked up pace in the domestic non-tradable sector, to 1.2%, thus outpacing the comparable rates across the euro area and the EU.

Amid stagnating productivity and above-average wage growth, growth in domestic RULCs recorded one of the highest rates in the EU. There was little productivity growth to be found anywhere last year: it stood at 0.1% in Slovenia, zero in the euro area overall, and 0.4% across the EU. At the same time real growth in compensation per employee[10] in Slovenia (2.1%) once again outpaced the euro area and the EU averages, by 1.8 percentage points and 1.3 percentage points respectively. These developments in RULCs were again among the worst in the EU, other than two of the Baltic states, Slovakia and Cyprus (see Figure 4.11).

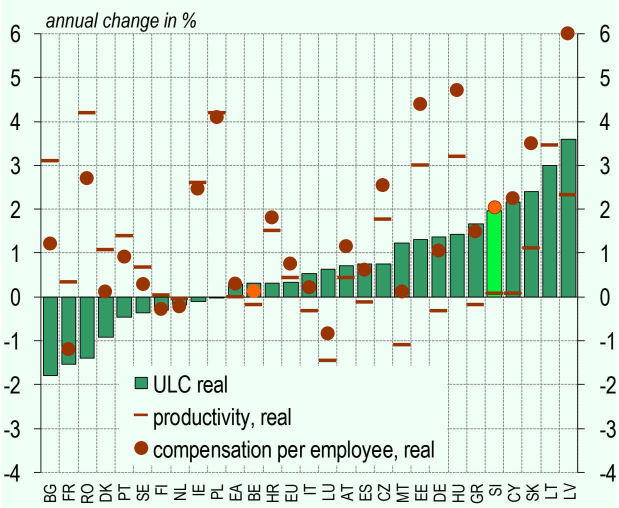
Indications that external competitiveness remained solid in 2019 come from the continuing growth in the market share of Slovenian exports, and their higher technological intensity. The market share of Slovenian merchandise exports increased on the global market last year for the seventh consecutive year. Slovenia accounted for 0.24% of global demand for merchandise imports last year,[11] up around 6% on the previous year. It should be noted that the increase in exports of pharmaceutical products to Switzerland was a major factor in last year's

Figure 4.10: Real unit labour costs



Note: GDP based calculations.
Source: Eurostat, Bank of Slovenia calculations.

Figure 4.11: Real unit labour costs in 2019



Note: For NL and LU data for the first three quarters of 2019.
Source: Eurostat, Bank of Slovenia calculations.

high growth in the market share. Excluding these exports, the global market share of Slovenian merchandise exports merely increased by just over 2%, which is a significant slowdown compared with the previous year (when the increase stood at 4.8%).[12] Slovenia's market share in the EU also increased last year, to 0.53%, but growth has

[8] 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). The non-tradable sector consists of all other sectors under the SKD 2008.

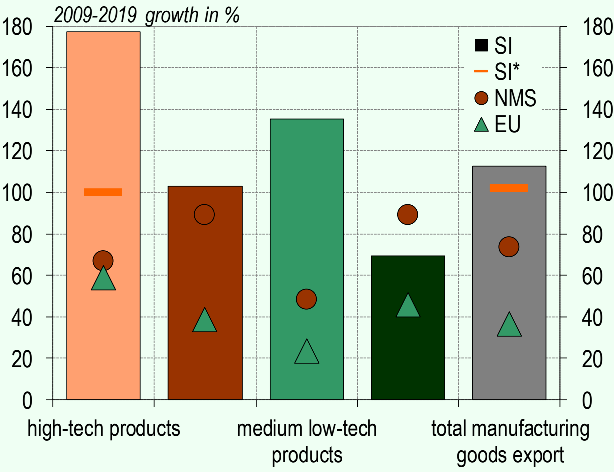
[9] There was also a notable rise in the information and communication sector (3.7%), owing to a fall in productivity and slightly above-average wage growth.

[10] 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.

[11] Figures for the first three quarters of 2019.

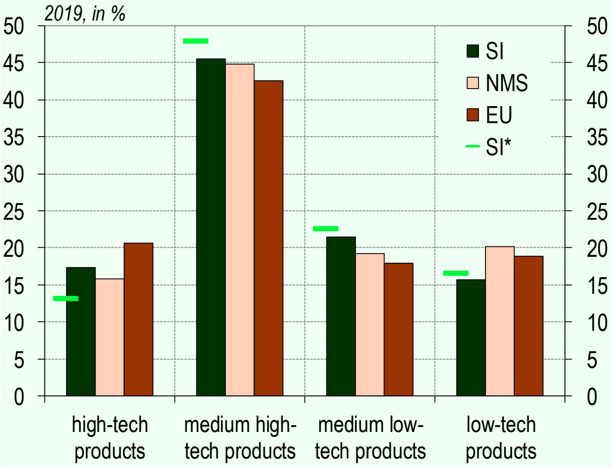
[12] For more on the analysis of the impact of imports and exports of pharmaceutical products on growth in merchandise trade, see the October 2019 Economic and Financial Developments (Section 4).

Figure 4.12: Increase of Slovene export of the manufacturing sector in terms of technological intensity



*Note: *Without export of pharmaceutical products to Switzerland in 2019.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 4.13: Export structure of the manufacturing sector in terms of technological intensity in Slovenia and other regions



*Note: *Without export of pharmaceutical products to Switzerland in 2019.*
Source: Eurostat, Bank of Slovenia calculations.

been gradually slowing for the last two years.

The technological intensity of Slovenian manufacturing exports rose significantly in 2019. This has primarily been reflected in a rise in the proportion of manufacturing exports accounted for by high-tech products (from 12.6% in 2018 to 17.3% in 2019), and a simultaneous decline in the proportion accounted for by low-tech products (from 16.6% to 15.7%). Last year's exceptionally high growth in exports of high-tech products (46.9%) was mainly driven by exports of pharmaceutical products and preparations. Excluding exports of pharmaceutical products to Switzerland, the proportion of high-tech products increased by just 0.5 percentage points last year to 13.1%, while actual exports of high-tech products increased by just 6.0%. Despite the impressive growth in Slovenia's high-tech exports over the last decade (see Figure 4.12), the proportion of total manufacturing exports that they account for in Slovenia remains behind the EU average by around 3 percentage points (see Figure 4.13). Slovenia did however surpass the equivalent figure for the newer EU Member States last year, by 1.5 percentage points.

The majority of manufacturing exports still consist of medium-high technology products. This segment accounted for 45.6% of the total, which remains above the EU average figure, although it continued to decline (by 2.6 percentage points relative to 2018). The figure is similar for other newer EU Member States (44.9%.).[13] Within the medium-high technology segment, there was notable growth in exports of vehicles last year. The proportion accounted for by medium-low technology products remained unchanged last year, and has been around 22% for the last four years. The majority of these exports consist of basic metals, fabricated metal products and rubber

[13] The newer Member States are the countries that joined the EU on or after 1 May 2004 (Slovenia, Slovakia, Poland, Malta, Hungary, Lithuania, Latvia, Estonia, Czech Republic, Cyprus, Romania, Bulgaria, Croatia).

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

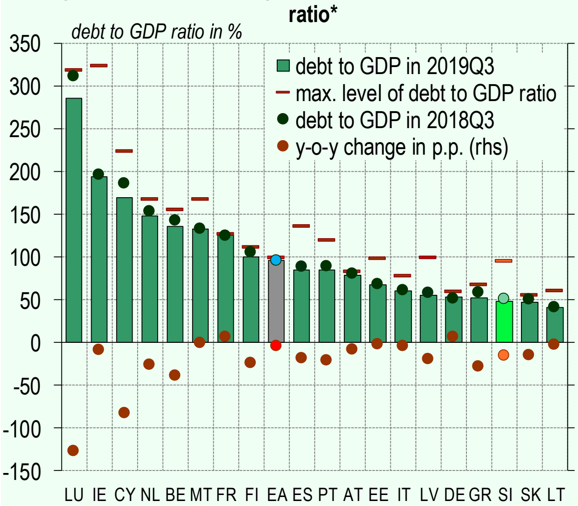
Non-financial corporations, households and banks entered this year's crisis in good financial shape. Non-financial corporations are still relying primarily on internal financial resources. The increase in loans at non-financial corporations has remained significantly smaller than that at households, as the labour market remained buoyant last year and together with a booming real estate market continued to drive a robust household credit cycle. Corporate and household indebtedness expressed as a ratio to GDP nevertheless remained low, and well below the euro area average. There was a further improvement in the quality of the banking system's loan portfolio in 2019. The NPE ratio had declined to 2.2% by January of this year, down 16 percentage points on its peak in 2013.

Financial assets and financing of non-financial corporations

Slovenian firms are still mostly using internal resources to finance their investment and production. Corporate indebtedness as a ratio to GDP is therefore continuing to decline, and has reached 48% in the third quarter of last year, which is around 50 percentage points less than the euro area average. The indebtedness of Slovenian firms is among the lowest of any European country. While the long-term falling trend in leverage at Slovenian firms, as defined by the ratio of debt to equity financing, seemed to have come to an end in 2018, it resumed in 2019 and the figure approached the euro area average. It stood at 88% in the third quarter of last year, compared with 81% in the euro area overall. A trend of declining leverage is also seen in most other European countries, with the exception of Germany, Italy, Finland, Ireland, Luxembourg and Malta.

Despite the declining leverage, last year firms were still showing demand for all external sources of financing, particularly bank loans, leasing and factoring.[1] Amid a slight reduction in demand for bank loans

Figure 5.1: Cross country comparison of firms' debt to GDP ratio*

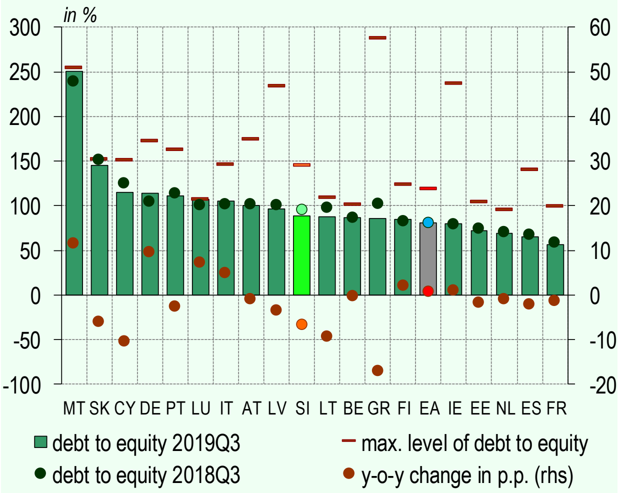


*Note: *Debt is defined as loans + debt securities.*
Source: ECB, Bank of Slovenia calculations.

[1] Survey on access to finance of enterprises in 2019 (2020). Bank of Slovenia.

compared with previous years, year-on-year growth in loans to non-financial corporations remained moderate, and stood at 4.8% in December. The trend of slower growth in deposits by non-financial corporations, which began in the second half of 2018, continued in 2019; the year-on-year rate of growth actually turned negative in December, at -0.4% (compared with 2.8% a year earlier). Growth in deposits by non-financial corporations turned positive again in January of this year, the year-on-year rate reaching 1.5%.[2] According to the Bank of Slovenia survey of access to finance of enterprises, the most important limiting factors in external financing cited by firms, which deteriorated slightly in 2019, were the general economic situation, firm performance, and bank willingness to approve loans.[3] Firms (SMEs and large enterprises) assessed the corporate financing terms offered by banks in 2019 as slightly worse than in 2018. In particular SMEs reported that there had been an increase in other financing costs[4] and collateral requirements, while the terms for which loans are available were being reduced in length. SMEs are also reporting reductions in interest rates, and an increase in the size of loans available, although fewer firms than in the previous year are making such observations.

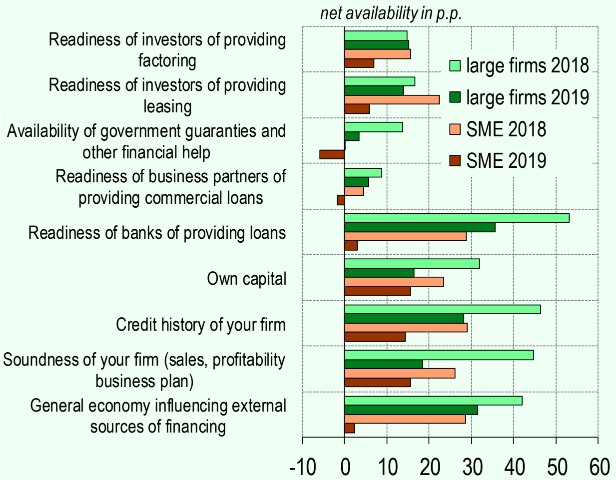
Figure 5.2: Cross country comparison of NFCs debt* to equity



*Note: *Securities other than shares, loans and other accounts payable.*
Source: ECB, Bank of Slovenia calculations.

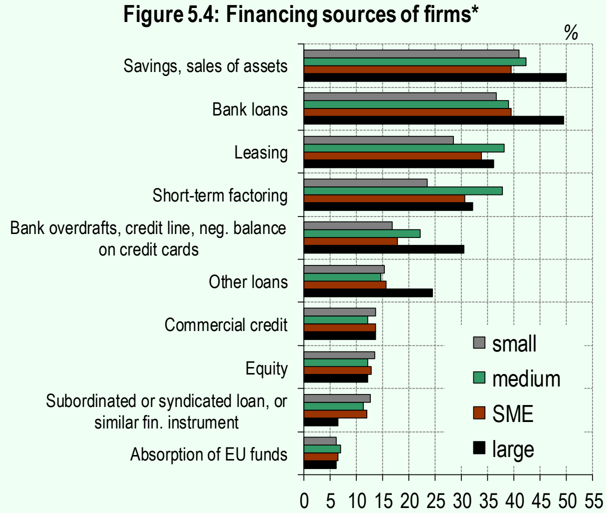
There is little difference in the structure of financing between small and medium-size enterprises, but large enterprises have slightly greater reliance on retained earnings and loans than SMEs. According to the latest survey on the access to finance of enterprises, firms still rank bank loans and leasing business among the more important sources of financing, while to a lesser extent firms, irrespective of size, are also financing themselves with equity, factoring and current account overdrafts, and with negative balances in credit facilities and on cards. Trade credits and other forms of financing are classed as less important sources of financing in the survey.

Figure 5.3: Factors influencing external sources of financing*



*Note: *The percentage of affirmative answers according to the type of use; companies can choose more answers.*
Source: Survey on access to finance of enterprises (Bank of Slovenia, 2020).

Figure 5.4: Financing sources of firms*



*Note: *The percentage of affirmative answers according to the type of use; companies can choose more answers.*
Source: Survey on access to finance of enterprises (Bank of Slovenia, 2020).

[2] Monthly report on bank performance, February and March 2020, Bank of Slovenia

[3] Firms in the survey also report a higher rejection rate for applications in 2019 relative to 2018.

[4] Other financing costs are costs that do not constitute interest on financing.

The purpose of use of external financing does not vary significantly according to the type of firm. According to the survey on the access to finance of enterprises, SMEs that sought external financing in 2019 most frequently needed the money for investment purposes (34%) and for current operations (32%). Similar confirmation rates are seen at large enterprises (34% and 27% respectively). SMEs and large enterprises are earmarking more of the remaining funds for research and development and for expansion of turnover, although the proportion of respondents citing this was slightly down on the previous year.

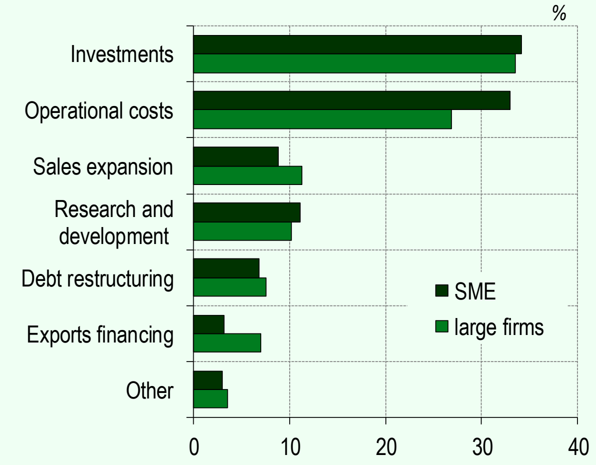
Non-financial corporations' negative net financial position in the third quarter of last year was again wider in year-on-year terms, by around EUR 1.1 billion, at EUR 39.2 billion. Non-financial corporations disclosed in the third quarter of last year that their financial assets had increased by EUR 2.3 billion in year-on-year terms, primarily as a result of an increase in equity, and to a lesser extent via deposits, loans and other accounts receivable. However, their financial liabilities were up slightly more in year-on-year terms (by EUR 3.4 billion), albeit almost entirely as a result of growth in equity and other accounts payable.

Financial assets and financing of households and banks

Bank loans and household deposits increased again in 2019. The year-on-year increase in household deposits stood at 7.8% in January.[5] The year-on-year increase in household loans was slightly lower in December of last year and January of this year, at 5.8%, primarily on account of year-on-year growth in consumer loans slowing to 8.9% (compared with 11.7% over the whole of the year).[6] As growth in household loans is being outpaced by growth in household deposits, household indebtedness remains low, and well below the average for the euro area and for other European countries. This is also reflected in the household sector's positive net financial position, which amounted to EUR 41.4 billion in the third quarter of 2019.[7]

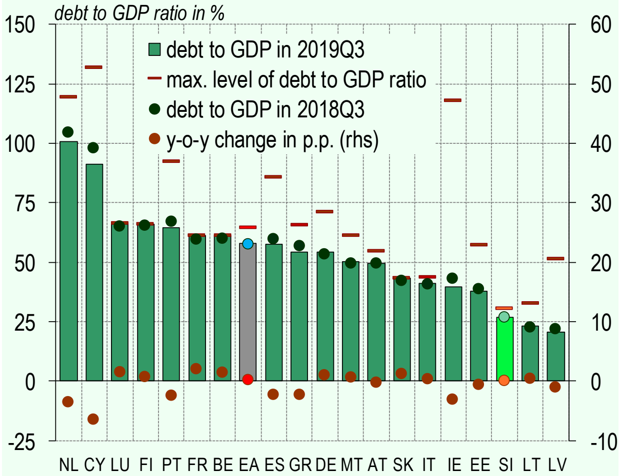
The banking sector saw a further improvement in portfolio quality in 2019. Non-performing exposures (NPEs) continued to fall, taking the NPE ratio to just 2.2% in January of this year.[8] The banking sector's positive net financial position in 2019 was down only slightly on the previous year. According to the latest figures for the third

Figure 5.5: The purpose of using external sources of financing*



*Note: *The percentage of affirmative answers according to the type of use; companies can choose more answers.*
Source: Survey on access to finance of enterprises (Bank of Slovenia, 2020).

Figure 5.6: Cross country comparison of households' debt to GDP ratio



*Note: *Debt is defined as loans + debt securities.*
Source: ECB, Bank of Slovenia calculations.

[5] Monthly report on bank performance, February and March 2020, Bank of Slovenia.

[6] The developments in household loans in the final quarter of last year were driven in part by November's entry into force of the Regulation on macroprudential restrictions on household lending.

[7] The net positive financial position of households in the third quarter of 2019 was up EUR 3.5 billion in year-on-year terms.

[8] Monthly report on bank performance, February and March 2020, Bank of Slovenia.

Box 5.1: Bank performance in 2020

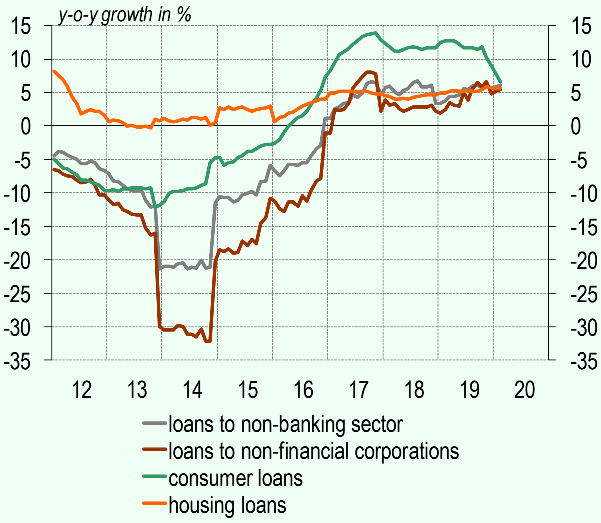
Growth in the balance sheet total was slowing in the first two months of the year, even before the onset of the economic shock caused by the coronavirus pandemic. On the funding side, growth in deposits by the non-banking sector remained relatively high, but the increase in deposits was more modest compared to months last year. Growth in loans in February was slightly higher than at the end of last year, as growth in bank loans to non-financial corporations strengthened slightly, while growth in loans to households slowed. The quality of the credit portfolio improved further. Bank profitability over the first two months of the year was significantly lower than last year. The banking system remained strongly capitalised last year, and its liquidity position is also good. The coronavirus crisis will have hit the banks, although analysis of the impact of the emergency measure of a moratorium on borrowers' loan repayments reveals that Slovenian banks will not be pushed into liquidity difficulties.

The balance sheet total stood at EUR 41.5 billion in February, up 5.3% in year-on-year terms, 1 percentage point less than at the end of last year. The increase in the balance sheet total was driven by issuance of debt securities at the largest bank and household deposits on the funding side, and by loans to the non-banking sector, non-financial corporations in particular, on the investment side.

Year-on-year growth in loans to the non-banking sector stood at 6.1% in February, up slightly on December of last year. The stock of loans has increased by EUR 365 million this year, the majority of which consisted of January's increase of EUR 284 million in loans to non-financial corporations, while bank lending activity to households was low (EUR 26 million). After a renewed increase in loans, year-on-year growth in corporate loans increased to reach 5.4% in February. Following the economic shock caused by coronavirus and the temporary shutdown of many firms, short-term lending to firms can be expected to increase in the coming months. Year-on-year growth in household loans began slowing towards the end of last year, and had declined to 5.9% by February of this year. Year-on-year growth in consumer loans was still as high as 11.9% in October of last year, but had slowed to 6.7% by the end of February. As expected, the entry into force of the Regulation on macroprudential restrictions on household lending in November of last year had an impact on developments in household loans in the final quarter. In the current coronavirus pandemic and economic shock, an even larger decline in consumer loans can be expected. Year-on-year growth in housing loans was moderate and stable for the majority of last year, at just over 5%, driven by the buoyant labour market, rising household disposable income and households' ongoing demand for real estate purchases. The year-on-year rate had increased slightly by the end of the year, and at 5.7% in February it remained comparable to its value then.

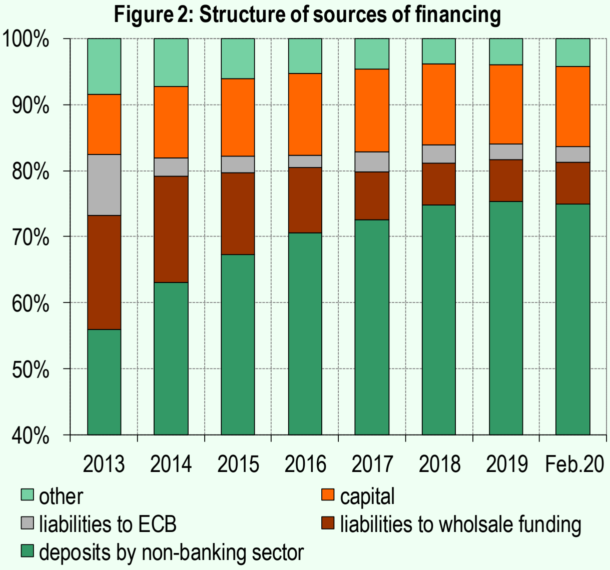
The proportion of the banking system's total deposits by the non-banking sector accounted for by sight deposits and predominantly similar deposits remained high over the first two months of the year, at 75%. Year-on-year growth in deposits by the non-banking sector slowed in February, but at 5.7% it was still outpacing growth in the balance sheet total. The largest factor in the increase in the aforementioned deposits was household deposits (which increased by 7.3% in year-on-

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



Source: Bank of Slovenia.

Figure 2: Structure of sources of financing



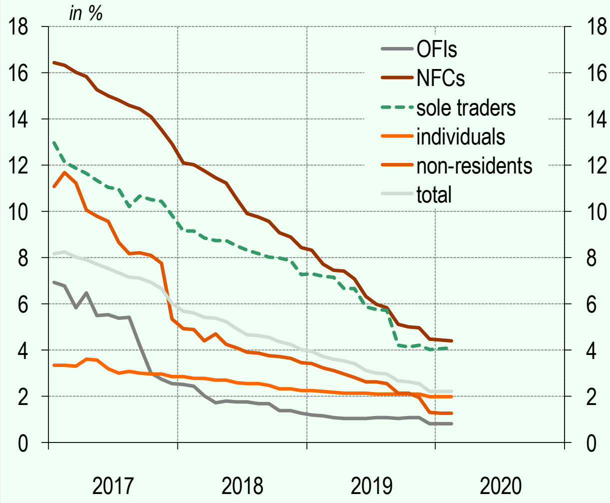
Source: Bank of Slovenia.

year terms), while growth in corporate deposits remains volatile, having slowed sharply from previous years. This year's downturn in the economy and rise in unemployment will reduce savers' disposable income, thereby slowing growth in savings at banks. Sight deposits continue to make up the majority of deposits by the non-banking sector (73%), which allows savers the immediate use of their savings to bridge any liquidity difficulties. The banking system's dependence on other sources of financing remained low. Liabilities to the Eurosystem remain unchanged at 2.4% of the balance sheet total, while the proportion accounted for by wholesale funding increased to 6.3% in February as a result of issuance of debt securities.

Non-performing exposures (NPEs) were declining rapidly in all customer segments until February of this year, albeit at a slightly slower rate of decline during the early months of this year. The overall NPE ratio had reached 2.2% by February, while the NPL ratio stood at 3.0%. The NPE ratio in the SMEs portfolio remains high, at 5.7%, compared with 3.4% in the large enterprises portfolio. The inflow of new NPEs in the final quarter of 2019 was slightly higher than in previous quarters, which is attributable to the cooling economy already evident at that time. Further deterioration in portfolio quality can be expected, in light of the shutdown or sharp contraction in activity in many economic sectors. In addition to the non-financial corporations segment, there will also be a major hit to the sole traders segment, where the NPE ratio is close to that of the non-financial corporations portfolio, at 4.1% versus 4.4% for the latter in February. Although the banks have relatively low exposure to sole traders (EUR 690 million in February), there is a high likelihood of an increase in NPEs in the portfolio, given that sole traders are predominantly active in sectors that are mostly or fully shut down at this time. The size of the increase in NPEs caused by the epidemic also depends on the effectiveness of the measures taken to alleviate the consequences.

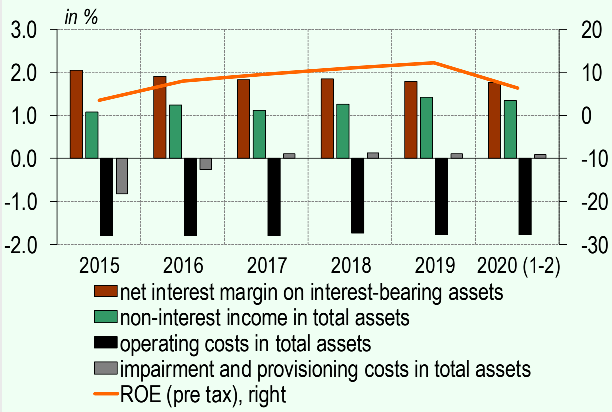
After reaching a record level for independent Slovenia in 2019 (EUR 597 million), pre-tax profit in the banking system has declined this year. It amounted to EUR 51.6 million over January and February, down almost a half on the same period last year. The decline in profit was primarily attributable to a decline in net non-interest income, and low growth in net interest income. Net non-interest income is down fully 39% on the same period last year, in the absence of beneficial one-off developments. Year-on-year growth in net fees and commission stood at 3.7%. Growth in net interest income is declining as expected amid diminishing returns in the low interest rate environment; the year-on-year rate is just 1% this year. The

Figure 3: NPE by client segment



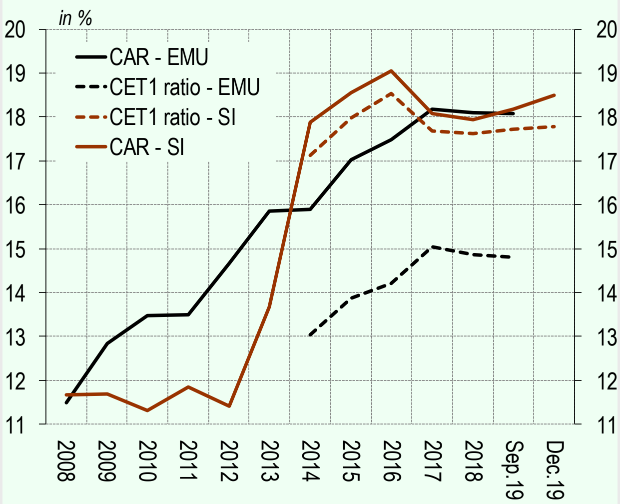
Source: Bank of Slovenia.

Figure 4: Selected banking business indicators



Note: The indicators net interest margin on interest-bearing assets and the ratio of impairment and provisioning costs to total assets are calculated over the preceding 12 months. ROE is calculated during the year on a cumulative basis up to the most recent data available. Year 2020 calculated for a period of 2 months.
Source: Bank of Slovenia.

Figure 5: Capital adequacy ratio of the Slovenian banking system compared to the EMU – consolidated basis



Source: Bank of Slovenia, ECB (SDW).

net interest margin has also declined as a result: it stood at 1.78% over the 12 months to the end of February. Growth in operating costs is outpacing growth in the balance sheet total this year. Having recorded a net increase in impairments and provisions in January, the banking system again saw a net release of impairments and provisions in February. Given the crisis situation and the economic shock triggered by the coronavirus pandemic, and owing to the nature of the IFRS requirements, the coming months can be expected to see an increase in impairment and provisioning costs at banks, and the net creation of impairments and provisions.

The banking system remained well-capitalised in the final quarter of 2019. The total capital ratio increased to 18.5% on a consolidated basis, and the common equity Tier 1 capital ratio to 17.8%, both above their euro area averages. The increase in regulatory capital in the final quarter of last year was driven primarily by issued subordinated debt securities (Tier 2 capital). There was an increase in RWA in 2019, primarily driven by credit growth. The small domestic banks and savings banks improved their capital adequacy via recapitalisations, but their leverage ratio remains down a half on the average across the system despite the increase in regulatory capital. The banks ended 2019 with record pre-tax profits, which they would do well to retain. Given the anticipated adverse impact of coronavirus on the economy, it will be a major challenge for the banks to generate profits, which could affect the maintenance of a stable capital position.

Analysis of the impact of the emergency measure of a moratorium on borrowers' loan repayments reveals that Slovenian banks will not be pushed into liquidity difficulties. The loss in cashflow for the banking system caused by the emergency measures could be anything from EUR 0.9 billion to EUR 2 billion. Slovenian banks had focused on more stable funding in the previous years, and also have large holdings of liquid assets at their disposal to cover any outflows. Under the most adverse scenario, the lost cashflow could equate to 35% of the banks' primary liquidity. In the absence of corporate bankruptcies and the accompanying build-up of losses, the banks should be able to provide funds to the real sector for reigniting activity once the measures to curb the spread of the virus have been lifted.[1]

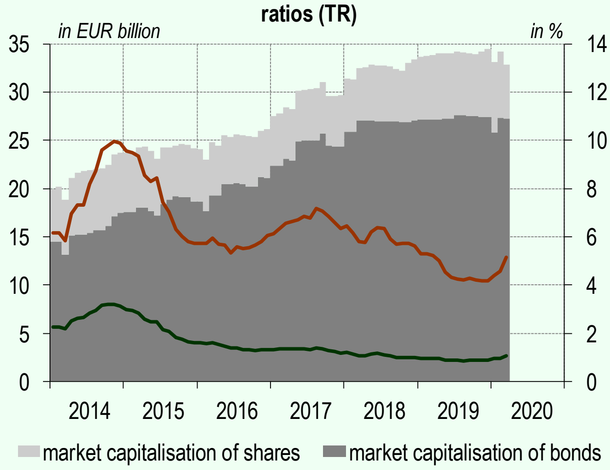
[1] Detailed analysis of various scenarios for the crisis caused by measures to curb the spread of coronavirus is available at https://bankaslovenije.blob.core.windows.net/publication-files/prikazi-in-analize-marec-2020.pdf.

quarter of 2019, it stood at EUR 1.3 billion, down EUR 284 million in year-on-year terms.

Domestic financial market

The spread of coronavirus across Europe brought an end to the rise in equity valuations on the domestic stock market. The selling pressure strengthened further when the pandemic was declared in March. The volume of trading in shares on the Ljubljana Stock Exchange amounted to EUR 133 million in the first quarter, having doubled in year-on-year terms, while by 7 April 2020 the SBI TOP was down 15.7% on the end of last year (and down 20.7% on its high of this year). All shares saw a rise in volume in the first quarter, most notably shares in the firms with the largest market capitalisations. The concentration of trading in shares thus increased in year-on-year terms: the three most heavily traded shares accounted for 67.2% of total volume on the exchange (up 12.5 percentage points).

Figure 5.7: Market capitalisation on the LJSE and annual turnover ratios (TR)



Note: The illustration is based on data available at the end of March.
Source: Ljubljana Stock Exchange (LJSE), Bank of Slovenia calculations.

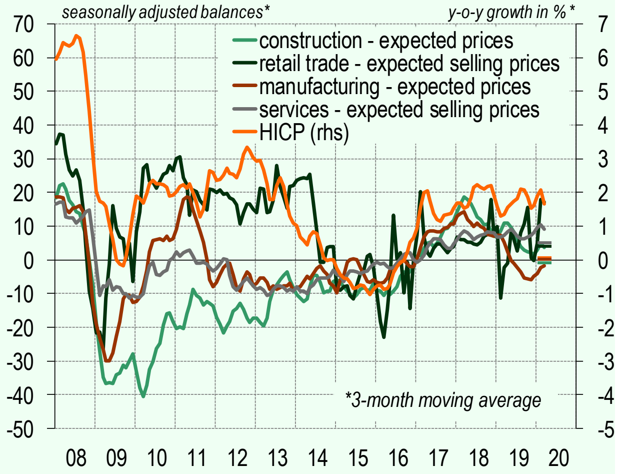
6 Price Developments

The coronavirus crisis is already being reflected in inflation, although a lack of data while the measures to curb the epidemic are in place will render analysing inflation difficult. Inflation as measured by the HICP slowed by 1.3 percentage points in March to just 0.7%. Euro area inflation also stood at 0.7%, down 0.5 percentage points on February. The larger slowdown in inflation in Slovenia was primarily attributable to a fall in electricity prices, which were cut by almost 30% as part of the measures to alleviate the social and economic impact of the coronavirus epidemic. The drop in global oil prices saw further falls in prices of motor and liquid fuels, although plunging oil prices can be expected to have a greater impact in April. Energy prices reduced headline inflation by 1.1 percentage points in March. The measures to control and alleviate the impact of the epidemic have to date only been reflected in a fall in energy prices. Service price inflation continued to slow in March, but given that the majority of the measures to alleviate the impact of epidemic were introduced after the price data had been collected, the impact is expected to be greater in the following month. It will be much harder to collect data while the measures are in place, and the quality of the data could therefore be lower. Other countries hit by the coronavirus outbreak will also face this issue.

Survey–based inflation expectations in March

By March firms in most sectors had already slightly reduced their expectations of future growth in (selling) prices, albeit significantly less than at the beginning of the previous crisis. While the share of firms expecting a rise in (selling) prices over the next three months increased slightly in the early part of the year, in March it declined in all sectors other than manufacturing as the epidemic worsened in Europe. According to the seasonally adjusted figures, the largest declines were recorded in retail and in construction, where the indicator was down 8 percentage points on February, and

Figure 6.1: Price expectations according to business survey



Note: The dashes represent data points for March 2020 without moving averages.
Source: SORS, Bank of Slovenia calculations.

Box 6.1: Monitoring of prices during the epidemic

Analysis of price developments is subject to numerous uncertainties in the current situation. While the measures to prevent the spread of coronavirus are in place, consumer prices could be subject to upward pressure stemming from barriers to imports and supply chains and from stock pilling, and also downward pressure related to falling demand for certain products and services. Amid all the uncertainty, understanding the data collection methodology will be of particular importance when analysing price developments in the current situation. This box summarises the SORS's methodological note, and outlines the impact of the current situation on the collection of price data.[1]

According to the methodological note, different methods of collecting data on prices of individual products and services are used for food products and for non-food products and services. The data on prices of food products, which comprise food, beverages and tobacco products, is taken from retailers' databases. Prices of non-food products and services are traditionally surveyed in the field by price collectors. Certain prices are also obtained over the phone, online, or from other databases of individual sellers, and from retailers' databases.

Data collection methods also differ in terms of the period of collection for individual categories of products and services. In the case of food, beverages and tobacco products, data from the first two full weeks of the month is included in the calculation of the price indices for the current month. It is a similar case with non-food products, whose prices are usually collected between the first and the fifteenth of the month, while prices of services and refined petroleum products are collected between the first and the twenty-fifth of the month. Because the majority of the measures were introduced in the second half of the month, the impact of the epidemic and the related measures is only evident in March's data to a lesser extent.

While measures restricting the movement of people are in place, it will be difficult to collect price data. Given the closure of hotels and restaurants, cultural institutions, sports centres, shops and other establishments related to personal care services, and travel ban, certain products and services will not be available for consumption while the measures are in place. In the absence of a market, a problem arises in price collection. The SORS had mostly not faced any problems with price collection in March, since the data was collected by 18 March, i.e. before the majority of the measures were introduced. Methodological difficulties in the collection of data will come to the fore in April, although this issue will also be faced by other virus-hit countries. How they will deal with the issue of the missing price data is not yet known. It could happen in April that (1) price indices will not be calculated for certain products and services due to missing data, (2) previous values will be substituted for the missing price data, or (3) the missing data will be imputed in some other way. Although they address the problem of missing data, the last two approaches do not necessarily yield substantively meaningful values. From a substantive perspective, there will also be an issue while the measures are in place as to whether the weights of these products and services in the overall basket of prices is truly representative. During this period the weights of these products and services will not reflect the actual structure of household consumption, as the weights are determined on the basis of household consumption at the beginning of the year, and do not change over the course of the year.

Given the timing of the data collection and the inability to monitor the prices of certain products and services, there is a need for further caution in the analysis of the consumer price index. Despite the fall in energy prices, March's year-on-year inflation rate of 0.7% might still be largely attributable to the collection of the data before the majority of the measures to curb the coronavirus epidemic were introduced, and it will be more evident in April in particular how the issues with monitoring prices of inaccessible products and services will be reflected in the headline index.

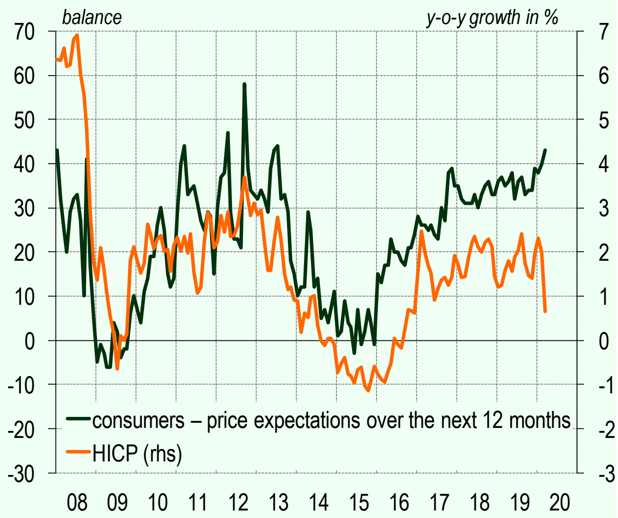
[1] The SORS's methodological note relating to consumer price indices and average retail prices is available at https://www.stat.si/StatWeb/File/DocSysFile/7800.

in services, where it was down 6 percentage points. The indicators nevertheless remain significantly above their levels from the beginning of 2009, having undergone more modest declines than those seen at the outbreak of the previous economic crisis.[1] This is most likely also a reflection of the relatively good situation in the first half of the month, when the survey of firms was conducted.[2]

[1] Indicators in all sectors declined in the final quarter of 2008, when the record declines were set by firms in services (a decline of 21 percentage points in December 2008) and in manufacturing (a decline of 15 percentage points in October 2008).

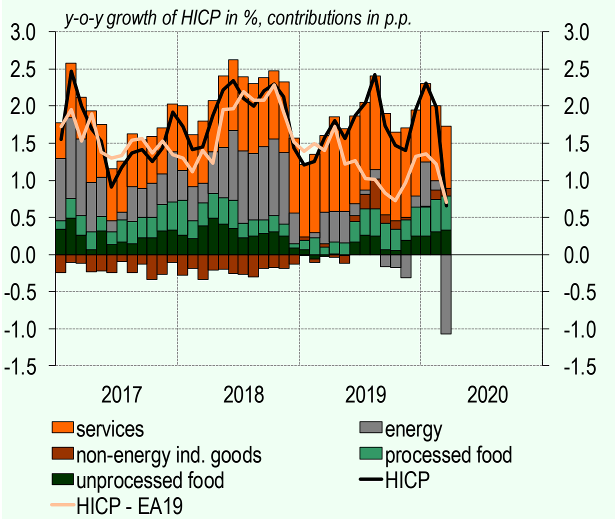
[2] According to the SORS methodological notes, firms complete the questionnaire on business tendencies between the first and fifteenth of the month, or if using the online app they are required to complete the questionnaire by the tenth of the month. The latest data was collected between 1 and 13 March 2020.

Figure 6.2: Price expectations according to consumer survey



Source: SORS, Bank of Slovenia calculations.

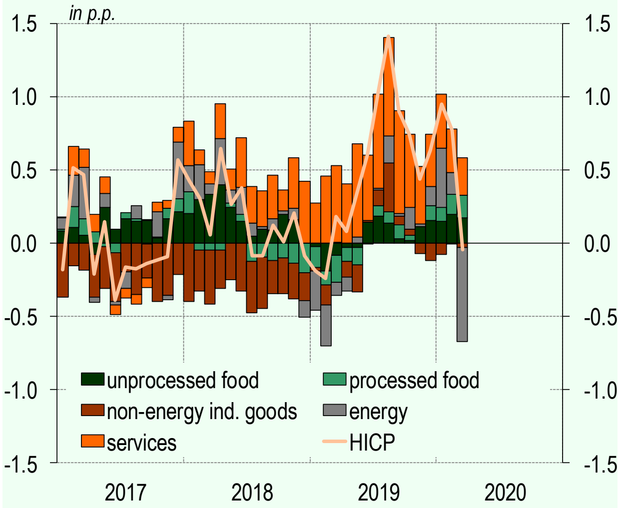
Figure 6.3: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, SORS, Bank of Slovenia calculations.

Consumers' expectations of future inflation remained practically unchanged in March. According to the consumer opinion survey, the indicator of future inflation stood at 43 percentage points in March, up 3 percentage points on February. The increase was largely the result of a rise in the share of surveyed consumers expecting inflation to rise over the next 12 months, as the total share of those expecting price rises declined slightly in March. As in the case of business tendencies, the level of the figure was most likely affected by the real deterioration in the situation coming after the survey had been completed.[3, 4] The price expectations indicator and year-on-year growth in the consumer price index usually display similar dynamics. Both saw record falls in November 2008, when year-on-year inflation declined by 1.9 percentage points and the survey indicator declined by 24 percentage points.

Figure 6.4: Difference in inflation between Slovenia and the euro area



Source: Eurostat, SORS, Bank of Slovenia.

Structure of price developments and core inflation indicators[5]

After a rise in the early part of the year, plunging energy prices lowered inflation to 0.7% in March, down 1.3 percentage points on February. In contrast to last year, year-on-year inflation as measured by the HICP was largely driven in the first quarter by food prices, which contributed 0.8 percentage points to March's rate. Both processed and unprocessed food contributed to food price inflation of 3.6%. The contribution by energy prices also increased at the beginning of the year, as a result of higher growth in January, primarily driven by a positive base effect. In the wake of the reduced demand

[3] The data in the consumer survey is usually collected at the SORS between the first and fifteenth of the month.

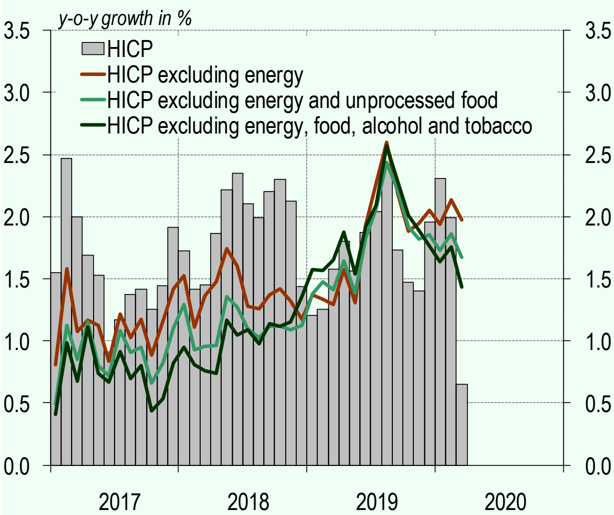
[4] The high value of the indicator of price expectations could also be the result of higher food price inflation. Consumer expectations of future prices are often shaped by the perceived developments in certain product categories, including food and fuels, and food prices have been rising for a few months now.

[5] The remainder of the price developments section analyses data for March's consumer price indices published on the SORS website in its first release of 31 March 2020.

for oil caused by the outbreak of coronavirus, and an oil producer price war, there was a sharp fall in oil prices on global markets. The fall was only minimally reflected in lower prices of refined petroleum products in March, as energy prices in Slovenia were mainly reduced by a cut in electricity prices. Aggregate energy prices were down 8.3% in year-on-year terms in March, reducing headline inflation by 1.1 percentage points. The domestic components also made slightly lower contributions to headline inflation. Year-on-year growth in prices of non-energy industrial goods in March was down 0.1 percentage points at 0.4%. Services price inflation slowed by slightly more, to 2.2%, partly as a result of a base effect related to last year's price rises. The gradual introduction of measures to prevent the spread of coronavirus can be expected to bring larger changes in these prices in the coming months; services price inflation currently remains a major driver of headline inflation, despite its slowdown.

Average inflation in the euro area showed similar dynamics in March, and at 0.7% was down 0.5 percentage points on the previous month. The more modest fall compared with inflation in Slovenia is primarily attributable to the smaller negative contribution by energy prices, which was the result of higher year-on-year energy price inflation and the lower weight of this aggregate in the overall basket of consumer goods and services. Year-on-year services price inflation and food price inflation in Slovenia continued to outpace the euro

Figure 6.5: Measures of core inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

Table 6.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2020	2015	2016	2017	2018	2019	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1
HICP	*100.0%*	-0.8	-0.2	1.6	1.9	1.7	2.0	1.3	1.7	2.1	1.6	1.6
Breakdown of HICP:												
Energy	*12.8%*	-7.8	-5.2	4.7	6.0	0.8	6.9	1.4	2.8	0.0	-0.9	-0.8
Food	*21.1%*	0.9	0.5	2.2	2.4	1.6	1.6	0.6	1.1	2.5	2.2	3.3
processed	*17.1%*	0.7	0.4	1.4	1.4	1.4	0.8	0.8	1.1	2.0	1.8	2.4
unprocessed	*4.1%*	1.4	0.7	5.7	6.6	2.5	4.8	0.0	1.6	4.6	4.0	7.2
Other goods	*28.8%*	-0.6	-0.5	-0.7	-0.8	0.3	-0.6	0.1	-0.1	0.9	0.2	0.3
Services	*37.3%*	0.9	1.6	1.8	2.4	3.1	2.6	2.8	3.2	3.4	3.2	2.6
Core inflation indicators:												
HICP excl. energy	*87.2%*	0.4	0.6	1.1	1.4	1.8	1.3	1.3	1.6	2.3	2.0	2.0
HICP excl. energy and unprocessed food	*83.2%*	0.4	0.6	0.9	1.1	1.8	1.1	1.4	1.6	2.2	1.9	1.8
HICP excl. energy, food, alcohol and tobacco	*66.1%*	0.3	0.7	0.7	1.0	1.9	1.2	1.6	1.8	2.3	1.9	1.6
Other price indicators:												
Industrial producer prices on domestic market		-0.5	-1.4	1.3	1.9	1.9	1.4	1.4	2.1	1.9	2.0	...
GDP deflator		1.0	0.8	1.6	2.2	2.4	1.9	2.3	2.7	2.4	2.2	...
Import prices[1]		-1.4	-2.2	3.0	2.7	-0.3	3.2	1.5	-0.1	-1.4	-1.1	...

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

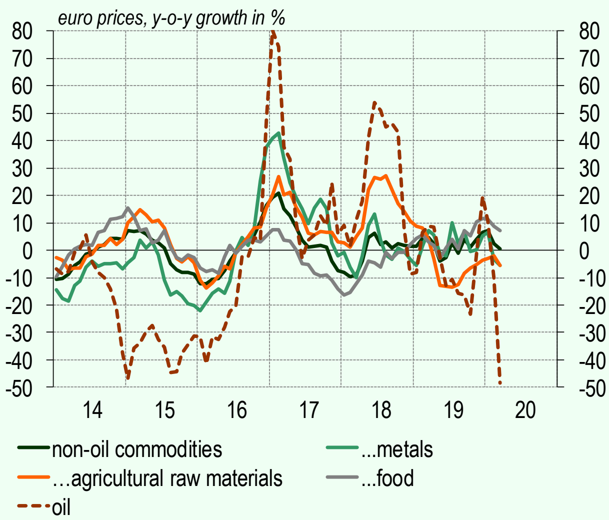
area overall, but the year-long gap between inflation in Slovenia and the euro area disappeared.

The core inflation indicators remained relatively high in March, as energy prices were the only aggregate to fall significantly. Despite the lower growth in private consumption in the final quarter of last year, domestic inflationary pressures related to rising labour costs kept the core inflation indicators at relatively high levels in the first quarter. The narrowest indicator, which excludes energy, food, alcohol and tobacco products, declined by 0.3 percentage points to 1.4% in March as services price inflation slowed. Amid higher food price inflation, core inflation excluding energy and unprocessed food and core inflation excluding energy fell by slightly less, to 1.7% and 2.0% respectively in March. There were similar falls in the core inflation indicators in the euro area overall. Following the first signs of a faster growth in the domestic components of inflation, the narrowest core inflation indicator in the euro area slid back to 1% in March, where it has stood for several years, despite higher wage growth.

Drivers of inflation

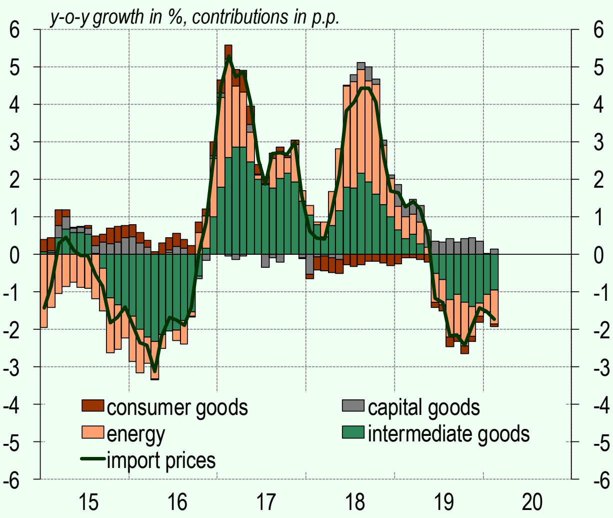
While the price pressures from the external environment are continuing to weaken, domestic factors remained encouraging in the early part of the year. Euro oil prices on the global commodity markets were down almost a half in year-on-year terms in March, while year-on-year growth in non-energy commodity prices remained positive at 0.4%, albeit down significantly on the two preceding months. The lower year-on-year growth in global non-energy commodity prices was attributable to a year-on-year fall in prices of metal, and lower growth in food commodity prices.[6] The dynamics of global markets were reflected in import prices, which were down 1.7% in year-on-year terms in February. In the cooling global economy, year-on-year growth in import prices has been negative since the middle of last year, primarily as a result of decreasing import prices of commodities and energy. Standing out were import prices of food, beverages and tobacco products, which have been increasing in the year-on-year terms, primarily as a result of rises in prices of preserved meat and meat products. Meanwhile inflation factors remain unchanged in the domestic environment. Year-on-year growth in industrial producer prices on the domestic market stood at almost 2% in January, while labour costs also rose. According to the latest figures, the average gross wage was up 4.5% in year-on-year terms in January, although it will be difficult to pass higher labour costs through to consumer prices in the current situation.

Figure 6.6: Commodities



Source: ECB, Bloomberg.

Figure 6.7: Import prices



Source: SORS, Bank of Slovenia calculations.

[6] Owing to differences in methodology, the data on commodity price developments differs from the data used in the analysis of the international environment in the first section. The data has been obtained from the ECB website, where indices are calculated by weighting individual commodity prices with regard to their relative value in euro area imports.

Price developments by subcategory

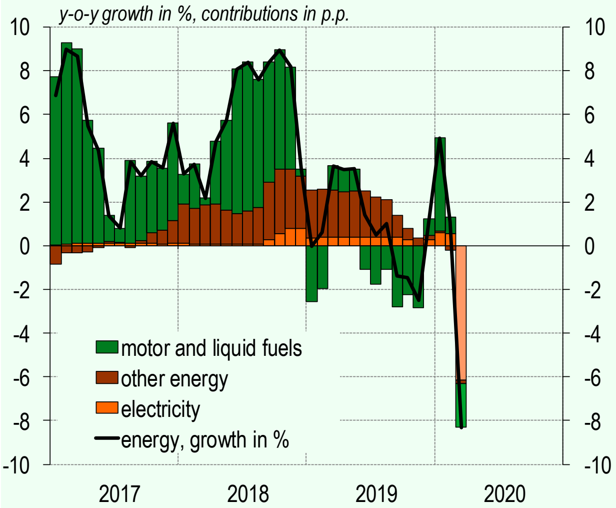
The fall in energy prices is primarily attributable to cheaper electricity, although prices of motor and liquid fuels also fell. Energy prices in March fell by almost 8% monthly, and were down 8.3% in year-on-year terms. Electricity prices accounted for just over 6 percentage points of the fall, having been cut for a period of three months as part of the measures to alleviate the social and economic impact of the spread of coronavirus.[7] Prices of motor and liquid fuels fell for the second consecutive month, tracking the movement of oil prices on global markets. Oil prices have fallen since the beginning of the year as a result of lower demand following the outbreak of coronavirus, and plunged further in March as a result of the failure of Opec+ members to reach an agreement, and the resulting price war between Russia and Saudi Arabia. Global demand for oil has also plummeted. The price of Brent crude fell by almost half over three months to reach EUR 30.1 per barrel in March, its lowest level since the beginning of 2016. Given the delay in the pass-through of changes into domestic prices, March's fall in oil prices was only reflected to a lesser extent in prices of motor and liquid fuels, but a sharper fall in these prices can be expected in April.[8] Energy price inflation also fell in the euro area overall, in the wake of falling global oil prices. It stood at -4.3% in March, down just under 5 percentage points on February.

The rise in food price inflation seen at the end of last year continued in the first quarter of this year. Food prices rose in monthly terms for the fifth consecutive month, taking year-on-year food price inflation to 3.6%,

Figure 6.8: Energy prices

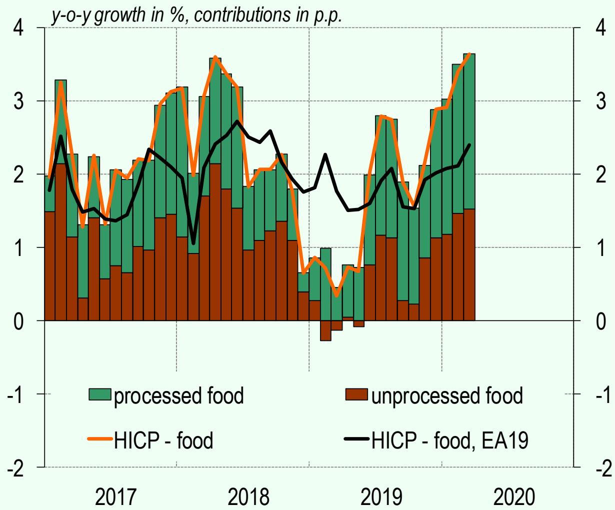
Source: Eurostat, SORS, ECB, Bank of Slovenia calculations.

Figure 6.9: Contributions to energy inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.10: Contributions to growth in food prices



Source: Eurostat, SORS, Bank of Slovenia calculations.

[7] The government issued the Ordinance on the non-payment of the contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources on 20 March 2020, and the Energy Agency announced that households and small businesses would not be charged the tariff item for chargeable demand. The emergency measures will be in place from 1 March to 31 May 2020.

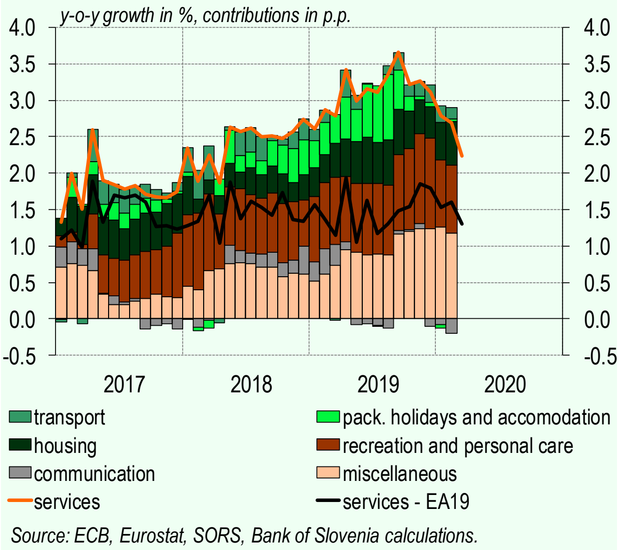
[8] Other than at gas stations on motorways and expressways, prices of unleaded 95-octane petrol and diesel are regulated. They are set every 14 days in accordance with the Decree on setting prices for certain petroleum products. March's data on energy prices thus captures the fall of almost 5% on 10 March, but the record fall of 24 March is not yet reflected in the index of consumer energy prices, given that energy prices are monitored between the first and twenty-fifth of the month. The prices of unleaded 95-octane petrol and diesel were cut by just under 15% and 11% respectively on 24 March.

the highest figure of the last two years. Prices of unprocessed food were up 8.1% in year-on-year terms. They have been rising since November of last year, largely driven by meat prices, which have been pushed upwards by global prices of pork in the wake of African swine fever and the resulting reduced supply.[9] Prices of fresh and chilled fruit also rose sharply in the first quarter, the year-on-year rate of growth averaging more than 14%. There was also a significant rise in prices of processed meat and meat products, driven by domestic and global meat prices. According to the February figures, these prices accounted for almost half of the year-on-year growth in processed food prices. All sub-components of products within the category are rising, other than that comprising sugar, jam, honey, chocolate and confectionery. Given the short period of data collection, the impact of coronavirus on the March figures is probably negligible, but it could be more pronounced in April, when the price pressures could stem from increased demand related to stock pilling, and the reduced supply of food amid potential import restrictions. To ensure no disruption to the food supply, a measure was adopted, according to which it will be possible to restrict the sale of food, to ban its import or export, and to restrict prices. Amid the spread of coronavirus, the euro area also saw rising food prices: year-on-year food price inflation reached 2.4%.

There is not yet any sign of the measures to curb and control the epidemic having an impact on services price inflation. Year-on-year services price inflation has been gradually slowing since November, and stood at 2.2% in March. The slowdown is attributable to a base effect from last year's price rises, and also to weaker current growth as services prices fell by 0.4% in March. Compared with last year, there were lower contributions to inflation in the first two months of the year mainly from package holidays and accommodation, and services related to recreation and personal care. These are sectors that in the following months will be hit particularly hard by the measures to curb and control the epidemic; 16 March brought a temporary ban on the direct sale of goods and services including accommodation, catering, sports and recreation, cinema, cultural services, hairdressing and cosmetic services. The same day also saw the suspension of public bus and railway services, with the suspension of flights following a day later, which will hurt providers of transport services. The impact of the measures was not yet evident in the March figures, but developments in services prices will be uncertain while the measures are in place, partly because of the difficulties that will arise in the collection of price data.

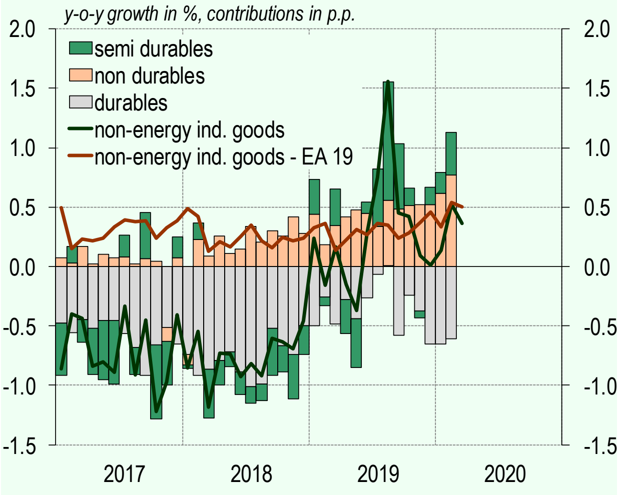
Prices of non-energy industrial goods recorded year-on-year growth of 0.4% in March. Until February the main contribution came from a rise in prices of non-

Figure 6.11: Contributions to services inflation



Source: ECB, Eurostat, SORS, Bank of Slovenia calculations.

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



Source: Eurostat, SORS, Bank of Slovenia calculations.

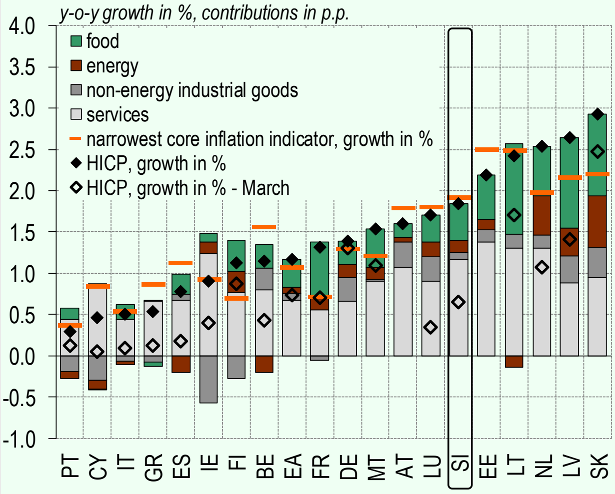
9 In the wake of another monthly rise in the price of pork, the year-on-year rate of growth reached almost 30%.

Box 6.2: Price developments in euro area countries

Average year-on-year inflation in the euro area stood at 1.2% in February, unchanged from the average of 2019. The largest contribution to inflation in the euro area came from services prices, in the amount of 0.7 percentage points. The highest inflation rates continued to be recorded by the Baltic states, Slovenia, Slovakia and the Netherlands.

The outbreak of the coronavirus epidemic has had a major impact on the latest data on price developments in the euro area. Inflation in all euro area countries for which data is available[1] fell sharply in March. The average fall relative to the 12-month average price growth in February was 0.7 percentage points, but the Netherlands, Luxembourg, Latvia and Slovenia all saw falls of more than 1 percentage point. Inflation is already approaching zero in the countries with the lowest rates. The transmission of the coronavirus shock varies greatly from country to country, primarily owing to differences in the timing of the introduction of measures to curb the spread of the virus, but the plunge in oil prices was already a major factor in falling inflation in all countries.

Figure 1: 12-month average price growth in February and year-on-year growth in March



Source: ECB, Eurostat, Bank of Slovenia calculations.

[1] By 1 April 2020, no data or estimates for HICP were available for Estonia or Austria.

durables, which include water supply. Water supply prices were set to rise in March in Ljubljana and the neighbouring municipalities, while a project plan for changes to water supply prices was adopted in February by Maribor and its neighbours. Higher year-on-year growth in clothing prices brought a rise in prices of semi-durables over the first two months of this year, while the growth in prices of durables remained negative. Similar developments were seen in the euro area overall, where prices of non-energy industrial goods were up 0.5% in year-on-year terms in March.

7 Public Finances

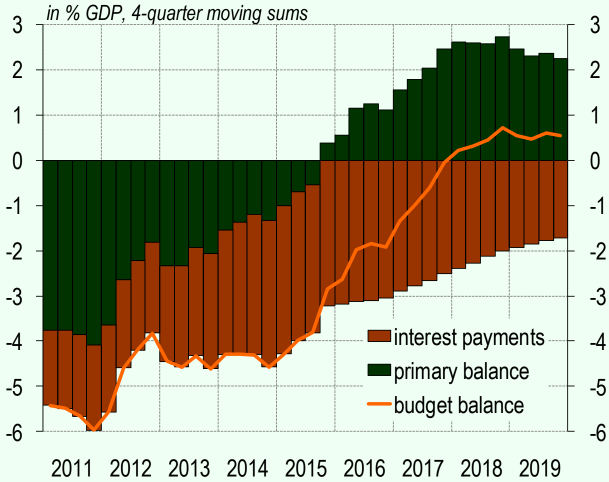
This year the public finances will also be significantly shaped by the coronavirus epidemic, which causes a huge contraction in activity in many sectors, while there is great uncertainty surrounding the pace of the resumption of business as usual. A number of measures have already been introduced in Slovenia, in areas including healthcare, liquidity support for firms, the preservation of economic activity and jobs, and support for vulnerable population groups. The decline in economic activity and the measures taken to address it can be expected to result in fiscal expansion, and thus in a considerable deterioration in fiscal aggregates. Slovenia had recorded a general government surplus in 2019 for the second consecutive year. It amounted to 0.5% of GDP, 0.2 percentage points less than in the previous year.

The ratio of government debt to GDP has declined over the last four years, primarily on account of rising GDP, but the trend is expected to reverse this year, as by the middle of April the measures to alleviate the coronavirus crisis had seen the government significantly expand its debt. In the first quarter of this year, the government continued to borrow at low interest rates, which was in part thanks to accommodative monetary policy. Slovenia's general government debt amounted to 66.1% of GDP at the end of last year, significantly less than the euro area average.

General government balance

The general government sector was in surplus in 2019 for the second consecutive year. The surplus amounted to 0.5% of GDP, 0.2 percentage points less than in the previous year. This brought an end to the improvement in the public finances that was a feature of the preceding five years. Growth in revenues remained solid last year, albeit lower than in the previous year, while growth in expenditure was unchanged from the previous year, and over the two years was higher than at any time during the last decade (once bank recapitalisations have been excluded). Interest expenditure declined by 0.3 GDP percentage points. The primary surplus in the

Figure 7.1: General government budget balance, primary balance and interest payments



Note: Bank recapitalisations are excluded.
Source: SORS, Bank of Slovenia calculations.

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

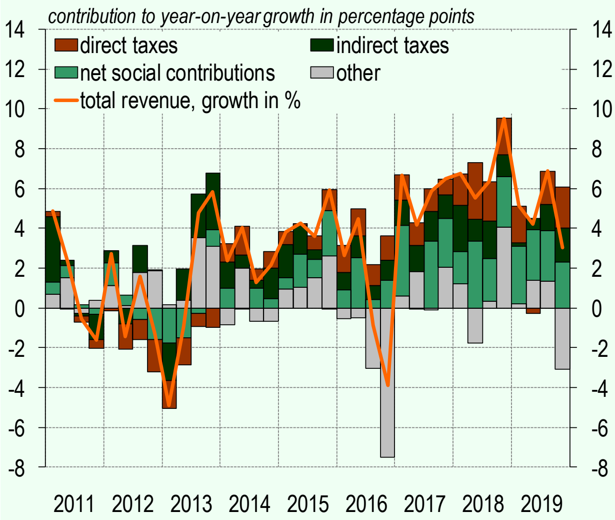
	SORS						Draft Budgetary Plan		EC		
% GDP	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**	**2019**	**2020**	**2021**
Revenue	45.3	45.9	44.3	44.0	44.3	44.2	44.5	43.9	44.0	43.6	43.3
Expenditure	50.8	48.7	46.3	44.1	43.6	43.7	43.7	43.0	43.6	43.1	42.8
of which: interest	3.2	3.2	3.0	2.5	2.0	1.7	1.6	1.5	1.6	1.5	1.4
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.7	0.5	0.8	0.9	0.5	0.5	0.6
Primary balance	-2.3	0.4	1.1	2.5	2.7	2.3	2.4	2.4	2.1	2.0	2.0
Structural balance	…	…	…	…	…	…	0.1	0.1	-1.0	-0.9	-0.7
Debt *	80.3	82.6	78.7	74.1	70.4	66.1	66.3	62.1	66.7	63.1	59.5
Real GDP (growth, %)	2.8	2.2	3.1	4.8	4.1	2.4	2.8	3.0	2.6	2.7	2.7

*Note: *Debt refers to the end of the year .*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, October 2019), European Commission (November 2019).

general government sector declined, but was still more than 2% of GDP. According to estimates from the European Commission's autumn forecasts, the general government deficit in the euro area overall stood at 0.8% of GDP last year, while interest payments amounted to 1.7% of GDP, as they did in Slovenia.

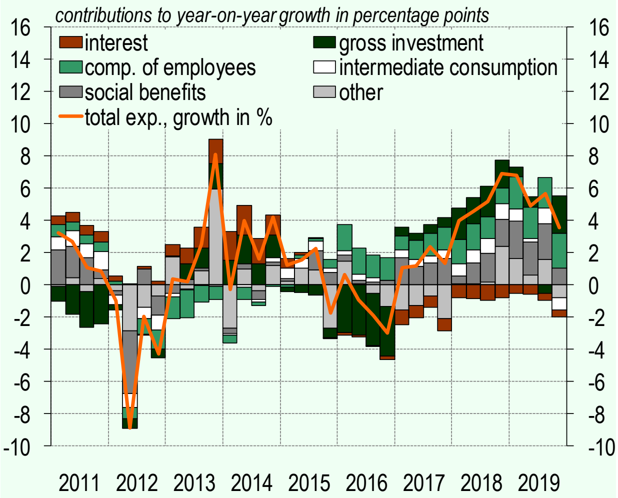
In line with the slowing economy, last year general government revenues grew by less than in the two preceding years, but the rate was still solid, and similar to nominal GDP growth. General government revenues increased by 4.8% last year, while growth in tax revenues was just under 1 percentage point higher. The buoyant labour market provided for further growth in net social security contributions (7.2%), but the rate was slowing at the end of the year in line with the situation on the labour market. Revenues from personal income tax were up only slightly on the previous year, owing to a tax break on annual leave allowance. This measure is estimated to have reduced general government revenues by 0.2% of GDP over the whole year. Growth in indirect taxes, including VAT, was relatively low last year, particularly in the first half of the year, the previous year having seen relatively high growth in VAT revenues. The lower growth in revenues in the final quarter of last year was largely attributable to the absence of dividends from NLB, which had been above-average in the previous year, before the bank's partial privatisation, while capital transfers were also down in year-on-year terms. Over the course of the year they were higher than in the previous year, partly as a result of improved utilisation of EU funds.

Figure 7.2: General government revenue



Source: SORS, Bank of Slovenia calculations.

Figure 7.3: General government expenditure excluding support to financial institutions

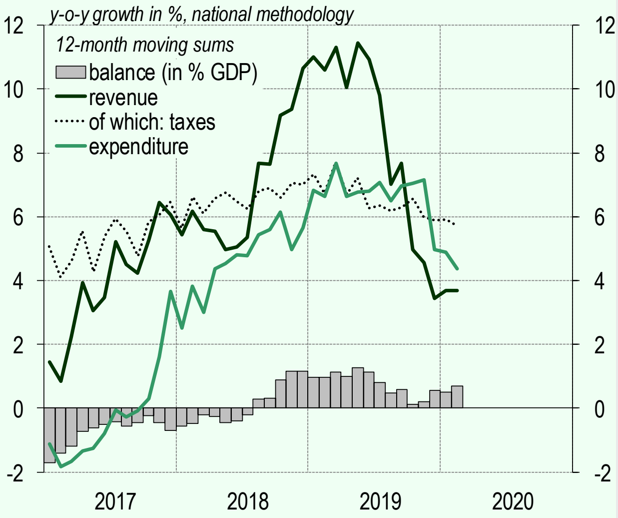


Source: SORS, Bank of Slovenia calculations.

Box 7.1: Public finance developments according to the cash flow methodology

The consolidated general government balance over the first two months of the year was in a deficit in the amount of EUR 60 million, approximately half of that recorded in the same period last year. The improvement in the balance came despite the Health Insurance Institute deferring some of last year's liabilities in the amount of EUR 63 million to January of this year in order to meet the ceiling of allowed spending. The Health Insurance Institute therefore disclosed a deficit in the amount of the deferred liabilities over the first two months of this year, although growth in health insurance contributions remained high, and was similar to last year at approximately 7%. The surplus of the local government budgets narrowed slightly in year-on-year terms, while the Pension and Disability Insurance Institute also disclosed a small surplus. The improved balance over the first two months of this year is thus primarily attributable to a decline in the state budget deficit, which was minimal over the first two months of the year. A surplus of EUR 415 million or 0.8% of GDP is forecast in the state budget approved for this year. Given the altered circumstances, which have brought a shutdown of the economy and extensive measures in connection with the coronavirus epidemic, a considerable deterioration in the position is expected in

Figure 1: Public finance developments



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

Table 1: Consolidated balance sheet* of public finance

	2019	last 12 months to Feb. 20			2019 Jan.–Feb.	2020 Jan.–Feb.	Jan.–Feb. 20
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**19,231**	**19,444**	**40.2**	**3.7**	**2,949**	**3,161**	**7.2**
Tax revenue	17,179	17,330	35.9	5.7	2,789	2,940	5.4
- goods and services	6,127	6,170	12.8	2.0	1,034	1,078	4.2
- social security contributions	7,021	7,096	14.7	6.9	1,139	1,214	6.6
- personal income	2,592	2,606	5.4	5.0	435	449	3.2
- corporate income	997	1,007	2.1	17.1	130	140	7.4
From EU budget	731	762	1.6	-2.7	24	56	130.8
Other	1,322	1,352	2.8	-14.3	136	166	22.0
Expenditure	**18,967**	**19,113**	**39.6**	**4.4**	**3,075**	**3,222**	**4.8**
Current expenditure	8,227	8,316	17.2	3.5	1,337	1,425	6.6
- wages and other personnel expenditure (incl. contributions)	4,471	4,557	9.4	8.0	703	789	12.3
- purchases of goods, services	2,727	2,786	5.8	4.7	381	440	15.5
- interest	791	729	1.5	-15.6	237	175	-26.5
Current transfers	8,703	8,784	18.2	5.7	1,460	1,541	5.6
- transfers to individuals and households	7,323	7,406	15.3	5.9	1,184	1,267	7.0
Capital expenditure, transfers	1,527	1,541	3.2	5.1	115	129	12.8
To EU budget	510	472	1.0	-5.8	163	126	-22.9
GG surplus/deficit	**264**	**330**	**0.7**		**-126**	**-60**	

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

the planned revision of the state budget. The cumulative consolidated balance over the 12 months to February was in surplus, in the amount of EUR 330 million or 0.7% of estimated GDP.

Consolidated general government revenue during the first two months of the year was still recording solid year-on-year growth. Tax revenues and other revenues both increased. Growth in tax revenues stood at 5.4%, down only 0.5 percentage points on last year. Growth was down in most tax categories. Growth in personal income tax revenues slowed as a result of easing of tax burden applied this year (a change in the tax bands, a rise in the general allowance, and changes in the definition of additional general allowance). Growth in revenues from taxes on goods and services was lower than aggregate growth in tax revenues, although the year-on-year rate during the first two months of this year was higher than last year, as there was a rise not only in VAT revenues but also in revenues from excise duties. Growth in taxes was outpaced by growth in non-tax revenues (e.g. revenues from property) and revenues from the EU budget, where there was an increase in revenues from the structural funds and the cohesion fund. General government revenues can be expected to decline over the remainder of the year, given the adverse economic situation and the measures in place.

Consolidated general government expenditure increased more slowly than revenues, despite the deferral of certain Health Insurance Institute payments from December of last year to January of this year. There was thus a large increase in expenditure in January, but in February it was actually down in year-on-year terms. When the deferral of Health Insurance Institute payments is excluded, the highest growth over the first two months of the year continued to be recorded by expenditure on wages, goods and services, social transfers and investment. The main declines were in interest expenditure and payments into the EU budget. The latter was a factor in the year-on-year improvement in Slovenia's net position against the EU budget. Over the remainder of the year expenditure will be increased markedly by the measures to alleviate the coronavirus epidemic.

General government expenditure increased by slightly more than revenues last year, driven largely by compensation of employees, social security benefits and government investment. General government expenditure was up 5.2% in year-on-year terms. The highest growth among major expenditure categories was recorded by government investment, at 11.7%. Growth in compensation of employees stood at 7.9%, and in the final quarter was even higher than in the previous three quarters on account of the further relaxation of wage-related measures (November's rise of one pay grade for employees above the 26th pay grade, with certain exceptions). While year-on-year employment growth in the government sector was stable at 1.3%, the average wage increased by 6.5%. Social security benefits recorded their largest increase of the last decade, at 4.7%, driven by the lifting of austerity measures from previous years and by the adoption of various new measures (e.g. an increase in cash social assistance). The number of pensioners continued to rise moderately last year (by 0.5%), but pension rises meant that expenditure on pensions increased by 3.8%. Interest payments declined in year-on-year terms for the fourth consecutive year. Growth in primary expenditure (i.e. government expenditure before interest) reached 6.0%.

General government debt and government guarantees

The general government debt declined last year for the fourth consecutive year, but will increase this

Table 7.2: Contributions of components to change in general government debt

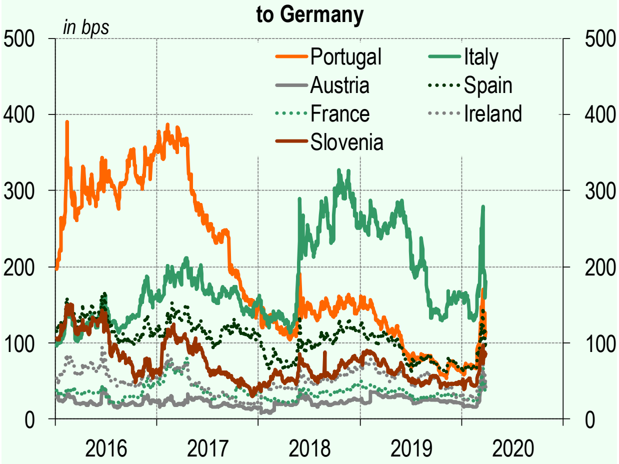
% GDP	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
debt	80.3	82.6	78.7	74.1	70.4	66.1
debt change	**10.3**	**2.3**	**-3.9**	**-4.5**	**-3.7**	**-4.3**
of which: primary balance	2.3	-0.4	-1.1	-2.5	-2.7	-2.3
interest rate-growth differential ("snowball effect")	1.0	0.7	-0.1	-2.3	-2.5	-1.6
deficit-debt adjustment	7.0	2.0	-2.7	0.2	1.5	-0.5

Source: SORS, Bank of Slovenia calculations.

year as the coronavirus crisis is addressed. The government had significantly increased its debt by the middle of April, as a result of preparations for financing measures in connection with the economic crisis caused by coronavirus. Borrowing via bonds had amounted to EUR 4.9 billion by the middle of April, while EUR 1.6 billion had been spent on maturing bonds. The coupon interest rates on the newly issued bonds remained low. The government also continued to issue short term treasury bills at negative interest rates. The debt amounted to EUR 31,744 million or 66.1% of GDP at the end of last year, significantly below the euro area average, which stood at 86.4% of GDP according to the European Commission's autumn forecasts. The government's primary surplus was responsible for more than half of the decline in debt. The snowball effect again pushed down the debt, albeit less than in the two preceding years. Privatisation revenue also reduced the debt last year, which is reflected in the negative deficit-debt adjustment.

Guarantees declined last year for the fifth consecutive year, but could increase sharply this year, particularly if the measures to curb the spread of coronavirus are in place for a long time. They amounted to EUR 5.4 billion or 11.2% of GDP at the end of last year, compared with the record high nominal figure from the end of 2014 of EUR 8.3 billion or 22% of GDP. The majority of the decline over this period was the result of the resolution of non-performing claims at banks and the stabilisation of the banking system, as the financial crisis was the major factor in the high stock of guarantees five years ago. A potential future increase in guarantees could be driven by investment projects for which guarantees are allowed by law (e.g. roadbuilding on the third axis of development, and a second track for the Divača-Koper railway), and by the coronavirus crisis, the government having already announced measures backed by government guarantees.

Figure 7.4: Spreads on 10-year government bonds as compared to Germany



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

The required yields on 10-year Slovenian government bonds jumped in March as a result of the deterioration in the economy caused by the spread of coronavirus, as was the case in other countries. Having been close to 0.1% during the first two months of this year, they rose to 0.6% in mid-March on account of the increased uncertainty and the expectations of a pronounced fall in economic activity driven by the spread of coronavirus in Italy and then across other European countries, before falling again slightly. They rose again temporarily in April when the new RS84 10-year bonds were issued. The required yields on German government bonds also rose during the peak of the coronavirus crisis, albeit by less, which brought an increase in the spreads over the German benchmarks. The announcement of strongly expansive monetary and fiscal policy measures to support the economy reduced uncertainty on the financial markets, which was followed by a fall in the required yields and the spreads over the German benchmarks, but they remained higher than at the beginning of the year. This effect was also seen in other countries, and was more pronounced in those hit harder by coronavirus, and in those with a relatively high level of government debt

Planned developments in general government balance and debt

The economic situation has deteriorated markedly since the last medium-term budget plans were drawn up, and the fiscal aggregates can therefore be expected to deteriorate significantly this year. The plans for this year, which were drawn up last autumn, envisaged the maintenance of a surplus at roughly the same level as last year, amid forecasts of moderate economic growth. The coronavirus epidemic can be expected to

Box 7.2: Slovenia's response to the coronavirus epidemic

Like other countries facing the same situation, Slovenia has also seen a significant economic policy response to the downturn caused by the coronavirus epidemic.[1] Immediately after the outbreak and spread of coronavirus, measures were taken to provide the requisite medical supplies and to expand healthcare capacity, both in terms of the availability of medical personnel, premises and equipment, and also PPE. The healthcare system is continuing to adapt to the evolving situation. The government also responded by drawing up very extensive countercyclical stimulus measures covering a wide range of areas. The measures aim to preserve jobs and businesses, to provide liquidity, and to alleviate the social impact of the crisis, with the objective of maintaining the economy's potential to reignite activity when the epidemic eases.

Slovenia set out its first package of measures worth around EUR 1 billion on 9 March. The measures focused above all on providing liquidity to firms, as loss of revenue means that they face difficulties in meeting their liabilities. They primarily relate to existing and new credit lines of SID banka and funding from the Slovene Enterprise Fund, and the rescheduling of Regional Development Fund loans. The package also included partial coverage of wage compensation for furloughed workers, which was later significantly modified in light of the magnitude of the crisis. Government guarantees and the possibility of a tax moratorium were also envisaged. The law on emergency measures in public finances delayed the implementation of the budget until a revision of the state budget had been drawn up, and reallocated EUR 400 million of spending rights to a budget reserve intended for measures to curb the coronavirus epidemic and alleviate its impact, including improving the financial position of firms and extending the deadlines for submitting tax obligations.

As the situation worsened, the Act Determining Emergency Measures to Contain the Covid-19 Epidemic and Mitigate its Consequences for Citizens and the Economy was drafted, and was passed by the National Assembly on 2 April 2020. The value of the measures was estimated at EUR 3 billion, or just over 6% of GDP. The measures largely relate to the preservation of jobs, the aim being to preserve the foundations for recovery and economic growth after the end of the crisis, and also to alleviate its social consequences. The measures will be in place from the declaration of the epidemic on 13 March until 31 May 2020, with the option of an extension for a further month if the coronavirus epidemic is not declared over by 15 May. The measures come in several packages, including:

1) <u>measures to preserve jobs, to support the self-employed and to keep firms business operations</u>

   The most important of the measures to preserve jobs is the refunding of wage compensation for workers on waiting scheme and workers absent on the grounds of force majeure, and an exemption from payments of contributions, under which the rights of insured parties and all social security benefits are maintained. For employees who are in work, the pension and disability insurance contribution will be paid by the state. Self-employed workers who are unable to pursue their business activities or whose work has been significantly reduced because of the crisis are entitled to emergency support in the form of a monthly basic income in the amount of EUR 350 for March and EUR 700 for both April and May of 2020. Their social security contributions for April and May are covered by the state. Since the law entered into force, compensation for all sick leave during the epidemic has been covered by the Health Insurance Institute and not the employer.

2) <u>measures to improve firms' liquidity</u>

   The personal income tax prepayment for income from business activities and the corporate income tax prepayment have been deferred. The payment terms for paying private suppliers from public funds have been shortened to eight days.

3) <u>measures to support agriculture</u>

   Farmers are to be supported with the same or proportionately equivalent measures as the rest of the economy, to ensure no disruption to the supply and cultivation of food, as food self-sufficiency is of strategic importance.

4) <u>measures to improve public welfare, and other measures</u>

   Public sector employees whose work entails above-average exposure to health risks or an excessive workload in the epidemic are entitled to a bonus for danger and workload in the maximum amount of 100% of the hourly base wage. The wage of all public functionaries at national level (with certain exceptions) is being reduced by 30% for the period of the epidemic. The rights of workers who are not working because of force majeure have been equalised with those of workers on a waiting scheme. Households are not required to pay for public services that are not being provided during the crisis (e.g. nursery schools). All pensioners with pensions up to EUR 700 will receive a solidarity bonus in April (between EUR 130 and EUR 300 depending on the size of their pension), while students and users of cash social assistance and income support will receive a one-off crisis bonus in the amount of EUR 150. There will also be a higher bonus for large families (EUR 100 or EUR 200 higher). Employees in the private sector who are working and whose most recent wage did not exceed three times the minimum wage will receive a crisis bonus of EUR 200, exempt from taxes and social security contributions.

Under the emergency deferral of borrowers' liabilities act,[2] borrowers who are having difficulties in repaying their loans as a result of the coronavirus epidemic have the right to a moratorium on their liabilities to banks and savings banks. The law entered into force on 29 March 2020, and provides for a moratorium on liabilities from credit agreements for a period of one year. Banks will have to allow all those in difficulty caused by the outbreak of the crisis to defer their repayments, provided that the liabilities from the credit agreement for which the deferral is being requested did not fall due for payment before the declaration of the epidemic. The bank or savings bank will have a government guarantee for the borrowers' liabilities, but the total amount of government guarantees issued will be limited to EUR 200 million.

The government has also announced that proposals are to be collected for setting guidance for the next package of measures. The greatest focus in these should be on providing liquidity for firms to encourage investment and stimulate the economy. The package is expected to also contain special solutions for the tourism sector.

Various resources are available for financing the aforementioned measures. The government borrowed EUR 3.4 billion on the financial markets in March and April by issuing bonds. Funding from EU funds is also available. Numerous measures have been adopted or are under preparation at the European level to support countries in dealing with the present crisis (for more, see Box 1.2). The ECB has adopted a number of measures, while measures are under preparation by the European Commission and Slovenia will take part in this process. Slovenia is also supporting efforts to set up a common European debt instrument for financing the measures related to the crisis caused by coronavirus.

[1] The government declared the coronavirus epidemic in Slovenia on 12 March 2020.
[2] Borrowers include companies, cooperatives, societies, institutes, foundations, individuals who employ workers, self-employed workers, economic operators in agriculture and providers of ancillary activities in agriculture, and individuals who are Slovenian nationals and have permanent residence in Slovenia.

significantly reduce economic activity this year, while the financial impact of the measures taken to support businesses and households (see Box 7.2) means that there will also be a sharp deterioration in fiscal performance. The government's initial forecasts of fiscal aggregates are expected in April, when the Stability Programme is published. Alongside the expectations of a downturn, there is also great uncertainty surrounding current and future developments in the public finances.

The fiscal rules allow for fiscal expansion in adverse economic circumstances. On 17 March 2020 the Fiscal Council issued its assessment that the declaration of the epidemic in Slovenia satisfies the definition of an unusual event outside the control of the state, which allows for exceptional circumstances to be applied to measures to alleviate the epidemic. This allows for a temporary deviation from the medium-term balancing of the public finances, although this cannot be allowed to endanger medium-term fiscal sustainability.[1] European fiscal rules based on the Stability and Growth Pact are also being relaxed. In light of the impact of the epidemic on the whole European economy, on 23 March EU finance ministers approved the use of the general escape clause envisaged by the Stability and Growth Pact for all Member States.

After falling for four years, the ratio of government debt to GDP will increase this year. The general government debt has amounted to around EUR 32 billion in the last few years, but has fallen in ratio to GDP as the economy has grown. This year it will increase both in nominal terms and relative to GDP. Government borrowing this year has already exceeded this year's maturing debt, while the economy is also expected to contract. Slovenia's borrowing terms remain favourable for now, partly thanks to measures taken by the ECB.

[1] Article 12 of the Fiscal Rule Act stipulates that exceptional circumstances may be applied in periods of serious economic downturn or in the case of an unusual event outside the control of the state that has a major impact on the financial position of the government sector, as defined in the Stability and Growth Pact.

8 Statistical Appendix

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

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

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

Table 8.1: Consolidated balance sheet of monetary financial institutions

EUR million	2016	2017	2018	19Q2	19Q3	Dec.19	Jan.20	Feb.20
1.1. Claims of the Bank of Slovenia	6,544	7,143	8,168	7,605	8,292	10,594	10,449	10,273
1.2. Claims of other MFIs	8,100	8,504	8,279	8,689	8,714	8,342	8,709	8,643
1. Claims on foreign sectors (foreign assets)	**14,643**	**15,647**	**16,447**	**16,294**	**17,006**	**18,936**	**19,158**	**18,915**
2.1. Claims of the Bank of Slovenia on central government	4,618	6,247	7,165	7,606	7,791	7,719	7,624	7,744
2.2.1.1. Loans	1,506	1,425	1,174	1,136	1,099	1,048	1,047	1,035
2.2.1.2. Securities	4,767	3,744	3,763	3,922	3,938	3,648	3,362	3,420
2.2.1. Claims on central government	6,273	5,170	4,937	5,058	5,037	4,696	4,410	4,455
2.2.2.1. Loans	579	571	580	577	574	602	613	616
2.2.2.2. Securities	0	0	-	-	-	-	-	-
2.2.2. Claims on other general government	579	571	580	577	574	602	613	616
2.2. Claims of other MFIs on general government	6,852	5,740	5,517	5,635	5,611	5,297	5,022	5,070
2.3.1.1. Loans	9,306	9,311	9,177	9,457	9,540	9,290	9,495	9,573
2.3.1.2. Securities	405	334	319	292	328	299	300	299
2.3.1. Claims on nonfinancial corporations	9,711	9,645	9,497	9,749	9,868	9,589	9,795	9,872
2.3.2. Households and non-profit institutions serving households	9,154	9,735	10,370	10,642	10,833	10,981	10,982	11,005
2.3.3.1. Loans	865	1,171	1,070	1,084	1,074	1,248	1,260	1,260
2.3.3.2. Securities	543	395	432	413	413	412	414	413
2.3.3. Claims on nonmonetary financial institutions	1,408	1,566	1,502	1,496	1,486	1,661	1,674	1,674
2.3. Claims of other MFIs on other non-MFIs	20,272	20,946	21,369	21,887	22,187	22,230	22,451	22,551
2. Claims on domestic non-MFIs	**31,743**	**32,934**	**34,050**	**35,128**	**35,589**	**35,246**	**35,097**	**35,364**
3. Remaining assets	**2,192**	**1,461**	**1,477**	**1,656**	**1,653**	**1,620**	**1,659**	**1,647**
Total assets	**48,578**	**50,042**	**51,974**	**53,078**	**54,248**	**55,802**	**55,914**	**55,927**
1.1. Bank of Slovenia	1,267	1,506	63	127	144	134	122	109
1.2. Other MFIs	5,094	4,436	3,986	4,155	4,094	4,342	4,205	4,383
1. Obligations to foreign sectors (foreign liabilities)	**6,362**	**5,943**	**4,049**	**4,282**	**4,237**	**4,476**	**4,327**	**4,492**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,160	5,371	5,655	5,604	5,669	5,847	5,766	5,775
2.1.1.2. Overnight deposits at other MFIs	15,471	17,727	19,877	20,570	21,131	21,699	21,666	21,715
2.1.1.3.1. Non-monetary financial institutions	69	11	76	374	315	296	318	294
2.1.1.3.2. Other government sector	62	107	100	109	124	111	126	127
2.1.1.3. Overnight deposits at the Bank of Slovenia	131	118	176	483	439	407	445	421
2.1.1. Banknotes and coins and overnight liabilities	20,761	23,216	25,708	26,657	27,239	27,953	27,877	27,912
2.1.2.1. Deposits at the Bank of Slovenia	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	6,864	6,127	5,727	5,718	5,658	5,697	5,581	5,709
2.1.2. Time deposits	6,864	6,127	5,727	5,718	5,658	5,697	5,581	5,709
2.1.3. Deposits reedemable at notice up to 3 months	464	473	492	675	650	541	631	563
2.1. Banknotes and coins and deposits up to 2 years	28,089	29,816	31,927	33,050	33,548	34,190	34,090	34,183
2.2. Debt securities, units/shares of money market funds and repos	102	55	78	59	56	55	55	60
2. Banknotes and coins and instruments up to 2 years	**28,190**	**29,871**	**32,006**	**33,109**	**33,603**	**34,246**	**34,144**	**34,243**
3. Long-tern financial obligations to non-MFIs	**1,510**	**1,524**	**1,314**	**1,319**	**1,322**	**1,285**	**1,406**	**1,349**
4. Remaining liabilities	**14,100**	**14,035**	**15,675**	**15,725**	**16,512**	**17,192**	**17,341**	**17,004**
5. Excess of inter-MFI liabilities	**-1,584**	**-1,330**	**-1,069**	**-1,357**	**-1,427**	**-1,396**	**-1,305**	**-1,161**
Total liabilities	**48,578**	**50,042**	**51,974**	**53,078**	**54,248**	**55,802**	**55,914**	**55,927**

Table 8.2: Balance sheet of the Bank of Slovenia

EUR million	2016	2017	2018	19Q2	19Q3	Dec.19	Jan.20	Feb.20
1.1. Gold	112	111	115	127	139	138	146	151
1.2. Receivable form IMF	361	338	372	379	386	381	385	387
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	588	233	1,464	613	1,174	3,661	3,506	3,328
1.5. Securities	5,380	6,359	6,114	6,367	6,463	6,271	6,262	6,257
1.6. Other claims	103	103	103	120	130	142	149	150
1. Claims on foreign sectors (foreign assets)	**6,544**	**7,143**	**8,168**	**7,605**	**8,292**	**10,594**	**10,449**	**10,273**
2.1. Claims on central government	4,618	6,247	7,165	7,606	7,791	7,719	7,624	7,744
2.2.1. Loans	714	1,142	1,102	1,052	982	995	995	995
2.2.2. Other claims	99	98	3	3	51	51	50	51
2.2. Claims on domestic monetary sector	813	1,240	1,105	1,055	1,032	1,046	1,045	1,046
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**5,433**	**7,489**	**8,271**	**8,663**	**8,825**	**8,767**	**8,672**	**8,792**
3. Remaining assets	**973**	**279**	**314**	**372**	**343**	**356**	**368**	**376**
Total assets	**12,950**	**14,911**	**16,753**	**16,640**	**17,461**	**19,717**	**19,489**	**19,440**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,160**	**5,371**	**5,655**	**5,604**	**5,669**	**5,847**	**5,766**	**5,775**
2.1.1.1.1. Overnight	2,252	2,939	3,391	3,056	2,990	4,348	4,131	3,871
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,252	2,939	3,391	3,056	2,990	4,348	4,131	3,871
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,252	2,939	3,391	3,056	2,990	4,348	4,131	3,871
2.1.2.1.1. Overnight	1,949	2,521	3,704	2,107	2,312	3,120	2,708	2,679
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,949	2,521	3,704	2,107	2,312	3,120	2,708	2,679
2.1.2.2. Foreign currency	78	56	5	5	5	6	7	6
2.1.2. General government	2,027	2,577	3,708	2,111	2,317	3,126	2,714	2,685
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	69	11	76	374	315	296	318	294
2.1.3. Other domestic sectors	69	11	76	374	315	296	318	294
2.1. Domestic sectors	4,348	5,527	7,176	5,541	5,621	7,770	7,163	6,850
2.2. Foreign sectors	1,267	1,506	63	127	144	134	122	109
2. Deposits	**5,615**	**7,033**	**7,238**	**5,667**	**5,765**	**7,904**	**7,285**	**6,959**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**256**	**262**	**264**	**270**	**266**	**269**	**270**
5. Capital and reserves	**1,748**	**1,883**	**1,945**	**2,733**	**3,021**	**2,727**	**3,050**	**3,194**
6. Remaining liabilities	**152**	**367**	**1,653**	**2,371**	**2,736**	**2,972**	**3,119**	**3,242**
Total liabilities	**12,950**	**14,911**	**16,753**	**16,640**	**17,461**	**19,717**	**19,489**	**19,440**

Table 8.3: Balance sheet of other monetary financial institutions

EUR million	2016	2017	2018	19Q2	19Q3	Dec.19	Jan.20	Feb.20
1.1.1. Cash	322	355	425	364	397	432	388	366
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,252	2,939	3,391	3,056	2,990	4,348	4,131	3,871
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	2,574	3,294	3,817	3,419	3,387	4,780	4,519	4,237
1.2.1. Loans	1,061	873	865	848	811	788	720	716
1.2.2. Debt securities	256	71	18	97	93	94	97	97
1.2.3. Shares and other equity	2	2	1	0	0	0	455	454
1.2. Claims on other MFI's	1,319	947	883	946	904	882	1,272	1,267
1.3.1. Loans	21,410	22,213	22,371	22,896	23,120	23,168	23,397	23,489
1.3.2. Debt securities	5,030	3,775	3,797	3,917	3,969	3,674	3,389	3,447
1.3.3. Shares and other equity	685	698	717	710	710	685	687	685
1.3. Claims on nonmonetry sectors	27,125	26,687	26,885	27,522	27,798	27,527	27,473	27,621
1. Claims on domestic sectors (domestic assets)	**31,018**	**30,927**	**31,585**	**31,887**	**32,090**	**33,188**	**33,264**	**33,125**
2.1.1. Cash	38	35	35	52	45	40	40	40
2.1.2. Loans	2,628	2,154	1,681	1,998	2,022	1,640	1,940	1,955
2.1.3. Debt securities	1,165	1,333	1,311	1,392	1,361	1,312	1,298	1,305
2.1.4 Shares and other equity	567	579	578	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,398	4,100	3,605	4,020	4,006	3,570	3,856	3,879
2.2.1. Loans	1,155	899	1,023	1,129	1,180	1,103	1,114	1,140
2.2.2. Debt securities	2,151	3,190	3,346	3,240	3,226	3,364	3,434	3,318
2.2.3. Shares and other equity	396	314	305	300	302	305	305	306
2.2. Claims on foreign nonmonetary sectors	3,701	4,404	4,674	4,669	4,707	4,772	4,853	4,764
2. Claims on foreign sectors (foreign assets)	**8,100**	**8,504**	**8,279**	**8,689**	**8,714**	**8,342**	**8,709**	**8,643**
3. Remaining assets	**1,074**	**1,015**	**762**	**1,248**	**1,252**	**1,136**	**1,193**	**1,166**
Total assets	**40,191**	**40,447**	**40,626**	**41,824**	**42,056**	**42,666**	**43,166**	**42,933**
1.1.1. Deposits, loans from the Bank of Slovenia	714	1,142	1,102	1,052	982	995	995	995
1.1.2. Deposits, loans from other MFIs	1,123	962	931	977	925	917	848	856
1.1.3. Debt securities issued	18	12	-	15	15	16	16	15
1.1. Laibilities to monetary sectors	1,855	2,115	2,033	2,043	1,921	1,928	1,859	1,866
1.2.1.1. Overnight	15,038	17,287	19,396	20,022	20,592	21,191	21,153	21,196
1.2.1.2. With agreed maturity	9,076	8,125	7,477	7,480	7,372	7,418	7,394	7,459
1.2.1.3. Reedemable at notice	615	548	561	754	739	622	752	684
1.2.1. Deposits in domestic currency	24,729	25,960	27,434	28,257	28,703	29,232	29,299	29,340
1.2.2. Deposits in foreign currency	632	593	626	662	660	613	615	627
1.2.3. Debt securities issued	38	15	15	31	30	68	68	69
1.2. Liabilities to nonmonetary sectors	25,400	26,569	28,075	28,950	29,393	29,913	29,982	30,036
1. Obligations to domestic sectors (domestic liabilities)	**27,254**	**28,683**	**30,108**	**30,993**	**31,315**	**31,840**	**31,841**	**31,902**
2.1.1. Deposits	2,084	1,627	1,550	1,545	1,531	1,282	1,207	1,208
2.1.2. Debt securities issued	710	327	111	310	310	428	428	547
2.1. Liabilities to foreign monetry sectors	2,794	1,954	1,660	1,854	1,841	1,710	1,635	1,755
2.2.1. Deposits	1,738	1,975	1,693	1,626	1,580	1,910	1,901	1,906
2.2.2. Debt securities issued	23	22	22	35	35	85	84	84
2.2. Liabilities to foreign nonmonetary sectors	1,761	1,997	1,715	1,662	1,614	1,994	1,986	1,990
2. Obligations to foreign sectors (foreign liabilities)	**4,555**	**3,952**	**3,375**	**3,516**	**3,455**	**3,704**	**3,620**	**3,745**
3. Capital and reserves	**4,841**	**4,904**	**4,886**	**4,965**	**5,055**	**5,100**	**5,123**	**5,159**
4. Remaining liabilities	**3,540**	**2,908**	**2,256**	**2,350**	**2,231**	**2,022**	**2,582**	**2,127**
Total liabilities	**40,191**	**40,447**	**40,626**	**41,824**	**42,056**	**42,666**	**43,166**	**42,933**

Table 8.4: Interest rates of new loans and deposits in domestic currency to households and nonfinancial corporations

in % on annual level	2015	2016	2017	2018	Dec.19	Jan.19	Feb.19
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.01	7.84	7.85	7.81	7.77	7.75	7.74
Households, extended credit	7.84	7.73	7.75	7.63	7.52	7.51	7.57
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.19	4.23	4.44	4.65	4.60	4.72	4.60
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.64	5.66	5.92	6.04	6.03	6.11	5.98
Loans, households, consumption, over 5 years initial rate fixation	5.28	6.12	6.20	6.29	6.27	6.28	6.10
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.82	3.47	3.69	3.74	3.26	3.24	3.22
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.61	5.27	4.89	5.11	4.37	5.31	5.27
C. loans, households, consumption, over 5 year initial rate fixation	5.58	5.05	5.19	5.06	5.34	5.61	4.94
APRC, Loans to households for consumption	7.42	7.55	7.73	7.64	7.88	7.89	7.77
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.22	2.04	1.99	1.89	1.81	1.82	1.79
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.87	3.58	2.75	3.22	3.15	2.48	2.67
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.16	2.49	2.65	2.74	2.50	2.43	2.33
Loans, households, house purchase, over 10 years initial rate fixation	3.16	2.56	2.91	2.95	2.70	2.70	2.64
C. loans, households, house purchase variabel and up to years initial rate fixation	2.21	2.02	1.99	1.87	1.84	1.82	1.80
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.63	2.12	2.38	3.01	2.48	2.05	2.36
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.04	2.38	2.34	2.56	2.28	2.30	2.24
C. loans, households, house purchase, over 10 years initial rate fixation	3.12	2.53	2.85	2.89	2.69	2.68	2.62
APRC, Loans to households for house purchase	2.85	2.58	2.77	2.75	2.52	2.50	2.50
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.51	3.49	3.58	3.68	3.82	4.47	4.38
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.93	5.28	5.30	4.78	4.85	5.95	5.21
Loans, households, other purposes, over 5 years initial rate fixation	7.79	5.92	5.35	6.73	6.38	7.01	3.88
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	3.45	2.81	2.41	2.22	2.23	2.09	2.03
S.11, extended credit	7.16	6.70	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	3.38	2.74	2.69	2.32	2.30	2.95	2.99
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.50	3.31	2.89	2.50	2.68	2.61	2.73
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.23	4.52	3.98	3.72	3.91	3.90	3.74
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.36	4.57	4.03	4.24	4.70	3.87	3.80
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.87	4.56	3.51	4.16	5.18	3.94	4.39
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	3.34	2.92	2.22	4.25	3.84	4.66	2.84
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.49	2.19	1.89	2.04	1.91	1.57	1.80
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.57	2.49	2.09	2.09	1.98	1.92	2.25
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	3.06	1.21	1.94	1.87	1.81	1.32	3.20
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	-	1.70	-	1.31	1.31	0.95	2.63
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	3.06	1.94	2.57	1.74	1.81	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	2.10	-	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.61	2.23	1.85	1.10	1.06	1.09
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.87	2.35	1.58	1.76	2.81	1.83	2.45
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	1.00	-	-	0.75	0.89	-	1.31
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	-	1.06	1.15	-	0.84	0.97	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.79	1.92	-	1.47	1.77	-	1.41
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	3.56	2.23	1.88	2.04	2.20	-	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.03	0.02	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.28	0.23	0.14	0.17	0.18	0.10	0.04
Deposits, households, agreed maturity over 1 and up to 2 years	0.70	0.44	0.51	0.54	0.29	0.26	0.25
Deposits, households, agreed maturity over 2 years	1.07	0.72	0.69	0.89	0.65	0.68	0.69
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.06	0.05	0.04	0.00	0.01	0.02	0.02
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.57	0.20	0.12	0.19	0.09	0.08	0.04
Deposits, S.11, agreed maturity over 2 years	1.07	0.49	0.26	0.19	0.32	0.27	0.22
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.10	0.02	0.00	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	0.93	0.55	0.52	0.89	0.93	0.96	0.83

Table 8.5: International investment position

EUR million		2016	2017	2018	19Q1	19Q2	19Q3	19Q4
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-11,646**	**-10,421**	**-8,670**	**-8,431**	**-9,057**	**-10,090**	**-9,289**
1	**ASSETS**	**45,352**	**46,563**	**49,244**	**51,274**	**53,082**	**55,200**	**55,741**
1.1	**Direct investment**	**7,767**	**8,328**	**8,780**	**9,262**	**9,166**	**9,280**	**9,459**
1.1.1	Equity	4,149	4,345	4,709	4,752	4,736	4,789	4,824
1.1.2	Debt instruments	3,618	3,984	4,071	4,510	4,430	4,491	4,635
1.2	**Portfolio investment**	**17,632**	**20,649**	**20,611**	**21,505**	**21,807**	**22,319**	**22,512**
1.2.1	Equity and investment fund shares	4,430	5,017	4,842	5,231	5,298	5,567	5,785
1.2.2	Debt securities	13,202	15,632	15,769	16,275	16,509	16,751	16,728
1.3	**Financial derivatives**	**1,086**	**302**	**384**	**293**	**505**	**780**	**769**
1.4	**Other investment**	**18,161**	**16,540**	**18,653**	**19,356**	**20,697**	**21,904**	**22,095**
1.4.1	Other equity	1,195	1,279	1,341	1,391	1,408	1,426	1,437
1.4.2	Currency and deposits	9,296	7,187	8,785	8,834	9,929	11,007	11,691
1.4.3	Loans	2,670	2,391	2,545	2,631	2,948	3,006	2,952
1.4.4	Insurance, pension and standardized guarantee schemes	141	148	141	149	151	153	153
1.4.5	Trade credit and advances	4,202	4,801	5,206	5,702	5,629	5,652	5,259
1.4.6	Other accounts receivable	656	734	636	649	633	660	603
1.5	**Reserve assets**	**705**	**743**	**816**	**858**	**906**	**917**	**905**
1.5.1	Monetary gold	112	111	115	118	127	139	138
1.5.2	Special drawing rights	207	235	242	246	243	249	246
1.5.3	Reserve position in the IMF	154	103	131	125	136	138	136
1.5.4	Other reserve assets	232	294	329	369	400	390	385
2	**LIABILITIES**	**56,998**	**56,984**	**57,913**	**59,705**	**62,139**	**65,290**	**65,030**
2.1	**Direct investment**	**14,996**	**16,316**	**17,870**	**18,720**	**18,759**	**19,158**	**19,350**
2.1.1	Equity	11,563	12,590	13,803	14,549	14,709	14,884	15,214
2.1.2	Debt instruments	3,433	3,726	4,067	4,171	4,050	4,274	4,135
2.2	**Portfolio investment**	**21,439**	**21,200**	**20,867**	**21,051**	**21,692**	**22,238**	**21,797**
2.2.1	Equity and investment fund shares	966	1,085	1,751	1,774	1,879	1,798	2,010
2.2.2	Debt securities	20,473	20,115	19,116	19,277	19,813	20,440	19,787
2.3	**Financial derivatives**	**139**	**81**	**217**	**931**	**1,836**	**3,760**	**3,697**
2.4	**Other investment**	**20,424**	**19,388**	**18,960**	**19,004**	**19,852**	**20,134**	**20,186**
2.4.1	Other equity	36	37	44	44	43	43	47
2.4.2	Currency and deposits	3,413	3,747	3,226	3,336	3,765	4,089	4,451
2.4.3	Loans	12,155	10,337	9,986	9,884	10,033	10,052	9,781
2.4.4	Insurance, pension and standardized guarantee schemes	213	219	228	268	289	299	299
2.4.5	Trade credit and advances	3,711	4,161	4,602	4,596	4,704	4,689	4,695
2.4.6	Other accounts payable	620	631	612	609	754	691	647
2.4.7	Special drawing rights	275	256	262	267	264	270	266

Table 8.6: Gross external debt

EUR million		2016	2017	2018	19Q2	19Q3	19Q4	Jan.20
	TOTAL (1+2+3+4+5)	**44,293**	**43,191**	**42,099**	**43,672**	**44,804**	**44,062**	**44,987**
1	**GENERAL GOVERNMENT**	**23,171**	**21,940**	**21,045**	**21,894**	**22,788**	**21,632**	**22,876**
1.1	**Short-term, of that**	**1,522**	**652**	**732**	**883**	**1,137**	**832**	**955**
	Debt securities	22	75	85	66	69	19	34
	Loans	1,058	273	336	432	717	510	619
	Trade credit and advances	42	35	35	45	41	34	34
	Other debt liabilities	400	269	276	341	310	268	268
1.2	**Long-term, of that**	**21,649**	**21,288**	**20,314**	**21,011**	**21,651**	**20,800**	**21,921**
	Debt securities	19,877	19,517	18,602	19,332	19,990	19,171	20,292
	Loans	1,768	1,769	1,709	1,669	1,659	1,625	1,626
2	**CENTRAL BANK**	**2,722**	**3,011**	**2,661**	**3,292**	**3,659**	**4,035**	**4,062**
2.1	**Short-term, of that**	**2,447**	**2,755**	**2,399**	**3,028**	**3,389**	**3,769**	**3,793**
	Currency and deposits	2,447	2,755	2,399	3,028	3,389	3,769	3,793
2.2	**Long-term, of that**	**275**	**256**	**262**	**264**	**270**	**266**	**269**
	Special drawing rights (allocations)	275	256	262	264	270	266	269
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**4,117**	**3,782**	**3,344**	**3,430**	**3,307**	**3,544**	**3,519**
3.1	**Short-term**	**817**	**1,058**	**927**	**993**	**941**	**946**	**947**
	Currency and deposits	578	765	669	621	599	601	602
	Debt securities	...	...	...	...	...	...	...
	Loans	221	200	251	288	297	310	246
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	18	92	7	85	45	35	99
3.2	**Long-term**	**3,300**	**2,724**	**2,418**	**2,436**	**2,366**	**2,598**	**2,573**
	Currency and deposits	387	227	159	116	101	82	81
	Debt securities	287	168	88	187	152	316	314
	Loans	2,620	2,323	2,162	2,131	2,110	2,196	2,176
	Trade credit and advances	5	6	7	1	2	4	1
	Other debt liabilities	1	1	1	1	1	1	1
4	**OTHER SECTORS**	**10,851**	**10,731**	**10,982**	**11,007**	**10,777**	**10,715**	**10,415**
4.1	**Short-term, of that**	**4,250**	**4,596**	**5,182**	**5,348**	**5,262**	**5,354**	**5,099**
	Debt securities	2	0	1	3	3	2	2
	Loans	447	281	375	458	375	445	458
	Trade credit and advances	3,649	4,094	4,540	4,631	4,622	4,637	4,373
	Other debt liabilities	153	220	267	256	263	271	266
4.2	**Long-term, of that**	**6,600**	**6,135**	**5,800**	**5,659**	**5,514**	**5,361**	**5,316**
	Debt securities	284	355	340	226	226	279	279
	Loans	6,041	5,490	5,154	5,057	4,894	4,696	4,638
	Trade credit and advances	16	26	17	17	24	16	28
	Other debt liabilities	259	264	289	359	371	370	371
5	**DIRECT INVESTMENT: intercompany lending**	**3,433**	**3,726**	**4,067**	**4,050**	**4,274**	**4,135**	**4,114**
	NET EXTERNAL DEBT POSITION	**9,803**	**7,572**	**4,131**	**2,557**	**2,199**	**1,179**	**1,135**

Table 8.7: Balance of payments

EUR million	2017	2018	2019	19Q2	19Q3	19Q4	Jan.20
I. Current account	**2,689**	**2,784**	**3,151**	**849**	**787**	**848**	**266**
1. Goods	**1,617**	**1,281**	**1,327**	**433**	**201**	**277**	**148**
1.1. Export of goods	**28,372**	**30,816**	**31,984**	**8,293**	**7,831**	**7,877**	**2,585**
Export f.o.b.	28,265	30,858	33,519	8,590	8,303	8,370	2,984
Coverage adjustment	-141	-299	-1,927	-418	-579	-576	-442
Net export of goods under merchanting	229	237	367	115	98	78	43
Nonmonetary gold	20	21	25	6	9	5	0
1.2. Import of goods	**26,756**	**29,535**	**30,656**	**7,860**	**7,630**	**7,599**	**2,437**
Import c.i.f.	27,606	30,706	34,044	8,708	8,400	8,837	2,776
Coverage adjustment	-114	-363	-2,529	-626	-554	-1,027	-269
Valuation adjustment	-774	-853	-885	-227	-220	-219	-70
Nonmonetary gold	37	45	27	5	4	9	0
2. Services	**2,258**	**2,716**	**3,030**	**747**	**918**	**779**	**208**
2.1. Export of services, of that	**7,305**	**8,001**	**8,559**	**2,100**	**2,437**	**2,224**	**601**
Transport	2,076	2,335	2,434	622	601	611	190
Travel	2,523	2,704	2,753	669	1,041	556	165
Construction services	422	497	600	145	145	169	49
Telecomm., computer and inform. services	544	540	639	155	156	206	47
Other business services	1,248	1,341	1,459	348	330	488	95
2.2. Import of services, of that	**5,047**	**5,285**	**5,529**	**1,352**	**1,519**	**1,445**	**394**
Transport	1,005	1,007	1,071	275	263	277	82
Travel	1,322	1,389	1,383	344	523	270	80
Construction services	126	177	200	46	48	67	14
Telecomm., computer and inform. services	539	543	593	143	142	177	47
Other business services	1,324	1,442	1,539	374	353	457	104
3. Primary income	**-886**	**-807**	**-700**	**-234**	**-206**	**-141**	**2**
3.1. Receipts	**1,374**	**1,592**	**1,563**	**398**	**336**	**412**	**172**
Compensation of employees	378	454	450	108	123	131	30
Investment	703	793	732	195	188	174	58
Other primary income	293	345	382	96	24	107	84
3.2. Expenditure	**2,260**	**2,399**	**2,264**	**632**	**541**	**553**	**170**
Compensation of employees	149	173	197	53	52	50	15
Investment	1,929	2,022	1,856	529	446	447	137
Other primary income	182	204	211	49	43	57	17
4. Secondary income	**-299**	**-406**	**-506**	**-98**	**-126**	**-67**	**-92**
4.1. Receipts	**828**	**789**	**795**	**185**	**201**	**227**	**64**
4.2. Expenditure	**1,127**	**1,196**	**1,301**	**283**	**326**	**294**	**156**

Table 8.8: Balance of payments – continued

EUR million	2017	2018	2019	19Q2	19Q3	19Q4	Jan.20
II. Capital account	**-324**	**-225**	**-169**	**-6**	**-27**	**-115**	**-16**
1. Nonproduced nofinancial assets	-76	-47	-6	39	1	-77	10
2. Capital transfers	-248	-178	-162	-45	-28	-38	-27
III. Financial account	**2,088**	**2,527**	**2,282**	**383**	**558**	**733**	**167**
1. Direct investment	**-495**	**-933**	**-692**	**-130**	**-122**	**1**	**46**
Assets	570	362	533	-86	43	160	123
Equity and reinvested earnings	230	432	78	-16	53	35	16
Debt instruments	340	-70	455	-69	-10	125	107
Liabilities	1,065	1,295	1,224	45	165	159	77
Equity and reinvested earnings	932	1,075	1,392	156	163	330	96
Debt instruments	133	220	-168	-111	2	-171	-19
2. Portfolio investment	**2,987**	**750**	**843**	**-108**	**-107**	**510**	**-858**
Assets	2,848	498	805	47	224	240	-48
Equity and investment fund shares	330	123	104	-8	127	12	62
Debt securities	2,518	375	701	56	97	228	-110
Liabilities	-138	-252	-38	156	331	-270	810
Equity and investment fund shares	39	543	83	99	-1	0	-10
Debt securities	-178	-795	-121	56	332	-270	820
3. Financial derivatives	**-185**	**-86**	**-178**	**5**	**-8**	**9**	**3**
4. Other investment	**-308**	**2,743**	**2,272**	**573**	**828**	**208**	**955**
4.1. Assets	**-1,381**	**2,031**	**3,474**	**1,415**	**1,000**	**357**	**762**
Other equity	72	68	83	15	12	11	-49
Currency and deposits	-2,076	1,590	2,930	1,146	1,082	683	642
Loans	-115	207	420	324	53	-9	16
Insurance, pension and stand. guar. schemes	5	-7	11	1	1	...	...
Trade credits and advances	615	303	68	-61	-146	-294	50
Other assets	118	-130	-38	-10	-3	-34	103
4.2. Liabilities	**-1,073**	**-713**	**1,202**	**842**	**173**	**150**	**-193**
Other equity	20	2	2	-1	0	2	0
Currency and deposits	365	-524	1,217	425	322	360	26
Loans	-1,853	-490	-169	144	55	-259	-17
Insurance, pension and stand. guar. schemes	5	20	62	13	9	...	...
Trade credits and advances	411	331	65	116	-140	87	-262
Other liabilities	-21	-52	27	144	-72	-41	61
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**89**	**52**	**37**	**44**	**-33**	**5**	**22**
IV. Net errors and omissions	**-277**	**-32**	**-700**	**-459**	**-203**	**0**	**-83**

Table 8.9: Non-consolidated financial assets – outstanding amounts

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	189,465	197,532	203,472	203,830	207,347	209,795	214,093	217,616
Monetary gold and SDRs	320	346	349	344	356	364	370	389
Currency and deposits	45,867	46,776	49,233	48,979	51,961	50,933	52,392	54,012
Debt securities	26,146	28,530	28,774	29,130	29,251	29,447	30,493	31,071
Loans	36,087	35,974	36,273	36,431	36,342	36,912	37,529	37,743
Shares	19,358	20,218	21,261	20,829	19,566	19,777	19,688	19,604
Other equity	26,826	29,327	29,784	29,861	32,284	33,011	33,800	34,255
Investment fund shares/units	4,198	4,703	4,838	4,841	4,466	5,064	5,187	5,525
Insurance and pension schemes	7,737	8,003	8,163	8,222	8,073	8,357	8,557	8,646
Other	22,927	23,655	24,795	25,193	25,048	25,929	26,077	26,371
Non-financial corporations								
Total	42,210	45,188	46,363	46,542	47,178	48,388	48,637	48,862
Currency and deposits	6,399	7,107	7,141	7,273	7,528	7,551	7,392	7,803
Debt securities	127	109	121	121	112	107	143	122
Loans	5,536	5,510	5,745	5,599	5,490	5,818	6,100	6,078
Shares	2,665	2,507	2,560	2,480	2,475	2,366	2,346	2,302
Other equity	11,940	13,193	13,138	13,266	13,956	13,930	14,117	14,244
Investment fund shares/units	52	67	63	63	58	199	202	211
Insurance and pension schemes	438	444	473	465	442	469	496	476
Other	15,053	16,251	17,121	17,275	17,117	17,948	17,841	17,625
Monetary financial institutions								
Total	51,932	54,397	55,436	55,178	56,595	56,115	57,545	58,657
Monetary gold and SDRs	320	346	349	344	356	364	370	389
Currency and deposits	8,671	8,067	8,631	7,938	9,327	8,481	8,656	9,090
Debt securities	18,971	21,263	21,557	21,843	21,894	21,897	22,756	23,129
Loans	22,596	23,097	23,152	23,363	23,362	23,647	23,989	24,293
Shares	552	729	748	749	771	772	743	719
Other equity	282	351	406	405	383	375	370	371
Investment fund shares/units	6	5	3	3	3	14	25	35
Insurance and pension schemes	38	40	41	41	41	41	41	41
Other	497	498	549	491	457	525	595	591
Other financial institutions								
Total	17,548	18,151	18,781	18,592	18,414	19,142	19,451	19,726
Currency and deposits	1,256	1,163	1,380	1,252	1,188	1,401	1,454	1,375
Debt securities	6,431	6,520	6,425	6,468	6,601	6,749	6,908	7,119
Loans	2,876	2,859	2,850	2,849	2,864	2,843	2,761	2,717
Shares	3,377	3,688	3,989	3,940	3,684	3,815	3,818	3,873
Other equity	625	686	659	654	857	855	912	909
Investment fund shares/units	2,140	2,354	2,430	2,369	2,208	2,385	2,438	2,608
Insurance and pension schemes	188	199	239	222	204	221	227	224
Other	655	681	809	838	809	873	932	900
General government								
Total	31,350	30,251	31,456	31,491	31,857	31,538	32,871	34,226
Currency and deposits	7,060	6,726	7,332	7,399	8,475	7,427	8,213	8,781
Debt securities	447	416	431	437	421	461	466	484
Loans	4,122	3,467	3,354	3,397	3,398	3,366	3,427	3,404
Shares	9,828	10,230	10,754	10,512	9,527	9,731	9,644	9,586
Other equity	5,563	5,706	5,846	5,758	6,009	6,619	7,082	7,353
Investment fund shares/units	252	296	311	320	297	331	337	372
Insurance and pension schemes	21	16	11	16	23	18	25	26
Other	4,057	3,396	3,417	3,652	3,706	3,584	3,677	4,220
Households and NPISHs								
Total	46,425	49,545	51,435	52,027	53,303	54,612	55,589	56,145
Currency and deposits	22,481	23,713	24,750	25,118	25,441	26,072	26,676	26,962
Debt securities	171	222	241	260	222	234	220	217
Loans	957	1,041	1,171	1,223	1,227	1,239	1,253	1,252
Shares	2,936	3,065	3,209	3,148	3,109	3,092	3,137	3,124
Other equity	8,417	9,391	9,735	9,777	11,080	11,233	11,319	11,377
Investment fund shares/units	1,748	1,981	2,031	2,086	1,900	2,135	2,185	2,299
Insurance and pension schemes	7,053	7,304	7,399	7,478	7,363	7,608	7,766	7,879
Other	2,663	2,830	2,900	2,936	2,960	2,999	3,032	3,035
Rest of the world								
Total	57,783	57,659	57,683	56,993	58,567	59,892	62,246	65,296
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	6,273	6,292	5,159	5,359	5,650	5,676	6,086	6,343
Debt securities	20,889	20,555	20,438	19,744	19,516	19,451	20,113	20,734
Loans	11,806	10,309	10,332	10,419	10,345	10,202	10,405	10,628
Shares	5,160	5,275	5,395	5,459	6,428	6,672	6,826	6,759
Other equity	7,594	8,451	8,755	8,944	9,201	9,439	9,431	9,551
Investment fund shares/units	25	29	30	31	29	32	33	38
Insurance and pension schemes	213	219	266	252	228	268	289	299
Other	5,547	6,274	7,046	6,526	6,906	7,885	8,798	10,675

Table 8.10: Non-consolidated liabilities – outstanding amounts

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	201,939	208,574	213,280	212,582	216,921	218,604	223,416	227,957
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	42,484	45,557	46,580	46,751	48,450	47,370	48,125	48,995
Debt securities	33,513	33,041	33,291	32,595	32,629	32,317	33,775	34,699
Loans	42,949	41,637	41,907	42,217	41,864	42,172	42,628	43,003
Shares	21,359	21,781	22,785	22,308	22,332	22,587	22,611	22,408
Other equity	30,047	33,274	33,985	34,062	36,788	37,687	38,414	38,947
Investment fund shares/units	2,374	2,572	2,611	2,648	2,396	2,629	2,692	2,848
Insurance and pension schemes	7,810	8,074	8,280	8,326	8,161	8,475	8,695	8,792
Other	21,129	22,381	23,580	23,414	24,038	25,098	26,211	27,995
Non-financial corporations								
Total	79,254	82,894	84,881	84,619	87,103	88,105	88,250	88,045
Debt securities	955	1,010	1,060	1,046	977	970	763	759
Loans	23,606	22,825	23,030	23,225	22,661	22,956	23,059	22,963
Shares	12,762	12,810	13,464	13,032	13,174	13,088	13,195	13,028
Other equity	26,625	29,603	30,117	30,288	32,581	33,178	33,355	33,601
Other	15,307	16,646	17,209	17,028	17,710	17,913	17,876	17,693
Monetary financial institutions								
Total	49,882	52,727	53,857	53,671	55,284	54,836	56,364	57,435
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	41,659	44,669	45,734	45,906	47,534	46,483	47,273	48,124
Debt securities	801	377	367	75	148	152	397	393
Loans	199	201	200	211	218	229	217	217
Shares	4,724	4,875	4,896	4,935	4,744	4,812	4,771	4,740
Other equity	1,749	1,896	1,914	1,845	1,957	2,289	2,746	3,035
Investment fund shares/units	99	55	60	65	79	74	61	57
Other	375	397	425	372	340	531	636	599
Other financial institutions								
Total	16,848	17,508	18,380	17,991	17,801	18,533	18,868	19,133
Debt securities	118	113	115	114	113	114	145	146
Loans	2,924	2,664	2,649	2,596	2,558	2,498	2,531	2,570
Shares	2,154	2,463	2,618	2,572	2,682	2,914	2,813	2,806
Other equity	1,137	1,225	1,362	1,321	1,511	1,430	1,515	1,510
Investment fund shares/units	2,275	2,518	2,551	2,583	2,317	2,555	2,631	2,791
Insurance and pension schemes	7,810	8,074	8,280	8,326	8,161	8,475	8,694	8,792
Other	431	449	805	478	459	547	538	516
General government								
Total	43,206	42,055	42,413	42,211	42,551	42,865	45,516	48,616
Currency and deposits	825	888	845	845	916	888	852	868
Debt securities	31,639	31,540	31,749	31,359	31,390	31,081	32,469	33,401
Loans	5,180	4,273	4,010	3,982	4,069	3,993	4,141	4,386
Shares	1,719	1,633	1,807	1,768	1,732	1,774	1,832	1,834
Other equity	537	550	592	607	738	791	798	801
Other	3,306	3,172	3,410	3,648	3,706	4,338	5,423	7,326
Households and NPISHs								
Total	12,748	13,391	13,749	14,091	14,181	14,265	14,417	14,728
Loans	11,039	11,674	12,019	12,203	12,358	12,496	12,679	12,867
Other	1,709	1,716	1,731	1,888	1,823	1,769	1,738	1,861
Rest of the world								
Total	45,309	46,617	47,874	48,241	48,993	51,083	52,923	54,954
Monetary gold and SDRs	319	345	349	343	356	364	370	388
Currency and deposits	9,656	7,512	7,813	7,587	9,161	9,238	10,353	11,359
Debt securities	13,523	16,044	15,921	16,279	16,138	16,582	16,831	17,106
Loans	4,945	4,645	4,697	4,632	4,823	4,942	5,306	5,368
Shares	3,159	3,712	3,872	3,980	3,663	3,862	3,903	3,955
Other equity	4,373	4,504	4,555	4,744	4,697	4,763	4,818	4,859
Investment fund shares/units	1,849	2,159	2,256	2,223	2,099	2,467	2,528	2,715
Insurance and pension schemes	141	148	149	149	141	149	151	153
Other	7,345	7,548	8,261	8,304	7,916	8,716	8,664	9,051

Table 8.11: Net financial assets

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector	-12,473	-11,042	-9,808	-8,752	-9,574	-8,809	-9,323	-10,341
Non-financial corporations	-37,044	-37,706	-38,517	-38,078	-39,925	-39,717	-39,613	-39,183
Monetary financial institutions	2,050	1,670	1,580	1,508	1,311	1,279	1,181	1,223
Other financial institutions	700	643	401	601	613	609	582	593
General government	-11,856	-11,803	-10,957	-10,720	-10,694	-11,327	-12,645	-14,390
Households and NPISHs	33,677	36,155	37,686	37,937	39,121	40,347	41,171	41,417
Rest of the world	12,474	11,042	9,808	8,752	9,574	8,810	9,323	10,341

Table 8.12: Non-consolidated transactions in financial assets – four quarter moving sum of flows

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	-1,577	6,050	6,688	5,997	7,737	4,692	5,085	6,471
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-4,199	1,074	1,899	1,593	5,143	2,626	3,106	4,966
Debt securities	2,866	2,373	1,160	1,077	1,030	1,047	885	546
Loans	-495	652	1,209	1,325	826	1,214	1,727	1,729
Shares	-315	111	236	-58	-863	-1,441	-1,760	-1,536
Other equity	583	223	302	565	532	423	379	204
Investment fund shares/units	11	256	272	184	101	6	40	198
Insurance and pension schemes	138	146	187	165	165	203	249	245
Other	-111	1,171	1,380	1,145	802	612	456	118
Non-financial corporations								
Total	1,010	2,087	2,150	1,939	1,398	1,523	1,250	985
Currency and deposits	575	732	711	654	428	470	255	527
Debt securities	-6	-18	15	16	21	16	14	-7
Loans	-201	-51	135	135	44	196	335	368
Shares	-13	73	27	-15	41	-164	-226	-226
Other equity	438	134	132	283	245	185	267	145
Investment fund shares/units	-28	3	-2	-7	-5	-4	0	4
Insurance and pension schemes	2	6	-18	-19	-8	-6	23	10
Other	244	1,208	1,149	891	632	830	582	166
Monetary financial institutions								
Total	2,542	2,840	2,795	2,120	2,523	1,612	1,500	2,434
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-575	-505	536	224	1,251	230	26	1,135
Debt securities	2,847	2,403	1,230	928	837	660	504	185
Loans	504	947	942	1,005	528	808	1,088	1,174
Shares	-91	-24	-14	-22	-13	-22	-51	-43
Other equity	56	46	101	60	23	16	-62	-62
Investment fund shares/units	-2	-1	-1	0	1	11	22	30
Insurance and pension schemes	0	2	1	0	1	0	0	0
Other	-140	-71	-43	-77	-106	-92	-27	14
Other financial institutions								
Total	-62	94	590	422	272	170	-70	313
Currency and deposits	61	-92	110	93	36	186	46	117
Debt securities	157	10	-41	104	137	298	309	329
Loans	-203	29	122	93	38	25	-48	-47
Shares	-59	44	192	41	-8	-324	-399	-277
Other equity	-35	-9	-12	-6	9	5	48	38
Investment fund shares/units	28	105	146	81	36	-23	-19	103
Insurance and pension schemes	12	11	18	11	4	-5	-12	3
Other	-23	-5	54	3	18	9	5	47
General government								
Total	-6,524	-791	-1,090	-837	1,008	-1,103	-63	507
Currency and deposits	-5,331	-318	-1,044	-869	1,731	-59	866	1,367
Debt securities	-112	-26	-20	26	11	46	33	40
Loans	-647	-315	-152	-74	18	49	251	185
Shares	-57	-39	-39	-127	-929	-933	-1,040	-953
Other equity	-12	-6	2	9	19	55	31	25
Investment fund shares/units	-10	23	23	16	22	6	9	31
Insurance and pension schemes	-1	0	-3	-1	-2	-13	4	-1
Other	-354	-109	143	183	139	-253	-219	-188
Households and NPISHs								
Total	1,457	1,819	2,243	2,353	2,536	2,490	2,467	2,233
Currency and deposits	1,071	1,257	1,585	1,491	1,698	1,799	1,913	1,820
Debt securities	-19	4	-24	4	23	28	26	-1
Loans	51	43	161	165	198	136	100	49
Shares	-93	57	71	65	46	2	-44	-37
Other equity	137	59	78	217	236	163	95	59
Investment fund shares/units	24	126	106	93	47	17	29	30
Insurance and pension schemes	126	127	189	173	170	228	234	234
Other	161	147	77	144	118	118	115	78
Rest of the world								
Total	-1,236	58	-607	-12	518	762	1,541	2,474
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	478	63	68	727	-647	728	923	974
Debt securities	-2,885	45	-1,423	-1,861	-581	-2,256	-1,377	-679
Loans	-346	-1,724	-1,155	-448	-236	-175	-78	48
Shares	687	273	94	314	860	1,323	1,601	1,381
Other equity	875	705	766	820	781	788	636	464
Investment fund shares/units	0	-1	0	1	0	0	0	-1
Insurance and pension schemes	-8	5	42	26	20	33	26	48
Other	-36	692	1,000	408	321	320	-191	239

Table 8.13: Non-consolidated transactions in liabilities – four quarter moving sum of flows

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	-2,506	4,254	4,623	3,879	5,566	2,576	2,905	4,243
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-1,696	3,205	2,766	2,134	2,847	1,864	1,511	2,187
Debt securities	-1,971	-152	-1,305	-1,787	154	-2,007	-1,082	-342
Loans	-753	-973	-27	762	347	600	1,064	1,130
Shares	427	195	151	107	-99	-94	-126	-113
Other equity	1,250	747	910	1,072	944	924	745	563
Investment fund shares/units	-1	29	72	20	5	-33	-7	26
Insurance and pension schemes	120	146	224	189	191	236	275	291
Other	118	1,058	1,832	1,380	1,175	1,087	525	501
Non-financial corporations								
Total	548	1,673	2,208	2,202	1,490	1,628	1,146	707
Debt securities	-227	93	21	11	-12	-31	-268	-263
Loans	-787	-510	-282	-3	-139	-5	287	13
Shares	139	202	135	101	11	15	14	29
Other equity	1,151	710	790	920	825	797	695	560
Other	273	1,179	1,543	1,172	805	853	417	368
Monetary financial institutions								
Total	2,359	2,642	2,362	1,705	2,356	1,424	1,475	2,359
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	2,634	3,127	2,751	2,128	2,824	1,829	1,510	2,168
Debt securities	-339	-418	-306	-316	-229	-228	26	317
Loans	48	1	-2	9	17	28	18	6
Shares	85	-9	15	6	-110	-112	-143	-143
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	43	-44	-14	-14	25	18	14	5
Other	-112	-15	-83	-109	-171	-111	51	6
Other financial institutions								
Total	-159	21	560	257	192	144	-74	334
Debt securities	42	-8	-14	-13	1	1	33	33
Loans	-348	-251	-171	-95	-89	-148	-106	-28
Shares	4	2	0	0	0	2	2	1
Other equity	97	37	120	142	109	117	40	3
Investment fund shares/units	-44	74	86	34	-20	-51	-21	21
Insurance and pension schemes	120	146	224	189	191	237	273	291
Other	-30	22	314	-1	-1	-13	-296	11
General government								
Total	-5,763	-782	-1,283	-1,085	675	-1,381	-385	134
Currency and deposits	-4,330	78	15	6	23	34	1	17
Debt securities	-1,446	181	-1,007	-1,469	395	-1,749	-873	-429
Loans	-93	-908	-294	136	-198	-1	138	411
Shares	200	0	0	0	0	0	0	0
Other equity	2	0	0	10	10	10	10	0
Other	-97	-132	3	232	445	326	339	136
Households and NPISHs								
Total	509	700	777	801	852	760	743	708
Loans	426	696	722	715	755	726	729	728
Other	83	5	55	85	97	34	14	-20
Rest of the world								
Total	-307	1,853	1,458	2,106	2,690	2,877	3,721	4,703
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-2,025	-2,068	-799	186	1,650	1,491	2,518	3,754
Debt securities	1,952	2,570	1,042	1,003	295	798	590	208
Loans	-88	-98	81	115	242	439	585	647
Shares	-55	189	179	149	96	-23	-32	-42
Other equity	208	182	158	313	369	287	271	106
Investment fund shares/units	12	226	200	164	96	40	48	172
Insurance and pension schemes	10	5	5	1	-7	0	0	2
Other	-265	804	548	174	-52	-156	-260	-145

Table 8.14: Net financial transactions – four quarter moving sum of flows

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector	929	1,795	2,065	2,118	2,171	2,116	2,180	2,229
Non-financial corporations	462	414	-58	-263	-92	-106	104	278
Monetary financial institutions	182	198	433	415	166	188	25	75
Other financial institutions	97	73	30	165	80	26	5	-22
General government	-761	-9	193	248	333	278	322	373
Households and NPISHs	948	1,119	1,467	1,553	1,684	1,730	1,724	1,525
Rest of the world	-929	-1,795	-2,065	-2,118	-2,171	-2,116	-2,180	-2,229

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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