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Executive Summary

The outlook for growth in Slovenia's exports in 2017 is favourable. The forecasts for global economic growth remain solid, with improved growth in individual advanced economies and stabilisation in certain major developing countries. Moderate economic growth of around 1.5% is also expected for the euro area in 2017. The latest weighted estimates based on the Consensus forecasts even suggest that aggregate growth in Slovenia's main trading partners will be slightly higher than previously anticipated. The estimate of growth in foreign demand according to the Bank of Slovenia methodology is also favourable, and provides a sound basis for the anticipated stable growth in turnover in Slovenia's export sector. Despite the positive outlook, numerous downside risks remain in the international environment, from changes in the political environment in certain advanced economies, increased social inequality, and mutual sanctions between the EU and Russia, to geopolitical tensions in the Middle East.

Economic growth in Slovenia remains among the highest in the euro area, thanks mainly to the competitiveness of the export sector. Over the last decade this has proven itself capable of increasing market shares even in markets where demand is weak, and accounted for more than 40% of the 2.7% growth in GDP in the third quarter of 2016. Its contribution to growth across the euro area overall was insignificant. Domestic final consumption is also strengthening, with a positive impact on growth in value-added in private-sector services. Households are making a significant contribution to growth in final consumption: their consumption is becoming increasingly balanced in the wake of growth in employment and wages and an increase in consumer loans, consumption of non-durables having begun to grow. Investment in particular remains weak compared with the euro area overall, although the outlook is improving, as corporate investment activity strengthens, which is already being reflected in a decline in corporate financial surpluses. Government investment is also expected to increase in 2017 as the disbursement of EU funds improves. The level of optimism in the economy measured by survey at the end of 2016 was comparable to the level before the outbreak of the crisis at the end of 2008.

The situation on the labour market improved further in the autumn months of 2016, although structural imbalances are also becoming increasingly evident. Employment growth exceeded 2% in the third quarter, primarily as a result of faster growth in employment in private-sector services. Unemployment in November was down 9.8% in year-on-year terms. Employment is also expected to increase in the first half of 2017 according to a number of surveys, although the structural imbalances on the labour market are also increasing: approximately a third of employers are already facing shortages in qualified staff. The rising number of unemployed people aged over 60 is also indicative of structural imbalances. Year-on-year growth in the wage bill has strengthened slightly since August; the increase in growth is primarily evident in the government sector, owing to the withdrawal of austerity measures.

The current account surplus approached 7% of GDP in October, despite growth in domestic demand. This was attributable to rapid growth in exports of various types of services, weaker growth in residents' expenditure on travel in the rest of the world, and a narrower deficit in income from equity and from investments in securities. The merchandise trade surplus began narrowing slowly after May, as nominal growth in imports began outpacing growth in exports, primarily as a result of the rapid growth in imports of consumer goods that has accompanied the increase in private consumption.

Although the fiscal position is improving, diligence is required in controlling growth in general government expenditure. The general government deficit over the first three quarters of 2016 was estimated at 1.4% of GDP, while the target for *the whole year is 2.2% of GDP. Despite the slowdown in the disbursement of funding from EU funds, there was a moderate increase in revenues, as increases in household consumption, employment and corporate earnings brought a rise in tax revenues. Fiscal cash registers also had a beneficial impact. The decline in general government expenditure on account of a sharp reduction in investment was also related to the decline in the disbursement of EU funds. The main contrasting fiscal development was the relatively high growth in employee compensation as a result of the gradual relaxation of austerity measures, which will continue in 2017 and 2018. Recent months have also seen a sharp increase in pressure from various interest groups to raise general government expenditure, which could make it harder to meet fiscal targets should the economic situation be worse than current expectations suggest.*

Deflation diminished through 2016. Prices as measured by the HICP fell by 0.2% overall, compared with 0.8% in the previous year. Price developments in the early part of the year were primarily subject to January's oil price shock, although the core inflation indicators also remained low at the same time, despite growth in the wage bill and private consumption. A favourable holiday season then pushed growth in services prices in the middle of the year, which brought a significant rise in headline inflation and core inflation. Towards the end of the year growth in services prices slowed slightly, while energy prices stabilised as a result of a base effect and growth in oil prices. Headline inflation stood at 0.6% in December.

Main macroeconomic indicators

	2013	2014	2015	16Q1	16Q2	16Q3	2013	2014	2015	16Q1	16Q2	16Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	-1.1	3.1	2.3	2.3	2.8	2.7	-0.3	1.2	2.0	1.7	2.3	1.5
- industry	-0.1	4.5	1.5	4.7	6.8	5.7	-0.7	2.3	4.1	1.2	2.9	0.8
- construction	-8.7	9.2	-1.3	-18.2	-13.2	-9.6	-3.6	-1.1	-0.2	1.2	2.4	2.0
- mainly public sector services	-1.1	0.1	1.0	1.6	1.8	2.1	0.2	0.5	1.0	1.1	1.3	1.2
- mainly private sector services	-0.7	4.7	2.5	2.4	3.3	2.5	-0.2	1.3	2.1	1.5	2.4	1.5
Domestic expenditure	-2.0	1.8	1.4	1.4	2.7	1.8	-0.6	1.2	1.8	2.1	2.6	1.6
- general government	-2.1	-1.2	2.4	3.3	2.0	1.6	0.3	0.6	1.4	2.1	2.0	2.1
- households and NPISH	-4.0	2.0	0.5	1.6	3.4	2.8	-0.6	0.8	1.8	2.1	2.1	1.6
- gross capital formation	4.3	4.3	2.8	-1.0	1.7	-0.4	-1.7	3.1	2.4	2.3	4.8	1.2
- gross fixed capital formation	3.2	1.4	1.0	-7.7	-3.4	-3.6	-2.5	1.4	3.2	2.2	4.8	2.1
- inventories and valuables, contr. to GDP growth in pp	0.2	0.6	0.4	1.3	1.0	0.6	0.2	0.3	-0.1	0.0	0.0	-0.2
Labour market												
Employment	-1.1	0.4	1.1	1.6	2.0	2.1	-0.6	0.6	1.0	1.4	1.3	1.2
- mainly private sector services	-1.2	0.5	1.2	1.6	2.0	2.1	-0.9	0.4	1.0	1.5	1.4	1.2
- mainly public sector services	-0.6	0.4	0.8	1.5	2.1	2.4	0.3	1.0	0.9	1.0	1.1	1.0
Labour costs per employee	0.5	1.3	1.4	2.6	3.2	1.6	1.5	1.3	1.3	1.3	1.2	1.2
- mainly private sector services	1.6	2.3	1.5	1.8	2.0	0.7	1.5	1.4	1.3	1.3	1.1	1.1
- mainly public sector services	-3.2	-2.0	1.2	2.3	4.0	5.0	1.5	1.1	1.1	1.3	1.3	1.6
Unit labour costs	0.1	-2.0	0.3	1.9	2.1	1.2	1.0	0.7	0.4	1.2	0.3	1.0
- industry	0.8	-0.8	1.1	0.2	-1.6	-1.3	2.0	-0.7	-2.2	1.0	-1.1	1.0
	in %											
LFS unemployment rate	10.1	9.8	9.0	8.9	7.8	7.3	12.0	11.7	10.9	10.7	10.0	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	4.8	6.2	5.2	6.2	6.6	7.4	2.2	2.3	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	0.8	1.4	1.1	1.1	0.4	1.1	0.4	0.0	0.3	-0.4	-0.2	0.0
Real export of goods and services	3.1	5.7	5.6	6.0	7.7	5.4	2.1	4.5	6.5	2.3	3.7	2.0
Real import of goods and services	2.1	4.2	4.6	5.2	8.2	4.5	1.4	4.9	6.4	3.4	4.6	2.2
Financing	*in % of GDP*											
Banking system's balance sheet	128.8	116.6	107.7	104.5	101.9	100.0	297.6	298.1	283.4	286.1	288.3	283.2
Loans to NFCs	45.1	31.5	26.5	25.1	24.1	23.1	42.0	40.2	38.9	38.8	38.6	38.2
Loans to households	22.6	21.4	21.2	21.0	21.1	21.1	51.8	50.6	50.1	49.8	49.7	49.6
Inflation	*in %*											
HICP	1.9	0.4	-0.8	-0.9	-0.4	0.0	1.3	0.4	0.0	0.0	-0.1	0.3
HICP excl. energy, food, alcohol and tobacco	0.9	0.6	0.3	0.3	0.9	0.8	1.1	0.8	0.8	1.0	0.8	0.8
Public finance	*in % of GDP*											
Debt of the general government	71.0	80.9	83.1	83.6	82.4	82.6	91.3	92.0	90.4	91.3	91.2	...
One year net lending/net borrowing of the general government	-15.0	-5.0	-2.7	-2.5	-1.7	-1.5	-3.0	-2.6	-2.1	-1.9	-1.8	...
- interest payment	2.6	3.2	2.9	2.9	3.0	3.0	2.8	2.7	2.4	2.3	2.3	...
- primary balance	-12.5	-1.9	0.3	0.4	1.3	1.5	-0.2	0.1	0.3	0.4	0.5	...
- balance excl. bank recapitalisations	-4.9	-4.1	-2.7	-2.5	-1.7	-1.5						
- primary balance excl. bank recapitalisations	-2.3	-0.9	0.3	0.4	1.3	1.5						

Source: SORS, Eurostat, Bank of Slovenia, ECB, Ministry of Finance.

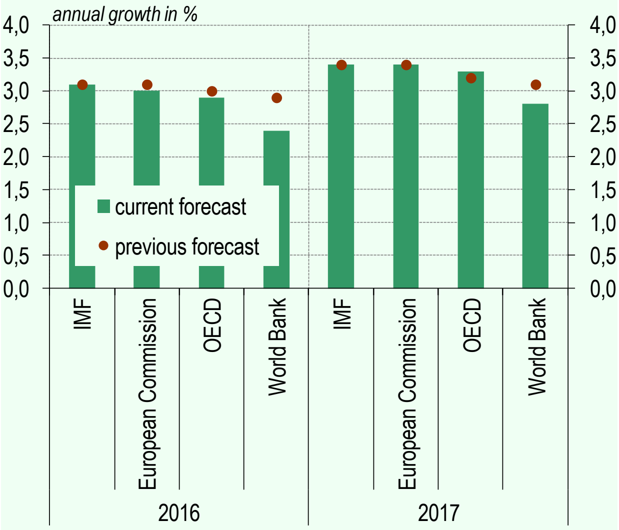
1 International Environment

The forecasts for global economic growth remain solid, in the wake of improved growth in individual advanced economies and stabilisation in developing countries. Economic growth in the euro area in the third quarter was unchanged from the second quarter, while the available figures suggest that growth remained moderate in the final quarter. The outlook for the euro area is relatively favourable: the situation on the labour market is improving, and consumer confidence and economic sentiment are above their long-term averages. At the same time the latest weighted forecasts based on the Consensus forecasts suggest that aggregate growth in Slovenia's main trading partners will be slightly higher in 2017. The monetary policies of the ECB and the Fed became even more divergent in December, the Fed having raised its key interest rate again after waiting a year, while the ECB continued to pursue non-standard measures. The euro fell significantly against the US dollar in December, while oil prices rose.

Global economy

Global economic growth strengthened slightly in the third quarter of 2016, but remained moderate. Real GDP in the US was up 1.7% in year-on-year terms in the third quarter, more than in the second quarter. The rise in economic growth was primarily attributable to private consumption in the wake of the continuing fall in the unemployment rate, which fell by 0.4 percentage points in November in year-on-year terms to stand at 4.6%, the lowest figure since August 2007. Of the BRIC countries, a slowdown in growth was recorded by China, where real GDP over all of the first three quarters of the year was up 6.7% in year-on-year terms, the lowest rate of the last five years. The recessions in Brazil and Russia eased gradually in the first three quarters of the year, while economic growth remained strong in India, at more than 7% in year-on-year terms. Among major global economies, activity gradually increased in the UK and Japan, where GDP growth in the third quarter reached 2.3% and 1.1% respectively, the highest figures since the beginning of 2016. The sources of global economic growth thus remained profoundly dispersed in 2016.

Figure 1.1: Global GDP growth in 2016 and 2017



Source: IMF, European Commission, OECD, World Bank.

According to the latest forecasts by international institutions, global economic growth in 2017 will be higher than in 2016. The international institutions' current forecasts for global GDP growth in 2017 range from 2.8% to 3.4%.[1] The forecasts have been revised slightly

[1] IMF: 3.4%; European Commission: 3.4%; OECD: 3.3%; World Bank: 2.8%.

upwards for individual advanced economies and for the BRIC countries. In November the OECD thus raised its growth forecast for China in 2017 to 6.4%, up 0.2 percentage points on the previous forecast. The OECD also raised its forecast for Brazil, where the contraction in GDP is expected to gradually diminish, while GDP is actually expected to increase slightly in Russia in 2017. Economic growth will continue and will slightly strengthen in the majority of advanced economies in 2017, most notably in the UK, the US and Japan.

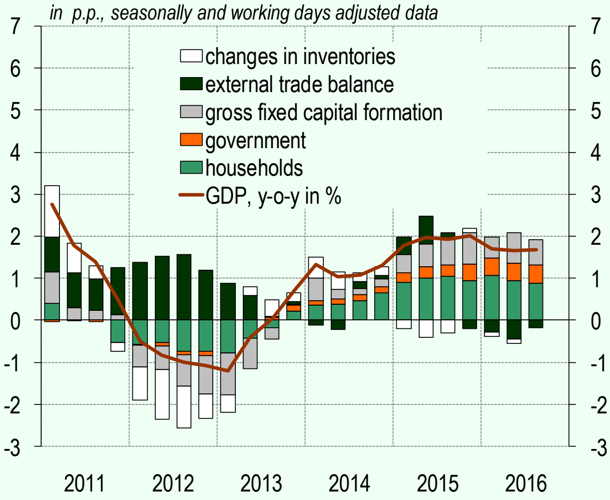
The risks to global economic growth are on the downside. Although the economic sentiment is increasing in many advanced economies, the persistently low rates of growth in the context of rising inequality and stagnating wages are hindering the conditions for economic policies to work. Upsets in the political environment, such as Brexit, the election results in the US and the failed constitutional reform in Italy, are also hindering the pursuit of economic policies. In the EU the effects to date in connection with the UK's exit have been relatively small, but are expected to be larger in 2017. The renewal of sanctions against Russia, certain structural weaknesses in individual euro area countries, and the persistently high proportion of high-risk loans at individual major banks entail economic and financial risks, which could increase in the event of any slowdown in growth in emerging countries and as a result of the normalisation of monetary policy in the US. Geopolitical risks are also high, most notably as a result of instability in Syria and Turkey, and the general uncertainty surrounding terrorism.

Euro area

Economic growth in the euro area remained moderate in the third quarter. GDP was up 0.3% in quarterly terms, the same as in the second quarter, while in year-on-year terms it was up 1.7%, again unchanged from the second quarter. The largest contribution to year-on-year growth adjusted for the season and the number of working days came from growth in private consumption, at 0.9 percentage points, which was driven by growth in employment. Employment in the third quarter was up 0.2% on the second quarter, and up 1.2% in year-on-year terms. Gross fixed capital formation accounted for 0.6 percentage points of GDP growth. Government consumption accounted for 0.4 percentage points, while the contribution made by inventories was neutral, and the contribution made by net exports was slightly negative in the amount of 0.2 percentage points. In terms of sector, the largest contribution to growth was made by services, at 0.9 percentage points, followed by public services and industry, which each contributed 0.2 percentage points, and construction, which contributed 0.1 percentage points.

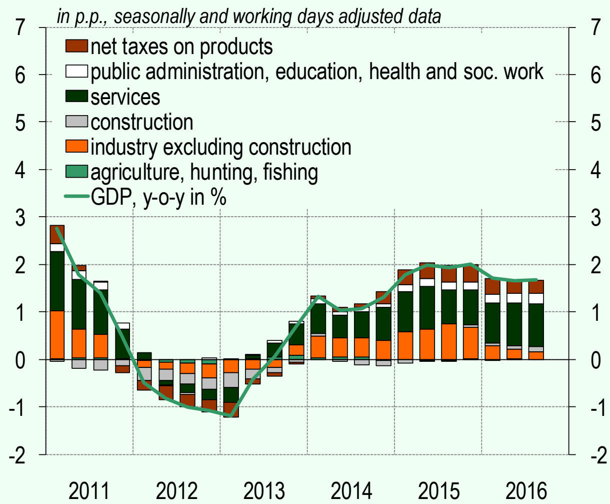
The economic sentiment in the euro area increased significantly in the final quarter of 2016. Year-on-year

Figure 1.2: Structure of GDP growth in the euro area – demand side



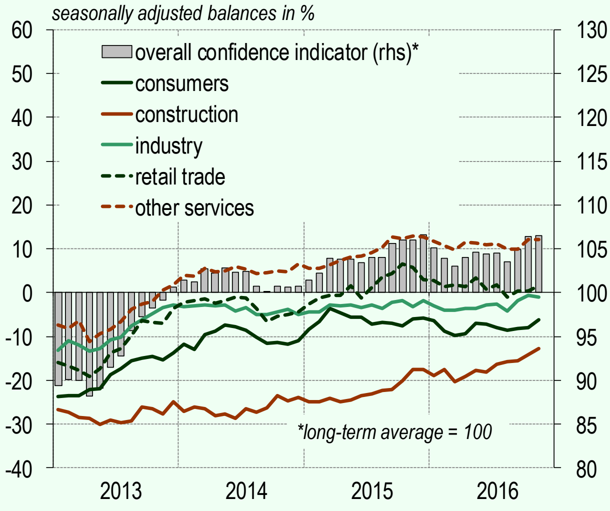
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.3: Structure of GDP growth in the euro area, production side



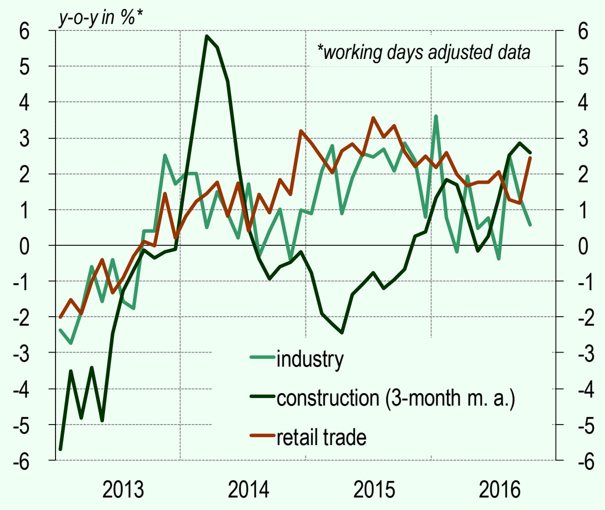
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.4: Confidence indicators – euro area



Source: European Commission.

Figure 1.5: High frequency indicators for euro area



Source: Eurostat, Bank of Slovenia calculations.

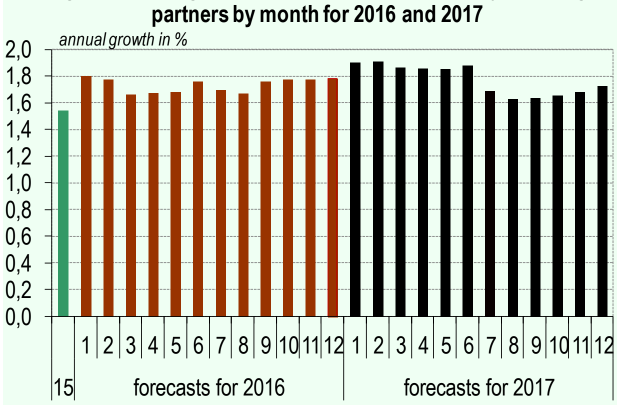
growth in industrial production slowed to just 0.6% in October, while construction activity strengthened, as the amount of construction put in place increased by just under 1% in monthly terms, taking the year-on-year rate of growth to more than 2%. Similar developments were also seen in retail, where turnover in October was up just over 1% on the previous month, and up 2.4% in year-on-year terms. The developments in retail were in line with the situation on the labour market, which is continuing to improve: the harmonised unemployment rate reached 9.8% in October, the lowest figure since July 2009. The economic sentiment has improved significantly: in December it reached its highest value since early 2011. Confidence increased in all segments. Consumer confidence increased sharply in December, to its highest level of the year.

According to certain forecasts, economic growth in the euro area is expected to be slightly lower in 2017 than in 2016. In December Consensus left its economic growth forecast for the euro area in 2016 at 1.6%, unchanged from November, but raised its forecast for 2017 by 0.1 percentage points to 1.4%. In November the European Commission raised its forecast for 2016 to 1.7%, while forecasting GDP growth of 1.5% in 2017. In the assessment of the European Commission, the political uncertainties in the wider global environment and the uncertainty surrounding the exit negotiations with the UK could have a long-lasting impact on economic developments in the euro area and the EU. External factors such as oil prices, which are rising, are forecast to have less impact on economic growth, while the impact of internal factors while increase, most notably domestic consumption in connection with the favourable developments on the labour market in the wake of expansionary monetary policy measures.

Slovenia's trading partners

The weighted economic growth forecast for Slovenia's major trading partners was raised slightly at the end of 2016. Consensus left its economic growth forecasts for Germany and Italy unchanged in December at 1.8% and 0.8% respectively in 2016, and 1.3% and 0.7%

Figure 1.6: Weighted forecasts for Slovenia's major trading partners by month for 2016 and 2017



Note: Includes trading partners with at least 1% share in Slovenia's total exports of goods in the last 12 months with available data (more than 20 trading partners with a total share of around 90 %). Growth estimates for 2016 and 2017 are weighted with each country's share in total exports of goods.
Source: Consensus, Bank of Slovenia calculations.

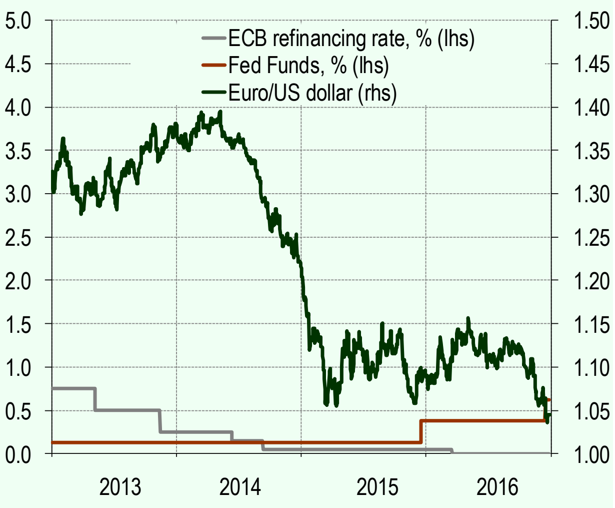
respectively in 2017, while raising its forecasts for Austria by 0.1 percentage points to 1.4% in 2016 and 1.3% in 2017. A slight improvement in economic activity is also expected in Slovenia's major trading partners in south-eastern Europe, and also in Russia, which is slowly emerging from recession, and is expected to record positive growth of just over 1% in 2017. In December Consensus revised its growth forecasts for Croatia upwards by 0.3 percentage points, to 2.7% in 2016 and 2.6% in 2017. The favourable forecasts are attributable to growth in household consumption, while the main factors acting to slow further economic growth in individual countries are internal political risks and geopolitical risks.

Commodity prices and euro exchange rate

The divergence between the monetary policies of the ECB and the Fed widened in the final quarter of 2016, while the euro fell against the US dollar. Having raised its key interest rate in December 2015 for the first time since 2006, the Fed raised it again in December 2016, by 0.25 percentage points to a band of 0.5% to 0.75%. The rise was attributable to increased economic growth in the third quarter and the favourable figures from the labour market, the unemployment rate having fallen in November to its lowest level since the second half of 2007. In contrast to the normalisation of monetary policy in the US, the ECB left its key interest rates unchanged in December: the rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at zero, 0.25% and -0.40% respectively. With regard to the non-standard monetary policy measures, monthly securities purchases will remain at the current level of EUR 80 billion until the end of March 2017, before being reduced to EUR 60 billion from April 2017 until the end of December 2017, or longer until inflation approaches its target rate. The continuation of the very relaxed monetary policy by the ECB on one hand and the gradual normalisation of monetary policy in the US on the other is also having an impact on the euro exchange rate against the US dollar. The euro exchange rate against the US dollar has fluctuated around USD 1.10 since the beginning of 2015, but fell to an average of USD 1.05 in December.

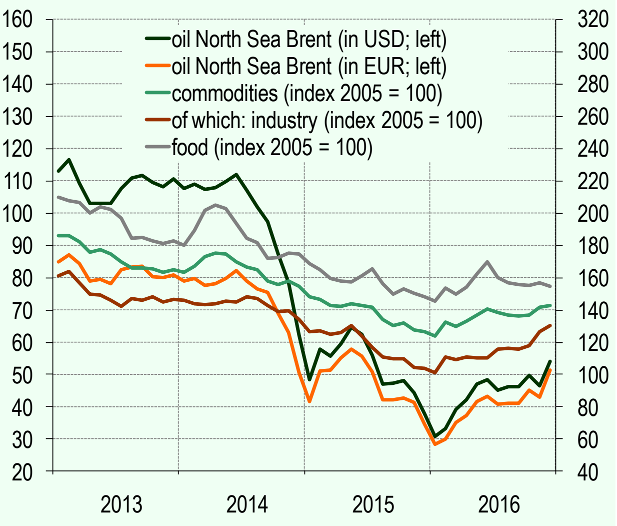
Oil prices rose significantly in December. Having stood at just USD 30.8 in January, the price of a barrel of Brent crude rose over the year, reaching an average of USD 46.4 in November. As a result of an agreement by Opec members to reduce pumping from the beginning of 2017, and in the wake of strengthened expectations with regard to global economic activity, the price rose significantly in December to average USD 54.1, up 43% in year-on-year terms. Other commodity prices also rose significantly in 2016 after falling sharply in 2015. Commodity prices in December were up 13% in year-on-year terms, as industrial commodity prices rose by just over a quarter and food prices by 4.4%.

Figure 1.7: Euro/US dollar exchange rate and central bank interest rates



Sources: ECB, Federal Reserve.

Figures 1.8: Commodities



Source: The Economist, Bloomberg, Bank of Slovenia calcuations.

International capital markets

The main factors affecting developments on global stock markets in the autumn months were the elections in the US and speculation about the continuation of expansionary monetary policy in Europe. Fears that there would be a major correction on stock markets if the Republican candidate were to win proved excessive. After Mr Trump's victory in the presidential election, stock market indices in the US reached new record levels. The S&P 500, the US's representative index, stood at 4501.3 points in November, up 4.1% on the previous month and up 10% in year-on-year terms. The representative stock market index for western Europe (the SXXE) stood at 327.4 points in November, down 5.1% on the previous month and down 10.5% in year-on-year terms. The increasing divergence between developments in the two stock market indices is attributable to the differing monetary policies of the respective central banks, and the different outlooks with regard to ongoing economic activity and the related projected inflationary pressures.

Figure 1.9: Stock exchange indices

Source: Bloomberg.

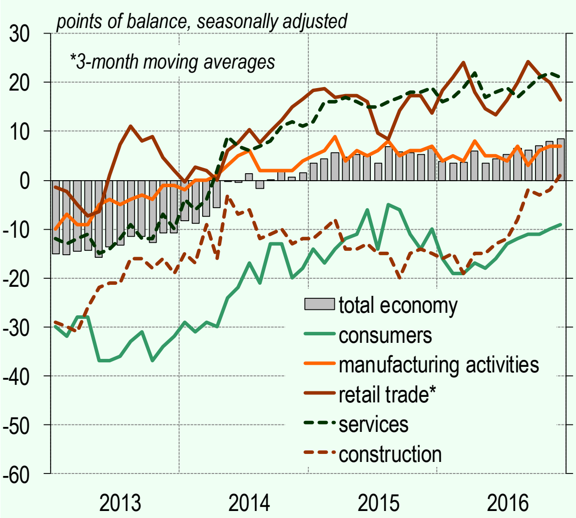
2 Economic Developments

Economic growth in Slovenia remains among the highest in the euro area, thanks mainly to the competitiveness of the export sector. The contribution made to GDP growth by industry sharply exceeds that across the euro area, and is being reflected in solid growth in merchandise exports. Domestic final consumption is also strengthening, with a positive impact on growth in value-added in private-sector services. Households are making a more significant contribution to growth in final consumption: their consumption is becoming increasingly balanced in the wake of growth in employment and wages. Government final consumption increased again in the third quarter, although the rate of growth is declining as a result of a decline in the costs related to flows of refugees. Investment, in particular, and thus construction activity remain weak compared with the euro area overall, although the outlook is improving, as private-sector investment activity strengthens. Economic performance was also good at the close of 2016, at least in terms of the economic sentiment, which is now comparable to the level before the outbreak of the crisis at the end of 2008. The outlook for the first quarter of 2017 is good, as firms are mostly raising their assessments of demand expectations at home and in the rest of the world.

Confidence indicators

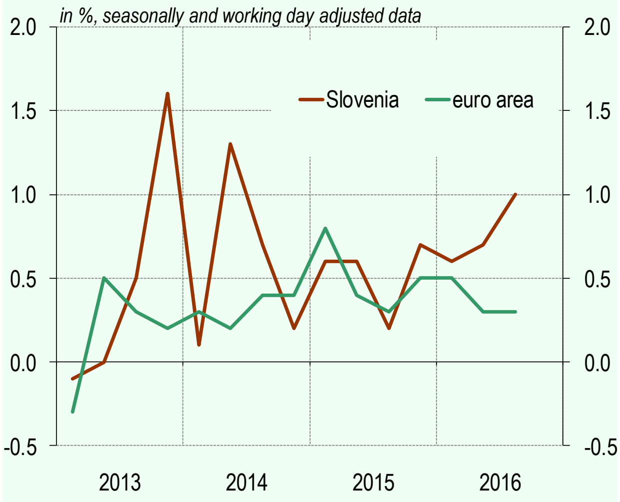
The economic sentiment improved further in the final quarter of 2016, reaching its highest level since the second quarter of 2008. Firms in all sectors were more optimistic than in the third quarter, with the exception of retail, where confidence nevertheless remained high. According to figures from the SURS survey, orders in the manufacturing sector rose towards the end of the year both domestically and in the rest of the world, and firms accordingly raised their assessments of demand expectations in the following quarter. The indicator of manufacturing output expectations in December was at its highest level since August. Firms in private-sector services (other than retail) were also optimistic at the end of the year in their estimates of current demand and demand expectations, and described their business position as the most favourable since 2008. The construction confidence indicator was positive in December for the first time since September 2008, and firms are expecting significant growth in orders. Consumer confidence also improved significantly in the second half of 2016.

Figure 2.1: Confidence indicators



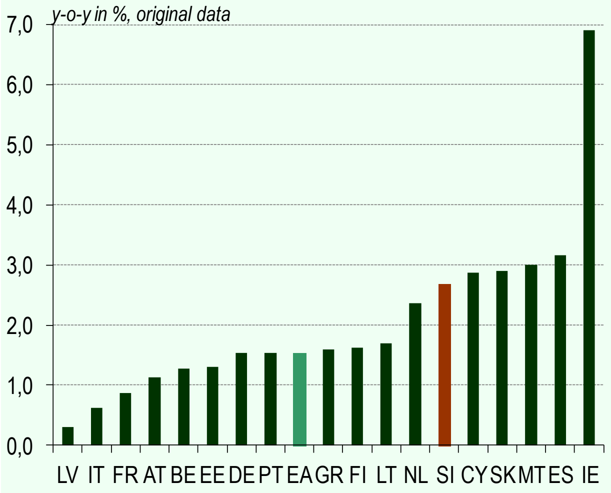
Source: SORS, Bank of Slovenia calculations.

Figure 2.2: Quarter-on-quarter GDP growth rates in Slovenia and the euro area



Source: Eurostat.

Figure 2.3: GDP growth in third quarter of 2016 by euro area members



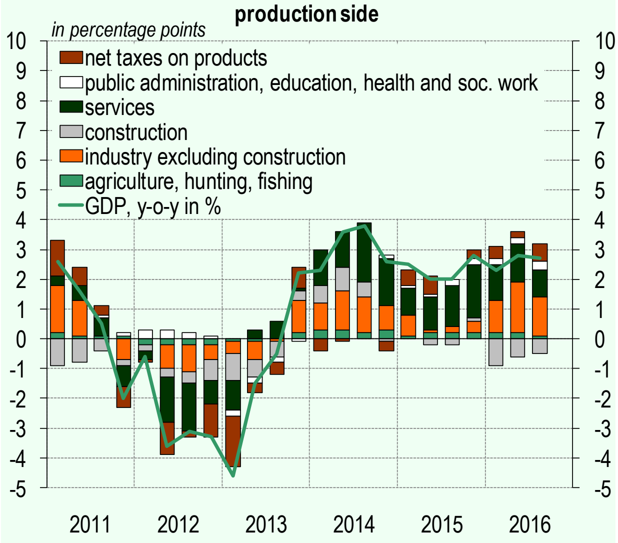
Source: Eurostat.

GDP

Quarterly economic growth in the third quarter was slightly higher than expected on the basis of the monthly activity and confidence indicators. GDP was up 1% on the second quarter, the fastest quarterly growth of the last two years. The increase had a broad foundation as it was based on higher growth in value-added in manufacturing and private-sector services. Net taxes on products also increased sharply. The outperformance of average economic growth across the euro area thus strengthened from 0.4 percentage points in the second quarter to 0.7 percentage points in the third quarter.

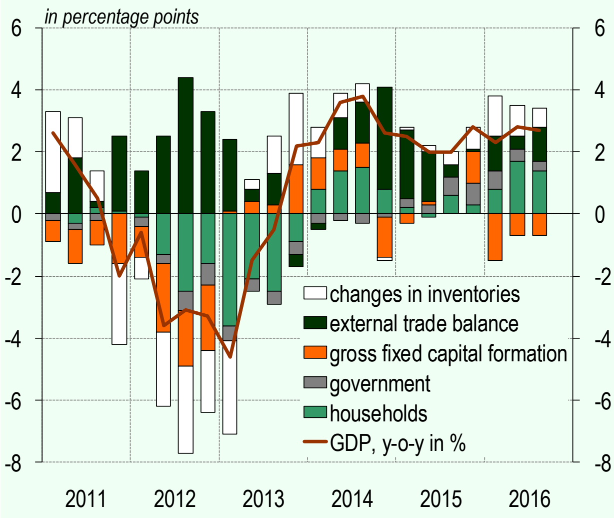
The year-on-year rate of growth in GDP was one of the highest in the euro area, primarily as a result of high growth in value-added in industry. Economic activity in the third quarter was up 2.7% in year-on-year terms, 1.2 percentage points more than the average across the euro area. According to non-adjusted data, the contribution made by industry amounted to 1.3 percentage points, compared with just 0.1 percentage points across the euro area. Growth in value-added in industry slowed slightly as a result of slower growth in turnover in the euro area, while turnover in markets with other currencies remained high, at almost 15%. Growth in industrial production remains broadly based: it is continuing to rise in the vast majority of the major segments of manufacturing.

Figure 2.4: Contributions to y-o-y GDP growth, production side



Source: SORS.

Figure 2.5: Contributions to y-o-y GDP growth, expenditure side



Source: SORS.

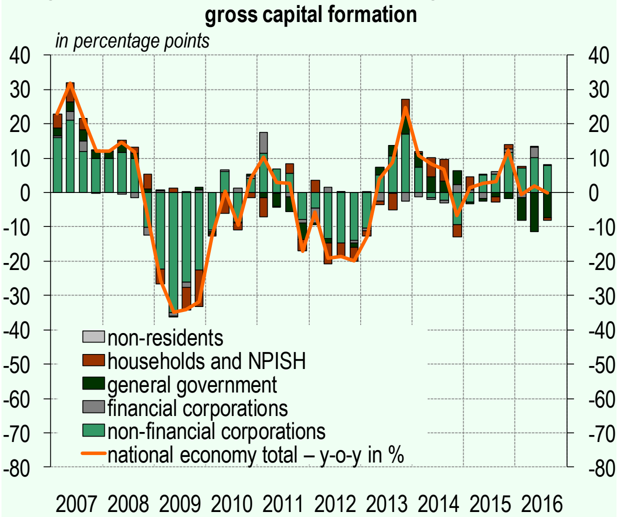
Services are also continuing to strengthen, while construction remains the sole sector making a negative contribution to GDP growth. Year-on-year growth in value-added in private-sector services slowed in the third quarter, its contribution to GDP growth declining to 0.9 percentage points from 1.3 percentage points in the second quarter. However, the slowdown was mostly the result of a base effect, as final consumption on the domestic market strengthened again, and growth in exports of services also strengthened. Thanks to employment growth in the government sector and an increasing role for private providers of public services, the contribution made to GDP growth by public services remains positive and stable at between 0.2 and 0.3 percentage points.[2] Construction thus remains the sole sector making a negative contribution to economic growth, which amounted to 0.5 percentage points in the third quarter. This remains attributable to the decline in government investment. The outlook in construction is nevertheless positive, with private demand for construction services growing, which is evident from the sharp rise in the number of newly issued building permits and the increasing value of new contracts for the construction of residential and non-residential buildings.

Aggregate demand

Household final consumption is becoming the main engine of domestic demand. Year-on-year growth in aggregate domestic demand in the third quarter stood at 1.8%, down 0.9 percentage points on the second quarter, much of which was attributable to a smaller contribution by inventories. Growth in household final consumption according to national concept of the national accounts[3] slowed, but remained high at 2.6%. It accounted for almost half of GDP growth, and was down just 2% on its peak in 2011. As confidence improves and disposable income increases, household consumption is becoming more balanced: after almost three years of growth in expenditure on durables, in 2016 households began significantly increasing their purchases of other goods. Growth in government spending slowed, from 3.3% in the first quarter to 1.6% in the third quarter. This was primarily attributable to a decline in the costs related to flows of refugees. The contribution to GDP growth made by aggregate final consumption stood at 1.7 percentage points in the third quarter, slightly higher than the average across the euro area.

Gross investment is continuing to put a brake on GDP growth, as a result of lower government investment. Nominal government investment in the third quarter was down more than 30% in year-on-year terms, as a result of the slow changeover to the disbursement of funds from the new European financial framework. At the same time corporate investment is strengthening via financial surpluses, in the wake of a stable economic situation, while the outlook for growth in turnover on the do-

Figure 2.6: Sectoral contributions to overall growth in nominal gross capital formation

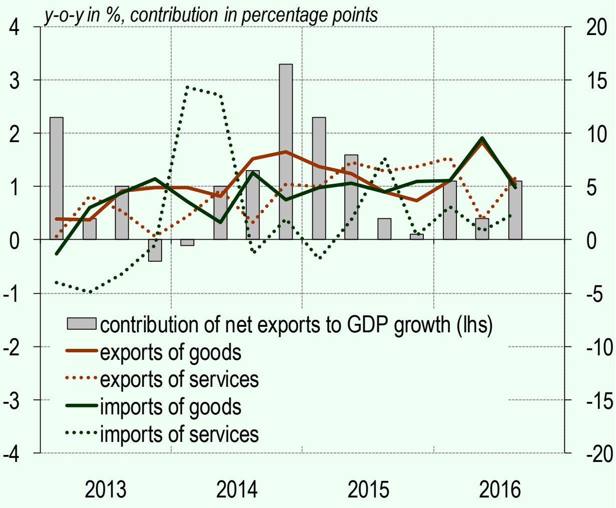


Source: SORS – non-financial sectoral accounts, Bank of Slovenia calculations.

[2] Growth in employment in public administration and defence, compulsory social security, education, and human health and social work activities (Sectors O, P and Q) has in recent years been stronger than in the government sector, which is probably a sign of the increased involvement in public services by private firms. The gap between the rise in employment in Sectors O, P and Q and that in the government sector as a whole amounted to 15,800 in the third quarter, the largest figure to date.

[3] Growth in non-residents' spending in Slovenia in the third quarter was stronger than growth in residents' spending in the rest of the world, which is reducing growth in household final consumption according to national concept of the national accounts. Non-residents' spending in Slovenia is deducted from consumption on the domestic market, while residents' spending in the rest of the world is added. The result is residents' consumption, which is a component of expenditure breakdown of GDP.

Figure 2.7: Foreign trade



Source: SORS - national accounts.

mestic and foreign markets is also favourable. Nominal corporate investment in the third quarter was up more than 14% in year-on-year terms, which did not entirely compensate for the decline in government investment. Investment reduced real GDP growth by 0.7 percentage points in the third quarter, while across the euro area its contribution was positive in the amount of 0.4 percentage points.

Although the impact of aggregate domestic demand is prevalent, net trade remains a strong factor in economic growth. Growth in merchandise exports slowed to just over 5% in the third quarter, in line with the manufacturing export orders indicator. Growth in exports of services increased as a result of the good holiday season. Growth in merchandise imports slowed as a result of a slower growth in imports of capital goods, while growth in imports of services remained low owing to weak growth in expenditure by residents on travel in the rest of the world. Net trade thus accounted for 40% of GDP growth in the third quarter, or 1.1 percentage points.

Economic developments in the third quarter

Domestic final consumption strengthened again in the final quarter of 2016. Consumers sharply increased their purchases of a wide range of products in October and November, as real year-on-year growth in retail turnover reached around 10%. Sales of cars continued to strengthen sharply. A major factor in the strengthening of consumption on domestic market was the increase in the

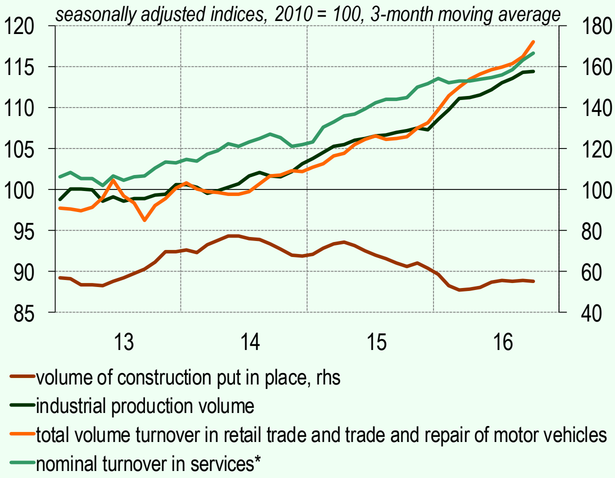
Table 2.1: Economic activity

	12 months to Oct.15	*12 months to Oct.16*	*2016 Aug.*	*2016 Sep.*	*2016 Oct.*	*2016 Jul.*	*2016 Oct.*
			y-o-y in %			***monthly ++***	
Industrial production: - total *	4.8	5.8	6.3	7.5	6.6	1.6	*1.2*
- manufacturing	5.8	6.9	8.0	8.3	7.5	1.7	*1.5*
Construction: - total **	-7.7	-17.4	-14.9	-7.4	-12.5	8.7	*-1.1*
- buildings	-4.3	-1.8	1.3	9.4	14.1	9.6	*5.6*
- civil engineering	-9.0	-22.9	-20.9	-13.5	-21.3	5.8	*-4.8*
Trade (volume turnover)							
Total retail trade	0.3	2.2	3.5	2.0	9.5	1.9	*2.5*
Retail trade except automotive fuel	1.3	2.7	4.0	2.7	3.8	-0.2	*1.3*
- food, beverages, tobacco	0.6	-0.8	0.5	0.0	-1.2	-0.9	*0.0*
- non-food (except automotive fuel)	1.7	5.9	7.3	5.7	8.7	0.5	*2.2*
Retail trade and repair of motor vehicles	12.5	20.3	23.2	19.4	23.9	2.1	*4.6*
Private sector services * +**	3.8	4.7	4.5	5.7	4.9	0.7	*2.4*
Transport and storage +	2.7	3.7	3.6	8.4	5.3	0.2	*3.0*

Notes: Data are working days adjusted.
** Volume of industrial production. ** Real value of construction put in place. *** Excluding trade and financial services. + Nominal turnover.*
++: 3-month moving average compared to the corresponding average 3 months earlier. Data are seasonally and working days adjusted (except for construction where data are seasonally adjusted).
Source: SORS, Bank of Slovenia calculations.

number of arrivals and overnight stays by non-resident travellers; turnover in accommodation and food service activities in October was up more than 14% in October. Industrial production in October was down slightly in monthly terms, albeit only temporarily, at least according to the estimates of demand expectations by manufacturing firms. The stalling of the recovery in construction is also temporary in all likelihood, as the demand indicators for construction services rose in the autumn months.

Figure 2.8: Monthly economic activity indicators



*Note: *Private sector services excluding trade and financial services.*
Source: SORS.

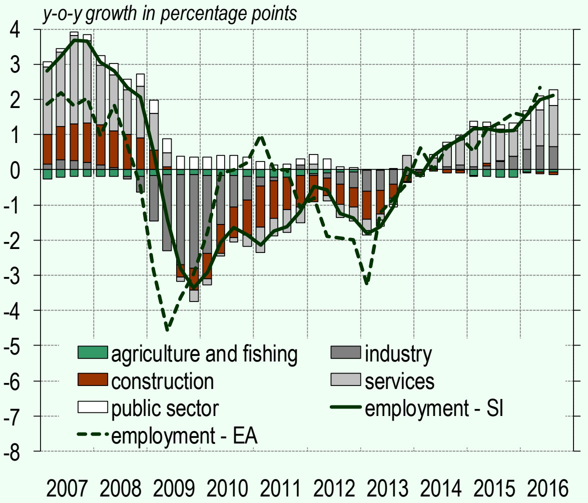
3 Labour Market

The situation on the labour market improved in the autumn months of 2016, and the outlook for the first half of 2017 is also favourable. Employment growth increased to 2.1% in the third quarter, primarily as a result of faster growth in employment in private-sector services. The fall in unemployment also strengthened. Unemployment at the end of November was down 9.8% in year-on-year terms. Both the registered and surveyed unemployment rates are declining as a result, reaching their levels of 2010 in the third quarter of 2016. Surveys of employment expectations also point to further growth in employment in the first half of 2017, although the structural imbalances on the labour market are also increasing: approximately a third of employers are already facing shortages in qualified staff. The rising number of unemployed people aged over 60 is also indicative of structural imbalances. Year-on-year growth in the wage bill has been strengthening since August, with the prevailing increase in growth in mostly public services.

Employment

Employment is growing at an increasing rate both in the private sector and in mostly public services. Year-on-year employment growth stood at 2.1% in the third quarter, again up on the previous quarter.[4] The growth was primarily attributable to the year-on-year rise in the number of employees (2.3%), while the year-on-year rise in the number of self-employed was lower (1.4%), although still above the average of 2014 to 2015. Year-on-year employment growth in the third quarter was again higher in mostly public services[5] (2.4%) than in the private sector (2.1%). The contribution made to overall employment growth by mostly public services is thus also increasing: its average over the first three quarters of the year of 2016 was the highest since 2010. Year-on-year employment growth in the government sector also rose again in the third quarter (by 1.7%). That employment growth in the government sector is lower than overall

Figure 3.1: Contributions to employment growth

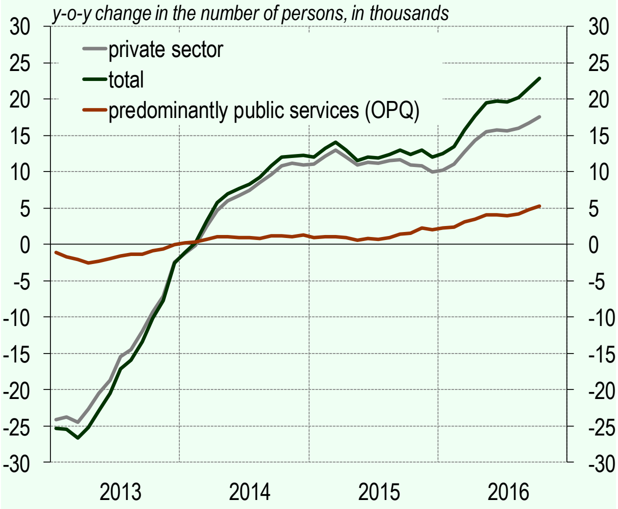


Source: SORS - national accounts; Bank of Slovenia calculations.

[4] The employment analysis uses quarterly national accounts figures. According to the monthly SURS statistics, the average workforce in employment in the third quarter was up 1.6% in year-on-year terms. The discrepancy is the product of the different methodologies used to monitor employment. The national accounts figures for employment include permanent employees, self-employed and assisting family members in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The monthly figures only count employees with employment contracts and the self-employed in the workforce in employment.

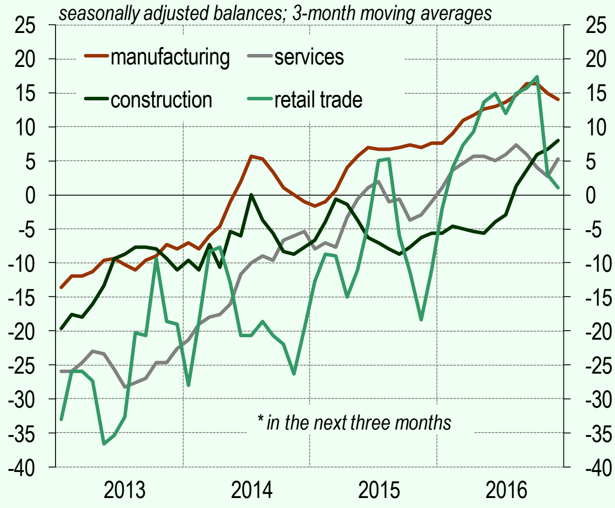
[5] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).

Figure 3.2: Persons in employment excluding self employed farmers



Sources:SORS, Bank of Slovenia calculations.

Figure 3.3: Expected employment*



Source: SORS, Bank of Slovenia calculations.

employment growth in mostly public services could be indicative of an increase in the importance of private providers in mostly public services. The largest contributions to employment growth in the private sector again came from industry, combined activities of trade and repair of motor vehicles, transportation and storage, accommodation and food services, and combined activities of professional, scientific and technical activities, and administrative and support service activities.

The workforce in employment excluding self-employed farmers has been recording particularly strong year-on-year growth since July, although in October it was still 5.1% down on its pre-crisis peak of October 2008. According to the monthly figures, which are not entirely comparable with the national accounts figures, the workforce in employment excluding self-employed farmers was up 2.9% in year-on-year terms in October 2016. The year-on-year rise in the total workforce in employment was lower (2.3%). Year-on-year growth in the workforce in employment in October was higher in mostly public services (3%) than in the private sector (2.1%). Year-on-year growth in the workforce in employment in mostly public services has been outpacing that in the private sector since August 2015. The largest contributions to the year-on-year growth came from manufacturing, human health and social work activities, and wholesale and retail trade and repair of motor vehicles and motorcycles.

Numerous surveys suggest a positive outlook for the labour market. According to SURS figures, year-on-year growth in the number of vacancies has been increasing since the third quarter of 2015. The rate stood at 29.2% in the third quarter of 2016.[6] The majority of vacancies in the third quarter were advertised in manufacturing, construction, and wholesale and retail trade and repair of motor vehicles and motorcycles, while the largest year-on-year rise in the number of vacancies was recorded by mostly public services, albeit only in Sectors O and Q, by accommodation and food service activities, and by other service activities. The largest demand for workers notified by employers at the Employment Service in November was for elementary occupations in manufacturing, drivers of heavy goods vehicles and tractor units, and waiting staff. At the same time the employment expectations disclosed in the SORS survey also remain positive, albeit with a deterioration in retail and in services. The employment forecast by Manpower, an HR firm, for the first quarter of 2017 was significantly better than for the previous quarter. Employment growth is expected in all economic sectors included in the analysis, where the outlook in the

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

Table 3.1: Unemployment and employment

	2011	2012	2013	2014	2015	15Q3	15Q4	16Q1	16Q2	16Q3
					in 1000					
Registered unemployed persons	110.7	110.2	119.8	120.1	112.7	107.4	109.3	114.8	102.5	97.4
Unemployment rate					*in %*					
- ILO	8.2	8.9	10.1	9.8	9.0	8.6	8.4	8.9	7.8	7.3
- registered	11.8	12.0	13.1	13.1	12.3	11.7	11.9	12.5	11.1	10.6
Probability of transition between employment and unemployment					*in %*					
- probability to become employed[1]	13.8	13.2	13.6	15.4	15.7	15.8	12.2	20.6	20.1	16.5
- probability to lose a job[2]	2.6	2.8	2.8	2.6	2.5	2.1	2.9	3.0	1.9	2.0
					in 1000					
Total employment[3]	946.0	937.3	926.8	930.9	941.5	951.2	950.9	940.0	957.1	971.4
					annual growth in %					
Persons in paid employment	-2.0	-1.3	-2.7	0.5	1.3	1.2	1.4	1.6	2.2	2.3
Self-employed	-0.1	0.8	5.8	0.4	0.4	0.5	-0.1	1.5	1.3	1.4
By sectors										
A Agriculture, forestry and fishing	-2.4	-1.0	0.0	-0.1	-2.4	-2.6	-2.6	-0.8	-0.8	-0.8
BCDE Manufacturing, mining and quarrying and other industry	-0.2	-1.1	-1.9	0.3	0.9	1.0	1.7	2.5	3.0	2.9
F Construction	-11.7	-7.5	-7.0	-1.1	0.4	0.6	0.2	-0.5	-0.8	-1.2
GHI Trade, accommodation, transport	-2.6	-1.2	-1.2	-0.3	1.8	1.8	1.6	1.9	2.5	2.9
J Information and communication	0.3	2.1	2.3	2.6	3.2	3.3	2.9	1.8	2.5	3.6
K Financial and insurance activities	-2.7	-1.7	-2.8	-2.1	-1.2	-1.3	-0.9	-1.8	-2.2	-1.8
L Real estate activities	-2.7	-1.4	0.5	0.9	1.4	0.0	0.0	0.0	0.0	0.0
MN Professional, technical and other business activities	0.9	0.5	-0.1	2.6	3.2	2.6	1.9	2.6	2.8	2.7
RSTU Other activities	-1.3	0.2	6.0	3.0	2.8	2.8	2.2	1.9	3.3	3.8
- mainly private sector (without O..Q)[4]	-2.3	-1.4	-1.2	0.5	1.2	1.2	1.1	1.6	2.0	2.1
- mainly public services (O..Q)[4]	1.0	1.0	-0.6	0.4	0.8	0.7	1.1	1.5	2.1	2.4
Total employment[3]	-1.7	-0.9	-1.1	0.4	1.1	1.1	1.1	1.6	2.0	2.1

[1] 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.
[2] 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.
[3] Employed and self-employed persons.
[4] Public administration, education, human health and social work services according to NACE rev. 2.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

majority of sectors have improved compared with the previous quarter. The *Employment Service's Employment Preview 2016/II* survey for the first half of 2017, which includes results from 2,917 firms with ten or more employees, forecasts employment growth of 1.5%, which is expected to be mostly attributable to replacements, but also partly to an expansion of activities. Employers forecast the highest growth in employment in the sector of administrative and support service activities, which includes employment activities, an indication of the continuing use of staffing agencies.

The structural imbalances on the labour market are increasing. According to the *Employment Preview 2016/II* survey, more than a third of employers are already facing shortages of qualified staff. Large enterprises in particular are having difficulty in finding qualified candidates. Employers emphasise that candidates for positions mainly lack work experience, the right qualifications and professionally specific knowledge. The majority of employers that faced difficulties in recruitment consequently extended their recruitment processes, just over a third did not hire anyone, a fifth found employees outside Slovenia, while the remainder relaxed and modified their skills requirements. The lack of qualified staff led firms to increase overtime, to transfer work to external contractors, and to (re-)train staff already employed. Just over a quarter of employers anticipate further difficulties in recruitment in the future.

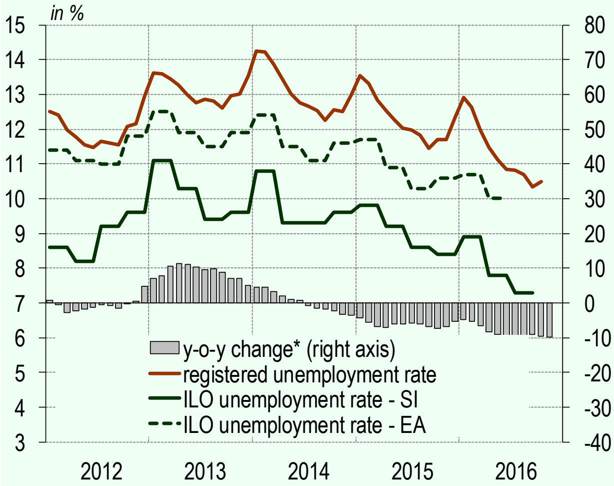
Unemployment

In November 2016 unemployment fell to the level seen at the end of 2009. There were 96,843 people registered as unemployed at the end of November, down 9.8% in year-on-year terms. The registered unemployment rate stood at 10.5% in October 2016, down 1.2 percentage points in year-on-year terms, while the surveyed employment rate in the third quarter 2016 stood at 7.3%, down 1.3 percentage points in year-on-year terms. The shares of unemployed people in the total unemployment with primary or lower level of education and with tertiary level of education increased in year-on-year terms in the autumn months, while the number of unemployed in all educational level groups fell in year-on-year terms. The number of unemployed people aged over 60 is continuing to rise. This age group is the only one where the number of unemployed is rising.[7] In autumn 2016 the majority of the unemployed had been out of work for more than one year, although the share that they account for was down slightly in year-on-year terms. The share of the unemployed out of work for more than three years is continuing to increase in year-on-year terms, although their number has been declining in year-on-year terms since June 2016.

The number of people included in active employment policy programmes fell in 2016. The number of people included in active employment policy[8] programmes during the first eleven months of the year was down 17% on the same period of the previous year. There were notable falls in the number of people with secondary and tertiary qualifications, and those aged less than 30, while the number of people aged over 50 rose.

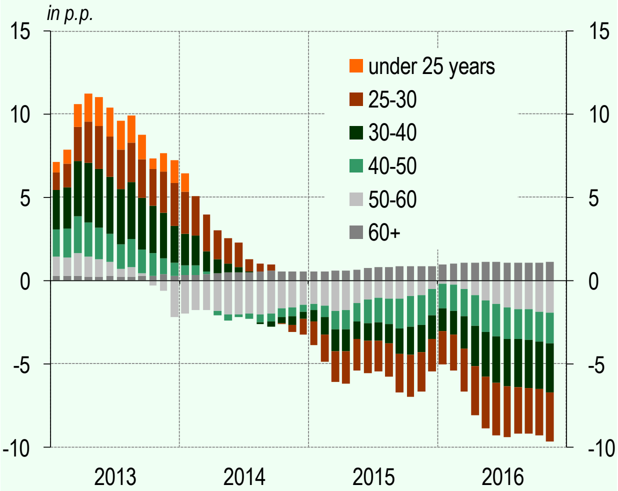
Inflows into unemployment over the first eleven months of the year 2016 declined significantly. The number of people newly registering as unemployed over the first eleven months of the year was just over 16,000 less than the number deregistering over the same period. The number of people newly registering as unemployed was down 5.7% in year-on-year terms, and there was a notable fall in the number of those whose temporary employment had ended. The number of deregistrations from

Figure 3.4: Unemployment



*Note: * Number of registered unemployed persons, y-o-y change.*
Source: Employment Service of Slovenia, SORS, Eurostat, Bank of Slovenia calculations.

Figure 3.5: Contribution to the y-o-y change in the number of registered unemployed by age



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

[7] Article 114 of the Employment Relationships Act (ZDR-1) of 2013 stipulates that "An employee who has reached the age of 58 or an employee who has less than five years to go before he/she meets the requirements for an old-age pension may not have his/her employment contract terminated by the employer on business grounds without his/her written consent until the employee meets the minimum requirements for exercising the right to an old-age pension." However, this protection does not apply *inter alia* "if the employee has been provided with an entitlement to monetary compensation under unemployment insurance until the minimum conditions for an old-age pension are met". Older workers are thus protected until the time when the entitlement to compensation for reason of unemployment would be secured for the period until the conditions for an old -age pension are met.

[8] Active employment policy programmes focus on stimulating employment incentives, the creation of new jobs, and education and training for the unemployed.

Table 3.2: Labour costs indicators

	2011	2012	2013	2014	2015	15Q3	15Q4	16Q1	16Q2	16Q3
	in EUR									
Average gross wage	1,530	1,531	1,528	1,545	1,556	1,534	1,607	1,576	1,566	1,560
	nominal year-on-year growth, %									
Average net wage	2.1	0.4	0.6	0.8	0.4	0.1	1.1	2.0	1.3	1.5
Average gross wage	2.0	0.1	-0.2	1.1	0.7	0.3	1.3	2.3	1.5	1.7
- mainly private sector (excl. O..Q)[1]	2.6	0.9	0.7	1.4	0.8	0.6	1.2	1.7	1.1	0.9
- mainly public services (O..Q)[1]	0.0	-2.2	-2.3	0.2	0.6	-0.2	1.7	3.9	2.8	3.7
Average gross wage in manufacturing	3.9	2.5	2.8	3.3	2.1	1.8	2.3	2.4	1.7	1.5
Average real net wage[2]	0.1	-2.3	-1.3	0.5	1.2	0.9	2.1	2.9	1.8	1.5
Labour costs per hour worked[3]	2.0	-0.3	-2.1	2.0	0.9	-1.6	0.8	0.6	1.5	3.7
Labour costs per hour worked in manufacturing[3]	1.9	3.0	0.5	3.7	0.6	-1.6	0.0	0.4	0.9	2.8
Gross wage per unit of output[4]	-0.4	1.9	-0.2	-1.5	-0.5	-0.5	-0.4	1.5	0.7	1.1
Gross wage per unit of output in manufacturing[4]	0.7	4.3	1.1	-1.8	1.5	2.1	2.8	-0.4	-2.7	-1.6
Unit labour costs[4,5]	-0.8	0.8	0.5	-1.3	0.3	0.1	0.4	1.8	2.3	1.0
Labour costs per employee[5]	1.5	-1.0	0.5	1.3	1.4	1.0	2.0	2.6	3.2	1.6
Output per employee	2.4	-1.8	0.0	2.7	1.2	0.9	1.7	0.8	0.8	0.6
Output per employee - manufacturing	3.2	-1.7	1.7	5.1	0.6	-0.4	-0.4	2.8	4.5	3.1
HICP	2.1	2.8	1.9	0.4	-0.8	-0.8	-0.9	-0.9	-0.4	0.0
GDP deflator	1.1	0.3	0.9	0.8	1.0	0.5	1.5	1.3	0.3	0.2

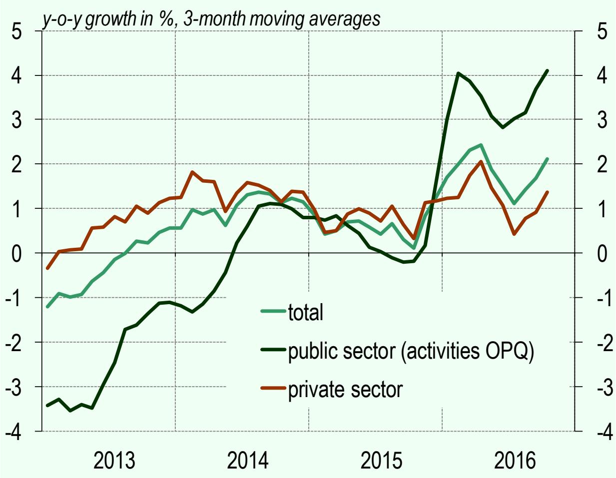
[1] Public administration, education, human health and social work services according to NACE rev. 2.
[2] HICP deflator.
[3] Labour costs according to SORS calculations.
[4] Unit of output for the total economy is defined as real GDP per person employed, and in manufacturing as real value added per person employed (both based on national accounts).
[5] Labour costs calculated on the basis of employee compensation (national accounts).
Source: SORS, Bank of Slovenia calculations.

unemployment was down 0.7% in year-on-year terms. The most notable fall was in the number of those deregistering for reasons other than employment, while there was a rise in the number of those taking up employment. The number of new hires rose in 2016, although temporary employment remained prevalent among these new hires. Temporary employment accounted for 73.7% of new hires in September 2016, down very slightly on the previous year.

Wage developments

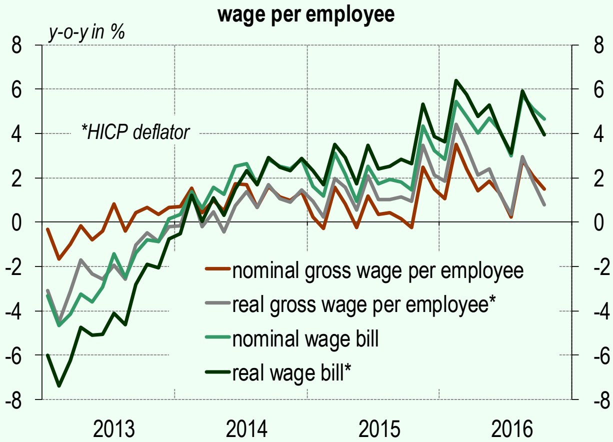
Year-on-year growth in the average nominal gross wage rose again after July, and remains high in mostly public services. Year-on-year growth in the average nominal gross wage exceeded 2% in August and September. The rate slowed to 1.5% in October 2016, still above its average of 2015. The relaxation of certain austerity measures meant that growth in the average nominal gross wage was significantly higher in mostly public services (a year-on-year rate of 4.8% in October) than in the private sector (a year-on-year rate of 0.3% in October). The average nominal gross wage in October was highest in the electricity, gas, steam and air conditioning supply sector (EUR 756 more than the average), and lowest in administrative and support service activities (EUR 520 less than the average), primarily owing to differing employment structures. In the private sector, the largest year -on-year rises in the average nominal gross wage in October were recorded by mining and quarrying, arts, enter-

Figure 3.6: Nominal gross wages



Note: Due to the change in source, series before 2014 were adjusted based on the growth rates of the previous series.
Source: SORS, Bank of Slovenia calculations.

Figure 3.7: Nominal and real total wage bill and average gross wage per employee



Note: Due to the change in source, series before 2014 were adjusted based on the growth rates of the previous series. Wage bill is calculated as the product of average gross monthly wages for employees of legal persons who received pay and the total number of employees of legal persons.
Source: SORS, Bank of Slovenia calculations.

tainment and recreation, and electricity, gas, steam and air conditioning supply.

Growth in the nominal and real wage bills strengthened again between August and October, although only mostly public services recorded increasing year-on-year growth. The reversal in inflation meant that year-on-year growth in the nominal gross wage bill in October (4.6%) was higher than year-on-year growth in the real gross wage bill (3.9%). With growth in wages in mostly public services outpacing that in the private sector, year-on-year growth in the nominal wage bill (7.9%) and real wage bill (7.2%) in mostly public services was also higher in October. Year-on-year growth in the nominal wage bill stood at 3.5% in the private sector in October, while the real growth rate stood at 2.8%.

4 Balance of Payments and External Debt

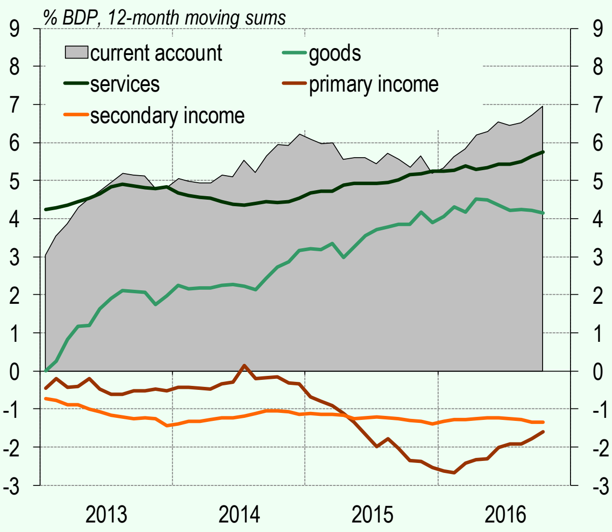
The current account surplus is continuing to widen, despite growth in domestic demand. This was attributable to rapid growth in exports of various types of services, weaker growth in residents' expenditure on travel in the rest of the world, and a narrower deficit in income from equity and from investments in securities. The merchandise trade surplus began narrowing slowly after May, as growth in imports began outpacing growth in exports, primarily as a result of the rapid growth in imports of consumer goods as a consequence of the strengthening of private consumption. After a slowdown in the summer, nominal year-on-year growth in merchandise exports strengthened again in the autumn, and remains highly dispersed in geographical terms, although it is still being curbed by a fall in export prices. Exports to Russia are also gradually stabilising.

The financial account position over the first ten months of the year 2016 entered negative territory in the amount of EUR 0.2 billion, which is the net amount by which Slovenia was financed by the rest of the world. This was attributable to a one-off event in October: a large statistical error in the amount of EUR 1.7 billion owing to the gap between the inflows of money and the maturity of a bond in early November with a nominal value of EUR 1.5 billion. The effect of this one-off development will disappear by the following month, and Slovenia will resume its position as a net financer of the rest of the world, which it has held since 2013. The largest inflow item over the first ten months of the year was currency and deposits, in the amount of EUR 2.6 billion, mostly for the reason stated above. It was followed by direct investment, a third of whose net inflow of EUR 0.8 billion was accounted for by the privatisation of NKBM. The largest net outflow item was investments in securities, in the amount of EUR 2.3 billion, mostly in debt securities. The net external debt stood at EUR 11.9 billion at the end of October, up EUR 0.1 billion on a year earlier, as external claims declined by EUR 1.2 billion while the external debt of all domestic sectors declined by EUR 1.1 billion.

Current account position

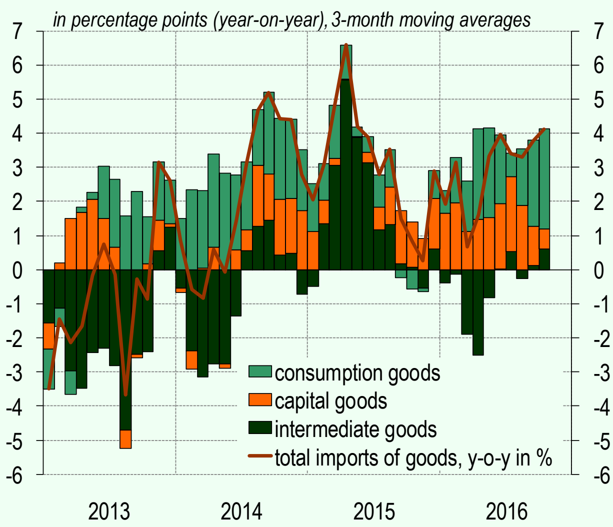
The 12-month current account surplus approached 7% of GDP in October. The widening surplus in 2016 reflected the rapid growth in exports of a relatively wide spectrum of services, and the decline in the deficit in primary income. The latter decline is primarily the result of a significant decline in the deficit in income from equity and from investments in securities. The surplus of trade in services stood at 5.8% of GDP in October, 0.6 percentage points wider than at the beginning of the year, while the deficit in primary income narrowed by 1 percentage points to 1.6% of GDP. The merchandise trade surplus, which had increased hugely since the beginning of 2013, began to gradually narrow in May 2016, as growth in domestic import demand outpaced growth in exports. It stood at 4.2% of GDP in October. The deficit in secondary income remains stable, at around 1.3% of GDP.

Figure 4.1: Current account components



Source: Bank of Slovenia.

Figure 4.3: Contributions of main BEC groups to import growth

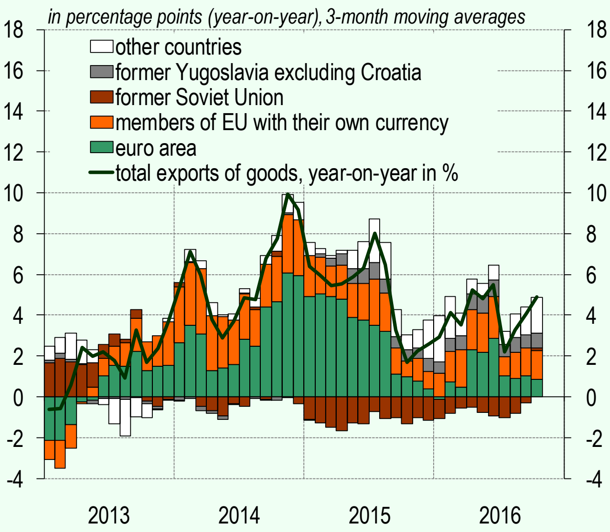


Source: SORS, Bank of Slovenia calculations.

Merchandise trade

After a slowdown in the summer, nominal year-on-year growth in merchandise exports strengthened again in the autumn, while imports are also increasing in line with growth in domestic demand. Increased sales of consumer goods have accounted for more than half of growth in exports in recent months. Exports of capital goods and intermediate goods are also increasing but to a lesser extent as their nominal growth is still being curbed by falling export prices.[9] Growth in exports is relatively balanced in geographical terms, and is attributable to increased demand on markets inside and outside the euro area. Exports to Russia are also gradually stabilising. Imports have primarily been strengthened in recent months by the increase in private consumption, while growth in imports of capital goods has slowed in line with the slight decline in growth in investment by the corporate sector. Imports of intermediate goods have begun gradually increasing in value terms, partly as a result of the base effect from the first half of the year dropping out of the calculation, and partly as a result of the stabilisation of import energy prices. Nominal year-on-year growth in imports according to balance of payments figures averaged 4.1% between May and October, compared with 3% for exports, which is already slowly reducing the merchandise trade surplus.

Figure 4.2: Contributions to export growth by country groups



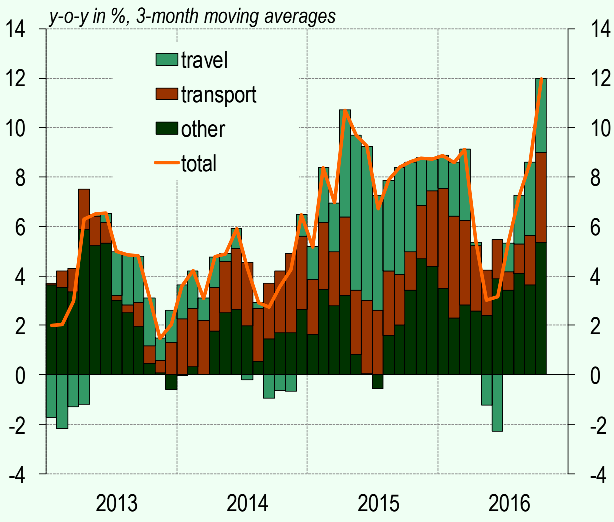
Source: SORS, Bank of Slovenia calculations.

Trade in services

The surplus of trade in services widened rapidly in 2016 as a result of rapid growth in exports of a wide range of services. Year-on-year growth in exports of services has risen sharply since August, reaching almost 14% in October. In addition to a large rise in the number of arrivals and overnight stays by non-resident travellers, there was sharp growth in exports of transport services,

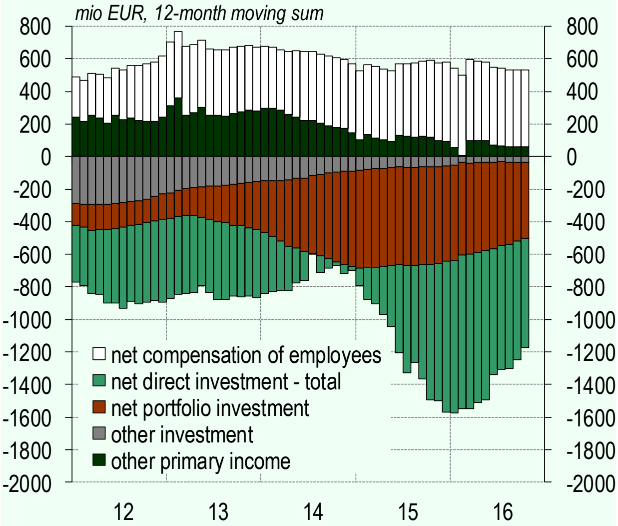
[9] Export prices of capital goods over the first ten months of the year were down almost 8% in year-on-year terms, while commodity prices were down 2.7% and energy prices down 1.3%. Energy prices have been rising again in year-on-year terms since August, while prices in the two other economic categories continued falling in the autumn.

Figure 4.4: Services exports



Source: Bank of Slovenia.

Figure 4.5: Net primary income



Source: Bank of Slovenia.

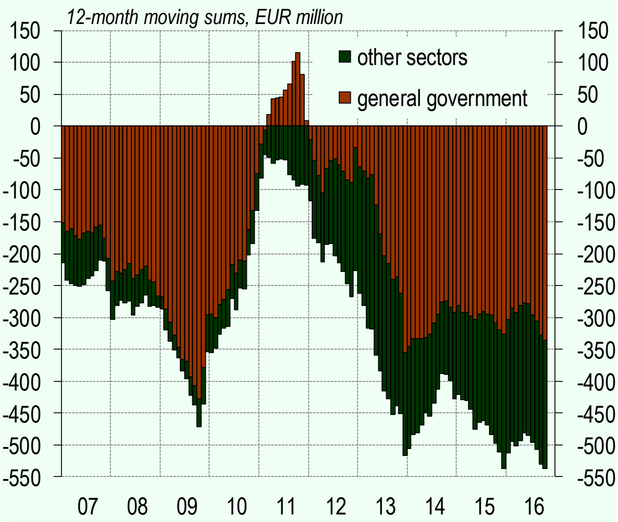
and the contribution made to overall growth in exports by exports of other services was also high. The most notable other services were construction services, telecommunications, computer and information services, and other business services. At the same time growth in imports of services remained relatively low, primarily as a result of lower growth in residents' expenditure on travel in the rest of the world than in the previous year. Exports of services over the first ten months of the year were up 7.6% in year-on-year terms, while imports were up just 3.7%, which widened the surplus of trade in services by EUR 260 million to EUR 1,970 million.

Primary and secondary income

The deficit in primary income declined over the first ten months of the year, primarily as a result of a decline in the deficit in income from equity and from investments in securities. The deficit in primary income amounted to EUR 504 million over the first ten months of the year, down EUR 345 million in year-on-year terms. The majority of the narrowing of the deficit was attributable to a decline in outflows from equity, as foreign owners reduced their outflows of dividends from Slovenia by EUR 75 million, while the change in reinvested earnings was even larger, as the deficit in reinvested earnings declined by EUR 184 million. The deficit in income from investments in securities also narrowed sharply, by EUR 120 million to EUR 377 million. The majority of the decline was attributable to a decline in government outflows for interest payments on public debt. There was also an increase in interest receipts, as a result of increased purchases of foreign securities. The Bank of Slovenia increased its purchases within the framework of ECB monetary policy, and commercial banks and insurance corporations also began investing more in securities. The surplus in labour income stood at EUR 381 million, as the increase that began in 2009 came to an end in 2016, as the situation on the domestic labour market improved significantly.

The deficit in secondary income remains stable. It amounted to EUR 440 million over the first ten months of the year, unchanged from the same period of 2015. The

Figure 4.6: Net secondary income



Source: Bank of Slovenia.

Table 4.1: Components of the current account

				in 12 months to							
	2013	2014	2015	Oct.15	Oct.16	15Q2	15Q3	16Q2	16Q3	Oct.15	Oct.16
						in EUR million					
Current account balance	1,732	2,325	1,998	2,044	2,747	462	641	753	737	220	308
1. Goods	708	1,181	1,498	1,473	1,645	382	424	461	391	183	159
2. Services	1,732	1,697	2,019	1,969	2,277	524	609	557	708	183	231
2.1. Transport	660	715	821	799	895	214	213	239	235	75	77
2.2. Travel	1,335	1,315	1,435	1,434	1,473	393	443	326	477	120	140
2.3. Other	-264	-333	-237	-264	-91	-83	-47	-7	-3	-12	14
3. Primary income	-192	-125	-982	-900	-638	-331	-285	-170	-208	-119	-48
3.1. Labour income	390	423	489	468	472	130	117	109	115	45	45
3.2. Investment income	-862	-694	-1,564	-1,488	-1,168	-483	-395	-274	-301	-160	-90
3.3. Other income	280	146	93	120	59	22	-7	-4	-22	-4	-3
4. Secondary income	-516	-428	-537	-498	-537	-113	-107	-96	-153	-27	-33
						in % of GDP					
Current account balance	4.8	6.2	5.2	5.3	6.9	4.7	6.5	7.4	7.2	6.7	9.1
1. Goods	2.0	3.2	3.9	3.8	4.2	3.9	4.3	4.5	3.8	5.5	4.7
2. Services	4.8	4.5	5.2	5.1	5.8	5.3	6.1	5.5	6.9	5.5	6.8
2.1. Transport	1.8	1.9	2.1	2.1	2.3	2.2	2.1	2.4	2.3	2.3	2.3
2.2. Travel	3.7	3.5	3.7	3.7	3.7	4.0	4.5	3.2	4.7	3.6	4.1
2.3. Other	-0.7	-0.9	-0.6	-0.7	-0.2	-0.8	-0.5	-0.1	0.0	-0.4	0.4
3. Primary income	-0.5	-0.3	-2.5	-2.4	-1.6	-3.4	-2.9	-1.7	-2.0	-3.6	-1.4
3.1. Labour income	1.1	1.1	1.3	1.2	1.2	1.3	1.2	1.1	1.1	1.4	1.3
3.2. Investment income	-2.4	-1.9	-4.1	-3.9	-3.0	-4.9	-4.0	-2.7	-2.9	-4.9	-2.7
3.3. Other income	0.8	0.4	0.2	0.3	0.1	0.2	-0.1	0.0	-0.2	-0.1	-0.1
4. Secondary income	-1.4	-1.1	-1.4	-1.3	-1.4	-1.1	-1.1	-0.9	-1.5	-0.8	-1.0
						nominal year-on-year growth rates in %					
Export of goods and services	2.5	5.6	5.4	5.9	4.4	6.6	4.8	5.0	4.4	1.7	1.8
Export of goods	2.1	5.9	4.7	5.4	3.5	6.0	3.8	5.4	3.2	0.6	-1.0
Export of services	4.1	4.5	8.4	7.8	8.0	9.3	8.4	3.2	8.6	6.3	13.7
Transport	3.9	9.4	9.3	8.6	9.9	10.6	8.4	5.6	8.3	2.7	14.0
Travel	1.7	0.8	9.6	9.5	3.9	17.8	9.5	-6.0	6.4	3.8	13.0
Other	7.1	4.9	6.4	5.4	10.9	0.1	6.7	11.5	12.2	11.7	14.3
Import of goods and services	-1.5	4.4	3.5	3.4	3.2	4.5	2.9	4.0	4.1	-0.8	1.0
Import of goods	-1.7	3.8	3.5	3.6	3.0	4.7	1.8	4.4	4.1	0.4	0.1
Import of services	-0.3	7.7	3.7	2.6	4.2	3.8	8.8	1.5	4.5	-7.5	6.8
Transport	3.4	10.4	4.5	3.8	7.9	5.5	8.0	-0.5	6.3	-14.1	26.1
Travel	-3.1	5.3	10.4	9.1	6.0	-3.2	25.0	18.3	5.0	3.8	5.0
Other	-0.6	7.6	1.3	0.1	2.2	5.5	0.8	-2.9	3.4	-7.9	0.7

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

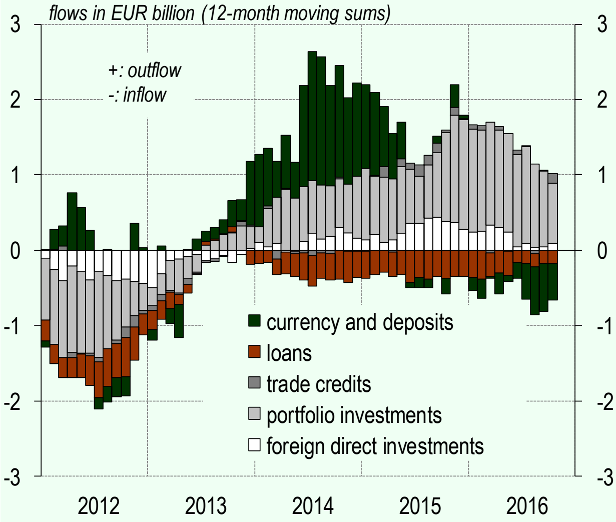
year-on-year changes in the deficits in individual sectors were also small. The government sector deficit amounted to EUR 290 million, up EUR 10 million in year-on-year terms, primarily as a result of a wider deficit in EU own resources.[10] The deficit in other sectors declined by the same amount to stand at EUR 150 million.

[10] The deficit in the item of own resources from VAT and GNI over the first ten months of the year widened by EUR 22 million in year-on-year terms.

Financial account

Direct investment accounted for EUR 755 million of the net increase in liabilities to the rest of the world over the first ten months of the year 2016. This was largely attributable to an increase of EUR 760 million in liabilities from equity, EUR 250 million of which was the result of the privatisation of NKBM in April. Debt to foreign owners also increased slightly, by EUR 107 million over the first ten months of the year. Domestic outward FDI increased by EUR 300 million over the same period, two-thirds of which comprised an increase in mutual debt and the remaining one-third of which was attributable to equity and reinvested earnings. Estimated reinvested earnings increased the net liabilities to the rest of the world by EUR 244 million.

Figure 4.7: Private sector's financial claims on the rest of the world



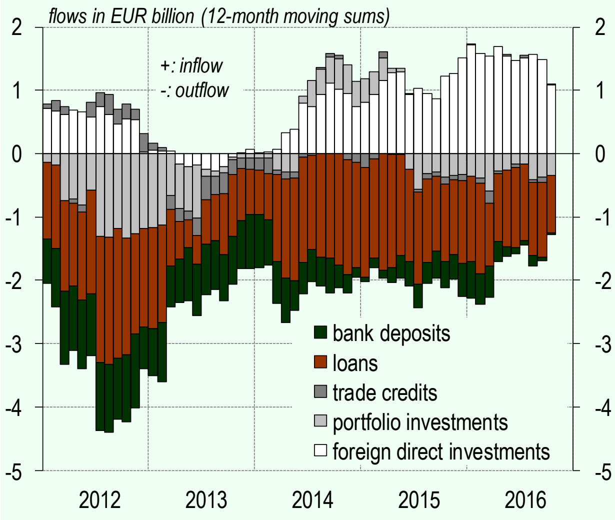
Source: Bank of Slovenia.

Table 4.2: Components of the financial and capital account

	in 12 months to										
	2013	2014	2015	Oct.15	Oct.16	15Q2	15Q3	16Q2	16Q3	Oct.15	Oct.16
						in EUR million					
1. Private sector	2,999	3,071	2,575	2,212	926	702	510	-289	-54	36	52
Claims	1,385	2,449	2,094	1,550	1,123	339	409	-18	-283	453	622
Capital transfers	399	820	722	877	788	147	131	182	150	42	50
Outward FDI	24	155	278	378	93	301	23	15	21	67	121
Portfolio investments and fin. der.	286	867	1,388	1,132	757	110	299	-41	76	309	95
Trade credits	20	-17	20	36	128	21	-16	113	-68	19	140
Loans	-189	-348	-353	-371	-178	-224	-26	-68	-41	-20	-22
Currency and deposits	846	1,239	43	-213	-479	1	11	-184	-419	26	182
- Households	264	52	127	139	-170	108	48	-29	-36	107	85
- Banks	473	1,201	-108	-431	-303	-32	28	-171	-390	-73	80
- Enterprises	109	-15	24	79	-7	-75	-66	16	7	-8	17
Other claims	-2	-9	55	-31	87	-18	-12	-22	-2	11	57
Liabilities	-1,615	-622	-482	-662	197	-363	-101	271	-229	416	571
Capital transfers	164	275	308	293	310	58	72	59	81	24	31
Inward FDI	71	739	1,516	1,221	1,088	346	241	281	251	454	56
Portfolio investments and fin. der.	-128	383	-358	-401	-397	-441	184	-33	-25	-24	3
Trade credits	-182	-137	-104	-111	16	1	-138	149	-178	48	153
Loans	-718	-1,663	-1,308	-1,221	-901	48	-440	-232	-345	-141	137
- Enterprises	301	-810	-684	-622	-307	144	-189	-42	-146	-96	140
- Banks	-1,019	-853	-624	-599	-594	-96	-250	-190	-199	-45	-3
Deposits at banks	-849	-156	-516	-413	-34	-388	-34	20	-7	24	47
Other liabilities	27	-63	-20	-30	115	11	15	28	-5	31	142
2. Government	-3,973	-4,029	1,485	1,845	-1,158	2,053	396	-55	-766	650	-180
3. Bank of Slovenia	1,828	3,177	-2,659	-2,091	164	-2,259	-554	659	1,391	-621	-1,279

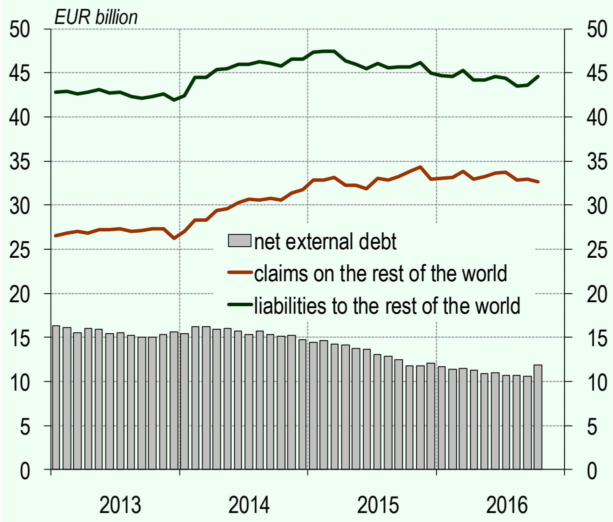
Note: + (increases in claims/liabilities), - (decreases in claims/liabilities), net items are calculated as net claims - net liabilities.
Source: Bank of Slovenia.

Figure 4.8: Private sector's financial liabilities to the rest of the world



Source: Bank of Slovenia.

Figure 4.9: External debt



Source: Bank of Slovenia.

Investments in securities recorded a net outflow of EUR 2.3 billion over the first ten months of the year. The majority of the transactions related to debt securities. Holdings of debt securities increased by EUR 1.5 billion, three-quarters of which was at the central bank, while the remaining quarter was at banks and insurance corporations. Liabilities from debt securities declined by EUR 915 million over the first ten months of the year. The majority (three-fifths) of the decline in those liabilities was attributable to the government sector, and the remainder to banks. The government issued 16-year bonds with a nominal value of EUR 1.5 billion in March, but the debt repayments to the rest of the world by the entire domestic sector over the first ten months of the year were even larger, at EUR 2.4 billion.

External debt

The gross external debt amounted to EUR 44.5 billion at the end of October, down EUR 1.1 billion on a year earlier. The largest reduction in debt in the amount of EUR 0.9 billion was recorded by banks, the majority in the form of loans (EUR 0.6 billion) and in the form of debt securities (EUR 0.4 billion). The banks now account for just 10% of the gross external debt, compared with 44% in 2008. The government sector remains the most significant debtor, accounting for 52% of the total, although it had reduced its external debt by EUR 0.2 billion over the course of one year.

Gross external claims amounted to EUR 32.7 billion at the end of October, down EUR 1.2 billion on a year earlier. This was primarily attributable to a decline of EUR 1.9 billion in the government sector's claims, mostly in the form of currency and deposits. The banks had also reduced their external claims relative to October 2015, by EUR 0.3 billion, while increases of EUR 0.5 billion and EUR 0.4 billion respectively were recorded by other sectors and by the central bank.

As a result the net external debt stood at EUR 11.9 billion at the end of October, up EUR 0.1 billion on a year earlier. Net external debt was held by the general government sector (EUR 18.3 billion), other sectors (EUR 0.3 billion) and capital affiliates (EUR 0.2 billion). The net creditors of the rest of the world were the central bank (EUR 4.6 billion) and the banks (EUR 2.3 billion).

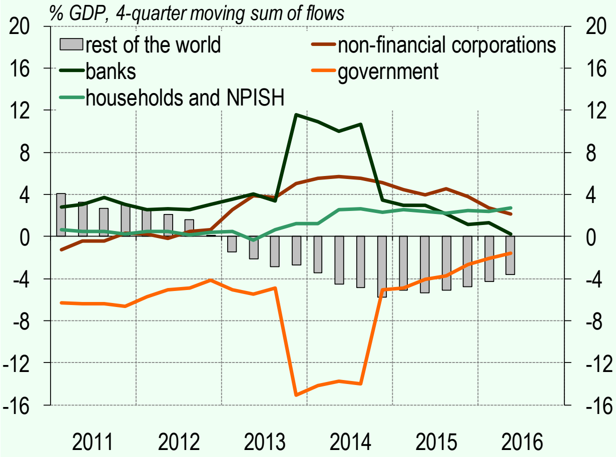
5 Financing of Non-Financial Corporations, Households and Banks

With the exception of the general government sector, all the domestic institutional sectors have recorded financial surpluses for the fourth consecutive year, although they are gradually declining. The 12-month surplus against the rest of the world stood at 3.6% of GDP at the end of the first half of the year, which is therefore the amount by which saving exceeded investment in the national economy. Firms have been generating solid profits for three years now, and in the last year have launched a new investment cycle, with growth of around 10%. Their financial surplus was thus half of that in the same period of the previous year. Firms are compensating for the loss of domestic bank financing partly by making use of internal resources, and partly by increasing foreign loans, mainly loans by foreign firms in the last three years. The banking sector's 12-month surplus declined even more, to stand at almost zero at the end of the first half of the year. The banks are continuing to reduce their total assets, on the investment side by reducing lending activity, and on the funding side primarily by repaying ordinary liabilities to the rest of the world. The sole sector to record a slight increase in its financial surplus was the household sector. Household disposable income was double household consumption, despite the significant increase in the latter over the last year and a half. The surplus was invested in banks in the form of sight deposits, the household sector's stock of fixed-term deposits having declined by EUR 1.5 billion over the last year and a half, while its stock of sight deposits increased by EUR 2.7 billion. Although growth in deposits by the private sector is increasing their importance on bank balance sheets, caution will nevertheless be required in the future, as the shortening of average maturities is increasing the instability of bank funding.

Savings-investment gap by institutional sector

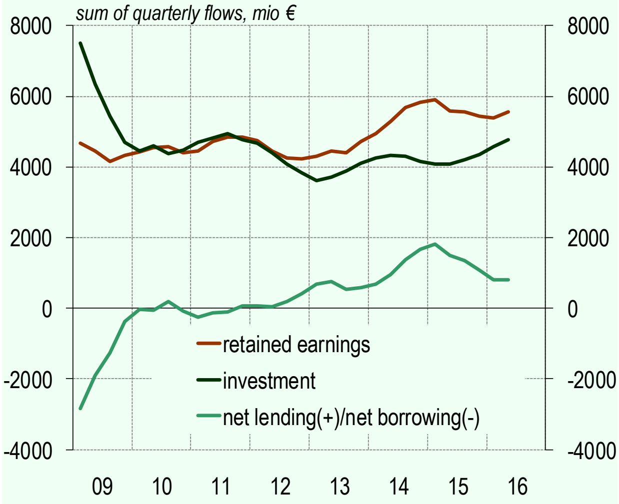
The current account surplus remains high, which is being reflected in the financial account as a surplus of saving over investment. This has been present for four consecutive years, although it is gradually diminishing. The domestic sectors' 12-month financial surplus against the rest of the world stood at 3.6% of GDP at the end of the first half of 2016. Firms' profits have been rising for three consecutive years, and in the last year they have begun investing more significantly, which has reduced their 12-month financial surplus. This stood at 2.1% of GDP at the end of the first half of the year, down a half on a year earlier. Firms primarily directed their surplus in the first half of the year into foreign investments in the form of trade credits. Firms are partly compensating for the loss of domestic bank financing by making use of internal resources, and partly by increasing loans from the rest of the world. Business-to-business financing vis-à-vis the rest of the world is increasing in particular: the stock of loans raised with foreign firms has almost doubled since 2013. The further improvement of the situation on the labour market and, in part, the government's less restrictive social policies have brought an increase in household income. Although these incentives

Figure 5.1: Savings-investment gap



Note: Figures for Q4 2013 were influenced by measures for stabilising the banking sector.
Sources: Bank of Slovenia - nonconsolidated financial accounts, SORS.

Figure 5.2: NFC investment and retained earnings



Source: Banka Slovenije, Eurostat, SORS.

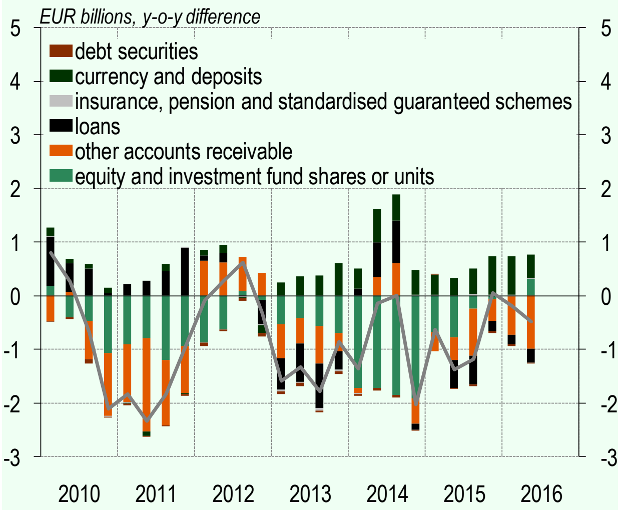
have also revived household consumption in the last year, this has not been significantly reflected in the sector's 12-month financial surplus, which actually increased slightly to stand at 2.8% of GDP at the end of June 2016. The household sector's financial surplus continues to be held primarily at banks, in the form of sight deposits. The government sector's deficit and the financial corporations sector's surplus have declined rapidly since the measures to stabilise the banking system at the end of 2013. The banking sector's 12-month surplus was almost zero at the end of the first half of 2016, while the government sector's deficit stood at 1.6% of GDP.

Corporate financial assets and financing

The stock of non-financial corporations' financial assets increased by EUR 0.7 billion in the first half of 2016 to EUR 42.1 billion. Trade credits, primarily granted to the rest of the world, accounted for just over a half of the increase. The other half of the increase was attributable to equities, which was the result of a one-off development: the conversion of a loan between a parent and a subsidiary into equity.

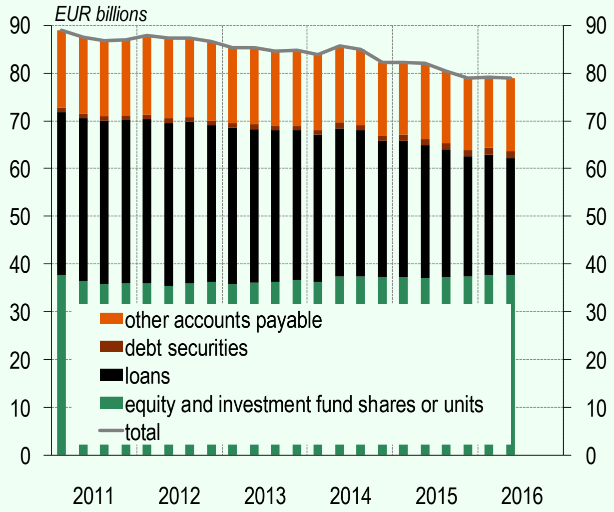
Non-financial corporations' financial liabilities amounted to EUR 78.9 billion at the end of the first half of 2016, unchanged from the end of 2015. Negative revaluations of equity neutralised transactions in the amount of EUR 0.3 billion. The largest increase via transactions in the amount of EUR 0.5 billion was recorded by equities, partly as a result of the aforementioned one-off development, and partly as a result of corporate acquisitions (Laško, Trimo). Non-financial corporations also successfully issued EUR 150 billion of bonds and commercial paper in the first half of the year, all at interest rates of less than 2%: 5-year Telekom bonds with a nominal value of EUR 100 million (for financing investment), Gorenje commercial paper with a nominal value of EUR 29 million and Mercator commercial paper with a nominal value of EUR 20 million. Domestic business-to-business financing has continued to decline, both via loans and via trade credits, but financing from the rest of the world is by contrast increasing. Non-financial corporations received

Figure 5.3: Financial assets of NFCs (S.11)



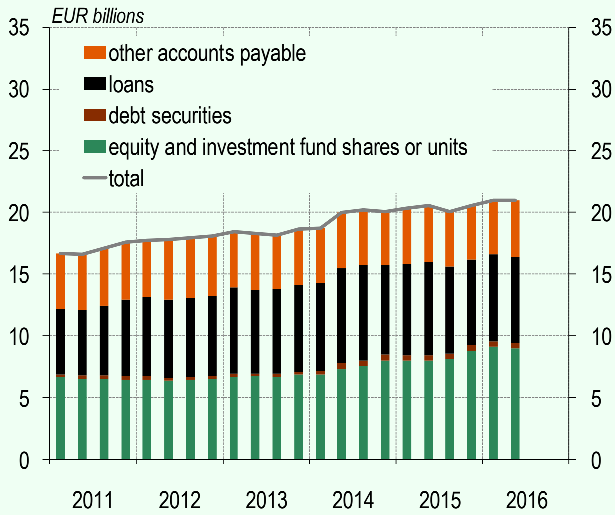
Source: Bank of Slovenia, non-consolidated data.

Figure 5.4: Financial liabilities of NFCs (S.11)



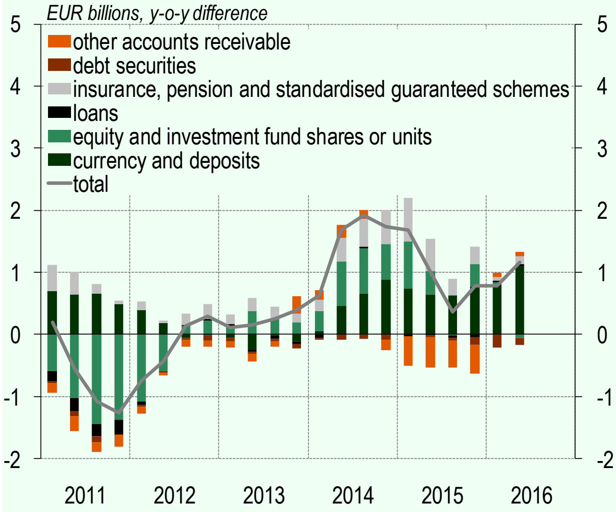
Source: Bank of Slovenia, non-consolidated data.

Figure 5.5: Financial liabilities of NFCs (S.11) to rest of the world



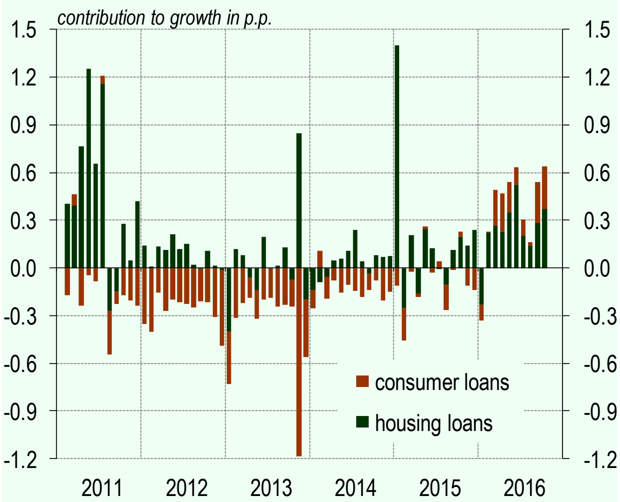
Source: Bank of Slovenia, non-consolidated data.

Figure 5.6: Financial assets of households (S.14 and S.15)



Source: Bank of Slovenia, non-consolidated data.

Figure 5.7: Loans to households



Source: Bank of Slovenia.

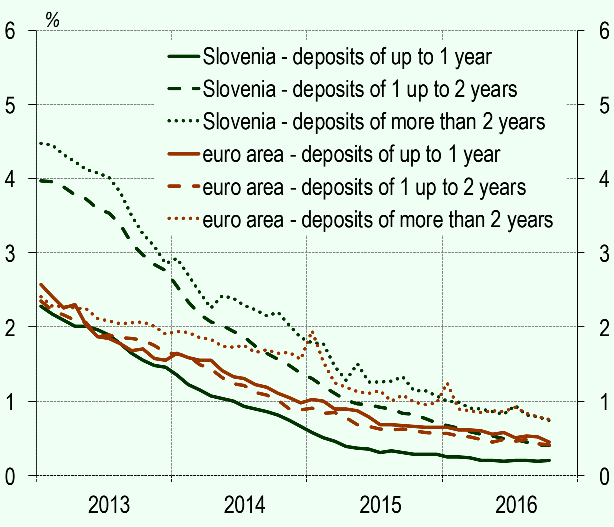
EUR 0.2 billion of trade credits and EUR 0.3 billion of short-term loans from the rest of the world in the first half of the year. Long-term loans, both domestic and foreign, are continuing to decline. In the wake of the ongoing contraction in bank loans, the proportion of non-financial corporations' total loans accounted for by foreign loans stood at almost 30% at the end of the first half of 2016, double the pre-crisis figure in 2008.

Household financial assets and financing

Households' financial assets increased by EUR 0.7 billion in the first half of 2016 to EUR 40 billion. Almost the entire increase was attributable to bank deposits, which now account for 44% of households' total assets. Given the very low interest rates on deposits, households are no longer interested in renewing fixed-term deposits, for which reason they are being converted into sight deposits. The household sector's stock of fixed-term deposits declined by EUR 1 billion in 2015, while its stock of sight deposits increased by EUR 1.6 billion. This trend was even more evident in the first half of 2016, when households' fixed-term deposits declined by EUR 0.5 billion as sight deposits increased by EUR 1.1 billion.

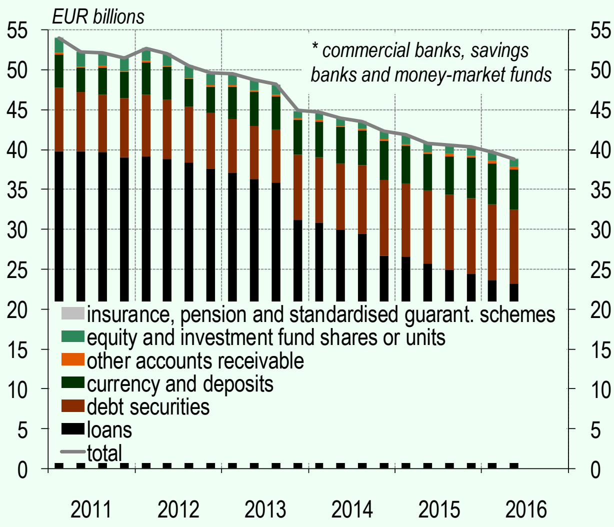
The switching of deposits from fixed-term to sight deposits is primarily attributable to the very low deposit rates both in Slovenia and across the euro area.

Figure 5.8: Interest rates on household deposits, by maturity



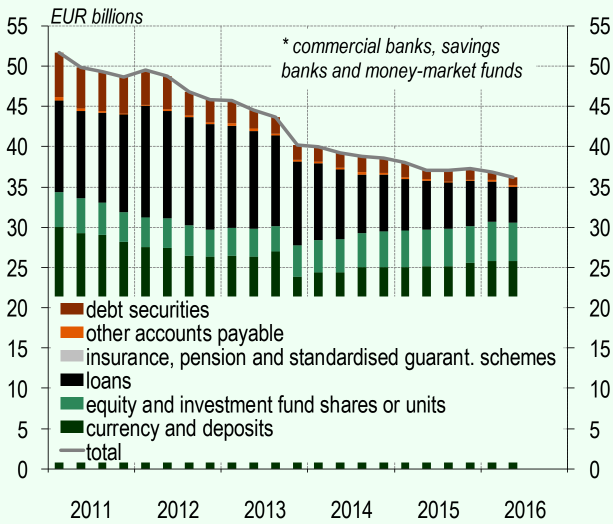
Sources: ECB, Bank of Slovenia.

Figure 5.9: Financial assets of banks* (S.122 and S.123)



Source: Bank of Slovenia, non-consolidated data.

Figure 5.10: Financial liabilities of banks* (S.122 and S.123)



Source: Bank of Slovenia, non-consolidated data.

Even in 2013 interest rates on long-term deposits in Slovenia were double those across the euro area, but now they have equalised. Interest rates on short-term deposits in Slovenia are half of those across the euro area, which is further depleting demand for fixed-term deposits at domestic banks.

The indebtedness of Slovenian households has remained almost unchanged for two years, despite the favourable financing conditions, and stood at EUR 12.3 billion at the end of the first half of 2016. Although the volume is barely tangible, housing loans have recorded growth for three years now, and this year a recovery in consumer loans is discernible, as growth has moved into positive territory after six years. The indebtedness of Slovenian households as measured by the ratio of debt to gross disposable income or as the ratio of debt to GDP is a half lower than in the euro area overall.

Bank funding and investments

The banks are continuing to reduce their investments. The sector's financial assets declined by EUR 1.5 billion in the first half of 2016 to EUR 38.8 billion. More than half of the decline was attributable to the absorption of Factor banka and Probanka by the BAMC. The banks have continued to pay down debt, in the amount of EUR 0.5 billion, which was relatively equally distributed across sectors in the first half of the year. The sole increase of EUR 0.1 billion was recorded by loans to households, where housing loans are prevalent. Investments in debt securities also declined, by EUR 0.2 billion to stand at EUR 9.3 billion, or just under a quarter of the sector's total assets. The corresponding figure in 2015 was just 15%.

The banking sector's financial liabilities are also continuing to decline. The banks' total financial liabilities amounted to EUR 36.2 billion at the end of the first half of 2016, down EUR 1 billion on the end of 2015, partly as a result of the absorption of two banks by the BAMC, partly as a result of the repayment of maturing SID bonds, partly as a result of the repayment of a maturing LTRO, and partly as a result of the regular repayment of liabilities, particularly to the rest of the world. Household deposits

Box 5.1: Bank performance in 2016

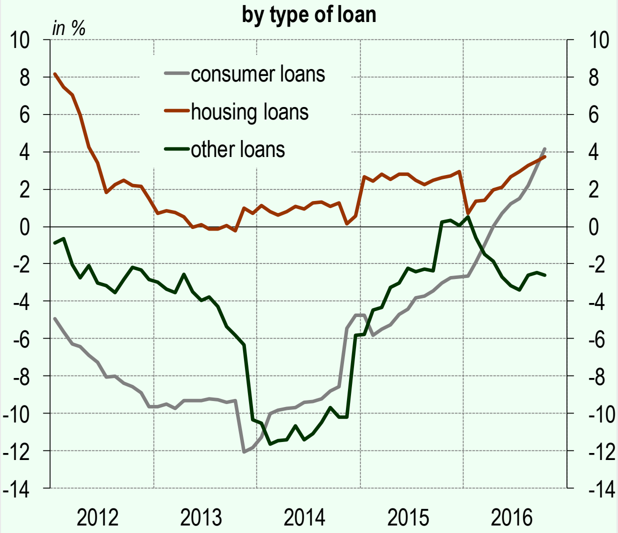
In the banking system, household lending strengthened in the second half of the year, while corporate lending continued to contract. Bank funding is increasingly based on short-term domestic resources, which are continuing to increase at high rates in the household segment in particular. The quality of the banking system's portfolio is continuing to improve, partly as a result of the favourable economic environment and better financial position of debtors, and partly as a result of additional activities by the banks. The banking system's profit is increasing, as net interest income declines and impairment and provisioning costs diminish.

The year-on-year contraction in loans to the non-banking sector slowed to 3.3% in October. This was primarily attributable to further growth in household loans, although the year-on-year contraction in lending to non-financial corporations was also slower than in previous months: by October it had slowed to 8.2%, just under 4 percentage points less than in June. After a long period of contraction in corporate lending, the stock of corporate loans on bank balance sheets has been lower than the stock of household loans since the final quarter of 2015.

Bank lending activity to households is gradually strengthening, year-on-year growth reaching 3% in October. Both housing loans and consumer loans are increasing; growth in consumer loans strengthened in 2016, from a negative rate in March to 4.2% in October, when it overtook growth in housing loans, which stood at 3.8%. The fall in interest rates on loans, low household indebtedness and the improved situation on the labour market were significant factors in the favourable dynamic in household loans, while the gradual recovery in the real estate market is additionally encouraging growth in housing loans.

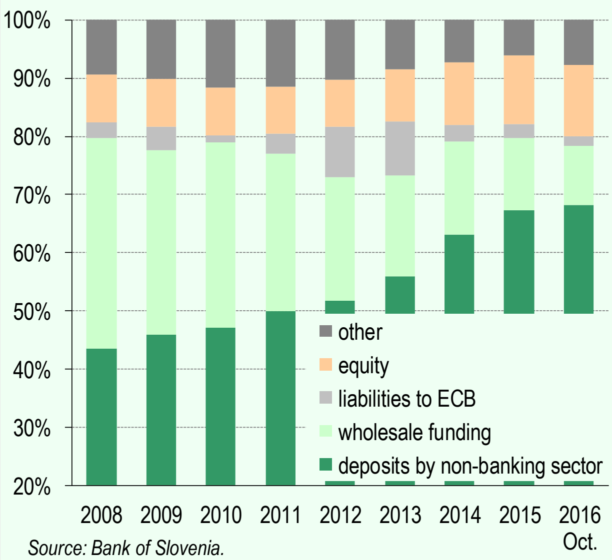
The proportion of funding accounted for by deposits by the non-banking sector is continuing to increase. It reached almost 69% in October. Year-on-year growth in deposits by the non-banking sector remained positive over the first three quarters of the year, but turned slightly negative in October as a result of a base effect. The main factor in the growth in deposits by the non-banking sector was growth in household deposits and deposits by non-financial corporations. The positive dynamic in the latter slowed significantly in 2016, although the year-on-year rate of growth nevertheless remained high in October, at 12.5%. The importance of household deposits has continued to increase: the proportion of funding that they account for reached 44% in October. Growth in household deposits slowed slightly in the third quarter, but nevertheless remained high in October, at 5.7%. The maturity breakdown of deposits by the non-banking sector has continued to shift in the direction of an increase in sight deposits, primarily as a result of the persistently low interest rates. The proportion of total deposits by the non-banking sector accounted for by sight deposits increased by just under 7 percentage points over the first ten months of the year to reach 62%. The proportions accounted for by short-term and long-term fixed-term deposits declined, as savers see no incentive to fix deposit terms with interest rates so low. The banks are not competing via deposit rates as in the past, having cut their interest rates to the lowest levels to date owing to income pressure, thereby adapting to the given situation.

Figure 1: The y-o-y growth of loans to households, by type of loan



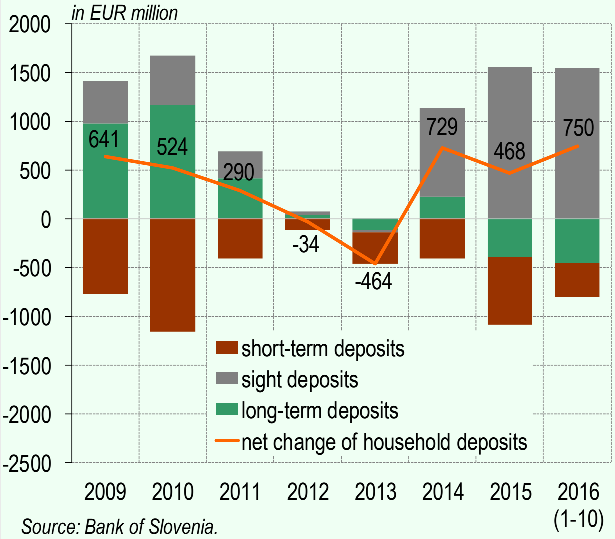
Source: Bank of Slovenia.

Figure 2: The structure of banks' funding sources in %



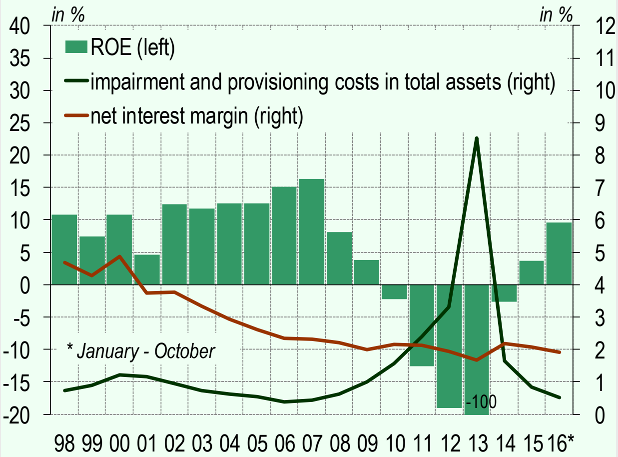
Source: Bank of Slovenia.

Figure 3: Changes in deposits according to maturity



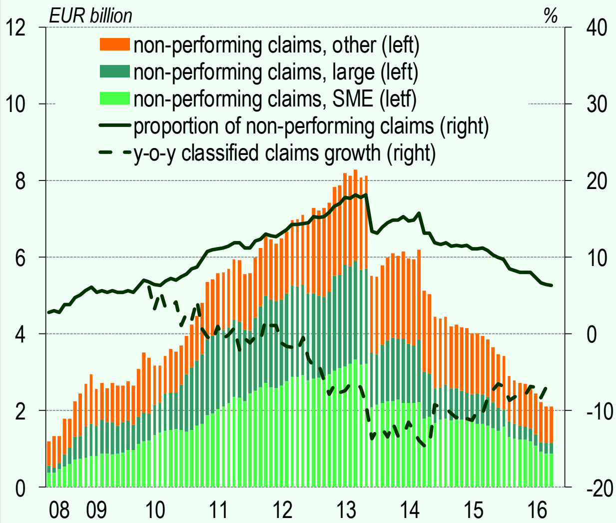
Source: Bank of Slovenia.

Figure 5: ROE, NIM and impairments and provisioning costs on assets



Note: Figures for net interest margin and the ratio of impairment and provisioning costs are calculated over the preceding 12 months.
Source: Bank of Slovenia.

Figure 4: Classified claims in arrears over 90 days



Source: Bank of Slovenia.

Wholesale funding and liabilities to the ECB are continuing to decline in importance as funding. The proportion of total funding accounted for by wholesale funding in October was less than a third of its level before the outbreak of the financial crisis. The banks repaid EUR 863 million of such liabilities over the first ten months of 2016. In the context of high excess liquidity, Slovenian banks rarely participate in the regular auctions to obtain ECB funding. The proportion of bank funding accounted for by liabilities to the ECB had declined to 1.7% by October.

The quality of bank investments has continued to improve in the wake of the banks' increased activity in resolving non-performing claims. The decline in the proportion of claims more than 90 days in arrears is attributable to the banks' activity in the forbearance of non-performing claims, increased write-offs and, particularly in the third quarter, the sale of non-performing portfolio. In conjunction with the impact of the completion of the wind-down process at Factor banka and Probanka and their absorption by the BAMC, the proportion of claims more than 90 days in arrears was down sharply in October, at 6.3%. According to the European Banking Authority's broader definition, the corresponding figure had declined to 9.1% by September (the latest quarterly figure), and also displayed a trend of decline, having fallen by 5.1 percentage points since the first reporting in June 2015. Coverage by impairments and provisions also increased in 2016. The proportion of claims against SMEs more than 90 days in arrears declined to 15.9%, but is still indicative of above-average arrears compared with the remainder of the banking system's portfolio. The largest decline in classified claims more than 90 days in arrears in the non-financial corporations portfolio in 2016 was recorded by construction firms (down EUR 216 million at EUR 308 million in absolute terms, and down 12.1 percentage points at 27.3% in relative terms). Large declines in claims in arrears were also seen in the retail and real estate activities segments, where arrears of more than 90 days respectively accounted for 8.9% and 15.5% of classified claims in the sectors in October.

The banks generated a pre-tax profit of EUR 362 million over the first ten months of the year, up 54% on the same period of 2015. The banking system's gross income was comparable to the same period of the previous year. While year-on-year growth in net interest remained negative in the amount of 10%, the maintenance of the same level of gross income was attributable to an increase in non-interest income (up 18% in year-on-year terms in October). The high growth in non-interest income was primarily attributable to one-off developments in the first half of the year; the rate gradually declined in the following months. The net interest margin continues to display a moderate but sustained trend of decline. The net interest margin on interest-bearing assets over the preceding 12 months had declined to 1.94% by the end of October 2016 (compared with 2.06% in December 2015). The banks recorded a net release of impairments and provisions over the first eight months of the year, followed by a net increase in September and a minimal increase in October. Impairment and provisioning costs over the first ten months of the year were down 74% on the same period of the previous year at EUR 41 million, and were thus a key factor in the banking system's increased profits.

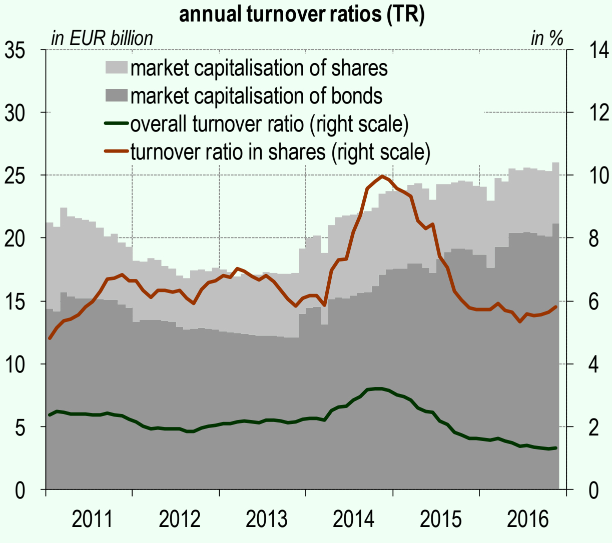
are increasing, despite low interest rates: they were up by EUR 0.5 billion in 2015, and by a further EUR 0.6 billion in the first half of 2016. The importance of deposits on bank balance sheets is thus increasing. Deposits accounted for 44% of the banks' total liabilities in 2008, but now the figure is 70%.

Domestic financial market

The negative mood of the Ljubljana Stock Exchange in November neutralised the gains made in the previous ten months. The SBI TOP, Slovenia's main share index, stood at 690.7 at the end of November, down 7.5% on the previous month and down 0.43% in year-on-year terms. The sharp fall in November was shaped by developments surrounding two share issuers, an indication of the main problems faced by the exchange for a number of years now (low liquidity and a lack of major issuers). The market capitalisation of shares on the Ljubljana Stock Exchange amounted to EUR 4.8 billion in November, down 10.5% in year-on-year terms. The year-on-year decline was also attributable to the delisting of individual shares in the first half of the year as a result of acquisitions by foreign owners. The cumulative volume of trading in shares over the first eleven months of the year declined by 10.3% to EUR 271.1 million. The majority of the volume of trading in shares (EUR 214 million or 79% of the total) in the first eleven months of the year was in just five issuers on the prime market. The proportion of holdings of domestic shares accounted for by non-residents stood at 26.9% at the end of November, down 2.4 percentage points on the end of 2015, as a result of individual delistings of takeover targets.

The market capitalisation of bonds in November was up in year-on-year terms, primarily as a result of Slovenian government bond issues, while the volume of trading declined. The market capitalisation of bonds on the Ljubljana Stock Exchange was up 10.8% in year-on-year terms at EUR 21.2 billion. The cumulative volume of trading in bonds over the first eleven months of the year was down 66% in year-on-year terms at EUR 16 million. The volume of trading in bonds was extremely low in January, May and August, at less than EUR 1 million, but jumped to EUR 2 million in November as a result of one new issue.

Figure 5.11: Market capitalisation on the LJSE in EUR billion and annual turnover ratios (TR)



Source: Ljubljana Stock Exchange.

6 Public Finances

Slovenia planned a general government deficit of 2.2% of GDP for 2016. The deficit is forecast to narrow further in 2017 and the following years, and to further approach the medium-term objective, which must be aligned with the Stability and Growth Pact. An annual structural improvement of 0.6% of GDP is required in 2016 and 2017. In November the European Commission assessed that there is a risk of non-compliance with the requirements of the Stability and Growth Pact in 2017.

The general government deficit over the first three quarters of 2016 was estimated at 1.4% of GDP. Despite the slowdown in the disbursement of funding from EU funds, there was a moderate increase in general government revenues. The decline in general government expenditure on account of a sharp reduction in investment was also related to the disbursement of EU funds. The latter is expected to pick up pace in the following years, Slovenia having accredited the system for the disbursement of funds from the European financial framework 2014-2020 in December 2016. The main contrasting fiscal development was the relatively high growth in the compensation of employees as a result of the gradual relaxation of austerity measures, which will continue in 2017 and 2018.

The general government debt in terms of its share in GDP at the end of September 2016 was up slightly on the end of the previous year. It is expected to have declined by the end of the year, Slovenia having made net debt repayments in the final quarter. Debt restructuring transactions reduced the costs of servicing the debt while extending its maturity.

The risks in the fiscal area are related to macroeconomic developments potentially being less favourable, to the upward pressure on expenditure from various interest groups, which has strengthened in recent months, to potential one-off factors, and to the high level of implicit and potential liabilities. As in previous years there remains considerable uncertainty in connection with the impact of the BAMC transactions on fiscal aggregates.

General government deficit

According to the government's plans, the general government deficit is expected to have narrowed to 2.2% of GDP in 2016, while the general government debt is expected to have declined to 80.2% of GDP, also on account of favourable economic situation. In its Draft budgetary plan of October the Ministry of Finance confirmed the targets for 2016 stated in the April update of the Stability Programme. This also applies to the planned reduction in the structural deficit of 0.6% of GDP, which complies with the requirements under the Stability and Growth Pact. According to the European Commission's assessments in November, the general government deficit in 2016 is forecast to reach 2.4% of GDP, whereby the structural position[11] would actually

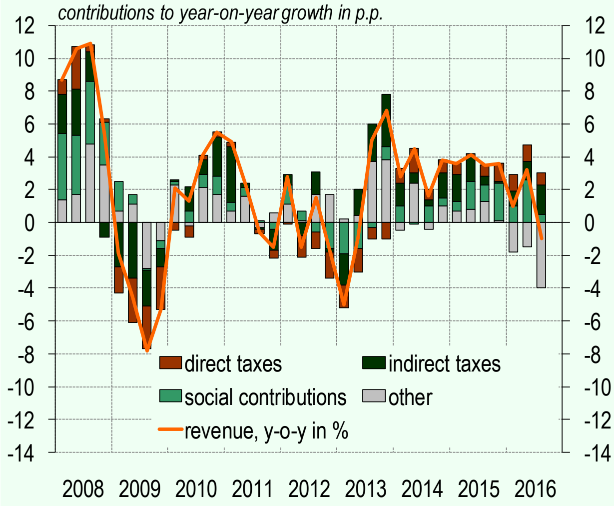
[11] The cyclically adjusted general government position reveals the position after the elimination of cyclical developments. The structural position is calculated by eliminating one-off effects and other temporary measures in addition to cyclical components.

Table 6.1: General government deficit and debt in Slovenia 2012–2019*

% GDP	SORS					Draft Budgetary Plan			Stability Programme				EC		
	2012	**2013**	**2014**	**2015**	**2016 (1-9)**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**
Revenue	44.5	45.3	45.0	45.1	43.2	42.9	43.0	42.5	43.5	43.8	43.2	42.3	43.1	42.8	42.4
Expenditure	48.6	60.3	50.0	47.8	44.6	45.1	44.3	43.3	45.7	45.4	44.3	42.7	45.5	44.8	43.9
of which: interest	2.0	2.6	3.2	2.9	3.0	2.8	2.4	2.3	2.9	2.6	2.5	2.4	2.8	2.6	2.5
Net lending (+) / borrowing (-)	-4.1	-15.0	-5.0	-2.7	-1.4	-2.2	-1.3	-0.8	-2.2	-1.6	-1.0	-0.4	-2.4	-2.0	-1.5
excl. support to fin. institutions	-3.9	-4.9	-4.1	-2.7	-1.4	-2.2	-1.3	-0.8	-2.2	-1.6	-1.0	-0.4	-2.4	-2.0	-1.5
Structural balance	…	…	…	…	…	-1.5	-0.8	-0.9	-1.5	-1.3	-1.0	-0.6	-2.1	-2.3	-2.2
Debt	53.9	71.0	80.9	83.1	82.6	80.2	78.2	76.5	80.2	78.2	76.5	73.8	80.2	78.3	76.6
Real GDP (growth, %)	-2.7	-1.1	3.1	2.3	2.6	2.3	2.9	2.6	1.7	2.4	2.3	2.3	2.2	2.6	2.2

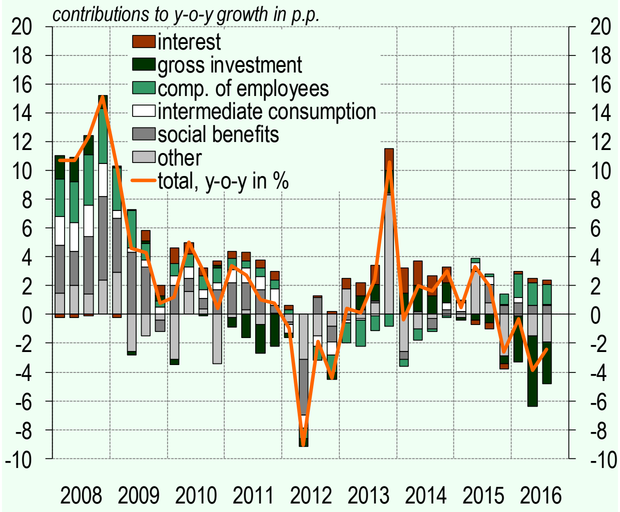
*Note: *At the publication of the revised data on government deficit and debt in 2012 – 2015 (on 30 September 2016) the Statistical Office of the Republic of Slovenia noted that the final revision data on 2014 and 2015 deficit will be published after the EDP verification procedure with the Eurostat is finished.*
Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2015), Stability Programme (Ministry of Finance, April 2016), European Commission (EC, May 2016).

Figure 6.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

Figure 6.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

have deteriorated by 0.2% of GDP. The SORS estimated the general government deficit over the first three quarters at 1.4% of GDP, whereby the primary surplus was slightly higher, and the position had improved significantly relative to the previous year. According to the European Commission's autumn forecasts, the general government deficit across the euro area is forecast at 1.8% of GDP in 2016, while the general government debt is forecast to reach 91.6% of GDP by the end of the year.

General government revenues over the first three quarters of the year were up in year-on-year terms, as the significant decline in inflows of EU funds was mitigated by relatively high growth of tax revenues. General government revenues over the first three quarters of the year were up 1.1% in year-on-year terms. Revenues from taxes and net social security contributions were up 4.3% in year-on-year terms, while capital revenues declined significantly (by 93% in year-on-year terms). The latter was related to the slowdown in the disbursement of funds from the EU budget during the changeover to the new financial framework 2014-2020.[12] The largest increases in taxes were recorded by revenues from direct taxes (personal income tax and corpo-

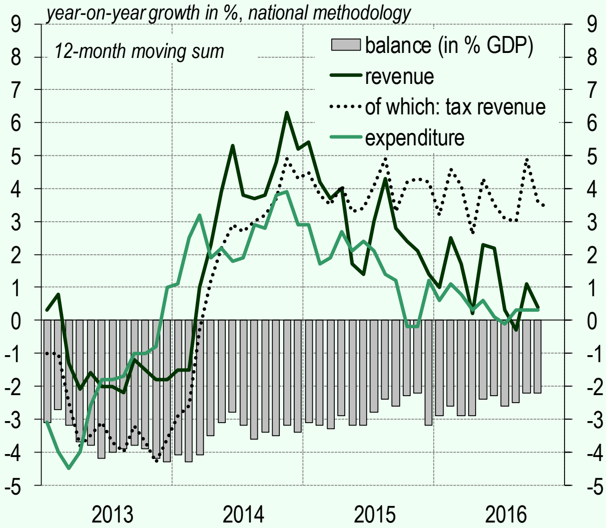
[12] Slovenia did not accredit the system for the disbursement of EU funds until December 2016.

Box 6.1: Public finance developments according to cash flow methodology

The consolidated general government deficit over the first ten months of 2016 narrowed in year-on-year terms. It amounted to EUR 426 million, EUR 358 million less in year-on-year terms. The reduction in the deficit was mostly attributable to the state budget, but there was also an improvement in the local government position. The state budget deficit over the first eleven months of the year amounted to EUR 604 million (compared with EUR 881 million in the same period of the previous year). The increased surplus in the local government budgets over the first ten months of the year was largely the result of a decline in investment expenditure. The Health Insurance Institute recorded a deficit of EUR 40 million over the first eleven months of the year (compared with a surplus of EUR 1 million over the same period of the previous year), while the Pension and Disability Insurance Institute's position was roughly in balance over the same period in both years.

General government revenues are increasing, primarily as a result of an increase in taxes and social security contributions, which is the result of the favourable developments on the labour market. The main year-on-year increases are in revenues from social security contributions and personal income tax. VAT revenues are also increasing, albeit more modestly, which in addition to the economic growth is also attributable to the introduction of fiscal cash registers at the beginning of 2016, while a liquidity effect in connection with a change in the payment of VAT on imports had an adverse impact. According to the available figures, revenues from taxes and social security contributions in the first eleven

Figure 1: Public finance developments



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

Table 1: Consolidated* general government

	2015	last 12 months to Oct.16			2015 Jan.-Oct.	2016 Jan.-Oct.	Jan.-Oct.16
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**15,714**	**15,844**	**40.0**	**0.4**	**12,902**	**13,032**	**1.0**
Tax revenue	13,746	14,171	35.8	3.6	11,342	11,767	3.7
- goods and services	5,347	5,403	13.7	1.2	4,456	4,512	1.3
- social security contributions	5,474	5,677	14.3	4.5	4,504	4,708	4.5
- personal income	1,986	2,066	5.2	5.2	1,605	1,685	5.0
- corporate income	595	615	1.6	7.5	491	511	4.1
From EU budget	882	546	1.4	-47.3	676	339	-49.8
Other	1,085	1,127	2.8	4.6	885	927	4.7
Expenditure	**16,956**	**16,729**	**42.3**	**0.3**	**13,686**	**13,459**	**-1.7**
Current expenditure	7,168	7,395	18.7	4.9	5,890	6,117	3.8
- wages and other personnel expenditure (incl. contributions)	3,610	3,749	9.5	4.1	2,998	3,137	4.6
- purchases of goods, services	2,311	2,362	6.0	6.2	1,789	1,840	2.9
- interest	1,043	1,077	2.7	2.3	965	1,000	3.6
Current transfers	7,540	7,650	19.3	1.2	6,282	6,392	1.8
- transfers to individuals and households	6,371	6,475	16.4	1.8	5,322	5,427	2.0
Capital expenditure, transfers	1,815	1,260	3.2	-24.3	1,165	610	-47.7
To EU budget	433	424	1.1	2.7	349	340	-2.6
GG surplus/deficit	**-1,242**	**-884**	**-2.2**		**-784**	**-426**	

*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.

months of the year were up 3.7% in year-on-year terms. There was a sharp decline in revenues from the EU budget: they were practically frozen between June and November. The net position against the EU budget has been negative since September inclusive, a deficit of EUR 30 million accruing by November. In December 2016 Slovenia accredited the system for the implementation of the European Cohesion Policy 2014-2020, the Government Office for Development and European Cohesion Policy informing the European Commission accordingly.

Consolidated general government expenditure was down in year-on-year terms, primarily as a result of investment expenditure and transfers almost halving. Expenditure on wages and contributions recorded notable growth, as a result of the agreed gradual relaxation of austerity measures. Transfers to individuals and households are also increasing. Expenditure on pensions over the first eleven months of the year was up 1.1%, mostly as a result of two increases during the year, as growth in the number of pensioners slowed significantly to 0.2%.

rate income tax), in line with the favourable developments on the labour market. The increase in household disposable income has also been reflected in increased consumption and growth in VAT revenues, which was also attributable to the introduction of fiscal cash registers at the beginning of 2016. The introduction of fiscal cash registers was the main measure on the revenue side in 2016, and according to the Financial Administration of the Republic of Slovenia estimates is thought to have accounted for EUR 54 million of the increase in revenues over the first nine months of the year.

General government expenditure over the first three quarters of the year was down in year-on-year terms, primarily as a result of a large decline in investment, while the relaxation of certain austerity measures brought a significant increase in compensation of employees, and also a larger increase in social benefits than in previous years. General government expenditure was down 2.2% in year-on-year terms, as government investment declined by 37%. The large decline in government investment had been expected, although the forecasts for the size of the decline were increased during the year. Other expenditures mostly increased, partly as a result of the relaxation of certain austerity measures. Compensation of employees increased by 6.5%, which in addition to the rise in the average wage (higher holiday allowance, rises in wage grades, promotions) was also attributable to a rise in the number of employees (by 1.3%). The increase in social benefits was attributable to the relaxation of measures in the area of cash social assistance and child benefit in the fifth and sixth income bands, and a rise in the number of government scholarship recipients. Pensions were increased twice in 2016: by 0.7% in January, and by a further 0.4% in October. Expenditure on intermediate consumption has also continued to grow, while expenditure on interest also increased, and amounted to 3.0% of GDP in the 12 months to the end of September.

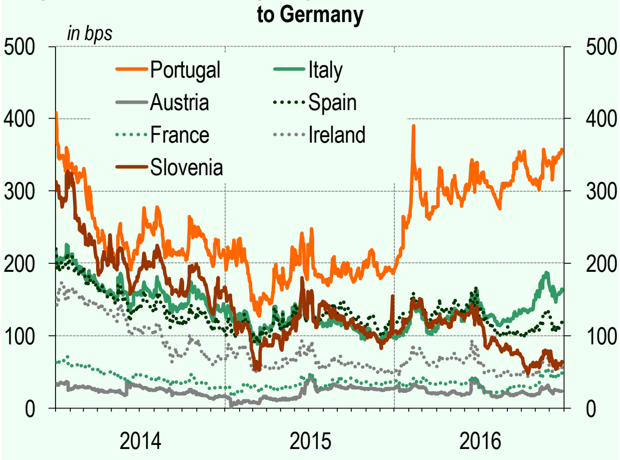
General government debt and government guarantees

The general government debt increased further in the third quarter, but by the end of the year is expected to be down on a year earlier. The general government debt amounted to EUR 32,639 million or 82.6% of GDP at the end of September, up EUR 325 million on the end of June. The debt declined slightly by the end of the year according to the available figures, as a bond with a nominal value of EUR 1.5 billion matured in November and its repayment was not entirely covered by new borrowing. The government continued to replace US dollar debt with euro debt in the final quarter, thereby reducing future interest payments, extending the maturity of the debt and reducing the deposit related to the currency risk hedging. Treasury bills were issued at negative interest rates on all maturities in September and October, as they had been in the first half of the year.

Government guarantees have declined since the end of 2014, when they increased mainly due to the crisis in the banking system. They amounted to EUR 6.6 billion or 16.8% of GDP at the end of the third quarter of 2016, having declined since the end of 2014, when they amounted to 22.2% of GDP. Around two-thirds of the decline during this period was related to a decline in noncrisis guarantees, while the remainder mostly relates to a decline in guarantees issued for the recovery and resolution of the banking system. The majority of the guarantees not related to the economic and financial crisis comprise guarantees for DARS d.d. and SID banka, and guarantees issued for the construction of Block 6 at Šoštanj power station. The main guarantees related to the economic and financial crisis are those issued to the EFSF and to the BAMC. The guarantees to the BAMC and a portion of the guarantees to the EFSF in the amount of 4.9% of GDP are already included in the debt figures.

The required yield on Slovenian government bonds remains low. As the ECB has continued its monetary policy stimulus measures, the spreads over the benchmark German bond and the required yields on 10-year government bonds in the periphery countries, Slovenia included, have remained low. The fall in the required yield on Slovenian sovereign debt in 2016 was also attributable to the rise in economic growth and the rating agencies' upgrades of Slovenia's ratings and outlook. Required yields in the periphery countries temporarily fluctuated upwards in the final quarter, primarily as a result of expectations of more restrictive monetary policy by the Fed and faster interest rate rises in the US. The result of the presidential election in the US raised expectations of a more expansive monetary policy in the US, which could lead to higher economic growth and inflation. The required yield on 10-year Slovenian government bonds averaged 0.91% in December, and the spread over the benchmark German bonds averaged 62 basis points.

Figure 6.3: 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.

Planned developments in the general government deficit

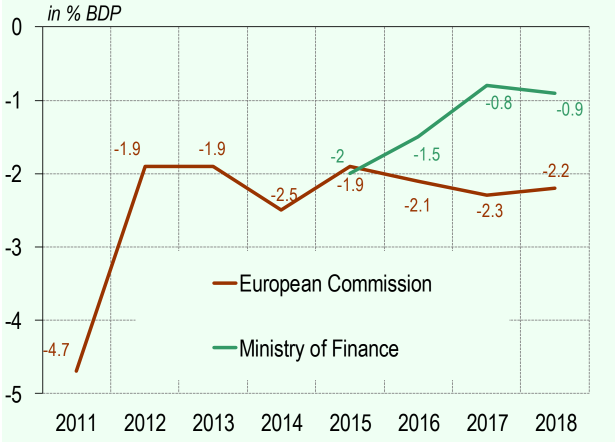
Slovenia has been in the preventive arm of the Stability and Growth Pact since 2016, and is pursuing the appropriate structural improvement in its general government position. The requirement for 2016 and 2017 is an annual reduction in the structural deficit of 0.6% of GDP. Slovenia has committed itself to improving the structural position at the target pace until the medium-term objective is reached.[13] The pace of convergence is set out by the rules, and may be modified in particular with regard to the economic cycle and the amount of sovereign debt. On the basis of the Draft budgetary plan and its autumn forecasts, in November the European Commission assessed that there ais a risk of non-compliance with the rules of the Stability and Growth Pact in 2017. Slovenia is complying with the rules regarding debt reduction, but is having difficulties in complying with the rules regarding the pace of convergence to the medium-term objective.

A further reduction in the general government deficit is forecast in the budget documents for the next two years, while the risks relate primarily to control of expenditure in the government sector. The general government deficit is planned at 1.3% of GDP in 2017 and 0.8% of GDP in 2018. The risks to the planned deficit reduction relate primarily to the government's success in controlling expenditure. The government and the public-sector trade unions reached an agreement on the gradual abolition of certain austerity measures in the area of wages in 2017 and 2018 (more money for holiday allowance, higher payments for collective pension insurance premiums), and the elimination of anomalies in the wage sys-

[13] It was defined in the most recent stability programme update as a balanced structural position, which is not in line with the latest calculations, according to which Slovenia ought to achieve a structural surplus of 0.25% of GDP.

tem. An agreement was also reached with Fides, the doctors' union, which has provided for a freeze on doctors' strike.[14] Wage growth in 2017 is subject to the carry-over effect of measures implemented in 2016 (EUR 110 million),[15] while the agreement with the trade unions will contribute an additional EUR 56 million, and the agreement with the doctors will contribute approximately EUR 40 million to EUR 53 million according to the available estimates. In accordance with the Republic of Slovenia Budget Implementation Act for 2017 and 2018, pensions are being increased by 1.15% in January 2017, while a rise in the lowest pensions (subject to at least 37 years of pensionable service excluding purchased period) and more funding for the annual bonus are also expected. The reduction of the deficit could be hindered by less favourable economic developments at home and abroad, and by factors of a one-off nature (the refugee crisis, the impact of BAMC transactions, court judgments).

Figure 6.4: Public finance structural balance



Note: Structural balance estimate by the MoF reflects targeted dynamics, while the EC estimate only includes adopted measures.
Source: EC, Ministry of Finance - Draft budgetary plan, October 2016.

Structural measures include the preparation of changes in healthcare. Four legislative proposals are under preparation: a) a bill for a patients' rights act, which is now undergoing public discussion until mid-January, and sets out maximum waiting times for a doctor, introduces new referral urgency level (extremely urgent), and regulates waiting lists and queues in detail, b) a bill of amendments to the health services act, c) a bill of amendments to the healthcare and health insurance act, and d) proposed starting points for a public institutes governance and management act. This is a package of changes that should address the main difficulties in healthcare, whereby changes are planned not just in funding, but also in organisation, management, etc. Changes are also being prepared in the area of long-term care. The white paper on pensions has been undergoing public discussion for some time now, and a legislative bill on pensions will be drawn up in 2017.

[14] The agreement with Fides stipulates that the standards and norms for doctors are to be approved, and bonuses for doctors that exceed the norms by more than 30% will be allowed. The criteria for these bonuses will be the subject of further negotiation. The agreement also stipulates that the government will bring forward and coordinate a bill of amendments to the public sector salary system act that would abolish the restrictions on the 57th wage grade, which workers in the public sector can reach through promotion.
[15] The measures from 2016 that will have an impact on wage growth in 2017 are the abolition of the reduction in wage grades in September 2016, and the promotions at the end of the year.

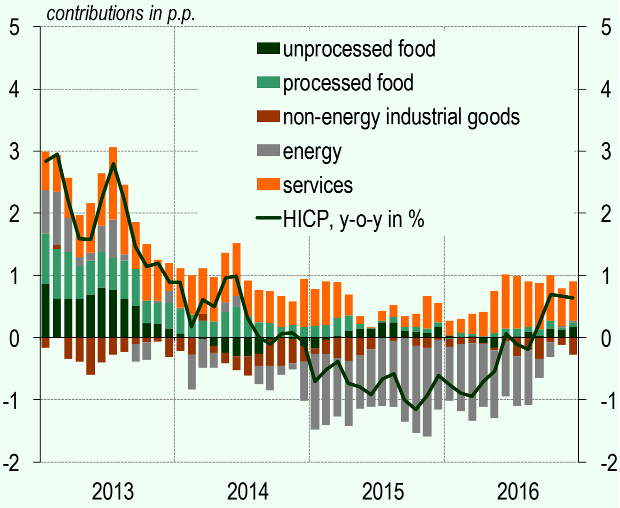
7 Price Developments

Inflation in Slovenia rose in the second half of 2016, turning positive in September after two years of deflation, and averaged 0.7% in the final quarter, still slightly below the average across the euro area. The rise was primarily the result of developments in energy prices, year-on-year growth in which turned positive at the end of the year, although prices of unprocessed food were also a factor in the rise. Headline inflation thus approached the core inflation indicators, which in the second part of the year did not rise. The positive trend in core inflation observed in the first half of the year, which was primarily attributable to the tourism sector, came to a halt towards the end of the year.

Structure of price developments

Average annual headline inflation as measured by the HICP in the final quarter was up 0.7 percentage points on the previous quarter, as a result of a stronger increase in October. Following an increasing dynamic in the majority of 2016, it had risen to 0.7% by October, before falling to 0.6% in December. The rise over the last three months was primarily attributable to energy prices, which ended their period of sharply negative year-on-year growth and entered the territory of positive growth at the end of the year. There was no significant change in the average core inflation indicators over the final quarter compared with the previous quarter. There was a stronger rise in October, but they fell again afterwards. The positive contribution made by services prices declined slightly, while the negative contribution made by prices of non-energy industrial goods also declined, although the year-on-year fall in the latter increased again towards the end of the year.

Figure 7.1: Contributions to headline HICP inflation

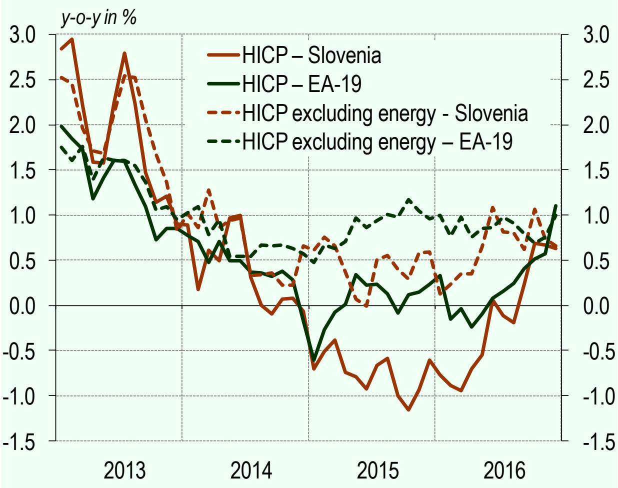


Source: Eurostat, Bank of Slovenia calculations.

Macroeconomic factors

The core inflation indicators underwent a downturn towards the end of the year, and fell below the average across the euro area, where core inflation rose in the final two months of 2016. After a sharp rise in core inflation in Slovenia caused by prices of non-energy industrial goods in October 2016, the rates of growth again fell below 1% in the final two months of the year. The narrowest core inflation indicator stood at 0.5% at the end of the year, 0.4 percentage points less than the average across the euro area. After a sharp rise in the first part of the year, year-on-year growth in services prices slowed in the second part of the year, while there remained no posi-

Figure 7.2: Inflation in Slovenia and the euro area



Source: Eurostat.

tive contribution by prices of non-energy industrial goods, which are recording low but positive year-on-year growth on average across the euro area.

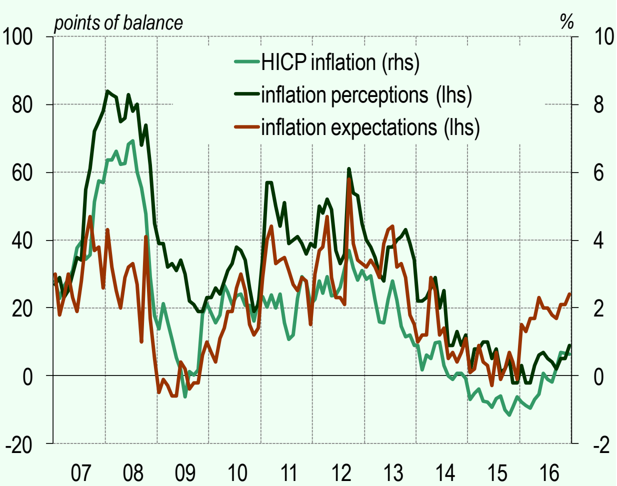
The economic situation remains favourable in the domestic environment. After falling at the beginning of 2016, the consumer confidence indicator improved throughout the year, which has also been reflected in the further strengthening of private consumption. The number of registered unemployed is falling rapidly, while employment is growing robustly and the prevailing expectation is that it will continue to rise. Growth in the wage bill also strengthened further in the autumn months, slightly more in the public sector. According to a SURS survey, expectations of price developments over the next 12 months rose again towards the end of the year, which is most likely the result of developments in the market for refined petroleum products.

Cost pressures are also continuing to strengthen. Commodity prices on global markets are rising at increasing year-on-year rates. Import prices are also rising as a consequence, which was exacerbated for the majority of 2016 by the fall in the euro. Aggregate unit labour costs are also continuing to rise, although this is not the case in industry, where after the first quarter of the year they began falling again following high year-on-year growth in 2015.

Microeconomic factors

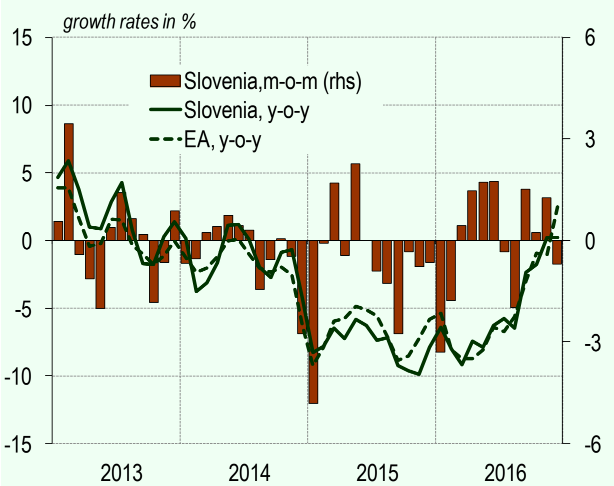
Energy prices began rising again in year-on-year terms at the end of 2016 after a long period of decline and stagnation. The contribution to headline inflation made by energy prices in the final quarter was much higher than in the previous quarter. This was largely the result of the low base, although in addition it was somewhat attributable to current growth in oil prices. Prices of gas, solid fuels and derived heat rose in current terms in November, bringing a sharp increase in year-on-year growth in energy prices. The rise in global oil prices in December brought a sharp rise in energy prices in the euro area, although the impact on retail prices in Slovenia was deferred. According to the SURS, prices of refined petroleum products actually fell in current terms in De-

Figure 7.3: Inflation perceptions and expectations



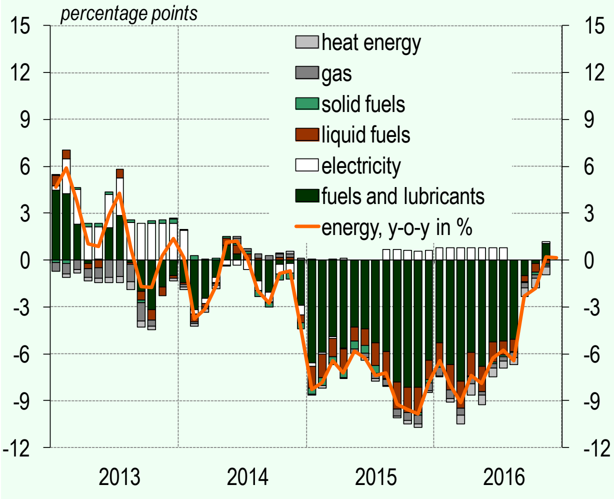
Sources: SORS.

Figure 7.4: Energy prices



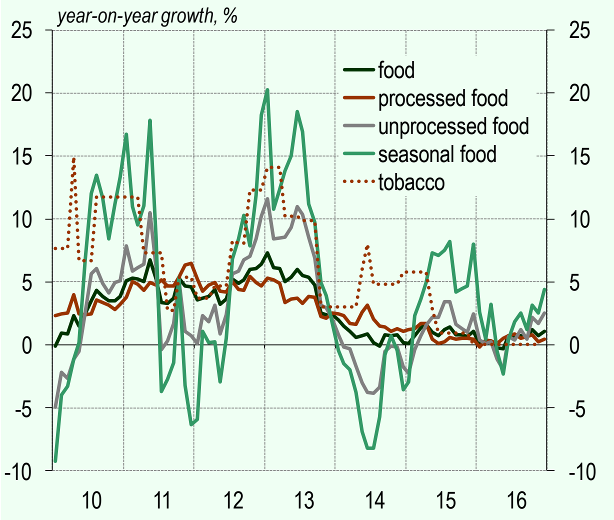
Source: Eurostat, Bank of Slovenia calculations.

Figure 7.5: Contributions to energy inflation



Source: ECB.

Figure 7.6: Food prices



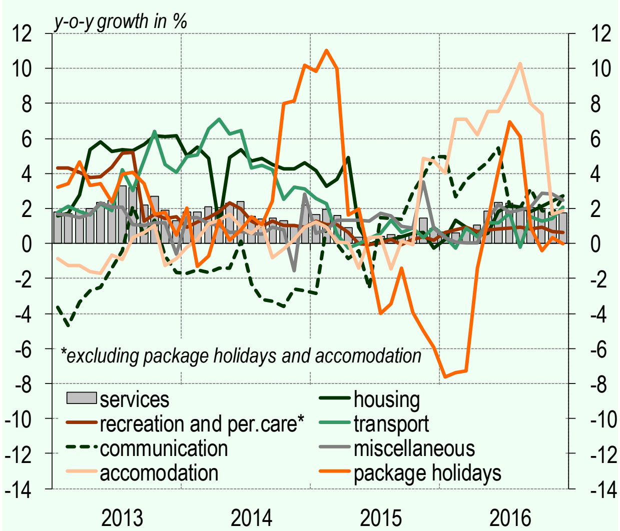
Sources: Eurostat, Bank of Slovenia calculations.

cember. Year-on-year growth in energy prices stood at 0.2% at the end of the year, 2.3 percentage points less than the average across the euro area. In November the government fully liberalised the pricing of refined petroleum products sold alongside motorways and expressways, although the measure has not yet had a major impact on prices: with a few exceptions, prices of 95-octane petrol and diesel on motorways do not as yet differ from prices at other service stations, where they are still regulated.

Growth in food prices in Slovenia outpaced the average across the euro area in the final quarter as a result of a jump in year-on-year growth in prices of unprocessed food. Because prices of unprocessed food did not fall in October as they had in the last few years, there was a sharp increase in year-on-year growth, which also remained higher than the average across the euro area in the following month. The sharp rise in prices of vegetables in December further increased the year-on-year rate of growth, which averaged 2.2% over the final quarter, up 1.5 percentage points on the previous quarter. The strengthening of growth in food prices on global markets came to an end in the second half of 2016, and in Slovenia too year-on-year growth in prices of processed food declined again towards the end of the year, and for the moment has not responded to the rise in consumer purchasing power. There were notable falls in prices in the categories of bread and cereals, and dairy products, which had previously risen for some time.

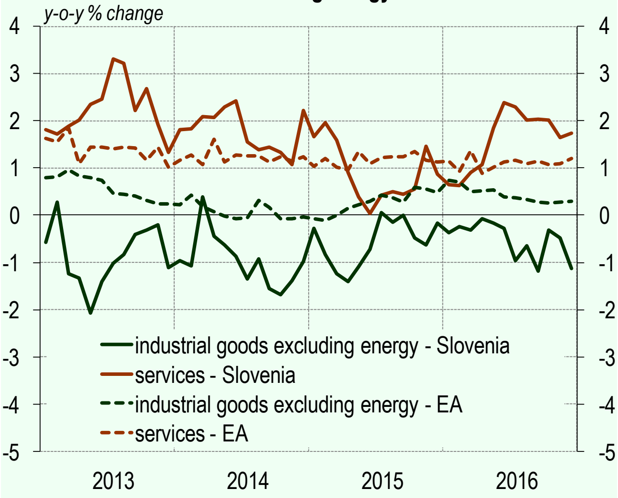
Year-on-year growth in services prices slowed towards the end of the year: its average over the final quarter was down on the previous quarter, but still above the average across the euro area. Having risen previously, prices of tourism-related services began falling in the final part of the year, thereby reducing overall year-on-year growth in services prices, which averaged 1.8% over the final quarter and 1.7% in the final month of the year. Prices of accommodation services and package holidays fell sharply. Prices of financial services rose sharply in the final quarter, while prices of telephone and internet services rose in year-on-year terms in December as a result of price rises by Mobitel. Growth in services prices across the euro area also declined slightly over the

Figure 7.7: Prices of categories of services



Sources: SORS, Bank of Slovenia calculations.

Figure 7.8: Prices of services and industrial goods excluding energy



Source: Eurostat, Bank of Slovenia calculations.

same period, and was 0.5 percentage points less than growth in Slovenia at the end of 2016.

Year-on-year growth in prices of non-energy industrial goods has not yet entered positive territory, despite strengthening cost pressures. It averaged -0.6% over the final quarter, up 0.3 percentage points on the previous quarter, although it declined again in the final two months of the year. It was outpaced by average growth across the euro area, where the rate is also significantly less volatile, by 0.9 percentage points on average over the quarter. The volatility in Slovenia is primarily attributable to the unstable seasonal dynamic in prices of clothing and footwear, which in the future will become even more unclear, Slovenia's chamber of commerce having decided in November that it will no longer regulate seasonal sales. Growth in prices in this category is being held in negative territory by car prices, which are still falling sharply in year-on-year terms, primarily because of prices of used vehicles.

Industrial producer prices

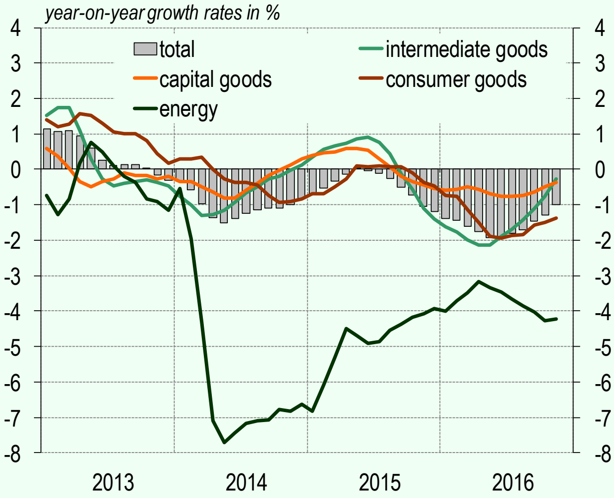
Year-on-year growth in industrial producer prices on the domestic market remains negative, despite strengthening cost pressures, although the fall slowed in the second half of the year. In line with the growth in industrial commodity prices on global markets, the fastest recovery in industrial producer prices on the domestic market is also being recorded by commodity prices, growth in which entered positive territory in No-

Table 7.1: Breakdown of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2016	2012	2013	2014	2015	2016	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4
HICP	*100.0%*	2.8	1.9	0.4	-0.8	-0.2	-0.8	-0.9	-0.9	-0.4	0.0	0.7
Breakdown of HICP:												
Energy	*13.0%*	9.0	1.8	-1.4	-7.8	-5.2	-7.9	-9.1	-7.9	-7.2	-4.9	-0.5
Food	*22.7%*	4.7	4.9	0.8	1.0	0.5	1.2	0.8	0.2	0.0	0.7	1.0
processed	*15.7%*	4.7	3.6	1.8	0.8	0.4	0.4	0.5	0.2	0.5	0.7	0.5
unprocessed	*7.1%*	4.5	7.6	-1.5	1.4	0.6	2.8	1.6	0.3	-0.8	0.7	2.2
Other goods	*27.7%*	-0.2	-0.9	-1.0	-0.6	-0.5	0.0	-0.4	-0.3	-0.2	-0.9	-0.6
Services	*36.5%*	1.5	2.2	1.8	0.9	1.6	0.5	1.0	0.7	1.8	2.1	1.8
Core inflation indicators:												
HICP excl. Energy	*87.0%*	1.8	2.0	0.7	0.4	0.6	0.5	0.5	0.2	0.7	0.7	0.8
HICP excl. energy and unprocessed food	*79.9%*	1.5	1.4	0.9	0.4	0.6	0.3	0.4	0.2	0.8	0.8	0.7
HICP excl. energy, food, alcohol and tobacco	*64.3%*	0.7	0.9	0.6	0.3	0.7	0.3	0.4	0.3	0.9	0.8	0.7
Other price indicators:												
Industrial producer prices on domestic market		1.0	0.3	-1.1	-0.5	...	-0.5	-1.2	-1.6	-1.9	-1.5	...
GDP deflator		0.3	0.9	0.8	1.0	...	0.5	1.5	1.3	0.3	0.2	...
Import prices[1]		2.1	-1.5	-1.1	-1.4	...	-1.8	-2.2	-3.6	-3.9	-0.7	...

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

Figure 7.9: Producer prices on domestic market



Source: SORS, Bank of Slovenia calculations.

vember. The negative contribution made by prices of capital goods also diminished towards the end of the year. By contrast, growth in energy prices at domestic producers has not yet turned upwards, while prices of consumer goods are continuing to fall significantly in year-on-year terms because of prices of durables.

8 Selected Themes

8.1 Analysis of the advantages of Slovenia's export-oriented firms over non-exporters

Slovenian exporters have driven growth in the country's economy, and their importance has increased further over the last decade. The decline in international trade meant that the global economic and financial crisis in 2008 and 2009 hit them significantly harder than non-exporters, although exporters did not suffer the second wave of the crisis in 2012 and 2013, as this mainly affected non-exporters via government austerity measures. During this period exporters were a key element maintaining the economy in a significantly better position that it would otherwise have been.

Since the depths of the first wave of the crisis in 2009, exporters have consistently increased their turnover, value-added and profits. Since 2012 they have also undertaken significant hiring, and have increased their assets and capital. By 2014 and 2015 exporters' profits and value-added had already exceeded their levels from the period of stable economic growth in 2004 and 2005, allowing them to invest using internally generated resources. After the first wave of the crisis, non-exporters adjusted to the weak domestic demand and mostly downsized their operations. Both exporters and non-exporters have sharply increased their assets, capital, sales and, consequently, value-added relative to the period of stable economic growth in 2004 and 2005, but they still have more debt, while employment is at a comparable level.

Both exporters and non-exporters have deleveraged since the first wave of the crisis, although the pace has varied significantly for different types of debt. A sharp reduction in dependence on bank loans is common to both groups. Both groups sharply reduced their liabilities to banks in the period to 2015 (exporters by 40%, non-exporters by 35%), while the main difference between them was the pace of the increase in business-to-business liabilities. In the wake of a sharp increase in sales, exporters increased their liabilities to suppliers, while non-exporters also reduced their liabilities to suppliers as sales declined.

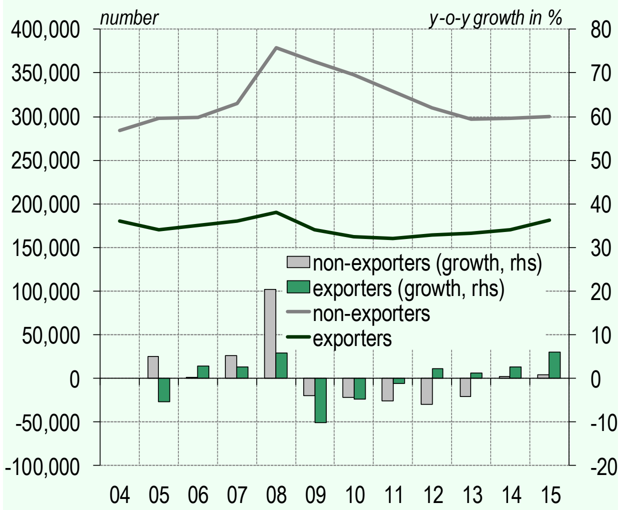
Firms of both types made large debt repayments to domestic banks, and have tried to compensate for the lost funds by borrowing in the rest of the world, primarily in the form of business-to-business lending. This increased by a factor of almost 1.5 between 2009 and 2015 at firms of both types. Between the first and second waves of the crisis firms partly compensated for the loss of domestic bank financing by borrowing at foreign banks, but also foreign bank financing lost importance in 2014 and 2015 in the wake of high profits and the increased use of internal resources.

Leverage increased at firms in the pre-crisis period, primarily as a result of a significantly faster increase in debt than equity. Leverage began to decline after the first wave of the crisis, albeit at different dynamics. Non-exporters primarily reduced their leverage by making large debt reductions, while exporters held their debt at a relatively stable level, but sharply increased their equity.

Employment

Exporters account for over a third of employment in the corporate sector, the figure having increased consistently over the last five years, reaching almost 40% or 181,000 in 2015. In the first wave of the crisis in 2009 exporters reduced employment by twice as much as non-exporters, although this contraction did not last long, as foreign demand began increasing as early as 2010. Non-exporters cut employment by an average of just under 5% each year between 2009 and 2013, while by 2012 exporters were already increasing employment, and by 2015 had strengthened it by 10%, or more than 16,600. Non-exporters only began increasing employment in 2014 and 2015, when it rose by just over 1%, or just over 3,500. By 2015 employment at exporters and non-exporters was comparable to that seen in the years of stable economic growth in 2004 and 2005.

Figure 8.1.1: Number of employees in firms



Sources: AJPES, Bank of Slovenia.

Figure 8.1.2: Total assets of firms

Sources: AJPES, Bank of Slovenia calculations.

Assets

Exporters were hit significantly harder in the first wave of the crisis in 2009, as they faced a powerful shock in international trade.[16] Their total assets increased at double-digit rates of growth in the years before the first crisis, but declined by 8% in 2009. The crisis was slower to hit non-exporters, which did not see a decline in total assets until 2010. Although the crisis hit non-exporters later, the consequences of the double-dip recession are still evident at these firms: total assets also declined in 2014 and 2015, when domestic demand had already begun to recover, while after the second wave of the crisis exporters actually expanded their total assets by 9% between 2013 and 2015. Although firms of both types grew at similar rates before the crisis, the total assets of non-exporters contracted significantly more than the total assets of exporters. Firms of both types nevertheless now have significantly larger total assets than in the period of stable economic growth in 2004 and 2005. In 2015 the total assets of exporters were up just over a half on the period of stable economic growth, while the total assets of non-exporters were up almost 30%. The increase in total assets is primarily related to the sharp increase in sales revenues.

Sales

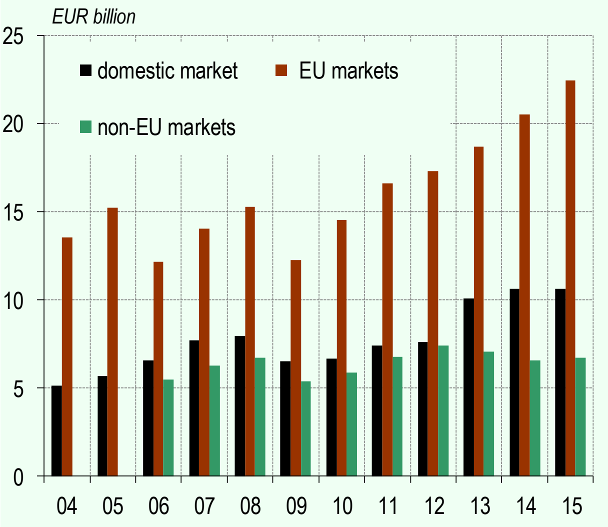
The first wave of the crisis also hit exporters in the form of a larger decline in sales revenues (hereinafter referred to as turnover) in comparison to non-exporters. Exporters' turnover declined by almost a fifth in 2009, while the decline in turnover at non-exporters was just 13%. Despite the larger decline in turnover, the export sector recovered quickly after 2009, and began

[16] According to WTO figures, global exports declined by 12% in real terms in 2009.

Figure 8.1.3: Net sales revenues of firms

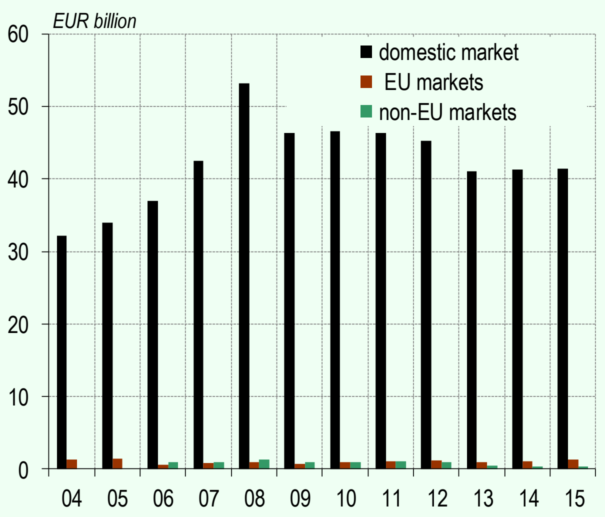
Sources: AJPES, Bank of Slovenia calculations.

Figure 8.1.4: Net sales revenues of exporters



Sources: AJPES, Bank of Slovenia.

Figure 8.1.5: Net sales revenues of non-exporters



Sources: AJPES, Bank of Slovenia.

increasing its turnover at an average annual rate of growth of 9%. They accounted for a third of total corporate turnover in 2009, but by 2015 their turnover had almost equalised with that of non-exporters. Exporters increased their turnover most on EU markets, although turnover on the domestic market and on markets outside the EU were not far behind.[17] By contrast, non-exporters were hit hard in the second wave of the crisis, which was reflected in a 12% decline in their turnover in 2012 and 2013, when the government austerity measures were strongest. The turnover of non-exporters also increased in 2014 and 2015, but only by 1%. Turnover at firms of both types is nevertheless larger now than in the period of stable economic growth in 2004 and 2005. By 2015 it had increased by a quarter at non-exporters, and by just over 100% at exporters.

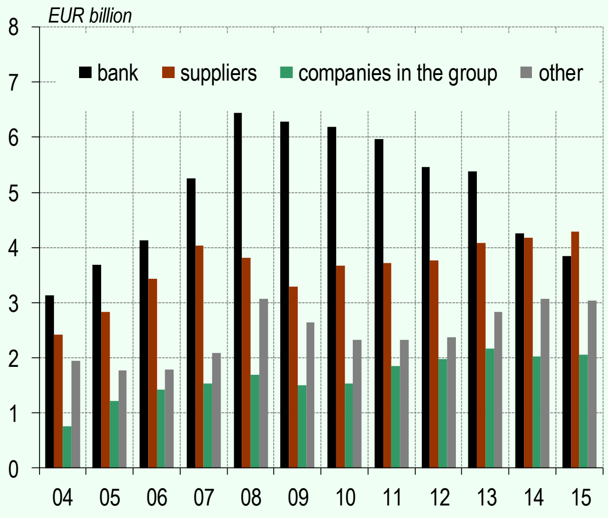
Debt

Both exporters and non-exporters have deleveraged since the first wave of the crisis, although the patterns were essentially different. The largest reduction between 2008 and 2015 at both exporters and non-exporters was in debt to banks, which was down 40% and 35% respectively. The main essential difference between them was the increase in business-to-business liabilities. In the wake of strongly rising sales, the export sector also increased its liabilities to suppliers, while both waves of the crisis badly hit the sales of non-exporters, and their liabilities to suppliers declined as a consequence, although significantly faster than their turnover.

Because firms have made large debt repayments to domestic banks, they are trying to make up for the missing funds by borrowing in the rest of the world, primarily in the form of business-to-business lending. Business-to-business lending declined by just over a third at exporters in the first wave of the crisis, before gradually

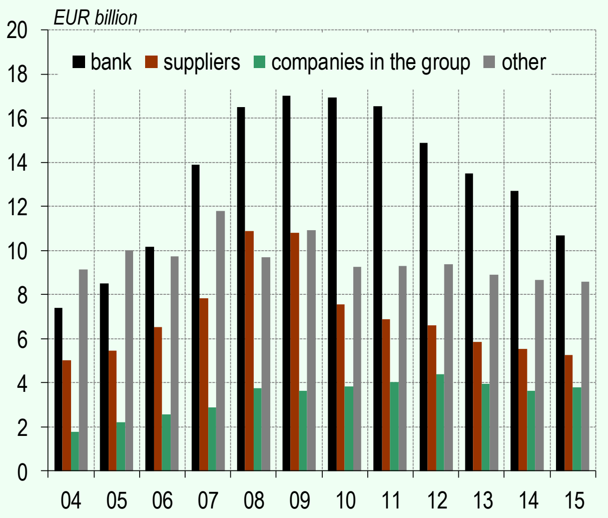
[17] Croatia joined the EU in 2013, since which net sales revenues have consequently declined on markets outside the EU and increased on EU markets. Were the effect to be eliminated, export-oriented firms' sales on markets outside the EU would also have gradually increased since 2012.

Figure 8.1.6: Breakdown of debt of exporters



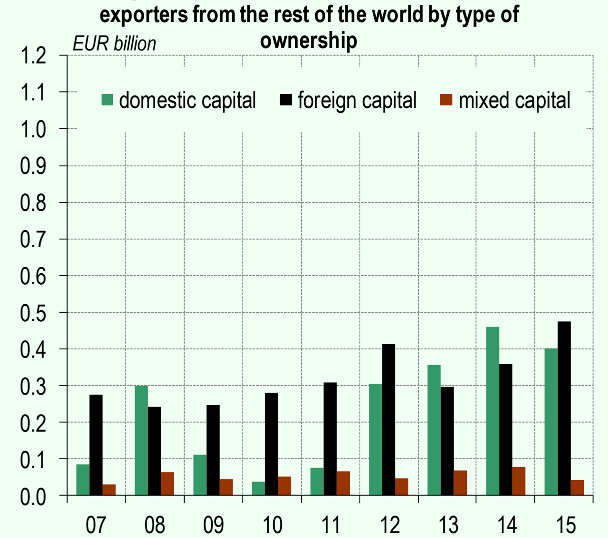
Sources: AJPES, Bank of Slovenia.

Figure 8.1.7: Breakdown of debt of non-exporters



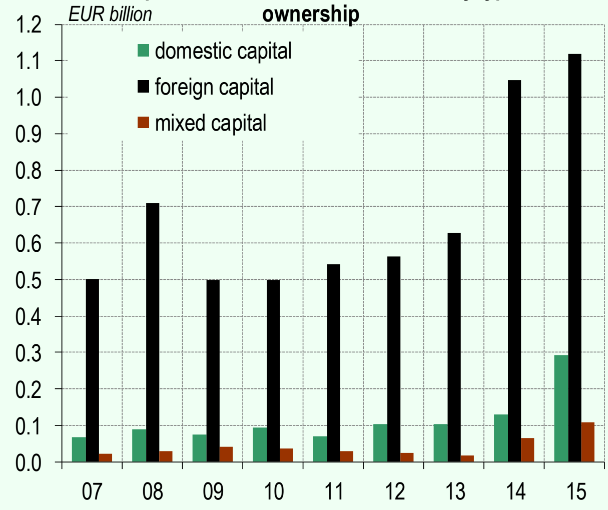
Sources: AJPES, Bank of Slovenia.

Figure 8.1.8: Business-to-business loans to exporters from the rest of the world by type of ownership



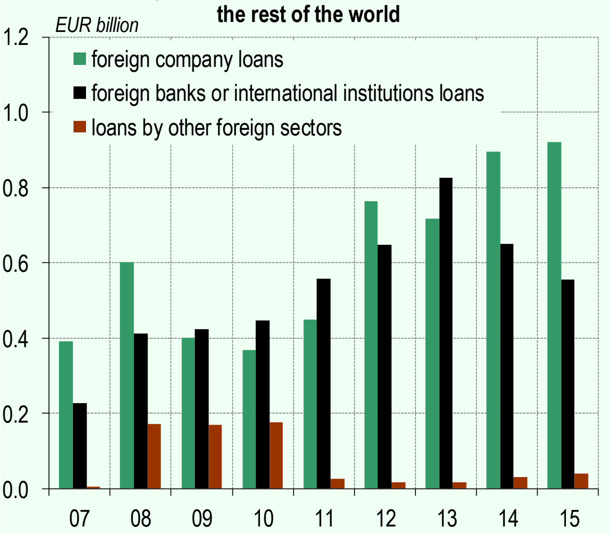
Sources: AJPES, Bank of Slovenia.

Figure 8.1.9: Business-to-business loans to non-exporters from the rest of the world by type of ownership



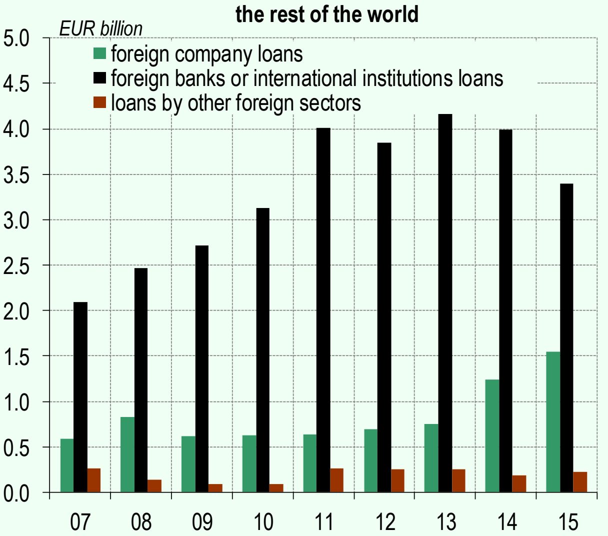
Sources: AJPES, Bank of Slovenia.

Figure 8.1.10: Loans to exporters from the rest of the world



Sources: AJPES, Bank of Slovenia.

Figure 8.1.11: Loans to non-exporters from the rest of the world



Sources: AJPES, Bank of Slovenia.

increasing to reach a level in 2015 that was 1.5 times the stock in 2010. It was primarily exporters under domestic ownership that increased business-to-business loans, particularly those in the manufacturing sector. Non-exporters are increasing their business-to-business loans at the same pace. The latter increased significantly in 2014 and 2015, which was related to takeovers of domestic firms by foreign owners and strengthened domestic demand, which was particularly encouraging to retail.[18]

The dynamics in loans from foreign banks have changed over the last two years. Exporters compensated for the loss of domestic bank financing between 2010 and 2013 with growth of 23% in loans from foreign banks, and repaid debt to foreign banks at almost the same pace in 2014 and 2015. This was particularly the case for manufacturing firms, which replaced bank financing with external business-to-business borrowing from 2012 onwards. A similar trend of debt repayment to foreign banks, albeit slower, was also evident at non-exporters.[19] This is an indication that the importance of bank financing declined sharply over the final two years of the analysis, partly on account of firms that found it easier to replace bank financing with foreign business-to-business financing, but primarily on account of firms' high profits.

Profits

The performance of exporters as measured by value-added or profit has consistently improved since the depths of the first wave of the crisis in 2009. The increase in value-added averaged 6% over each year since. Their profits have also risen sharply during this period, and over the last two years exceeded the profits recorded during the period of stable economic growth in 2004 and 2005. By contrast, firms primarily oriented towards the domestic market were profoundly affected by the double-dip recession. From the peak between 2007 and 2010, their profits declined to virtually zero, then recovered slightly until the second wave of the crisis hit in 2012 and 2013. At that point they declined again, then recorded solid growth in 2014 and 2015 as domestic demand recovered, almost reaching their level of the period of stable economic growth.

Figure 8.1.12: Value added and profits of exporters

Sources: AJPES, Bank of Slovenia.

Figure 8.1.13: Value added and profits of non-exporters

Sources: AJPES, Bank of Slovenia.

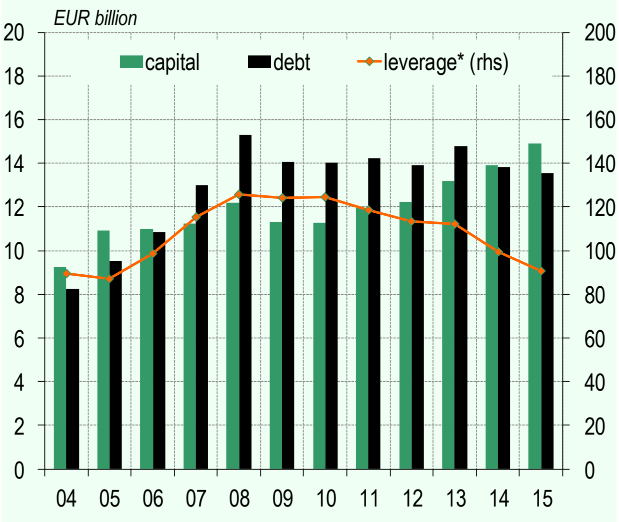
[18] Retail firms accounted for almost a fifth of the increase in 2014 and 2015, while three corporate takeovers (Laško, Radenska, Telemach) accounted for half of the increase. The largest business-to-business loan from the rest of the world in the amount of EUR 300 million was raised in 2014 by a newly established firm in the real estate activities sector that is rapidly expanding its operations primarily via its ownership of the Qlandia retail centres.

[19] In 2013 a loan of EUR 440 million was obtained from international institutions for the construction of Block 6 at Šoštanj power station, for which reason a significant increase in loans by foreign banks or international institutions to firms primarily oriented towards the domestic market is disclosed. Were this effect to be eliminated, the deleveraging of firms primarily oriented towards the domestic market at foreign banks would have begun in 2012.

Leverage

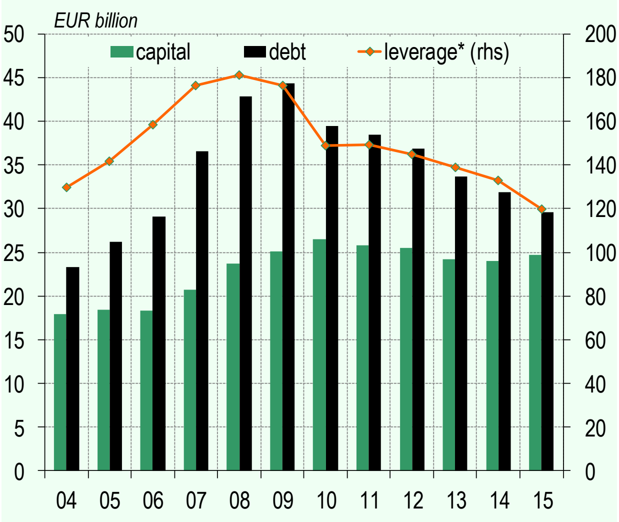
Leverage as measured by the debt-to-equity ratio increased in the pre-crisis period, primarily as a result of a significantly faster increase in debt than equity, both at export-oriented firms and at firms primarily oriented towards the domestic market. After the first wave of the crisis, firms of both types began reducing their leverage, albeit in different ways. Firms primarily oriented towards the domestic market mainly deleveraged by making large debt reductions (an average of 6% each year between 2010 and 2015), while export-oriented forms held their debt at a relatively stable level, but sharply increased their equity. Export-oriented firms increased their equity at an average of 6% each year between 2011 and 2015. Exporters' leverage in 2015 thus almost reached its levels of the period of stable economic growth, while leverage at firms primarily oriented towards the domestic market was actually lower.

Figure 8.1.14: Leverage* of exporters



Sources: AJPES, Bank of Slovenia. * measured as debt to equity

Figure 8.1.15: Leverage* of non-exporters



Sources: AJPES, Bank of Slovenia. *measured as debt to equity

Methodology

Data capture

The analysis of the performance of firms and sole traders is based on data from annual reports submitted to Ajpes (the Agency for Public Legal Records and Related Services) each year by firms and sole traders in accordance with the Companies Act. The data excludes firms whose performance would have made the collective illustration of corporate performance unrealistic,[20] and also firms classified under the government sector or the financial corporations sector. The latter are usually required to report to their parent financial or investment institutions, be they insurance corporations, investment funds, pension funds, etc.

Corporations and sole traders together make up the corporate sector. There were 126,000 business entities in total in 2015, approximately half of which were corporations, and half of which were sole traders. Exporters accounted for just over 10% of the total. Around 40% of all small, medium-size and large enterprises are exporters, compared with just under 15% of micro enterprises, and 5% of sole traders.

Definition of terms

The **period of sustainable economic growth** is 2004 and 2005, when the economy was not overheating. The average over these two years is taken for comparative purposes.

The **corporate sector** consists of corporations and sole traders.

Export-orientation: a firm is defined as an **exporter** if net sales revenues in the rest of the world account for more than 25% of its total net sales revenues. Otherwise a firm is defined as a **non-exporter**. The threshold of 25% represents a dividing line between exporters and non-exporters, which is also reflected in terms of time, and also in the shape of differing attributes. The dividing line of exports of 25% also appears in other research work and material.

The **type of ownership** is measured with regard to the origin of the firm's equity. It can be domestic, foreign or mixed.

The **headcount** is calculated as the average number of employees on the basis of the number of hours worked in the calendar year for which employees received wages and wage compensation, divided by the number of possible hours worked in the calendar year.

Value-added is calculated as gross operating profit minus costs of merchandise, materials and services and other operating expenses.

Leverage is measured as the ratio of debt to equity.

Profit is measured as pre-tax profit, i.e. total profits minus total losses.

Assumptions

Firms are required to report in accordance with the Companies Act, and are liable themselves for the accuracy of reporting. In certain cases firms fail to report all of the values, making it necessary to assume a value of zero to calculate the relevant indicators and various aggregates. Were all firms that fail to report the values of the specific items required for the analysis to be excluded, the sample would be significantly reduced and would no longer reflect the whole corporate sector, but just a smaller cross-section. The aforementioned assumption has therefore been applied, with an awareness that the results could be slightly biased on these grounds.

[20] Excludes Slovenski državni holding d.d., Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. and the BAMC.

8.2 Outlook for growth in Slovenia's exports and economic situation in the major trading partners

The estimate for growth in foreign demand over the medium term is favourable, and provides a sound basis for stable growth in turnover in Slovenia's export sector. It is based on higher forecasts of growth in imports by the trading partners, just over half of which is expected to be generated by the five major markets: Germany, Italy, Austria, Croatia and France. The proportion of Slovenia's merchandise exports accounted for by these countries is around 53%, and they account for approximately half of the overall growth in merchandise exports, where intermediate goods play the main role. In the majority of cases the forecasts for the magnitude and structure of economic growth for the major trading partners in the period to 2018 suggest an improvement in the terms of export in all the broad economic categories of products. The likely exception is Italy, where only weak economic growth is expected, although Slovenian exporters have shown in the last decade that they are capable of increasing exports despite weak developments in macroeconomic aggregates in the market in question.

Growth in foreign demand and importance of the major trading partners

The latest estimate according to Bank of Slovenia methodology points to stable, relatively high growth in foreign demand over the medium term. Annual growth is estimated at around 5%, whereby the calculation is broadly based on individual countries' shares of Slovenia's merchandise exports and the IMF's forecasts for imports by these countries. Trading partners whose share of exports is at least 1% are included, while the average estimate for growth in imports by the remaining countries is applied to the shares of other markets. At the same time the estimate is responsive to changes in the geographical breakdown of exports: the weights of individual countries are regularly updated in the calculation.[21]

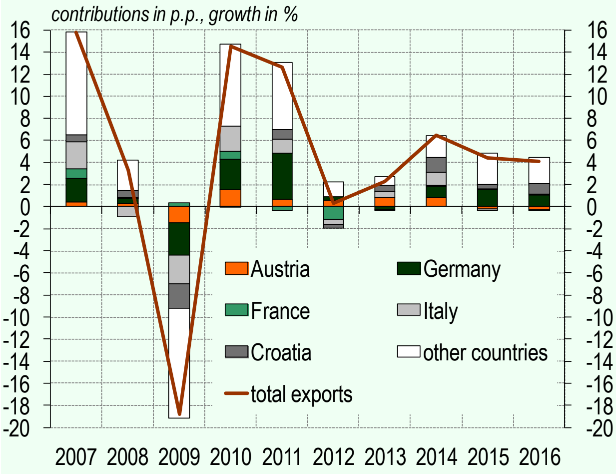
Figure 8.2.1: Contributions to foreign demand growth

2016-2019: estimate of foreign demand growth
Sources: Eurostat, IMF, Bank of Slovenia estimate.

Although Slovenia's merchandise exports are geographically diversified, they depend to a significant extent on the markets of five countries. Over the first nine months of 2016 there were 22 markets that accounted for at least 1% of total merchandise exports by Slovenian exporters. They included Germany, Italy, Austria,

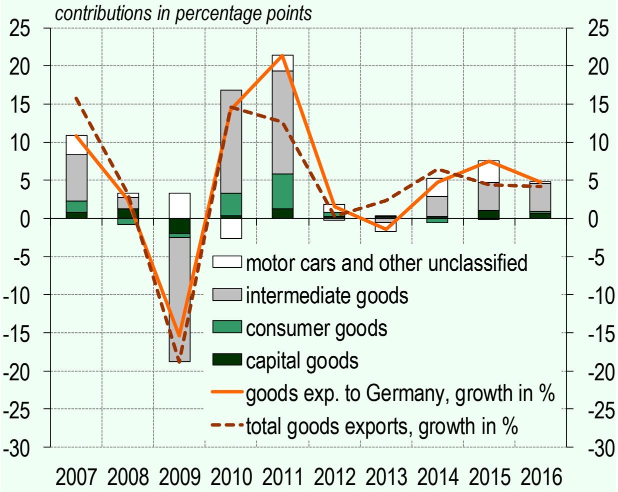
[21] The weights of individual countries in total merchandise exports between October 2015 and September 2016 are applied to the estimate of growth in foreign demand between 2016 and 2019.

Figure 8.2.2: Contributions of countries to year-on-year growth of Slovenia's goods exports



2016: Jan.-Sep.
Sources: SORS, Bank of Slovenia calculations.

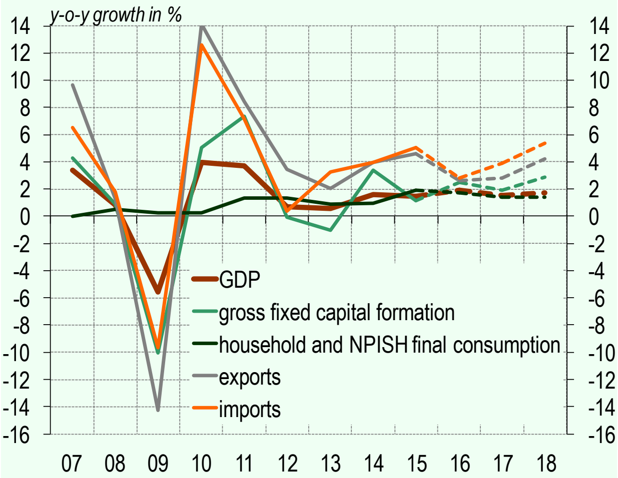
Figure 8.2.3: Contributions to nominal growth of Slovenian goods exports to Germany



2016: Jan.-Sep.
Sources: SURS, Bank of Slovenia calculations.

Croatia and France. Their share of exports has fluctuated between 52% and 54% over the last decade. They accounted for approximately half of the overall growth in exports in the last decade, and their contribution to growth in foreign demand in the medium term is expected to be comparably large. Of the major trading partners, France was in last place in the geographical breakdown of merchandise exports in 2016, accounting for less than 5% of total exports. Because the individual shares of other countries were significantly smaller, the analysis below focuses on exports and the economic outlook in the major partners, which also have the largest impact on the estimate of growth in foreign demand.

Figure 8.2.4: Economic developments and outlook: Germany



2016-2018: European Commission forecasts, autumn 2016
Sources: Eurostat, European Commission, Bank of Slovenia calculations.

Germany

Germany is traditionally Slovenia's largest trade partner, and accounts for more than a fifth of its merchandise exports. Merchandise exports to Germany in the 12 months to the end of the third quarter of 2016 were up 37% on the pre-crisis peak in 2008 in nominal terms, having increased in all the broad economic categories of products.[22] Because the Slovenian export sector is largely a supplier of intermediate goods to foreign firms, it is no surprise that this category is strongly prevalent in exports to Germany.[23] Intermediate goods account for 60% of total exports to Germany, and also account for the majority of growth in exports to this market. The proportion accounted for by capital goods has been stable at 10% in recent years. Exports over the 12 months to the third quarter of 2016 were up just over a fifth on 2008, exporters having exploited growth in investment demand in Germany after 2009. After recording high growth in 2010 and 2011, Slovenian exporters of consumer goods

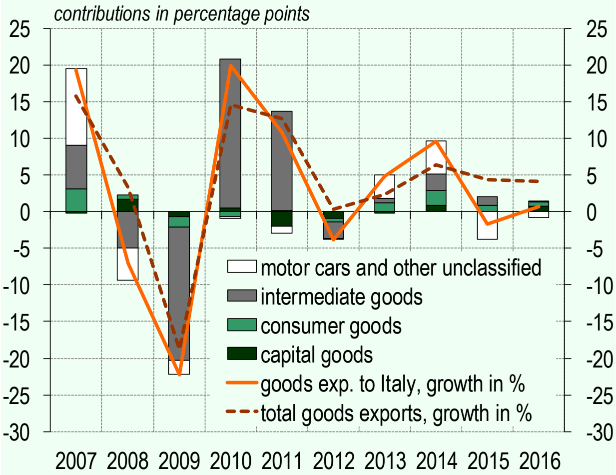
[22] Merchandise exports are divided into capital goods, intermediate goods and consumer goods according to the Broad Economic Categories classification. A category of goods not elsewhere specified has been added, which in Slovenia's exports primarily consists of cars.

[23] Intermediate goods account for 55% of Slovenia's merchandise exports, and for 14 percentage points of the 23% increase in total exports in value terms since 2008. Consumer goods account for 24%, capital goods for 11% and cars for 9%.

were no longer able to exploit the strengthening of private consumption in Germany. Exports of consumer goods actually declined in 2014 and 2015, thereby reducing the proportion of total exports to Germany that they account for from 20% to 17%. At the end of the third quarter they were nevertheless 34% above their pre-crisis peak in 2007. Germany is also an important market for Slovenian car exports, which have increased by almost 160% over the last decade. The proportion of total exports to Germany that they account for has strengthened from 8% to 12% since 2013, reaching their level in the crisis year of 2009, when Germany was subsidising a car scrappage scheme.

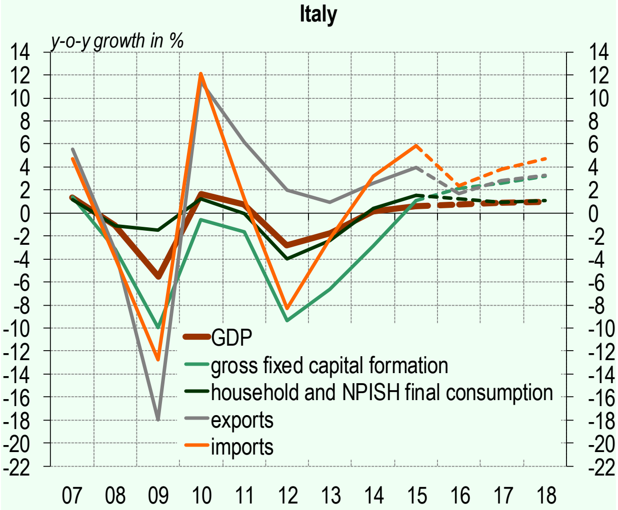
The outlook for further growth in exports to the German market is favourable. The German economy has grown consistently since the global trade crisis in 2009, and European Commission forecasts suggest that growth will remain above 1.5% in the period to 2018. The forecast structure of growth is also favourable, with Germany's import demand strengthening in all broad economic categories of products. Both the government sector and households will increase their final consumption, the latter as a result of a sharp fall in unemployment and further growth in wages. Investment should begin to increase more notably towards the end of the forecasting period, including in machinery and equipment. After a slowdown in 2016, export growth is forecast to strengthen, which will increase orders for Slovenian firms integrated into German supply chains.

Figure 8.2.5: Contributions to nominal growth of Slovenian goods exports to Italy



2016: Jan.-Sep.
Sources: SORS, Bank of Slovenia calculations.

Figure 8.2.6: Economic developments and outlook: Italy



2016-2018: European Commission forecasts, autumn 2016
Source: Eurostat, European Commission, Bank of Slovenia calculations.

Italy

Italy remains Slovenia's second most important trading partner, although its share of exports has declined over the last decade. Before the recession, which brought a reduction in Italy's GDP as early as 2008, it stood at more than 13%, but it had declined to 11% by the end of the third quarter of 2016. Total merchandise exports to Italy increased by just 5% over this period, partly as a result of a decline in 2015. Although the importance of industry in the Italian economy is diminishing,[24] Slovenia's export sector is strongly integrated into Italian firms' supply chains, which is evidenced by the proportion of more than 70% of Slovenia's merchandise exports to the Italian market accounted for by intermediate goods. Exports of intermediate goods to Italy over the 12 months to the end of the third quarter of 2016 were up 9% on their pre-crisis peak in 2007, although value-added in Italian industry declined by 14% over this period. The higher level of exports of intermediate goods is primarily the result of strong growth in 2010 and 2011. Exporters of consumer goods have performed even better over the last decade. Exports of consumer goods over the 12 months to the third quarter of 2016 were up 17% on their pre-crisis peak, despite the decline in private

[24] The proportion of Italy's GDP accounted for by value-added in industry declined from 20% in 2000 to 17% in the third quarter of 2016.

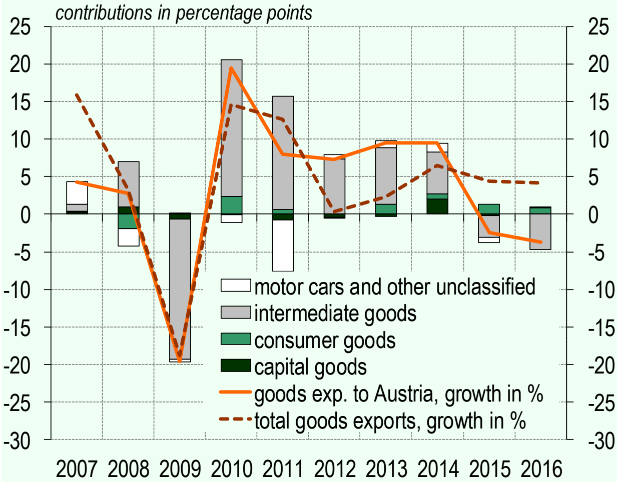
consumption in Italy. In the third quarter of 2016 this was still 5% below its level in 2007, despite the recovery since 2014. Exports of capital goods and cars are low. Exports of capital goods over the 12 months to the end of the third quarter of 2016 were down just over a fifth on their peak in 2008, despite the growth since 2014. This is in line with the level of investment in Italy, which has declined by 28% over the last decade. Exports of cars declined by more than 40% over the same period, and their decline since 2014 was the main factor in the weak developments in exports to Italy in 2015 and 2016.

Growth in exports to the Italian market over the upcoming medium term is likely to be lower than growth in aggregate exports. The recovery of the Italian economy after the emergence from the second wave of the crisis in 2014 was one of the weakest in the euro area, and the projections for the period to 2018 are also among the weakest, with growth of less than 1%. The future structure of the growth nevertheless presents opportunities for faster growth in Slovenia's exports to the Italian market, as Italy's exports are expected to strengthen, and with it its industrial production, while firms are also expected to increase their investments in machinery and equipment more notably. Growth in private consumption is forecast to remain relatively weak, as unemployment is expected to remain above 11% and wage growth is expected to be almost negligible.

Austria

The Austrian market remains the third most important for Slovenian exporters, although it is very specific, as re-exports of fuels and lubricants account for a large proportion of the total. Total merchandise exports to Austria have increased by 27% over the last decade. The share of Slovenia's total exports that they account for ranges from 8% to 9%, approximately 1 percentage point of which consists of re-exports of fuels and lubricants. Ever more so than in the cases of Germany and Italy, intermediate goods are prevalent, albeit primarily as a result of the large proportion of fuels and lubricants.

Figure 8.2.7: Contributions to nominal growth of Slovenian goods exports to Austria



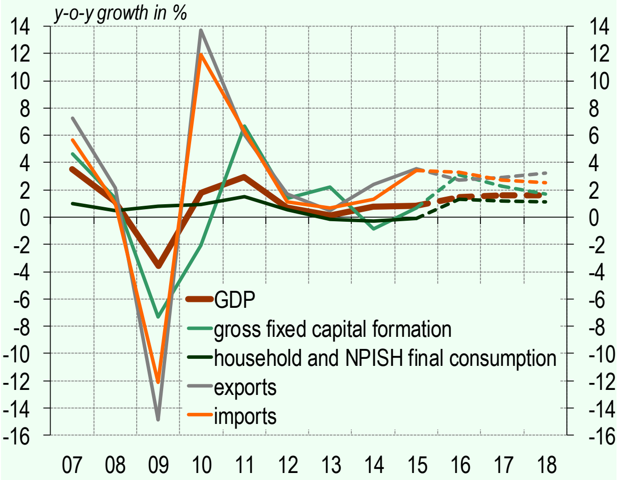
2016: Jan.-Sep.
Sources: SORS, Bank of Slovenia calculations.

The proportion of exports to Austria accounted for by intermediate goods declined from its peak of 77% in 2013 to 73% in 2016. The increase in the proportion accounted for by intermediate goods coincides with the increase in re-exports of fuels and lubricants after 2009. The proportion that they account for peaked in 2013, when they accounted for more than 18% of total merchandise exports to Austria. The fall in oil prices in global markets meant that re-exports of fuels and lubricants began to decline in value terms. The decline amounted to just under a fifth in 2015, and to more than 50% over the first nine months of 2016. This is practically the sole factor in the nominal decline in aggregate exports to the Austrian market over the last two years.[25] Exports of intermediate goods to Austria over the 12 months to the end of the third quarter of 2016 were nevertheless up 37% on 2008.

The position of Slovenian exporters of consumer goods is strengthening on the Austrian market, while developments in exports of capital goods and cars were weaker. Exports of consumer goods in the 12 months to the end of the third quarter of 2016 were up 44% on the pre-crisis peak in 2007, having increased even between 2013 and 2015, when private consumption declined in Austria. Growth in investment in Austria was also weak in the last decade. It increased by just 3% overall. In this environment exports of capital goods re-

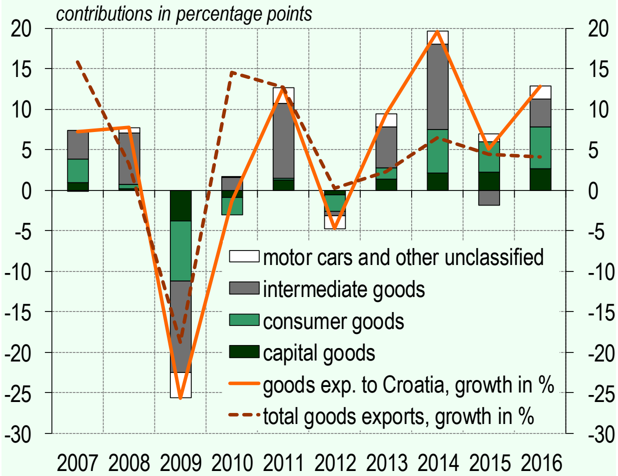
[25] Merchandise exports to Austria excluding fuels and lubricants increased by 1.2% in 2015, and by almost 5% in year-on-year terms in the first nine months of 2016.

Figure 8.2.8: Economic developments and outlook: Austria



2016-2018: European Commission forecasts, autumn 2016
Source: Eurostat, European Commission, Bank of Slovenia calculations.

Figure 8.2.9: Contributions to nominal growth of Slovenian goods exports to Croatia



2016: Jan.-Sep.
Source: SORS, Bank of Slovenia calculations.

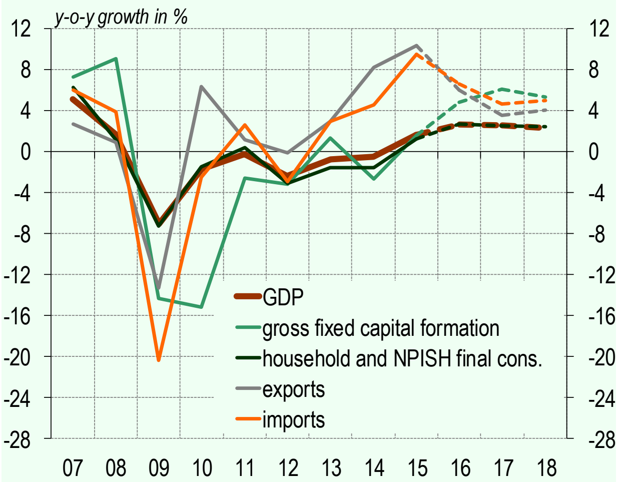
mained practically at their pre-crisis level. At the same time the importance of the Austrian market for car exports declined sharply. The proportion of total merchandise exports accounted for by cars was more than 10% in 2008, but stood at just 3% in 2016, which as in other markets is likely to be at least partly the result of changes in Revoz's trading chain.

Although Austria avoided the euro area debt crisis, its economic growth in the period to 2015 was very weak, but the outlook for the medium term is more favourable. GDP growth averaged significantly less than 1% between 2012 and 2015, and the largest factor acting as a brake on growth was weak private consumption. This is expected to strengthen over the medium term according to European Commission forecasts, with moderate growth in employment and wages. Moderate growth in investment is forecast, most notably in machinery and equipment, while export growth is forecast at around 3%. This should strengthen industry, and consequently demand for intermediate goods. Annual GDP growth is forecast to exceed 1.5% by 2018.[26]

Croatia

The Croatian market has been increasing in importance to Slovenia's export sector since 2013, and

Figure 8.2.10: Economic developments and outlook: Croatia



2016-2018: European Commission forecasts, autumn 2016
Source: Eurostat, European Commission, Bank of Slovenia calculations.

the structure of export growth is relatively balanced. After declining at the outbreak of the crisis, Croatia's share of total exports increased to 8% in 2016, drawing level with that of Austria. Exports to Croatia have been increasing rapidly since it joined the EU, and sales are strengthening in the three broad economic categories of goods and in cars. Croatia's contribution to the growth in total merchandise exports over the first nine months of 2016 was actually equal to that of Germany. The structure of export growth is relatively balanced: intermediate goods are not as prevalent as in the cases of Germany, Italy and Austria. Total exports to Croatia in the 12

[26] Assuming that Slovenia remains a transit country for exports of fuels and lubricants, higher oil prices will also contribute to nominal growth in Slovenia's merchandise exports to Austria over the medium term.

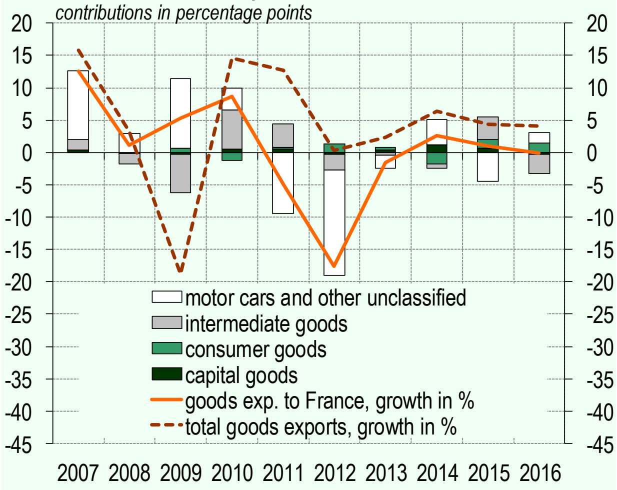
months to the end of the third quarter of 2016 were up almost a fifth on the pre-crisis peak in 2008 in nominal terms. There was a sharp increase of 30% in exports of capital goods, although investment in Croatia declined even more sharply than in Italy. Similarly, exports of intermediate goods were up 9% on their pre-crisis peak in 2007, despite a decline of 17% in value-added in industry in Croatia. Although unemployment has risen sharply over the last decade and private consumption is down just over a tenth on its pre-crisis peak, Slovenia's exports of consumer goods to Croatia have increased by 10%. The proportion of exports to Croatia accounted for by consumer goods is notably higher compared with the other major trading partners at 30%, a reflection of the links between trading firms in the two countries.

The Croatian economy emerged from a long recession in 2015, and the recovery is expected to strengthen over the medium term. Over the six years of recession beginning in 2009, Croatia's GDP declined by 14%, and the initial rebound from the crisis was relatively weak. Economic growth is expected to strengthen to approximately 2.5% over the medium term according to European Commission forecasts. It is expected to be based on private consumption, with solid growth in employment and wages. Investment is also expected to increase, both in the private sector as a result of improved financing conditions, and in the public sector as a result of the disbursement of EU funds. Growth in exports to the Croatian market over the upcoming medium term is also likely to outpace growth in aggregate exports.

France

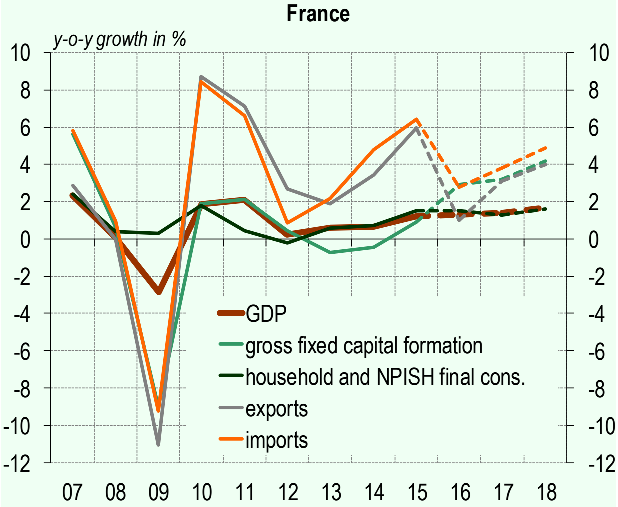
France has been declining in importance for Slovenia's exports in recent years, but only as a result of a decline in car sales. In contrast to the other major trading partners, exports to France peaked in 2010, as exports of cars increased sharply in 2009 and 2010 owing to a government scrappage scheme. France then accounted for an 8% share of Slovenia's total merchandise exports. Exports over the 12 months to the third quarter of 2016 were down a fifth on their peak, which was attributable to a decline of 45% in exports of cars. France's

Figure 8.2.11: Contributions to nominal growth of Slovenian goods exports to France



2016: Jan.-Sep.
Source: SORS, Bank of Slovenia calculations.

Figure 8.2.12: Economic developments and outlook: France



2016-2018: European Commission forecasts, autumn 2016
Source: Eurostat, European Commission, Bank of Slovenia calculations.

share of exports declined to less than 5%. The French market is also the most specific of the five most important markets, as cars still accounted for approximately 40% of total merchandise exports in 2016, which is related to Revoz's integration into Renault's production and sales processes.

In contrast to cars, exports of intermediate goods, consumer goods and capital goods have increased over the last decade. Exports of intermediate goods over the 12 months to the end of the third quarter of 2016 were up just 1.5% on their pre-crisis peak in 2007, in line with the developments in French industry during this period. The proportion of total exports to France that they account for stood at just over 40% in 2016. Private consumption in France increased during the crisis, which Slovenian exporters of consumer goods exploited. Exports of consumer goods to France in the 12 months to the end of the third quarter of 2016 were up almost a fifth on the pre-crisis peak in 2007, and the proportion of total exports to France that they account for increased from 10% to 14%. Exports of capital goods also increased sharply, by more than 60%, despite the slight decline in investment in France relative to the pre-crisis period. The proportion of total merchandise exports that they account for remains relatively small at 6%.

The French economy has been growing uninterruptedly since 2009, albeit at low rates, but the outlook for the medium term is more favourable. GDP growth averaged barely in excess of 1% between 2010 and 2015, as a result of weaker private consumption and investment. The European Commission is forecasting growth to strengthen to 1.7% by 2018, with all components of domestic demand strengthening. Growth in private consumption is expected to increase to around 1.5%, a gradual fall in unemployment having been forecast. Investment is also forecast to increase, most notably in machinery and equipment, while export growth is also expected to gradually strengthen. The conditions for growth in import demand across all the broad economic categories of products are thus expected to improve.

8 Statistical Appendix

The appendix cites a selection of statistics drawn up 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 in this appendix are given on page 84, while more detailed explanations are given in the appendix to the Bank of Slovenia bulletin.

Table 9.1: Consolidated Balance Sheet of the Monetary Financial Institutions

EUR million	2013	2014	2015	16Q1	16Q2	Aug.16	Sep. 16	Oct. 16
1.1. Claims of the Bank of Slovenia	4,771	7,278	5,410	5,390	5,823	6,076	6,862	6,271
1.2. Claims of other MFIs	5,165	6,680	8,266	8,143	7,856	7,619	7,383	7,533
1. Claims on foreign sectors (foreign assets)	**9,936**	**13,958**	**13,676**	**13,533**	**13,679**	**13,695**	**14,246**	**13,804**
2.1. Claims of the Bank of Slovenia on central government	233	263	2,327	2,987	3,631	4,012	4,219	4,390
2.2.1.1. Loans	1,083	1,149	1,298	1,285	1,230	1,216	1,212	1,190
2.2.1.2. Securities	5,480	6,105	5,814	5,737	5,583	5,635	5,660	5,579
2.2.1. Claims on central government	6,563	7,254	7,112	7,022	6,813	6,850	6,872	6,769
2.2.2.1. Loans	581	671	622	601	591	587	571	564
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	581	671	622	601	591	587	571	564
2.2. Claims of other MFIs on general government	7,144	7,926	7,734	7,623	7,404	7,437	7,443	7,333
2.3.1.1. Loans	14,135	11,213	10,040	9,499	9,307	9,045	8,984	9,012
2.3.1.2. Securities	767	524	462	406	465	475	471	474
2.3.1. Claims on nonfinancial corporations	14,902	11,737	10,502	9,904	9,771	9,520	9,455	9,485
2.3.2. Households and non-profit institutions serving households	8,917	8,762	8,856	8,830	8,920	8,930	8,974	9,041
2.3.3.1. Loans	1,460	1,087	898	891	795	773	789	832
2.3.3.2. Securities	303	408	534	506	503	510	521	520
2.3.3. Claims on nonmonetary financial institutions	1,763	1,495	1,432	1,397	1,298	1,283	1,310	1,352
2.3. Claims of other MFIs on other non-MFIs	25,582	21,995	20,790	20,132	19,989	19,733	19,740	19,879
2. Claims on domestic non-MFIs	**32,959**	**30,183**	**30,850**	**30,741**	**31,025**	**31,182**	**31,402**	**31,601**
3. Remaining assets	**3,670**	**3,771**	**3,119**	**2,737**	**2,587**	**2,437**	**2,354**	**2,489**
Total assets	**46,565**	**47,912**	**47,646**	**47,011**	**47,291**	**47,314**	**48,002**	**47,894**
1.1. Bank of Slovenia	1,054	10	16	742	388	191	0	637
1.2. Other MFIs	8,241	7,409	5,920	5,379	5,358	5,208	5,152	5,217
1. Obligations to foreign sectors (foreign liabilities)	**9,294**	**7,419**	**5,936**	**6,122**	**5,746**	**5,399**	**5,152**	**5,855**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,189	4,673	4,956	4,902	4,975	5,008	5,023	5,048
2.1.1.2. Overnight deposits at other MFIs	8,832	10,441	13,057	13,799	14,247	14,869	14,787	14,898
2.1.1.3.1. Non-monetary financial institutions	15	44	9	7	7	45	51	58
2.1.1.3.2. Other government sector	28	28	53	53	78	75	73	76
2.1.1.3. Overnight deposits at the Bank of Slovenia	43	71	63	61	84	120	123	134
2.1.1. Banknotes and coins and overnight liabilities	13,065	15,185	18,075	18,761	19,306	19,996	19,933	20,080
2.1.2.1. Deposits at the Bank of Slovenia	-	1	1	1	1	1	0	0
2.1.2.2. Deposits at other MFIs	9,804	9,363	7,837	7,542	7,105	6,862	6,800	6,912
2.1.2. Time deposits	9,804	9,364	7,838	7,543	7,106	6,863	6,800	6,912
2.1.3. Deposits reedemable at notice up to 3 months	209	379	315	404	521	515	474	492
2.1. Banknotes and coins and deposits up to 2 years	23,078	24,929	26,229	26,708	26,933	27,374	27,207	27,484
2.2. Debt securities, units/shares of money market funds and repos	80	42	56	68	67	81	81	81
2. Banknotes and coins and instruments up to 2 years	**23,157**	**24,971**	**26,285**	**26,776**	**27,000**	**27,456**	**27,289**	**27,565**
3. Long-tern financial obligations to non-MFIs	**1,498**	**1,598**	**1,550**	**1,542**	**1,585**	**1,573**	**1,560**	**1,544**
4. Remaining liabilities	**15,783**	**17,229**	**15,378**	**14,062**	**14,526**	**14,464**	**15,590**	**14,423**
5. Excess of inter-MFI liabilities	**-3,168**	**-3,305**	**-1,504**	**-1,490**	**-1,566**	**-1,578**	**-1,589**	**-1,492**
Total liabilities	**46,565**	**47,912**	**47,646**	**47,011**	**47,291**	**47,314**	**48,002**	**47,894**

Table 9.2: Balance Sheet of the Bank of Slovenia

EUR million	2013	2014	2015	16Q1	16Q2	Aug.16	Sep. 16	Oct. 16
1.1. Gold	89	101	100	111	122	120	121	119
1.2. Receivable form IMF	369	392	367	398	400	393	392	393
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	373	3,031	699	358	477	460	1,110	424
1.5. Securities	3,844	3,651	4,141	4,421	4,722	4,999	5,135	5,231
1.6. Other claims	96	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**4,771**	**7,278**	**5,410**	**5,390**	**5,823**	**6,076**	**6,862**	**6,271**
2.1. Claims on central government	233	263	2,327	2,987	3,631	4,012	4,219	4,390
2.2.1. Loans	3,682	1,098	901	906	516	503	635	628
2.2.2. Other claims	3	3	44	87	91	99	99	99
2.2. Claims on domestic monetary sector	3,685	1,101	946	993	607	602	734	727
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**3,919**	**1,366**	**3,275**	**3,981**	**4,240**	**4,616**	**4,955**	**5,119**
3. Remaining assets	**2,200**	**2,317**	**1,685**	**1,435**	**1,277**	**1,132**	**1,096**	**1,028**
Total assets	**10,890**	**10,961**	**10,370**	**10,807**	**11,340**	**11,824**	**12,914**	**12,418**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,189**	**4,673**	**4,956**	**4,902**	**4,975**	**5,008**	**5,023**	**5,048**
2.1.1.1.1. Overnight	1,503	1,526	1,634	1,895	1,844	2,282	2,324	2,361
2.1.1.1.2. With agreed maturity	605	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,108	1,526	1,634	1,895	1,844	2,282	2,324	2,361
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,108	1,526	1,634	1,895	1,844	2,282	2,324	2,361
2.1.2.1.1. Overnight	364	2,718	1,730	1,186	1,955	1,998	3,214	2,062
2.1.2.1.2. With agreed maturity	1,350	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,714	2,718	1,730	1,186	1,955	1,998	3,214	2,062
2.1.2.2. Foreign currency	73	94	60	54	55	54	54	55
2.1.2. General government	1,787	2,812	1,789	1,239	2,011	2,052	3,267	2,117
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	17	45	11	8	8	46	51	58
2.1.3. Other domestic sectors	17	45	11	8	8	46	51	58
2.1. Domestic sectors	3,912	4,383	3,434	3,143	3,862	4,380	5,642	4,536
2.2. Foreign sectors	1,054	10	16	742	388	191	0	637
2. Deposits	**4,966**	**4,393**	**3,450**	**3,885**	**4,250**	**4,571**	**5,642**	**5,173**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**0**	**0**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**241**	**257**	**275**	**267**	**272**	**270**	**270**	**271**
5. Capital and reserves	**1,339**	**1,440**	**1,472**	**1,541**	**1,669**	**1,756**	**1,792**	**1,711**
6. Remaining liabilities	**156**	**197**	**218**	**211**	**175**	**218**	**187**	**214**
Total liabilities	**10,890**	**10,961**	**10,370**	**10,807**	**11,340**	**11,824**	**12,914**	**12,418**

Table 9.3: Balance Sheet of other Monetary Financial Institutions

EUR million	2013	2014	2015	16Q1	16Q2	Aug.16	Sep. 16	Oct. 16
1.1.1. Cash	282	292	294	285	295	292	293	281
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,108	1,526	1,634	1,895	1,844	2,282	2,324	2,361
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	2,390	1,818	1,928	2,181	2,139	2,574	2,617	2,642
1.2.1. Loans	2,432	1,719	1,264	1,184	1,097	1,033	1,031	1,025
1.2.2. Debt securities	363	378	245	190	249	267	253	254
1.2.3. Shares and other equity	117	61	62	50	50	43	2	2
1.2. Claims on other MFI's	2,912	2,158	1,572	1,423	1,396	1,343	1,286	1,281
1.3.1. Loans	26,176	22,883	21,714	21,106	20,844	20,550	20,531	20,638
1.3.2. Debt securities	5,702	6,352	6,050	5,994	5,899	5,954	5,979	5,896
1.3.3. Shares and other equity	849	685	759	654	651	666	673	677
1.3. Claims on nonmonetry sectors	32,727	29,920	28,524	27,754	27,394	27,170	27,183	27,212
1. Claims on domestic sectors (domestic assets)	**38,028**	**33,897**	**32,024**	**31,358**	**30,929**	**31,087**	**31,086**	**31,134**
2.1.1. Cash	23	29	34	35	43	43	34	34
2.1.2. Loans	1,697	2,839	2,767	2,672	2,494	2,266	2,092	2,183
2.1.3. Debt securities	372	498	1,027	1,043	1,023	1,042	1,037	1,082
2.1.4 Shares and other equity	559	572	567	567	567	567	567	567
2.1. Claims on foreign monetary sectors	2,651	3,938	4,395	4,317	4,127	3,918	3,731	3,865
2.2.1. Loans	2,530	2,135	1,597	1,462	1,389	1,346	1,290	1,263
2.2.2. Debt securities	1,378	1,878	1,870	1,946	1,942	1,956	1,964	2,003
2.2.3. Shares and other equity	273	329	405	419	397	399	399	401
2.2. Claims on foreign nonmonetary sectors	4,181	4,342	3,871	3,826	3,729	3,701	3,653	3,667
2. Claims on foreign sectors (foreign assets)	**6,833**	**8,279**	**8,266**	**8,143**	**7,856**	**7,619**	**7,383**	**7,533**
3. Remaining assets	**1,455**	**1,399**	**1,314**	**1,210**	**1,217**	**1,200**	**1,138**	**1,359**
Total assets	**46,315**	**43,575**	**41,603**	**40,711**	**40,002**	**39,906**	**39,607**	**40,026**
1.1.1. Deposits, loans from the Bank of Slovenia	3,682	1,098	901	906	516	503	635	628
1.1.2. Deposits, loans from other MFIs	2,440	1,733	1,301	1,249	1,141	1,083	1,080	1,110
1.1.3. Debt securities issued	150	93	38	17	28	28	14	14
1.1. Laibilities to monetary sectors	6,272	2,924	2,240	2,173	1,686	1,614	1,729	1,752
1.2.1.1. Overnight	8,542	10,129	12,661	13,347	13,784	14,432	14,321	14,457
1.2.1.2. With agreed maturity	12,214	12,481	10,604	9,744	9,342	9,079	9,015	9,049
1.2.1.3. Reedemable at notice	221	449	474	675	637	598	614	623
1.2.1. Deposits in domestic currency	20,977	23,059	23,739	23,766	23,763	24,108	23,950	24,128
1.2.2. Deposits in foreign currency	441	463	599	633	652	635	652	626
1.2.3. Debt securities issued	256	176	84	70	51	51	40	36
1.2. Liabilities to nonmonetary sectors	21,674	23,698	24,422	24,470	24,466	24,794	24,642	24,790
1. Obligations to domestic sectors (domestic liabilities)	**27,946**	**26,622**	**26,661**	**26,643**	**26,151**	**26,407**	**26,371**	**26,542**
2.1.1. Deposits	4,538	3,551	2,578	2,363	2,254	2,141	2,099	2,160
2.1.2. Debt securities issued	1,200	1,344	975	713	712	712	710	710
2.1. Liabilities to foreign monetry sectors	5,738	4,895	3,553	3,076	2,967	2,853	2,809	2,870
2.2.1. Deposits	2,054	2,052	1,954	1,893	1,830	1,793	1,781	1,785
2.2.2. Debt securities issued	32	25	27	24	23	23	23	23
2.2. Liabilities to foreign nonmonetary sectors	2,086	2,077	1,981	1,916	1,854	1,816	1,804	1,808
2. Obligations to foreign sectors (foreign liabilities)	**7,824**	**6,972**	**5,535**	**4,992**	**4,820**	**4,670**	**4,613**	**4,678**
3. Capital and reserves	**3,906**	**4,512**	**4,676**	**4,866**	**4,865**	**4,913**	**4,858**	**4,865**
4. Remaining liabilities	**6,641**	**5,469**	**4,731**	**4,211**	**4,166**	**3,916**	**3,766**	**3,941**
Total liabilities	**46,315**	**43,575**	**41,603**	**40,711**	**40,002**	**39,906**	**39,607**	**40,026**

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

in % on annual level	2012	2013	2014	2015	Aug.16	Sep. 16	Oct.16
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.75	8.53	8.20	8.01	7.90	7.86	7.86
Households, extended credit	8.65	8.06	8.02	7.84	7.75	7.93	7.92
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.02	5.04	5.01	4.19	4.25	4.31	4.28
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.22	7.21	7.00	5.64	5.82	5.78	5.74
Loans, households, consumption, over 5 years initial rate fixation	7.33	7.19	7.07	5.28	6.04	6.16	6.08
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.78	4.76	4.47	3.82	3.61	3.73	3.62
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	6.74	6.60	5.61	5.30	5.35	5.35
C. loans, households, consumption, over 5 year initial rate fixation	6.93	7.15	6.53	5.58	4.27	4.59	5.37
APRC, Loans to households for consumption	7.70	8.00	8.28	7.42	7.67	7.46	7.46
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.27	3.14	3.18	2.22	1.98	1.97	1.98
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.61	5.54	5.65	3.87	3.08	3.46	3.36
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.48	5.40	5.06	3.16	2.45	2.53	2.68
Loans, households, house purchase, over 10 years initial rate fixation	5.47	5.17	4.87	3.16	2.67	2.62	2.57
C. loans, households, house purchase variabel and up to years initial rate fixation	3.27	3.11	3.16	2.21	2.00	1.97	1.96
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.59	5.90	5.41	2.63	2.24	2.38	3.00
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.38	5.34	5.03	3.04	2.52	2.26	2.17
C. loans, households, house purchase, over 10 years initial rate fixation	5.80	5.71	4.87	3.12	2.61	2.59	2.51
APRC, Loans to households for house purchase	3.63	3.48	3.55	2.85	2.57	2.61	2.56
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.62	5.69	5.11	3.51	3.91	3.85	3.81
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.64	6.51	5.96	5.93	4.64	5.42	5.26
Loans, households, other purposes, over 5 years initial rate fixation	5.83	6.42	6.44	7.79	6.38	6.41	5.76
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.39	5.53	5.30	3.45	3.05	3.11	3.03
S.11, extended credit	7.25	7.39	7.28	7.16	7.25	7.25	7.09
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	5.69	5.55	4.81	3.38	2.94	3.01	2.98
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	6.40	6.44	5.77	3.50	3.37	3.44	3.16
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.99	6.57	5.92	4.23	4.09	3.77	3.88
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.94	6.28	5.93	5.36	5.30	6.36	4.10
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	6.94	6.70	5.82	4.87	4.28	3.56	3.97
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	8.19	7.58	5.87	3.34	3.76	2.41	3.68
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	5.22	5.08	4.62	2.49	2.08	2.59	2.93
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	6.04	6.00	5.29	2.57	2.12	2.26	2.26
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	6.35	6.31	5.27	3.06	-	3.62	1.64
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	6.77	5.60	5.97	-	1.26	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.47	5.83	5.46	3.06	2.22	2.53	2.11
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	7.50	6.32	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	4.21	3.94	2.61	2.44	2.52	2.51
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	5.66	5.15	4.84	1.87	1.72	1.84	0.86
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	5.70	4.07	4.60	1.00	-	-	-
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.40	4.49	4.07	-	-	-	1.60
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	5.95	3.84	4.62	1.79	1.35	0.98	1.48
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	4.81	4.81	2.35	3.56	-	2.01	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.20	0.11	0.07	0.03	0.02	0.02	0.02
Deposits, households, agreed maturity up to 1 year	2.31	1.86	0.98	0.28	0.21	0.19	0.20
Deposits, households, agreed maturity over 1 and up to 2 years	4.06	3.46	1.90	0.70	0.45	0.41	0.40
Deposits, households, agreed maturity over 2 years	4.46	3.86	2.33	1.07	0.82	0.79	0.74
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	1.52	1.22	0.82	0.02	0.01	0.01	0.01
Deposits, S.11, agreed maturity up to 1 year	2.73	1.79	1.30	0.06	0.05	0.09	0.03
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.30	0.23	0.13	0.57	0.28	0.34	0.27
Deposits, S.11, agreed maturity over 2 years	2.11	1.58	0.63	1.07	0.39	0.44	0.40
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	4.24	3.47	1.85	0.10	0.02	0.03	0.03
Deposits redeemable at notice, over 3 months notice	4.02	3.08	1.79	0.93	0.93	0.40	0.25

Table 9.5: International investment position

EUR million		2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-16,749**	**-16,496**	**-14,997**	**-14,931**	**-14,797**	**-14,511**	**-14,294**
1	**ASSETS**	**33,392**	**39,437**	**41,067**	**41,032**	**41,775**	**41,485**	**40,983**
1.1	**Direct investment**	**6,813**	**6,970**	**7,394**	**7,204**	**7,356**	**7,362**	**7,354**
1.1.1	Equity	3,795	3,769	3,908	3,910	3,911	3,842	3,828
1.1.2	Debt instruments	3,018	3,202	3,486	3,295	3,445	3,519	3,526
1.2	**Portfolio investment**	**11,386**	**12,375**	**13,274**	**14,458**	**14,864**	**15,265**	**15,957**
1.2.1	Equity and investment fund shares	2,755	3,193	3,229	3,482	3,331	3,378	3,501
1.2.2	Debt securities	8,631	9,182	10,045	10,976	11,533	11,888	12,457
1.3	**Financial derivatives**	**89**	**83**	**59**	**65**	**65**	**40**	**36**
1.4	**Other investment**	**14,435**	**19,171**	**19,499**	**18,517**	**18,703**	**18,048**	**16,920**
1.4.1	Other equity	530	629	646	641	642	641	641
1.4.2	Currency and deposits	5,647	10,737	10,893	10,274	9,986	9,397	8,378
1.4.3	Loans	4,181	3,729	3,308	3,122	2,999	2,924	2,788
1.4.4	Insurance, pension and standardized guarantee schemes	131	141	131	129	137	140	140
1.4.5	Trade credit and advances	3,636	3,601	4,131	3,737	4,097	4,212	4,200
1.4.6	Other accounts receivable	310	335	390	614	842	733	773
1.5	**Reserve assets**	**669**	**837**	**841**	**787**	**786**	**770**	**715**
1.5.1	Monetary gold	89	101	103	100	111	122	121
1.5.2	Special drawing rights	220	247	259	264	201	204	203
1.5.3	Reserve position in the IMF	149	145	103	104	196	195	189
1.5.4	Other reserve assets	211	345	375	320	278	249	202
2	**LIABILITIES**	**50,141**	**55,934**	**56,064**	**55,962**	**56,572**	**55,996**	**55,277**
2.1	**Direct investment**	**10,531**	**11,837**	**12,838**	**13,308**	**13,781**	**14,000**	**14,194**
2.1.1	Equity	7,292	8,186	9,226	9,772	10,031	10,213	10,429
2.1.2	Debt instruments	3,240	3,651	3,612	3,536	3,750	3,787	3,765
2.2	**Portfolio investment**	**16,299**	**23,099**	**22,703**	**22,308**	**22,457**	**22,024**	**22,407**
2.2.1	Equity and investment fund shares	811	1,030	998	1,041	1,024	986	1,080
2.2.2	Debt securities	15,488	22,069	21,705	21,266	21,434	21,038	21,328
2.3	**Financial derivatives**	**150**	**175**	**170**	**163**	**201**	**200**	**161**
2.4	**Other investment**	**23,161**	**20,822**	**20,353**	**20,183**	**20,132**	**19,771**	**18,514**
2.4.1	Other equity	23	28	32	32	32	33	34
2.4.2	Currency and deposits	4,165	3,338	2,844	2,965	3,413	2,999	2,443
2.4.3	Loans	14,759	13,128	13,091	12,852	12,369	12,249	11,691
2.4.4	Insurance, pension and standardized guarantee schemes	275	218	217	221	232	244	244
2.4.5	Trade credit and advances	3,527	3,427	3,441	3,431	3,381	3,541	3,428
2.4.6	Other accounts payable	171	425	457	407	438	435	404
2.4.7	Special drawing rights	241	257	270	275	267	272	270

Table 9.6: Gross external debt

EUR million		2013	2014	2015	16Q1	16Q2	16Q3	Oct. 16
	TOTAL (1+2+3+4+5)	**41,866**	**46,514**	**44,954**	**45,284**	**44,563**	**43,573**	**44,535**
1	**GENERAL GOVERNMENT**	**15,668**	**22,619**	**23,169**	**23,408**	**23,119**	**23,188**	**23,009**
1.1	**Short-term, of that**	**73**	**664**	**1,507**	**1,266**	**1,367**	**1,104**	**1,345**
	Debt securities	45	228	15	27	22	22	22
	Loans	…	157	1,201	936	1,058	813	1,060
	Trade credit and advances	28	21	35	48	50	59	61
	Other debt liabilities	…	257	257	256	237	210	202
1.2	**Long-term, of that**	**15,595**	**21,956**	**21,662**	**22,142**	**21,751**	**22,085**	**21,664**
	Debt securities	14,307	20,403	20,158	20,641	20,253	20,559	20,138
	Loans	1,281	1,548	1,500	1,497	1,495	1,523	1,523
2	**CENTRAL BANK**	**2,742**	**2,083**	**2,217**	**2,745**	**2,315**	**1,760**	**2,413**
2.1	**Short-term, of that**	**2,500**	**1,826**	**1,942**	**2,478**	**2,043**	**1,490**	**2,142**
	Currency and deposits	2,500	1,825	1,942	2,478	2,043	1,490	2,142
2.2	**Long-term, of that**	**241**	**257**	**275**	**267**	**272**	**270**	**271**
	Special drawing rights (allocations)	241	257	275	267	272	270	271
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**7,519**	**6,591**	**5,195**	**4,639**	**4,416**	**4,193**	**4,371**
3.1	**Short-term**	**893**	**747**	**702**	**708**	**806**	**730**	**987**
	Currency and deposits	707	597	490	485	520	522	562
	Debt securities	58	…	…	…	…	…	…
	Loans	121	144	207	206	257	185	271
	Trade credit and advances	…	…	…	…	…	…	…
	Other debt liabilities	7	6	5	17	29	23	154
3.2	**Long-term**	**6,626**	**5,844**	**4,493**	**3,931**	**3,611**	**3,463**	**3,384**
	Currency and deposits	958	916	534	450	436	432	439
	Debt securities	837	954	652	368	306	293	292
	Loans	4,800	3,941	3,301	3,110	2,865	2,735	2,648
	Trade credit and advances	3	4	7	3	4	3	4
	Other debt liabilities	29	29	0	0	0	1	2
4	**OTHER SECTORS**	**12,698**	**11,570**	**10,837**	**10,741**	**10,926**	**10,667**	**10,968**
4.1	**Short-term, of that**	**4,039**	**3,947**	**3,973**	**4,175**	**4,300**	**4,207**	**4,324**
	Debt securities	4	5	0	1	2	2	2
	Loans	444	453	488	736	706	728	700
	Trade credit and advances	3,492	3,396	3,383	3,315	3,467	3,350	3,486
	Other debt liabilities	100	94	102	123	125	127	137
4.2	**Long-term, of that**	**8,659**	**7,623**	**6,864**	**6,566**	**6,627**	**6,460**	**6,644**
	Debt securities	238	480	441	397	455	451	466
	Loans	8,113	6,885	6,156	5,883	5,869	5,707	5,876
	Trade credit and advances	4	6	7	15	19	16	16
	Other debt liabilities	304	252	260	271	284	286	285
5	**DIRECT INVESTMENT: intercompany lending**	**3,240**	**3,651**	**3,536**	**3,750**	**3,787**	**3,765**	**3,773**
	NET EXTERNAL DEBT POSITION	**15,644**	**14,750**	**12,020**	**11,458**	**10,979**	**10,596**	**11,869**

Table 9.7: Balance of payments

EUR million	2013	2014	2015	16Q1	16Q2	16Q3	Oct. 16
I. Current account	**1,732**	**2,325**	**1,998**	**709**	**753**	**737**	**308**
1. Goods	**708**	**1,181**	**1,498**	**474**	**461**	**391**	**159**
1.1. Export of goods	**21,692**	**22,961**	**24,039**	**6,058**	**6,393**	**6,125**	**2,155**
Export f.o.b.	21,549	22,936	23,940	6,064	6,406	6,090	2,151
Coverage adjustment	-180	-188	-149	-56	-78	-33	3
Net export of goods under merchanting	291	199	231	43	57	60	1
Nonmonetary gold	32	15	17	6	7	7	0
1.2. Import of goods	**20,984**	**21,780**	**22,541**	**5,584**	**5,932**	**5,734**	**1,996**
Import c.i.f.	22,114	22,580	23,305	5,759	6,119	5,890	2,055
Coverage adjustment	-517	-160	-115	-14	-13	11	1
Valuation adjustment	-642	-656	-678	-168	-178	-172	-60
Nonmonetary gold	29	15	30	6	4	5	...
2. Services	**1,732**	**1,697**	**2,019**	**471**	**557**	**708**	**231**
2.1. Export of services, of that	**5,317**	**5,558**	**6,025**	**1,375**	**1,559**	**1,878**	**578**
Transport	1,398	1,529	1,672	424	453	455	163
Travel	2,043	2,060	2,257	450	538	849	201
Construction services	280	277	290	73	89	107	40
Telecomm., computer and inform. services	452	457	519	123	131	138	49
Other business services	717	779	824	197	202	204	87
2.2. Import of services, of that	**3,586**	**3,862**	**4,006**	**904**	**1,001**	**1,171**	**347**
Transport	738	814	851	215	214	220	86
Travel	708	745	822	119	212	372	61
Construction services	259	234	120	17	23	28	11
Telecomm., computer and inform. services	460	483	533	108	121	129	46
Other business services	864	1,003	1,024	254	260	266	89
3. Primary income	**-192**	**-125**	**-982**	**-79**	**-170**	**-208**	**-48**
3.1. Receipts	**1,117**	**1,396**	**1,632**	**487**	**380**	**375**	**125**
Compensation of employees	495	537	609	141	142	149	55
Investment	54	368	501	131	127	129	40
Other primary income	567	490	522	216	111	97	29
3.2. Expenditure	**1,309**	**1,521**	**2,614**	**566**	**550**	**583**	**173**
Compensation of employees	106	114	120	28	33	34	11
Investment	917	1,063	2,065	417	402	430	130
Other primary income	286	344	429	121	115	119	32
4. Secondary income	**-516**	**-428**	**-537**	**-158**	**-96**	**-153**	**-33**
4.1. Receipts	**632**	**709**	**725**	**155**	**171**	**173**	**70**
4.2. Expenditure	**1,148**	**1,137**	**1,262**	**312**	**267**	**327**	**103**

Table 9.8: Balance of payments – continued

EUR million		2013	2014	2015	16Q1	16Q2	16Q3	Oct. 16
II.	**Capital account**	**187**	**157**	**371**	**-38**	**-112**	**-63**	**10**
1.	Nonproduced nofinancial assets	-10	-24	-37	-8	-23	0	1
2.	Capital transfers	197	181	408	-31	-89	-63	10
III.	**Financial account**	**1,042**	**2,377**	**1,772**	**448**	**204**	**508**	**-1,397**
1.	**Direct investment**	**-47**	**-584**	**-1,238**	**-322**	**-267**	**-231**	**65**
	Assets	24	155	278	143	15	21	121
	Equity and reinvested earnings	-80	-45	165	40	-29	25	60
	Debt instruments	103	200	113	103	44	-5	61
	Liabilities	71	739	1,516	466	281	251	56
	Equity and reinvested earnings	-57	791	1,803	338	262	296	51
	Debt instruments	128	-51	-287	127	19	-44	5
2.	**Portfolio investment**	**-4,176**	**-3,968**	**2,929**	**584**	**791**	**524**	**437**
	Assets	-467	426	2,015	464	279	486	224
	Equity and investment fund shares	60	127	116	-28	-24	-15	-4
	Debt securities	-527	299	1,900	493	302	500	228
	Liabilities	3,709	4,394	-914	-120	-512	-38	-212
	Equity and investment fund shares	113	101	52	19	-8	14	6
	Debt securities	3,595	4,293	-966	-139	-505	-53	-219
3.	**Financial derivatives**	**32**	**-3**	**28**	**-7**	**-4**	**31**	**1**
4.	**Other investment**	**5,227**	**6,843**	**166**	**182**	**-277**	**234**	**-1,899**
4.1.	**Assets**	**632**	**4,815**	**-672**	**92**	**-654**	**-1,105**	**-529**
	Other equity	152	84	10	1	-1	0	0
	Currency and deposits	564	5,037	-545	-294	-593	-1,029	-706
	Loans	1	-299	-408	10	-68	-41	-22
	Insurance, pension and stand. guar. schemes	-10	8	-8	7	2	...	...
	Trade credits and advances	19	-16	-4	314	119	-72	140
	Other assets	-94	1	283	54	-112	37	58
4.2.	**Liabilities**	**-4,595**	**-2,028**	**-837**	**-91**	**-376**	**-1,339**	**1,371**
	Other equity	-29	7	1	0	0	1	...
	Currency and deposits	-4,169	-831	-400	453	-415	-561	699
	Loans	-269	-1,246	-315	-491	-114	-563	385
	Insurance, pension and stand. guar. schemes	39	-54	3	10	12	...	...
	Trade credits and advances	-182	-144	-101	-78	151	-169	155
	Other liabilities	16	240	-25	15	-12	-46	131
	Special drawing reights (SDR)	0	0	0	0	0	0	0
5.	**Reserve assets**	**5**	**89**	**-113**	**10**	**-40**	**-50**	**0**
IV.	**Net errors and omissions**	**-877**	**-105**	**-596**	**-222**	**-438**	**-166**	**-1,716**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector								
Total	179,611	186,274	188,298	185,155	186,536	184,833	183,556	181,868
Monetary gold and SDRs	309	348	340	368	362	363	312	326
Currency and deposits	37,061	46,009	46,580	44,049	46,730	46,572	44,228	43,400
Debt securities	18,319	19,804	20,318	21,004	22,045	22,828	23,894	24,828
Loans	49,970	44,453	43,849	42,520	41,359	39,625	39,277	37,920
Shares	19,529	20,175	20,684	20,212	19,369	19,713	19,658	18,670
Other equity	22,483	23,002	23,318	23,302	23,943	23,496	23,493	23,749
Investment fund shares/units	3,105	3,642	4,096	3,990	3,686	3,879	3,813	3,838
Insurance and pension schemes	6,541	7,132	7,449	7,478	7,366	7,406	7,509	7,599
Other	22,293	21,709	21,664	22,231	21,676	20,951	21,371	21,538
Non-financial corporations								
Total	43,301	41,273	42,024	42,553	42,283	41,321	41,841	42,070
Currency and deposits	4,646	5,095	5,130	5,410	5,481	5,816	5,846	5,845
Debt securities	194	184	192	178	160	142	167	171
Loans	6,151	6,043	6,284	6,118	6,035	5,849	6,105	5,862
Shares	4,525	3,063	2,934	2,914	2,836	2,896	2,861	2,854
Other equity	11,806	11,359	11,408	11,340	11,770	11,472	11,496	11,746
Investment fund shares/units	108	108	110	106	98	99	92	82
Insurance and pension schemes	387	408	452	455	458	427	482	470
Other	15,484	15,015	15,514	16,030	15,444	14,621	14,792	15,040
Monetary financial institutions								
Total	55,703	53,206	53,273	50,569	50,401	50,657	50,376	50,111
Monetary gold and SDRs	309	348	340	368	362	363	312	326
Currency and deposits	7,351	10,358	10,621	7,994	7,713	7,560	7,225	6,863
Debt securities	12,086	13,226	13,387	14,230	15,041	15,973	16,893	17,747
Loans	34,556	27,863	27,312	26,416	25,670	25,179	24,362	23,653
Shares	846	666	671	660	651	641	627	597
Other equity	186	314	509	519	519	490	476	477
Investment fund shares/units	12	12	12	11	10	9	7	6
Insurance and pension schemes	35	37	37	39	38	38	38	39
Other	322	382	384	334	396	404	434	404
Other financial institutions								
Total	15,225	17,368	18,224	17,846	17,291	17,325	17,513	17,435
Currency and deposits	1,096	1,316	1,504	1,468	1,292	1,212	1,341	1,264
Debt securities	5,108	5,634	5,888	5,833	6,056	6,220	6,364	6,438
Loans	3,624	3,388	3,324	3,243	3,151	3,033	2,999	2,993
Shares	2,598	3,580	3,816	3,694	3,387	3,427	3,272	3,183
Other equity	196	640	634	641	624	612	606	609
Investment fund shares/units	1,672	1,918	2,142	2,070	1,924	2,001	1,996	2,034
Insurance and pension schemes	202	218	238	234	210	182	205	204
Other	731	675	678	662	648	639	729	710
General government								
Total	28,631	35,934	36,068	35,328	37,976	36,257	34,332	32,236
Currency and deposits	5,985	10,369	10,339	10,061	12,955	12,347	10,016	9,203
Debt securities	598	507	515	501	540	368	342	326
Loans	4,940	6,469	6,251	6,030	5,809	4,911	5,095	4,683
Shares	9,091	10,128	10,469	10,163	9,864	10,048	10,253	9,470
Other equity	4,560	4,904	4,946	4,956	5,153	4,856	4,808	4,819
Investment fund shares/units	163	206	233	222	223	244	236	234
Insurance and pension schemes	2	12	15	17	32	23	25	22
Other	3,292	3,339	3,300	3,378	3,401	3,460	3,558	3,480
Households and NPISHs								
Total	36,751	38,492	38,709	38,858	38,585	39,272	39,494	40,017
Currency and deposits	17,984	18,871	18,986	19,116	19,290	19,636	19,800	20,226
Debt securities	334	253	336	262	247	125	128	146
Loans	700	691	678	713	694	653	715	729
Shares	2,469	2,739	2,795	2,780	2,631	2,701	2,645	2,565
Other equity	5,734	5,785	5,820	5,847	5,877	6,066	6,108	6,098
Investment fund shares/units	1,151	1,398	1,599	1,580	1,433	1,528	1,482	1,483
Insurance and pension schemes	5,914	6,457	6,707	6,734	6,628	6,736	6,759	6,865
Other	2,464	2,298	1,788	1,827	1,786	1,827	1,858	1,905
Rest of the world								
Total	51,088	57,499	58,501	56,300	56,636	56,680	57,452	57,297
Monetary gold and SDRs	241	257	277	271	270	275	267	272
Currency and deposits	4,293	3,497	3,357	3,048	2,990	3,167	3,723	3,470
Debt securities	15,807	22,581	22,663	20,792	21,976	21,661	21,695	21,359
Loans	16,697	15,676	16,224	16,231	15,481	15,231	14,850	14,656
Shares	3,687	4,556	4,543	4,385	4,337	4,539	4,886	5,225
Other equity	4,815	5,401	5,497	5,621	5,825	6,284	6,402	6,482
Investment fund shares/units	28	21	24	24	23	25	24	25
Insurance and pension schemes	275	218	212	215	217	221	232	244
Other	5,244	5,291	5,705	5,712	5,517	5,276	5,373	5,564

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector								
Total	197,349	204,598	205,847	201,991	202,614	200,995	199,759	198,100
Monetary gold and SDRs	241	257	277	271	270	275	267	272
Currency and deposits	35,203	38,457	38,689	37,175	38,536	39,172	37,577	36,920
Debt securities	25,359	32,837	33,026	31,731	33,622	33,154	33,729	33,966
Loans	61,027	54,637	54,547	53,374	51,647	49,845	49,041	47,494
Shares	20,887	22,274	22,501	21,904	21,242	21,615	22,101	21,498
Other equity	24,199	25,395	25,802	25,953	26,725	26,799	26,864	27,262
Investment fund shares/units	1,839	2,143	2,432	2,392	2,181	2,303	2,209	2,220
Insurance and pension schemes	6,684	7,209	7,510	7,545	7,452	7,498	7,604	7,704
Other	21,909	21,389	21,063	21,646	20,938	20,335	20,368	20,766
Non-financial corporations								
Total	84,839	82,265	82,270	82,059	80,407	78,884	79,197	78,874
Debt securities	818	1,088	1,128	1,163	1,192	1,179	1,223	1,321
Loans	31,297	28,629	28,657	27,965	26,779	25,127	25,191	24,510
Shares	14,225	14,233	14,055	13,701	13,242	13,421	13,649	13,218
Other equity	22,453	23,013	23,165	23,322	23,980	24,039	24,139	24,475
Other	16,047	15,302	15,264	15,908	15,213	15,118	14,995	15,349
Monetary financial institutions								
Total	50,512	48,917	48,919	46,458	46,507	47,006	47,065	46,884
Monetary gold and SDRs	241	257	277	271	270	275	267	272
Currency and deposits	33,048	34,122	34,597	33,236	33,219	34,012	34,673	35,073
Debt securities	1,667	1,666	1,604	918	1,223	1,149	847	820
Loans	10,427	7,073	6,364	6,053	5,753	5,574	4,970	4,360
Shares	3,866	4,399	4,522	4,484	4,562	4,539	4,729	4,738
Other equity	823	945	1,010	986	994	1,005	1,029	1,072
Investment fund shares/units	36	37	36	54	61	56	66	66
Other	404	419	510	456	424	396	484	484
Other financial institutions								
Total	16,069	17,540	18,205	17,882	17,301	17,192	17,130	16,969
Debt securities	39	136	138	97	92	73	73	123
Loans	5,070	4,453	4,134	4,074	3,991	3,678	3,365	3,143
Shares	1,486	2,174	2,341	2,151	2,003	2,093	2,233	2,107
Other equity	472	947	1,153	1,167	1,162	1,155	1,183	1,198
Investment fund shares/units	1,804	2,106	2,396	2,338	2,120	2,247	2,143	2,154
Insurance and pension schemes	6,684	7,209	7,509	7,545	7,452	7,498	7,603	7,703
Other	513	516	534	511	482	448	530	540
General government								
Total	33,629	43,630	44,219	43,381	46,141	45,695	44,156	43,103
Currency and deposits	2,155	4,335	4,092	3,939	5,317	5,160	2,904	1,846
Debt securities	22,835	29,946	30,156	29,552	31,115	30,753	31,586	31,700
Loans	3,448	3,846	4,689	4,578	4,432	4,738	4,812	4,694
Shares	1,309	1,469	1,583	1,568	1,435	1,562	1,489	1,435
Other equity	451	491	474	478	588	600	513	517
Other	3,429	3,544	3,225	3,265	3,253	2,882	2,850	2,910
Households and NPISHs								
Total	12,301	12,245	12,234	12,211	12,259	12,218	12,212	12,271
Loans	10,785	10,637	10,705	10,704	10,692	10,728	10,702	10,788
Other	1,516	1,608	1,529	1,506	1,566	1,489	1,509	1,483
Rest of the world								
Total	33,349	39,174	40,952	39,463	40,558	40,517	41,248	41,065
Monetary gold and SDRs	309	348	340	367	362	363	312	326
Currency and deposits	6,151	11,050	11,248	9,922	11,184	10,567	10,374	9,951
Debt securities	8,767	9,548	9,955	10,065	10,399	11,335	11,860	12,222
Loans	5,640	5,492	5,526	5,376	5,192	5,012	5,086	5,082
Shares	2,330	2,457	2,726	2,693	2,464	2,637	2,444	2,397
Other equity	3,099	3,008	3,013	2,970	3,043	2,981	3,031	2,968
Investment fund shares/units	1,294	1,520	1,687	1,623	1,528	1,602	1,628	1,643
Insurance and pension schemes	131	141	151	148	131	129	137	140
Other	5,628	5,610	6,306	6,297	6,254	5,892	6,375	6,336

Table 9.11: Net financial assets

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector	-17,739	-18,324	-17,549	-16,837	-16,078	-16,162	-16,204	-16,232
Non-financial corporations	-41,538	-40,992	-40,246	-39,506	-38,124	-37,563	-37,356	-36,803
Monetary financial institutions	5,191	4,289	4,354	4,111	3,894	3,651	3,311	3,226
Other financial institutions	-844	-172	18	-36	-10	133	383	466
General government	-4,998	-7,696	-8,150	-8,052	-8,165	-9,438	-9,824	-10,867
Households and NPISHs	24,450	26,246	26,476	26,647	26,326	27,055	27,283	27,746
Rest of the world	17,739	18,324	17,549	16,837	16,078	16,162	16,204	16,232

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

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector								
Total	-1,499	3,767	-9	-1,958	2,222	1,040	-596	-177
Monetary gold and SDRs	-12	12	-43	0	0	0	-18	-56
Currency and deposits	777	8,795	4,195	200	2,624	455	-2,302	-636
Debt securities	993	646	1,166	2,684	3,319	3,086	3,727	3,318
Loans	-3,799	-4,658	-4,486	-4,532	-3,774	-3,119	-2,245	-2,355
Shares	139	-824	-846	-407	-32	181	-79	-521
Other equity	430	201	410	338	851	670	495	765
Investment fund shares/units	27	152	208	235	211	167	121	71
Insurance and pension schemes	-23	182	249	217	192	178	106	110
Other	-31	-739	-862	-693	-1,169	-579	-401	-873
Non-financial corporations								
Total	132	-412	-420	-753	-417	358	274	-137
Currency and deposits	583	456	385	344	496	735	736	444
Debt securities	-16	-14	-20	-17	-28	-36	-18	-3
Loans	-207	75	110	-265	-305	-192	-87	-208
Shares	-6	-337	-334	-265	-34	103	55	77
Other equity	110	-100	-28	1	387	294	290	573
Investment fund shares/units	-20	-1	-5	-3	-1	-3	-6	-7
Insurance and pension schemes	-41	24	20	18	36	23	25	10
Other	-271	-516	-546	-567	-967	-565	-722	-1,022
Monetary financial institutions								
Total	-3,413	-1,546	-1,951	-2,713	-1,964	-1,797	-1,133	690
Monetary gold and SDRs	-12	12	-43	0	0	0	-18	-56
Currency and deposits	613	2,936	2,038	-1,307	-2,081	-2,849	-3,339	-1,098
Debt securities	512	791	972	2,409	2,878	2,764	3,544	3,227
Loans	-4,344	-5,251	-4,966	-4,105	-3,202	-2,052	-1,454	-1,354
Shares	-147	-208	-216	3	79	141	93	-70
Other equity	148	155	336	304	313	205	29	26
Investment fund shares/units	-13	-4	-4	-2	-2	-2	-2	-2
Insurance and pension schemes	-1	2	2	2	2	1	1	0
Other	-169	22	-72	-17	50	-6	14	18
Other financial institutions								
Total	96	-116	77	177	72	226	35	-92
Currency and deposits	-270	158	216	160	-112	-122	-177	-209
Debt securities	305	100	361	341	477	493	416	322
Loans	-92	-304	-298	-309	-317	-192	-150	-112
Shares	75	-79	-104	12	57	49	-92	-132
Other equity	13	26	-7	-8	0	15	10	5
Investment fund shares/units	74	59	85	78	64	31	31	47
Insurance and pension schemes	-24	15	-17	-18	-24	-34	-27	-24
Other	14	-91	-160	-78	-73	-14	24	11
General government								
Total	1,524	5,045	1,426	519	3,744	1,305	-739	-1,851
Currency and deposits	-71	4,356	850	392	3,705	1,925	-373	-904
Debt securities	191	-131	-86	-23	14	-122	-157	-177
Loans	866	821	668	138	62	-665	-567	-674
Shares	271	-123	-110	-90	-75	-69	-53	-317
Other equity	147	93	78	9	118	118	134	131
Investment fund shares/units	4	16	14	13	32	26	30	16
Insurance and pension schemes	0	2	5	3	5	0	0	-5
Other	116	10	8	77	-117	93	248	78
Households and NPISHs								
Total	161	796	860	811	787	947	967	1,212
Currency and deposits	-78	889	706	611	617	766	850	1,131
Debt securities	0	-99	-61	-26	-22	-13	-58	-51
Loans	-23	1	0	10	-11	-17	14	-7
Shares	-54	-77	-81	-69	-58	-44	-82	-80
Other equity	13	27	32	32	32	38	33	30
Investment fund shares/units	-19	83	118	149	119	116	68	18
Insurance and pension schemes	43	138	239	212	172	188	107	129
Other	279	-165	-92	-108	-61	-87	35	42
Rest of the world								
Total	-789	3,325	2,446	-419	786	-442	-482	433
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-4,186	-805	111	-156	-273	-350	385	434
Debt securities	3,784	4,444	1,089	-1,440	-64	-999	-683	98
Loans	-196	-1,142	-484	-383	-723	-627	-1,470	-1,685
Shares	54	1,040	1,081	826	634	335	499	672
Other equity	-32	-51	424	401	1,024	1,377	1,113	1,098
Investment fund shares/units	2	-11	-4	1	2	3	2	1
Insurance and pension schemes	39	-54	-59	-15	-11	3	20	29
Other	-254	-97	288	346	197	-184	-349	-213

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

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector								
Total	-2,477	1,605	-1,925	-3,973	263	-802	-2,273	-1,578
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-3,988	3,170	816	-201	1,185	644	-1,061	-223
Debt securities	5,338	4,602	1,460	61	1,838	338	1,135	1,551
Loans	-4,031	-5,735	-4,826	-4,714	-4,292	-3,472	-3,525	-3,904
Shares	271	172	184	248	436	246	277	187
Other equity	247	102	777	777	1,857	2,079	1,616	1,811
Investment fund shares/units	-38	39	113	160	145	142	59	7
Insurance and pension schemes	27	121	187	198	189	189	139	146
Other	-302	-866	-636	-503	-1,096	-968	-914	-1,153
Non-financial corporations								
Total	-1,681	-2,310	-2,095	-2,253	-2,153	-1,111	-786	-980
Debt securities	20	288	215	35	122	83	103	162
Loans	-1,389	-1,965	-1,844	-2,278	-2,989	-2,434	-2,169	-2,255
Shares	32	54	61	94	275	152	176	137
Other equity	105	171	310	323	1,271	1,470	1,488	1,678
Other	-449	-858	-837	-427	-832	-382	-383	-702
Monetary financial institutions								
Total	-7,302	-2,320	-2,709	-3,501	-2,701	-2,282	-1,593	498
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-4,221	1,002	609	-227	-554	-146	156	1,888
Debt securities	-627	14	-53	-644	-530	-525	-750	-77
Loans	-2,320	-3,367	-3,214	-2,644	-1,542	-1,536	-980	-1,279
Shares	-23	114	119	127	128	44	52	24
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	12	0	0	20	26	19	31	12
Other	-122	-82	-170	-132	-230	-138	-102	-71
Other financial institutions								
Total	-162	-635	-269	-173	5	264	-21	0
Debt securities	-10	1	4	-47	-52	-72	-72	24
Loans	-350	-694	-963	-912	-750	-461	-174	-241
Shares	56	3	4	27	33	51	49	26
Other equity	141	-68	468	453	474	496	16	21
Investment fund shares/units	-50	39	113	140	119	123	28	-5
Insurance and pension schemes	27	121	186	198	189	189	139	146
Other	25	-36	-82	-33	-8	-62	-7	30
General government								
Total	6,937	6,941	3,263	2,062	5,172	2,333	77	-1,224
Currency and deposits	232	2,168	207	26	1,739	790	-1,216	-2,111
Debt securities	5,956	4,299	1,294	717	2,297	851	1,855	1,441
Loans	347	395	1,279	1,169	988	872	-309	-316
Shares	205	0	0	0	0	0	0	0
Other equity	0	0	0	1	112	112	112	113
Other	197	78	483	149	36	-292	-365	-352
Households and NPISHs								
Total	-268	-71	-115	-109	-60	-6	49	129
Loans	-317	-103	-84	-48	1	87	107	187
Other	47	33	-31	-61	-61	-93	-58	-58
Rest of the world								
Total	188	5,487	4,362	1,596	2,745	1,400	1,195	1,834
Monetary gold and SDRs	-12	12	-43	0	0	0	-18	-56
Currency and deposits	579	4,821	3,490	246	1,166	-538	-856	21
Debt securities	-561	488	794	1,183	1,417	1,749	1,909	1,865
Loans	36	-65	-144	-201	-205	-274	-190	-136
Shares	-78	44	51	170	166	270	143	-36
Other equity	151	48	57	-38	18	-32	-8	51
Investment fund shares/units	67	102	92	77	68	28	64	65
Insurance and pension schemes	-10	8	3	3	-8	-8	-13	-8
Other	16	29	62	156	124	205	164	67

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

EUR million	2013	2014	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
Domestic sector	978	2,162	1,917	2,015	1,959	1,842	1,677	1,401
Non-financial corporations	1,814	1,897	1,675	1,500	1,736	1,469	1,059	843
Monetary financial institutions	3,889	775	758	787	737	485	460	193
Other financial institutions	257	519	346	350	67	-38	56	-92
General government	-5,412	-1,896	-1,837	-1,543	-1,428	-1,028	-815	-626
Households and NPISHs	429	867	975	920	847	953	917	1,083
Rest of the world	-978	-2,162	-1,917	-2,015	-1,959	-1,842	-1,677	-1,401

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.