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Editors:	Luka Žakelj; Ana Selan, MSc

Authors of Economic and Financial Developments:

Noemi Matavulj; Nika Sosič; Vida Maver; Luka Žakelj; Ana Selan, MSc ;
Mojca Roter, MSc; Andreja Strojan Kastelec, MSc; Nika Kočevar; Nataša Kunc;
Sandra Juriševič; Aljoša Gruntar, MSc; Vida Bukatarević; Romana Jager;
Franc Remšak

Data Preparation, Graphs and DTP:

Nataša Kunc; Nika Kočevar

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Executive Summary

Global economic activity is strengthening rapidly, but very unevenly, as the epidemiological situation has improved and amid intensive support from economic policy. *The US is notable among the advanced economies: by the first quarter of this year it had already exceeded its pre-crisis level of GDP. There are also signs of a strong economic recovery in the euro area, with a number of short-term indicators at record high levels. By contrast, the recovery in numerous developing economies remains sluggish, owing to the lack of sufficient control over the epidemic. Financial conditions remain supportive: yields of euro area government bonds have risen slightly, but remain at favourable levels. All major global stock indices also increased. The euro was strengthening against the US dollar from April onwards, before falling in June amid increased expectations of faster key interest rate hike in the US. Oil and commodity prices increased further, and alongside the low basis, the methodological impact of changes in HICP weighting, and certain other administrative measures are the main driver of this year's rise in headline inflation in the euro area, which stood at 1.9% in June. Market inflation expectations have also risen in recent months, but core inflation remains low amid weak service price inflation.*

In the Eurosystem, we have set a new inflation target as part of our monetary policy strategy review: a symmetric target of 2% inflation over the medium term*. Within the Governing Council of the ECB, we have confirmed that the HICP remains an appropriate price measure, and recommended the inclusion of owner-occupied housing over time. Besides using the set of ECB policy rates as the primary monetary policy instrument, we decided to also employ measures that were until now considered as unconventional measures. We also presented Eurosystem action plan for incorporating aspects of climate change into the monetary policy strategy.*

Domestic economic activity is rising fast, the business conditions having largely normalised, while the economy succeeded in preserving the vast majority of production capacity during last year's crisis, thanks to extensive financial support. *Domestic and foreign demand are both strengthening, while the economic sentiment has already returned to its pre-crisis level. Merchandise exports are rising, and certain high-frequency indicators for the end of the second quarter are suggesting that domestic final consumption has surpassed its pre-crisis level. Investment, including construction investment, is expected to strengthen further, as the decline in construction activity in the early months of this year was thought to be merely temporary. At the same time analysis of last year's corporate annual reports from companies, sole traders and cooperatives also confirms the good financial situation in the private sector, while the saving-investment gap indicates large financial surpluses. The recovery will be a more lengthy process in accommodation and food service and administrative and support service activities, and above all in the tourism sector, as certain containment measures that restrict travel remain in force, owing to the risk of the spread of new Covid-19 variants. Given the positive results from the early part of the year, the current situation confirms Banka Slovenije's latest projections, which* *predict faster economic growth compared to euro area average. Amid strong demand, issues are intensifying on the supply side: firms are already reporting a shortage of qualified workers, and commodities are becoming more expensive and harder to obtain. The technological intensity of production, where Slovenia still trails the euro area average, remains a longer-term challenge.*

Situation on the labour market is improving alongside the opening of the economy, and is already comparable to pre-crisis according to several indicators. *Registered unemployment stood at just 71,094 at the end of June, comparable to June 2019, while rising demand for labour saw the job vacancy rate approach its pre-crisis level in the first quarter. Structural imbalances mean that indicators of labour shortages are rising, which could lead in turn to wage pressures. The epidemic has opened up large gaps between the labour market situation in the public sector and the private sector. While the gross wage bill in mostly public services in the first quarter was up 20.9% in year-on-year terms according to the national accounts amid rising employment and bonus payments in connection with the epidemic, it was down 0.9% in the private sector, driven by falling employment and lower earnings of employees included in job retention schemes. These gaps are expected to largely even out when the epidemic ends. Despite the current very positive signals, future developments on the labour market remain uncertain, and will again be heavily dependent on support measures in the event of any resurgence of the epidemic.*

With foreign and domestic price pressures strengthening, domestic inflation as measured by the HICP stood at 1.7% in June. *The reappearance of structural imbalances on the labour market, the high capacity utilisation in manufacturing, the growth in wages and private consumption, and the rising optimism of firms and consumers are creating further conditions for rises in prices on the domestic market. The divergence in consumers' inflation expectations has also diminished. External inflationary factors nevertheless continue to prevail. The largest contribution to headline inflation continues to come from energy prices. Despite the waning of the base effect caused by last year's short-term cut in electricity prices, energy prices were up 11.2% in year-on-year terms in June, driven by higher global oil prices amid recovering global demand from last year's low levels. Despite rises in prices of food commodities and import prices, year-on-year food price inflation remains weak, primarily on account of year-on-year falls in prices of unprocessed food. Services prices were unchanged in year-on-year terms, as demand for certain services remains restricted by health measures. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco again stood at just 0.5% in June, lagging behind headline inflation more than in the euro area.*

The public finances continue to primarily reflect the fight against the epidemic. *The deficit stood at 8.3% of GDP in the first quarter, as year-on-year growth in general government expenditure outpaced growth in revenues for the sixth consecutive quarter, in reflection of the measures to alleviate the impact of the epidemic. By contrast, the situation on the revenue side improved: there was a significant increase in revenues, driven by rises in wages, private consumption and economic growth. The general government debt had risen to 86.0% of GDP by the end of March 2021. The majority of the additional net borrowing came from bond issuance in January, and loans from the EU's SURE mechanism in February. The general government debt is forecast to have declined by the end of the year, amid the economic growth projections and the maturing of debt. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates. Amid a sustained improvement in the epidemiological situation, fiscal policy will be redirected towards enco-*

uraging economic growth and structural changes via investment. Here the key remains making the best possible use of all available EU funding, and ensuring that there is no structural deterioration in the fiscal position, which would make the consolidation of the public finances more difficult.

***

Slovenian firms were adversely affected by the epidemic in 2020, but the impact of this crisis was milder than that of a decade ago on account of extensive policy support measures. *Compared to 2019, net profits of firms declined by more than a third, while net operating profits by a fifth underlining the success of government financial aid in mitigating the decrease in net revenues from sales. In particular, the net profits of companies fell sharply, while sole proprietors also felt the adverse impact of the crisis. Business activity deteriorated in most sectors, in particular in arts, entertainment and recreation as well as accommodation and food services activities given the nature of the containment measures.*

Main macroeconomic indicators

	2018	2019	2020	20Q3	20Q4	21Q1	2018	2019	2020	20Q3	20Q4	21Q1
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	4.4	3.2	-5.5	-2.4	-4.5	1.6	1.9	1.3	-6.5	-4.1	-4.1	-1.3
- industry	2.9	6.1	-4.9	-3.1	0.8	2.8	1.6	-0.9	-7.6	-5.4	-1.1	2.9
- construction	8.1	7.1	-0.5	1.3	3.8	1.8	2.4	3.0	-5.2	-4.4	0.2	1.2
- mainly public sector services	1.8	1.5	-0.3	1.5	1.1	0.4	1.0	1.0	-2.4	0.6	-0.9	1.1
- mainly private sector services	4.8	3.8	-5.7	-3.1	-4.1	0.9	2.1	1.3	-7.3	-5.2	-4.7	-1.6
Domestic expenditure	5.0	3.4	-6.5	-4.3	-6.1	1.4	1.9	1.9	-6.3	-3.9	-5.5	-3.2
- general government	3.0	1.7	1.8	1.3	2.8	-1.7	1.2	1.8	1.4	3.0	3.1	3.0
- households and NPISH	3.6	4.8	-9.7	-0.5	-14.4	0.5	1.5	1.3	-7.9	-4.4	-7.4	-5.8
- gross capital formation	10.3	1.5	-5.8	-17.4	8.2	6.4	3.5	3.3	-9.5	-9.1	-9.0	-3.0
- gross fixed capital formation	9.6	5.8	-4.1	-0.8	2.0	7.6	3.2	5.7	-8.2	-4.9	-6.9	-2.2
- inventories and valuables, contr. to GDP growth in pp	0.3	-0.9	-0.4	-3.7	1.2	-0.1	0.1	-0.5	-0.3	-0.9	-0.5	-0.2
Labour market												
Employment	3.2	2.5	-1.0	-1.8	-1.4	-1.0	1.6	1.2	-1.6	-2.1	-1.8	-1.8
- mainly private sector services	3.4	2.6	-1.7	-2.7	-2.2	-1.7	1.6	1.1	-2.3	-3.0	-2.7	-2.8
- mainly public sector services	2.2	1.8	2.1	2.2	2.4	2.3	1.3	1.5	0.7	0.6	1.0	1.2
Labour costs per employee	3.9	4.9	2.3	3.2	5.7	5.6	2.2	1.9	-0.6	0.8	1.0	2.1
- mainly private sector services	4.1	4.5	-0.5	2.3	0.9	1.5	2.3	1.9	-1.9	0.0	-0.2	1.8
- mainly public sector services	3.3	6.6	11.1	7.3	11.1	14.4	2.1	2.1	2.6	2.7	3.5	2.6
Unit labour costs, nominal*	2.8	4.2	7.4	3.8	9.1	2.9	1.9	1.9	4.8	2.9	3.4	1.6
Unit labour costs, real**	0.6	1.9	6.0	4.1	8.8	1.2	0.5	0.2	3.2	2.2	2.1	-0.1
	in %											
LFS unemployment rate	5.1	4.5	5.0	5.1	5.1	5.6	8.2	7.6	7.9	8.5	8.0	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	6.0	6.0	7.5	6.8	7.5	7.0	2.9	2.4	2.2	2.0	2.2	2.5
External trade balance as contr. to GDP growth in pp	-0.2	0.1	0.5	1.6	1.2	0.3	0.1	-0.5	-0.5	-0.4	1.2	1.8
Real export of goods and services	6.3	4.1	-8.7	-9.5	-0.4	0.8	3.6	2.5	-9.3	-9.0	-3.8	0.0
Real import of goods and services	7.2	4.4	-10.2	-12.5	-2.0	0.5	3.7	3.9	-9.0	-9.1	-6.7	-4.0
Financing	*in % of GDP*											
Banking system's balance sheet	88.4	88.0	99.6	95.9	99.6	101.6	256.2	261.1	298.1	297.3	298.1	306.9
Loans to NFCs	20.6	19.9	20.5	20.3	20.5	20.6	36.4	36.1	40.4	40.1	40.4	40.5
Loans to households	21.7	22.0	23.2	22.7	23.2	22.9	49.0	49.2	53.6	52.5	53.6	53.8
Inflation	*in %*											
HICP	1.9	1.7	-0.3	-0.6	-0.9	-0.6	1.8	1.2	0.3	0.0	-0.3	1.1
HICP excl. energy, food, alcohol and tobacco	1.0	1.9	0.8	0.6	0.3	-0.2	1.0	1.0	0.7	0.6	0.2	1.2
Public finance	*in % of GDP*											
Debt of the general government	70.3	65.6	80.8	78.4	80.8	86.0	85.8	84.0	98.0	97.3	98.0	...
One year net lending/net borrowing of the general government***	0.7	0.4	-8.4	-5.8	-8.4	-8.8	-0.5	-0.6	-7.2	-5.3	-7.2	...
*- interest payment****	2.0	1.7	1.6	1.7	1.6	1.6	1.8	1.6	1.5	1.6	1.5	...
*- primary balance****	2.7	2.1	-6.8	-4.1	-6.8	-7.2	1.4	1.0	-5.7	-3.7	-5.7	...

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

1 | International Environment

Global economic activity is strengthening intensively as vaccination levels rise and containment measures are thus relaxed. There is an increasingly evident gap between the advanced economies, most notably the US, which by the first quarter of this year had surpassed its pre-crisis level of activity, and the developing economies, where the recovery is struggling as the epidemic surges amid low supplies of vaccines. Amid rising foreign demand and an improving epidemiological situation, there are signs of a strong economic recovery in the euro area, with a number of short-term indicators at record high levels. Judging by the composite PMI, in the second quarter the euro area will have recorded its highest economic activity since the outbreak of the epidemic, following two quarters of contraction. When vaccination rates are sufficiently high and the spread of the virus is under control, a broader economic recovery is anticipated in the second half of this year, which is also suggested by firms' great optimism with regard to future demand.

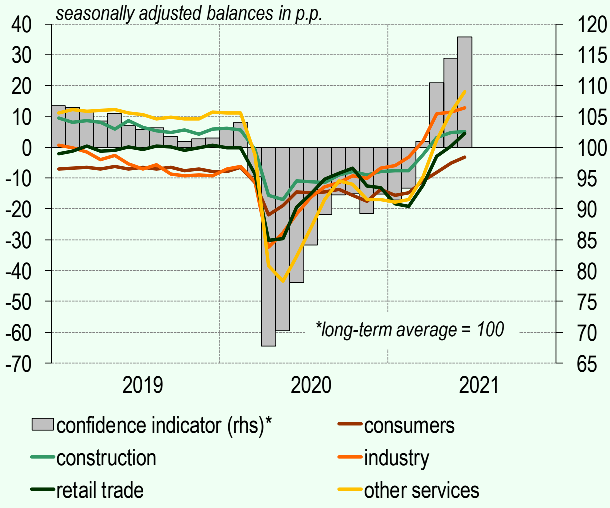
The major central banks have retained their accommodative monetary policy stances, with the aim of maintaining favourable financing conditions and encouraging economic activity. At its June meeting the Fed moved up its timeline of key rate hikes, which increased the uncertainty of the financial markets, albeit only briefly. The euro slid below USD 1.20 as the US dollar rose sharply. Yields on euro area government bonds remain favourable, despite a slight rise in recent months. Private issuers continue to borrow at favourable terms on the capital markets, even in the segment of highest-risk bonds. Commodity prices and share indices are continuing to rise, as certain stock markets hit record highs, while the price of Brent crude had surpassed USD 75 per barrel by the end of June. Despite the favourable picture on the financial markets, the uncertainty surrounding the economic recovery has recently been rising in light of the faster spread of the Covid-19 delta variant.

High-frequency indicators of economic activity

As vaccination levels rates rise, and support measures remain in place, global economic growth picked up strongly in the second quarter. May and June saw the highest economic growth of the last 15 years (see Figure 1.1), judging by the JPMorgan PMI. Services were to the forefront for the third consecutive month: after recording its high of the last 15 years in May (59.6 points), the services PMI declined slightly in June, to 57.5 points. Despite slipping to 55.5 points in June, the manufacturing PMI remained close to its 11-year high recorded in May. Growth in global output was at its lowest level of the last four months, but nevertheless remained strong. The different levels of progress in the Covid-19 vaccine rollout are increasing the heterogeneity of the recovery in different countries. According to the PMI, June saw monthly increases in GDP in the US, the UK, the euro area, Russia and Brazil. China recorded its lowest growth of the last 14 months, while GDP declined again in some Asian countries (Japan, India).

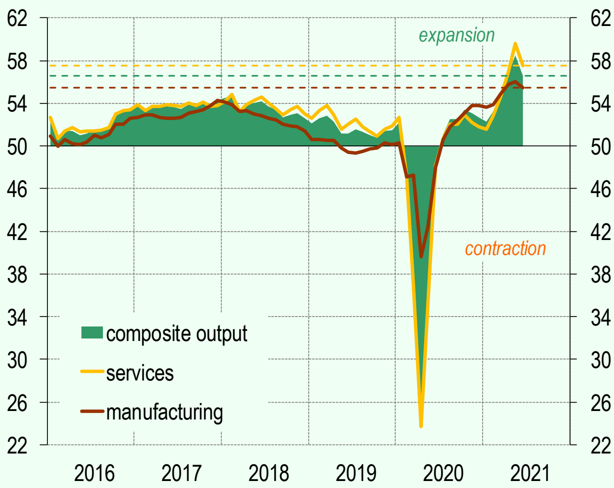
The high-frequency indicators for the second quarter suggest a strong rebound in economic activity in the euro area. In line with the strengthening global demand and the progress on the vaccine rollout, growth in euro area GDP picked up sharply in June to record its highest rate of the last 15 years according to the composite PMI (see Figure 1.2). Amid the relaxation of containment measures, the situation in the service sector improved notably: in June the services PMI reached its highest level since July 2007 (58.3 points). Manufacturing output also continued to record high growth in June. The economic

Figure 1.3: Confidence indicators in the euro area



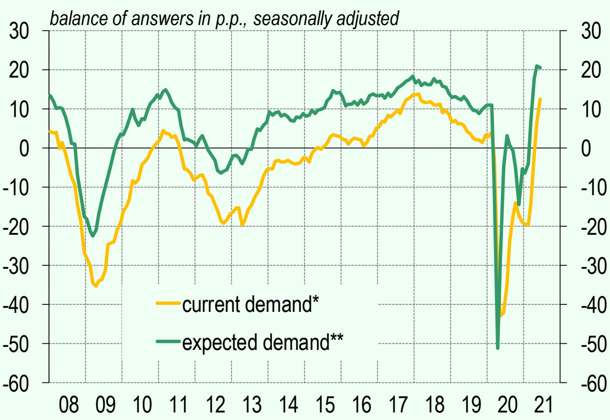
Source: Eurostat.

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



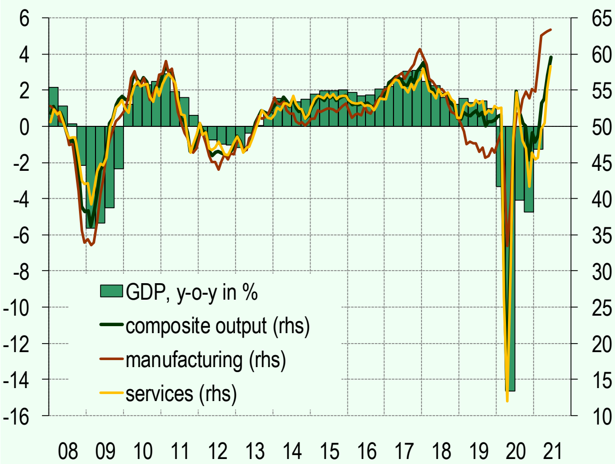
Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

Figure 1.4: Current and expected demand in euro area



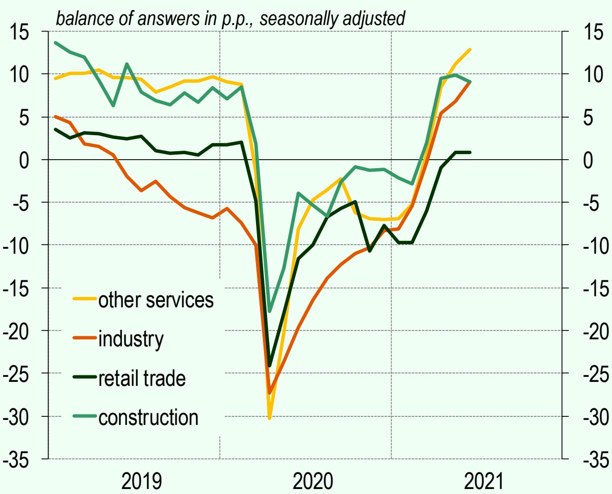
Note: The indicators are calculated by taking into account value added shares. *Included are companies in retail trade, other private services, industry and construction. **Included are companies in retail trade, other private services and industry.
Source: Eurostat, Banka Slovenije calculations.

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



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

Figure 1.5: Expected employment in the next three months, euro area



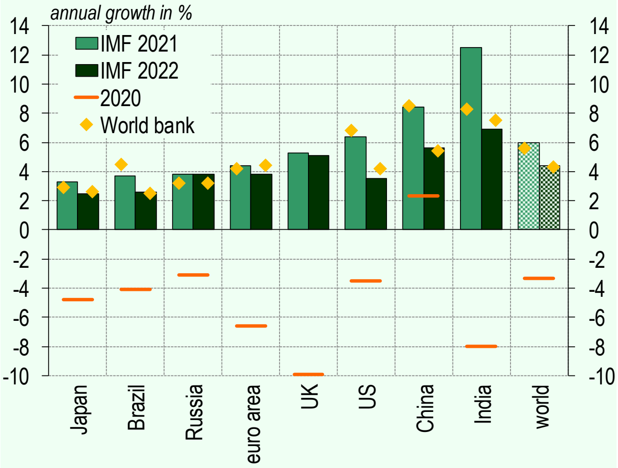
Source: Eurostat, Banka Slovenije calculations.

sentiment indicator rose again, reaching its highest level since May 2000 (see Figure 1.3). Confidence improved in all sectors, most notably in retail and other private-sector services. Amid strengthening global demand and the consequent improvement in the outlook for the third quarter,[1] the situation on the labour market also improved: the employment expectations indicators surpassed their pre-crisis levels in all sectors other than retail (see Figure 1.5).

Economic forecasts

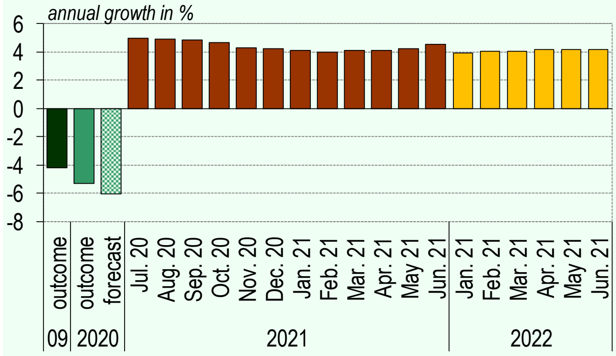
Despite the huge uncertainty in the international environment, economic forecasts are being raised. The World Bank revised its forecast for this year's global economic growth up by 1.5 percentage points from January to 5.6%, in light of the rising vaccination rates in the general population, albeit unevenly distributed across countries (see Figure 1.6). The recovery will be driven in particular by the US, where growth is expected to reach its highest level since 1984 at 6.8% amid the fiscal stimulus, and by China. Growth in euro area GDP is forecast to be slightly weaker, at between 4.2% (World Bank) and 4.8% (European Commission),[2] supported in part by the NextGenerationEU funding. The surge in the epidemic and a shortage of vaccines mean that the recovery will be a lengthier process in many developing economies: GDP will not regain its pre-crisis level until 2022. India, where the health situation has been particularly bad, is forecast to record one of the highest economic growth figures this year, at 8.3%, but from one of the lowest bases. Amid the gradual lifting of containment measures, the outlook for growth in foreign demand for Slovenian products and services also improved (see Figure 1.7). The economic forecasts nevertheless remain subject to huge uncertainty in connection with the spread of new variants of the virus, and inadequate vaccination rates.

Figure 1.6: GDP growth forecasts in major developed countries and BRIC



Note: Included forecasts are the following: IMF (April 2021) and World Bank (June 2021). The World Bank does not publish forecasts for the United Kingdom.
Source: IMF, World Bank.

Figure 1.7: Weighted monthly forecasts of GDP growth for Slovenia's trading partners for 2021 in 2022



Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (May 2020–April 2021; 21 trading partners with a total share of 85.0%) and all the other countries as a difference of up to 100%. The growth forecasts for 2021 in 2022 are weighted with the share of each country in the total exports of Slovenia, for other countries the global forecast is used. For 2009 the weighted outcome is shown. For 2020 the weighted outcome and the December weighted forecast are shown.
Source: SORS, Consensus, World Bank, Fred, Banka Slovenije calculations.

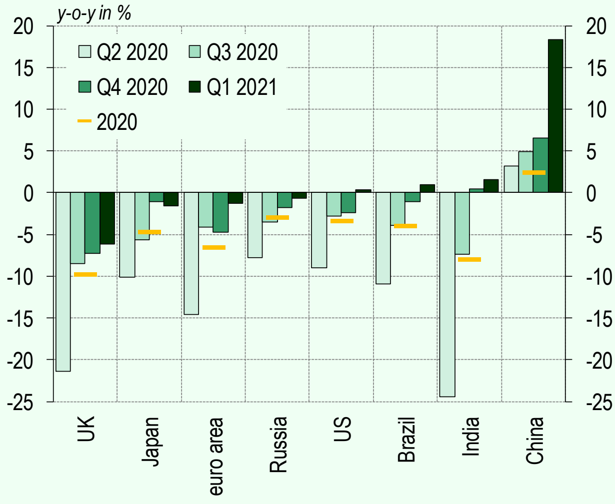
Economic developments in the first quarter of 2021

The recovery in numerous global economies was sluggish in the first quarter, as the epidemiological situation worsened again. Quarterly economic growth slowed in all of the BRIC countries other than Russia. Amid strong foreign and domestic demand, GDP in China increased by 0.6% in the first quarter, the lowest figure of the last year, but was up fully 18.3% in year-on-year

[1] Evidence that the optimism of firms in private-sector services and industry is strengthening fast with regard to future demand comes from the weighted indicator of demand expectations, which in June remained close to its record high seen in May (see Figure 1.4).

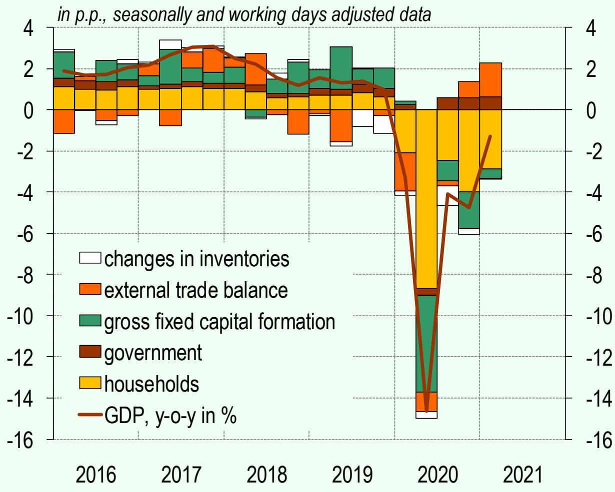
[2] According to the ECB's June projections, GDP in the euro area is forecast to grow by 4.6% this year.

Figure 1.8: Economic growth in major developed countries and BRIC



Source: Tradingeconomics, IMF.

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

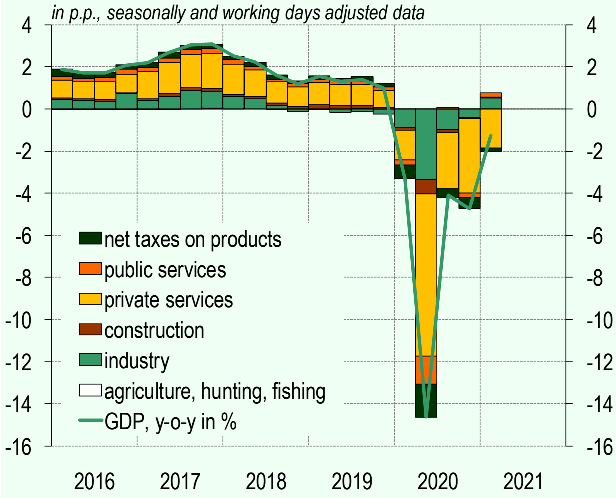


Source: Eurostat, Banka Slovenije calculations.

terms from a low base (see Figure 1.8). India also saw more modest quarterly growth in the first quarter, at 2.1%, compared with 9.3% in the previous quarter. By contrast, GDP in advanced economies contracted again, most notably in the UK and Japan, which saw activity decline by 1.6% and 1.0% respectively after two quarters of positive growth. The only exception was the US, where economic activity has already surpassed its pre-crisis level by 0.4%, amid a fast vaccine rollout and extensive fiscal stimulus measures.

Euro area GDP in the first quarter was again down slightly on the previous quarter. The quarterly decline according to seasonally and calendar-adjusted figures stood at 0.3%, while the year-on-year decline stood at

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



Source: Eurostat, Banka Slovenije calculations.

1.3%, 3.5 percentage points less than in the previous quarter (see Figure 1.9). The strongest recovery was in gross fixed capital formation, which was down just 2.0% in year-on-year terms, thanks primarily to an increase in investment in machinery and equipment. The negative contribution to GDP growth made by private consumption was also significantly smaller, at 2.9 percentage points. The contribution to GDP growth made by net trade strengthened sharply (to 1.6 percentage points), as exports recovered strongly. Government consumption prevented an even larger contraction in the economy for the third consecutive quarter. The situation improved in all sectors (see Figure 1.10), most notably industry and construction, where year-on-year growth in value-added stood at 3.2% and 0.8% respectively, taking their aggregate contribution to GDP growth to 0.6 percentage points. The year-on-year contraction in value-added in private-sector services slowed by 3.4 percentage points to 3.8%, driven largely by trade, transportation and storage (for more on developments in GDP in euro area countries, see Box 2.1).

Money and capital markets

Money market interest rates fell further amid rising liquidity. Liquidity was increased by central banks, mainly via operations such as asset purchase programmes. The excess liquidity amounted to more than

EUR 4,000 billion in the euro area, and a little under USD 3,000 billion in the US. The EURIBOR is trading at record lows at all maturities, of between -0.5% and -0.6%, while the same is true of interest rates in the repo segment. More and more secured loans in the US market have been concluded at negative rates, which until now have been a rarity in that market. The EONIA curve, which reveals when market participants expect the first interest rate hikes by the ECB, has been steeper since March. It currently shows that the expectation of the first rise in ECB interest rates has been brought forward from the first half of 2024 to the final quarter of 2023. The Fed Funds curve, which similarly reveals market expectations with regard to that interest rate, suggests that the Fed's first interest rate hikes will come in mid-2023.

Yields on euro area bonds have stabilised in recent months at slightly higher levels than at the end of the first quarter. The euro area risk-free interest rate benchmark, the 10-year EONIA swap rate, has risen slightly (see Figure 1.11). Market expectations of future inflation, which are illustrated in Figure 1.11 by 10-year inflation-linked swaps, have also risen slightly. The real cost of borrowing for euro area governments remains very low, despite the increase in nominal yields. The average 10-year yield on euro area government bonds weighted by GDP (see Figure 1.11) fell from a peak of 0.3% in mid-May to hit 0.06% in early July. The 10-year yields on government bonds in the US have been falling since the end of March. From a high of 1.70% in March they had slid to 1.30% by early July, despite the outcome of the Fed's June meeting being more restrictive than anticipated, which is indicative of the increased uncertainty surrounding the economic recovery in light of the rapid spread of the Covid-19 delta variant. Volatility in the euro area government bonds segment remains low, and similar to that seen in 2018 and 2019. Liquidity in this segment also remains good. Government bond issuance in the euro area was still displaying a rising trend in March 2021 (last available data). This might be attributable to the additional fiscal measures taken because of last year's extension of containment measures.

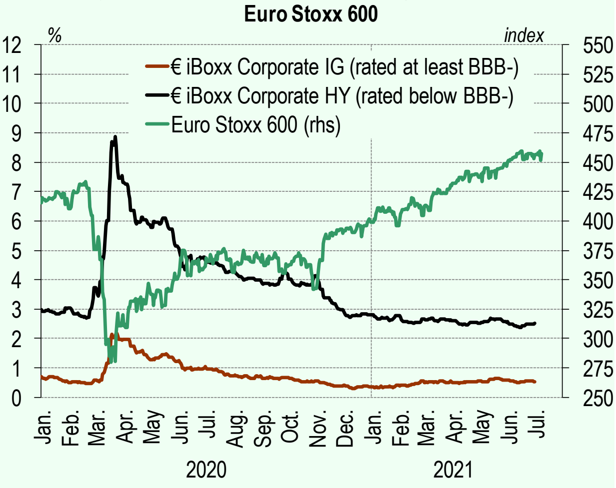
Slovenia's 10-year sovereign borrowing costs have increased since the end of March, and are averaging around 0.12%, however, in light of the recent global increase in uncertainty the 10-year yield on Slovenian government bonds also fell to zero. Slovenia's sovereign borrowing costs are comparable to countries such as Belgium and France. The finance ministry issued its first 10-year sustainable bond in June, with a nominal value of EUR 1 billion and a yield of 0.17%. Demand for the bond was strong: orders exceeded EUR 8.4 billion. Slovenian government bonds recorded higher trading volume in May and June compared with the same months last year, but with wider bid-ask spreads, which is indicative of a potential decline in liquidity.

Private-sector issuers were still able to borrow favourably on the capital markets, despite the rise in the aforementioned risk-free curves and euro area go-

Figure 1.11: 10 year Euro area bond yield, EONIA swap rate and market inflation expectations

Note: 10Y EA yield represents an average of GDP weighted government bond yields of euro area members.
Source: Bloomberg, Banka Slovenije calculations.

Figure 1.12: € iBoxx Corporate bond yield index and Euro Stoxx 600



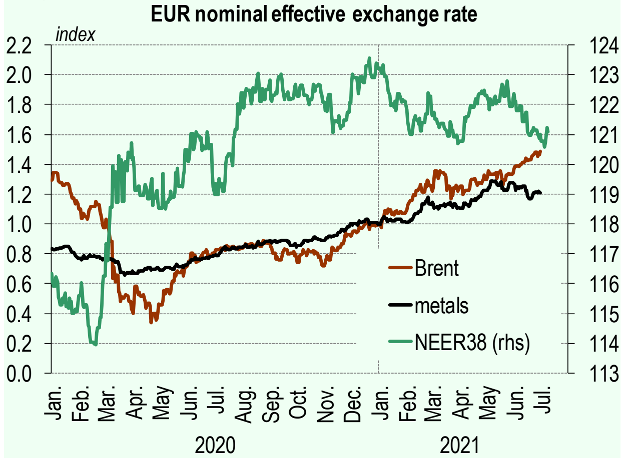
Note: iBoxx index includes coporate bond issuers of financial and non-financial sector.
Source: Reuters, Bloomberg.

vernment bond yield curves. Credit spreads as measured by the difference between the yield-to-maturity of a private-sector issuer's bond and the risk-free return of comparable maturity narrowed further compared with the end of March, which is indicative of robust demand from investors for the bonds of euro area private-sector issuers. Worthy of particular note is the speculative segment, i.e. bonds of issuers rated lower than BBB- (see Figure 1.12), where required yields have actually fallen since March. Further evidence of the favourable situation in the private segment comes from the rise in the volume of bond issuance inside iBoxx indices.

A positive mood on the part of investors was also evident in the equity market, where all the major global share indices made gains. The Euro Stoxx 600 reached a record high of 460 in June, with growth evident in the non-financial and financial sectors (including banks) alike. Growth in net share issuance has picked up pace since the final quarter of last year, reaching its highest level since 2013, when the time series began to be compiled. The background to the current growth might come from firms' intentions to make up for the very modest share issuance seen in the pandemic year of 2020. However, this trend is not evident in Slovenia. Cumulative bond issuance of Slovenian private non-financial corporations at KDD over the first five months of this year was comparable to that seen before the pandemic, when total issuance amounted to a modest EUR 30 million, but is visibly lower than several years ago (when it averaged around EUR 200 million). This is a further indication of the ongoing trend of decline in the importance of bond funding for Slovenian issuers.

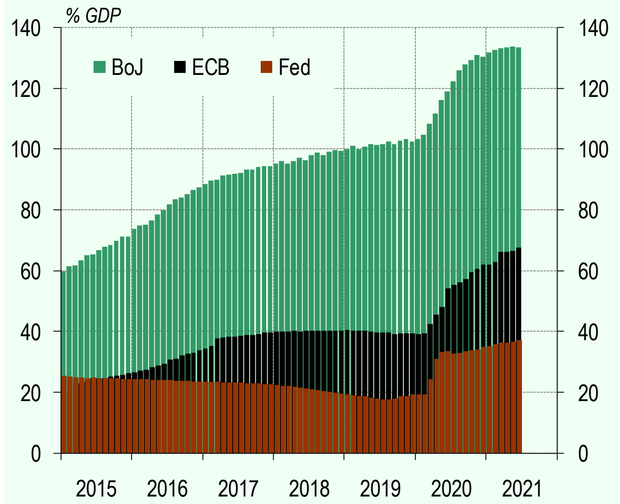
Growth in prices on global oil and primary commodity markets remains high (see Figure 1.13)**.** The main driver is the rise in aggregate demand as the pandemic abates. In recent months traders have taken net long positions on commodity futures markets, i.e. when the majority of investors invest in the expectation of price rises over time. Prices fell towards the end of the observation period, which suggests that the cycle of rising commodity prices might be coming to an end. The price of Brent crude briefly passed USD 76 in July. Disagreements within Opec+ with regard to future oil production

Figure 1.13: Oil price index, LME futures price index of metals and EUR nominal effective exchange rate



Note: Nominal effective exchange rate (NEER38) of the euro is a weighted average of nominal bilateral rates between the euro and a basket of foreign currencies. LME index of copper, aluminium, lead, tin, zinc and nickel prices. Source: Bloomberg.

Figure 1.14: Central bank balance sheets



Source: Bloomberg.

remain to the forefront. The Brent futures curve remains downward sloping as in March. According to the curve, traders are expecting the price to fall below USD 60 per barrel in the coming years. Growth in metals prices came to a halt in mid-May, under the influence of expectations of rising inventories after the Chinese government expressed concerns over the sharp rise in metals prices, followed by their announcement to release of government reserves of certain metals in June. The euro exchange rate against major euro area trading partners strengthened in April, then fell from May. The reversal coincided with public statements by certain members of the Governing Council of the ECB about whether it is reasonable to maintain the highly accommodative monetary policy (see Figure 1.13). The current levels of the NEER38[3] are similar to those seen last summer. The euro slid from 1.22 to 1.18 against the US dollar in June, as the dollar was driven upwards by the revised expectations of interest rate hikes by the Fed. The strengthening dollar also brought a sharp fall in gold prices in mid-June, from USD 1,900 to USD 1,755 per ounce. Amid rising uncertainty, gold prices again rose slightly in July, to USD 1,800 per ounce.

Monetary policy of the ECB and other major central banks

The major global central banks are maintaining highly accommodative monetary policy stances. The Fed and the ECB reiterated their gradual approaches to the normalisation of monetary policy, as they expect the rise in inflation to be temporary, and the pandemic is not yet over. The two central banks signalled that it was still too early to begin scaling back asset purchases. The chair of the Fed nevertheless confirmed at its June meeting that they would soon start to discuss the gradual normalisation of monetary policy, but gave no indication of when. Members of the FOMC are also expecting to see faster interest rate hikes by the Fed. Their latest projections from June for movements in the Fed's key interest rate shows two rises (50 basis points in total) by the end of 2023, in contrast to the previous projections, when no rises were anticipated. By contrast, the Bank of Japan extended its current measures to support the economy during the pandemic by six months to September 2022, citing the weaker inflation outlook and the threat of new containment measures being imposed on the Japanese economy. The People's Bank of China left its interest rates unchanged for the 14th consecutive month. In its monetary policy report for the first quarter of this year it emphasised the temporary nature of inflationary pressures, and stated that a rise in key interest rates is not yet envisaged.

[3] The nominal effective exchange rate of the euro as the weighted average of nominal bilateral exchange rates with major trading partners.

Box 1.1: ECB monetary policy strategy updated[1]

In early July the Eurosystem approved a new monetary policy strategy for the first time since 2003, given the economy has undergone deep-rooted structural changes in the interim. A new symmetric inflation target of 2% was introduced (previously the inflation target was below, but close to 2%), which the central bank targets over the medium term as before. The symmetric target means that negative and positive deviations are considered equally undesirable.

In pursuing the symmetric inflation target we will take account of the limitations imposed by the low interest rate environment when addressing negative deviations in inflation. Deviations of this type require forceful or persistent interventions from monetary policy, which might imply transitory periods when inflation is moderately above the target. The medium-term framework for pursuing the inflation target allows for a monetary policy response that is contingent on the specific situation and depends on the reasons, the size and the duration of the deviation from the target.

The harmonised index of consumer prices (HICP) remains the most appropriate measure of inflation, but the strategy identifies owner-occupied housing costs as a major component missing from consumer prices, and envisages their inclusion over time. Given that this is a multi-year project, over the transitional period we will take account of inflation measures that include initial estimates of the cost of owner-occupied housing in its wider set of supplementary inflation indicators.

To meet the price stability target, in addition to the primary instrument of key interest rates, we will also employ other instruments that to date have been deemed non-standard, as appropriate: forward guidance, asset purchases and longer-term refinancing operations. The Governing Council of the ECB will regularly evaluate the proportionality of the measures put in place, by assessing their benefits and their side effects over time.

Monetary policy decisions will continue to be assessed on the Governing Council on the basis of two mutually dependent types of analysis: a) economic analysis, and 2) monetary and financial analysis. The latter focuses on the functioning of transmission mechanisms and the risks to medium-term price stability from financial imbalances and monetary factors.

We also resolved when drawing up monetary policy to take account of climate change and its consequences in pursuing the primary inflation target. We will therefore make adjustments over time to the operational framework of monetary policy as far as it concerns disclosures in connection with climate change, risk assessment, the collateral framework and corporate sector asset purchases. The action plan for incorporating climate change considerations into the monetary policy strategy envisages the implementation of measures by the end of 2024 provisionally. It will be implemented in line with progress on the realisation of EU policy and initiatives in the area of taxonomy, disclosures and reporting in connection with climate change by businesses and the financial sector. These are expected to enter into force by the end of 2023, with the first reporting and disclosures published in 2024 for 2023. This action plan will allow the Eurosystem to make a greater contribution to addressing climate change, in line with its mandate as set out in the EU treaties.

[1] For more on the ECB's monetary policy strategy, see Strategy review (europa.eu).

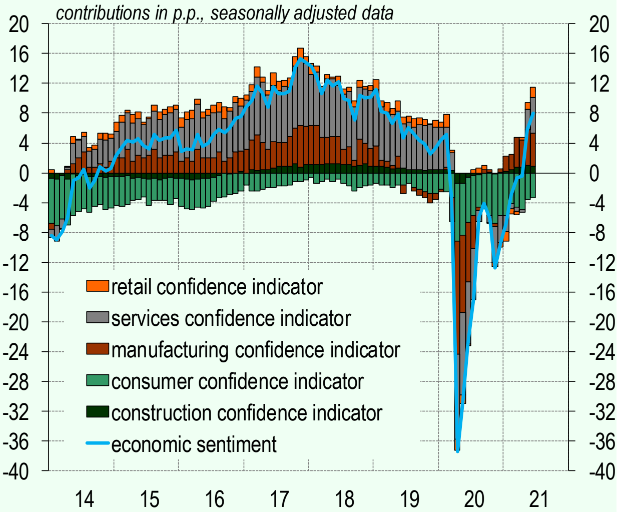
2 Economic Developments

Domestic economic activity is rising fast, the business conditions having largely normalised amid the strong improvement in the epidemiological situation and the lifting of containment measures. Domestic and foreign demand are both strengthening, raising the economic sentiment, which has already regained its pre-crisis level. Growth is high in export-oriented manufacturing, and certain high-frequency indicators for the end of the second quarter are suggesting that domestic final consumption has surpassed its pre-crisis level. Investment, including construction investment, is expected to strengthen further, as the decline in construction activity in the early months of this year was thought to be merely temporary. Given the better performance in the early part of the year compared with the euro area average, the current situation provides a foundation for catching-up with the more advanced euro area economies. However, issues on the supply side are becoming increasingly evident: firms are already reporting a shortage of skilled workers, and commodities are becoming more expensive and harder to obtain.

Economic sentiment indicators

The economic sentiment indicator has been increasing since the beginning of the year, moving into positive territory in May and rising further in June. The improvement in manufacturing confidence seen in the first quarter was followed by a strong recovery in services confidence following the opening of catering and accommodation sector, while retail confidence also improved slightly over the last two months. According to seasonally adjusted figures, the economic sentiment indicator stood at 8 percentage points in June, its highest level since March 2019. Firms are increasingly positive in their assessments of demand, while the employment outlook is also continuing to improve. Insufficient demand is being cited by fewer and fewer firms as a limiting factor, but there are increasing challenges associated with the ongoing strengthening of activity, such as shortages of workers, particularly skilled workers, high commodity prices and shortages of raw materials. Consumers were also slightly less pessimistic in June: given the improving epidemiological picture and the lifting of containment measures, they expect the economic situation in the country to continue improving.

Figure 2.1: Economic sentiment indicator for Slovenia

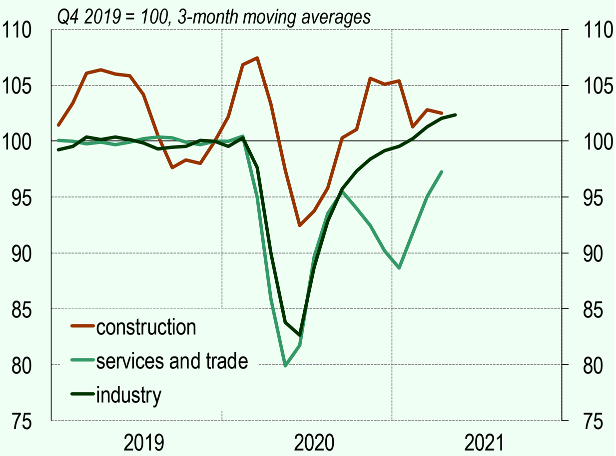


Source: SORS, Banka Slovenije calculations.

High-frequency indicators of activity

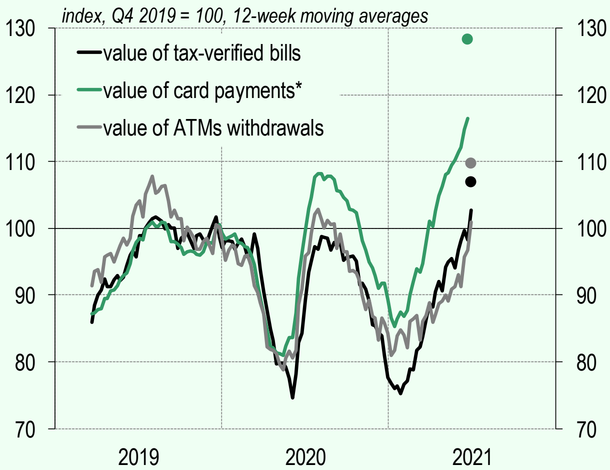
Amid improving business and consumer confidence, economic activity continues to increase, while households continue to spend. According to seasonally adjusted figures, industrial production had surpassed its pre-crisis peak in April. It fell slightly in May, but was high again in June, according to the Purchasing Association of Slovenia's manufacturing PMI, as new orders and employment also strengthened. Construction activity fell in April, driven by construction of non-residential buildings, although the same month saw a significant rise in the value of new contracts in this segment. After increasing in the first quarter and temporarily declining in April as the containment measures were tightened, private consumption is rising again, at least according to high-frequency indicators. Amid the improving situation on the labour market, high savings, and more favourable expectations with regard to the economic situation in the country, card payment are increasing sharply, while ATM withdrawals and invoices registered with tax authorities are also continually rising in value.

Figure 2.2: Monthly indicators of economic activity



Note: Volume composite indicator includes real volume index of service activities and trade, real index of industrial production and real volume index of construction put in place.
Source: SORS, Banka Slovenije calculations.

Figure 2.3: High-frequency indicators of consumption



*Note: *The source of card payments is Bankart, which covers more than 80% of all card payments in Slovenia. Dots represent 4-week moving averages.*
Source: FURS, Bankart, Banka Slovenije calculations.

Table 2.1: Economic activity, volume indices of production

	12 mes. do Mar. 20	12 mes. do Mar. 21	2021 Feb.	2021 Mar.	2021 Apr.	2021 Jan.	2021 Apr.
			y-o-y in % **			monthly***	
Industrial production – total	1.1	-4.6	-0.8	11.5	35.9	2.3	2.7
Manufacturing	1.8	-4.6	-0.8	12.5	39.8	2.8	2.8
Construction – total	0.1	-1.8	-9.4	2.1	6.5	4.3	-2.8
Non-residential buildings	-4.4	-16.6	-39.6	-48.9	-11.0	13.1	-36.0
Residential buildings	-13.0	14.9	53.1	50.5	44.8	20.9	6.3
Civil engineering	2.0	2.4	-10.0	20.4	1.3	3.9	0.6
Trade and service activities* – total	0.2	-8.3	-1.7	17.0	29.2	-5.7	9.7
Wholesale and retail trade and repair of motor vehicles and motorcycles	-3.2	-9.1	-3.8	63.8	95.8	-19.3	20.7
Retail trade, except of motor vehicles and motorcycles	0.8	-3.4	6.4	29.2	24.3	-9.7	22.5
Other private sector services	-0.3	-11.1	-6.2	11.2	27.2	-5.1	5.3
Transport and storage	0.1	-6.3	2.2	20.8	39.0	2.7	5.3
Accommodation and food service activities	-0.8	-47.0	-68.0	-27.0	117.7	-64.2	20.3
Information and communication	1.3	-0.8	6.0	4.8	10.1	-2.2	5.8
Professional, scientific and technical activities	3.3	-1.6	3.1	19.2	34.2	2.4	5.6

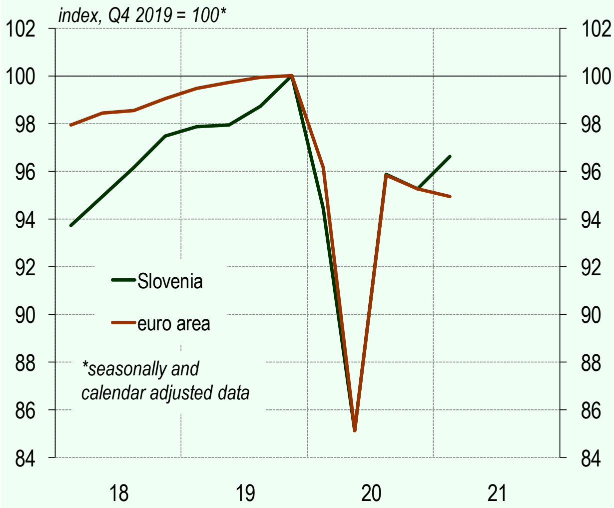
*Note: *Excluding financial services. **Working days adjusted data. ***3-month moving average compared to the corresponding moving average 3 months earlier in %, seasonally adjusted data.*
Source: SORS, Banka Slovenije calculations.

GDP in the first quarter of 2021

In contrast to the euro area, the Slovenian economy began its recovery already in the first quarter of this year. GDP was up 1.4% on the final quarter of last year, compared with a decline of 0.3% in the euro area overall. Slovenia's main contrast with the euro area overall lay in its sharp increase in private consumption as containment measures were partly relaxed, while they were being tightened in the majority of euro area countries. The year-on-year comparison is also favourable for Slovenia: GDP was up 1.6% according to original figures, compared with a decline of 1.3% in the euro area overall. GDP in Slovenia according to seasonally and calendar-adjusted figures was down 3.4% on the final quarter of 2019, i.e. before the outbreak of the pandemic, compared with a figure of 5.5% in the euro area overall.

The partial lifting of the containment measures in February allowed for a recovery in the majority of the economy. With a broad spectrum of private-sector services operating more normally, value-added in the sector was up 3.7% on the final quarter of last year. The easing of restrictions on sales at shops was the largest factor in the increase. The crisis deepened in accommodation and food service activities, where real turnover was down 17.3% in quarterly terms. Industry saw an increase in activity for the third consecutive quarter, in line with the strong global demand for goods. Capacity utilisation in manufacturing has now reached its pre-pandemic level. Despite construction firms' optimism, value-added in construction declined in quarterly terms, although this should merely be a temporary blip given the scale of residential construction and public investment planned. Activity in the majority of sectors was also up in year-on-year terms. The main exceptions were accommodation and food service activities and administrative and support service activities, where the declines in real turnover in the first quarter stood at 62.7% and 8.0% respectively, despite the strong effect of the low base. Their turnover was down 71.9% and 28.9% respectively on the final quarter of 2019. A full recovery in these sectors will only be possible after the removal of the containment measures restricting movement and gatherings.

Figure 2.4: GDP of Slovenia and the euro area

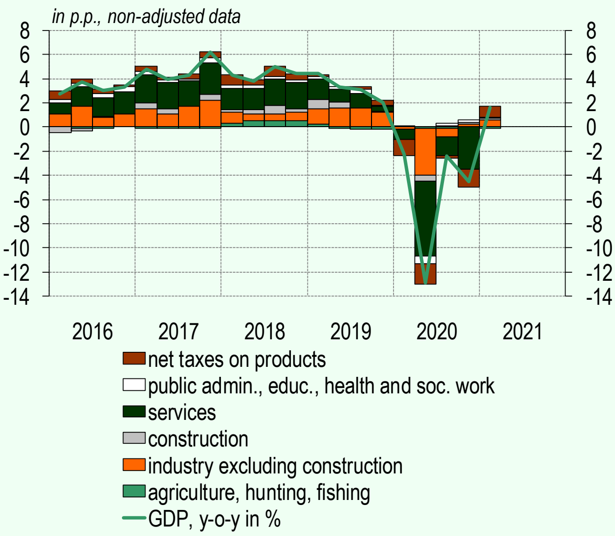


Source: SORS, Eurostat.

Figure 2.5: GDP, production side

Source: SORS, Banka Slovenije estimates of private sector services' growth rates.

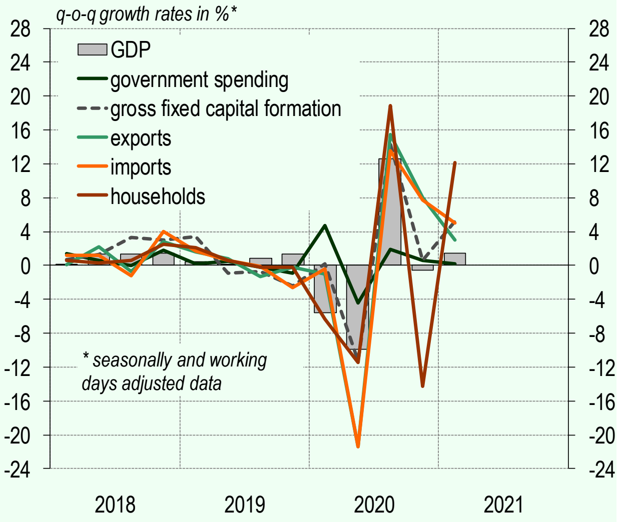
Figure 2.6: Structure of GDP growth in Slovenia, production side



Source: SORS.

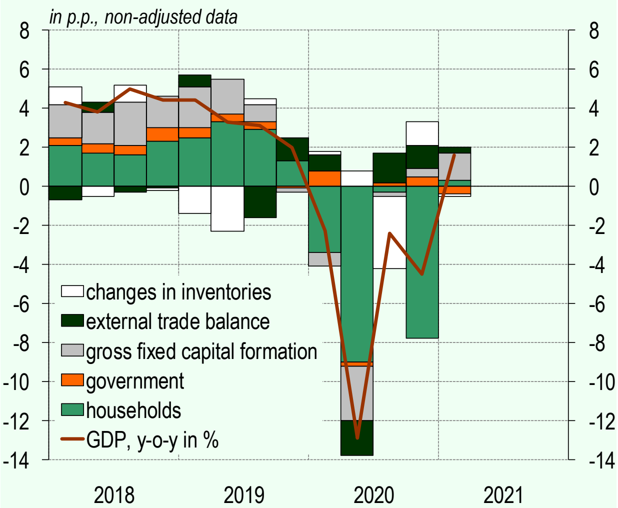
The partial lifting of the containment measures encouraged growth in sizeable areas of private consumption that had previously been curtailed, while investment also picked up. Final household consumption increased by 12.1% in quarterly terms. There was a notable increase in purchases of durables, access to which had previously been heavily restricted by the containment measures. The increase in other forms of consumption was less pronounced, as leisure and recreation services in particular did not enjoy any notable lifting of measures. The upward spike in consumption should not have been surprising: amid the support measures the unemployment rate remained low, household disposable income increased, and the household saving rate reached 25% due to the inability to spend at the end of last year. From the point of view of economic development, the continuing growth in gross fixed capital formation is even more encouraging. It increased in the first quarter for the third consecutive quarter, the rate of growth reaching 5.2%. There was a notable increase in investment in machinery and equipment, which coincided with strengthening demand, an increase in capacity utilisation, and the good financial position of firms. The recovery of domestic demand narrowed the gap between the year-on-year dynamics in imports and exports, thus reducing the positive contribution to GDP growth made by net trade.

Figure 2.7: GDP components, expenditure side



Source: SORS, Banka Slovenije calculations.

Figure 2.8: Structure of GDP growth in Slovenia, expenditure side



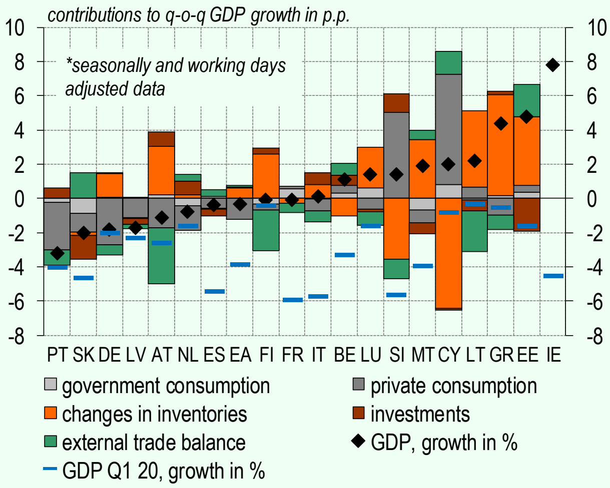
Source: SORS.

Box 2.1: GDP developments in euro area countries

After a strong recovery in the third quarter of last year, the euro area economy contracted for the second consecutive quarter in the early part of this year. On account of the adjustment of businesses and consumers to the new situation, the decline in economic activity was much smaller than in the same period last year. According to seasonally and calendar-adjusted figures, GDP was down 0.3% on the previous quarter, and down 1.3% in year-on-year terms. Developments still varied greatly across countries, with the difference between the highest and lowest quarterly growth rates, excluding Ireland, at 8.0 percentage points. Most countries are still lagging behind their pre-crisis levels of GDP, most notably Spain and Portugal. It was mainly the smaller countries that saw an increase in economic activity, including Slovenia.

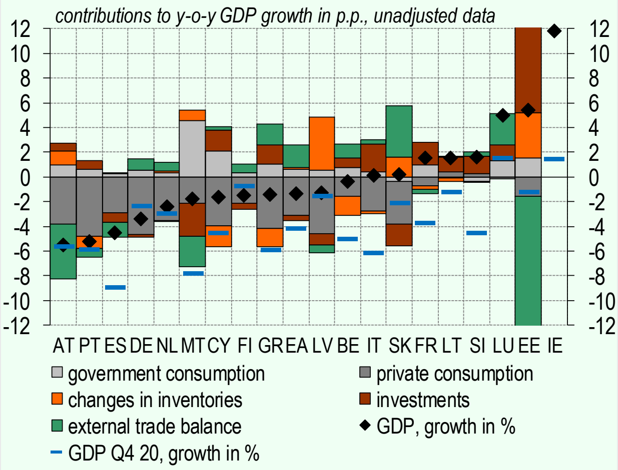
The majority of countries further tightened their containment measures in the first quarter of this year, which further curtailed private consumption. This was the largest factor in the decline in euro area GDP compared with the previous quarter. By contrast, private consumption rose sharply in Slovenia and Cyprus, which most likely contributed to a run-down of inventories. While investment made a neutral contribution in the euro area overall, its contribution in Slovenia was the largest of any euro area country, which helped put Slovenia among the best-performing countries. Alongside Luxembourg and France, Slovenia was the only country where containment measures were relaxed overall during the first quarter.

Figure 1: Quarterly economic growth* in euro area countries by expenditures in the first quarter of 2021



Note: Detailed data for Ireland is not available.
Source: ECB, Eurostat.

Figure 2: Year-on-year economic growth in euro area countries by expenditures in the first quarter of 2021



Note: The full contributions to Estonian GDP are not shown in the graph due to better visibility of other data, detailed data for Ireland is not available.
Source: ECB, Eurostat.

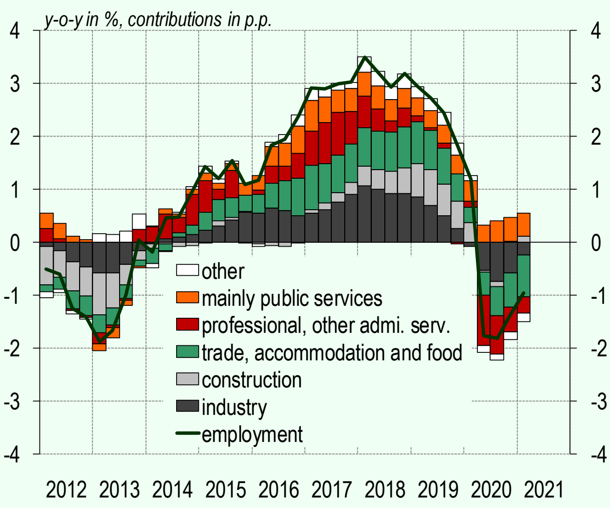
3 Labour Market

With the relaxation of the containment measures, the situation on the labour market is improving. Registered unemployment stood at just 71,094 at the end of June, down about 18,300 on June of last year, and comparable to June 2019. The decline in unemployment is largely being driven by new hires as sectors open up. The workforce in employment increased by April, and the situation began to improve even in the hardest-hit sectors. The increased demand for labour was reflected as early as the first quarter in a rise in the job vacancy rate, which approached its pre-crisis level, whereas structural imbalances mean that labour shortages indicators are also rising. Amid the anticipated hiring, the structural imbalances might further increase later in the year, although future developments on the labour market remain uncertain. In the event of any deterioration in the epidemiological situation, they will also be dependent on the job preservation measures. The temporary lay-off scheme expired at the end of June, but the option of subsidising short-time work was extended. Given the lower income of employees included in the measures, growth in the average gross wage in the private sector in the first quarter according to national accounts figures stood at just 1.4% despite the minimum wage increase, compared with 18% in mostly public services, thanks to high payments of epidemic related bonuses. Amid the high growth in wages and employment in mostly public services, growth in the gross wage bill also strengthened.

Employment

The year-on-year fall in employment diminished in the first quarter, but still stood at 1% amid the stringent containment measures in the early part of the year and the continued closure of accommodation and food service activities. The decline was 0.4 percentage points less than in the final quarter of last year, thanks to an improvement in the private sector, but the nature of the containment measures meant that the recovery in employment varied from sector to sector (see Figure 3.1). The decline in employment in the private sector, which was still down 1.7% in year-on-year terms in the first quarter, was driven primarily by the decline in the sectors of wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and stora-

Figure 3.1: Contributions to employment growth by sector

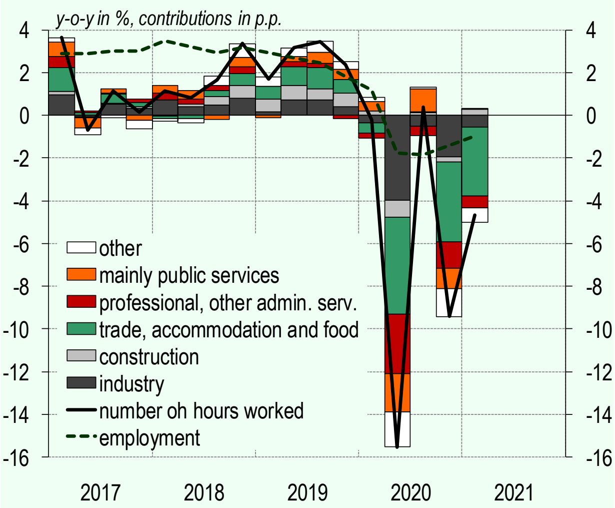


Source: SORS – national accounts, Banka Slovenije calculations.

ge, and accommodation and food service activities. The year-on-year fall in employment in these sectors picked up pace to 3.6%, as a result of the prolonged closure of catering and accommodation establishments. The most notable improvements were seen in industry and construction: employment in construction was up 1.6% in year-on-year terms, comparable to the simultaneous increase in value-added. Mostly public services (Sectors O, P and Q) continued to record employment growth, which stood at 2.3% in the first quarter.

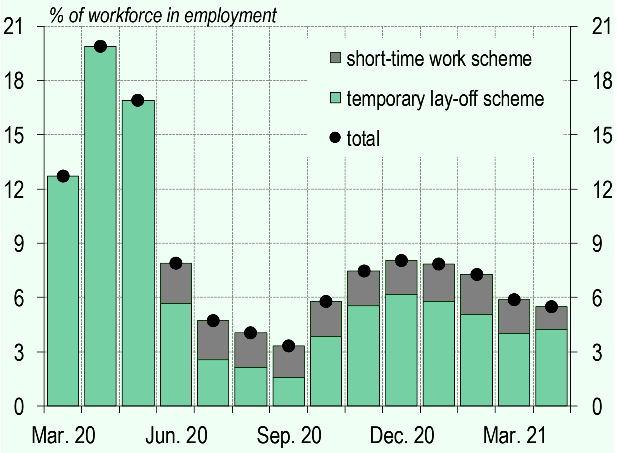
Thanks to the job preservation measures, the year-on-year fall in the number of hours worked remains larger than the fall in employment. Although the fall has diminished, it was still down 4.7% in the first quarter, driven largely by the combined sector of wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities (see Figure 3.2). The number of hours worked in this sector was still down 15.7% in year-on-year terms, significantly more than the fall in employment, as the closure of hotels and restaurants meant that employees in accommodation and food service activities in particular remained included in job preservation measures. According to provisional figures from the Employment Service (ZRSZ), the number of employees included in measures has been falling since December. An average of 6.6% of the workforce in employment was still included in measures over the first four months of the year, of which the majority were included in the temporary lay-off scheme (see Figure 3.3). More than half of them came from wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities (see Figure 3.4). After the official declaration of the end of the epidemic, the temporary lay-off scheme expired at the end of June, but the short-time work scheme was extended until the end of September as part of the ninth package of measures to alleviate the impact of the epidemic, with the possibility of extension until the end of the year.[1]

Figure 3.2: Growth in number of hours worked



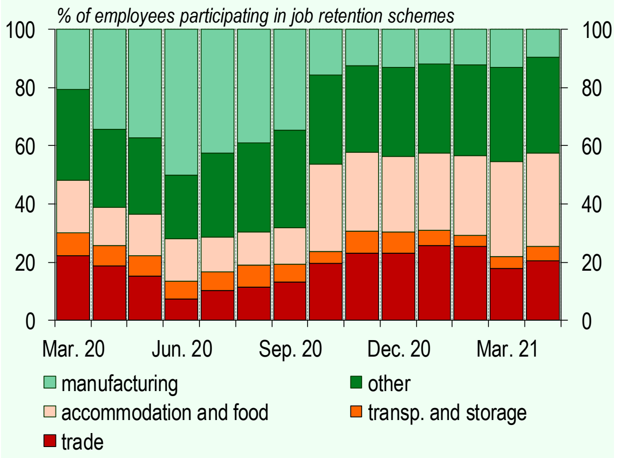
Source: SORS – national accounts, Banka Slovenije calculations.

Figure 3.3: Employees participating in job retention schemes



Note: Employment Service data on wage reimbursements of temporarily laid-off workers and workers included in the short-time work scheme as of June 14.
Source: ESS, SORS, Valicon, Banka Slovenije calculations.

Figure 3.4: Employees participating in job retention schemes, by sector



Note: Employment Service data on wage reimbursements of temporarily laid-off workers and workers included in the short-time work scheme as of June 14.
Source: ESS, SORS, Valicon, Banka Slovenije calculations.

[1] In addition to the extension, the size of the subsidies was also modified by the new law. In place of a maximum fixed subsidy, the partial refund of wage compensation is now limited to half of the average monthly wage in Slovenia in 2020, while the 80% of wage compensation covered by the government includes all taxes and employer's contributions.

Table 3.1: Demography, unemployment and employment

	2016	2017	2018	2019	2020	20Q1	20Q2	20Q3	20Q4	21Q1
						in 1,000				
Working age population[1]	1371	1362	1352	1350	1362	1356	1362	1362	1367	1341
						in %				
Activity rate[2]	71.7	74.2	75.1	75.3	74.6	75.0	73.9	74.7	74.9	72.3
Employment rate[3]	65.9	69.3	71.1	71.9	70.9	71.5	70.0	70.8	71.1	68.1
						in 1,000				
Registered unemployed persons	103.2	88.6	78.5	74.2	85.0	78.4	89.5	87.1	85.0	87.4
Unemployment rate						*in %*				
- LFS	8.0	6.6	5.1	4.5	5.0	4.6	5.2	5.1	5.1	5.6
- registered	11.2	9.5	8.3	7.7	8.7	8.0	9.2	9.0	8.7	9.0
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	18.0	19.2	19.5	18.9	19.0	21.1	16.1	22.4	16.4	22.0
- probability to lose a job[5]	2.3	2.1	1.9	1.8	2.5	2.5	3.2	2.0	2.2	2.1
						in 1.000				
Total employment[6]	961.2	989.6	1021.4	1046.7	1036.7	1045.2	1027.1	1034.6	1039.7	1035.2
						year-on-year growth rates in %				
Persons in paid employment	2.2	3.3	3.4	2.7	-1.1	1.3	-1.9	-2.2	-1.7	-1.2
Self-employed	0.2	1.6	2.5	1.7	-0.3	0.6	-1.4	-0.3	-0.2	0.2
By sectors										
A Agriculture, forestry and fishing	-1.3	-1.0	-0.4	-0.5	-1.8	-1.5	-1.9	-1.8	-1.9	-1.8
BCDE Manufacturing, mining and quarrying and other industry	2.5	3.1	4.3	2.5	-2.1	-0.3	-2.3	-3.3	-2.5	-1.1
F Construction	-0.8	2.3	6.5	9.1	0.9	5.4	-0.4	-1.2	0.3	1.6
GHI Trade, accommodation, transport	2.5	3.5	3.5	3.2	-1.6	1.3	-2.0	-2.6	-3.0	-3.6
J Information and communication services	4.1	3.4	4.6	3.5	2.6	3.5	2.8	2.2	2.1	2.4
K Financial and insurance activities	-2.0	-1.5	-0.9	-0.8	-2.0	-0.9	-1.9	-2.4	-2.8	-2.9
L Real estate activities	4.6	7.9	6.5	4.6	2.9	2.9	2.9	2.9	2.9	1.4
MN Professional, technical and other business activities	2.2	5.6	3.0	0.4	-4.0	0.8	-7.5	-5.5	-3.6	-2.3
RSTU Other activities	2.7	3.5	3.3	4.0	-0.1	2.7	-1.4	-0.5	-1.2	-1.7
- mainly private sector (without OPQ)[7]	1.8	3.1	3.4	2.6	-1.7	1.0	-2.6	-2.7	-2.2	-1.7
- mainly public services (OPQ)[7]	2.1	2.5	2.2	1.8	2.1	2.1	1.7	2.2	2.4	2.3
Total employment[6]	1.8	3.0	3.2	2.5	-1.0	1.2	-1.8	-1.8	-1.4	-1.0

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

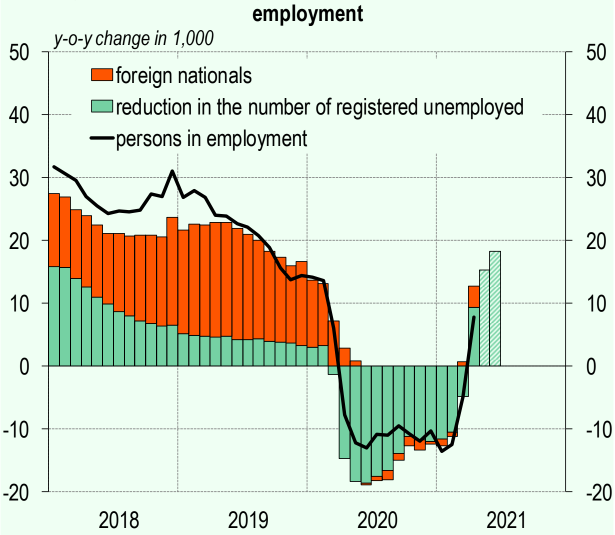
The relaxation of containment measures saw employment begin to recover in February, but the strong surge in April was largely attributable to a base effect. The workforce in employment in April was up 0.9% in year-on-year terms according to registry figures, compared with a decline of 0.6% in March.[2] The impro-

[2] Given the different methodologies of monitoring, employment differs according to the figures from quarterly national accounts and the monthly registry figures. 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. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as workforce in employment.

vement was largely attributable to a base effect, but additional hiring has been making a contribution to growth as of February amid the gradual relaxation of containment measures and the strengthening of demand for labour. The rise in the workforce in employment is primarily being driven by a year-on-year fall in unemployment, but the number of foreign workers also rose slightly in April (see Figure 3.5). As in the first quarter, April's growth primarily came in mostly public services, where human health and social work activities drove employment growth to 3%, compared with 0.3% in the private sector. As the sector gradually opened and preparations were made for the upcoming season, the situation in accommodation and food service activities also improved slightly, although the workforce in employment nevertheless remains down in year-on-year terms (by 3.2%).

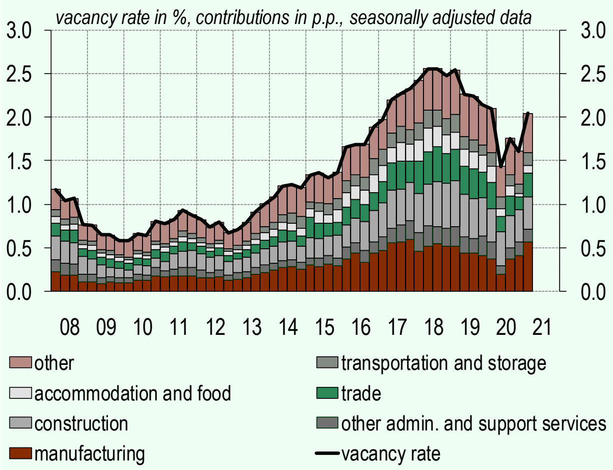
The number of vacancies rose already in the first quarter of the year, whereas in certain sectors labour shortages indicators are rising amid renewed hiring as the economy opens. According to SORS survey figures, employers notified approximately 17,300 vacancies in the first quarter, down only 4.7% on the same period last year. The improvement relative to the final quarter of last year, when the decline was fully 26.5%, was driven by the increased demand for labour in manufacturing and trade. According to the ZRSZ, the further relaxation of containment measures and the preparations for the summer season had further increased the number of vacancies by June, when even stronger demand in accommodation and food service activities and in administrative and support service activities was notable alongside manufacturing. The increased demand for labour is also being reflected in the higher job vacancy rate, which stood at 2% in the first quarter according to the seasonally adjusted figures, already very close to its pre-crisis level (see Figure 3.6). The rise is also related to the structural imbalances being expressed as a shortage of (skilled) labour. According to SORS survey figures, issues in connection with a shortage of labour increased in manufacturing, construction and services other than trade (see Figure 3.7), while an increase in structural mismatches is also being reported by the ZRSZ in its Employment Preview 2021/I. The survey figures show an average of

Figure 3.5: Sources of growth in the number of persons in employment



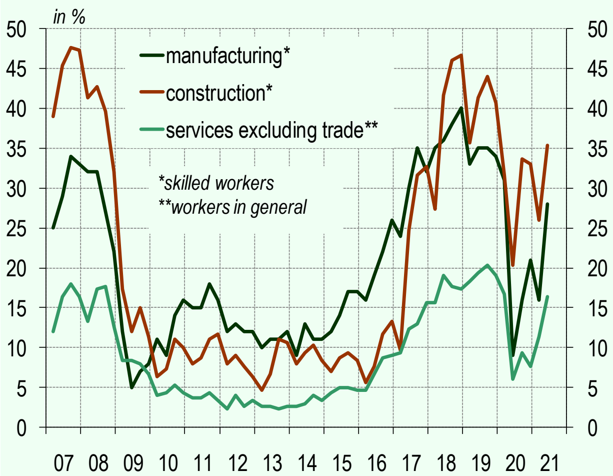
Source: SORS, ESS, Banka Slovenije calculations.

Figure 3.6: Vacancy rate*



Note: *The vacancy rate reflects the share of job vacancies in all posts combined, all posts being the sum of vacant and occupied posts.
Source: SORS, Banka Slovenije calculations.

Figure 3.7: Labour shortage as a limiting factor



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

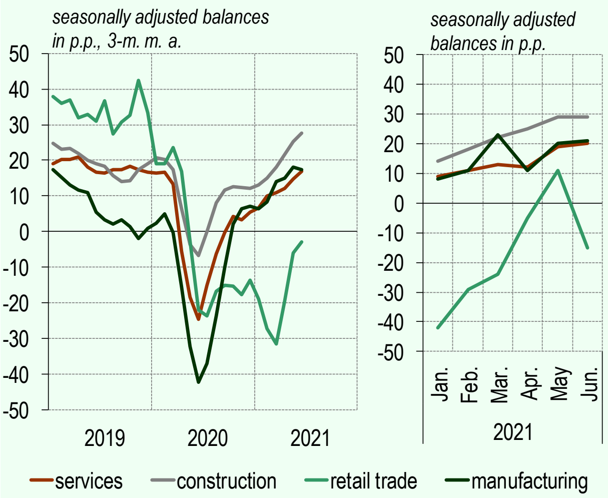
36.5% of employers to have faced a shortage of skilled labour over the last six months, most notably in human health and social work activities, construction and manufacturing.

According to various surveys, firms are expecting hiring to increase in the coming months. In recent months the employment outlook has improved in all sectors covered by the SORS survey. In services, construction and manufacturing, where according to seasonally adjusted figures the indicators have already regained or surpassed their pre-crisis levels, hiring is forecast to strengthen over the next three months. Only in retail are more firms still expecting employment to fall than to rise (see Figure 3.8). Further evidence for the encouraging forecasts for hiring in the third quarter comes from the survey carried out by Manpower, a staffing firm, according to which 14% of employers are planning to hire. Again it is construction and manufacturing at the forefront, but employers in accommodation and food service activities are also expressing positive expectations after a year. An even better outlook for accommodation and food service activities is promised by the Employment Preview 2021/I, according to which firms in this very sector are expecting to see the highest employment growth in the second half of the year. At the same time they are also expecting the greatest difficulties in finding staff, of whom there was a shortage even before the outbreak of the epidemic.

Unemployment

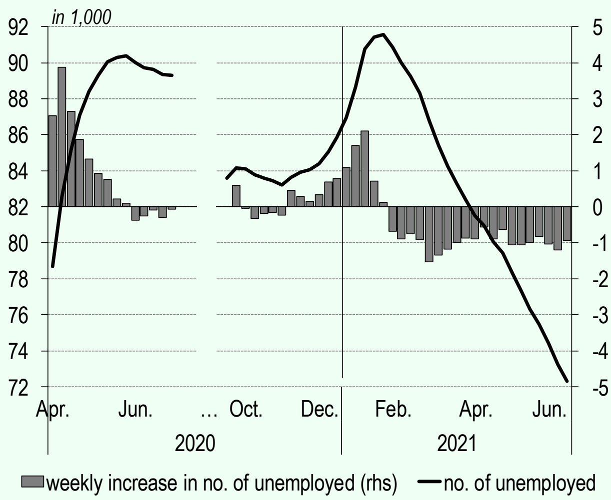
Unemployment is continuing to fall fast (see Figure 3.9)**.** Amid the improvement in the epidemiological situation and the revival of hiring, there were just 71,094 people registered as unemployed at the ZRSZ at the end of June. This was down almost 18,300 on June of last year, after unemployment had been driven up sharply by the containment measures, and was comparable to June 2019. The fall in registered unemployment in recent months has outpaced the usual seasonal dynamics, and was largely driven by hiring as businesses reopened: new hires accounted more than three-quarters of the outflows from unemployment over the first six months of this year.

Figure 3.8: Expected employment in the next three months



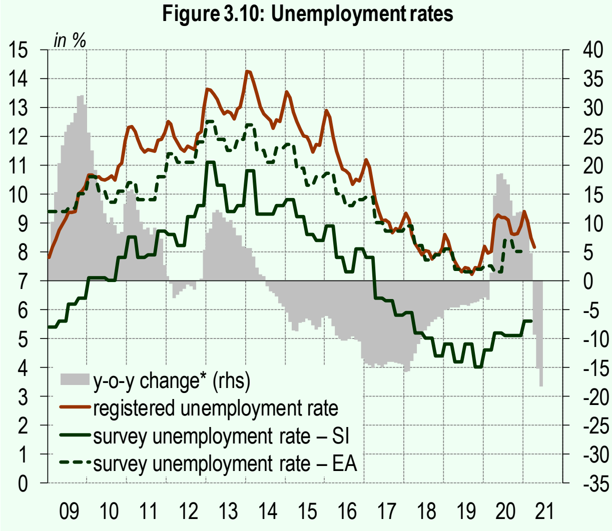
Source: SORS, Banka Slovenije calculations.

Figure 3.9: Number of registered unemployed persons by weeks



Source: Employment Service of Slovenia, Banka Slovenije calculations.

Figure 3.10: Unemployment rates

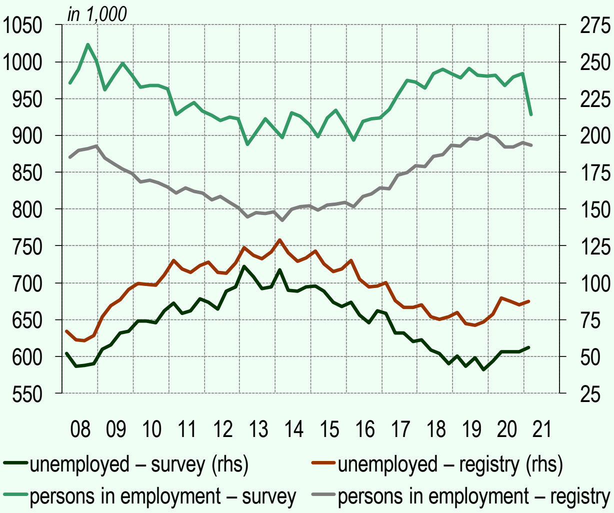


*Note: *Year-on-year change of registered unemployed persons in 1,000.*
Source: Employment Service of Slovenia, SORS, Banka Slovenije calculations.

Box 3.1: Impact of methodological changes on labour market statistics

In the wake of methodological changes to surveying, the workforce in employment decreased in the first quarter as numerous persons were temporarily laid off. In line with the new Regulation (EU) 2019/1700 of the European Parliament and of the Council, there was an overhaul of the questionnaire and methodology for the Labour Force Survey, which serves as a source of data on the activity of the working-age population that is comparable Europe-wide. The main changes relate to the definitions of the target population, household and employed persons, the last of which is of particular importance from the perspective of the current situation on the labour market.[1] Since the first quarter of 2021, those in employment no longer include workers whose duration of the layoff under the temporary lay-off scheme exceeds three months, or is expected to be longer than three months. Given the duration of the temporary lay-off scheme, the number of employed persons therefore declined significantly in the first quarter (by 56,000 or almost 6%), while according to the registry figures it was down only 0.5% on the previous quarter (see Figure 1). Workers laid off for more than three months are now classed as unemployed rather than employed if they have been actively seeking work while temporarily laid off, or inactive if they have not.

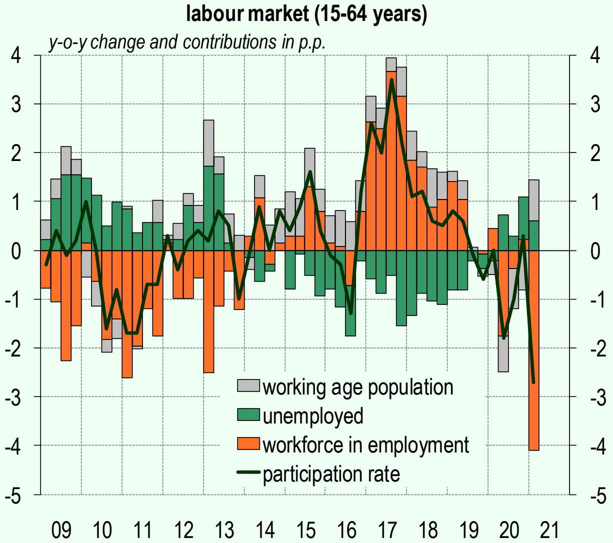
Figure 1: Comparison of survey and registry data



Source: SORS, Banka Slovenije calculations.

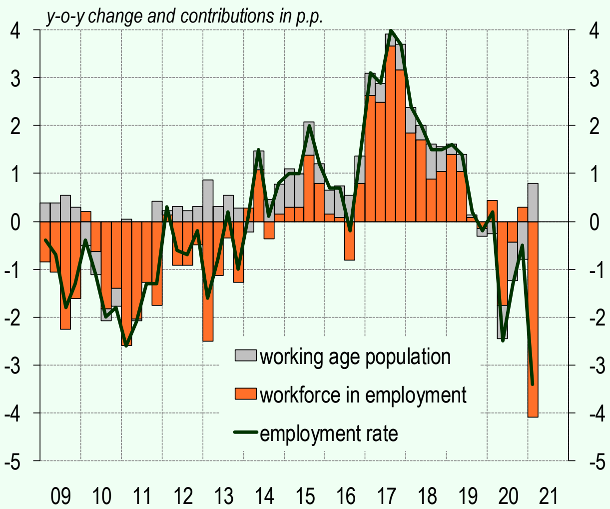
The fall in the number of employed also had an impact on some of the key statistics, where the break caused by the methodological revision means that the changes have not reflected the changes on the labour market. Although unemployment was up only 3,000 in quarterly terms, the survey unemployment rate in the first quarter rose by 0.5 percentage points (to 5.6%). The rise was driven by a fall in the workforce in employment, in addition to seasonal effects. The changes in surveying methodology meant that the change in the survey unemployment rate was more pronounced than the change in the registered unemployment rate, which was up 0.3 percentage points on the previous quarter at 9%. The fall in the number of employed persons had an even larger impact on the labour force participation rate and the employment rate. The labour force participation rate for the 15 to 64 age group was down 2.6 percentage points in year-on-year terms (see Figure 2), while the employment rate was down 3.4 percentage points (see Figure 3).[2] The overhaul of surveying and the break in the time series are making it harder to interpret the survey indicators, which currently do not reflect changes on the labour market.

Figure 2: Contributions to the change of participation in the labour market (15-64 years)



Source: SORS, Banka Slovenije calculations.

Figure 3: Contributions to the change of employment rate (15-64 years)



Source: SORS, Banka Slovenije calculations.

[1] In addition to the definitions, this year's revised questionnaire and methodology also changed the reference period, the data capture approach, the selection of units, and the weighting. The surveying methodology and this year's changes are presented in greater detail in the SORS methodological notes.

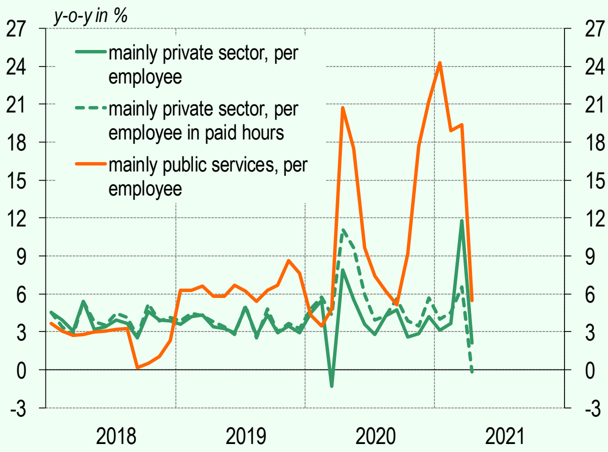
[2] The methodology used to calculate the contributions made by individual components to the year-on-year change in the employment rate in Figure 3 is taken from the methodology used in Labour Market and Wage Developments in Europe: Annual Review 2016. The decomposition is expressed as $(E_t / WAP_t) - (E_{t-1} / WAP_{t-1}) = [(E_t - E_{t-1}) / WAP_t] + [(E_{t-1} / WAP_t) - (E_{t-1} / WAP_{t-1})]$, where E_t is workforce in employment in year t, and WAP_t is the working-age population. The first term on the right-hand side of the equation represents the contribution to the year-on-year change in employment rate by the change in employment, while the second term represents the contribution of the change in working-age population. Similarly, the year-on-year change in the labour force participation rate can be decomposed as follows: $(A_t / WAP_t) - (A_{t-1} / WAP_{t-1}) = [(E_t - E_{t-1}) / WAP_t] + [(U_t - U_{t-1}) / WAP_t] + [(A_{t-1} / WAP_t) - (A_{t-1} / WAP_{t-1})]$, where A_t is the active population in year t, and U_t is the number of unemployed. The year-on-year change in the labour force participation rate in Figure 2 is thus decomposed into a change in the number of employed, a change in the number of unemployed, and a change in the working-age population.

More than 47,000 people deregistered as unemployed during the first six months of the year, and the number has outpaced the number of those newly registering as unemployed since February, when the containment measures began to be gradually relaxed. The largest inflows into unemployment over the first six months of the year came from those coming to the end of temporary employment. The registered unemployment rate is also falling in parallel. It stood at 8.2% in April, down 0.9 percentage points in year-on-year terms, but up on April 2019 (see Figure 3.10).

Wage developments

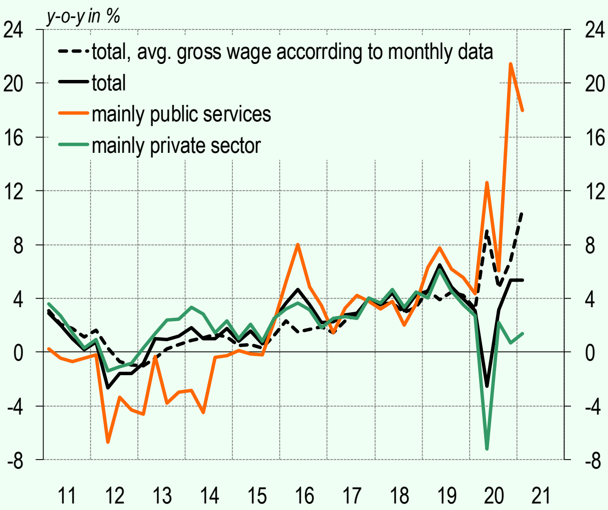
The volatility in year-on-year growth in the average gross wage in March and April was largely attributable to base effects in connection with the government measures at the outbreak of the epidemic. Having persisted at a level around 9% since December of last year, the rate of growth rose to 14.3% in March before slowing to just 3% in April. The upward spike in March was the result of a base effect: the average gross wage was relatively low in March of last year on account of methodological issues, while this year it exceeded EUR 2,000.[3] Although the average gross wage amounted to almost EUR 1,995 in April, the year-on-year rate of growth was slowed by last year's high basis, which reflected the payments of epidemic related bonuses, including the crisis bonus in the private sector. The rate stood at 5.5% in mostly public services, but just 2.1% in the private sector on account of a base effect (see Figure 3.11). A base effect produced an even larger decline in year-on-

Figure 3.11: Average gross wage growth



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

Figure 3.12: Average gross wage growth – national accounts



Source: SORS, Banka Slovenije calculations.

[3] Year-on-year growth in the average gross wage slowed by 4.7 percentage points in March of last year at the outbreak of the epidemic to 0.3%. This was attributable to the calculation taking account solely of wages and compensation paid by employers, and all employees who received them, even employees who were included in job preservation measures for at least part of the month.

Table 3.2: Labour costs

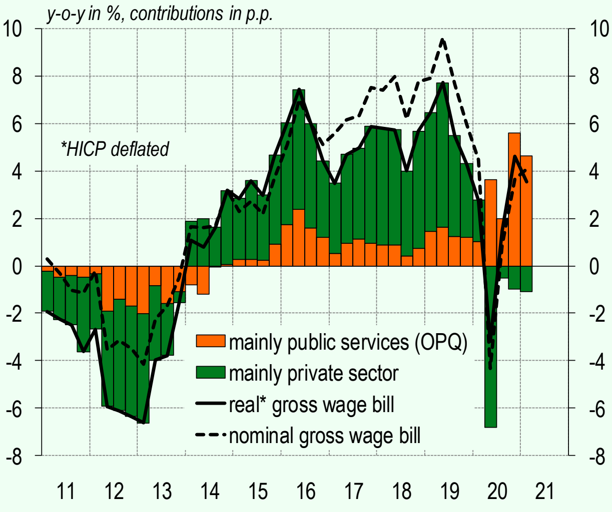
	2016	2017	2018	2019	2020	20Q1	20Q2	20Q3	20Q4	21Q1
	in EUR									
Average gross wage	1,584	1,626	1,681	1,754	1,858	1,788	1,881	1,808	1,957	1,978
	y-o-y growth in %, nominal									
Average net wage	1.7	3.1	2.9	3.7	6.8	4.1	10.5	5.5	7.0	9.3
Average gross wage	1.8	2.7	3.4	4.3	6.0	3.2	9.0	4.8	6.8	10.6
- mainly private sector (excl. OPQ)[1]	1.3	2.7	3.8	3.6	3.9	2.8	5.7	3.9	3.2	6.1
- mainly public services (OPQ)[1]	3.3	2.8	2.4	6.5	10.7	4.2	15.9	6.3	16.1	20.9
Average gross wage in manufacturing	2.1	3.2	4.0	3.5	3.2	4.2	3.0	3.0	2.7	4.6
Average real net wage[2]	1.8	1.5	1.0	2.0	7.1	2.4	11.8	6.2	8.1	10.0
	y-o-y growth in %									
Unit labour costs,[3,4] nominal	1.8	1.2	2.8	4.2	7.4	6.8	9.8	3.8	9.1	2.9
Unit labour costs,[3,4] real	0.9	-0.3	0.6	1.9	6.0	4.0	6.8	4.1	8.8	1.2
Labour costs per employee,[4] nominal	3.1	3.0	3.9	4.9	2.3	3.1	-2.6	3.2	5.7	5.6
Labour productivity, nominal	2.2	3.3	3.3	3.0	-3.4	-0.9	-8.8	-0.8	-2.9	4.3
Labour productivity, real	1.3	1.8	1.1	0.7	-4.6	-3.4	-11.3	-0.6	-3.1	2.6
HICP	-0.2	1.6	1.9	1.7	-0.3	1.6	-1.2	-0.6	-0.9	-0.6
GDP deflator	0.9	1.5	2.2	2.3	1.3	2.6	2.8	-0.2	0.2	1.7

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

year growth in labour costs as measured by the average gross wage per employee in paid hours, which stood at -0.1%.[4]

The average gross wage in the first quarter was up 5.4% in year-on-year terms according to national accounts figures. Because it includes payments covered by the government, and is therefore a more accurate representation of growth in employee income, it remained high thanks to employment growth in mostly public services and payments of epidemic related bonuses, albeit down a half on the monthly figures for average gross wages. The more modest growth is attributable to the reduced income of employees included in job preservation measures, who only receive a percentage of their pay on the temporary lay-off scheme or the short-time work scheme. Despite a rise in the minimum wage, employee inclusion in the measures meant that wage growth in the private sector stood at just 1.4% (6.1% according to the monthly figures), compared with 18% in mostly public services (20.9% according to the monthly figures; see Figure 3.12).[5]

Figure 3.13: National accounts data on gross wage bill



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

4 The calculation takes account of data on paid hours at legal persons that are not budget users.

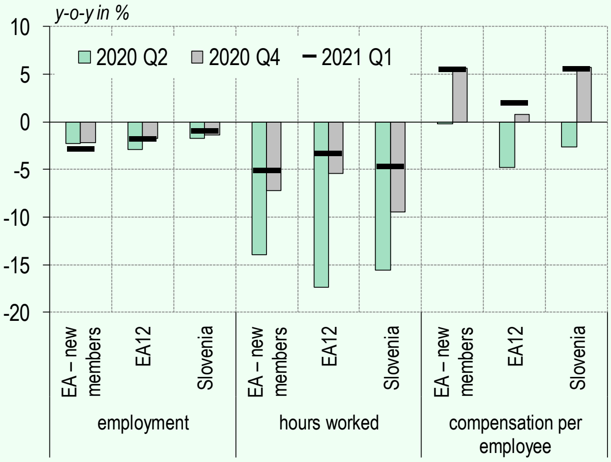
5 Under the new formula for determining the minimum wage taking account of minimum living costs, the minimum wage was raised by 8.9% in January to EUR 1,024.24 per month. The rise was partly subsidised until the end of June, whereby employers were entitled under certain conditions to a refund in the amount of EUR 50 per month for full-time employees.

Box 3.2: Labour market situation in euro area countries

Despite the tightening of containment measures, the situation on the labour market in the euro area did not worsen in the first quarter of this year. The year-on-year fall in employment remained at 1.8% (see Figure 1). Approximately a third of the countries saw the fall slow, among them Slovenia, which alongside Luxembourg and France was the only country where the stringency index declined relative to the previous quarter. The largest fall in employment (of 7.0%) was recorded by Latvia. Despite the tightening containment measures, the year-on-year fall in the number of hours worked diminished in the majority of countries as their economies adapted to the new situation. The fall averaged 3.4% across the euro area, 2.1 percentage points less than in the previous quarter. Despite a pronounced improvement, it still stood at 4.7% in Slovenia, where the wider gap between the fall in employment and the fall in the number of hours worked was still attributable to the extensive job preservation measures. Growth in compensation per employee also increased in the first quarter in more than half of the countries, and stood at 2.1% in the euro area overall. It reached 5.6% in Slovenia, on account of high payments of epidemic related bonuses in mostly public services; the only higher rates were recorded by Lithuania (11.7%) and Latvia (6.9%).[1]

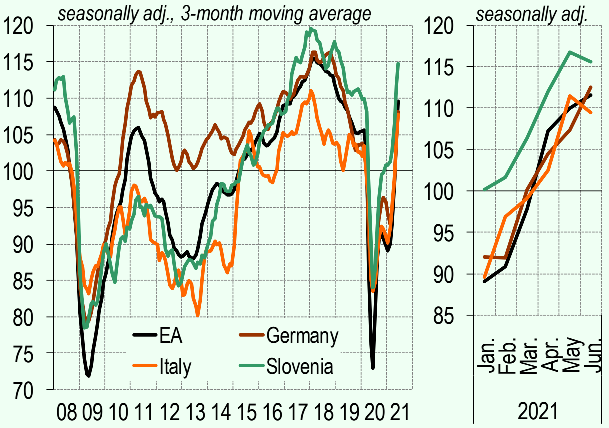
The employment outlook improved sharply as the epidemiological picture improved and containment measures were lifted before the summer. The employment expectations indicator in June was higher in all euro area countries than at the beginning of the year, having surpassed its long-term average already in May. Its average across the euro area in June was 22.5 percentage points higher than in January (see Figure 2), and it has increased in all surveyed sectors in the last few months. As containment measures are lifted and sectors open up, it was highest amongst firms in services, where like industry and construction it has surpassed its level from before the outbreak of the epidemic. The employment outlook for the next three months also rose sharply in Slovenia, where it remained higher than the euro area average. Only firms in Austria were more optimistic, despite their poor performance in the first quarter.

Figure 1: Labour market in euro area



Note: EA – new members: Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain.
Source: Eurostat, Banka Slovenije calculations.

Figure 2: Expected employment in the next three months



Note: The indicator shows the weighted average of expected employment in all four activities surveyed (i.e. industry, services, retail trade and construction). The April 2020 data for Italy is not available.
Data is seasonally adjusted, long-term average = 100.
Source: European Commission, Banka Slovenije calculations.

[1] Developments continued to vary greatly from country to country. The gap between the lowest and highest rates of growth reached 15 percentage points in the first quarter, partly on account of methodological differences in the recording of employee compensation.

As a result of the high growth in wages and employment in mostly public services, growth in the gross wage bill also strengthened. In the first quarter it was up 4.1% in nominal year-on-year terms according to the national accounts figures (3.6% in real terms), 0.5 percentage points more than in the final quarter of last year (see Figure 3.13). The rise was driven primarily by higher wage growth in mostly public services, and also by changes to the structure of employment amid increased hiring in human health and social work activities. The private sector continued to reduce the aggregate wage bill in the economy, as a result of a year-on-year fall in employment.

4 Current Account and Competitiveness Indicators

Amid a strengthening domestic market and a rise in import prices, one year's increase in the 12-month current account surplus ended this year. In May, it stood at roughly EUR 3.3 billion. Foreign demand is strengthening further as economies open up, while the improvement in the domestic health situation allowed for growth in a broad spectrum of domestic consumption. Beside this, the rise in import prices added further to the nominal growth in imports while worsening the terms of trade and reducing the goods trade surplus. At the same time, narrowing of the surplus in services trade over the first five months of the year ended, primarily as a result of the low basis in travel services and a pick-up in exports of business services. The situation in travel services remains unfavourable, owing to the containment measures. There were larger changes in the income balance, primarily in the direction of increased outflows for FDI because of a larger estimate of reinvested earnings, which is in line with the improving economic situation.

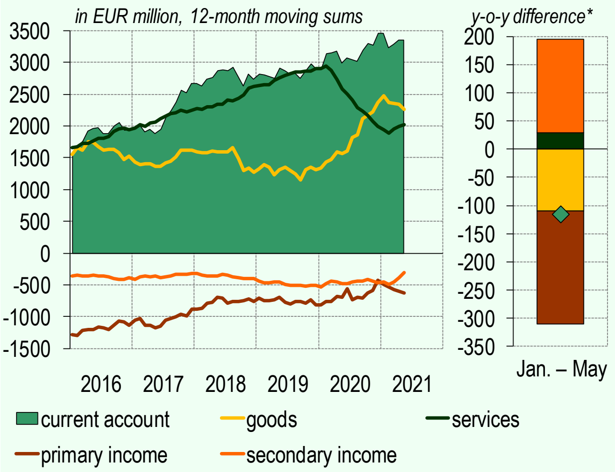
The price competitiveness of the economy improved in the first quarter, which was attributable to domestic deflation, as the appreciation of the euro (albeit slightly weaker) continued to worsen the position of exporters. After two years, the deterioration in cost competitiveness slowed slightly at the same time. Caution is still required in the interpretation of the competitiveness indicators, as they do not necessarily present a genuine picture, given the difficulties in measuring both inflation and unit labour costs.

Current account position

The 12-month current account surplus remains at record levels. It amounted to EUR 3,347 million in May, up EUR 360 million in year-on-year terms (see Figure 4.1).[1] The main factor in the 12-month surplus remains the sharp increase in the merchandise trade surplus driven by the previous weakness of domestic demand compared with foreign demand, and the favourable terms of trade in the wake of last year's fall in global energy and commodity prices. Both factors have weakened this year: the domestic market is strengthening following the lifting of most of the containment measures, while there has also been a significant rise in import prices of energy, commodities and, in part, capital goods. The first five months of this year have also seen the narrowing of the surplus in services trade come to an end, largely as a result of the low basis in travel services and high growth in exports of business services. The deficit in income over the 12 months to May was also smaller, largely on account of smaller payments of dividends to foreign portfolio investors in shares of domestic firms, and larger inflows

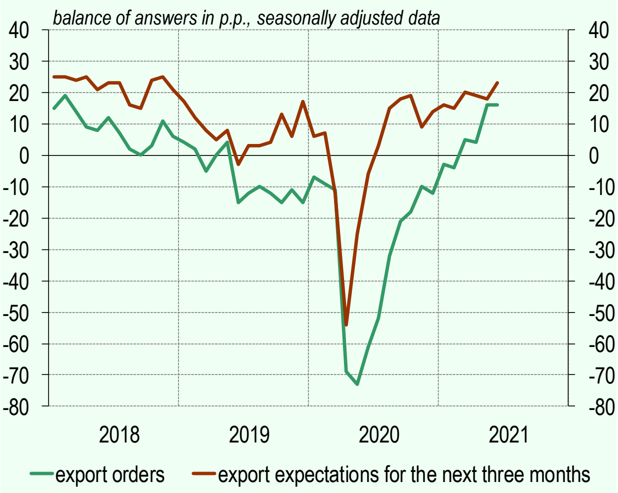
[1] The analysis encompasses revised balance of payments figures. The results of the annual revision are presented in detail in the May 2021 report on Slovenia's International Economic Relations, published on the Banka Slovenije website.

Figure 4.1: Current account components



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

Figure 4.2: Export orders and export expectations in manufacturing



Source: SORS.

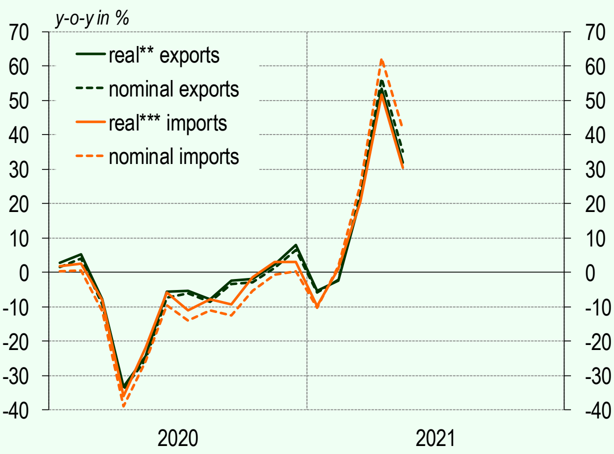
of EU subsidies and government social contributions.[2] In the first five months of this year, the deficit in primary income has contrastingly widened, the deficit in direct investment increasing again as the economic situation improves.

Merchandise trade

The relaxation of containment measures has brought a sharp increase in export orders, and manufacturing firms further raised their export expectations in the third quarter. The export order books indicator remained at 16.0 percentage points in June, its highest level since the beginning of 2018 (see Figure 4.2). Manufacturing firms are also increasingly optimistic with regard to the evolution of demand: in June, the indicator reached its highest level of the last two and a half years.

The merchandise trade surplus has gradually narrowed this year. Nominal merchandise exports over the first five months of the year were up 18.3% in year-on-year terms according to balance of payments figures, compared with a decline of more than a tenth during the

Figure 4.3: Merchandise trade*



Note: *Balance of payments data. **Deflated using the index of producer prices for industrial products on the foreign market.***Deflated using the import price index.
Source: SORS, Banka Slovenije.

same period last year because of the shutdown of parts of the economy and the lockdown. The main increase was in the contribution by euro area countries, which strengthened to 11.3 percentage points, while the sole year-on-year decline in exports was recorded by former Soviet republics. According to the indicator of adjusted merchandise exports[3], there was particularly high growth in exports of miscellaneous machinery[4] and basic metals

[2] The general government sector's social contributions mainly include social security contributions paid by non-residents for work performed in Slovenia.

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

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

Table 4.1: Current account components

	2018	2019	2020	in 12 months to May 20	in 12 months to May 21	19Q4	20Q1	20Q4	21Q1	May 20	May 21
					in EUR million						
Current account balance	2,731	2,898	3,462	2,987	3,347	696	986	963	812	146	143
1. Goods	1,272	1,311	2,366	1,569	2,256	273	568	530	553	123	37
2. Services	2,624	2,907	1,996	2,589	2,024	756	517	522	479	93	121
2.1. Transport	1,324	1,326	1,202	1,255	1,183	330	332	309	288	81	86
2.2. Travel	1,221	1,344	482	1,082	418	299	158	82	78	13	10
3. Primary income	-769	-811	-426	-692	-627	-271	53	7	-90	-17	-44
3.1. Labour income	313	340	324	351	325	104	87	94	86	21	22
3.2. Investment income	-1,222	-1,318	-997	-1,227	-1,197	-423	-128	-195	-275	-62	-86
3.3. Other income	141	167	247	184	245	48	95	108	100	25	21
4. Secondary income	-396	-509	-473	-480	-307	-62	-152	-96	-131	-54	29
					in % GDP						
Current account balance	6.0	6.0	7.5	6.3	7.1	5.6	8.7	8.1	7.0	4.0	3.6
1. Goods	2.8	2.7	5.1	3.3	4.8	2.2	5.0	4.4	4.7	3.4	0.9
2. Services	5.7	6.0	4.3	5.5	4.3	6.1	4.6	4.4	4.1	2.6	3.1
2.1. Transport	2.9	2.7	2.6	2.6	2.5	2.7	2.9	2.6	2.5	2.2	2.2
2.2. Travel	2.7	2.8	1.0	2.3	0.9	2.4	1.4	0.7	0.7	0.4	0.3
3. Primary income	-1.7	-1.7	-0.9	-1.5	-1.3	-2.2	0.5	0.1	-0.8	-0.5	-1.1
3.1. Labour income	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.7	0.6	0.5
3.2. Investment income	-2.7	-2.7	-2.2	-2.6	-2.5	-3.4	-1.1	-1.6	-2.4	-1.7	-2.2
3.3. Other income	0.3	0.3	0.5	0.4	0.5	0.4	0.8	0.9	0.9	0.7	0.5
4. Secondary income	-0.9	-1.1	-1.0	-1.0	-0.7	-0.5	-1.4	-0.8	-1.1	-1.5	0.7
					nominal y-o-y growth rates in %						
Export of goods and services	8.9	4.5	-10.1	-4.7	1.2	0.6	-1.5	-2.9	1.8	-28.1	34.3
Export of goods	8.6	3.9	-7.4	-5.0	5.3	-0.2	-1.6	1.2	4.9	-25.4	35.1
Export of services	9.9	6.6	-20.3	-3.6	-13.9	3.7	-1.4	-17.2	-11.8	-38.9	30.5
Transport	12.3	3.3	-7.2	-4.1	1.4	-0.8	-1.8	1.2	0.9	-23.2	24.4
Travel	7.2	5.2	-57.8	-15.7	-58.1	-2.8	-16.1	-74.0	-70.5	-87.8	106.0
Other	10.5	10.5	2.0	7.4	6.0	10.9	9.4	2.1	9.7	-6.7	25.6
Import of goods and services	9.8	4.0	-11.7	-5.5	1.0	-1.5	-3.2	-3.4	2.6	-26.1	40.1
Import of goods	10.4	4.0	-11.1	-6.0	3.2	-2.2	-3.8	-2.1	5.5	-25.9	41.6
Import of services	7.0	4.6	-14.7	-2.5	-10.2	1.9	0.0	-10.3	-13.6	-27.5	30.9
Transport	0.8	7.1	-4.8	-0.3	9.4	2.1	-3.5	9.3	18.2	-16.0	41.7
Travel	12.1	1.2	-52.1	-18.8	-55.4	-8.3	-10.0	-75.6	-82.9	-88.1	226.1
Other	7.0	5.3	-0.2	5.3	0.9	5.2	5.5	1.9	-1.7	0.3	14.3

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

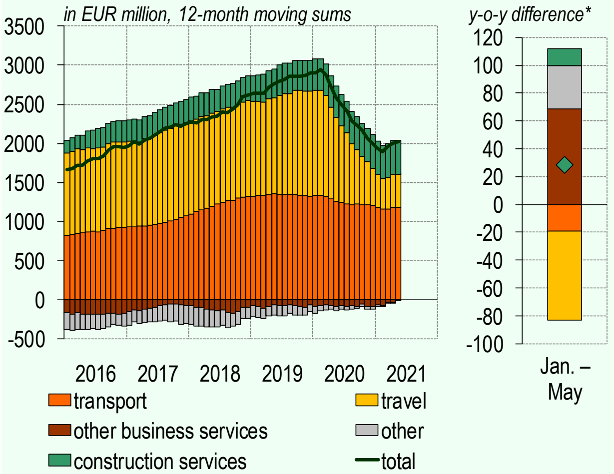
and fabricated metal products. By contrast, exports of medical and pharmaceutical products were down slightly on their high basis a year earlier (by 0.2%). Given their sharper decline in activity during the first wave of the epidemic, the year-on-year increase in nominal merchandise imports over the first five months of the year according to balance of payments figures was even larger (at 20.7%), driven primarily by a large increase in imports of intermediate goods. Alongside the base effect, the nominal growth in merchandise trade was also driven powerfully by price factors, which were particularly pronounced on the import side (see Figure 4.3).[5] The merchandise trade surplus amounted to EUR 745 million over the first five months of the year, down EUR 110 million on the same period last year.

[5] The year-on-year rise in import prices of industrial goods averaged 3.8% over the first five months of the year, while export prices as measured by industrial producer prices on the foreign market were up 1.1%.

Services trade

The decline in the surplus of trade in services has come to a halt this year. Despite a low base, nominal services exports over the first five months of the year were up just 2.2% on the same period last year, while imports were up 1.6%, but the growth rates on both sides have been picking up significant pace since February. The services trade surplus over the first five months of the year amounted to EUR 781 million, comparable in year-on-year terms, although there was a slight change in its structure (see Figure 4.4). The trade surplus in travel and transport services over this period narrowed by EUR 83 million in year-on-year terms to EUR 585 million, while the trade surplus in other services widened by EUR 112 million, largely as a result of the reversal in the position in miscellaneous business services.

Figure 4.4: Balance of services trade



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

Primary and secondary income

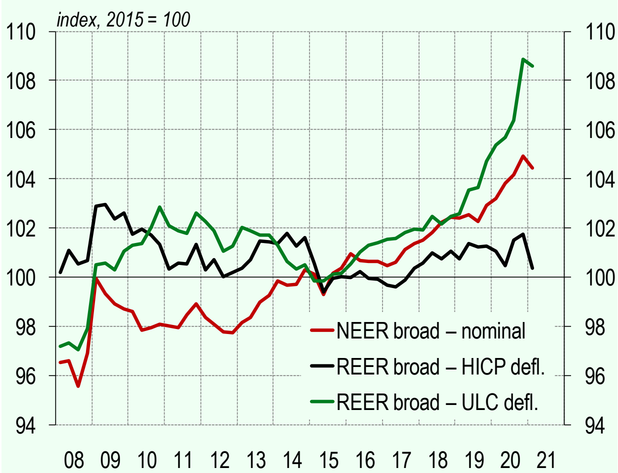
Primary income was in deficit over the first five months of this year. It amounted to EUR 171 million, compared with a small surplus during the same period last year in the wake of the decline in the deficit in direct investment. The main driver of the deficit over the first five months of this year was the estimate of reinvested earnings, which is indicative of a significant increase in the deficit in this category. The decline in the deficit in income on holdings of debt securities is acting in the opposite direction, albeit to a lesser extent, driven by a decline in interest expenditure, the terms of government borrowing on the international financial markets having been highly favourable for a long time now. The surplus in labour income remained unchanged in year-on-year terms at EUR 129 million.

The deficit in secondary income narrowed as the general government sector's social contributions increased. It amounted to EUR 77 million over the first five months of the year, EUR 166 million less in year-on-year terms. The largest factor was a narrower deficit in the general government sector's secondary income amid a sharp increase in inflows of social contributions. At the same time, there was a small surplus in other sectors' primary income, where a major role was played by increased inflows of net non-life insurance premiums in connection with greater activity by domestic insurance corporations on foreign markets.

Selected competitiveness indicators

The epidemic has badly impeded the monitoring of external competitiveness. Caution is therefore advised in the interpretation of competitiveness indicators, as they do not necessarily present a true picture of developments, given the difficulties in measuring inflation and also unit labour costs.[6]

Figure 4.5: Broad external competitiveness indicators of Slovenia against 39 trading partners



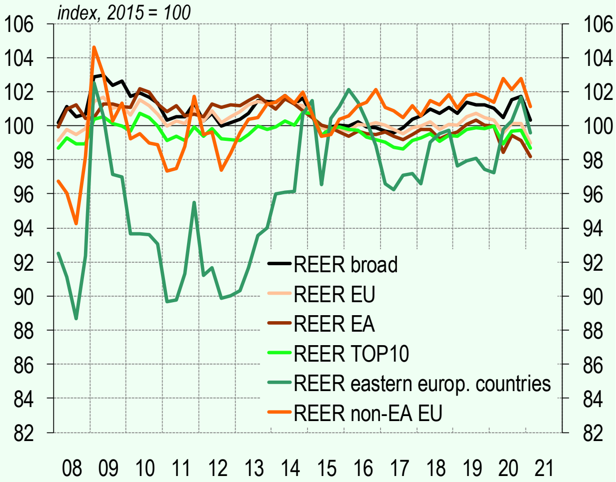
Source: Banka Slovenije, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

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

The price competitiveness of the Slovenian economy in the first quarter of this year was better than a year earlier. The effective exchange rate against the broad group of 39 partners was down 0.7%.[7] This was primarily attributable to the favourable price developments from the perspective of international trade, as the euro actually continued to appreciate (albeit slightly less markedly; see Figure 4.5).[8] Price competitiveness against the majority of the trading partners' groups has improved over the last year, most evidently against the euro area countries (by 1.8%; see Figure 4.6). The sole year-on-year deterioration was vis-à-vis eastern European countries (by 2,4%), on account of the euro's stronger appreciation against the basket of currencies from that region.[9]

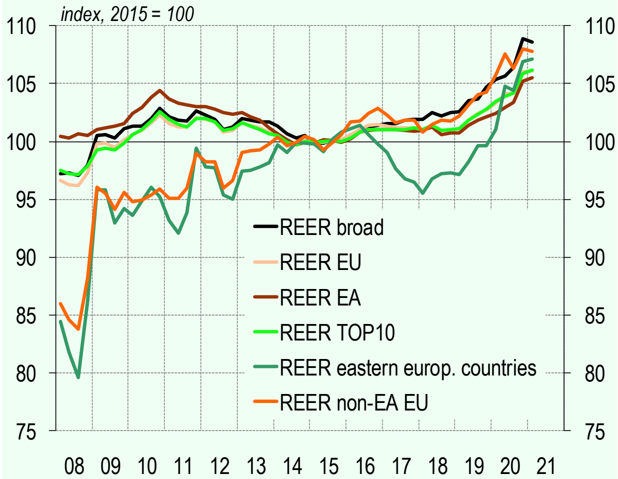
After two years, the deterioration in cost competitiveness slowed slightly. The year-on-year rise in the effective exchange rate against the broad group of 39 trading partners slowed to 3.1%, of which 1.2 percentage points came from the milder appreciation of the euro, while 1.9 percentage points came from relative unit labour costs.[10] The deterioration slowed vis-à-vis all groups of partners (see Figure 4.7).

Figure 4.6: Regional price competitiveness indicators of Slovenia, HICP deflator



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

Figure 4.7: Regional cost competitiveness indicators of Slovenia, ULC deflator



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

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

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

[9] The euro appreciated in year-on-year terms against the Czech koruna (1.8%), the Polish zloty (5.1%), the Hungarian forint (6.5%) and, most notably, the Russian rouble (21.7%).

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

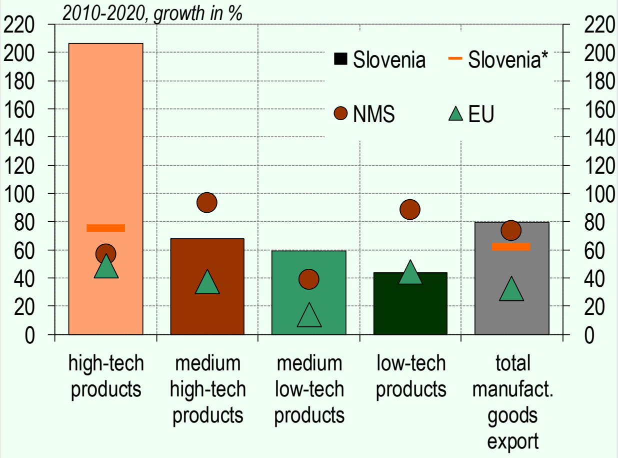
Box 4.1: Technological intensity of manufacturing exports

The technological intensity of Slovenian manufacturing exports rose slightly further in 2020. This was primarily evidenced in a rise in the proportion of manufacturing exports accounted for by high-tech products from 17.4% to 22.7%. The exceptionally high growth in exports of high-tech products over the last two years (they almost doubled, rising by 90.0%) was mainly driven by exports of pharmaceutical products and preparations. Excluding exports of pharmaceutical products to Switzerland,[1] the proportion of high-tech products increased by just 1.2 percentage points in 2020 (to 14.4%), while actual exports of high-tech products increased by just 1.3%.[2] Their increase over the last decade is nevertheless the largest of all product categories in terms of technological intensity, even according to adjusted figures (see Figure 1). After excluding exports of pharmaceutical products to Switzerland, the proportion of total manufacturing exports that they account for is still around 6 percentage points less than the EU average and the figure for Germany, and 2.5 percentage points less than the average figure for new EU Member States[3] (see Figure 2).[4]

The majority of manufacturing exports still consist of medium-high technology products. Last year saw exports of this type decline slightly (by 6.4%) owing to the epidemic and shutdowns, but the proportion of total adjusted exports that they account for increased slightly further to 48.0%, close to the figure for Germany (51.6%), and above the EU average and the average of the new EU Member States.[5] Within this category, it was only medical and dental instruments and devices, aircraft and spacecraft, and other machinery and equipment that recorded an increase in exports. The restrictions in international trade also saw exports of medium-low technology and low-technology products decline last year, in almost all components. The sole increases in exports were recorded by ships and boats in the medium-low technology category, and clothing and beverages in the low-technology category.

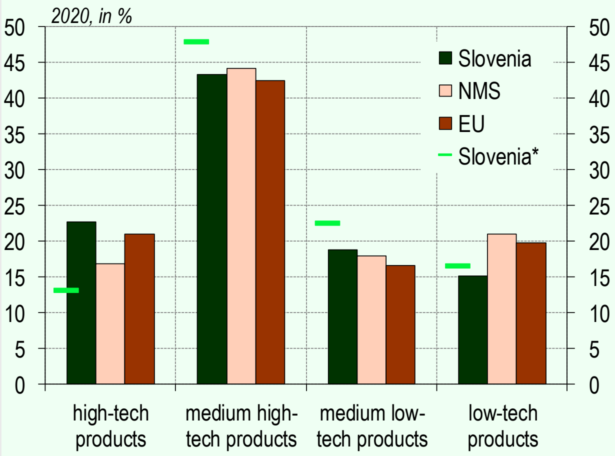
[1] The impact of the increased exports of pharmaceutical products to Switzerland on aggregate merchandise exports under the methodology used by the SORS is illustrated in Section 4 of the April 2020 issue of Economic and Financial Developments. These exports do not necessary entail value-added of their own, as they largely consist of storage and repacking services, and are mostly not taken into account in balance of payments figures.

Figure 1: Increase of Slovene export of the manufacturing sector in terms of technological intensity



Note: *Without export of pharmaceutical products to Switzerland in 2019 and 2020.
Source: Eurostat, Banka Slovenije calculations.

Figure 2: Export structure of the manufacturing sector in terms of technological intensity in Slovenia and other regions



Note: *Without export of pharmaceutical products to Switzerland in 2019 and 2020.
Source: Eurostat, Banka Slovenije calculations.

[2] They increased by 28.2% according to original figures, while total manufacturing exports declined by 1.8% under the influence of the epidemic and trade restrictions.

[3] The countries that joined the EU on or after 1 May 2004: Slovenia, Slovakia, Poland, Malta, Hungary, Lithuania, Latvia, Estonia, Czech Republic, Cyprus, Romania, Bulgaria and Croatia.

[4] The figure was 1.7 percentage points, 2.6 percentage points and 5.9 percentage points higher respectively according to original figures.

[5] The figure was 43.3% according to original figures.

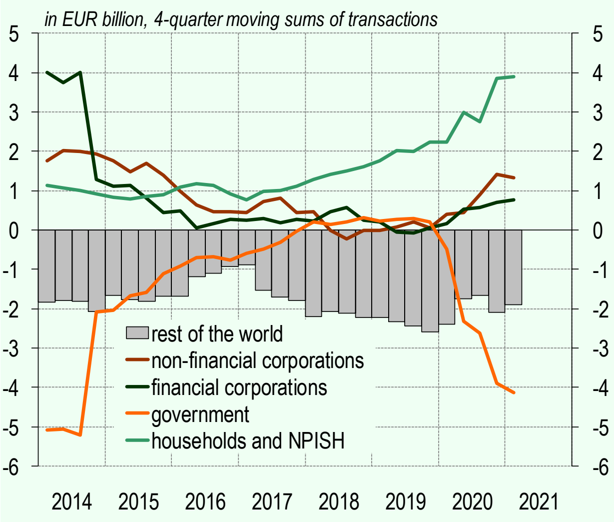
5 Financial Standing of Non-Financial Corporations, Households and Banks

Non-financial corporations, households and banks have significantly altered their behaviour over the last year according to the financial accounts figures. The largest reversal came in the government sector, as a result of the introduction of the emergency measures and the corresponding sharp increase in borrowing. After two years of net saving, its negative net financial position deepened sharply. By contrast, other institutional sectors further strengthened their net saving during the epidemic, particularly non-financial corporations and households. Their surplus saving primarily flowed into bank deposits, as a result of which the banks' financial assets and liabilities recorded their largest year-on-year increases of the last ten years.

Saving-investment gap by institutional sector

The net financial positions of the domestic institutional sectors were changed profoundly by the epidemic. The aggregate surplus of saving over investment amounted to EUR 1.9 billion in the first quarter of this year, higher than the average of the last five years, while its structure has changed significantly over the last year (see Figure 5.1). The most evident change is the reversal in the net position of the general government sector from positive to negative; its investment gap amounted to EUR 4.1 billion at the beginning of this year. By contrast, other institutional sectors have seen a sharp increase in their net financial assets in the last year, most notably households, whose net saving in the amount of EUR 3.9 billion was the largest figure recorded to date (data available since 2005).

Figure 5.1: Savings-investment gap



Source: Banka Slovenije.

Financial assets and financing of non-financial corporations

Growth in non-financial corporations' assets and liabilities picked up significant pace in the early part of the year.[1] Non-financial corporations' financial assets at

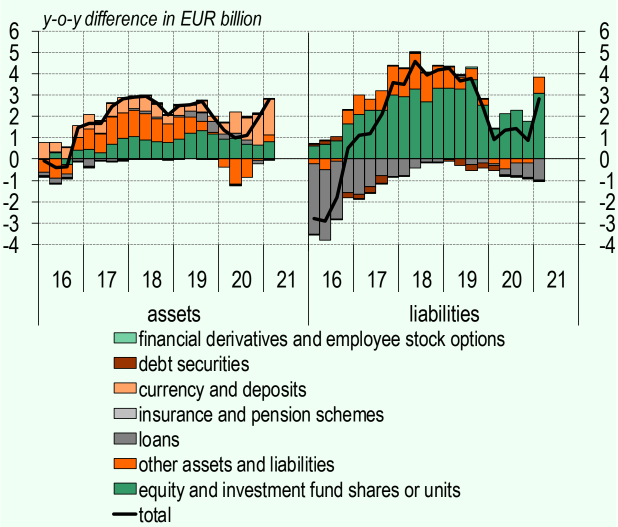
[1] The year-on-year increase in the stock of financial assets accelerated from 3.9% in the final quarter of last year to 5.6%, while growth in non-financial corporations' liabilities also strengthened (from 1.0% to 3.2%).

the end of the first quarter were up around EUR 2.8 billion in year-on-year terms, the largest increase of the last two and a half years (see Figure 5.2). Companies most notably saw record inflows of deposits to banks (of EUR 1.7 billion), which can be attributed to their caution and the need to maintain liquidity. At the same time there were significantly larger year-on-year increases in their holdings of equity and investment fund shares (in the amount of EUR 820 million),[2] and trade credits granted (in the amount of EUR 425 million). Companies' financial liabilities at the end of the first quarter were also up EUR 2.8 billion on a year earlier. The main increases were in liabilities in the form of equity (by EUR 3.1 billion).[3] and trade credits (by EUR 560 million). Conversely non-financial corporations have continued to pay down debt from loans over the last year (by EUR 1 billion), as a result of which their indebtedness remains significantly lower than the euro area average.

Financial assets and financing of households

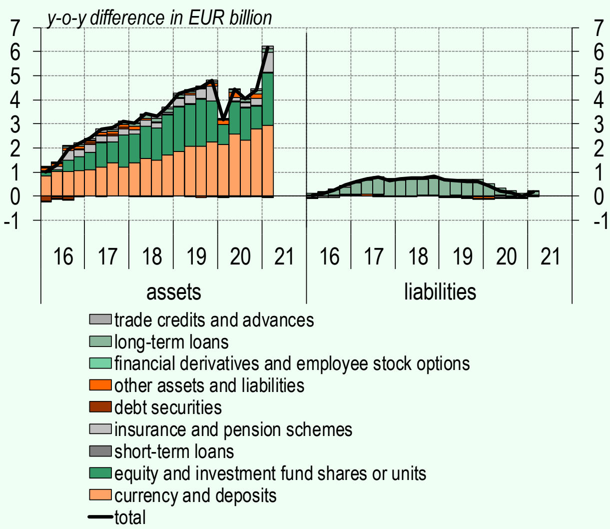
The household sector's surplus of financial assets over liabilities is reaching new records each quarter,[4] while its placement of savings in sight deposits is also at record levels. Households' financial assets were up around EUR 6.2 billion in year-on-year terms (see Figure 5.3). The largest factor in the increase on this occasion was again the increase in sight deposits, of EUR 2.9 billion. This was largely attributable to reductions in spending by households, or even an inability to spend, owing to the uncertain situation during the epidemic and the containment measures. Their holdings of equity and investment fund shares also increased, by more than EUR 2 billion, albeit primarily as a result of revaluation of existing assets,[5] as to a lesser extent did their holdings of insurance, pension and standardised guarantee schemes (by EUR 840 million). In parallel with the sharp increase in financial assets, households saw the increase in their financial liabilities come virtually to a halt: they were up just EUR 190 million in year-on-year terms in the first

Figure 5.2: Financial assets and liabilities of NFCs (S.11)



Source: Banka Slovenije.

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



Source: Banka Slovenije.

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

[3] Transactions accounted for 40% of the change, and revaluations of existing liabilities for 60%.

[4] Year-on-year growth in households' assets increased from 5.9% to 10.8% over the course of the last year, while growth in liabilities slowed (from 3.0% to 1.3%).

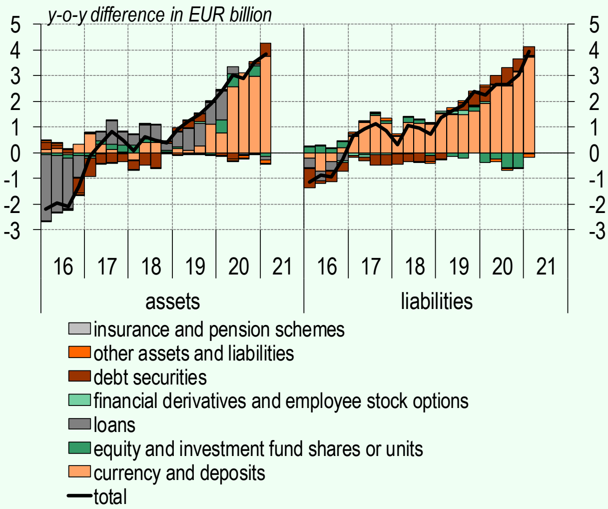
[5] Revaluations of existing assets accounted for 71% of the year-on-year increase in holdings of equity and investment fund shares, and transactions for the remaining 29%.

quarter. Most notably the year-on-year increase in long-term loans slowed sharply: at EUR 150 million, it was just 29% of the increase seen a year earlier, or a tenth of the record increase recorded in 2008. This is most likely attributable to the growth in general uncertainty and the resulting increased caution on the part of households when it comes to borrowing, to the slight decline in the income of employees in the private sector, and to a Banka Slovenije macroprudential measure. Household indebtedness thus remains low, and well below the euro area average.

Financial assets and financing of banks

Growth in the banks' financial assets and liabilities has strengthened markedly since the outbreak of the epidemic, reaching its highest rate of the last ten years.[6] As a result of increased saving (including forced saving) by domestic non-banking sectors, the banks' financial liabilities ended the first quarter up EUR 3.9 billion in year-on-year terms, again driven almost entirely by an increase in deposits (EUR 3.7 billion; see Figure 5.4). Another factor in the increase in liabilities was issued debt securities (EUR 320 million), which together with the revaluation of equity and investment fund shares also drove a year-on-year increase in the banks' liabilities to the rest of the world. The indebtedness of the Slovenian financial sector nevertheless remains low, and well below the euro area average. The banks increased their financial assets by virtually the same amount (EUR 3.8 billion in year-on-year terms) as the increase in their liabilities. The majority was directed into deposits at the central bank (EUR 3.6 billion), while the increase in their lending activity came to a total standstill after three and a half years.[7] After a long time of absence, the banks saw a slight increase in their holdings of debt securities (EUR 525 million in year-on-year terms), and in their investments in the rest of the world (by EUR 1.2 billion).[8] The changes in bank performance over the first five months of this year are analysed in Box 5.1.

Figure 5.4: Financial assets and liabilities of banks and money-market funds (S.122 and S.123)



Source: Banka Slovenije.

[6] The year-on-year increase in assets stood at 9.0% at the end of the first quarter (compared with 5.9% a year earlier), while the increase in liabilities stood at 9.5% (compared with 5.8% a year earlier).

[7] The stock of bank loans granted was down EUR 130 million in year-on-year terms, compared with an increase of EUR 1.1 billion a year earlier. Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.1.

[8] The latter were driven up by equity and investment fund shares, issued loans and debt securities (in relatively equal amounts of around EUR 400 million).

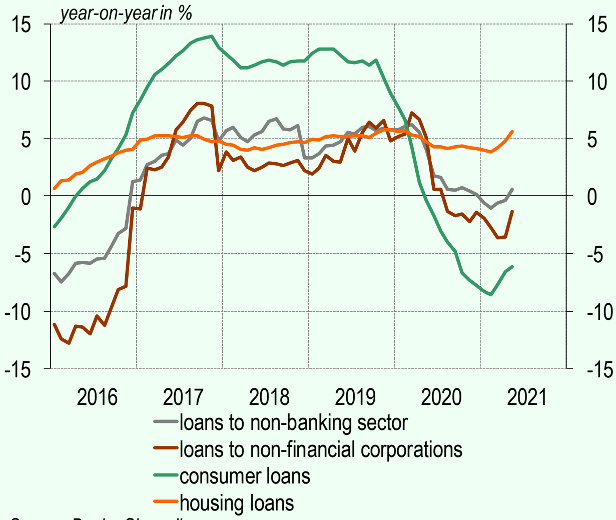
Box 5.1: Bank performance

With the improvement in the epidemiological situation and the lifting of containment measures, the economic situation began to improve, which is also easing the business conditions for banks. The impact of the epidemiological crisis on individual segments of banking will only be apparent after a delay. After several months of decline, loans to the non-banking sector were up in year-on-year terms in May. Driven primarily by one-off factors, the banking system's pre-tax profit significantly exceeded that recorded in the same period last year, but question marks remain over the sustainability of the banks' profits generated in this way. The banking system's balance sheet total has also been driven up this year by (sight) deposits by the non-banking sector, which has been reflected on the asset side in excess reserves at the central bank. The net interest margin has declined further this year. Portfolio quality indicators remain good, except in the non-financial corporations segment in the sectors hit hardest by the containment measures, and in the consumer loans portfolio. The banking system is maintaining a good capital position and liquidity position.

The balance sheet total increased by EUR 1.6 billion over the first five months of the year to stand at EUR 46.3 billion in May, the year-on-year rate of growth slowing slightly to 7.9%. The main factor on the funding side was deposits by the non-banking sector, which have increased by EUR 1.3 billion this year. The main increases on the asset side were in claims against the central bank (up almost EUR 1 billion), holdings of securities (EUR 0.32 billion) and loans to the non-banking sector (EUR 0.27 billion). Year-on-year growth in loans to the non-banking sector has turned positive again, after several months of contraction.

After several months of year-on-year contraction, year-on-year growth in loans to the non-banking sector re-entered positive territory in May, at 0.6%. The nominal increase in loans was moderate (at EUR 266 million) in comparison with the large inflow of deposits. Household lending has strengthened over the last three months as housing loans have expanded. Year-on-year growth in household loans increased to 2.2% in May. Housing loans have increased by EUR 175 million this year, and their monthly increases have got larger in recent months: May's net increase of EUR 65 million was significantly larger than last year's average of EUR 22 million. Year-on-year growth in housing loans has strengthened by 1.6 percentage points since December to reach 5.6%, 0.9 percentage points higher than last year's average growth. Growth in housing loans continues to reflect the dynamic of growth in residential real estate prices and, with an increased number of building permits being issued for residential real estate, the opportunities for stronger growth in housing loans in the future are also increasing. The year-on-year contraction in consumer loans slowed to 6.1% in May. They have continued to decline in almost all months of this year, but May's contraction amounted to just EUR 1.3 million. With the economy gradually starting to operate at increasing capacity, spending opportunities are also increasing, and with them the demand for new consumer loans, which means that expectations of the future dynamics in consumer loans are positive. The year-on-year contraction in loans to non-financial corporations slowed to 1.3% in May, compared with the rate of 3.6% seen in the two previous months, as a result of a net increase in the stock and also a base effect, loans to non-financial corporations having contracted sharply in May last year (by EUR 171 million).

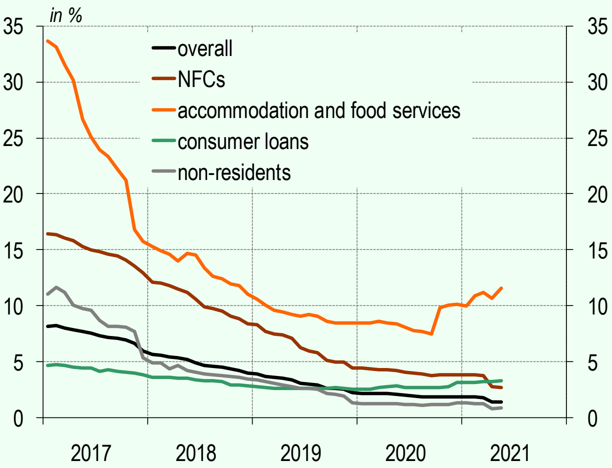
Figure 1: Growth of loans to the non-banking sector



Source: Banka Slovenije.

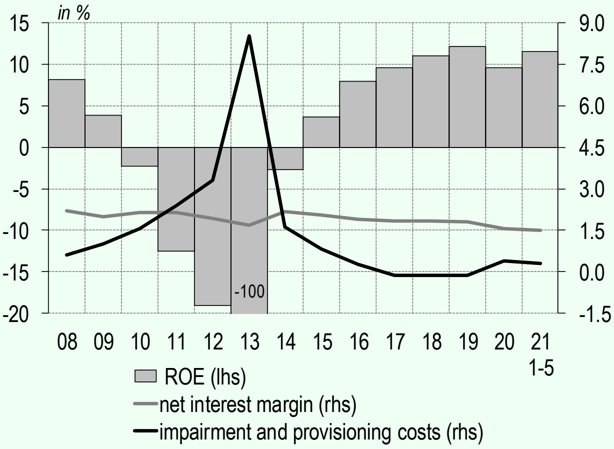
The banks' portfolio quality indicators remain favourable for the majority of the portfolio, although the worst-hit sectors continue to deteriorate. After falling to 1.4% in April, the NPE ratio held at that level in May, thanks to a major one-off effect. In previous months NPEs had remained broadly unchanged or only moved slightly in the majority of customer segments and sectors. The notable exception is accommodation and food service activities, where NPEs have been rising since October of last year, raising the NPE ratio by 4.2 percentage points to 11.5% by May. The moratoria for firms in this sector are set to expire in a large scale in the coming months, which could further increase NPEs given the

Figure 2: NPEs for selected segments of the portfolio



Note: The decrease of NPEs in NFCs and non-residents in april 2021 was due to a one-off event.
Source: Banka Slovenije.

Figure 3: Selected bank performance indicators



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

arrears already identified in respect of loan moratoria that have expired to date. An increase in NPEs, albeit slower and steady, is also evident in consumer loans, where the NPE ratio has risen by 0.7 percentage points since the beginning of the increase in October of last year. Further evidence of increased credit risk in these portfolio segments and also in the arts, entertainment and recreation sector comes from the ongoing reclassification of claims into stages with increased credit risk. Other segments of the portfolio are seeing the net reclassification of exposures into the stage with least credit risk in reflection of the revival of economic activity and the favourable macroeconomic projections.

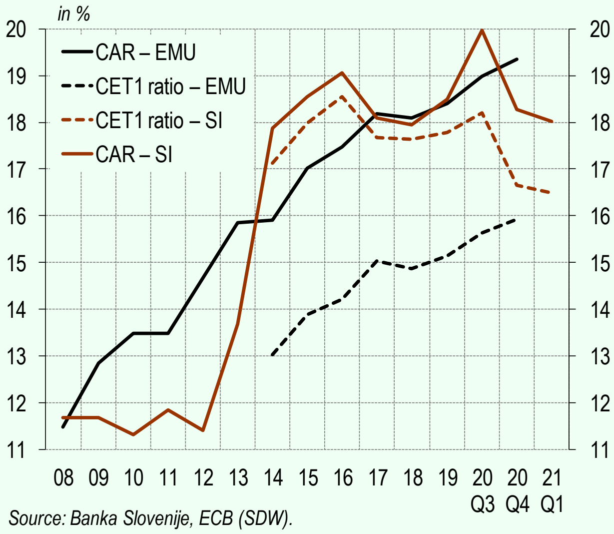
Growth in deposits by the non-banking sector began to gradually slow in March. Year-on-year growth had slowed to 10.2% by May, primarily as a result of a sharp slowdown in growth in corporate deposits. The stock of corporate deposits increased slightly in May, but their year-on-year growth slowed to 12.9%, partly on account of the large monthly increase in corporate deposits in May of last year. Year-on-year growth in household deposits, which account for half of all bank funding, slowed to 10.3% in May, but was still almost 1 percentage point higher than a year earlier. Sight deposits are increasing this year, as they have done for several years now, and accounted for 80.2% of all deposits by the non-banking sector. The stock of fixed-term deposits declined. The banks' reliance on other sources of funding remains low.

The profitability of the banking system has increased this year, largely as a result of one-off factors. Pre-tax profit over the first five months of the year amounted to EUR 213 million, up 39.8% on the same period last year. Pre-tax ROE at system level stood at 10.9% (compared with 9.6% in 2020). While net interest income remains down on the same period last year, the increase in profit was driven by other categories, most notably the relatively high non-interest income, which was mostly of a one-off nature. One factor in its increase was the revaluation of bank assets. The banks have also seen an increase this year in the most stable part of non-interest income, net fees and commission. However, dividend income is down sharply on the same period last year. Net interest income is continuing to record negative growth (in the amount of 4.6% in May), in reflection of the banks' reduced lending activity and the diminishing returns on bank assets. The net interest margin has declined this year, and stood at 1.49% in May for the preceding 12 months. The banks have relatively good control of operating costs. The banking system's net income was comparable to the same period last year (up 0.5%). The net release of impairments and provisions is again prevailing, and reflects the improvement in the economic situation and in the banks' expectations. Eleven of the 16 credit institutions recorded a net release of impairments and provisions, which further increased the level of profit in the banking system. Because the high profitability is largely the result of the aforementioned one-off factors, the sustainability of the current level of profitability is questionable.

The high liquidity at system level improved further over the first five months of this year. The liquidity coverage ratio (LCR) increased by 15 percentage points over the first five months of the year to reach 340% in May, which means that the banking system's capacity to cover net liquidity outflows over a short-term stress period remains high. The LCR is among the highest in the euro area. Although the banking system's liquidity surplus over the regulatory requirement has increased, there is still significant variation from bank to bank. Amid the ongoing rise in deposits by the non-banking sector and modest lending, the funds obtained from deposits have primarily been placed by the banks in accounts at the central bank. The ratio of assets in the most liquid forms[1] to the balance sheet total rose to record highs over the first five months of the year, reaching 21.1% in May.

The capitalisation of the banking system declined slightly further at consolidated level in the first quarter of this year, and there remain considerable differences between the capital surpluses over the total capital requirement[2] at individual banks. The banking system's total capital ratio peaked in September of last year, but has since declined by 2 percentage points, and stood at 18.0% at the end of the first quarter of this year. The CET1 ratio declined by 1.7 percentage points over the same period to 16.5%. The decline in capital adequacy was primarily the result of the merger of one of the banks in the final quarter of last year, but a small decline in the first quarter of this year was also driven by an increase in risk-weighted assets at banks that increased their corporate and household lending during the period. The banks will most likely experience a greater decline in capital adequacy after the end of the emergency measures, which is expected to be followed by a deterioration in credit portfolio quality and a decline in profitability.

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



Source: Banka Slovenije, ECB (SDW).

[1] In addition to balances at the central bank, highly liquid assets comprise cash on hand and other sight deposits at banks.

[2] The total capital requirement is the sum of capital requirements under Pillar 1 and Pillar 2, and all buffer requirements.

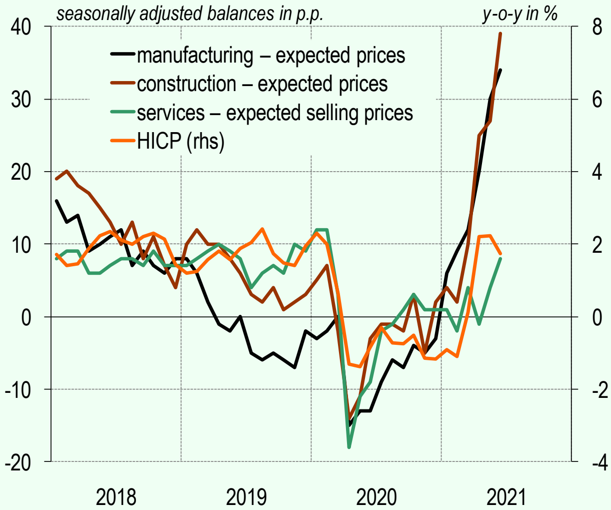
6 Price Developments

Inflation as measured by the HICP moderated slightly after picking up pace in April and May, and stood at 1.7% in June. Price pressures from the external environment continue to intensify, while domestic factors have also started to emerge. Cost pressures remained strong amid the rise in compensation per employee, while capacity utilisation in manufacturing has already surpassed its pre-crisis level, and private consumption also strengthened slightly in the first quarter amid the easing of containment measures. Optimism among consumers and firms is rising, and the divergence of inflation expectations has narrowed. Energy prices continue to be the main factor in headline inflation. Despite the waning of the base effect caused by last year's short-term cut in electricity prices, they were up 11.2% in year-on-year terms in June, driven by higher global oil prices and a base effect connected with last year's fall in prices of refined petroleum products. Despite rising food commodities prices and import prices, year-on-year food price inflation remains weak, primarily on account of year-on-year fall in prices of unprocessed food. Statistically measured services prices remained unchanged in year-on-year terms, mainly for technical reasons. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco was thus entirely driven by the year-on-year rise in prices of non-energy industrial goods. The price of the consumer goods basket in the euro area was up 1.9% in year-on-year terms in June. After two months euro area inflation thus outpaced inflation in Slovenia.

Survey-based inflation expectations in June

Firms' optimism with regard to future growth in (selling) prices continues to strengthen amid the favourable outlook for economic growth. The balances of the selling price expectations indicators, which show the difference between the share of firms expecting prices to rise in the next three months and the share of firms expecting them to fall, increased in all sectors in June (see Figure 6.1).[1] With measures to contain and control the epidemic being lifted and the economy in recovery, the price expectations indicators in construction and manufacturing hit record highs. Amid high capacity utilisati-

Figure 6.1: Price expectations according to business survey



Source: SORS, Banka Slovenije calculations.

[1] The indicator in retail trade is excluded from this analysis due to its extreme volatility.

on, the improvement in the expectations indicators and rising import prices of input raw materials, the share of firms forecasting a rise in selling prices was 34 percentage points higher than the share forecasting a fall in prices (see Figure 6.2). According to seasonally adjusted figures, the largest rise was recorded in construction, where the indicator was up 12 percentage points on May. The services indicator also strengthened, but firms' expectations had been similarly high even in 2019.

The balance indicator of consumer assessments of future price developments reached an eight-year high in June. According to the consumer opinion survey, it stood at 56 percentage points in June, up 4 percentage points on May, and the highest since July 2013. The increase was largely the result of a rise in the share of surveyed consumers expecting higher price growth over the next 12 months (see Figure 6.3). In June more than three-quarters of surveyed consumers expected inflation to remain the same or be higher than in the previous 12 months, while the heterogeneity of inflation expectations diminished as the epidemiological picture improved and uncertainty lessened. The price expectations indicator also increased slightly in the euro area overall, but remains lower than the indicator in Slovenia.

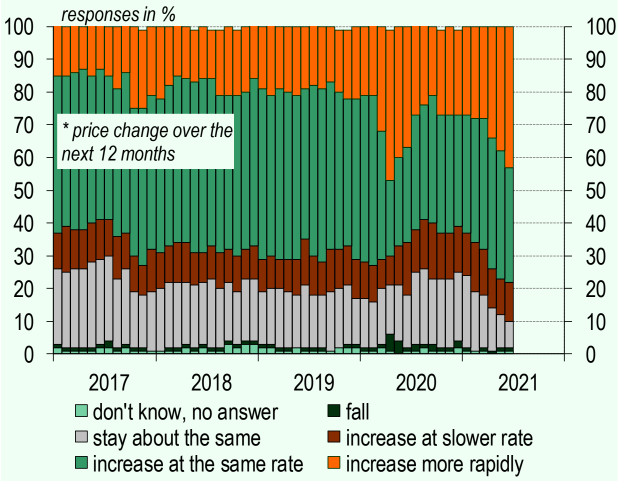
Structure of inflation and core inflation indicators

As foreign price pressures are strengthening, year-on-year consumer price inflation is rising, and is also being driven by certain domestic inflation factors. After picking up pace in April and May, inflation slowed slightly to 1.7% in June, down 0.5 percentage points on the preceding two months. Year-on-year inflation as measured by the HICP was largely driven by energy prices throughout the second quarter, contributing 1.3 percentage points to June inflation (see Figure 6.4). The energy price inflation of 11.2% was largely attributable to rises in global oil prices, and a positive base effect connected with last year's fall in prices of motor fuels. Prices of non-energy industrial goods were up 1.2% in year-on-year terms in June, contributing significantly to headline inflation. Year-on-year food price inflation on the other hand

Figure 6.2: Price expectations in manufacturing

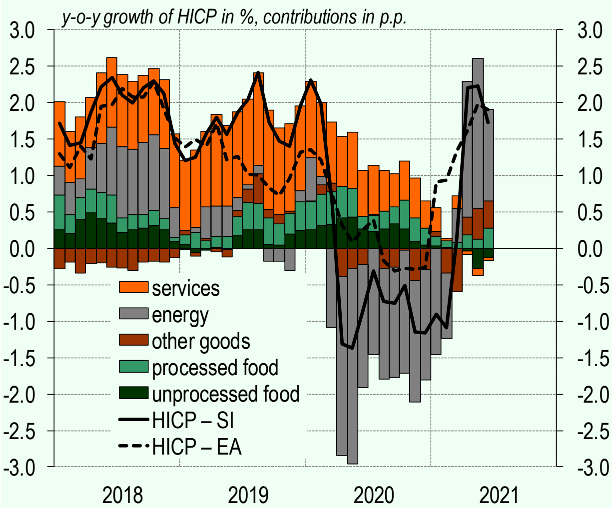
Source: SORS, Banka Slovenije calculations.

Figure 6.3: Consumer opinion survey, consumer prices expectations*



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

Figure 6.4: Contributions to headline HICP inflation

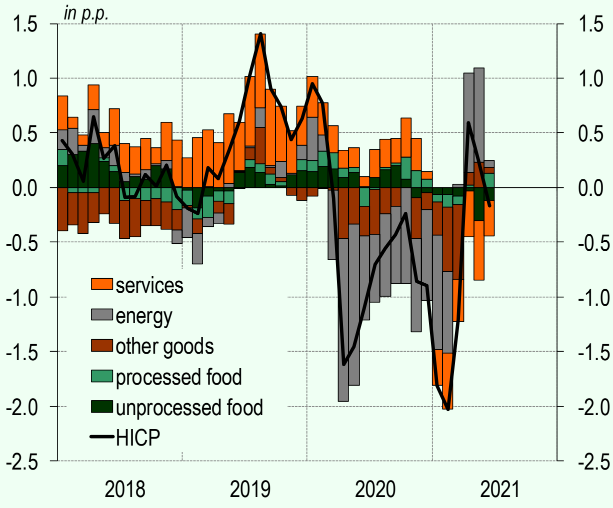


Source: Eurostat, SORS, Banka Slovenije calculations.

strengthened slightly in June, but remained weak at 0.5%, despite rises in prices of food commodities. Services prices remained unchanged in year-on-year terms, mainly on account of this year's pronounced changes in the weighting of the HICP index, and were also weakened by the year-on-year fall in prices of services in the category of package holidays and accommodation. Similar dynamics was evident in June in inflation in the euro area overall, which was down 0.1 percentage points on the previous month but remains high at 1.9%. After two months of outpacing it, year-on-year inflation in Slovenia was again lower than the euro area inflation, primarily on account of the smaller contribution of energy prices to domestic headline inflation. The gap between overall euro area inflation and inflation in Slovenia has thus diminished, and was largely attributable to differences in service price inflation (see Figure 6.5).

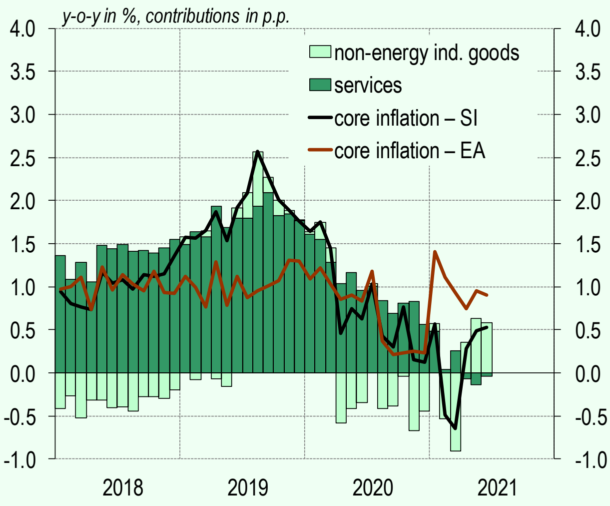
Despite the emergence of domestic inflation factors, core inflation remains low for now. With services prices unchanged in year-on-year terms, core inflation, i.e.

Figure 6.5: Difference in inflation between Slovenia and the euro area



Source: Eurostat, SORS, Banka Slovenije calculations.

Figure 6.6: Contributions to narrowest indicator of core inflation



Source: Eurostat, SORS, Banka Slovenije calculations.

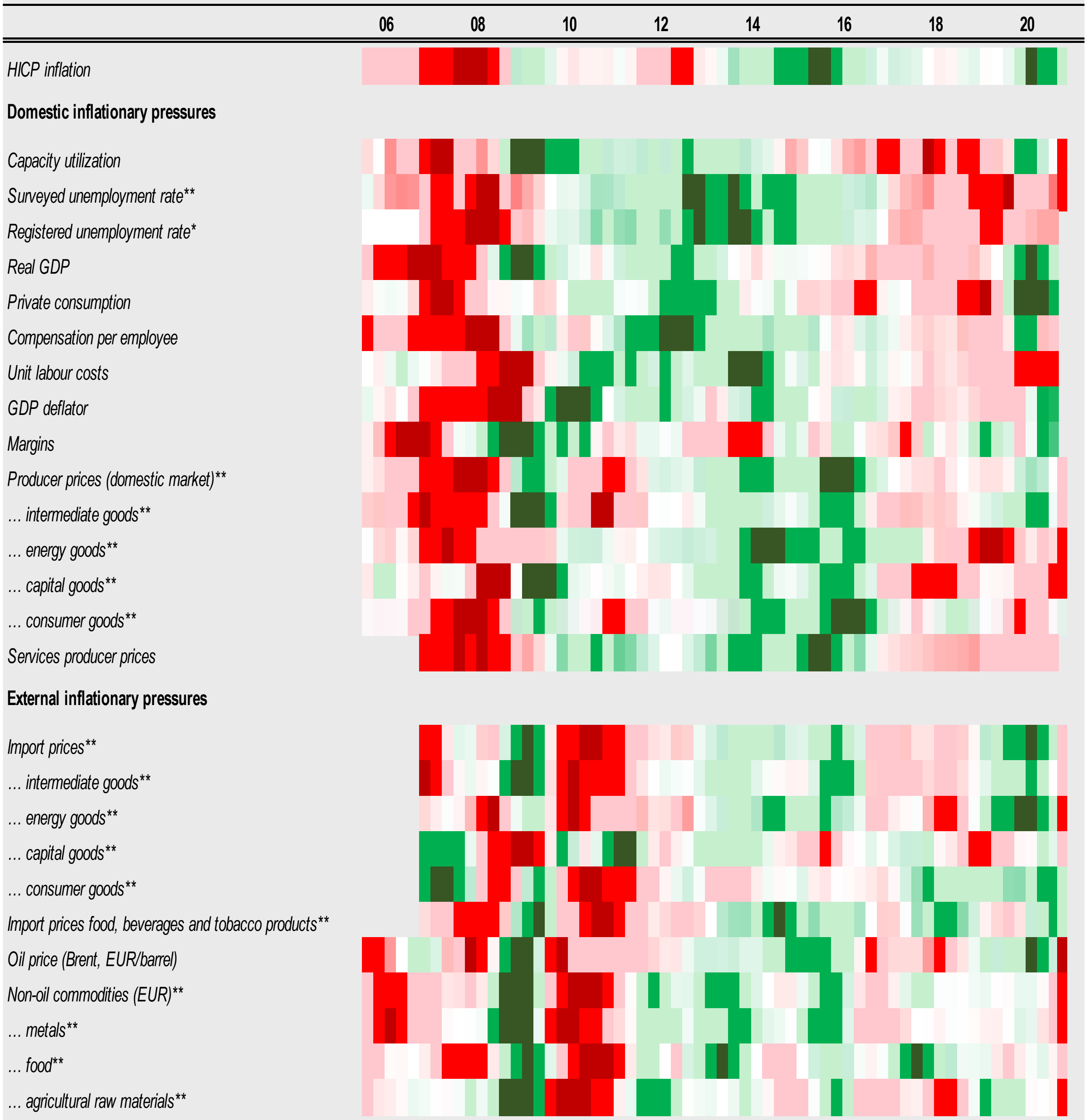
Table 6.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2021	2017	2018	2019	2020	1H21	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2
HICP	*100.0%*	1.6	1.9	1.7	-0.3	0.7	1.6	-1.2	-0.6	-0.9	-0.6	2.1
Breakdown of HICP:												
Energy	*11.4%*	4.7	6.0	0.8	-10.8	4.7	-0.9	-17.8	-11.8	-12.7	-5.1	16.1
Food	*23.2%*	2.2	2.4	1.6	2.8	0.3	3.3	3.3	2.4	2.1	0.5	0.1
processed	*18.8%*	1.4	1.4	1.4	1.9	0.8	2.4	1.9	1.4	1.9	0.6	1.0
unprocessed	*4.3%*	5.7	6.6	2.5	6.6	-1.7	7.2	9.2	6.8	3.3	0.2	-3.5
Other goods	*31.4%*	-0.7	-0.8	0.3	-0.5	0.1	0.4	-1.0	-0.6	-0.9	-0.9	1.1
Services	*34.1%*	1.8	2.4	3.1	1.8	0.2	2.6	1.9	1.5	1.3	0.4	-0.1
Core inflation indicators:												
HICP excl. energy	*88.6%*	1.1	1.4	1.8	1.3	...	2.0	1.3	1.0	0.8	0.0	...
HICP excl. energy and unprocessed food	*84.3%*	0.9	1.1	1.8	1.0	...	1.8	0.9	0.7	0.7	0.0	...
HICP excl. energy, food, alcohol and tobacco	*65.4%*	0.7	1.0	1.9	0.8	...	1.6	0.6	0.6	0.3	-0.2	...
Other price indicators:												
Industrial producer prices on domestic market		1.3	1.9	1.9	0.7	...	1.3	0.3	0.3	0.9	1.9	...
GDP deflator		1.5	2.2	2.3	1.3	...	2.6	2.8	-0.2	0.2	1.7	...
Import prices[1]		3.1	2.4	-0.3	-2.6	...	-1.9	-2.5	-2.5	-3.3	1.0	...

Note: [1]National accounts data.
Source: SORS, Eurostat, Banka Slovenije calculations.

inflation excluding energy, food, alcohol and tobacco, remained low in June, and was entirely driven by the year-on-year rise in prices of non-energy industrial goods (see Figure 6.6). The narrowest core inflation indicator again stood at just 0.5% in June, however it would have reached 1.1% had the weighting remained unchanged. Meanwhile core inflation in the euro area overall stood at 0.9%, close to its level before the outbreak of the epidemic. It was thus slightly higher than in Slovenia, mainly due to higher service price inflation.

Table 6.2: Inflationary pressures



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

Inflation factors

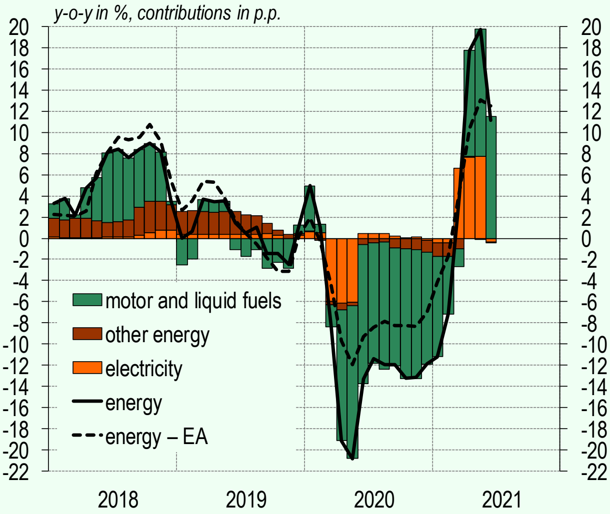
As economies recover and demand rises, prices on global markets for primary commodities continue to rise, strengthening external price pressures. Global oil prices remain high, and Opec members have not yet fully unleashed the reduced production that followed the agreement reached in April 2020. The price of a barrel of Brent crude stood at USD 73.1 or almost EUR 61 in June, bringing euro oil prices up 71% in year-on-year terms. As a result of a rebound after last year's fall and stronger demand, year-on-year growth in prices of other commodities stood already at 41% in May, up almost 6 percentage points on April. The main factors in the increase were rises in prices of non-food agricultural products and the year-on-year rise in metals prices. The dynamics on global markets for primary commodities were reflected in year-on-year growth in import prices, which stood at 8.6% in May, where the inflationary pressures continued to stem primarily from import prices of energy and commodities.

Domestic inflationary pressures are emerging. Industrial producer prices on the domestic market were up 4.6% in year-on-year terms in May, the highest figure of the last decade. The strengthened price pressures are coming primarily from year-on-year rises in commodity prices and prices of capital goods, while year-on-year growth in producer prices of consumer goods remains subdued. Year-on-year growth in producer prices of services stood at 1.3% in the first quarter, the same as the last year's average. Amid the lifting of containment measures, private consumption strengthened slightly for the first time in a year, while cost pressures also remain strong in the wake of the rise in compensation per employee. Inflationary pressures in the domestic environment have also been strengthened by high capacity utilisation in manufacturing which stood at 84.6% in the second quarter, already exceeding its pre-crisis levels.

Price developments by subcategory

After picking up pace since March this year, year-on-year energy price inflation slowed slightly in June,

Figure 6.7: Contributions to growth in prices of energy

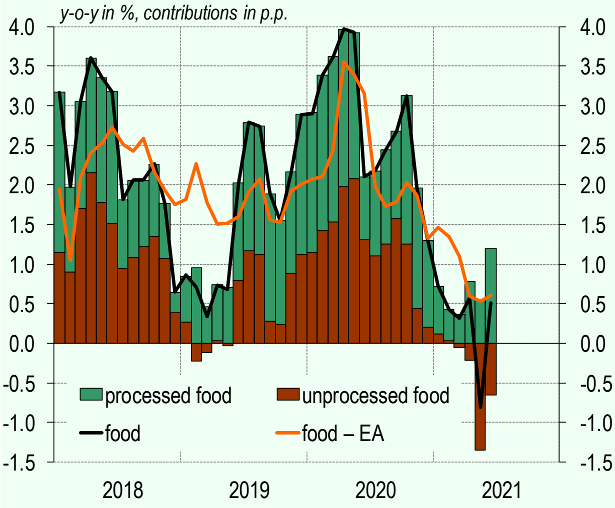


Source: Eurostat, SORS, Banka Slovenije calculations.

primarily as a result of the base effect from last year's temporary cut in electricity price dropping out of the calculation. Energy price inflation was thus mainly due to a positive base effect in connection with last year's fall in prices of motor fuels, and to rises in global oil prices. Year-on-year growth in euro prices of Brent crude hit 146% in April, its peak of the last 20 years. Despite the base effect from last year's cut in electricity prices dropping out of the calculation, energy prices were up 11.2% in year-on-year terms in June, 8.5 percentage points less than in the previous month (see Figure 6.7). Meanwhile, year-on-year energy price inflation in the euro area overall stood at 12.5%. The gap in energy price inflation between Slovenia and the euro area overall narrowed as growth in electricity prices in Slovenia declined.

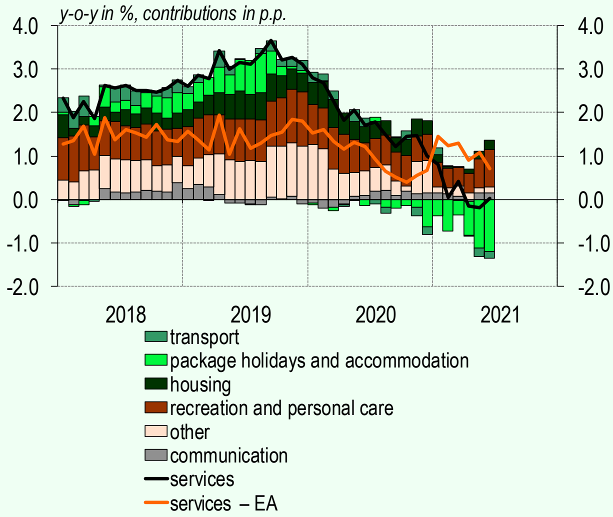
Food prices recorded their first year-on-year fall in five years in May, but rose again in June. Year-on-year food price inflation stood at approximately 0.5% in June (see Figure 6.8). Year-on-year growth in prices of processed food more than doubled from May amid the rise in inflationary pressures associated with rising global prices of food commodities and import prices of food, beverages and tobacco products (see Figure 6.9). The increase in food price inflation was curtailed by prices of unprocessed food, which were down in year-on-year terms for the fourth consecutive month. Their fall over the last two months has primarily been driven by a year-on-year fall in prices of fresh fruit, which stood at 12% in June. Year-on-

Figure 6.8: Contributions to growth in food prices



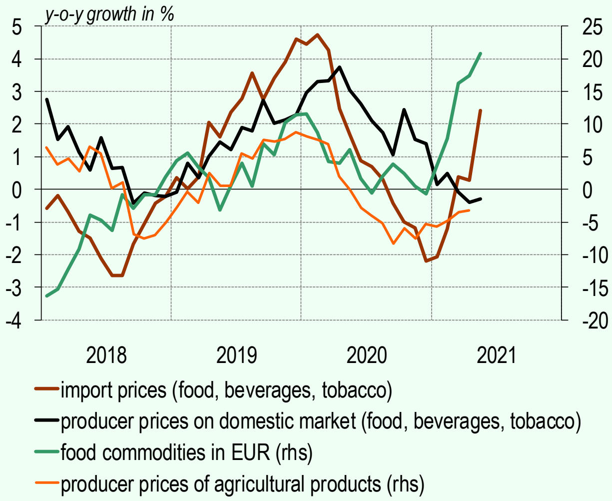
Source: Eurostat, SORS, Banka Slovenije calculations.

Figure 6.10: Contributions to growth in prices of services



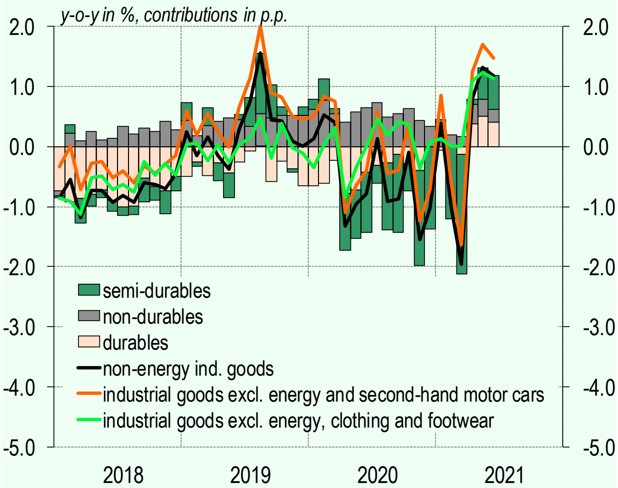
Source: Eurostat, SORS, Banka Slovenije calculations.

Figure 6.9: Food prices and prices of food commodities



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

Figure 6.11: Contributions to growth in prices of non-energy industrial goods



Source: Eurostat, SORS, Banka Slovenije calculations.

year food price inflation in Slovenia again approached the euro area overall, where it stood at 0.6% in June, similar to the entire second quarter.

Despite domestic price pressures, service price inflation remains markedly weak, albeit primarily for technical reasons. After deflation in April and May, statistically measured services prices remained unchanged in year-on-year terms in June as the containment measures were lifted, and thus do not yet reflect the strengthening of private-sector demand. The significantly weak service price inflation is mainly due to the statistical effects of this year's pronounced changes in weighting. Had weights remained unchanged, service price inflation would have stood at 1.1% in June. Service price inflation is also being curtailed by the year-on-year fall in prices of services in the category of package holidays and accommodation, which were rising in current terms over the entire second quarter (see Figure 6.10), while demand for them remained limited by the containment measures. Service price inflation in the euro area overall stood at 0.7% in June, down 0.4 percentage points on the previous month. It thus outpaced the rate in Slovenia for the sixth consecutive month, and was the main driver of the gap between inflation in Slovenia and in the euro area overall.

Prices of non-energy industrial goods were up 1.2% in year-on-year terms in June. The inflation was driven primarily by durables and semi-durables, most notably prices of new cars, clothing and footwear. They accoun-

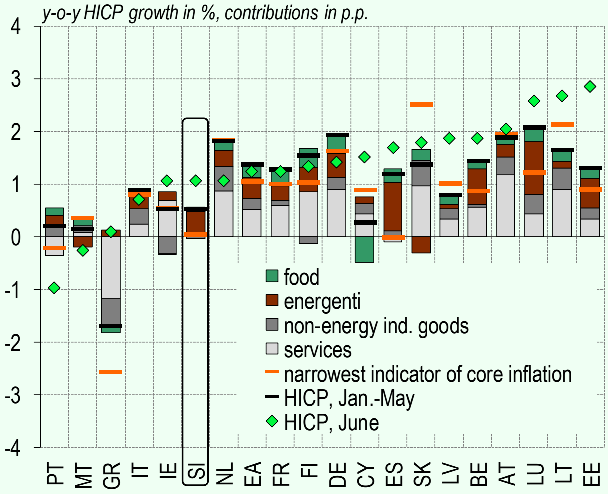
Box 6.1: Price developments in euro area countries

Euro area inflation strengthened in the first half of this year. As measured by the HICP it averaged 1.4%, up 1.1 percentage points on its average in 2020. Mainly due to the higher contribution of energy prices and services prices[1] all euro area countries other than Greece saw inflation on average over the first six months of the year, Slovenia being among those with the lowest consumer price inflation (see Figure 1). The sharpest rises in prices relative to 2020 were recorded in Estonia, Luxembourg and Spain. The inflation in the first half of the year was attributable primarily to base effects, but also in part to the impact of weighting and the effects of temporary factors (such as the introduction of the carbon tax), which are expected to even out by the end of the year.

Inflation in the euro area stood at 1.9% in June. Slovenia ranked 13th alongside the Netherlands and Ireland in terms of inflation rate. The higher headline inflation continues to be driven by energy prices, which were up 12.5% in year-on-year terms in June, primarily as a result of rises in global oil prices and a strong base effect. Service price inflation remained muted, while prices of non-energy industrial goods were up 1.2% in year-on-year terms. Core inflation, i.e. inflation excluding energy and food, stood at 0.9% in June, down 0.1 percentage points on the previous month.

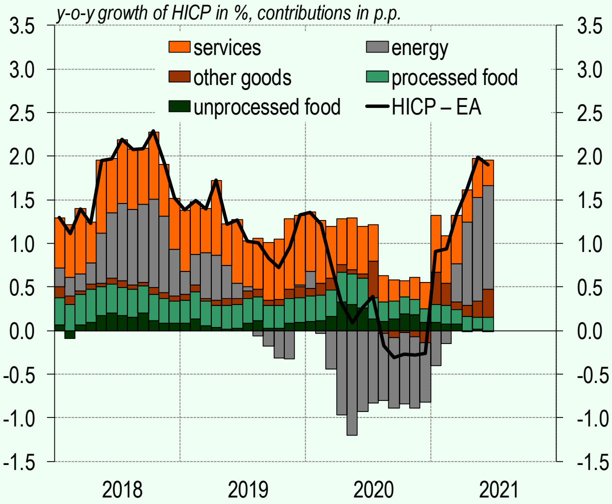
[1] The data on contributions to headline inflation in June 2021 are not yet available.

Figure 1: Average inflation over the first five months of 2021



Source: ECB, Eurostat, Banka Slovenije calculations.

Figure 2: Contributions to headline HICP inflation in euro area



Source: Eurostat, SORS, Banka Slovenije calculations.

ted for 0.7 percentage points of the year-on-year growth in prices of non-energy industrial goods, although even faster growth was prevented by a fall in prices of used cars (see Figure 6.11). Inflation is also being driven by higher cost pressures associated with rises in prices of input commodities. Similar developments were seen in June in the euro area overall, where prices of non-energy industrial goods were up 1.2%.

7 | Public Finances

The general government deficit widened again in the first quarter of this year, despite a significant growth in revenues. The revenue growth was based on the improvement in the economy, including an increase in compensation of employees and growth in household consumption. Year-on-year growth in general government expenditure outpaced growth in revenues for the sixth consecutive quarter, in reflection of the measures to alleviate the impact of the epidemic. The amount of the measures was significantly larger in the first quarter of this year, with the official declaration of an epidemic over the whole of the period, compared with from 13 March last year.

The general government debt had increased to 86.0% of GDP by the end of March 2021. The majority of the additional net borrowing came from bond issuance in January, and loans from the EU's SURE instrument in February. The general government debt is expected to decline towards 80% of GDP by the end of the year, amid the foreseen economic growth and the maturing of liabilities. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates.

Fiscal policy has remained focused this year on alleviating the impact of the epidemic on businesses and households, but economic recovery measures are also becoming increasingly important, including in connection with the available NextGenerationEU funding. Irrespective of the crisis, the key is ensuring that there is no structural deterioration in the fiscal position, and making the best possible use of all available EU funding. The escape clause allowing deviations from the fiscal rules is expected to remain in force this year and next year, both domestically and at the European level.

General government balance

The general government deficit in the first quarter of this year was again up in year-on-year terms, despite high growth in revenues. It amounted to EUR 969 million or 8.3% of GDP, up EUR 205 million on the first quarter of last year, although the year-on-year deterioration in the balance slowed. The deficit was again driven by measures to alleviate the impact of the epidemic, which were larger than in the first quarter of last year: the epidemic was officially declared on 13 March last year, while this year it affected the entire first quarter.[1]

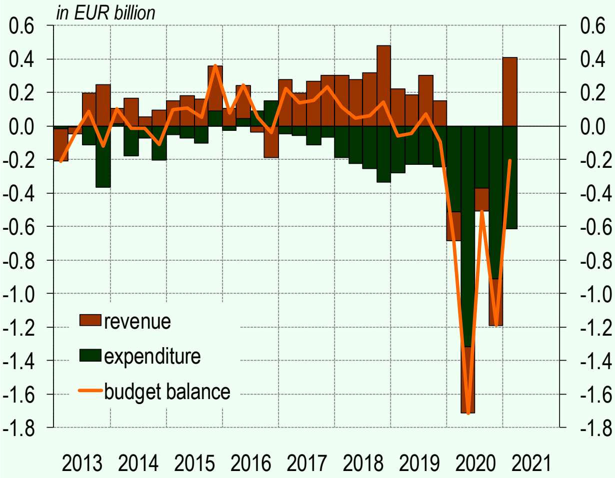
[1] The data on expenditure to alleviate the impact of the epidemic under the cashflow methodology is illustrated in Box 7.1.

Table 7.1: General government deficit and debt in Slovenia, 2016-2024

	SORS						Stability Programme				European Commission	
% GDP	**2016**	**2017**	**2018**	**2019**	**2020**	**2021Q1**	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**
Revenue	44.2	44.0	44.3	43.7	43.6	44.3	43.5	43.1	42.5	42.0	43.0	43.0
Expenditure	46.2	44.1	43.5	43.3	52.0	52.6	52.2	48.8	46.4	44.8	51.5	47.7
of which: interest	3.0	2.5	2.0	1.7	1.6	1.5	1.5	1.3	1.2	1.2	1.5	1.3
Net lending (+) / borrowing (-)	-1.9	-0.1	0.7	0.4	-8.4	-8.3	-8.6	-5.7	-3.8	-2.8	-8.5	-4.7
Primary balance	1.1	2.4	2.7	2.1	-6.7	-6.8	-7.1	-4.3	-2.6	-1.6	-7.0	3.4
Structural balance	…	…	…	…	…	…	…	…	…	…	-7.7	-4.7
Debt*	78.5	74.1	70.3	65.6	80.8	86.0	80.4	79.6	79.0	78.0	79.0	76.7
Real GDP (growth, %)	3.2	4.8	4.4	3.2	-5.5	1.6	4.6	4.4	3.3	3.0	4.9	5.1

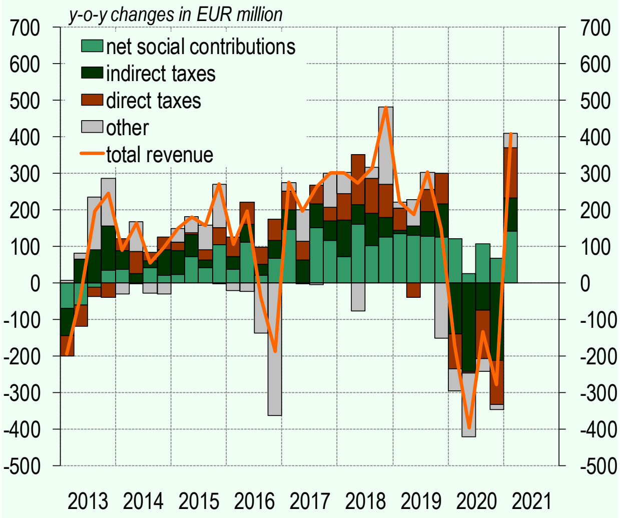
*Note: *Debt refers to the end of the year .*
Source: SORS (realisation), Stability Programme (Ministry of Finance, April 2021), European Commission (May 2021).

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



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

Figure 7.2: General government revenue



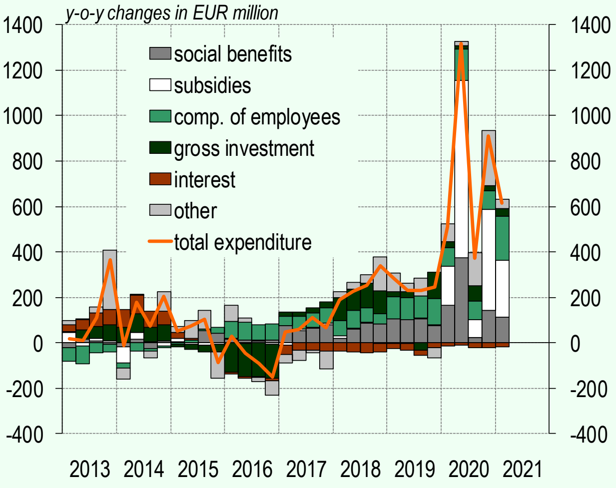
Source: SORS, Banka Slovenije calculations.

General government revenues increased in the first quarter, in line with the revival of economic growth. After declining in year-on-year terms for a year, general government revenues were up EUR 409 million or 8.6%. The majority of the increase came from taxes and social security contributions, in particular those directly related to compensation of employees. Compensation of employees was primarily driven up by higher wages, which were largely the result of bonus payments in connection with the epidemic, and a rise in the minimum wage. Revenues from personal income tax were up by more than a fifth, while net social security contributions were up 7.1%. The lifting of containment measures led to a slight increase in household consumption, and with it revenues from taxes on consumption, which were up 6.7% in year-on-year terms, slightly less than social security contributions. According to the SORS's estimates, corporate income tax revenues were also up slightly on the same quarter of last year amid a rise in GDP. There have been no major changes in taxation this year that would have an impact on revenues.[2] Non-tax general government revenues were also up in year-on-year terms.

General government expenditure is still under the profound influence of the measures to alleviate the impact of the epidemic. General government expenditu-

[2] The only reduction was in motor vehicle tax, which is expected to reduce general government revenue by EUR 29 million or 0.06% of GDP at the annual level. Excise duties on motor fuels were also down in year-on-year terms.

Figure 7.3: General government expenditure excluding support to financial institutions



Source: SORS, Banka Slovenije calculations.

re was up EUR 614 million or 11.1% on the first quarter of last year. The epidemic did have an impact on general government expenditure even in the first quarter of last year, but its impact this year is estimated to be significantly greater.[3] Compensation of employees in the first quarter was up 13.7% in year-on-year terms, driven by bonus payments in connection with the epidemic. The workforce in employment in the government sector also increased further, primarily as a result of demand in human health and social work activities. Subsidies in the first quarter were also up significantly in year-on-year terms at EUR 498 million (compared with EUR 245 million in the first quarter of last year).[4] There was also an increase in social transfers. Pensions in the first quarter were up 4.9%, while sick pay was up almost a third (according to cashflow accounts). Certain other social transfers also increased, and certain solidarity bonuses were again paid at the beginning of the year (e.g. for children and students). Government investment in the first quarter was up a tenth, while interest expenditure has continued to decline, despite the nominal increase in debt.

General government debt and government guarantees

The general government debt increased in the first quarter amid favourable borrowing terms. It amounted to EUR 40.2 million or 86.0% of GDP at the end of March, up EUR 2.7 billion on the end of last year. The heavy borrowing in the first quarter, which exceeded the maturing debt and the deficit, was undertaken at extremely favourable terms, and also reflects the uncertainty surrounding the deficit and the government's financing needs this year. Major borrowing in the second quarter in the amount of EUR 1 billion was undertaken in late June, when Slovenia's first sustainability government bond was issued. It carried a coupon rate of 0.125% and a maturity of 10 years. The proceeds will be earmarked for financing environmental and social projects. Treasury bills continued to be issued at negative interest rates, close to -0.5%, in the amount of just under EUR 0.6 billion. Around EUR 1.2 billion of debt fell due during the second quarter.

The stock of guarantees is continuing to decline, despite the new guarantees earmarked for alleviating the impact of the epidemic. Government guarantees amounted to EUR 5 billion or 10.7% of GDP at the end of the first quarter, down EUR 67 million on the end of last year. The decline is being driven by guarantees made to DARS, and guarantees from the time of the last economic and financial crisis, while guarantees in connection with alleviating the impact of the epidemic increased slightly, although they account for a relatively small share of the total (4%). The possibility of taking up the largest guarantee scheme in connection with the epidemic, where the quota of loan principal available amounted to EUR 2 billion, closed at the end of June. Take-up was approximately 4%. The take-up of guarantees under the first anti-coronavirus legislative package also closed at the end of March, with 29% of the EUR 200 million of available funding having been taken up.

[3] According to the available state budget figures under the cashflow methodology, the largest payments made this year were for employee bonuses in the government sector, the reimbursement of fixed costs for firms, wage compensation for furloughed workers, and the monthly basic income.

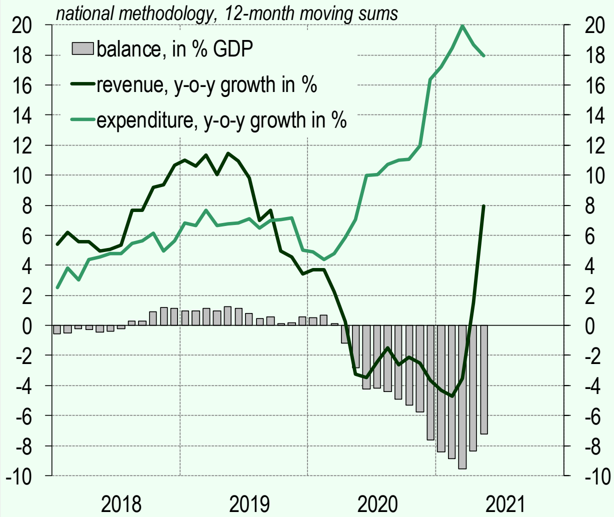
[4] Subsidies largely comprise measures related to the labour market: the furlough scheme, the short-time work scheme, and monthly basic income. Payments of social security contributions for those still in work were also included under subsidies during the first wave last year.

Box 7.1: Public finance developments according to the cashflow methodology

The consolidated general government deficit amounted to EUR 1.3 billion over the first five months of the year, down slightly on the same period last year. May saw a year-on-year improvement in the balance for the second consecutive month in the amount of more than EUR 0.5 billion, the balance having deteriorated over the first quarter. There were strong increases in revenues and expenditures alike, the latter driven primarily by the measures in connection with Covid-19. These primarily related to bonus payments for work in high-risk conditions during the epidemic, refunds for uncovered fixed costs, support in the form of monthly basic income, and refunds of wage compensation under the furlough scheme. The deficit is primarily being generated in the state budget, where it amounted to EUR 1.3 billion over the first five months of the year. The daily state budget figures show that it had increased further to almost EUR 2 billion by the end of June. The Health Insurance Institute recorded a deficit of EUR 17 million over the first five months of the year, while the local government sub-sector recorded a surplus of EUR 91 million.

Consolidated general government revenues over the first five months of the year were up approximately a fifth in year-on-year terms, mostly as a result of the low basis caused by last year's measures related to the epidemic, and this year's one-off revenues. Revenues were up

Figure 1: Public finance developments



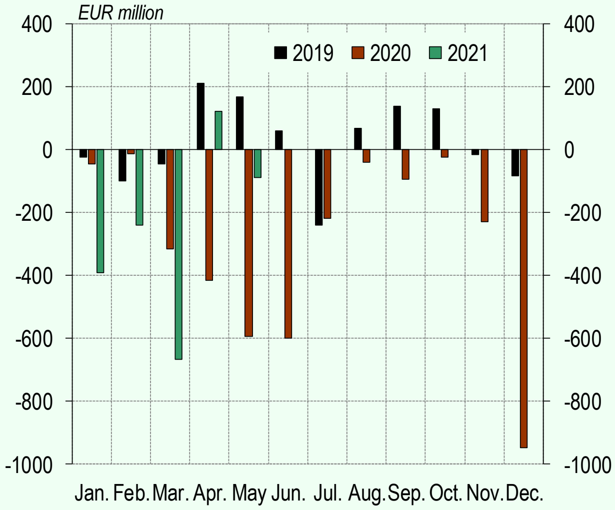
Source: SORS, Ministry of Finance, Banka Slovenije calculation.

Table 1: Consolidated balance sheet* of public finance

	2020	last 12 months to May 21			2020 Jan.-May	2021 Jan.-May	Jan.-May 21
	EUR million		% GDP	y-o-y, %	EUR million		y-o-y, %
Revenue	**18,529**	**19,981**	**42.3**	**7.9**	**7,125**	**8,577**	**20.4**
Tax revenue	16,460	17,721	37.5	8.0	6,272	7,532	20.1
- goods and services	5,493	5,797	12.3	1.7	2,035	2,338	14.9
- social security contributions	7,290	7,798	16.5	13.2	2,737	3,246	18.6
- personal income	2,487	2,689	5.7	6.2	1,035	1,236	19.5
- corporate income	773	1,062	2.2	39.8	243	532	119.1
From EU budget	730	795	1.7	14.9	309	374	20.9
Other	1,338	1,465	3.1	3.2	544	671	23.4
Expenditure	**22,071**	**23,404**	**49.5**	**17.9**	**8,510**	**9,843**	**15.7**
Current expenditure	9,128	9,662	20.4	13.7	3,692	4,225	14.5
- wages and other personnel expenditure (incl. contributions)	4,965	5,449	11.5	17.0	1,977	2,461	24.5
- purchases of goods, services	3,021	3,105	6.6	9.5	1,153	1,238	7.3
- interest	778	715	1.5	-5.7	490	427	-12.8
Current transfers	10,868	11,615	24.6	25.4	4,141	4,889	18.1
- transfers to individuals and households	8,251	8,887	18.8	16.2	3,324	3,960	19.1
Capital expenditure, transfers	1,549	1,572	3.3	-0.4	421	444	5.5
To EU budget	526	555	1.2	10.5	256	285	11.4
Surplus (+) / Deficit (-)	**-3,542**	**-3,423**	**-7.2**		**-1,385**	**-1,267**	

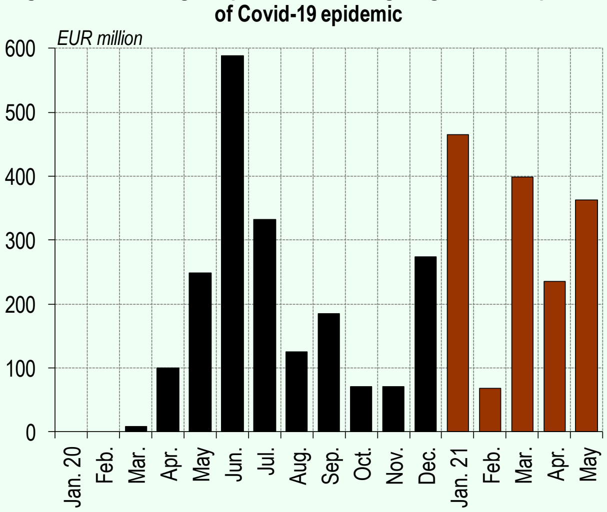
*Note: *Consolidated accounts of the state budget, local government budgets, pension and health fund on cash accounting principle.*
Source: Ministry of Finance, Banka Slovenije calculations.

Figure 2: Budget balance of consolidated public finance budgetary accounts



Source: Ministry of Finance.

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



Note: Including budgetary reserves.
Source: Ministry of Finance, Banka Slovenije calculations.

EUR 1,452 million. The increase was particularly evident in April and May, partly on account of the loss of revenue last year caused by the epidemic. Payments of certain taxes were deferred (most notably VAT and excise duties, given the option of deferrals and payment by instalment, while certain taxes such as corporate income tax were not settled or paid). Settlements of corporate income tax for the previous year were high in these two months. Another significant factor in May's revenues was the payment of the concession fee for frequencies awarded for public telecommunications services to end users (EUR 164 million), while capital revenues were also up on last year on account of high prices of emission allowances. Inflows from the EU budget also increased (by around EUR 65 million). Given the smaller increase in contributions to the EU budget, the surplus vis-à-vis the EU widened (to EUR 88 million).

Consolidated general government expenditure over the first five months of the year was up 15.7% in year-on-year terms, primarily on account of measures related to the epidemic.[1] Expenditure was up EUR 1,334 million. The largest increases were in transfers to individuals and households, and expenditure on compensation of employees. The former accounted for almost half of the increase in expenditure, mostly on measures related to the epidemic (in particular the refund of uncovered fixed costs, and the monthly basic income). There were also increases in expenditure on pensions and sick pay, and in certain social transfers (cash assistance, income support). There was also a significant increase in expenditure on wages and social security contributions for employees, largely in reflection of bonus payments related to the epidemic. Subsidies and investment expenditure and transfers, which are usually low in the early part of the year, also increased. Interest expenditure was down on last year.

[1] According to Ministry of Finance figures, this expenditure over the first five months of the year amounted to approximately EUR 1.6 billion.

Planned developments in general government balance and debt

The general government deficit is projected to remain high this year, but will gradually decline over the following years as the measures to alleviate the impact of the epidemic are withdrawn and the economy strengthens. According to the plans in the stability programme, this year's general government deficit is expected to reach 8.6% of GDP, while other available projections including those of Banka Slovenije suggest a smaller but still high deficit. The deficit remains high this year because of the continuing measures to alleviate the impact of the epidemic, which according to available estimates will be smaller than last year, despite the recent adoption of the ninth anti-coronavirus package.[5] In the

[5] In the April stability programme the Ministry of Finance costed the measures to alleviate the impact of the epidemic at 2.6% of GDP, while Banka Slovenije's estimate made later was higher, at 3% of GDP. July saw the adoption of the ninth anti-coronavirus package, which is not yet included in the aforementioned estimates, and is costed at around 0.5% of GDP.

absence of major epidemic-related costs, and amid strengthening economic growth, the deficit should decline over the following years, but is expected to nevertheless exceed 3% of GDP in 2023. It will only fall below this mark in 2024, according to the Ministry of Finance's forecasts. The budget plans for this year and the next years also assume heavy government investment, shifting the focus of the measures to promoting economic growth. Slovenia's recovery and resilience plan, which is the basis for its take-up of NextGenerationEU funding, was approved by the European Commission in early July, with approval by EU Member States expected later in the month, thus allowing the funds to be drawn down in the second half of this year.

The debt was relatively high in the first quarter of this year, but is expected to decline to around 80% of GDP by the end of the year. According to the stability programme, it will amount to 80.4% of GDP at the end of the year, which is also in line with the Banka Slovenije projection. The estimates are that the decline in the ratio of debt to GDP between the end of the first quarter and the end of the year will be driven by GDP growth, but the debt also contains a relatively large proportion of treasury bills that will mature this year. Given the high levels of debt after the epidemic, the coming years will demand very prudent conduct with the public finances on both the revenue and expenditure sides. At the same time there is a need for structural reforms, which will be additionally supported by EU funding in line with the recovery and resilience plan. A further beneficial impact on the debt is also expected to come from the higher economic growth and the continuation of the accommodative monetary policy, which allows the government to borrow at low interest rates.

In its spring package of recommendations to Member States, the European Commission has retained the option of continued application of the general escape clause next year. EU Member States will thus be allowed to deviate from the fiscal rules for the third consecutive year, owing to the impact of the epidemic on economic growth. According to the European Commission's spring forecast, deviations will no longer be allowed in 2023, as GDP is expected to regain its pre-crisis level in the first quarter of 2022 in the euro area or the final quarter of this year in the EU. The European Commission also warns that countries with high risk assessments in connection with their debt this year and next year need to carefully plan their growth in current expenditure.

BANKA SLOVENIJE
EVROSISTEM

8 Selected Themes

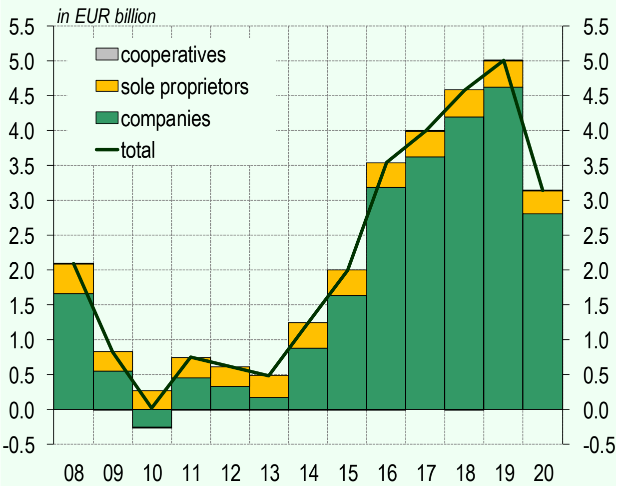
8.1 Performance of corporations, cooperatives and sole traders in 2020

Although the epidemic was the dominant factor in the performance of Slovenian firms in 2020, thanks to extensive policy support measures the crisis was much less severe than that seen just over a decade ago. On aggregate firms actually saw an improvement in certain performance indicators: they generated higher value-added per employee, and paid down additional debt. Net profit was nevertheless down 37.2% on 2019, 23.4 percentage points less than the decline seen in the crisis year of 2009. The decline in net operating profit was slightly smaller: the decline in net sales revenues was mitigated by government financial aid, which together with other subsidies amounted to more than EUR 1.5 billion. There was a particularly sharp decline in the net profit of corporations, but sole proprietors' net profit was also down significantly. Performance worsened in the majority of sectors, but the nature of the containment measures meant that the worst deteriorations came in accommodation and food service activities and in arts, entertainment and recreation. Cooperatives were hit significantly less hard by the crisis.

Corporate performance[1] in 2020

The impact of the coronavirus crisis on corporate performance in 2020 was significantly smaller than the impact of the crisis seen a decade earlier. Certain performance indicators actually improved on aggregate: firms generated higher value-added per employee, they paid down additional debt, and their return on revenue remained higher than it had been in 2015.[2] Firms' net profit was nevertheless down 37.2% on 2019, at EUR 3,144 million, which for example is only slightly less than that generated in 2016 (see Figure 8.1.1). In keeping with the macroeconomic developments, the decline was less severe than that seen in the previous financial

Figure 8.1.1: Net profit



Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Banka Slovenije calculations.

[1] Slovenian corporations, cooperatives and sole traders.

[2] Operating efficiency is defined as the ratio of operating revenues to operating expenses, while return on revenues is defined as the ratio of net profit to total revenues.

Table 8.1.1: Selected corporate performance indicators in 2020

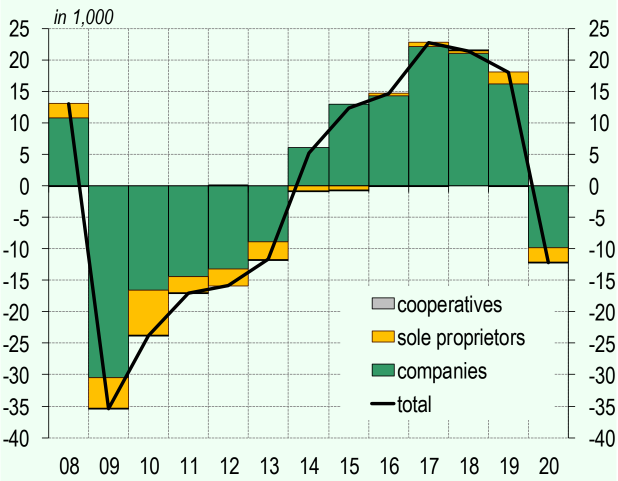
	shares			amounts				change			
	companies	sole proprietors	cooperatives	total	companies	sole proprietors	cooperatives	total	companies	sole proprietors	cooperatives
	in %			*in EUR 1,000*				*in %*			
number of companies	57.1	42.6	0.3	119,370	68,125	50,834	411	-0.8	1.4	-3.6	-1.0
number of employees	91.9	7.6	0.5	554,412	509,700	41,952	2,760	-2.2	-1.9	-5.3	-1.6
value added	94.1	5.6	0.3	25,557,230	24,038,122	1,430,183	88,925	-1.2	-1.0	-4.9	4.6
value added per employee				46.1	47.2	34.1	32.2	0.9	0.9	0.4	6.3
net revenues from sales	94.7	4.5	0.7	98,720,715	93,500,600	4,489,427	730,688	-6.9	-6.6	-13.7	-2.3
subsidies	86.6	12.8	0.6	1,563,359	1,354,149	200,535	8,675	182.9	156.3	863.9	143.7
net profit	89.2	10.7	0.1	3,143,984	2,805,916	336,148	1,920	-37.2	-39.3	-11.5	-20.9
net operating profit	92.3	7.7	0.1	4,233,667	3,905,857	324,746	3,064	-20.3	-20.7	-15.3	-4.1
				in %				*in p. p.*			
indebtedness				49.8	50.1	42.7	33.8	-1.1	-1.1	-0.9	-0.9
leverage				99.2	100.5	74.4	51.2	-4.4	-4.6	-2.9	-2.0

Source: AJPES, Banka Slovenije calculations.

crisis, when it exceeded 60%. In terms of organisational forms, the largest decline in net profit of 39.3% was recorded by corporations, which account for more than half of all firms and generate the majority of value-added.[3] Contrastingly the net income of sole proprietors, who account for just over two-fifths of all firms but generate just 5% of value-added, was down only around a tenth on 2019 at EUR 336 million, the lowest figure since 2013. Firms did record a significantly smaller decline in net operating profit (20.3%),[4] as the decline in net sales revenue was mitigated by extensive government support measures. Together with subsidies[5] these amounted to more than EUR 1.5 billion, up approximately EUR 1 billion in year-on-year terms.

Labour productivity increased slightly in 2020 as employment fell, to approximately EUR 46,100 per employee.[6] Thanks to the support measures, the situation on the labour market did not worsen significantly last year. The number of employees fell for the first time since 2013, by 2.2% (4.0 percentage points less than in 2009), but nevertheless remained above its level of 2018 (see Figure 8.1.2). It fell by 1.9% at corporations, 1.6% at cooperatives, and 5.3% at sole proprietors. Value-added at firms amounted to EUR 25.6 billion, down just 1.2% on the previous year (8.3 percentage points less than the fall in 2009), which was reflected in an increase in labour productivity (see Figures 8.1.3 and 8.1.4). Growth was highest at cooperatives (6.3%), which last year were the only category to increase their value-added, while at corporations the rate slowed to 0.9%.

Figure 8.1.2: Change in the number of employees



Note: Average number of employees based on working hours in the accounting period.
Source: AJPES, Banka Slovenije calculations.

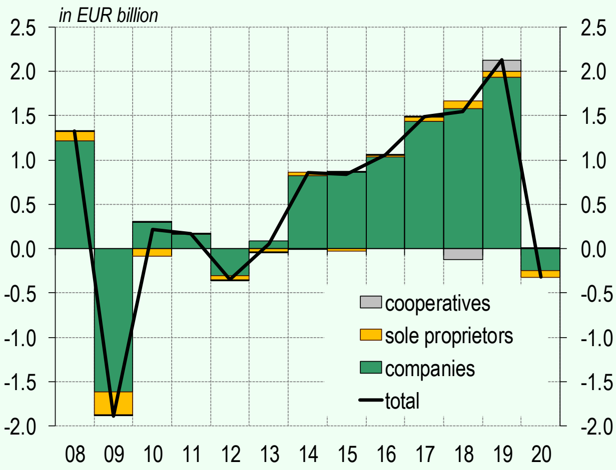
[3] Corporations' net profit declined by 39.3% last year to EUR 2,806 million, EUR 379 million less than in 2016, for example.

[4] Corporations generated a net operating profit of EUR 3,906 million last year, down 20.7% on the previous year (the decline in 2009 was 41.1%). Sole traders' net operating profit declined by 15.3%, while cooperatives' net operating profit declined by 4.1%.

[5] Subsidies, grants, reimbursements, compensation and other revenue associated with products and services. These include government aid to support businesses during the epidemic.

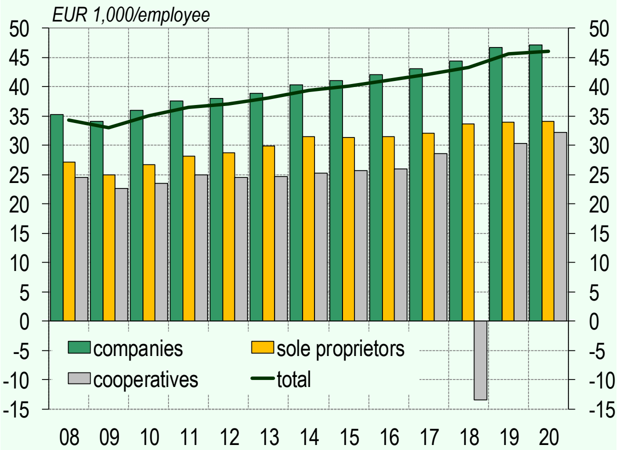
[6] It amounted to approximately EUR 44,700 last year according to the national accounts figures, down slightly on the previous year (3.4% in nominal terms or 4.6% in real terms).

Figure 8.1.3: Change in value added



Note: Value added is calculated as gross operating profit minus costs of goods, materials and services and other operating expenses.
Source: AJPES, Banka Slovenije calculations.

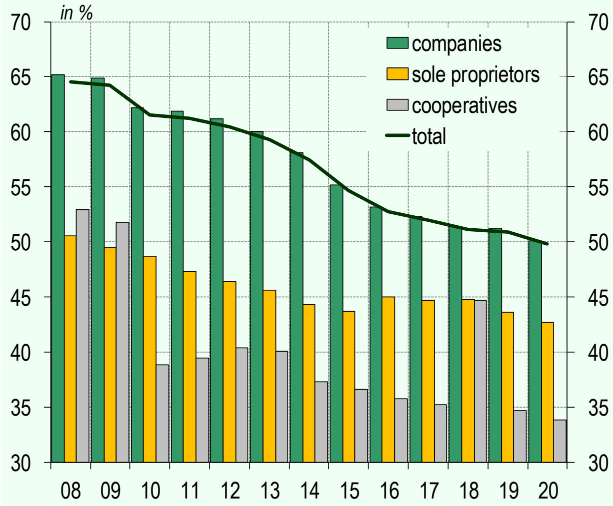
Figure 8.1.4: Labour productivity



Note: Labour productivity is calculated as value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Banka Slovenije calculations.

Amid relatively high growth in equity, corporate indebtedness declined further in 2020. Similarly to the previous crisis and for the first time since 2016, firms saw a decline in total debt, in the amount of 0.5%, while an increase in equity[7] meant that their indebtedness measured as the ratio of total debt to total equity and liabilities declined to 49.8% (see Figure 8.1.5). The largest decline in indebtedness was at corporations, although their figure

Figure 8.1.5: Corporate indebtedness



Note: Total debt to total liabilities.
Source: AJPES, Banka Slovenije calculations.

remains among the highest at 50.1%. Sole proprietors also paid down debt last year: their total debt has declined by 4.5% over the last two years, and is down EUR 750 million or just over a third on 2008, i.e. the beginning of the previous crisis. They accounted for just 2.6% of total corporate debt last year.

Corporate performance by sector

Although corporate performance did not deteriorate hugely given the magnitude of the pandemic, there were considerable differences between individual sectors. Net profit was down on the previous year in the majority of sectors. The exceptions were information and communication, water supply, sewerage, waste management and remediation activities, and human health and social work activities. Contrastingly, the nature of the containment measures meant that the largest declines were in arts, entertainment and recreation, and accommodation and food service activities,[8] which recorded a net loss of EUR 79 million on aggregate last year, of which accommodation and food service activities accounted for EUR 70 million.[9] The net operating loss amounted to

[7] Corporations' equity increased by EUR 2.1 billion last year, primarily as a result of large retained earnings, which were up EUR 2.7 billion on 2019.

[8] The largest decline in net profit in 2020 was recorded in accommodation and food service activities, for corporations and sole traders alike. In contrast to corporations, sole traders in accommodation and food service activities, who account for almost a quarter of all employees in the sector and generate a fifth of total value-added in the sector, again recorded a net profit last year.

[9] The largest net loss was recorded by electricity, gas, steam and air conditioning supply in the amount of EUR 384 million, which was largely attributable to Termoelektrarna Šoštanj and Holding Slovenske elektrarne.

Table 8.1.2: Selected corporate performance indicators by activities

	net profit			number of employees			labour productivity*			indebtedness		
	2009	2020	2020	2009	2020	2020	2009	2020	2020	2009	2020	2020
	growth in %		*EUR million*	*growth in %*		*in 1,000*	*growth in %*			*change in p. p.*		*in %*
total	-60.6	-37.2	3,144	-6.1	-2.2	554	-3.6	0.9	46.1	-0.3	-1.1	49.8
electricity, gas, steam and air conditioning s	28.1	-325.5	-384	2.9	2.1	7	9.4	4.5	124.9	0.7	0.9	38.5
accommodation and food service activities	345.2	-183.6	-70	2.1	-7.7	27	-2.7	-19.8	23.2	3.3	2.2	55.8
arts, entertainment and recreation	-562.8	-141.3	-9	-2.3	-9.1	4	-7.2	-22.9	37.5	3.7	0.4	58.9
mining and quarrying	-271.3	-105.4	-1	-6.9	-6.6	2	7.6	2.6	57.1	1.4	-8.1	61.5
administrative and support service activitie	-86.6	-71.9	21	-4.3	-7.4	30	0.2	0.9	26.7	1.3	-0.2	56.9
real estate activities	-86.8	-50.2	84	1.7	-3.0	6	-4.6	-7.8	86.0	0.7	-0.9	55.5
transportation and storage	-160.8	-46.4	234	-3.5	-1.2	47	-7.8	-5.5	49.2	0.9	-1.8	44.6
professional, scientific and technical activiti	-34.3	-42.5	316	2.2	3.0	35	0.4	-6.4	47.8	-1.8	-0.5	49.1
financial and insurance activities	-13.1	-41.2	281	-12.5	-9.3	3	-10.2	19.0	78.3	3.4	-2.3	52.0
agriculture, forestry and fishing	3.5	-40.9	16	-4.5	-7.6	4	-2.7	0.1	41.2	0.6	-1.4	48.6
public administration and defence	-166.3	-34.7	1	-15.6	-1.1	0	19.2	-1.9	30.0	1.7	-2.2	67.6
wholesale and retail trade	-19.4	-18.0	693	-1.3	-0.2	97	-7.6	1.0	47.1	-1.7	-1.9	56.6
other service activities	-0.8	-17.2	24	-2.4	-7.6	5	2.7	-0.2	29.4	-2.2	0.5	50.2
construction	-76.9	-12.2	220	-6.2	0.4	56	-8.9	2.5	32.7	-0.5	-0.7	58.9
manufacturing	-62.3	-11.5	1,418	-13.1	-4.0	191	-1.9	4.2	48.1	-1.4	-1.6	45.2
education	19.3	-9.7	10	2.5	-6.0	2	-2.8	0.3	34.1	-4.5	-2.0	52.6
human health and social work activities	-7.7	5.3	47	8.1	6.1	6	2.8	4.0	47.1	0.1	-0.6	49.9
water supply, sewerage and waste manag	-51.2	21.4	38	1.4	1.2	9	-5.5	7.2	41.5	0.3	0.8	50.3
information and communication	-46.6	22.7	205	0.3	4.9	22	-6.9	1.8	70.3	0.5	-1.2	51.8

*Note: *Value added (in EUR 1,000) per employee. Activities of households are not shown (SKD T).*
Source: AJPES, Banka Slovenije calculations.

EUR 69 million, despite the government financial support.[10] The two sectors also recorded the largest declines in labour productivity (around 20%). Value-added was down 25.9% on 2019 in accommodation and food service activities (17.1 percentage points more than the fall in 2009), and 29.9% in arts, entertainment and recreation (15.7 percentage points more than in 2009). These sectors also saw the largest increases in indebtedness,[11] primarily as a result of an increase in non-current financial liabilities to banks in accommodation and food service activities, and as a result of a decline in equity in arts, entertainment and recreation.[12]

As might be expected, the most notable improvement in performance in 2020 was recorded by the information and communication sector, as the containment measures drove a sharp increase in demand for its services. It accounted for just under 5% of all firms, and generated approximately the same share of value-added. In contrast to the previous crisis, its net profit increased by just over a fifth to EUR 205 million, while its net operating profit was up 16.2%. Alongside human health and social work activities, this sector also recorded the largest rise in the number of employees (4.9%). Because the growth in value-added was even higher at 6.8%, labour productivity also rose, to EUR 70,340 per employee, ranking information and communication among the most productive sectors in Slovenia. The indebtedness of the sector declined slightly, even though there was an increase in total debt, which reached a record EUR 2.5 billion, up 2.9% on the crisis peak in 2010.

[10] The largest increases in government aid and other subsidies were recorded by the sectors of arts, entertainment and recreation, and accommodation and food service activities.

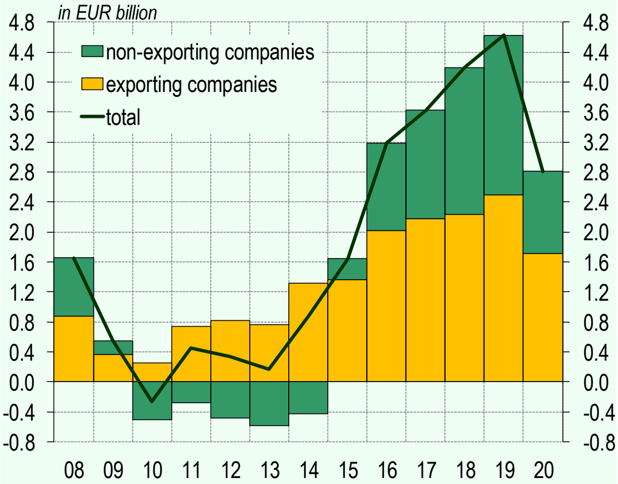
[11] An increase in indebtedness was also recorded by the energy sector, other service activities, and water supply, sewerage, waste management and remediation activities.

[12] This was largely attributable to a decline in net profit for the financial year.

Corporate performance in terms of export-orientation

Corporations oriented to the domestic market felt the impact of the containment measures more heavily. These are firms who generate more than 85% of their total revenues on the domestic market. They account for more than four-fifths of all firms, but generate less than half of total value-added. Their net profit almost halved in 2020 to EUR 1,096 million (see Figure 8.1.6).[13] Similarly to the previous crisis, their net operating profit was down just under 40%, at EUR 1,334 million. At the same time the decline in value-added meant that the labour productivity of non-export-oriented firms declined, for the first time since 2013 (see Figure 8.1.7). However, their indebtedness was down slightly amid an increase in equity (see Figure 8.1.8). By contrast, export-oriented firms saw their net profits decline by 31.5% last year.[14] Their net operating profit was down just 6.2%, significantly less than the 45.3% decline seen in 2009. It amounted to EUR 2,572 million, comparable to the figure from 2017. The decline was mitigated in particular by the increased profits at firms in information and communication and in construction. Growth in labour productivity slightly slowed last year at export-oriented firms, as a smaller number of employees generated approximately the same value-added as in 2019. Their indebtedness also declined further: equity increased for the tenth consecutive year, while total debt, in contrast to firms oriented to the domestic market, declined for the first time since 2015.

Figure 8.1.6: Net profit of companies by export-orientation

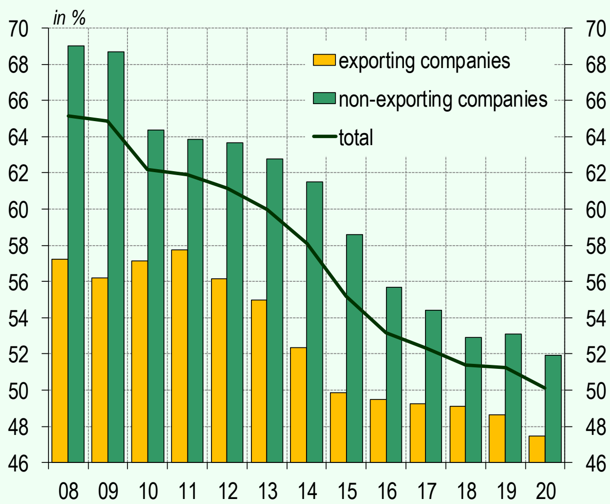


Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Banka Slovenije calculations.

Figure 8.1.7: Labour productivity of companies by export-orientation

Note: Labour productivity is calculated as value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Banka Slovenije calculations.

Figure 8.1.8: Companies indebtedness by export-orientation



Note: Total debt to total liabilities.
Source: AJPES, Banka Slovenije calculations.

[13] The poor performance of Termoelektrarna Šoštanj had a major impact on the performance of non-export-oriented firms.

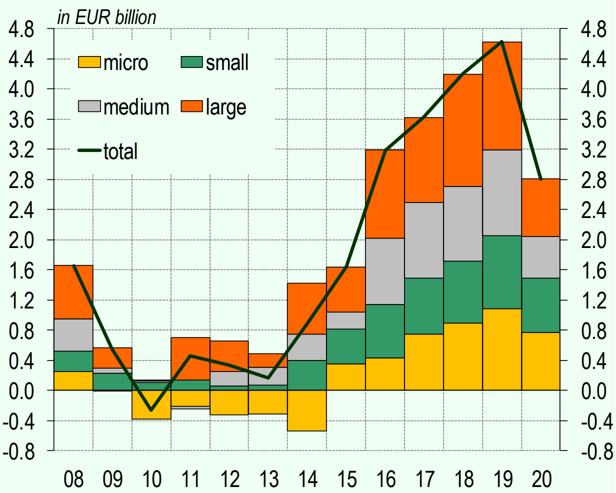
[14] The poor performance of Holding Slovenske elektrarne had a major impact on the performance of export-oriented firms.

Corporate performance in terms of size

In contrast to developments just over a decade ago, the largest decline in profit in 2020 was recorded by large enterprises. Although there are fewer of them, they account for a third of total employment, and generate almost two-fifths of value-added. Their net profit almost halved in 2020 (to EUR 765 million), while their net operating profit was down 30.9%, just 6.7 percentage points less than the decline in the previous crisis (see Figure 8.1.9).[15] In contrast to firms of other sizes, large enterprises were the only ones last year to see a reduction in their number of employees (by 6.1%), which was the first time since 2014, and alongside micro enterprises they also recorded a decline in value-added (of 3.7%). As a result they also saw the largest increase in labour productivity, although the rate of growth was considerably weaker than a year earlier (see Figure 8.1.10). Their indebtedness also declined, as total debt declined sharply, primarily on account of a decline in other current financial liabilities and non-current financial liabilities to undertakings in the group (see Figure 8.1.11). They still account for more than a third of total corporate debt.

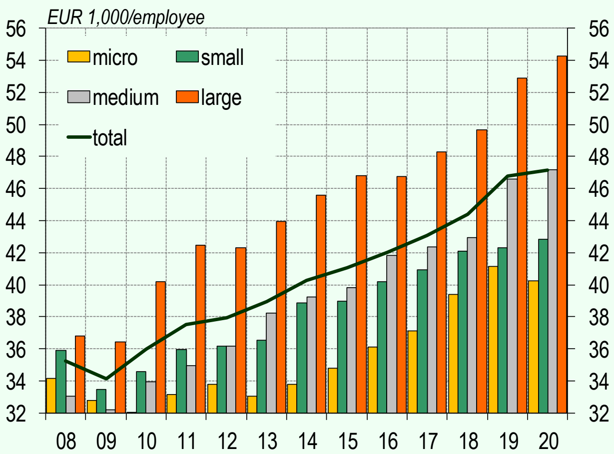
Alongside the large enterprises, micro enterprises are also notable for the downturn in their performance. Their net operating profit was down on 2019 (by 22.2%), despite a sharp increase in subsidies. The decline was significantly smaller than that of 46.1% seen during the previous crisis. Compared with firms of other sizes, they were the only ones to record a decline in labour productivity last year: while the number of employees rose slightly, they generated 1.6% less value-added than in the previous year. At the same time they also recorded the largest increase in debt, mainly as a result of an increase in other financial liabilities, although their indebtedness declined again as a result of retained earnings.

Figure 8.1.9: Net profit of companies by firm size



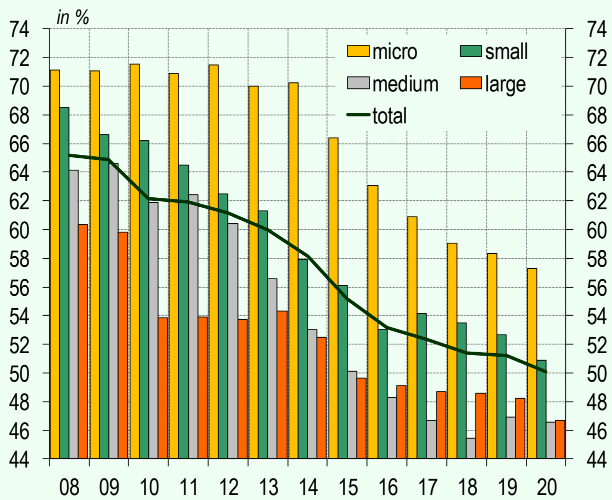
Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Banka Slovenije calculations.

Figure 8.1.10: Labour productivity of companies by firm size



Note: Labour productivity is calculated as value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Banka Slovenije calculations.

Figure 8.1.11: Companies indebtedness by firm size



Note: Total debt to total liabilities.
Source: AJPES, Banka Slovenije calculations.

[15] The poor performance of Termoelektrarna Šoštanj had a major impact on the performance of large enterprises.

Methodology

Data capture

The analysis includes all firms, i.e. those belonging to the non-financial corporations sector, the government sector and the financial corporations sector.

The analysis was conducted on the basis of unaudited figures, and excludes all firms that fail to report any values in the year in question (all items in the balance sheet are zero).

Definitions

The **number of employees** (or 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.

Labour productivity is calculated as value-added per employee.

Corporate indebtedness is defined as the ratio of total debt to total equity and liabilities.

The **size categories** are defined on the basis of the number of employees, the following criteria applying:

- A micro enterprise is a firm where the average number of employees in the financial year does not exceed ten.
- A small enterprise is a firm where the average number of employees in the financial year is between 10 and 50.
- A medium-size enterprise is a firm where the average number of employees in the financial year is between 50 and 250.
- A large enterprise is a firm where the average number of employees in the financial year exceeds 250.

Export-oriented firms are defined as firms that generate at least 15% of their total revenues on foreign markets.

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.

8.2 Analysis of the impact of structural factors on price developments in Slovenia

To gain a more detailed insight into the structure of price developments in Slovenia, we have prepared an analysis of the impact of some of the most important macroeconomic factors from the domestic and foreign environment on domestic inflation dynamics. As expected, external macroeconomic factors prevail and have a profound impact on the inflation in a small open economy such as Slovenia. The connection with factors from the domestic environment is consequently slightly weaker, but nevertheless important. During the pandemic the negative price pressures in Slovenia, similarly to the euro area overall, could be attributed to the nature of the pandemic shock, while price dynamics were also strongly linked to the developments in global oil prices. While the contribution of external factors to overall price developments in Slovenia has already been positive in the first quarter of this year, the price pressures have been weakened by domestic inflation components, in particular the inability to consume certain services due to the containment measures, while inflation has also been negatively affected by changes in the weights of the HICP index.

Introduction

To gain a more detailed insight into the structure of price developments in Slovenia over time, we have prepared an empirical analysis of the impact of domestic and external structural factors. Using a structural vector autoregression model estimated with a Bayesian approach, we provide a historical decomposition of the dynamics of headline inflation based on the contributions of shocks from the domestic and foreign environment. A small and open economy such as Slovenia is highly dependent on developments in foreign markets. Given its integration into the euro area, the analysis of external spillovers is disaggregated into a separate treatment of euro area and non-euro area shocks.[1] As expected, external macroeconomic factors have a profound impact on inflation in a small open economy such as Slovenia, but a more detailed examination shows that domestic factors also played a significant role in shaping price dynamics over the observation period. The structure of price developments in Slovenia is also compared with inflation dynamics in the euro area overall.

Dataset

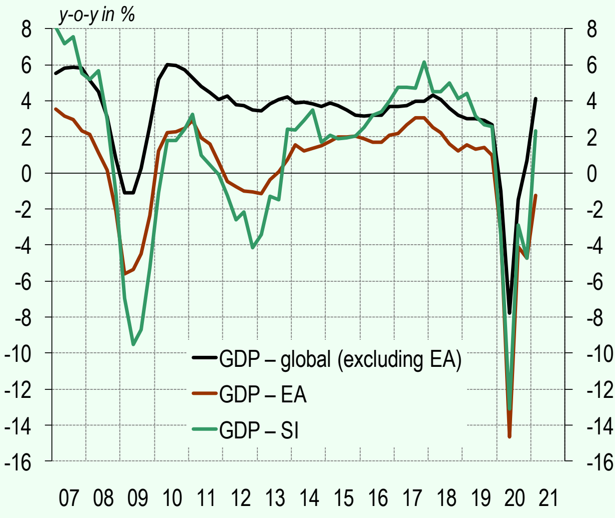
The proposed model contains variables related to the domestic and foreign macroeconomic environment (see Figures 8.2.1, 8.2.2 and 8.2.3):[2]

- oil prices on global market,
- global GDP excluding the euro area,
- euro area HICP,

[1] The model used is thus more hierarchically distributed compared with the reviewed literature. In the analysis of Bobeica and Jarociński (2017), the block of domestic environment variables includes euro area variables, while the external block consists of other, global variables. In the analysis of price developments in a small open economy such as Slovenia, which is integrated into the euro area, is thus necessary to take account of three hierarchical levels, i.e. developments on global markets, in the euro area, and in the domestic environment.

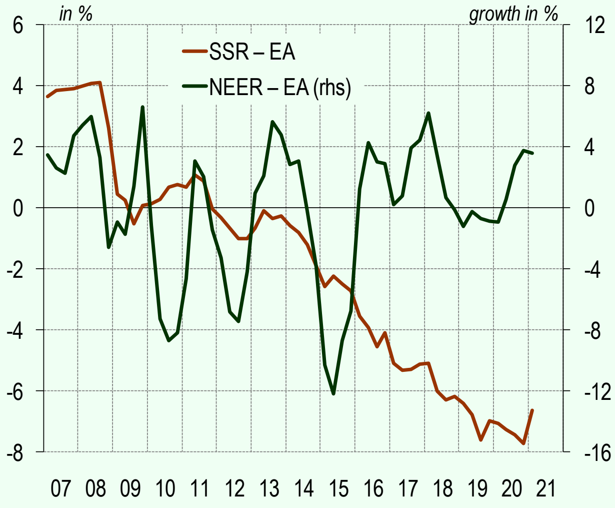
[2] As the number of variables increases, the identification of shocks becomes more complex, which is a potential drawback of using structural VAR models. To retain control of the model, we have therefore limited ourselves to the eight key variables.

Figure 8.2.1: GDP growth



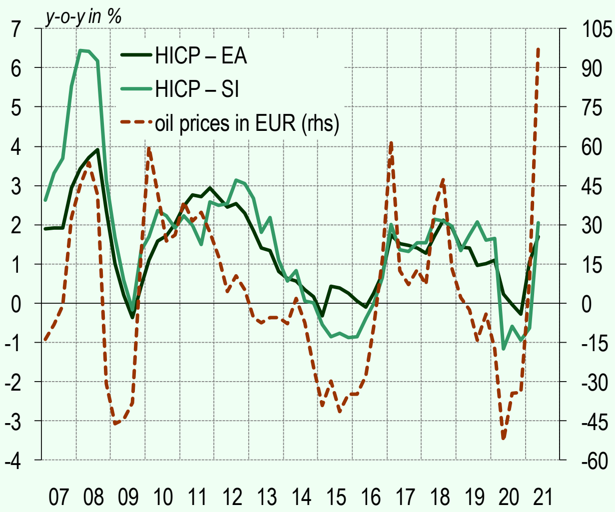
Source: ECB, Eurostat, SORS, Banka Slovenije calculations.

Figure 8.2.3: EA shadow short rate and nominal effective exchange rate



Source: ECB, Wu & Xia (2016), Banka Slovenije calculations.

Figure 8.2.2: Price developments



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

- euro area GDP,
- euro area shadow short rate (SSR),[3]
- euro area nominal effective exchange rate (NEER),
- HICP index in Slovenia, and
- GDP in Slovenia.

The set of variables is grouped into three blocks. The first block represents the global economy excluding the euro area, the second the euro area, and the third block the domestic environment. The external environment variables are selected in such a way as to best capture the impact of developments in foreign markets on inflation in Slovenia.[4] This model specification allows us to take account of the dynamic properties of the most important macroeconomic variables, and to analyse the response of inflation in Slovenia to changes in the macroeconomic environment.

Methodology used

A dynamic model based on structural vector autoregression (SVAR) is estimated in the analysis. SVAR is a way of specifying a system of simultaneous equations that combines the theoretical basis of structural models and the dynamic properties of unrestricted vector autoregression models, under the assumption that the equations that make up the structural model reflect the relations between variables from the perspective of economic theory. In contrast to the model in reduced form, the structural model also contains contemporaneous relations between variables. The SVAR can be formally described

[3] The shadow short rate encompasses conventional and unconventional monetary policy measures, and represents the hypothetical central bank interest rate that would prevail in the absence of a lower bound on interest rates. The data for shadow rates is available on the website of Wu and Xia (link). Because the data is only available from September 2004, the missing data from the beginning of the time series is replaced with EONIA values, as the EONIA and the shadow short rate are virtually identical during periods when a zero lower bound is not binding.

[4] The empirical analysis also includes dummy variables for the global financial crisis and the Covid-19 crisis.

by the following equation (adapted from Lütkepohl, 2017):

$$A_0 y_t = \mu + A_1 y_{t-1} + \cdots + A_p y_{t-p} + \epsilon_t$$

where $y_t = (y_{1t}, \ldots, y_{Kt})'$ is the vector containing K endogenous variables,[5] ϵ_t is the vector of structural shocks to the system of equations at time t, μ is the vector of constants, p is the number of lags, and A_j denote the matrices of fixed coefficients. This kind of a model design allows for analysis of the dynamics of the spread of structural shocks between various macroeconomic variables.

In order to take into account that Slovenia is a small open economy we impose block exogeneity restrictions onto model parameters. This is a common assumption when modelling the transmission of economic shocks between large and small economies. Under this restriction, shocks that originate in a foreign block from the perspective of the domestic economy can influence the small economy, but not the other way around. The restrictions in the postulated model thus assume that the macroeconomic environment in Slovenia has zero impact on external variables.

The model is estimated on a quarterly frequency using a Bayesian approach. The model with four lags[6] is estimated over the time period from 2000 up to and including the first quarter of 2021.[7] All variables other than interest rates are included into the model as log values. The structural shocks are identified using a Cholesky decomposition, and estimates of alternative model specifications indicate the robustness of the results. A recursive identification approach is commonly used to identify the structural shocks. In a recursive causal structure, the order of the variables is chosen with regard to their relative responsiveness, taking into account the macroeconomic theory and positioning of Slovenia in the global macroeconomic environment. The most exogeneous variables are given priority in the ordering of variables from the perspective of the Slovenian macroeconomic environment.[8]

Results

With the historical decomposition we determine which macroeconomic factors have the largest impact on price developments in Slovenia, and what is their relative importance over time. The contributions of shocks from the domestic environment, global shocks (excluding EA) and euro area-specific factors are shown separately (see Figure 8.2.4). A positive contribution means that a given shock has had a positive impact on year-on-year price growth, while negative contributions reflect negative price pressures.[9] Factors from the external and domestic environment are interlinked and affect domestic inflation through several channels. The results show that both domestic and foreign shocks have played an important role in shaping domestic inflation, but external factors dominate due to their integration in global supply chains.

As expected, external macroeconomic factors have a profound impact on inflation in a small open economy like Slovenia. Inflation fluctuations vary considerably across periods, but the relative dominance of external factors is evident in all periods. With the strengthening of trade integration after Slovenia joined the EU and globalisation has spread, the impact of the global business cycle and global shocks on domestic inflation has increased, similarly to other economies. The dynamics of oil prices on global markets pass through

[5] In this analysis K = 8.

[6] It is the common practice in models with a quarterly frequency to include four lags of the endogenous variables, as this captures the dynamic attributes of the time series used (Bobeica & Jarociński, 2017).

[7] The period is selected with regard to the availability of national accounts data.

[8] Selecting the order is usually a matter of an expert but subjective insight into economic theory, as there are no precise rules. The two variables of the global block excluding the euro area are by their nature the most exogenous, and are therefore given priority. They are followed by the euro area variables, where, assuming price rigidity, inflation comes ahead of economic activity, but we find that the results are robust even using the reversed order. Next in the order is the shadow short rate, which is commonly used as a measure of the ECB's monetary policy stance. The final variable of the foreign block is the nominal effective exchange rate. All of these variables are placed before the block of domestic variables, because they are externally determined from the perspective of the Slovenian economy. As the most endogenous, the domestic variables enter the sequence of variables last.

[9] For the purpose of a more intuitive presentation of the results the variables used are transformed into year-on-year growth rates.

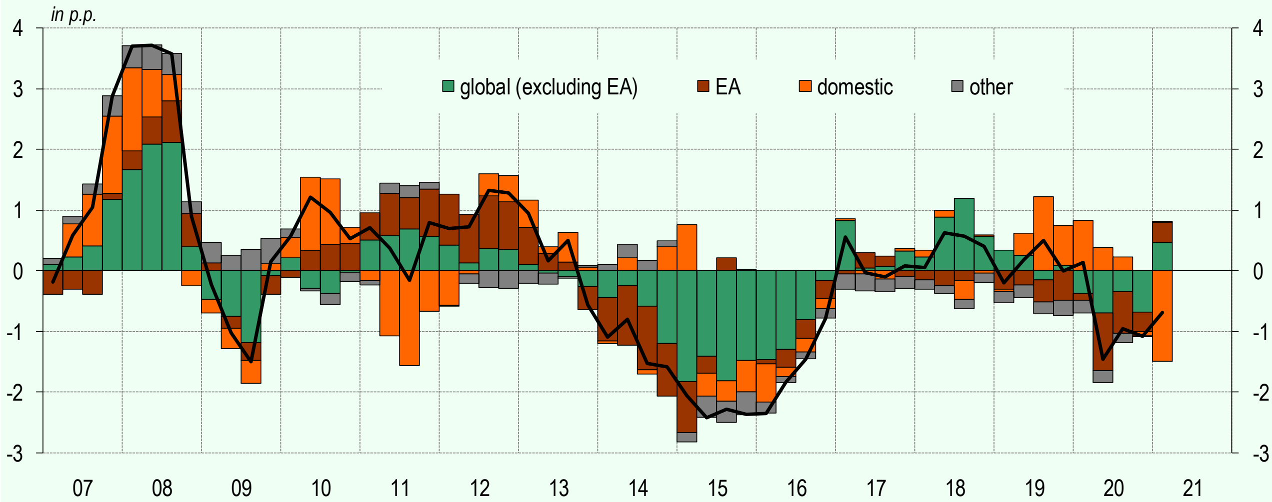
very quickly and to a large extent into inflation in Slovenia, and thus represent the most important pressures on price developments. Euro area inflation and the autoregression component of domestic inflation are also significant variables in describing consumer price developments in Slovenia. The impact of monetary policy and exchange rate equation shocks on the price dynamics in Slovenia and the euro area is relatively small, which is consistent with the existing literature.[10]

A more detailed examination reveals that, alongside external factors, domestic factors also played an important role in shaping price dynamics in Slovenia over the observation period. During the overheating phase of the economy before the global financial crisis, inflation in Slovenia was higher than in the euro area overall, primarily due to factors in the domestic environment. During the debt crisis, the euro area shocks had the largest impact on price developments, while in the following years domestic price pressures remained muted amid the austerity measures and cuts in public spending. After 2012, the second dip of the recession was followed by a period of low inflation in Slovenia and in the euro area overall. Until mid-2016 price dynamics in Slovenia were largely influenced by external factors, most notably the fall in global oil prices. Similarly, during this period global factors contributed to the pronounced deviation of euro area inflation from its target rate, while the APP bond-buying programme and the associated loosening of the monetary policy stance launched by the ECB in early 2015, had a positive but limited spill-over effects on inflation. Between 2017 and 2019 the inflation shocks from both the domestic and foreign environment were relatively muted, as reflected by the largely unchanged volatility of price developments during this period. Domestic inflationary pressures started to intensify in 2019 in line with the rise in wages and services prices, while the impact of domestic factors on year-on-year inflation in the euro area was weaker compared with Slovenia.

Impact of the pandemic on the structural factors of price developments in Slovenia

The dynamics of price developments during the pandemic were primarily influenced by external factors. Similarly to the euro area overall, in terms of structural factors analysis, last year's negative price pressures in Slovenia can be largely attributed to external factors, as price developments were strongly linked to the cycle of global oil prices. In addition to the fall in global oil prices, deflationary effects also came from the decline in consumer confidence, the inability to spend, the deterioration on the labour market, and precautionary behaviour by consumers, which constitute the domestic deflationary pressures that can be ascribed to the nature of the pandemic shock. Compared to the euro area overall, Slove-

Figure 8.2.4: Historical decomposition of price developments in Slovenia



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

[10] See Bobeica and Jarociński (2017).

nia recorded a longer period of year-on-year falls in consumer prices, which was also more pronounced, mainly due to the more significant energy price deflation. The euro area saw the so-called missing disinflation in the first half of last year, as downward price pressures were relatively limited compared with the decline in economic activity,[11] while in the second half of the year inflation was temporarily pushed downwards amid the profoundly weak service price inflation caused by the stringent containment measures and the cut in indirect taxation aimed at alleviating the impact of the pandemic.

Slovenia was still recording deflation in the first quarter of this year. While external factors have already contributed positively to headline inflation in Slovenia, price pressures were still being weakened by domestic factors, including technical ones. These were mostly attributable to the sharp curtailment of services related to tourism and involving direct contact between the provider and the customer caused by the containment measures, while price developments were also adversely affected by the revised HICP weights for this year's inflation calculation. By contrast, euro area inflation was already being strengthened by domestic factors (of a technical nature and an administrative nature)[12] in the first quarter of this year. After almost half a year of deflation, the rebound was driven primarily by tax changes and by statistical effects reflecting this year's more pronounced change in weighting, as domestic demand has remained weak amid the long-lasting pandemic and the associated containment measures. In Slovenia and in the euro area overall the strengthening upward external pressures on prices are also stemming from higher commodity prices, reflecting the mismatch between supply and demand in the current phase of the economic recovery. The strengthening of price pressures in 2021 in Slovenia and in the euro area overall thus, for the time being, mainly reflects the easing of the deflationary pressures seen in 2020.

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[11] Taken from a speech by Phillip Lane, member of the Executive Board of the ECB (link).

[12] Domestic factors from the perspective of the euro area.

9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2017	2018	2019	20Q3	20Q4	Mar. 21	Apr. 21	May 21
1.1. Claims of the Banka Slovenije	7,143	8,168	10,594	13,549	13,842	17,261	16,849	16,752
1.2. Claims of other MFIs	8,504	8,279	8,342	8,819	9,336	9,662	9,868	9,892
1. Claims on foreign sectors (foreign assets)	**15,647**	**16,447**	**18,936**	**22,368**	**23,179**	**26,923**	**26,717**	**26,644**
2.1. Claims of the Banka Slovenije on central government	6,247	7,165	7,719	10,438	11,805	12,264	12,359	12,710
2.2.1.1. Loans	1,425	1,174	1,048	947	918	844	851	859
2.2.1.2. Securities	3,744	3,763	3,648	3,758	3,602	3,812	3,590	3,705
2.2.1. Claims on central government	5,170	4,937	4,696	4,705	4,520	4,656	4,441	4,564
2.2.2.1. Loans	571	580	602	602	639	638	634	632
2.2.2.2. Securities	0 -		-	-	-	-	-	-
2.2.2. Claims on other general government	571	580	602	602	639	638	634	632
2.2. Claims of other MFIs on general government	5,740	5,517	5,297	5,307	5,159	5,294	5,075	5,196
2.3.1.1. Loans	9,311	9,177	9,290	9,260	9,094	9,355	9,236	9,276
2.3.1.2. Securities	334	319	298	297	270	275	276	278
2.3.1. Claims on nonfinancial corporations	9,645	9,497	9,587	9,557	9,364	9,629	9,512	9,554
2.3.2. Households and non-profit institutions serving households	9,735	10,370	10,981	10,970	10,997	11,028	11,045	11,118
2.3.3.1. Loans	1,171	1,070	1,248	1,245	1,213	1,186	1,191	1,195
2.3.3.2. Securities	395	432	412	411	428	432	432	421
2.3.3. Claims on nonmonetary financial institutions	1,566	1,502	1,661	1,656	1,640	1,619	1,624	1,617
2.3. Claims of other MFIs on other non-MFIs	20,946	21,369	22,229	22,182	22,002	22,276	22,180	22,289
2. Claims on domestic non-MFIs	**32,934**	**34,050**	**35,245**	**37,928**	**38,965**	**39,834**	**39,615**	**40,195**
3. Remaining assets	**1,461**	**1,477**	**1,660**	**1,513**	**1,613**	**1,688**	**1,446**	**1,463**
Total assets	**50,042**	**51,974**	**55,842**	**61,809**	**63,757**	**68,445**	**67,778**	**68,301**
1.1. Banka Slovenije	1,506	63	134	45	51	168	459	613
1.2. Other MFIs	4,436	3,986	4,342	4,466	4,412	4,552	4,556	4,598
1. Obligations to foreign sectors (foreign liabilities)	**5,943**	**4,049**	**4,476**	**4,511**	**4,463**	**4,720**	**5,015**	**5,211**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,371	5,655	5,847	6,256	6,473	6,532	6,567	6,633
2.1.1.2. Overnight deposits at other MFIs	17,727	19,877	21,699	24,374	25,622	26,961	26,981	27,274
2.1.1.3.1. Non-monetary financial institutions	11	76	296	300	327	511	350	374
2.1.1.3.2. Other government sector	107	100	111	154	170	240	235	258
2.1.1.3. Overnight deposits at the Banka Slovenije	118	176	407	454	497	751	585	632
2.1.1. Banknotes and coins and overnight liabilities	23,216	25,708	27,953	31,084	32,593	34,244	34,133	34,539
2.1.2.1. Deposits at the Banka Slovenije	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	6,127	5,727	5,697	5,260	5,107	4,922	4,769	4,697
2.1.2. Time deposits	6,127	5,727	5,697	5,260	5,107	4,922	4,769	4,697
2.1.3. Deposits reedemable at notice up to 3 months	473	492	541	546	524	542	549	543
2.1. Banknotes and coins and deposits up to 2 years	29,816	31,927	34,190	36,891	38,224	39,707	39,452	39,779
2.2. Debt securities, units/shares of money market funds and repos	55	78	55	70	70	53	50	55
2. Banknotes and coins and instruments up to 2 years	**29,871**	**32,006**	**34,246**	**36,961**	**38,294**	**39,761**	**39,502**	**39,834**
3. Long-tern financial obligations to non-MFIs	**1,524**	**1,314**	**1,285**	**1,230**	**1,256**	**1,250**	**1,249**	**1,284**
4. Remaining liabilities	**14,035**	**15,675**	**17,232**	**20,482**	**21,171**	**24,177**	**23,459**	**23,479**
5. Excess of inter-MFI liabilities	**-1,330**	**-1,069**	**-1,396**	**-1,376**	**-1,428**	**-1,463**	**-1,447**	**-1,507**
Total liabilities	**50,042**	**51,974**	**55,842**	**61,809**	**63,757**	**68,445**	**67,778**	**68,301**

Table 9.2: Balance sheet of the Banka Slovenje

EUR million	2017	2018	2019	20Q3	20Q4	Mar. 21	Apr. 21	May 21
1.1. Gold	111	115	138	164	158	147	150	160
1.2. Receivable form IMF	338	372	381	389	405	416	409	407
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	233	1,464	3,661	6,699	6,952	10,303	10,015	9,944
1.5. Securities	6,359	6,114	6,271	6,099	6,103	6,114	5,984	5,944
1.6. Other claims	103	103	142	196	225	281	291	297
1. Claims on foreign sectors (foreign assets)	**7,143**	**8,168**	**10,594**	**13,549**	**13,842**	**17,261**	**16,849**	**16,752**
2.1. Claims on central government	6,247	7,165	7,719	10,438	11,805	12,264	12,359	12,710
2.2.1. Loans	1,142	1,102	995	1,385	1,385	1,406	1,406	1,405
2.2.2. Other claims	98	3	51	85	85	97	95	95
2.2. Claims on domestic monetary sector	1,240	1,105	1,046	1,470	1,470	1,503	1,501	1,500
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**7,489**	**8,271**	**8,767**	**11,911**	**13,277**	**13,769**	**13,862**	**14,212**
3. Remaining assets	**279**	**314**	**396**	**334**	**347**	**531**	**327**	**337**
Total assets	**14,911**	**16,753**	**19,757**	**25,793**	**27,467**	**31,561**	**31,039**	**31,301**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,371**	**5,655**	**5,847**	**6,256**	**6,473**	**6,532**	**6,567**	**6,633**
2.1.1.1.1. Overnight	2,939	3,391	4,348	6,241	7,097	7,710	7,787	7,785
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,939	3,391	4,348	6,241	7,097	7,710	7,787	7,785
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,939	3,391	4,348	6,241	7,097	7,710	7,787	7,785
2.1.2.1.1. Overnight	2,521	3,704	3,120	5,386	5,407	8,366	7,625	7,572
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,521	3,704	3,120	5,386	5,407	8,366	7,625	7,572
2.1.2.2. Foreign currency	56	5	6	6	6	6	7	9
2.1.2. General government	2,577	3,708	3,126	5,391	5,413	8,372	7,632	7,581
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	76	296	300	327	511	350	374
2.1.3. Other domestic sectors	11	76	296	300	327	511	350	374
2.1. Domestic sectors	5,527	7,176	7,770	11,932	12,838	16,593	15,769	15,740
2.2. Foreign sectors	1,506	63	134	45	51	168	459	613
2. Deposits	**7,033**	**7,238**	**7,904**	**11,977**	**12,888**	**16,761**	**16,228**	**16,353**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**256**	**262**	**266**	**260**	**254**	**261**	**257**	**255**
5. Capital and reserves	**1,883**	**1,945**	**2,763**	**3,215**	**3,388**	**3,025**	**2,905**	**2,842**
6. Remaining liabilities	**367**	**1,653**	**2,976**	**4,086**	**4,462**	**4,982**	**5,083**	**5,218**
Total liabilities	**14,911**	**16,753**	**19,757**	**25,793**	**27,467**	**31,561**	**31,039**	**31,301**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2017	2018	2019	20Q3	20Q4	Mar. 21	Apr. 21	May 21
1.1.1. Cash	355	425	432	443	443	455	401	410
1.1.2. Accounts and deposits at the Banka Slovenije, other claims	2,939	3,391	4,348	6,241	6,241	7,097	7,729	7,241
1.1.3. Securities of the Banka Slovenije	-	-	-	-	-	-	-	-
1.1. Claims on Banka Slovenije	3,294	3,817	4,780	6,683	6,683	7,552	8,130	7,652
1.2.1. Loans	873	865	788	714	714	729	723	719
1.2.2. Debt securities	71	18	94	135	135	135	136	135
1.2.3. Shares and other equity	2	1	0	6	8	8	8	8
1.2. Claims on other MFI's	947	883	882	856	872	858	847	884
1.3.1. Loans	22,213	22,371	23,168	23,024	22,861	23,051	22,957	23,080
1.3.2. Debt securities	3,775	3,797	3,674	3,775	3,607	3,814	3,591	3,708
1.3.3. Shares and other equity	698	717	683	690	693	706	707	697
1.3. Claims on nonmonetry sectors	26,687	26,885	27,526	27,490	27,160	27,570	27,255	27,485
1. Claims on domestic sectors (domestic assets)	**30,927**	**31,585**	**33,187**	**35,029**	**35,585**	**36,619**	**36,322**	**36,593**
2.1.1. Cash	35	35	40	45	43	42	41	46
2.1.2. Loans	2,154	1,681	1,640	1,941	1,836	2,002	2,263	2,140
2.1.3. Debt securities	1,333	1,311	1,312	1,558	1,567	1,621	1,640	1,669
2.1.4 Shares and other equity	579	578	578	578	973	973	996	998
2.1. Claims on foreign monetary sectors	4,100	3,605	3,570	4,122	4,419	4,638	4,941	4,853
2.2.1. Loans	899	1,023	1,103	1,208	1,392	1,495	1,448	1,394
2.2.2. Debt securities	3,190	3,346	3,364	3,181	3,257	3,258	3,208	3,373
2.2.3. Shares and other equity	314	305	305	308	268	271	271	272
2.2. Claims on foreign nonmonetary sectors	4,404	4,674	4,772	4,697	4,917	5,024	4,927	5,039
2. Claims on foreign sectors (foreign assets)	**8,504**	**8,279**	**8,342**	**8,819**	**9,336**	**9,662**	**9,868**	**9,892**
3. Remaining assets	**1,015**	**762**	**1,136**	**1,151**	**1,239**	**1,197**	**1,207**	**1,253**
Total assets	**40,447**	**40,626**	**42,666**	**44,999**	**46,161**	**47,479**	**47,396**	**47,738**
1.1.1. Deposits, loans from the Banka Slovenije	1,142	1,102	995	1,385	1,385	1,406	1,406	1,405
1.1.2. Deposits, loans from other MFIs	962	931	917	862	856	877	879	877
1.1.3. Debt securities issued	12	-	16	15	15	15	15	51
1.1. Laibilities to monetary sectors	2,115	2,033	1,928	2,262	2,256	2,298	2,300	2,333
1.2.1.1. Overnight	17,287	19,396	21,191	23,781	25,120	26,400	26,447	26,719
1.2.1.2. With agreed maturity	8,125	7,477	7,418	6,799	6,637	6,412	6,250	6,191
1.2.1.3. Reedemable at notice	548	561	622	632	610	613	623	614
1.2.1. Deposits in domestic currency	25,960	27,434	29,232	31,212	32,368	33,425	33,320	33,524
1.2.2. Deposits in foreign currency	593	626	613	688	682	743	737	773
1.2.3. Debt securities issued	15	15	68	55	55	55	55	74
1.2. Liabilities to nonmonetary sectors	26,569	28,075	29,913	31,955	33,104	34,223	34,112	34,371
1. Obligations to domestic sectors (domestic liabilities)	**28,683**	**30,108**	**31,840**	**34,217**	**35,360**	**36,521**	**36,413**	**36,704**
2.1.1. Deposits	1,627	1,550	1,282	1,618	1,535	1,539	1,547	1,518
2.1.2. Debt securities issued	327	111	428	897	897	896	896	923
2.1. Liabilities to foreign monetry sectors	1,954	1,660	1,710	2,515	2,432	2,435	2,443	2,441
2.2.1. Deposits	1,975	1,693	1,910	1,232	1,261	1,398	1,392	1,392
2.2.2. Debt securities issued	22	22	85	84	84	84	84	127
2.2. Liabilities to foreign nonmonetary sectors	1,997	1,715	1,994	1,315	1,344	1,482	1,476	1,519
2. Obligations to foreign sectors (foreign liabilities)	**3,952**	**3,375**	**3,704**	**3,831**	**3,777**	**3,917**	**3,919**	**3,961**
3. Capital and reserves	**4,904**	**4,886**	**5,097**	**4,868**	**4,946**	**5,004**	**5,051**	**5,077**
4. Remaining liabilities	**2,908**	**2,256**	**2,024**	**2,082**	**2,078**	**2,036**	**2,013**	**1,996**
Total liabilities	**40,447**	**40,626**	**42,666**	**44,999**	**46,161**	**47,479**	**47,396**	**47,738**

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

in % on annual level	2017	2018	2019	2020	Mar. 21	Apr. 21	May 21
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	7.85	7.81	7.77	7.74	7.73	7.73	7.73
Households, extended credit	7.75	7.63	7.52	7.83	7.74	7.74	7.73
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.44	4.65	4.60	4.47	4.63	4.54	4.50
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.92	6.04	6.03	5.89	5.96	5.89	5.92
Loans, households, consumption, over 5 years initial rate fixation	6.20	6.29	6.27	5.98	5.97	5.91	5.98
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.69	3.74	3.26	3.45	3.66	3.50	2.65
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	4.89	5.11	4.37	5.00	3.89	3.12	4.90
C. loans, households, consumption, over 5 year initial rate fixation	5.19	5.06	5.34	5.05	4.56	4.42	5.04
APRC, Loans to households for consumption	7.73	7.64	7.88	7.15	7.43	7.35	7.41
Loans, households, house purchase, floating and up to 1 year initial rate fixation	1.99	1.89	1.81	1.76	1.61	1.56	1.55
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.75	3.22	3.15	2.39	1.85	1.95	1.68
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.65	2.74	2.50	2.00	1.79	1.74	1.70
Loans, households, house purchase, over 10 years initial rate fixation	2.91	2.95	2.70	2.20	1.98	1.91	1.87
C. loans, households, house purchase variabel and up to years initial rate fixation	1.99	1.87	1.84	1.77	1.63	1.55	1.55
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.38	3.01	2.48	2.42	1.97	2.02	1.68
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.34	2.56	2.28	1.85	1.80	1.80	1.70
C. loans, households, house purchase, over 10 years initial rate fixation	2.85	2.89	2.69	2.21	2.00	1.93	1.89
APRC, Loans to households for house purchase	2.77	2.75	2.52	2.36	2.23	2.21	2.20
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.58	3.68	3.82	3.69	3.98	4.07	3.45
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.30	4.78	4.85	4.39	4.41	4.24	4.82
Loans, households, other purposes, over 5 years initial rate fixation	5.35	6.73	6.38	2.94	3.71	5.24	5.56
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	2.41	2.22	2.23	2.26	2.13	2.07	2.19
S.11, extended credit	-	-	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	2.69	2.32	2.30	2.50	2.53	2.43	2.54
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	2.89	2.50	2.68	2.60	2.45	2.57	2.22
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	3.98	3.72	3.91	3.79	3.16	3.18	3.56
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	4.03	4.24	4.70	4.39	3.47	3.66	3.70
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	3.51	4.16	5.18	4.18	3.54	4.01	3.60
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	2.22	4.25	3.84	3.18	3.27	2.12	2.19
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	1.89	2.04	1.91	1.82	1.83	1.92	1.88
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.09	2.09	1.98	2.40	2.08	2.74	2.13
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	1.94	1.87	1.81	2.17	1.59	1.23	1.16
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	-	1.31	1.31	1.60	0.66	2.23	1.84
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	2.57	1.74	1.81	3.09	1.34	1.65	1.58
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	-	-	2.62	1.92	-	1.71
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.23	1.85	1.10	1.42	1.56	1.79	1.66
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.58	1.76	2.81	2.21	1.63	1.91	2.74
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	-	0.75	0.89	0.18	0.40	2.36	0.78
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	1.15	-	0.84	1.56	1.56	0.89	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	-	1.47	1.77	1.72	1.14	1.26	0.97
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	1.88	2.04	2.20	3.03	1.19	1.53	1.95
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.01	0.01	0.01	0.01	0.00	0.00	0.00
Deposits, households, agreed maturity up to 1 year	0.14	0.17	0.18	0.13	0.12	0.12	0.14
Deposits, households, agreed maturity over 1 and up to 2 years	0.51	0.54	0.29	0.21	0.17	0.17	0.16
Deposits, households, agreed maturity over 2 years	0.69	0.89	0.65	0.61	0.54	0.84	0.39
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.04	0.00	0.01	0.00	0.00	0.01	0.01
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.12	0.19	0.09	0.06	0.01	0.01	0.01
Deposits, S.11, agreed maturity over 2 years	0.26	0.19	0.32	0.14	0.06	0.06	0.09
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.00	0.00	0.00	-0.06	-0.09	-0.14	-0.22
Deposits redeemable at notice, over 3 months notice	0.52	0.89	0.93	0.08	0.29	0.39	0.75

Table 9.5: International investment position

EUR million		2017	2018	2019	20Q2	20Q3	20Q4	21Q1
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-10,416**	**-8,689**	**-7,714**	**-8,059**	**-7,814**	**-7,110**	**-4,159**
1	**ASSETS**	**46,608**	**49,355**	**56,014**	**61,248**	**61,249**	**62,450**	**66,436**
1.1	**Direct investment**	**8,328**	**8,825**	**10,256**	**10,373**	**10,314**	**10,534**	**10,853**
1.1.1	Equity	4,345	4,754	5,594	5,728	5,692	5,911	6,000
1.1.2	Debt instruments	3,984	4,071	4,662	4,645	4,622	4,623	4,853
1.2	**Portfolio investment**	**20,660**	**20,618**	**22,449**	**21,985**	**22,718**	**23,607**	**24,310**
1.2.1	Equity and investment fund shares	5,028	4,849	5,723	5,582	5,821	6,373	7,026
1.2.2	Debt securities	15,632	15,769	16,725	16,403	16,897	17,234	17,283
1.3	**Financial derivatives**	**302**	**384**	**562**	**802**	**756**	**675**	**609**
1.4	**Other investment**	**16,575**	**18,712**	**21,843**	**27,067**	**26,430**	**26,564**	**29,562**
1.4.1	Other equity	1,274	1,336	1,378	1,378	1,378	1,381	1,328
1.4.2	Currency and deposits	6,328	7,844	10,633	16,046	15,245	15,359	17,498
1.4.3	Loans	2,431	2,593	2,936	3,050	3,115	3,270	3,426
1.4.4	Insurance, pension and standardized guarantee schemes	148	141	155	161	160	159	164
1.4.5	Trade credit and advances	4,801	5,206	5,212	4,982	5,115	4,921	5,612
1.4.6	Other accounts receivable	1,593	1,593	1,528	1,450	1,416	1,474	1,533
1.5	**Reserve assets**	**743**	**816**	**905**	**1,021**	**1,031**	**1,071**	**1,103**
1.5.1	Monetary gold	111	115	138	161	164	158	147
1.5.2	Special drawing rights	235	242	246	245	239	235	241
1.5.3	Reserve position in the IMF	103	131	136	153	150	171	175
1.5.4	Other reserve assets	294	329	385	461	477	508	540
2	**LIABILITIES**	**57,024**	**58,044**	**63,728**	**69,307**	**69,063**	**69,560**	**70,595**
2.1	**Direct investment**	**16,316**	**17,972**	**19,595**	**19,746**	**19,997**	**20,147**	**20,655**
2.1.1	Equity	12,590	13,905	15,023	15,088	15,280	15,653	15,946
2.1.2	Debt instruments	3,726	4,067	4,572	4,658	4,718	4,494	4,710
2.2	**Portfolio investment**	**21,200**	**20,867**	**21,799**	**25,345**	**24,859**	**24,876**	**25,232**
2.2.1	Equity and investment fund shares	1,085	1,751	2,012	1,706	1,665	1,891	1,921
2.2.2	Debt securities	20,115	19,116	19,787	23,639	23,193	22,985	23,312
2.3	**Financial derivatives**	**81**	**206**	**2,374**	**4,288**	**4,314**	**4,182**	**2,466**
2.4	**Other investment**	**19,428**	**18,999**	**19,961**	**19,928**	**19,893**	**20,355**	**22,241**
2.4.1	Other equity	37	44	42	43	44	43	45
2.4.2	Currency and deposits	3,747	3,226	4,244	4,659	4,772	5,029	5,828
2.4.3	Loans	10,377	10,025	9,840	9,637	9,341	9,423	10,182
2.4.4	Insurance, pension and standardized guarantee schemes	219	228	263	332	366	357	366
2.4.5	Trade credit and advances	4,161	4,602	4,625	4,147	4,234	4,471	4,685
2.4.6	Other accounts payable	630	612	680	844	876	779	875
2.4.7	Special drawing rights	256	262	266	265	260	254	261

Table 9.6: Gross external debt

EUR million		2017	2018	2019	20Q3	20Q4	21Q1	May 21
	TOTAL (1+2+3+4+5)	**43,231**	**42,139**	**44,277**	**47,760**	**47,792**	**50,217**	**49,722**
1	**GENERAL GOVERNMENT**	**21,980**	**21,094**	**21,687**	**25,083**	**24,964**	**26,201**	**24,497**
1.1	**Short-term, of that**	**652**	**732**	**832**	**1,209**	**1,100**	**1,162**	**1,142**
	Debt securities	75	85	19	48	18	88	139
	Loans	273	336	510	627	614	533	454
	Trade credit and advances	35	35	34	41	36	36	44
	Other debt liabilities	269	276	268	493	433	504	504
1.2	**Long-term, of that**	**21,328**	**20,362**	**20,855**	**23,874**	**23,864**	**25,039**	**23,355**
	Debt securities	19,517	18,602	19,171	22,196	22,021	22,287	20,601
	Loans	1,809	1,758	1,681	1,671	1,839	2,749	2,751
2	**CENTRAL BANK**	**3,011**	**2,661**	**3,828**	**4,350**	**4,638**	**5,259**	**5,930**
2.1	**Short-term, of that**	**2,755**	**2,399**	**3,562**	**4,090**	**4,384**	**4,998**	**5,674**
	Currency and deposits	2,755	2,399	3,562	4,090	4,384	4,998	5,671
2.2	**Long-term, of that**	**256**	**262**	**266**	**260**	**254**	**261**	**255**
	Special drawing rights (allocations)	256	262	266	260	254	261	255
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**3,782**	**3,344**	**3,544**	**3,570**	**3,511**	**3,660**	**3,685**
3.1	**Short-term**	**1,058**	**927**	**946**	**922**	**894**	**1,058**	**1,052**
	Currency and deposits	765	669	601	647	618	802	803
	Debt securities	...	...	...	...	...	...	...
	Loans	200	251	310	223	235	217	210
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	92	7	35	53	41	39	39
3.2	**Long-term**	**2,724**	**2,418**	**2,598**	**2,648**	**2,617**	**2,603**	**2,632**
	Currency and deposits	227	159	82	35	27	28	23
	Debt securities	168	88	316	671	672	661	738
	Loans	2,323	2,162	2,196	1,940	1,911	1,909	1,868
	Trade credit and advances	6	7	4	1	6	4	3
	Other debt liabilities	1	1	1	1	1	1	2
4	**OTHER SECTORS**	**10,731**	**10,973**	**10,646**	**10,039**	**10,184**	**10,388**	**10,283**
4.1	**Short-term, of that**	**4,596**	**5,182**	**5,303**	**4,815**	**4,997**	**5,564**	**5,670**
	Debt securities	0	1	2	1	...	...	...
	Loans	281	375	446	401	384	709	696
	Trade credit and advances	4,094	4,540	4,567	4,164	4,399	4,616	4,756
	Other debt liabilities	220	267	288	249	213	239	218
4.2	**Long-term, of that**	**6,135**	**5,791**	**5,343**	**5,224**	**5,188**	**4,825**	**4,613**
	Debt securities	355	340	279	278	275	276	226
	Loans	5,490	5,145	4,698	4,478	4,439	4,065	3,904
	Trade credit and advances	26	17	16	21	26	26	26
	Other debt liabilities	264	289	350	447	448	458	457
5	**DIRECT INVESTMENT: intercompany lending**	**3,726**	**4,067**	**4,572**	**4,718**	**4,494**	**4,710**	**5,328**
	NET EXTERNAL DEBT POSITION	**7,572**	**4,107**	**1,564**	**255**	**-192**	**-1,076**	**-1,512**

Table 9.7: Balance of payments

EUR million	2018	2019	2020	20Q3	20Q4	21Q1	May 21
I. Current account	**2,731**	**2,898**	**3,462**	**797**	**963**	**812**	**143**
1. Goods	**1,272**	**1,311**	**2,366**	**700**	**530**	**553**	**37**
1.1. Export of goods	**30,808**	**32,013**	**29,656**	**7,368**	**8,001**	**8,240**	**2,859**
Export f.o.b.	30,858	33,548	32,925	8,127	8,678	9,415	3,192
Coverage adjustment	-309	-1,928	-3,742	-876	-822	-1,303	-377
Net export of goods under merchanting	238	367	444	109	140	121	44
Nonmonetary gold	21	25	28	7	6	6	0
1.2. Import of goods	**29,535**	**30,702**	**27,290**	**6,668**	**7,471**	**7,686**	**2,823**
Import c.i.f.	30,706	34,082	32,111	7,798	9,126	8,774	3,419
Coverage adjustment	-363	-2,521	-4,128	-960	-1,461	-893	-515
Valuation adjustment	-853	-886	-786	-192	-215	-221	-82
Nonmonetary gold	45	27	92	22	20	26	0
2. Services	**2,624**	**2,907**	**1,996**	**561**	**522**	**479**	**121**
2.1. Export of services, of that	**8,124**	**8,659**	**6,900**	**1,822**	**1,861**	**1,567**	**555**
Transport	2,431	2,512	2,330	563	647	611	207
Travel	2,704	2,843	1,200	497	147	121	58
Construction services	497	592	650	166	185	167	60
Telecomm., computer and inform. services	540	631	659	151	190	147	49
Other business services	1,368	1,451	1,440	309	510	353	127
2.2. Import of services, of that	**5,500**	**5,751**	**4,904**	**1,261**	**1,338**	**1,087**	**434**
Transport	1,107	1,185	1,128	256	338	323	121
Travel	1,483	1,500	718	314	65	43	49
Construction services	177	200	220	56	73	55	24
Telecomm., computer and inform. services	546	606	610	140	178	136	50
Other business services	1,467	1,525	1,528	345	475	353	130
3. Primary income	**-769**	**-811**	**-426**	**-371**	**7**	**-90**	**-44**
3.1. Receipts	**1,633**	**1,758**	**1,645**	**352**	**479**	**469**	**138**
Compensation of employees	486	536	493	127	135	126	36
Investment	802	845	713	192	182	178	64
Other primary income	345	378	439	33	162	164	39
3.2. Expenditure	**2,401**	**2,569**	**2,071**	**722**	**472**	**558**	**182**
Compensation of employees	173	195	169	46	41	40	14
Investment	2,024	2,164	1,710	636	376	454	150
Other primary income	204	211	192	40	54	64	18
4. Secondary income	**-396**	**-509**	**-473**	**-93**	**-96**	**-131**	**29**
4.1. Receipts	**873**	**934**	**972**	**214**	**304**	**288**	**148**
4.2. Expenditure	**1,270**	**1,443**	**1,445**	**306**	**400**	**418**	**119**

Table 9.8: Balance of payments, continued

EUR million	2018	2019	2020	20Q3	20Q4	21Q1	May 21
II. Capital account	**-203**	**-187**	**-226**	**-26**	**-130**	**143**	**-25**
1. Nonproduced nofinancial assets	-24	-24	-63	-4	-93	70	-16
2. Capital transfers	-178	-163	-163	-22	-36	73	-8
III. Financial account	**2,548**	**2,094**	**3,052**	**580**	**970**	**809**	**76**
1. Direct investment	**-934**	**-762**	**266**	**-219**	**543**	**-179**	**-68**
Assets	373	1,157	697	-65	557	308	177
Equity and reinvested earnings	443	676	578	-58	517	88	4
Debt instruments	-70	482	119	-7	40	220	173
Liabilities	1,307	1,919	431	155	14	487	245
Equity and reinvested earnings	1,088	1,697	585	192	231	293	16
Debt instruments	220	223	-154	-37	-217	194	229
2. Portfolio investment	**744**	**734**	**-1,826**	**1,315**	**740**	**-171**	**625**
Assets	492	696	877	570	418	532	232
Equity and investment fund shares	117	-3	456	149	157	288	42
Debt securities	375	699	421	421	261	243	190
Liabilities	-252	-38	2,704	-745	-322	702	-392
Equity and investment fund shares	543	83	-6	-6	11	-17	-2
Debt securities	-795	-121	2,709	-739	-333	719	-390
3. Financial derivatives	**-81**	**-163**	**53**	**5**	**27**	**-18**	**2**
4. Other investment	**2,767**	**2,248**	**4,394**	**-547**	**-402**	**1,164**	**-470**
4.1. Assets	**2,054**	**3,250**	**4,856**	**-696**	**218**	**3,029**	**-116**
Other equity	68	27	4	0	0	0	0
Currency and deposits	1,508	2,811	4,753	-792	121	2,128	-164
Loans	215	438	342	57	165	153	-64
Insurance, pension and stand. guar. schemes	-7	13	1	-1	-2	5	...
Trade credits and advances	303	29	-224	67	-140	672	91
Other assets	-33	-69	-20	-27	74	71	21
4.2. Liabilities	**-713**	**1,002**	**462**	**-150**	**620**	**1,865**	**353**
Other equity	2	2	4	0	3	2	0
Currency and deposits	-524	1,009	800	116	263	788	300
Loans	-491	-149	-409	-325	131	756	-108
Insurance, pension and stand. guar. schemes	20	27	55	6	-9	9	...
Trade credits and advances	331	62	-134	20	297	206	155
Other liabilities	-51	50	146	33	-65	104	6
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**52**	**37**	**166**	**26**	**62**	**13**	**-13**
IV. Net errors and omissions	**20**	**-616**	**-184**	**-191**	**137**	**-146**	**-43**

Table 9.9: Non-consolidated financial assets, outstanding amounts

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector								
Total	197,522	207,364	222,396	224,350	236,707	237,585	244,328	254,697
Monetary gold and SDRs	346	356	385	399	406	404	392	387
Currency and deposits	46,776	51,961	57,573	61,351	69,706	69,197	71,317	78,252
Debt securities	28,530	29,251	30,731	29,706	31,815	33,664	35,209	35,731
Loans	35,974	36,342	37,679	38,746	38,003	37,805	37,527	38,061
Shares	20,218	19,566	20,261	18,560	19,868	19,261	20,401	21,509
Other equity	29,327	32,354	35,838	36,200	36,907	37,221	38,177	38,056
Investment fund shares/units	4,703	4,466	5,736	5,008	5,581	5,835	6,352	7,093
Insurance and pension schemes	8,003	8,073	8,705	8,421	8,751	8,868	9,016	9,215
Other	23,645	24,996	25,489	25,961	25,670	25,329	25,937	26,392
Non-financial corporations								
Total	45,039	47,092	49,088	49,775	49,772	50,184	50,983	52,548
Currency and deposits	7,104	7,523	7,736	8,055	8,406	8,827	9,164	9,758
Debt securities	109	112	111	109	102	130	131	126
Loans	5,510	5,490	6,017	5,950	6,245	6,162	5,860	5,948
Shares	2,367	2,325	2,304	2,182	2,219	2,134	2,211	2,229
Other equity	13,193	14,026	15,051	15,206	15,396	15,357	15,800	15,908
Investment fund shares/units	61	58	209	182	190	205	211	252
Insurance and pension schemes	444	442	453	487	504	500	459	458
Other	16,251	17,117	17,208	17,605	16,710	16,869	17,145	17,869
Monetary financial institutions								
Total	54,397	56,595	61,451	63,165	69,404	69,861	72,729	78,015
Monetary gold and SDRs	346	356	385	399	406	404	392	387
Currency and deposits	8,067	9,327	12,533	13,629	18,691	18,142	19,191	23,358
Debt securities	21,263	21,894	22,654	21,996	23,783	25,389	26,721	27,413
Loans	23,097	23,362	24,225	24,753	24,246	24,209	24,281	24,623
Shares	729	771	690	1,280	1,253	692	1,110	1,120
Other equity	351	383	408	408	419	421	419	433
Investment fund shares/units	5	3	48	56	82	102	131	193
Insurance and pension schemes	40	41	39	39	38	37	35	36
Other	498	457	468	605	486	466	449	453
Other financial institutions								
Total	18,151	18,414	20,167	19,169	20,051	20,248	20,885	21,637
Currency and deposits	1,163	1,188	1,342	1,422	1,330	1,254	1,214	1,316
Debt securities	6,520	6,601	7,223	6,901	7,226	7,446	7,638	7,501
Loans	2,859	2,864	2,729	2,694	2,663	2,630	2,592	2,582
Shares	3,688	3,684	4,057	3,405	3,864	3,845	4,057	4,456
Other equity	686	857	1,027	1,185	1,202	1,226	1,375	1,385
Investment fund shares/units	2,354	2,208	2,706	2,385	2,624	2,758	3,006	3,339
Insurance and pension schemes	199	204	219	265	259	249	233	235
Other	681	809	864	912	883	842	770	823
General government								
Total	30,390	31,972	33,520	34,361	37,093	36,597	37,097	38,380
Currency and deposits	6,729	8,481	8,227	9,952	11,828	11,378	11,194	12,558
Debt securities	416	421	509	489	492	497	515	505
Loans	3,467	3,398	3,415	4,060	3,451	3,369	3,348	3,443
Shares	10,369	9,677	9,935	8,660	9,161	9,181	9,401	9,805
Other equity	5,706	6,009	7,223	7,184	7,488	7,720	8,042	7,622
Investment fund shares/units	302	297	364	325	360	371	394	430
Insurance and pension schemes	16	23	26	25	26	27	26	43
Other	3,386	3,665	3,821	3,665	4,286	4,054	4,177	3,973
Households and NPISHs								
Total	49,545	53,291	58,170	57,881	60,388	60,695	62,635	64,118
Currency and deposits	23,713	25,441	27,735	28,292	29,451	29,596	30,554	31,263
Debt securities	222	222	234	210	212	203	205	187
Loans	1,041	1,227	1,292	1,290	1,398	1,435	1,446	1,464
Shares	3,065	3,109	3,275	3,033	3,371	3,409	3,622	3,900
Other equity	9,391	11,080	12,128	12,217	12,401	12,497	12,541	12,708
Investment fund shares/units	1,981	1,900	2,410	2,060	2,326	2,399	2,609	2,879
Insurance and pension schemes	7,304	7,363	7,968	7,606	7,924	8,056	8,262	8,443
Other	2,830	2,948	3,128	3,174	3,305	3,099	3,396	3,274
Rest of the world								
Total	57,659	58,567	64,306	67,176	70,458	70,676	71,174	72,022
Monetary gold and SDRs	257	263	267	269	265	260	254	261
Currency and deposits	6,292	5,650	6,685	7,005	7,235	7,446	7,865	8,579
Debt securities	20,555	19,516	20,148	21,510	23,922	23,466	23,316	23,468
Loans	10,309	10,345	10,186	10,277	10,448	10,126	10,083	10,835
Shares	5,275	6,428	7,031	6,354	6,631	6,877	7,138	7,322
Other equity	8,451	9,201	10,119	10,314	10,385	10,537	10,665	10,796
Investment fund shares/units	29	29	40	35	39	40	44	61
Insurance and pension schemes	219	228	263	303	332	366	357	366
Other	6,274	6,906	9,566	11,109	11,201	11,558	11,453	10,335

Table 9.10: Non-consolidated liabilities, outstanding amounts

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector								
Total	208,564	216,868	230,602	233,272	245,710	246,766	252,621	259,913
Monetary gold and SDRs	257	263	267	269	265	260	254	261
Currency and deposits	45,557	48,450	52,161	53,502	59,316	59,753	62,326	67,820
Debt securities	33,041	32,629	33,837	34,752	38,995	39,940	40,999	41,639
Loans	41,637	41,864	42,491	43,665	42,925	42,414	41,916	42,971
Shares	21,781	22,332	23,161	21,214	22,425	21,913	22,574	23,491
Other equity	33,274	36,788	40,210	40,749	41,489	42,066	43,036	43,025
Investment fund shares/units	2,572	2,396	3,008	2,548	2,874	2,974	3,231	3,637
Insurance and pension schemes	8,074	8,161	8,813	8,567	8,922	9,075	9,214	9,416
Other	22,371	23,986	26,654	28,005	28,500	28,373	29,070	27,652
Non-financial corporations								
Total	82,830	87,007	89,431	89,023	89,807	89,713	90,287	91,836
Debt securities	1,010	977	732	724	728	716	709	683
Loans	22,797	22,646	22,473	22,871	22,834	22,359	21,780	21,909
Shares	12,784	13,139	13,394	12,594	13,384	13,301	13,496	13,970
Other equity	29,603	32,581	34,848	35,237	35,602	35,991	36,517	36,931
Other	16,636	17,663	17,984	17,597	17,259	17,346	17,785	18,343
Monetary financial institutions								
Total	52,727	55,284	60,634	61,778	67,888	68,475	71,405	76,708
Monetary gold and SDRs	257	263	267	269	265	260	254	261
Currency and deposits	44,669	47,534	51,274	52,632	58,478	58,920	61,477	67,041
Debt securities	377	148	600	728	730	1,067	1,050	1,051
Loans	201	218	236	235	262	262	269	273
Shares	4,875	4,744	4,936	4,433	4,511	4,146	4,334	4,502
Other equity	1,896	1,957	2,797	2,751	3,039	3,253	3,489	3,077
Investment fund shares/units	55	79	56	90	74	71	71	54
Other	397	340	468	639	530	496	461	450
Other financial institutions								
Total	17,508	17,801	19,647	18,586	19,432	19,497	20,068	20,866
Debt securities	113	113	232	199	198	198	193	195
Loans	2,664	2,558	2,590	2,559	2,506	2,446	2,420	2,396
Shares	2,463	2,682	2,911	2,429	2,554	2,464	2,656	2,794
Other equity	1,225	1,511	1,676	1,873	1,953	1,924	2,061	2,062
Investment fund shares/units	2,518	2,317	2,952	2,458	2,800	2,903	3,160	3,583
Insurance and pension schemes	8,074	8,161	8,813	8,567	8,922	9,075	9,214	9,416
Other	449	459	472	501	499	487	364	419
General government								
Total	42,109	42,588	46,113	49,229	53,972	54,244	56,066	55,627
Currency and deposits	888	916	887	870	837	833	849	780
Debt securities	31,540	31,390	32,272	33,101	37,339	37,958	39,047	39,711
Loans	4,301	4,083	4,189	5,027	4,430	4,295	4,391	5,278
Shares	1,659	1,767	1,920	1,758	1,975	2,001	2,087	2,225
Other equity	550	738	888	889	896	898	970	956
Other	3,172	3,694	5,958	7,584	8,494	8,260	8,721	6,679
Households and NPISHs								
Total	13,391	14,187	14,777	14,657	14,610	14,837	14,796	14,876
Loans	11,674	12,358	13,004	12,974	12,893	13,053	13,057	13,115
Other	1,716	1,829	1,773	1,683	1,717	1,784	1,739	1,761
Rest of the world								
Total	46,617	49,063	56,099	58,254	61,455	61,494	62,881	66,806
Monetary gold and SDRs	345	356	384	398	406	403	392	387
Currency and deposits	7,512	9,161	12,097	14,854	17,625	16,891	16,856	19,011
Debt securities	16,044	16,138	17,042	16,463	16,743	17,191	17,527	17,560
Loans	4,645	4,823	5,374	5,357	5,525	5,516	5,693	5,925
Shares	3,712	3,663	4,131	3,700	4,075	4,225	4,965	5,341
Other equity	4,504	4,767	5,748	5,765	5,802	5,692	5,805	5,827
Investment fund shares/units	2,159	2,099	2,768	2,495	2,747	2,901	3,165	3,517
Insurance and pension schemes	148	141	155	157	161	160	159	164
Other	7,548	7,916	8,400	9,065	8,371	8,515	8,320	9,074

Table 9.11: Net financial assets

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector	-11,042	-9,504	-8,206	-8,922	-9,002	-9,181	-8,293	-5,216
Non-financial corporations	-37,791	-39,915	-40,343	-39,248	-40,035	-39,528	-39,304	-39,289
Monetary financial institutions	1,670	1,311	817	1,387	1,516	1,386	1,324	1,307
Other financial institutions	643	612	520	583	619	751	817	772
General government	-11,719	-10,616	-12,594	-14,868	-16,880	-17,648	-18,969	-17,248
Households and NPISHs	36,155	39,104	43,394	43,225	45,777	45,858	47,839	49,242
Rest of the world	11,042	9,504	8,206	8,922	9,003	9,182	8,293	5,216

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

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector								
Total	6,035	7,732	8,406	13,561	19,957	18,600	20,134	25,020
Monetary gold and SDRs	43	1	1	1	0	0	0	0
Currency and deposits	1,074	5,144	5,555	10,380	17,150	14,972	13,831	16,963
Debt securities	2,373	1,030	606	251	1,415	2,708	3,837	5,532
Loans	652	824	1,994	2,498	1,045	699	198	-396
Shares	111	-863	-658	-137	184	288	772	882
Other equity	223	572	654	613	556	368	633	618
Investment fund shares/units	256	101	216	311	342	339	477	738
Insurance and pension schemes	146	165	305	247	230	281	223	291
Other	1,156	759	-266	-603	-965	-1,054	163	393
Non-financial corporations								
Total	2,100	1,442	1,024	821	568	920	1,690	2,314
Currency and deposits	733	425	229	527	1,022	1,016	1,427	1,694
Debt securities	-18	21	-14	-9	-33	-6	1	-3
Loans	-51	44	587	254	307	296	-67	28
Shares	73	41	-179	10	95	104	87	90
Other equity	134	285	533	542	521	344	304	299
Investment fund shares/units	15	1	-31	-31	-22	-20	20	35
Insurance and pension schemes	6	-8	8	24	17	33	17	-31
Other	1,208	632	-109	-495	-1,338	-846	-98	201
Monetary financial institutions								
Total	2,840	2,521	4,354	6,858	11,889	11,929	11,227	15,259
Monetary gold and SDRs	43	1	1	1	0	0	0	0
Currency and deposits	-505	1,251	3,195	5,144	10,031	9,080	6,693	9,750
Debt securities	2,403	837	131	-43	1,070	2,351	3,568	5,194
Loans	947	526	1,132	1,322	477	165	141	-10
Shares	-24	-13	-71	387	379	397	826	394
Other equity	46	23	-31	-23	9	9	9	20
Investment fund shares/units	-1	1	40	47	54	61	70	97
Insurance and pension schemes	2	1	-2	-2	-4	-4	-4	-3
Other	-71	-106	-41	25	-128	-130	-75	-181
Other financial institutions								
Total	94	272	527	617	547	599	469	726
Currency and deposits	-92	36	131	20	-121	-103	-102	-82
Debt securities	10	137	415	274	356	352	275	348
Loans	29	38	-32	-40	-14	-37	-94	-73
Shares	44	-8	-210	62	134	194	184	234
Other equity	-9	9	42	53	45	57	69	64
Investment fund shares/units	105	36	124	183	183	167	224	361
Insurance and pension schemes	11	4	16	45	33	25	14	-30
Other	-5	18	40	19	-68	-57	-101	-97
General government								
Total	-819	974	-446	2,509	3,605	2,136	2,785	2,506
Currency and deposits	-319	1,733	-287	2,486	3,594	2,588	2,984	2,618
Debt securities	-26	11	86	41	33	20	7	11
Loans	-315	18	220	894	117	84	46	-534
Shares	-39	-929	-194	-599	-467	-466	-442	9
Other equity	-6	19	38	2	1	1	0	1
Investment fund shares/units	11	16	3	16	14	-6	13	6
Insurance and pension schemes	0	-2	2	-3	-9	-9	-5	18
Other	-124	108	-314	-328	320	-76	182	377
Households and NPISHs								
Total	1,819	2,524	2,947	2,757	3,348	3,016	3,962	4,215
Currency and deposits	1,257	1,698	2,288	2,204	2,624	2,391	2,828	2,983
Debt securities	4	23	-11	-12	-11	-9	-15	-18
Loans	43	198	86	68	157	191	173	193
Shares	57	46	-5	3	42	60	118	155
Other equity	59	236	72	40	-20	-43	252	234
Investment fund shares/units	126	47	79	96	114	136	149	239
Insurance and pension schemes	127	170	281	183	193	236	201	337
Other	147	106	158	175	249	54	256	93
Rest of the world								
Total	58	513	2,190	4,431	5,930	4,639	4,256	5,097
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	63	-647	1,020	1,344	1,273	1,328	1,196	1,576
Debt securities	45	-581	-520	1,785	4,014	2,836	2,511	1,740
Loans	-1,724	-242	-247	-58	-104	-625	-242	510
Shares	273	860	843	354	148	80	89	131
Other equity	705	781	756	782	804	757	704	646
Investment fund shares/units	-1	0	0	0	0	1	2	12
Insurance and pension schemes	5	20	27	27	32	30	55	24
Other	692	321	311	198	-238	232	-59	458

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

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector								
Total	4,240	5,516	5,806	11,172	18,213	16,946	18,034	23,131
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,205	2,847	3,670	6,118	11,181	10,810	10,239	14,368
Debt securities	-152	154	-465	2,029	5,464	5,286	6,017	6,419
Loans	-973	340	1,094	1,889	561	-287	-396	-431
Shares	195	-104	130	127	215	151	168	209
Other equity	747	949	805	798	813	782	1,231	1,158
Investment fund shares/units	29	5	86	108	101	134	150	296
Insurance and pension schemes	146	191	319	268	253	304	277	310
Other	1,043	1,133	169	-165	-374	-235	350	803
Non-financial corporations								
Total	1,665	1,455	978	416	114	29	282	987
Debt securities	93	-12	-251	-245	-21	-53	-38	-47
Loans	-503	-133	226	235	-95	-432	-617	-801
Shares	202	6	61	59	117	97	122	132
Other equity	710	825	773	764	795	741	1,180	1,108
Other	1,164	769	168	-398	-680	-324	-364	596
Monetary financial institutions								
Total	2,642	2,356	4,225	6,807	11,510	11,540	10,776	14,720
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,127	2,824	3,701	6,138	11,198	10,845	10,270	14,454
Debt securities	-418	-229	454	582	339	679	467	338
Loans	1	17	18	6	45	45	33	38
Shares	-9	-110	67	67	98	61	58	101
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	-44	25	-10	29	13	15	16	-35
Other	-15	-171	-5	-15	-182	-105	-68	-176
Other financial institutions								
Total	21	192	604	499	388	409	211	489
Debt securities	-8	1	119	90	56	56	-35	-4
Loans	-251	-89	47	77	13	-83	-152	-145
Shares	2	0	0	1	1	-7	-12	-24
Other equity	37	109	31	34	18	41	51	49
Investment fund shares/units	74	-20	96	79	88	119	134	330
Insurance and pension schemes	146	191	318	267	253	304	277	310
Other	22	-1	-10	-52	-43	-22	-53	-28
General government								
Total	-789	654	-645	2,996	5,925	4,762	6,676	6,643
Currency and deposits	78	23	-34	-22	-19	-35	-32	-86
Debt securities	181	395	-787	1,602	5,090	4,604	5,622	6,133
Loans	-915	-211	107	1,034	295	-86	208	258
Shares	0	0	1	0	0	0	0	0
Other equity	0	15	0	0	0	0	0	0
Other	-132	433	68	382	558	278	878	338
Households and NPISHs								
Total	700	858	645	454	276	207	89	291
Loans	696	755	696	538	303	268	132	219
Other	5	103	-52	-83	-27	-62	-42	72
Rest of the world								
Total	1,853	2,730	4,789	6,819	7,674	6,293	6,356	6,986
Monetary gold and SDRs	43	1	1	1	0	0	0	0
Currency and deposits	-2,068	1,650	2,905	5,606	7,242	5,489	4,789	4,171
Debt securities	2,570	295	551	7	-35	258	331	853
Loans	-98	242	653	550	381	361	352	545
Shares	189	96	55	90	117	218	693	804
Other equity	182	409	605	597	548	343	106	106
Investment fund shares/units	226	96	130	203	241	206	329	454
Insurance and pension schemes	5	-7	13	6	9	6	1	5
Other	804	-52	-124	-240	-829	-588	-246	48

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

mio EUR	2017	2018	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
Domestic sector	1,795	2,217	2,600	2,389	1,744	1,655	2,100	1,889
Non-financial corporations	434	-13	46	405	454	891	1,408	1,327
Monetary financial institutions	198	165	129	51	379	389	452	539
Other financial institutions	73	80	-77	117	159	190	259	237
General government	-30	319	199	-487	-2,320	-2,625	-3,892	-4,138
Households and NPISHs	1,119	1,666	2,303	2,302	3,072	2,810	3,873	3,924
Rest of the world	-1,795	-2,217	-2,600	-2,389	-1,744	-1,655	-2,100	-1,889

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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