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Table of contents

Figures, tables and boxes:

Figures:

Tables:

Boxes:

Executive Summary

Global economic growth slowed in the first half of this year, while the medium-term outlook also deteriorated. Rising trade and political tensions have seen global trade and industry get progressively weaker, and growth in investment also declined. Economic growth in the euro area was low in the second quarter, and the survey indicators suggest that the adverse developments continued in the third quarter. The World Trade Organisation sharply reduced its forecast for this year's growth in global trade, to just 1.2%, while the better outlook for 2020 is contingent on trade tensions easing. The OECD is forecasting a slowdown in global economic growth to around 3.0% over the medium term, while GDP growth in the euro area is expected to barely exceed 1%. With the German economy struggling, the outlook for growth in foreign demand for Slovenian products deteriorated again in September. Within the ECB, we responded to the worsening situation by a set of measures, which include cutting the deposit interest rate, introducing a new TLTRO and announcing a new asset purchase programme. Due to increased uncertainty and low economic growth in the euro area, the euro has continued to gradually depreciate against the US dollar: it was down around 4% in year-on-year terms by mid-October.

The worsening international environment has begun to significantly affect the Slovenian economy. According to the national accounts figures published in September, GDP was merely unchanged in quarterly terms in the second quarter, while the available monthly activity figures and the survey indicators suggest that growth in the third quarter was also rather weak. Growth in industrial production was low over the summer months. It was mostly driven by high-tech sectors, most notably pharmaceuticals. In July, construction activity stagnated in year-on-year terms, as government investment stagnated as well over the summer months. The figures for growth in volume turnover in a number of service sectors were however relatively favourable in July, which coincided with a further rise in exports of services and, at least judging by the relatively high wage growth, the continuation of robust private consumption. The economic climate is gradually cooling; in September, this was mainly attributable to a decline in consumer confidence, although, contrastingly, firms have slightly raised their demand expectations in recent months, at least overall.

The relatively high wage growth and stagnation in productivity raised growth in unit labour costs to significantly above the euro area average. Year-on-year growth in employment is slowing, but remains high relative to economic growth. The survey indicators of employment expectations suggest that this trend will continue at least until the end of the year. The number of people registered as unemployed fell below the 70,000 mark in September, and was down 5.3% in year-on-year terms. Nominal year-on-year growth in the average gross wage increased to 5.2% in July, among the highest rates of the last decade. Real wage growth was also relatively high, which supports domestic demand, but is not in line with changes in productivity. As in the euro area overall, productivity growth has been stagnating since the final quarter of last year. Because wage growth is signifi-

cantly above the euro area average, growth in unit labour costs is also already deviating notably from the euro area average, as has been the case in the Baltic states, Cyprus, Slovakia and, in part, Germany.

The 12-month current account surplus remains in excess of 5% of GDP. Nominal growth in merchandise imports and exports remains high this year, but only if current figures for trade in pharmaceutical products with Switzerland are taken into account. If trade with Switzerland is excluded, merchandise exports in August would actually be down slightly in year-on-year terms according to the balance of payments figures, while growth in imports would be negligible. Increased imports from Switzerland are the only reason that the merchandise trade surplus narrowed over the first eight months of the year in year-on-year terms. The situation in services exports remains favourable: there was no significant change in growth compared with last year. The surplus of trade in services is thus continuing to widen. Changes in income are having a negative impact on the current account position, albeit primarily because of increased payments of own resources into the EU budget.*

After rising in August, inflation slowed to 1.7% in September. The slowdown was partly the result of a negative contribution by energy prices, and smaller contributions from food price inflation and from non-energy industrial goods, the latter after the spike seen in August. Year-on-year service price inflation rose to 3.7%, in line with expectations amid numerous price rises. Core inflation excluding energy, food, alcohol and tobacco stood at 2.3% in September, 1.3 percentage points higher than the euro area average. Slovenia's relatively high core inflation is attributable to domestic inflation factors, which is confirmed by analysis of the GDP deflator, which is a broader metric of price developments in the economy than the HICP. The largest factor in its increased growth in the first half of the year was the rise in unit labour costs, while the rising profit rate was also a factor in the first quarter. By contrast, domestic inflationary pressures are being eased by the year-on-year fall in import prices seen since June, which has been most pronounced in the energy category, in line with the developments in oil prices.

The government sector is still maintaining a surplus, but macroeconomic risks are increasing. The surplus over the 12 months to June amounted to 0.6% of GDP, as year-on-year growth in general government expenditure in the first half of the year slightly outpaced growth in general government revenues and nominal economic growth. Of the major aggregates, the fastest increase was in investment expenditure, while the largest contributions to growth in expenditure came from employee compensation and social benefits. The tax break for annual leave allowance slowed the growth in general government revenues. The interest burden is declining for the fourth consecutive year. The general government debt stood at 67.7% of GDP at the end of June, having fallen in nominal terms and as a ratio to GDP since the end of last year. The rise in macroeconomic risks demands caution in the planning and pursuit of fiscal policy, including the preparation of the budgets for 2020 and 2021 and other fiscal measures. Slovenia's general government debt is declining, but remains above the benchmark of 60% of GDP. Demographic developments also present a challenge to the public finances.

** There is a high probability of a significant revision in these figures, and with them certain other macroeconomic statistics.*

Main macroeconomic indicators

	2016	2017	2018	18Q4	19Q1	19Q2	2016	2017	2018	18Q4	19Q1	19Q2
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	3.1	4.8	4.1	3.8	3.3	2.5	1.9	2.5	1.9	1.4	1.1	1.0
- industry	4.7	7.7	3.6	2.6	2.8	3.4	3.0	3.4	1.9	-0.1	-0.4	-1.5
- construction	-3.4	8.3	8.0	6.2	14.9	7.6	1.6	2.5	3.5	3.8	4.4	3.0
- mainly public sector services	2.3	2.1	1.6	1.6	1.7	1.4	1.6	1.6	1.0	1.0	1.0	1.1
- mainly private sector services	3.3	5.8	4.5	4.3	3.8	2.9	1.8	2.7	2.2	1.5	1.2	1.0
Domestic expenditure	3.0	4.2	4.7	5.0	2.7	4.2	2.4	2.1	1.5	2.0	1.2	1.1
- general government	2.5	0.3	3.2	4.0	3.9	1.0	1.8	1.5	1.1	1.0	1.3	1.7
- households and NPISH	4.4	2.3	3.4	4.1	2.3	3.3	2.0	1.6	1.4	1.3	0.9	1.3
- gross capital formation	-0.5	13.8	9.6	8.6	2.5	9.2	3.9	4.1	2.4	4.7	2.2	-0.2
- gross fixed capital formation	-3.7	10.4	9.4	7.1	10.0	6.9	4.0	3.5	2.3	4.3	3.9	2.4
- inventories and valuables, contr. to GDP growth in pp	0.6	0.7	0.2	0.3	-1.3	0.6	0.0	0.1	0.0	0.1	-0.3	-0.6
Labour market												
Employment	1.8	3.0	3.2	3.1	2.9	2.6	1.4	1.6	1.5	1.4	1.4	1.2
- mainly private sector services	1.7	3.1	3.4	3.4	3.1	2.8	1.4	1.7	1.6	1.4	1.4	1.1
- mainly public sector services	2.1	2.5	2.1	1.9	1.6	1.5	1.3	1.3	1.2	1.2	1.3	1.2
Labour costs per employee	3.1	3.0	3.9	3.8	4.3	5.7	1.3	1.6	2.2	2.2	2.2	2.1
- mainly private sector services	2.5	3.0	4.1	3.9	3.8	5.4	1.3	1.6	2.2	2.2	2.4	2.1
- mainly public sector services	5.2	3.1	3.5	3.5	4.1	4.9	1.3	1.6	2.0	2.1	1.7	2.0
Unit labour costs, nominal*	1.8	1.2	3.0	3.1	3.8	5.9	0.8	0.7	1.7	2.1	2.4	2.2
Unit labour costs, real**	1.0	-0.3	0.8	1.2	1.5	3.0	-0.1	-0.3	0.5	0.6	0.9	0.6
	in %											
LFS unemployment rate	8.0	6.6	5.1	4.4	4.8	4.2	10.0	9.1	8.2	7.9	8.1	7.5
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	4.8	6.1	5.7	5.7	5.5	5.3	3.1	3.2	2.9	2.9	2.8	2.7
External trade balance as contr. to GDP growth in pp	0.4	1.0	-0.2	-0.8	0.8	-1.3	-0.4	0.5	0.5	-0.5	0.0	0.0
Real export of goods and services	6.5	10.8	6.6	6.5	7.9	9.4	3.0	5.4	3.5	2.3	3.0	1.8
Real import of goods and services	6.7	10.7	7.7	8.2	7.7	12.3	4.2	4.8	2.8	3.7	3.4	2.0
Financing	*in % of GDP*											
Banking system's balance sheet	99.3	94.0	88.6	88.6	88.8	88.9	276.2	261.2	257.2	257.2	266.1	269.2
Loans to NFCs	22.5	21.8	20.6	20.6	20.5	20.2	37.9	37.0	36.6	36.6	36.5	36.7
Loans to households	21.1	21.5	21.8	21.8	21.7	21.8	49.5	49.5	49.2	49.2	49.1	49.2
Inflation	*in %*											
HICP	-0.2	1.6	1.9	2.0	1.3	1.7	0.2	1.5	1.8	1.9	1.4	1.4
HICP excl. energy, food, alcohol and tobacco	0.7	0.7	1.0	1.2	1.6	1.8	0.8	1.0	1.0	1.0	1.0	1.1
Public finance	*in % of GDP*											
Debt of the general government	78.7	74.1	70.4	70.4	68.1	67.7	89.2	87.0	85.1	85.1	85.9	...
One year net lending/net borrowing of the general government***	-1.9	0.0	0.8	0.8	0.6	0.6	-1.6	-1.0	-0.5	-0.5	-0.6	...
*- interest payment****	3.0	2.5	2.0	2.0	1.9	1.8	2.1	2.0	1.9	1.9	1.8	...
*- primary balance****	1.1	2.5	2.8	2.8	2.5	2.4	0.6	1.0	1.3	1.3	1.2	...

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

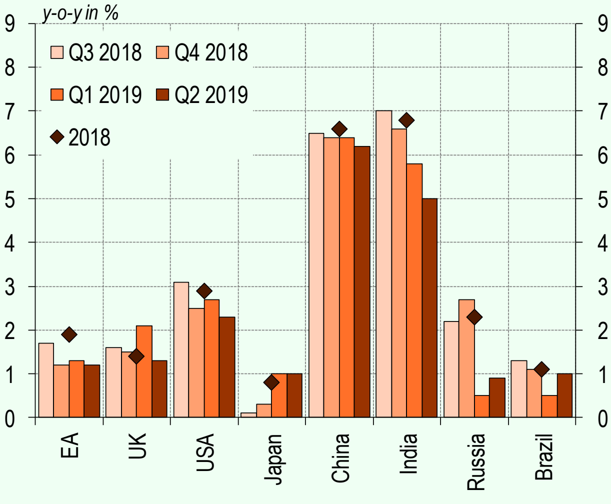
1 International Environment

Global economic growth slowed in the first half of this year, as rising trade and political tensions saw global trade and industry get progressively weaker, and growth in investment also slowed. The World Trade Organisation sharply reduced its forecast for this year's global economic growth to just 1.2%, while the outlook for 2020 is better, but is contingent on trade tensions easing. The OECD is forecasting a slowdown in global economic growth to around 3.0% over the medium term, while GDP growth in the euro area is forecast to barely exceed 1.0%. Year-on-year economic growth in the euro area again slowed slightly in the second quarter. Judging by the survey figures, the economic situation deteriorated further in the third quarter: the economic sentiment indicator fell to its lowest level since the beginning of 2015, while the manufacturing PMI declined again, and the services PMI declined sharply. With the German economy struggling, the outlook for growth in foreign demand for Slovenian products deteriorated again in September. The Fed responded to the situation by lowering its key interest rate for the second time this year, while within the ECB we responded by a set of measures, which include cutting the deposit interest rate, introducing a new TLTRO and announcing a new asset purchase programme. The euro has stood at around USD 1.10 since early September, its lowest level since May 2017. The price of Brent crude, which has stood at around USD 60 per barrel over the last two months, was down fully 30% in year-on-year terms in early October.

Global economy

GDP growth slowed in the second quarter in a number of major economies. Year-on-year GDP growth in the US stood at 2.3% in the second quarter, down 0.4 percentage points on the previous quarter, and the lowest figure of the last two years. After rising in the first quarter, year-on-year economic growth in the UK slowed again to 1.3% in the second quarter, as a result of a decline in gross investment caused by growing uncertainty in the international environment. Falling activity in manufacturing and in construction drove a sharp decline in year-on-year economic growth in India, which stood at 5.0% in the second quarter, down 3 percentage points on

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



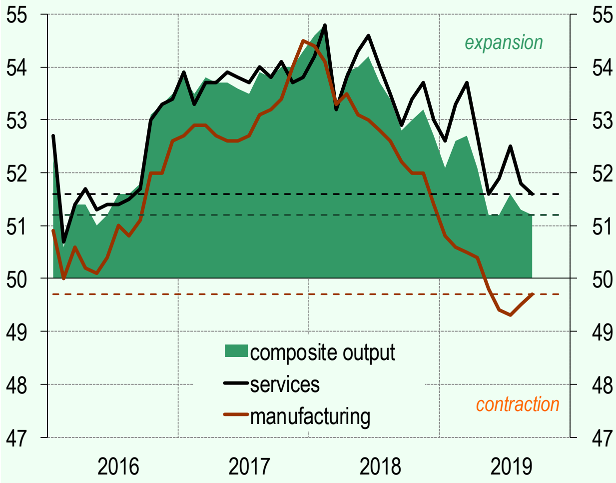
Source: IMF, Tradingeconomics.

a year earlier and the lowest figure since the first quarter of 2013. The Chinese economy expanded by 6.2% in year-on-year terms in the second quarter, 0.2 percentage points less than in the first quarter and the lowest figure in almost three decades. The main factor was trading tensions. Economic growth in Russia and Brazil remained weak in the second quarter. Despite strengthening private consumption, the negative contribution by net trade saw year-on-year economic growth in Japan remain at the level of the first quarter.

The PMI points to weak growth in the global economy in the third quarter. The JP Morgan Global Composite PMI stabilised in the third quarter as the decline in the manufacturing PMI came to an end, while the situation in services is expected to remain relatively favourable. The ifo World Economic Climate was down on the second quarter, as the assessments of the current economic situation and the economic expectations both declined, while investors are expecting weaker private consumption and lower investment.

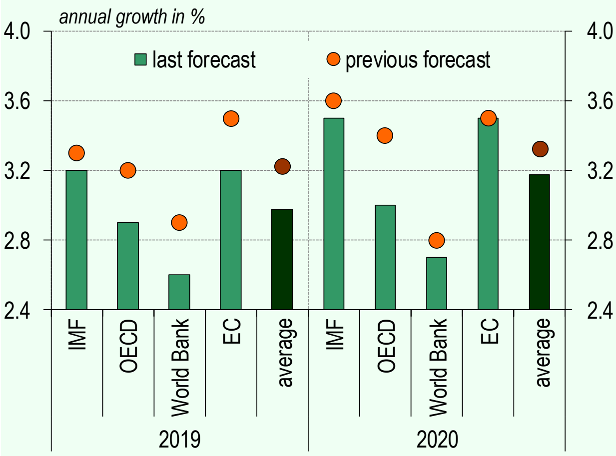
The medium-term forecasts for global economic growth are being lowered. The OECD is forecasting a slowdown in global economic growth to around 3.0% over the medium term, significantly below the average over the last three decades. This is attributable to weakening global trade, weaker growth in investment, and the adverse economic climate driven by growing uncertainties in the international environment. According to the World Trade Organisation's latest forecasts from October, growth in global trade is expected to reach just 1.2% this year, significantly less than the previous projections. Provided that trade tensions ease, growth is forecast to strengthen to 2.7% in 2020, but even this figure has been revised downwards. The OECD has revised its forecasts for this year's economic growth downwards for most major economies, while also significantly lowering its forecasts for 2020 for the first time. GDP growth in the US is forecast to slow to 2.0% in 2020 as the support from fiscal easing gradually fades, down significantly on the figure of 2.9% recorded in 2018. Given the growing uncertainty surrounding Brexit, economic growth is expected to remain weak in the UK, and to average just 1% in 2019 and 2020. The euro area saw a particularly large downward

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



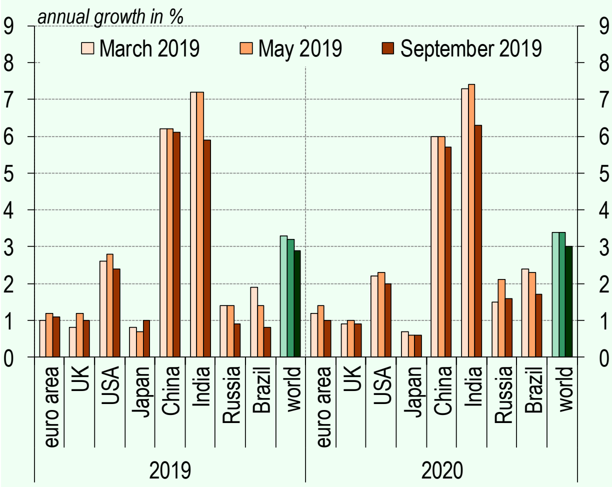
Note: Dashed line represents the value of the last observation.
Source: Bloomberg.

Figure 1.3: Global GDP growth forecasts for 2019 and 2020



Note: Included forecasts are the following: IMF (July 2019, April 2019), OECD (September 2019, May 2019), World Bank (June 2019, January 2019), European Commission (May 2019, November 2018).
Source: IMF, OECD, World Bank, European Commission.

Figure 1.4: OECD forecasts of GDP growth in major developed countries and BRIC for 2019 and 2020



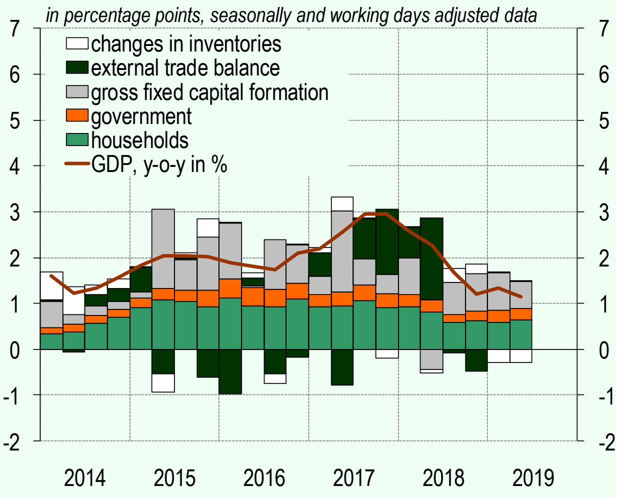
Source: OECD Economic Outlook.

revision in its forecast for 2020, by 0.4 percentage points to just 1.0%, with notable cuts in the economic growth forecasts for Germany. Only the BRIC countries are forecast to see economic growth strengthen in 2020 relative to 2019. The exception is China, for whom the OECD is forecasting growth to slow to 5.7%, down 0.3 percentage points on the previous projections, on account of lower growth in investment and exports.

Euro area

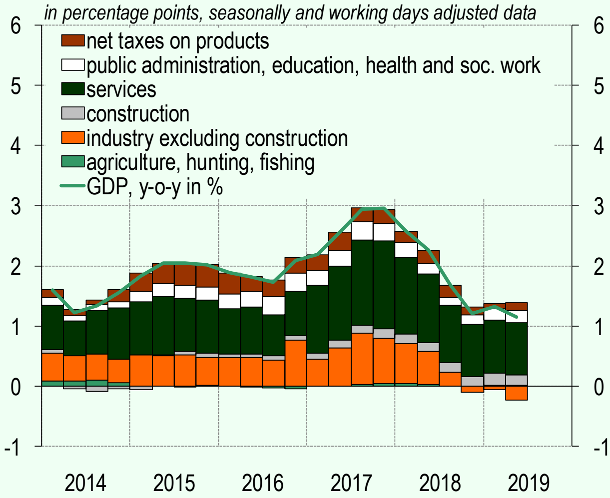
Economic growth in the euro area slowed further in the first half of 2019. Year-on-year growth in the euro area was already slowing in the second half of 2018, and in the first half of this year slumped to its lowest level of the last six years. According to seasonally and calendar adjusted figures, GDP in the second quarter was up only 1.2% in year-on-year terms, while quarterly growth stood at just 0.2%. This was attributable to the decline in value-added in manufacturing caused by falling foreign demand. On the expenditure side, the largest contributions to year-on-year GDP growth continued to come from private consumption and gross fixed capital formation, although the contribution of the latter was smaller than in the first quarter. This was primarily attributable to lower growth in construction investment, which has coincided with the slowdown in year-on-year growth in value-added in construction after the first quarter of this year.

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



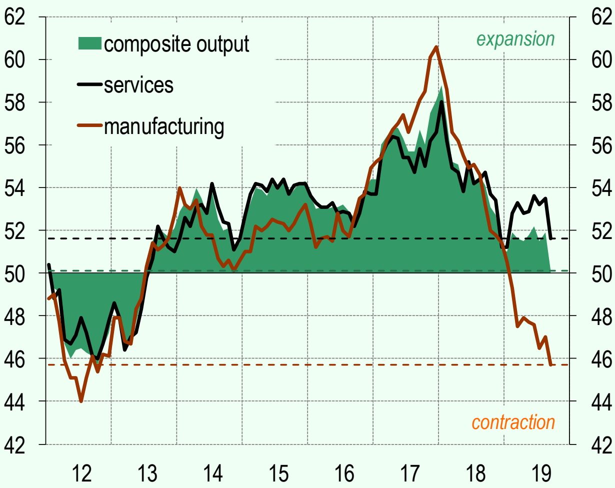
Source: Eurostat, Bank of Slovenia calculations.

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



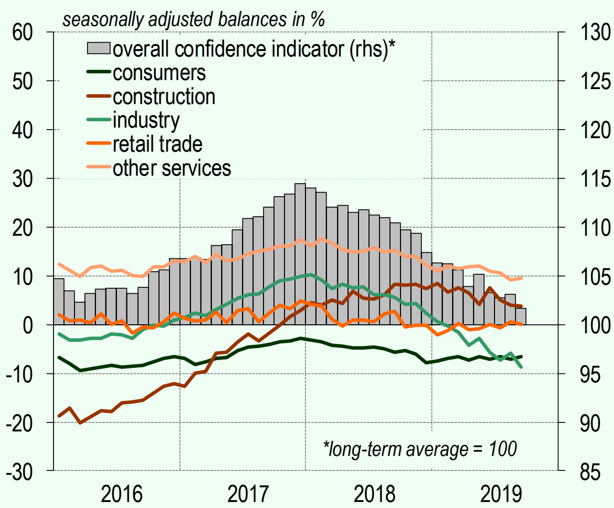
Source: Eurostat, Bank of Slovenia calculations.

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



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

Figure 1.8: Confidence indicators – euro area



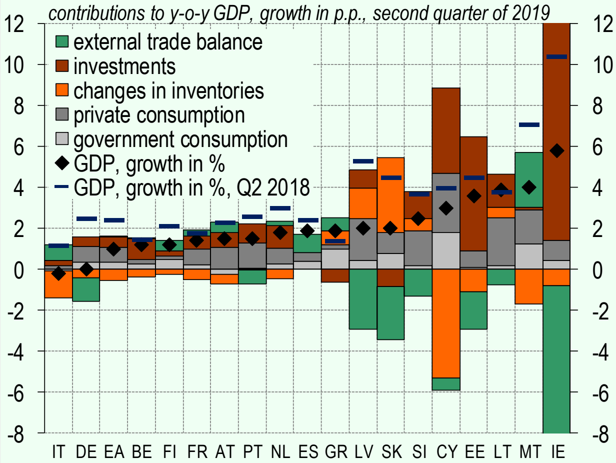
Source: Eurostat.

Box 1.1: Illustration of differences in economic growth between euro area countries in the second quarter of this year

GDP growth is slowing in the vast majority of euro area countries, but the economic situation varies greatly from country to country. The gap between the weakest growth in the euro area (Italy) and the highest growth (Ireland) stood at 6 percentage points in the second quarter of this year, according to original figures. The average growth in the euro area does not reflect the actual situation in the vast majority of euro area countries: 16 of them recorded slightly higher growth than the average, while just two were below average, but they are two of the largest economies in the euro area. GDP in Italy was down 0.2% in year-on-year terms, while GDP in Germany was unchanged. This is also the reason that average growth in the euro area stood at just 1%, according to the original figures. Slovenia was ranked just sixth, with economic growth of 2.5%. The highest rates of growth continue to be recorded by the less advanced economies, with the exception of Ireland, where reporting by multinationals has a profound impact on the national accounts figures. Year-on-year economic growth has slowed significantly over the last year in the majority of euro area countries. The slowdown was most evident in Ireland, Latvia, Malta, Slovakia and Germany. Growth in Slovenia declined by 1.2 percentage points, 0.2 percentage points less than average decline in the euro area.

The differences in the structure of growth are also indicative of the great heterogeneity between euro area countries.[1] Nine countries for which the figures are available recorded a negative contribution by net trade, including Germany, which reflects the disparity between the weakness of global trade and the growth in domestic demand. There were significant negative contributions in Latvia, Slovakia, Estonia, Slovenia, Germany and, in particular, Ireland. In Slovenia the negative contribution by net trade reduced year-on-year GDP growth by 1.3 percentage points, but the contribution by the change in inventories was positive (in the amount of 0.6 percentage points), which is only the case for four other euro area countries. The largest negative contribution to economic growth by the change in inventories was recorded by Cyprus. Gross fixed capital formation was up in year-on-year terms in all euro area countries other than Greece and Slovakia, although dynamics varied greatly. The largest contribution to GDP growth by gross fixed capital formation was again recorded by Ireland, followed by the less advanced economies of Estonia and Cyprus. Slovenia was ranked in the top half according to this measure, with a contribution of 1.3 percentage points. Slovenia also recorded one of the highest rates of growth in private consumption: it stood at 1.7 percentage points, 1.2 percentage points less than in Cyprus, which recorded the highest figure. In contrast to the first quarter, no euro area country recorded a decline in private consumption. The contribution to GDP growth by government consumption was low in Slovenia, at just 0.2 percentage points, but similar to levels seen in six other euro area countries. Italy and Austria were the only countries with negative contributions by government consumption. The largest contribution to GDP growth by government consumption was recorded by Cyprus, followed by Malta and, after a fall in the first quarter, Greece.

Figure 1: Economic growth in euro area member states

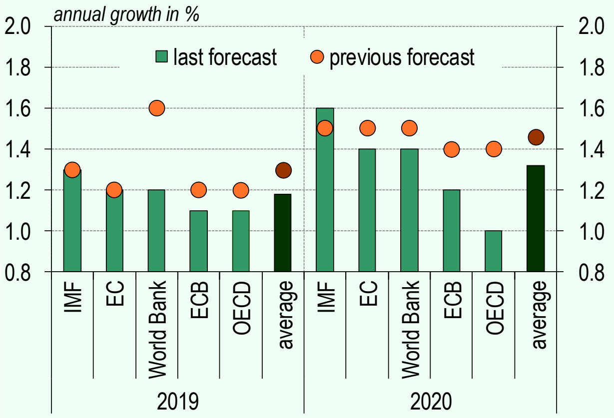


Note: The full contributions to IE GDP are not shown in the graph due to better visibility of other data.
Source: ECB, Eurostat.

[1] Detailed figures for Luxembourg were not available by 11 October.

The survey indicators for the third quarter show the possibility of stagnation. An indication of very low growth in the euro area in the third quarter comes from the composite PMI, which in September reached its lowest value since June 2013, primarily on account of lower growth in services activity. Falling demand brought a contraction in manufacturing activity for the eighth consecutive month, at the highest rate in almost seven years. The economic sentiment in the euro area also declined sharply, and has now approached the levels seen in early 2015. This was primarily attributable to a significant decline in the industry confidence indicator, where the pro-

Figure 1.9: Euro area GDP growth forecasts for 2019 and 2020



Note: Included forecasts are the following: IMF (July 2019, April 2019), European Commission (July 2019, May 2019), World Bank (June 2019, January 2019), ECB (September 2019, June 2019), OECD (September 2019, May 2019).
Source: IMF, European Commission, World Bank, ECB, OECD.

Figure 1.10: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2019 and 2020

Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (August 2018–July 2019; 21 trading partners with a total share of 87.4%). The growth forecasts for the years 2019 and 2020 are weighted with the share of each country in the total exports of goods. For 2018 the weighted outcome and the December weighted forecast are shown.
Source: SORS, Consensus, Bank of Slovenia calculations.

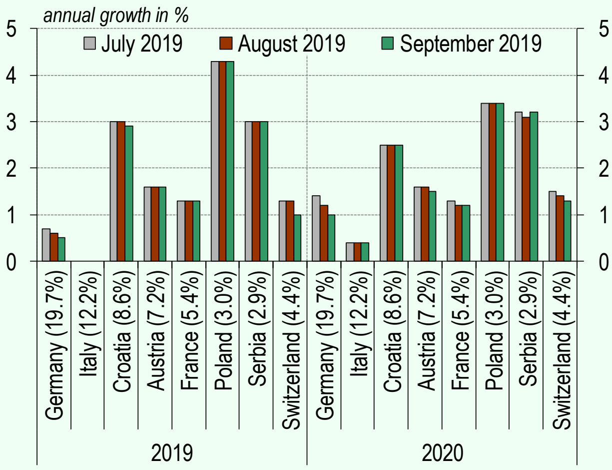
duction expectations indicator fell to its lowest level since May 2013. In September the construction confidence indicator declined to its lowest level since December 2017, while private-sector services confidence was also down on the second quarter, as retail firms and firms in other service segments became more pessimistic with regard to the evolution of demand in the final quarter of this year. At the same time consumers are expecting unemployment to rise, while the employment expectations indicators also declined, particularly in industry.

The growth forecasts for the euro area are being lowered. According to the latest ECB and OECD forecasts from September, growth in the euro area is expected to stand at just 1.1% in 2019, as a result of the weaker growth in exports and investment caused by rising political and trade tensions. The GDP growth forecasts for 2020 are significantly lower than the previous projections. The OECD is forecasting growth of just 1%, while the ECB is expecting growth to strengthen to 1.2% in 2020 and 1.4% in 2021 as foreign demand gradually recovers.

Slovenia's trading partners

The weighted economic growth forecasts for Slovenia's main trading partners for 2019 and 2020 have declined significantly. After a slightly better outlook for growth in foreign demand for Slovenian products in the second quarter, the weighted economic growth forecast

Figure 1.11: Forecasts of GDP growth in the eight largest Slovenian trading partners for 2019 and 2020



Note: Shares of the trading partners in total goods exports of Slovenia in the last twelve months (August 2018–July 2019) are found in parentheses.
Source: Consensus, SORS, Bank of Slovenia calculations.

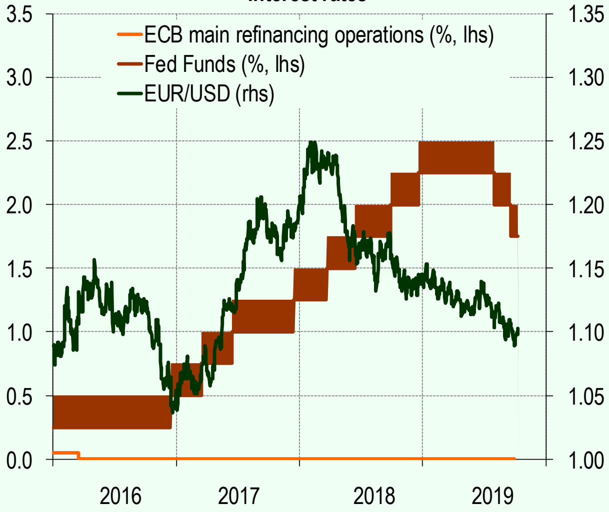
for 2019 was reduced again in September, and the outlook for 2020 is also significantly worse. The main reason is the significantly lower growth forecast for Germany. Consensus is forecasting growth of just 0.5% in Germany this year, down 0.3 percentage points on its forecast from the second quarter, and growth of 1% in 2020. In light of the lower growth in foreign demand, high indebtedness and political tensions, Consensus has revised its growth forecasts for Italy downwards to 0.0% in 2019 and 0.4% in 2020. Weaker growth in the second quarter also saw it cut its growth forecasts for Austria, to 1.6% in 2019 and 1.5% in 2020. Relative to the end of the second quarter, there was again a significant improvement in the outlook for the two years for Hungary, which was still recording relatively high economic growth in the second quarter. Consensus is forecasting GDP growth of 4.5% this year, up 0.3 percentage points on its June forecasts, and growth of 3.1% in 2020. It also raised its growth forecast for Poland for 2019 to 4.3%, as a result of the persistently robust economic growth in the second quarter driven by the strengthened private consumption brought by the buoyant labour market. It significantly raised the forecasts for both years for Romania, where economic activity is expected to increase by 4.1% this year, up 0.4 percentage points on the June forecasts.

Euro exchange rate and commodity prices

The Fed cut its key interest rate at its September meeting, while within the ECB we also announced a package of other stimulus measures. The Fed cut its key interest rate by 0.25 percentage points for the second time this year, to a range of 1.75% to 2.00%. The ECB cut the interest rate on the deposit facility by 10 basis points to -0.50%, and announced that it would hold the key interest rates at or below existing levels until inflation converges on its target. This was the first cut since March 2016. At the same time it introduced increased remuneration for part of banks' holdings of excess reserves, and changed the modalities of the new third series of targeted longer-term refinancing operations (TLTRO III). As of November it will resume net purchases under the asset purchase programme (APP) at a monthly pace of EUR 20 billion. The increased uncertainty and low economic growth in the euro area mean that the euro has been gradually depreciating against the US dollar since June: by mid-October it was down around 4.1% in year-on-year terms.

Oil prices have stabilised after the attack on the oil complex in Saudi Arabia. The price of Brent crude has stood at around USD 60 per barrel over the last two months, down fully 30% in year-on-year terms. The fall in oil prices reflects the expectations of slowing global economic growth and increased inventories of crude in the US, while there is also a strong base effect in the year-on-year fall. Other commodity prices were down in year-on-year terms in September, most notably industrial commodities, which were down 7.2%, while food prices were up just under 1%.

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



Source: ECB, Federal Reserve.

Figure 1.13: Oil prices

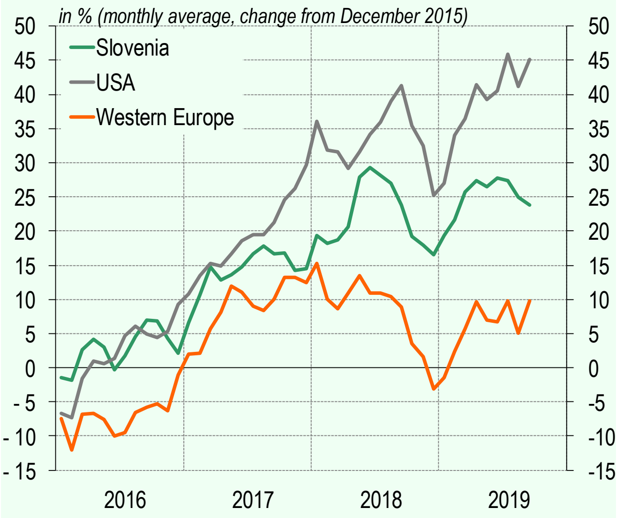
Source: Bloomberg, Bank of Slovenia calculations.

International capital markets

Stock markets rose slightly in the third quarter. The positive trend on foreign stock markets came to an end in August as there was a renewed rise in risk from the trade dispute between China and the US, slowing global economic growth and the increasing possibility of a no-deal Brexit. Fresh support for further rises in stock markets over the remainder of the third quarter came indirectly from the central banks (the ECB and the Fed) as they lowered interest rates, and from the ECB's confirmation of the resumption of net asset purchases under the APP. The rise in share prices in the latter half of the third quarter was driven by the UK prime minister being blocked from forcing through a no-deal Brexit, and the easing of tensions between China and the US. The market risks inherent in high valuations on stock markets remain high, particularly given the build-up of geopolitical risks and the slowdown in economic growth.

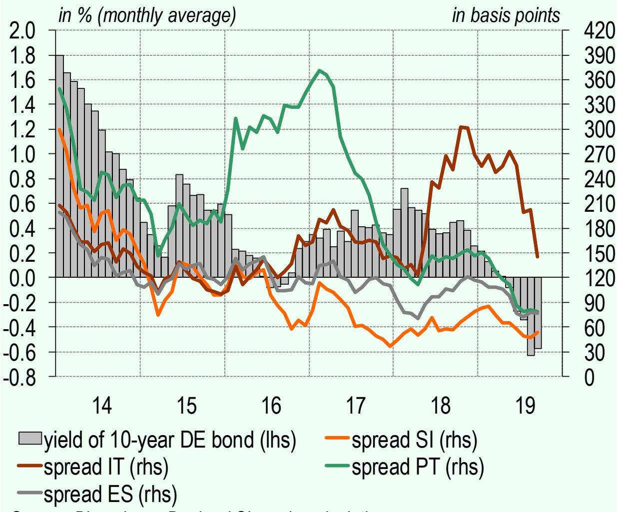
Expectations of further ECB measures fuelled a further fall in the required yields on government bonds in the euro area. The spreads on 10-year bonds in the higher-risk euro area countries also converged. The required yield on 10-year German government bonds averaged -0.63% in August, a record low. Given the fall in the required yields on higher-grade bonds, the quest for higher returns means that pressure is growing to move into higher-risk forms of investment, such as lower-grade bonds and bonds with longer maturities.

Figure 1.14: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.15: Spreads on selected 10-year government bonds as compared to Germany



Source: Bloomberg, Bank od Slovenia calculations.

Box 1.2: Current economic situation and medium-term economic growth forecasts for Germany

Economic growth in Germany is slowing sharply. Year-on-year GDP growth was already slowing sharply in the second half of 2018, and reached 0.9%, down 2.3 percentage points on its peak in the second half of 2017. It was even weaker in the first half of 2019. According to the seasonally and calendar adjusted figures, it stood at just 0.4% in the second quarter, the lowest figure of the last six years, while GDP was actually down 0.1% on the first quarter. This was attributable to the decline in value-added in manufacturing caused by falling foreign demand. The main factor on the expenditure side in the year-on-year decline in growth was the negative contribution by net trade. This was largely attributable to weak exports to the UK after the build-up of inventories there in the first quarter before the run-up to Brexit, which was originally scheduled for the end of March. Growth in private consumption remained solid at least until the second quarter, and with it growth in value-added in services, as the labour market conditions remained relatively favourable. Year-on-year growth in value-added in construction also remained solid, in line with investment activity.

The survey indicators point to a further deterioration in the situation in the second half of the year. A further fall in GDP in the third quarter is suggested by the composite PMI, which fell below the 50 mark for the first time since April 2013. September saw the ninth consecutive month of contraction in manufacturing activity according to the PMI, at the fastest rate in more than ten years. In contrast to previous months, growth in services activity is also thought to have slowed sharply. The economic sentiment declined again, and in September fell below its long-term average for the first time since June 2013. The main decline was in the industrial confidence indicator, which has been declining sharply since the beginning of 2018, as the production expectations indicator reached the values seen at the end of 2012. Given the contraction in foreign demand and declining orders, there was a sharp increase in the proportion of firms in German industry that have introduced reduced working hours, according to ifo. Confidence at firms in construction and other private-sector services in September was down significantly on the first half of the year, while retail firms became more pessimistic with regard to demand in the final quarter of this year. Consumer confidence declined in line with these indicators, as consumers expected a deterioration in the economic situation and a rise in unemployment. Evidence that the weakening economy is already hitting the labour market also comes from ifo's employment barometer, which in the third quarter fell to its lowest level since the final quarter of 2014. This was primarily attributable to a decline in the indicator for manufacturing, although there was also a relatively sharp decline in the indicator for services, the largest quarterly decline since the first quarter of 2009. These developments are reducing Germany's economic growth forecasts, as the adverse situation in industry is already spreading to other parts of the economy.

Given the cooling economy and the uncertainty in the international environment, the medium-term forecasts for economic growth in Germany are also being sharply reduced. Consensus has been lowering its growth forecast for this year since the end of last year, and lowered its forecast for 2020 for the first time in the third quarter of this year. It is forecasting growth in Germany of just 0.5% this year and 1% in 2020, down 1.2 percentage points and 0.6 percentage points respectively from the forecasts before they began being lowered. The OECD is also predicting significantly lower economic growth in 2020 in its latest forecasts, from September. It cites declining foreign demand, falling orders and the further contraction in industrial production as factors in its decision to cut the growth forecast to just 0.6%, half of the previous figure.

There are also pronounced downside risks for Germany's economic growth, particularly in the export sector. In its May forecasts the OECD highlighted the growing downside risks in connection with worsening trade disputes, particularly the imposition of tariffs by the US on German cars and parts, and a no-deal Brexit. A sharper slowdown in the Chinese economy is also thought to be a significant downside risk for economic growth. These risks were partly realised over the summer, as growth in industrial production in China slowed to its lowest level of the last 17 years, and the risk of a no-deal Brexit increased progressively. This is increasing the possibility that long-lasting problems in industry will hit the German labour market harder, which would have an adverse impact on the already-low economic growth, given that sectors that are largely dependent on domestic demand would also be affected.

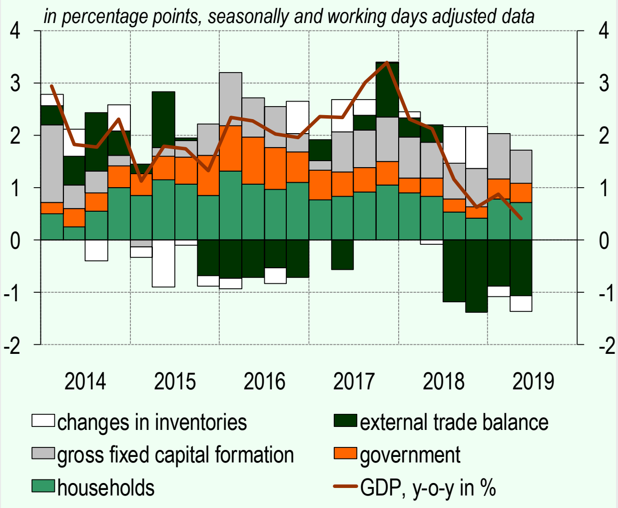
References:

The current economic situation in Germany. Monthly Report. Deutsche Bundesbank, August 2019.

The current economic situation in Germany. Monthly Report. Deutsche Bundesbank, September 2019.

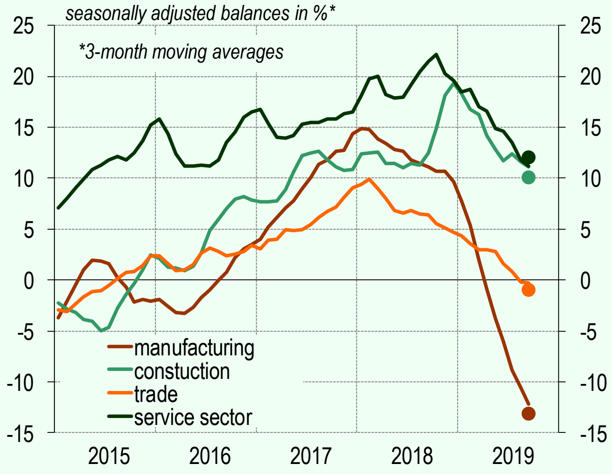
OECD Interim Economic Outlook. OECD, September 2019.

Figure 1: Structure of GDP growth in Germany, demand side



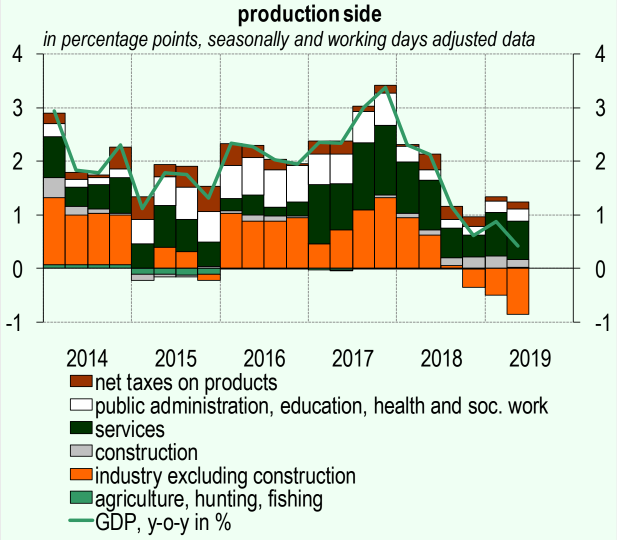
Source: Eurostat, Bank of Slovenia calculations.

Figure 4: Ifo employment barometer for Germany



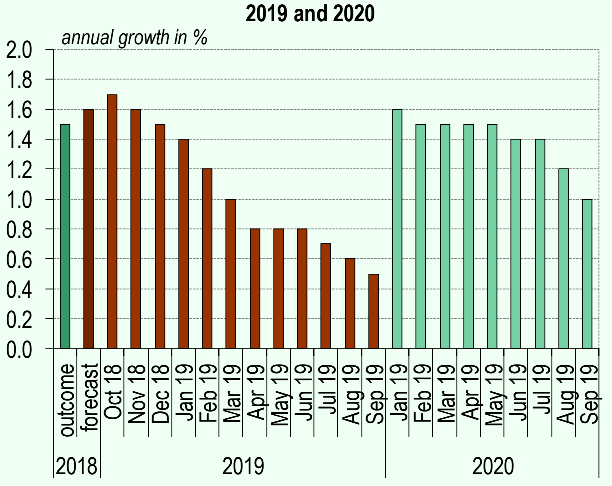
Note: The dots represent data points for September 2019 without moving averages.
Source: Ifo institute, Bank of Slovenia calculations.

Figure 2: Structure of GDP growth in Germany, production side



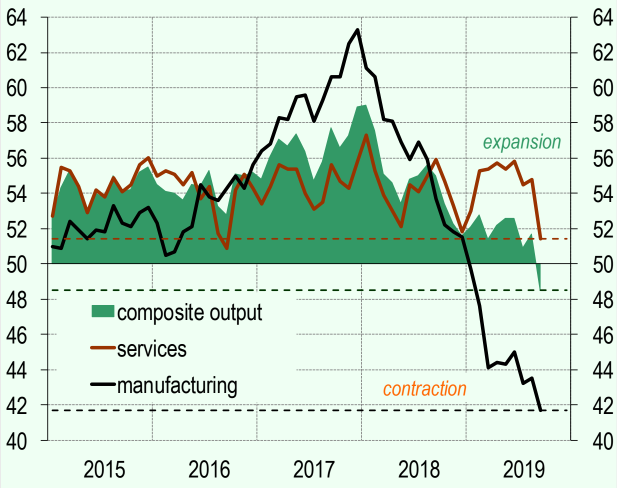
Source: Eurostat, Bank of Slovenia calculations.

Figure 5: Germany GDP growth forecasts by months for 2019 and 2020



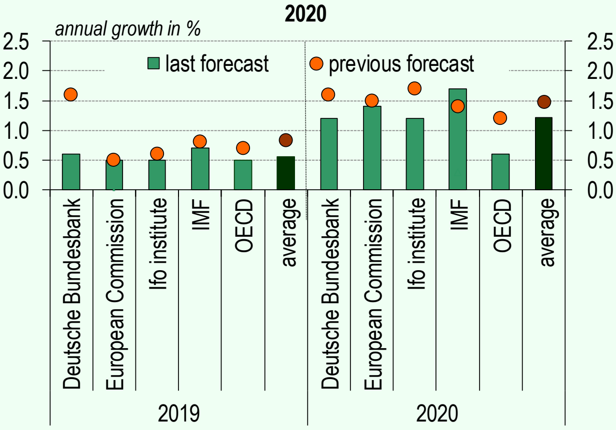
Note: For 2018 the weighted outcome and the December weighted forecast are shown.
Source: Consensus, Bank of Slovenia calculations.

Figure 3: Purchasing Managers' Index (PMI) – Germany



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

Figure 6: Germany GDP growth forecasts for 2019 and 2020



Note: Included forecasts are the following: Deutsche Bundesbank (June 2019, December 2018), European Commission (July 2019, May 2019), Ifo (September 2019, June 2019), IMF (July 2019, April 2019), OECD (September 2019, May 2019).
Source: Deutsche Bundesbank, European Commission, Ifo institute, IMF, OECD.

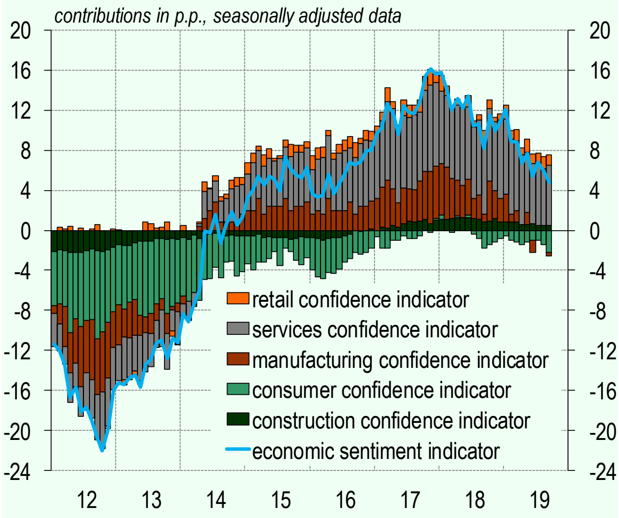
2 Economic Developments

Economic growth in Slovenia slowed more sharply than expected. According to the currently published figures, GDP in the second quarter was unchanged in quarterly terms, while year-on-year growth slowed to 2.5%. The figures currently available for the third quarter mostly show the continuation of relatively weak growth. Compared with the situation in international trade and in European industry, the structure of growth in value-added in the second half of the year was surprising, as manufacturing recorded relatively high growth. Real growth in merchandise exports was also surprisingly high at the same time. In both cases, there is a major effect from the performance of pharmaceutical firms. Private-sector services were the main factor in the lower growth in the first half of this year. The main factor on the expenditure side was progressively weaker growth in investment in machinery and equipment, which has coincided with low assessments of growth in foreign demand by manufacturing firms. Growth in industrial production was low over the summer months. It was mostly driven by high-tech sectors, most notably pharmaceuticals, while August also saw a strongly positive contribution from car manufacturing. The amount of construction put in place in July was unchanged in year-on-year terms, while growth in turnover in private-sector services increased. The economic sentiment is continuing to cool, primarily because of declining consumer confidence in September, and confidence at export-oriented firms remains significantly lower than at firms mostly dependent on domestic demand.

Confidence indicators

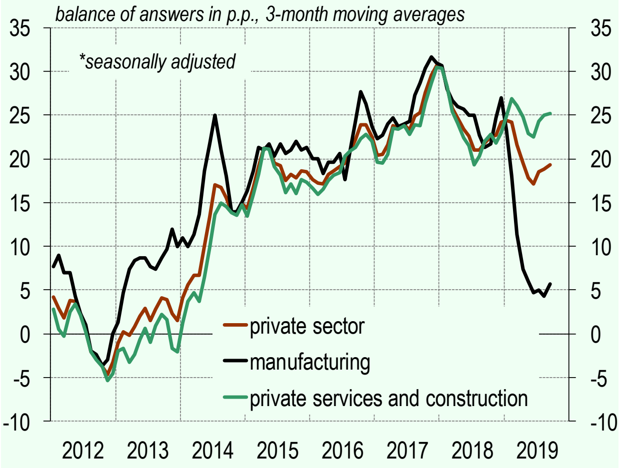
September's decline in the economic sentiment indicator was driven by falling consumer confidence, while firms, by contrast, have slightly raised their assessments of demand expectations in recent months. According to the SORS survey, consumer confidence fell to its lowest level since November 2016, as consumers gave worse assessments of the future economic situation and the labour market in particular. In contrast to consumers' mood, there was no significant change in confidence among private-sector firms in September, although a gap again appeared between the low assessments of current demand and the higher assess-

Figure 2.1: Economic sentiment indicator for Slovenia



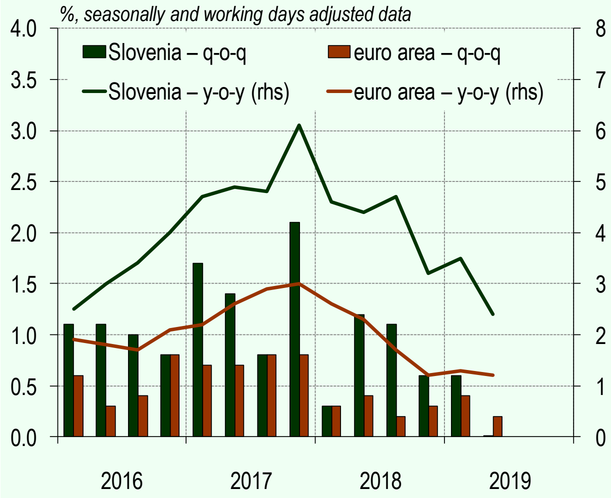
Source: SORS, Bank of Slovenia calculations.

Figure 2.2: Expected demand in the next three months*



Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.

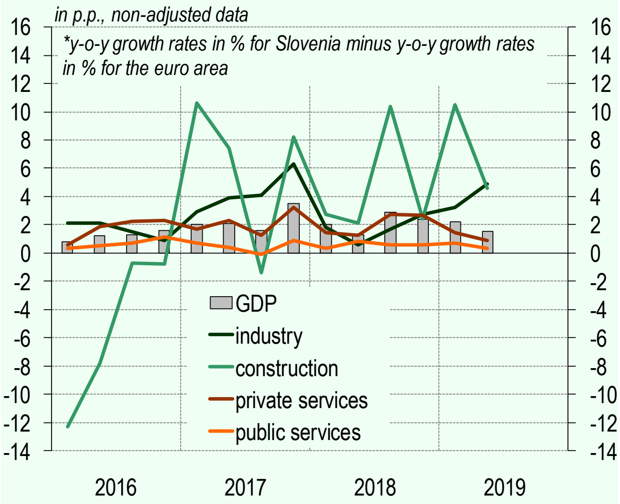
Figure 2.3: Comparison of GDP growth rates between Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

ments of the evolution of demand over the rest of the year. It is mainly manufacturing and construction firms that are currently assessing demand as weak. The remainder of the year is expected to be slightly more favourable. The decline in the export expectations indicator in manufacturing, which had been hit hardest by the deterioration in the euro area economy, came to an end. The low proportion of manufacturing firms citing the uncertain economic situation as a limiting factor in output was also surprisingly low. It stood at 9% in the third quarter, up merely 4 percentage points in year-on-year terms, and significantly below its inter-crisis level. Firms in other sectors have in fact slightly raised their assessments of the evolution of demand in recent months, at least overall.

Figure 2.4: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, production side*



Source: Eurostat, Bank of Slovenia calculations.

GDP – output side

Year-on-year economic growth slowed significantly in the second quarter. GDP was actually unchanged from the previous quarter, under the negative influence of taxes and a quarterly decline in value-added in agriculture, construction and certain services. Economic growth was outpacing the euro area average only in the year-on-year comparisons. The year-on-year rate stood at 2.5%, 1.5 percentage points more than the euro area average, but 0.8 percentage points less than in the first quarter, according to original figures. The gap by which year-on-year growth in value-added is outpacing the euro area average narrowed in private-sector services, public services and construction. Recent years have seen great volatility in the growth rate in construction, largely in connection with public investment. According to the currently published figures, year-on-year growth in value-added in industry strengthened significantly. It reached 3.4% in the second quarter, while in the euro area overall the contraction deepened to 1.5% in the second quarter.[1]

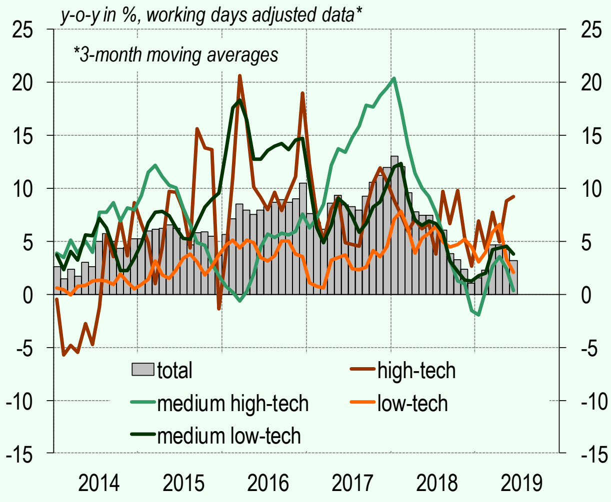
Growth in value-added in industry strengthened, despite the worsening situation in European industry. Quarterly growth in value-added averaged 0.8% over the

[1] The figures disclosed in this section may differ slightly from the official figures of the statistical offices because of rounding.

first and second quarters, while the year-on-year rate stood at 3.4% in the second quarter, according to original figures. The rate reached fully 4.4% in manufacturing, the highest figure since the first quarter of 2018. These developments are in contrast to the situation in the euro area and across the EU, where the number of Member States with falling value-added in industry increased in the second quarter. The developments were particularly good compared with Germany, where the year-on-year decline in value-added in industry stood at 4.6%. According to the currently published figures, the higher growth in activity in Slovenia is primarily attributable to rising output in high-tech sectors, including pharmaceuticals and the manufacture of computer, electronic and optical products. The situation in other categories of manufacturing was mostly less favourable, particularly in the medium-high technology sectors, where year-on-year growth in output stood at just 0.4% after calendar adjustment. This category includes certain manufacturing sectors that are closely linked to the European car industry.

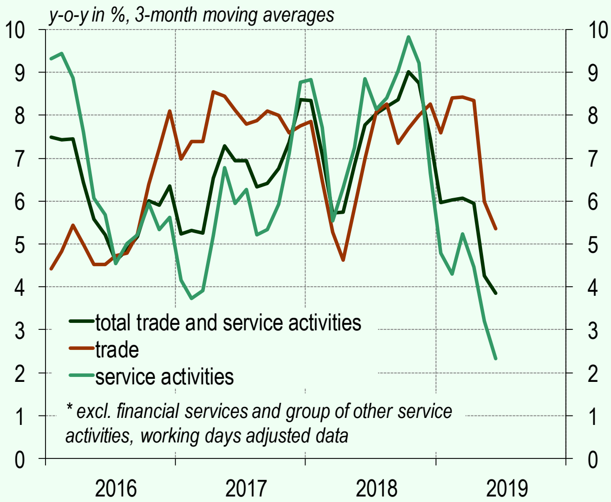
Growth in services activity has slowed significantly this year. Year-on-year growth in value-added in private-sector services stood at just 2.6% in the second quarter. A slowdown was seen in various service segments. Judging by the monthly indicators, growth in turnover in the trade and repair of motor vehicles and motorcycles declined sharply, which coincided with a fall in the number of new motor vehicle registrations. Growth in turnover in furniture, domestic appliances and construction materials declined, which could partly be related to the gradual fall in the number of transactions in residential real estate. Growth in turnover in accommodation and food service activities also slowed sharply, but cannot be attributed to the number of arrivals and overnight stays by travellers, which was up in year-on-year terms in the second quarter, while growth in domestic private consumption also strengthened. Professional, scientific and technical activities also saw a sharp slowdown. Growth in turnover in transportation and storage remained solid, which most likely was largely attributable to the domestic market, as growth in exports of these services slowed relative to last year. Growth in value-added in public services remained low, in line with growth in employment in the sector.

Figure 2.5: Production in manufacturing according to technological intensity



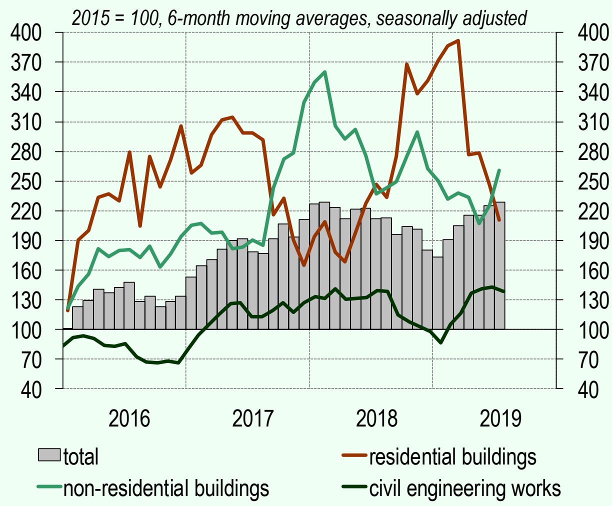
Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Volume turnover in trade and other private sector services*



Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Real value of new contracts in construction



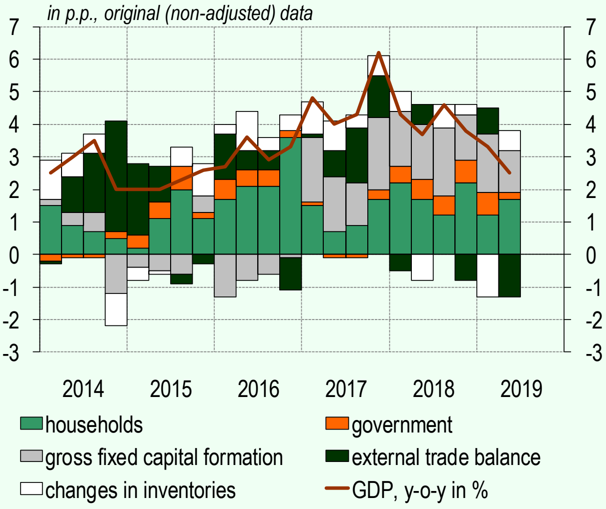
Source: SORS, Bank of Slovenia calculations.

Growth in value-added in construction also declined, and the indicators of demand for construction work do not suggest any pick-up in construction activity for now. After a very strong first quarter, year-on-year growth in value-added in construction slowed to 7.6%. The monthly indicators of the amount of construction put in place point to a decline in growth in all construction segments, in contrast to the dynamics in construction investment, at least in residential construction. The indicators of demand for construction work also mostly suggest that the high growth rates will not continue. Construction firms' survey assessments of current growth in demand are significantly lower than a year ago. At the same time the number of issued building permits has been falling since 2017, while the floorspace covered by building permits was also down in year-on-year terms in the second quarter. The value of new contracts has been increasing in recent months, but the year-on-year rate of growth remains very low for now. For now, the main suggestion of a renewed increase in activity comes from firms' slightly higher assessments of order books in the autumn. The growth in construction activity in the first half of the year was most likely attributable to the execution of projects begun earlier, most notably those related to last year's elections.

GDP – expenditure side

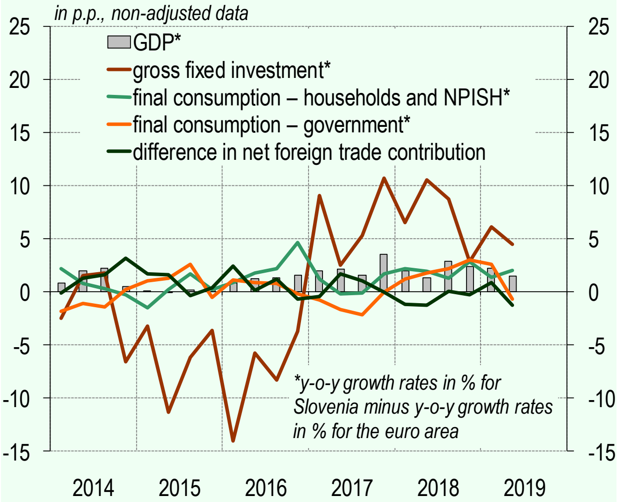
The domestic outlook remains significantly better than the average picture in the euro area. Domestic consumption recorded year-on-year growth of 4.2% in the second quarter, up 1.5 percentage points on the first quarter, but 0.6 percentage points down on last year's growth. Growth in private consumption was higher than in the first quarter, while growth in final government consumption slowed significantly. Growth in gross fixed capital formation also declined. The increased growth in domestic consumption relative to the first quarter was mainly driven by changes in inventories. They reduced year-on-year GDP growth by 1.3 percentage points in the first quarter, but increased it by 0.6 percentage points in the second quarter. Growth in gross fixed capital formation remained relatively high in the second quarter compared with the euro area, although the gap is narrowing, while

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



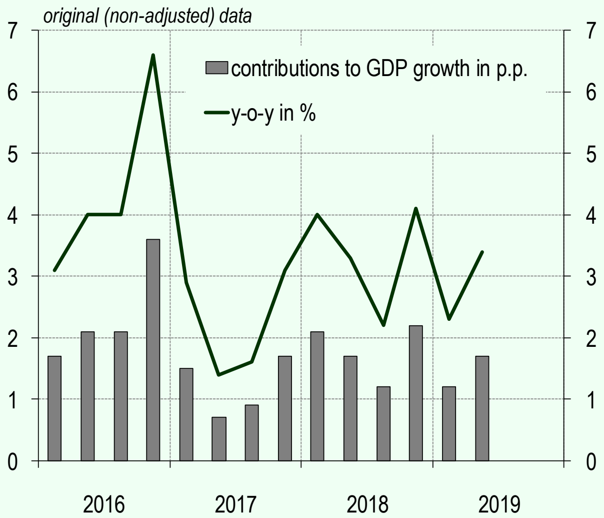
Source: SORS.

Figure 2.9: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



Source: Eurostat, ECB, Bank of Slovenia calculations.

Figure 2.10: Private consumption



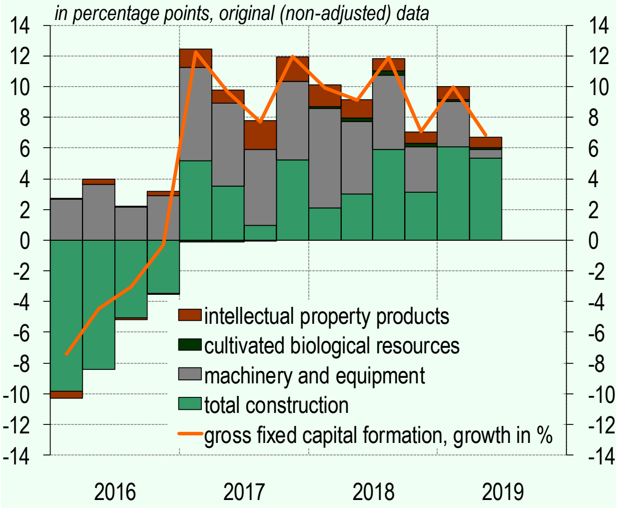
Source: SORS.

growth in private consumption also outpaced the euro area average for the seventh consecutive quarter. After outpacing it for five quarters, growth in government consumption fell to below the euro area average.

Private consumption remained robust in the first half of the year, in keeping with the situation on the labour market. Year-on-year growth strengthened to 3.4% in the second quarter, the same as last year's average, as the quarterly rate of growth picked up. The structure of the growth is continuing to change: spending on durables is declining, while spending on other goods in increasing. Amid the slowdown in growth in investment, private consumption is becoming the key factor in the maintenance of economic growth. It accounted for 1.7 percentage points of GDP growth in the second quarter. The situation remains favourable for growth in private consumption: year-on-year employment growth is only slowing moderately for now, the unemployment rate is very low, and while wage growth remains relatively high – particularly in comparison with productivity growth – payments of leave allowance also increased sharply in the second quarter, stimulated by introduction of a tax break.[2]

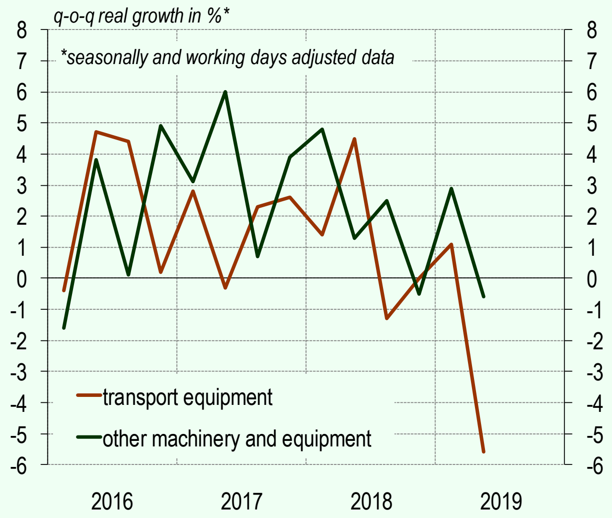
Growth in gross fixed capital formation is being increasingly influenced by the deterioration in the economic situation in the international environment. Aggregate year-on-year growth in investment stood at 10% in the first quarter of this year, due to a jump in construction investment, but the rate fell to below 7% in the second quarter. While growth in construction investment remained high, and actually exceeded 15% in the residential segment, the year-on-year increase in investment in machinery and equipment stood at just 1.3%. Investment in transport equipment was down 5.6% in quarterly terms, while investment in other machinery and equipment was down 0.6%. These developments can primarily be tied to the weakening economic situation in the international environment, which is also being reflected in manufacturing firms' low assessments of growth in foreign demand. The financial conditions for investing meanwhile remain favourable. Firms are not reporting any difficulties with sources of financing in surveys, interest rates on bank loans are low, and non-financial corporations' 12-month gross operating surplus remained high in the second quarter, at EUR 8.5 billion.[3]

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



Source: SORS, Bank of Slovenia calculations.

Figure 2.12: Investment into machinery and equipment



Source: SORS – national accounts.

Quarterly real growth in merchandise trade has remained unexpectedly high since the final quarter of last year. According to the currently published figures, quarterly growth in merchandise exports averaged 3%

[2] Legislation was passed to reduce personal income tax and social security contributions on annual leave allowance up to the average monthly gross wage. According to FARS figures, payments of leave allowance in the second quarter of this year were up EUR 163.3 million in year-on-year terms.

[3] According to the SORS's non-financial sectoral accounts, non-financial corporations' gross operating surplus in the second quarter of this year was down EUR 49 million in year-on-year terms, the first such decline since the second quarter of 2015.

between the final quarter of last year and the second quarter of this year. It thus approached the rates seen at the peak of this business cycle in 2017, even though this year's international situation is significantly worse. Merchandise exports in the second quarter were up fully a tenth in year-on-year terms, although the survey assessments of manufacturing firms published by the SORS indicated a rapid decline in growth in foreign demand. The increase in growth in merchandise imports was even sharper: quarterly growth averaged 3.7% over the three quarters in question, higher than the average rates of growth in 2017. Year-on-year growth in the second quarter stood at almost 14%, up just over 5 percentage points on last year, even as growth in domestic consumption remained below last year's average.[4] Growth in trade in services has been more restrained this year. Real year-on-year growth in exports of services remained above 6.5% in the first half of the year, while growth in imports remained significantly lower. The extremely high growth in merchandise imports meant that net trade made a highly negative contribution to GDP growth in the second quarter, in the amount of 1.3 percentage points.

Figure 2.13: Merchandise trade

Source: SORS – national accounts.

Economics developments in the third quarter

The available figures for the third quarter suggest the continuation of relatively weak economic growth. Growth in industrial production was low over the summer months. According to the calendar-adjusted figures, year-on-year growth averaged 2.2% between June and August, while August's 2% monthly decline was the largest of this year. The low aggregate year-on-year growth was

Table 2.1: Economic activity – volume indices of production

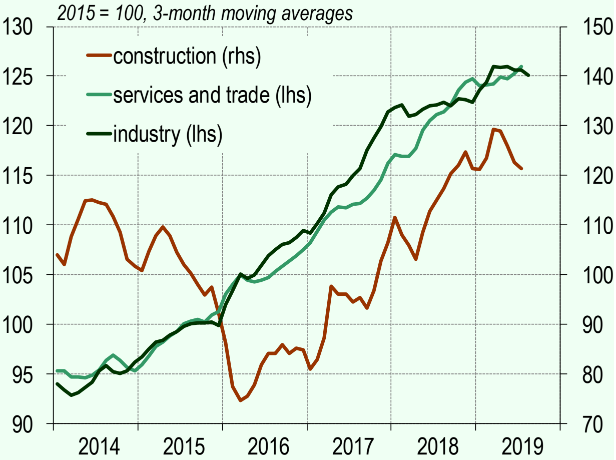
	12 m. to Jul. 18	12 m. to Jul. 19	2019 May.	2019 Jun.	2019 Jul.	2019 Apr.	2019 Jul.
	y-o-y in % **					monthly***	
Industrial production - total	8.6	2.9	3.0	0.9	4.8	1.8	-0.2
Manufacturing	9.3	3.2	3.2	0.6	5.5	2.1	-0.4
Construction - total	18.8	15.7	11.2	5.4	0.1	6.5	-5.9
Non-residential buildings	18.8	9.4	5.3	8.4	-20.9	8.9	-13.7
Residential buildings	31.4	8.3	7.2	-2.3	12.1	21.4	-15.7
Civil engineering	17.8	18.7	13.8	5.8	7.4	2.9	-1.9
Trade and service activities* - total	7.2	6.2	2.5	3.9	5.5	0.7	0.8
Wholesale and retail trade and repair of motor vehicles and motorcycles	15.8	4.6	4.0	-1.1	-3.6	4.6	1.0
Retail trade, except of motor vehicles and motorcycles	2.5	6.3	3.8	5.6	5.3	0.1	-0.6
Other private sector services	7.3	5.6	1.7	3.1	5.3	0.4	1.1
Transport and storage	10.8	6.8	4.3	9.9	8.7	0.0	2.7
Accommodation and food service activities	4.9	5.6	0.2	5.9	4.7	3.3	-0.3
Information and communication	4.5	3.8	4.1	0.8	-1.4	-1.1	0.7
Professional, scientific and technical activities	7.5	9.6	-2.2	3.2	12.9	1.3	0.2

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

[4] This year's flows in merchandise trade were profoundly affected by trade in pharmaceutical products with Switzerland, which is examined in detail in Section 4, and which is highly likely to be subject to major revision.

mainly supported by output in high-tech sectors, most notably pharmaceuticals, and the launch of production of the new Clio at Revoz. The situation in construction is also less favourable: the total amount of construction put in place in July was merely unchanged in year-on-year terms. Alongside the weak month-on-month dynamic, this was also attributable to a high base, mostly in connection with public investment before last year's elections. Private -sector services fared well in the early part of the third quarter: turnover in July was up 1.6% on the previous month, the highest monthly growth of this year according to the currently published figures. The increase was primarily attributable to high growth in real turnover in professional, scientific and technical activities. This also strengthened year-on-year growth in turnover in services, to 5.5% according to the calendar-adjusted figures, up 1.6 percentage points on the average during the second quarter. Growth was relatively high in most service sectors, although professional, scientific and technical activities again stood out, with a rate of 12.9%. The available figures for retail turnover suggest a continuation of solid growth in turnover in August.

Figure 2.14: Monthly indicators of economic activity



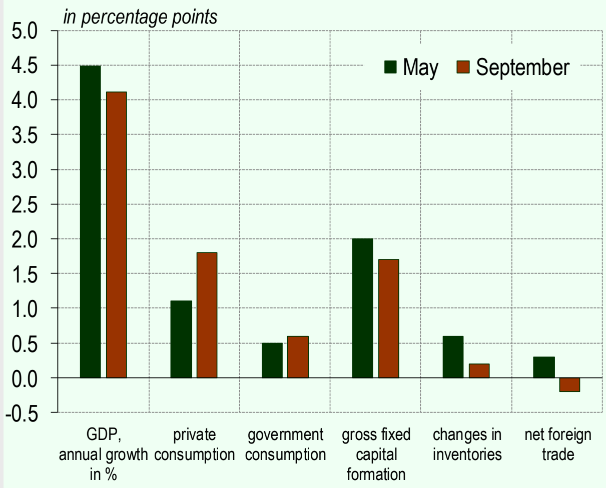
Note: Volume index of turnover in private services including trade, volume index of industrial production and volume index of construction put in place.
Source: SORS, Bank of Slovenia calculations.

Box 2.1: Illustration of changes in the structure and dynamics of economic growth after the release of the national accounts, and their impact on the carry-over effect from last year into average annual real GDP growth in the current year

At the end of August, the SORS released the national accounts for the second quarter, the first annual estimate of GDP for 2018, and a long-term revision to the national accounts. At the end of September it also released the quarterly national accounts figures for the 1995 to 2010 period.[1] As usual the largest changes are attributable to the first annual estimate, which altered both the structure and the dynamics of economic growth in 2018. According to the SORS, the previous quarterly estimate and the first annual estimate of last year's GDP are less comparable than they might otherwise have been because of a simultaneous revision to last year's data. The release of the GDP figures for the second quarter of this year brought a slight change in the economic picture for the first quarter compared with the provisional figures. According to the new estimate, economic growth amounted to 4.1% last year, 0.4 percentage points less than had been suggested by the provisional figures. There was also a significant change in the quarterly dynamics during the year. Changes were seen in the figures for the first quarter of this year, as quarterly GDP growth was revised downwards by 0.2 percentage points to 0.6%. The new figures thus slightly alter the interpretation of the past economic situation, and affect the accuracy of the economic projections published previously.

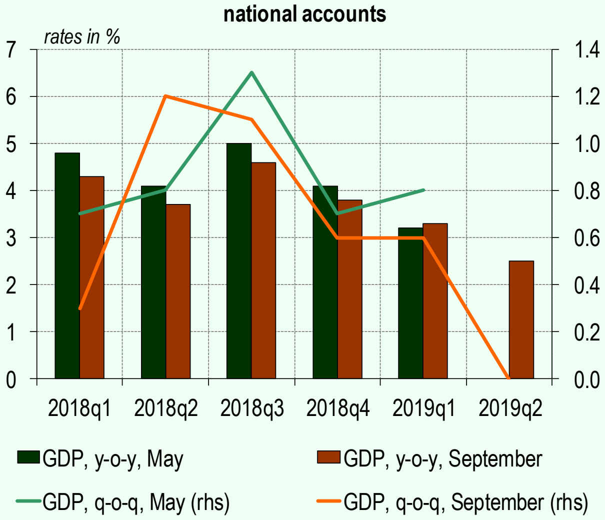
The new figures reveal the increased importance of domestic final consumption in the structure of last year's economic growth, and a negative contribution by net trade. Growth in domestic final consumption amounted to 3.3% last year, 1 percentage point more than under the provisional figures. The main upward revision was in growth in private consumption, from 2.3% to 3.4%, where one of the main factors was the higher estimate of imports of travel services based on this year's revision to the balance of payments. The contribution to GDP growth by private consumption in 2018 now amounts to 1.8 percentage points, 0.7 percentage points more than under the provisional figures, and more in line with the buoyant labour market.[2] Growth in government final consumption was also higher than had been previously estimated; the

Figure 2: Changes in contributions to real GDP growth in 2018 – expenditure side



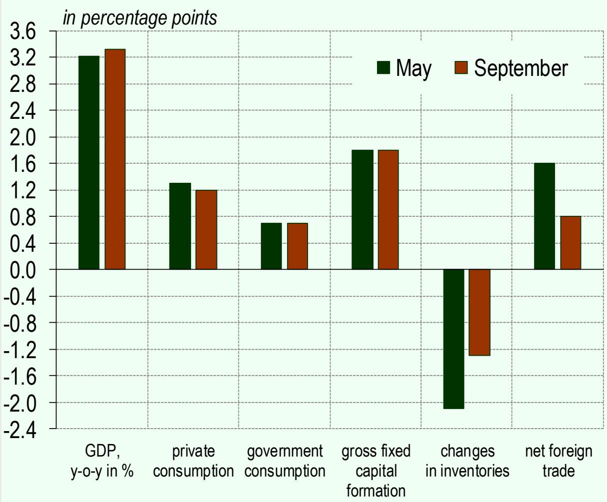
Source: SORS.

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



Source: SORS.

Figure 3: Changes in contributions to real GDP growth in Q1 2019 – expenditure side

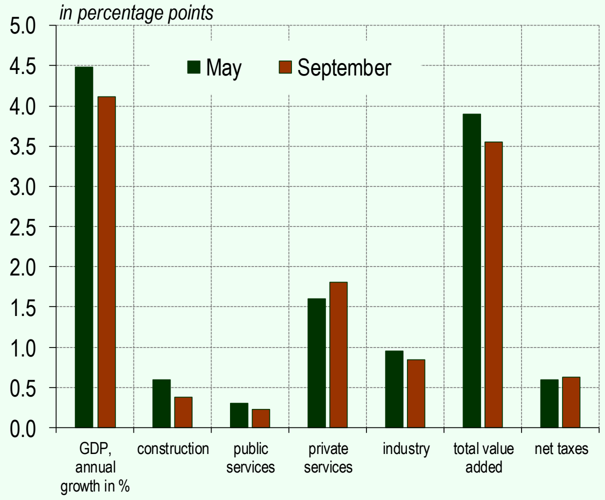


Source: SORS.

largest changes were in sales of goods and services and in employee compensation. The estimated growth in gross fixed capital formation was reduced slightly, from 10.6% to 9.5%, because of a significant reduction in estimated growth in construction investment. At the same time, the new figures indicate faster growth in investment in machinery and equipment, which again exceeded 10% last year, which is beneficial from the perspective of the economy's output potential. Both cases are attributable to changes in data sources. Because growth in exports of goods and services was reduced by 0.5 percentage points while growth in imports remained practically unchanged, the contribution to GDP growth by net trade is now estimated to have been negative, in the amount of 0.2 percentage points. There were also changes in estimated inventories. Their contribution to last year's GDP growth is now estimated at 0.2 percentage points, 0.4 percentage points less than previously estimated. The changes in the figures for the first quarter primarily relate to inventories and net trade. Their contributions to year-on-year GDP growth were each revised by 0.8 percentage points: from -2.1 percentage points to -1.3 percentage points in the case of inventories, and from 1.6 percentage points to 0.8 percentage points in the case of net trade in the wake of a higher estimate of growth in imports.

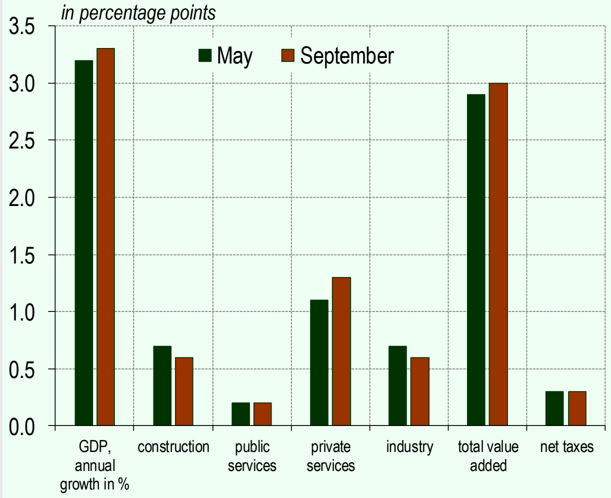
The changes in last year's GDP production structure were less pronounced, and were largely attributable to the consideration of corporate closing accounts and methodological coordination with Eurostat. Only growth in value-added in wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities was revised upwards, from 4.5% to 6.0%, taking its contribution to GDP growth in 2018 from 0.8 percentage points to 1.1 percentage points. The revisions to growth in value-added in other sectors were all downward. In the wake of a lower estimate of growth in construction investment, growth in value-added in construction was revised downwards, from 12.6% to 7.9%, reducing the sector's contribution to GDP growth by 0.2 percentage points to 0.4 percentage points. There was an even more notable downward revision in agriculture and forestry, by 9.7 percentage points to 12.4%, which reduced its contribution to GDP growth by 0.2 percentage points. In the wake of the slight reduction in estimated growth in merchandise exports, the contribution by manufacturing was also reduced by 0.2 percentage points. There was also a notable change in the dynamics in value-added in financial and insurance activities: according to the provisional figures, it increased by 1.8% last year, but according to the first annual estimate it actually

Figure 4: Changes in contributions to real GDP growth in 2018 – production side



Source: SORS.

Figure 5: Changes in contributions to real GDP growth in Q1 2019 – production side

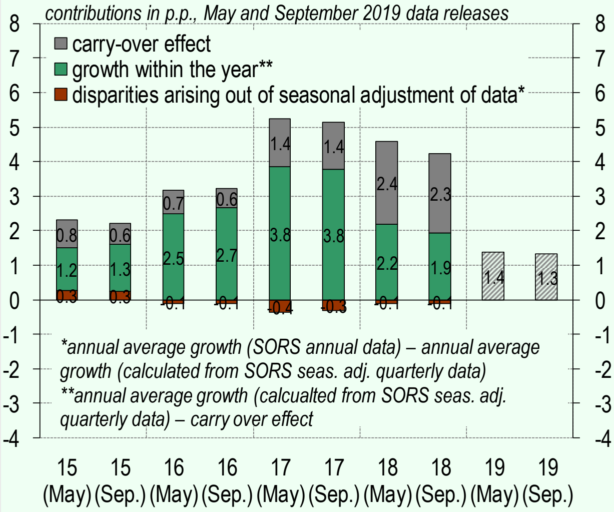


Source: SORS.

declined by 1.1%. The release of the new figures for the first quarter of this year did not bring any significant changes to the structure of year-on-year growth in value-added. The contribution by private-sector services was slightly higher, but was spread across a number of sectors.

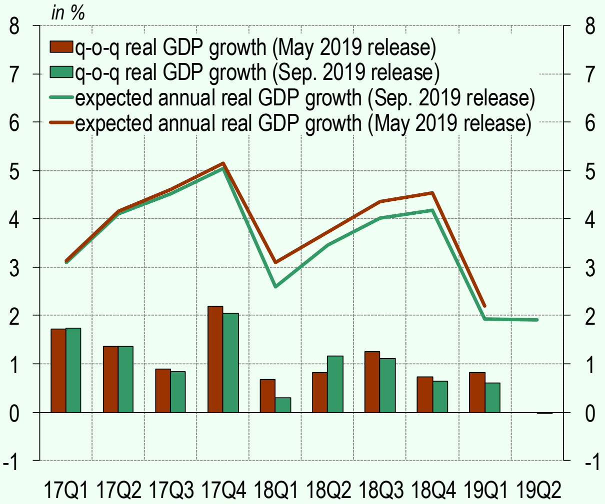
The change in the dynamics of economic growth in the wake of the new release of the national accounts for 2018 has also to a lesser extent reduced the carry-over effect in annual real GDP growth in 2019. The new figures suggest a slightly sharper slowdown in economic growth last year, which is also reflected in a reduction in the contribution of growth during the last year to the aggregate annual real GDP growth figure for 2018 (the contribution by growth during the year was revised downwards from 2.2 percentage points to 1.9 percentage points under the new figures, while the carry-

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



Source: SORS, Bank of Slovenia calculations.

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



Source: SORS, Bank of Slovenia

over effect from 2017 was reduced by 0.1 percentage points to 2.3 percentage points on account of minor revisions to the quarterly rates of growth in 2017). The revisions to quarterly GDP growth in 2018 average around -0.1 percentage points. The aforementioned changes are reflected in a slightly smaller carry-over effect for 2019, which is now estimated at 1.3 percentage points, 0.1 percentage points less than had been previously calculated. The release of the national accounts was also accompanied by a revision to quarterly real GDP growth in the first quarter of this year, which was reduced from 0.8% to 0.6%. This brought a significant reduction in the forecast for average annual growth after the first quarter,[3] from 2.2% to 1.9%. Following zero quarterly GDP growth in the second quarter, the forecast for average annual growth (under the technical assumption of zero economic growth in the second half of this year) is still 1.9%.

[1] Rounding means that the figures disclosed in this analysis might differ to a lesser extent from those in the SORS releases. More detailed information about the first annual estimate of GDP for 2018 and the revision to the national accounts is available on the SORS website at https://www.stat.si/StatWeb/en/News/Index/8322. The release of the national accounts at the end of September also brought changes in the seasonally adjusted figures. Quarterly GDP growth in the second quarter of this year was revised downwards from 0.2%, as released in August, to 0.0%. For more, see: https://www.stat.si/StatWeb/en/News/Index/8386.

[2] Under the revision to the national accounts, private consumption before 2018 was also revised upwards, albeit less markedly. Nominal private consumption in 2018 was revised upwards by fully EUR 547 million from the previous figures.

[3] The carry-over effect can also be mechanically calculated for each quarter of the current year. The carry-over effect can thus be expanded, and the projected average annual rate of growth obtained. Here it is assumed that the quarterly rates of growth in the next quarters of the year are equal to zero. The new quarterly figures thus provide additional information on the projected average annual rate of growth. For more information, see https://bankaslovenije.blob.core.windows.net/publication-files/gdgeqgfqnhbfhfg_macroeconomic_developments_and_projections_apr2014.pdf.

3 Labour Market

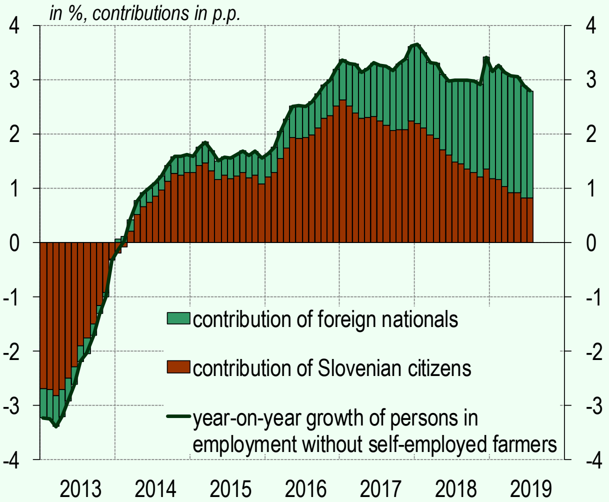
Although economic growth is declining, the situation on the labour market remains positive. Despite slowing, year-on-year growth in employment remains high, and continues to dominate in the private sector, most notably construction. The survey indicators suggest that employment will continue rising for the rest of the year, but there are signs of a slowdown. The number of people registered as unemployed had fallen below the 70,000 mark by the end of September, and was down 5.3% in year-on-year terms. Nominal year-on-year growth in the average gross wage increased to 5.2% in July, among the highest rates of the last decade. Relative to the previous month, growth has picked up mainly in the private sector, but it nevertheless remained below average wage growth in public services. Real growth in the average wage also increased in July, reaching 3.1%.

Employment

The rise in the persons in employment excluding self-employed farmers is slowing. It was up 2.8% in year-on-year terms in July, the lowest such increase this year, but nevertheless still a high rate of growth compared with the 2014 to 2016 period, when economic growth was similar to this year. A similar dynamic is also evident in the national accounts figures, where year-on-year employment growth in the second quarter was down on the previous quarter, but nevertheless stood at 2.6%. The employment growth was, among other factors, attributable to a further rise in the employment rate, which stood at 72.5% for the 15 to 64 age group in the second quarter, up 1.3 percentage points in year-on-year terms. This year's year-on-year increase in the rate has been slower than the average over the previous two years. The employment growth has been driven to an even greater extent by the hiring of foreign nationals, who accounted for 70.7% of July's year-on-year increase in the persons in employment excluding self-employed farmers.

This year's largest increase in the persons in employment has been in construction. July's year-on-year increase of 1.7% in the persons in employment in mostly public services[1] was the highest figure of this year, but was still below the average in the private sector, where

Figure 3.1: Contribution of foreign workers to growth in persons in employment



Source: SORS, Bank of Slovenia calculations.

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

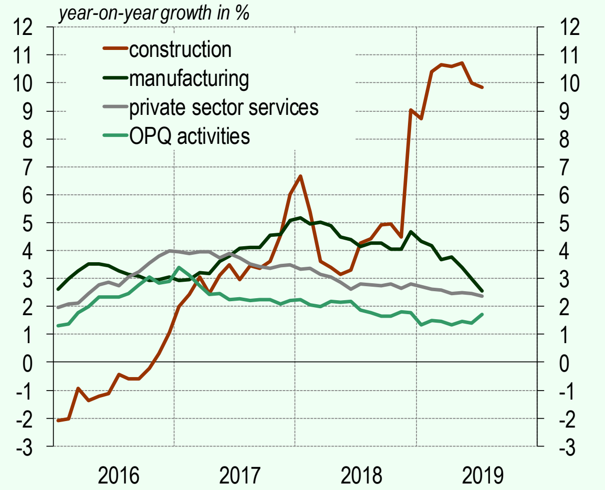
the increase slowed to 2.8%. Manufacturing has been the largest factor in the year-on-year increase in the persons in employment over the last four years, but in July the largest contribution came from construction. It again recorded the highest year-on-year increase in July, at 9.8%.

The survey indicators of employment expectations remain positive, but they are slowing. According to the SORS survey, employment expectations in the private sector are at their lowest level of the last two years, with manufacturing giving the least optimistic responses. A more favourable forecast comes from a survey by ManpowerGroup, where Slovenia's results for the final quarter according to the seasonally adjusted figures were among the most positive in the region, albeit slightly down on the previous quarter. In contrast to the SORS survey, ManpowerGroup is forecasting the highest employment in manufacturing and construction, while the largest increase compared with the previous quarter is in the public sector and social services. September's greatest demand at the Employment Service came from employers seeking elementary occupations in manufacturing, cleaners, servers, and domestic helpers, while demand for tertiary education teachers and assistants at tertiary education institutes was also seasonally high.

Unemployment

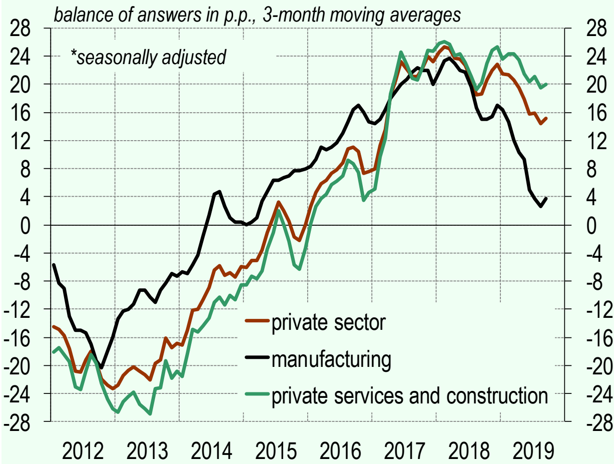
Registered unemployment had fallen below 70,000 by the end of September. The figure was down 5.3% on last September. The number of people newly registered as unemployed and the number of deregistrations over the first nine months of the year were both lower than in the same period last year. The main decline in the latter was in new hires, while the main decline in the former came from those whose temporary employment came to an end and from first-time jobseekers. The surveyed and registered unemployment rates are both continuing to fall amid the positive developments on the labour market. The latter stood at 7.4% in July, down 0.6 percentage points in year-on-year terms, while the surveyed unemployment rate stood at 4.2% in the second quarter, down 1 percentage point in year-on-year terms.

Figure 3.2: Year-on-year growth of persons in employment in selected activities



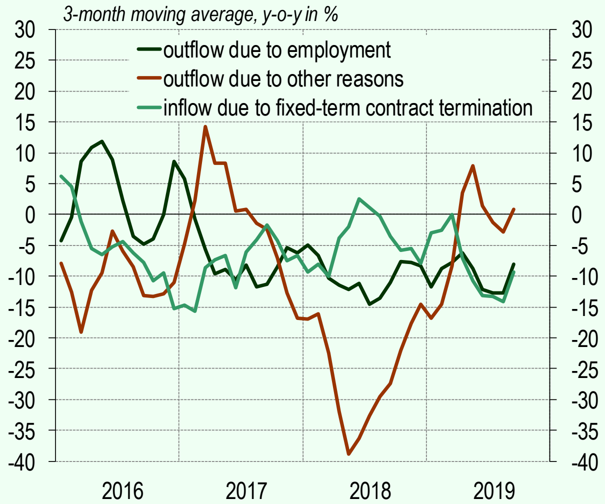
Source: SORS, Bank of Slovenia calculations.

Figure 3.3: Expected employment in the next three months*



Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.

Figure 3.4: Selected inflows to and outflows from registered unemployment



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

Table 3.1: Demography, unemployment and employment

	2014	2015	2016	2017	2018	18Q2	18Q3	18Q4	19Q1	19Q2
					in 1,000					
Working age population[1]	1,397	1,383	1,371	1,362	1,352	1,356	1,348	1,349	1,351	1,349
					in %					
Activity rate[2]	71.0	71.8	71.7	74.2	75.1	75.1	75.8	75.2	75.0	75.7
Employment rate[3]	63.9	65.2	65.9	69.3	71.1	71.1	71.9	71.8	71.3	72.5
					in 1,000					
Registered unemployed persons	120.1	112.7	103.2	88.6	78.5	76.7	75.3	77.0	80.0	72.2
Unemployment rate					*in %*					
- LFS	9.8	9.0	8.0	6.6	5.1	5.2	5.0	4.4	4.8	4.2
- registered	13.1	12.3	11.2	9.5	8.3	8.1	7.9	8.0	8.3	7.5
Probability of transition between employ. and unemployment					*in %*					
- probability to find a job[4]	15.4	15.7	18.0	19.2	19.5	21.4	16.9	16.2	23.1	19.9
- probability to lose a job[5]	2.6	2.5	2.3	2.1	1.9	1.5	1.7	2.0	2.2	1.4
					in 1.000					
Total employment[6]	932	944	961	989	1,021	1,018	1,028	1,035	1,032	1,044
					year-on-year growth rates in %					
Persons in paid employment	0.6	1.3	2.2	3.3	3.3	3.4	3.0	3.3	3.3	3.0
Self-employed	-0.3	1.2	0.2	1.6	2.5	2.5	2.5	2.4	1.0	0.9
By sectors										
A Agriculture, forestry and fishing	-1.7	-0.9	-1.3	-1.0	-0.5	-0.5	-0.5	-0.4	-0.7	-1.1
BCDE Manufacturing, mining and quarrying and other industry	0.3	1.7	2.5	3.1	4.3	4.4	4.0	4.0	3.9	3.2
F Construction	-1.1	0.5	-0.8	2.3	6.5	5.6	6.6	7.5	9.3	8.9
GHI Trade, accommodation, transport	-0.2	1.7	2.5	3.5	3.5	3.4	3.5	3.6	3.6	3.3
J Information and communication services	2.6	2.9	4.1	3.4	4.6	4.7	4.4	4.6	3.9	3.5
K Financial and insurance activities	-2.1	-2.8	-2.0	-1.5	-0.9	-1.4	-0.9	-0.9	-1.4	-0.5
L Real estate activities	0.9	1.4	4.6	7.9	6.5	8.2	6.5	4.8	3.1	1.5
MN Professional, technical and other business activities	3.3	2.6	1.9	5.7	3.0	3.1	1.5	2.6	1.2	1.0
RSTU Other activities	3.0	2.7	2.7	3.5	3.4	3.9	3.1	3.0	2.5	3.0
- mainly private sector (without OPQ)[7]	0.4	1.4	1.7	3.1	3.4	3.4	3.1	3.4	3.1	2.8
- mainly public services (OPQ)[7]	0.4	0.8	2.1	2.5	2.1	2.2	2.0	1.9	1.6	1.5
Total employment[6]	0.4	1.3	1.8	3.0	3.2	3.2	2.9	3.1	2.9	2.6

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

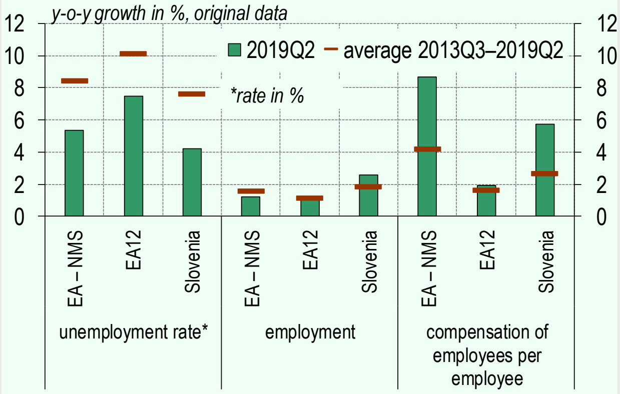
Wage developments

Nominal year-on-year growth in the gross average wage recorded one of its highest rates of the last decade in July. According to the current published figures, nominal year-on-year growth in the gross average wage stood at 5.2% in July, the highest figure since March 2009. The rate strengthened to 4.9% in the private sector, and stood at 6.1% in mostly public services. The major sectors that recorded year-on-year growth in the

Box 3.1: Labour market situation in Slovenia compared with other euro area countries

Amid further employment growth and weak economic growth, the euro area is facing stagnating productivity, while some of the countries are also facing high growth in unit labour costs. Year-on-year employment growth in the euro area stood at 1.2% in the second quarter, down on the previous quarter, but was again comparable with economic growth. Employment growth in Slovenia stood at 2.6%, again one of the highest rates in the euro area. The majority of euro area countries included in the ManpowerGroup survey disclosed positive employment expectations in the final quarter of this year, although they are also declining significantly in most of the countries. Greece had the highest expectations, and Spain the lowest. The survey data released by Eurostat also indicates a further decline in employment growth. The surveyed unemployment rate is continuing to fall: it averaged 7.5% in the euro area in the second quarter. Germany had the lowest rate of 3.1%, and Greece the highest of 16.9%. Labour productivity in the euro area was unchanged in the second quarter for the third consecutive quarter in the wake of weak economic growth; in Germany it fell by 0.9%. Nominal year-on-year growth in compensation per employee averaged 2.1% in the euro area in the second quarter, down slightly on the previous quarter, but was still strengthening in the majority of the newer euro area countries. Nominal year-on-year growth in unit labour costs increased in these countries as a consequence. Year-on-year growth in unit labour costs averaged 2.2% in the euro area in the second quarter. It stood at 5.8% in Slovenia, below the average of the newer euro area countries, having been driven significantly by increased payments of annual leave allowance.

Figure 1: Labour market in the euro area



Notes: EA – NMS (EA – new member states): Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain. The average unemployment rate is calculated within an individual group of countries as an unweighted average. The calculations include the available data up to the second quarter of 2019. Red dashes show the average in the period of renewed economic growth in the EA.
Source: Eurostat, Bank of Slovenia calculations.

gross average wage of at least 5% in July were public administration and defence, professional, scientific, and technical activities, education, and manufacturing. Nominal year-on-year growth in the average gross wage of employees covered by collective agreements at legal entities that are not budget spending units stood at 5.3% in July, the highest figure this year, while the figure for employees on individual contracts stood at 1.5%.[2]

The increase in nominal year-on-year growth in the average gross wage also brought an increase in nominal year-on-year growth in the wage bill in July, which was equal to this year's highest rate. Nominal year-on-year growth in the wage bill stood at 8.2% in July, and in the private sector was higher than in the previous month, at 8.2%, while in mostly public services it was lower, at 7.8%. Real year-on-year growth in the wage bill stood at 6% in July.

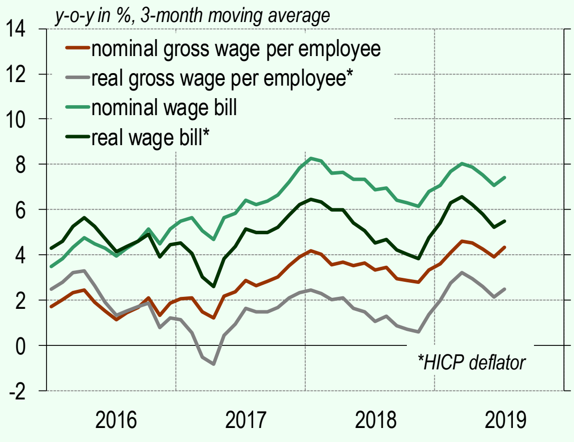
[2] Nominal year-on-year wage growth averaged slightly more over the first half of the year, according to the national accounts figures. The difference is at least partly attributable to the differing methodologies: compensation of employees under the national accounts includes annual leave allowance. Total payments of annual leave allowance in the first half of the year were up almost 26% in year-on-year terms according to the FARS.

Table 3.2: Labour costs

	2014	2015	2016	2017	2018	18Q2	18Q3	18Q4	19Q1	19Q2
					in EUR					
Average gross wage	1,545	1,556	1,584	1,626	1,681	1,660	1,651	1,757	1,732	1,726
					y-o-y growth in %, nominal					
Average net wage	0.8	0.4	1.7	3.1	2.9	3.1	2.5	2.9	3.9	3.3
Average gross wage	1.1	0.7	1.8	2.7	3.4	3.6	3.0	3.3	4.6	3.9
- mainly private sector (excl. OPQ)[1]	1.4	0.8	1.3	2.6	3.9	4.1	3.5	4.2	4.1	3.2
- mainly public services (OPQ)[1]	0.2	0.6	3.3	2.8	2.4	3.0	2.2	1.3	6.4	6.1
Average gross wage in manufacturing	3.3	2.1	2.1	3.2	4.0	4.1	4.1	3.5	3.6	3.5
Average real net wage[2]	0.5	1.2	1.8	1.5	1.0	0.9	0.4	1.0	2.5	1.5
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	-1.1	0.6	1.8	1.2	3.0	3.8	1.7	3.1	3.8	5.9
Unit labour costs,[3,4] real	-1.5	-0.4	1.0	-0.3	0.8	1.8	-0.7	1.2	1.5	3.0
Labour costs per employee,[4] nominal	1.2	1.5	3.1	3.0	3.9	4.4	3.5	3.8	4.3	5.7
Labour productivity, nominal	2.8	1.9	2.1	3.4	3.2	2.6	4.2	2.6	2.8	2.7
Labour productivity, real	2.3	0.9	1.3	1.8	0.9	0.5	1.7	0.7	0.4	-0.1
HICP	0.4	-0.8	-0.2	1.6	1.9	2.1	2.1	2.0	1.3	1.7
GDP deflator	0.5	1.0	0.8	1.6	2.2	2.0	2.5	1.9	2.3	2.8

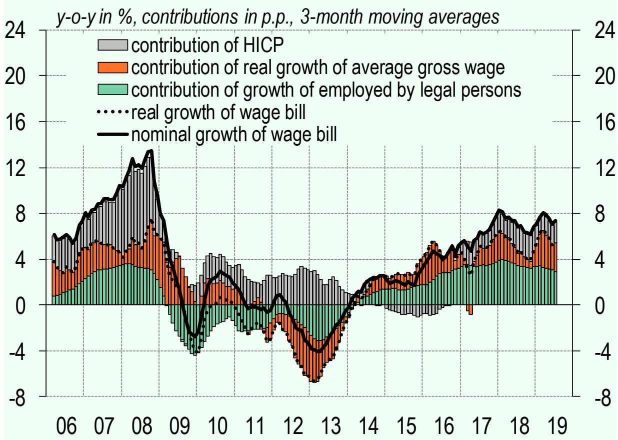
[1] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.
[2] HICP deflator.
[3] Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).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

Figure 3.5: Nominal and real total wage bill and average gross wage per employee



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

Figure 3.6: Contributions to wage bill growth



Notes: Wage bill is calculated as the product of average gross monthly wages for employees of legal persons who received pay and the total number of employees of legal persons. Due to rounding, the sum of the sub-components does not always equal the total growth.
Source: SORS, Bank of Slovenia calculations.

4 Current Account and Competitiveness Indicators

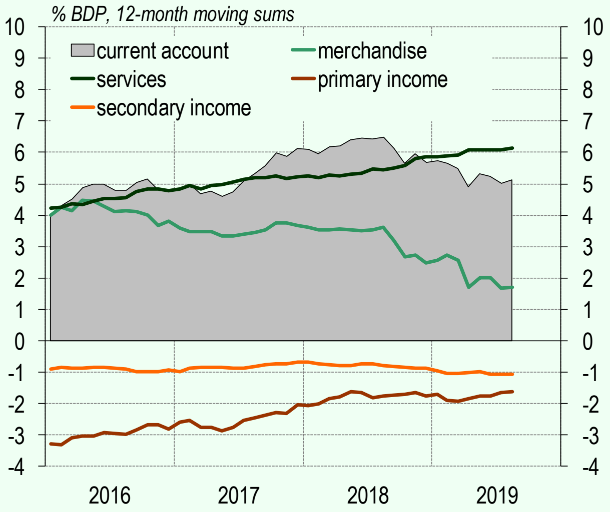
The 12-month current account surplus remains in excess of 5% of GDP. Nominal growth in merchandise imports and exports remains high this year, but only if current published figures for trade in pharmaceutical products with Switzerland are taken into account. There is a high probability of a significant revision in these figures, which could significantly alter certain balance of payments aggregates. If trade with Switzerland is excluded, merchandise exports in August would actually be down slightly in year-on-year terms according to the balance of payments figures, while growth in imports would be negligible. Increased imports from Switzerland are the only reason that the merchandise trade surplus narrowed over the first eight months of the year in year-on-year terms. The situation in services exports remains favourable: there was no significant change in growth compared with last year. The structure of the growth did change: the cooling international environment means that growth in exports of transport services, and perhaps travel services too, is declining. The surplus of trade in services is nevertheless continuing to widen. Changes in income are having a negative impact on the current account position, albeit primarily as a result of increased payments of own resources into the EU budget.

Exchange rate movements were still having a beneficial impact on the price competitiveness of the majority of euro area economies in the second quarter, but Slovenia did not see any change in price competitiveness, as price developments in the Slovenian economy relative to its principal export partners remained broadly unchanged in year-on-year terms. By contrast, cost pressures strengthened significantly, pushing growth in real unit labour costs above the euro area average. The largest deterioration in cost competitiveness was in manufacturing, as it is primarily firms in labour-intensive sectors with lower value-added that are increasing their staffing, while being unwilling to increase their investment given the great uncertainty in the international environment. Growth in unit labour costs is also widespread in German industry, which is facing a significant decline in productivity.

Current account position

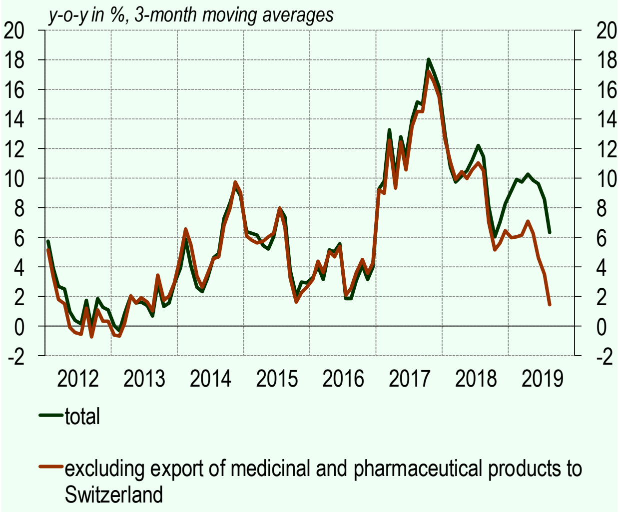
The 12-month current account surplus is gradually narrowing, but remains in excess of 5% of GDP. It amounted to EUR 2,430 million in August, EUR 476 million less than a year earlier. The main factor in the decline was the rapid narrowing of the merchandise trade surplus. The pronounced jump in trade in pharmaceutical products with Switzerland has had a strong impact on merchandise imports and exports alike since November of last year. The increased deficit in secondary income was another factor in the decline in the current account surplus. It amounted to EUR 506 million over the 12 months to August, up EUR 147 million in year-on-year terms. The majority of the increase was the result of increased payments of own resources into the EU budget.

Figure 4.1: Current account components



Source: Bank of Slovenia, SORS.

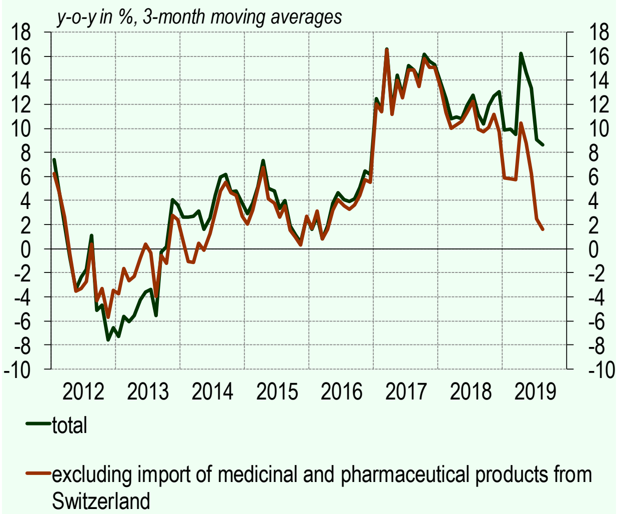
Figure 4.2: Nominal merchandise export



Source: SORS, Bank of Slovenia calculations.

The main factor slowing the decline in the current account surplus is the rising surplus of trade in services, which amounted to EUR 2,913 million over the 12 months to August, up EUR 473 million in year-on-year terms. The 12-month deficit in primary income amounted to EUR 776 million in August, EUR 15 million narrower in year-on-year terms, as interest payments on debt securities recorded the largest decline in expenditure.

Figure 4.3: Nominal merchandise import

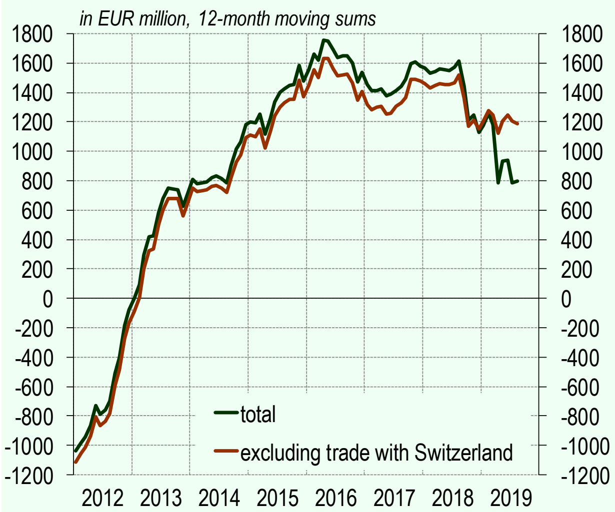


Source: SORS, Bank of Slovenia calculations.

Merchandise trade

Nominal growth in merchandise exports excluding exports of pharmaceutical products to Switzerland has slowed sharply this year. According to the current figures published by the SORS, total merchandise exports over the first eight months of the year were up 8.9% in year-on-year terms, just 2.2 percentage points less than the growth over the same period last year. The slowdown is much more evident and in line with the worsening international situation if exports of pharmaceutical products to Switzerland are excluded from the figures, when year-on-year growth over the first eight months of the year would stand at just 5.0%. After falling in June and bouncing back in July, merchandise exports excluding exports of pharmaceutical products to Switzerland were again down in year-on-year terms in August, by 0.4%. There was a year-on-year decline in exports of capital goods and intermediate goods, and in exports to the euro area and to EU Member States outside the euro area.

Figure 4.4: Balance of payments' net trade in merchandise



Source: Bank of Slovenia.

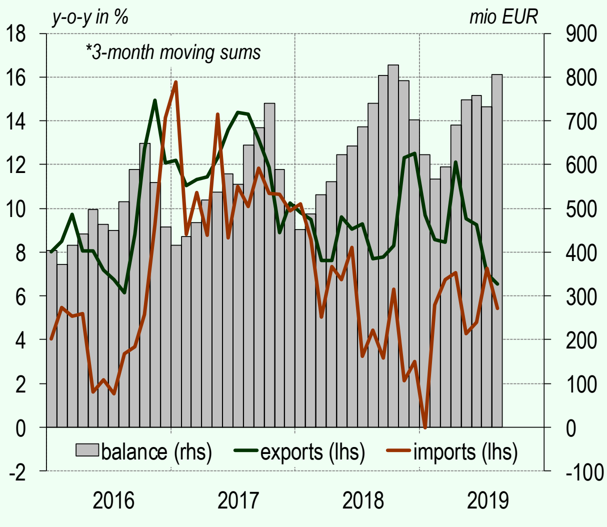
Nominal growth in merchandise imports is also slowing significantly this year, if imports of pharmaceutical products from Switzerland are excluded. According to the current figures published by the SORS, total merchandise imports over the first eight months of the year were up 11.3% in year-on-year terms, which is actually higher than the growth recorded over the same period last year. In this case too growth over the first eight months of the year was significantly lower if pharmaceutical products from Switzerland are excluded, at 5.6%. The adjusted figures show a decline of 3.7% in June, a bounce-back in July and zero year-on-year growth in August, when imports of capital goods were down in year-on-year terms while imports of intermediate goods recorded very weak growth.

The merchandise trade surplus over the first eight months of the year is significantly larger if merchandise trade with Switzerland is excluded. According to the current published balance of payments figures, the surplus amounted to EUR 696 million over the first eight months of the year, down EUR 329 million in year-on-year terms. Merchandise imports from and exports to Switzerland amounted to EUR 1,196 million and EUR 832 million respectively over the same period. The merchandise trade surplus over the first eight months of the year excluding trade with Switzerland thus amounted to EUR 1,002 million, which is actually up EUR 35 million in year-on-year terms.[1] The gap between the two 12-month surpluses stood at EUR 386 million in August.

Trade in services

Nominal growth in exports of services remained high over the first eight months of the year, and the surplus of trade in services is therefore continuing to widen. Exports of services over the first eight months of the year were up 8.2% in year-on-year terms, comparable to last year's growth. There was however a slight change in the structure. Growth in exports of transport services slowed significantly, in line with the international trade situation. Growth in exports of travel services also declined significantly. However, there was a sharp increase in exports of construction services, in telecommunications, computer and information services, and in certain other business services. Construction services were particularly notable in this respect: exports over the first eight months of the year were up 36.5% in year-on-year terms. Nominal year-on-year growth in imports of services over the first eight months of the year stood at 5.4%, down just 0.5 percentage points on the same period last year. In contrast to exports, imports of transport services have strengthened sharply this year, while imports of telecommunications, computer and information services were also up. Imports of travel services over the first eight months of the year were also up slightly. Growth in imports of other business services slowed sharply, as did growth in imports of construction services from the very high figures seen last year. With growth in exports of services continuing to outpace growth in imports, the surplus of trade in services is also widening rapidly this year. It amounted to EUR 1,933 million over the first eight months of the year, up EUR 235 million in year-on-year terms. The largest contribution to the widening surplus came from exports of construction services.

Figure 4.5: Trade in services*



Source: Bank of Slovenia.

[1] According to SORS figures, medicinal and pharmaceutical products accounted for 78% of total merchandise exports to Switzerland over the first eight months of the year, and for 85% of total merchandise imports. The corresponding figures in 2017 were approximately 25% and 45%.

Primary and secondary income

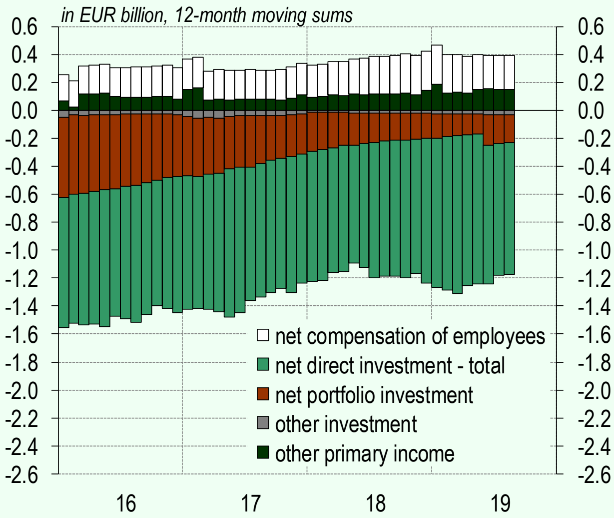
The deficit in primary income narrowed slightly over the first eight months of this year. It amounted to EUR 505 million, EUR 31 million less than in the same period last year. This was mainly attributable to a narrowing deficit in income on direct investment, which was EUR 92 million smaller in year-on-year terms, largely on account of a reduced estimate of the deficit in reinvested earnings. After narrowing for several years, the deficit in income on investments in securities widened, by EUR 23 million in year-on-year terms, largely as a result of June's high dividend payments to portfolio investors in shares in a major commercial bank. The deficit in income on investments in debt securities continued to narrow at the same time, in line with the reduced interest payment burden on the government debt. The surplus in other primary income increased slightly, largely as a result of

Table 4.1: Current account components

				in 12 months to							
	2016	2017	2018	Aug 18	Aug 19	18Q1	18Q2	19Q1	19Q2	Aug 18	Aug 19
						in EUR million					
Current account balance	1,942	2,635	2,593	2,906	2,430	693	699	641	614	212	273
1. Goods	1,536	1,579	1,128	1,616	799	328	427	382	187	75	86
2. Services	1,925	2,241	2,678	2,441	2,913	531	642	595	758	261	301
2.1. Transport	922	1,071	1,328	1,269	1,375	318	333	343	347	104	102
2.2. Travel	1,094	1,201	1,315	1,260	1,321	253	310	243	325	188	189
3. Primary income	-1,139	-886	-807	-792	-776	-28	-296	-121	-232	-79	-77
3.1. Labour income	222	229	282	270	240	56	84	45	54	20	19
3.2. Investment income	-1,444	-1,226	-1,230	-1,179	-1,167	-190	-401	-260	-333	-91	-86
3.3. Other income	83	110	141	118	150	106	21	94	46	-8	-10
4. Secondary income	-381	-299	-406	-359	-506	-138	-73	-215	-98	-45	-37
						in % GDP					
Current account balance	4.8	6.1	5.7	6.5	5.1	6.6	6.1	5.7	5.1	5.4	6.6
1. Goods	3.8	3.7	2.5	3.6	1.7	3.1	3.7	3.4	1.5	1.9	2.1
2. Services	4.8	5.2	5.9	5.4	6.1	5.0	5.6	5.3	6.3	6.6	7.2
2.1. Transport	2.3	2.5	2.9	2.8	2.9	3.0	2.9	3.1	2.9	2.6	2.5
2.2. Travel	2.7	2.8	2.9	2.8	2.8	2.4	2.7	2.2	2.7	4.8	4.5
3. Primary income	-2.8	-2.1	-1.8	-1.8	-1.6	-0.3	-2.6	-1.1	-1.9	-2.0	-1.8
3.1. Labour income	0.6	0.5	0.6	0.6	0.5	0.5	0.7	0.4	0.4	0.5	0.5
3.2. Investment income	-3.6	-2.9	-2.7	-2.6	-2.5	-1.8	-3.5	-2.3	-2.7	-2.3	-2.1
3.3. Other income	0.2	0.3	0.3	0.3	0.3	1.0	0.2	0.8	0.4	-0.2	-0.2
4. Secondary income	-0.9	-0.7	-0.9	-0.8	-1.1	-1.3	-0.6	-1.9	-0.8	-1.1	-0.9
						nominal y-o-y growth rates in %					
Export of goods and services	5.0	13.6	9.3	11.7	8.4	9.3	10.8	9.5	9.6	7.3	4.7
Export of goods	4.0	14.0	9.3	12.4	8.3	9.7	11.2	9.8	9.6	8.1	4.6
Export of services	9.4	12.1	9.3	8.9	9.1	7.6	9.1	8.4	9.2	4.8	4.9
Transport	11.2	12.9	12.5	14.9	7.1	16.4	15.6	7.9	6.3	9.4	-0.2
Travel	5.0	11.1	7.2	6.7	5.1	1.9	6.6	3.5	5.0	8.2	1.3
Other	12.6	12.5	8.8	6.3	14.7	5.0	6.2	12.7	15.6	-4.6	16.5
Import of goods and services	4.3	14.0	10.5	11.7	10.4	10.0	11.3	9.1	12.1	6.4	3.4
Import of goods	4.0	14.7	11.5	12.5	11.5	10.8	11.8	9.5	13.4	6.2	4.3
Import of services	6.3	10.3	4.7	7.4	4.4	5.1	8.2	6.7	4.8	7.4	-0.3
Transport	8.4	9.6	0.1	1.2	5.4	-1.7	3.1	8.0	9.0	-2.4	2.1
Travel	6.0	12.4	5.1	7.2	5.4	-0.5	10.3	11.8	5.1	4.4	2.3
Other	5.6	9.6	6.2	9.9	3.6	9.8	9.2	4.6	3.2	13.9	-3.4

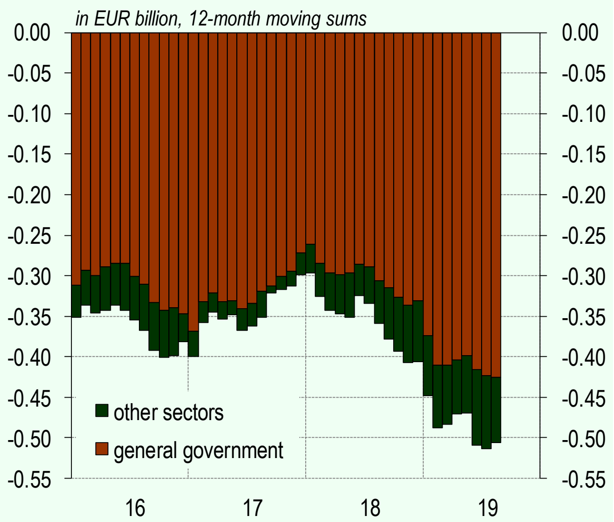
Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Bank of Slovenia.

Figure 4.6: Net primary income



Source: Bank of Slovenia.

Figure 4.7: Net secondary income



Source: Bank of Slovenia.

an increased inflow of European agricultural subsidies. The surplus in labour income narrowed, as the number of foreign workers in Slovenia over the first seven months of the year increased by more than a fifth in year-on-year terms.[2]

The deficit in secondary income is widening for the second consecutive year. The widening deficit is almost entirely related to secondary income in the general government sector, where the largest factor this year has been an increase in payments of own resources into the EU budget. The deficit in other sectors' secondary income over the first eight months of the year was virtually unchanged in year-on-year terms. The aggregate deficit in secondary income amounted to EUR 403 million over the first eight months of the year, up EUR 100 million in year-on-year terms.

Selected competitiveness indicators

Exchange rate movements and the dynamics in relative prices were still having a beneficial impact on price competitiveness in the majority of euro area economies in the second quarter, but Slovenia's price competitiveness remained unchanged.[3] Slovenia's price competitiveness indicator relative to its 37 trading partners was unchanged in the second quarter, as relative prices and exchange rate movements both stabilised. On the other hand, the dynamics in Slovenia's price competitiveness indicator were slightly less favourable compared with its largest trading partners, as the majority of euro area economies benefited from the movements in exchange rates and the dynamics in relative prices. The dynamics in the price competitiveness of the Slovenian economy were nevertheless better than in the same period last year, when price competitiveness deteriorated by 1.2% in year-on-year terms. Developments in price competitiveness were less favourable to exporters in the Baltic states, the Netherlands and Slovakia, primarily on account of rises in relative prices (see Figure 4.8).[4]

Slovenian exporters' price competitiveness relative to euro area partners was also broadly unchanged in the second quarter, while the competitive position against partners outside the euro area has continued to improve as the euro depreciated. The favourable position that exporters to the euro area have had over the previous three years was maintained in the second quarter of this year, when growth in domestic prices as measured by the HICP did not strongly outpace average euro area inflation. The price competitiveness indicator in this market was up just 0.2% in year-on-year terms in the second quarter, and thus remained close to its value from

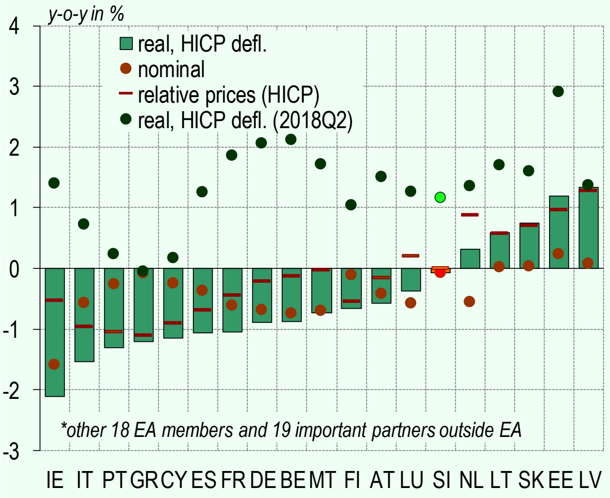
[2] Calculated on the basis of the workforce in employment excluding self-employed farmers.

[3] Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP). Unless stated otherwise, it is in relation to 37 trading partners.

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

a year earlier (see Figure 4.9). The euro's fall against the currencies of partners outside the euro area again affected the values of other indicators, albeit slightly less than in the first quarter, as inflation in Slovenia was similar to the rates seen in this group of countries. There was again a slight year-on-year improvement in price competitiveness for Slovenian and other euro area exporters in the second quarter. Slovenia's price competitiveness indicator measured against this group of countries was down 0.5% in year-on-year terms, while the developments in the majority of other euro area countries were more favourable, as the price competitiveness indicator for the euro area in the second quarter was down 1.8% in year-on-year terms (see Figure 4.9). The slightly less favourable developments in Slovenia's price competitiveness indicator are linked to the structure of its foreign trade: the proportion of Slovenia's basket accounted for by currencies against which the euro depreciated in the first half of the year is less than the euro area average, while the proportion accounted for by currencies against which the euro appreciated is larger.[5] Aggregate price competitiveness relative to 37 trading partners has been relatively stable over the recent period (see Figure 4.10).

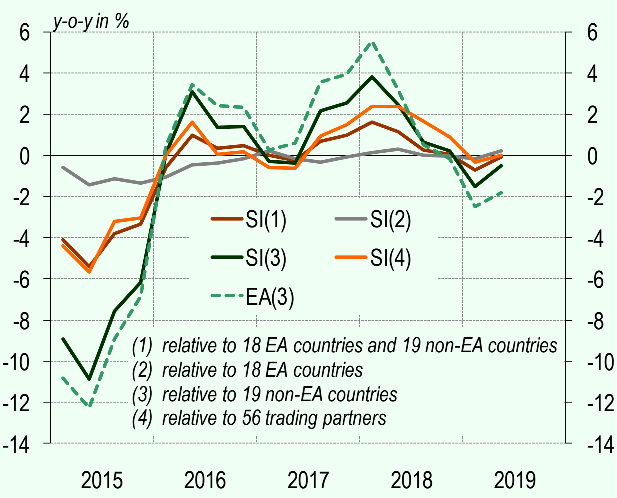
Figure 4.8: Harmonized price competitiveness indicator against 37 trading partners* in the second quarter of 2019



Source: ECB, Bank of Slovenia.

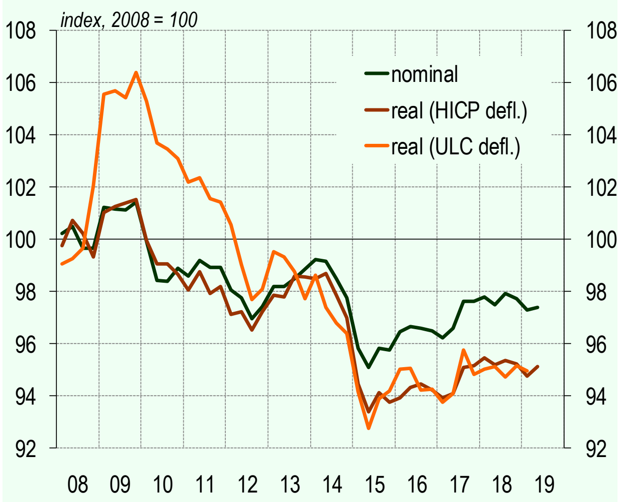
Cost pressures increased in Slovenia in the second quarter.[6] Year-on-year growth in real unit labour costs averaged 3.0% in Slovenia in the second quarter, significantly more than the overall rates in the euro area (0.6%) and the EU (0.5%) (see Figure 4.11). In Slovenia the largest increase in unit labour costs was in manufacturing, which is also the sector most exposed to international competition. They were up 5.0% in year-on-year terms.[7] The reasons for the higher growth in real unit labour costs in manufacturing include the ongoing rise in employment,

Figure 4.9: Harmonized price competitiveness indicator (HICP / CPI deflator)



Source: ECB.

Figure 4.10: Harmonized indicators of Slovenian external competitiveness against 37 trading partners



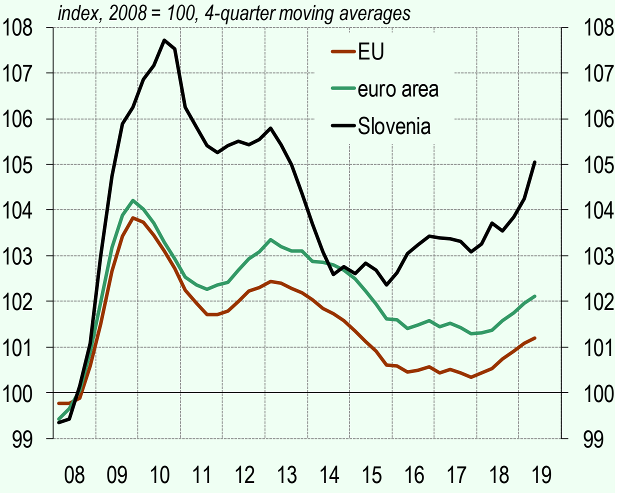
Source: ECB.

[5] The euro depreciated against the US dollar, the Swiss franc, the Japanese yen, the Russian ruble, the Polish zloty and the Croatian kuna, while appreciating against the pound sterling, the Turkish lira, the Czech koruna, the Hungarian forint and the Chinese yuan.

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

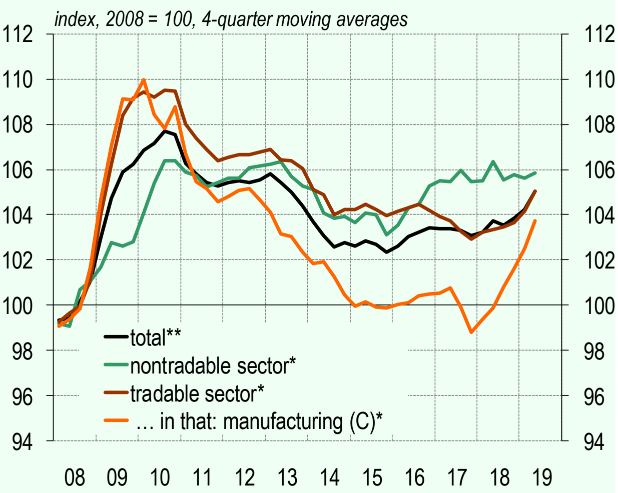
[7] Real unit labour costs in Germany's manufacturing sector were up 6.8% at the same time.

Figure 4.11: Comparison of real unit labour costs



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

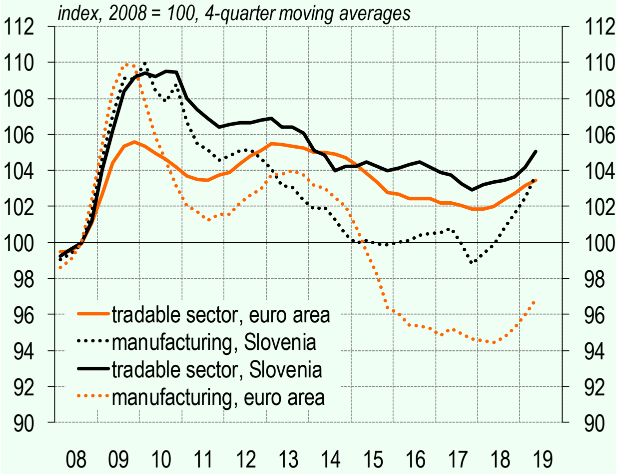
Figure 4.12: Real unit labour costs, Slovenia



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

particularly in labour-intensive sectors, where firms are unwilling to significantly expand their investment to raise productivity in the production process. Another factor in the higher growth was the one-off rise in payments of leave allowance (see Figure 4.12). Despite a significant increase in employee compensation, real year-on-year growth in unit labour costs remained stable in the non-tradable sector (at 0.8%), largely as a result of a cyclically driven rise in productivity in the construction sector.[8] Real growth in unit labour costs in the tradable sector

Figure 4.13: Real ULCs in the tradable sector and in manufacturing



Note: Calculations based on value added.
Source: Eurostat, Bank of Slovenia calculations.

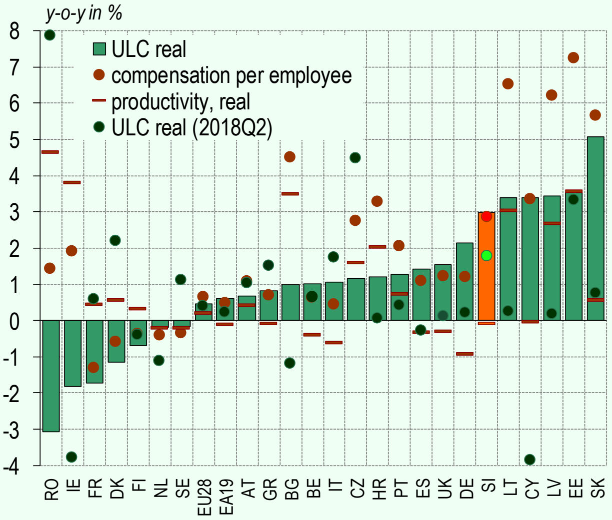
(including manufacturing) in Slovenia has significantly outpaced growth in the tradable sector in the euro area overall over the last year (see Figure 4.13).

In Slovenia real growth in unit labour costs in the second quarter strengthened significantly relative to the previous quarter. Domestic real productivity growth came to an end, and was comparable to the stagnation in average productivity growth in the euro area (-0.1%) and the EU (0.2%). At the same time real growth in compensation per employee[9] stood at 2.9% in Slovenia, and outpaced the euro area and the EU averages by 2.4 percentage points and 2.2 percentage points respectively. The high growth in compensation per employee was also driven by the one-off increase in payments of leave allowance. These developments in real unit labour costs were less favourable than in the majority of the observed European countries; the exceptions were the Baltic states, Slovakia and Cyprus (see Figures 4.14 and 4.15). Of the major trading partners, it was in Germany where real year-on-year growth in unit labour costs came closest to that of Slovenia, at 2.2% in the second quarter. This was primarily attributable to a year-on-year decline in productivity of almost 1% as German industry struggled.

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

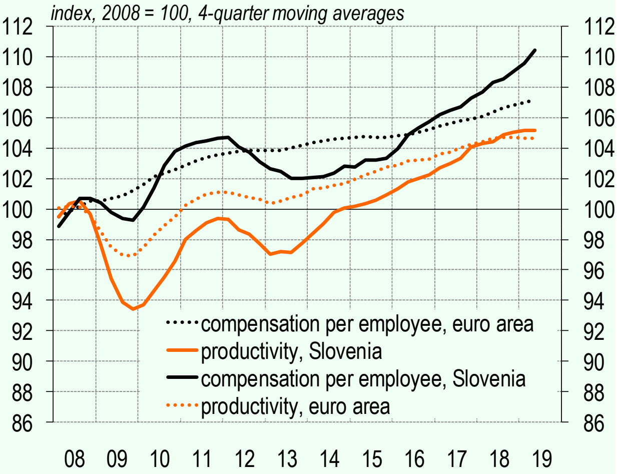
[9] Under the methodology for measuring unit labour costs, the deflator used to calculate real growth in compensation per employee is the same as the deflator used to calculate real growth in productivity, i.e. the GDP deflator.

Figure 4.14: Real unit labour costs in the second quarter of 2019



Source: Eurostat, Bank of Slovenia calculations.

Figure 4.15: Real labour productivity and real compensation per employee



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

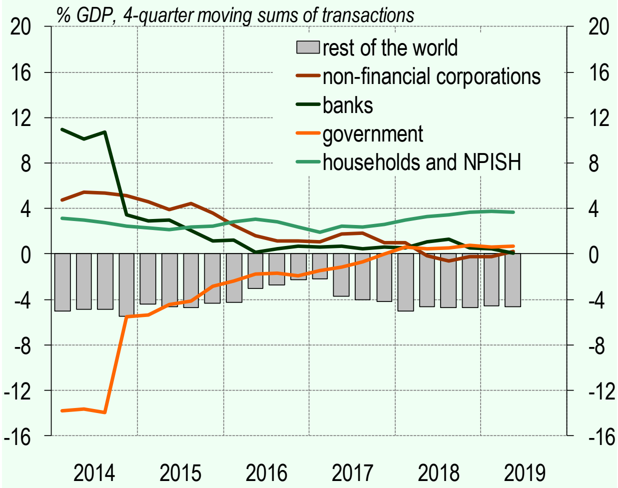
5 Financial Standing of Non-Financial Corporations, Households and Banks

For the seventh consecutive year, the Slovenian economy is still saving more than it invests overall, mostly due to the household sector.[1] By contrast, the saving-investment gap in the corporate sector has been closed for several quarters now, which is indicative of the ending of the deleveraging process in the sector, but also of non-financial corporations' caution when it comes to new borrowing. Year-on-year growth in non-financial corporations[1] assets and liabilities has slowed slightly this year. While domestic economic developments remained relatively favourable, the stock of household assets continued to increase faster than the stock of household liabilities in the second quarter of this year. The net increase in household assets reached EUR 4.1 billion, the majority of which came from deposits and capital, primarily as a result of an increase in the value of capital investments. The banks are continuing to gradually reduce their foreign deposits. On the other hand, the banks continued to increase their liabilities from household deposits and deposits by non-financial corporations.

Saving-investment gap by institutional sector

Aggregate saving again exceeded investment in the second quarter. Despite an increase in bank loans to corporates, the trend of decline in the proportion of non-financial corporations' total liabilities accounted for by bank loans continued. It was suggested as early as the third quarter of last year that the strong economy and high retained earnings could lead to stronger growth in corporate investment, but the saving-investment gap in the non-financial corporations sector was unchanged in the first half of this year, as non-financial corporations' financial transactions have proceeded at the same pace

Figure 5.1: Savings-investment gap



Note: Based on temporary data.
Source: Bank of Slovenia, SORS.

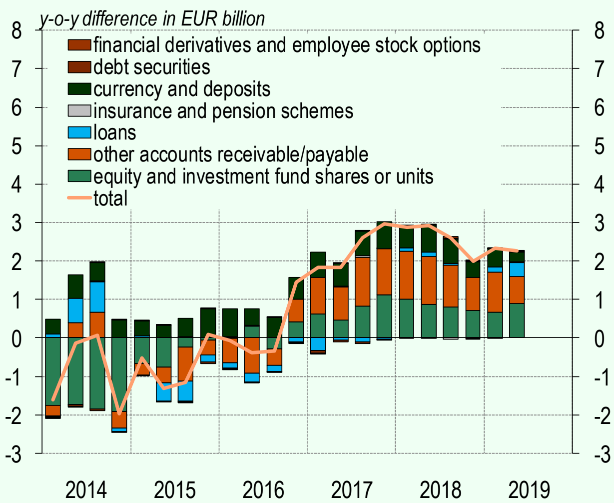
[1] A benchmark revision to the financial accounts was made this year, the purpose of which was to reduce inconsistencies between the financial and non-financial accounts in the household sector. Households' financial transactions were adjusted for the period of the last 12 years, which resulted in cumulative increases of approximately EUR 2.0 billion in households' claims against domestic sectors, and EUR 4.3 billion in their claims against the rest of the world. The increase in households' claims against domestic sectors came from currency holdings (EUR 900 million), financing and ownership of small businesses (EUR 600 million), and trade credits and advances (EUR 500 million) The increase in households' claims against the rest of the world was driven by holdings of deposits (EUR 1.4 billion), debt securities, marketable shares and investment funds (EUR 300 million), non-marketable shares and other equity (EUR 2.4 billion, including an estimate of holdings of real estate), and trade credits and advances (EUR 200 million). The aforementioned changes also impacted stocks and transactions in the sectors of non-financial corporations and the rest of the world, and were coordinated with the revision to the balance of payments. In addition, in line with methodological recommendations, the banks' liabilities from loans raised at the central bank, at banks and in the rest of the world were transferred to liabilities from deposits as part of the revision to the financial accounts.

on the asset side as on the liability side. Financial corporations also saw no change in net saving in the second quarter. By contrast, growth in net financial assets in the household sector remained strong in the second quarter, while another factor in the increase in the gap vis-à-vis the rest of the world was net government saving.

Financial assets and financing of non-financial corporations

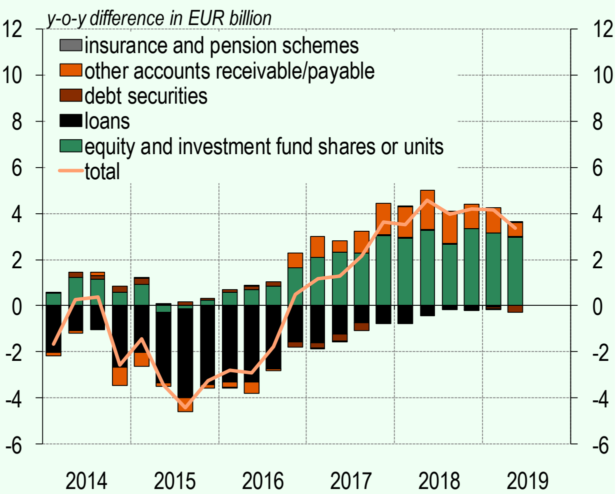
Year-on-year growth in non-financial corporations' assets and liabilities has slowed slightly this year.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

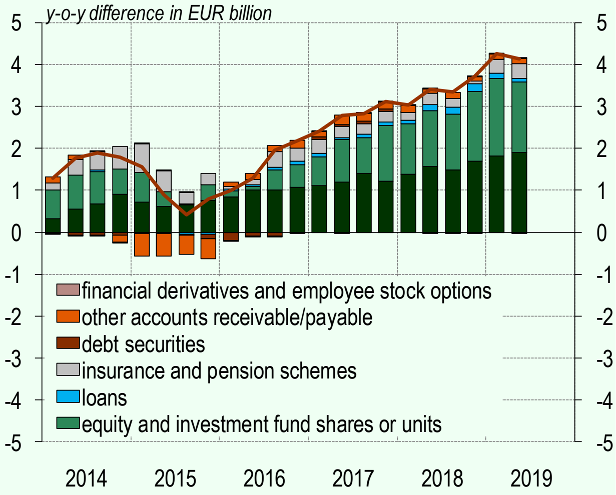
The year-on-year increase in financial assets amounted to EUR 2.2 billion in the second quarter, primarily as a result of a year-on-year increase in equity and investment fund shares, currency and deposits, and other accounts receivable. In contrast to the previous quarters, in the second quarter non-financial corporations also increased their financial assets in the form of corporate loans, which were up EUR 354 million in year-on-year terms. Non-financial corporations have increased their exposure to the rest of the world over the last two years, as a significant proportion of their investment has been made abroad. Non-financial corporations' financial assets vis-à-vis the rest of the world in the second quarter were up EUR 940 million in year-on-year terms.[2] The largest contributions to the increase in non-financial corporations' financial liabilities came from equity and investments fund shares (EUR 3 billion) and, in part, other accounts payable (EUR 621 million). By contrast, liabilities in the form of debt securities were down EUR 297 million in year-on-year terms. Alongside their holdings of financial assets, non-financial corporations also saw an increase in their financial liabilities to the rest of the world, primarily in the form of equity and investment fund shares, which were up EUR 879 million in year-on-year terms.

Financial assets and financing of households

The strength of the domestic economy is continuing to drive household financial assets upwards: in the second quarter of this year they were up EUR 4.1 billion in year-on-year terms. The largest increase in household financial assets was in holdings of currency and deposits, which were up EUR 1.9 billion in year-on-year terms in the second quarter, the largest such increase since the beginning of the data series in 2005. Currency and deposits account for fully 48% of household financial assets. There was a sharp increase in equity and investment fund shares, of almost EUR 1.7 billion, mostly as a result of positive revaluations at the end of the previous year, and there was also an increase in insurance, pension and standardised guaran-

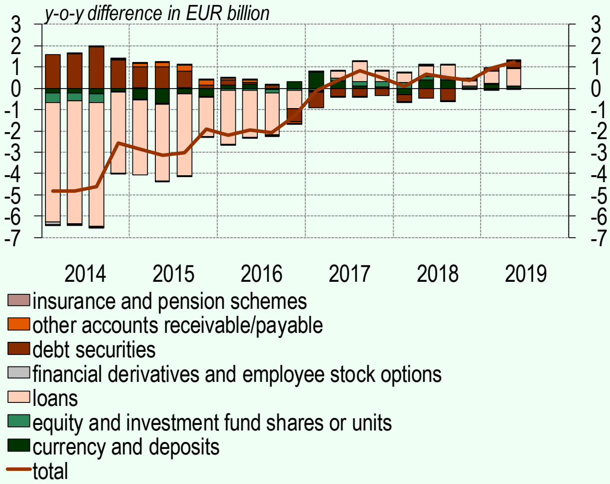
[2] Non-financial corporations' exposure to the rest of the world recorded broadly equal year-on-year increases across all financial instruments: currency and deposits (EUR 183 million), loans (EUR 209 million), equity and investment fund shares (EUR 238 million) and other accounts receivable (EUR 271 million) .

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



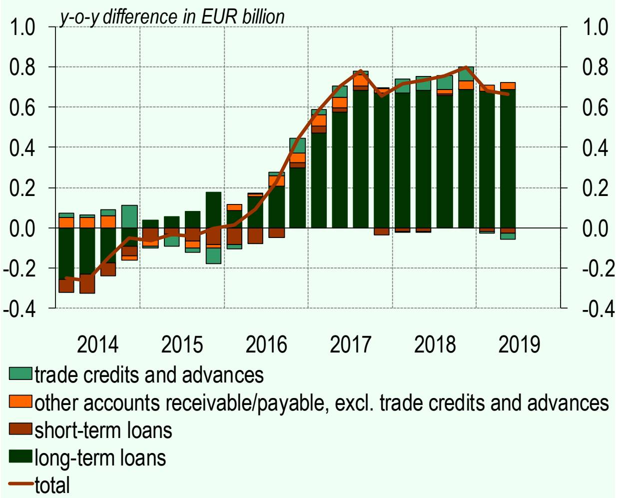
Note: Based on temporary data.
Source: Bank of Slovenia.

Figure 5.6: Financial assets of banks and money-market funds (S.122 and S.123)



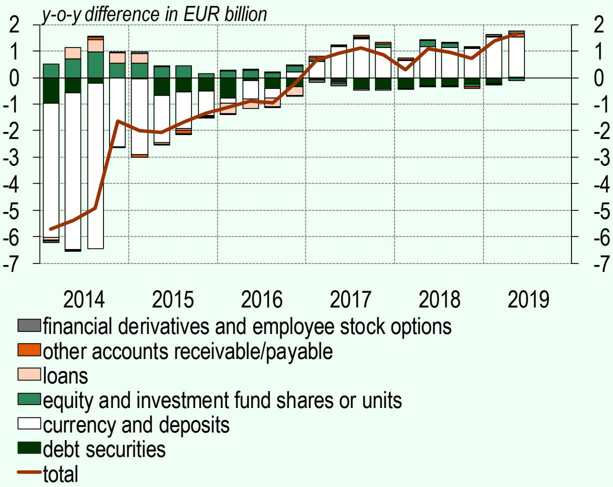
Note: Based on temporary data.
Source: Bank of Slovenia.

Figure 5.5: Financial liabilities of households (S.14)



Note: Based on temporary data.
Source: Bank of Slovenia.

Figure 5.7: Financial liabilities of banks and money-market funds (S.122 and S.123)



Note: Based on temporary data.
Source: Bank of Slovenia.

tee schemes, in the amount of EUR 366 million. On the liability side, households have mainly seen strong growth in long-term loans: they were up EUR 688 million in year-on-year terms. By contrast, liabilities from short-term loans declined slightly: they were down EUR 26 million in year-on-year terms.

Financial assets and funding of banks

Prirast The increase in the banks' financial assets strengthened in the second quarter, reaching EUR 1.2 billion in year-on-year terms, the highest figure since 2010. The increase in assets is primarily attributable to the increase in bank lending, which in the second quarter was up EUR 837 million in year-on-year terms.[3] The banks' holdings of debt securities and of currency and deposits were also up in year-on-year terms. The banks' financial liabilities in the second quarter were up in year-on-year terms (EUR 1.6 billion), still primarily as a result of an increase in currency and deposits held by corporates and households. By contrast, liabilities in the form of deposits by the rest of the world were down EUR 261 million in the second quarter. The banks' liabilities to the rest of the world in the form of equity and investment fund shares in the second quarter were up

[3] 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.

Box 5.1: Bank performance in 2019

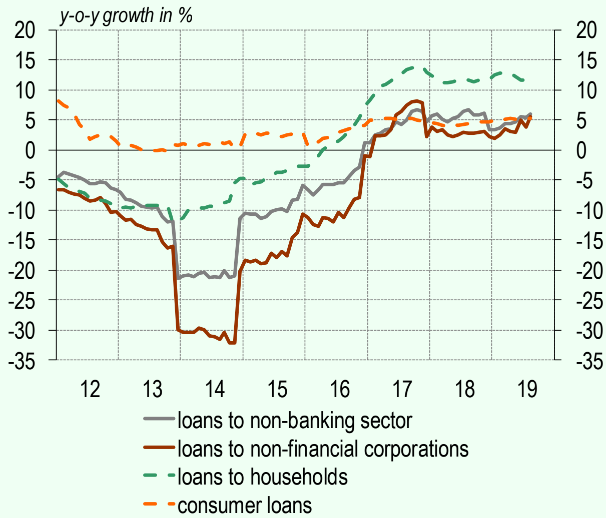
Growth in the balance sheet total is increasing; the main factor on the liability side is deposits by the non-banking sector, households in particular. Growth in loans to the non-banking sector is also increasing, as consumer loans continue to record the highest rates. The quality of the credit portfolio is continuing to improve, particularly the corporate portfolio. Bank profitability is high, thanks to developments on the income side, and a net release of impairments and provisions. Given the likely persistence of low interest rates, the environment in which the banks look to generate profits can be expected to be less favourable in the future. The banking system's liquidity position remains favourable, and the banking system remains well-capitalised.

Year-on-year growth in the balance sheet total increased to 5.6% in August, up more than 4 percentage points on the end of last year. The balance sheet total increased by EUR 1.9 billion over the first eight months of the year to EUR 40.7 billion. The largest increases on the liability side came from deposits by the non-banking sector, households in particular, June's issuance of debt securities, and equity, driven by the banks' profitable performance. Loans accounted for more than half of the increase on the asset side. The increase in other forms of investment, namely highly liquid assets and securities, outpaced the overall increase in the balance sheet total.

Year-on-year growth in loans to the non-banking sector strengthened to 6.0% in August, with household and corporate lending both increasing. Year-on-year growth in loans to non-financial corporations was low but relatively stable last year and in the early part of this year, averaging 2.8%, but increased in June, and had reached 5.5% by the end of August. The increase in corporate loans was primarily attributable to one-off large transactions at individual banks, and does not necessarily entail steady growth in corporate loans in the future. Growth in household loans has slowed slightly in 2019, but at 6.5% it is still outpacing growth in the balance sheet total. The banks are still focusing on new consumer loans, which are currently the most profitable. Although year-on-year growth in consumer loans remains high at 11.7%, in terms of stock they are still a long way behind housing loans. Growth in housing loans remains stable, and has generally been just over 5% this year. Some banks have begun to spread their investment activity into cross-border financing, particularly of foreign firms. Growth in loans to non-residents has increased sharply over the last year and a half, and reached a high 40% in August, although the proportion of the balance sheet total that they account for remains low.

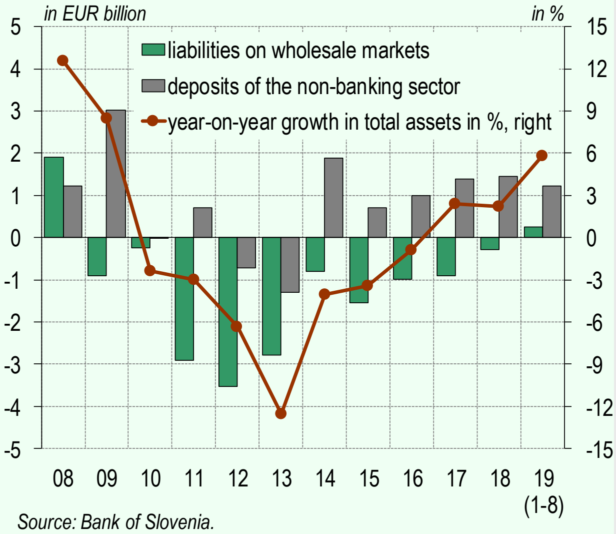
The dynamics in funding via deposits by the non-banking sector remain similar to previous months. Year-on-year growth in deposits by the non-banking sector stood at 6.5% in August. This year's increase in deposits by the non-banking sector (EUR 1.2 billion) is still slightly outpacing the increase in loans to the non-banking sector (EUR 1.1 billion). June's bond issue by SID banka in the amount of EUR 200 million brought an increase in wholesale funding this year, but it continues to account for a significantly lower proportion of funding than in the past. This year's growth in deposits by the non-banking sector has mostly been driven by household deposits, year-on-year growth in which stood at a high 7.9% in Au-

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



Source: Bank of Slovenia.

Figure 2: Changes in deposits by the non-banking sector and wholesale funding and growth in total assets



Source: Bank of Slovenia.

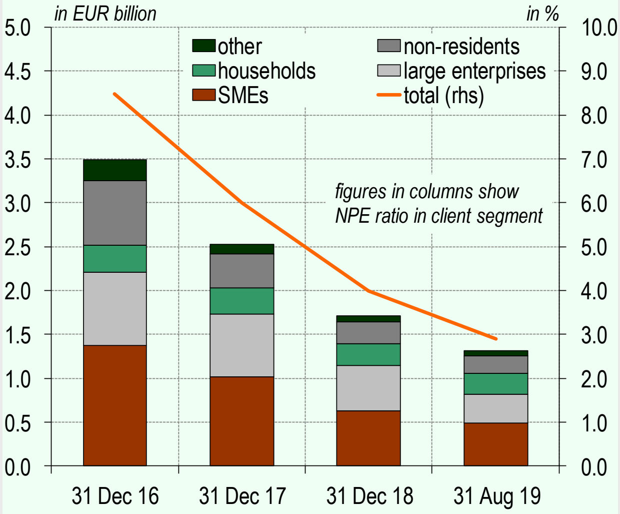
gust. The stock of corporate deposits in August was comparable to that at the end of last year. The low interest rate environment means that it is sight deposits that are driving the increase. The banks' equity increased by EUR 170 million over the first eight months of the year, maintaining a similar proportion of the balance sheet as at the end of last year, as a result of the profit generated by the banking system.

The banking system's liquidity position remains favourable. The stock of the highest-liquidity assets, such as funds at the central bank and sight deposits at banks, has increased by EUR 0.46 billion this year, to almost EUR 5 billion. Securities increased by EUR 0.24 billion to EUR 9.1 billion. The majority of the securities are in the highest investment grades, and are classed as secondary liquidity. The liquidity coverage ratio (LCR) also remains high at the level of the banking system, and stood at 337% in August.

The reduction in NPEs has gathered even more pace this year, and the NPE ratio had declined to 2.9% by August. There was a particular reduction in NPEs in the corporate portfolio, the NPE ratio reaching 5.9% in August, as non-performing claims against firms in bankruptcy have declined by more this year than in the two previous years. The banks are increasing their exposure to non-residents this year, foreign firms in particular. The proportion of the banks' total exposure accounted for by non-residents increased to 17.1%, up just under 1 percentage point on the end of 2018. After a successful reduction in the two previous years, the NPE ratio in the segment is low, at 2.5%. Portfolio quality in the other fast-growing segment of bank assets, household loans, is also good: the NPE ratio stood at 2.1% in August.

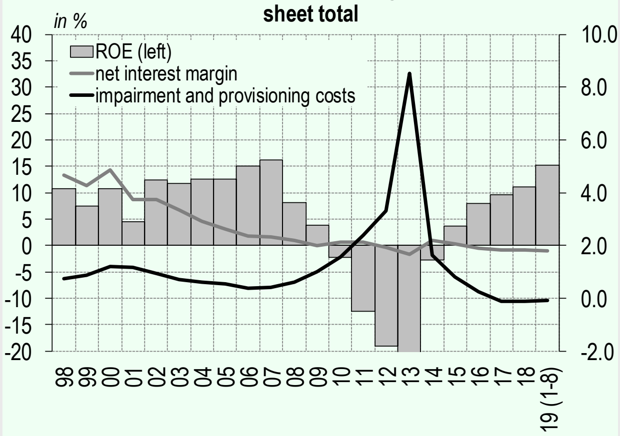
The banking system's pre-tax profit over the first eight months of the year was a high of EUR 479 million. This was attributable to an above-average increase in net non-interest income, positive growth in net interest income, and a net release of impairments and provisions. This year's increase in net non-interest income is primarily attributable to one-off events (revaluations and dividend income), but year-on-year growth in net fees and commission has also improved this year. Growth in net interest income has slowed in recent months: the year-on-year rate stood at 1.4% in August. The slowdown is primarily attributable to a decline in interest income, while interest expenses have changed little. The persistence of the low interest rate environment over the longer term will have a harsh impact on interest income, and thus on the banking system's profitability. The net interest margin has declined, and stood at 1.81% in August for the preceding 12 months. Operating costs have increased by more than the balance sheet total this year, having declined in previous years. The

Figure 3: Share of NPE by customers' group



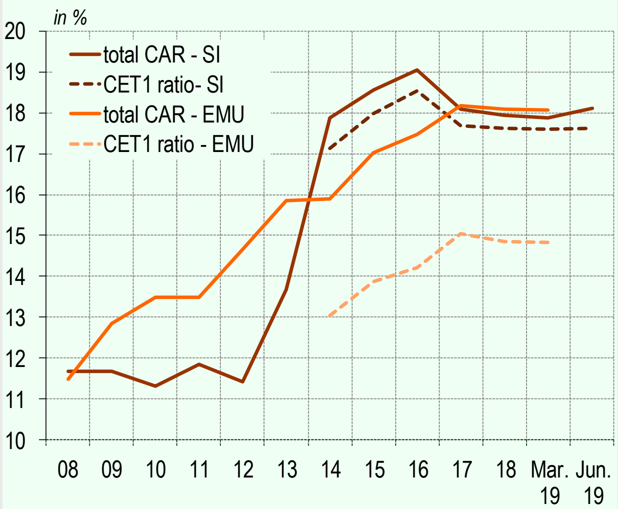
Source: Bank of Slovenia.

Figure 4: Return on equity, net interest margin on interest-bearing assets and impairment and provisioning expenses on balance sheet total



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 September 2019 figure for ROE is calculated for the first nine months of the year.
Source: Bank of Slovenia.

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



Source: Bank of Slovenia.

net release of impairments and provisions continued over the first eight months of the year at just over half of the banks, which is still having a favourable impact on profitability.

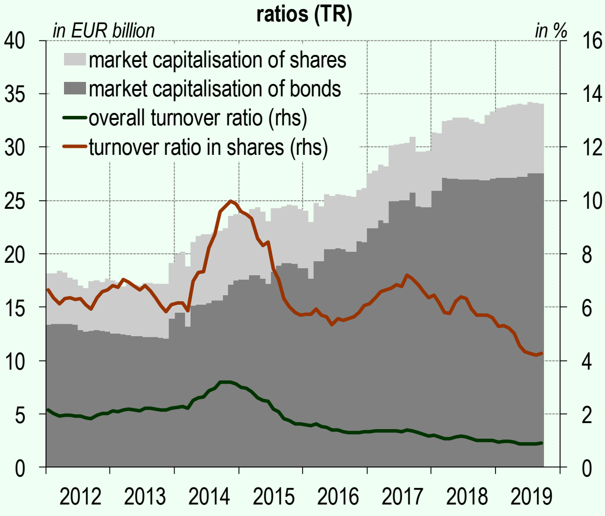
The banking system remained well-capitalised in the first half of this year. The total capital ratio remained unchanged at 19.7% on an individual basis, and increased to 18.1% on a consolidated basis, thereby drawing level with the euro area average. The common equity Tier 1 capital ratio remained almost 3 percentage points higher than the euro area average, having remained unchanged at 17.6% on a consolidated basis in the second quarter. In addition to the highest-quality form of capital (common equity Tier 1 capital), the second quarter also saw an increase in the banks' Tier 2 capital in the form of subordinated bonds. After a long period of decline, the proportion of regulatory capital accounted for by Tier 2 capital increased to 2.8% at the level of the banking system, but remained low relative to the euro area average (12.3%), an indication that Slovenian banks meet their capital requirements through the highest-quality forms of capital. The ongoing credit growth is also raising risk-weighted assets, exposures to corporates and households in particular. The small domestic banks and savings banks have improved their capital adequacy via recapitalisations, but their leverage remains low, and well below the average across the system. The sensible allocation of profit will be a significant factor in the maintenance of stable capital adequacy, and will remain a major challenge for the banks as economic growth slows.

EUR 1.1 billion in year-on-year terms. The increase in liabilities is still reflecting the change in the ownership of two major banks at the end of 2018. This increase was not reflected in the banks' aggregate financial liabilities, as the banks' liabilities to the government sector were reduced by the same amount in year-on-year terms. The banks' liabilities to the rest of the world in the form of equity and investment fund shares were unchanged in quarterly terms.

Domastic financial market

The domestic stock market saw sliding share prices in the third quarter, and a further decline in the average monthly volume of trading in shares. The SBI TOP's average in September was down 3% on June, while the market capitalisation of shares declined by 3.8% over the same period to EUR 6.5 billion. The average monthly volume of trading in shares in the third quarter was up in year-on-year terms, as a result of the above-average volume in September 2019 and the major decline in volume in September 2018. The average monthly volume of trading in shares over the first nine months of the year was nevertheless down 16.9% in year-on-year terms, at EUR 23 million. The concentration of trading increased during this period: the three most heavily traded shares accounted for 62.7% of total volume on the exchange, compared with 50.6% in the first nine months of 2018. Non-residents held 29.9% of domestic shares in September, virtually unchanged from December 2018.

Figure 5.8: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

Financing via issuance of debt securities on the Ljubljana Stock Exchange primarily remains the domain of the government sector. Non-financial corporations are only rarely opting for financing of this type, and when they do, usually opt to issue short-term instruments in the form of commercial paper. Seven firms issued commercial paper in the total amount of EUR 37 million over the first nine months of the year, while two opted for bond issues, in the total amount of EUR 4 million.

6 Price Developments

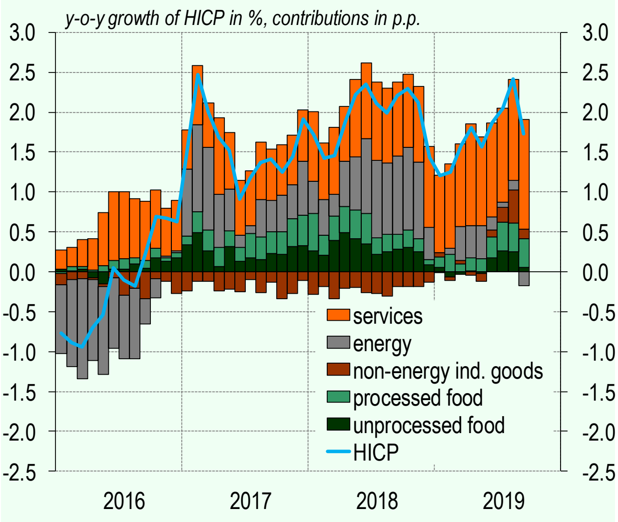
Inflation reached 2.1% in the third quarter, the highest figure of the last year. The main factor in the rise in year-on-year inflation was a jump in August, when there were above-average year-on-year rises in prices of clothing, and thus non-energy industrial goods. September's inflation was already lower, at 1.7%, thanks to a negative contribution by energy prices, and smaller contributions from food and non-energy industrial goods prices. Year-on-year service price inflation rose in line with expectations amid numerous price rises. The rate of 3.7% is being driven by domestic demand and rising labour costs, which are being passed through most quickly into services prices by certain public service providers. Inflation excluding energy, food, alcohol and tobacco averaged 2.3% in the third quarter, 1.4 percentage points higher than the euro area average. Slovenia's higher core inflation is largely attributable to stronger domestic inflationary pressures, which are reflected in higher growth of the domestic inflation components.

Structure of price developments and core inflation indicators

A spike in August saw inflation exceed 2% in the third quarter, but it had slowed to 1.7% by September. Average year-on-year inflation as measured by the HICP rose to 2.1% in the third quarter, up 0.6 percentage points on the average over the first half of this year. The spike was caused by rises in prices of non-energy industrial goods, which contributed 0.2 percentage points to headline inflation, and food prices, which contributed 0.6 percentage points. The contribution by services prices increased to 1.3 percentage points, while the contribution by energy prices declined to zero. Average inflation in the euro area fell meanwhile, and stood at just 1% in the third quarter, thereby widening the gap with inflation in Slovenia. Slovenia's higher inflation is attributable to stronger domestic inflationary pressures, and thus in particular service price inflation.

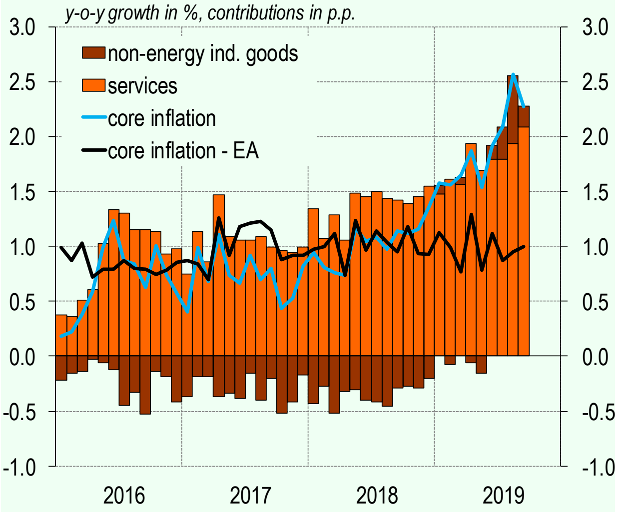
In the wake of higher price growth in domestic inflation components, the narrowest core inflation indicator rose notably in the third quarter. Inflation excluding energy, food, alcohol and tobacco reached 2.3% in the third quarter, and peaked in August, when prices of non-energy industrial goods were up sharply in year-on-year

Figure 6.1: Contributions to headline HICP inflation – Slovenia



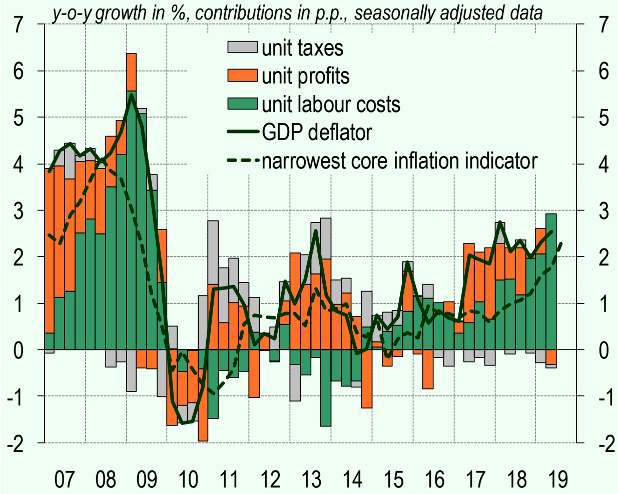
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.2: Contributions to narrowest indicator of core inflation



Source: Eurostat, Bank of Slovenia calculations.

Figure 6.3: Domestic price pressures



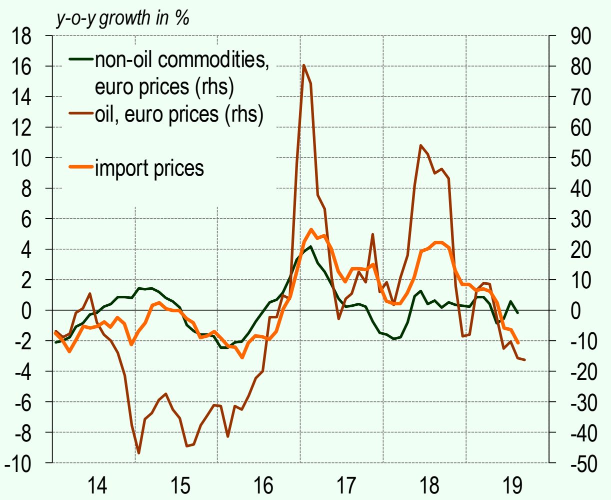
Source: SORS – national accounts, Eurostat, Bank of Slovenia calculations.

terms. Service price inflation remains the largest factor in the rise. Core inflation in the euro area as measured by the narrowest indicator has stood at around 1% since 2017, and the gap between core inflation in Slovenia and the euro area has been widening since the end of last year.

Drivers of inflation

The rise in year-on-year inflation is largely attributable to strengthening domestic inflationary pressures. These have increased even more this year, and, if measured by the year-on-year GDP deflator, averaged 2.5% over the first half of the year.[1] The largest contributions to the deflator came from the year-on-year rise in unit labour costs, and a renewed increase in the profit margin in the first quarter, which means that thanks to domestic demand, producers of goods and services were able to raise prices and increase profits despite significant cost pressures. The cost pressures strengthened again in the second quarter. Owing to payments of annual leave allowance and the year-on-year stagnation in labour productivity, the contribution to the GDP deflator made by unit labour costs reached almost 3%. With economic growth slowing, the higher costs were not fully passed through into prices, but instead were partly covered by profits.

Figure 6.4: External price pressures

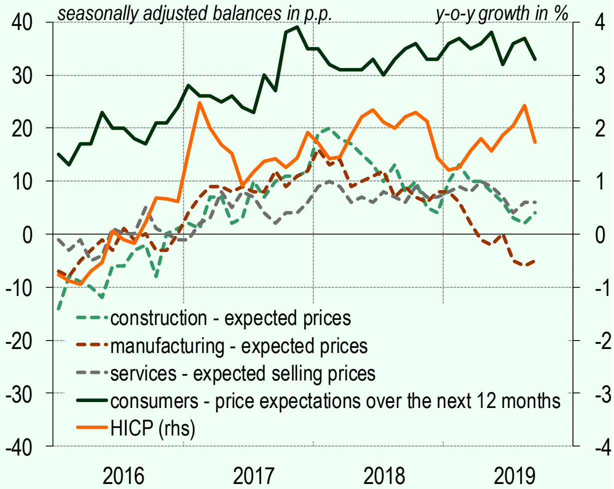


Source: ECB, Bloomberg, SORS.

The domestic inflationary pressures are being mitigated by external factors. Price pressures from the external environment have been weakening since the end of last year, and year-on-year growth in import prices has been negative since June of this year. The year-on-year fall in global oil prices is the main factor in the stabilising role played by import prices. Euro oil prices have been falling since May, and the price of a barrel of crude reached EUR 56.5 in September, down over 16% in year-on-year terms. Notable developments in other commodity prices included the significant year-on-year fall in non-food agricultural products, which stood at 12.5% in Au-

[1] The GDP deflator measures changes in prices of all goods and services produced in the domestic economy and sold at home or abroad. Under the income approach, GDP can be divided into compensation of employees, gross operating surplus and mixed income, and taxes on production and imports less subsidies. Because the GDP deflator measures the price of total value-added per unit of output, it can be expressed as the sum of unit labour costs, unit profits, and unit net indirect taxes.

Figure 6.5: Price expectations



Note: Retail trade is excluded due to high volatility of data.
Source: SORS, Bank of Slovenia calculations.

gust, while global non-oil commodity prices were down 1% in year-on-year terms in August. The fall in global commodity prices brought a significant decline in year-on-year growth in import prices of energy and commodities, while import prices of consumer goods were also down in year-on-year terms. Despite the fall in import prices, year-on-year growth in industrial producer prices on the domestic market remains relatively high, and is driving domestic consumer inflation. It stood at 2% in August, largely as a result of high growth in producer prices of energy (electricity, gas and steam).

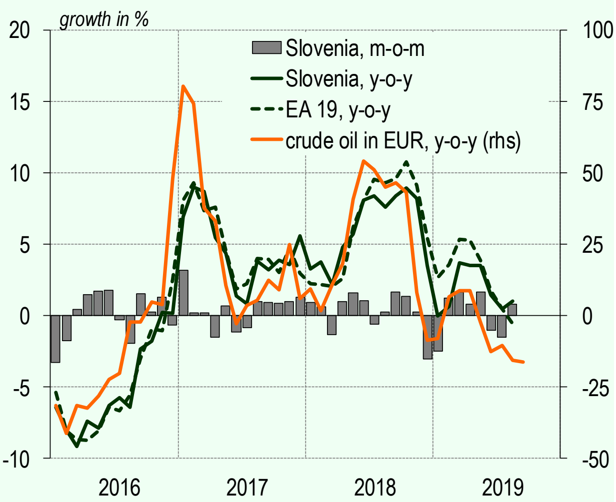
Consumers' inflation expectations remain unchanged, while firms' inflation expectations declined. According to a consumer survey, the share of those expecting prices to rise over the next 12 months has stood at around 70% since the beginning of the year, and shows no sign of easing. By contrast, manufacturing firms and firms in construction and services are reducing their expectations with regard to selling prices. The share of manufacturing firms that expect higher selling prices over the next three months is at its lowest level of the last three years, and reflects the fall in domestic producer prices on foreign markets that has been seen since May.

Price developments by subcategory

Energy prices fell in year-on-year terms in September, driven primarily by prices of motor fuels. Energy prices were down 1.4% in year-on-year terms in September, the first fall since 2016. The largest factors in the fall were motor fuels and liquid fuels for households, prices of which fell in line with the developments in global oil prices, while the year-on-year fall in aggregate energy prices is also partly attributable to the base effect of last year's rise in prices of heat energy. Heat energy prices rose by 3.3% in monthly terms in September, tracked by electricity prices, which were up 1%. The year-on-year fall in energy prices in the euro area overall was slightly higher, at 1.8%.

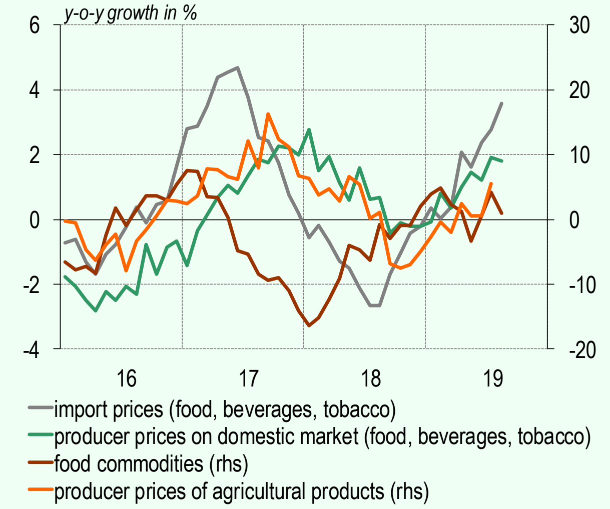
Growth in food prices picked up in the summer, while September's slowdown was the result of lower growth in unprocessed food prices. Having exceeded 6% in July and August, growth in unprocessed food prices slowed to 1.5% in September. The volatility is mainly being driven by seasonal food prices, which recorded lower growth in September than in the summer. Growth in processed food prices remained at 2% in September for the third consecutive month, driven largely by prices of potatoes and tobacco products. Growth in consumer food prices continued to be driven by foreign and domestic factors alike. The price pressures from abroad came from rises in prices of food commodities on global markets and renewed growth in import prices of food, beverages and

Figure 6.6: Energy prices



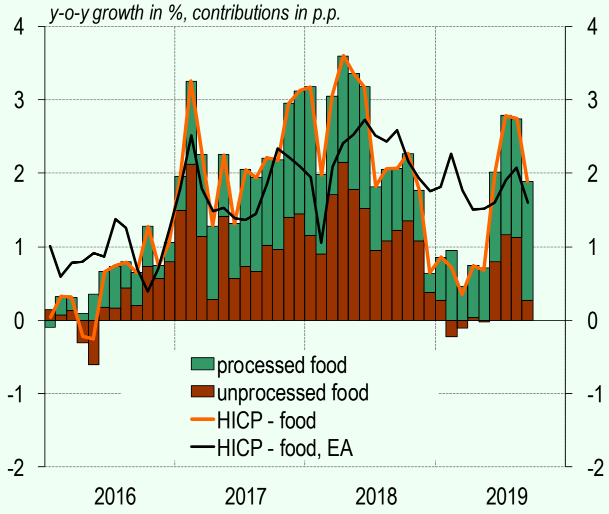
Source: Eurostat, ECB, Bank of Slovenia calculations.

Figure 6.7: Food prices and prices of food commodities in EUR



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

Figure 6.8: Contributions to growth in food prices



Source: Eurostat, Bank of Slovenia calculations.

tobacco, while the domestic environment has continued to see year-on-year rises in producer prices of agricultural products and domestic producer prices of food, beverages and tobacco. Despite slowing to 1.9%, year-on-year food price inflation remained higher than in the euro area overall, where it stood at 1.6%.

Services prices were up 3.7% in year-on-year terms in the wake of September's rises. Year-on-year service price inflation averaged 3.1% over the first nine months of the year, up 0.7 percentage points on last year. The peak rate was recorded in September in the wake of numerous price rises. The fastest price rises continued to be recorded by certain public services where the market position gives providers greater leeway to pass rising labour costs and other costs through into services prices. Public services that again recorded month-on-month rises in Sep-

Table 6.1: Structure of the HICP and price indicators

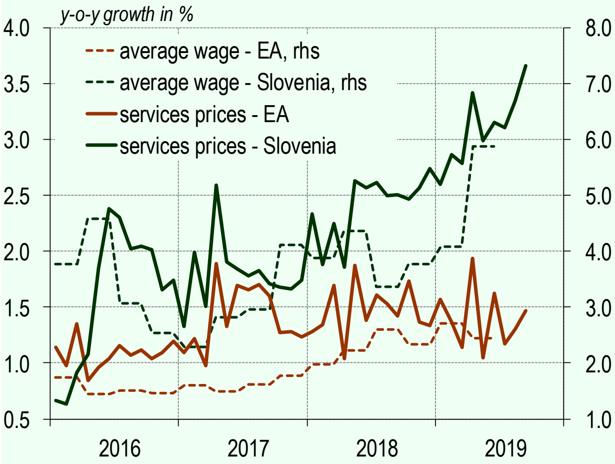
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2019	2015	2016	2017	2018	1H19	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
HICP	*100.0%*	-0.8	-0.2	1.6	1.9	1.5	2.1	2.1	2.0	1.3	1.7	2.1
Breakdown of HICP:												
Energy	*12.1%*	-7.8	-5.2	4.7	6.0	2.1	6.2	8.1	6.9	1.4	2.8	0.0
Food	*22.2%*	0.9	0.5	2.2	2.4	0.9	3.4	2.0	1.6	0.6	1.1	2.5
processed	*18.1%*	0.7	0.4	1.4	1.4	1.0	1.9	1.1	0.8	0.8	1.1	2.0
unprocessed	*4.2%*	1.4	0.7	5.7	6.6	0.8	9.4	5.6	4.8	0.0	1.6	4.6
Other goods	*28.4%*	-0.6	-0.5	-0.7	-0.8	0.0	-0.8	-0.8	-0.6	0.1	-0.1	0.9
Services	*37.3%*	0.9	1.6	1.8	2.4	3.0	2.4	2.5	2.6	2.8	3.2	3.4
Core inflation indicators:												
HICP excl. energy	*87.9%*	0.4	0.6	1.1	1.4	1.5	1.6	1.3	1.3	1.3	1.6	2.3
HICP excl. energy and unprocessed food	*83.7%*	0.4	0.6	0.9	1.1	1.5	1.2	1.1	1.1	1.4	1.6	2.2
HICP excl. energy, food, alcohol and tobacco	*65.7%*	0.3	0.7	0.7	1.0	1.7	1.0	1.1	1.2	1.6	1.8	2.3
Other price indicators:												
Industrial producer prices on domestic market		-0.5	-1.4	1.3	1.9	1.7	2.0	2.2	1.4	1.4	2.1	...
GDP deflator		1.0	0.8	1.6	2.2	2.6	2.0	2.5	1.9	2.3	2.8	...
Import prices[1]		-1.4	-2.2	3.0	2.6	0.6	2.6	4.0	3.0	1.4	-0.1	...

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

tember included refuse collection services, which are now up 19.2% in year-on-year terms after multiple rises this year, and there was also a significant rise in kindergarten prices.[2] Year-on-year growth in prices of market services also increased slightly in September, largely driven by prices of private health insurance, alongside prices of international flights and wireless telephone services.[3] Lower wage growth meant that service price inflation in the euro area was lower than in Slovenia, and reached 1.5% in September.

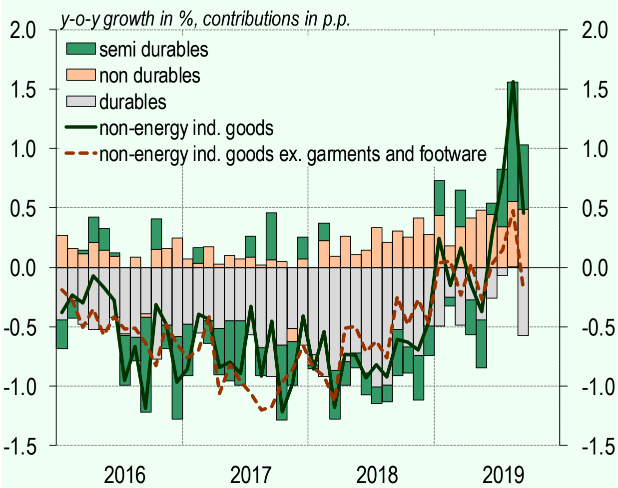
August's sharp increase in growth in prices of non-energy industrial goods was largely temporary. Prices of non-energy industrial goods had been falling for almost a decade prior to this year. The rate of growth was barely positive in the early part of the year, but had jumped to 1.6% by August. August's high growth was only partly attributable to higher growth in prices of consumer durables and non-durables: the majority was attributable to year-on-year rises in prices of semi-durables. The year-on-year rises in prices of clothing and footwear accounted for 1.2 percentage points of the growth, although this was largely a temporary effect, which had already dissipated by September.[4] September's growth in prices of non-energy industrial goods was held down by a year-on-year fall in prices of durables, which can partly be attributed to a base effect from last year's rise in new car prices.[5]

Figure 6.9: HICP – services



Note: Average wage is calculated as wages and salaries per employee according to national accounts.
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.10: Contributions to growth in prices of non-energy industrial goods



Source: Eurostat, SORS, Bank of Slovenia calculations.

[2] Prices of pre-school education and child care services rose by 4.5% and 4.7% respectively in September. The increase was primarily attributable to a rise of 14% in kindergarten prices in Ljubljana, which followed this year's rises in kindergarten prices in some other large municipalities.

[3] September's prices of private health insurance were up 5.7% on August. The rise was the result of a rise in complementary health insurance premiums, the second this year, as rising costs saw insurance cormpanies Vzajemna and Triglav raise insurance premiums (by 11.5% and 7.6% respectively).

[4] There was an above-average rise in prices of men's, women's and children's clothing and footwear in August, of 3% in monthly terms, followed by a rise of 8.3% in September, less than the normal seasonal rise in the month. The aggregate rise over the two months was comparable to last year's, which means that August's sharp rise was most likely merely the result of the summer sales ending slightly earlier, and new collections hitting shops.

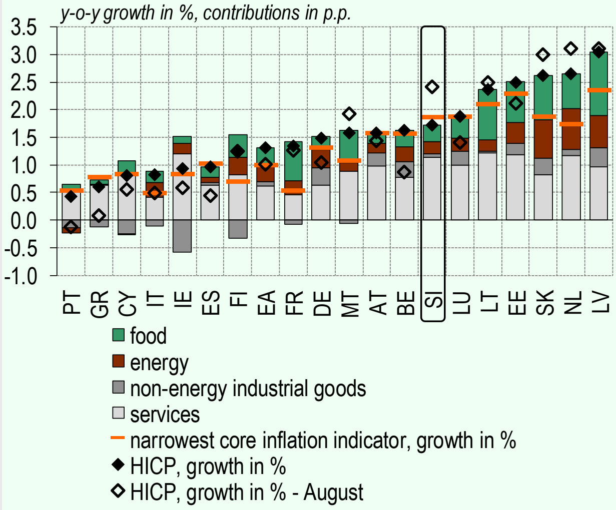
[5] Prices of new motor cars rose by 1.6% in September last year, most likely as a result of the introduction of a new emission measurement system for motor vehicles.

Box 6.1: Price developments in euro area countries

Year-on-year inflation in the euro area averaged 1.3% over the first eight months of the year, just over half of which was attributable to domestic components. The contribution to headline inflation by services prices and prices of non-energy industrial goods remained unchanged from last year, while the contribution by energy and food prices declined significantly. Inflation was highest in Latvia (3.1%) and the Netherlands (2.7%), and lowest in Portugal (0.4%) and Greece (0.6%), but the gaps between individual countries have widened in recent months. Year-on-year inflation exceeded 3% in three countries in August, while Portugal was hit by deflation. Slovenia lies in the top half according to average inflation over the first eight months of the year, and in August was ranked fifth as prices of non-energy industrial goods spiked. The countries with higher inflation include the Baltic states, where strong domestic inflationary pressures are also producing the highest core inflation, the Netherlands, where alongside pressures from other domestic factors there have been increases this year in the reduced VAT rate and excise duties on energy, and Slovakia.

Core inflation in the euro area as measured by the narrowest indicator meanwhile remains lower than the headline rate: it averaged just 1% over the first eight months of the year. The low core inflation in the euro area is largely attributable to low service price inflation and low growth in prices of non-energy industrial goods in the largest countries, which account for more than three-quarters of the overall euro area inflation rate. Core inflation stands at just 0.5% in France and Italy, 1% in Spain and 1.3% in Germany. Given its primarily non-tradable nature, core inflation is driven mainly by services prices in all euro area countries.

Figure 1: Average inflation over the first eight months of 2019



Source: ECB, Eurostat, Bank of Slovenia calculations.

7 Public Finances

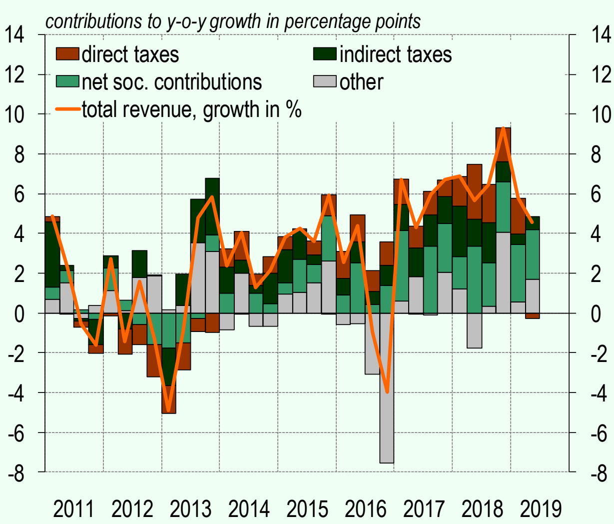
According to the Ministry of Finance, the general government sector is forecast to record a surplus in the amount of 0.8% of GDP this year, having recorded a surplus of 0.6% of GDP over the 12 months to June. Year-on-year growth in general government expenditure in the first half of the year slightly outpaced growth in general government revenues and nominal economic growth. Of the major aggregates, the fastest increase was in investment expenditure, while the largest contributions to growth in expenditure came from compensation of employees and social benefits. The easing of the tax burden on annual leave payments slowed the growth in general government revenues. The interest burden is declining for the fourth consecutive year. The general government debt stood at 67.7% of GDP at the end of June, having fallen in nominal terms and as a ratio to GDP since the end of last year.

The government sector is expected to continue running a surplus in the coming years, and next year it is forecast to be slightly larger than this year. The state budgets for 2020 and 2021 are in the process of being adopted; the government is forecasting surpluses of 0.9% of GDP in 2020 and 1.2% of GDP in 2021. In early October the government approved proposed legislative changes in the areas of taxation, pensions and the labour market, which need to be confirmed by parliament. Changes in the area of supplementary health insurance are also planned. The rise in macroeconomic risks demands caution in the planning and pursuit of fiscal policy, including the preparation of the budgets for 2020 and 2021 and other fiscal measures. Slovenia's general government debt is declining, but remains above the benchmark of 60% of GDP. Demographic developments also present a challenge to the public finances.

General government balance

The general government sector disclosed a surplus over the 12 months to June, albeit it was smaller than at the end of last year. It amounted to 0.6% of GDP. Year-on-year growth in general government expenditure in the first half of the year outpaced growth in general government revenues and nominal GDP growth. According to its latest forecasts, the Ministry of Finance expects the year-end surplus to be maintained at last year's level. With the interest burden continuing to decline, the primary balance in the first half of the year stood at 1.9% of GDP.

Figure 7.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

Table 7.1: General government deficit and debt in Slovenia, 2014–2022

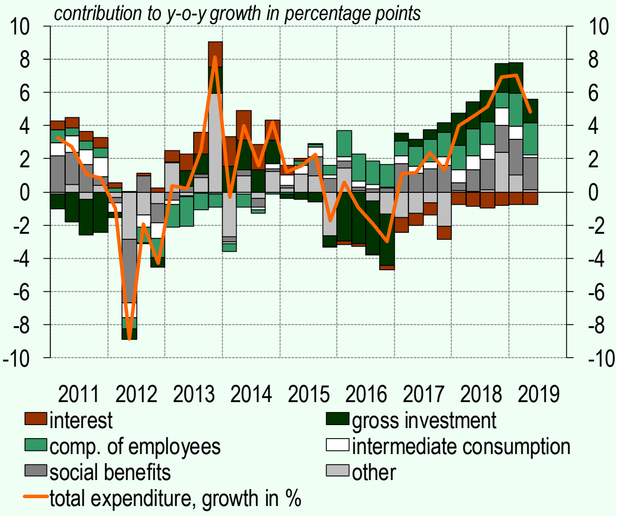
% GDP	SORS						Draft Budgetary Plan		Stability Programme				EC	
	2014	2015	2016	2017	2018	19 (1-6)	2019	2020	2019	2020	2021	2022	2019	2020
Revenue	45.3	45.9	44.3	44.0	44.3	44.3	44.5	43.9	43.2	42.6	41.8	41.3	43.2	43.0
Expenditure	50.8	48.7	46.2	44.1	43.5	44.0	43.7	43.0	42.2	41.6	40.7	40.2	42.5	42.1
of which: interest	3.2	3.2	3.0	2.5	2.0	1.6	1.6	1.5	1.6	1.5	1.3	1.2	1.6	1.5
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.8	0.3	0.8	0.9	0.9	1.0	1.1	1.2	0.7	0.9
Primary balance	-2.3	0.4	1.1	2.5	2.8	1.9	2.4	2.4	2.6	2.4	2.4	2.3	2.3	2.4
Structural balance	…	…	…	…	…	…	0.1	0.1	-0.1	-0.2	-0.1	0.1	-0.8	-0.3
Debt *	80.3	82.6	78.7	74.1	70.4	67.7	66.3	62.1	65.4	61.3	57.9	54.7	65.9	61.7
Real GDP (growth, %)	2.8	2.2	3.1	4.8	4.1	2.9	2.8	3.0	3.4	3.1	2.8	2.7	3.1	2.8

*Note: *Debt refers to the end of the year or quarter.*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, October 2019), Stability Programme (Ministry of Finance, April 2019), European Commission (May 2019).

General government revenues recorded solid growth in the first half of the year, but growth slowed in the second quarter, primarily as a result of the easing of the tax burden on annual leave payment. Revenues over the first six months of the year were up 5.2% in year-on-year terms. The buoyant labour market remained the key factor in this growth: it produced further growth in revenues from net social security contributions that was even higher than last year (at 7.5%). Personal income tax had recorded year-on-year growth of almost 10% in the first quarter, but then declined by almost the same amount in the second quarter as a result of the easing of tax burden on annual leave payment. This measure is forecast to reduce revenues by around 0.2% of GDP on the annual level. Growth in indirect taxes was low, and only slightly outpaced inflation over the same period. Excise duties on all types of products subject to duty were down in year-on-year terms, while growth in VAT revenues was lower than in the two previous years, at 3.8%. There was an increase in growth in revenues from property income, and in capital transfers in connection with disbursements of the EU funds.

General government expenditure increased by more than revenues, driven largely by government investment, compensation of employees and social benefits. General government expenditure in the first half of the year was up 5.9% in year-on-year terms. Government investment was up around a quarter in year-on-year terms in the second quarter for the sixth consecutive quarter. These developments cannot be expected to continue in the second half of the year: the cash flow figures for investment expenditures suggest that investment stagnated over the summer. The high growth in compensation of employees (7.5% in year-on-year terms in the first half of the year) primarily reflects the rise in the average wage brought by agreed pay increases, but also employment growth to a lesser extent. Growth in compensation of employees will remain high for the rest of the year, and there will be further removal of austerity measures on wages next year. Social benefits are growing at a slower rate than aggregate expenditure, but faster than in previous years, on account of a variety of measures that have

Figure 7.2: General government expenditure excluding support to financial institutions

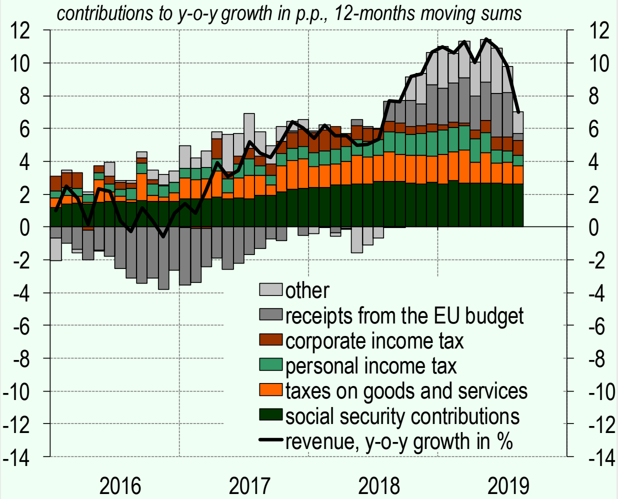


Source: SORS, Bank of Slovenia calculations.

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

The consolidated general government surplus amounted to EUR 95 million over the first eight months of the year, EUR 303 million narrower in year-on-year terms. More than half of the change (EUR 168.2 million) came because during the same period last year the state budget received part of the funds from the EU budget tied to the 2007-2013 financial framework that had previously been withheld. According to the latest assessments of the Ministry of Finance, the state budget is forecast to record a surplus of EUR 154 million this year. The Health Insurance Institute recorded a deficit over the first eight months of the year, as a result of high growth in labour costs, costs of goods and services, and sick pay. The Health Insurance Institute is nevertheless forecast to end the year with a surplus of EUR 41.2 million, although in keeping to the ceiling on expenditure (in connection with the domestic fiscal rule) it will have EUR 44.8 million of outstanding liabilities that will be settled in 2020. The local government sector and the Pension and Disability Insurance Institute generated surpluses over the first eight months of the year. The local government surplus was higher than in the same period last year thanks to slower growth in expenditure, investment expenditure in particular, while expenditure on goods and services was down in year-on-year terms. The general government sector recorded a consolidated surplus in the amount of 0.5% of GDP over the 12 months to August.

Figure 1: General government revenue



Note: Cash flow methodology.
Source: Ministry of Finance, Bank of Slovenia calculations.

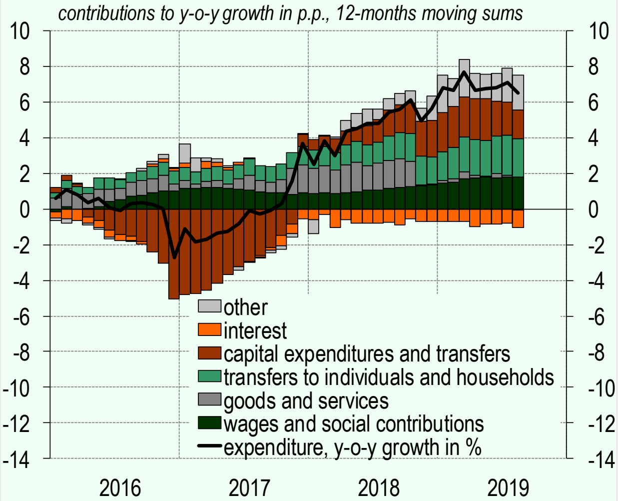
Table 1: Consolidated balance sheet* of public finance

	2018	last 12 months to Aug 19			2018 Jan.-Aug	2019 Jan.-Aug	Jan.-Aug 19
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**18,594**	**19,046**	**40.2**	**7.0**	**12,028**	**12,480**	**3.8**
Tax revenue	16,225	16,831	35.5	6.2	10,618	11,223	5.7
- goods and services	5,989	6,086	12.8	3.3	3,908	4,005	2.5
- social security contributions	6,550	6,870	14.5	7.3	4,291	4,611	7.5
- personal income	2,447	2,474	5.2	5.1	1,587	1,613	1.7
- corporate income	846	968	2.0	18.9	581	703	21.0
From EU budget	796	710	1.5	11.9	497	411	-17.3
Other	1,572	1,505	3.2	14.5	913	846	-7.3
Expenditure	**18,068**	**18,824**	**39.7**	**6.5**	**11,629**	**12,385**	**6.5**
Current expenditure	7,966	8,210	17.3	3.5	5,232	5,476	4.7
- wages and other personnel expenditure (incl. contributions)	4,168	4,397	9.3	7.8	2,757	2,987	8.3
- purchases of goods, services	2,634	2,708	5.7	-0.4	1,655	1,729	4.5
- interest	868	770	1.6	-18.1	728	630	-13.4
Current transfers	8,237	8,558	18.1	5.7	5,492	5,813	5.9
- transfers to individuals and households	6,926	7,205	15.2	5.5	4,647	4,926	6.0
Capital expenditure, transfers	1,432	1,522	3.2	23.5	619	710	14.6
To EU budget	433	534	1.1	29.2	286	386	35.0
GG surplus/deficit	**526**	**222**	**0.5**		**399**	**95**	

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

Year-on-year growth in general government revenues slowed. The main factor affecting tax revenues was the easing of the tax burden on annual leave payments, while an even larger factor reducing the year-on-year rate of growth impact was last year's extraordinary revenues from the EU budget, as detailed above. There was a notable year-on-year increase in corporate income tax revenues, while growth in social security contributions remains high, thanks to the buoyant labour market. On the expenditure side, the main year-on-year increases over the first eight months of the year were in payments into the EU budget, and investment expenditure and transfers. An agreement between the government and the public sector trade unions led to high growth in wages and employee contributions, while there was a further wage increase in September, and a further increase planned for November of this year. Among transfers to households and individuals, there have been notable increases in social security transfers (cash social assistance, income support) and in sick pay. Interest payments are continuing to decline in year-on-year terms.

Figure 2: General government expenditure



Note: Cash flow methodology.
Sources: Ministry of Finance, Bank of Slovenia calculations.

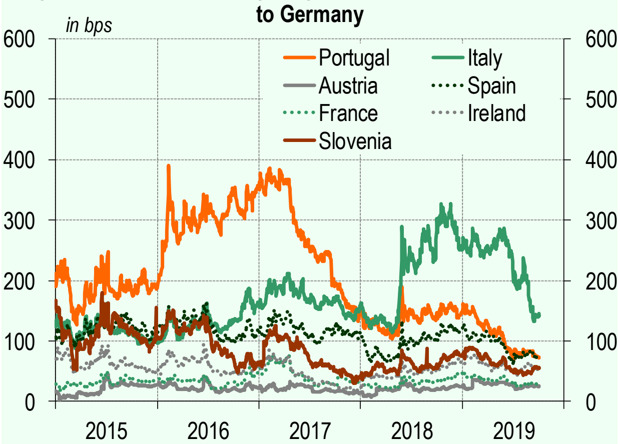
been adopted (e.g. increases in cash social assistance, parental benefit). Compensation of employees and social benefits each accounted for a third of the nominal increase in expenditure in the first half of the year. Interest payments are declining in year-on-year terms for the fourth consecutive year. Growth in primary expenditure (i.e. government expenditure excluding interest) reached 7.0% in the first half of the year.

General government debt and government guarantees

The general government debt continued to decline. It amounted to 67.7% of GDP at the end of the second quarter, down on the end of last year, when it stood at 70.4% of GDP according to the revised figures. The debt was also down in nominal terms on the end of last year, mostly as a result of the reduction in the state budget debt. The local government sector is also gradually reducing its debt, which increased slightly last year due to election cycle. The majority of government borrowing over the first nine months of the year was undertaken via January's new bond issue in the amount of EUR 1.5 billion and an increase of EUR 350 million in the same bond issue in July. For the fourth consecutive year the government has issued treasury bills at negative interest rates, which since mid-2017 have fluctuated close to the interest rate on the ECB's deposit facility.

Government guarantees declined again in the second quarter. The stock of government guarantees, which is declining in nominal terms and as a percentage of GDP for the fifth consecutive year, amounted to 11.9% of GDP at the end of the second quarter, down around 10 percentage points from its level during the last eco-

Figure 7.3: Spreads on 10-year government bonds as compared to Germany



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

nomic and financial crisis. The largest factor in this year's decline has been the maturing liabilities of DARS and the BAMC, which were settled by the aforementioned firms themselves. The portion of guarantees included in the government debt (guarantees for the BAMC and for the EFSF) is also declining, and amounted to 3.2% of GDP at the end of the second quarter. The amounts of guarantees called and repaid guarantees over the first eight months of the year were similar; both were just under EUR 1 million.

The required yield on Slovenian 10-year government bonds has been negative in recent months. Negative required yields on 10-year government bonds began to appear in August, when expectations were raised of a further relaxation of ECB monetary policy, before the actual relaxation came in mid-September. There had been downward pressure on the yields even before this, when Fitch upgraded Slovenia's long-term debt rating, followed by a series of upgradings by other rating agencies: Moody's raised its outlook in April, while Standard & Poor's upgraded its credit rating in June. The spread over the German 10-year benchmark bond narrowed by around 30 basis points over the first nine months of the year, and the required yield averaged -0.04% in September. The required yields on the long-term bonds of other euro area countries are also falling at a similar pace. The required yield on Italian bonds is significantly higher, which is primarily attributable to political developments in the country.

Planned developments in general government balance and debt

The general government sector is forecast to remain in surplus in the coming years. The government has submitted budget documents for the next two years to the National Assembly. Despite the slightly less favourable economic situation, the plan is to continue running surpluses and reducing the government debt. The state budget surplus is forecast at 0.9% of GDP next year (the same as the general government surplus), and is expected to rise to 1.2% of GDP in 2021. Lower interest payments will remain a factor in the improvement in the fiscal position.

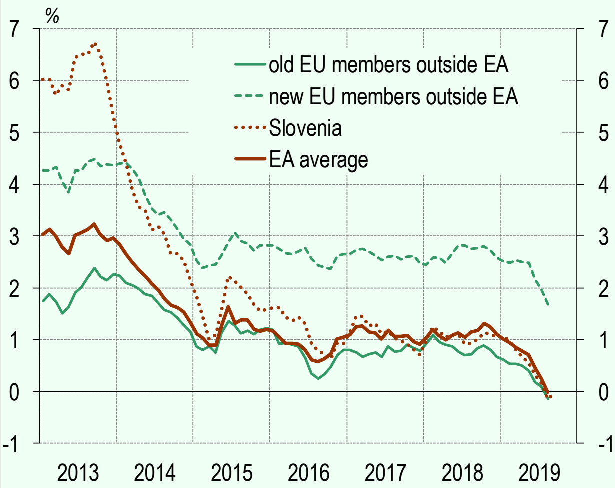
The government has approved several proposed legislative changes that were debated this year. It is planning to further reduce the tax burden on labour (a rise in tax bands, a rise in allowances, cuts in tax rates in the second and third income tax bands), which will only be partly compensated for by increased taxation of capital (a rise in the tax rate on capital income such as dividends and interest, the enforcement of a minimum effective tax rate in corporate income tax). The remaining tax shortfall should be covered by measures to combat tax evasion and fraud. Changes are also planned in the area of pensions, with the aim of increasing work activity and ensuring a decent income in old age (higher pension income while continuing work after reaching retirement age, and a higher pension accrual rate). As far as the labour market is concerned, the planned changes look to raise the minimum cash compensation for the unemployed, to raise the minimum insurance period for recognising the right to cash compensation, and to alter the conditions for determining the duration of cash compensation for older people. The abolition of the "work activity" bonus is also undergoing parliamentary procedure. Changes in the area of supplementary health insurance are also planned, but are yet to be coordinated with the various stakeholders.

The ratio of debt to GDP is expected to continue falling, and should be less than 60% by 2021. The debt is forecast to decline in nominal terms, and as a ratio to GDP. A large nominal decline is expected this year, on account of privatisation revenues from the sale of NLB in the final quarter of last year. Further reductions in the debt will be facilitated by the privatisation of Abanka, this year's completion of the privatisation process at NLB, and the generation of government surpluses. Economic growth is another factor reducing the ratio of debt to GDP. Reducing the debt remains a key task of fiscal policy, as in this way the government can prepare for any adverse economic shocks that lie ahead. The key to sustainable debt reduction is addressing the demographic pressures on the public finances as soon as possible. Drawing up deep-seated changes to pensions, healthcare and long-term social care remains in the government's plans.

Box 7.2: Required yields on long-term debt of EU Member States, and comparison with Slovenia

The required yields on EU Member States' 10-year government bonds mostly move relatively similarly, a consequence of the high level of economic integration and also, within the euro area, the single monetary policy. However, the actual levels of the required yields differ. For newer EU Member States that are not in the euro area (Czech Republic, Hungary, Poland, Bulgaria, Romania), required yields are mostly higher than average required yields in the euro area. Of these countries, Romania saw a large rise in the required yield on its government debt after the end of 2016, in connection with its expansionary fiscal policy. With the exception of the UK, the older EU Member States that have retained their own currencies (Denmark and Sweden) generally have required yields that are lower than the euro area average. Required yields have been slightly higher for the UK in recent times, owing primarily to the uncertainty surrounding Brexit, while the central bank also raised the key interest rate in 2017 and 2018. Greece has had the highest required yields in the euro area since 2010, as a result of its major debt crisis, its ratio of debt to GDP, which is still the highest, and the very gradual revival of economic growth, which only resumed in 2017. Membership of the euro area generally gives a country a slightly better credit rating, but the required yield is also affected by a host of other factors, such as domestic inflation, bond liquidity, debt level, sustainability of fiscal policy, economic growth, stability of the financial system, and political stability. In the event of serious imbalances, membership of the euro area cannot replace sound domestic economic policy.

Figure 1: Ten year government bond yields



Note: Unweighted averages.
Sources: ECB, Bloomberg, Bank of Slovenia calculations.

The required yields on 10-year Slovenian government bonds were particularly high compared with other countries in the period before measures were taken to resolve the banking crisis in 2013. Since the measures to stabilise the banking system, and the subsequent reduction in the general government deficit and the ratio of debt to GDP in the wake of relatively high economic growth, the required yields have been very similar to the euro area average. They nevertheless remained slightly higher compared with the newer euro area countries that were not hit by a major economic or financial crisis (e.g. Slovakia). The required yields on 10-year government bonds in many euro area countries and older EU Member States (other than the UK) have hit negative territory this year, driven by the increasingly expansionary nature of monetary policy.

8 Selected Themes

8.1 Comparison of labour taxation between countries

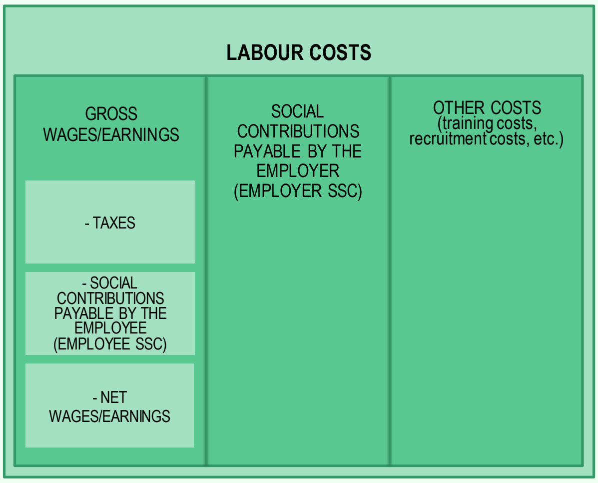
A calculation of the tax wedge using OECD methodology in 23 European countries that are members of both the EU and the OECD reveals the high taxation of higher pay in Slovenia, the highest proportion of labour taxation accounted for by employee contributions, and also the favourable tax treatment of families with children. In 2018 the tax wedge in Slovenia increased with income level. It was above the OECD-EU average for families with no children, and declined to close to or just under the average for families with children. By contrast, the tax wedge for a single person without children remained above the OECD-EU average, despite declining over the last 18 years. Slovenia is particularly notable for the large proportion of the tax wedge accounted for by employee contributions, which in all cases were the highest of the observed countries, while the tax wedge in the case of families with children declined, primarily on account of lower personal income tax and higher family benefits. The taxation of labour in Slovenia is more favourable for employees with lower earnings, thanks to favourable general tax allowances, and also for families with children, thanks to tax allowances for children and child benefits. A precise comparison of the taxation of labour between countries is made harder by the significant differences between pay systems, minimum wage policies, and income distribution, and it is therefore not possible to draw any conclusions about welfare in each country on the basis of a comparison of the tax wedge between countries.

The relatively high taxation of higher pay in particular could hinder changes to the structure of employment and the creation of value-added in Slovenia. Lightening the tax burden on labour could be one of the measures to raise the competitiveness of the economy, but for the sake of stability in the public finances, it would have to be accompanied by other fiscal measures to neutralise the loss of revenue.

Introduction

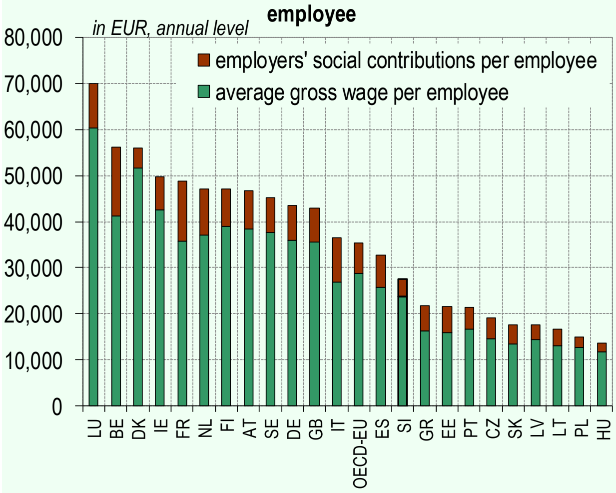
The level of labour costs and, in particular, wages have a significant impact on the supply of and demand for labour. Gross wages are the largest component in firms' labour costs, while the remainder consists of employer social security contributions, and other costs, such as training costs and recruitment costs. Gross wages are divided into taxes (e.g. personal income tax), employee social security contributions, and net wages. Alongside other factors such as capital costs, the business environment, labour productivity, and innovation, labour costs have a significant impact on a firm's competitive position. By contrast, net wages are the main source of income for employees, and consequently have a decisive impact on consumption and household savings (Eurostat, 2019). Because the taxation of labour costs has an impact on the level of net wages, it could also have an impact on firms' recruitment policies and their cost competitiveness, consumption, and the labour supply. The primary purpose of this analysis is comparing wages and labour taxation in Slovenia and other selected

Figure 8.1.1: Labour cost components



Source: Eurostat, Bank of Slovenia.

Figure 8.1.2: Compensation of employees per employee

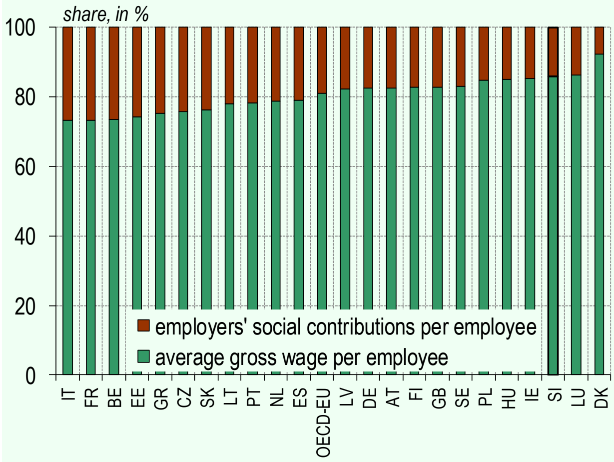


Note: OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: Eurostat, Bank of Slovenia calculations.

countries, where data availability meant that there was a focus on the 23 countries that are in both the OECD and the EU (Austria, Belgium, Czech Republic, Germany, Denmark, Spain, Estonia, Finland, France, UK, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Netherlands, Poland, Portugal, Slovakia, Slovenia, Sweden).

The level of average wages varies from country to country, on account of the levels of productivity and the cost of living, and various other specific aspects. Examples of country-specific factors include the wage determination system, the way in which the minimum wage is determined, and the progressiveness of taxation. According to internationally comparable national accounts figures, the level of compensation of employees per employee (hereinafter: compensation per employee) was highest in Luxembourg among the observed countries, and lowest in Hungary. Slovenia stood in 14th place. Breaking compensation per employee down into gross wages and employer social security contributions, the latter accounted for 18.9% of total compensation per employee on average last year. The highest figure of 26.8% was in Italy, while the lowest of 7.7% was in Denmark. In Slovenia employer social security contributions accounted for 14.1% of total compensation per employee, the third lowest figure among the observed countries. In addition to employer social security contributions, analysis of the taxation of labour needs to take account of the other factors affecting the level of taxation of labour, namely

Figure 8.1.3: Decomposition of compensation of employees per employee



Note: OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: Eurostat, Bank of Slovenia calculations.

taxes, employee contributions, tax allowances where they exist, family type, and income level. These factors are taken into account in the analysis below.

Methodology

A comparison of the tax wedge or the level of the tax burden in total labour costs in Slovenia and countries that are members of both the OECD and the EU is given below. The gap that appears after the taxation of labour between total labour costs and the employee's net wage can be measured by the tax wedge (Dolenc & Vodopivec, 2005). The indicator was developed by the

OECD, and is calculated on the basis of the legislation in the individual country, and not on the actual values of social security contributions, family benefits and taxes collected (Kosi Antolič, 2015). The numerator of the equation for the indicator is the sum of personal income tax, and employee and employer social security contributions minus family benefits,[1] while the denominator is total labour costs to the employer (OECD, 2019a).

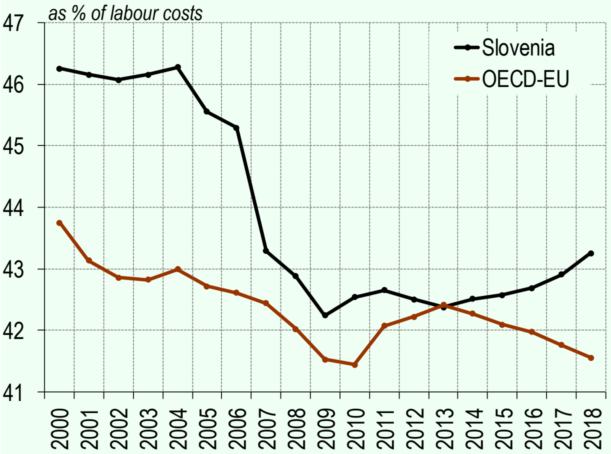
The OECD calculates the tax wedge for various family types and income levels. The OECD (2019b) calculates the tax wedge for eight hypothetical cases of family with regard to income level.[2] The changes in the tax wedge in Slovenia in the period since 2000 are examined below, which is followed by a comparison of the tax wedge for the same family type and various income levels, and then for various family types and the same income level.

Changes in the tax wedge in Slovenia over time

The tax wedge on labour income for a single person with no children earning the average wage averaged 43.9% in Slovenia between 2000 and 2018, just under 2 percentage points more than the average in the observed countries. Put simply, this means that the average taxation of labour over the observation period in Slovenia amounted to 43.9% for this family type, i.e. the net employee wage after tax deductions and family benefits amounted to 56.1% of the employer's total labour costs. The tax wedge for a single person with no children earning the average wage in Slovenia declined by 3 percentage points between 2000 and 2018, more than the OECD-EU average decline, but remained above the average over the entire observation period. The lowest average tax wedge over the observation period was in Ireland, and the highest was in Belgium. The largest decline in the tax wedge over the observation period was recorded by Hungary, although it was still above the OECD-EU average, while the largest increase was in Portugal, where the tax wedge remained below the OECD-EU average.

The most notable decline in the tax wedge in Slovenia came in 2007, when a tax reform focusing on the taxation of personal and corporate income entered into force. The changes to personal income tax included a rise in the threshold for using normalised income to determine the base, a reduction in the number of tax bands from five to three, with changes to the bands themselves in terms of the taxable base and changes in tax rates. There were also slight rises in the general and special tax allowances, and certain non-standard allowances were abolished (e.g. for purchasing professional literature, construction and maintenance of housing, membership fees paid to political parties and trade unions, etc.), while taxpayers who worked on long-distance merchant ships or who received employment income in the rest of the world were given the option of reducing the taxable base (Kmetič, 2014).

Figure 8.1.4: Tax wedge for a single person at 100% of average earnings, no child



Note: OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: OECD, Bank of Slovenia calculations.

[1] The OECD defines family cash benefits, which reduce the overall tax wedge, as transfers earmarked for families, which are often in the form of child benefits, family benefits, and child or family allowances. Family cash benefits may be equal for all families, or may vary with regard to income level, the number and age of children, the parents' position in the labour market, etc. (OECD, 2019c).

[2] 1) A single person with no children earning 67% of the average gross wage; 2) a single person with no children earning 100% of the average gross wage; 3) a single person with no children earning 167% of the average gross wage; 4) a single person with two children earning 67% of the average gross wage; 5) a couple with two children, where one partner earns 100% of the average gross wage; 6) a couple with two children, where one partner earns 100% of the average gross wage and the other earns 33% of the average gross wage; 7) a couple with two children, where one partner earns 100% of the average gross wage and the other earns 67% of the average gross wage; and 8) a couple with no children, where one partner earns 100% of the average gross wage and the other earns 33% of the average gross wage.

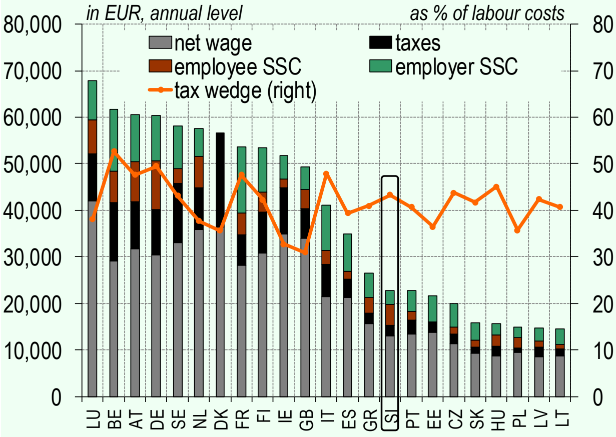
The tax wedge also declined in 2008, when an additional tax allowance for low-income taxpayers was introduced alongside the general allowance. The changes in the tax wedge in Slovenia since 2009 have been less prominent, despite certain changes in the personal income tax scale, changes to the lower limit on taxable income, and changes to allowances. The tax wedge for a single person earning the average wage with no children declined to the average of the observed countries in 2013, since which the figure in Slovenia has again moved above the OECD-EU average.

The breakdown of labour costs shows that the taxation of labour can have a great impact on the net wage received. The OECD figures allow for a comparison of the proportions of total labour costs accounted for by individual components (i.e. personal income tax, employee contributions, employer contributions, and family benefits). Labour costs in 2018 are broken down by components for the case of a single person earning the average wage with no children for the observed countries in the analysis below. Labour costs are disclosed on an annual basis, and for countries outside the euro area were converted at the average Bank of Slovenia exchange rate for 2018 (Exchange Rates, 2019). In the case of a single person with no children, no country other than Denmark provides family benefits, and they were therefore excluded from this part of the analysis. Although the level of total annual labour costs in Slovenia was higher than in Estonia and Portugal, the higher taxation of labour meant that net annual wages in Slovenia were lower. Compared with neighbouring countries included in the analysis, namely Austria, Italy, and Hungary, Slovenia had the lowest tax wedge, but the net annual wage in Slovenia was nevertheless significantly lower than in Austria and Italy. The high taxation of labour is thus just one of the factors in the lower net wage for employees, which is particularly significant in the case of daily migrants who live and work in different countries. From this perspective, it would also be significant to compare the size of the tax wedge at similar levels of net annual wages.

Comparison of the tax wedge with the regard to income level

The tax wedge for a single person with no children in Slovenia was above the OECD-EU average last year in all cases examined, and increased with income level. This part of the analysis compares the tax wedge in 2018 for the same family type earning three different income levels: 1) a single person with no children earning 67% of the average gross wage; 2) a single person with no children earning 100% of the average gross wage; and 3) a single person with no children earning 167% of the average gross wage. According to SORS figures, 26% of families in Slovenia were childless last year. The tax wedge for a single person with no children was higher

Figure 8.1.5: Labour cost decomposition and tax wedge in 2018 for a single person at 100% of average earnings, no child

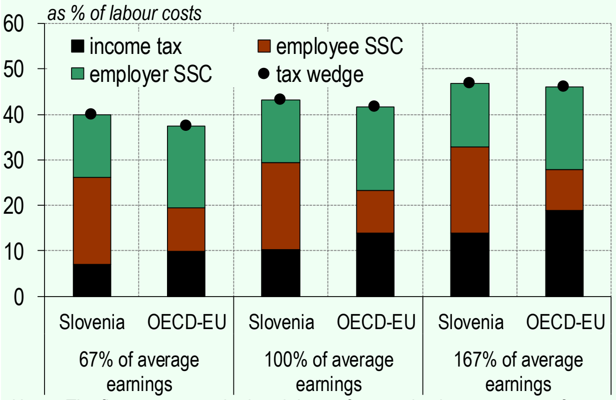


Note: Labour costs for countries outside the euro area have been converted into euros by using the average exchange rate for 2018.
Source: OECD, Bank of Slovenia calculations.

Figure 8.1.6: Comparison of the tax wedge for 2018 (different levels of earnings)

Notes: The figure compares the 2018 tax wedge with respect to the amount of earnings for a single person without children who receives 67%, 100%, and 167% of average earnings, respectively. OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: OECD, Bank of Slovenia calculations.

Figure 8.1.7: Breakdown of tax wedge by components for 2018 (different levels of earnings)



Notes: The figure presents the breakdown of tax wedge by components for 2018 with respect to the amount of earnings for a single person without children who receives 67%, 100%, and 167% of average earnings, respectively. OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: OECD, Bank of Slovenia calculations.

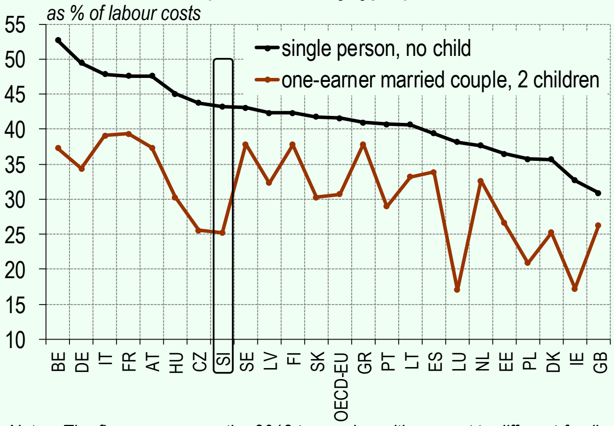
at higher income in the majority of the countries, with the exceptions of Hungary, where it was unchanged at all income levels, and Poland, where it increased minimally at higher income. In Slovenia it stood at 40% for earnings of 67% of the average wage, 43.3% for the average wage, and 46.7% for earnings of 167% of the average wage.

The largest factor in the size of the tax wedge in Slovenia last year was employee contributions, which were the highest of the observed countries at all income levels. By contrast, employer contributions and personal income tax were below the OECD-EU average. The highest proportion of the tax wedge accounted for by personal income tax in all cases was recorded by Denmark, where there were no employee or employer contributions, while the highest employer contributions were in France and the Czech Republic.

Comparison of the tax wedge with regard to family type

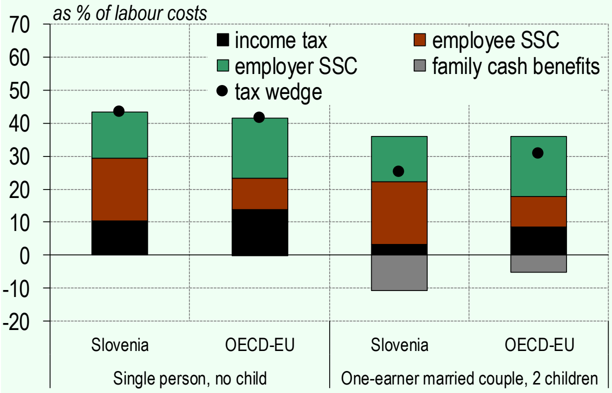
Last year the tax wedge in Slovenia at the same income level for a family with two children was below the OECD-EU average, and was lower than for a single person with no children. This part of the analysis compares the tax wedge in 2018 for various family types earning the same income in the amount of the average wage: 1) a single person with no children earning the

Figure 8.1.8: Comparison of the tax wedge for 2018 (different family types)



Notes: The figure compares the 2018 tax wedge with respect to different family types, where a single person without children and one-earner married couple with two children each receive 100% of average earnings. OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: OECD, Bank of Slovenia calculations.

Figure 8.1.9: Breakdown of tax wedge by components for 2018 (different family types)



Notes: The figure presents the breakdown of tax wedge by components for 2018 with respect to different family types, where a single person without children and one-earner married couple with two children each receive 100% of average earnings. OECD-EU: average of countries that are members of both, the EU and the OECD.
Source: OECD, Bank of Slovenia calculations.

average gross wage; and 2) a family with two children where one adult is earning the average gross wage. According to SORS figures, last year 26.9% of families in Slovenia had two children. The tax wedge at the same income level for a family with two children was lower than for a single person with no children in all the observed countries. It was more than 40% lower in Slovenia, at 25.2%, and below the OECD-EU average. In other hypothetical cases of families with two children where the total earnings of the partners is higher than the average gross wage, the tax wedge in Slovenia was again above the average of the observed countries.

Last year the tax wedge in Slovenia for a family with two children was lower than for a single person with

no children at the same income levels, on account of lower personal income tax and higher family benefits. The main reasons that the tax wedge for a family with two children was lower than for a single person with no children at the same income levels last year, both in Slovenia and in terms of the OECD-EU average, were lower personal income tax and higher family benefits; employee and employer contributions were practically the same. Consequently, employee contributions in Slovenia in the case of a family with two children remained the highest of the observed countries, and are the largest factor in the tax wedge, while the proportions accounted for by the other components were less than the OECD-EU average. Employer contributions remained highest in France, while personal income tax was highest in Denmark. The ratio of family benefits to total labour costs in Slovenia was the second highest after Luxembourg.

Conclusion

The main purpose of the analysis was comparing the taxation of labour in 23 European countries that are members of both the OECD and the EU. A comparison of the tax wedge, an indicator developed by the OECD that illustrates the tax burden relative to total labour costs, reveals that the tax wedge in Slovenia for a single person with no children earning the average wage declined overall between 2000 and 2018, but remained above the average of the observed countries. The comparison of the tax wedge for the same family type for 2018 showed that the tax wedge for a single person with no children increased with income level, and in Slovenia remained above the OECD-EU average; employee contributions were notably high, and were the highest among all the observed countries in all cases. In contrast to the figures for a single person with no children, at the same income, the tax wedge for a family with two children declined to below the OECD-EU average last year, largely on account of lower personal income tax and higher family benefits. Employee contributions remained the highest among the observed countries.

The taxation of labour in Slovenia is above the average of the observed countries for people with no children, for whom the tax burden increases with rising income level, while for families with children the tax burden is declining to close to or below the OECD-EU average. In the case of the taxation of labour, a general conclusion that can be drawn from the analysis is that taxation policy in Slovenia is more favourable for employees with lower earnings, thanks to favourable general tax allowances, and also for families with children, thanks to tax allowances for children and child benefits. The latter could act as a measure to improve Slovenia's demographics.

The relatively high taxation of higher pay in particular could hinder changes to the structure of employment in Slovenia. The structure of employment at Slovenian firms is dominated by labour-intensive sectors and jobs with medium skill levels, and the high taxation of higher pay is hindering the hiring of higher-skilled people. In addition to the impact on productivity, this is also significant because of Slovenia's negative net immigration rate among people with tertiary qualifications.[3]

For reasons of stability in the public finances, any lightening of the tax burden on labour would have to be accompanied by other fiscal measures. The taxation of labour (personal income tax, and employer and employee social security contributions) accounted for 46% of Slovenia's total general government revenues in 2018, equivalent to 20% of GDP. According to the available figures, the ratio to GDP was higher in Germany, France, and Italy, and lower in Hungary, Slovakia, Latvia, and Estonia. The European Commission (2019) highlights the high level of taxation of labour in Slovenia, but also warns that it would be necessary to compensate for the loss of revenue caused by any lightening of the tax burden on labour by raising other general government revenues and/or reducing general government expenditure. The need for comprehensive tax reform and tax restructuring because of the aging population is also cited by the OECD (2018a). Not least, for a complete international comparison, and in the wake of any tax changes, it

[3] The aforementioned themes and conclusions are in line with the conclusions of analysis of Slovenia's integration into global value chains presented in Box 4.1 of the January 2018 Economic and Financial Developments, analysis of the low growth in labour productivity presented in Box 2.2 of the October 2018 Economic and Financial Developments, analysis of migration developments in Slovenia presented in the Selected Themes (Section 8.1) of the January 2019 Economic and Financial Developments, and analysis of changes in the occupations breakdown in Slovenia presented in Box 3.1 of the July 2019 Economic and Financial Developments.

would be necessary to take account of the specific features of the individual countries, which can be difficult to measure. In Slovenia the non-standard tax allowances in the area of wages could for example include voluntary supplementary pension saving, reimbursement of work-related expenses (e.g. costs of transport to and from work, meal allowance), reimbursement of business travel expenses, performance bonuses, which are not subject to personal income tax up to a certain limit, annual leave allowance, and separation allowance (OECD, 2018b).[4]

It is not possible to draw any conclusions about welfare in each country on the basis of a comparison of the tax wedge between countries. The advantage of the tax wedge indicator is that it takes account of the impact on the taxation of labour of different family types and different income levels. However, it should be noted that the wage levels are affected by various factors, the distribution of income varies from country to country, and consequently the position of a worker earning the average wage in the overall income distribution would vary from country to country. Because the level of personal income taken into account in the calculation of the tax wedge varies from country to country, no conclusion can be drawn on the basis of this indicator about the level of taxation of labour in the individual country at a given income level. In addition to income distribution, full analysis of the taxation of labour would have to take account of the specific features of each country in the area of labour costs, a comparison of other tax rates, such as the taxation of capital and consumption, and the scale of public goods and services provided by the government with the funds received from the taxation of labour (e.g. public schools and healthcare, old age pensions, etc.) (OECD, 2019b).

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[4] The most recent government proposal for changes to the tax system envisages lightening the tax burden on labour, which would be achieved by raising personal income tax allowances, and changing tax rates and the limits between bands. In addition, a tax break on annual leave allowance has already been passed this year, according to which it is now exempt from personal income tax and social security contributions up to the level of the average gross monthly wage. The aforementioned measures are equivalent to 0.5% of GDP.

9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2015	2016	2017	18Q3	18Q4	Jun.18	Jul.19	Aug.19
1.1. Claims of the Bank of Slovenia	5,410	6,544	7,143	7,055	8,168	7,605	7,973	7,778
1.2. Claims of other MFIs	8,266	8,100	8,504	8,515	8,279	8,689	8,735	8,880
1. Claims on foreign sectors (foreign assets)	**13,676**	**14,643**	**15,647**	**15,570**	**16,447**	**16,294**	**16,708**	**16,658**
2.1. Claims of the Bank of Slovenia on central government	2,327	4,618	6,247	7,041	7,165	7,606	7,631	7,913
2.2.1.1. Loans	1,298	1,506	1,425	1,222	1,174	1,136	1,125	1,125
2.2.1.2. Securities	5,814	4,767	3,744	3,609	3,763	3,922	3,944	3,882
2.2.1. Claims on central government	7,112	6,273	5,170	4,831	4,937	5,058	5,070	5,007
2.2.2.1. Loans	622	579	571	554	580	577	570	567
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	622	579	571	554	580	577	570	567
2.2. Claims of other MFIs on general government	7,734	6,852	5,740	5,385	5,517	5,635	5,639	5,573
2.3.1.1. Loans	10,040	9,306	9,311	9,322	9,177	9,457	9,405	9,545
2.3.1.2. Securities	462	405	334	325	319	292	332	332
2.3.1. Claims on nonfinancial corporations	10,502	9,711	9,645	9,647	9,497	9,749	9,738	9,878
2.3.2. Households and non-profit institutions serving households	8,856	9,154	9,735	10,231	10,370	10,642	10,703	10,781
2.3.3.1. Loans	898	865	1,171	1,069	1,070	1,084	1,092	1,082
2.3.3.2. Securities	534	543	395	524	432	413	411	411
2.3.3. Claims on nonmonetary financial institutions	1,432	1,408	1,566	1,594	1,502	1,496	1,503	1,493
2.3. Claims of other MFIs on other non-MFIs	20,790	20,272	20,946	21,472	21,369	21,887	21,944	22,152
2. Claims on domestic non-MFIs	**30,850**	**31,743**	**32,934**	**33,898**	**34,050**	**35,128**	**35,214**	**35,638**
3. Remaining assets	**3,119**	**2,192**	**1,461**	**1,375**	**1,477**	**1,656**	**1,633**	**1,654**
Total assets	**47,646**	**48,578**	**50,042**	**50,843**	**51,974**	**53,078**	**53,555**	**53,950**
1.1. Bank of Slovenia	16	1,267	1,506	111	63	127	99	156
1.2. Other MFIs	5,920	5,094	4,436	3,844	3,986	4,155	4,170	4,169
1. Obligations to foreign sectors (foreign liabilities)	**5,936**	**6,362**	**5,943**	**3,956**	**4,049**	**4,282**	**4,268**	**4,325**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,956	5,160	5,371	5,487	5,655	5,604	5,655	5,659
2.1.1.2. Overnight deposits at other MFIs	13,057	15,471	17,727	19,187	19,877	20,570	20,940	20,981
2.1.1.3.1. Non-monetary financial institutions	9	69	11	71	76	374	380	373
2.1.1.3.2. Other government sector	53	62	107	112	100	109	120	120
2.1.1.3. Overnight deposits at the Bank of Slovenia	63	131	118	183	176	483	500	493
2.1.1. Banknotes and coins and overnight liabilities	18,075	20,761	23,216	24,856	25,708	26,657	27,095	27,133
2.1.2.1. Deposits at the Bank of Slovenia	1	0	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	7,837	6,864	6,127	5,748	5,727	5,718	5,781	5,764
2.1.2. Time deposits	7,838	6,864	6,127	5,748	5,727	5,718	5,781	5,764
2.1.3. Deposits reedemable at notice up to 3 months	315	464	473	539	492	675	675	677
2.1. Banknotes and coins and deposits up to 2 years	26,229	28,089	29,816	31,143	31,927	33,050	33,550	33,573
2.2. Debt securities, units/shares of money market funds and repos	56	102	55	65	78	59	56	55
2. Banknotes and coins and instruments up to 2 years	**26,285**	**28,190**	**29,871**	**31,207**	**32,006**	**33,109**	**33,606**	**33,628**
3. Long-tern financial obligations to non-MFIs	**1,550**	**1,510**	**1,524**	**1,349**	**1,314**	**1,319**	**1,320**	**1,319**
4. Remaining liabilities	**15,378**	**14,100**	**14,035**	**15,268**	**15,675**	**15,725**	**15,779**	**16,161**
5. Excess of inter-MFI liabilities	**-1,504**	**-1,584**	**-1,330**	**-937**	**-1,069**	**-1,357**	**-1,419**	**-1,483**
Total liabilities	**47,646**	**48,578**	**50,042**	**50,843**	**51,974**	**53,078**	**53,555**	**53,950**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2015	2016	2017	18Q3	18Q4	Jun.18	Jul.19	Aug.19
1.1. Gold	100	112	111	104	115	127	131	141
1.2. Receivable form IMF	367	361	338	355	372	379	381	383
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	699	588	233	210	1,464	613	992	667
1.5. Securities	4,141	5,380	6,359	6,282	6,114	6,367	6,346	6,460
1.6. Other claims	103	103	103	103	103	120	123	126
1. Claims on foreign sectors (foreign assets)	**5,410**	**6,544**	**7,143**	**7,055**	**8,168**	**7,605**	**7,973**	**7,778**
2.1. Claims on central government	2,327	4,618	6,247	7,041	7,165	7,606	7,631	7,913
2.2.1. Loans	901	714	1,142	1,102	1,102	1,052	1,052	1,052
2.2.2. Other claims	44	99	98	1	3	3	40	50
2.2. Claims on domestic monetary sector	946	813	1,240	1,103	1,105	1,055	1,091	1,102
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**3,275**	**5,433**	**7,489**	**8,146**	**8,271**	**8,663**	**8,724**	**9,016**
3. Remaining assets	**1,685**	**973**	**279**	**265**	**314**	**372**	**384**	**356**
Total assets	**10,370**	**12,950**	**14,911**	**15,465**	**16,753**	**16,640**	**17,081**	**17,151**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,956**	**5,160**	**5,371**	**5,487**	**5,655**	**5,604**	**5,655**	**5,659**
2.1.1.1.1. Overnight	1,634	2,252	2,939	3,158	3,391	3,056	3,397	3,127
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,634	2,252	2,939	3,158	3,391	3,056	3,397	3,127
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,634	2,252	2,939	3,158	3,391	3,056	3,397	3,127
2.1.2.1.1. Overnight	1,730	1,949	2,521	3,181	3,704	2,107	1,973	1,706
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,730	1,949	2,521	3,181	3,704	2,107	1,973	1,706
2.1.2.2. Foreign currency	60	78	56	5	5	5	5	6
2.1.2. General government	1,789	2,027	2,577	3,186	3,708	2,111	1,978	1,712
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	69	11	71	76	374	380	373
2.1.3. Other domestic sectors	11	69	11	71	76	374	380	373
2.1. Domestic sectors	3,434	4,348	5,527	6,414	7,176	5,541	5,754	5,213
2.2. Foreign sectors	16	1,267	1,506	111	63	127	99	156
2. Deposits	**3,450**	**5,615**	**7,033**	**6,525**	**7,238**	**5,667**	**5,853**	**5,368**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**275**	**256**	**260**	**262**	**264**	**266**	**268**
5. Capital and reserves	**1,533**	**1,748**	**1,883**	**1,838**	**1,945**	**2,733**	**2,809**	**3,188**
6. Remaining liabilities	**157**	**152**	**367**	**1,355**	**1,653**	**2,371**	**2,499**	**2,669**
Total liabilities	**10,370**	**12,950**	**14,911**	**15,465**	**16,753**	**16,640**	**17,081**	**17,151**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2015	2016	2017	18Q3	18Q4	Jun.18	Jul.19	Aug.19
1.1.1. Cash	294	322	355	347	425	364	381	404
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,634	2,252	2,939	3,158	3,391	3,056	3,397	3,127
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,928	2,574	3,294	3,505	3,817	3,419	3,777	3,532
1.2.1. Loans	1,264	1,061	873	901	865	848	849	844
1.2.2. Debt securities	245	256	71	-	18	97	88	95
1.2.3. Shares and other equity	62	2	2	1	1	0	1	1
1.2. Claims on other MFI's	1,572	1,319	947	902	883	946	938	940
1.3.1. Loans	21,714	21,410	22,213	22,399	22,371	22,896	22,895	23,100
1.3.2. Debt securities	6,050	5,030	3,775	3,650	3,797	3,917	3,979	3,916
1.3.3. Shares and other equity	759	685	698	808	717	710	709	708
1.3. Claims on nonmonetry sectors	28,524	27,125	26,687	26,857	26,885	27,522	27,583	27,725
1. Claims on domestic sectors (domestic assets)	**32,024**	**31,018**	**30,927**	**31,264**	**31,585**	**31,887**	**32,298**	**32,197**
2.1.1. Cash	34	38	35	41	35	52	48	47
2.1.2. Loans	2,767	2,628	2,154	1,882	1,681	1,998	2,012	2,102
2.1.3. Debt securities	1,027	1,165	1,333	1,396	1,311	1,392	1,383	1,378
2.1.4 Shares and other equity	567	567	579	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,395	4,398	4,100	3,898	3,605	4,020	4,021	4,105
2.2.1. Loans	1,597	1,155	899	980	1,023	1,129	1,135	1,171
2.2.2. Debt securities	1,870	2,151	3,190	3,330	3,346	3,240	3,278	3,303
2.2.3. Shares and other equity	405	396	314	308	305	300	301	301
2.2. Claims on foreign nonmonetary sectors	3,871	3,701	4,404	4,617	4,674	4,669	4,713	4,775
2. Claims on foreign sectors (foreign assets)	**8,266**	**8,100**	**8,504**	**8,515**	**8,279**	**8,689**	**8,735**	**8,880**
3. Remaining assets	**1,314**	**1,074**	**1,015**	**709**	**762**	**1,248**	**1,219**	**1,289**
Total assets	**41,603**	**40,191**	**40,447**	**40,488**	**40,626**	**41,824**	**42,252**	**42,366**
1.1.1. Deposits, loans from the Bank of Slovenia	901	714	1,142	1,102	1,102	1,052	1,052	1,052
1.1.2. Deposits, loans from other MFIs	1,301	1,123	962	983	931	977	965	967
1.1.3. Debt securities issued	38	18	12	-	-	15	15	15
1.1. Laibilities to monetary sectors	2,240	1,855	2,115	2,085	2,033	2,043	2,032	2,033
1.2.1.1. Overnight	12,661	15,038	17,287	18,693	19,396	20,022	20,399	20,444
1.2.1.2. With agreed maturity	10,604	9,076	8,125	7,561	7,477	7,480	7,559	7,527
1.2.1.3. Reedemable at notice	474	615	548	637	561	754	760	771
1.2.1. Deposits in domestic currency	23,739	24,729	25,960	26,891	27,434	28,257	28,717	28,742
1.2.2. Deposits in foreign currency	599	632	593	624	626	662	657	659
1.2.3. Debt securities issued	84	38	15	15	15	31	30	30
1.2. Liabilities to nonmonetary sectors	24,422	25,400	26,569	27,530	28,075	28,950	29,404	29,431
1. Obligations to domestic sectors (domestic liabilities)	**26,661**	**27,254**	**28,683**	**29,615**	**30,108**	**30,993**	**31,436**	**31,464**
2.1.1. Deposits	2,578	2,084	1,627	1,606	1,550	1,545	1,576	1,584
2.1.2. Debt securities issued	975	710	327	36	111	310	310	310
2.1. Liabilities to foreign monetry sectors	3,553	2,794	1,954	1,642	1,660	1,854	1,885	1,894
2.2.1. Deposits	1,954	1,738	1,975	1,694	1,693	1,626	1,610	1,602
2.2.2. Debt securities issued	27	23	22	22	22	35	35	35
2.2. Liabilities to foreign nonmonetary sectors	1,981	1,761	1,997	1,716	1,715	1,662	1,645	1,637
2. Obligations to foreign sectors (foreign liabilities)	**5,535**	**4,555**	**3,952**	**3,358**	**3,375**	**3,516**	**3,531**	**3,530**
3. Capital and reserves	**4,676**	**4,841**	**4,904**	**5,045**	**4,886**	**4,965**	**4,991**	**5,030**
4. Remaining liabilities	**4,731**	**3,540**	**2,908**	**2,470**	**2,256**	**2,350**	**2,294**	**2,342**
Total liabilities	**41,603**	**40,191**	**40,447**	**40,488**	**40,626**	**41,824**	**42,252**	**42,366**

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

in % on annual level	2015	2016	2017	2018	Jun.19	Jul.19	Aug.19
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.01	7.84	7.85	7.81	7.71	7.72	7.75
Households, extended credit	7.84	7.73	7.75	7.63	7.59	7.55	7.55
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.19	4.23	4.44	4.65	4.47	4.59	4.61
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.64	5.66	5.92	6.04	5.93	5.94	5.90
Loans, households, consumption, over 5 years initial rate fixation	5.28	6.12	6.20	6.29	6.27	6.32	6.24
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.82	3.47	3.69	3.74	3.84	4.04	3.89
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.61	5.27	4.89	5.11	4.47	5.04	5.11
C. loans, households, consumption, over 5 year initial rate fixation	5.58	5.05	5.19	5.06	5.75	5.57	5.06
APRC, Loans to households for consumption	7.42	7.55	7.73	7.64	7.67	7.83	7.76
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.22	2.04	1.99	1.89	1.92	1.91	1.87
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.87	3.58	2.75	3.22	2.82	2.80	2.88
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.16	2.49	2.65	2.74	2.65	2.70	2.75
Loans, households, house purchase, over 10 years initial rate fixation	3.16	2.56	2.91	2.95	2.94	2.88	2.85
C. loans, households, house purchase variabel and up to years initial rate fixation	2.21	2.02	1.99	1.87	1.93	1.90	1.88
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.63	2.12	2.38	3.01	2.37	2.57	2.86
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.04	2.38	2.34	2.56	2.47	2.55	2.63
C. loans, households, house purchase, over 10 years initial rate fixation	3.12	2.53	2.85	2.89	2.90	2.84	2.81
APRC, Loans to households for house purchase	2.85	2.58	2.77	2.75	2.69	2.65	2.65
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.51	3.49	3.58	3.68	3.91	4.12	4.36
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.93	5.28	5.30	4.78	5.17	5.19	5.95
Loans, households, other purposes, over 5 years initial rate fixation	7.79	5.92	5.35	6.73	5.23	7.26	7.30
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	3.45	2.81	2.41	2.22	2.17	2.12	2.10
S.11, extended credit	7.16	6.70	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	3.38	2.74	2.69	2.32	2.35	2.55	2.49
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.50	3.31	2.89	2.50	2.53	2.59	2.81
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.23	4.52	3.98	3.72	3.82	3.31	3.72
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.36	4.57	4.03	4.24	4.56	4.52	4.73
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.87	4.56	3.51	4.16	5.32	5.52	5.03
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	3.34	2.92	2.22	4.25	4.92	4.43	4.90
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.49	2.19	1.89	2.04	1.88	1.85	1.73
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.57	2.49	2.09	2.09	1.78	2.16	2.24
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	3.06	1.21	1.94	1.87	2.85	1.82	2.53
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	-	1.70	-	1.31	1.51	3.18	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	3.06	1.94	2.57	1.74	1.92	1.41	3.56
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	2.10	-	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.61	2.23	1.85	1.19	1.84	1.78
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.87	2.35	1.58	1.76	1.59	1.73	1.85
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	1.00	-	-	0.75	1.26	0.70	-
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	-	1.06	1.15	-	1.35	1.59	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.79	1.92	-	1.47	1.73	1.19	-
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	3.56	2.23	1.88	2.04	-	-	3.66
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.03	0.02	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.28	0.23	0.14	0.17	0.17	0.15	0.16
Deposits, households, agreed maturity over 1 and up to 2 years	0.70	0.44	0.51	0.54	0.33	0.35	0.31
Deposits, households, agreed maturity over 2 years	1.07	0.72	0.69	0.89	0.69	0.73	0.65
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.06	0.05	0.04	0.00	0.03	0.02	0.01
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.57	0.20	0.12	0.19	0.13	0.13	0.07
Deposits, S.11, agreed maturity over 2 years	1.07	0.49	0.26	0.19	0.29	0.22	0.37
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.10	0.02	0.00	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	0.93	0.55	0.52	0.89	0.74	0.72	0.84

Table 9.5: International investment position

EUR million		2015	2016	2017	18Q3	18Q4	19Q1	19Q2
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-12,115**	**-11,646**	**-10,421**	**-7,988**	**-8,670**	**-8,550**	**-8,593**
1	**ASSETS**	**45,069**	**45,352**	**46,563**	**48,604**	**49,244**	**51,232**	**52,755**
1.1	**Direct investment**	**7,252**	**7,767**	**8,328**	**8,854**	**8,780**	**9,262**	**9,164**
1.1.1	Equity	3,959	4,149	4,345	4,775	4,709	4,752	4,734
1.1.2	Debt instruments	3,293	3,618	3,984	4,080	4,071	4,510	4,430
1.2	**Portfolio investment**	**15,522**	**17,632**	**20,649**	**21,205**	**20,611**	**21,491**	**21,775**
1.2.1	Equity and investment fund shares	4,366	4,430	5,017	5,320	4,842	5,217	5,274
1.2.2	Debt securities	11,156	13,202	15,632	15,885	15,769	16,274	16,500
1.3	**Financial derivatives**	**1,266**	**1,086**	**302**	**304**	**384**	**293**	**301**
1.4	**Other investment**	**20,243**	**18,161**	**16,540**	**17,460**	**18,653**	**19,328**	**20,609**
1.4.1	Other equity	1,160	1,195	1,279	1,371	1,341	1,375	1,377
1.4.2	Currency and deposits	11,371	9,296	7,187	7,273	8,785	8,818	9,881
1.4.3	Loans	3,122	2,670	2,391	2,472	2,545	2,631	2,947
1.4.4	Insurance, pension and standardized guarantee schemes	129	141	148	149	141	149	151
1.4.5	Trade credit and advances	3,890	4,202	4,801	5,540	5,206	5,710	5,626
1.4.6	Other accounts receivable	571	656	734	654	636	644	629
1.5	**Reserve assets**	**787**	**705**	**743**	**781**	**816**	**858**	**906**
1.5.1	Monetary gold	100	112	111	104	115	118	127
1.5.2	Special drawing rights	264	207	235	239	242	246	243
1.5.3	Reserve position in the IMF	104	154	103	116	131	125	136
1.5.4	Other reserve assets	320	232	294	321	329	369	400
2	**LIABILITIES**	**57,184**	**56,998**	**56,984**	**56,592**	**57,913**	**59,782**	**61,348**
2.1	**Direct investment**	**13,356**	**14,996**	**16,316**	**17,428**	**17,870**	**18,707**	**18,739**
2.1.1	Equity	9,804	11,563	12,590	13,527	13,803	14,535	14,689
2.1.2	Debt instruments	3,552	3,433	3,726	3,902	4,067	4,171	4,049
2.2	**Portfolio investment**	**23,959**	**21,439**	**21,200**	**20,410**	**20,867**	**21,055**	**21,696**
2.2.1	Equity and investment fund shares	1,038	966	1,085	974	1,751	1,778	1,883
2.2.2	Debt securities	22,921	20,473	20,115	19,436	19,116	19,277	19,813
2.3	**Financial derivatives**	**163**	**139**	**81**	**106**	**217**	**995**	**1,040**
2.4	**Other investment**	**19,707**	**20,424**	**19,388**	**18,647**	**18,960**	**19,026**	**19,874**
2.4.1	Other equity	32	36	37	37	44	44	43
2.4.2	Currency and deposits	2,277	3,413	3,747	2,864	3,226	3,355	3,802
2.4.3	Loans	12,851	12,155	10,337	10,274	9,986	9,888	10,045
2.4.4	Insurance, pension and standardized guarantee schemes	221	213	219	252	228	268	289
2.4.5	Trade credit and advances	3,433	3,711	4,161	4,384	4,602	4,594	4,695
2.4.6	Other accounts payable	617	620	631	576	612	610	756
2.4.7	Special drawing rights	275	275	256	260	262	267	264

Table 9.6: Gross external debt

EUR million		2015	2016	2017	18Q4	19Q1	19Q2	Aug 19
	TOTAL (1+2+3+4+5)	**46,148**	**44,293**	**43,191**	**42,099**	**42,415**	**43,684**	**44,962**
1	**GENERAL GOVERNMENT**	**25,032**	**23,171**	**21,940**	**21,045**	**21,058**	**21,894**	**23,268**
1.1	**Short-term, of that**	**1,716**	**1,522**	**652**	**732**	**607**	**883**	**1,218**
	Debt securities	15	22	75	85	105	66	53
	Loans	1,201	1,058	273	336	239	432	783
	Trade credit and advances	35	42	35	35	34	45	42
	Other debt liabilities	466	400	269	276	229	341	340
1.2	**Long-term, of that**	**23,316**	**21,649**	**21,288**	**20,314**	**20,451**	**21,011**	**22,050**
	Debt securities	21,813	19,877	19,517	18,602	18,743	19,332	20,385
	Loans	1,500	1,768	1,769	1,709	1,705	1,669	1,661
2	**CENTRAL BANK**	**1,529**	**2,722**	**3,011**	**2,661**	**2,824**	**3,292**	**3,604**
2.1	**Short-term, of that**	**1,254**	**2,447**	**2,755**	**2,399**	**2,558**	**3,028**	**3,337**
	Currency and deposits	1,254	2,447	2,755	2,399	2,558	3,028	3,337
2.2	**Long-term, of that**	**275**	**275**	**256**	**262**	**267**	**264**	**268**
	Special drawing rights (allocations)	275	275	256	262	267	264	268
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**5,195**	**4,117**	**3,782**	**3,344**	**3,305**	**3,430**	**3,370**
3.1	**Short-term**	**702**	**817**	**1,058**	**927**	**907**	**993**	**964**
	Currency and deposits	490	578	765	669	622	621	610
	Debt securities	...	...	...	...	...	...	...
	Loans	207	221	200	251	235	288	308
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	5	18	92	7	50	85	45
3.2	**Long-term**	**4,493**	**3,300**	**2,724**	**2,418**	**2,398**	**2,436**	**2,406**
	Currency and deposits	534	387	227	159	156	116	112
	Debt securities	652	287	168	88	89	187	145
	Loans	3,301	2,620	2,323	2,162	2,144	2,131	2,146
	Trade credit and advances	7	5	6	7	3	1	2
	Other debt liabilities	0	1	1	1	6	1	1
4	**OTHER SECTORS**	**10,839**	**10,851**	**10,731**	**10,982**	**11,054**	**11,018**	**10,710**
4.1	**Short-term, of that**	**3,976**	**4,250**	**4,596**	**5,182**	**5,256**	**5,345**	**5,113**
	Debt securities	0	2	0	1	1	3	3
	Loans	487	447	281	375	460	458	494
	Trade credit and advances	3,385	3,649	4,094	4,540	4,540	4,626	4,362
	Other debt liabilities	102	153	220	267	255	258	253
4.2	**Long-term, of that**	**6,864**	**6,600**	**6,135**	**5,800**	**5,799**	**5,673**	**5,597**
	Debt securities	441	284	355	340	339	226	226
	Loans	6,155	6,041	5,490	5,154	5,106	5,071	4,994
	Trade credit and advances	7	16	26	17	17	17	17
	Other debt liabilities	260	259	264	289	337	359	360
5	**DIRECT INVESTMENT: intercompany lending**	**3,552**	**3,433**	**3,726**	**4,067**	**4,172**	**4,051**	**4,010**
	NET EXTERNAL DEBT POSITION	**11,828**	**9,803**	**7,572**	**5,115**	**4,131**	**2,924**	**2,359**

Table 9.7: Balance of payments

EUR million	2016	2017	2018	18Q4	19Q1	19Q2	Aug 19
I. Current account	**1,942**	**2,635**	**2,593**	**401**	**641**	**614**	**273**
1. Goods	**1,536**	**1,579**	**1,128**	**2**	**382**	**187**	**86**
1.1. Export of goods	**24,991**	**28,478**	**31,133**	**8,059**	**8,273**	**8,696**	**2,348**
Export f.o.b.	24,971	28,265	30,858	7,954	8,235	8,567	2,317
Coverage adjustment	-194	-36	18	35	-42	8	-2
Net export of goods under merchanting	186	229	237	67	76	114	34
Nonmonetary gold	29	20	21	2	5	6	0
1.2. Import of goods	**23,454**	**26,899**	**30,005**	**8,056**	**7,892**	**8,509**	**2,262**
Import c.i.f.	24,112	27,606	30,706	8,226	8,093	8,698	2,297
Coverage adjustment	-5	34	120	54	18	53	31
Valuation adjustment	-680	-778	-867	-233	-229	-246	-65
Nonmonetary gold	27	37	45	9	9	5	0
2. Services	**1,925**	**2,241**	**2,678**	**702**	**595**	**758**	**301**
2.1. Export of services, of that	**6,501**	**7,288**	**7,963**	**2,109**	**1,790**	**2,095**	**816**
Transport	1,839	2,076	2,335	620	600	622	182
Travel	2,271	2,523	2,704	580	490	669	398
Construction services	374	422	497	157	141	145	48
Telecomm., computer and inform. services	552	544	540	163	122	155	51
Other business services	970	1,248	1,341	436	292	355	92
2.2. Import of services, of that	**4,575**	**5,047**	**5,285**	**1,407**	**1,195**	**1,337**	**515**
Transport	917	1,005	1,007	274	257	275	80
Travel	1,176	1,322	1,389	269	247	343	209
Construction services	104	126	177	64	38	46	15
Telecomm., computer and inform. services	528	539	543	152	130	143	45
Other business services	1,147	1,324	1,442	429	337	359	113
3. Primary income	**-1,139**	**-886**	**-807**	**-228**	**-121**	**-232**	**-77**
3.1. Receipts	**1,259**	**1,374**	**1,592**	**413**	**418**	**399**	**102**
Compensation of employees	355	378	454	127	87	107	36
Investment	637	703	792	203	176	196	60
Other primary income	267	293	345	83	155	96	6
3.2. Expenditure	**2,398**	**2,260**	**2,399**	**642**	**539**	**632**	**178**
Compensation of employees	132	149	173	45	42	53	17
Investment	2,081	1,929	2,022	543	436	529	146
Other primary income	184	182	204	54	61	49	16
4. Secondary income	**-381**	**-299**	**-406**	**-75**	**-215**	**-98**	**-37**
4.1. Receipts	**713**	**828**	**789**	**241**	**182**	**185**	**61**
4.2. Expenditure	**1,094**	**1,127**	**1,196**	**316**	**397**	**283**	**98**

Table 9.8: Balance of payments – continued

EUR million	2016	2017	2018	18Q4	19Q1	19Q2	Aug 19
II. Capital account	**-303**	**-324**	**-225**	**-120**	**-21**	**-24**	**-10**
1. Nonproduced nofinancial assets	-45	-76	-47	-81	30	21	-6
2. Capital transfers	-258	-248	-178	-39	-51	-45	-4
III. Financial account	**1,187**	**2,088**	**2,527**	**213**	**610**	**403**	**-303**
1. Direct investment	**-864**	**-495**	**-933**	**-217**	**-438**	**-132**	**-72**
Assets	434	570	362	94	415	-86	-95
Equity and reinvested earnings	273	230	432	94	6	-16	16
Debt instruments	161	340	-70	0	409	-70	-111
Liabilities	1,298	1,065	1,295	311	853	46	-23
Equity and reinvested earnings	1,503	932	1,075	149	739	157	72
Debt instruments	-205	133	220	162	114	-111	-95
2. Portfolio investment	**5,023**	**2,987**	**750**	**-515**	**548**	**-76**	**-29**
Assets	2,018	2,848	498	-172	294	79	134
Equity and investment fund shares	-91	330	123	-85	-26	28	42
Debt securities	2,109	2,518	375	-86	321	51	92
Liabilities	-3,005	-138	-252	343	-254	155	163
Equity and investment fund shares	48	39	543	651	-15	99	1
Debt securities	-3,053	-178	-795	-308	-239	56	162
3. Financial derivatives	**-270**	**-185**	**-86**	**-36**	**-184**	**5**	**0**
4. Other investment	**-2,606**	**-308**	**2,743**	**965**	**662**	**561**	**-214**
4.1. Assets	**-2,221**	**-1,381**	**2,031**	**1,214**	**705**	**1,413**	**67**
Other equity	35	72	68	-25	45	15	5
Currency and deposits	-2,132	-2,076	1,590	1,512	33	1,143	204
Loans	-203	-115	207	72	51	324	29
Insurance, pension and stand. guar. schemes	10	5	-7	-8	8	1	…
Trade credits and advances	167	615	303	-318	564	-59	-184
Other assets	-97	118	-130	-18	4	-9	14
4.2. Liabilities	**385**	**-1,073**	**-713**	**249**	**43**	**852**	**281**
Other equity	4	20	2	2	0	-1	0
Currency and deposits	1,128	365	-524	365	110	425	218
Loans	-818	-1,853	-490	-299	-105	154	176
Insurance, pension and stand. guar. schemes	-8	5	20	-14	40	13	…
Trade credits and advances	137	411	331	179	2	115	-108
Other liabilities	-57	-21	-52	16	-4	145	-5
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-97**	**89**	**52**	**16**	**21**	**44**	**11**
IV. Net errors and omissions	**-452**	**-223**	**158**	**-68**	**-10**	**-187**	**-567**

Table 9.9: Non-consolidated financial assets – outstanding amounts

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector								
Total	189,465	197,532	200,169	203,472	203,830	207,347	209,795	214,093
Monetary gold and SDRs	320	346	344	349	344	356	364	370
Currency and deposits	45,867	46,776	48,200	49,233	48,979	51,961	50,933	52,392
Debt securities	26,146	28,530	28,148	28,774	29,130	29,251	29,447	30,493
Loans	36,087	35,974	36,119	36,273	36,431	36,342	36,912	37,529
Shares	19,358	20,218	20,668	21,261	20,829	19,566	19,777	19,688
Other equity	26,826	29,327	29,530	29,784	29,861	32,284	33,011	33,800
Investment fund shares/units	4,198	4,703	4,714	4,838	4,841	4,466	5,064	5,187
Insurance and pension schemes	7,737	8,003	8,035	8,163	8,222	8,073	8,357	8,557
Other	22,927	23,655	24,411	24,795	25,193	25,048	25,929	26,077
Non-financial corporations								
Total	42,210	45,188	46,051	46,363	46,542	47,178	48,388	48,637
Currency and deposits	6,399	7,107	7,080	7,141	7,273	7,528	7,551	7,392
Debt securities	127	109	103	121	121	112	107	143
Loans	5,536	5,510	5,661	5,745	5,599	5,490	5,818	6,100
Shares	2,665	2,507	2,520	2,560	2,480	2,475	2,366	2,346
Other equity	11,940	13,193	13,246	13,138	13,266	13,956	13,930	14,117
Investment fund shares/units	52	67	69	63	63	58	199	202
Insurance and pension schemes	438	444	476	473	465	442	469	496
Other	15,053	16,251	16,895	17,121	17,275	17,117	17,948	17,841
Monetary financial institutions								
Total	51,932	54,397	54,354	55,436	55,178	56,595	56,115	57,545
Monetary gold and SDRs	320	346	344	349	344	356	364	370
Currency and deposits	8,671	8,067	8,221	8,631	7,938	9,327	8,481	8,656
Debt securities	18,971	21,263	21,016	21,557	21,843	21,894	21,897	22,756
Loans	22,596	23,097	23,070	23,152	23,363	23,362	23,647	23,989
Shares	552	729	750	748	749	771	772	743
Other equity	282	351	350	406	405	383	375	370
Investment fund shares/units	6	5	5	3	3	3	14	25
Insurance and pension schemes	38	40	41	41	41	41	41	41
Other	497	498	557	549	491	457	525	595
Other financial institutions								
Total	17,548	18,151	18,245	18,781	18,592	18,414	19,142	19,451
Currency and deposits	1,256	1,163	1,208	1,380	1,252	1,188	1,401	1,454
Debt securities	6,431	6,520	6,388	6,425	6,468	6,601	6,749	6,908
Loans	2,876	2,859	2,859	2,850	2,849	2,864	2,843	2,761
Shares	3,377	3,688	3,743	3,989	3,940	3,684	3,815	3,818
Other equity	625	686	692	659	654	857	855	912
Investment fund shares/units	2,140	2,354	2,370	2,430	2,369	2,208	2,385	2,438
Insurance and pension schemes	188	199	226	239	222	204	221	227
Other	655	681	759	809	838	809	873	932
General government								
Total	31,350	30,251	31,186	31,456	31,491	31,857	31,538	32,871
Currency and deposits	7,060	6,726	7,462	7,332	7,399	8,475	7,427	8,213
Debt securities	447	416	411	431	437	421	461	466
Loans	4,122	3,467	3,408	3,354	3,397	3,398	3,366	3,427
Shares	9,828	10,230	10,563	10,754	10,512	9,527	9,731	9,644
Other equity	5,563	5,706	5,688	5,846	5,758	6,009	6,619	7,082
Investment fund shares/units	252	296	300	311	320	297	331	337
Insurance and pension schemes	21	16	21	11	16	23	18	25
Other	4,057	3,396	3,334	3,417	3,652	3,706	3,584	3,677
Households and NPISHs								
Total	46,425	49,545	50,334	51,435	52,027	53,303	54,612	55,589
Currency and deposits	22,481	23,713	24,230	24,750	25,118	25,441	26,072	26,676
Debt securities	171	222	230	241	260	222	234	220
Loans	957	1,041	1,121	1,171	1,223	1,227	1,239	1,253
Shares	2,936	3,065	3,092	3,209	3,148	3,109	3,092	3,137
Other equity	8,417	9,391	9,554	9,735	9,777	11,080	11,233	11,319
Investment fund shares/units	1,748	1,981	1,970	2,031	2,086	1,900	2,135	2,185
Insurance and pension schemes	7,053	7,304	7,271	7,399	7,478	7,363	7,608	7,766
Other	2,663	2,830	2,866	2,900	2,936	2,960	2,999	3,032
Rest of the world								
Total	57,783	57,659	57,309	57,683	56,993	58,567	59,892	62,246
Monetary gold and SDRs	275	257	255	261	261	263	267	264
Currency and deposits	6,273	6,292	4,933	5,159	5,359	5,650	5,676	6,086
Debt securities	20,889	20,555	21,299	20,438	19,744	19,516	19,451	20,113
Loans	11,806	10,309	10,127	10,332	10,419	10,345	10,202	10,405
Shares	5,160	5,275	5,339	5,395	5,459	6,428	6,672	6,826
Other equity	7,594	8,451	8,623	8,755	8,944	9,201	9,439	9,431
Investment fund shares/units	25	29	28	30	31	29	32	33
Insurance and pension schemes	213	219	246	266	252	228	268	289
Other	5,547	6,274	6,460	7,046	6,526	6,906	7,885	8,798

Table 9.10: Non-consolidated liabilities – outstanding amounts

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector								
Total	201,939	208,574	210,501	213,280	212,582	216,921	218,604	223,416
Monetary gold and SDRs	275	257	255	261	261	263	267	264
Currency and deposits	42,484	45,557	45,409	46,580	46,751	48,450	47,370	48,125
Debt securities	33,513	33,041	33,774	33,291	32,595	32,629	32,317	33,775
Loans	42,949	41,637	41,723	41,907	42,217	41,864	42,172	42,628
Shares	21,359	21,781	22,248	22,785	22,308	22,332	22,587	22,611
Other equity	30,047	33,274	33,658	33,985	34,062	36,788	37,687	38,414
Investment fund shares/units	2,374	2,572	2,540	2,611	2,648	2,396	2,629	2,692
Insurance and pension schemes	7,810	8,074	8,133	8,280	8,326	8,161	8,475	8,695
Other	21,129	22,381	22,760	23,580	23,414	24,038	25,098	26,211
Non-financial corporations								
Total	79,254	82,894	83,942	84,881	84,619	87,103	88,105	88,250
Debt securities	955	1,010	1,033	1,060	1,046	977	970	763
Loans	23,606	22,825	23,009	23,030	23,225	22,661	22,956	23,059
Shares	12,762	12,810	13,141	13,464	13,032	13,174	13,088	13,195
Other equity	26,625	29,603	29,970	30,117	30,288	32,581	33,178	33,355
Other	15,307	16,646	16,789	17,209	17,028	17,710	17,913	17,876
Monetary financial institutions								
Total	49,882	52,727	52,619	53,857	53,671	55,284	54,836	56,364
Monetary gold and SDRs	275	257	255	261	261	263	267	264
Currency and deposits	41,659	44,669	44,562	45,734	45,906	47,534	46,483	47,273
Debt securities	801	377	377	367	75	148	152	397
Loans	199	201	201	200	211	218	229	217
Shares	4,724	4,875	4,838	4,896	4,935	4,744	4,812	4,771
Other equity	1,749	1,896	1,832	1,914	1,845	1,957	2,289	2,746
Investment fund shares/units	99	55	57	60	65	79	74	61
Other	375	397	499	425	372	340	531	636
Other financial institutions								
Total	16,848	17,508	17,745	18,380	17,991	17,801	18,533	18,868
Debt securities	118	113	113	115	114	113	114	145
Loans	2,924	2,664	2,674	2,649	2,596	2,558	2,498	2,531
Shares	2,154	2,463	2,539	2,618	2,572	2,682	2,914	2,813
Other equity	1,137	1,225	1,270	1,362	1,321	1,511	1,430	1,515
Investment fund shares/units	2,275	2,518	2,483	2,551	2,583	2,317	2,555	2,631
Insurance and pension schemes	7,810	8,074	8,132	8,280	8,326	8,161	8,475	8,694
Other	431	449	534	805	478	459	547	538
General government								
Total	43,206	42,055	42,613	42,413	42,211	42,551	42,865	45,516
Currency and deposits	825	888	847	845	845	916	888	852
Debt securities	31,639	31,540	32,252	31,749	31,359	31,390	31,081	32,469
Loans	5,180	4,273	4,001	4,010	3,982	4,069	3,993	4,141
Shares	1,719	1,633	1,730	1,807	1,768	1,732	1,774	1,832
Other equity	537	550	586	592	607	738	791	798
Other	3,306	3,172	3,198	3,410	3,648	3,706	4,338	5,423
Households and NPISHs								
Total	12,748	13,391	13,581	13,749	14,091	14,181	14,265	14,417
Loans	11,039	11,674	11,839	12,019	12,203	12,358	12,496	12,679
Other	1,709	1,716	1,742	1,731	1,888	1,823	1,769	1,738
Rest of the world								
Total	45,309	46,617	46,977	47,874	48,241	48,993	51,083	52,923
Monetary gold and SDRs	319	345	344	349	343	356	364	370
Currency and deposits	9,656	7,512	7,724	7,813	7,587	9,161	9,238	10,353
Debt securities	13,523	16,044	15,673	15,921	16,279	16,138	16,582	16,831
Loans	4,945	4,645	4,523	4,697	4,632	4,823	4,942	5,306
Shares	3,159	3,712	3,759	3,872	3,980	3,663	3,862	3,903
Other equity	4,373	4,504	4,495	4,555	4,744	4,697	4,763	4,818
Investment fund shares/units	1,849	2,159	2,202	2,256	2,223	2,099	2,467	2,528
Insurance and pension schemes	141	148	148	149	149	141	149	151
Other	7,345	7,548	8,111	8,261	8,304	7,916	8,716	8,664

Table 9.11: Net financial assets

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector	-12,473	-11,042	-10,332	-9,808	-8,752	-9,574	-8,809	-9,323
Non-financial corporations	-37,044	-37,706	-37,891	-38,517	-38,078	-39,925	-39,717	-39,613
Monetary financial institutions	2,050	1,670	1,735	1,580	1,508	1,311	1,279	1,181
Other financial institutions	700	643	500	401	601	613	609	582
General government	-11,856	-11,803	-11,428	-10,957	-10,720	-10,694	-11,327	-12,645
Households and NPISHs	33,677	36,155	36,753	37,686	37,937	39,121	40,347	41,171
Rest of the world	12,474	11,042	10,332	9,808	8,752	9,574	8,810	9,323

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

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector								
Total	-1,577	6,050	5,622	6,688	5,997	7,737	4,692	5,085
Monetary gold and SDRs	-56	43	43	43	1	1	1	1
Currency and deposits	-4,199	1,074	923	1,899	1,593	5,143	2,626	3,106
Debt securities	2,866	2,373	1,451	1,160	1,077	1,030	1,047	885
Loans	-495	652	867	1,209	1,325	826	1,214	1,727
Shares	-315	111	143	236	-58	-863	-1,441	-1,760
Other equity	583	223	321	302	565	532	423	379
Investment fund shares/units	11	256	298	272	184	101	6	40
Insurance and pension schemes	138	146	153	187	165	165	203	249
Other	-111	1,171	1,423	1,380	1,145	802	612	456
Non-financial corporations								
Total	1,010	2,087	2,171	2,150	1,939	1,398	1,523	1,250
Currency and deposits	575	732	584	711	654	428	470	255
Debt securities	-6	-18	-11	15	16	21	16	14
Loans	-201	-51	82	135	135	44	196	335
Shares	-13	73	53	27	-15	41	-164	-226
Other equity	438	134	194	132	283	245	185	267
Investment fund shares/units	-28	3	0	-2	-7	-5	-4	0
Insurance and pension schemes	2	6	-3	-18	-19	-8	-6	23
Other	244	1,208	1,271	1,149	891	632	830	582
Monetary financial institutions								
Total	2,542	2,840	1,703	2,795	2,120	2,523	1,612	1,500
Monetary gold and SDRs	-56	43	43	43	1	1	1	1
Currency and deposits	-575	-505	-777	536	224	1,251	230	26
Debt securities	2,847	2,403	1,565	1,230	928	837	660	504
Loans	504	947	922	942	1,005	528	808	1,088
Shares	-91	-24	-4	-14	-22	-13	-22	-51
Other equity	56	46	46	101	60	23	16	-62
Investment fund shares/units	-2	-1	-1	-1	0	1	11	22
Insurance and pension schemes	0	2	2	1	0	1	0	0
Other	-140	-71	-93	-43	-77	-106	-92	-27
Other financial institutions								
Total	-62	94	64	590	422	272	170	-70
Currency and deposits	61	-92	-121	110	93	36	186	46
Debt securities	157	10	-66	-41	104	137	298	309
Loans	-203	29	48	122	93	38	25	-48
Shares	-59	44	70	192	41	-8	-324	-399
Other equity	-35	-9	5	-12	-6	9	5	48
Investment fund shares/units	28	105	132	146	81	36	-23	-19
Insurance and pension schemes	12	11	12	18	11	4	-5	-12
Other	-23	-5	-17	54	3	18	9	5
General government								
Total	-6,524	-791	-409	-1,090	-837	1,008	-1,103	-63
Currency and deposits	-5,331	-318	-208	-1,044	-869	1,731	-59	866
Debt securities	-112	-26	-23	-20	26	11	46	33
Loans	-647	-315	-277	-152	-74	18	49	251
Shares	-57	-39	-48	-39	-127	-929	-933	-1,040
Other equity	-12	-6	-6	2	9	19	55	31
Investment fund shares/units	-10	23	35	23	16	22	6	9
Insurance and pension schemes	-1	0	7	-3	-1	-2	-13	4
Other	-354	-109	111	143	183	139	-253	-219
Households and NPISHs								
Total	1,457	1,819	2,093	2,243	2,353	2,536	2,490	2,467
Currency and deposits	1,071	1,257	1,445	1,585	1,491	1,698	1,799	1,913
Debt securities	-19	4	-15	-24	4	23	28	26
Loans	51	43	90	161	165	198	136	100
Shares	-93	57	72	71	65	46	2	-44
Other equity	137	59	81	78	217	236	163	95
Investment fund shares/units	24	126	132	106	93	47	17	29
Insurance and pension schemes	126	127	135	189	173	170	228	234
Other	161	147	151	77	144	118	118	115
Rest of the world								
Total	-1,236	58	-392	-607	-12	518	762	1,541
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	478	63	-181	68	727	-647	728	923
Debt securities	-2,885	45	-33	-1,423	-1,861	-581	-2,256	-1,377
Loans	-346	-1,724	-1,721	-1,155	-448	-236	-175	-78
Shares	687	273	282	94	314	860	1,323	1,601
Other equity	875	705	639	766	820	781	788	636
Investment fund shares/units	0	-1	-1	0	1	0	0	0
Insurance and pension schemes	-8	5	13	42	26	20	33	26
Other	-36	692	609	1,000	408	321	320	-191

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

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector								
Total	-2,506	4,254	3,424	4,623	3,879	5,566	2,576	2,905
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-1,696	3,205	1,951	2,766	2,134	2,847	1,864	1,511
Debt securities	-1,971	-152	-154	-1,305	-1,787	154	-2,007	-1,082
Loans	-753	-973	-809	-27	762	347	600	1,064
Shares	427	195	222	151	107	-99	-94	-126
Other equity	1,250	747	746	910	1,072	944	924	745
Investment fund shares/units	-1	29	64	72	20	5	-33	-7
Insurance and pension schemes	120	146	163	224	189	191	236	275
Other	118	1,058	1,240	1,832	1,380	1,175	1,087	525
Non-financial corporations								
Total	548	1,673	1,749	2,208	2,202	1,490	1,628	1,146
Debt securities	-227	93	47	21	11	-12	-31	-268
Loans	-787	-510	-433	-282	-3	-139	-5	287
Shares	139	202	230	135	101	11	15	14
Other equity	1,151	710	721	790	920	825	797	695
Other	273	1,179	1,183	1,543	1,172	805	853	417
Monetary financial institutions								
Total	2,359	2,642	1,495	2,362	1,705	2,356	1,424	1,475
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	2,634	3,127	1,931	2,751	2,128	2,824	1,829	1,510
Debt securities	-339	-418	-401	-306	-316	-229	-228	26
Loans	48	1	1	-2	9	17	28	18
Shares	85	-9	-9	15	6	-110	-112	-143
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	43	-44	-8	-14	-14	25	18	14
Other	-112	-15	-20	-83	-109	-171	-111	51
Other financial institutions								
Total	-159	21	52	560	257	192	144	-74
Debt securities	42	-8	-8	-14	-13	1	1	33
Loans	-348	-251	-201	-171	-95	-89	-148	-106
Shares	4	2	1	0	0	0	2	2
Other equity	97	37	25	120	142	109	117	40
Investment fund shares/units	-44	74	72	86	34	-20	-51	-21
Insurance and pension schemes	120	146	163	224	189	191	237	273
Other	-30	22	1	314	-1	-1	-13	-296
General government								
Total	-5,763	-782	-659	-1,283	-1,085	675	-1,381	-385
Currency and deposits	-4,330	78	20	15	6	23	34	1
Debt securities	-1,446	181	208	-1,007	-1,469	395	-1,749	-873
Loans	-93	-908	-899	-294	136	-198	-1	138
Shares	200	0	0	0	0	0	0	0
Other equity	2	0	0	0	10	10	10	10
Other	-97	-132	12	3	232	445	326	339
Households and NPISHs								
Total	509	700	786	777	801	852	760	743
Loans	426	696	722	722	715	755	726	729
Other	83	5	64	55	85	97	34	14
Rest of the world								
Total	-307	1,853	1,806	1,458	2,106	2,690	2,877	3,721
Monetary gold and SDRs	-56	43	43	43	1	1	1	1
Currency and deposits	-2,025	-2,068	-1,208	-799	186	1,650	1,491	2,518
Debt securities	1,952	2,570	1,572	1,042	1,003	295	798	590
Loans	-88	-98	-45	81	115	242	439	585
Shares	-55	189	203	179	149	96	-23	-32
Other equity	208	182	214	158	313	369	287	271
Investment fund shares/units	12	226	233	200	164	96	40	48
Insurance and pension schemes	10	5	3	5	1	-7	0	0
Other	-265	804	791	548	174	-52	-156	-260

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

mio EUR	2016	2017	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Domestic sector	929	1,795	2,198	2,065	2,118	2,171	2,116	2,180
Non-financial corporations	462	414	421	-58	-263	-92	-106	104
Monetary financial institutions	182	198	208	433	415	166	188	25
Other financial institutions	97	73	12	30	165	80	26	5
General government	-761	-9	250	193	248	333	278	322
Households and NPISHs	948	1,119	1,307	1,467	1,553	1,684	1,730	1,724
Rest of the world	-929	-1,795	-2,198	-2,065	-2,118	-2,171	-2,116	-2,180

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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