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Executive Summary

The economic figures and expectations in the international environment remain favourable, but the risks to global economic growth have increased significantly in recent weeks. The increased tension in the West's relations with Russia and China has already increased the uncertainty on international financial markets, and could lead to a decline in confidence in the real sector, slower growth in international trade and commodity price inflation on global markets. American sanctions have brought a fall in the ruble, and the beginning of capital flight from Russia. This could worsen the outlook for growth in Slovenia's export sector, which for now remains highly favourable, at least on the basis of the latest medium-term GDP forecasts for trading partners. Signs of a slowdown in growth in the euro area are also appearing, although the rate is nevertheless expected to remain higher than 2% this year. In the wake of the further divergence between the monetary policies of the Fed and the ECB, the euro is for now holding against the US dollar at its high level from the beginning of the year.

In the final quarter of last year, economic growth in Slovenia reached 6%, while the available figures suggest that growth remained elevated also in the first quarter of this year. The magnitude of the growth raises questions of its sustainability, but a comparison of the current structure of growth and funding with the period of overheating before the crisis reveals major differences. The economy is being driven to a greater extent by net exports, while wage growth is for now in line with the rise in productivity, and is not endangering external competitiveness. Corporate indebtedness is lower, as firms are largely financing themselves with internal resources. The external debt is declining, while the current account remains in large surplus. Headline inflation and core inflation remain low, particularly in relation to the high growth in domestic consumption. Fiscal policy also remained restrained last year. However, past experience suggests that caution is not misplaced, as macroeconomic imbalances build up over the long term, before becoming unsustainable.

The investment cycle is strengthening, primarily as a result of growth in construction investment. In the final quarter of last year, total gross fixed capital formation was up almost 12% in year-on-year terms, while construction investment was up more than 18%. Experience from the period of the overheating economy suggests that construction investment is an area of high risk, and that government policy plays an important role in it. Government construction investment contributed to the emergence from recession in 2013 and 2014, when private-sector investment was weak. Now the situation is different: the private sector is now increasing its investments, and is expected to be joined by the government sector through the increased disbursement of funds from the new European financial framework and through major infrastructure projects.

Another of the areas of potential imbalance is the labour market, or more precisely growth in labour costs owing to a shortage of labour. Growth in average wages, and even more notably in the wage bill, increased sharply at the end of last year and remained rather high in January, albeit with a significant change. While the wage growth in November and December was predominantly attributable to extraordinary payments, in January there was a rise in basic wages. Following the sharp fall in unemployment, and given the numerous indicators suggesting firms are having difficulties in finding qualified workers, the risks of higher growth in labour costs are increasing. Past experience suggests that in an environment of labour shortages wage growth is not curbed even by large-scale hiring of foreign labour. Because wages are downwardly rigid, in the event of a reversal in the economic cycle both the private sector and the public sector could again be faced with labour costs that would be unsustainable from the perspective of competitiveness and fiscal stability.

The fiscal position of the country improved significantly last year thanks to moderate growth in general government expenditure, the strong cyclical growth in revenues, and the reduction in the interest payment burden on outstanding debt. The improvement was greater than forecast by the government: the public finance position is now in balance for the first time, compared with the forecast of a deficit of 0.8% of GDP. At the same time the general government debt declined significantly in relative terms for the second consecutive year. It amounted to 73.6% of GDP at the end of the year, down 9 percentage points from its peak at the end of 2015. It also remained significantly below the euro area average. The risks in the fiscal realm nevertheless remain large, as the improved starting position and the projected high economic growth over the medium term could lead to a lack of moderation in the exercise of fiscal policy.

* * *

The economic growth in Slovenia is currently strong but sustainable. Maintaining stability will nevertheless require caution in the exercise of domestic economic and corporate policy. The experience of the errors made in the pre-crisis period could prove useful in this regard. Given the rapid decline in the surplus supply of labour, wage growth at firms is expected to increase, but must nevertheless be held within boundaries that maintain external competitiveness. The inertia level of wages in the wake of reversals in GDP growth also needs to be taken into account. Firms must maintain healthy balance sheets and avoid the risk of over-indebtedness during the next reversal of the economic cycle, particularly in light of the deteriorating situation in the international environment. In the wake of the anticipated very gradual normalisation of monetary policy, the burden of balancing the economic cycle will largely fall on fiscal policy. This must continue to exercise restraint with regard to growth in general government expenditure, and must be financially neutral in any changes in taxation structures to ensure the required improvement in the structural public finance position. Another risk to be highlighted is an excessive increase in investment growth, which could be caused by the government through the disproportionate spending of European funds, the financing of major investment projects and an election-driven investment cycle. This could cause large fluctuations in economic growth, and could generate systemic imbalances in construction and other sectors.

Main macroeconomic indicators

	2015	2016	2017	17Q2	17Q3	17Q4	2015	2016	2017	17Q2	17Q3	17Q4
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	2.3	3.1	5.0	4.5	4.5	6.0	2.1	1.8	2.4	1.8	2.5	2.5
- industry	1.4	4.4	7.9	6.4	8.2	10.3	3.9	1.9	3.0	1.0	3.2	4.0
- construction	-1.6	-4.4	11.4	11.4	5.6	16.2	0.4	1.7	2.7	2.1	2.5	2.7
- mainly public sector services	1.4	2.9	2.0	1.9	1.2	2.5	0.9	1.3	1.3	1.1	1.4	1.3
- mainly private sector services	2.4	3.2	6.0	5.6	5.5	7.1	2.2	1.8	2.6	1.9	2.8	2.8
Domestic expenditure	1.8	2.9	4.1	3.6	2.9	4.5	2.0	2.3	1.9	2.0	1.8	1.4
- general government	2.7	2.5	2.3	1.1	1.7	5.6	1.3	1.8	1.2	1.0	1.3	1.5
- households and NPISH	2.1	4.2	3.2	2.8	3.0	3.2	1.8	2.0	1.7	1.8	1.9	1.2
- gross capital formation	0.2	-0.1	8.4	8.4	3.8	7.7	3.4	3.8	3.2	3.4	2.3	1.7
- gross fixed capital formation	-1.6	-3.6	10.3	9.0	7.4	11.9	3.3	4.6	2.9	2.3	2.1	2.2
- inventories and valuables, contr. to GDP growth in pp	0.3	0.7	-0.3	0.0	-0.6	-0.8	0.0	-0.2	0.1	0.2	0.1	-0.1
Labour market												
Employment	1.2	1.9	2.8	2.8	2.7	2.7	1.0	1.3	1.6	1.6	1.7	1.6
- mainly private sector services	1.4	1.9	2.9	2.9	2.8	2.9	1.0	1.4	1.7	1.7	1.8	1.7
- mainly public sector services	0.8	2.2	2.5	2.5	2.2	2.2	1.0	1.3	1.3	1.2	1.3	1.3
Labour costs per employee	1.4	2.8	2.8	2.5	2.8	4.0	1.4	1.2	1.6	1.5	1.6	1.7
- mainly private sector services	1.6	2.2	2.7	2.4	2.4	4.1	1.5	1.2	1.6	1.4	1.6	1.7
- mainly public sector services	0.7	5.2	3.0	3.0	2.9	3.0	1.2	1.3	1.7	1.8	1.7	1.7
Unit labour costs	0.4	1.6	0.2	0.4	0.8	0.5	0.5	0.9	0.9	1.4	0.8	0.8
- industry	1.3	0.7	-1.2	-0.1	-2.2	-1.1	-1.8	0.0	-0.4	1.3	-0.5	-0.9
	in %											
LFS unemployment rate	9.0	8.0	6.6	6.4	6.3	5.8	10.9	10.0	9.1	9.0	8.7	8.7
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	4.4	5.2	6.4	5.4	6.1	6.4	0.0	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	0.6	0.5	1.3	1.2	1.9	1.7	0.1	-0.4	0.6	0.0	0.7	1.2
Real export of goods and services	5.0	6.4	10.6	8.4	11.9	12.3	6.4	3.4	5.1	3.1	5.0	6.0
Real import of goods and services	4.7	6.6	10.1	7.7	10.7	11.1	6.7	4.8	4.3	3.5	3.9	3.9
Financing	*in % of GDP*											
Banking system's balance sheet	107.0	99.2	93.3	96.3	94.5	93.3	281.8	276.6	261.6	272.8	268.4	261.6
Loans to NFCs	26.3	22.5	21.7	22.5	22.2	21.7	38.8	37.9	37.1	37.6	37.1	37.1
Loans to households	21.1	21.1	21.4	21.3	21.4	21.4	49.8	49.6	49.5	49.6	49.5	49.5
Inflation	*in %*											
HICP	-0.8	-0.2	1.6	1.4	1.3	1.5	0.0	0.2	1.5	1.5	1.4	1.4
HICP excl. energy, food, alcohol and tobacco	0.3	0.7	0.7	0.8	0.8	0.6	0.8	0.9	1.0	1.1	1.2	0.9
Public finance	*in % of GDP*											
Debt of the general government	82.6	78.6	73.6	79.8	78.5	73.6	89.9	88.9	...	89.0	88.0	...
One year net lending/net borrowing of the general government	-2.9	-1.9	0.0	-1.0	-0.5	0.0	-2.1	-1.5	...	-1.2	-0.9	...
- interest payment	3.2	3.0	2.5	2.7	2.6	2.5	2.4	2.2	...	2.1	2.0	...
- primary balance	0.4	1.1	2.5	1.8	2.1	2.5	0.3	0.6	...	0.9	1.1	...

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

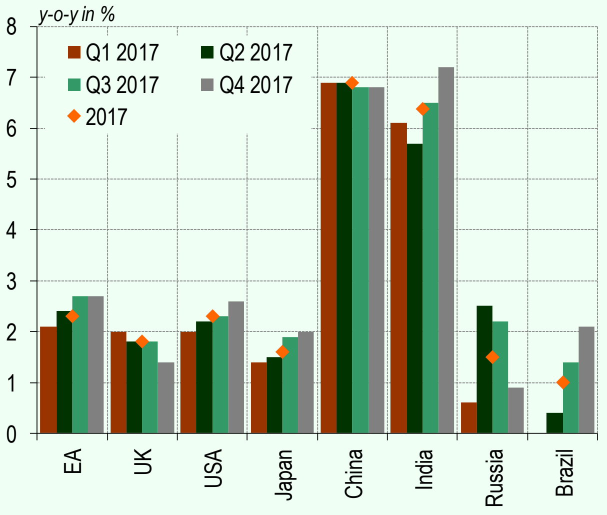
1 International Environment

Global economic growth in 2017 strengthened relative to previous years. This also resulted in a rise in forecasts for 2018 and 2019. However, in recent weeks the risks of lower growth have increased because of the sharp deterioration in the West's relations with Russia and China. GDP growth in the euro area exceeded expectations in the second half of 2017. Economic growth in the euro area countries slowed slightly in the first quarter of 2018, but is nevertheless expected to have remained higher than in previous years. Confidence in the euro area economy also declined slightly over the first three months of the year, but remains strongly above its long-term average. The weighted economic growth forecast for Slovenia's main trading partners for 2018 was raised in the first quarter, and strongly converged on the weighted economic growth observed in 2017. The divergence between the monetary policies of the ECB and the Fed increased again in March, while the euro's rise against the US dollar continued in early 2018 but had slowed by the end of the first quarter. Oil prices have risen significantly in recent days on account of increased geopolitical risks.

Global economy

Global economic growth strengthened significantly relative to previous years. According to the latest IMF estimates, the global economy is thought to have grown by 3.7% in 2017, 0.5 percentage points more than in the previous year. Major global economies played a significant role, since growth strengthened in the majority of these economies in 2017. Year-on-year GDP growth in the US strengthened to 2.6% in the final quarter of last year. With imports strengthening more than exports, the contribution to net goods trade was negative. At the same time private consumption remained strong, while growth in investment was higher than expected. Among the BRIC countries, the highest year-on-year economic growth in the final quarter of 2017 was recorded by India, followed immediately by China, where year-on-year growth was unchanged from the third quarter, thereby exceeding expectations. Among the major economies, year-on-year growth also strengthened slightly in Japan. Brazil emerged from recession after two years, but

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



Source: Tradingeconomics.

growth was relatively weak and below expectations. Russia only recorded weak growth, owing to a decline in activity in manufacturing, mining and agriculture. Year-on-year growth in the UK is still slowing, and in the final quarter reached its lowest rate since the second quarter of 2012.

After the increased momentum in global economic activity and the exceeded expectations in 2017, international institutions raised their forecasts for 2018 and 2019. The majority of institutions revised their latest forecasts for global growth in 2018 upwards by 0.2 percentage points. The IMF and the OECD are forecasting global GDP growth of 3.9% in 2018. The current forecasts for global economic growth in 2019 are also more optimistic than the previous ones. The IMF and the OECD are also forecasting growth of 3.9% in global GDP in 2019. The higher forecasts reflect the expectations of a continued increase in global demand, particularly in the area of investment. The increase in demand is expected to find support in favourable financing conditions and high economic sentiment, which is likely to be reflected most evidently in economic growth in export-oriented countries.

The medium-term economic situation in advanced economies is expected to be favourable in most cases. The IMF and the OECD made a major upward revision in their latest forecasts for the US. They are forecasting economic growth of 2.7% and 2.9% respectively in 2018, and 2.5% and 2.8% in 2019. The higher forecasts reflect the economic activity in 2017, which exceeded expectations. The upward revision was also attributable to expectations of increased foreign demand and the anticipated impact of the recently approved changes in tax policy in the US. These are expected to promote economic activity in the short term via increased investment. Growth forecasts are also higher for several euro area economies and reflect the increased momentum in domestic demand and the increase in foreign demand. As a result of a rise in the forecasts of growth in foreign demand, a change in the budget for 2018, and the pass-through of the current increase in activity, economic activity in Japan is forecast to strengthen more sharply over the projection period than predicted by the previous forecasts. The OECD is forecasting growth of 1.3% for the UK in 2018, while the forecasts for 2019 are even lower.

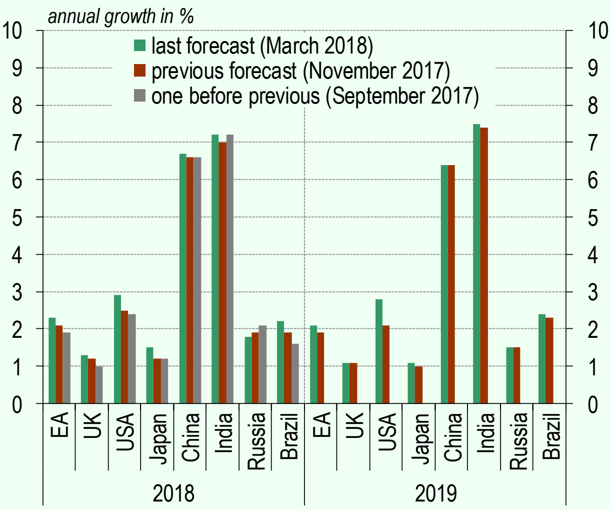
Among the BRIC countries, the highest GDP growth is forecast for India. The IMF and the OECD are both forecasting growth well in excess of 7% for India over the medium term. Economic growth in China is forecast to gradually slow this year and next year. According to the forecasts of the IMF and the OECD, economic growth will stand at 6.6% or 6.7% respectively in 2018, and 6.4% in 2019. The recovery of the Brazilian economy is expected to improve by the favourable impact of higher commodity prices, and favourable financing conditions. The Russian economy is also expected to continue its recovery, although growth is forecast to slow in 2019.

The risks of lower global growth are increasing. The risk of greater barriers to trade is increasing through

Figure 1.2: Global GDP growth forecasts for 2018 and 2019

Note: The forecasts used are the following: IMF (January 2018, October 2017), OECD (March 2018, November 2017).
Source: IMF, OECD.

Figure 1.3: OECD forecasts of GDP growth in major developed countries and BRIC in 2018 and 2019



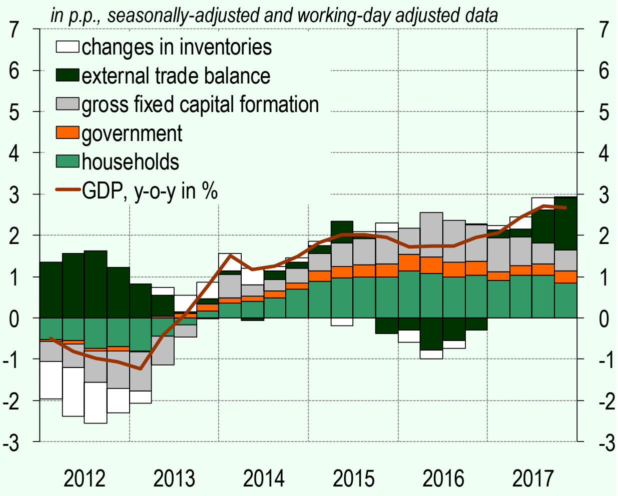
Source: OECD.

changes in major trade agreements, strengthening protectionism in the US, and China's response with retaliatory measures. A deterioration in the conditions for global trade could lead to a decline in global investment and production efficiency, thereby holding back potential growth both in advanced economies and in developing countries.[1,2] There are still risks related to political uncertainties in certain European countries, and also risk related to the outcome of the Brexit negotiations. Geopolitical tensions are also increasing, in particular between Russia and the West in recent times. There is also a danger of an accumulation of financial vulnerabilities. The continuation of favourable financing conditions with low interest rates is increasing investors' exposure to high-risk borrowers. Other risks are faster growth in oil prices, and the appreciation of the euro. Climate change should also be highlighted, as extreme weather conditions are causing great human and economic damage.

Euro area

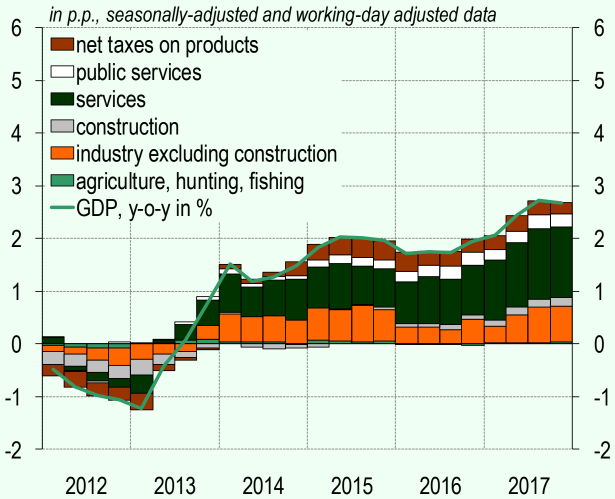
Economic growth in the euro area exceeded expectations in the second half of 2017. Quarterly GDP growth reached 0.6% in the final quarter, while the year-on-year rate increased to 2.7%. In the expenditure breakdown of GDP, according to seasonally and calendar adjusted data, the largest contribution to year-on-year economic growth came from foreign trade, which accounted for 1.3 percentage points. This was followed by private consumption, whose contribution of 0.8 percentage points was down slightly on the previous quarter. Gross investment accounted for 0.5 percentage points of the growth, and government consumption for 0.3 percentage points, while the contribution made by inventories was zero. On the output side, the largest contribution to GDP growth came from services, at 1.3 percentage points. The contribution made by industry was unchanged from the previous quarter at 0.7 percentage points, while construction, public services and net taxes on products each contributed 0.2 percentage points to growth.

Figure 1.4: Structure of GDP growth in the euro area, expenditure approach



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.5: Structure of GDP growth in the euro area, output approach



Source: Eurostat, Bank of Slovenia calculations.

Survey indicators of confidence and activity suggest a slowdown in economic growth in the first quarter of this year. The composite PMI, which measures the rate of expansion of economic activity, reached its lowest level of the last 14 months in March. Growth in manufacturing activity similarly slowed at the end of the first quarter, and also reached its lowest level of the last 14 months in March. Growth in services activity also slowed, to the lowest rate of expansion of the last five months. Despite the recent slowdown, the expansion of the euro area economy remains relatively high according to the PMI.

[1] For example, Nafta and economic agreements between the UK and the EU.
[2] In light of the deteriorating situation in global trade and the announcement of the introduction of tariffs on certain products by certain large countries, the Economist has already trimmed its forecast for growth in global goods trade between 2018 and 2020.

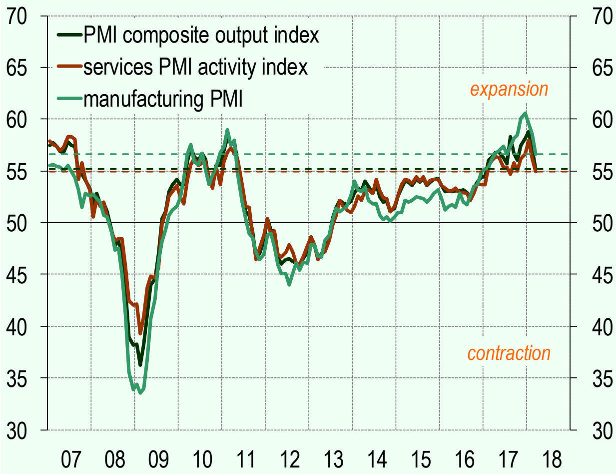
Confidence in the euro area economy also declined slightly over the first three months of the year. Having exceeded its level of the summer of 2007 and reaching its highest level since 2000 in December of last year, the economic sentiment indicator declined slightly in the first quarter of this year. Confidence in the euro area economy nevertheless remains high, and is still well above its long-term average. The largest declines were in industry and trade, while the construction confidence indicator rose, reaching one of its highest levels to date by the end of the first quarter.

The euro area economy is expected to continue growing over the medium term. In its winter forecasts the European Commission is predicting economic growth of 2.3% in 2018, and 2% in 2019. According to the European Commission, job creation is expected to continue ensuring the growth in consumption. The conditions for investment are forecast to remain favourable, with stronger domestic and foreign demand, and favourable financing conditions. The momentum in euro area economies is expected to gradually slow in 2018 as employment growth gradually slows.

Slovenia's trading partners

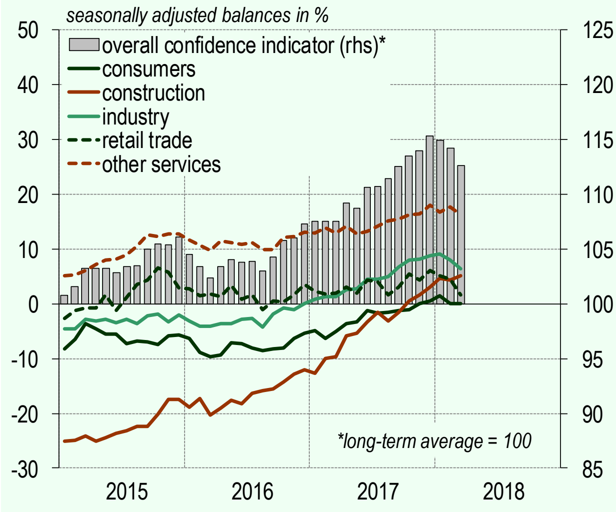
The weighted economic growth forecast for Slovenia's main trading partners for 2018 was raised again in the first quarter, and strongly converged on the weighted economic growth observed in 2017. Consensus raised its forecasts for 2018 for the majority of Slovenia's largest trading partners. Germany, the largest trading partner, recorded GDP growth of 2.2% in 2017, its highest rate of the last six years. This was supported by strong private consumption, increased investment and strengthened foreign demand. The strengthening economic activity in Germany is expected to continue in 2018, as Consensus is forecasting growth of 2.4%. The Italian economy also strengthened more in 2017 than in previous years. GDP increased by 1.5%, primarily as a result of domestic demand. The forecast for 2018 is also 1.5%, and is expected to be supported by increased exports and rising investment. The 2018 growth forecasts for Croatia and Austria, which account for similar shares

Figure 1.6: Purchasing Managers' Index (PMI) – euro area



Note: Dashed lines represent the value of the last observation.
Source: Markit.

Figure 1.7: Confidence indicators – euro area



Source: Eurostat.

Figure 1.8: Weighted monthly forecasts for Slovenia's major trading partners for 2018 and 2019

Note: Trade partners with at least 1% of total goods exports of Slovenia in 2017 are included (more than 20 trading partners with a total share of 87%). The growth forecasts for the years 2018 and 2019 are weighted with the share of each country in the total exports of goods. For 2017 the weighted outcome is shown.
Source: Consensus, Bank of Slovenia calculations.

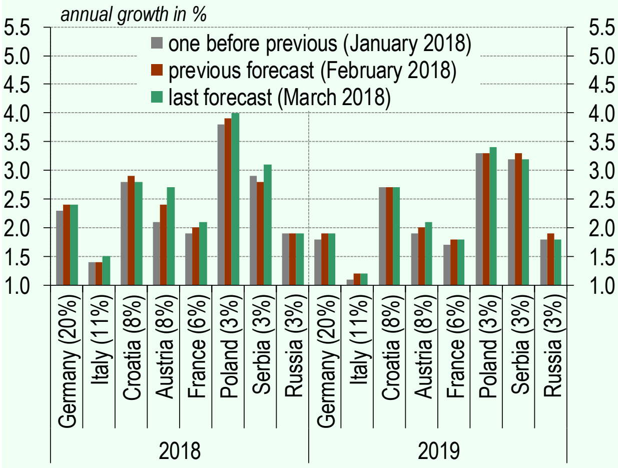
of Slovenia's exports, are 2.8% and 2.7% respectively. The economic growth forecast for France in 2018 is also higher. Of the countries that account for at least 3% of total exports, the highest economic growth in 2018 is expected to be recorded by Poland. Consensus is forecasting the Polish economy to grow by 4%. Compared with the previous forecast, the outlook for 2018 is also better for Serbia, where economic activity is forecast to strengthen by 3.1%, while Consensus left its growth forecast for Russia unchanged at 1.9%. The weighted economic growth forecast for Slovenia's main trading partners for 2019 is also slightly higher, although a slowdown in growth is expected in the majority of the trading partners.

Euro exchange rate and commodity prices

The Fed raised its key interest rates in March for the sixth time since the outbreak of the crisis, while the ECB has left its key interest rates unchanged. The divergence between monetary policies of the ECB and the Fed thus increased further. This is set to continue, as the Fed is planning two more interest rate hikes in 2018. The Fed is also expecting economic conditions in the US to improve in the coming year to the extent that further rises in key interest rates will be justified. The ECB has left its key interest rates unchanged since March, and expects them to remain at their present levels for an extended period, and for significantly longer than the duration of the net asset purchases. The non-standard measures are also expected to continue. The monthly net securities purchases are expected to remain at the level of EUR 30 billion until the end of September 2018, or longer if necessary. The rise in the euro continued in early 2018, despite the increasing divergence in monetary policies. The exchange rate approached USD 1.25 in February, the highest level since December 2014. In the second half of the quarter, when the rise in the exchange rate came to an end, the exchange rate fluctuated between USD 1.20 and USD 1.25, where it remained until the end of the quarter.

Oil prices have risen significantly in recent days on account of increased geopolitical risks. The price of a

Figure 1.9: Forecasts of GDP growth in the eight largest Slovenian trading partners for 2018 and 2019



Note: Shares of trading partners with at least 3% share in total exports of Slovenia in 2017 are found in parentheses.
Source: Consensus, SORS.

Figure 1.10: EUR/USD exchange rate and central banks' interest rates

Source: ECB, Federal Reserve.

Figure 1.11: Oil prices

Source: Bloomberg, Bank of Slovenia calculations.

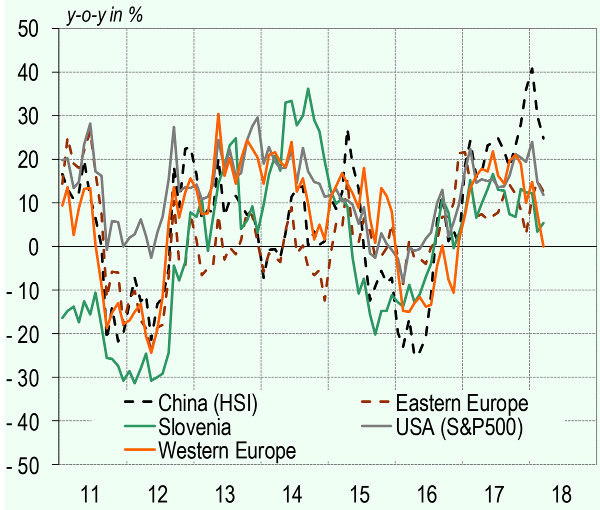
barrel of Brent crude exceeded USD 70 in January for the first time in three years, but mostly fluctuated below this mark in the remainder of the first quarter, before rising again over the first half of April to approach USD 73. The rise in oil prices was attributable to the improved outlook for global economic growth, weather conditions in the US, an agreement by Opec members, Russia and other producers to cut pumping, and geopolitical tensions in the Middle East. Similar factors are expected to bring price growth in the future. Members of the oil cartel are expected to maintain reduced pumping levels until December 2018. The risk of further rises in prices remains due to geopolitical tensions and political instability in producer countries, and the risk of stronger global demand. In the wake of gradual price rises, the US is expected to see increased shale oil production, which could ease the upward pressure on prices. In addition to oil, prices of other commodities also rose in year-on-year terms, while the fall in food prices came to an end.

International capital markets

After an encouraging start to the year, when individual share indices reached record highs, a correction followed in February and March, which was accompanied by increased volatility. A major correction in the first half of February was triggered by encouraging news from the US labour market, and the resulting expectation that the Fed would raise interest rates four times this year because of the increased inflation expectations. Individual stock market indices lost up to 4% in a day. In March new pressure to sell was triggered by the threat of the introduction of protectionist measures between China and the US, which later also spread to Russia. The pressure to sell and the increased volatility also hit European stock markets. Thanks to the remarkable rise in January, the S&P 500 was down only 1.2% over the first three months of 2018, while the representative share index for western Europe (the SXXE) fell by 3%.

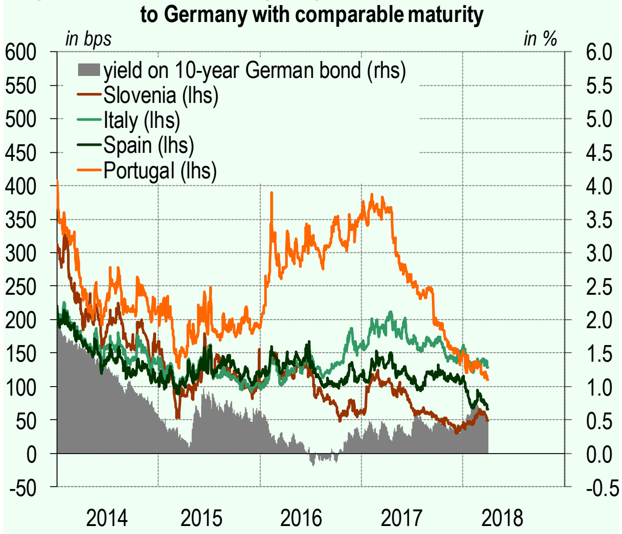
The process of normalisation on the international bond market picked up a little pace in the first three months of 2018, which was reflected in a further rise in required yields on 10-year government bonds. This was attributable to expectations of faster global economic growth, tax reform in the US, and the anticipated start of a reduction in the volume of bond purchases in the euro area stimulus programme. The fall in the spreads on 10-year euro area government bonds over the German benchmark of the same maturity came to an end, and individual countries saw the spread increase slightly.

Figure 1.12: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.13: Spreads on 10-year government bonds as compared to Germany with comparable maturity



Source: Bloomberg.

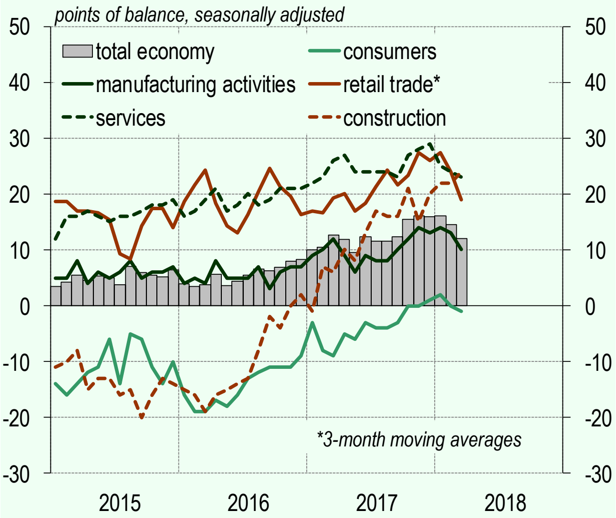
2 Economic Developments

Economic growth remained sustainable last year, despite the acceleration at the end of the year. GDP growth reached 6% in the final quarter, the second-highest rate in the euro area. Contributions to growth were made by all the main categories, most notably industry, car manufacturing in particular. Growth in domestic demand strengthened sharply, as construction investment increased markedly as expected. The contribution made by net trade nevertheless remained highly positive, as real growth in exports increased further to record one of the highest rates in the euro area. Economic growth also remained strong in the first quarter: growth in monthly indicators of activity remained high in January and February, although the economic sentiment indicator had declined slightly by March.

Confidence indicators and performance limiting factors

Confidence in the economy remained high in March, albeit down on January and February. According to the SORS survey, the economic sentiment indicator in March was down 4 percentage points on January, at a comparable level to March of last year. Firms in the sectors of manufacturing, retail and other private-sector services all reported slightly weaker growth in current demand, but remained optimistic with regard to demand in the second quarter. Only construction firms reported a further strengthening of growth in demand in the first quarter of this year. Similarly, issues of low demand were cited by firms as a limiting factor more frequently in the first quarter of this year than in the final quarter of last year, while the proportion of firms facing a shortage of labour declined slightly. There was no significant change in financing conditions according to firms. The consumer confidence indicator also declined slightly over the first three months of the year.

Figure 2.1: Confidence indicators



Source: SORS, Bank of Slovenia calculations.

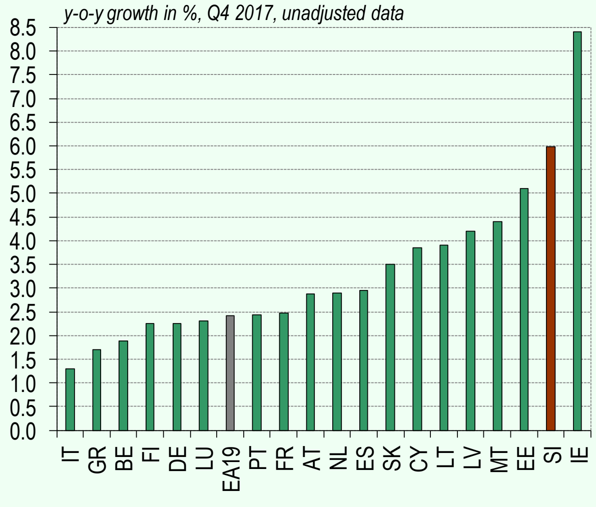
GDP

Slovenia recorded the second-highest economic growth in the euro area in the final quarter of last year. At 6%, its year-on-year growth exceeded the euro area average by 3.6 percentage points. All the main sectors contributed to the increase relative to the previous quarter, most notably industry and construction. The two aforementioned sectors also contributed most to the outperformance of the euro area overall, while growth was also stronger in private-sector services and public services. The only factor acting to reduce GDP growth was a renewed fall in value-added in agriculture, which was the result of adverse weather conditions.

Last year value-added in industry recorded one of its strongest rates of growth of the last 20 years. It ended the year up more than 10% in year-on-year terms, with almost all branches of manufacturing making a contribution. The key was the boom in the car industry, where year-on-year growth in output exceeded 40%. Growth was also high in the machinery, metal, chemicals and electrical industries, while the positive business climate had a less pronounced impact on output in the wood and food industries. The higher growth in industrial production was primarily attributable to demand on euro area markets, where the real turnover of Slovenian manufacturing firms in the final quarter of last year was up more than 20% in year-on-year terms. Firms recorded growth in turnover of more than 8% on markets outside the euro area, while the domestic market also revived last year after declining in 2016. Industry remained the main generator of value-added in the final quarter of last year, accounting for 2.4 percentage points of GDP growth, more than entire contribution made by private-sector services.

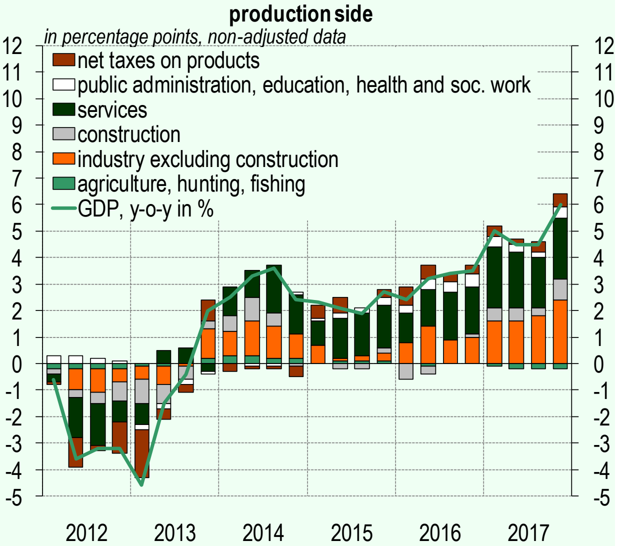
Activity in services also strengthened in the final quarter of last year. Year-on-year growth in value-added in private-sector services reached 5.1%, up 0.6 percentage points on the previous quarter. The higher growth was attributable to domestic demand, as growth in turnover from exports of services slowed slightly towards the end of the year. Activity was stronger in professional, scientific and technical activities and administrative and support service activities, which was partly related to a reversal in turnover in architectural and technical services, which may be connected to the rise in the investment cycle. Activity was also stronger in the information and communication sector, where there was significant growth in turnover in computer programming and consultancy services in the final quarter of last year. Growth in value-added in trade, transportation and storage, and

Figure 2.2: Economic growth in the euro area countries



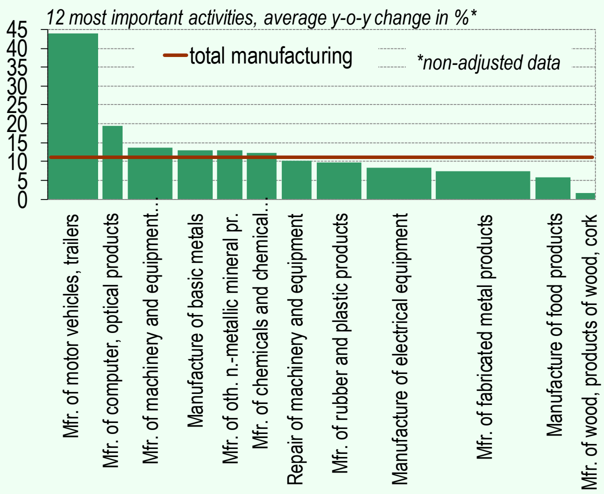
Source: Eurostat, Bank of Slovenia calculations.

Figure 2.3: Contributions to y-o-y GDP growth, production side



Source: SORS.

Figure 2.4: Manufacturing production: Oct. 2017 – Dec. 2017

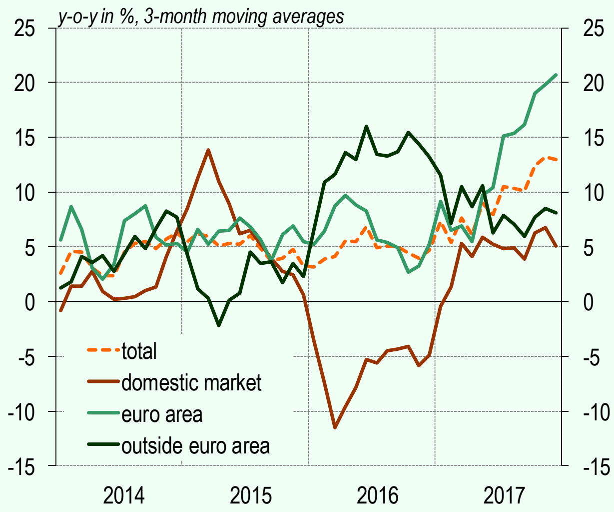


Source: SORS, Bank of Slovenia calculations. Notes: Width of each column represents a share of activity in total value added in manufacturing in 2016. Pharmaceuticals are not included due to data confidentiality.

accommodation and food service activities remained high, in line with growth in private consumption, growth in international trade and the rise in the number of arrivals by foreign visitors. Growth in value-added in public services also increased, which in addition to growth in employment in the public sector was also attributable to an expansion of private healthcare. Private-sector and public services accounted for 2.7 percentage points of year-on-year GDP growth in the final quarter of last year.

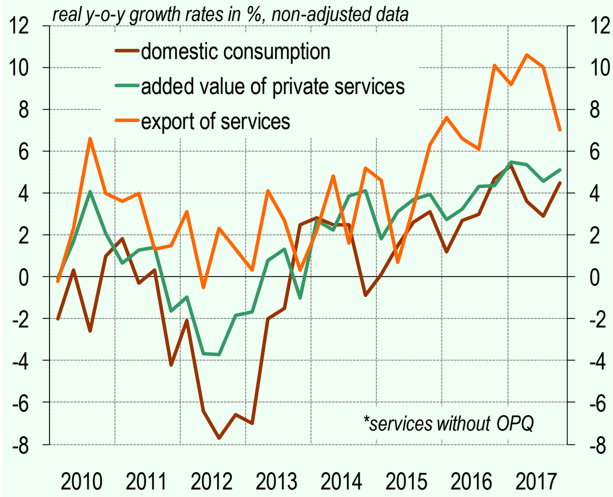
Construction activity increased markedly towards the end of last year. Quarterly growth in value-added exceeded 9% in the final quarter of last year, while year-on-year growth reached 16%. The contribution made to year-on-year GDP growth by construction increased to 0.8 percentage points. There was a sharp increase in activity in all categories of construction; the strongest remained residential construction, where year-on-year growth in the amount of construction put in place exceeded 60%. The ratio of housing investment to GDP nevertheless remains low compared with its long-term average, so that an increase in the supply of new-build housing will find it difficult to curb the rapid rise in residential real estate prices in the short term. By the end of last year, they were up almost a fifth on their low in the third quarter of 2014. The anticipated growth in construction activity is high: the value of new contracts has been increasing for two consecutive years, while the number of issued building permits and corresponding floorspace rose sharply in the final quarter of last year.

Figure 2.5: Volume turnover in industry



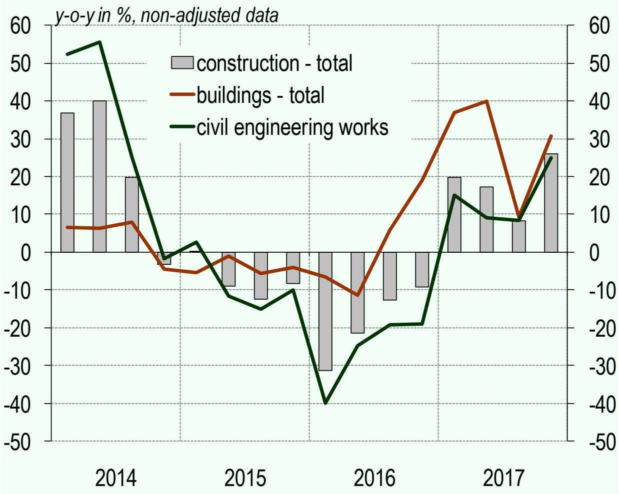
Source: SORS, Bank of Slovenia calculations.

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



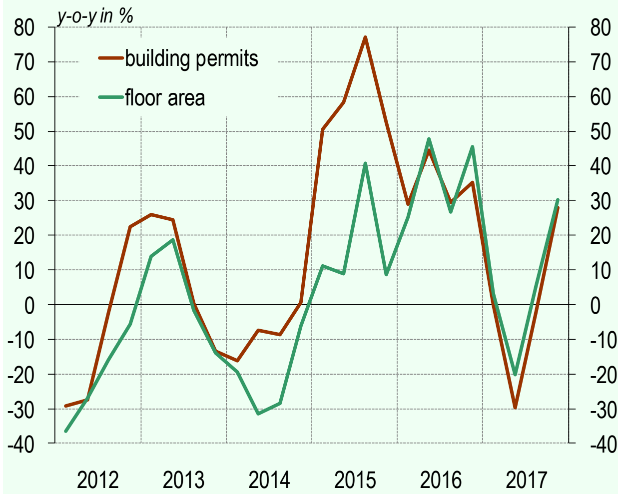
Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Volume of construction put in place



Source: SORS, Bank of Slovenia calculations.

Figure 2.8: Issued building permits and corresponding floor area



Source: SORS, Bank of Slovenia calculations.

Box 2.1: How sustainable was the economic growth at the end of 2017?

Last year's increase in economic growth raises questions as to its sustainability. GDP growth reached 6% in the final quarter, the second-highest rate in the euro area. The last time that the Slovenian economy recorded growth of this magnitude was in the second quarter of 2008, i.e. in a period now understood to be one of strong overheating. The structure and sources of growth at that time were unsustainable. The economy was thus unprepared for the global economic crisis, with poor cost competitiveness, high external indebtedness, and no fiscal surplus. There then followed a sharp decline in economic activity, painful government austerity measures, an expensive recovery of the banking system, and lengthy corporate deleveraging. Per capita GDP at purchasing power parity declined from 83% of the euro area average to 77% over that period.

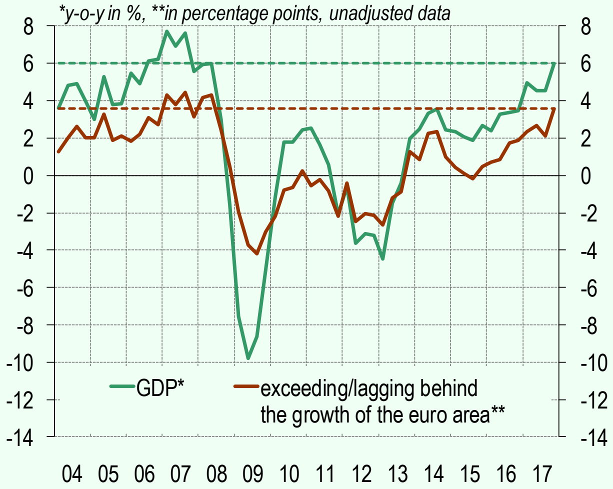
The period of overheating before the crisis, including the second quarter of 2008, saw rapid growth in domestic consumption financed by unsustainable growth in bank lending to the private sector. The domestic banks funded this expansion of lending by borrowing in the rest of the world. Fiscal policy was also decidedly procyclical, with high growth in final consumption and investment by the government sector, and a reduction in the tax burden. The structural general government deficit increased sharply as a result.[1] In the wake of rising inflation, rising unit labour costs brought a deterioration in external competitiveness. This structure of economic growth also led to a sharp increase in the gross external debt and a large current account deficit. The imbalances were formed over a longer period. Back in the third quarter of 2006, when the pronounced increase in economic growth began, the macroeconomic position was relatively sustainable at first sight. The exceptions were the high growth in loans and in investments that were not necessarily profitable, and the rapid rise in the gross external debt. In contrast to today's situation, there was also a deficit in the current account.

Table 1: Comparison of GDP growth structure and sources of financing between Q4 2017, Q3 2006 and Q2 2008

indicator	unit	value			difference	
		Q3 06	Q2 08	Q4 17	Q3 06 - Q4 17	Q2 08 - Q4 17
					in percentage points	
GDP	y-o-y in %	6.1	6.0	6.0	0.1	0.0
GDP – euro area	y-o-y in %	3.0	1.7	2.4	0.6	-0.7
contribution of net exports to GDP growth	in percentage points	0.0	0.1	1.7	-1.7	-1.6
gross fixed capital formation	% of BDP	27.8	30.6	18.6	9.2	12.0
investment in machinery and equipment	% of BDP	11.6	11.2	7.4	4.2	3.8
construction investment	% of BDP	13.5	16.3	8.2	5.3	8.1
general government investment	y-o-y in %	23.6	17.0	5.8	17.8	11.2
final consumption of general government	y-o-y in %	2.5	4.3	5.6	-3.1	-1.3
final consuption of households	y-o-y in %	1.5	3.8	3.3	-1.8	0.5
LFS unemployment rate	in %	5.6	4.1	5.8	-0.2	-1.7
employment	y-o-y in %	1.8	2.8	2.8	-1.0	0.0
labour costs	y-o-y in %	6.2	11.0	7.3	-1.1	3.7
nominal unit labour costs	y-o-y in %	0.0	4.4	0.8	-0.8	3.6
core inflation (excl. energy, food, alcohol and tobacco)	y-o-y in %	1.1	4.1	0.6	0.5	3.5
one year gross operating surplus of NFCs	% of BDP	17.3	18.8	19.2	-1.9	-0.4
debt-to-equity ratio of NFCs	in %	104.1	124.2	99.9	4.2	24.3
gross loans to private sector	y-o-y in %	23.6	28.4	4.9	18.7	23.5
one year balance of the general government	% of BDP	-1.4	-0.3	0.0	-1.4	-0.3
one-year balance of the current account	% of BDP	-2.0	-5.2	6.4	-8.4	-11.6
					in EUR billion	
gross external debt	y-o-y difference	4.0	9.0	-1.3	5.3	10.3

Note: All indicators are non-adjusted to season and working days.
Source: SORS, Eurostat, Bank of Slovenia.

Figure 1: Economic growth in the last quarter of 2017 and during the period of overheating



Source: Eurostat, Bank of Slovenia calculations.

Since the end of 2013[2] Slovenia has found itself in a new period of economic growth, which strengthened sharply last year, but in terms of structure and sources it is entirely different from the pre-crisis period. Although the domestic banking system began a new credit cycle last year, growth in loans to the private sector remained low in the final quarter of last year, while firms primarily financed their investment growth from internal resources. At the same time there was no deterioration in external competitiveness despite the higher growth in labour costs, as growth in unit labour costs was significantly lower than in the pre-crisis period. The contribution made to GDP growth by net trade remained strongly positive, despite the strengthening domestic demand. The latter has not yet had an impact on core inflation, which was negligible at the end of last year. The fiscal position also improved strongly: the 12-month fiscal position was balanced. The structure of economic growth was reflected in a significant decline in the gross external debt and a large current account surplus.

Maintaining stability in economic growth will nevertheless require caution in the exercise of domestic economic and corporate policy. The experience of the errors made in the pre-crisis period could prove useful in this regard. Given the rapid decline in the surplus supply of labour, wage growth at firms is expected to increase, but must nevertheless be held within boundaries that maintain external competitiveness. The inertia level of wages in the wake of reversals in GDP growth also needs to be taken into account. Firms must maintain a healthy balance sheet and avoid the risk of over-indebtedness during the next reversal of the economic cycle.[3] In the wake of the anticipated very gradual normalisation of monetary policy, the burden of balancing the economic cycle will largely fall on fiscal policy. This must continue to exercise restraint with regard to growth in general government expenditure, and must exercise prudence in any changes on the revenue side to ensure the required improvement in the structural public finance position. Another risk to be highlighted is an excessive increase in investment growth, which could be caused by the government through the disproportionate spending of European funds, the financing of major investment projects and an election-driven investment cycle. This could cause large fluctuations in economic growth, and could generate systemic imbalances in construction and other sectors.

[1] Pre-crisis tax changes (an increase in general allowances within the framework of a change in the personal income tax system, cuts in payroll tax rates and its eventual abolition, and cuts in corporate income tax rates) were one of the factors in the significant deterioration in the structural general government deficit. They widened the deficit by 2 percentage points to 5.1% of GDP in 2008, according to estimates by the IMAD. Source: IMAD: Economic Challenges 2012, pp 20-21.
[2] Quarterly growth in GDP turned positive in the second quarter of 2013, while year-on-year growth entered positive territory in the final quarter of the same year.
[3] The risks of a slowdown in economic growth have recently been increased by protectionism in the US and by the deterioration in relations between Russia and the West.

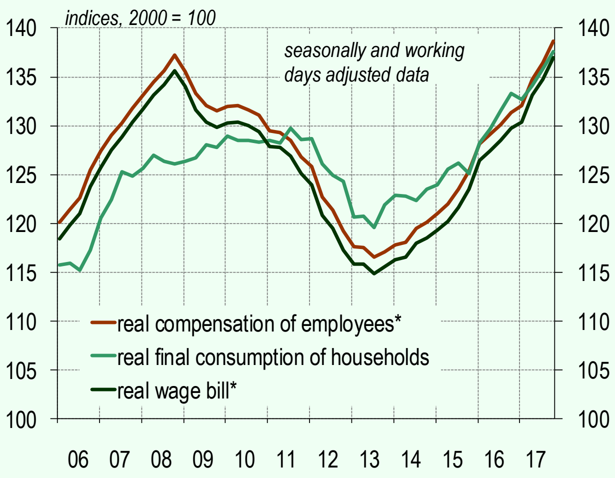
Aggregate demand

Growth in domestic demand increased significantly at the end of last year, primarily as a result of stronger investment. Year-on-year growth in domestic demand stood at 4.5%, up 1.6 percentage points on the third quarter. It accounted for 4.2 percentage points of the GDP growth. All aggregates contributed to the higher growth in domestic demand, most notably investment. Investment was up more than 5% in quarterly terms, raising its year-on-year growth to almost 12%. Growth in final government consumption was also significantly higher, which was largely attributable to the statistical booking of deductions under the ESA 2010 methodology. Growth in household consumption was also stronger than in the third quarter, in line with developments in labour income. Growth in all sub-categories of demand outpaced the euro area average, most notably in investment. Year-on-year growth in gross fixed capital formation in the final quarter of last year exceeded the euro area average by 7.6 percentage points.

The high growth in private consumption reflects the favourable situation on the labour market. After declining in the first quarter of last year, quarterly growth in private consumption gradually increased, while the year-on-year rate reached 3.3% in the final quarter, despite a high basis. It accounted for 1.8 percentage points of the GDP growth in the final quarter. According to SORS information, the structure of private consumption is shifting towards services, which is partly indicative of a rise in the number of arrivals and overnight stays by domestic tourists. The growth in private consumption is coinciding with the strengthening of consumer purchasing power, which was attributable at the end of last year to increased wage growth in addition to high growth in employment. This was primarily related to bonus payments at the end of the year.

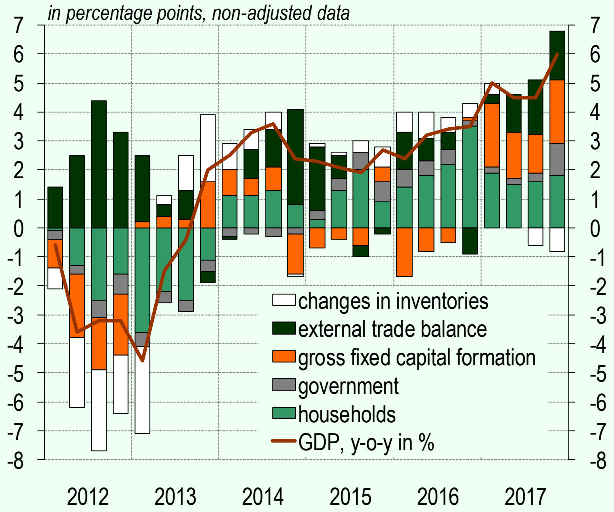
The investment cycle strengthened as expected towards the end of last year. The increased growth was attributable to construction investment, most notably the quarterly growth of more than 11% in investment in non-residential construction, which was at least partly related to the revival of government investment activity. Growth in investment in machinery and equipment also remained solid. In contrast to 2016, all quarters of last year saw an increase in investment in intellectual property, with an acceleration in the second half of the year.[1] Gross fixed capital formation accounted for 2.2 percentage points of year-on-year GDP growth in the final quarter. These developments are increasing the production capacity of the economy, which will allow for the continued exploitation of the good international business climate and strengthening domestic final consumption, thereby generating high economic growth. Indications of the possibility of further high growth in investment this year come from the high utilisation of production capacity, favourable forecasts of global and regional economic growth, demand indicators in construction, and extremely high corporate profits. The political cycle and the improved disbursement of European funds mean that the government sector will also strengthen its investment.

Figure 2.10: Wage bill, compensation of employees and final consumption of households



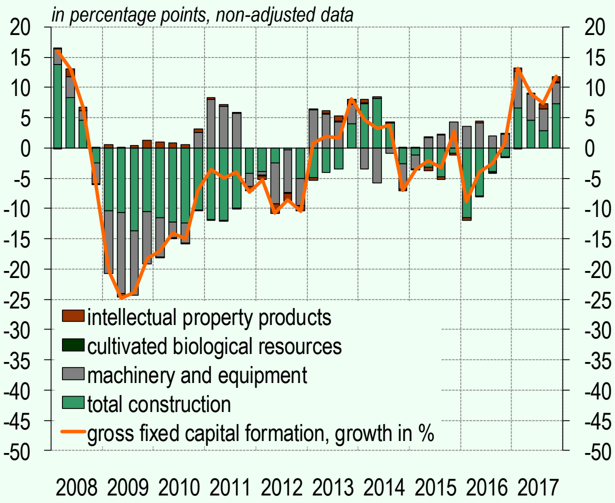
*Note: * Deflated by seasonally adjusted HICP index.*
Sources: SORS - national accounts, ECB, Bank of Slovenia calculations.

Figure 2.9: Contributions to y-o-y GDP growth, expenditure side



Source: SORS.

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

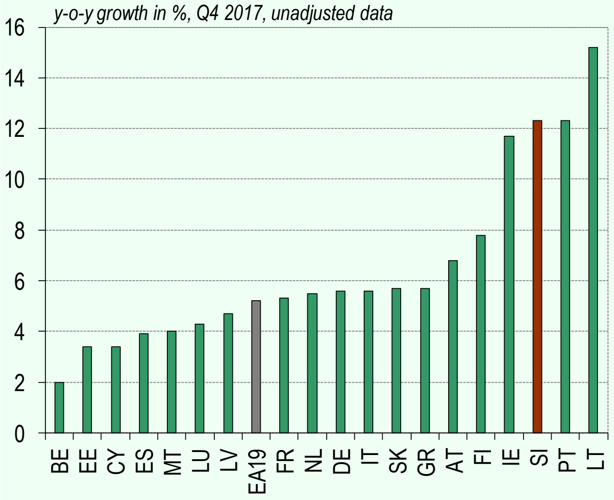


Source: SORS, Bank of Slovenia calculations.

[1] Investment in intellectual property broadly consists of investment in research and development, and investment in software and databases.

Real growth in exports of merchandise and services is significantly outpacing the euro area average. The year-on-year rate strengthened to more than 12% in the final quarter of last year, the second-highest figure in the euro area, and outpaced the euro area average by more than 7 percentage points. The increase was attributable to increased merchandise exports, while growth in exports of services slowed towards the end of the year. In line with the jump in investment and industrial production, and the further increase in final consumption, real growth in merchandise imports also strengthened, but remained below growth in exports. The contribution made to GDP growth by net trade thus remained strongly positive, and stood at 1.7 percentage points in the final quarter.

Figure 2.12: Exports of goods and services in the euro area countries



Source: Eurostat, Bank of Slovenia calculations.

Economic developments in the first quarter of 2018

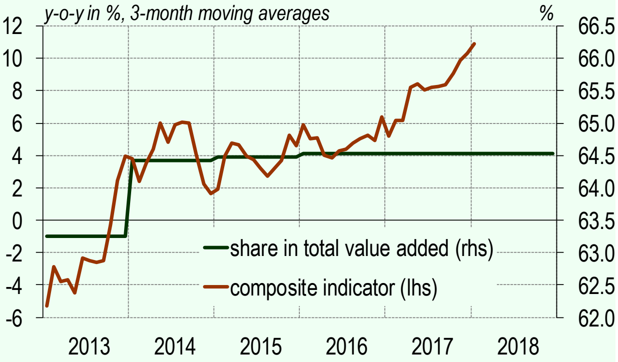
Economic growth was again high in January and February. The industrial production indices and developments in exports suggest a moderate slowdown compared with the final quarter of last year, but year-on-year rates of growth remain high. Developments in trade are also slightly weaker: turnover in non-food products was alone in maintaining growth. Turnover in motor vehicles remains notably strong. Year-on-year growth in turnover in other private-sector services further increased, as the aggregate reached its highest rate since 2007. The real value of construction put in place continued to strengthen rapidly. Further evidence of the continuation of the good climate comes from the composite indicator of economic activity, and the output of the short-term economic forecasting model.

Table 2.1: Economic activity

	12 m. to Feb.17	12 m. to Feb.18	2017 Dec.	2018 Jan.	2018 Feb.	2017 Nov.	2018 Feb.
			y-o-y in %			monthly ++	
Industrial production: - total *	7.2	9.4	13.1	11.9	7.2	3.7	2.0
- manufacturing	8.1	10.2	14.4	13.1	7.4	3.9	2.1
Construction: - total **	-14.5	20.6	20.0	73.5	8.6	8.8	3.8
- buildings	6.0	29.1	17.7	56.9	19.2	14.4	10.9
- civil engineering	-21.6	17.3	24.9	79.4	2.3	5.8	4.2
Trade (volume turnover)							
Total retail trade	5.8	6.1	1.7	-0.1	-1.6	1.0	-0.9
Retail trade except automotive fuel	2.8	4.1	5.1	1.0	0.0	1.1	-0.6
- food, beverages, tobacco	-1.2	1.4	4.1	-7.3	-4.1	0.3	-3.6
- non-food (except automotive fuel)	6.6	6.2	5.3	8.4	3.1	1.8	0.7
Retail trade and repair of motor vehicles	20.7	15.9	15.9	16.0	17.1	4.9	4.2
Private sector services * +**	4.6	...	10.6	10.9	...	2.4	...
Transport and storage +	4.5	...	9.1	13.1	...	2.8	...

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

Figure 2.13: Composite indicator of economic activity



Source: SORS, Bank of Slovenia calculations.
Note: Volume composite indicator includes real index of industrial production, volume of construction put in place, volume of retail sale, nominal value of wholesale and nominal value of sale in majority of other private services. Nominal value of wholesale is deflated by import price index, nominal value of sale in majority of other private services is deflated by services price index and energy price index with 50% weight each.

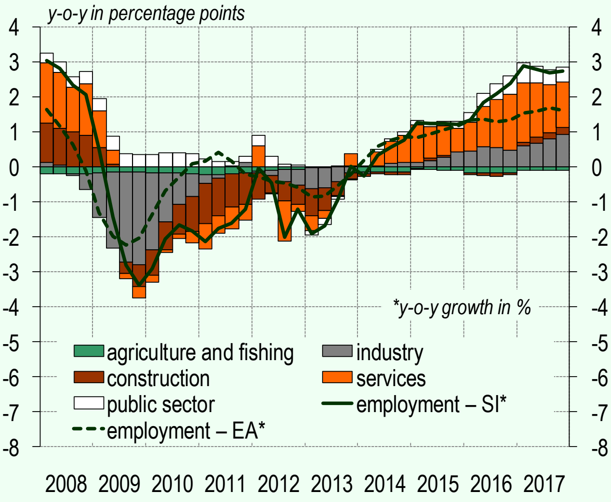
3 Labour market

Employment again exceeded one million in the final quarter of last year after nine years. Growth in employment stood at 2.8% last year, and was higher in the private sector than in the public sector. The rise in employment derived from a fall in unemployment, increased labour force participation, and increased hiring of foreign workers. Employers are more frequently seeking foreign workers owing to a shortage of domestic labour and imbalances between the qualifications of the local population and the qualifications sought in demand for labour. Employers notified more than 65,000 vacancies last year, most notably in the sectors of manufacturing and construction. In the wake of rising structural imbalances on the labour market, growth in the average nominal gross wage also gradually strengthened last year, exceeding 4% on account of high extraordinary payments at the end of the year. The increase in wage growth was evident in the private sector, while wage growth in mostly public services slowed relative to 2016 on account of a smaller impact from the relaxation of austerity measures. The nominal wage bill increased by 6.3%, the highest increase since 2008, as a result of parallel growth in employment and wages. Inflation meant that growth in the real wage bill was 1.6 percentage points lower. The high growth in employment and increased growth in wages continued in early part of this year, growth in the nominal wage bill thereby exceeding 8%.

Employment

After nine years, employment again exceeded one million in the final quarter of last year, as employment growth averaged 2.8% over the year, the highest rate since 2007. The only higher rate was recorded in the second half of 2008, although the working age population was significantly higher at that time. There was a more rapid rise in employment than in self-employment last year, increasing the proportion accounted for by employment to 80.9%. At the same time employment grew faster in the private sector (2.9%) on average last year than in mostly public services (2.5%).[1] Almost three-quarters of the employment growth was accounted for by industry, the combined sector of trade, transportation and storage, accommodation and food service activities, and the combined sector of professional, scientific, technical, administrative and support services. The last of these recorded the highest employment growth, at 4.6%.

Figure 3.1: Contributions to employment growth

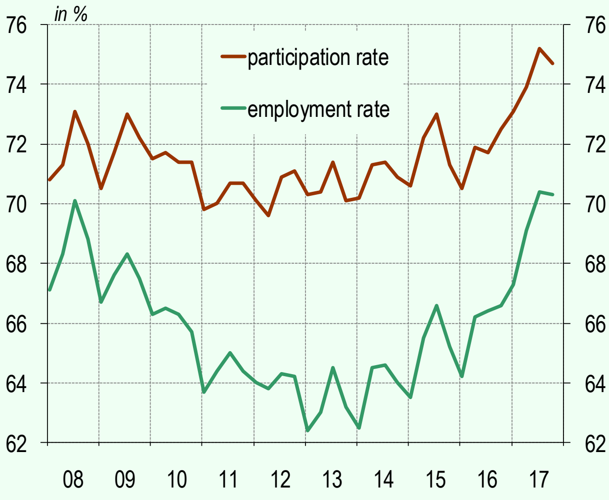


Source: SORS – national accounts, Eurostat, Bank of Slovenia calculations.

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

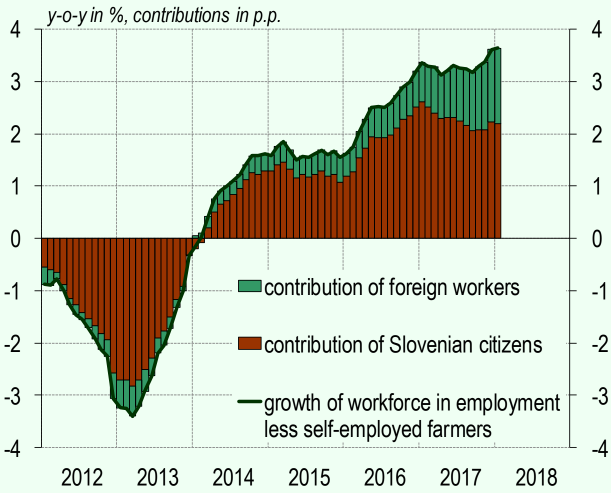
Other sources are also indicating high employment growth, in addition to the national accounts. According to the *Labour Force Survey* conducted on a quarterly basis by SORS, growth in the workforce in employment averaged 4.5% last year and growth in the active population averaged 2.9%, while the working age population (aged 15 to 64) declined by 0.6%.[2] The labour force participation rate averaged 74.2% last year, up 2.6 percentage points on 2016, while the employment rate stood at 69.3%. Employment growth has continued this year, according to the monthly register figures. Year-on-year growth in the workforce in employment reached 3.9% in January, the highest figure since data collection began in 2000. The largest contributions to growth continued to come from manufacturing, construction, and wholesale and retail trade and repair of motor vehicles and motorcycles. As a result of an increasing shortage of labour and imbalances between the qualifications of the local population and the qualifications sought in demand for labour, employers are increasingly hiring foreign workers.[3] The largest numbers of foreign nationals are employed in construction, where just 10% of the workforce has a tertiary qualification according to figures from 2016. Foreign nationals accounted for already 40% of the year-on-year increase in the workforce in employment excluding self-employed farmers in January.

Figure 3.2: Labour market participation rate and employment rate for working age population (15-64 years)



Source: SORS, Bank of Slovenia calculations.

Figure 3.3: Contribution of foreign workers to growth of workforce in employment



Source: SORS, Bank of Slovenia calculations.

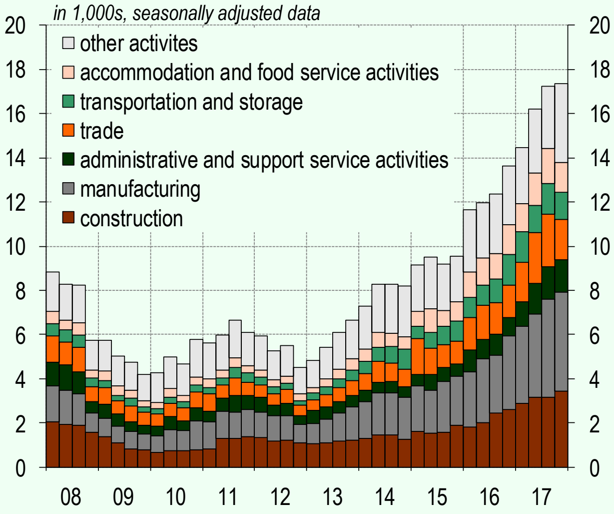
The number of vacancies rose sharply last year relative to the previous year, the rapid rise indicating a shortage of labour. According to SORS survey data, employers notified more than 65,000 vacancies in 2017, up 31.8% on 2016.[4] A quarter of the vacancies were notified in manufacturing, and a fifth in construction. The number of vacancies rose during the year according to seasonally adjusted data, while the job vacancy rate also increased in the wake of rising labour shortages. According to seasonally adjusted data, the job vacancy rate across all sectors stood at 2.3% in the final quarter, while construction recorded the highest rate of 6.4%. The man-

[2] Given the different methodologies of monitoring and the different data sources, employment differs according to the figures from quarterly national accounts, the quarterly figures from the Labour Force Survey, and the monthly register figures. The national accounts figures for employment from the statistical register of the workforce in employment (the SRDAP) include permanent employees, self-employed and assisting family members in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The quarterly figures for the workforce in employment from the Labour Force Survey include persons who performed work of any kind in return for payment (in cash or kind) or family gain in the week before the survey was conducted. The workforce in employment also includes employees and self-employed persons who were absent from work in the week before the survey was conducted, and employees on lay-offs, persons on maternity leave and unpaid family workers. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as workforce in employment, the figures being taken from the SRDAP.

[3] According to previous annual data, the average qualifications of immigrants aged over 15 are consistently lower than the average qualifications of the local population aged over 15.

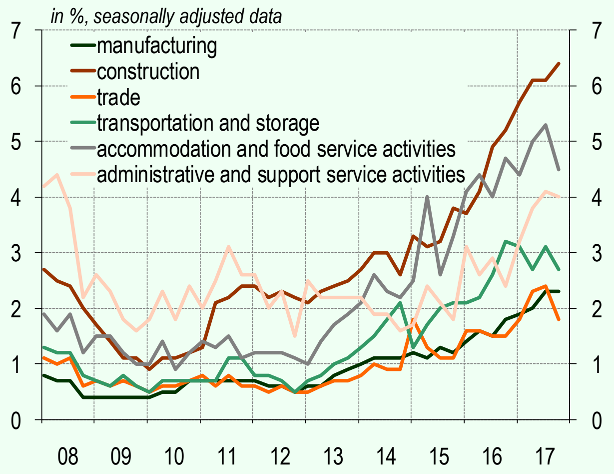
[4] In April 2013 the Labour Market Regulation Act abolished the mandatory notification of vacancies at the ZRSZ for all employers other than the public sector and firms under majority government ownership. Between April 2013 and the end of 2014 the figures were no longer complete, for which reason the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

Figure 3.4: Job vacancies



Source: SORS, Bank of Slovenia calculations.

Figure 3.5: Job vacancy rate*

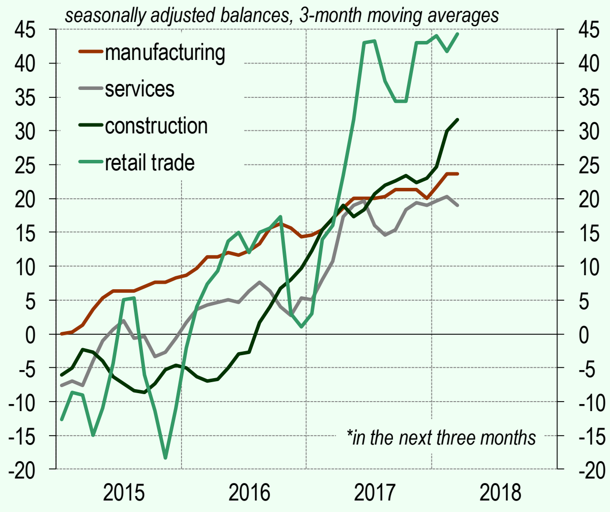


Note: *The job vacancy rate reflects the share of job vacancies in all workplaces together. All workplaces being the sum of vacant and occupied posts.
Source: SORS, Bank of Slovenia calculations.

ufacturing and construction sectors again notified the largest numbers of vacancies in the first two months of this year according to the Employment Service (ZRSZ) data, while the occupations most sought by employers were workers in construction, architecture, surveying and spatial planning.[5] More than 70% of the vacancies during the first two months of this year were for temporary positions.

Firms are also planning to increase employment in the coming months. According to the seasonally adjusted SORS survey figures, the best employment outlook was reported by firms in the retail sector, although all of

Figure 3.6: Expected employment*



Source: SORS, Bank of Slovenia calculations.

the sectors covered by the survey expect an increase in employment over the next three months. Manpower, an HR firm, is also forecasting employment growth in the second quarter of 2018. As in the first quarter, 15% of the surveyed firms are planning to increase employment, however according to seasonally adjusted data the forecast is somewhat lower. A positive outlook was reported by firms in all of the sectors covered by the survey, although firms in manufacturing and in transport and logistics continue to have the most optimistic forecasts.

Unemployment

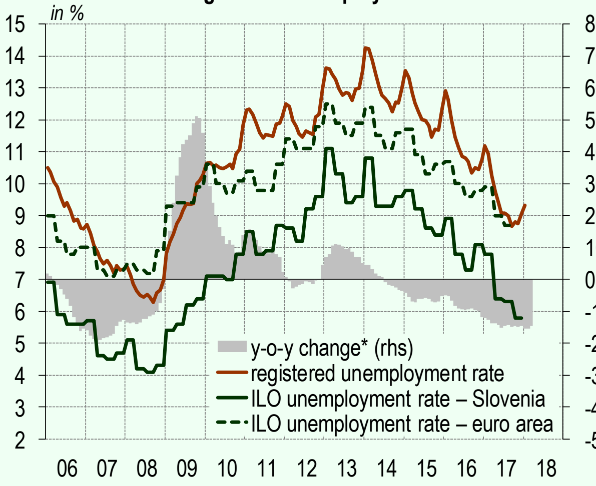
The number of unemployed fell by 14% last year, and the year-on-year fall has picked up even more pace this year. The number of people registered as unemployed at the ZRSZ averaged 88,648 last year, down 14% on the previous year, as the unemployment rate also fell. The surveyed unemployment rate averaged 6.6% last year, down 1.4 percentage points in year-on-year terms, while the registered unemployment rate averaged 9.5%, down 1.7 percentage points. Unemployment continued to fall in year-on-year terms in the first three months of this year. A total of 81,220 people were registered as unemployed at the ZRSZ in March, down 14.7% in year-on-year terms, of whom approximately half had been unemployed for less than a year, and half for more.

[5] As of January 2018 the ZRSZ's monthly figures on vacancies are no longer comparable to those from previous years, the new Rules on the Reporting of Vacancies or Type of Work to the Employment Service of the Republic of Slovenia, Public Announcement and the Job Placement Process having begun to be applied.

Both categories recorded a year-on-year fall, although the number of long-term unemployed has been falling faster in year-on-year terms since last June than the number of short-term unemployed. The duration of unemployment depends on qualifications and age. Younger people and people with higher qualifications are quicker to find jobs, according to ZRSZ data. In March 51% of the short-term unemployed had a two-year secondary qualification or lower, while their proportion among the long-term unemployed was 12 percentage points higher. The proportion of the short-term unemployed aged 30 or under (10%) is significantly lower than the corresponding figure for the long-term unemployed (29%). Unemployment has been falling in year-on-year terms in all qualifications groups since 2014, while the number of registered unemployed with tertiary qualifications has been recording the largest year-on-year fall since last November. At the same time unemployment is also falling in year-on-year terms in all age groups except those aged over 60.

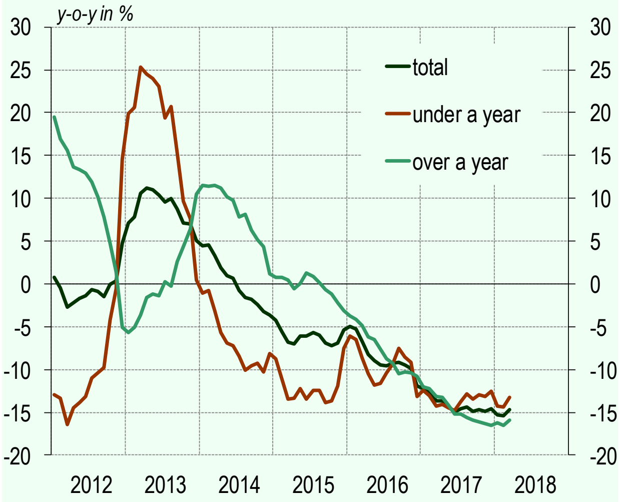
The number of deregistrations at the ZRSZ exceeded the number of registrations by 14,555 last year. The number of deregistrations was down 6.3% on 2016, while the number of registrations was down by 8.4%. More than half of those registering as unemployed were doing so because their temporary employment came to an end. Their number was down 7.2% on the previous year, and was the largest factor in the fall in the total number of registrations. New hires, the number of which was down 6.1% on 2016, accounted for almost 70% of the number of deregistrations. The number of deregistrations over the first three months of this year was also higher than the number of people newly registering as unemployed, and both figures were down in year-on-year terms. The number of deregistrations was down 12.9% on the same period last year, while the number of registrations was down by 12.8%. The number of new hires was up almost 12% in January of this year, as the number of new hires for permanent positions rose faster. These accounted for 29.4% of all new hires, and their contribution to the rise in total employment has been more pronounced since March 2017.

Figure 3.7: Unemployment



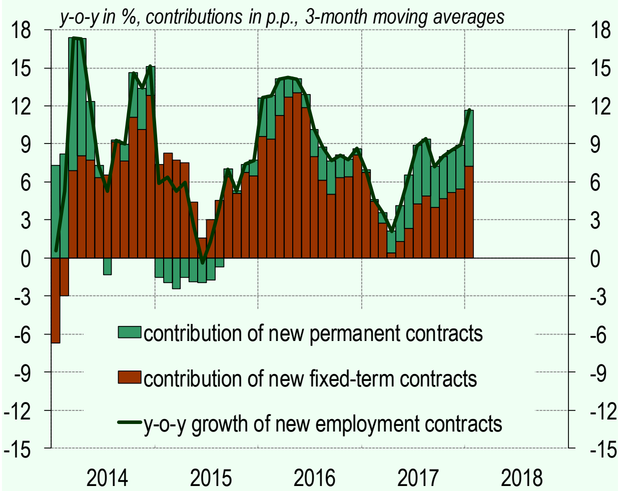
*Note: *Number of registered unemployed persons, y-o-y change in 1,000s.*
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

Figure 3.8: Unemployed by duration of unemployment



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

Figure 3.9: Growth of new employment contracts



Source: SORS, Bank of Slovenia calculations.

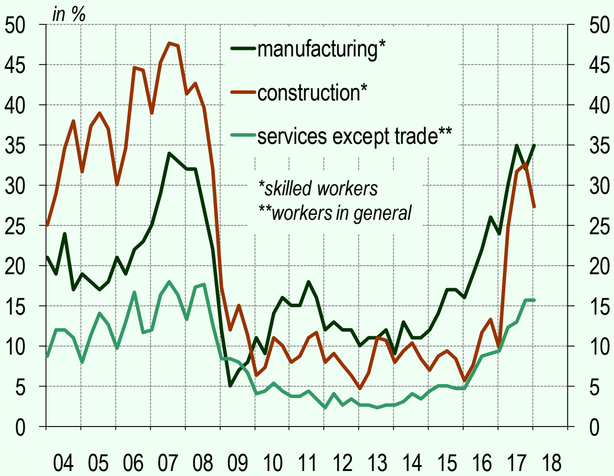
Table 3.1: Demography, unemployment and employment

	2013	2014	2015	2016	2017	16Q4	17Q1	17Q2	17Q3	17Q4
					in 1000					
Working age population[1]	1404	1397	1383	1371	1362	1370	1366	1362	1362	1359
					v %					
Labour market participation rate[2]	70.6	71.0	71.8	71.7	74.2	72.5	73.1	73.9	75.2	74.7
Employment rate[3]	63.3	63.9	65.2	65.9	69.3	66.6	67.3	69.1	70.4	70.3
					in 1000					
Registered unemployed persons	63.2	64.0	65.2	66.6	88.6	97.9	100.1	87.8	83.2	83.5
Unemployment rate					*in %*					
- LFS	10.1	9.8	9.0	8.0	6.6	8.1	7.8	6.4	6.3	5.8
- registered	13.1	13.1	12.3	11.2	9.5	10.6	10.8	9.4	8.9	8.9
Probability of transition between employ. and unemployment					*in %*					
- probability to find a job[4]	13.6	15.4	15.7	18.0	19.2	14.8	22.3	21.0	17.2	16.2
- probability to lose a job[5]	2.8	2.6	2.5	2.3	2.1	2.4	2.7	1.6	1.8	2.2
					in 1000					
Total employment[6]	926.7	930.0	941.6	959.8	986.5	975.1	968.7	983.5	991.7	1001.9
					year-on-year growth rates in %					
Persons in paid employment	-2.7	0.5	1.3	2.4	3.2	3.0	3.2	3.2	3.1	3.2
Self-employed	5.8	-0.3	1.1	0.0	1.1	0.1	1.5	1.2	0.9	0.8
By sectors										
A Agriculture, forestry and fishing	0.0	-1.7	-0.9	-2.1	-1.1	-2.3	-1.1	-1.1	-1.1	-1.2
BCDE Manufacturing, mining and quarrying and other industry	-1.9	0.3	1.1	2.3	3.3	2.2	2.7	3.0	3.6	4.1
F Construction	-7.0	-1.1	0.4	-1.0	2.5	-0.6	1.5	2.4	2.5	3.3
GHI Trade, accommodation, transport	-1.2	-0.3	1.8	2.4	3.0	3.3	3.6	3.1	2.8	2.6
J Information and communication services	2.3	2.6	3.2	3.6	3.6	5.0	5.0	4.6	2.4	2.4
K Financial and insurance activities	-2.8	-2.1	-1.2	-1.7	-1.7	-1.8	-1.3	-1.8	-1.8	-1.8
L Real estate activities	0.5	0.9	1.4	4.6	2.6	7.4	5.4	1.8	1.8	1.7
MN Professional, technical and other business activities	-0.1	3.0	2.5	4.0	4.6	4.7	4.6	5.0	4.7	4.2
RSTU Other activities	6.0	3.0	2.8	2.7	3.8	3.5	4.9	3.7	3.4	3.1
- mainly private sector (without OPQ)[7]	-1.3	0.4	1.4	1.9	2.9	2.3	2.9	2.9	2.8	2.9
- mainly public services (OPQ)[7]	-0.6	0.4	0.8	2.2	2.5	2.7	3.0	2.5	2.2	2.2
Total employment[6]	-1.1	0.4	1.2	1.9	2.8	2.4	2.9	2.8	2.7	2.7

[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, defense, 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.

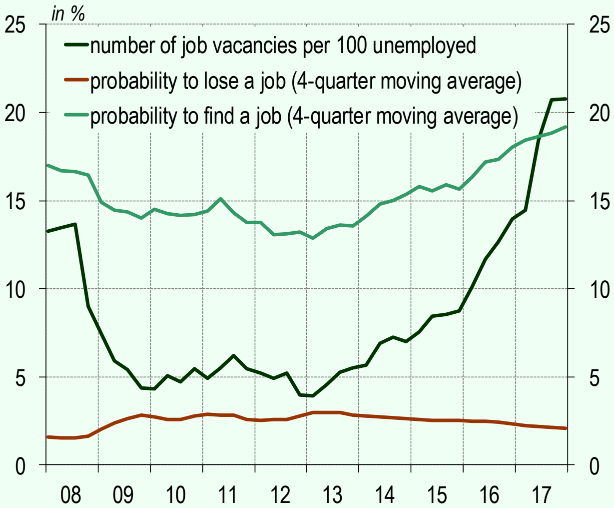
Despite the hiring of foreign nationals, in the wake of the rapid fall in unemployment structural imbalances began to increase last year on the labour market. In addition to rising vacancy rates, other evidence of the increasing structural imbalances on the labour market expressed as a shortage of (skilled) labour comes from the SORS business tendency survey. Last year the proportion of firms facing a shortage of (skilled) workers increased in all sectors covered by the survey, and had already exceeded its pre-crisis high in the manufacturing sector by the third quarter. The increasing shortage of labour is also evident in the indicator describing the ratio of the number of vacancies to the number of unemployed. Last year an average of 19 vacancies were notified per

Figure 3.10: Labour shortage as a limiting factor



Note: The figure shows the percentage of companies in a certain activity, which in the survey as a limiting factor indicated the lack of workers.
Source: SORS, Bank of Slovenia calculations.

Figure 3.11: Auxiliary indicators of labour shortages



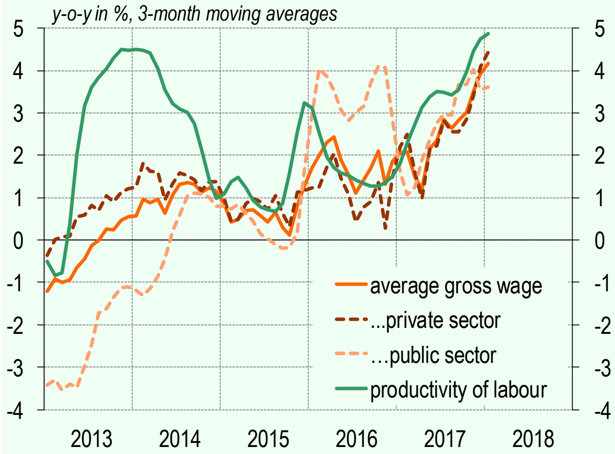
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

100 unemployed persons, compared with just 12 before the crisis in 2008. Since the beginning of the economic recovery, the probability of hiring has been rising and the probability of job loss has been falling.

Wage developments

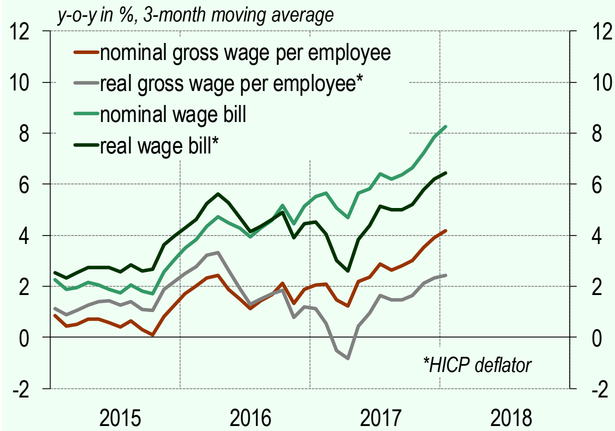
Nominal growth in the average gross wage strengthened last year, exceeding 4% in the wake of high extraordinary payments at the end of the year. Growth averaged 2.7% last year, the highest figure since 2010, but did not outpace nominal growth in labour productivity. It gradually strengthened over the course of the year, exceeding 4% in November in the wake of high extraordi-

Figure 3.12: Growth in nominal wages and productivity



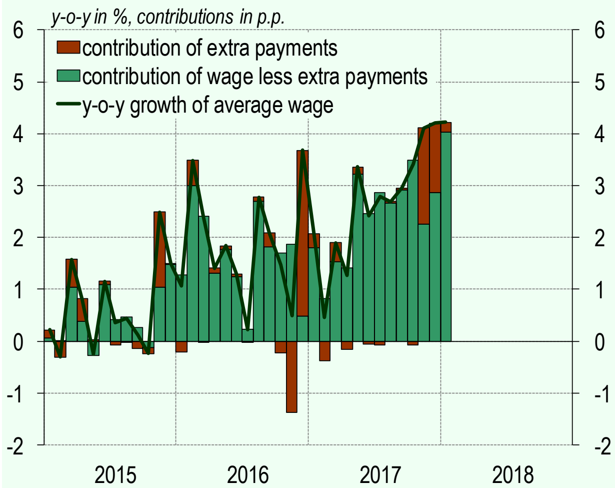
Note: Productivity is estimated as nominal GDP per person in employment, excluding self-employed farmers.
Source: SORS, Bank of Slovenia calculations.

Figure 3.13: 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 3.14: Contributions to the average wage growth



Note: The number of working days is not accounted for in the calculations.
Source: SORS, Bank of Slovenia calculations.

Table 3.2: Labour costs

	2013	2014	2015	2016	2017	16Q4	17Q1	17Q2	17Q3	17Q4
					in EUR					
Average gross wage	1528	*1545*	1556	1584	1626	1636	1599	1602	1604	1701
					nominal year-on-year growth, %					
Average net wage	0.6	0.8	0.4	1.7	3.1	1.8	1.9	2.5	2.9	4.9
Average gross wage	-0.2	1.1	0.7	1.8	2.7	1.9	1.5	2.3	2.8	3.9
- mainly private sector (excl. O..Q)[1]	0.7	1.4	0.8	1.3	...	1.5	...	2.2	2.6	4.1
- mainly public services (O..Q)[1]	-2.3	0.2	0.6	3.3	...	2.9	...	2.8	3.7	3.5
Average gross wage in manufacturing	2.8	3.3	2.1	2.1	3.2	2.8	2.2	2.7	2.8	5.0
Average real net wage[2]	-1.4	0.5	1.2	1.8	1.5	1.1	-0.1	1.1	1.6	3.3
Labour costs per hour worked[3]	-2.1	2.0	0.8	3.0	5.1	5.8	3.0	5.4	6.8	5.1
Labour costs per hour worked in manufacturing[3]	0.5	3.7	0.6	3.2	7.0	7.9	3.8	9.3	9.6	5.5
Gross wage per unit of output[4]	-0.1	-1.5	-0.3	0.6	0.5	0.8	-0.6	0.6	1.1	0.7
Gross wage per unit of output in manufacturing[4]	1.2	-1.9	1.6	0.2	...	1.8	-1.4	-0.1	-1.3	-1.1
Unit labour costs[4,5]	0.5	-1.2	0.4	1.6	0.6	1.0	-0.3	0.8	1.0	0.8
Labour costs per employee[5]	0.5	1.3	1.4	2.8	2.8	2.1	1.7	2.5	2.8	4.0
Output per employee	0.0	2.6	1.0	1.2	2.2	1.1	2.1	1.7	1.7	3.1
Output per employee - manufacturing	1.5	5.3	0.5	1.8	...	1.0	3.7	2.8	4.1	6.2
HICP	1.9	0.4	-0.8	-0.2	1.6	0.7	2.0	1.4	1.3	1.5
GDP deflator	1.6	0.8	1.0	0.9	2.0	1.0	1.1	2.2	2.3	2.2

[1] Public administration, defense, compulsory social security, education, health and social work services according to the Standard classification of activities 2008. Wage growth in the public and private sector for 2017 is an estimate.
[2] HICP deflator.
[3] Labour costs according to SORS calculations.
[4] Unit of output for the total economy is defined as real GDP per person employed, and in manufacturing as real value added per person employed (both based on national accounts).
[5] Labour costs calculated on the basis of employee compensation (national accounts).
Source: SORS, Bank of Slovenia calculations.

nary payments on account of a reduction in the taxation of performance-related bonus payments and good business results. Wage growth in mostly public services stood at 2.8%, down 0.5 percentage points on 2016 on account of a smaller impact from the relaxation of austerity measures, while wage growth in the private sector stood at 2.6%, double the rate seen in 2016. The trend of elevated year-on-year growth in the average gross wage continued in January of this year. It remained unchanged from December at 4.2%, although in contrast to the final two months of last year the contribution made by extraordinary payments was very small, which means that there was a significant increase in growth in base wages. This was attributable to an extra working day compared with January 2017, a rise of 4.7% in the gross minimum wage, and higher growth in productivity. Higher extraordinary payments meant that year-on-year wage growth in the private sector began outpacing growth in mostly public services in November of last year, and it also remained higher in January, when there were no significant extraordinary payments. It stood at more than 6.5% in mining and quarrying, construction, and professional, scientific and technical activities.

Nominal growth in the wage bill was also significantly higher. Growth in the wage bill averaged 6.3% last year, the highest rate since 2008. Higher employment growth meant that the increase was larger in the private sector, where growth in the wage bill reached 6.7%, compared with 5.3% in mostly public services. Inflation meant that growth in the real wage bill was 1.6 percentage points lower last year. Year-on-year growth in the wage bill has remained rapid this year. Nominal growth in the wage bill stood at 8.4% in January, and real growth at 6.6%.

Box 3.1: Impact of employment structure on growth in average wages

Since mid-2013 economic growth in Slovenia has been based primarily on growth in value-added in industry, in the combined sector of trade, transportation and storage, accommodation and food service activities, and in the combined sector of professional, scientific, technical, administrative and support services, and also on growth in value-added in construction since last year. The recovery has thus largely been driven by the expansion of labour-intensive sectors with low-skilled workers, low average wages and lower-than-average productivity. The changes in employment structure were significant, and had an impact on growth in the average wage in the economy, as there were changes in the proportions of employment accounted for by sectors with different wage levels and/or rates of wage growth.

To illustrate the changes in employment structure, sectors have been divided into two groups according to the level of the average gross wage. The first group includes the sectors where the average wage between 2005 and 2017 was lower than the average for the total economy, and the second includes the sectors where it was higher.[1] Before the crisis, in 2008, the proportion of employees in sectors with below-average wages exceeded 64%,[2] then with the outbreak of the crisis their numbers began to fall as firms closed and workers were laid off, while the number of employees in sectors with above-average wages simultaneously increased. By 2013 sectors with below-average wages accounted for just 59.2% of employees. Since the beginning of the economic recovery the number of employees in both groups has risen, although as the jobs lost during the crisis have been replaced the increase in employment in sectors with below-average wages has been more than four times higher than the increase in sectors with above-average wages, thereby increasing the proportion of employees accounted for by sectors with below-average wages to 60.9%.

Figure 1: Persons in paid employment by legal persons

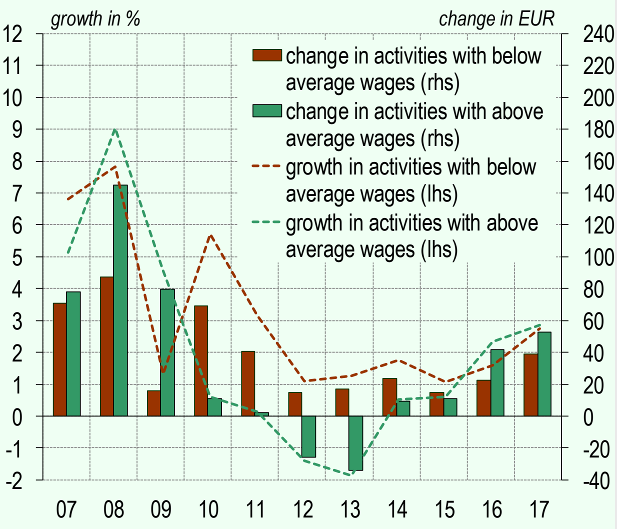
Source: SORS, Bank of Slovenia calculations.

What the nominal growth in average gross wage in the economy would have been had employment structure remained unchanged is illustrated in Figure 3, which in addition to the (officially published) rate of growth in the average gross wage shows the growth in the average gross wage with an employment structure that remains unchanged from 2005. The difference between the two is called the structural shift, or the composition effect of the change in employment structure. A positive structural shift is identified when the proportion of employees in sectors with below-average wages declines and the proportion of employees in sectors with above-average wages increases, while the size of the impact also depends to a lesser extent on the ratio of wage growth in the two categories.[3]

During the crisis period the employment structure shifted towards sectors with above-average wages, where wages were still growing at the outbreak of the crisis, and the result of the two trends was higher average wage growth in the economy. The strongest positive structural shifts were in 2009, when lay-offs of low-paid workers began in sectors with below-average wages, and wages grew faster in sectors with above-average wages. The following year the minimum wage was raised by 22.9% and lay-offs of workers in sectors with below-average wages continued. The composition effects in 2010 were nevertheless significantly smaller than in the previous year, which was attributable to higher wage growth in sectors with below-average wages and the dynamics within both groups. In the group of sectors with below-average wages and the group of sectors with above-average wages alike, the proportion of employees increased most in 2010 in sectors where average wages were lower than the average for the entire group. The impact of the structural shifts was even smaller in 2012 and 2013, when the proportion of employees in sectors with below-average wages continued to decline, while wages in sectors with above-average wages also declined, primarily as a result of government austerity measures.

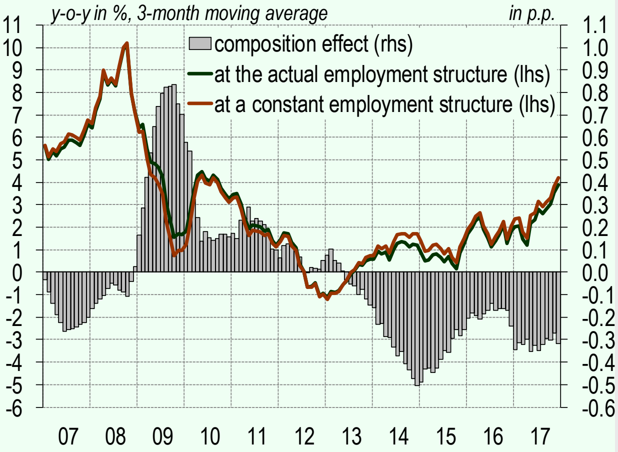
With the economic recovery the number of employees began rising more rapidly in sectors with below-average wages, which had a negative impact on average wage growth. As a result of changes in employment structure within the two

Figure 2: Average gross wage



Source: SORS, Bank of Slovenia calculations.

Figure 3: Average wage growth and composition effect of sectoral shifts



Note: The composition effect is calculated as the difference between wage growth at the actual employment structure and wage growth at a constant employment structure, originating from 2005.
Source: SORS, Bank of Slovenia calculations.

groups, the negative structural shifts were stronger in 2014, 2015 and 2017, when the largest increase was recorded by the proportion of employees accounted for by administrative and support service activities, where wages are lowest. Average annual wage growth during these three years was thus 0.3 to 0.4 percentage points lower than it would have been had employment structure remained unchanged from 2005. The structural shifts were slightly smaller in 2016, when the largest increase was recorded by the proportion of employees in human health and social work activities, where wages are above-average. At the same time in the group of sectors with below-average wages the largest increase was in the proportion of employees in real estate activities, where the wage was close to the average for the total economy.

[1] The first group of sectors where wages are below the average for the total economy comprises agriculture, forestry and fishing (A), manufacturing (C), water supply, sewerage, waste management and remediation activities (E), construction (F), wholesale and retail trade, repair of motor vehicles and motorcycles (G), transportation and storage (H), accommodation and food service activities (I), real estate activities (L), administrative and support service activities (N) and other service activities (S). The group of sectors with above-average wages comprises mining and quarrying (B), electricity, gas, steam and air conditioning supply (D), information and communication (J), financial and insurance activities (K), professional, scientific and technical activities (M), arts, entertainment and recreation (R), and mostly public services (O, P and Q).

[2] The analysis only includes employed by legal persons, except when the data for a particular sector is not available because of statistical confidentiality. In this case the total number of employees in the sector, i.e. those employed both by legal and natural persons, is taken into account. The entire workforce in employment has an impact on employment structure, however data on the wages of the self-employed is not available, which prevents the calculation of the average wage for the total workforce in employment.

[3] The analysis in Figures 1 and 2 does not provide for a direct interpretation of the results in Figure 3, because it does not take account of changes in employment structure within the two groups.

4 Current Account and Competitiveness Indicators

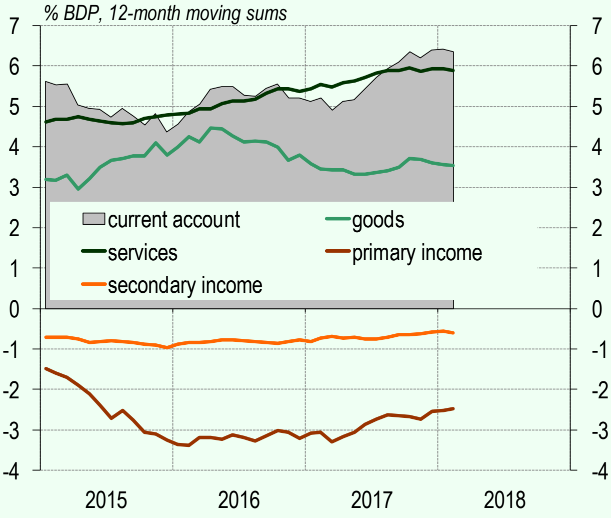
The increase in the 12-month cumulative current account surplus expressed as a percentage of GDP came to a halt, as a result of stronger growth in domestic demand and the increase in economic growth. In the wake of faster growth in investment, nominal growth in merchandise imports surpassed growth in exports at the turn of the year, and the merchandise trade surplus declined. Growth in exports nevertheless remained high, helped significantly by the strong cycle in the domestic car industry. The increase in the surplus of trade in services also slowed, as a result of the slowdown in growth in exports of a broad category of services. The deficit in primary income is continuing to narrow: there was no continuation in the widening of the deficit in income from direct investments seen in the final quarter of last year, while the deficit in income from investments in securities continued to narrow. The 12-month current account surplus remained unchanged in February at 6.4% of GDP.

The price competitiveness of the Slovenian economy remained at relatively favourable levels in 2017, Slovenia recording one of the smallest deteriorations among the euro area countries. Owing to unfavourable exchange rate developments, Slovenian exporters saw a slight deterioration in their position on the market of 19 major trading partners outside the euro area for the second consecutive year, while their position in the euro area improved for the fourth year in a row. Developments in cost competitiveness were favourable once again last year: the Slovenian economy recorded one of the larger declines in relative and real unit labour costs seen among the euro area countries.

Current account

The increase in the 12-month cumulative current account surplus expressed as a percentage of GDP stopped. The 12-month surplus stood at 6.4% of GDP in February, comparable to the level recorded in the two previous months. This was attributable to a year-on-year decline in the merchandise trade surplus in December and January as nominal growth in imports outpaced growth in exports. The increase in the 12-month surplus of trade in services also came to a halt. This surplus stood at 5.9% of GDP in February. The deficit in primary income is continuing to narrow, as the deficit in income on investments in debt securities has continued to dimin-

Figure 4.1: Current account components



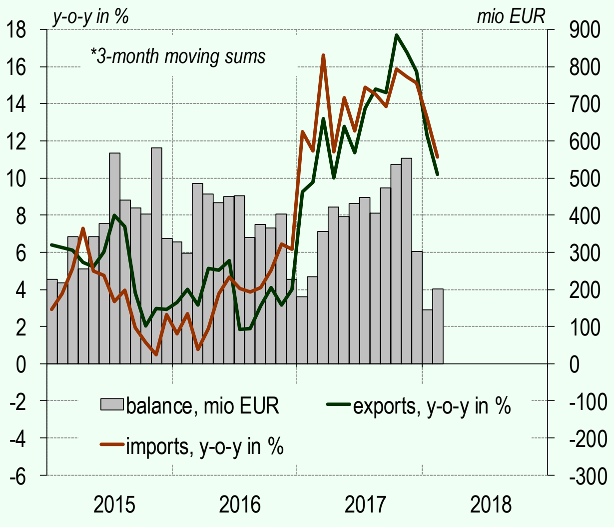
Source: Bank of Slovenia.

ish. The deficit in secondary income also narrowed to a lesser extent, primarily as a result of government transactions related to the EU budget.

Merchandise trade

The merchandise trade surplus narrowed at the turn of the year as a result of growth in domestic demand outpacing growth in exports. The increase in the surplus had slowed sharply in November, with a decline following in December and January, albeit not particularly pronounced in year-on-year terms. The high growth in merchandise imports is the result of stronger domestic demand, with an evident strengthening of imports of capital goods at the end of last year and the beginning of this year. At the same time, the impact of the terms of merchandise trade on trade balance was negligible.[1] Growth in exports remained high in January and February, while its structure was more diverse than in the final quarter of last year: the pronounced contribution previously made by motor vehicles declined, while the contribution made by the pharmaceutical industry increased. Slovenia exported 65 categories of products in January and February, of which 52 made a positive contribution to growth in exports in both months.[2] The 12-month merchandise trade surplus exceeded EUR 1.55 billion in February, up EUR 144 million on a year earlier.

Figure 4.2: Merchandise trade*

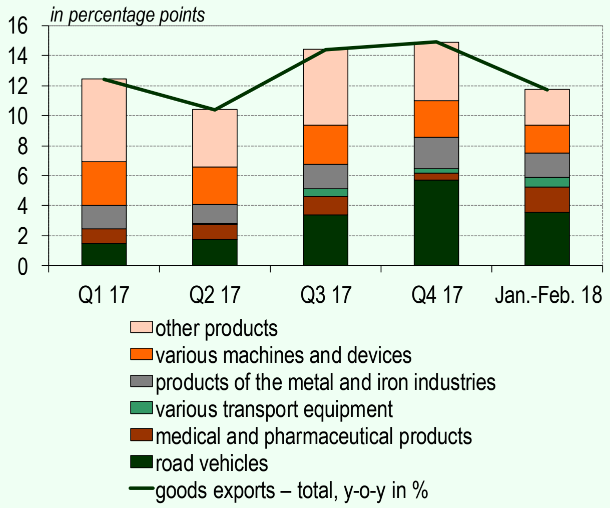


Source: Bank of Slovenia.

Trade in services

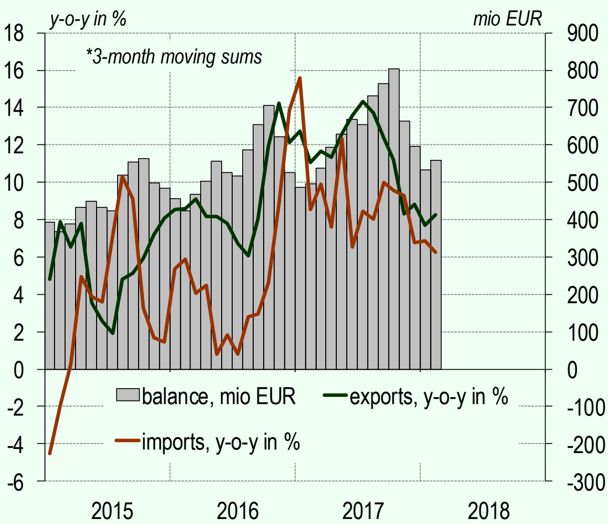
Growth in services slowed significantly over the first two months of the year, but the moving three-month average rate remained higher than that of imports. The slowdown was the result of weaker growth in exports of travel services, construction services, and miscellaneous business services, while growth in exports of transport services remained high. Growth in imports of

Figure 4.3: Contribution of product groups to the growth of nominal merchandise exports



Source: SORS, Bank of Slovenia calculations.

Figure 4.4: Trade in services*



Source: Bank of Slovenia.

[1] The deterioration in the terms of trade in 2017 was primarily attributable to a jump in import prices of oil and refined petroleum products in the first quarter. The deterioration in the terms of trade reduced the merchandise trade surplus by approximately EUR 170 million. Their adverse impact on the position was largest in the first quarter, but later diminished and amounted merely to approximately EUR 16 million in the final quarter.
[2] According to the SITC two-digit classification.

Box 4.1: Slovenia's index of openness

The index of openness is the ratio of the sum of imports and exports of goods and services to GDP. There are other international flows, but this indicator is fundamental in that it shows the intensity of international integration in direct GDP components. It should be noted that the indicator is relatively high because imports and exports are shown in gross values, whereas GDP is an aggregate of value-added only.

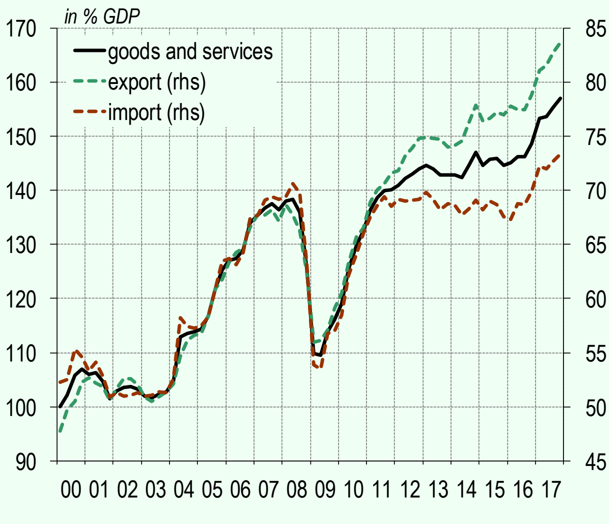
Slovenia's foreign trade openness increased sharply after it joined the EU in 2004. This trend was disrupted by a sharp fall in the crisis of 2009, after which modest growth was resumed, though only on the export side due to diminished domestic consumption in this period, and then accelerating again on both sides in 2017. Following this last surge the index has reached very high levels, to almost 160% at the end of last year, compared, for example, with 88% for Germany and 106% for Austria.

The degree of openness is dependent on the size of an economy. Small economies must engage in foreign trade more than larger economies. To eliminate this factor, the relationship between the index of openness and the size of various EU economies (both variables on a log scale) is presented in diagrams for 2000 and 2017, with a linear trend line added. An upward or downward deviation from the line indicates the scale in which the openness of an economy exceeds or falls short of the "normal" average for EU countries.[1]

The basic finding is that Slovenia's high index of openness in 2017 slightly exceeded the "normal" European level. But not by much, it was not an outlier. The relative openness defined in this manner was approximately aligned with that of Lithuania and Germany, and was significantly below the respective indicators of the Netherlands, Belgium, Slovakia, Hungary and the Czech Republic. It was however above those of Austria, Sweden and Finland. In this regard it should be noted that the openness index is not of itself an indicator of quality or "development". A high level of specialisation in certain strongly export-oriented sectors on one side (in manufacturing or tourism for example), coupled with a high level of dependency on imports on the other (in energy and agriculture for example), which gives a high level of openness, is probably less-than-optimal over the long term.

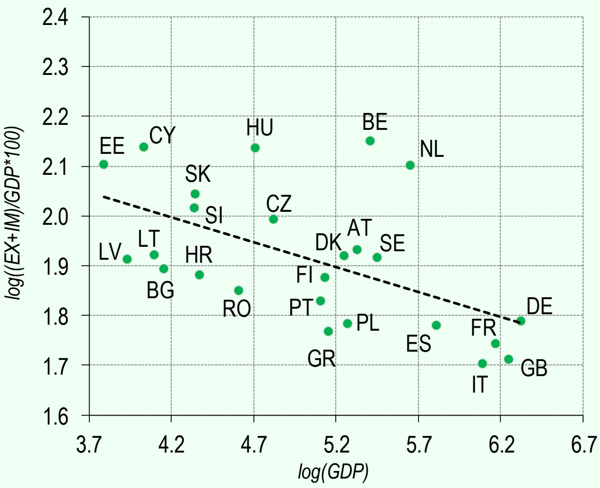
The second finding is that Slovenia's position increased only insignificantly between 2000 and 2017. The deepening of international integration through flows of goods and services was an all-European trend during this period. Slovakia, the Czech Republic and Estonia, as well as Germany, all in-

Figure 1: Degree of openness, Slovenia



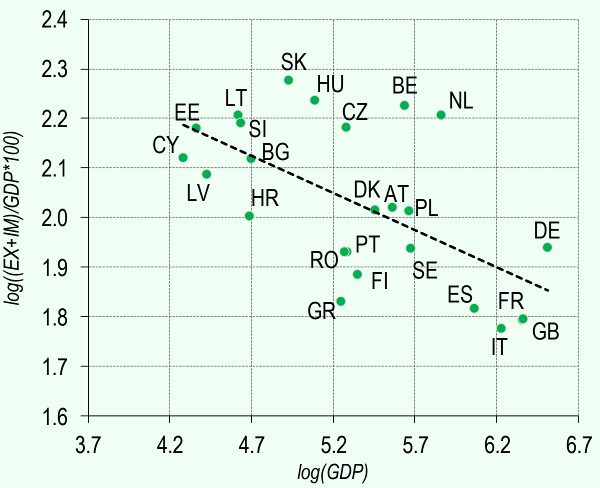
Source: SORS, seasonally adjusted.

Figure 2: The degree of openness of EU countries in 2000



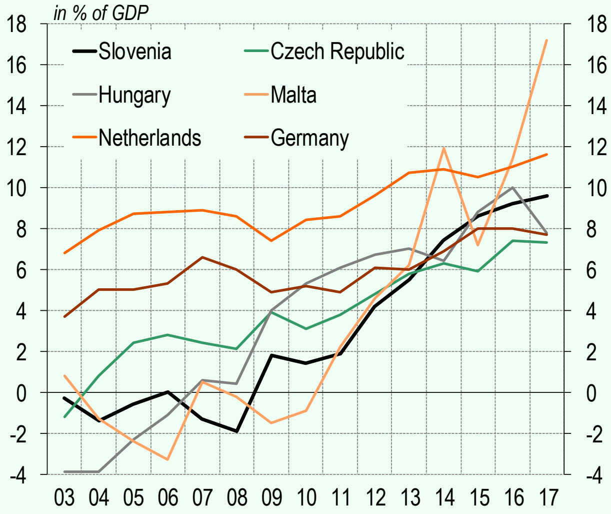
Source: Eurostat, Bank of Slovenia calculations.

Figure 3: The degree of openness of EU countries in 2017



Source: Eurostat, Bank of Slovenia calculations.

Figure 4: The largest foreign trade surpluses in the EU



Source: Eurostat.

creased their relative degrees of openness more than Slovenia. At least Slovenia was not left behind in this dynamic European process, despite the crisis after 2008, which hit it harder than many others.

Slovenia stands out strongly for its structure of foreign trade, in which it is ranked highly among the economies with a pronounced industrial specialisation. The level of specialisation can be approximated by the share of goods exports in total exports of goods and services. Slovenia's share of 80% in 2017 was among the highest in the EU, exceeded only by Slovakia with 90% and only slightly by the Czech Republic, Germany and Italy. At the other end of scale are Croatia with only 47%, Greece with 54%, and the UK and Ireland with 55% (while the figures for Cyprus and Malta are around 20%, and 14% for Luxembourg).

The growth of Slovenia's degree of openness in the current cycle is noteworthy in that until 2016 it was solely the result of export expansion, while the contribution of imports even declined. Due to the contraction of investment in the crisis and especially following the reduction of household and government consumption by ZUJF, Slovenia has been generating a large foreign trade surplus, which was last year surpassed by only the Netherlands and Malta (not taking into account the surpluses of above 30% of GDP of Ireland and Luxembourg). In this case also the note needs to be made that a large surplus is not in itself an indicator of desirable performance. If total domestic demand (which reflects the level of personal and collective welfare and the scale of investment for development) is almost a tenth below total domestic output, then this can also be considered an imbalance in its own right and one which is not long sustainable. Consumption was already strengthening last year in Slovenia and is expected to grown further this year, primarily investment consumption, which is probably already signalling a future narrowing of the surplus.

[1] The size of the economy is approximated by nominal GDP. Openness is calculated from national accounts data. Ireland, Luxembourg and Malta are outliers and have been excluded from the sample of EU countries. Economic relations were subsequently also assessed with OLS and with panel regression; dispersion is significant and R^2 is not particularly high, while beta coefficients are in all cases statistically significant and with signs that are consistent with what we presumed.

services also declined at the same time, which was attributable to the low estimate of imports of travel services, and weaker growth in imports of railway and shipping transport services. Growth in imports of miscellaneous business services remained high. Because the slowdown in growth in exports was sharper than that of imports, the year-on-year increase in the surplus of trade in services slowed during the final quarter of last year and the first two months of this year. The 12-month surplus nevertheless amounted to EUR 2.58 billion in February, up EUR 322 million on a year earlier. The favourable terms of trade were also a factor in the surplus of trade in services.[3]

Primary and secondary income

The deficit in primary income has continued to narrow. The increase in the deficit in income on direct investments in the final quarter of last year, which was largely attributable to estimated reinvested earnings, did not continue in the first two months of this year. The deficit in income on investments in securities continued to narrow. Outflows are declining because of the restructuring of the public debt and the execution of securities purchases within the framework of monetary policy, while inflows are increasing because of increased investment by residents. The surplus in the government sector's primary income increased in year-on-year terms in the final quarter of last year, in connection with transactions with

[3] The terms of trade in services improved last year, thereby increasing the surplus of trade in services by EUR 34 million.

the EU budget, but this did not continue in January and February. There was a sharp decline in non-financial corporations' outflows of interest on foreign loans in January. The 12-month deficit in primary income fell below EUR 1.1 billion in January, and was down EUR 162 million on a year earlier.

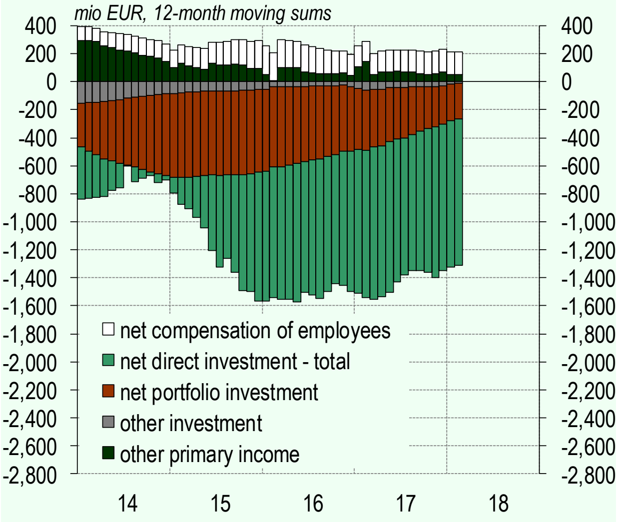
The deficit in secondary income is continuing to diminish. The narrowing over the last year was primarily attributable to the government sector's secondary income position, which is related to changes in transactions with the EU budget. There have been no significant changes over the last year in other sectors' position in secondary income. The 12-month deficit in secondary income amounted to EUR 266 billion in January, EUR 30 million less than a year earlier.

Table 4.1: Current account components

				in 12 months to							
	2015	2016	2017	Feb.17	Feb.18	16Q3	16Q4	17Q3	17Q4	Feb.17	Feb.18
					in EUR million						
Current account balance	1,698	2,108	2,770	2,128	2,786	557	343	871	532	197	191
1. Goods	1,476	1,536	1,562	1,411	1,556	376	227	474	301	99	105
2. Services	1,860	2,174	2,566	2,261	2,583	655	526	764	596	164	162
2.1. Transport	821	932	1,077	946	1,135	243	228	283	290	78	106
2.2. Travel	1,276	1,337	1,508	1,337	1,511	418	322	479	353	85	86
2.3. Other	-237	-94	-19	-23	-62	-6	-24	1	-47	1	-30
3. Primary income	-1,263	-1,294	-1,105	-1,248	-1,086	-379	-358	-309	-340	-34	-22
3.1. Labour income	201	149	162	147	162	31	36	37	39	13	13
3.2. Investment income	-1,557	-1,490	-1,340	-1,537	-1,302	-387	-373	-309	-370	-109	-97
3.3. Other income	93	46	72	142	54	-23	-21	-37	-9	62	62
4. Secondary income	-375	-309	-253	-296	-266	-95	-51	-57	-26	-32	-54
					in % of BDP						
Current account balance	4.4	5.2	6.4	5.2	6.4	5.4	3.3	7.8	4.7	6.1	5.4
1. Goods	3.8	3.8	3.6	3.5	3.5	3.6	2.2	4.3	2.7	3.1	3.0
2. Services	4.8	5.4	5.9	5.5	5.9	6.3	5.1	6.9	5.3	5.1	4.6
2.1. Transport	2.1	2.3	2.5	2.3	2.6	2.3	2.2	2.6	2.6	2.4	3.0
2.2. Travel	3.3	3.3	3.5	3.3	3.4	4.0	3.1	4.3	3.1	2.6	2.4
2.3. Other	-0.6	-0.2	0.0	-0.1	-0.1	-0.1	-0.2	0.0	-0.4	0.0	-0.8
3. Primary income	-3.3	-3.2	-2.6	-3.1	-2.5	-3.6	-3.4	-2.8	-3.0	-1.1	-0.6
3.1. Labour income	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4
3.2. Investment income	-4.0	-3.7	-3.1	-3.8	-3.0	-3.7	-3.6	-2.8	-3.3	-3.4	-2.7
3.3. Other income	0.2	0.1	0.2	0.3	0.1	-0.2	-0.2	-0.3	-0.1	1.9	1.7
4. Secondary income	-1.0	-0.8	-0.6	-0.7	-0.6	-0.9	-0.5	-0.5	-0.2	-1.0	-1.5
					nominal year-on-year growth rates in %						
Export of goods and services	4.9	5.0	13.3	5.8	13.1	4.2	5.6	14.1	14.3	7.0	8.6
Export of goods	4.7	4.0	13.7	4.9	13.7	3.1	4.0	14.6	15.7	6.5	9.6
Export of services	5.5	9.3	11.6	9.8	10.7	8.0	12.1	12.4	8.8	9.5	4.3
Transport	9.3	10.9	13.5	10.3	14.5	10.3	13.3	14.6	14.9	7.7	15.7
Travel	1.8	4.4	9.1	4.9	8.3	3.8	4.5	9.3	7.3	7.2	1.8
Other	6.5	12.9	12.4	14.2	10.0	12.3	17.1	14.7	5.6	12.8	-3.3
Import of goods and services	3.6	4.2	13.6	6.2	13.1	3.9	7.3	13.2	13.8	7.5	9.4
Import of goods	3.6	4.0	14.5	6.4	13.9	4.1	6.1	13.9	15.1	9.2	9.8
Import of services	3.8	5.7	8.3	5.2	8.9	3.0	13.9	10.0	6.8	-2.3	7.3
Transport	4.5	8.3	11.5	8.5	9.1	6.3	17.5	12.1	4.8	10.3	-3.1
Travel	10.4	3.8	3.2	7.3	1.1	0.5	7.6	3.2	2.5	25.6	2.5
Other	1.3	5.5	8.8	3.3	11.5	3.3	14.0	13.3	8.5	-11.8	13.0

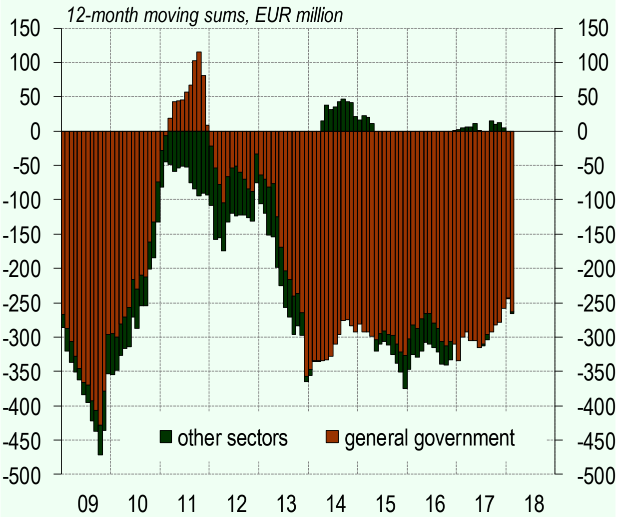
Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Bank of Slovenia.

Figure 4.5: Net primary income



Source: Bank of Slovenia.

Figure 4.6: Net secondary income



Source: Bank of Slovenia.

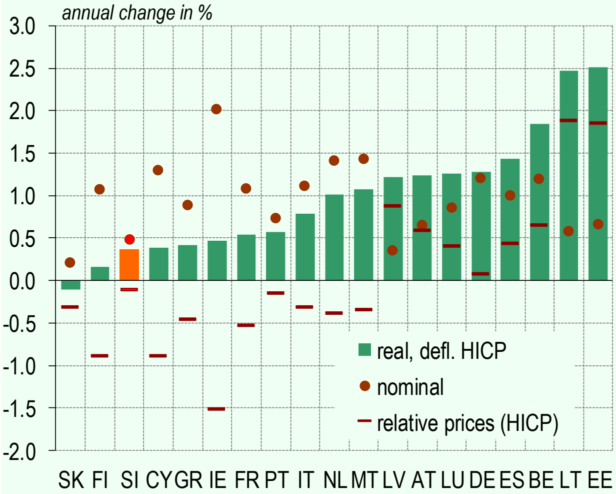
Selected competitiveness indicators

Among the euro area countries, Slovenia saw one of the smallest deteriorations in price competitiveness indicators in 2017, and they remained at relatively favourable levels.[4] Relative to 37 trading partners, only Slovakia and Finland recorded more favourable developments. This was largely attributable to the structure of Slovenia's foreign trade: the proportion accounted for by currencies against which the euro rose last year is less than the euro area average, while the proportion accounted for by currencies against which the euro fell is larger. The euro's rise against the majority of major global currencies, which is reflected by the nominal harmonised indicator, nevertheless brought a slight deterioration in Slovenian exporters' competitive position (by 0.5% relative to the previous year), which the fall in relative prices (of 0.1%) only partly succeeded in mitigating.[5] Owing to unfavourable exchange rate developments, Slovenia saw a slight deterioration in its position on the market of 19 major trading partners outside the euro area for the second consecutive year, by 1%, while the euro area's overall deterioration against the same group of trading partners was 1 percentage point larger. Last year Slovenian exporters saw an improvement in their position in the euro area for the fourth year in a row, albeit of just 0.1% (compared with 0.5% in 2016 and 1.0% in 2015). The improvement has slowed sharply over the last two years, as growth in domestic prices fully converged on average inflation across the euro area and then actually overtook it at the end of last year.

The improvement in the cost competitiveness indicator averaged 0.7% last year.[6] The favourable developments were the result of Slovenia recording one of the larger declines in relative unit labour costs seen among the euro area countries.[7] After an interruption of one year, an improvement was again recorded on markets in the euro area and outside the euro area. The indicator declined by 0.8% on markets outside the euro area, and by 0.6% on euro area markets. Only Finland and Ireland recorded larger improvements in cost competitiveness

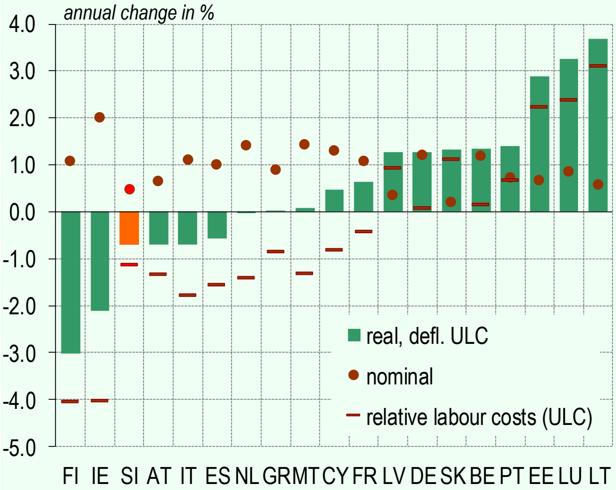
[4] Price competitiveness is measured by the harmonised competitiveness indicator deflated by the consumer price index (the HICP).
[5] Relative prices are domestic (Slovenian) prices compared with prices of trading partners.
[6] Cost competitiveness is measured by the harmonised competitiveness indicator deflated by unit labour costs in the total economy.
[7] Relative unit labour costs are domestic (Slovenian) unit labour costs compared with those of trading partners.

Figure 4.7: Harmonized price competitiveness indicator with respect to 37 trading partners in 2017



Source: ECB, Bank of Slovenia calculations.

Figure 4.8: Harmonized cost competitiveness indicator with respect to 37 trading partners in 2017

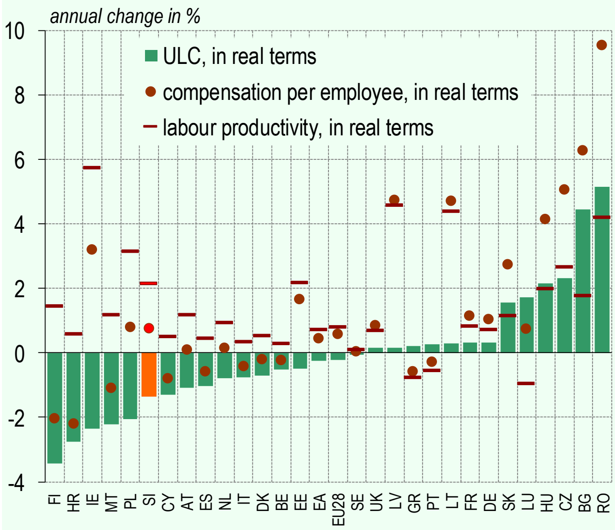


Source: ECB, Bank of Slovenia calculations.

last year; all other euro area countries saw the same or inferior developments, most notably the Baltic states. Relative unit labour costs played a key role in the ranking of the countries. Adverse exchange rate developments meant that Slovenia also saw a slight deterioration in its cost competitiveness position in the second half of the year, but this did not significantly impact the very favourable annual average.[8]

With growth in labour productivity outpacing wage growth, after two years Slovenia was once again in a more favourable position last year than the euro area and the EU overall in terms of the developments in real unit labour costs. Their decline averaged 1.4% in 2017. In particular, the rise in labour productivity was above-average (2.2%), while real growth in compensation per employee (0.8%) did not deviate significantly from the average of the other countries. Average real growth in compensation per employee also remained below productivity growth in the euro area and in the remainder of the EU, albeit by significantly less. The favourable domestic developments have been largely attributable for several years now to the tradable sector (and in particular to manufacturing, and the market services of trade, accommodation and food service activities and transport).[9] In the non-tradable sector there was also a decline in real

Figure 4.9: Real unit labour costs in 2017



Source: Eurostat, Bank of Slovenia calculations.

unit labour costs last year, primarily as a result of high productivity growth in construction and in financial services.

[8] The different classifications of countries in Figures 4.8 and 4.9 are due to the differences in the currency breakdown of trade (via the effect of the appreciation of the euro and relative labour costs). This is reflected by Figure 4.8, while Figure 4.9 merely illustrates cost competitiveness within a particular country.
[9] The division of the economy into the tradable and non-tradable sectors is described in the Selected Themes section, under *Changes in Slovenia's external competitiveness indicators in the last decade*, footnote 13.

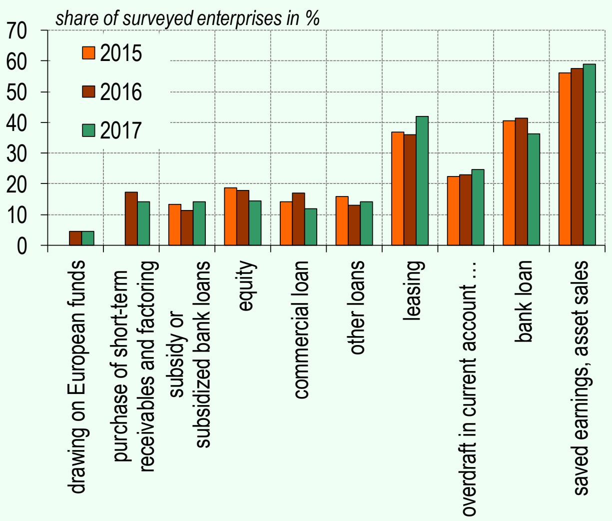
5 Financial Standing of Non-Financial Corporations, Households and Banks

Non-financial corporations are increasingly relying on internal financing, despite the increasing access to external resources. In contrast to non-financial corporations, the favourable situation on the labour market and the revival of the real estate market are continuing to drive a strong credit cycle in the household sector. The indebtedness of Slovenian households remains low, and below the euro area average. Along with a further improvement in the quality of the credit portfolio in 2017, this indicates that bank financing can be expected to further improve in the future. The financial standing of non-financial corporations, households and banks remains favourable, and encouraging from the perspective of future investment activity.

Non-financial corporations and households

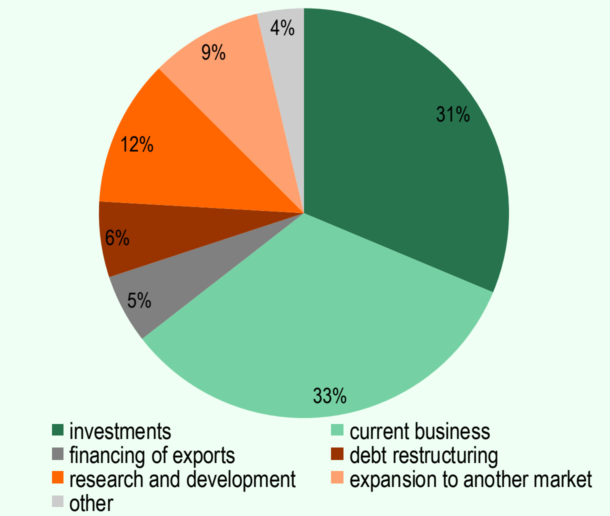
Non-financial corporations are largely relying on internal sources of financing, while their dependence on external financing, banks in particular, is diminishing. Year-on-year growth in bank loans to non-financial corporations declined significantly in late 2017 and early 2018. Anon-robust growth in bank loans is also evident in survey data,[1] according to which the proportion of non-financial corporations using a bank loan as a source of financing in 2017 declined by 5 percentage points. Equity accounted for half of non-financial corporations' total liabilities in 2017, although this source remains accessible primarily to large enterprises: only 15% of the

Figure 5.1: Usage of an external financing source



Source: Bank of Slovenia – Survey on the availability of financial resources for enterprises.

Figure 5.2: Purpose of use of external financial sources



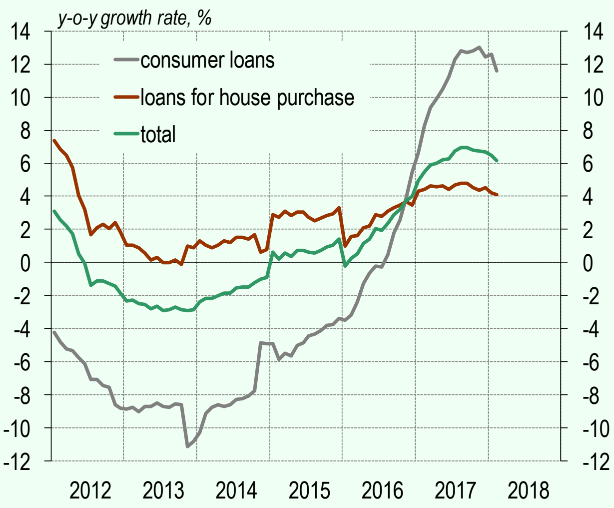
Source: Bank of Slovenia – Survey on the availability of financial resources for enterprises.

[1] Bank of Slovenia, 2017, Survey on Access to Financing.

surveyed non-financial corporations made use of it, down 3 percentage points on 2016. The survey data also shows that there was a sharp change in the purpose of financing used in 2017. Just over 60% of external financing was used for investment and current operations, approximately 20 percentage points less than in 2016. There was a sharp increase in the proportion accounted for by research and development, which was up 10 percentage points on the previous year (at 12%).

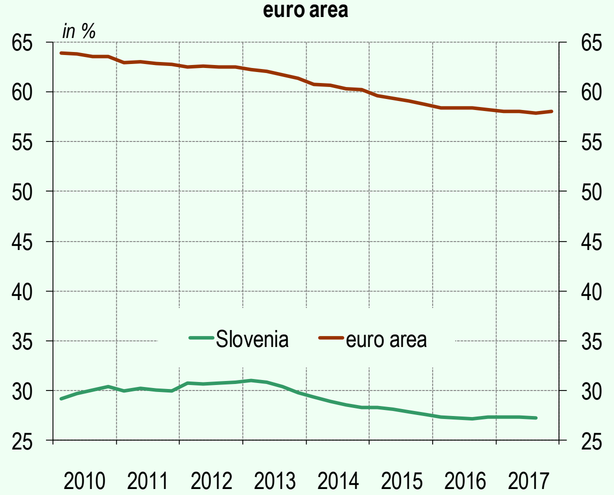
In contrast to non-financial corporations, households are seeing a sustained increase in their liabilities to banks. Rising purchasing power, high household savings and rising real estate prices are continuing to be reflected in growth in housing loans, which stands at close to 5%.

Figure 5.3: Loans to households



Source: Bank of Slovenia.

Figure 5.4: Household indebtedness* in Slovenia and the euro area



*Note: *Indebtedness is calculated as debt (loans and debt securities) over GDP.*
Source: ECB.

The improvement in the situation on the labour market is also allowing consumer loans to be raised: they increased by 13% in 2017. Household indebtedness remains low and below the euro area average, which alongside the expectation of further growth in employment, wages and collateral values, leaves room for the continuation of the credit cycle in the household sector.

The financial assets of non-financial corporations and households are largely concentrated in bank deposits and securities. Deposits account for half of all household financial assets, while the corresponding figure for non-financial corporations amounts to 15%. Both non-financial corporations and households increased their investments in securities, although for households the year-on-year increase of 6% was entirely the result of positive revaluations, while their transactions declined. Securities and equity issued by non-financial corporations in Slovenia make up two-thirds of non-financial corporations' assets. Non-financial corporations' holdings in the rest of the world are largely concentrated in shares in non-financial corporations quoted on US markets, and in investment funds in the euro area.

Banks

Access to bank financing is improving, and is almost aligned with demand. In 2017 the number of surveyed non-financial corporations citing a decline in the gap between demand for and access to bank resources exceeded the number of non-financial corporations citing an increase in the gap for the first time since 2011. The greater availability of the bank funding is supported by the ever-improving quality of the bank portfolio. The NPE ratio fell by 2.5 percentage points in 2017. Loans to the non-banking sector account for approximately 60% of the banking system's assets. Exposure to households and OFIs is increasing fastest, although the latter still account for just 3% of assets. Exposure to the government sector is declining rapidly, in terms of both loans and debt securities. With regard to the future financing of the investment cycle, it is possible to discern certain pressures on the banking system's balance sheet, particularly from the perspective of funding maturity. Deposits by the non-

Box 5.1: Bank performance

The favourable trends in the banking system continued in the early months of 2018. Corporate lending is increasing at slower rates of growth, while the high growth in household lending is slowing. Deposits, the main source of bank funding, are growing at stable and relatively high rates. The banks' capital adequacy declined slightly, but remains favourable.

Year-on-year growth in the banking system's total assets increased by 0.5 percentage points between December and February to reach 3%. They increased by EUR 150 million over the first two months of the year, to reach EUR 38.1 billion. On the funding side the increase in household deposits strengthened, while on the investment side growth in loans to the non-banking sector (NBS) continued, which was partly attributable to changes in accounting methodology. On 1 January the new IFRS 9 became effective, in accordance with which banks are required to allocate and value financial assets on their balance sheets.

After declining in December, growth in loans to the NBS strengthened again in early 2018. The year-on-year rate reached 5.8% in February, up 1 percentage point on December. Loans to the NBS increased by EUR 170 million over the first two months of the year, partly as a result of the implementation of IFRS 9 and partly as a result of an increase in loans to non-financial corporations and households.

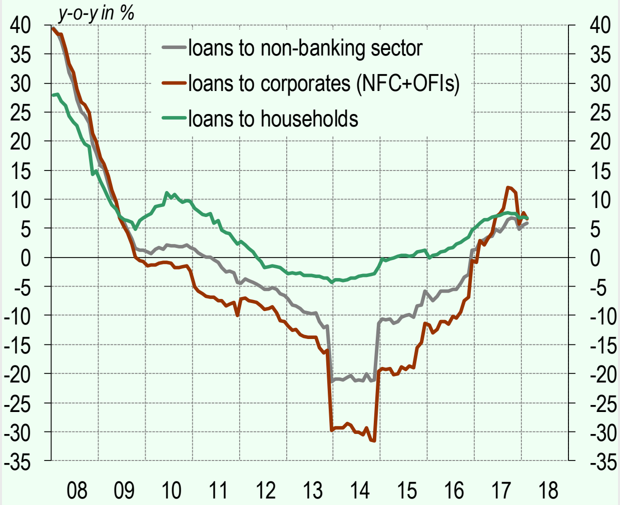
Loans to non-financial corporations increased by EUR 196 million over the first two months of the year, taking their year-on-year rate of growth to 3.1% in February. Excluding the impact of the IFRS, on the basis of the banks' opening balance sheet, year-on-year growth in loans to non-financial corporations would have been 0.6 percentage points lower, but nevertheless slightly higher than in the previous months.

Growth in loans to households is gradually slowing. The year-on-year rate reached 6.7% in February. They stock of loans to households increased by EUR 49 million over the first two months of the year. The estimated impact of the IFRS on household loans was minimally positive. Growth in all types of household loans slowed. Year-on-year growth in housing loans stood at 4.4% in February, compared with rates of 12.1% for consumer loans and 8.3% for other loans. Growth in consumer loans remains high, despite the slowdown. The banks under majority foreign ownership are prevalent among the banks recording high or rising growth in consumer loans.

The economic growth and the banks' activities to reduce non-performing claims are being reflected in the increasing quality of bank investments. The NPE ratio declined to 5.6% in February, as NPEs declined to EUR 2.4 billion. There was a notable shift in the quality of the non-residents portfolio in the final quarter of 2017, as a result of the extensive write-off of non-performing claims at two banks. The NPE ratio for non-residents had declined to 4.9% by February 2018. Another factor in the improvement in average portfolio quality was the increase in household lending, which accounted for 24.3% of the banks' total exposure, but just 2.8% of NPEs.

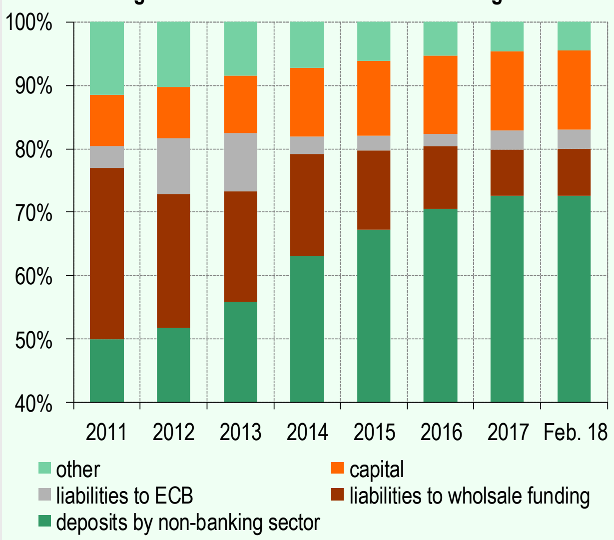
The increased stability of the funding structure has also been reflected in the high proportion of deposits by the non-banking sector, which accounted for almost 73% of total bank funding in February. Debt repayments on the wholesale markets have continued, while the slight increase in the proportion of total

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



Source: Bank of Slovenia.

Figure 2: Structure of sources of financing



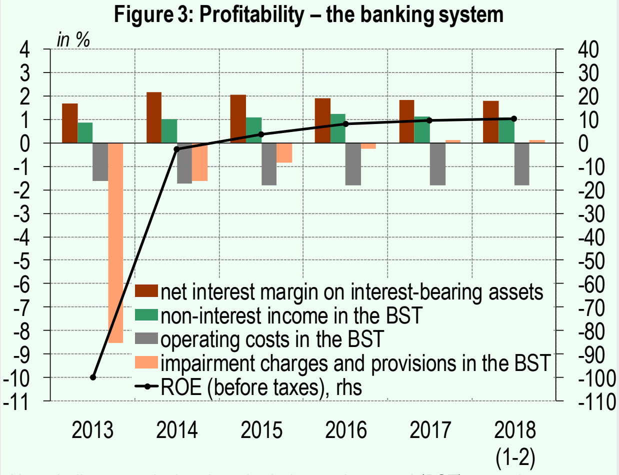
Source: Bank of Slovenia.

funding that they account for in the early part of this year (to 7.4%) was the result of the implementation of IFRS 9. Growth in deposits by the non-banking sector remains stable. The banks succeeded in covering the entire increase in loans to the non-banking sector with the increase in deposits by the non-banking sector, and simultaneously repaying debt on the wholesale markets. Household deposits remain the most important source of funding, and were up 5.7% in year-on-year terms in February of this year. Growth in deposits by non -financial corporations remains volatile, albeit at a relatively high level. The year-on-year rate reached 10.9% in February. The potential instability in the structure of deposits by the non -banking sector has been maintained because of the rising proportion of sight deposits. By the end of February sight deposits accounted for just over 69% of total deposits by the non-banking sector. The risk inherent in the maturity mismatch between deposits by and loans to the non-banking sector is mitigated by the fact that the banks hold a relatively high level of the most liquid assets: since the end of last year they have accounted for 11% of total assets. At the same time the banks are maintaining a large stock of secondary liquidity: at EUR 7.5 billion it accounted for a fifth of total assets.

Slovenian banks recorded a profit over the first two months of the year, which was down just over 6% on the same period last year. Despite relatively solid profits, the banks' gross income was still declining over the first two months of the year. It was down 8.6% on the same period last year. There was a decline in both net interest income (4.5%) and in net non-interest income (14.7%). The significant year-on-year decline in net non-interest income was the result of one-off developments in the same period last year at individual banks. The banks succeeded in maintaining slightly positive year-on-year growth in net fee and commission income (0.2%). After stabilising in the final quarter of last year, when it stood at 1.83, the net interest margin measured over the preceding 12 months declined to 1.81 in February. On the expense side, operating costs over the first two months of the year were unchanged from last year. The banks continued to release impairments and provisions, in the total amount of EUR 14.7 million over the first two months of the year. The release of impairments and provisions in the early months of the year is not unusual, but usually follows high impairment and provisioning costs in the previous year. In the current highly favourable economic situation the banks have been releasing impairments for a lengthy period.

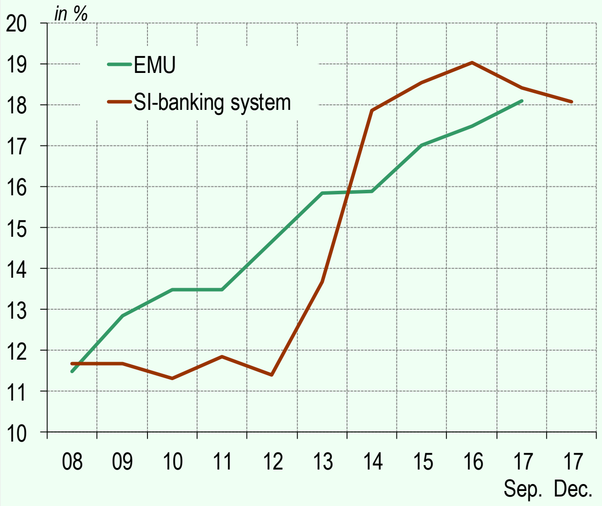
The banking system's capital adequacy remains at a solid level, despite a gradual decline. The total capital ratio declined by 1 percentage point in 2017 to stand at 19.8% on an individual basis, and 18.1% on a consolidated basis. The decline in capital adequacy was the result of growth in capital requirements outpacing growth in regulatory capital. The increase in lending activity, particularly to non-financial corporations and households, led to an increase in capital requirements. By contrast, the banks increased their capital via retained earnings and increases in other reserves, and less via recapitalisations. Certain small domestic banks and savings banks did improve their capital positions via recapitalisations, but they nevertheless remain notable for their below-average capital adequacy and leverage.

Figure 3: Profitability – the banking system



Note: Indicators calculated on the balance sheet total (BST) or net interest margin on interest-bearing assets are always calculated for the period of the last 12 months. ROE is always calculated cumulatively up to and including the last available observation within the year.
Source: Bank of Slovenia.

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



Source: Bank of Slovenia, ECB (SDW).

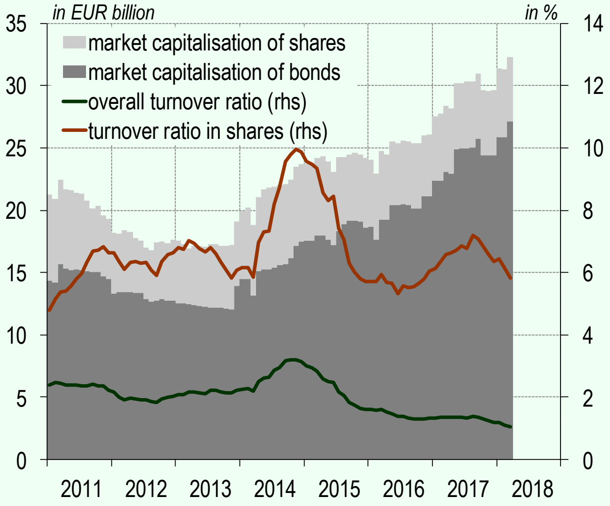
banking sectors account for more than 70% of the banks' total liabilities, while sight deposits account for almost 70% of total deposits.

Domestic financial market

An optimistic start to the year, when stock market indices reached new record highs, was followed by a correction in the first half of February, which also hit the domestic stock market to a limited extent. The SBI TOP nevertheless rose by 1.4% over the first three months of 2018. The market capitalisation of shares increased by 1.4% during this period to EUR 5.4 billion. The average monthly volume of trading in shares during this period was down 26.8% in year-on-year terms at EUR 24 million, the monthly volume of trading having averaged EUR 27.9 million over 2017. The decline in volume and restrained growth in market capitalisation had an impact on the turnover ratio. Concentration remains high: shares in five issuers accounted for 84.2% of total volume. The proportion of domestic shares under foreign ownership in March was down 3 percentage points in year-on-year terms at 22.7%.

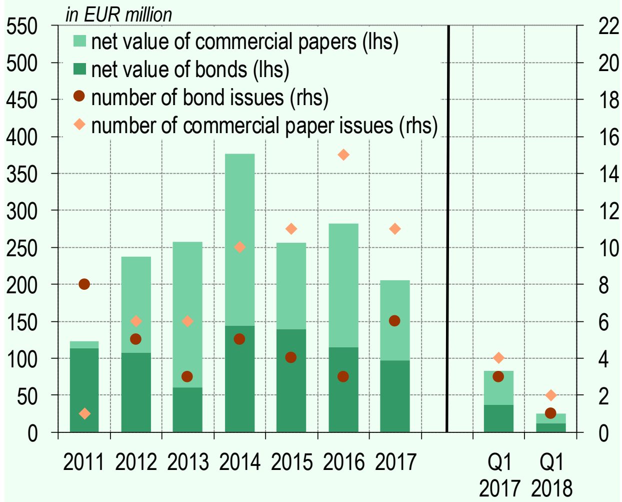
The market capitalisation of bonds increased by 11.1% over the first three months of the year to end March at EUR 27.1 billion. The developments in the market capitalisation of bonds were attributable to new issuance of 10-year government bonds and additional issuance of other government bonds. Issuance of bonds and other debt securities by other sectors declined during this period. The increase in the market capitalisation of bonds owing to government bond issuance did not have any impact on the volume of trading in bonds, as the majority of trading was outside the organised market of the Ljubljana Stock Exchange on the OTC market (MTS). The average monthly volume of trading in bonds on the Ljubljana Stock Exchange over the first three months of the year was down 17.9% in year-on-year terms at EUR 1.5 million. The interest shown by non-financial corporations and other corporations in financing via issuance of bonds or commercial paper remains low. Three firms opted for issuance of debt securities during this period, in the total amount of EUR 25 million. The value of issuance was down 70% in year-on-year terms.

Figure 5.5: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

Figure 5.6: Issuance of corporate bonds and commercial papers (excluding the government sector)



Source: KDD, Bank of Slovenia calculations.

6 Public Finances

In the favourable economic situation, Slovenia recorded a balanced position in general government finances in 2017. The improvement relative to the previous year was significantly better than planned by the government. A surplus is forecast for this year as a result of the further improvement in the economic situation and the diminishing burden of interest. Generating budget surpluses of the right size is vital in the current favourable economic situation. The key is to avoid measures that would cause a deterioration in the structural fiscal position, as general government debt remains at a high level.

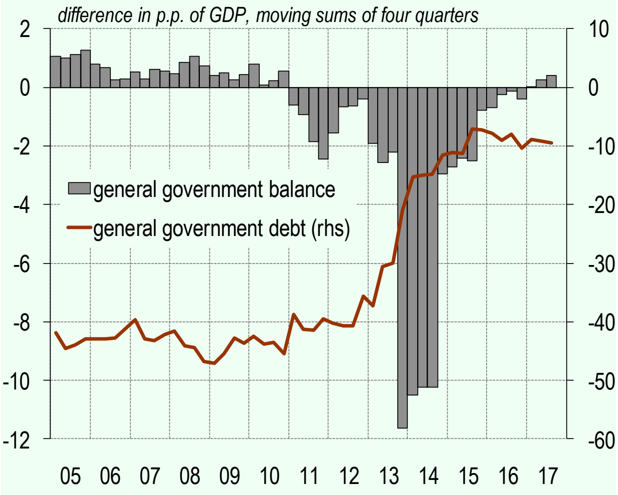
The general government debt stood at 73.6% of GDP at the end of last year. The figure was down for the second consecutive year, which was equally attributable to high economic growth and to a primary surplus. Although debt remains lower than the euro area average, its further reduction is the key to sustainable public finances over the long term. The financing conditions remain favourable.

The risks in the fiscal area relate to the ability of maintaining the right fiscal policy stance in a favourable economic environment and simultaneously in an electoral period, where the fiscal framework is characterised by domestic fiscal rule legislation and the Stability and Growth Pact. Risks are also coming from potential one-off factors and high growth in implicit and contingent liabilities.

General government deficit

The general government position was balanced last year. The improvement in the position was significantly larger than had been planned by the Ministry of Finance, which last autumn planned a deficit of 0.8% of GDP. The general government position was balanced for the first time since data collection began, i.e. since 1995, a general government deficit having been recorded in all other years. Last year's improvement in the position was attributable to the favourable cyclical situation, the retention of certain austerity measures, and a decline in ratio of interest payments to GDP. The primary surplus reached 2.5% of GDP. With the general government position in balance, local government and the social security funds each recorded a surplus of 0.1% of GDP, which does not

Figure 6.1: General government balance and debt of Slovenia compared to the euro area



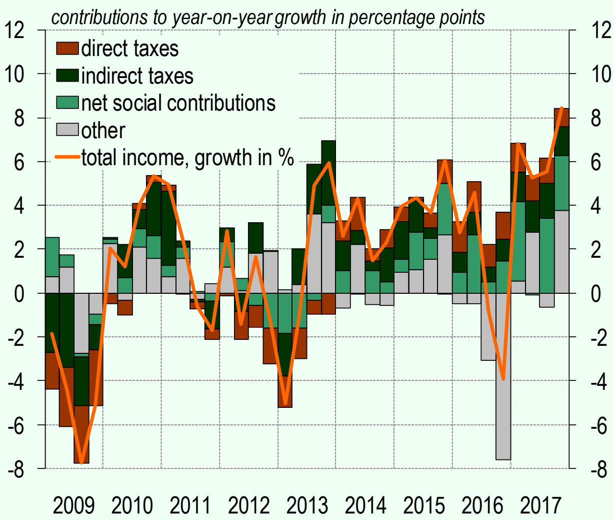
Source: Eurostat, SORS, Bank of Slovenia calculations.

deviate significantly from the average over the last few years, while the central government deficit of 0.2% of GDP was significantly lower than in the preceding years.

Slovenia recorded a better general government position than the euro area last year, while its general government debt has always been lower. According to available figures, the improvement in the general government position in Slovenia was markedly higher to that of the euro area, while the level of general government position was better than that of the euro area after several years of being worse. According to figures for the third quarter of last year, the general government debt expressed as a ratio to GDP was around 10 percentage points lower in Slovenia than in the euro area.

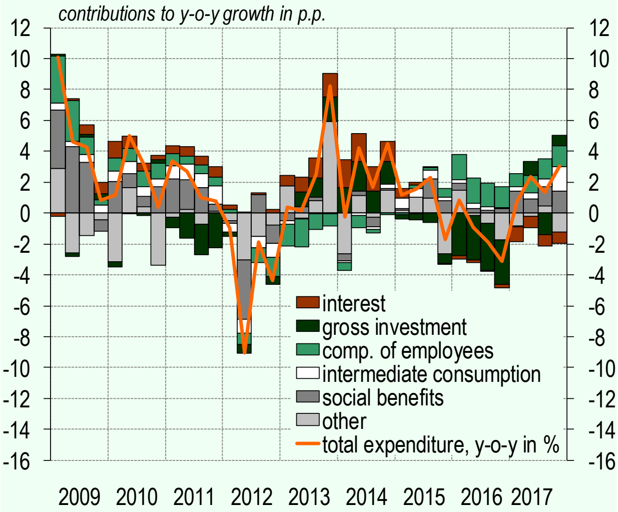
In 2017 general government revenues recorded their highest growth since 2008. They were up 6.5%. Among tax revenues, the highest growth was recorded by corporate income tax, as a result of a rise in the tax rate from 17% to 19%, in addition to strengthening economic activity. There was high growth in social security contributions for the third consecutive year; in the wake of the continuing improvement in the situation on the labour market the year-on-year rate strengthened further to reach 6.8%. The increase in personal income tax was solid, albeit lower, the measures taken (reductions in the personal

Figure 6.2: General government revenues



Source: SORS, Bank of Slovenia calculations.

Figure 6.3: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

Table 6.1: General government deficit and debt in Slovenia, 2014-2020

% GDP	SORS 2014	2015	2016	2017	Draft Budgetary Plan 2017	2018	2019	Stability Programme 2017	2018	2019	2020	EC* 2017	2018	2019
Revenue	44.3	44.9	43.3	43.1	43.2	43.0	...	43.5	43.7	43.0	42.4	42.8	42.5	42.2
Expenditure	49.9	47.7	45.3	43.1	43.9	42.6	...	44.4	43.9	42.8	41.9	43.6	42.5	41.8
of which: interest	3.2	3.2	3.0	2.5	2.6	1.9	...	2.4	2.1	2.0	1.8	2.6	1.9	1.8
Net lending (+) / borrowing (-)	-5.5	-2.9	-1.9	0.0	-0.8	0.4	0.8	-0.8	-0.2	0.2	0.4	-0.8	0.0	0.4
Primary balance	-2.3	0.4	1.1	2.5	1.9	2.3	...	1.6	1.9	2.2	2.1	1.8	1.9	2.2
Structural balance	...	...	...	...	-0.8	-0.2	...	-0.6	-0.3	-0.1	0.0	-1.6	-1.6	-1.4
Debt	80.3	82.6	78.6	73.6	75.2	71.7	68.0	77.0	74.3	70.9	67.5	76.4	74.1	72.0
Real GDP *(growth, %)*	3.0	2.3	3.1	5.0	4.4	3.9	3.2	3.6	3.2	2.6	2.6	4.7	4.0	3.3

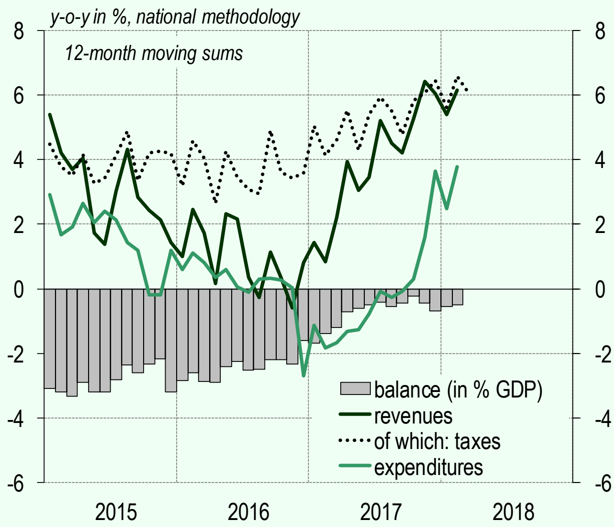
*Note: * European Commission published their projections in February, but only for GDP (increase by 0.2 percentage points each year for Slovenia) and HICP.*
Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2017), Stability Programme (Ministry of Finance, April 2017), European Commission (November 2017).

Box 6.1: Public finance developments according to cash flow methodology

The consolidated general government position was in a small deficit over the first two months of 2018, which was approximately a third of that recorded in the same period last year. The deficit originated in the state budget, and is seasonal in nature, but is also diminishing. A smaller surplus of EUR 51 million or 0.1% of GDP is planned in the state budget approved for this year. Last year's realisation of the state budget (a deficit of EUR 326 million) was significantly more favourable than the planned in the approved budget (a deficit of EUR 681 million). The other three sub-budgets (the Pension and Invalidity Fund, the Health Insurance Fund and local government budgets) recorded a surplus over the first two months of the year that in each case was larger than that recorded in the same period last year.

Growth in revenues remained high during the first two months of the year, while expenditures continued to record moderate growth. Taxes and social security contributions in the first quarter were up 5.6% in year-on-year terms. The rise in revenues was facilitated by the favourable economic situation, which has been reflected in an ongoing improvement in the situation on the labour market, growth in domestic demand and good corporate performance. Expenditure recorded moderate growth over the first two months of the year. Expenditure on wages and employee contributions, transfers to indi-

Figure 1: Public finance developments



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

Table 1: Consolidated balance sheet* of public finance

	2017	last 12 months to feb.18			2017 Jan.-feb.	2018 Jan.-feb.	Jan.-feb.18
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y growth, %
Revenue	**16,801**	**16,953**	**38.7**	**6.2**	**2,635**	**2,787**	**5.8**
Tax revenue	15,159	15,356	35.0	6.6	2,423	2,621	8.1
- goods and services	5,723	5,748	13.1	4.0	949	974	2.6
- social security contributions	6,092	6,162	14.0	6.7	981	1,051	7.1
- personal income	2,197	2,231	5.1	6.2	366	401	9.4
- corporate income	766	803	1.8	35.0	79	116	46.5
From EU budget	391	380	0.9	-2.3	48	37	-23.7
Other	1,251	1,217	2.8	3.7	164	130	-20.8
Expenditure	**17,097**	**17,167**	**39.1**	**3.8**	**2,762**	**2,831**	**2.5**
Current expenditure	7,733	7,756	17.7	4.9	1,243	1,266	1.8
- wages and other personnel expenditure (incl. contributions)	3,939	3,957	9.0	4.1	631	650	3.0
- purchases of goods, services	2,627	2,631	6.0	10.2	351	356	1.3
- interest	985	981	2.2	-4.8	245	242	-1.6
Current transfers	7,911	7,941	18.1	1.9	1,360	1,390	2.2
- transfers to individuals and households	6,664	6,694	15.3	2.7	1,084	1,114	2.8
Capital expenditure, transfers	1,074	1,066	2.4	10.3	88	80	-9.6
To EU budget	378	404	0.9	3.0	70	95	35.8
GG surplus/deficit	**-297**	**-214**	**-0.5**		**-127**	**-44**	

*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.

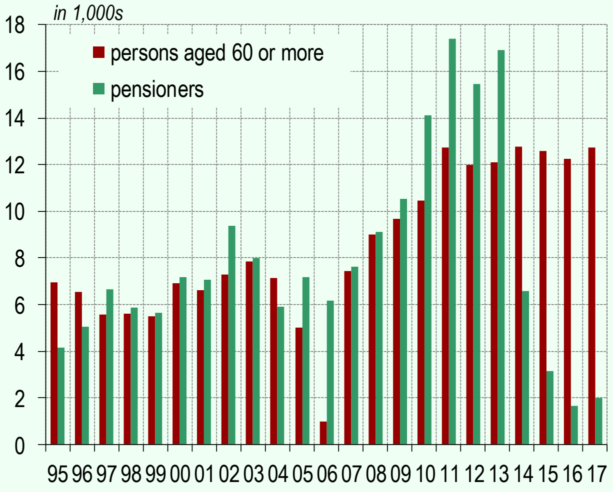
viduals and households, and payments into the EU budget all recorded above-average growth. Growth in investment expenditure, which had been strong in the final quarter of last year, did not continue in the early part of the year. The balance of transactions with the EU budget was negative over the first two months of the year.[1]

[1] Decisions were issued to grant funding in the amount of EUR 1.84 billion from the new financial framework by the end of March, equivalent to 60% of the available funding. Refunds from the EU budget amounted merely to just over EUR 168 million.

Box 6.2: Demographic developments in Slovenia and general government expenditure

The population of Slovenia has been rising since the beginning of the millennium, while the share of elderly population has also been strengthening. The population of Slovenia in 2017 was up 3.5% on 2000. The share of the population aged 65 or over increased significantly, by 5 percentage points to reach close to 19% last year. It was nevertheless slightly lower than the corresponding figures for the euro area and the EU. The share of working age population is declining, as is the share of the youth population, where the trend has reversed in recent years. The population of people aged between 20 and 64 is approximately 60% higher than the youth population (aged up to 19) and the elderly population (65 and over). The old-age dependency ratio[1] is forecast to almost double over the three decades to 2020, while the young dependency ratio will have declined. Last year the median age of the population of Slovenia was 43.5, slightly less than the euro area, and more than the EU. It has risen by almost 6 years since the turn of the millennium. Life expectancy at birth is approximately 78 for men, and approximately 84 for women. The aging population seen in Slovenia is typical of the majority of advanced economies.

Figure 1: Annual increase in the number of persons aged 60 or more, and in the number of pensioners in Slovenia



Source: SORS, Pension Fund, Bank of Slovenia calculations.

Demographic projections[2] show a further rise in the share of elderly population. The rise in population aged over 65 is expected to be particularly pronounced over the next 15 years or so. The absolute fall in the population of working age seen since 2012 inclusive is forecast to continue; the annual fall has averaged approximately 10,000 over the last three years. Currently just under 62% of the total population is of working age, but this figure could decline to approximately half over

Table 1: Population developments and its main characteristics

Year	Population (in 1000)					Median age	Share of age groups (in %)				Old-age dependency ratio		
	Total	0-19	20-64	65 +	80 +		0-19	20-64	65 +	80 +	young *	old *	total
1990	1,996	562	1,223	212	44	34.0	28.2	61.2	10.6	2.2	46.0	17.3	63.3
2000	1,988	461	1,251	275	45	37.8	23.2	62.9	13.9	2.3	36.9	22.0	58.9
2010	2,047	393	1,316	338	80	41.4	19.2	64.3	16.5	3.9	29.9	25.7	55.6
2017	2,066	402	1,273	390	106	43.5	19.5	61.6	18.9	5.1	31.6	30.7	62.3
2020	2,076	410	1,242	424	114	44.3	19.7	59.8	20.4	5.5	33.0	34.2	67.2
2030	2,080	403	1,158	519	141	47.5	19.4	55.7	24.9	6.8	34.8	44.8	79.6
2040	2,066	379	1,106	581	200	49.1	18.3	53.6	28.1	9.7	34.2	52.5	86.7
2050	2,045	397	1,024	624	233	47.7	19.4	50.1	30.5	11.4	38.8	60.9	99.7
2060	2,000	402	992	606	256	47.3	20.1	49.6	30.3	12.8	40.6	61.1	101.7
2070	1,957	392	1,006	558	265	47.1	20.0	51.4	28.5	13.6	39.0	55.5	94.4

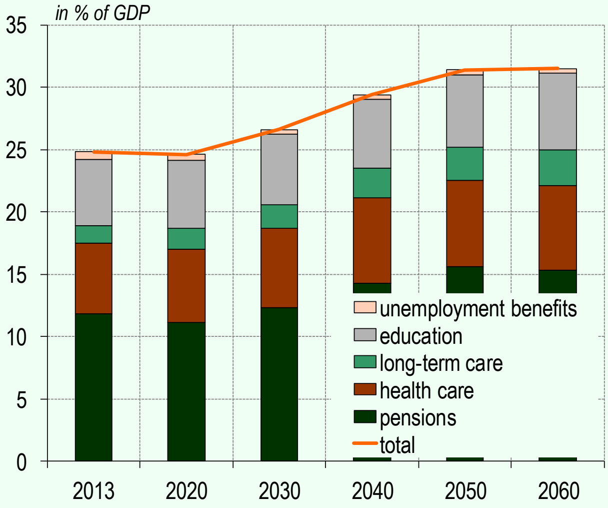
*Note: * Compared to population aged 20-64 years..*
Source: Eurostat, Bank of Slovenia calculations.

the coming decades. The rise in the population aged 19 and under seen in recent years is forecast to continue until 2025. The population aged over 80 and its share of the total population are forecast to rise. The population of Slovenia is forecast to rise until 2025, and then to fall. In 2040, when the population is forecast to be similar to last year, the population aged 65 and over will be almost 190,000 higher, half of whom in the age group 80 and over, while the population of working age is forecast to have fallen by almost 167,000. The elderly dependency ratio is forecast to almost double over the three decades to 2050, while a deterioration of this magnitude cannot be expected in the young dependency ratio.

The demographic developments have consequences in various areas.[3] They will have an impact on the labour market, the potential for economic growth, the education and health systems, the number of pensioners and numerous other economic aggregates and indicators. The number of children enrolled in nurseries and primary schools has risen in recent years, following a long period of decline at primary schools. By contrast the number of students entering secondary school is slowly falling, and there are also fewer students in higher education. Given the demographic developments, changes will also be needed in the labour market in the direction of adaptations to the older population, and lifelong learning will need to be strengthened. The demographic changes entail a significant challenge to the long-term sustainability of the public finances. The aging population is increasing the demands on social security programmes and healthcare, and in Slovenia will also have a particularly large impact in the area of pensions. The number of pensioners has increased by 18.7% over the last ten years, to reach 615,681 last year. Figure 1 shows that retirements have slowed since the latest pension reform. In particular it has been outpaced by the rise in the population aged 60 and over, as the retirement age has been gradually raised, while financial measures to encourage the deferral of retirement are also having an impact.[4]

The aging population will increasingly impact the fiscal position. According to European Commission estimates,[5] expenditure to cover age-related public spending including pensions, healthcare, long-term care and education will increase by 6.9% of GDP by 2060 should policies remain unchanged. The main increase is the result of the increased need to finance pensions. Although the latest pension reform carried out in 2013 has contributed to an improvement in the situation, additional measures will be required. In July 2017 the social partners approved guidelines for reforming the pension system, which envisage further increases in the required years of service and the retirement age. Healthcare and long-term

Figure 2: Long-term projections of age-related expenditure and unemployment benefits, Slovenia, baseline scenario



Source: European Commission (The 2015 Ageing Report).

care will also require greater funding in the future, which is to be expected given the aging population. Although the projections, the long-term projections in particular, are merely an assessment of future trends and do not constitute a full-blow forecast, the main message is that the social welfare systems in Slovenia are not sustainable over the long term and require changes.

[1] The ratio of the population aged 65 or above to the population of working age (those aged 20 to 64). The population aged 15 to 64 is also frequently defined as the working age population. Because young people aged between 15 and 19 in Slovenia are usually in school, the first definition is used.

[2] The projections published by Eurostat for all EU Member States and Norway were prepared in partnership between Eurostat and the national statistical offices. They are derived from the composition of the population in 2015. The baseline projection for Slovenia envisages a rise in the total birth rate from 1.58 in 2016 to 1.81 in 2070, which is still well below the replacement rate. The projections envisage a rise in life expectancy of 7.6 years for men and 6.3 years for women. Annual net immigration is forecast to amount to between 0.1% and 0.2% of the population.

[3] An extensive review of the consequences of the aging population and the necessary measures is given in the *Strategy for the Long-Lived Society* document, which the government adopted in July 2017 (available in Slovene at: http://www.vlada.si/fileadmin/dokumenti/si/projekti/2017/dolgoziva_druzba/Strategija_dolgozive_druzbe_200717.pdf).

[4] According to provisional Pension and Disability Fund figures, the average age of new pension claimants under compulsory insurance in 2017 was two years higher than in 2012 (before the entry into force of the new pension legislation) for women, and just under a year higher for men. The average years of service recorded by women claiming old-age pension was 37 years and 4 months last year (up two years), while the figure for men was 36 years and 11 months (down four months). Growth in the average number of pensioners has slowed significantly, having been low in the last three years in particular, when the annual rate was between 0.2% and 0.5%.

[5] European Commission: The 2015 Ageing Report. A new report with the latest projections is scheduled for publication in mid-May of this year.

income tax brackets, reduced taxation of performance-related bonuses, a rise in the additional general allowance) having reduced personal income tax revenues. Growth in consumption was higher than in previous years, and the same applies to taxes on consumption. Among the non-tax revenue sources, there was an increase in revenues from corporate profit distributions (dividends). Capital transfers increased significantly.

General government expenditures increased last year for the first time in three years, albeit significantly less than revenues. They were up 1.9% in year-on-year terms. There was above-average growth in compensation of employees owing to the relaxation of austerity measures (including a rise in the wage scale in September 2016, promotions, increased leave allowance and contributions for supplementary collective pension insurance, the elimination of wage anomalies, and also an increase in employment). Employment in the general government sector was up 1.8% in year-on-year terms, while growth in labour costs per employee was just under 1 percentage point higher. Growth in intermediate consumption exceeded 5%. Social security benefits, of which pensions account for the largest portion, increased by 3.3%. Growth in pension expenditure was low: while pensions rose by approximately 1.5%, the number of pensioners rose by just 0.2%. Growth in expenditure on sick leave was higher. Government investment declined slightly.

Government debt and guarantees

The ratio of general government debt to GDP declined last year for the second consecutive year. It amounted to EUR 31,860 million or 73.6% of GDP at the end of the year. The debt was up in nominal terms on the previous year, but as a proportion of GDP it declined by 4.9 percentage points. The decline was attributable to the primary surplus, which was present for the third consecutive year, and to an even greater extent to high GDP growth and a decline in interest payments, which was reflected in debt reduction coming from the snowball effect (see Table 6.2). The snowball effect derives from the difference between the implicit interest rate on the debt and (nominal) economic growth. The reduction in the burden of interest payments, which is the result of favourable financing conditions, active debt restructuring, and the improvement in the general government position, has been reducing the implicit interest rate for the last three years. In addition, nominal GDP growth was extremely high last year.

The stock of Slovenian government sureties and guarantees declined again last year. It amounted to EUR 6.3 billion at the end of the year, or 14.5% of GDP. The gradual decline over the last three years was primarily attributable to the ending of the crisis, as much of the stock of guarantees was related to the banking system saving mechanisms. The latter also recorded the largest decline last year. Guarantees entail a potential liability for the government, however, guarantees in the amount of 4.1% of GDP are already included in the general government debt in line with the ESA methodology. They relate to liabilities of the BAMC and the EFSF. According to state budget figures, EUR 0.5 million of guarantees were called last year, while repayments of called guarantees amounted to EUR 3 million.

The required yield on 10-year government bonds remains low, despite rising slightly in the first quarter of this year. It averaged 1.16% in March, while the

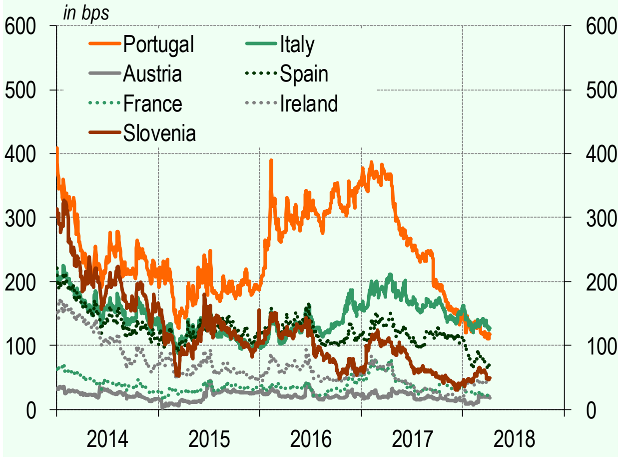
Table 6.2: Contributions of components to change in general government debt

in % of GDP	2012	2013	2014	2015	2016	2017
debt	53.8	70.4	80.3	82.6	78.6	73.6
debt change	**7.2**	**16.6**	**10.0**	**2.3**	**-4.1**	**-4.9**
of which: primary balance	2.0	12.1	2.3	-0.4	-1.1	-2.5
difference of interest-growth ("snowball")	3.1	2.3	0.7	0.7	-0.2	-2.7
deficit-debt adjustment	2.1	2.2	7.0	2.0	-2.8	0.3

Source: SORS, Bank of Slovenia calculations.

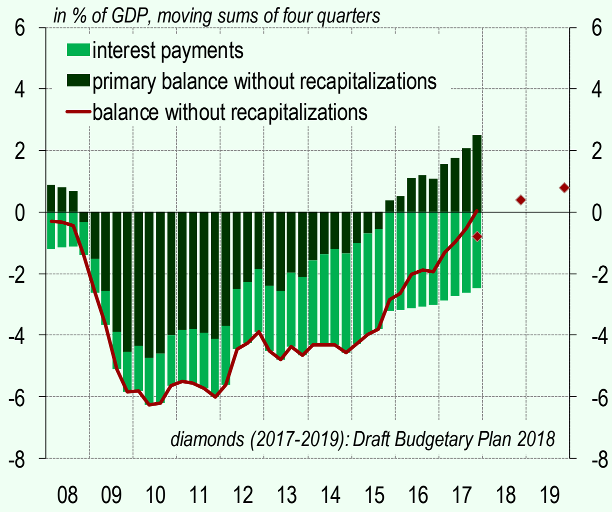
spread over the German benchmark bond was 58 basis points. The yield on 10-year German government bonds and the yields on bonds of certain other euro area countries also rose, which is usual for this period of the year on account of the large number of new government bond issues. In addition, expectations of tighter monetary policy strengthened in both the US and the euro area, while global political tensions also increased. In addition to January's issue of new benchmark bonds, other factors in the additional rise in the required yields on Slovenian government bonds were the increased issuance of certain EUR bonds in late February, with the simultaneous reduction of debt in US dollars, and the resignation of prime minister in March. The required yield and the premium on Slovenian government bonds nevertheless remain at a low level, which is a reflection of the ECB's monetary policy stimulus, sovereign upgradings, and the improvement in the economic situation and public finances in Slovenia. Slovenia continued to issue treasury bills at negative interest rates over the first four months of the year.

Figure 6.4: Spreads of long-term government bonds over German benchmark



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

Figure 6.5: General government balance



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

Planned developments in the general government position

In good economic times it is necessary to generate surpluses. Given the significantly better-than-planned position recorded in 2017 (a balanced position, compared with the planned deficit of 0.8% of GDP), this year's surplus should be larger than the 0.4% of GDP forecast last autumn. The generation of the surplus will be attributable to the favourable cyclical situation and reduced interest payments. In good economic times it is necessary to generate reserves for the future reversal in the cycle.

Fiscal policy remains committed to attaining Slovenia's medium-term budgetary objective. Countries in the preventive arm of the Stability and Growth Pact commit themselves to achieving an appropriate structural fiscal position. Slovenia's medium-term objective is a structural surplus in the amount of 0.25% of GDP.[1] Because Slovenia has not yet attained its medium-term budgetary objective, and the general government debt exceeds 60% of GDP, further structural improvement in public finances is necessary. The European Commission will reassess the fulfilment of the fiscal commitments in the coming months, in principle in May.

There has been a hold-up in structural reforms, while elections mean that no major progress can be expected this year. The upward pressure on general government expenditure owing to demographic changes will strengthen in the coming years. The social partners' guidelines for overhauling the pension system envisage the lengthening of the period of active work and a rise in the retirement age. The current coalition has failed to pass the Healthcare and Health Insurance Act, the key

[1] The medium-term budgetary objectives for individual countries are revised every three years, and are due to be revised this year.

law in the area of health, but several other laws have been adopted.[2] A bill on long-term care has completed the public discussion process.

The key remains controlling general government expenditure and maintaining an appropriate structural position in public finances. The government has not managed to reach agreement with the public sector unions with regard to wage policy for this year and the following years.[3] Several other laws with financial consequences that were not envisaged in the budget documents as passed were brought before the National Assembly by the governing coalition. Further pressure on expenditure comes from the demand for more funding for the defence budget, in order to meet commitments. There is also considerable uncertainty surrounding government investment in connection with planned major investment projects, elections, particularly local, and the ability to speed up the disbursement or EU funds. A deterioration in the structural position in public finances could be brought by a reduction in the tax burden, unless compensated for by other measures. One-off factors (such as court judgments in the past) could also have an adverse impact.

[2] For example, the new Patients' Rights Act, the Health Services Act and Medical Practitioners Act.
[3] There remain unresolved issues with regard to the elimination of wage anomalies for employees above the 26th wage grade, the wage grade placement of positions and titles that are comparable to those of physicians in terms of content, complexity or other circumstances, and the relaxation of the remaining austerity measures in the area of pay.

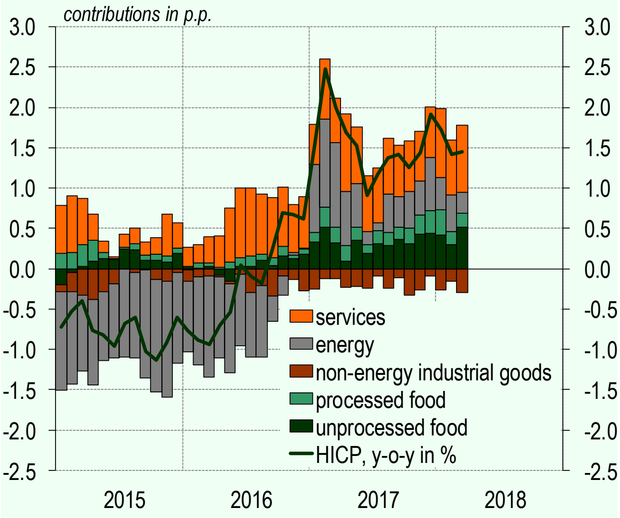
7 Price Developments

After a significant rise at the end of last year and in January, headline annual inflation fell again to average 1.5% during the first quarter of this year. Inflation in Slovenia has nevertheless slightly outpaced the euro area average over the last four months, as euro area inflation averaged 1.4% in the first quarter. The gap derives from higher contributions made by energy prices and prices of unprocessed food in Slovenia, although the difference in the contributions made by services prices has also increased significantly in recent months. Core inflation excluding energy is also outpacing the euro area overall, which is perhaps already indicative of the effect on prices from the exceptionally dynamic domestic economy.

Structure of inflation

There was no significant change in the structure of price developments in the first quarter of this year compared with the previous quarter, with the exception of services prices. The increase in the contribution to annual inflation made by services prices, which averaged 0.8 percentage points over the quarter, was largely attributable to faster growth in prices of accommodation and food services, which have been rising consistently since the second half of last year. The contributions made by food prices and prices of non-energy industrial goods remain unchanged. The latter remained negative in the amount of 0.2 percentage points, primarily as a result of the ongoing falls in prices of cars and household equipment.

Figure 7.1: Contributions to headline HICP inflation



Source: Eurostat, Bank of Slovenia calculations.

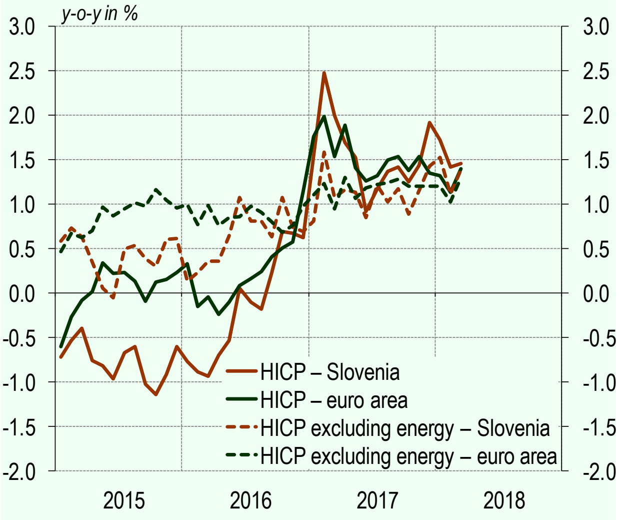
Macroeconomic factors and core inflation indicators

The broadest core inflation indicator, which solely excludes energy prices, averaged a lower figure than euro area overall in 2017, but overtook the euro area average at the end of the year. This trend continued in the first quarter of this year, when it averaged 1.3%, 0.1 percentage points higher than the euro area average. This divergence can be mainly attributed to food prices that last year grew faster than in the euro and whose growth in year-on-year terms averaged 2.7% in the first quarter of this year, outpacing the euro area average by 1 percentage point. Services prices also grew faster than in the euro area overall last year. A comparison with services price inflation in Eastern Europe member countries with above-average economic growth reveals growth of these prices in Slovenia to have been significantly lower:

growth in services prices exceeded 4% in the Baltic states last year (6% in Lithuania). The other two (narrower) core inflation indicators of inflation excluding energy and unprocessed food and inflation excluding energy, food, alcohol and tobacco remained below 1% in the first quarter, still lower than the corresponding figures for the euro area overall. This was largely attributable to prices of non-energy industrial goods, which in Slovenia have been mostly falling since the beginning of 2010.

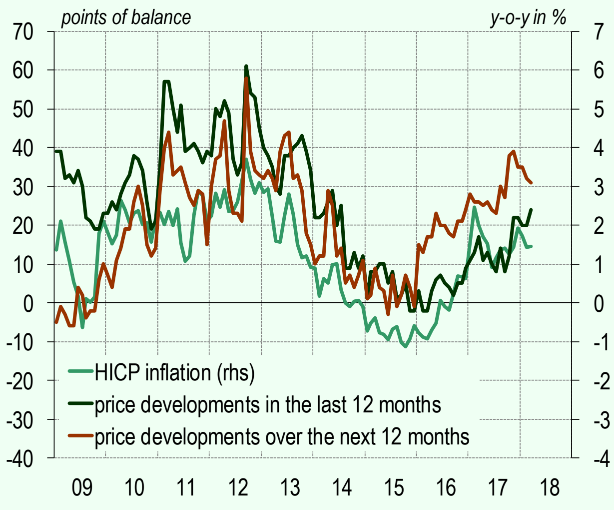
The rise in core inflation is still weak, but is perhaps already a sign of pressures from the strengthened growth in household consumption now seen for more than a year. The price pressures on the demand side come from the increased growth in average wages and, even more so, the wage bill and household disposable income. The consumer confidence indicator rose sharply in the final quarter of last year, and maintained its high level in the first quarter of this year. The stock of consumer loans began increasing in the early part of last year for the first time since 2010, and growth surpassed 10% in the second half of the year maintaining this level also in the first quarter of this year.

Figure 7.2: Inflation



Source: Eurostat.

Figure 7.3: Inflation, perceptions and expectations



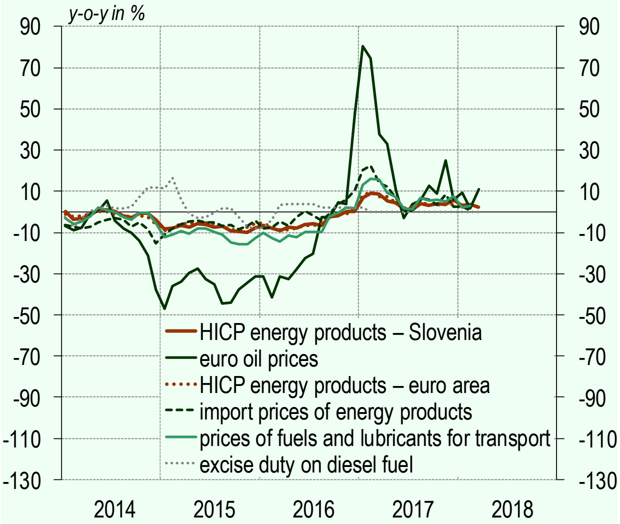
Source: SORS, Eurostat.

The price pressures on the supply side are limited. Global oil prices rose sharply at the beginning and also at the end of last year, but then eased. After rising sharply at the beginning of last year, prices of non-oil commodities eased. Taking account of last year's significant rise in the euro, growth in Slovenian import prices declined from 2.4% in the final quarter of last year to just 0.5% in the first two months of this year. These fluctuations were also reflected in last year's rise in growth in industrial producer prices on the domestic market, although there was no pass-through into consumer prices of non-energy industrial goods, at least on aggregate. In the domestic environment growth in average wages in the second half of last year only slightly outpaced the simultaneous elevated growth in productivity, which was merely reflected in weak aggregate growth in unit labour costs.

Microeconomic factors

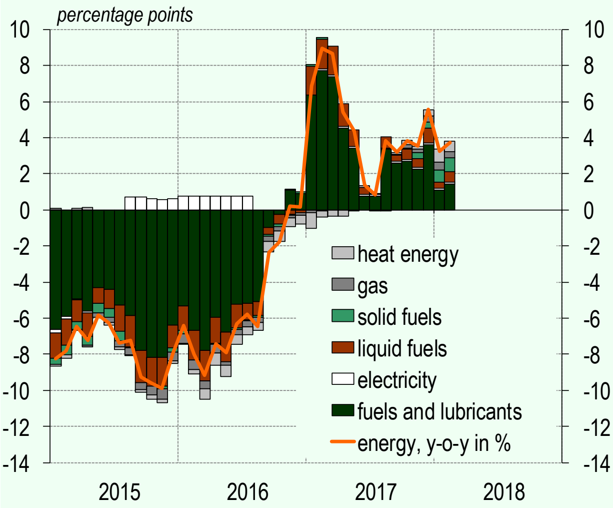
Growth in euro oil prices slowed in the early part of the year, which had an impact on growth in Slovenian energy prices. Year-on-year growth in energy prices averaged 3.1% over the first quarter, down 1.2 percentage points on the previous quarter. This was primarily attributable to a decline in year-on-year growth in prices of motor fuels and heating oil, which was primarily the result of a base effect caused by last year's sharp increase in growth in the early part of the year. By contrast, prices of heat energy, solid fuels and household gas had risen slightly before, and then rose again in the early part of this year. Primarily as a result of the above-average rise in these prices, and also prices of liquid fuels, growth in Slovenian energy prices again sharply outpaced overall growth across the euro area, by 1 percentage point in the first quarter.

Figure 7.4: Oil and energy prices



Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 7.5: Contributions to energy inflation

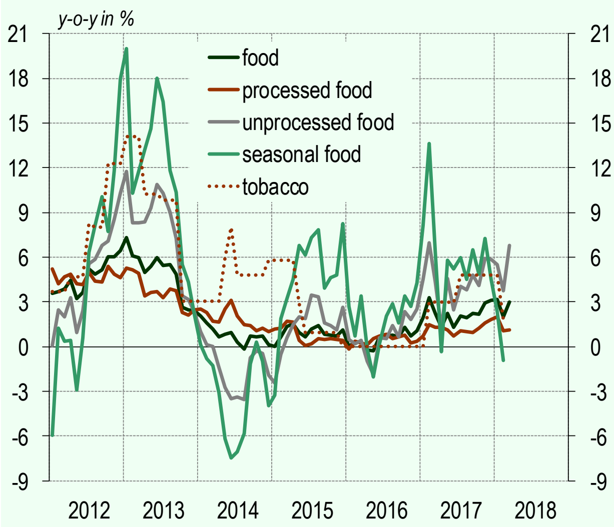


Source: ECB.

Last year's fall in euro prices of food commodities, which was followed in the final quarter by a fall in Slovenian import prices of food and beverages, has not yet been reflected in consumer price growth. Consumer prices continued to rise overall in the euro area until March, while growth in Slovenian prices has been faster for more than a year now. The gap averaged 1 percentage point over the last three months, and was primarily attributable to prices of unprocessed food. Prices in this sub-category recorded their highest year-on-year growth of the last year in March. The rate averaged 5.4% over the first quarter, 5 percentage points higher than the overall rate across the euro area because of extremely high growth in Slovenian meat prices. Year-on-year growth in prices of processed food has been outpaced by overall growth across the euro area for an entire year, although the reason it has slightly slowed in the first quarter of this year is the waning effect from the first phase increase in excise duties on tobacco in February of last year dropping out of the calculation.

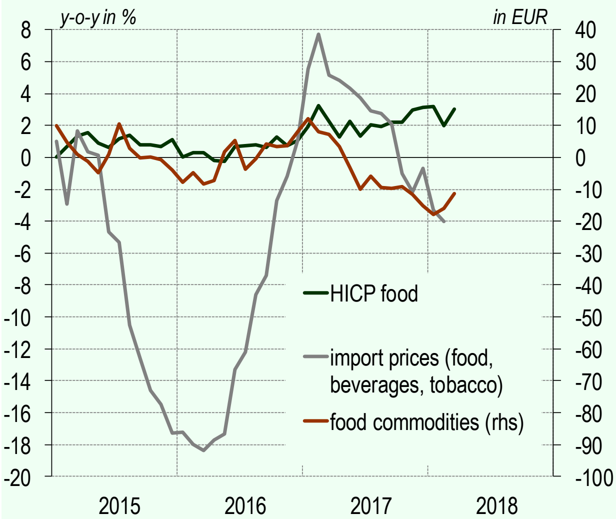
Year-on-year growth in prices of non-energy industrial goods is significantly less than the average across the euro area. In the wake of the slowdown in growth in import prices, there has not yet been any sign of an impact from strengthened domestic demand on prices of non-energy industrial goods. The average year-on-year fall over the first quarter remained at 0.8%, while the euro area recorded growth of 0.5% overall. The majority of products in this price category are recording year-on-year

Figure 7.6: Food prices



Source: Eurostat, Bank of Slovenia calculations.

Figure 7.7: Food prices and prices of food commodities in EUR

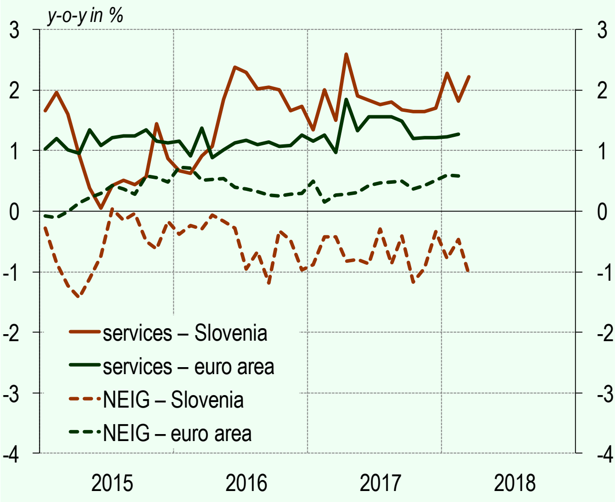


Source: Eurostat, Bloomberg, Economist, SORS, Bank of Slovenia calculations.

price falls: the largest negative contributions come from prices of cars, prices of furniture and household appliances, and prices of audio, video and computer equipment. Growth in prices of clothing and footwear in the first two months of the year was slightly higher than in the previous quarter.

Growth in services prices remains higher than the average across the euro area, and is the main driver of core inflation. The favourable economic situation and increased demand seem to be already reflecting in services prices dynamics. The average inflation of services in year-on-year terms in the first quarter was up 0.4 percentage points on the previous quarter. Growth in prices of public services, which has mirrored the increase in growth in average wages since last year, increased at the end of last year. By contrast, growth in prices of market services actually declined during this period; certain prices in this sub-category rose, such as prices of accommodation and food services, year-on-year growth in which was up 0.6 percentage points on the previous quarter.

Figure 7.8: Prices of services and industrial goods excluding energy



Source: Eurostat, Bank of Slovenia calculations.

Industrial producer prices

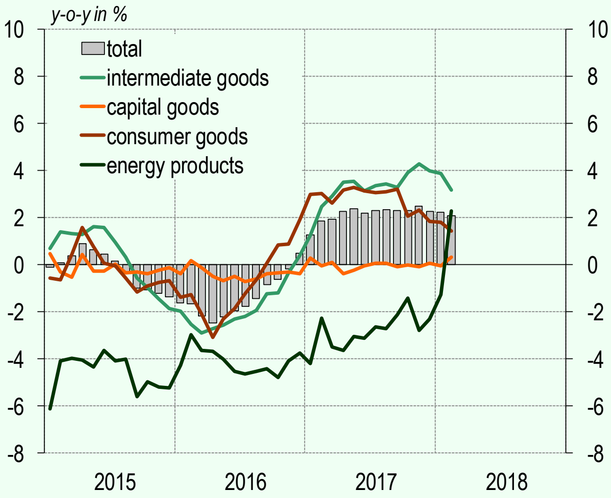
Year-on-year growth in industrial producer prices on the domestic market continued in the first quarter. It reached 2.1% in February, to which the largest positive contribution was noted by energy prices. In addition to energy prices, prices of capital goods in Slovenia and in the rest of the world also recorded slightly higher average growth over the first two months of the year. Among producer sectors, the largest year-on-year rises were in pric-

Table 7.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2018	2013	2014	2015	2016	2017	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
HICP	*100.0%*	1.9	0.4	-0.8	-0.2	1.6	0.7	2.0	1.4	1.3	1.5	1.5
Breakdown of HICP:												
Energy	*11.8%*	1.8	-1.4	-7.8	-5.2	4.7	-0.5	8.1	3.7	2.6	4.3	2.2
Food	*22.9%*	4.9	0.8	0.9	0.5	2.2	1.0	2.5	1.6	2.1	2.8	3.0
processed	*15.1%*	3.6	1.8	0.7	0.4	1.2	0.5	1.2	1.0	1.0	1.5	1.1
unprocessed	*7.8%*	7.7	-1.4	1.4	0.7	4.4	2.3	5.3	2.8	4.2	5.3	6.8
Other goods	*28.4%*	-0.8	-1.0	-0.6	-0.5	-0.7	-0.6	-0.6	-0.8	-0.5	-0.8	-1.0
Services	*36.9%*	2.3	1.8	0.9	1.6	1.8	1.8	1.6	2.1	1.8	1.7	2.2
Core inflation indicators:												
HICP excl. energy	*88.2%*	2.0	0.7	0.4	0.6	1.1	0.8	1.2	1.0	1.1	1.2	1.4
HICP excl. energy and unprocessed food	*80.4%*	1.4	0.9	0.4	0.6	0.8	0.7	0.8	0.9	0.8	0.8	0.9
HICP excl. energy, food, alcohol and tobacco	*65.3%*	0.9	0.6	0.3	0.7	0.7	0.8	0.7	0.8	0.8	0.6	0.8
Other price indicators:												
Industrial producer prices on domestic market		0.3	-1.1	-0.5	-1.4	1.3	-0.7	0.6	1.3	1.5	1.9	1.9*
GDP deflator		1.6	0.8	1.0	0.9	2.0	1.0	1.1	2.2	2.3	2.2	...
Import prices[1]		-1.5	-1.1	-1.4	-2.2	3.0	-0.1	4.4	3.6	2.2	2.0	0.5*

*Note: * The observation for March is not included in the calculations. [1] National accounts data.*
Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 7.9: Producer prices on the domestic market



Source: SORS, Bank of Slovenia calculations.

es in the manufacture of metals and metal products, and in the manufacture of chemicals and chemical products.

8 Selected Themes

8.1 Size of the government sector in Slovenia compared with other EU countries

According to the majority of indicators, the government sector or public sector in Slovenia is of comparable size to the average of euro area and EU countries, or smaller. The standard indicators used in comparisons reveal large differences between countries. These are conditioned by historical factors, the preferences of the people, and other factors that determine which tasks are performed by the government sector. In general the government sector is larger in Scandinavia, and is smaller in the newer EU Member States. Slovenia's ratio of general government expenditure to GDP, which is the most commonly used indicator in comparisons, had in the past been slightly lower than the average across the euro area and the EU, but recently has become more comparable to the EU figure. In terms of the proportion of employment accounted for by the government sector or public sector, Slovenia is also somewhere in the middle of the distribution of euro area countries, and is below the median of EU Member States, although data is only available for a limited set of countries.

The size of the government sector also needs to be observed within the context of its efficiency. Research suggests that before it joined the EU, Slovenia's government sector was approximately as efficient as the average for new Member States, and that over roughly the first decade of the millennium the general efficiency of the government sector in Slovenia converged on the average of EU Member States. According to the European Commission, the main areas where Slovenia lags behind more efficient EU Member States are healthcare, research and development, and general public services. Here it should be noted that analysis of this type has numerous limitations; it compares the result of countries with different institutional arrangements, the research faces a shortage of appropriate efficiency indicators, and government presence in individual areas varies from country to country. The assessment of efficiency should therefore be taken merely as a guideline to areas where further analysis is required.

Introduction

The government sector plays an important role in the economy, and its size varies considerably from country to country. It depends on the range of the tasks and functions that the state performs. Viewed long-term, the ratio of general government expenditure to GDP in industrial countries rose from around 12% in 1913 to around 45% in 1990, and has even reached 50% or higher in some countries (Tanzi & Schucknecht, 1997). The rise was the result of the growing role of the state in the areas of education, healthcare, pensions and unemployment. A rise in the size of the state is also typical of times of crisis or war (Di Matteo, 2013). The size of the state is thus subject to historical factors, and the political choices and preferences of the people, which determine the tasks that the state will perform. In Europe the size of the public sector is larger compared with other parts of the world, which reflects the European social model, which includes general access to education and healthcare.

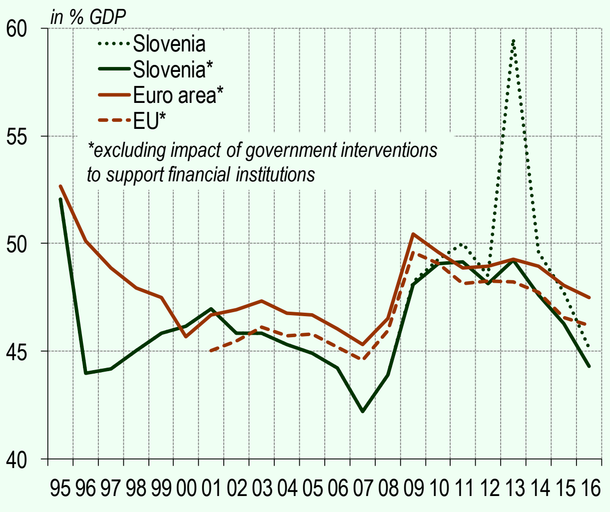
Measuring and comparing the size of the government sector is not simple: each indicator has a variety of limitations, for which reason a set of different indicators is used. The following indicators of the size of the government sector are analysed in this paper: a) the ratio of general government expenditure to GDP, which is the most commonly used indicator for measuring the size of the government sector, b) the ratio of general government revenues to GDP, and c) the proportion of employment accounted for by the government sector or the public sector.[1] It is of interest what the various indicators of the size of the government sector in Slovenia show compared with the euro area and EU Member States. Attention is also drawn in this paper to the limitations of the individual indicators.

Indicators of the size of the government sector

a) Ratio of general government expenditure to GDP

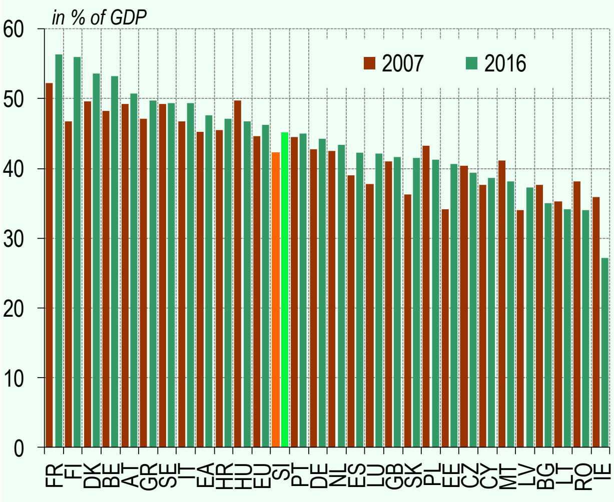
The ratio of general government expenditure to GDP in Slovenia is generally lower than in the euro area and the EU overall, but in recent years was comparable to the overall figure in EU Member States before the increase in economic growth in Slovenia. It mostly fluctuated around 45% of GDP in the period after 1995, but then rose during the economic and financial crisis. The main reasons were the fall in GDP, which in Slovenia was one of the largest seen in the EU, and support for financial institutions, which in Slovenia was larger than the EU average. The ratio of general government expenditure to GDP thus rose by just over 4 percentage points in 2009 as a result of the large fall in GDP, and was exceptionally high in 2013, when measures to support financial institutions (bank recapitalisations amounted to more than 10% of GDP) took the figure to close to 60%. The figure has since been declining, and had fallen back to around 45% by 2016. The relative level of general government expenditure is expected to rise during a crisis, as unemployment rises and government transfers to households increase. Because there is a deterioration in the fiscal position at the same time, interest expenditure also increases.[2] In the last decade Slovenia's relative level of general government expenditure has exceeded the euro area average three times, but if the impact of the government interventions to support financial institutions

Figure 8.1.1: General government expenditure



Source: Eurostat, Bank of Slovenia calculations.

Figure 8.1.2: Share of general government expenditure in GDP in the EU member states



Source: Eurostat.

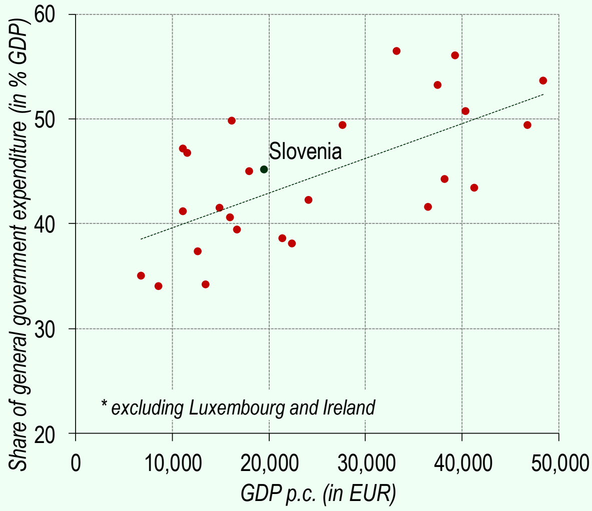
[1] In the national accounts system, the public sector consists of public corporations in addition to the government sector. According to the standard classification of economic activities, the following activities may be included: O (public administration, defence and compulsory social security), P (education) and Q (human health and social work activities). It should be noted that the aforementioned activities include all entities (public-sector and private-sector) whose principal activity is defined as one of the aforementioned ones.

[2] The number of unemployed increased everywhere during the crisis. In Slovenia the unemployment rate rose from 4.4% in 2008 to a peak of 10.1% in 2013 (compared with a rise from 7.6% to 12% in the euro area). Expenditure on unemployment in Slovenia amounted to 0.3% of GDP before the crisis, and rose to around 1% of GDP during the crisis (compared with a rise from 1.6% of GDP to around 2% of GDP in the euro area). Interest expenditure in Slovenia amounted to around 1.1% of GDP before the crisis, before rising to more than 3% of GDP (compared with 2.9% of GDP before the crisis in the euro area, the figure never exceeding 3% of GDP even during the crisis).

is excluded, then small exceeding was present only in 2011. In the period before the economic and financial crisis the main factor in the lower ratio of general government expenditure to GDP was smaller interest expenditure, and it was the rise in this expenditure – after carrying out measures to support the banking system – that drove the convergence to the EU average. The relative level of general government expenditure in Slovenia was also generally lower than the EU average in the past, although the gap was smaller, while between 2010 and 2015 (after excluding the impact of the government interventions to support financial institutions) the figures were at similar levels, before Slovenia's figure fell behind again in 2016 after economic growth increased.

Slovenia's government sector is medium-large. Tanzi and Schuknecht (1997) called a government sector as big, if exceeding 50% of GDP. According to this criterion (and calculating average since 2000), France, Finland, Denmark, Belgium, Austria, Greece and Sweden have a big government sector. Countries where the ratio of general government expenditure to GDP is between 40% and 50% have a mid-sized government sector, among them Slovenia. Countries where general government expenditure is less than 40% of GDP are classed as having a small government sector. Among EU Member States (according to the average since 2000), this category includes Estonia, Cyprus, Latvia, Bulgaria, Lithuania, Romania and Ireland.[3] The higher figures belong to the Nordic countries, which are known for their social model, and certain other advanced EU Member States, while the lower figures belong to the Baltic states, Bulgaria and Romania. In general more advanced economies also have a larger government sector, which is evident in Figure 8.1.3.[4]

Figure 8.1.3: Share of general government expenditure in GDP and GDP p.c. in the EU member states* in 2016



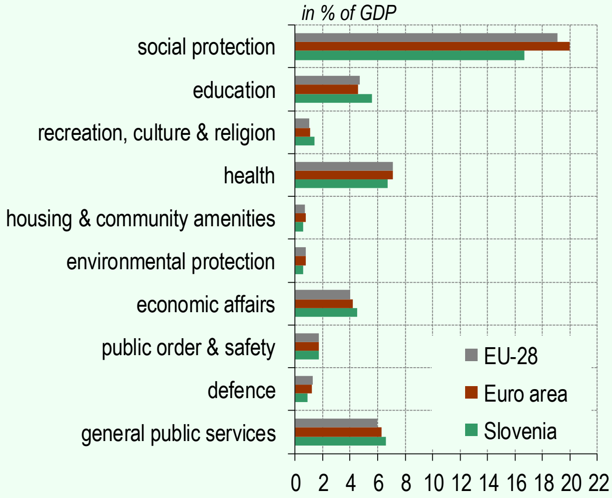
Source: Eurostat, Bank of Slovenia calculations.

The category of expenditure that is the main reason that Slovenia's ratio of general government expenditure to GDP is lower than the euro area average and the EU average is expenditure on social protection.[5,6] Slovenia also spends less on health and defence. Slovenia earmarked more for the items economic affairs and education in 2016 than euro area countries and EU Member States overall.[7] The greatest variation from country to country is in the level of expenditure on social protection.[8] Demographic developments are also having an impact on the expenditure structure. Over the last decade demographic changes in Slovenia have shifted significantly in the direction of an aging population, and according to the projections major changes will also occur in the coming decades (see Box 6.2). The rising share of the elderly population is raising public expenditure on pensions, healthcare and long-term care, while the simultaneous decline in the share of working-age population is reducing payments of social security contributions.

[3] Ireland's GDP has been significantly elevated by globalisation effects since 2015, and has had a profound impact on indicators where GDP is the denominator. This is also relevant to the country comparisons in this paper.
[4] Some studies offer an explanation of growth in general government expenditure. For example, Wagner's law states that the elasticity of the general government expenditure to GDP is greater than one. Meanwhile Peacock and Wiseman claim that growth in general government expenditure depends on the acceptable growth of taxes for the taxpayers (Di Matteo, 2013).
[5] See also Box 6.2: Expenditure on social protection in EU Member States, Economic and Financial Developments, April 2017.
[6] The most recent COFOG data (Classification of the Functions of Government) available for all countries on Eurostat is for 2016. During that year expenditure on old age ranged from 3.5% of GDP in Ireland to 16.0% of GDP in Greece (Slovenia: 9.5% of GDP, a bit more than 1 percentage point less than the euro area average).
[7] For health the range was 2.6% of GDP in Cyprus to 8.6% of GDP in Denmark (Slovenia: 6.7% of GDP, 0.4 percentage points less than the euro area average). For education the range was 3.3% of GDP in Ireland to 6.9% of GDP in Denmark (Slovenia: 5.6% of GDP, 1 percentage point more than the euro area average).
[8] The Public Finances and EMU report (2018) states that inequality in market income has increased in the EU since 2004, and is similar to that in the US. However, redistribution via the tax and benefits system reduced inequality of income distribution by almost a third, for which reason the income inequality of households in the EU is significantly less than in the US. The reduction in inequality of income distribution was also attributable to spending in the areas of education, health and allowances related to sickness, disability, family and children expenditure.

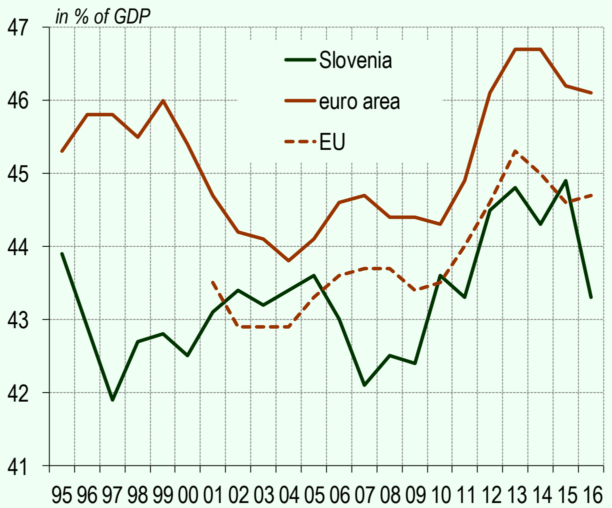
The classification of countries according to the ratio of general government expenditure to GDP and according to other indicators of the size of the government sector is subject to numerous limitations. The size of general government revenues and expenditure are influenced by various allowances, the taxation or non-taxation of social transfers, sectoral capture and differences in the organisation of the public/government sector (e.g. healthcare costs may be covered entirely by public funds, or in full or in part by a private insurance system and therefore classified outside the government sector). Heimberger (2017) cites three difficulties in comparing structures and data: a) when comparing several countries it is necessary to take account of total public and private expenses, b) analysis must take account of historical and future socioeconomic development, and c) differences may be more statistical than substantive. The share of private resources earmarked for healthcare and education in Slovenia is similar to the EU average.[9] The differences between countries in the amount of social expenditure are reduced if account is taken of private social expenditure and the impact of the tax system, which acts through three channels (OECD, 2016): a) the taxation of cash transfers via taxes on income and social security contributions (which raises the ratio of revenues and expenditure to GDP), b) the taxation of consumption out of benefit income via indirect taxes, and c) the use of tax breaks with a social purpose. In the OECD analysis, which takes the aforementioned factors into account, Slovenia does not change significantly its position in terms of (net) social expenditure.

Figure 8.1.4: Structure of general government expenditure by function – 2016



Source: Eurostat.

Figure 8.1.5: General government revenue



Source: Eurostat.

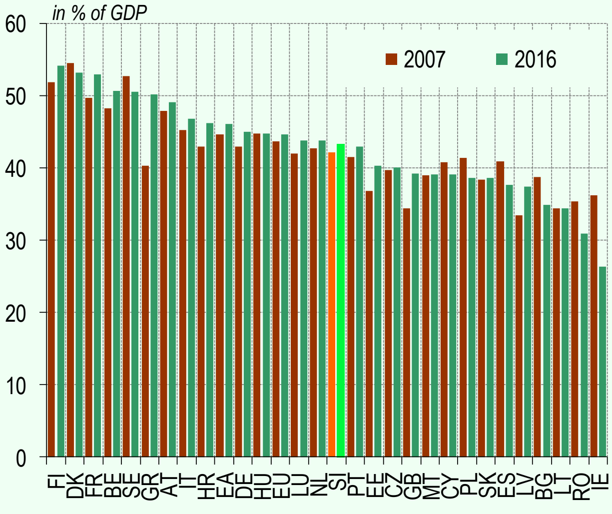
b) Ratio of general government revenues to GDP

Slovenia is also below the euro area average in terms of the relative level of general government revenues, while the deviation from the EU average is smaller. Slovenia's ratio of general government revenues to GDP did not exceed the euro area average in any year, but occasionally exceeded the EU average. The long-term average for the figure in the period before the economic and financial crisis was just under 43%, and it approached this value again in 2016. Tax revenues account for the majority of the revenues (86% for Slovenia over the entire period, and around 3 percentage points higher for the euro area and the EU overall). The sets of countries that deviate upwards or downwards are similar to those in connection with the expenditure-side indicator.

The implicit taxation of consumption is higher in Slovenia, while the implicit taxation of labour is similar to the average for EU Member States. The implicit taxation of consumption, which measures taxes on consumption relative to consumption, is higher in Slovenia than in

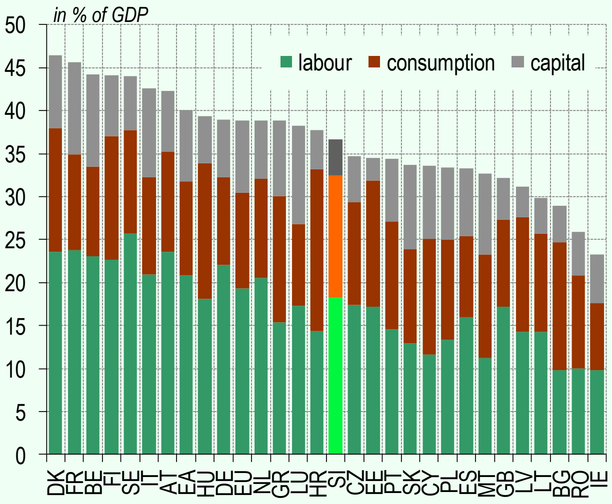
9 Eurostat publishes COICOP data (Classification of Individual Consumption According to Purpose). According to this data, in 2016 Slovenia recorded private spending in the amount of 2.2% of GDP on healthcare and 0.7% of GDP on education, while the corresponding figures across the EU were 2.1% of GDP and 0.6% of GDP.

Figure 8.1.6: Share of general government revenue in GDP in EU member states



Source: Eurostat.

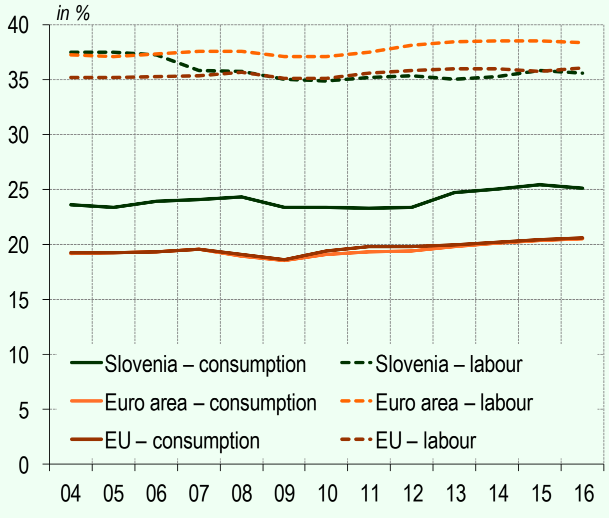
Figure 8.1.7: Structure of tax revenue in EU member states in 2016



Source: European Commission.

the EU or in the euro area. The ratio of indirect taxes to GDP is higher than in the EU (Slovenia was ranked eleventh among EU Member States in terms of indirect taxes in 2016), while the standard rate of VAT (22%) is slightly above the simple average of EU Member States (nine countries had a higher standard rate of VAT than Slovenia last year, and one had the same). Slovenia recorded the largest revenues from energy taxes among EU Member States in 2015, primarily related to fuel taxes. The implicit taxation of labour in Slovenia is similar to the EU

Figure 8.1.8: Implicit tax rate on consumption and labour



Source: European Commission.

average, but lower than in the euro area. The differing trends in the aggregates are the result of the low values recorded in Romania, Bulgaria and the UK. According to the data, the taxation of capital is notably low in Slovenia. Taxes on capital amounted to approximately 4% of GDP in Slovenia in 2016, compared with double that in the euro area and the EU (European Commission, 2017).

c) Proportion of employment accounted for by the government sector or public sector

The government sector accounted for just over 17% of total employment in 2015, which is the median value for euro area countries and EU Member States.[10] There are large variations from country to country, but Slovenia lies somewhere in the middle of the distribution. Although approximately half of the countries have a larger proportion of government sector employees, and in half of the countries the figure is lower than in Slovenia, the average proportion of government sector employees in the euro area (weighted by GDP) in 2015 was significantly lower than in Slovenia, at 15.3%.[11] This was attributable to Germany, which has a very large weight in the calculation of the euro area average, and a very low proportion of employees in the government sector. The

[10] The figure was significantly lower in Slovenia in 2007. Since 2011 the government sector has statistically captured part of Slovenian Railways with 3,700 employees (previous recorded outside the government sector), which had an impact on employment in the sector. The reclassification of Slovenian Railways raised the number of employees by 2.3%. This example also reveals the limitations of analysis of this type.

[11] The available data is taken into account in the calculation for the euro area. Data is available for 17 countries, but is missing for Malta and Cyprus. The calculation for the EU takes account of 22 countries, while the data is missing additionally for Bulgaria, Croatia, Poland and Romania. A calculation of the simple average reveals Slovenia's figure in 2015 to have been at the level of the euro area average, and below the average across the EU.

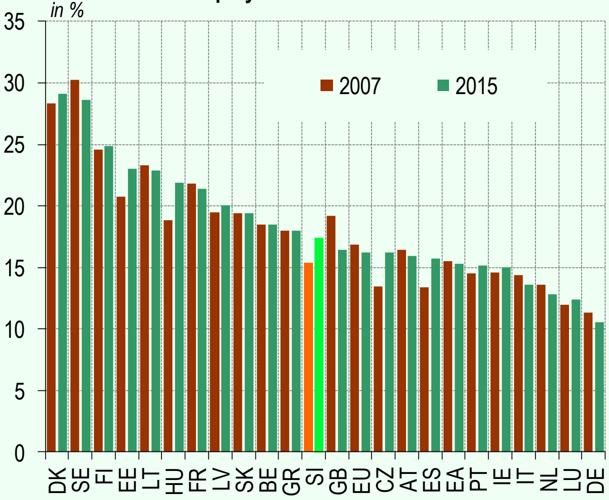
highest proportions of employees in the government sector are in the Scandinavian countries, where the figure is close to or even exceeds a quarter. The GDP-weighted EU average figure for the proportion of employment accounted for by the government sector declined slightly between 2007 and 2015 because of a decline in the UK.

In terms of the proportion of public sector employees, Slovenia lies below the median, but the data is available for fewer countries and there is great variation from country to country. In addition to the government sector, the public sector also includes companies that are under the direct control of the state. The highest proportions of public sector employees are recorded by Denmark, Latvia and Sweden, followed by Slovakia, Hungary, Estonia, Luxembourg and Poland, in all of which the public sector accounted for more than a quarter of employment in 2013.

The number of employees in the government sector mostly rose in Slovenia over the last two decades, while the proportion of employment accounted for by the government sector also rose. The exception to the mostly present trend of rising employment in the government sector was the period of 2013 to 2015, when hiring was limited by the Fiscal Balance Act. In the years following the mid-nineties employment rose most in the sector of public administration, defence and compulsory social security (Sector O), but in recent years the rise has largely been attributable to human health and social work activities, and also education, while Sector O saw a fall in employment after 2010 and a renewed rise in the last two years. Employment in the government sector averaged more than 169,000 in 2017, or just over 17% of total employment. Compensation of employees in the government sector amounted to 11.1% of GDP in 2017, thereby accounting for just over a quarter of total general government expenditure.

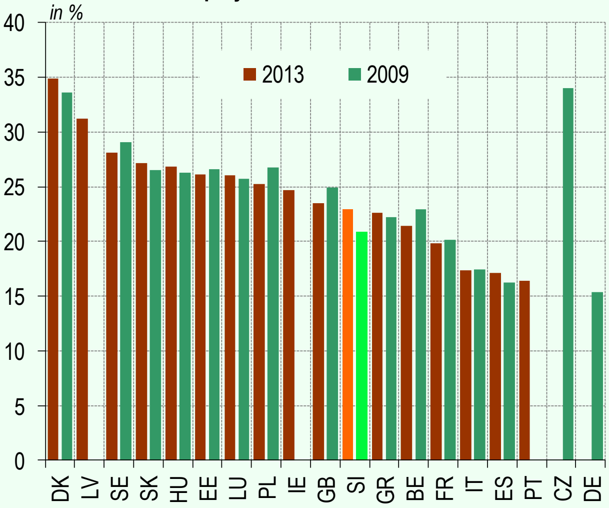
The large differences in the employment indicator reflect the demarcation of tasks between the government/public sector and the private sector. Some services can be provided by the government sector or public sector alone or by the private sector alone, while others can be provided by the two sectors in conjunction. In some countries the majority of teachers and medical pro-

Figure 8.1.9: Employment in general government as a percentage of total employment in EU member states



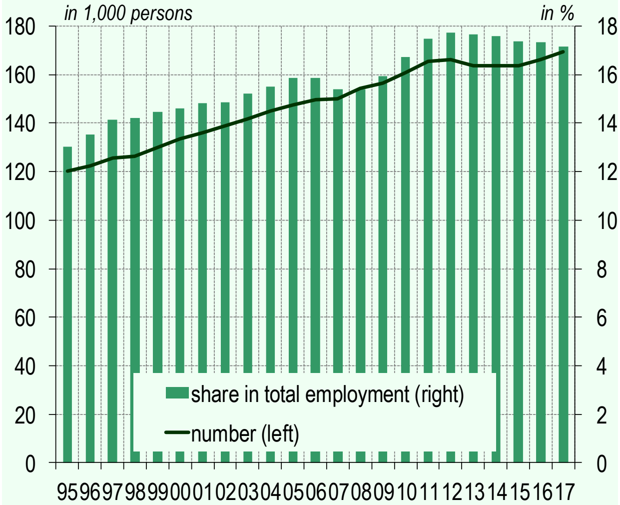
Source: OECD, Bank of Slovenia calculations.

Figure 8.1.10: Employment in public sector as a percentage of total employment in EU member states



Source: OECD.

Figure 8.1.11: Employment in general government sector in Slovenia



Source: SORS, Bank of Slovenia calculations.

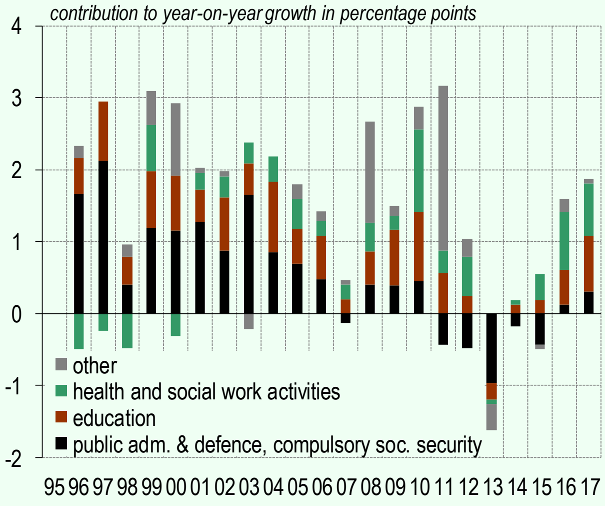
fessionals are employed in the public sector, while elsewhere they hold a contract with the state for the provision of a public service. Where the figure is recorded thus depends on the arrangements in the area, which also has an impact on the employment indicator. In Slovenia the largest proportion of employees in the government sector work in the education sector (approximately 37% last year), while a quarter work in healthcare and social care.

Efficiency of the government sector

It is necessary to observe the size of the state in connection with its efficiency compared with other countries. The efficiency of the government sector is determined from the perspective of the input funds and the output generated. It can be measured for individual areas of state activity, or state activity can be estimated as a whole or for combined areas. Various indicators covering an individual area of state activity are used to measure performance. A composite indicator is compiled from multiple indicators, and is compared with the funds spent in the selected area, thereby determining the efficiency of the government sector in the selected area. Usually the efficiency of the selected country is compared with the efficiency of other countries, with the countries being ranked by efficiency with regard to the performance indicators and funds spent. A curve of efficiency on which the most efficient countries lie (the efficiency frontier) can also be determined with regard to the performance and the funds invested, which allows an individual (less efficient) country's distance from the curve to be determined.[12] A country's distance from the efficiency frontier reveals how much funds could be saved by a particular country in achieving the performance that it currently achieves, or what the performance would be were its currently invested funds to be used at the efficiency of the most efficient country in the analysed group (Afonso et al, 2006).

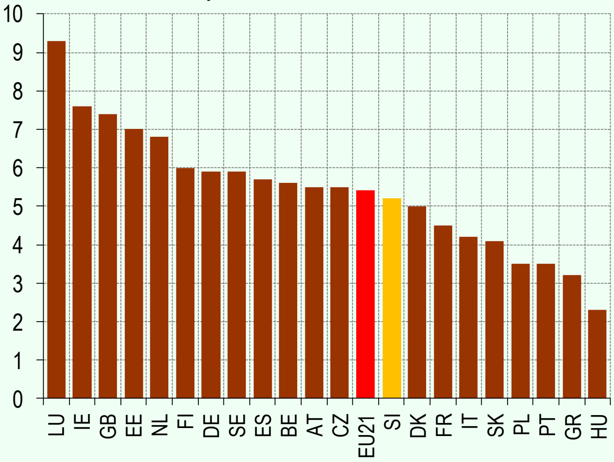
In general the efficiency of Slovenia's government sector is close to the average of EU countries. Slovenia has appeared in several pieces of research dealing with the efficiency of state activity. In a study covering the period from 2000 to 2011/12 (only specific years in this

Figure 8.1.12: Employment in the general government sector in Slovenia by activity



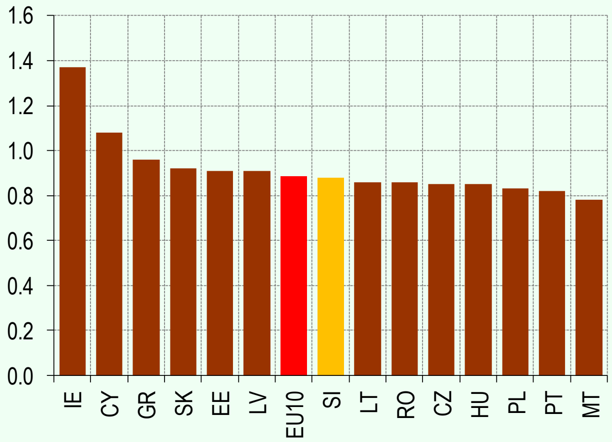
Source: SORS, Bank of Slovenia calculations.

Figure 8.1.13: Efficiency indicator for some EU member states in the period from 2000 until 2011/12



Note: The higher the value of the indicator the higher the efficiency. EU21 includes twenty-one countries shown in the figure.
Source: Di Matteo (2013).

Figure 8.1.14: Efficiency indicator for some EU member states before 2004



Note: The higher the value of the indicator the higher the efficiency. EU10 includes countries entering the EU in 2004. The estimation is mostly referring to three to five years before (and including) 2003.
Source: Afonso et al (2006).

[12] The method is called "data envelopment analysis" (DEA).

period for certain indicators), Di Matteo (2013) estimates the general efficiency of the government sector, which is composed from indicators for the areas of healthcare, social care, economic activity and the standard of living. Slovenia's figure for the efficiency of the government sector, where the individual indicators are combined into a composite indicator and are compared with total general government expenditure, is close to the average across 21 EU Member States that were also members of the OECD[13] (see Figure 8.1.13). Compared with the new EU Member States that joined in 2004, Afonso and co-authors find the efficiency of the government sector in Slovenia before it joined the EU to be close to the average of the new Member States. Slovenia's government sector was more efficient in macroeconomic areas (stability of economic growth, unemployment rate, economic growth, inflation) and public administration, and less efficient in the areas of healthcare and social inequality (Afonso et al, 2006; see Figure 8.1.14). The IMF (2015), which examined the efficiency of healthcare and schooling in Slovenia, mostly in the period since it joined the EU,[14] finds that its efficiency in both areas increased after the introduction of fiscal austerity measures during the crisis, which is to be expected, as the method is based on government costs in the individual area, which were limited by austerity measures.

European Commission research for Slovenia primarily draws attention to the possibility of improvements in the areas of healthcare, research and development, and general public services. The European Commission assessed the efficiency of the government sector in EU Member States in various areas of state activity, but did not disclose a composite indicator. The analysis mostly covers the ten years up to 2012. Its finding for Slovenia was poor efficiency in the areas of healthcare,[15] research and development, and general public services. In the areas of infrastructure, public order and safety, Slovenia is in the group of countries that spend relatively little on these areas, and its performance is accordingly low compared with other EU Member States. Performance in the area of education is good, although spending is relatively high for the performance achieved (European Commission, 2016).

Given the number of limitations, research into the efficiency of state activity is a highly approximate indicator that points to potentially problematic areas of state activity. The main deficiency of analysis of this type is the failure to take account of each country's institutional arrangements in different areas, the different demographic attributes of each country, social preferences for goods and services are taken as equivalents to actual government spending, and the differing political arrangements in each country. There are also problems in connection with the data, for example in relation to the comparability of indicators between countries and the small number of indicators for certain areas, as performance is difficult to measure. Some performance is the product both of state activity and of private-sector resources. People's life habits also have an impact on certain results. The government efficiency scores are therefore merely general indicators, which provide guidance for subsequent more in-depth analysis of potential critical areas of state activity, for example by means of a detailed review of expenditure.

[13] The analysis includes EU Member States except Romania, Bulgaria, Croatia, Cyprus, Malta, Lithuania and Latvia.
[14] Since 2001 for healthcare, since 2004 for schooling, both until 2012.
[15] Certain other studies find the efficiency of healthcare in Slovenia to be close to the average across the EU and the average of OECD countries (Medeiros & Schwierz, 2015; Mateus D'Avo Luis, 2015; IMAD, 2016).

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8.2 Changes in Slovenia's external competitiveness indicators in the last decade

The external competitiveness of countries or regions is most often measured by (1) real effective exchange rates or harmonised competitiveness indicators, (2) unit labour costs, and (3) market shares on global export markets, which are all included in the European Commission's set of indicators of (external) macroeconomic imbalances. Although price or cost is merely one of the factors in competitiveness, and there are other, non-price factors, this analysis focuses solely on these three measures of external competitiveness, and through them identifies the changes in the case of Slovenia.

The price and cost competitiveness of the Slovenian economy as measured by harmonised competitiveness indicators have improved over the last ten years, despite an initial deterioration, by a similar percentage to the average for euro area countries overall. This was attributable to favourable exchange rate developments (the euro's depreciation against the majority of major global currencies), and also to growth in domestic prices and labour costs being lower than in partner countries. The position improved in particular against trading partners outside the euro area, where Slovenia has seen a slight increase in the proportion of trade that they account for over the last decade, while the position against partners in the euro area, with which it still conducts the majority of its trade, has remained close to that in 2007.

In the first years of the crisis, in the wake of slightly unfavourable exchange rate developments, there was a significant deterioration in particular in Slovenia's cost competitiveness as measured by the harmonised competitiveness indicator deflated by unit labour costs. The position last year was slightly better than that a decade ago, thanks to internal devaluation in the second part of the crisis. The level of the second cost competitiveness indicator, real unit labour costs, was still slightly higher last year than in the pre-crisis year of 2007, despite significant improvement in recent years. The rise over the 2007 to 2017 period was also 1 percentage point above the EU average, but the figure remains slightly more favourable than (i.e. below) the euro area average.[1]

The largest contribution to the relatively favourable developments in recent years came from the tradable sector of the Slovenian economy, most notably manufacturing industry, and to a lesser extent private-sector services. Further evidence of the improvement in international competitiveness in recent years comes from the sharp increases in market shares for merchandise exports on European and global markets.

Introduction

The external competitiveness of countries or regions is most often measured by (1) real effective exchange rates or harmonised competitiveness indicators, (2) unit labour costs, and (3) market shares on global export markets. In addition to exchange rate fluctuations against trading partners, real effective exchange rates and harmonised competitiveness indicators also reflect the relationship of prices and labour costs between the domestic economy and a basket of selected partners. Unit labour costs reveal the relationship between costs per employee and the value that an employee generates, i.e. labour productivity, while market shares on global markets reveal the presence or significance of a country's exports in the foreign demand of a partner or region. That all of the aforementioned indicators are significant measures of international competitiveness is borne out by their inclusion in the European Commission's set of indicators of (external) macroeconomic imbalances of 2011.

[1] EU and euro area average excluding Ireland; see footnote 11.

It is nevertheless the case that price or cost is merely one factor of competitiveness, and that there are other, non-price factors such as quality and innovation, access and speed of supply, reliability of supplementary services, and brand strength, that are often even more important than price, but which are mostly still unmeasurable for the moment because of a lack of data.[2] The below analysis thus focuses solely on the three aforementioned measures of external competitiveness, and through them identifies the changes in the case of Slovenia.

With the aim of ensuring international comparability in the measurement of the competitiveness of individual euro area countries, alongside effective euro exchange rates the ECB has developed harmonised competitiveness indicators whose methodologies are entirely comparable. Effective euro exchanges rate illustrate the competitiveness of the euro area as a whole against partners outside the euro area, while the harmonised competitiveness indicators illustrate the competitiveness of individual euro area countries not only against partners outside the euro area, but also against other euro area countries. The only difference between them therefore is that in addition to trade with countries outside the euro area the harmonised indicators take account of trade within the euro area, while the effective euro exchange rates solely take account of the external trade of the euro area as a whole. The ECB introduced the harmonised indicators with the aim of ensuring international comparability in the measurement of the competitiveness of individual countries, as the introduction of the euro and the establishment of the single currency zone do not yet entail the same level of competitiveness on the part of members. This varies between individual countries in the zone because of differences in the geographical breakdown of their trade with the rest of the world and because of different dynamics in prices and production costs. Like effective exchange rates, a distinction can be drawn between nominal and real competitiveness indicators. The first solely illustrate the exchange rate developments between a country and its partners, while the second (deflated by prices or costs) illustrate relative prices or costs alongside exchange rate developments, and are therefore an indicator of the price competitiveness or cost competitiveness of countries. A rise in the value of the indicators indicates a deterioration in the country's competitiveness, and vice-versa.

Price and cost competitiveness as measured by real harmonised competitiveness indicators

The euro's favourable exchange rate developments and the relatively low growth in domestic prices and labour costs saw an improvement in the competitive position of Slovenian exporters between 2007 and 2017. After an initial deterioration, there was a trend of improvement over the majority of the observation period. The only significant volatility was during 2013 and 2014 when the euro fluctuated against the majority of major global currencies. It deteriorated slightly again last year under the influence of the renewed appreciation in the euro, and higher growth in domestic prices, but remained at relatively favourable levels. The competitiveness of the Slovenian economy as measured by real harmonised competitiveness indicators improved over the last decade as a result of an improvement in the position against 19 trading partners outside the euro area, with which Slovenia does just under 30% of its trade, while the position against partners inside the euro area, with which it does close to 60% of its trade, has remained close to that in 2007.[3] In addition to favourable exchange rate developments (the euro's depreciation of 5.2% against a basket of currencies), the improvement in the competitiveness indicators against partners outside the euro area (by an average of around 9%) was almost equally attributable to

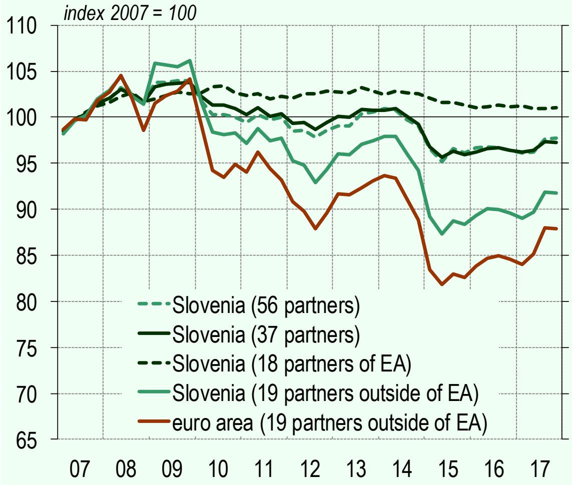
[2] According to some studies, the correlation between price competitiveness (as measured by real effective exchange rates) and market shares in exports has decreased since the late nineties (certain industrial, technologically advanced countries are purported to have increased market share despite a rise in labour costs), which means that export efficiency increasingly depends on other non-price factors (DiMauro & Forster [2008], Leichter et al [2010]). Certain aspects of non-price competitiveness at country level are monitored by the IMD, the WEF and the World Bank in their competitiveness reports.

[3] The 19 partners outside the euro area consist of nine EU Member States outside the euro area (Bulgaria, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, UK and Croatia) and ten other countries (Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and US).

a smaller rise in various metrics of prices and labour costs relative to partners (by an average of around 4%).[4] In relation to euro area countries, against which differences in growth in prices and production costs alone are taken into account, Slovenian exporters are approximately equally competitive as they were a decade ago (the average value of the indicators was up just over 1%).[5] In relation to a basket of 37 trading partners combining the euro area countries with the aforementioned 19 partners outside the euro area (on which the below analysis is based), the trend is more moderate, as expected, and the improvement in Slovenia's competitiveness indicators is less pronounced (at approximately 3%), and is primarily the result of favourable exchange rate developments. Similar developments can be seen in relation to the broadest group of 56 trading partners (see Figure 8.2.1).[6]

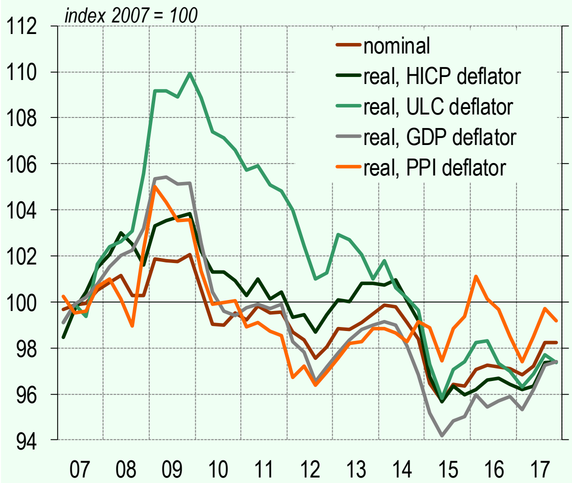
In the first years of the crisis, in the wake of slightly unfavourable exchange rate developments, there was a significant deterioration in particular in Slovenia's cost competitiveness, which last year was nevertheless slightly better than a decade ago thanks to the internal devaluation in the second part of the crisis.[7] The real harmonised cost competitiveness indicator[8] was up almost a tenth on 2007 under the influence of a big leap in relative labour costs at the end of 2009, particularly as a result of the public sector wage reform begun in 2008 and the simultaneous wage adjustments to high inflation and productivity in the private sector, and also to the sharp decline in GDP in 2009. This was followed a year later by a rise of more than 22% in the minimum wage, after which the situation began to gradually ease, although the cost competitiveness of 2007 was only equalled at the end of 2014, after two consecutive years of nominal wage stagnation. Between 2015 and 2017 the cost competitiveness of the economy continued to improve under the influence of the ongoing modest growth in wages and a jump in economic activity, and at the end of 2017 it was around 3% better than a decade earlier (see Figure 8.2.2).

Figure 8.2.1: Harmonized price competitiveness indicator with respect to diff. groups of trading partners (HICP deflator)



Source: ECB, Bank of Slovenia calculations.

Figure 8.2.2: Harmonized competitiveness indicators with respect to 37 trading partners



Source: ECB, Bank of Slovenia calculations.

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[4] The different price metrics are consumer prices (HICP/CPI), industrial producer prices (PPI), and general prices as measured by the GDP deflator.

[5] If growth in prices or labour costs is higher when compared with trading partners from the euro area, Slovenia's price or cost competitiveness deteriorates, and vice-versa, when lower growth in Slovenia's relative prices and labour costs bring an improvement in competitiveness.

[6] In addition to the 18 euro area countries and the aforementioned 19 countries outside the euro area (see footnote 3), this group includes Algeria, Argentina, Brazil, Chile, Iceland, India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

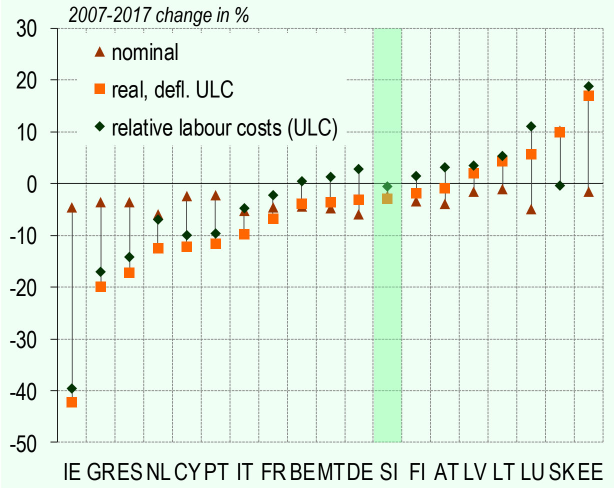
[7] Exchange rate developments reflect the nominal harmonised competitiveness indicator.

[8] The indicator deflated by unit labour costs in the total economy (ULCTs) reflects exchange rate developments and also relative labour costs. The latter reveal the developments in domestic labour costs relative to those of trading partners. If wage growth outpaces productivity by more compared with the trading partners, Slovenia's cost competitiveness deteriorates, and vice-versa, when lower growth in Slovenia's relative wages compared with growth in relative productivity brings an improvement in competitiveness.

Developments in price competitiveness[9] were more favourable throughout the observation period: at the peak of deterioration in 2009 it was only 3.6% worse than in the base year of 2007, following which relative prices fell continuously, with the exception of a small rise in 2013 and 2014.[10] This also resulted in an easing of the harmonised price competitiveness indicator, which in the deflationary year of 2015 again fell to below its value of 2007, and remained there until the end of last year. The price and cost competitiveness indicators began a slight renewed deterioration in the second half of last year, albeit only as a result of the renewed appreciation of the euro, while relative prices and labour costs continued to fall, thereby mitigating the deterioration in the position (see Figure 8.2.3).

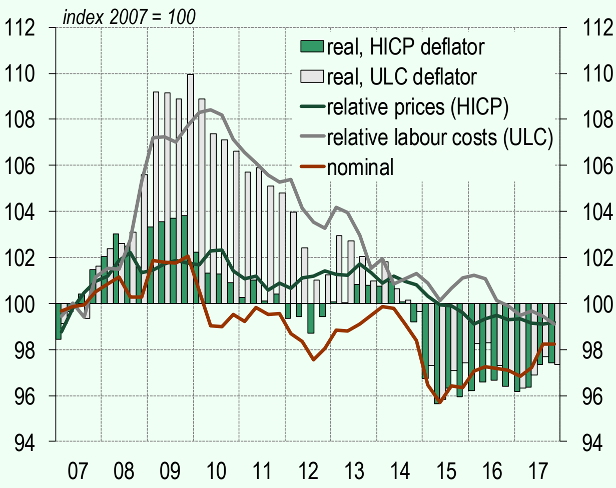
The improvement in price and cost competitiveness of approximately 3% over the last ten years puts Slovenia around the average of euro area countries. The exchange rate developments in all countries (other than Slovakia) brought a relatively similar level of improvement, and therefore the differences that did arise were primarily driven by differing developments in relative prices and labour costs.[11] The majority of the older members of the euro area (Germany, the Netherlands, France, Portugal, Spain, Italy and Greece) did better than Slovenia according to the two criteria, as did Cyprus, while the Baltic states and Slovakia mainly did worse. The differences between countries can partly be explained by the fact that the countries that joined the euro area after 2007 were undergoing the process of economic convergence before joining the single currency, and were thus recording higher rates of growth in prices and labour costs

Figure 8.2.4: Harmonized cost competitiveness indicator with respect to 37 trading partners



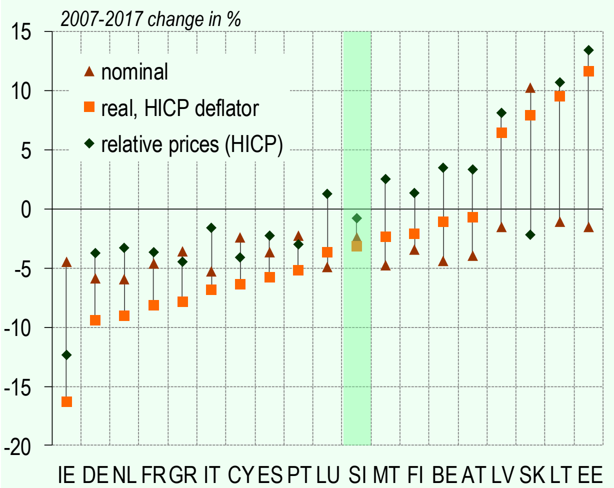
Source: ECB, Bank of Slovenia calculations.

Figure 8.2.3: Harmonized price and cost competitiveness indicator with respect to 37 trading partners



Source: ECB, Bank of Slovenia calculations.

Figure 8.2.5: Harmonized price competitiveness indicator with respect to 37 trading partners



Source: ECB, Bank of Slovenia calculations.

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[9] Price competitiveness is measured by the harmonised competitiveness indicator deflated by the consumer price index (the HICP or CPI). It reflects exchange rate developments and relative prices. The latter reveal the developments in domestic prices relative to those of trading partners. If they are higher, Slovenia's price competitiveness deteriorates, and vice-versa, when lower growth in Slovenia's relative prices brings an improvement in competitiveness.

[10] Relative prices are domestic (Slovenian) prices compared with prices of trading partners.

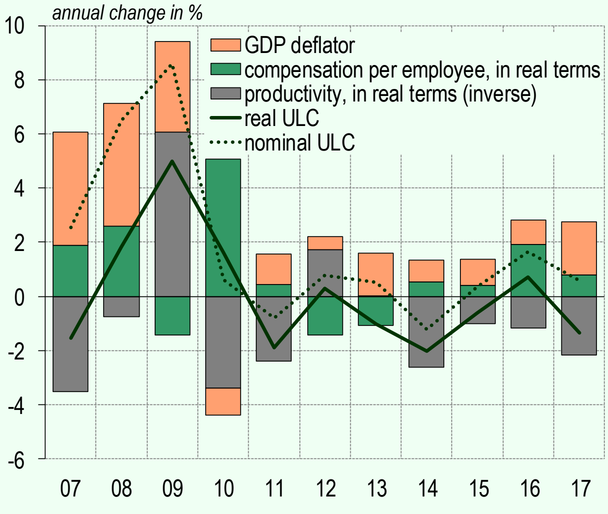
[11] The exception is Ireland, where the enormous improvement in competitiveness was primarily attributable to a sharp increase in GDP and productivity in 2015 caused by globalisation effects (the relocation of several multinationals), for which reason it is not specifically highlighted below.

(Schmitz et al, 2012). The range between euro area countries is significantly larger for cost competitiveness, which is attributable in part to austerity programmes during the crisis, which hit economic activity hard in certain places, including through wage cuts (e.g. Greece and Spain).

Cost competitiveness as measured by real unit labour costs

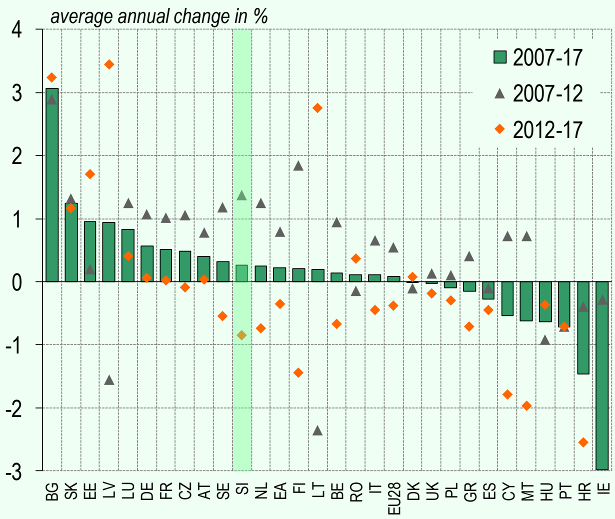
Real unit labour costs (RULCs), as another indicator of the cost competitiveness of the economy, have mostly fallen without interruption, ignoring the first three years of the crisis, by an average of 0.8% per year.[12] This was the amount by which average growth in compensation per employee (referred to below simply as wages) between 2011 and 2017 was outpaced by average growth in labour productivity. Wages only outpaced productivity significantly between 2008 and 2010 (by an average of 2.7 percentage points). The trend was reversed over the next five years. Real unit labour costs declined by an average of 1.1% per year as wages fell and productivity rose. Cost developments in the economy have remained relatively favourable over the last two years observed. In the wake of faster growth in economic activity, there was increased growth in both labour productivity and wages, albeit within boundaries that ensured the maintenance of exporters' competitive position. Over the entire horizon of the decade, real unit labour costs increased by an average 0.3% per year, and ended last year 2.3% up on the base year (2007). Growth in nominal unit labour costs was higher than growth in real unit labour costs over the entire observation period, with the exception of 2010, when there was a significant deterioration in the terms of trade and a fall in the implicit GDP deflator (which reflects the difference between growth in nominal and real unit labour costs; see Figure 8.2.6). Developments in the terms of trade are significant to cost competitiveness, as in a situation of improving terms of trade (when growth in export prices outpaces growth in import prices), growth in nominal unit labour costs does not lead to a deterioration in the competitiveness position of the economy, while conversely in a situation of deteriorating terms of trade a fall does not necessarily prevent a deterioration in cost competitiveness.

Figure 8.2.6: Decomposition of nominal and real ULC



Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.7: Real unit labour costs



Source: Eurostat, Bank of Slovenia calculations.

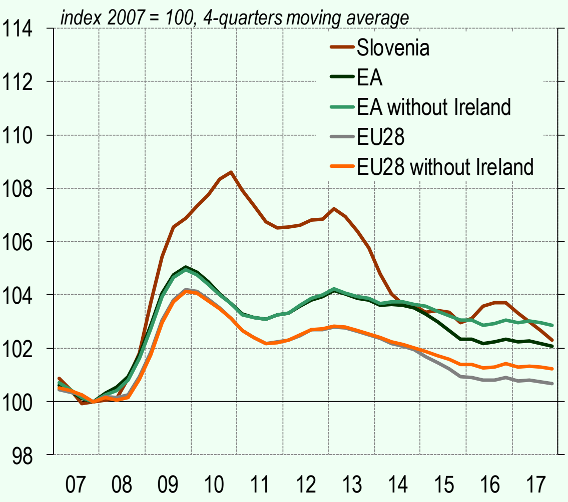
Similarly to Slovenia, in the majority of EU Member States the developments in real unit labour costs were less favourable between 2007 and 2012, while in later years there was a correction in the cost position of the majority of European economies. Average annual growth in real unit labour costs ranged from -1.5% to +1.5%. The main outliers were Bulgaria and Ireland: the

[12] They are called real because they are equivalent to nominal unit labour costs deflated by the implicit GDP deflator (IMAD, Economic Issues 2007). Nominal unit labour costs (NULCs) are the ratio of nominal employee compensation (current prices) to real labour productivity (constant prices), while the numerator and denominator of real unit labour costs are expressed in nominal (or real) values.

former recorded growth of 3%, while the latter recorded a decline of similar magnitude, as a result of the revision of GDP because of globalisation effects. To maintain cost competitiveness, growth in wages in the majority of countries tracked growth in labour productivity. Here certain countries realised their relatively favourable positions in a situation of above-average growth in labour productivity (Portugal, Hungary, Malta and Spain), while the relatively favourable positions of Croatia, Cyprus and Greece were largely attributable to falling wages. In Slovenia real productivity growth over the observation period (5.4%) slightly outpaced the EU average (5.1% including Ireland, or 4.5% excluding it), while in turn it was outpaced slightly more by real wage growth (7.8% in Slovenia, 5.8% across the EU28).

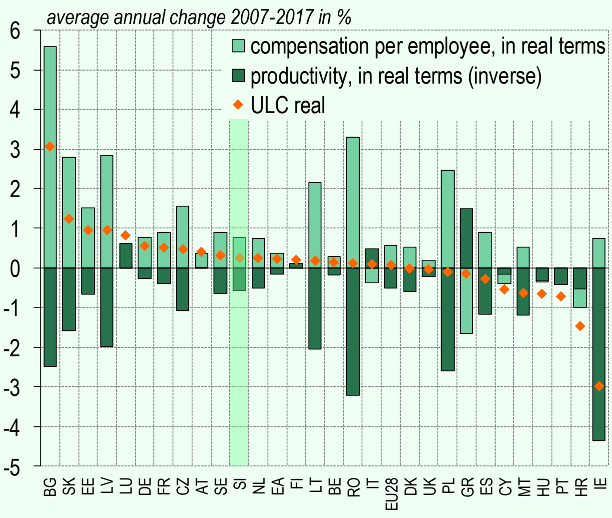
The trend in real unit labour costs in Slovenia was similar to the EU average, but significantly more pronounced, particularly in the direction of the deterioration between 2008 and 2010, which the domestic economy succeeded in almost fully overcoming in the following years. In 2010 the level was up almost 9% on 2007, compared with just 4% across the EU at the peak of the deterioration (see Figure 8.2.9). Real unit labour costs in Slovenia have fallen almost continuously since then, with a particularly pronounced fall being recorded by the tradable sector in the last year.[13] Real unit labour costs in Slovenia were up 2.3% on the pre-crisis years of 2007, approximately 1.5 percentage points above the average increase in the EU (0.7%), but almost the same as the average increase in the euro area. If Ireland is excluded from the EU and euro area averages, on the grounds of a major break in the data series in 2015 because of a large revision to GDP, the rise in real unit labour costs in Slovenia is 0.5 percentage points lower (more favourable) than the average increase in the euro area, and only 1 percentage point higher than the average increase in the EU.

Figure 8.2.9: Real unit labour costs



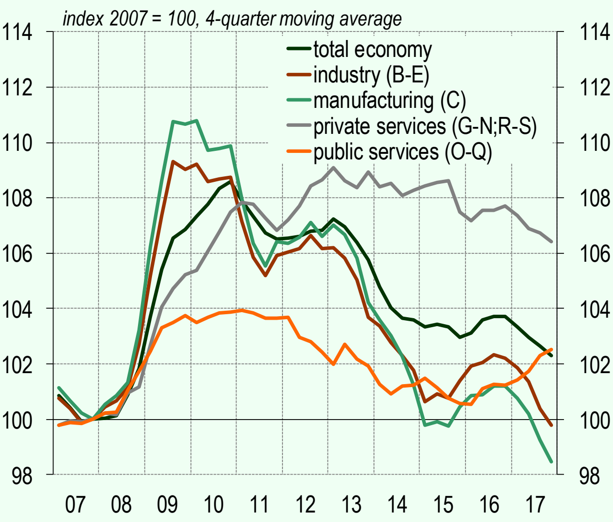
Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.8: Decomposition of real unit labour costs



Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.10: Real unit labour costs – Slovenia

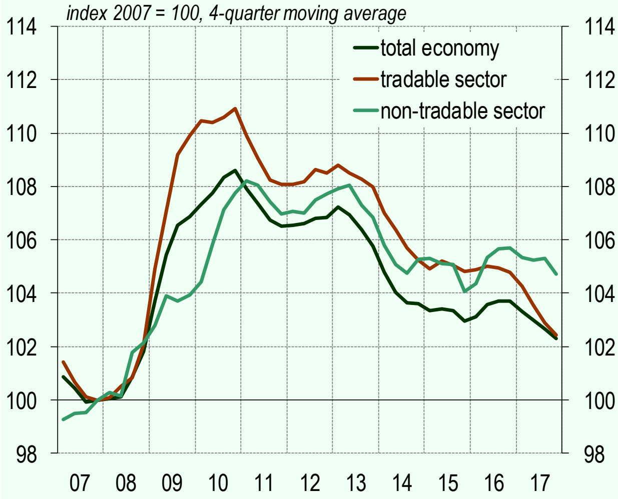


Source: Eurostat, Bank of Slovenia calculations.

[13] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food service and transportation (G to I), information and communication (J) and professional, scientific and technical activities and administrative and support service activities (M and N). The non-tradable sector consists of all other sectors under the SKD 2008. The criterion for classifying a sector as tradable or non-tradable was the trade-to-output ratio, similarly to Amador and Soares (2012) and Canas (2015).

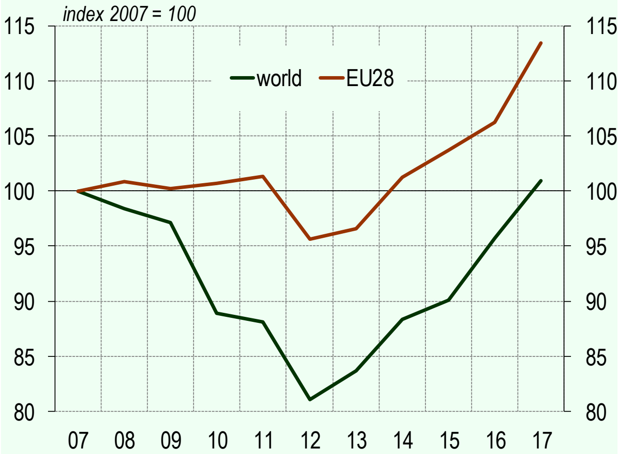
In the various sectors of the Slovenian economy, the largest reversals came in industry and the tradable sector, which have made the largest contributions to the relatively favourable developments in real unit labour costs over the last seven years. In the last two years their level has also declined significantly in private-sector services and construction, while by contrast the trend in public services reverted to a deterioration in competitiveness with the gradual abolition of austerity measures. Last year the gap by which real unit labour costs in public services exceed those from the pre-crisis year of 2007 again exceeded 2%. Alongside construction, by far the largest gap remains in private-sector services (figures of more than 10% and 6% respectively), where it is very slowly narrowing, while only in industry and manufacturing, the sectors most exposed to foreign trade, was the competitiveness position from the perspective of real unit labour costs more favourable last year than a decade ago (by 0.2% and 1.5% respectively).[14] This was primarily attributable to an above-average rise in labour productivity, while the very opposite occurred in this part of the economy during the first years of the crisis. As a result of sharp decline in foreign demand, there was an above-average fall in value-added and labour productivity at that time, for which reason the increase in real unit labour costs was significantly larger than in the total economy (more than 10% in manufacturing and the tradable sector).

Figure 8.2.11: Real unit labour costs – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.12: Global goods export market share of Slovenia*



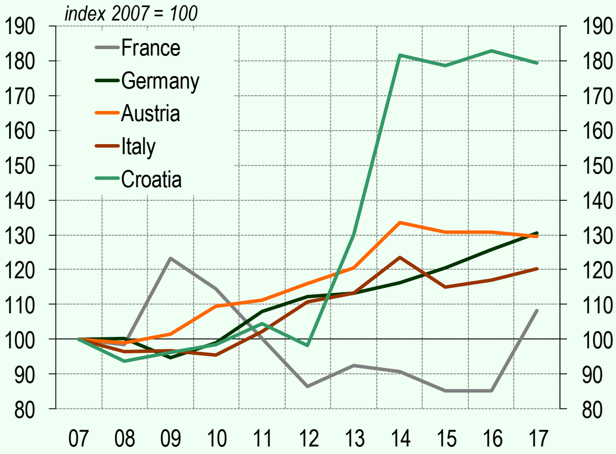
Note: *Export market share is calculated as the share of Slovenian goods exports in the world's or EU's total goods exports.
Source: Eurostat, WTO, Bank of Slovenia calculations.

Market shares and technological complexity of Slovenian exports on global markets

The improvement in the external competitiveness of the Slovenian economy in recent years has also been reflected in an increase in market shares in merchandise exports.[15] Over the last five years the overall market share at the global level has again undergone a rapid rise, and last year reached 0.22%, surpassing its peak of 2007. After that year Slovenian exporters lost market share at the global level until 2012 inclusive, the decline amounting to almost a fifth. This was one of the larger declines recorded by EU Member States, although 11 countries suffered an even more pronounced decline during this period.[16] Slovenia also recorded a loss of market share in the EU28 between 2007 and 2012, although the decline was significantly smaller (at around 5%). The global market shares of Slovenian exports have again displayed a trend of increase since 2012, and increased particularly sharply last year (by almost 7% in the EU, and by just over 5% at the global level). Exporters have

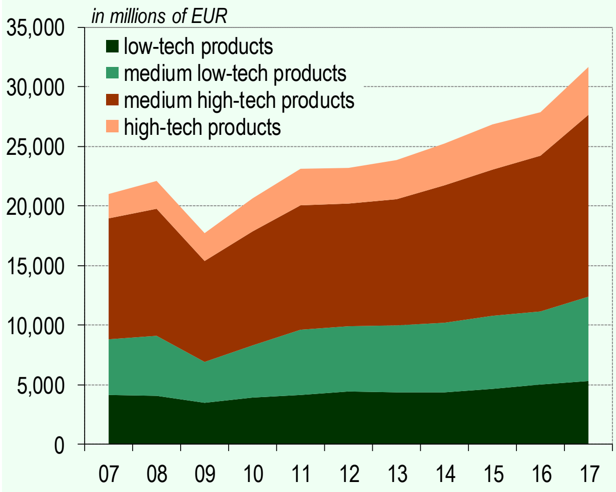
[14] Real unit labour costs fluctuate sharply in the construction sector, for which reason they are not highlighted.
[15] The market shares of Slovenian exporters at the global level and in the EU28 are calculated as the ratio of Slovenia's exports to global merchandise exports or EU merchandise exports.
[16] Germany -20%, Belgium -22%, Denmark -22%, Austria -23%, France -23%, Sweden -23%, Croatia -24%, Italy-24%, Ireland -27%, Finland -38%, Luxembourg -38%.

Figure 8.2.13: Goods export market share of Slovenia in its main trading partners*



*Note: *Export market share is calculated as the share of a partner's goods imports from Slovenia in its total goods imports.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.14: Technological intensity of goods exports

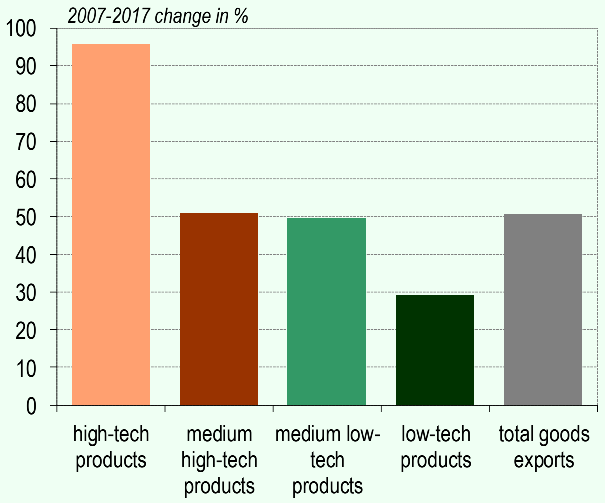


Source: Eurostat, Bank of Slovenia calculations.

strengthened their presence on the markets of all the major trading partners over the last ten years, most evidently Croatia (by 80%).[17] The increase in the market share in Austria and Germany was around 30%, while in France it has fluctuated sharply over the years, in connection with the exports and output of the Slovenian car industry.

The technological complexity of Slovenian merchandise exports has also gradually improved over the last decade. This has primarily been evidenced in a rise in the proportion of manufacturing exports accounted for by high-tech products from 9.3% in 2007 to 11.8% in 2017, and a simultaneous decline in the proportion accounted for by low-tech products from 18.7% to 15.6%. The largest factor in the rise in the proportion accounted for by high-tech products over the last ten years was growth in exports of pharmaceutical products and preparations, while the decline in low-tech products was attributable to a decline in exports of furniture and clothing. The proportion of high-tech exports in Slovenia is nevertheless still below the EU average (18.0%). Slovenia also remains behind other new Member States in terms of the proportion of high-tech exports, although its average nominal annual growth in the aforementioned segment since 2007 has been 0.9 percentage points higher than the average nominal annual growth in the exports of new Member States, and fully 3 percentage points higher than the average nominal annual growth in EU exports.[18]

Figure 8.2.15: Increase of goods exports in terms of technological intensity



Source: Eurostat, Bank of Slovenia calculations.

[17] Slovenia's market share in trading partners is calculated as the ratio of the partner's merchandise imports from Slovenia to its total merchandise imports.
[18] The new Member States are the countries that joined the EU on or after 1 May 2004 (Slovenia, Slovakia, Poland, Malta, Hungary, Lithuania, Latvia, Estonia, Czech Republic, Cyprus, Romania, Bulgaria, Croatia).

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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	2014	2015	2016	17Q2	17Q3	Dec.17	Jan.18	Feb.18
1.1. Claims of the Bank of Slovenia	7,278	5,410	6,544	6,882	7,240	7,143	6,887	6,892
1.2. Claims of other MFIs	8,279	8,266	8,100	8,417	8,373	8,503	8,599	8,548
1. Claims on foreign sectors (foreign assets)	**15,557**	**13,676**	**14,643**	**15,299**	**15,613**	**15,646**	**15,487**	**15,440**
2.1. Claims of the Bank of Slovenia on central government	263	2,327	4,618	5,173	5,600	6,247	6,290	6,273
2.2.1.1. Loans	1,149	1,298	1,506	1,184	951	1,426	1,425	1,383
2.2.1.2. Securities	6,105	5,814	4,767	4,515	4,541	3,744	3,729	3,716
2.2.1. Claims on central government	7,254	7,112	6,273	5,699	5,491	5,170	5,154	5,099
2.2.2.1. Loans	671	622	579	573	559	571	576	571
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	671	622	579	573	559	571	576	571
2.2. Claims of other MFIs on general government	7,926	7,734	6,852	6,272	6,051	5,741	5,730	5,670
2.3.1.1. Loans	11,213	10,040	9,306	9,398	9,418	9,311	9,363	9,355
2.3.1.2. Securities	524	462	405	403	398	334	315	321
2.3.1. Claims on nonfinancial corporations	11,737	10,502	9,711	9,800	9,816	9,644	9,678	9,675
2.3.2. Households and non-profit institutions serving households	8,762	8,856	9,154	9,447	9,604	9,733	9,754	9,778
2.3.3.1. Loans	1,087	898	865	904	1,150	1,171	1,166	1,160
2.3.3.2. Securities	408	534	543	350	395	395	461	462
2.3.3. Claims on nonmonetary financial institutions	1,495	1,432	1,408	1,254	1,545	1,566	1,627	1,621
2.3. Claims of other MFIs on other non-MFIs	21,995	20,790	20,272	20,502	20,965	20,944	21,060	21,074
2. Claims on domestic non-MFIs	**30,183**	**30,850**	**31,743**	**31,947**	**32,616**	**32,932**	**33,079**	**33,017**
3. Remaining assets	**3,765**	**3,119**	**2,192**	**1,710**	**1,434**	**1,415**	**1,399**	**1,467**
Total assets	**49,505**	**47,646**	**48,578**	**48,956**	**49,663**	**49,993**	**49,965**	**49,923**
1.1. Bank of Slovenia	10	16	1,267	478	52	1,506	200	97
1.2. Other MFIs	7,409	5,920	5,094	4,744	4,500	4,431	4,414	4,286
1. Obligations to foreign sectors (foreign liabilities)	**7,419**	**5,936**	**6,362**	**5,222**	**4,552**	**5,937**	**4,614**	**4,383**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,673	4,956	5,160	5,216	5,248	5,371	5,266	5,268
2.1.1.2. Overnight deposits at other MFIs	10,441	13,057	15,471	16,475	17,195	17,727	17,848	17,996
2.1.1.3.1. Non-monetary financial institutions	44	9	69	22	19	11	11	10
2.1.1.3.2. Other government sector	28	53	62	127	114	107	111	109
2.1.1.3. Overnight deposits at the Bank of Slovenia	71	63	131	149	134	118	122	119
2.1.1. Banknotes and coins and overnight liabilities	15,185	18,075	20,761	21,839	22,577	23,216	23,236	23,383
2.1.2.1. Deposits at the Bank of Slovenia	1	1	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	9,363	7,837	6,864	6,198	6,031	6,127	6,078	6,066
2.1.2. Time deposits	9,365	7,838	6,864	6,198	6,031	6,127	6,078	6,066
2.1.3. Deposits reedemable at notice up to 3 months	379	315	464	591	556	473	556	555
2.1. Banknotes and coins and deposits up to 2 years	24,929	26,229	28,089	28,628	29,164	29,816	29,870	30,004
2.2. Debt securities, units/shares of money market funds and repos	42	56	102	76	82	55	56	57
2. Banknotes and coins and instruments up to 2 years	**24,971**	**26,285**	**28,190**	**28,704**	**29,246**	**29,871**	**29,926**	**30,062**
3. Long-tern financial obligations to non-MFIs	**1,598**	**1,550**	**1,510**	**1,500**	**1,500**	**1,524**	**1,471**	**1,448**
4. Remaining liabilities	**17,229**	**15,378**	**14,100**	**15,022**	**15,701**	**13,995**	**15,132**	**15,176**
5. Excess of inter-MFI liabilities	**-1,712**	**-1,504**	**-1,584**	**-1,492**	**-1,336**	**-1,335**	**-1,178**	**-1,146**
Total liabilities	**49,505**	**47,646**	**48,578**	**48,956**	**49,663**	**49,993**	**49,965**	**49,923**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2014	2015	2016	17Q2	17Q3	Dec.17	Jan.18	Feb.18
1.1. Gold	101	100	112	111	111	111	110	110
1.2. Receivable form IMF	392	367	361	324	351	338	325	329
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	3,031	699	588	247	326	233	213	223
1.5. Securities	3,651	4,141	5,380	6,096	6,350	6,359	6,136	6,127
1.6. Other claims	103	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**7,278**	**5,410**	**6,544**	**6,882**	**7,240**	**7,143**	**6,887**	**6,892**
2.1. Claims on central government	263	2,327	4,618	5,173	5,600	6,247	6,290	6,273
2.2.1. Loans	1,098	901	714	1,150	1,161	1,142	1,142	1,142
2.2.2. Other claims	3	44	99	99	97	98	97	97
2.2. Claims on domestic monetary sector	1,101	946	813	1,248	1,257	1,240	1,238	1,238
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**1,366**	**3,275**	**5,433**	**6,424**	**6,860**	**7,489**	**7,530**	**7,513**
3. Remaining assets	**2,317**	**1,685**	**973**	**524**	**262**	**250**	**249**	**249**
Total assets	**10,961**	**10,370**	**12,950**	**13,829**	**14,362**	**14,882**	**14,666**	**14,654**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,673**	**4,956**	**5,160**	**5,216**	**5,248**	**5,371**	**5,266**	**5,268**
2.1.1.1.1. Overnight	1,526	1,634	2,252	2,482	2,484	2,939	2,740	2,836
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,526	1,634	2,252	2,482	2,484	2,939	2,740	2,836
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,526	1,634	2,252	2,482	2,484	2,939	2,740	2,836
2.1.2.1.1. Overnight	2,718	1,730	1,949	3,538	4,368	2,521	3,873	3,892
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,718	1,730	1,949	3,538	4,368	2,521	3,873	3,892
2.1.2.2. Foreign currency	94	60	78	51	49	56	53	55
2.1.2. General government	2,812	1,789	2,027	3,589	4,417	2,577	3,926	3,947
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	45	11	69	22	19	11	11	10
2.1.3. Other domestic sectors	45	11	69	22	19	11	11	10
2.1. Domestic sectors	4,383	3,434	4,348	6,093	6,920	5,527	6,677	6,793
2.2. Foreign sectors	10	16	1,267	478	52	1,506	200	97
2. Deposits	**4,394**	**3,450**	**5,615**	**6,571**	**6,972**	**7,033**	**6,876**	**6,891**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**257**	**275**	**275**	**263**	**258**	**256**	**253**	**256**
5. Capital and reserves	**1,440**	**1,472**	**1,691**	**1,606**	**1,691**	**1,860**	**1,630**	**1,550**
6. Remaining liabilities	**197**	**218**	**209**	**173**	**193**	**361**	**641**	**690**
Total liabilities	**10,961**	**10,370**	**12,950**	**13,829**	**14,362**	**14,882**	**14,666**	**14,654**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2014	2015	2016	17Q2	17Q3	Dec.17	Jan.18	Feb.18
1.1.1. Cash	292	294	322	329	314	355	341	333
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,526	1,634	2,252	2,482	2,484	2,939	2,740	2,836
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,818	1,928	2,574	2,812	2,799	3,294	3,081	3,169
1.2.1. Loans	1,719	1,264	1,061	950	882	873	870	889
1.2.2. Debt securities	378	245	256	116	71	71	72	72
1.2.3. Shares and other equity	61	62	2	2	2	2	1	1
1.2. Claims on other MFI's	2,158	1,572	1,319	1,068	956	947	943	962
1.3.1. Loans	22,883	21,714	21,410	21,506	21,682	22,212	22,284	22,246
1.3.2. Debt securities	6,352	6,050	5,030	4,608	4,633	3,775	3,757	3,751
1.3.3. Shares and other equity	685	759	685	660	701	698	749	747
1.3. Claims on nonmonetry sectors	29,920	28,524	27,125	26,774	27,016	26,685	26,790	26,744
1. Claims on domestic sectors (domestic assets)	**33,897**	**32,024**	**31,018**	**30,654**	**30,770**	**30,925**	**30,813**	**30,875**
2.1.1. Cash	29	34	38	45	38	35	35	34
2.1.2. Loans	2,839	2,767	2,628	2,315	2,169	2,154	2,328	2,274
2.1.3. Debt securities	498	1,027	1,165	1,231	1,304	1,333	1,347	1,349
2.1.4 Shares and other equity	572	567	567	577	579	579	579	579
2.1. Claims on foreign monetary sectors	3,937	4,395	4,398	4,168	4,090	4,100	4,289	4,237
2.2.1. Loans	2,135	1,597	1,155	1,094	1,050	899	842	847
2.2.2. Debt securities	1,878	1,870	2,151	2,764	2,916	3,190	3,150	3,146
2.2.3. Shares and other equity	329	405	396	391	317	314	318	319
2.2. Claims on foreign nonmonetary sectors	4,342	3,871	3,701	4,249	4,283	4,403	4,311	4,312
2. Claims on foreign sectors (foreign assets)	**8,279**	**8,266**	**8,100**	**8,417**	**8,373**	**8,503**	**8,600**	**8,548**
3. Remaining assets	**1,399**	**1,314**	**1,074**	**1,142**	**1,034**	**999**	**828**	**860**
Total assets	**43,575**	**41,603**	**40,191**	**40,213**	**40,177**	**40,428**	**40,240**	**40,283**
1.1.1. Deposits, loans from the Bank of Slovenia	1,098	901	714	1,150	1,161	1,142	1,142	1,142
1.1.2. Deposits, loans from other MFIs	1,733	1,301	1,123	1,003	947	962	938	945
1.1.3. Debt securities issued	93	38	18	16	16	12	10	10
1.1. Laibilities to monetary sectors	2,925	2,240	1,855	2,169	2,123	2,115	2,090	2,096
1.2.1.1. Overnight	10,129	12,661	15,038	15,983	16,750	17,287	17,439	17,562
1.2.1.2. With agreed maturity	12,481	10,604	9,076	8,284	7,954	8,125	8,001	7,967
1.2.1.3. Reedemable at notice	449	474	615	678	645	548	656	629
1.2.1. Deposits in domestic currency	23,058	23,739	24,729	24,945	25,348	25,960	26,095	26,158
1.2.2. Deposits in foreign currency	463	599	632	638	604	593	576	587
1.2.3. Debt securities issued	176	84	38	22	24	15	15	15
1.2. Liabilities to nonmonetary sectors	23,697	24,422	25,400	25,605	25,975	26,569	26,686	26,760
1. Obligations to domestic sectors (domestic liabilities)	**26,622**	**26,661**	**27,254**	**27,773**	**28,098**	**28,683**	**28,776**	**28,857**
2.1.1. Deposits	3,551	2,578	2,084	1,856	1,845	1,622	1,647	1,590
2.1.2. Debt securities issued	1,344	975	710	602	328	327	327	327
2.1. Liabilities to foreign monetry sectors	4,895	3,553	2,794	2,458	2,173	1,949	1,974	1,917
2.2.1. Deposits	2,052	1,954	1,738	1,778	1,819	1,975	1,933	1,861
2.2.2. Debt securities issued	25	27	23	23	23	22	22	22
2.2. Liabilities to foreign nonmonetary sectors	2,077	1,981	1,761	1,800	1,841	1,997	1,955	1,884
2. Obligations to foreign sectors (foreign liabilities)	**6,972**	**5,535**	**4,555**	**4,259**	**4,014**	**3,946**	**3,929**	**3,801**
3. Capital and reserves	**4,512**	**4,676**	**4,841**	**4,719**	**4,827**	**4,886**	**4,914**	**4,929**
4. Remaining liabilities	**5,469**	**4,731**	**3,540**	**3,462**	**3,238**	**2,913**	**2,620**	**2,696**
Total liabilities	**43,575**	**41,603**	**40,191**	**40,213**	**40,177**	**40,428**	**40,240**	**40,283**

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

in % on annual level	2013	2014	2015	2016	Dec.17	Jan.18	Feb.18
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.53	8.20	8.01	7.84	7.85	7.83	7.82
Households, extended credit	8.06	8.02	7.84	7.73	7.75	7.76	7.79
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.04	5.01	4.19	4.23	4.44	4.46	4.46
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.21	7.00	5.64	5.66	5.92	5.82	5.80
Loans, households, consumption, over 5 years initial rate fixation	7.19	7.07	5.28	6.12	6.20	6.12	6.11
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.76	4.47	3.82	3.47	3.69	3.87	3.75
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.74	6.60	5.61	5.27	4.89	5.33	5.32
C. loans, households, consumption, over 5 year initial rate fixation	7.15	6.53	5.58	5.05	5.19	5.29	5.61
APRC, Loans to households for consumption	8.00	8.28	7.42	7.55	7.73	7.67	7.56
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.14	3.18	2.22	2.04	1.99	2.01	1.99
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.54	5.65	3.87	3.58	2.75	2.81	3.23
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.40	5.06	3.16	2.49	2.65	2.60	2.57
Loans, households, house purchase, over 10 years initial rate fixation	5.17	4.87	3.16	2.56	2.91	2.89	2.95
C. loans, households, house purchase variabel and up to years initial rate fixation	3.11	3.16	2.21	2.02	1.99	2.01	1.98
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.90	5.41	2.63	2.12	2.38	2.47	-
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.34	5.03	3.04	2.38	2.34	2.32	2.35
C. loans, households, house purchase, over 10 years initial rate fixation	5.71	4.87	3.12	2.53	2.85	2.84	2.89
APRC, Loans to households for house purchase	3.48	3.55	2.85	2.58	2.77	2.78	2.84
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.69	5.11	3.51	3.49	3.58	4.28	4.11
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.51	5.96	5.93	5.28	5.30	5.44	5.56
Loans, households, other purposes, over 5 years initial rate fixation	6.42	6.44	7.79	5.92	5.35	6.01	6.73
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.53	5.30	3.45	2.81	2.41	2.34	2.38
S.11, extended credit	7.39	7.28	7.16	6.70	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	5.55	4.81	3.38	2.74	2.69	2.74	2.99
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	6.44	5.77	3.50	3.31	2.89	2.98	2.84
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.57	5.92	4.23	4.52	3.98	4.10	4.01
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.28	5.93	5.36	4.57	4.03	5.00	4.69
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	6.70	5.82	4.87	4.56	3.51	4.16	4.57
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	7.58	5.87	3.34	2.92	2.22	1.59	1.25
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	5.08	4.62	2.49	2.19	1.89	1.90	2.06
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	6.00	5.29	2.57	2.49	2.09	2.10	2.19
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	6.31	5.27	3.06	1.21	1.94	3.33	2.62
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	5.60	5.97	-	1.70	-	1.00	1.92
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.83	5.46	3.06	1.94	2.57	-	1.87
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	7.50	6.32	-	2.10	-	-	2.23
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	3.94	2.61	2.61	2.23	1.92	2.08
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	5.15	4.84	1.87	2.35	1.58	1.80	1.94
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.07	4.60	1.00	-	-	1.05	0.94
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.49	4.07	-	1.06	1.15	1.11	2.78
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	3.84	4.62	1.79	1.92	-	-	-
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	4.81	2.35	3.56	2.23	1.88	2.09	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.11	0.07	0.03	0.02	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	1.86	0.98	0.28	0.23	0.14	0.14	0.15
Deposits, households, agreed maturity over 1 and up to 2 years	3.46	1.90	0.70	0.44	0.51	0.45	0.48
Deposits, households, agreed maturity over 2 years	3.86	2.33	1.07	0.72	0.69	0.66	0.64
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	1.22	0.82	0.02	0.01	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	1.79	1.30	0.06	0.05	0.04	0.04	0.04
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.23	0.13	0.57	0.20	0.12	0.12	0.12
Deposits, S.11, agreed maturity over 2 years	1.58	0.63	1.07	0.49	0.26	0.21	0.25
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	3.47	1.85	0.10	0.02	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	3.08	1.79	0.93	0.55	0.52	0.03	0.03

Table 9.5: International investment position

EUR million		2014	2015	2016	17Q1	17Q2	17Q3	17Q4
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,219**	**-15,441**	**-14,900**	**-14,356**	**-13,868**	**-13,607**	**-13,547**
1	**ASSETS**	**39,558**	**42,223**	**42,588**	**43,417**	**43,596**	**43,020**	**43,240**
1.1	**Direct investment**	**6,970**	**7,252**	**7,739**	**7,889**	**8,065**	**8,187**	**8,129**
1.1.1	Equity	3,769	3,959	4,121	4,159	4,171	4,207	4,163
1.1.2	Debt instruments	3,202	3,293	3,618	3,729	3,895	3,980	3,966
1.2	**Portfolio investment**	**12,375**	**14,458**	**16,719**	**17,539**	**18,291**	**19,007**	**19,692**
1.2.1	Equity and investment fund shares	3,193	3,484	3,583	3,839	3,823	3,932	4,110
1.2.2	Debt securities	9,182	10,974	13,135	13,699	14,468	15,075	15,582
1.3	**Financial derivatives**	**241**	**1,266**	**1,166**	**924**	**619**	**414**	**410**
1.4	**Other investment**	**19,135**	**18,460**	**16,259**	**16,312**	**15,869**	**14,646**	**14,266**
1.4.1	Other equity	629	641	641	641	640	640	690
1.4.2	Currency and deposits	10,737	10,301	8,153	7,513	7,027	5,747	5,699
1.4.3	Loans	3,729	3,122	2,670	2,596	2,582	2,551	2,403
1.4.4	Insurance, pension and standardized guarantee schemes	141	129	141	145	144	148	148
1.4.5	Trade credit and advances	3,601	3,737	4,038	4,563	4,691	4,786	4,588
1.4.6	Other accounts receivable	298	529	615	854	786	775	739
1.5	**Reserve assets**	**837**	**787**	**705**	**754**	**751**	**766**	**743**
1.5.1	Monetary gold	101	100	112	119	111	111	111
1.5.2	Special drawing rights	247	264	207	207	199	237	235
1.5.3	Reserve position in the IMF	145	104	154	131	126	114	103
1.5.4	Other reserve assets	345	320	232	297	315	304	294
2	**LIABILITIES**	**56,777**	**57,664**	**57,488**	**57,773**	**57,464**	**56,628**	**56,787**
2.1	**Direct investment**	**11,837**	**13,356**	**14,975**	**15,265**	**15,305**	**15,643**	**15,734**
2.1.1	Equity	8,186	9,804	11,542	11,744	11,718	11,917	12,084
2.1.2	Debt instruments	3,651	3,552	3,433	3,521	3,587	3,726	3,650
2.2	**Portfolio investment**	**23,797**	**23,959**	**21,439**	**22,447**	**22,606**	**22,572**	**21,209**
2.2.1	Equity and investment fund shares	1,030	1,038	966	1,025	1,066	1,058	1,086
2.2.2	Debt securities	22,767	22,921	20,473	21,422	21,540	21,514	20,123
2.3	**Financial derivatives**	**247**	**163**	**139**	**118**	**103**	**99**	**85**
2.4	**Other investment**	**20,896**	**20,186**	**20,934**	**19,944**	**19,450**	**18,313**	**19,760**
2.4.1	Other equity	28	32	35	35	35	35	72
2.4.2	Currency and deposits	3,338	2,965	4,148	3,309	3,374	2,971	4,386
2.4.3	Loans	13,128	12,851	12,155	11,735	11,202	10,541	10,287
2.4.4	Insurance, pension and standardized guarantee schemes	218	221	213	232	224	226	226
2.4.5	Trade credit and advances	3,427	3,433	3,705	3,891	3,911	3,897	4,126
2.4.6	Other accounts payable	500	408	402	468	442	384	406
2.4.7	Special drawing rights	257	275	275	274	263	258	256

Table 9.6: Gross external debt

EUR million		2014	2015	2016	17Q2	17Q3	17Q4	Feb. 18
	TOTAL (1+2+3+4+5)	**47,286**	**46,627**	**44,805**	**44,543**	**43,519**	**43,460**	**42,462**
1	**GENERAL GOVERNMENT**	**23,392**	**24,824**	**22,953**	**23,455**	**23,296**	**21,777**	**22,093**
1.1	**Short-term, of that**	**738**	**1,507**	**1,304**	**740**	**538**	**481**	**291**
	Debt securities	228	15	22	55	65	75	75
	Loans	157	1,201	1,058	509	312	273	89
	Trade credit and advances	21	35	42	47	47	35	36
	Other debt liabilities	331	257	182	129	115	98	90
1.2	**Long-term, of that**	**22,654**	**23,316**	**21,649**	**22,715**	**22,759**	**21,296**	**21,802**
	Debt securities	21,101	21,813	19,877	20,966	21,014	19,525	20,032
	Loans	1,548	1,500	1,768	1,746	1,742	1,769	1,768
2	**CENTRAL BANK**	**2,083**	**2,217**	**3,457**	**2,592**	**2,134**	**3,650**	**2,478**
2.1	**Short-term, of that**	**1,826**	**1,942**	**3,182**	**2,329**	**1,875**	**3,394**	**2,223**
	Currency and deposits	1,825	1,942	3,182	2,329	1,875	3,394	2,223
2.2	**Long-term, of that**	**257**	**275**	**275**	**263**	**258**	**256**	**256**
	Special drawing rights (allocations)	257	275	275	263	258	256	256
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**6,591**	**5,195**	**4,117**	**3,944**	**3,870**	**3,782**	**3,740**
3.1	**Short-term**	**747**	**702**	**817**	**983**	**1,043**	**1,057**	**1,048**
	Currency and deposits	597	490	578	666	771	765	665
	Debt securities	...	...	...	...	...	...	...
	Loans	144	207	221	238	210	200	187
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	6	5	18	79	62	92	196
3.2	**Long-term**	**5,844**	**4,493**	**3,300**	**2,961**	**2,826**	**2,724**	**2,692**
	Currency and deposits	916	534	387	380	325	227	201
	Debt securities	954	652	287	235	169	168	167
	Loans	3,941	3,301	2,620	2,343	2,329	2,323	2,320
	Trade credit and advances	4	7	5	3	3	6	3
	Other debt liabilities	29	0	1	0	0	1	2
4	**OTHER SECTORS**	**11,570**	**10,839**	**10,845**	**10,964**	**10,493**	**10,602**	**10,446**
4.1	**Short-term, of that**	**3,947**	**3,976**	**4,245**	**4,580**	**4,371**	**4,506**	**4,400**
	Debt securities	5	0	2	2	2	0	0
	Loans	453	487	447	550	383	271	313
	Trade credit and advances	3,396	3,385	3,643	3,841	3,825	4,062	3,930
	Other debt liabilities	94	102	153	186	161	173	156
4.2	**Long-term, of that**	**7,623**	**6,864**	**6,601**	**6,385**	**6,122**	**6,096**	**6,045**
	Debt securities	480	441	284	282	265	355	355
	Loans	6,885	6,155	6,041	5,815	5,565	5,452	5,400
	Trade credit and advances	6	7	16	19	23	23	25
	Other debt liabilities	252	260	259	269	270	266	265
5	**DIRECT INVESTMENT: intercompany lending**	**3,651**	**3,552**	**3,433**	**3,587**	**3,726**	**3,650**	**3,705**
	NET EXTERNAL DEBT POSITION	**15,559**	**13,754**	**11,730**	**10,202**	**9,691**	**9,593**	**8,386**

Table 9.7: Balance of payments

EUR million	2015	2016	2017	17Q2	17Q3	17Q4	Feb. 18
I. Current account	**1,698**	**2,108**	**2,770**	**781**	**871**	**532**	**191**
1. Goods	**1,476**	**1,536**	**1,562**	**430**	**474**	**301**	**105**
1.1. Export of goods	**24,039**	**24,991**	**28,422**	**7,128**	**7,013**	**7,415**	**2,361**
Export f.o.b.	23,940	24,971	28,223	7,083	6,955	7,356	2,368
Coverage adjustment	-149	-194	-49	-8	-7	2	-37
Net export of goods under merchanting	231	186	229	45	61	53	30
Nonmonetary gold	17	29	20	8	3	3	0
1.2. Import of goods	**22,563**	**23,454**	**26,860**	**6,698**	**6,539**	**7,113**	**2,256**
Import c.i.f.	23,305	24,112	27,562	6,867	6,701	7,291	2,325
Coverage adjustment	-115	-5	39	14	19	20	-5
Valuation adjustment	-656	-680	-777	-194	-189	-206	-65
Nonmonetary gold	30	27	36	10	7	9	...
2. Services	**1,860**	**2,174**	**2,566**	**669**	**764**	**596**	**162**
2.1. Export of services, of that	**5,866**	**6,410**	**7,152**	**1,737**	**2,037**	**1,848**	**503**
Transport	1,672	1,854	2,104	513	530	575	183
Travel	2,098	2,190	2,389	566	847	523	138
Construction services	292	385	433	103	121	120	28
Telecomm., computer and inform. services	519	552	545	137	136	150	36
Other business services	824	929	1,202	293	289	356	87
2.2. Import of services, of that	**4,007**	**4,236**	**4,586**	**1,069**	**1,273**	**1,252**	**341**
Transport	851	922	1,027	250	247	285	77
Travel	823	854	881	194	368	170	52
Construction services	120	104	126	25	37	42	8
Telecomm., computer and inform. services	533	509	516	126	137	136	34
Other business services	1,024	1,147	1,303	310	305	412	97
3. Primary income	**-1,263**	**-1,294**	**-1,105**	**-237**	**-309**	**-340**	**-22**
3.1. Receipts	**1,345**	**1,436**	**1,487**	**386**	**319**	**344**	**168**
Compensation of employees	323	276	302	85	73	76	24
Investment	500	623	574	158	150	141	43
Other primary income	522	537	610	143	95	127	101
3.2. Expenditure	**2,608**	**2,730**	**2,592**	**624**	**627**	**683**	**190**
Compensation of employees	122	127	140	38	36	37	11
Investment	2,057	2,113	1,914	460	459	510	140
Other primary income	429	490	538	126	132	136	39
4. Secondary income	**-375**	**-309**	**-253**	**-81**	**-57**	**-26**	**-54**
4.1. Receipts	**733**	**745**	**823**	**201**	**203**	**240**	**59**
4.2. Expenditure	**1,108**	**1,054**	**1,075**	**282**	**260**	**266**	**113**

Table 9.8: Balance of payments – continued

EUR million	2015	2016	2017	17Q2	17Q3	17Q4	Feb. 18
II. Capital account	**412**	**-302**	**-228**	**-64**	**-58**	**-58**	**-14**
1. Nonproduced nofinancial assets	-37	-45	20	2	11	5	4
2. Capital transfers	449	-257	-248	-67	-69	-63	-18
III. Financial account	**1,658**	**1,129**	**1,673**	**653**	**465**	**153**	**281**
1. Direct investment	**-1,269**	**-880**	**-528**	**130**	**-213**	**-239**	**-73**
Assets	292	431	381	212	39	-30	99
Equity and reinvested earnings	178	270	53	14	39	-41	5
Debt instruments	114	161	328	198	0	11	93
Liabilities	1,560	1,311	910	82	252	209	172
Equity and reinvested earnings	1,785	1,515	833	19	255	284	79
Debt instruments	-225	-204	76	62	-3	-75	93
2. Portfolio investment	**2,929**	**5,079**	**2,941**	**522**	**659**	**2,090**	**308**
Assets	2,016	2,073	2,803	877	586	602	99
Equity and investment fund shares	116	-97	264	43	41	74	70
Debt securities	1,900	2,171	2,539	833	545	528	29
Liabilities	-914	-3,005	-138	354	-72	-1,488	-209
Equity and investment fund shares	52	48	39	15	-9	18	-4
Debt securities	-966	-3,053	-176	339	-63	-1,506	-206
3. Financial derivatives	**-98**	**-215**	**-198**	**-117**	**-25**	**17**	**4**
4. Other investment	**208**	**-2,758**	**-630**	**84**	**20**	**-1,703**	**77**
4.1. Assets	**-692**	**-2,335**	**-1,810**	**-333**	**-1,148**	**-299**	**49**
Other equity	10	0	-1	0	0	0	0
Currency and deposits	-516	-2,205	-2,422	-460	-1,292	-45	-237
Loans	-408	-203	-116	7	-39	-34	13
Insurance, pension and stand. guar. schemes	-8	10	6	-1	3	…	…
Trade credits and advances	-5	161	599	161	109	-187	133
Other assets	235	-96	124	-39	72	-34	140
4.2. Liabilities	**-900**	**423**	**-1,181**	**-417**	**-1,168**	**1,404**	**-27**
Other equity	11	4	0	0	…	0	0
Currency and deposits	-400	1,175	265	78	-393	1,416	-123
Loans	-315	-818	-1,842	-506	-690	-254	-18
Insurance, pension and stand. guar. schemes	3	-8	13	-8	2	…	…
Trade credits and advances	-100	137	412	53	-59	227	70
Other liabilities	-99	-67	-29	-34	-28	15	44
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-113**	**-97**	**89**	**33**	**25**	**-12**	**-34**
IV. Net errors and omissions	**-453**	**-677**	**-870**	**-64**	**-348**	**-320**	**104**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector								
Total	186,320	185,991	183,847	184,620	188,334	188,401	190,200	190,354
Monetary gold and SDRs	348	363	325	320	326	310	348	346
Currency and deposits	46,009	46,593	43,461	42,485	43,603	43,125	43,377	42,857
Debt securities	19,804	22,828	26,200	26,103	26,642	27,487	28,304	28,482
Loans	44,453	39,625	37,340	37,557	37,926	37,559	37,534	37,725
Shares	20,175	19,713	18,770	18,765	19,582	19,599	19,638	19,566
Other equity	23,002	23,304	23,687	24,753	24,786	24,993	25,303	25,478
Investment fund shares/units	3,642	3,879	3,981	4,049	4,269	4,248	4,368	4,540
Insurance and pension schemes	7,132	7,406	7,713	7,737	7,826	7,884	8,026	8,003
Other	21,754	22,279	22,370	22,852	23,373	23,196	23,302	23,358
Non-financial corporations								
Total	41,495	41,562	42,256	43,154	44,144	44,369	44,807	45,338
Currency and deposits	5,095	5,826	6,007	6,399	6,524	6,447	6,637	7,144
Debt securities	184	142	174	127	119	114	114	109
Loans	6,043	5,849	5,908	5,781	5,851	5,904	5,821	5,753
Shares	3,063	2,896	2,654	2,665	2,809	2,717	2,605	2,507
Other equity	11,359	11,472	11,705	12,185	12,203	12,380	12,621	12,713
Investment fund shares/units	108	99	87	52	64	63	68	67
Insurance and pension schemes	408	427	443	438	476	488	491	444
Other	15,237	14,852	15,278	15,507	16,096	16,255	16,452	16,602
Monetary financial institutions								
Total	53,206	50,657	51,286	51,929	52,962	52,971	53,596	54,397
Monetary gold and SDRs	348	363	325	320	326	310	348	346
Currency and deposits	10,358	7,560	7,325	7,168	7,204	6,283	5,910	6,249
Debt securities	13,226	15,973	18,926	18,971	19,488	20,314	21,149	21,263
Loans	27,863	25,179	23,290	24,099	24,522	24,487	24,579	24,915
Shares	666	641	559	552	531	707	716	729
Other equity	314	299	287	282	283	302	341	351
Investment fund shares/units	12	9	6	6	6	6	6	5
Insurance and pension schemes	37	38	39	38	39	41	41	40
Other	382	595	529	495	563	522	508	498
Other financial institutions								
Total	17,368	17,134	17,570	17,554	18,017	17,872	17,831	18,155
Currency and deposits	1,316	1,201	1,230	1,256	1,328	1,286	1,169	1,163
Debt securities	5,634	6,040	6,476	6,431	6,404	6,413	6,429	6,520
Loans	3,388	3,033	2,876	2,876	2,847	2,798	2,801	2,859
Shares	3,580	3,427	3,354	3,377	3,607	3,531	3,588	3,688
Other equity	640	612	647	625	618	642	634	686
Investment fund shares/units	1,918	2,001	2,103	2,140	2,248	2,213	2,267	2,354
Insurance and pension schemes	218	182	197	188	213	221	211	199
Other	675	639	687	661	753	769	734	685
General government								
Total	35,645	37,229	32,327	30,676	31,309	31,255	31,225	29,367
Currency and deposits	10,369	12,358	8,684	7,060	7,687	8,374	8,251	6,726
Debt securities	507	548	485	447	448	453	418	416
Loans	6,469	4,911	4,542	4,089	3,924	3,624	3,544	3,427
Shares	10,128	10,048	9,670	9,828	10,233	10,221	10,338	10,230
Other equity	4,904	4,856	4,853	4,906	4,889	4,835	4,918	4,915
Investment fund shares/units	206	244	233	252	270	274	284	296
Insurance and pension schemes	12	23	19	21	14	14	17	16
Other	3,049	4,241	3,842	4,073	3,843	3,459	3,455	3,342
Households and NPISHs								
Total	38,605	39,409	40,408	41,306	41,902	41,935	42,740	43,098
Currency and deposits	18,871	19,647	20,215	20,602	20,860	20,736	21,411	21,575
Debt securities	253	125	139	127	183	192	195	174
Loans	691	653	725	712	782	746	788	771
Shares	2,739	2,701	2,533	2,343	2,401	2,423	2,392	2,412
Other equity	5,785	6,066	6,196	6,755	6,794	6,834	6,789	6,813
Investment fund shares/units	1,398	1,528	1,552	1,600	1,681	1,692	1,744	1,818
Insurance and pension schemes	6,457	6,736	7,016	7,053	7,084	7,121	7,266	7,304
Other	2,412	1,953	2,033	2,115	2,117	2,191	2,154	2,231
Rest of the world								
Total	58,303	58,422	58,460	58,175	58,255	57,960	57,129	57,766
Monetary gold and SDRs	257	275	270	275	274	264	259	257
Currency and deposits	3,497	3,167	2,972	4,380	3,471	3,619	3,198	4,853
Debt securities	23,282	23,331	22,902	20,889	21,644	21,842	21,834	20,555
Loans	15,676	15,304	14,434	14,403	14,069	13,504	12,823	12,507
Shares	4,556	4,539	5,259	5,160	5,326	5,176	5,198	5,275
Other equity	5,401	6,284	6,893	7,288	7,388	7,439	7,779	7,931
Investment fund shares/units	21	25	26	25	27	27	28	29
Insurance and pension schemes	218	221	216	213	232	224	226	219
Other	5,394	5,276	5,489	5,541	5,823	5,866	5,784	6,141

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector								
Total	205,328	202,710	200,835	200,945	204,033	203,841	205,217	205,396
Monetary gold and SDRs	257	275	270	275	274	264	259	257
Currency and deposits	38,457	39,165	37,691	38,353	39,232	39,650	40,451	41,411
Debt securities	33,538	34,824	36,322	33,513	34,128	34,456	34,702	33,041
Loans	54,637	49,917	46,663	47,048	47,220	46,268	45,666	45,654
Shares	22,274	21,615	21,532	21,359	22,151	21,877	21,849	21,781
Other equity	25,395	26,608	27,589	29,083	29,298	29,512	30,123	30,463
Investment fund shares/units	2,143	2,303	2,315	2,374	2,481	2,443	2,517	2,572
Insurance and pension schemes	7,209	7,498	7,790	7,810	7,914	7,964	8,105	8,074
Other	21,419	20,506	20,662	21,130	21,335	21,406	21,545	22,144
Non-financial corporations								
Total	81,769	78,467	78,210	78,943	79,956	79,683	79,926	80,517
Debt securities	1,088	1,179	1,376	955	1,015	1,045	1,023	1,010
Loans	28,608	25,175	24,110	23,611	23,722	23,399	23,229	22,719
Shares	14,233	13,421	13,119	12,762	13,253	13,125	12,847	12,810
Other equity	23,013	24,039	24,928	26,319	26,513	26,725	27,371	27,583
Other	14,827	14,654	14,676	15,297	15,452	15,389	15,456	16,395
Monetary financial institutions								
Total	48,917	47,006	48,277	49,224	50,442	50,400	50,974	51,935
Monetary gold and SDRs	257	275	270	275	274	264	259	257
Currency and deposits	34,122	34,012	36,579	37,528	38,390	38,809	39,608	40,521
Debt securities	1,666	1,149	800	801	781	675	392	377
Loans	7,073	5,574	4,333	4,330	4,564	4,393	4,349	4,349
Shares	4,399	4,539	4,721	4,724	4,791	4,662	4,777	4,875
Other equity	945	1,005	1,090	1,091	1,108	1,103	1,122	1,104
Investment fund shares/units	37	56	81	99	65	74	80	55
Other	419	396	403	375	469	421	387	397
Other financial institutions								
Total	17,540	17,001	16,873	16,848	17,359	17,223	17,344	17,508
Debt securities	136	73	121	118	121	128	128	113
Loans	4,453	3,678	3,063	2,924	2,870	2,837	2,715	2,664
Shares	2,174	2,093	2,143	2,154	2,360	2,285	2,388	2,463
Other equity	947	964	1,049	1,137	1,143	1,145	1,092	1,225
Investment fund shares/units	2,106	2,247	2,234	2,275	2,416	2,369	2,438	2,518
Insurance and pension schemes	7,209	7,498	7,790	7,810	7,914	7,964	8,105	8,074
Other	516	448	475	431	536	495	478	449
General government								
Total	44,791	47,929	44,903	43,181	43,390	43,469	43,584	41,998
Currency and deposits	4,335	5,152	1,112	825	842	841	843	890
Debt securities	30,647	32,423	34,025	31,639	32,211	32,608	33,159	31,540
Loans	3,867	4,762	4,326	5,144	4,860	4,262	3,805	4,228
Shares	1,469	1,562	1,550	1,719	1,747	1,805	1,838	1,633
Other equity	491	600	522	537	533	540	538	550
Other	3,983	3,430	3,368	3,317	3,196	3,414	3,401	3,158
Households and NPISHs								
Total	12,311	12,306	12,571	12,748	12,886	13,066	13,389	13,437
Loans	10,637	10,728	10,832	11,039	11,203	11,378	11,567	11,693
Other	1,674	1,578	1,739	1,709	1,683	1,688	1,821	1,744
Rest of the world								
Total	39,295	41,702	41,472	41,850	42,555	42,521	42,112	42,725
Monetary gold and SDRs	348	363	324	319	325	310	348	345
Currency and deposits	11,050	10,595	8,742	8,512	7,842	7,094	6,124	6,300
Debt securities	9,548	11,335	12,779	13,479	14,158	14,872	15,436	15,996
Loans	5,492	5,012	5,110	4,912	4,776	4,795	4,691	4,578
Shares	2,457	2,637	2,497	2,566	2,757	2,899	2,987	3,060
Other equity	3,008	2,981	2,992	2,957	2,877	2,920	2,959	2,947
Investment fund shares/units	1,520	1,602	1,692	1,700	1,815	1,831	1,879	1,996
Insurance and pension schemes	141	129	140	141	145	144	148	148
Other	5,730	7,049	7,196	7,263	7,861	7,656	7,541	7,355

Table 9.11: Net financial assets

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector	-19,008	-16,719	-16,987	-16,325	-15,699	-15,439	-15,017	-15,042
Non-financial corporations	-40,273	-36,906	-35,954	-35,789	-35,812	-35,314	-35,118	-35,179
Monetary financial institutions	4,289	3,651	3,009	2,706	2,520	2,571	2,622	2,462
Other financial institutions	-172	133	696	706	658	649	487	647
General government	-9,147	-10,700	-12,576	-12,506	-12,082	-12,214	-12,359	-12,632
Households and NPISHs	26,294	27,103	27,837	28,558	29,017	28,870	29,351	29,660
Rest of the world	19,009	16,719	16,988	16,325	15,700	15,439	15,017	15,042

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

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector								
Total	3,733	984	-2,708	-1,814	2,608	4,540	5,286	5,385
Monetary gold and SDRs	12	0	-56	-56	0	0	43	43
Currency and deposits	8,795	470	-3,268	-4,118	-625	-57	6	547
Debt securities	646	3,086	3,485	2,863	2,648	2,834	2,395	2,369
Loans	-4,658	-3,120	-2,010	-707	-340	697	1,132	923
Shares	-824	181	-513	-353	-81	216	263	92
Other equity	201	474	311	492	479	288	109	61
Investment fund shares/units	152	167	50	2	37	83	142	242
Insurance and pension schemes	182	178	137	138	128	109	152	146
Other	-773	-453	-844	-75	362	370	1,044	963
Non-financial corporations								
Total	-347	377	-29	1,114	1,483	1,662	2,153	2,029
Currency and deposits	456	744	536	575	668	602	630	769
Debt securities	-14	-36	15	-6	-37	-45	-47	-18
Loans	75	-192	-176	-187	-365	-4	-88	-64
Shares	-337	103	50	-13	33	59	124	73
Other equity	-100	294	218	453	464	267	231	136
Investment fund shares/units	-1	-3	-8	-28	-20	-19	-13	3
Insurance and pension schemes	24	23	-20	2	-10	10	31	6
Other	-451	-556	-645	319	750	793	1,284	1,125
Monetary financial institutions								
Total	-1,546	-1,797	2,094	2,542	3,400	3,686	2,822	2,840
Monetary gold and SDRs	12	0	-56	-56	0	0	43	43
Currency and deposits	2,936	-2,849	-361	-373	-23	-539	-1,358	-821
Debt securities	791	2,764	3,524	2,847	2,705	2,832	2,526	2,403
Loans	-5,251	-2,052	-886	303	817	1,511	1,680	1,263
Shares	-208	141	-74	-91	-61	-25	-23	-24
Other equity	155	14	35	56	38	36	61	46
Investment fund shares/units	-4	-2	-2	-2	-1	0	-1	-1
Insurance and pension schemes	2	1	0	0	1	2	2	2
Other	22	185	-87	-140	-74	-130	-108	-71
Other financial institutions								
Total	-116	35	-49	-63	-2	-16	-104	92
Currency and deposits	158	-133	-34	61	-9	41	-56	-92
Debt securities	100	313	221	157	84	74	-35	10
Loans	-304	-192	-171	-203	-197	-221	-81	29
Shares	-79	49	-104	-59	99	61	48	44
Other equity	26	15	10	-35	-28	-26	-46	-9
Investment fund shares/units	59	31	38	28	24	14	41	105
Insurance and pension schemes	15	-34	-7	12	7	16	13	11
Other	-91	-14	-2	-24	17	26	13	-7
General government								
Total	4,964	1,405	-5,865	-6,534	-3,625	-1,764	-923	-828
Currency and deposits	4,356	1,936	-4,333	-5,331	-2,338	-844	-419	-318
Debt securities	-131	58	-234	-112	-93	-43	-54	-26
Loans	821	-666	-784	-655	-620	-564	-401	-323
Shares	-123	-69	-315	-57	-69	193	195	1
Other equity	93	113	13	-12	-35	-35	-33	-5
Investment fund shares/units	16	26	-16	-10	-5	11	27	23
Insurance and pension schemes	2	0	-13	-1	-5	-2	5	0
Other	-71	7	-184	-356	-460	-480	-242	-180
Households and NPISHs								
Total	778	964	1,141	1,127	1,352	971	1,337	1,251
Currency and deposits	889	771	924	950	1,077	683	1,209	1,009
Debt securities	-99	-13	-42	-22	-11	16	4	-1
Loans	1	-17	7	35	25	-25	22	18
Shares	-77	-44	-71	-132	-83	-72	-81	-2
Other equity	27	38	35	30	40	46	-104	-107
Investment fund shares/units	83	116	38	14	39	78	89	111
Insurance and pension schemes	138	188	176	126	135	83	101	127
Other	-183	-76	73	125	129	162	97	96
Rest of the world								
Total	3,384	-426	-1,607	-1,359	-1,221	-401	-397	-48
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-805	-350	-24	1,198	-252	176	244	509
Debt securities	4,444	-999	-1,645	-2,885	-1,616	-474	-314	45
Loans	-1,142	-595	-1,249	-1,019	-939	-1,284	-1,650	-2,052
Shares	1,040	335	718	619	491	281	224	256
Other equity	-51	1,377	852	775	826	711	707	583
Investment fund shares/units	-11	3	1	0	0	-2	-2	-1
Insurance and pension schemes	-54	3	-2	-8	0	-20	10	5
Other	-38	-200	-258	-38	267	211	382	607

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

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector								
Total	1,682	-744	-3,635	-2,685	1,618	3,511	3,885	3,920
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,170	637	-812	-822	1,635	2,777	2,813	3,181
Debt securities	4,602	338	-174	-1,971	-1,184	-412	-769	-152
Loans	-5,735	-3,442	-3,241	-1,628	-1,027	-420	-228	-985
Shares	172	246	234	359	348	396	373	218
Other equity	102	1,883	1,132	1,149	1,197	859	711	625
Investment fund shares/units	39	142	3	-1	24	16	43	29
Insurance and pension schemes	121	189	128	120	123	86	156	146
Other	-789	-737	-905	108	500	208	785	858
Non-financial corporations								
Total	-2,345	-1,061	-572	487	926	662	1,204	1,350
Debt securities	288	83	174	-227	-218	-275	-314	93
Loans	-1,971	-2,407	-1,622	-777	-785	-340	-126	-562
Shares	54	152	188	139	138	186	163	212
Other equity	171	1,466	1,080	1,081	1,127	797	717	628
Other	-887	-354	-392	272	665	293	763	980
Monetary financial institutions								
Total	-2,320	-2,282	1,922	2,291	3,177	3,549	2,616	2,655
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	1,002	-146	3,402	3,508	3,689	3,771	3,075	3,101
Debt securities	14	-525	-417	-339	-56	-153	-402	-418
Loans	-3,367	-1,536	-1,006	-826	-399	38	21	27
Shares	114	44	24	17	6	5	4	4
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	0	19	20	43	-1	8	-1	-44
Other	-82	-138	-100	-112	-63	-119	-81	-15
Other financial institutions								
Total	-635	73	-117	-189	-115	-188	-131	-19
Debt securities	1	-72	24	42	41	-1	3	-8
Loans	-694	-461	-309	-348	-380	-300	-334	-251
Shares	3	51	22	4	5	5	7	2
Other equity	-68	305	48	67	68	62	-6	-3
Investment fund shares/units	39	123	-17	-44	26	8	45	74
Insurance and pension schemes	121	189	128	120	123	86	156	146
Other	-36	-62	-13	-30	2	-49	-2	22
General government								
Total	7,053	2,509	-5,182	-5,782	-3,042	-1,337	-684	-818
Currency and deposits	2,168	783	-4,213	-4,330	-2,054	-994	-262	80
Debt securities	4,299	851	45	-1,446	-951	17	-57	181
Loans	401	875	-565	-103	-53	-531	-597	-918
Shares	0	0	0	200	200	200	200	0
Other equity	0	112	3	2	2	1	0	0
Other	184	-112	-452	-105	-186	-29	33	-161
Households and NPISHs								
Total	-71	17	314	509	672	825	880	750
Loans	-103	87	260	426	590	713	808	718
Other	32	-70	54	83	82	113	72	32
Rest of the world								
Total	5,435	1,301	-680	-488	-230	628	1,003	1,417
Monetary gold and SDRs	12	0	-56	-56	0	0	43	43
Currency and deposits	4,821	-517	-2,479	-2,098	-2,512	-2,658	-2,563	-2,125
Debt securities	488	1,749	2,014	1,949	2,216	2,772	2,850	2,565
Loans	-65	-274	-18	-98	-252	-167	-290	-144
Shares	44	270	-29	-93	62	100	114	129
Other equity	48	-32	31	117	108	140	105	18
Investment fund shares/units	102	28	48	2	13	65	97	211
Insurance and pension schemes	8	-8	7	10	6	3	6	5
Other	-23	85	-198	-221	129	373	642	712

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

EUR million	2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Domestic sector	2,051	1,728	927	871	990	1,028	1,400	1,465
Non-financial corporations	1,998	1,437	543	628	557	1,001	949	679
Monetary financial institutions	775	485	172	250	223	137	206	185
Other financial institutions	519	-38	69	126	113	173	27	111
General government	-2,089	-1,104	-683	-752	-583	-427	-239	-10
Households and NPISHs	849	947	826	618	680	146	457	501
Rest of the world	-2,051	-1,728	-927	-871	-990	-1,028	-1,400	-1,465

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.