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Executive Summary

The economic recovery in the euro area has lost momentum in the autumn, as a result of the growing deterioration in the epidemiological situation. *After rising between May and July, the PMI slid to 50.4 points in September, while the survey assessments of future demand by firms in trade and other services also declined.The adverse impact on economic activity from the tightening containment measures, which is already being reflected in services, will be even larger in the coming months due to accelerated spreading of the virus. Amid a further downturn on the labour market, the declining confidence of consumers and firms will depress domestic demand, which is likely to make the losses in the euro area economy more pronounced and longer-lived than anticipated in the current forecasts, while deflationary pressures will also increase.*

The crisis in the euro area would be significantly deeper without the countercyclical response from economic policy, the like of which is unprecedented in peacetime. *The fiscal response from euro area countries has been profound: the European Commission has estimated the increase in their general government expenditure at close to EUR 540 billion. At the same time the Eurosystem had injected close to EUR 2,000 billion of additional liquidity into the economy by 25 September of this year via its longer-term refinancing operations and extensive asset purchases, while the European Commission's new multiannual financial framework and the Next Generation EU instrument worth more than EUR 1,800 billion are in the process of being approved. A significant portion of the EU funding will go into investment to mitigate climate change. According to some estimates, the economic restrictions during the coronavirus crisis may have reduced this year's global greenhouse gas emissions by 4% to 7%; the UN estimates that an annual reduction of 7.6% would be needed between 2020 and 2030 to limit the temperature rise to 1.5°C this century.*

The domestic economy continued its rapid recovery in the third quarter, which began immediately after the weakening of the first wave of infections in May, but the outlook has deteriorated sharply again in recent weeks. *The indicators of economic activity for July and August and the survey indicators for September suggest continuing growth in the majority of sectors, and this is confirmed by the econometric estimates of GDP trends. Amid the strong economic policy measures, the response from economic entities to this year's coronavirus crisis going into the autumn was different to the previous crisis: households did not refrain from purchases of durables over the longer term, and firms built up their inventories. At the same time the private sector's financial position remained favourable: there was only a small decline in household disposable income in real terms, while the operating surplus in the corporate sector actually increased slightly amid large government subsidies, and both sectors sharply increased their net saving. However the health picture took a sharp downturn, and with it the outlook for further recovery. The most vulnerable sectors will again be services where direct contact between the provider and customer is essential, while the rising uncertainty will only further delay firms in their investment decisions. This is reducing the probability of the realisation of the baseline scenario from Bank of Slovenia's June economic growth projections.*

The situation on the labour market remained solid as far as September, given the decline in GDP and the high uncertainty. *The monthly falls in employment almost came to a complete stop over the summer, while unemployment also underwent a sustained fall after peaking in May. Registered unemployment stood at 84,000 at the end of September, only 6,000 more than before the declaration of the epidemic, although it is highly likely to rise towards the end of the year. Because the emergency measures prevented most of the contraction in GDP from being transmitted to the labour market, the year-on-year decline of 15.8% in the number of hours worked is perhaps a more pertinent indicator of the situation in the second quarter of this year, rather than the fall in employment of just 1.9%. Firms' survey assessments of employment expectations were mostly positive in September, and were not yet reflecting the deterioration in the epidemiological situation. The impact of the new crisis has so far mainly been felt most acutely by younger generations and workers in precarious employment. Growth in the average monthly wage remains high relative to the level of economic activity, but for methodological reasons it is not reflecting the full developments in employees' purchasing power.*

The situation seems worse in foreign trade than on the domestic market as the recovery stalled over the summer. *Exports of numerous categories of goods stopped growing, while the structure of the year-on-year decline in merchandise imports is indicative of an output gap in manufacturing, in addition to price effects. The restrictions on travel and the changes in people's behaviour are even more of a hindrance to the recovery in services trade. The year-on-year falls in exports of travel services and transport services remained pronounced over the summer months. The loss of export revenues in the two segments had passed EUR 1,240 million by August of this year. Given the rising number of coronavirus cases in Europe in recent weeks, the outlook is deteriorating: Slovenia is already one of the euro area countries where the fall in services exports is a major factor in this year's decline in GDP. The 12-month current account surplus remains close to a record high of EUR 3 billion, even after revision. This might indicate weakness in domestic demand, but equally might also indicate the economy's high capacity to service its external debt and to maintain its external competitiveness. With regard to the latter, it should be noted that amid otherwise relatively favourable price developments, it could soon come under rising pressure from unit labour costs, which are already far removed from the euro area and EU averages.*

Deflation continued in September. *The largest factor in the year-on-year fall in prices of 0.7% was again a fall in prices of refined petroleum products, which have been maintained at low levels in recent months by a countercyclical excise duty policy. In the wake of slower growth in global prices of food commodities, food price inflation has also slowed since May, but nevertheless remains high, primarily on account of year-on-year rises in prices of fresh fruit. There are also domestic deflationary pressures in the form of weaker private consumption and diminishing utilisation of production capacity, which are reducing core inflation, which in the environment of weak demand is yet to feel any impact from rising unit labour costs. Core inflation stood at just 0.3% in September, service price inflation having fallen sharply this year. The euro area saw deflation of 0.3% in September, with core inflation at just 0.2%, as inflation was further reduced by countercyclical tax measures, most notably in Germany from the perspective of the impact on the aggregate figure. Price developments over the remainder of the year remain highly uncertain, given the spread of the pandemic and the resulting tightening of containment measures, and the chances of continuing deflation are substantial. Price measurement and inflation analysis will also be hindered, at least in part.*

The pandemic is having a huge impact on the public finances, and future fiscal developments are subject to numerous risks and uncertainties. *The general government deficit in the first half of this year amounted to 11.0% of GDP. General government revenues declined by slightly more than nominal GDP, while growth in general government expenditure was high, largely as a result of the measures under the anti-coronavirus laws. The general government debt amounted to 78.2% of GDP at the end of June, up 12.6 percentage points on the end of last year. The terms of borrowing remained favourable, thanks to the highly accommodative monetary policy, and also the solidity of Slovenia's macroeconomic position compared with many euro area countries, which is also a positive factor in its sovereign credit rating. The Ministry of Finance is forecasting a general government deficit of 8.6% of GDP for this year, with only a gradual reduction in the following years. The ratio of government debt to GDP is also expected to decline slowly: according to current estimates, the debt is forecast to reach 82.4% of GDP by the end of the year. Whether additional measures are needed to support the economy, and how long the fiscal consolidation will take, will depend on the epidemiological picture and the resulting economic situation.*

Main macroeconomic indicators

	2017	2018	2019	19Q4	20Q1	20Q2	2017	2018	2019	19Q4	20Q1	20Q2
			Slovenia						*euro area*			
Economic developments					*y-o-y growth rates in %*							
GDP	4.8	4.4	3.2	2.0	-2.4	-13.1	2.6	1.8	1.3	0.9	-3.0	-14.9
- industry	7.0	2.9	6.1	5.0	-0.9	-16.0	3.4	1.6	-1.0	-1.7	-4.8	-18.4
- construction	7.1	8.1	7.1	2.0	1.6	-9.8	2.6	2.8	3.1	1.2	-2.0	-14.7
- mainly public sector services	1.9	1.8	1.5	0.9	0.0	-4.1	1.1	1.0	1.1	1.0	-1.3	-8.5
- mainly private sector services	5.7	4.8	3.8	2.0	-1.4	-14.5	3.0	2.1	1.3	0.8	-3.0	-16.0
Domestic expenditure	3.9	5.0	3.4	1.0	-3.4	-12.8	2.3	1.8	1.9	1.3	-1.6	-14.2
- general government	0.4	3.0	1.7	-0.3	4.2	-0.9	1.1	1.1	1.8	1.8	0.8	-2.5
- households and NPISH	1.9	3.6	4.8	2.3	-6.4	-17.4	1.8	1.5	1.3	1.2	-3.6	-16.0
- gross capital formation	13.6	10.3	1.5	-1.3	-3.0	-12.1	5.0	3.2	3.4	1.1	1.3	-20.4
- gross fixed capital formation	10.2	9.6	5.8	-1.2	-5.4	-16.5	3.8	3.1	5.7	4.6	1.8	-20.9
- inventories and valuables, contr. to GDP growth in pp	0.8	0.3	-0.9	0.0	0.4	0.9	0.3	0.0	-0.5	-0.8	-0.1	0.1
Labour market												
Employment	3.0	3.2	2.5	1.8	1.2	-1.9	1.6	1.5	1.2	1.1	0.4	-3.1
- mainly private sector services	3.1	3.4	2.6	1.8	1.0	-2.7	1.8	1.6	1.2	1.0	0.2	-4.2
- mainly public sector services	2.5	2.2	1.8	1.9	2.1	1.8	1.1	1.2	1.5	1.5	1.2	0.3
Labour costs per employee	3.0	3.9	4.9	4.1	3.1	-1.8	1.7	2.2	1.9	1.5	0.6	-4.5
- mainly private sector services	3.0	4.1	4.5	3.5	2.7	-5.3	1.7	2.3	1.8	1.3	-0.1	-6.8
- mainly public sector services	3.1	3.3	6.6	6.6	6.1	6.6	1.9	2.0	2.2	2.1	2.5	1.1
Unit labour costs, nominal*	1.2	2.8	4.2	3.9	6.9	11.0	0.7	1.9	1.9	1.8	4.2	8.6
Unit labour costs, real**	-0.3	0.6	1.9	1.5	4.1	8.5	-0.4	0.5	0.1	-0.1	2.2	6.1
						in %						
LFS unemployment rate	6.6	5.1	4.5	4.0	4.6	5.2	9.1	8.2	7.6	7.4	7.5	7.3
Foreign trade					*y-o-y growth rates in %*							
Current account balance as % of GDP***	6.2	5.8	5.6	5.6	5.9	5.9	3.1	2.9	2.3	2.3	2.0	2.2
External trade balance as contr. to GDP growth in pp	1.2	-0.2	0.1	1.1	0.7	-1.5	0.4	0.2	-0.5	-0.4	-1.5	-1.1
Real export of goods and services	11.1	6.3	4.1	1.1	-0.9	-23.5	5.5	3.6	2.5	1.9	-2.9	-21.7
Real import of goods and services	10.7	7.2	4.4	-0.3	-1.9	-24.4	5.1	3.6	4.0	3.0	0.2	-20.8
Financing						*in % of GDP*						
Banking system's balance sheet	93.9	88.4	88.0	88.0	90.0	95.0	260.3	256.3	261.2	261.2	280.2	295.5
Loans to NFCs	21.8	20.6	19.9	19.9	20.2	20.7	36.9	36.4	36.1	36.1	36.6	39.4
Loans to households	21.5	21.7	22.0	22.0	22.0	22.4	49.3	49.0	49.2	49.2	49.6	51.4
Inflation						*in %*						
HICP	1.6	1.9	1.7	1.6	1.6	-1.2	1.5	1.8	1.2	1.0	1.1	0.2
HICP excl. energy, food, alcohol and tobacco	0.7	1.0	1.9	1.9	1.6	0.6	1.0	1.0	1.0	1.2	1.1	0.9
Public finance						*in % of GDP*						
Debt of the general government	74.1	70.3	65.6	65.6	69.0	78.2	87.6	85.7	84.0	84.0	86.2	...
One year net lending/net borrowing of the general government***	0.0	0.7	0.5	0.5	-0.8	-4.7	-1.0	-0.5	-0.6	-0.6	-1.0	...
*- interest payment****	2.5	2.0	1.7	1.7	1.7	1.7	1.9	1.8	1.6	1.6	1.6	...
*- primary balance****	2.5	2.7	2.2	2.2	0.9	-3.0	1.0	1.4	1.0	1.0	0.6	...

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

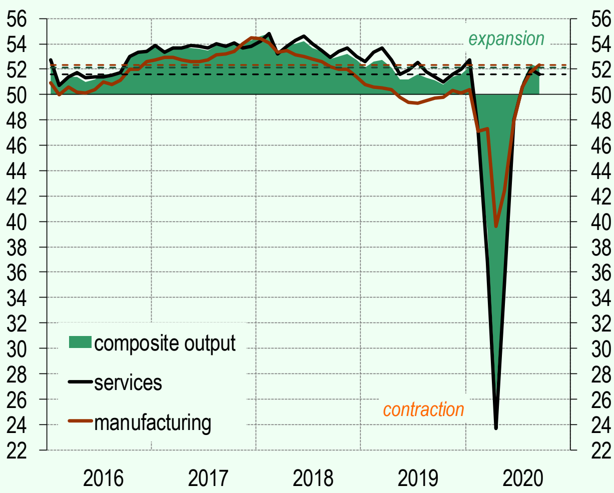
1 International Environment

This situation in the global economy was still improving in September, although certain high-frequency indicators are already confirming international institutions' expectations of an uneven recovery. Most notably, the composite PMI for the US remains at a high level, and in September was again close to the 17-month high that it recorded in August. This was primarily attributable to a sharp increase in activity in the service sector, which according to the PMI in August and September recorded its strongest performance since March 2019. By contrast, the economic recovery in the euro area has lost momentum in the autumn, amid the growing deterioration in the epidemiological situation. This is being reflected in a slide in certain short-term indicators: the composite PMI declined for the second consecutive month in September, to 50.4 points, while the survey assessments of future demand by firms in services and trade also declined. The adverse impact on economic activity in the euro area from the tightening of containment measures was already being reflected in September in a deterioration in services activity, which was evidenced by the PMI, which slid below the 50 mark. The adverse impact will be even larger over the coming months, which will further weaken the situation on the labour market. The decline in confidence among firms and consumers and the supply-side limitations will lead to a renewed contraction in domestic demand, which will make the losses in the euro area economy larger and longer-lived.

High-frequency indicators of economic activity in September

Developments in the global economy remained relatively good in September. An indication of the improvement in the global economic situation comes from the composite PMI, which declined to 52.1 points in September, down from 52.4 points in August, its highest value since March 2019, but remained above last year's value. There is a particular notable increase in manufacturing activity, where the PMI in September reached its highest level in more than two years, as global manufacturing output remained close to the 28-month high recorded in August.[1] The situation in services also remains favourable for now: the PMI in August and September remai-

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



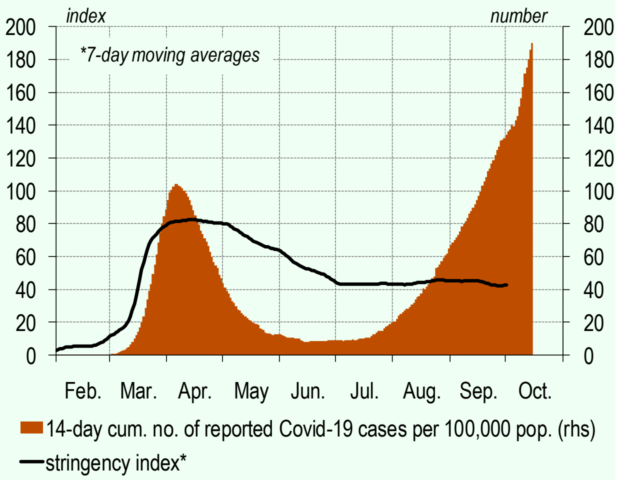
Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

[1] The figure relates to a component of the composite PMI, and illustrates manufacturing output.

ned close to the values recorded before the Covid-19 pandemic. There are signs of an uneven recovery in different countries: judging by the PMI, there were increases in activity in September in the US,[2] the UK, Brazil and Russia of the major economies, while economic activity continued to contract in Japan for the eighth consecutive month.[3] The new wave of the epidemic is expected to see the economic situation deteriorate towards the end of the year, which will hinder the economic recovery in 2021.

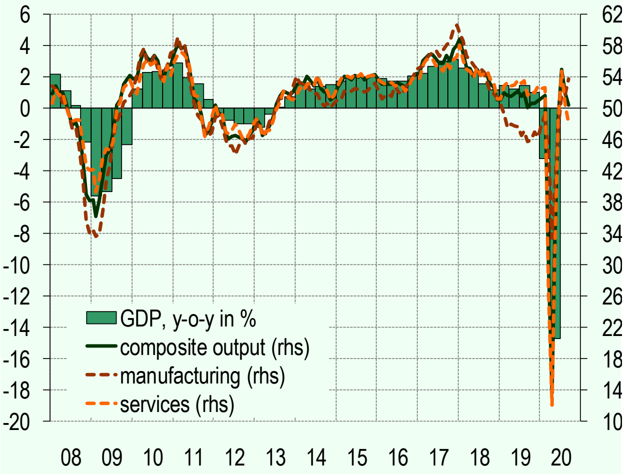
The euro area recovery is losing momentum because of the deterioration in the epidemiological picture. Despite a pronounced rise in the number of cases over the last two months, containment measures have been less stringent than in the spring, and the impact on the euro area economy has therefore been significantly smaller, but it has already been reflected in a decline in certain high-frequency indicators. After reaching its highest level in more than two years in July, the composite PMI declined to 51.9 points in August as the number of cases

Figure 1.2: Number of reported Covid-19 cases and stringency index – euro area



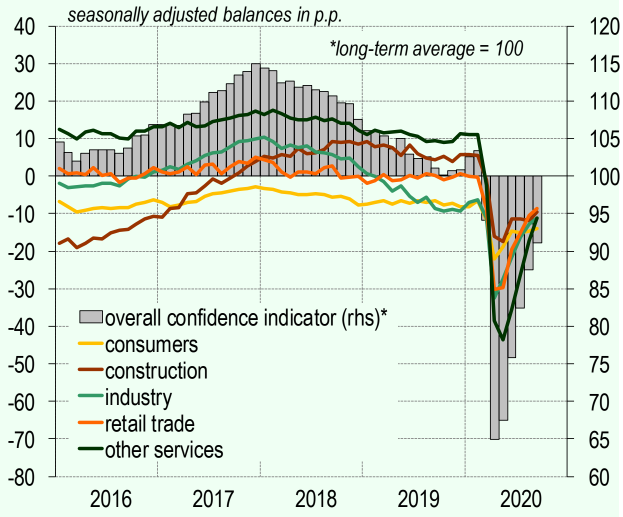
Source: Oxford COVID-19 Government Response Tracker, Eurostat, Bank of Slovenia calculations.

Figure 1.3: Purchasing Managers' Index (PMI) and GDP growth in the euro area



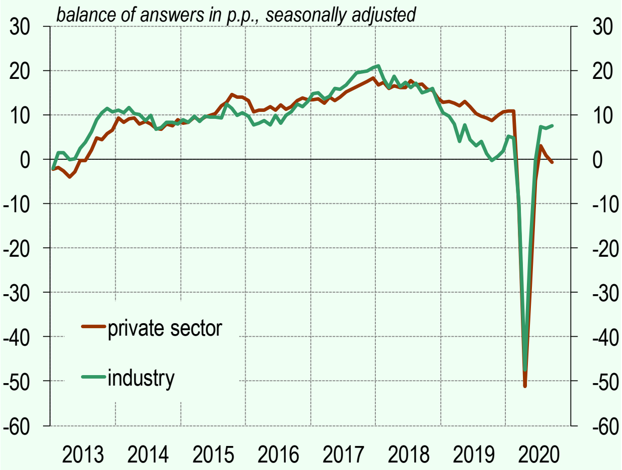
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit, Eurostat, Bank of Slovenia calculations.

Figure 1.4: Confidence indicators in the euro area



Source: Eurostat.

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



Note: The measure is calculated by taking into account value added shares. Included are companies in retail trade, other private services and industry.
Source: Eurostat, Bank of Slovenia calculations.

[2] In contrast to the euro area, growth in services activity in the US outpaced manufacturing activity in August and September. The manufacturing PMI rose in September for the fifth consecutive month, reaching its highest level since the beginning of 2019, while the services PMI declined slightly to 54.6 points, although it remained close to its 17-month high recorded in August (55.0 points).

[3] According to the available figures, the recovery is also uneven between euro area countries: judging by the PMI, economic activity increased in Germany and Italy, but slowed in France and Spain.

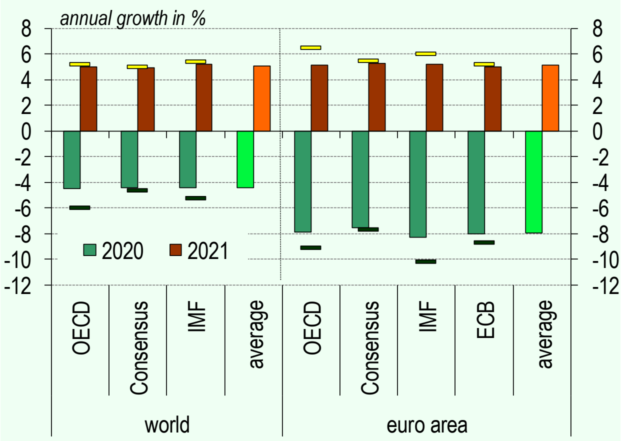
began to rise, before sliding to 50.4 points in September, which is nevertheless above its level of last year. There was a sharp downturn in services, where the PMI slid to 48.0 points in September after holding above the 50 mark in July and August, which is its lowest value since May of this year, and is already indicative of a decline in domestic demand. By contrast, growth in manufacturing activity picked up pace strongly amid a sharp increase in new orders, to hit its highest level of the last two years, at least according to the PMI. September also saw the fifth consecutive monthly rise in the economic sentiment in the euro area, in all sectors and among consumers, although it remained below its long-term average. The downturn in the epidemiological picture is already being reflected in a decline in firms' demand expectations for the next three months,[4] and a more pronounced deterioration can be expected in the October figures.

Economic forecasts

The economic forecasts for 2020 have improved slightly, but still point to a profound health and economic crisis. The chances of their realisation, at least for the euro area, are being sharply reduced by the epidemiological picture. Because the decline in economic activity in the first half of this year was smaller than originally feared, international institutions have revised their economic forecasts for 2020 upwards. They note that the situation is extremely uncertain, and the ongoing economic recovery will depend primarily on the evolution of the epidemic and its impact on confidence, and on the effectiveness of expansionary economic policy measures to alleviate the impact of the containment measures. According to the latest forecasts of the IMF (released on 13 October) and the OECD (released on 16 September), global GDP is expected to decline by 4.4% or 4.5% this year respectively, respectively 0.8 percentage points and 1.5 percentage points less than previously forecast. The OECD raised its growth forecasts for this year for the US and China in particular, and lowered its forecast for India.

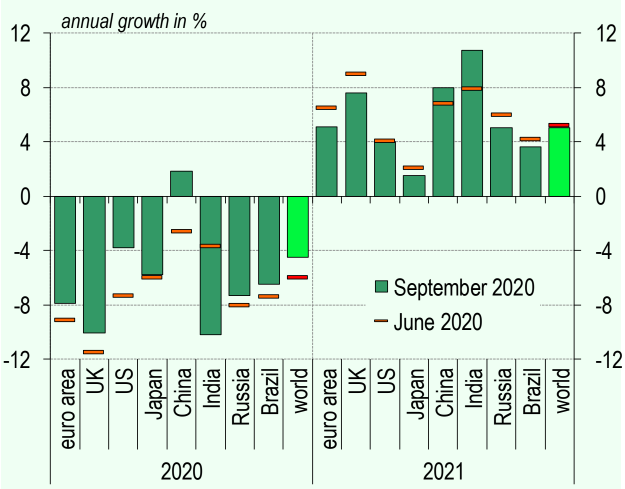
Among the major global economies, China is the sole country that will see growth this year, in the amount of 1.8%, largely thanks to its quick and successful containment of the virus. The decline in economic activity in the euro area is expected to be slightly smaller than previously forecast, albeit still at record levels. Euro area GDP is forecast to decline by between 7.9% (OECD) and 8.3% (IMF).[5] Consensus' economic forecasts for Slovenia's main trading partners have also stabilised over recent months, although the likelihood of downward revisions has increased towards the end of the year.

Figure 1.6: GDP growth forecasts for 2020 and 2021



Note: The dashes represent previous forecasts. Included forecasts are the following: OECD (published on 10 June and 16 September 2020), Consensus (17 September and 15 October), IMF (24 June and 13 October) and ECB (4 June and 10 September).
Source: OECD, Consensus, IMF, ECB.

Figure 1.7: OECD GDP growth forecasts* in major developed countries outside the euro area and BRIC

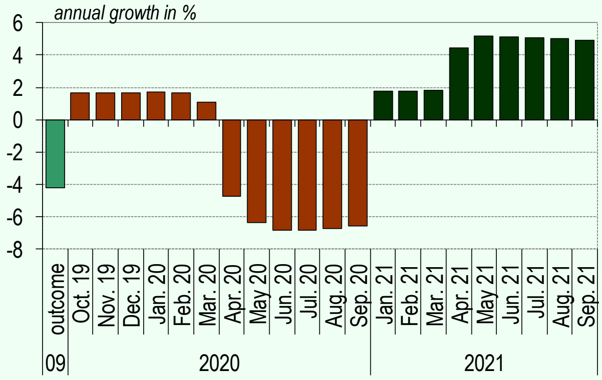


*Note: *Baseline scenario.*
Source: OECD Economic Outlook.

[4] Figure 1.5 illustrates the weighted indicator of firms' demand expectations in private-sector services and manufacturing. Its decline in September was driven by a decline in the indicator for private-sector services; the indicator for manufacturing rose to its highest level since May 2019.

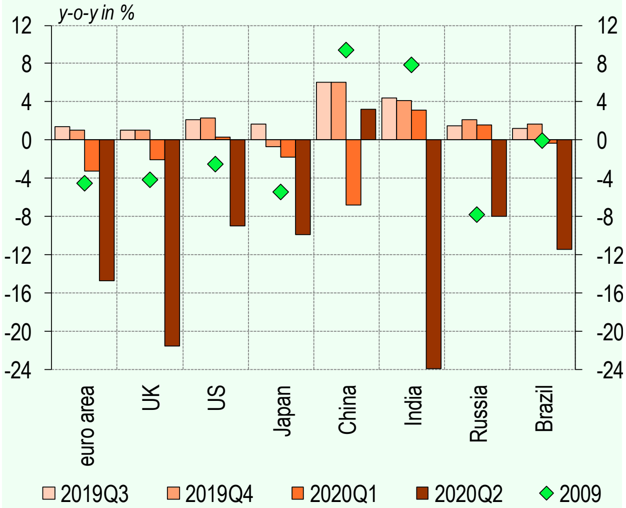
[5] The ECB revised its June forecast upwards by 0.7 percentage points; its latest forecast released on 10 September is predicting a decline of 8.0% in euro area GDP.

Figure 1.8: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2020 and 2021



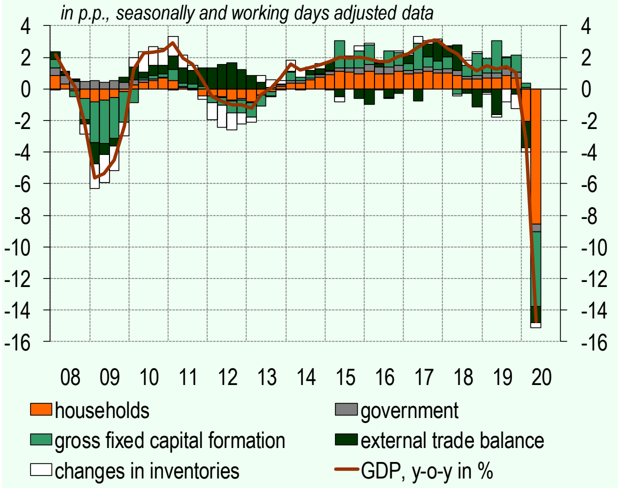
Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (September 2019 – August 2020; 21 trading partners with a total share of 85.5%) and all the other countries as a difference of up to 100%. The growth forecasts for 2020 and 2021 are weighted with the share of each country in the total exports of Slovenia, for other countries the global forecasts is used. For 2009 the weighted outcome is shown.
Source: SORS, Consensus, World Bank, Fred, Bank of Slovenia calculations.

Figure 1.9: Economic growth in major developed countries outside the euro area and BRIC



Source: IMF, Tradingeconomics, World Bank.

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



Source: Eurostat, Bank of Slovenia calculations.

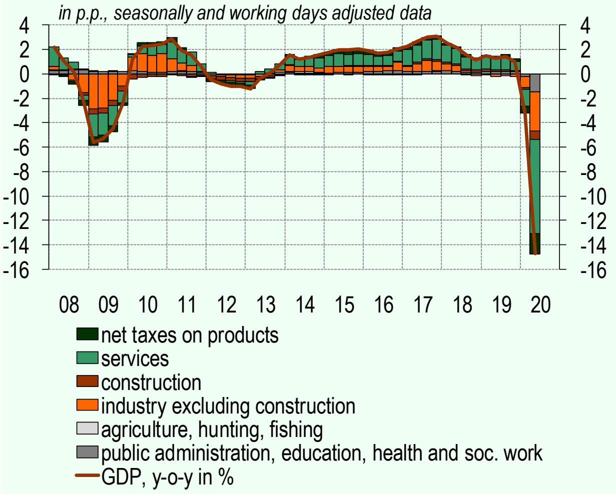
Economic developments in the second quarter of 2020

The global recession deepened in the second quarter of this year. Although the crisis caused by the Covid-19 pandemic hit global economies in different ways, primarily on account of differences in the duration and scope of the containment measures, all economies recorded deep falls in GDP in the second quarter. The exception was China, which had begun relaxing containment measures by late March. China's GDP was up 3.2% in year-on-year terms, thereby reaching its level from before the outbreak of the virus. Of the major global economies, the largest year-on-year declines in activity (and record declines at that) were seen in India (23.9%), which introduced the most stringent measures, and in the UK (21.5%). There were also pronounced declines in the euro area and Brazil, while the smallest decline in GDP, other than in Russia, was recorded by the US. It stood at 9.0%, 5.1 percentage points more than at the height of the crisis of 2009.

The Covid-19 pandemic has left the euro area facing its deepest recession to date. Euro area GDP in the first half of the year was down 9.0% in year-on-year terms, according to seasonally and calendar adjusted figures. In the second quarter it was down 11.8% in quarterly terms and 14.7% in year-on-year terms, 9.1 percentage points more than in the crisis of 2009. The year-on-year decline in GDP was largely driven by a decline of 15.9% in private consumption, which was hit by the closure of shops providing non-essential goods and services. Gross fixed capital formation was also a major factor in the decline in GDP, driven primarily by a sharp decline in investment in machinery and equipment. The main factor on the output side was a decline in value-added in services where direct contact between the provider and the consumer is essential.[6] The year-on-year decline in value-added in services stood at 15.6% in the

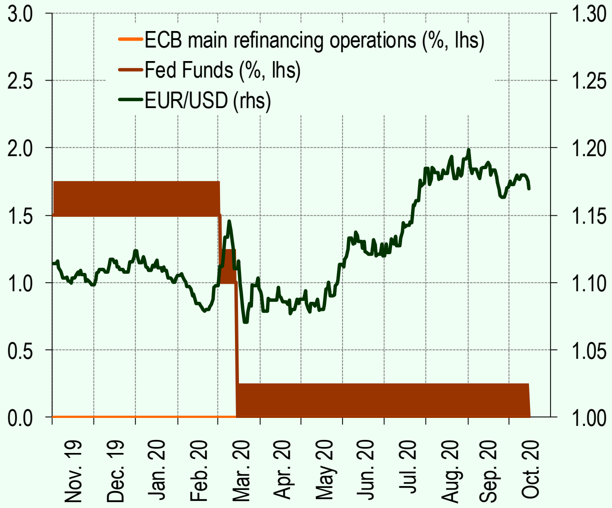
[6] The year-on-year decline in value-added in private-sector services was driven largely by wholesale and retail trade, transportation and storage, professional, scientific and technical activities, and administrative and support service activities.

Figure 1.11: Structure of GDP growth in the euro area, production side



Source: Eurostat, Bank of Slovenia calculations.

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



Source: ECB, Federal Reserve.

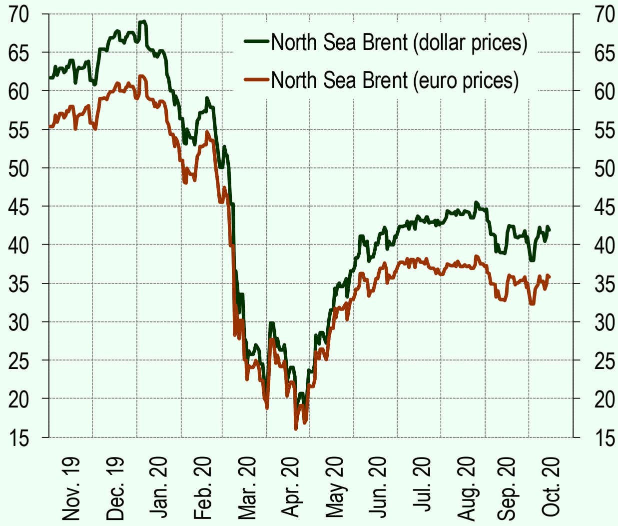
second quarter, 11.6 percentage points more than at the height of the crisis of 2009. The shock also hit manufacturing and construction hard.

Euro exchange rate and oil prices

The ECB and the Fed are both pursuing highly expansionary monetary policies. The September meeting left the monetary policy stance unchanged in the Eurosystem.[7] Among the major central banks, additional measures were taken by the Fed, which modified the long-term targets and strategy of its monetary policy. A major development was the move to an average inflation target of 2%. This means that after a period of inflation being below 2% the Fed will target inflation of more than 2% for a specific period. Given the downturn in the epidemiological picture and the weaker state of the euro area economy compared with the US, the euro has fallen slightly against the US dollar since August. The euro stood at USD 1.17 on 15 October, still up around 6% in year-on-year terms.

Oil prices remain at their lowest level since the first half of 2016. The price of a barrel of Brent crude has remained around USD 42 over the last four months, amid major fluctuations. It stood at USD 41.9 on 15 October, down 28.3% in year-on-year terms. The falling oil prices

Figure 1.13: Oil prices



Source: Bloomberg, Bank of Slovenia calculations.

in the last two months are mainly reflecting the expectations of lower demand for oil caused by the renewed spread of the virus in certain economies.

International capital markets

Global equity markets rose by 3.4% in the third quarter (in euro terms), although returns varied in different parts of the world. Asia and the US outperformed Europe (see Table 1). The rise in US firms' share prices in the third quarter was primarily driven by the economic recovery and lax monetary policy. The Fed announced

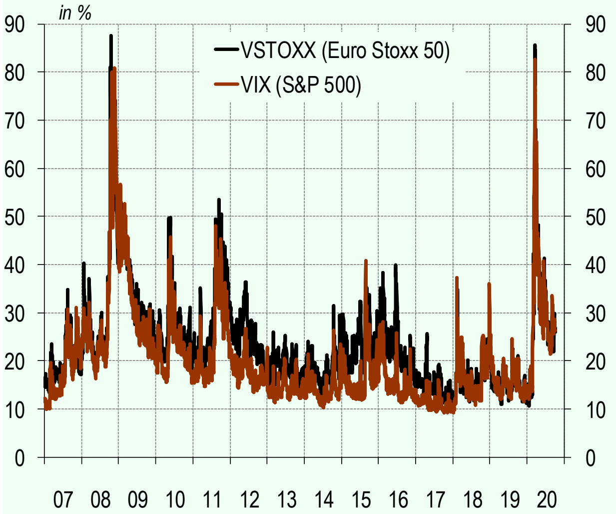
[7] The Eurosystem has adopted extensive anti-crisis measures this year. For more information, see the second of the selected themes, on page 89.

Table 1.1: Total returns (net of dividends) in percent (in EUR) at the end of September 2020

Total price performance in EUR (excluding dividends)	3m	12m
MSCI World	3.4	2.6
MSCI Emerging Markets	4.9	2.8
MSCI AC Asia ex Japan	6.0	9.6
S&P 500	4.3	7.1
MSCI EMU	0.2	-7.8
TOPIX	3.0	-0.2

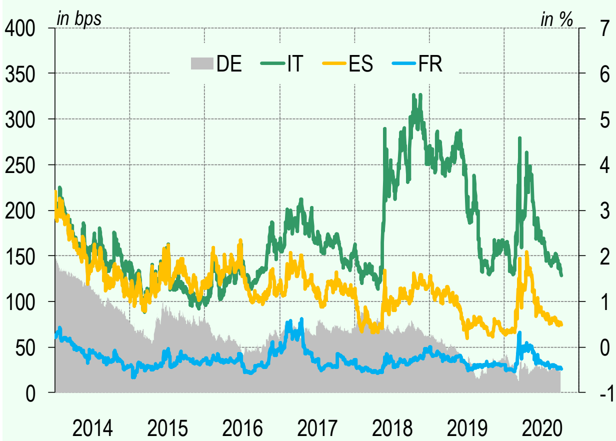
Source: Bloomberg.

Figure 1.14: Stock exchanges uncertainty



Source: Bloomberg.

Figure 1.15: Spreads on 10-year government bonds as compared to Germany (lhs) and the yield of 10-year German bond (rhs)



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

that it had updated its strategy to target average inflation, which will allow inflation to rise above 2% for certain periods of time. European shares remained practically unmoved (rising by 0.2% in euro terms), primarily as a result of an upturn in the number of Covid-19 cases in certain countries. Given the relatively successful response of European countries in fighting the first wave of the epidemic, the uncertainty on equity markets in both the US and the euro area nevertheless declined (see Figure 1.14). Japanese firms saw their share prices rise in the third quarter of this year, despite the yen strengthening. Shinzo Abe resigned as prime minister, and was replaced by Yoshihide Suga.

Yields on government bonds mostly remained unchanged, while corporate bonds recorded slight gains. After rising in April and May, the spreads on 10-year government bonds in the euro area over the German benchmark eased (see Figure 1.15). The reasons mainly lie in the increased pandemic purchases by the ECB and the related easing of monetary policy, and the announcement of the EU's EUR 750 billion Next Generation recovery fund. This slightly reduced the fragmentation of the European market, which allows for more effective transmission of monetary policy through interest rates in euro area countries.

Box 1.1: Climate change and monetary policy: some basic findings

Background on climate change

Economic development has gone hand-in-hand with harmful impact on the environment, which countries are currently trying to curb primarily through intergovernmental treaties. On the one hand physical effects of climate change are very long-term, such as the rise in atmospheric temperatures and rising sea levels, on the other hand some effects are immediate coming in the form of a rising number of sudden environmental disasters, such as major storms, droughts and landslides. Consequently governments are endeavouring to limit emissions of the greenhouse gases that are the main source of anthropogenic atmospheric heating, but these adjustments come with costs (i.e. transition costs). The key treaty limiting emissions and requiring changes in the working of economies is the Paris Agreement. It was signed in 2015, and entered into force in 2016. The parties to the agreement undertake to limit global heating (relative to the pre-industrial level) to 2°C this century, and to pursue efforts to limit the temperature increase to 1.5°C. As part of the European Green Deal process, which begun late in 2019, the EU has set a target of zero net emissions of greenhouse gases by 2050. According to some estimates, the economic restrictions during the coronavirus crisis have reduced greenhouse gas emissions by between 4% and 7% this year, but even this reduction is too little, given the target of limiting the temperature rise this century to 1.5°C.[1] (IPCC, 2018; Paris Agreement, 2015; Green Deal EU, 2019; Schnabel, 2020; Batten, 2018)

In the event of a temperature rise of between 1.5°C and 4.5°C by 2100, global GDP level is forecast to decline by between 2% and 10%, although these forecasts are also subject to huge uncertainty. Individual countries and economic sectors would be affected very differently. The targets for limiting greenhouse gas emissions therefore vary for different countries and economic sectors. In addition, developing countries are allowed to set less stringent targets, in order to ensure their development is not threatened. The adaptations will also depend on technological progress, changes in consumer habits, the way of life, and similar. The aforementioned changes will also have an impact on economic growth, inflation and other economic aggregates that are important to managing economic policy (OECD, 2015; Paris Agreement, 2015; Batten et al., 2020).

Links between climate change and monetary policy

Climate change will have an impact on some of the basic tasks of monetary policy, such as meeting the inflation target and ensuring the stability of the financial system. The following are the most commonly cited reasons for the impact on the functioning of monetary policy:

- Climate change will make it more difficult to attain the central bank’s inflation target, on account of the limited powers of monetary policy instruments and increased uncertainty in inflation estimates. Some of the reasons for this are: (a) Climate change causes shocks on both the supply side and the demand side. Because monetary policy instruments work more effectively on the demand side of the economy, the central bank will find it harder to meet its target with its toolkit of instruments if the supply-side shocks coming from climate change are more pronounced (Batten et al., 2020; McKibbin, 2017). (b) Climate change will reduce growth in potential output, thereby reducing the natural interest rate, which is already falling for other reasons (given that estimates of the natural interest rate are already highly uncertain without taking account of climate change). A fall in the natural interest rate entails less manoeuvring room for monetary policy measures and an increased need to use unconventional instruments (Schnabel, 2020; Brand et al., 2019; Caballero and Farhi, 2019). (c) Inflation forecasts will be more uncertain. First, because of the long-term impact of climate change, which is increasing the uncertainty of assessments of economic cycles in real time, primarily on account of difficulties in estimating potential output, as it affects technological progress, capital accumulation and labour productivity. Second, sudden climate events (droughts, flooding) have a major impact on short-term inflation forecasts, for example via food prices (McKibbin et al., 2017; Batten et al., 2020).
- From the perspective of the stability of the financial system in connection with banks’ lending risk, the key is evaluating the risks inherent in the impact of climate change on various sectors of the economy and on firms. It will be necessary to take account of the long-term gradual impact of climate change, and also of the short-term, unpredictable impact in connection with weather shocks. Furthermore, different sectors of the economy will be subject to different transition costs from investment in environmental progress (Allen et al., 2020). For example,

it is thought that food production will be worst affected by climate change. This entails higher risks to bank loans to this segment. The risk to banks is reduced if the economic activity is insured, but this results in increased risk in the insurance sector (Batten et al., 2020).

Delaying reductions in greenhouse gas emissions until the future increases the likelihood of major climate change, and also the costs of adaptation. The key is to move as quickly as possible from agreements to concrete reductions in greenhouse gas emissions over the next ten years, as otherwise this time will be wasted, and the quantity of greenhouse gases discharged into the atmosphere will be larger. The coronavirus crisis has slightly slowed environmental projects and other work, but the EU's next generation recovery fund promises increased support.

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[1] If the aim is to limit the temperature rise to 1.5°C this century, global emissions of greenhouse gases will have to be reduced by 7.6% each year between 2020 and 2030 (source: United Nations Environment Programme, 2019).

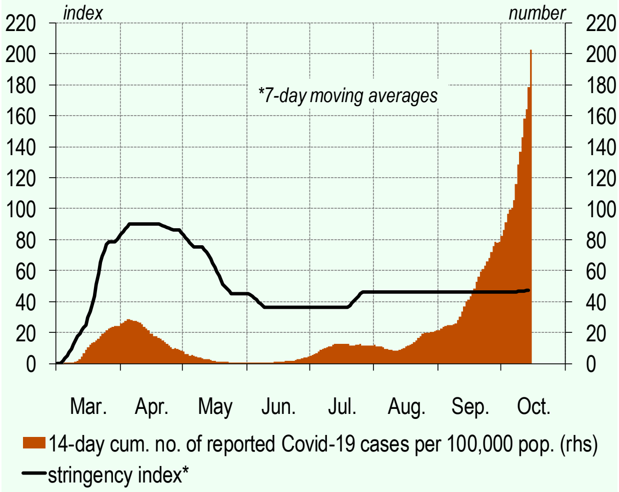
2 Economic Developments

The rapid economic recovery continued in the third quarter, having begun immediately after the strictest containment measures were lifted in May. The monthly indicators of economic activity for July and August suggest continuing growth in the majority of sectors, while the survey indicators point to an improvement in the situation in September too. Amid the strong economic policy measures, the response from economic entities to the spring crisis was different to the previous crisis: households did not refrain from purchases of durables over the longer term, and firms built up their inventories. At the same time the private sector's financial position remained favourable: there was only a small decline in household disposable income in real terms, while the operating surplus in the corporate sector actually increased slightly amid large government subsidies. However, the epidemiological picture is deteriorating again at home and in the international environment, and containment measures are being tightened, which is making the outlook for the final quarter of this year much worse. The most vulnerable sectors will again be services where direct contact between the provider and customer is essential, while the renewed decline in confidence will hold back international trade and further delay firms in their investment decisions.

Confidence indicators in September

The deterioration in the epidemiological picture was yet to have any discernible impact on the economic sentiment indicators in September, but this is expected to be evident in the October figures. The economic sentiment indicator rose again, closing to within approximately 4 percentage points of its neutral level. It only remained negative because of persistent consumer pessimism, which for now is most susceptible to Covid-19 case numbers. The economic sentiment had recovered rapidly by September: the year-on-year difference in the indicator was less than 9 percentage points, compared with more than 29 percentage points in June. Retail firms

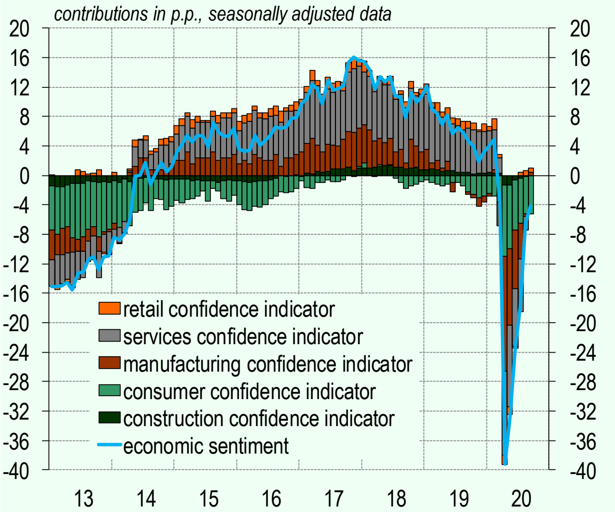
Figure 2.1: Number of reported Covid-19 cases and stringency index – Slovenia



Source: Oxford COVID-19 Government Response Tracker, Eurostat, Bank of Slovenia calculations.

remained optimistic, while the confidence indicators for construction, manufacturing and services other than trade have already reached the neutral zone of close to zero. Firms were again giving favourable assessments of the strength of current demand, particularly in private-sector services, but the aggregate assessment, which also takes account of consumers,[1] remained down significantly in year-on-year terms, by approximately 15 percentage points. Optimism also strengthened in respect of demand expectations: the aggregate assessment[2] reached its level of the second half of last year, primarily as a result of more favourable reporting from manufacturing and construction firms. According to the SORS survey, firms were still not facing any significant increase in financial difficulties in September.[3]

Figure 2.2: Economic sentiment indicator for Slovenia

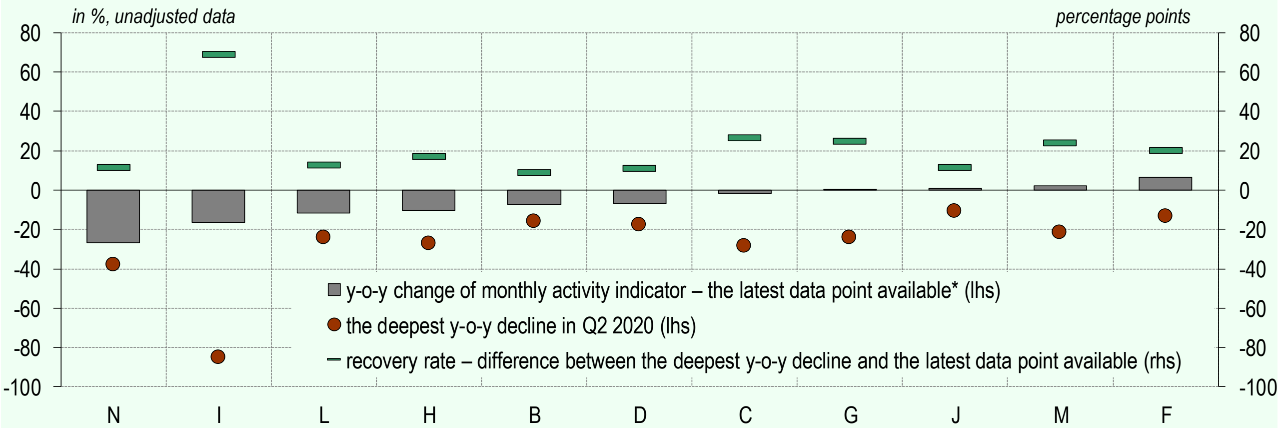


Source: SORS, Bank of Slovenia calculations.

Economic developments in the third quarter

The available monthly activity indicators for the third quarter suggest a strong rebound in economic growth. The recovery was seen in all major sectors with available high-frequency indicators, but the pace of the recovery and the year-on-year change in activity vary considerably. The strongest rebound was seen in the accommodation and food service activities sector, which was hit hardest by the containment measures in the spring, although its turnover remained down 16.3% in year-on-year terms even in July. The situation was even worse in administrative and support service activities,

Figure 2.3: Recovery rates across economic activities



*Note: C – manufacturing, L – real estate activities, H – transportation and storage, G – wholesale and retail trade, repair of motor vehicles, M – professional, scientific and technical activities, N – administrative and support service activities, J – information and communication, D – electricity, gas, steam and air conditioning supply, F – construction, I – accommodation and food service activities. *The latest data point for activities B, C , D and F is August, while July is for G, H, I, J, L, M and N.*
Source: SORS, Bank of Slovenia calculations.

[1] Current demand is the weighted average of total orders in manufacturing and construction, retail turnover, demand in services, and the suitability of the moment for major purchases by consumers. The weights are the same as those used by the SORS for composing the economic sentiment indicator.

[2] Expected demand is the weighted average of expected demand in manufacturing and services, expected orders in construction, expected retail turnover, and major purchases by consumers in the next 12 months. The weights are the same as those used by the SORS for composing the economic sentiment indicator.

[3] Because the survey was conducted in the first half of September, it does not necessarily reflect the true impact of the deterioration in the epidemiological picture on confidence in the economy and among consumers.

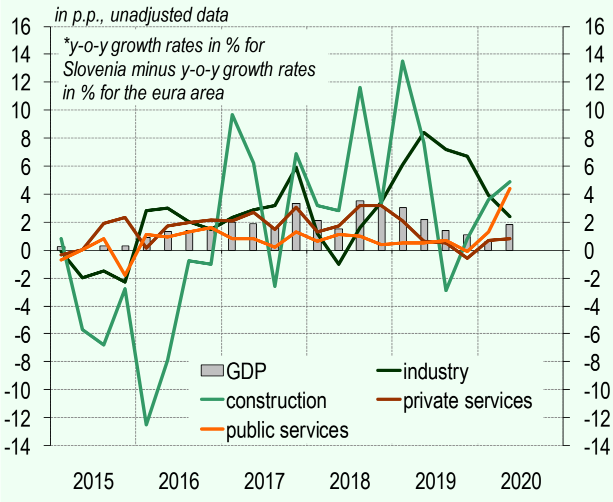
which also include services related to tourism: July's year-on-year decline in turnover was still more than 25%. The sectors of real estate activities and transportation and storage also remain severely impacted. By contrast, a number of sectors have already recovered to close to last year's levels, or have even overtaken them. These include manufacturing, construction, wholesale and retail trade, information and communication, and professional, scientific and technical activities. Growth in turnover in the latter is mainly being generated by management consultancy services. A clearer overall picture can be drawn from the GDP tracker, which envisages high economic growth for the third quarter,[4] and from the composite economic activity indicator, which was down merely around 5% in year-on-year terms in July.[5] This was 19.5 percentage points less than the largest gap in April.

Analysis of the decline in GDP in the second quarter – production side

The decline in economic activity in the second quarter was slightly smaller than in the euro area overall, but still deeper than in 2009. After two sharp quarterly falls, GDP in the second quarter was down 13.1% in year-on-year terms, 3.2 percentage points more than at the height of the crisis of 2009, but 1.8 percentage points less than the overall decline in the euro area. The decline in value-added was less pronounced than in the euro area overall in all sectors, most notably public services and construction. Value-added in the domestic economy was down 12.9% in year-on-year terms, while the decline in GDP was also driven by a sharp decline in net taxes on products in reflection of the shock to consumption during the lockdown of large parts of the economy.

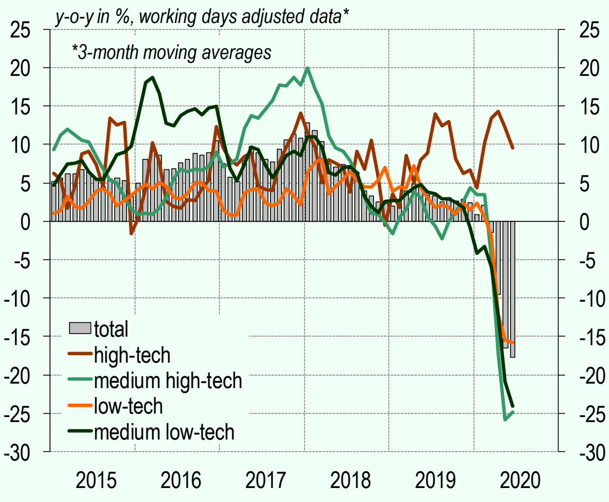
The pandemic's adverse impact on industry was only revealed in its full magnitude in the second quarter, most notably in the automotive sector. After recording a quarterly decline of just 1.8% in the first quarter, as a result of the relatively favourable situation in January and February, the shock in value-added came in the second quarter, with a decline of 14.8%. This was driven by the negative carry-over from March and a pronounced decline in April, when strict containment measures were in place for the whole month. As the measures were eased, activity in industry began to recover quickly, but the year-on-year decline in value-added in the second quarter nevertheless stood at 16.0%, and it accounted for 3.9 percentage points of the decline in GDP. The shock was not evenly distributed across different sectors. The

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



Source: Eurostat, Bank of Slovenia calculations.

Figure 2.5: Production in manufacturing according to technological intensity



Source: SORS, Bank of Slovenia calculations.

[4] The methodology and the results of this tool are illustrated in the first of the selected themes on page 83.

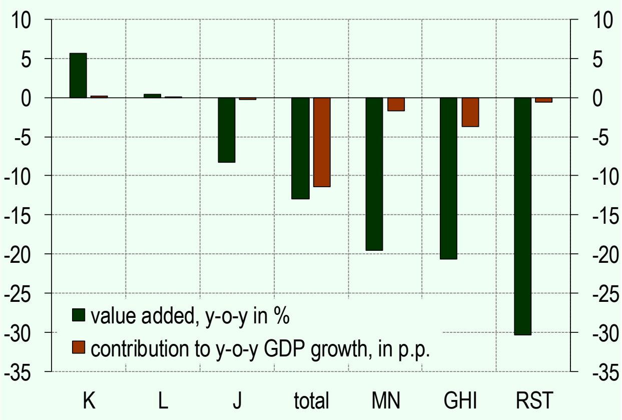
[5] The composite indicator encompasses the real index of turnover in services and trade, the real index of industrial production, and the real index of amount of construction put in place. The aforementioned indicators are weighted by each sector's share of the total value-added of all the sectors.

hardest hit were the medium-low and medium-high technology sectors, where output was down a quarter in the second quarter, most notably in the manufacturing of cars and car parts. Low-technology sectors suffered a smaller decline in output of 15%: they include sectors that produce many essentials, such as food, beverages and hygiene products, demand for which was maintained even during the weeks of the lockdown. High-technology sectors actually recorded a year-on-year increase in output of just under a tenth, largely driven by the pharmaceutical industry.

Private services where direct contact between the provider and the customer is essential suffered the worst shock in the second quarter, as might be expected. The quarterly decline of just 0.9% in the first quarter was followed by a decline of 14.7% in the second quarter, which left aggregate value-added in private-sector services in the second quarter down 14.8% in year-on-year terms. This accounted for 6.1 percentage points of the decline in GDP. Here there was also considerable variation between sectors: the largest adverse impact from the containment measures came in sectors where social interaction is essential. In other services, which include providers of arts, entertainment and recreation, value-added was down more than 30% in year-on-year terms. This was the largest decline in any sector, albeit with a relatively small contribution to the decline in economic activity, given that the sector merely accounts for around 2% of GDP. A significantly larger factor in the decline in GDP was the loss in value-added in wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities, which amounted to more than 20%. The largest shock came in accommodation and food service activities, where real turnover in the second quarter was down more than 60%. The decline in value-added in professional, scientific and technical activities and administrative and support service activities was also close to 20%, driven largely by an investment shock. An outlier in the opposite direction was financial and insurance activities, where according to the SORS the growth in value-added related to lower payments for loss events, most likely as a result of reduced movement of people.

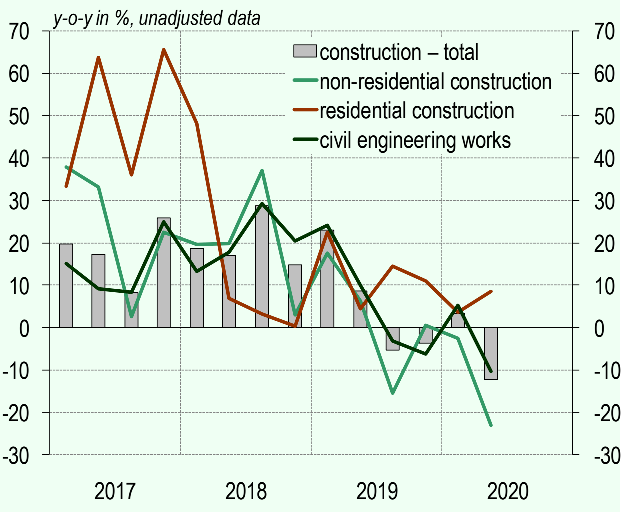
Construction was one of the sectors hit less hard in the second quarter, and growth in residential construction actually increased. Value-added in construction was down just under a tenth in year-on-year terms. The indicators of the amount of construction put in place show a decline of more than a fifth in the construction of non-residential buildings, in connection with the postponement of investment in new retail and production space. Even before the outbreak of the epidemic, a slowdown in activity in this construction segment was already being suggested by last year's decline in the value of new orders. Civil engineering work, which accounts for more than 60% of total construction activity, was down a tenth. The decline was merely temporary. Growth in

Figure 2.6: Value added in private sector services – Q2 2020



Note: K – financial and insurance activities, L – real estate activities, J – information and comunication, MN – professional, scientific, technical, administrative and support services, GHI – trade, transportation and storage, accommodation and food service activities, RST – other service activities.
Source: SORS. Bank of Slovenia calculations.

Figure 2.7: Volume of construction put in place by quarters



Source: SORS, Bank of Slovenia calculations.

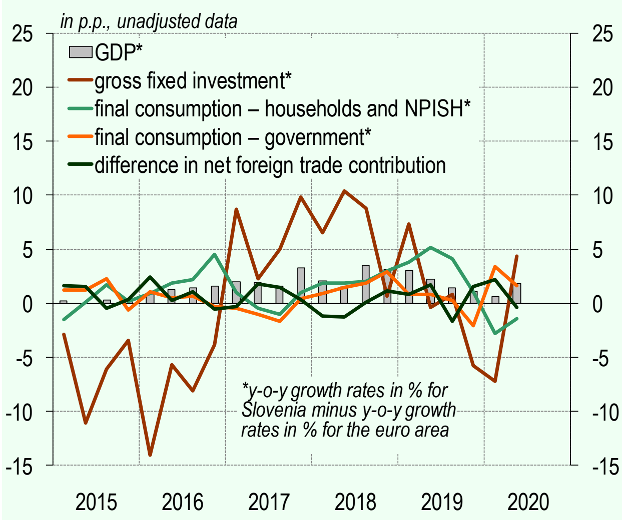
residential construction strengthened, to just under a tenth in year-on-year terms, in connection with the pronounced increase in the value of new contracts. It increased by more than 60% last year alone. Residential construction merely accounts for around a tenth of total construction activity, and so its impact on construction aggregates is relatively small.

Analysis of the decline in GDP in the second quarter – expenditure side

As expected, there was a pronounced fall in domestic demand in the second quarter, while the quarterly dynamics were negative for the third consecutive quarter. A quarterly decline was recorded even in the final quarter of last year, when investment in machinery and equipment began to decline sharply amid the increased uncertainty in the international environment. This was joined in the first quarter of this year by a sharp decline in private consumption as a result of the containment measures. The situation worsened in the second quarter, and domestic demand was down 12.8% in year-on-year terms. In comparison to the first quarter, the dynamics in investment were less negative than in the euro area overall,[6] the decline in private consumption was similar, and final government consumption again took a more prominent role. The latter declined, albeit by significantly less than in the euro area overall. Role of inventories has to be emphasised as they contributed positively to GDP dynamics in the first half of this year, in contrast to the developments seen in the previous crisis. According to the SORS, there was a build-up of products on account of the inability to sell during the lockdown, while according to the Purchasing Association of Slovenia, firms took advantage of low prices on global commodity markets to build up inventories to hedge against any renewed disruption to supply chains.

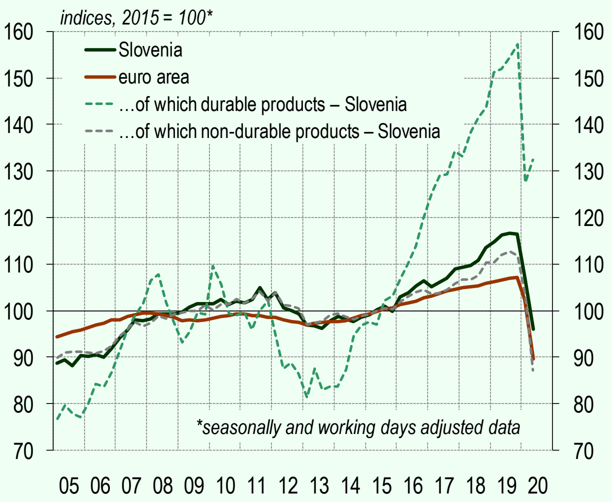
The decline in private consumption in the first half of this year was significantly sharper than in the second wave of the previous crisis, albeit on account of completely different factors. The strict containment measures introduced in mid-March brought a sharp decline in private consumption even in the first quarter. Because the measures were in place for more of the second quarter, the decline in private consumption was even larger, at more than 17% in year-on-year terms, reducing its level to that of the beginning of 2007. Given that household purchasing power declined by significantly less than economic activity, thanks to strong countercyclical economic policy measures,[7] the decline in consumption

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



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 2.9: Private consuption in Slovenia and the euro area



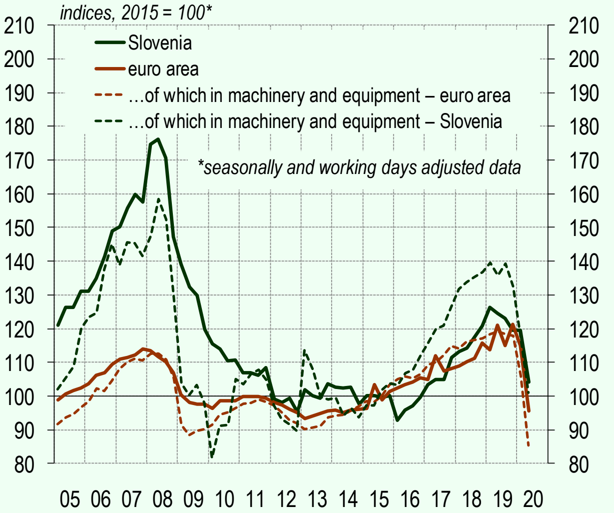
Source: SORS, Eurostat.

[6] A major role in the aggregate figures for the euro area is played by the sharp decline in investment in Ireland, where business decisions by multinationals have a major impact on developments.

[7] Gross household disposable income deflated by the HICP was down 3.0% in year-on-year terms in the second quarter, while the saving rate rose by 4.5 percentage points to 18.4%.

can largely be attributed to the forced saving caused by the unavailability of numerous services during the lockdown. Further indication that, while the situation on the labour market remained relatively favourable, consumer behaviour was different to the previous crisis, which was made significantly worse by government austerity in the later part, comes from the structure of the recovery in consumption following the lifting of the containment measures. Retail turnover is indicating a sharp rebound in purchases of durables, and a rapid closing of the gap in this segment of consumption, at least for now, which is not typical of major recessions. It is a different story with various leisure services, such as cultural and sport events, as they continue to face containment measures that restrict access.

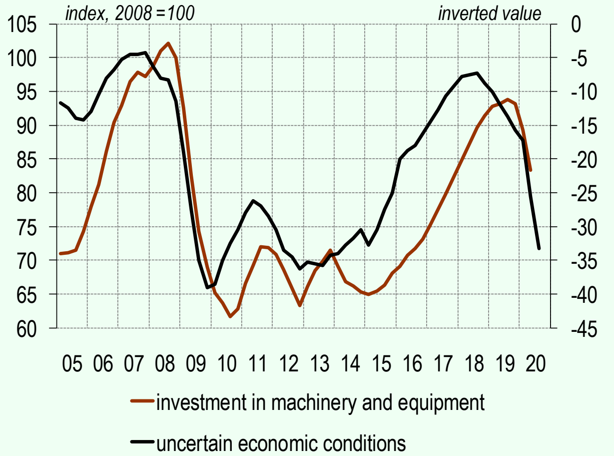
Figure 2.10: Gross-fixed capital formation in Slovenia and the euro area



Source: SORS, Eurostat.

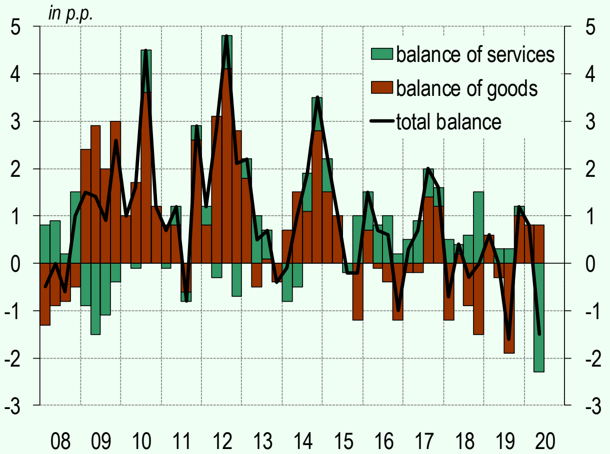
The decline in investment deepened in the second quarter, and spread to all major segments. Although construction investment was still increasing in the first quarter, total gross fixed capital formation was already down 5.4% in year-on-year terms, as investment in machinery and equipment declined sharply. The year-on-year decline in total investment deepened to 16.5% in the second quarter, as decline in investment in machinery and equipment was joined by a shock to construction investment. From the perspective of development potential, the significant decline in investment in machinery and equipment of more than a quarter was particularly adverse. This segment of investment had declined sharply in the previous crisis, and averaged just 7.5% of GDP between 2009 and 2019. This was 2.8 percentage points less than its average between 1995 and 2008. The crisis also slowed growth in investments in research and development. After rising by 3.2% in 2019, it was unchanged in year-on-year terms in the second quarter of this year. Although firms remain in a sound financial position amid the strong support measures,[8] the uncertainty caused by the renewed spread of the virus and the lower utilisation of production capacity

Figure 2.11: Investment in machinery and equipment and uncertainty



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

Figure 2.12: Foreign trade balance contributions to y-o-y GDP growth



Note: Contributions of the total balace may differ from the officially published contributions due to rounding.
Source: SORS, Bank of Slovenia calculations.

[8] According to the SORS's non-financial sectoral accounts, non-financial corporations' gross operating surplus in the second quarter of this year was up EUR 23 million in year-on-year terms, while subsidies received were up EUR 579 million.

are weakening the outlook for a stronger reversal in private-sector investment.

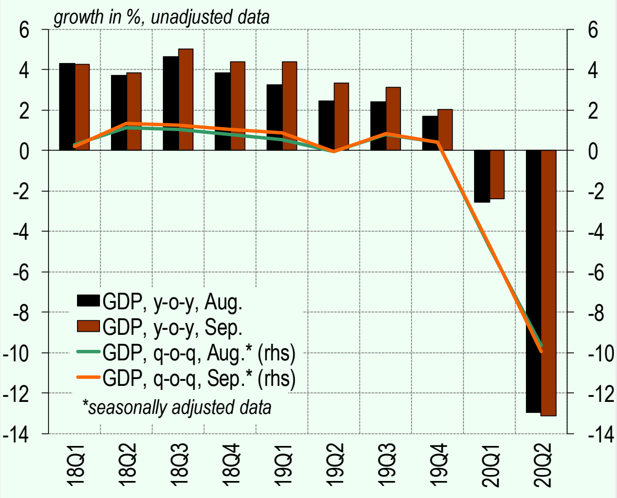
An extremely sharp decline in exports of services meant that net trade made a highly negative contribution to GDP growth in the second quarter. It accounted for 1.5 percentage points of the decline in economic activity, in contrast to developments in the previous crisis, when the bursting of the investment bubble and the internal devaluation triggered by government austerity measures brought consolidation in the balance of payments. The merchandise trade balance was positive, as the decline in imports outpaced the decline in exports, which was attributable to increased sales on foreign markets by the domestic pharmaceutical, chemical and food industries. The decline in trade in services was even sharper, and was significantly more pronounced on the export side. This was attributable to the containment measures' adverse impact on tourism and transport, which account for the majority of services exports. According to the revised balance of payments figures, the surplus of trade in travel and transport services in the second quarter narrowed by EUR 320 million in year-on-year terms.

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

The first annual estimate of the national accounts for 2019, the revision of the annual figures for 2016 onwards and the revision of the quarterly figures from the first quarter of 2016 to the second quarter of 2020, which were released by the SORS at the end of September, have brought significant changes.[1] As usual, the largest changes are attributable to the first annual estimate, which altered both the structure and the dynamics of economic growth in 2019. According to the first annual estimate, economic growth stood at 3.2% last year, 0.7 percentage points more than the previous quarterly estimate, entailing a nominal increase of EUR 386 million in GDP. According to the SORS, these two estimates are not entirely comparable, given the use of different sources. The new figures also brought major changes for 2018: economic growth stood at 4.4%, 0.3 percentage points more than the previous figure.[2] The new figures alter the interpretation of the past economic situation, and affect the accuracy of the macroeconomic projections published previously. The partial shutdown of the economy in the first half of the year meant that there were difficulties in measuring and collecting data, but the revision did not bring any major changes.

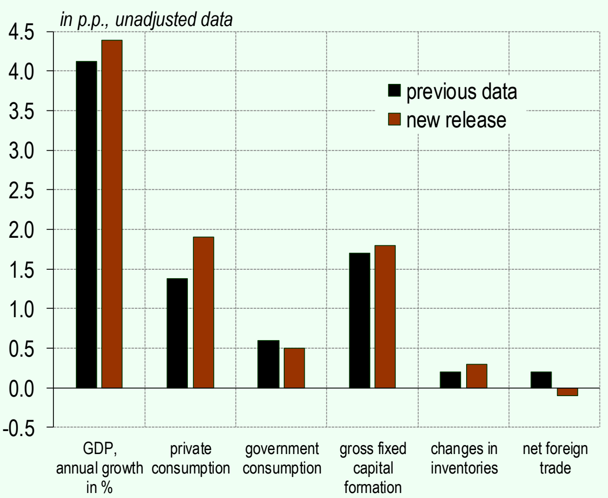
The new figures reveal a larger role for private consumption in 2018 and 2019. Growth in final household consumption stood at 3.6% in 2018, 0.8 percentage points more than the previously published estimate. Its contribution to GDP growth was revised upwards from 1.4 percentage points to 1.9 percentage points, primarily on account of significantly higher estimated growth in imports of services, which is 1.8 percentage points higher than the previous estimate, and as a result of an upward revision of 2.2 percentage points in expenditure on clothing and footwear. Given the increase in imports, with exports left almost unchanged, the contribution by net trade is now negative, in the amount of 0.1 percentage points. The other contributions to GDP growth remained at similar levels. Major changes were seen in 2019, except in final government consumption. Year-on-year growth in household consumption was revised upwards by 2.2 percentage points, and now stands at 4.8%. Its contribution to GDP growth was 1.2 percentage points more than previously estimated, and at 2.5 percentage points reached its highest level since 2007. The first annual estimate brought a nominal increase of EUR 544 million in private consumption, bringing the figure more into line with last year's buoyant labour market. Growth in imports of services was in 2019 also revised upwards, from 2.0% to 3.3%, while growth in exports of services was lower than previously estimated, which reduced the contribution by net trade by 0.5 percentage points to 0.1 percentage points. There was also a notably sharp increase in the contribution by gross fixed capital formation, which following a nominal upward revision of EUR 236 million is now estimated to have made a significant contribution to GDP growth in 2019 in the amount of 1.1 percentage points. Annual growth in gross fixed capital formation was revised upwards from 3.2% to 5.8%, primarily on account of higher growth in construction investment, which is now estimated at

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



Source: SORS.

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



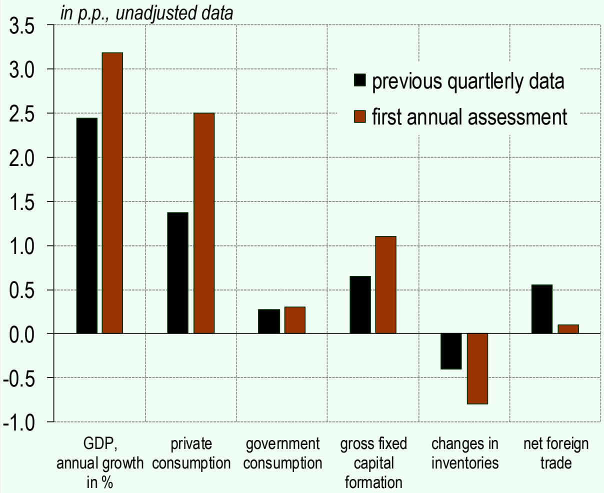
Source: SORS.

15.4%, more than 10 percentage points higher than the estimate from the previous quarterly data. Investment in machinery and equipment and investment in intellectual property were also revised upwards, albeit merely by just over 1 percentage point. The new figures also show a significant downward revision to inventories. Their contribution to GDP growth was revised downwards by 0.4 percentage points to -0.8 percentage points.

There were no major changes to the GDP dynamics in the first half of 2020, although the expenditure structure was revised slightly. The decline in domestic consumption was significantly larger than previously estimated, and was the main factor in the additional reduction in economic growth in the second quarter. The contribution by private consumption now stands at -3.3 percentage points in the first quarter, down 0.3 percentage points, and at -9.0 percentage points in the second quarter, down 0.5 percentage points. In both instances the revision was attributable to a lower estimate of spending on durables. Year-on-year growth in final government consumption was revised downwards by 0.7 percentage points to stand at 4.2% in the first quarter, and by 2.4 percentage points in the second quarter, taking the figure into negative territory (in the amount of 0.9%). The contribution to GDP growth in the first half of the year made by final domestic consumption was revised downwards by 0.8 percentage points, which could have a minor impact on the accuracy of the structure of this year's GDP in the projections already published. The contribution by net trade in the first half of the year is 0.8 percentage points higher than previously estimated, primarily on account of higher estimates of exports.

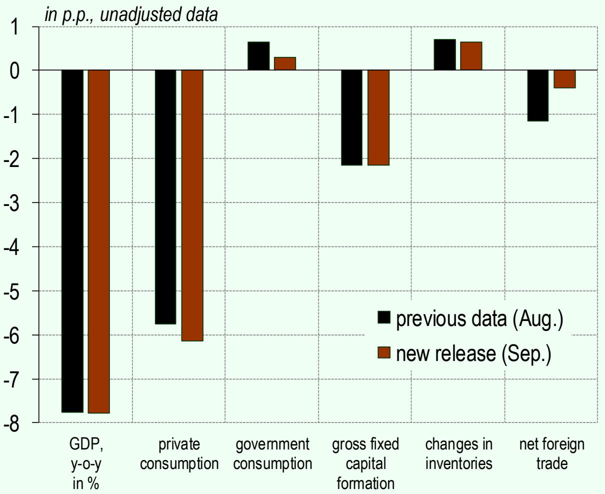
The revision to the national accounts also brought changes to the output structure of GDP, including for 2018. The contribution by total value-added in 2018 now stands at 3.8 percentage points, 0.3 percentage points higher than before. The most notable revision in year-on-year growth in value-added was in agriculture, forestry, fishing and hunting, where the figure of 23.7% is up 11.3 percentage points on the previous estimate. The new figures also show higher growth in value-added in financial and insurance activities and in real estate activities. Consequently, the contribution by private-sector services was revised upwards by 0.3 percentage points to 2.0 percentage points. At the same time growth was estimated at 2.8% in manufacturing, down 0.8 percentage points on the previous estimate, primarily as a result of lower growth in value-added in the manufacture of motor vehicles,

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



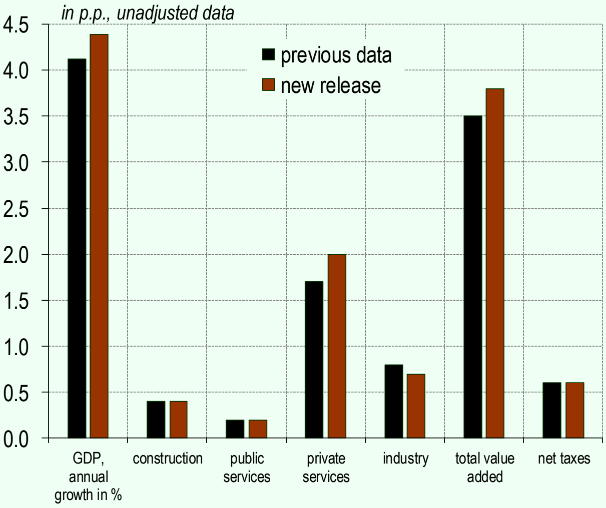
Source: SORS.

Figure 4: Changes in contributions to real GDP growth in the first half of 2020 – expenditure side



Source: SORS.

Figure 5: Changes in contributions to real GDP growth in 2018 – production side



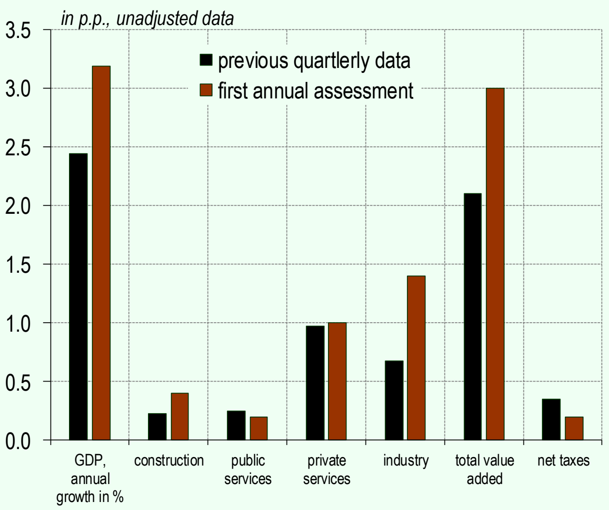
Source: SORS.

trailers and semi-trailers and in the manufacture of beverages.

The figures in the first annual estimate for 2019 show major revisions from the estimates based on the previous quarterly data, largely driven by the consideration of corporate closing accounts. The contribution to GDP growth by total value-added stood at 3 percentage points last year, 0.9 percentage points more than previously estimated (the nominal upward revision was EUR 461 million). There is a larger contribution to GDP growth by manufacturing, where last year's growth in value-added was revised upwards by 3.7 percentage points, to 7.5%, as a result of difficulties in measuring intermediate consumption. Amid higher growth in construction investment, growth in value-added in construction was also revised upwards, from 4.9% to 7.1%. This raised its contribution to GDP growth by 0.2 percentage points. Growth in value-added in information and communication was also revised sharply upwards (by 8.2 percentage points to 10.5%), while there was a smaller upward revision (of 2 percentage points) in other service activities. Closing accounts data reduced growth in value-added in professional, scientific, technical, administrative and support servicesfrom 1.7% to -2.3%. Their contribution to GDP growth is now in negative territory, in the amount of 0.2 percentage points. The estimated contribution by net taxes was revised significantly downwards, by 0.2 percentage points.

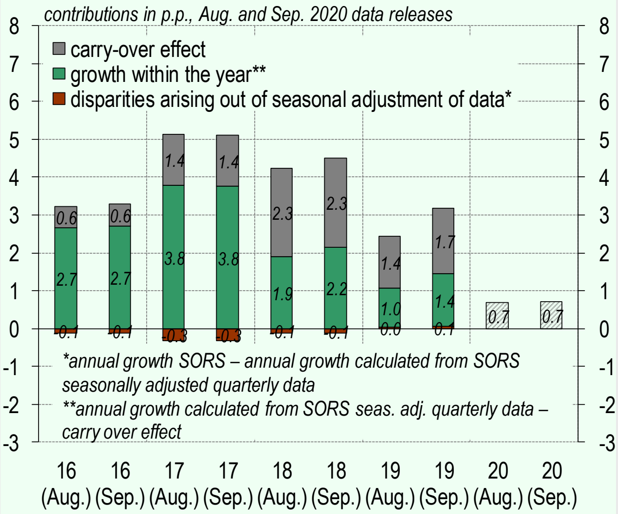
There were minimal revisions to the new figures for the first half of this year. The only significant downward revision was to growth in value-added in public services in the second quarter, which is now 3.0 percentage points lower at -4.1%.

Figure 6: Changes in contributions to real GDP growth in 2019 – production side



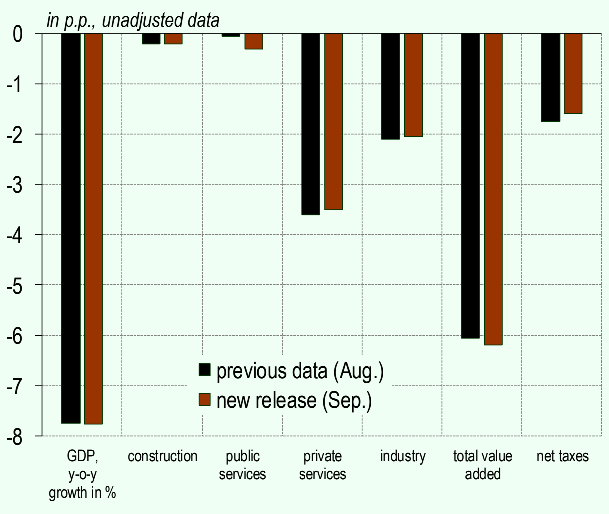
Source: SORS.

Figure 8: Annual GDP growth in Slovenia, carry-over effect and growth within the year



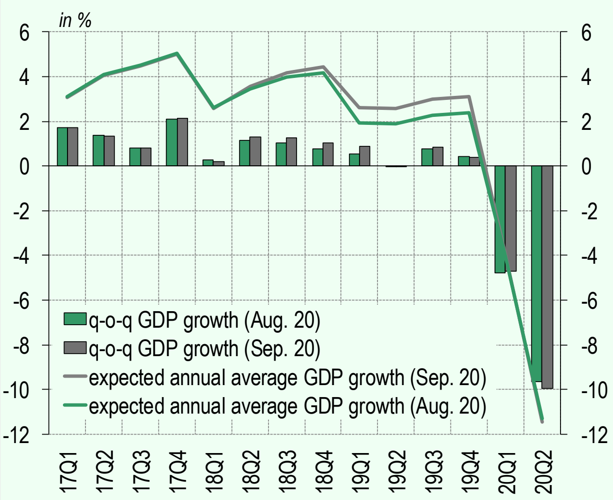
Source: SORS, Bank of Slovenia calculations.

Figure 7: Changes in contributions to real GDP growth in the first half of 2020 – production side



Source: SORS.

Figure 9: Releases of q-o-q GDP growth rates and expected annual average GDP growth, based on carry-over effect



Source: SORS, Bank of Slovenia calculations.

By contrast, the estimated decline in net taxes was revised upwards by just over 1 percentage point in each quarter, which reduced its negative contribution to GDP growth by 0.2 percentage points.

The revisions to the national accounts figures also to a certain extent brought changes to the decomposition of economic growth into growth within the year and the carry-over effect. This box focuses solely on the period of 2018 to 2020.[3] The new figures show slightly higher growth during 2018 (the contribution by growth within the year was revised upwards from 1.9 percentage points to 2.2 percentage points), as the revisions to the quarterly rates of GDP growth averaged around 0.2 percentage points. The aforementioned changes are reflected in a stronger carry-over effect for 2019, which is now estimated at 1.7 percentage points, 0.3 percentage points more than had been previously calculated. There was also slightly larger revision to growth during 2019 (the contribution by growth within the year was revised upwards from 1.0 percentage points to 1.4 percentage points), although the revision was primarily limited to the revision to quarterly GDP growth in the first quarter of last year, from 0.5% to 0.9%. The quarterly rates of growth in the rest of 2019 remained largely unchanged, which was reflected in the lack of a revision to the carry-over effect for this year, which remains around 0.7 percentage points. As a result of the aforementioned changes, there was a relatively large revision to annual growth in 2019. The release of the new national accounts also brought smaller changes to the quarterly rates of real GDP growth in the first and second quarters of 2020 relative to August figures of this year, which reflects the estimated average annual growth[4] – under the technical assumption of zero economic growth in the second half of this year – of around -11.4%, compared with the previous figure of -11.3%.

[1] The figures disclosed in this analysis might differ to a lesser extent from those in the SORS releases due to the rounding. More detailed information about the first annual estimate of GDP for 2019 and the revision to the national accounts is available on the SORS website at https://www.stat.si/StatWeb/News/Index/9102, while information about the revisions to the quarterly figure can be found at: https://www.stat.si/StatWeb/News/Index/9128.

[2] The SORS released extensive revisions to data last year, which were analysed in Box 2.1. of the Economic and Financial Developments, October 2019.

[3] A detailed explanation of the carry-over effect can be found at: https://bankaslovenije.blob.core.windows.net/publication-files/gdgggdhhfihhegdgb_macroeconomic-projections-for-slovenia-june-2018.pdf.

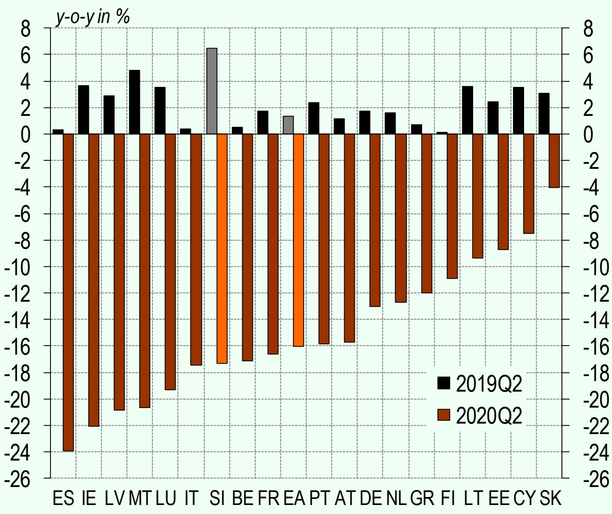
[4] The carry-over effect can also be mechanically computed for each quarter of the current year. The carry-over effect can thus be expanded, and the projected average annual rate of growth obtained. Here it is assumed that the quarterly rates of growth in the next quarters of the year are equal to zero.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

Box 2.2: GDP developments in euro area countries in the second quarter of 2020

Economic activity slowed drastically in all euro area countries in the second quarter of this year, as expected, but there were pronounced differences between them. Although the partial shutdown of the economy did not last long, in most of the countries the sharp unexpected shock caused the largest decline in GDP since the records began. Similarly to the first quarter, the largest year-on-year declines in economic activity were recorded by the three countries hit hardest by the virus: Spain, France and Italy.[1] In Spain the decline was fully 16.9 percentage points deeper than the largest year-on-year decline during the previous crisis. It was a similar story in the euro area overall, where the economy contracted by 14.9% in year-on-year terms according to original figures.[2] However, the euro area average did not reflect the actual situation in the majority of countries, as there was considerable variation between them: the range between the countries with the largest and smallest declines in GDP was 18.5 percentage points. This was primarily attributable to differences in the impact of the pandemic, consequently to differences in the containment measures put in place, and also to differences in the structure of their economies. There were above-average declines in GDP in Portugal, Malta and Greece, in addition to the three countries mentioned earlier. The declines in the thirteen economies were less severe than in the euro area, most notably the smaller countries, including Latvia, Finland and Estonia.[3] The lifting of the containment measures and the support from economic policy brought a recovery as early as May and June, without which the declines in economic activity in the second quarter would have been even larger.

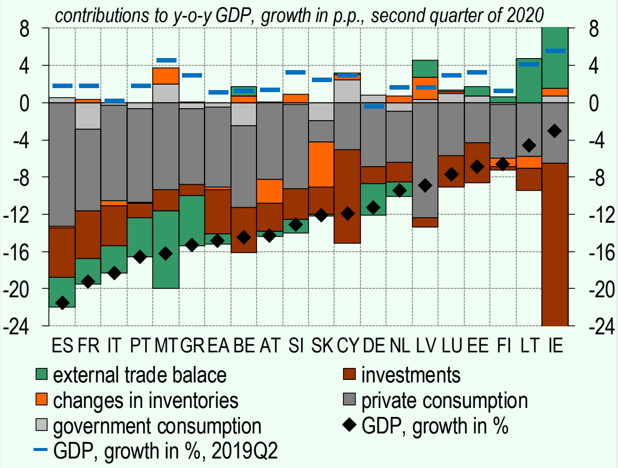
Similarly to the first quarter, private consumption and investment were the key components of the major contraction in economic activity. The largest year-on-year declines in private consumption were recorded by Spain, Latvia and Ireland, while in Slovenia private consumption accounted for 9.0 percentage points of the decline in GDP, the most negative value since records began, and close to the euro area average. The smallest negative contribution by private consumption was recorded in Slovakia, where inventories were the main driver of the decline in GDP. The contribution by investment was extremely negative everywhere, most notably in Ireland[4] and Cyprus. Immediately behind them was Spain, where a sharp decline in construction investment also widened the gap with other euro area countries.

Figure 2: Private consumption growth in euro area countries



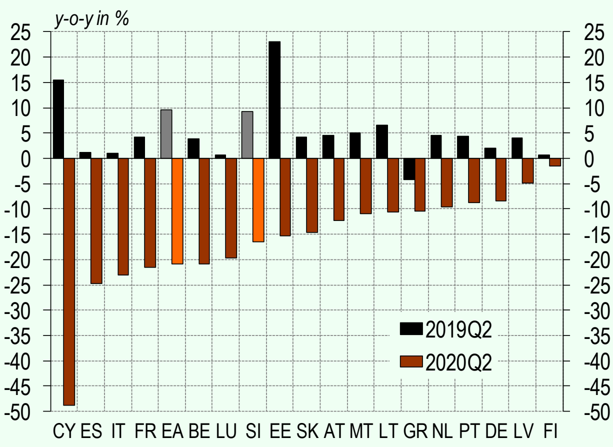
Source: Eurostat, Bank of Slovenia calculations.

Figure 1: Economic growth in euro area countries by expenditures



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

Figure 3: Gross fixed capital formation growth in euro area countries



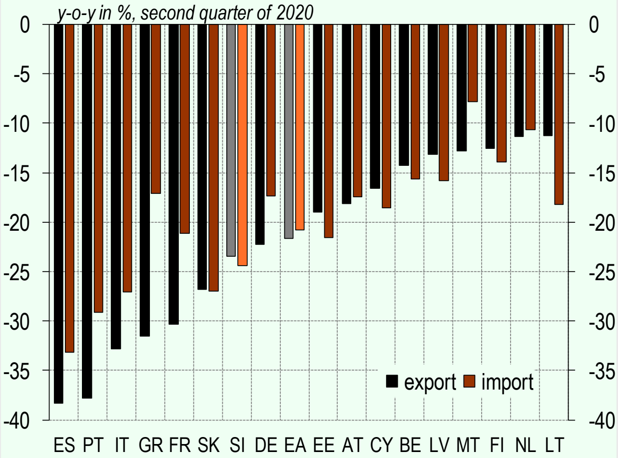
Note: Ireland is not illustrated due to the large impact of multinational companies on data on gross fixed capital formation.
Source: Eurostat, Bank of Slovenia calculations.

The negative contribution by investment in Slovenia was 1.5 percentage points smaller than the euro area average, and for now was less pronounced than during the previous crisis, which was marked by the bursting of the construction bubble. An even smaller decline in investment was seen in Germany, where the figure of -8.3% was bettered solely by Finland and Latvia.

Expectations of increased government consumption during the fight against the epidemic and its consequences have not yet been realised at the euro area level. Euro area countries have mostly made use of various subsidies and benefits that are not part of final consumption in their measures and support. Government consumption actually made a negative contribution to euro area GDP growth. The largest negative contributions were in France, which otherwise provided the most decisive support for the labour market, and Belgium, primarily on account of a sharp decline in individual government expenditures. Final government consumption declined in Slovenia in the second quarter, albeit by less than the euro area average. It was a different story in Germany: the contribution by collective government expenditures was the largest in the euro area.[5]

The restrictions in international trade and the partial shutdown in numerous economic sectors had a major impact on merchandise trade and services trade in all euro area countries. The largest negative contributions by net trade were recorded in Malta, Greece and Portugal, driven primarily by a sharp decline in exports of services (see also Box 4.1). Tourism accounts for a large share of total value-added in the aforementioned countries, which was one of the hardest-hit sectors. Similar factors were at work in Spain, where exports of services were down more than 60% in year-on-year terms. By contrast, it was a sharp decline in merchandise exports that had a major impact on the depth of the recession in Germany. The year-on-year declines in imports and exports in Slovenia were among the largest in the euro area, while aggregate trade recorded its largest decline since records began (in 1996), as a result of a sharp decline in services trade. Nine other euro area countries also saw the decline in trade hit a record level.

Figure 4: External trade in the euro area countries



Note: Ireland is not illustrated due to the large impact of multinational companies on data on external trade balance.
Source: Eurostat, Bank of Slovenia calculations.

[1] These three countries saw the largest number of deaths.

[2] The structure and dynamics of GDP have been revised for the first quarter in the majority of countries, which is why the figures in this publication differ from those published in the Economic and Financial Developments, July 2020.

[3] These three countries were among the least affected by the virus (in terms of number of cases and number of deaths), and had the least strict containment measures during the pandemic. Latvia and Finland also saw the smallest declines of all euro area countries in the contribution by gross fixed capital formation.

[4] The pronounced negative contribution was the result of reporting by multinationals. The contribution had been strongly positive in the first quarter.

[5] Individual government expenditures consist of expenditure on non-marketable government services (education, healthcare and social care, culture, sport, etc.) and expenditure on marketable products and services (pharmaceuticals, orthopaedic aids, concession rights for the private sector, health spa services, etc.). Collective government expenditures consist of expenditure on administrative services, defence services, economic services, research and development, and other non-marketable government services.

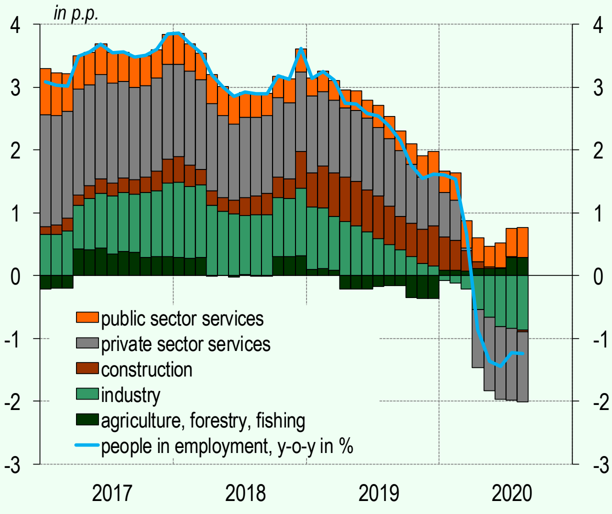
3 Labour Market

Up until the end of September, the economic recovery and the government's job retention measures helped the labour market remain solid relative to the fall in economic activity. Employment remained significantly down in year-on-year terms, but stopped falling in current terms over the summer. Since peaking in May, registered unemployment has undergone a sustained decline. Registered unemployment stood at 84,000 at the end of September, only 6,000 more than in February, the month before the declaration of the epidemic. The survey indicators for the remainder of the year were still pointing to a relatively stable situation even in September, and were not reflecting the current deterioration in the epidemiological picture in Slovenia. Although the government emergency measures successfully prevented the complete pass-through of the decline in economic activity in the second quarter into a fall in employment, the number of hours worked was down fully 15.8% in year-on-year terms. The impact of the fall in employment caused by the epidemic has been felt most acutely by younger generations and workers in more flexible forms of employment. Wage growth remains high relative to the level of economic activity, but for methodological reasons it is not fully reflecting the developments in employees' purchasing power in the given circumstances.

Employment

The workforce in employment in August remained broadly unchanged from previous months, which reflects the recovery in economic activity over the summer and the persistent positive effects of the government's job retention measures. The workforce in employment excluding self-employed farmers in August was still down 1.6% in year-on-year terms, largely as a result of the pronounced fall in employment during the outbreak of the epidemic. The number of employees was down 1.7% in year-on-year terms in August, while the number of self-employed excluding farmers was up slightly (by 0.1% in year-on-year terms). The relative stability in total employment since May has concealed significant variation in employment developments across different sectors. The lifting of the Covid-19 containment measures and the recovery in private consumption brought a halt to the sharp fall in employment in accommodation and food service activities and in wholesale and retail trade in May, but the workforce in employment in manufa-

Figure 3.1: Contributions to y-o-y growth in the number of people in employment



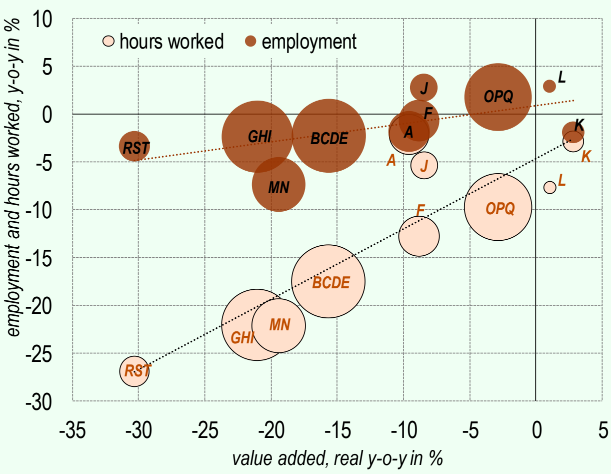
Source: SORS, Bank of Slovenia calculations.

cturing has continued to fall: by August it was down 3.7% in year-on-year terms. In contrast to the large fall in the workforce in employment in the private sector (of 2.2%), employment in mostly public services was up 2.3% in year-on-year terms, largely driven by rising employment in the health sector.

As a result of the epidemic, employment in the second quarter was down 1.9% in year-on-year terms according to the national accounts figures, which was felt most acutely by workers in more flexible forms of employment. The introduction of emergency support measures at the outbreak of the crisis of the epidemic prevented the 13.1% year-on-year decline in GDP from being fully reflected in the fall in employment. The consequences of the economic downturn have been more evident in a large fall in the number of hours worked than in employment: they were down 15.8% in year-on-year terms in the second quarter. The fall in employment and in the number of hours worked was largest in the sectors hit hardest by the containment measures and where the largest declines in value-added were recorded. The large fall in employment in the second quarter was thus largely driven by manufacturing, employment activities, and accommodation and food service activities. The impact of the epidemic was otherwise felt most acutely by workers in flexible forms of employment. According to the quarterly survey figures, the fall in employment in the second quarter was largely driven by a fall in temporary employment and a fall in the number of student workers.[1] The number of permanent employees was actually up slightly on the first quarter. Given that largest fall in numbers came in flexible forms of employment, which have weaker coverage in the monthly registration figures, the workforce in employment on the basis of the monthly registration figures in the second quarter fell significantly less (1.2% in year-on-year terms) than did employment according to the national accounts figures.[2]

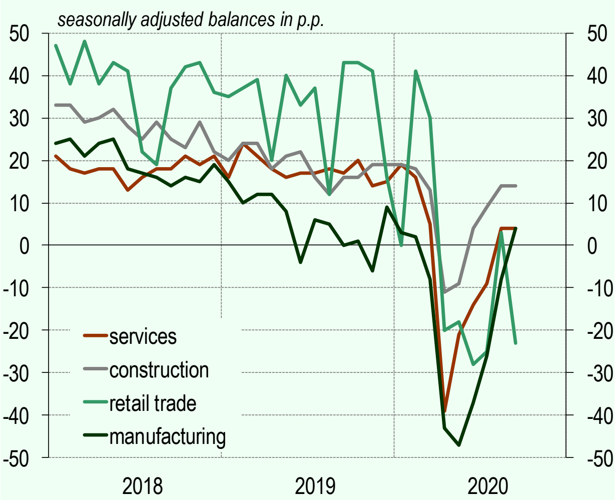
Firms' expectations in September were still suggesting an improved outlook for the months ahead, but further developments in employment will largely depend on the deterioration in the epidemiological picture and the continuation of the emergency measures. In September retail firms were alone in still expecting employment to fall, but the downturn in the results of the SORS survey on this occasion is primarily being attributed to the expected closure of shops on Sundays and holidays. Employment expectations in manufacturing turned positive in September for the first time since February. Employment expectations were again highest in

Figure 3.2: Value added, employment and hours worked



Note: The size of the circle represents the share of sector employment in total employment in the second quarter of this year.
Source: SORS. Bank of Slovenia calculations.

Figure 3.3: Expected employment in the next three months



Source: SORS, Bank of Slovenia calculations.

[1] According to the figures from the quarterly Labour Force Survey, the number of workers employed via the student service in the second quarter was down 50.0% in year-on-year terms, while the number of workers in temporary employment was down 24.4%.

[2] The monthly figures for the workforce in employment include employees and self-employed persons working in Slovenia with compulsory social security insurance. They do not include contract workers, student workers, and persons in certain other atypical forms of employment.

Table 3.1: Demography, unemployment and employment

	2015	2016	2017	2018	2019	19Q2	19Q3	19Q4	20Q1	20Q2
					in 1,000					
Working age population[1]	1383	1371	1362	1352	1350	1349	1347	1352	1356	1362
					in %					
Activity rate[2]	71.8	71.7	74.2	75.1	75.3	75.7	75.7	74.6	75.0	73.9
Employment rate[3]	65.2	65.9	69.3	71.1	71.9	72.5	72.1	71.6	71.5	70.0
					in 1,000					
Registered unemployed persons	112.7	103.2	88.6	78.5	74.2	72.2	71.1	73.4	78.4	89.5
Unemployment rate					in %					
- LFS	9.0	8.0	6.6	5.1	4.5	4.2	4.8	4.0	4.6	5.2
- registered	12.3	11.2	9.5	8.3	7.7	7.5	7.4	7.5	8.0	9.2
Probability of transition between employ. and unemployment					in %					
- probability to find a job[4]	15.7	18.0	19.2	19.5	18.9	19.9	16.4	16.0	21.1	16.1
- probability to lose a job[5]	2.5	2.3	2.1	1.9	1.8	1.4	1.6	2.1	2.5	3.2
					in 1.000					
Total employment[6]	943.9	961.2	989.6	1021.4	1046.7	1045.6	1053.8	1054.3	1045.2	1025.9
					year-on-year growth rates in %					
Persons in paid employment	1.3	2.2	3.3	3.4	2.7	2.9	2.6	1.9	1.3	-2.0
Self-employed	1.2	0.2	1.6	2.5	1.7	1.8	1.6	1.4	0.6	-1.4
By sectors										
A Agriculture, forestry and fishing	-0.9	-1.3	-1.0	-0.4	-0.5	-0.3	-0.7	-1.0	-1.5	-1.8
BCDE Manufacturing, mining and quarrying and other industry	1.7	2.5	3.1	4.3	2.5	3.0	2.2	1.1	-0.3	-2.3
F Construction	0.5	-0.8	2.3	6.5	9.1	10.2	8.8	7.5	5.4	-0.8
GHI Trade, accommodation, transport	1.7	2.5	3.5	3.5	3.2	3.5	3.2	2.4	1.3	-2.3
J Information and communication services	2.9	4.1	3.4	4.6	3.5	3.2	3.5	3.5	3.5	2.8
K Financial and insurance activities	-2.8	-2.0	-1.5	-0.9	-0.8	-0.5	-0.5	-0.9	-0.9	-1.9
L Real estate activities	1.4	4.6	7.9	6.5	4.6	3.0	4.5	4.5	2.9	2.9
MN Professional, technical and other business activities	2.6	2.2	5.6	3.0	0.4	0.4	0.7	-0.2	0.8	-7.3
RSTU Other activities	2.7	2.7	3.5	3.3	4.0	3.7	4.2	4.4	2.7	-3.4
- mainly private sector (without OPQ)[7]	1.4	1.8	3.1	3.4	2.6	2.9	2.6	1.8	1.0	-2.7
- mainly public services (OPQ)[7]	0.8	2.1	2.5	2.2	1.8	1.7	1.8	1.9	2.1	1.8
Total employment[6]	1.3	1.8	3.0	3.2	2.5	2.7	2.4	1.8	1.2	-1.9

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

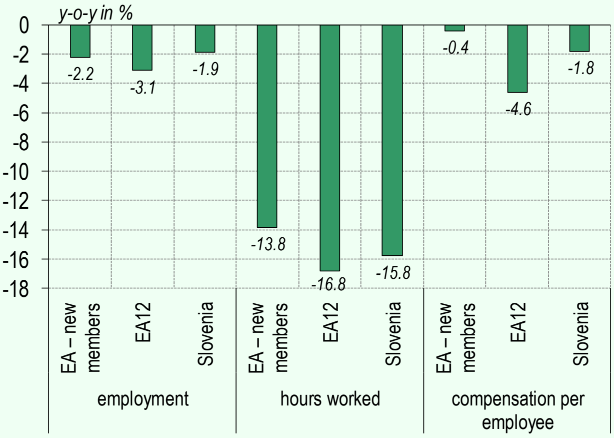
construction in September, as they had been since the outbreak of the epidemic. Construction was hit less hard by the containment measures than retail and services, as the majority of construction sites remained open even while the containment measures were in place. Given the unevenness of the recovery across different sectors, and the deterioration in the epidemiological picture, employment developments over the coming months will remain considerably dependent on the continuation of the emergency measures. The recent vote to extend the emergency measures until the end of the year will have a positive impact on employment over the remainder of the year.

Box 3.1: Labour market situation in euro area countries

After a sharp and relatively synchronised fall in employment in the second quarter, there was a strong improvement in employment expectations. Employment in the euro area in the second quarter was down 3.1% in year-on-year terms, driven by falls in all countries other than Malta and Luxembourg. The largest fall of 7.6% was recorded by Spain. Thanks to the comprehensive government emergency measures, Slovenia was among the top six performing countries with a fall in employment of 1.9%, better than the average of old and new euro area countries. Thanks to the comprehensive job retention measures, the sharp decline in economic activity was reflected less in employment, and more in a fall in the number of hours worked, which across the euro area was down 16.8% in year-on-year terms. In keeping with the differences in the decline in economic activity, the fall in employment and in the number of hours worked was larger in the older members of the euro area than in the newer members, and it is a similar story with regard to wage developments. The lifting of the containment measures and the economic recovery saw the situation on the labour market quickly begin to stabilise, and the latest survey figures are not yet showing any signs of the current deterioration in the epidemiological picture.[1] After bottoming out in April, employment expectations improved throughout the third quarter, and in the euro area overall were just 8.2 percentage points below their long-term average in September. The employment outlook in Slovenia was higher than the euro area average in September, as it has been since the outbreak of the epidemic.

[1] The surveys were mostly conducted in the first half of September, i.e. before the further deterioration in the epidemiological picture in Europe.

Figure 1: Labour market in euro area in second quarter of 2020



Note: EA – new members: Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain. Calculations include available data up to the second quarter of 2020.
Source: Eurostat, Bank of Slovenia calculations.

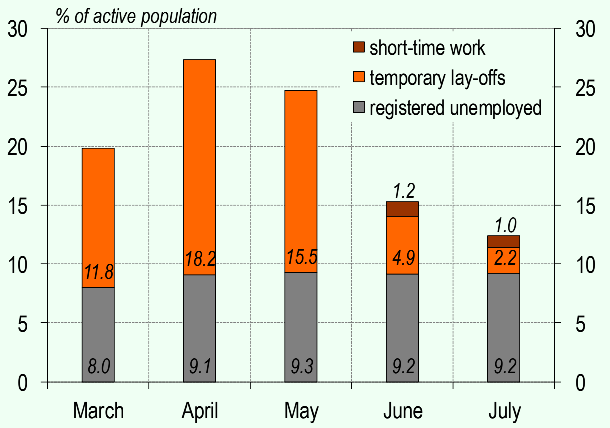
Figure 2: Expected employment in the next three months

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

Unemployment

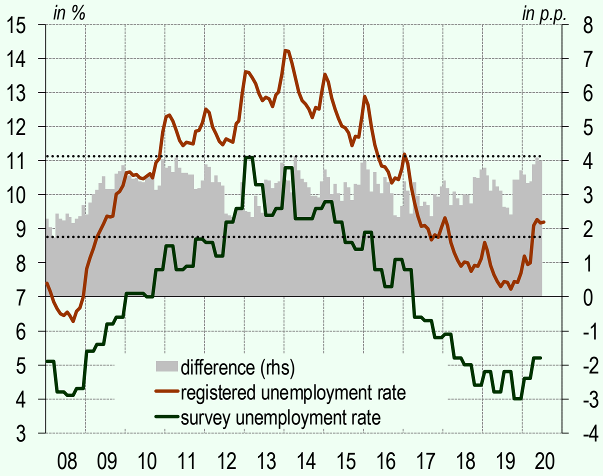
After peaking in May, registered unemployment underwent a sustained decline until the end of September, but can be expected to rise again by the end of the year. There were 84,000 people registered as unemployed with the Employment Office at the end of September, down 5% on August, but still up 23% on September of last year. The sharp fall in unemployment reflects the fact that September's year-on-year increase in outflows from unemployment (46.3%) significantly outpaced the increase in new inflows (13.2%). The number of registered unemployed is now only 6,000 up on the February figure from before the declaration of the epidemic, which to a considerable extent is a reflection of the positive impact of the government's job retention measures, which prevented a larger rise in unemployment during the first wave of the epidemic. The Employment Office figures from 13 October reveal that there were 178,000 workers included in the temporary layoff scheme at the peak of the first wave of the epidemic in April, which had fallen to 21,000 by July. By contrast, the take-up of subsidised short-time work was significantly lower: there were around 12,000 workers included in the sche-

Figure 3.4: Registered unemployed persons and workers participating in job retention schemes (temporary lay-off and short-time working schemes)



Note: The number of workers participating in both intervention measures takes into account apllications processed by 13 October 2020.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.6: Unemployment rates

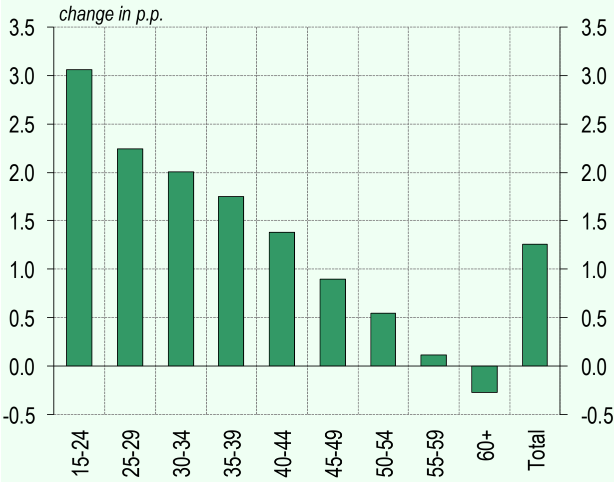


Note: The horizontal lines represent the smallest and largest difference between the two unemployment rates.
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

Figure 3.5: Inflows into and outflows from registered unemployment

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

Figure 3.7: Change in the registered unemployment rate between February and July by age



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

me at its peak in June. The registered unemployed and furloughed workers together accounted for 27.3% of the total active population in April. The return to work by temporarily laid off workers meant that the share of the active population registered as unemployed or included in one of the two schemes under the emergency measures had fallen to 12.4% by July.

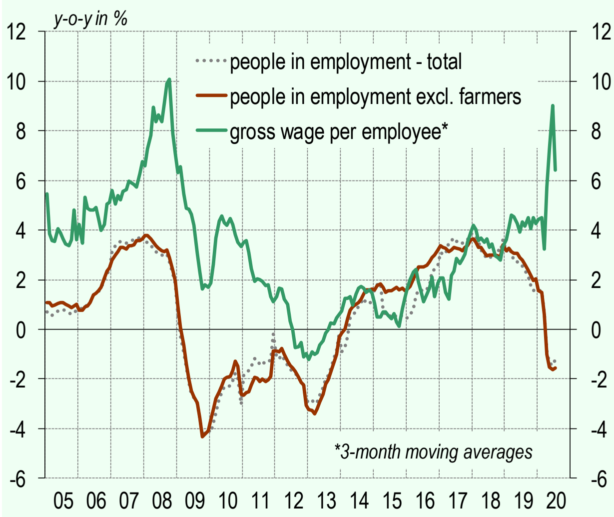
The registered unemployment rate was unchanged in monthly terms in June, but rose by more than the surveyed unemployment rate over the second quarter as the labour force participation rate declined. The registered unemployment rate stood at 9.1% at the end of June, up 1.8 percentage points in year-on-year terms. In the rise of 1.3 percentage points relative to the pre-epidemic figure of February, there are discernible intergenerational variations: the rise was much more pronounced for younger generations than for older generations. The impact of the epidemic was felt more acutely on the labour market by younger generations, who are typically more likely to be in precarious forms of employment. As the labour force participation rate declined, the registered unemployment rate rose by more than the surveyed unemployment rate in the second quarter. The registered unemployment rate in the second quarter reached 9.2% in the second quarter, up 1.2 percentage points on the previous quarter, while the rise in the surveyed unemployment rate over the same period was significantly smaller: it was up 0.6 percentage points at 5.2%.

According to surveys, two-thirds of the decline in employment fed through into a rise in the inactive population, reducing the labour force participation rate by 0.5 percentage points relative to the first quarter, to 57.3%.

Wage developments

The ending of crisis bonus payments contributed to a significant slowdown in wage growth in recent months, and a slight further slowdown is expected over the remainder of the year, particularly in the private sector. The average gross wage in August was up 5.0% in year-on-year terms, despite remaining unchanged in monthly terms for the third consecutive month. Year-on-year wage growth in mostly public services stood at 6.2%, down significantly on the extremely high rates seen in April and May (19.9% and 17.6% respectively), which were driven by record rises in wages in human health and social work activities during the official epidemic period (38.4% in April and 30.6% in May). Wage growth in the private sector was more moderate, and stood at 3.0% in August. The wage dynamics since the outbreak of the epidemic have on one hand been shaped by bonus payments in connection with the epidemic, but have also been significantly affected by methodological quirks in wage statistics. These factors mean that the dynamics in wage growth are still not reflecting the downturn on the labour market. Based on the past relationship between developments in employment and average wa-

Figure 3.8: Wages and employment



Source: SORS, Bank of Slovenia calculations.

Table 3.2: Labour costs

	2015	2016	2017	2018	2019	19Q2	19Q3	19Q4	20Q1	20Q2
					in EUR					
Average gross wage	1,556	1,584	1,626	1,681	1,754	1,726	1,725	1,832	1,788	1,881
					y-o-y growth in %, nominal					
Average net wage	0.4	1.7	3.1	2.9	3.7	3.3	3.8	4.0	4.1	10.5
Average gross wage	0.7	1.8	2.7	3.4	4.3	3.9	4.5	4.2	3.2	9.0
- mainly private sector (excl. OPQ)[1]	0.8	1.3	2.6	3.9	3.6	3.2	4.0	3.2	2.8	4.7
- mainly public services (OPQ)[1]	0.6	3.3	2.8	2.4	6.5	6.1	6.0	7.6	4.2	15.7
Average gross wage in manufacturing	2.1	2.1	3.2	4.0	3.5	3.5	3.9	2.9	4.2	3.0
Average real net wage[2]	1.2	1.8	1.5	1.0	2.0	1.5	1.7	2.3	2.4	11.8
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	0.6	1.8	1.2	2.8	4.2	5.5	4.2	3.9	6.9	11.0
Unit labour costs,[3,4] real	-0.4	0.9	-0.3	0.6	1.9	3.0	1.8	1.5	4.1	8.5
Labour costs per employee,[4] nominal	1.5	3.1	3.0	3.9	4.9	6.2	4.9	4.1	3.1	-1.8
Labour productivity, nominal	1.9	2.2	3.3	3.3	3.0	3.0	3.0	2.5	-1.0	-9.5
Labour productivity, real	0.9	1.3	1.8	1.1	0.7	0.6	0.6	0.2	-3.5	-11.5
HICP	-0.8	-0.2	1.6	1.9	1.7	1.7	2.1	1.6	1.6	-1.2
GDP deflator	1.0	0.9	1.5	2.2	2.3	2.4	2.3	2.3	2.6	2.3

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

ges, wage growth can therefore be expected to slow in the future. The expectation is that the slowdown will be more pronounced in the private sector, as wage dynamics in the public sector will again be affected by bonus payments as the epidemic resurges.

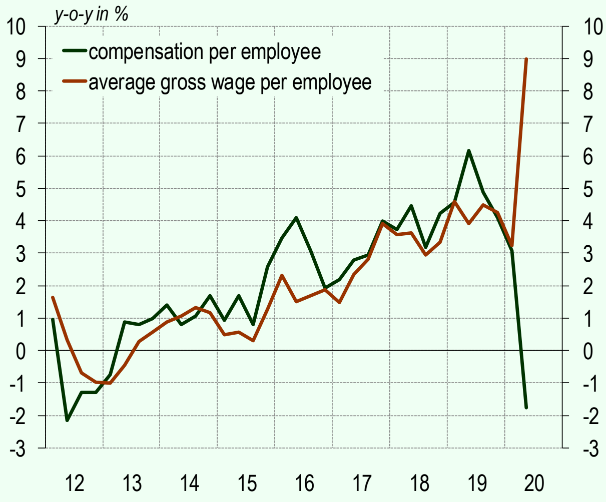
Box 3.2: Impact of the emergency measures on wage statistics and measurement of employee purchasing power

Growth in the average gross wage outpaced growth in average compensation per employee by almost 11 percentage points in the second quarter, on account of the emergency measures and methodological differences. The two indicators, which can both be used to measure pay, had in the past presented approximately the same picture of wage developments, but this was not the case in the second quarter of this year. The average gross wage per employee according to the monthly statistics from the survey entitled Wages of employees of legal entities was up 9.0% in year-on-year terms, while the average employee compensation per employee according to the national account figures was down 1.8%.

The reason for the gap lies in differences in the methodological treatment of wage compensation covered by the state budget as part of the emergency measures. In the calculation of the average monthly wage, wage compensation that was covered by the government is not recorded under the wage bill, while employees who were furloughed for the entire month do not count towards the number of employees taken into account in the calculation. By contrast, under the national accounts methodology, employee compensation includes all income of employees, irrespective of source, while the number of employees also includes all furloughed workers. The decline in average compensation per employee in the second quarter is thus largely attributable to furloughed workers being entitled to only 80% of their wage compensation.

Both indicators provide information about developments in employee purchasing power, albeit each for a different group. From the developments in average compensation per employee, conclusions can be drawn about developments in the purchasing power of all employees, including those furloughed during the epidemic. Average employee earnings declined because of the epidemic, but the decline was concentrated among furloughed workers. By contrast, the developments in the average monthly wage present a better picture of the rising purchasing power of employees that remained actively engaged in work. Their earnings rose on average during the epidemic, as a result of payments of crisis bonuses. It should be noted that the average monthly wage, which under its usual methodology is calculated by taking account of the number of employed persons, was partly subject to the methodological effects of the emergency measures, which can be avoided if the computation of the average wage takes account of the number of paid hours.[1,2] When the average wage is computed in this fashion, wage growth in the private sector in the second quarter is 2.5 percentage points higher than the comparable wage growth based on the methodology that takes account of the number of employed persons instead of hours worked. As the number of employees included in the emergency measures declined, the gap between the two definitions of average monthly wage began to quickly narrow, and stood at just 0.3 percentage points in July.

Figure 1: Gross wage and compensation per employee



Source: SORS, Bank of Slovenia calculations.

Figure 2: Comparison of average wage based on number of employees and number of employees in paid hours

Note: Average wage per employee relates to employees at legal persons in private sector, while average wage per employee in paid hours relates to employees at legal persons that are not budget users.
Source: SORS, Bank of Slovenia calculations.

[1] These methodological effects are particularly pronounced when employees are furloughed for part of the month, and working for the other part of the month. In this case the employees are classed as employed persons, and are taken into account in the computation of the average wage, while the wage bill only includes that part of their

earnings paid by the employer. This results in an artificially low average wage, as the numerator and the denominator are treated differently. This is not the case when the average wage is computed by taking account of paid hours, as both parts of the fraction are adjusted as appropriate.

[2] Additional clarifications in connection with the methodological quirks of monitoring developments on the labour market during the Covid-19 outbreak can be found in the July issue of Economic and Financial Developments and in the August's Summary of macroeconomic developments.

4 Current Account and Competitiveness Indicators

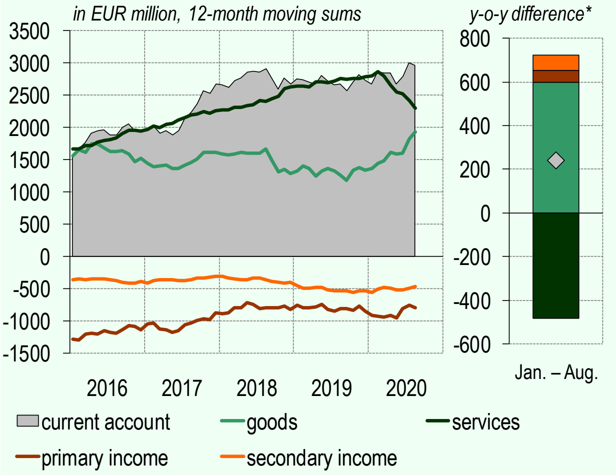
The trade situation remained troublesome over the summer. After recovering rapidly following the lifting of the most stringent containment measures, growth in exports of numerous categories of goods stalled, while the persistence of the year-on-year decline in merchandise imports, particularly of intermediate goods, is also indicative of unutilised production capacity in the merchandise export sector, in addition to price effects. The barriers to personal travel between countries and continents, and the changes in the behaviour of the public caused by the pandemic are severely denting the recovery in services trade. The year-on-year falls in exports of travel services and transport services remained pronounced even over the summer months, while this year's lost revenues in the two sectors had exceeded EUR 1,240 million by the end of August. Manufacturing firms were still optimistic in September in their assessments of foreign demand, but the outlook for the recovery is deteriorating sharply, as case numbers have begun to rise sharply in Europe in recent weeks. The 12-month current account surplus has remained close to its record level of EUR 3 billion over the crisis, which on one hand is indicative of the weakness of domestic demand, but on the other is also indicative of the continuing competitiveness of the export sector, which amid favourable developments in relative prices could otherwise soon come under pressure from rising unit labour costs.

The price competitiveness of the Slovenian economy in the second quarter of this year remained better than a year earlier. It had improved versus partners inside and outside the euro area, entirely on account of relatively favourable price developments. By contrast, the cost competitiveness of the domestic economy has continued to deteriorate. Growth in real unit labour costs was again high, and outpaced the euro area average and the European average. Extreme caution is required in the interpretation of all competitiveness indicators, as they are still failing to present a genuine picture. Monitoring external competitiveness became much harder after the outbreak of the Covid-19 epidemic, as a result of the difficulties in measuring inflation in the second quarter of this year, and also unit labour costs while the support measures are in place on the labour market.

Current account position

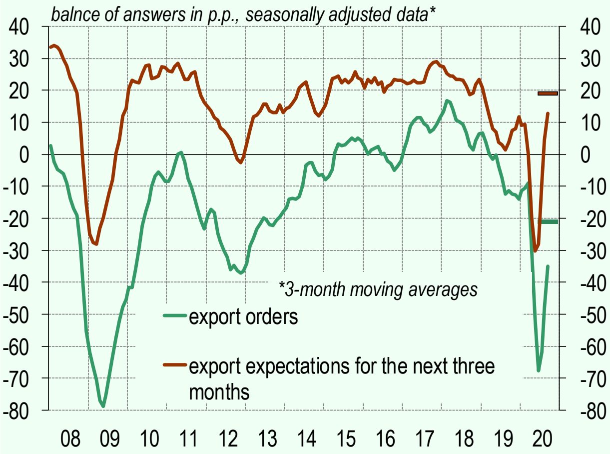
The 12-month current account surplus is holding at its record level of close to EUR 3 billion. It was up EUR 290 million in year-on-year terms in August, driven largely by a significant increase in the merchandise trade surplus after the outbreak of the coronavirus crisis. After falling sharply while the containment measures were in place, imports recovered more slowly than exports over the period to August, partly on account of price factors; the year-on-year fall in import prices remains significantly larger than the fall in export prices, on account of lower energy prices and commodity prices. A lesser factor in the widening surplus was the narrower deficit in income,

Figure 4.1: Current account components



Note: *Change in EUR million in the first eight months of 2020 compared to the same period last year.
Source: Bank of Slovenia.

Figure 4.2: Export orders and export expectations – manufacturing



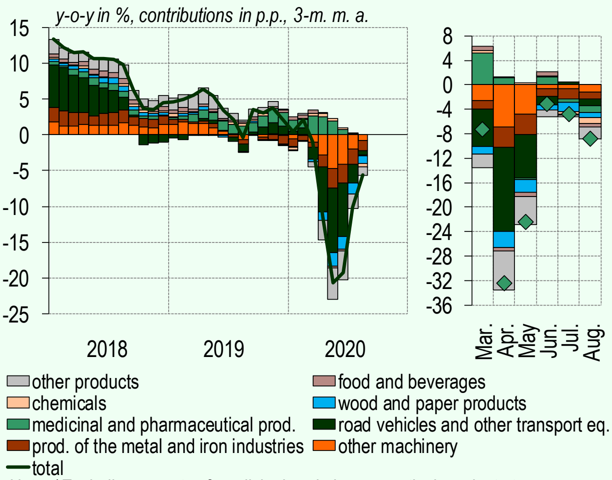
Note: The dashes represent data points for September 2020 without moving averages.
Source: SORS, Bank of Slovenia calculations.

largely in connection with payments into the EU budget over the 12-month horizon. It was the opposite story with services trade, where the surplus narrowed sharply during the pandemic, most notably on account of the decline in exports of travel services, where there are no discernible signs of recovery and the outlook for the autumn is deteriorating.

Merchandise trade

Firms were still highly optimistic in September in their assessments for the final quarter of this year, but the realisation of these assessments is being endangered by the new wave of the epidemic. A continuing recovery in foreign demand was suggested by the export order books indicator, which improved for the fourth consecutive month in September, although it remained down in year-on-year terms. Manufacturing firms' expectations for the next three months also improved sharply: the indicator rose in September for the fifth consecutive month, reaching 19.0 percentage points, up 14.0 percentage points on a year earlier, its highest value since December 2018. The situation for Slovenian exporters will nevertheless deteriorate over the coming months as containment measures are tightened in Slovenia and in other EU Member States.

Figure 4.3: Growth structure of adjusted merchandise export*



Note: *Excluding exports of medicinal and pharmaceutical products to Switzerland, oil and petroleum products, electric energy and gas.
Source: SORS, Bank of Slovenia calculations.

The merchandise trade surplus has increased dramatically this year, but the recovery in growth in imports and exports stalled over the summer. With the lifting of the containment measures and the recovery in industrial production in Europe, the year-on-year decline in merchandise exports according to the balance of payments figures stood at just 6.2% in July, 27.8 percentage points less than at the height of the crisis in April. According to the indicator of adjusted merchandise exports,[1] the strong upward rebound was primarily attributable to a much smaller year-on-year fall in exports of road vehicles and

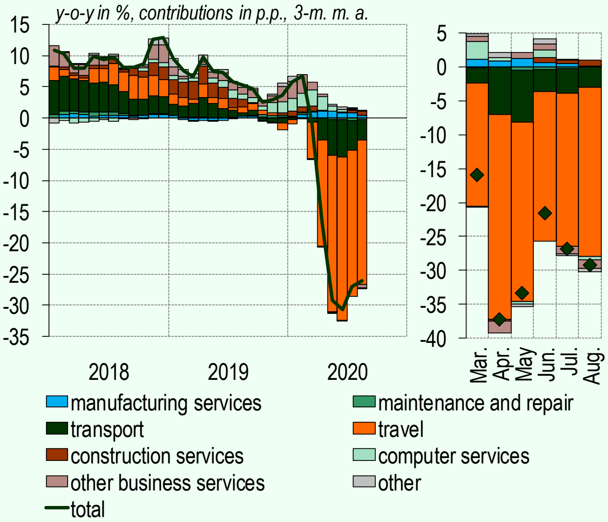
[1] Adjusted merchandise exports exclude exports of medical and pharmaceutical products to Switzerland, and exports of petroleum and refined petroleum products, electricity and gas. The exclusion of exports of medical and pharmaceutical products to Switzerland makes it easier to compare the SORS figures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

miscellaneous machinery and equipment,[2] but a recovery was also seen in other categories of goods. However, the recovery did not continue in August: the year-on-year fall increased to 7.9%. One of the reasons was a decline in exports of road vehicles,[3] but there were also declines in other categories of products. Exports of medical and pharmaceutical products were down in year-on-year terms for the second consecutive month. The recovery in nominal merchandise imports stalled over the summer;[4] the decline stood at 12.7% in August according to the balance of payments figures. Although imports of intermediate goods still accounted for the majority of the decline, imports of capital goods and consumer goods were also down in year-on-year terms, except in June. Caution is required in the interpretation of the August figures, as the decline in imports would be significantly smaller if imports of pharmaceutical products from Switzerland are ignored. The merchandise trade surplus widened significantly over the first eight months of this year. It amounted to EUR 1,630 million, up fully EUR 600 million in year-on-year terms.

Trade in services

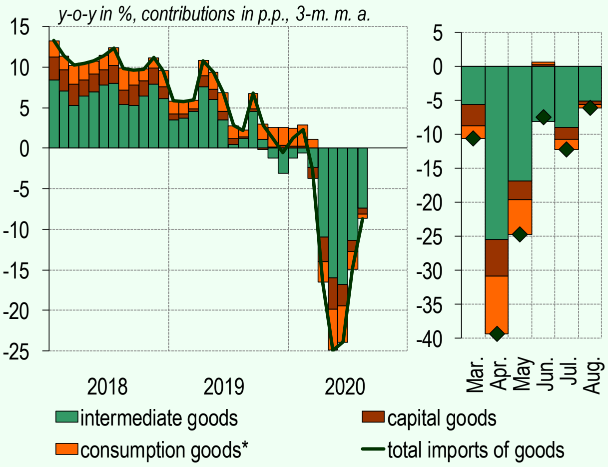
Trade in services fell sharply in 2020 as a result of the Covid-19 pandemic, and there were no signs of recovery, even over the summer. Having stood at approximately 20% in June, the year-on-year decline in nominal exports of services had deepened again to 29.2% by August, only 8.0 percentage points less than in April, and 11.3 percentage points more than the largest decline during the crisis of 2009. Given the slightly smal-

Figure 4.5: Services exports



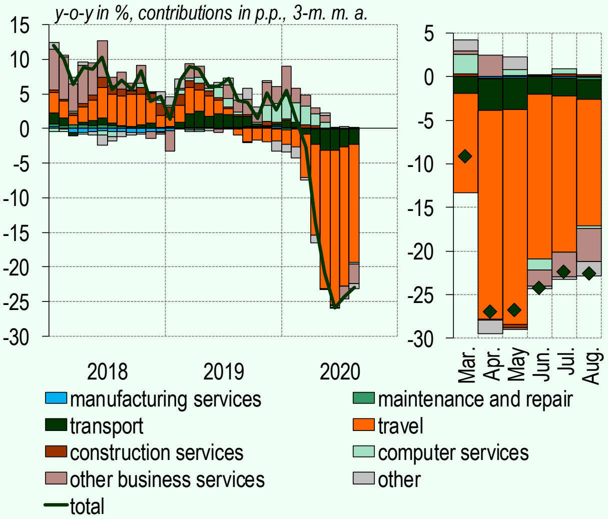
Source: Bank of Slovenia.

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



Note: *Excluding imports of medicinal and pharmaceutical products from Switzerland.
Source: SORS, Bank of Slovenia calculations.

Figure 4.6: Services imports



Source: Bank of Slovenia.

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

[3] After recording a year-on-year decline of 7.3% in June, exports of road vehicles were up 2.3% in year-on-year terms in July, before declining by 7.9% in year-on-year terms in August.

[4] The decline in nominal merchandise imports slowed from 26.3% in May to 8.7% in June, before deepening to 14.8% in July.

Table 4.1: Current account components

	in 12 months to										
	2017	2018	2019	Aug. 19	Aug. 20	19Q1	19Q2	20Q1	20Q2	Aug. 19	Aug. 20
					in EUR million						
Current account balance	2,674	2,680	2,723	2,674	2,964	716	690	846	633	240	204
1. Goods	1,617	1,282	1,330	1,262	1,929	414	434	565	555	42	144
2. Services	2,254	2,625	2,787	2,763	2,305	534	691	552	411	290	171
2.1. Transport	1,067	1,331	1,318	1,348	1,202	334	335	333	253	100	86
2.2. Travel	1,201	1,221	1,253	1,220	772	206	292	178	57	185	58
3. Primary income	-879	-819	-853	-819	-798	-9	-329	-107	-192	-50	-87
3.1. Labour income	236	258	285	259	267	52	61	70	41	26	18
3.2. Investment income	-1,226	-1,219	-1,305	-1,226	-1,251	-154	-435	-273	-286	-66	-100
3.3. Other income	110	141	167	148	185	93	45	95	53	-11	-5
4. Secondary income	-317	-408	-541	-532	-472	-223	-106	-164	-141	-42	-24
					in % GDP						
Current account balance	6.2	5.8	5.6	5.6	6.4	6.4	5.7	7.5	5.8	5.7	5.4
1. Goods	3.8	2.8	2.7	2.6	4.2	3.7	3.6	5.0	5.1	1.0	3.8
2. Services	5.2	5.7	5.8	5.8	5.0	4.7	5.7	4.9	3.8	7.0	4.5
2.1. Transport	2.5	2.9	2.7	2.8	2.6	3.0	2.7	3.0	2.3	2.4	2.3
2.2. Travel	2.8	2.7	2.6	2.6	1.7	1.8	2.4	1.6	0.5	4.4	1.5
3. Primary income	-2.0	-1.8	-1.8	-1.7	-1.7	-0.1	-2.7	-0.9	-1.8	-1.2	-2.3
3.1. Labour income	0.5	0.6	0.6	0.5	0.6	0.5	0.5	0.6	0.4	0.6	0.5
3.2. Investment income	-2.8	-2.7	-2.7	-2.6	-2.7	-1.4	-3.6	-2.4	-2.6	-1.6	-2.6
3.3. Other income	0.3	0.3	0.3	0.3	0.4	0.8	0.4	0.8	0.5	-0.3	-0.1
4. Secondary income	-0.7	-0.9	-1.1	-1.1	-1.0	-2.0	-0.9	-1.5	-1.3	-1.0	-0.6
					nominal y-o-y growth rates in %						
Export of goods and services	13.9	8.8	4.2	5.8	-8.1	6.7	5.9	-1.6	-24.2	-0.1	-13.6
Export of goods	14.0	8.6	3.9	5.2	-7.0	6.7	5.5	-1.7	-22.6	-1.2	-7.9
Export of services	13.5	9.6	5.5	8.1	-12.1	6.6	7.4	-0.9	-30.7	3.3	-29.2
Transport	17.7	12.6	2.7	6.1	-8.3	6.3	4.5	-1.7	-19.6	-1.6	-13.4
Travel	11.1	7.2	1.8	4.8	-38.3	2.7	5.1	-22.0	-82.1	0.1	-51.7
Other	12.4	9.5	11.2	13.0	7.6	9.8	12.0	14.8	3.9	13.9	-4.1
Import of goods and services	14.2	9.8	4.1	6.6	-9.5	6.3	5.9	-3.7	-25.5	0.6	-14.7
Import of goods	14.5	10.4	3.9	6.9	-9.5	5.9	5.8	-3.8	-25.4	1.3	-12.7
Import of services	12.3	6.6	5.2	5.2	-9.9	8.9	6.2	-2.7	-25.9	-2.1	-22.6
Transport	19.6	0.8	7.1	6.0	-5.3	9.0	9.5	-3.4	-14.1	2.2	-13.2
Travel	12.4	12.1	1.2	7.0	-39.5	18.4	7.6	-28.2	-83.4	-3.9	-36.6
Other	9.6	6.2	6.5	3.9	3.5	5.5	4.1	7.9	-0.9	-2.0	-13.4

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

ler decline in imports of services, which was nevertheless more than 20%, the surplus of trade in services over the first eight months of the year stood at EUR 1,315 million, down EUR 482 million in year-on-year terms. The narrowing surplus is being driven primarily by travel services, and also to a lesser extent by transport services. The year-on-year decline in exports of travel services was still more than 50% over the summer months, which amid a moderate decline on the import side narrowed the surplus of trade in travel services over the first eight months of the year by EUR 480 million, as lost revenue from exports of travel services exceeded EUR 1 billion. With exports of transport services also recording a significant year-on-year decline of approximately 13%, the surplus of trade in transport services over the first eight months of the year narrowed by EUR 115 million. There were no major changes in the balances in other service segments, but the recovery in miscellaneous business services came to a halt over the summer.

Primary and secondary income

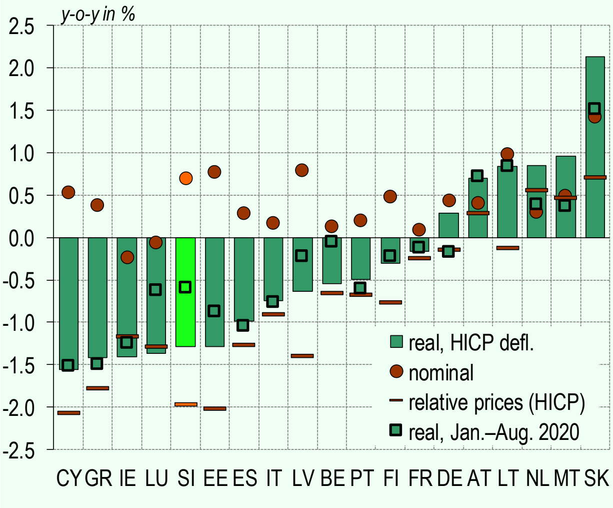
This year's slight narrowing of the surplus in primary income was largely driven by a decline in dividend payments to foreign portfolio investors holding shares in domestic firms. The deficit in primary income amounted to EUR 489 million over the first eight months of the year, down EUR 55 million in year-on-year terms. This deficit in capital income narrowed by the same figure. Within capital income, outflows from inward FDI declined by EUR 55 million on account of lower estimated reinvested earnings, while dividend payments to foreign owners over the first eight months of the year were unchanged in year-on-year terms, despite last year's high corporate profits in Slovenia. Inflows from Slovenian outward FDI also declined, by EUR 33 million, driven entirely by a decline in dividend payments. The deficit in income from investments in securities narrowed by EUR 45 million, primarily as a result of lower dividend payments to foreign portfolio investors holding shares in domestic firms. The stagnation in dividend payments to FDI owners and the decline in dividend payments to portfolio investors is largely related to a Bank of Slovenia's macroprudential measure, which temporarily restricted profit distributions by banks and savings banks. The deficit in interest payments on loans widened by EUR 12 million. The surplus in labour income narrowed by EUR 18 million, as inflows declined by more than outflows, driven by this year's worse downturn on the Italian and Austrian labour markets compared with Slovenia. The surplus in other primary income increased by the same amount, largely as a result of a slight increase in inflows of certain types of subsidy from the EU budget.

The deficit in secondary income narrowed over the first eight months of this year. It amounted to EUR 359 million, EUR 69 million narrower in year-on-year terms. The deficit narrowed both in the government sector, primarily on account of a decline of EUR 43 million in payments into the EU budget on the basis of gross national income, and in other sectors, as a result of a decline of EUR 30 million in the deficit in other current transfers, driven by reduced outflows of taxes on income and wealth, and social security contributions.

Selected competitiveness indicators

The Covid-19 epidemic has badly impeded the monitoring of external competitiveness. Extreme caution is therefore advised in the interpretation of competitiveness indicators, as they do not necessarily present a true picture of developments, given the difficulties in measuring inflation and also unit labour costs.[5]

Figure 4.7: Harmonized price competitiveness indicator against 37 trading partners in the second quarter of 2020

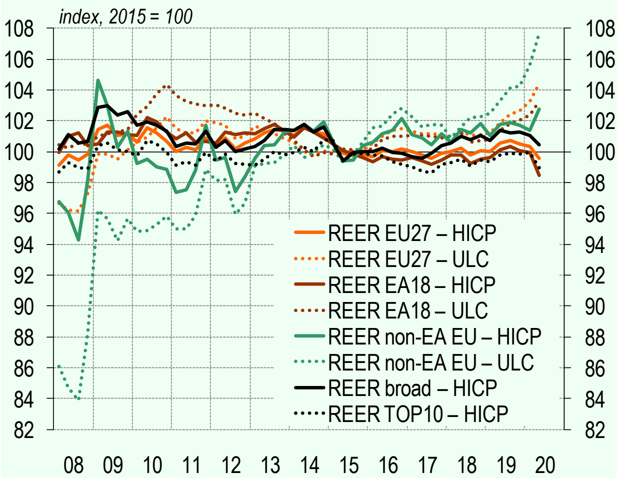


Source: ECB, Bank of Slovenia calculations.

[5] Difficulties in measuring inflation, which is an input for the computation of price competitiveness, became particularly evident in Slovenia and other countries in April, while the collection of data from the labour market that is a major determinant of cost competitiveness via unit labour costs (employee compensation and number of employees) was also badly impeded everywhere (see Box 3.2 in the Economic and Financial Developments, July 2020 , and Box 6.1 in the Economic and Financial Developments, April 2020).

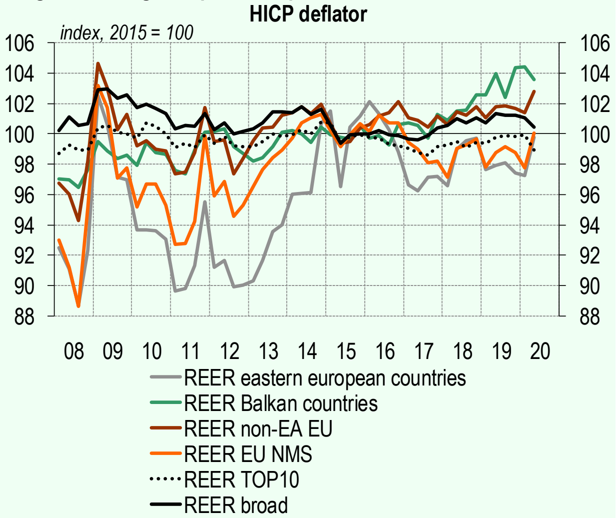
The price competitiveness of the Slovenian economy in the second quarter of this year further improved in year-on-year terms. This is shown by the ECB figures[6] (a decline of 1.3%), and Bank of Slovenia's own effective exchange rate indicator[7] (a decline of 0.9%). Favourable price developments were the only factor at work: the euro actually appreciated slightly in year-on-year terms against a basket of trading partners' currencies. According to the ECB figures, there was a slight improvement in competitiveness relative to partners outside the euro area (a decline of 0.8%), and a larger improvement relative to other euro area countries (a decline of 1.6%). Only in four euro area countries were developments in the second quarter more favourable to exporters, almost entirely because of differences in the structure of trade, i.e. more favourable exchange rate developments. The developments in domestic price competitiveness over the first eight months of the year were also among the most favourable in the euro area (see Figure 4.7).

Figure 4.8: External competitiveness indicators of Slovenia vs. different trading partners, HICP and ULC deflators



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

Figure 4.9: Regional price competitiveness indicators of Slovenia, HICP deflator



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

Developments in price competitiveness varied according to region. The own effective exchange rate indicators show that the broad price competitiveness indicator against 39 partners improved by around 1% in year-on-year terms in the second quarter, with similar figures vis-à-vis the ten most important trading partners and EU Member States. The improvement vis-à-vis Balkan trading partners was slightly smaller (a decline of 0.4%), while the improvement vis-à-vis euro area trading partners was larger (a decline of 1.7%; see Figure 4.8). By contrast, the trend of year-on-year improvement in price competitiveness seen at the end of last year came to an end in the second quarter vis-à-vis eastern European countries (a rise of 1.9%) and newer EU Member States (a rise of 1.3%), primarily as a result of the euro's stronger appreciation against the basket of currencies of partners in these regions[8] (see Figure 4.9).

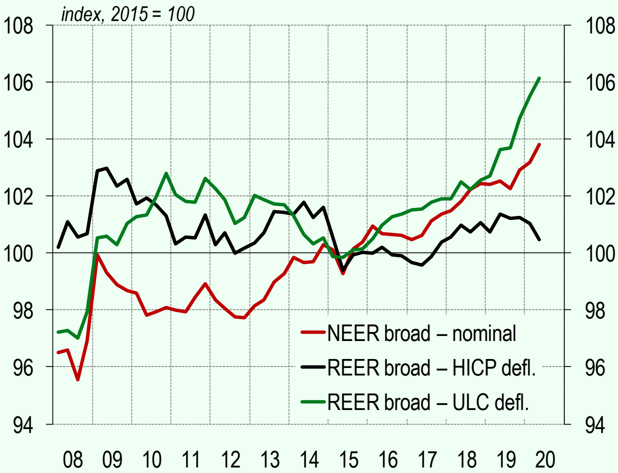
In contrast to the relatively favourable developments in price competitiveness, the cost competitiveness of the domestic economy has deteriorated significantly

[6] Price competitiveness against 37 partners (18 euro area countries and 19 countries outside the euro area) is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP).

[7] The broad price competitiveness indicator (REER-HICP) covers 39 trading partners: alongside the euro area, Bosnia and Herzegovina, Bulgaria, Brazil, China, Croatia, Czech Republic, Denmark, Hungary, India, Japan, Kosovo, North Macedonia, Poland, Romania, Russia, Serbia, Sweden, Switzerland, Turkey, the UK and the US. All price competitiveness indicators are computed using Bank of Slovenia's own methodology, and may differ from the competitiveness indicators of other institutions because of the capture of different trading partners, economic sectors, deflators and weights. For more on the methodology for computing the composite indicator, see the January 2020 Economic and Financial Developments, which can be found at https://bankaslovenije.blob.core.windows.net/publication-files/gdhbgfkicCjaUhi_economic-and-financial-developments-january-2020.pdf.

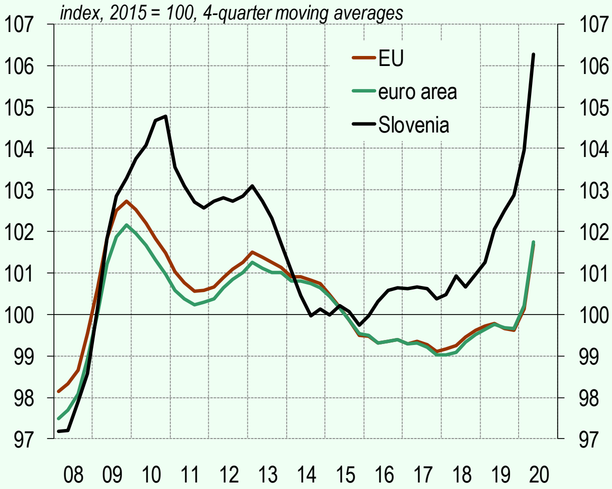
[8] The euro appreciated in year-on-year terms in the second quarter against the Polish zloty (5.2%), the Czech crown (5.4%), the Hungarian forint (8.9%) and the Russian rouble (9.8%).

Figure 4.10: Broad external competitiveness indicators of Slovenia vs. 39 trading partners



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

Figure 4.11: Real unit labour costs

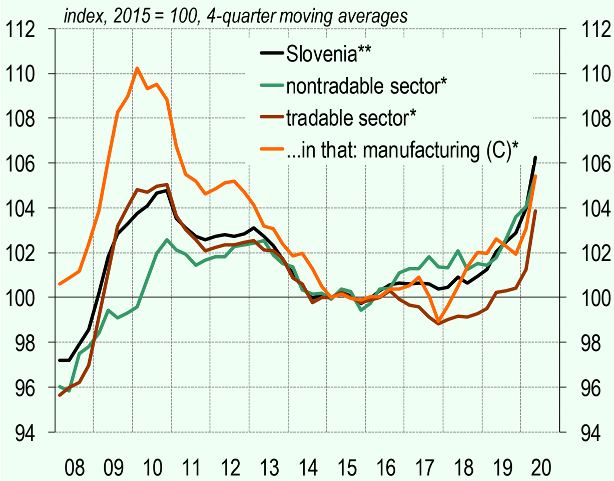


Note: GDP based calculations.
Source: Eurostat, Bank of Slovenia calculations.

over the last year.[9] Alongside the euro's appreciation against a basket of partners' currencies, the rapid rise in relative unit labour costs was also a factor.[10] Each contributed just over 1 percentage point to the overall deterioration of 2.4% in the cost competitiveness indicator relative to the second quarter of last year (see Figure 4.10).

The high year-on-year growth in real unit labour costs (RULCs) picked up further pace in the second quarter.[11] It stood at 8.5%, well above the euro area and EU averages (of 6.1% and 6.2% respectively), outpacing them for the seventh consecutive quarter (see Figure 4.11). After stalling over the last three years, the decline in labour productivity picked up further pace in the second quarter (from 3.6% to 11.5%), similar to the intensity seen across the euro area and the EU. Everywhere saw a decline in real employee compensation,[12] but the average declines seen elsewhere in the euro area (6.8%) and the EU (6.0%) were larger than in Slovenia (3.9%). The larger euro area countries such as Germany, France and Italy saw particularly pronounced declines. Some countries still recorded positive growth in

Figure 4.12: Real unit labour costs, Slovenia



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

employee compensation, despite the adverse situation caused by the Covid-19 epidemic (see Figure 4.13). The interpretation of the data requires a good deal of caution, as different countries were affected by and responded to the Covid-19 epidemic differently; this means that there are major differences in the disclosure of employee com-

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9 All cost competitiveness indicators are computed using Bank of Slovenia's own methodology. The broad cost competitiveness indicator against 39 trading partners (REER-ULC) is deflated by unit labour costs.

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

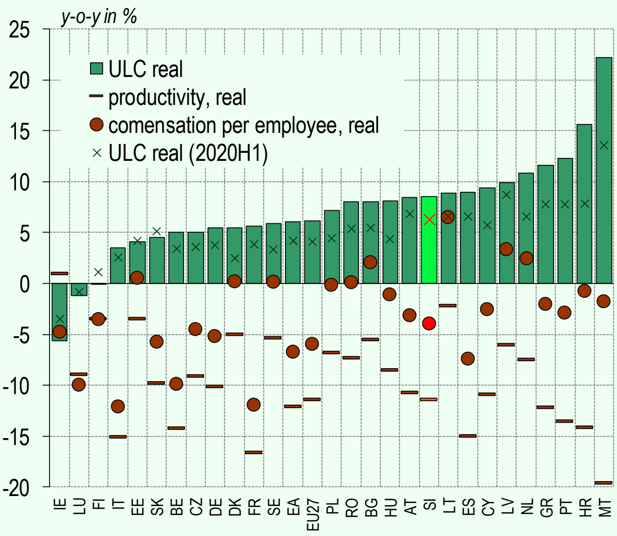
11 The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. The relationship between wages and productivity, and the dynamic of wage growth in this section could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

12 Under the methodology for measuring unit labour costs, the deflator used to compute real growth in compensation per employee is the same as that used to compute real growth in productivity, i.e. the GDP deflator.

pensation and the number of employees, which both enter into the computation of economies' cost competitiveness.

Similarly to the first quarter, year-on-year growth in RULCs in the tradable sector (10.1%) again significantly outpaced the non-tradable sector (4.9%) in the second quarter.[13] The increase in RULCs in the tradable sector was notably driven by rises in manufacturing (9.1%) and trade, transportation, and accommodation and food service activities (13.0%), entirely as a result of large declines in labour productivity that outpaced the decline in wages (see Figure 4.12). Growth in RULCs in both the tradable and non-tradable sectors outpaced the comparable figures for the euro area and the whole EU this year, similarly to last year.

Figure 4.13: Real unit labour costs in 2020Q2



Source: Eurostat. Bank of Slovenia calculations.

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

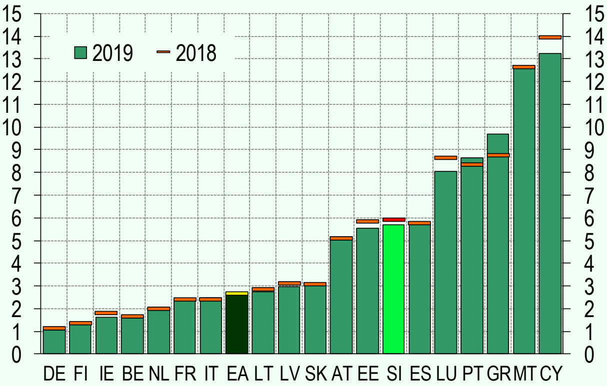
Box 4.1: Balance of payments aspects of the impact of the Covid-19 pandemic on the tourism sector in euro area countries in the first half of this year

The Covid-19 pandemic triggered a deep decline in global GDP in the first half of this year, and the nature of the containment measures meant that international tourism was one of the hardest-hit economic sectors. The number of overnight stays in the first half of the year was down by 65% in year-on-year terms globally, and by 66% in Europe.[1] The decline in global revenues from international tourism was more than five times larger than during the global economic and financial crisis in 2009, as for several weeks it was practically impossible or extremely difficult for people to travel between countries, and even after the containment measures were lifted the figures did not begin to recover significantly towards their pre-crisis levels.[2] According to the September forecasts of the World Tourism Organisation (UNWTO), global tourism revenues are expected to decline by approximately 70% this year,[3] before the loss is mostly recovered over the next two and half to four years. The recovery could nevertheless take even longer than currently forecast, owing to changes in tourist behaviour and amid the deterioration in the epidemiological picture and the reintroduction of containment measures in numerous economies. This would also directly hinder the economic recovery in numerous euro area countries.

Slovenia is ranked in the top half of euro area countries in terms of export revenues from travel services.[4] According to balance of payments figures, they amounted to 5.7% of GDP last year, 3.0 percentage points more than the euro area average.[5] The largest figures were in Cyprus and Malta, at approximately 13%. Although Italy and France are ranked second and third in terms of the absolute number of overnight stays by foreign visitors, immediately behind Spain, where exports of travel services amounted to 5.7% of GDP last year, their exports of travel services amounted to approximately 2.4% of GDP in 2019, below the euro area average. The lowest figure of just over 1% was recorded by Germany. The balance of payments figures merely allow for an estimate of the direct importance of travel exports for a particular economy, but the broader effects are considerably more extensive, and vary significantly from country to country.[6]

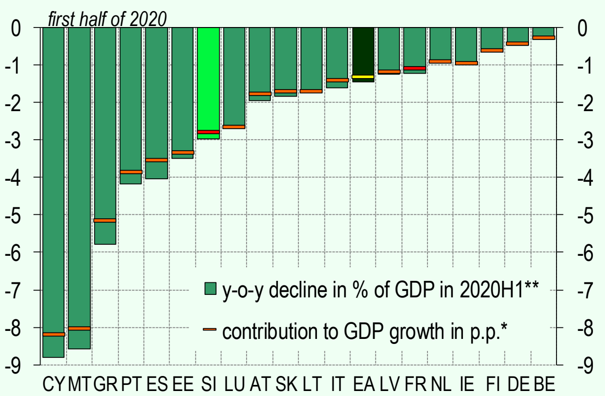
The containment measures caused a dramatic decline in exports of travel services in the first half of the year in all euro area countries.[7] The most evident were in the countries with the largest exports of travel services as measured by ratio to GDP, most notably Cyprus, Malta, Greece and Portugal.[8] In the wake of year-on-year fall of more than 70% in the number of overnight stays by foreign visitors,[9] the loss of revenue from exports of travel services in these countries ranged from 8.8% (Cyprus) to 4.2% (Portugal) of GDP in the first half of the year. Slovenia also recorded one of the largest falls in exports of travel services in the euro area: it amounted to 3.0% of GDP, and accounted for 2.8 percentage points of the decline in nominal GDP, 1.5 percentage points more than the euro area average.[10] France was one of the euro area countries hit hardest by Covid-19, but its loss of revenue from exports of travel services was one of the smallest in the euro

Figure 1: Exports of travel services in % of GDP



Note: The aggregate sum of euro area countries' exports of travel services differs from the official ECB statistics, where only the euro area's transactions with other economies outside the euro area are recorded (excluding transactions between euro area countries). According to the official ECB statistics, the euro area's exports of travel services amounted to 1.4% of GDP last year.
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

Figure 2: Decline in exports of travel services

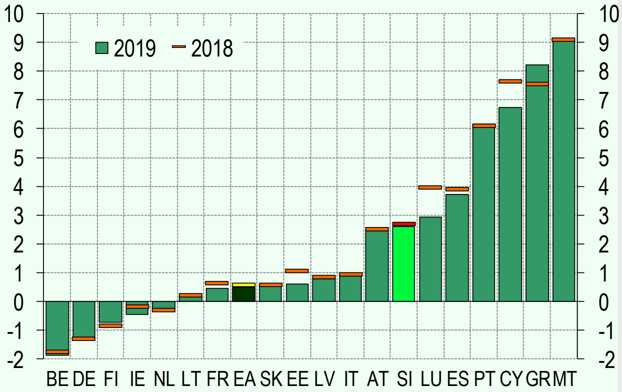


*Note: According to the official ECB statistics, the year-on-year decline of euro area's exports of travel services amounted to 0.8% of GDP. *Contribution of exports of travel services to y-o-y nominal GDP growth. **Change in exports of travel services in the first six months of 2020 compared to the same period last year, measured as a share of GDP in 2020H1.*
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

area. This is attributable to a lower direct dependence on arrivals by foreign visitors.[11] The year-on-year decline in exports of travel services in the euro area was smallest in countries that are net importers of travel services and where foreign tourists account for just a quarter of all overnight stays.[12] These include Belgium, Germany, Finland, Ireland and the Netherlands. The contribution to the decline in GDP by exports of travel services in the first half of the year averaged 0.7 percentage points in these countries.

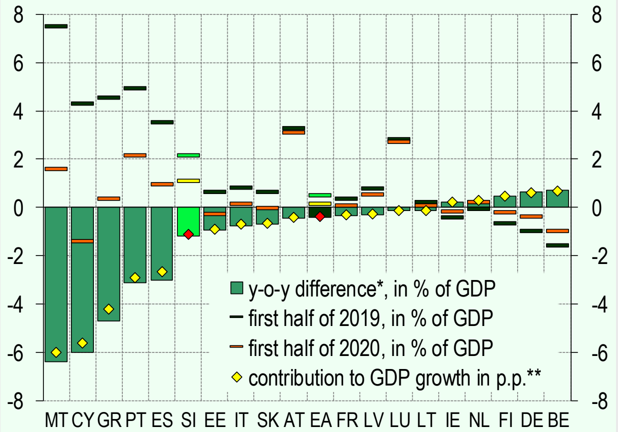
There is no major variation between euro area countries in the impact of the Covid-19 pandemic on tourism from the perspective of the balance of trade in travel services. The changes in the balance of trade in travel services were slightly smaller, given residents' inability to travel, but were nevertheless pronounced in the majority of countries. They allow for an estimate of the direct loss of GDP caused by the shock in international tourism according to the national accounts concept. The largest declines in the surplus of trade in travel services in the euro area in the first half of the year were recorded by Malta, Cyprus, Greece, Portugal and Spain, who are also the largest net exporters of travel services as measured by ratio to GDP.[13, 14] The loss of net revenue in these countries accounted for 4.3 percentage points of the year-on-year decline in nominal GDP. By contrast, the countries least badly hit from a balance of payments perspective were Belgium, Germany and Finland, where the contribution to mitigate the decline in GDP by net exports of travel services averaged just 0.6 percentage points.[15] Here it should be noted that the net approach[16] partly conceals the magnitude of the crisis, as the large decline in imports of travel services is related to losses in numerous domestic economic sectors, most notably trade in motor fuels, transport, and travel agency activities. In the case of Slovenia, the last faced a 64% year-on-year decline in real turnover in the first half of the year.

Figure 3: Net exports of travel services in % of GDP



Note: The aggregate sum of euro area countries' net exports of travel services differs from the official ECB statistics, where only the euro area's transactions with other economies outside the euro area are recorded (excluding transactions between euro area countries). According to the official ECB statistics, the euro area's net exports of travel services amounted to 0.4% of GDP last year.
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

Figure 4: Balance of travel services



*Note: *Change in travel services balance in the first six months of 2020 compared to the same period last year, measured as a share of GDP in 2020H1. **Contribution of net exports of travel services to y-o-y nominal GDP growth in 2020H1.*
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

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1 The year-on-year fall in the number of overnight stays by foreign visitors was largest in the Asia-Pacific region (72%), and in Europe.

2 Source: World Tourism Barometer, UNWTO (https://www.e-unwto.org/doi/epdf/10.18111/wtobarometereng.2020.18.1.5).

3 In the wake of a 70% decline in exports of travel services, the loss in Slovenia compared with last year would amount to EUR 1,930 million.

4 Exports of travel services according to the balance of payments methodology include goods and services for own use or for giving away that non-residents obtain from an economy during a visit to the country in question. Travel includes local transport (i.e. transport within the visited economy provided by a resident of the aforementioned economy), but excludes international transport (which is included under passenger transport). Goods purchased by a traveller for resale in the traveller's own economy or another economy are also excluded. Source: Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ EU L 166/2012).

5 The aggregate sum of euro area countries' exports of travel services differs from the official ECB statistics, where only the euro area's transactions with other economies outside the euro area are recorded (excluding transactions between euro area countries). According to the official ECB statistics, the euro area's exports of travel services amounted to 1.4% of GDP last year, while the aggregate sum of euro area countries' exports of travel services amounted to 2.7% of GDP.

6 According to the estimates of the World Travel & Tourism Council (WTTC), tourism-related activities account for considerably more of the GDP of euro area countries: approximately 20% in Cyprus, Portugal and Greece, and almost 15% in Slovenia, Italy and Spain. The lowest figures are in Lithuania, the Netherlands, Belgium, Ireland and Slovakia, where the average is 5.6%.

[7] The exception was Belgium, where the loss of revenue from exports of travel services in the first half of the year was 19.6%, 13.6 percentage points less than in the second half of 2015, when the record figure came in the aftermath of terrorist attacks.

[8] Spain (4.0% of GDP) and Estonia (3.5% of GDP) also saw a major decline in exports of travel services.

[9] The proportion of overnight stays accounted for by foreign visitors exceeds 80% in Malta, Cyprus and Greece. In Portugal the figure was around 65% in 2019.

[10] According to the official ECB statistics, exports of travel services accounted for 0.8 percentage points of the year-on-year decline in euro area GDP.

[11] France has the second-lowest proportion of total overnight stays accounted for by foreign visitors, immediately behind Germany. The figure stood at 30.5% last year.

[12] Foreign visitors accounted for 20.4% of all overnight stays in Germany, 30.6% in Finland, 41.9% in the Netherlands and 49.9% in Belgium in 2019. The figure in Ireland was 50.2% in 2018.

[13] Although it is ranked sixth in terms of the ratio of net exports of travel services to GDP, immediately behind Spain, Luxembourg recorded the smallest year-on-year decline in the surplus of trade in travel services in the first half of the year of all euro area countries other than Lithuania.

[14] Among euro area countries, Slovenia and Estonia were also hit hard from a balance of payments perspective: net exports of travel services accounted for 1.1 percentage points and 0.9 percentage points of their respective declines in nominal GDP.

[15] Net exports of travel services also made a positive contribution to GDP growth in Ireland and the Netherlands, who are also net importers of travel services.

[16] The net approach is the standard approach to the expenditure-side itemisation of GDP growth, where the positive contribution of exports is reduced in full by the contribution of imports, irrespective of which component of GDP the imports are actually consumed in. This subject was discussed in the December 2019 issue of the Macroeconomic Projections for Slovenia (pages 14 to 18; see: https://bankaslovenije.blob.core.windows.net/publication-files/gdhbOiagdUgghahf_macroeconomic-projections-for-slovenia-december-2019.pdf).

Box 4.2: Revision to the balance of payments and international investment position for the period of 2009 to 2019

In August Bank of Slovenia conducted its annual revision of data on the balance of payments and the international investment position for 2009 to 2019. The majority of the changes have no significant impact on the current and financial account positions, but relate more to reallocations within items. The only significant changes to the current account position came in 2019.

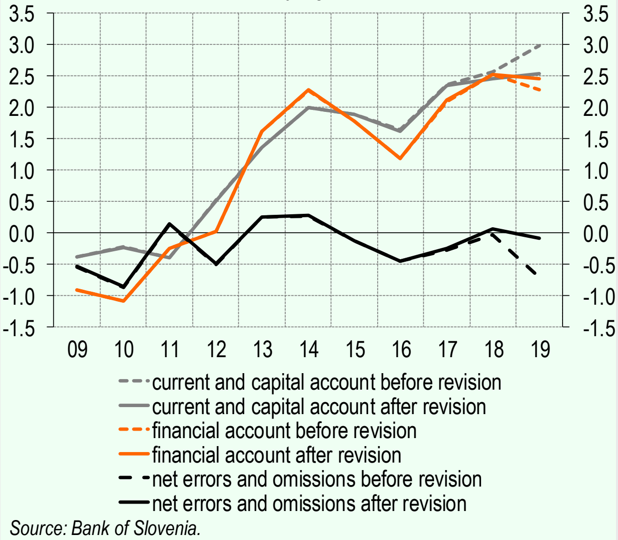
The current account surplus in 2019 narrowed by EUR 0.4 billion under the revision. Just over half of this was attributable to a smaller surplus of trade in services (driven primarily by an increase in exports of travel services and a decline in the surplus of trade in transport services), while the remainder is mostly attributable to a wider deficit in capital income in connection with reinvested earnings and profit distributions from FDI:

- Imports of travel services in 2019 were revised upwards by EUR 0.1 billion to EUR 1.5 billion. The data source for the increase in imports of travel services is the Eurostat bilateral database, which complements the basic source (the TU-ČAP survey of residents' travel conducted by the SORS). The majority of the increase was caused by data revisions in neighbouring countries (most notably Croatia).
- The surplus of trade in transport services was reduced on account of a decline in exports during reconciliation with the final aggregate in services on the basis of firms' closing accounts for 2019.
- Reinvested earnings and profit distributions reduced the current account surplus in 2019 by EUR 0.2 billion under the revision. The change was driven primarily by an increase in outflows (reinvested earnings and profit distributions on inward FDI in Slovenia, in the total amount of EUR 0.3 billion), while inflows increased by EUR 0.1 billion (mostly an increase in reinvested earnings from outward FDI). Changes were expected here, as they are based on annual reports for 2019, which are known and are taken into account in calculations with a lag of more than six months.

The changes that resulted in reallocations of data within asset instruments in the financial account are linked to analysis of the two-year data series of international tax exchange and the use of data from the ECB's central securities database. There were changes in stocks, and also in transactions to a lesser extent, for which reason the differences in stocks of international efforts are clarified below:

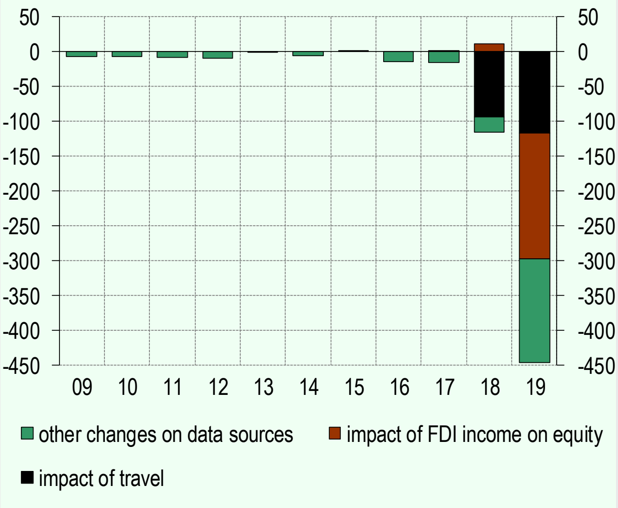
- Detailed data from the two-year series (2017 and 2018) of international tax exchange on the assets of natural persons held at foreign financial institutions, which was released by the FARS for analytical purposes, was available for the first time in 2020. The analysis showed that data from the international tax exchange encompasses: i) deposits (between 45% and 55% of the value), ii) equity and investment fund shares/units (between 40% and 55%), and iii) insurance schemes: life insurance (around 5%)

Figure 1: Balance of payments before and after revision in EUR billion



Source: Bank of Slovenia.

Figure 2: Changes in current and capital account balance in EUR million

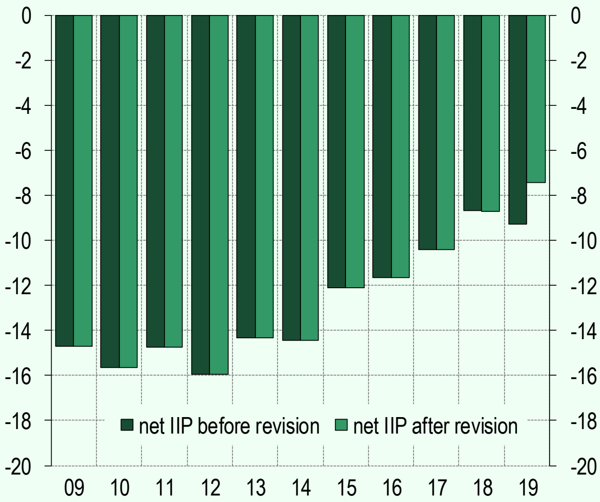


Source: Bank of Slovenia.

held by households (S.14) directly with foreign financial institutions. While the size of the estimate for assets in the form of securities proved to be correct, the original estimate for assets in the form of deposits proved to be overstated. The overstated portion of household deposits held in the rest of the world was therefore removed under this year's revision to the figures (for 2009 to 2019), and reallocated to other accounts receivable from the rest of the world. The change was neutral from the perspective of the net international investment position, as it was merely a reallocation, with a decrease in currency and deposits and an increase in other assets. The reallocation was made for the period of 2009 to 2019 (the decrease in deposits in the rest of the world and the increase in other assets amounted to EUR 0.3 billion in 2009, reaching EUR 1.0 billion by the end of 2019).

– For the purposes of classification into individual types of securities (equities, investment fund units/shares, bonds, etc.) in the figures for investments in foreign securities, the definition of securities from the central securities database (CSDB) maintained by the ECB together with its members and commercial data providers began to be used, while the definition from reports collected by the central bank was abandoned. The main impact of the aforementioned change is a reallocation between investments in foreign equities (shares in firms other than investment funds) and investments in foreign investment funds. Investments in shares in foreign investment funds increased under the revision (by EUR 0.2 billion in 2014, and by fully EUR 0.5 billion in 2019) at the expense of a decrease in investments in foreign shares in firms other than investment funds. This change is also neutral from the point of view of the impact on the net international investment position, but allows for better comparability of bilateral data.

Figure 3: Impact of revision on net IIP position in EUR billion



Source: Bank of Slovenia.

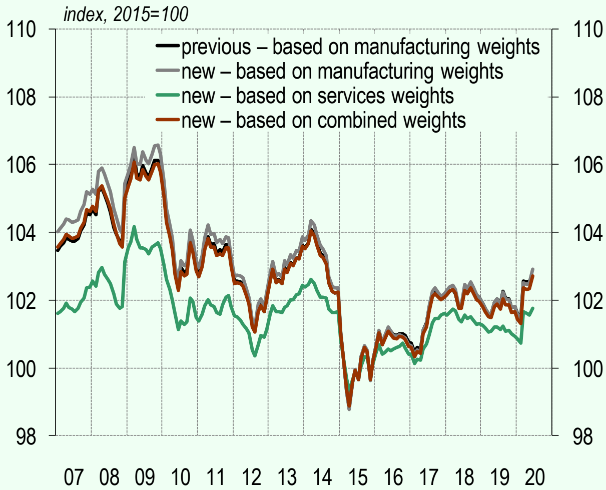
Box 4.3: ECB's update to the computation of effective euro exchange rates and harmonised competitiveness indicators of euro area countries

This summer the ECB enhanced the calculation of effective exchange rates (EERs) and harmonised competitiveness indicators (HCIs).[1] Because Banka Slovenije also uses them in its analysis of Slovenia's external competitiveness, we feel a need to draw attention to the largest changes. These primarily relate to the inclusion of services in the trade weights,[2] as a result of the evolution of international trade links, particularly the fast-growing services trade between countries. The updated indicators now provide a more complete picture of the external competitiveness of the euro area and its constituent countries,[3] but the update did not require any changes in the time horizon of data availability, the set of trading partners,[4] or the double counting methodology, which takes account of exports to third markets. The majority of the computations of EERs/HCIs now use combined trade weights that capture trade in industrial goods and in services, although manufacturing weights are still used in certain cases, as is long-standing practice.[5]

On this occasion the update to the computation of EERs/HCIs by the ECB was most comprehensive in its work to include services trade, compared with other central banks and international organisations.[6] Numerous institutions had earlier tried to include services trade in their weighting schemes for EERs. The Fed made an addition last year, but simplified the methodological approach by switching to simple trade weights, thereby refraining from the calculation of third markets effects. Similarly the Bank of England uses bilateral data on services trade, but does not take account of the effects of third markets, while the IMF includes trade in services by using the same weights as for manufactured goods and tourism flows for those countries where these are significant. Insufficient data availability for the euro area meant that until this year the ECB was unable to allow the inclusion of services trade in the EER weighting scheme.[7] Now a comprehensive and satisfactory picture of bilateral cross-border flows of services is available: great progress has been made in recent years in data quality and availability, while the last remaining obstacles to the computation of indicators have finally been eliminated, including the use of certain techniques for filling the remaining data gaps.[8]

It is pertinent to include services trade in the EER weighting schemes because it is rapidly growing in importance, while trade in manufactured goods and in services are equally influenced by competitiveness developments. This is particularly relevant to countries where the patterns of the two types of trade differ significantly. The trade basis used to date to compute the weights for EERs/HCIs has relied solely on trade in manufactured goods,[9] but now includes services trade. Manufactured goods still account for the largest proportion of euro area trading, but in recent decades services trade has gained great importance amid globalisation and digitalisation, and by the end of 2019 accounted for approximately 30% of the euro area's total foreign trade. Nowadays a wide range of services are traded internationally, and growth is particularly pronounced in services where new technologies play a part. There is considerable variation in the trade weights of euro area countries used to compute

Figure 1: Nominal HCI* of Slovenia against 37 trading partners



*Note: *Harmonised competitiveness indicator.*
Source: ECB.

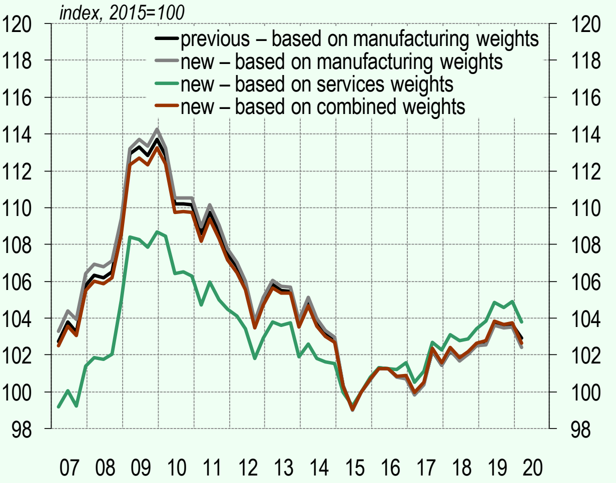
Figure 2: Real HCI* - deflated by HICP - of Slovenia against 37 trading partners

*Note: *Harmonised competitiveness indicator.*
Source: ECB.

HCIs. The share of services exceeds 50% in Luxembourg, Cyprus, Ireland and Malta, but is less than 30% in Slovakia, Slovenia, Belgium, Germany and Italy.

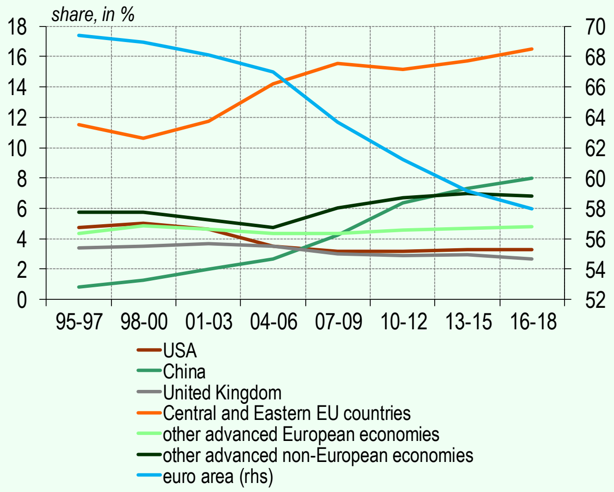
The methodological update in Slovenia's HCIs led to one of the smallest revisions in the euro area.[10] This was because Slovenia has one of the highest figures for the share of the combined weights accounted for by manufacturing (82.2%; see Table 1). The changes in the nominal and real HCIs are therefore small, as Figures 1 to 3 make evident. Slovenia's highest trade weight still goes to the euro area, although it has declined significantly over the last two decades.[11] At the same time there has been an increase in respect of China and the countries of central and eastern Europe, with whom Slovenia is increasingly integrated in global value chains. The aforementioned countries are growing in importance in Slovenia's foreign trade.[12] The shares of other

Figure 3: Real HCI* - deflated by ULCT - of Slovenia against 37 trading partners



*Note: *Harmonised competitiveness indicator; ULCT - ULC in total economy.*
Source: ECB.

Figure 4: The evolution of overall trade weights in the Slovenian HCI* against 37 trading partners



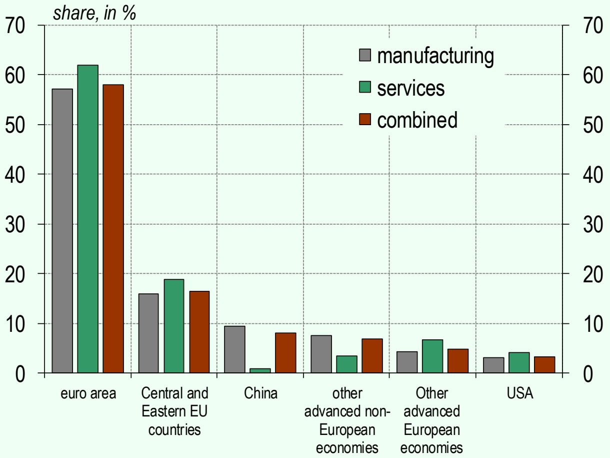
*Note: *Harmonised competitiveness indicator.*
Source: ECB.

Table 1: Share of services and manufacturing in combined trade flows, 2016 to 2018, in %

	Services	Manufacturing
Slovakia	13.2	86.8
Slovenia	**17.8**	**82.2**
Italy	22.9	77.1
Germany	23.4	76.6
Belgium	24.2	75.8
Lithuania	26.2	73.8
Austria	27.9	72.1
Latvia	29.5	70.5
Spain	30.5	69.5
Estonia	30.6	69.4
Euro area	**31.0**	**69.0**
Portugal	31.1	68.9
Netherlands	31.9	68.1
France	33.2	66.8
Finland	36.7	63.3
Greece	50.6	49.4
Ireland	58.3	41.7
Malta	61.8	38.2
Cyprus	70.4	29.6
Luxembourg	81.7	18.3

Note: The shares are computed from trade with the broadest group of trading partners outside the euro area.
Source: ECB.

Figure 5: Trade weights in the Slovenian HCI* against 37 trading partners, 2016–2018



*Note: *Harmonised competitiveness indicator. Geographical composition of shares in the overall trade of manufacturing and services.*
Source: ECB.

groups of Slovenia's trading partners have remained relatively unchanged over recent years (see Figure 4). Slovenia's strongest trade links are with the euro area, both in trade in manufactured goods and in services trade (see Figure 5). The weights of both categories are relatively equal, similarly to other groups of trading partners. The only notable outlier is China, with whom Slovenia trades significantly more in goods than in services.

References:

Brisson, R., Schmitz, M. (forthcoming). The ECB's enhanced effective exchange rates and harmonised competitiveness indicators – An updated weighting scheme including trade in services. Statistics Paper Series.

ECB (2020). The ECB enhanced effective exchange rate measures can be found at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202006_02~01e3d45273.en.html (5 October 2020)

[1] The nominal effective exchange rate (NEER), which illustrates an overall measure of the external value of the currency, is the weighted geometric mean of the euro's bilateral exchange rates against the currencies of the euro area's main trading partners. Adjusting the NEER for different relative prices or costs (consumer prices, GDP deflator, industrial producer prices or unit labour costs) yields real effective exchange rates (REERs), which are used as indicators of the euro area's price or cost competitiveness vis-à-vis its main competitors on international markets. Harmonised competitiveness indicators (HCIs), which are based on the same methodology and data as the EERs, are computed for the individual euro area countries. They have been enhanced in the same way as the EERs.

[2] The ECB regularly (every three years) updates its trade weights for the EER/HCI computations to capture medium-term changes in the trade patterns of the euro area and its constituent countries. The 2016 to 2018 period was added in the last exercise in July 2020.

[3] As of 1 July 2020 only the new updated indicators can be found in their databases, while the old indicators based on trade in manufactured goods alone are no longer computed. To minimise any potential confusion on the part of users of its database, the SDW has nevertheless retained the names of the series from before.

[4] The broadest group of trading partners was alone in being expanded slightly. Under the update it was widened from 38 to 42 partner countries. Columbia, Peru, Saudi Arabia, Ukraine and the UAE were added, while Venezuela was excluded owing to the difficulty in obtaining reliable economic statistics for this country and to its diminished role as a trading partner for the euro area.

[5] The combined weights are used for computing the nominal EERs and the real EERs deflated by consumer prices, the GDP deflator and unit labour costs in the total economy. Two types of REER/RHCI continue to be based on the manufacturing weights alone, namely those deflated by manufacturing producer prices and unit labour costs in manufacturing.

[6] The own effective exchange rates developed last year at Banka Slovenije do capture services trade (for more, see the selected theme entitled Methodology for calculating the effective exchange rate for Slovenia, in the January 2020 issue of Economic and Financial Developments).

[7] Schmitz constructed experimental EERs/HCIs for the euro area and its 17 constituent countries as early as 2012 based on bilateral services trade weights vis-à-vis 36 trading partners for two periods (2004 to 2006, and 2007 to 2009).

[8] Data from several sources (OECD, Eurostat, UN) was consolidated to this end, most notably by using data mirroring techniques, and an econometric gravity model in certain instances.

[9] It is based on bilateral data on manufacturing trade, namely the shares of imports and exports accounted for by Sections 5 to 8 of the SITC.

[10] This box focuses solely on the harmonised competitiveness indicators (HCIs) relative to the group of 37 trading partners customarily used in analysis of Slovenia's external competitiveness. A similar picture is presented by the other HCIs.

[11] The ECB's group of 37 trading partners does not include certain major trading partners of Slovenia, such as Russia, Serbia, and Bosnia and Herzegovina. The last two are not even included in the broadest group of 60 partners.

[12] A similar trend is also evident at the euro area level.

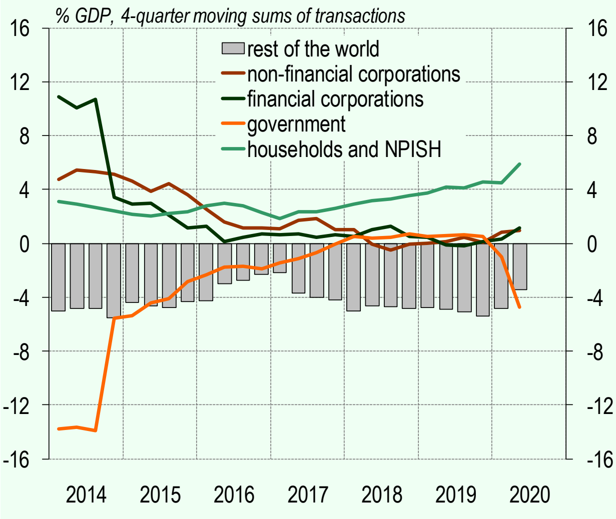
5 Financial Standing of Non-Financial Corporations, Households and Banks

Non-financial corporations, households and banks entered this year's crisis in good financial shape, but the financial accounts for the second quarter are already reflecting changes in their behaviour. The largest reversal as a result of the introduction of the emergency measures and the corresponding additional borrowing at the outbreak of the Covid-19 epidemic came in the government sector, where a two-year trend of net saving came to an end. At the outbreak of the epidemic, non-financial corporations further strengthened their saving relative to their investment, although they had already become more cautious in their behaviour on account of the increasing uncertainty in the international environment before that. The household sector, which still has the most prominent saving-investment gap, is now saving at even greater rate (including forced saving). The excess saving by households and non-financial corporations primarily flowed in the form of deposits to banks, who in turn continued to place the money with the central bank. The year-on-year increase in the banks' financial assets and liabilities has this year undergone its most pronounced surge of the last ten years.

Saving-investment gap by institutional sector

The dynamics in the net financial position of domestic institutional sectors changed at the outbreak of the Covid-19 epidemic. The gap by which aggregate saving exceeded aggregate investment narrowed to just 3.4% of GDP. This was largely attributable to a reversal in the net position of the government sector: its investment once again exceeded its saving after not having done so for two years. By contrast, other sectors actually recorded increased growth in their net financial assets, most notably households, whose net saving in the amount of 5.9% of GDP meant that they remained the dominant factor in the aggregate net financial position against the rest of the world.

Figure 5.1: Savings-investment gap



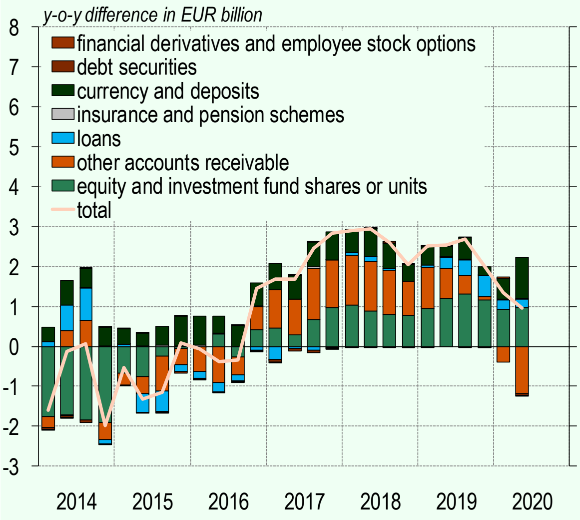
Source: Bank of Slovenia, SORS.

Financial assets and financing of non-financial corporations

Year-on-year growth in non-financial corporations' financial assets and liabilities has slowed significantly this year.[1] Non-financial corporations' financial assets at the end of the second quarter were up only around EUR 970 million in year-on-year terms. The largest year-on-year decline was recorded for the second consecutive quarter by trade credits granted, at more than EUR 1.2 billion. By contrast, non-financial corporations recorded a sharp increase in their bank deposits (of around EUR 1 billion), most likely as a result of a precautionary attitude to investment. Amid the huge uncertainty on international markets, the year-on-year increase in non-financial corporations' investments in the rest of the world declined sharply to just EUR 100 million, only a tenth of the figure recorded a year earlier.[2] The year-on-year increase in non-financial corporations' financial liabilities amounted to EUR 1.3 billion in the second quarter, primarily driven by a year-on-year increase in liabilities in the form of equity (EUR 2.1 billion). By contrast, non-financial corporations continued to pay down debt to banks and issuers of debt securities (in the total amount of almost EUR 300 million), and made significantly larger repayments of trade credits (EUR 1.1 billion). Non-financial corporations increased their financial liabilities to the rest of the world slightly (by around EUR 540 million), but by significantly less than a year earlier.[3]

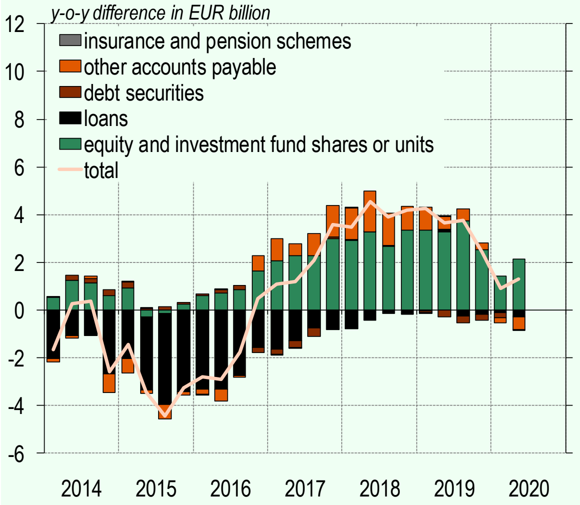
Non-financial corporations' indebtedness remains significantly lower than the euro area average. It was equivalent to 48% of GDP at the end of the second quarter, approximately half of the average figure in the euro

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



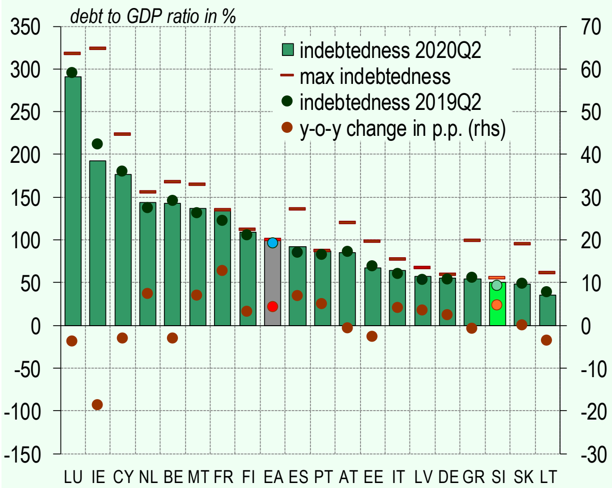
Source: Bank of Slovenia.

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



Source: Bank of Slovenia.

Figure 5.4: International comparison of corporate indebtedness*



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

[1] The year-on-year increase in the stock of assets was just 2.0% in the second quarter (compared with 5.5% a year earlier), while the increase in non-financial corporations' liabilities stood at 1.5% (compared with 4.3% a year earlier).

[2] This was largely driven by a decline in trade credits granted to the rest of the world (by EUR 600 million), while the increases in non-financial corporations' holdings of foreign equity (EUR 450 million) and loans granted (EUR 200 million) came at a similar tempo to last year.

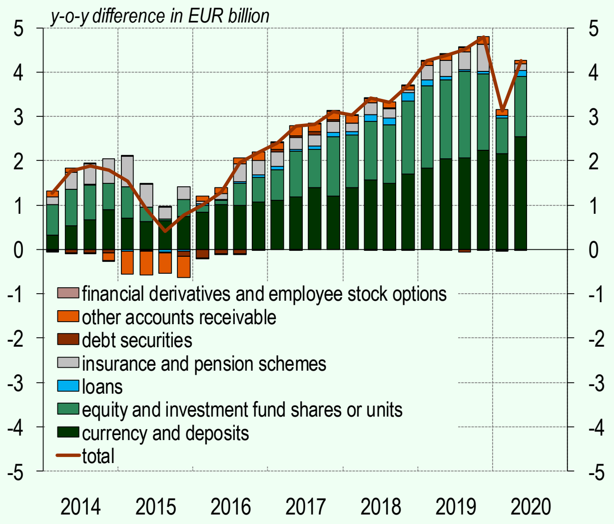
[3] The increase was particularly evident in equity (EUR 720 million), albeit mainly as a result of positive revaluations of liabilities.

area. The indebtedness of Slovenian firms remains among the lowest of any euro area country.

Financial assets and financing of households

Since the outbreak of the Covid-19 epidemic, households have directed their financial surpluses even more intensively into currency and deposits, while reducing their financial liabilities at the same time.[4]

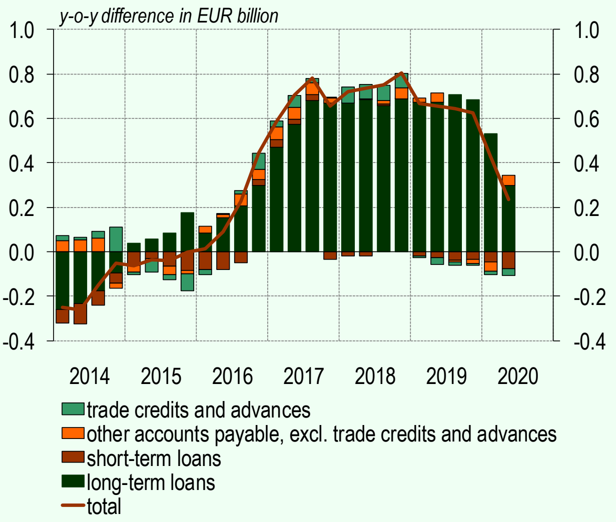
Figure 5.5: Financial assets of households (S.14)



Source: Bank of Slovenia.

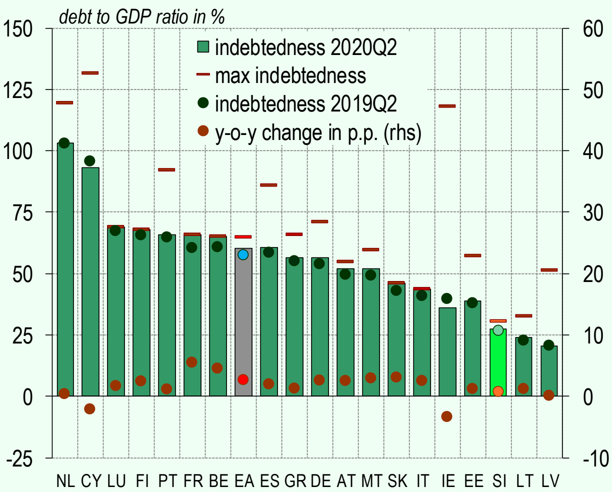
Households' financial assets at the end of the second quarter were up around EUR 4.3 billion in year-on-year terms. On this occasion the increase was again driven above all by a year-on-year increase in currency and deposits in the amount of EUR 2.6 billion, the largest increase since monitoring of the statistical series began in 2005. This is primarily attributable to reductions in spending by households, or even an inability to spend, owing to the uncertain situation amid the outbreak of the Covid-19 epidemic and the containment measures. There were also increases in households' holdings of equity and investment fund shares (by EUR 1.3 billion) and insurance and pension schemes (by EUR 160 million), although both were driven almost entirely by positive revaluations. By contrast, the stock of households' financial liabilities has begun to slowly decline in current terms this year. It was still up in year-on-year terms in the second quarter, but by just EUR 230 million (compared with an increase of EUR 660 million a year earlier). Most notably the year-on-year increase in long-term loans halved (to EUR 300 million). Household indebtedness thus remains low, and well below the average for the euro area and for other euro area countries.

Figure 5.6: Financial liabilities of households (S.14)



Source: Bank of Slovenia.

Figure 5.7: International comparison of household indebtedness*



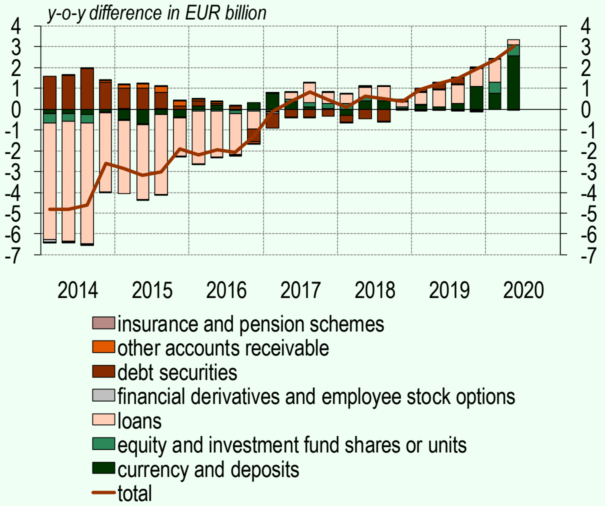
Note: *Debt is defined as sum of loans and debt securities.
Source: ECB, Bank of Slovenia calculations.

[4] The year-on-year increase in assets stood at 7.7% at the end of the second quarter (compared with 8.6% a year earlier), while the increase in liabilities slowed sharply over the last year (from 4.8% to 1.6%).

Financial assets and financing of banks

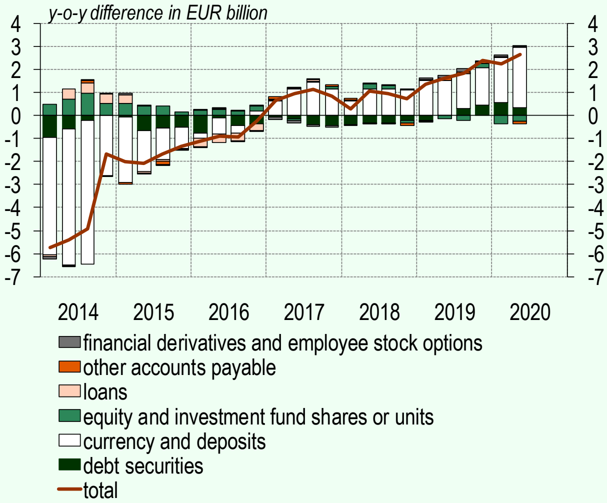
The year-on-year increase in the banks' financial assets and liabilities has this year undergone its most pronounced surge of the last ten years.[5] Their financial assets at the end of the second quarter were up EUR 3.0 billion in year-on-year terms, driven largely by an increase in deposits (of EUR 2.6 billion), held in accounts at the central bank, while the increase in the banks' lending activity came to a virtual standstill.[6] The banks' financial liabilities also increased only slightly less strongly over the observation period (by EUR 2.6 billion), driven entirely by an increase in holdings of deposits by non-financial corporations and households, which were up EUR 2.6 billion in year-on-year terms. The banks' liabilities were also slightly increased by the issuance of debt securities (almost EUR 340 million), while their equity and investment fund shares declined by EUR 250 million in year-on-year terms, primarily as a result of revaluations at the outbreak of the epidemiological crisis. The banks' liabilities to the rest of the world also declined (by around EUR 180 million), but were still significantly lower than before and during the previous financial crisis. The changes in bank performance in July and August are analysed in Box 5.1.

Figure 5.8: Financial assets of banks and money-market funds (S.122 and S.123)



Source: Bank of Slovenia.

Figure 5.9: Financial liabilities of banks and money-market funds (S.122 and S.123)



Source: Bank of Slovenia.

[5] The year-on-year increase in assets stood at 7.4% at the end of the second quarter (compared with 3.1% a year earlier), while the increase in liabilities stood at 6.7% (compared with 4.3% a year earlier).

[6] The year-on-year increase in loans granted amounted to just EUR 260 million, compared with EUR 830 million a year earlier. Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.1.

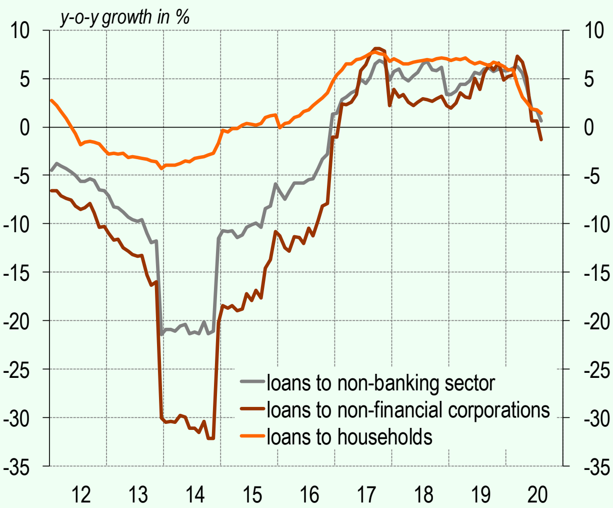
Box 5.1: Bank performance in 2020

The banks saw a significant decline in profit in the first eight months of this year compared with the same period last year. The economic downturn and low interest rates caused by the Covid-19 pandemic are also expected to draw worse performance from the banks in the future. There was a notable increase in liquid assets over the first eight months of the year, as a result of the sizeable increase in deposits, and in sight deposits in particular, while the stock of loans to the non-banking sector declined. Non-performing exposures (NPEs) declined again slightly in August. The banking system is maintaining a good capital position and liquidity position.

Year-on-year growth in the balance sheet total has strengthened this year, reaching 7.7% in August. The balance sheet total increased by EUR 98 million in August to stand at EUR 43.8 billion, up EUR 2.6 billion since the end of december last year. On the investment side of the balance sheet, the banks mainly increased their liquid assets in balances at the central bank in August, by EUR 1.76 billion. There was a significantly smaller increase in their holdings of securities, while loans to the non-banking sector have already declined slightly this year.

Credit activity has declined sharply this year. Loans to the non-banking sector declined over the first eight months of the year (by EUR 60.5 million). Year-on-year growth in loans to the non-banking sector has slowed sharply, reaching just 0.6% in August, down more than 5 percentage points on December of last year. Growth in corporate loans has slowed sharply since March of this year. After the stock of corporate loans increased in the first quarter of this year

Figure 1: Growth of loans to non-banking sector



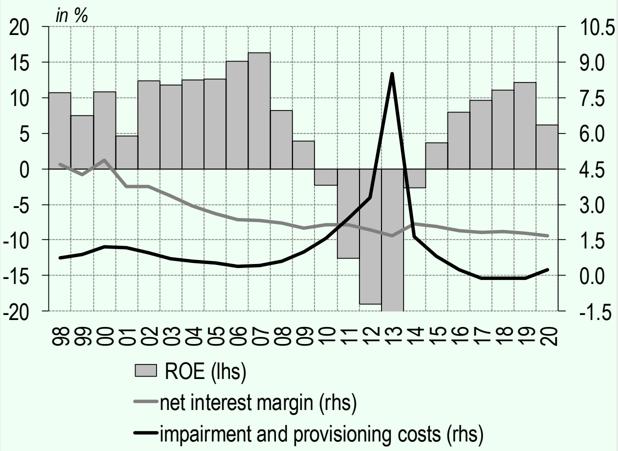
Source: Bank of Slovenia.

(driven primarily by long-term loans in the early part of the year, then by short-term liquidity loans in March in the form of credit lines), it then declined until the end of August, when the year-on-year rate of growth entered negative territory for the first time since December 2016, at -1.3%. Year-on-year growth in household loans had declined to 1.4% by August. The slowdown was largely driven by consumer loans, growth in which was negative in August for the third consecutive month (at -3.0%), while growth in housing loans remains relatively solid. Year-on-year growth in housing loans has slowed slightly this year (after averaging 5.3% last year), but has been maintained above 4% since June, and stood at 4.2% in August.

Despite the Covid-19 pandemic, deposits by the non-banking sector remained a stable source of funding for the banking system. In August they were up 9.2% in year-on-year terms, as a result of increases in household deposits and corporate deposits alike, mainly in the form of sight deposits. The proportions of total household deposits and total deposits by the non-banking sector accounted for by sight deposits increased to 82% and almost 77% respectively, while fixed-term deposits were down. The increase in household deposits primarily came in the second quarter as a result of reduced consumption and government payments to alleviate the impact of the pandemic, while the monthly increases in household deposits in July and August were well below this year's average. Growth in corporate deposits also slowed going into the third quarter, similarly to household deposits. Corporate deposits at banks amounted to EUR 7.5 billion in August, and will most likely be spent on current operations as the economic situation worsens, particularly in the worst-hit sectors. Amid the ongoing increase in deposits and the simultaneous decline in loans, the LTD ratio for the non-banking sector declined to 71%. The banking system's low dependence on wholesale funding (6.4% of the balance sheet total) reduces the chances of the international financial markets having an adverse impact on the funding of Slovenian banks.

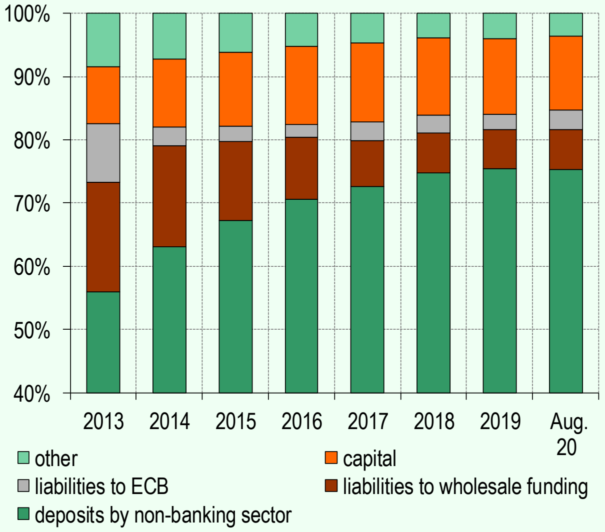
Despite the adverse economic situation, NPEs remain low, and are still declining in the majority of the portfolio. The stock of NPEs had declined to EUR 920 million by August, taking the NPE ratio to 1.9%. There was an increase in NPEs in the sole traders segment, where the NPE ratio rose to 4.3% in July and remained there in August. This is a minor segment of bank customers, which meant that the increase in NPEs in this segment had very little impact on the aggregate indicator. By contrast, the NPE ratio in the non-financial cor-

Figure 2: Selected bank performance indicators



Note: The indicators net interest margin on interest-bearing assets and the ratio of impairment and provisioning costs to total assets are calculated over the preceding 12 months. The August 2020 figure for ROE is calculated for the first eight months of the year.
Source: Bank of Slovenia.

Figure 3: Structure of sources of financing

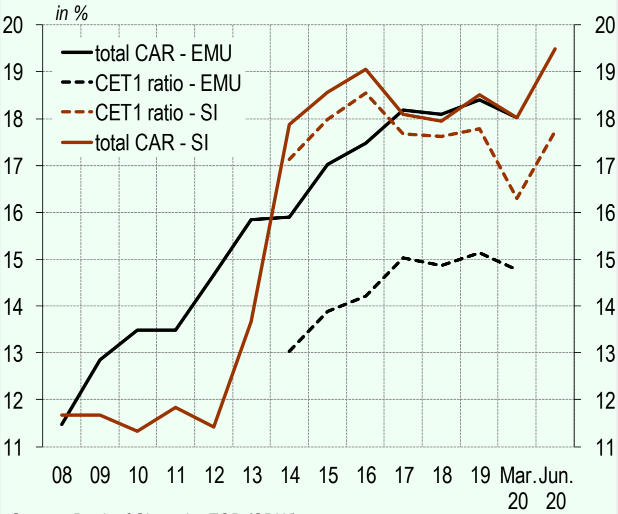


Source: Bank of Slovenia.

porations portfolio declined further, to 3.9%. There has been a notable increase in NPEs in the consumer loans segment this year, which began even before the outbreak of the epidemic. After increasing over the first five months of the year, the NPE ratio reaching 2.9% in May, the stock of NPEs and the NPE ratio in the consumer loans segment declined slightly in June, before holding at EUR 74 million and 2.7% over the next two months, still above the figures from the end of 2019.

The banks' pre-tax profitability this year is well down on their performance in the same period last year. The decline is attributable to factors on both the income side and the expense side. The main factors were a decline of almost a fifth in non-interest income (19.4%), and a decline in net interest income (4.3%). This year's decline in the former compared with last year was primarily attributable to the economic downturn, which has been reflected in a decline in net non-interest income, while the decline in the latter was primarily attributable to a slowdown in growth in interest income caused by a slowdown in growth in loans. The net interest margin is declining, and stood at 1.67% in August for the preceding 12 months. The rise in operating costs was outpaced by the balance sheet total, and this year has mainly been attributable to methodological reclassifications; the costs of the banks' contributions to the resolution fund and the deposit guarantee scheme have been classed as operating costs since June. The changing economic situation has seen banks increase their impairment and provisioning costs, although the proportion of the disposal of gross income that they account for still remains low, at 12.3%. The banking system's pre-tax profit amounted to EUR 203 million over the first eight months of the year (compared with EUR 479 million in the

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



Source: Bank of Slovenia, ECB (SDW).

same period last year), while this year's ROE of 6.1% is well down on the same period last year (15.2%).

The liquidity of the banking system has strengthened, despite the pandemic. Amid the pronounced growth in deposits by the non-banking sector, the proportion of the balance sheet total accounted for by primary liquidity, which includes cash-on-hand, balances at the central bank and sight deposits at banks, had risen to 17.5% by August, its highest figure to date. Secondary liquidity rose to 18.3% of the balance sheet total, primarily thanks to an increase in holdings of domestic government securities. The ability to cover net liquidity outflows over a short-term stress period has remained high at the level of the banking system; at 316%, the value of the LCR remained three times higher in August than the regulatory requirement (100%) and places Slovenia third amongst

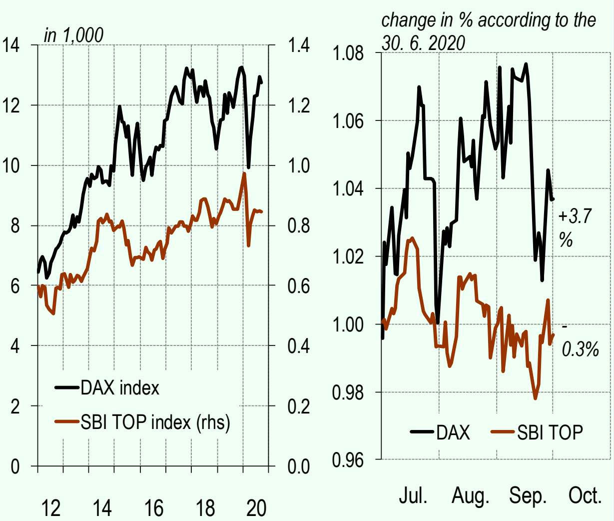
EU Member States in this regard. There remain considerable variations between the banks in terms of liquidity position. Despite their participation in the TLTRO-III tender, there is still a relatively high proportion of the pool of eligible collateral at the Eurosystem that is available to the banks (66% at the level of the banking system), which they can use to secure assets via the ECB's operations in the event of additional liquidity needs.

The banking system remained well-capitalised in the first half of this year. The total capital ratio increased to 19.5% on a consolidated basis, while the common equity Tier 1 capital ratio remained almost unchanged at 17.7%. Both ratios were higher than the euro area average. The banks increased their regulatory capital via issued subordinated debt securities and the retained profits from the previous financial year, which were retained in full. This was the result of a macroprudential measure introduced by Bank of Slovenia with the aim of strengthening resilience to the economic shock during the Covid-19 pandemic, thereby maintaining the financial stability of the banking system. Year-on-year growth in risk-weighted assets has slowed to 2.9%, as a result of reduced lending to non-financial corporations and households. The capital position of the banking system is expected to weaken in the future, as a result of the deterioration in the quality of the credit portfolio and the decline in bank profitability. The banks with lower capital surpluses and the banks with large exposure to the sectors hit hardest in the crisis will find it harder to deal with the consequences of the economic shock caused by Covid-19.

Box 5.2: Overview of the domestic capital market

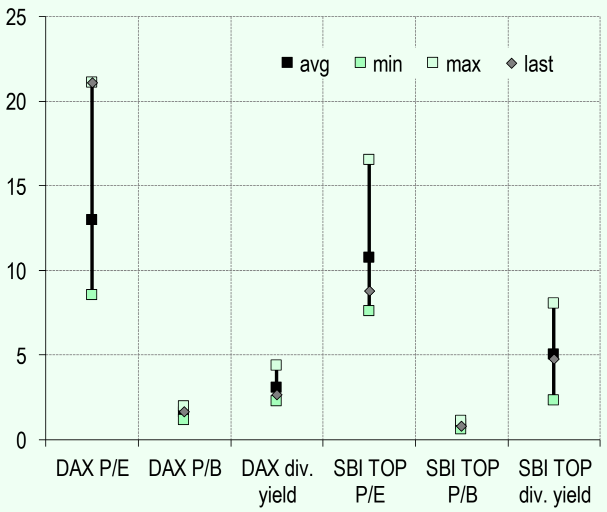
Shares on the domestic and European capital markets have risen slightly less than shares on the German market. The relative valuations signal a slight increase in the attractiveness of the domestic market relative to the German market. While German shares have gained just under 4% since July, shares of the firms included in the SBI TOP have fallen by 0.3% (see Figure 1; share indices on other European stock markets rose by just 0.2%). The poorer performance of the domestic and European markets compared to the German market can be attributed to the level of government support in Germany, which was higher than the EU average, the German market's export focus on Asia and the US, and the more stable macroeconomic environment in Germany relative to the rest of Europe. From the perspective of relative valuations, the domestic market currently features favourable valuations in terms of both the earnings multiplier and the book value (see Figure 2). The dividend yield is also attractive. Here it should be noted that for investors in securities on a small market such as Slovene, the shallow nature of the stock market can be a real issue (low liquidity).

Figure 1: Domestic and German stock market movement



Source: Bloomberg, Bank of Slovenia calculations.

Figure 2: Domestic and German stock market comparative valuations



Source: Bloomberg.

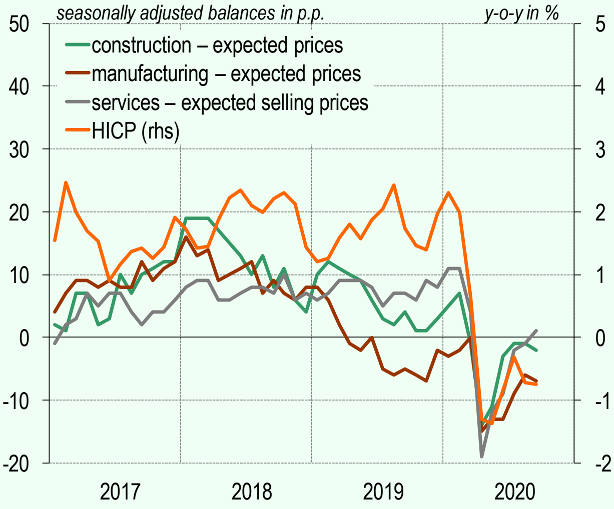
6 Price Developments

The price of consumer basket of goods and services remained down in year-on-year terms in September. The deflation rate of 0.7% continued to be largely driven by cheaper refined petroleum products, prices of which were driven down in April by global oil prices, and have been held at low levels in recent months by excise duty policy even as oil prices have seen renewed growth. In the wake of slower growth in global prices of food commodities and import prices, food price inflation has also slowed since May, but nevertheless remains high, primarily on account of year-on-year rises in prices of fresh fruit. Under the influence of weak demand, which has been reflected in a fall in private consumption and declining capacity utilisation, core inflation has also slowed further since the outbreak of the epidemic, reaching 0.3% in September. Year-on-year inflation in the euro area was also reduced by tax measures aimed at alleviating the impact of the coronavirus crisis on economy and citizens: headline inflation slowed to -0.3% in September, and core inflation to 0.2%. Amid the deterioration in the epidemiological picture and the tightening containment measures, price developments over the remainder of the year remain extremely uncertain, while price measurement and inflation analysis will also be hindered, at least in part.

Survey–based inflation expectations in September

Despite the improvement in price expectations after April's decline, firms remain pessimistic with regard to selling prices in the final quarter. The balances indicators of the selling price expectations, which illustrate the difference between the share of firms expecting prices to rise in the next three months and the share of firms expecting them to fall, rose after bottoming out in April, but have not yet reached their levels from before the outbreak of the epidemic.[1] In September the indicator remained lowest in manufacturing, where more firms are expecting prices to fall than to rise. Despite the pronounced improvement in indicators of export expectations and total demand, this is most likely attributable to lower import prices of raw materials and a fall in production capacity utilisation. Amid the renewed rise in uncertainty, the indicators of price expectations in construction and servi-

Figure 6.1: Price expectations according to business survey



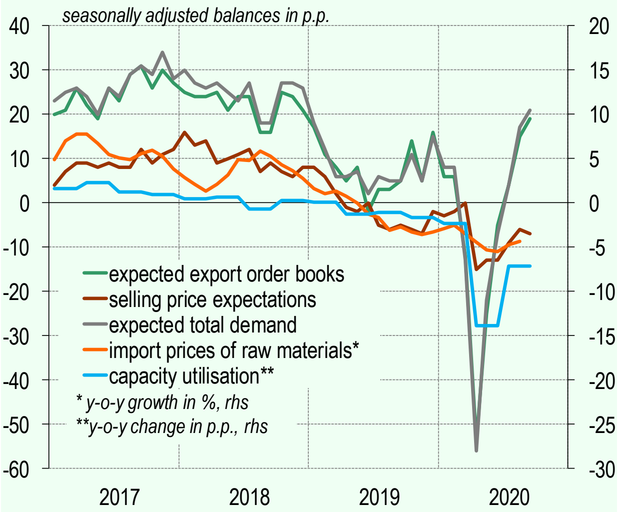
Source: SORS, Bank of Slovenia calculations.

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

ces also remain below their pre-crisis levels, as approximately half of the firms in the two sectors were still expecting selling prices to fall according to the September figures.

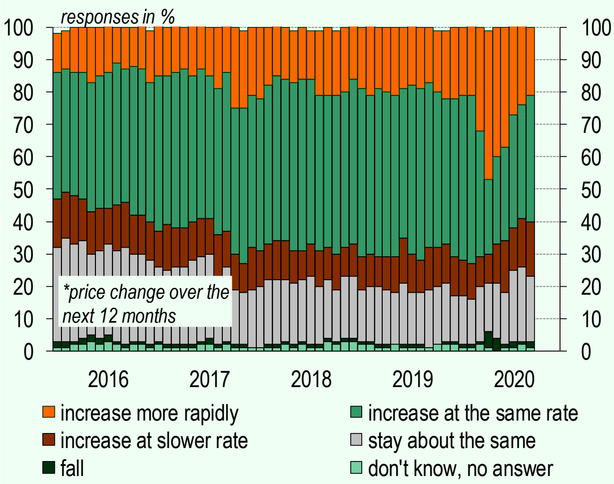
The indicator of consumer price expectations hit its three-year low in September. After rising in April, which amid the great uncertainty, divergence in prices and changes in structure of consumption expenditure could be attributed to increased divergence in consumers' inflation expectations, the indicator began to decline as the containment measures were lifted. It stood at 29 percentage points in September, down 17 percentage points on April. The decline was mainly driven by a fall in the share of consumers expecting inflation to rise over the next 12 months. In September more than three-quarters of surveyed consumers expected inflation to remain the same or be lower than in the previous 12 months. Despite declining, the indicator remains above that for the euro area overall, where the decline since April has been even more pronounced.

Figure 6.2: Price expectations in manufacturing



Source: SORS, Bank of Slovenia calculations.

Figure 6.3: Consumer opinion survey, consumer prices expectations*

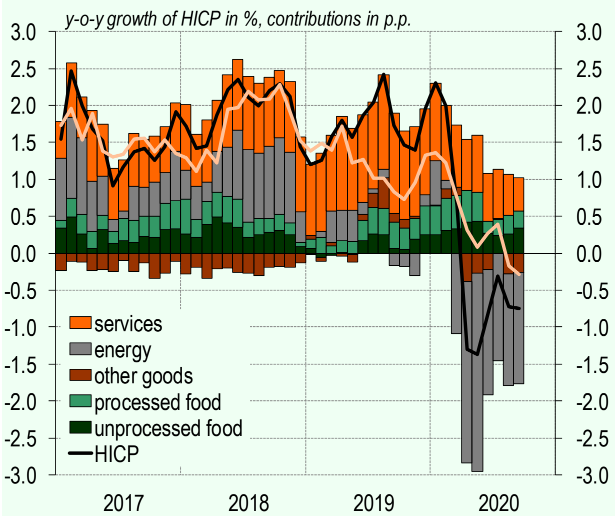


Note: Due to rounding, the totals do not add up.
Source: SORS.

Structure of inflation and core inflation indicators

Year-on-year consumer price deflation remained significant in the third quarter, and stood at 0.7% in September. It averaged 0.6% over the third quarter, down a half on the second quarter. The slowdown in deflation was primarily caused by the expiry of a government ordinance that had cut electricity prices for households and small businesses during the epidemic, which had accounted for 0.8 percentage points of deflation between March and May. Despite the rise in electricity prices, energy prices were still down 11.8% in year-on-year terms on account of lower prices of refined petroleum products. Amid weakening domestic and external price pressures, prices of non-energy industrial goods also fell (by 0.6%), while food prices and services prices were still making positive contributions to headline inflation, albeit less than in the second quarter. Food price inflation remains relatively high at 2.4%, while service price inflation hit its lowest level since the first quarter of 2016 (1.5%) as do-

Figure 6.4: Contributions to headline HICP inflation – Slovenia



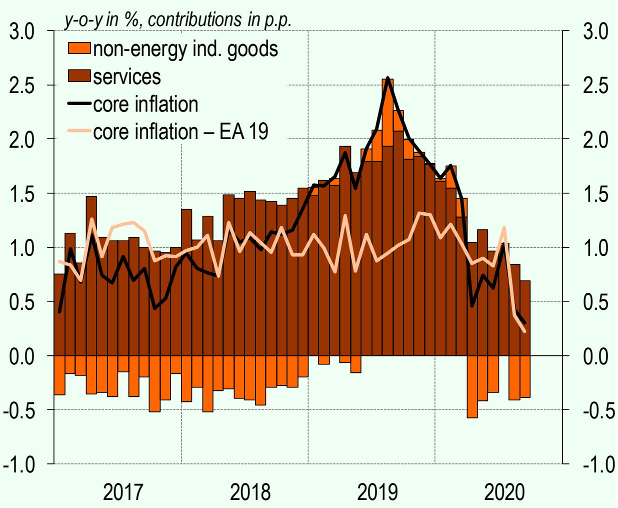
Source: Eurostat, SORS, Bank of Slovenia calculations.

Table 6.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2020	2016	2017	2018	2019	1H20	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
HICP	*100.0%*	-0.2	1.6	1.9	1.7	0.2	1.7	2.1	1.6	1.6	-1.2	-0.6
Breakdown of HICP:												
Energy	*12.8%*	-5.2	4.7	6.0	0.8	-9.4	2.8	0.0	-0.9	-0.9	-17.8	-11.8
Food	*21.1%*	0.5	2.2	2.4	1.6	3.3	1.1	2.5	2.2	3.3	3.3	2.4
processed	*17.1%*	0.4	1.4	1.4	1.4	2.2	1.1	2.0	1.8	2.4	1.9	1.4
unprocessed	*4.1%*	0.7	5.7	6.6	2.5	8.2	1.6	4.6	4.0	7.2	9.2	6.8
Other goods	*28.8%*	-0.5	-0.7	-0.8	0.3	-0.3	-0.1	0.9	0.2	0.4	-1.0	-0.6
Services	*37.3%*	1.6	1.8	2.4	3.1	2.2	3.2	3.4	3.2	2.6	1.9	1.5
Core inflation indicators:												
HICP excl. energy	*87.2%*	0.6	1.1	1.4	1.8	1.6	1.6	2.3	2.0	2.0	1.3	1.0
HICP excl. energy and unprocessed food	*83.2%*	0.6	0.9	1.1	1.8	1.3	1.6	2.2	1.9	1.8	0.9	0.7
HICP excl. energy, food, alcohol and tobacco	*66.1%*	0.7	0.7	1.0	1.9	1.1	1.8	2.3	1.9	1.6	0.6	0.6
Other price indicators:												
Industrial producer prices on domestic market		-1.4	1.3	1.9	1.9	0.8	2.1	1.9	2.0	1.3	0.3	...
GDP deflator		0.9	1.5	2.2	2.3	2.4	2.4	2.3	2.3	2.6	2.3	...
Import prices[1]		-2.2	3.1	2.4	-0.3	-2.1	-0.1	-1.5	-1.1	-1.9	-2.3	...

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

Figure 6.5: Contributions to narrowest indicator of core inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

mestic demand weakened. Food price inflation and service price inflation slowed similarly in the euro area overall, where consumer prices remained unchanged in year-on-year terms on average over the third quarter and were down 0.3% in year-on-year terms in September. The smaller fall in prices compared with Slovenia is primarily a result of the smaller fall in energy prices.

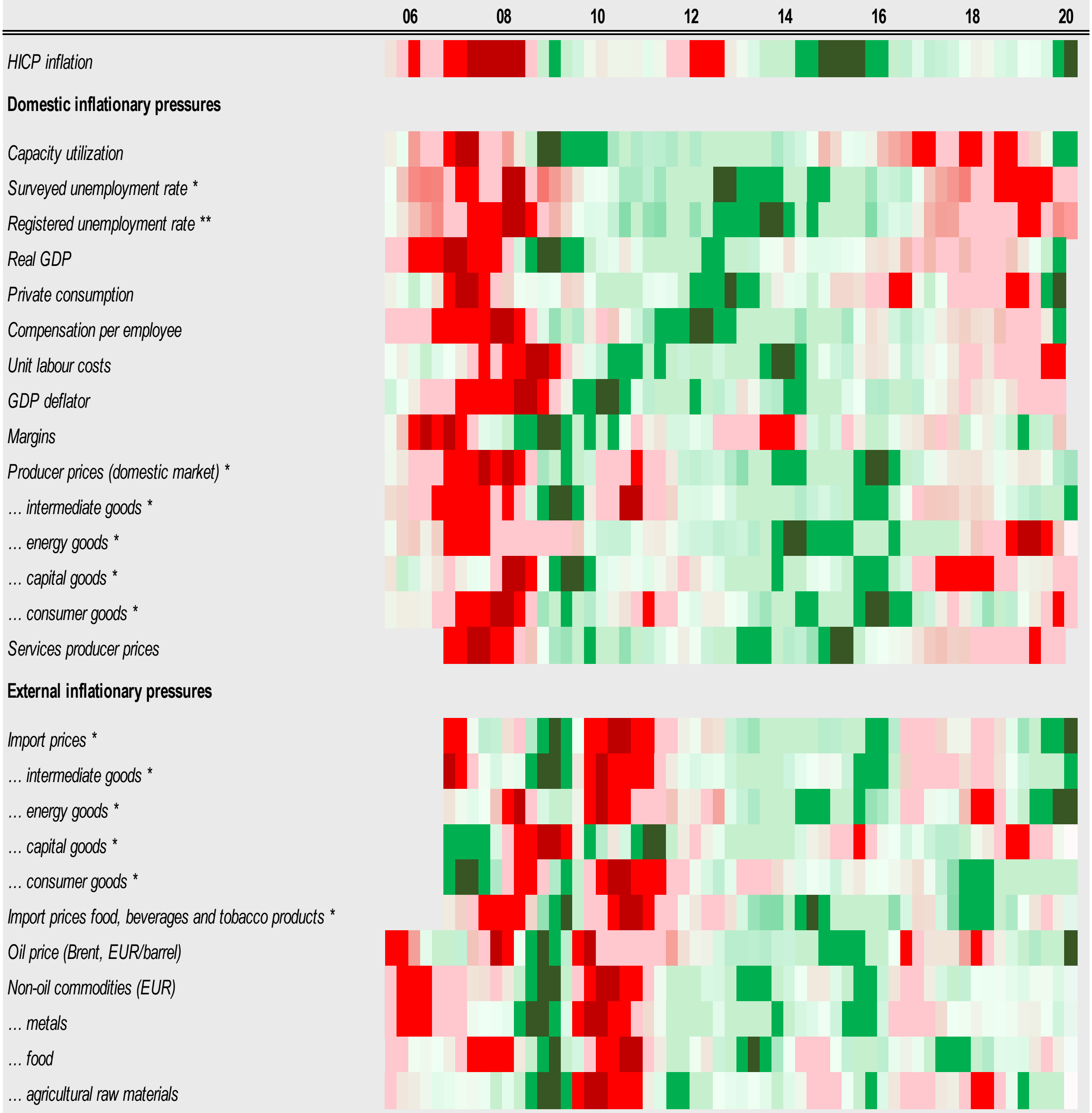
Core inflation has also slowed since the outbreak of the epidemic. The decline in the core inflation indicators while the containment measures were in place was most likely related to difficulties in collecting price data and to the sell-off of inventories, but after the measures were lifted the continuing slowdown was partly attributable to the weaker domestic price pressures caused by the decline in private consumption. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco, stood at 0.6% in the third quarter, down 1 percentage point on the first quarter.[2] A further slowdown in service price inflation reduced it to 0.3% in September, the lowest figure since the beginning of 2016. Core inflation in the euro area overall did not slow sharply until August, and reached 0.2% in September. Its slowdown since July was also driven by the cuts in indirect tax rates introduced in certain countries with the aim of alleviating the impact of the epidemic on economy and citizens.

[2] Core inflation excluding energy and core inflation excluding energy and unprocessed food fell by the same amount, to average 1% and 0.7% respectively over the third quarter.

Drivers of inflation

While import prices remain down in year-on-year terms, in part because of the recent appreciation in the euro exchange rate, global commodity markets are beginning to show signs of a recovery. Global oil prices are the exception: after falling in April, they rose again, but remain low. A barrel of Brent crude cost USD 41.1 or EUR 34.8 in September, the euro price having fallen by 38.4% compared with a year earlier. Prices of non-oil commodities have largely recovered: in September they were up 3.0% in year-on-year terms, as me-

Table 6.2: Inflationary pressures



Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilisation and the unemployment rate, which are expressed in percentages. The data has been standardised. The colour scale denotes the direction and size of the deviation in an individual time series from its long-term average (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed for the unemployment rate.
*The figure for the third quarter of 2020 encompasses the latest data (*August; **July).*
Sources: Bloomberg, ECB, Eurostat, SORS, Employment Office, Bank of Slovenia calculations.

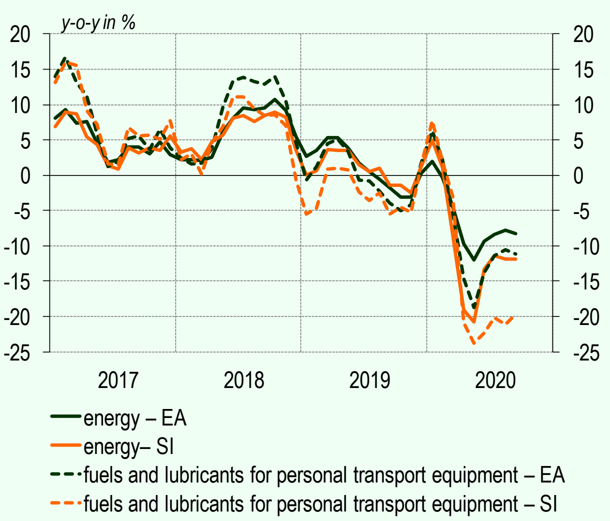
tals and food commodities recorded the largest rises.[3] The recovery on global markets has not yet been reflected in full in import prices, thanks in part to the euro's appreciation. Import prices were down 3.4% in year-on-year terms in August, and deflationary pressures continued to come primarily from import prices of energy and intermediate goods, which were down 17.7% and 4.4% respectively.

Domestic inflationary pressures also eased after the outbreak of the epidemic. After slowing at the outbreak of the epidemic, year-on-year growth in industrial producer prices on the domestic market remained low, and stood at 0.2% in August. It continues to be held down by the year-on-year fall in prices of intermediate goods, while growth in producer prices of energy (electricity, gas, steam and air conditioning supply) strengthened slightly after the expiry of a government ordinance that cut electricity prices for households and small businesses between March and May. Year-on-year growth in producer prices of services also slowed in the second quarter, to stand at 1.6%, down a half on the end of last year. At the same time, the containment measures and precautionary saving brought a contraction in private consumption, while capacity utilisation decreased amid weaker demand, easing the inflationary pressures in the domestic environment. The registered unemployment rate has exceeded 9% since April, and capacity utilisation in manufacturing remained low in the third quarter at 76.6%. The decline in average compensation per employee also reduced wage pressures.

Price developments by subcategory

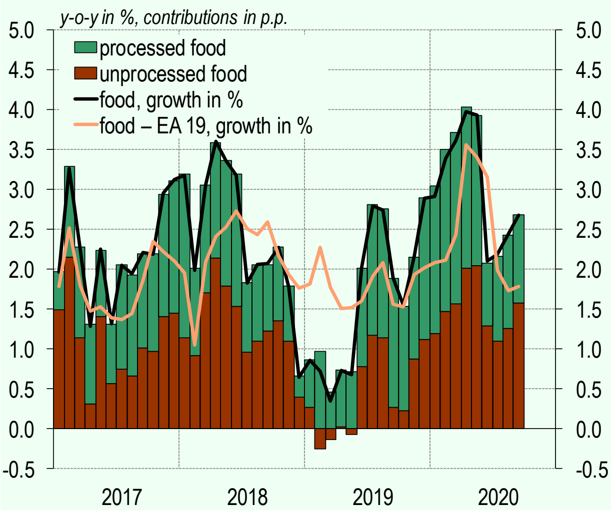
A temporary cut in electricity prices meant that energy prices in Slovenia fell more than those in the euro area overall in March, while the continuing gap in the year-on-year fall in recent months was attributable to excise duty policy. As a result of a fall in global oil prices, motor fuels fell in price in April, while their average price over the last six months was down 21.5% in year-on-year terms. In the wake of renewed rises in oil prices, the sustained fall in prices was mainly attributable to the countercyclical excise duty policy (for more, see Box 6.1). As a result of full liberalisation, future developments in prices of refined petroleum products will also depend on retailers' pricing policies. Meanwhile prices of motor fuels in the euro area overall rose slightly in monthly terms over the summer, and were down just over 11% in year-on-year terms in September. The gap in the fall in prices of motor fuels has been reflected in year-on-year energy price inflation, which stood at -11.9% in Slovenia in September, and -8.2% in the euro area overall.

Figure 6.6: Energy prices



Source: Eurostat, Bank of Slovenia calculations.

Figure 6.7: Contributions to growth in food prices



Source: Eurostat, SORS, Bank of Slovenia calculations.

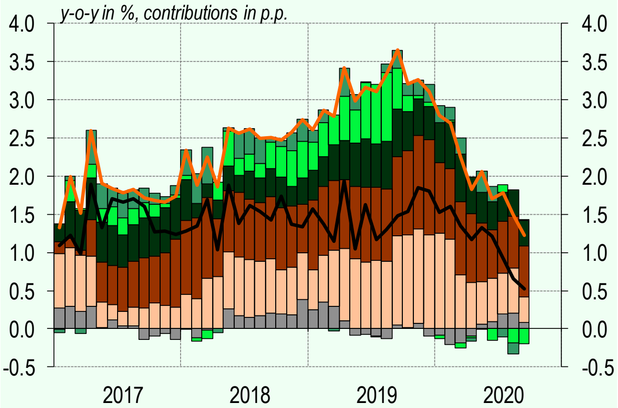
[3] The data for euro-denominated commodity prices has been obtained from the ECB website, where indices are calculated by weighting individual commodity prices with regard to their relative value in euro area imports.

Year-on-year food price inflation slowed in the third quarter, but can be expected to pick up pace in October as a result of a rise in excise duties on tobacco products. After rising during the epidemic, when it reached 4%, year-on-year food price inflation slowed slightly amid the slower growth in global food commodity prices, imported food prices and producer prices of food on the domestic market, to average 2.4% over the third quarter. The largest factor in the slowdown was slower growth in prices of processed food, which slowed in June when the effect of last year's rise in excise duties on tobacco products dropped out of the calculation. The rate stood at 1.4% in September. It is expected to pick up pace again in October, as a result of the renewed rise in excise duties on tobacco products.[4] Year-on-year growth in prices of unprocessed food has also slowed since May. It remains high, driven primarily by the year-on-year rise in prices of fresh fruit, which this year was related to the epidemic and also to adverse weather conditions. Food price inflation similarly slowed in the euro area overall in the summer, and stood at 1.8% in September.

The ongoing slowdown in service price inflation is partly a reflection of the decline in private consumption. Service price inflation continued to slow in the third quarter. It stood at 1.2% in September, down 1.4 percentage points on its average over the first quarter, as inflation slowed in all categories of services other than communication. The largest decline in the contribution to inflation was recorded by other services, albeit primarily as a result of last year's price rises, including in private health insurance, hospital services, legal services and kindergartens, dropping out of the calculation. By contrast, the weaker demand following the lockdown drove year-on-year falls in prices of transport services, package holidays and accommodation.[5] Service price inflation in the euro area overall was also down 0.9 percentage points on the first quarter of this year, at just 0.5% in September. The slowdown since July in the euro area overall is partly related to the temporary VAT cuts in Germany.

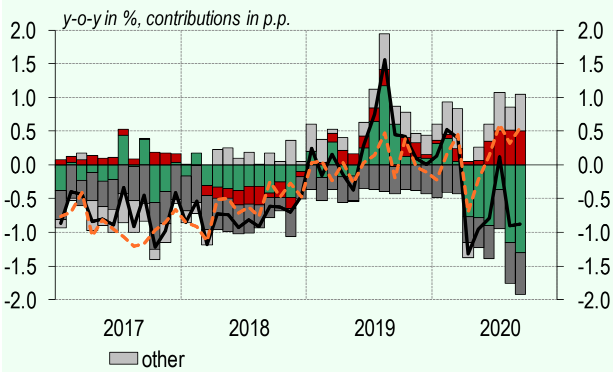
The sustained year-on-year fall in prices of non-energy industrial goods continues to be driven by lower prices of clothing and footwear. April's 1.3% fall in prices was broadly based, in part because inventories were sold off, but the year-on-year fall in prices was then driven by clothing and footwear. Despite rising import prices of clothing, the fall in their prices deepened, and in

Figure 6.8: Contributions to services inflation



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

Figure 6.9: Contributions to growth in prices of non-energy industrial goods



Source: Eurostat, SORS, Bank of Slovenia calculations.

[4] According to the Ministry of Finance retail prices of cigarettes will rise by approximately 4.8% on average as a result of the rise in excise duties on tobacco products, which entered into force on 1 October 2020. The rise in prices is expected to contribute around 0.9 percentage points to processed food price inflation in October, and 0.2 percentage points to headline inflation.

[5] The sole fall in package holiday prices was recorded by prices of package holidays abroad. Prices of domestic package holidays rose over the summer, most likely as a result of stronger domestic demand driven by the tourist voucher scheme and the restrictions of travel abroad. Prices in September were up 8.1% in year-on-year terms.

September contributed 1.3 percentage points to the 0.9% fall in prices of non-energy industrial goods.[6] Year-on-year growth in prices of non-energy industrial goods in the euro area overall stood at 1.6% in July as the summer sales were postponed, but then slowed under deflationary pressures, reaching -0.3% in September.

[6] Excluding clothing and footwear from the price index, year-on-year growth in prices of non-energy industrial goods has been in positive territory again since June. The rate stood at 0.5% in September.

Box 6.1: Excise duty policy in 2020 and its impact on inflation and the public finances

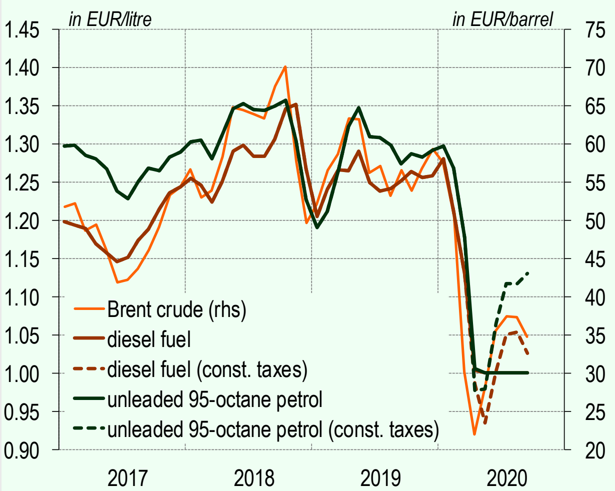
Consumer prices have been falling in year-on-year terms since the outbreak of the epidemic, primarily thanks to lower energy prices. Energy prices were initially driven down by cuts in electricity prices and plummeting global oil prices amid the decline in demand triggered by the Covid-19 pandemic.[1] When electricity prices recovered after the government ordinance expired in June and oil prices began to slowly rise again after global demand recovered, the excise duty policy of the Slovenian government, which was still controlling prices of certain refined petroleum products until October of this year, began to be a factor in the even slower recovery in energy prices in Slovenia.[2] This box examines the impact of excise duty policy on this year's developments in consumer prices and the public finances.

Retail prices of refined petroleum products, which are inputs in the computation of the consumer price index, consist of selling prices exclusive of taxes, and several taxes and levies. These include: (i) carbon tax, (ii) the energy saving levy, (iii) the levy to support electricity production from high-efficiency cogeneration and renewables, (iv) VAT and (v) excise duties. The last of these account for the largest share of the retail price, and are set by government decree. The government aims to adjust excise duties to developments in prices of refined petroleum products to provide an appropriate level of excise duty revenues for the state budget, and to take account of economic policy objectives, the economic situation and price competitiveness compared with neighbouring countries.

Having previously remained unchanged since May 2018, in the months since the outbreak of the Covid-19 epidemic excise duties on refined petroleum products have become a tool for stabilising the retail prices of refined petroleum products at one euro per litre. The government has held these prices at the same level since 7 April to alleviate the impact of the epidemic on economy and citizens. Initially, as global oil prices plummeted, it slightly raised excise duties to prevent regulated prices from sliding to below the one euro per litre mark, before cutting them again as oil prices resumed their growth. Excise duties have been adjusted 13 times over the course of the last six months, each time that regulated prices of refined petroleum products have been set.[3] After the series of changes, average regulated prices of diesel and 95-octane petrol were respectively 2.5% and 11.5% lower in September than they would have been had excise duties been left unchanged, and were also lower than in neighbouring countries.

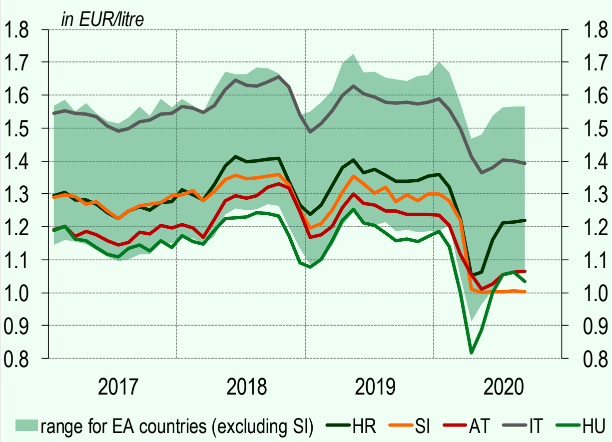
The maintenance of regulated prices of refined petroleum products at one euro per litre has had a significant impact on headline inflation as measured by the HICP.[4] The rises in excise duties in April and May raised inflation in May and June by 0.2 percentage points on average, before the effect reversed in July when excise duties were lowered. After the largest cut in excise duties in July, when on average they were 10.6% lower for diesel and 20.1% lower for petrol than in March, inflation in August and September was just over 0.4 percentage points lower than it would have been had excise duties remained unchanged. Under the assumption that the government will no longer adjust excise duties over

Figure 1: Prices of regulated motor fuels



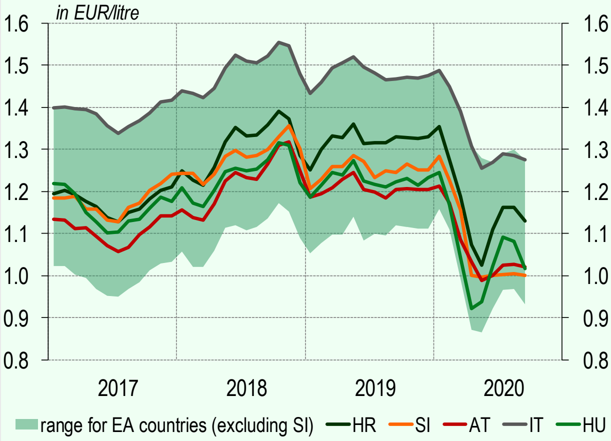
Source: Bloomberg, ECB, Ministry of Economic Development and Technology, Bank of Slovenia calculations.

Figure 2: Prices of unleaded 95-octane petrol



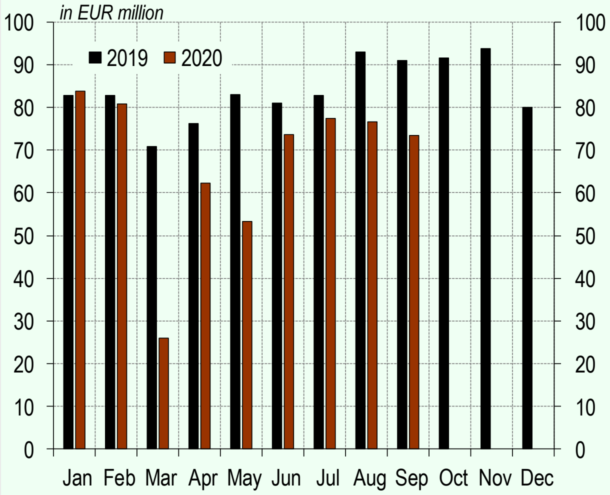
Note: Figure shows the most frequently charged prices, based on a weighted average. Due to differences in product quality, marketing practices, and market structures, the prices are not directly comparable.
Source: EC - Weekly Oil Bulletin, Bank of Slovenia calculations.

Figure 3: Prices of diesel fuel



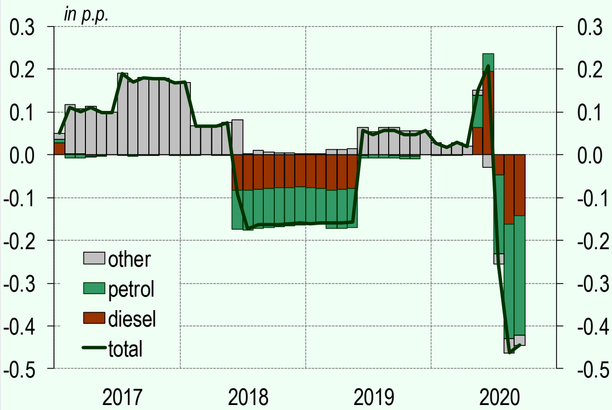
Note: Figure shows the most frequently charged prices, based on a weighted average. Due to differences in product quality, marketing practices, and market structures, the prices are not directly comparable.
Source: EC - Weekly Oil Bulletin, Bank of Slovenia calculations.

Figure 5: Revenue from excise duties on energy products and electricity



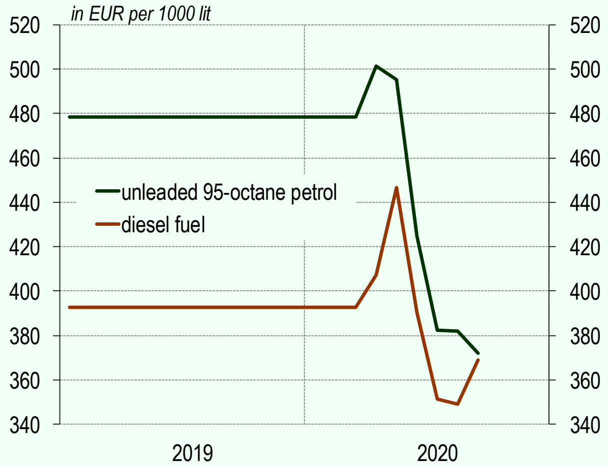
Source: Ministry of finance.

Figure 4: Total impact of changes in indirect taxes on year-on-year growth of consumer prices



Note: The impact is calculated as the difference between the year-on-year growth of the HICP and the year-on-year growth of the HICP at constant tax rates.
Source: Eurostat, Ministry of Economic Development and Technology, Bank of Slovenia calculations.

Figure 6: The level of excise duties on motor fuels



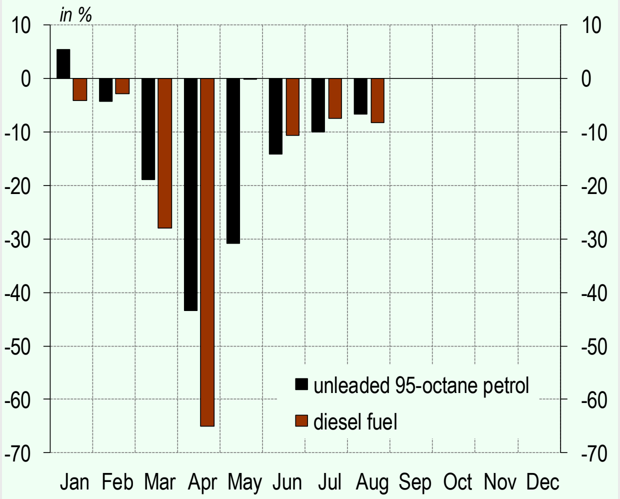
Note: the average monthly level of excise duties is shown.
Source: Ministry of Economic Development and Technology, Bank of Slovenia calculations.

the remainder of the year, average annual inflation will be 0.1 percentage points lower because of excise duty policy. This will mainly be driven by lower excise duties on 95-octane petrol: in our assessment year-on-year growth in petrol prices will be 4.2 percentage points lower because of the countercyclical excise duty policy than it otherwise would have been.

The level of excise duties also affects general government revenues, although other factors have been more important this year. Excise duty revenues on energy products and electricity[5] (see Figure 5) were down in year-on-year terms in all of the first nine months of this year other than January. Revenues over this period amounted to EUR 607 million, down EUR 136 million or around 18% on the same period last year. Revenues for the whole year were planned at EUR 845 million in the revision of this year's state budget, down EUR 164 million or 16% on last year. This year's developments in excise duty revenues on energy products and electricity are attributable to:

a) the aforementioned changes in excise duty levels: The impact of the changes in excise duties on general government revenues was relatively small during the first three quarters of the year: they are broadly estimated to have reduced revenues by approximately EUR 20 million.[6] If excise duties are held at their current levels until the end of the year, the year-end impact will be larger, at around EUR 40 million. Holding excise duties at their latest levels (relative to their levels at the beginning of the year) would also see an impact next year (an estimated additional decline of approximately EUR 25 million).[7]

Figure 7: Change in the supply of motor fuels in 2020 in y-o-y terms



Source: SORS, Bank of Slovenia calculations.

b) quantitative changes in fuel sales: Sales of petrol and diesel fell sharply during the official Covid-19 epidemic. Fuel deliveries between March and May were down more than 30% according to SORS figures (deliveries of heating oil, which contributes very little to excise duty revenues, were up significantly in year-on-year terms). According to these figures, deliveries of petrol and diesel during the first eight months of the year were down around 16% on last year (deliveries of heating oil were up almost a half). The year-on-year declines are slowing: the decline in deliveries of both fuels was around 8% in August.

c) deferrals of excise duties and payments on instalment: Some taxpayers asked (as early as March) to make their payments in instalments on the grounds of the coronavirus crisis. This entails a decline in revenues during the crisis, followed by payments in the following months (some already this year).

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

[2] Prices of refined petroleum products were still largely regulated in Slovenia until October of this year. The government exercised full control over prices until 2016, when a gradual liberalisation in April of that year first freed prices of fuel oil and 100-octane petrol, before prices of unleaded 95-octane petrol and diesel at service stations on motorways and expressways were freed in November. Given the danger of monopoly pricing, until October of this year prices of diesel and 95-octane petrol outside of motorways and expressways continued to be set by the Decree setting prices of certain refined petroleum products, which set out the model price setting mechanism for these refined petroleum products. The final decree expired in October, when in the wake of renewed calls by the chamber of commerce and the Ministry of Economic Development and Technology the government opted for full price liberalisation.

[3] Following the latest changes in September, current excise duties on petrol are just over EUR 100 per thousand litres less than at the beginning of the year (at EUR 377.01 per thousand litres as of 22 September 2020), while excise duties on diesel are approximately EUR 5 per thousand litres lower (at EUR 387.67 per thousand litres as of 22 September 2020).

[4] The impact of changes in excise duties in a particular month is mostly not captured in the computation of the impact of tax changes on HICP until the following month. This is a consequence of the methodology for computing the HICP index at constant tax rates (HICP-CT), as the computation for a particular month only captures tax changes in effect as of the first day of the month. Any change that occurs later in the month is recorded in the computation of the index for the following month.

[5] The share of total excise duties on energy products and electricity accounted for by electricity is small.

[6] The rough estimate was made under the assumption of no change in quantities on the basis of figures for fuel deliveries in 2019. The computations do not take account of effects caused by refunds of excise duties paid on motor fuel to certain beneficiaries, e.g. commercial transport, operators of agricultural and forestry machinery, in the amount of the difference between the average monthly excise duty and the minimum excise duty. Refunds of excise duties on energy products and electricity amounted to EUR 75.1 million in 2018

according to accounting figures, down 14% on the previous year (Report on tax expenditure in 2018, September 2020). Refunds of excise duties over the first eight months of the year (owing to the slightly lower average excise duties on motor fuel) were slightly lower than last year, while the gap was even wider in September (refunds in the use of motor fuel for commercial transport amounted to almost EUR 19 per thousand litres in September of this year, compared with close to EUR 63 per thousand litres in the same month last year). On this basis it can be concluded that this year's refunds of excise duties to beneficiaries could be lower than last year's.

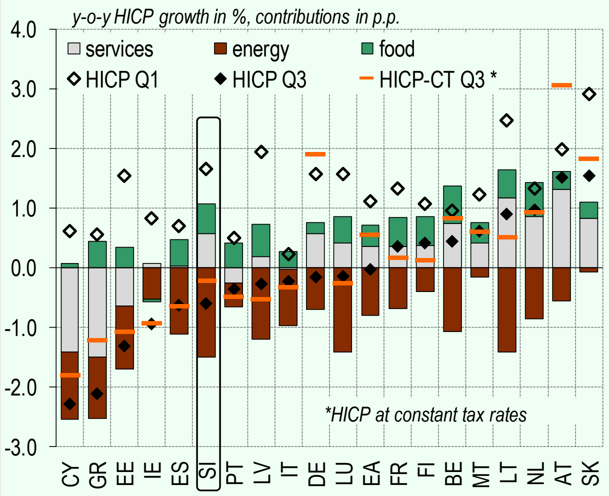
[7] Other factors will also have an impact on excise duty revenues next year. When economic activity normalises, fuels sales will increase in volume again, while an adverse impact on revenues can be expected to come from the deregulation of prices of refined petroleum products. The refined petroleum products market situation report of September 2020 estimates the impact of deregulation at around EUR 30 million by the end of 2021, under certain assumptions. The estimate takes account of the impact of the expected rise in the margins of oil distributors on the volumes of refined petroleum products sold at service stations in Slovenia. As a result of the gradual rise in margins, the annual loss in general government revenues would amount to around EUR 60 million over five years (when post-deregulation margins would be comparable to those seen in other EU Member States). The anticipated switch from fossil fuels to more environment-friendly motor fuels means that excise duties on energy products will be a less significant source of general government revenues over the longer term, which is confirmed by an OECD study (Tax Revenue Implications of Decarbonising Road Transport, Scenarios for Slovenia, OECD, 2019).

Box 6.2: Price developments in euro area countries

Euro area inflation slowed further in the third quarter. Average prices during the quarter remained unchanged from the same period last year, but year-on-year inflation was down 0.2 percentage points on the previous quarter, and 1.1 percentage points on the first quarter. The slowdown is attributable to the global pandemic, which had a negative impact on inflation in all euro area countries. Eleven of the countries recorded deflation in the third quarter, most notably Cyprus (-2.3%) and Greece (-2.1%). The highest inflation rates were recorded by Slovakia and Austria (1.5%). Having recorded one of the highest levels of inflation last year, Slovenia was ranked 14th in the third quarter, with deflation of 0.6%. The slowdown in euro area inflation was primarily driven by falling energy prices, which reduced headline inflation in all euro area countries in the third quarter as a result of the sustained fall in global oil prices. The negative contribution was largest in Slovenia, where excise duty policy (see Box 6.1) was also a factor in the lower prices of refined petroleum products.

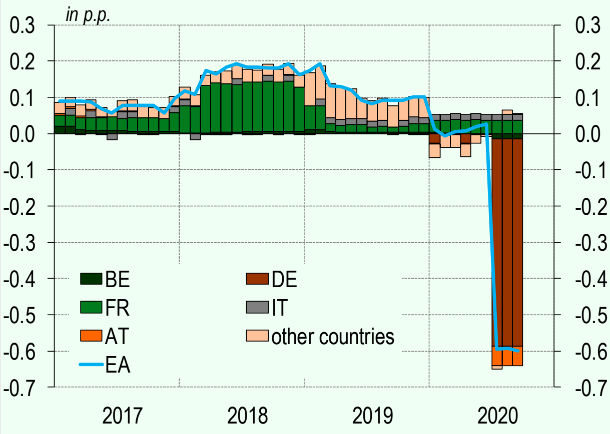
Cuts in indirect taxes aimed at alleviating the impact of the pandemic also had a major impact on inflation. The high divergence in inflation rates between countries is largely attributable to service price inflation and growth in prices of non-energy industrial goods, most likely driven by differences in the duration and stringency of the containment measures and various tax measures aimed at alleviating the impact of the Covid-19 pandemic on economy and citizens. The tax changes had the greatest impact on year-on-year inflation in Germany and Austria, where its average over the third quarter was 2.1 percentage points and 1.6 percentage points lower because of changes in indirect taxes.[1] The slowdown in Germany was driven by a temporary cut in the VAT rate in place between July and December 2020, while the tax changes in Austria primarily related to cuts in the VAT rate for products and services in the sectors hit hardest by the pandemic. Similarly targeted tax measures were also adopted by certain other euro area countries. As a result of the aforementioned changes in indirect tax rates, euro area inflation in the third quarter was 0.6 percentage points lower than it would otherwise have been; Germany's VAT rate cut was the largest factor, also on account of the size of its economy.

Figure 1: Average y-o-y inflation in the third quarter of 2020



Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 2: Impact of changes in indirect taxes on year-on-year euro area inflation



Note: Impact is calculated as the difference between the y-o-y HICP growth and the y-o-y HICP growth at constant tax rates, assuming a complete and immediate transmission of changes in indirect taxes to consumer prices.
Source: Eurostat, Bank of Slovenia calculations.

[1] The impact of changes in indirect taxes on year-on-year consumer price inflation is expressed as the difference between the year-on-year growth in the HICP, and the year-on-year growth in the HICP at constant tax rates (HICP-CT). The latter assumes a full and immediate pass-through of indirect taxes into consumer prices. For more about the HICP-CT, see the Eurostat Methodological Manual, available online at: https://ec.europa.eu/eurostat/documents/3859598/9479325/KS-GQ-17-015-EN-N.pdf/d5e63427-c588-479f-9b19-f4b4d698f2a2.

7 Public Finances

The latest figures confirm that the Covid-19 pandemic has had a wide-ranging impact on the public finances, and the deterioration in the epidemiological picture is endangering the recovery seen in recent months. The general government deficit in the first half of this year amounted to 11.0% of GDP. In the wake of a significant contraction in the economy, general government revenues declined by slightly more than activity, while growth in general government expenditure was high, largely as a result of the measures under the anti-coronavirus laws. The general government debt amounted to 78.2% of GDP at the end of June, up 12.6 percentage points on the end of last year. The terms of borrowing have remained favourable. The Ministry of Finance is forecasting a general government deficit of 8.6% of GDP for this year, with only a gradual reduction in the following years. The ratio of government debt to GDP is also expected to decline slowly: the debt is forecast to reach 82.4% of GDP by the end of the year. The general government deficit and debt will still be above the benchmark values in 2022.

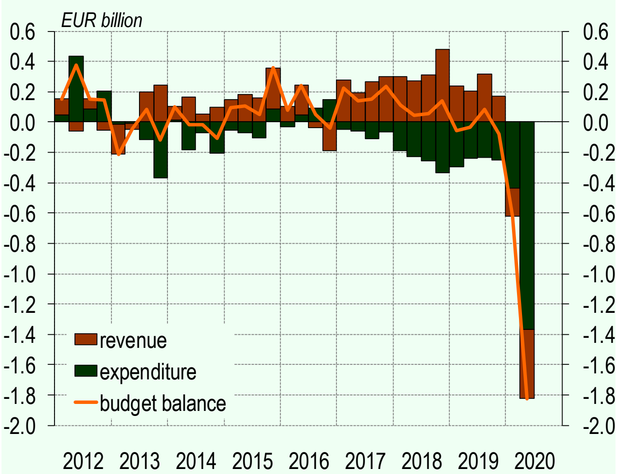
Fiscal developments are subject to numerous risks and uncertainties. Macroeconomic developments, which form the basis for budget planning, are more uncertain than usual. Whether additional measures are needed to support the economy will largely depend on the epidemiological picture and the economic situation. Right now it is clear that EU Member States will be able to deviate from the European fiscal rules also next year, given the need to maintain adequate stimulus for the economy. At the government's request, the Fiscal Council issued its assessment that the conditions allowing for exceptional circumstances to be applied, and thus for a deviation from the domestic fiscal rules, could be met next year, while at present it is not possible to state with certainty whether this would be the case for 2022.

General government balance

As expected, there was a large general government deficit in the second quarter of this year. It amounted to EUR 1,741 million or 16.1% of GDP, the highest figures since the end of 2013, when it was caused by large bank recapitalisations. The year-on-year rise in expenditure outpaced the year-on-year fall in revenues in the second quarter, even more than in the first quarter. The high growth in expenditure was driven above all by measures related to the Covid-19 epidemic, which were most evident in the growth in subsidies caused by labour market measures. A number of measures in connection with Covid-19 are still in place in the second half of the year, while new measures have also been put in place, although current assessments suggest that their impact on the general government balance will be smaller than in the first half of the year. Given the temporary nature of the measures, the public finances should improve again next year, although the measures will still have at least a partial impact on the public finances and economic developments. According to the ECB's September projections, the euro area is expected to record a general government deficit of 8.8% of GDP this year, slightly larger than the Ministry of Finance's latest estimates for Slovenia (8.6% of GDP).

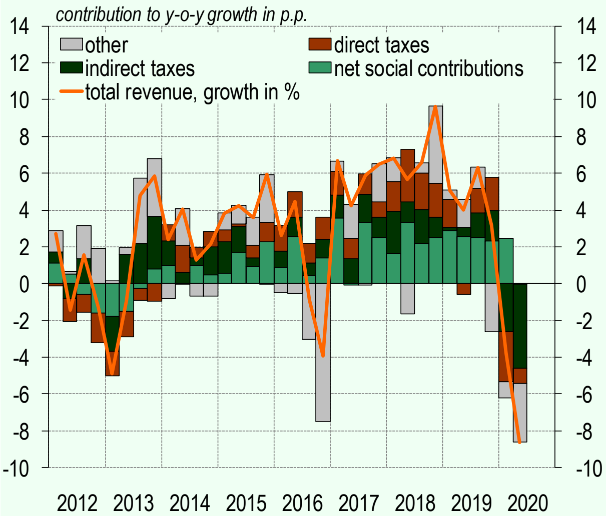
General government revenues declined more sharply in the second quarter than in the first quarter, in line with the economic developments. There was a large decline in corporate income taxes and taxes on consumption. Total revenues were down by 8.6% in year-on-year terms in the second quarter, and by 6.3% in the first half of the year, slightly outpacing the decline in nominal GDP. Despite the measures put in place, the economic situation had a major impact on corporate performance, which according to the SORS was reflected in a decline of more than a half in corporate income tax revenues in the first half of the year. There was also a significant decline in taxes on consumption, in part because of the shutdown of certain sectors and the restrictions on movement.[1] Thanks to the government measures, revenues based on wages continued to raise general government revenues despite the economic situation, albeit less than in previous years. Other revenues were down in

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



Note: Budget balance and expenditure do not include bank recapitalisations.
Source: SORS, Bank of Slovenia calculations.

Figure 7.2: General government revenue



Source: SORS, Bank of Slovenia calculations.

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

% GDP	SORS							Draft budgetary plan		EC	
	2014	2015	2016	2017	2018	2019	2020 H1	2020	2021	2020	2021
Revenue	45.3	45.9	44.2	44.0	44.2	43.9	43.5	45.2	44.4	44.8	44.0
Expenditure	50.8	48.7	46.2	44.1	43.5	43.3	54.5	53.9	51.0	51.9	46.0
of which: interest	3.2	3.2	3.0	2.5	2.0	1.7	1.7	1.7	1.6	1.8	1.7
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.7	0.5	-11.0	-8.6	-6.6	-7.2	-2.1
Primary balance	-2.3	0.4	1.1	2.5	2.7	2.2	-9.3	-6.9	-5.0	-5.3	-0.3
Structural balance	…	…	…	…	…	…	…	-5.9	-5.2	-4.4	-1.2
Debt *	80.3	82.6	78.5	74.1	70.3	65.6	78.2	82.4	80.9	83.7	79.9
Real GDP (growth, %)	2.8	2.2	3.2	4.8	4.4	3.2	-7.9	-6.7	5.1	-7.0	6.7

*Note: *Debt refers to the end of the year.*
Source: SORS (realisation), Stability Programme (Ministry of Finance, October 2020), European Commission (May 2020).

[1] The decline in revenues from taxes on goods and services in the first half of the year was even larger in cashflow terms than in accrual terms, as firms requested deferrals or instalment-based tax payments during the official Covid-19 epidemic, particularly of taxes on goods and services.

year-on-year terms, in reflection of a decline in capital transfers and revenues from property income (primarily dividends).

General government expenditure rose sharply in the first half of the year, most notably subsidies, driven by the job retention measures. It was up 17.7% in year-on-year terms, having increased by more than a quarter in the second quarter. The increase in the first half of the year was driven most obviously by subsidies, which were approximately six times higher in year-on-year terms (at almost EUR 1.2 billion). These encompass the labour market measures aimed at the retention of jobs and economic potential, which had the largest financial weight in the packages of legislation passed. A second category encompassing a major package of measures to alleviate the impact of Covid-19 is social security benefits and support, which recorded growth of 11.4%. These include one-off transfers to vulnerable population groups. Compensation of employees continued to increase, as a result of bonus payments in connection with the Covid-19 epidemic, in addition to measures covered by the agreement on wages and other labour costs in the public sector from the end of 2018. Growth in intermediate consumption was at the average level of the last five years. According to the SORS figures, government investment also increased in year-on-year terms, while the decline in interest payments was smaller than in the last three years, but still stood at 6.6%.

General government debt and government guarantees

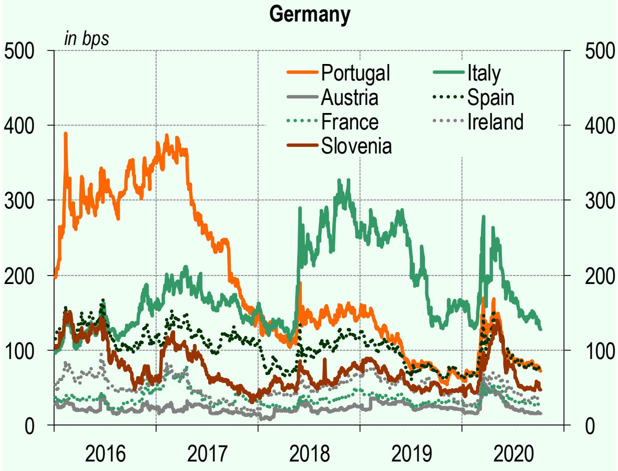
The general government debt increased sharply in the second quarter, driven by the need to finance the containment measures. It amounted to EUR 36.8 million or 78.2% of GDP at the end of the second quarter, up EUR 3.4 billion on the end of the first quarter and EUR 5.1 billion on the end of last year. Borrowing amounted to close to EUR 7 billion, while just EUR 2 billion of debt fell due for payment during this period. The majority of the borrowing over the first nine months of the year was undertaken via new bond issues with maturities of three and ten years, which were reopened on several occasions during the year and have a low coupon rate (less than 1%). The Ministry of Finance recalled EUR 173 million of bonds in October. These bonds were maturing in January and April of next year, and had relatively high coupon rates (3.0% and 4.375%). A 30-year bond with a total nominal value of EUR 1 billion was issued in October. Borrowing via treasury bills over the first ten months of the year was around EUR 653 million more than the amount maturing during this period, and was still mostly undertaken at negative interest rates.

Government guarantees declined again in the second quarter, despite the creation of new guarantee schemes to address the coronavirus crisis. The stock of government guarantees amounted to EUR 5.2 billion or

Figure 7.3: General government expenditure excluding support to financial institutions

Source: SORS, Bank of Slovenia calculations.

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



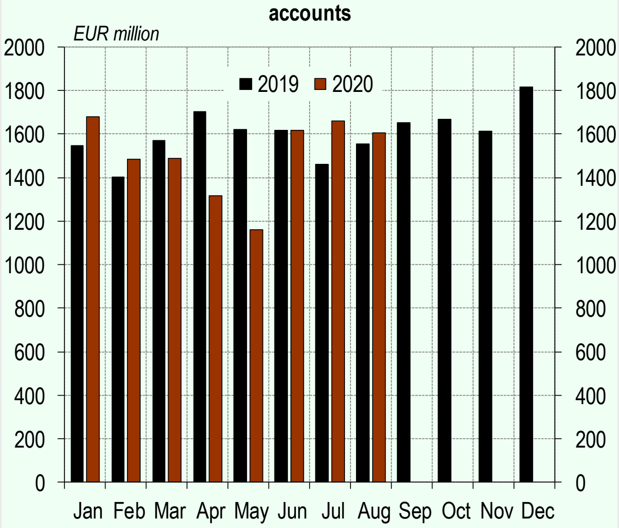
Note: Spread is calculated as a difference between yield of 10-year government bond and the yield of reference German bond on a daily basis and is used as a measure of a country's credit risk.
Source: Bloomberg, Bank of Slovenia calculations.

Box 7.1: Public finance developments according to the cashflow methodology

The consolidated general government balance over the first eight months of the year was a deficit in the amount of EUR 2.2 billion, in contrast to the surplus (of EUR 96 million) recorded in the same period last year. The most notable year-on-year deterioration in the position, in the total amount of just over EUR 2 billion, came between April and June, when the impact of the Covid-19 epidemic was greatest. Revenues declined as the economy contracted, while the rise in expenditure was largely driven by measures to retain jobs and to preserve household income. The majority of the deficit comes from the state budget, where the revision is forecasting a deficit of EUR 4.2 billion or 9.2% of GDP this year.[1] The struggling economy is also having an impact on other government sub-sectors, in particular health. The Health Insurance Institute recorded a deficit of EUR 80 million over the first eight months of the year,[2] compared with EUR 10 million in the same period last year. The local government budget surplus (EUR 71 million) over the first eight months of the year was down slightly in year-on-year terms, as a result of higher investment expenditure amid slower growth in revenues.

Consolidated general government revenues declined as the economy contracted. Consolidated general government revenues over the first eight months of the year were down EUR 475 million or 3.8% in year-on-year terms, while the decline in tax revenues was even larger. The most pronoun-

Figure 1: Revenue of consolidated public finance budgetary accounts



Source: Ministry of Finance.

Table 1: Consolidated balance sheet* of public finance

	2019	last 12 months to Aug 20			2019 Jan.–Aug.	2020 Jan.–Aug.	Jan.–Aug. 20
	EUR million		% GDP	y-o-y, %	EUR million		y-o-y, %
Revenue	**19,232**	**18,758**	**40.5**	**-1.5**	**12,480**	**12,006**	**-3.8**
Tax revenue	17,179	16,637	35.9	-1.2	11,223	10,681	-4.8
- goods and services	6,127	5,661	12.2	-7.0	4,005	3,539	-11.6
- social security contributions	7,021	7,163	15.5	4.3	4,611	4,753	3.1
- personal income	2,592	2,528	5.5	2.2	1,613	1,549	-4.0
- corporate income	997	776	1.7	-19.9	703	482	-31.5
From EU budget	731	727	1.6	2.9	407	403	-1.0
Other	1,323	1,394	3.0	-7.6	850	922	8.4
Expenditure	**18,969**	**20,839**	**45.0**	**10.7**	**12,384**	**14,255**	**15.1**
Current expenditure	8,228	8,621	18.6	5.0	5,476	5,869	7.2
- wages and other personnel expenditure (incl. contributions)	4,470	4,841	10.4	10.0	2,991	3,362	12.4
- purchases of goods, services	2,728	2,789	6.0	3.2	1,724	1,785	3.6
- interest	791	772	1.7	0.2	630	610	-3.2
Current transfers	8,704	10,239	22.1	19.6	5,813	7,348	26.4
- transfers to individuals and households	7,324	7,919	17.1	9.9	4,925	5,520	12.1
Capital expenditure, transfers	1,527	1,516	3.3	-0.4	710	699	-1.5
To EU budget	510	462	1.0	-13.4	386	338	-12.4
Surplus (+) / Deficit (-)	**263**	**-2,081**	**-4.5**		**96**	**-2,249**	

*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.

ced decline in revenues came in April and May; they were broadly unchanged in year-on-year terms in June, and up in July and August. This rise was primarily a reflection of the improvement in the economy is recent months, but was also at least partly attributable to a shift in certain payments from earlier months of the year, in part because of later settlements of corporate income tax, and take-up of the option to pay taxes in instalments. Recent months have seen more favourable dynamics in inflows, particularly in VAT, which indicates that private consumption was recovering again after the shock of the second quarter. The most favourable developments are in taxes dependent on the wage bill. These most notably include social security contributions, which is a reflection of the job retention and activity preservation policy, and also personal income tax, which was nevertheless down in year-on-year terms. This was partly attributable to a tax cut from the beginning of this year, which originated in the government measures from 2019, and was not related to the coronavirus crisis. The main increase in other revenues was recorded by transfer revenues, as a result of the earlier transfer of funds from KAD to the Pension and Disability Insurance Institute (the transfer usually amounts to EUR 50 million each year).

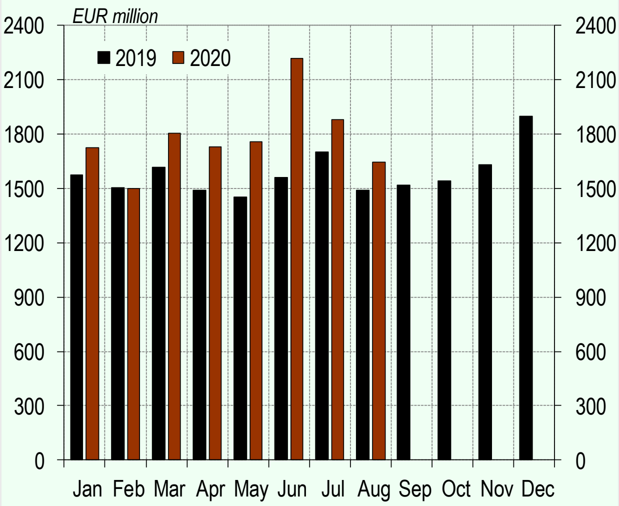
Consolidated general government expenditure increased significantly, as expected, driven largely by measures to alleviate the impact of the epidemic. Subsidies were the largest factor in the year-on-year increase of 15.1% (or EUR 1,870 million). They would usually amount to around EUR 300 million over the first eight months of the year (five-year average up to and including 2019), but totalled EUR 1,152 million this year. Transfers to individuals and households (including emergency support for vulnerable population groups, such as pensioners and students) and expenditure on wages in the public sector (on account of agreed wage increases, promotions, a rise in the minimum wage, and bonus payments for high-risk work and heavy workloads during the epidemic) increased by more than a tenth. Investment expenditure and transfers were down on the previous year, driven by the state budget developments.[3] Interest expenditure continues to decline, despite the higher government indebtedness.

[1] According to the daily figures released by the Ministry of Finance (available online at https://proracun.gov.si), the state budget recorded a deficit of around EUR 125 million in September (compared with a surplus of EUR 116 million in September 2019). Increased expenditure accounted for the majority of the year-on-year deterioration in September. This took the state budget deficit over the first three quarters of the year to close to EUR 2.4 billion, or around 57% of the amount planned for this year.

[2] The majority of the Health Insurance Institute's deficit was generated in January, when liabilities from last year were transferred to this year (in the amount of EUR 63 million).

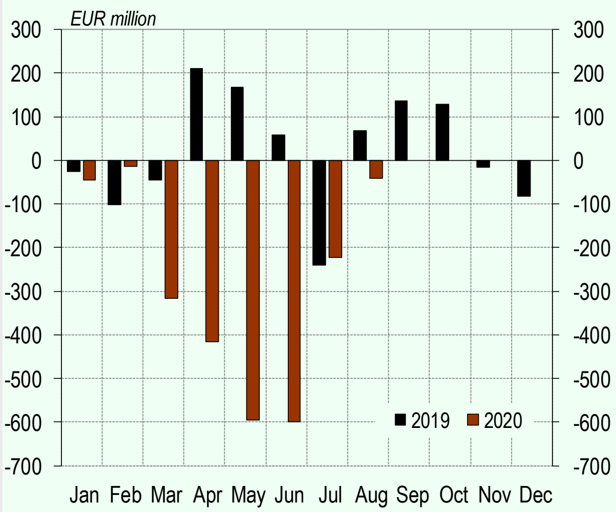
[3] Investment expenditure in the consolidated public finances does not show the increase in government investment suggested by the government accounts.

Figure 2: Expenditure of consolidated public finance budgetary accounts



Source: Ministry of Finance.

Figure 3: Budget balance of consolidated public finance budgetary accounts



Source: Ministry of Finance.

11.1% of GDP at the end of the second quarter, down around EUR 30 million on the end of the first quarter. The decline was attributable to a decline in the guarantees issued to DARS, which outpaced the increase in guarantees issued to alleviate the economic impact of the coronavirus crisis. The latter amounted to EUR 58 billion at the end of the second quarter. Should the liquidity situation in the economy be weakened by a second wave of

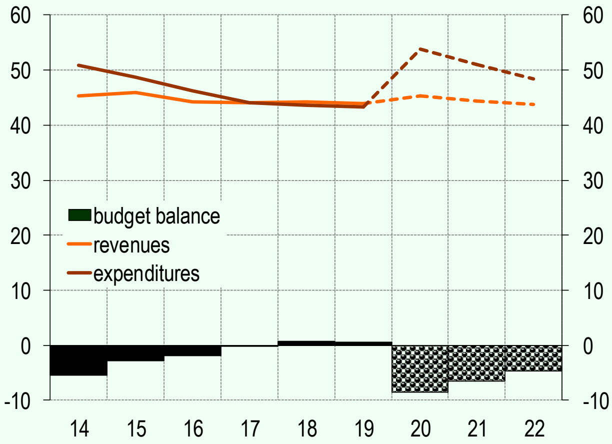
Covid-19 cases, these guarantees could increase significantly, given the available quota. The government earmarked EUR 200 million for guarantees on the basis of legislation from the first package of anti-coronavirus measures, and could guarantee up to EUR 2 billion of corporate loan principal under the second package of measures. There is still space to expand the take-up of both schemes: take-up of the first scheme was approximately 30% at the end of August, while take-up of the funds available under the second scheme was merely around 2% in mid-October.

The required yield on Slovenian 10-year government bonds has been relatively low and stable since the summer. This was primarily attributable to the monetary policy stimulus in the euro area, where favourable borrowing terms have also been provided to other euro area countries. There were signs of a rapid recovery in economic growth in the months leading up to September, and Moody's upgraded Slovenia in early October. The required yield on 10-year Slovenian government bonds fluctuated around 0.1% between July and October, before averaging close to zero in the first week of October and even entering negative territory.

Planned developments in general government balance and debt

This year's general government deficit is forecast at EUR 3,954 million or 8.6% of GDP. This year's deterioration has mainly been driven by the direct impact of measures in connection with Covid-19. October's Draft budgetary plan estimates the direct impact of the measures on the general government balance at EUR 2.4 billion (around 5.3% of GDP), where the impact is almost entirely on the expenditure side. The measures on the revenue side (in the amount of EUR 305 million) mostly have an impact in cashflow, not in accrual terms, and largely encompass the loss of revenues from unsettled and unpaid personal income tax prepayments and corporate income tax, and deferrals in the payment of certain taxes (e.g. VAT, excise duties). The measures put in place to address the Covid-19 epidemic were covered by five anti-coronavirus laws,[2] with a major portion of the measures (in value terms) being carried out in the second quarter. The Fiscal Council estimates the value of the measures directly impacting the general government balance at EUR 1,535 million as at 31 August 2020. Certain measures are still in place, most notably short-time work, holiday vouchers, and aid for social care institutions, while new measures are being put in place by the fifth anti-coronavirus law. This has provided support to those parts of the economy where the situation remained serious.

Figure 7.5: Revenue, expenditure and general government budget balance 2014–2019 and forecast 2020–2022, in % GDP



Source: SORS (realization), IMAD (GDP 2020–2022), Ordinance on the framework for the preparation of general government budgets (expenditure 2020–2022), Bank of Slovenia calculations.

As the temporary measures in connection with Covid-19 are lifted, the general government deficit is expected to narrow over the next two years, but to nevertheless remain high. It is forecast at EUR 3.2 billion or 6.6% of GDP next year, and around EUR 2.4 billion or 4.6% of GDP in 2022. The improvement relative to this year is primarily attributable to the gradual lifting of the temporary recovery measures in connection with Covid-19, which are making this year's figures significantly worse, and will still have a partial im-

[2] (i) Act Determining Emergency Measures to Contain the Covid-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (passed on 2 April 2020, entered into force on 11 April 2020, majority of measures in place from 13 March to 31 May 2020), (ii) Act on Additional Liquidity to the Economy to Mitigate the Effects of the Covid-19 Epidemic (passed on 28 April 2020, entered into force on 1 May 2020), (iii) Emergency Measures to Mitigate and Remedy the Consequences of the Covid-19 Epidemic Act (passed on 29 May 2020, entered into force on 31 May 2020), (iv) Emergency Measures to Prepare for the Second Wave of Covid-19 Act (passed on 9 July 2020, entered into force on 11 July 2020), (v) Temporary Measures to Mitigate and Remedy the Consequences of Covid-19 Act (passed on 15 October 2020).

pact in 2021 (according to October's Draft budgetary plan, total expenditure on measures in connection with Covid-19 in 2021 is estimated at EUR 456 million). The general government balance will also be heavily dependent on the pace of the economic recovery. Given the uncertainty in the future evolution of the epidemiological picture, economic developments and any ongoing fiscal measures taken by the government, all forecasts are exposed to high risks. Financing conditions are expected to remain favourable over the entire period, thus reducing the interest payment burden. The gradual economic recovery should also bring a gradual increase in general government revenues.

The general government debt is forecast to have risen to 82% of GDP by the end of this year. The government left its debt forecast in October's Draft budgetary plan at 82.4% of GDP, unchanged from the forecast from the Stability Programme in the spring. With the general government deficits remaining large over the next two years, the debt will remain high, but will gradually decline as a ratio to GDP, subject above all to the revival of economic growth. At the same time, it is expected that debt will rise in other countries as well, given their extensive fiscal measures. The latest forecasts are that the rise at euro area level will be similar to that in Slovenia. However, euro area debt will remain at considerably elevated levels, being forecast by the European Commission to slightly exceed 100% of GDP this year.

For the sake of economic recovery, increased flexibility is temporarily being applied in the fiscal rules, both domestic and European, while an extensive package of incentives has also been created under the aegis of the Next Generation EU instrument. The fiscal rules for 2020 were immediately relaxed domestically and at European level at the outbreak of the epidemic. In light of the Covid-19 epidemic's far-reaching impact on the economy, the European Commission informed the Member States in a letter on 19 September 2020 that the general escape clause will further apply in 2021. In Slovenia the government asked the Fiscal Council to issue an assessment of exceptional circumstances for 2021 and 2022. The government felt that the circumstances in the years in question could still be treated as exceptional, on the grounds of a sudden event (the existence of coronavirus and the associated risks to health caused by a rise in case numbers, which would lead to a social and economic crisis), and on the grounds of a serious contraction in the economy. In mid-October the Fiscal Council issued its opinion that the conditions allowing for exceptional circumstances to be applied, and thus for a temporary deviation from the balanced fiscal position in the medium-term, could be met next year, while at present it is not possible to state with certainty whether this would be the case for 2022. The European Council of July 2020 reached an agreement on a post-pandemic recovery package for Europe, which combines the new multiannual financial framework (2021-2027) in the amount of EUR 1,074 billion and a recovery fund in the amount of EUR 750 billion. Slovenia is expected to receive around EUR 11.3 billion in funding in the coming years under the various EU programmes. There are three main schemes: EUR 4.5 billion is currently earmarked for Slovenia under the new multiannual financial framework, EUR 5.7 billion from the Next Generation EU instrument, and EUR 1.1 billion from the SURE scheme aimed at preserving jobs in the current crisis situation. EUR 6.6 billion of the funding is in the form of grants, while the remainder consists of loans, which will increase debt when they are disbursed (for more, see the selected theme entitled New measures at Eurosystem and EU level to alleviate the impact of the Covid-19 pandemic and to support the subsequent recovery on page 89).

8 Selected Themes

8.1 A real-time tracker for GDP

For the needs of prompt analysis of developments in the economy, Bank of Slovenia has developed a simple GDP tracker that summarises the most pertinent and latest information about the state of the economy available to analysts. The lag in the release of key national accounts figures such as GDP (the most common measurement of economic activity) requires the use of other, more up-to-date monthly indicators for measuring the actual state of the economy in real time. This is particularly important to Slovenia, which is one of five euro area countries with no flash estimates.

On the basis of the information currently available, the real-time tracker estimates quarterly growth at around 11.2% in the third quarter of this year. Although the estimate is uncertain, all the weekly estimates for the third quarter have been highly favourable, and point to a strong recovery in economic activity over the summer. The latest model estimates of quarterly real GDP growth drawn up using the new tool, the GDP tracker, and the detailed breakdown of this growth into contributions by individual groups of indicators are in line with the findings of the standard approaches and analysis of economic developments, which are presented in detail in this publication. The new, relatively simple tool is proving to be a useful complement to ordinary analysis of current economic developments, and at the same time is allowing for prompt model-based estimation of developments in real GDP during the quarter in question.

Introduction

For the needs of prompt analysis of developments in the economy, Bank of Slovenia has developed a simple GDP tracker that summarises the most pertinent and latest information about the state of the economy available to analysts. The publication lag of key National Accounts data such as Gross Domestic Product (GDP), which serves as the most common measure of economic activity, necessitates the use of other more timely and usually higher-frequency indicators to gauge the standing of the economy in real time.[1] This is even more important for Slovenia, which is one of the five countries in the euro-area with no flash estimates.[2] Given the publication lag of official GDP figures, a simple tracker has been developed to comprehensively summarize most relevant timely information available to analysts to estimate dynamics of real GDP in real-time.[3] Thus, the

[1] The publication lag of National Accounts data ranges from six to eight weeks depending on the country (Jansen, Jin, & Winter, 2012). For Slovenia, National Accounts data computed by the Statistical Office of the Republic of Slovenia (SORS) become publicly available eight weeks after the end of a given quarter.

[2] Flash estimates are defined as early official estimates of a given variable over the current or most recent period (European Comission, 2018).

[3] The developed tracker is designed to provide an estimate only for the current/most recent quarter for which no official figure is available yet, taking into account other available information for the quarter. The tracker-estimate for a given quarter q_t (spanning months m_t^1, m_t^2, m_t^3) is computed from the last day of m_t^2 (when the official figure for q_{t-1} becomes available) until end of m_{t+1}^2, i.e. the second month of q_{t+1} (when the official figure for q_t becomes available).

tool enhances the analysis of high-frequency indicators by enabling a more aggregate look at economic developments.

Dataset description

The set of indicators used in the tracker is extensive and diverse. The complete dataset of indicators compiled to track real GDP for Slovenia comprises 190 predominantly monthly indicators.[4] While the original dataset entails about 250 indicators, the complete dataset considers only indicators that are available latest from 2005 onwards.[5] The dataset is comprehensive in that it combines information from different sectors of the economy, including information about consumers, industry, retail, trade/external environment, services, construction, the labour market and the financial sector.[6] For the estimation, the final dataset (hereafter selected dataset) considers only those indicators that fulfil the following criteria: (i) have a contemporaneous correlation of 50% or more (in absolute value) with the quarterly growth rate of real GDP[7], and (ii) have information available for the current (or most recent quarter) for which no official estimate of GDP is available yet. These criteria shrink the size of the dataset considerably and depending on when during a given quarter the tracker is estimated, the number of indicators in the dataset varies accordingly. While the contemporaneous correlation of indicators with the quarterly growth rate of GDP may vary with time, the variation in the size of the selected dataset primarily underlines the second criterion, i.e. the timeliness/availability of indicators throughout the quarter. For example, at the beginning of a given quarter the size of the selected dataset is smaller on average as only soft indicators become available, while it gradually increases with time as most indicators (in particular hard indicators) become available much later in the quarter or even in the beginning of next quarter.

There is significantly less data in the selected dataset than in the complete dataset, and the proportion of survey indicators that are quickly available is also higher. To get a general idea of the average size and composition of the selected dataset, Figure 8.1.1 displays the distribution of indicators across categories for the complete dataset and the approximate allocation of indicators across categories for the selected dataset. For the latter (and for consistency purposes) we assume the tracker is estimated recursively for the last five years approximately two weeks after the end of a given quarter q_t (i.e. by the 16th day[8] of the following quarter q_{t+1}) and consider only data that would be available at that time, thus preserving a real-time assessment of information. As shown in Figure 8.1.1, for the complete dataset, the largest share of indicators pertains to industry-related information, followed by indicators related to services, retail and the external environment. About 40% of the dataset entails survey-based indicators, while the remaining 60% pertains to hard data. The composition does not substan-

[4] Only 5% of the dataset contains indicators available in quarterly frequency.

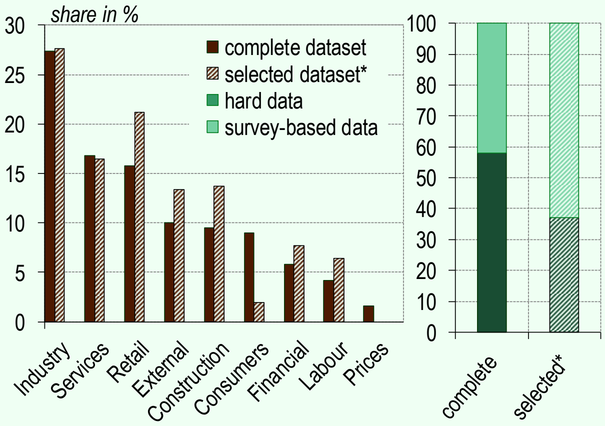
[5] The starting date is selected in such a way as to allow for sufficient observations in the estimation sample, while taking as many indicators as possible into account.

[6] Consumer-related indicators include consumer confidence indicators and sub-indicators, the number of first car registrations and ATM/POS payment data. Industry-related indicators include industrial production across all sectors and sub-sectors, electricity consumption, capacity utilization, the economic sentiment indicator (ESI) and the sentiment indicator and sub-indicators for manufacturing. Trade/external environment-related indicators include exports and imports of goods and services from Balance of Payments, sentiment indicators (ESI, PMI, IFO-indicators (for Germany only) and Composite Leading Indicators (CLI)) and industrial production for main trading partners, i.e. Germany, Austria, France, Croatia and Italy, the PMI for the euro area and the global PMI. Services-related indicators include turnover across all services (sub)categories and sentiment indicators and sub-indicators for the services sector. Retail-related indicators include retail trade across all retail (sub)categories and sentiment indicators and sub-indicators for the retail sector. Construction-related indicators include value of construction put in place, value of new contracts and sentiment indicator and sub-indicators for the construction sector. Labour market-related indicators include the unemployment rate, persons in paid employment, average wages, direct taxes and employee/employer contributions. Financial-related indicators include loans to households (total and by purpose), loans to NFCs, effective interest rates on loans to households and NFCs, long-term interest rates and key ECB rates. Finally, price-related indicators include the HICP, import prices and producer prices.

[7] Some authors in the literature argue that using all available data to construct principal components may not be optimal (e.g. Boivin & Ng, 2006). Given this, the somewhat arbitrary threshold of a contemporaneous correlation of 50% and higher (in absolute value) has been selected to account for information that tend to more closely follow the dynamics in the quarterly growth rate of real GDP.

[8] The selected date reflects the cut-off date of information included in this publication.

Figure 8.1.1: Composition of the complete and selected dataset



*Note: The indicators accounted for are retrieved from SORS, Eurostat, ECBSWD and Bank of Slovenia. Solid fills represent the complete dataset, dashed ones the selected dataset. *Includes information by the set cut-off date: 16th day of the first month of the coming quarter.*
Source: Bank of Slovenia calculations.

tially change in the selected dataset, even though, different from the complete dataset, the size is much smaller (with approximately 50 indicators) and the type of data is skewed towards soft indicators (approximately 60% of the dataset) underlining predominantly their timeliness. By the set cut-off date considered for the selected dataset most indicators become available for the whole quarter (in particular soft indicators, while data on some hard indicators are still missing). For comparison purposes, the selected dataset under complete information (i.e. information for all months of the quarter) is also considered. While not displayed in the figure, the size of this dataset entails approximately 60 indicators and matches the composition of the selected dataset in real-time very closely. For the estimation, all data are appropriately transformed to induce stationarity, are seasonally adjusted where appropriate and aggregated to quarterly frequency where relevant.[9]

Technical description of used methodology

The model behind the tracker is estimated in quarterly frequency as an Autoregressive Distributed Lag Model (ADL). The general specification of the model, as in Stock and Watson (2002), assumes that X_t (denoting the set of indicators in the dataset) and y_{t+h} (denoting the quarterly growth rate of real GDP to be estimated) allow a factor model representation with r common latent factors F_t,

$$X_t = \Lambda F_t + \epsilon_t \tag{1}$$

and

$$y_{t+h} = \alpha + \sum_{k=0}^{K} \beta_k^F F_{t-k} + \sum_{m=1}^{M} \beta_m^y y_{t-m} + \varepsilon_{t+h} \tag{2}$$

where ϵ_t is a vector of idiosyncratic disturbances, α je is the intercept, β^F and β^y are coefficients associated with F_t, and the lags of y_t, ε_{t+h} is the forecast error and h is the forecast horizon. As the objective is to estimate the real quarterly growth rate of real GDP for the current period t using information available in t, it follows that $h = 0$. in the juncture of this analysis. To obtain the estimate for the quarterly growth rate of real GDP in time t, *i.e.* $\hat{y}_t$, the model entails two steps. In the first step, as factors F_t can be consistently estimated using principal components (Stock & Watson, 2002), the latter are extracted from the set of indicators $\{X_t\}_{t=1}^{T}$ belonging to the selected dataset. To ensure parsimony and given that the first factor, estimated by the first principal component, explains about 70% of the variance in the data, only one factor is accounted for in the model. In the second step, using the estimated factor $\hat{F}_t$ and the observed lags of y_t, the model as shown in (2) is estimated until period $t - 1$ to obtain regression coefficients $\hat{\alpha}, \hat{\beta}_k^F$ and $\hat{\beta}_m^y$, and then fitted for the whole sample, i.e. until period t, to obtain the forecast for y_t as follows:

$$\hat{y}_t = \hat{\alpha} + \sum_{k=0}^{K} \hat{\beta}_k^F \hat{F}_{t-k} + \sum_{m=0}^{M} \hat{\beta}_m^y y_{t-m} \tag{3}$$

The model is estimated using OLS as in Stock and Watson (2004), and uses bootstrapped standard errors to compute 90% confidence bands. Lag length of the dependant variable and the factor are determined using

[9] It is important to note, that for monthly series, if information is available only for the first month (or the first two months) of the quarter, the data are still taken into account in the selected dataset (upon satisfaction of criterion (ii))) and the aggregation to quarterly frequency considers only these available data.

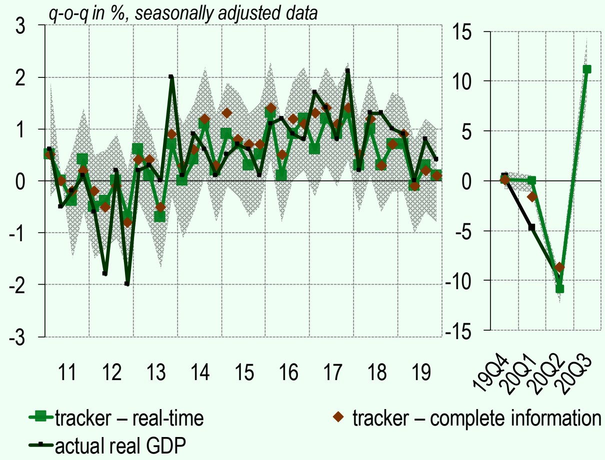
the Akaike Information Criterion (AIC) with between one and four lags.

Results

To evaluate the credibility of the developed tracker, its performance is assessed in two settings using two different datasets: (i) real time[10] – using the selected dataset which takes into account only data available at the time of the estimation (which for the purpose of this analysis pertains to the 16th day of period *t + 1*), and (ii) complete information – using the selected dataset which assumes all information, except real GDP, are available for the quarter. The results of the recursive estimations under these two settings are depicted in Figure 8.1.2. As observed, for the period 2011Q1-2019Q4, the tracker (both in real-time and under complete information) closely follows the dynamics of the quarterly growth rate of GDP, with most realizations falling within the 90% confidence bands. Turning to the most recent period, which is characterized by the adversities of the Covid-19 pandemic, the difference between the tracker-estimate in real-time and under complete information merits a closer assessment. In real-time the estimated quarterly growth rate of GDP for 2020Q1 stood at 0% (with 90% confidence bands ranging from -1.4% to 0.8%), which diverges markedly from the realized quarterly contraction of -4.7%. Given that the lockdown measures in Slovenia and most euro area countries were enacted during March 2020, the tracker estimated in real-time does not take most of this information into account and as such underperforms. Under complete information, the estimated figure stands at -1.6%, which even though still 3.1 p.p. higher than the realization, does successfully track the turning point in GDP dynamics.

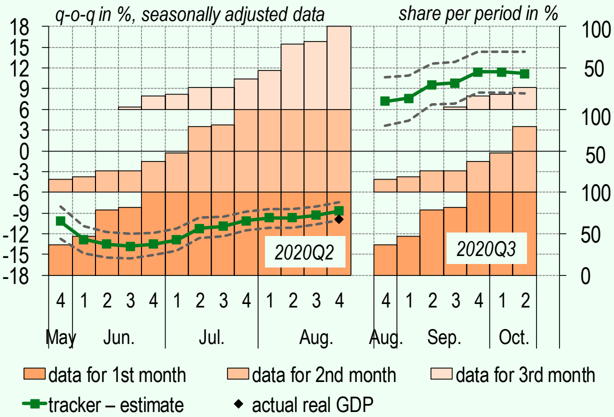
For 2020Q2, the performance of the tracker improves substantially. As the enacted lockdown measures were lifted by mid-2020Q2 (i.e. second half of May), the real-time tracker suggested a larger contraction in GDP (-10.9%) as opposed to the realization (-9.9%) and the estimate under complete information (-8.7%). The underlying reason for this marked difference is that different from the real-time estimate, the complete information

Figure 8.1.2: Realization and *tracker-estimate* of the quarterly growth rate of real GDP



Note: Shaded area represents the 90% confidence bands estimated in real time using bootstrapped standard errors.
Sourse: SORS, Bank of Slovenia estimations.

Figure 8.1.3: Weekly *tracker-estimates* for the quarterly growth rate of real GDP in the second and third quarter of 2020



Note: Dotted lines represent the 90% confidence bands. The share of available data per month (rhs) for each estimation period is calculated as a share of the maximum number of indicators in the selected dataset for a given quarter. Three estimation periods are shown with available data ranging from 0% to 100%.
Source: Bank of Slovenia estimations.

estimate takes into account all data for May and June, which were already showing marked signs of recovery across indicators following the easing of lockdown measures. Figure 8.1.3 plots the weekly real-time estimates for 2020Q2 starting from the last week of May until last week of August, i.e. when the official figure for the quarter became available. As observed, the more data became available throughout the period, the performance of the tracker improved markedly. The lowest estimate was reached in the third week of June (-13.8%), underlining in particular hard data available for April (characterized with strict lockdown measures) and some data for May, including survey-based indicators and some financial data.

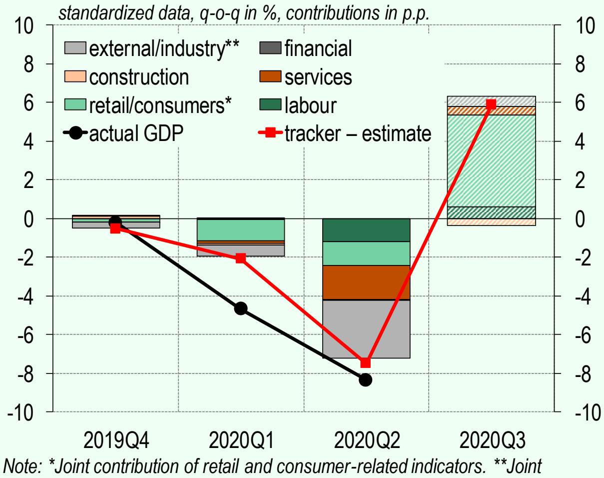
[10] As data revisions are not taken into account, the design of the exercise is actually in pseudo-real time rather than real-time.

As more information for May and some for June (characterized with easing of lockdown measures) became available, the tracker-estimate improved and it continued its trend as remaining data (especially hard indicators) for May and June were also accounted for. Moving forward with 2020Q3, based on currently available information (partial data for August and some data for September), the real-time tracker suggests a quarterly growth rate of around 11.2% for real GDP in the third quarter of 2020. While surrounded with significant uncertainty (with 90% confidence bands ranging from 8.3.9% to 14.3%), the results do point to a strong rebound in economic activity for 2020Q3, which is also confirmed by the persistently elevated weekly estimates (starting at the end of August) for the same quarter (Figure 8.1.3).

To obtain an approximate decomposed view of the tracker-estimate for 2020Q3, Figure 8.1.4 plots the approximate contributions of each category of indicators assessed under complete information for 2019Q4-2020Q2 and in real time for 2020Q3. All depicted data are standardized, i.e. demeaned and adjusted for standard deviation. For the contributions, retail-related indicators are augmented with consumer-related data, while external environment-related indicators with industry-related data. The former entails the similarity of the two groups of information, while the latter underlines the importance of developments across main trading partners, exports and imports for the Slovene industry. It is important to note that, given the composition of each group of indicators (see footnote 6) and the underlying model, a direct comparison of the contribution of components from this purely model-based decomposition to the official contributions of components for the production- and/or expenditure-side decomposition of GDP is not possible.

As shown in the figure, the main drag to the tracker-estimate for real GDP in 2020Q1 is attributed to developments in retail/consumer-related indicators. This is in line with the prevailing dynamics of aggregate private consumption, which for the same period contributed -3.3 p.p. to the quarterly contraction of 4.7% in real GDP. For the second quarter, characterized predominantly by stringent and ubiquitous lockdown measures, while the

Figure 8.1.4: Contribution of components to quarterly growth of real GDP



*Note: *Joint contribution of retail and consumer-related indicators. **Joint contribution of external and industry-related indicators.*
Source: SORS, Bank of Slovenia estimations.

downward pressure from retail/consumer-related developments persisted, other categories such as the labour market-, services- and especially external/industry-related indicators, also marked significant negative contributions. As per the expected rebound in 2020Q3, the main upward pressure to the tracker-estimate of the quarterly growth rate of real GDP is induced by retail/consumer-related indicators, followed by mild recoveries in, external/industry- and services-related indicators. While the upward pressure from retail-related information is largely driven by the unwinding of pent-up demand following the lockdown lift, the positive contribution from external environment/industry-related indicators underlines the easing of lockdown measures (in Slovenia and across trading partners), the associated rebound in activity across main trading partners and the overall recovery in foreign demand for Slovenia. The conclusions drawn from the model-based estimate of the expected growth rate of real GDP, and its decomposition across the range of indicators considered in the selected dataset are broadly in line with the easing of lockdown measures during 2020Q3 and the dynamics observed across individual indicators, which are thoroughly assessed throughout this publication. In conclusion, albeit subject to uncertainty, the developed tracker shows to be a useful tool for tracing dynamics of real GDP in absence of official National Accounts figures.

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8.2 New measures at Eurosystem and EU level to mitigate the impact of the Covid-19 pandemic and to support the subsequent recovery

The response from monetary policy, fiscal policy and other policies at Eurosystem and EU level to the economic shock caused by the pandemic was quick and powerful, and thus quite different from that of over a decade ago. The two main channels via which the ECB responded were the provision of liquidity to banks at highly favourable terms, and extensive asset purchases while holding key interest rates at extremely low levels. The EU introduced several measures in response to the Covid-19 crisis, most notably, alongside the three safety nets worth EUR 540 billion, the Next Generation EU instrument adopted in July, worth EUR 750 billion. By relaxing the rules on state aid and temporarily suspending the EU's fiscal rules, the European Commission gave national governments more room to manoeuvre in responding to an unprecedented shock. All of these extensive measures, which are unprecedented in peacetime over the last century, helped to stabilise the financial markets, kept the financing conditions favourable for the private sector and for governments, and mitigated the adverse impact of the shock on economic activity and inflation.

Introduction

Different than just over a decade ago, EU Member States, the ECB and the European Commission were quick and decisive in their policy response to the economic shock caused by the pandemic. Their extensive measures, which are unprecedented during peacetime in the last century, stabilised the financial markets, supported the supply of loans, eased the financing conditions for the private sector and for governments, and mitigated the adverse impact of the shock on economic activity and inflation.

ECB measures

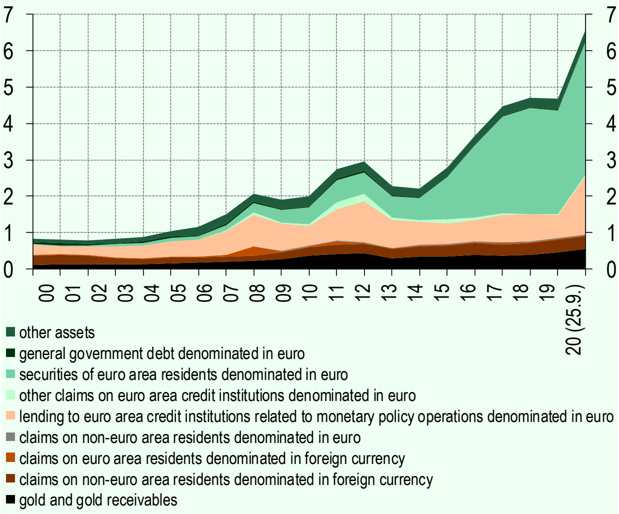
The two main channels via which the ECB responded to the sharp adverse shock were the provision of liquidity to banks at highly favourable terms, and extensive asset purchases while key interest rates were held at extremely low levels. Having relaxed the conditions under which banks could borrow funds at the ECB in March of this year, the ECB further reduced the interest rates on its targeted longer-term refinancing operations (TLTRO-III) and launched the pandemic emergency longer-term refinancing operations (PELTRO). This strengthened the incentives for banks to lend to the real economy: they are able to borrow until mid-2021 at negative interest rates that can reach -1%, provided that their credit activity is sufficient. In April the ECB further eased the borrowing conditions for banks by relaxing its collateral eligibility criteria. In the second channel of the crisis response, first in March the ECB launched the pandemic emergency purchase programme (PEPP), with an envelope of EUR 750 billion, which was then increased by EUR 600 billion in June to a total of EUR 1,350 billion. Net asset purchases within the framework of the PEPP will be made until the end of June 2021 or until the Governing Council of the ECB judges that the pandemic crisis phase is over. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. It is worth noting that even before this (March), the ECB had expanded the envelope of the existing asset purchase programme (APP) by EUR 120 billion, which is being placed on the market at EUR 20 billion per month until the end of the year.

In March of this year the ECB also adopted several supervisory measures that aimed to allow banks to

absorb losses and maintain lending to real economy. Banks were allowed to temporarily operate below the applicable capital and liquidity buffers. A decision by the Governing Board of Bank of Slovenia expanded this measure to banks under the direct supervision of Bank of Slovenia. Banks also have more flexibility in following the guidelines on non-performing loans, and more flexibility on supervisory timelines, deadlines and procedures. At the same time the ECB recommended that banks should make no dividend payments until the end of January 2021. In April Bank of SLovenia also put in place a macroprudential measure placing temporary restrictions on banks and savings banks in their profit distributions, and issued similar guidance to leasing companies via a recommendation. In September the ECB introduced temporary relief in banks' leverage ratio.

Through measures of unprecedented scale, the ECB has had a key impact during the Covid-19 crisis in maintaining favourable financing conditions in the real economy and low borrowing costs, and is contributing to medium-term price stability. The substantial borrowing by banks in the longer-term refinancing operations (almost entirely in the TLTRO) and the extensive asset purchases by the ECB had expanded the Eurosystem's consolidated balance sheet from the beginning of the year by 40% by 25 September 2020, or by 15% of last year's GDP in the euro area. The ECB is also preserving financial stability through international cooperation. In response to the situation it reactivated certain

Figure 8.2.1: Eurosystem consolidated balance sheet, assets in 1000 EUR billion



Source: ECB.

currency swap lines, and enhanced its existing swap lines with central banks around the world.

Measures at EU level

The EU introduced several measures in response to the Covid-19 crisis, most notably the Next Generation EU instrument, which will be funded by the largest EU debt issue by far to date. In July of this year, after lengthy negotiations, EU leaders agreed on a European recovery effort (considered historic by many) to help the EU tackle the crisis caused by the pandemic, and to support investment in the digital and green transitions. The EUR 1,824.3 billion package, which is still awaiting confirmation in the European Parliament, combines:

- **the multiannual financial framework (MFF 2021-2027)** in the amount of EUR 1,074.3 billion, which will mainly be financed by direct contributions by EU Member States;
- **the Next Generation EU instrument (NGEU)** worth EUR 750 billion (4.7% of the EU's annual GDP), which will be financed by the European Commission's borrowing on the financial market.

The MFF 2021-2027 is around 2% smaller in nominal terms than the previous framework (2014-2020) − to which it is not comparable given the UK's departure from the EU and the inclusion of the European Development Fund (EDF) − but in combination with the NGEU it strongly exceeds it. July's agreement is also historic in that the European Commission will be able to borrow up to EUR 750 billion on the market to finance the NGEU, which marks the first substantial borrowing by the EU. The European Commission is proposing a series of EU own resources for its subsequent repayment: first, a new levy based on non-recycled plastic waste, and then gradually a carbon border adjustment mechanism, and a tax on digital and financial services.

The NGEU consists of grants (EUR 390 billion) and loans (EUR 360 billion). The amounts available under the NGEU will be allocated across seven different programmes, of which the majority of the funding will be earmarked for the Recovery and Resilience Facility

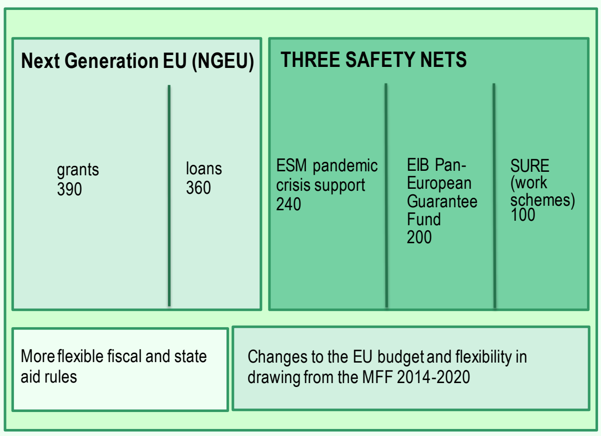
(RRF), namely EUR 672.5 billion, of which EUR 312.5 billion consists of grants. The purpose of the RRF is to support investment and reform to pave the way for a sustainable, resilient recovery, while promoting the green and digital priorities. Some 70% of the funding will be allocated in 2021 and 2022, and 30% in 2023. The distribution of funds from the instrument in 2021 and 2022 will be determined in accordance with the European Commission criteria, taking account of the standard of living, the size and the unemployment rate of Member States. For 2023 the unemployment metric will be replaced by the observed declines in GDP in 2020 and 2021. EU Member States need to prepare national recovery and resilience plans setting out their reform and investment agenda for the 2021 to 2023 period. These plans are expected to address the challenges identified in the context of the European Semester. The financial support will only be disbursed when milestones and targets identified in the recovery and resilience plans are reached. Countries are required to submit their preliminary draft plans from 15 October 2020, with a final submission deadline of 30 April 2021.

In addition to the recovery package, the EU's economic response to the crisis also encompasses three safety nets introduced in April of this year, worth a total of EUR 540 billion. They are designed to support jobs and workers, businesses, and Member States.

- **SURE** is the instrument for temporary support to mitigate unemployment risks in an emergency. The scheme can provide loans to Member States in the amount of up to EUR 100 billion to cover costs related to the creation or extension of national short-time work schemes. By mid-September 16 EU Member States had requested financial assistance under SURE (in the amount of EUR 87.4 billion), among them Slovenia (EUR 1.1 billion).
- The **EIB's pan-European guarantee fund** (EGF EIB, whose target fund size is EUR 25 billion) could provide up to EUR 200 billion of loans to SMEs. These would be additional funds to supplement existing funding from the EIB, part of which has already been earmarked for financing the battle against the Covid-19 crisis. All EU Member States committed to the EGF will be entitled to financing from this source. To date 20 countries have made commitments. Slovenia has not yet formally decided to participate.
- To support their efforts during the Covid-19 crisis, loans from the **European Stability Mechanism** (ESM) are available to all euro area countries up to the amount of 2% of their GDP, with a total ceiling of EUR 240 billion. The loans need to be used to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the Covid-19 crisis. To date no euro area country has requested a loan from the ESM.

The European Commission has adopted a number of other measures, including more flexible rules on state aid and the temporary suspension of the EU's fiscal rules, which gave national governments more room to manoeuvre in responding to an unprecedented shock. Accordingly countries were able to respond promptly and intensively, introducing several packages of emergency measures to mitigate the impact of the shock on society and businesses. The average size of the discretionary fiscal measures at national level was around 4.5% of GDP according to the latest estimates; Bank of SLovenia's estimates for Slovenia are similar. The shock is additionally being mitigated by automatic fiscal stabilisers, whose size is estimated by the European Fiscal Board at 5% of GDP. Governments, among them Slovenia's, introduced government guarantee schemes to increase liquidity, and deferrals of payments of public taxes

Figure 8.2.2: EU intervention measures to mitigate the effects of the COVID-19 pandemic and support Europe's economic recovery, value in EUR billion



Source: European Commission, Council of the EU, BS illustration.

Table 8.2.1: Timeline of ECB measures in the period March 2020 – August 2021

	March 2020	April 2020	June 2020	July and August 2020
Asset purchases	**Asset purchase programme (APP) envelope extended by EUR 120 bn in 2020** in addition to ongoing APP purchases of EUR 20 bn per month and reinvestments			
	Pandemic emergency purchase programme launched (PEPP) with EUR 750 bn envelope until at least Dec. 2020 (flexible allocation across time, assets, countries)		**PEPP expanded** - envelope increase by EUR 600 bn to EUR 1,350 bn and extension until at least Jun. 2021 - reinvestments at least until end of 2022	
Lending programmes	**Conditions for targeted lending programme (TLTRO-III) eased:** borrowing rate -25 to -75 bps (Jun. 2020 to Jun. 2021), depending on lending performance	**Further easing of TLTRO-III conditions:** borrowing rate -50 bps to -100 bps (Jun. 2020 to Jun. 2021), depending on lending performance, and further easing of terms and conditions		
	Additional longer-term refinancing operations (LTROs)	**Pandemic emergency longer-term operations (PELTRO) introduced**; 7 operations from May 2020, maturing by Sept. 2021, interest rate of -25 bps.		
		Temporary easing of collateral requirements		
Swap/repo lines	**EUR swap lines reactivated** - with the central bank of Denmark	**EUR swap lines set up** - with central banks of Croatia and Bulgaria	**EUREP repo facility and EUR repo line set up** - new Eurosystem repo facility to provide euro liquidity to non-euro area central banks (EUREP) - repo line with central bank of Romania set up	**EUR repo lines set up** - with central banks of Albania, Hungary, Serbia, Republic of North Macedonia and San Marino
	US dollar swap lines reactivated - with Federal Reserve and other major central banks		**Frequency of 7-day USD operations reduced** to three per week	**Frequency of 7-day USD operations reduced** to one per week as of 1 September
Supervisory measures	**Temporary capital, liquidity and operational relief** - facilitating use of capital and liquidity buffers - flexible prudential treatment of loans backed by public support mesures and mitigation of procyclicality in accounting - recommendation against dividend payments	**Temporary reduction in capital requirements for market risk**		**Further guidance** - guidance against dividend payments and for moderation in remuneration - clarification on restoration of capital/liquidity buffers and supervisory expectations on addressing debtor stress

Source: ECB.

in the amount of up to 25% of GDP. The European Commission adopted other measures to support the economy, such as changes to the current EU budget, and greater flexibility in the disbursement of funds from the multiannual financial framework 2014-2020.

Slovenia's current entitlements are EUR 5.7 billion under the NGEU, EUR 4.5 billion under the MFF 2021-2027, and EUR 1.1 billion under the SURE scheme, making a total of EUR 11.3 billion. Under the NGEU it will be able to draw down up to EUR 5.2 billion from the RRF (of which EUR 1.6 billion is grants), and EUR 0.5 billion of grants under other programmes. It is entitled to loans of up to EUR 1.1 billion under the SURE scheme, to assist in financing a wage compensation scheme, the short-time work scheme, the relief from social security contributions for employees entitled to wage compensation, and other measures to prevent unemployment. According to the latest figures (in the working document), Slovenia has EUR 4.5 billion available under the multiannual financial framework 2021-2027, and still has unutilised funds of EUR 1.8 billion available from the expiring financial framework. A particular challenge for Slovenia and many other Member States will be the scale and the speed of the absorption of EU funds, and the effectiveness of their use.

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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	2016	2017	2018	19Q4	20Q1	Jun. 20	Jul. 20	Aug. 20
1.1. Claims of the Bank of Slovenia	6,544	7,143	8,168	10,594	11,522	14,659	14,058	14,360
1.2. Claims of other MFIs	8,100	8,504	8,279	8,342	8,439	8,303	8,548	8,707
1. Claims on foreign sectors (foreign assets)	**14,643**	**15,647**	**16,447**	**18,936**	**19,960**	**22,962**	**22,606**	**23,067**
2.1. Claims of the Bank of Slovenia on central government	4,618	6,247	7,165	7,719	7,399	9,007	9,766	10,011
2.2.1.1. Loans	1,506	1,425	1,174	1,048	1,010	996	973	973
2.2.1.2. Securities	4,767	3,744	3,763	3,648	3,743	3,887	3,988	3,899
2.2.1. Claims on central government	6,273	5,170	4,937	4,696	4,753	4,884	4,962	4,872
2.2.2.1. Loans	579	571	580	602	613	602	601	608
2.2.2.2. Securities	0	0	-	-	-	-	-	-
2.2.2. Claims on other general government	579	571	580	602	613	602	601	608
2.2. Claims of other MFIs on general government	6,852	5,740	5,517	5,297	5,367	5,486	5,563	5,480
2.3.1.1. Loans	9,306	9,311	9,177	9,290	9,780	9,411	9,372	9,301
2.3.1.2. Securities	405	334	319	298	290	299	297	297
2.3.1. Claims on nonfinancial corporations	9,711	9,645	9,497	9,587	10,070	9,711	9,668	9,598
2.3.2. Households and non-profit institutions serving households	9,154	9,735	10,370	10,981	10,954	10,828	10,884	10,926
2.3.3.1. Loans	865	1,171	1,070	1,248	1,263	1,244	1,254	1,255
2.3.3.2. Securities	543	395	432	412	412	411	413	412
2.3.3. Claims on nonmonetary financial institutions	1,408	1,566	1,502	1,661	1,675	1,656	1,667	1,666
2.3. Claims of other MFIs on other non-MFIs	20,272	20,946	21,369	22,229	22,699	22,194	22,220	22,191
2. Claims on domestic non-MFIs	**31,743**	**32,934**	**34,050**	**35,245**	**35,465**	**36,687**	**37,548**	**37,682**
3. Remaining assets	**2,192**	**1,461**	**1,477**	**1,660**	**1,672**	**1,562**	**1,561**	**1,544**
Total assets	**48,578**	**50,042**	**51,974**	**55,842**	**57,097**	**61,210**	**61,716**	**62,293**
1.1. Bank of Slovenia	1,267	1,506	63	134	106	59	61	53
1.2. Other MFIs	5,094	4,436	3,986	4,342	4,477	4,225	4,549	4,530
1. Obligations to foreign sectors (foreign liabilities)	**6,362**	**5,943**	**4,049**	**4,476**	**4,583**	**4,284**	**4,609**	**4,583**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,160	5,371	5,655	5,847	5,933	6,155	6,216	6,243
2.1.1.2. Overnight deposits at other MFIs	15,471	17,727	19,877	21,699	22,570	23,971	24,138	24,296
2.1.1.3.1. Non-monetary financial institutions	69	11	76	296	291	325	304	296
2.1.1.3.2. Other government sector	62	107	100	111	124	125	145	143
2.1.1.3. Overnight deposits at the Bank of Slovenia	131	118	176	407	415	450	449	439
2.1.1. Banknotes and coins and overnight liabilities	20,761	23,216	25,708	27,953	28,918	30,576	30,802	30,978
2.1.2.1. Deposits at the Bank of Slovenia	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	6,864	6,127	5,727	5,697	5,456	5,346	5,351	5,254
2.1.2. Time deposits	6,864	6,127	5,727	5,697	5,456	5,346	5,351	5,254
2.1.3. Deposits reedemable at notice up to 3 months	464	473	492	541	539	497	511	530
2.1. Banknotes and coins and deposits up to 2 years	28,089	29,816	31,927	34,190	34,913	36,419	36,664	36,762
2.2. Debt securities, units/shares of money market funds and repos	102	55	78	55	89	73	71	83
2. Banknotes and coins and instruments up to 2 years	**28,190**	**29,871**	**32,006**	**34,246**	**35,002**	**36,492**	**36,736**	**36,845**
3. Long-tern financial obligations to non-MFIs	**1,510**	**1,524**	**1,314**	**1,285**	**1,333**	**1,246**	**1,231**	**1,230**
4. Remaining liabilities	**14,100**	**14,035**	**15,675**	**17,232**	**17,473**	**20,473**	**20,468**	**21,006**
5. Excess of inter-MFI liabilities	**-1,584**	**-1,330**	**-1,069**	**-1,396**	**-1,294**	**-1,285**	**-1,328**	**-1,372**
Total liabilities	**48,578**	**50,042**	**51,974**	**55,842**	**57,097**	**61,210**	**61,716**	**62,293**

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Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2016	2017	2018	19Q4	20Q1	Jun. 20	Jul. 20	Aug. 20
1.1. Gold	112	111	115	138	150	161	171	168
1.2. Receivable form IMF	361	338	372	381	385	398	387	385
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	588	233	1,464	3,661	4,708	7,744	7,131	7,474
1.5. Securities	5,380	6,359	6,114	6,271	6,129	6,179	6,188	6,140
1.6. Other claims	103	103	103	142	149	175	182	192
1. Claims on foreign sectors (foreign assets)	**6,544**	**7,143**	**8,168**	**10,594**	**11,522**	**14,659**	**14,058**	**14,360**
2.1. Claims on central government	4,618	6,247	7,165	7,719	7,399	9,007	9,766	10,011
2.2.1. Loans	714	1,142	1,102	995	1,055	1,359	1,359	1,359
2.2.2. Other claims	99	98	3	51	51	58	75	76
2.2. Claims on domestic monetary sector	813	1,240	1,105	1,046	1,106	1,417	1,434	1,435
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**5,433**	**7,489**	**8,271**	**8,767**	**8,507**	**10,426**	**11,202**	**11,448**
3. Remaining assets	**973**	**279**	**314**	**396**	**374**	**343**	**339**	**336**
Total assets	**12,950**	**14,911**	**16,753**	**19,757**	**20,403**	**25,427**	**25,599**	**26,144**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,160**	**5,371**	**5,655**	**5,847**	**5,933**	**6,155**	**6,216**	**6,243**
2.1.1.1.1. Overnight	2,252	2,939	3,391	4,348	4,159	5,914	6,063	6,077
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,252	2,939	3,391	4,348	4,159	5,914	6,063	6,077
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,252	2,939	3,391	4,348	4,159	5,914	6,063	6,077
2.1.2.1.1. Overnight	1,949	2,521	3,704	3,120	3,590	5,959	5,542	6,056
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,949	2,521	3,704	3,120	3,590	5,959	5,542	6,056
2.1.2.2. Foreign currency	78	56	5	6	6	7	7	6
2.1.2. General government	2,027	2,577	3,708	3,126	3,596	5,966	5,549	6,062
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	69	11	76	296	291	325	304	296
2.1.3. Other domestic sectors	69	11	76	296	291	325	304	296
2.1. Domestic sectors	4,348	5,527	7,176	7,770	8,046	12,205	11,916	12,435
2.2. Foreign sectors	1,267	1,506	63	134	106	59	61	53
2. Deposits	**5,615**	**7,033**	**7,238**	**7,904**	**8,152**	**12,264**	**11,977**	**12,488**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**256**	**262**	**266**	**269**	**265**	**257**	**257**
5. Capital and reserves	**1,748**	**1,883**	**1,945**	**2,763**	**2,666**	**2,959**	**3,247**	**3,143**
6. Remaining liabilities	**152**	**367**	**1,653**	**2,976**	**3,383**	**3,783**	**3,902**	**4,014**
Total liabilities	**12,950**	**14,911**	**16,753**	**19,757**	**20,403**	**25,427**	**25,599**	**26,144**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2016	2017	2018	19Q4	20Q1	Jun. 20	Jul. 20	Aug. 20
1.1.1. Cash	322	355	425	432	452	424	451	445
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,252	2,939	3,391	4,348	4,159	5,914	6,063	6,077
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	2,574	3,294	3,817	4,780	4,611	6,338	6,515	6,522
1.2.1. Loans	1,061	873	865	788	754	746	740	737
1.2.2. Debt securities	256	71	18	94	96	95	135	135
1.2.3. Shares and other equity	2	2	1	0	451	451	451	451
1.2. Claims on other MFI's	1,319	947	883	882	1,301	1,292	1,326	1,322
1.3.1. Loans	21,410	22,213	22,371	23,168	23,620	23,082	23,085	23,063
1.3.2. Debt securities	5,030	3,775	3,797	3,674	3,767	3,908	4,006	3,918
1.3.3. Shares and other equity	685	698	717	683	678	690	692	690
1.3. Claims on nonmonetry sectors	27,125	26,687	26,885	27,526	28,066	27,680	27,782	27,671
1. Claims on domestic sectors (domestic assets)	**31,018**	**30,927**	**31,585**	**33,187**	**33,978**	**35,310**	**35,623**	**35,515**
2.1.1. Cash	38	35	35	40	38	44	44	48
2.1.2. Loans	2,628	2,154	1,681	1,640	1,867	1,769	1,867	1,927
2.1.3. Debt securities	1,165	1,333	1,311	1,312	1,248	1,290	1,474	1,509
2.1.4 Shares and other equity	567	579	578	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,398	4,100	3,605	3,570	3,732	3,681	3,963	4,062
2.2.1. Loans	1,155	899	1,023	1,103	1,157	1,188	1,162	1,158
2.2.2. Debt securities	2,151	3,190	3,346	3,364	3,244	3,128	3,117	3,180
2.2.3. Shares and other equity	396	314	305	305	305	306	306	306
2.2. Claims on foreign nonmonetary sectors	3,701	4,404	4,674	4,772	4,707	4,622	4,584	4,645
2. Claims on foreign sectors (foreign assets)	**8,100**	**8,504**	**8,279**	**8,342**	**8,439**	**8,303**	**8,548**	**8,707**
3. Remaining assets	**1,074**	**1,015**	**762**	**1,136**	**1,228**	**1,162**	**1,131**	**1,166**
Total assets	**40,191**	**40,447**	**40,626**	**42,666**	**43,645**	**44,775**	**45,301**	**45,388**
1.1.1. Deposits, loans from the Bank of Slovenia	714	1,142	1,102	995	1,055	1,359	1,359	1,359
1.1.2. Deposits, loans from other MFIs	1,123	962	931	917	882	885	885	871
1.1.3. Debt securities issued	18	12	-	16	15	15	15	15
1.1. Laibilities to monetary sectors	1,855	2,115	2,033	1,928	1,952	2,259	2,259	2,245
1.2.1.1. Overnight	15,038	17,287	19,396	21,191	22,035	23,428	23,587	23,749
1.2.1.2. With agreed maturity	9,076	8,125	7,477	7,418	7,190	6,898	6,908	6,808
1.2.1.3. Reedemable at notice	615	548	561	622	650	550	575	606
1.2.1. Deposits in domestic currency	24,729	25,960	27,434	29,232	29,874	30,877	31,071	31,164
1.2.2. Deposits in foreign currency	632	593	626	613	652	666	644	650
1.2.3. Debt securities issued	38	15	15	68	69	69	55	55
1.2. Liabilities to nonmonetary sectors	25,400	26,569	28,075	29,913	30,595	31,612	31,770	31,870
1. Obligations to domestic sectors (domestic liabilities)	**27,254**	**28,683**	**30,108**	**31,840**	**32,547**	**33,871**	**34,029**	**34,114**
2.1.1. Deposits	2,084	1,627	1,550	1,282	1,303	1,155	1,692	1,671
2.1.2. Debt securities issued	710	327	111	428	547	547	897	896
2.1. Liabilities to foreign monetry sectors	2,794	1,954	1,660	1,710	1,850	1,702	2,589	2,567
2.2.1. Deposits	1,738	1,975	1,693	1,910	1,905	1,802	1,239	1,243
2.2.2. Debt securities issued	23	22	22	85	84	84	84	84
2.2. Liabilities to foreign nonmonetary sectors	1,761	1,997	1,715	1,994	1,990	1,886	1,323	1,327
2. Obligations to foreign sectors (foreign liabilities)	**4,555**	**3,952**	**3,375**	**3,704**	**3,840**	**3,588**	**3,912**	**3,894**
3. Capital and reserves	**4,841**	**4,904**	**4,886**	**5,097**	**5,072**	**5,169**	**5,210**	**5,259**
4. Remaining liabilities	**3,540**	**2,908**	**2,256**	**2,024**	**2,186**	**2,148**	**2,151**	**2,121**
Total liabilities	**40,191**	**40,447**	**40,626**	**42,666**	**43,645**	**44,775**	**45,301**	**45,388**

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

in % on annual level	2016	2017	2018	2019	Jun. 20	Jul. 20	Aug. 20
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	7.84	7.85	7.81	7.77	7.66	7.68	7.70
Households, extended credit	7.73	7.75	7.63	7.52	7.49	7.84	7.84
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.23	4.44	4.65	4.60	4.60	4.64	4.68
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.66	5.92	6.04	6.03	6.16	6.05	6.00
Loans, households, consumption, over 5 years initial rate fixation	6.12	6.20	6.29	6.27	6.14	6.12	6.09
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.47	3.69	3.74	3.26	3.67	3.98	3.94
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.27	4.89	5.11	4.37	5.64	5.82	5.30
C. loans, households, consumption, over 5 year initial rate fixation	5.05	5.19	5.06	5.34	5.21	5.30	5.35
APRC, Loans to households for consumption	7.55	7.73	7.64	7.88	7.57	7.71	7.75
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.04	1.99	1.89	1.81	1.88	1.81	1.72
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.58	2.75	3.22	3.15	2.65	2.53	2.38
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.49	2.65	2.74	2.50	2.28	2.19	2.05
Loans, households, house purchase, over 10 years initial rate fixation	2.56	2.91	2.95	2.70	2.56	2.47	2.35
C. loans, households, house purchase variabel and up to years initial rate fixation	2.02	1.99	1.87	1.84	1.92	1.82	1.74
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.12	2.38	3.01	2.48	2.64	2.29	4.12
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.38	2.34	2.56	2.28	2.14	2.14	1.96
C. loans, households, house purchase, over 10 years initial rate fixation	2.53	2.85	2.89	2.69	2.55	2.46	2.32
APRC, Loans to households for house purchase	2.58	2.77	2.75	2.52	2.70	2.54	2.38
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.49	3.58	3.68	3.82	3.75	3.94	3.82
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.28	5.30	4.78	4.85	5.78	5.43	5.38
Loans, households, other purposes, over 5 years initial rate fixation	5.92	5.35	6.73	6.38	6.59	6.81	6.43
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	2.81	2.41	2.22	2.23	2.17	2.19	2.17
S.11, extended credit	6.70	-	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	2.74	2.69	2.32	2.30	2.62	2.65	2.47
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.31	2.89	2.50	2.68	2.30	2.29	2.40
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.52	3.98	3.72	3.91	3.64	3.89	3.83
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	4.57	4.03	4.24	4.70	3.60	3.97	4.28
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.56	3.51	4.16	5.18	4.90	4.56	4.39
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	2.92	2.22	4.25	3.84	4.94	10.34	-
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.19	1.89	2.04	1.91	1.96	1.82	1.90
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.49	2.09	2.09	1.98	2.42	2.29	2.19
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	1.21	1.94	1.87	1.81	1.28	2.32	2.09
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	1.70	-	1.31	1.31	1.40	2.31	2.20
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	1.94	2.57	1.74	1.81	1.51	2.10	1.54
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	2.10	-	-	-	-	0.99	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.23	1.85	1.10	1.59	2.01	2.33
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	2.35	1.58	1.76	2.81	1.50	1.73	2.42
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	-	-	0.75	0.89	1.01	-	1.11
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	1.06	1.15	-	0.84	1.48	1.50	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.92	-	1.47	1.77	1.06	2.02	2.58
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.23	1.88	2.04	2.20	1.03	3.21	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.02	0.01	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.23	0.14	0.17	0.18	0.18	0.17	0.17
Deposits, households, agreed maturity over 1 and up to 2 years	0.44	0.51	0.54	0.29	0.22	0.23	0.22
Deposits, households, agreed maturity over 2 years	0.72	0.69	0.89	0.65	0.58	0.56	0.58
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.05	0.04	0.00	0.01	0.02	0.03	0.02
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.20	0.12	0.19	0.09	0.16	0.12	0.04
Deposits, S.11, agreed maturity over 2 years	0.49	0.26	0.19	0.32	0.20	0.22	0.09
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.02	0.00	0.00	0.00	0.00	-0.07	-0.07
Deposits redeemable at notice, over 3 months notice	0.55	0.52	0.89	0.93	1.14	1.02	0.68

Table 9.5: International investment position

EUR million		2016	2017	2018	19Q3	19Q4	20Q1	20Q2
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-11,645**	**-10,416**	**-8,714**	**-9,550**	**-7,430**	**-8,486**	**-8,175**
1	**ASSETS**	**45,384**	**46,608**	**49,339**	**55,708**	**55,827**	**58,014**	**61,023**
1.1	**Direct investment**	**7,767**	**8,328**	**8,825**	**9,640**	**9,860**	**9,806**	**10,001**
1.1.1	Equity	4,149	4,345	4,754	5,148	5,188	5,290	5,359
1.1.2	Debt instruments	3,618	3,984	4,071	4,492	4,671	4,516	4,642
1.2	**Portfolio investment**	**17,639**	**20,660**	**20,618**	**22,385**	**22,505**	**21,168**	**22,011**
1.2.1	Equity and investment fund shares	4,436	5,028	4,849	5,629	5,779	5,063	5,623
1.2.2	Debt securities	13,202	15,632	15,769	16,755	16,725	16,105	16,388
1.3	**Financial derivatives**	**1,086**	**302**	**384**	**780**	**562**	**767**	**756**
1.4	**Other investment**	**18,187**	**16,575**	**18,696**	**21,986**	**21,995**	**25,290**	**27,235**
1.4.1	Other equity	1,190	1,274	1,335	1,457	1,434	1,430	1,435
1.4.2	Currency and deposits	8,515	6,328	7,829	9,984	10,642	13,388	16,047
1.4.3	Loans	2,703	2,431	2,593	2,970	2,909	2,982	3,019
1.4.4	Insurance, pension and standardized guarantee schemes	141	148	141	153	155	157	161
1.4.5	Trade credit and advances	4,202	4,801	5,206	5,666	5,220	5,574	5,021
1.4.6	Other accounts receivable	1,436	1,593	1,593	1,757	1,635	1,758	1,556
1.5	**Reserve assets**	**705**	**743**	**816**	**917**	**905**	**983**	**1,021**
1.5.1	Monetary gold	112	111	115	139	138	150	161
1.5.2	Special drawing rights	207	235	242	249	246	249	245
1.5.3	Reserve position in the IMF	154	103	131	138	136	137	153
1.5.4	Other reserve assets	232	294	329	390	385	447	461
2	**LIABILITIES**	**57,030**	**57,024**	**58,053**	**65,257**	**63,257**	**66,501**	**69,198**
2.1	**Direct investment**	**14,996**	**16,316**	**17,972**	**19,383**	**19,231**	**19,431**	**19,759**
2.1.1	Equity	11,563	12,590	13,905	15,106	15,033	15,300	15,472
2.1.2	Debt instruments	3,433	3,726	4,067	4,277	4,198	4,131	4,286
2.2	**Portfolio investment**	**21,439**	**21,200**	**20,867**	**22,238**	**21,799**	**22,828**	**25,343**
2.2.1	Equity and investment fund shares	966	1,085	1,751	1,798	2,012	1,485	1,721
2.2.2	Debt securities	20,473	20,115	19,116	20,440	19,787	21,343	23,623
2.3	**Financial derivatives**	**139**	**81**	**206**	**3,760**	**2,374**	**3,806**	**3,820**
2.4	**Other investment**	**20,456**	**19,428**	**19,008**	**19,876**	**19,853**	**20,435**	**20,277**
2.4.1	Other equity	36	37	44	43	42	42	43
2.4.2	Currency and deposits	3,413	3,747	3,226	3,832	4,169	4,600	5,057
2.4.3	Loans	12,188	10,377	10,034	10,102	9,840	9,867	9,600
2.4.4	Insurance, pension and standardized guarantee schemes	213	219	228	299	263	303	332
2.4.5	Trade credit and advances	3,711	4,161	4,602	4,630	4,624	4,567	4,183
2.4.6	Other accounts payable	619	630	612	699	649	786	825
2.4.7	Special drawing rights	275	256	262	270	266	269	265

Table 9.6: Gross external debt

EUR million		2016	2017	2018	19Q4	20Q1	20Q2	Aug. 20
	TOTAL (1+2+3+4+5)	**44,325**	**43,231**	**42,148**	**43,796**	**45,866**	**48,153**	**47,805**
1	**GENERAL GOVERNMENT**	**23,203**	**21,980**	**21,094**	**21,687**	**23,330**	**25,749**	**25,308**
1.1	**Short-term, of that**	**1,522**	**652**	**732**	**832**	**1,069**	**1,176**	**1,055**
	Debt securities	22	75	85	19	51	37	27
	Loans	1,058	273	336	510	671	671	561
	Trade credit and advances	42	35	35	34	33	42	41
	Other debt liabilities	400	269	276	268	315	427	426
1.2	**Long-term, of that**	**21,681**	**21,328**	**20,362**	**20,855**	**22,261**	**24,573**	**24,253**
	Debt securities	19,877	19,517	18,602	19,171	20,577	22,875	22,563
	Loans	1,801	1,809	1,758	1,681	1,680	1,672	1,671
2	**CENTRAL BANK**	**2,722**	**3,011**	**2,661**	**3,753**	**4,086**	**4,589**	**4,855**
2.1	**Short-term, of that**	**2,447**	**2,755**	**2,399**	**3,487**	**3,817**	**4,324**	**4,599**
	Currency and deposits	2,447	2,755	2,399	3,487	3,817	4,324	4,599
2.2	**Long-term, of that**	**275**	**256**	**262**	**266**	**269**	**265**	**257**
	Special drawing rights (allocations)	275	256	262	266	269	265	257
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**4,117**	**3,782**	**3,344**	**3,544**	**3,743**	**3,453**	**3,636**
3.1	**Short-term**	**817**	**1,058**	**927**	**946**	**1,042**	**929**	**915**
	Currency and deposits	578	765	669	601	685	616	640
	Debt securities	...	...	...	...	...	...	...
	Loans	221	200	251	310	253	245	227
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	18	92	7	35	104	68	48
3.2	**Long-term**	**3,300**	**2,724**	**2,418**	**2,598**	**2,700**	**2,524**	**2,721**
	Currency and deposits	387	227	159	82	80	80	33
	Debt securities	287	168	88	316	432	431	679
	Loans	2,620	2,323	2,162	2,196	2,186	2,011	2,007
	Trade credit and advances	5	6	7	4	1	2	1
	Other debt liabilities	1	1	1	1	1	1	1
4	**OTHER SECTORS**	**10,851**	**10,731**	**10,982**	**10,614**	**10,574**	**10,071**	**9,833**
4.1	**Short-term, of that**	**4,250**	**4,596**	**5,182**	**5,286**	**5,317**	**4,825**	**4,595**
	Debt securities	2	0	1	2	2	1	1
	Loans	447	281	375	446	504	466	404
	Trade credit and advances	3,649	4,094	4,540	4,565	4,517	4,099	3,941
	Other debt liabilities	153	220	267	273	294	259	248
4.2	**Long-term, of that**	**6,600**	**6,135**	**5,800**	**5,327**	**5,257**	**5,246**	**5,238**
	Debt securities	284	355	340	279	281	279	278
	Loans	6,041	5,490	5,154	4,698	4,585	4,548	4,543
	Trade credit and advances	16	26	17	16	16	16	16
	Other debt liabilities	259	264	289	335	375	403	402
5	**DIRECT INVESTMENT: intercompany lending**	**3,433**	**3,726**	**4,067**	**4,198**	**4,134**	**4,291**	**4,172**
	NET EXTERNAL DEBT POSITION	**9,803**	**7,572**	**4,131**	**976**	**386**	**248**	**367**

Table 9.7: Balance of payments

EUR million	2017	2018	2019	19Q4	20Q1	20Q2	Aug. 20
I. Current account	**2,674**	**2,680**	**2,723**	**655**	**846**	**633**	**204**
1. Goods	**1,617**	**1,282**	**1,330**	**278**	**565**	**555**	**144**
1.1. Export of goods	**28,372**	**30,817**	**32,013**	**7,904**	**7,845**	**6,420**	**2,026**
Export f.o.b.	28,265	30,858	33,548	8,398	8,842	7,254	2,227
Coverage adjustment	-141	-299	-1,928	-577	-1,106	-936	-233
Net export of goods under merchanting	229	238	367	78	101	94	32
Nonmonetary gold	20	21	25	5	7	8	0
1.2. Import of goods	**26,756**	**29,535**	**30,682**	**7,625**	**7,280**	**5,865**	**1,882**
Import c.i.f.	27,606	30,706	34,082	8,870	8,382	6,841	2,311
Coverage adjustment	-114	-363	-2,540	-1,034	-919	-828	-375
Valuation adjustment	-774	-853	-886	-220	-210	-170	-54
Nonmonetary gold	37	45	27	9	28	22	0
2. Services	**2,254**	**2,625**	**2,787**	**732**	**552**	**411**	**171**
2.1. Export of services, of that	**7,394**	**8,104**	**8,548**	**2,227**	**1,778**	**1,453**	**577**
Transport	2,164	2,438	2,503	631	606	513	162
Travel	2,523	2,704	2,752	556	379	119	190
Construction services	422	497	590	167	152	145	55
Telecomm., computer and inform. services	544	540	629	202	167	161	47
Other business services	1,248	1,341	1,444	488	308	341	80
2.2. Import of services, of that	**5,140**	**5,478**	**5,762**	**1,495**	**1,227**	**1,042**	**406**
Transport	1,098	1,106	1,185	309	273	261	76
Travel	1,322	1,483	1,500	265	201	63	132
Construction services	126	177	200	67	45	44	16
Telecomm., computer and inform. services	539	544	606	192	162	138	43
Other business services	1,324	1,442	1,528	464	365	368	95
3. Primary income	**-879**	**-819**	**-853**	**-276**	**-107**	**-192**	**-87**
3.1. Receipts	**1,381**	**1,578**	**1,701**	**445**	**455**	**366**	**102**
Compensation of employees	385	431	480	141	112	81	31
Investment	703	802	843	199	193	191	60
Other primary income	293	345	378	105	150	94	11
3.2. Expenditure	**2,260**	**2,397**	**2,554**	**722**	**562**	**558**	**189**
Compensation of employees	149	173	195	48	41	40	13
Investment	1,929	2,020	2,148	617	465	477	160
Other primary income	182	204	211	57	55	42	16
4. Secondary income	**-317**	**-408**	**-541**	**-78**	**-164**	**-141**	**-24**
4.1. Receipts	**828**	**793**	**805**	**229**	**198**	**198**	**55**
4.2. Expenditure	**1,145**	**1,201**	**1,346**	**307**	**362**	**339**	**78**

Table 9.8: Balance of payments – continued

EUR million	2017	2018	2019	19Q4	20Q1	20Q2	Aug. 20
II. Capital account	**-324**	**-225**	**-187**	**-120**	**-54**	**-18**	**1**
1. Nonproduced nofinancial assets	-76	-47	-24	-81	9	23	5
2. Capital transfers	-248	-178	-163	-39	-63	-41	-3
III. Financial account	**2,112**	**2,524**	**2,454**	**425**	**800**	**128**	**174**
1. Direct investment	**-495**	**-934**	**-748**	**-112**	**-175**	**-131**	**-160**
Assets	570	373	773	208	30	198	-104
Equity and reinvested earnings	230	443	291	55	73	70	21
Debt instruments	340	-70	482	153	-43	129	-125
Liabilities	1,065	1,307	1,521	320	205	330	56
Equity and reinvested earnings	932	1,088	1,669	475	263	172	128
Debt instruments	133	220	-149	-155	-58	158	-72
2. Portfolio investment	**2,990**	**744**	**791**	**424**	**-1,940**	**-1,900**	**497**
Assets	2,851	492	753	154	-205	119	130
Equity and investment fund shares	333	117	54	-70	108	67	34
Debt securities	2,518	375	699	224	-313	52	96
Liabilities	-138	-252	-38	-270	1,736	2,019	-366
Equity and investment fund shares	39	543	83	0	-17	5	-2
Debt securities	-178	-795	-121	-270	1,752	2,013	-364
3. Financial derivatives	**-185**	**-81**	**-163**	**8**	**53**	**-32**	**2**
4. Other investment	**-287**	**2,743**	**2,537**	**100**	**2,815**	**2,162**	**-166**
4.1. Assets	**-1,372**	**2,039**	**3,424**	**189**	**3,391**	**2,022**	**-189**
Other equity	73	68	84	-22	13	19	5
Currency and deposits	-2,154	1,493	2,836	659	2,751	2,664	-128
Loans	-108	215	412	-18	73	41	46
Insurance, pension and stand. guar. schemes	5	-7	13	2	2	3	...
Trade credits and advances	615	303	42	-332	401	-546	-77
Other assets	197	-33	38	-100	151	-160	-35
4.2. Liabilities	**-1,085**	**-704**	**887**	**89**	**576**	**-140**	**-23**
Other equity	0	2	2	2	0	0	0
Currency and deposits	365	-524	935	335	416	440	88
Loans	-1,846	-482	-158	-250	40	-253	-75
Insurance, pension and stand. guar. schemes	5	20	27	-35	40	18	...
Trade credits and advances	411	331	62	84	-59	-385	-21
Other liabilities	-20	-51	19	-48	138	39	-15
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**89**	**52**	**37**	**5**	**49**	**29**	**2**
IV. Net errors and omissions	**-239**	**69**	**-81**	**-110**	**8**	**-487**	**-31**

Table 9.9: Non-consolidated financial assets – outstanding amounts

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector								
Total	197,522	207,364	209,919	214,513	218,233	222,418	224,303	236,307
Monetary gold and SDRs	346	356	364	370	389	385	399	406
Currency and deposits	46,776	51,961	50,954	52,542	54,265	57,573	61,351	69,609
Debt securities	28,530	29,251	29,445	30,497	31,073	30,731	29,706	31,815
Loans	35,974	36,342	36,826	37,455	37,623	37,679	38,751	37,999
Shares	20,218	19,566	19,777	19,696	19,619	20,261	18,560	19,868
Other equity	29,327	32,354	33,317	34,215	34,795	35,838	36,200	36,907
Investment fund shares/units	4,703	4,466	5,075	5,188	5,528	5,736	5,008	5,581
Insurance and pension schemes	8,003	8,073	8,357	8,556	8,646	8,705	8,421	8,751
Other	23,645	24,996	25,804	25,994	26,296	25,511	25,909	25,370
Non-financial corporations								
Total	45,188	47,248	48,421	48,765	49,083	49,088	49,765	49,734
Currency and deposits	7,107	7,528	7,543	7,386	7,794	7,736	8,055	8,406
Debt securities	109	112	107	143	122	111	109	102
Loans	5,510	5,490	5,730	6,026	5,990	6,017	5,955	6,241
Shares	2,507	2,475	2,247	2,223	2,177	2,304	2,182	2,219
Other equity	13,193	14,026	14,174	14,393	14,575	15,051	15,206	15,396
Investment fund shares/units	67	58	215	214	231	209	182	190
Insurance and pension schemes	444	442	469	496	476	453	487	504
Other	16,251	17,117	17,934	17,886	17,717	17,208	17,590	16,676
Monetary financial institutions								
Total	54,397	56,595	56,138	57,537	58,613	61,451	63,165	69,404
Monetary gold and SDRs	346	356	364	370	389	385	399	406
Currency and deposits	8,067	9,327	8,481	8,656	9,090	12,533	13,629	18,691
Debt securities	21,263	21,894	21,897	22,750	23,123	22,654	21,996	23,783
Loans	23,097	23,362	23,647	23,983	24,251	24,225	24,753	24,246
Shares	729	771	772	743	719	690	1,280	1,253
Other equity	351	383	402	397	398	408	408	419
Investment fund shares/units	5	3	14	25	35	48	56	82
Insurance and pension schemes	40	41	41	41	41	39	39	38
Other	498	457	520	572	568	468	605	486
Other financial institutions								
Total	18,151	18,414	19,142	19,465	19,732	20,167	19,169	20,051
Currency and deposits	1,163	1,188	1,401	1,454	1,375	1,342	1,422	1,330
Debt securities	6,520	6,601	6,749	6,923	7,134	7,223	6,901	7,226
Loans	2,859	2,864	2,843	2,761	2,717	2,729	2,694	2,663
Shares	3,688	3,684	3,815	3,818	3,873	4,057	3,405	3,864
Other equity	686	857	855	912	909	1,027	1,185	1,202
Investment fund shares/units	2,354	2,208	2,385	2,438	2,608	2,706	2,385	2,624
Insurance and pension schemes	199	204	221	227	224	219	265	259
Other	681	809	873	932	890	864	912	883
General government								
Total	30,241	31,817	31,603	32,914	34,251	33,552	34,367	36,918
Currency and deposits	6,726	8,475	7,444	8,227	8,797	8,227	9,952	11,745
Debt securities	416	421	461	466	484	509	489	492
Loans	3,467	3,398	3,366	3,427	3,404	3,415	4,060	3,451
Shares	10,230	9,527	9,850	9,768	9,710	9,935	8,660	9,161
Other equity	5,706	6,009	6,631	7,094	7,366	7,223	7,184	7,488
Investment fund shares/units	296	297	331	337	372	364	325	360
Insurance and pension schemes	16	23	18	25	26	26	25	26
Other	3,386	3,665	3,503	3,570	4,093	3,853	3,672	4,194
Households and NPISHs								
Total	49,545	53,291	54,615	55,831	56,554	58,161	57,838	60,200
Currency and deposits	23,713	25,441	26,085	26,819	27,208	27,735	28,292	29,436
Debt securities	222	222	232	216	210	234	210	212
Loans	1,041	1,227	1,240	1,258	1,262	1,292	1,290	1,398
Shares	3,065	3,109	3,092	3,146	3,139	3,275	3,033	3,371
Other equity	9,391	11,080	11,255	11,419	11,547	12,128	12,217	12,401
Investment fund shares/units	1,981	1,900	2,130	2,174	2,282	2,410	2,060	2,326
Insurance and pension schemes	7,304	7,363	7,608	7,766	7,879	7,968	7,606	7,924
Other	2,830	2,948	2,974	3,034	3,027	3,119	3,130	3,131
Rest of the world								
Total	57,659	58,567	59,969	62,314	65,308	64,306	67,172	70,403
Monetary gold and SDRs	257	263	267	264	270	267	269	265
Currency and deposits	6,292	5,650	5,653	5,959	6,128	6,685	7,005	7,235
Debt securities	20,555	19,516	19,447	20,102	20,725	20,148	21,510	23,922
Loans	10,309	10,345	10,197	10,419	10,641	10,186	10,264	10,365
Shares	5,275	6,428	6,672	6,826	6,759	7,031	6,354	6,631
Other equity	8,451	9,201	9,609	9,677	9,827	10,119	10,314	10,385
Investment fund shares/units	29	29	32	33	38	40	35	39
Insurance and pension schemes	219	228	268	289	299	263	303	332
Other	6,274	6,906	7,824	8,744	10,621	9,566	11,117	11,228

Table 9.10: Non-consolidated liabilities – outstanding amounts

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector								
Total	208,564	216,868	218,623	223,626	228,197	230,624	233,249	245,393
Monetary gold and SDRs	257	263	267	264	270	267	269	265
Currency and deposits	45,557	48,450	47,370	48,127	48,993	52,161	53,502	59,316
Debt securities	33,041	32,629	32,313	33,772	34,699	33,837	34,752	38,995
Loans	41,637	41,864	42,168	42,642	42,984	42,491	43,652	42,842
Shares	21,781	22,332	22,587	22,611	22,408	23,161	21,214	22,425
Other equity	33,274	36,788	37,891	38,760	39,384	40,210	40,749	41,489
Investment fund shares/units	2,572	2,396	2,629	2,692	2,848	3,008	2,548	2,874
Insurance and pension schemes	8,074	8,161	8,475	8,694	8,792	8,813	8,567	8,922
Other	22,371	23,986	24,922	26,064	27,818	26,677	27,995	28,266
Non-financial corporations								
Total	82,884	87,057	88,123	88,433	88,276	89,431	89,016	89,736
Debt securities	1,010	977	970	763	759	732	724	728
Loans	22,825	22,661	22,950	23,087	22,949	22,473	22,858	22,833
Shares	12,810	13,174	13,052	13,159	12,992	13,394	12,594	13,384
Other equity	29,603	32,581	33,369	33,682	34,020	34,848	35,237	35,602
Other	16,636	17,663	17,783	17,740	17,556	17,984	17,604	17,189
Monetary financial institutions								
Total	52,727	55,284	54,845	56,374	57,448	60,634	61,778	67,888
Monetary gold and SDRs	257	263	267	264	270	267	269	265
Currency and deposits	44,669	47,534	46,483	47,274	48,125	51,274	52,632	58,478
Debt securities	377	148	148	393	393	600	728	730
Loans	201	218	229	217	217	236	235	262
Shares	4,875	4,744	4,812	4,771	4,740	4,936	4,433	4,511
Other equity	1,896	1,957	2,301	2,758	3,048	2,797	2,751	3,039
Investment fund shares/units	55	79	74	61	57	56	90	74
Other	397	340	531	636	599	468	639	530
Other financial institutions								
Total	17,508	17,801	18,533	18,875	19,127	19,647	18,586	19,432
Debt securities	113	113	114	146	146	232	199	198
Loans	2,664	2,558	2,498	2,531	2,570	2,590	2,559	2,506
Shares	2,463	2,682	2,914	2,813	2,806	2,911	2,429	2,554
Other equity	1,225	1,511	1,430	1,521	1,516	1,676	1,873	1,953
Investment fund shares/units	2,518	2,317	2,555	2,631	2,791	2,952	2,458	2,800
Insurance and pension schemes	8,074	8,161	8,475	8,694	8,792	8,813	8,567	8,922
Other	449	459	547	538	506	472	501	499
General government								
Total	42,055	42,539	42,867	45,527	48,624	46,104	49,203	53,691
Currency and deposits	888	916	888	852	868	887	870	837
Debt securities	31,540	31,390	31,081	32,469	33,401	32,272	33,101	37,339
Loans	4,273	4,069	3,999	4,141	4,386	4,189	5,027	4,348
Shares	1,633	1,732	1,809	1,868	1,869	1,920	1,758	1,975
Other equity	550	738	791	798	801	888	889	896
Other	3,172	3,694	4,299	5,399	7,298	5,948	7,559	8,295
Households and NPISHs								
Total	13,391	14,187	14,254	14,416	14,722	14,809	14,666	14,646
Loans	11,674	12,358	12,492	12,665	12,863	13,004	12,974	12,893
Other	1,716	1,829	1,762	1,751	1,859	1,805	1,692	1,753
Rest of the world								
Total	46,617	49,063	51,265	53,201	55,345	56,099	58,226	61,316
Monetary gold and SDRs	345	356	364	370	388	384	398	406
Currency and deposits	7,512	9,161	9,237	10,375	11,399	12,097	14,854	17,528
Debt securities	16,044	16,138	16,580	16,827	17,100	17,042	16,463	16,743
Loans	4,645	4,823	4,855	5,232	5,280	5,374	5,363	5,522
Shares	3,712	3,663	3,862	3,911	3,970	4,131	3,700	4,075
Other equity	4,504	4,767	5,035	5,133	5,238	5,748	5,765	5,802
Investment fund shares/units	2,159	2,099	2,477	2,529	2,718	2,768	2,495	2,747
Insurance and pension schemes	148	141	149	151	153	155	157	161
Other	7,548	7,916	8,706	8,674	9,099	8,400	9,031	8,332

Table 9.11: Net financial assets

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector	-11,042	-9,504	-8,703	-9,113	-9,963	-8,206	-8,945	-9,086
Non-financial corporations	-37,696	-39,809	-39,703	-39,667	-39,192	-40,343	-39,251	-40,002
Monetary financial institutions	1,670	1,311	1,293	1,163	1,165	817	1,387	1,516
Other financial institutions	643	613	609	590	604	520	583	619
General government	-11,813	-10,722	-11,264	-12,613	-14,373	-12,552	-14,836	-16,773
Households and NPISHs	36,155	39,104	40,361	41,415	41,832	43,352	43,172	45,554
Rest of the world	11,042	9,504	8,704	9,113	9,964	8,206	8,946	9,087

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

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector								
Total	6,035	7,734	4,687	5,375	6,987	8,429	13,492	19,506
Monetary gold and SDRs	43	1	1	1	1	1	1	0
Currency and deposits	1,074	5,143	2,641	3,253	5,225	5,555	10,380	17,053
Debt securities	2,373	1,030	1,045	875	533	606	251	1,415
Loans	652	826	1,211	1,735	1,742	1,994	2,501	1,041
Shares	111	-863	-1,440	-1,750	-1,520	-658	-137	184
Other equity	223	572	507	580	526	654	608	525
Investment fund shares/units	256	101	3	22	174	216	311	342
Insurance and pension schemes	146	165	203	248	245	305	247	230
Other	1,156	759	516	412	62	-244	-669	-1,284
Non-financial corporations								
Total	2,087	1,438	1,598	1,383	1,175	1,024	800	498
Currency and deposits	732	428	470	269	539	229	527	1,022
Debt securities	-18	21	16	14	-7	-14	-9	-33
Loans	-51	44	192	344	377	587	257	304
Shares	73	41	-131	-198	-198	-179	10	95
Other equity	134	285	227	331	259	533	542	495
Investment fund shares/units	3	-5	-3	-7	-3	-31	-31	-22
Insurance and pension schemes	6	-8	-6	23	10	8	24	17
Other	1,208	632	832	607	198	-109	-519	-1,379
Monetary financial institutions								
Total	2,840	2,523	1,607	1,464	2,398	4,354	6,858	11,889
Monetary gold and SDRs	43	1	1	1	1	1	1	0
Currency and deposits	-505	1,251	230	26	1,135	3,195	5,144	10,031
Debt securities	2,403	837	660	496	177	131	-43	1,070
Loans	947	528	808	1,082	1,168	1,132	1,322	477
Shares	-24	-13	-22	-51	-43	-71	387	379
Other equity	46	23	16	-62	-62	-31	-23	9
Investment fund shares/units	-1	1	11	22	30	40	47	54
Insurance and pension schemes	2	1	0	0	0	-2	-2	-4
Other	-71	-106	-97	-49	-8	-41	25	-128
Other financial institutions								
Total	94	272	170	-70	302	527	617	547
Currency and deposits	-92	36	186	46	117	131	20	-121
Debt securities	10	137	298	309	329	415	274	356
Loans	29	38	25	-48	-47	-32	-40	-14
Shares	44	-8	-324	-399	-278	-210	62	134
Other equity	-9	9	5	48	38	42	53	45
Investment fund shares/units	105	36	-23	-19	103	124	183	183
Insurance and pension schemes	11	4	-5	-12	3	16	45	33
Other	-5	18	9	5	38	40	19	-68
General government								
Total	-806	978	-1,204	-146	413	-414	2,501	3,407
Currency and deposits	-318	1,731	-59	849	1,351	-287	2,486	3,512
Debt securities	-26	11	46	33	40	86	41	33
Loans	-315	18	49	251	185	220	894	117
Shares	-39	-929	-965	-1,067	-980	-194	-599	-467
Other equity	-6	19	55	48	42	38	-4	-4
Investment fund shares/units	23	22	6	9	31	3	16	14
Insurance and pension schemes	0	-2	-13	4	-1	2	-3	-9
Other	-124	108	-322	-275	-256	-282	-329	211
Households and NPISHs								
Total	1,819	2,524	2,515	2,744	2,698	2,938	2,716	3,165
Currency and deposits	1,257	1,698	1,814	2,063	2,082	2,288	2,204	2,609
Debt securities	4	23	26	22	-6	-11	-12	-11
Loans	43	198	136	106	59	86	68	157
Shares	57	46	2	-35	-22	-5	3	42
Other equity	59	236	205	215	250	72	40	-20
Investment fund shares/units	126	47	12	17	13	79	96	114
Insurance and pension schemes	127	170	228	233	234	281	183	193
Other	147	106	93	123	90	148	134	81
Rest of the world								
Total	58	518	699	1,502	2,455	2,190	4,433	5,887
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	63	-647	705	796	759	1,020	1,344	1,273
Debt securities	45	-581	-2,256	-1,370	-672	-520	1,785	4,014
Loans	-1,724	-236	-181	-76	53	-247	-59	-170
Shares	273	860	1,323	1,666	1,505	843	354	148
Other equity	705	781	768	676	549	756	782	804
Investment fund shares/units	-1	0	0	0	-1	0	0	0
Insurance and pension schemes	5	20	33	26	48	27	27	32
Other	692	321	306	-215	213	311	200	-214

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

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector								
Total	4,240	5,523	2,477	3,060	4,562	5,829	11,144	17,891
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,205	2,847	1,864	1,511	2,187	3,670	6,118	11,181
Debt securities	-152	154	-2,007	-1,082	-342	-465	2,029	5,464
Loans	-973	347	595	1,065	1,139	1,094	1,889	494
Shares	195	-99	-94	-61	12	130	127	215
Other equity	747	944	945	910	834	805	792	807
Investment fund shares/units	29	5	-33	-7	26	86	108	101
Insurance and pension schemes	146	191	236	274	291	319	268	253
Other	1,043	1,133	972	451	416	191	-187	-624
Non-financial corporations								
Total	1,658	1,454	1,594	1,305	972	978	410	50
Debt securities	93	-12	-31	-268	-263	-251	-245	-21
Loans	-510	-139	2	316	42	226	234	-80
Shares	202	11	15	38	73	61	59	117
Other equity	710	825	818	859	816	773	758	789
Other	1,164	769	790	359	304	168	-398	-754
Monetary financial institutions								
Total	2,642	2,356	1,424	1,515	2,439	4,225	6,807	11,510
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,127	2,824	1,829	1,510	2,168	3,701	6,138	11,198
Debt securities	-418	-229	-228	26	317	454	582	339
Loans	1	17	28	18	6	18	6	45
Shares	-9	-110	-112	-103	-63	67	67	98
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	-44	25	18	14	5	-10	29	13
Other	-15	-171	-111	52	7	-5	-15	-182
Other financial institutions								
Total	21	192	144	-74	340	604	499	388
Debt securities	-8	1	1	33	33	119	90	56
Loans	-251	-89	-148	-106	-28	47	77	13
Shares	2	0	2	2	1	0	1	1
Other equity	37	109	117	40	18	31	34	18
Investment fund shares/units	74	-20	-51	-21	21	96	79	88
Insurance and pension schemes	146	191	237	273	291	318	267	253
Other	22	-1	-13	-296	2	-10	-52	-43
General government								
Total	-782	663	-1,430	-423	106	-655	2,973	5,648
Currency and deposits	78	23	34	1	17	-34	-22	-19
Debt securities	181	395	-1,749	-873	-429	-787	1,602	5,090
Loans	-908	-198	-10	123	396	107	1,034	212
Shares	0	0	1	1	1	1	0	0
Other equity	0	10	10	10	0	0	0	0
Other	-132	433	284	314	121	58	359	364
Households and NPISHs								
Total	700	858	745	737	706	677	455	294
Loans	696	755	722	715	723	696	537	303
Other	5	103	22	23	-17	-19	-83	-9
Rest of the world								
Total	1,853	2,730	2,909	3,817	4,880	4,789	6,780	7,502
Monetary gold and SDRs	43	1	1	1	1	1	1	0
Currency and deposits	-2,068	1,650	1,482	2,537	3,797	2,905	5,606	7,145
Debt securities	2,570	295	796	587	203	551	7	-35
Loans	-98	242	435	593	657	653	553	377
Shares	189	96	-23	-23	-26	55	90	117
Other equity	182	409	331	347	241	605	597	522
Investment fund shares/units	226	96	36	30	148	130	203	241
Insurance and pension schemes	5	-7	0	0	2	13	6	9
Other	804	-52	-150	-255	-142	-124	-282	-874

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

mio EUR	2017	2018	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
Domestic sector	1,795	2,211	2,210	2,314	2,425	2,600	2,348	1,615
Non-financial corporations	428	-16	5	78	204	46	391	448
Monetary financial institutions	198	166	183	-51	-41	129	51	379
Other financial institutions	73	80	25	4	-38	-77	117	159
General government	-24	315	226	277	308	241	-472	-2,241
Households and NPISHs	1,119	1,666	1,771	2,006	1,992	2,261	2,261	2,871
Rest of the world	-1,795	-2,211	-2,210	-2,314	-2,425	-2,600	-2,348	-1,615

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

The **consolidated balance sheet of monetary financial institutions** discloses the overall (consolidated) balance sheet of the 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.