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Executive Summary

The outlook for the global economy is continuing to deteriorate because of rising trade and political tensions, which are weakening trade, industry and investment. The leading international institutions have cut their global economic growth forecasts for 2019 to around 3.1%, while growth in the euro area is forecast to barely exceed 1%. In the first quarter, economic growth in the euro area stood at just 1.2%, and is expected to have remained weak in the second quarter, given that the survey indicators remained rather low, particularly in industry. Central banks responded to the worsening situation, which improved the financial conditions, while fiscal policy is also becoming more expansive. The outlook for growth in foreign demand for Slovenian products has stabilised for now as the weighted forecast for this year's economic growth in the trading partners has stabilized after months of downward revisions. From the beginning of June, the euro rose slightly against the US dollar, and is currently down only around 4% on a year earlier. In the period from January to mid-July, the euro price of Brent crude was down 5.5% in year-on-year terms amidst substantial volatility.

Slovenia too is now finding itself in a period of lower economic growth, although it remains very solid compared with the euro area, and comparable to growth in the majority of the less advanced euro area economies. Although there is a great deal of uncertainty surrounding the European economy, and growth is low, for now the Slovenian export sector remains fairly robust. However, the situation in the manufacturing sector shows substantial variation. Some segments are already facing declining output, which was also the main reason for the run-down of inventories in the first quarter of this year. This was the main factor in the fall in year-on-year growth in domestic demand to 1.8% and in economic growth to 3.2%. Because inventories were also a major factor in the slowdown in growth in imports, their impact was partly offset by a large contribution to growth by net trade. Growth in other domestic demand aggregates has remained relatively high. Year-on-year growth in investment has strengthened slightly from the end of last year, while its structure is shifting towards construction. Growth in investment in machinery and equipment was again weak, which can primarily be attributed to the high-risk external situation. Private consumption has continued to strengthen, coinciding with increased growth in the real wage bill. According to the latest monthly activity and confidence indicators, economic growth is expected to have slowed slightly again in the second quarter, and the situation is thought to have been less favourable in industry in particular.

Employment growth is also slowing as economic growth slows. The first quarter saw the lowest rate for two years, albeit a reasonable 2.6%, mostly driven by the hiring of foreign nationals. The year-on-year fall in unemployment has slowed this year, partly on account of its structure, where the share of difficult-to-employ people is increasing. The surveyed and registered unemployment rates are both continuing to fall, the former to 4.8% in the first quarter, and the latter to 7.6% in April. Year-on-year nominal growth in the gross average wage stood at 4% in April, down on March because of a decline in extraordinary payments. Because productivity growth is low, these wage developments are already raising growth in unit labour costs. For now, the later remains within the limits that maintain external competitiveness as it does not exceed the euro area average substantially, and is actually somewhat lower than in Germany.

The current account surplus is gradually narrowing. It amounted to 5.4% of GDP in the 12 months to May, down 1 percentage point on a year earlier, after allowing for a fundamental revision to the balance of payments. There are various reasons for the narrowing surplus but the main factor is the decline in the merchandise trade surplus, as domestic final consumption is continuing to strengthen, judging by the import data. Growth in nominal merchandise exports remains *surprisingly high, at least in comparison with the situation in European industry, but it is largely the result of strong growth in the pharmaceutical industry, which is less sensitive to cyclical fluctuations. Growth in exports of a wide spectrum of services, which even at the European level are yet to feel a greater impact from uncertainty, also remains high. The surplus of trade in services is thus continuing to increase. As foreign direct investment strengthens, including via privatisation, the deficit in reinvested earnings and dividends is increasing, and reached 2.3% of GDP over the 12 months to May.*

This year, inflation is primarily being determined by domestic factors. Headline inflation reached 1.9% in June, the highest rate since last November, as services remain its primary driver. This is also being reflected in the narrowest core inflation indicator, which also reached 1.9% in June. The domestic inflationary pressures are primarily coming from wage growth, which is raising production costs, but is also allowing them to be passed through into final consumer prices via growth in demand. The higher labour costs are primarily being passed through into growth in services prices, as these are considerably less subject to international competition than industrial goods, or have a very specific position on the market in the case of public service providers. Inflationary pressures from the rest of the world have been relatively weak this year, as oil prices linger at lower levels than a year earlier, which is holding down growth in domestic energy prices. It was a similar case with food commodity prices until May, but they rose in year-on-year terms in June, and played a part in reviving year-on-year growth in food prices, alongside the year-on-year rise in import prices.

Slovenia's fiscal position remains favourable, thanks to the ongoing solidity of the business cycle, and there was also a further improvement in its position on international financial markets. In the first quarter, the general government one-year surplus amounted to 0.6% of GDP, down slightly on last year. General government revenues are continuing to increase relatively rapidly, particularly those tied to the labour market. On the general government expenditure side, investment continues to strengthen, while wage expenditure is also up in line with the agreement between the government and the trade unions. Government measures also resulted in a rise in social security benefits. The interest burden in still declining, and is helping in the consolidation of public finances, while the required yield on Slovenian 10-year government bonds was at historically low levels in early July. Growth in expenditure nevertheless slightly outpaced growth in revenues in the first quarter. There are several measures under preparation that will restructure the tax burden from labour to capital, and will intervene in social transfers and pensions. It is of key importance that the combination of all the measures ensures the long-term sustainability of the public finances, while it is vital to remember that the aging population will intensify the demographic pressures on the public finances.

* * *

Slovenia has seen faster economic growth in the post-crisis period than the majority of other European countries, although it is characterised by labour-intensity, which goes hand in hand with low productivity growth and relatively weak R&D investment. Low productivity growth has even been a recent trait in manufacturing, where productivity has almost ceased catching up with more advanced economies. The level of investment in Slovenia is low for a country in the process of catching up with more advanced economies, while its structure is not the most encouraging, particularly from the perspective of development. Compared with more advanced EU countries, investment in research and development is low, while investment in machinery and equipment is lower than before 2008, despite tax advantages and favourable financial conditions. There is evidently insufficient incentive for a more intensive shift into using new technologies, as firms are achieving good performance, at least on aggregate, without any concerted efforts to make technological improvements. Transitioning into an economy with higher value-added per employee will be difficult without the more concerted use of new technologies and know-how, while the adverse effects of the aging population and the related fiscal sustainability issues will be larger.

Main macroeconomic indicators

	2016	2017	2018	18Q3	18Q4	19Q1	2016	2017	2018	18Q3	18Q4	19Q1
			Slovenia						*euro area*			
Economic developments						*y-o-y growth rates in %*						
GDP	3.1	4.9	4.5	5.0	4.1	3.2	1.9	2.4	1.9	1.7	1.4	1.0
- industry	4.6	7.7	4.0	2.9	2.5	2.8	3.3	3.0	1.2	0.6	-0.7	-0.7
- construction	-3.7	8.5	12.7	18.2	9.5	15.1	1.6	3.3	3.4	3.3	3.7	3.7
- mainly public sector services	2.3	1.6	2.1	1.8	2.1	1.6	1.2	1.1	1.2	1.1	1.2	1.2
- mainly private sector services	3.3	6.0	5.0	5.5	4.6	3.7	2.0	2.7	2.1	1.8	1.5	0.9
Domestic expenditure	2.9	3.9	4.6	5.0	3.7	1.8	2.4	1.8	1.8	2.0	2.0	1.1
- general government	2.7	0.5	2.6	2.6	1.5	3.6	1.8	1.2	1.0	0.8	1.1	1.1
- households and NPISH	3.9	1.9	2.2	1.3	2.1	2.6	1.9	1.7	1.3	0.9	1.2	0.9
- gross capital formation	0.0	13.2	12.6	16.9	10.0	-1.3	4.2	2.4	3.9	5.7	4.8	1.9
- gross fixed capital formation	-3.7	10.7	10.6	13.8	8.3	9.3	3.9	2.7	3.4	3.1	4.2	3.4
- inventories and valuables, contr. to GDP growth in pp	0.7	0.6	0.6	0.9	0.4	-2.1	0.1	0.0	0.1	0.6	0.1	-0.3
Labour market												
Employment	1.8	2.9	3.0	2.8	2.8	2.6	1.4	1.6	1.5	1.4	1.3	1.3
- mainly private sector services	1.7	3.0	3.2	3.0	3.1	2.9	1.4	1.7	1.6	1.5	1.4	1.3
- mainly public sector services	2.2	2.6	2.0	1.9	1.8	1.2	1.3	1.3	1.2	1.2	1.2	1.2
Labour costs per employee	3.0	3.2	4.0	3.2	4.1	4.3	1.2	1.6	2.3	2.5	2.2	2.3
- mainly private sector services	2.4	3.2	4.0	3.4	4.1	3.8	1.2	1.6	2.3	2.6	2.2	2.3
- mainly public sector services	5.2	3.1	3.8	3.8	3.8	4.3	1.4	1.5	2.2	2.4	2.3	2.2
Unit labour costs, nominal*	1.8	1.2	2.5	1.1	2.8	3.6	0.7	0.8	1.9	2.3	2.2	2.6
Unit labour costs, real**	1.0	-0.3	0.2	-1.4	1.3	1.4	-0.2	-0.3	0.5	0.9	0.6	1.0
						in %						
LFS unemployment rate	8.0	6.6	5.1	5.0	4.4	4.8	10.0	9.1	8.2	7.8	7.9	8.1
Foreign trade						*y-o-y growth rates in %*						
Current account balance as % of GDP***	4.8	6.1	5.6	6.1	5.6	5.5	3.1	3.2	2.9	3.1	2.9	2.8
External trade balance as contr. to GDP growth in pp	0.5	1.3	0.3	0.5	0.7	1.6	-0.3	0.7	0.2	-0.2	-0.5	-0.1
Real export of goods and services	6.4	10.7	7.2	5.4	6.8	7.6	3.0	5.1	3.2	2.9	2.4	2.1
Real import of goods and services	6.6	10.3	7.7	5.5	6.6	6.4	4.2	3.9	3.2	3.7	3.7	2.6
Financing						*in % of GDP*						
Banking system's balance sheet	99.3	93.9	88.3	89.2	88.3	88.5	275.5	260.5	256.4	258.8	256.4	265.4
Loans to NFCs	22.6	21.8	20.5	20.8	20.5	20.4	37.8	36.9	36.5	36.5	36.5	36.4
Loans to households	21.1	21.5	21.7	21.5	21.7	21.7	49.4	49.3	49.1	49.0	49.1	49.0
Inflation						*in %*						
HICP	-0.2	1.6	1.9	2.1	2.0	1.3	0.2	1.5	1.8	2.1	1.9	1.4
HICP excl. energy, food, alcohol and tobacco	0.7	0.7	1.0	1.1	1.2	1.6	0.8	1.0	1.0	1.0	1.0	1.0
Public finance						*in % of GDP*						
Debt of the general government	78.7	74.1	70.1	71.1	70.1	67.9	89.2	87.1	85.1	86.4	85.1	...
One year net lending/net borrowing of the general government***	-1.9	0.0	0.7	0.5	0.7	0.6	-1.6	-1.0	-0.5	-0.4	-0.5	...
*- interest payment****	3.0	2.5	2.0	2.1	2.0	1.9	2.1	2.0	1.8	1.9	1.8	...
*- primary balance****	1.1	2.5	2.7	2.6	2.7	2.5	0.6	1.0	1.3	1.4	1.3	...

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.

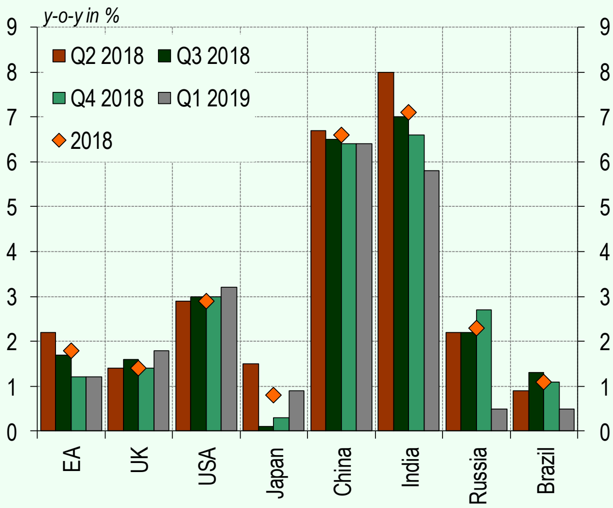
1 International Environment

In light of weaker growth in global trade, industrial production and investment, and the downturn in the economic climate caused by rising trade and political tensions, the outlook for the global economy has deteriorated. The leading international institutions have cut their global economic growth forecasts for 2019 to around 3.1%, while growth in the euro area is forecast to barely exceed 1%. Quarterly economic growth in the euro area strengthened to 0.4% in the first quarter, slightly above expectations, but the year-on-year rate stood at just 1.2%. Growth is thought to have remained weak in the second quarter: the survey activity indicators stayed relatively low. The outlook for 2020 is slightly better. Thanks to positive policy effects and the buoyant labour market, global economic growth is forecast to strengthen to around 3.3% next year, while economic growth in the euro area is forecast to strengthen to approximately 1.4%. Central banks have responded to the worsening economic situation, which improved the financial conditions, while fiscal policy is also becoming more expansive. The outlook for growth in foreign demand for Slovenian products has also improved slightly in recent months: the weighted forecast for this year's economic growth in the trading partners has been revised upwards. The euro rose slightly against the US dollar from the beginning of June, and was down approximately 4% only on a year earlier. The price of Brent crude was down almost 10% on its peak of this year, but was still up 25% on the end of 2018.

Global economy

Economic growth mostly strengthened in the major advanced economies in the first quarter, while slowing in the BRIC countries. The exceptions were the euro area and China, where the slowdown in year-on-year economic growth has come to an end, at least for now. Economic growth remained relatively high in the US, despite the partial government shutdown, and GDP in the first quarter was up 3.2% in year-on-year terms. Japan also saw higher growth, as the year-on-year rate increased to 0.9%, primarily as a result of the recovery following the natural disasters that struck during the third quarter of last year. Year-on-year economic growth in Russia slowed sharply, to 0.5% in the first quarter of this year, down 2.2 percentage points on the final quarter of

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



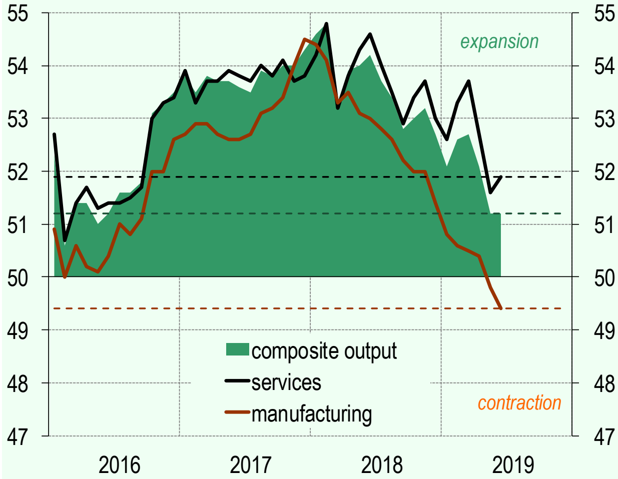
Source: IMF, Tradingeconomics.

2018, and the lowest figure since the final quarter of 2016. Weaker growth in private consumption and gross investment meant that year-on-year economic growth in India slowed for the third consecutive quarter; the rate of 5.8% was the lowest of the last five years.

The PMI points to a slowdown in the global economy. The JPMorgan global composite PMI reached its lowest level of the last three years in May, before stabilising in June as a result of higher growth in services activity. Given the rising uncertainties in the international environment, the global manufacturing PMI is continuing to decline sharply, reaching its lowest level since October 2012 in June. According to this indicator, activity in industry continued to decline in Germany, Italy, the UK and Japan, among others. The indicator declined again in China, where it entered contraction territory in June, primarily as a result of the deteriorating trade situation.

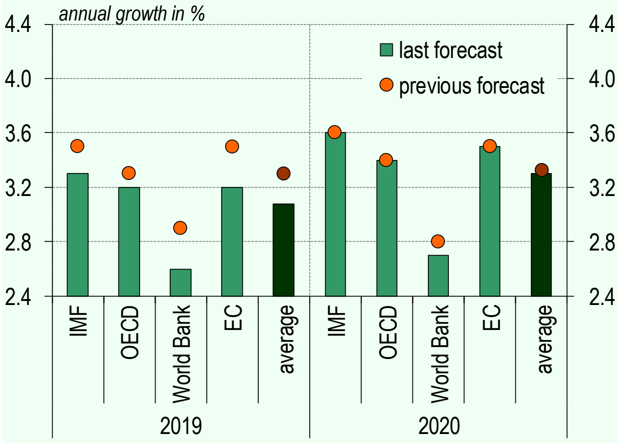
International institutions cut their global economic growth forecasts for 2019, but mostly left their forecasts for 2020 unchanged. The OECD and the European Commission are forecasting a slowdown in global economic growth to 3.2% this year, significantly below the average over the last three decades. In its latest June forecasts, the World Bank is predicting significantly lower economic growth in 2019. Global growth is thought to have stood at just 2.6% this year, on account of a sharper slowdown in growth in international trade and investment in the first half of this year, but a continuing recovery in certain developing countries and favourable global financing conditions could see economic growth strengthen to 2.8% by 2021. Growth in global trade is expected to slow sharply, and is forecast at just 2.6% this year, the lowest figure since the global financial crisis. Advanced economies are expected to see significantly lower economic growth. The euro area saw a particularly large downward revision, by 0.4 percentage points to just 1.2%. Growth in the US is expected to reach 2.5% this year, before slowing to 1.7% next year as the fiscal stimulus is gradually withdrawn. Economic growth in China is expected to be slowed by weaker trade and industrial production and the worsening of the trade dispute with the US, but is forecast to remain around 6%.

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



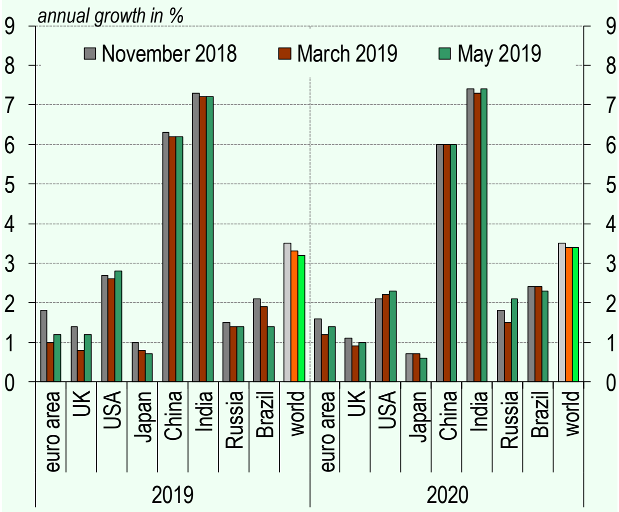
Note: Dashed line represents the value of the last observation.
Source: Bloomberg.

Figure 1.3: Global GDP growth forecasts for 2019 and 2020



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

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



Source: OECD Economic Outlook.

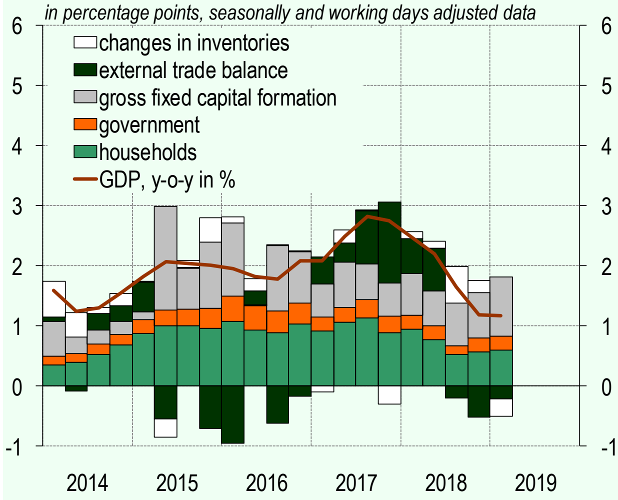
The downside risks to global economic growth are becoming more pronounced. The growing risk of lower growth in global trade is the product of worsening trade disputes and the slowdown in certain major economies. There are still geopolitical tensions associated with Brexit, the deteriorating economic situation in Italy and the poor relations between Russia and the West, while risks in the Middle East are also rising. Leading central banks have responded to the worsening economic situation, which has helped improve the global financial conditions.

Euro area

Economic growth in the euro area is low, but remains relatively stable for now. Quarterly economic growth increased from 0.2% to 0.4% in the first quarter, as a result of strengthening domestic demand, while the year-on-year rate was unchanged from the previous quarter at 1.2%. The contribution to GDP growth by inventories was down fully 0.5 percentage points on the final quarter of last year, but this was compensated for by an increase in the contribution by gross fixed capital formation and a smaller negative contribution by net trade. The largest contributions to year-on-year GDP growth continued to come from private consumption, at 0.6 percentage points, and gross fixed capital formation, at fully 1 percentage point. In terms of sector, the largest contribution to economic growth was made by services, at 0.8 percentage points, although this figure was also down on the previous quarter, while the negative contribution by industry was significantly smaller than in the final quarter of last year.

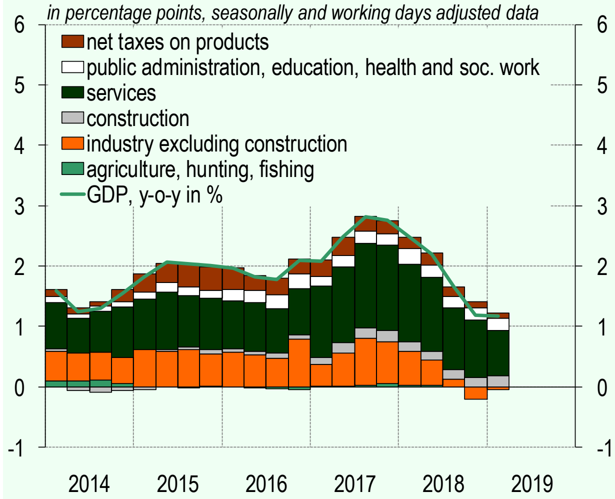
The survey indicators of confidence and activity point to weak growth in the second quarter. The composite PMI increased in the second quarter as a result of higher growth in services activity, which reflects the solidity of domestic demand and the buoyant labour market. June saw the fifth consecutive month of contraction in manufacturing activity, at least according to the PMI, at the fastest rate in more than six years. Economic sentiment in the euro area was also down, and in June reached its lowest figure in almost three years. The decline was primarily attributable to a decline in the industry

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



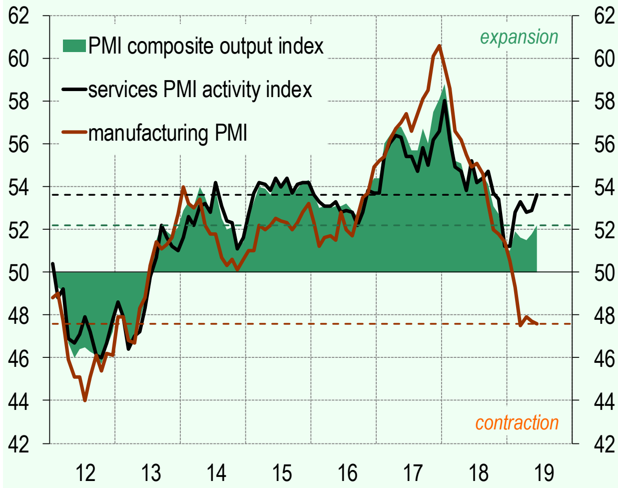
Source: Eurostat, Bank of Slovenia calculations.

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



Source: Eurostat, Bank of Slovenia calculations.

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



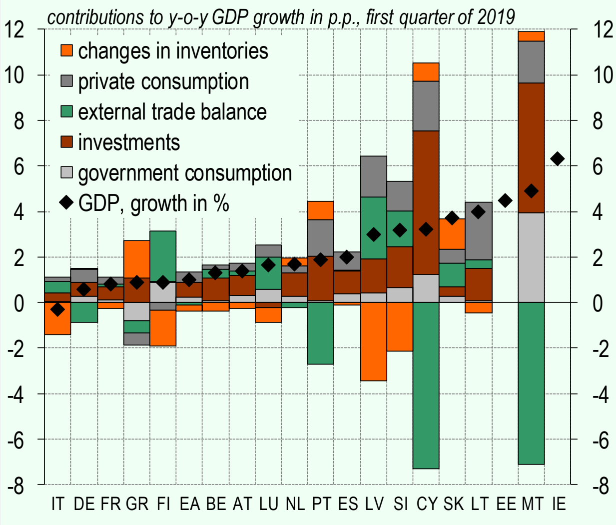
Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

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

There is substantial variation in economic growth between euro area countries. The gap between the weakest euro area economy (Italy) and the euro area country with the highest growth (Ireland) stood at 6.6 percentage points in the first quarter of this year, according to non-adjusted figures. This heterogeneity is also evidenced in the deviations from the euro area mean: 14 countries were above the mean, while only five were below it, although they include the three largest euro area economies. GDP in Italy was down 0.3% in year-on-year terms, while Germany and France recorded growth of just 0.6% and 0.8% respectively. This is also the reason that average growth in the euro area stood at just 1%, according to non-adjusted figures. Slovenia was ranked just sixth, with economic growth of 3.2%. The highest rates of growth were recorded by the less advanced economies, with the exception of Ireland, where reporting by multinationals has a profound impact on the national accounts figures.

There are also major differences in the structure of growth.[1] Slovenia, Latvia and Finland saw a large negative contribution by inventories in the first quarter, which was accompanied by a large contribution by net trade. This pattern was also seen to a slightly lesser extent in Italy, Luxembourg and certain other countries. Six countries for which the figures were available recorded a negative contribution by net trade, including Germany, which reflects the problems of German industry. Gross fixed capital formation was up in year-on-year terms in all euro area countries other than Finland and Luxembourg, although dynamics varied greatly. In terms of its contribution to GDP growth, the less advanced economies stood out, particularly Cyprus and Malta, where the figures were 6.3 percentage points and 5.7 percentage points respectively. Slovenia was ranked in the top half according to this measure, with a contribution of 1.8 percentage points. Slovenia also recorded one of the highest rates of growth in private consumption, albeit not particularly high. Its contribution to economic growth stood at 1.3 percentage points, 1.2 percentage points less than in Lithuania, which recorded the highest figure. The contribution by private consumption was negative in Greece, where the impact of austerity measures continues to be felt. Private consumption also declined in Finland. Malta saw a pronounced contribution to economic growth by government consumption, at 4 percentage points. Slovenia also had one of the larger figures. The contribution by government consumption was negligible in four of the countries for which the figures were available, zero in Italy, and strongly negative in Greece.

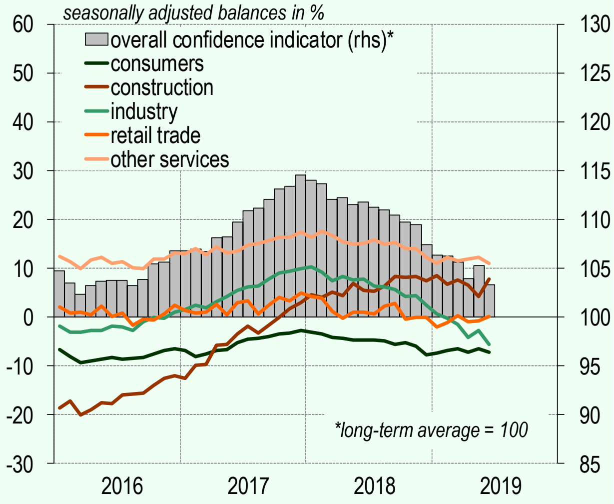
Figure 1: Economic growth in euro area member states



Source: ECB, Eurostat.

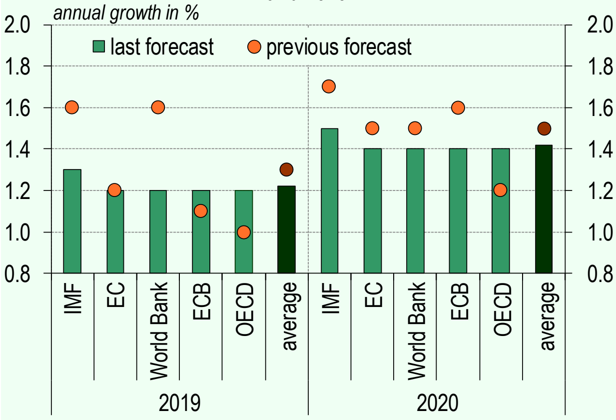
[1] Detailed figures for Estonia and Ireland were not available by 12 July.

Figure 1.8: Confidence indicators – euro area



Source: Eurostat.

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



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

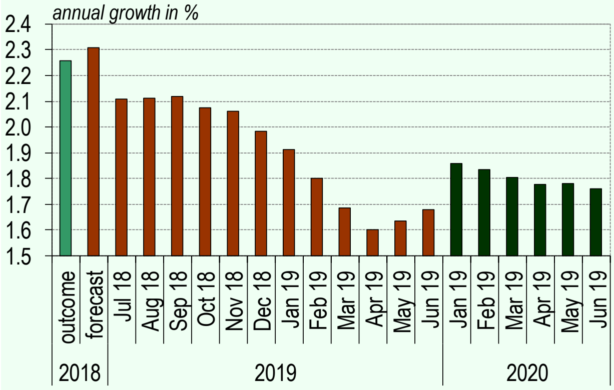
indicator, which approached the values seen in autumn 2013, and thus fell below its long-term average.

Economic growth is expected to remain considerably slower in the euro area. The leading global institutions are forecasting economic growth of around 1.2% for the euro area this year, on account of weaker growth in exports, investment and trade. According to the latest ECB and European Commission forecasts, growth is expected to strengthen to 1.4% in 2020, in the wake of a recovery in foreign demand, monetary policy stimulus, wage rises and slightly more expansive fiscal policy.

Slovenia's trading partners

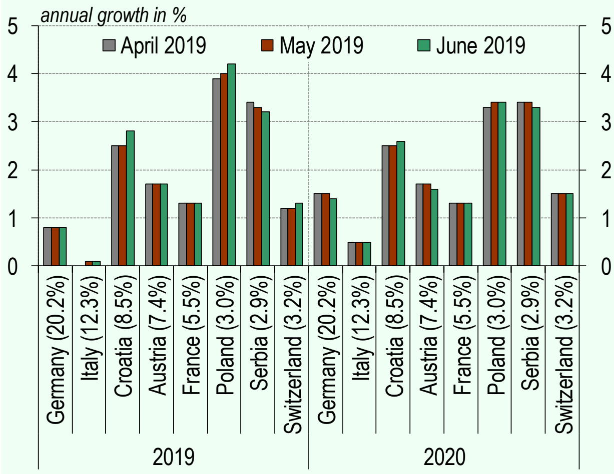
The weighted forecast for this year's economic growth in Slovenia's main trading partners has been revised slightly upwards. The improvement was brought by slightly higher economic growth forecasts for Italy, Croatia and Hungary. Relative to the forecasts from early in the first quarter, the outlook for 2019 is again worsening for Germany, Austria and France. Although quarterly economic growth in Germany strengthened to 0.4% in the first quarter, beating expectations, it is expected to have slowed in the second quarter; in June the economic sentiment indicator reached its lowest level of the last six years, while the PMI for manufacturing also suggests a further contraction in activity. Consensus is forecasting growth of just 0.8% in Germany this year,

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



Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (May 2018–April 2019; 21 trading partners with a total share of 87.1%). The growth forecasts for the years 2019 and 2020 are weighted with the share of each country in the total exports of goods. For 2018 the weighted outcome and the December weighted forecast are shown.
Source: SORS, Consensus, Bank of Slovenia calculations.

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



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

down 0.6 percentage points on its January forecasts, and growth of 1.4% in 2020. Its lowest growth forecast is for Italy, at 0.1% this year, while economic growth is also expected to be significantly slower than in the previous year in Austria and France, at 1.7% and 1.3% respectively. Of the countries that saw the largest upward revisions, Consensus's highest economic growth forecasts for this year are for Poland and Hungary, at 4.2%. Both countries saw significantly higher economic growth in the first quarter. Having recorded one of the highest rates of growth of the last 15 years in the first quarter, Hungary saw its economic growth forecast for 2020 raised to 3%, while the forecast for Poland was left unchanged at 3.4%. There has also been a significant increase in this year's growth forecast for Croatia, where economic activity is expected to rise by 2.8%, up 0.3 percentage points on the previous forecasts.

Euro exchange rate and commodity prices

Given the deterioration in the global economy, and low global inflation, central banks have called a temporary break to the tightening of monetary policy, which has improved the financial conditions. The Fed's key interest rate remains in the interval between 2.25% and 2.50%, while the ECB will hold its key interest rate at zero at least through the first half of 2020, and will embark on new longer-term refinancing operations with favourable loans in autumn. The euro rose slightly against the US dollar from the beginning of June, and was down approximately only 4% on a year earlier. The euro exchange rate stood at USD 1.13 on 11 July.

Oil prices fell significantly in late May. The price of North Sea Brent crude was down around 10% on its peak of this year in mid-May, but was still up approximately 25% on the end of 2018. It has remained at a slightly higher level over the last month, with large fluctuations, at around USD 64 per barrel, down almost 10% on a year earlier. The downward moves mostly reflect expectations of a slowdown in global economic growth, while the upward moves reflect rising tensions in the international environment (deteriorating relations between the US and Iran, and between the US and Venezuela), a decline in supply, and the extension of an agreement by Opec members and certain non-members to limit pumping until March 2020. In addition to oil, prices of other commodities also fell in year-on-year terms, most notably industrial commodity prices, which were down 18%, while the fall in food prices came to an end.

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

Source: ECB, Federal Reserve.

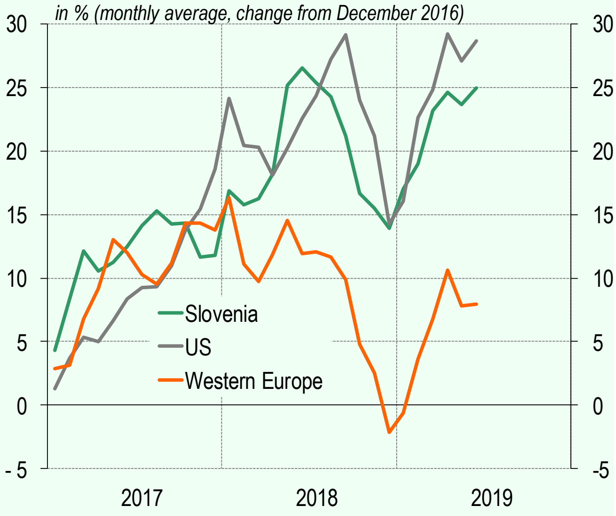
Figure 1.13: Oil prices

Source: Bloomberg, Bank of Slovenia calculations.

International capital markets

Stock markets rose again in the second quarter. The SXXE, the representative share index for western Europe, was up 2.4% on the first quarter, while the S&P 500 for the US stock market rose by 3.8%. The ongoing rise in share indices was not prevented by increased selling pressure in May, when the two indices slid by more than 6% on the previous month. May's flight from the stock markets was triggered by the renewed worsening of the trade disputes between the US and China, and further signs of a slowdown in the global economy. Together with persistently low inflation, the latter was the main reason that the ECB confirmed the continuation of its very accommodative monetary policy, and was also behind the increased appetite for a potential cut in the key interest rates in the US. At the end of the second quarter the optimism on the stock markets was further strengthened by encouraging developments in the trade dispute between the US and China (similarly to the end of 2018). International market risks remain high, on account of political uncertainties and elevated valuations on individual stock markets.

Figure 1.14: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

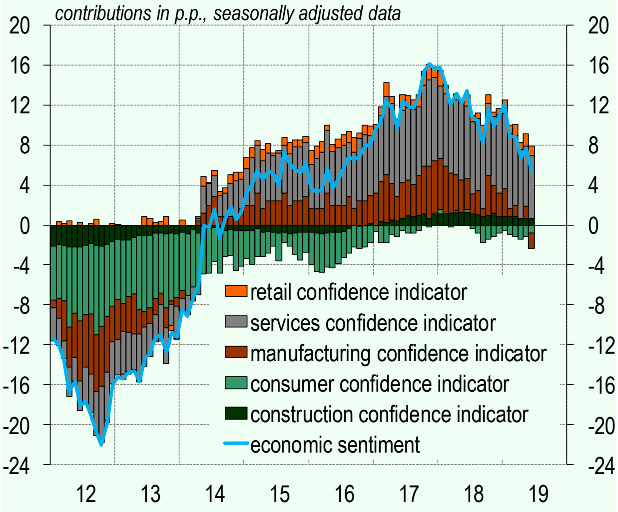
2 Economic Developments

Economic growth in Slovenia is slowing, but remains relatively high compared with the euro area. Although there is a great deal of uncertainty surrounding the European economy, and growth is low, for now the Slovenian export sector remains relatively robust, and this is being reflected in solid growth in merchandise exports and industrial production. The real indicators thus continue to paint a more positive picture of the situation in industry than the business surveys do. The positive overall picture masks considerable variation in the situation in manufacturing. Some segments are already facing declining output, which was also the main reason for the run-down of inventories in the first quarter of this year. This was the main factor in the fall in year-on-year growth in domestic demand to 1.8% and in economic growth to 3.2%. Because inventories were also a major factor in the slowdown in growth in imports, their impact was partly offset by a large contribution to growth by net trade. Growth in other domestic demand aggregates has remained relatively high. Year-on-year growth in investment has strengthened slightly from the end of last year, while its structure is shifting towards construction. Growth in investment in machinery and equipment was again weak, which can only be attributed to external risks, as other investment factors remained encouraging. Private consumption has continued to strengthen, coinciding with increased growth in the real wage bill. According to the monthly activity and confidence indicators, economic growth is expected to have slowed again in the second quarter, and the situation is thought to have deteriorated in industry in particular.

Confidence indicators

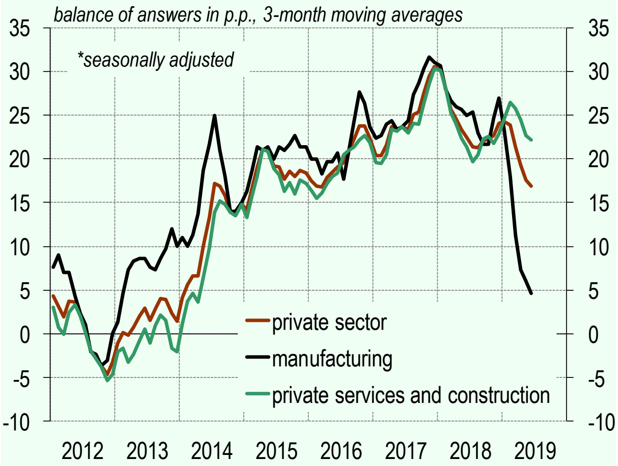
Economic sentiment declined in the second quarter, albeit with considerable variation from sector to sector. The decline relative to the first quarter was most evident in manufacturing, in keeping with the high level of uncertainty in the international environment. A slightly smaller quarterly downturn was also seen in sectors largely dependent on domestic demand, which is making short-term economic growth forecasts even more difficult. Firms overall gave a lower assessment of growth in demand, but with large differences between the sectors. While firms in retail, other private-sector services and construction were still assessing current and future de-

Figure 2.1: Economic sentiment indicator for Slovenia



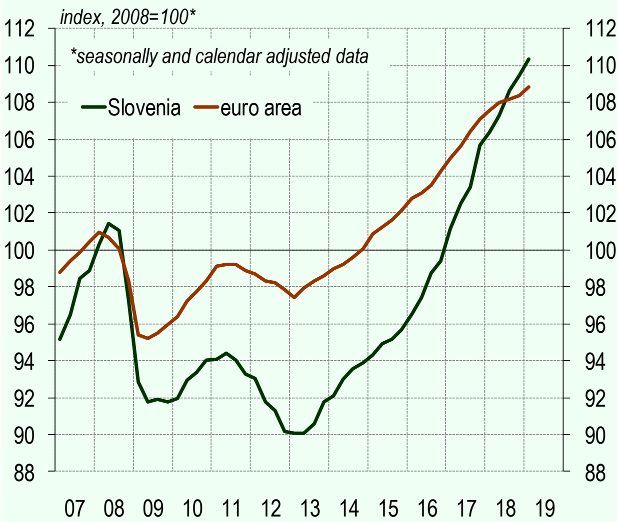
Source: SORS, Bank of Slovenia calculations.

Figure 2.2: Expected demand in the next three months*



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

Figure 2.3: GDP of Slovenia and the euro area



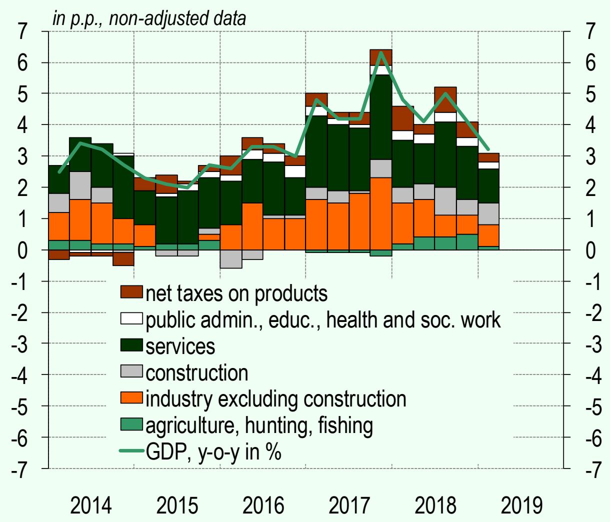
Source: Eurostat, Bank of Slovenia calculations.

mand as relatively strong, there was again a pronounced decline in these assessments in manufacturing. However, caution is required in the interpretation of data of this type, as the actual data for exports and industrial production shows the maintenance of very solid rates of growth, at least for now, particularly in comparison with the situation in the euro area. Consumer confidence also remains encouraging from the point of view of continuing economic growth, and stays high, having not changed significantly in recent months.

GDP — production side

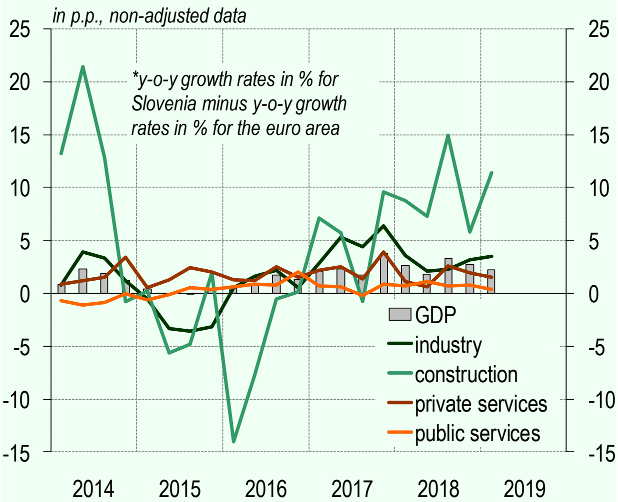
Despite the adverse international situation, economic growth in Slovenia remained relatively high in the first quarter of this year. Quarterly GDP growth stood at 0.8%, comparable to last year's average quarterly growth. The year-on-year rate slowed to 3.2%, although this is largely attributable to a calendar effect. Excluding the calendar effect, GDP was up 3.7% in year-on-year terms, actually slightly higher than in the fourth quarter of last year. The increase in economic activity therefore remained significantly higher than in the euro area, where year-on-year growth stood at just 1.2%. Growth in value-added outpaced the euro area average in all sectors, most notably in construction and industry, while growth in value-added in services slowed.

Figure 2.4: Structure of GDP growth in Slovenia, production side



Source: SORS.

Figure 2.5: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, production side*



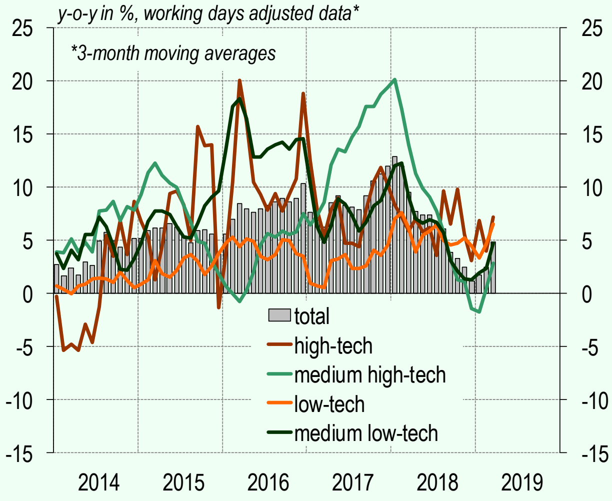
Source: Eurostat, Bank of Slovenia calculations.

The situation in industry improved slightly in the first quarter of this year, despite weak economic growth in many of Slovenia's major trading partners. Quarterly growth in value-added strengthened to 1% in industry as a whole, and to 1.4% in manufacturing, higher than last year's average quarterly rate in both cases. The year-on-year rates were also slightly higher than at the end of last year. They stood at 2.8% in industry as a whole, and 3.8% in manufacturing. Industry accounted for 0.7 percentage points of the GDP growth in the first quarter.

The business conditions vary considerably in the different sectors of industry. Growth in output remained high in the high-technology sectors, which can be attributed to good performance by pharmaceutical firms and in the manufacture of computer, electronic and optical products. Growth in the low-technology segment was also relatively high, primarily on account of growth in the wood processing industry. The increase in activity in the medium-low technology segment was the same as in manufacturing overall. In this segment, there was high growth in the manufacture of non-metal mineral products, in line with the dynamics in domestic construction activity, and the repair and installation of machinery and equipment, which achieved high growth in turnover on euro area markets. By contrast, the situation was significantly worse in the metal industry and in the manufacture of rubber and plastic products, which can be attributed to the problems in the European car industry. The lowest year-on-year increase of just 2.8% was recorded by output in medium-high technology segments, largely as a result of a decline in car production and weak growth in the manufacture of electrical equipment. Both were affected by specific situations at large enterprises in the sectors.

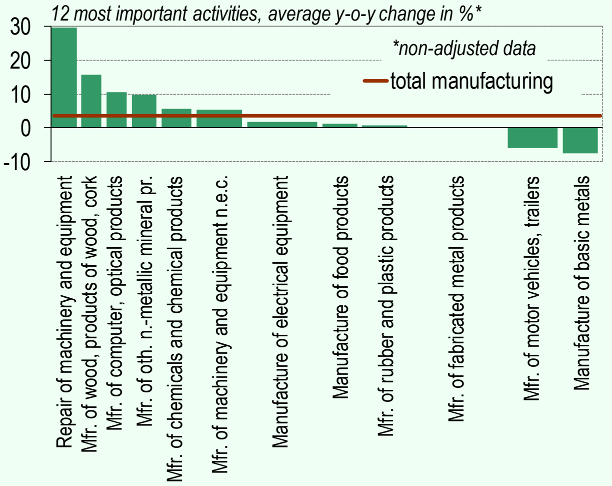
The contribution of private-sector services to economic growth declined in the first quarter of this year, as a result of lower growth in domestic consumption and exports of services. Quarterly growth in value-added in private-sector services slowed to 0.4%, down 0.7 percentage points on the final quarter of last year, while the year-on-year rate stood at 2.8%, the lowest figure since 2014. Its contribution to year-on-year GDP growth was 1.1 percentage points. The slowdown

Figure 2.6: Production in manufacturing according to technological intensity



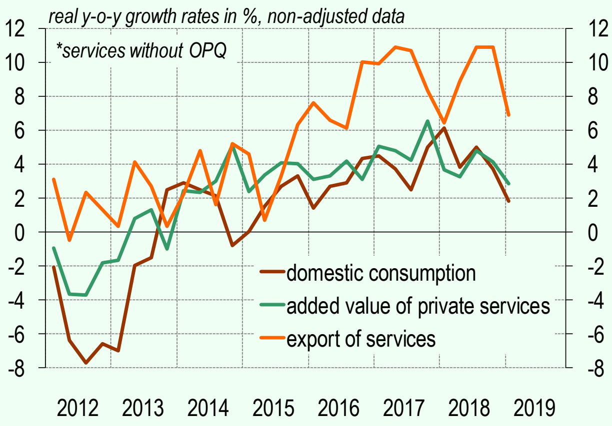
Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Manufacturing production: Jan.– Mar. 2019



Note: Width of each column represents a share of activity in total value added in manufacturing in 2017. Pharmaceuticals are not included due to data confidentiality. Source: SORS, Bank of Slovenia calculations.

Figure 2.8: Added value in private sector services* and sources of demand

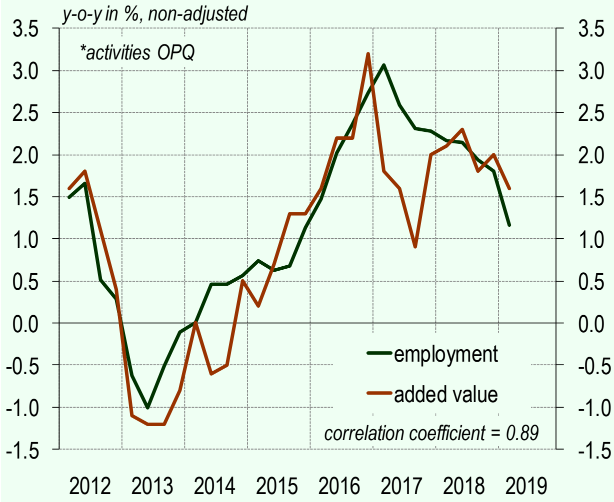


Note: The correlation coefficient between domestic consumption and added value of private services is 0.85, while between export of services and added value of private services is 0.72.
Source: SORS, Bank of Slovenia calculations.

can be explained by weaker domestic and foreign demand, as year-on-year growth in domestic consumption fell below 2%, while growth in exports of services also weakened. Growth in value-added was down on the final quarter of last year in the majority of service segments. The exceptions are wholesale and retail trade, transportation and storage, and accommodation and food service activities, where year-on-year growth in value-added remained at the level from the end of last year at 5.5%. The monthly sales indicators mainly point to high growth in turnover in trade, storage, and accommodation and food service activities. In keeping with the pace of domestic construction activity, growth in turnover in architectural and engineering activities was again high, while turnover at staffing agencies fell sharply, which has coincided with an increase in direct hiring at firms. Year-on-year growth in value-added in public services stood at 1.6%, down on last year, in line with the weaker employment growth. The contribution of public services to GDP growth was 0.2 percentage points.

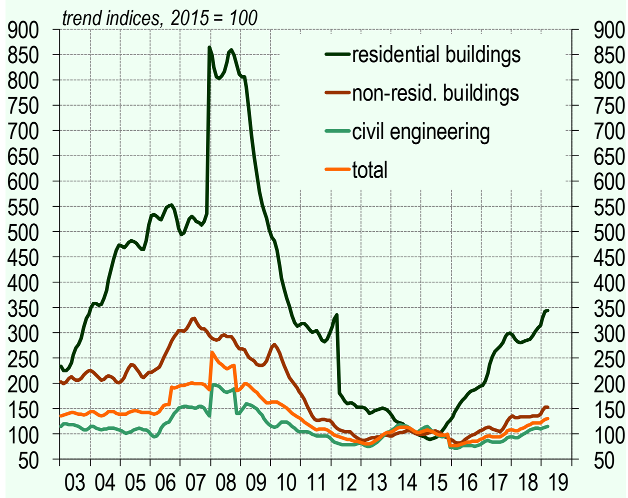
After slowing at the end of last year, growth in construction activity increased again in the first quarter of this year, most notably in residential construction. Value-added was up 4.3% in quarterly terms, while the year-on-year figure was up more than 15%. Its contribution to GDP growth was 0.7 percentage points, above last year's average. The statistics for construction put in place indicate a sharp jump in the construction of buildings. The amount of residential construction put in place was up by more than a fifth in year-on-year terms, while non-residential construction was up almost 16%. Activity in civil engineering increased in the wake of increased government investment. The increase in the first quarter was partly attributable to very good weather conditions, but demand for construction work also rose. After falling last year, the value of new contracts was up 38% in year-on-year terms. This was most notable in residential construction, where there was also a rise in the number of building permits issued and the corresponding floor space. The value of contracts for civil engineering work increased, while the declining trend in non-residential construction from the second half of last year continued. Construction

Figure 2.9: Employment and added value in public services*



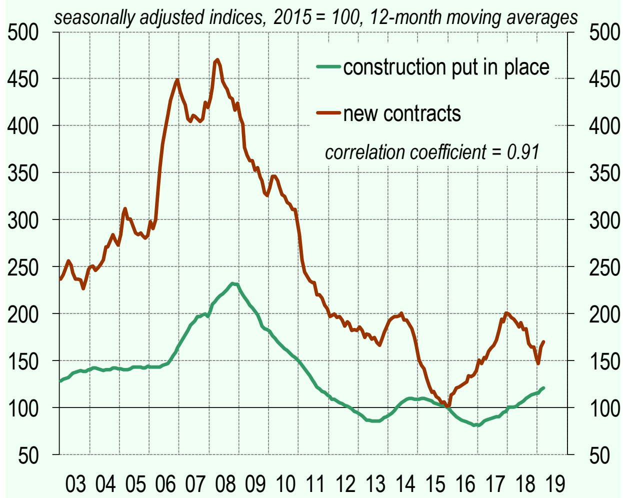
Source: SORS, Bank of Slovenia calculations.

Figure 2.10: Construction*



*Note: *Real value of construction put in place.*
Source: SORS.

Figure 2.11: Total value of construction put in place and new contracts in construction



Source: SORS, Bank of Slovenia calculations.

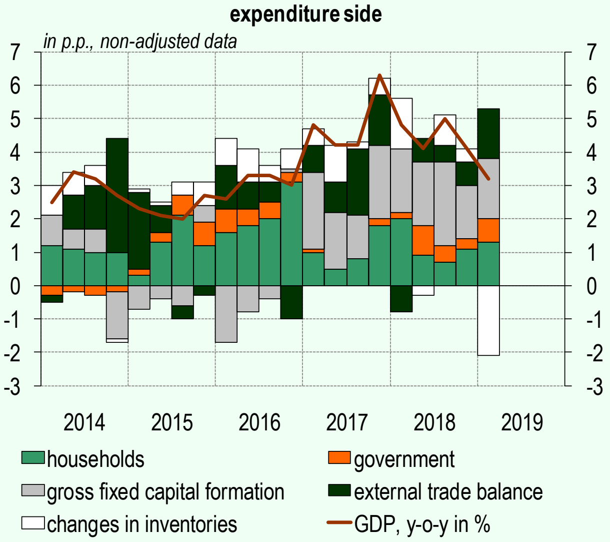
activity and demand levels remain low relative to the pre-crisis period, when high growth in construction activity was one of the factors in the overheating of the economy.

GDP — expenditure side

A negative contribution by inventories had a profound impact on domestic demand in the first quarter. Domestic demand was unchanged from the final quarter of last year, while year-on-year growth stood at just 1.8%, the lowest figure since the beginning of 2016. Aggregate final consumption strengthened as expected, as a result of the increased household consumption made possible by the buoyant labour market, while growth in government consumption was also up on the end of last year. Growth in gross fixed capital formation was higher than in the previous quarter, as investment in construction increased. Therefore, inventories were the main factor in the slower growth in domestic demand: they reduced economic growth by 2.1 percentage points. According to SORS figures, the run-down of inventories was most pronounced in the commodities and materials category, in manufacturing. It was particularly notable in the manufacture of metals, which is facing a decline in output. Manufacturing also saw a run-down of inventories of finished goods, which was probably one of the reasons that growth in merchandise exports outpaced growth in industrial production. Nevertheless, growth in aggregate expenditure excluding inventories once again significantly outpaced the euro area average. Investment was again to the fore, although the gap in year-on-year growth has narrowed slightly over the last two quarters.

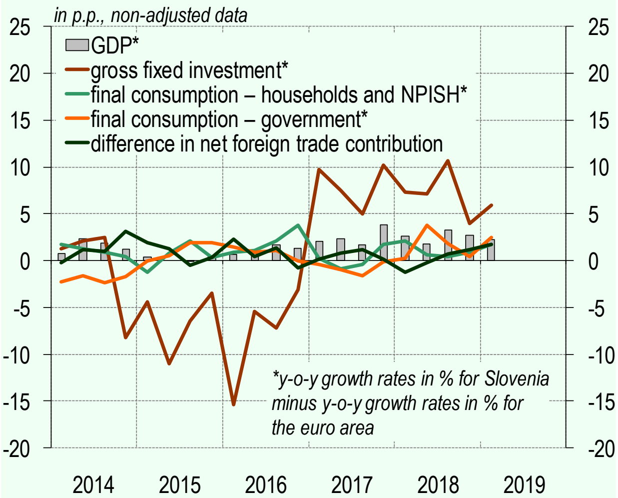
The contribution to GDP growth by private consumption rose again. Quarterly growth in private consumption was significantly higher than last year's quarterly average at 0.9%, while the year-on-year rate stood at 2.6%. Its contribution to GDP growth stood at 1.3 percentage points, also higher than last year. The structure of consumption is gradually shifting: growth in expenditure on durables is gradually slowing, which can be attributed to the closure of the gap that appeared during the crisis due to the decline in purchasing power and cautious consumer behaviour, while at the same time spending on every-

Figure 2.12: Structure of GDP growth in Slovenia, expenditure side



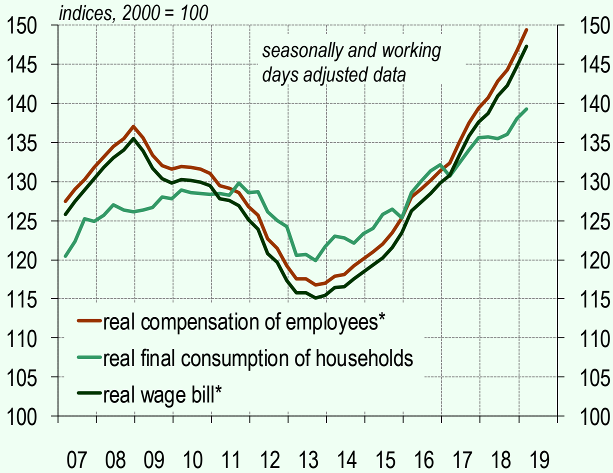
Source: SORS.

Figure 2.13: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



Source: Eurostat, ECB, Bank of Slovenia calculations.

Figure 2.14: Wage bill, compensation of employees and final consumption of households



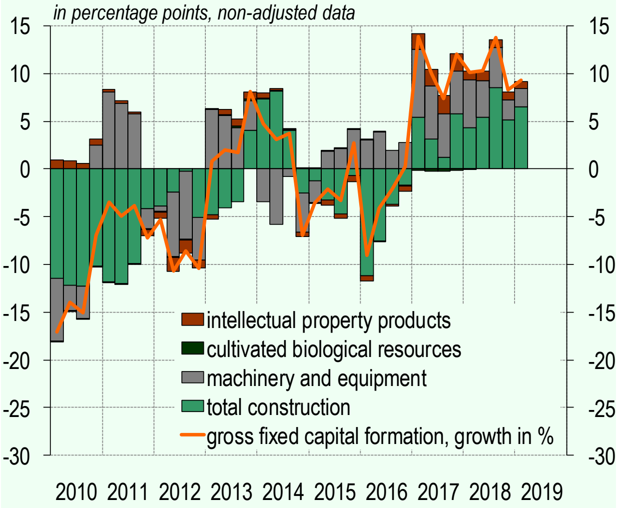
Note: *Deflated by seasonally adjusted HICP index.
Sources: SORS - national accounts, ECB, Bank of Slovenia calculations.

day goods and leisure services rose slightly. The higher growth in household consumption is being driven by an increase in the real wage bill, which in the first quarter was up 6.2% in year-on-year terms, 0.8 percentage points more than last year's annual growth.[1]

Construction investment strengthened in the first quarter, while growth in investment in machinery and equipment remained weak. Quarterly growth in gross fixed capital formation increased to 3.2%, up significantly on last year's quarterly dynamics, while the year-on-year rate strengthened to 9.3%. Quarterly growth in housing investment was particularly strong, and raised its year-on-year growth to over 14%, the highest figure since the second quarter of 2008.[2] Because the number of transactions in residential real estate has been falling in year-on-year terms for more than a year and a half, this is indicative of a relatively delayed response from investors to the shortage of supply on the housing market. The majority of the growth in aggregate investment came from other construction investment, which was up more than 19% in year-on-year terms, in parallel with the renewed increase in government investment. The quarter-on-quarter rate of growth in investment in machinery and equipment was stronger than might have been expected from the weaker international environment: it strengthened from -1.1% in the final quarter of last year to 2.6%. The year-on-year rate of growth of 4% was nevertheless low given the high capacity utilisation, the solid growth in exports and the availability of financing at firms. The total contribution of gross fixed capital formation to year-on-year GDP growth stood at 1.8 percentage points in the first quarter, down slightly on last year's level on account of weaker year-on-year growth in investment in machinery and equipment.

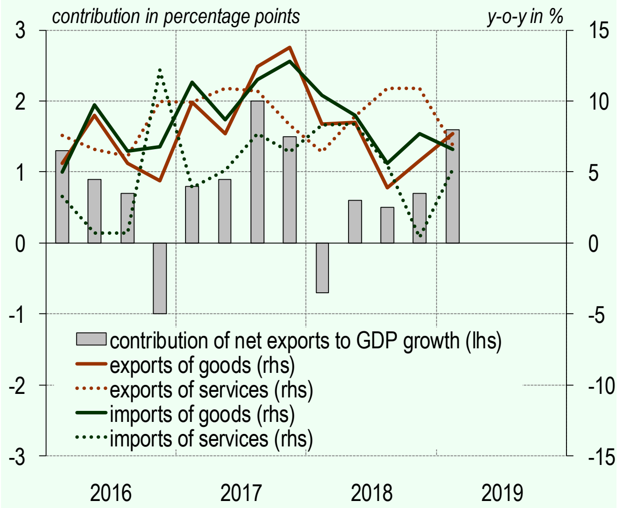
The negative contribution to GDP growth by inventories was partly offset by positive net trade, where the increase in growth in merchandise exports was noteworthy. Quarterly real growth in merchandise exports strengthened to 3.4%, the highest figure since the third quarter of 2017, and significantly higher than last year's average rate. The year-on-year rate increased to 7.7%, significantly higher than the average over the second half of last year. The higher growth was mainly the consequence of stronger exports to countries outside the EU, most notably Switzerland. In the breakdown of exports by broad economic category, consumer durables were prominent, particularly in the pharmacy segment. At the same time growth in merchandise imports slowed to 6.6%, as imports of capital goods were unchanged in year-on-year terms, while growth in imports of intermediate goods declined significantly. The latter can be attributed to the run-down of inventories in certain manufacturing segments. The dynamic in trade in services was the reverse: year-on-year growth in exports of services slowed on account of weaker growth in exports of travel services, while growth in imports of services increased,

Figure 2.15: Contributions to volume y-o-y growth in gross fixed capital formation



Source: SORS, Bank of Slovenia calculations.

Figure 2.16: Foreign trade



Source: SORS – national accounts.

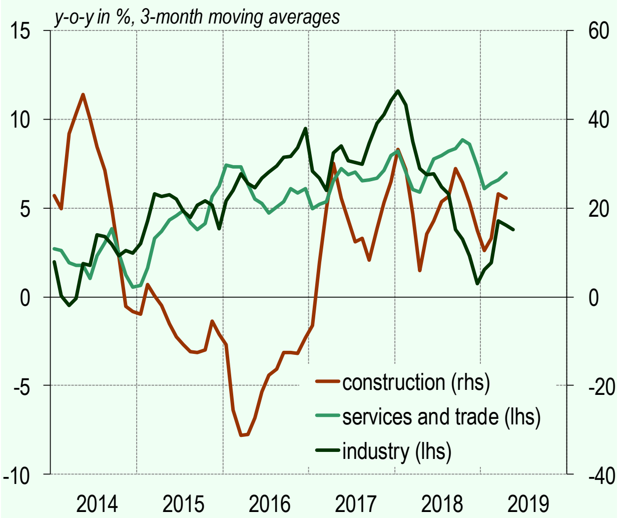
[1] Calculated on the basis of seasonally and calendar adjusted data from the national accounts, HICP deflator.
[2] Investment in housing accounts for 24.5% of aggregate construction investment.

driven by increased imports of business, transport and construction services. At 6.9%, real growth in exports of services nevertheless outpaced growth in imports by 1.7 percentage points. The contribution to GDP growth by net trade stood at 1.6 percentage points, up 1.3 percentage points on last year.

Economic developments in the second quarter

The monthly activity indicators reveal a further slowdown in economic growth in the second quarter. As had previously been largely suggested by the survey indicators, the slowdown is thought to have primarily been the result of weaker growth in industrial production. In the wake of relatively weak current growth in recent months, the year-on-year rate of growth slowed to 3.1% in May, down 3.7 percentage points on a year earlier, but still relatively favourable compared with the situation in Germany, where industrial production in May was down 4.3% in year-on-year terms. The maintenance of relatively solid growth is largely the result of excellent performance by pharmaceutical firms, although output in May was also up in year-on-year terms in 16 other industrial sectors. The situation remains better in sectors that are more dependent on domestic demand. Growth in turnover in private-sector services remained at similar levels to last year over the first four months of the year. One surprise was the growth in turnover in transportation and storage,

Figure 2.17: Monthly indicators of economic activity



Source: SORS, Bank of Slovenia calculations.

Table 2.1: Economic activity – volume indices of production

	12 m. to Apr. 18	12 m. to Apr. 19	2018 Mar.	2018 Apr.	2019 May	2018 Jan.	2019 Apr.
			*y-o-y in %***			*monthly****	
Industrial production - total	9.0	3.8	3.2	5.3	3.1	1.0	2.1
Manufacturing	9.8	4.1	3.7	6.1	3.3	1.3	2.2
Construction - total	16.4	19.9	29.1	6.0	...	-0.5	5.8
Non-residential buildings	16.3	17.3	23.2	3.3	...	5.3	8.7
Residential buildings	47.3	7.8	12.9	9.1	...	-1.2	21.4
Civil engineering	13.7	22.2	32.7	6.5	...	0.2	1.8
Trade and service activities* - total	7.0	7.5	5.4	7.1	...	0.5	1.4
Wholesale and retail trade and repair of motor vehicles and motorcycles	13.8	9.6	8.3	1.0	...	-0.9	5.1
Retail trade, except of motor vehicles and motorcycles	3.4	5.7	6.1	9.3	...	2.7	0.5
Other private sector services	6.9	7.1	6.1	5.1	...	-0.2	1.4
Transport and storage	11.6	7.7	6.7	11.4	...	-1.1	1.6
Accommodation and food service activities	6.2	6.1	8.3	5.3	...	-0.3	3.5
Information and communication	4.6	4.8	1.4	3.2	...	0.4	-0.7
Professional, scientific and technical activities	4.2	12.5	13.3	3.7	...	1.8	2.4

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

which remains relatively high, despite the issues in global trade. At the same time, the figures for May also show relatively high growth in retail turnover. Growth in the amount of construction put in place slowed significantly in April, and in all likelihood in May too, as a result of bad weather, but this is thought to be only temporary, as demand in the sector remains relatively strong according to surveys.

3 Labour Market

The slight slowdown in economic growth in the first quarter was reflected in the lowest employment growth of the last two years, although at 2.6% it remained high, and above the euro area average. The employment growth was driven in part by an increase in the employment rate, the hiring of foreign nationals, and falling unemployment. The year-on-year fall in unemployment has slowed this year, partly on account of its structure, where the shares of difficult-to-employ groups are increasing. The surveyed and registered unemployment rates are both continuing to fall, the former to 4.8% in the first quarter, and the latter to 7.6% in April. Year-on-year nominal growth in the gross average wage stood at 4% in April, down on March because of a decline in the annual cumulative total of extraordinary payments, while April's rise in inflation meant that real growth slowed even more to 2.2%.

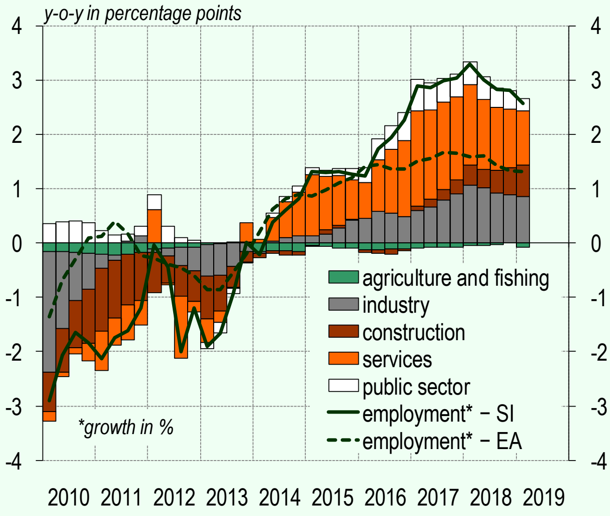
Employment

Although employment growth in the first quarter of this year was at its lowest of the last two years, it remained high when judged over a longer time horizon.[1] According to the available figures, it stood at 2.6%, higher than in the pre-crisis period of the first quarter of 1996 to the third quarter of 2008, when it averaged less than 1%. At 2.9%, year-on-year employment growth in the private sector was again higher than in mostly public services,[2] where it stood at 1.2%. The largest contributions to year-on-year employment growth came from predominantly labour-intensive sectors (industry, the combined sector of trade, transportation and storage, accommodation and food service activities, and construction). Already low, year-on-year real growth in labour productivity declined to just 0.6%. The monthly figures indicate that employment growth remained high in April, when the number of persons in employment excluding self-employed farmers was up 3.1%. The largest contributions to April's year-on-year rise in the persons in employment again came from manufacturing and construction. Construction again saw the highest rise, at more than 10%.

The labour force activity rate and the employment rate have been increasing for two years now. SORS survey figures reveal an employment rate of 71.3% for the working age population aged 15 to 64 in the first quarter of this year, up 1.6 percentage points on a year

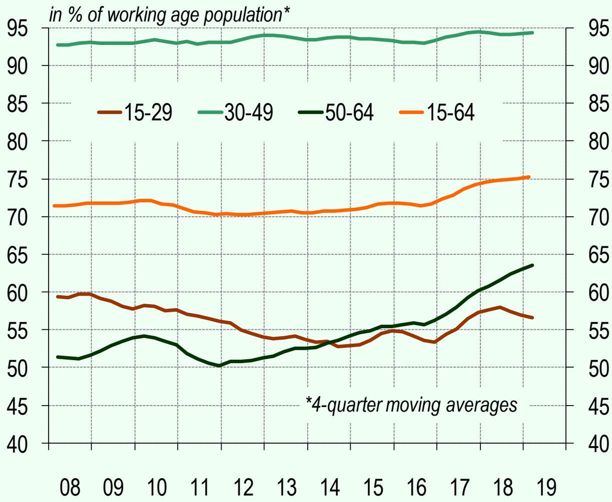
[1] Differing methodologies and data sources mean that the employment figures vary. The national accounts figures for employment from the statistical register of the persons in employment (the SRDAP) include permanent employees, self-employed and unpaid family workers in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The quarterly figures for the persons in employment from the Labour Force Survey include persons who performed work of any kind in return for pay (whether in cash or in kind), profit or family gain in the week before the survey was conducted. The persons in employment also includes employees and self-employed persons who were absent from work in the week before the survey was conducted, and employees on lay-offs, persons on maternity leave, and unpaid family workers. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as persons in employment, the figures being taken from the SRDAP.
[2] Public administration and defence, education, human health and social work activities (Sectors O, P, and Q under the SKD 2008).

Figure 3.1: Contributions to employment growth



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

Figure 3.2: Activity rate by age groups

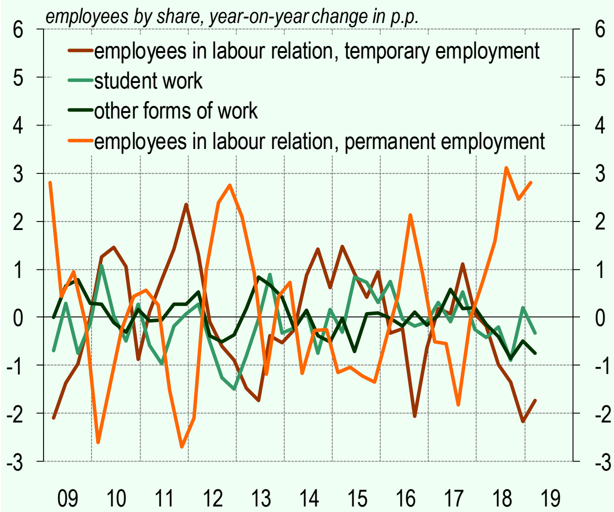


Source: Eurostat, Bank of Slovenia calculations.

earlier. The youth employment rate (15 to 24 age group) fell in year-on-year terms for the third consecutive quarter, to stand at 32.2%, while the largest increase was in the senior employment rate (55 to 64 age group), which stood at 47.7%. Similar developments were seen in the activity rate, which stood at 75% in the 15 to 64 age group. In terms of the type of employment, most employees are in permanent employment, which accounted for 86% of total employment in the first quarter, the figure having increased particularly over the last three quarters.

The shortage of workers with the requisite skills and qualifications in the first half of the year was smaller than last year, but remains high. According to seasonally adjusted figures, firms notified more than 20,400 vacancies in the first quarter of this year, mostly in manufacturing, construction, and wholesale and retail trade and repair of motor vehicles and motor cycles.[3] Because the increase in vacancies on the previous quarter was larger than the increase in jobs, the vacancy rate also increased, to 2.6%. The labour shortage over the last year remains largest in construction, nevertheless, the increase in the estimated shortage of qualified workers in construction and manufacturing slowed slightly in the first half of the year. A similar picture was presented by the Employment Service's *Employment Preview 2019/I* survey, according to which the proportion of firms facing a

Figure 3.3: Employees by type of employment



Source: SORS, Bank of Slovenia calculations.

shortage of qualified staff remains high at 44.6% in the first half of the year, albeit lower than last year. The most common deficiencies on the part of employment candidates cited by firms were a lack of work experience, a lack of job-specific knowledge, and inadequate qualifications, where 46% of firms stated that no-one had applied for a vacancy. Firms addressed their recruitment issues by extending the hiring process, seeking workers abroad, and making changes to the hiring process. Foreign nationals accounted for fully 70% of April's year-on-year increase in the persons in employment excluding self-

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

Box 3.1: Changes in the occupations breakdown of the workforce over the last decade

The occupations breakdown of the persons in employment in Slovenia has shifted over the last decade towards occupations that require higher skill levels, although these changes were relatively small. The largest increase between the first quarter of 2009 and the first quarter of 2019, in the amount of 3 percentage points, was in the share of the persons in employment accounted for by occupations requiring a tertiary qualification, while the share of other occupations requiring lower qualifications declined, most notably the share of occupations requiring a secondary qualification. The increase in the share of occupations requiring a tertiary qualification was largest in the early part of the crisis, as firms largely let their less-qualified workers go at that time. The most notable increase is in the share accounted for by the professionals category, i.e. skill level four, the highest level, which increased by almost 8 percentage points over the observation period. Major shifts towards tertiary qualifications during this period were evident in the educational attainment breakdown of the population. The share of employees with tertiary qualifications increased by more than 10 percentage points, while the shares of employees with primary and secondary qualifications declined by 6.2 percentage points and 4.6 percentage points respectively.

The general level of educational attainment in the persons in employment allows for hiring in positions of higher status than the economy offers. Over-qualification has increased in the majority of occupation groups over the last decade. The general level of educational attainment has also improved within the majority of occupation groups. The improvement by which the level of educational attainment exceeded that required for the individual occupation was largest in occupations at the lowest skill level and among clerical workers, which is indicative of the level of over-qualification in these occupations.[1] The share of people with a secondary education among the elementary occupations, for which a primary education is required, increased by almost 20 percentage points, while among clerical workers, who usually require a secondary education, the share with a tertiary education increased by 17 percentage points.

According to their recruitment forecasts, firms will see a deterioration in the occupations breakdown of their employees, at least in the short term. According to the Employment Service's *Employment Preview 2019/I* survey, firms expect to hire most heavily in occupations at skill level two in the second half of the year, among whom the most sought-after will be metal workers, machinery technicians, construction workers, personal services occupations, and sales workers. In the occupation group requiring a tertiary education, the most sought-after occupations will be education professionals and science, technology, engineering, and maths professionals (Employment Service, 2019). Judging by the information from this survey alone, firms are envisaging a deterioration in the occupations breakdown of the workforce, as they are planning to have a smaller share of occupations at skill levels three and four among their new hires.

Figure 1: Change in occupational structure in the last decade and employment expectations

Note: Employment expectations take into account a survey, conducted by the Employment Service of Slovenia and relate to the second half of 2019.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

Methodological note

Under the ISCO-08 international classification, the occupation class combines information about the level and type of an individual's skill. Among the major occupation groups, the skill level is measured on the basis of several criteria encompassing the content of the defined tasks, the level of formal education, and the informal skills and knowledge. The skill specialisation of an individual occupation is set out on the basis of the content of the required field of knowledge, the use of tools, equipment, and work materials, and the results of the work in the form of goods and services (SORS, 2011).

Under the ISCO-08, occupations are combined into ten major groups, which are divided into four skill levels. Skill level one encompasses elementary occupations that require the completion of primary education, and combine the performance of simple physical or manual tasks (e.g. cleaners, kitchen assistants). Skill level two, which generally requires the completion of secondary education, includes occupations that envisage the management and use of machinery, electronic equipment, and vehicles, the maintenance and repair of equipment, and the use, ordering, and storage of information (e.g. mechanics, drivers, secretaries, hairdressers, and sales workers). Skill levels three and four encompass occupations that require a tertiary qualification and envisage the performance of complex technical and practical tasks in a specialised field (e.g. technicians, architects, doctors, engineers, teachers, judges, and programmers) (SORS, 2011). Because armed forces occupations are placed in different groups with regard to skill level, and there was insufficient data about them, they have been omitted from the analysis. According to the labour force survey, the nine major occupation groups included 98.3% of the persons in employment in the first quarter of this year.

References:

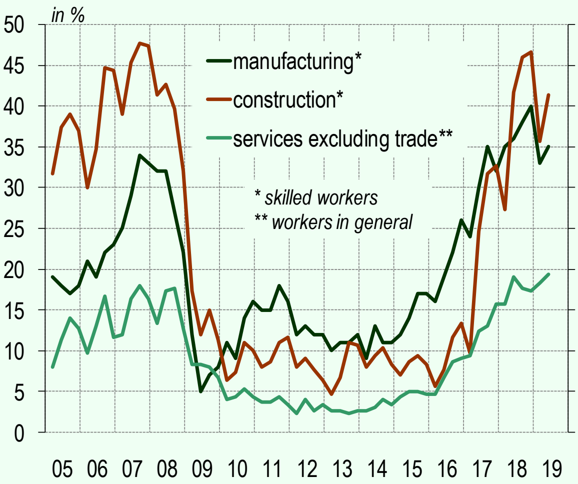
SORS, 2011. Standard Classification of Occupations 2008 Available online (in Slovene) at https://www.stat.si/Skp/Docs/MetodoloskaPojasnilaSKP08.pdf.

Employment Service (ZRSZ), 2019. Employment Preview 2019/I.

[1] The major group of clerical workers comprises secretaries, administrators, receptionists, survey interviewers, etc.

employed farmers. Firms addressed the shortage of skilled labour through overtime, outsourcing, retraining, and by refusing orders.

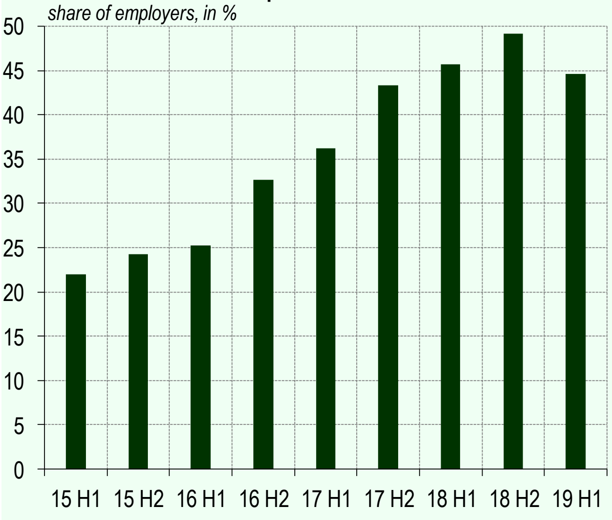
Figure 3.4: Labour shortage as a limiting factor



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

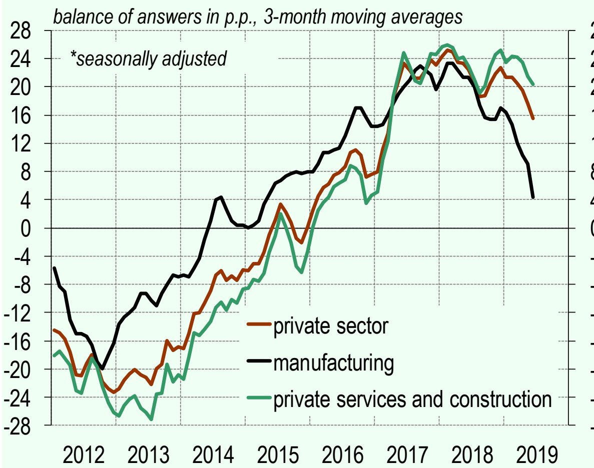
The survey indicators of employment expectations for the coming months point to further employment growth. The least optimism comes from the SORS survey, according to which employment expectations in the private sector have been declining since March of this year, which is in line with the figures from the SORS survey of demand expectations in these sectors. By contrast, the Employment Service's *Employment Preview 2019/I* survey suggests that employment will rise or remain unchanged in all sectors in the second half of the year, and that expectations are highest in construction and in administrative and support service activities. The latter encompasses employment activities, which include staffing agencies. Employment activities accounted for a high proportion of the rise in the persons in employment during the economic recovery, but their contribution has been declining in year-on-year terms since last May. Employers anticipate that in the second half of the year they

Figure 3.5: The share of employers who encountered a shortage of qualified staff



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

Figure 3.6: Expected employment in the next three months*



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

will mostly be hiring to fill positions vacated by retirements, maternity leave, childcare leave, and employee departures, and partly in order to meet rising demand. The most-sought occupations will be drivers of heavy goods vehicles and tractor units, elementary occupations in manufacturing, bricklayers, and welders. Another favourable forecast for employment in the third quarter of this year comes from a survey by ManpowerGroup, whose seasonally adjusted employment forecast was the most favourable of the last two years. Employers are anticipating a rise in employment in all the sectors covered also in this survey, with the highest expectations in construction.

Table 3.1: Demography, unemployment and employment

	2014	2015	2016	2017	2018	18Q1	18Q2	18Q3	18Q4	19Q1
						in 1,000				
Working age population[1]	1,397	1,383	1,371	1,362	1,352	1,355	1,356	1,348	1,349	1,351
						in %				
Activity rate[2]	71.0	71.8	71.7	74.2	75.1	74.2	75.1	75.8	75.2	75.0
Employment rate[3]	63.9	65.2	65.9	69.3	71.1	69.7	71.1	71.9	71.8	71.3
						in 1,000				
Registered unemployed persons	120.1	112.7	103.2	88.6	78.5	84.9	76.7	75.3	77.0	80.0
Unemployment rate						*in %*				
- LFS	9.8	9.0	8.0	6.6	5.1	5.9	5.2	5.0	4.4	4.8
- registered	13.1	12.3	11.2	9.5	8.3	9.0	8.1	7.9	8.0	8.3
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	15.4	15.7	18.0	19.2	19.5	23.6	21.4	16.9	16.2	23.1
- probability to lose a job[5]	2.6	2.5	2.3	2.1	1.9	2.3	1.5	1.7	2.0	2.2
						in 1.000				
Total employment[6]	930	943	960	988	1,017	1,001	1,014	1,022	1,033	1,027
						year-on-year growth rates in %				
Persons in paid employment	0.6	1.4	2.2	3.3	3.5	3.8	3.5	3.3	3.3	3.2
Self-employed	-0.3	1.1	0.3	1.6	1.0	1.2	0.9	0.9	0.9	0.2
By sectors										
A Agriculture, forestry and fishing	-1.7	-0.8	-1.4	-1.0	-0.4	-0.7	-0.7	-0.3	0.0	-1.1
BCDE Manufacturing, mining and quarrying and other industry	0.3	1.1	2.3	3.3	4.3	4.7	4.5	4.0	3.9	3.7
F Construction	-1.1	0.4	-1.0	2.6	6.3	6.0	5.2	6.4	7.5	9.1
GHI Trade, accommodation, transport	-0.3	1.8	2.4	3.4	3.1	3.4	3.1	3.0	3.0	2.9
J Information and communication services	2.6	3.2	3.6	3.9	3.9	4.1	4.0	3.7	4.0	3.9
K Financial and insurance activities	-2.1	-1.2	-1.7	-1.6	-1.1	-1.4	-0.9	-0.9	-1.4	-1.8
L Real estate activities	0.9	1.4	4.6	7.9	5.3	6.7	6.6	4.8	3.2	0.0
MN Professional, technical and other business activities	3.3	3.0	2.5	5.0	2.6	3.8	2.7	2.1	1.7	1.5
RSTU Other activities	3.0	2.8	2.7	3.4	3.1	3.1	3.6	3.1	2.5	2.8
- mainly private sector (without OPQ)[7]	0.4	1.4	1.7	3.0	3.2	3.6	3.2	3.0	3.1	2.9
- mainly public services (OPQ)[7]	0.4	0.8	2.2	2.6	2.0	2.2	2.1	1.9	1.8	1.2
Total employment[6]	0.4	1.3	1.8	2.9	3.0	3.3	3.0	2.8	2.8	2.6

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

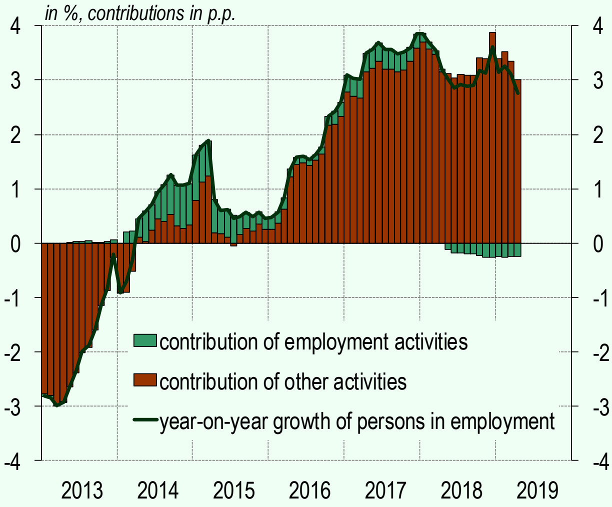
Unemployment

The surveyed and registered unemployment rates are both continuing to fall. Unemployment stood at 70,747 at the end of June, down 5.7% on a year earlier. In the breakdown of unemployment, the majority of age groups and educational attainment groups have seen their shares decline in year-on-year terms this year, while the largest rises have been among those aged over 60 and those with primary school qualifications, who are among the most disadvantaged and less employable groups on the labour market. In June, more than half of the unemployed had been jobless for more than a year, among whom the largest category was those who had been jobless for more than three years. The number of people deregistering as unemployed in the first six months of the year was larger than the number of new registrations. Both outflows and inflows in the first six months of the year were down on the same period last year. The main decline in the former was in new hires, while the main decline in the latter came from those whose temporary employment came to an end and first-time jobseekers. While employment rises and unemployment falls, the registered and surveyed unemployment rates are continuing to fall. The latter stood at 4.8% in the first quarter of this year, down 1.1 percentage points in year-on-year terms, while the registered unemployment rate stood at 7.6% in April, down 0.6 percentage points in year-on-year terms.

Wage developments

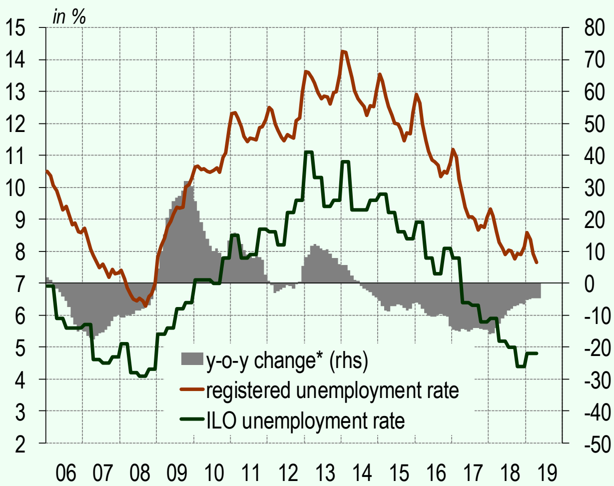
Although year-on-year nominal growth in the gross average wage hit its lowest rate of the year in April, it was still higher than the average of previous years. Year-on-year nominal growth in the average gross wage stood at 4% in April, and was down on the previous month in both the private sector (3.4%) and in mostly public services (5.8%). Among the major sectors, growth was highest in public administration and defence, in information and communication activities, and in administrative and support service activities. Year-on-year growth slowed in April, primarily as a result of a year-on-year decline in extraordinary payments, even though there

Figure 3.7: Contribution of employment activities to growth in persons in employment



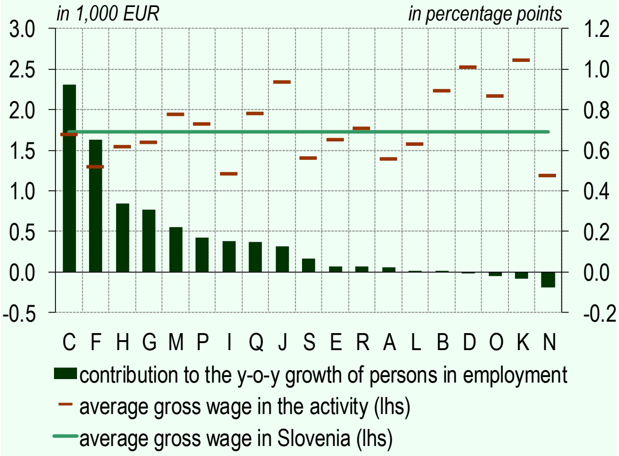
Source: SORS, Bank of Slovenia calculations.

Figure 3.8: Unemployment



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

Figure 3.9: Average contribution to year-on-year growth of persons in employment and the level of gross wages by activities

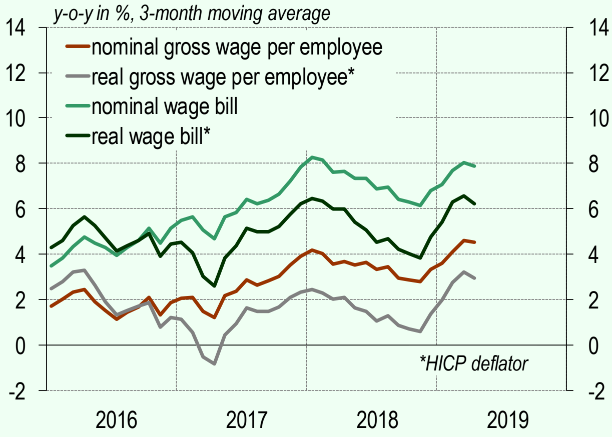


Note: The analysis was done for the average of the first four months of the current year on the basis of monthly data.
Source: SORS, Bank of Slovenia calculations.

was one more wage day in April of this year than last year. Sectors with below-average wages accounted for more than 70% of the aggregate year-on-year growth in the persons in employment over the first four months of the year. Year-on-year real growth in the average gross wage stood at 2.2% in April, rising inflation having reduced it even more than the nominal rate.

In the wake of slight declines in year-on-year growth in both the average gross wage and the number of employees at legal persons, April's growth in the wage bill was also lower than in previous months. Year-on-year nominal growth in the wage bill stood at 7.2% in April, and remained above last year's average rate. It was higher in the private sector (7.3%), on account of higher employment growth, than in mostly public services (7.0%). Inflation meant that year-on-year real growth in the wage bill was lower, at 5.3%.

Figure 3.10: Nominal and real total wage bill and average gross wage per employee



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

Table 3.2: Labour costs

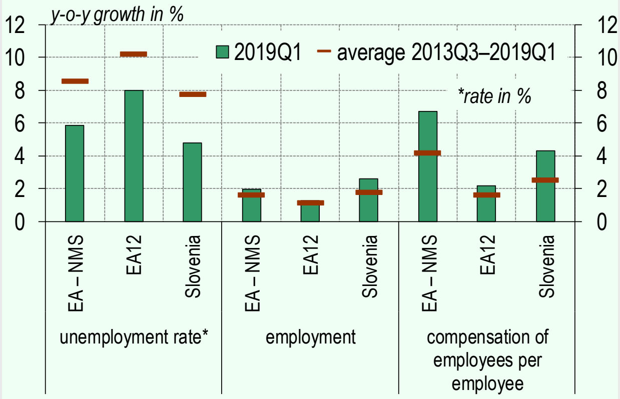
	2014	2015	2016	2017	2018	18Q1	18Q2	18Q3	18Q4	19Q1
					in EUR					
Average gross wage	1,545	1,556	1,584	1,626	1,681	1,656	1,660	1,651	1,757	1,732
					y-o-y growth in %, nominal					
Average net wage	0.8	0.4	1.7	3.1	2.9	3.1	3.1	2.5	2.9	3.9
Average gross wage	1.1	0.7	1.8	2.7	3.4	3.6	3.6	3.0	3.3	4.6
- mainly private sector (excl. O..Q)[1]	1.4	0.8	1.3	2.6	3.9	3.9	4.1	3.5	4.2	4.1
- mainly public services (O..Q)[1]	0.2	0.6	3.3	2.8	2.4	3.2	3.0	2.2	1.3	6.4
Average gross wage in manufacturing	3.3	2.1	2.1	3.2	4.0	4.2	4.1	4.1	3.5	3.6
Average real net wage[2]	0.5	1.2	1.8	1.5	1.0	1.6	0.9	0.4	1.0	2.5
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	-1.2	0.3	1.8	1.2	2.5	2.4	3.5	1.1	2.8	3.6
Unit labour costs,[3,4] real	-2.0	-0.7	1.0	-0.3	0.2	0.0	0.7	-1.4	1.3	1.4
Labour costs per employee,[4] nominal	1.3	1.3	3.0	3.2	4.0	3.9	4.6	3.2	4.1	4.3
Labour productivity, nominal	3.4	2.0	2.0	3.5	3.8	3.9	3.8	4.7	2.7	2.8
Labour productivity, real	2.5	1.0	1.3	1.9	1.5	1.4	1.1	2.1	1.2	0.6
HICP	0.4	-0.8	-0.2	1.6	1.9	1.5	2.1	2.1	2.0	1.3
GDP deflator	0.8	1.0	0.8	1.6	2.3	2.4	2.7	2.5	1.5	2.2

[1] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008. Wage growth in the public and private sector for 2017 is an estimate.
[2] HICP deflator.
[3] 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.

Box 3.2: Labour market situation in Slovenia compared with other euro area countries

The labour market situation mostly remained relatively good in euro area countries in the first quarter of this year, although in certain countries the pressures on cost competitiveness are already increasing. Year-on-year employment growth stood at 1.3% overall, and was highest in Malta (5.7%) and lowest in Latvia (0.2%). Slovenia was ranked fifth in terms of employment growth, with a rate of 2.6%. The largest increase in year -on-year employment growth relative to the previous quarter, at more than 1 percentage point, was recorded by Ireland. According to seasonally adjusted figures, employment reached record highs in the first quarter of this year in Slovenia and in the euro area overall. The surveyed unemployment rate in the first quarter was down in year-on-year terms in all euro area countries, with Germany recording the lowest rate of 3.4% and Greece the highest rate of 19.2%. Slovenia had the fifth lowest rate, together with Ireland, at 4.8%. Year-on-year growth in compensation per employee in the newer euro area countries strengthened again to more than 6% in the first quarter, higher than last year's average rate, while growth in the remaining countries was similar to last year at just over 2%. Year-on-year growth in compensation per employee stood at 4.3% in the first quarter in Slovenia, behind only the Baltic states and Slovakia. The pressures on cost competitiveness have thus already increased in the aforementioned countries. Year-on-year growth in nominal unit labour costs in Slovenia stood at 3.6% in the first quarter, 1 percentage point higher than the euro area average, but still slightly less than in Germany.

Figure 1: Labour market in the euro area



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

4 Current Account and Competitiveness Indicators

The current account surplus is gradually narrowing. It amounted to 5.4% of GDP over the 12 months to May, down 1 percentage point on a year earlier, after allowing for a major revision to the balance of payments figures. There are various reasons for the narrowing surplus: the main factor is the decline in the merchandise trade surplus, as domestic final consumption is continuing to strengthen, at least judging by the import data. Growth in nominal merchandise exports remains surprisingly robust, at least in comparison with the situation in European industry, but it is largely the result of strong growth in the pharmaceutical industry, which is less sensitive to cyclical fluctuations. Growth in exports of a wide spectrum of services, which even at the European level are yet to feel a greater impact from the uncertainty in the international environment, also remains high. The surplus of trade in services is thus continuing to strengthen. However, the deficit in income on direct investments increased, as FDI is increasing. The statistically disclosed deficit in secondary income is also increasing, primarily in connection with transfers between the government and EU institutions.

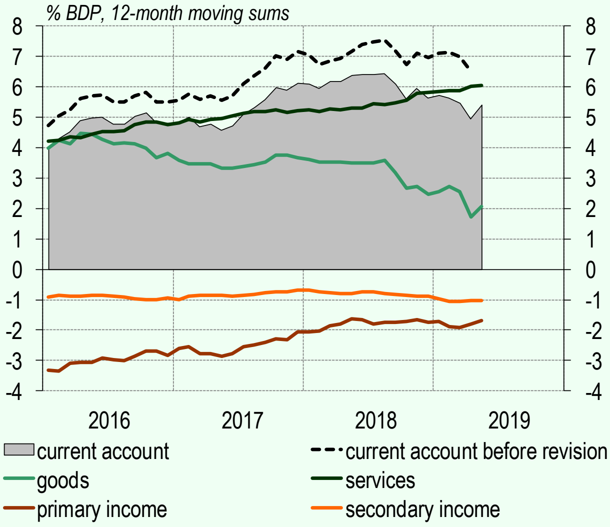
Exchange rate movements had a beneficial impact on the price competitiveness of the Slovenian economy in the first quarter, while price developments in relation to the main export partners remained at similar levels to a year earlier. Cost pressures strengthened slightly, pushing growth in real unit labour costs above the euro area average. Growth in real unit labour costs was nevertheless similar to the main euro area trading partners. The largest increase in unit labour costs was in manufacturing, as it is primarily firms in labour-intensive sectors that are increasing their staffing in positions with lower value-added, while being unwilling to significantly increase their investment.

Current account position

The 12-month current account surplus is gradually narrowing, but is still in excess of 5% of GDP.[1] It amounted to EUR 2,545 million or 5.4% of GDP in May, EUR 282 million less than a year earlier. The main factor in the decline is a narrowing merchandise trade surplus. This is largely the result of growth in domestic final consumption, as export growth remains relatively high for now, despite the deterioration in the international environment. The 12-month merchandise trade surplus was down EUR 577 million in year-on-year terms in May. At the same time, the deficit in income increased slightly, to EUR 1,275 million or 2.7% of GDP in May. This was mainly attributable to an increase in the net outflow of income from direct investments, and certain transfers between the government and EU institutions. The surplus of trade in services continues to strengthen, and amounted to EUR 2,846 million or 6.1% of GDP over the 12

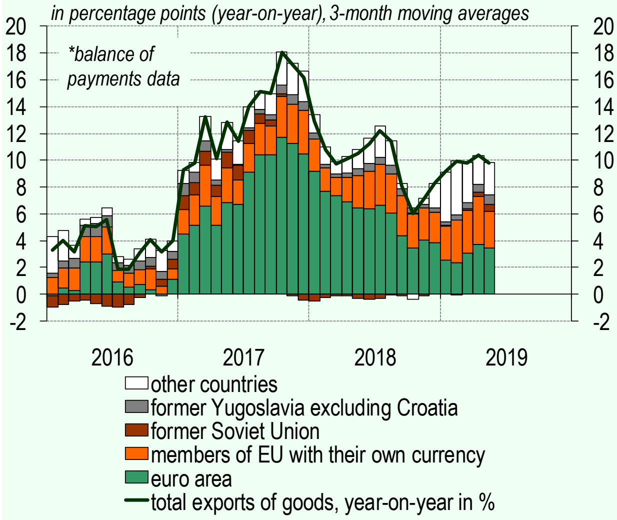
[1] Under the revision to the balance of payments, the current account surplus was significantly reduced, by EUR 610 million last year alone. It nevertheless remained the fifth-largest in the euro area in terms of the percentage of GDP, immediately behind Germany.

Figure 4.1: Current account components



Source: Bank of Slovenia, SORS.

Figure 4.2: Contributions to goods export* growth by country groups



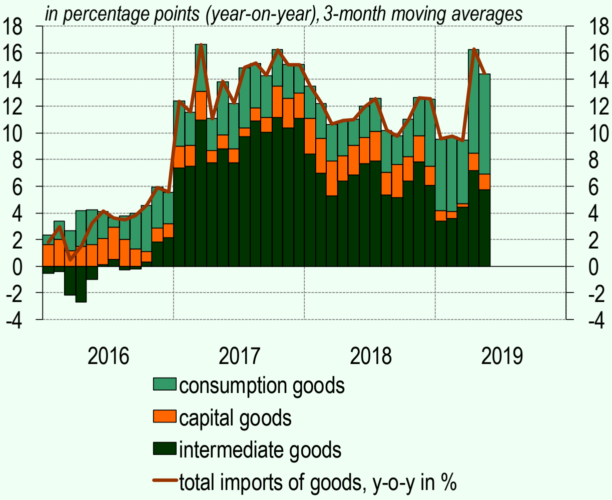
Source: Bank of Slovenia.

months to May, up EUR 501 million on a year earlier. This year the surplus has been widening in transport and construction services, while the aggregate deficit in other services has also declined sharply.

Merchandise trade

Growth in merchandise exports remains high, thanks to the pronounced increase in exports of pharmaceutical products to Switzerland, while the breakdown of imports mainly reflects growth in domestic final consumption. Nominal merchandise exports during the first five months of the year were up 11% in year-on-year terms according to balance of payments figures, the same increase as in the same period last year, and more than in the second half of last year. There has however been a significant change in the structure of the growth during this period. Exports to non-EU countries have strengthened in relative terms, thanks to the sharp increase in exports of pharmaceutical products to Switzerland, which accounted for 3.4 percentage points of the aggregate increase in merchandise exports during the first five months of the year. The share of growth accounted for by EU Member States outside the euro area has also been high since the middle of last year, most notably Croatia, where exports of a wide spectrum of goods have been rising rapidly this year. The share of growth accounted for by euro area countries remains low compared with its average in 2017 and 2018. The reasons are not entirely cyclical, as the weaker exports of cars and electrical machinery are at least partly related to the specific situations at the two main plants. By contrast, the weakness of exports of metal products, transport equipment and industrial machinery can be tied to problems in European industry, mainly the car industry.[2] Merchandise imports over the first five months of the year were up 12.8% in year-on-year terms according to balance of payments figures, 1.2 percentage points more than in the same period last year. In this case too there were significant changes in the structure of the growth: the share of growth accounted for by imports of consumer goods in-

Figure 4.3: Contributions of main BEC groups to nominal import growth



Source: SORS, Bank of Slovenia calculations.

[2] Detailed figures for merchandise exports in May were not available by 12 July.

Box 4.1: Revision to the balance of payments and international investment position for the period of 2009 to 2018

The major changes are related to the introduction of an additional data source for holdings of securities, the estimation of additional assets of households (S.14) in the rest of the world and the corresponding elimination of the inconsistencies between the financial and non-financial accounts, and the restatement of imports of travel services, as bilateral comparisons suggest sizeable understatement in the statistical survey data.

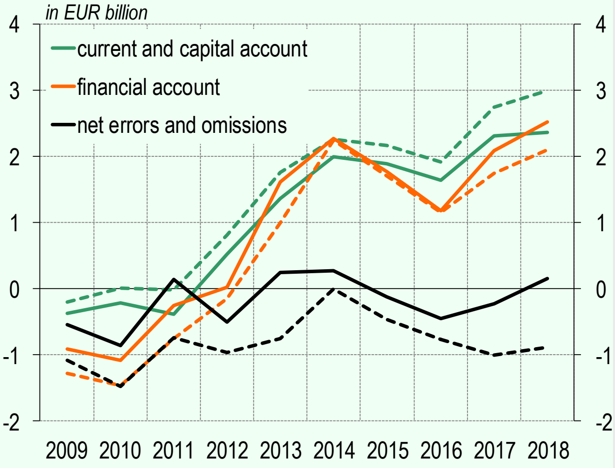
The main effects of the changes were a reduction in the current account surplus, an increase in the financial account surplus, and a smaller statistical error.

Over the ten years (2009 to 2018):

- the current account surplus declined by EUR 3.3 billion (from EUR 14.6 billion to EUR 11.3 billion),
- the financial account surplus increased by EUR 2.9 billion (from EUR 6.4 billion to EUR 9.2 billion),
- the statistical error was reduced by EUR 6.3 billion (from minus EUR 8.1 billion to minus EUR 1.9 billion),
- the net investment position at the end of 2018 consequently increased by EUR 3.6 billion (from minus EUR 12.3 billion to minus EUR 8.7 billion).

The largest changes in the current account related to the revision of travel services data, which reduced the current

Figure 1: Balance of payments before and after revision



Note: Dotted lines represent values before the revision, while full lines respresent values after the revision.
Source: Bank of Slovenia.

Figure 2: Changes in current and capital account

Source: Bank of Slovenia.

Table 1: Impact of reconciliation of financial and non-financial accounts on international economic relations statistics

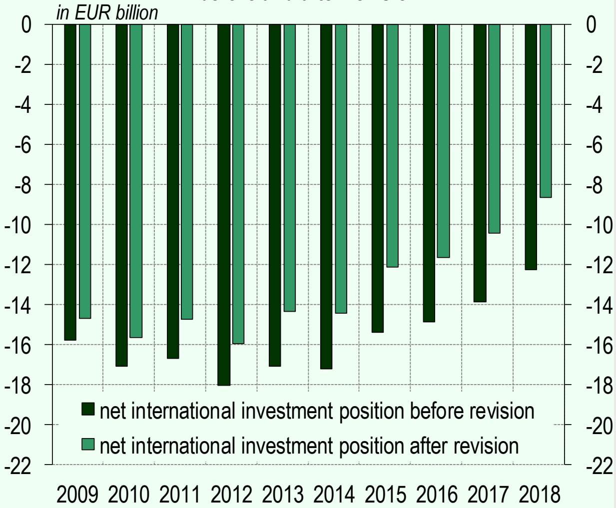
in EUR million	Change of transactions 2018	Change of positions 2009–2018
Increase of claims in unlisted shares for S.14	678	504
Increase of other equity claims (S.14)	678	504
Increase of deposits of households (S.14) abroad (Tax aouthority on the basis of bilateral exchange CRS – Common reporting Standard)	1,400	1,040
Increase of trade credits and advances for domestic sole proprietorships to the rest of the world	200	149
Decrease of liabilities of currency and deposits of central bank to the rest of the world (technical item showing difference between currency acording to capital key and currency in circulation) due to change of the estimate of currency in circulation attributed to households.	900	669

Source: Bank of Slovenia.

account surplus over the entire revision period by EUR 2.6 billion (mostly through increased imports). The increase in the financial account surplus over the ten years was mostly attributable to the inclusion of the estimated additional assets of households (S.14) with the aim of reducing the inconsistencies between financial and non-financial accounts that had appeared in the long-term time series. The revision to the cumulative transactions amounts to EUR 2.9 billion. The additional assets were allocated to several instruments, while the impact on transactions in the balance of payments and on the international investment position is illustrated in Table 1.

The aforementioned changes are explained in detail in the monthly International Economic Relations publication. They will also be reflected in the national accounts statistics, mainly in the financial section.

Figure 3: Net international investment position before and after revision



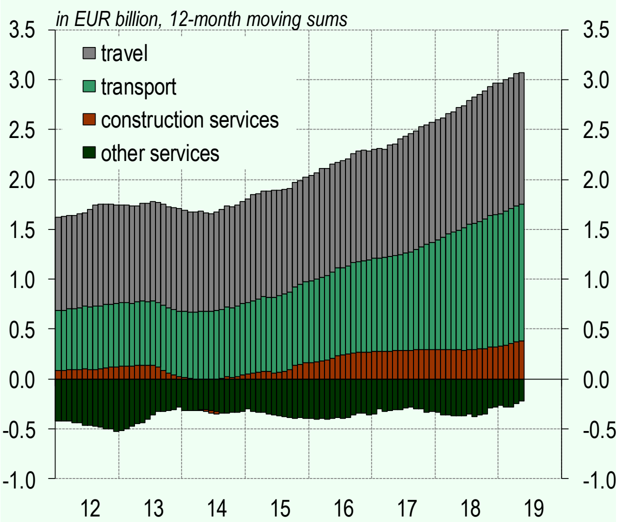
Source: Bank of Slovenia.

creased sharply, while the share accounted for by imports of capital goods declined. April's higher growth in imports of intermediate goods was attributable to a sharp increase in imports for the needs of the pharmaceutical industry. The merchandise trade surplus amounted to EUR 402 million over the first five months of the year, down EUR 154 million in year-on-year terms.

Trade in services

The surplus of trade in services is also increasing this year, in the wake of high export growth. The main increases have been in the transport services surplus, where growth in exports remains robust despite the economic downturn in the international environment, and in construction, where the booming year-on-year export growth of almost 50% is most likely not entirely related to actual construction work, but to a larger extent is related to the posting of construction workers abroad. By contrast, the surplus of trade in travel services was unchanged in year-on-year terms, as import growth during the first five months of the year significantly outpaced export growth. Trade in miscellaneous business services remains in deficit, but the deficit over the first five months of the year was considerably narrower in year-on-year terms, as the dynamic in exports significantly outpaced imports. Aggregate exports of services over the first five months of the year were up 9.7% in year-on-year terms, actually slightly more than last year. Growth in aggregate imports of services was also slightly higher than last year's average at 5.9%, primarily as a result of higher estimated growth in imports of travel and transport services. The aggregate surplus of trade in services over the first five months of the year amounted to EUR 1,125 million, up EUR 167 million in year-on-year terms.

Figure 4.4: Trade in services balance



Source: Bank of Slovenia.

Primary and secondary income

The deficit in income on direct investments is gradually increasing, while the interest payment burden on investments in securities is continuing to decline significantly. The deficit in income on direct investments widened significantly last year, by EUR 116 million to EUR 1,035 million. The increase was mostly the result of an increased deficit in reinvested earnings, while there was also a slightly larger net outflow of dividends, which amounted to EUR 585 million. The deficit in income on direct investments over the first five months of this year increased by EUR 30 million in year-on-year terms. By contrast, the deficit in income on investments in securities has continued to narrow this year. It peaked at EUR 583 million in 2014, primarily as a result of heavy government borrowing for the purpose of bank recapitalisations, but had narrowed to EUR 181 million in 2018. The deficit over the first five months of this year was narrower in year-on-year terms, by EUR 42 million. The majority of the narrowing was the result of reduced interest payments on public debt. This was attributable to the ex-

Table 4.1: Current account components

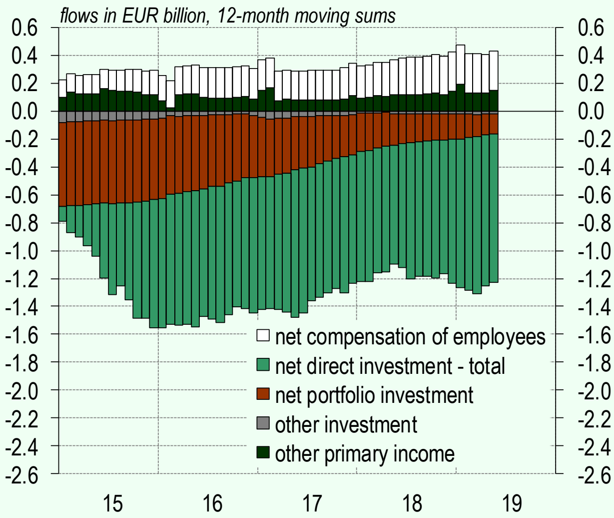
				in 12 months to							
	2016	2017	2018	May 18	May 19	17Q4	18Q1	18Q4	19Q1	May 18	May 19
						in EUR million					
Current account balance	1,942	2,635	2,593	2,827	2,545	571	693	401	647	182	421
1. Goods	1,536	1,579	1,128	1,552	975	317	328	2	391	64	230
2. Services	1,925	2,241	2,678	2,345	2,846	508	531	702	590	208	234
2.1. Transport	922	1,071	1,328	1,196	1,375	291	318	345	343	111	118
2.2. Travel	1,094	1,201	1,315	1,223	1,313	265	253	312	243	107	95
2.3. Other	-91	-31	36	-74	158	-48	-40	45	3	-10	21
3. Primary income	-1,139	-886	-807	-719	-791	-208	-28	-228	-112	-62	-13
3.1. Labour income	222	229	282	253	279	74	56	82	54	28	28
3.2. Investment income	-1,444	-1,226	-1,230	-1,087	-1,220	-290	-190	-340	-260	-101	-75
3.3. Other income	83	110	141	115	150	8	106	30	94	11	35
4. Secondary income	-381	-299	-406	-351	-484	-46	-138	-75	-221	-27	-30
						in % GDP					
Current account balance	4.8	6.1	5.6	6.4	5.4	5.1	6.5	3.4	5.8	4.6	10.1
1. Goods	3.8	3.7	2.5	3.5	2.1	2.8	3.1	0.0	3.5	1.6	5.5
2. Services	4.8	5.2	5.8	5.3	6.1	4.5	5.0	5.9	5.3	5.3	5.6
2.1. Transport	2.3	2.5	2.9	2.7	2.9	2.6	3.0	2.9	3.1	2.8	2.8
2.2. Travel	2.7	2.8	2.9	2.8	2.8	2.4	2.4	2.6	2.2	2.7	2.3
2.3. Other	-0.2	-0.1	0.1	-0.2	0.3	-0.4	-0.4	0.4	0.0	-0.3	0.5
3. Primary income	-2.8	-2.1	-1.8	-1.6	-1.7	-1.9	-0.3	-1.9	-1.0	-1.6	-0.3
3.1. Labour income	0.6	0.5	0.6	0.6	0.6	0.7	0.5	0.7	0.5	0.7	0.7
3.2. Investment income	-3.6	-2.9	-2.7	-2.5	-2.6	-2.6	-1.8	-2.9	-2.3	-2.6	-1.8
3.3. Other income	0.2	0.3	0.3	0.3	0.3	0.1	1.0	0.3	0.8	0.3	0.8
4. Secondary income	-0.9	-0.7	-0.9	-0.8	-1.0	-0.4	-1.3	-0.6	-2.0	-0.7	-0.7
						nominal y-o-y growth rates in %					
Export of goods and services	5.0	13.6	9.3	12.8	9.5	14.9	9.3	9.1	9.6	10.6	10.7
Export of goods	4.0	14.0	9.3	13.3	9.5	16.2	9.7	8.3	9.8	10.9	11.4
Export of services	9.4	12.1	9.3	10.7	9.6	10.3	7.6	12.5	8.5	9.3	7.7
Transport	11.2	12.9	12.5	14.7	9.5	14.9	16.4	8.8	7.8	12.9	5.4
Travel	5.0	11.1	7.2	9.3	6.9	8.5	1.9	9.5	3.5	16.0	-2.8
Other	12.6	12.5	8.8	8.8	12.2	8.2	5.0	17.3	12.8	0.6	20.1
Import of goods and services	4.3	14.0	10.5	12.7	10.9	14.4	10.0	11.4	9.1	10.4	5.3
Import of goods	4.0	14.7	11.5	13.4	12.1	15.3	10.8	13.1	9.4	11.5	5.3
Import of services	6.3	10.3	4.7	9.0	4.3	9.9	5.1	3.0	7.3	4.0	5.1
Transport	8.4	9.6	0.1	4.0	3.1	2.8	-1.7	-1.4	8.0	1.8	3.9
Travel	6.0	12.4	5.1	9.4	6.6	14.6	-0.5	1.5	11.8	8.4	6.5
Other	5.6	9.6	6.2	10.8	3.7	11.0	9.8	5.0	5.5	3.0	5.0

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

tremely low interest rate environment, and also to effective measures by the Ministry of Finance. The surplus in labour income remains high: it actually increased by EUR 53 million last year to EUR 282 million. The surplus over the first five months of this year was merely unchanged in year-on-year terms, even though foreign nationals now account for approximately 70% of all new hires. The surplus in other primary income widened by EUR 31 million last year to EUR 141 million, and was broadly unchanged over the first five months of this year. The surplus in the government sector's other primary income[3] over the first five months of the year amounted to EUR 153 million, while other sectors' aggregate deficit was negligible. The deficit in primary income narrowed by EUR 79 million last year to EUR 807 million, while the deficit over the first five months of the year amounted to EUR 168 million, having narrowed by a further EUR 16 million in year-on-year terms.

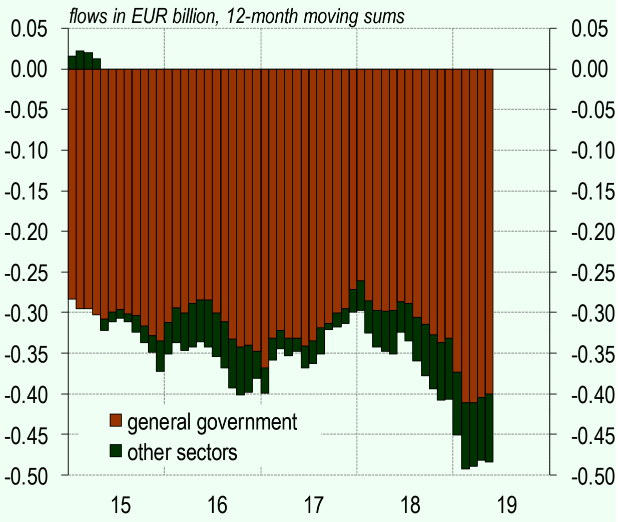
The deficit in secondary income is also increasing. It widened by EUR 107 million last year to EUR 407 million, and the increase was relatively evenly distributed between the government sector and other sectors. The increase in the government sector's deficit in secondary income was primarily related to transactions with the EU, while the main factor for other sectors was various current transfers. The first five months of this year also saw the deficit in secondary income widen, by EUR 78 million in year-on-year terms, on account of an increase in the government sector's deficit caused by contributions to EU from VAT and gross national income.

Figure 4.5: Net primary income



Source: Bank of Slovenia.

Figure 4.6: Net secondary income

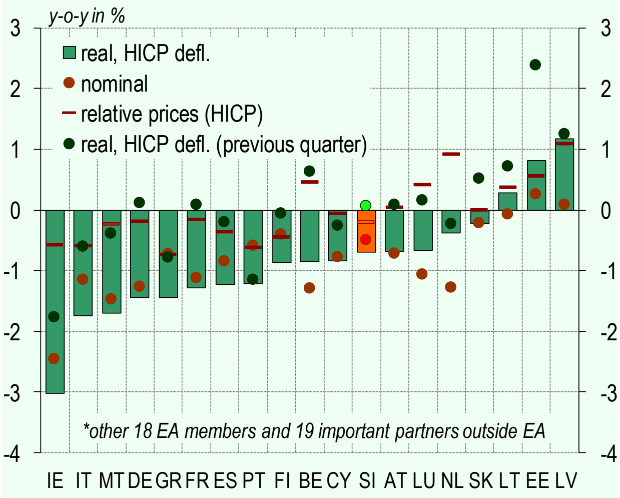


Source: Bank of Slovenia.

Selected competitiveness indicators

Exchange rate movements brought a slight improvement in the price competitiveness of the Slovenian economy in the first quarter.[4] Price competitiveness

Figure 4.7: Harmonized price competitiveness indicator against 37 trading partners* in the first quarter of 2019



Source: ECB, Bank of Slovenia

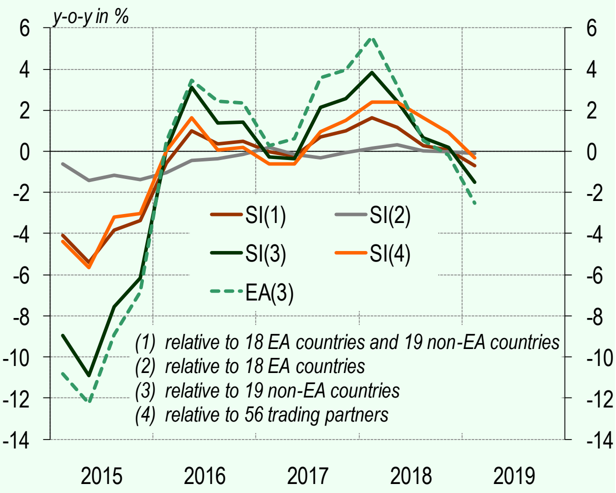
[3] A major role is played by transactions with EU institutions.

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

improved in the first quarter, primarily as a result of favourable exchange rate movements, as domestic prices grew at a similar pace to those in partner countries. Only in the Baltic states were developments less favourable to exporters, primarily because they were subject to adverse changes in relative prices, as their inflation was higher than in the trading partners (see Figure 4.7).

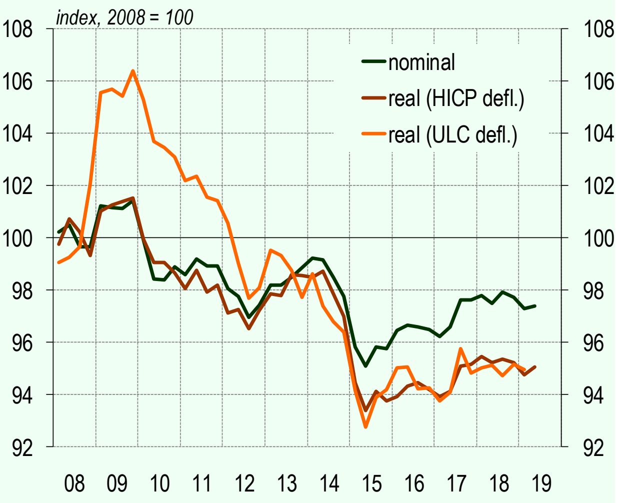
There was no significant change in the price competitiveness of Slovenian exporters relative to euro area partners, but the depreciation of the euro did bring an improvement in price competitiveness relative to partners outside the euro area. The favourable position that exporters have had relative to euro area partners over the previous three years was maintained in the first quarter of this year, when growth in domestic prices as measured by the HICP did not outpace average euro area inflation (see Figure 4.8). The fall in the euro was again the decisive factor in the price competitiveness indicators including partners outside the euro area, as inflation in Slovenia was similar to the rates in the export partners. Price competitiveness improved in the first quarter for Slovenian exporters, as it did for other euro area exporters. Slovenia's price competitiveness indicator measured against 19 countries outside the euro area was down 1.5% in year-on-year terms, while the developments in the majority of other euro area countries were slightly more favourable, as the price competitiveness indicator for the euro area in the first quarter was down 2.5% in year-on-year terms (see Figure 4.8). This is linked to the structure of Slovenia's foreign trade: the proportion accounted for by currencies against which the euro depreciated is less than the euro area average, while the proportion accounted for by currencies against which the euro appreciated is larger.[5] Price competitive-

Figure 4.8: Harmonized price competitiveness indicator (HICP / CPI deflator)



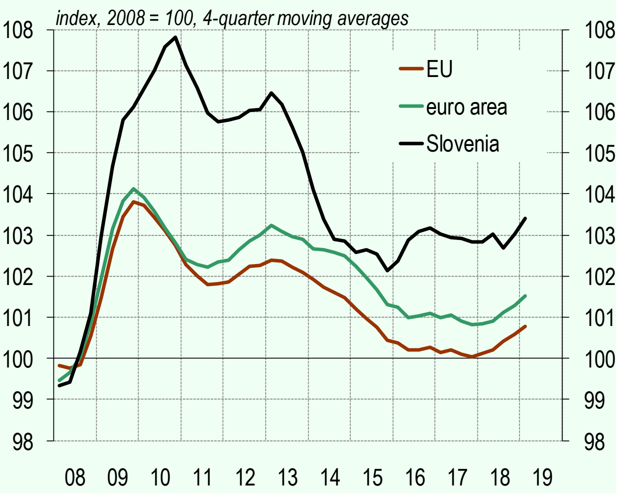
Source: ECB.

Figure 4.9: Harmonized indicators of Slovenian external competitiveness against 37 trading partners



Source: ECB.

Figure 4.10: Real unit labour costs



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

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

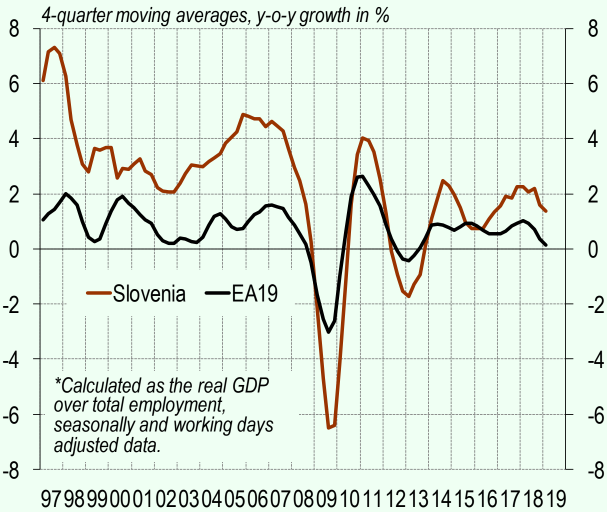
Box 4.2: Issues in connection with low productivity growth and low growth in investment in technological development

Slovenia has seen faster economic growth in the post-crisis period than the majority of other European countries, but the quality of this growth has not been satisfactory. It has been characterised by labour-intensity, which goes hand in hand with low productivity growth. Low productivity growth has even been a recent trait in manufacturing, which in Slovenia is home to the major centres of technological progress. It is mainly sectors with below-average pay and productivity that are responsible for fast employment growth, while the main job profiles being sought involve the performance of physical work with no more than a secondary qualification required. With unemployment low, and given the current low wage levels, there is insufficient supply of domestic workers for jobs of this type, and the hiring of foreign nationals has been prevalent since last year.

The level of investment is low for a country in the process of catching up with more advanced economies. Total investment is currently at the level of slightly more than 20% of GDP, just over 1 percentage point less than the euro area average. The structure of the investment is not the most encouraging from the perspective of development. Investment in intellectual property rights amounts to 3% of GDP, just over 1 percentage point less than the euro area average. As a percentage of GDP, investment in machinery and equipment in Slovenia is among the highest in the euro area, but it is approximately 2 percentage points less than its average from the pre-crisis period of balanced economic growth. Aggregate investment in research and development is also relatively low. It amounted to 1.9% of GDP in 2017, less than the euro area average, and, more importantly, significantly less than in some of the most advanced economies such as Austria, Germany and Finland. Firms and educational institutes are below the euro area average in their investment in research and development, while government investment as a proportion of GDP is less than it was before the crisis.

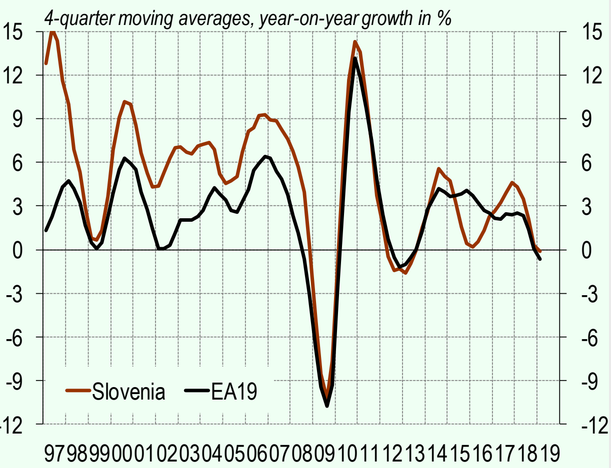
The reasons for the low level of investment in the corporate sector are not entirely clear. Last year saw firms again generate record profits, and they have large cash holdings in bank accounts, while the terms of debt financing are also favourable as interest rates remain low. The tax environment is encouraging: investment in research and development is subject to a 100% tax allowance, while an allowance of 40% applies to other forms of investment. It is possible that one reason for the greater caution in investing is the experience of the past crisis, and the corresponding increased risk aversion in a situation where there are numerous uncertainties in the international environment. It appears that increasing output via the intensive use of labour is simpler and less risky than investing in new technologies. The use of staffing agencies is common, and the hiring of foreign nationals has become widespread. New investment in machinery and equipment remains an expense in the event of a potential sharper downturn in the business cycle, while labour costs appear to be more manageable when more flexible forms of employment are deployed. There is evidently insufficient incentive for a more intensive shift into using new technologies, as firms are making high profits in the current situation without any concerted efforts to make technological improvements.

Figure 1: Labour productivity*



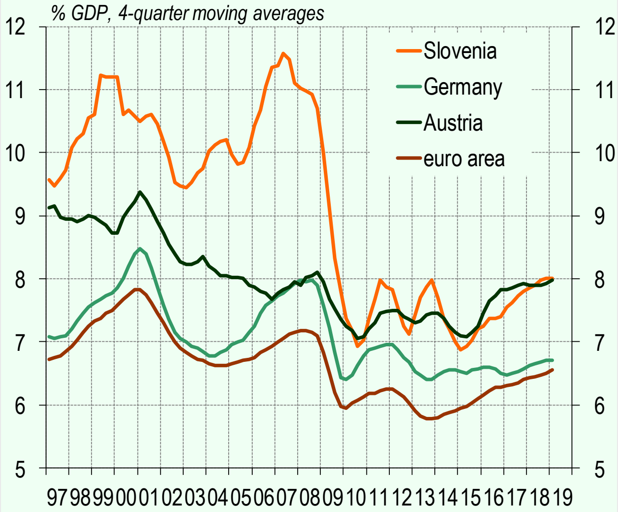
Source: Eurostat, Bank of Slovenia calculations.

Figure 2: Labour productivity in manufacturing*



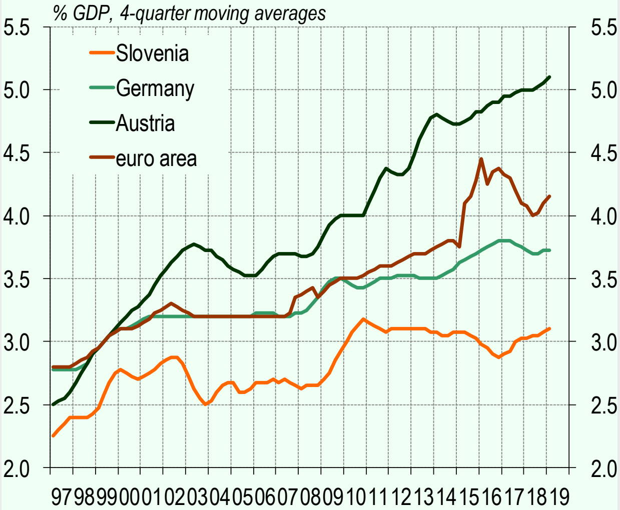
*Note: *Calculated as the real value added over total employment in manufacturing, seasonally and working days adjusted.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 3: Investment in machinery and equipment



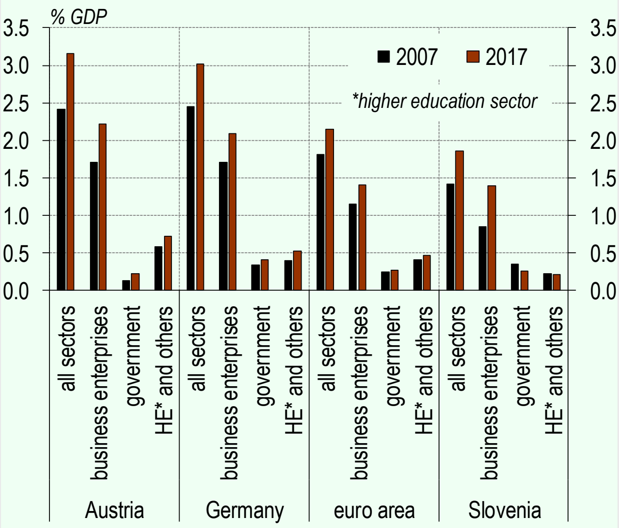
Source: Eurostat, Bank of Slovenia calculations.

Figure 4: Investment in intellectual property products



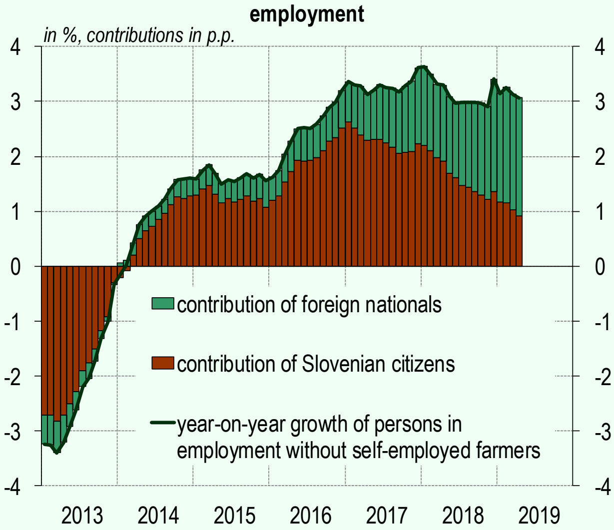
Source: Eurostat, Bank of Slovenia calculations.

Figure 5: Research and development expenditure



Source: Eurostat.

Figure 6: Contribution of foreign workers to growth in workforce in employment

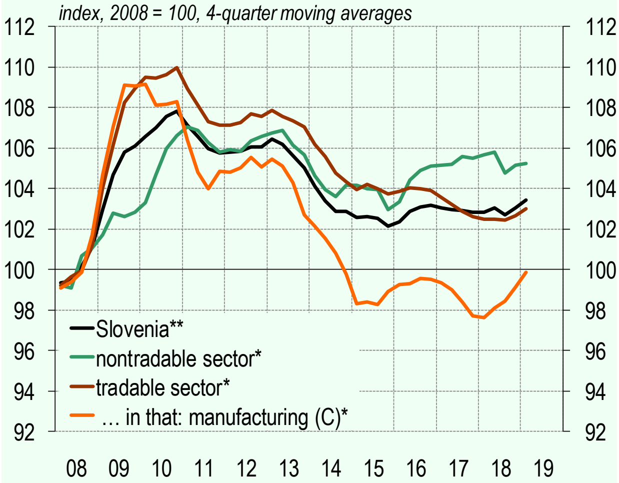


Source: SORS, Bank of Slovenia calculations.

Although economic growth is forecast to remain relatively high over the medium term, changes to its quality are needed to make is sustainable over the longer term. Transitioning into an economy with higher value-added per employee via more concerted use of new technologies and know-how is vital, not only for catching up more quickly with more advanced economies, but also from the perspective of the adverse effects of the aging population and the related fiscal sustainability issues.[1] High value-added entails higher wealth, which in turn makes it easier to fund the services that will be required by an aging population. Without a broadly targeted overhaul of government policies to encourage technological progress, it will only be possible to maintain solid economic growth over the longer term through continued large-scale hiring of foreign nationals, which will depend at least on their availability.

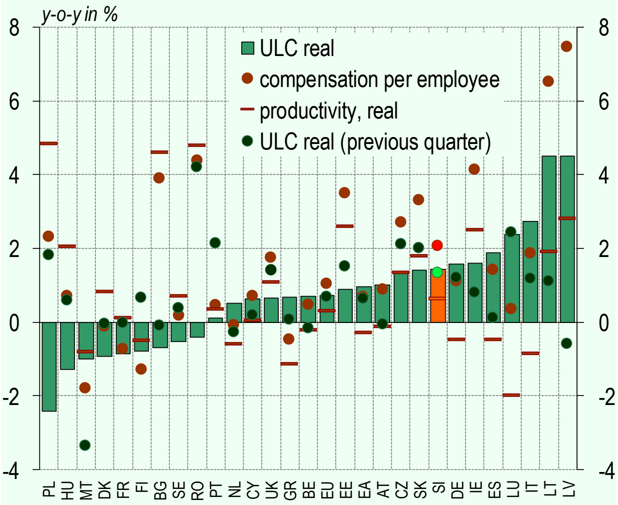
[1] The European Commission analysis ranks Slovenia among the countries with the highest population aging costs: https://ec.europa.eu/info/publications/economy-finance/2018-ageing-report-economic-and-budgetary-projections-eu-member-states-2016-2070_en.

Figure 4.11: Real unit labour costs, Slovenia



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

Figure 4.12: Real unit labour costs in the first quarter of 2019

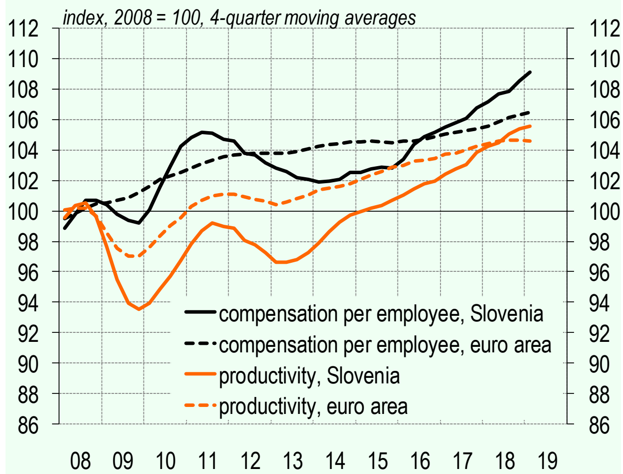


Source: Eurostat, Bank of Slovenia calculations.

ness as measured against 37 partners also improved in the first quarter of this year, in contrast to the trend of the last three years. Under the influence of favourable exchange rate movements from the beginning of the year, the indicator against this group of partners declined by 0.7% in the first quarter (see Figure 4.9).

The cost pressures from the end of last year continued in the first quarter of this year, both in Slovenia and in the euro area and the EU overall.[6] Year-on-year growth in real unit labour costs averaged 1.4% in Slovenia in the first quarter, slightly higher than the overall rates in the euro area (1.0%) and the EU (0.7%; see Figure 4.10). In Slovenia the largest increase in costs (2.3% in year-on-year terms) was in manufacturing, which is also the sector most exposed to international competition. The reasons for the higher growth in real unit labour costs in manufacturing lie in heavier recruitment, particularly in labour-intensive segments. At the same time, given the high uncertainty in the international environment, firms are unwilling to significantly increase their investment in machinery and equipment or in research and development, even though the financing conditions remain encouraging. Nevertheless, real unit labour costs in manufacturing are only now approaching their pre-crisis level, having mostly fallen in previous years (see Figure 4.11). The non-tradable sector was a factor in the relatively favourable cost developments at the level of the total economy.[7]

Figure 4.13: Real labour productivity and real compensation per employee



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

In Slovenia, growth in real unit labour costs in the first quarter was broadly unchanged from the previous quarter. Domestic real productivity growth slowed

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[6] 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 that illustrated in Sections 2 and 3.

[7] 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.

slightly, to 0.6%, but nevertheless outpaced average productivity growth in the euro area (-0.3%) and the EU (0.3%). At the same time real growth in compensation per employee[8] stood at 2.1% in Slovenia, and outpaced the euro area and the EU averages by 1.4 percentage points and 1.1 percentage points respectively. These developments in real unit labour costs may not be among the best in the euro area or the EU, but they were similar to those in Germany and certain other major export partners. The main countries whose competitiveness deteriorated most because of the rise in unit labour costs were the Baltic states, on account of high growth in compensation per employee, and Italy, on account of a sharp decline in productivity (see Figures 4.12 and 4.13).[9]

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

[9] The figure for Croatia for the first quarter of 2019 was not yet available.

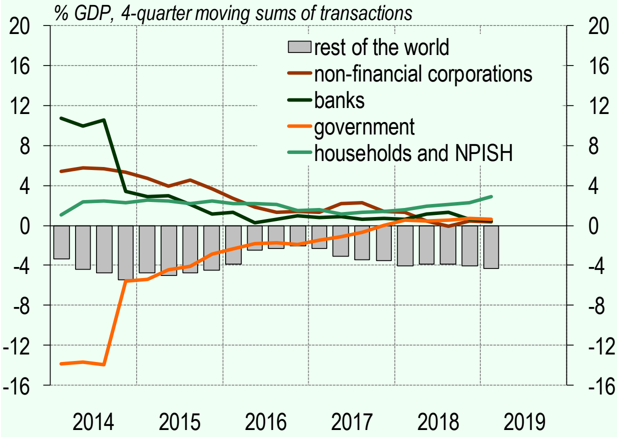
5 Financial Standing of Non-Financial Corporations, Households and Banks

Analysis of the unconsolidated financial accounts reveals that the Slovenian economy is still saving more than it invests overall. The 12-month saving-investment gap was also positive at non-financial corporations in the final quarter of last year and the first quarter of this year. The stock of financial assets and liabilities at the end of last year was marked by negative revaluations of equity and investment fund shares, as a result of which the year-on-year increase in financial assets and liabilities slowed slightly in all sectors. Favourable domestic economic developments nevertheless meant that the stock of household assets continued to increase faster than the stock of household liabilities in the first quarter of this year. The net increase in household assets reached EUR 3.9 billion, approximately half of which came from deposits, while the other half was attributable to an increase in equity and investment fund shares. The banks are continuing to gradually reduce their foreign loans and deposits, while in the last two years they have increased their liabilities to the rest of the world associated with equity and investment fund shares. The banks also increased their liabilities from household deposits and deposits by non-financial corporations.

Saving-investment gap by institutional sector

Saving significantly exceeded investment over the 12 months to the first quarter. Following a brief break in the second half of last year caused by negative revaluations of equity and investment fund shares, growth in intra-sectoral financing of non-financial corporations on the basis of growth in equity and trade credits picked up further pace in the first quarter of this year. At the same time bank loans are accounting for a diminishing proportion of non-financial corporations' total liabilities; the figure now stands at just over a quarter. It was suggested as early as the third quarter of last year that the strong economy and high retained earnings could lead to stronger growth in corporate investment, but the 12-month saving-investment gap in the non-financial corporations sector re-entered positive territory in the final quarter of last year and the first quarter of this year. At the same time

Figure 5.1: Savings-investment gap



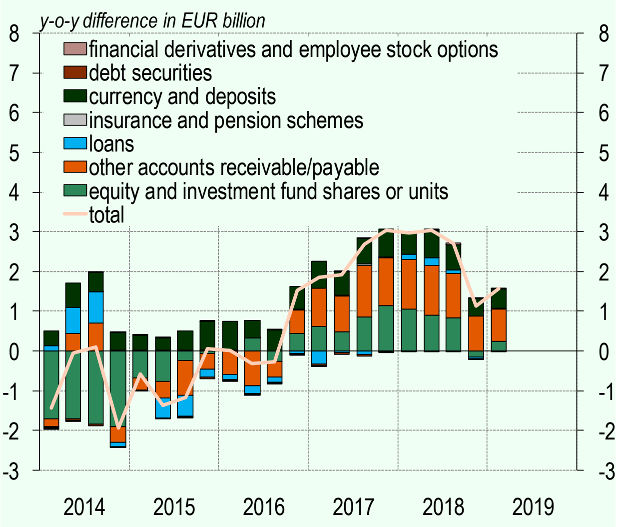
Note: The difference between the financial and the current account surplus amounts to 1.1% of GDP and originates mainly from errors in the form of unidentified net claims to the rest of the world.
Source: Bank of Slovenia, SORS.

growth in net financial assets in the household sector remained strong, while another factor in the increase in the gap vis-à-vis the rest of the world was government saving.

Financial assets and financing of non-financial corporations

After slowing at the end of last year, year-on-year growth in non-financial corporations' assets and liabilities increased again in the first quarter of this year. There was a rise in the year-on-year increase in financial assets and, in particular, liabilities of non-financial corporations in the form of equity and investment fund shares. The reason is revaluation gains in equity and listed shares, which are subject to the situation in the international environment, which is resulting in volatile share prices. However, the revaluation gains were also attributable to the strong economy, which was reflected in increases in profits, which form the basis for increasing equity. The increase in non-financial corporations' holdings of currency and deposits has also been slowing slightly since the final quarter of last year. Non-financial corporations are continuing to largely finance themselves via equity and trade credits. Non-financial corporations' liabilities from equity and investment fund shares in the first quarter were up in year-on-year terms (by EUR 2.9 billion), as was the stock of trade credits (by EUR 608 billion). Despite being offered favourable borrowing terms at Slovenian banks, non-financial corporations are still not pursuing this financing to a significant degree. Non-financial corporations' liabilities from loans have been declining for several consecutive years, and were down EUR 206 million in the first quarter of this year.

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

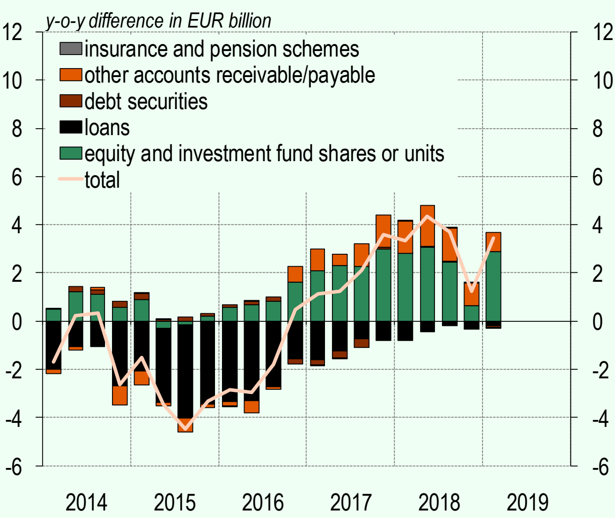


Source: Bank of Slovenia.

Financial assets and financing of households

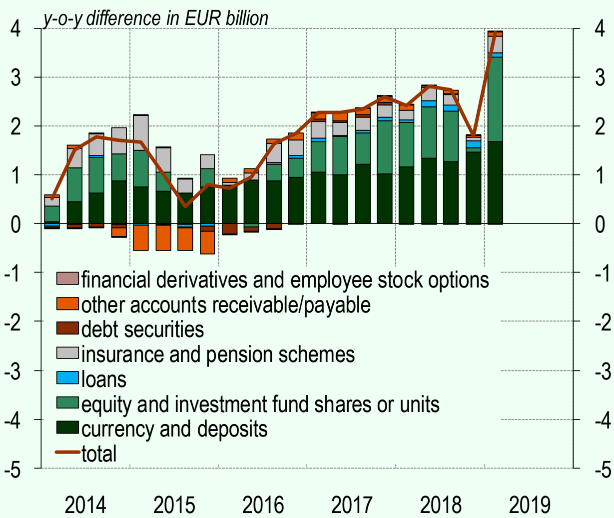
The strength of the domestic economy is continuing to drive household financial assets upwards: in the first quarter of this year, they were up EUR 3.9 billion in year-on-year terms. The largest increase in household financial assets was in holdings of currency and de-

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



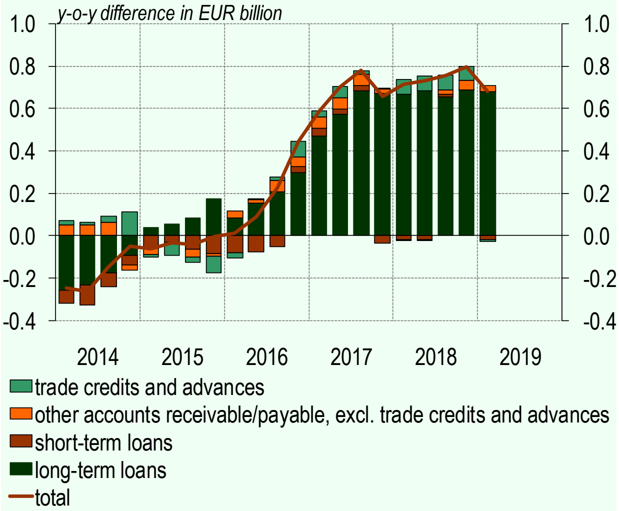
Source: Bank of Slovenia.

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



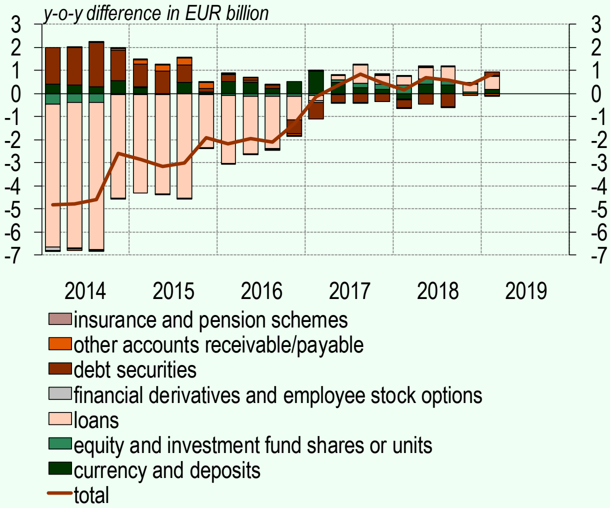
Source: Bank of Slovenia.

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



Source: Bank of Slovenia.

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



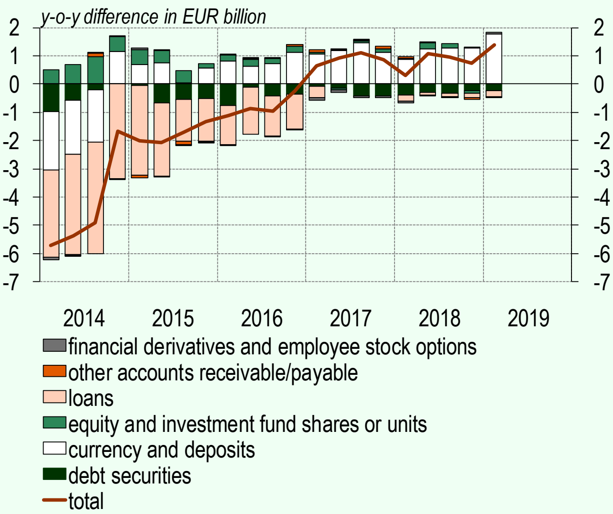
Source: Bank of Slovenia.

posits, which were up EUR 1.7 billion in year-on-year terms in the first quarter, the largest such increase since the beginning of the data series in 2005. Currency and deposits accounted for fully 49% of household financial assets at the end of the first quarter of this year. In addition to currency and deposits, there have been sharp increases in equity and investment fund shares, in the amount of EUR 1.7 billion, and in insurance, pension and standardised guarantee schemes, in the amount of EUR 337 million. As for non-financial corporations, revaluation gains were a major factor in the increase in households' holdings of equity and investment fund shares. On the liability side, households have mainly seen strong growth in long-term loans. The year-on-year increase amounted to EUR 678 million, while the aggregate increase in financial liabilities amounted to EUR 682 million.

Financial assets and funding of banks

The banks are continuing to expand their lending activity and their exposure to the domestic private sector in the form of currency and deposits, while privatisation has also increased their liabilities to the rest of the world in the form of equity and investment fund shares. On the asset side, loans were up EUR 588 million in year-on-year terms in the first quarter, almost double the year-on-year increase in the final quarter of last year.[1] While short-term loans have declined, there has been a trend of increase in long-term loans since 2016. The banks' liabilities to the rest of the world declined from 2009 until the third quarter of last year. In the final quarter of last year, they recorded a year-on-year increase of EUR 363 million, primarily as a result of a year-on-year increase of EUR 768 million in financial liabilities from listed shares (the sale of the government's majority holding in NLB to foreign investors). The banks' liabilities to the rest of the world increased by a further EUR 250 million in the first quarter of this year in the form of unlisted shares. There was a further increase in the banks' liabilities to the rest of the world in the form of eq-

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



Source: Bank of Slovenia.

[1] Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.1.

Box 5.1: Bank performance in 2019

Growth in the balance sheet total has increased this year. Lending activity has increased, and growth in loans is slightly outpacing growth in the balance sheet total. Household loans accounted for half of this year's net increase in loans. The banks are maintaining large holdings of liquid assets in their balance sheets. The credit portfolio is improving. The banks are achieving high profitability, thanks to favourable developments on the income side, and a net release of impairments and provisions, which is now being seen at system level for a third consecutive year. The financial markets' expectations that low interest rates will persist could also have an adverse impact on the banks' income over the medium term.

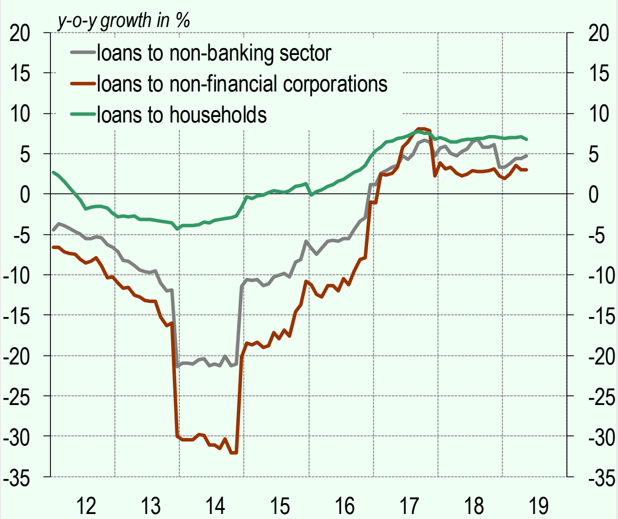
Growth in the balance sheet total increased over the first five months of the year: the year-on-year rate stood at 4.3%, just over 2 percentage points higher than last year. On the funding side, the main factor in the increase in the balance sheet total has been deposits by the non-banking sector, while profits have also brought an increase in equity. On the asset side, the increase was more evenly distributed between loans to the non-banking sector and highly liquid assets (claims against banks, sight deposits at banks, and securities). The increase in deposits by the non-banking sector is still significantly outpacing the increase in loans.

Growth in loans to the non-banking sector has gradually increased this year, the year-on-year rate reaching 4.4% in May. Growth in loans to non-financial corporations remains low relative to economic growth, but is higher than at the end of last year. After increasing in the first quarter, loans to non-financial corporations declined in May and June, slowing the year-on-year rate of growth to 3%. The low growth is a reflection of the situation seen for some time now where firms are mainly financing themselves through internal resources and trade credits. This change in the method of corporate financing is being reflected in the declining importance of these loans on bank balance sheets in recent years.

Household loans are again the largest factor in the increase in loans to the non-banking sector this year, although growth is slowing slightly: the year-on-year rate stood at 6.7% in May. Consumer loans and housing loans are both maintaining relatively stable year-on-year growth: the rates stood at 12.2% for the former and 5.1% for the latter in May. The net increase in the stocks of the two types of loan was the same over last year and the first five months of this year. Interest rates on housing loans in Slovenia, whether fixed or variable, are higher than the euro area average interest rates on comparable loans, while interest rates on consumer loans in Slovenia are comparable to the euro area averages. Despite the maintenance of above-average growth in consumer loans, which has coincided with the booming economy, the buoyant labour market and increased consumer confidence, the stock of consumer loans is still lower than in 2008.

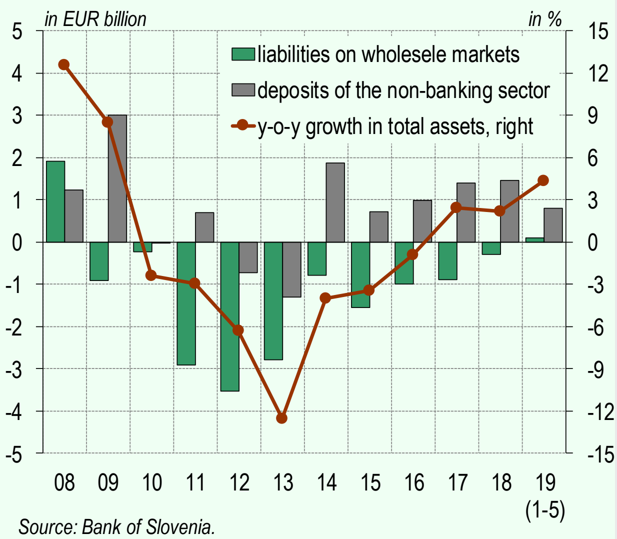
Deposits by the non-banking sector are the largest factor in the increase in funding. At 6.6%, year-on-year growth in deposits by the non-banking sector is outpacing growth in the balance sheet total, and is mostly attributable to sight deposits. The increase in deposits by the non-banking sector over the 12 months to May strongly exceeded the increase in loans to the non-banking sector, as a result of which the

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



Source: Bank of Slovenia.

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



Source: Bank of Slovenia.

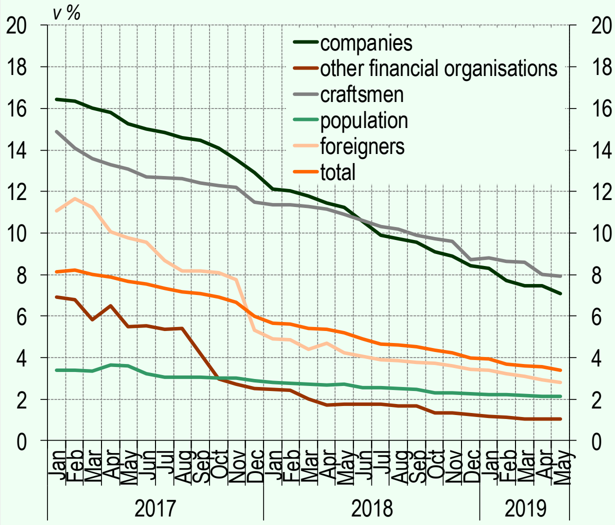
banks have little need to fund their lending activity via other resources such as wholesale funding. The main factor in the increase in deposits by the non-banking sector was household deposits, year-on-year growth in which stood at 7.4% in May. Household deposits exceeded EUR 19 billion in May. Having already slowed at the end of last year, growth in deposits by non-financial corporations slowed further, and stood at just 2% in May. The stock of deposits by non-financial corporations nevertheless remains large: it amounted to EUR 6.5 billion in May. The persistence of the low interest rate environment, and the maintenance of similar expectations on the financial markets over the medium term are continuing to mainly encourage households to increase their sight deposits. Sight deposits accounted for 73% of total deposits by the non-banking sector in May. Equity is also increasing on the funding side of bank balance sheets, thanks to the profits being generated by the banks.

The banking system is maintaining a sound liquidity position: the stock of the highest-liquidity assets, such as funds at the central bank and sight deposits at banks, has increased by EUR 0.3 billion this year, and is equivalent to 12.6% of the balance sheet total. Including the highest-grade securities, which are classed as secondary liquidity, these assets accounted for close to a third of the balance sheet total in May. The liquidity coverage ratio (LCR) also remains high at the level of the banking system, and stood at 320% in May.

NPE ratios declined to 3.4% and 7.1% respectively). The decline in NPEs and the NPE ratio over the first five months of the year was faster in respect of large enterprises (where the NPE ratio reached 5.9%) than in respect of SMEs (where the NPE ratio reached 8.6%). The banks' exposure to SMEs was broadly unchanged over last year and this year, although it increased slightly in April and May of this year. This year's decline in exposure to large enterprises has been the same as the decline in NPEs. In the growing consumer loans segment the NPE ratio remains low at 2.6%, but the risk in this segment remains high because of bank practices in approving larger loans at longer maturities without adequate collateral.

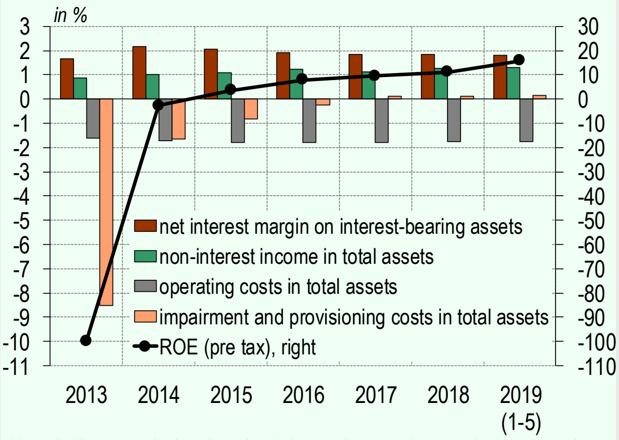
The banking system's pre-tax profit during the first five months of the year amounted to EUR 303 million, up fully 21% on the same period last year. This was attributable to moderate growth in net interest income, an above-average increase in net non-interest income, and a net release of impairments and provisions. The banking system's gross income over the first five months of the year was up 8.2% in year-on-year terms. There was moderate growth in net inter-

Figure 3: Share of NPEs by client groups



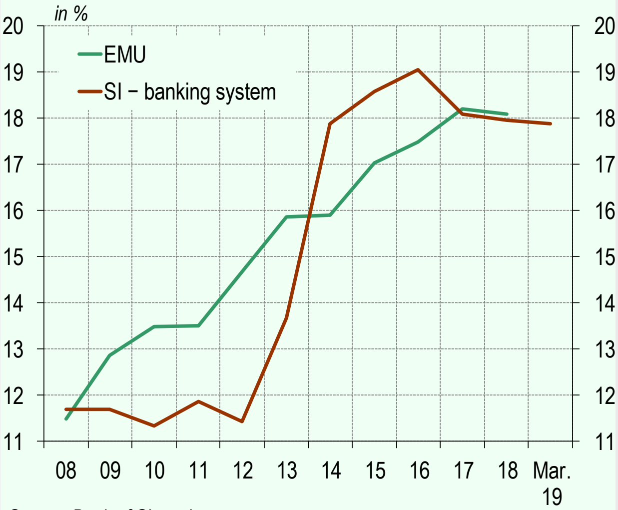
Source: Bank of Slovenia.

Figure 4: Profitability – banking system



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

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



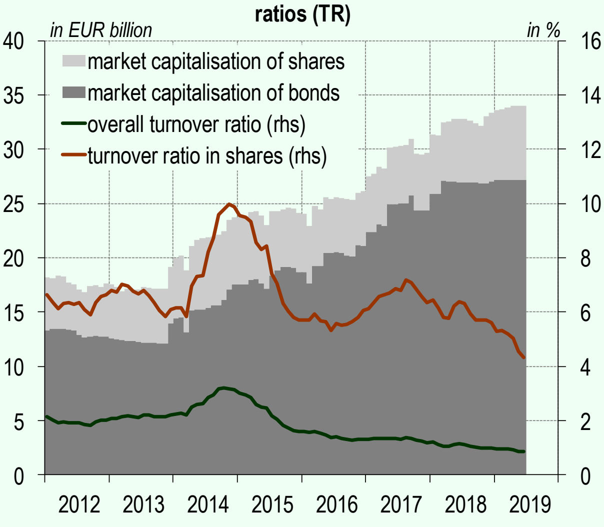
Source: Bank of Slovenia.

interest income. The net interest margin stabilised in the wake of positive growth in net interest income, and stood at 1.85% over the 12 months to May, but remains low relative to its long-term average. Net non-interest income was up 12.4% on last year, which was also attributable to one-off revaluation events and to dividend income. Year-on-year growth in net fee and commission income has increased this year, and stood at 5.8% in May, in reflection of the banks' more proactive policies aimed at increasing non-interest income (the introduction of various packages of services, etc.). After falling for several years, operating costs have risen this year, albeit at a slower rate than the growth in the balance sheet total. The banking system has seen a net release of impairments and provisions for the third consecutive year, which has had a significant impact on aggregate pre-tax profit.

There was no significant change in the capital adequacy of the banking system in the first quarter of this year, while the variation from bank to bank remains considerable. The total capital ratio on an individual basis ended the first quarter at 19.7%, down 0.1 percentage points on the end of 2018, while the total capital ratio on a consolidated basis was unchanged at 17.9%,. The total capital ratio thus remained almost equal to the euro area average, while the common equity Tier 1 capital (CET1) ratio in Slovenia is higher than the euro area average (17.6% versus 14.7%). Capital requirements continued to increase in the first quarter, on account of the increased lending activity to corporates and households. The banks mainly increased their regulatory capital via retained earnings and other reserves, while only one bank underwent a recapitalisation. Despite recapitalisations in 2018, the lowest CET1 ratios are to be found at the small domestic banks and savings banks, and at certain subsidiary banks. Capital ratios are also gradually declining at banks who are more active in lending and whose capital requirements are increasing more than their regulatory capital. The sensible allocation of profit is vital to maintaining a stable capital position in the future, as the opportunity to attract new capital on the primary market is limited for some banks.

uity and investment fund shares in the second quarter via the sale of the remaining 10% of NLB shares and the privatisation of Abanka.[2] Despite these changes, the trend of the banks reducing their debt to the rest of the world via a reduction in loans and deposits has continued. Liabilities in the form of loans and deposits to the rest of the world declined by EUR 282 million last year, and by a further EUR 174 million in the first quarter of this year. On the asset side, the sustained increase in deposits by domestic non-financial corporations and households is continuing. The exception is government deposits at banks, which remained virtually unchanged in year-on-year terms.

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



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

Domestic financial market

The Ljubljana Stock Exchange continued to see modest growth in the second quarter of this year. The SBI TOP rose by 1.6%, while the market capitalisation of shares was up 1% at EUR 6.8 billion. Given the lack of M&A activity, the volume of trading in shares in the second quarter and in the entire the first half of the year was down on the same periods of last year. The monthly volume of trading in shares averaged EUR 22.7 million over the first half of the year, down 26.3% in year-on-year terms. The concentration of trading increased during this period: the three most heavily traded shares accounted for 61.6% of total volume, compared with 50.9% in the first half of 2018. Non-residents held 30.5% of domestic

[2] From the banks' perspective, these operations on the liability side are neutral, as only the owner is being changed. It is different with fiscal income, as the government received around EUR 600 million from banks between 2006 and 2019 via dividend payments. Dividend outflows will also increase the pressure on the primary income balance in the current account.

shares in June, up 0.5 percentage points on December 2018.

The market capitalisation of debt securities was broadly unchanged in the second quarter. It amounted to EUR 27.2 billion at the end of June. A 10-year subordinated bond with a nominal value of EUR 45 million was issued by the banking sector, but there was no other major bond issuance on the Ljubljana Stock Exchange in the second quarter. The volume of trading in bonds in the first half of the year more than doubled in year-on-year terms, reaching EUR 18.9 million. This was attributable to the prepayment and retirement of one issuer's bonds in May and June. Without this effect, the volume of trading in bonds would have more than halved in year-on-year terms.

6 Price Developments

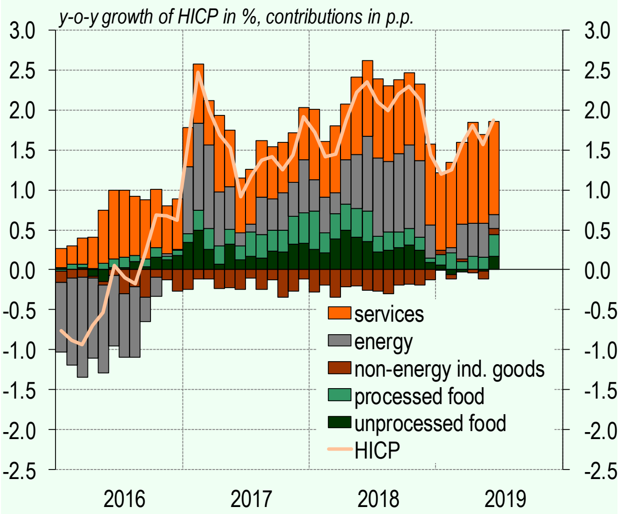
Inflation reached 1.7% in the second quarter of this year, up 0.4 percentage points on the previous quarter. The contribution to headline inflation by growth in prices of non-energy industrial goods remained neutral, while the contribution by food prices increased slightly, having risen significantly in June. Higher contributions to headline inflation came from growth in services prices and energy prices, each of which was up 0.2 percentage points on the first quarter. Services inflation thus remained the largest single factor in inflation. In keeping with the higher growth in labour costs, public services prices rose faster than the marketable services prices, as public services providers were more able to pass their higher labour costs through into consumer prices because of their dominant position on the market. With services prices rising fast, core inflation excluding energy, food, alcohol and tobacco also picked up pace, and averaged 1.8% over the second quarter.

Structure of price developments and core inflation indicators

Inflation rose in the second quarter, reaching 1.9% in June, its highest rate of the year. Year-on-year price growth as measured by the HICP averaged 1.7% in the second quarter, up 0.4 percentage points on the first quarter. The rise was caused by all price categories other than non-energy industrial goods, whose contribution was neutral for the second consecutive quarter. The contributions by growth in energy prices and food prices were slightly larger than in the first quarter, although year-on-year growth in energy prices has been slowing throughout the second quarter, while food price inflation picked up pace in June. The largest contribution to inflation continues to come from services prices, which accounted for 1.2 percentage points of the headline inflation rate. In contrast to last year, the rising inflation has been underpinned not by high energy price inflation, but by the categories that make up the narrowest core inflation indicator.

The end of the fall in prices of non-energy industrial goods and a rise in services inflation are bringing a further rise in core inflation. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco from the aggregate index, rose for the fifth con-

Figure 6.1: Contributions to headline HICP inflation



Source: Eurostat, Bank of Slovenia calculations.

secutive quarter. It averaged 1.8% in the second quarter, up 1.2 percentage points on the final quarter of 2017, and reached 1.9% in June. The trend of rising core inflation has been ongoing since 2015, when the rate averaged just 0.3%. Core inflation in the euro area remains stable, at around 1% for the third consecutive year. It averaged 1.1% over the second quarter, 0.7 percentage points less than the rate in Slovenia.

Inflation factors

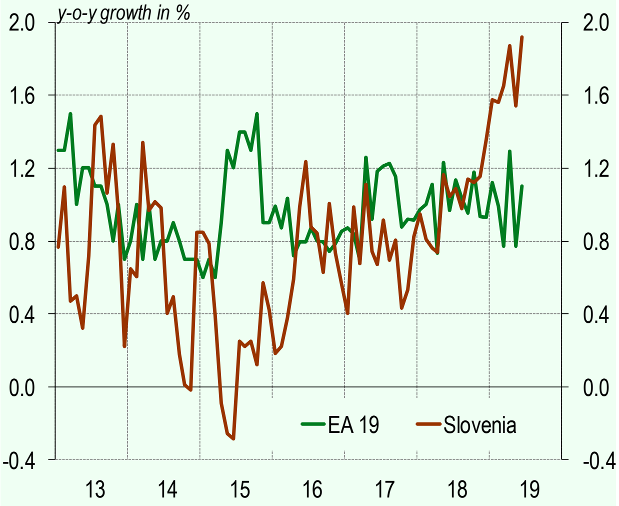
The largest contributions to the renewed rise in inflation came from the categories included in core inflation, where the price rises are primarily being driven by domestic factors. The domestic inflationary pressures stem from growth in private consumption and also from growth in unit labour costs, which rose again in the first quarter of this year. The higher labour costs are primarily being passed through into growth in services prices, given the non-tradable nature of this price category. Wage growth is also being reflected in high private consumption, which is additionally pushing price growth in the non-tradable service sector. The impact on the more tradable sector of non-energy industrial goods has been limited by foreign competition, and the low growth in prices in this category in the euro area overall.

External factors, which primarily have an impact on energy prices and food prices, played only a small role in inflation. The average US dollar price of crude oil over the first half of the year was down 7.4% on last year's average. Other commodity prices also fell: the average price in the first half of the year was down 6% on last year's average. The falling commodity prices are also being reflected in the narrowest core inflation indicator outpacing headline inflation as measured by the HICP.

Price developments by subcategory

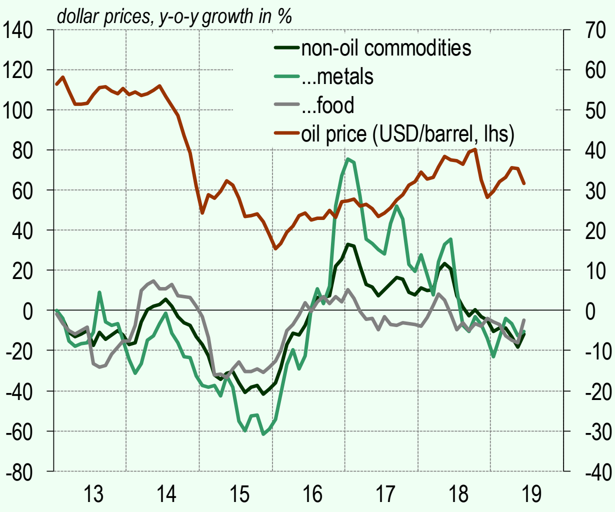
After a brief increase, year-on-year growth in energy prices declined again in June. Year-on-year growth in energy prices fluctuated around 3.5% between March and May of this year, but a year-on-year fall in global oil

Figure 6.2: HICP excluding energy, food, alcohol and tobacco



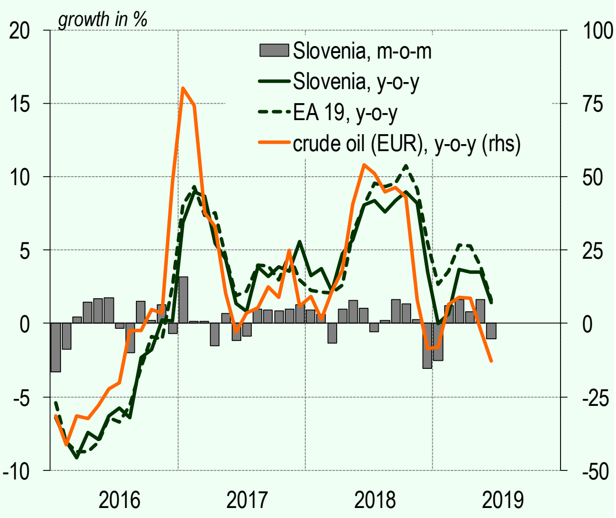
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.3: Commodities



Source: ECB, Bloomberg, Bank of Slovenia calcuations.

Figure 6.4: Energy prices



Source: ECB, Eurostat, Bank of Slovenia calculations.

Box 6.1: Productivity approach to explaining inflation: the Balassa-Samuelson effect in the euro area

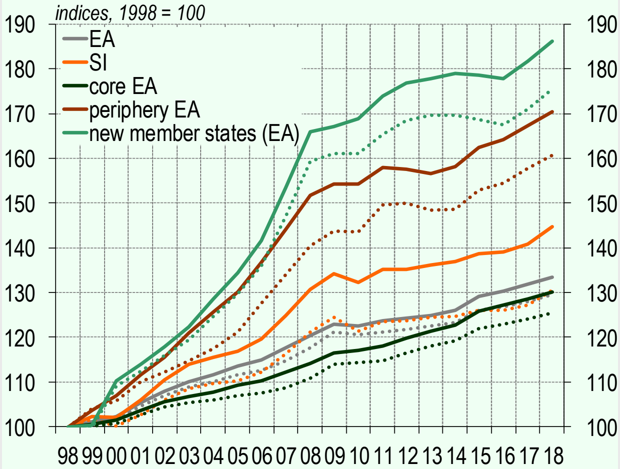
The Balassa-Samuelson effect describes the dependence of growth in relative prices on growth in relative productivity. Balassa (1964) and Samuelson (1964) independently set out a theory of productivity that tried to explain the concept of purchasing power in the form of a theoretical model that explains the relation between growth in relative productivity and relative prices. The Balassa-Samuelson theory states that productivity growth in one sector (generally industrial, export-oriented) spills over via higher wage growth in both sectors into price inflation in another sector (generally services, non-export) that by its nature has less capacity to raise productivity. The Balassa-Samuelson effect can be tested at various levels, either between countries or regions, or, as in our case, between individual sectors in a certain economy.[1]

The box uses the method of De Gregorio, Giovannini and Wolf (1994), which divides sectors into tradable and non-tradable according to the ratio of exports to total output. Data from the ten-sector statistical classification of economic activities NACE Revision 2 obtained from Eurostat is included, while the database includes gross value-added, number of employees, and gross value-added deflators in all ten sectors.[2] The ratio of exports to total output is determined by means of input-output tables available in the World Input-Output Database, for the purpose of aggregating the ten sectors into just two, the tradable sector and the non-tradable sector.[3] A panel variant of the regression model is then used to estimate the impact of changes in relative productivity growth between the two sectors on relative price growth.[4] The estimated parameters can consequently be used to simulate the dynamics of the gross value-added deflator, and to recover the impact of the Balassa-Samuelson effect on its level.

Cyclical fluctuations mean that the contribution of the Balassa -Samuelson effect is not constant over time, but it nevertheless accounts for just 14% of the aggregate gross value-added deflator on average. The first figure clearly illustrates the positive impact of the Balassa-Samuelson effect, which was not positive or constant over the entire observation period. The positive contribution by the Balassa-Samuelson effect turned negative at the outbreak of the global financial crisis, as the relationship between the rates of relative productivity growth in the tradable and non-tradable sectors reversed at that time as a result of the significant decline in global activity (global trade in particular). During the economic recovery after the crisis, the Balassa-Samuelson effect mostly re-entered positive territory, albeit to a lesser extent than in the pre-crisis period. The periphery countries stand out in the comparison between country groupings. In the pre-crisis period the periphery countries typically encouraged domestic demand through excessive bank borrowing by various sectors, which was reflected in a higher gross value-added deflator in the non-tradable sector between 1998 and 2005. During the recession domestic demand contracted in these countries as they deleveraged, which was reflected in a substantial negative contribution by the Balassa-Samuelson effect.

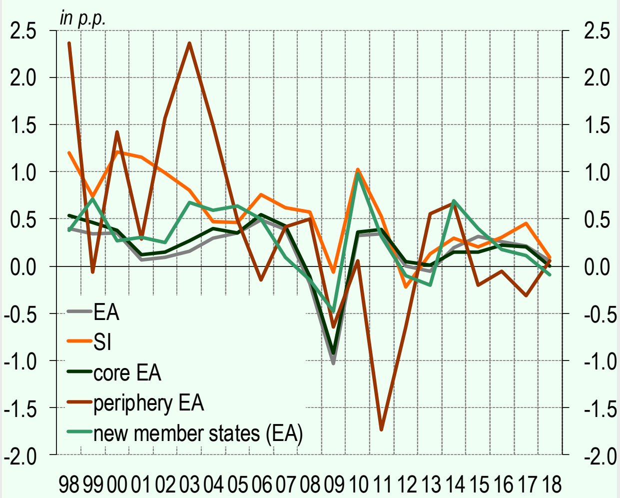
The cumulative Balassa-Samuelson effect is larger in the newer euro area countries and euro area periphery countries than in the core countries. Simulating the aggregate gross value-added deflator of the larger country groupings allowed us to recover the Balassa-Samuelson effect. In line with convergence theory, the impact of the Balassa-Samuelson effect

Figure 1: Gross value added deflators and gross value added deflators without the accumulated Balassa-Samuelson effect



Note: Dotted lines represent the deflators without the Balassa-Samuelson effect.
Source: Eurostat, Bank of Slovenia calculations.

Figure 2: Balassa-Samuelson effect across country groups



Source: Eurostat, Bank of Slovenia calculations.

could be expected to be larger in less advanced euro area countries. The figure clearly illustrates that the cumulative Balassa-Samuelson effect over 20 years in the periphery countries and in the newer euro area countries amounted to just over 10 percentage points (around 14 percentage points in Slovenia), while in the euro area core countries it amounted to around 5 percentage points.[5] This is by how much inflation measured via the aggregate gross value-added deflator would be lower without the Balassa-Samuelson effect. It was also shown that the Balassa-Samuelson effect is only a minor factor in explaining inflation, and that other factors have a larger impact on it.

[1] When analysis of the Balassa-Samuelson effect focuses on an inter-country link, it should be noted that the pressure of productivity growth is also evident in the real exchange rate, as in addition to inflation there can also be a change in the nominal exchange rate between the two countries.
[2] The productivity of a sector is calculated as gross value-added per employee in the sector.
[3] For a more detailed explanation of the methodology, see Lenarčič (2019).
[4] There is extensive literature assessing the Balassa-Samuelson effect, and the regression model is relatively standard (see Lenarčič, 2019).
[5] The core countries are Austria, Belgium, Finland, France, Luxembourg, Germany and the Netherlands. The periphery countries are Cyprus, Greece, Ireland, Italy, Portugal and Spain. The newer euro area countries are Estonia, Latvia, Lithuania, Slovakia and Slovenia. A lack of data means that Malta is not included in the analysis.

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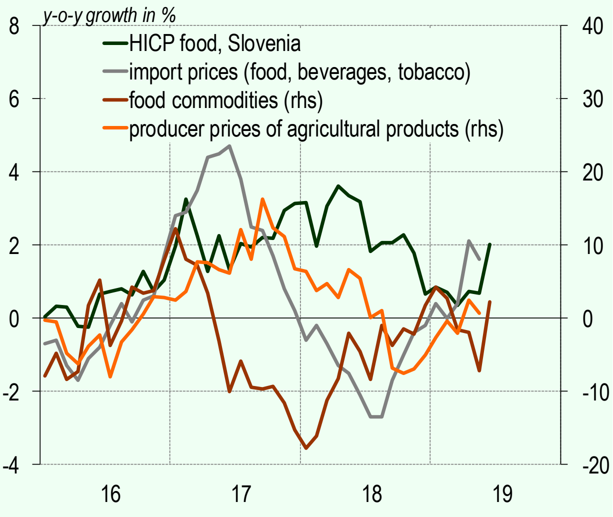
prices took it down to 1.4% in June. The fall in oil prices is primarily affecting prices of fuels for personal transport equipment, which were down 2.4% in year-on-year terms in June, and prices of liquid fuels. Other energy prices were still rising in year-on-year terms in June, and made a positive contribution to aggregate growth in energy prices. Growth in energy prices similarly slowed in the euro area, and averaged 1.6% in June. In the wake of a further fall in oil prices in June, when euro oil prices were down 12.7% in year-on-year terms, and given the negative base effects of last year's large price rises, year-on-year growth in energy prices can be expected to slow further in the coming months.

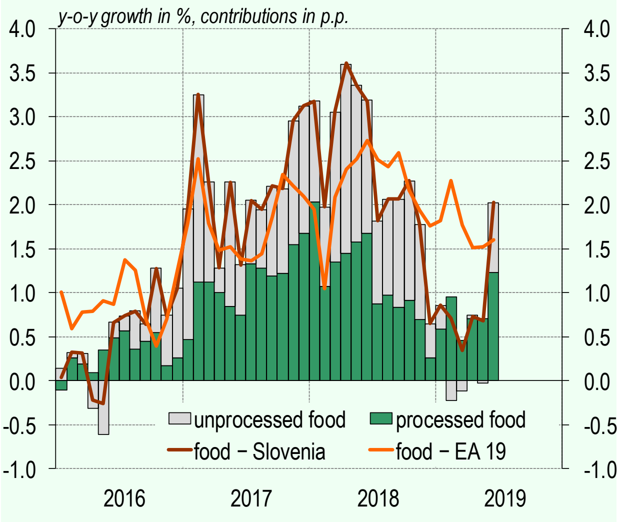
After half a year of lower food price inflation, food prices were up 2% in year-on-year terms in June. Year-on-year growth in food prices has fluctuated under 1% since December of last year, but jumped to 2% in June in the wake of a year-on-year rise in import food prices, and a rise in food commodity prices on the global market and in producer prices of agricultural products on the domestic market. This spike was attributable to higher

Figure 6.5: Food prices and prices of food commodities in EUR



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

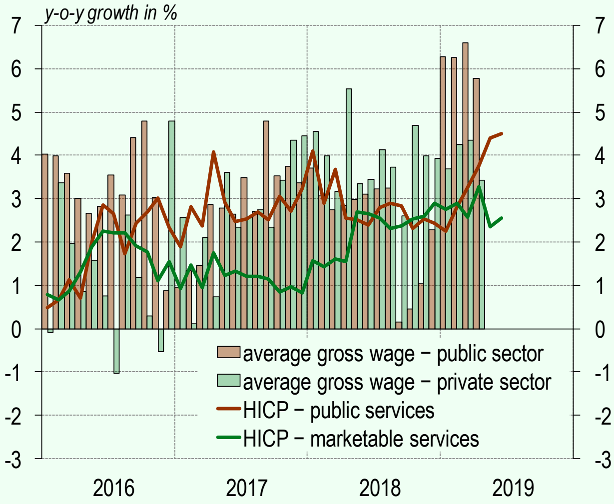
Figure 6.6: Contributions to change in food prices



Source: Eurostat, Bank of Slovenia calculations.

year-on-year growth in prices of both processed food and unprocessed food. The latter reached 4.3% in June, largely as a result of a base effect related to growth in prices of fresh or chilled fruit. By contrast, year-on-year growth in prices of processed food rose sharply to 1.5% in June, up 0.7 percentage points on the average over the first five months of this year, despite a negative base effect. The largest factor in processed food inflation remained year-on-year growth in potato prices, although higher prices of tobacco products were also a factor. Higher excise duties on tobacco products entered into force in June, as a result of which prices of tobacco products rose by 1.8% in year-on-year terms. After falling behind for seven months, in June food price inflation in Slovenia overtook the euro area average rate, which stood at 1.6%.

Figure 6.7: Services inflation and average gross wage



Source: Eurostat, SORS, Bank of Slovenia calculations.

Prices of public services are rising more quickly than those of marketable services, in line with the increase in wage growth. Year-on-year services inflation averaged 3.2% in the second quarter, the highest figure since 2009. The rise in service price inflation is closely connected to developments on the labour market, where further growth in the average wage and rising employment are supporting growth in private consumption, while lower productivity growth means that growth in unit labour costs is strengthening. Prices of public services have risen faster than prices of marketable services, in line with the higher wage growth and the stronger cost pressures in the public sector (activities O, P and Q). Among the latter, over a 10% year-on-year growth in prices was recorded by refuse collection and letter handling services in the

Table 6.1: Structure of the HICP and price indicators

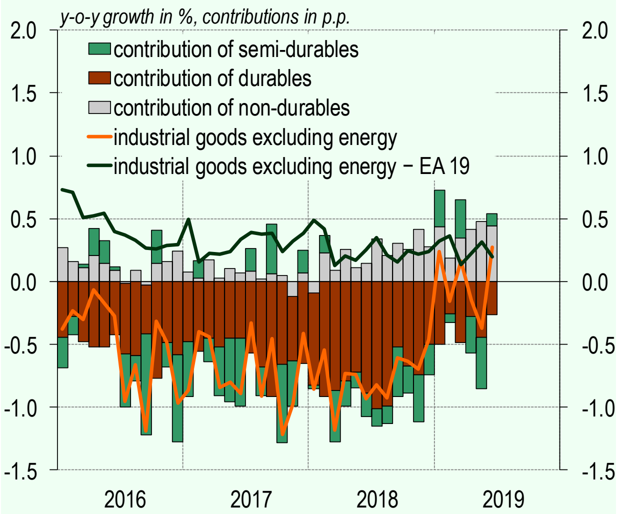
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2019	2015	2016	2017	2018	2019	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
HICP	*100.0%*	-0.8	-0.2	1.6	1.9	1.5	1.5	2.1	2.1	2.0	1.3	1.7
Breakdown of HICP:												
Energy	*12.1%*	-7.8	-5.2	4.7	6.0	2.1	3.1	6.2	8.1	6.9	1.4	2.8
Food	*22.2%*	0.9	0.5	2.2	2.4	0.9	2.7	3.4	2.0	1.6	0.6	1.1
processed	*18.1%*	0.7	0.4	1.4	1.4	0.9	1.9	1.9	1.1	0.8	0.8	1.1
unprocessed	*4.2%*	1.4	0.7	5.7	6.6	0.8	6.5	9.4	5.6	4.8	0.0	1.6
Other goods	*28.4%*	-0.6	-0.5	-0.7	-0.8	0.0	-0.9	-0.8	-0.8	-0.6	0.1	-0.1
Services	*37.3%*	0.9	1.6	1.8	2.4	3.0	2.2	2.4	2.5	2.6	2.8	3.2
Core inflation indicators:												
HICP excl. energy	*87.9%*	0.4	0.6	1.1	1.4	1.5	1.3	1.6	1.3	1.3	1.3	1.6
HICP excl. energy and unprocessed food	*83.7%*	0.4	0.6	0.9	1.1	1.5	1.1	1.2	1.1	1.1	1.4	1.6
HICP excl. energy, food, alcohol and tobacco	*65.7%*	0.3	0.7	0.7	1.0	1.7	0.8	1.0	1.1	1.2	1.6	1.8
Other price indicators:												
Industrial producer prices on domestic market		-0.5	-1.4	1.3	1.9	...	2.1	2.0	2.2	1.4	1.4	...
GDP deflator		1.0	0.8	1.6	2.3	...	2.4	2.7	2.5	1.5	2.2	...
Import prices[1]		-1.4	-2.2	3.0	2.7	...	0.5	2.5	4.2	3.4	1.7	...

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

second quarter, while the largest factors in the year-on-year growth in prices of marketable services continue to be prices of catering and accommodation services and prices of package international holidays. Services inflation in the euro area averaged 1.5% in the second quarter, 1.7 percentage points less than in Slovenia. The widening gap between services inflation in Slovenia and in the euro area is attributable to the stronger domestic inflationary pressures in Slovenia.

Year-on-year growth in prices of non-energy industrial goods remained close to zero for the second consecutive quarter. Year-on-year growth in prices of non-energy industrial goods averaged -0.1% in the second quarter, while the rate stood at 0.3% in June. Prices of non-durables were up 1.6% in year-on-year terms, making a larger contribution to overall growth in prices of non-energy industrial goods than in the first quarter, while the negative contribution by prices of durables diminished.[1]

Figure 6.8: Prices of industrial goods excluding energy

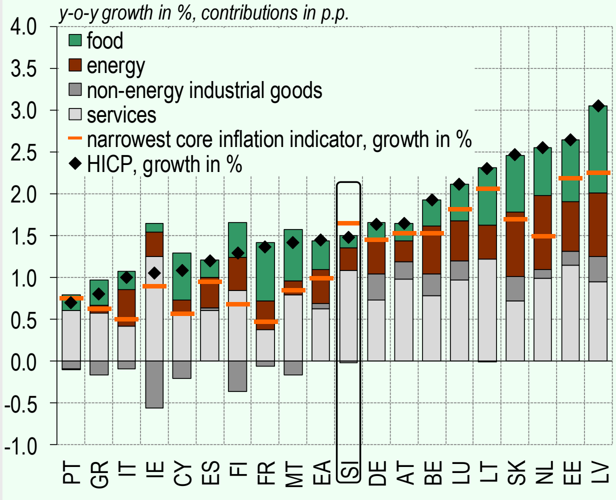


Source: Eurostat, SORS, Bank of Slovenia calculations.

Box 6.2: Inflation in Slovenia compared with other euro area countries

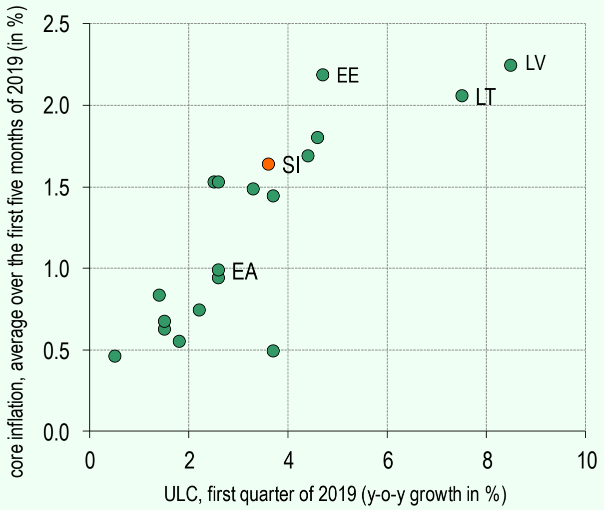
Inflation in the euro area averaged 1.4% over the first five months of the year, down 0.4 percentage points on last year's average. The highest year-on-year inflation rates were recorded by Latvia (3.0%) and Estonia (2.6%), while the lowest rates were in Portugal (0.7%) and Greece (0.8%). The countries with the highest inflation rates saw relatively larger contributions from food prices, energy prices and prices of non-energy industrial goods. Inflation in Slovenia averaged 1.5% over the first five months of the year, ranking it in the middle of the euro area countries. Service price inflation, which stood at almost 3%, was the sole component to make a larger contribution to headline inflation in Slovenia than in the euro area average. Only the Baltic states recorded higher services inflation than Slovenia, and they also saw the highest core inflation excluding energy, food, alcohol and tobacco over the first five months of the year. The latter averaged more than 2% in the Baltic states, 1.6% in Slovenia, and just 1% in the euro area average. The relatively high core inflation in the Baltic states and Slovenia is partly a reflection of higher growth in unit labour costs.

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



Source: ECB, Eurostat, Bank of Slovenia calculations.

Figure 2: Core inflation and ULC



Source: Eurostat, Bank of Slovenia calculations.

[1] This year's increase in year-on-year growth in prices of durable industrial goods is largely attributable to prices of new cars, which after falling for a year rose by 1% on average in the first half of this year.

Prices of non-energy industrial goods were thus held at zero growth by prices of semi-durables, whose movements are very volatile. Year-on-year growth in prices of semi-durables was down 0.8 percentage points on the previous quarter, at -0.5%. Year-on-year growth in prices of non-energy industrial goods also remained low in the second quarter in the euro area average, at 0.2%. The gap between the rates in Slovenia and the euro area has narrowed relative to last year, primarily as a result of smaller differences in the contribution by prices of durables.

7 Public Finances

The general government sector recorded a surplus in the amount of 0.6% of GDP over the 12 months to March 2019. This was down on last year, on account of rising general government expenditure, which recorded a larger year-on-year increase in the first quarter than did general government revenues. While the economy stayed relatively strong, growth in revenues remained high, and growth in expenditure was raised by compensation of employees and social benefits, alongside the ongoing high growth in government investment. The interest burden is still declining, and is helping in the consolidation of the public finances. The general government debt declined in the first quarter of this year, to stand at 67.9% of GDP at the end of March.

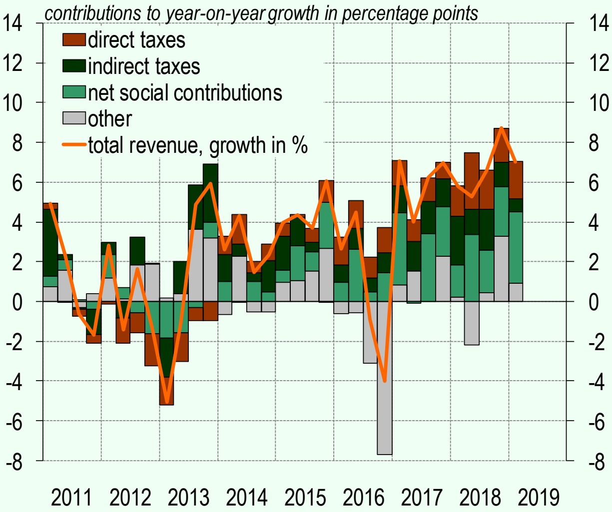
In its updated Stability Programme the government is planning a surplus of 0.9% of GDP for this year. The European Commission is forecasting a slightly smaller surplus. According to European Commission estimates, the structural position is estimated to be in a deficit of 0.8% of GDP this year, and then 0.3% of GDP the following year, close to the new medium-term budgetary objective (a deficit of 0.25% of GDP). Slovenia's ratio of general government debt to GDP is below the euro area average (the general government balance is also better), although it is still forecast to exceed the reference value of 60% even after this year's reduction. This means less room for the government to act counter-cyclically in the event of a deterioration in the economic situation like just over a decade ago. In the fiscal policy the key remains taking only measures that provide for long-term sustainability in the public finance position. The framework for the functioning of fiscal policy consists of domestic legislation on the fiscal rule and the Stability and Growth Pact.

General government balance

The general government sector disclosed a surplus over the 12 months to March, albeit a smaller one than at the end of last year. It amounted to 0.6% of GDP. Growth in general government expenditure increased further in the first quarter, and outpaced growth in general government revenues, which was also slightly up on last year. At the annual level the Ministry of Finance expects a small increase in the surplus compared with last year, while the European Commission expects the surplus to be unchanged.

Growth in general government revenues remained solid in the first quarter of this year, and actually up slightly on last year. General government revenues were up 7.0% in year-on-year terms. On one hand there

Figure 7.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

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

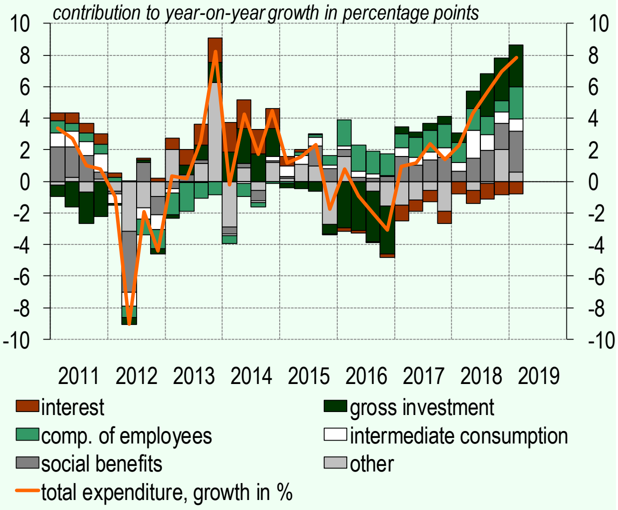
% GDP	SORS						Draft Budgetary Plan		Stability Programme				EC	
	2014	2015	2016	2017	2018	19Q1	2018	2019	2019	2020	2021	2022	2019	2020
Revenue	44.4	44.9	43.4	43.2	43.1	43.8	43.4	43	43.2	42.6	41.8	41.3	43.2	43.0
Expenditure	49.9	47.7	45.3	43.2	42.4	43.7	42.6	42.5	42.2	41.6	40.7	40.2	42.5	42.1
of which: interest	3.2	3.2	3.0	2.5	2.0	1.7	2.0	1.6	1.6	1.5	1.3	1.2	1.6	1.5
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.7	0.0	0.8	0.6	0.9	1.0	1.1	1.2	0.7	0.9
Primary balance	-2.3	0.4	1.1	2.5	2.7	1.7	2.5	1.8	2	2.3	2.5	2.2	2.3	2.4
Structural balance	…	…	…	…	…	…	0.1	-0.4	-0.1	-0.2	-0.1	0.1	-0.8	-0.3
Debt *	80.4	82.6	78.7	74.1	70.1	67.9	70.3	66.0	65.4	61.3	57.9	54.7	65.9	61.7
Real GDP (growth, %)	3.0	2.3	3.1	4.9	4.5	3.2	4.4	3.7	3.4	3.1	2.8	2.7	3.1	2.8

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

was increased growth in revenues based on the wage bill (personal income tax and social security contributions), while on the other hand growth in revenues from indirect taxes (including VAT and excise duties) was lower, which is in line with the slight decline in consumer confidence. Growth in revenues from corporate income tax stood at 12.7%, less than the average growth seen in the last three years. Non-interest income from property was similar to last year, although it should be noted that inflows in the first quarter usually account for a smaller share of the year-end figures, as dividend income is concentrated in the second and third quarters, while last year the late payment of dividends by NLB meant that income was also high in the final quarter. The privatisation of two major Slovenian banks will have an adverse impact on these revenues in the future.

General government expenditure further increased, as growth in government investment remained high, while growth in compensation of employees and social benefits also strengthened. General government expenditure in the first quarter was up 7.9% in year-on-year terms. Growth in investment remained well above average (at 32.1%), while growth in compensation of employees and social benefits strengthened. Compensation of employees was up 7.7% in year-on-year terms, although this was only partly due to the rise in employment (1.4%), which was largest in the health sector. Average compensation per employee increased as a consequence of the agreement between the government and

Figure 7.2: General government expenditure excluding support to financial institutions



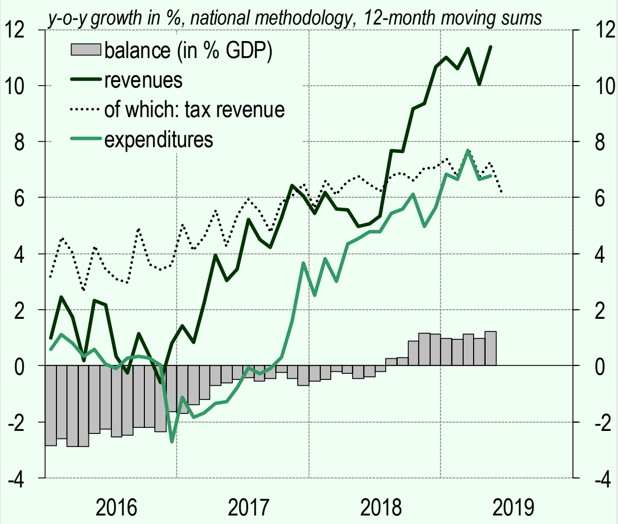
Source: SORS, Bank of Slovenia calculations.

the public sector trade unions, under which the majority of employees saw their wages raised by one grade in January, and promotions were also carried out at the end of last year. The increase in growth in social benefits to 6.4% was primarily attributable to high growth in cash social assistance, the assistance amounts having been raised last year. Growth in payments for sick pay and pensions also remains high. The latter account for the largest proportion of this expenditure, and increased by 4.4%, primarily as a result of regular pension increases, while the rise in the number of pensioners remained low. Unemployment benefits are declining in the favourable economic position. Interest payments are continuing to

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

The general government sector recorded a consolidated surplus in the amount of 1.2% of GDP over the 12 months to May, up slightly on a year earlier. The largest increase was in the state budget surplus, while local government and the Health Insurance Institute also disclosed surpluses, albeit smaller than those recorded during the first five months of last year.

Figure 1: Public finance developments



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

Consolidated general government revenues continued to record solid growth over the first five months of the year, and outpaced growth in expenditure. Growth in revenues from taxes and social security contributions remained high,[1] and revenues from the EU budget were also up, while other revenues were down slightly in year-on-year terms. The most notable year-on-year increase in taxes came from inflows of corporate income tax, which were up more than 20%, although this also includes settlements for the previous tax year. On the expenditure side, the main year-on-year increase was in investment expenditure over the first five months of the year, at local government and central government level alike. An agreement between the government and the public sector trade unions raised growth in wages and social security contributions, which has been high since February (i.e. January wage payments). Among transfers to households and individuals, there have been notable increases in cash social assistance, income support and sick pay. Interest payments have continued their year-on-year decline, and subsidies were also down. The balance of transactions with the EU budget was positive over the first five months of the year, and was similar to the same period last year.

[1] The figures for the first half of the year show a slight slowdown in growth in taxes and social security contributions, primarily as a result of the introduction of tax breaks on annual leave allowance.

Table 1: Consolidated balance sheet* of public finance

	2018	last 12 months to May 19			2018 Jan.-May	2019 Jan.-May	Jan.-May 19
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**18,594**	**19,120**	**40.7**	**11.4**	**7,306**	**7,833**	**7.2**
Tax revenue	16,225	16,702	35.6	7.2	6,572	7,049	7.3
- goods and services	5,989	6,105	13.0	5.5	2,346	2,462	5.0
- social security contributions	6,550	6,743	14.4	7.3	2,673	2,867	7.2
- personal income	2,447	2,514	5.4	9.4	1,028	1,095	6.4
- corporate income	846	936	2.0	15.5	390	480	23.2
From EU budget	796	861	1.8	88.0	287	352	22.5
Other	1,572	1,557	3.3	37.7	447	432	-3.4
Expenditure	**18,068**	**18,538**	**39.5**	**6.8**	**7,165**	**7,636**	**6.6**
Current expenditure	7,966	8,095	17.2	3.6	3,293	3,422	3.9
- wages and other personnel expenditure (incl. contributions)	4,168	4,310	9.2	7.8	1,643	1,786	8.7
- purchases of goods, services	2,634	2,691	5.7	0.3	988	1,046	5.8
- interest	868	788	1.7	-15.4	603	523	-13.2
Current transfers	8,237	8,423	17.9	4.9	3,396	3,582	5.5
- transfers to individuals and households	6,926	7,098	15.1	5.2	2,826	2,998	6.1
Capital expenditure, transfers	1,432	1,518	3.2	35.8	282	369	30.8
To EU budget	433	503	1.1	23.1	194	263	35.6
GG surplus/deficit	**526**	**581**	**1.2**		**141**	**197**	

*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.

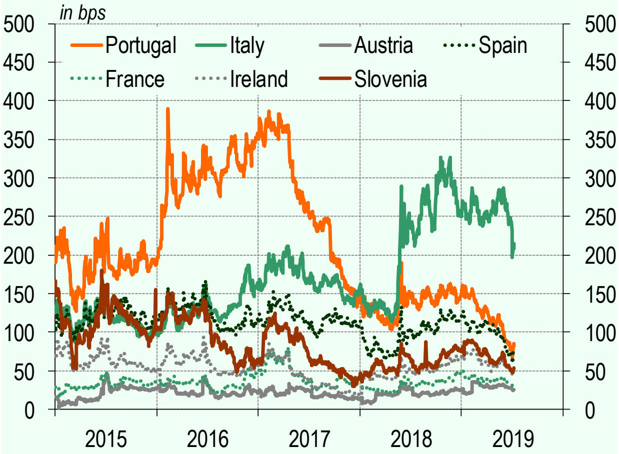
decline in year-on-year terms, which is having a favourable impact on fiscal consolidation.

General government debt and government guarantees

The general government debt is continuing to decline. The debt declined to EUR 31,584 million or 67.9% of GDP in the first quarter, from 70.1% of GDP at the end of last year, when it was also higher in nominal terms. According to the forecasts from the Stability Programme, the debt is expected to have declined further by the end of the year, to 65.4% of GDP. The government slightly shortened the average maturity of its borrowing in the first quarter; it reduced its borrowings via bonds, and increased its short-term borrowings via treasury bills, which carry a negative interest rate. Only one new bond was issued during the first seven months of this year, with a nominal value of EUR 1.5 billion in January, and an increase in issuance of EUR 350 million in July, given that government liquidity is high in the context of budget surpluses, pre-financing of maturing debt in previous years and privatisation receipts. There was further issuance of treasury bills at negative interest rates: for two years now the rates have been close to -0.4%, which is also the interest rate on the ECB's deposit facility.

The decline in the stock of guarantees continued in the first quarter of this year. Government guarantees amounted to EUR 5.7 billion or 12.4% of GDP at the end of the first quarter, down more than EUR 2.5 billion on its peak during the crisis. DARS and the BAMC are gradually reducing their liabilities, and this was responsible for the bulk of the decline in the stock of guarantees. With BAMC's borrowings falling and GDP rising, the impact of the guarantees on the general government debt is also declining. The guarantees included in the debt amounted to 3.4% of GDP at the end of the first quarter. There has been only a small amount of calling of guarantees or repayment of called guarantees: called guarantees amounted to merely EUR 2,000 during the first five months of the year, while repayments amounted to EUR 654,000.

Figure 7.3: Spreads of long-term government bonds over German benchmark



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

The required yield on Slovenian 10-year government bonds is at historically low levels. The required yield on Slovenian 10-year government bonds fluctuated around 0.1% in early July, a record low, while the spread over the German benchmark bond was close to 50 basis points. Required yields are also extremely low in the majority of other euro area countries, which is attributable to the expectations of continuing monetary policy stimulus by the ECB and the increased likelihood of a return to a more expansionary monetary policy at the Fed. Slovenia's sovereign credit ratings at the major rating agencies are also improving. Moody's upgraded its outlook to positive in April, while Standard and Poor's upgraded its rating in June. The low required yield and the active debt restructuring policy have been reducing the interest servicing burden on government debt for some time now.

Planned developments in general government balance and debt

The general government sector is expected to remain in surplus, while a reduction in the general government debt is also planned. The economic cycle is expected to remain relatively favourable over the medium term, and will support the maintenance of nominal surpluses. Having declined by 0.5% of GDP over each of the last two years, interest payments will continue declining, albeit less markedly. The decline is estimated to average 0.1% of GDP each year between 2019 and 2022.

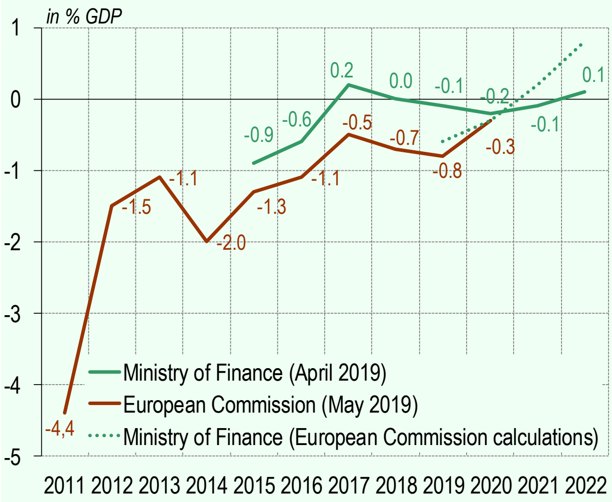
According to the Ministry of Finance's assessments, Slovenia reached a structurally balanced fiscal posi-

tion in 2018, although the European Commission's assessments are less favourable. They both suggest that the structural position will be close to its medium-term objective next year. In April's update of the Stability Programme, the government took the option of setting a lower medium-term budgetary objective for the 2020 to 2022 period, namely a structural deficit of 0.25% of GDP (up to 2019 the target was a structural surplus of 0.25% of GDP). Both the European Commission and the Fiscal Council are warning of the risk of deviations from the fiscal rules in 2019 (different rules are involved[1]), while both are expecting the government to be close to its medium-term objective in 2020. It is primarily this year that a structural deterioration is expected. The debt reduction rule will be met this year, according to the forecasts of both institutions.

There are several measures under preparation that will entail the restructuring of the tax burden from labour to capital, and will intervene in social transfers and pensions. This year the government has already reduced the tax burden on holiday allowance, and further cuts in personal income tax are planned next year. This should be done via rises in income tax scale, a rise in allowances, and cuts in the tax rates on the second and third income tax brackets. The reduction in the tax burden on labour will partly be covered by a rise in taxation of capital, which envisages a rise in the corporate income tax rate from 19% to 20%, and the introduction of a minimum effective corporate tax rate from 2020. Measures in the areas of pensions and social transfers are also under preparation, and will aim to raise the labour force participation rate. It remains of key importance that the combination of all the measures ensures the long-term sustainability of the public finances, while it is vital to remember that the aging population will intensify the demographic pressures on the public finances.

The ratio of debt to GDP is expected to fall below 60% in 2021. The debt is forecast to decline in nominal terms, and as a ratio to GDP. A large nominal decline is expected this year, on account of privatisation receipts from

Figure 7.4: Public finance structural balance in Slovenia



Source: European Commission, Ministry of Finance – Draft Budgetary Plan.

the sale of NLB in the final quarter of last year. Further reductions in the debt will be facilitated by the privatisation of Abanka, this year's completion of the privatisation process at NLB, and the generation of government surpluses. Economic growth is having a very favourable impact on reducing the debt ratio, and in previous years it provided for an extremely fast reduction in the ratio of debt to GDP. Reducing the debt remains a key task of fiscal policy, as in this way the government can prepare for any potential adverse economic shocks that lie ahead.

[1] The European Commission assesses that in 2019 there is a risk of a significant deviation from the rules regarding growth in corrected government expenditure and the pace of the convergence on the medium-term budgetary objective. On the basis of the draft Stability Programme, the Fiscal Council assessed that there is a risk that the medium-term budgetary objective will not be met, the rule on growth in corrected expenditure will be breached, and the domestic fiscal rule for a cap on expenditure will be breached.

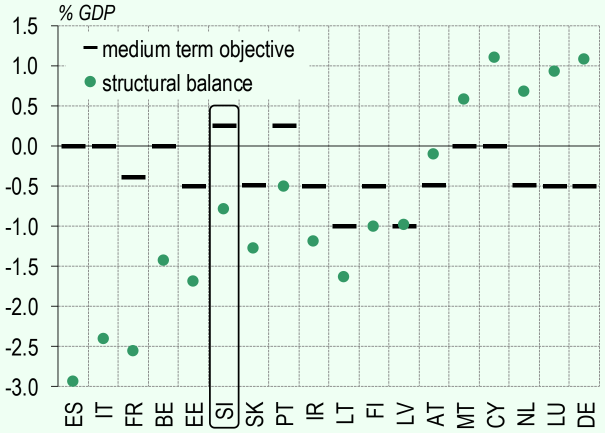
Box 7.2: Attainment of medium-term budgetary objectives in euro area countries

When they join the single currency, countries that adopt the euro lose the ability to pursue a monetary policy that suits them alone, and they are thus mainly left with fiscal policy to smooth out economic cycles. However, they do not have an entirely free hand in exercising fiscal policy: in addition to their own national fiscal rules, they have to meet EU rules. The key EU fiscal rules stipulate that the general government deficit may not exceed 3% of GDP, and that the general government debt must be lower than 60% of GDP or must be converging on this target at sufficient pace.[1]

There are two arms defined in the Stability and Growth Pact in connection with meeting these rules: the corrective arm and the preventive arm. A country that exceeds the deficit limit of 3% of GDP enters the excessive deficit procedure[2] and thus the corrective arm, within the framework of which it is required to reduce the deficit to below the limit. Only Spain is currently in the corrective arm, and last year it succeeded in reducing its deficit to below 3% of GDP, so the European Commission is therefore proposing that it exit the corrective arm in 2019. When a country has a general government deficit of less than 3% of GDP, it is in the preventive arm, and must ensure that the structural balance[3] is at a level that ensures the long-term sustainability of the public finances. This means that the structural balance must reach its medium-term budgetary objective (MTO) over the medium term. The criteria for setting the minimum required medium-term objective are set out by the Stability and Growth Pact, and countries' medium-term objectives are revised every three years as a rule. A country can choose an objective that is more demanding, i.e. a higher structural balance than the minimum requirement under the pact. The last revision of medium-term objectives was conducted this year, and the new medium-term objectives will apply to the 2020 to 2022 period. Under the preventive arm there are certain rules with regard to converging on the medium-term budgetary objective when a country fails to meet the objective. The European Commission checks compliance with these rules every year, and warns countries if its forecasts indicate that convergence on the medium-term objective will not be in line with the rules, or that the country would deviate excessively from the medium-term objective if it already meets it.

The figure illustrates the medium-term objectives for the structural balances of euro area countries in 2019, and the European Commission's spring forecasts of the structural balance for each country. According to the European Commission forecasts, eleven euro area countries will fail to meet the medium-term objective in 2019, indicated in the figure by a green spot that lies below the objective marked by the line. Seven of them will meet or surpass the objective, which is indicated in the figure by a green spot that lies either on or above the objective marked by the line. The countries that meet or surpass the objective have more room for manoeuvre in fiscal policy, but must nevertheless be careful that their measures do not endanger the long-term sustainability of the public finances, which could be particularly problematic in countries that already have a high level of debt. Slovenia is among the countries that are expected to fail to meet the medium-term objective in 2019. In 2020 it will come very close to meeting its new objective, which has been set for the 2020 to 2022 period as a structural deficit of 0.25% of GDP, as indicated by the forecasts in the Stability Programme (a structural deficit of 0.2% of GDP), and the European Commission's May forecasts (a structural deficit of 0.3% of GDP).

Figure 1: Medium-term budgetary objective and structural balance forecast for euro area countries in 2019



Note: The medium-term budgetary objective for Greece is not set for 2019 acording to Pact provisions. It is set at 0.25% GDP for 2020–2022.
Source: European Commission: European Economic Forecast, Spring 2019, Vade Mecum on the Stability and Growth Pact 2019.

[1] The legislative basis of the two rules is the Treaty on the Functioning of the European Union.

[2] It also enters the excessive deficit procedure if it fails to comply with the rule regarding reduction of the general government debt. If the deviation from the debt and deficit rules is temporary in nature, the procedure is not triggered. The rules are explained in more detail in Vade Mecum on the Stability and Growth Pact: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf.

[3] The structural balance is the general government balance after the effects of the economic cycle and one-off factors (e.g. bank recapitalisations and court judgments) have been excluded.

8 Selected Themes

8.1 Review of corporate performance in 2017 and 2018

Slovenian firms recorded high profits at the top of the current business cycle. Net profit, which with EUR 3.2 billion in 2016 exceeded the 2008 level, increased to a record EUR 4.2 billion in 2018. The number of employees increased by almost 21,000 last year and gross value-added was 7.6% higher than in 2017, as a result of which labour productivity continued to rise. The increase in productivity was primarily attributable to non-exporting firms in wholesale and retail trade, the energy sector, transportation and storage, and construction. Last year saw an improvement in indicators in most of the corporate size categories, with micro and large enterprises contributing most to overall performance, employing more than half of the total workforce and generating 55% of total revenues. Total corporate debt increased by 5.3% over the last two years, but corporate indebtedness as measured by the ratio of total debt to total equity and liabilities declined again last year, approaching its level of 1999. Due to relatively large equity, which increased by EUR 5.6 billion between 2016 and 2018, the corporate leverage improved by 81 percentage points compared to 2008. The reduction in indebtedness and leverage in 2018 was primarily attributable to non-exporting, trade, construction and micro firms.

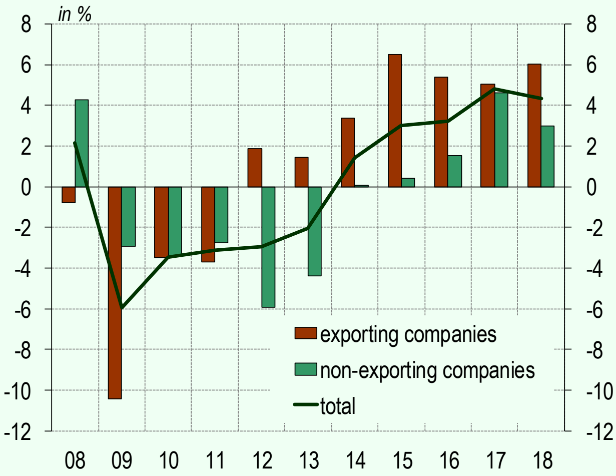
Aggregate corporate performance

Corporate performance significantly improved in 2017 and 2018. Firms' net profits increased sharply over these two years: by 13.7% to EUR 3.6 billion in 2017, and by 15.9% to a record EUR 4.2 billion in 2018. Firms also recorded the largest increase in the number of employees in 2017 and 2018, by more than 43,000. There was also a sharp increase in gross value-added, which reached EUR 22.4 billion last year, as a result of which labour productivity also continued to rise, albeit not particularly dynamically. Corporate indebtedness as measured by the ratio of total debt to total equity and liabilities has been declining since 2009, and last year approached its level of 1999. Total corporate debt actually increased by EUR 2.6 billion over the last two years, but is still down EUR 17.4 billion or 26% on 2008. In the wake of the sharp increase in equity, which rose by 13.2% between 2016 and 2018, there has also been a significant decline in leverage as measured by the ratio of total debt to equity; it stood at 106% last year.

Corporate performance in terms of export-orientation

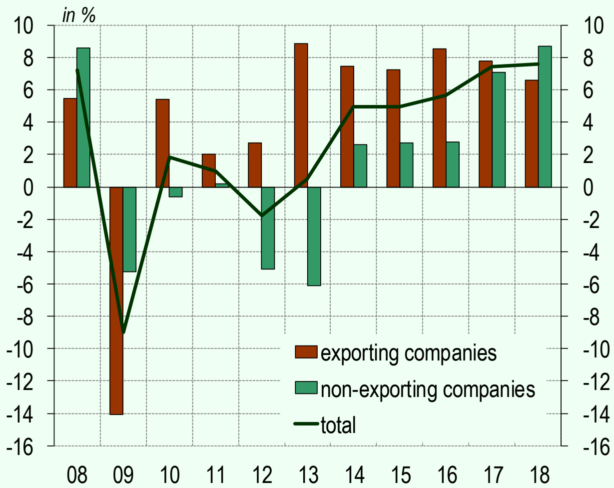
It was mainly non-exporting firms that contributed to the improvement in corporate performance in 2018. These are firms who generate more than 85% of their total revenues on the domestic market, and they represent more than four-fifths of all firms, generate 43% of total revenue, and employ around 55% of the total workforce. There was a significant improvement in the performance of non-exporting firms in 2016, when they disclosed net profit of EUR 1,169.6 million, thereby exceeding their 2008 performance for the first time. Last year they generated profits of EUR 1,957.9 million, up 35.5% on the previous year, which was only 13% less than the profit generated by export-oriented firms. After a long period of negative or modest growth in the number of employees, these firms created almost 20,000 new jobs in 2017 and 2018, which was just 3,800 less than the number of jobs created by export-oriented firms over the last two years. However, non-exporting firms are more indebted: at EUR 31 billion, their debt accounts for three-fifths of total corporate debt, but they are also reducing it more quickly. They have reduced their total debt by EUR 17.4 billion or just over a third over the last decade, while increasing equity by almost 30%, which reduced their leverage to 112%, still higher than leverage at export-oriented firms, which stood at 96% last year.

Figure 8.1.1: Growth rate in the number of employees



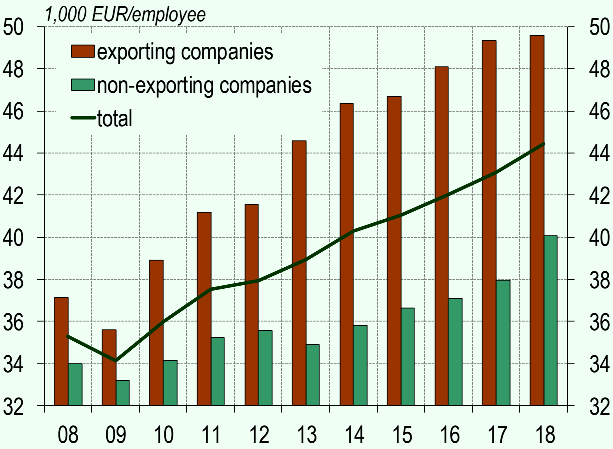
Note: Average number of employees based on working hours in the accounting period.
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.2: Growth rate of gross value added



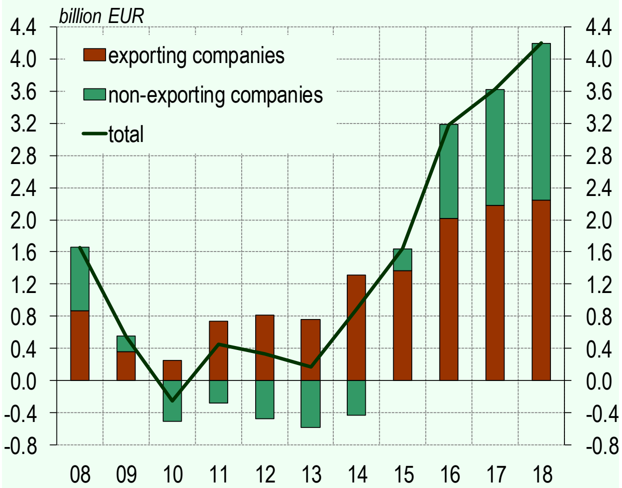
Note: Gross value-added is calculated as gross operating profit minus costs of goods, materials and services and other operating expenses.
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.3: Labour productivity



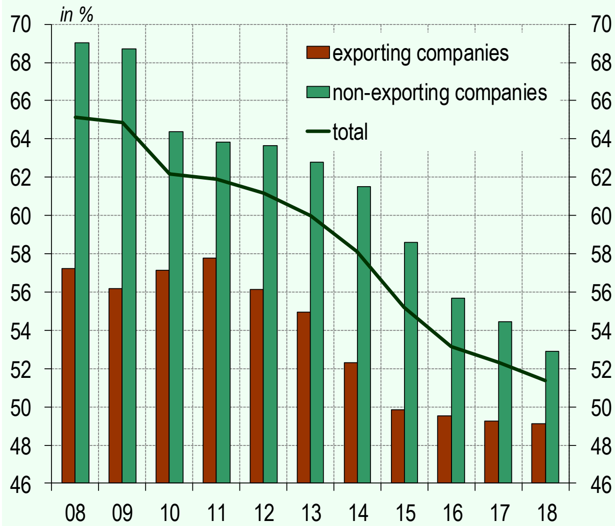
Note: Labour productivity is calculated as gross value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.4: Net profit



Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.5: Total debt to total liabilities



Source: AJPES, Bank of Slovenia calculations.

Corporate performance in terms of size

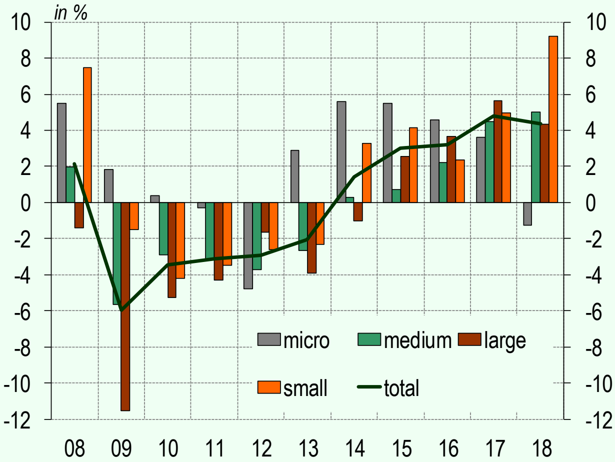
The improvement in corporate performance in 2018 was mainly attributable to micro enterprises and large enterprises. Last year saw an improvement in indicators in most of the corporate size categories. The only exception was medium-size enterprises, where net profit was down 1.3% on 2017 at EUR 996 million. Gross value-added increased in all size categories, and this was also reflected in an increase in labour productivity. Corporate indebtedness as measured by the ratio of total debt to total equity and liabilities declined again last year, particularly at MSMEs, while large enterprises remain less indebted.[1]

Although there are fewer large enterprises, they account for just over a third of total employment, and generate almost 40% of gross value-added and just over a third of total revenue. They are also among the least indebted firms. Their debt, which accounts for more than a third of total corporate debt, increased by 4.7% last year to EUR 18 billion, although their equity is even higher at EUR 19.1 billion, which means their leverage is on the lower side, at 94.4%. Last year saw a particularly strong increase in profit at large enterprises, which accounts for more than a third of total corporate profit. Large enterprises generated a net profit of EUR 1.5 billion in 2018, up 32.3% on the previous year. Their headcount increased again, by more than 7,000, and approached its level of 2009.

Alongside large enterprises, the most notable performance in 2018 was recorded by micro enterprises. The generated net profit of EUR 888.6 million last year, an improvement on the very high figure of EUR 752.1 million recorded in 2017, and double the figure from 2015, which was the first to surpass the pre-crisis level.[2] After several years of rising employment, micro enterprises reduced their headcount for the first time last year, cutting around 1,200 jobs, but their employment has nevertheless hit record levels over the last two years. They increased gross value-added, and recorded very high growth in labour productivity. From the point of view of indebtedness they also represent a diminishing risk. They were the only category to reduce debt in absolute terms in 2018, by EUR 0.3 billion, taking the aggregate reduction over the last decade to EUR 3 billion. Leverage at micro enterprises declined to 144.3% last year, down significantly on its peak of 251.7% in 2010.

Corporate indebtedness via bank financing reached record lows last year, and the largest reduction in indebtedness was seen at MSMEs.[3] Corporate bank debt, which began falling after 2008, recorded its largest reductions in 2014 and 2015, which was also the largest factor in the significant decline in total corporate debt. Since 2016 total corporate debt has risen again, by 5.3%, but to a substantial extent firms have replaced bank financing with short-term operating liabilities to suppliers and other short-term financial liabilities.[4] Bank debt thus accounts for just over a quarter of total corporate debt, significantly less than in 2008, when it accounted for just over 42%. The proportion of firms with bank debt on their books is also significantly less than in 2008: it is down 6 percentage points at just 26%. The stock of bank debt has declined by EUR 15.6 billion over the last decade, a reduction of more than a half. MSMEs recorded the largest reduction in debt, in the amount of EUR 11.4 billion or 61%. Indebtedness via bank financing remains highest at

Figure 8.1.6: Growth rate in the number of employees by firm size



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

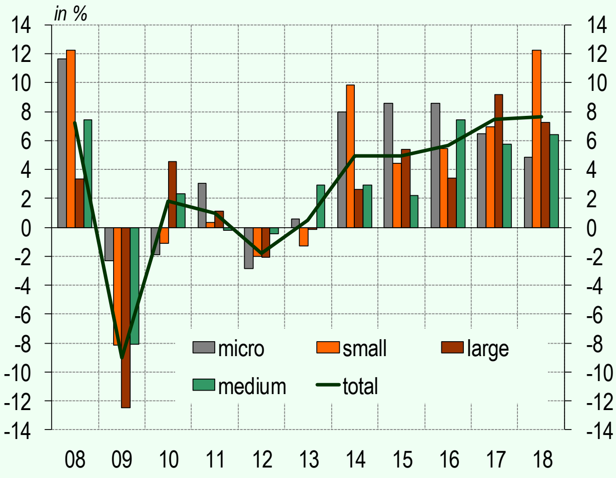
[1] MSMEs stands for micro, small and medium-sized enterprises.

[2] From 2008.

[3] Corporate indebtedness via bank financing is defined as the ratio of bank debt to total equity and liabilities.

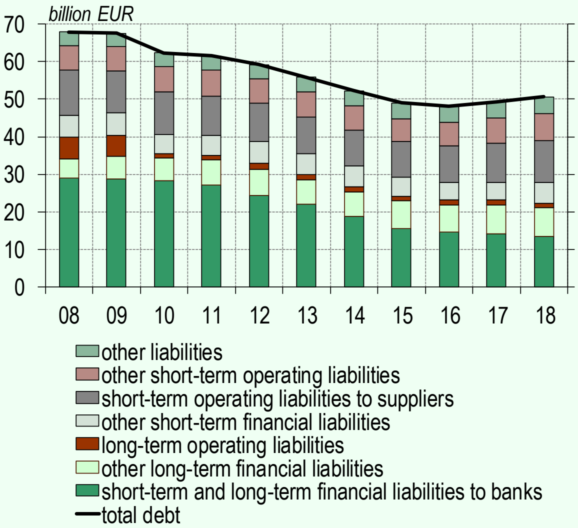
[4] Short-term operating liabilities to suppliers, short-term financial liabilities to undertakings in group, and other short-term financial liabilities.

Figure 8.1.7: Growth rate of gross value added by firm size



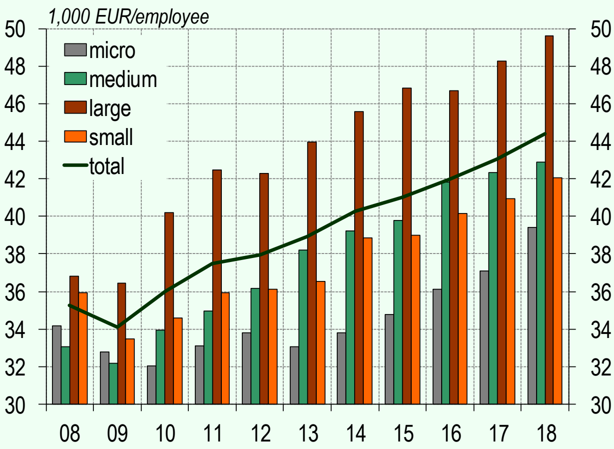
Note: Gross value-added is calculated as gross operating profit minus costs of goods, materials and services and other operating expenses.
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.10: Total debt



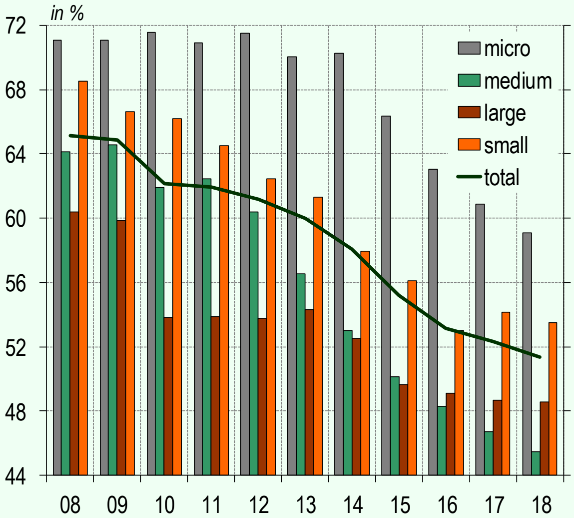
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.8: Labour productivity by firm size



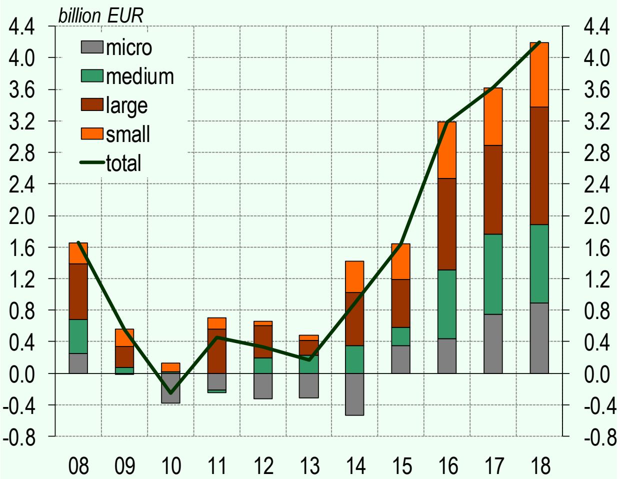
Note: Labour productivity is calculated as gross value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.11: Total debt to total liabilities by firm size



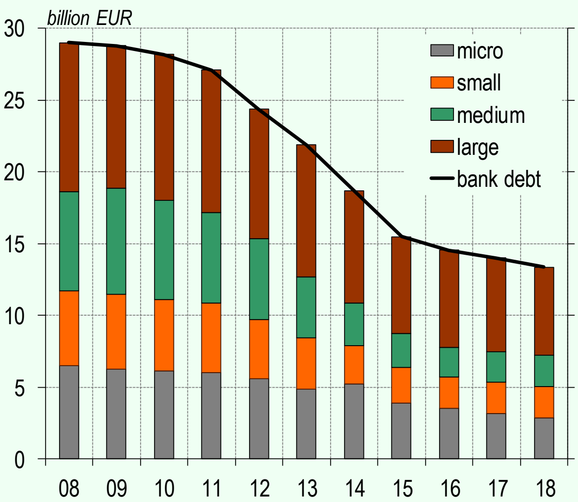
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.9: Net profit by firm size



Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Bank of Slovenia calculations.

Figure 8.1.12: Bank debt by firm size



Note: Short-term and long-term financial liabilities to banks.
Source: AJPES, Bank of Slovenia calculations.

large enterprises, where bank debt was down EUR 4.2 billion or 41% on 2008.

Corporate performance in terms of sector

The improvement in corporate performance in 2018 was mainly attributable to an improvement in the sector of wholesale and retail trade, which was driven by stronger domestic final consumption and continuing rapid growth in exports in the sector. Wholesale and retail trade accounts for 17% of all employees, and generates a fifth of total net profit and just over a third of total revenue. Trade firms generated net profit of EUR 853.1 million last year, up 53% on the previous year, and double the figure of a decade earlier. This was primarily attributable to large trade firms, which, after recording a loss in the amount of EUR 25.6 million in 2017, generated a net profit of EUR 220 million last year.[5] Trade firms increased their headcount again last year, by more than 2,300, thereby approaching the levels of 2010.

Performance in manufacturing, the core sector of the Slovenian economy, weakened slightly last year, in line with the worsening situation in European industry in the second half of last year. Manufacturing firms generated a net profit of EUR 1,429.2 million in 2018, down 2.1% on the previous year, but almost seven times more than in the crisis year of 2009. They hired more than 7,700 new employees, and increased their gross value-added by 5.7% to EUR 8.3 billion. Their debt increased by 9.6% over the last two years to reach EUR 12.3 billion, down just a tenth on 2008, and accounts for a quarter of total corporate debt. Although manufacturing firms have relatively high levels of debt, their relatively large equity, which increased by a third between 2014

Table 8.1.1: Selected business indicators of firms by activities

	net profit in EUR million			efficiency ratio			labour productivity 1.000 EUR/employee			total debt to total liabilities in %		
	2008	2017	2018	2008	2017	2018	2008	2017	2018	2008	2017	2018
total	1655.6	3621.3	4196.7	1.03	1.05	1.05	35.26	43.07	44.42	65.15	52.31	51.37
manufacturing	588.7	1459.9	1429.2	1.03	1.06	1.06	32.02	44.27	44.83	57.8	47.8	47.5
wholesale and retail trade	442.9	557.6	853.1	1.02	1.02	1.03	37.62	42.30	44.40	66.0	58.4	57.0
professional, scientific and technical activities	276.8	313.0	417.5	1.09	1.08	1.12	42.06	43.86	45.75	66.8	51.3	51.3
transportation and storage	111.3	385.6	388.9	1.04	1.09	1.08	35.14	52.56	54.01	82.1	49.5	48.1
financial and insurance activities	-287.2	245.3	288.3	0.91	1.27	1.23	88.02	65.56	76.98	67.3	58.0	56.4
information and communication	215.0	136.9	227.9	1.10	1.05	1.07	63.88	61.34	63.96	52.5	52.2	51.4
construction	152.2	83.8	157.0	1.03	1.03	1.04	27.64	29.10	31.57	81.5	68.0	62.1
real estate activities	45.3	124.5	140.9	1.08	1.18	1.20	75.98	76.13	77.07	74.3	60.2	59.9
electricity, gas, steam and air conditioning supply	104.7	112.2	81.0	1.05	1.02	1.02	82.66	106.26	108.38	28.5	37.9	37.8
administrative and support service activities	3.1	58.1	59.3	1.01	1.04	1.04	18.18	23.25	24.56	73.8	57.7	58.3
human health and social work activities	15.6	22.5	38.0	1.11	1.08	1.12	35.60	39.09	42.25	65.5	51.3	51.6
accommodation and food service activities	-25.3	43.3	36.9	0.98	1.04	1.03	24.00	28.21	29.72	58.1	57.4	54.9
agriculture, forestry and fishing	-10.1	11.2	29.0	0.98	1.04	1.07	27.05	37.85	43.56	55.3	54.1	52.5
water supply, sewerage and waste management	18.5	29.6	20.7	1.03	1.03	1.02	35.92	36.41	35.97	79.6	50.3	50.2
arts, entertainment and recreation	6.4	19.1	15.2	1.01	1.05	1.04	48.25	46.27	45.20	56.8	58.5	58.4
other service activities	0.1	4.6	6.1	1.01	1.03	1.04	21.16	24.92	25.89	69.4	50.3	53.6
mining and quarrying	-3.3	10.7	4.8	1.00	1.04	1.02	44.18	57.91	57.60	49.4	68.2	68.0
education	2.1	3.0	4.0	1.04	1.04	1.05	26.40	28.06	28.28	61.7	57.2	59.0
public administration and defence	-1.1	0.3	0.9	0.96	1.04	1.07	32.77	26.15	28.60	94.6	78.5	73.4

Note: Activities of households are not shown (SKD T).
Source: AJPES, Bank of Slovenia calculations.

[5] Attributable to Petrol's larger profit, and Mercator's smaller loss.

and 2018, means that leverage is just 90.5%, among the lowest of all figures.

There was a sharp improvement in construction in 2018, which coincided with heavy construction investment by the government and stronger investment in residential construction. Construction firms increased their headcount by almost 3,700 last year, and generated gross value-added of EUR 1.3 billion, up fully 19.2% on the previous year. The significant rise in labour productivity at construction firms, which is heavily cycle-dependent, was a major factor in the rise in overall productivity, although it remains among the lowest of all sectors. Construction firms saw significantly improved performance in 2018, as they recorded net profit of EUR 157 million, up 87.2% on the previous year, in which micro construction firms were the largest factor. Construction firms also undertook substantial deleveraging: their debt was down almost 60% on its peak in 2008 at EUR 2.6 billion. Although they increased their equity by a quarter last year, thereby reducing their leverage, leverage at construction firms remains among the highest at 163.6%. This is nevertheless down significantly on a decade earlier, when it stood at 440.3%.

Other sectors that saw a notable improvement in performance are professional, scientific and technical activities, and information and communication, which together account for more than a quarter of all firms and generate 12% of gross value-added.[6] Firms in this combined sector generated a net profit of EUR 645.4 million last year, up 43.5% on the previous year, surpassing the level from 2008 for the first time. After a long period of falling or slowly growing headcount, they hired more than 4,300 new employees in 2017 and 2018, and increased their gross value-added by 15% to EUR 2.7 billion. Although their total debt increased by 10% over the last two years, and last year accounted for 13% of total corporate debt and amounted to EUR 6.4 billion, the third-largest figure for any sector, increasing equity meant that their leverage declined to 105.4%, down 52.2 percentage points on a decade earlier.

Methodology

Data capture

The analysis of the performance of firms is based on data from annual reports submitted to Ajpes (the Agency for Public Legal Records and Related Services) each year by firms in accordance with the Companies Act. The analysis includes all firms, i.e. those belonging to the non-financial corporations sector, the government sector and the financial corporations sector.

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

Definitions

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

Gross value-added is calculated as gross operating returns minus costs of goods, materials and services and other operating expenses.

Labour productivity is calculated as gross value-added per employee.

Leverage is measured as the ratio of total debt to equity.

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

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

[6] Sectors J and M combined.

- A large enterprise is a firm where the average number of employees in the financial year exceeds 250.

The abbreviation **MSMEs** stands for micro, small and medium-sized enterprises.

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

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

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

Assumptions

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

8.2 Macroeconomic position of Croatia and its importance to the Slovenian economy

The macroeconomic position of Croatia has improved significantly in recent years, and its economic growth forecasts for the medium term are relatively good. After the long crisis years, when GDP fell by more than 13%, a new economic cycle began in late 2014. GDP growth actually strengthened in the first quarter of this year, despite the weakness of the international environment. The advance was largely the result of higher growth in investment, while private consumption is continuing to grow relatively fast as the situation on the labour market improves. As domestic demand grows, the contribution to economic growth by net trade remains negative, as the export-orientation of the Croatian economy is relatively low. Croatia's external position has also been considerably better in recent years: a sharp internal devaluation strongly improved its external cost competitiveness and current account position, while debt repayments have brought a significant reduction in its external debt. According to the European Commission's forecasts, annual economic growth is expected to average just under 3% in the period to 2020, although if there is no change in the trends seen in recent years, the low labour force participation rate and the declining population will have an adverse impact on growth over the longer term.

In 2016, Croatia became Slovenia's third most important trading partner. It accounts for 8% of Slovenia's total exports. Merchandise exports in the 12 months to May were up EUR 1 billion or 58% on their pre-crisis peak, and the share of consumer goods is increasing, in line with the rise in private consumption in Croatia. However, Slovenia's current account surplus and positive net financial position vis-à-vis Croatia are smaller than just over a decade ago. In the case of the former, the main factor is a slight increase in the services trade deficit, while the latter is attributable to a decline in the loan exposure of Slovenian banks and firms. Net claims in the form of direct investment have also declined, as Croatian firms' holdings of equity in Slovenian firms have increased. At the same time, Slovenian firms' direct investments in the Croatian economy have declined slightly in the wake of losses during the crisis years. The sole notable increase was in households' investments in real estate.

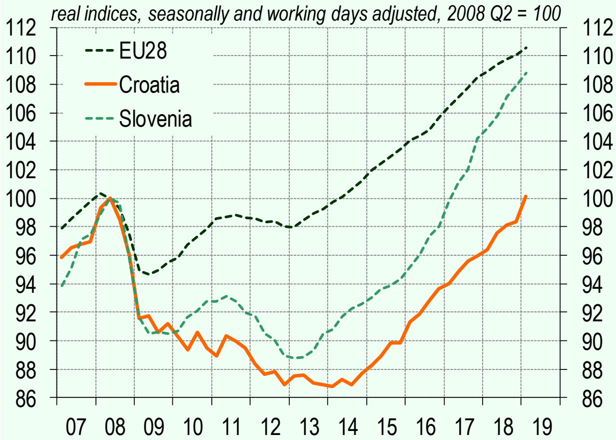
Economic developments in Croatia

The Croatian economy strengthened sharply in the early part of the year, although GDP has barely passed its pre-crisis peak in real terms. Economic activity fell by more than 13% during the recession, and even last year the recovery was too weak to close the gap. Year-on-year GDP growth increased to 3.9% in the first quarter of this year. With the exception of tourism, the economy is dependent on domestic demand to a great extent, and on private consumption during this new period of growth, which is increasing as the labour market situation improves. Gross fixed capital formation is also increasing, although even until the first quarter of this year growth was relatively weak given the low basis established during the crisis.[1] Investment was boosted in the first quarter when a start was made on major public infrastructure projects financed with EU support, and

[1] Gross fixed capital formation in Croatia fell by over a third during the crisis, while its annual growth averaged 4.5% over the new economic cycle as far as the end of 2018, only 0.9 percentage points more than the average in the EU28. Gross fixed capital formation amounted to 20.1% of GDP last year, 0.5 percentage points less than the EU28 average. The figure increased to 21.2% in the first quarter of this year.

there was an increase in private-sector investment as corporate lending picked up. After several years of austerity, the contribution to GDP growth by government consumption turned positive in 2016. Growth in merchandise exports also increased in the first quarter of this year, even though the economic situation in two major trading partners, Germany and Italy, is relatively unfavourable. Because Croatia is not one of the most export-oriented economies in Europe,[2] tourism notwithstanding, and industry accounts for a relatively small proportion of value-added, the rise in domestic consumption has seen the contribution by net trade turn negative again in recent years. At least according to the economic sentiment indicators, the economy is thought to have remained relatively strong in the second quarter.

Figure 8.2.1: Gross domestic product

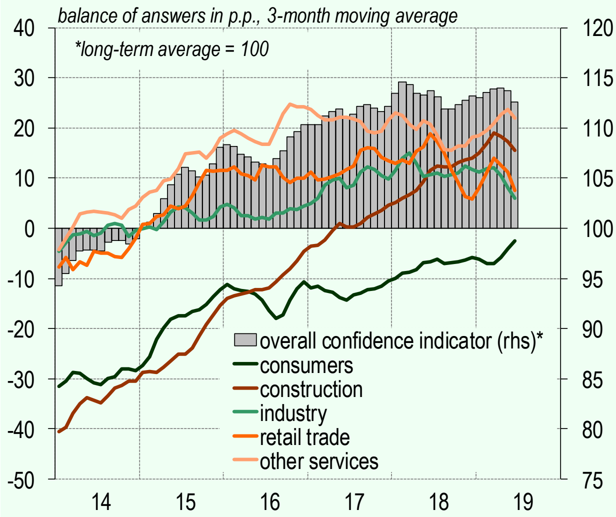


Note: The basis (2008 Q2) reflects the quarter, when Croatia reached its peak before the crisis.
Source: Eurostat, Bank of Slovenia calculations.

Inflation in Croatia remains low, despite the improvement in the labour market and the fast growth in private consumption, partly on account of cuts in VAT rates. This year's low inflation is primarily the result of negative contributions by food prices and prices of non-energy industrial goods, which is largely attributable to tax changes that came into force on 1 January of this year. Inflation as measured by the HICP stood at just 1.0% in May, 0.6 percentage points less than the euro area average. The narrowest core inflation indicator also remained low. Inflation measured at constant tax rates stood at 1.6% in May.

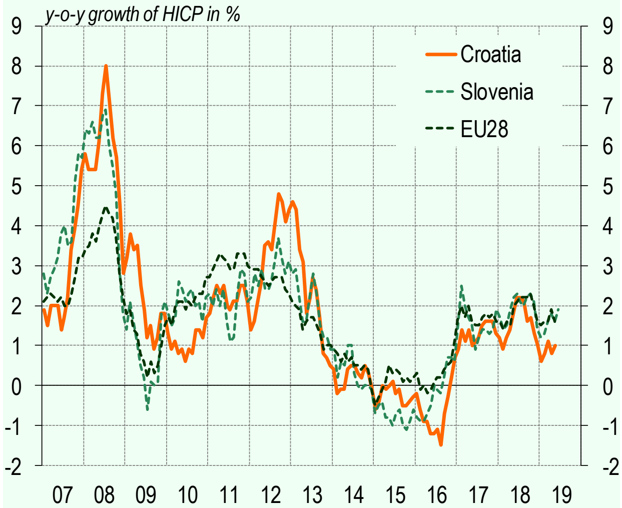
The economic situation in Croatia is expected to remain solid over the medium term, although the risks to the forecasts are on the downside. The European Commission's July forecasts predict GDP growth of 3.1% this year, and 2.7% in 2020. Private consumption is expected to remain the main engine of growth as the labour market continues to strengthen, while interest rates and

Figure 8.2.2: Confidence indicators – Croatia



Source: Eurostat, Bank of Slovenia calculations.

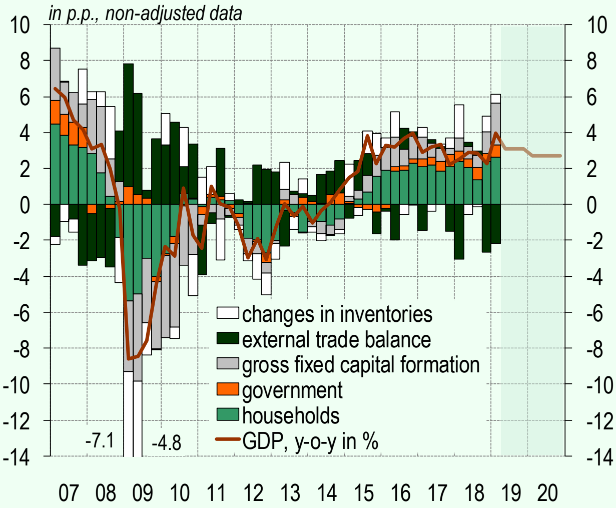
Figure 8.2.3: Headline inflation



Source: Eurostat.

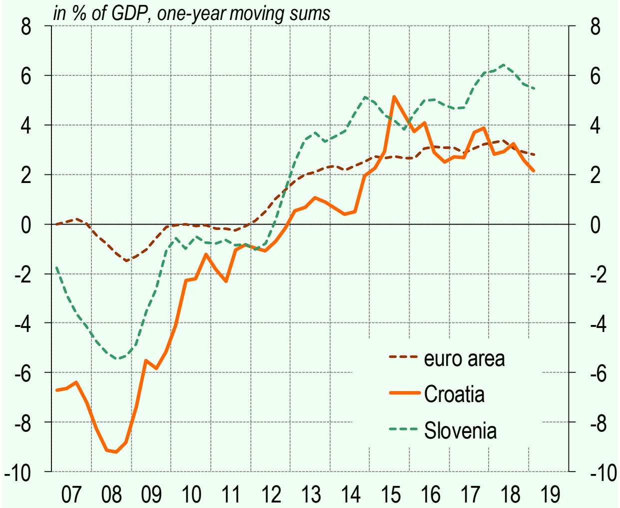
[2] The ratio of total exports to GDP in Croatia stood at 51.1% in 2018. This is 5 percentage points above the EU28 average, but it still ranks Croatia only 17th out of 28 Member States, and is fully 34.2 percentage points less than the figure in Slovenia. Given the structure of the economy, the ratio of exports of services to GDP was high as expected at 27.5%, while the corresponding figure for merchandise exports was very low, at just 23.6%. This is 9.4 percentage points less than the EU28 average, and fully 44.4 percentage points less than the figure in Slovenia. The ratio of value-added in industry to GDP in Croatia stood at 16.8% last year, just 0.7 percentage points less than the EU28 average. The wide gap in the ratios of merchandise exports to GDP could be indicative of Croatian industry's focus on the domestic market. In Slovenia, value-added in industry amounted to 23.8% of GDP last year.

Figure 8.2.4: Structure of GDP growth in Croatia



Source: ECB, European Commission forecast, July 2019.

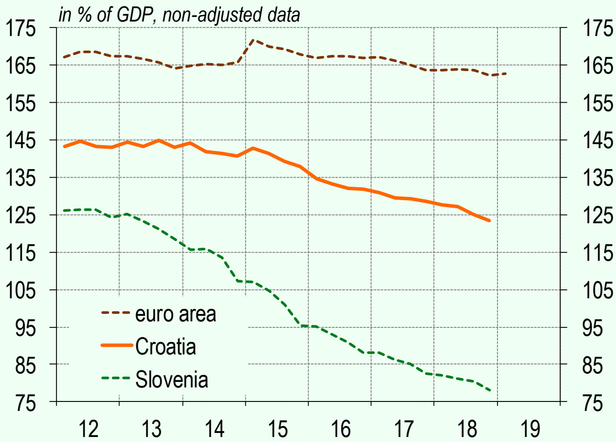
Figure 8.2.5: Current account balance



Source: ECB, Eurostat, Bank of Slovenia.

inflation remain low. The unemployment rate is forecast to fall below 7% by 2020. Given the favourable financing conditions, further moderate growth in private-sector investment is expected, while the increased disbursement of EU funds is expected to encourage public investment, although it is forecast to remain below its pre-crisis level. The contribution to GDP growth by net trade will remain negative, as strengthening domestic demand sees import growth outpacing export growth. Despite the rise in disposable income, the forecast for inflation is low, at around 1%; the cuts in VAT rates are one of the main factors in the low inflation forecast. There is significantly greater probability of economic growth being lower than expected than vice-versa. The external risks include a further deterioration in trade disputes, and a sharper slowdown in the euro area. Exposure to Italy is particularly high: it is Croatia's largest trading partner, and has the largest foreign holdings in the Croatian banking system. The risks from the domestic environment relate primarily to government debt and corporate debt, which is subject to interest rate risk.[3]

Figure 8.2.6: Debt of the private non-financial sector



Note: Debt of non-financial corporations, households and NPISH (loans and debt securities). The data for Croatia in the ECB database cover the period from 2012.
Source: ECB SDW, Eurostat, Bank of Slovenia calculations.

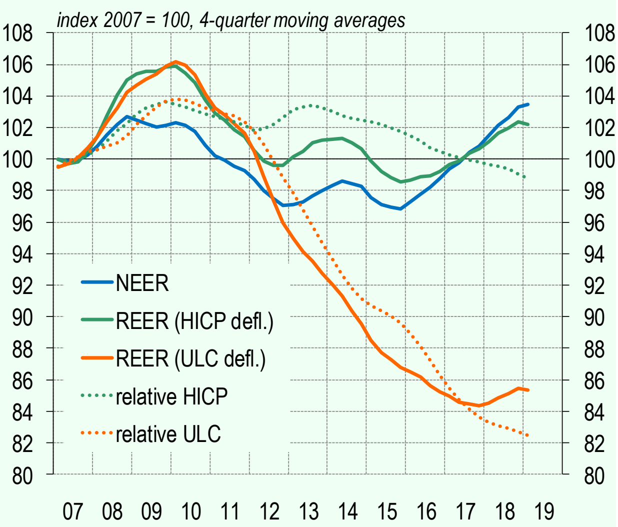
Indebtedness and competitiveness indicators

Croatia's external position has been significantly improved by an internal devaluation and deleveraging. Before the crisis, Croatia faced a high current account deficit, which approached 9% of GDP in 2008. A decline in final consumption followed during the crisis, on account of a falling wage bill and government austerity measures, and the investment bubble burst. Imports therefore shrank, and the current account moved into surplus from 2012, although the surplus has begun to diminish in re-

[3] See also European Commission: European Economic Forecast, Summer 2019 (Interim), European Commission: European Economic Forecast, Spring 2019 and IMF Country Report No. 19/46.

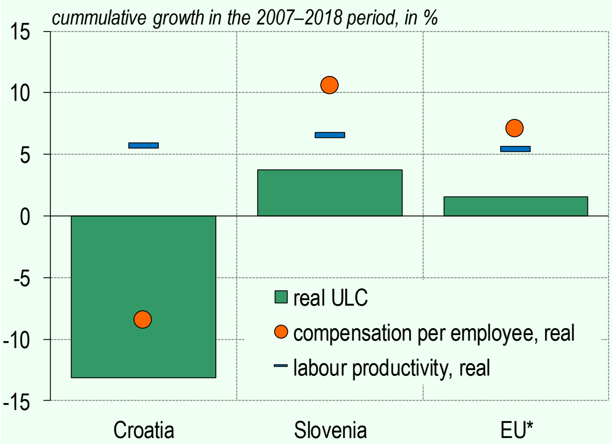
cent years as a result of the increase in private consumption and, partly, in investment. The 12-month current account surplus amounted to 2.2% of GDP in the first quarter of this year. The government sector and the private sector have undertaken deleveraging at the same time. Government debt as measured by the ratio to GDP peaked in 2015 at 83.7%, but had declined to 74.6% by last year in the wake of the improvement in the general government balance and the decline in interest expenditure. The private non-financial sector's debt amounted to 123.4% of GDP last year, down 21.5 percentage points on its peak in 2013. Firms accounted for approximately two-thirds of the decline, and their debt amounted to 89.3% of GDP last year. The deleveraging processes brought a significant decline in the external debt. According to figures from the Croatian central bank, the external debt has fallen by 31.4 percentage points since 2014, reaching 75.4% of GDP in March of this year.

Figure 8.2.7: Effective exchange rate of Croatian Kuna



Source: European Commission, Bank of Slovenia calculations.

Figure 8.2.8: Real unit labour costs



*Note: *EU without Croatia and Ireland (the latter experienced enormous competitiveness improvement due to a significant increase in the GDP growth based on the accounting practices of multinational corporations based in IE).*
Source: Eurostat, Bank of Slovenia calculations.

The price competitiveness of the Croatian economy has not changed greatly over the last 11 years, but the cost competitiveness has been improved significantly by an internal devaluation. The rise in the Croatian kuna at the outbreak of the crisis and the faster growth in domestic prices compared with trading partners brought a slight deterioration in the external competitiveness of the Croatian economy, but since 2010 it has improved as the kuna has fallen and relative prices have gradually declined. The nominal effective exchange rate of the kuna, which reflects solely the exchange rate movements of the kuna against a basket of trading partners' currencies, is 3.5% higher (a worse position) than in 2007 on account of the appreciation over the last two years, but the cumulative fall in relative prices mitigated the deterioration in price competitiveness relative to 2007 by just over 1 percentage point, to 2.2%. Cost competitiveness significantly improved over the same period, as a result of several years of decline in relative unit labour costs. In the first quarter of this year, they were down more than 17% on 2007, while the real effective exchange rate deflated by unit labour costs was consequently down (a better position) around 15%.

Croatia's decline in real unit labour costs[4] over the observation period was the largest in the whole EU.[5] They were down 13%, which was attributable to real growth in labour productivity, which rose by as much as the EU average, and even more to the 8.9% real fall in compensation per employee (GDP deflator), which was the second-deepest in the EU, after Greece.[6] Wage

[4] Real unit labour costs are the ratio of compensation per employee to labour productivity, both expressed in nominal values (current prices) or real values (fixed prices).

[5] The only larger figure was in Ireland, but only as a result of an exceptional increase in statistically disclosed GDP and productivity in 2015 caused by the relocation of several multinationals, and is therefore not relevant.

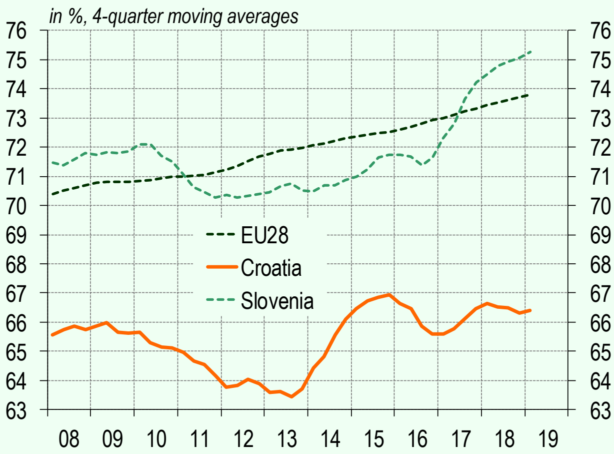
[6] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures.

growth deflated by the HICP has mostly been positive during the new economic cycle, albeit rather low.

Socioeconomic position

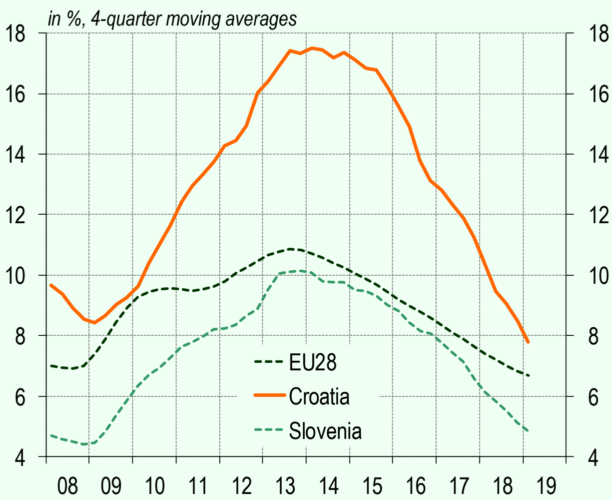
Economic growth has strengthened the purchasing power of Croatian households, but social conditions remain difficult. During the crisis per capita GDP at purchasing power parity declined by 4 percentage points to 59% of the EU average, before rising to 63% of the average in 2018, equal to its pre-crisis level of 2008. The advance is attributable to the improving labour market. The surveyed unemployment rate fell from its crisis peak of 17.5% in 2014 to 7.6% in the first quarter of this year, while the real wage bill increased by 13.4% over the same period, primarily as a result of hiring, but last year was still 4.7% less than before the crisis. It remained slightly down in the first quarter of this year, when year-on-year growth stood at 3.4%.[7] However, despite the strength of the economic cycle, Croatia still faces a low labour force participation rate, while heavy emigration and the aging demographics mean that the population is also falling.[8] The labour force participation rate stood at 66.3% in the first quarter of this year, 7.4 percentage points less than the EU average, while the population fell by 4.2% between 2007 and 2017. At the same time, the risk of poverty and social exclusion remains significantly above the EU average. The continuation of these trends could weaken Croatia's economic potential, as warned by the IMF among others.[9]

Figure 8.2.10: Population activity rate



Note: By Eurostat definition, activity rate is the percentage of active persons in relation to the comparable total population.
Vir: Eurostat, preračuni Banka Slovenije.

Figure 8.2.9: ILO unemployment rate



Source: Eurostat, Bank of Slovenia calculations.

Importance of Croatia to the Slovenian economy

Slovenia's current account surplus with Croatia has widened since 2013, but has not yet reached its pre-crisis levels. The reason is a larger deficit in services, primarily caused by high imports of travel services. According to estimates from the balance of payments, these first increased sharply in 2009, to EUR 257 million, and amounted to fully EUR 356 million over the 12 months to May of this year.[10] The merchandise trade surplus declined sharply during the crisis, largely as a result of a fall in exports of consumer goods caused by the sharp decline in private consumption in Croatia. The merchandise trade surplus then began to increase, as a result of ex-

[7] The wage bill data is taken from the national accounts, and is deflated with the HICP.

[8] Croatian nationals do not play a major role in the Slovenian labour market. According to SORS figures, there were fewer than 7,800 Croatian nationals working in Slovenia at the end of 2018, equivalent to just 0.9% of the workforce in employment (excluding self-employed farmers), and 10.4% of all foreign nationals employed in Slovenia. Net migration from Croatia to Slovenia is also relatively small. It amounted to around 400 people a year over the last decade.

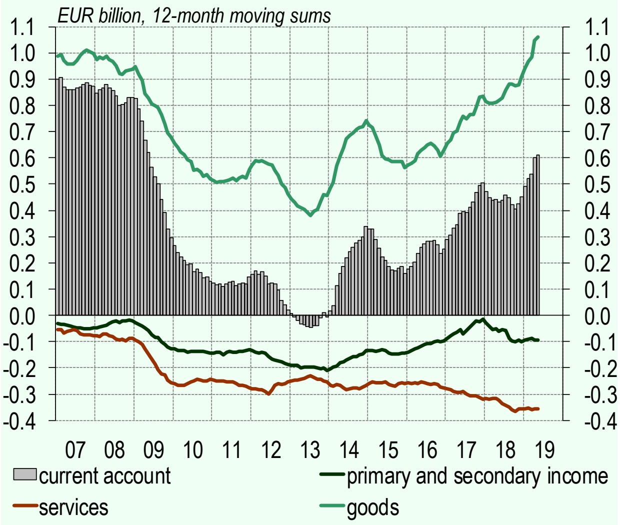
[9] See IMF Country Report No. 19/46, February 2019.

[10] The increase in the deficit is related to a revision to the balance of payments, which is examined in Box 4.1.

ports of intermediate goods, most notably fuels and lubricants, in 2014, and primarily as a result of exports of consumer goods in later years as private consumption in Croatia strengthened. The deficit in income between 2009 and 2015 was primarily related to the negative reinvested earnings of Slovenian non-financial corporations in Croatia, who operated at a loss overall according to the balance of payments figures. The current account surplus over the 12 months to May of this year amounted to EUR 610 million or 1.3% of GDP, down EUR 263 million on 2007.

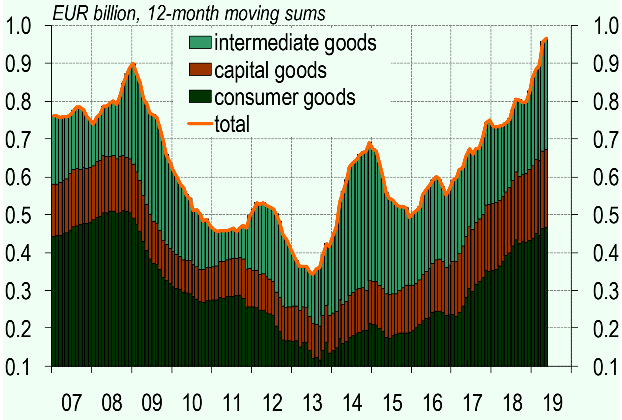
Croatia's importance to Slovenia's exports has increased over the last five years, and it became Slovenia's third most important trading partner in 2016 as growth in merchandise exports to Croatia mostly outpaced exports to Austria. Croatia accounted for approximately 10% of Slovenia's merchandise exports at the beginning of 2007, but the figure was still just under 2 percentage points down 12 years later. After declining during the crisis, a period of sustained growth in merchandise exports was resumed only when Croatia joined the EU in 2013. Merchandise exports in the 12 months to May of this year were up EUR 1 billion or 58% on their pre-crisis peak, primarily as a result of stronger exports of fuels and lubricants, and other capital goods. Intermediate goods and consumer goods are prevalent in the exports breakdown, and account for a half and a third of total exports respectively. The rise in exports of food and beverages since 2014 is particularly noteworthy: over the

Figure 8.2.11: Slovenia's current account balance with Croatia



Source: Bank of Slovenia.

Figure 8.2.12: Goods trade balance between Slovenia and Croatia

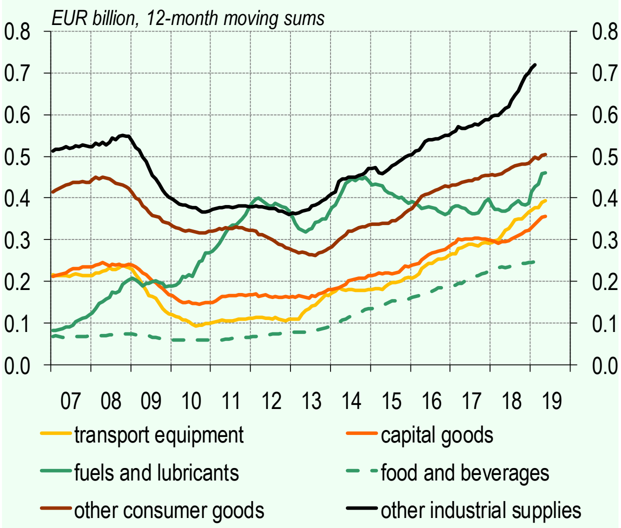


Note: Due to methodological differences, the goods trade balance according to SORS data differs from the goods trade balance according to balance of payments data. For an explanation see Economic and financial developments, October 2018, box 4.1 on page 35.
Source: SORS, Bank of Slovenia calculations.

Figure 8.2.13: Share of Croatia in Slovenia's total exports

Source: Bank of Slovenia.

Figure 8.2.14: Exports of goods to Croatia



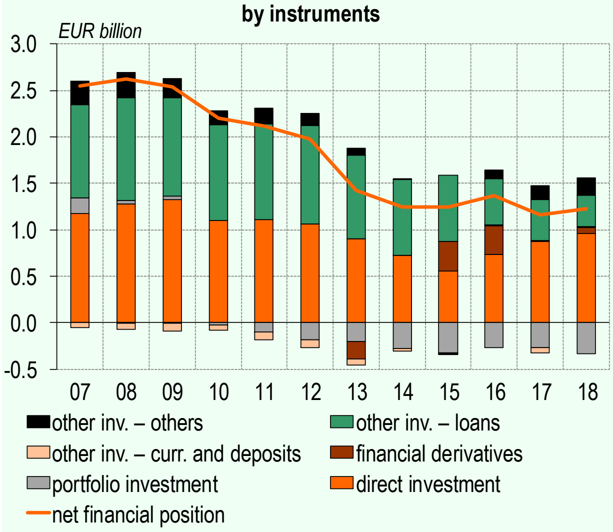
Source: SORS, Bank of Slovenia calculations.

12 months to May of this year, they were up EUR 166 billion or 183% on 2013. Another highlight is rising exports of fuels and lubricants, which over the 12 months to May were up approximately EUR 340 million or 286% on 2007, while the share of total merchandise exports to Croatia that they account for increased by 9.5 percentage points to 17%.

Slovenia's positive net financial position vis-à-vis Croatia has narrowed significantly over the last decade. It amounted to EUR 1,226 million or 2.7% of GDP in 2018, EUR 1,397 million less than its peak in 2008. The main reason for the change is a decline in net claims in the form of loans. They amounted to less than 1% of GDP at the end of 2018, as Slovenian firms and banks have reduced their exposure to Croatia by EUR 764 million since 2008. Net claims in the form of direct investment have also declined, by EUR 362 million from their peak in 2009, largely as a result of an increase in Croatian firms' holdings of equity in Slovenian firms. Net claims in the form of direct investment have been increasing again since 2015, albeit primarily as a result of purchases of real estate. There has been a deficit since 2010 in investments in securities, as Croatian firms have increased their portfolio investments in shares in Slovenian firms.

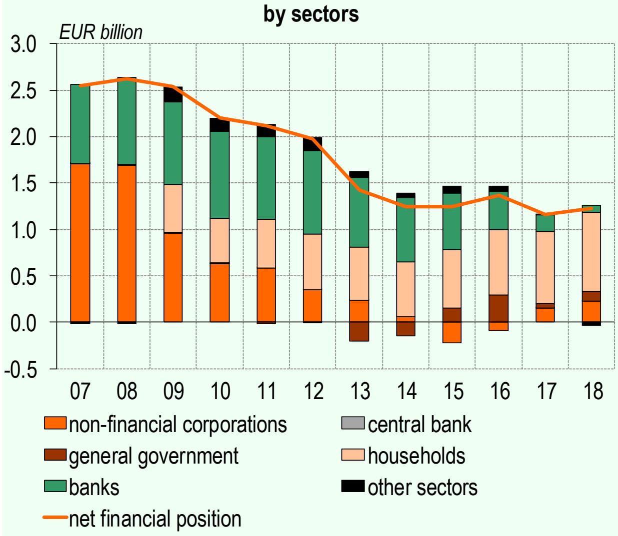
Croatia is the largest recipient of Slovenian outward FDI, albeit largely as a result of real estate purchases. The stock amounted to EUR 1,951 million at the end of 2018, equivalent to 32.2% of Slovenia's total outward FDI. Households' investments in real estate are prominent, and were the sole investment to increase significantly over the last decade, by almost EUR 500 million to EUR 885 million. The length of the crisis in Croatia meant that in 2018 Slovenian firms' FDI in Croatia (excluding real estate) was still down approximately EUR 70 million on its peak in 2010. It amounted to slightly more than EUR 1 billion at the end of 2018, and has been gradually increasing as economic growth has resumed in Croatia. The heaviest investment in Croatia comes from firms in the sectors of wholesale and retail trade and repair of motor vehicles and motorcycles, and manufacturing. Investments by firms in other sectors are small and granular.

Figure 8.2.15: Net financial position of Slovenia vis-à-vis Croatia by instruments



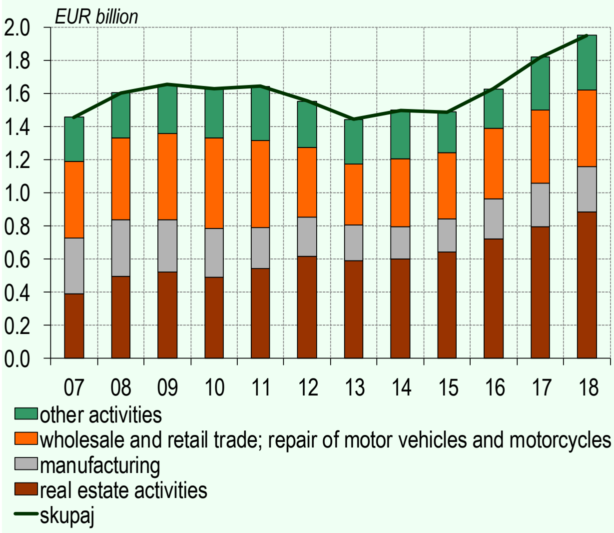
Source: Bank of Slovenia.

Figure 8.2.16: Net financial position of Slovenia vis-à-vis Croatia by sectors



Source: Bank of Slovenia.

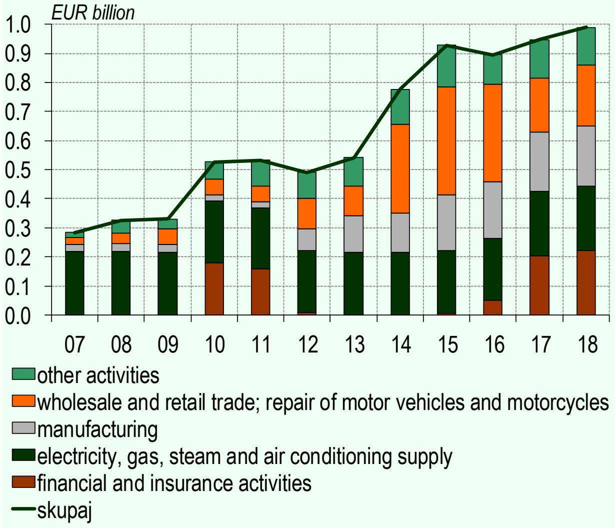
Figure 8.2.17: Slovenian direct investment in Croatia



Source: Bank of Slovenia.

Croatia's direct investment in Slovenia has increased significantly over the last decade, although its share of total inward FDI remains small. The stock amounted to EUR 990 million at the end of 2018. This is up approximately EUR 700 million on a decade earlier, but still accounts for only 6.5% of total inward direct investment in Slovenia. The Croatian investments were relatively equally distributed between manufacturing, financial and insurance activities, wholesale and retail trade, and electricity supply at the end of 2018. The value of the last of these has not seen any significant changes, and is most likely related to the co-ownership of the nuclear power station, while the decline in investment in wholesale and retail trade is related to changes in participating interests in a major trade firm. There has been a significant increase in the stock of investment in manufacturing, mainly in connection with the acquisitions of Slovenian food firms. A change of foreign owners brought an increase in one Croatian bank's equity holdings in the Slovenian banking system in 2017.

Figure 8.2.18: Croatian direct investment in Slovenia



Source: Bank of Slovenia.

9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2015	2016	2017	18Q3	18Q4	Mar.18	Apr.19	May 19
1.1. Claims of the Bank of Slovenia	5,410	6,544	7,143	7,055	8,168	7,179	7,584	7,876
1.2. Claims of other MFIs	8,266	8,100	8,504	8,515	8,280	8,486	8,627	8,681
1. Claims on foreign sectors (foreign assets)	**13,676**	**14,643**	**15,647**	**15,570**	**16,448**	**15,664**	**16,210**	**16,557**
2.1. Claims of the Bank of Slovenia on central government	2,327	4,618	6,247	7,041	7,165	7,152	7,219	7,327
2.2.1.1. Loans	1,298	1,506	1,425	1,222	1,174	1,129	1,106	1,162
2.2.1.2. Securities	5,814	4,767	3,744	3,609	3,763	3,690	3,838	3,926
2.2.1. Claims on central government	7,112	6,273	5,170	4,831	4,937	4,819	4,944	5,089
2.2.2.1. Loans	622	579	571	554	580	583	577	581
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	622	579	571	554	580	583	577	581
2.2. Claims of other MFIs on general government	7,734	6,852	5,740	5,385	5,517	5,401	5,521	5,669
2.3.1.1. Loans	10,040	9,306	9,311	9,322	9,178	9,361	9,317	9,246
2.3.1.2. Securities	462	405	334	325	319	320	319	326
2.3.1. Claims on nonfinancial corporations	10,502	9,711	9,645	9,647	9,496	9,681	9,637	9,571
2.3.2. Households and non-profit institutions serving households	8,856	9,154	9,735	10,231	10,370	10,507	10,570	10,628
2.3.3.1. Loans	898	865	1,171	1,069	1,070	1,052	1,058	1,067
2.3.3.2. Securities	534	543	395	524	432	434	426	415
2.3.3. Claims on nonmonetary financial institutions	1,432	1,408	1,566	1,594	1,502	1,486	1,484	1,482
2.3. Claims of other MFIs on other non-MFIs	20,790	20,272	20,946	21,472	21,369	21,673	21,691	21,682
2. Claims on domestic non-MFIs	**30,850**	**31,743**	**32,934**	**33,898**	**34,050**	**34,226**	**34,431**	**34,678**
3. Remaining assets	**3,119**	**2,192**	**1,461**	**1,375**	**1,439**	**1,584**	**1,706**	**1,670**
Total assets	**47,646**	**48,578**	**50,042**	**50,843**	**51,937**	**51,475**	**52,347**	**52,905**
1.1. Bank of Slovenia	16	1,267	1,506	111	63	29	35	63
1.2. Other MFIs	5,920	5,094	4,436	3,844	3,911	3,922	3,928	4,011
1. Obligations to foreign sectors (foreign liabilities)	**5,936**	**6,362**	**5,943**	**3,956**	**3,973**	**3,951**	**3,963**	**4,074**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,956	5,160	5,371	5,487	5,655	5,499	5,557	5,568
2.1.1.2. Overnight deposits at other MFIs	13,057	15,471	17,727	19,187	19,877	20,153	20,135	20,335
2.1.1.3.1. Non-monetary financial institutions	9	69	11	71	76	351	537	377
2.1.1.3.2. Other government sector	53	62	107	112	100	108	103	118
2.1.1.3. Overnight deposits at the Bank of Slovenia	63	131	118	183	176	459	640	495
2.1.1. Banknotes and coins and overnight liabilities	18,075	20,761	23,216	24,856	25,708	26,111	26,332	26,398
2.1.2.1. Deposits at the Bank of Slovenia	1	0	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	7,837	6,864	6,127	5,748	5,727	5,721	5,802	5,833
2.1.2. Time deposits	7,838	6,864	6,127	5,748	5,727	5,721	5,802	5,833
2.1.3. Deposits reedemable at notice up to 3 months	315	464	473	539	492	630	679	661
2.1. Banknotes and coins and deposits up to 2 years	26,229	28,089	29,816	31,143	31,927	32,463	32,813	32,892
2.2. Debt securities, units/shares of money market funds and repos	56	102	55	65	78	60	58	60
2. Banknotes and coins and instruments up to 2 years	**26,285**	**28,190**	**29,871**	**31,207**	**32,006**	**32,523**	**32,871**	**32,952**
3. Long-tern financial obligations to non-MFIs	**1,550**	**1,510**	**1,524**	**1,349**	**1,314**	**1,338**	**1,323**	**1,320**
4. Remaining liabilities	**15,378**	**14,100**	**14,035**	**15,268**	**15,636**	**14,913**	**15,534**	**15,844**
5. Excess of inter-MFI liabilities	**-1,504**	**-1,584**	**-1,330**	**-937**	**-992**	**-1,249**	**-1,344**	**-1,284**
Total liabilities	**47,646**	**48,578**	**50,042**	**50,843**	**51,937**	**51,475**	**52,347**	**52,905**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2015	2016	2017	18Q3	18Q4	Mar.18	Apr.19	May 19
1.1. Gold	100	112	111	104	115	118	117	119
1.2. Receivable form IMF	367	361	338	355	372	370	383	383
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	699	588	233	210	1,464	370	722	954
1.5. Securities	4,141	5,380	6,359	6,282	6,114	6,211	6,248	6,304
1.6. Other claims	103	103	103	103	103	110	113	116
1. Claims on foreign sectors (foreign assets)	**5,410**	**6,544**	**7,143**	**7,055**	**8,168**	**7,179**	**7,584**	**7,876**
2.1. Claims on central government	2,327	4,618	6,247	7,041	7,165	7,152	7,219	7,327
2.2.1. Loans	901	714	1,142	1,102	1,102	1,052	1,052	1,052
2.2.2. Other claims	44	99	98	1	3	3	3	3
2.2. Claims on domestic monetary sector	946	813	1,240	1,103	1,105	1,055	1,055	1,055
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**3,275**	**5,433**	**7,489**	**8,146**	**8,271**	**8,209**	**8,276**	**8,384**
3. Remaining assets	**1,685**	**973**	**279**	**265**	**274**	**384**	**537**	**382**
Total assets	**10,370**	**12,950**	**14,911**	**15,465**	**16,713**	**15,772**	**16,397**	**16,641**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,956**	**5,160**	**5,371**	**5,487**	**5,655**	**5,499**	**5,557**	**5,568**
2.1.1.1.1. Overnight	1,634	2,252	2,939	3,158	3,391	3,385	3,158	3,303
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,634	2,252	2,939	3,158	3,391	3,385	3,158	3,303
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,634	2,252	2,939	3,158	3,391	3,385	3,158	3,303
2.1.2.1.1. Overnight	1,730	1,949	2,521	3,181	3,704	1,899	2,354	2,365
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,730	1,949	2,521	3,181	3,704	1,899	2,354	2,365
2.1.2.2. Foreign currency	60	78	56	5	5	6	4	6
2.1.2. General government	1,789	2,027	2,577	3,186	3,708	1,904	2,358	2,371
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	69	11	71	76	351	537	377
2.1.3. Other domestic sectors	11	69	11	71	76	351	537	377
2.1. Domestic sectors	3,434	4,348	5,527	6,414	7,176	5,641	6,053	6,051
2.2. Foreign sectors	16	1,267	1,506	111	63	29	35	63
2. Deposits	**3,450**	**5,615**	**7,033**	**6,525**	**7,238**	**5,670**	**6,089**	**6,114**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**275**	**256**	**260**	**262**	**267**	**267**	**267**
5. Capital and reserves	**1,533**	**1,748**	**1,883**	**1,838**	**1,909**	**2,275**	**2,292**	**2,416**
6. Remaining liabilities	**157**	**152**	**367**	**1,355**	**1,649**	**2,061**	**2,192**	**2,277**
Total liabilities	**10,370**	**12,950**	**14,911**	**15,465**	**16,713**	**15,772**	**16,397**	**16,641**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	**2015**	**2016**	**2017**	**18Q3**	**18Q4**	**Mar.18**	**Apr.19**	**May 19**
1.1.1. Cash	294	322	355	347	425	352	416	373
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,634	2,252	2,939	3,158	3,391	3,385	3,158	3,303
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,928	2,574	3,294	3,505	3,817	3,737	3,574	3,676
1.2.1. Loans	1,264	1,061	873	901	865	804	773	764
1.2.2. Debt securities	245	256	71	-	18	17	32	32
1.2.3. Shares and other equity	62	2	2	1	1	0	0	0
1.2. Claims on other MFI's	1,572	1,319	947	902	884	822	805	796
1.3.1. Loans	21,714	21,410	22,213	22,399	22,371	22,630	22,628	22,684
1.3.2. Debt securities	6,050	5,030	3,775	3,650	3,797	3,724	3,871	3,959
1.3.3. Shares and other equity	759	685	698	808	717	720	713	707
1.3. Claims on nonmonetry sectors	28,524	27,125	26,687	26,857	26,885	27,075	27,212	27,351
1. Claims on domestic sectors (domestic assets)	**32,024**	**31,018**	**30,927**	**31,264**	**31,586**	**31,633**	**31,591**	**31,823**
2.1.1. Cash	34	38	35	41	35	36	41	44
2.1.2. Loans	2,767	2,628	2,154	1,882	1,681	1,859	1,871	1,880
2.1.3. Debt securities	1,027	1,165	1,333	1,396	1,311	1,345	1,383	1,380
2.1.4 Shares and other equity	567	567	579	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,395	4,398	4,100	3,898	3,605	3,819	3,873	3,882
2.2.1. Loans	1,597	1,155	899	980	1,023	1,035	1,040	1,103
2.2.2. Debt securities	1,870	2,151	3,190	3,330	3,346	3,330	3,412	3,394
2.2.3. Shares and other equity	405	396	314	308	306	301	302	302
2.2. Claims on foreign nonmonetary sectors	3,871	3,701	4,404	4,617	4,675	4,667	4,753	4,799
2. Claims on foreign sectors (foreign assets)	**8,266**	**8,100**	**8,504**	**8,515**	**8,280**	**8,486**	**8,627**	**8,681**
3. Remaining assets	**1,314**	**1,074**	**1,015**	**709**	**764**	**1,123**	**1,118**	**1,209**
Total assets	**41,603**	**40,191**	**40,447**	**40,488**	**40,630**	**41,242**	**41,336**	**41,713**
1.1.1. Deposits, loans from the Bank of Slovenia	901	714	1,142	1,102	1,102	1,052	1,052	1,052
1.1.2. Deposits, loans from other MFIs	1,301	1,123	962	983	931	911	867	858
1.1.3. Debt securities issued	38	18	12	-	75	-	-	15
1.1. Laibilities to monetary sectors	2,240	1,855	2,115	2,085	2,108	1,963	1,919	1,924
1.2.1.1. Overnight	12,661	15,038	17,287	18,693	19,396	19,649	19,769	19,948
1.2.1.2. With agreed maturity	10,604	9,076	8,125	7,561	7,477	7,590	7,540	7,574
1.2.1.3. Reedemable at notice	474	615	548	637	561	740	792	771
1.2.1. Deposits in domestic currency	23,739	24,729	25,960	26,891	27,434	27,979	28,101	28,292
1.2.2. Deposits in foreign currency	599	632	593	624	626	620	618	649
1.2.3. Debt securities issued	84	38	15	15	15	15	15	31
1.2. Liabilities to nonmonetary sectors	24,422	25,400	26,569	27,530	28,075	28,614	28,734	28,972
1. Obligations to domestic sectors (domestic liabilities)	**26,661**	**27,254**	**28,683**	**29,615**	**30,183**	**30,577**	**30,653**	**30,896**
2.1.1. Deposits	2,578	2,084	1,627	1,606	1,549	1,503	1,536	1,607
2.1.2. Debt securities issued	975	710	327	36	36	111	111	111
2.1. Liabilities to foreign monetry sectors	3,553	2,794	1,954	1,642	1,585	1,613	1,647	1,718
2.2.1. Deposits	1,954	1,738	1,975	1,694	1,693	1,667	1,640	1,639
2.2.2. Debt securities issued	27	23	22	22	22	22	22	35
2.2. Liabilities to foreign nonmonetary sectors	1,981	1,761	1,997	1,716	1,715	1,688	1,662	1,675
2. Obligations to foreign sectors (foreign liabilities)	**5,535**	**4,555**	**3,952**	**3,358**	**3,300**	**3,302**	**3,309**	**3,392**
3. Capital and reserves	**4,676**	**4,841**	**4,904**	**5,045**	**4,884**	**4,995**	**5,050**	**5,077**
4. Remaining liabilities	**4,731**	**3,540**	**2,908**	**2,470**	**2,263**	**2,368**	**2,324**	**2,347**
Total liabilities	**41,603**	**40,191**	**40,447**	**40,488**	**40,630**	**41,242**	**41,336**	**41,713**

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

in % on annual level	2015	2016	2017	2018	Mar.19	Apr.19	May 19
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.01	7.84	7.85	7.81	7.78	7.77	7.76
Households, extended credit	7.84	7.73	7.75	7.63	7.60	7.60	7.59
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.19	4.23	4.44	4.65	4.56	4.47	4.52
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.64	5.66	5.92	6.04	6.03	5.93	5.95
Loans, households, consumption, over 5 years initial rate fixation	5.28	6.12	6.20	6.29	6.25	6.17	6.25
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.82	3.47	3.69	3.74	4.07	3.78	3.98
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.61	5.27	4.89	5.12	5.23	5.30	4.93
C. loans, households, consumption, over 5 year initial rate fixation	5.58	5.05	5.19	5.06	5.27	5.62	5.57
APRC, Loans to households for consumption	7.42	7.55	7.73	7.64	7.72	7.62	7.74
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.22	2.04	1.99	1.89	1.95	1.93	1.93
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.87	3.58	2.75	3.22	2.87	3.04	2.81
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.16	2.49	2.65	2.74	2.69	2.66	2.80
Loans, households, house purchase, over 10 years initial rate fixation	3.16	2.56	2.91	2.95	2.92	2.94	2.96
C. loans, households, house purchase variabel and up to years initial rate fixation	2.21	2.02	1.99	1.87	1.94	1.93	1.94
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.63	2.12	2.38	2.87	2.31	2.71	2.55
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.04	2.38	2.34	2.56	2.48	2.50	2.56
C. loans, households, house purchase, over 10 years initial rate fixation	3.12	2.53	2.85	2.89	2.88	2.91	2.92
APRC, Loans to households for house purchase	2.85	2.58	2.77	2.75	2.80	2.79	2.76
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.51	3.49	3.58	3.68	3.92	3.93	3.89
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.93	5.28	5.30	4.78	5.54	4.38	5.20
Loans, households, other purposes, over 5 years initial rate fixation	7.79	5.92	5.35	6.80	6.40	6.81	6.93
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	3.45	2.81	2.41	2.22	2.15	2.15	2.14
S.11, extended credit	7.16	6.70	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	3.38	2.74	2.69	2.30	2.57	2.75	2.55
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.50	3.31	2.89	2.49	2.38	2.69	2.67
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.23	4.52	3.98	3.72	4.06	3.79	3.89
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.36	4.57	4.03	4.24	5.12	4.53	4.69
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.87	4.56	3.51	4.16	5.00	5.09	5.04
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	3.34	2.92	2.22	4.25	-	5.12	3.94
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.49	2.19	1.89	2.06	1.68	1.74	1.80
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.57	2.49	2.09	2.11	2.00	1.99	2.07
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	3.06	1.21	1.94	1.91	2.73	2.22	1.88
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	2.89	1.46	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	3.06	1.94	2.57	1.74	1.28	2.43	3.26
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	2.10	-	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.61	2.23	1.85	1.25	1.56	1.50
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.87	2.35	1.58	1.76	2.12	1.95	2.22
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	1.00	-	-	0.75	-	1.35	0.00
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	-	1.06	1.15	-	2.63	0.97	1.67
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.79	1.92	-	1.47	-	1.70	1.33
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	3.56	2.23	1.88	2.04	-	-	1.66
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.03	0.02	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.28	0.23	0.14	0.17	0.17	0.16	0.19
Deposits, households, agreed maturity over 1 and up to 2 years	0.70	0.44	0.51	0.54	0.50	0.37	0.37
Deposits, households, agreed maturity over 2 years	1.07	0.72	0.69	0.89	0.76	0.75	0.73
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.06	0.05	0.04	0.00	0.02	0.02	0.02
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.57	0.20	0.12	0.19	0.17	0.16	0.15
Deposits, S.11, agreed maturity over 2 years	1.07	0.49	0.26	0.19	0.21	0.27	0.26
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.10	0.02	0.00	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	0.93	0.55	0.52	0.89	0.82	0.82	1.12

Table 9.5: International investment position

EUR million		2015	2016	2017	18Q2	18Q3	18Q4	19Q1
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-12,115**	**-11,646**	**-10,421**	**-9,019**	**-7,988**	**-8,670**	**-8,643**
1	**ASSETS**	**45,069**	**45,352**	**46,563**	**48,063**	**48,604**	**49,244**	**51,181**
1.1	**Direct investment**	**7,252**	**7,767**	**8,328**	**8,629**	**8,854**	**8,780**	**9,260**
1.1.1	Equity	3,959	4,149	4,345	4,575	4,775	4,709	4,751
1.1.2	Debt instruments	3,293	3,618	3,984	4,053	4,080	4,071	4,510
1.2	**Portfolio investment**	**15,522**	**17,632**	**20,649**	**20,768**	**21,205**	**20,611**	**21,446**
1.2.1	Equity and investment fund shares	4,366	4,430	5,017	5,189	5,320	4,842	5,203
1.2.2	Debt securities	11,156	13,202	15,632	15,578	15,885	15,769	16,243
1.3	**Financial derivatives**	**1,266**	**1,086**	**302**	**258**	**304**	**384**	**293**
1.4	**Other investment**	**20,243**	**18,161**	**16,540**	**17,694**	**17,460**	**18,653**	**19,324**
1.4.1	Other equity	1,160	1,195	1,279	1,352	1,371	1,341	1,376
1.4.2	Currency and deposits	11,371	9,296	7,187	7,550	7,273	8,785	8,818
1.4.3	Loans	3,122	2,670	2,391	2,413	2,472	2,545	2,631
1.4.4	Insurance, pension and standardized guarantee schemes	129	141	148	149	149	141	149
1.4.5	Trade credit and advances	3,890	4,202	4,801	5,404	5,540	5,206	5,707
1.4.6	Other accounts receivable	571	656	734	825	654	636	643
1.5	**Reserve assets**	**787**	**705**	**743**	**715**	**781**	**816**	**858**
1.5.1	Monetary gold	100	112	111	110	104	115	118
1.5.2	Special drawing rights	264	207	235	240	239	242	246
1.5.3	Reserve position in the IMF	104	154	103	96	116	131	125
1.5.4	Other reserve assets	320	232	294	270	321	329	369
2	**LIABILITIES**	**57,184**	**56,998**	**56,984**	**57,083**	**56,592**	**57,913**	**59,824**
2.1	**Direct investment**	**13,356**	**14,996**	**16,316**	**16,874**	**17,428**	**17,870**	**18,707**
2.1.1	Equity	9,804	11,563	12,590	13,017	13,527	13,803	14,535
2.1.2	Debt instruments	3,552	3,433	3,726	3,857	3,902	4,067	4,172
2.2	**Portfolio investment**	**23,959**	**21,439**	**21,200**	**21,204**	**20,410**	**20,867**	**21,055**
2.2.1	Equity and investment fund shares	1,038	966	1,085	1,079	974	1,751	1,778
2.2.2	Debt securities	22,921	20,473	20,115	20,125	19,436	19,116	19,277
2.3	**Financial derivatives**	**163**	**139**	**81**	**91**	**106**	**217**	**995**
2.4	**Other investment**	**19,707**	**20,424**	**19,388**	**18,913**	**18,647**	**18,960**	**19,067**
2.4.1	Other equity	32	36	37	37	37	44	44
2.4.2	Currency and deposits	2,277	3,413	3,747	2,621	2,864	3,226	3,355
2.4.3	Loans	12,851	12,155	10,337	10,286	10,274	9,986	9,888
2.4.4	Insurance, pension and standardized guarantee schemes	221	213	219	266	252	228	268
2.4.5	Trade credit and advances	3,433	3,711	4,161	4,493	4,384	4,602	4,592
2.4.6	Other accounts payable	617	620	631	948	576	612	653
2.4.7	Special drawing rights	275	275	256	261	260	262	267

Table 9.6: Gross external debt

EUR million		2015	2016	2017	18Q3	18Q4	19Q1	May 19
	TOTAL (1+2+3+4+5)	**46,148**	**44,293**	**43,191**	**41,948**	**42,099**	**42,472**	**42,994**
1	**GENERAL GOVERNMENT**	**25,032**	**23,171**	**21,940**	**21,322**	**21,045**	**21,102**	**21,230**
1.1	**Short-term, of that**	**1,716**	**1,522**	**652**	**667**	**732**	**652**	**732**
	Debt securities	15	22	75	115	85	105	90
	Loans	1,201	1,058	273	241	336	239	329
	Trade credit and advances	35	42	35	46	35	34	40
	Other debt liabilities	466	400	269	264	276	274	272
1.2	**Long-term, of that**	**23,316**	**21,649**	**21,288**	**20,656**	**20,314**	**20,450**	**20,498**
	Debt securities	21,813	19,877	19,517	18,917	18,602	18,743	18,767
	Loans	1,500	1,768	1,769	1,738	1,709	1,705	1,707
2	**CENTRAL BANK**	**1,529**	**2,722**	**3,011**	**2,314**	**2,661**	**2,843**	**3,101**
2.1	**Short-term, of that**	**1,254**	**2,447**	**2,755**	**2,054**	**2,399**	**2,576**	**2,835**
	Currency and deposits	1,254	2,447	2,755	2,054	2,399	2,576	2,835
2.2	**Long-term, of that**	**275**	**275**	**256**	**260**	**262**	**267**	**267**
	Special drawing rights (allocations)	275	275	256	260	262	267	267
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**5,195**	**4,117**	**3,782**	**3,373**	**3,344**	**3,305**	**3,425**
3.1	**Short-term**	**702**	**817**	**1,058**	**935**	**927**	**907**	**1,086**
	Currency and deposits	490	578	765	644	669	622	693
	Debt securities	…	…	…	…	…	…	…
	Loans	207	221	200	258	251	235	315
	Trade credit and advances	…	…	…	…	…	…	…
	Other debt liabilities	5	18	92	32	7	50	77
3.2	**Long-term**	**4,493**	**3,300**	**2,724**	**2,438**	**2,418**	**2,398**	**2,339**
	Currency and deposits	534	387	227	166	159	156	114
	Debt securities	652	287	168	48	88	89	103
	Loans	3,301	2,620	2,323	2,218	2,162	2,144	2,119
	Trade credit and advances	7	5	6	4	7	3	2
	Other debt liabilities	0	1	1	3	1	6	2
4	**OTHER SECTORS**	**10,839**	**10,851**	**10,731**	**11,037**	**10,982**	**11,050**	**11,141**
4.1	**Short-term, of that**	**3,976**	**4,250**	**4,596**	**4,957**	**5,182**	**5,252**	**5,328**
	Debt securities	0	2	0	2	1	1	3
	Loans	487	447	281	427	375	460	465
	Trade credit and advances	3,385	3,649	4,094	4,306	4,540	4,536	4,591
	Other debt liabilities	102	153	220	222	267	255	268
4.2	**Long-term, of that**	**6,864**	**6,600**	**6,135**	**6,080**	**5,800**	**5,799**	**5,813**
	Debt securities	441	284	355	354	340	339	373
	Loans	6,155	6,041	5,490	5,393	5,154	5,106	5,084
	Trade credit and advances	7	16	26	26	17	17	17
	Other debt liabilities	260	259	264	307	289	337	338
5	**DIRECT INVESTMENT: intercompany lending**	**3,552**	**3,433**	**3,726**	**3,902**	**4,067**	**4,172**	**4,097**
	NET EXTERNAL DEBT POSITION	**11,828**	**9,803**	**7,572**	**5,115**	**4,131**	**2,924**	**2,359**

Table 9.7: Balance of payments

EUR million	2016	2017	2018	18Q3	18Q4	19Q1	May 19
I. Current account	**1,942**	**2,635**	**2,593**	**800**	**401**	**647**	**421**
1. Goods	**1,536**	**1,579**	**1,128**	**371**	**2**	**391**	**230**
1.1. Export of goods	**24,991**	**28,478**	**31,133**	**7,605**	**8,059**	**8,276**	**2,983**
Export f.o.b.	24,971	28,265	30,858	7,490	7,954	8,233	2,946
Coverage adjustment	-194	-36	18	30	35	-38	4
Net export of goods under merchanting	186	229	237	76	67	76	33
Nonmonetary gold	29	20	21	10	2	5	0
1.2. Import of goods	**23,454**	**26,899**	**30,005**	**7,234**	**8,056**	**7,885**	**2,754**
Import c.i.f.	24,112	27,606	30,706	7,383	8,226	8,090	2,818
Coverage adjustment	-5	34	120	43	54	14	15
Valuation adjustment	-680	-778	-867	-209	-233	-229	-80
Nonmonetary gold	27	37	45	16	9	9	...
2. Services	**1,925**	**2,241**	**2,678**	**803**	**702**	**590**	**234**
2.1. Export of services, of that	**6,501**	**7,288**	**7,963**	**2,286**	**2,109**	**1,790**	**666**
Transport	1,839	2,076	2,335	574	620	599	211
Travel	2,271	2,523	2,704	1,013	580	490	202
Construction services	374	422	497	141	157	141	48
Telecomm., computer and inform. services	552	544	540	135	163	122	51
Other business services	970	1,248	1,341	295	436	292	110
2.2. Import of services, of that	**4,575**	**5,047**	**5,285**	**1,483**	**1,407**	**1,201**	**432**
Transport	917	1,005	1,007	243	274	257	93
Travel	1,176	1,322	1,389	573	269	247	107
Construction services	104	126	177	44	64	38	15
Telecomm., computer and inform. services	528	539	543	144	152	130	43
Other business services	1,147	1,324	1,442	320	429	342	119
3. Primary income	**-1,139**	**-886**	**-807**	**-254**	**-228**	**-112**	**-13**
3.1. Receipts	**1,259**	**1,374**	**1,592**	**320**	**413**	**427**	**158**
Compensation of employees	355	378	454	106	127	97	44
Investment	637	703	792	183	203	175	66
Other primary income	267	293	345	31	83	155	49
3.2. Expenditure	**2,398**	**2,260**	**2,399**	**574**	**642**	**539**	**171**
Compensation of employees	132	149	173	47	45	42	16
Investment	2,081	1,929	2,022	482	543	435	140
Other primary income	184	182	204	46	54	61	14
4. Secondary income	**-381**	**-299**	**-406**	**-120**	**-75**	**-221**	**-30**
4.1. Receipts	**713**	**828**	**789**	**172**	**241**	**182**	**59**
4.2. Expenditure	**1,094**	**1,127**	**1,196**	**292**	**316**	**403**	**89**

Table 9.8: Balance of payments – continued

EUR million	2016	2017	2018	18Q3	18Q4	19Q1	May 19
II. Capital account	**-303**	**-324**	**-225**	**-28**	**-120**	**-21**	**-1**
1. Nonproduced nofinancial assets	-45	-76	-47	13	-81	30	13
2. Capital transfers	-258	-248	-178	-41	-39	-50	-14
III. Financial account	**1,187**	**2,088**	**2,527**	**699**	**213**	**471**	**332**
1. Direct investment	**-864**	**-495**	**-933**	**-465**	**-217**	**-430**	**-12**
Assets	434	570	362	18	94	414	25
Equity and reinvested earnings	273	230	432	199	94	5	-47
Debt instruments	161	340	-70	-181	0	410	72
Liabilities	1,298	1,065	1,295	483	311	845	36
Equity and reinvested earnings	1,503	932	1,075	502	149	733	21
Debt instruments	-205	133	220	-20	162	112	16
2. Portfolio investment	**5,023**	**2,987**	**750**	**996**	**-515**	**508**	**40**
Assets	2,018	2,848	498	429	-172	254	-33
Equity and investment fund shares	-91	330	123	21	-85	-38	-51
Debt securities	2,109	2,518	375	408	-86	291	19
Liabilities	-3,005	-138	-252	-568	343	-254	-72
Equity and investment fund shares	48	39	543	-2	651	-15	-5
Debt securities	-3,053	-178	-795	-566	-308	-239	-67
3. Financial derivatives	**-270**	**-185**	**-86**	**24**	**-36**	**-177**	**-2**
4. Other investment	**-2,606**	**-308**	**2,743**	**73**	**965**	**549**	**299**
4.1. Assets	**-2,221**	**-1,381**	**2,031**	**-371**	**1,214**	**658**	**722**
Other equity	35	72	68	16	-25	31	0
Currency and deposits	-2,132	-2,076	1,590	-286	1,512	4	561
Loans	-203	-115	207	50	72	51	132
Insurance, pension and stand. guar. schemes	10	5	-7	-1	-8	8	...
Trade credits and advances	167	615	303	54	-318	560	-39
Other assets	-97	118	-130	-205	-18	4	68
4.2. Liabilities	**385**	**-1,073**	**-713**	**-444**	**249**	**109**	**423**
Other equity	4	20	2	0	2	0	0
Currency and deposits	1,128	365	-524	242	365	129	155
Loans	-818	-1,853	-490	-85	-299	-105	70
Insurance, pension and stand. guar. schemes	-8	5	20	-14	-14	40	...
Trade credits and advances	137	411	331	-201	179	5	161
Other liabilities	-57	-21	-52	-385	16	41	36
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-97**	**89**	**52**	**70**	**16**	**21**	**7**
IV. Net errors and omissions	**-452**	**-223**	**158**	**-73**	**-68**	**-156**	**-88**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors − total								
Total	185,986	184,544	192,034	194,497	197,499	197,812	198,835	202,581
Monetary gold and SDRs	363	320	346	344	349	344	356	364
Currency and deposits	46,593	42,485	42,892	44,147	45,094	44,818	47,844	46,830
Debt securities	22,828	26,103	28,482	28,097	28,721	29,075	29,198	29,393
Loans	39,625	37,557	37,748	37,938	38,066	38,183	37,983	38,415
Shares	19,713	18,765	19,566	19,972	20,528	20,079	18,561	19,036
Other equity	23,304	24,753	26,978	27,221	27,341	27,462	27,667	29,962
Investment fund shares/units	3,879	4,049	4,540	4,539	4,654	4,653	4,284	4,740
Insurance and pension schemes	7,406	7,737	8,003	8,035	8,163	8,223	8,074	8,357
Other	22,274	22,777	23,479	24,205	24,584	24,975	24,869	25,483
Non-financial corporations								
Total	41,559	43,091	46,138	47,074	47,450	47,651	47,271	48,647
Currency and deposits	5,826	6,399	7,107	7,080	7,141	7,273	7,537	7,559
Debt securities	142	127	109	103	121	121	112	107
Loans	5,849	5,781	5,776	5,964	6,068	5,924	5,722	5,990
Shares	2,896	2,665	2,507	2,520	2,560	2,480	2,417	2,366
Other equity	11,472	12,185	13,463	13,534	13,441	13,577	13,413	13,942
Investment fund shares/units	99	52	67	69	63	63	58	61
Insurance and pension schemes	427	438	444	476	473	465	442	469
Other	14,849	15,444	16,665	17,327	17,582	17,749	17,571	18,154
Monetary financial institutions								
Total	50,657	51,929	54,397	54,423	55,500	55,242	56,594	56,115
Monetary gold and SDRs	363	320	346	344	349	344	356	364
Currency and deposits	7,560	7,168	6,249	6,375	6,814	6,154	7,503	6,718
Debt securities	15,973	18,971	21,263	21,016	21,557	21,843	21,894	21,897
Loans	25,179	24,099	24,915	24,917	24,969	25,147	25,187	25,410
Shares	641	552	729	750	748	749	770	772
Other equity	299	282	351	419	470	469	383	375
Investment fund shares/units	9	6	5	5	3	3	3	14
Insurance and pension schemes	38	38	40	41	41	41	41	41
Other	595	495	498	557	549	491	457	525
Other financial institutions								
Total	17,134	17,548	18,151	18,245	18,781	18,592	18,419	19,162
Currency and deposits	1,201	1,256	1,163	1,208	1,380	1,252	1,188	1,401
Debt securities	6,040	6,431	6,520	6,388	6,425	6,468	6,601	6,749
Loans	3,033	2,876	2,859	2,859	2,850	2,849	2,864	2,843
Shares	3,427	3,377	3,688	3,743	3,989	3,940	3,689	3,815
Other equity	612	625	686	692	659	654	857	875
Investment fund shares/units	2,001	2,140	2,354	2,370	2,430	2,369	2,208	2,385
Insurance and pension schemes	182	188	199	226	239	222	204	221
Other	639	655	681	759	809	838	809	873
General government								
Total	37,227	30,676	29,439	30,441	30,666	30,785	30,796	30,393
Currency and deposits	12,358	7,060	6,726	7,462	7,332	7,399	8,473	7,425
Debt securities	548	447	416	411	431	437	421	461
Loans	4,911	4,089	3,427	3,365	3,310	3,350	3,283	3,240
Shares	10,048	9,828	10,230	10,563	10,754	10,512	9,329	9,731
Other equity	4,856	4,906	4,915	4,973	5,089	5,088	5,219	5,562
Investment fund shares/units	244	252	296	300	311	320	297	331
Insurance and pension schemes	23	21	16	21	11	16	23	18
Other	4,239	4,073	3,415	3,346	3,428	3,663	3,751	3,625
Households and NPISHs								
Total	39,409	41,300	43,909	44,315	45,102	45,542	45,755	48,264
Currency and deposits	19,647	20,602	21,646	22,023	22,428	22,740	23,143	23,727
Debt securities	125	127	174	179	187	206	169	180
Loans	653	712	771	833	868	913	927	933
Shares	2,701	2,343	2,412	2,396	2,477	2,398	2,357	2,351
Other equity	6,066	6,755	7,563	7,602	7,681	7,674	7,796	9,209
Investment fund shares/units	1,528	1,600	1,818	1,796	1,847	1,898	1,718	1,949
Insurance and pension schemes	6,736	7,053	7,304	7,271	7,399	7,479	7,364	7,609
Other	1,953	2,109	2,220	2,216	2,216	2,235	2,282	2,307
Rest of the world								
Total	58,422	58,175	58,075	57,673	58,012	57,301	58,426	59,866
Monetary gold and SDRs	275	275	257	255	261	261	263	267
Currency and deposits	3,167	4,380	4,771	3,495	3,779	4,065	4,381	4,443
Debt securities	23,331	20,889	20,555	21,299	20,438	19,744	19,516	19,451
Loans	15,304	14,403	12,591	12,368	12,561	12,581	12,385	12,205
Shares	4,539	5,160	5,275	5,339	5,395	5,459	6,407	6,672
Other equity	6,284	7,288	8,114	8,178	8,233	8,384	8,434	8,862
Investment fund shares/units	25	25	29	28	30	31	29	32
Insurance and pension schemes	221	213	219	246	266	252	228	268
Other	5,276	5,541	6,266	6,465	7,048	6,525	6,782	7,666

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors − total								
Total	202,705	200,949	207,393	209,346	212,003	211,348	212,671	216,434
Monetary gold and SDRs	275	275	257	255	261	261	263	267
Currency and deposits	39,165	38,353	41,409	41,261	42,474	42,743	44,464	43,463
Debt securities	34,824	33,513	33,041	33,774	33,291	32,595	32,629	32,317
Loans	49,917	47,048	45,737	45,810	45,954	46,163	45,668	45,878
Shares	21,615	21,359	21,781	22,248	22,785	22,308	22,031	22,587
Other equity	26,608	29,083	32,146	32,562	32,768	32,894	33,136	35,933
Investment fund shares/units	2,303	2,374	2,572	2,540	2,611	2,648	2,396	2,629
Insurance and pension schemes	7,498	7,810	8,074	8,133	8,280	8,326	8,161	8,476
Other	20,501	21,135	22,376	22,762	23,579	23,409	23,922	24,883
Non-financial corporations								
Total	78,466	78,943	82,529	83,462	84,319	84,017	83,777	86,915
Debt securities	1,179	955	1,010	1,033	1,060	1,046	977	970
Loans	25,175	23,611	22,821	22,991	23,014	23,209	22,519	22,784
Shares	13,421	12,762	12,810	13,141	13,464	13,032	12,873	13,088
Other equity	24,039	26,319	29,266	29,526	29,595	29,729	29,845	32,451
Other	14,652	15,297	16,622	16,771	17,185	17,001	17,562	17,622
Monetary financial institutions								
Total	47,006	49,224	51,935	51,904	53,098	52,999	54,504	53,790
Monetary gold and SDRs	275	275	257	255	261	261	263	267
Currency and deposits	34,012	37,528	40,521	40,415	41,628	41,898	43,541	42,567
Debt securities	1,149	801	377	377	367	75	148	152
Loans	5,574	4,330	4,349	4,348	4,306	4,219	4,212	4,144
Shares	4,539	4,724	4,875	4,838	4,896	4,935	4,744	4,812
Other equity	1,005	1,091	1,104	1,116	1,155	1,174	1,177	1,242
Investment fund shares/units	56	99	55	57	60	65	79	74
Other	396	375	397	499	425	372	340	531
Other financial institutions								
Total	17,001	16,848	17,508	17,809	18,444	18,054	17,801	18,534
Debt securities	73	118	113	113	115	114	113	114
Loans	3,678	2,924	2,664	2,674	2,649	2,596	2,558	2,498
Shares	2,093	2,154	2,463	2,539	2,618	2,572	2,682	2,914
Other equity	964	1,137	1,225	1,334	1,426	1,384	1,511	1,430
Investment fund shares/units	2,247	2,275	2,518	2,483	2,551	2,583	2,317	2,555
Insurance and pension schemes	7,498	7,810	8,074	8,132	8,280	8,326	8,161	8,475
Other	448	431	449	534	805	478	459	547
General government								
Total	47,926	43,186	42,030	42,590	42,392	42,187	42,408	42,930
Currency and deposits	5,152	825	888	847	845	845	923	895
Debt securities	32,423	31,639	31,540	32,252	31,749	31,359	31,390	31,081
Loans	4,762	5,144	4,229	3,958	3,966	3,936	4,021	3,955
Shares	1,562	1,719	1,633	1,730	1,807	1,768	1,732	1,774
Other equity	600	537	550	586	592	607	603	810
Other	3,427	3,322	3,191	3,217	3,434	3,670	3,738	4,414
Households and NPISHs								
Total	12,306	12,748	13,391	13,581	13,749	14,091	14,181	14,265
Loans	10,728	11,039	11,674	11,839	12,019	12,203	12,358	12,496
Other	1,578	1,709	1,716	1,742	1,731	1,888	1,823	1,769
Rest of the world								
Total	41,702	41,770	42,716	42,824	43,508	43,764	44,589	46,012
Monetary gold and SDRs	363	319	345	344	349	343	356	364
Currency and deposits	10,595	8,512	6,254	6,380	6,399	6,139	7,761	7,809
Debt securities	11,335	13,479	15,996	15,622	15,868	16,224	16,085	16,528
Loans	5,012	4,912	4,601	4,496	4,673	4,601	4,700	4,742
Shares	2,637	2,566	3,060	3,063	3,139	3,230	2,937	3,121
Other equity	2,981	2,957	2,947	2,837	2,806	2,952	2,965	2,890
Investment fund shares/units	1,602	1,700	1,996	2,027	2,073	2,035	1,917	2,142
Insurance and pension schemes	129	141	148	148	149	149	141	149
Other	7,049	7,183	7,368	7,907	8,052	8,091	7,729	8,266

Table 9.11: Net financial assets

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors − total	-16,719	-16,405	-15,359	-14,849	-14,504	-13,537	-13,836	-13,853
Non-financial corporations	-36,907	-35,852	-36,392	-36,389	-36,869	-36,366	-36,506	-38,268
Monetary financial institutions	3,651	2,706	2,462	2,519	2,402	2,243	2,090	2,326
Other financial institutions	133	700	643	436	337	538	617	628
General government	-10,699	-12,510	-12,590	-12,149	-11,726	-11,402	-11,612	-12,537
Households and NPISHs	27,103	28,552	30,519	30,734	31,353	31,451	31,574	33,998
Rest of the world	16,719	16,405	15,359	14,849	14,504	13,537	13,837	13,854

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

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors – total								
Total	979	-1,858	5,606	5,091	6,165	5,457	7,183	4,108
Monetary gold and SDRs	0	-56	43	43	43	1	1	1
Currency and deposits	470	-4,118	571	737	1,707	1,398	4,912	2,576
Debt securities	3,086	2,863	2,369	1,446	1,154	1,072	1,025	1,043
Loans	-3,120	-707	961	823	1,174	1,283	744	977
Shares	181	-353	51	73	167	-128	-937	-1,485
Other equity	474	492	82	154	138	398	358	325
Investment fund shares/units	167	2	242	280	255	166	82	-5
Insurance and pension schemes	178	138	146	153	187	165	165	204
Other	-458	-119	1,142	1,381	1,339	1,102	833	472
Non-financial corporations								
Total	374	1,068	2,161	2,253	2,231	2,018	1,480	1,327
Currency and deposits	744	575	732	584	711	654	434	476
Debt securities	-36	-6	-18	-11	15	16	21	16
Loans	-192	-187	-26	106	159	155	16	109
Shares	103	-13	73	53	27	-15	41	-164
Other equity	294	453	159	223	161	312	276	197
Investment fund shares/units	-3	-28	3	0	-2	-7	-5	-4
Insurance and pension schemes	23	2	6	-3	-18	-19	-8	-6
Other	-558	272	1,233	1,300	1,178	922	706	703
Monetary financial institutions								
Total	-1,797	2,542	2,840	1,706	2,798	2,123	2,526	1,612
Monetary gold and SDRs	0	-56	43	43	43	1	1	1
Currency and deposits	-2,849	-373	-821	-743	562	252	1,245	313
Debt securities	2,764	2,847	2,403	1,565	1,230	928	837	660
Loans	-2,052	303	1,263	891	919	980	537	725
Shares	141	-91	-24	-4	-14	-22	-13	-22
Other equity	14	56	46	46	101	60	23	16
Investment fund shares/units	-2	-2	-1	-1	-1	0	1	11
Insurance and pension schemes	1	0	2	2	1	0	1	0
Other	185	-140	-71	-93	-43	-77	-106	-92
Other financial institutions								
Total	35	-62	94	64	590	422	272	170
Currency and deposits	-133	61	-92	-121	110	93	36	186
Debt securities	313	157	10	-66	-41	104	137	298
Loans	-192	-203	29	48	122	93	38	25
Shares	49	-59	44	70	192	41	-8	-324
Other equity	15	-35	-9	5	-12	-6	9	5
Investment fund shares/units	31	28	105	132	146	81	36	-23
Insurance and pension schemes	-34	12	11	12	18	11	4	-5
Other	-14	-23	-5	-17	54	3	18	9
General government								
Total	1,403	-6,532	-797	-422	-1,103	-850	1,003	-1,117
Currency and deposits	1,936	-5,331	-318	-208	-1,044	-869	1,731	-59
Debt securities	58	-112	-26	-23	-20	26	11	46
Loans	-666	-655	-323	-284	-160	-82	-16	7
Shares	-69	-57	-39	-48	-39	-127	-929	-933
Other equity	113	-12	-6	-6	3	11	21	56
Investment fund shares/units	26	-10	23	35	23	16	22	6
Insurance and pension schemes	0	-1	0	7	-3	-1	-2	-13
Other	5	-354	-108	105	138	176	166	-226
Households and NPISHs								
Total	964	1,127	1,308	1,489	1,648	1,745	1,901	2,116
Currency and deposits	771	950	1,069	1,224	1,367	1,268	1,466	1,660
Debt securities	-13	-22	-1	-20	-29	-1	18	24
Loans	-17	35	18	62	133	136	168	110
Shares	-44	-132	-2	3	2	-6	-28	-42
Other equity	38	30	-107	-114	-115	20	29	51
Investment fund shares/units	116	14	111	114	89	75	28	6
Insurance and pension schemes	188	126	127	135	189	174	170	229
Other	-76	126	92	86	12	79	49	78
Rest of the world								
Total	-426	-1,359	-11	-407	-701	-85	362	433
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-350	1,198	427	79	211	927	-393	936
Debt securities	-999	-2,885	45	-33	-1,423	-1,861	-581	-2,256
Loans	-595	-1,019	-2,026	-1,909	-1,229	-576	-438	-347
Shares	335	619	236	270	101	330	885	1,323
Other equity	1,377	775	617	574	611	675	610	615
Investment fund shares/units	3	0	-1	-1	0	1	0	0
Insurance and pension schemes	3	-8	5	13	42	26	20	33
Other	-200	-38	686	600	986	394	258	128

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

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors − total								
Total	-749	-2,675	4,099	3,306	4,429	3,703	5,319	2,112
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	637	-822	3,179	2,159	2,849	2,275	3,011	2,108
Debt securities	338	-1,971	-152	-154	-1,305	-1,787	154	-2,007
Loans	-3,442	-1,628	-959	-1,029	-123	609	137	248
Shares	246	359	158	210	158	123	-74	-94
Other equity	1,883	1,149	658	681	755	928	775	752
Investment fund shares/units	142	-1	29	64	72	20	5	-33
Insurance and pension schemes	189	120	146	163	224	190	192	237
Other	-742	117	1,039	1,212	1,799	1,344	1,117	902
Non-financial corporations								
Total	-1,062	488	1,567	1,674	2,052	2,058	1,258	1,178
Debt securities	83	-227	93	47	21	11	-12	-31
Loans	-2,407	-777	-513	-440	-289	-11	-183	-120
Shares	152	139	192	245	160	126	36	15
Other equity	1,466	1,081	635	666	655	796	677	636
Other	-356	273	1,162	1,155	1,504	1,135	739	678
Monetary financial institutions								
Total	-2,282	2,291	2,615	1,468	2,344	1,696	2,356	1,424
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-146	3,508	3,101	2,139	2,834	2,269	2,980	2,065
Debt securities	-525	-339	-418	-401	-306	-316	-229	-228
Loans	-1,536	-826	27	-207	-85	-131	-139	-208
Shares	44	17	-36	-36	-3	-3	-110	-112
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	19	43	-44	-8	-14	-14	25	18
Other	-138	-112	-15	-20	-83	-109	-171	-111
Other financial institutions								
Total	73	-189	8	42	540	237	172	148
Debt securities	-72	42	-8	-8	-14	-13	1	1
Loans	-461	-348	-251	-201	-171	-95	-89	-148
Shares	51	4	2	0	0	0	0	16
Other equity	305	67	24	15	100	122	89	107
Investment fund shares/units	123	-44	74	72	86	34	-20	-51
Insurance and pension schemes	189	120	146	163	224	189	191	237
Other	-62	-30	22	1	314	-1	-1	-13
General government								
Total	2,506	-5,775	-791	-664	-1,283	-1,088	681	-1,385
Currency and deposits	783	-4,330	78	20	15	6	31	42
Debt securities	851	-1,446	181	208	-1,007	-1,469	395	-1,749
Loans	875	-103	-917	-904	-298	131	-207	-2
Shares	0	200	0	0	0	0	0	0
Other equity	112	2	0	0	0	10	10	10
Other	-115	-98	-133	12	8	234	453	315
Households and NPISHs								
Total	17	509	700	786	777	801	852	760
Loans	87	426	696	722	722	715	755	726
Other	-70	83	5	64	55	85	97	34
Rest of the world								
Total	1,301	-541	1,496	1,378	1,035	1,669	2,227	2,429
Monetary gold and SDRs	0	-56	43	43	43	1	1	1
Currency and deposits	-517	-2,098	-2,182	-1,343	-931	51	1,508	1,405
Debt securities	1,749	1,949	2,565	1,567	1,037	998	290	795
Loans	-274	-98	-106	-57	68	98	169	382
Shares	270	-93	129	134	110	78	22	-67
Other equity	-32	117	41	47	-7	144	193	188
Investment fund shares/units	28	2	211	215	183	147	77	28
Insurance and pension schemes	-8	10	5	3	5	1	-7	0
Other	85	-274	788	769	526	152	-26	-303

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

EUR million	2015	2016	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
Domestic sectors − total	1,728	818	1,507	1,785	1,736	1,754	1,865	1,996
Non-financial corporations	1,436	579	594	578	179	-40	223	149
Monetary financial institutions	485	250	225	238	455	428	170	187
Other financial institutions	-38	127	87	23	50	185	100	22
General government	-1,103	-758	-6	242	180	238	323	268
Households and NPISHs	947	618	608	704	872	944	1,049	1,356
Rest of the world	-1,728	-818	-1,507	-1,785	-1,736	-1,754	-1,865	-1,996

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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