

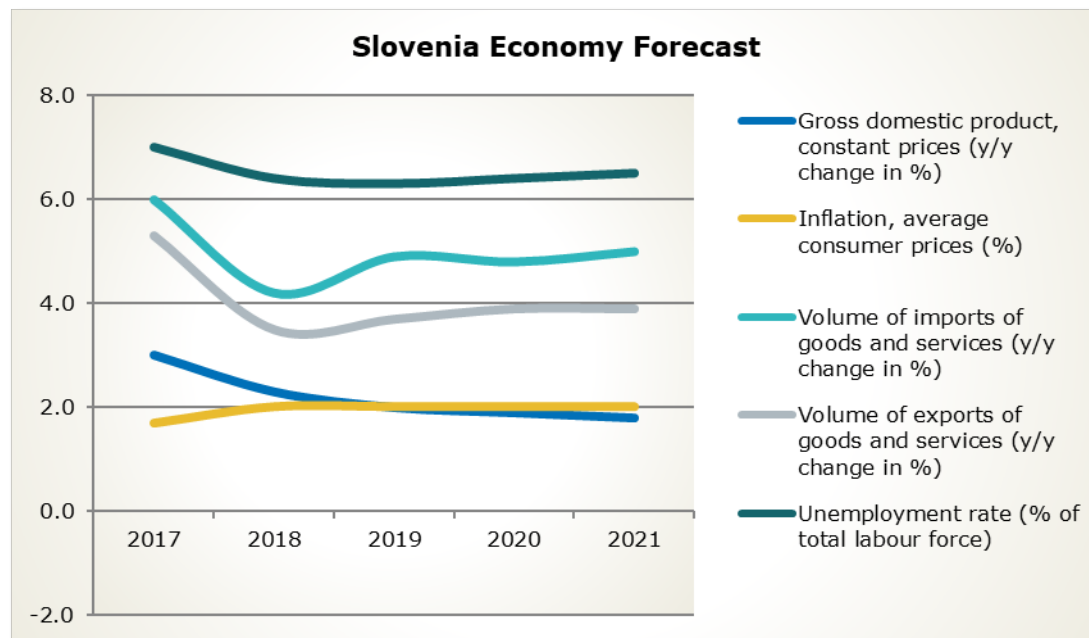
SLOVENIA ECONOMY REPORT Q1 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q1 2017	
GDP Growth	5.3% y/y
Industrial output	6.6% y/y
Industrial sales	9.2% y/y
Wholesale index	14.2% y/y
Retail trade	12.6% y/y
Average annual inflation	0.6%
Unemployment rate	7.8%
Number of building permits	-0.2% y/y
Household loans	EUR 9.305 bln
SBITOP blue-chip index	6.5% q/q
Gross external debt	EUR 44.861 bln
Current account surplus	EUR 561.3 mln
Foreign trade surplus	EUR 139 mln
Number of foreign tourist overnights	5.2% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

In 2017, the Slovenian economy will rise by about 3.0% on continuing strong exports and rising domestic demand, aided by employment and wage growth, according to recent IMF projections. In the medium term, growth should slow toward its potential rate of 1.75-2.0%, constraint by adverse demographic trends and the still low private investments.

The projected robust economic activity and rising commodity prices will raise inflation toward 1.75-2.00% in the medium term, according to the IMF.

The external current account surplus will start declining on the strength of domestic demand and higher international energy prices. Thus, IMF projects volume imports of goods and services to increase faster than the volume of exports.

As Slovenia is highly reliant on exports, an eventual rise in protectionism and economic isolationism would hit Slovenia hard. Another risk to the IMF forecasts would be intensified political and policy uncertainty in Europe, or weaker than expected global growth which would slow investment and hiring. In addition, delays in EU funds absorption could depress investment and growth, while slow progress in restructuring Non-performing loans (NPLs) of local Small and medium-sized enterprises (SMEs) could hinder credit extension and investment over the medium term, according to IMF.

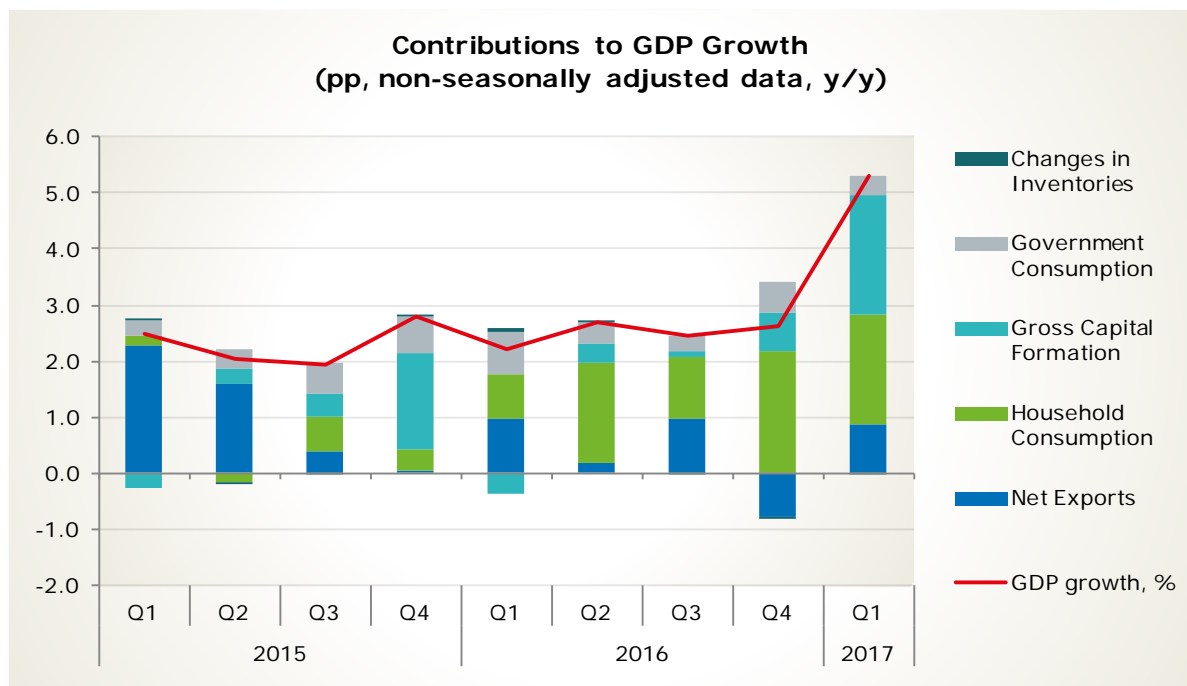
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth doubled to 5.3% y/y in Q1 2017 on manufacturing strength and surge in investments

The annual growth rate of the Slovenian economy speeded up to 5.3% in Q1 2017 after rising by 2.6% y/y in the Q4 2016 and by 2.5% in the third quarter of 2016, according to data of the Statistical Office of the Republic of Slovenia (SURS).

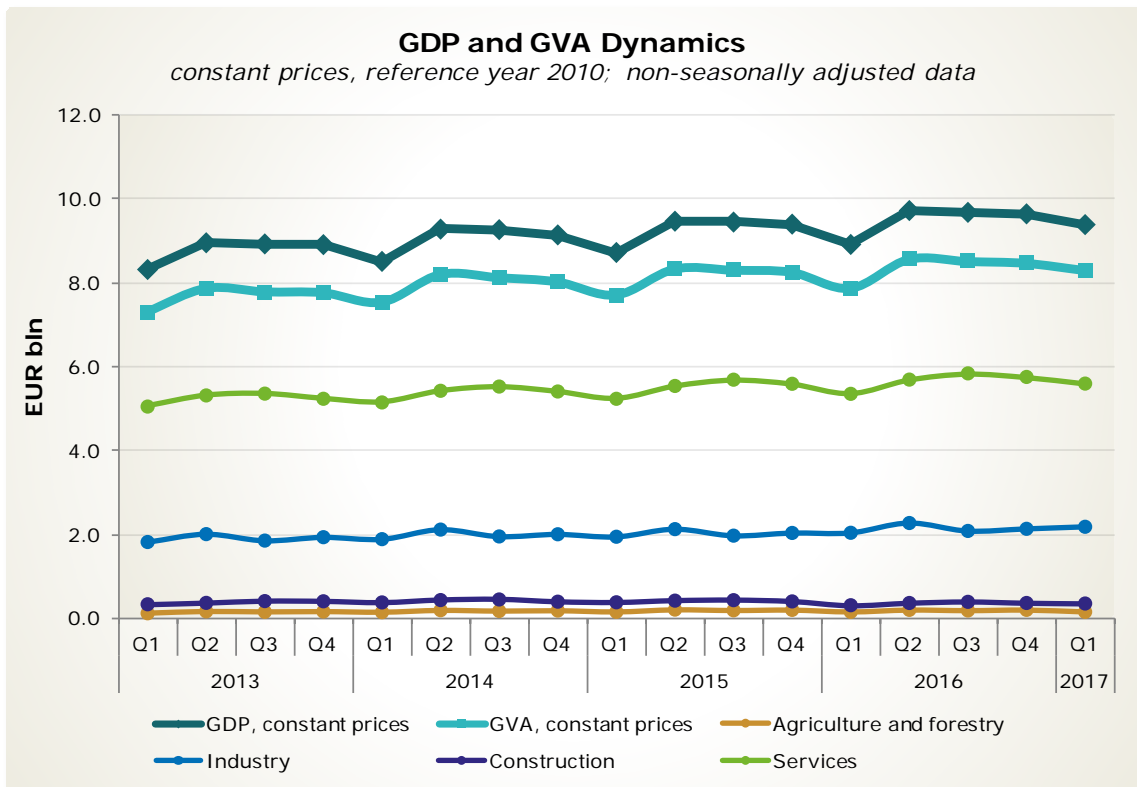
The economic expansion was broadly balanced with investments, consumption and net exports all contributing to GDP growth. Gross capital formation jumped by 10.5% y/y and contributed with 2.1 pp to the GDP growth. Final consumption grew by 3.4% y/y in Q1 and contributed with 2.3 pp to the GDP growth. Foreign trade also advanced with exports increasing by 8.7% y/y and imports going up by 8.8% y/y in Q1 2017. Overall, the net export added 0.9 pp to the GDP growth during the quarter.



Source: SURS; SeeNews calculations

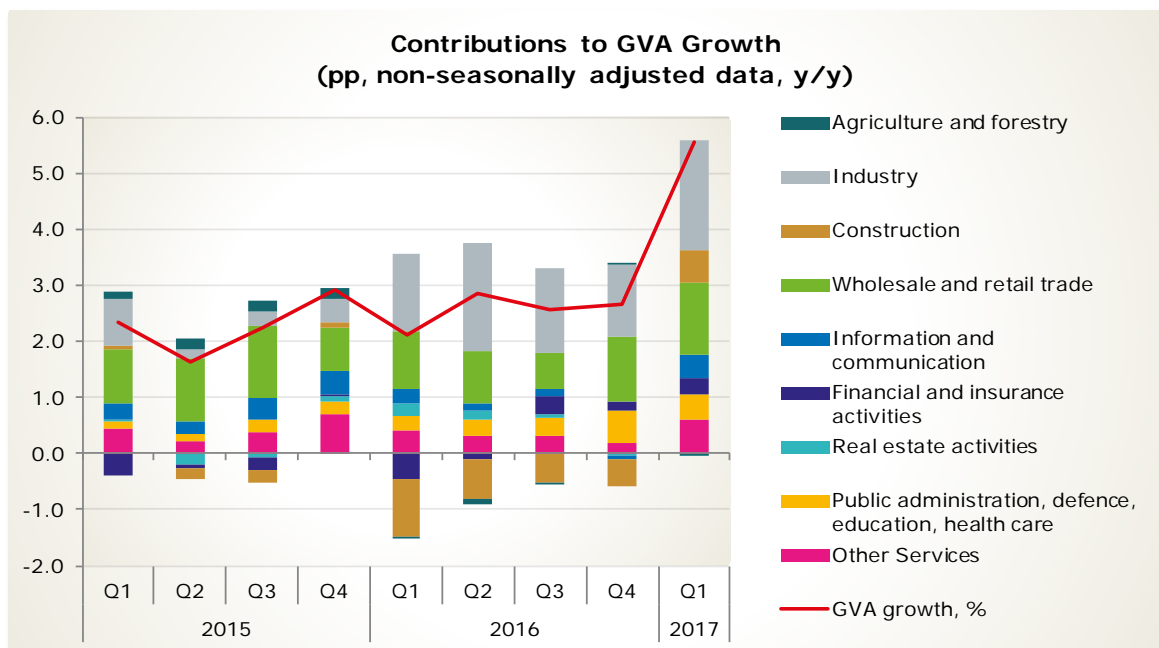
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 5.6% y/y in the first quarter of 2017 and totalled EUR 8.305 bln. The industrial sector grew in value by 7.0% y/y and its share in the GVA structure was 26.3%. The services sector recorded a 4.6% annual increase, slicing a 67.4% share in the GVA, down from 68.1% in the corresponding quarter of the previous year. The agricultural sector registered an annual decrease of 0.1%, thus narrowing its share in the GVA to 1.9% from 2.0%. The construction sector surged by 13% and its GVA share went up to 4.3% from 4.0% in Q1 2016.



Source: SURS

The largest contributor to the overall GVA growth in Q1 2017 was the industrial sector with 2.0 pp. The strong consumption trend was the main driver of the retail and wholesale sector, which contributed with 1.3 pp to the y/y economic growth in Q1 2017.



Source: SORS; SeeNews calculations

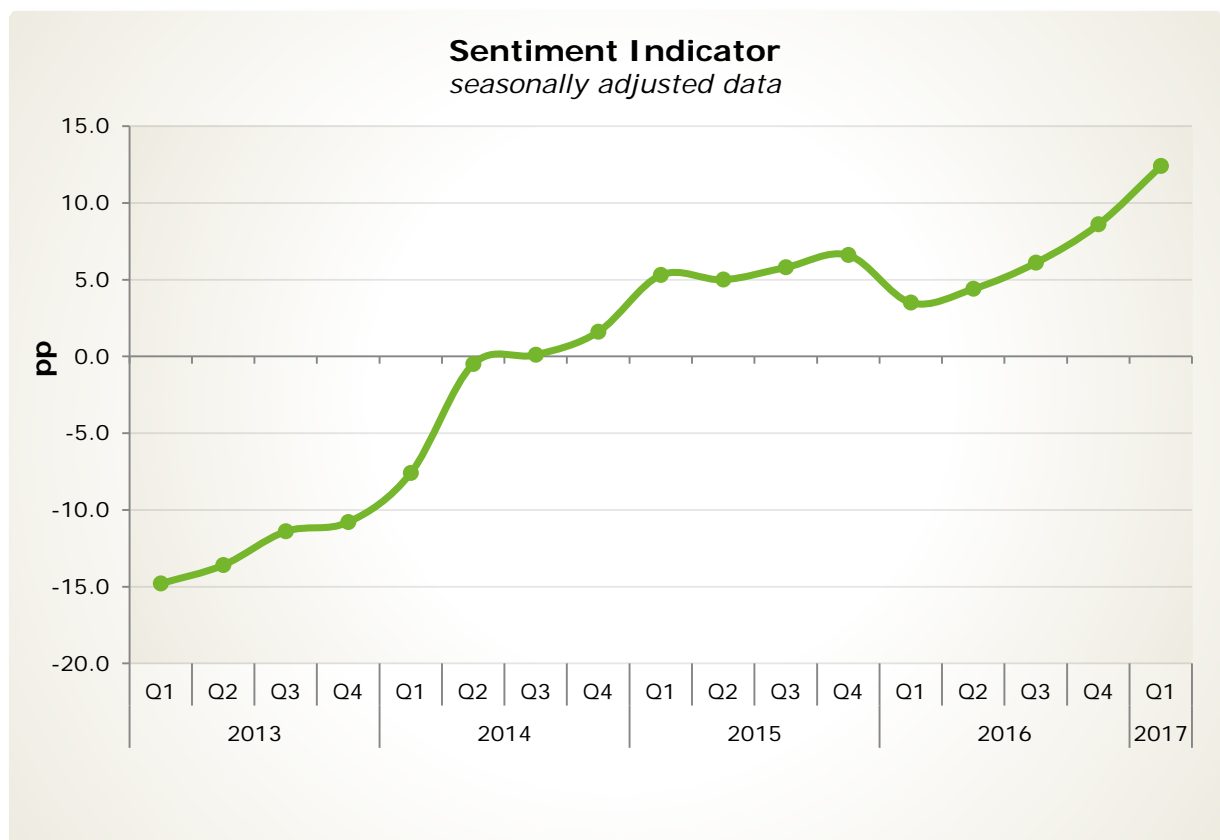
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator at record high in March 2017

The faster economic growth in Q1 2017 supported by household expenditures and external demand led to a surge in sentiment among businesses in the country. In March 2017, the business sentiment indicator was at 12.4 points, compared to 3.5 points a year ago and 8.6 points in December 2016, according to SURS.

The improvement was broadbased across sectors. The business sentiment indicator was the highest in the retail trade sector - 27 points, fuelled by the strong domestic demand. It was followed by the services sector with 26 points, manufacturing with 12 points, and construction with 6 points.



Source: SORS

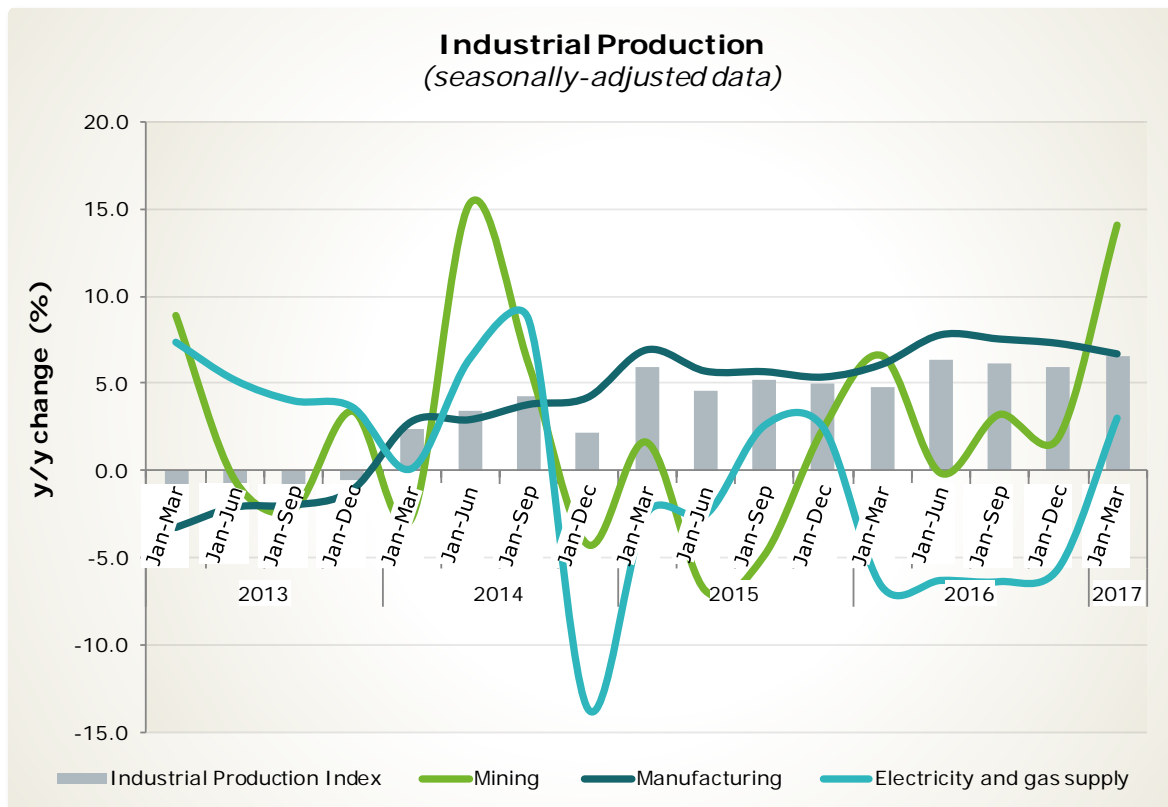
2.3. INDUSTRIAL OUTPUT

Industrial output up 6.6% y/y in Q1 2017

Industrial output went up by 6.6% on the year in the first quarter, according to seasonally-adjusted data of SURS. Output in the manufacturing sector expanded by 6.7%, the output of

the mining sector surged by 14.1%, while the output of the electricity and gas supply sector inched up by 3.0%.

Manufacture at intermediate goods industries increased at 6.1% y/y on average, while manufacture at capital goods industries went up by 5.6% y/y in Q1. The industrial production at consumer goods sectors increased by 5.4% on average.



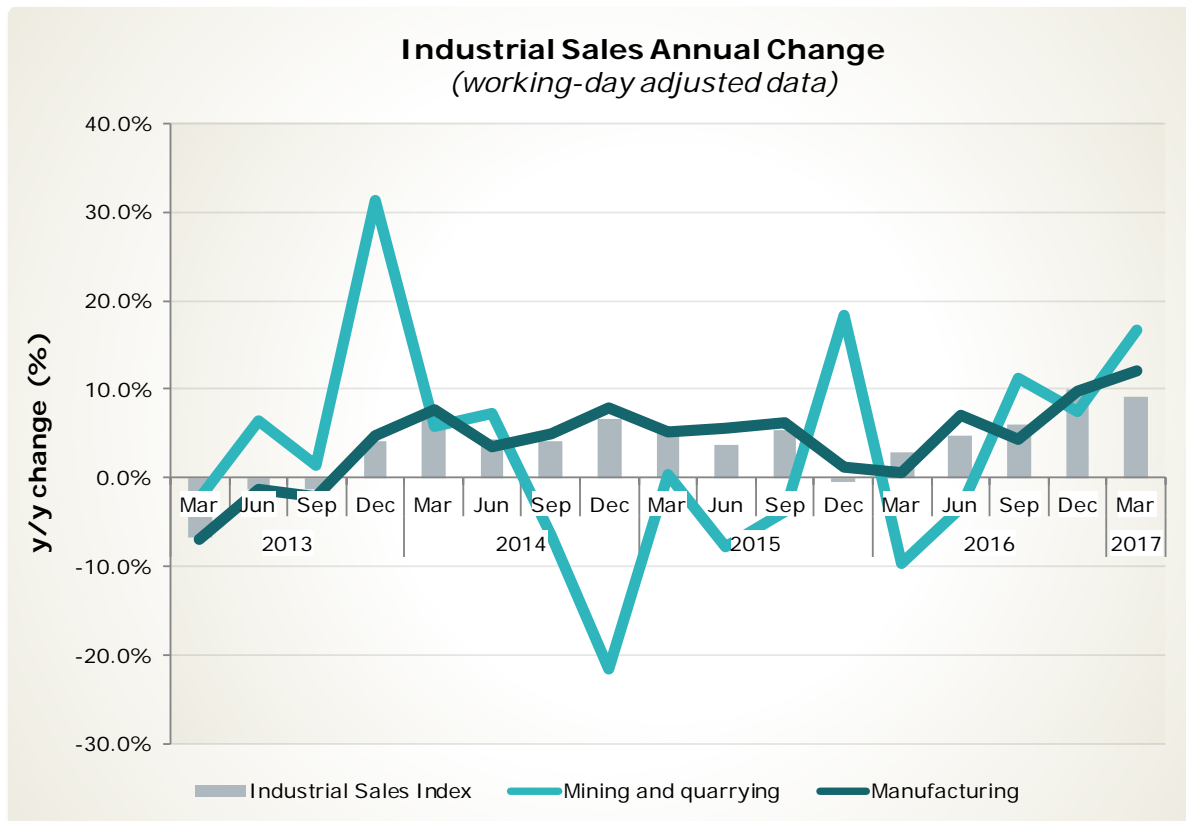
Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth remained strong in March 2017

The working-day adjusted industrial sales rose by 9.2% y/y in March 2017, after increasing by 10.1% in December 2016, according to SURS. The indicator increased by 12.1% in the manufacturing sector, while in the mining and quarrying industry it jumped by 16.7%.

Industrial sales of intermediate goods went up by 9.8% y/y in March 2017, while sales of capital goods increased by 6.3% y/y on average. Consumer goods industries sales inched up by 11.7% y/y in Q1.



Source: SURS

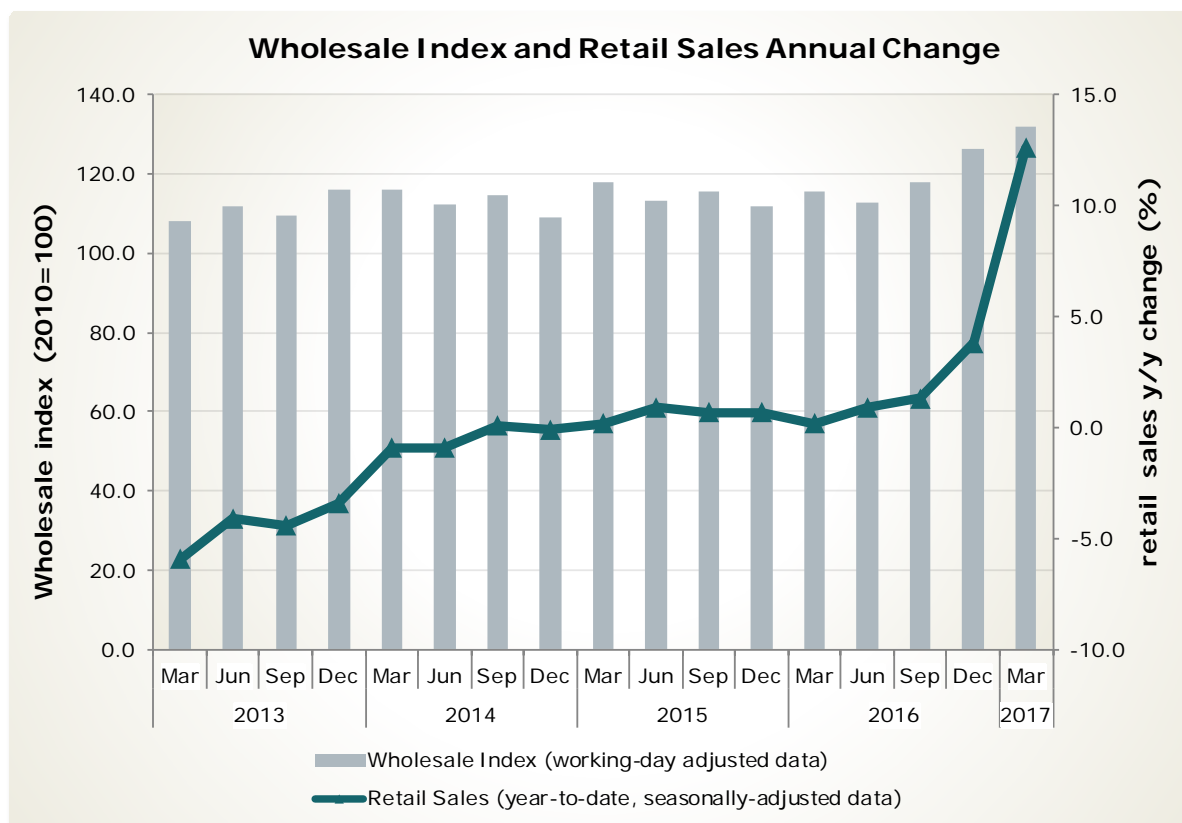
2.5. WHOLESALE/RETAIL

Retail sales grew 12.6% y/y in Q1 2017, on the strong economic growth and fuel sales surge

The lift in the average wage in Slovenia on the tightening labour market as well as the pickup in lending activity, increased household consumption expenditures. Retailers and wholesalers benefited the most from this trend – retail sales went up by 12.6% y/y in Q1 2017, while wholesale trade increased by 14.2%, according to SURS data.

Retail sales of automotive fuel in stores surged by 34.2% in the first three months of 2017 compared to the same period of the previous year.

During the quarter, retail trade of food, beverages and tobacco inched up by 1.4% y/y, while retail sales of non-food products, except automotive fuel, expanded by 3.8% y/y.



Source: SURS

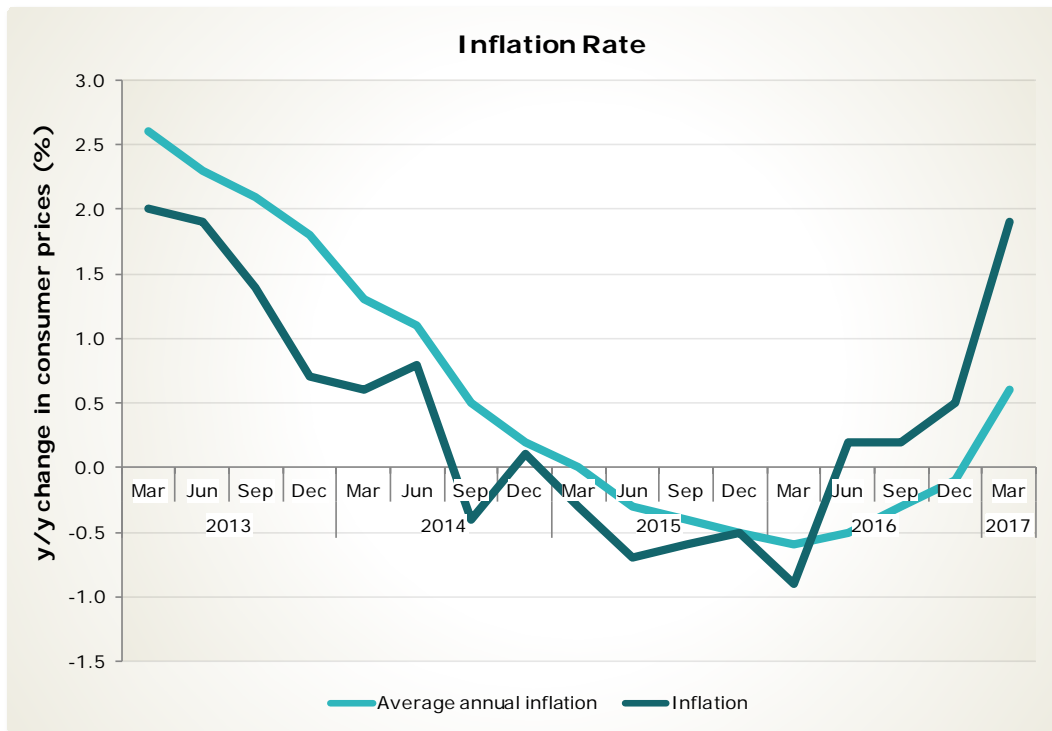
2.6. INFLATION

Inflation accelerated to 1.9% y/y in March on oil price recovery

Slovenian headline inflation jumped to 1.9% y/y in March 2017, compared to 0.5% inflation in December 2016, according to SURS. The country registered average annual inflation for the first time since Q2 2015, of 0.6% in the period April 2016 - March 2017, according to SURS.

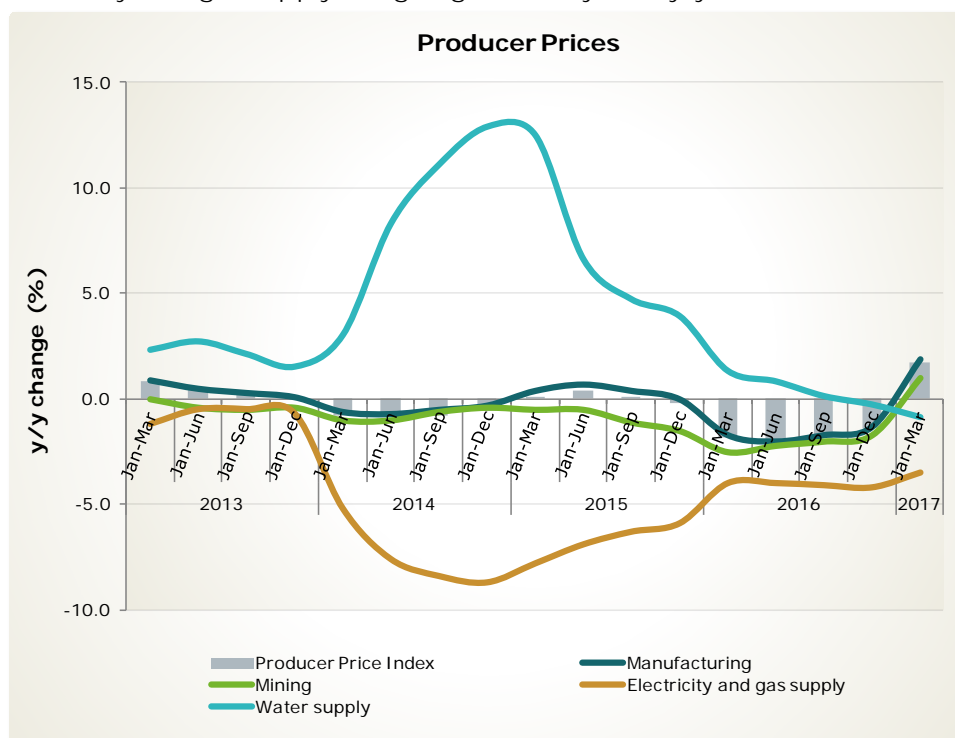
In March 2017, compared to the same month in the previous year, the housing, water, electricity, gas and fuel inflation came in at 3.1%, while the inflation in the transport sector was 4.0%. The oil price recovery on the international markets was the main driver for inflation acceleration in Q1.

As the price pressures on global energy and commodities markets have eased, inflation pressure is expected to fade away in the second quarter.



Source: SURS

Producer prices increased by 1.7% y/y in Q1 2017, compared to a deflation of 1.4% in Q4 2016, SURS data showed. The average prices at the manufacturing sector went up by 1.9% y/y on average while the inflation in the mining sector was 1.0% y/y. Still, the producer prices at the sector of electricity and gas supply are going down, by 3.5% y/y.



Source: SURS

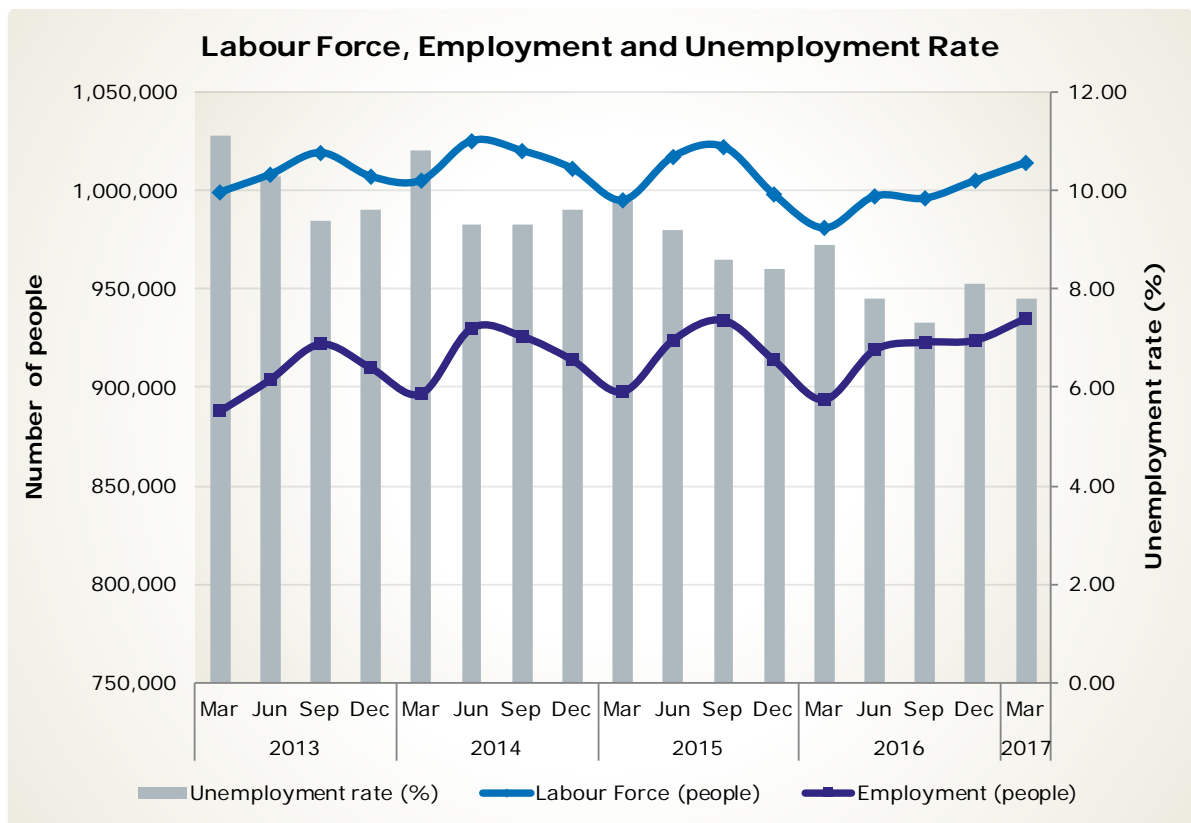
3. LABOUR MARKET

Unemployment rate went down y/y, to 7.8% in Q1 2017, wages up by 1.9% y/y

The unemployment rate in Slovenia narrowed to 7.8% of the total labour force in Q1 2017 from 8.9% a year earlier and from 8.1% in the previous quarter, according to data of SURS.

During the quarter, surplus supply of labour has been rapidly diminishing and firms are increasingly facing a serious shortage of qualified workers, according to Bank of Slovenia (BSI). The employed population aged 15 years and older was 935,000, up by 4.6% y/y.

Youth employment continue to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 11.6%, compared to 17.8% a year earlier.



Source: SURS

For the time being, the decline in the surplus supply of labour is not causing wage pressures. According to data of SURS, the average monthly net salary in Q1 2017 grew by 1.9% y/y to EUR 1,043. The employed in the public sector earned average monthly net wage of EUR 1,199, an annual increase of 1.9%, while private sector employees earned on average of EUR 964, up from EUR 943 a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 0.2% y/y in Q1 2017

The number of building permits issued in Slovenia in Q1 2017 inched down by 0.2% y/y and totalled 1,411, according to SURS data.

Permits for housing projects went down by 3% y/y to 546 while the permits for non-residential and office buildings numbered 836, up from 827 in Q1 2016.

The total built-up area of the office units, covered by the permits, was 200,888 sq m versus 179,797 sq m a year earlier. The total built-up area of the housing units increased by 2.3% to 137,301 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. EUR EXCHANGE RATE

The average exchange rate of the EUR¹ against the USD fell to USD 1.0659 in Q1 2017 from USD 1.1027 in Q1 2016, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q1 2017	Q4 2016	Q1 2016
USD	1.0659	1.0784	1.1027
GBP	0.8601	0.8691	0.7704
CHF	1.0694	1.0798	1.0960

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 23.537 bln to Eurozone's M3 Monetary Aggregate² in Q1

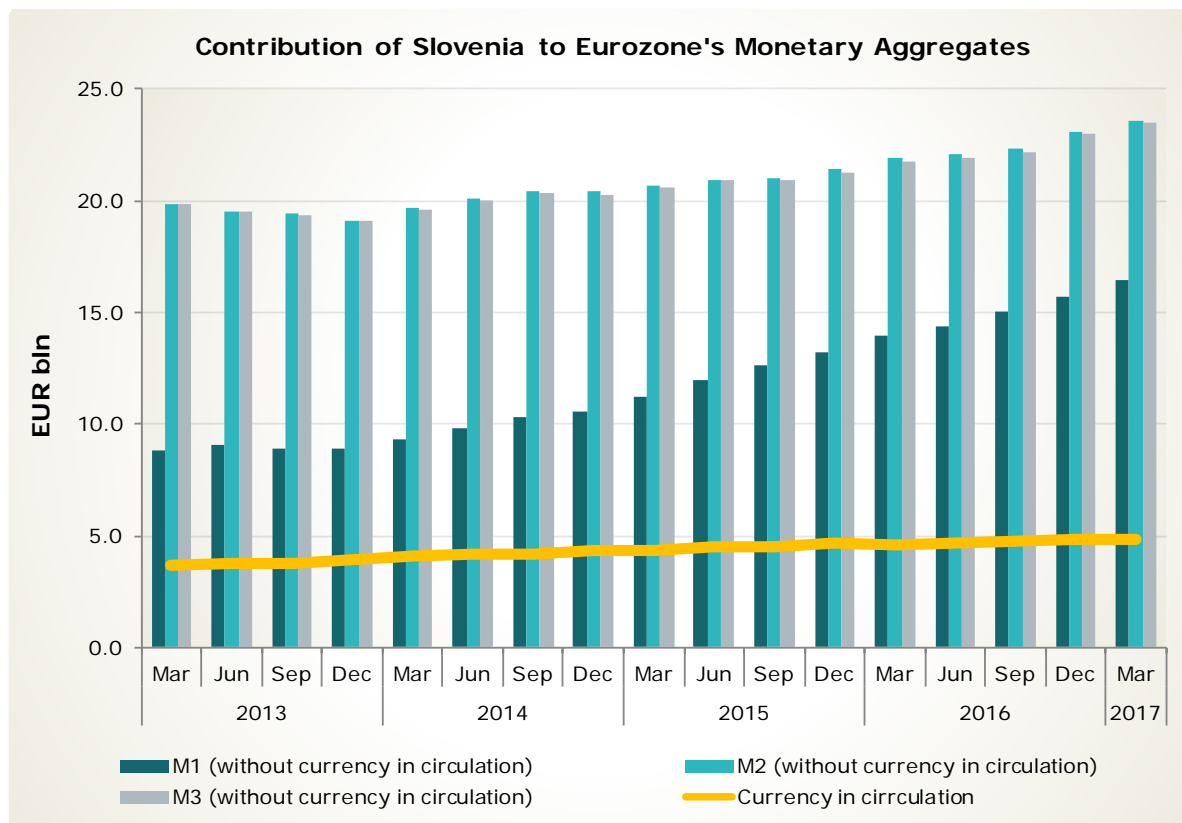
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 23.537 bln, without currency in circulation, at end-March 2017, up 8.1% y/y, according to BSI.

The country's contribution to the M2 aggregate amounted to EUR 23.608 bln, up from EUR 21.940 bln a year earlier.

¹ Slovenia introduced the euro (EUR) as its official currency, replacing the tolar (SIT), on Jan 1, 2007.

² The contribution of Slovenia to the Euro area monetary aggregates does not represent monetary aggregates of Slovenia since the country joined the EU on Jan 1, 2007. The concept of residency is the one of the Euro area. Due to the consolidation within the MFI sector on the level of euro area countries the aggregate M3 could become smaller than M2.

Contribution to money aggregate M1, or narrow money, jumped by 18.1% y/y to EUR 16.472 bln.



Source: BSI

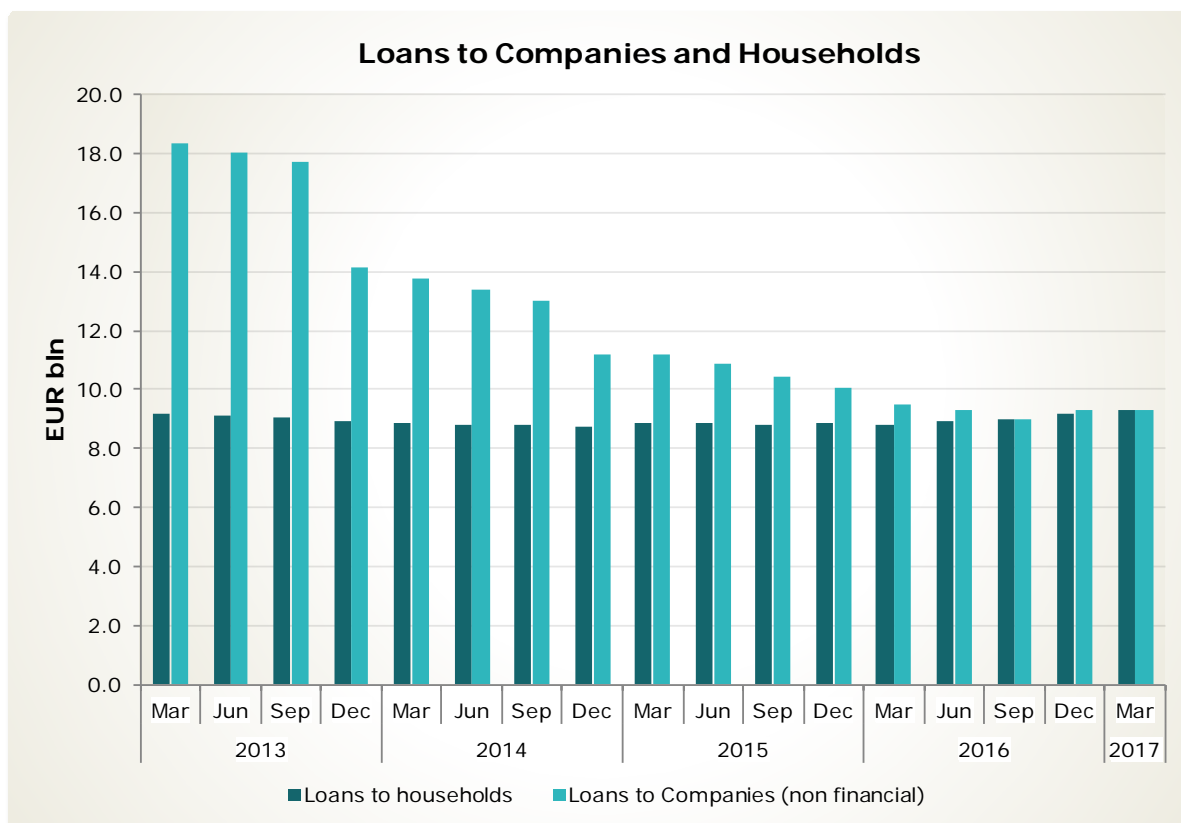
5.3. BANKING

Household loans up 3.4% y/y in 2016

Household loans totalled EUR 9.154 bln at end-December 2016 versus EUR 8.856 bln a year ago, according to BSI. House purchasing loans grew by 3.5% y/y to EUR 5.717 bln, while consumer loans went up by 5.5%, reaching EUR 2.144 bln.

Loans to non-financial corporations dropped by 7.8% y/y to EUR 9.259 bln. In October and November 2016 they amounted to EUR 9.012 bln and EUR 9.002 bln, respectively.

At the end of December 2016, the assets of the banking system totalled EUR 40.178 bln, which was a 1.4% increase in comparison to September 2016 and a 3.4% annual decrease.



Source: BSI

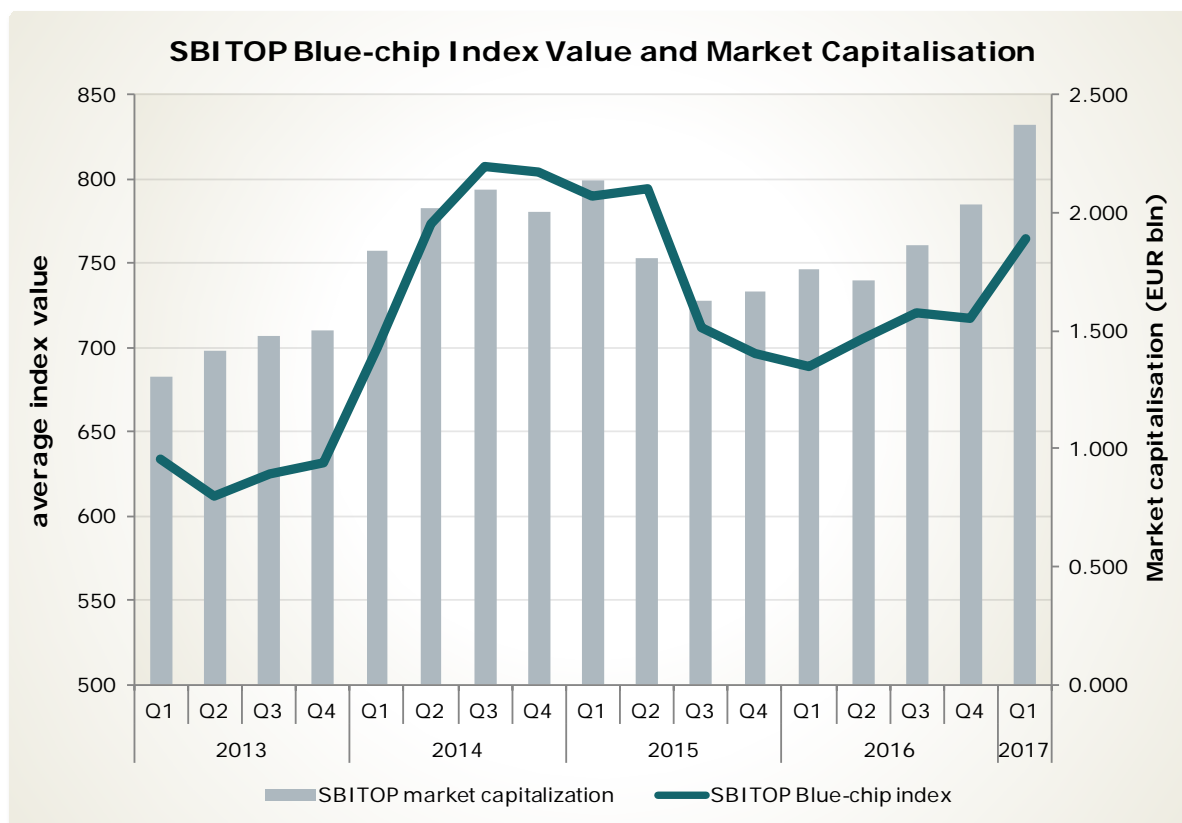
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 6.5% q/q in Q1 2017

The value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 6.5% q/q to 763.89 points as of the end of March 2017.

The total turnover on LJSE's regulated market reached EUR 105.2 mln in Q1 2017 versus EUR 82.9 mln in Q1 2016 and EUR 106.1 mln in Q4 2016.

The number of trades stood at 19,875, compared to 10,662 in Q1 2016 and 46,077 in Q4 2016.



Source: LSE

7. EXTERNAL SECTOR

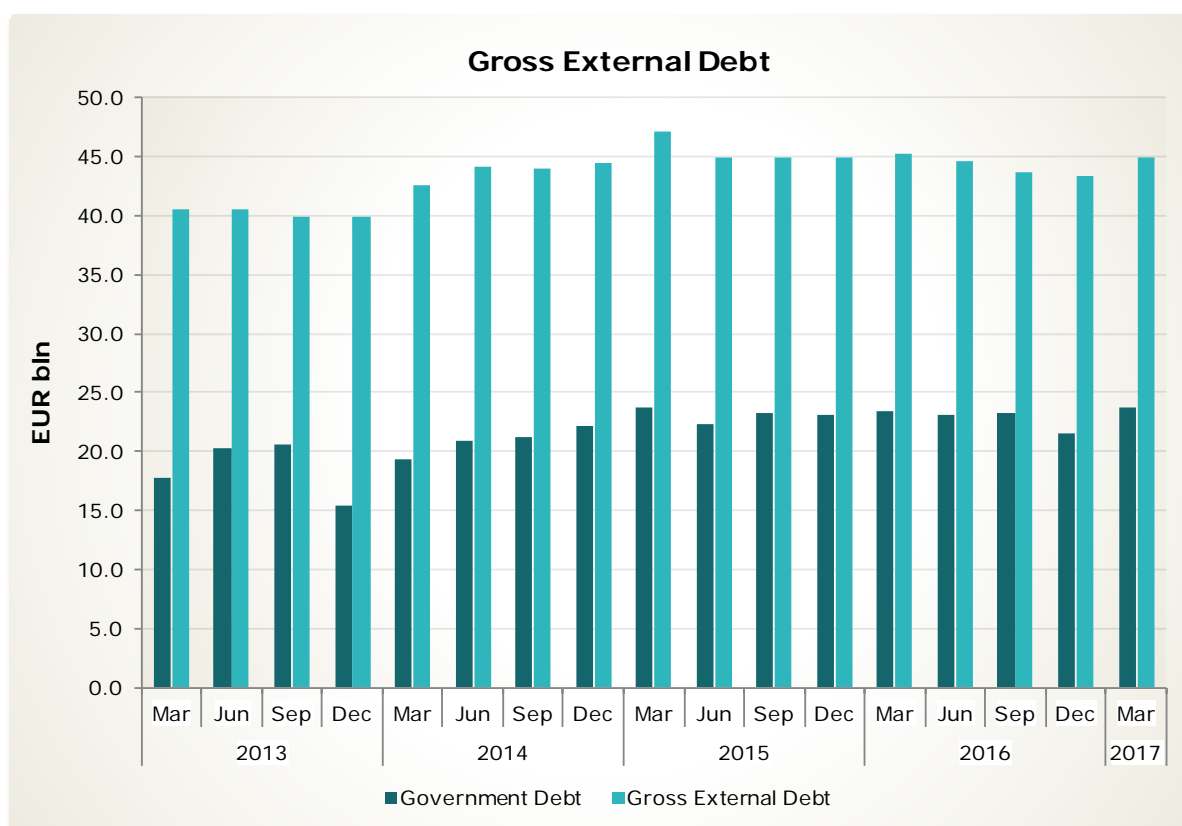
7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 43.334 bln at end-December 2016

Slovenia's gross external debt totalled EUR 44.861 bln at the end of March 2017, according to BSI. It narrowed by 0.9% or EUR 423 mln, compared to March 2016. In comparison to the end of December 2016 the gross external debt increased by EUR 1.527 bln.

Government debt stood at EUR 23.668 bln, or 52.8% of the total, at end-March 2017. It increased by 1.1% y/y. For the whole 2017, the Ministry of Finance is forecasting a decline of the general government debt to 77% of GDP from 79.7% in 2016 on reduction in the budget deficit to 0.8% of GDP this year.

As of end-March 20167 long-term liabilities amounted to EUR 32.589 bln, or 73% of the total debt, while short-term liabilities totalled EUR 8.750 bln, equal to 20% of the total debt.



Source: BSI

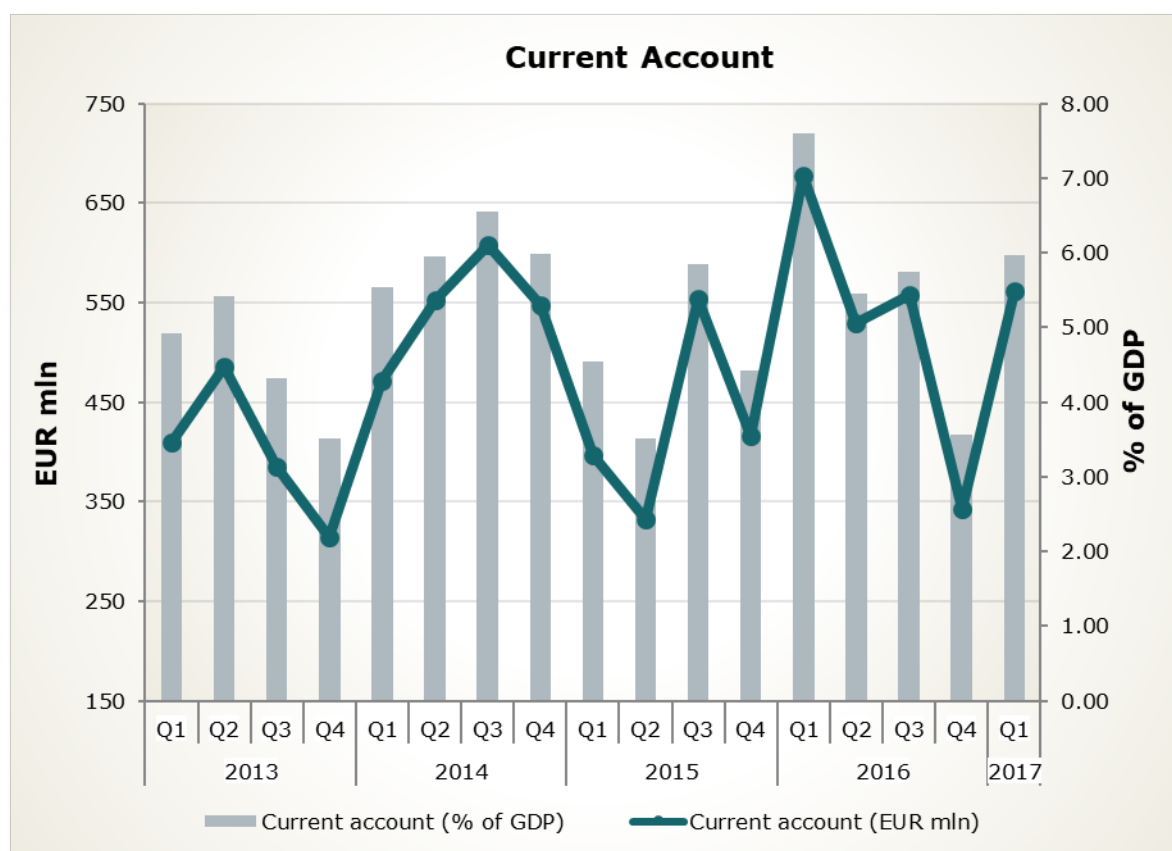
7.2. BALANCE OF PAYMENTS

Current account surplus continue to decline

The current account surplus in Slovenia continued to shrink in Q1 2017, according to BSI. After decreasing by 17.5% y/y in Q4 2016, country's current account surplus came in at EUR 561.3 mln during the first three months of 2017, down 17.2% y/y.

The reduction in the current account surplus was a result mainly from an annual decrease in the trade surplus of goods by EUR 109.2 mln, or 22%, in Q1 2017. In the same time the deficit of the primary and secondary income account went up by 17% y/y, or EUR 47 mln, to EUR 321 mln.

The current account balance has risen from a deficit of 4.0% of GDP in 2007 to a surplus of 6.8% of GDP in 2016 as Slovenia's integration in regional supply chains expanded, according to data from the BSI. However, IMF expects the external current account surplus to further decline on the strength of domestic demand and higher international energy prices and reach 5.5% of GDP in 2018.



Source: BSI

7.3. FOREIGN TRADE

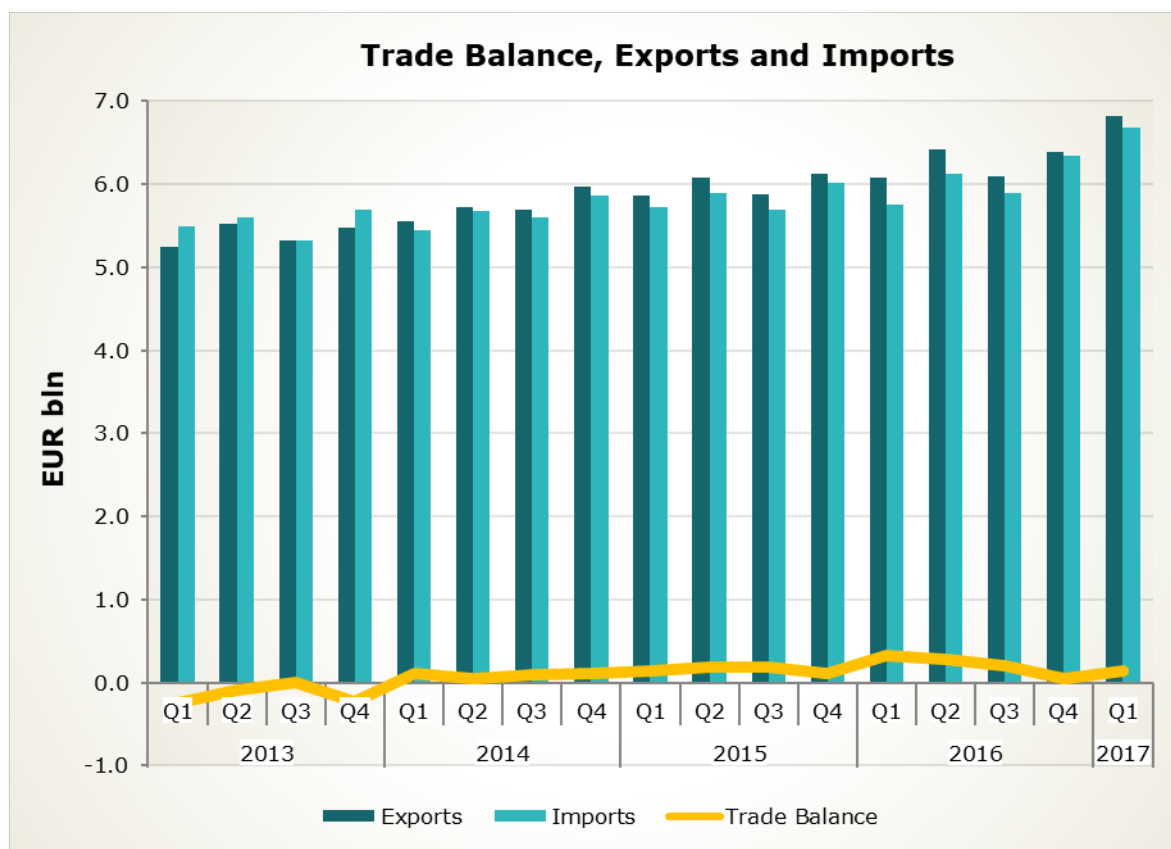
Foreign trade surplus more than halved y/y in Q1 2017 on surge in imports

During the first quarter of 2017, imports of goods increased faster than exports and the trade surplus halved y/y to EUR 139 mln, according to SURS data. Exports of goods went up by 12.3% y/y to EUR 6.819 bln, while imports of goods increased by 16.2% y/y to EUR 6.68 bln.

In Q1 2017, exports of services surged by 11% y/y to EUR 1.5 bln while imports of services increased by 12% y/y to EUR 1.0 bln.

Industrial goods took a third of the total exports of goods in Q1 2017 and increased by 10.7% y/y. Capital goods except transport equipment went up by 14% y/y and accounted for 19% of all the goods exports. The group of fuels and lubricants jumped by 47% y/y and accounted for 5% of the total exports.

Industrial goods imports increased by 15% y/y in Q1 2017 and sliced 36% of the total goods imports. Imports of transport equipment inched up by 18% y/y and accounted for 16% of the total imports of goods. Fuels imports surged by 55% and took 10% of the total.



Source: SURS

7.4. TOURISM

Number of foreign tourist overnights up by 5.2% y/y in Q1 2017

Tourist overnights of foreigners grew by an annual 5.2% to 1,081,799 in Q1 2017, according to SURS data. The share of foreign tourists in the total number of overnights was 55.7%, unchanged y/y.

The number of foreign tourists also increased, by 7.0% to 443,922.



Source: SURS

8. MAJOR DEVELOPMENTS

Slovenia still facing high public debt despite continued economic growth – IMF

Mar 29, 2017

Slovenia is enjoying a fourth consecutive year of steady economic growth backed by improved financial stability and a strengthened external position but challenges remain, according to the International Monetary Fund (IMF). Slovenia's public debt has declined from its peak but remains high, bank balance sheets have been strengthened, but the NPLs of SMEs are proving stubborn, and the economy's potential growth rate is low, the IMF said in a statement, following an Article IV Mission.

[Read the full story here](#)

Magna Steyr to invest EUR 1.240 bln in car factory in Slovenia – govt

Mar 17, 2017

Austria-based Magna Steyr AG & Co KG will invest EUR 1.240 bln in a car factory in Slovenia's municipality of Hoce-Slivnica where it will employ 6,000 people, the Slovenian government said.

[Read the full story here](#)

Funderbeam SEE platform expands to Slovenia to support start-ups

Mar 15, 2017

The Funderbeam SEE platform, which provides cross-border services to investors and startups, is expanding its services to Slovenia, the Ljubljana Stock Exchange (LJSE) said. The platform allows companies to raise capital required for their growth in the early stages of their development. Trade in their shares can start immediately after the initial phase – in the same way as if they were listed on a stock exchange.

[Read the full story here](#)

Fitch affirms Slovenia's rating at A-, outlook stable

Mar 13, 2017

Fitch Ratings said it has affirmed Slovenia's long-term foreign and local currency issuer default ratings (IDRs) at 'A-' with a stable outlook.

[Read the full story here](#)

EC urges Slovenia to tackle corporate debt, financial sector weaknesses

Feb 22, 2017

The European Commission (EC) said on Feb 22, 2017 Slovenia should address imbalances constituted by weaknesses in the banking sector, corporate indebtedness, and fiscal risks. "Relevant measures have been taken by the government to consolidate and restructure the banking sector, and to improve the governance of state-owned enterprises," the EC said in its report on macroeconomic imbalances. However, long-term sustainability of public finances still needs to be ensured, while the the business environment must be improved, it cautioned.

[Read the full story here](#)

Slovenia aims to sell 75% of NLB by end-2017 – PM

Feb 14, 2017

Slovenia's government aims to sell a 75% stake in Nova Ljubljanska Banka (NLB) by way of an initial public offering (IPO) by the end of 2017, prime minister Miro Cerar has confirmed. NLB has been 100% state-owned since 2013, when the Slovenian government had to step in and recapitalise it and two other lenders - NKBM and Abanka, narrowly avoiding an international bailout.

[Read the full story here](#)

Slovenia seen as least corrupt SEE country in Transparency Intl 2016 survey

Jan 25, 2017

Transparency International said on Jan 25, 2017 that Slovenia has moved up 4 places to a rank of 31 out of a total of 176 countries in the organisation's Corruption Perceptions Index (CPI) 2016 survey. Slovenia's score also improved by one point compared to the 2015 edition of the survey, reaching 61 points. The improvement marks Slovenia's return to the country's top result scored in 2012 and makes it the least corrupt country in Southeastern Europe in the CPI 2016 survey, Transparency International data shows.

[Read the full story here](#)

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