

SLOVENIA ECONOMY REPORT

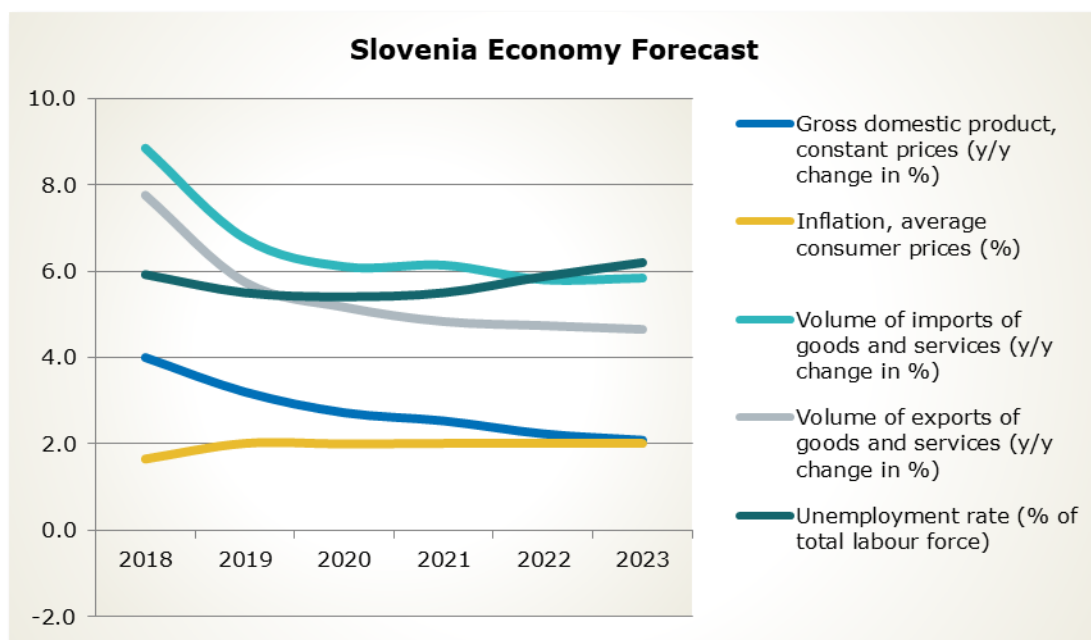
Q1 2018

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	4
2.1. GROSS DOMESTIC PRODUCT (GDP)	4
2.2. BUSINESS CLIMATE.....	7
2.3. INDUSTRIAL OUTPUT	8
2.4. INDUSTRIAL SALES.....	9
2.5. WHOLESALE/RETAIL	10
2.6. INFLATION.....	11
3. LABOUR MARKET.....	13
4. CONSTRUCTION AND REAL ESTATE	14
5. MONEY SUPPLY AND BANKING SYSTEM.....	15
5.1. EUR EXCHANGE RATE.....	15
5.2. MONETARY AGGREGATES	15
5.3. BANKING	16
6. CAPITAL MARKETS	17
7. EXTERNAL SECTOR	18
7.1. FOREIGN DEBT	18
7.2. BALANCE OF PAYMENTS	19
7.3. FOREIGN TRADE	20
7.4. TOURISM	21
8. MAJOR DEVELOPMENTS	22

1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	4.6% y/y
Industrial output	8.3% y/y
Industrial sales	10.1% y/y
Wholesale index	7.2% y/y
Retail trade	0.3% y/y
Average annual inflation	1.3%
Unemployment rate	5.9%
Number of building permits	1.2% y/y
Household loans	6.0% y/y
SBITOP blue-chip index	3.3% q/q
Gross external debt	EUR 43.4 bln
Current account surplus	EUR 703.2 mln
Foreign trade surplus	EUR 175 mln
Number of foreign tourist overnights	17.9% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

In 2018, the Slovenian economy will rise by 4.0% on continuing strong exports and rising domestic demand, aided by employment and wage growth, according to IMF projections. In the medium term 2021-2023, growth should slow toward its potential rate of 2.1% to 2.5%, hampered by adverse demographic trends and the still low private investments.

Inflation will hover at around 2.0%, with core inflation gradually rising toward this level. 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)

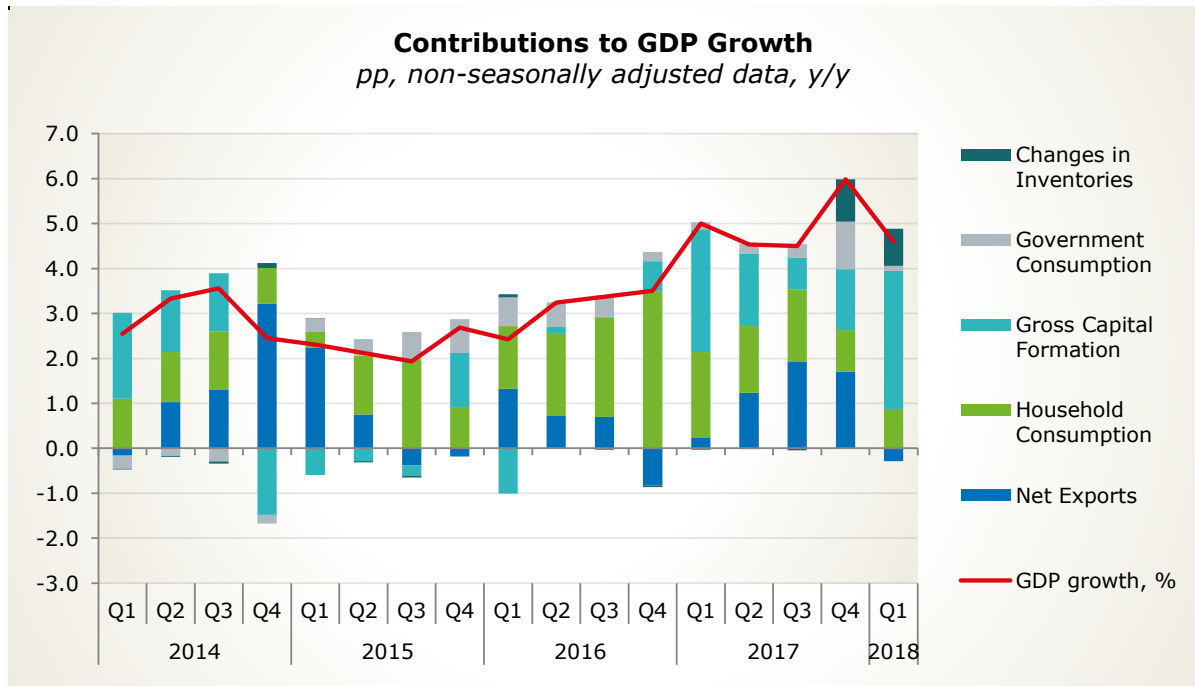
GDP growth decelerated in Q1 2018 mainly on exports slowdown and weaker government expenditures

The annual growth rate of the Slovenian economy decelerated to 4.6% in Q1 2018, down from 6.0% y/y in Q4 2017, according to data of the Statistical Office of the Republic of Slovenia (SURSTAT). In the full-2017, the Slovenian GDP expanded by 5% y/y.

The main reason for the weaker economic growth during the first quarter was the slowing exports of goods and services, which advanced by 7.4% y/y in real terms, down from 12.3% y/y increase in Q4 2017. In the same time, imports growth of goods and services although also slowing, still remains above export increase in Q1 2018. This resulted in a negative contribution of the net trade of 0.3 pp to the total GDP expansion, relative to positive contribution of 1.7 pp in Q4 2017.

The final consumption also slowed down in real terms and contributed with 1 pp to the GDP growth in Q1 2018, down from 2 pp in Q4 2017. The main reason behind it was the government spending that increased by just 0.6% y/y in real terms in Q1 2018, down from 5.6% y/y increase in Q4 2017. In the same time household real spending advanced by 1.7% y/y in the first quarter, up from 1.6% y/y in the final quarter of last year.

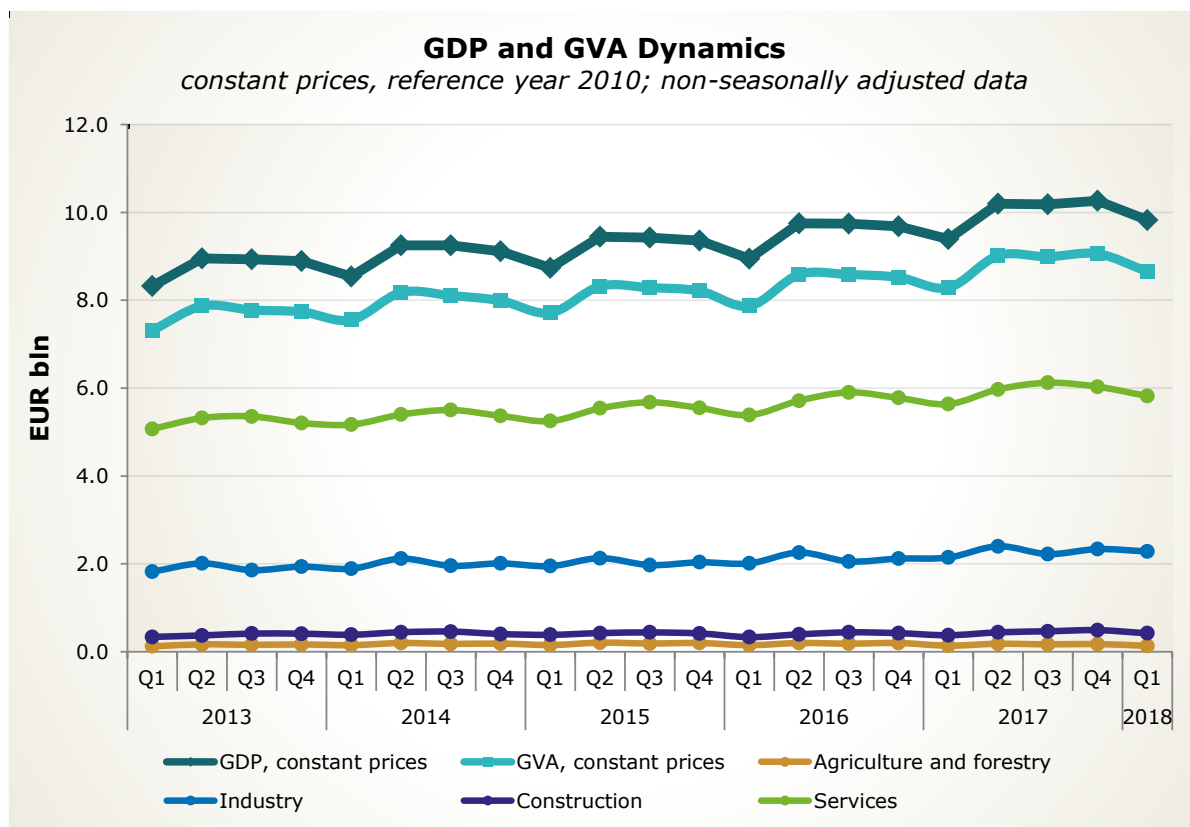
The major contributing factor for the GDP growth in the first quarter was the gross capital formation. It added 3.1 pp to the growth on a y/y basis, up from 1.4 pp in Q4 2017. This spells well for the long term potential for the Slovenian economy as investments in fixed assets add to the production potential of businesses. The investment cycle has been strengthening since the beginning of 2017, primarily as a result of growth in construction investment.



Source: SURS; SeeNews calculations

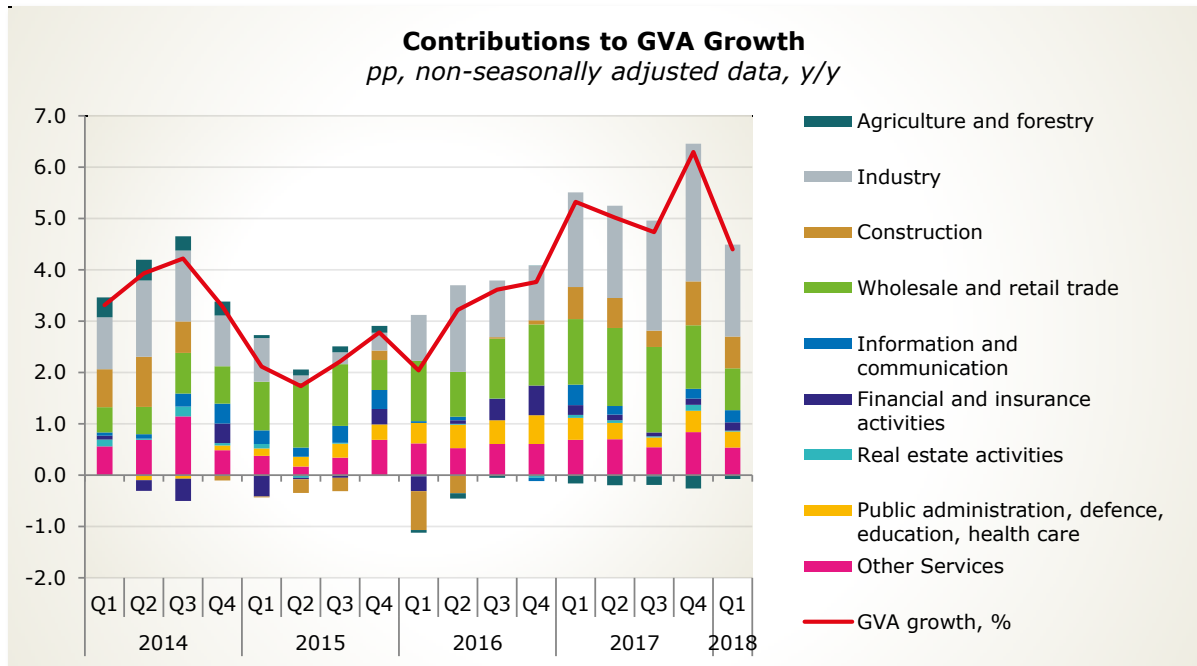
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 4.4% y/y in Q1 2018 and totalled EUR 8.655 bln. The industrial sector grew in value by 6.4% y/y with its share in the GVA structure expanding to 26.4% from 25.9% in Q1 2017. The services sector recorded a 3.2% annual increase, slicing a 67.2% share in the GVA, down from 68% in the same quarter a year ago. The agricultural sector registered an annual decrease of 3.9% and its share in the GVA also fell to 1.5% from 1.7%. The construction sector jumped by 12% and its GVA share inched up to 4.8% from 4.5% in Q1 2017.



Source: SURS

The largest contributor to the overall GVA growth in Q1 2018 was the services sector with 2.1 pp. The strong consumption trend was the main driver of the retail and wholesale sector, which contributed with 0.8 pp to the y/y economic growth in the quarter. The industrial sector added 1.8 pp to the GDP increase in Q1 2018.



Source: SORS; SeeNews calculations

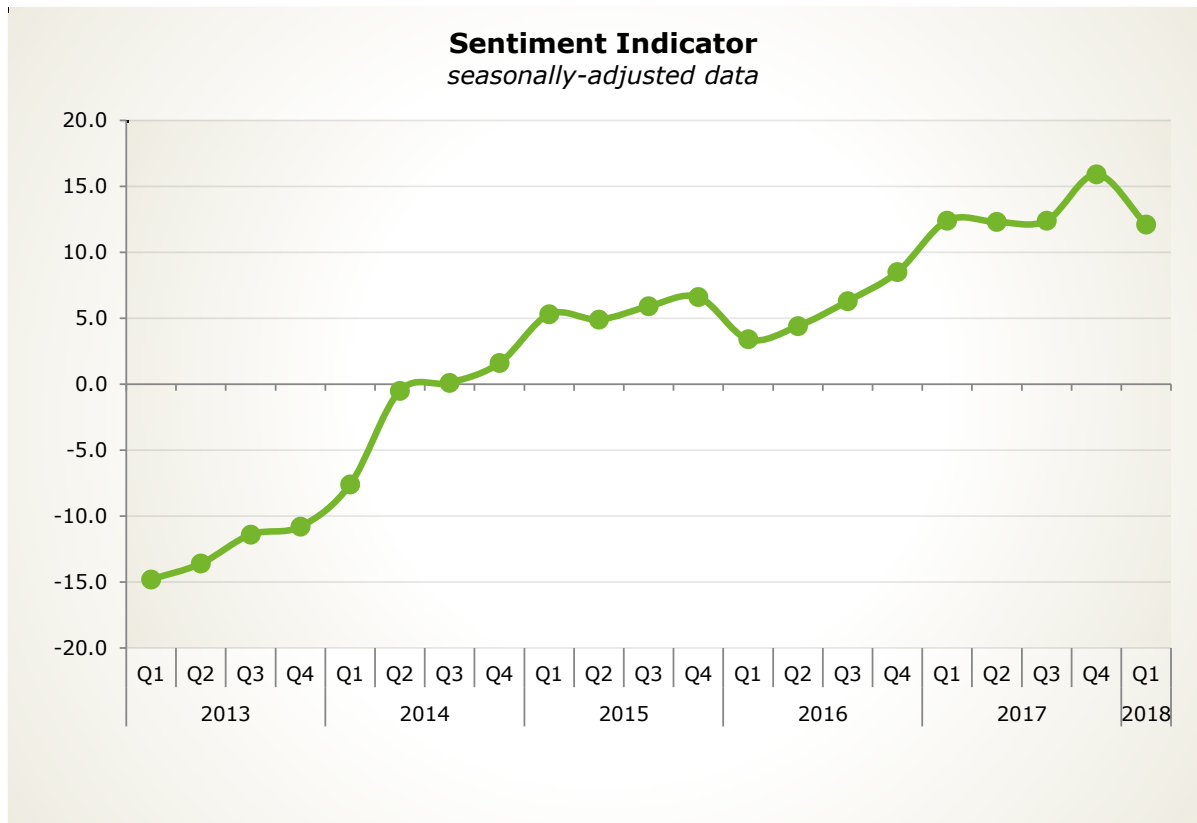
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator slightly off in Q1 2018 compared to a year ago

The fast economic growth in 2017 supported by household expenditures and external demand led to a surge in sentiment among businesses in the country. However, the business sentiment indicator in Q1 2018 came in at 12.1 points, slightly down compared to 12.4 points in Q1 2017 and 15.9 points in Q4 2017, according to SURS.

According to the Bank of Slovenia, companies in the sectors of manufacturing, retail and other private-sector services all reported slightly weaker growth in current demand, but remained optimistic with regard to demand in the second quarter. The construction sector was the only one to report a further strengthening of growth in demand in the first quarter of this year. Similarly, issues of low demand were cited by firms as a limiting factor more frequently in the first quarter of 2018 than in the final quarter of 2017, while the proportion of firms facing a shortage of labour declined slightly. There was no significant change in financing conditions according to firms. The consumer confidence indicator also declined slightly over the first three months of the year.



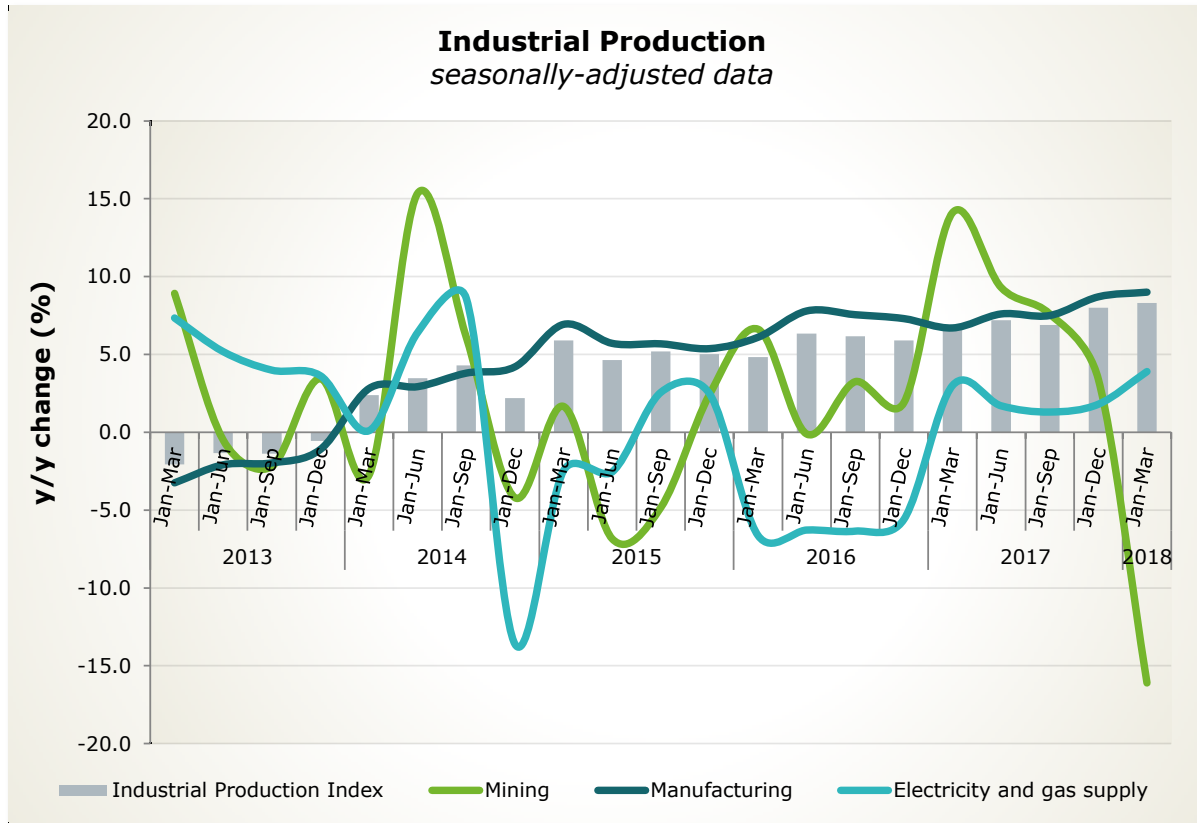
Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output accelerated to a growth of 8.3% y/y in Q1 2018

Industrial output growth accelerated to 8.3% y/y in Q1 2018, up from 8.0% y/y growth in Q4 2017, according to seasonally-adjusted data of SURS. The overall output in the manufacturing sector expanded by 9.0%, the output of the mining sector plunged by 16.1% due to seasonal factors, while the output of the electricity and gas supply sector increased by 3.9%.

The higher growth in industrial production was primarily attributable to demand in the euro area markets, which caused the total real turnover of Slovenian manufacturing firms to grow by close to 10% y/y in Q1 2018.

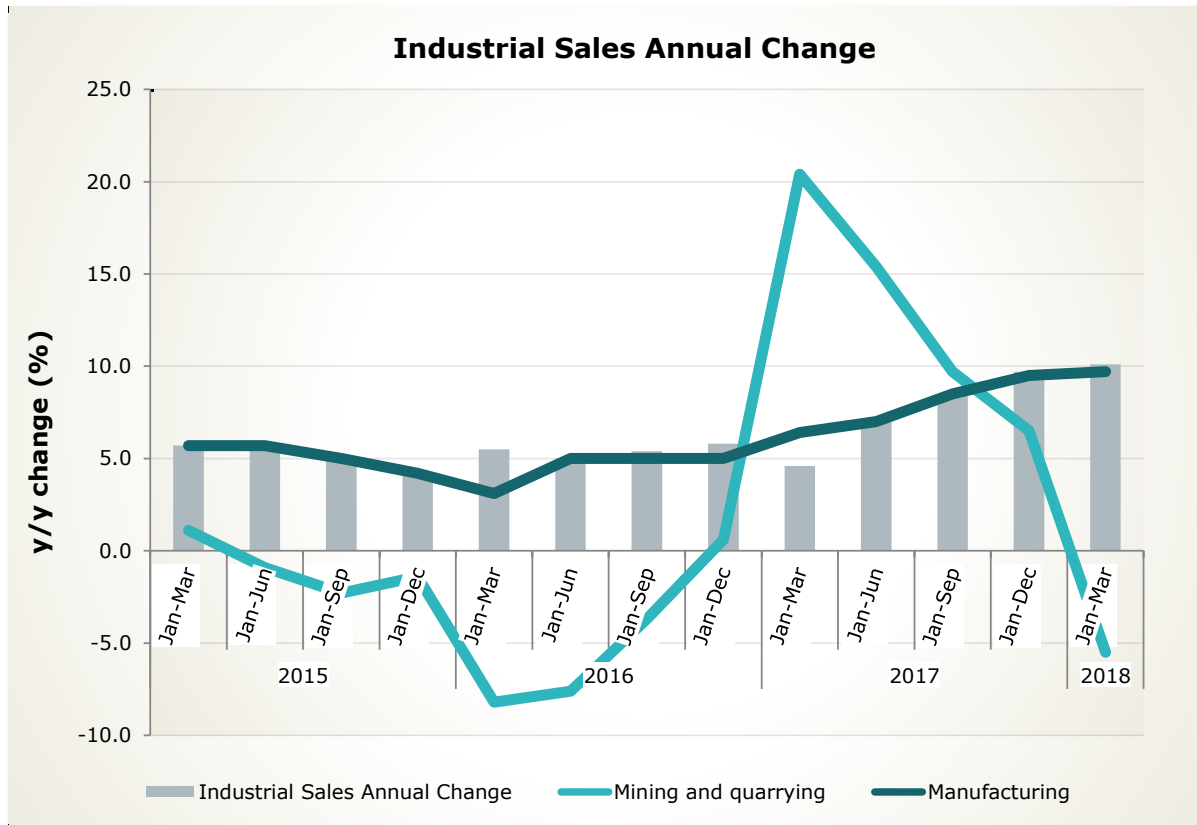


Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth speeded up to 10.1% in Q1 2018, up from an increase of 9.7% y/y in Q4 2017

The industrial sales in Slovenia rose by real 10.1% y/y in Q1 2018, after increasing by 9.7% in Q4 2017, according to SURS. The indicator jumped by 9.7% in the manufacturing sector, while in the mining and quarrying industry decreased by 5.5%.



Source: SURS

2.5. WHOLESALE/RETAIL

Retail sales slowed down in March 2018

In March 2018, the retail and wholesale sectors slowed down rates of growth to 0.3% y/y and 7.2% y/y, respectively, from 1.6% and 7.8% y/y growth in December 2017, according to the retail and wholesale index, calculated by SURS.

For the full 2017, the retail and wholesale sector speed up its growth rates compared to 2016 on average wage increases because of the tightening labour market as well as on the pickup in lending activity, which increased household consumption expenditures.



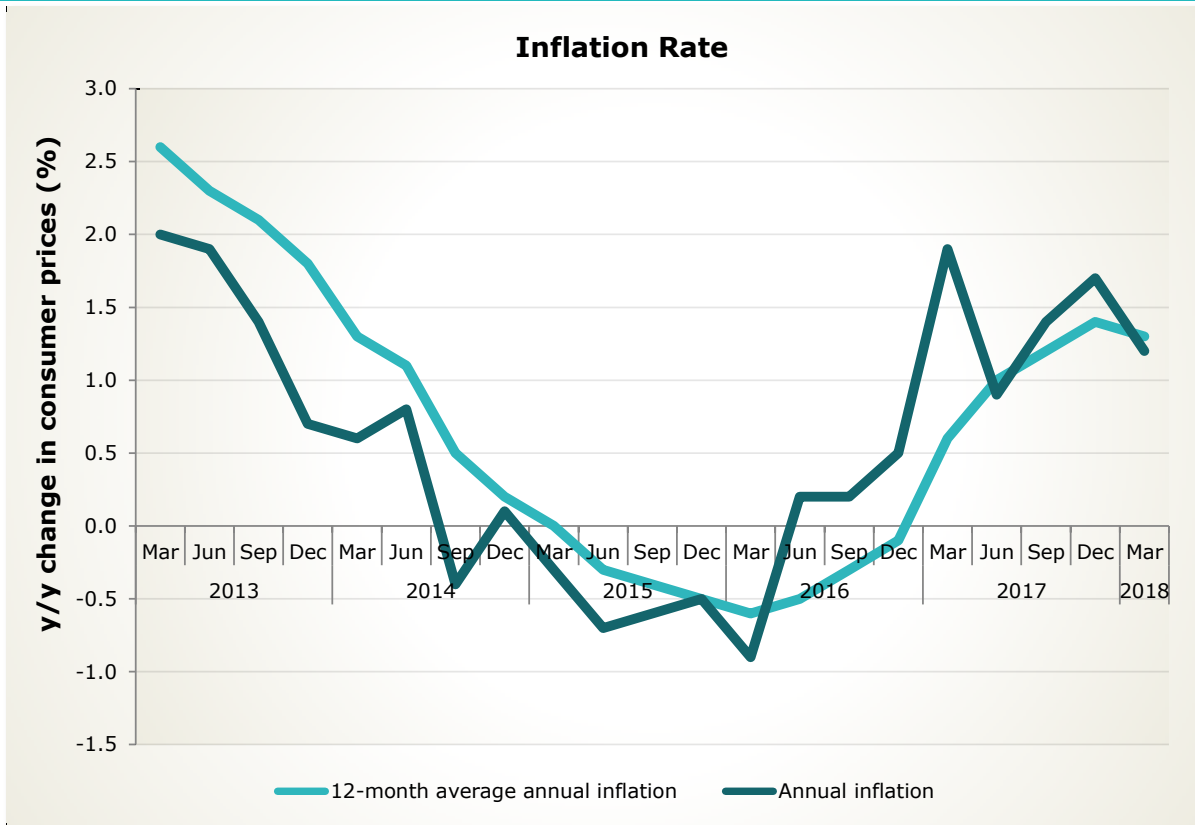
Source: SURS

2.6. INFLATION

Average annual inflation off at 1.3% in Q1 2018, down from 1.4% in 2017

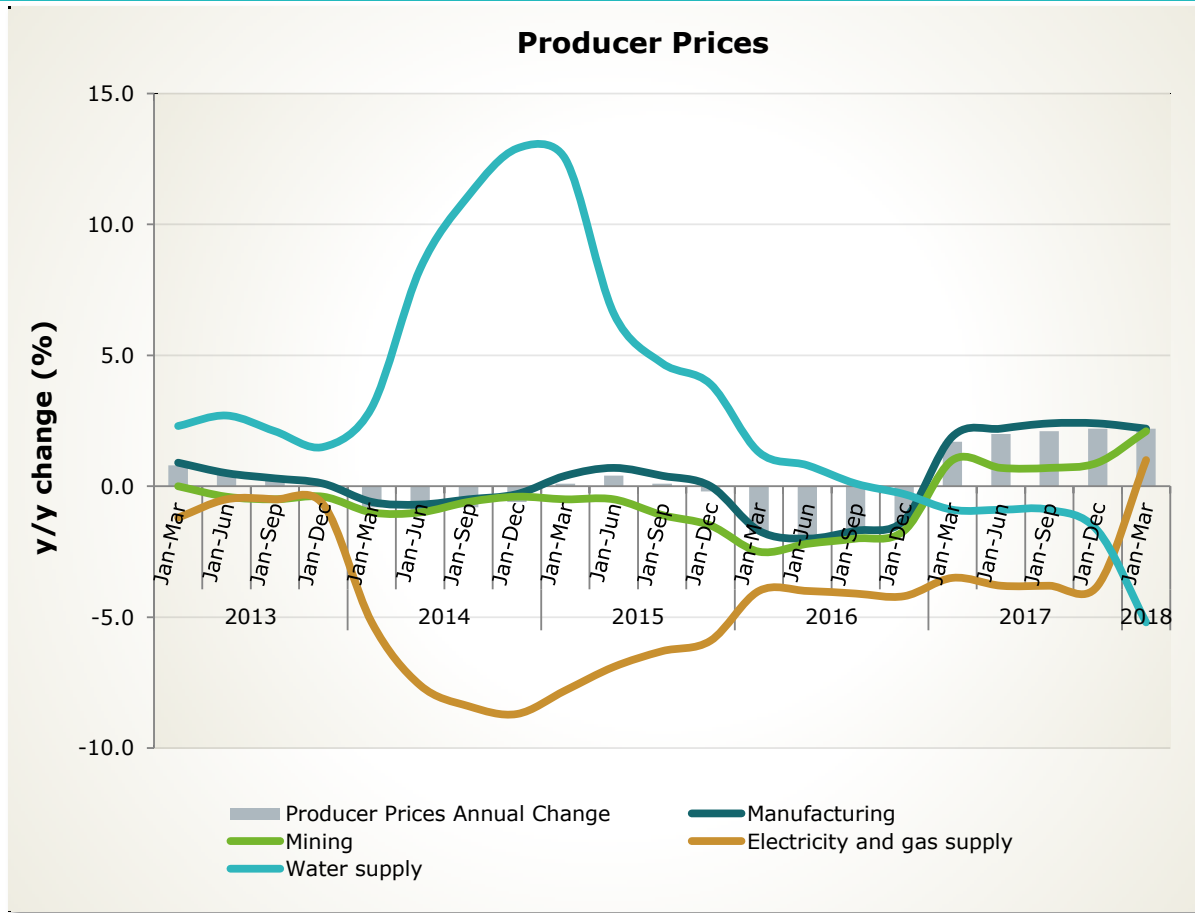
After experiencing deflation for two consecutive years, Slovenia had an inflationary environment in 2017, exceeding the euro area average, according to data from SURS. Main movements in headline inflation were primarily caused by movements in global oil prices. The average consumer prices advanced by 1.4% in 2017.

During the first quarter of 2018, the inflation eased to 1.3%. Overall, there was no significant change in the structure of price developments in the first quarter of this year compared with the previous quarter, with the exception of services prices, according to the Bank of Slovenia. The major contributor to the annual inflation was the services sector, which was largely attributable to faster growth in prices of accommodation and food services, which have been rising consistently since H2 2017. The contributions made by food prices and prices of non-energy industrial goods remain unchanged. The latter remained negative in the amount of 0.2 pp, primarily as a result of the ongoing falls in prices of cars and household equipment.



Source: SURS

Producer prices increased by 2.2% y/y in March 2017, unchanged compared to December 2017, SURS data showed. The average prices in the manufacturing sector went up by 2.2% y/y on average, while the inflation in the mining sector was 2.1% y/y. Still, producer prices in electricity and gas supply went up by 1.0% y/y while prices in the segment of water supply decreased by 5.2% y/y.



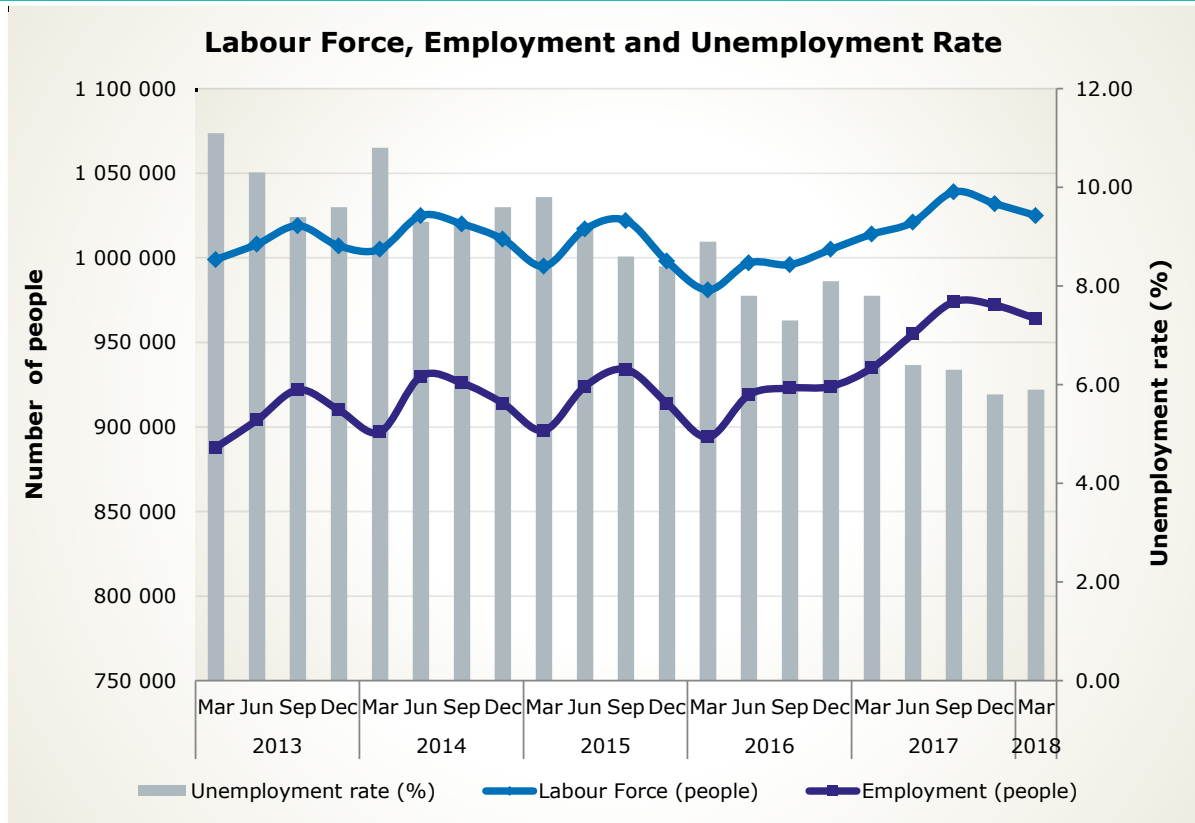
Source: SURS

3. LABOUR MARKET

Unemployment rate climbed to 5.9% as of March 2018, up from 5.8% at the end-2017

The unemployment rate in Slovenia inched up to 5.9% of the total labour force in Q1 2018 from 5.8% as of end-2017, according to data of SURS. The rise was due mainly to seasonal factors and when comparing to a year ago, the unemployment rate is still going down from 7.8% in March 2017.

According to The Bank of Slovenia, A total of 81,220 people were registered as unemployed in March 2018, down 14.7% in y/y terms, of whom approximately half had been unemployed for less than a year, and half for more. Unemployment is also falling in y/y terms in all age groups except those aged over 60. Youth employment continued to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 10.7%, compared to 12.7% as of end-2017.



Source: SURS

According to data of SURS, the average monthly net salary in Q1 2018 grew by 3.1% y/y to EUR 1,076. The employed in the public sector earned average monthly net wage of EUR 1,237, an annual increase of 3.1%, while private sector employees earned on average EUR 999, up by 3.6% y/y.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 1.2% y/y in Q1 2018

The boom in the construction sector continues into the first quarter of 2018. The construction confidence indicator rose, reaching one of its highest levels to date by the end of the first quarter. The number of building permits issued in Slovenia in Q1 2018 notched up by 1.2% y/y, totalling 1,428, according to SURS data. Permits for housing projects surged by 14.5% y/y to 625 while permits for non-residential and office buildings numbered 775, down from 836 in Q1 2017.

The total built-up area of the office units, covered by the permits, was 220,580 sq m, up 9.8% y/y. The total built-up area of the housing units increased by 16.2% to 159,507 sq m.

Construction firms reported a further strengthening of growth in demand in the first quarter of 2018, according to survey of the national statistics.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. EUR EXCHANGE RATE

The average exchange rate of the EUR¹ against the USD rose to USD 1.2292 in Q1 2018 from USD 1.1774 in Q4 2017, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
USD	1.2292	1.1774	1.0648
GBP	0.8834	0.8873	0.8601
CHF	1.1653	1.1622	1.0694

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 24.886 bln to Eurozone's M3 Monetary Aggregate² as of March 2018

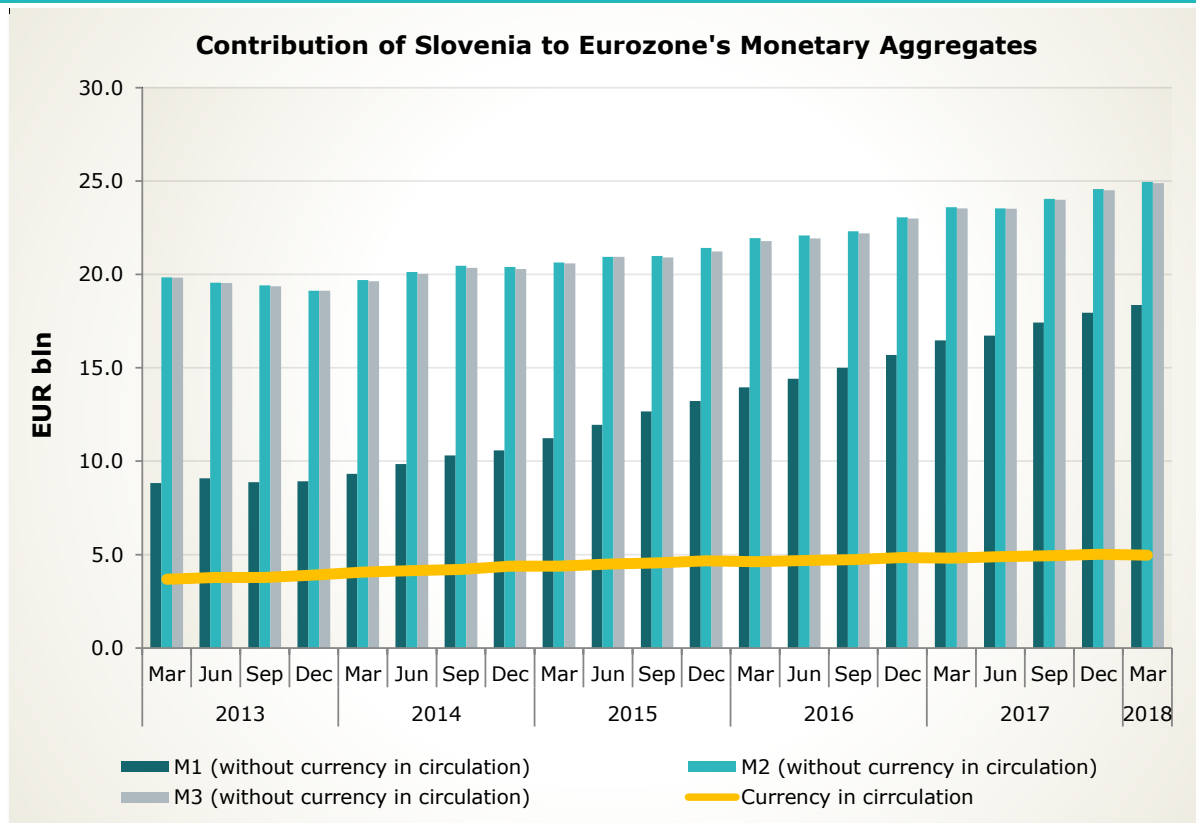
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 24.886 bln, without currency in circulation, at end of March 2018, up 5.7% y/y, according to BSI.

The country's contribution to the M2 aggregate amounted to EUR 24.961 bln, up from EUR 23.608 bln a year earlier.

Contribution to money aggregate M1, or narrow money, jumped by 11.5% y/y to EUR 18.360 bln.

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.



Source: BSI

5.3. BANKING

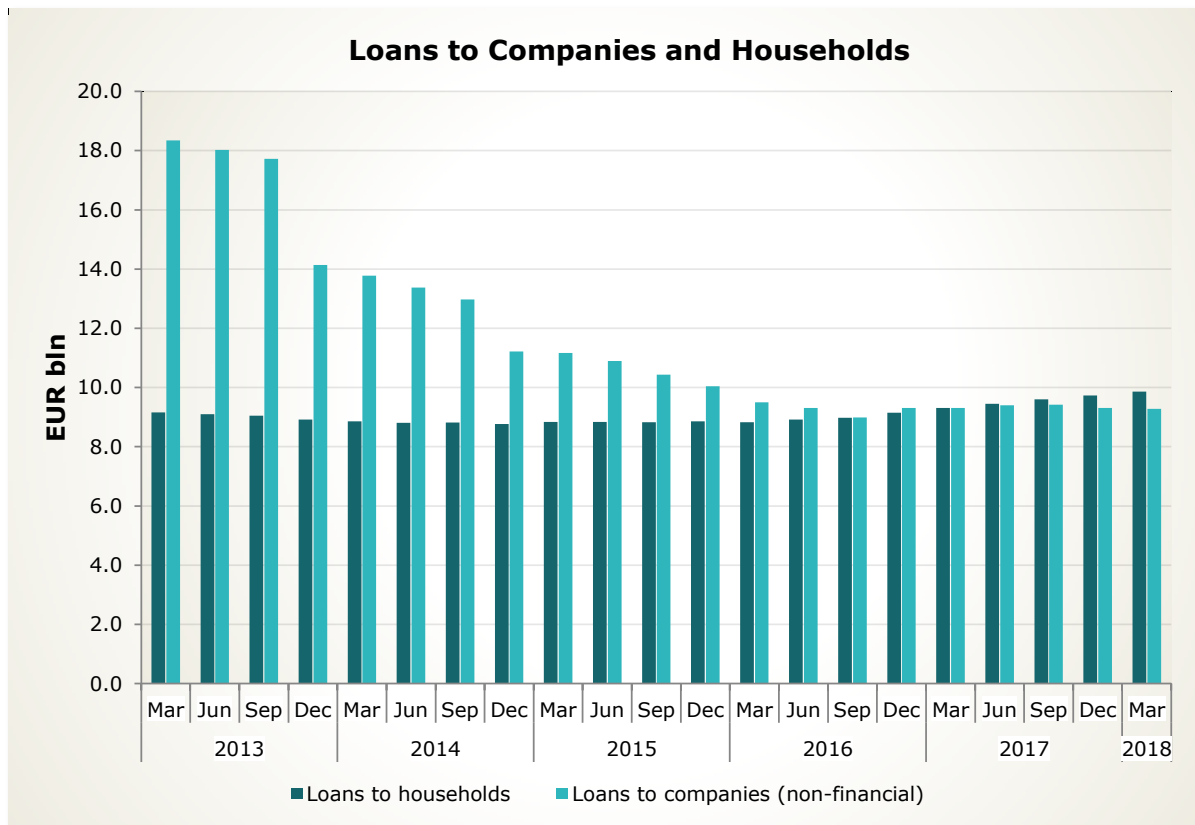
Household loans continue the strong performance in Q1 2018, increasing by 6.0% y/y

Household loans totalled EUR 9.860 bln in 2017 versus EUR 9.305 bln a year ago, according to BSI. House purchasing loans grew by 3.8% y/y to EUR 6.016 bln, while consumer loans went up by 11.1%, reaching EUR 2.469 bln. Excluding the effect of non-performing loans, the growth in household loans was 6.5% y/y and has been slowing since October 2017. Growth is slowing in housing loans and consumer loans alike: y/y growth in the former slowed to 4.1%, while y/y growth in the latter slowed to 11.5%.

Loans to non-financial corporations stood to EUR 9.281 bln, almost unchanged compared to end of Q1 2017. Excluding the effect of bad loans, the y/y growth in loans to non-financial corporations reached 3.4%.

According to The Bank of Slovenia, the non-performing loans ratio (NPL) declined to 5.4% in March, as NPLs declined to EUR 2.3 bln. The stock of NPLs in the non-financial corporations portfolio declined to EUR 1.6 bln (two-thirds of total NPLs at banks), but the NPL ratio remains high despite the decline, at 11.8%. The banks recorded a decline to 4.4% in NPLs to non-residents in March, to EUR 328 mln.

At the end of March 2018, the assets of the banking system totalled EUR 40.168 bln, down 1.2% y/y. The decrease was a result of a base effect from March 2017, when total assets were increased by bank borrowing at the ECB.



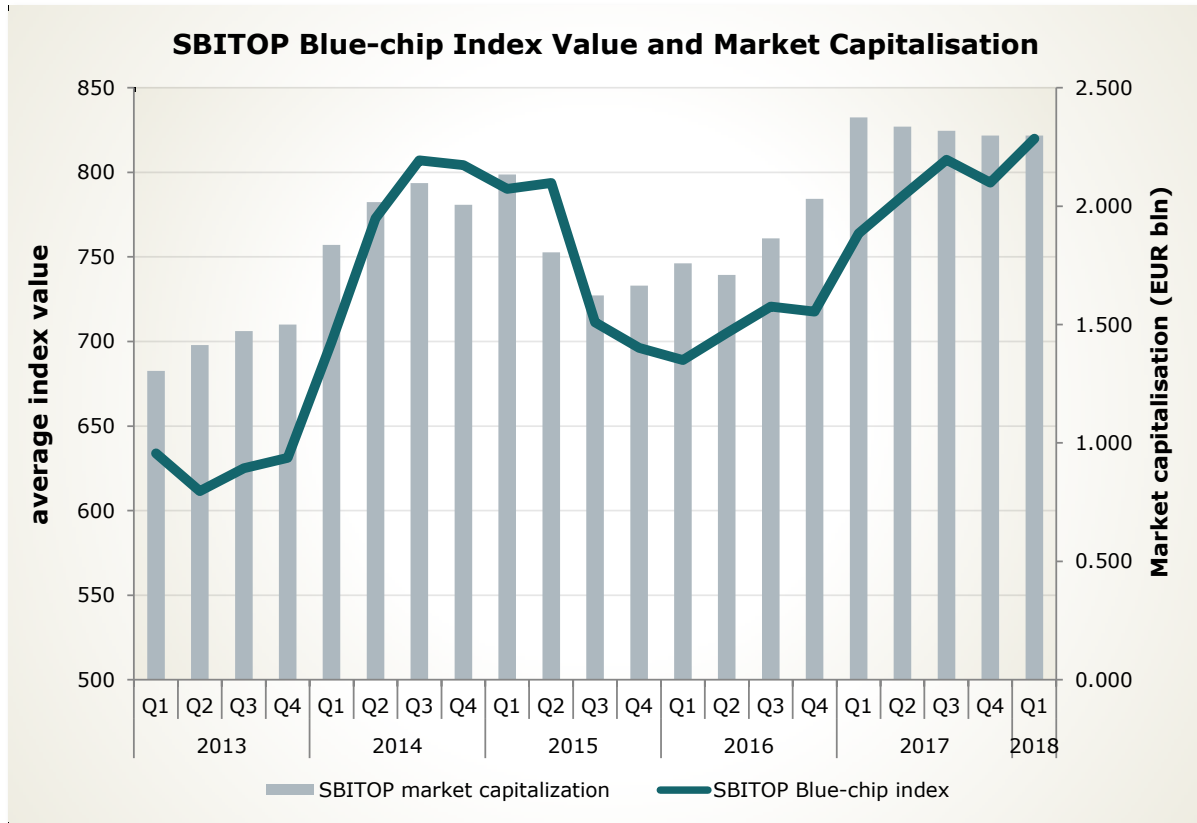
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 3.3% q/q in Q1 2018

The value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 3.3% q/q to 820 points as of end of March 2018.

The total turnover on LJSE's regulated market reached EUR 77 mln in Q1 2018 versus EUR 105 mln in Q1 2017.

The number of trades stood at 9,579, compared to 19,875 in the same quarter of 2017.



Source: LSE

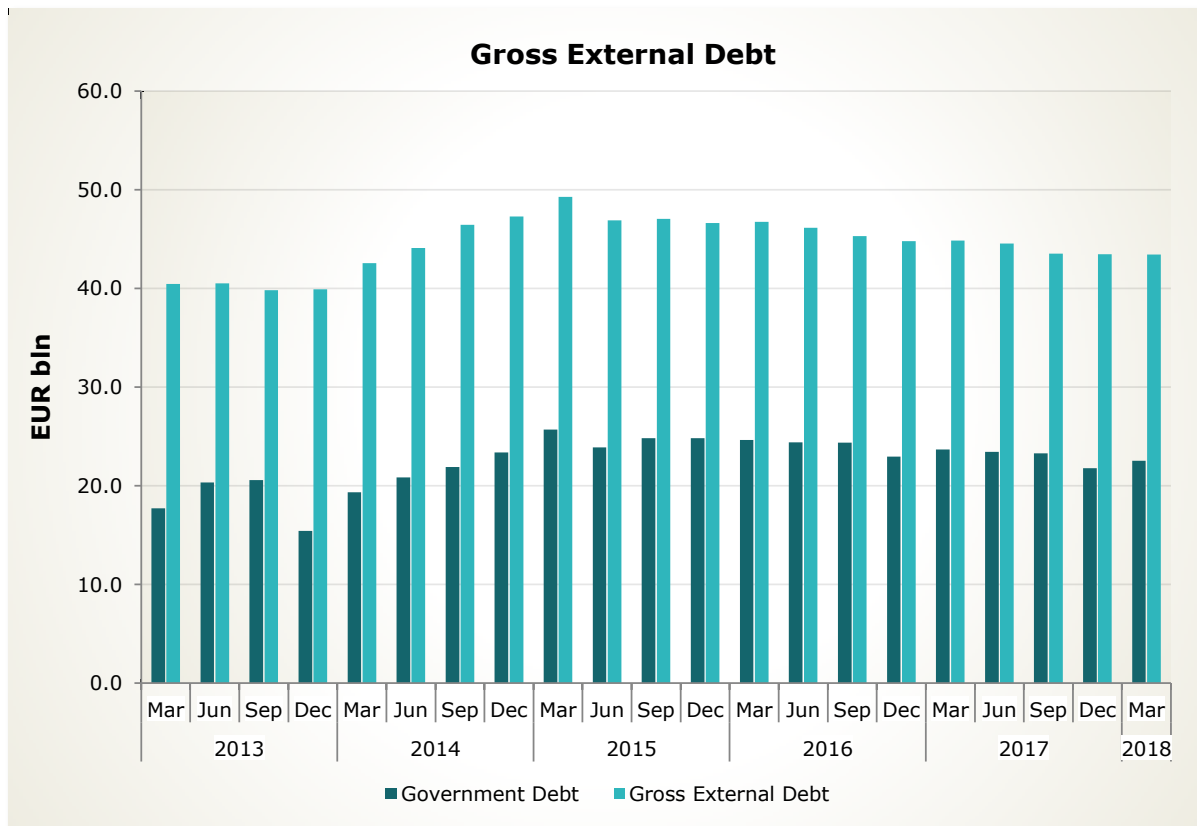
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt expanded by 8.6% y/y to EUR 43.4 bln at end of March 2018

Slovenia's gross external debt totalled EUR 43.4 bln at the end of March 2018, according to BSI. It fell by 3.2%, or EUR 1.42 bln, compared to December 2017.

Government debt increased to EUR 22.533 bln from EUR 21.777 bln December 2017. As of March 2018 long-term liabilities amounted to EUR 31.3 bln, or 64.2% of the total debt, while short-term liabilities totalled EUR 8.419 bln, equal to 17.3% of the total debt.



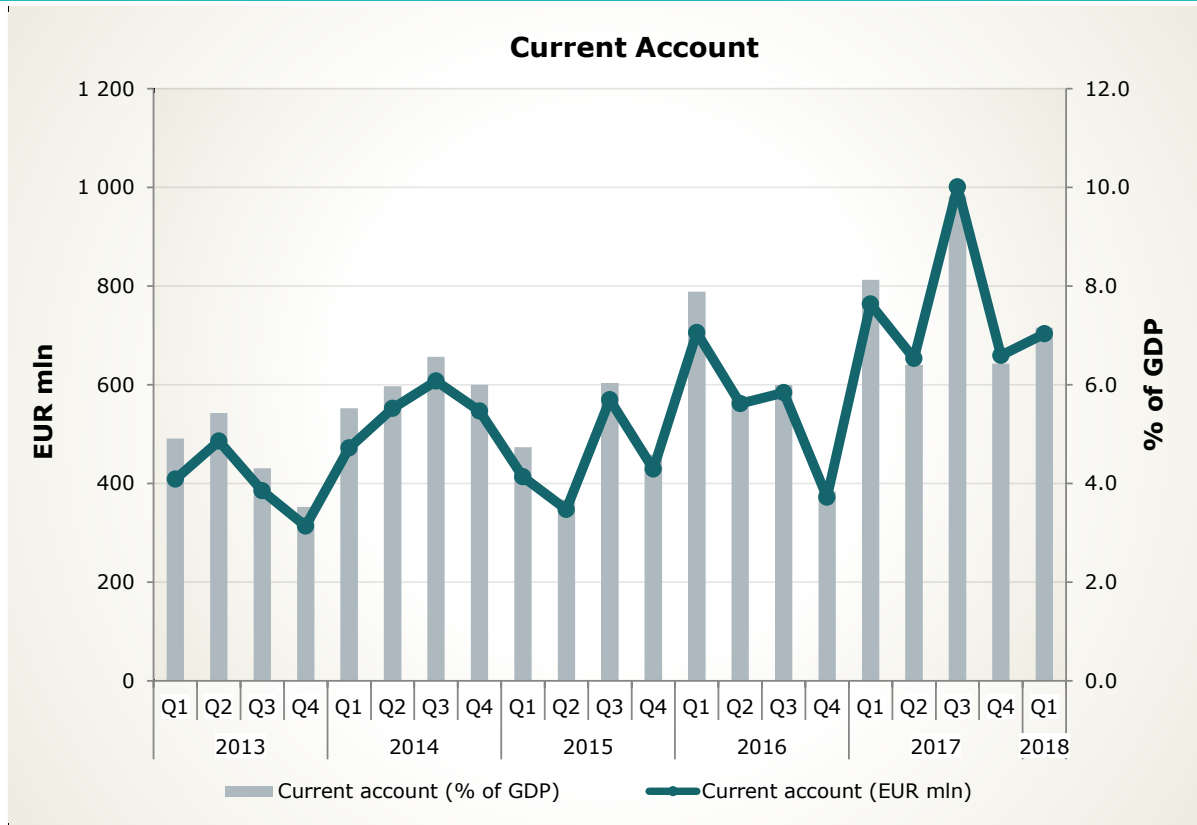
Source: BSI

7.2. BALANCE OF PAYMENTS

Current account surplus fell by 7.9% in Q1 2018

Slovenia's current account surplus fell to EUR 703.2 mln in Q1 2018, down by 7.9% from EUR 763.7 mln in Q1 2017, according to BSI.

The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a surplus of 7.0% of GDP in 2017 as Slovenia's integration in regional supply chains expanded, according to data from the BSI. However, IMF expects the external current account surplus to decline on the strength of domestic demand and higher international energy prices.

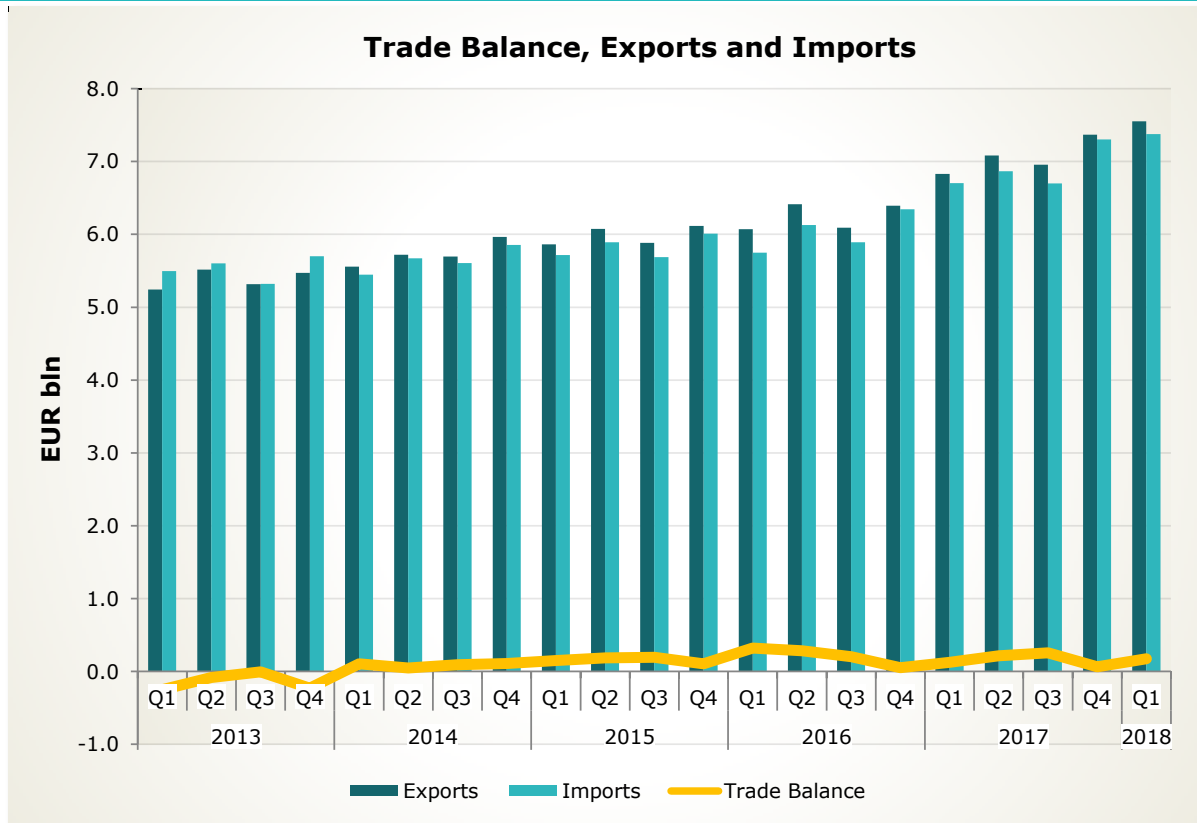


Source: BSI

7.3. FOREIGN TRADE

Foreign trade surplus swelled by 40% y/y in Q1 2018 as exports grew faster than imports

In Q1 2018, exports of goods increased faster than imports and the trade surplus went up by 40% y/y to EUR 175 mln, according to SURS data. Exports went up by 10.6% y/y to EUR 7.551 mln, while imports increased by 10% y/y to EUR 7.376 mln.



Source: SURS

7.4. TOURISM

Number of foreign tourist overnights surged by 17.9% y/y in Q1 2018

Tourist overnights of foreigners grew by an annual 17.9% to 1,275,751 in Q1 2018, according to SURS data. The share of foreign tourists in the total number of overnights was 59%, up from 56% in Q1 2017.

The number of foreign tourists grew by 16.5% to 517,125 in Q1 2018.



Source: SURS

8. MAJOR DEVELOPMENTS

Slovenia extending restrictions on Croatian workers until 2020

Mar 24, 2018

Slovenia's government announced it adopted a draft bill to keep the country's market closed to Croatian employees for a further two years, until June 30, 2020.

[Read the full story here](#)

Slovenia leads SEE countries in 2018 digitalisation ranking - Euler Hermes

Mar 17, 2018

Slovenia was the highest ranked Southeast European (SEE) country in the 2018 edition of Digitalization index issued by France-based credit insurance company Euler Hermes. Slovenia was placed 35th among 115 countries worldwide, according to Euler Hermes annual edition of Enabling Digitalization Index (EDI), which measures the ability and agility of countries to help digital companies thrive and traditional businesses harness the digital dividend.

[Read the full story here](#)

EC closes infringement procedures for Croatia, Slovenia as they integrate antitrust damages into law

Mar 9, 2018

The European Commission announced it has decided to close the infringement proceedings against Croatian and Slovenia, among a number of other countries, that transposed the

directive on antitrust damages actions into national law. EU's member states were under an obligation to transpose it into national law by December 27, 2016, however Croatia and Slovenia missed the deadline.

[Read the full story here](#)

Slovenia launches tenders worth over EUR 13.0 mln to boost start-ups

Feb 6, 2018

Slovenia's economic development ministry said it has launched several tenders worth over EUR 13.0 mln in total, including EUR 6.6 mln intended for start-up and scale-up companies.

[Read the full story here](#)

Slovenia, China to boost cooperation in transport sector

Feb 6, 2018

Slovenia's infrastructure ministry announced it has signed a memorandum of cooperation in transport and related infrastructure with China focusing on maritime transport and the development of railways, motorways and logistics services.

[Read the full story here](#)

Slovenia up 33 spots in economic freedom on fiscal health upsurge - Heritage Foundation

Feb 3, 2018

Slovenia has climbed 33 spots to 64th place on the 2018 global economic freedom chart with a dramatic upsurge in fiscal health eclipsing lower scores for the government integrity and business freedom indicators, according to The Heritage Foundation.

[Read the full story here](#)

EC urges Bulgaria, Croatia, Romania, Slovenia to fully adopt rules on financial markets

Jan 26, 2018

The European Commission called on a dozen of EU member states, including Bulgaria, Croatia, Romania and Slovenia, to fully transpose the EU directive on financial markets into their national legislation.

[Read the full story here](#)

Slovenia to set up one-stop shop to support exporters, foreign investors

Jan 19, 2018

Slovenia is setting up a national one-stop shop, SPOT, to support domestic exporters and foreign investors doing business in the country, the government office for development and European cohesion policy announced in January 2018.

[Read the full story here](#)

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