

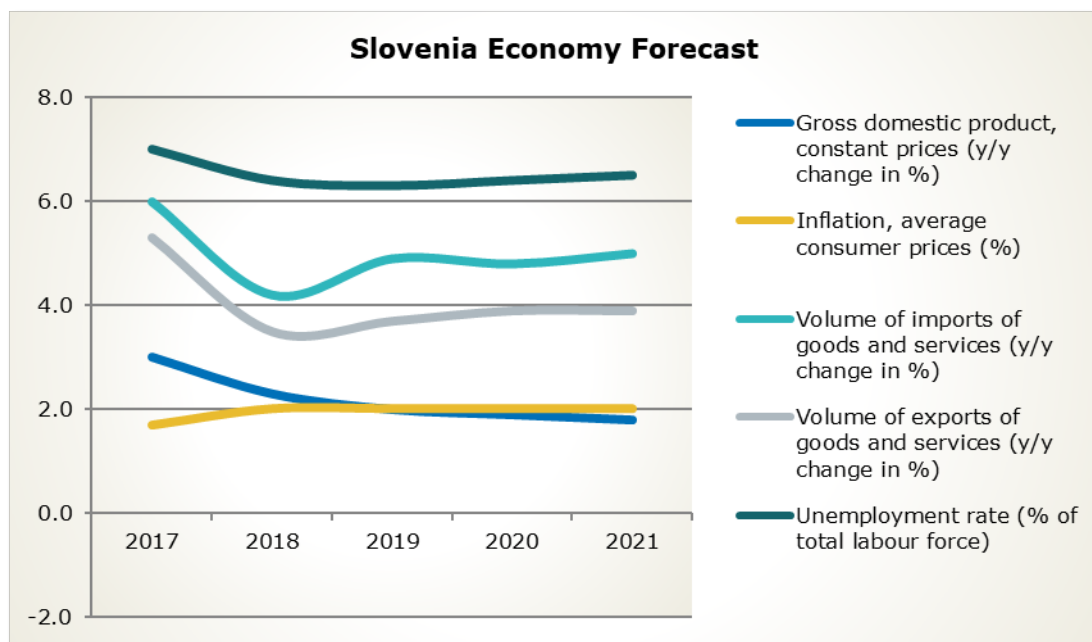
SLOVENIA ECONOMY REPORT Q2 2017

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	7
2.4. INDUSTRIAL SALES.....	8
2.5. WHOLESALE/RETAIL	9
2.6. INFLATION.....	10
3. LABOUR MARKET.....	12
4. CONSTRUCTION AND REAL ESTATE	13
5. MONEY SUPPLY AND BANKING SYSTEM.....	13
5.1. EUR EXCHANGE RATE.....	13
5.2. MONETARY AGGREGATES	13
5.3. BANKING	14
6. CAPITAL MARKETS	15
7. EXTERNAL SECTOR.....	16
7.1. FOREIGN DEBT	16
7.2. BALANCE OF PAYMENTS	17
7.3. FOREIGN TRADE	18
7.4. TOURISM	19
8. MAJOR DEVELOPMENTS.....	20

1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	4.4% y/y
Industrial output	7.2% y/y
Industrial sales	9.1% y/y
Wholesale index	123.6% y/y
Retail trade	11.4% y/y
Average annual inflation	1.0%
Unemployment rate	6.4%
Number of building permits	-29.6% y/y
Household loans	5.9% y/y
SBITOP blue-chip index	2.9% q/q
Gross external debt	EUR 44.529 bln
Current account surplus	EUR 794.7 mln
Foreign trade surplus	EUR 243.0 mln
Number of foreign tourist overnights	24.7% y/y



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

In 2017, 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, growth should slow toward its potential rate of 2.1-2.5%, constraint by adverse demographic trends and the still low private investments.

The projected robust economic activity and rising commodity prices will raise inflation toward 1.8-2.0% 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.

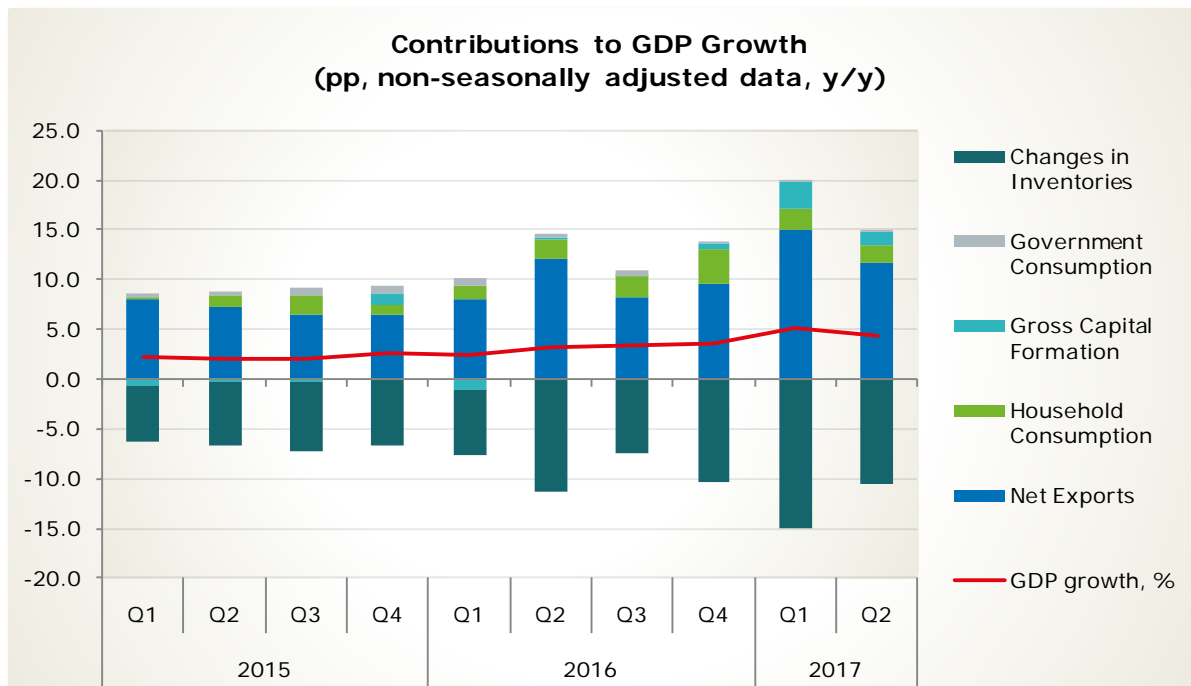
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth fell to 4.4% y/y in Q2 2017

The annual growth rate of the Slovenian economy fell to 4.4% in Q2 2017 compared to 5.1% y/y in the Q1 2017, but marked an increase compared to 3.5% in the fourth quarter of 2016, according to data of the Statistical Office of the Republic of Slovenia (SURs).

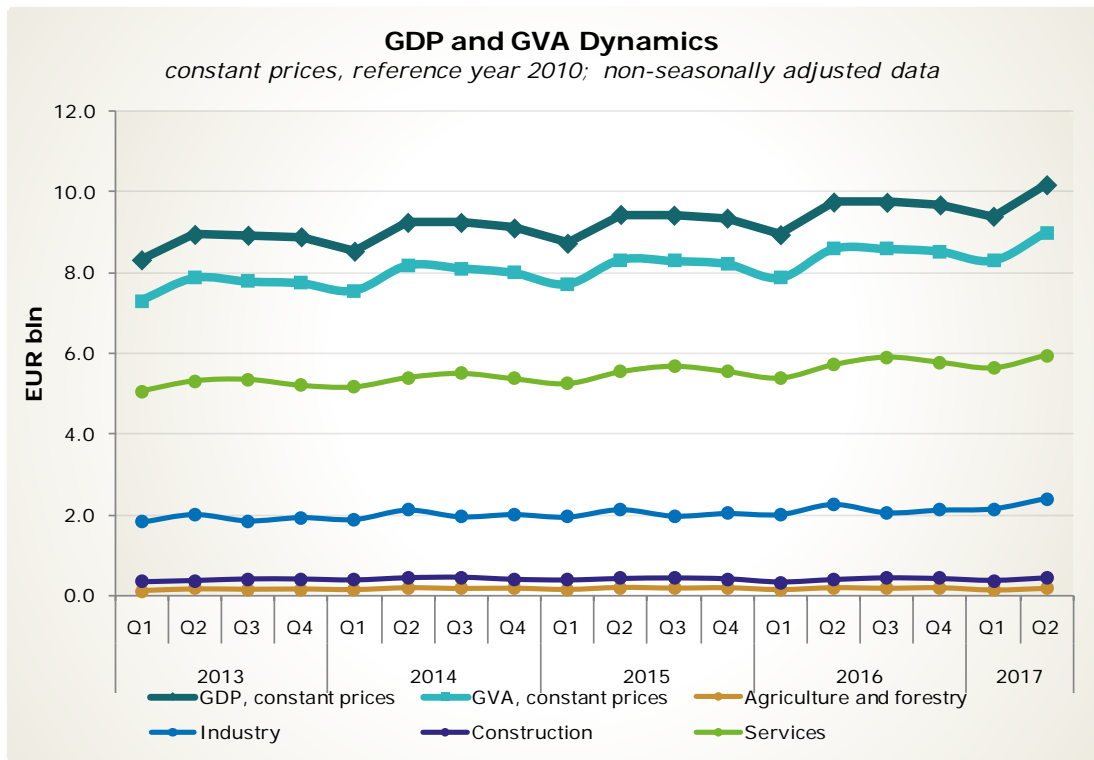
The economic expansion was broadly balanced with investments, consumption and net exports all contributing to GDP growth. Gross capital formation went up by 7.4% y/y and contributed with 1.4 pp to the GDP growth. Final consumption grew by 2.7% y/y in Q2 2017 and contributed with 1.9 pp to the GDP growth. Foreign trade also advanced with exports increasing by 8.3% y/y and imports going up by 7.9% y/y in Q2 2017. Overall, the net export added 1.1 pp to the GDP growth during the quarter.



Source: SURS; SeeNews calculations

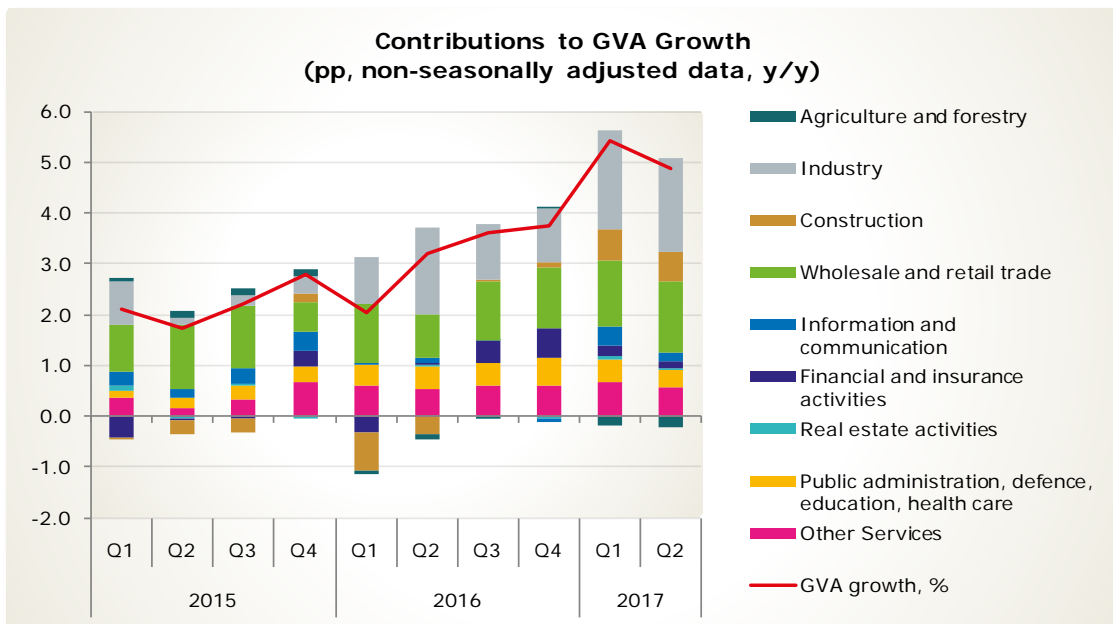
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 4.9% y/y in the second quarter of 2017 and totalled EUR 9.005 bln. The industrial sector grew in value by 6.6% y/y with its share in the GVA structure expanding to 26.7% from 26.3% in Q2 2016. The services sector recorded a 4.2% annual increase, slicing a 66.1% share in the GVA, down from 66.6% in the corresponding quarter of the previous year. The agricultural sector registered an annual decrease of 8.6% and its share in the GVA also fell to 2.0% from 2.3%. The construction sector surged by 11.3% and its GVA share went up to 4.9% from 4.6% in Q2 2016.



Source: SURS

The largest contributor to the overall GVA growth in Q2 2017 was the industrial sector with 1.9 pp. The strong consumption trend was the main driver of the retail and wholesale sector, which contributed with 1.4 pp to the y/y economic growth in Q2 2017.



Source: SORS; SeeNews calculations

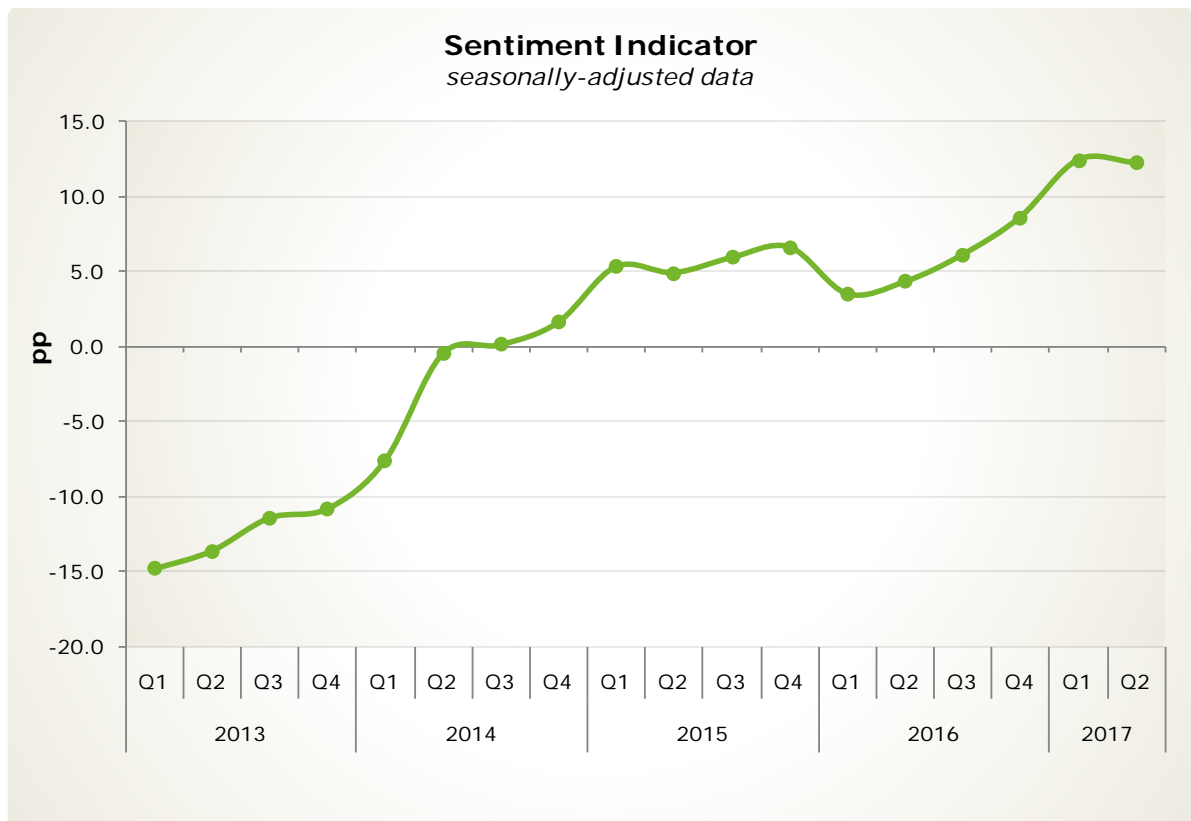
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator at record high in June 2017

The fast economic growth in Q2 2017 supported by household expenditures and external demand led to a surge in sentiment among businesses in the country. In June 2017, the business sentiment indicator was at 12.2 points, compared to 4.3 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 - 33 points, fuelled by the strong domestic demand. It was followed by the services sector with 23 points, construction with 14 points, and manufacturing with 9 points.



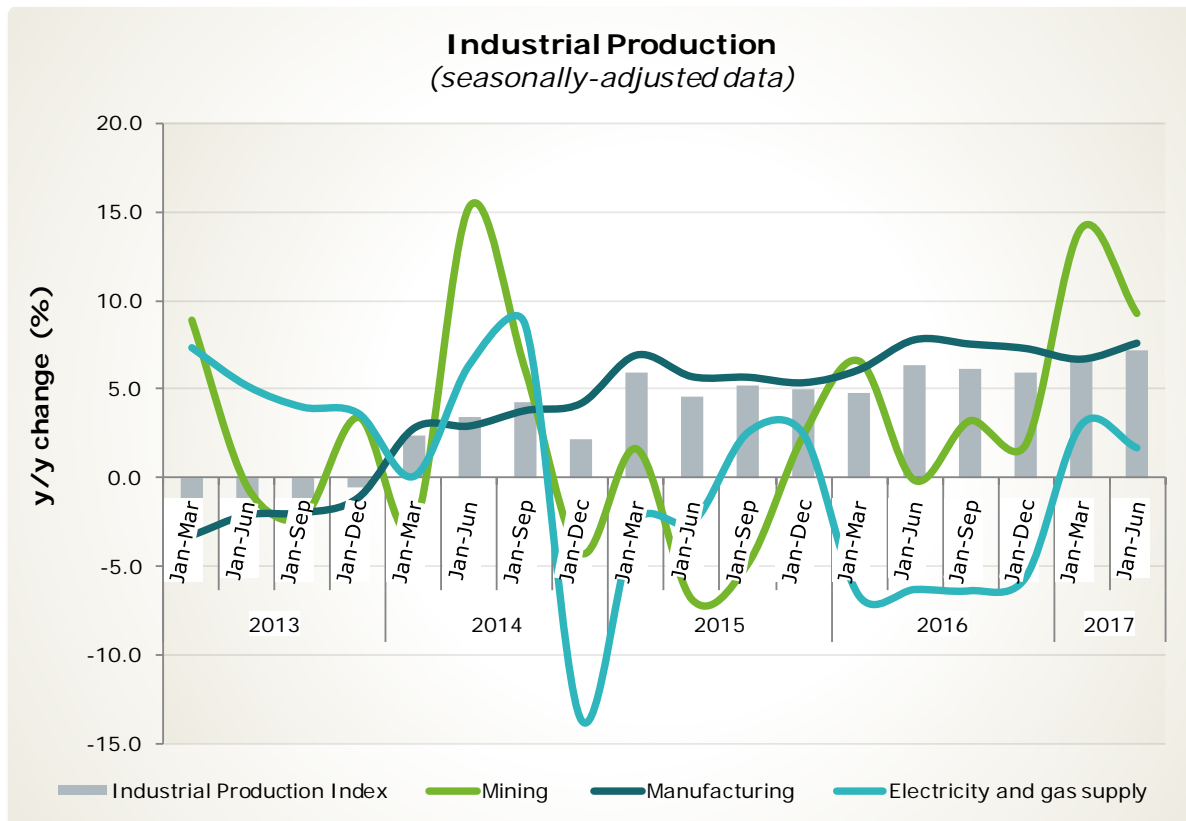
Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output up 7.2% y/y in Q2 2017

Industrial output went up by 7.2% on the year in the second quarter of 2017, according to seasonally-adjusted data of SURS. Output in the manufacturing sector expanded by 7.6%, the output of the mining sector grew by 9.3%, while the output of the electricity and gas supply sector increased by 1.7%.

Manufacture at intermediate goods industries increased at 6.5% y/y on average, while manufacture at capital goods industries went up by 9.9% y/y in Q2 2017. The industrial production at consumer goods sectors increased by 4.9% y/y on average.



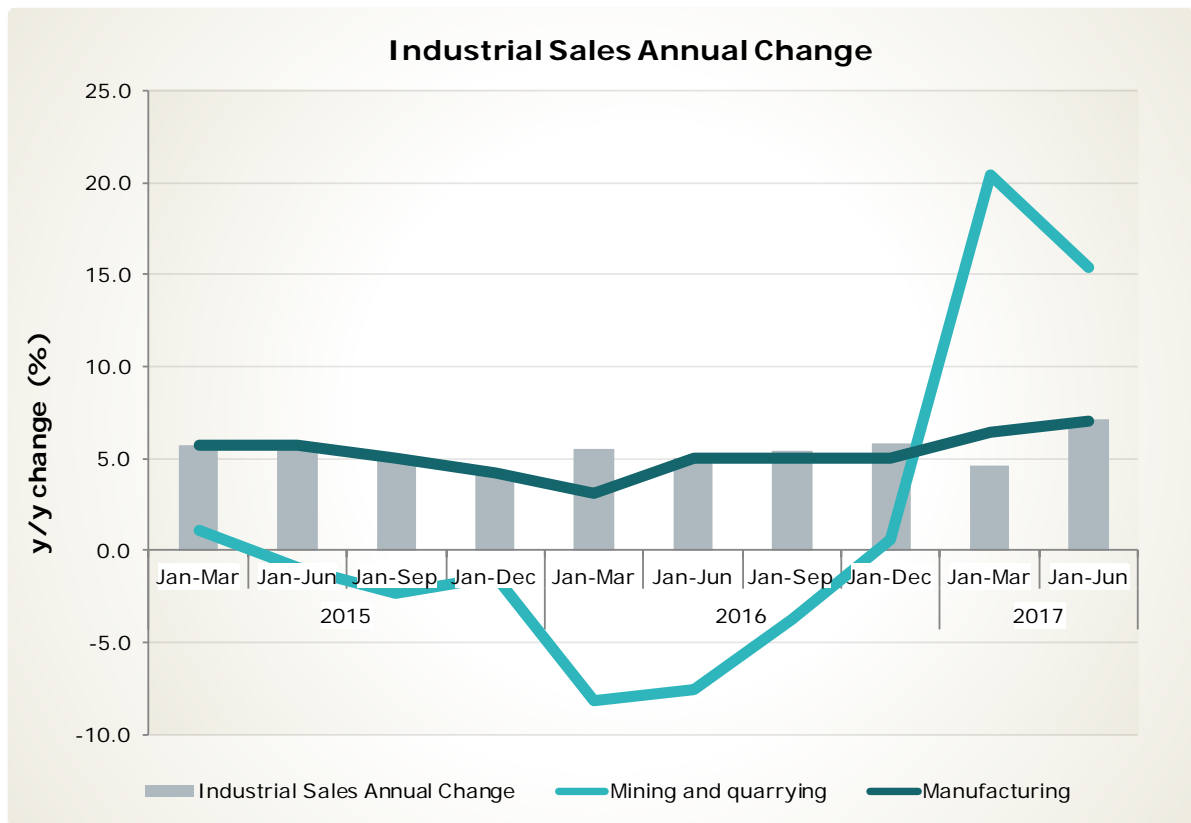
Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth remained strong in Jan-Jun 2017

The industrial sales in Slovenia rose by real 7.1% y/y in January-June 2017, after increasing by 4.6% in January-March 2017, according to SURS. The indicator increased by 7.0% in the manufacturing sector, while in the mining and quarrying industry it jumped by 15.4%.

Industrial sales of intermediate goods went up by 7.8% y/y in the first half of 2017, while sales of capital goods increased by 9.2% y/y on average. Consumer goods industries sales grew by 5.5% y/y.



Source: SURS

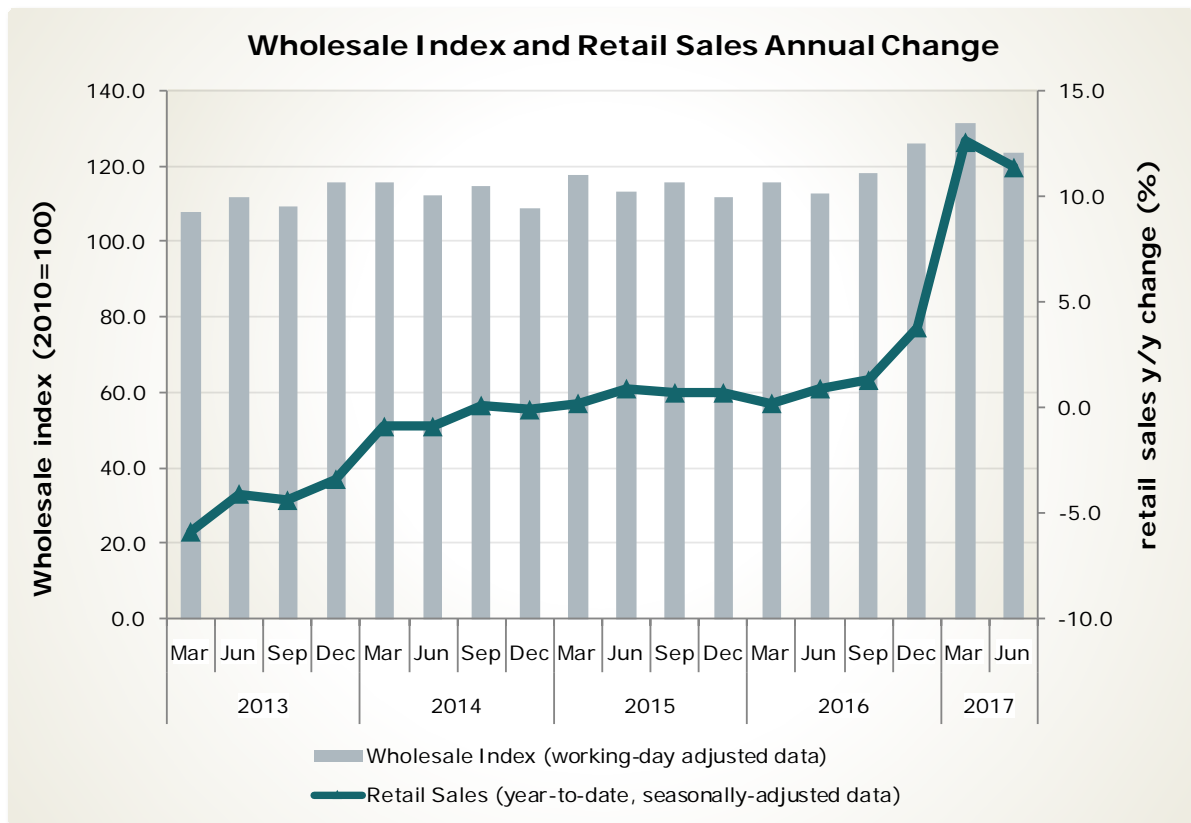
2.5. WHOLESALE/RETAIL

Retail sales grew 11.4% y/y in Q2 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 11.4% y/y in Q2 2017, while wholesale trade more than doubled, according to SURS data.

Retail sales of automotive fuel in stores surged by 28.7% in the first six 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 1.5% y/y, while retail sales of non-food products, except automotive fuel, expanded by 5.9% y/y.



Source: SURS

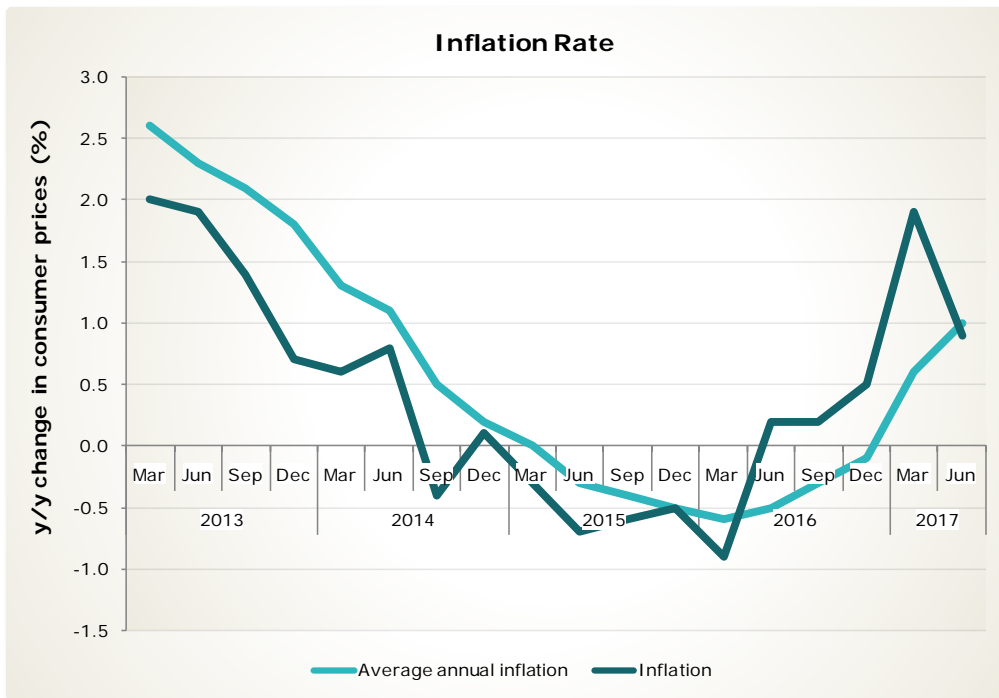
2.6. INFLATION

Average annual inflation at 1.0% y/y as of June 2017

The annual average inflation in Slovenia stood at 1.0% in the period July 2016 - June 2017, according to SURS. In June 2017 alone, the inflation was weaker - 0.9% y/y, down from 1.9% in March 2017.

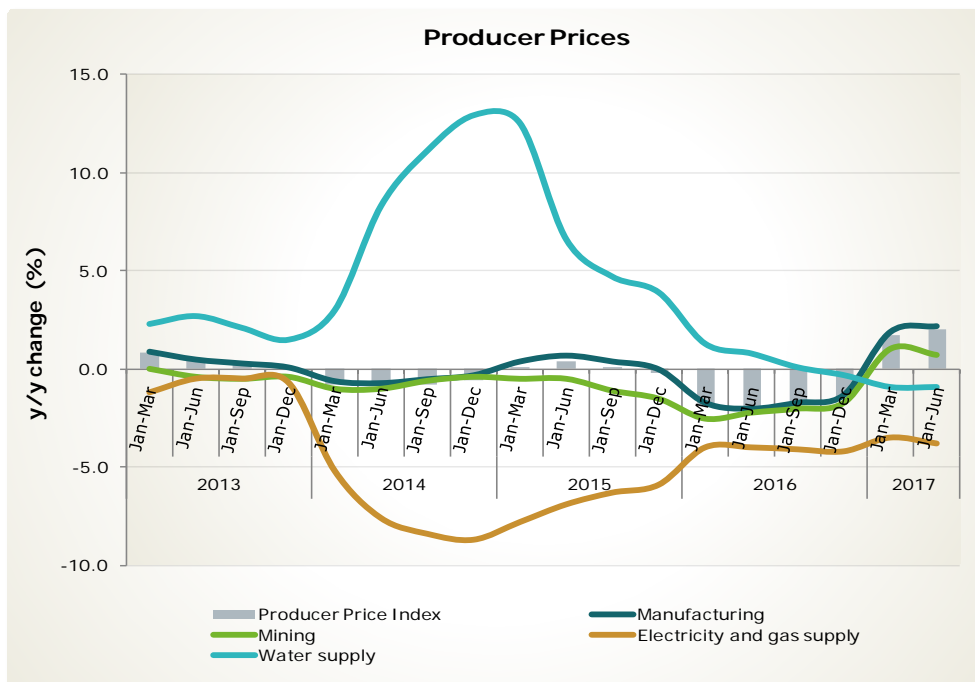
In July 2016 - June 2017, the highest annual average inflation, of 2.0% was posted by food and non-alcoholic beverages, while the only deflation, of 0.6%, was registered by clothing and footwear.

As the price pressures on global energy and commodities markets have eased, inflation pressure is expected to fade away in the third quarter of 2017.



Source: SURS

Producer prices increased by 2.0% y/y in the first half of 2017, compared to an inflation of 1.7% in the first quarter of 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 0.7% y/y. Still, producer prices in electricity and gas supply, and water supply went down, by 3.8% y/y and 0.9% y/y.



Source: SURS

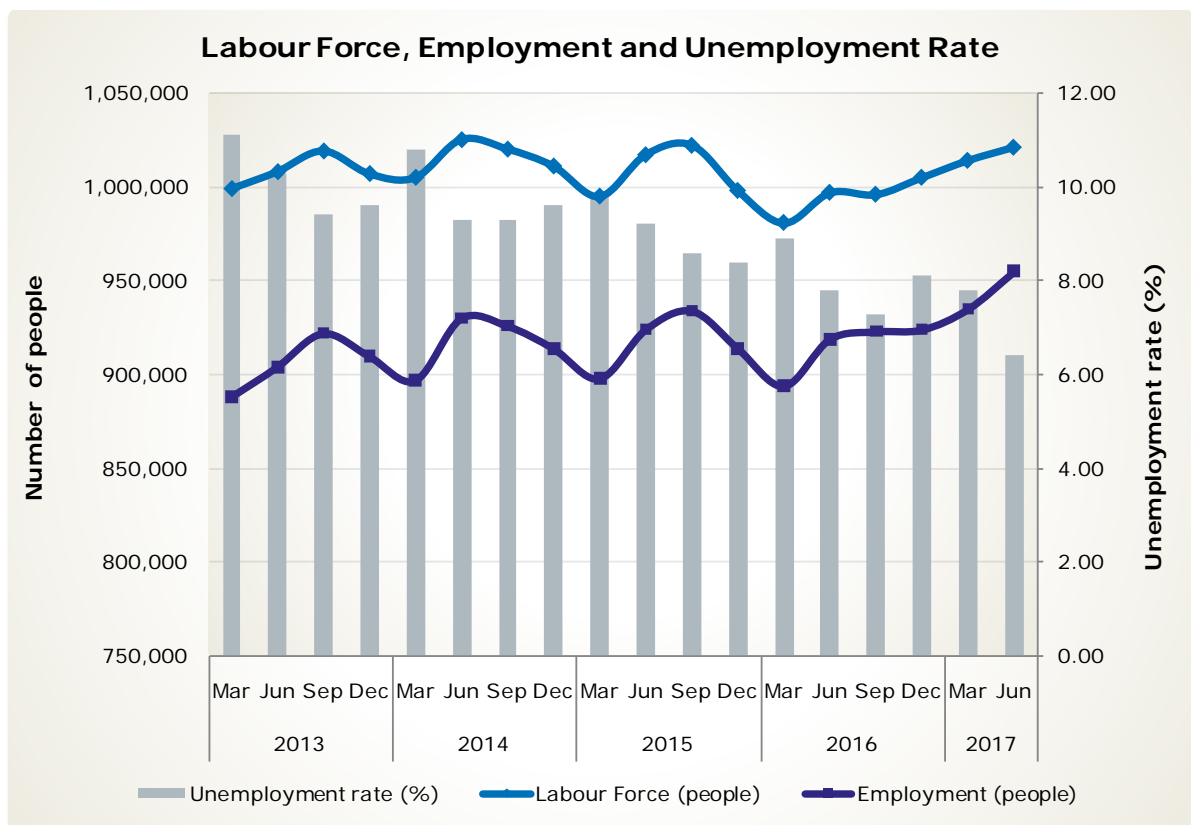
3. LABOUR MARKET

Unemployment rate went down y/y, to 6.4% in Q2 2017, wages up by 2.5% y/y

The unemployment rate in Slovenia narrowed to 6.4% of the total labour force in Q2 2017 from 7.8% a year earlier, 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 955,000, up by 3.9% y/y.

Youth employment continue to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 10.1%, compared to 14.0% 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 Q2 2017 grew by 2.5% y/y to EUR 1,045. The employed in the public sector earned average monthly net wage of EUR 1,213, an annual increase of 2.8%, while private sector employees earned on average EUR 962, up from EUR 936 a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 29.6% y/y in Q2 2017

The number of building permits issued in Slovenia in Q2 2017 slumped by 29.6% y/y, totalling 1,367, according to SURS data.

Permits for housing projects went down by 33.0% y/y to 468 while permits for non-residential and office buildings numbered 886, down from 1,212 in Q2 2016.

The total built-up area of the office units, covered by the permits, was 218,596 sq m versus 249,806 sq m a year earlier. The total built-up area of the housing units decreased by 27.8% to 122,248 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 1.1021 in Q2 2017 from USD 1.1292 in Q2 2016, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q2 2017	Q1 2017	Q2 2016
USD	1.1021	1.0648	1.1292
GBP	0.8611	0.8601	0.7868
CHF	1.0842	1.0694	1.0961

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 23.515 bln to Eurozone's M3 Monetary Aggregate² in Q2 2017

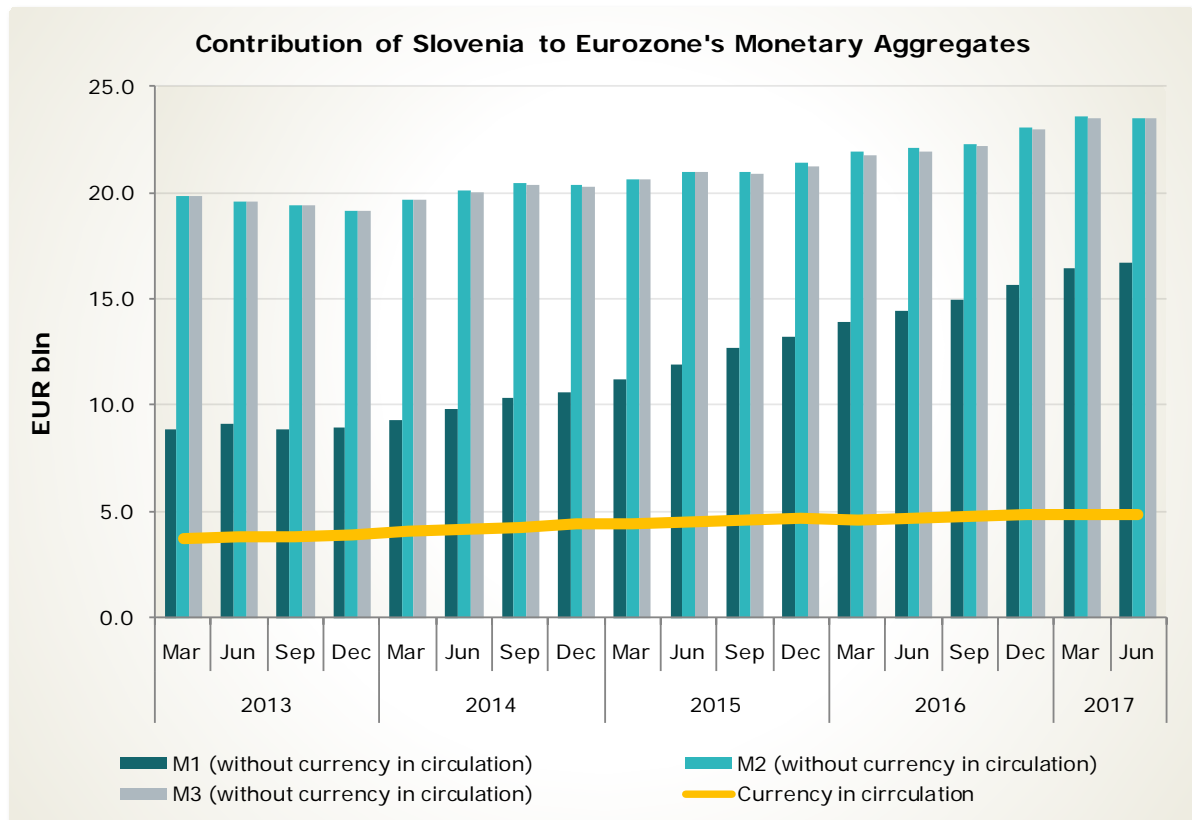
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 23.515 bln, without currency in circulation, at end-June 2017, up 7.2% y/y, according to BSI.

The country's contribution to the M2 aggregate amounted to EUR 23.537 bln, up from EUR 22.086 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 16.0% y/y to EUR 16.720 bln.



Source: BSI

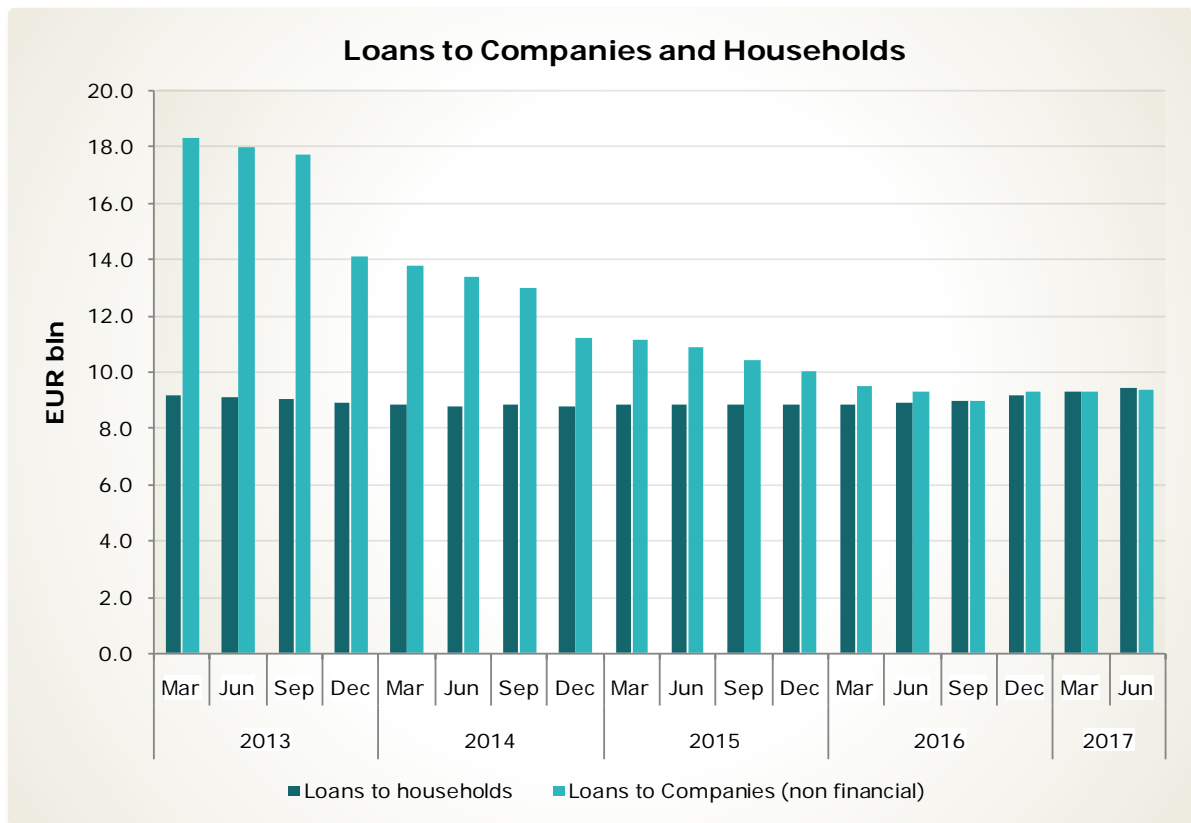
5.3. BANKING

Household loans up 5.9% y/y in Q2 2017

Household loans totalled EUR 9.447 bln at end-June 2017 versus EUR 8.920 bln a year ago, according to BSI. House purchasing loans grew by 4.4% y/y to EUR 5.876 bln, while consumer loans went up by 11.2%, reaching EUR 2.301 bln.

Loans to non-financial corporations grew by 1.0% y/y to EUR 9.398 bln. In April and May 2017 they amounted to EUR 9.379 bln and EUR 9.338 bln, respectively.

At the end of June 2017, the assets of the banking system totalled EUR 40.213 bln, which was a 1.1% decrease in comparison to March 2017.



Source: BSI

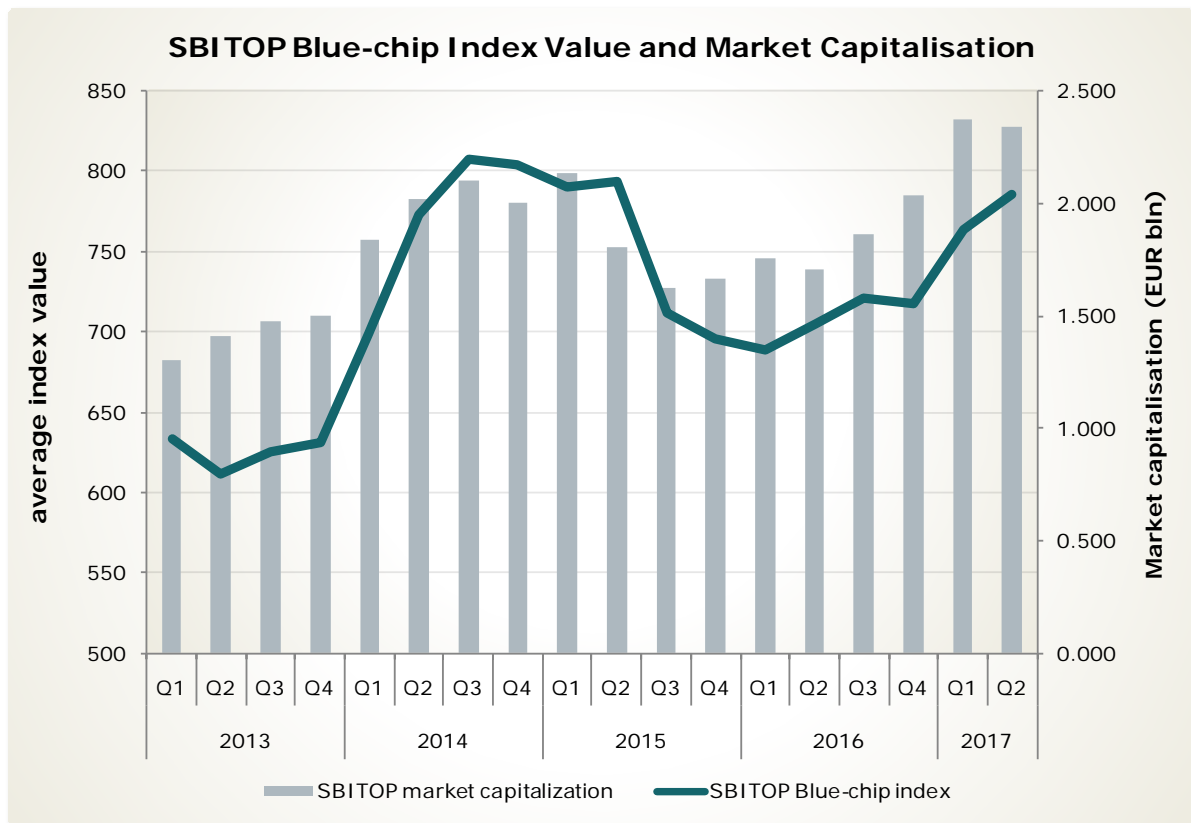
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 2.9% q/q in Q2 2017

The value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 2.9% q/q to 785.85 points in Q2 2017.

The total turnover on LJSE's regulated market reached EUR 77.6 mln in Q2 2017 versus EUR 105.2 mln in Q1 2017.

The number of trades stood at 11,284, compared to 19,875 in Q1 2017.



Source: LSE

7. EXTERNAL SECTOR

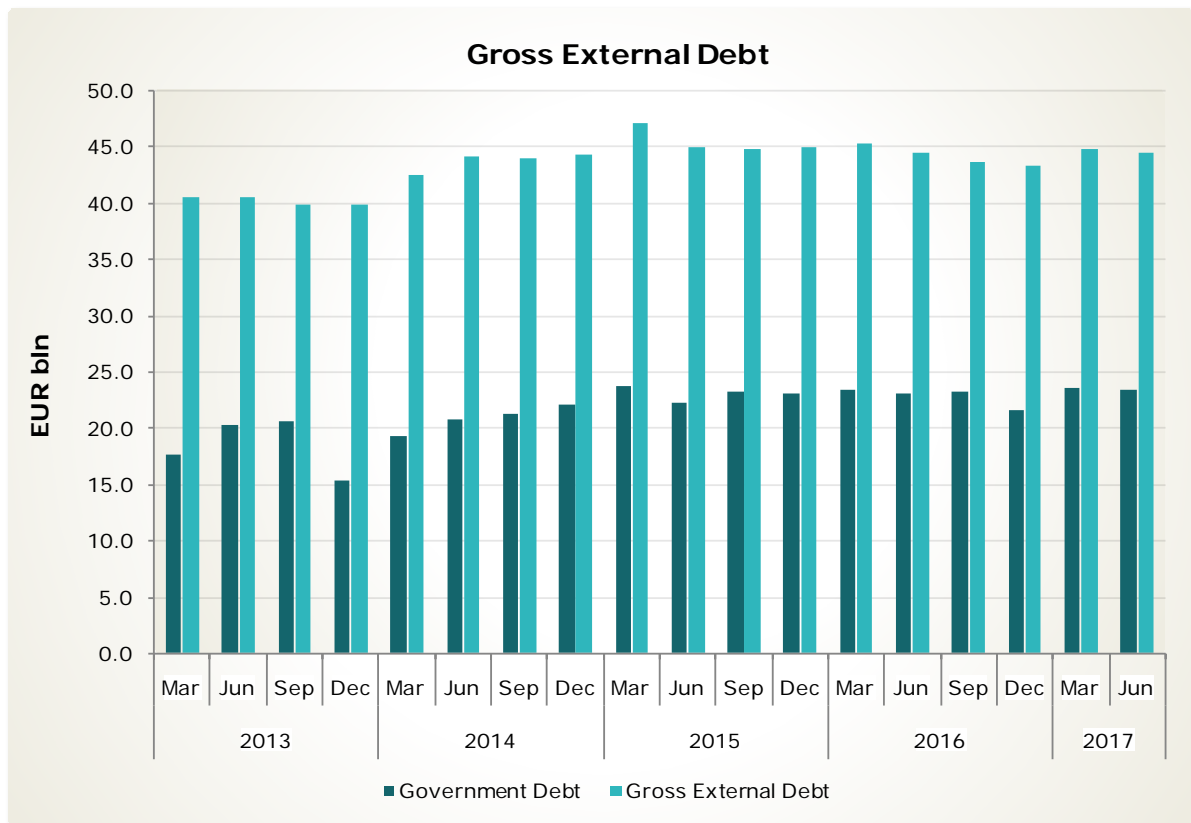
7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 44.529 bln at end-June 2017

Slovenia's gross external debt totalled EUR 44.529 bln at the end of June 2017, according to BSI. It narrowed by 0.1% or EUR 37.0 mln, compared to June 2016. In comparison to the end of March 2016 the gross external debt decreased by EUR 333.0 mln.

Government debt stood at EUR 23.422 bln, or 52.6% of the total, at end-June 2017. It increased by 1.3% 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 in 2017.

As of end-June 2017 long-term liabilities amounted to EUR 32.311 bln, or 72.6% of the total debt, while short-term liabilities totalled EUR 8.632 bln, equal to 19.4% of the total debt.



Source: BSI

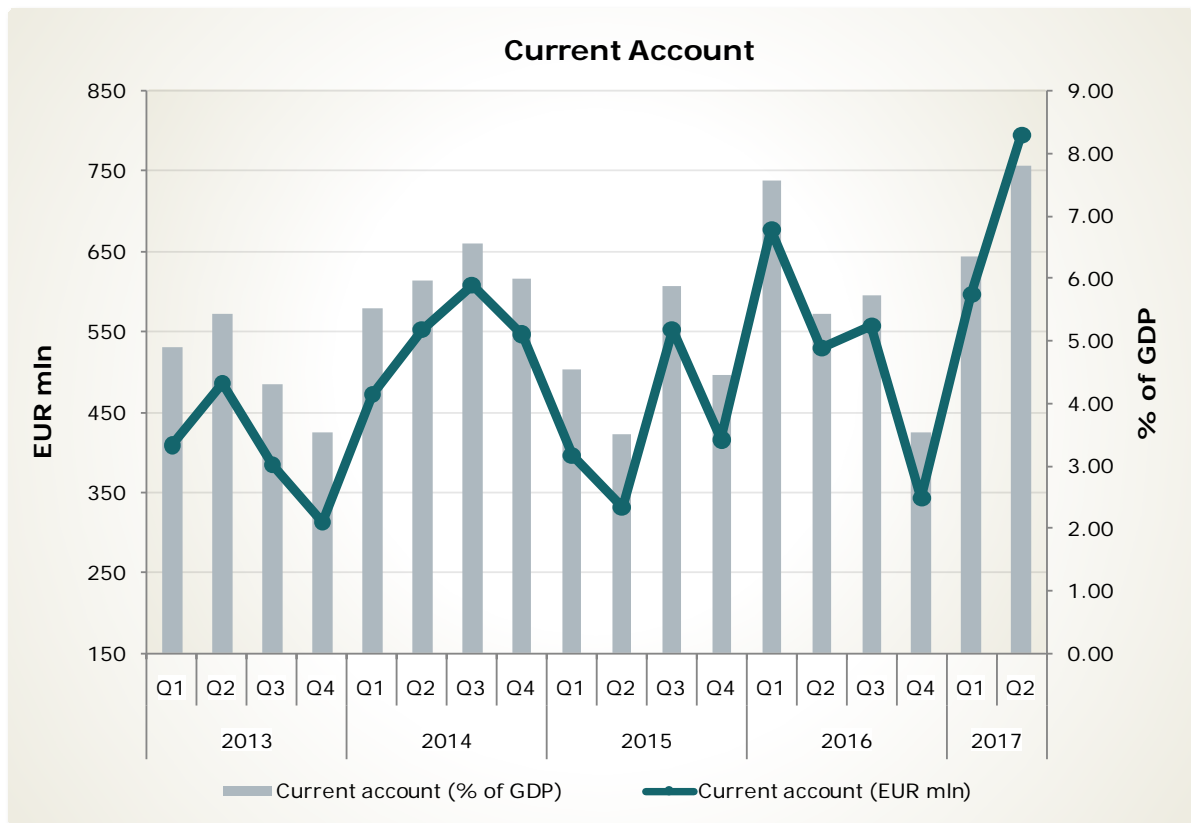
7.2. BALANCE OF PAYMENTS

Current account surplus jumped y/y in Q2 2017

Slovenia's current account surplus widened to EUR 794.7 mln in Q2 2017 from EUR 529.8 mln in Q2 2016, according to BSI.

The expansion of the current account surplus was a result mainly from an annual increase in the trade surplus of goods by EUR 153.3 mln, or 15.7%, in Q2 2017. In the same time the deficit of the primary and secondary income account shrank by 25.0% y/y, or EUR 111.5 mln, to EUR 334.4 mln.

The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a surplus of 5.2% 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 4.9% of GDP in 2018.



Source: BSI

7.3. FOREIGN TRADE

Foreign trade surplus narrowed by 15.0% y/y in Q2 2017 on faster growth in imports

During the second quarter of 2017, imports of goods increased faster than exports and the trade surplus fell by 15.0% y/y to EUR 243.0 mln, according to SURS data. Exports of goods went up by 10.7% y/y to EUR 7.102 bln, while imports of goods increased by 11.9% y/y to EUR 6.859 bln.

Slovenia's most exported goods in Q2 2017 were road vehicles, which accounted for 15.9% of the total exports, followed by electrical machinery, appliances, and spare parts with a 9.9% share, and medicinal and pharmaceutical products with 9.5%.

In terms of imports, the main goods were again road vehicles, which made up 14.0% of the total, followed by electrical machinery, appliances, and spare parts, which had a 6.6% share and petroleum, petroleum products and related materials, slicing a 6.3% share.



Source: SURS

7.4. TOURISM

Number of foreign tourist overnights up by 24.7% y/y in Q2 2017

Tourist overnights of foreigners grew by an annual 24.7% to 1,977,122 in Q2 2017, according to SURS data. The share of foreign tourists in the total number of overnights was 69.3%.

The number of foreign tourists grew even faster, by 26.6% to 885,371.



Source: SURS

8. MAJOR DEVELOPMENTS

Hague court grants Slovenia access to high sea

Jun 30, 2017

The Permanent Court of Arbitration (PCA) in the Hague awarded Slovenia in June 2017 control over most of Piran Gulf and a corridor to international waters in a territorial and maritime dispute with Croatia. The junction linking Slovenian territorial waters with international waters, which the country did not previously have, will be an area in which vessels and planes will have the same rights as at high sea.

[Read the full story here](#)

S&P raises Slovenia's ratings to 'A+/A-1' on improving debt dynamics

Jun 20, 2017

Standard & Poor's Global Ratings said it has raised its long-term foreign and local currency sovereign credit ratings on Slovenia to 'A+' from 'A', on improved debt dynamics, with a stable outlook. S&P has also affirmed its 'A-1' short-term sovereign credit ratings

[Read the full story here](#)

Slovenia most innovative country in SEE - GII

Jun 17, 2017

Slovenia is Southeast Europe's top performer in the Global Innovation Index (GII) ranking published by the Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO). GII provides a key tool and a rich database of detailed metrics for economies, which in 2016 encompassed 128 economies, representing 92.8% of the world's population and 97.9% of global GDP. In 2015, the report included 141 countries.

[Read the full story here](#)

Tourism contributes 3.5% directly to Slovenia's GDP in 2016 – WTTC

Jun 15, 2017

Slovenia's tourism and travel industry contributed EUR 1.4 bln directly to the country's economy in 2016, equivalent to 3.5% of its gross domestic product (GDP), the World Travel&Tourism Council (WTTC) said in June 2017. The direct GDP contribution of the country's tourism and travel industry is forecast to increase by 4.4% in 2017, and to rise by 4.2% annually in the 2017-2027 period, to EUR 2.2 bln or 4.1% of total GDP in 2027.

[Read the full story here](#)

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