

SLOVENIA ECONOMY REPORT

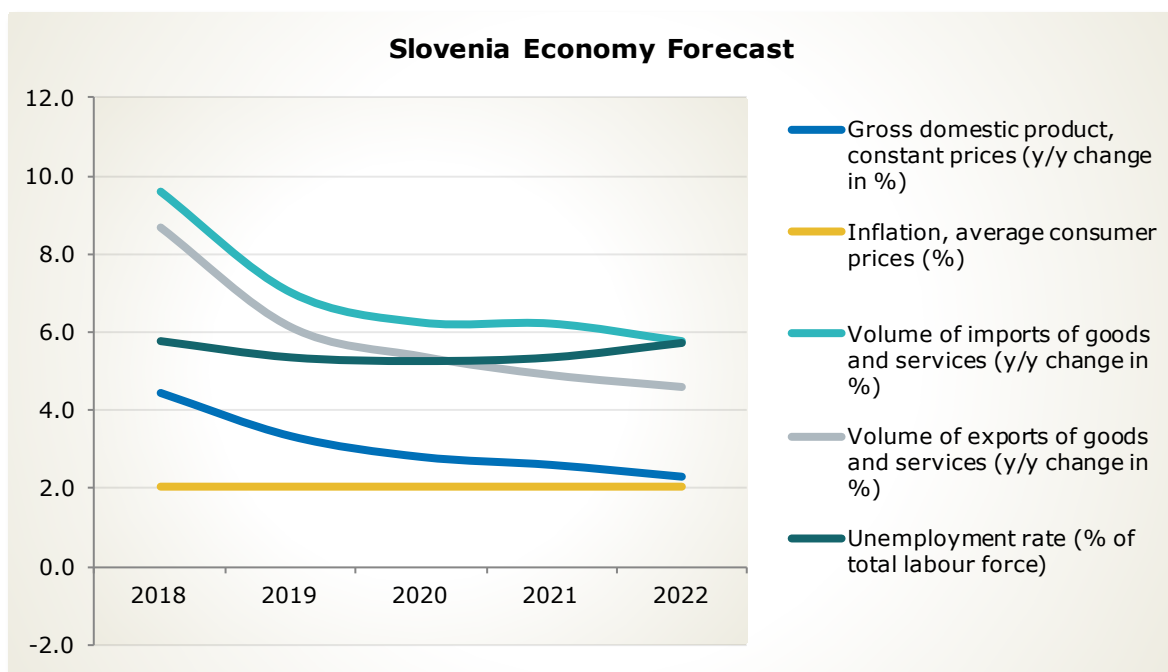
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	3.8% y/y
Industrial output	7.2% y/y
Industrial sales	8.5% y/y
Wholesale index	12.4% y/y
Retail trade	4.4% y/y
Average annual inflation	1.4%
Unemployment rate	5.2%
Number of building permits	10.3% y/y
Household loans	6.2% y/y
SBITOP blue-chip index	6.1% q/q
Gross external debt	EUR 43.5 bln
Current account surplus	EUR 964.9 mln
Foreign trade surplus	EUR 189.0 mln
Number of foreign tourist overnights	27.1% y/y



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

In 2018, the Slovenian economy will rise by 4.5% on continuing strong exports and rising domestic demand, aided by employment and wage growth, according to IMF projections. In the medium term 2019-2022, growth should slow to around 2.0%, 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)

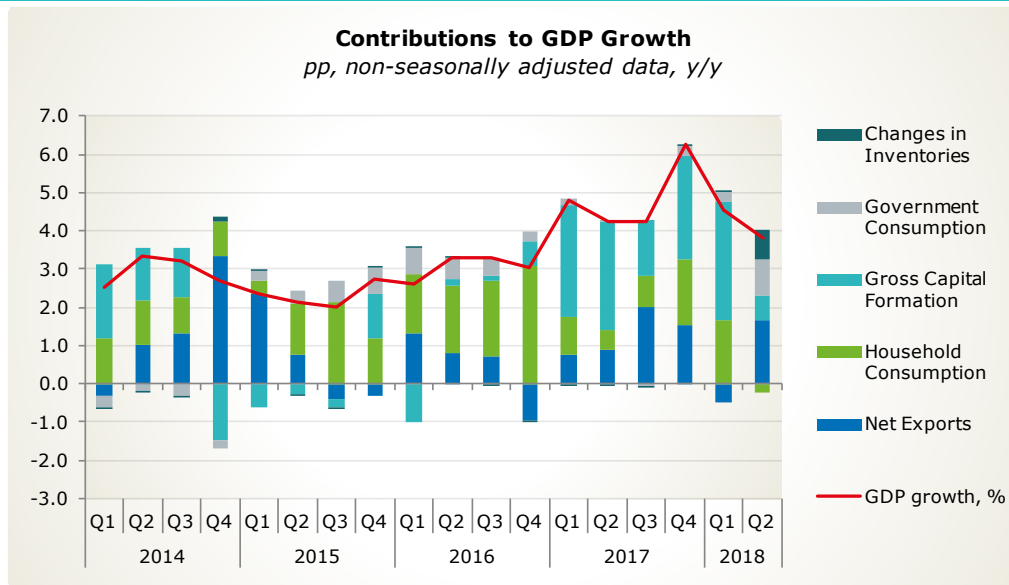
GDP growth decelerated in Q2 2018

The annual growth rate of the Slovenian economy decelerated to 3.8% in Q2 2018, down from 4.5% y/y in Q1 2018, according to data of the Statistical Office of the Republic of Slovenia (SURS).

The main reason for the weaker economic growth during the second quarter was the slowing gross capital formation, which advanced by 2.9% y/y in real terms, down from a 14.6% y/y increase in Q1 2018. In the same time, imports of goods and services also slowed down and fell below exports increase rates in Q2 2018. This resulted in a positive contribution of the net trade of 1.7 pp to the total GDP expansion, compared to negative contribution of 0.5 pp in Q1 2018.

In Q2 2018, final consumption grew in real terms by 2.2% y/y, supported by growth in government consumption, while household consumption inched down by 0.4% in real terms.

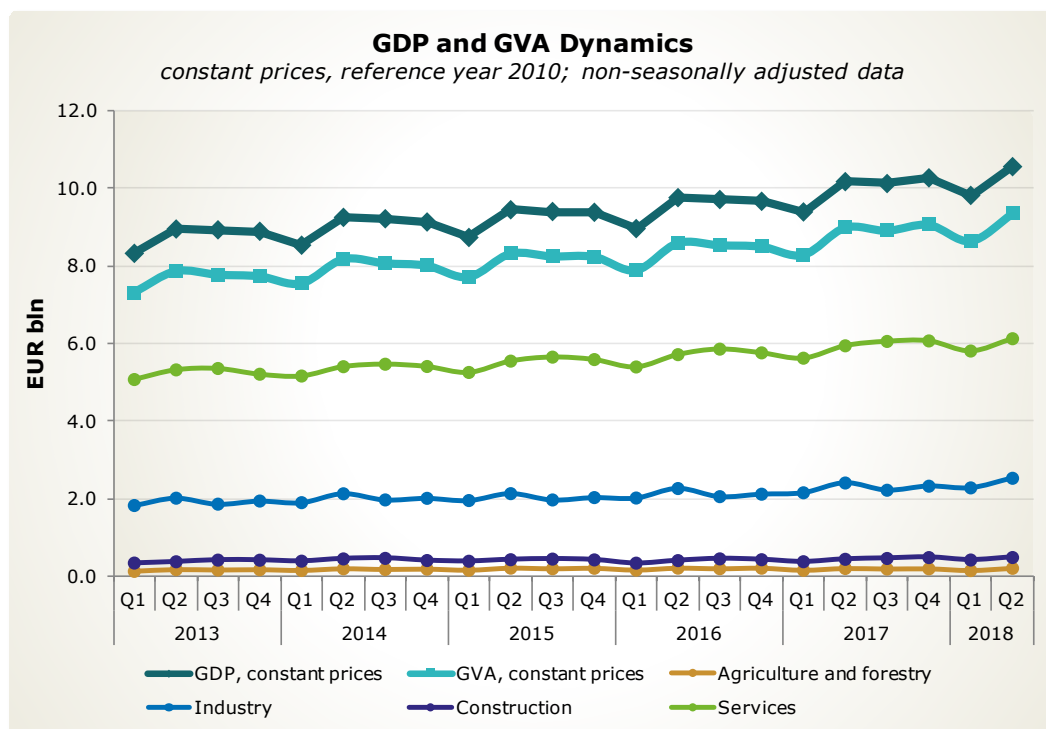
The major contributing factor for the GDP growth in the second quarter of 2018 was net exports. It added 1.7 pp to the annual GDP growth. This spells well for the long term potential for the Slovenian economy as investments in fixed assets add to the production potential of businesses.



Source: SURS; SeeNews calculations

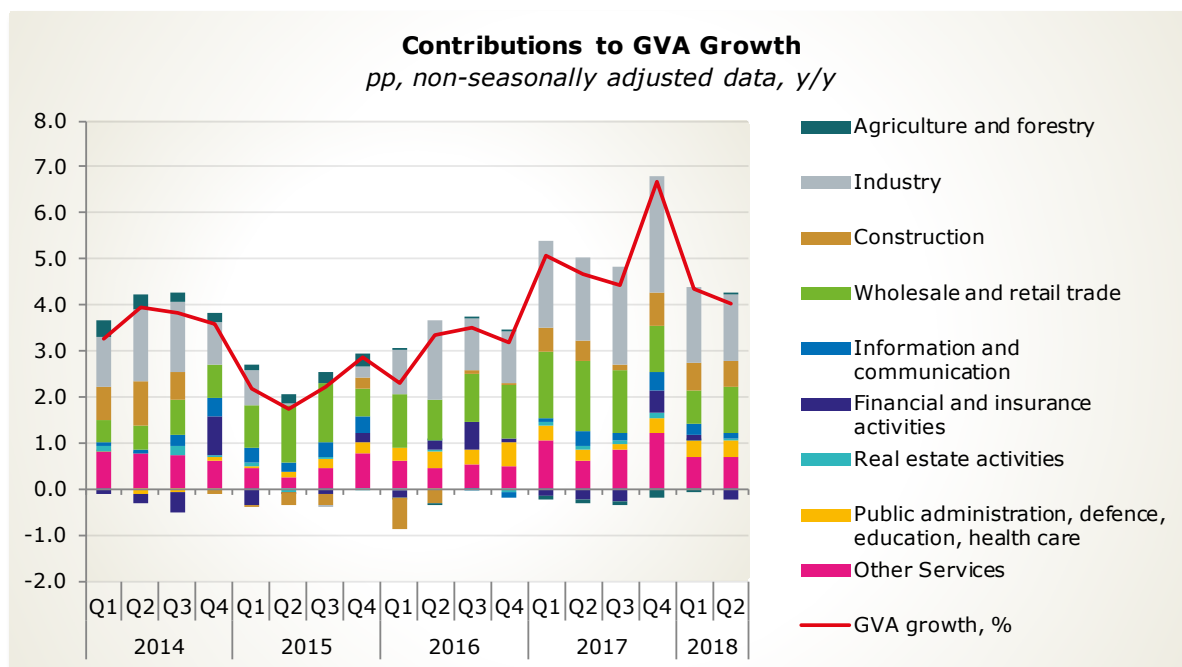
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 4.0% y/y in Q2 2018 and totalled EUR 9.364 bln. The industrial sector grew in value by 5.1% y/y with its share in the GVA structure expanding to 26.9% from 26.7% in Q2 2017. The services sector recorded a 3.1% annual increase, slicing a 65.4% share in the GVA, down from 66.0% in the same quarter a year ago. The agricultural sector registered an annual increase of 2.4% but its share in the GVA inched down to 2.1% from 2.2%. The construction sector jumped by 10.6% and its GVA share rose to 5.1% from 4.8% in Q2 2017.



Source: SURS

The largest contributor to the overall GVA growth in Q2 2018 was the services sector with 2.0 pp. The industry sector contributed with 1.4 pp to the y/y economic growth in the quarter. The wholesale and retail trade sector added 1.0 pp to the GDP increase in Q2 2018.



Source: SORS; SeeNews calculations

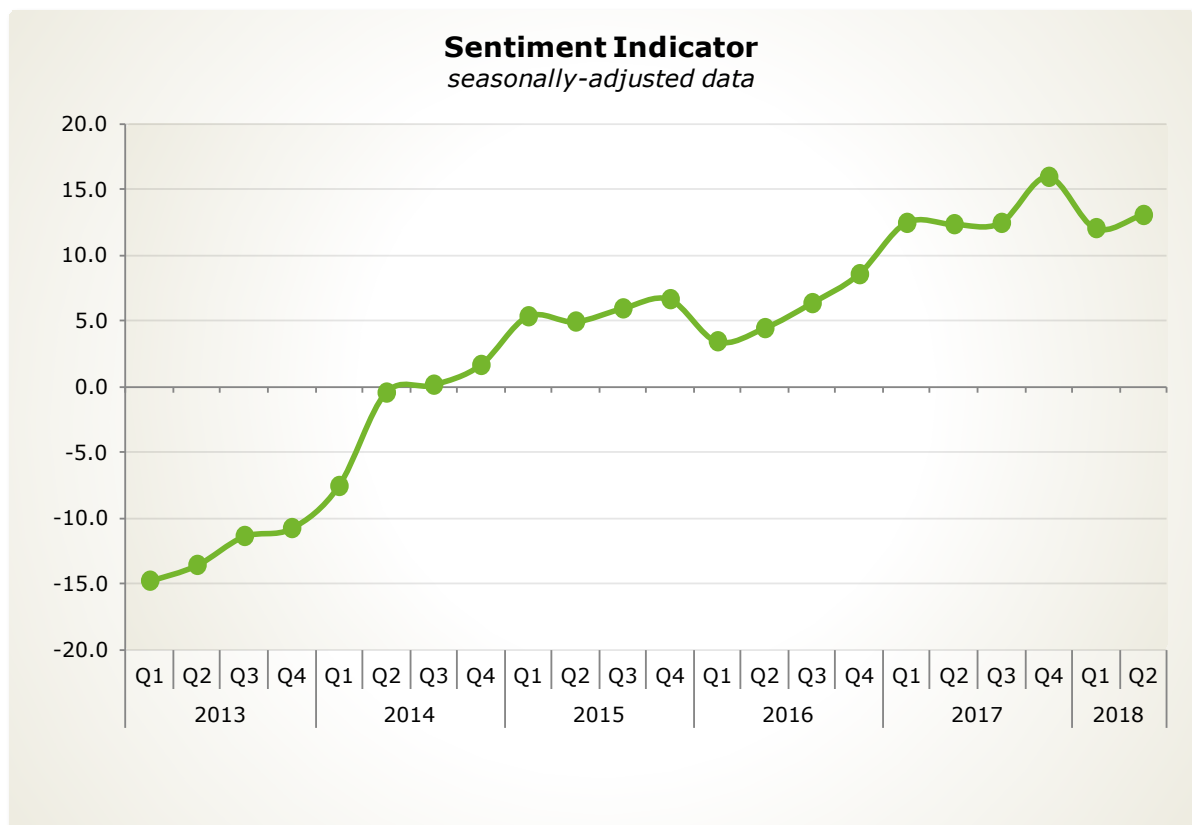
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator went up in Q2 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. The positive sentiment continued in Q2 2018 with the business sentiment indicator amounting to 13.0 points in June, up from 12.0 points in March and 12.3 points a year earlier, according to SURS.

In June 2018, the sentiment indicator was the highest in construction – 25 points, followed by services – 24 points and retail trade – 23 points. It was considerably lower in the manufacturing industry – 8.0 points. The consumer confidence indicator swung to a positive 1.0 point from the negative 1.0 point in March 2018 and the -3.0 points in June 2017.

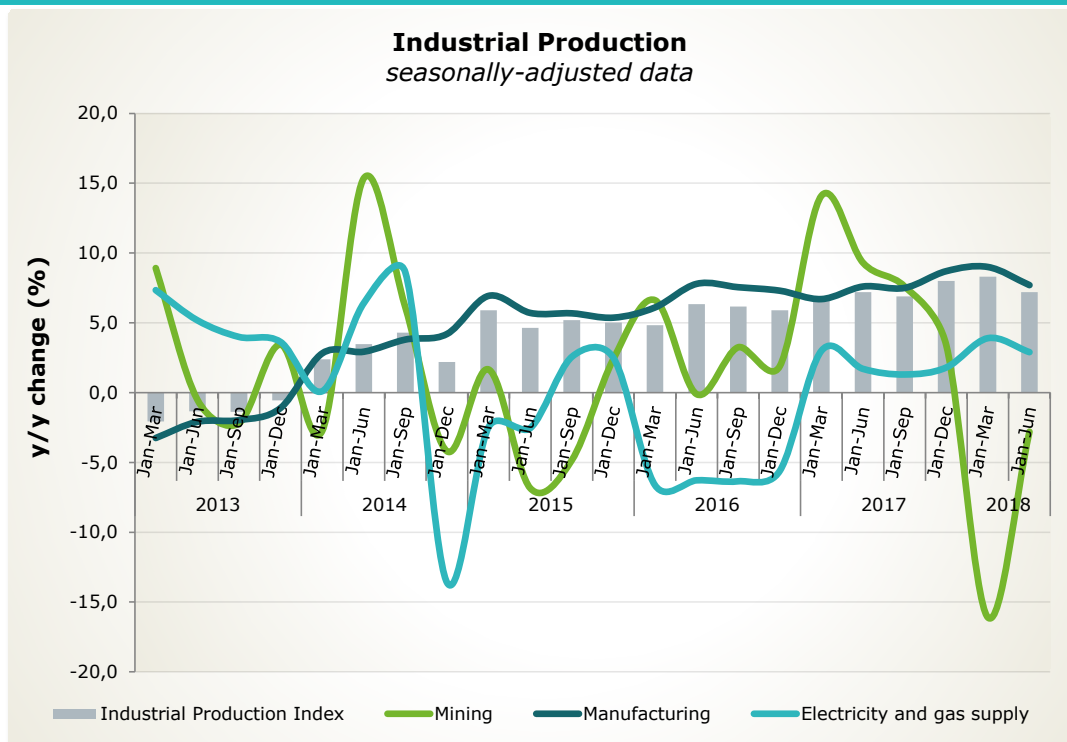


Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output fell to 7.2% y/y in Q2 2018

Industrial output growth fell to 7.2% y/y in Q2 2018, from 8.3% y/y growth in Q1 2018, according to seasonally-adjusted data of SORS. The overall output in the manufacturing sector expanded by 7.7%, the output of the mining sector declined by 2.8% due to seasonal factors, while the output of the electricity and gas supply sector increased by 2.9%.

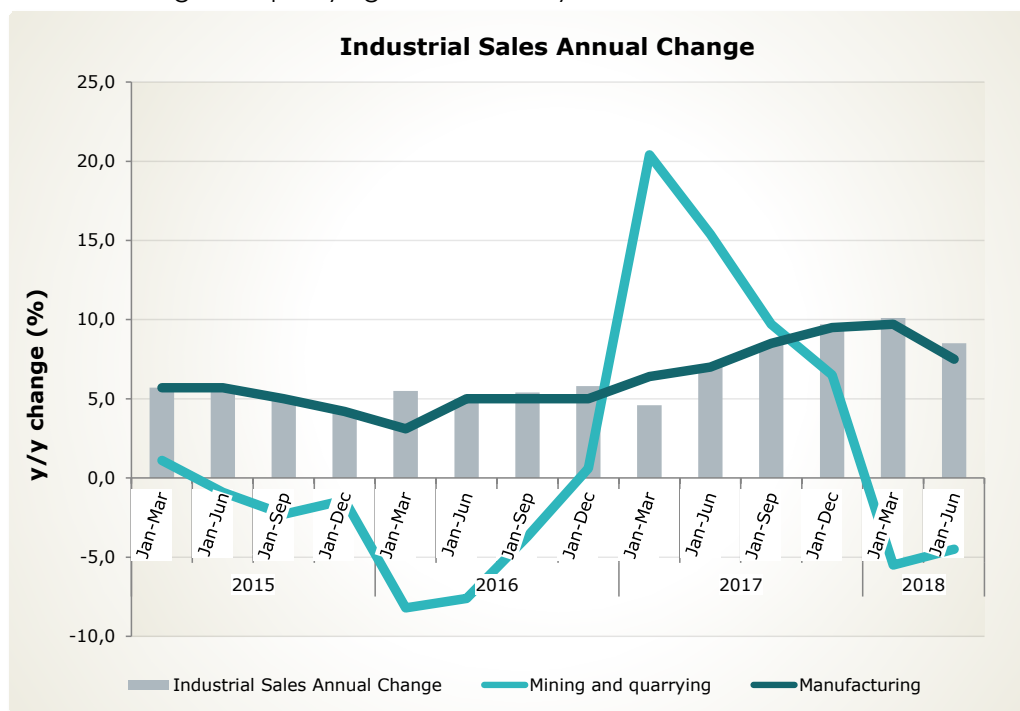


Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth slows down in Q2 2018

The industrial sales in Slovenia increased by real 8.5% y/y in Q2 2018, down from a 10.1% annual rise in Q1 2018, according to SURS. Sales of the manufacturing sector rose by 7.5%, while those of mining and quarrying decreased by 4.5%.



Source: SURS

2.5. WHOLESALE/RETAIL

Retail sales speeded up in June 2018

In June 2018, the retail and wholesale sectors speeded up rates of growth to 4.4% y/y and 12.4% y/y, respectively, from 0.3% and 7.2% y/y growth in March 2018, according to the retail and wholesale index, published by SURS.



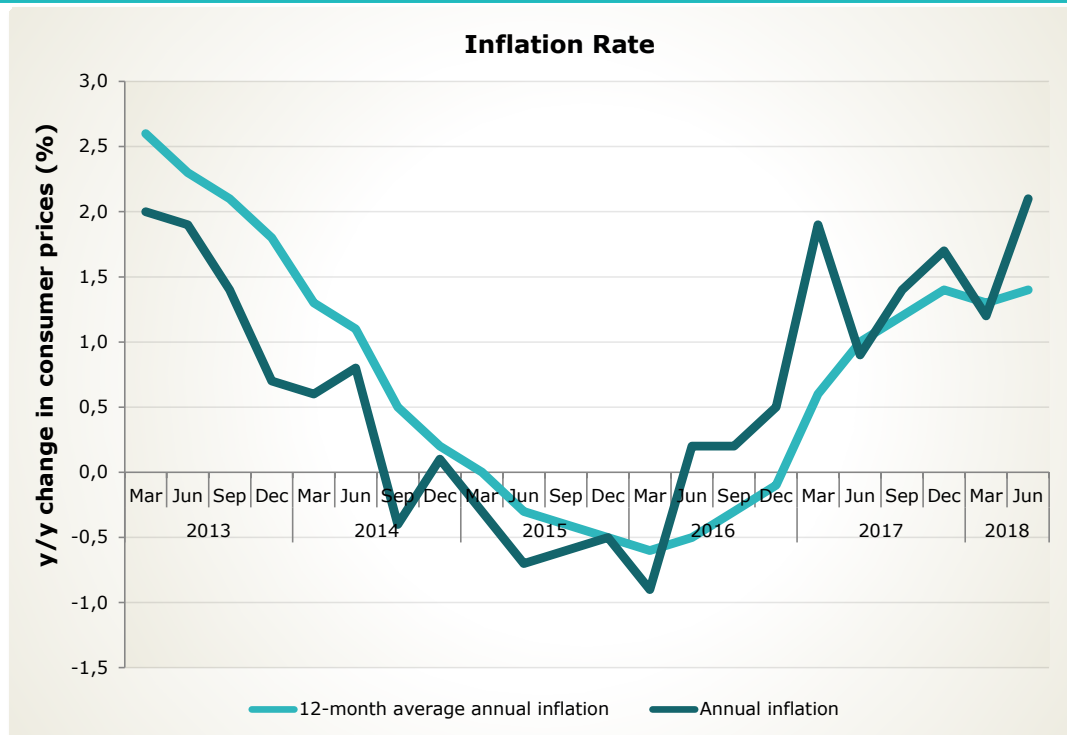
Source: SURS

2.6. INFLATION

Average annual inflation at 1.4% as of June 2018

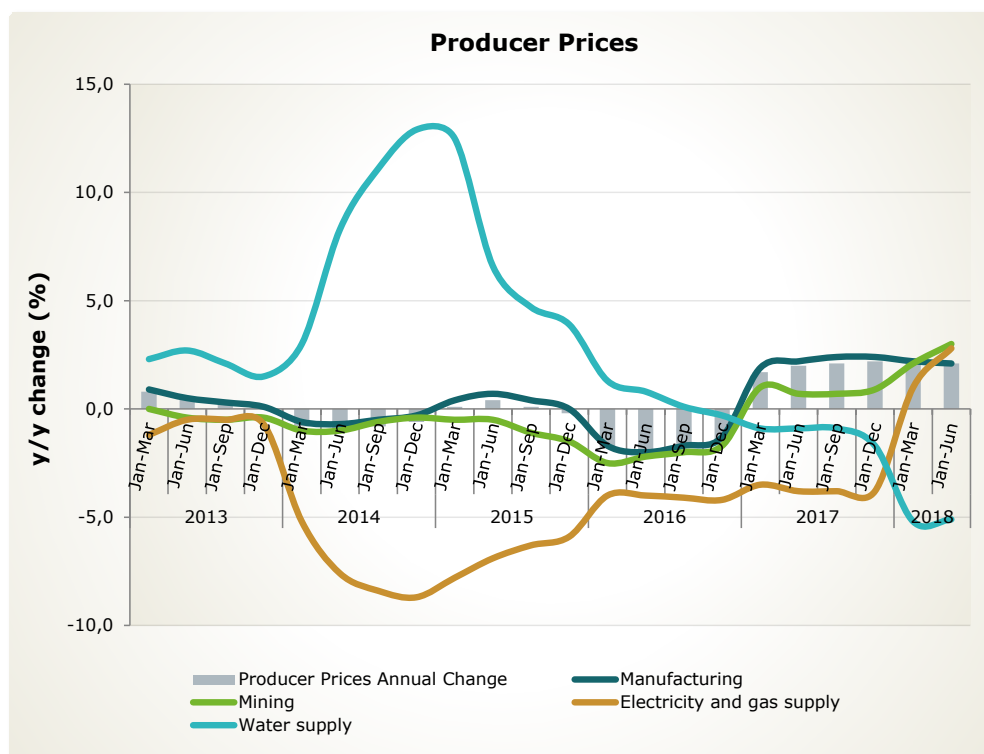
The 12-month average annual inflation stood at 1.4% as of June 2018, according to SURS data. In June 2018 alone, the annual inflation reached 2.1%, up from 1.2% in March 2018 and 1.7% in December 2017.

In terms of 12-month average inflation, almost all sectors reported a rise in prices – from 0.3% for furnishings and household equipment to 3.1% for education. Communication, and clothing and footwear were the only sectors to report a deflation – 1.0% and 0.1%, respectively.



Source: SURS

Producer prices increased by 2.1% y/y in the first half of 2018, compared to 2.2% y/y growth in the first quarter of 2018, SURS data showed. The average prices in the manufacturing sector went up by 2.1% y/y on average, while the inflation in the mining sector was 3.0% y/y. Producer prices in electricity and gas supply went up by 2.8% y/y, while prices in the water supply segment decreased by 5.1% y/y.



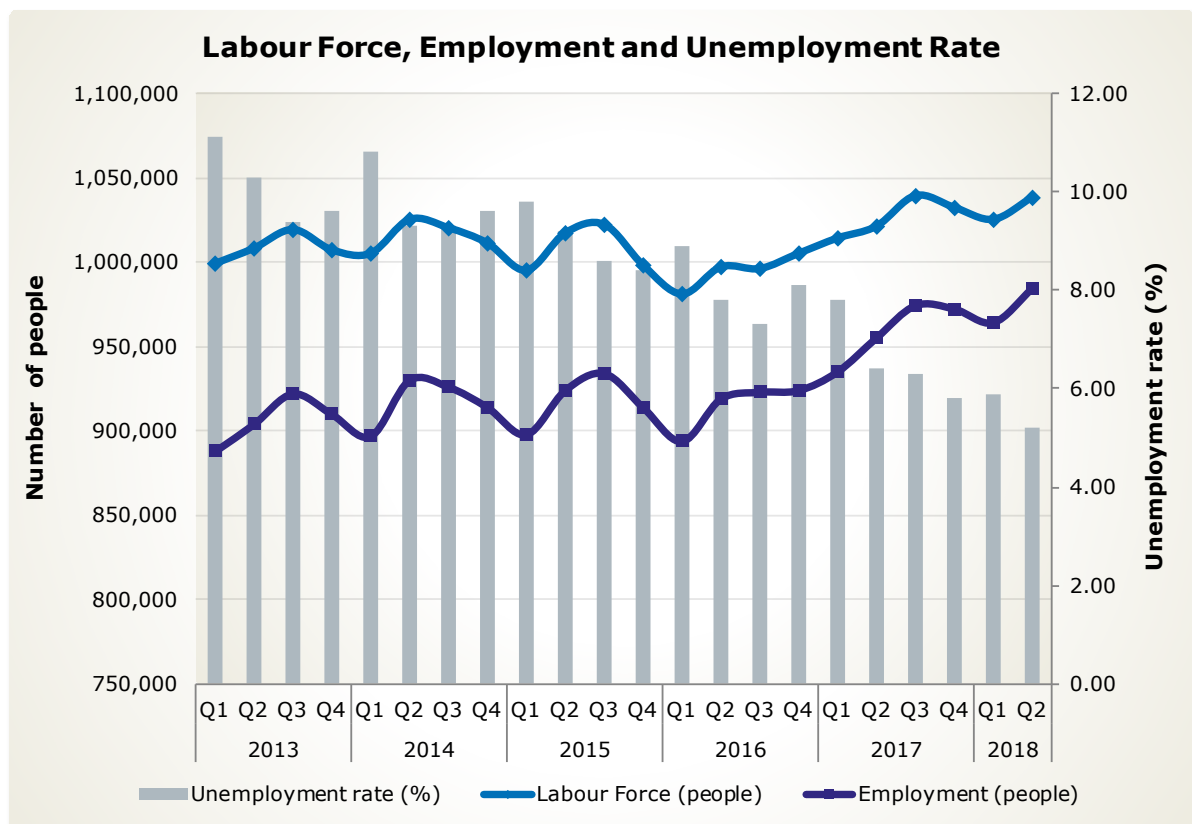
Source: SURS

3. LABOUR MARKET

Unemployment rate eased to 5.2% in Q2 2018, from 5.9% in Q1 2018

The unemployment rate in Slovenia narrowed to 5.2% of the total labour force in Q2 2018 from 5.9% in Q1 2018, according to data of SURS. A year earlier, in Q2 2017, the unemployed population accounted for 6.4% of the total labour force in the country.

Youth employment continued to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 8.1%, compared to 10.7% in Q1 2018 and 10.1% in Q2 2017.



Source: SURS

According to data of SURS, the average monthly net salary in Q2 2018 grew by 3.1% y/y to EUR 1,077. The employed in the public sector earned average monthly net wage of EUR 1,248, an annual increase of 2.9%, while private sector employees earned on average EUR 996, up by 3.6% y/y.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 10.3% y/y in Q2 2018

The boom in the construction sector continues into the second quarter of 2018, according to data for new building permits issued in Slovenia, provided by SURS. The number of building permits issued in Q2 2018 was by 10.3% more than in the corresponding quarter of the previous year, totalling 1,508. Permits for housing projects surged by 31.2% y/y to 614, while permits for non-residential and office buildings numbered 876, down from 886 in Q2 2017.

The total built-up area of the office units, covered by the permits, was 219,199 sq m, up 0.3% y/y. The total built-up area of the housing units increased by 27.6% to 156,030 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. EUR EXCHANGE RATE

The average exchange rate of the EUR¹ against the USD rose to USD 1.1657 in Q2 2018 from USD 1.2292 in Q1 2018, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
USD	1.1657	1.2292	1.1021
GBP	0.8761	0.8834	0.8611
CHF	1.1676	1.1653	1.0842

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 25.490 bln to Eurozone's M3 Monetary Aggregate² as of June 2018

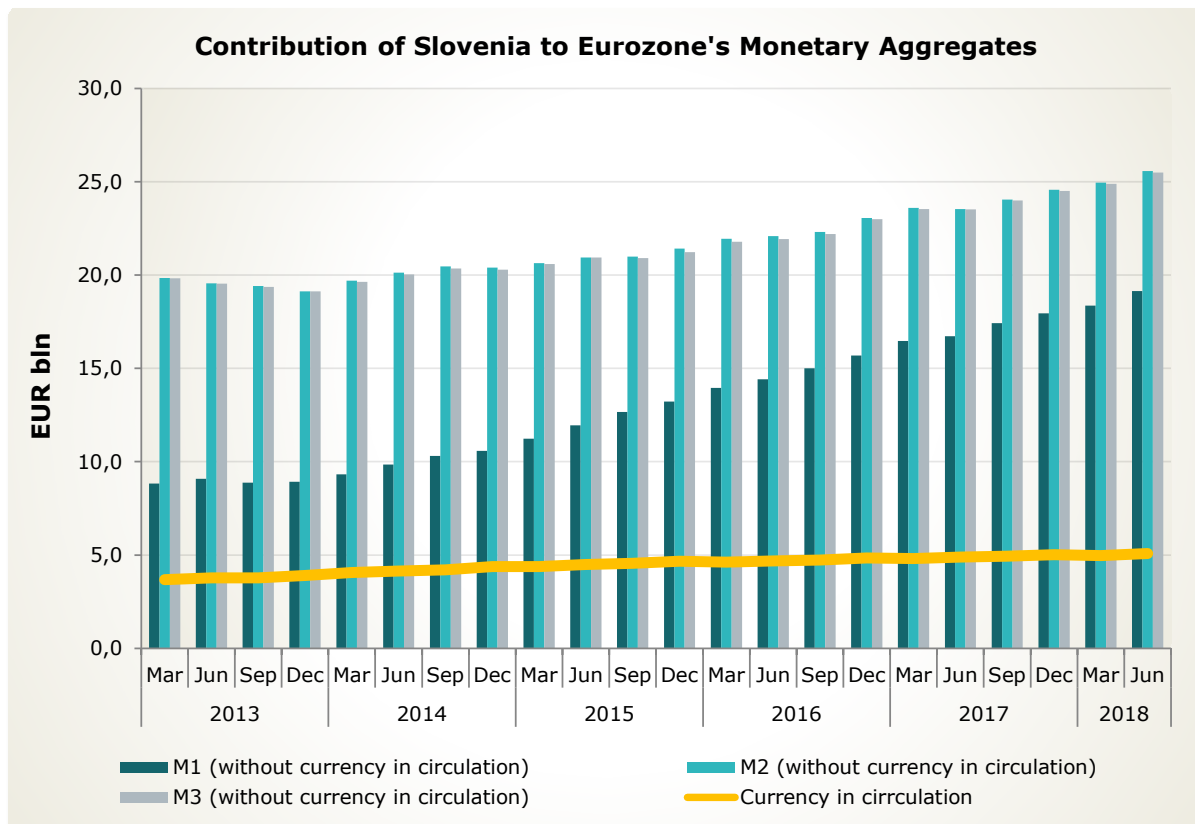
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 25.490 bln, without currency in circulation, at end of June 2018, up 8.4% y/y, according to BSI.

The country's contribution to the M2 aggregate amounted to EUR 25.572 bln, up from EUR 23.537 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 14.5% y/y to EUR 19.148 bln.



Source: BSI

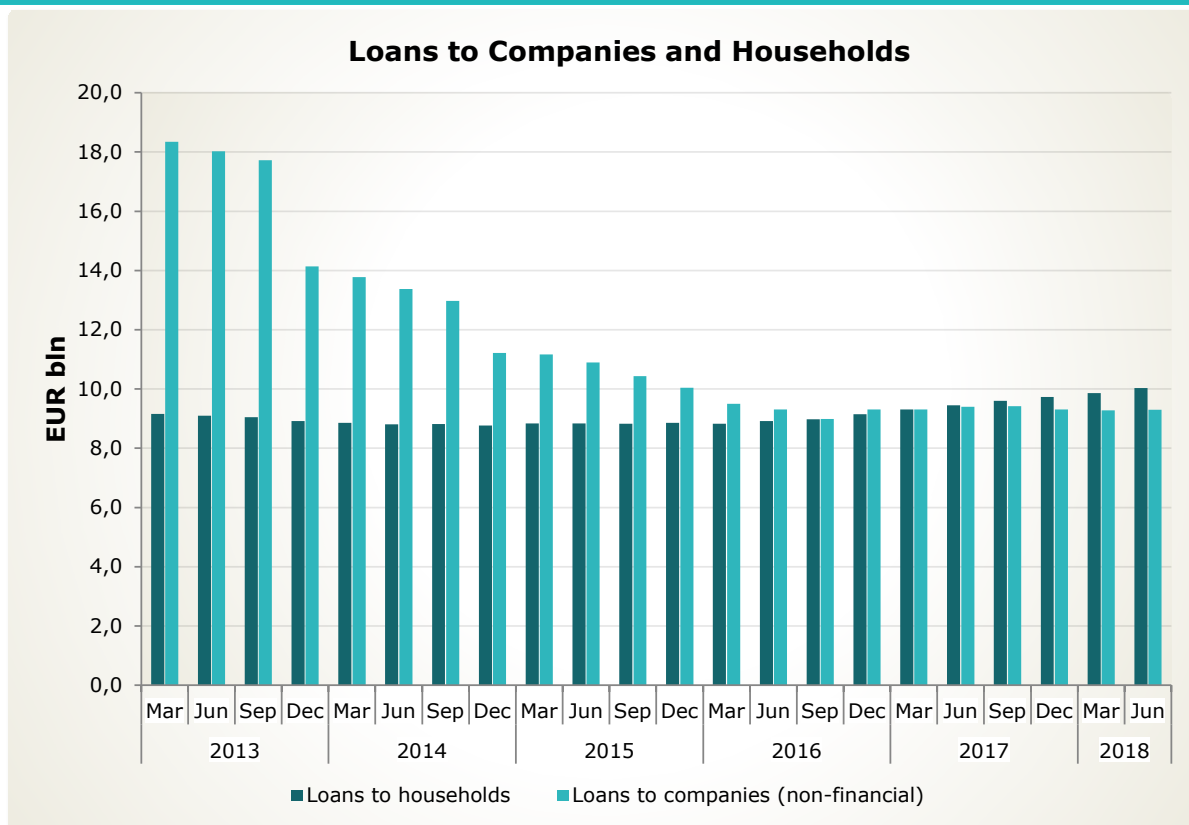
5.3. BANKING

Household loans continue the strong performance in Q2 2018, increasing by 6.2% y/y

Household loans totalled EUR 10.033 bln in Q2 2018 versus EUR 9.447 bln a year ago, according to BSI. House purchasing loans grew by 3.8% y/y to EUR 6.097 bln, while consumer loans went up by 11.6%, reaching EUR 2.568 bln.

Loans to non-financial corporations stood to EUR 9.299 bln, down by EUR 99.0 mln from Q2 2017.

At the end of June 2018, the assets of the banking system totalled EUR 40.521 bln, up 0.8% y/y.



Source: BSI

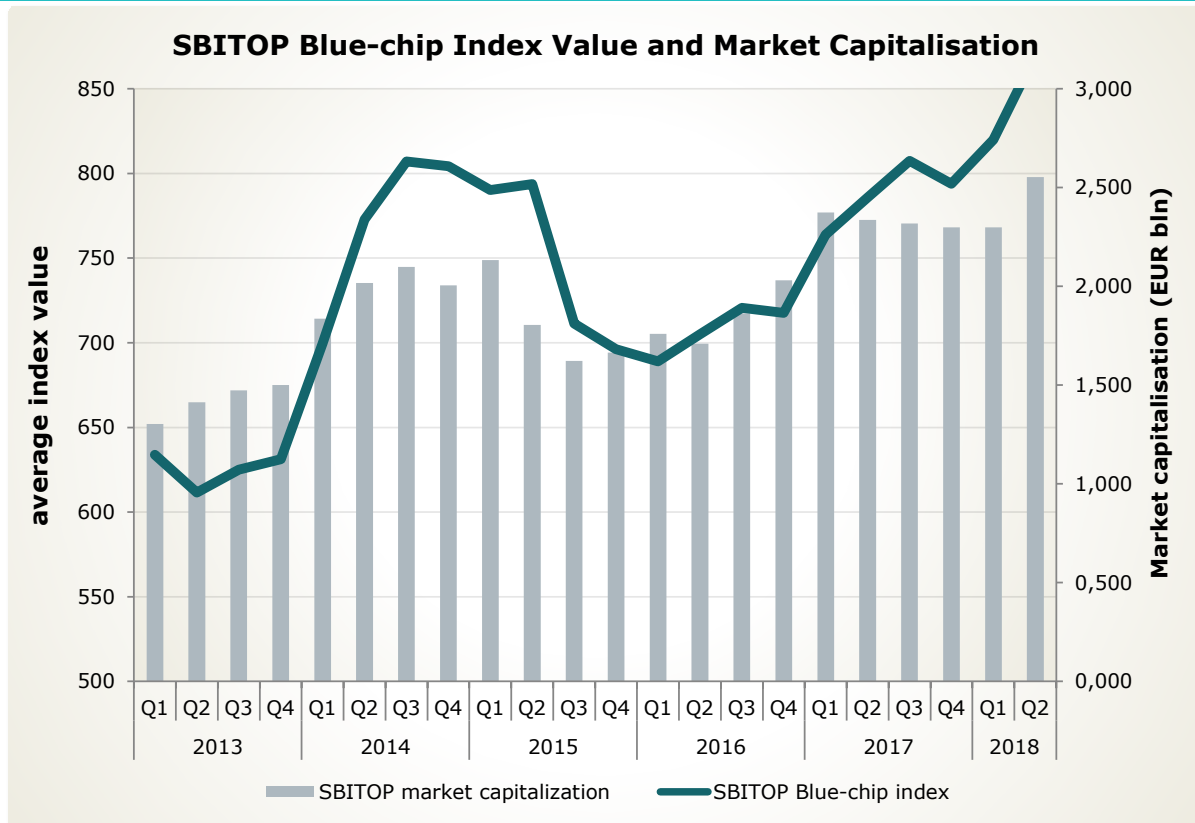
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 6.1% q/q in Q2 2018

The average value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 6.1% q/q to 870 points as of end of June 2018.

The total turnover on LJSE's regulated market reached EUR 115.9 mln in Q2 2018 versus EUR 77.6 mln in Q2 2017.

The number of trades stood at 11,829 in Q2 2018, compared to 11,284 in the same quarter of 2017.



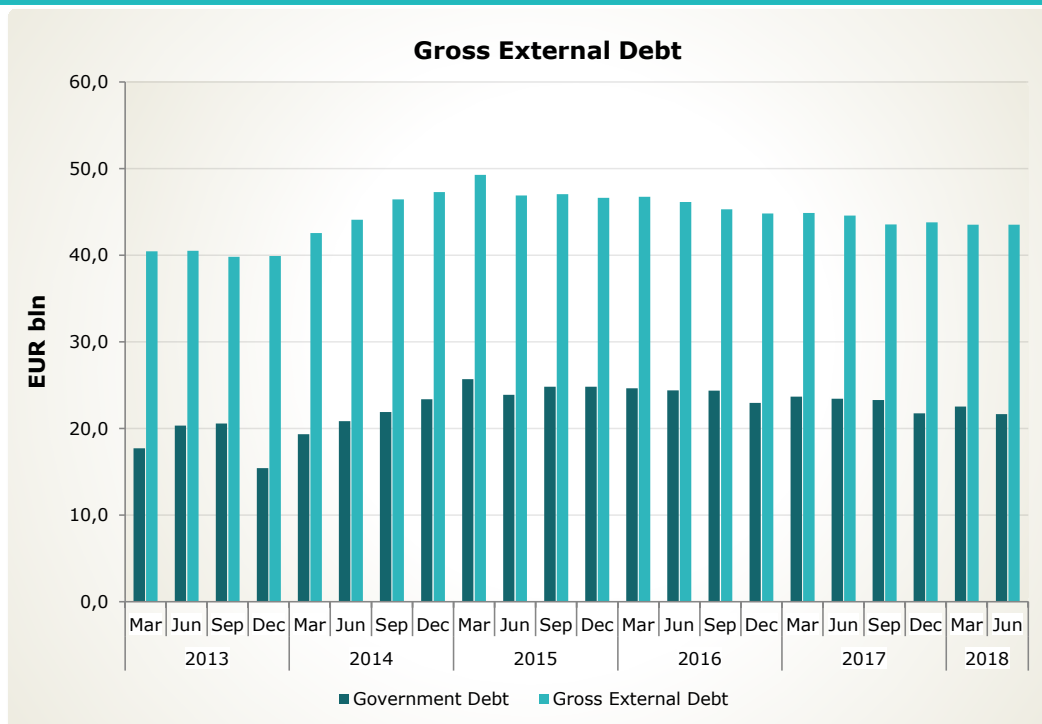
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt decreased by 2.3% y/y to EUR 43.535 bln at end of June 2018

Slovenia's gross external debt totalled EUR 43.535 bln at the end of June 2018, according to BSI. It fell by EUR 1.035 bln, or 2.3%, compared to June 2017, according to SURS data.

Government debt decreased to EUR 21.668 bln as of June 2018 from EUR 23.455 bln in June 2017. Long-term liabilities amounted to EUR 30.317 bln, or 69.6% of the total debt, while short-term liabilities totalled EUR 9.375 bln, equal to 21.5% of the total debt.

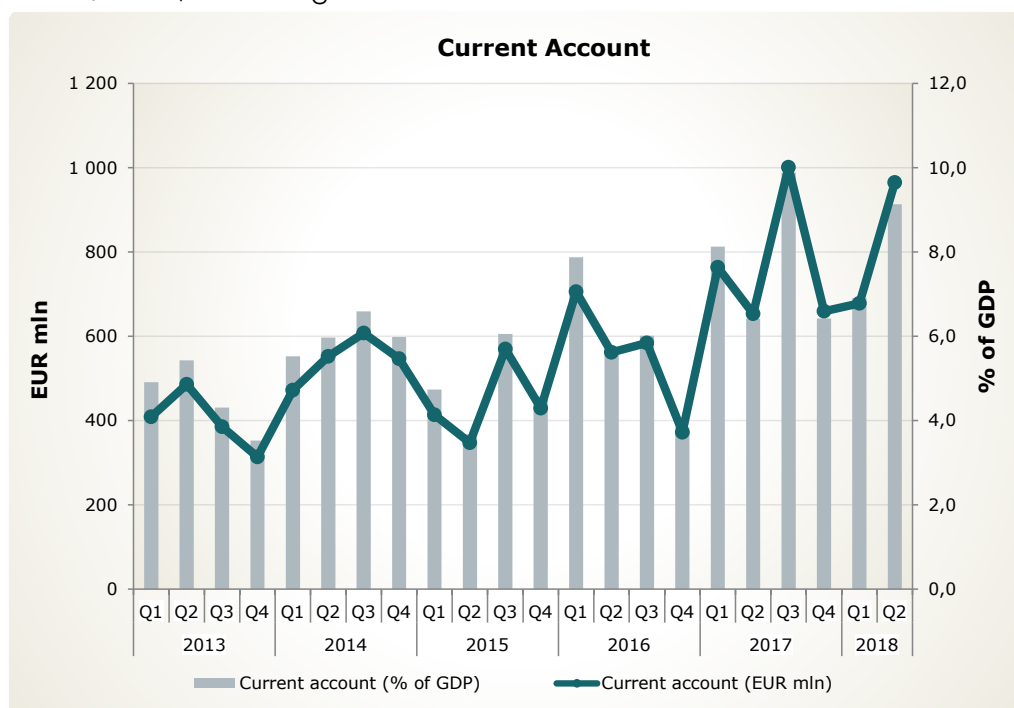


Source: BSI

7.2. BALANCE OF PAYMENTS

Current account surplus grew by 47.7% in Q2 2018

Slovenia's current account surplus grew to EUR 964.9 mln in Q2 2018, up by 47.7% from EUR 653.2 mln in Q2 2017, according to BSI.

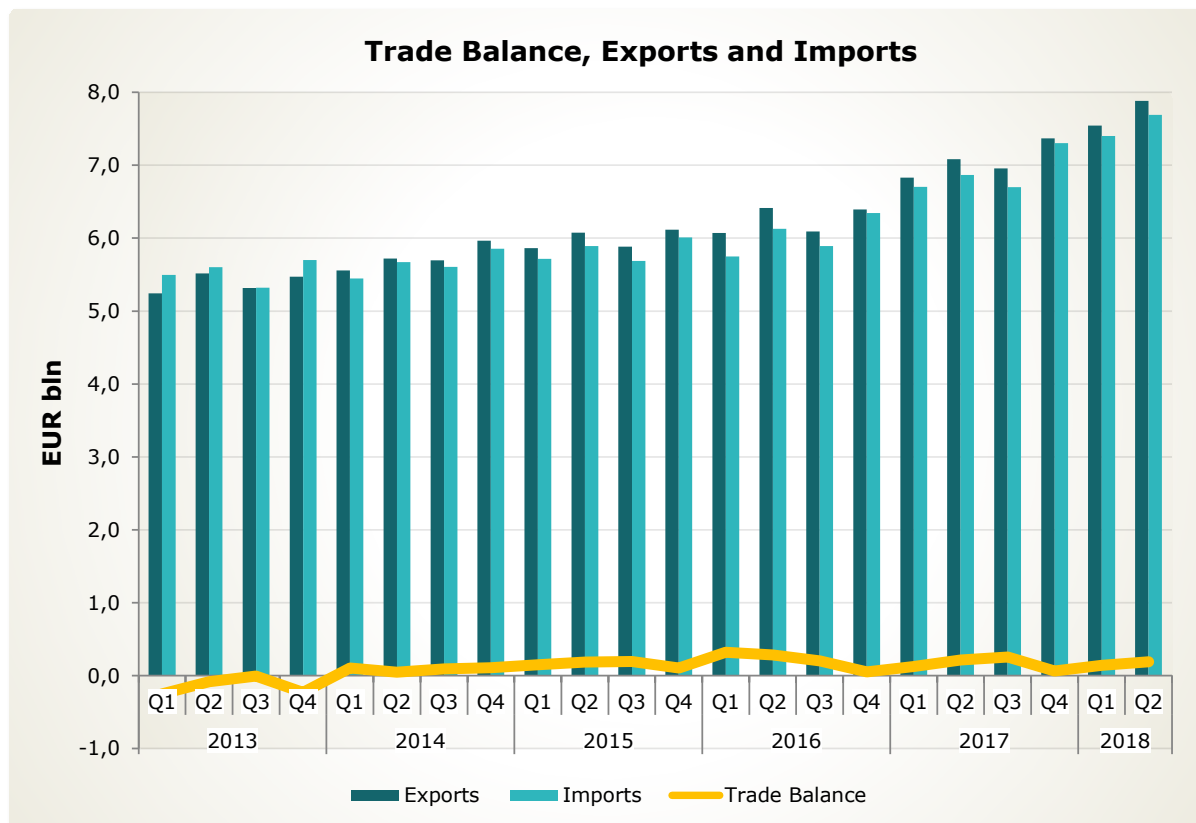


Source: BSI

7.3. FOREIGN TRADE

Foreign trade surplus fell by 12.4% y/y in Q2 2018

In Q2 2018, the trade surplus went down by 12.4% y/y to EUR 189.0 mln, according to SURS data. The annual growth in exports was 11.3% and they reached EUR 7.881 bln, while imports went up by 12.0% to EUR 7.692 bln.



Source: SURS

7.4. TOURISM

Number of foreign tourist overnights surged by 27.1% y/y in Q2 2018

Tourist overnights of foreigners grew by an annual 27.1% to 2.513 million in Q2 2018, according to SURS data. The share of foreign tourists in the total number of overnights was 71.9%, up from 69.3% in Q2 2017.

The number of foreign tourists also grew, by 21.3%, to 1.074 million in Q2 2018.



8. MAJOR DEVELOPMENTS

Croatia, Slovenia successfully couple day-ahead power markets

June 20, 2018

Croatia's power exchange CROPEX said in June it has merged its day-ahead market with its Slovenian peer, BSP SouthPool, as part of the EU Multi-Regional Coupling (MRC) project.

[Read the full story here](#)

OECD urges Slovenia to implement comprehensive tax reform

June 15, 2018

Slovenia should implement a comprehensive tax reform that rebalances the tax mix away from employee social security contributions towards the personal income tax, the Organisation for Economic Co-operation and Development (OECD) said.

[Read the full story here](#)

EU innovations agency signs EUR 109 mln grant deal with Slovenia for rail project

June 1, 2018

The European Commission's Innovation and Networks Executive Agency (INEA) said in June it has signed an EUR 109 mln grant agreement to co-fund the development of Divaca-Koper railway line in Slovenia.

[Read the full story here](#)

EC advises Slovenia to offer alternative sources of financing to fast-growing firms

May 25, 2018

Slovenia must develop alternative sources of financing for fast-growing companies and carry out the privatisations according to the existing plans, the European Commission said.

Read the full story [here](#)

EC calls on Slovenia to adopt EU rules on nuclear waste

May 18, 2018

The European Commission said in May it has called on Slovenia to adopt a national programme for the management of spent fuel and a radioactive waste management policy.

Read the full story [here](#)

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