

SLOVENIA ECONOMY REPORT

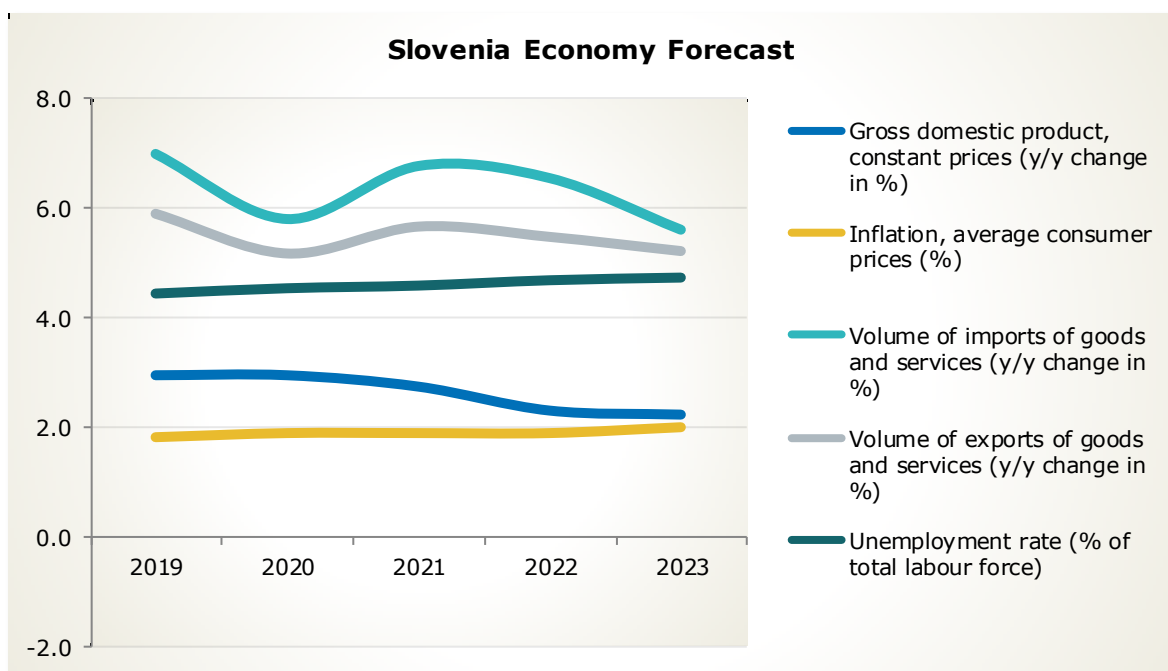
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	2.5% y/y
Industrial output	3.7% y/y
Industrial sales	2.3% y/y
Wholesale	6.0% y/y
Retail trade	3.4% y/y
Average annual inflation	1.7%
Unemployment rate	4.2%
Number of building permits	-19.4% y/y
Household loans	6.1% y/y
SBITOP blue-chip index	3.9% q/q
Gross external debt	EUR 43.693 bln
Current account surplus	EUR 613.9 mln
Foreign trade deficit	EUR 130.4 mln
Number of foreign tourist overnights	7.5% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

In 2019, the Slovenian economy will rise by 2.9%, a slowdown compared to 2018 due to weaker exports demand and increasing capacity constraints, according to IMF projections. In the medium term 2021-2023, growth should slow down to 2.2% – 2.7%, hampered by adverse demographic trends and inadequate private investments.

Inflation will hover at around 2.0%, driven by strong domestic economic activity and wage pressures. IMF projects volume imports of goods and services to increase faster than the volume of exports, which will narrow the current account surplus.

As Slovenia is highly reliant on exports, IMF sees an eventual rise in protectionism and economic isolationism as the main short-term risk for the country. Another risk to the IMF forecasts would be intensified political uncertainty in Europe, or weaker than expected global growth which would slow investment and hiring.

2. REAL SECTOR

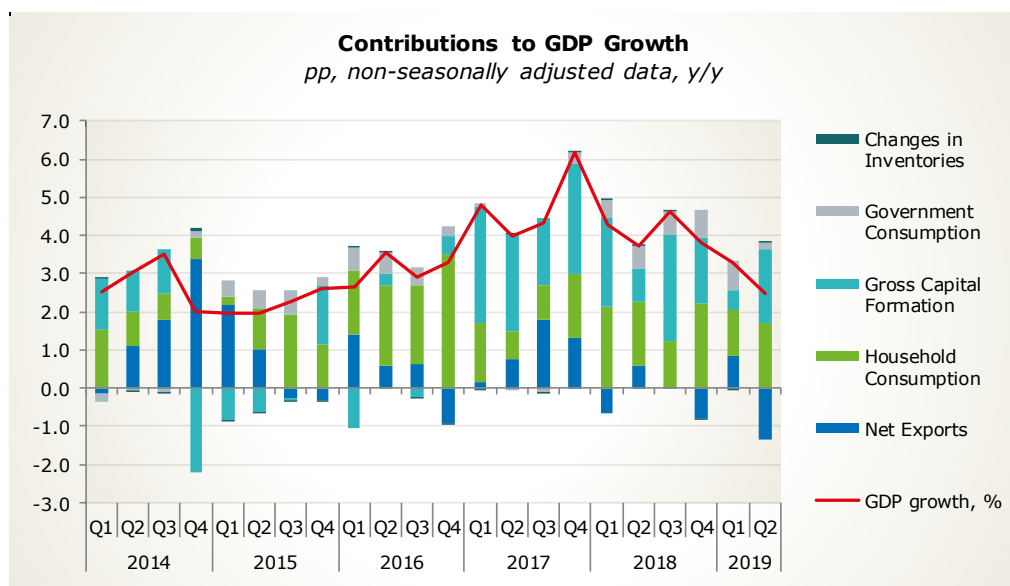
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth slowed down in Q2 2019

The annual growth rate of the Slovenian economy slowed down to 2.5% in Q2 2019, down from 3.7% y/y in Q2 2018, according to data of the Statistical Office of the Republic of Slovenia (SURS).

The main reason for the slowdown during the second quarter of 2019 was the negative effect of net exports, which cut 1.3 pp of the overall GDP growth, while in the year-ago quarter it contributed 0.6 pp.

In Q2 2019, gross capital formation grew in real terms by 9.2%, followed by household consumption, rising by 3.3% on the year, while government consumption inched up by 1.0% in real terms.

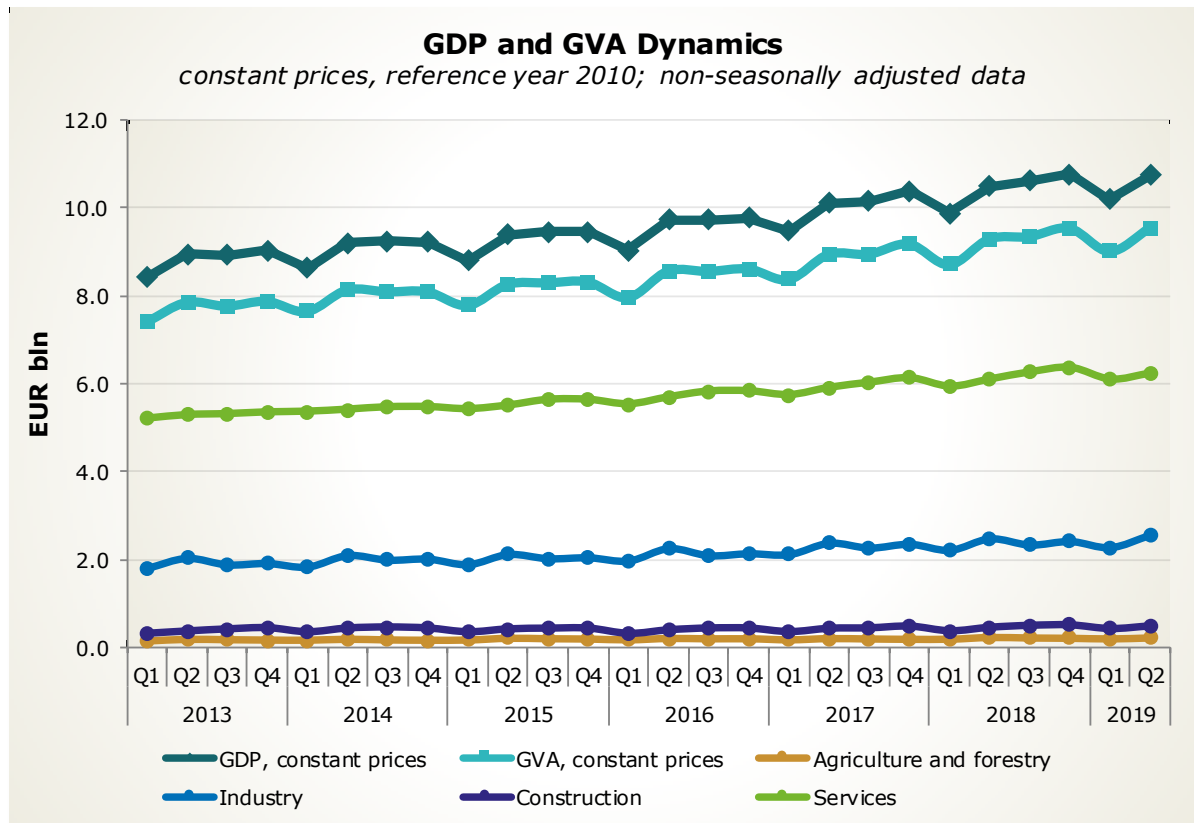


Source: SURS; SeeNews calculations

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.

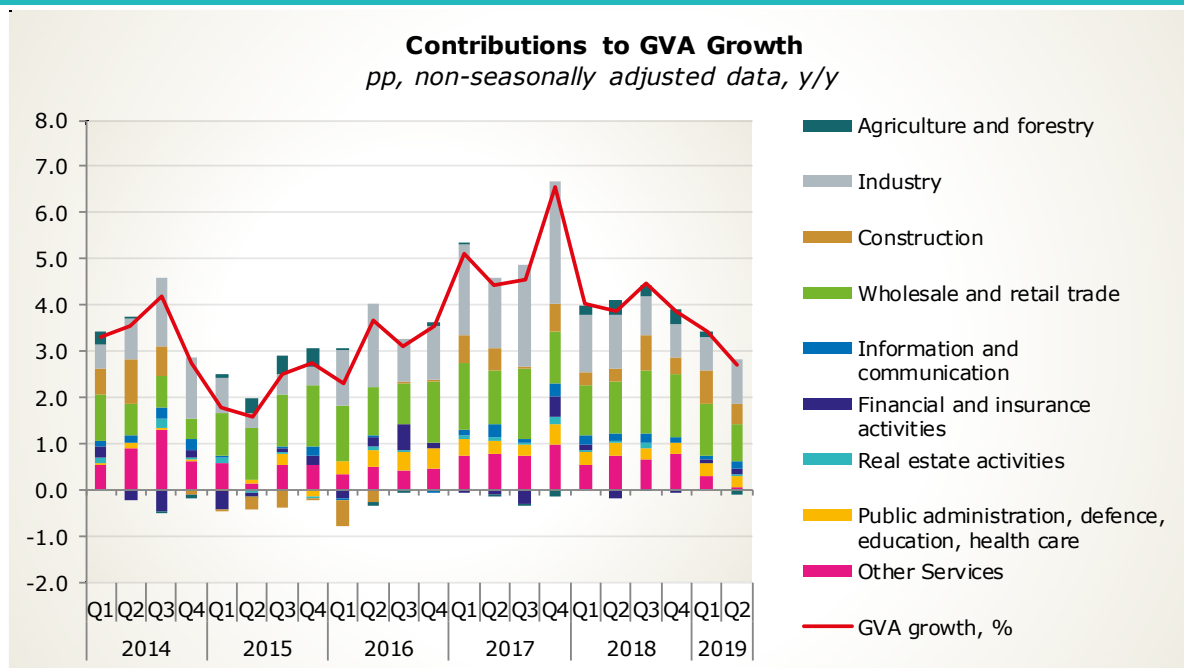
The gross value added (GVA) generated by the national economy increased by 2.7% y/y in Q2 2019 and totalled EUR 9.546 bln. The industrial sector grew in value by 3.4% y/y with its

share in the GVA structure climbing to 26.8% from 26.6% in Q2 2018. The services sector recorded a 2.3% annual increase, slicing a 65.5% share in the GVA, down from 65.7% a year ago. The agricultural sector registered an annual drop of 4.7% and its share in the GVA inched down to 2.3% from 2.5%. Construction advanced by 7.6% y/y and its GVA share rose further to 5.1% from 4.9% in Q2 2018.



Source: SURS

The largest contributor to the overall GVA growth in Q2 2019 was the industrial sector with 1.0 pp. Other major contributors included wholesale and retail with 0.8 pp and the construction sector with 0.4 pp.



Source: SORS; SeeNews calculations

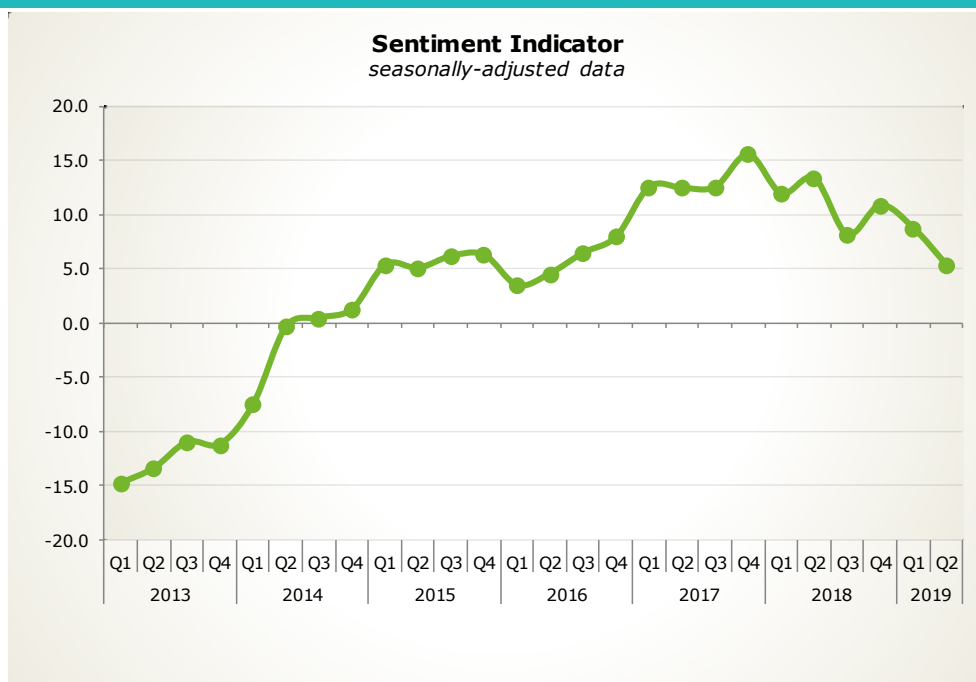
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

The sentiment indicator went down in Q2 2019 compared to a year ago

The weakened economic growth in Q2 2019 led to a deterioration of sentiment among businesses in the country, according to SURS. The positive sentiment calmed down in Q2 2019 and reached 5.4 points compared to 13.4 in the same quarter of the previous year.

In June 2019, the sentiment indicator was the highest in services – 20 points, followed by the retail trade sector with 19 points. It was lower in the construction sector standing at 13 points. The consumer confidence indicator recorded negative 5 points and the confidence indicator in manufacturing – negative 3 points.

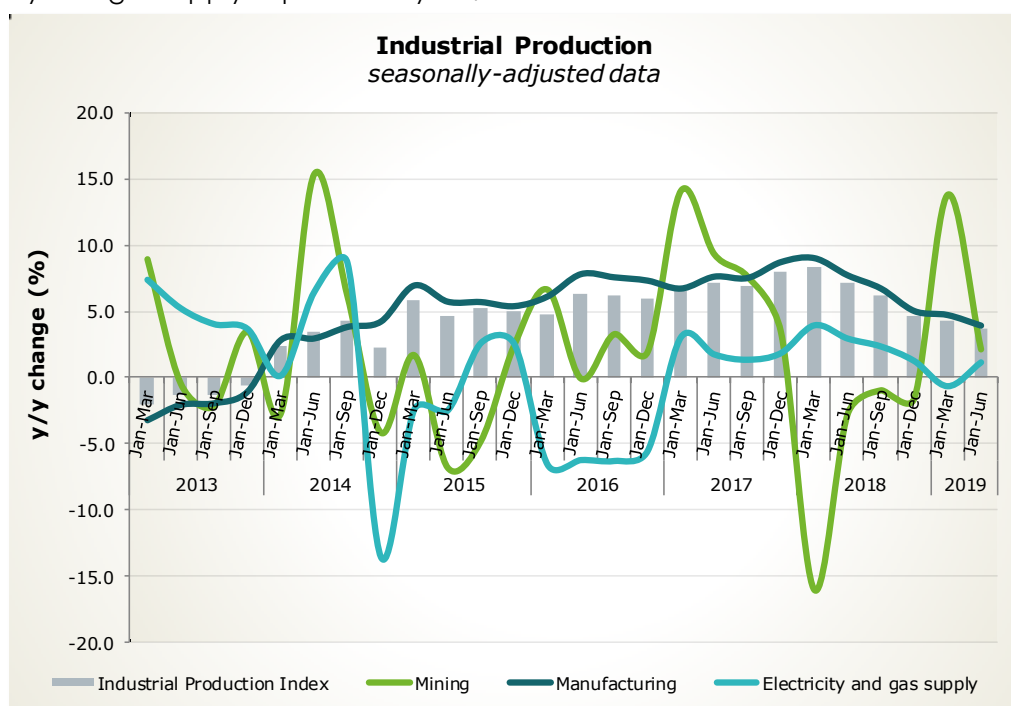


Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output expanded by 3.7% y/y in Jan-June 2019

Industrial output growth stood at 3.7% y/y in January-June 2019, down from the 7.2% y/y growth in the first half of 2018, according to seasonally-adjusted data of SURS. The overall output in manufacturing grew by 3.9%, the output of the mining sector climbed by 2.1%, while electricity and gas supply expanded by 1.1%.

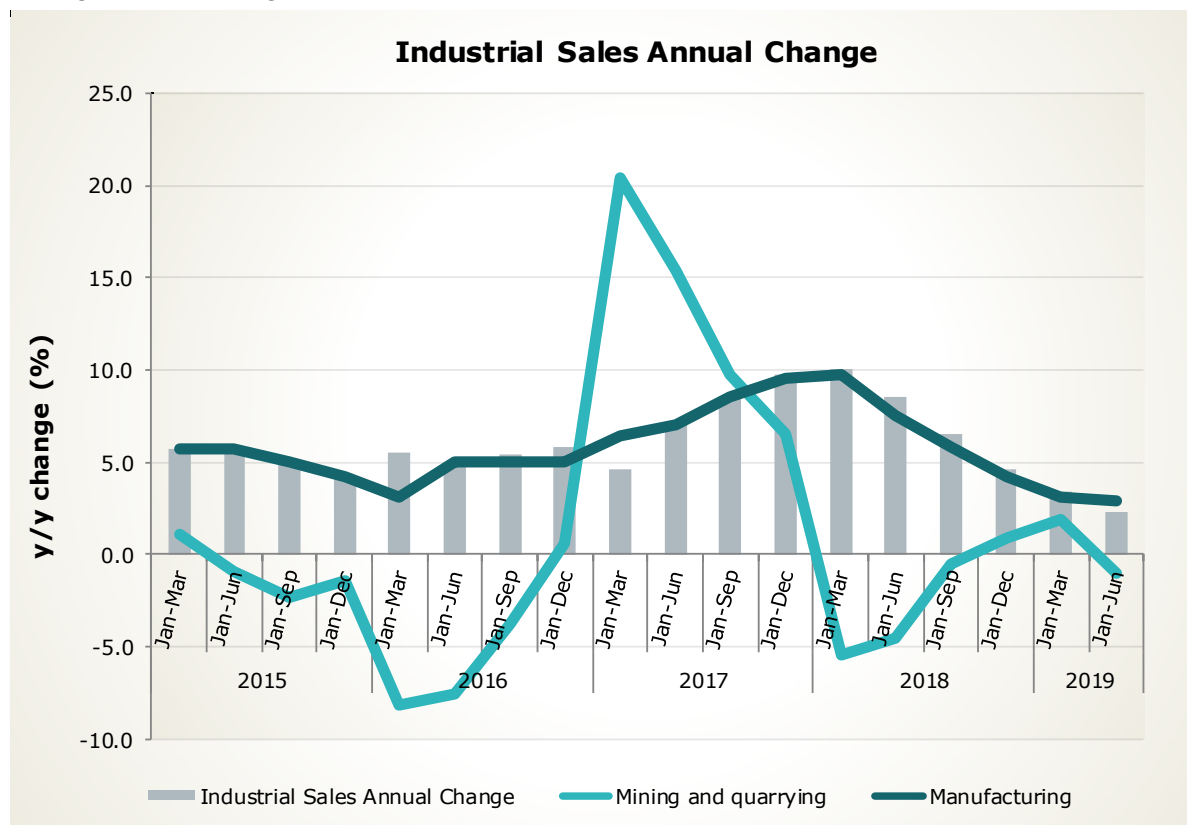


Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth slowed down in Jan-June 2019

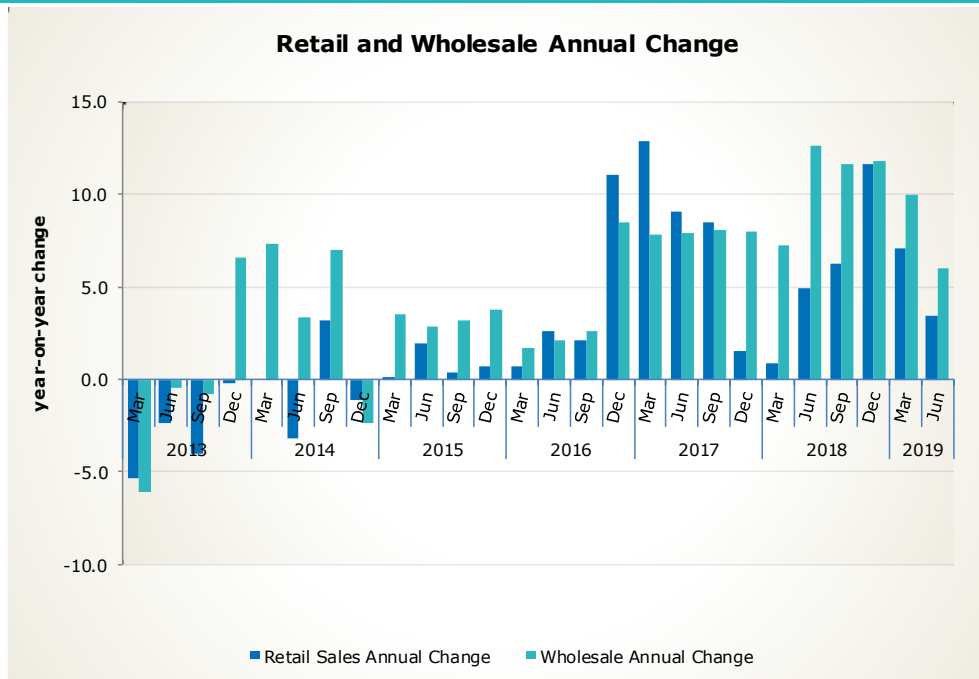
Industrial sales in Slovenia increased by real 2.3% y/y in H1 2019, down from a 8.5% annual rise in H1 2018, according to SURS. Sales in the manufacturing sector rose by 2.9%, while those of mining and quarrying inched down by 1.0% y/y.



2.5. WHOLESALE/RETAIL

Retail sales and wholesale grew faster in June 2019

In June 2019, the retail and wholesale trade sectors increased by 3.4% y/y and 6.0% y/y, respectively, compared to annual growth rates of 4.9% and 12.6% a year ago, according to the retail and wholesale index, published by SURS.



Source: SURS

2.6. INFLATION

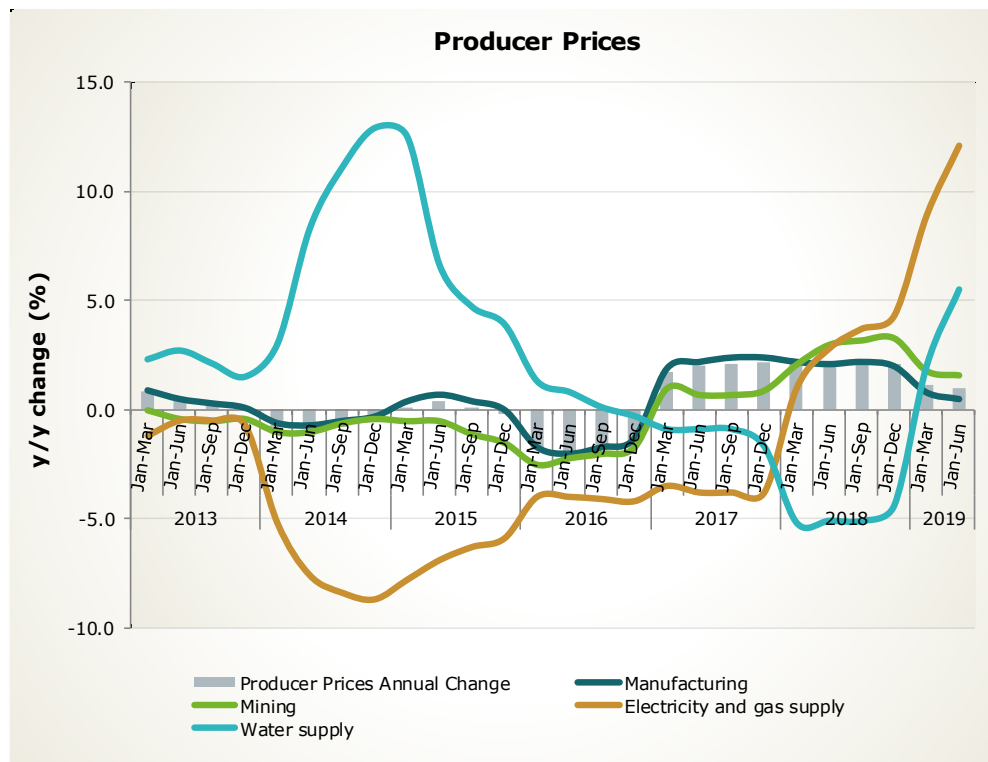
Average annual inflation at 1.7% as of June 2019

The 12-month average annual inflation stood at 1.7% as of June 2019, according to SURS data. The inflation remained at its March 2019 level, while in comparison to June 2018 it rose by 0.3 pp. The highest price increase, of 6.0%, was registered by hospital services, while in deflation terms mobile telephone equipment was on top with 10.7%.



Source: SURS

Producer prices growth slowed down to 1.0% y/y in Jan-June 2019, compared to 2.1% y/y in the same period of 2018, SURS data showed. The prices in the manufacturing sector went up by 0.5% y/y on average, while the rise in mining sector's producer prices was 1.6% y/y. Producer prices in electricity and gas supply went up by 12.1% y/y, while prices in the water supply segment increased by 5.5% y/y.



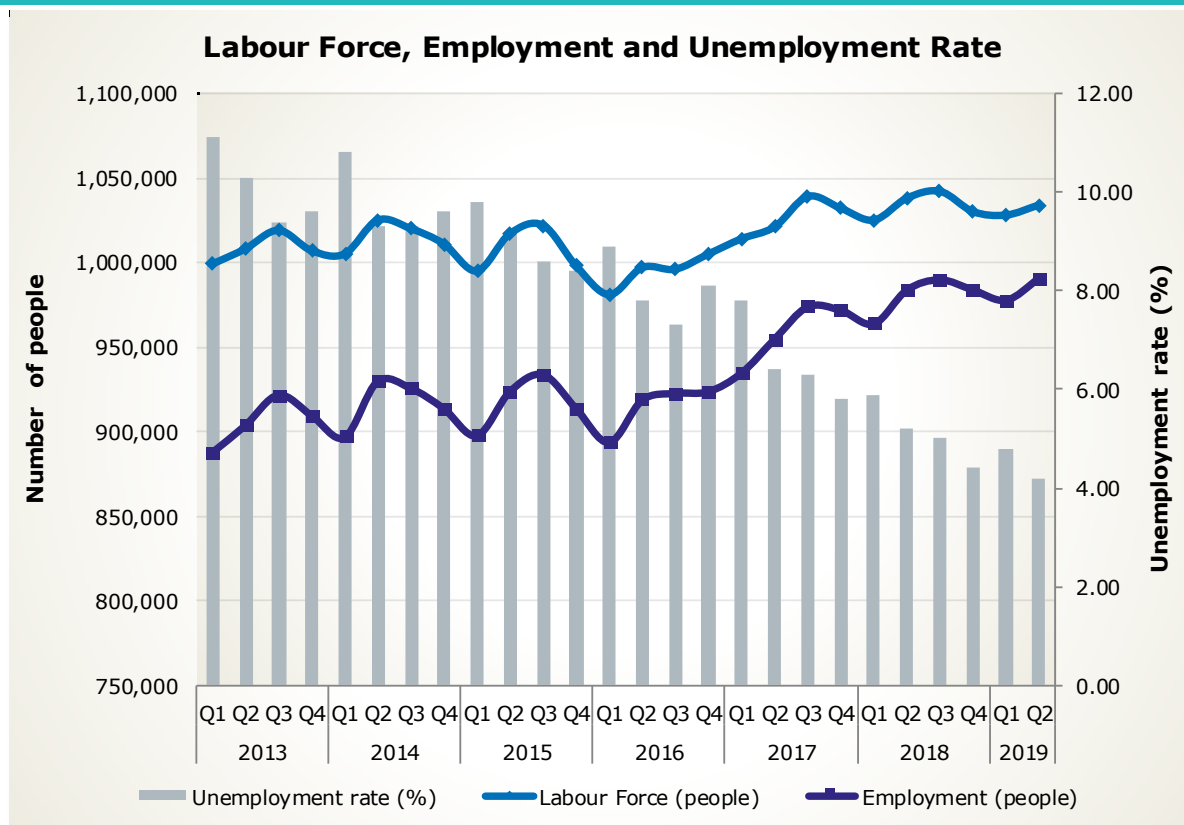
Source: SURS

3. LABOUR MARKET

Unemployment rate eased to 4.2% in June 2019 from 5.2% in June 2018

The unemployment rate in Slovenia narrowed to 4.2% of the total labour force in June 2019 from 5.2% in the same month of 2018, according to data of SURS. In the January 2013 – June 2019 period, this was the lowest unemployment rate registered in the country.

Youth (population aged 15-24) unemployment rate also improved, to 6.5%, compared to 8.1% in June 2018, and remained almost four times below the record-high 24.2% for the January 2013 – June 2019 period.



Source: SURS

According to data of SURS, the average monthly net salary in Q2 2019 grew by 3.3% y/y to EUR 1,112. The employed in the public sector earned average monthly net wage of EUR 1,301, an annual increase of 4.2%, while private sector employees earned on average EUR 1,026, up by 3.0% y/y.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 19.4% y/y in Q2 2019

Downtrend in the construction sector was registered in Q2 2019, according to data for new building permits issued in Slovenia, provided by SURS. The number of building permits issued in Q2 2019 was by 19.4% lower than in the first half of the pervious year, totalling 1,462. Permits for housing projects also went down by 19.4% y/y to 568, while permits for non-residential and office buildings were by 20.7% fewer and numbered 870.

The total built-up area of the office units, covered by the permits, was 227,902 sq m, down 9.8% y/y. The total built-up area of the housing units decreased by 16.2% to 159,463 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 1.1237 in Q2 2019 from USD 1.1915 in Q2 2018, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
USD	1.1237	1.1358	1.1915
GBP	0.8748	0.8725	0.8762
CHF	1.1265	1.1324	1.1742

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 27.646 bln to Eurozone's M3 Monetary Aggregate² as of Q2 2019

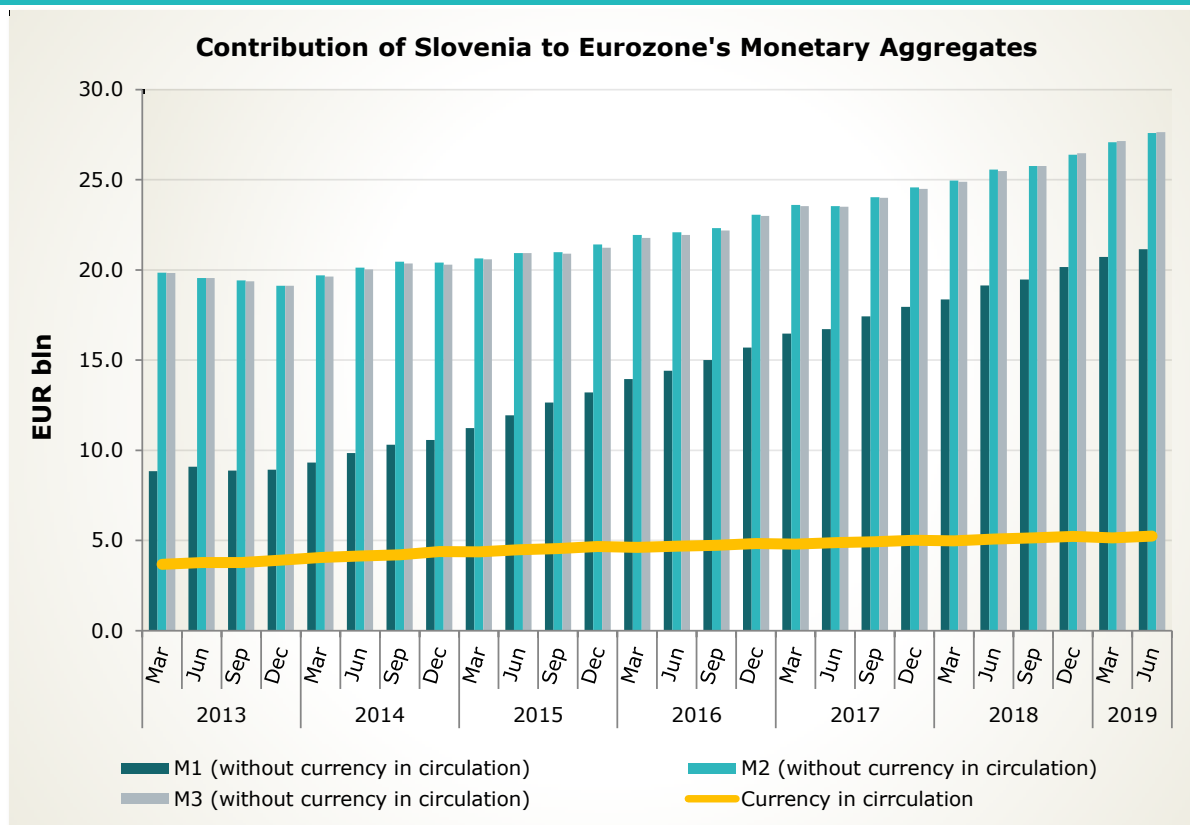
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 27.646 bln, without currency in circulation, in Q2 2019, up 8.5% y/y, according to Bank of Slovenia.

The country's contribution to the M2 aggregate amounted to EUR 27.596 bln, up from EUR 25.572 bln a year earlier.

Contribution to money aggregate M1, or narrow money, jumped by 10.5% y/y to EUR 21.159 bln. Currency in circulation expanded modestly by 3.1% on the year to reach EUR 5.239 bln in Q2 2019.

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

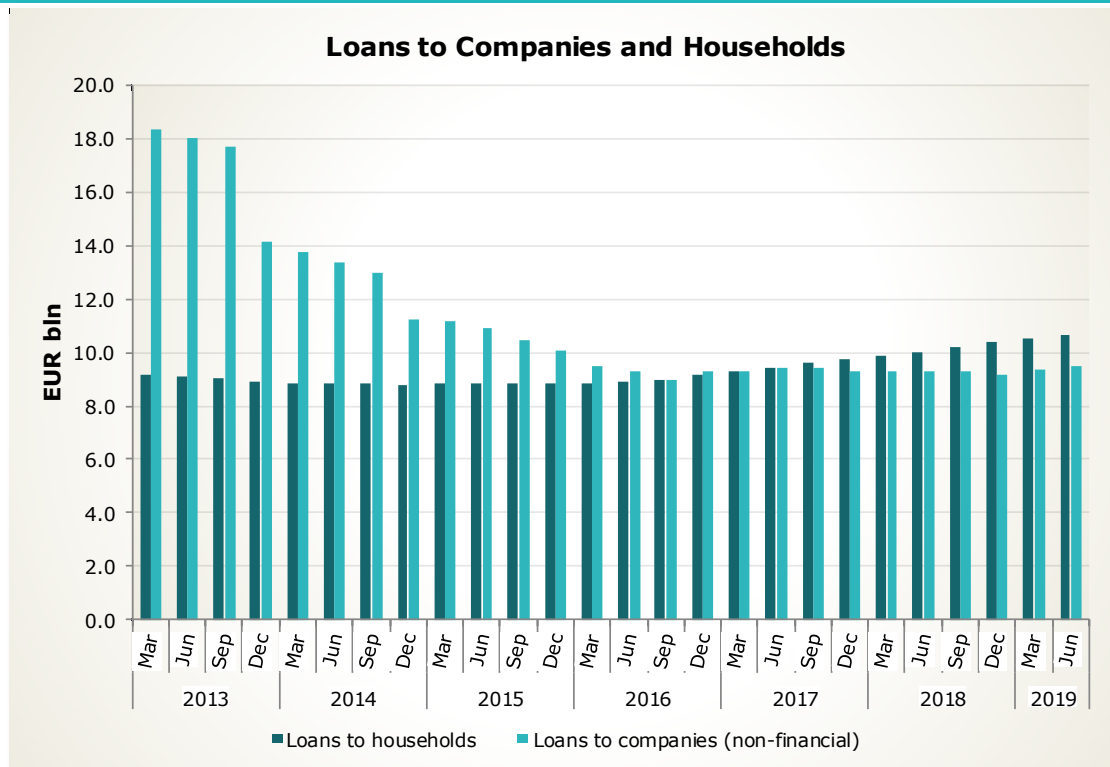
5.3. BANKING AND INSURANCE

Household loans continued their strong performance in Q2 2019, increasing by 6.1% y/y

Household loans totalled EUR 10.643 bln in June 2019 versus EUR 10.033 bln a year ago, according to BSI. House purchasing loans grew by 5.0% y/y to EUR 6.400 bln, while consumer loans went up by 11.1%, reaching EUR 2.845 bln.

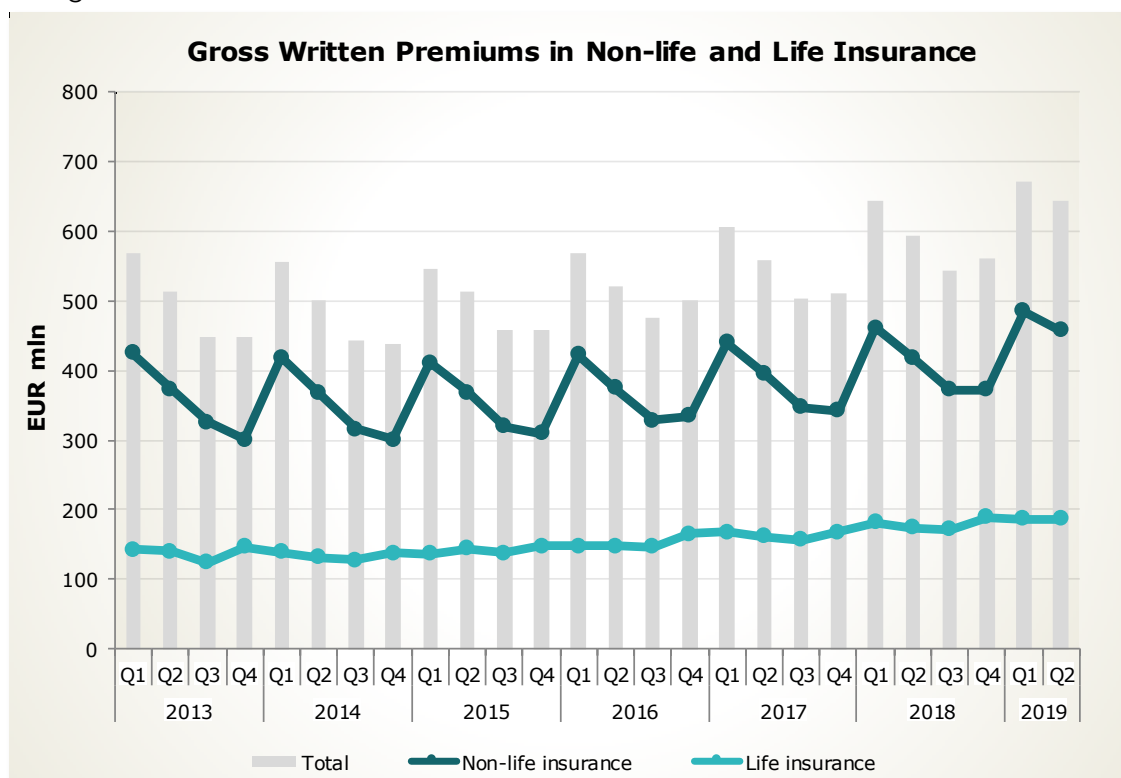
Loans to non-financial corporations stood at EUR 9.457 bln, up by EUR 158.0 mln compared to June 2018.

At the end of Q2 2019, the assets of the banking system totalled EUR 41.824 bln, up 3.2% y/y.



Source: BSI

Slovenia's insurance market reported an annual growth of 8.7% to EUR 644.7 in Q2 2019, according to the Slovenian Insurance Association. It was driven predominantly by the non-life insurance segment, which grew by 9.3% to EUR 457.6 mln, while life insurance gained 7.2%, reaching EUR 187.1 mln.



Source: Slovenian Insurance Association

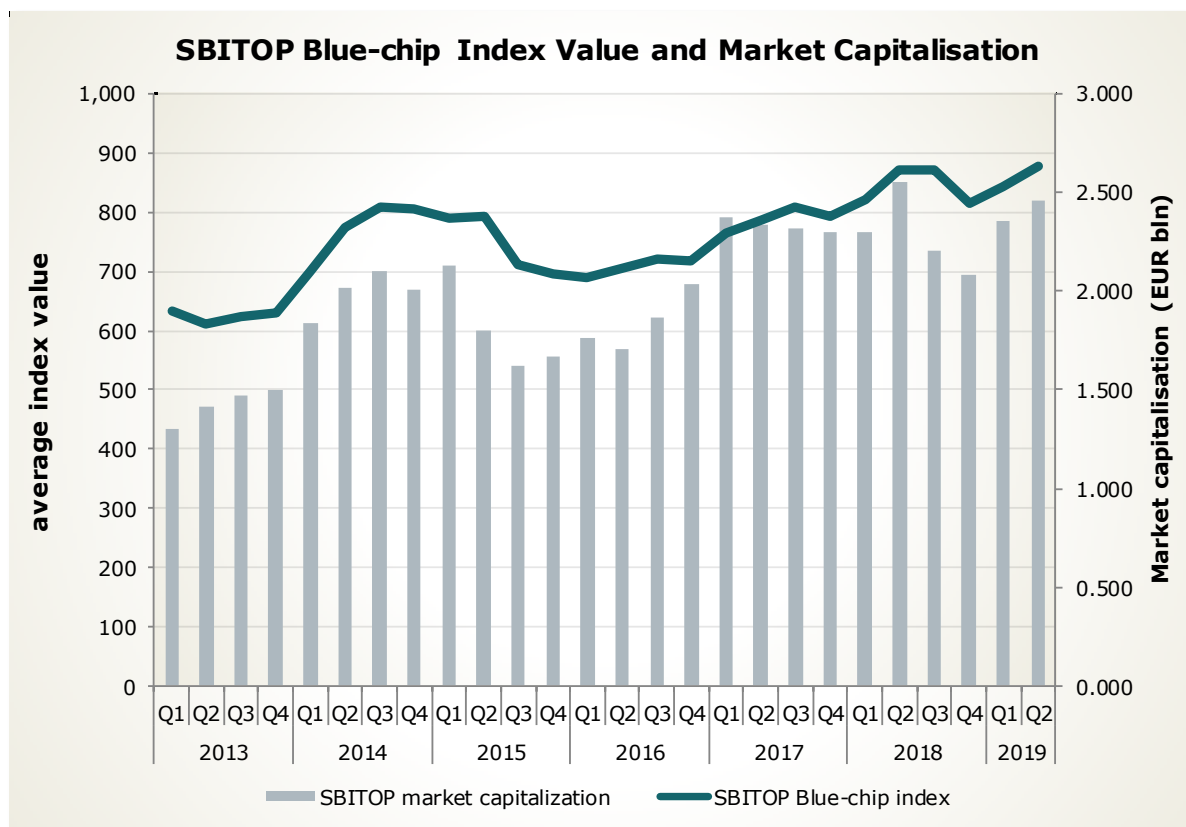
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 3.9% q/q in Q2 2019

The average value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 3.9% q/q to 876.8 points in Q2 2019.

The total turnover on LJSE's regulated market reached EUR 88.5 mln in Q2 2019 versus EUR 115.9 mln in Q2 2018 and EUR 66.7 mln in Q1 2019.

The number of trades stood at 7,685 in Q2 2019, compared to 11,829 in Q2 2018 and 6,830 in Q1 2019.



Source: LSE

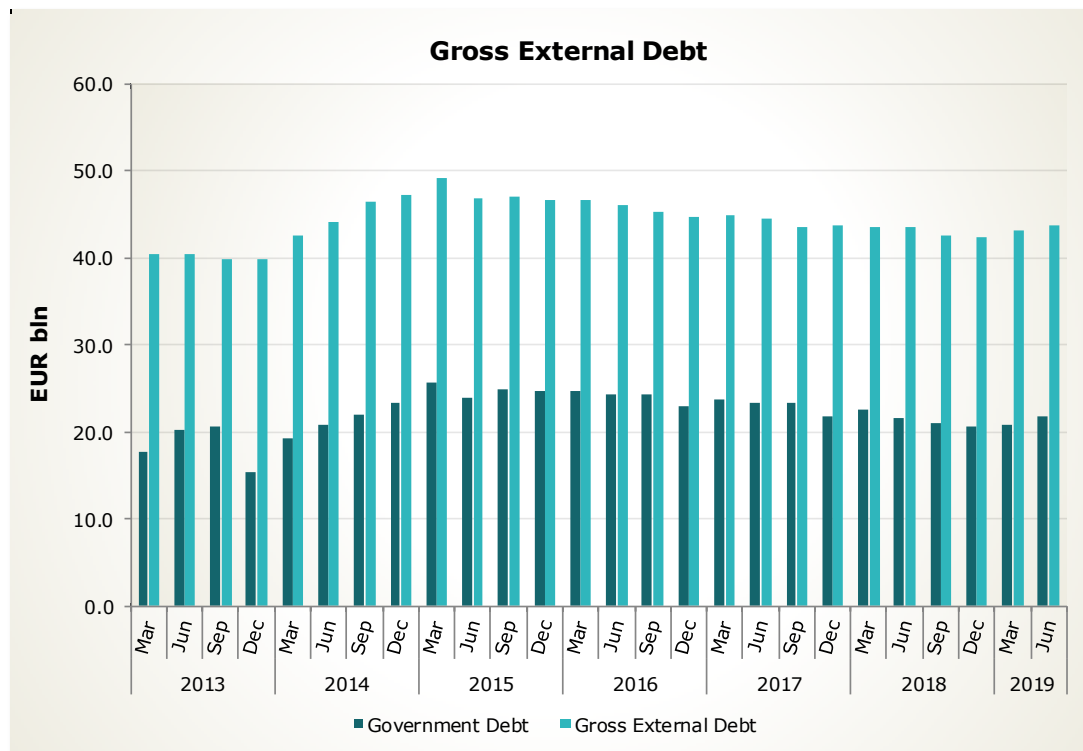
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt increased by 0.4% y/y to EUR 43.693 bln as of June 2019

Slovenia's gross external debt totalled EUR 43.693 bln as of June 2019, according to BSI. It widened by EUR 189.0 mln, compared with end-June 2018, according to SURS data.

Government debt expanded to EUR 21.894 bln as of June 2019 from EUR 21.668 bln in the same month of the previous year. Long-term liabilities amounted to EUR 29.362 bln, or 67.2% of the total debt, while short-term liabilities totalled EUR 10.282 bln, equal to 23.5% of the total debt.

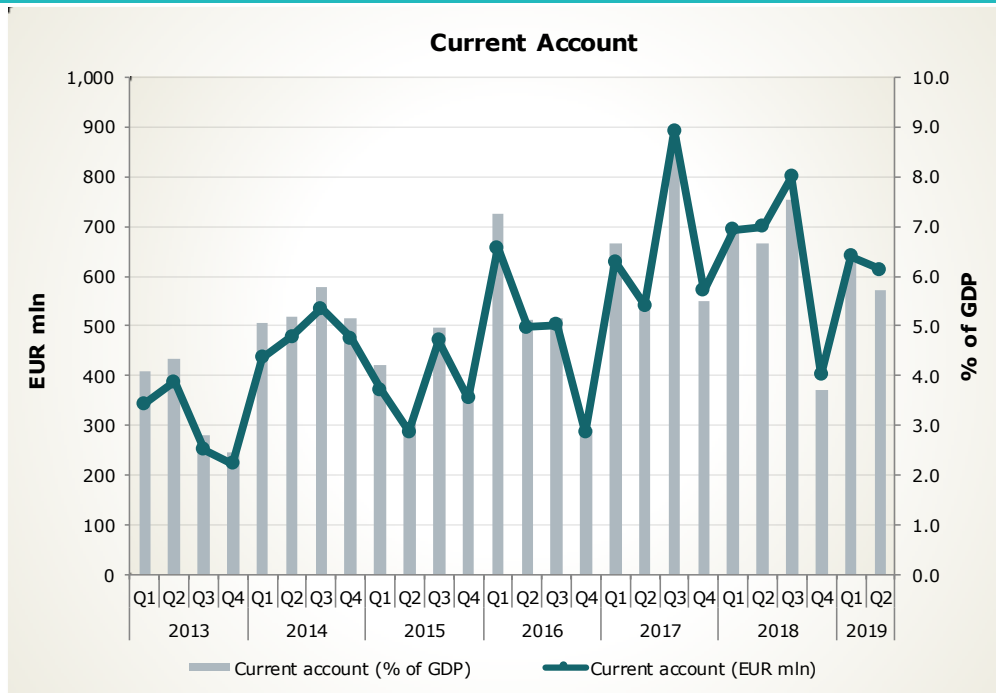


Source: BSI

7.2. BALANCE OF PAYMENTS

Current account surplus down by 12.2% y/y in Q2 2019

Slovenia's current account surplus stood at EUR 613.9 bln in Q2 2019, down by 12.2% from EUR 699.1 bln in Q2 2018, according to BSI.

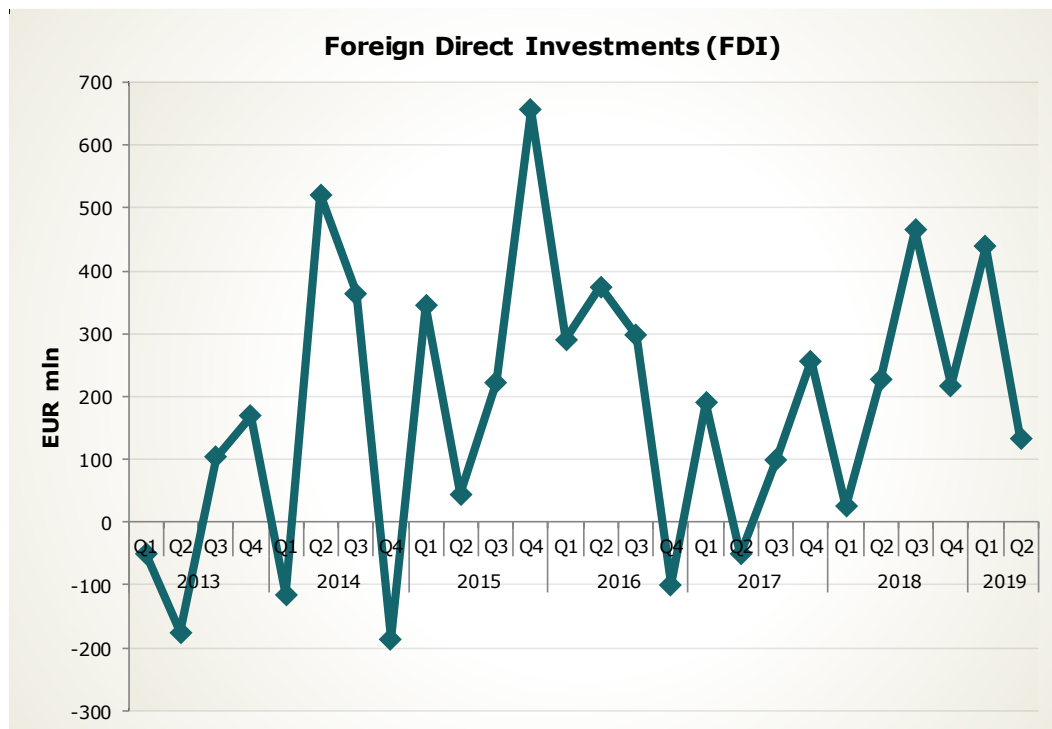


Source: BSI

7.3. FDI

Foreign direct investments dropped in Q2 2019

In Q2 2019, FDI inflow in the Slovenian economy amounted to EUR 131.7 mln, marking a 41.8% annual drop compared to the EUR 226.2 mln in Q2 2018, according to central bank data. The FDI inflow accounted for 1.2% of the country's GDP in Q2 2019.

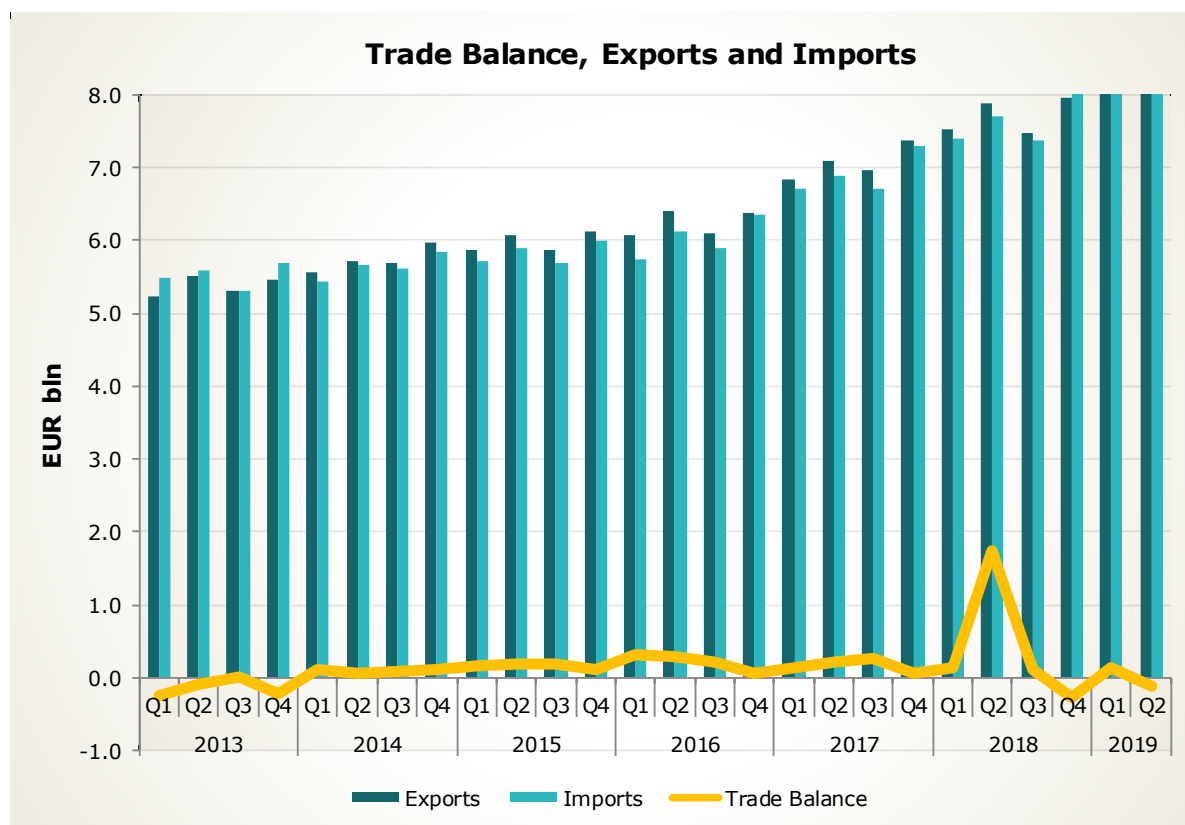


Source: BSI

7.4. FOREIGN TRADE

Foreign trade deficit EUR 130.4 mln in Q2 2019

In Q2 2019, the foreign trade switched to a EUR 130.4 mln deficit from a surplus of EUR 1.744 bln in Q2 2018, according to SURS data. The annual growth in exports was 8.8% and they reached EUR 8.567 bln, while imports went up slightly faster, by 13.0% to EUR 8.698 bln.



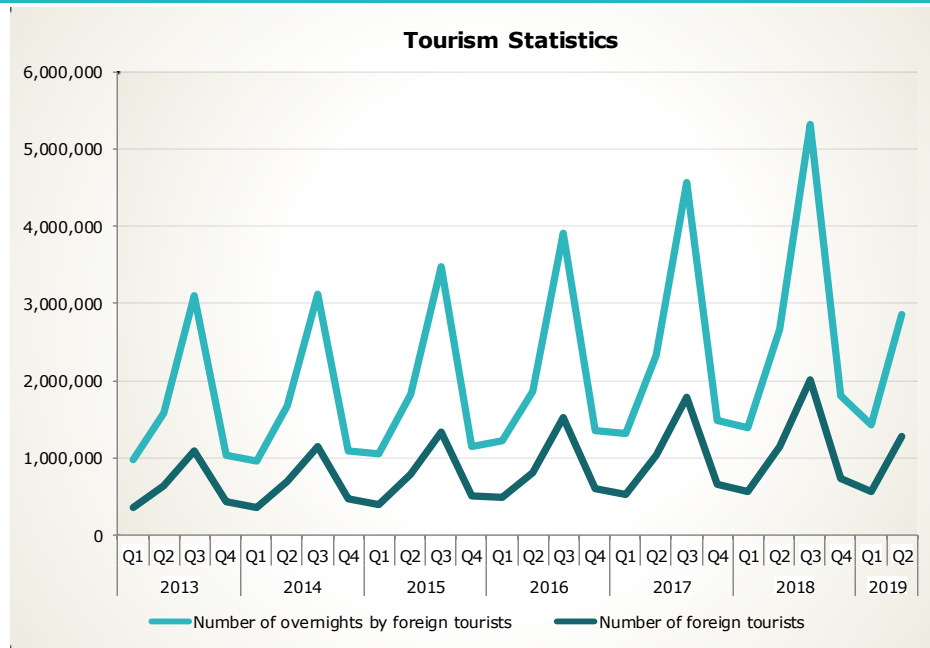
Source: SURS

7.5. TOURISM

Number of foreign tourist overnights up 7.5% y/y in Q2 2019

Slovenia is enjoying a tourism uptrend with overnights of foreigners continuing to grow, by 7.5% y/y to 2.862 million in Q2 2019, according to SURS data. The share of foreign tourists in the total number of overnights increased to 74.3% from 72.1% in Q2 2018.

The number of foreign tourists totalled 1.266 million, up 10.6% on the year in Q2 2019.



Source: SURS

8. MAJOR DEVELOPMENTS

EC recommends Slovenia grows renewable energy share to 37% by 2030

June 19, 2019

Slovenia should take action to significantly increase the share of energy from renewable sources to at least 37% as the country's contribution to the EU's 2030 target for renewable energy, the European Commission said.

[Read the full story here](#)

Slovenia needs to develop equity markets, improve business climate - EU Commission

June 5, 2019

The European Commission said that Slovenia needs to take action to support the development of equity markets as well as improve the business environment by reducing regulatory restrictions and administrative burden.

[Read the full story here](#)

EBRD affirms Slovenia's 2019 economic growth forecast at 3.3%

May 8, 2019

The European Bank for Reconstruction and Development (EBRD) expects Slovenia's economy to grow by 3.3% in 2019, the lender said, affirming its November projection. The growth of the Slovenian economy is expected to slow down to 2.8% in 2020, according to the EBRD.

[Read the full story here](#)

EEX to launch power futures for Serbia, Slovenia in June

Apr 8, 2019

The European Energy Exchange (EEX) plans to launch on June 3 cash-settled power futures for Serbia and Slovenia, it said. The futures will cover base and peak load products with weekly, monthly, quarterly and yearly expiries, EEX said in a statement.

[Read the full story here](#)

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