

SLOVENIA ECONOMY REPORT

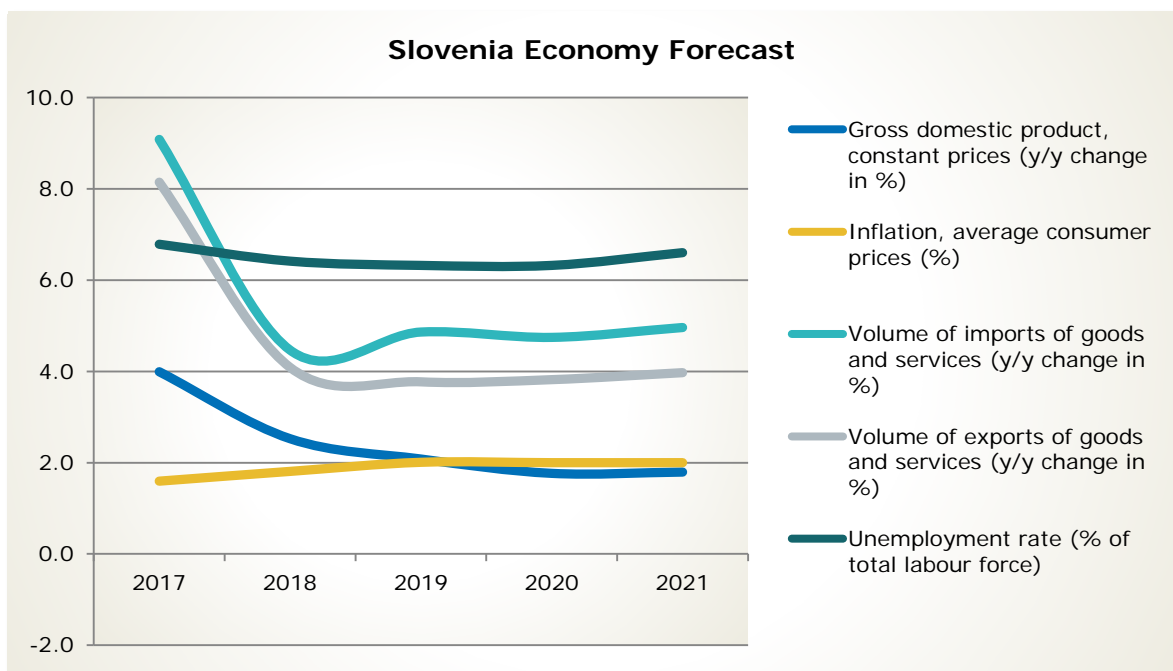
Q3 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	4.5% y/y
Industrial output	6.9% y/y
Industrial sales	8.4% y/y
Wholesale index	130.7% y/y
Retail trade	9.9% y/y
Average annual inflation	1.2%
Unemployment rate	6.3%
Number of building permits	-2.1% y/y
Household loans	7.0% y/y
SBITOP blue-chip index	2.8% q/q
Gross external debt	EUR 43.240 bln
Current account surplus	EUR 871.8 mln
Foreign trade surplus	EUR 265.5 mln
Number of foreign tourist overnights	15.1% 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%, hampered 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.

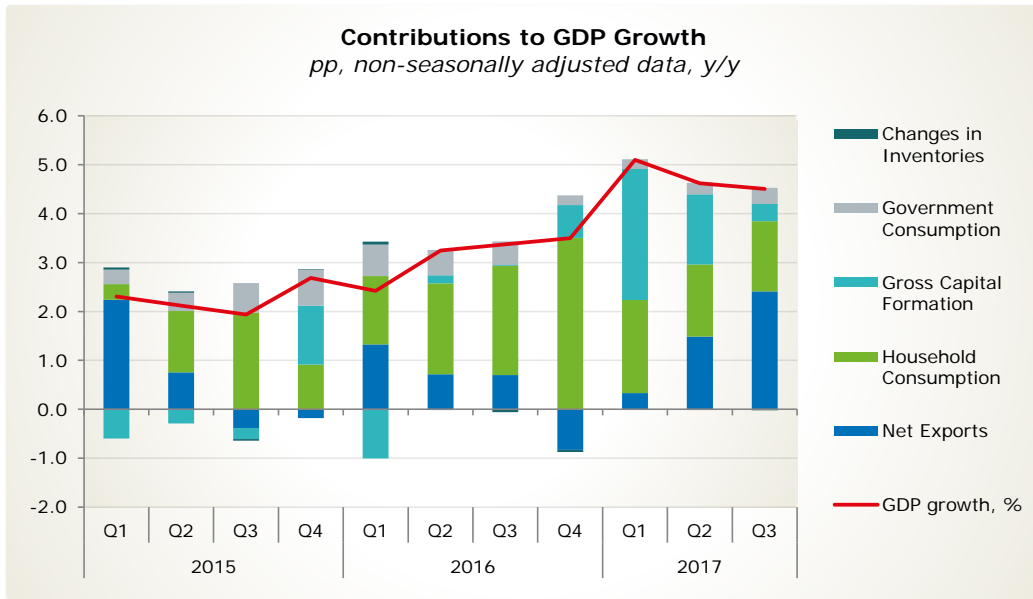
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

Economic growth at 4.5% y/y in Q3 2017

The annual growth rate of the Slovenian economy fell to 4.5% in Q3 2017 compared to 4.6% y/y in the Q2 2017, but marked an increase compared to 3.4% in the same quarter of 2016, according to data of the Statistical Office of the Republic of Slovenia (SURs).

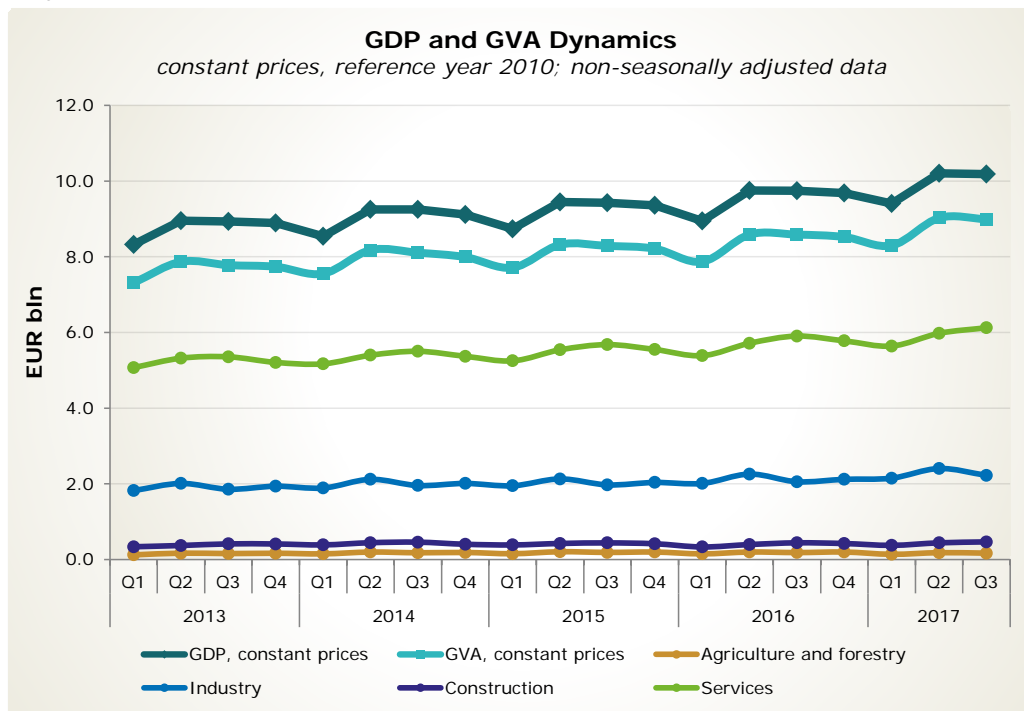
The economic expansion was broadly balanced with investments, consumption and net exports all contributing to GDP growth. Gross capital formation went up by 1.9% y/y and contributed with 0.4 pp to the GDP growth. Final consumption grew by 2.5% y/y in Q3 2017 and contributed with 1.7 pp to the GDP growth. Foreign trade also advanced with exports increasing by 12.0% y/y and imports going up by 10.1% y/y in Q3 2017. Overall, net exports added 2.4 pp to the GDP growth during the quarter.



Source: SURS; SeeNews calculations

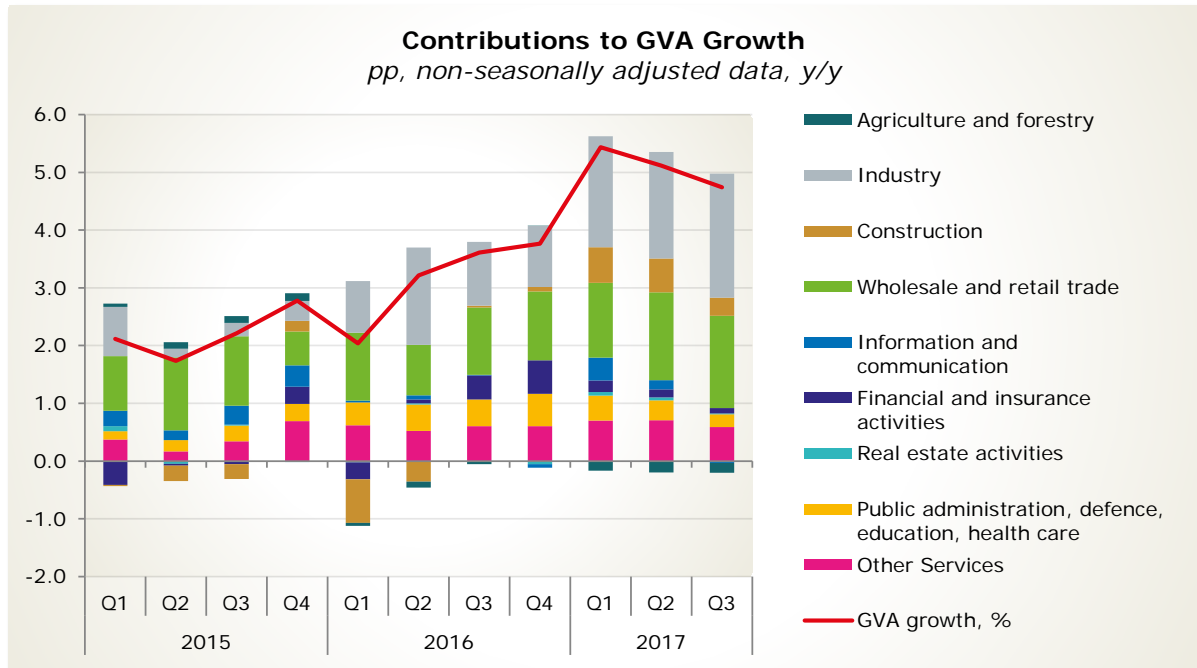
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 4.7% y/y in the third quarter of 2017 and totalled EUR 8.994 bln. The industrial sector grew in value by 8.2% y/y with its share in the GVA structure expanding to 24.7% from 23.9% in Q3 2016. The services sector recorded a 3.7% annual increase, slicing a 68.1% share in the GVA, down from 68.8% in the corresponding quarter of the previous year. The agricultural sector registered an annual decrease of 8.5% and its share in the GVA also fell to 1.9% from 2.1%. The construction sector jumped by 5.5% and its GVA share inched up to 5.2% from 5.1% in Q3 2016.



Source: SURS

The largest contributor to the overall GVA growth in Q3 2017 was the industrial sector with 2.1 pp. The strong consumption trend was the main driver of the retail and wholesale sector, which contributed with 1.6 pp to the y/y economic growth in the quarter.



Source: SORS; SeeNews calculations

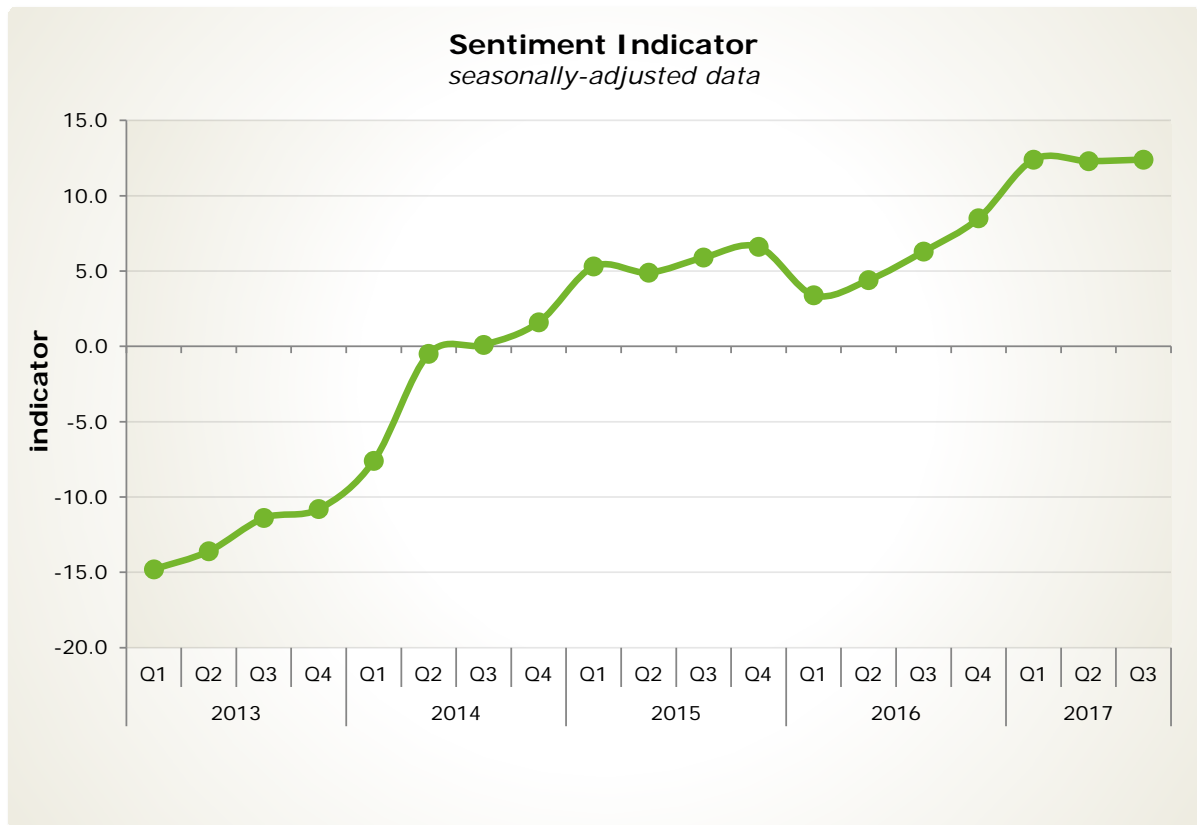
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator at record high in September 2017

The fast economic growth in Q3 2017 supported by household expenditures and external demand led to a surge in sentiment among businesses in the country. In September 2017, the business sentiment indicator was at 12.4 points, compared to 6.3 points a year ago and 12.3 points in June 2017, according to SORS.

The improvement was broadbased across sectors. The business sentiment indicator was the highest in the retail trade sector - 24 points, fuelled by the strong domestic demand. It was followed by the services sector with 23 points, construction with 16 points, and manufacturing with 10 points.



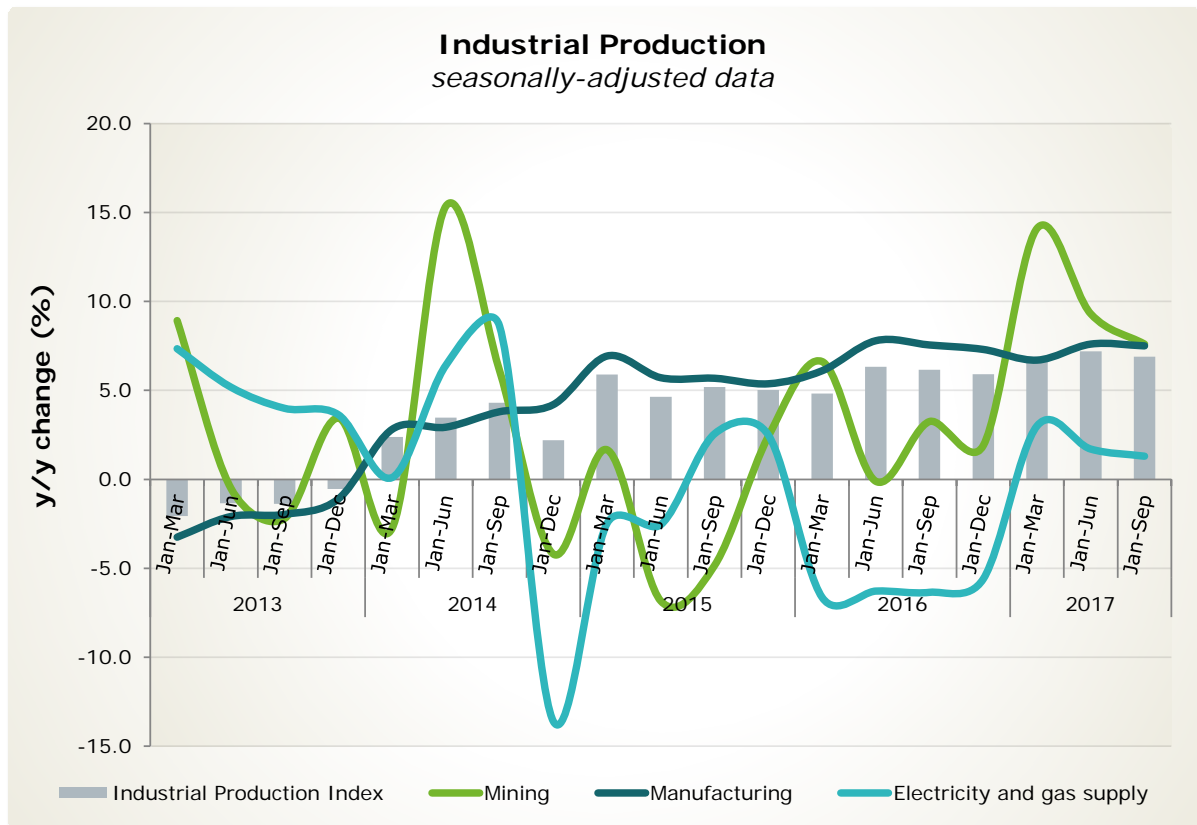
Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output up 6.9% y/y in Jan-Sept 2017

Industrial output went up by 6.9% on the year in the first three quarters of 2017, according to seasonally-adjusted data of SORS. Output in the manufacturing sector expanded by 7.5%, the output of the mining sector grew by 7.6%, while the output of the electricity and gas supply sector increased by 1.3%.

Manufacture at intermediate goods industries increased by 5.6% y/y on average, while manufacture at capital goods industries went up by 11.9% y/y in Q3 2017. The industrial production at consumer goods sectors increased by 4.8% y/y on average.



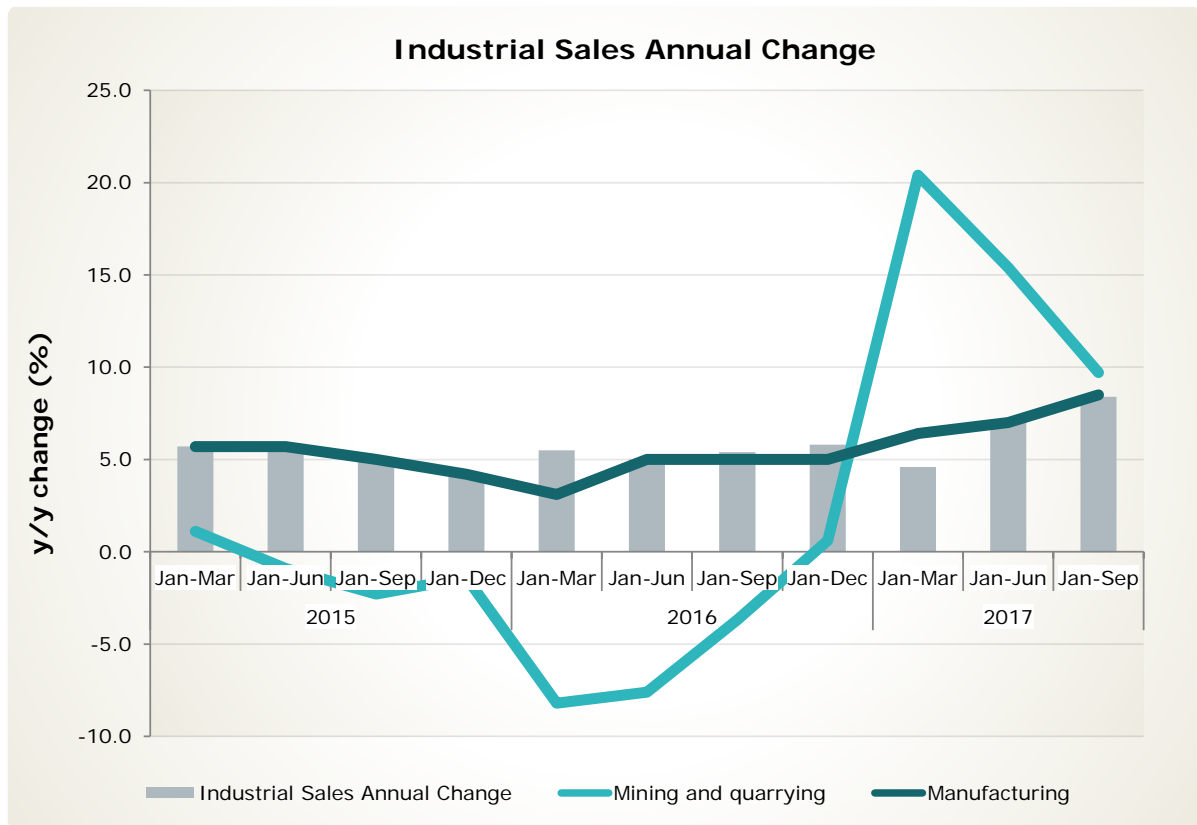
Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth remained strong in Jan-Sept 2017

The industrial sales in Slovenia rose by real 8.4% y/y in January-September 2017, after increasing by 7.1% in January-June 2017, according to SURS. The indicator increased by 8.5% in the manufacturing sector, while in the mining and quarrying industry it jumped by 9.7%.

Industrial sales of intermediate goods went up by 7.7% y/y in Q3 2017, while sales of capital goods increased by 14.2% y/y on average. Consumer goods sales grew by 5.4% y/y.



Source: SURS

2.5. WHOLESALE/RETAIL

Retail sales grew 9.9% y/y in Q3 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, which caused retail sales to go up by 9.9% y/y in Q3 2017, while wholesale trade soared by 30.7% y/y, according to SURS data.

Retail sales of automotive fuel in stores surged by 24.0% in the first nine 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 1.7% y/y, while retail sales of non-food products, except automotive fuel, expanded by 5.3% y/y.



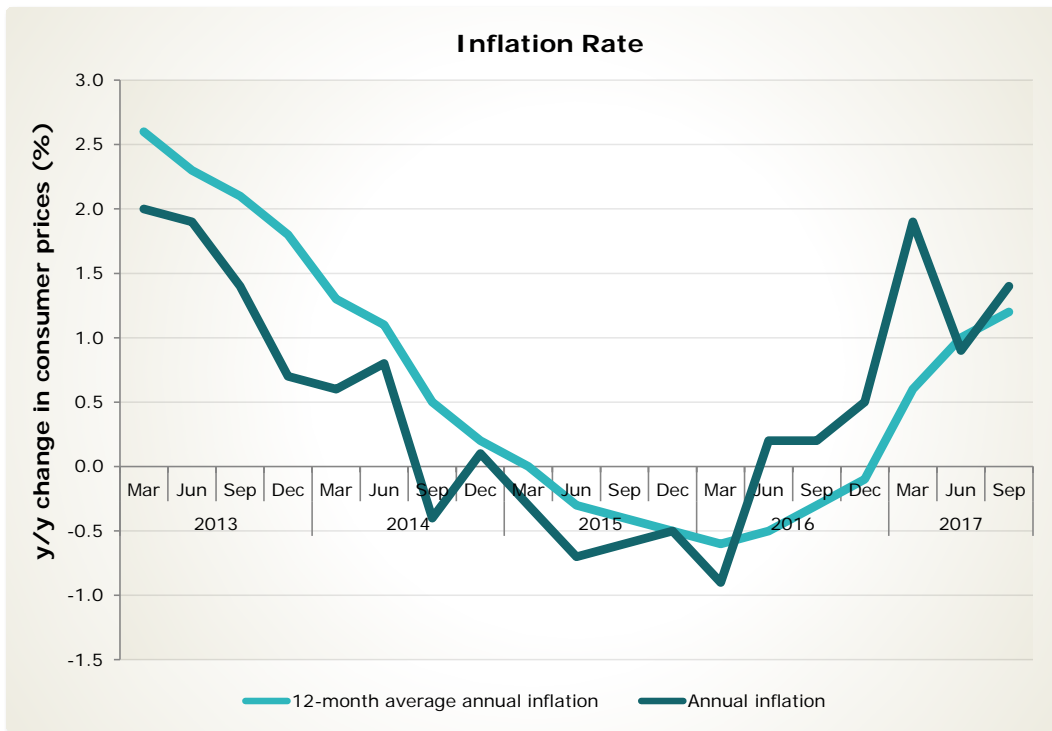
Source: SURS

2.6. INFLATION

Average annual inflation at 1.2% y/y as of September 2017

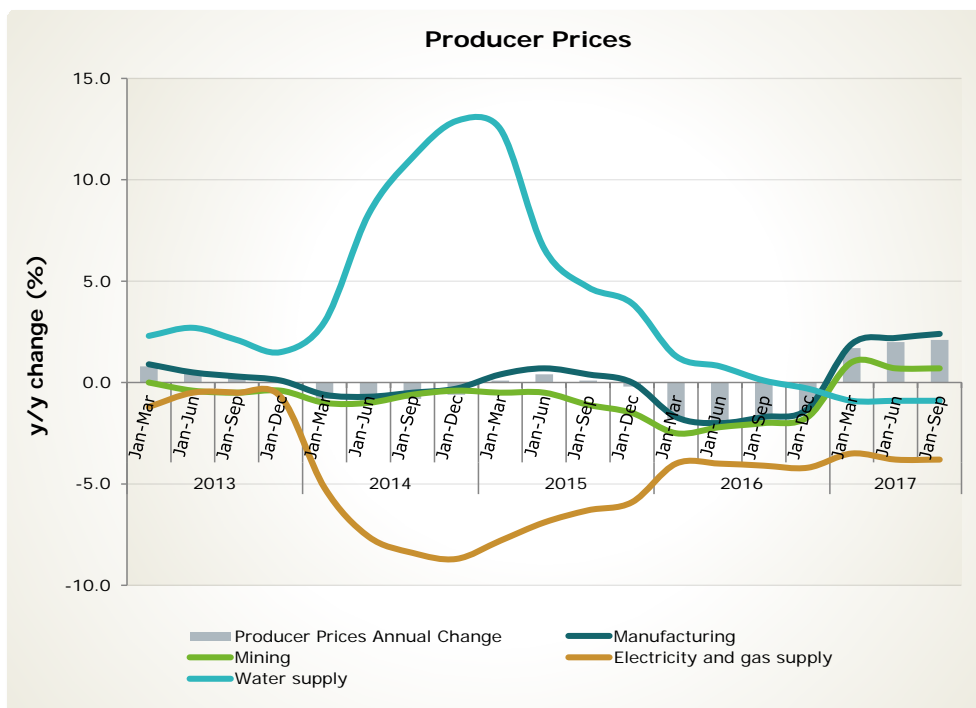
The annual average inflation in Slovenia stood at 1.2% in the period October 2016 - September 2017, according to SURS. In September 2017 alone, the inflation was higher – 1.4% y/y, up from 0.9% in June 2017.

In October 2016 - September 2017, the highest annual average inflation, of 27.0% was posted by administrative fees, while the sharpest deflation, of 9.7%, was registered by equipment for the reception, recording and reproduction of sound and vision.



Source: SURS

Producer prices increased by 2.1% y/y in the first nine months of 2017, compared to an inflation of 2.0% in the second quarter of 2017, SURS data showed. The average prices in the manufacturing sector went up by 2.4% 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 respectively.



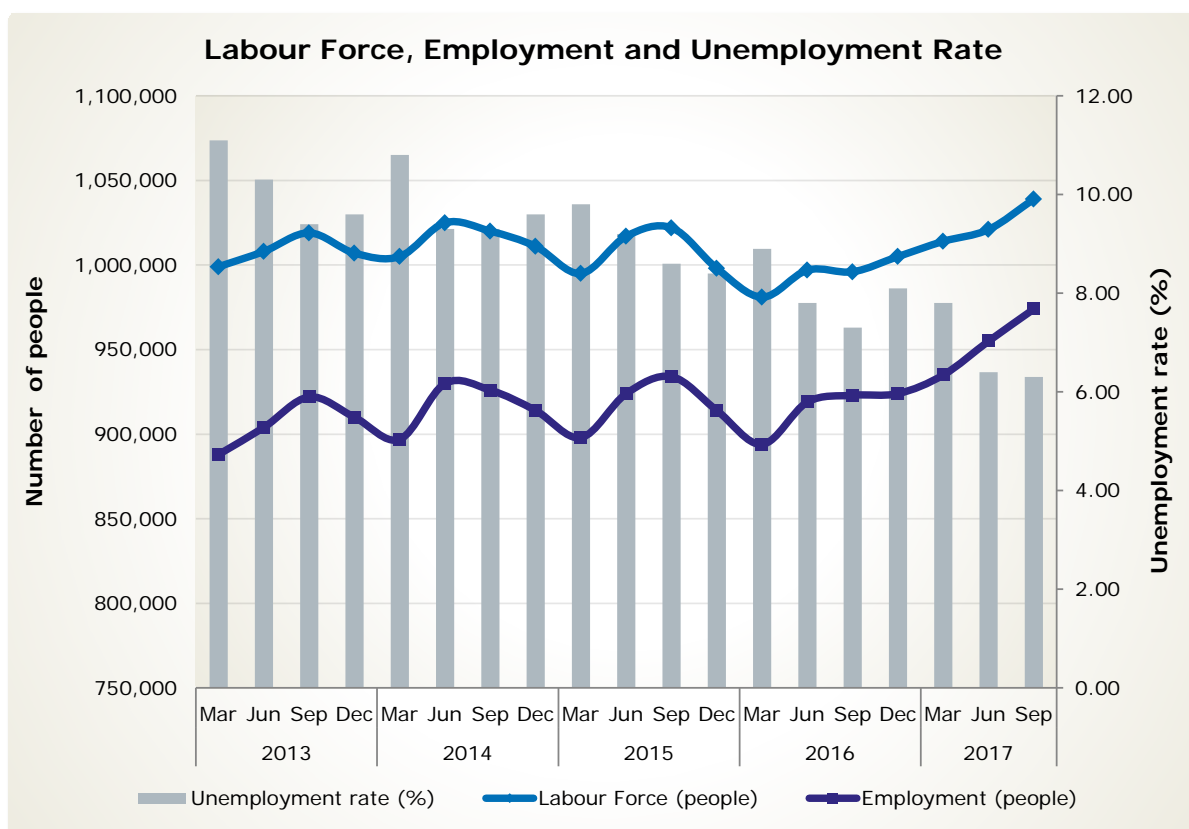
Source: SURS

3. LABOUR MARKET

Unemployment rate went down y/y to 6.3% in Q3 2017, wages up by 2.9% y/y

The unemployment rate in Slovenia narrowed to 6.3% of the total labour force in Q3 2017 from 7.3% a year earlier, according to data of SURS. The employed population aged 15 years and older was 974,000, up by 5.5% y/y.

Youth employment continued to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 10.9%, compared to 13.7% 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 Q3 2017 grew by 2.9% y/y to EUR 1,046. The employed in the public sector earned average monthly net wage of EUR 1,216, an annual increase of 3.4%, while private sector employees earned on average EUR 963, up from EUR 936 a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 2.1% y/y in Q3 2017

The number of building permits issued in Slovenia in Q3 2017 notched down by 2.1% y/y, totalling 1,735, according to SURS data.

Permits for housing projects jumped by 14.3% y/y to 718 while permits for non-residential and office buildings numbered 988, down from 1,114 in Q3 2016.

The total built-up area of the office units, covered by the permits, was 236,723 sq m versus 240,924 sq m a year earlier. The total built-up area of the housing units increased by 19.0% to 186,915 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 1.1754 in Q3 2017 from USD 1.1156 in Q3 2016, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
USD	1.1754	1.1021	1.1156
GBP	0.8983	0.8611	0.8501
CHF	1.1316	1.0842	1.0891

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 24.005 bln to Eurozone's M3 Monetary Aggregate² in Q3 2017

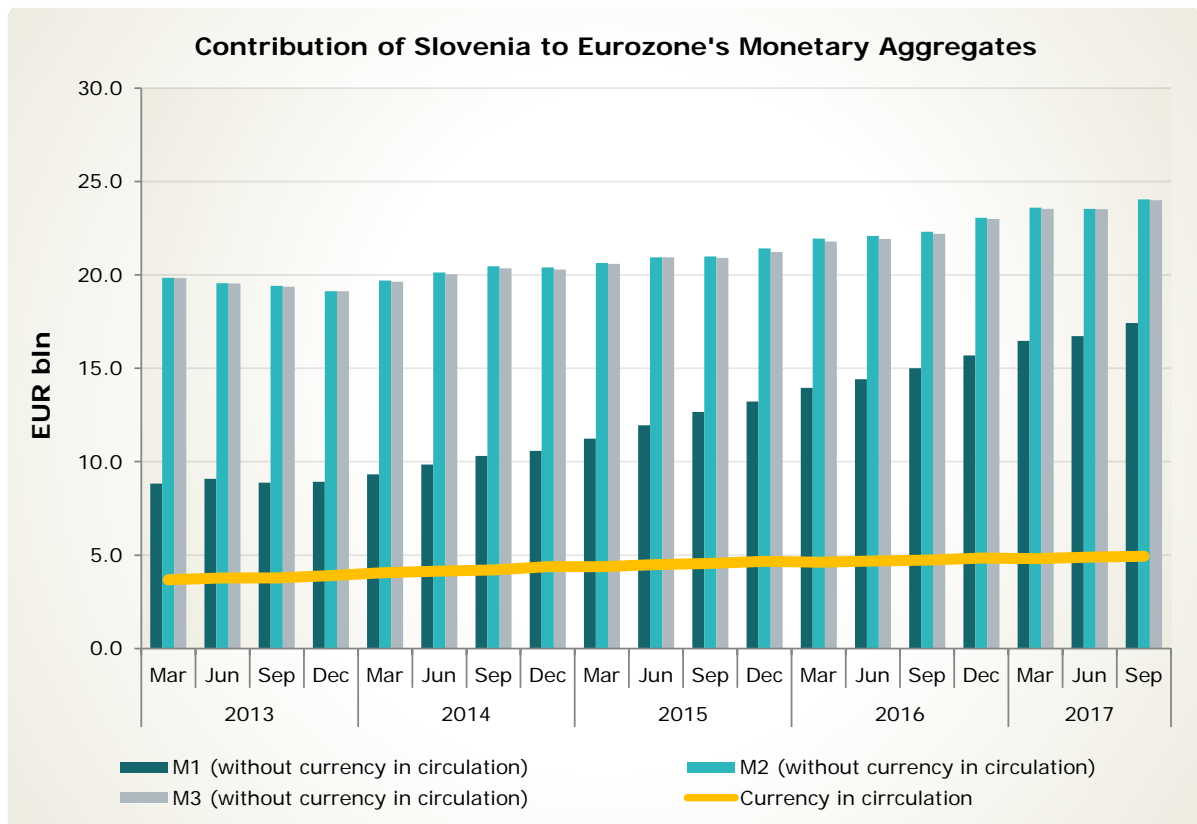
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 24.005 bln, without currency in circulation, at end-September 2017, up 8.2% y/y, according to BSI.

The country's contribution to the M2 aggregate amounted to EUR 24.041 bln, up from EUR 22.313 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 16.2% y/y to EUR 17.427 bln.



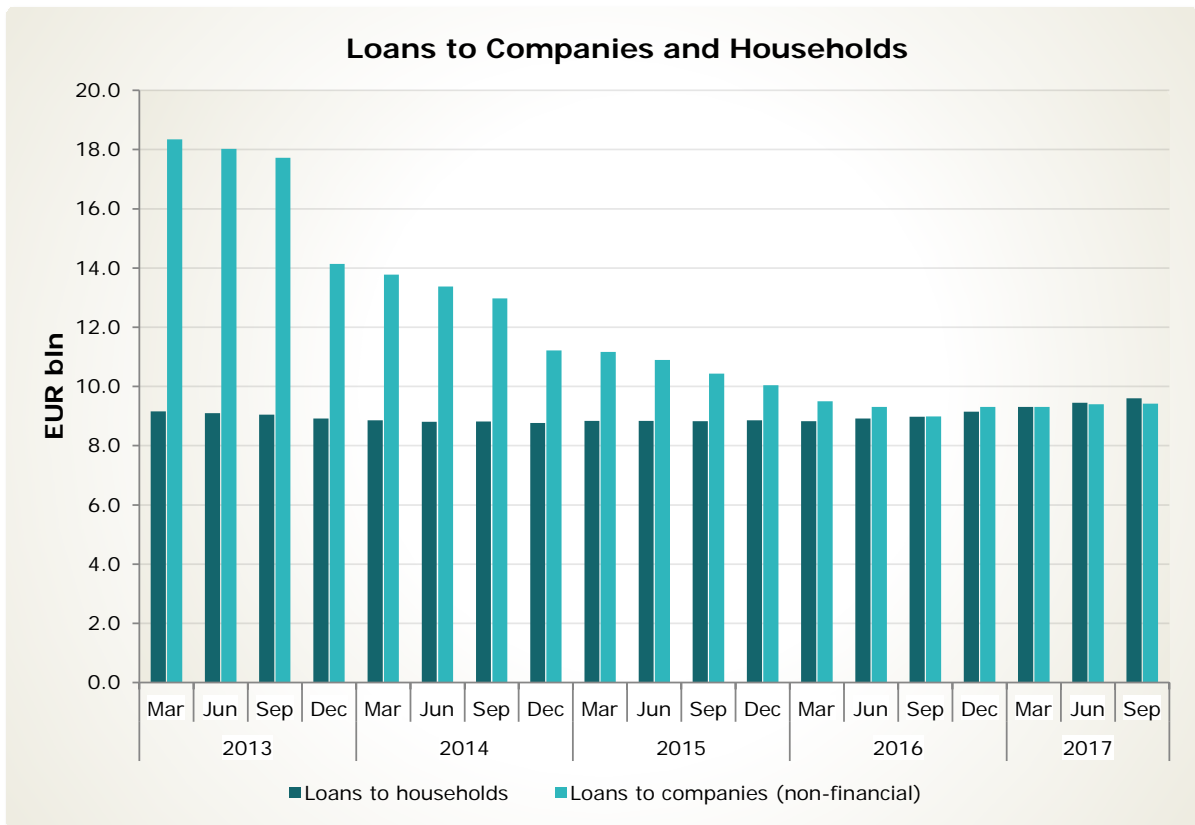
Source: BSI

5.3. BANKING

Household loans up 7.0% y/y in Q3 2017

Household loans totalled EUR 9.604 bln at end-September 2017 versus EUR 8.974 bln a year ago, according to BSI. House purchasing loans grew by 4.8% y/y to EUR 5.927 bln, while consumer loans went up by 12.7%, reaching EUR 2.359 bln. Loans to non-financial corporations grew by 4.8% y/y to EUR 9.418 bln.

At the end of September 2017, the assets of the banking system totalled EUR 40.177 bln, which was an 1.4% increase in comparison to Q3 2016.



Source: BSI

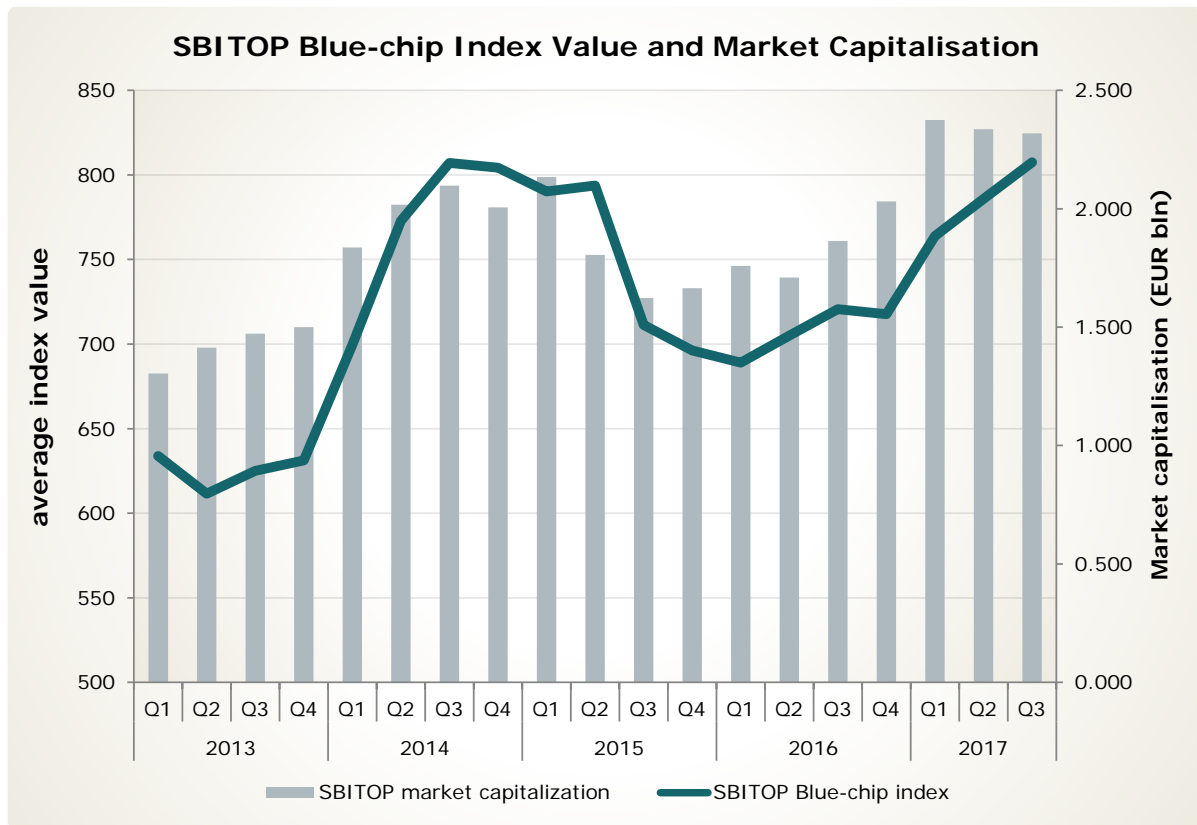
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 2.8% q/q in Q3 2017

The value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 2.8% q/q to 807.50 points in Q3 2017.

The total turnover on LJSE's regulated market reached EUR 97.6 mln in Q3 2017 versus EUR 77.6 mln in Q2 2017.

The number of trades stood at 9,060, compared to 17,595 in Q3 2016.



Source: LSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed y/y to EUR 43.240 bln at end-September 2017

Slovenia's gross external debt totalled EUR 43.240 bln at the end of September 2017, according to BSI. It fell by 0.9%, or EUR 381.0 mln, compared to September 2016.

Government debt stood at EUR 23.188 bln, unchanged from September 2016. As of end-September 2017 long-term liabilities amounted to EUR 31.875 bln, or 73.7% of the total debt, while short-term liabilities totalled EUR 7.729 bln, equal to 17.9% of the total debt.



Source: BSI

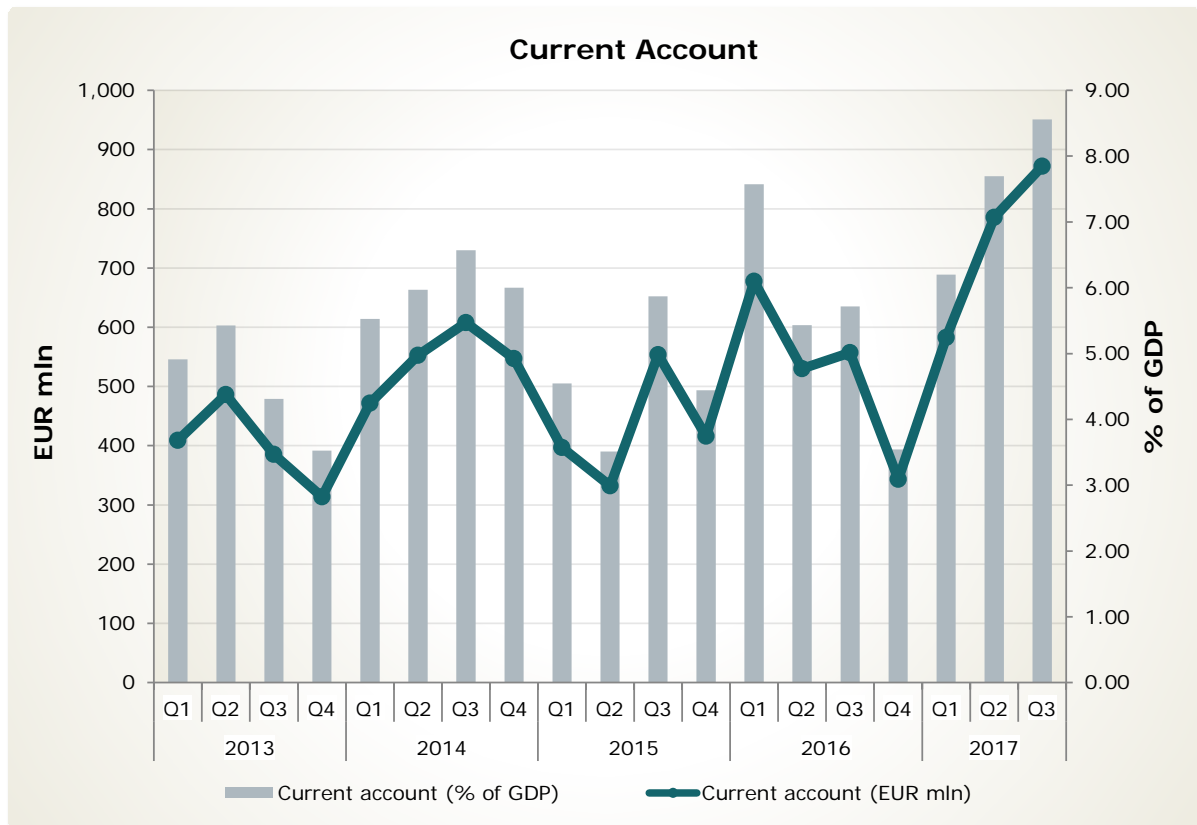
7.2. BALANCE OF PAYMENTS

Current account surplus jumped y/y in Q3 2017

Slovenia's current account surplus widened to EUR 871.8 mln in Q3 2017 from EUR 557.1 mln in Q3 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 108.2 mln, or 28.8%, in Q3 2017. In the same time the deficit of the secondary income account shrank by 38.8% y/y, or EUR 36.8 mln, to EUR 58.0 mln.

The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a surplus of 8.6% of GDP in September 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 and reach 4.9% of GDP in 2018.



Source: BSI

7.3. FOREIGN TRADE

Foreign trade surplus expanded by 31.8% y/y in Q3 2017 on faster growth in exports

During the third quarter of 2017, exports of goods increased faster than imports and the trade surplus jumped by 31.8% y/y to EUR 265.5 mln, according to SURS data. Exports of goods went up by 14.3% y/y to EUR 6.961 bln, while imports of goods increased by 13.7% y/y to EUR 6.696 bln.

Slovenia's most exported goods in Q3 2017 were road vehicles, which accounted for 15.4% of the total exports, followed by electrical machinery, appliances, and spare parts with a 10.0% share, and medicinal and pharmaceutical products with 9.6%.

In terms of imports, the main goods were again road vehicles, which made up 13.2% of the total, followed by electrical machinery, appliances, and spare parts, which had a 7.0% share and petroleum, petroleum products and related materials, slicing a 6.6% share.



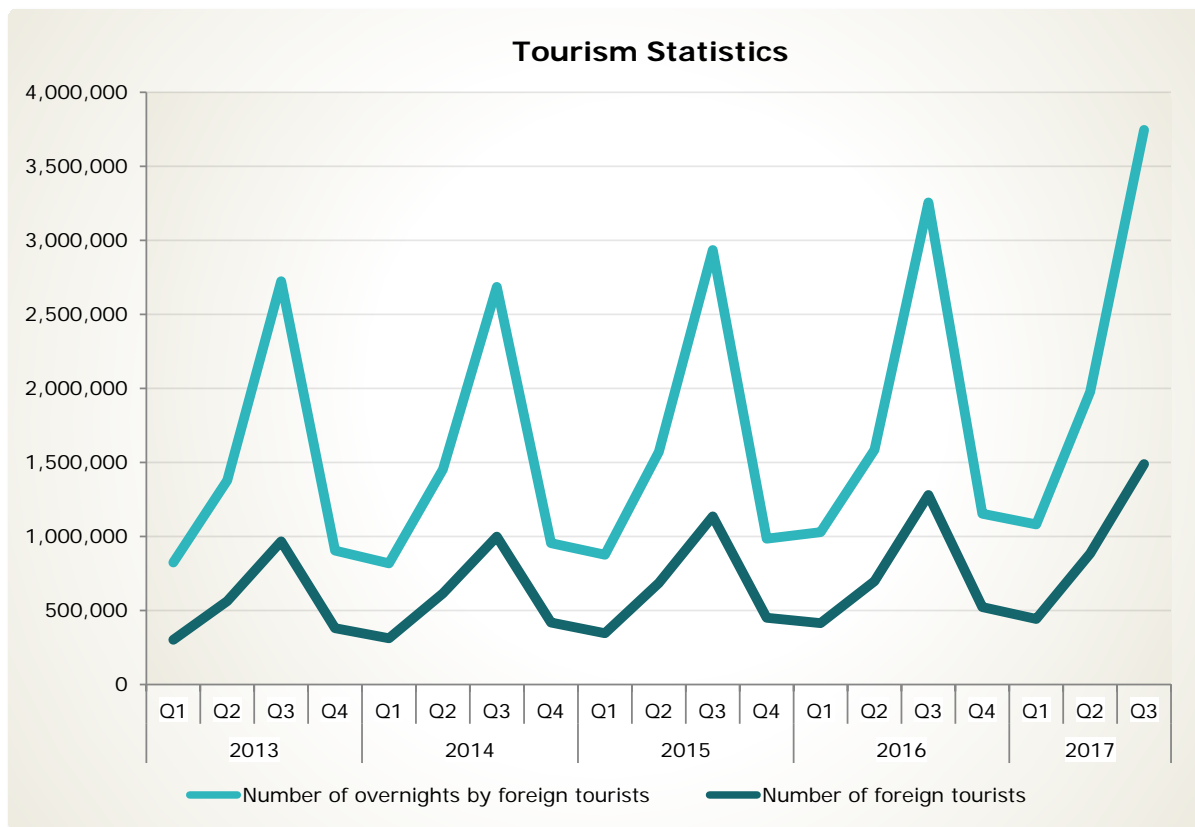
Source: SURS

7.4. TOURISM

Number of foreign tourist overnights up by 15.1% y/y in Q3 2017

Tourist overnights of foreigners grew by an annual 15.1% to 3,746,458 in Q3 2017, according to SURS data. The share of foreign tourists in the total number of overnights was 73.1%.

The number of foreign tourists grew even faster, by 16.2% to 1,488,732.



Source: SURS

8. MAJOR DEVELOPMENTS

Slovenia targets budget surplus of 0.1% of GDP in 2018, 2019

Sept 30, 2017

Slovenia's government said it has approved amendments to the state budget for 2018 as well as a draft budget for 2019 which envisage a surplus equivalent to 0.1% of GDP for both years.

[Read the full story here](#)

Slovenia tops list of SEE entrants in WEF's global competitiveness ranking

Sept 28, 2017

Slovenia is leading the group of countries from Southeast Europe (SEE) in this year's edition of the Global Competitiveness Report of the World Economic Forum (WEF), while Bosnia remained the region's worst performer for a third straight year.

[Read the full story here](#)

Slovenian referendum supports construction of 2nd track of Divaca-Koper railway

Sept 26, 2017

Slovenia's government said it can move ahead with its plans to build a second track of the Divaca-Koper railway following a referendum, during which over 53% of voters pledged support for the project.

[Read the full story here](#)

EC urges Slovenia, Croatia to implement PCA ruling in border dispute

July 6, 2017

The European Commission has asked Slovenia and Croatia to implement the territorial arbitration ruling recently delivered by the Permanent Court of Arbitration (PCA) - a decision Zagreb rejects.

Read the full story [here](#)

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