

SLOVENIA ECONOMY REPORT

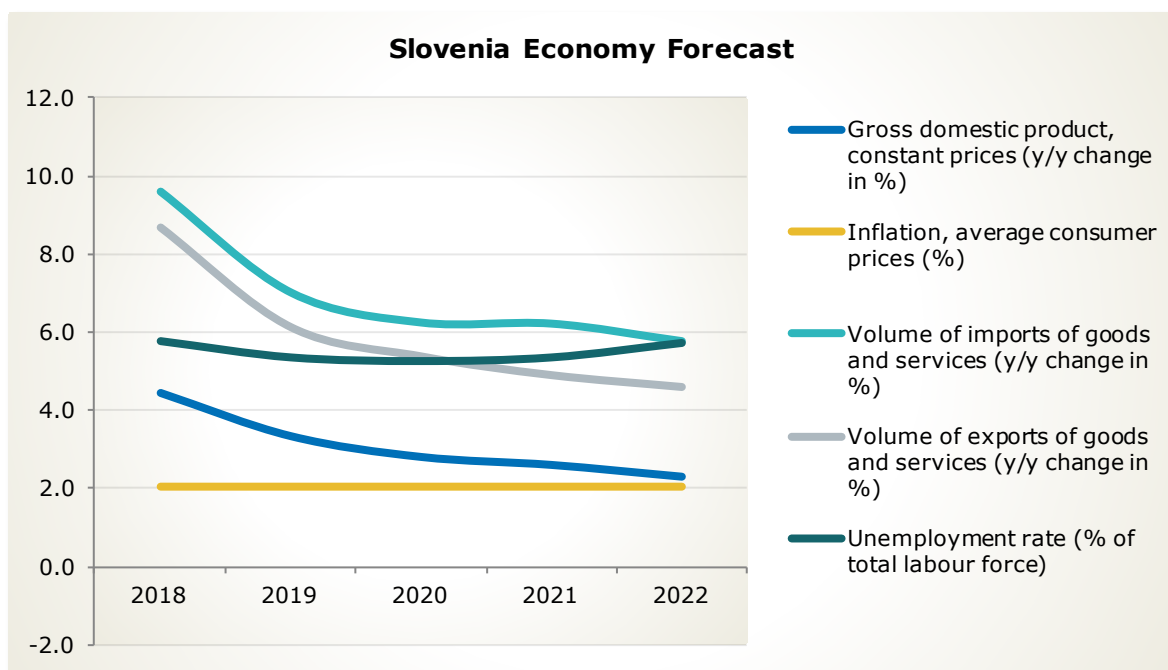
Q3 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	4.8% y/y
Industrial output	6.2% y/y
Industrial sales	6.5% y/y
Wholesale index	12.0% y/y
Retail trade	5.8% y/y
Average annual inflation	1.6%
Unemployment rate	5.0%
Number of building permits	-2.3% y/y
Household loans	6.5% y/y
SBITOP blue-chip index	0.2% q/q
Gross external debt	EUR 42.702 bln
Current account surplus	EUR 1.089 bln
Foreign trade surplus	EUR 113.8 mln
Number of foreign tourist overnights	45.3% y/y



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

In 2018, the Slovenian economy will rise by 4.5% on rising domestic demand, public investments and strong exports, according to IMF projections. In the medium term 2020-2022, growth should slow down to 2.3% – 2.8%, hampered by adverse demographic trends and inadequate 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, 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 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, according to IMF.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

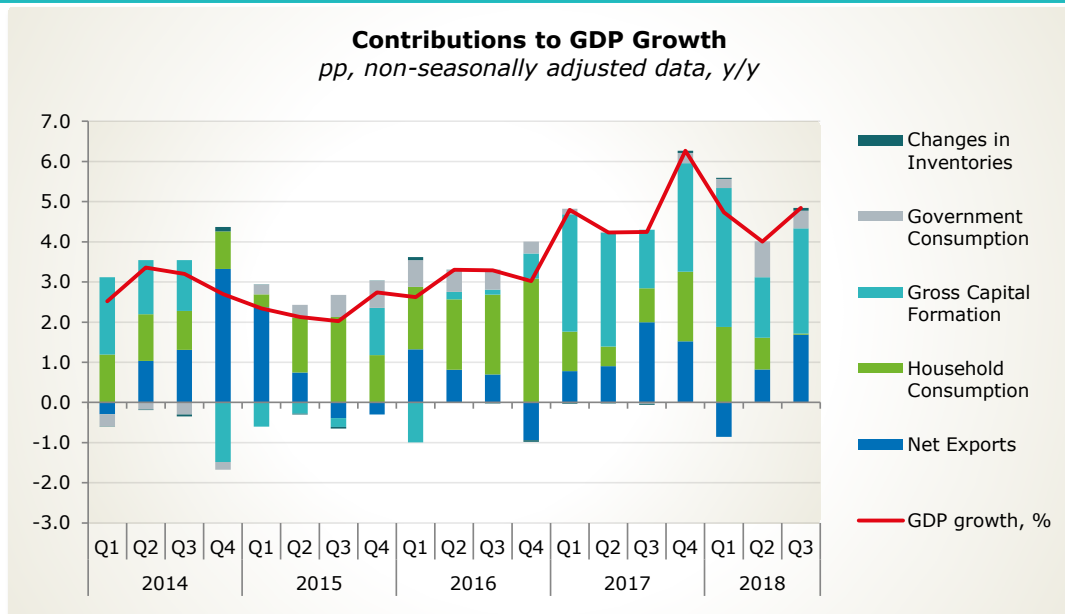
GDP growth accelerated in Q3 2018

The annual growth rate of the Slovenian economy accelerated to 4.8% in Q3 2018, up from 4.0% y/y in Q2 2018, according to data of the Statistical Office of the Republic of Slovenia (SURS).

The main reason for the improving economic growth during the third quarter was the recovery in gross capital formation rates, which advanced by 13.4% y/y in real terms, compared to a 7.2% y/y increase in Q2 2018. In the same time, imports of goods and services slowed down and fell below export increase rate in Q3 2018. This resulted in a positive contribution of the net trade of 1.7 pp to the total GDP expansion, compared to the modest contribution of 0.8 pp in Q2 2018.

In Q3 2018, final consumption grew in real terms by 0.7% y/y, due entirely to the growth in government consumption by 2.5% on the year, while household consumption stagnated in real terms.

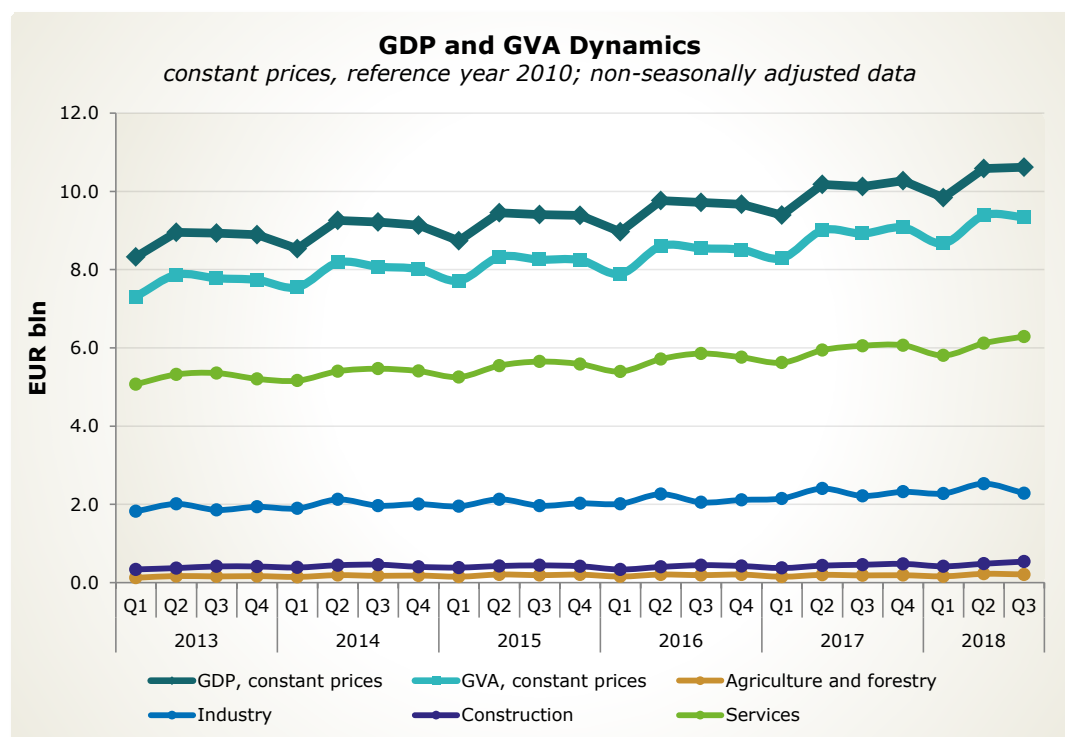
The major contributing factor for the GDP growth in the third quarter of 2018 was gross capital formation, which added 2.6 pp to the annual GDP growth. This brings benefits for the long-term potential of the Slovenian economy, as investments in fixed assets add to the production potential of businesses.



Source: SURS; SeeNews calculations

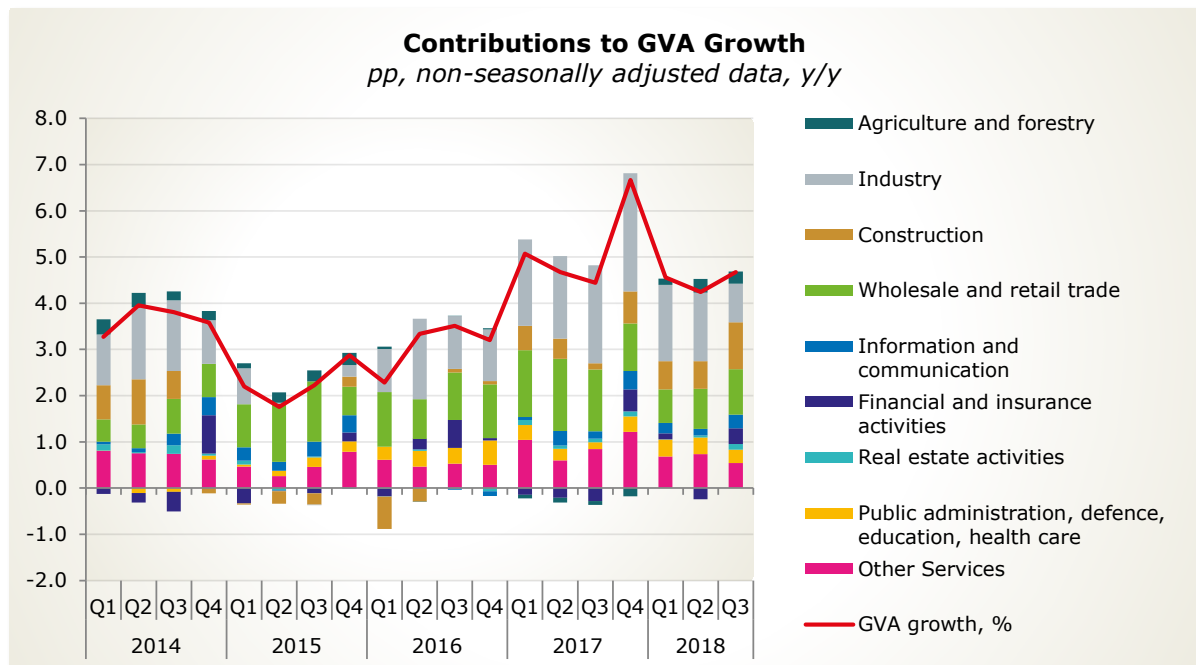
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 4.7% y/y in Q3 2018 and totalled EUR 9.342 bln. The industrial sector grew in value by 3.1% y/y with its share in the GVA structure narrowing to 24.5% from 24.8% in Q3 2017. The services sector recorded a 3.9% annual increase, slicing a 67.3% share in the GVA, down from 67.8% in the same quarter a year ago. The agricultural sector registered an annual rise of 13.9% and its share in the GVA inched up to 2.2% from 2.0%. The construction sector jumped by 17.9% and its GVA share rose further to 5.7% from 5.1% in Q3 2017.



Source: SURS

The largest contributor to the overall GVA growth in Q3 2018 was the services sector with 2.6 pp. The industry sector contributed with 0.8 pp to the y/y economic growth in the quarter. Wholesale and retail trade added 1.0 pp to the GDP increase in Q3 2018, as did the construction sector.



Source: SORS; SeeNews calculations

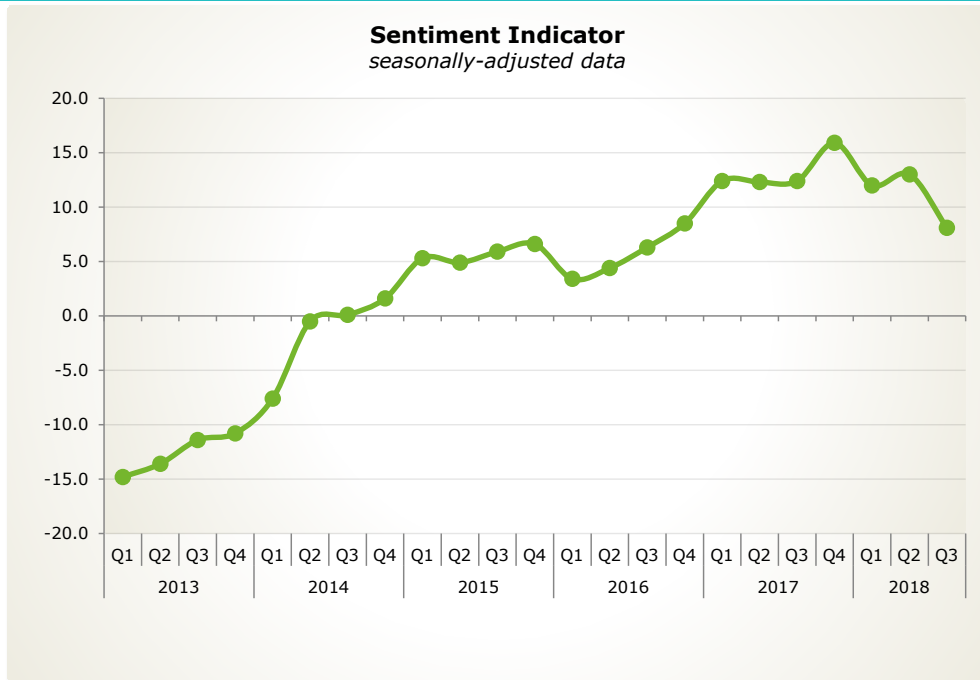
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator went down in Q3 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 calmed down in 2018 and reached its two-year bottom in the third quarter with the business sentiment indicator amounting to 8.1 points in September, down from 13.0 points in June and 12.4 points a year earlier, according to SURS.

In September 2018, the sentiment indicator was the highest in services – 25 points, followed by construction and retail trade with 17 points each. It was considerably lower in the manufacturing industry – 2.0 points. The consumer confidence indicator swung to a negative 9.0 points from the temporary recovery of 1.0 point in June 2018.

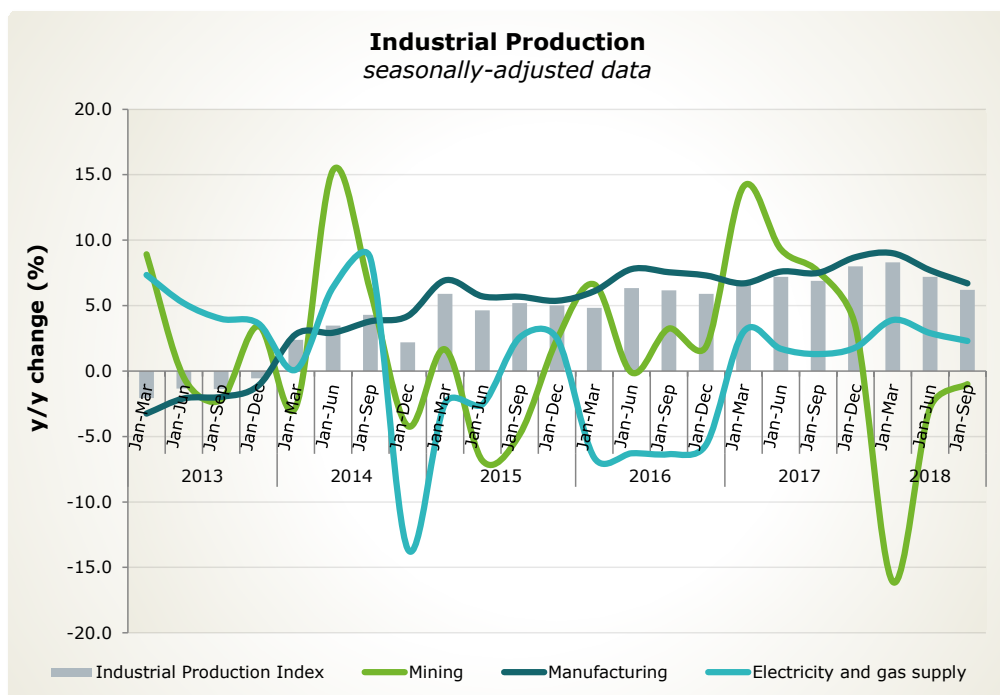


Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output rose by 6.2% y/y in Jan-Sept 2018

Industrial output growth stood at 6.2% y/y in January-September 2018, slowing 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 the manufacturing sector expanded by 6.7%, the output of the mining sector declined by 1.0%, while the output of the electricity and gas supply sector increased by 2.3%.

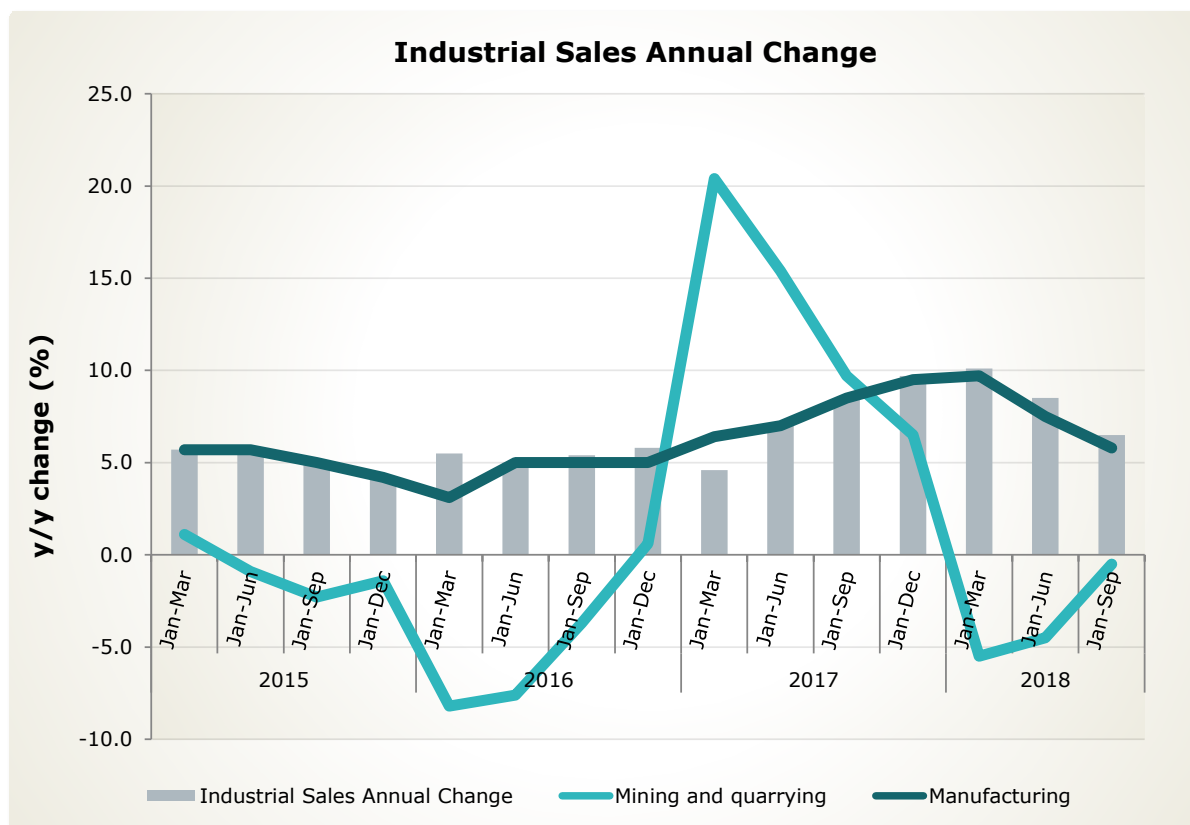


Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth slowed down in Jan-Sept 2018

The industrial sales in Slovenia increased by real 6.5% y/y in the first nine months of 2018, down from an 8.5% annual rise in the first six months of 2018, according to SURS. Sales of the manufacturing sector rose by 5.8%, while those of mining and quarrying inched down by 0.5% y/y.



Source: SURS

2.5. WHOLESALE/RETAIL

Retail sales grew faster in September 2018, wholesale kept up the momentum

In September 2018, the retail and wholesale trade sectors increased by rates of growth of 5.8% y/y and 12.0% y/y, respectively, compared to 4.4% and 12.4% y/y rise in June 2018, according to the retail and wholesale index, published by SURS.



Source: SURS

2.6. INFLATION

Average annual inflation at 1.6% as of September 2018

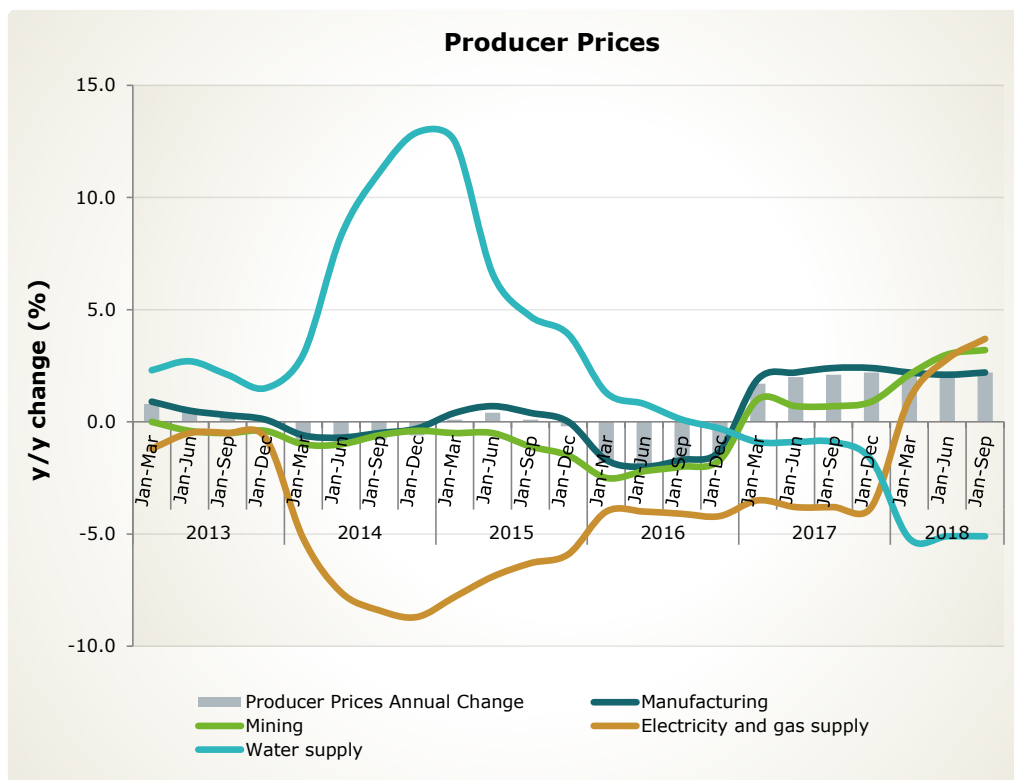
The 12-month average annual inflation stood at 1.6% as of September 2018, according to SURS data. In September 2018 alone, the annual inflation reached 2.0%, down from 2.1% in June 2018 and up compared to 1.4% in September 2017.

In terms of 12-month average inflation, the highest price increase, of 8.2% was registered by tertiary education, while in deflation terms phone and telefax equipment was on top with 10.2%.



Source: SURS

Producer prices increased by 2.2% y/y in the first nine months of 2018, compared to 2.1% y/y growth in the first half of the year, SURS data showed. The average prices in the manufacturing sector went up by 2.2% y/y on average, while the rise in mining sector's producer prices was 3.2% y/y. Producer prices in electricity and gas supply went up by 3.7% y/y, while prices in the water supply segment decreased by 5.1% y/y.



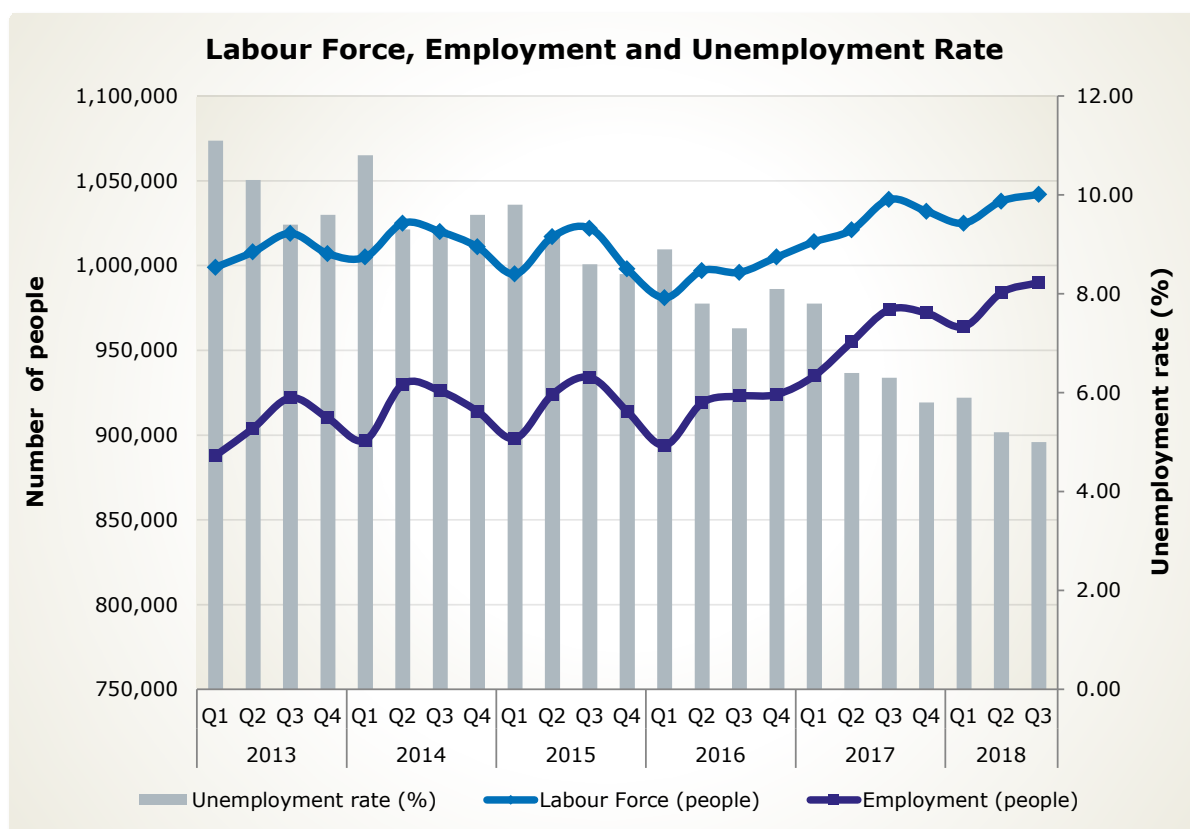
Source: SURS

3. LABOUR MARKET

Unemployment rate eased to 5.0% in Q3 2018, from 5.2% in Q2 2018

The unemployment rate in Slovenia narrowed to 5.0% of the total labour force in Q3 2018 from 5.2% in Q2 2018, according to data of SURS. A year earlier, in Q3 2017, the unemployed population accounted for 6.3% of the total labour force in the country.

Youth (population aged 15-24) unemployment rate rose slightly to 9.2%, compared to 8.1% in Q2 2018, but remains below the level of Q3 2017, when it was 10.9%.



Source: SURS

According to data of SURS, the average monthly net salary in Q3 2018 grew by 2.5% y/y to EUR 1,072. The employed in the public sector earned average monthly net wage of EUR 1,241, an annual increase of 2.1%, while private sector employees earned on average EUR 994, up by 3.2% y/y.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 2.3% y/y in Q3 2018

The boom in the construction sector eased in the third quarter of 2018, according to data for new building permits issued in Slovenia, provided by SURS. The number of building permits issued in Q3 2018 was by 2.3% lower than in the corresponding quarter of the previous year, totalling 1,695. Permits for housing projects went down by 3.6% y/y to 692, while permits for non-residential and office buildings numbered 973, down from 988 in Q3 2017.

The total built-up area of the office units, covered by the permits, was 250,048 sq m, up 5.6% y/y. The total built-up area of the housing units inched up by 1.1% to 188,987 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 1.1629 in Q3 2018 from USD 1.1915 in Q2 2018, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
USD	1.1629	1.1915	1.1746
GBP	0.8924	0.8762	0.8978
CHF	1.1445	1.1742	1.1312

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 25.757 bln to Eurozone's M3 Monetary Aggregate² as of September 2018

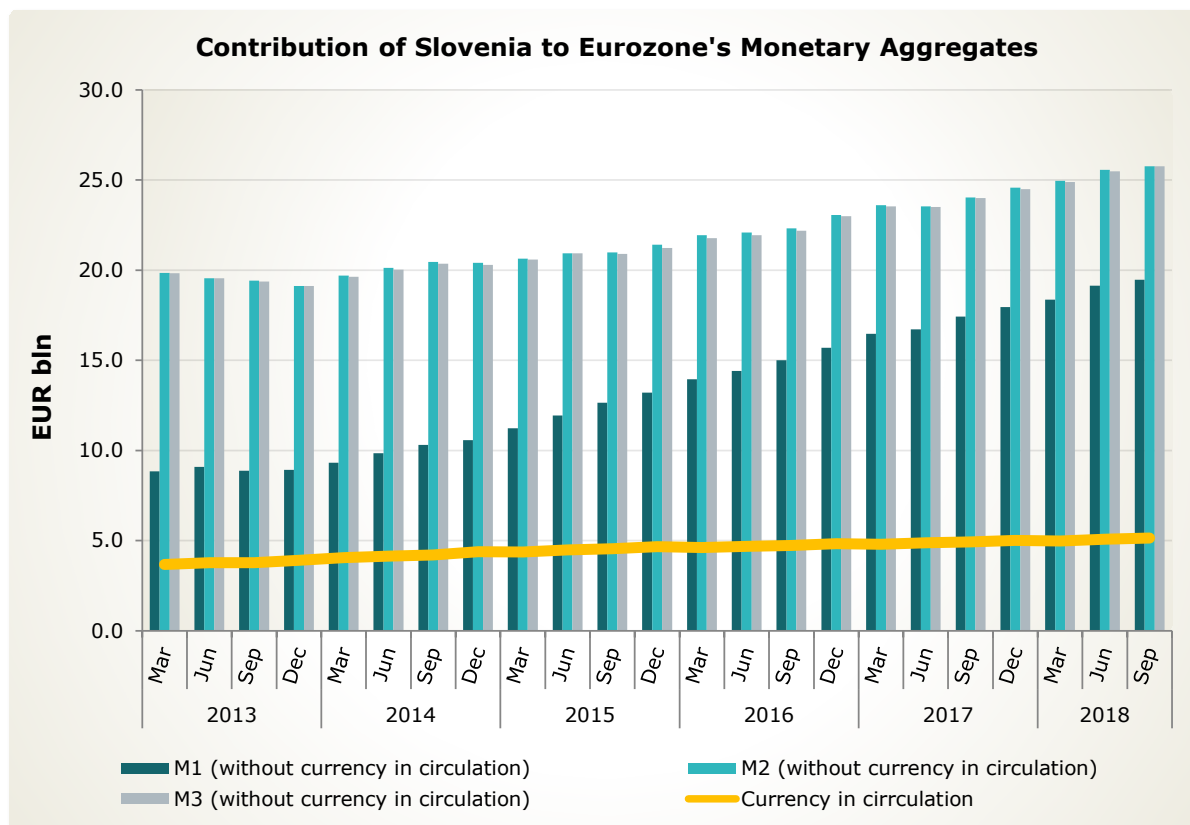
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 25.757 bln, without currency in circulation, at the end of September 2018, up 7.3% y/y, according to BSI.

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.

The country's contribution to the M2 aggregate amounted to EUR 25.772 bln, up from EUR 24.041 bln a year earlier.

Contribution to money aggregate M1, or narrow money, jumped by 11.7% y/y to EUR 19.465 bln.



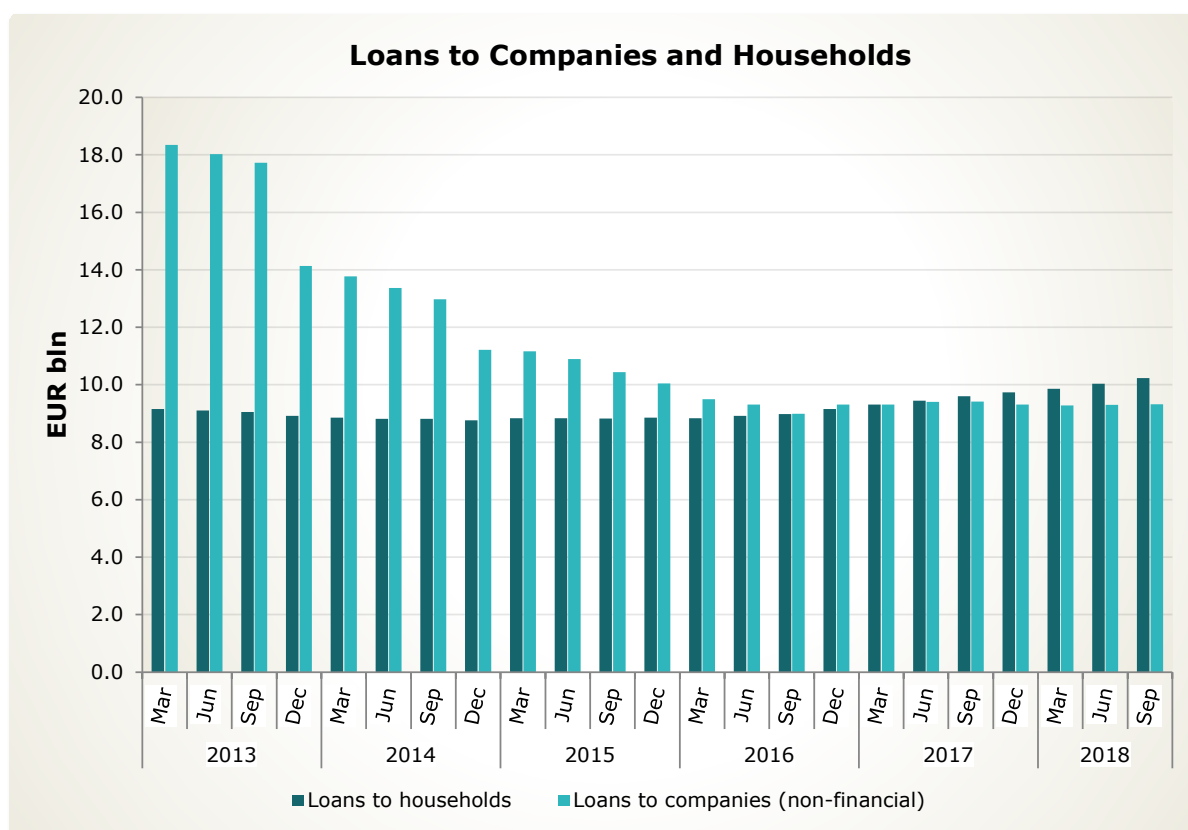
5.3. BANKING

Household loans continued their strong performance in Q3 2018, increasing by 6.5% y/y

Household loans totalled EUR 10.231 bln in Q3 2018 versus EUR 9.603 bln a year ago, according to BSI. House purchasing loans grew by 4.3% y/y to EUR 6.180 bln, while consumer loans went up by 11.3%, reaching EUR 2.626 bln.

Loans to non-financial corporations stood at EUR 9.323 bln, down by EUR 95.0 mln from Q3 2017.

At the end of September 2018, the assets of the banking system totalled EUR 40.488 bln, up 0.8% y/y.



Source: BSI

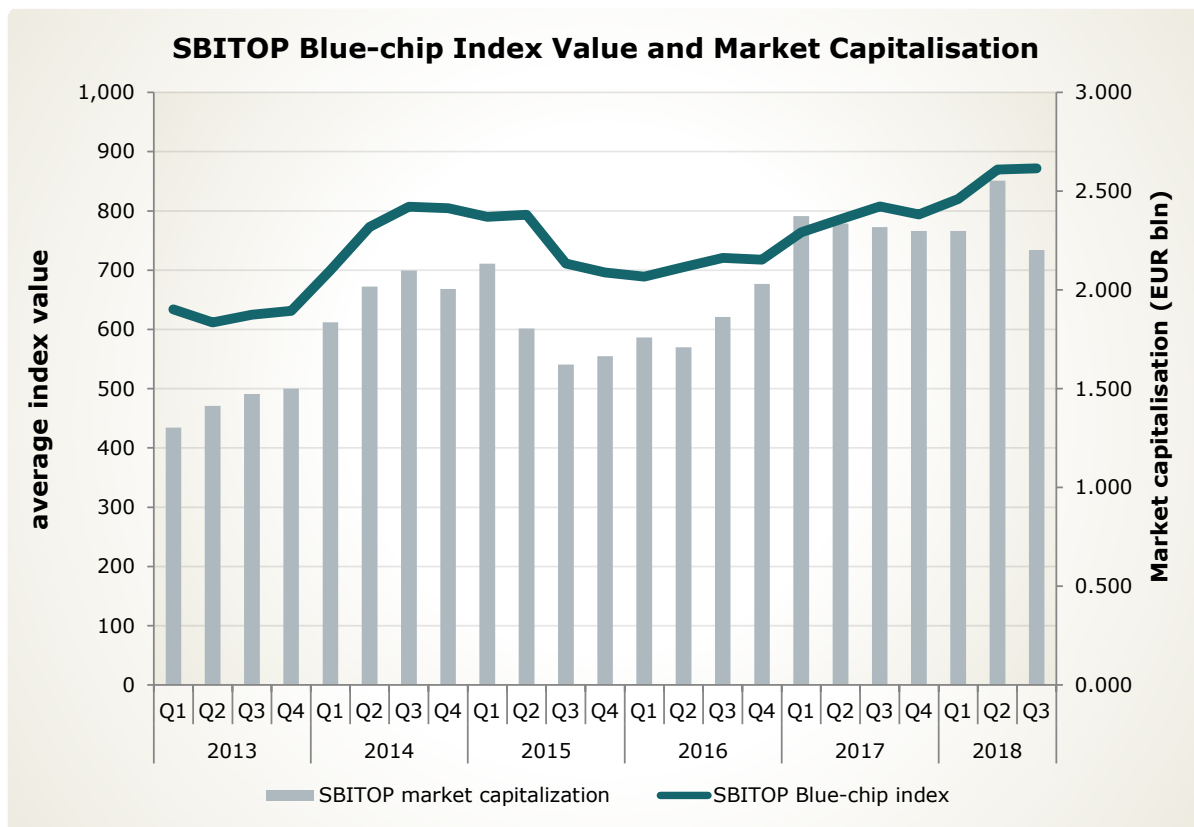
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 0.2% q/q in Q3 2018

The average value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 0.2% q/q to 872 points in Q3 2018.

The total turnover on LJSE's regulated market reached EUR 62.435 mln in Q3 2018 versus EUR 115.9 mln in Q2 2018 and EUR 97.556 mln in Q3 2017.

The number of trades stood at 8,163 in Q3 2018, compared to 11,829 in Q2 2018 and 9,060 in the third quarter of 2017.



7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt decreased by 2.0% y/y to EUR 42.702 bln in September 2018

Slovenia's gross external debt totalled EUR 42.702 bln in September 2018, according to BSI. It fell by EUR 851.0 mln, or 2.0%, compared to the same month of 2017, according to SURS data.

Government debt decreased to EUR 21.087 bln as of September 2018 from EUR 23.296 bln in the same month of the previous year. Long-term liabilities amounted to EUR 29.458 bln, or 69.0% of the total debt, while short-term liabilities totalled EUR 9.366 bln, equal to 21.9% of the total debt.

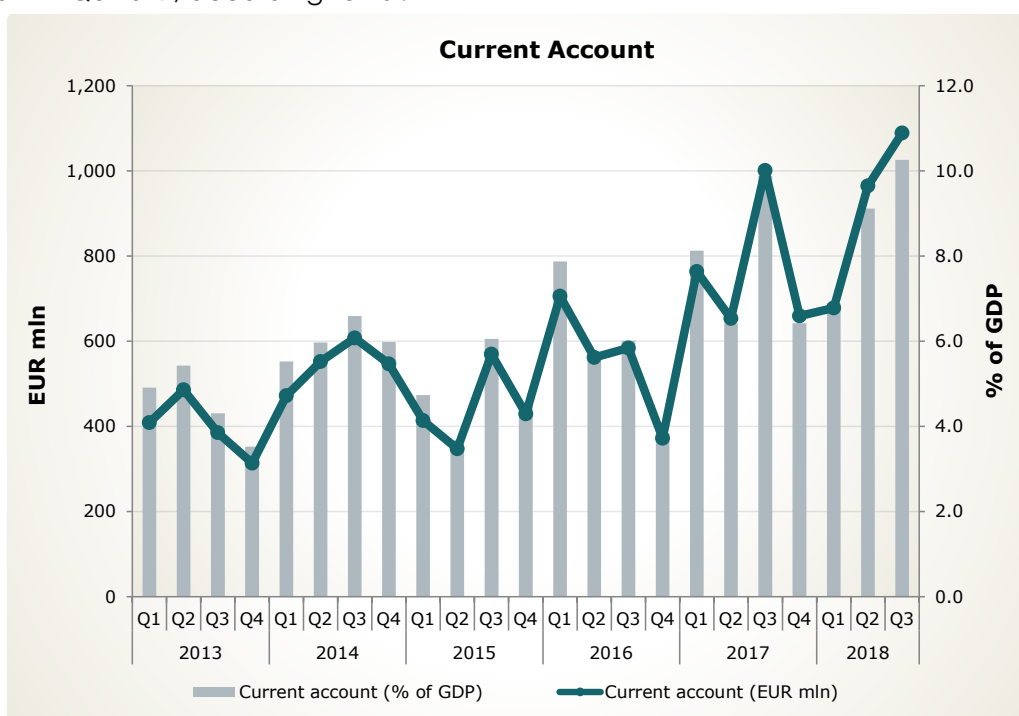


Source: BSI

7.2. BALANCE OF PAYMENTS

Current account surplus grew by 8.8% y/y in Q3 2018

Slovenia's current account surplus grew to EUR 1.089 bln in Q3 2018, up by 8.8% from EUR 1.001 bln in Q3 2017, according to BSI.

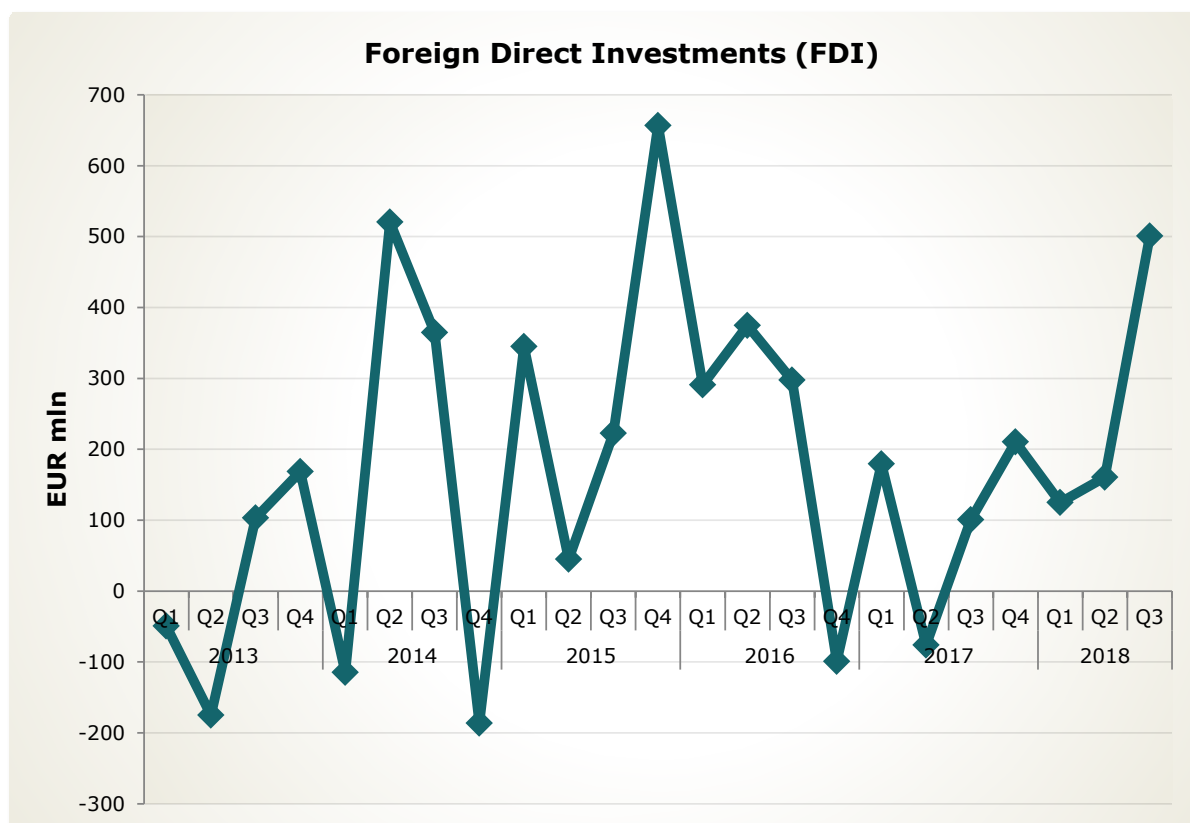


Source: BSI

7.3. FDI

Foreign direct investments reached a three-year peak in Q3 2018

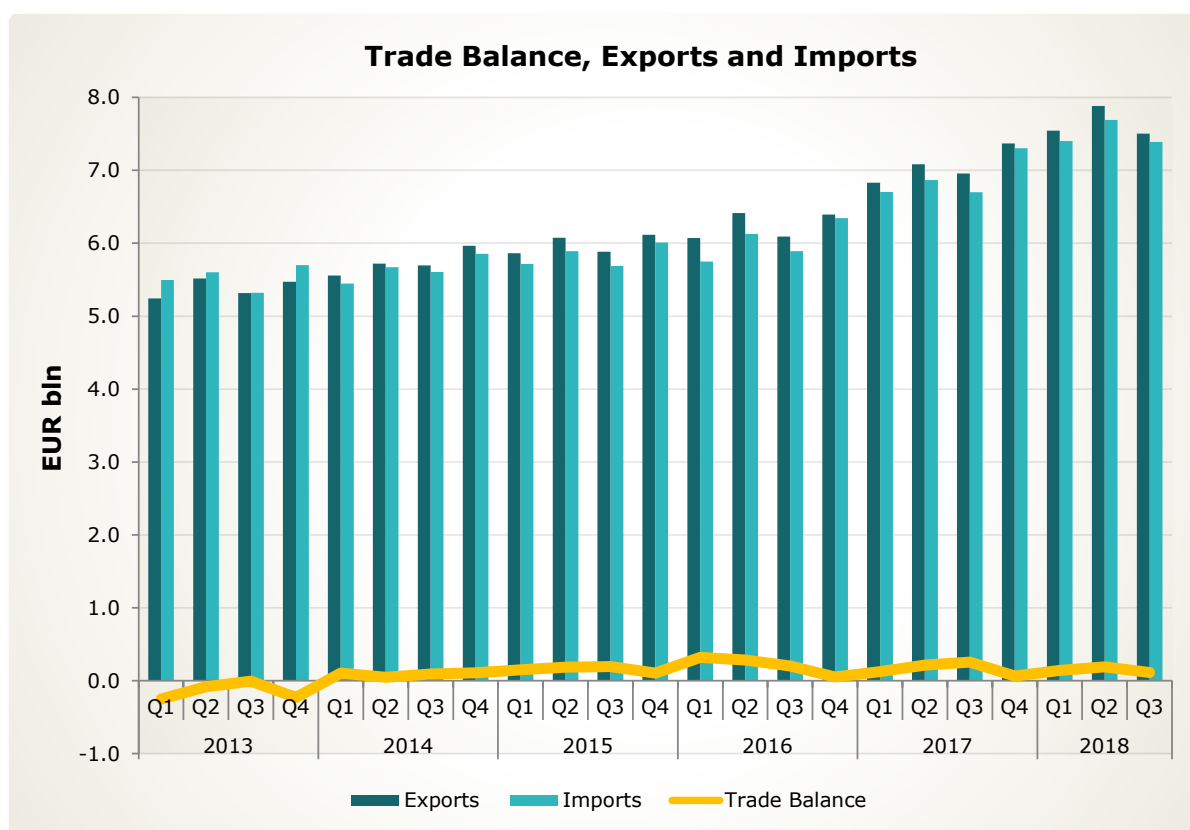
In Q3 2018 FDI inflow in the Slovenian economy amounted to EUR 500.7 mln, marking a fivefold y/y jump from EUR 100.7 mln in Q3 2017, according to central bank data. Their share increased to 4.7% of the quarter's real GDP, up from 1.5% in Q2 2018 and 1.0% in the corresponding quarter of the previous year.



7.4. FOREIGN TRADE

Foreign trade surplus halved in Q3 2018

In Q3 2018, the trade surplus went down by 55.2% y/y to EUR 113.8 mln, according to SURS data. The annual growth in exports was 7.8% and they reached EUR 7.501 bln, while imports went up faster, by 10.2% to EUR 7.387 bln.



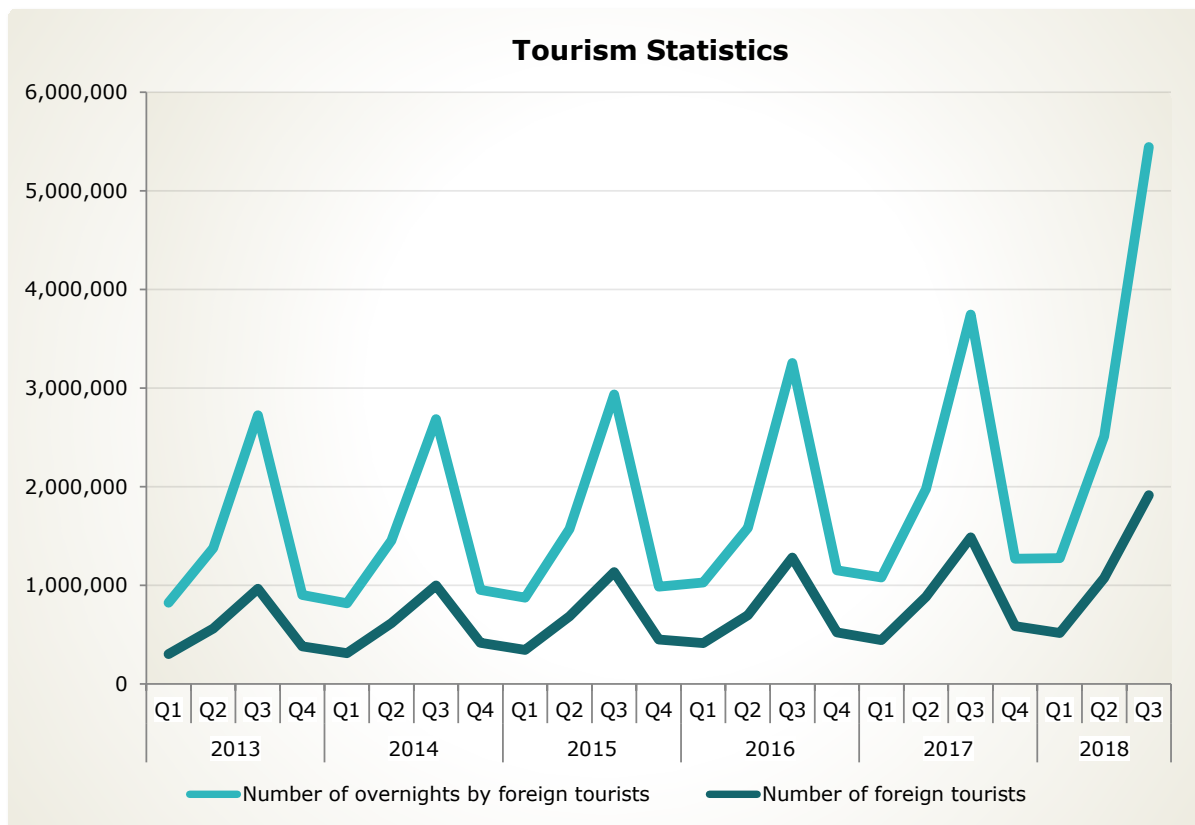
Source: SURS

7.5. TOURISM

Number of foreign tourist overnights soared by 45.3% y/y in Q3 2018

Slovenia is enjoying a tourist boom with overnights of foreigners jumping by an annual 45.3% to 5.445 million in Q3 2018, according to SURS data. The share of foreign tourists in the total number of overnights was 78.0%, up from 73.1% in Q3 2017.

The number of foreign tourists also grew, by 28.7%, to 1.916 million in Q3 2018.



8. MAJOR DEVELOPMENTS

Turnover from electronic communication services in Slovenia rises 3.0% in 2017

Sep 27, 2018

The total turnover from electronic communication services in Slovenia grew to EUR 1.174 bln in 2017, up 3.0% year-on-year, SURS announced in September 2018.

[Read the full story here](#)

Slovenia revises up 2017 general govt surplus to EUR 28 mln

Sep 25, 2018

Slovenia's general government sector saw a surplus of EUR 28 mln equivalent to 0.1% of the GDP in 2017, according to revised data released by SURS in September 2018.

[Read the full story here](#)

Slovenia invites bids for EUR 94.4 mln in claims against 53 debtors

Sep 18, 2018

Slovenia's Bank Assets Management Company(DUTB), invited binding bids in September 2018 for the purchase of EUR 94.4 mln of overdue claims held against 53 legal entities.

[Read the full story here](#)

Slovenian employers report world's third strongest hiring plans for Q4 2018

Sep 11, 2018

Slovenian employers report upbeat hiring intentions for the final quarter of 2018, indicating confidence on their part is among the strongest both regionally and globally, recruitment company ManpowerGroup announced in September 2018.

[Read the full story here](#)

Slovenia takes Croatia to EU Court of Justice over border dispute

Jul 16, 2018

Slovenia's government said it has filed a lawsuit against Croatia with the Court of Justice of the European Union over Zagreb's refusal to recognise an arbitration ruling in the border dispute between the two countries.

[Read the full story here](#)

Slovenia ranks most innovative country in SEE – GII

Jul 13, 2018

Slovenia scored highest in Southeastern Europe (SEE) in the Global Innovation Index (GII) ranking published by the Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO) in September 2018.

[Read the full story here](#)

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