

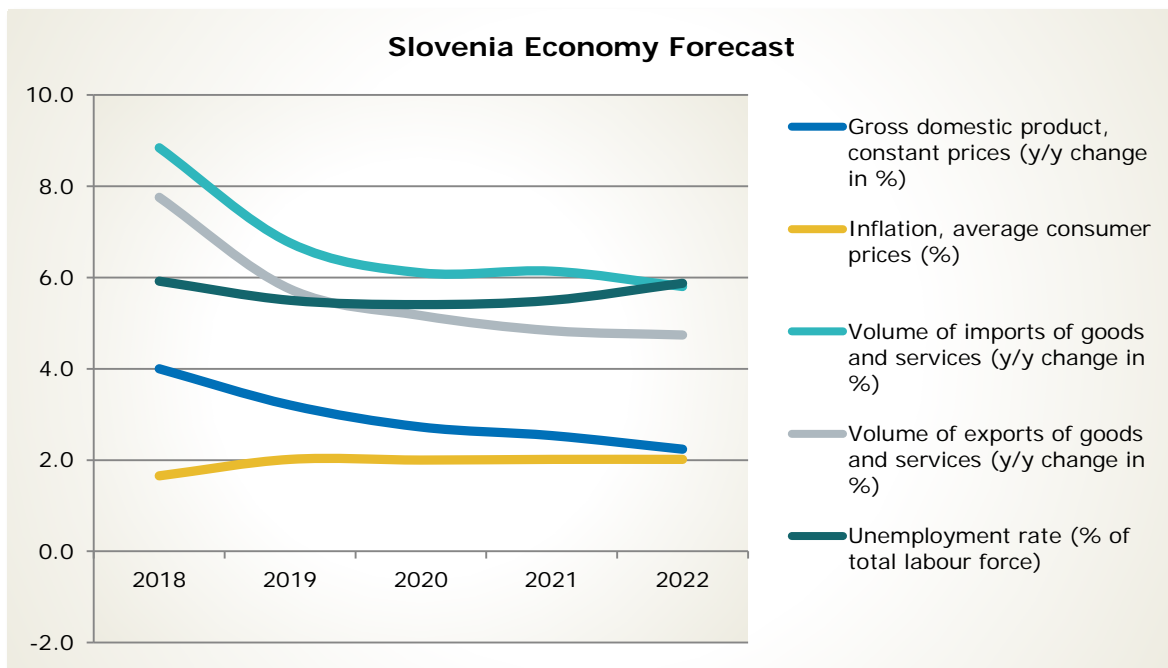
SLOVENIA ECONOMY REPORT 2017

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	8
2.4. INDUSTRIAL SALES.....	9
2.5. WHOLESALE/RETAIL	10
2.6. INFLATION.....	11
3. LABOUR MARKET.....	13
4. CONSTRUCTION AND REAL ESTATE	14
5. MONEY SUPPLY AND BANKING SYSTEM.....	14
5.1. EUR EXCHANGE RATE.....	14
5.2. MONETARY AGGREGATES	14
5.3. BANKING	15
6. CAPITAL MARKETS	16
7. EXTERNAL SECTOR.....	17
7.1. FOREIGN DEBT	17
7.2. BALANCE OF PAYMENTS	18
7.3. FOREIGN TRADE	19
7.4. TOURISM	20
8. MAJOR DEVELOPMENTS.....	20

1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF 2017	
GDP Growth	5.0% y/y
Industrial output	8.0% y/y
Industrial sales	9.7% y/y
Wholesale index	7.6% y/y
Retail trade	1.6% y/y
Average annual inflation	1.7%
Unemployment rate	6.6%
Number of building permits	-2.1% y/y
Household loans	6.3% y/y
SBITOP blue-chip index	9.8% y/y
Gross external debt	EUR 43.46 bln
Current account surplus	EUR 2.771 bln
Foreign trade surplus	EUR 660 mln
Number of foreign tourist overnights	15.0% y/y



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

In 2018, 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% to 2.5%, 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.

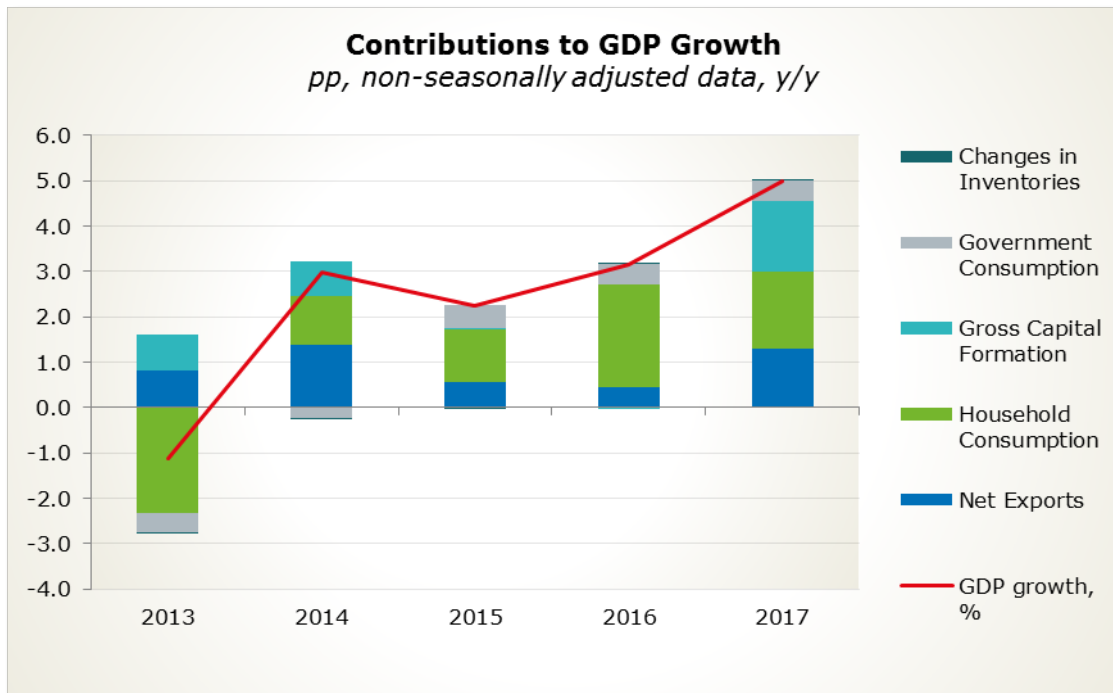
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

The economy gathered pace with 5.0% real growth in 2017, up from 3.1% y/y in 2016

The annual growth rate of the Slovenian economy accelerated to 5.0% in 2017, up from 3.1% y/y in the 2016, according to data of the Statistical Office of the Republic of Slovenia (SURs).

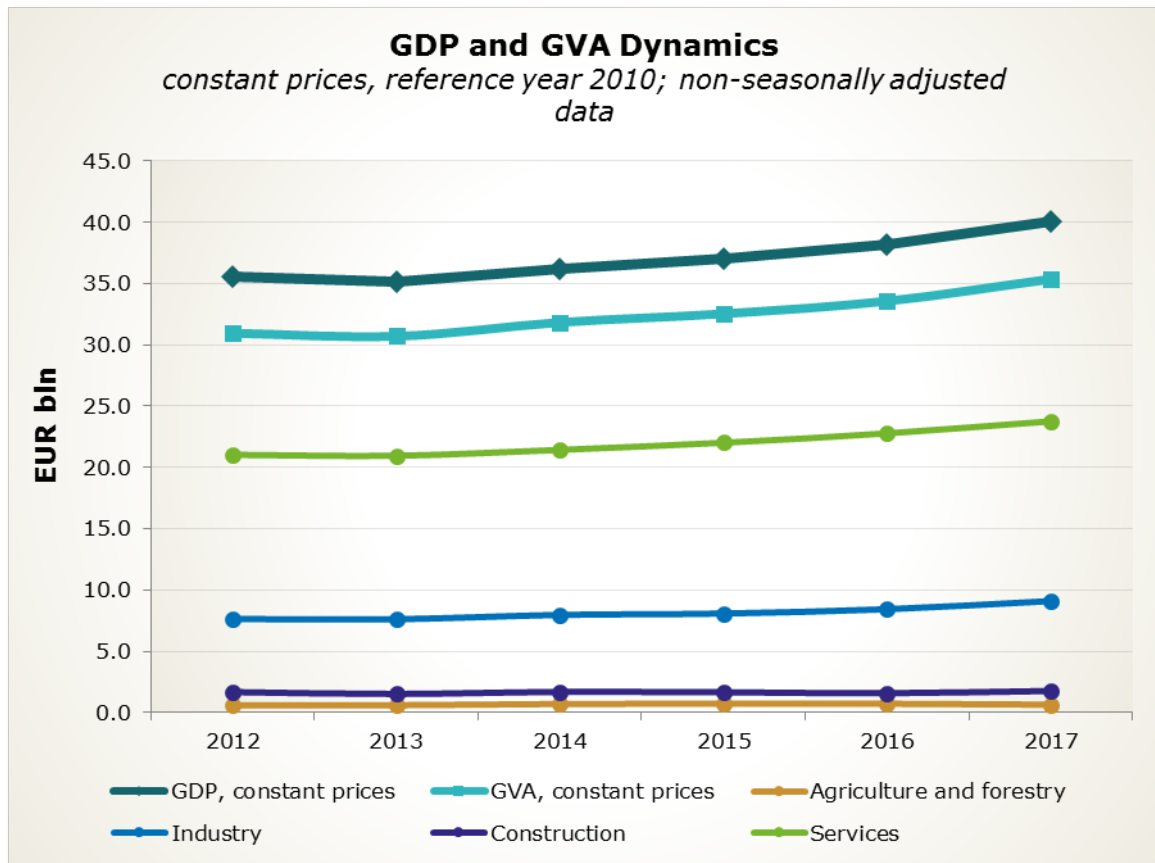
Whereas in 2016, the economy has been driven mainly by household consumption, in 2017 the GDP growth was broadbased with gross capital formation, household consumption and net exports contributing by 1.6 pp, 1.7 pp and 1.3 pp, respectively. In 2017, the Slovenian exports leveraged on the improving economic climate in the Eurozone. During the year, the total exports of goods and services advanced in real terms by 10.6% and compensated for the slowdown of the final consumption which increased by 3.0% y/y in 2017, down from 3.7% in 2016. Gross capital formation increased by 8.4% y/y after stagnating in 2016.



Source: SURS; SeeNews calculations

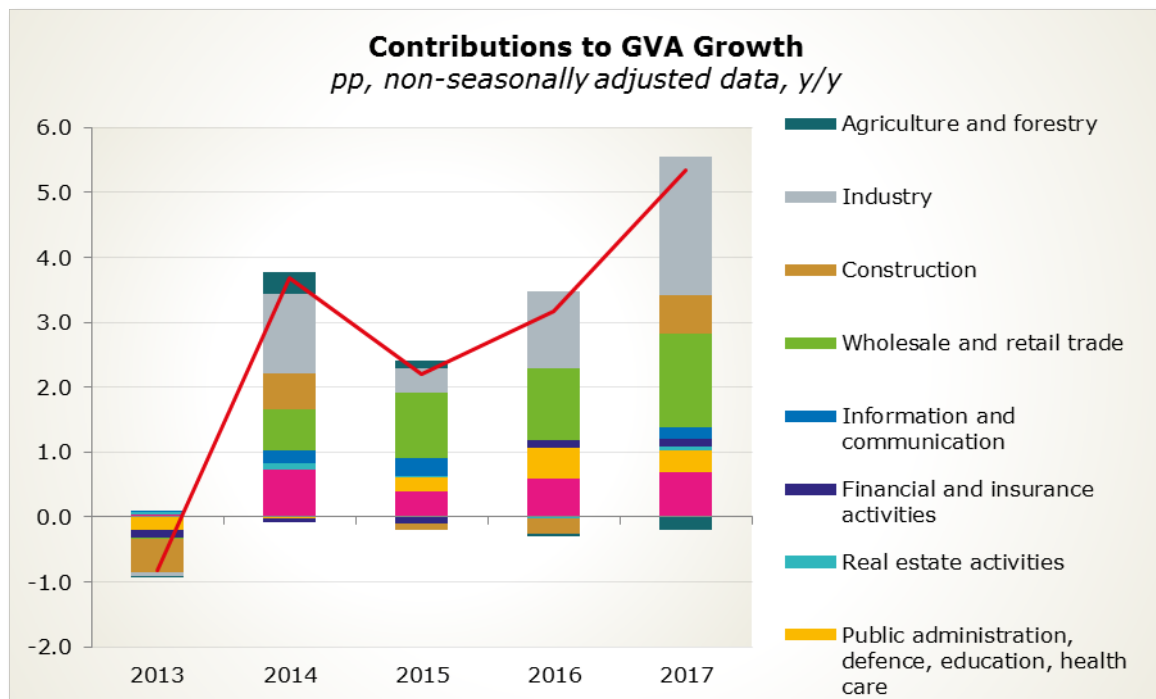
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 5.3% y/y in 2017 and totalled EUR 35.362 bln. The industrial sector grew in value by 7.9% y/y with its share in the GVA structure expanding to 25.7% from 25.1% in 2016. The services sector recorded a 4.3% annual increase, slicing a 67.2% share in the GVA, down from 67.9% in the previous year. The agricultural sector registered an annual decrease of 9.1% and its share in the GVA also fell to 1.9% from 2.2%. The construction sector jumped by 11.3% and its GVA share inched up to 5.0% from 4.7% in 2016.



Source: SURS

The largest contributor to the overall GVA growth in 2017 was the services sector with 2.8 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 the quarter. The industrial sector added 2.1 pp to the GDP increase in 2017.



Source: SORS; SeeNews calculations

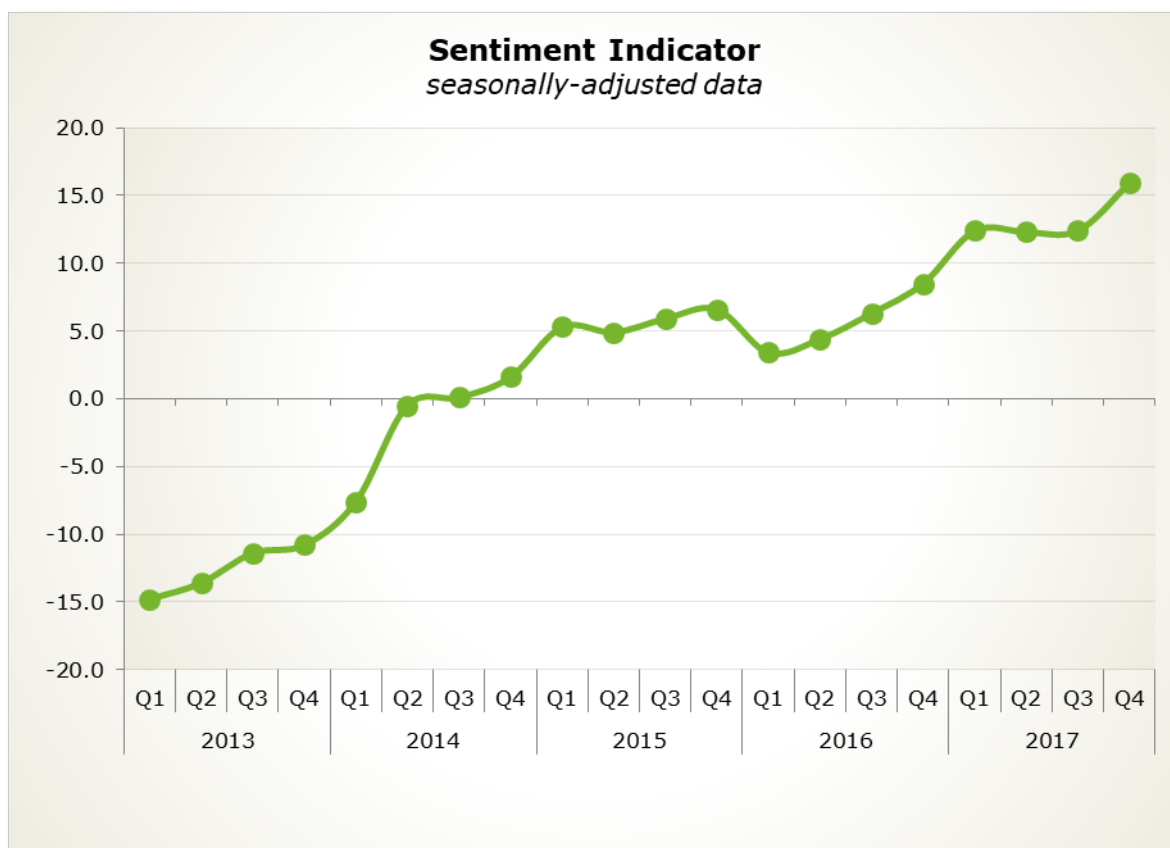
Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. BUSINESS CLIMATE

Sentiment indicator at record high in 2017

The fast economic growth in 2017 supported by household expenditures and external demand led to a surge in sentiment among businesses in the country. In December 2017, the business sentiment indicator was at 15.9 points, almost doubling compared to end-2016, according to SORS.

The average confidence in the final quarter of 2017 strengthened further in all segments of the private sector. At the end of last year, firms in all sectors covered by the survey assessed demand in Q1 2018 as very strong, an indication that economic growth will remain high. At the end of 2017, consumer confidence was also high. Consumers were optimistic with regard to the state of the national economy this year, and are expecting a further fall in unemployment.



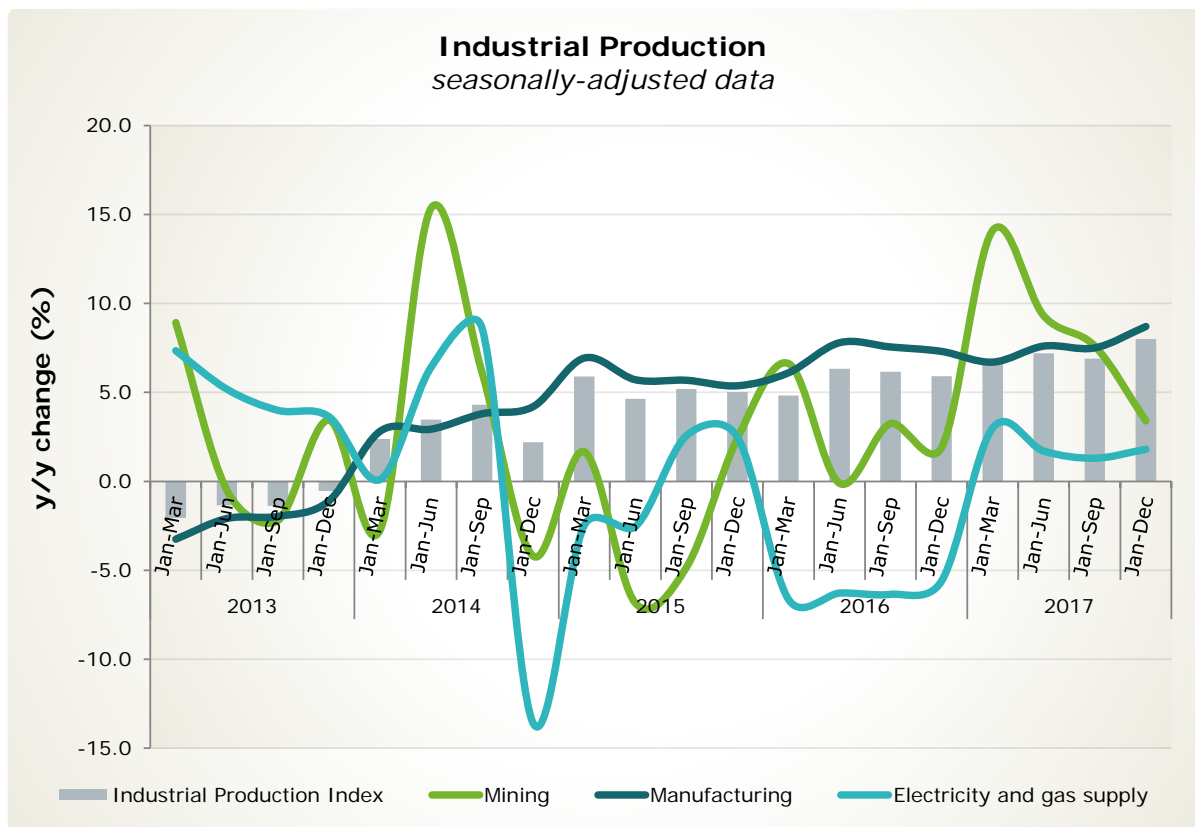
Source: SORS

2.3. INDUSTRIAL OUTPUT

Industrial output up 8.0% y/y in 2017

Industrial output growth accelerated to 8.0% y/y in 2017, up from 6.9% y/y growth in 2016, according to seasonally-adjusted data of SORS. Output in the manufacturing sector expanded by 8.7%, the output of the mining sector grew by 3.4%, while the output of the electricity and gas supply sector increased by 1.8%.

The industrial sector is exploiting the favourable situation on foreign markets. Manufacturers ramped-up production capacities on increased foreign as well as domestic demand. According to The Bank of Slovenia, the high growth in aggregate output is the result of the strengthening of manufacturing of medium-high technological complexity, while output in high-technology manufacturing also began rising again. Output increased in all major sectors of industry with the car industry being the leader in terms of growth.

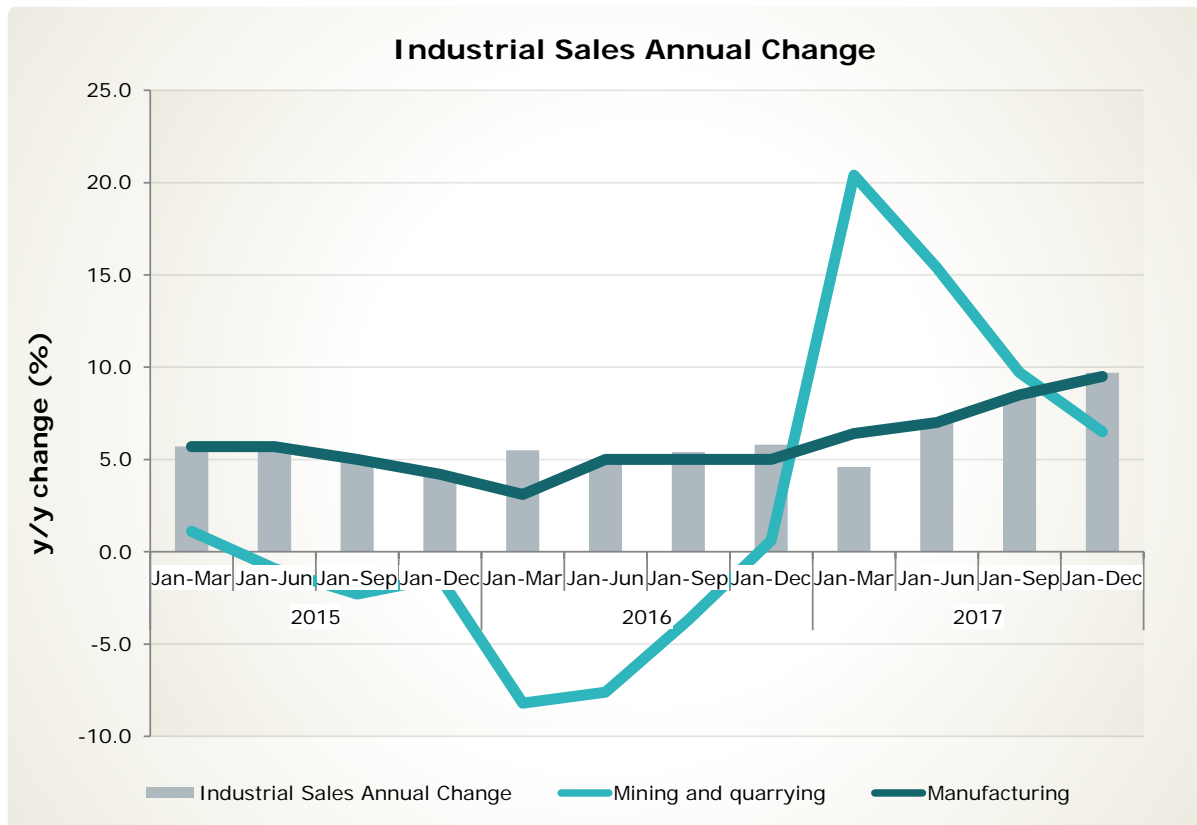


Source: SURS

2.4. INDUSTRIAL SALES

Industrial sales growth speeded up to 9.7% in 2017, up from 8.4% in 2016

The industrial sales in Slovenia rose by real 9.7% y/y in 2017, after increasing by 8.4% in 2016, according to SURS. The indicator jumped by 9.5% in the manufacturing sector, while in the mining and quarrying industry it increased by 6.5%.



Source: SURS

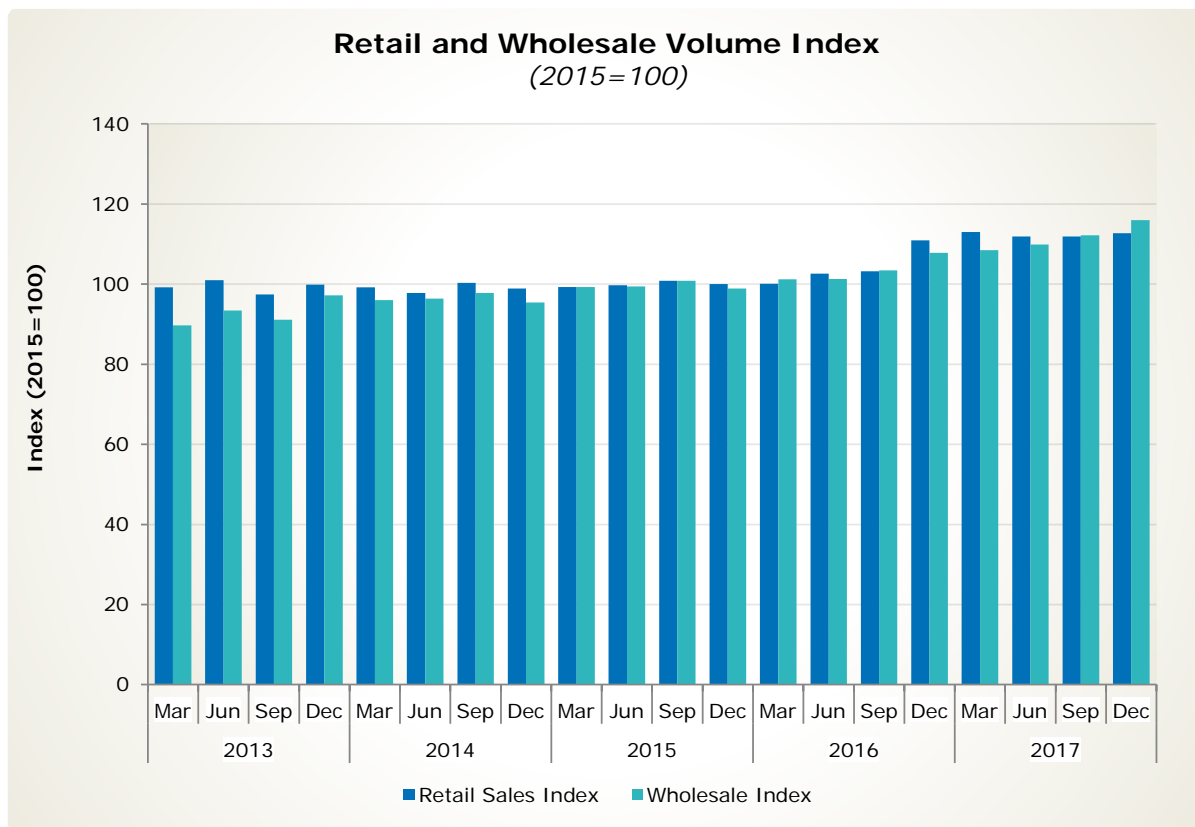
2.5. WHOLESALE/RETAIL

Retail sales slowed down in the final quarter of 2017

In Q4 2017, the retail and wholesale sectors slowed down rates of growth to 1.6% y/y and 7.6% y/y, respectively, from 9.9% and 8.5% y/y growth in the third quarter, according to the retail and wholesale index, calculated by SURS.

For the full 2017, the retail and wholesale sector speed up its growth rates compared to 2016 on average wage increases because of the tightening labour market as well as on the pickup in lending activity, which increased household consumption expenditures.

Retail sales of automotive fuel in stores declined by 6.7% y/y in December 2017, while retail trade of food, beverages and tobacco inched up by 4.0% y/y.



Source: SURS

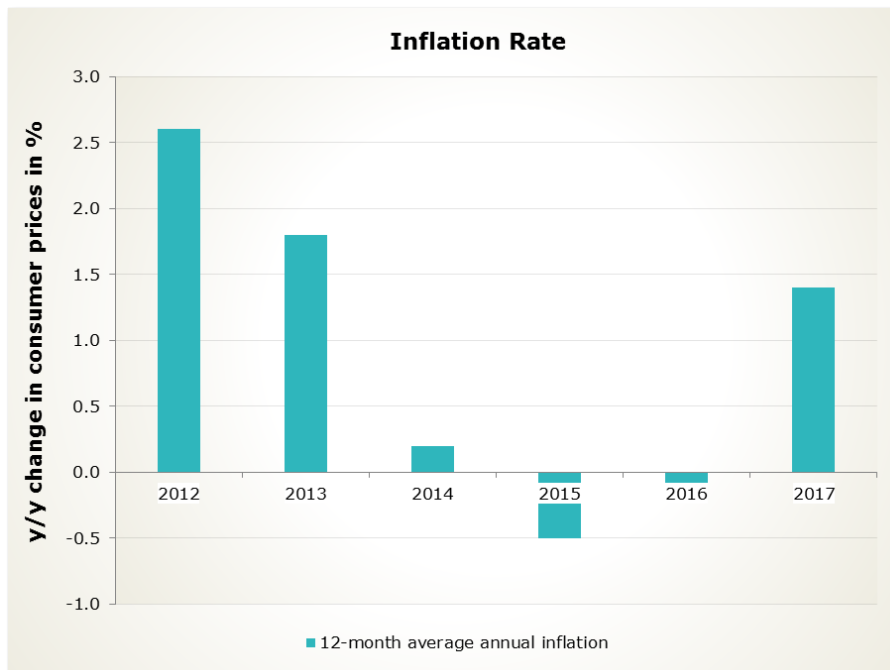
2.6. INFLATION

Average annual inflation at 1.4% in 2017

After experiencing deflation for two consecutive years, Slovenia had an inflationary environment in 2017, exceeding the euro area average, according to data from SURS. Main movements in headline inflation were primarily caused by movements in global oil prices.

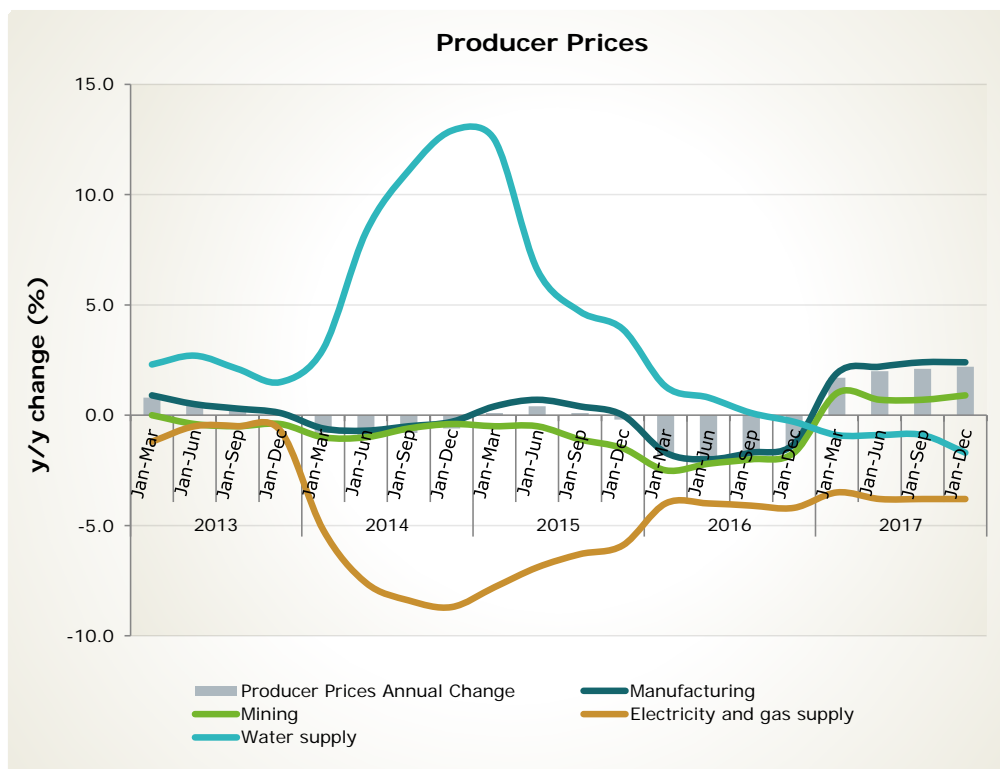
The core inflation indicators increased in the range between 0.7% and 1.1%, below the euro area average, according to Bank of Slovenia. Core inflation was raised by food prices, while prices of non-energy industrial goods continued to fall, most likely as a result of falling import prices and strong competition in the retail sector. Growth in services prices remained unchanged, despite strong domestic economic activity. Inflation thus remains primarily determined by external factors. In December, consumers' inflation expectations remained significantly above the euro area average, while firms' inflation expectations were comparable to the euro area average, The Bank of Slovenia concluded.

In 2017, the annual average inflation at the segment of food and non-alcoholic beverages came in at 2.2%, the same as on the sector of alcoholic beverages and tobacco. The average prices of clothing and footwear advanced by 0.3% in 2017 compared to 2016, while consumer price at the segment of housing, water, electricity, gas and other fuels moved up by 2.5%.



Source: SURS

Producer prices increased by 2.2% y/y in 2017, compared to an inflation of 2.1% in 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 0.9% y/y. Still, producer prices in electricity and gas supply, and water supply went down, by 3.8% y/y and 1.7% y/y respectively.



Source: SURS

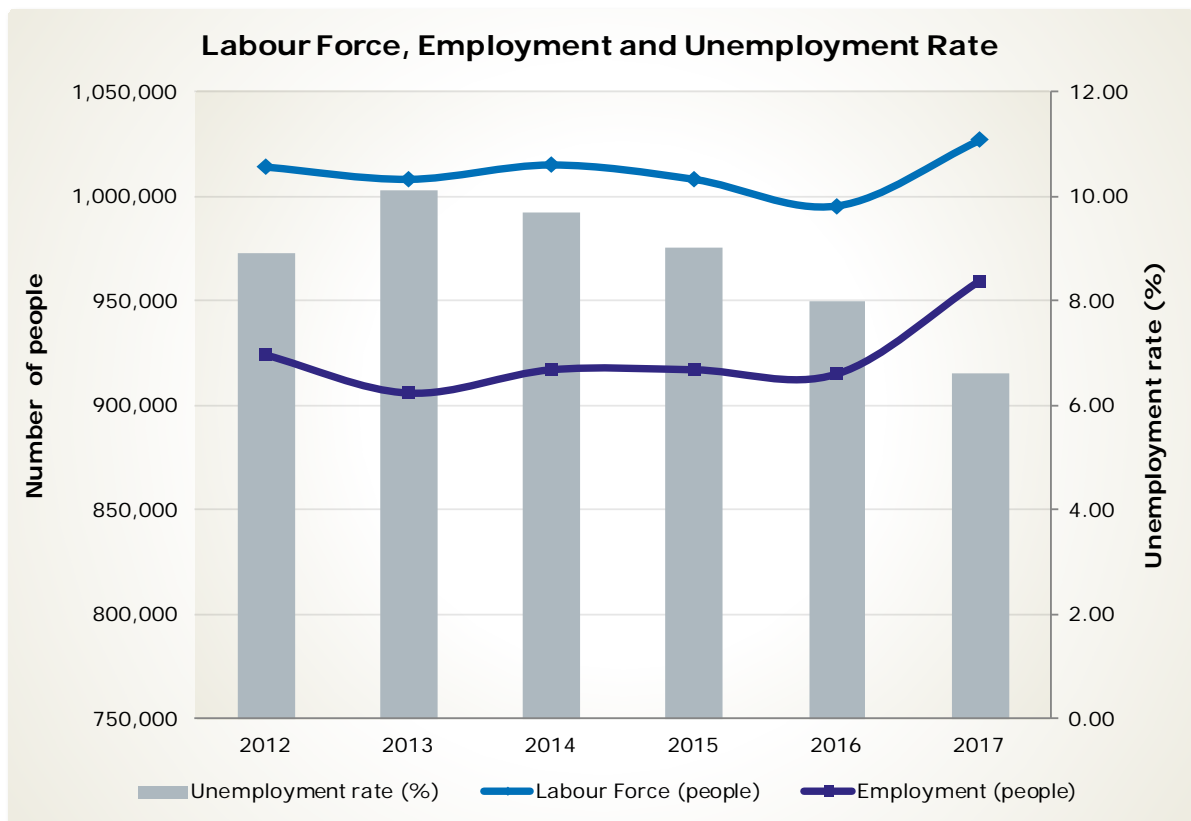
3. LABOUR MARKET

Unemployment rate went down to the pre-crisis levels

The unemployment rate in Slovenia narrowed to 6.6% of the total labour force in 2017 from 8.0% a year earlier, according to data of SURS. Thus, the unemployment rate in Slovenia returned to its pre-crisis levels in 2008-2009. Employment growth remained high and was additionally strengthened by foreign workers. Firms again primarily demanded lower-skilled labour, and hiring was predominantly in sectors with below-average pay. The employed population aged 15 years and older was 959,000, up by 4.8% y/y.

Youth employment continued to improve at a rapid pace – the youth (population aged 15-24) unemployment rate sank to 11.3%, compared to 15.3% a year earlier.

Although structural imbalances are increasing on the labour market, and growth in demand for labour is outpacing growth in supply, labour availability remains higher than in the pre-crisis years of an overheating economy, according to The Bank of Slovenia.



Source: SURS

According to data of SURS, the average monthly net salary in 2017 grew by 3.1% y/y to EUR 1,062. The employed in the public sector earned average monthly net wage of EUR 1,222, an annual increase of 3.1%, while private sector employees earned on average EUR 983, up by 3.4% y/y.

4. CONSTRUCTION AND REAL ESTATE

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

Slovenia has seen a revival in the real estate market in the last two years, which has primarily been reflected in a bounce-back in prices of used housing. Overall, the number of transactions in new-build real estate that the market is still weak, which is confirmed by the low level of investment in residential construction.

The number of building permits issued in Slovenia in 2017 notched down by 2.1% y/y, totalling 6,666, according to SURS data. Permits for housing projects added 1.1% y/y to 2,569 while permits for non-residential and office buildings numbered 4,002, down from 4,148 in 2016.

The total built-up area of the office units, covered by the permits, was 973,609 sq m, up 9.7% y/y. The total built-up area of the housing units increased by 3.1% to 659,150 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 1.1229 in 2017 from USD 1.0714 in 2016, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	2017	2016	2015
USD	1.1229	1.0714	1.1514
GBP	0.8693	0.7950	0.7564
CHF	1.1206	1.0787	1.1428

5.2. MONETARY AGGREGATES

Slovenia contributed EUR 24.502 bln to Eurozone's M3 Monetary Aggregate² in 2017

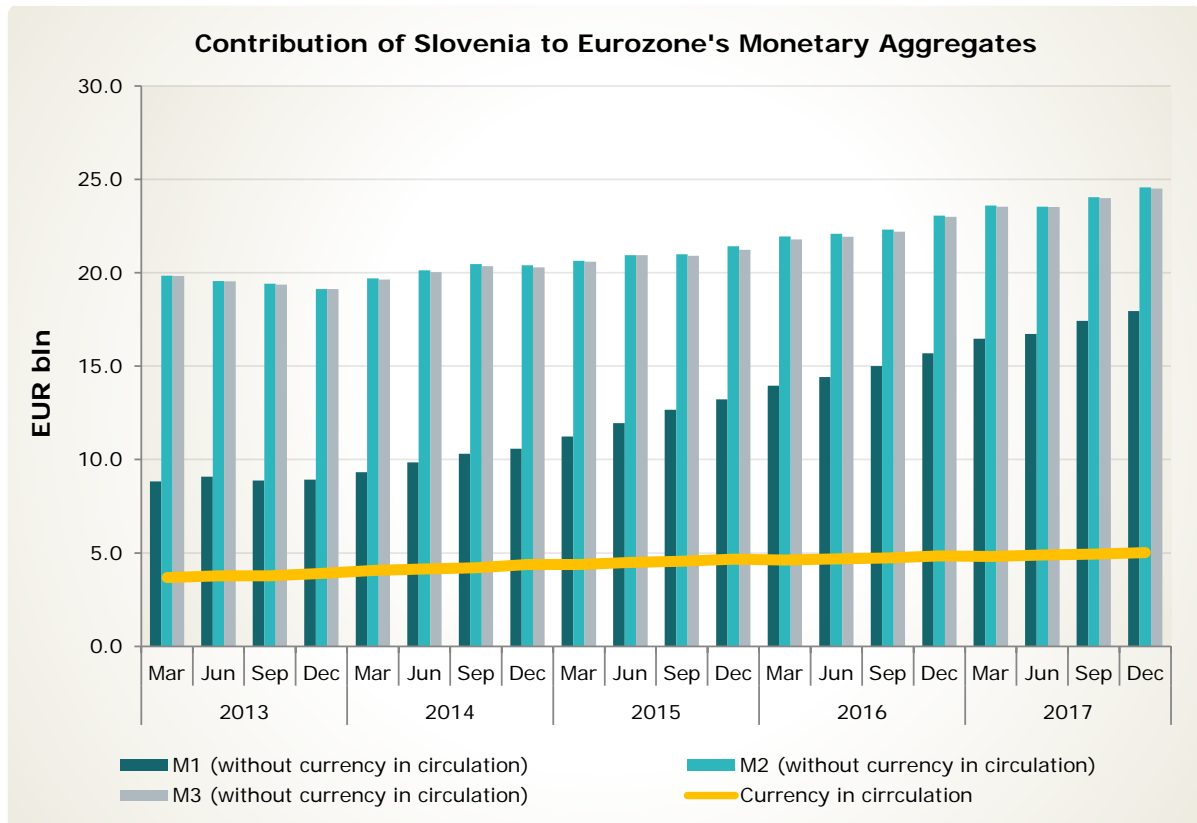
Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 24.502 bln, without currency in circulation, at end-2017, up 6.6% y/y, according to BSI.

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 24.578 bln, up from EUR 22.056 bln a year earlier.

Contribution to money aggregate M1, or narrow money, jumped by 14.4% y/y to EUR 17.952 bln.



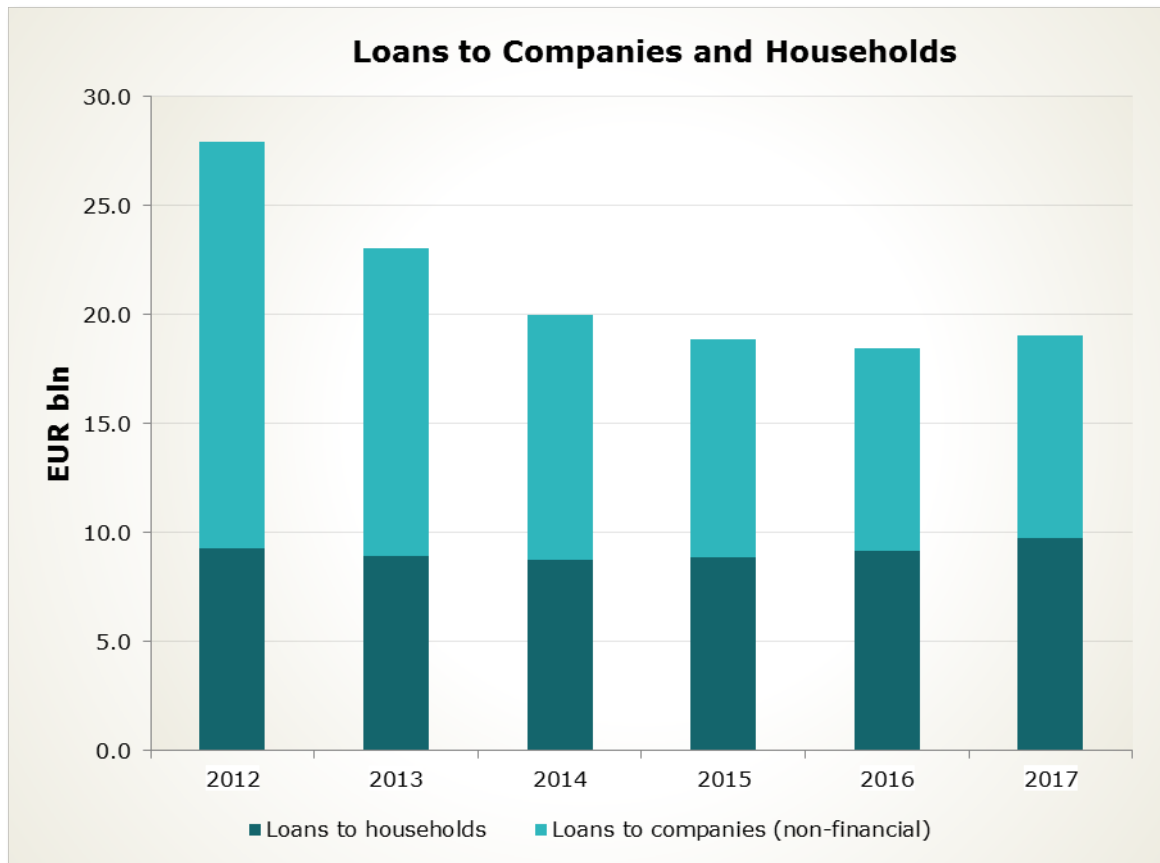
Source: BSI

5.3. BANKING

Household loans up 6.3% y/y in 2017

Household loans totalled EUR 9.734 bln in 2017 versus EUR 9.154 bln a year ago, according to BSI. House purchasing loans grew by 4.5% y/y to EUR 5.927 bln, while consumer loans went up by 12.5%, reaching EUR 2.411 bln. Loans to non-financial corporations stood to EUR 9.310 bln, unchanged compared to 2016.

At the end of 2017, the assets of the banking system totalled EUR 40.428 bln, which was an 0.6% increase in comparison to 2016.



Source: BSI

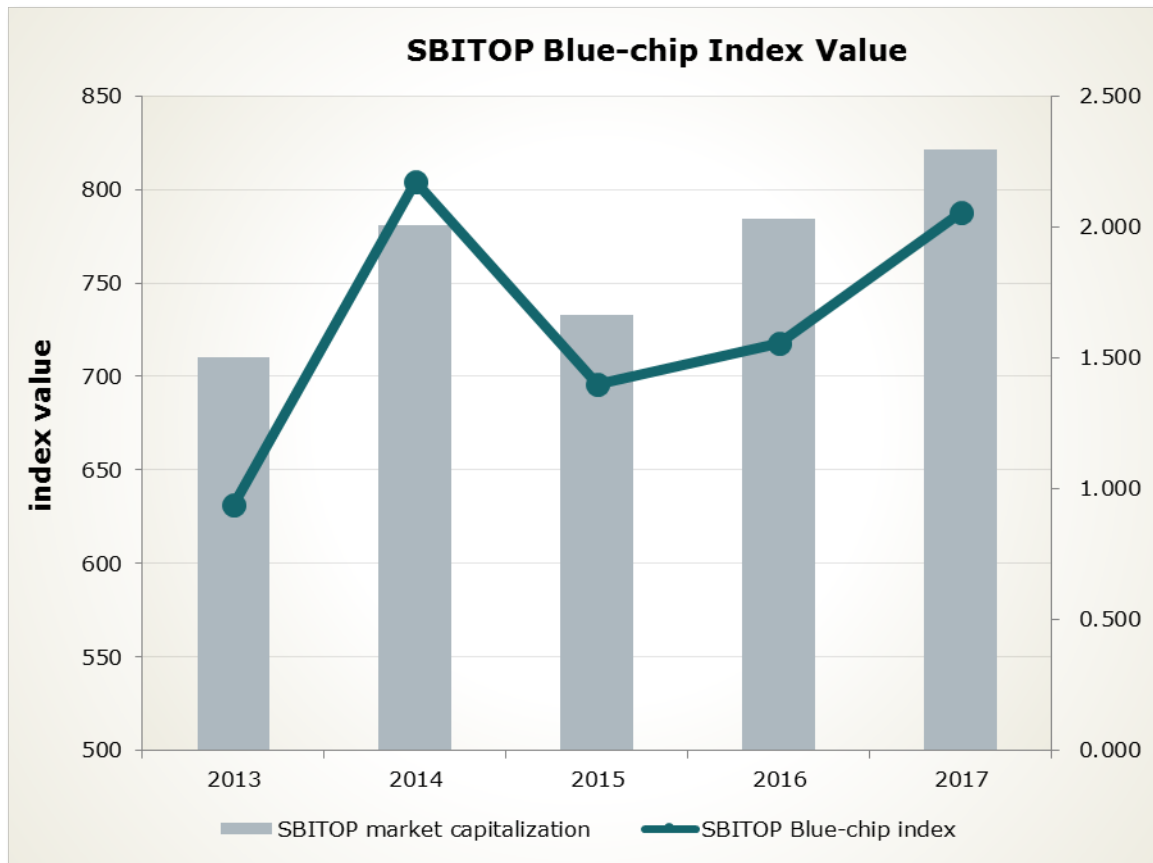
6. CAPITAL MARKETS

Blue-chip index SBITOP went up by 9.8% y/y in 2017

The value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 9.8% q/q to 788 points as of end-2017.

The total turnover on LJSE's regulated market reached EUR 356.0 mln in 2017 versus EUR 333.6 mln in 2016.

The number of trades stood at 94,404, compared to 85,191 in 2016.



Source: LSE

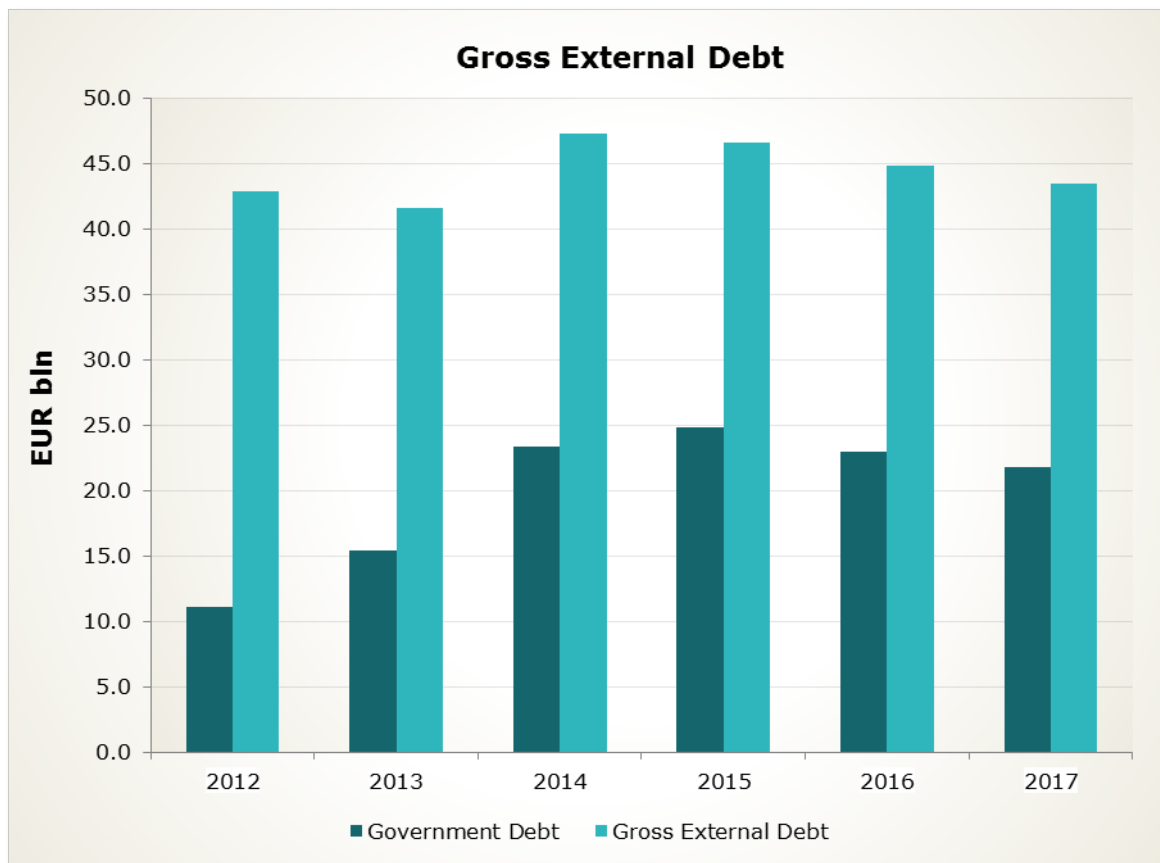
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt narrowed by 3.0% y/y to EUR 43.460 bln at end of 2017

Slovenia's gross external debt totalled EUR 43.460 bln at the end of 2017, according to BSI. It fell by 3.0%, or EUR 1.345 bln, compared to December 2016.

Government debt decreased to EUR 21.777 bln from EUR 22.953 bln December 2016. As of end-2017 long-term liabilities amounted to EUR 30.372 bln, or 69.9% of the total debt, while short-term liabilities totalled EUR 9.438 bln, equal to 21.7 % of the total debt.



Source: BSI

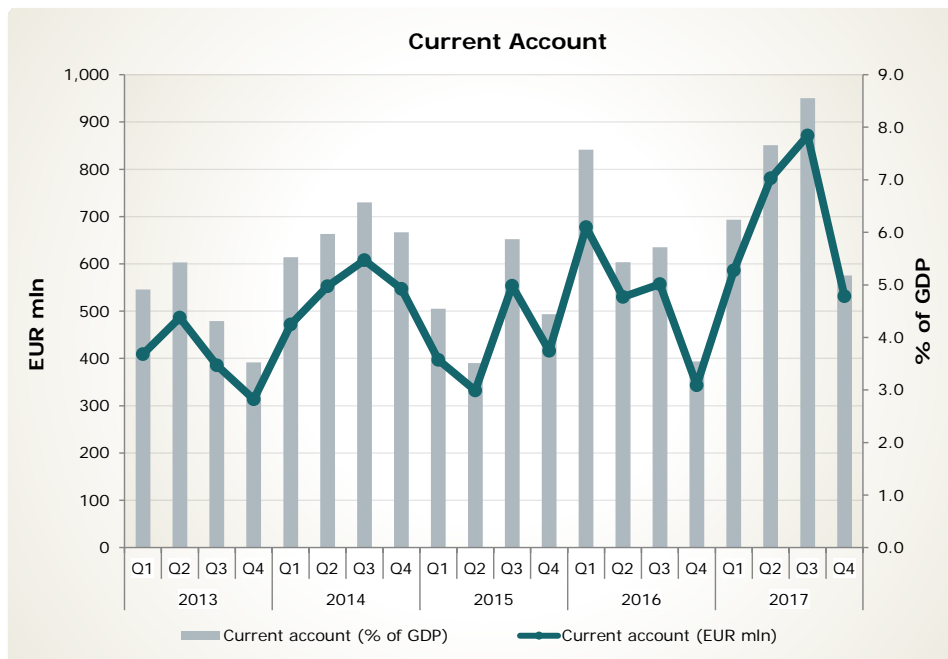
7.2. BALANCE OF PAYMENTS

Current account surplus jumped by a third in 2017

Slovenia's current account surplus widened to EUR 2.77 bln in 2017, up by 30% from EUR 2.1 bln in 2016, according to BSI.

The expansion of the current account surplus was a result mainly from an annual increase in the trade surplus of services by EUR 392 mln, or 18%, in 2017. In the same time, the deficit of the primary and secondary income accounts shrank by 15% and 18% y/y, respectively.

The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a surplus of 7.0% of GDP in 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.



Source: BSI

7.3. FOREIGN TRADE

Foreign trade surplus shrank by 23% y/y in 2017 on faster growth in imports

In 2017, imports of goods increased faster than exports and the trade surplus went down by 23% y/y to EUR 660 mln, according to SURS data. Exports went up by 13% y/y to EUR 28.222 bln, while imports increased by 14.3% y/y to EUR 27.562 bln.



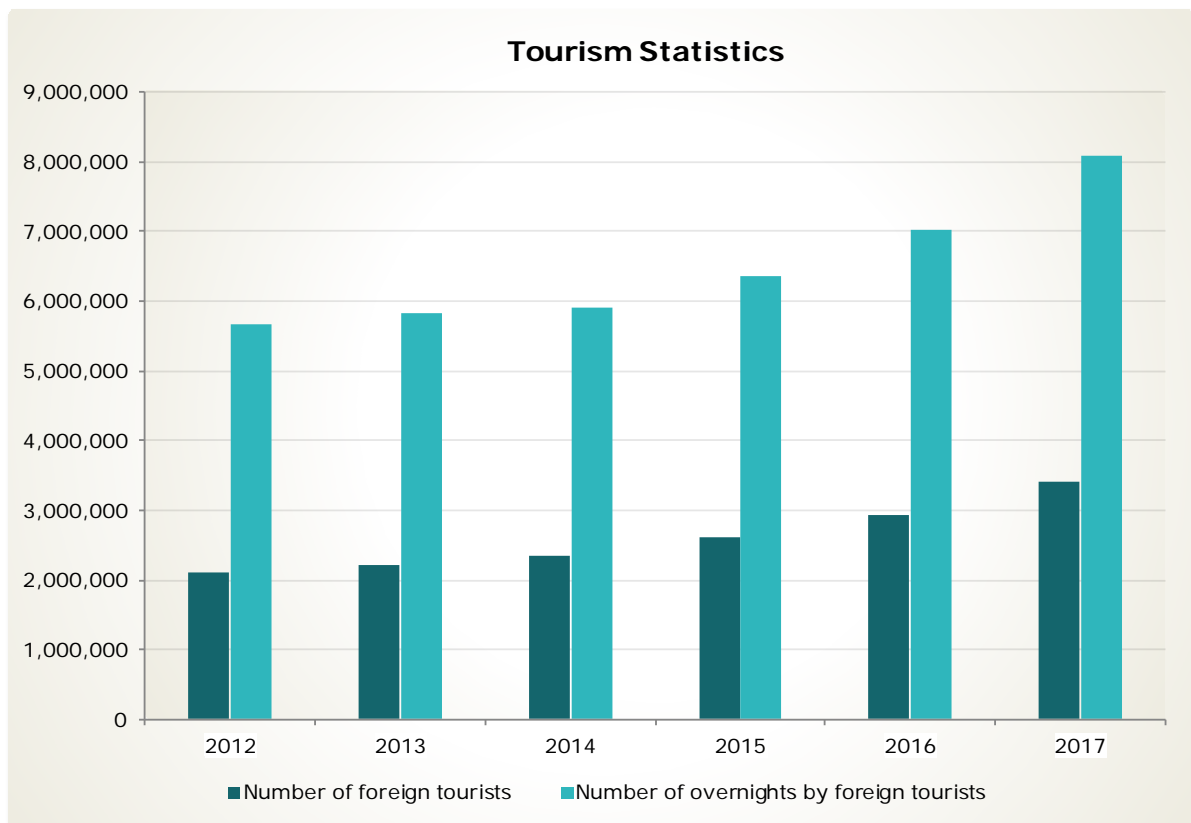
Source: SURS

7.4. TOURISM

Number of foreign tourist overnights up by 15.0% y/y in 2017

Tourist overnights of foreigners grew by an annual 15.0% to 8,077,118 in 2017, according to SURS data. The share of foreign tourists in the total number of overnights was 67.4%, up from 65.2% in 2016.

The number of foreign tourists grew even faster, by 16.7% to 3,405,687.



Source: SURS

8. MAJOR DEVELOPMENTS

Slovenia's Fund of Funds receives first EUR 63.250 mln from EU

Dec 13, 2017

Slovenia's Fund of Funds (FOF), set up by the country's economy ministry and the National Promotional Bank SID Bank, has received the first EUR 63.250 mln of an expected EUR 253.0 mln in refundable European cohesion funding, according to the government.

[Read the full story here](#)

Slovenia prepares to request EC to defer NLB sale for three years

Dec 1, 2017

The Slovenian government has begun drafting an official request for renegotiation of the commitment to sell a stake in Nova Ljubljanska Banka (NLB), with the aim to seek a three-year deferral of the sale from the European Commission.

Read the full story [here](#)

Slovenia needs to improve education to boost SME performance - EC

Nov 24, 2017

Slovenia's small and medium-sized companies (SMEs) face the challenge of finding qualified staff which calls for an urgent revamp of the country's education system, according to the European Commission.

Read the full story [here](#)

Slovenia introducing tourism promotion tax

Nov 17, 2017

Slovenia's government has adopted a draft bill aimed to encourage development of tourism at the national level.

Read the full story [here](#)

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