

## **SLOVENIA ECONOMY REPORT** 2018



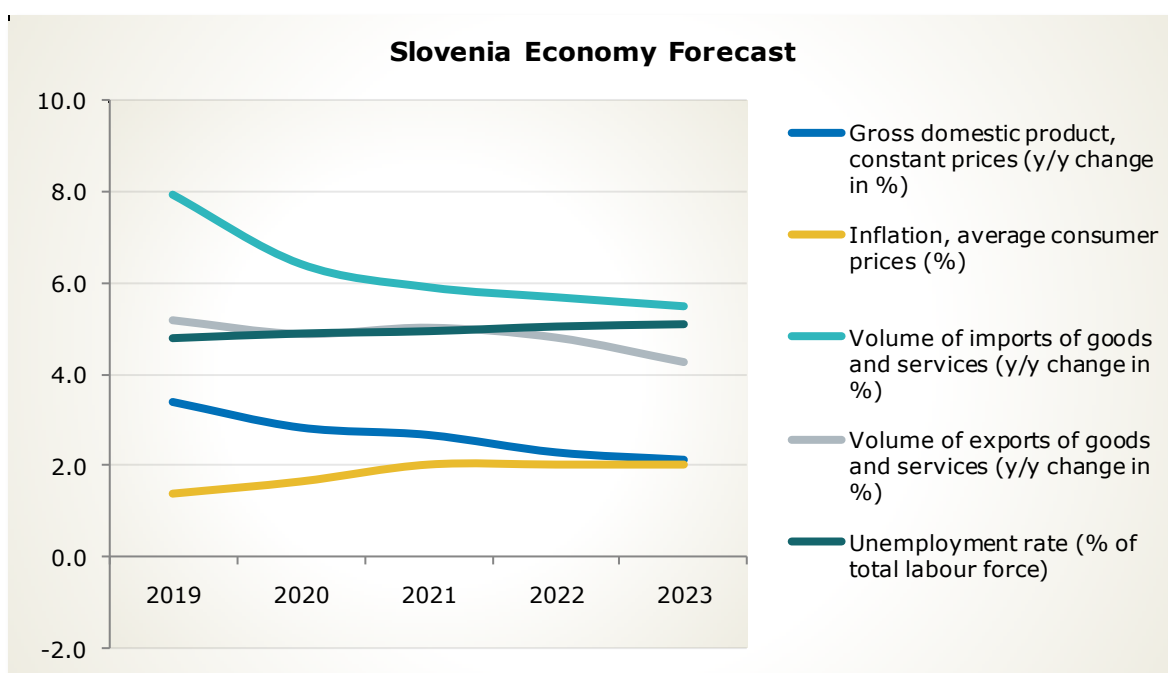
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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

SLOVENIA – MACROECONOMIC SNAPSHOT AS OF 2018	
<b>GDP Growth</b>	4.5% y/y
<b>Industrial output</b>	4.6% y/y
<b>Industrial sales</b>	4.6% y/y
<b>Wholesale index</b>	12.4% y/y
<b>Retail trade</b>	11.5% y/y
<b>Average annual inflation</b>	1.7%
<b>Unemployment rate</b>	5.1%
<b>Number of building permits</b>	-4.2% y/y
<b>Household loans</b>	6.5% y/y
<b>SBITOP blue-chip index</b>	7.1% y/y
<b>Gross external debt</b>	EUR 42.483 bln
<b>Current account surplus</b>	EUR 3.203 bln
<b>Foreign trade surplus</b>	EUR 164.2 mln
<b>Number of foreign tourist overnights</b>	15.4% y/y



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

In 2019, the Slovenian economy will rise by 3.4%, a slowdown compared to 2018 due to weaker exports demand and increasing capacity constraints, according to IMF projections. In the medium term 2020-2023, growth should slow down to 2.1% – 2.8%, 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. The current account surplus will start declining on the strength of domestic demand outpacing exports. 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 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 2018*

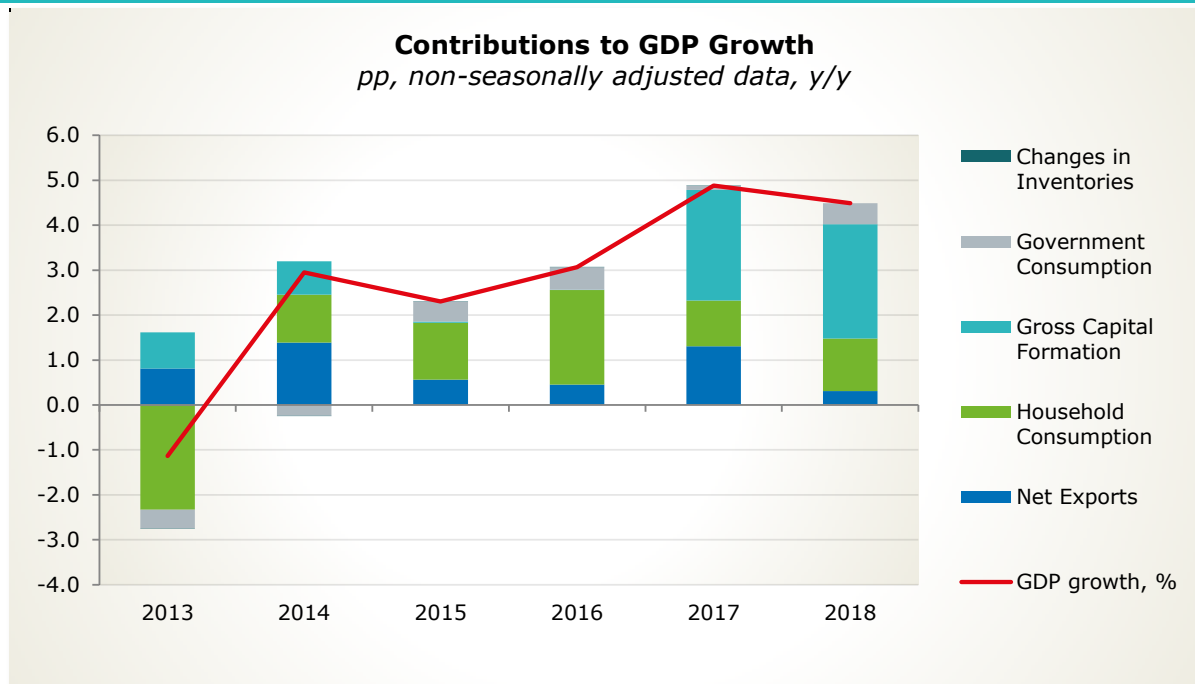
The annual growth rate of the Slovenian economy slowed down to 4.5% in 2018, down from 4.9% y/y in 2017, according to data of the Statistical Office of the Republic of Slovenia (SURS).

The main reason for the slowdown during 2018 was the weaker position of final consumption. In the same time, imports of goods and services accelerated and rose above export increase rate in 2018. This resulted in a slight positive contribution of the net exports of 0.3 pp to the total GDP expansion, compared to the contribution of 1.3 pp in 2017.

In 2018, final consumption grew in real terms by 2.3% y/y, due to the growth in government consumption by 2.6% on the year, while household consumption increased by 2.2% in real terms.

The most positively contributing factor was gross capital formation, which added 2.5 pp to the annual GDP growth in 2018. This brings benefits for the long-term potential of the Slovenian economy, as investments in fixed assets add to the production potential of businesses.



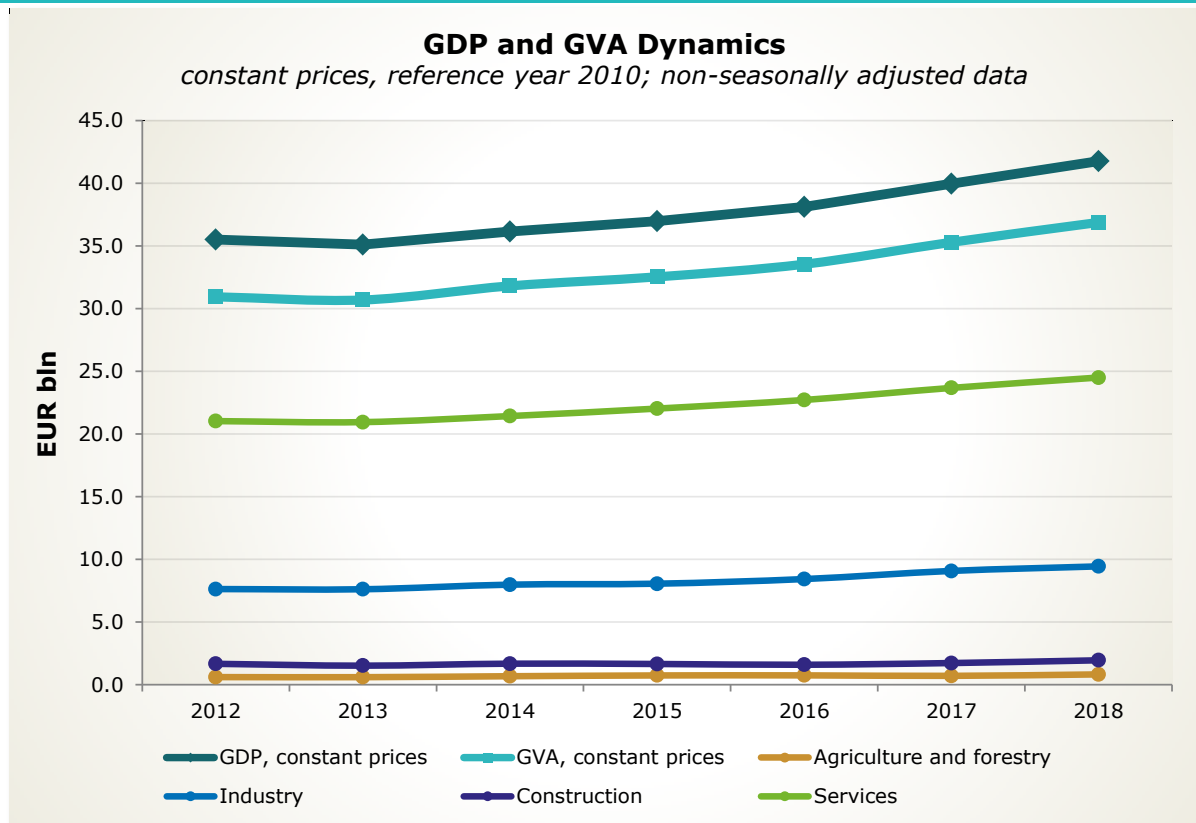


Source: SURS; SeeNews calculations

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.

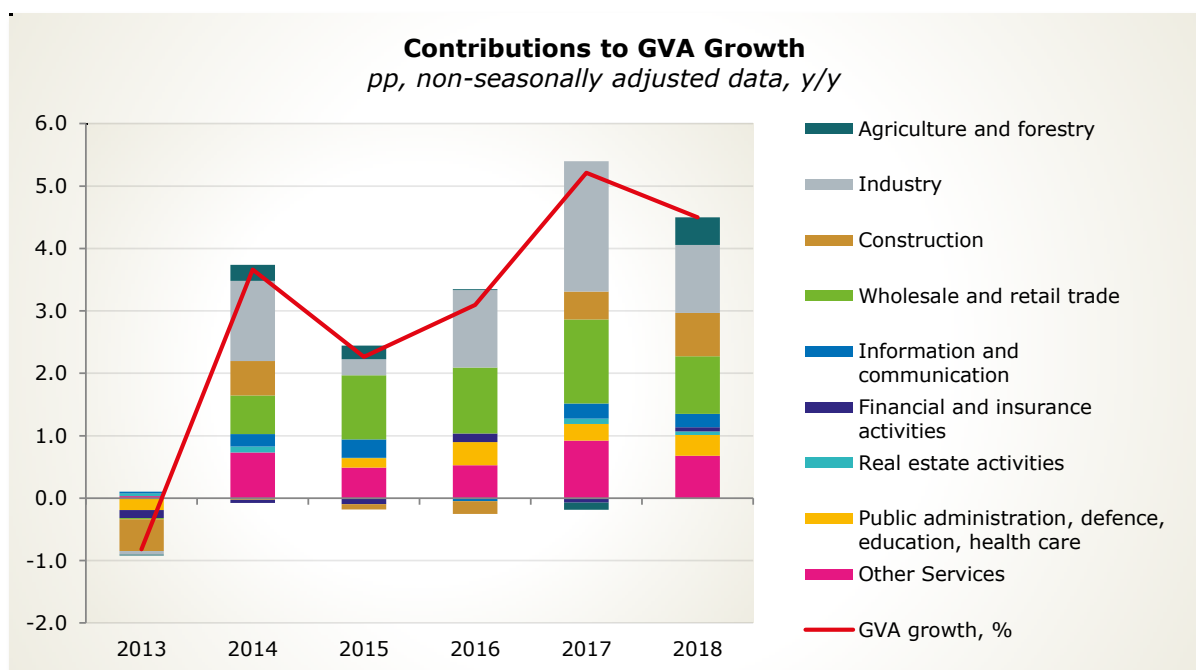
The gross value added (GVA) generated by the national economy increased by 4.5% y/y in 2018 and totalled EUR 36.885 bln. The industrial sector grew in value by 4.0% y/y with its share in the GVA structure inching down to 25.6% from 25.7% in 2017. The services sector recorded a 3.5% annual increase, slicing a 66.5% share in the GVA, down from 67.1% a year ago. The agricultural sector registered an annual rise of 16.1% and its share in the GVA inched up to 2.2% from 2.0%. Construction jumped by 12.7% and its GVA share climbed further to 5.3% from 4.9% in 2017.





Source: SURS

The largest contributor to the overall GVA growth in 2018 was the services sector with 2.3 pp. The industry sector contributed with 1.1 pp to the y/y economic growth, wholesale and retail trade added 0.9 pp, while construction contributed with 0.7 pp to the GDP increase.



Source: SORS; SeeNews calculations

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

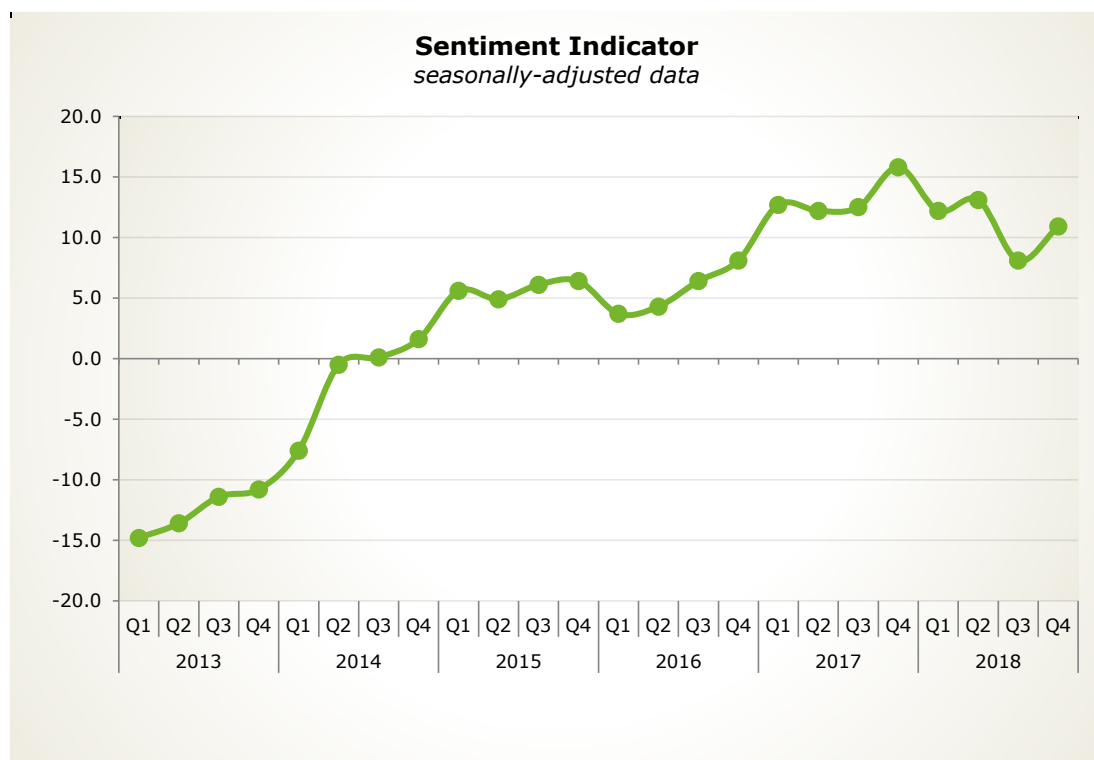


## 2.2. BUSINESS CLIMATE

### *The sentiment indicator went down in Q4 2018 compared to a year ago*

The weakened economic growth in 2018 led to a deterioration of sentiment among businesses in the country. The positive sentiment calmed down in 2018 and reached its two-year bottom in the third quarter. In Q4 it bounced back slightly with the indicator amounting to 10.9 points in December, up from 8.1 points in September, but significantly below the 15.8 points a year earlier, according to SURS.

In December 2018, the sentiment indicator was the highest in services – 27 points, followed by construction and retail trade with 16 and 14 points respectively. It was considerably lower in the manufacturing industry standing at 6.0 points. The consumer confidence indicator recorded negative 4.0 points, which is an improvement compared to the -9.0 points in September 2018.



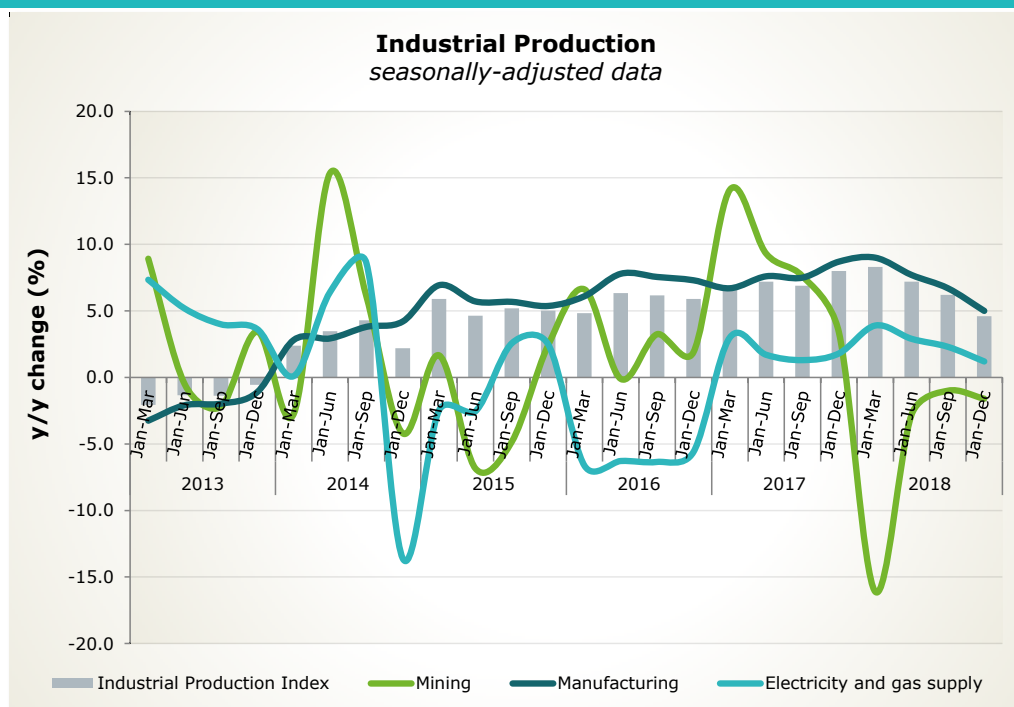
Source: SORS

## 2.3. INDUSTRIAL OUTPUT

### *Industrial output expanded by 4.6% y/y in 2018*

Industrial output growth stood at 4.6% y/y in 2018, down from the 8.0% y/y growth in 2017, according to seasonally-adjusted data of SURS. The overall output in the manufacturing sector grew by 5.0%, the output of the mining sector declined by 1.6%, while the output of the electricity and gas supply sector inched up by 1.2%.



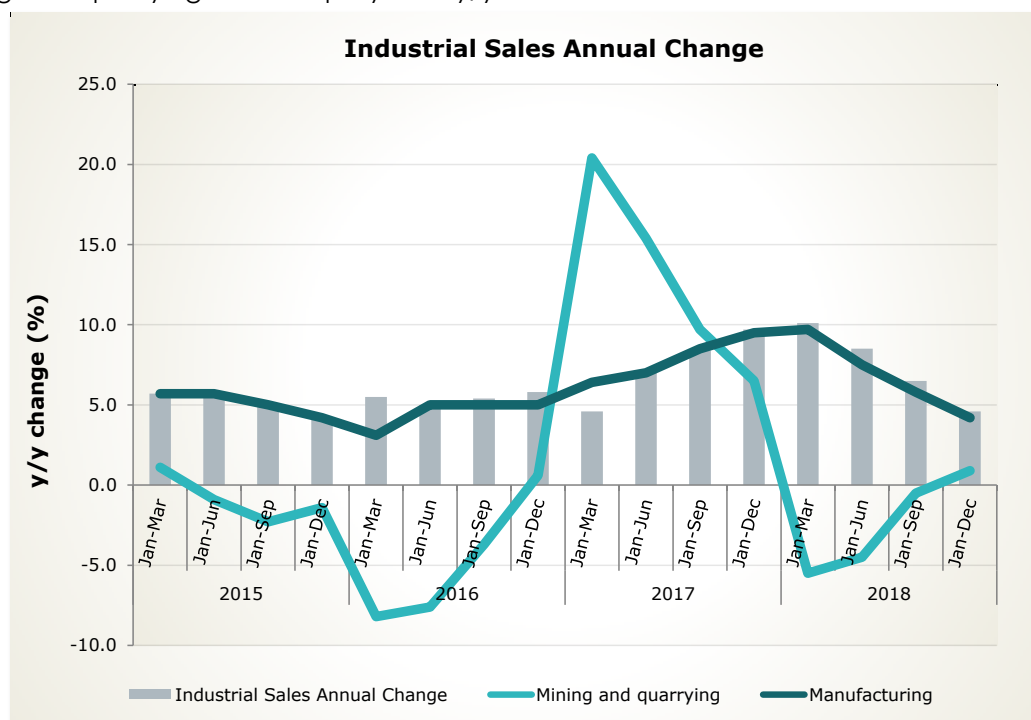


Source: SURS

## 2.4. INDUSTRIAL SALES

### Industrial sales growth slowed down in 2018

The industrial sales in Slovenia increased by real 4.6% y/y in 2018, down from a 9.7% annual rise in 2017, according to SURS. Sales in the manufacturing sector rose by 4.2%, while those of mining and quarrying inched up by 0.9% y/y.



Source: SURS



## 2.5. WHOLESALE/RETAIL

### *Retail sales grew faster in Q4 2018, wholesale also went up*

In December 2018, the retail and wholesale trade sectors increased by rates of growth of 11.5% y/y and 12.4% y/y, respectively, compared to 1.6% and 7.9% y/y rises in December 2017, according to the retail and wholesale index, published by SURS.



Source: SURS

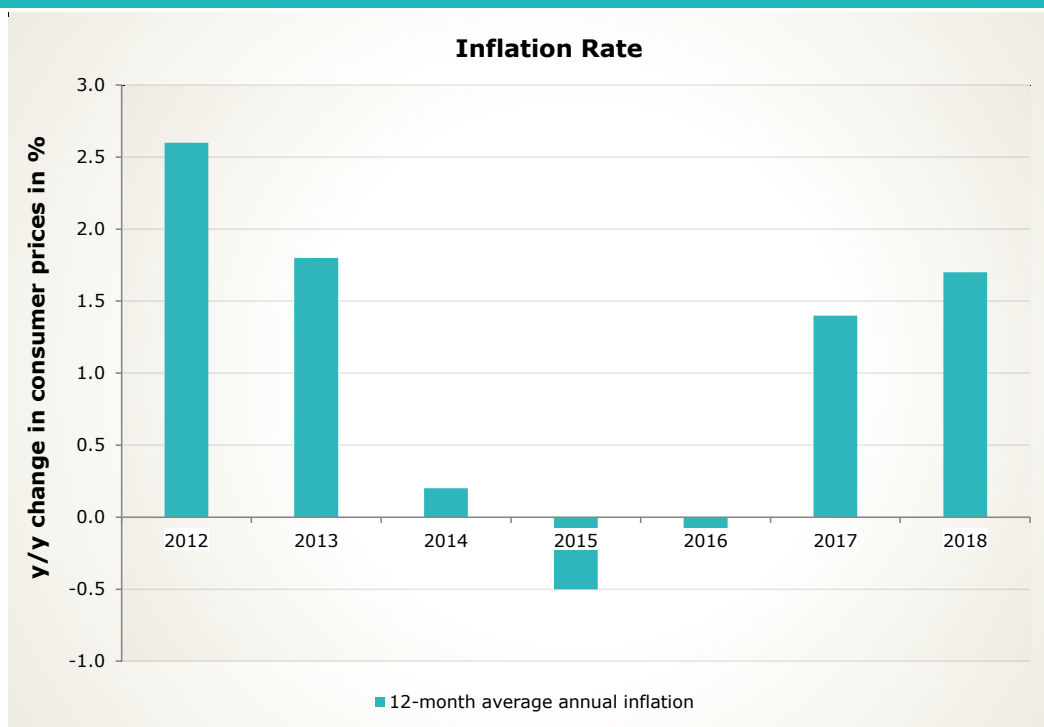
## 2.6. INFLATION

### *Average annual inflation at 1.7% as of 2018*

The 12-month average annual inflation stood at 1.7% in 2018, according to SURS data. In December 2018 alone, the annual inflation reached 1.4%, down from 2.0% in September 2018 and 1.7% in December 2017.

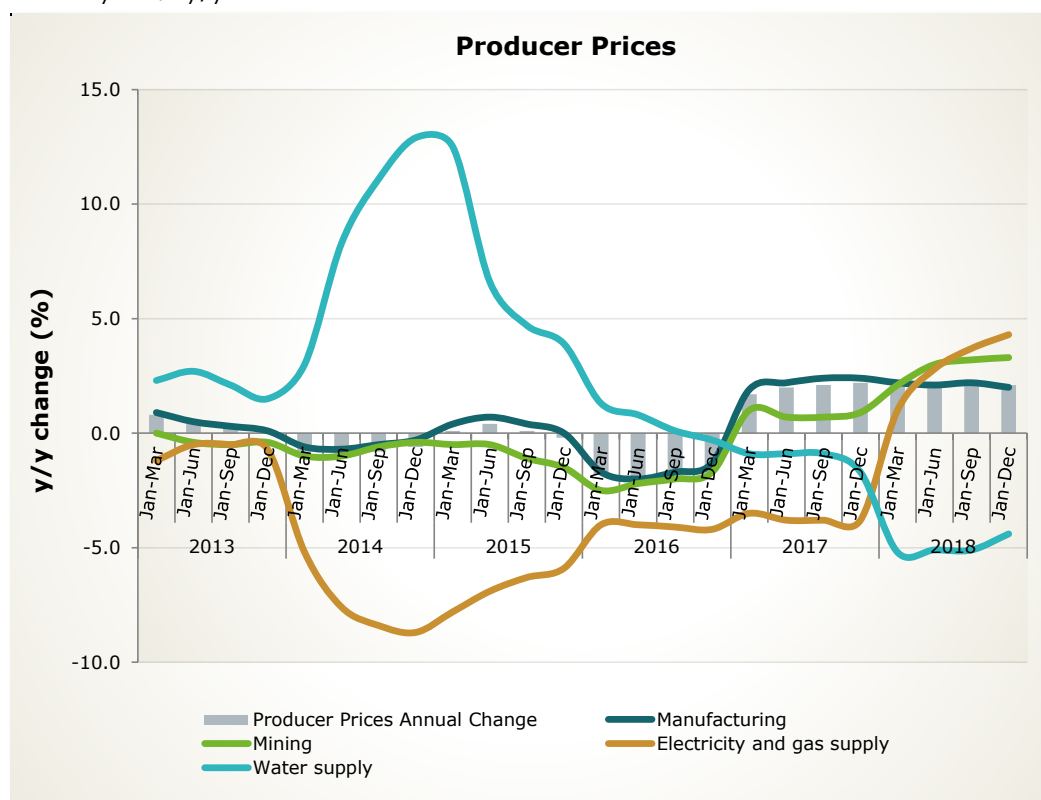
In terms of 12-month average inflation, the highest price increase, of 16.0% was registered by liquid fuels, while in deflation terms mobile telephone equipment was on top with 12.9%.





Source: SURS

Producer prices growth slowed down to 2.1% y/y in 2018, compared to 2.2% y/y in 2017, SURS data showed. The average prices in the manufacturing sector went up by 2.0% y/y on average, while the rise in mining sector's producer prices was 3.3% y/y. Producer prices in electricity and gas supply went up by 4.3% y/y, while prices in the water supply segment decreased by 4.4% y/y.



Source: SURS

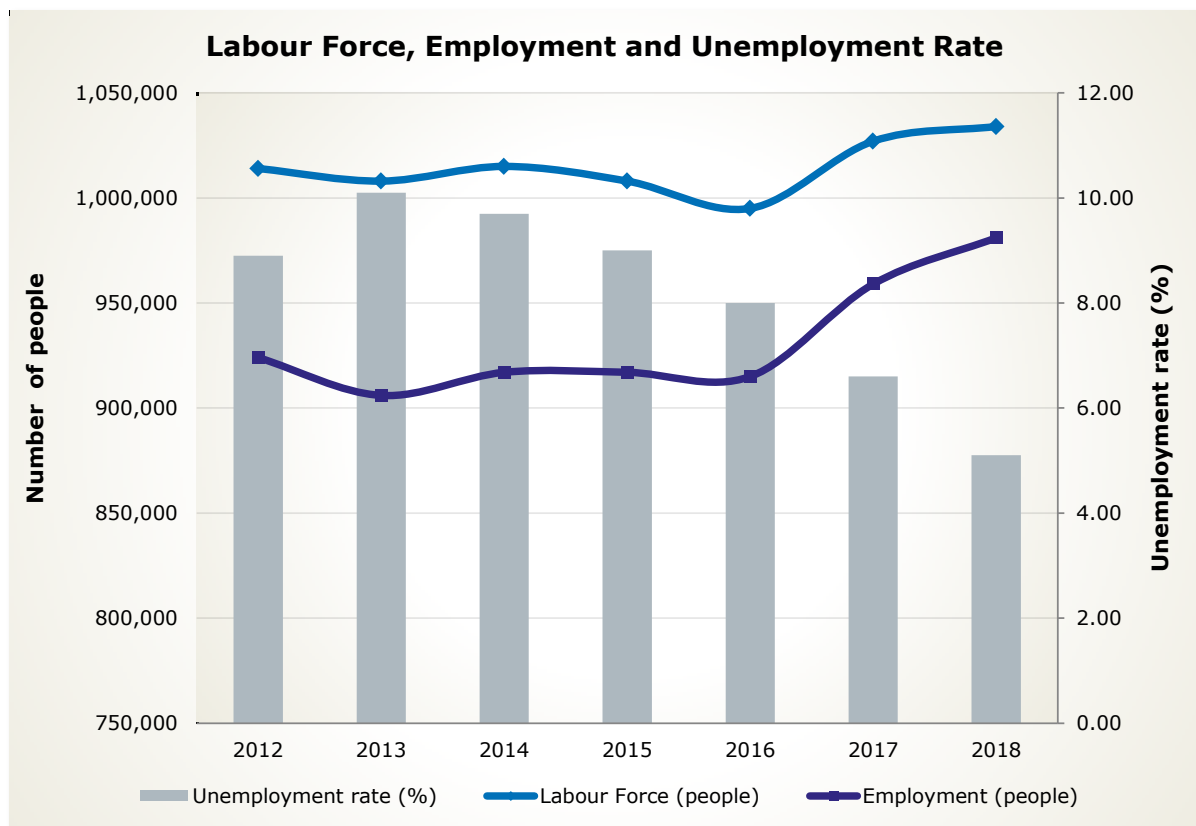


## 3. LABOUR MARKET

### Unemployment rate eased to 5.1% in 2018 from 6.6% in 2017

The unemployment rate in Slovenia narrowed to 5.1% of the total labour force in 2018 from 6.6% in 2017, according to data of SURS. Two years earlier, in 2016, the unemployed population accounted for 8.0% of the total labour force in the country.

Youth (population aged 15-24) unemployment rate fell slightly to 8.9%, compared to 11.3% in 2017, and remains almost twice below the level of 2016, when it was 15.3%.



Source: SURS

According to data of SURS, the average monthly net salary in 2018 grew by 2.9% y/y to EUR 1,092. The employed in the public sector earned average monthly net wage of EUR 1,254, an annual increase of 2.6%, while private sector employees earned on average EUR 1,017, up by 3.5% y/y.



## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits decreased by 4.2% y/y in 2018*

The boom in the construction sector eased in 2018, according to data for new building permits issued in Slovenia, provided by SURS. The number of building permits issued in 2018 was by 4.2% lower than the previous year, totalling 6,388. Permits for housing projects went up by 6.2% y/y to 2,729, while permits for non-residential and office buildings slumped by 11.2% y/y and numbered 3,553.

The total built-up area of the office units, covered by the permits, was 900,259 sq m, down 7.5% y/y. The total built-up area of the housing units soared by 15.3% to 759,934 sq m.

## 5. MONEY SUPPLY AND BANKING SYSTEM

### 5.1. EUR EXCHANGE RATE

The average exchange rate of the EUR<sup>1</sup> against the USD rose to USD 1.1810 in 2018 from USD 1.1229 in 2017, according to the European Central Bank (ECB).

EUR Average Exchange Rate			
Foreign Currency	2018	2017	2016
USD	1.1810	1.1229	1.0714
GBP	0.8847	0.8693	0.7950
CHF	1.1550	1.1206	1.0787

### 5.2. MONETARY AGGREGATES

#### *Slovenia contributed EUR 26.473 bln to Eurozone's M3 Monetary Aggregate<sup>2</sup> as of end-2018*

Slovenia's contribution to the M3 (broad money) aggregate of the Eurozone was EUR 26.473 bln, without currency in circulation, at the end of 2018, up 8.0% y/y, according to BSI.

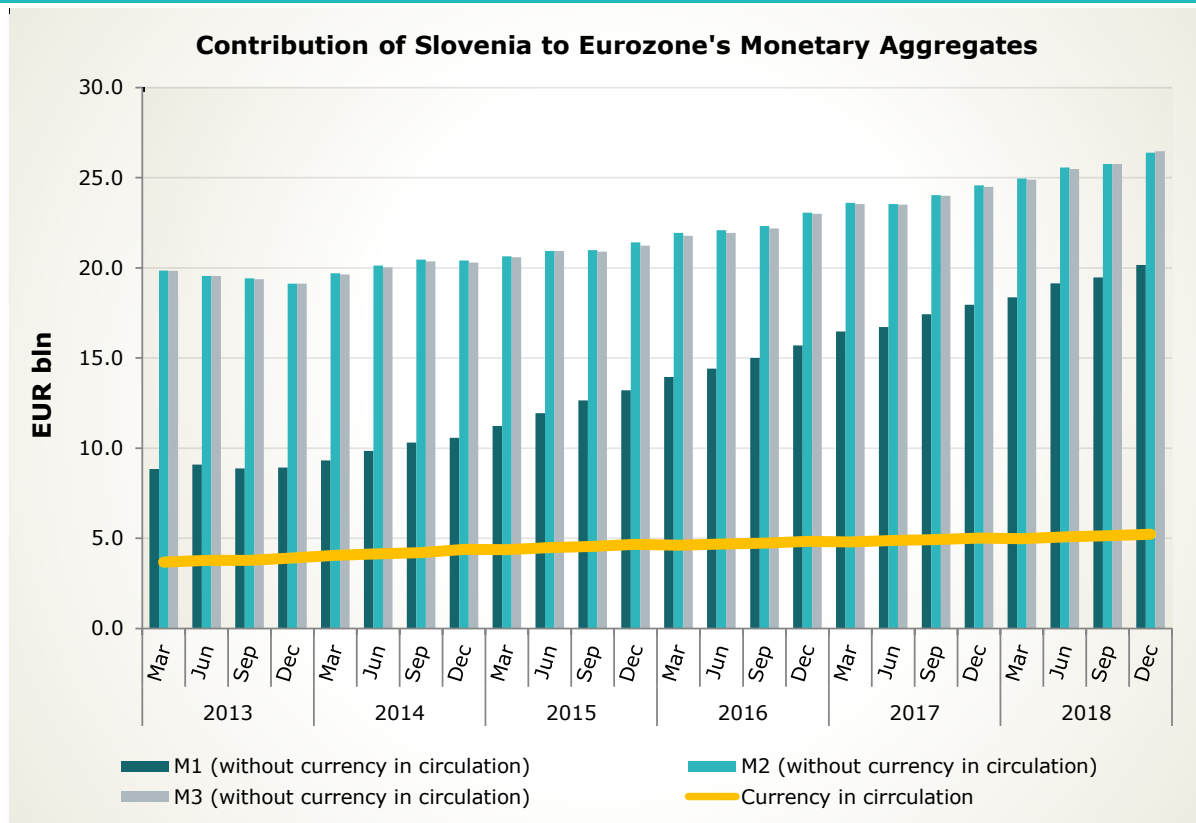
The country's contribution to the M2 aggregate amounted to EUR 26.394 bln, up from EUR 24.578 bln a year earlier.

Contribution to money aggregate M1, or narrow money, jumped by 12.3% y/y to EUR 20.158 bln. Currency in circulation expanded modestly by 4.3% on the year to reach EUR 5.228 bln in the end of 2018.

<sup>1</sup> Slovenia introduced the euro (EUR) as its official currency, replacing the tolar (SIT), on Jan 1, 2007.

<sup>2</sup> 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 2018, increasing by 6.5% y/y*

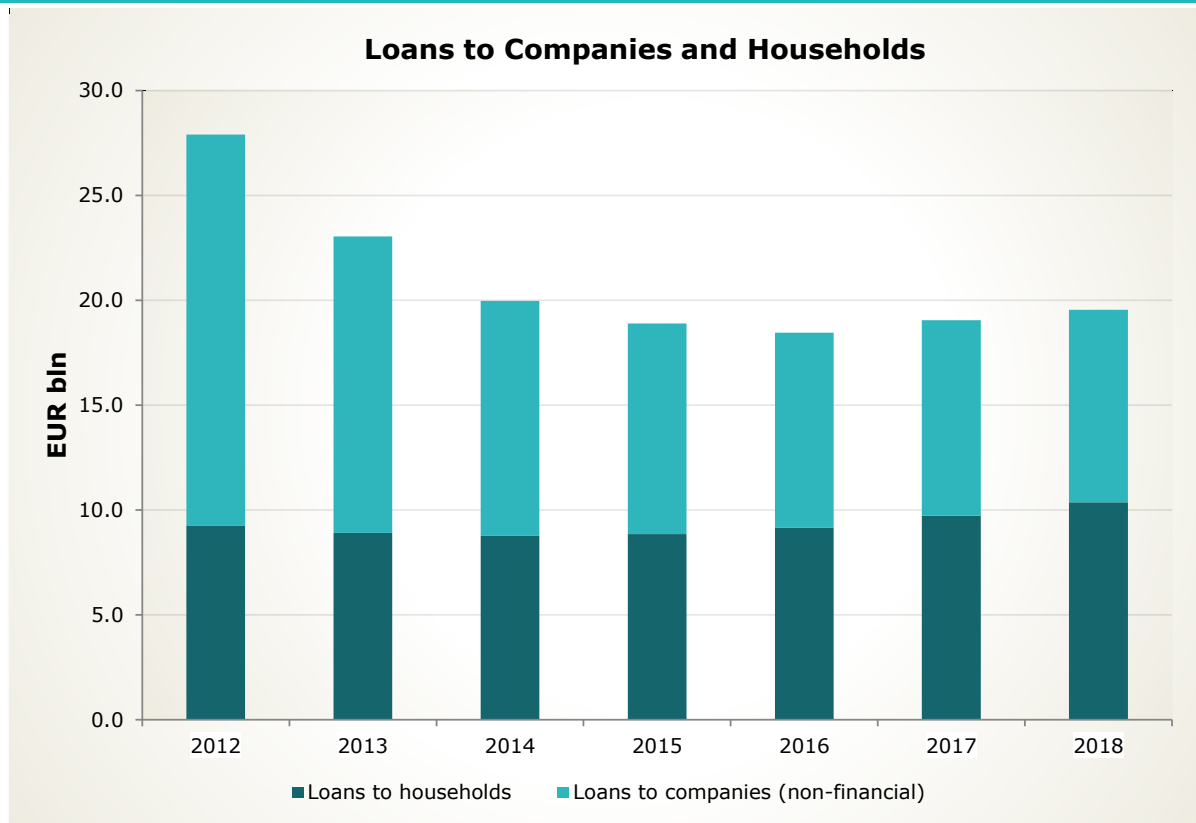
Household loans totalled EUR 10.370 bln in 2018 versus EUR 9.736 bln a year ago, according to BSI. House purchasing loans grew by 4.4% y/y to EUR 6.239 bln, while consumer loans went up by 11.3%, reaching EUR 2.683 bln.

Loans to non-financial corporations stood at EUR 9.177 bln, down by EUR 133.0 mln compared to 2017.

At the end of 2018, the assets of the banking system totalled EUR 40.630 bln, up 0.5% y/y.

Slovenia's insurance market reported a sound annual growth of 7.4% in 2018. It was driven predominantly by the life insurance segment, which grew by 9.7% on the year, while non-life insurance also registered a rise, of 6.5% y/y.





Source: BSI

## 6. CAPITAL MARKETS

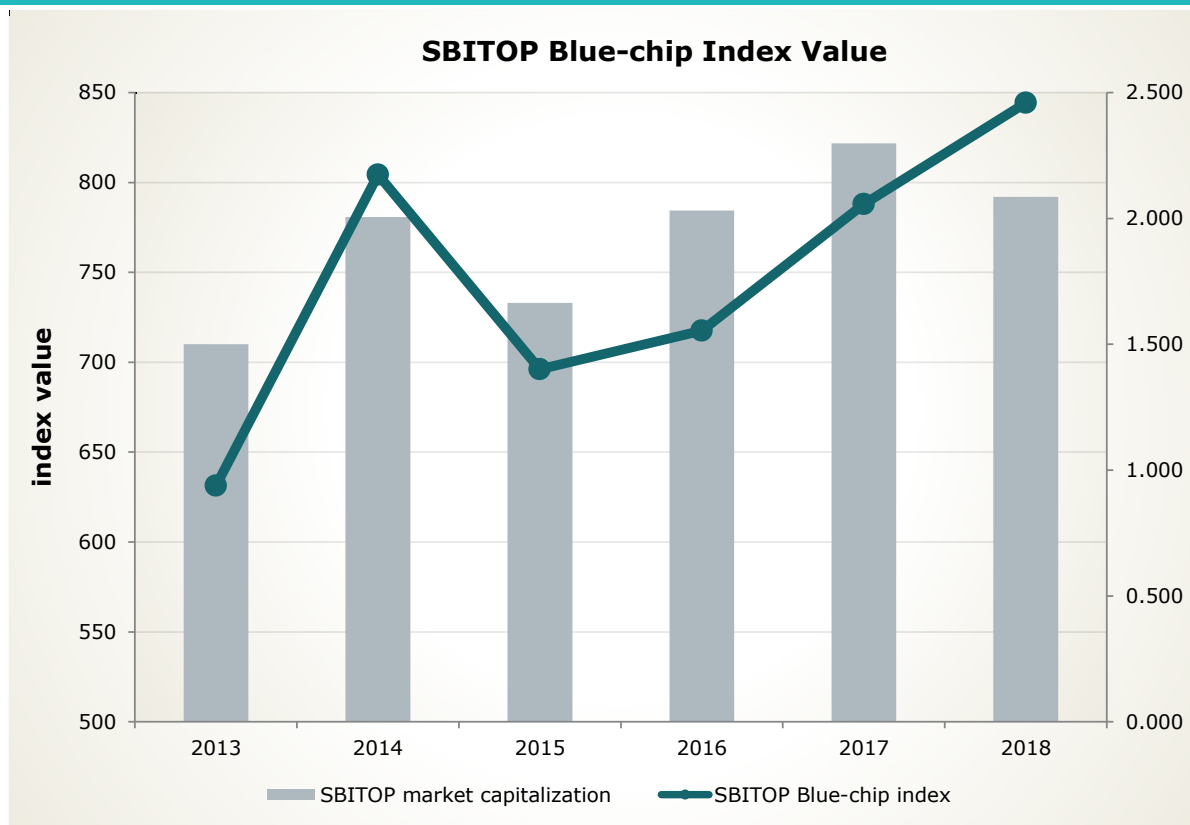
### *Blue-chip index SBITOP went up by 7.1% y/y in 2018*

The average value of SBITOP, the blue-chip index of the Ljubljana Stock Exchange (LJSE), increased by 7.1% y/y to 844 points in 2018.

The total turnover on LJSE's regulated market reached EUR 337.3 mln in 2018 versus EUR 347.4 mln in 2017 and EUR 333.7 mln in 2016.

The number of trades stood at 38,108 in 2018, compared to 50,407 in 2017 and 85,191 in 2016.





Source: LSE

## 7. EXTERNAL SECTOR

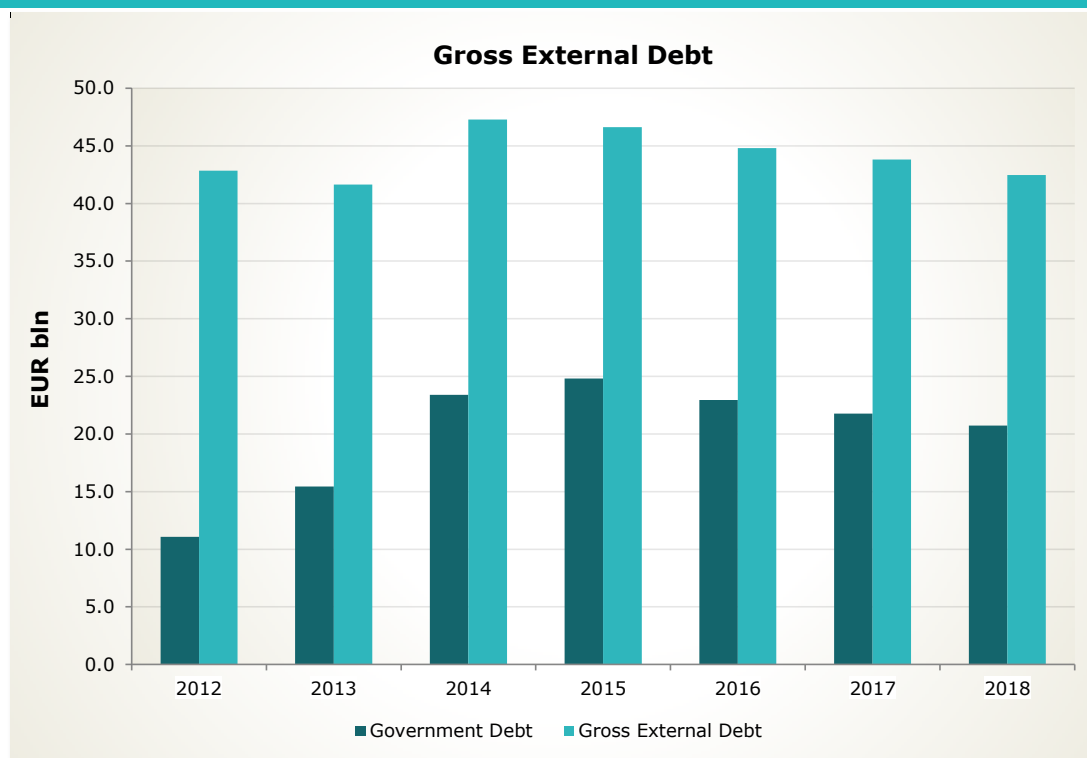
### 7.1. FOREIGN DEBT

*The gross external debt decreased by 3.0% y/y to EUR 42.483 bln at the end of 2018*

Slovenia's gross external debt totalled EUR 42.483 bln in December 2018, according to BSI. It narrowed by EUR 1.330 bln, compared to the end of 2017, according to SURS data.

Government debt shrank to EUR 20.726 bln as of December 2018 from EUR 21.769 bln in the same month of the previous year. Long-term liabilities amounted to EUR 28.803 bln, or 67.8% of the total debt, while short-term liabilities totalled EUR 9.718 bln, equal to 22.9% of the total debt.



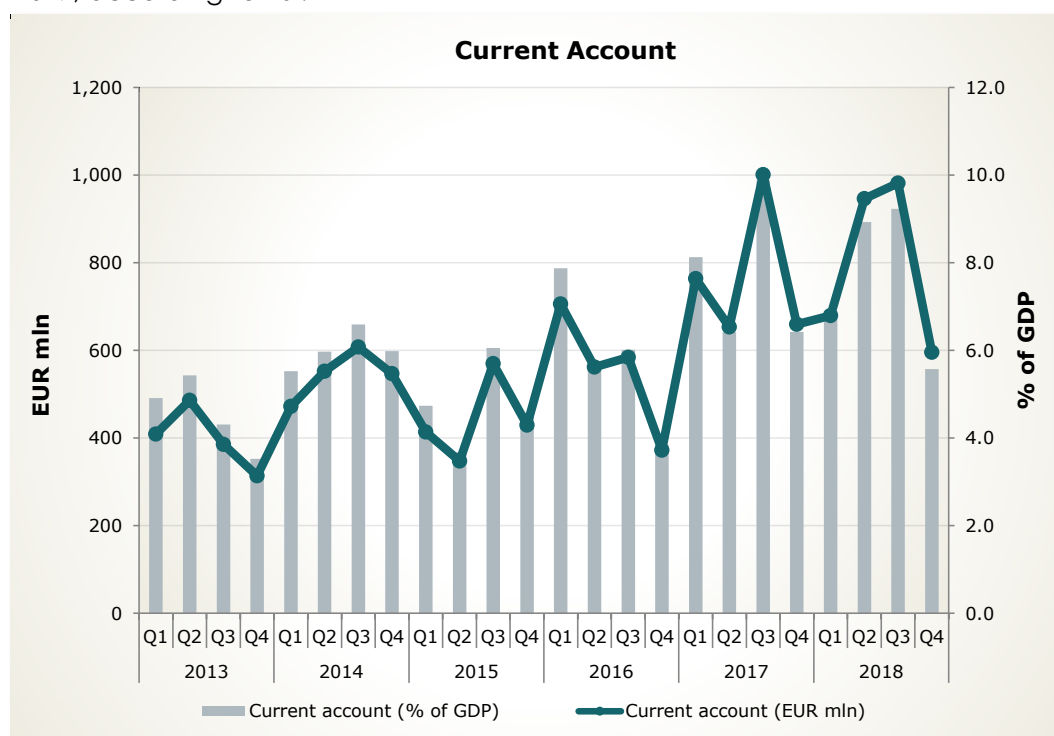


Source: BSI

## 7.2. BALANCE OF PAYMENTS

### Current account surplus grew by 4.1% y/y in 2018

Slovenia's current account surplus grew to EUR 3.203 bln in 2018, up by 4.1% from EUR 3.077 bln in 2017, according to BSI.



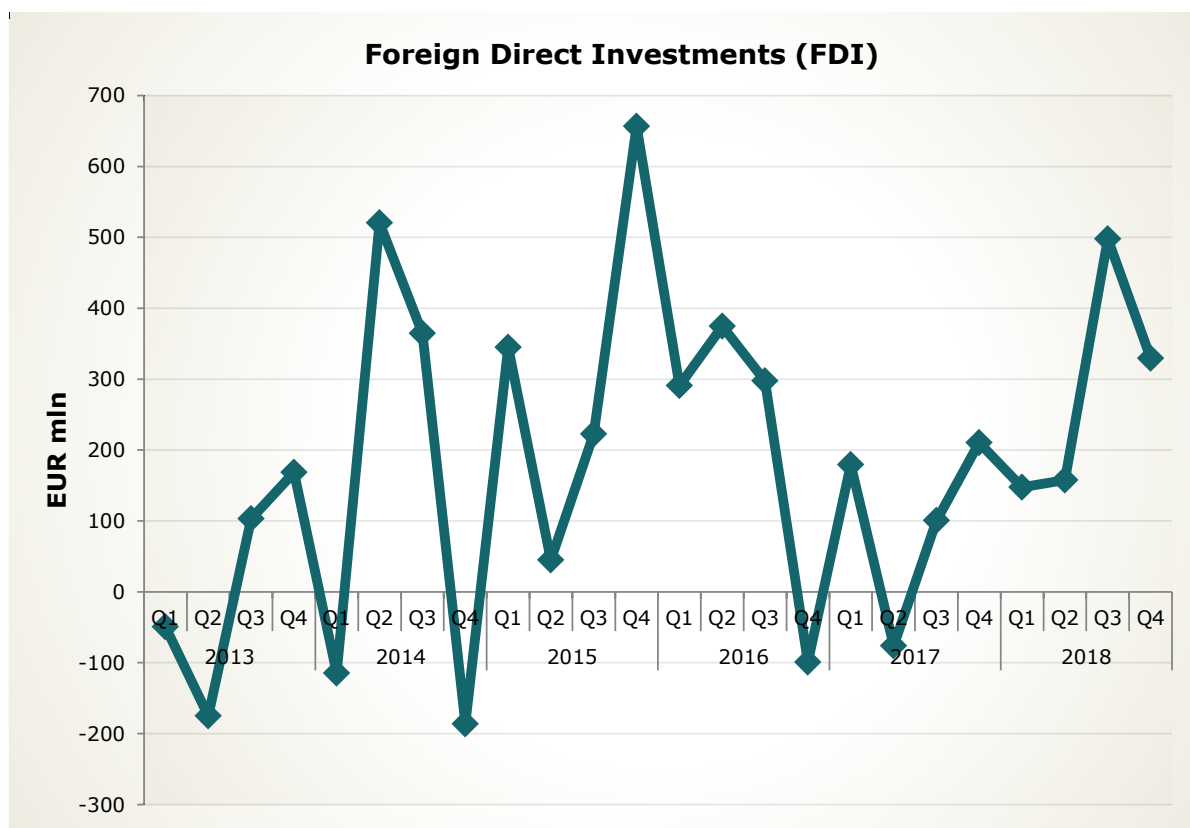
Source: BSI



## 7.3. FDI

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

In 2018 FDI inflow in the Slovenian economy amounted to EUR 1.132 bln, marking a threefold y/y jump from EUR 414.5 mln in 2017, according to central bank data. Their share increased to 2.7% of the year's real GDP, up from 1.0% in 2017 and 2.3% in 2016.

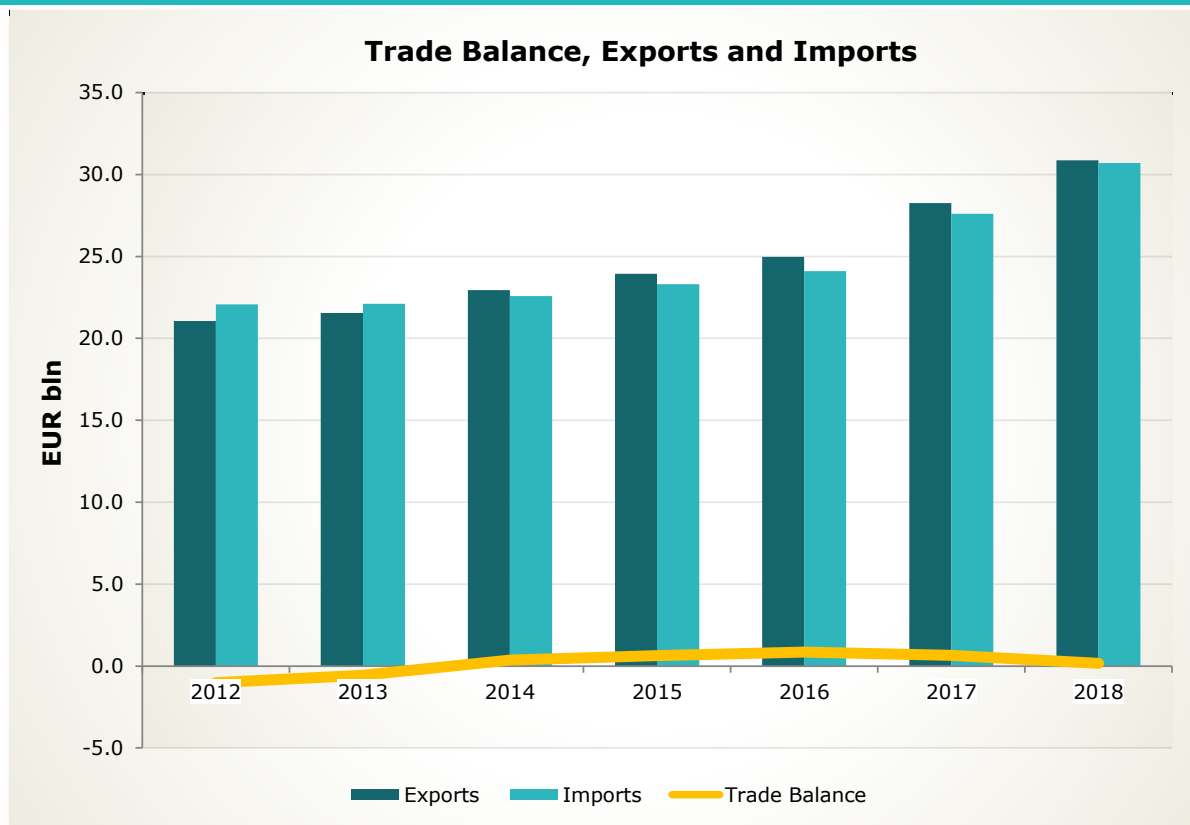


## 7.4. FOREIGN TRADE

### Foreign trade surplus halved in 2018

In 2018, the trade surplus went down by 75.1% y/y to EUR 164.2 mln, according to SURS data. The annual growth in exports was 9.2% and they reached EUR 30.870 bln, while imports went up faster, by 11.2% to EUR 30.706 bln.





Source: SURS

## 7.5. TOURISM

### Number of foreign tourist overnights soared by 15.4% y/y in 2018

Slovenia is enjoying a tourist boom with overnights of foreigners jumping by an annual 15.4% to 11,176,010 in 2018, according to SURS data. The share of foreign tourists in the total number of overnights was 71.2%, up from 68.2% in 2017.

The number of foreign tourists also grew, by 10.9%, to 4,425,139 in 2018.





Source: SURS

## 8. MAJOR DEVELOPMENTS

### **Support for euro rising among Slovenian citizens**

Nov 21, 2018

Support for the euro among Slovenian citizens is growing, the results of a flash Eurobarometer survey among euro area member states indicated.

[Read the full story here](#)

### **EBRD makes EUR 64.4 mln equity investment in Slovenia's NLB**

Nov 13, 2018

The European Bank for Reconstruction and Development (EBRD) said in November it is making an equity investment of EUR 64.4 mln in Slovenia's largest lender, Nova Ljubljanska Banka (NLB).

[Read the full story here](#)

### **Slovenia needs to make further fiscal adjustments to reduce debt – EBRD**

Nov 13, 2018

Slovenia should keep expenditure growth under strict control to achieve its medium-term fiscal targets in light of still-high public debt levels, the European Bank for Reconstruction and Development (EBRD) said.

[Read the full story here](#)



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**EBRD considers EUR 10 mln equity investment to back SMEs in 5 SEE countries**

Oct 24, 2018

The European Bank for Reconstruction and Development said in October it is considering an equity investment of up to EUR 10 mln in Invera Private Equity Fund to support the development of small and medium businesses in five southeast European countries.

*Read the full story [here](#)*

**Slovenia leads SEE entrants in WEF's global competitiveness ranking**

Oct 17, 2018

Slovenia is leading the countries in Southeast Europe in the 2018 edition of the Global Competitiveness Report of the World Economic Forum, while Bosnia ranked as the region's worst performer.

*Read the full story [here](#)*



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