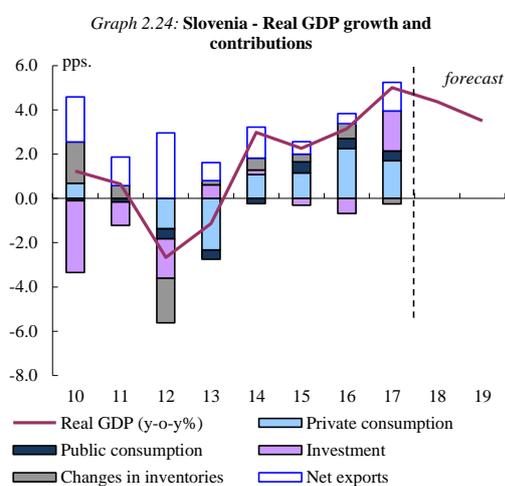


2.24. SLOVENIA

In 2017, real GDP grew by 5.0% in Slovenia, reaching a 10-year high, driven mainly by domestic demand, particularly investment. In 2018-Q1, the economy grew by 0.7%, compared to the previous quarter and 5.0% compared with the same quarter in 2017. Export growth diminished due to lower foreign demand, while imports, consumption and investment continued to expand. Economic sentiment fell somewhat in the first half of 2018 compared to the end of 2017 but remained at a very high level.

Real GDP growth is forecast to reach 4.4% in 2018 and 3.5% in 2019, slightly lower than 4.7% and 3.6% expected in the spring forecast. While external demand has grown less than previously expected, Slovenia's exports are likely to benefit from a good competitive position. Nevertheless net exports' growth contribution is likely to turn negative as domestic demand strengthens, supported by growing employment, wages and favourable financing conditions. Business investment growth is forecast to continue at a rather high rate on the back of high capacity utilisation and a tightening labour market amid stronger balance sheets and improved profitability. In the public sector, a more intensive use of EU funds for investment projects is forecast for 2018 and 2019.



Downside risks to the growth outlook are linked to developments in Slovenia's key export markets and the possibility that labour supply shortages could start to limit growth. On the upside, the positive impact of improving access to credit could be larger than expected.

Overall, price pressures are expected to increase. HICP inflation was 1.5% in the first quarter of 2018 and rose in April and May. Overall, consumer prices are projected to rise by 2.1% in 2018 and 2.2% in 2019, slightly higher than the 1.9% and 2.0% expected in the spring forecast, driven by energy prices and wages growth.