JCR

ISSUER REPORT

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12064

Slovenia

Chief Analyst Masato Hotta
Senior Analyst Haruna Saeki

Long-term Rating	AA-
Outlook*	Stable
Short-term Rating	-

*Long-term Rating refers to Long-term Issuer Rating in principle.

1. Overview

Slovenia is a small economy in Central and Eastern Europe with a population of approximately 2.1 million (as of 2022) and a nominal GDP of approximately 64 billion euros in 2023. After gaining independence from Yugoslavia in the early 1990s, the country implemented reforms toward democratization and a market economy, joining NATO and the EU in 2004 and adopting the euro in 2007. Its GDP per capita in PPP terms is close to that of Spain, making it one of the most developed economies in Central and Eastern Europe. After the global financial crisis and the European debt crisis, the country experienced a banking crisis in 2013. This period saw progress made in improving the soundness of the banking sector, reducing the corporate-sector debt, improving the external position, and building the foundation for a more stable economic growth. During the banking crisis, the government debt ballooned as a result of the provision of support to banks with public funds, but the country's consistent efforts for fiscal consolidation since then led to a significant decline in the government debt-to-GDP ratio through 2019 prior to the COVID-19 pandemic. The Golob administration, which took office in June 2022, is undertaking various structural reforms anchored by the Recovery and Resilience Plan (RRP) while promoting sound fiscal policies with the aim of further reducing the government debt.

2. Political and social situation and Economic policy

Slovenia has put in place institutional frameworks in conformity with the EU standards, which leads to social and political stability. Its political system is characterized by a balanced mix of parties from the center-right and center-left factions. As no party is strong enough to command a majority on its own, the country has successively been ruled by coalition governments. In the general election in April 2022, the new Freedom Movement Party led by Robert Golob won a landslide victory, and in June of the same year, a coalition government was formed by the Freedom Movement Party, the Social Democrats, and the Left Party. The previous government of Prime Minister Janez Jansa, led by the Slovenian Democratic Party, was a right-wing populist government and promoted controversial policies such as legislation of bills that could lead to a weakening of media freedom and the rule of law. In contrast, the Golob government is left-leaning and has made clear its moderate and pro-EU stance. The ruling coalition has 52 of the 90 seats in the lower house, giving it a strong foundation for stability. There has been no sign of unrest such as the rise of far-right parties, and it is highly likely that the Golob administration will serve its full term until the next election scheduled for 2026.

Policy stability is high as Slovenia's policy management is generally aligned with the EU's economic and fiscal governance frameworks. The Golob government's initial priority was to address the urgent issues of mitigating the impact of higher energy prices and curbing inflation. It introduced support measures worth 2.6% of GDP (according to the Draft Budgetary Plans for 2024 and 2025), such as setting caps on electricity and gas prices and reducing the value-added tax rate on energy prices. With inflation brought under control, these measures have been largely completed, and the current policy focus is on reconstruction and support measures following the floods in August 2023 that caused severe damage. The scale of post-flood reconstruction and support measures is about 2.3% of GDP in total for 2023 and 2024 according to the Ministry of Finance, but their fiscal impact is expected to be smaller than that as the government has secured some of the funds through temporary taxation on companies and banks, with financing also provided from the EU Solidarity Fund.

From a more structural, medium-term perspective, the government is seeking to boost productivity through digital and green transition while working on the reforms of the pension and health care systems to address fiscal challenges arising from an ageing population. These reforms are linked to the milestones under the RRP (which sets out the reforms and investments that are conditions for receiving the EU's recovery fund) and thus are expected to advance toward the end of 2026, the deadline for the implementation of the RRP. Currently, the Long-term Care Act was passed by Parliament in 2023 and discussions are underway on pension reforms with a target year for implementation set for 2026. The government is also actively promoting labor market policies, including measures addressing the country's labor shortage.

3. Economic base

Slovenia was the most industrialized country in the former Yugoslavia and has a diversified industrial base centered on manufacturing. The country's key industries such as automobiles and pharmaceuticals are integrated into those of Germany, Italy and Switzerland, resulting in a strongly export-oriented economic structure. As of 2023, exports of goods and services accounted for about 90% of GDP (in real terms), and based on the BoP data approximately 75% of goods and services exports went to the EU member states. As a member state of the EU, the country's economic catch-up has been supported by deepened trade and financial ties with other countries in the region as well as the benefit of the access to subsidies from EU funds. Its GDP per capita in PPP terms exceeded USD50,000 in 2023, one of the highest among Central and Eastern European countries. Meanwhile, the country's labor market is tight, with the employment rate rising to 77.5%, above the EU average, at the end of 2023, and the unemployment rate standing in the 3% range in August 2024, the lowest ever since the global financial crisis.

Before the global financial crisis, the country had achieved a high economic growth led by domestic demand. In the background was an increased lending by banks to domestic companies, which was accompanied by the banking sector's increased borrowing from abroad at lower rates. This growth model led to higher corporate-sector indebtedness and a widening current account deficit. Following the global financial crisis and the European debt crisis, a large proportion of corporate loans became nonperforming, and the economy was forced into a slump as the corporate and banking sectors underwent deleveraging and stock adjustments progressed in the construction sector. Since then, government-led restructuring initiatives have enhanced the soundness of the financial system and the balance sheet of the corporate sector has improved significantly. Looking at financial debt (consolidated) of non-financial corporations based on the flow of funds statistics, it peaked at over 85.7% of GDP in 2010 but has fallen to 34.7% in 2023. The shift in the growth model has improved the country's IS balance and external position. The economy has become more resilient to external shocks, laying the foundation for a more stable growth.

4. Economic Trends

The Slovenian economy has proven resilient to the deterioration of external environment associated with the COVID-19 pandemic and the global energy crisis. Its real GDP contracted by 4.1% in 2020 due mainly to the enactment of restrictive measures, but the decline was small compared to the EU average. The authorities' swift implementation of large-scale support measures for businesses and households, including employment protection, income assistance and liquidity provision, helped to mitigate the impact of the pandemic, and the economy grew by 8.4% in 2021 driven by a recovery of private consumption and investment. Since mid-2022, the growth has slowed as rising inflation resulting from higher energy prices, monetary tightening by the European Central Bank (ECB), and slowing external demand have put downward pressure on private consumption and investment. However, growth rates remained resilient at 2.7% in 2022 and 2.1% in 2023 as the economy was supported by a strong labor market and public investment funded by EU funds. As of the third quarter of 2024, its real GDP (after seasonal and working-day adjustments) was at 109% of the pre-COVID level in the fourth quarter of 2019, indicating a relatively favorable pace of recovery among the EU countries.

As a small, export-oriented economy, Slovenia's economic activity is sensitive to demand trends in European countries, its main trading partners. Currently, exports are weak due to sluggish external demand, with private investment also staying stagnant. However, real wages are rising due to declining inflation, leading to a recovery in private consumption. Economic growth is also being supported by the expansion of public investment brought by the inflow of EU funds and the increase in government consumption and investment associated with the post-flood reconstruction and support measures. The growth is expected to pick up gradually as external demand recovers, with the growth rate predicted to rise to the 2% range toward 2025. Regarding EU funds, Slovenia has been allocated funds equivalent to 5.7% of 2020 GDP from the recovery fund in the form of subsidies and loans (including additional funds from REPowerEU), with additional subsidies amounting to 7% of 2020 GDP also available from the multiannual financial framework for 2021-2027.

5. Financial System

Following the banking crisis in 2013, structural reforms progressed with the intervention by the government, which resulted in a significant improvement of the financial system. The surged nonperforming loans were transferred to the newly established asset management company, and the country's major banks, which had incurred large losses from the disposal of nonperforming loans, were recapitalized with public funds. Before then, banks' funding had relied on external markets, but as they reduced their external borrowings, funding with domestic deposits increased. The loan-to-deposit ratio, which peaked at 160% in 2008, has fallen to the 60% range in recent years. JCR believes that as credit and liquidity risks faced by banks have structurally declined, the country's financial system has become more resilient to deterioration of the economic environment or a turmoil in international financial markets.

The stability of the financial system has been retained even after the COVID-19 pandemic. The banking sector's nonperforming loan ratio has not shown any significant increase, standing at 1.5% as of the end of March 2024. The sector's financial performance has been stable, with profits remaining solid even in 2020 despite increased credit costs. The capital adequacy ratio also stayed high at 20.2% (as of the end of June 2024), providing a sufficient buffer against risks. Given that the major banks nationalized in 2013 have already been privatized in accordance with the EU's state aid rules (NLB bank 75% minus one share, NKBM and Abanka 100%), JCR considers that the risk of the government incurring a large financial burden from supporting banks is now limited.

6. Resilience to external shocks

Slovenia's current account balance has been constantly in surplus since 2012. The sole exception was in 2022, when it turned into a deficit equivalent to 1% of GDP as the trade balance slipped into a deficit due to increased imports amid a recovery of consumption and a deterioration in the terms of trade caused by rising energy prices. In 2023, the current account balance returned to a surplus of 4.5% of GDP as the trade balance again registered a surplus as merchandise imports declined even more than exports. By falling energy prices, the terms of trade improved in 2023 after two years of deterioration. Looking ahead, the current account surplus may remain at a lower level than before as imports are expected to increase due to expanding investment while exports are weak.

With a persistent current account surplus, the country's external position in IIP terms has been improving since 2013. Its net IIP turned from net external liabilities equivalent to 44% of GDP at the end of 2012 to small net external assets at the end of 2023. Looking at the evolution of external liabilities by sector during this period, the decrease was most notable in the banking sector.

7. Fiscal position

Slovenia has a track record of prudent fiscal management based on its fiscal rule that stipulates a medium-term balance of the structural balance. The country had primary surpluses in the five years prior to the COVID-19 pandemic, with the government debt-to-GDP ratio falling sharply from its peak of 83.4% at the end of 2015 after the banking crisis to 66% at the end of 2019. Slovenia achieved one of the largest decline in the government debt-to-GDP ratio during this period among the EU member states. JCR believes this indicates the country's strong commitment to containing the government debt.

The implementation of various support measures, including those responding to the COVID-19 pandemic, has been putting a burden on the country's public finance since 2020, but the overall direction of fiscal consolidation has remained unchanged. The general government balance/GDP ratio (ESA2010) fell into a deficit of 7.7% in 2020 but steadily improved after that thanks to the economic recovery and reduction of pandemic-related spending, with the deficit falling to the EU threshold of 3% in 2022. The deficit was further reduced to 2.6% in 2023 as increased spending on support measures related to the energy crisis and new spending on post-flood reconstruction and support measures were more than offset by reduced social security spending as a percentage of GDP. As the EU's fiscal governance framework, which had been suspended following the COVID-19 pandemic, was reinstated in 2024 along with the resumption of the domestic fiscal rule, JCR expects that fiscal consolidation will progress in the medium term under the government's prudent policy management. The effect of the structural reforms, including the introduction of new social insurance contribution due to be collected from July 2025 following the enforcement of the Long-Term Care Act, and the end of the support measures are expected to contribute to reducing the fiscal deficit. Under the government's recently published medium-term fiscal-structural plan, the fiscal deficit is projected to reach 2.9% of GDP in 2024 and then to decline to 1.9% in 2026.

The government debt/GDP ratio, which rose to 80.2% at the end of 2020, has shown an improving trend again since 2021, falling to 68.4% at the end of 2023. The government debt still stays high compared to the average for the countries rated in the AA range by JCR. However, the debt burden is kept under control with the interest payment/revenue ratio falling from 7.2% in 2014 to 2.7% in 2023. In addition, the average maturity of government bonds has been prolonged to nearly 10 years and most of the outstanding government bonds have been issued with fixed interest rates, which helps to limit the impact of rising interest rates on interest payment expenses. Moreover, there is ample liquidity available to repay the government debt as cash and deposits in the general government sector amounted to 18% of GDP as of the end of 2023. JCR believes that the government debt-to-GDP ratio will continue to decline in the medium term, supported by a reduction of the fiscal deficit and an increase of the nominal GDP.

8. Conclusion and Rating Outlook

The ratings for Slovenia are supported by the country's relatively developed economic base, improving resilience to external shocks, and solid support mechanisms in the EU and euro area it enjoys. On the other hand, the ratings are constrained by the country's relatively high government debt-GDP ratio. The country's economic growth has slowed amid a surge of inflation, monetary tightening by the ECB, and sluggish external demand, but the growth is expected to pick up in the medium term. The country's general government balance and debt to GDP ratios have been steadily improving with the fading of the impact of the COVID-19 pandemic. The government's immediate policy focus is on reconstruction and support measures in the wake of the floods in August 2023 that caused heavy damage to the infrastructure. This has temporarily added to the government's fiscal burdens. However, JCR holds that the government will largely adhere to a prudent policy management in keeping with the EU's framework for fiscal discipline, making progress on fiscal consolidation in the medium term. The government also continues to hold ample fiscal buffers.

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Key Economic and Fiscal Indicators

		2019	2020	2021	2022	2023
Nominal GDP	EUR billion	48.2	46.7	52.0	56.9	64.0
Population (as of January)	million	2.1	2.1	2.1	2.1	2.1
GDP per capita (purchasing power parity)	USD	41,780	40,313	43,629	48,110	50,800
Real GDP growth rate	%	3.5	-4.1	8.4	2.7	2.1
Consumer price inflation (HICP)	%	1.7	-0.3	2.0	9.3	7.2
Unemployment rate (annual average)	%	4.5	5.0	4.7	4.0	3.6
General government revenue/GDP	%	44.5	44.1	45.3	44.6	43.9
General government expenditure/GDP	%	43.8	51.8	49.9	47.7	46.5
General government balance/GDP	%	0.7	-7.7	-4.6	-3.0	-2.6
General government primary balance/GDP	%	2.3	-6.1	-3.4	-1.9	-1.4
Interest expenditure/revenue	%	3.6	3.6	2.6	2.5	2.7
General government debt/GDP	%	66.0	80.2	74.8	72.7	68.4
Current account balance/GDP	%	6.4	7.7	3.8	-1.1	4.5
Gross external debt/GDP	%	90.9	102.3	97.7	91.0	89.2
Gross external debt/exports of good and services	%	107.7	130.6	116.2	96.8	107.0
Net international investment position/GDP	%	-16.4	-15.8	-7.7	-1.6	2.3

Source: Statistical Office of the Republic of Slovenia, ,Ministry of Public Finance, Bank of Slovenia, Eurostat

Ratings

(millions)

	Rating	Outlook*	Amount	Currency	Rate (%)	Issue Date	Maturity Date	Release
Foreign Currency Long-term Issuer Rating	AA-	Stable	-	-	-	-	-	2024.08.13
Local Currency Long-term Issuer Rating	AA-	Stable	-	-	-	-	-	2024.08.13
Japanese Yen Bonds -First Series (2024) (Social Bonds)	AA-	-	45,100	JPY	0.75	2024.09.05	2027.09.03	2024.08.29
Japanese Yen Bonds -Second Series (2024) (Social Bonds)	AA-	-	4,900	JPY	0.89	2024.09.05	2029.09.05	2024.08.29

History of Long-term Issuer Rating

(Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
2005.04.11	AA-	Positive	Slovenia
2006.12.15	AA	Stable	Slovenia
2012.06.13	AA-	Negative	Slovenia
2013.05.24	A+	Negative	Slovenia
2015.10.29	A+	Stable	Slovenia
2017.11.10	A+	Positive	Slovenia
2019.01.18	AA-	Stable	Slovenia

*Outlook for long-term issuer rating, or direction in case of Credit Monitor

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026