Euler Hermes Economic Research

Country Report

Slovenia

Strong recovery and markedly improved fiscal balance

General Information

GDP	USD44.0bn (World ranking 83, World Bank 2016)
Population	2.1mn (World ranking 145, World Bank 2016)
Form of state	Parliamentary Republic
Head of government	Miro CERAR (prime minister)
Next elections	2018, legislative

Strengths

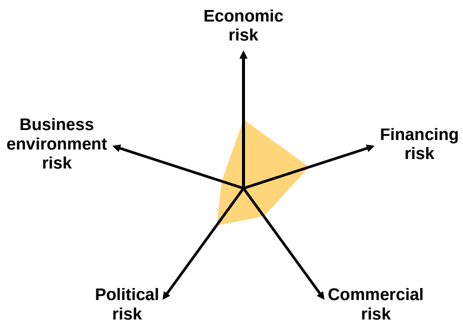
- Stable democracy and fairly good regional and international relations; EU membership
- Eurozone membership provides for low transfer and convertibility risk
- Low inflation
- Impressive fiscal consolidation after the banking sector bailout in 2013-2014, with fiscal deficits forecast at less than -1.5% of GDP in 2017-2018
- Large current account surpluses since 2012, forecast to continue in 2017-2018
- Strong business environment

Weaknesses

- Frequent government instability, often resulting in policy ineffectiveness
- Public debt, though gradually declining, remains elevated, at around 75% of GDP
- High gross external debt
- Banking sector to remain vulnerable in the medium term, calling for further consolidation

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Germany	20%	1	16%	Germany
Italy	10%	2	13%	Italy
Croatia	9%	3	9%	Austria
Austria	7%	4	8%	China
France	4%	5	5%	Croatia

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	9%	1	6%	Refined Petroleum Products
Cars And Cycles	9%	2	5%	Electrical Apparatus
Electrical Apparatus	6%	3	5%	Cars And Cycles
Miscellaneous Hardware	5%	4	4%	Plastic Articles
Plastic Articles	4%	5	4%	Miscellaneous Hardware

Source: Chelem (2015)

Economic Overview

Broad-based growth to continue

Slovenia is about to complete four years of steady recovery from the two crises in 2008-2009 and 2012-2013, thanks to continued efforts to restore financial stability and prudent macroeconomic policies. In 2018, annual real GDP is expected to exceed for the first time its pre-crises peak reached in 2008. However, employment will remain below the 2008 level and the unemployment rate is still higher (currently around 7% vs. 4.4% in 2008).

Real GDP growth accelerated to an average +4.7% y/y in the first three quarters of 2017, from +3.1% in full-year 2016 and +2.3% in 2015. The strong performance in Q1-Q3 2017 was driven by domestic demand, notably a strong rebound in fixed investment (+9.3% y/y, after -3.6% in full-year 2016) and still solid consumer spending (+3.1% y/y, after +4.2% in 2016). Inventories subtracted -0.1pp from Q1-Q3 GDP growth (+0.6pp in 2016) while public spending expanded by a modest +1.3% y/y (+2.5% in 2016). External trade activity also gathered pace in 2017. Both exports and imports expanded in Q1-Q3, by +10.1% and +9.5% y/y on average, respectively (+6.4% and +6.6% in 2016). We expect the momentum to continue in Q4 and forecast full-year GDP growth of +4.6% in 2017. In 2018-2019, annual economic growth is projected to moderate somewhat to an average +3.5% or so as the investment boom will ease due to waning base effects.

Improved economic fundamentals

Following the domestic banking sector crisis in 2013, the government was able to raise sufficient money on financial markets and shoulder the recapitalization of three major banks without international help and thus avoided a sovereign debt crisis. This was a particular positive in the midst of the then ongoing Eurozone sovereign debt crisis (shortly after Cyprus). Meanwhile, the Slovene banking sector has substantially strengthened.

But the bail-out led to a sharp deterioration in public finances. In the meantime, the fiscal deficit has been brought back under control, forecast at less than -1.5% of GDP p.a. in 2017-2019. However, the legacy of large deficits in 2009-2014 blew up public debt to 83% of GDP in 2015 (from 22% in 2008) from which it will decline only gradually.

Gross external debt will also remain very high at over 100% of GDP until 2019, of which about 60% is public sector external debt (up from 21% in 2008).

On a positive note, the current account has posted large surpluses since 2012, reaching +5.2% of GDP in 2016 and forecast at +5% to +6% in 2017-2018.

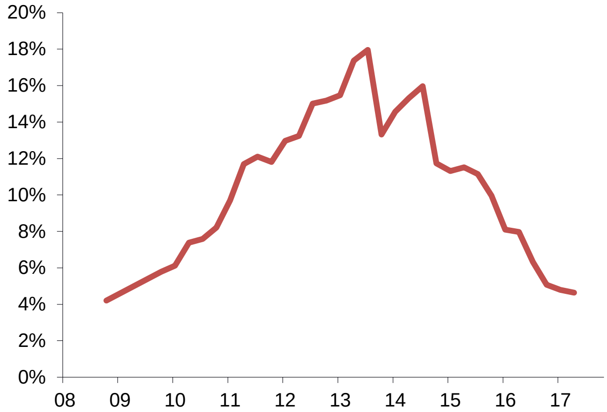
Moreover, inflation is set to remain in check and Eurozone membership provides for moderate transfer and convertibility risk.

Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	3.1	4.6	3.6	3.5
Inflation (%, yearly average)	-0.1	1.4	1.7	2.0
Fiscal balance (% of GDP)	-1.9	-1.2	-1.1	-1.4
Public debt (% of GDP)	78.5	77.0	75.0	74.0
Current account (% of GDP)	5.2	6.0	5.0	4.5
External debt (% of GDP)	110.9	108.0	107.0	106.0

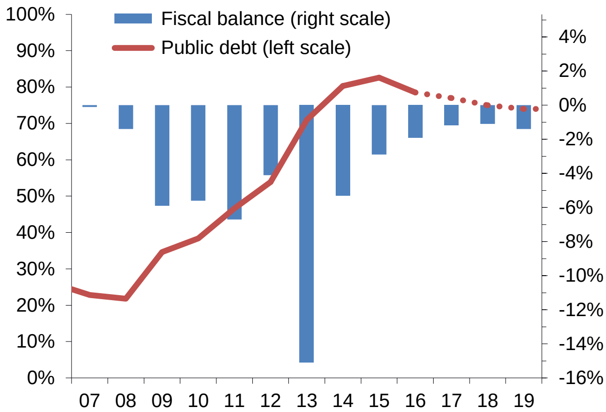
Sources: National statistics, IHS, Euler Hermes

Non-performing loans (NPLs) of the banking sector (% of total loans)



Sources: IMF, Euler Hermes

Public finances (% of GDP)



Sources: Eurostat, Euler Hermes

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