Euler Hermes Economic Research

Country Report

Slovenia

Moderate growth has returned but crisis legacies still weigh on the economy

General Information

GDP	USD42.7bn (World ranking 87, World Bank 2015)
Population	2.1mn (World ranking 146, World Bank 2015)
Form of state	Parliamentary Republic
Head of government	Miro CERAR (prime minister)
Next elections	2017, presidential

Strengths

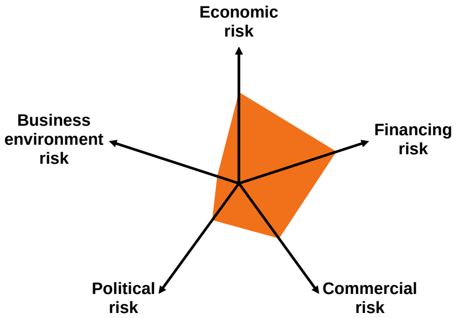
- Stable democracy and fairly good regional and international relations; EU membership
- Low inflation
- Large current account surpluses since 2012, forecast to continue in 2016-2017
- Strong business environment

Weaknesses

- Frequent government instability, often resulting in policy ineffectiveness
- Banking sector has improved after the government bail-out 2013-2014 but nonperforming loans (NPLs) remain substantial
- Rapidly deteriorated fiscal position since 2009, exacerbated by substantial banking sector recapitalisation costs in 2013-2015
- Ongoing sharp credit contraction
- High gross external debt

Country Rating

B3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Germany	20%	1	16%	Germany
Italy	11%	2	14%	Italy
Croatia	8%	3	9%	Austria
Austria	7%	4	7%	China
France	5%	5	5%	South Korea

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	10%	1	9%	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
Domestic Electrical Appliances	4%	5	4%	Miscellaneous Hardware

Source: Chelem (2014)

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Economic Overview

Still in recovery mode

Slovenia has still not fully recovered from the deep recession in 2009 that saw real GDP contracting by -7.8% in the wake of the global financial crisis. Modest economic growth of +1.2% in 2010 and +0.6% in 2011 was followed by renewed contraction of -2.7% in 2012 and -1.1% in 2013.

As a result, a growing number of highly leveraged companies was unable to repay or roll-over credits, resulting in a rapid accumulation of nonperforming loans (NPLs) and deteriorating profitability and capital adequacy in the Slovenian banking sector. A recapitalization of major banks became inevitable in 2013, the burden of which fell on the government which still owned a majority in each of the three largest banks which together control about half of total banking sector. The government was able to raise sufficient money on financial markets and shoulder the burden without an international bailout and thus avoided a sovereign debt crisis, which was a particular positive as this happened in the midst of the Eurozone sovereign debt crisis (shortly after the Cyprus crisis).

Real GDP returned to growth of +3.1% in 2014 and +2.3% in 2015 and is forecast to level off at just above +2% in 2016-2017, well below the pre-crisis average annual +4.2% in 2000-2008. Annual GDP in 2016 will also remain below the peak level reached in 2008. Growth opportunities are limited by still debt-laden company balance sheets (in particular in the SME sector) coupled with extensive state ownership of inefficient firms, as well as a still elevated share of NPLs in total loans (10% at end-2015, down from 18% in mid-2013) which continues to retard bank lending to the private sector (-8% y/y in May 2016).

Mixed economic fundamentals

The banking sector bail-out led to sharply deteriorating public finances in Slovenia. While the fiscal deficit narrowed to -2.9% of GDP in 2015 and is expected to decline further in 2016-2017, the legacy of large deficits in 2009-2014 has blown up public debt now at 83% of GDP in 2015, up from 22% in 2008).

Gross external debt was also very high at 117% of GDP in 2015, of which about half was public sector external debt (up from one-fifth in 2012).

On a positive note, the current account has posted substantial surpluses since 2012, reaching +5.2% of GDP in 2015 and forecast at +7% in 2016.

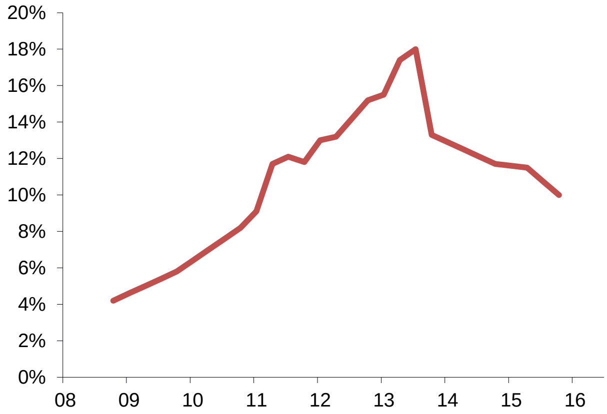
Further, inflation is not a problem and Eurozone membership provides for moderate transfer and convertibility risk.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	3.1	2.3	2.2	2.3
Inflation (%, end-year)	0.1	-0.4	0.2	0.8
Fiscal balance (% of GDP)	-5.0	-2.9	-2.8	-2.5
Public debt (% of GDP)	81.0	83.2	82.0	80.0
Current account (% of GDP)	6.2	5.2	7.0	5.0
External debt (% of GDP)	120.6	116.6	115.0	114.0

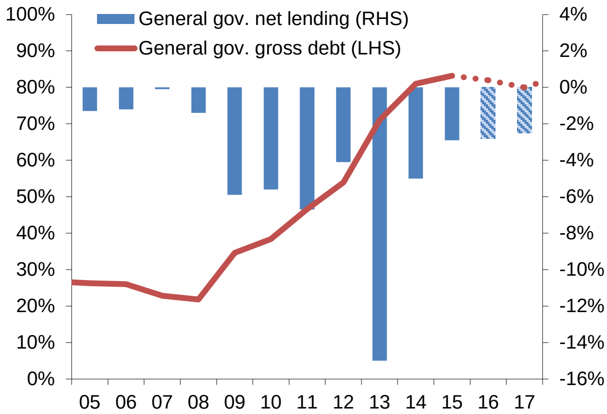
Sources: National sources, IHS, Euler Hermes

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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