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International
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Economic Alert: Slovenia Rating Raised to A+ from A with a Stable Outlook by S&P as Debt Dynamics Improve

- On June 16, 2017, S&P raised its long-term foreign and local currency sovereign credit ratings on Slovenia to A+ from A. The outlook is stable with the short-term sovereign credit rating affirmed at A-1.
- The upgrade reflects the expectation by S&P that net general government debt will fall below 60% by the end of 2018 from 62% in 2016. This is based on the assumption that the Slovenian economy will continue on its robust growth trajectory in 2017 and following years, as domestic demand continues to soar with rising employment lifting disposable incomes and investments picking up.
- Export growth remains sturdy, due to buoyant demand from European trading partners. Slovenia benefits from its integration into the Eurozone's core supply chains in a number of key industries, such as automotive, pharmaceuticals, and electrical equipment.
- Slovenia's bright economic outlook and labor market conditions support the recovery of its financial sector, as nonperforming loans continue to decline and appetite for lending in the economy returns.
- The government has succeeded in putting debt in relation to GDP and interest costs on a firm downward trend.
- Slovenia continued its strong growth in first-quarter 2017, with Real GDP expanding by more than 5% year on year. As such, S&P revised the growth projections upward for 2017 and 2018 to 3.7% and 3.4%, respectively. This is driven by rising private consumption due to sound employment growth and higher incomes.
- S&P projects that Slovenia will continue to post sizable current account surpluses, albeit narrowing to 5.5% of GDP by 2020 from 6.8% in 2016 on the back of domestic demand driven imports.
- According to S&P it is believed that the authorities will drive the general government deficit to below 1% of GDP in 2017. The economic recovery, increasing tax collection and social security contributions, and interest expenditure savings following recent debt management operations awarded the government some fiscal leeway to digest this year's public-sector wage rises while keeping within the existing expenditure ceilings.

- Slovenia's banking performance is expected to increase moderately over the next two years, mainly because of thinner interest margins. According to the Bank of Slovenia, the total capital ratio was 19% in December 2016, above the EU average of 15%.
- According to S&P, the progress on planned structural reforms, for example in the health care system, could stall and fiscal consolidation could become less of a priority. This is due to increased political posturing in the lead up to the parliamentary elections to be held in mid-2018.
- The stable outlook on Slovenia balances the upside potential from further reduction of debt and contingent liabilities against structural reform complacency, risk of fiscal slippage, and reemerging external imbalances.

Selected Indicators	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Real GDP growth (%)	(1.1)	3.1	2.3	2.5	3.7	3.4	2.7	2.6
Export Growth (%)	3.1	5.7	5.6	5.9	6.9	5.2	5.0	4.9
Unemployment Rate (%)	10.1	9.7	9.0	8.0	7.4	6.5	6.0	5.8
General government balance/GDP (%)	(15.1)	(5.4)	(2.9)	(1.8)	(0.9)	(1.1)	(1.0)	(1.0)
General government debt/GDP (%)	68.4	78.4	80.7	77.3	73.9	70.0	67.9	65.8
Net general government debt/GDP (%)	58.4	61.9	61.9	62.4	60.4	58.6	57.1	55.7
General government interest /revenues (%)	5.7	7.4	7.2	7.3	6.1	5.5	5.2	5.1
CPI growth (%)	1.9	0.4	(0.8)	(0.2)	1.5	1.8	2.0	2.1
Current account balance/GDP (%)	4.8	6.2	5.2	6.8	6.6	6.3	5.9	5.5
Current account balance/CARs (%)	6.0	7.6	6.2	8.0	7.5	7.1	6.6	6.0

Source: Standard & Poor's

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