Creditreform Sovereign Rating

Creditreform Rating
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Rating Object	Rating Information	
REPUBLIC OF SLOVENIA	Assigned Ratings/Outlook: **A+ /stable**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	03-03-2017 01-03-2019 “Sovereign Ratings”

Rating Action

Neuss, 01 March 2019

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Republic of Slovenia to “A+” from “A“. Creditreform Rating has also raised Slovenia’s unsolicited ratings for foreign and local currency senior unsecured long-term debt to “A+” from “A“. The outlook is revised to “stable”.

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Key Rating Drivers

1. Enduring economic recovery; we expect growth to moderate but remain robust in 2019/20, as strong domestic demand should cushion the impact from a weaker external environment
2. Relatively high levels of diversification and wealth; while strong growth continues to translate into sustained income convergence with the EU, Slovenian economy is likely to increasingly face structural bottlenecks stemming from demographics
3. Generally high quality of institutional set-up balanced by frequently reshuffled governments and the relatively high incidence of snap elections; elevated risk that five-party-minority government may not see the end of its legislative term
4. Resilient growth and decreasing interest expenses likely to cater for a firm downward trend of the debt-to-GDP ratio; fiscal risks related to expenditure pressures from public wages, age-related spending, and expansionary measures envisaged in the coalition agreement, as well as public guarantees
5. Improving external position, as sustained, but prospectively receding current account surpluses resulting in continued improvements in the sovereign’s NIIP

Reasons for the Rating Decision

Creditreform Rating has raised its ratings on the Republic of Slovenia to “A+” from “A“. The upgrade is underpinned by (i) the ongoing fiscal consolidation, driven by strong tax revenue intake and declining interest outlays, resulting in a very favorable debt trend; (ii) the continued economic recovery, implying strong and broad-based GDP growth coupled with a further improving labor market situation; and (iii) our expectation of robust economic growth and a further declining public debt ratio.

Our assessment of the Republic of Slovenia's creditworthiness continues to reflect its favorable macroeconomic performance profile, characterized by relatively high levels of wealth, strong economic growth, as well as the sovereign's well-diversified and competitive economy.

The economic recovery has entered its sixth year in 2019. Output expansion had accelerated markedly from 3.1% in 2016 to 4.9% in 2017. Last year's growth rate came in a touch lower, at a still very healthy 4.5% – thus making Slovenia again one of the fastest growing economies in Europe, realizing an annual average growth rate of 3.6% over the past five years. The outcome could have been even better without the somewhat weaker performance in the final quarter. While total output had grown by a solid 5.2, 4.6, and 5.1% (y-o-y) in the first three quarters, growth in the fourth quarter pulled back to an yearly rate of 3.6%.

As in 2017, real GDP growth was mainly driven by vibrant investment activity, benefiting from favorable financial conditions, the need for expansion investments, the recovering housing market, and European Structural and Investment (ESI) funding. After having risen by 10.7% in 2017, the highest annual growth rate since 2007, investment growth was thus able to sustain its momentum, increasing by 10.6%. Non-residential construction investment has been flourishing for several quarters, with investment in other building and structures increasing by 26.1 and 18.1% y-o-y in the third and fourth quarter respectively, lifting it to 6.8% of GDP in Q4-18 (Q4-17: 5.8% of GDP). Moreover, exports continue to spur economic growth, although the growth contribution of net exports moderated from 1.3 to 0.3 p.p., largely owing to the high import content of investment and the weaker external environment in the second half of the year. According to latest Statistical Office (SORS) data, exports thus increased by 7.2%, compared to an import growth of 7.7%.

Public consumption exhibited healthy growth, expanding by 2.6% (2017: 0.5%), while 2018 has seen rather muted private consumption growth. Despite a favorable labor market development (see below), household spending increased by 2.2%, slightly up from 1.9% a year before. Sluggish household spending may be explained by slowing real wage growth and a temporary setback in consumer confidence, witnessed in the second half of last year. At the same time, a higher share of households' disposable income is saved, mirrored by a rising saving rate, which was up to 13.8% in Q3-18 (Q3-17: 12.2%).

The strong growth performance translated into sustained income convergence with the EU. We assess that per capita incomes continued to move closer to EU-levels, as the Slovenian GDP per capita now accounts for 85% of the EU-28 total, up from 83% a year before (IMF data). In PPP terms, Slovenian per capita income is estimated to have leapt from USD 34,480 in 2017 to USD 36,826 in 2018. Hence, Slovenian GDP p.c. not only lies slightly above the median of our A-rated sovereigns (USD 35,962). Slovenia also appears to be at a more advanced stage than the large majority of its Central and Eastern European (CEE) peers, as only Czechia posts a higher per capita income (USD 37,423).

To be sure, the Slovenian economy is highly exposed to external risks due to its integration in European supply chains, high trade openness (trade-to-GDP 2017: 156.1%), and strong

exposure to the German economy (approx. 20% of exports). Nevertheless, the well-diversified economy and low levels of private sector debt underscore our view that its economy is also characterized by a relatively high degree of economic resilience and flexibility. Slovenia's economy thus features a high value-added industrial sector which accounts for 26.2% of total gross value added (Q3-18), standing well above the euro area average of 19.6%. Furthermore, wholesale and retail trade, transport, accommodation and food service activities make up for 22.4% of total GVA (EA-19: 19.6%).

What is more, Slovenia's private sector ranks among the least indebted in Europe, implying a comparatively high risk-bearing capacity. As illustrated by ECB data, corporate deleveraging has made huge strides over the recent years. Over the last five years, non-financial corporations' (NFC) debt has almost halved, dwindling to just 46.1% of GDP in Q3-18 (Q3-17: 50.6% of GDP) – corresponding to the fourth-lowest reading in the EU-28. Household debt as measured by disposable income has remained broadly stable and inched up from 45.5% in Q3-17 to 45.6% in the third quarter of 2018 – also one of the lowest levels in Europe.

Meanwhile, the Slovenian economy benefits from its favorable labor market performance. On the back of the pronounced economic recovery, employment rose to historical highs. Employment (domestic concept) has thus increased by an annual rate of at least 2% for ten consecutive quarters, bringing the total number of persons employed to 1.03m in Q4-18. Labor participation has also hit an all-time high in the third quarter of 2018. According to Eurostat LFS data, labor participation (15-64y, s.a.) stood at 75.2%, up from 74.6% a year before (EA-19 average 73.5%). Buttressed by the accelerating economic activity and the high labor demand, the harmonized annual unemployment rate (Eurostat) dropped from 6.6% in 2017 to 5.4% last year, the lowest reading since 2008 and comparable to other CEE peers. We note that Slovenia performs well as regards the EU's Social Scoreboard as it scores better than average on many monitored indicators in the fields 'equal opportunities and access to labor market' and 'social protection and inclusion'.

A very high and upward-trending vacancy ratio, which stood at 2.4% (construction: 7.3%) in the fourth quarter of 2018 as compared to 2.2% in Q4-17, signals that a further tightening labor market can be expected (long-term average 1.2%). Employers are increasingly relying on foreign citizens to meet their labor demand. While the share of foreign nationals in employment gains has been increasing since the beginning of 2017, it surpassed the 50%-mark in July 2018 and posted at 60.3% in Dec-18 (SORS data). By the same token, survey data points to increasingly tight labor market conditions, with the share of industry enterprises citing labor shortages as a factor limiting production increasing from 36.9% in Q1-18 to 41.9% in Q1-19. In construction this share is even higher, totaling 46.1% in Jan-19 (Jan-18: 33.9%).

Despite tightening labor market conditions, wage growth still appears moderate and has levelled off somewhat over the last few quarters against the backdrop of the inflow of foreign workers, which are predominantly employed in sectors with lower remuneration. Average monthly earnings totaled approx. EUR 1,782 in Dec-18, only 3.4% above the level seen in the previous period (SORS data). Growth of total wages and salaries in industry, construction and services has fallen to 2.2% in Q3-18, down from 5.8% in Q3-17 (Eurostat

data). Going forward, wage pressures are likely to mount as we expect that labor market constraints are beginning to bite and employment growth appears to have peaked in the first quarter of 2018 (considering annual growth rates). Perhaps even more importantly, there is an increased risk that Slovenia's cost competitiveness and export market share may come under pressure.

So far, we have not observed significant adverse effects on competitiveness in latest available data. To the contrary, Slovenia's market share in world exports shot up by 6.82 and 5.56% in 2016/17 (2017: 0.18%). Furthermore, as wages are expanding in line with productivity, real unit labor costs (ULC) have evolved rather favorably – not only with a view to its main trading partners, but also compared to CEE peers. According to AMECO data, real ULC are estimated to have slightly decreased by 0.3 and 0.2% in 2017 and 2018 respectively (2010-17: -4.6%). Additionally, Slovenia retained its 35th rank in the latest edition of the World Economic Forum's (WEF) Global Competitiveness Report, being surpassed only by Czechia and Estonia in the group of CEEs.

Economic prospects remain favorable, boding well for a continued income convergence. We expect that economic growth will gradually soften to 3.3% this year and 2.7% in 2020, mainly due to crosscurrents from the external environment and capacity constraints in the domestic economy. That being said, Slovenia is likely to remain among the fastest growing economies in the euro area. On the external side, we believe that export growth will remain solid, as competitiveness should be sustained. The industry sector's export expectation for the months ahead have edged down, but remain on a high level, corroborating our view of robust export demand in the near term. However, as we expect economic growth in Slovenia's main trading partners to ease, so will external demand. On top of this, we assume that import-intensive domestic demand will lead to strong import growth, which should outpace growth in exports, resulting in a diminishing growth contribution of net external trade.

We forecast growth to be mainly propelled by domestic demand. Investment activity is set to remain the key driver of economic growth, as healthy corporate balance sheets, survey data on upbeat business sentiment and well-filled order books in industry and construction, as well as very high levels of capacity utilization will support private investment. Capacity utilization in the industry sector stood at 85.2% (Q1-19), near its pre-crisis and all-time high (Q2-07: 86.2%) and running significantly above its long-term average of 80.7% (1995-2018). Judging by the latest bank lending survey, credit conditions have remained unchanged and funding costs should stay low over the next two years. Residential investment activity should increase on the back of a persistent undersupply of housing and the concurrent buoyant development of house prices (see below). Public investment, which expanded by 18.6% y-o-y in the first three quarters of 2018, is likely to grow vividly, boosted by ESI funds. Going forward we should witness an accelerated drawdown on EU funding. As of 27 February, financial resources allocated to investment projects (i.e. project pipeline) have increased from approx. EUR 2.68bn in 2017 to EUR 3.56bn or 72% of planned investment at the end of 2018 (EU cohesion data).

Domestic demand should also be lifted by recovering consumption growth. While abolished austerity measures and higher wages in the public sector will presumably cater for robust growth in government consumption, employment and wage growth will aid resuming private

household spending. Alongside the favorable labor market development, consumer confidence bodes well for consumption growth. Consumer sentiment, which had experienced a temporary setback in last year's third quarter, started to recover at the turn of the year and remains at historically high levels.

In the medium term, structural bottlenecks stemming from the demographic development are likely to become more entrenched and – unless addressed – put a lid on Slovenia's potential growth, potentially endangering the convergence process. Labor input may thus be dampened markedly going forward, amid an increasingly ageing population and moderate migration flows. According to the EU Ageing Report 2018, the Slovenian old-age dependency ratio (15-64) reaches 41.3% by 2030, up from 28.6% in 2017 – corresponding to the third-highest increase in the EU-28 and then standing well above the EU average of 39.5%. At the same time, projected net migration flows do not appear sufficient to cushion this pronounced increase, as net migration is projected to oscillate around a mediocre 0.2% of total population in the same period (EU-28, 2030: 0.21%). In this regard, emigration of well-educated citizens requires close attention. As signaled by SORS data, the number of emigrating prime-age workers with tertiary education rose by 20.7% in 2017 and accounted for 28.6% of total emigration (25-54y). Accordingly, working-age population is forecast to contract by 5.5 p.p. to 61.0% of total population in 2016-30, one of the largest declines in the EU.

In addition, capital accumulation may become constrained, mainly by the prospective reduction in ESI funding from 2021 onwards. With 19.4% of GDP in 2018, Slovenian total investment stood below the EU average of 20.5% of GDP, owing to recovering, but below-average private investment and stagnant public investment (relative to GDP). For the reasons elaborated above, we expect a continued recovery in investment activity. Further out, however, the outlook is clouded by a lower fund allotment as foreseen by the next multi-annual EU budget framework. The EU Commission reckons that cohesion fund allocation may fall by almost 10% as compared to the 2014-20 period. Moreover, a comparatively cumbersome business environment may curb private investment. According to the Doing Business Report 2019, Slovenia slipped three places to a still decent rank 40 out of 190 economies, somewhat higher than several CEE peers, but well below other A-rated sovereigns, largely driven by pronounced weaknesses in dealing with construction permits (rank 120) and enforcing contracts (110). Still pervasive red tape is also indicated by Slovenia's rank 120 out of 140 economies on the Global Competitiveness index component 'burden of government regulation'.

This contrasts with a generally high quality of the Slovenia's institutional conditions, which continue to back our sovereign assessment. Slovenia continues to benefit from EMU membership, involving broader and deeper capital markets, significant trade integration, and the adoption of common standards and rules. Concerning our preferred measures of the institutional set-up, the World Bank's Worldwide Governance Indicators (WGIs), the sovereign outperforms the CEE median on all WGIs we consider and compares well to our A-rated universe, while somewhat lagging the euro area benchmarks. The latest update of the WGIs documents a broadly effective government when it comes to credibly formulating and implementing policies, ranking Slovenia on 33 (out of 209 economies), on par with the euro

area. The sovereign displays a somewhat larger gap with regard to the WGI voice and accountability (rank 42 vs. EA-19 rank 27). Also, there appears to remain some room to improve as regards the quality of contract enforcement, property rights, and courts (rank 37 vs. EA-19 rank 32), and with a view to control of corruption (rank 44 vs. EA-19 rank 41).

Regarding the efficiency of the justice system, signs of significant improvements are apparent in the EU Justice Scoreboard 2018, which shows that time needed to resolves cases more than halved from 154 days in 2010 to 72 days in 2016. Likewise, the number of pending cases dropped sharply from 18.6 to 7.2 per 100 inhabitants. We further note that Slovenia has enhanced its anti-corruption framework as shown by the WGI improvement since 2014, as well as by last year's GRECO report, which echoes concerns about limited progress on some fronts, but acknowledges that the majority of GRECO's recommendations have been implemented. At the beginning of this year, the government envisaged an approval of the long-awaited Integrity and Prevention of Corruption Act by September 2019.

Other government initiatives that should be pointed out are targeted towards improving the business environment. Particularly noteworthy is the Slovene Enterprise Fund, which grants access to funds in the form of subsidies to start-ups and seed capital, and shall make some EUR 629m available for approx. 6,200 SME projects until 2023. Other measures to facilitate investment activity comprise the Investment Promotion Act and the Promotion of Tourism Development Act, which entered into force in February 2018 and January 2019 respectively. The latest (10th) report on the Single Document indicates, albeit referring to 2017, further progress on implementing the measures to reduce administrative burden – stating that 67.1% of the measures had been realized by the end of 2017, and 28 new measures have been added.

Apart from these few instances, delivery on deep reforms has proven elusive over the last months, largely owing to the parliamentary elections last June and the difficult government formation that was completed only by 13 September 2019. Policy-making has become more challenging, as political fragmentation has increased, with the Slovenian parliament now encompassing nine parties. Furthermore, the runner-up, the List of Marjan Sarec (LMS) party, formed the country's first minority government, consisting of LMS and four other center-left parties (43 of 90 seats). We believe that there is an elevated risk that the minority government may not see the end of its legislative term, given that five parties with differing key priorities are involved. In the latest polls dating from February, LMS has taken over the lead from election-winner SDS. In any event, the government is dependent on ad hoc support from opposing parties, leading us to expect that translating reform measures into concrete action may prove politically difficult.

Despite palpable progress in fiscal consolidation, Slovenia's public finances represent its main credit weakness, continuing to drag down our sovereign assessment. The sovereign's fiscal performance balances the recent favorable debt trend, prudent debt management and the concurrent decline in interest outlays, against still elevated government debt and fiscal risks related to expenditure pressures from public wages, age-related spending, and expansionary measures envisaged in the coalition agreement, as well as public guarantees.

As expected, in 2017 the headline balance on the general government level recorded its first surplus in the history of the Republic of Slovenia, as the balance shifted from a deficit of -1.9% of GDP in 2016 into a slight surplus of 0.1% of GDP. For 2018, we expect the headline surplus to widen to 0.8% of GDP, as the main drivers remained in place and some one-offs (EU budget, dividend payments) were at play. Preliminary Ministry of Finance data for 2018 reveals that buoyant economic activity and the favorable labor market development resulted in brisk growth of corporate and personal income tax receipts, which leapt by 10.4 and 11.4% on the year, while VAT revenue increased by 7.2% y-o-y, and social security contributions rose by 7.5%. What is more, receipts from the EU budget and revenues from participation in profits and dividends skyrocketed by 99.7 and 81.4%. On the expenditure side, significantly lower interest expenses, which fell by 11.9% to EUR 867.9m, more than outweighed the strong increases of 5.2 and 9.9% in compensation of employees and social security contributions.

Looking forward, Slovenia should post a modest surplus of 0.3% of GDP in 2019 thanks to robust economic growth and the positive labor market performance, which are likely to provide for a strong boost to tax and social transfer receipts, while interest expenditure should follow its firm downward path. Notwithstanding, expenditure is likely rise faster than revenues. Public investment should increase on the back of an accelerated drawdown on EU funding, and the public wage bill and social transfers are about to rise strongly – due to eased restrictions on family benefits, and the agreement reached between the government and trade unions last November, implying increases in wages and allowances.

Although the headline surplus is set to moderate, we assume general government debt to decline further. As measured by GDP, public debt edged down from 78.7 to 74.1% in 2016-17, and diminished to 71.0% in the third quarter of 2018. The sovereign has thus shown a remarkable development in reducing its government debt, namely by 12.9 p.p. of GDP since Q3-15, the third-strongest decline in the EU. Still, Slovenia currently displays the highest reading among our A-rated sovereigns.

Irrespective of the positive debt trend and the cyclical boost to government revenue, we see some fiscal risks on the horizon, threatening fiscal consolidation. Expenditure pressures are mounting, since the government has signaled that it will gradually abolish the austerity measures implemented in the aftermath of the financial and economic crises. In this vein, a further rise in public wages is foreseen for next year and certain restrictions will be lifted, e.g. on overtime payment.

Additional financial support may be needed in health care, associated with health services and insurance. While the new Health Care and Health Insurance Act is still pending, work on a draft law will drag on in 2019. Then there is a lingering discussion over setting up a demographic fund and higher grants for pensioners to improve pension financing. Authorities announced that a pension reform along the lines of the White Paper on Pensions would be pursued.

We think that progress in this field should be closely monitored, as age-related costs are about to rise notably against the background of clouded prospects regarding the demographic development, representing a downside risk to fiscal sustainability over the medium

to long term. According to the EU Commission forecast, the fiscal costs of ageing will rise by 2.1 p.p. to 23.9% in 2016-30, one of the fastest increases in the EU. Age-related expenditure is projected to markedly rise in the field of public pensions (+ 1.1 p.p. GDP) and health care spending (+0.6 p.p. GDP).

Though declining, contingent liability risks in connection with the large state-owned enterprise (SOE) sector (total assets as of Q3-18 approx. 25% of 2017 GDP) are here to stay. Public guarantees equated to a sizeable 12.7% of GDP in 2018, and should decrease to 11.1% in 2019 (Draft Budgetary Plan 2019); subscribed ESM-capital accounts for another EUR 2.99bn or 7.0% of 2017 GDP. We note that Slovenian SOEs' profitability has improved over the years, backed by the ongoing economic recovery, and that the SOEs' return on equity is estimated at around 6.2% in 2019/20 (SSH data).

The banking sector also remains a source of risk, although we acknowledge that financial stability poses no immediate threat to fiscal sustainability at the current juncture. While the CET 1 ratio amounted to 18.6% in last year's third quarter, well above the EU average of 14.7%, asset quality has improved significantly over the last years (EBA data). The non-performing loan (NPL) ratio fell from 24.6% in Q3-15 to 7.9% in Q3-18. Yet, the Slovenian NPL ratio posts well above the EU average of 3.4%, and only four EU-28 members displays higher NPL ratios.

House prices have increased rapidly throughout 2018, with the 3-y-growth rate hitting 24.2% in Q3-18, after running at double digits since the second quarter of 2017. However, affordability ratios are not yet pointing to misalignments and stand at levels comparable to the 2007-18 average. Also, annual mortgage loan growth has hovered around a modest 4% throughout 2018. By contrast, consumer loan growth has strengthened significantly, as reflected by credit flow data and the share of credit for consumption in banks' total assets. We consider risks to be contained, not least because authorities seem to be aware of the risks and have taken additional macroprudential measures. Alongside a modified macroprudential recommendation on housing loans, which entered into force last November, the BoS decided to introduce further measures targeted towards consumer loans.

Furthermore, the coalition agreement of the newly formed government outlines several measures, which may have adverse effects on the Slovenian budget, as spending on housing, defense, pensions, health care, education, and research and development is envisaged to be significantly stepped up over the legislative term. Slovenia's Fiscal Council has already flagged concerns that a full implementation may lead to a significant deterioration in the fiscal position. To be sure, scale, timeline, and design of the respective measures are not defined in detail. More importantly, the large number of parties involved and not always coherent views may hamper the process of policymaking.

We believe that fiscal risks are mitigated by the improving debt affordability, most visible in the development of the interest expenditure-to-revenue ratio, which has declined from 7.2 to 5.8% in 2015-17. Up to the third quarter of 2018 the ratio had fallen further to 5.0%. Moreover, authorities have continued to engage in sound debt management, actively reducing refinancing risks, lifting the average weighted maturity to 9.2 years, slightly down from 9.3 years in 2017 and up from 5.7 years five years ago (Ministry of Finance data).

Buttressed by the ECB's asset purchase program and investor confidence, long-term bond yields stayed at a historically low levels, oscillating at around 1%, translating into a modest Bund spread of 90bp. Additionally, the government commands over a considerable cash buffer, amounting to 14.9% of GDP (Q3-18, currency and deposits, Eurostat data).

We also trust that the government will use the envisaged 90% of the proceeds from the NLB privatization, amounting to approx. EUR 670m or 1.5% of 2018 GDP, to reduce government debt. On 14 November 2018 Slovenia sold 65% of the NLB shares and committed itself to sell the remaining 10% by the end of this year. In the same vein, further proceeds from privatization on behalf of SSH (e.g. Abanka) or the wind-down of impaired assets by the BAMC could result in a faster consolidation process, representing an upside risk to our forecast which does not include these windfall profits.

External sector risks are gradually decreasing. Slovenia's net international investment position (NIIP) is still large and negative, posting at -27.2% of GDP in last year's third quarter. However, the NIIP has increased notably since our last review, having gone up from -32.6% of GDP in Q3-17 (Q3-13: -45.3%). The NIIP composition has also evolved favorably, with the most salient and less risk-prone net foreign direct investment component accounting for a rising share of the negative NIIP, mainly due to higher direct investment liabilities, i.e. FDI inflows. Among the CEE economies, the sovereign records one of the least negative NIIPs, only surpassed by Czechia. What is more, net external debt is persistently declining, having halved over the last three years and equaling approx. 14% of GDP (Nov-18).

The steady NIIP improvement is mainly driven by the significantly increased current account surplus, amid booming exports and somewhat constrained domestic demand. The current account has been on a firm upward trajectory over the past years and climbed from 5.5% to a historical high of 7.2% of GDP in 2016-17, buttressed by a higher trade in services surplus and a less negative primary income deficit. The 4-quarter-current account rose to 7.3% of GDP in Q3-18. Going forward, we expect the current account surplus to narrow, but remain above 5% of GDP in 2019/20 (2012-17 average: 4.9% of GDP), as strong domestic demand (in particular investment activity) should boost imports, while exports are likely to increase at a somewhat lower rate due to moderating external demand.

Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged over the next twelve months.

Upward pressure on the rating could arise if medium-term growth turns out to be significantly higher than expected, with positive knock-on effects on the economic convergence process and fiscal consolidation. Credit ratings may also be raised if we observe faster-than-expected reduction in the public debt ratio in general, a significant decline in public guarantees, or substantial efforts in implementing structural reforms aimed at the demographic development.

We could lower Slovenia's sovereign rating if medium-term growth is considerably lower than expected, which could be prompted by substantially weaker growth in the euro area, or an escalation in protectionist measures. A negative rating action may also be triggered if fiscal downside risks materialize, resulting in fiscal slippages and a reversal in the debt trend, if financial stability risk stemming from the banking sector resurface, or if we witness a build-up of serious imbalances on the residential property market.

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Ratings*

Long-term sovereign rating	A+ /stable
Foreign currency senior unsecured long-term debt	A+ /stable
Local currency senior unsecured long-term debt	A+ /stable

*) Unsolicited

Economic Data

	2013	2014	2015	2016	2017	2018e	2019e
Real GDP growth	-1.1	3.0	2.3	3.1	4.9	4.5	3.3
GDP per capita (PPP, USD)	28,595	29,971	30,949	32,252	34,480	36,826	38,841
HICP inflation rate, y-o-y change	1.9	0.4	-0.8	-0.2	1.6	1.9	2.0
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	80.5	81.2	80.9	81.2	n.a.	n.a.	n.a.
Fiscal balance/GDP	-14.7	-5.5	-2.8	-1.9	0.1	0.8	0.3
Current account balance/GDP	4.4	5.8	4.5	5.5	7.2	n.a.	n.a.
External debt/GDP	114.9	125.8	120.0	111.0	101.9	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	03.03.2017	A- /stable
Monitoring	02.03.2018	A /positive
Monitoring	01.03.2019	A+ /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Bank of Slovenia (BSI), the Institute of Macroeconomic Analysis and Development (IMAD), and the Ministry of Finance (MoF) participated in the credit rating process as BSI, IMAD, and MoF provided additional data and information, and commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of BSI, IMAD, and MoF during their review. However, the rating outcome as well as the related outlook remained unchanged.

The rating was conducted on the basis of CRAG´s “Sovereign Ratings” methodology in conjunction with its basic document “Rating Criteria and Definitions”. CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document “Rating Criteria and Definitions” is published on the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, Central Bank of Slovenia, Republic of Slovenia – Ministry of Finance, Republic of Slovenia – Fiscal Council, Statistical office of the Republic of Slovenia (SORS), Bank Assets Management Company (BAMC), Slovenian Sovereign Holding (SSH).

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s “Sovereign Ratings” methodology. The main arguments that were raised in the discussion are summarized in the “Reasons for the Rating Decision”.

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

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