

# Republic of Slovenia

## Rating report

### Rating rationale

**A wealthy and resilient economy driven by economic diversification and external demand.**

Slovenia has weathered external shocks well thanks to economic diversification, countercyclical measures, and a rapid diversification of energy supply from Russia. Real GDP growth is projected at 2.3% in 2024 and around 2.7% over 2025-2029, against an estimated growth potential of 2.5%. Private consumption benefits from declining inflation, while public and private investment remains strong. Export sectors are expected to benefit from the recovery of external demand within the EU.

**A credible policy framework and favourable debt profile support funding flexibility.**

Slovenia's euro membership, long record of budget discipline and surpluses underpin fiscal sustainability. The moderate budget deficit is projected to decline due to one-off measures to ease the impact of floods. These measures are partly funded through corporate income tax and tax on bank assets. Slovenia's funding flexibility is bolstered by a high tax to GDP ratio, ample liquidity relative to gross financing needs, a favourable debt profile, sound debt management, and European funds.

**Rating challenges include:** i) a weak demographic outlook, with a rapidly ageing population pressuring long-term fiscal sustainability through rising pension and healthcare costs; ii) labour market rigidities that threaten GDP growth momentum; iii) a moderately high public debt; and iv) downward pressure on external competitiveness relative to regional peers.

### Figure 1: Slovenia's sovereign-rating drivers

| Risk pillars                        | Quantitative          |                   | Reserve currency* | Political risk** | Qualitative*** | Final rating |
|-------------------------------------|-----------------------|-------------------|-------------------|------------------|----------------|--------------|
|                                     | Weight                | Indicative rating |                   |                  |                |              |
| Domestic economic risk              | 35%                   | a                 | EUR               | Slovenia         | - 1/3          | A            |
| Public finance risk                 | 20%                   | a+                |                   |                  | 0              |              |
| External economic risk              | 10%                   | bbb+              |                   |                  | 0              |              |
| Financial stability risk            | 10%                   | aaa               |                   |                  | 0              |              |
| ESG risk                            | Environmental factors | 5%                | [+1]              | [-0]             | - 1/3          |              |
|                                     | Social factors        | 7.5%              |                   |                  | 0              |              |
|                                     | Governance factors    | 12.5%             | aa                |                  | 0              |              |
| <b>Sovereign Quantitative Model</b> | <b>a+</b>             |                   |                   |                  | <b>-1</b>      |              |
| <b>Additional considerations</b>    |                       |                   |                   |                  | <b>0</b>       |              |

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. \*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index. \*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). The rating committee approved an implied SQM rating of 'a+'. Source: Scope Ratings

### Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

### Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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### Credit strengths and challenges

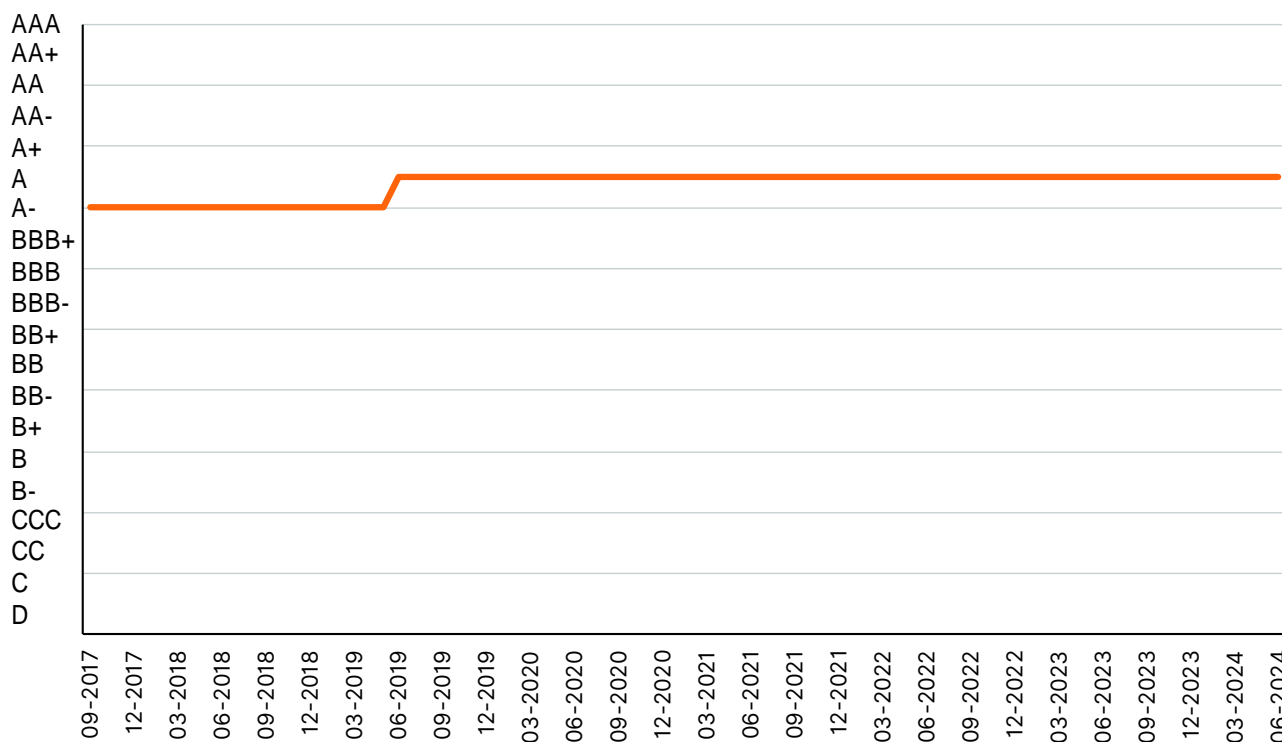
| Credit strengths   | Credit challenges   |
|--|---|
| <ul style="list-style-type: none"> <li>Euro area membership</li> <li>Strong market access and favourable debt profile</li> <li>Prudent fiscal policy</li> <li>Fiscal and external buffers</li> </ul> | <ul style="list-style-type: none"> <li>Economic and fiscal cost of ageing population</li> <li>Labour market rigidities</li> <li>Moderately high public debt</li> <li>Downward pressure on external competitiveness</li> </ul> |

### Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

| Positive rating-change drivers  | Negative rating-change drivers  |
|---|---|
| <ul style="list-style-type: none"> <li>Fiscal outlook improves; public debt on a firm downward trajectory and age-related pressures sustainably addressed</li> <li>Sustained growth raises income, supported by structural reforms</li> </ul> | <ul style="list-style-type: none"> <li>Medium-term growth prospects deteriorate</li> <li>Fiscal outlook weakens materially</li> <li>Political fragmentation and policy uncertainty curtail reform implementation</li> </ul> |

Figure 2: Rating history<sup>1</sup>



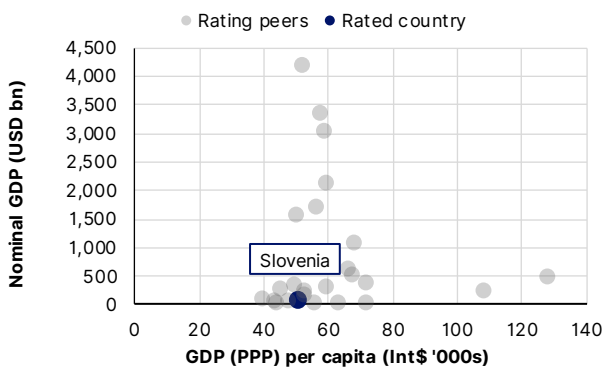
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings

### Domestic economic risk

#### Overview of Scope's assessments of Slovenia's Domestic Economic Risk

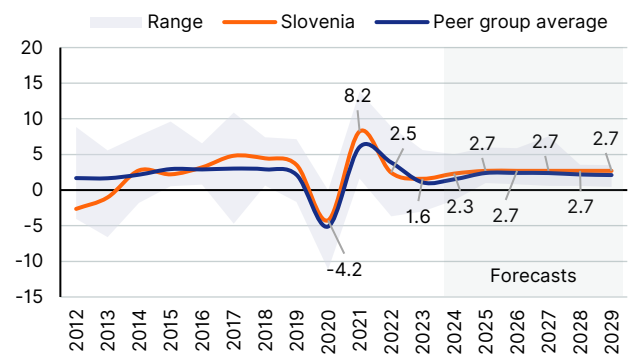
| SQM* indicative rating | Analytical component                       | Assessment | Notch adjustment | Rationale   |
|------------------------|--|------------|------------------|---|
| a                      | Growth potential and outlook               | Neutral    | 0                | Medium-run growth faces challenges from adverse demographic trends; sustained public investment                 |
|                        | Monetary policy framework                  | Neutral    | 0                | ECB is a highly credible and effective central bank; effective policy framework and transmission over the cycle |
|                        | Macroeconomic stability and sustainability | Weak       | -1/3             | Labour market rigidities and skill shortages; reliance on external demand                                       |

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



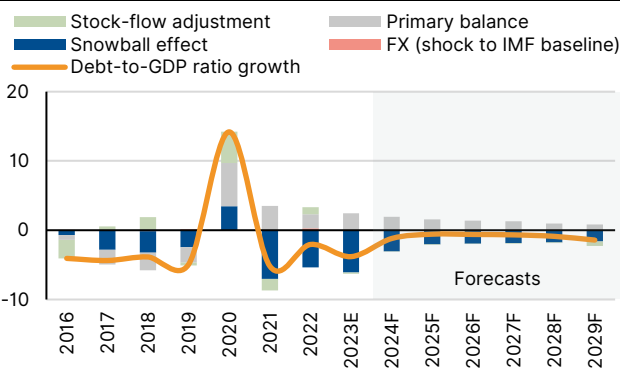
Source: IMF WEO, Scope Ratings forecasts

### Public finance risk

#### Overview of Scope's assessments of Slovenia's Public Finance Risk

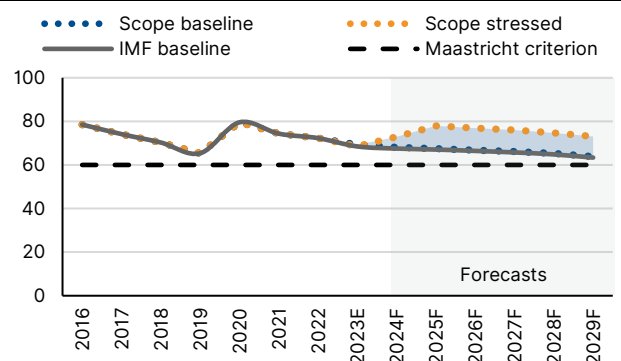
| SQM indicative rating | Analytical component           | Assessment | Notch adjustment | Rationale  |
|-----------------------|--------------------------------|------------|------------------|--|
| a+                    | Fiscal policy framework        | Neutral    | 0                | Robust and credible fiscal policy framework based on effective national rules  |
|                       | Long-term debt trajectory      | Neutral    | 0                | Declining debt trajectory in a baseline scenario; elevated pension and healthcare liabilities over the medium- to long-run |
|                       | Debt profile and market access | Neutral    | 0                | Low interest-payment burden thanks to favourable debt profile; substantial public sector liquid assets                     |

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

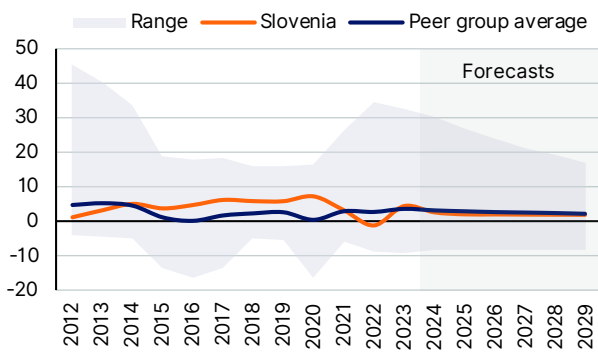
\*Sovereign Quantitative Model.

### External economic risk

#### Overview of Scope's assessments of Slovenia's External Economic Risk

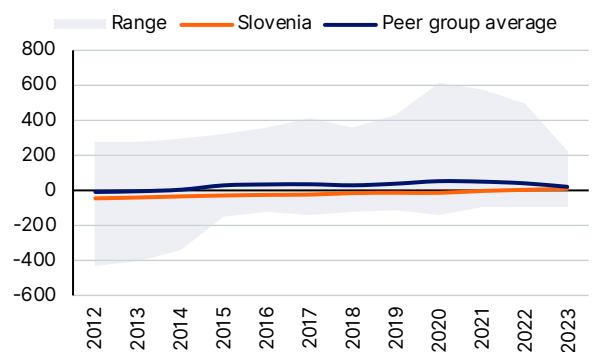
| SQM indicative rating | Analytical component                     | Assessment | Notch adjustment | Rationale   |
|-----------------------|--|------------|------------------|---|
| bbb+                  | Current account resilience               | Neutral    | 0                | Competitive industrial base; strong manufacturing industry  |
|                       | External debt structure                  | Neutral    | 0                | Moderate rise in external debt stock; significant external assets   |
|                       | Resilience to short-term external shocks | Neutral    | 0                | Small, open economy; strong reliance on external demand and foreign direct investment; benefits from euro area membership |

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



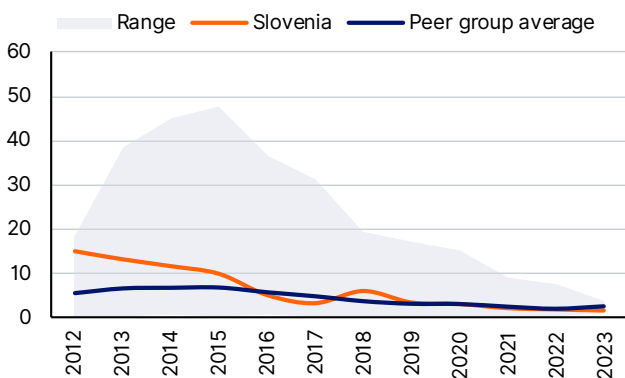
Source: IMF, Scope Ratings

### Financial stability risk

#### Overview of Scope's assessments of Slovenia's Financial Stability Risk

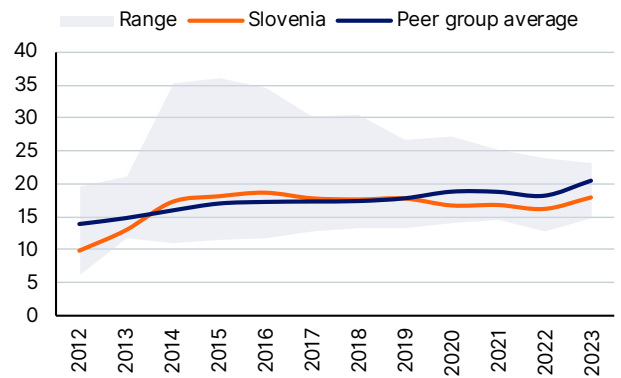
| SQM indicative rating | Analytical component                      | Assessment | Notch adjustment | Rationale   |
|-----------------------|---|------------|------------------|---|
| aaa                   | Banking sector performance                | Neutral    | 0                | High capitalisation, robust profitability and liquidity, balanced by record of banking sector crisis      |
|                       | Financial sector oversight and governance | Neutral    | 0                | Rigorous oversight under the ECB as part of the Single Supervision Mechanism                              |
|                       | Financial imbalances                      | Neutral    | 0                | High house price index balanced by the moderation of growth rates in real estate prices; low private debt |

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



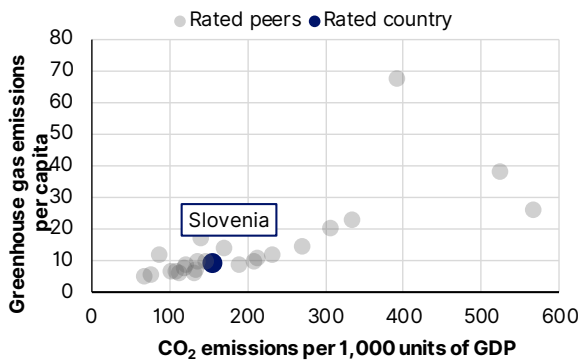
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Slovenia's ESG Risk

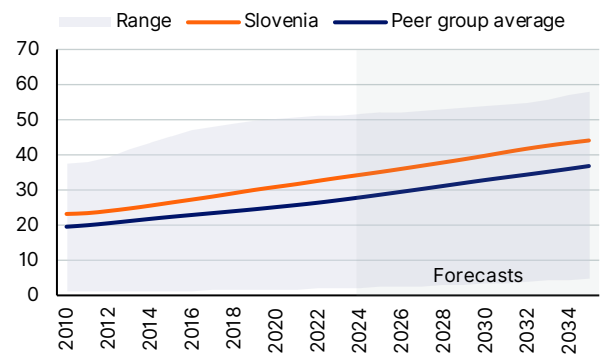
| SQM indicative rating | Analytical component  | Assessment | Notch adjustment | Rationale   |
|-----------------------|-----------------------|------------|------------------|---|
| a-                    | Environmental factors | Weak       | -1/3             | Energy mix represents transition risks relative to peers; recent record of natural disaster with economic and fiscal implications |
|                       | Social factors        | Neutral    | 0                | Well-educated labour force and low levels of income inequality, although rising old-age-dependency ratio                          |
|                       | Governance factors    | Neutral    | 0                | Strong mandate, but structural reform agenda to test effective policy making and ruling coalition agreement                       |

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

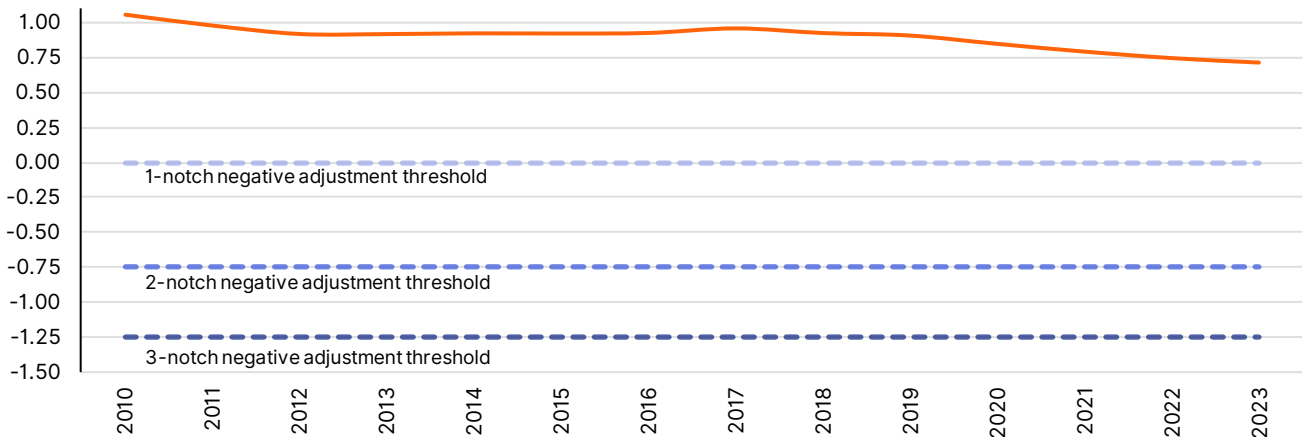
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

| Currency                     | U.S. dollar | Euro | Chinese yuan | Japanese yen | Pound sterling | Other |
|------------------------------|-------------|------|--------------|--------------|----------------|-------|
| IMF SDR basket weights, %    | 43.4        | 29.3 | 12.3         | 7.6          | 7.4            | 0.0   |
| Positive adjustment, notches | 3           | 1    | 1            | 1            | 1              | 0     |

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Slovenia, 3-year moving average



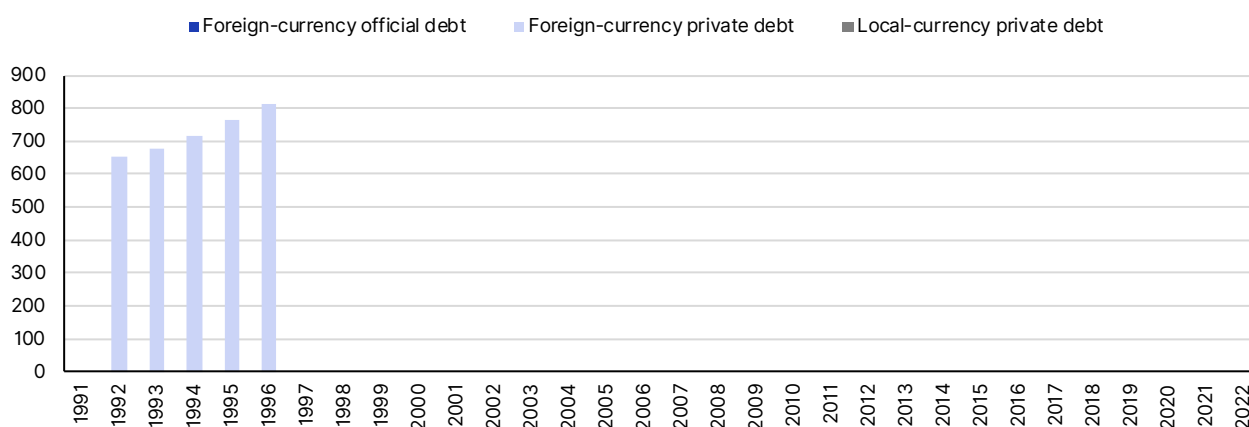
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

| Peer group*    |
|----------------|
| Croatia        |
| Czech Republic |
| Estonia        |
| Lithuania      |
| Slovakia       |

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Economic development and default indicators

|  |                  |
|--|------------------|
| IMF Development Classification           | Advanced economy |
| 5y USD CDS spread (bp) as of 5 July 2024 | 35.9             |

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

| Pillar              | Core variable   | Source | 2018  | 2019  | 2020  | 2021  | 2022  | 2023 |
|---------------------|---|--------|-------|-------|-------|-------|-------|------|
| Domestic Economic   | GDP per capita (PPP), Int\$ '000s                         | IMF    | 39.2  | 41.0  | 39.5  | 44.4  | 48.7  | 51.1 |
|                     | Nominal GDP, USD bn                                       | IMF    | 54.2  | 54.4  | 53.7  | 61.9  | 60.1  | 68.2 |
|                     | Real growth, %  | IMF    | 4.5   | 3.5   | -4.2  | 8.2   | 2.5   | 1.6  |
|                     | CPI inflation, %  | IMF    | 1.7   | 1.6   | -0.1  | 1.9   | 8.8   | 7.4  |
|                     | Unemployment rate, %                                      | WB     | 5.1   | 4.5   | 5.0   | 4.7   | 4.0   | 3.5  |
| Public Finance      | Public debt, % of GDP                                     | IMF    | 70.3  | 65.4  | 79.6  | 74.4  | 72.3  | 68.5 |
|                     | Net interest payment, % of government revenue             | IMF    | 4.1   | 3.4   | 3.2   | 2.5   | 2.1   | 2.1  |
|                     | Primary balance, % of GDP                                 | IMF    | 2.5   | 2.2   | -6.2  | -3.5  | -2.1  | -2.5 |
| External Economic   | Current-account balance, % of GDP                         | IMF    | 5.9   | 5.9   | 7.2   | 3.3   | -1.0  | 4.5  |
|                     | Total reserves, months of imports                         | WB     | 0.3   | 0.3   | 0.4   | 0.5   | 0.5   | -    |
|                     | NIIP, % of GDP  | IMF    | -18.4 | -16.3 | -16.9 | -7.4  | -1.6  | -    |
| Financial Stability | NPL ratio, % of total loans                               | IMF    | 6.0   | 3.4   | 3.0   | 2.1   | 1.8   | 1.5  |
|                     | Tier 1 ratio, % of risk-weighted assets                   | IMF    | 18.0  | 17.6  | 16.3  | 16.5  | 15.7  | 16.7 |
|                     | Credit to the private sector, % of GDP                    | WB     | 43.3  | 42.3  | 43.3  | 40.9  | 41.1  | -    |
| ESG                 | CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e | EC     | 194.5 | 182.6 | 173.7 | 169.2 | 156.8 | -    |
|                     | Income share of bottom 50%, %                             | WID    | 23.1  | 23.0  | 22.8  | 22.1  | 22.1  | -    |
|                     | Labour-force participation rate, %                        | WB     | 74.7  | 74.7  | 74.8  | 75.7  | 76.6  | -    |
|                     | Old-age dependency ratio, %                               | UN     | 29.3  | 30.2  | 31.1  | 31.9  | 32.8  | 33.7 |
|                     | Composite governance indicators*                          | WB     | 0.9   | 1.0   | 1.0   | 0.9   | 0.9   | -    |
|                     | Political stability, index                                | WB     | 0.9   | 0.8   | 0.7   | 0.8   | 0.7   | -    |

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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