01 September 2017

Public Finance

Republic of Slovenia
Rating Report

A- STABLE OUTLOOK

Credit strengths

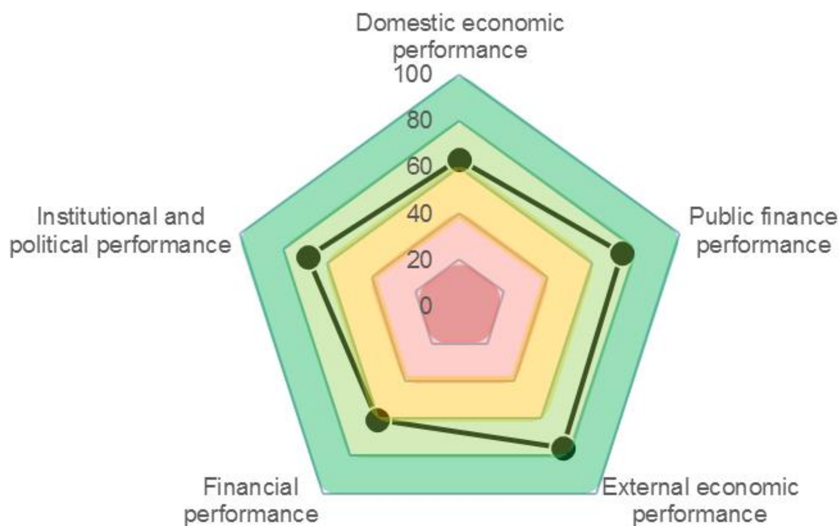
- Euro area membership
- Strong macroeconomic performance
- Progress in fiscal consolidation
- Strengthening external position
- Improving banking sector

Credit weaknesses

- High levels of public debt
- Need for structural reforms
- Ageing population

Rating rationale and outlook: The ratings are underpinned by Slovenia's EU membership and improving economic and fiscal fundamentals. The rating is driven by strong improvements in Scope's 'domestic economic risk' and 'fiscal risk' analysis categories and reflects: i) improving macroeconomic performance and strengthening external balance position; ii) progress in fiscal consolidation and the fiscal framework; and iii) improvements in the banking sector following extensive government measures to recapitalise banks and restructuring. The positive developments, however, are counterbalanced by still high levels of public debt, need for structural reforms and dealing with an ageing population. The rating Outlook is Stable and reflects Scope's view that the rating risks are balanced overall.

Figure 1: Sovereign rating categories summary:



Positive rating-change drivers

- Successful privatisation of SOEs
- Faster than anticipated debt reduction
- Successful ageing reforms

Negative rating-change drivers

- Deterioration in economic outlook
- Reversal of fiscal consolidation
- Reversal of structural reforms

Ratings and outlook

Foreign currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

Local currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

Lead analyst

John Francis Opie
+49 6966773-13
jf.opie@scoperatings.com

Team Leader

Dr. Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings AG

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone + 49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Domestic economic risk

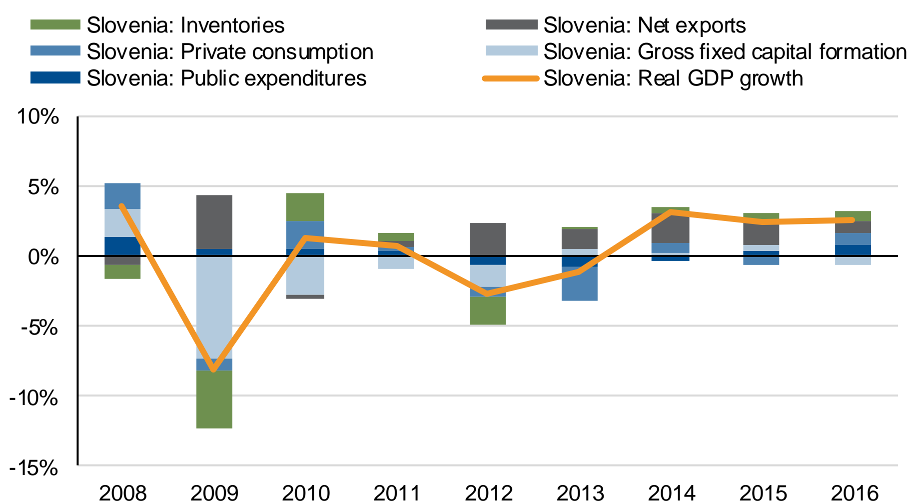
Robust recovery after banking and sovereign crisis

Slovenia has entered a fourth year of steady economic recovery with cumulative GDP growth of almost 8% between 2014 and 2016. Growth increased in 2016 by 2.5% and is expected to reach 3% in 2017, reflecting a return of domestic demand driven by the strong economic recovery, with employment increasing from 2014 to 2016 by a cumulative 3.6% and wages increasing by a cumulative 4%. Unemployment also declined from 10.1% in 2013 to 7.9% in 2016 and to 7.1% in mid-2017. Investments are expected to grow strongly in both 2017 and 2018 (5.6% and 4.5% respectively) as the absorption of EU structural and cohesion funds picks up.[1]

Table of contents

Domestic economic risk...................... 2
Public finance risk 4
External economic risk 5
Financial stability risk.......................... 6
Institutional and political risk 8
I. Appendix: CVS and QS results... 10
II. Appendix: CVS and QS results... 11
III. Appendix: Peer comparison 12
IV. Appendix: Statistical tables......... 13
V. Regulatory disclosures 14

Figure 2: Percentage point contribution to real GDP growth



Source: National statistical accounts, calculations Scope Rating AG

Volatile growth but positive going forward

Slovenia's growth has been relatively low with overall annual real GDP growth averaging under 1% over the last 10 years; it has also seen significant volatility including a major recession. The economy has returned to a solid growth path going forward after the great financial crisis led to a banking and sovereign crisis. Out of all EU members, Slovenia's economy was severely impacted during the great financial crisis, with a downturn of annual GDP growth of almost 8% in 2009, followed by a second banking/sovereign crisis recession in 2012-2013 with a cumulative decline of 3.8%. However, Slovenia also exited the recession without international financial help, in stark contrast to other EU countries. As a small open economy, Slovenia is, however, vulnerable to external shocks and structural challenges, including demographic constraints on growth. Both factors will continue to constrain Slovenia's rating.

Broad and robust exports aid economic growth

The economy is also strongly driven by a very robust export sector that is deeply integrated into major regional supply chains, helped by significant economies of scale in key industries. The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a sizeable surplus of 5.3% of GDP in 2016. This solid performance is the result of sustained positive trade balances despite the dual recessions, assisted by improvements

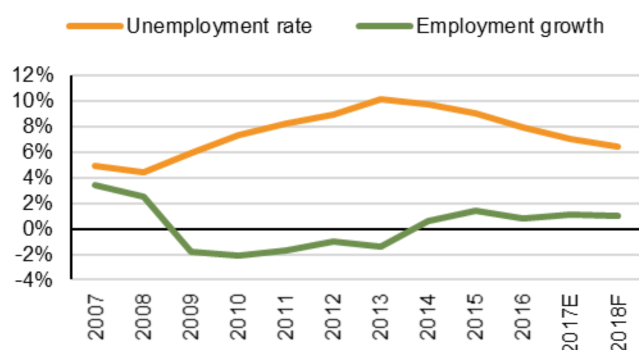
in export competitiveness, corporate deleveraging, lower energy prices, subdued investments and increased savings.

[1] Analysis for this report is based on research from the IMF 2017 Article IV Consultation May 2017 (IMF Country Report 17/125); IMF Selected Issues, Republic of Slovenia, May 2017 (IMF Country Report 17/126); European Commission Country Report SWD (2017) 89 final; Bank of Slovenia Annual Report 2016; the Bank of Slovenia Foreign Direct Investment Report October 2016; Bank of Slovenia Financial Stability Report 2016; Republic of Slovenia Ministry of Finance Bulletin of Government Finance, June 2017; IMAD Slovenian Economic Mirror No 5/2017; IMAD Spring Forecast of Economic Trends 2017 and the OECD Economic Survey, Slovenia, May 2015; hereafter IMF IV, IMF SI, EC, BS AR, BS FDI, BS FSR, MinFin, IMAD, IMAD Spring, and OECD

Slovenia's net international investment position remained negative at -35 % of GDP in 2016. However, according to IMF estimates, the anticipated sizeable current-account surpluses over the medium term are expected to lead to a balanced position by 2022. The economy, however, is vulnerable to short-term shocks due to the large dependence on exports, as a sharp economic downturn for major trading partners would negatively affect Slovenian growth.

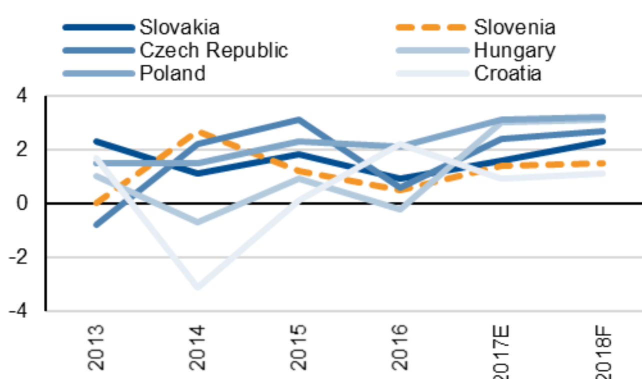
The merchandise trade balance was 3.9% of GDP in 2016. Scope sees the current-account balance as strong, based on significant increases in goods exports that keep pace with recently accelerated imports as domestic demand picks up. Goods exports, measured by their share of GDP, increased from 55% of GDP in 2007 to 62.75% in 2016, representing roughly two-thirds of the improvement. Exports are also very wide-based, with 92% of all industrial sectors represented. Increasing emphasis on specialised industrial machinery and pharmaceuticals is shifting the balance into higher value-added sectors. Those industries that are deeply integrated into major supply chains also show stronger value added than other sectors, supporting overall economic growth[2]. Labour productivity, while not growing strongly, is comparable to its geographic peer group.[3]

Figure 3: Employment and unemployment



Source: OECD

Figure 4: Labour productivity geographic peer group



Source: Eurostat, calculations Scope Rating AG

SOEs with structural rigidities lag behind private companies

State-owned enterprises (SOEs, enterprises where the government owns at least 50%) represent a major part of the Slovenian economy. While some progress has been made in privatising these legacy structures[4], the prevalence of SOEs has been a hindrance to foreign direct investment (FDI), with Slovenia showing significantly lower inward FDI (35% inward FDI stock as a percentage of GDP in 2016) than its geographic and economic peers (EU average: 50%)[5]. SOE performance is generally lower than that of privately owned counterparts and has in the past been characterised by high debt levels, low productivity and insider capture, resulting in a drag on the economy and public finances.[6] High debt levels reflect continuing problems from the post-crisis recession: while the banks were recapitalised, SOEs generally were not.

Significant reforms needed

Despite these strengths, challenges remain for Slovenia. These include the implementation of plans aimed at the improvement of the functioning of the labour market, accelerating privatisation and reforming of the large state-owned enterprises. In addition, substantial reforms of the pension system are needed to maintain long-run fiscal sustainability.

---

[2] IMF SI, page 19ff
[3] BS AR, page 22
[4] IMF IV, Box 1, page 4
[5] EC, page39ff
[6] IMF IV (2016), page 15ff

Public finance risk

Strong turnaround in government spending

The rating upgrade is also supported by substantial achievements in fiscal consolidation after the 2012-13 crisis, with Slovenia exiting the European Commission's Excessive Deficit Procedure in 2015. The government has successfully consolidated finances with the headline deficit declining to 1.8% of GDP in 2016 from 15.1% in 2013. Scope expects the steady fiscal adjustment to continue in 2017 and 2018, with Slovenia's budget deficit, according to the Ministry of Finance, are forecast to decline to around -0.8% and -0.2% of GDP, respectively. Government contingent liabilities remain relatively high, largely due to state guarantees to the large nonfinancial sector of around 17.1% of GDP in 2016 but have been declining from the total amount of guarantees of around 18% of GDP in 2015.

The targeted fiscal stance is broadly appropriate and the 2015 passage of a fiscal rule, setting medium-term budget targets of zero structural deficits, as well as expenditure ceilings imposed in 2016 and the Fiscal Council going fully operational in March 2017, should give Slovenia the window of opportunity needed to get budgets back in order.[7] Government contingent liabilities remain high, largely due to state guarantees to the non-financial sector of around 10% of GDP in 2016 (and the weak financial position of these borrowers), but have been reduced from around 13% of GDP in 2015.[8]

High levels of public debt remain

The Slovenian rating is constrained by the country's high level of public debt, which rose significantly as a consequence of the banking/sovereign crisis, from 21.8% in 2008, peaking at 83.1% of GDP in 2015. General government net borrowing increased by a cumulative 42% over that timeframe. The government has successfully consolidated finances to turn this strongly negative trend around.

More recently, steady economic recovery and lower deficit targets support positive developments on the public debt dynamics. General government debt remains high compared to its peers, but has declined to 79.7% in 2016. Scope expects the debt-to-GDP ratio to fall to 78% in 2017, supported by the recovery and the reduction in government precautionary cash buffers (end 2016: 13% of GDP), rather than issuance of debt. The continued buy-back programme since 2016 underscores the commitment of the government to reduce external debt. The replacement of high-cost US-dollar based debt with more favourable euro-based debt and the restructuring of debt to longer maturities and lower interest payments also leads to improvements in the government debt structure, reducing refinancing risks.

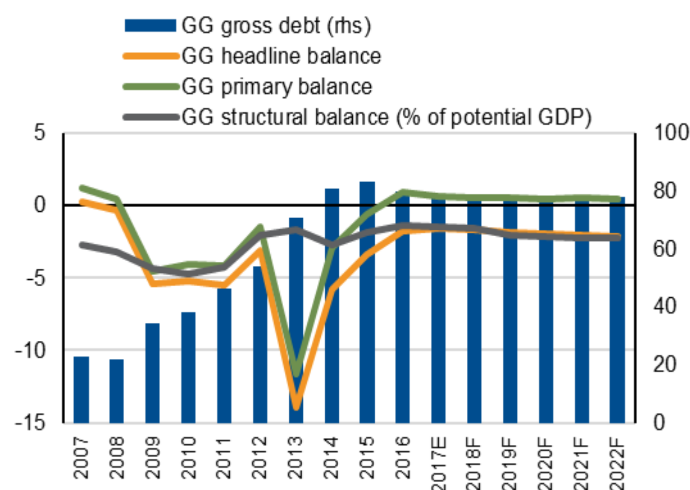
Primary balance turned around

Slovenia's debt dynamics are adequate. The primary balance returned to positive territory in 2016 after years of negative balances and Scope expects this to continue in the medium term. Debt sustainability is, however, sensitive to negative growth changes or macro-fiscal shocks tied to the potential realisation of contingent liabilities through guarantees.[9]

Scope takes a positive view of the improvements in the policymaking environment. These included swift action to repair the banking system and the implementation of fiscal policies to contain the effects of the financial crisis in support of the recovery. They also comprised reforms aimed at increasing the use of multi-year financing for government expenditures and debt repayment.

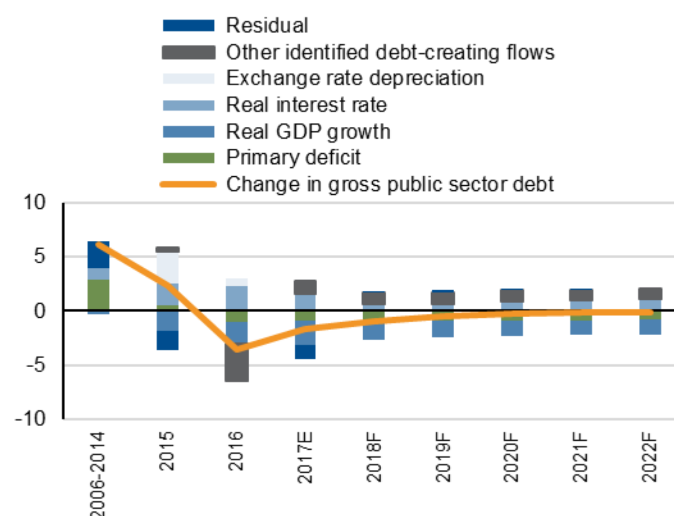
[7] IMF IV, government statement, page 1/2
[8] IMF IV, page 39/40
[9] ibid

Figure 5: Fiscal developments (% GDP)



Source: IMF

Figure 6: Debt-creating flows (% GDP)



Source: IMF

Challenges due to demographics

Substantial reforms of the pension system are needed to maintain long-run fiscal sustainability. Age-related pension, education, health-care and long-term care related expenditures are expected to cost an additional 1.9% of GDP to 26.1%, up from 24.2% in 2016. With the drastic increase of the elderly (over 80 years) from 4% of the population in 2010 to almost 11% in 2050, the government is facing potential (and largely unfunded) increases in these age-related expenditures to 31.5% of GDP, an increase of 7.3 percentage points from 2010.[10]

Further pension reforms needed to get expenditures under control

As a result, further reforms are both needed and planned: the 2013 pension reform increases the retirement age to 65 in 2020 and moves to full pension pay-outs only after 40 years of pay-in and 60 years of age. A funding gap continues to exist, however, with limited opportunity to increase pension contributions due to an already high labour tax wedge. Hence further reforms must target expenditures, especially for the aged.

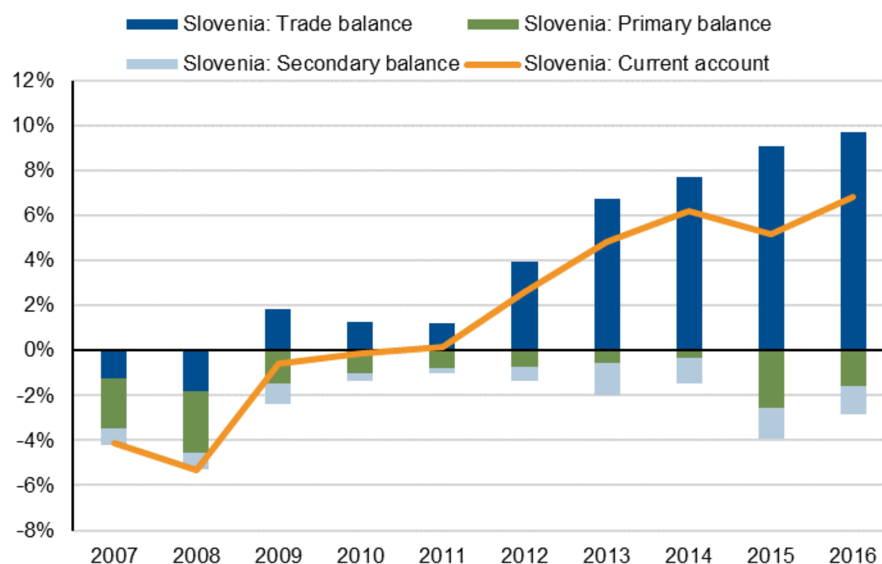
External economic risk

Current account surplus robust, but will decline

The rating upgrade is also underpinned by Slovenia's strengthening external balance position. The current account balance has risen from a deficit of 4.1% of GDP in 2007 to a sizeable surplus of 5.3% of GDP in 2016. This robust performance is the result of sustained positive trade balances, helped as well by gains in export competitiveness, corporate deleveraging, lower energy prices, subdued investment, and elevated savings. Scope expects this to fall over the long term to more moderate and appropriate levels of between 1-3% as investment and consumption start to pick up.

[10] The Government of the Republic of Slovenia, Stability Programme Amendments 2017, April 2017, page 40/41

Figure 7: Current-account balance % of GDP



Source: IMF, Eurostat, calculations Scope Rating AG

External debt falling

Banks have reduced their external liabilities significantly, with reductions in corporate debt external liabilities following with a long lag. Government external debt, however, increased substantially between the end of 2011 and the end of 2016, from 24% to 54% of GDP.[11] Following a decline in external debt of eight percentage points of GDP in 2016 as public external debt as well as bank liabilities fell, Scope expects the gross external debt ratio to fall slowly from 109% of GDP in 2016 to around 90% of GDP in 2022.

Looking further ahead, reductions in the external debt of the government will be needed to bring external debt down in any meaningful manner. While the net international investment position remained negative at the end of 2016 at -35% of GDP, the strong current-account surpluses, even while declining, should help turn this into a positive by 2022. The relative vulnerability to external shocks in this regard could see external debt increasing by as much as 10 percentage points by 2022, but it would remain below the current level.[12]

Financial stability risk

Decisive action has restored confidence in banking sector

The banking sector has improved markedly as a result of restructuring and extensive government measures to recapitalise banks after the banking/sovereign crisis in 2012-2013. This situation has been largely resolved by transferring non-performing loans from the banks to the Bank Asset Management Company (BAMC), with a decline in overall risks assessed for banks and macro-prudential instruments put into place to help avoid future problems. Government recapitalisation of the three largest banks decisively restored confidence in the weakened financial system. The total cost of the banking crisis to taxpayers amounted to approximately 13% of GDP, including bank recapitalisation and increase of BAMC debt, mitigated by the bailing-in of private investors during recapitalisation. Bank profitability has returned, with return on equity reaching 8.77% in

[11] IMF IV, page 5
[12] IMF IV, page 36

2016 and return on assets 1.09%. Asset quality has been steadily improving with the non-performing loan ratio falling from a high of 14.4% in 2012 down to 5.8% in 2016.[13]

During the 2012-2013 banking crisis, the authorities acted swiftly to address banking sector imbalances. The crisis revealed that the real equity base of Slovenian banks was weaker than previously thought. The double-dip recession required both banks and non-financial corporations (NFC) to repair their balance sheets, with NFC avoiding bank financing and equity investments. Instead, they relied heavily on available cash to deleverage, as well as on increasing their use of less expensive foreign financing. For this reason, the recovery has been slower than in the past.[14]

Banking sector challenges limit lending potential

The banking system is facing challenges associated with its path of recovery. Sight deposits have increased and represented at the end of 2016 43.3% of total bank liabilities at the highest level of consolidation. This is expected to increase further due to the relative unattractiveness of interest rates for longer, fixed-term investment instruments. While capital adequacy in the system is high under normal circumstances, individual banks could face capital shortfalls under adverse circumstances.

The banks are also focusing on domestic funding to reduce their dependence on wholesale financing, but low interest rates result in a reluctance from savers to commit to long-term investments, introducing some instability into the system. There is no guarantee that the forthcoming prudential requirements (IFRS 9, MREL) can be met over the medium term. This places further pressure on the banks. Instability risk arises largely due to highly volatile corporate deposits, now facing additional costs in maintaining sight deposits in accounts at banks.

In a favourable environment, these corporate deposits, whose opportunity costs to date have been low, could be withdrawn quickly from the banking sector to fund investments in new commercial projects, financial assets or real estate. In an unfavourable environment, such deposits (as well as private deposits) could be withdrawn quickly if the problems that arose during the banking crisis in recent years were seen to be repeating themselves. While liquid investments within the banking sector have reached 10% of total assets, secondary liquidity would rapidly gain in importance in the event of an external shock triggering increased instability in sight deposits. Since a large portion of secondary liquidity at Slovenian banks is held in government securities, there is a risk that the market would not absorb the liquidation of such assets, resulting in the need to trigger additional liquidity from the euro system, further worsening any crisis.

Furthermore, interest rate risks are increasing in the wake of investments with longer maturities being funded by short-term and sight deposits, which results in a repricing gap for bank liabilities: here, a sudden (albeit unlikely) increase in interest rates would hit bank income hard, as banks would need to refinance long-term investments in the short term.[15]

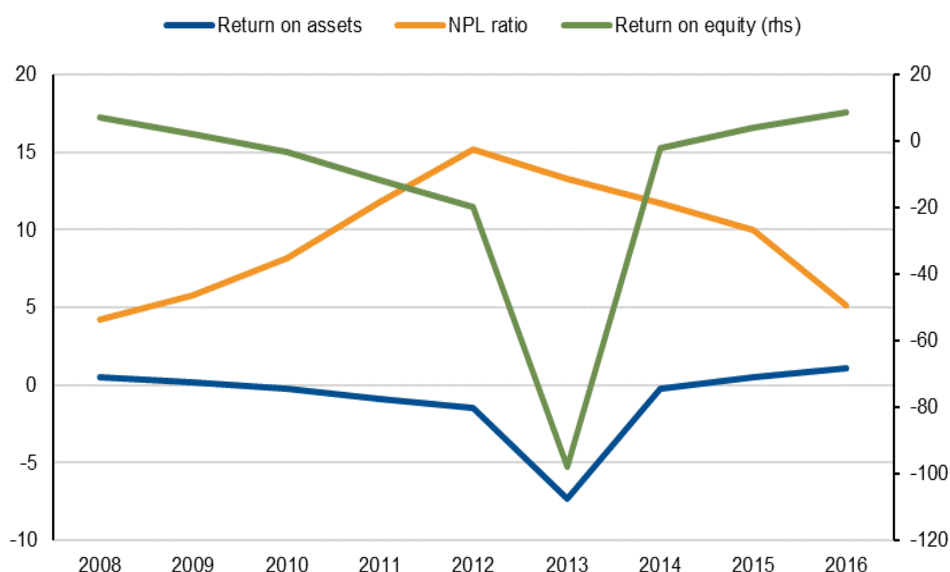
Change in demand structure points to challenges

The need for ongoing banking reforms arises from the problems that continue after the banking crisis in 2012/2013 and bail-out in 2013/2014, with changes in the structure of demand for bank services, as well as changes in corporate financing, hitting bank bottom lines and leading to a significant reduction in business lending. NFC financing by banks fell in 2016 by 7.7% prior to deduction of provisions, reflecting both the increased use of retained earnings and foreign financing by companies, but also banks' reluctance to lend due to a reduction in impairment reserves as well as other issues arising from the

[13] Urban Sila (2015), "Restoring the financial sector and corporate deleveraging in Slovenia", OECD Economics Department Working Papers, No. 1243, OECD Publishing, Paris page 5ff. http://dx.doi.org/10.1787/5jrxml3x8vq0-en
[14] IMF SI, page 4ff
[15] BS FSR, page 3

ongoing resolution of the effects of the banking crisis. Foreign lending is also exerting pressure on Slovenian bank lending. Shadow banking – credit intermediation outside of the banking sector – is underdeveloped, another indication of the generally poor state of development of the Slovenian domestic capital market.[16]

Figure 8: Bank returns (in %) and NPL (as % total loans)



Source: IMF

Banks strengthened, profitability down

Authorities are aiming at eliminating structural budget deficits by 2020 and then at maintaining this position. This will require significant fiscal reforms. Completing the resolution of NPLs to small and medium enterprises (SMEs) and the privatisation of banks should support investment and growth as well as improve the functioning of the Slovenian labour markets.[17] Yet bank profitability will be challenged in the medium term, calling for further consolidation, deep cuts in operating costs and new revenue sources.[18]

Institutional and political risk

Elections coming up in 2017

The current centre-left government was elected in 2014 and is led by Prime Minister Miro Cerar (Modern Centre Party, SMC). The presidential election is due on October 22nd, 2017. Slovenian politics remains characterised by fragmentation and coalition governments: of the 16 parties in the 2014 election, seven won seats and there are five members of the current coalition. Scope does not expect any major changes from the upcoming presidential election. The current coalition members (Modern Centre Party (SMC), Democratic Party of Slovenian Pensioners (DeSUS) and Social Democrats (SD) hold a comfortable majority in parliament.

[16] BS FSR page 56ff
[17] IMF IV, page 6f
[18] IMF IV, page 1

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative A (a) rating range for the Republic of Slovenia. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For Republic of Slovenia the following relative credit weaknesses are identified: i) growth potential of the economy, and ii) vulnerability to short-term shocks. Combined relative credit strengths and weaknesses generate an adjustment of one notch and signal a sovereign rating at A- for Slovenia. A rating committee discussed and confirmed these results.

Rating overview

CVS category rating range	a
QS adjustment	A-
Final rating	A-

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower case.

Within the QS assessment the analyst conducts a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment which is the basis for the analyst's recommendation to the rating committee.

II. Appendix: CVS and QS results

CVS: Rating indicator	Category weight	QS (*Maximum adjustment = 3 notches*)	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Domestic economic risk	**35%**	Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	○ Neutral	● Weak outlook, growth potential under trend	○ Very weak outlook, growth potential we under trend or negative
Economic growth Real GDP growth Real GDP volatility GDP per capita Inflation rate		Economic policy framework	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Labour & population Unemployment rate Population growth		Macroeconomic stability and imbalances	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Public finance risk	**30%**	Fiscal performance	○ Exceptionally strong performance	○ Strong performance	● Neutral	○ Weak performance	○ Problematic performance
Fiscal balance GG public balance GG primary balance GG gross financing needs		Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	● Neutral	○ Weak sustainability	○ Not sustainable
Public debt GG net debt Interest payments		Market access and funding sources	○ Excellent access	○ Very good access	● Neutral	○ Poor access	○ Very weak access
External economic risk International position International investment position Importance of currency	**15%**	Current-account vulnerabilities	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Current-account financing Current-account balance		External debt sustainability	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
T-W effective exchange rate Total external debt		Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	○ Neutral	● Vulnerable to shock	○ Strongly vulnerable to shocks
Institutional and political risk Control of corruption	**10%**	Perceived willingness to pay	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Voice & accountability		Recent events and policy decisions	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Rule of law		Geo-political risk	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial risk Non-performing loans	**10%**	Financial sector performance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Liquid assets		Financial sector oversight and governance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Credit-to-GDP gap		Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Indicative rating range	**a**						
QS adjustment	**A-**						
Final rating	**A-**						

* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10

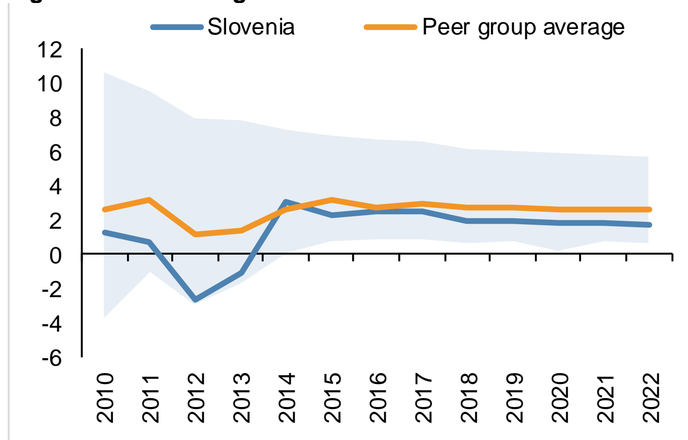
Source: Scope Ratings AG

Foreign- versus local-currency ratings

Slovenia's debt is predominantly issued in euros. Because of its history of openness to trade and capital flows and the euro's reserve currency status, Scope sees no evidence that Slovenia would differentiate among any of its contractual debt obligations based on currency denomination.

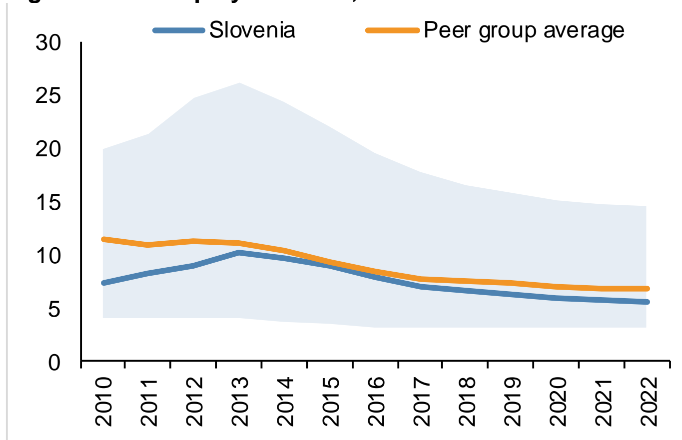
III. Appendix: Peer comparison

Figure 9: Real GDP growth



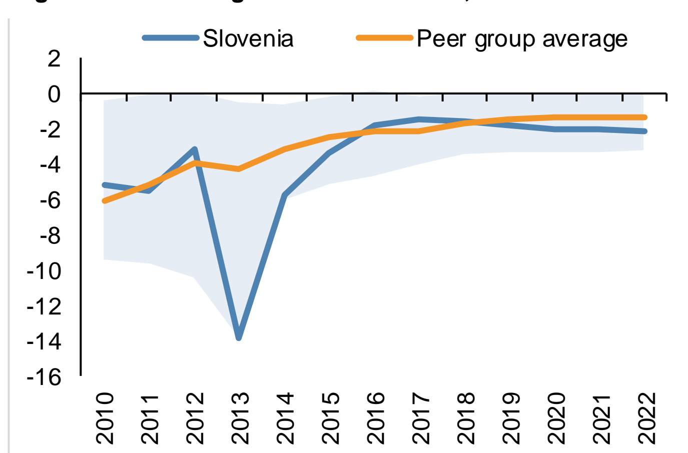
Source: IMF, Calculations Scope Ratings AG

Figure 10: Unemployment rate, % total labour force



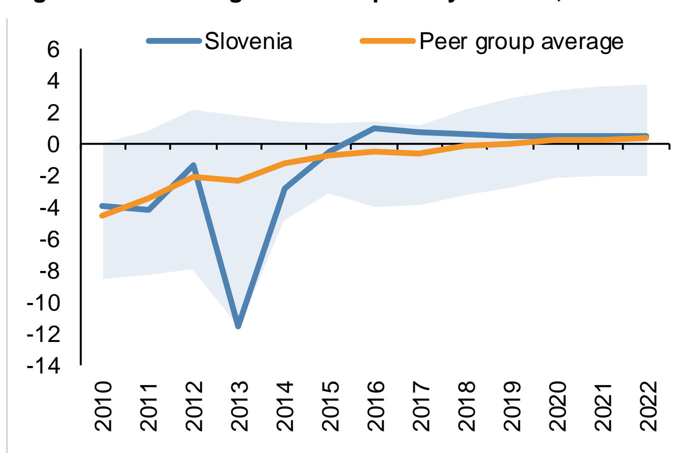
Source: IMF, Calculations Scope Ratings AG

Figure 11: General government balance, % of GDP



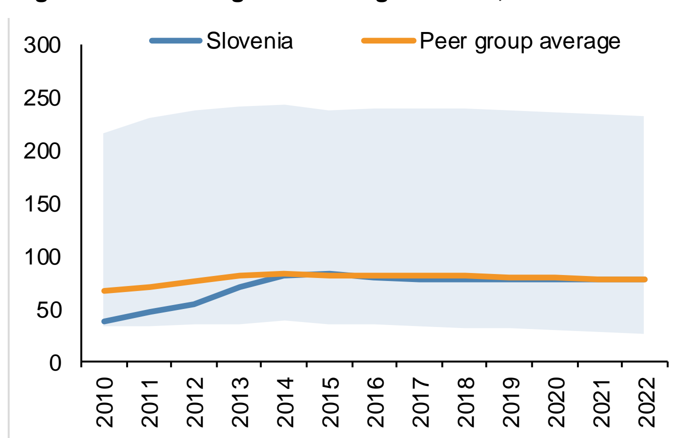
Source: IMF, Calculations Scope Ratings AG

Figure 12: General government primary balance, % of GDP



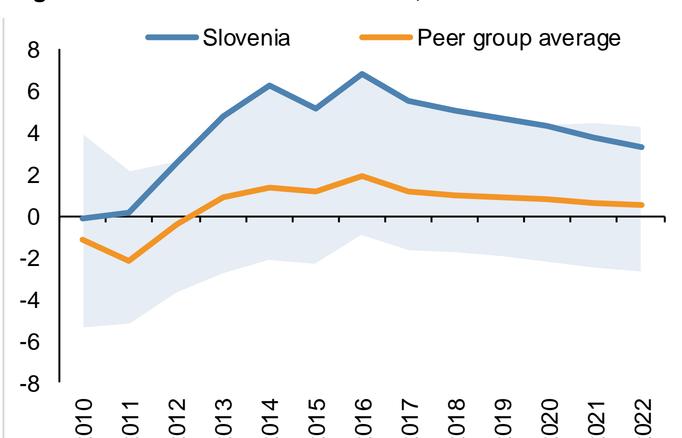
Source: IMF, Calculations Scope Ratings AG

Figure 13: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 14: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (Bil.EUR)	36.0	35.9	37.3	38.6	39.8	41.0	42.7
Population (thous)	2,060.4	2,066.1	2,070.8	2,074.8	2,077.9	2,080.0	2,081.3
GDP-per-capita PPP (USD)	28,841.9	29,532.0	30,994.8	31,964.7	32,884.5	-	-
GDP per Capita (EUR)	17,515.2	17,445.5	18,113.0	18,697.2	19,266.2	19,827.8	20,635.1
Real GDP growth, % change	-2.7	-1.1	3.1	2.3	2.5	3.0	2.3
GDP growth volatility (10-year rolling SD)	4.3	4.4	4.3	4.3	4.0	3.5	3.4
CPI, % change	2.6	1.8	0.2	-0.5	-0.1	1.7	2.0
Unemployment rate (%)	8.9	10.1	9.7	9.0	7.9	7.0	6.4
Investment (% of GDP)	18.7	19.7	19.8	20.1	19.7	20.4	20.7
Gross national savings (% of GDP)	21.3	24.5	26.0	25.2	26.5	26.0	25.9
Public finances							
Net lending/borrowing (% of GDP)	-4.1	-15.1	-5.4	-2.9	-1.8	-0.8	-0.2
Primary net lending/borrowing (% of GDP)	-2.1	-12.5	-2.1	0.4	1.4	1.1	1.0
Revenue (% of GDP)	44.5	45.2	44.7	45.2	43.6	43.9	43.7
Expenditure (% of GDP)	48.6	60.3	50.1	48.1	45.5	45.5	45.5
Net interest payments (% of GDP)	2.0	2.6	3.3	3.3	3.2	2.7	2.7
Net interest payments (% of revenue)	4.6	5.7	7.4	7.2	7.3	6.2	6.2
Gross debt (% of GDP)	53.9	71.0	80.9	83.1	79.7	78.0	77.0
Net debt (% of GDP)	-	-	-	-	-	-	-
Gross debt (% of revenue)	121.1	157.0	181.0	184.0	182.6	177.7	176.2
External vulnerability							
Gross external debt (% of GDP)	119.1	116.6	126.8	116.6	109.0	-	-
Net external debt (% of GDP)	45.9	43.0	41.7	35.7	29.5	-	-
Current account balance (% of GDP)	2.6	4.8	6.2	5.2	5.3	4.3	4.0
Trade balance [FOB] (% of GDP)	-	0.8	2.9	3.9	3.9	3.4	3.0
Net direct investment (% of GDP)	-1.3	-0.1	-1.6	-3.3	-2.2	-	-
Official Forex Reserves (EOP, Mil.USD)	270.3	289.5	418.4	348.3	244.2	-	-
REER, % change	-1.2%	1.4%	1.1%	-1.8%	0.5%	-	-
Nominal Exchange Rate (EOP, USD/EUR)	1.32	1.38	1.21	1.09	1.05	-	-
Financial stability							
Non-performing loans (% of total loans)	14.4	13.4	11.9	9.9	5.8	-	-
Tier 1 ratio (%)	9.8	12.9	17.1	18.0	18.5	-	-
Consolidated private debt (% of GDP)	112.5	108.2	98.1	87.3	81.5	-	-
Domestic credit-to-GDP gap (%)	-16.8	-22.4	-29.2	-34.6	-33.2	-	-

Sources: IMF, European Commission, European Central Bank, SORS, Ministry of Finance, World Bank, United Nations, ONS, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by John F. Opie, Lead Analyst

Person responsible for approval of the rating Dr Giacomo Barisone, Managing Director

The ratings/outlook were first assigned by Scope as subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Republic of Poland are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Sovereign Ratings Calendar of 2017" published on 21.07.2017 on www.scoperatings.com). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the deviation was due to the recent revision of Scope's Sovereign Rating Methodology and the subsequent placement of ratings under review, in order to conclude the review and disclose ratings in a timely manner, as required by Article 10(1) of the CRA Regulation.

Rating Committee: The main points discussed by the rating committee were: i) Slovenia's growth potential, ii) macroeconomic stability and imbalances, iii) economic structure, iv) external position, v) vulnerability to shocks, vi) examination of state-owned enterprises and financial guarantees from the sovereign, vii) financial sector performance and structural challenges, viii) macro-financial vulnerabilities, ix) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of the Republic of Slovenia, Bank of Slovenia, Institute for Macroeconomic Analysis and Development (IMAD), European Commission, European Central Bank, Statistical Office of the European Communities, IMF, OECD, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Conditions of use / exclusion of liability

© 2017 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings AG, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit,

transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings AG at Lennéstraße 5 D-10785 Berlin.

Scope Ratings AG, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 161306, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund; Chair of the supervisory board: Dr. Martha Boeckenfeld.