

SLOVENIA : MACRO OUTLOOK

Growth expected to accelerate despite challenging environment

Main message

3Q24 GDP came in line with our expectations, accelerating to 1.4% y/y. Such performance was supported by the steady private consumption footprint, while net exports surprised on the positive side. We see similar growth performance going into 4Q24, suggesting overall FY24 performance around 1.5% mark.

Looking into 2025, domestic demand is expected to drive growth while challenges regarding the external demand developments imply less supportive net exports contribution ahead. We see GDP gradually accelerating towards 2.0-2.5% band during 2025-26 period, with risks remaining present and linked to external demand uncertainties.

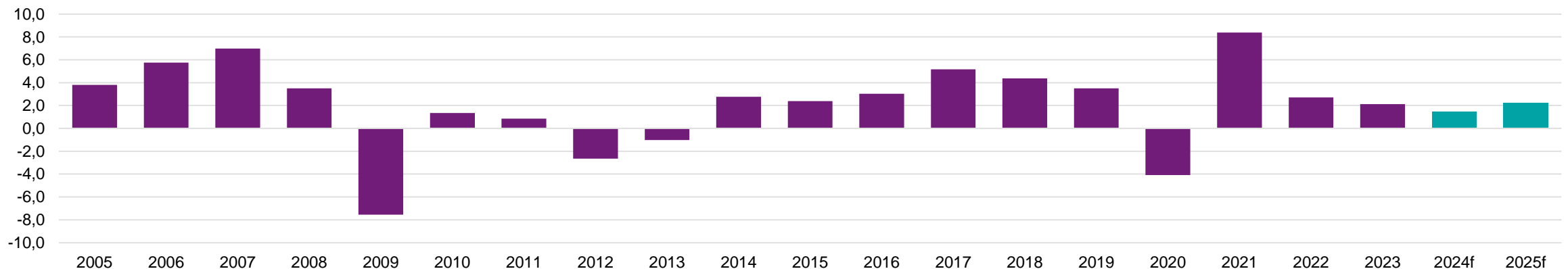
We saw significant inflation moderation throughout this year, with CPI reaching its year-low point in October at 0% y/y level. However, situation turned around going into November, with headline figure growth accelerating amid expiration of temporary measures and new system of electricity network charges. Following expected average CPI of 2.0% in 2024, headline figure is seen landing at more elevated level around 2.7% in 2025, before easing again towards lower grounds in 2026.

While 2024 budget performance is expected to slightly deviate from the consolidation path, fiscal position is expected to remain overall stable, with consolidation resuming from 2025 onwards.

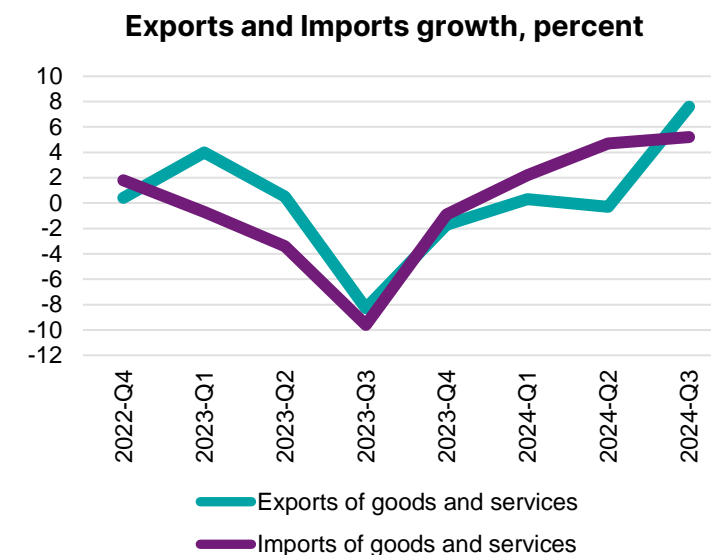
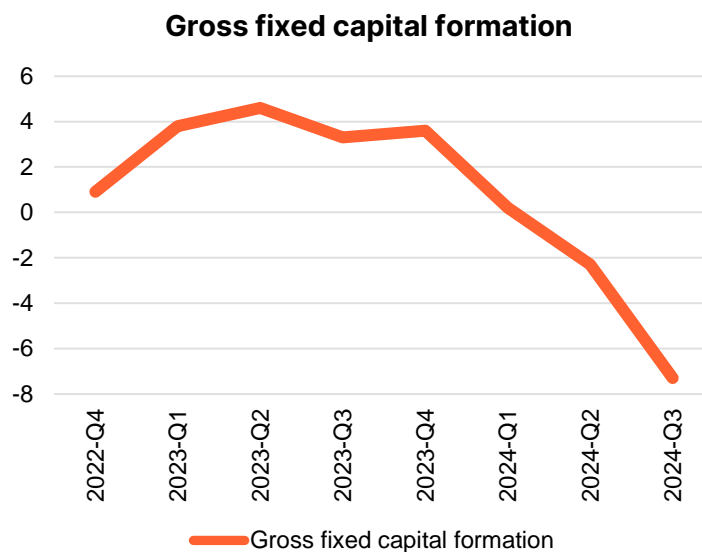
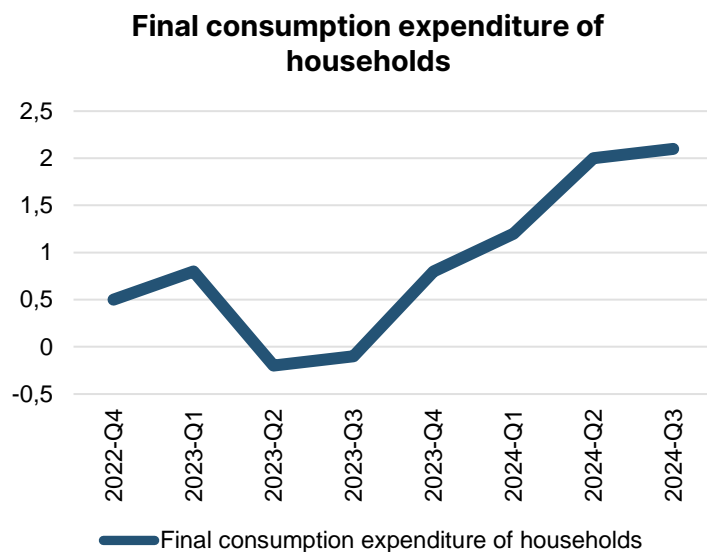
GDP growth

3Q24 GDP came in line with our expectations, accelerating to 1.4% y/y (vs. 0.7% y/y in 2Q24). Looking at the seasonally adjusted data, the q/q economy added 0.3% i.e. 1.0% y/y. Such performance was supported by steady private consumption footprint, while net exports surprised on the positive side. We see similar growth performance going into 4Q24, suggesting overall FY24 performance around 1.5% mark. Looking into 2025, domestic demand is expected to drive growth as private consumption would keep its supportive tone amid further employment and wage growth, while investments activity is seen improving following weak 2024 performance, backed-up by RRF funds, MFF funding period and stronger construction works. On the other hand, challenges regarding the external demand developments should weigh on the export outlook, thus suggesting less supportive net exports contribution ahead. We see GDP gradually accelerating towards 2.0-2.5% band during 2025-26 period, with risks remaining present and linked to external demand uncertainties.

GDP growth, percent



GDP structure

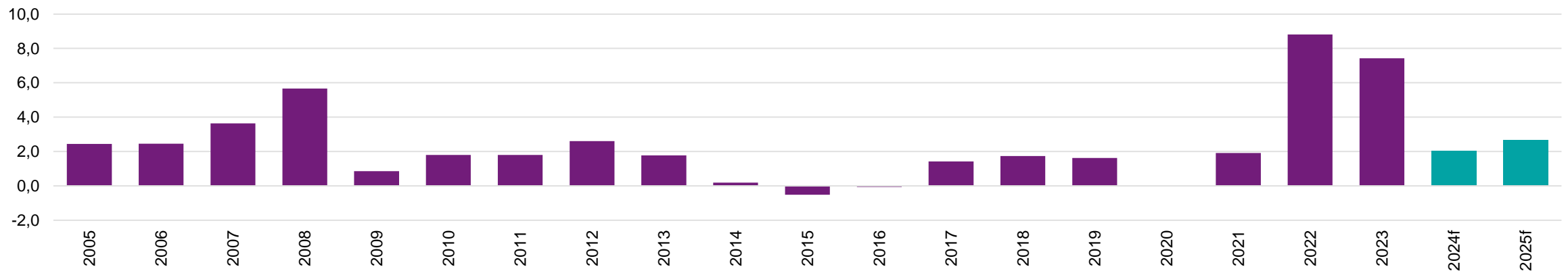


When looking at the detailed breakdown for the third quarter, we saw steady support from the private consumption side as it expanded 1.9% y/y, which came as no surprise as solid performance was implied by the high-frequency indicators. However, investments delivered weaker footprint and once again posted a negative performance, contracting by 8.2% y/y. Public consumption growth expectedly remained strong (9.1% y/y), while inventories had a negative impact, shaving 1.3pp off the headline figure. On the other hand, external trade surprised on the upside by making a positive contribution, where exports showed stronger increase vs imports (8.4% y/y vs 6.5% y/y, as follows), thus resulting in net exports adding 1.9pp to the headline figure in 3Q24.

Inflation

We saw significant inflation moderation throughout this year, with CPI reaching its lowest point since February 2021 in October by landing at 0% y/y level. Such developments mainly reflected lower energy prices and moderated food price pressures. However, situation turned around going into November, with headline figure growth accelerating to 1.7% y/y mark, driven by expired support measures introduced during energy crisis and new system of electricity network charges. Looking ahead, we see inflation remaining on moderate rising trajectory also in the beginning of the next year, reflecting base effect and above-mentioned expired temporary measures, coupled with ongoing service pressures. Overall, following expected average CPI of 2.0% in 2024, headline figure is seen landing at more elevated level around 2.7% in 2025, before easing again towards lower grounds in 2026.

Inflation, percent

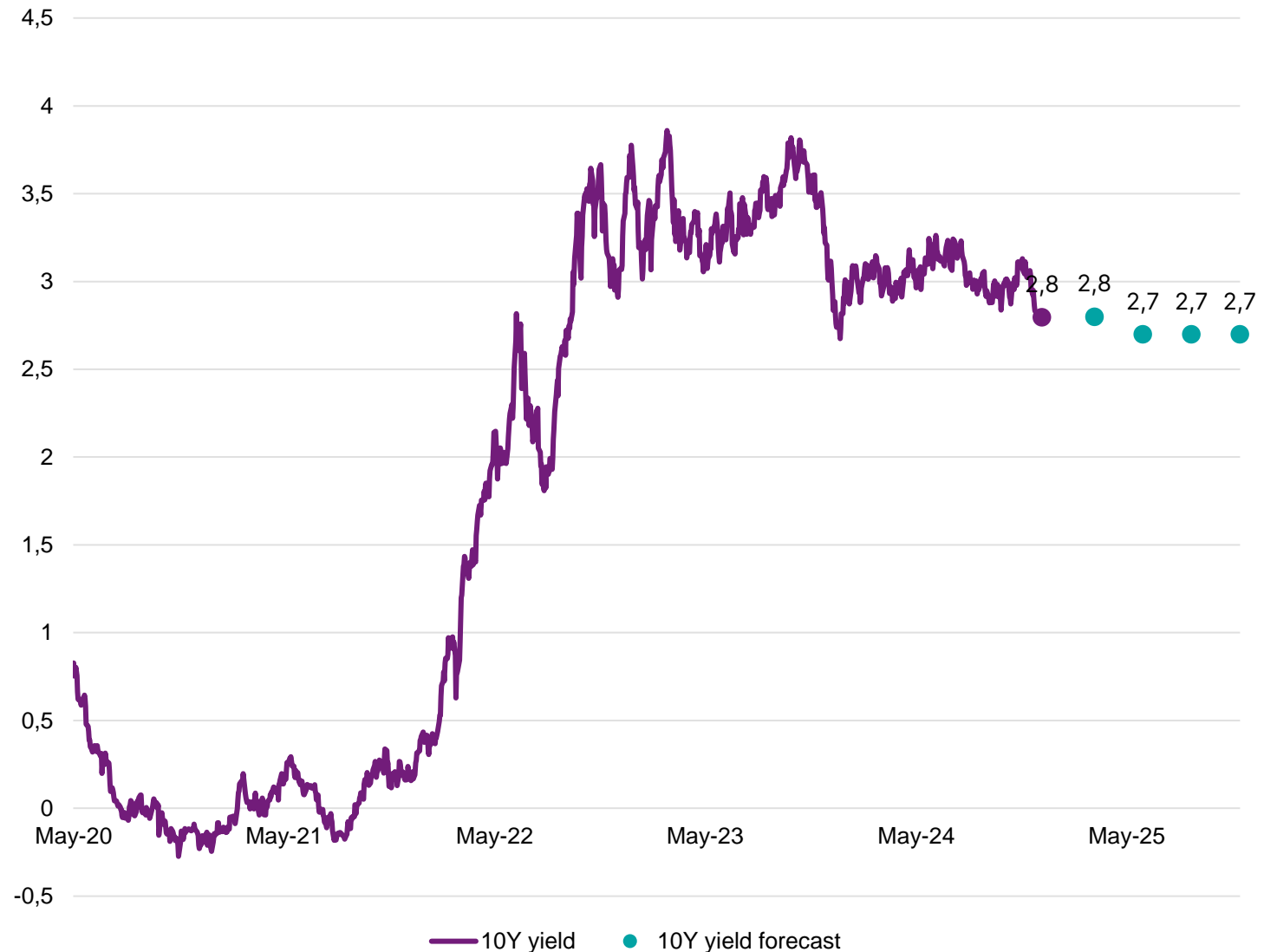


Yields and spreads

Markets maintained volatile pattern thus far throughout 4Q24, reflecting largely benchmark developments and global risk appetite. We saw yields moving in somewhat wider band of 2.8-3.2% on the longer end of the curve, while currently being around 2.8% mark. Spreads vs. 10Y German bund also showed some narrowing in recent period, moving from 80bps at the beginning of October down to current 70bps.

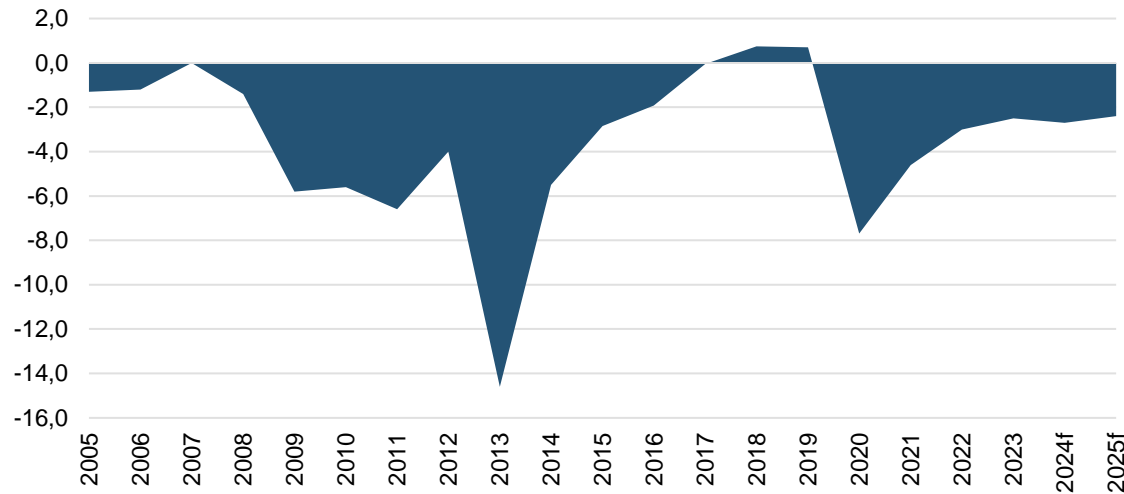
We expect similar movements ahead, with the yield profile shaped by global factors, e.g. risk appetite and benchmark moves. Still, we continue to see spread levels remaining around the current mark.

10Y yield development and forecast

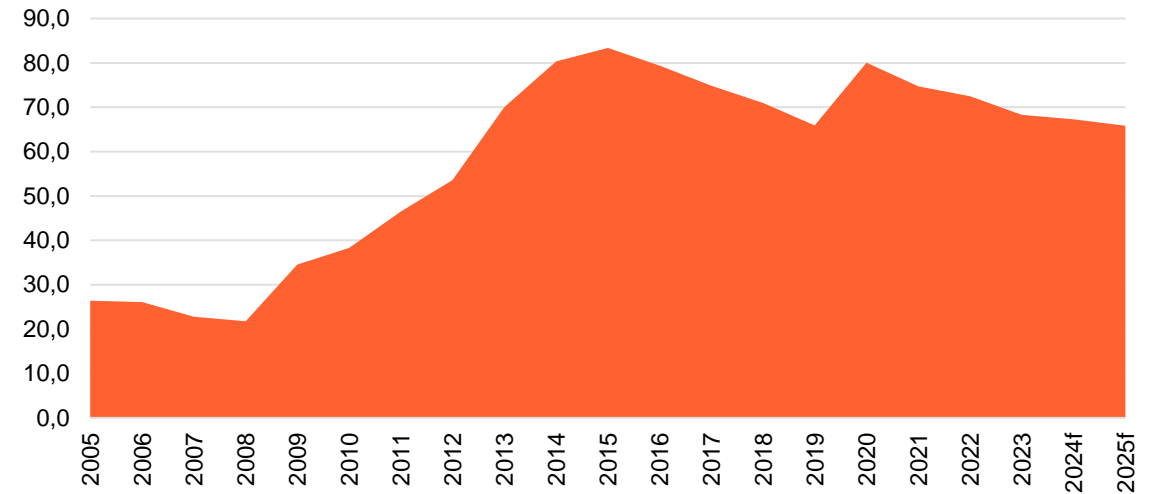


Fiscal Situation

Budget balance, percent of GDP



Public debt, percent of GDP

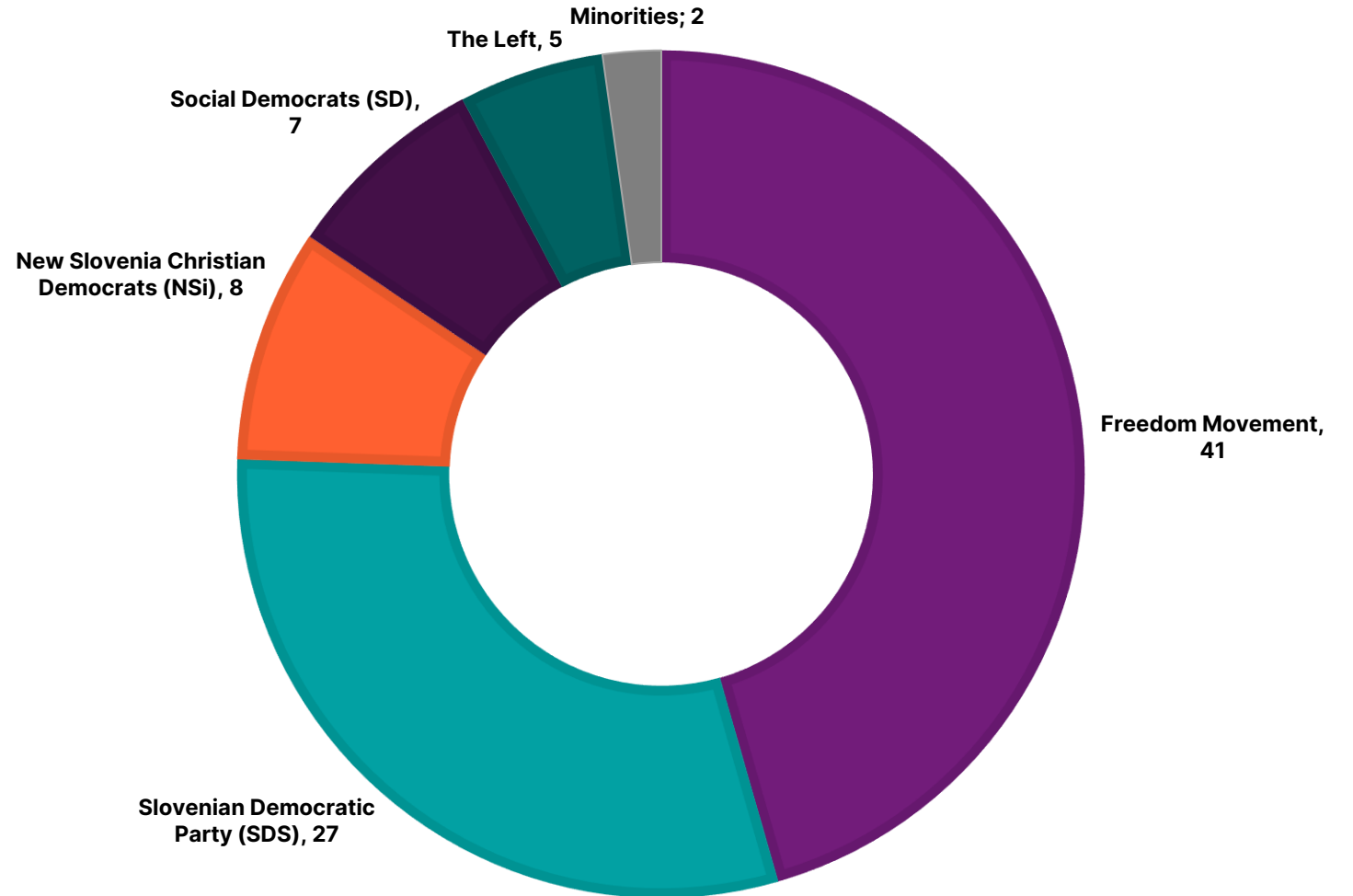


2024 budget performance is expected to slightly deviate from the consolidation path, as post-floods reconstruction costs would keep deficit at somewhat higher grounds in the 2.5-3% of GDP band, with estimated fiscal effect of the one-off measure in 2024 expected around 1% of GDP. However, Slovenia should move in the right direction with the fiscal execution in 2025-26 period, as most of the emergency measures and costs related to flood-relief have already been completed. As the expiration of the remaining temporary measures would reflect on the expenditure side, MoF thus expects budget gap to narrow towards 2.6% of GDP in 2025, followed by more pronounced consolidation effort in 2026 (and target deficit at 1.6% of GDP). MoF's targets are also closely in line with our view.

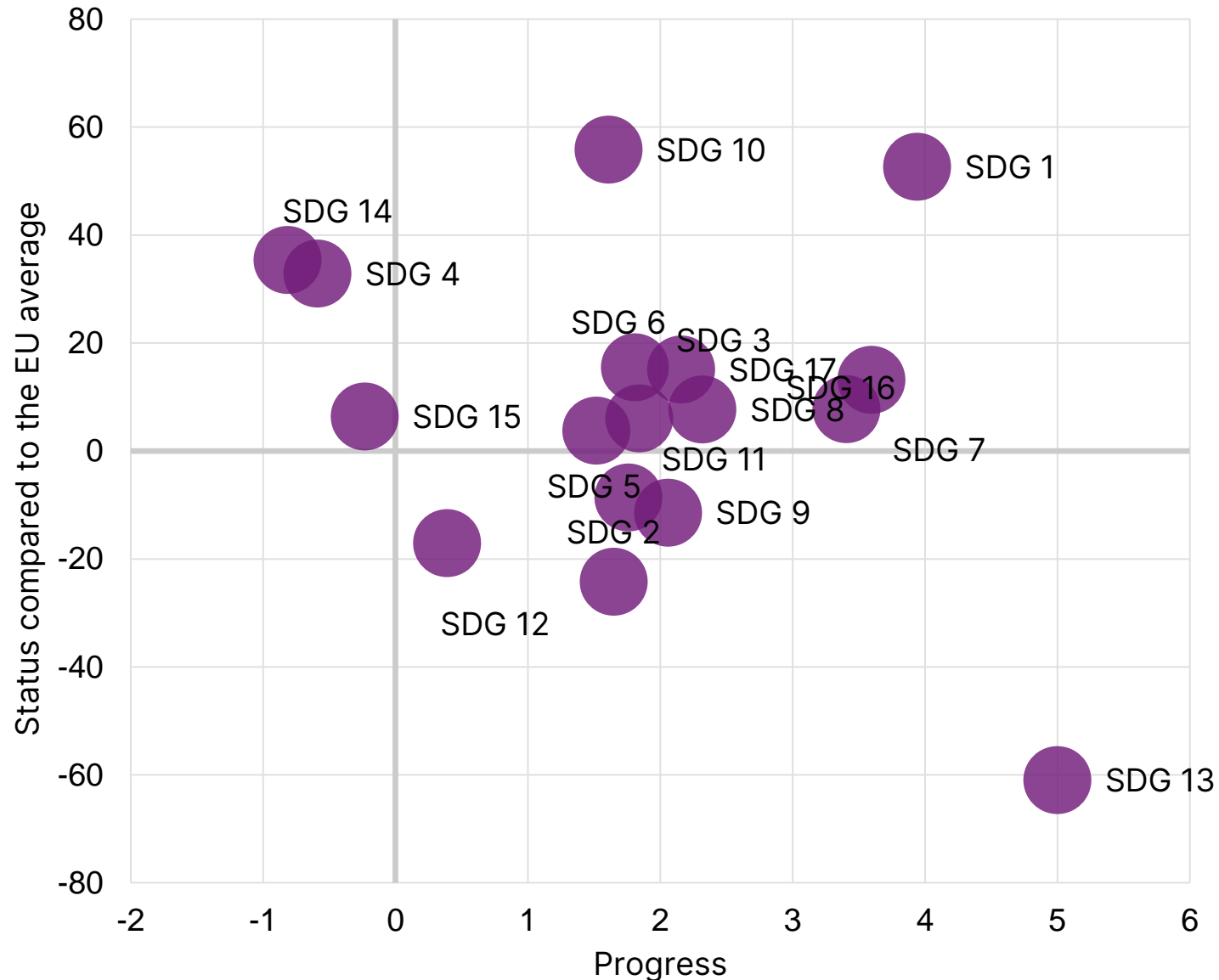
Political landscape

We saw no major developments on the political scene, following June's EU elections. To recap – the largest opposition party, the right-wing Democrats (SDS), led by Slovenia's former PM Janez Janša, was the winner, securing four out of the country's nine seats in the European parliament for the 2024-29 period. The ruling Freedom Movement got two seats, while green party Vesna, the Social Democrats (SD) and the Christian Democratic New Slovenia (NSi) each got one seat.

Parliamentary seats



Social Development Goals



On the sustainable development front, Slovenia has made most pronounced progress in, among others, reduced inequalities (SDG 10), eradication of poverty (SDG 1), clean water/affordable energy (SDG 6&7), peace, justice and strong institutions (SDG 16), being above EU average and progressing towards SDGs in those categories.

On the other hand, the country is falling behind the EU average in the categories regarding gender equality (SDG 5), industry, innovation and infrastructure (SDG 9), no hunger (SDG 2) and climate action (SDG 13), but nevertheless still moving towards SDGs.

Autumn round of rating assessment delivering expected outcome

Special topic



Special topic

Autumn rating assessments were in line with expectations, where all three major agencies Fitch, Moody's and S&P confirmed Slovenia's rating at 'A', 'A3' and 'AA-', respectively. However, while Fitch left the outlook unchanged at stable, both Moody's and most recently S&P upgraded outlook from stable to positive. Rationale behind such a decision was no surprise, where resilient economic growth, despite global uncertainties, and stable public finances were highlighted as main drivers behind the outlook upgrade.

While these actions serve as a good signal for potential rating upgrade down the line – provided that supportive drivers remain at place – we see room for rating alignment given that S&P is currently two and three notches above Fitch and Moody's, respectively.

	S&P scale		Fitch scale		Moody's scale	
	AAA		AAA		Aaa	
	AA+		AA+		Aa1	
	AA		AA		Aa 2	
Slovenia	AA-	CZ	AA-	CZ	Aa3	CZ
	A+	SK	A+		A1	
	A		A	Slovenia	A2	PL
HR	A-	PL	A-	PL, SK	A3	HR
	BBB+		BBB+		Baa1	
	BBB		BBB	HU	Baa2	HU
RS	BBB-	RO, HU	BBB-	RO	Baa3	RO
	BB+		BB+	RS	Ba1	
	BB		BB		Ba2	RS
	BB-		BB-		Ba3	
	B+		B+		B1	
	B		B		B2	
	B-		B-		B3	
	CCC		CCC		Caa	
	CC		CC		Ca	
	C		C		C	
	D					

Slovenia: Forecasts

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f
Percent									
					Annual average				
Real GDP growth	4.4	3.5	-4.1	8.4	2.7	2.1	1.4	2.2	2.4
Private consumption growth	3.4	5.5	-6.2	10.5	5.0	0.2	1.9	2.3	2.4
Fixed capital formation growth	10.6	4.9	-7.2	12.3	4.2	3.9	-1.5	3.7	3.5
Inflation	1.7	1.6	0.0	1.9	8.8	7.4	2.0	2.7	2.2
Unemployment rate	5.1	4.5	5.0	4.8	4.0	3.7	3.7	3.6	3.5
Percent of GDP									
Budget balance	0.7	0.7	-7.7	-4.6	-3.0	-2.5	-2.7	-2.4	-1.5
Public debt	70.9	65.9	80.1	74.7	72.5	68.3	67.3	65.8	64.8
Current account balance	6.5	6.4	7.7	3.8	-1.1	4.5	3.4	3.0	2.7
					End of year				
10Y Yield	1.00	0.27	-0.10	0.40	3.20	3.20	2.80	2.70	2.70
Spread	70.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00

Slovenia: Country overview

Official EU language: Slovenian

Capital: Ljubljana

Geographical size: 20 273 km²

Population: 2 213 949

GDP per capita: EUR 34 400, below the EU average

Currency: Euro EUR since January 1 2007

Credit Ratings:

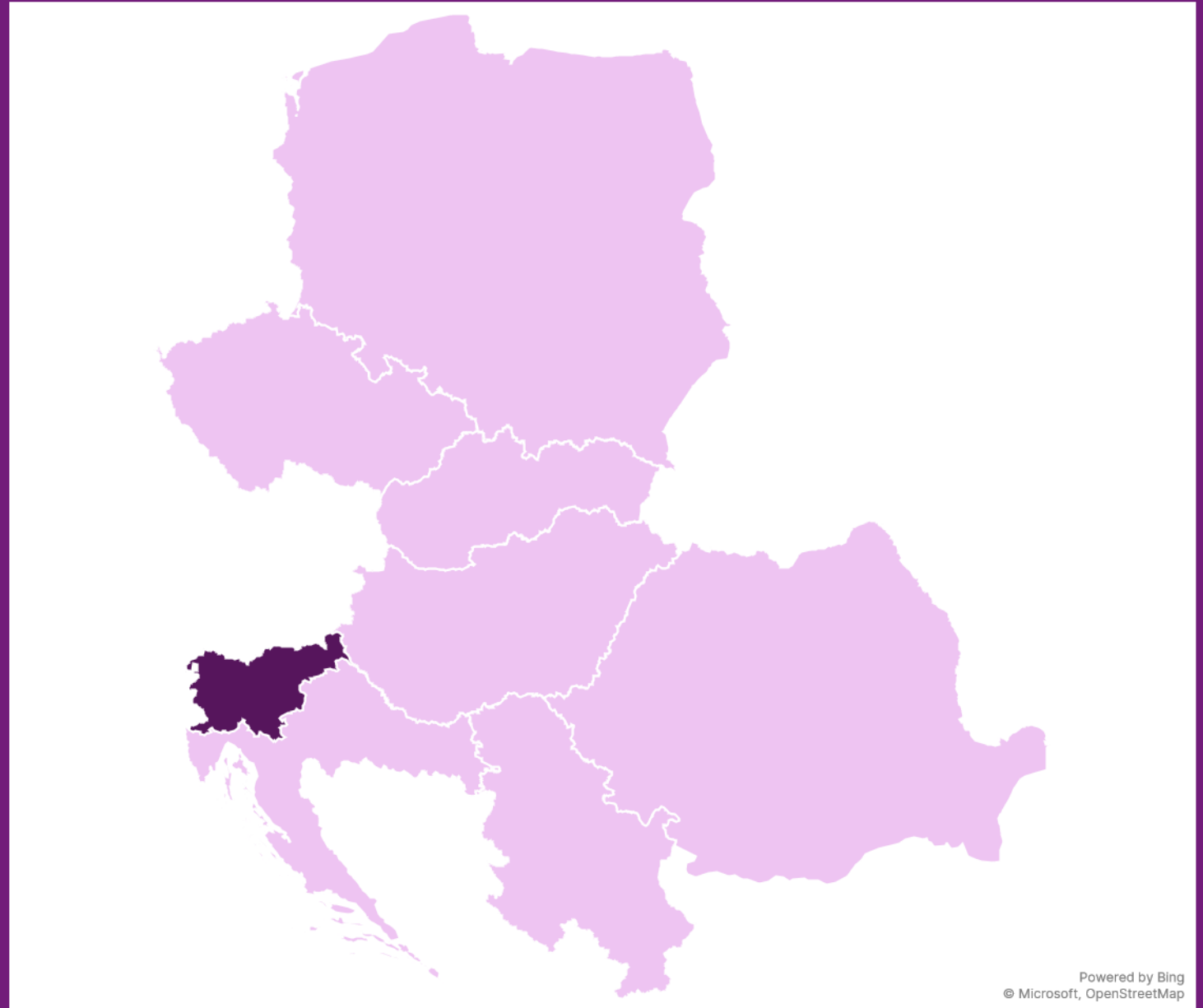
Moody's: A3, outlook positive

S&P: AA-, outlook positive

Fitch: A, outlook stable

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



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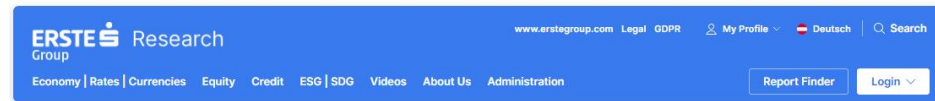
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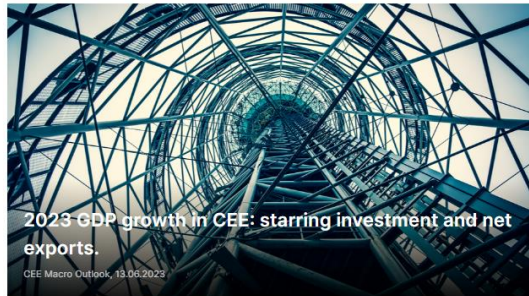


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CEE



CEE Insights, 12.06.2023

May's inflation numbers will be flowing in

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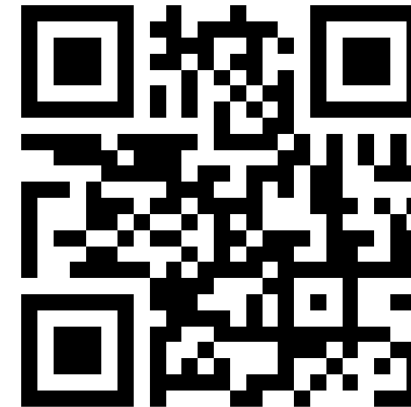
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Erste Group Research (Vienna)

Fritz Mostböck, CEFA®, CESGA®
Head of Group Research
+43 5 0100 11902
friedrich.mostboeck@erstegroup.com

Juraj Kotian
Head of CEE Macro/ FI Research
+43 5 0100 17357
juraj.kotian@erstegroup.com

Rainer Singer, CEFA®
Head of Major Markets & Credit Research
+43 5 0100 11909
rainer.singer@erstegroup.com

Henning Eßkuchen
Head of CEE Equity Research
+43 5 0100 19634
henning.esskuchen@erstegroup.com

Local Research Offices

Bratislava
Slovenska Sporitelna
Head: Maria Valachyova
+421 (2) 4862 4158
valachyova.maria@slsp.sk

Budapest
Erste Bank Hungary
Head: Jozsef Miro
+36 (1) 235 5131
Jozsef.Miro@erstebroker.hu

Bucharest
Banca Comerciala Romana (BCR)
Head: Ciprian Dascalu
+40 3735 10 424
ciprian.dascalu@bcr.ro

Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
DNavratil@csas.cz

Warsaw
Erste Securities Polska
Head: Cezary Bernatek
+48 22 257 5751
Cezary.Bernatek@erstegroup.com

Zagreb/ Belgrade
Erste Bank
Heads: Alen Kovac, Mladen Dodig
+385 72 37 1383, +381 1122 09178
akovac2@erstebank.com
Mladen.Dodig@erstebank.rs

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