

SLOVENIA | MACRO OUTLOOK

Disappointing 2Q output putting pressure on the FY24 outlook

ECB: next interest rate cut in October

Yields moving below 3% mark

Weaker dollar expected

Economy (%)	2024e	2025e	2026e
GDP (real, y/y)	1.5	2.0	2.2
Unempl. Rate	3.6	3.6	3.5
CPI (y/y)	2.1	2.3	2.0
Retail Sales (y/y)	1.0	2.9	2.4
Ind. Prod. (y/y)	-0.5	2.5	3.0
Public Debt/GDP	68.5	67.5	66.5

Source: Erste Group Research

Market	Spot	24Q4	25Q1	25Q2
ECB (deposit)	3.50	3.00	2.75	2.50
3M Euribor	3.47	3.09	2.86	2.64
EUR/USD	1.11	1.13	1.14	1.14
2Y Bond (%)*	2.51	2.50	2.50	2.50
5Y Bond (%)*	2.35	2.40	2.40	2.40
10Y Bond (%)*	2.88	2.90	2.90	2.90

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moody's	A3	stable
S&P	AA-	stable
Fitch	A	stable

Source: Erste Group Research

General	2024
Population mn	2.1
GDP/Capita EUR	31,243

Source: Erste Group Research

Spot Rates as of:
13th Sep. 2024

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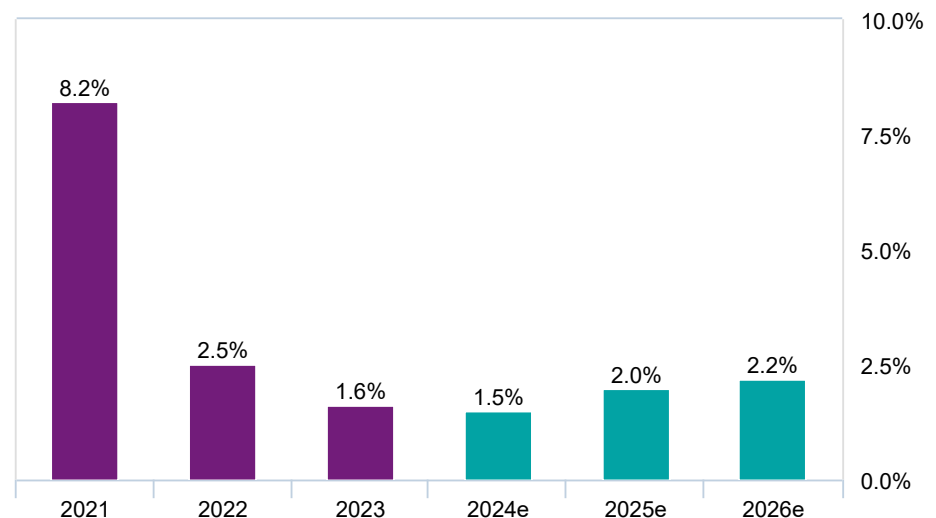
Note:

*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

GDP growth decelerated to 0.7% y/y in 2Q24. A detailed breakdown revealed support from both private and public consumption, while investments and net exports weighed on the headline figure. Looking ahead to 2H24, we see domestic demand as the main growth driver, with modest but improving performance expected in private consumption and investment. However, weak growth in Slovenia's main trading partners is likely to dampen the export outlook. GDP is expected to increase by around 1.5% this year, followed by a strengthening growth profile in the 2025-26 period.

We saw significant inflation moderation, with the latest CPI figure for August landing at 0.9% y/y. We expect inflation to remain at lower levels by year-end before gradually increasing above the 2% mark in 2025 due to the base effect and the expiration of temporary measures. The fiscal position is expected to remain stable, with consolidation resuming from 2025 onwards. On the financing side, the situation remains comfortable, with active YTD issuance covering around two-thirds of this year's financing needs.

GDP (real,y/y)



Source: Erste Group Research

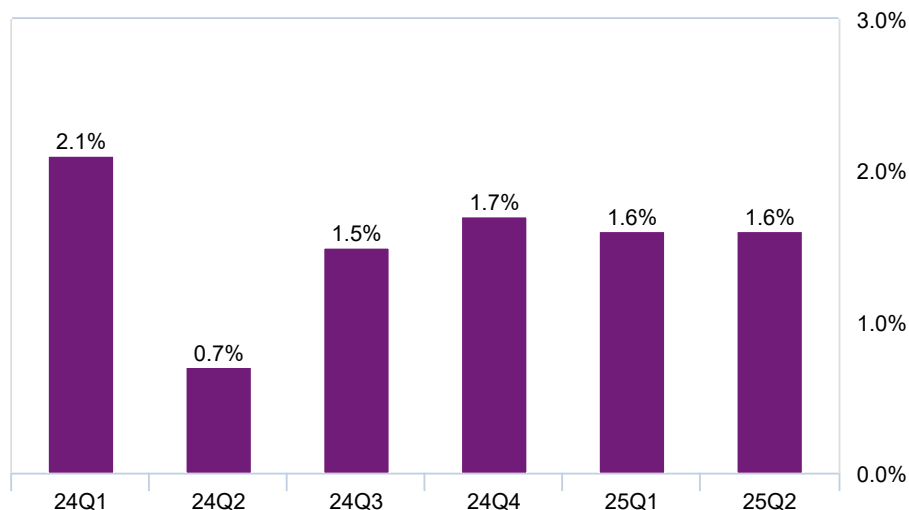
GDP

Disappointing 2Q output putting pressure on the FY24 outlook

2Q24 GDP surprised on the downside, decelerating to 0.7% y/y (vs. 2.1% y/y in 1Q24). The breakdown showed support from private consumption (1.1% y/y), while investments posted a negative performance (-1.6% y/y). Public consumption growth accelerated (12.3% y/y), driven by increased spending on healthcare and post-flood reconstruction. Inventories had a positive impact, adding 2.4pp to the headline figure. External trade showed a negative impact from exports (-0.8% y/y), while imports increased by 4.4% y/y, resulting in net exports shaving off 4.1pp from the headline figure in 2Q24.

Looking ahead to 2H24, domestic demand is expected to drive growth, with private consumption likely to gain traction due to strong labor market trends and lower inflation. After a weak 1H performance, investment activity should improve, supported by reconstruction efforts and RRF funds. On the other hand, weak growth in Slovenia's main trading partners should weigh on the export outlook, while imports are seen remaining in green, thus suggesting less supportive net exports contribution. GDP is expected to increase around 1.5% in this year, followed by strengthening growth profile in the 2025-26 period.

GDP Quarterly (real, y/y)



Source: Erste Group Research

Annual	2022	2023	2024e	2025e	2026e
GDP real	2.5%	1.6%	1.5%	2.0%	2.2%
CPI (y/y)	8.8%	7.4%	2.1%	2.3%	2.0%
Private Consumption	3.3%	1.3%	1.5%	2.0%	2.2%

Source: Erste Group Research

Inflation

Inflation reaching lowest point since 2021

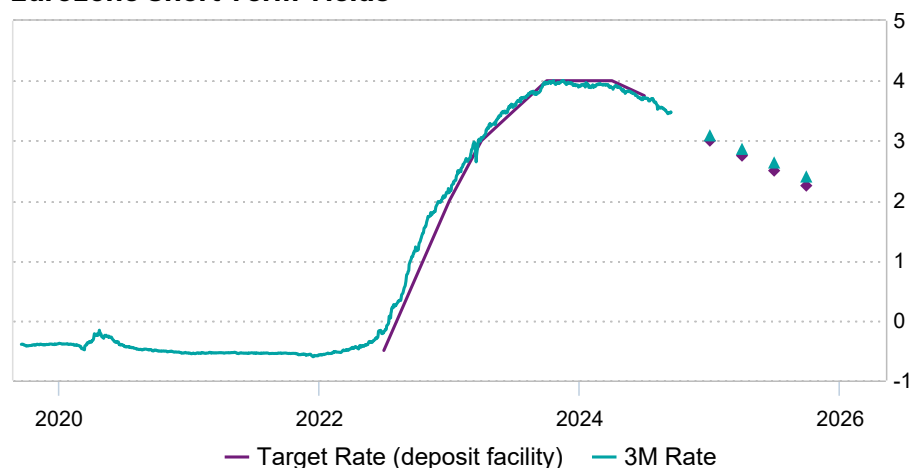
We saw significant inflation moderation in 2Q24 and thus far in 3Q24, with latest figure pointing to deceleration below 1% mark as August CPI landed at 0.9% y/y i.e. reaching the lowest point since March 2021. Such developments mainly reflected lower energy prices and moderated food price pressures. Looking ahead, we see inflation remaining on lower levels by the year-end, before gradually increasing above 2% mark as we move into 2025, reflecting base effect and expired temporary measures introduced to soften high energy prices, coupled with ongoing service pressures. Overall, we see average CPI at 2.1% and 2.3% in 2024 and 2025, as follows.

ECB Monetary Policy

ECB: next interest rate cut in October

As expected, the ECB Governing Council decided to cut the deposit rate by 25 basis points to 3.50% at its meeting in September. The forecast for core inflation was raised slightly, while ECB economists continue to expect the core rate to fall rapidly from 2025. Leading data (including wage growth) give the ECB confidence that services inflation will lose momentum in 2025. We expect economic data to confirm disinflation and thus allow the ECB to make the next rate cut in October, which should be followed by a further rate cut of 25 basis points in December.

Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q4	25Q1	25Q2	25Q3
ECB (deposit)	3.50	3.00	2.75	2.50	2.25
3M Rate	3.47	3.09	2.86	2.64	2.40

Source: FactSet, Erste Group Research

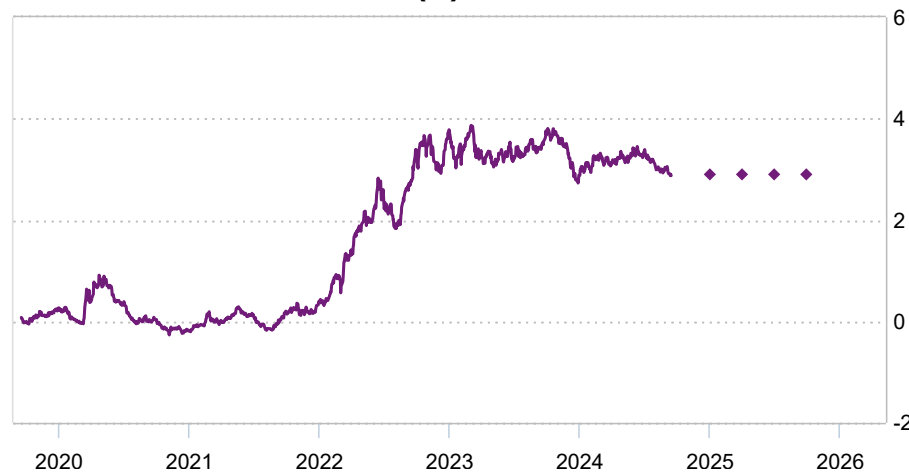
Bond Yields

Yields moving below 3% mark

The fiscal position is seen remaining stable, despite 2024 budget execution being under pressure from reconstruction costs following last year's floods. We see the budget gap moving towards 3% of GDP, hence staying in a comfortable region and followed by gradual fiscal consolidation afterwards. On the financing side, in 3Q24 Slovenia debuted on the Japanese debt market by issuing JPY 50bn (approx. EUR 310mn) fixed rate senior unsecured bond, thus making it the first Social Samurai Bond issued by a sovereign. With this issuance, Slovenia has covered around 2/3 of this year's financing needs.

Markets maintained a volatile pattern also throughout 3Q24, largely reflecting benchmark developments and global risk appetite. We saw yields moving in the 2.9-3.4% band on the longer end of the curve, while currently moving in the lower part around 2.9%. Spreads on the other hand kept broadly stable level, being around 75bp in recent weeks. 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 Generic Govt. Bond Yield (%)



Source: Refinitiv, Erste Group Research

Market	Spot	24Q4	25Q1	25Q2	25Q3
2Y Bond*	2.51	2.50	2.50	2.50	2.50
5Y Bond*	2.35	2.40	2.40	2.40	2.40
10Y Bond*	2.88	2.90	2.90	2.90	2.90

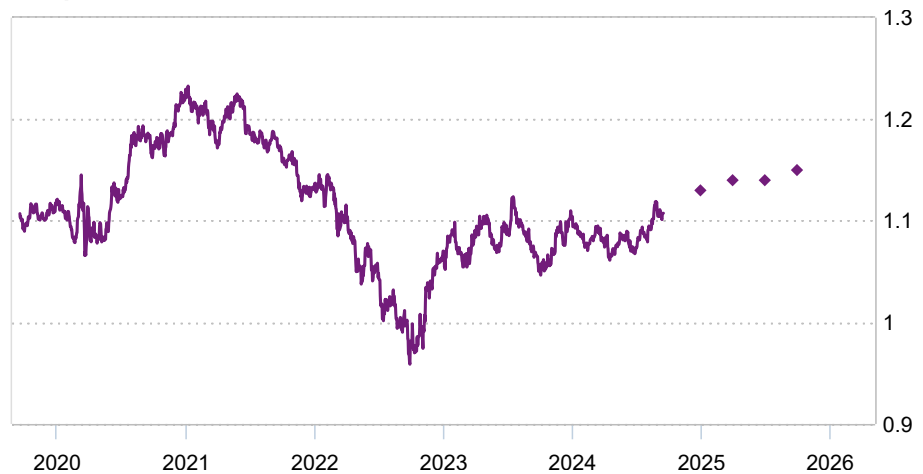
Source: Refinitiv, Erste Group Research

Euro

Weaker dollar expected

Weak US labor market data for July raised expectations of interest rate cuts in the US and triggered a weakening of the dollar. In addition, recent statements by the Fed Chairman contained clear indications of an interest rate cut in the US in September. From the market's perspective, this heralds the start of a series of US interest rate cuts. The speed will depend on the incoming data. The labor market offers risks for a faster approach by the central bank than the three interest rate cuts of 75 basis points in total that we currently expect by the end of the year. The ECB will also cut interest rates further. However, the momentum in the USA will be the main focus for the markets. We expect a further slow weakening of the dollar.

EUR/USD



Source: FactSet, Erste Group Research

	Spot	24Q4	25Q1	25Q2	25Q3
EUR/USD	1.11	1.13	1.14	1.14	1.15
vs. Spot		1.8%	2.7%	2.7%	3.6%

Source: FactSet, Erste Group Research

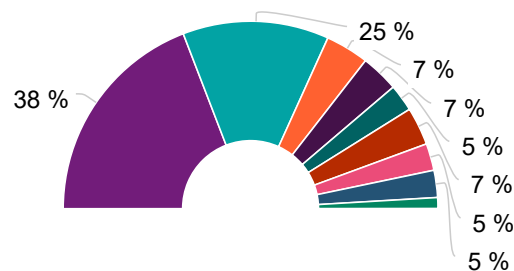
Politics

Slovenia in search for the next European commissioner

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.

Slovenian Government's candidate for European Commissioner, Mr. Vesel, who was proposed for the role before the summer, decided to withdraw his candidacy in September, due to differences of opinion on how the European Commission should operate. After his pullout, the government named Marta Kos as a replacement candidate, a Slovenian liberal politician and former diplomat. This decision also aligns with EC's president Von der Leyen goal for gender-equality, as she put pressure on some member states to switch their male candidates for women.

Parliament Seats



- Freedom Movement | Centre-left
- Slovenian Democratic Party (SDS) | Centre-left
- New Slovenia ? Christian Democrats | Centre-right
- Social Democrats (SD) | Centre-left
- The Left | Left
- New Slovenia (NSi) | Center-right
- Alliance of Alenka Bratusek (ZaAB) | Center
- Democratic Party of Pensioners of Slovenia (DeSUS) | Center to Center-left
- Minorities |

Source: Erste Group Research

Last Election:
2022, April

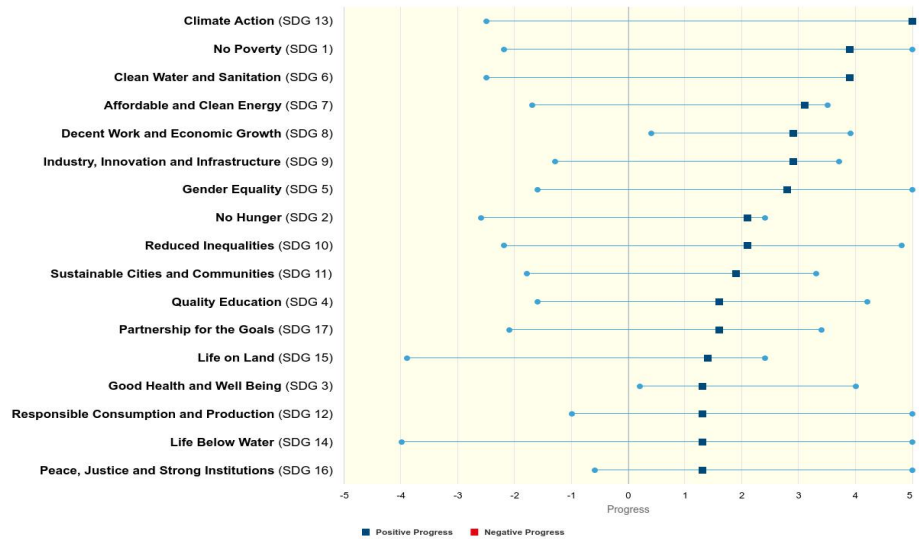
Next Election:
2026

Sustainable Development Goals

Slovenia keeping track with the EU average

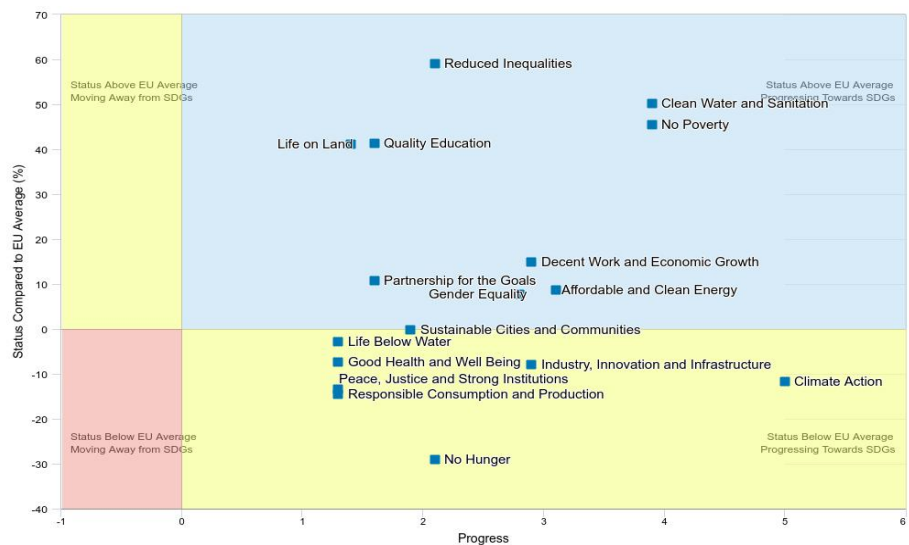
On the sustainable development front, Slovenia has made most pronounced progress in, among others, reduced inequalities, eradication of poverty, quality education, clean water/affordable energy and gender equality, being above EU average and progressing towards SDGs in those categories. On the other hand, the country is falling behind the EU average in the categories regarding industry, innovation and infrastructure, climate action and no hunger, but nevertheless still moving towards SDGs

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Real GDP growth	4.5	3.5	-4.2	8.2	2.5	1.6	1.5	2.0	2.2
Inflation (CPI, avg)	1.7	1.6	-0.0	1.9	8.8	7.4	2.1	2.3	2.0
Unemployment rate (avg)	5.1	4.5	5.0	4.8	4.0	3.7	3.6	3.6	3.5
Retail sales growth	4.6	3.9	-9.7	19.4	6.0	-5.7	1.0	2.9	2.4
Industrial output growth	5.3	3.2	-5.0	11.0	1.4	-5.2	-0.5	2.5	3.0
Private consumption growth	3.5	5.5	-6.5	10.2	3.3	1.3	1.5	2.0	2.2
Fixed capital formation growth	10.2	5.0	-7.2	12.6	3.5	9.5	1.4	4.0	3.5
Percent of GDP									
Trade balance	2.8	2.7	5.0	1.7	-4.3	0.7	-0.7	-1.1	-1.4
Current account balance	6.5	6.4	7.6	3.7	-1.1	4.5	3.2	2.8	2.3
Foreign direct investment	2.8	4.0	0.9	2.3	2.6	2.1	3.0	2.9	2.9
Budget balance	0.7	0.7	-7.7	-4.6	-3.0	-2.5	-3.0	-2.5	-1.5
Public debt	70.3	65.4	79.5	74.4	72.3	69.2	68.5	67.5	66.5
External debt, gross	92.8	90.7	102.4	97.2	91.0	91.8	88.1	82.0	77.3
(percent)									
2Y Yield (average)*	-0.36	-0.48	-0.44	-0.64	0.86	2.76	2.50	2.45	2.40
5Y Yield (average)*	0.38	-0.25	-0.30	-0.47	1.72	3.10	2.40	2.35	2.30
10Y Yield (average)*	0.96	0.27	0.20	0.18	2.55	3.35	3.08	2.85	2.80

Source: Erste Group Research

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