Slovenia CRT-2
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Slovenia is a CRT-2 country, with a low level of political risk, and moderate levels of economic and financial system risk. The country enjoys strong ties to Western Europe and is a stable democracy.

• GDP grew 4.5% in 2018, driven by domestic consumption and fixed capital investment. Medium-term growth is projected at between 2.5% and 3.5%.

• AM Best categorizes the majority of countries in Eastern Europe as CRT-1 and CRT-2. Notable exceptions include Bosnia and Herzegovina, Belarus, and Ukraine.

Regional Summary: Eastern Europe

• Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.

• The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.

• Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power. However, the region’s standards of living vary greatly by country.
Economic Risk: Moderate

- Slovenia has a small economy focused on external trade and investment. The majority of its trading partners are members of the EU, which makes the country vulnerable to an economic slowdown in the EU, particularly in Italy, a key export destination for Slovenia.
- The economy is challenged by rigid labor markets, slow contract enforcement, high levels of bureaucracy, unfavorable population demographics, and a cumbersome regulatory system.
- Domestic consumption has helped drive economic growth. Higher wages, increased access to credit for consumers, rising consumer sentiment, and declining unemployment rates (7.4% as of May 2019) have all been positive drivers of growth.

Political Risk: Low

- The current president is Borut Pahor, who was re-elected in November 2017. He defeated his challenger, Marjan Šarec, in a run-off poll, capturing 53% of the vote. The next presidential and legislative elections are scheduled for 2022.
- Although the political environment in Slovenia is largely stable, there has been some volatility in recent years owing to the implementation of unpopular austerity measures and fiscal challenges.
- The three-party coalition government collapsed in March 2018, after the resignation of Prime Minister Miroslav Cerar. It had been in place since 2014 and had passed prudent macroeconomic reforms and austerity measures. A parliamentary election was held in June 2018, which resulted in a highly fragmented parliament with nine different parties winning seats, making the formation of a coalition government difficult.
- The country joined the EU and NATO in 2004 and the eurozone in 2007. Its legal system aligns with EU standards.

Financial System Risk: Moderate

- The Insurance Supervision Agency regulates the insurance industry in accordance with the Insurance Act.
- Banking supervision is primarily the responsibility of the European Central Bank, under the Single Supervisory Mechanism. The Bank of Slovenia continues to supervise its “less significant” banking institutions.
- According to the IMF, financial stability has improved, despite some lingering legacy problems. Slovenia has implemented more stringent regulatory requirements and restructured weak banks. Progress has been made in helping banks resolve their non-performing loans.
- Concerns about vulnerabilities in the housing market are rising, due to a high number of variable rate loans and the appreciation of housing values, which are among the highest in Europe.