SLOVENIA

MORE VULNERABLE TO THE GERMAN ENGINE THAN THE AMERICAN BRAKE

The Slovenian economy is very open, making it highly sensitive to the economic situations of its main partners and to trends in world trade. The slump at the start of the year is due to the disruption in world trade. Household consumption and public investment should continue to underpin activity. Inflation is edging up on the back of wage pressures and a possible rise in energy prices. The resumption of government spending should lead to an increase in the budget deficit, but without causing any slippage and while keeping debt trends under control. The effects of US trade policy should remain moderate. However, the German economy remains the key factor in Slovenia's external performance.

ACTIVITY SLOWDOWN

Economic activity took a breather in Q1 2025 (-0.8% y/y), while the rest of the Eurozone remained resilient (+1.5% y/y). The negative contribution of foreign trade was the main factor, as exports fell (-0.2%) despite a slowdown in imports, reflecting the moderation in household consumption. According to the Central Bank, this underperformance is linked to the expected tightening of international trade. The rebound in economic activity in Q1 (+0.4% q/q and 0% y/y) in Germany, Slovenia's main trading partner, has had no tangible effects on the Slovenian economy so far. Furthermore, investment momentum remains negative (-5.1% y/y) for the fourth consecutive quarter, in line with the sharp drop in construction activity (-6.0%). Household consumption, although up modestly (+0.4%), remains sluggish. Despite real wage growth and stable employment, the consumer confidence indicator remains depressed. As in 2024, public spending remains the main driver of activity (+2.6% y/y), thanks, in particular, to reconstruction spending following the floods of mid-2023.

Unemployment remains close to record lows (4.9% in February). The labour market remains tight, and use of foreign labour is growing. As a matter of fact, the aging of the population means that employment growth is essentially due to non-nationals, mainly in labour-intensive sectors.

In the short term, uncertainties surrounding the evolution of international trade are the main drag on economic activity. However, the continued rise in real wages, a dynamic labour market and falling interest rates in the Eurozone should boost household consumption. Over 2025, as a whole, Slovenian growth should match the Eurozone average (1.2%).

In the medium term, government consumption should benefit from the European rearmament effort under the ReArm Europe/Readiness 2030 programme, which includes an increase in member countries' military spending and dedicated funding to support the sector. Slovenia's defence spending is estimated at 1.35% of GDP in 2024, and the government has pledged to reach 2% by 2030. The defence effort should help to boost activity in the sector. According to the Central Bank, although the defence sector employs only 1% of the Slovenian workforce and contributes only 1% of the country's value added, around 70% of its companies are export-oriented.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth (%)	2.7	2.1	1.6	1.2	2.4
Inflation (CPI, year average, %)	9.3	7.3	2.0	2.8	2.0
Cent. Gov. balance / GDP (%)	-3.0	-2.6	-1.0	-1.5	-2.0
Cent. Gov. debt / GDP (%)	73.0	68.0	67.0	66.0	65.0
Current account balance / GDP (%)	-1.1	4.5	2.7	2.3	2.2
External debt / GDP (%)	91.0	92.0	87.0	84.0	80.0

e: ESTIMATES & FORECASTS
TABLE 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

SLOVENIA: CONTRIBUTIONS TO REAL GDP GROWTH

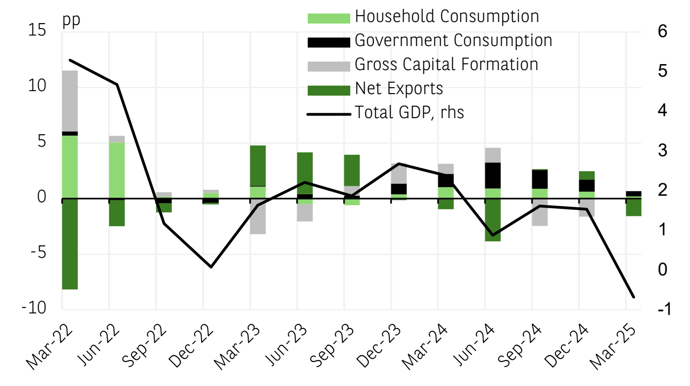

CHART 1 SOURCE: IMAD, BNP PARIBAS

PERSISTENT INFLATION

Consumer price inflation has been rising since the end of 2024. It is expected to average 2.8% over 2025 as a whole. Since the beginning of the year, price rises have been driven in particular by food prices (+3.6% y/y on average). Over the course of 2025, rising oil prices (due to geopolitical tensions) and rising wage costs will continue to fuel inflation.

What's more, the ECB's ongoing monetary easing is not conducive to moderating credit demand. In April, household credit grew by 6.5% y/y, and consumer credit by 12.3%. Conversely, the euro's appreciation on international markets should limit imported inflation.

Escalating geopolitical tensions in the Middle East could seriously disrupt hydrocarbon markets and accelerate the pace of inflation. Indeed, it is estimated that, at Eurozone level, a 10% rise in oil and gas prices would add around 17.5 bps to inflation. Slovenia is sensitive to variations in oil prices (35% of its energy mix), but less so to those of natural gas (11%). Furthermore, by 2026, the gradual reduction in wage pressure on production costs should help to reduce inflationary pressures (+2% on average).

Against a backdrop of falling inflation by 2025 in the Eurozone, the reduction in the ECB's main interest rates, initiated in June 2024, is set to continue until next September. For the time being, rising geopolitical tensions do not call this outlook into question. Nevertheless, a blockage in the transport of hydrocarbons in the Middle East, which would push oil prices to very high levels, could call into question Europe's deflationary trajectory and the continuation of the rate cut.

BUDGET DEFICIT UP BUT UNDER CONTROL

The public accounts should deteriorate moderately in 2025 and 2026, after a remarkable fiscal consolidation effort. This resulted in a deficit of less than 1% of GDP in 2024, compared with the government's forecast of 2.9%. The deficit is expected to reach 1.5% of GDP in 2025 and 2% in 2026. The expected slowdown in growth in 2025 should, however, weigh on tax revenues. At the same time, capital expenditure, which fell sharply in 2024, should pick up again, and the reconstruction effort following the floods of 2023 should continue. In addition, long-term rates on public debt are set to rise in the quarters ahead. Indeed, we anticipate a rise of around 80 bps in the German 10-year benchmark rate. Nevertheless, the rise in the interest burden is expected to remain moderate, reaching 1.35% of GDP in 2026 (1.24% in 2023). The government debt ratio should continue to fall. It should be equivalent to 63% of GDP in 2028 (67% in 2024).

FOREIGN TRADE: MODERATE IMPACT OF TRADE WAR WITH THE UNITED STATES

The openness of the Slovenian economy is very high (the ratio of imports + exports as a percentage of GDP exceeds 170%), but its direct exposure to the US market is limited (around 2.5% of total goods exports). Generally speaking, Slovenia has a trade surplus with the United States, but the amount is very small (EUR 0.5 billion in 2023). Under the reciprocal tariff, Slovenian exports to the USA are currently taxed at 10%. According to national data for 2024, around 18% of exports are subject to a specific regime (steel, aluminum and automobiles), while 2% are exempt from the reciprocal tariff (pharmaceuticals). According to our estimates, the resulting decline in exports would adversely affect GDP by less than 0.2%, all other things being equal. In addition to this direct effect, there are indirect sectoral effects. According to OECD data for 2020, taking indirect exposure into account could double this impact. More generally, the economy's high degree of openness makes it vulnerable to the effects of a slowdown in world trade (+1.7% expected in 2025, versus +3.8% in 2024, according to the IMF).

SLOVENIA: FISCAL BALANCE

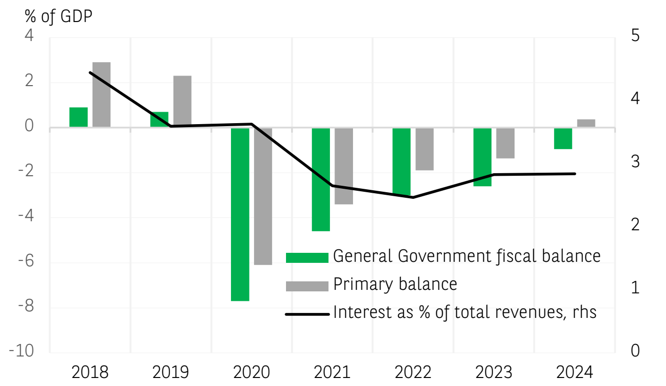

CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

All in all, despite their relatively low exposure to the US market, Slovenian exports of goods are likely to remain constrained in 2025. Indeed, the economic activity outlook for Germany, the main market for Slovenian exports (around 17% of the total), is mixed. In 2024, the recession in Germany was the main reason for the sluggishness of Slovenian exports. In 2025, German growth is forecast to reach 0.4%, before picking up again to 1.0% in 2026. The deep crisis in the German automotive sector is having a particular impact on Slovenian exports (the automotive sector accounts for 1/5th of exports). Nevertheless, in the medium term, German investment targets should benefit Slovenian equipment exports to that country (around 30% of exports).

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