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# Proposed Slovenia Bonds Assigned 'A-' Rating

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LONDON (Standard & Poor's) May 2, 2013--Standard & Poor's Ratings Services said today that it has assigned its 'A-' long-term senior unsecured debt rating to the proposed five- and 10-year benchmarked sized bonds to be issued by the Republic of Slovenia (A-/Stable/A-2). We expect the bonds will finance the recapitalization of troubled state-owned banks as well as prefund some of the government's borrowing needs for 2014 and 2015.

The sovereign credit ratings on Slovenia reflect our expectation of further progress in fiscal consolidation under the new government, headed by Prime Minister Alenka Bratusek. After rising to a projected 6.2% of GDP this year, fiscal deficits (including bank recapitalization costs)--which averaged 5.5% of GDP between 2009-2012--are budgeted to decline to below 3% of GDP by 2016.

The ratings are underpinned by Slovenia's open and relatively wealthy economy (we estimate GDP per capita in 2013 at $22,700) and the absence of external imbalances; we expect current account surpluses of 2.0%-3.5% of GDP through the middle of this decade. These strengths are moderated by Slovenia's sharply rising government debt burden, which is partly associated with government support for state-owned banks, amid uncertain growth prospects.

Policy implementation risks to resolving economic and fiscal pressures remain. We also believe that vested interests, which have benefited from long-entrenched entitlements or other forms of political patronage, could hamper the pace and effectiveness of labor and product market deregulation.

We forecast the new borrowings, as well as funding of up to €4 billion for the transfer of the banks' distressed assets to the government-owned Bank Asset Management Company (BAMC), will raise the net general government debt ratio to above 63% of GDP at end-2013 and exceed that over the rating horizon (2013-2015). Further bank recapitalization costs (above our current estimate of between €3 billion–€4 billion; 11% of GDP) would lead us to revise this estimate upward.

The government's five- and 10-year bonds, combined with Slovenia's €1.1 billion 18-month treasury bill sale on April 17, 2013, and the US$2.25 billion 10-year bond issued in October 2012, will more than meet its €3.2 billion borrowing requirement for 2013 (to fund the €1.2 billion budget deficit; €1.8 billion debt redemption; and partially pre-fund €3.2 billion in debt redemptions in 2014 and 2015).

The stable outlook on the long-term sovereign credit rating reflects our expectation that the government will progress its fiscal consolidation and banking system restructuring, and our view of Slovenia's supportive relationship with the eurozone, against the risks associated with its rising debt burden, weak growth prospects, and the new government's largely untested commitment to reforms. We do not expect the government will resort to the European Stability Mechanism to meet its funding needs.

RELATED CRITERIA AND RESEARCH

- Banking Industry Country Risk Assessment Update, April 8, 2013
- Global Aging 2013: Rising To The Challenge, March 20, 2013
- Slovenia (Republic of), March 4, 2013
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- How Asset Management Companies Could Affect Sovereign Ratings, Nov. 13, 2008

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