

Slovenia Business Forecast Report Q2 2014

<https://marketpublishers.com/r/S1DDB096245EN.html>

Date: March 2014

Pages: 42

Price: US\$ 1,195.00 (Single User License)

ID: S1DDB096245EN

Abstracts

Core Views

Political instability will remain elevated as the four-party government coalition attempts to push through harsh austerity measures that will very likely prompt parliamentary tensions and social unrest.

The short-term economic outlook has improved in light of accelerating regional economic activity and a slight rebound in domestic demand. The corporate sector remains overleveraged and will remain a major risk to the banking sector unless some form of restructuring takes place. This could include restructuring the loans to reduce debt servicing costs, or cost cutting (shedding jobs/trimming investment).

Major Forecast Changes

We have adjusted our real GDP growth forecasts to take into account recent data and now expect that Slovenia will exit recession in 2014, growing by 0.5% against our previous forecast for a 0.5% contraction.

Key Risks To Outlook

Politics remains a key risk to the national reform programme, with the details of how to slash the budget deficit during a downturn likely to highlight differences between coalition partners. Any sign that the reform programme is at risk of delay or suspension will have an immediate and punishing impact on market sentiment towards Slovenia, pushing the country closer to a bailout.

A big risk to the Slovenian economy lies abroad. A major deterioration in the eurozone sovereign debt crisis, or even just a greater-than-expected slowdown in the core

eurozone nations, would have severe knock-on effects on the Slovenian economy, not only via depressed trade and investment flows, but also via credit channels and broader economic sentiment.

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Although the EU will remain a policy anchor for Slovenia over the long term, massive economic pressure will be a major test for the country's political institutions. A structural shift in policy and/or governing institutions is unlikely, though we caution that failure to develop a long-term growth model will increase challenges to governance, potentially exacerbating political party divisions.

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We expect euro strength against the US dollar and on a trade-weighted basis to persist in H114. However, we continue to argue that the economic and monetary policy cycles in the eurozone are lagging further behind peers in the US and UK, which will trigger a re-pricing of the euro towards the end of 2014. We believe that weak eurozone economic growth and lingering deflationary risks will spur the European Central Bank to loosen monetary policy further.

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