

RatingsDirect Headline:

Republic of Slovenia Benchmark €1 Bil. Bond Rated 'AA';
Sovereign Affirmed; Outlook Stable

CreditWire Vendor Headline:

S&P Rates Republic of Slovenia EUR1 Bil. Bond 'AA'; Sov
Afrmd

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LONDON (Standard & Poor's) March 2, 2007--Standard & Poor's Ratings Services said today it assigned its 'AA' senior unsecured debt rating to the Republic of Slovenia's proposed inaugural euro-denominated domestic benchmark bond. The issue is for €1 billion, maturing in 2018. At the same time, Standard & Poor's affirmed its 'AA' long-term and 'A-1+' short-term sovereign credit ratings on the Republic of Slovenia. The outlook is stable.

"Slovenia's very strong credit standing reflects the country's healthy economic prospects and the government's tight control over fiscal accounts," said Standard & Poor's credit analyst Ana Mates. "It also reflects the government's impressive achievement in reducing inflation to within the Maastricht treaty target for EMU entry."

Slovenia was the first of the EU's 2004 cohort of new member states to accede to EMU, thus shielding the sovereign from potential balance-of-payments pressures.

The government's commitment to fiscal prudence resulted in a better outcome than budgeted in 2006, with the general government deficit at 1.2% of GDP. In addition, the debt burden is relatively stable, at 28% of GDP. This performance augurs well for Slovenia's prospects within the currency union.

Slovenia's growth rates have averaged 4.5% since 2004, while its current account deficit of around 2.0% of GDP in 2006 compares favorably with those of most peers and

demonstrates the competitiveness of the Slovene economy. Nevertheless, in the context of a currency union, increased productivity and wage and labor market flexibility become more important to maintain competitiveness.

The ratings on Slovenia remain constrained by its hesitant approach to the reforms necessary to underpin further growth without jeopardizing the fiscal stringency of recent years. With GDP per capita at just above 60% of the 'AA' median in 2006, a process of real convergence is of paramount importance.

"Improvements to Slovenia's competitiveness and continued economic restructuring, which in turn support the process of convergence to 'AA' median income levels, would be key drivers of long-term improvements in the rating," said Ms. Mates. "Conversely, the ratings could come under pressure if the budget balance deteriorates significantly, especially given the imperative for fiscal discipline in a currency union."