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Any securities to be issued will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered in the United States (as such term is defined in Regulation S under the Securities Act) unless registered under the Securities Act or pursuant to an exemption from such registration.



## THE REPUBLIC OF SLOVENIA

### €1,500,000,000 0.275 per cent. Notes due 2030

The issue price of the €1,500,000,000 0.275 per cent. Notes due 2030 (the "**Notes**") of the Republic of Slovenia (the "**Republic**", "**Slovenia**" or the "**Issuer**") is 99.793 per cent. of their principal amount.

The Notes will bear interest from and including 14 January 2020 at the rate of 0.275 per cent. per annum payable annually in arrear on 14 January in each year, commencing on 14 January 2021 (see "*Terms and Conditions of the Notes — Interest*"). Payments of interest in respect of the Notes will be made without deduction for or on account of Slovenian taxes, as described, and subject to the exceptions set out, under "*Terms and Conditions of the Notes — Taxation*".

The Notes will mature on 14 January 2030. The Terms and Conditions of the Notes are governed by Slovenian law.

The Notes will be in dematerialised registered form and will be issued and cleared through KDD – *Centralna klirinško depotna družba, delniška družba* ("**KDD**"). The Notes may be held by the Noteholders directly through accounts with KDD. In addition, links between KDD and Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") have been established which allow interests in the Notes to be held through the fiduciary accounts of Euroclear and of Clearstream, Luxembourg with KDD.

Persons holding interests in the Notes otherwise than directly at their accounts with KDD will not be considered as the legal owners of such Notes under Slovenian law. The Terms and Conditions of the Notes contain provisions pursuant to which persons holding the Notes through accounts with Euroclear or Clearstream, Luxembourg ("**Accountholders**") may, in certain circumstances, directly make a claim against the Republic for payment under the Notes. The Republic will recognise the statement of accounts of Euroclear and Clearstream, Luxembourg, to be conclusive and binding evidence of the right of Accountholders under the Terms and Conditions of the Notes. See also "*Clearing and Settlement*" for further information.

Application has been made for the Notes to be listed and traded on the bond segment (*segment obveznic*) of the stock exchange market (*borzni trg*), which is the EEA Regulated Market of the Ljubljana Stock Exchange (*Ljubljanska borza d.d.*) (the "**Ljubljana Stock Exchange**") pursuant to the rules and regulations of the Ljubljana Stock Exchange. An "**EEA Regulated Market**" means a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments ("**MiFID II**").

#### *Joint Lead Managers*

**BARCLAYS**

**BNP PARIBAS**

**GOLDMAN SACHS INTERNATIONAL  
BANK**

**HSBC**

**J.P. MORGAN**

**UNICREDIT BANKA SLOVENIJA D.D.**

The date of this Offering Circular is 10 January 2020.

The Republic accepts responsibility for the information contained within this document. To the best of its knowledge and belief, the information contained within this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Republic accepts responsibility accordingly.

Barclays Bank PLC, BNP Paribas, Goldman Sachs International Bank, HSBC France, J.P. Morgan Securities plc and UniCredit Banka Slovenija d.d. as joint lead managers (the "**Joint Lead Managers**") have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Republic in connection with the Notes or their distribution or for any acts or omissions of the Republic or any other person in connection with the issue and offering of the Notes.

No person is or has been authorised to give any information or to make any representation which is not contained in, or which is not consistent with, this Offering Circular or any other information supplied by or on behalf of the Republic in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Republic or the Joint Lead Managers.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Republic that any recipient of this Offering Circular should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Republic.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Republic since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Republic since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any date subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Republic and the Joint Lead Managers do not represent that this document may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Republic or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published, in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe any such restrictions. In particular there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States and the United Kingdom. For a description of further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "*Subscription and Sale*" below.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States (as such term is defined in Regulation S under the Securities Act). The Notes will be offered and sold outside the United States in reliance on Regulation S. For a description of restrictions on offers, sales and transfers of the Notes, see "*Subscription and Sale*".

Neither the offer or sale of the Notes nor the Notes have been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of any offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Offering Circular does not constitute a prospectus pursuant to the New Slovenian Market in Financial Instruments Act (Zakon o trgu finančnih instrumentov (ZTFI-1)) (the "**New Market in Financial Instruments Act**") or Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "**Prospectus Regulation**"). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Regulation, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation and in particular the Agencija za trg vrednostnih papirjev, in its capacity as competent authority under the New Market in Financial Instruments Act and the Slovenian Market in Financial Instruments Act (Zakon o trgu finančnih instrumentov (ZTFI)) (the "**Market in Financial Instruments Act**"). The Notes, issued pursuant to this Offering Circular, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Regulation.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "€" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

**MiFID II product governance / Retail investors, professional investors and ECPs target market –** Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients each as defined in MiFID II; and (ii) all channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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## RISK FACTORS

*Investment in the Notes involves risks. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Republic's capacity to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in the "Terms and Conditions of the Notes" section of this Offering Circular or elsewhere in this Offering Circular have the same meanings in this section.*

### **Risk Factors Relating to the Republic**

**The Republic's economy remains vulnerable to external and domestic economic conditions, including the slow rate of recovery in the Eurozone, a number of political and macroeconomic risks relating to the United Kingdom's potential exit from the European Union (the "EU") and the effect of any future significant economic difficulties of its major trading partners or general "contagion" effects, which could have a material adverse effect on the Republic's economic growth.**

The Republic's economic performance remains vulnerable to external and domestic economic conditions and shocks, including the delayed restoration of the Slovenian private sector, the slow rate of recovery in the Eurozone, the forthcoming exit of the United Kingdom from the EU pursuant to the triggering of Article 50 and the effect of any future significant economic difficulties of its major trading partners. The Slovenian economy is small, highly export-oriented and deeply integrated into the European supply chain. Challenges in achieving the Government's key macroeconomic policy objectives could impact gross domestic product ("GDP") growth, as could procedural difficulties related to the absorption of EU funds and Government investment activity. A significant decline in the economic growth of any of the Republic's major trading partners, in particular, Germany, Italy, Austria, Croatia and the other member states of the EU (the "EU Member States") could also have a materially negative impact on the Republic's balance of trade and adversely affect its economic growth prospects.

While the Government believes that its efforts to revitalise the banking sector are helping to improve the state of the economy, credit conditions have been tight following the economic recession in 2008. Debt in the corporate sector remains high relative to firms' capacity to repay. Additionally, ongoing restructuring of the corporate sector weighs on growth prospects. While concerns over credit risk, the large amount of sovereign debt and the fiscal deficits of several other European countries have been somewhat mitigated recently, a default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. A slow or delayed recovery of the Eurozone economy could cause the Republic to face difficulties in accessing funding for the Republic and domestic banks.

Recent efforts by European leaders to find a lasting solution to market concerns about certain European countries' ability to repay their debt have produced bail-out packages and restructuring agreements for a number of these sovereign debtors. These include agreements with certain EU member countries, such as Cyprus and Greece, which have adopted or have agreed to adopt fiscal austerity plans and impose losses on uninsured depositors to address concerns over its credit profile. Despite these efforts and successful completions of programmes in the case of Ireland and Spain, some doubts remain over the successful implementation of these measures and the continued stability of the European monetary system and economy. As at 30 September 2019, the Republic's exposure to financial assistance programmes supporting financial stability in the Eurozone was €1,532.2 million, of which €263.7 million related to the Loan Facility Agreement for Greece on a bilateral level.

Following the triggering of Article 50 by the United Kingdom on 29 March 2017 the future terms of the United Kingdom's forthcoming exit from the EU have created significant political, social and macroeconomic uncertainty.

On 17 October 2019 a revised withdrawal agreement (the "**Withdrawal Agreement**") setting out the terms of the United Kingdom's exit from the EU, and a political declaration on the framework for the future relationship between the United Kingdom and EU were agreed between the United Kingdom and the European Council. The Withdrawal Agreement includes the terms of a transition or "standstill" period until 31 December 2020, during which the United Kingdom will have formally withdrawn from the EU, but will still be treated for most purposes as an EU member state. This transition period may be extended (by agreement before 1 July 2020) until the end of 2021 or 2022. During the transition period, the United Kingdom would still be subject to EU laws as well as benefit from them but would have very limited involvement in EU decision-making processes and institutions. The Withdrawal Agreement also provides that the EU will notify third-party countries that the United Kingdom should be treated as a member of the EU, but third-party countries may not be legally bound to treat the United Kingdom as such.

Following the United Kingdom's withdrawal from the EU, and depending on the agreements (if any) that the United Kingdom reaches regarding tariffs and other trade regulations with either the EU or individual member states, the Republic's products and services could be subject to increased import duties, levies and regulatory requirements in the United Kingdom, which could negatively affect trade between the Republic and the United Kingdom and could, as a result, negatively impact the Slovenian economy. The United Kingdom was also one of the biggest net contributors to the EU budget, and its departure could adversely impact the Republic's allocation for the next EU Multiannual Financial Framework (2021-2027).

The forthcoming exit of the United Kingdom (whether by way of the Withdrawal Agreement or otherwise) or the exit of any other country from the EU, or prolonged periods of uncertainty relating to this possibility, could result in significant macroeconomic deterioration, including, but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and decreased GDP in the EU or other markets relevant to the Slovenian economy, any of which, were they to occur, could have a negative impact on the Slovenian economy. In addition, there are increasing concerns that these events could push the United Kingdom, Eurozone and/or United States into an economic recession, any of which, were they to occur, would further destabilise the global financial markets and could have a negative impact on the Slovenian economy.

There also remains the possibility that the uncertainty described above could lead to the reintroduction of individual currencies in one or more EU Member States, or, in more extreme circumstances, the possible dissolution of the Economic and Monetary Union ("**EMU**") entirely. The exit of one or more EU Member States from the EMU or the dissolution of the EMU could have a material adverse effect on the European and global economies, including the Republic, and cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency.

The privately-owned Slovenian retail company Mercator (which generates approximately 40 per cent. of the value added of the Republic's retail sector and more than 1 per cent. of value added in the business sector; employs around 10,500 employees; and represents approximately 2 per cent. of the total business sector in the Republic) is owned by the Agrokor group in Croatia, which is currently undergoing a restructuring. A significant downsizing or restructuring of Mercator, one of Slovenia's largest food retailers and a company of systemic economic, social and financial importance to the Republic, could have a material impact on the retail sector of the Republic of Slovenia. In order to address this potential risk, the Republic has passed the Act Setting Conditions for the Appointment of Associate Members of Management Boards in Systemically Important Companies in the Republic of Slovenia (*Zakon o pogojih imenovanja izrednega člana uprave v družbah sistemskega pomena za Republiko Slovenijo (ZIČUDSP)*, the "**ZIČUDSP**") on 6 May 2017 (for further information see "*The Republic of Slovenia – The ZIČUDSP (Economically, Socially and Financially Systemic Companies)*").

Additionally, in the event of weaker than budgeted growth, driven by either softer external or domestic demand, the Government may need to implement further cost-reduction or revenue raising measures in order to meet the central government surplus-to-GDP ratio targets, which were 0.4 per cent., 0.8 per cent., 1.1 per cent. and 1.2 per cent. for 2019, 2020, 2021 and 2022, respectively. Such measures may adversely affect economic growth.

There can be no assurance that any of the factors described above will not have a negative impact on the Slovenian economy.

## **The Republic's credit rating has been downgraded in the past and could be downgraded in the future**

As the situation in the international financial markets deteriorated significantly in the second half of 2011 and doubts over the sustainability of the Eurozone increased, several rating agencies downgraded the credit ratings of a number of EU sovereigns, including the Republic. Further sovereign downgrades occurred in 2012 and 2013 by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investors Service, Inc. ("**Moody's Inc.**") and Fitch Ratings Limited ("**Fitch**"). However, in 2014 and 2015 Fitch, S&P and Moody's Investors Services Ltd. ("**Moody's Ltd.**") began to upgrade the Republic's credit rating. Most recently, S&P upgraded the Republic's rating on 14 June 2019 to AA- with a stable outlook; Fitch upgraded the Republic's rating on 19 July 2019 to A with a stable outlook; and Moody's Ltd. upgraded the Republic's rating on 8 September 2017 to Baa1 with a stable outlook and subsequently revised its outlook to positive on 26 April 2019. See "*Public Debt – Credit Rating*" for more detail on the Republic's credit rating.

Although Fitch and S&P have a stable outlook, and Moody's Ltd. has a positive outlook, on the Republic, the risk of a possible future downgrade still remains. The agencies could lower their ratings of the Republic if, among other things, the Republic's macroeconomic environment was substantially weakened, the policy-making became less predictable, the Government's debt trajectory worsened or in the event of economic or financial shocks arising from the ongoing banking system stabilisation. A further downgrade of sovereign debt ratings, including those of the Republic, or a continued Eurozone crisis may result in an increased risk of further deleveraging and credit contraction, which could have a materially negative effect on the Slovenian economy and could have a negative impact on investor confidence in the Republic or on the Republic's ability to raise capital from the external debt markets in the future.

The credit ratings of the Republic as at the date of this Offering Circular are AA- by S&P, A by Fitch and Baa1 by Moody's Ltd.

## **Parts of the Slovenian banking system could require further recapitalisation**

In 2013 and 2014, due to the deterioration of the asset quality of its major banks, the Slovenian banking system needed support, which included the transfer of bad assets and recapitalisation.

The banking system's overall portfolio is impacted by non-performing loans, the majority of which are concentrated in the non-financial corporate sector, particularly in small- and medium-sized enterprises. As at 31 December 2013, following the transfer of bad assets to the Government-owned bank asset management company (*Družba za upravljanje terjatev bank, d.d.*, the "**BAMC**"), the share of non-performing loans in the Slovenian banking sector, measured by claims in arrears over 90 days, was 13.4 per cent. of all outstanding bank loans. Largely due to increased active management of non-performing loans by banks as part of their on-going restructuring processes, as well as an additional transfer of non-performing loans to the BAMC in the last quarter of 2014, the share of non-performing loans decreased to 11.9 per cent. as at 31 December 2014. Since the end of 2014, the share of non-performing loans has been decreasing substantially due to the restructuring of the exposures by the large companies, write-offs, the sale of non-performing portfolios by certain banks and the favourable impact of economic recovery. The share of non-performing loans further decreased to 9.9 per cent., 5.5 per cent., 3.7 per cent., and 2.3 per cent. as at 31 December 2015, 2016, 2017 and 2018, respectively. The share of non-performing loans further decreased to 1.4 per cent. as at 31 August 2019. For more information on non-performing loans, see "*Monetary and Financial System – Credit and Income Risk*".

To further support the banking system, the Republic has also engaged in recapitalisation. From 2011 to 2016, the Republic recapitalised Nova Ljubljanska banka d.d., Ljubljana ("**NLB**"), Nova Kreditna banka Maribor d.d. ("**NKBM**"), Abanka d.d. ("**Abanka**"), Banka Celje d.d. ("**Banka Celje**"), Probanka d.d. ("**Probanka**") and Factor banka d.d. ("**Factor banka**"). In 2015, Abanka merged with Banka Celje, and in 2016, Factor banka and Probanka were merged with the BAMC.

While certain non-performing loans and distressed assets have been transferred from the balance sheets of certain Slovenian banks to the BAMC, there remains a risk of an increase in the amount of non-performing loans of such Slovenian banks even after such transfers, which could result in the need for further bank recapitalisations. See "*Public Finance – Consolidated General Government Budgets*".

The recapitalisation of large state-owned banks has been the main driver of the considerable increase of public debt since the financial crisis. The ratio of general government debt to GDP has more than tripled



since 2008, according to the European Commission reports. This development decreased the Republic's shock absorption capacity, weakening fiscal leeway should similar pressures re-emerge. The ratio peaked at 82.6 per cent. in 2015 and started to decline in 2016, reaching 70.4 per cent. of GDP as at 31 December 2018, and is expected to decrease to 66.3 per cent. of GDP as at 31 December 2019 according to Ministry of Finance estimates.

Given the Republic's sizable reliance on non-resident market demand for government debt, the banking system also remains subject to international liquidity risks and market conditions. As a result, the Government could choose to pursue an external support package in the event of a stressed market environment and significantly higher than expected recapitalisation needs of the banking system.

In addition, the Republic's ability to raise further debt to finance further recapitalisation may be constrained.

**The Republic may not succeed in implementing proposed or future fiscal, political and other reforms, and such failure may adversely affect its economy**

The ongoing and anticipated reforms described in this Offering Circular may not continue in the manner described or on the basis of any expected timetable outlined therein, and may fail to be implemented or may subsequently be reversed. In particular, the Republic is bound by EU legislation and is committed to pursuing structural reforms, such as fiscal consolidation, long-term reform of the pension system in an effort to make the pension deficit sustainable in light of the Republic's ageing population and streamlining the stratified labour market. Pension reform was implemented by the Pension and Disability Insurance Act (*Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)*), the "**Pension Act**", which came into force on 1 January 2013, though further reforms may be required in the future.

The current Government's privatisation agenda was launched in June 2013 by a decision of the National Assembly and laid the basis for the sale of the Republic's direct or indirect interests in 15 companies. The new Slovenian law on sovereign holding (*Zakon o Slovenskem državnem holdingu (ZSDH-1)*), the "**SSHA-1**") entered into force on 26 April 2014. This law was designed to centralise the management of all assets, prevent a distortion of competition in markets and the unequal treatment of companies, reduce the influence of special interest groups, decrease the risk of corruption and conflicts of interests and enhance transparency. Although the privatisation agenda is under way, it has been subject to delays which may have a negative impact on the Republic's economy.

The failure of the Government to implement its contemplated reforms or the failure of these reforms to achieve their stated objectives may lead to a deterioration of general economic conditions or may have an adverse effect on the Republic's ability to repay its financial obligations, such as payments under the Notes. Furthermore, due to the nature and extent of these reforms, negative short-term effects on growth, employment and other key economic variables may occur before any positive long-term effects of any reforms are achieved.

**The Republic is a member of the Eurozone and, therefore, has limited ability to set monetary policy.**

The 19 members of the Eurozone have transferred the power to set monetary policy to the European Central Bank ("**ECB**"). The powers of the ECB include the power to manage the monetary policy of the Eurozone member states, as well as to manage liquidity and stability of the financial system through open market operations, marginal lending facilities, reserve requirements and other policy instruments which may be available to the ECB in accordance with its constitutional documents. The ECB is an independent body. As a result, the Republic does not have any power to directly influence any policy decisions made by the ECB. The ECB sets monetary policy with a view to the Eurozone as a whole. Therefore, where economic events are limited to the Republic or do not affect the Eurozone as a whole, the ECB may not take such actions as may benefit the Republic, in particular, or as might be required to alleviate the effects of a financial crisis in the Republic. The absence of an independent monetary policy may contribute to a need to implement further structural reforms and financial consolidation measures to stabilise economic conditions. This may have a material adverse effect on the economy of the Republic and, consequently, on the Republic's ability to meet its obligations under any outstanding indebtedness. Given the Republic's relatively high indebtedness, a tightening of ECB's monetary policy may also have adverse repercussions for the country's debt sustainability.

## **Official economic data may not be directly comparable with data produced by other sources**

Although a range of Government ministries, including the Ministry of Finance of the Republic of Slovenia (the "**Ministry of Finance**"), along with Banka Slovenije (the "**Bank of Slovenia**"), the Statistical Office of the Republic of Slovenia ("**SORS**") and the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*, the "**Securities Market Agency**"), produce statistics on the Republic and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in the Notes should be aware that figures relating to the Republic's GDP and many other aggregate figures cited in this Offering Circular have been prepared in accordance with EU standards and may differ from figures prepared by international bodies, such as the International Monetary Fund (the "**IMF**"), which use a different methodology. In addition, the existence of an unofficial or unobserved economy may affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified.

## **Risk Factors Relating to an Investment in the Notes**

### *The Notes may not be a suitable investment for all investors*

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### *The conditions of the Notes contain a collective action clause and may be modified, waived or amended without the consent of all the Noteholders*

The conditions of the Notes contain provisions regarding acceleration and voting on amendments, modifications and waivers, commonly referred to as "collective action" clauses. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

The form of collective action clause contained in the Notes was agreed and published by the Economic and Financial Committee Sub-Committee on EU Sovereign Debt Markets, on 28 March 2012. In accordance with the provisions of the Treaty establishing the European Stability Mechanism (the "**ESM**") signed on 2 February 2012, this standardised clause became mandatory in all new Eurozone government securities, with a maturity above one year, issued on or after 1 January 2013. The provisions of the clause permit "cross-series modifications" to be made to one or more series of debt securities issued by the Issuer (**provided that** those debt securities also contain a cross-series modification provision), including the Notes. In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series; **provided that** a lower defined majority of holders of each affected series of debt securities approve the relevant amendment (see "*Terms and Conditions of the Notes — Meetings of Noteholders; Modification*").

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is beneficial to the interests of the Noteholders.

Any such change in the Terms and Conditions of the Notes may adversely affect the trading price of the Notes.

***The conditions of the Notes restrict the ability of an individual Noteholder to declare a default and permit a majority of Noteholders to rescind a declaration of default***

The conditions of the Notes contain a provision which, if an Event of Default occurs, allows the Noteholders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the relevant Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

***The law governing the conditions of the Notes may change***

The conditions of the Notes are governed by Slovenian law. No assurance can be given as to the impact of any judicial decision or change to Slovenian law or administrative practice after the date of this Offering Circular.

***An active trading market for the Notes may not develop***

An active trading (secondary) market for the Notes may not develop. Although the Joint Lead Managers have informed the Republic that they currently intend to make a market in the Notes offered hereby, the Joint Lead Managers have no obligation to do so and may discontinue making a market at any time without notice. The liquidity of any market for the Notes will depend upon the number of Noteholders, the performance of the Republic, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors, including general declines or disruptions in the markets for debt securities.

Although an application has been made to list the Notes on the Ljubljana Stock Exchange and to trade the Notes on the Ljubljana Stock Exchange's regulated market, there is no assurance that such application will be accepted. Furthermore, there can be no assurance that a trading market for the Notes will develop. If a trading market does develop, there is no assurance that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by the Republic is influenced by economic and market conditions in the Republic and, to a varying degree, economic conditions in other European markets, as well as global, emerging and developed markets generally. There can be no assurance that events which would cause volatility of the sort that occurred in worldwide financial markets in 1998 and 2008 will not occur again, or that any such volatility will not adversely affect the price or liquidity of the Notes.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

***A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions***

The Republic is a sovereign state and the Notes are governed by Slovenian law. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Slovenia against the Republic. Enforcement of such judgments in Slovenia may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. Certain assets owned by the Republic are also immune from execution by law. There is also a risk that, notwithstanding the waiver of sovereign immunity by the Republic, a claimant will not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale).

The foreign exchange reserves of the Republic are held and administered by the Bank of Slovenia, which is an independent central bank legally distinct from the Government, and in other central banks that are members of the European System of Central Banks (the "ESCB"). Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

***Credit ratings may not reflect all risks***

S&P, Moody's Ltd. and Fitch are expected to assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer may adversely affect the market price of the Notes.

In general, European regulated investors are restricted under Regulation (EU) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). As at the date of this Offering Circular, each of Moody's Ltd., S&P and Fitch is established in the EU and regulated under the CRA Regulation. Moody's Inc., which issued credit ratings for the Republic's debt up until 2014, is not established as a credit rating agency in the European Union and is not registered in accordance with CRA Regulation; however, ratings issued by Moody's Inc., for debt issued by the Republic are eligible for endorsement by Moody's Ltd., which is established in the European Union and registered in accordance with CRA Regulation.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be applicable to each Note (the Slovenian language version will be included in the Registration Order and shall prevail over the English language version):*

### 1. FORM, DENOMINATION AND TITLE; CURRENCY OF PAYMENT

The €1,500,000,000 0.275 per cent. notes due 2030 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 12 and forming a single series therewith) of the Republic of Slovenia (the "**Republic**") are in uncertificated and dematerialised registered form in the denomination of €1,000.

The Notes are issued pursuant to the Public Finance Act (*Zakon o javnih financah (ZJF)*) and in accordance with the provisions of the Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*), hereinafter: the "**ZNVP-1**") as entries in the central register (the "**Central Register**") maintained by KDD d.d., Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). No global or definitive Notes or interest coupons will be issued in respect of the Notes in any circumstances.

The Notes are freely transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, KDD. Title to the Notes will pass by registration in the Central Register.

Each person that is for the time being recorded in the Central Register as the legal holder of a particular number of the Notes (in which regard any certificate or other document issued by KDD as to the number of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Republic as the holder of such number of Notes (and the expressions "**Noteholder**" and the "**holder of Notes**" and related expressions shall be construed accordingly).

No person other than the Republic and the respective Noteholder shall have any right to enforce any term or condition of any Note. Notwithstanding the aforesaid, the right to receive payments in respect of a Note may be enforced by the Beneficiary (as defined in Condition 5.1(iii)) of such payments or by an Accountholder (as defined in Condition 5.3).

"**€**" or "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

### 2. STATUS

The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Republic's obligations under the Notes.

The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic.

### 3. INTEREST

The Notes bear interest from 14 January 2020 (the "**Issue Date**") at the rate of 0.275 per cent. per annum, payable in arrear on 14 January in each year commencing on 14 January 2021 (each, an "**Interest Payment Date**"), subject as provided in Condition 5. The payment of interest payable on each Interest Payment Date will be made in respect of the one year period ending on (but excluding) that Interest Payment Date.

Each Note will cease to bear interest from the due date for final redemption. If payment of principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on

behalf of the relevant Beneficiary or (b) in the circumstances referred to in Condition 5.2, the day which is five business days after the Republic has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by the Republic of a notice of the relevant Beneficiary specifying the details required for payment in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

The amount of interest due in respect of any Notes will be calculated by reference to the aggregate principal amount of Notes held by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01.

Where interest is to be calculated in respect of a period which is shorter than an Interest Period, it will be calculated on the basis of the number of days in the relevant period, from and including the first day of such period to but excluding the last day of such period, divided by the number of days in the Interest Period in which the relevant period falls.

As used herein:

- (i) "**business day**" means any day which is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) payment system which utilises a single shared platform and which was launched on 19 November 2007 is open for the settlement of payments in euro; and
- (ii) "**Interest Period**" means the period from and including the Issue Date to but excluding the first Interest Payment Date and each period from and including an Interest Payment Date to but excluding the next Interest Payment Date.

#### 4. **REDEMPTION AND PURCHASE**

##### 4.1 *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount, which is equal to their nominal amount, on 14 January 2030, subject as provided in Condition 5.

##### 4.2 *Purchase and cancellation*

The Republic and its Agencies (as defined below) may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold (**provided that** such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any Notes so cancelled will not be reissued.

In this Condition 4.2, "**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic or the government thereof (whether or not such statutory corporation is autonomous) and "**Agencies**" shall be construed accordingly.

#### 5. **PAYMENTS**

##### 5.1 *Principal and interest*

Payments of principal and interest will be made in euro in accordance with the applicable law and rules of KDD. Each payment so made will discharge the Republic's obligation in respect thereof.

Pursuant to ZNVP-1 in force at the Issue Date, the Republic shall make all payments in respect of the Notes via KDD and its members which operate the holders' accounts. Any amount of principal and interest on the Notes received by KDD shall be considered received on behalf of the Beneficiaries and by making such payment, the obligation of the Republic to pay such amount shall be discharged. The Republic accepts no liability in respect of the obligations of KDD and its members towards the Beneficiaries.

In this Condition 5:

- (i) "**KDD Business Day**" means any day which is a day on which KDD is open for business

- (ii) "**Relevant Time**" means, in relation to any amount payable in respect of a Note, the end of the last KDD Business Day (as defined above) prior to the due date for such amount; and
- (iii) "**Beneficiary**" means, in relation to any amount payable in respect of a Note, the person registered at the Relevant Time (as defined above) in the Central Register as the person entitled to receive such amount.

#### 5.2 *Details required for payments*

If, for any reason, in order to make the payment of any amount of principal or interest in respect of the Notes the Republic must obtain any details which may be provided by the Beneficiary, such Beneficiary can make available to the Republic the details required for payments in the manner from time to time specified in a notice given by or on behalf of the Republic in accordance with Condition 13.

If a Beneficiary of any amount payable in respect of a Note fails to notify the details required for payments in accordance with the foregoing before the third KDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after the details required for payments have been properly notified in accordance with the foregoing, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

#### 5.3 *Assignment of Clearing Systems' rights*

In the case of an Event of Default as described in Condition 7.1, any right to receive payment in respect of a Note held at the Relevant Time by Clearstream Banking S.A. or Euroclear Bank SA/NV (each a "**Clearing System**", and together the "**Clearing Systems**") or by any other person on behalf of a Clearing System (each such person a "**Fiduciary**") shall be deemed assigned on the due date for such payment to the person recorded in the records of the relevant Clearing System as the holder of such Note at the Relevant Time (the "**Accountholder**") (in which regard a statement of accounts issued by the relevant Clearing System and, where applicable, its Fiduciary as to the principal amount of Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding evidence of a right to receive such payment) and such Accountholder shall be entitled to enforce the obligation of the Republic to make such payment (including any further interest due in accordance with Condition 3).

#### 5.4 *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 6. No commissions or expenses shall be charged to the Noteholders or Beneficiaries by the Republic in respect of such payments.

#### 5.5 *Payments on business days*

If the due date for payment of any amount in respect of any Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next succeeding business day and shall not be entitled to any interest or other payment in respect of any such delay.

#### 5.6 *Paying agent*

The Republic reserves the right at any time to appoint or terminate the appointment of a paying agent who acts solely as an agent of the Republic and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Beneficiaries.

### 6. **TAXATION**

All payments of principal and interest in respect of the Notes by the Republic shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the

Republic or any political subdivision or any authority thereof or therein having power to tax (a "**Tax**"), unless such withholding or deduction is required by law.

In that event, the Republic shall pay such additional amounts as will result in the receipt by the Beneficiary of such amounts as would have been received by it had no such withholding or deduction been required, except that no such additional amounts shall be payable:

- (i) in respect of any amount payable in respect of a Note received by or on behalf of a person who is subject to such Tax in respect of such payment by reason of his being connected with the Republic (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or
- (ii) in respect of any amount payable in respect of a Note received by or on behalf of a person who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the Republic or relevant tax authority if, after having been requested to make such a declaration or claim, such person fails to do so; or
- (iii) in respect of any amount payable in respect of a Note received more than 30 days after the Relevant Date (as defined below) except to the extent that the recipient thereof would have been entitled to such additional payment on the last day of such 30 day period.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) in the circumstances referred to in Condition 5.2, if the payment in question is improperly withheld or refused, the day on which the Republic has notified the relevant Beneficiary that the amount in question will be paid subject only to the receipt by the Republic of a notice specifying any details required for payments in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the Notes shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 6.

## 7. **EVENTS OF DEFAULT**

If any of the following events (each an "**Event of Default**") occurs and is continuing:

### 7.1 *Non-payment*

The Republic fails to pay any amount of principal or interest in respect of the Notes within 30 days of the due date for payment thereof; or

### 7.2 *Breach of other obligations*

The Republic does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days after notice of such default has been given to the Republic by Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes,

then Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes may, by a written notice to the Republic in accordance with Condition 13, declare the Notes due and payable, in each case at their principal amount together with accrued interest, without further formality. Upon such declaration the Republic shall give notice to the Noteholders in accordance with Condition 13.

If the Republic receives notice in writing from Noteholders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Republic shall give notice thereof to the Noteholders in accordance with Condition 13, whereupon



the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before such notice is given (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other declaration or any subsequent Event of Default or any right of any Noteholder in relation thereto.

8. **PRESCRIPTION**

Claims for principal shall become void unless claimed for payment within five years of the appropriate Relevant Date (as defined in Condition 6). Claims for interest shall become void unless claimed for payment within three years of the appropriate Relevant Date.

9. **MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER**

9.1 *Definitions*

In these Conditions, the following expressions have the following meanings:

- (a) "**debt securities**" means the Notes and any other bills, debentures, notes or other debt securities issued by the Republic in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a debt security.
- (b) "**zero-coupon obligation**" means a debt security that does not expressly provide for the accrual of interest, and includes the former component parts of a debt security that did expressly provide for the accrual of interest if that component part does not itself expressly provide for the accrual of interest.
- (c) "**index-linked obligation**" means a debt security that provides for the payment of additional amounts linked to changes in a published index, but does not include a component part of an index-linked obligation that is no longer attached to that index-linked obligation.
- (d) "**series**" means a tranche of debt securities, together with any further tranche or tranches of debt securities that in relation to each other and to the original tranche of debt securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes.
- (e) "**outstanding**" in relation to any Note means a Note that is outstanding for the purposes of Condition 9.2.7, and in relation to the debt securities of any other series means a debt security that is outstanding for purposes of Condition 9.2.8.
- (f) "**modification**" in relation to the Notes means any modification, amendment, supplement or waiver of these Conditions, and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes in this definition shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.
- (g) "**cross-series modification**" means a modification involving (i) the Notes, and (ii) the debt securities of one or more other series or any agreement governing the issuance or administration of such other debt securities.
- (h) "**reserved matter**" in relation to the Notes means any modification of these Conditions that would:
  - (i) change the date on which any amount is payable on the Notes;
  - (ii) reduce any amount, including any overdue amount, payable on the Notes;
  - (iii) change the method used to calculate any amount payable on the Notes;
  - (iv) change the currency or place of payment of any amount payable on the Notes;

- (v) impose any condition on or otherwise modify the Republic's obligation to make payments on the Notes;
- (vi) change any payment-related circumstance under which the Notes may be declared due and payable prior to their stated maturity;
- (vii) change the seniority or ranking of the Notes;
- (viii) change any court to whose jurisdiction the Republic has submitted or any immunity waived by the Republic in relation to legal proceedings arising out of or in connection with the Notes;
- (ix) change the principal amount of outstanding Notes or, in the case of a cross-series modification, the principal amount of debt securities of any other series required to approve a proposed modification in relation to the Notes, the principal amount of outstanding Notes required for a quorum to be present, or the rules for determining whether a Note is outstanding for these purposes; or
- (x) change the definition of a reserved matter,

and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes in this definition shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.

- (i) For the purposes of this Condition 9 only "**holder**" in relation to a Note means a Noteholder, and in relation to any other debt security means the person the Republic is entitled to treat as the legal holder of the debt security under the law governing that debt security.
- (j) "**record date**" in relation to any proposed modification means the date fixed by the Republic for determining the holders of Notes and, in the case of a cross-series modification, the holders of debt securities of each other series that are entitled to vote on or sign a written resolution in relation to the proposed modification.

## 9.2 *Modification of Notes*

### 9.2.1 **Reserved Matter Modification.** These Conditions may be modified in relation to a reserved matter with the consent of the Republic and:

- (a) the affirmative vote of holders of not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called meeting of Noteholders; or
- (b) a written resolution signed by or on behalf of holders of not less than 66 $\frac{2}{3}$  per cent. of the aggregate principal amount of the Notes then outstanding.

### 9.2.2 **Cross-Series Modification.** In the case of a cross-series modification, these Conditions and the terms and conditions of debt securities of any other series, and any agreement governing the issuance or administration of debt securities of such other series, may be modified in relation to a reserved matter with the consent of the Republic and:

- (a)(i) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of the debt securities of all the series (taken in the aggregate) that would be affected by the proposed modification; or
- (a)(ii) a written resolution signed by or on behalf of the holders of not less than 66 $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding debt securities of all the series (taken in the aggregate) that would be affected by the proposed modification;

and

- (b)(i) the affirmative vote of more than 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of each series of debt securities (taken individually) that would be affected by the proposed modification; or
- (b)(ii) a written resolution signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of the then outstanding debt securities of each series (taken individually) that would be affected by the proposed modification.

A separate meeting will be called and held, or a separate written resolution signed, in relation to the proposed modification of the Notes and the proposed modification of each other affected series of debt securities.

9.2.3 **Proposed Cross-Series Modification.** A proposed cross-series modification may include one or more proposed alternative modifications of the terms and conditions of each affected series of debt securities or of any agreement governing the issuance or administration of any affected series of debt securities, **provided that** all such proposed alternative modifications are addressed to and may be accepted by any holder of any debt security of any affected series.

9.2.4 **Partial Cross-Series Modification.** If a proposed cross-series modification is not approved in relation to a reserved matter in accordance with Condition 9.2.2 but would have been so approved if the proposed modification had involved only the Notes and one or more, but less than all, of the other series of debt securities affected by the proposed modification, that cross-series modification will be deemed to have been approved, notwithstanding Condition 9.2.2, in relation to the Notes and debt securities of each other series whose modification would have been approved in accordance with Condition 9.2.2 if the proposed modification had involved only the Notes and debt securities of such other series, **provided that:**

- (a) prior to the record date for the proposed cross-series modification, the Republic has publicly notified holders of the Notes and other affected debt securities of the conditions under which the proposed cross-series modification will be deemed to have been approved if it is approved in the manner described above in relation to the Notes and some but not all of the other affected series of debt securities; and
- (b) those conditions are satisfied in connection with the proposed cross-series modification.

9.2.5 **Non-Reserved Matter Modification.** These Conditions may be modified in relation to any matter other than a reserved matter with the consent of the Republic and:

- (a) the affirmative vote of holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called meeting of Noteholders; or
- (b) a written resolution signed by or on behalf of holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

9.2.6 **Multiple Currencies, Index-Linked Obligations and Zero-Coupon Obligations.** In determining whether a proposed modification has been approved by the holders of the requisite principal amount of Notes and debt securities of one or more other series:

- (a) if the modification involves debt securities denominated in more than one currency, the principal amount of each affected debt security will be equal to the amount of euro that could have been obtained on the record date for the proposed modification with the principal amount of that debt security, using the applicable euro foreign exchange reference rate for the record date published by the European Central Bank;
- (b) if the modification involves an index-linked obligation, the principal amount of each such index-linked obligation will be equal to its adjusted nominal amount;
- (c) if the modification involves a zero-coupon obligation that did not formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-

coupon obligation will be equal to its nominal amount or, if its stated maturity date has not yet occurred, to the present value of its nominal amount;

- (d) if the modification involves a zero-coupon obligation that formerly constituted a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation that formerly constituted the right to receive:
  - (i) a non-index-linked payment of principal or interest will be equal to its nominal amount or, if the stated maturity date of the non-index-linked payment has not yet occurred, to the present value of its nominal amount; and
  - (ii) an index-linked payment of principal or interest will be equal to its adjusted nominal amount or, if the stated maturity date of the index-linked payment has not yet occurred, to the present value of its adjusted nominal amount; and
- (e) for purposes of this Condition 9.2.6:
  - (i) the adjusted nominal amount of any index-linked obligation and any component part of an index-linked obligation is the amount of the payment that would be due on the stated maturity date of that index-linked obligation or component part if its stated maturity date was the record date for the proposed modification, based on the value of the related index on the record date published by or on behalf of the Republic or, if there is no such published value, on the interpolated value of the related index on the record date determined in accordance with the terms and conditions of the index-linked obligation, but in no event will the adjusted nominal amount of such index-linked obligation or component part be less than its nominal amount unless the terms and conditions of the index-linked obligation provide that the amount of the payment made on such index-linked obligation or component part may be less than its nominal amount; and
  - (ii) the present value of a zero-coupon obligation is determined by discounting the nominal amount (or, if applicable, the adjusted nominal amount) of that zero-coupon obligation from its stated maturity date to the record date at the specified discount rate using the applicable market day-count convention, where the specified discount rate is:
    - (x) if the zero-coupon obligation was not formerly a component part of a debt security that expressly provided for the accrual of interest, the yield to maturity of that zero-coupon obligation at issuance or, if more than one tranche of that zero-coupon obligation has been issued, the yield to maturity of that zero coupon obligation at the arithmetic average of all the issue prices of all the zero-coupon obligations of that series of zero-coupon obligations weighted by their nominal amounts; and
    - (y) if the zero-coupon obligation was formerly a component part of a debt security that expressly provided for the accrual of interest:
      - (1) the coupon on that debt security if that debt security can be identified; or
      - (2) if such debt security cannot be identified, the arithmetic average of all the coupons on all of the Republic's debt securities (weighted by their principal amounts) referred to below that have the same stated maturity date as the zero coupon obligation to be discounted, or, if there is no such debt security, the coupon interpolated for these purposes on a linear basis using all of the Republic's debt securities (weighted by their principal amounts) referred to below that have the two closest maturity dates to the maturity date of the zero-coupon obligation to be discounted, where the debt securities to be used for this purpose are all of the Republic's index-linked obligations if the zero-coupon obligation to be discounted was formerly a component part of an

index-linked obligation and all of the Republic's debt securities (index-linked obligations and zero-coupon obligations excepted) if the zero-coupon obligation to be discounted was not formerly a component part of an index-linked obligation, and in either case are denominated in the same currency as the zero-coupon obligation to be discounted.

9.2.7 **Outstanding Notes.** In determining whether holders of the requisite principal amount of outstanding Notes have voted in favour of a proposed modification or whether a quorum is present at any meeting of Noteholders called to vote on a proposed modification, a Note will be deemed to be not outstanding, and may not be voted for or against a proposed modification or counted in determining whether a quorum is present, if on the record date for the proposed modification:

- (a) the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued;
- (b) the Note has become due and payable at maturity or otherwise and the Republic has previously satisfied its obligation to make all payments due in respect of the Note in accordance with its terms; or
- (c) the Note is held by the Republic, by a department, ministry or agency of the Republic, or by a corporation, trust or other legal entity that is controlled by the Republic or a department, ministry or agency of the Republic and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision, where:
  - (i) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;
  - (ii) a corporation, trust or other legal entity is controlled by the Republic or by a department, ministry or agency of the Republic if the Republic or any department, ministry or agency of the Republic has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and
  - (iii) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Republic:
    - (x) the holder may not, directly or indirectly, take instruction from the Republic on how to vote on a proposed modification; or
    - (y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or
    - (z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 9.2.7.

9.2.8 **Outstanding Debt Securities.** In determining whether holders of the requisite principal amount of outstanding debt securities of another series have voted in favour of a proposed cross-series modification or whether a quorum is present at any meeting of the holders of such debt securities called to vote on a proposed cross-series modification, an affected debt security will be deemed to be not outstanding, and may not be voted for or against a proposed cross-series modification or counted in determining whether a quorum is present, in accordance with the applicable terms and conditions of that debt security.

9.2.9 **Entities Having Autonomy of Decision.** For transparency purposes, the Republic will publish promptly following the Republic's formal announcement of any proposed modification of the Notes, but in no event less than 10 days prior to the record date for the proposed modification, a list identifying each corporation, trust or other legal entity that for purposes of Condition 9.2.7(c):

- (a) is then controlled by the Republic or by a department, ministry or agency of the Republic;
- (b) has in response to an enquiry from the Republic reported to the Republic that it is then the holder of one or more Notes; and
- (c) does not have autonomy of decision in respect of its Holdings of Notes.

9.2.10 **Exchange and Conversion.** Any duly approved modification of these Conditions may be implemented by means of a mandatory exchange or conversion of the Notes for new debt securities containing the modified terms and conditions in accordance with Condition 11. Any conversion or exchange undertaken to implement a duly approved modification will be binding on all Noteholders.

### 9.3 *Calculation Agent*

9.3.1 **Appointment and Responsibility.** The Republic will appoint a person (the "**Calculation Agent**") to calculate whether a proposed modification has been approved by the requisite principal amount of outstanding Notes and, in the case of a cross-series modification, by the requisite principal amount of outstanding debt securities of each affected series of debt securities. In the case of a cross-series modification, the same person will be appointed as the Calculation Agent for the proposed modification of the Notes and each other affected series of debt securities.

9.3.2 **Certificate.** The Republic will provide to the Calculation Agent and publish prior to the date of any meeting called to vote on a proposed modification or the date fixed by the Republic for the signing of a written resolution in relation to a proposed modification, a certificate:

- (a) listing the total principal amount of Notes and, in the case of a cross-series modification, debt securities of each other affected series outstanding on the record date for purposes of Condition 9.2.7;
- (b) specifying the total principal amount of Notes and, in the case of a cross-series modification, debt securities of each other affected series that are deemed under Condition 9.2.7(c) to be not outstanding on the record date; and
- (c) identifying the holders of the Notes and, in the case of a cross-series modification, debt securities of each other affected series, referred to in (b) above,

determined, if applicable, in accordance with the provisions of Condition 9.2.6.

9.3.3 **Reliance.** The Calculation Agent may rely on any information contained in the certificate provided by the Republic, and that information will be conclusive and binding on the Republic and the Noteholders unless:

- (a) an affected Noteholder delivers a substantiated written objection to the Republic in relation to the certificate before the vote on a proposed modification or the signing of a written resolution in relation to a proposed modification; and
- (b) that written objection, if sustained, would affect the outcome of the vote taken or the written resolution signed in relation to the proposed modification.

In the event a substantiated written objection is timely delivered, any information relied on by the Calculation Agent will nonetheless be conclusive and binding on the Republic and affected Noteholders if:

- (x) the objection is subsequently withdrawn;
- (y) the Noteholder that delivered the objection does not commence legal action in respect of the objection before a court of competent jurisdiction within 15 days of the publication of

the results of the vote taken or the written resolution signed in relation to the proposed modification; or

- (z) a court of competent jurisdiction subsequently rules either that the objection is not substantiated or would not in any event have affected the outcome of the vote taken or the written resolution signed in relation to the proposed modification.

9.3.4 **Publication.** The Republic will arrange for the publication of the results of the calculations made by the Calculation Agent in relation to a proposed modification promptly following the meeting called to consider that modification or, if applicable, the date fixed by the Republic for signing a written resolution in respect of that modification.

#### 9.4 *Noteholder Meetings; Written Resolutions*

9.4.1 **General.** The provisions set out below, and any additional rules adopted and published by the Republic will, to the extent consistent with the provisions set out below, apply to any meeting of Noteholders called to vote on a proposed modification and to any written resolution adopted in connection with a proposed modification. Any action contemplated in this Condition 9.4 to be taken by the Republic may instead be taken by an agent acting on behalf of the Republic.

9.4.2 **Convening Meetings.** A meeting of Noteholders:

- (a) may be convened by the Republic at any time; and
- (b) will be convened by the Republic if an Event of Default has occurred and is continuing and a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

9.4.3 **Notice of Meetings.** The notice convening a meeting of Noteholders will be published by the Republic at least 21 days prior to the date of the meeting or, in the case of an adjourned meeting, at least 14 days prior to the date of the adjourned meeting. The notice will:

- (a) state the time, date and venue of the meeting;
- (b) set out the agenda and quorum for, and the text of any resolutions proposed to be adopted at, the meeting;
- (c) specify the record date for the meeting, being not more than five business days before the date of the meeting, and the documents required to be produced by a Noteholder in order to be entitled to participate in the meeting;
- (d) include the form of instrument to be used to appoint a proxy to act on a Noteholder's behalf;
- (e) set out any additional rules adopted by the Republic for the convening and holding of the meeting and, if applicable, the conditions under which a cross-series modification will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities; and
- (f) identify the person appointed as the Calculation Agent for any proposed modification to be voted on at the meeting.

9.4.4 **Chair.** The chair of any meeting of Noteholders will be appointed:

- (a) by the Republic; or
- (b) if the Republic fails to appoint a chair or the person nominated by the Republic is not present at the meeting, by holders of more than 50 per cent. of the aggregate principal amount of the Notes then outstanding represented at the meeting.

- 9.4.5 **Quorum.** No business will be transacted at any meeting in the absence of a quorum other than the choosing of a chair if one has not been appointed by the Republic. The quorum at any meeting at which Noteholders will vote on a proposed modification of:
- (a) a reserved matter will be one or more persons present and holding not less than 66⅔ per cent. of the aggregate principal amount of the Notes then outstanding; and
  - (b) a matter other than a reserved matter will be one or more persons present and holding not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.
- 9.4.6 **Adjourned Meetings.** If a quorum is not present within thirty minutes of the time appointed for a meeting, the meeting may be adjourned for a period of not more than 42 days and not less than 14 days as determined by the chair of the meeting. The quorum for any adjourned meeting will be one or more persons present and holding:
- (a) not less than 66⅔ per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed reserved-matter modification; and
  - (b) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a non-reserved matter modification.
- 9.4.7 **Written Resolutions.** A written resolution signed by or on behalf of holders of the requisite majority of the Notes will be valid for all purposes as if it was a resolution passed at a meeting of Noteholders duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Noteholders.
- 9.4.8 **Entitlement to Vote.** Any person who is a holder of an outstanding Note on the record date for a proposed modification, and any person duly appointed as a proxy by a holder of an outstanding Note on the record date for a proposed modification, will be entitled to vote on the proposed modification at a meeting of Noteholders and to sign a written resolution with respect to the proposed modification.
- 9.4.9 **Voting.** Every proposed modification will be submitted to a vote of the holders of outstanding Notes represented at a duly called meeting or to a vote of the holders of all outstanding Notes by means of a written resolution without need for a meeting. A holder may cast votes on each proposed modification equal in number to the principal amount of the holder's outstanding Notes. For these purposes:
- (a) in the case of a cross-series modification involving debt securities denominated in more than one currency, the principal amount of each debt security will be determined in accordance with Condition 9.2.6(a);
  - (b) in the case of a cross-series modification involving an index-linked obligation, the principal amount of each such index-linked obligation will be determined in accordance with Condition 9.2.6(b);
  - (c) in the case of a cross-series modification involving a zero-coupon obligation that did not formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation will be determined in accordance with Condition 9.2.6(c); and
  - (d) in the case of a cross-series modification involving a zero-coupon obligation that did formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation will be determined in accordance with Condition 9.2.6(d).
- 9.4.10 **Proxies.** Each holder of an outstanding Note may, by an instrument in writing executed on behalf of the holder and delivered to the Republic not less than 48 hours before the time fixed for a meeting of Noteholders or the signing of a written resolution, appoint any person (a "**proxy**") to act on the holder's behalf in connection with any meeting of Noteholders at which the holder is entitled to vote or the signing of any written resolution that the holder is entitled to sign. Appointment of a



proxy pursuant to any form other than the form enclosed with the notice of the meeting will not be valid for these purposes. The holder of Notes may appoint more than one person as its proxy in respect of the Notes held by it, and such proxies may vote in a manner contrary to one another, **provided that** the aggregate principal amount of Notes represented by such proxies does not exceed the aggregate principal amount of outstanding Notes held by such holder.

- 9.4.11 **Legal Effect and Revocation of a Proxy.** A proxy duly appointed in accordance with the above provisions will, subject to Condition 9.2.7 and for so long as that appointment remains in force, be deemed to be (and the person who appointed that proxy will be deemed not to be) the holder of the Notes to which that appointment relates, and any vote cast by a proxy will be valid notwithstanding the prior revocation or amendment of the appointment of that proxy unless the Republic has received notice or has otherwise been informed of the revocation or amendment at least 48 hours before the time fixed for the commencement of the meeting at which the proxy intends to cast its vote or, if applicable, the signing of a written resolution.
- 9.4.12 **Binding Effect.** A resolution duly passed at a meeting of holders convened and held in accordance with these provisions, and a written resolution duly signed by the requisite majority of Noteholders, will be binding on all Noteholders, whether or not the holder was present at the meeting, voted for or against the resolution or signed the written resolution.
- 9.4.13 **Publication.** The Republic will without undue delay publish all duly adopted resolutions and written resolutions.

9.5 *Notices and Other Matters*

The Republic will publish all notices and other matters required to be published pursuant to the above provisions in accordance with Condition 13.

9.6 *Participation*

The following may attend and speak at a meeting:

- (a) holders of Notes;
- (b) representatives of the Republic;
- (c) the financial advisers of the Republic; and
- (d) the legal counsel to the Republic.

10. **MANIFEST ERROR**

The Notes and these Conditions may be modified by the Republic without the consent of the Noteholders to correct a manifest error or to cure an ambiguity for the purposes of any amendment which is of a formal or technical nature or for the benefit of Noteholders. The Republic will publish in accordance with Condition 13 the details of any modification of the Notes made pursuant to this Condition 10 within ten days of the modification becoming legally effective.

11. **EXCHANGE OF THE NOTES**

If (a) a modification of any provision of the Notes or these Conditions is approved, including the substitution of any person for the Republic as principal obligor under the Notes; or (b) a modification of the Notes or these Conditions is permitted pursuant to Condition 10, such modification or substitution shall, to the extent required under Slovenian law, be effected by way of deemed redemption of the Notes prior to their scheduled maturity date and by the Republic procuring that, on the Exchange Date (as defined below), Replacement Notes (as defined below) are credited to the account of each Noteholder with KDD in exchange for each Note which had been credited to the account of such Noteholder with KDD at close of business on the KDD Business Day prior to the Exchange Date.

It shall be deemed that each Noteholder has consented to the exchange of Notes in accordance with the foregoing and has authorised KDD to debit its securities account maintained with KDD accordingly.

In this Condition 11:

- (i) "**Exchange Date**" means the date specified by the Republic in a notice given to the Noteholders in accordance with Condition 13 not less than seven days prior to such date; and
- (ii) "**Replacement Notes**" means securities differing from the Notes solely in such respects as have been approved by a valid resolution or a written resolution of Noteholders pursuant to Condition 9 or as permitted pursuant to Condition 10.

## 12. **FURTHER ISSUES**

The Republic may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to be consolidated with and form a single series with the Notes.

## 13. **NOTICES**

A notice to a Noteholder or a Beneficiary shall be valid if either (at the sole discretion of the Republic) (a) sent by mail to such Noteholder or Beneficiary at the address registered for a Noteholder or Beneficiary in the Central Register or at the address notified by such a person to the Republic in accordance with this Condition 13 and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by mail or (b) published in a leading Slovenian language daily newspaper having general circulation in Slovenia and in a leading English language daily newspaper having general circulation in Europe and, in any event, shall be published in such other manner as may be required by the rules of any regulated market on which the Notes are at such time listed and/or traded. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.

Notices to the Republic shall be sent by letter or fax to:

The Ministry of Finance  
Treasury Directorate  
Back Office  
Župančičeva 3  
1000 Ljubljana  
Slovenia  
Telephone: +386 1 369 6420  
Fax: + 386 1 369 6439  
Attention: Head of Department

or, in any case, to such other address or fax number or for the attention of such other person or department as the Republic has by prior notice to the Noteholders and Beneficiaries specified for a particular purpose.

Notices to the Republic shall be valid upon receipt by the Republic **provided, however, that** any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day or on any day which is not a business day in the place of the addressee shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

All notices hereunder shall only be valid if made (a) in the case of Notices to the Noteholders or Beneficiaries, in English and Slovenian; and (b) in the case of Notices to the Republic, in English or Slovenian or in any other language **provided that** such notices are accompanied by a certified English or Slovenian translation thereof. Any certified English or Slovenian translation delivered hereunder shall be certified a true and accurate translation by a professionally qualified translator or by some other person competent to do so.

14. **GOVERNING LAW AND JURISDICTION**

14.1 *Governing law*

The Notes and any non-contractual obligations arising out of or in connection with these Conditions are governed by and shall be construed in accordance with Slovenian law.

14.2 *Jurisdiction*

The Republic agrees for the benefit of the Noteholders and Beneficiaries that the courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (collectively, "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

14.3 *Non-exclusivity*

The submission to the jurisdiction of the courts of the Republic of Slovenia shall not (and shall not be construed so as to) limit the right of any Noteholder or Beneficiary to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

14.4 *Consent to enforcement, etc.*

The Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

14.5 *Waiver of immunity*

To the extent that the Republic may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise and whether on the grounds of sovereignty or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes in the amount of €1,494,270,000 (representing the gross proceeds payable to the Republic on the Closing Date after deduction of applicable fees and commissions payable by the Republic to the Joint Lead Managers) will be used by the Republic for its general funding purposes.

## THE REPUBLIC OF SLOVENIA

### Geography and Population

Slovenia is a European country with a total land area of 20,256 square kilometres. It is bordered by Croatia to the south and southeast, Austria to the north, Italy to the west and Hungary to the northeast and has a coastline on the Adriatic Sea of 48 kilometres to the southwest. Given its size, the Republic has a varied topography. Approximately 90 per cent. of Slovenian land is over 300 metres above sea level. Forests cover approximately half of the total land area, with agricultural land occupying approximately 85 per cent. of the remainder.

The Republic had a population of approximately 2.1 million as at 1 July 2019. The capital of Slovenia is Ljubljana, which has a population of approximately 289,500. According to the results of the Republic's most recent census (carried out in 2002), approximately 83.1 per cent. of the population is ethnically Slovene, 2.0 per cent. is ethnically Serb, 1.8 per cent. is ethnically Croat and 1.1 per cent. is ethnically Bosniak. The remainder of the population comprises groups from a variety of ethnic backgrounds. The Roman Catholic religion is the predominant religion in the Republic.

The Republic's population growth rate is relatively low, primarily due to a positive but low birth rate and a low immigration rate coupled with a stable mortality rate. Nearly 50 per cent. of Slovenians live in urban areas. The Republic's population density is 101 per square kilometre. Life expectancy is 83.5 years for women and 77.6 years for men.

Slovenia's official language is Slovene, although Hungarian and Italian are also official languages in designated municipalities.

### History

Settled by Slovenes in the sixth century, the area that is now Slovenia was later ruled by Slavs, Franks and Hungarians before becoming part of the Habsburg Austro-Hungarian Empire until the Empire's fall in 1918. During that time, Slovenia maintained its own language and a distinct cultural heritage, which it still maintains today. Following the First World War, Slovenia and other south-eastern regions of the Habsburg Empire joined the Kingdoms of Serbia and Montenegro to form the Kingdom of Serbs, Croats and Slovenians, and the country was renamed Yugoslavia in 1929. During the Second World War, Yugoslavia was occupied by Germany, Italy and Hungary and the country was divided. However, at the end of the Second World War, the Communist Party came to power and the Federal People's Republic of Yugoslavia was established. It was later renamed the Socialist Federal Republic of Yugoslavia ("**SFRY**").

By the 1980s, Slovenia had established itself as the most economically advanced of the SFRY republics. However, a period of economic stagnation followed, which prompted inter-ethnic conflicts across the SFRY, particularly between the Serbs and the Albanians in Kosovo. Serbia proposed to overturn the SFRY's 1974 constitution in favour of greater economic and cultural uniformity. The people of Slovenia largely disagreed with the Serbian proposal, and, in September 1989, the National Assembly voted to assume control of its own resources and command of its own defence forces, following which Serbia announced an economic boycott of Slovenia.

In April 1990, Slovenia became the first SFRY republic to hold free elections, which resulted in the end of Communist rule in Slovenia and the formation of a centre-right opposition coalition, which won a majority of seats in the National Assembly. On 23 December 1990, over 90 per cent. of the Slovenian population voted for independence and, on 25 June 1991, Slovenia formally declared its independence. As a result, the Serbian-dominated Yugoslav People's Army marched on Slovenia, but the conflict, which resulted in the loss of 66 lives, ended after ten days. After a six-month truce, the Yugoslav army gradually withdrew and international recognition of Slovenia followed shortly thereafter. On 23 December 1991, Slovenia adopted the constitution (the "**Constitution**"), which established it as a democratic republic with a parliament (the "**Parliament**") consisting of a National Assembly and a National Council, a Government which holds executive power and is elected by the National Assembly, a President as head of state and an independent judicial system.

The Republic joined the EU and became a member of the North Atlantic Treaty Organisation ("**NATO**") in 2004, and adopted the euro in 2007. In 2010, the Republic became a member of the Organisation for Economic Co-operation and Development (the "**OECD**").

## Political System

### President

Slovenia is a parliamentary republic with a President (*Predsednik Republike*) as head of state. The President is elected by general election for a term of five years and may be elected for a maximum of two consecutive terms. The powers of the President include calling elections for the National Assembly, signing statutes into law, proposing a candidate to the National Assembly for the office of Prime Minister, nominating members for the Judicial Council and, in certain circumstances, dissolving the National Assembly, although the President has no authority to veto legislation approved by the National Assembly. The President is also commander-in-chief of the Republic's defence forces.

The current President, Mr Borut Pahor, also a former Prime Minister, was re-elected in November 2017 for a five-year term.

### The National Assembly and the National Council

The National Assembly (*Državni zbor*) is the legislative authority in the Republic. It consists of 90 members, each selected by general election for a four-year term of office. Of the 90 members, 88 National Assembly members are selected through a combination of geographic constituencies and party lists, resulting in an approximate proportional representation. Two of the seats in the National Assembly are reserved for representatives of the Republic's Italian and Hungarian minorities. A two-thirds vote of all members of the National Assembly is required to amend the Constitution. The most recent election for the National Assembly was held in June 2018.

The National Council (*Državni svet*) is made up of 40 elected members, each serving a five-year term. The National Council may propose new and amended legislation to the National Assembly. In addition, the National Council may require the National Assembly to re-examine newly adopted legislation prior to its promulgation. The most recent election for the National Council was held in November 2017.

### Executive Power

The executive power is vested in the Government of Slovenia (*Vlada Republike Slovenije*) which comprises: (i) a Prime Minister (*Predsednik vlade*) who is nominated by the President and elected by the National Assembly; and (ii) Ministers who are appointed to and removed from office by the National Assembly upon the proposal of the Prime Minister. Ministers cannot be members of the National Assembly or the National Council.

### Judicial Power

The Supreme Court (*Vrhovno sodišče*) is the highest judicial authority in the Republic. Lower courts, comprising county courts (*okrajna sodišča*) and district courts (*okrožna sodišča*) as courts of first instance and higher courts (*višja sodišča*) as courts of second instance, have general jurisdiction over civil, commercial and criminal matters. In addition, a two-level system of specialised labour and social courts (*delovna in socialna sodišča*) has jurisdiction over individual and collective labour disputes and disputes involving social security rights. Administrative matters are handled by a specialised administrative court. A separate constitutional court (the "**Constitutional Court**") has jurisdiction over all matters relating to the constitutionality of laws and regulations and serves as the ultimate arbiter within the Republic of violations of rights and liberties guaranteed by the Constitution, following exhaustion of all other remedies.

### Local Authority

As at 1 July 2019, there were 212 municipalities (*občine*, the "**municipalities**") in the Republic. Municipalities, which are financed by local taxes and transfers from the central government, are not a significant part of the central government's budget. Among other things, municipalities have the authority to manage their assets, facilitate conditions for economic development, plan spatial development, create conditions for building dwellings, manage local public services, establish primary and nursery schools, and build and maintain local roads. The administration of municipalities is managed by directly elected representatives, who are elected for four-year terms.

## 2018 Election

In June 2018, parliamentary elections for all 90 positions in the National Assembly were held, after former prime minister Miro Cerar announced his resignation in March 2018. Marjan Šarec, a member of the Marjan Šarec List party ("**LMS**"), was elected as Slovenia's Prime Minister by the National Assembly on 17 August 2018. A new coalition agreement between LMS, the Social Democrats party ("**SD**"), the Modern Centre Party ("**SMS**"), the Alenka Bratušek party ("**SAB**") and the Democratic Party of Pensioners of Slovenia ("**DeSUS**"), was signed on 29 August 2018, which sets out the key governmental priorities until the next general election (the "**Coalition Agreement**").

The results of the June 2018 elections for the National Assembly are set out below:

Parties	% of Votes	Seats
Slovenian Democratic Party (" <b>SDS</b> ")	24.92%	25
LMS	12.60%	13
SD	9.93%	10
SMS	9.75%	10
Left Party (" <b>LEVICA</b> ")	9.33%	9
New Slovenia – Christian Democrats (" <b>NSI</b> ")	7.16%	7
SAB	5.11%	5
DeSUS	4.93%	5
Slovenian National Party (" <b>SNS</b> ")	4.17%	4
Minorities	-	2
<b>Total</b>		<b>90</b>

Source: Electoral Commission of the Republic.

On 13 September 2018, the National Assembly voted in the 13th Slovenian Government. The governing coalition comprises the LMS, SD, SMC, SAB and DeSUS. The current Government consists of 16 ministers, and is a minority government with 43 out of 90 seats in the National Assembly.

The next National Assembly elections are expected to be held by no later than June 2022.

The local elections were held in November 2018.

## Recent Political Developments

### 2016 Search and Seizure

On 6 July 2016, police searched the premises of the Bank of Slovenia and seized documents and computer data. The police investigation related to the role of the Bank of Slovenia in the banking sector resolution measures taken during 2013, as well as related bank bail-in measures. Among the seized documents were several ECB documents which are not related to the investigation. The ECB has objected to the seizure of its documents and has alleged that the seizure was not executed in accordance with EU law. The court orders authorising the search and seizure were issued on the basis of allegations that the criminal offences of abuse of office or abuse of ex officio rights had been committed by certain employees of the Bank of Slovenia. The allegations include having acted in contravention of the 2006 Banking Act (*Zakon o bančništvu (ZBan-1)*), the "**2006 Banking Act**") in the course of drafting of and voting for a decision on extraordinary measures in relation to one bank in 2013. In 2019 European Commission brought an action against the Republic before the Court of Justice of the European Union in this matter to which the Republic recently submitted its statement of defence.

### 2018 Coalition Agreement Key Priorities

The key economic priorities set by the Government in the Coalition Agreement are fiscal consolidation, enhancing the business environment, further bank and corporate restructuring, and implementation of structural reforms.

- *Fiscal consolidation* is expected to address: (i) comprehensive income tax restructuring and real estate tax introduction; (ii) gradual reduction of general government debt and further increase of general government nominal surplus; (iii) implementation of fiscal rules and elimination of structural deficit; (iv) enhancing the fiscal framework and tax collection; and (v) improving the effectiveness and efficiency of government expenditure.

- *Enhancing business environment* targets: (i) reduce administrative burdens; (ii) improve the judiciary system; and (iii) improve dealings with construction permits.
- *Further bank and corporate restructuring* aims to: (i) further bank consolidation and privatisation (NLB and Abanka); (ii) continue the privatisation process based on the State Asset Management Strategy; (iii) further pursue enterprise restructuring and selling of assets by BAMC.
- *Implementation of structural reforms* comprises: (1) further improvement of the business environment to support higher gross value added per person employed; (2) smart use of EU and domestic funds to sustain the best return on domestic investment opportunities in line with the adopted development strategy; (3) fostering the quality of education and increased funding for innovation; and (4) adopting measures for reducing the labour market profile gap in an open economy.

### **International Relations**

The Republic of Slovenia was formally recognised by the international community as an independent international state in 1992. Slovenia has gradually attained membership in most major international and regional organisations. In 1992, it became a member of the United Nations and the European Bank for Reconstruction and Development as well as a participating state of the Organisation for Security and Co-operation in Europe ("**OSCE**"). In 1993, it became a member of the World Bank, the IMF, the International Bank for Reconstruction and Development and the Council of Europe (the "**Council of Europe**"). In 1994, Slovenia joined the General Agreement on Tariffs and Trade, and became a founding member of the World Trade Organisation in January 1995. Slovenia joined the EU and NATO in 2004 and joined the Eurozone at the beginning of 2007, making it the first of the 2004 EU accession states to have done so. Likewise, in 2008, Slovenia became the first member of the 2004 EU accession states to hold the Presidency of the Council of the EU (the "**EU Council**"). In 2005, Slovenia held the Chairmanship of the OSCE, and in 2009, it held the Chairmanship of the Committee of Ministers of the Council of Europe. Slovenia became a member of the OECD and the OECD's Development Assistance Committee in 2010 and 2013, respectively.

### **EU Membership**

Slovenia has been a member of the EU since 2004. During this time, it became an active Member of the EU. Slovenia adopted the euro as its official currency on 1 January 2007 and joined the Schengen Area on 21 December 2007. It ran a successful Presidency of the EU Council in the first half of 2008. Slovenia has eight seats in the European Parliament and is represented in all EU institutions.

Slovenia ratified the EU's Lisbon Treaty in April 2008. The Fiscal Pact was ratified in April 2012 and in May 2013, the Fiscal Rule was included in Slovenia's Constitution. Slovenia supported all measures aimed at preserving the stability of the euro, strengthened economic governance, increased budgetary supervision by the European Commission and the rapid establishment of a centralised system of banking supervision and bank resolution in the Eurozone.

Slovenia supports efforts to strengthen the EU with a fully integrated internal market, a stable financial environment and a solid currency. As a member of the Eurozone and an EU Member State with an export-oriented economy, Slovenia is an advocate of a tightly knit and efficient EU.



The following table sets out the Republic's contributions to EU Financial Assistance Programmes for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2019:

	Year ended 31 December					As of 30
	2014	2015	2016	2017	2018	September
	<i>(in € millions, except for percentage)</i>					2019
<b>Programme</b>						
European Financial Stability Facility (EFSF).....	946.8	891.6	891.6	891.6	891.6	891.6
European Stability Mechanism (ESM).....	342.1	342.1	342.1	342.1	342.1	376.9
Greece (Loan Facility Agreement).....	263.7	263.7	263.7	263.7	263.7	263.7
<b>Total</b> .....	<b>1,552.6</b>	<b>1,497.4</b>	<b>1,497.4</b>	<b>1,497.4</b>	<b>1,497.4</b>	<b>1,532.2</b>
% of GDP .....	4.1%	3.9%	3.7%	3.5%	3.3%	3.1%

Source: Bank of Slovenia and Ministry of Finance..

### OECD Membership

As part of its decision to invite Slovenia to become an OECD Member, the OECD Council called upon Slovenia to provide a progress report to the Committee on Financial Markets ("CMF") within three years after the Republic's accession (21 July 2010). Slovenia was requested to report on the implementation of four recommendations for future action set out in the OECD's formal opinion. The CMF discussed the progress made at its meeting on 24 April 2013 and concluded that no further post-accession reports for Slovenia were necessary.

Since becoming a member of the OECD, Slovenia has taken an active role in OECD initiatives. Recently, Slovenia participated in OECD's Base Erosion and Profit Shifting project, which provides governments with solutions to address the issues of tax base erosion and uncontrolled profit shifting.

### Central European Initiative (the "CEI")

Slovenia is a member of the CEI, an intergovernmental forum focused on supporting European integration through co-operation between CEI member states, the EU and other institutions. To that end, the CEI provides financial assistance and know-how to non-EU Member States seeking accession to the EU.

### Double Taxation Agreements and Foreign Investment Treaties

To date, Slovenia has concluded bilateral agreements on the avoidance of double taxation with 61 countries (of which 58 are currently in effect), including the United States, the United Kingdom, Germany, China, France and Italy. It has also concluded bilateral agreements on the protection and promotion of investments with a number of countries, including the United Kingdom, Germany, China, Switzerland and the majority of Slovenia's neighbouring countries.

### The ZIČUDSP (Economically, Socially and Financially Systemic Companies)

On 6 May 2017, the ZIČUDSP came into force. The ZIČUDSP provides certain protections to companies identified as having systemic importance to the Republic. The legislation is particularly important in the ongoing restructuring of Agrokor, a Croatian company which holds a majority interest in Mercator, one of Slovenia's largest food retailers and a company of systemic economic, social and financial importance to the Republic. The ZIČUDSP authorises the Republic to appoint a member to the management board of Mercator to participate in all decision-making relating to Agrokor. In addition, the ZIČUDSP prohibits Agrokor from directing that Mercator take any action that would be harmful to Mercator's business.

### Legal and Arbitration Proceedings

The Republic is involved, as claimant, defendant or intervenient, in a number of judicial and arbitration proceedings, including those mentioned below.

The State Attorney's office represents the Republic in all proceedings before domestic courts and administrative authorities, the Grand Chamber of European Court of Human Rights (the "ECtHR"), the Court of Justice of the EU and the Court of Justice of the European Free Trade Association States. In

proceedings in other foreign courts, the Republic is represented by attorneys qualified to practise law in the relevant jurisdiction.

As at 6 January 2020, the State Attorney's Office was representing the Republic in 1,960 open civil proceedings. The Republic was a defendant in 835 of these proceedings, and the compensation sought in respect of these proceedings amounted to approximately €1.49 billion. However, the Government believes that the Republic will ultimately only be liable for a relatively small proportion of this amount.

According to the State Attorney's Office, as at 6 January 2020 there were no open proceedings in which the Republic was a defendant and the compensation sought exceeded €100 million except for two cases. In the first case, a mobile operator is challenging its unsuccessful claim for €210 million in compensation against the Republic before the Constitutional Court on the grounds that it violated its basic constitutional rights. The second case involves the claim of the citizen M.L. in the amount of €573 million which, in the opinion of the State Attorney's office, is without merit.

The Republic is also currently involved in two unresolved disputes with Croatia, both of which relate to the dissolution of the SFRY.

The first relates to the 2017 arbitration ruling concerning the land and maritime boundary between Slovenia and Croatia. During Croatia's EU Accession negotiations, the two countries signed an arbitration agreement on 4 November 2009, which established an arbitration tribunal tasked with determining the maritime and land boundary between the two states, Slovenia's junction to the high seas, and the regime for the use of the relevant maritime areas. On 29 June 2017, the tribunal rendered a final and binding award regarding the land and maritime boundary between Slovenia and Croatia. Under the terms of the award, Slovenia and Croatia had an obligation to adopt all necessary implementing measures within a six month period, which expired on 29 December 2017. Slovenia has adopted the necessary legislative changes in accordance with the ruling, but Croatia has declined to accept the arbitration ruling and has not been complying with its obligations under the ruling. Therefore, in July 2018 Slovenia decided to bring the case against Croatia before the Court of Justice of the European Union, alleging that Croatia has been preventing Slovenia from fulfilling its rights and obligations under the EU law in respect of its territory. Croatia submitted a plea of inadmissibility at the end of 2018, and Slovenia submitted its pleas in law in February 2019. An oral proceeding on admissibility took place on 8 July 2019. The Court is expected to decide on the admissibility of application in early 2020. The Advocate General delivered his opinion on 11 December 2019. In his non-binding opinion he suggested that the Court of Justice of the EU does not have jurisdiction over the dispute. If the Court decides differently and rejects Croatia's plea of inadmissibility, Slovenia expects that Croatia will be invited to submit its defence which may be supplemented by a reply from Slovenia as the applicant and by a rejoinder from Croatia as the defendant. The written part of the procedure may be followed by an oral hearing for which the time-limit is defined by the President of the Court. The ruling of the Court can therefore be expected in 2021.

The second dispute with Croatia stems from the 2001 Agreement on Succession Issues and centres on foreign-currency deposits of individuals with Ljubljanska banka, d.d., Ljubljana, Glavna filijala Zagreb ("**Ljubljanska banka, Main Branch Zagreb**"). On 11 March 2013, the Prime Ministers of Slovenia and Croatia signed a memorandum of understanding which stipulated that the resolution of the dispute had to be found on the basis of the Agreement on Succession Issues, which was signed by all the successor states to the former SFRY. The Agreement on Succession Issues is the only legally binding instrument applicable to successor states for addressing the outstanding issues remaining from the former Yugoslavia. Until there is a final resolution to the dispute, the Croatian Government is obliged to ensure the stay of all judicial proceedings in Croatia relating to the transferred foreign-currency savings. It is also obliged to ensure that no new judicial or other proceedings are initiated with regard to the transferred foreign-currency savings. Despite these obligations, Croatian courts have continued to carry out judicial proceedings against Ljubljanska banka, and Nova Ljubljanska banka, d.d. ("**NLB**" established in 1994), as joint and several co-defendants. On 1 February 2018, the Republic requested that the successor countries to the former SFRY continue negotiations towards a resolution of the dispute, and a reply was expected from such countries by 15 March 2018. Croatia has failed to respond to the request. In July 2018, Parliament adopted the Act on the Protection of the Value of Capital Investment of the Republic of Slovenia in NLB aiming to financially protect NLB from further court proceedings in Croatia and the seizure of its assets. In August 2018, the Republic sent a written proposal to Croatia to convene the next regular session of the Standing Joint Committee, composed of senior representatives for succession, to carry out its principle task, i.e. monitoring the effective implementation of the Agreement on Succession Issues, including in the field of financial assets and liabilities. At the fifth regular session of the Standing Joint Committee held on 13 November

2019 the Republic's senior representative for succession proposed once again to resume negotiations on the guarantees for the old foreign-currency deposits, which Serbia endorsed, while Croatia was of the opinion that the issue had already been resolved by the Grand Chamber of the ECtHR (decision in Ališić case from 16 July 2014 mentioned below). Slovenia dissented with that opinion as the ECtHR decision relates only to the bank - depositor relation while the succession issue of distribution of the guarantees between the successor States remains to be resolved. At the meeting in Zagreb senior representatives for succession agreed that the next regular session will be convened by North Macedonia in the first half of June 2020.

Cases involving the status of foreign-currency deposits from the former SFRY have also been brought against the Republic in domestic and international courts, including the ECtHR. In line with the judgment of the Grand Chamber of the ECtHR dated 16 July 2014 (the "**2014 EctHR Judgment**"), Slovenia was obliged to take all necessary arrangements, including legislative amendments, within one year, to allow depositors to recover their "old" foreign-currency savings under the same conditions as those who had such savings in domestic branches of Slovenian banks. The judgment applies only to foreign-currency savings that have not yet been repaid by individual successor states. In line with the Act Regulating the Enforcement of the European Court of Human Rights Judgment in Case No. 60642/08 (*Zakon o načinu izvršitve sodbe Evropskega sodišča za človekove pravice v zadevi številka 60642/08 (ZNISESČP)*), which entered into force on 4 July 2015, the deadline to file requests for verification expired on 31 December 2017. On 15 March 2018, the Council of Europe adopted the final resolution in which it noted that Slovenia adopted all the measures required by the European Convention of Human Rights regarding the implementation of the 2014 ECtHR Judgment, and closed the examination of its implementation. As of 31 October 2019, the Succession Fund of the Republic had decided almost 38,500 cases, representing over 99 per cent of the received verification requests, which were filed by the depositors of Ljubljanska banka Main Branch Zagreb and Ljubljanska banka d.d. Sarajevo, representing a total value of €301.5 million. Out of this amount, €301 million was repaid by the end of October 2019.

In addition to the foregoing disputes, in 2012, the Grand Chamber of the ECtHR found the Republic in violation of the European Convention on Human Rights (the "**ECHR**") in the case of *Kurić and Others v. Slovenia*. Six applicants alleged that they had been arbitrarily deprived of their status as permanent residents after Slovenia had declared independence. Based on this judgement the Republic had to inter alia institute a compensation scheme and pass an act on general compensation measures for additional 25,671 such deprived persons.

The Act on Compensation for Persons who were erased from the Permanent Population Register (*Zakon o povračilu škode osebam, ki so bile izbrisane iz registra stalnega prebivalstva (ZPŠOIRSP)*, the "**Act on Compensation**") entered into force on 18 June 2014. In order to be entitled to compensation under the Act on Compensation, eligible beneficiaries were required to submit their claims by 18 June 2017. As at 31 May 2019, approximately 98.5 per cent of applications reached a final decision, amounting to a liability of €26,507,450, of which €25,437,843 was paid up as at 3 September 2019.

Save as disclosed above, the Republic believes that there are no legal and/or arbitration proceedings or regulatory, tax or administrative actions, investigations, litigations, suits or proceedings before or by any court, governmental agency or body or arbitration tribunal, domestic or foreign, now pending, anticipated or threatened against the Republic which could have a material adverse effect on the financial condition of the Republic.

## THE SLOVENIAN ECONOMY

### Macroeconomic Developments

According to the statistical office of the EU ("Eurostat"), in 2013 GDP per capita was at 82.0 per cent. of the average of the EU Member States' and increased to 85.0 per cent. in 2017. The Republic's gross foreign debt-to-GDP ratio reached 92.0 per cent. in 2018, below the Eurozone average of 122.8 per cent. According to the Eurostat, in 2018, the Republic's gross national savings stood at 26.9 per cent. of GDP, which was above the average of the Eurozone states of 24.8 per cent. for the same period.

As a small, open economy fundamentally dependent on exports (85.4 per cent. of GDP in 2018), the Republic was strongly affected by the economic and financial crisis. A slump in exports and gross capital formation led to a 7.5 per cent decline in real GDP in 2009. After two years of subdued real GDP growth (1.3 and 0.9 per cent., respectively) the Slovenian economy slipped back into recession in 2012-2013 (with real GDP growth of -2.6 and -1.0 per cent., respectively), as export growth slowed and domestic demand weakened as a result of the absence of large infrastructure projects, reduced activity in the construction sector and deterioration of private consumption affected by the fiscal consolidation process.

After the double-dip recession, Slovenia's real GDP has been rising steadily since 2014. In 2014, GDP increased 2.8 per cent., mainly due to the strengthening of export growth attributable to increased foreign demand and improved competitiveness of the tradable sector. Domestic demand also increased in 2014, representing the first recorded growth since the beginning of the financial crisis. This increase in demand was partially attributable to increased public investment in infrastructure enabled by the absorption of EU funds and growth of private consumption attributable to improvements in the labour market. Economic activity continued to recover in 2015, with GDP being 2.2 per cent. higher than in 2014. Exports in 2015 grew at a similar rate as in 2014 and remained the main driver of economic recovery. Increased purchases of durable goods and other goods contributed to continued recovery of private consumption. However, construction investment fell in 2015 after recording strong growth in 2014.

Positive trends continued in 2016 with GDP being 3.1 per cent. higher than in 2015. Although exports (6.5 per cent. growth in 2016) remained the key driver of economic growth, as exports have become more broad-based, other segments of the economy have also been improving. The continuation of favourable export trends in 2016 stems from a rise in foreign demand and competitive gains made in the manufacturing sector in previous years. With a significant improvement in the labour market, where the growth of employment and wages increased, stronger growth was also recorded for household income, which was reflected by the stronger growth of private consumption of 4.4 per cent. in 2016. However, investment activity in 2016 was lower than in the prior year (with gross fixed capital formation down 3.7 per cent.), primarily due to a significant contraction in Government investment, caused by delays in drawing funds earmarked for Slovenia by the EU within the 2014–2020 Multiannual Financial Framework of the EU. Good business performance and the prospects for stable economic growth in the future have led to increased growth in private investment in machinery and equipment.

Economic growth accelerated further in 2017 with GDP being 4.8 per cent. higher than in 2016. High export growth continued (at 10.8 per cent. as at 31 December 2017), while at the same time domestic consumption continued to grow. In particular, there was a 10.4 per cent. increase in investment activity in 2017, with high growth rates in both machinery and equipment and in construction investment.

In 2018, economic growth of 4.1 per cent. was slightly more moderate than in 2017. This was mainly due to the gradually weaker growth in foreign demand, which was a result of slowdown in economic growth in major trading partners. Real GDP growth remained broad-based. The robust growth of domestic consumption continued, driven particularly by significantly higher gross fixed capital formation. Exports continued to expand but made a slightly smaller contribution to GDP growth than in the previous year.

In the first three quarters of 2019, real GDP was 2.7 per cent. higher than in the same period in 2018. Further growth of domestic consumption was supported by all components, except changes in inventories. Private consumption growth continued amid further growth in employment and acceleration in the growth of wages and social security transfers. Gross capital formation growth was substantially lower than in the same period in the prior year (1.4 per cent. compared to 10.1 per cent), due to negative contribution of changes in inventories. Growth of gross fixed capital formation (6.0 per cent. year-on-year increase) remained high, mostly due to the high growth of construction investment. Export growth (4.8 per cent. year-on-year increase) has moderated in three quarters of 2019, but contributed to further solid growth in real value added

in the manufacturing sector (4.1 per cent. year-on-year increase). Growth of imports (5.2 per cent. year-on-year increase) was higher than growth of exports, but the contribution of external trade balance to GDP growth remained slightly positive.

Adverse international economic conditions within the international banking and financial markets prior to 2014 led the Republic to take a series of preventive measures to offset their impact on the Slovenian economy, similar in nature to those taken by other countries in the Eurozone. The Government also implemented measures to boost tourism and to support the development of technological (research and development) centres and infrastructure, and has introduced subsidies for new entrants to the Slovenian market in order to promote competition. Moreover, in 2013, the Government established the Slovenian Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism (*Javna agencija Republike Slovenije za spodbujanje podjetništva, inovativnosti, razvoja, investicij in turizma*, "SPIRIT Slovenia") which has become the national access point for comprehensive support for companies at all levels of development. The agency was designed to serve as a "one stop shop" covering a variety of functions, including implementing policies on economic competitiveness, ensuring support for companies in international business, managing the brand of Slovenia as a tourist destination and promoting the Republic and its regions as favourable locations for foreign investment.

Beginning in 2011, and continuing in 2012 and 2013, the Government's policy focus was on consolidating public finances, addressing the impact of the financial crisis on banks' balance sheets and implementing structural reforms to improve the resilience of the economy. The latter includes pension and labour reform and a framework for enhancing corporate governance and privatisation of public sector enterprises.

In the first few months of 2013, the Republic introduced changes to the pension system (See "*Public Finance — Pension, Health and Disability Expenditures and Revenues*"), labour market reform measures (See "*The Slovenian Economy — Labour Market*") and a framework for enhancing corporate governance and privatisation of public sector enterprises (See "*Public Finance — Consolidated Government Holdings and Privatisation*"). The impact of the ongoing economic crisis and worsening of conditions in the banking sector has led the Government to adopt a comprehensive strategy to deal with bank assets including purchases, guarantees and recapitalisations (See "*Monetary and Financial Systems — Banking Regulation — 2013 Stress Tests and Restructuring of Slovenian Banking Sector*").

The objective of the original policy response to the crisis was to limit the negative impact of lower external demand on existing production capacity and jobs. These policy measures were aimed at: (i) slowing down the impact of the global financial crisis on enterprises; (ii) enhancing financial liquidity of enterprises and safeguarding existing jobs; and (iii) increasing expenditure in research and education to improve the growth potential of the economy. The package was also focused on lowering taxation of labour through gradually abolishing the payroll tax and implementing changes to both the personal and corporate income tax regimes. These tax reforms included phasing out taxes on company payrolls and the simplifying of corporate and personal income taxes in conjunction with the incorporation of incentives for higher earnings (See "*Public Finance — Fiscal Policy— Taxation and Taxation Policy*").

The following table sets out certain macroeconomic data regarding the Slovenian economy for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	<i>(€ millions, current prices, except where indicated)</i>						
Nominal GDP (€ millions) .....	37,634	38,853	40,367	42,987	45,755	33,884	35,677
Real GDP growth (in %) .....	2.8	2.2	3.1	4.8	4.1	4.2	2.7
GDP per capita in U.S.\$ (current prices).....	24,249	20,892	21,641	23,508	26,080	19,361	19,382
Current account balance (% of GDP) <sup>(1)</sup> .....	5.1	3.8	4.8	6.1	5.7	6.5	6.4
Unemployment rate (in %) .....	9.7	9.0	8.0	6.6	5.1	5.4	4.6
Consumer price growth – year end (in%) .....	0.1	(0.6)	0.6	1.9	1.4	2.0	1.6
General government balance (% of GDP) .....	(5.5)	(2.8)	(1.9)	0.0	0.7		

Source: Statistical Office, Institute for Macroeconomic Analysis and Development, Bank of Slovenia.

Notes:

(1) Data from balance of payments statistics.

## Gross Domestic Product and Gross Value Added

The following table sets out the nominal values of GDP components for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	<i>(€ millions, current prices)</i>						
GDP .....	37,634	38,853	40,367	42,987	45,755	33,884	35,677
Exports of goods and services .....	28,659	29,974	31,474	35,753	39,065	28,905	30,393
Imports of goods and services .....	26,117	26,866	28,024	31,943	35,276	25,819	27,139
Private consumption .....	20,693	20,985	21,760	22,635	23,922	17,430	18,404
Government consumption .....	7,108	7,313	7,713	7,923	8,394	6,212	6,588
Gross fixed capital formation .....	7,191	7,248	7,019	7,875	8,799	6,381	6,926
Changes in inventories and valuables	100	198	424	745	851	776	506

Source: SORS, Institute for Macroeconomic Analysis and Development.

Slovenia measures the value of goods and services produced in a sector of the economy using the measure of Gross Value Added ("GVA") plus taxes on services and products less subsidies on services and products is equal to GDP. GVA is used to measure the growth in output of each sector of the Slovenian economy because information about taxes and subsidies on services and products is not available for individual sectors.

The following table sets out GVA in current prices and as a percentage of total GVA for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

	Year ended 31 December										Nine months ended 30 September			
	2014		2015		2016		2017		2018		2018		2019	
	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>	<i>(€bn)</i>	<i>(%)</i>
Services .....	21.18	65.1	21.89	65.2	22.85	65.4	24.34	65.2	25.87	64.9	19.17	64.96	20.34	65.20
of which:														
Wholesale and retail trade, transportation and storage, accommodation and food service .....	6.50	20.0	6.85	20.4	7.25	20.7	7.81	20.9	8.40	21.1	6.30	21.4	6.62	21.2
Public administration <sup>(1)</sup> .....	5.39	16.6	5.47	16.3	5.81	16.6	6.08	16.3	6.40	16.1	4.77	16.2	5.10	16.3
Professional, scientific and technical, administrative and support service activities <sup>(2)</sup> .....	3.22	9.9	3.35	10.0	3.46	9.9	3.80	10.2	4.09	10.3	2.95	10.0	3.15	10.1
Real estate activities .....	2.53	7.8	2.65	7.9	2.70	7.7	2.81	7.5	2.94	7.4	2.18	7.4	2.32	7.4
Financial and insurance activities .....	1.30	4.0	1.36	4.1	1.35	3.9	1.43	3.8	1.52	3.8	1.10	3.7	1.18	3.8
Information and communication .....	1.39	4.3	1.36	4.0	1.38	4.0	1.48	4.0	1.54	3.9	1.15	3.9	1.22	3.9
Other services <sup>(3)</sup> .....	0.85	2.6	0.85	2.5	0.90	2.6	0.93	2.5	0.97	2.4	0.71	2.4	0.75	2.4
Industry <sup>(4)</sup> .....	8.74	26.9	9.08	27.0	9.48	27.1	10.20	27.3	10.72	26.9	7.98	27.0	8.35	26.8
of which:														
Manufacturing .....	7.39	22.7	7.75	23.1	8.15	23.3	8.87	23.7	9.35	23.5	6.95	23.6	7.25	23.2
Construction .....	1.85	5.7	1.81	5.4	1.82	5.2	2.01	5.4	2.29	5.7	1.64	5.5	1.79	5.7
Agriculture, forestry and fishing .....	0.76	2.3	0.81	2.4	0.81	2.3	0.80	2.1	0.96	2.4	0.73	2.5	0.72	2.3
Gross value added .....	32.53	100.0	33.59	100.0	34.95	100.0	37.35	100.0	39.84	100.0	29.51	100.0	31.19	100.0

Source: SORS, Institute for Macroeconomic Analysis and Development.

Notes:

- (1) Includes defence, compulsory social security, education, health and social work activities.
- (2) Includes architectural and engineering activities.
- (3) Includes other non-specified services.
- (4) Includes manufacturing, mining and quarrying, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities.

After a slight decline in 2013, GVA increased to €32.53 billion in 2014 and to €33.59 billion in 2015, mainly due to increases in manufacturing and also in wholesale and retail trade, transportation and storage, accommodation and food service. In the period between 2016 and 2018, GVA increased further from €34.95 billion to €39.84 billion. The broad-based increase was due to higher foreign and domestic demand for manufacturing and services in general. In the first three quarters of 2019, GVA was €31.19 billion, a 2.8 per cent. increase compared to the same period of the previous year.

Recent trends and yearly comparisons in the main sectors of Slovenia's economy are discussed below.

## Services

After a decline in the GVA of services in the years 2012 and 2013, spurred by decreased private consumption and negative trends in manufacturing and construction, growth re-emerged in 2014. In the period between 2014 and 2017, the annual growth strengthened in most private sector services, especially in wholesale and retail trade, transportation and storage, accommodation and food service and in professional, scientific and technical, administrative and support service activities (due to a significant increase in the employment activities). These positive trends were supported by the international environment and domestic demand. The growth of the GVA of services moderated from 4.1 per cent. in 2017 to 3.6. per cent in 2018, and then further, to 2.5 per cent. year-on-year in the first half of 2019. Moderation was most prominent in the sectors that grew fastest in the preceding years.

The services sector accounted for 64.9 per cent. of the Republic's total GVA in 2018. The largest segment of the services sector in 2018 represented wholesale and retail trade, transportation and storage, and accommodation and food services (together 21.1 per cent. of GVA), of which wholesale and retail trade was the largest. Public administration services represented 16.1 per cent. of GVA for the year. The service sector experienced continued growth in the nine months ended 30 September 2019. Growth was strongest in wholesale and retail trade, transportation and storage, and accommodation and food services.

## Industry

The industry sector has experienced growth of GVA since mid-2013. The industry sector's GVA growth, which averaged 3.4 per cent. over the period between 2014 and 2016, accelerated to 7.8 per cent. in 2017. This consistent growth was largely due to strong growth in manufacturing, boosted by high growth of exports. In 2018, the industry sector's GVA growth moderated to 3.6 per cent., due to slower growth of foreign demand. The latter, together with weaker performance in electricity and water supply activities led to further easing of the industry sector GVA growth to 3.1 per cent year-on-year in the first three quarters of 2019.

In 2018, the industry sector's GVA was 26.9 per cent. of the Republic's total GVA, most of which was contributed by the manufacturing sub-sector (23.5 per cent. of GVA). In the first three quarters of 2019, the industry sector's GVA was 26.8 per cent. of the Republic's total GVA, only slightly lower than in the same period of the previous year.

## Manufacturing

The GVA of the manufacturing sector increased from 22.7 per cent. of the Republic's total GVA in 2014 to 23.5 per cent. in 2018. The increase throughout the period was led mostly by medium-high and medium-low-tech industries, whereas low-tech industries increased slowest throughout the period and high-tech industries stalled in growth in 2015 and 2016.

In 2014, manufacturing GVA grew by 4.5 per cent. year-on-year, increasing in almost all industries, except the textiles industry. Growth was highest in medium-low-tech intensive industries and, in the second half of 2014, in the production of motor vehicles (over 25 per cent.), due to the beginning of production of new passenger cars.

In 2015, manufacturing GVA grew by 2.8 per cent. year-on-year, increasing in most medium-low and medium-high-tech intensive industries, particularly in the production of motor vehicles.

In 2016, manufacturing GVA grew by 5.1 per cent. year-on-year, increasing in most industries. On average, growth was highest in most medium-low and medium-high-tech intensive industries, with the exception of the chemical industry and production of motor vehicles. Production in some low-tech intensive industries, including textiles and leather industries, continued to decrease.

In 2017, manufacturing GVA growth strengthened to 8.5 per cent. year-on-year, owing mostly to higher growth in foreign demand. Production growth was highest in medium-high-tech intensive industries, particularly in the production of motor vehicles (due to the commencement of production of new passenger vehicles) and production of machinery and equipment.

In 2018, manufacturing GVA growth moderated to 3.6 per cent. year-on-year. Affected by lower growth of foreign demand, production growth slowed in most industries; it remained highest in medium-high-tech intensive industries.

In the first three quarters of 2019, manufacturing GVA growth accelerated to 4.1 per cent. year-on-year. Production was higher in high-tech intensive industries, especially in pharmaceuticals, and in medium low-tech repair and installation of machinery and equipment. Growth in most other medium and low technology intensive industries was lower than in the same period of 2018. Production was somewhat lower in production of motor vehicles and modest in medium-low tech intensive industries, which is due to external factors (bottlenecks in the automotive sector caused by the introduction of WLTP tests and easing of foreign demand).

Manufacturing, which represents over 90 per cent. of the Republic's export of goods, comprised 23.5 per cent. of GVA in 2018, of which chemicals and pharmaceuticals comprised 17.5 per cent., metal production 18.4 per cent., electrical and optical equipment 12.5 per cent., motor vehicles and other transport equipment 8.4 per cent., and machinery and equipment 6.6 per cent.

### **Construction**

While the construction sector experienced a significant contraction in GVA during the period between 2009 and 2012, construction activity began to stabilise in the middle of 2013 and recorded significant growth in 2014. The substantial increase in activity in 2014 (9.8 per cent.) was mainly due to public investment in infrastructure related to the absorption of EU funds. In 2015 and 2016, the construction activity contracted by 3.2 per cent. and 3.4 per cent., respectively. This fall was due to reduced Government investment and related also to the slower pace in drawing the funds earmarked for Slovenia within the 2014–2020 Multiannual Financial Framework of the EU. The construction sector began to show signs of recovery in the second half of 2016. In 2017 and 2018, GVA in the construction sector increased by 8.3 per cent. and 8.0 per cent. year-on-year, respectively. The growth was driven by buildings, particularly non-residential, and civil engineering works (related also to increased dynamics in drawing the EU funds). In the first half of 2019, the growth strengthened further to 11.3 per cent. year-on-year, backed also by the pick-up of growth in housing construction. The latter started to grow in 2015, after several years of contracting. Housing prices bottomed out in 2015 and increased by 3.3 per cent. and 8.0 per cent. in 2016 and 2017, respectively. In 2018, the year-on-year growth in housing prices continued and reached 9.8 per cent. In the first half of 2019 growth in housing prices saw a small deceleration to 7.0 per cent.

### **Inflation**

Following an inflation rate of 0.9 per cent. in 2013, driven by higher food and services prices as well as the Government's increase in the rate of value-added tax ("VAT") in July 2013, the Republic experienced deflation of 0.1 per cent. in 2014. Amid the continuation of weak domestic demand and a notable decline in commodity prices in the second half of 2014, prices for most goods were down year-on-year. The deflation was mainly the result of lower prices of energy and, to some extent, food and durable goods, offset in part by a positive contribution of services, largely due to higher prices of supplementary health insurance and packaged holidays. In 2015, Slovenia had a deflation rate of 0.6 per cent. Consumer prices fell in 2015, mainly due to the lower prices of energy and durable goods, although prices of food, particularly unprocessed food, increased year-on-year. Prices of services recorded lower growth than in the previous year, largely due to the base effect, which faded out in 2015. In 2016, Slovenia had an inflation rate of 0.6 per cent., which was largely the result of higher energy prices. After a prolonged period of year-on-year declines at the end of 2016, energy prices reached the levels recorded at the end of 2015. The prices of services increased in 2016, which was primarily attributable to growth in household consumption. The prices of food also increased in 2016, while prices of durable and semi-durable goods were lower in the same period. In 2017 (1.9 per cent.), inflation increased mainly due to strong growth in energy prices. Inflation was also driven by higher food (particularly unprocessed food) and services prices and semi-durable goods, while the contribution of services slightly decreased compared to 2016. In 2018, inflation slightly decreased due to lower contribution of food and energy prices while the contribution of services increased substantially as a consequence of favourable economic conditions and resulting growth of private consumption. At the end of the first half of 2019, inflation in Slovenia started to rise sharply until September 2019 when it dropped as a consequence of moderation in growth of non-energy industrial goods prices and food prices, while energy prices also started to decline (year on year). Only services prices continued to grow steadily at more than 3 per cent. growth rate, as a consequence of favourable growth of private consumption.



The following table sets out the annual inflation rate (as measured by the Harmonised Index of Consumer Prices (end-period)), which is used by the ECB as a general indicator of inflation and price stability for the years ended 31 December 2014 to 2018 and the eleven months ended 30 November 2018 and 2019:

	Year ended 31 December					Eleven months ended 30 November	
	2014	2015	2016	2017	2018	2018	2019
				(%)			
Eurozone .....	(0.2)	0.2	1.1	1.4	1.6	2.0	1.0
Slovenia .....	(0.1)	(0.6)	0.6	1.9	1.4	2.1	1.4

Source: Eurostat.

## Labour Market

### Unemployment

Due to increased economic activity, the International Labour Organisation's ("ILO") unemployment rate started decreasing in the beginning of 2014 (from the peak of 10.1 per cent. in 2013) and was 5.0 per cent. (seasonally adjusted) in the third quarter of 2019 (and down 0.2 percentage points year-on-year). According to Eurostat data, as at 31 October 2019, the harmonised unemployment rate (seasonally adjusted) in Slovenia was 4.3 per cent., and was lower than the EU average of 6.3 per cent. The unemployment rate of young people, which increased considerably by 2013 (to 21.6 per cent. as at 31 December 2013) under the influence of the crisis, has been falling ever since. In 2018, the youth unemployment rate was 8.8 per cent., and decreased further to 8.2 per cent. on average in the first six months of 2019.

The Government responded to the deteriorating situation in the labour market in the years prior to 2014 by enhancing active employment policy programmes and enacting two intervention acts. The Subsidising of Full Time Work Act (*Zakon o delnem subvencioniranju polnega delovnega časa (ZDSPDČ)*) and the Partial Reimbursement of Payment Compensation Act (*Zakon o delnem povračilu nadomestila plače (ZDPNP)*), enacted in January and May of 2009, respectively, were aimed at preserving jobs and easing the decline in employment rates. These acts provided for a partial reimbursement of payment compensation to employees on temporary layoff. The Government also provided subsidy schemes for shorter working hours and temporary layoffs. In 2013, the Employment Relationship Act (*Zakon o delovnih razmerjih (ZDR 1)*) and the Labour Market Regulation Act (*Zakon o urejanju trga dela (ZUTD)*) entered into force. The reforms sought to reduce the level of segmentation in the labour market due to the differing status of workers with fixed term contracts as compared to those with contracts for an indefinite period ("**permanent contracts**") and therefore improve labour market flexibility.

In 2013, the Government established a working group to monitor the impact of the adopted labour market reforms and identify areas where additional measures were needed for the promotion of job creation and for the elimination of labour market segmentation. The working group appointed by the Government analysed the initial results of labour market reform adopted in March 2013 and entered into effect in April 2013. The working group's findings were published in the Report of the Working Group for Monitoring the Effects of Changes in the Labour Market Regulation in 2013 (*Poročilo delovne skupine za spremljanje učinkov sprememb v regulaciji trga dela v letu 2013*). The analysis indicated that the increased flexibility provided by the reforms helped increase the number of permanent contracts and significantly reduced the costs of employment for unemployed young people under 30 years by reducing the levels of employers' contributions for social security insurances.

Taking into account the labour market reform adopted in 2013, the Republic's employment protection legislation index (as measured by the OECD) for protection of regular workers against individual dismissals fell below the OECD average, representing increased flexibility in the labour market.

The labour market situation started to improve at the beginning of 2014. In the period between 2014 and 2018, the number of persons in employment (employed and self-employed persons, excluding self-employed farmers, according to the Statistical Register of Employment) grew on average by 2.1 per cent. annually and surpassed its pre-crisis peak level. In the nine months ended 30 September 2019, the number of persons in employment increased by 2.9 per cent period-on-period. Registered unemployment, which peaked at 120,109 in 2014, declined to 72,395 at the end of November 2019, which is a 4.9 per cent. decrease year-on-year. In addition, the labour participation rate among individuals between the ages of 15 to 64 has increased from 70.9 per cent. in 2014 to 75.0 per cent. in 2018.

The Republic believes that its labour force is one of the most productive and best educated among the EU Member States that joined during or after 2004. The average labour productivity growth, measured as GDP per employee, was 1.6 per cent. in the period between 2014 and 2018. The share of the population aged 25-64 years with tertiary education has grown steadily, reaching 32.5 per cent. in 2018, which was the fifth highest among the new EU Member States. Among the adult population, it was recorded in the same period that 88.1 per cent. had attained at least upper secondary education.

The following table sets out the average rate of unemployment and certain statistics about education for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019 (except where otherwise noted):

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
<b>Statistical survey of unemployed persons (ILO methodology) data<sup>(1)</sup></b>							
Total labour force (thousands).....	1014.8	1007.8	994.6	1026.5	1033.5	1034.9	1030.9
Employed (thousands).....	916.7	917.4	915.0	959.1	980.6	979.4	983.7
Unemployed (thousands).....	98.1	90.3	79.6	67.4	52.8	55.5	47.2
Change in the total number of unemployed (thousands).....	(3.6)	(8.0)	(11.8)	(15.3)	(21.6)	(20.7)	(15.1)
Unemployment rate (in %).....	9.7	9.0	8.0	6.6	5.1	5.4	4.6
Share of adult population with at least upper secondary school education (in %). .....	85.7	86.8	87.4	87.9	88.1	88.2 <sup>(2)</sup>	88.9 <sup>(3)</sup>
Share of adult population, aged 25-64 years, with tertiary education (in %)..	28.6	30.2	30.7	32.5	32.5	32.3 <sup>(2)</sup>	33.5 <sup>(3)</sup>
<b>Labour Office register<sup>(1)</sup></b>							
Unemployed (thousands).....	120.1	112.7	103.2	88.6	78.5	78.5 <sup>(4)</sup>	74.1 <sup>(5)</sup>
Change in the total number of unemployed (thousands).....	0.2	(6.1)	(8.5)	(14.5)	(10.2)	(10.5)	(4.4)
Unemployment rate (in %).....	13.1	12.3	11.2	9.5	8.2	88.2 <sup>(2)</sup>	88.9 <sup>(3)</sup>

Source: SORS, SI Stat portal page, Eurostat portal page.

Notes:

- (1) The primary methodological differences between the statistical survey of unemployed persons (ILO methodology) ("Survey") data and Labour Office register ("Register") data are: (i) the source data (Register data cover the total population, while Survey data are obtained from a statistical sample); (ii) the reporting period (Register data are extracted on the last day of the month, while Survey data refer to the activity of respondents in the week before the interview); (iii) the observation period (Register data are compiled on the last day of the month, while Survey data are compiled quarterly); and (iv) the definition of unemployed persons (persons registered by the Labour Office fulfil certain legal criteria for unemployment, while unemployed persons according to the Survey are persons who, in the week before the interview, (a) did not perform any work for payment, profit or family gain, (b) have been actively seeking work and (c) are prepared to accept work offered within two weeks).
- (2) Data for first six months ended 30 June 2018.
- (3) Data for first six months ended 30 June 2019.
- (4) Data for first eleven months ended 30 November 2018.
- (5) Data for first eleven months ended 30 November 2019.
- (6) Data for first nine months ended 30 September 2018.
- (7) Data for first nine months ended 30 September 2019.

## Wages

The following table sets out average monthly wages and their real growth rate for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	<i>(€, current prices, except percentages)</i>						
Average gross monthly wages.....	1,540.2	1,555.9	1,584.7	1,627.0	1,681.5	1,655.8	1,727.5
Real growth rate (in %) .....	0.9	1.2	2.0	1.3	1.6	1.6	2.6
Private sector.....	1,424.3	1,431.8	1,456.1	1,498.0	1,557.9	1,528.0	1,588.9
Real growth rate (in %) .....	1.2	1.0	1.8	1.5	2.3	2.3	2.2
Public sector.....	1,757.3	1,794.0	1,836.0	1,889.5	1,946.0	1,928.0	2,029.6
Real growth rate (in %) .....	0.7	1.7	2.4	1.5	1.3	1.4	3.5

Source: SORS.

In 2013, growth in average gross wages was strongly affected by the global economic crisis, a rise in the minimum wage and Government austerity measures. The average gross wage per employee decreased in real terms by 1.9 per cent., due to declining economic activity and the impact of fiscal austerity measures. As part of adopted measures for reducing the public deficit, public sector wages declined by 3.0 per cent. in 2013. In the private sector, the average gross wage per employee also declined in that period, falling by 1.2 per cent. in 2013. After that decline, the average gross wage per employee increased from 2014 to 2016 by 0.9, 1.2 and 2.0 per cent., respectively, in real terms. In 2014, the increase was primarily due to growth in private sector wages (by 1.2 per cent.), which was largely attributable to economic recovery and increased productivity, while gross earnings in the public sector also increased (by 0.7 per cent.) as a result of public corporations' wage growth and the granting of suspended promotions to public servants in April 2014. In 2015, the growth in average gross wage per employee slowed in nominal terms, but strengthened in real terms after taking deflation into account. In the public sector, average gross wage per employee was 1.7 per cent. higher in real terms in 2015, mainly due to public servants' promotions and further growth in public corporations, while, in the private sector it rose at a slower pace (1.0 per cent.), particularly due to the absence of price pressures and changes in employment structure. In 2016, the growth in average gross wage per employee strengthened compared to 2015 in both the private (1.8 per cent.) and public sector (2.4 per cent.). In the private sector, the increase was mainly due to the impact of good business performance, while in the public sector the increase was attributable to the partial relaxation of fiscal austerity measures, including the return to a pay scale and promotions, for public servants. In 2017, the nominal growth of average gross wage per employee in the public sector was slightly higher than the rate of growth in the same period in 2016, while growth in the private sector has also increased during this period. However, after taking inflation into account, the growth in real terms of 1.5 per cent. slowed significantly in both sectors. Wage growth continued in 2018 in both the private and public sectors. The nominal growth of average gross wage per employee in the private sector was up 4.0 per cent., owing to a further decline in unemployment, good business performance and productivity growth. The nominal growth was up 3.0 per cent. in the public sector, as a consequence of the implementation of agreements between the Government and the public sector trade unions. In the nine months ended 30 September 2019, wage growth reached 4.3 per cent. year-on-year. In the private sector, wage growth (4.0 per cent.) was still affected by increasing labour shortages and also a rise in the minimum wage which took effect at the beginning of the year. In the public sector, wage growth (5.3 per cent.) was mainly a consequence of further implementation of agreements with trade unions and strong wage growth in public corporations.

Wage moderation in the public sector has been an important part of fiscal austerity measures during the economic crisis and in subsequent years. An amendment to the Act for Additional Intervention Measures for 2012 (*Zakon o dodatnih interventnih ukrepih za leto 2012*) (*ZDIU12*), was passed by the National Assembly on 17 April 2012, with the aim of stabilising public finances through changes to holiday allowances payable to public sector employees and those in companies where the state or a local government hold a share exceeding 25 per cent. On 11 May 2012, the National Assembly passed a supplementary budget and the Act on the Balancing of Public Finances (*Zakon za uravnoteženje javnih financ* (*ZUJF*), the "**Fiscal Balance Act**"). The Fiscal Balance Act lowered the wages of all public servants by 8 per cent., and, at the same time, paid the last two quarters of funds to eliminate wage disparities agreed as part of the public wage reform in 2008.

In May 2013, the Government reached an agreement with leaders of unions of public sector workers on additional wage cuts, enabling the Government to carry out the planned reduction of public sector wages.

As a result of this agreement and the effects of the wage policy measures that have been in place since 2012, the public sector average gross wage declined in real terms in 2013. This was the fourth consecutive year of decline in public sector average gross wages. The May 2013 agreement resulted in a linear and progressive reduction of the basic wages of all public servants (by an average of 1.3 per cent.). It also abolished the increased seniority bonus paid to women (for each completed year of service over 25 years), reduced the allowances for specialisation, masters and doctoral studies by 50 per cent. and decreased sickness benefits and premiums of collective supplementary pension insurance. In addition, under the agreement, the Government continued to suspend regular performance-related and workload-related bonuses for public servants until the end of 2014. In April 2014, public servants were entitled to payment relating to promotions which were suspended from 2011 and 2012. Holiday benefits continued to be selectively disbursed in 2014. A new agreement to contain public sector wages was agreed with trade unions in 2014 after the expiry of the previous agreement. All measures from the prior agreement were extended into 2015, with the exception of payment relating to public servants' promotions, which were paid out in December 2015 for the 2015 financial year and in December 2016 for the 2016 financial year. Additionally, workload-related bonuses and premiums of collective supplementary pension insurance were lowered under the new agreement.

As a result of the above measures, the total wage bill, which are wages and other personnel expenditures excluding an employer's social contributions (according to the consolidated general government budgetary accounts on a cash basis), decreased by 6.4 per cent. in nominal terms from 2011 to 2014.

The Government entered into two new agreements with the public-sector trade unions in 2015 and 2016. As certain fiscal austerity measures were reduced in 2017, the total wage bill increased by 3.9 per cent. year-on-year. Some austerity measures, such as performance-related bonuses and a delay in payments for regular promotions (from April to December), were extended under the agreement for 2018.

In December 2018, the Government and public sector trade unions signed annexes to fifteen collective agreements for different public sector opportunities and activities, further relaxing wage-austerity measures introduced during the crisis, and addressing occupation-specific anomalies within the unified public pay system. The agreements will introduce wage rises for the majority of public sector employees. The agreed upon rises in wages, wage supplements and other rights are expected to come into effect gradually over the next two years.

In December 2018, the Act Amending the Minimum Wage Act (*Zakon o spremembah Zakona o minimalni plači (ZMinP-B)*) (the "**ZMinP-B**") set the level of the minimum wage for the next period. The gross minimum wage was raised from €842.79 to €886.63 as of 1 January 2019, and to €940.58 as of 1 January 2020, when all remaining allowances and part of the pay for regular work performance and pay for business performance will be excluded from the minimum wage. The ZMinP-B also provides that as of 1 January 2021, the minimum wage shall be calculated by a formula, which determines that the minimum net wage should be at least 20 per cent. and not more than 40 per cent. higher than the minimum living costs (these were estimated at €613 in 2016).

## PUBLIC FINANCE

### General Government Sector

The central government sub sector comprises of direct budgetary units (ministries, courts, etc.), funds, public service providers, public agencies, legal persons of private law and other non-market corporations that were established by the central government authorities. The local government sub sector comprises of municipalities which are direct budgetary units, as well as public funds, local communes, other public service providers, public agencies, legal persons of private law, associations of municipalities and non-market public corporations. The social security funds sub sector comprises of Health Social Security fund, Pension Social Security Fund and the Capital Fund, which is an extra budgetary fund.

### Strengthening Fiscal Framework and Compliance with EU Fiscal Requirements

On 2 March 2012, the Republic, together with 24 other EU Member States (excluding the United Kingdom and the Czech Republic), entered into the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union as stipulated by the November 2011 revised Stability and Growth Pact (the "SGP"), an agreement between the members of the EU that was created to establish rules to ensure that all countries involved help to maintain the value of the euro by enforcing fiscal responsibility. The treaty required, among other things, for the signatories to achieve a balanced or surplus budget for the general government. To this end, in May 2013, the Republic adopted an amendment to its Constitution introducing a fiscal rule and imposing an obligation to plan the annual budget in a manner enabling the attainment of a balanced budget. The fiscal rule is a budgetary rule, which ensures medium-term balance of income and expenditure of state budgets without (long-term) borrowing, in order to achieve sustainability of public finances.

On 10 July 2015, the National Assembly passed a law on Fiscal Rule, which defined the method and timing of the implementation of medium-term balance of revenue and expenditure of budgets without borrowing, as well as the criteria for determining the exceptional circumstances and the manner upon their occurrence. The Fiscal Rule Act (defined below) calls for the gradual reduction of the structural government deficit.

In order to strengthen its fiscal framework, the Republic has introduced the following measures:

- The Fiscal Rule Act (*Zakon o fiskalnem pravilu (ZFisP)*, the "**Fiscal Rule Act**"), which was adopted by the National Assembly on 10 July 2015, lays down the manner and timeframe for the implementation of the medium-term balance between the revenues and expenditures of general government budgets and defines the medium term fiscal target, the balanced budget rule itself and the competences of the fiscal council. In March 2017, a fiscal council, which advises the Government on public finances (the "**Fiscal Council**"), was established in accordance with the Fiscal Rule Act.
- An amendment to the Public Finance Act, which adjusts the provisions of the current Public Finance Act relating to the preparation, implementation and monitoring of the budget of all general government institutional units to reflect the Fiscal Rule Act.
- The Ministry of Finance prepares annually the Ordinance on the framework for the preparation of the general government budget for the next three years (*Odlok o okviru za pripravo proračunov sektorja država*) (the "**Framework**"). The Framework determines the target balance and the maximum general government expenditure for each of the next three financial years, and target balances and the maximum expenditure for the individual public finance budgets for each of the upcoming three financial years.
- The consolidation of the Government's finance arrangements into a single treasury system that operates through a Treasury Single Account (the "**TSA**"), which acts as a management system of public finance flows and a uniform funds management system for all indirect budget users and a number of municipalities. Beside the TSA system of the state, there are separate TSA systems of municipalities, which include the funds management at the local level. The Republic expects that additional consolidation of government and local funds through the TSA system will result in the further inclusion of: (1) indirect budgetary users in the TSA unified funds management system; and (2) the further inclusion of the TSAs of municipalities into the TSA system of the State. The indicated consolidation may take several years to be finalised and is expected to lead to the

centralisation of the funds of all budgetary users and of majority municipalities in a single account. This will provide the Government with an integrated overview of the condition and management of budgetary users' and municipalities' funds. The process is expected to help lower liquidity borrowing costs, improve the quality of fiscal information and optimise revenues from surplus of TSA funds.

- A constitutional amendment to referendum legislation adopted in May 2013, which limits the grounds on which a referendum can be called to those having no impact on public finances. A referendum can presently be exclusively called by voters (and no longer by deputies or the National Council). This has limited the possibilities of slowing down or halting measures and reforms having an impact on public finances.

## Budgetary Process

The fiscal year in the Republic is the calendar year. Slovenia's central government (state) budget is prepared on a two-year roll over basis. The Public Finance Act (*Zakon o javnih financah (ZJF)*) (the "**Public Finance Act**") addresses, among other things, the composition of the central government budget and financial plans, the budget documents to be submitted to the National Assembly by the Government and the date for their submission. Further, in line with the SGP, the Public Finance Act addresses requirements for budgetary frameworks regarding national planning, budget estimations, and general Government recommendations. This act also deals with the process for adjusting budget proposals, adopting the budget and the imposition of restrictions on adopting the budget. Additionally, the Public Finance Act regulates the preparation of, and procedures governing, municipalities' budgets and the budgets of other entities of the general government in a manner identical to the rules governing the central government budget.

The Public Finance Act, the Fiscal Rule Act and the National Assembly of Slovenia Rules of Procedure set out the applicable timetable for the budgetary process.

The Draft Budgetary Plan for 2020, takes into account the Framework for the 2020 to 2022 period (Odlok o okviru za pripravo proračunov sektorja država za obdobje od 2020 do 2022 (OdPSD20–22)), which was adopted by the National Assembly in April 2019.

On 12 December 2019 the State Budget for 2020 and 2021 was adopted. In line with the adopted State Budget for 2020 state budget revenues will amount to €10.77 billion in 2020, and expenditures to €10.36 billion. The budget will thus have a surplus of €415 million or 0.8 per cent. of GDP.

## Consolidated General Government Budgets

The Republic uses the European System of National and Regional Accounts ("**ESA2010**") methodology according to EU accession obligations. ESA2010 is an accrual-based methodology that is also used for the assessment of sustainability of public finances within the context of the SGP by the EU.

In 2018, the total expenditure amounted to 43.5 per cent. of GDP. The following table sets out the consolidated general government revenues and expenditures for the years ended 31 December 2014 to 2018 (according to ESA2010 methodology):

	Year ended 31 December				
	2014	2015	2016	2017	2018
	<i>(€ millions, except for percentages)</i>				
Total revenues.....	17,062	17,819	17,881	18,935	20,278
as a % of GDP.....	45.3%	45.9%	44.3%	44.0%	44.3%
Total expenditures.....	19,134	18,925	18,662	18,941	19,925
as a % of GDP.....	50.8%	48.7%	46.2%	44.1%	43.5%
General government balance.....	(2,073)	(1,106)	(781)	(6)	353
as a % of GDP.....	(5.5)%	(2.8)%	(1.9)%	0.0%	0.8%
as a % of GDP excluding bank recapitalisations.....	(4.6)%	(2.8)%	(1.9)%	0.0%	0.8%

Source: SORS, (SI-STAT database), September 2019.

The following table sets out the sub-sector balances of the general government budget for the years ended 31 December 2014 to 2018 (according to ESA2010 methodology):

	Year ended 31 December				
	2014	2015	2016	2017	2018
	<i>(€ millions, except for percentages)</i>				
Central government balance.....	(2,096)	(1,263)	(786)	(75)	419
Local government balance.....	(50)	113	72	12	(80)
Social security funds balance .....	73	44	(67)	57	14
General government balance.....	(2,073)	(1,106)	(781)	(6)	353
as a % of GDP.....	(5.5)%	(2.8)%	(1.9)%	0.0%	0.8%
as a % of GDP excluding bank recapitalisations.....	(4.6)%	(2.8)%	(1.9)%	0.0%	0.8%

Source: SORS, (SI-STAT database), September 2019.

General government expenditures as a percentage of total GDP fluctuated from 2014 to 2018. The Republic has a very rigid public expenditure structure with a relatively high share of social policy-related programmes. In 2014, the share decreased to 50.8 per cent. of GDP, a trend which continued in 2015, 2016, 2017 and into 2018, when it reached a low of 43.5 per cent.

Between 2014 and 2018, €3.6 billion was allocated to the Republic by various EU programmes. During the same period, €3.7 billion of allocated funds in the state budget were utilised. The majority of funds provided by the EU were received through the operational programmes of the cohesion policy and the agricultural and fisheries policy.

In 2015, a supplementary budget put the general government deficit in ESA2010 terms at 2.8 per cent. of GDP. The supplementary budget for 2015 was fully utilised and the public wage bill and revenue measures were also implemented in 2015. Measures related to the refugee crisis were covered under the adopted budgets. Following a reduction in general government deficit, the Republic exited from the excessive deficit procedure ("EDP") in 2015.

No recapitalisations from state budget funds were executed in 2015, the bank resolution fund, created by the Bank Resolution Authority and Fund Act (Zakon o organu in skladu za reševanje bank (ZOSRB), the ("**Bank Resolution Authority and Fund Act**") was established to cover future recapitalisation. The bank resolution fund is financed by banks and managed by the Bank of Slovenia.

The 2016 budget extended several temporary measures that were adopted in recent years to contain expenditure and increase revenue. In addition, measures to contain the public sector pay-bill have been prolonged in the 2016 budget. Slovenia recorded a general government deficit of 1.9 per cent. of GDP in 2016. In 2017, the Republic recorded a nominal surplus of 0.0 per cent. of the GDP, only two years after exiting from the EDP. In 2018, the surplus increased to 0.8 per cent. of GDP. Based on the latest Draft Budgetary Plan for 2020, which was submitted to the European Commission in October 2019, the general government surplus of 0.8 per cent. is expected in 2019.

### Pension and Disability Expenditures and Revenues

Together with economic growth, the effects of the pension reform from 2013, resulted in the annual growth rates of the average number of old-age pensioners decreasing from 4.0 per cent. in 2012 to 1.1 per cent. in 2018. The rate of growth of the average number of old-age pensioners was slightly higher in 2018 in relation to 2017, but is nevertheless the third-lowest in the last 22 years.

The average number of years of contributory period of newly qualified pensioners in 2018 stood at 38 years and 9 months for women and 37 years and 1 month for men in 2018 in comparison with 37 years and 3 months and 36 years and 7 months respectively, in 2017. The average age of women upon retirement in 2018 was 60 years and 6 months, which is 2 years higher than in 2013. For men, the average age for 2013 increased by 1 year and 5 months, rising to 62 years and 4 months in 2018.

The ratio between the number of insured persons to pensioners under mandatory insurance is improving. In 2018, it rose to 1.52, up from 1.38 in 2013. Other positive factors affecting this ratio include increased employment and the inclusion of younger categories of contributors in the pension and disability insurance system on the basis of student labour.

In July 2017, the Economic and Social Council adopted a document which includes a number of measures, agreed among the Government and representatives of trade unions and employers, and was the basis for the new pension reform in Slovenia.

At its session on 29 November 2019, the Parliament adopted amendments to the Pension and Disability Insurance Act, which will come into force on 1 January 2020.

Significant changes to the legislation in the field of compulsory pension and disability insurance include:

(1) Increase of the accrual rate for the completed 40 pensionable years for new pensioners to 63.5 per cent. for both men and women, and of the minimum old-age, disability and survivors' pensions and disability insurance benefits (including the additional 1.36 per cent. for childcare periods); and

(2) Incentives for longer active working life; individuals who will remain in the labour market after eligibility for retirement will receive 40 per cent. of their pension in addition to their full salary in the first three years instead of the previous 20 per cent.

The proposed amendments pursue two main objectives, namely to prolong labour activity (especially in the 55+ age group, which is currently very low) and to provide adequate income for security in older age, and, consequently, to improve the social status of beneficiaries of pension and disability insurance rights, with particular attention to raising the social security of the most vulnerable groups within the pension system. The gradual increase of the accrual rate (six-year transitional period), the upgrading of the dual status and the extension of the period for obtaining additional percentages from 3 to 6 months is expected to significantly stimulate the prolongation of employment in the 55–64 age group, which should result in a certain ease in pressure to general government expenditure and contribute to long-term sustainability of the pension system.

During the negotiations among social partners, it was agreed to start addressing issues and measures for a comprehensive reform of the pension system immediately after the adoption of the latest amendments with an aim to further mitigate the long-term pressure on the pension and disability insurance fund (e.g. changes in retirement conditions, indexation of pensions, extension of period for calculating of the basic pension).

The following table sets out revenues, transfers and expenditures of the Pension Institute for the years ended 31 December 2014 to 2018:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	<i>(€ millions, except for percentages)</i>				
Revenues .....	4,978	4,984	5,035	5,117	5,295
as a % of GDP .....	13.2%	12.8%	12.5%	11.9%	11.6%
Revenues from contributions, capital income and sundry ...	3,372	3,523	3,717	3,953	4,245
as a % of GDP .....	9.0%	9.1%	9.2%	9.2%	9.3%
Transfers from central budget .....	1,606	1,461	1,311	1,163	1,050
as a % of GDP .....	4.3%	3.8%	3.2%	2.7%	2.3%
Expenditures .....	4,978	4,984	5,035	5,117	5,295
as a % of GDP .....	13.2%	12.8%	12.5%	11.9%	11.6%

Source: Pension Institute Financial Report (for years 2014–2018).

Note:

(1) The Government is obliged by law to cover any gap between regular revenues of the Pension Institute and total expenditures. The obligation is reflected in the annual central government budgets.

## Central Government Budget

The statistics on central government budget is disclosed in the tables below, for information on measures accompanying the realisation of central government budget see "Consolidated General Government Budgets".

The following table sets out the balances of the central government budget for the years ended 31 December 2015 to 2018 and the supplementary budget for the year ending 31 December 2019 (on a cash basis):



	Year ended 31 December				Supplementary Budget <sup>(1)</sup> 2019
	2015	2016	2017	2018	
	<i>(€ millions, except for percentages)</i>				
<b>Central government budget, cash flow:</b>					
Revenues .....	8,521	8,316	8,830	10,001	10,354
Expenditure .....	9,798	9,000	9,156	9,463	10,160
Deficit .....	(1,277)	(685)	(326)	537	194
Deficit in % of GDP .....	(3.3)%	(1.7)%	(0.8)%	1.2%	0.4%
<b>General government sector, ESA2010 (estimates)</b>					
Deficit in % of GDP <sup>(2)</sup> .....	(2.8)%	(1.9)%	0.0%	0.8%	0.8%
Deficit in % of GDP <sup>(3)</sup> .....	(2.8)%	(1.9)%	0.0%	0.8%	0.8%

Source: Ministry of Finance, SORS (SI-STAT database).

Notes:

- (1) Supplementary budget.
- (2) Excluding bank recapitalisations.
- (3) Including bank recapitalisations.

The following table sets out the actual revenues and expenditures of the central government budget for the years ended 31 December 2015 to 2018 and the supplementary budget for the year ending 31 December 2019 (on a cash basis):

	Year ended 31 December <sup>(1)</sup>				Supplementary Budget <sup>(2)</sup> 2019
	2015	2016	2017	2018	
	<i>(€ millions)</i>				
Individual income taxes .....	961.3	1,029.3	1,100.0	1,280.2	1,409.5
Corporate income tax .....	594.8	599.5	766.3	845.7	899.7
Other taxes on income and profit .....	3.6	2.6	4.0	3.3	3.1
Social security contributions .....	58.5	61.5	65.9	71.0	75.7
Taxes on payroll and workforce .....	19.7	19.8	21.3	21.6	22.7
Domestic taxes on goods and services .....	5,299.5	5,383.8	5,674.2	5,935.1	6,138.1
Taxes on international trade and transactions .....	82.5	81.9	83.3	89.8	94.2
Other taxes .....	2.8	33.0	0.3	0.9	0.5
Non-tax revenues .....	560.9	571.1	670.8	866.7	593.5
Capital revenues, grants and transfer revenues .....	58.7	55.4	48.9	91.8	98.3
Receipts from EU .....	878.7	477.6	395.1	794.2	1,018.4
<b>Total revenues</b> .....	<b>8,520.9</b>	<b>8,315.5</b>	<b>8,830.0</b>	<b>10,000.6</b>	<b>10,353.7</b>
Current expenditures .....	2,965.2	3,052.9	3,036.6	3,136.8	3,140.1
Wages and contributions .....	1,068.6	1,126.7	1,174.1	1,226.5	1,323.4
Goods and services .....	688.7	711.0	727.7	784.5	844.7
Interest payments .....	1,028.8	1,064.1	977.3	860.6	785.1
Reserves .....	179.0	151.2	157.5	265.2	187.0
<b>Current transfers</b> .....	<b>5,034.4</b>	<b>4,992.3</b>	<b>5,136.2</b>	<b>5,071.6</b>	<b>5,445.8</b>
Subsidies .....	356.5	352.2	380.4	395.6	503.5
Transfers to individuals and households .....	1,184.0	1,212.5	1,261.1	1,303.7	1,340.1
Unemployed allowances .....	184.1	176.9	168.6	160.4	147.4
Child allowances .....	494.1	498.8	507.4	531.5	532.3
Social assistance allowances .....	242.4	252.7	272.3	305.2	335.6
Other transfers to individuals and households .....	263.4	284.1	312.9	306.6	324.8
Transfers to organisations and institutions .....	3,493.9	3,427.5	3,494.6	3,372.2	3,602.2
Current transfers to pension fund .....	298.6	283.9	204.5	168.0	237.5
Supplementary transfers to pension fund .....	1,118.2	989.4	916.0	839.4	734.6
Current transfers to public institutions .....	1,962.6	2,019.3	2,239.5	2,218.5	2,442.6
Other transfers to organisations and institutions .....	209.7	237.0	235.9	251.0	302.6
<b>Capital expenditure</b> .....	<b>685.5</b>	<b>309.7</b>	<b>371.2</b>	<b>483.1</b>	<b>589.4</b>
<b>Capital transfers</b> .....	<b>679.7</b>	<b>218.0</b>	<b>233.8</b>	<b>338.5</b>	<b>489.2</b>
<b>Payments to EU budget</b> .....	<b>432.9</b>	<b>427.4</b>	<b>378.5</b>	<b>433.4</b>	<b>495.6</b>
Total expenditure .....	9,797.7	9,000.3	9,156.2	9,463.4	10,160.1
Budget surplus/deficit .....	(1,276.7)	(684.8)	(326.2)	537.2	193.6
Primary surplus/deficit .....	(264.5)	348.2	614.7	1,387.5	977.4
Lending minus repayments .....	(191.0)	131.3	(189.5)	379.5	(405.8)
Borrowing .....	3,575.6	2,932.4	3,739.5	2,786.1	1,890.6
Amortisation of debt .....	2,317.4	3,583.8	2,774.2	2,443.8	2,851.4
Changes in cash and deposits .....	(209.5)	(1,204.8)	449.5	1,259.0	(1,173.0)
Net financing .....	1,276.7	684.8	326.2	(537.2)	(193.6)

Source: Ministry of Finance.

Notes:

- (1) The methodology used for compiling the general government data within the EU is the ESA2010 accrual based statistical methodology. However, as in numerous other EU Member States, annual budgets are presented and approved based on a cash based methodology.
- (2) Supplementary budget.

## Fiscal Policy

### Draft Budgetary Plan 2020

The Draft Budgetary Plan 2020, which takes into account the Framework for the 2020 to 2022 period (*Odlok o okviru za pripravo proračunov sektorja država za obdobje od 2020 do 2022 (OdPSD20–22)*), was adopted by the National Assembly in April 2019, sets out the annual fiscal framework, key fiscal projections and their components, and the quantification of fiscal objectives and measures.

Pursuant to the latest macroeconomic forecast and economic policy, Slovenia is expected to maintain a general government surplus in 2020. The surplus of 0.8 per cent. of GDP in 2018 (Source: SORS) is estimated to remain at the same level in 2019 and is expected to rise to 0.9 per cent. of GDP in 2020.

In the conduct of fiscal policy, the Government pursues the constitutional principle of a medium-term balance and the principle of prudence concept in planning and the estimation of the level of budget expenditure in accordance with the Fiscal Rule Act (*Zakon o fiskalnem pravilu ("ZFisP")*). Slovenia is ex-ante compliant with both the domestic medium-term rule (given the Institute for Macroeconomic Analysis and Development's forecasts and the known average of the output gap in the period from 2017 to the last available forecasts), as well as with achieving the Medium Term Objective ("MTO") in accordance with the EC rules (MTO is minus 0.25 in 2022). For the period from 2020 to 2022 the Republic has a new minimum MTO within the Stability Programme, which is to maintain a deficit of no greater than 0.25 per cent. of GDP. The MTO for 2019 was a surplus of 0.25 per cent. of GDP.

Among the specific recommendations of the 2019 European Semester, Slovenia must achieve a set MTO amounting to minus 0.25 per cent. of GDP in 2020. According to the calculations of the Ministry of Finance regarding the output gap and potential GDP, this objective will be met in 2020. According to the Draft Budgetary Plan 2020, the government plans to achieve a structural surplus of 0.10 per cent. of GDP in 2019 and 0.13 per cent. of GDP in 2020.

## Taxation and Taxation Policy

The following table sets out the main categories of general government revenue as a percentage of GDP for the years ended 31 December 2014 to 2018:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	<i>(€ millions, except for percentages)</i>				
Personal income tax .....	1,915.5	1,986.3	2,078.8	2,196.7	2,447.3
as a % of GDP .....	5.1%	5.1%	5.1%	5.1%	5.3%
Corporate income tax .....	468.4	594.8	599.5	766.3	845.7
as a % of GDP .....	1.2%	1.5%	1.5%	1.8%	1.8%
Value Added Tax .....	3,153.3	3,228.7	3,272.0	3,504.2	3,756.8
as a % of GDP .....	8.4%	8.3%	8.1%	8.2%	8.2%
Excise duty .....	1,491.3	1,515.3	1,551.1	1,585.5	1,559.8
as a % of GDP .....	4.0%	3.9%	3.8%	3.7%	3.4%
EU funds .....	1,040.3	882.4	480.5	399.0	796.9
as a % of GDP .....	2.8%	2.3%	1.2%	0.9%	1.7%

Source: Ministry of Finance.

### Personal Income Tax

Personal income tax applies to an individual's income. There are six categories of income to which personal income tax is applicable, including income from: (i) employment; (ii) business; (iii) basic agriculture and forestry; (iv) rental royalties; (v) capital (interest, dividends and capital gains); and (vi) other income.

The annual net income is generally taxed according to a progressive tax rate. There are five tax brackets in the annual tax schedule: 16 per cent. (for the tax base of up to €8,500.00); 26 per cent. (between €8,500.00 and €25,000.00); 33 per cent. (between €25,000.00 and €50,000.00); 39 per cent. (between €50,000.00 and €72,000.00); and 50 per cent. (over €72,000.00). The annual taxable base is computed after compulsory social security contributions and certain allowances are deducted.

Dividends, interest, rental income and capital gains are taxed regularly at a flat-rate. For dividends, interest and rental income, the flat-rate tax is 25 per cent. The tax rate for capital gains depends on the holding period: 27.5 per cent. for a holding period of up to five years; 20 per cent. for a holding period from 5 to 10 years; 15 per cent. for a holding period from 10 to 15 years; 10 per cent. for a holding period from 15 to 20 years; and a tax exemption for a holding period greater than 20 years.

Under certain conditions, personal business income may be taxed on a flat-rate basis using a lump-sum deduction regime (the tax base is determined on the basis of lump-sum deduction of expenses accounting for 80 per cent. of revenues). The current tax rate is 20 per cent.

#### *Corporate Income Tax*

Corporate income tax is levied on the taxable profit of legal entities and partnerships which are not subject to personal income tax at a rate of 19 per cent. A special rate of 0 per cent. applies under certain conditions to investment funds, pension funds and insurance undertakings for pension plans. An optional taxation regime was introduced in 2013, whereby the tax base is determined on the basis of lump-sum deduction of expenses accounting for 80 per cent. of revenues.

In terms of allowances, a general research and development ("R&D") investment tax allowance is represented as a deduction from the tax base of 100 per cent. of the amount invested in internal R&D activities and purchase of R&D services, but not exceeding the amount of the taxable base. An additional investment tax allowance is also available which is a deduction from the tax base of 40 per cent. of the amount invested in equipment and intangibles, but only up to the amount of the taxable base. Further general tax allowances are available under certain conditions for entities that provide new employment to certain categories of employees (under 26 years or above 55 years old, trainees or disabled persons), and relief for donations and voluntary supplementary pension insurance is also available. However, only 63 per cent. of the tax base can be reduced by tax allowances.

#### *Value Added Tax*

Value added tax ("VAT") is a general consumption tax on a net basis included in the price consumers pay for goods and services. All companies pay VAT except those carrying out certain defined activities, such as small businesses and farmers with a turnover and income below defined thresholds, and in cases dealing with products intended for export and international transport. There are three VAT rates: a standard rate of 22 per cent., a reduced rate of 9.5 per cent and a special reduced rate of 5 per cent.

#### *Real Property Taxes*

There are two types of taxes on the possession of real property in Slovenia. The first is the so called "**charge for the use of building land**", and the second is a property tax.

The charge for the use of building land is levied on vacant building land and as well as land with constructed buildings in possession of legal entities and individuals. For vacant building land, the charge is set by local communities based on the area of the building land planned for a particular building, and for constructed building land, the charge is based on the actual area of land occupied by a building.

Property tax is a tax on buildings, including sections of buildings, owned by individuals. The tax is levied at different progressive rates depending on the type and value of premises.

#### *Changes to the tax system in the period between 2013 and 2019*

Beginning in 2013, changes to the corporate and personal income taxes were aimed at the simplifying the administrative procedures for the taxation of business income of companies and individuals by introducing the so-called lump sum deduction tax. In 2013, the reduction of the statutory corporate income tax rate ended and instead of being reduced to 16 per cent. for 2014 and 15 per cent. for 2015, it was set at 17 per cent. On 1 January 2013, the income threshold for VAT registration increased. In July 2013, changes to VAT

were introduced as part of a policy to ensure the stability of government revenue. The general VAT rate was increased by 2 per cent., from 20 per cent. to 22 per cent., and the reduced VAT rate was increased by 1 per cent., from 8.5 per cent. to 9.5 per cent. Beginning on 1 January 2013, the individual income tax rate for capital gains and gains of derivative financial instruments was increased from 20 per cent. to 25 per cent. In March 2013, a new financial services tax became effective. The financial services tax was set at 6.5 per cent. and the taxable amount is the fee (remuneration) received by the financial institution for the execution of a financial service. Securities trading and management of investment funds are exempt from tax.

On 1 January 2014, a fourth income tax bracket with a tax rate of 50 per cent., which applies to earnings exceeding five times the average wage, was introduced as a temporary measure in personal income tax for 2013 and 2014 as part of the measures adopted within the Fiscal Balance Act in mid-2012 and was adopted as a permanent measure in 2017. With effect from 1 January 2014, the automatic adjustment of tax credits and the net annual tax basis in the scale for assessing personal income tax to reflect changes in consumer prices were eliminated. From 2014 some additional measures to abolish certain tax benefits (for daily migrants and residents over 65 years of age) were also introduced. In 2014, some relevant amendments to the legislation that introduced additional measures to improve the taxation of undeclared income of individual taxpayers were adopted. On 1 August 2014, the tax and customs administrations merged into a joint finance administration of the Republic in order to increase resources for tax audits and help reduce tax evasion. The merger also empowered customs services to take measures against undeclared wages and employment.

On 1 January 2015, some additional changes to the corporate and personal income tax came into force to improve the lump-sum deduction regime. In August 2015, the new Act on Fiscal Validation of Receipts (*Zakon o davčnem potrjevanju računov (ZDavPR)*) came into force, which was an important measure designed to reduce the shadow economy. This act provided a procedure for cash registers to transfer data from invoices to the Financial Administration of the Republic (*Finančna uprava Republike Slovenije*) by electronic means beginning on 2 January 2016. Due to the elimination of the bank balance sheet tax in 2015, the tax rates on financial services and on insurance transactions increased from 6.5 per cent. to 8.5 per cent. in 2015. In 2015, changes in the Tax Procedure Act (*Zakon o davčnem postopku (ZDavP-2)*, the "**Tax Procedure Act**") introduced solutions for invoices issued for cash payment transactions without the use of computer software or an electronic device. Additional measures which came into force in 2016 utilise electronic commerce tools, specifically electronic delivery for the Financial Administration, which seek to increase the efficiency of tax collection. The Republic has entered into an intergovernmental agreement with the United States, which facilitates the implementation of the U.S. Foreign Account Tax Compliance Act, and complements the current arrangements on co-operation between the Republic and the United States on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and wealth. This has been the basis for enhancing the sharing of information with other countries.

The goals of the adopted measures in 2016 were to eliminate administrative obstacles and non-competitive elements of the tax system, and introduce measures to improve the efficiency of collecting public taxes. As such, the Republic adopted amendments to the VAT Act (*Zakon o davku na dodano vrednost (ZDDV-1)*), the "**Vat Act**") and simplified administrative procedures for importers, which came into force on 1 January 2016 and became applicable in July 2016. In order to simplify tax procedure and provide greater legal certainty to taxpayers while lessening the burden on the economy and contributing to the voluntary payment of taxes, the amendments to the Tax Procedure Act were introduced. The amendments contained advanced pricing arrangements and instituted additional options making it easier for taxpayers to repay tax debt, pre-filled forms for social security contributions and establishing additional options for the payment of tax debts (for example, allowing a deferral of the due date for payment of taxes and contributions for five days after the submission of a tax return). In addition, the Excise Duty Act (*Zakon o trošarinah (ZTro-1)*), the "**Excise Duty Act**", which came into force on 1 August 2016, implemented new rules that simplified certain procedures, including registration and deregistration procedures. The Excise Duty Act also introduced a reduced tax rate for small breweries and high quantity electricity consumers.

The amendments to the Personal Income Tax Act (*Zakon o dohodnini (ZDoh-2)*, the "**Personal Income Tax Act**"), which came into force on 1 January 2017, reduced the personal income tax payable on proportions of a taxpayer's salary that are paid on the basis of business performance of an employer. This provision did not reduce social security contributions. In addition, the amendments changed the tax schedule and rates of personal income tax and income threshold for additional general allowance. To offset the fiscal impact of the reduction of personal income tax, on 1 January 2017, the amendments to the Corporate Income Tax Act (*Zakon o davku od dohodkov pravnih oseb – ZDDPO-2*), the "**Corporate Income Tax Act**") came into force which raised the corporate income tax rate to 19 per cent.

Strengthening the competitiveness of Slovenia's business environment remains the main objective of the Republic's fiscal policy. Accordingly, changes that came into force on 1 January 2018 sought to reduce the administrative burden, restructure the tax burden and improve the efficiency of tax collection. Amendments to the Personal Income Tax Act introduced a linearly determined additional general allowance for incomes between €11,166.37 and €13,316.81 and further reduced the personal income tax on a taxpayer's salary paid under certain conditions on the basis of the business performance of an employer. In addition, the amendments to the Personal Income Tax Act introduced anti-avoidance measures regarding the lump-sum deduction for self-employed individuals and a special tax scheme for income from posting employees abroad, and also increased the allowance for students. The amendments to the Corporate Income Tax Act introduced anti-avoidance measures regarding the optional taxation regime of lump-sum deduction of expenses for companies. Further, additional measures have been adopted to include all revaluation and reclassifying effects of all financial instruments emerging as a result of the new International Financial Reporting Standard no. 9.

To reduce administrative burdens, beginning in 2018, taxpayers were no longer charged a commission for the use of a credit or debit cards when making a tax or other public duty payment under the public payments administration system (the "UJP"). Additionally, the amendments to the Act on Fiscal Validation of Receipts came into force in 2018. These amendments allow a taxpayer to make an election of whether to use an electronic device or a pre-numbered receipt book when issuing a receipt.

On 1 January 2019, additional measures aiming to prevent tax avoidance practices came into force. In addition, on 1 January 2019, amendments to the VAT Act simplified VAT payment rules and the issue of invoices for telecommunication, broadcasting and electronic services provided to consumers in other Member States, pursuant to EU Directive 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC. The aim of this amendment was to reduce administrative burdens and increase competitiveness. Further, additional amendments in line with EU Directive 2016/1065 of 27 June 2016 amending Directive 2006/112/EC applying to the VAT treatment of vouchers were implemented.

In April 2019, the amendments to the Personal Income Tax Act were implemented, abolishing the personal income tax on the reimbursement for annual leave, up to the amount of the average monthly wage in the Republic of Slovenia. In addition, the amendment to the Pension and Disability Insurance Act increased the exemption of the social security contribution on the annual leave reimbursement from 70 per cent. to 100 per cent. of the average monthly wage in the Republic of Slovenia. The amendments are applicable across all annual leave reimbursements paid from 1 January 2019.

On 1 January 2020, the amendments to the Personal Income Tax Act came into force. The amendments include increase of tax brackets thresholds, reduction of tax rates in second and third tax bracket, increase of the general tax allowance and introduction of additional linear general tax allowance for the income interval up to €13,316.83. The amendments also include the increases in tax rates for capital income and for the income from renting the property. Additionally, the taxpayers of the corporate income tax are allowed to reduce their tax base by using tax allowances only up to 63 per cent. of tax base while the calculation of the tax base and the recognition of tax allowances remain unchanged. With a view to enhancing linguistic and cultural diversity and, in particular, to improving the accessibility of written words, a reduced VAT rate of 5 per cent. applies to the supply of printed books, newspapers and periodicals.

### **Consolidated Government Holdings and Privatisation**

On 28 December 2012, the "SSHA" entered into force. The SSHA consolidated all assets which were under state ownership into a newly established fund, Slovenski državni holding d.d. (the "SSH Fund"), under the ownership and control of the Government. On 26 April 2014, the "SSHA-1" entered into force. The new law modifies the way that the Slovenian state functions in its capacity as the owner of capital assets and provides that such role is distinct from other state functions. The new law centralises the management of all assets and is intended to prevent a distortion of competition in markets and unequal treatment of companies, reduce the influence of interest groups, corruption risk and conflicts of interests and enhance transparency. The SSHA-1 complies with OECD guidelines on the corporate governance of state-owned enterprises.

On 21 June 2013, the National Assembly authorised the Slovenska odškodninska družba, d.d. ("SOD", now the "SSH"), as the manager of assets owned by the Republic, as well as the (directly or indirectly) state-owned companies with public functions to sell their investments in 15 companies. The National Assembly adopted the decision on the sale of assets for two groups of companies, those for which the procedures

necessary for a successful sale had already begun before the adoption of the decision and those for which the procedure of sale of assets had not yet commenced. The following provides an overview of the successful, unsuccessful and ongoing privatisations.

#### Successful privatisations:

- Helios d.o.o. – The sale of a 73 per cent. majority interest in Helios was completed in April 2014.
- Fotona, d.d. – A sales agreement to sell a 70 per cent. stake in the company was completed in March 2014.
- Aerodrom Ljubljana, d.d. – An agreement to sell 73 per cent. of Aerodrom Ljubljana was signed on 5 September 2014 and completed in October 2014.
- Žito, d.d. – The sale of a 51.55 per cent. stake in the company was signed on 21 April 2015 and completed in October 2015.
- NKBM – On 30 June 2015, the Republic agreed to sell its entire interest in NKBM to Apollo Global Management and the European Bank for Reconstruction and Development. The transaction was completed on 21 April 2016.
- Elan, d.d. – An agreement to transfer 100 per cent. of the company to Merrill Lynch International and Wiltan Enterprises Limited was signed on 30 July 2015 and the transaction was completed in September 2015.
- Adria Airways Tehnika, d.d. – The sale of 100 per cent. of Adria Airways Tehnika to Linetech Holding was completed in November 2015.
- Adria Airways, d.d. – The sale of 91.58 per cent. to 4K KNDNS GmbH was completed on 15 March 2016.
- Paloma, d.d. – The sale of 70.97 per cent. to Eco-Invest was completed on 24 February 2017.
- Cimos, d.d. – The sale of 92.3 per cent. to TCH (Palladio Holding Group) was completed on 18 May 2017.
- NLB – On 14 November 2018, NLB listed its shares on the Ljubljana Stock Exchange and the depositary receipts representing NLB's shares on the London Stock Exchange. On 19 June 2019 the remaining part of the shares held by the Republic, exceeding 25 per cent. plus one share, were sold by way of an accelerated bookbuild. Accordingly, the Republic has satisfied its set of commitments to the European Commission with regard to the privatisation of NLB that resulted from the state aid provided to NLB in 2013 (as amended in 2018). By way of this transaction combined with the sale of 59.1 per cent. of the NLB in 2018, international institutional investors have entered the ownership structure of NLB, giving NLB a good basis for ensuring its competitiveness and its further development in the future.
- On 19 June 2019, the Supervisory Board of Slovenian Sovereign Holding gave its consent for entering into the Agreement for the Sale and Purchase of 100 per cent. Shares of the Republic of Slovenia in Abanka d. d. with the best bidder being NKBM. NKBM was privatised in 2015 and is owned by Apollo Global Management and the European Bank for Reconstruction and Development. The closing of the privatisation of Abanka d.d. is subject to receiving all applicable authorisations and approvals from the relevant authorities. The process is currently ongoing and is expected to be completed by the end of 2019 or in the first months of 2020.

#### Unsuccessful privatisations:

- Telekom Slovenija, d.d. – On 3 August 2015, the sole bidder for the purchase of a 72.75 per cent. stake in Telekom Slovenija indicated that it did not wish to proceed with the sale process.
- Cinkarna Celje, d.d. – The company has not been sold as a result of certain environmental issues relating to operations.

Ongoing privatisations:

- Mariborska livarna Maribor, d.d. ("**MLM**") – In January 2016, a public announcement of an invitation to express interest began the sale process of 99.97 per cent. of the company. However, the sale process was suspended in October 2016. In June 2017, BAMC, as the largest shareholder and creditor, extended a €1.5 million loan to MLM and proposed composition with creditors (*prisilna poravnava*) proceedings, where a debtor and creditors agree that the debtor will, in satisfaction of their claims, pay the creditors less than their full claims, to improve MLM's financial performance and create better conditions for its disposal.
- Unior, d.d. – The sale of 55 per cent. of the shares of Unior is in the preparation phase.

The proceeds derived from the privatisation of the Republic's assets are reflected as revenue in the Republic's budget. In accordance with the Public Finance Act, 90 per cent. of the revenue received from privatisation will be used for the repayment of state budget debt. In addition, 10 per cent. of the revenue received will be allocated for the Demographic Reserve Fund (Demografski rezervni sklad), which will supplement the Republic's pension system.

In accordance with SSHA-1, on 13 July 2015 the National Assembly adopted the first State Asset Management Strategy (the "**Strategy**"). The Strategy aims to prevent conflicts of interest, distortion of competition in the markets and unequal treatment of companies by introducing a framework for providing independent, professional and effective management of state-owned assets while separating government functions from the management process. The objectives of the Strategy are to increase the value of state assets, to provide for the highest possible yield to the owners and to attain other potential strategic objectives. The Strategy classifies 24 state-owned companies as "**strategic**" (for which the state will maintain a minimum level of ownership of over 50 per cent.), 21 companies as "important" (for which the state will maintain a minimum level of ownership of over 25 per cent.) and 46 "**portfolio**" companies (which the Republic aims to privatise). The Government adopts an asset management plan each year (for the following year) along with criteria for measuring the performance of state-owned assets. Since 2013, the SSH disposed of 26 companies, including in 9 of the 15 companies initially authorised for sale on 21 June 2013 by the National Assembly (Aero has gone into bankruptcy and Terme Olimia Pools has merged with another entity, and are therefore no longer on the list as compared with 2013).

On 17 July 2015, the National Assembly appointed all five new members to SSH's supervisory board, who are experts in finance, corporate management, liability management, asset management and corporate law. In addition, on 27 October 2015, the supervisory board appointed all three new members to SSH's management board. The supervisory board and the management board of SSH are fully appointed and operational. The aforementioned measures, which constitute key elements of the Republic's corporate governance system are harmonised with the OECD guidelines for corporate governance of state-owned enterprises.

## PUBLIC DEBT

### Government Debt and Guarantees

#### General Government Debt

General government debt comprises debt of the central government, local governments and social security funds. The following table sets out the Republic's outstanding general government debt as a percentage of nominal GDP as at 31 December 2014 to 2018:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	<i>(€ millions, except for percentages)</i>				
Outstanding general government debt .....	30,220	32,087	31,756	31,863	32,223
Nominal GDP .....	37,634	38,853	40,367	42,987	45,755
General government debt as % of nominal GDP .....	80.3%	82.6%	78.7%	74.1%	70.4%

Source: SORS.

In accordance with Article 87 of the Public Finance Act, the debt of certain other public entities is not included in general government debt. Such entities include non-profit public economic entities, entities wherein the Government holds a majority influence on entity governance, and other entities that are not part of the general government but are classified as public entities. As at 30 September 2019, there were 475 such public entities, of which 87 had debt outstanding (49 of which were general government entities), predominantly in the field of transport, communications and electricity.

The following table sets out the debt of these public entities (excluding the general government entities) as a percentage of nominal GDP as at 31 December 2015 to 2018 and nine months ended 30 September 2018 and 2019:

	Year ended 31 December				Nine months ended 30 September	
	2015	2016	2017	2018	2018	2019
	<i>(€ millions, except for percentages)</i>					
Outstanding debt of other public entities (without the general government entities) .	4,612.9	4,486.5	4,305.6	4,117.7	4,172.7	3,921.8
Nominal GDP .....	38,853	40,367	42,987	45,755	45,755	48,242
Outstanding debt of other public entities as % of nominal GDP .....	11.9	11.1	10.0	9.0	8.7	8.1

Source: Ministry of Finance calculations as at 30 September 2019, SORS.

The following table sets out the debt of these public entities (excluding the general government entities) by currency as at 30 September 2019:

	As at 30 September 2019			
	Short-term	Long-term	Total	As % of total
	<i>(€ millions, except for percentages)</i>			
EUR .....	49.0	3,842.3	3,891.3	99.2
CHF .....	0	29.7	29.7	0.8
U.S.\$ .....	0	0.8	0.8	0.0
<b>Total</b> .....	<b>49.0</b>	<b>3,872.8</b>	<b>3,921.8</b>	<b>100.0</b>

Source: Ministry of Finance.

Largely due to the expenditures from bank recapitalisations in 2013, general government debt reached 70.4 per cent. of GDP in 2013 and further increased to its peak of 82.6 per cent. in 2015, before falling to 78.7 per cent. in 2016 due to reduced prefinancing for the 2017 and 2018 budgets, compliance with the Stability Growth Pact debt rule and an increase in GDP. As at 31 December 2018, the general government debt decreased to 70.4 per cent. of GDP.

Central government debt represented 90.5 per cent. of general government debt as at 31 December 2018, compared to 90.2 per cent., 85.4 per cent., 85.0 per cent. and 86.1 per cent. as at 31 December 2017, 2016, 2015, and 2014, respectively. The central government has set legal limits regarding the borrowing capacity of local governments. These include stipulations that debt service not exceed 8 per cent. of the previous



year's revenues, decreased for certain categories of transfer revenues, which keeps the local government share of total general government debt small.

Central government borrowing and debt management is regulated by the Public Finance Act. Annual borrowing is limited to cover the central government budget deficit and the pre-financing of central government debt repayments over the next two years. The exact amounts permitted, the choice of debt instruments that may be used and the envisaged debt management operations are set out in the financing programme of the central government budget for each given year. The main financing instruments are euro-denominated Slovenian law governed bonds and treasury bills as domestic instruments. On the primary market, however, the bulk of these issues are acquired by investors that are operating across the euro market. The proportion of bonds held by Slovenian residents has stabilised at around 15 to 20 per cent. of each bond issued by the central government, while short term treasury bills are for the most part held by domestic entities. Slovenian government bonds are regularly traded on the Ljubljana Stock Exchange or on the Luxembourg Stock Exchange (the "LuxSE") and electronic platforms that are recognised as official bond markets. In order to reduce the risk of currency fluctuations, the Republic enters into currency hedge arrangements with respect to all non-euro-denominated borrowings as a matter of policy. By currency, central government budget debt consisted of 95.4 per cent. euro-denominated debt, 4.5 per cent. USD-denominated debt and 0.1 per cent. of other currencies as at 31 July 2019.

### Central Government Guarantees

The following table sets out the central government's guarantees as at 31 December 2014 to 2018 and as at 30 September 2019:

	As at 31 December					As at
	2014	2015	2016	2017	2018	30 September 2019
	<i>(€ millions)</i>					
Guarantees for the general government entities.....	2,092.1	1,477.0	1,437.7	967.0	778.8	665.8
Guarantees for other public entities.....	4,480.3	4,087.3	3,863.2	3,659.9	3,418.9	3,157.0
Guarantees for commercial banks under financial crisis programme.....	118.8	-	-	-	-	-
Guarantees for debt of privately owned entities.....	31.5	20.5	16.2	9.6	3.6	2.6
Guarantees to EFSF.....	1,549.3	1,470.6	1,492.0	1,614.8	1,625.5	1,615.9
Other.....	3.9	3.6	3.9	3.7	3.7	3.7
<b>Total.....</b>	<b>8,275.7</b>	<b>7,059.1</b>	<b>6,812.9</b>	<b>6,254.9</b>	<b>5,830.5</b>	<b>5,445.1</b>

Source: Ministry of Finance.

The central government issues guarantees to certain entities predominantly within the public sector, on a case by case basis, for projects such as the construction of highways and railways. The total amount of central government guarantees outstanding as at 30 September 2019 was €5,445.1 million, comprising €3,235.6 million of non-crisis guarantees and €2,209.5 million of crisis guarantees. The amount of outstanding "non-crisis guarantees" for the debt of public and government controlled entities was approximately €3,233.5 million, while the amount of guarantees for the debt of private entities was €0. For the purpose of facilitating borrowing in the markets under the "crisis prevention programme", €2.2 billion of guarantees was extended to four banks: NLB, Abanka, Factor banka and Deželna banka Slovenije. The debt of commercial banks under the "financial crisis programme" and the measures to strengthen bank stability was largely settled in 31 July 2012 and fully extinguished by 30 June 2015. As at 30 September 2019, under the "crisis prevention programme", the debt of entities amounts to €5.0 million, the debt of households amounts to €1.6 million, another €1,615.9 million is outstanding in respect of the Republic's proportion of bonds issued under the European Financial Stability Facility ("EFSF") and €586.9 million is outstanding in respect of guarantees extended to the BAMC under the measures to strengthen bank stability.

### Central Government Debt

Central government debt comprises debt of the central government budget. The following table sets out the Republic's internal and external state debt structure as at 31 December 2014 to 2018 and as at 30 November 2019:

	As at 31 December					As at
	2014	2015	2016	2017	2018	30 November 2019
	( <i>€ millions</i> )					
Internal .....	15,988.3	17,256.4	20,500.4	23,614.8	26,178.6	26,913.5
Treasury bills.....	1,391.4	1,048.8	489.0	507.5	514.5	641.5
Long term securities.....	13,971.6	15,684.0	19,600.7	22,643.2	25,313.8	25,965.5
Special Drawing Rights.....	28.5	32.4	32.4	30.2	30.9	31.5
Loans.....	596.7	491.1	378.3	433.9	319.4	275.0
External <sup>(1)</sup> .....	10,026.9	10,022.7	6,628.7	5,124.9	3,002.3	1,889.1
Long term securities.....	9,483.4	9,483.4	5,993.8	4,498.4	2,392.8	1,291.5
International financial institutions and official bilateral creditors .....	543.5	539.3	634.9	626.5	609.5	597.7
<b>Total</b> .....	<b>26,015.1</b>	<b>27,279.1</b>	<b>27,129.1</b>	<b>28,739.7</b>	<b>29,180.9</b>	<b>28,802.6</b>

Source: Ministry of Finance.

Note:

- (1) External debt is the debt that has been issued under foreign (mostly English) law and listed on stock exchanges outside the Republic, mostly on the LuxSE. Other definitions are sometimes based on the place of the issuer or residence of the holder.

The majority of central government debt instruments since 2008 has been issued in euro under Slovenian law and entered into a local clearing, settlement and depository institution. For statistical and legal purposes, these instruments are considered internal debt.

The following table sets out central government debt by currency as at 31 December 2014 to 2018 and as at 30 November 2019:

	As at 31 December										As at 30 November	
	2014		2015		2016		2017		2018		2019	
	<i>(€ millions)</i>	(%)	<i>(€ millions)</i>	(%)	<i>(€ millions)</i>	(%)	<i>(€ millions)</i>	(%)	<i>(€ millions)</i>	(%)	<i>(€ millions)</i>	(%)
Special Drawing Rights.....	28.5	0.1	32.4	0.1	32.4	0.1	30.4	0.1	30.9	0.1	31.5	0.1
EUR.....	19,003.2	73.0	20,263.3	74.3	22,102.9	81.5	25,211.0	81.5	26,757.2	91.7	27,479.6	95.4
USD.....	6,983.4	26.8	6,983.4	25.6	4,993.8	18.4	3,498.4	18.4	2,392.8	8.2	1,291.5	4.5
<b>Total</b> .....	<b>26,015.1</b>	<b>100.0</b>	<b>27,279.1</b>	<b>100.0</b>	<b>27,129.1</b>	<b>100.0</b>	<b>28,739.7</b>	<b>100.0</b>	<b>29,180.9</b>	<b>100.0</b>	<b>28,802.6</b>	<b>100.0</b>

Source: Ministry of Finance.

## Debt Service

The average maturity for the Republic's debt portfolio is nine years as at 30 November 2019 and the debt maturity profile is relatively evenly spread in future years.

The following table sets out historic central government debt service payments with respect to principal and interest for the years ended 31 December 2014 to 2018:

	Year ended 31 December				
	2014	2015	2016	2017	2018
	( <i>€ millions</i> )				
Principal payments.....	3,489.9	2,317.4	3,583.8	2,774.2	2,443.8
Interest payments .....	1,082.6	1,028.8	1,064.1	977.3	860.6
<b>Total</b> .....	<b>4,572.5</b>	<b>3,346.2</b>	<b>4,647.8</b>	<b>3,751.5</b>	<b>3,304.4</b>

Source: Ministry of Finance.

The following table sets out projected government debt service payments with respect to principal and interest (before taking account of any payment obligations in respect of the issue of the Notes described in this Offering Circular) for the years ending 31 December 2019 to 2045:

Year ending 31 December <sup>(1)</sup>	Principal Payments	Interest Payments	Total
	( <i>€ millions</i> )		
2019 .....	2,840.0	784.9	3,625.0
2020 .....	2,014.8	734.2	2,749.0
2021 .....	2,736.5	662.3	3,398.8
2022 .....	1,256.8	560.2	1,817.0
2023 .....	205.8	517.1	722.8

Year ending 31 December <sup>(1)</sup>	Principal Payments	Interest Payments (€ millions)	Total
2024	2,503.5	494.8	2,998.3
2025	2,148.4	407.5	2,555.9
2026	1,523.4	363.8	1,887.2
2027	3,123.4	286.5	3,409.8
2028	2,373.4	248.2	2,621.5
2029	2,023.4	224.2	2,247.6
2030	23.4	197.0	220.4
2031	23.4	234.0	257.4
2032	2,023.4	233.6	2,257.0
2033	23.4	188.2	211.5
2034	16.1	187.8	203.9
2035	2,266.1	187.5	2,453.6
2036	16.1	153.6	169.7
2037	16.1	153.3	169.4
2038	16.1	153.1	169.2
2039	16.1	152.9	169.0
2040	3,005.4	152.7	3,158.1
2041	5.4	100.1	105.5
2042	0.0	100.1	100.1
2043	0.0	100.1	100.1
2044	0.0	100.1	100.1
2045	1,150.0	100.1	1,250.1

Source: Ministry of Finance.

Note:

(1) Debt service projections for the central government budget of Slovenia are calculated on the outstanding debt as at 30 November 2019.

See "Balance of Payments and Foreign Trade — Gross External Debt" for more information.

## Credit Rating

Since 1996, Slovenia has been rated by all three major credit rating agencies.

The following table sets out the Republic's credit ratings as at 18 December 2019:

Agency	Long term domestic currency	Long term foreign currency	Country ceiling	Outlook
S&P	AA-	AA-	—	Stable
Moody's Ltd.	Baa1	Baa1	Aa1	Positive
Fitch	A	A	AAA	Stable

Source: Respective agency websites.

Following a period of decline during the Eurozone crisis, the Republic's credit rating trended upwards in 2014 and 2015. S&P first upgraded the Republic's rating to A on 17 June 2016 and changed its outlook to positive on 16 December 2016, then on 16 June 2017, it upgraded the Republic's rating to A+ with a stable outlook, and on 15 June 2018 revised the outlook to positive and most recently, on 14 June 2019 upgraded the rating to AA- with stable outlook. On 16 September 2016, Moody's Ltd. upgraded its outlook on the Republic from stable to positive while affirming its rating of Baa3, then on 8 September 2017, it upgraded the Republic's rating to Baa1 with a stable outlook and on 26 April 2019 revised the outlook to positive. Fitch upgraded its rating of the Republic on 23 September 2016 to A- with a stable outlook and most recently, on 19 July 2019 upgraded the rating of the Republic to A with a stable outlook.

The following table sets out the changes in the Republic's credit rating in the period from 2013 to 18 December 2019:

Agency	2014	2015	2016	2017	2018	2019
Standard & Poor's Ratings	—	—	A	A+	—	AA-
Moody's Ratings <sup>(1)</sup>	—	Baa3	—	Baa1	—	—
Fitch Ratings	—	—	A-	—	—	A

Source: Respective agency websites.

Note:

(1) Includes ratings from Moody's Inc. up until 2014 and Moody's Ltd. from 2015.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

The following table sets out the Republic's balance of payments for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019.

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	(€ million)						
<b>Current account</b> .....	<b>1,924.3</b>	<b>1,482.2</b>	<b>1,942.3</b>	<b>2,634.6</b>	<b>2,593.4</b>	<b>2,192.4</b>	<b>2,272.4</b>
<b>Goods</b> .....	<b>1,181.3</b>	<b>1,476.1</b>	<b>1,536.5</b>	<b>1,579.2</b>	<b>1,128.5</b>	<b>1,126.3</b>	<b>1,103.5</b>
Export of goods .....	22,961.1	24,039.0	24,990.5	28,477.9	31,133.5	23,074.9	24,115.0
Import of goods .....	21,779.7	22,562.8	23,454.0	26,898.7	30,005.0	21,948.7	23,011.5
<b>Services</b> .....	<b>1,454.3</b>	<b>1,633.8</b>	<b>1,925.4</b>	<b>2,240.8</b>	<b>2,678.4</b>	<b>1,976.6</b>	<b>2,165.2</b>
Export of services .....	5,699.4	5,939.9	6,500.8	7,288.3	7,963.3	5,854.3	6,305.9
Import of services .....	4,245.1	4,306.2	4,575.4	5,047.5	5,284.9	3,877.7	4,140.7
<b>Primary Income</b> .....	<b>(437.1)</b>	<b>(1,255.3)</b>	<b>(1,138.7)</b>	<b>(886.3)</b>	<b>(807.0)</b>	<b>(578.9)</b>	<b>(566.7)</b>
Receipts .....	888.4	1,070.2	1,258.9	1,373.8	1,591.9	1,178.5	1,141.5
Expenditure .....	1,325.5	2,325.5	2,397.5	2,260.1	2,398.9	1,757.4	1,708.1
<b>Secondary income</b> .....	<b>(274.3)</b>	<b>(372.3)</b>	<b>(380.9)</b>	<b>(299.1)</b>	<b>(406.5)</b>	<b>(331.6)</b>	<b>(429.6)</b>
Receipts .....	706.2	730.3	713.1	827.5	789.4	548.0	565.8
Expenditure .....	980.5	1,102.7	1,094.0	1,126.6	1,195.9	879.5	995.4
<b>Capital account</b> .....	<b>78.6</b>	<b>411.9</b>	<b>(302.8)</b>	<b>(323.7)</b>	<b>(225.0)</b>	<b>(105.2)</b>	<b>(54.1)</b>
<b>Financial account</b> .....	<b>2,273.0</b>	<b>1,774.3</b>	<b>1,187.1</b>	<b>2,088.0</b>	<b>2,526.7</b>	<b>2,313.7</b>	<b>1,598.1</b>
<b>Direct investment</b> .....	<b>(583.9)</b>	<b>(1,268.7)</b>	<b>(863.7)</b>	<b>(495.2)</b>	<b>(932.7)</b>	<b>(715.6)</b>	<b>(695.6)</b>
Assets .....	155.1	291.6	433.9	570.0	361.9	267.8	353.1
Liabilities .....	739.0	1,560.4	1,297.6	1,065.2	1,294.6	983.3	1,048.7
<b>Portfolio investment</b> .....	<b>(3,954.3)</b>	<b>3,034.8</b>	<b>5,022.9</b>	<b>2,986.7</b>	<b>750.1</b>	<b>1,265.0</b>	<b>304.9</b>
Assets .....	435.1	2,121.2	2,018.1	2,848.3	498.3	669.9	546.5
Liabilities .....	4,389.4	(913.6)	(3,004.8)	(138.4)	(251.7)	(595.0)	241.6
<b>Financial derivatives</b> .....	<b>(50.5)</b>	<b>(97.9)</b>	<b>(269.6)</b>	<b>(184.7)</b>	<b>(85.8)</b>	<b>(49.8)</b>	<b>(160.1)</b>
<b>Other investment</b> .....	<b>6,773.0</b>	<b>219.1</b>	<b>(2,605.9)</b>	<b>(307.9)</b>	<b>2,743.3</b>	<b>1,777.8</b>	<b>2,116.7</b>
Assets .....	<b>4,801.2</b>	<b>(652.6)</b>	<b>(2,220.6)</b>	<b>(1,380.9)</b>	<b>2,030.6</b>	<b>816.4</b>	<b>3,178.6</b>
Other equity .....	92.7	9.5	35.2	72.2	68.0	93.0	72.0
Currency and deposits .....	5,055.2	(518.0)	(2,131.7)	(2,076.3)	1,589.6	77.8	2,301.4
Loans .....	(299.4)	(407.9)	(203.5)	(115.4)	206.6	134.5	437.2
Insurance, pension and stand, guarantee schemes .....	7.7	(8.2)	10.0	5.5	(6.7)	1.6	9.3
Commercial credits .....	(13.3)	(4.8)	166.6	614.8	303.2	621.6	365.9
Other assets .....	(41.7)	276.9	(97.2)	118.4	(130.1)	(112.2)	(7.4)
<b>Liabilities</b> .....	<b>(1,971.8)</b>	<b>(871.7)</b>	<b>385.3</b>	<b>(1,073.1)</b>	<b>(712.7)</b>	<b>(961.4)</b>	<b>1,061.9</b>
Other equity .....	6.5	10.6	3.5	20.1	1.6	(0.2)	(0.6)
Currency and deposits .....	(842.4)	(398.4)	1,127.5	364.9	(524.3)	(889.5)	839.9
Loans .....	(1,246.5)	(314.6)	(818.0)	(1,853.4)	(489.8)	(190.4)	93.5
Insurance, pension and stand, guarantee schemes .....	(53.7)	2.9	(7.9)	4.9	20.1	33.9	53.3
Commercial credits .....	(143.5)	(99.9)	137.4	411.2	331.5	152.8	(23.7)
Other liabilities .....	307.8	(72.2)	(57.2)	(20.8)	(51.7)	(68.1)	99.4
Special drawing rights (SDR) .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reserve assets</b> .....	<b>88.7</b>	<b>(112.9)</b>	<b>(96.5)</b>	<b>88.9</b>	<b>51.8</b>	<b>36.3</b>	<b>32.2</b>
Currency and deposits .....	(93.6)	(20.5)	20.4	(24.3)	(13.5)	(0.4)	(17.3)
Net errors and omissions .....	<b>270.0</b>	<b>(119.8)</b>	<b>(452.4)</b>	<b>(223.0)</b>	<b>158.3</b>	<b>226.4</b>	<b>(620.2)</b>

Source: Bank of Slovenia.

### Current Account

In the period from 2014 to 2018, the current account balance moved from a surplus of €1,924.3 million in 2014 (which represented 5.1 per cent. of GDP) to a surplus of €2,593.4 million in 2018 (which represented 5.7 per cent. of GDP). This increased surplus was the result of an increase in the positive balance of goods and services. Historically, the services account has positively contributed to the overall current account balance, mainly due to a surplus in tourism activity. From 2014 to 2018, the services account surplus increased each year in nominal as well as relative terms (as per cent of GDP). In 2014 services account surplus reached €1,454.3 million (which represented 3.9 per cent. of GDP), in 2015 it reached €1,633.8 million equalling 4.2 per cent. of GDP, in 2016 it reached €1,925.4 million equalling 4.8 per cent. of GDP,

followed by €2,240.8 million in 2017 (which represented 5.2 per cent. of GDP) and €2,678.4 million in 2018 (which represented 5.9 per cent. of GDP). Both the total services surplus and total goods surplus grew throughout the period from 2014 to 2017. In 2018 total services surplus has also increased, but total goods surplus has decreased due to bigger increase of import compared to the increase of export of goods. The goods account moved from a surplus of €1,181.3 million in 2014 (which represented 3.1 per cent. of GDP) to a surplus of €1,128.5 million in 2018 (which represented 2.5 per cent. of GDP).

In the nine months ended 30 September 2019, the current account surplus reached €2,272.4 million, compared to €2,192.4 million in the nine months ended 30 September 2018. The services account had a surplus of €2,165.2 million, compared to the €1,976.6 million in the same period of 2018. The goods account had a surplus of €1,103.5 million, compared to the €1,126.3 million in the same period of 2018.

## Foreign Trade

Foreign trade is the most important item in the Slovenian current account. Its share in all current account credits was 75.9 per cent. in 2014, 75.6 per cent. in 2015, 74.7 per cent. in 2016, 75.0 per cent. in 2017 and 75.1 per cent. in 2018. On the debit side, its share was 76.9 per cent. in 2014, 74.5 per cent. in 2015, 74.4 in 2016, 76.1 per cent. in 2017 and 77.2 per cent. in 2018. The Republic's foreign trade is predominantly linked to EU countries, including Croatia, followed by the other countries of the former SFRY. From 2014 to 2018, the Republic steadily increased its market share of exports into EU countries.

In 2018, exports of goods increased by 9.3 per cent. and imports of goods increased by 11.5 per cent., compared to 2017. In addition, from 2014 to 2018, exports of goods increased by 35.6 per cent. and imports of goods by 37.8 per cent. In 2017, exports of goods increased by 14.0 per cent and imports of goods by 14.7 per cent., compared to 2016.

In the nine months ended 30 September 2019, exports of goods increased by 4.5 per cent. and imports of goods increased by 4.8 per cent. compared to the nine months ended 30 September 2018.

## Imports and Exports of Goods by Region

The geographical breakdown of Slovenian foreign trade has been relatively stable over the last five years. In the nine months ended 30 September 2019, EU countries represented 78.5 per cent. of total exports and 79.2 per cent. of total imports. In 2018, EU countries represented 77.3 per cent. of total exports and 78.6 per cent. of total imports, which was largely the same share as in 2017 and 2016. In 2017, EU countries represented 76.8 per cent. of total exports and 80.3 per cent. of total imports and in 2016, 76.4 per cent. on the export side and 81.1 per cent. on the import side. Among EU countries, Germany is the Republic's most significant trading partner, followed by Italy, Croatia and Austria. France, Serbia and the Russian Federation are also important partners.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

### Shares of imports and exports of goods by region

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	<i>(Share %)</i>						
<b>Exports of goods (fob)</b>							
EU.....	76.4	76.9	76.4	76.8	77.3	77.7	78.5
<i>of which:</i>							
Austria.....	8.8	8.3	7.7	7.5	7.5	7.5	7.1
Italy.....	11.9	11.4	11.0	11.7	12.8	12.7	12.5
Germany.....	19.8	20.4	20.4	19.8	19.9	20.3	20.1
France.....	5.1	4.9	4.7	5.6	5.6	5.6	5.5
Hungary.....	3.2	3.1	2.9	2.8	3.0	3.0	3.1
Netherlands.....	1.7	1.8	1.8	1.9	1.8	1.8	1.7
Czech Republic.....	2.3	2.4	2.4	2.5	2.5	2.5	2.4
United Kingdom.....	2.1	2.3	2.2	2.0	2.0	2.0	2.0
Croatia.....	7.8	7.8	8.3	8.0	8.1	8.1	9.1
Serbia.....	3.1	3.0	3.2	2.9	2.8	2.8	3.0
Russian Federation.....	4.4	3.3	3.0	3.0	2.6	2.5	2.7
China.....	0.6	0.6	1.1	1.1	1.0	1.0	0.8
USA.....	1.9	2.1	2.1	2.0	1.9	1.9	1.9

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017 (Share (%))	2018	2018	2019
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Imports of goods (fob)</b>							
EU.....	78.3	80.8	81.1	80.3	78.6	79.3	79.2
<i>of which:</i>							
Austria.....	11.5	11.6	11.3	10.7	10.5	10.4	10.7
Italy.....	16.4	15.9	15.4	15.7	15.2	15.3	15.0
Germany.....	18.3	18.9	19.2	19.0	18.1	18.4	17.7
France.....	3.7	3.6	3.9	4.3	4.1	4.3	4.0
Hungary.....	4.6	4.4	4.2	3.9	3.7	3.7	3.9
Netherlands.....	3.5	3.6	3.8	3.3	3.5	3.5	3.5
Czech Republic.....	2.4	2.7	2.6	2.6	2.7	2.7	2.6
United Kingdom.....	1.5	1.6	1.7	1.6	1.6	1.6	1.5
Croatia.....	4.8	5.8	6.2	5.4	5.4	5.3	5.4
Serbia.....	1.6	1.5	1.6	1.6	1.9	1.9	1.8
Russian Federation.....	1.8	1.0	1.0	1.1	1.2	1.1	1.8
China.....	2.8	3.3	3.2	3.1	3.3	3.3	3.8
USA.....	1.2	1.5	1.4	1.4	1.7	1.8	1.0
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Bank of Slovenia.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

#### Amounts of imports and exports by region

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017 (€ million)	2018	2018	2019
<b>Exports of goods (fob)</b>							
EU.....	17,533	18,495	19,086	21,862	24,081	17,937	18,938
<i>of which:</i>							
Austria.....	2,026	1,986	1,926	2,130	2,346	1,733	1,711
Italy.....	2,729	2,737	2,742	3,324	3,970	2,920	3,017
Germany.....	4,545	4,893	5,098	5,645	6,197	4,679	4,842
France.....	1,172	1,184	1,184	1,590	1,738	1,286	1,328
Hungary.....	729	734	736	806	926	681	744
Netherlands.....	389	428	446	530	565	425	422
Czech Republic.....	535	568	597	705	764	569	587
United Kingdom.....	484	550	541	558	619	459	492
Croatia.....	1,780	1,881	2,073	2,282	2,532	1,863	2,191
Serbia.....	718	725	792	827	883	654	724
Russian Federation.....	1,005	798	758	847	799	579	657
China.....	140	149	273	326	308	237	192
USA.....	426	493	527	558	579	428	457
<b>Total</b> .....	<b>22,961</b>	<b>24,039</b>	<b>24,991</b>	<b>28,478</b>	<b>31,133</b>	<b>23,075</b>	<b>24,115</b>
<b>Imports of goods (fob)</b>							
EU.....	17,059	18,234	19,018	21,596	23,593	17,412	18,221
<i>of which:</i>							
Austria.....	2,496	2,621	2,640	2,872	3,136	2,285	2,456
Italy.....	3,568	3,587	3,623	4,234	4,570	3,366	3,441
Germany.....	3,985	4,274	4,496	5,104	5,424	4,044	4,081
France.....	814	823	923	1,159	1,241	940	912
Hungary.....	1,006	1,003	979	1,039	1,106	816	893
Netherlands.....	761	801	896	891	1,042	769	795
Czech Republic.....	526	603	606	703	801	586	603
United Kingdom.....	320	368	390	429	491	359	354
Croatia.....	1,040	1,319	1,444	1,446	1,625	1,171	1,239
Serbia.....	348	341	379	436	559	416	425
Russian Federation.....	400	225	234	287	360	232	404
China.....	604	738	744	836	986	719	867
USA.....	265	328	324	379	525	391	229
<b>Total</b> .....	<b>21,780</b>	<b>22,563</b>	<b>23,454</b>	<b>26,899</b>	<b>30,005</b>	<b>21,949</b>	<b>23,011</b>

Source: Bank of Slovenia.

## Composition of Trade

The composition of exports and imports of goods by products was relatively stable in the period from 2014 to 2019. The most significant exports in the nine months ended 30 September 2019 were high value added goods, such as machinery and transport equipment, followed by chemicals and related products and other manufactured goods. These products were also the most significant imports with the addition of mineral fuels, lubricants and related materials.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

### Shares of imports and exports of goods by Standard International Trade Classification

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	(Share (%))						
<b>Exports of goods (fob)</b>							
Food and live animals.....	3.5	3.7	3.8	3.8	3.9	4.0	3.8
Beverages and tobacco .....	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Crude materials (except fuels).....	3.9	3.7	3.5	3.6	3.5	3.5	3.1
Mineral fuels, lubricants and related materials .....	6.2	5.3	4.5	4.9	5.2	4.9	5.5
Animal and vegetable oils, fats and waxes .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Chemicals and related products .....	18.2	17.5	17.3	16.7	16.9	16.8	20.8
Manufactured goods .....	20.9	21.0	20.5	19.9	19.8	20.0	18.7
Machinery and transport equipment..	36.3	37.4	38.4	39.7	39.1	39.4	36.8
Miscellaneous manufactured articles	10.3	10.6	11.2	10.9	10.8	10.8	10.6
Other commodities and products of trade .....	0.1	0.1	0.2	0.1	0.1	0.1	0.1
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Imports of goods (cif)</b>							
Food and live animals.....	7.2	7.4	7.5	7.0	6.6	6.7	6.1
Beverages and tobacco .....	0.8	0.9	0.8	0.8	0.7	0.8	0.7
Crude materials (except fuels).....	5.7	5.5	5.1	5.0	5.0	5.0	4.5
Mineral fuels, lubricants and related materials .....	12.9	10.6	8.2	9.2	9.4	8.8	9.8
Animal and vegetable oils, fats and waxes .....	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Chemicals and related products .....	15.0	15.2	15.3	14.9	15.7	15.4	20.1
Manufactured goods .....	18.4	18.8	19.0	18.7	18.8	19.2	17.5
Machinery and transport equipment..	30.2	31.3	33.5	34.0	33.4	33.8	31.3
Miscellaneous manufactured articles	9.4	9.7	10.3	9.9	9.9	9.9	9.6
Other commodities and products of trade .....	0.1	0.2	0.2	0.2	0.2	0.2	0.1
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Bank of Slovenia, SORS.

## Capital Account

The capital account recorded a deficit of €225.0 million in 2018, compared to a deficit of €323.7 million in 2017 and of €302.8 million in 2016, a surplus of €411.9 million in 2015 and €78.6 million in 2014. In the nine months ended 30 September 2019, the capital account recorded a deficit of €54.1 million, similar as compared to the nine months ended 30 September 2018 when the deficit was €105.2 million. The deficits in 2016, 2017 and 2018 generally resulted from debt forgiveness related to export of goods and services.

## Financial Account

In 2014, the financial account generated a surplus of €2,273.0 million. There was a net inflow of direct investment of €583.9 million and portfolio investment of €3,954.3 million, the latter of which was largely driven by Government debt issuances. Other investment generated net outflows of €6,773.0 million, mainly due to the net outflows of currency and deposits (€5,897.6 million).

In 2015, the financial account generated a surplus of €1,774.3 million. There was a net inflow of direct investment of €1,268.7 million and net outflow of portfolio investment of €3,034.8 million. The latter was

mostly due to the repayment of long term debt securities liabilities and an increase in investments in long term debt securities assets. Other investment generated net outflow of €219.1 million.

In 2016, the financial account generated a surplus of €1,187.1 million. There was a net inflow of direct investment of €863.7 million and currency and deposits of €3,259.2 million. A net outflow of portfolio investment of €5,022.9 million was recorded, which was mainly due to decreased liabilities (€3,004.8 million) and increased assets (€ 2,018.1 million). Loans created the second largest net outflow of €614.5 million, primarily due to the repayment of loans by banks and other financial intermediaries.

In 2017, the financial account generated a surplus of €2,088.0 million. There was net inflow of direct investment of €495.2 million and also net inflow of currency and deposits of €2,441.2 million. A net outflow of portfolio investment of €2,986.7 million was recorded, which was mainly due to increased assets of €2,848.3 million. Loans represented the second largest net outflow of €1,738.1, caused mainly by repayments by government sector, followed by the banks and other financial intermediaries.

In 2018, the financial account generated a surplus of €2,526.7 million. There was net inflow of direct investment of €932.7 million and also net outflow of currency and deposits of €2,113.9 million. A net outflow of portfolio investment of €750.1 million was recorded, which was partly due to increased assets of €498.3 million and partly decreased liabilities of €251.7 million. Loans represented net outflow of €696.5, caused mainly by repayments by non-financial sector and banks.

In nine months ended 30 September 2019, the financial account generated a surplus of €1,598.1 million, compared to the nine months ended 30 September 2018, when the surplus was €2,313.7 million.

#### **Amounts and Origins of Foreign Direct Investment**

In 2015, inward foreign direct investment increased by €1,509.7 million, compared to an increase of €791.3 million in 2014. The increase in 2015 was mainly due to larger positive reinvested earnings amounting to €441.2 million, which was the first increase of reinvested earnings since 2008.

Inward foreign direct investment increased by €794.7 million in 2017, compared to €1,125.6 million in 2016 and €1,509.7 million in 2015. The increase of inward foreign direct investment in 2016 was mostly a result of acquisitions in the corporate and banking sectors, while the increase in 2017 was mostly due to larger investments into Slovenian enterprises operating in the financial, insurance and manufacturing industries. Reinvested earnings in 2017 were positive and amounted to €351.4 million, a decrease of €195.2 million compared to 2016, when they totalled at €546.6 million.

In 2018, inward foreign direct investment increased further by €1,159.3 million. The top immediate investor countries were Luxembourg and Austria, however a large share of investment in manufacturing from Luxembourg is ultimately controlled by China.

In the first nine months of 2019, inward foreign direct investment increased by €808.0 million compared to an increase of €884.0 million in the same period of 2018. Top investments in 2019 relate to take over in insurance activity and manufacturing industry.

As at 30 June 2019, the amount of inward foreign direct investment stock was €15,746.6 million. The amount of inward foreign direct investment at the end of 2018, 2017, 2016 and 2015 was €15,152.0 million, €13,956.9 million, €12,970.5 million and €11,612.0 million, respectively.



## Inflow of Foreign Direct Investment by Top Countries

The following table sets out the net inflow of foreign direct investment in the Republic by country of origin for the years 2014 to 2018 and the nine months ended 30 September 2018 and 2019:

	Year ended 31 December					Nine months ended 30 September	
	2014	2015	2016	2017	2018	2018	2019
	(€ million)						
Austria.....	(150.8)	266.8	134.3	385.9	222.7	163.6	148.3
Belgium.....	0.7	11.5	16.3	16.2	(15.4)	(8.2)	(15.3)
Switzerland.....	60.9	164.5	62.0	86.1	101.5	77.5	44.1
Cyprus.....	(21.1)	33.9	13.5	(10.9)	52.5	37.7	223.8
Czech Republic.....	29.5	83.6	42.8	27.6	3.6	19.4	17.6
Germany.....	378.8	136.7	32.0	48.3	160.5	110.5	0.1
France.....	(33.9)	1.2	(20.4)	56.0	(24.4)	71.5	47.3
United Kingdom.....	(41.6)	65.1	39.1	(0.1)	14.3	(17.3)	29.5
Croatia.....	247.3	119.0	(24.6)	55.3	29.9	24.6	(36.0)
Italy.....	27.6	56.2	82.5	(113.7)	38.3	42.1	31.1
Luxembourg.....	127.7	200.8	424.8	(9.9)	392.7	301.9	10.6
Netherlands.....	181.4	293.1	122.8	48.3	83.2	89.8	275.3
Russian Federation.....	(19.4)	(5.9)	6.1	103.6	13.7	(5.7)	(6.1)
Other countries.....	4.3	83.2	194.4	102.1	86.3	(23.3)	37.7
<b>Total<sup>(1)</sup></b> .....	<b>791.3</b>	<b>1,509.7</b>	<b>1,125.6</b>	<b>794.7</b>	<b>1,159.3</b>	<b>884.0</b>	<b>808.0</b>

Source: Bank of Slovenia.

Note:

- (1) Data on Foreign Direct Investment are prepared according to the directional principle, which differs from asset/liability principle taken into account in the balance of payments statistics.

## Gross External Debt

As of 30 September 2019, the gross external debt, which includes both public and private debt, amounted to €44.79 billion, which was €2.84 billion more than the gross external debt as at 30 September 2018.

As of 31 December 2018, gross external debt amounted to €42.10 billion, €1.09 billion less than the debt as at 31 December 2017 when it reached €43.19 billion. The gross external debt at the end of 2018 was comprised of general government debt (50 per cent.), which was mostly in the form of long-term securities, the debt of other sectors (26 per cent.) and banks (8 per cent.) In the period from 2014 to 2018, the ratio of external debt to GDP fell from 124.3 per cent to 92.0 per cent. This decrease was caused by the increase of GDP as well as the decrease of external debt in the observed five years. Public and publicly guaranteed debt amounted to €27.23 billion at the end of 2018 and represented 64.7 per cent. of total gross external debt. The share of public and publicly guaranteed debt within total gross external debt at the end of 2014 reached 63.7 per cent. In nominal terms public and publicly guaranteed debt fell from €29.79 billion at the end of 2014 to €27.24 billion at the end of 2018. This decrease of public and publicly guaranteed debt was largely due to repayment of government bonds. Since the euro is the dominant currency with regard to foreign debt and trade and capital flows also currency fluctuations do not represent a risk that could lead to an increase in the level of gross foreign debt or repayment expenses. Net external debt decreased from €13.83 billion at the end of 2014 to €4.13 billion at the end of 2018 and further down to €2.25 billion as at 30 September 2019. The general government sector is the only sector holding a net debt position of €15.80 billion as of 30 September 2019, €4.86 billion less than the net debt as of the end of 2014 when it was €20.66 billion. The general government's net debt consisted mostly of long term bonds, which contributed most to the reduction of debt to the rest of the world. Banks and the central bank held €9.26 billion of net credit position as of 30 September 2019 (€4.67 billion and €4.60 billion respectively), which remained at approximately the same level as at the end of 2014 of €8.77 billion. Other sectors and the direct investment sector also held a net credit position as of 30 September 2019 of €4.29 billion, while its net debt position was of €1.94 billion at the end of 2014. The switch to net credit position was mostly on the account of investment in debt securities of foreign issuers in consecutive years. Further, the Republic's international net investment position in 2018 reached negative 18.9 per cent. of GDP or negative €8.67 billion compared to negative €10.42 billion (24.2 per cent. of GDP) at the end of 2017 or €14.45 billion (38.4 per cent. of GDP) at the end of 2014. At the end of June 2019, net international investment position reached negative €8.59 billion, which was almost the same level as at the end of 2018.

The following table sets out gross external debt by sector as at 31 December 2014 to 2018 and as at 30 September 2018 and 2019:

	As at 31 December										As at 30 September	
	2014		2015		2016		2017		2018		2018	2019
	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(€ million)
General												
Government.....	23,574	62.7	25,032	64.4	23,171	57.4	21,940	51.0	21,045	46.0	21,322	22,818
Monetary Authority	1,394	3.7	1,529	3.9	2,722	6.7	3,011	7.0	2,661	5.8	2,314	3,659
Banks.....	6,591	17.5	5,195	13.4	4,117	10.2	3,782	8.8	3,344	7.3	3,373	3,299
Other Sectors .....	11,570	30.8	10,839	27.9	10,851	26.9	10,731	25.0	10,982	24.0	11,037	10,761
Direct Investment:												
Intercompany												
lending.....	3,651	9.7	3,552	9.1	3,433	8.5	3,726	8.7	4,067	8.9	3,902	4,248
Total Gross												
External Debt <sup>(1)</sup> .....	46,779	124.4	46,148	118.7	44,293	109.8	43,191	100.5	42,099	92.0	41,948	44,786

Source: Bank of Slovenia.

Note:

- (1) The methodology used to compile these figures is based on the External Debt Statistics: Guide for Compilers and Users, IMF, 2013. This guide is available at: <http://www.tffs.org/edsguide.htm>. In order to maintain consistency, the data sources are the same as those for the International Investment Position. The sources for equities and financial derivatives are not used because these types of instruments are not included in the balance of external debt according to the IMF definition.

## MONETARY AND FINANCIAL SYSTEM

### Overview

In June 2019, the Republic's total financial sector's assets increased by 4.5 per cent. in year-on-year terms and stood at €77 billion or 163,9 per cent. of GDP. Banks are the most important financial intermediaries with around 53.4 per cent. of total financial sector assets (central bank assets excluded).

The Slovenian banking system was exposed to significant credit risk and income risk in 2011, 2012 and 2013. In the following years credit risk declined, although income risk remained significant.

In the last three years the banking system operated in a stable economic environment with a favourable outlook for future growth. Income and credit risks reduced in 2017, 2018 and 2019, as compared to prior periods, due largely to the resolution of a substantial number of banks' non-performing claims, which are a broad measure of banks' portfolios (as opposed to specific measures, such as non-performing loans). High impairment charges, which previously had a negative effect on banking profits, were significantly lower in 2016 compared to previous years. This trend continued during 2017, 2018 and 2019 as the banks recorded net releasements of impairments due to further improvements in the quality of banks' credit portfolios. Forecasts of slower economic growth pose challenges for banks to achieve adequate profits.

Diminishing dependence on wholesale funding, access to liquidity from the ECB and stable growth in the proportion of funding accounted for by domestic deposits, are all contributing to a reduction in financing risk. Bank solvency is at a favourable level, significantly above the Eurozone average.

### Bank of Slovenia

The Bank of Slovenia (the "**BSi**") was established on 25 June 1991 with the promulgation of the first Bank of Slovenia Act (*Zakon o Banki Slovenije (ZBS)*). It is a legal entity governed by public law, with autonomy over its finances and administration. With Slovenia's adoption of the euro on 1 January 2007, the BSi became part of the Eurosystem, which comprises the ECB and the national central banks ("**NCBs**") of the Eurozone countries. The Eurosystem is responsible for defining and implementing the Eurozone's monetary policy.

The Eurosystem is led by the Governing Council of the European Central Bank ("**ECB Governing Council**") as the highest decision-making body of the ECB, primarily responsible for conducting monetary policy. The ECB Governing Council consists of six members of the Executive Board and the Governors of the NCBs. Its main responsibility is to adopt guidelines and take all actions necessary to ensure the performance of tasks entrusted to the Eurosystem. The formulation of monetary policy for the Eurozone includes, but is not limited to, decisions relating to monetary objectives, key interest rates, the supply of reserves in the Eurosystem, and the adoption of guidelines for the implementation of those decisions. The BSi has also been part of the "**ESCB**", which comprises the ECB and NCBs of all EU Member States, since it joined the EU.

As part of the Eurosystem and in accordance with the principle of decentralisation, the BSi implements Eurosystem monetary policy, manages the ECB's and its own foreign reserves, manages and supervises payment systems, issues and withdraws euro banknotes, collects statistics for the ECB, assists the ECB with the translation and preparation of publications and participates in economic analysis and research. In accordance with the Statute of the ESCB and of the ECB (the "**ESCB Statute**"), the BSi also performs other functions provided that such tasks do not interfere with the objectives and tasks of the ESCB. Said functions are strictly the responsibility of the BSi. These include tasks pursuant to the second Bank of Slovenia Act (*Zakon o Banki Slovenije (ZBS-1)*), such as managing the accounts of direct budget users and co-operating with other central banks and international financial organisations.

The Governor of the Bank of Slovenia is a member of the ECB Governing Council and is therefore actively involved in the monetary policy decision-making process. The voting rights of the ECB Governing Council rotate. The rotation system allocates Governors to different groups based on the size of their country's economy and financial sector. The Governors from countries ranked first to fifth – currently, Germany, France, Italy, Spain and the Netherlands – share four voting rights. The rest share 11 voting rights. Voting rights for both groups rotate monthly. In addition, the ECB's Executive Board members hold permanent voting rights in the ECB Governing Council. The ECB Governing Council acts by simple majority, unless otherwise provided for in the ESCB Statute. Furthermore, the Governor is also a member of the General Council of the ECB, which consists of the President and the Vice President of the ECB and the Governors

of the NCBs of all EU Member States and acts predominantly in an advisory capacity. As a transitional body, the General Council of the ECB will be dissolved once all EU Member States have introduced the single currency.

The Bank of Slovenia participates in activities of the European Systemic Risk Board ("**ESRB**"). The ESRB is an independent EU body responsible for the macro-prudential supervision of the financial system of the EU as a whole, and for monitoring and assessing risks to its stability. The Governor and one of the Vice Governors of the Bank of Slovenia are members of the ESRB's General Board, which takes the decisions necessary to ensure the performance of the tasks entrusted to the ESRB. The Bank of Slovenia has at its disposal several macro-prudential instruments to prevent and mitigate identified systemic risks. In the past couple of years, the Bank of Slovenia has implemented several macroprudential instruments, either in the form of mandatory instruments or recommendations. Three liquidity macroprudential instruments (Gross-Loan-to-Deposits-Flow, and First and Second Class Liquidity ratios) and, separately, the loan-to-value ratio as a borrower based instrument have each been implemented as recommendations. The other two borrower based instruments (Maturity Cap and Debt Service-to-income ("**DSTI**")), are binding macroprudential instruments. Two macroprudential capital requirements (Countercyclical Capital Buffer ("**CCyB**") and other systematically important institution ("**O-SII**") buffer) have also been implemented, and the latter is effective with a positive buffer rate. Finally, the macroprudential instrument Limit on Deposit Rates, aiming at mitigating banks' income risk, is also activated, but not binding for the banks. Macroprudential instruments (descriptions, transmission channels and goals) are presented in the Bank of Slovenia's publications. However, the recent publication on 7 June 2019 in the Official Journal of the European Union of Regulation (EU) 2019/876 amending Capital Requirements Regulation (EU) 575/2013 ("**CRR**") and of Directive (EU) 2019/878 amending Directive 2013/36/EU relating to the supervision of credit institutions and investment firms (the "**Capital Requirements Directive**" or "**CRD IV**"), respectively brings changes to the prudential regulatory landscape in the coming years. Additionally, The Bank of Slovenia has implemented recommendations of the ESRB which further enhance the stability of the national financial system. The Bank of Slovenia may also change the nature of recommendations to mandatory requirements if required.

In November 2014, a new system of banking supervision for Europe was established - the Single Supervisory Mechanism ("**SSM**"). The SSM comprises the ECB and the national supervisory authorities of the participating countries, being the Bank of Slovenia in the case of the Republic of Slovenia.

The SSM's main aims are to

- ensure the safety and soundness of the European banking system;
- increase financial integration and stability; and
- ensure consistent supervision.

As at 1 October 2019, the ECB directly supervised the 116 most significant banks of the participating countries, which hold almost 82 per cent. of the banking assets in the Eurozone. This includes three Slovenian banks (NLB, NKBM and Abanka). Ongoing supervision of these banks is carried out by Joint Supervisory Teams ("**JSTs**"). Each bank has a dedicated JST, comprising staff of the ECB and national supervisors.

Banks that are not considered significant are known as "less significant" institutions. They continue to be supervised by their national supervisors, in close co-operation with the ECB.

Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms ("**BRRD**") and Regulation (EU) No 806/2014 on the establishment of a Single Resolution Mechanism ("**SRM**") provide national authorities with common powers and instruments to pre-empt bank crises and to resolve any financial institution in an orderly manner in the event of failure, while preserving essential bank operations and minimising taxpayers' exposure to losses. The Resolution and Compulsory Dissolution of Credit Institutions Act (Zakon o reševanju in prisilnem prenehanju bank (ZRPPB), the "**ZRPPB**") fully implemented the BRRD and aligned it with the regulation on SRM. The ZRPPB regulates: (i) Bank of Slovenia's responsibilities and procedures for the implementation of its tasks and powers as the banking resolution authority; (ii) bank resolution planning and (iii) the resolution procedures and powers related to the resolution tools. In addition, the ZRPPB designated the Bank of Slovenia as the competent authority for

the implementation of compulsory liquidation proceedings for banks as well as the competent authority to initiate bankruptcy proceedings with the relevant court.

In December 2014, the Bank Resolution Authority and Fund Act came into force, giving the Bank of Slovenia the role of the national resolution authority. Since 2015 the Single Resolution Board ("**SRB**") features a member representing the Bank of Slovenia as the national resolution authority of Slovenia. In 2015 the Resolution Unit was established in the Bank of Slovenia. The resolution unit is responsible for preparing, or participating in the preparation of, the resolution plans for institutions active in Slovenia and participating in collecting "**ex-ante**" contributions from banks to the Single Resolution Fund in accordance with the BRRD. The following contributions from banks in Slovenia have been transferred to the Single Resolution Fund: €15.7 million in January 2016, €12.5 million in June 2016, €9.3 million in June 2017 €9.6 million in June 2018 and € 9.0 million in June 2019.

A national resolution fund was established in March 2015. Banks have paid-in founding assets in the total amount of €195 million and at any time banks must be able to provide cash to the fund in the amount of 1 per cent. of total covered deposits (approximately €197 million) for potential extraordinary payments. Contributions by the banks to the fund are all treated as their investments in the fund. The resolution fund will be in place, by law, until the end of 2024. All relevant information of the resolution fund's operations is publicly available on a dedicated web page of the Bank of Slovenia.

## **Monetary Policy**

### **Objectives**

The primary objective of the Bank of Slovenia is identical to the primary objective of the ECB's monetary policy, namely, to maintain price stability. The ECB aims to maintain inflation rates below, but close to, 2 per cent. over the medium term.

### **Policy Instruments**

While monetary policy decisions are taken by the decision-making bodies of the ECB, the responsibility to execute monetary policy, i.e. use of monetary policy instruments, remained with the Bank of Slovenia after the changeover to the euro at the beginning of 2007. In order to achieve the primary objectives of monetary policy, i.e. maintenance of price stability, the Eurosystem has at its disposal the following set of monetary policy instruments: (i) open market operations; (ii) standing facilities; and (iii) minimum reserves. These operations must be conducted with eligible counterparties. The Bank of Slovenia acts as counterparty in relation to counterparties with a place of residence in the Republic of Slovenia.

- (i) The role of open market operations is to steer short-term market interest rates by managing the liquidity position of the banking system and signal the monetary policy stance via the rate of one of them, the main refinancing operation, which serves as the key policy rate. Open market operations are initiated by the Eurosystem, which decides on the instruments to be used and on their terms and conditions. Operations may be in the form of reverse transactions (collateralised loans or repos), outright purchases, debt certificates, foreign exchange swaps or fixed term deposits.

Under normal circumstances, open market operations are carried out as variable rate auctions. To mitigate the effects of the financial crisis, the Eurosystem introduced a fixed rate full allotment procedure in its liquidity providing open market operations in October 2008. The fixed rate full allotment procedure has been prolonged several times and will remain in place at least until March 2021. Since 2008, additional non-standard monetary policy measures have been implemented in the form of additional longer term open market operations. Such operations have been conducted against a broader scope of eligible collateral. The required minimum reserve ratio was lowered in December 2011, freeing additional liquidity for banks.

With the aim of addressing the malfunctioning of securities markets, the Eurosystem was purchasing outright government and covered bonds in the market. In 2009 and 2011, covered bonds were purchased under the first and second covered bond purchase programmes ("**CBPP**" and "**CBPP2**"), each lasting for one year. From May 2010, the Eurosystem introduced the Securities Markets Programme ("**SMP**") to address the sovereign debt crisis in the Eurozone. The SMP sought to ensure depth and liquidity in the debt securities markets, with a focus on dysfunctional market segments. In September 2012, the SMP was replaced by the Outright Monetary

Transactions programme ("**OMT**"), under which the ECB would make purchases in secondary sovereign bond markets. These purchases were conditional on the respective countries' compliance with an appropriate EFSF/ESM programme.

To address persistently low inflation in an environment of subdued economic growth and to anchor the medium-to long-term inflation expectations in the Eurozone, the ECB announced a combination of measures in June 2014 with the aim of providing additional monetary policy accommodation and of supporting lending to the real economy. Besides further reductions in the key interest rates, this package included a series of new targeted longer term refinancing operations ("**TLTROs**"), with the take up of funds linked to the amount of loans to the Eurozone non-financial private sector. The TLTROs were carried out quarterly from September 2014 until June 2016. Furthermore, in September 2014, the ECB decided to increase the liquidity in the markets even further by announcing purchases of private sector assets. In October 2014, the ECB launched the third covered bond purchase programme ("**CBPP3**") while the purchases within the asset-backed securities purchase programme ("**ABSPP**") started in November 2014. To counter the risks of a prolonged period of low inflation, in January 2015 the ECB Governing Council expanded the private sector asset purchase programme to include purchases of public sector securities issued by Eurozone governments and agencies as well as European institutions ("**PSPP**"). The purchases commenced on 9 March 2015.

In March 2016, the ECB Governing Council announced an additional comprehensive package of easing measures to increase price stability. In addition to further reductions in all three policy interest rates, the ECB expanded the asset purchase programme by increasing monthly purchases from €60 billion to €80 billion, and broadened the universe of eligible securities by including corporate bonds in the list of Eurosystem's asset purchases ("**CSPP**"), which began in June 2016. Furthermore, a second series of targeted longer-term refinancing operations ("**TLTRO II**") was launched in order to reinforce the ECB's accommodative monetary policy stance, further ease private sector credit conditions and stimulate credit growth.

In March 2019, the ECB Governing Council announced a third series of targeted longer-term refinancing operations ("**TLTRO-III**") that will start in September 2019 and end in March 2021. These new operations will help to preserve favourable bank lending conditions and support the accommodative stance of monetary policy.

The asset purchase programme was adjusted several times since its introduction, in line with the ECB Governing Council's assessment of the medium-term outlook for inflation. The monthly purchase amount has been gradually lowered since December 2016 to December 2018, as the improving economic and financing conditions permitted a recalibration of the degree of monetary policy accommodation necessary to secure a sustained return of inflation rates toward its objective. The period of net asset purchases ended in December 2018.

In response to a protracted slowdown of the euro area economy, persistent downside risks and a further delay in the convergence of inflation towards the medium-term inflation aim, the ECB Governing Council adopted a substantial package of monetary policy instruments in September 2019. The package consists of five elements: (i) a cut in the interest rate on the deposit facility, (ii) adjustments to the forward guidance on the key ECB interest rates, (iii) the restart of net purchases under the asset purchase programme, (iv) modifications to the modalities of the TLTRO-III, and (v) the introduction of a two-tier system for reserve remuneration. These measures complement each other and support the smooth transmission of the accommodative monetary policy stance to the real economy.

The Eurosystem will reinvest the principal payments from maturing securities for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The securities purchased under the asset purchase programme are expected to remain available for lending for the duration of the reinvestment phase.

- (ii) To steer the overnight liquidity and overnight interest rates as well as to signal the monetary policy stance, standing facilities rates are set. Eligible counterparties with a liquidity deficit can obtain overnight liquidity from the Bank of Slovenia against eligible collateral via a marginal lending facility. Counterparties with a liquidity surplus can deposit their daily surpluses in the deposit

facility with the Bank of Slovenia. The rate of the former sets the upper boundary and the rate of the latter the lower boundary for money market rates.

- (iii) In order to stabilise money market interest rates, credit institutions in the Republic, as in the rest of the Eurozone, are required to keep a set level of reserves on their accounts on average over the maintenance period with the Bank of Slovenia. Minimum reserves are defined in relation to certain liability items with agreed maturity of up to two years in the institutions' balance sheets, and are remunerated at the ECB key policy rate. Excess reserves are remunerated at the lower of either the deposit facility rate, or zero per cent.

### **Money Supply**

Following the Republic's adoption of the euro, the monetary aggregates and counterparts of monetary aggregate M3 compilation represent the national contribution of the Republic to the aggregated Eurozone data, published by the ECB. Nevertheless, monetary analysis is carried out by looking at M3 domestic counterparts, in particular credit dynamics. Monetary aggregates for individual Eurozone countries are not available.

### **Exchange Rate Policy**

Since joining the EMU, the authority over exchange rate policy has been shifted to the ECB. The Bank of Slovenia participates in the process of determining this policy through its co-operation within the Eurosystem. In that respect, the Republic does not have any separate exchange rate policy which would be different from the policy of the EMU.

### **Interest Rates**

Since the introduction of the euro in the Republic in January 2007, the ECB policy rates have been the official interest rates of the Bank of Slovenia. As a result of the global financial crisis, from October 2008 until May 2009, the ECB cut the main refinancing operation rate from 4.25 per cent. to 1.00 per cent. The rate increased twice in 2011, primarily in order to contain inflationary pressures caused by rising commodity prices; however, the interest rate was lowered several times after the tensions related to the European sovereign debt crisis re-escalated in mid-2011. Amid declining growth and inflation prospects in the Eurozone, the ECB took the following steps:

- the interest rate on main refinancing operation was gradually lowered to historically low levels, reaching nil per cent. in March 2016;
- in parallel, the marginal lending and deposit facility rates were gradually lowered, while the width of the standing facilities corridor was first reduced from the traditional spread of +/-1.00 pps to +/-0.25 pps and later changed to an asymmetrical corridor. As at December 2019, the spread stood at +0.25/-0.54 pps. In July 2012, the deposit facility rate was brought to zero. Subsequently, it was lowered five more times; and
- forward guidance was introduced in July 2013 to ensure that market expectations on future monetary policy were consistent with the policies of the ECB Governing Council. By way of forward guidance, in September 2019 the ECB strengthened the state-based elements of its forward guidance by linking it to a more stringent set of conditions for the inflation outlook. The key ECB interest rates are now expected to remain at their present or lower levels until the inflation outlook converges to a level sufficiently close to, but below, 2 per cent. within projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

### **Financial System**

The Slovenian financial sector's assets increased 8.6 per cent. in almost six years (from €70.9 billion in 2013 to €77 billion in June 2019) and by 3.7 per cent. on year-on-year basis. In terms of GDP rate, the Slovenian financial sector's assets declined from 197.5 per cent. in 2013 to 163.9 per cent. of GDP. in June 2019. Banks continue to be the most important financial intermediaries with 53.4 per cent. of total financial sector assets in June 2019. Insurers were and are the largest group among non-monetary financial institutions, although their share among non-monetary financial institutions is slowly diminishing (from 45.8 per cent. in 2014 to 41.9 per cent. of total non-monetary financial institutions assets in June 2019). Insurers are followed by pension funds and investment funds (other than money market funds) which

accounted for 15.1 per cent. and 14.5 per cent. of total non-monetary financial institutions assets in June 2019.

The following table sets out certain statistical information about the Slovenian financial system as at 30 June 2019.

	Total assets		As % of total assets		As % of GDP		Growth, %	
	As at 30 June 2018	As at 30 June 2019	As at 30 June 2018	As at 30 June 2019	As at 30 June 2018	As at 30 June 2019	As at 30 June 2018	As at 30 June 2019
	<i>(€ millions)</i>		<i>(%)</i>					
Monetary financial institutions.....	39,853	41,090	53.7	53.4	89.9	87.5	1.6	3.1
Central bank.....	15,583	16,456	21.0	21.4	35.2	35.0	13.3	5.6
Non-monetary financial institutions.....	18,781	19,451	25.3	25.3	42.4	41.4	5.1	3.6
Insurance corporations.....	7,751	8,142	10.4	10.6	17.5	17.3	3.2	5.0
Pension Funds.....	2,734	2,938	3.7	3.8	6.2	6.3	5.0	7.4
Investment Funds other than MMFs.....	2,741	2,823	3.7	3.7	6.2	6.0	5.6	3.0
Other financial institutions.....	5,554	5,548	7.5	7.2	12.5	11.8	7.7	(0.1)
<b>Total</b> .....	<b>74,217</b>	<b>76,996</b>	<b>100.00</b>	<b>100.00</b>	<b>167.5</b>	<b>163.9</b>	<b>4.8</b>	<b>3.7</b>

Source: Bank of Slovenia

## Banking System

As at 30 September 2019 the Slovenian banking system comprised twelve banks (including six subsidiary banks), two branches of foreign (Eurosystem) banks and three savings banks. The latest structure is due to the mergers of KBS and NKBM in January 2017, NKBM and PBS in September 2016 and Factor banka and Probanka with the BAMC in February 2016. As at 30 September 2019, the banking system comprised four banks under majority domestic ownership and seven banks under majority foreign ownership.

The largest banks by market share as at 31 December 2018 were as follows:

	Market Share as at 31 December (on a stand-alone basis)		
	2016	2017	2018
	<i>(%)</i>		
NLB.....	23.7	23.0	22.7
Abanka.....	9.8	9.6	9.6
NKBM.....	11.5	12.9	12.8
SID banka.....	6.9	6.5	6.0
SKB banka (SocGen group).....	7.6	7.9	8.0
Unicredit Banka Slovenija.....	6.9	7.1	6.8
Banka Intesa Sanpaolo (SanpaoloIMI group).....	6.3	6.3	6.7

Source: Bank of Slovenia.

Set forth below is sector data for the seven biggest banks, as at 31 December 2018:

	Majority Ownership	As at 31 December 2018 (on a stand-alone basis)			
		Total assets (€'000)	Return on assets (%)	Operational costs/ Average total assets (€'000)	Capital adequacy (%)
NLB.....	Domestic	8,811.047	1.87	2.03	24.05
Abanka.....	Domestic	3,728.713	1.81	1.92	23.62
NKBM.....	Foreign	4,977.865	1.53	1.95	19.59
SID banka.....	Domestic	2,318.834	0.59	0.59	34.18
SKB banka (SocGen group).....	Foreign	3,089.094	1.78	1.78	12.63
Unicredit Banka Slovenija.....	Foreign	2,655.502	0.80	1.59	16.34
Banka Intesa Sanpaolo (SanpaoloIMI group).....	Foreign	2,596.486	0.44	1.81	15.80

Source: Bank of Slovenia.



The loss generated by the banking sector in 2014 amounted to €114.1 million, a substantial decrease from the €3,585.5 million loss sustained in 2013. The banking sector had a realised profit of €115.3 million in 2015, €332.4 million in 2016, €424.8 million in 2017, €495.2 million in 2018 and €467.9 million for the nine months ended 30 September 2019 (compared with €382.2 million in September 2018).

## Assets

As at 31 December 2013, the banking system's total assets amounted to €40.5 billion, having declined by €5.8 billion or 12.5 per cent. in year-on-year terms. Total assets further contracted in 2014, declining by €1.58 billion to €38.7 billion (105.7 per cent. of GDP) as at 31 December 2014, a decrease of 3.9 per cent. from the previous year. In 2015, the banking system's total assets decreased by €1.3 billion to €37.4 billion and in year-on-year terms they fell by 3.4 per cent. The rate of contraction in total assets slowed during 2016, due to an increase in loans to the non-banking sector in December 2016. As at 31 December 2016, the banking system's total assets amounted to €37 billion, having decreased during 2016 by €331 million, or 0.9 per cent. in year-on-year terms. The banking system's total assets increased by 2.4 per cent. or €899 million in 2017 and stood at €38 billion as at 31 December 2017. The growth trend continued in 2018 as the banking system's total assets amounted to €38.8 billion as at 31 December 2018, having increased by 2.2 per cent. in year-on-year terms. The total assets of banks in Slovenia increased to €40.5 billion by the end of September 2019, while year-on-year growth was 4.4 per cent.

On the investment side, banks have been reducing loans to the non-banking sectors since 2008. The decline of loans to non-banking sectors in 2013 and 2014 was the result of the transfer of non-performing claims to the BAMC as part of the recapitalisation process. The contraction of loans to the non-banking sector during this period was primarily due to a decrease in loans to the corporate sector. In 2014, the total amount of loans to the non-banking sectors declined by €2.7 billion or 11.5 per cent. in year-on-year terms. In the same period, the amount of loans to non-financial corporations declined by €2.3 billion. The long-term contraction in lending to the non-banking sector was the result of the general economic situation and domestic supply and demand factors. The key factors that contributed to the decline in demand of non-financial corporations for bank loans were the decline in corporate sales revenues and new orders, high corporate indebtedness, rising financial leverage due to losses, which reduce capital, the lack of payment discipline, a reduction in the value and liquidity of assets accepted as eligible loan collateral and the interest rate spread between Slovenian banks and Eurozone banks. On the supply side, lending activity was restricted by deterioration in the quality of their credit portfolio, maturing of liabilities and difficulties in rolling over maturing liabilities.

As at 31 December 2015, the total amount of loans to the non-banking sector was €20.3 billion, a figure which was 5.9 per cent. lower than the corresponding figure from the prior year. In the same period, loans to the non-financial corporate sector decreased by €988 million, but in year-on-year terms decreased by 10.8 per cent. The decrease in corporate loans in 2015 was due to the improved economic climate. As at 31 December 2016, the total amount of loans to the non-banking sector was €20.5 billion. Contraction of loans to the non-financial corporate sector decreased at the end of 2016, from 7.9 per cent. as at 30 November 2016 to 1 per cent. as at 31 December 2016 in year-on-year terms. In 2016, loans to the non-financial corporate sector amounted to €8.1 billion, which is a decrease of €84 million. Growth of loans to non-banking sector, which began at the end of 2016, continued in 2017 and in 2018, reaching 4.8 per cent. as at 31 December 2017 and 3.3 per cent. as at 31 December 2018 in year-on-year terms. As at 30 September 2019 the year on year growth increased to 5.6 per cent. As at 31 December 2017 and 31 December 2018, the total amount of loans to the non-banking sector was €21.5 and €22.2 billion, respectively. Loans to the non-financial corporate sector, which had been decreasing in Slovenian banking system for a substantial period of time, has started to increase since February 2017. Loans to the non-financial corporate sector increased by 2.2 per cent. in December 2017 in year-on-year terms. The moderate and stable growth continued in 2018, reaching 2.2 per cent. as at December 2018 in year-on-year terms. By September 2019, the year-on-year growth in non-financial corporate loans rose to 6.3 per cent.

The value of loans to households amounted to €8.5 billion as at 31 December 2013, having declined by €380 million or 4.3 per cent. in 2013. The contraction of loans to households continued in 2014, decreasing by €140 million or by 1.7 per cent. in year-on-year terms. The proportion of total loans to households accounted for by housing loans increased from 47 per cent. as at 31 December 2009 to approximately 63 per cent. as at 31 December 2014. The key reasons for this increase lie in the decreasing growth in housing loans and negative growth in household borrowing in consumer loans since the middle of 2010. From 2010 to 2013, banks tightened their credit standards for housing and consumer loans. Uncertainty in the labour

market, a lack of confidence and uncertainty in the real estate market had an adverse impact on growth in household loans in 2014.

In 2015, the amount of loans to households increased by €102 million to €8.4 billion, representing a year-on-year increase of 1.2 per cent. In December 2016, the growth rate increased to 4.6 per cent. in year-on-year terms. The increase in loans to households also continued in 2017, reaching 6.8 per cent. growth as at 31 December 2017 in year-on-year terms, amounting to a total of €9.4 billion. The growth remained comparable in 2018 to that of the previous year, with a year-on-year growth rate of 7.0 per cent. and a total amount of €10.1 billion as at 31 December 2018. The growth slightly decreased in the first nine months of 2019, reaching 6.5 per cent.. Positive developments in the labour market, increase in purchasing power and low interest rates have contributed to an increased demand for housing loans in the last three years. In year-on-year terms housing loans and consumer loans increased by 4.1 per cent. and 7.3 per cent., respectively, as at 31 December 2016, and continued to grow in 2017. Their year-on-year growth was 4.8 per cent. and 12.9 per cent., respectively, as at 31 December 2017. The year-on-year growth decreased slightly in 2018 and was 4.5 per cent. and 11.4 per cent., respectively, as at 30 September 2018. The solid growth of housing loans and high growth of consumer loans continued in 2019. Their year-on-year growth reached 5.2 per cent and 11.7 per cent, respectively, as at 30 September 2019.

Housing loans are predominately denominated in euro. However, 15.2 per cent. of housing loans were denominated in Swiss francs as at 31 December 2013. As at 31 December 2015 and 2016, 11.4 per cent. and 9.5 per cent., respectively, of housing loans were denominated in Swiss francs. As at 31 December 2017, this value decreased further to 7 per cent and stood at 5 per cent. as at September 2019, however, the development of the euro/Swiss franc exchange rate still remains important for part of Slovenian households.

Housing loans with a variable interest rate represented 76 per cent. of the total value of new housing loans in 2015. The share of new housing loans with a variable interest rate decreased to 59 per cent. in 2016 and further to 45 per cent. in 2017. In 2018, the share of new housing loans with a variable interest rate increased to 48 per cent and further to 51 per cent. in the first nine months of 2019.

In December 2015, interest rates on housing loans granted with variable interest rates were 2.2 per cent., which was 0.7 percentage points lower than in December 2014, and higher than the Eurozone average of 2.0 per cent. In December 2016, interest rates on housing loans decreased to 2.0 per cent. and remained unchanged in December 2017. In December 2018, variable interest rates decreased further to 1.9 per cent and to 1.8 per cent in September 2019. Interest rates on housing loans granted with fixed interest rates declined from 3.2 per cent. in December 2015 to 2.6 per cent. in 2016, increased slightly in December 2017, to 2.9 per cent, remained unchanged in December 2018 and decreased to 2.8 per cent in September 2019. Interest rates on consumer loans with variable interest rates also decreased until December 2015 to 4.2 per cent. (compared to 4.8 per cent. in December 2014), remaining lower than the Eurozone average of 4.8 per cent. In December 2016, interest rates on consumer loans remained the same as in December 2015 and stood at 4.2 per cent. Interest rates on consumer loans increased slightly to 4.4 per cent. in December 2017 and to 4.6 per cent. in December 2018 and remained unchanged in September 2019.

In 2015, interest rates on corporate loans in Slovenia also declined. In December 2015, they stood at approximately 2.9 per cent. on loans of up to €1 million (a decline from 4.5 per cent. in December 2014) and at 2.2 per cent. on loans of more than €1 million (a decline from 3.4 per cent. in December 2014). In December 2016, interest rates on corporate loans of up to €1 million declined to 2.5 per cent. and interest rates on corporate loans of more than €1 million increased to 2.6 per cent. In December 2017, interest rates on corporate loans of up to €1 million had decreased slightly to 2.4 per cent. and decreased further to 2.2 per cent in December 2018 and remained unchanged in September 2019. Interest rates on corporate loans of more than €1 million decreased to 2.0 per cent. in December 2017 and decreased to 1.8 per cent. in December 2018 and further to 1.3 per cent in September 2019. The spread over Eurozone interest rates on corporate loans of more than €1 million reached 1.2 percentage points in December 2016 (1.4 per cent. in the Eurozone) and 0.6 percentage points in December 2017. The spread on corporate loans up to €1 million was 0.2 percentage points in December 2016 (2.3 per cent. in the Eurozone), 0.3 percentage points in December 2017, 0.2 percentage points December 2018, and 0.3 percentage points in September 2019.

## **Funding**

Slovenian banks have repaid most of their debt obligations to foreign wholesale markets. At the end of December 2013, the share of wholesale funding decreased further to 17.4 per cent. of total assets, mostly due to net repayments from liabilities to foreign banks. This trend continued in 2014 and 2015 as the share

of wholesale funding declined to 16 per cent. at the end of 2014 and to 12.5 per cent. at the end of December 2015. As at 31 December 2016, the share of wholesale funding declined to 9.9 per cent. and as at the end of 2017 further declined to 7.3 per cent. In 2018, this share declined to 6.4 per cent. due to a decrease in issued debt securities but then slightly increased at the first nine months of 2019, reaching 6.6 per cent.. The proportion of total assets accounted for by sources raised at the ECB increased in 2012 as banks partly used the long-term loans raised at the Eurosystem to reduce external debt. Banks reduced their debt to foreign banks by €2.3 billion in 2013; however, the process of deleveraging slowed in 2014. Debt owed to foreign banks fell to €4.5 billion at the end of December 2014 and to €3.5 billion at the end of December 2015. Debt repayments on the wholesale market, liabilities to foreign banks and issued securities amounted to €0.8 billion in 2014 and, as at the end of 2015, debt repayments increased to €1.5 billion. The total amount of banking sector wholesale funding stood at €6.2 billion as at 31 December 2014. This declined to €4.7 billion at the end of December 2015 and to €3.7 billion at the end of December 2016. This trend continued in 2017 and 2018. As at the end of December 2017, it had declined to €2.8 billion and to €2.5 billion as at the end of December 2018. The amount of wholesale funding increased in the first nine months of 2019 to €2.68 billion due to the increase in issued debt securities.

At the end of December 2013, liabilities to the Eurosystem totalled €3.7 billion, representing 9.2 per cent. of the banking system's total assets. In 2014, that share decreased by 6.3 percentage points from the prior year. This decrease was the result of repayment of funds obtained in three-year longer-term refinancing operations ("LTROs") maturing in the first quarter 2015. Liabilities to the Eurosystem fell sharply in 2014. By 31 December 2014, the banks had made early repayments of €3,312 million or 90 per cent. of liabilities totalling €3,699 million from 3-year LTROs concluded in the first quarter of 2012. In 2014, banks participated in the ECB's targeted longer-term refinancing operations ("TLTROs"), securing which amounted to €707 million as at 31 December 2014. In the year ended 31 December 2016, banks increased liabilities arising from the ECB to €714 million, including €699 million from the ECB's TLTRO. The share of total liabilities to the Eurosystem in total assets decreased to 2.9 per cent. at the end of December 2014 and to 2.4 per cent. at the end of December 2015. The share of total liabilities to the Eurosystem in total assets increased in 2017 due to participation in the ECB's TLTROs II, reaching 3.0 per cent. as at the end of December 2017. The share slightly decreased in 2018 reaching 2.8 per cent. as at 31 December 2018. The share of total liabilities to the Eurosystem in total assets decreased to 2.4 per cent as at 30 September 2019 due to partial repayment of TLTRO II .

Deposits by the non-banking sector remain the most important source of bank funding. They accounted for 51.7 per cent. of the banking system's total funding at the end of December 2012. Their share grew to 55.9 per cent. at the end of December 2013, 63 per cent. at the end of December 2014 and exceeded 67 per cent. at the end of December 2015 and 71 per cent. in December 2016. It increased to 72.5 per cent. in December 2017 and to 74.7 per cent. at 31 December 2018. In the first nine months of 2019 the share of deposits by the non-banking sector slightly decreased, but remained high. It stood at 74.4 per cent of total assets as at 30 September 2019.

The stock of deposits by the non-banking sector increased by €1.9 billion in 2014 to €24.4 billion. The growth in year-on-year terms improved by 13.8 percentage points to 8.3 per cent. The main reason for such growth was a strong increase of government deposits resulting from a rise in their overnight placement with banks. In 2015, non-banking sector deposits increased by €0.7 billion, and achieved solid year-on-year growth of 2.1 per cent. Household deposits grew by €0.73 billion during 2014 or by 5.1 per cent. on year-on-year terms at the end of December 2014. In 2015 household deposits increased by €468 million. The high growth in household deposits in 2014 was the result of the restoration of confidence in the banks following the withdrawal of deposits in 2013 in the wake of the Cyprus crisis and the uncertainty surrounding the results of the stress tests of Slovenian banks. The share of household deposits in total bank assets has increased by 9.7 percentage points from 2012 until the end 2015 and represented 42 per cent. of total assets at the end of 2015. Deposits by non-financial corporations increased by 11.5 per cent. in 2014, by 13.5 per cent. year-on-year in December 2015 and by 8.5 per cent. year-on-year in December 2016 and by 10.7 per cent. in December 2017. The year-on-year growth of deposits by non-financial corporations declined sharply in 2018, reaching 6.6 per cent. at the end of December 2018. In 2019 the year-on-year growth of these deposits increased, reaching 6.1 per cent as at 30 September.

Growth in household deposits continued in 2016, comprising 44.8 per cent. of total assets and representing the most important source of funding. The stock of household deposits increased by €1,036 million in 2016 to €16.6 billion as at 31 December 2016, resulting in year-on-year growth of 6.7 per cent. This process has continued in 2017. The stock of household deposits increased to €17.5 billion as at 31 December 2017, which has resulted in year-on-year growth of 5.7 per cent. Household deposits increased by €1.2 billion in

2018, reaching €18.7 billion or 48.3 per cent. of total assets. Household deposits continued to increase in the first nine months of 2019, reaching €19.7 billion or 48.8 per cent. of total assets.

In the maturity breakdown, an increase was recorded by demand deposits while both short term and long term deposits decreased in 2012. In 2013, the share of demand deposits increased by 2.7 percentage points the share of short term deposits decreased by 0.5 percentage points to 28.4 per cent., the share of long term deposits decreased by 2.0 percentage points to 30.3 per cent. The share of demand deposits rose to 45.7 per cent. in December 2014 and the share of short-term deposits decreased to 24.2 per cent. In December 2015, the shares were 55.4 per cent., 16.9 per cent. and 27.7 per cent., respectively. In December 2016, the shares were 63.1 per cent., 14.7 per cent. and 22.1 per cent., respectively. Demand deposits of the non-banking sector continued to grow in 2017. In December 2017, the shares were 68.5 per cent., 12.4 per cent. and 19.2 per cent., respectively. Due to a continuation of low interest rates, the share of demand deposits further increased in 2018. As at 31 December 2018, the share of demand deposits reached 72.4 per cent. of non-banking sector, while the share of short-term deposits stood at 11.3 per cent. and long-term deposits at 16.3 per cent. The year-on-year growth of demand deposits of non-banking sector was stable, but high in 2018 and in the first nine months of 2019 reaching 9.6 per cent as at 30 September 2019. Their share of demand deposits stood at 73.9 per cent. of deposits by non-banking sector, while the share of short-term deposits reached 11.3 per cent. and long-term deposits 14.8 per cent.

Interest rates on household deposits of up to one year decreased to 1.5 per cent. in December 2013, 0.7 per cent. in December 2014 and to 0.3 per cent. at the end of December 2015, 0.4 percentage points below the December 2015 Eurozone average. As at 31 December 2016, interest rates on household deposits of up to one year stood at 0.2 per cent. decreased to 0.1 per cent. in December 2017 and increased slightly to 0.2 per cent. in December 2018 and remained unchanged in September 2019. Interest rates on deposits of more than one year decreased in 2015, by 0.7 percentage points to 0.7 per cent. in December 2015. The interest rates decreased further in 2016 and stood at 0.5 per cent. in December 2016. In December 2017, interest rates on deposits of more than one year remained at 0.5 per cent. and increased to 0.6 per cent. in December 2018. In September 2019, interest rates on deposits of more than one year decreased to 0.4 per cent.

The table below provides a breakdown, by sector and maturity, of deposits of the non-banking sector for the years ended 31 December 2013 to 2018 and the first nine months ended 30 September 2019:

	Year ended 31 December						As at
	2013	2014	2015	2016	2017	2018	30 September 2019
<b>Maturity breakdown</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Demand deposits.....	41.4	45.7	55.4	63.1	68.5	72.4	73.9
Short term deposits.....	28.4	24.2	16.9	14.7	12.4	11.3	11.3
Long term deposits.....	30.3	30.1	27.7	22.1	19.2	16.3	14.8
				(%)			
<b>Sector breakdown.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Non-financial corporations.....	18.6	19.1	21.1	22.0	23.1	23.4	22.6
Households <sup>(1)</sup> .....	65.0	63.1	63.2	64.8	65.0	66.0	66.9
Government.....	7.3	9.6	8.3	5.9	4.1	3.6	3.3
Other financial institutions.....	4.4	4.8	4.2	4.3	4.1	3.9	4.4
Foreigners.....	4.6	3.5	3.1	3.0	3.7	3.1	2.7

Source: Bank of Slovenia.

Note: (1) Including non-profit institutions serving households.

In December 2013, the coverage of loans to the non-banking sector by deposits by the non-banking sector stood at 104.4 per cent. at large domestic banks and at 103 per cent. at small domestic banks, while the figure at banks under the majority of foreign ownership was 81 per cent. The coverage of loans to the non-banking sector by deposits rose to 113 per cent. at the end of 2014 and increased to 124 per cent. at the end of 2015 and to 127 per cent. at the end of December 2016. As at 31 December 2015, the values of coverage at large and small domestic banks were 133 per cent. and 151 per cent., respectively, which were higher than the corresponding figure for majority foreign-owned banks of 113 per cent. In 2016, the coverage at large domestic banks, small domestic banks and foreign owned banks increased to 137 per cent., 163 per cent. and 117 per cent, respectively. In 2017, the coverage at large domestic banks, small domestic banks and foreign owned banks increased to 143 per cent., 157 per cent. and 114 per cent, respectively. As at 30 September 2018, the coverage at large domestic banks, small domestic banks and foreign owned banks increased to 146 per cent., 160 per cent. and 113 per cent., respectively.

The loan to deposit ratio ("**LTD**"), the ratio between loans to entities in the non-banking sector and deposits by non-banking sectors entities, fell from 161.5 per cent. in 2008 to 76.7 per cent. at the end of December 2018. It has slightly increased in the first nine months of 2019 reaching 77.7 per cent.

### **Credit and Income Risk**

The Slovenian banking system has been exposed to significant credit risk in previous years. While credit risk still represents an important risk in the banking system, it has decreased significantly as of September 2019, both in terms of volume and the proportion of non-performing exposures.

The share of classified claims in arrears over 90 days has declined following the introduction of more active management of bad assets in the banking system, including transfers of bad assets to BAMC, consolidation of banks, the supervised wind-down process of two banks accompanied by managing non-performing assets with restructuring, write-offs, collateral collection and selling off relevant proportions of bank portfolios. The proportion of non-performing claims declined from 18.1 per cent. as at 30 November 2013 to 9.9 per cent. as at 31 December 2015 and further declined to 5.5 per cent. and 3.7 per cent. as at 31 December 2016 and 31 December 2017, respectively. This share continued to decrease in 2018 and, reaching 2.7 per cent. as at 31 December 2018 and in 2019 and was 1.5 per cent. in September 2019.

The volume of claims in arrears over 90 days totalled €597million as at 30 June 2019, compared to €8.1 billion as at 30 November 2013, before the commencement of the banking stabilisation process.

Non-performing exposures ("**NPEs**"), as defined by the EBA, have seen similar decreasing trends. NPEs, reported on a solo basis, declined from 14.2 per cent. as at 30 June 2015 (the first time it was reported), to 8.5 per cent. as at 31 December 2016 and continued to decrease further to 4.0 per cent. as at 31 December 2018 and 2.6 per cent. as at September 2019. The share of NPEs of non-financial corporations fell from 16.8 per cent. as at 31 December 2016 to 5.1 per cent. as at 30 September 2019, and of non-residents from 11 per cent. to 2.6 per cent. over the same period. Share of NPEs to households decreased from 4.0 per cent. as at 31 December 2016 to 2.1 per cent. as at 30 June 2019, representing one of the banks' least risky client segments (as defined by the EBA). Due to the short period that the EBA has reported on NPEs, the progress over a longer period of time is more evident from the data on claims classified as in arrears over 90 days.

The banks sharply increased their recognition of impairments and provisions in December 2013, in light of the findings of a comprehensive asset quality review conducted in 2013 described in "*Monetary and Financial System — 2013 Stress Tests and Restructuring of Slovenian Banking Sector*". Impairments and provisions increased by 138.1 per cent. in 2013, resulting in a loss of €3,585.5 million after taxation. One of the other main reasons for the impairments was that, in accordance with a decision of the Bank of Slovenia, two banks in a controlled winding-down process increased impairments for non-performing claims, resulting in a loss of €625 million. These results were confirmed by an independent auditor. However, net impairments and provisions fell from €3,809 million in 2013 to €650 million in 2014 and to €313 million in 2015, respectively. In 2015, impairments and provisioning costs decreased by 58 per cent. and banks realised a profit of €158 million before tax. In the year ended 31 December 2016, impairments and provisioning costs decreased by 69 per cent. to €96 million, as compared to the previous year, which contributed to a pre-tax profit of €364 million. At the level of the whole Slovenian banking system, banks released net impairments and provisions in the year 2017 totalling €43 million, which contributed to a pre-tax profit of €443 million. The net release of impairment and provisions continued in 2018, amounting to €47 million and in the first nine months of 2019, amounting to €62 million, which has had a favourable impact on banks' profitability.

In 2013, net interest income fell 20.1 per cent. to €708 million. In 2014, net interest income reached €832 million, an increase of 17.5 per cent. compared to the prior year. The main reason for an increase of net interest in 2014 was the decline of interest rates on deposits. In 2015, net interest income decreased to €746 million as a result of a decline in lending interest rates and moderate credit contraction. From 1 January 2016 to 31 December 2016, the net interest income stood at €670 million, which was a 10 per cent. decrease in comparison with the same period in 2015, mainly caused by declines in lending rates and in returns on securities, and by the contraction in the volume of loans that reduce the banks' income generation base, partially offset by a decrease in the banks' net interest expenses. A sharp decrease in the level of interest rates and an increase in the proportion of sight deposits mean that the banks have less room for additional cuts in interest expenses. In 2017, the contraction of net interest income continued compared to the same period in 2016, primarily due to lower interest rates on assets and a high share of liquid assets. However, the revival of credit activity in 2017 has had a positive effect on the net interest income. In 2017, the

contraction in net interest income decreased from 10.1 per cent. in 2016 to 2.9 per cent. in 2017. Since May 2018, banks have had positive growth of net interest income and experienced year-on-year growth 2018 of 3.0 per cent, in the first nine months of 2019 the growth slightly decreased to 2.8 per cent. Net non-interest income growth in 2017 stood at negative 7.3 per cent. because there were no favourable one-off effects as in the previous year (realised capital gains). However in 2018, due to favourable one-off effects and positive growth of net fees and commissions, the total non-interest income grew to 14.1 per cent. The growth continued also in the first nine months of 2019, reaching 26.6 per cent in year-on-year terms. In 2017, operating costs were comparable to the same period in 2016. Operating costs decreased by 0.6 per cent. in 2018. Banks released their net impairment costs in 2017 and achieved a pre-tax profit of €447 million. As a result of the continuing release of net impairments and provisions, and together with other favourable factors, the banks realised a pre-tax profit of €531 million as at 31 December 2018. At the level of the whole Slovenian banking system, banks released impairments and provisions in the first nine months of 2019, which contributed to a pre-tax profit of € 524 million.

### **Adequacy of Liquidity**

The Bank of Slovenia monitors liquidity in the banking sector in accordance with applicable regulations. In reports on their liquidity position, the assets and liabilities of banks are classified by residual maturity. This classification consists of three "buckets", financial instruments maturing: (i) within 30 days; (ii) within 180 days; and (iii) after 180 days. Until 31 December 2017, applicable national regulations required that, on a daily basis, each bank calculated the ratio between the sum of its financial assets that would mature within 30 days and the sum of its liabilities that would mature in the same time frame. In accordance with these national regulations, banks were required to maintain a liquidity ratio of at least 1.0 at all times. While applicable regulations did not impose formal requirements related to instruments falling into the other "buckets" with longer maturities, the Bank of Slovenia did monitor similar liquidity ratios using the additional buckets.

As of 1 January 2018, the national requirement to maintain a liquidity ratio of 1.0 (i.e. the first bucket liquidity ratio) was replaced with the Liquidity Coverage Requirement ("**LCR**"), introduced in 2015 by the Commission Delegated Regulation (EU) 2015/61, which supplements the CRR. Following a phased-in approach, the LCR requirement increased from 60 per cent. on 1 October 2015 to 100 per cent. on 1 January 2018.

The liquidity of the banking system has remained at a satisfactory level since 2014. The national first bucket liquidity ratio stood at 1.65 as at 31 December 2014 and decreased to 1.38 as at 31 December 2017. The LCR requirement, which was fully implemented from 1 January 2018, stood at 311 per cent. on 31 December 2017, and increased to 328 per cent. on 31 December 2018. On 30 September 2019 it stood at 321 per cent.

### **Capital Adequacy**

The regulatory framework for capital adequacy is directly determined by the CRR which entered into force on 1 January 2014 and effectively incorporates in the EU the Basel III framework.

The capital adequacy ratio, which applies to national banks, stood at 18.22 per cent. as at 30 September 2019, which represented an increase of 0.21 percentage points from 31 December 2018 and an increase of 0.04 percentage points from 31 December 2017. The common equity tier 1 capital ratio stood at 17.81 per cent. as at 30 September 2019, which was an increase of 0.08 percentage points from 31 December 2018 and without a change from 31 December 2017. The share of total capital in total assets decreased from 13.26 per cent. at 31 December 2017 to 13.02 per cent. as at 31 December 2018 and increased to 13.07 per cent. as at 30 September 2019. The share of total capital in total assets is calculated as capital in the balance sheet divided by assets in the balance sheet, where the capital in the balance sheet is calculated as the sum of paid-up capital, share premium, equity instruments issued other than capital, accumulated other comprehensive income, other reserves, treasury shares and profit or loss attributable to owners of the parent.

### **Bank of Slovenia Act**

The applicable Bank of Slovenia Act (*Zakon o Banki Slovenije (ZBS-1)*) is fully harmonised and compatible with European legislation, as applicable in EU Member States that have introduced the euro as the official currency. The Bank of Slovenia's rules and regulations are similar to those of the ECB/ESCB.

In its role as the supervisor of the banking system, the Bank of Slovenia is competent and responsible for conducting comprehensive supervision of the banks, including granting authorisations for various banking operations. The Bank of Slovenia is also competent and responsible for the oversight of securities settlement systems on the basis of the Bank of Slovenia Act, while its responsibility is further complemented by the New Market in Financial Instruments Act, which empowers the Bank of Slovenia with the responsibility of conducting oversight of the central securities depository in respect of the systemic risk of the settlement system. The oversight activities are also conducted in co-operation with the Securities Market Agency. The Bank of Slovenia is also responsible for the supervision of exchange offices, payment systems and payment services providers.

In November 2014, the European Single Supervisory Mechanism became effective and an important part of the supervisory responsibilities, which included authorisations of the Bank of Slovenia in the banking area, was transferred to the ECB in accordance with the Single Supervisory Mechanism legal framework.

In 2017, amendments to the Bank of Slovenia Act authorised the Court of Auditors to audit certain activities, such as performance and regularity of the activities, of the Bank of Slovenia. However, these amendments did not authorise the Court of Auditors to audit the activities of the Bank of Slovenia within the ESCB and the SSM. The use of these amendments has been temporarily suspended by the Constitutional Court until its final decision on the constitutionality of these amendments. However, the Bank of Slovenia later withdrew the request for review of the constitutionality of these amendments. Following the withdrawal, the Constitutional Court of the Republic of Slovenia has stopped proceedings relating to the review on 6 November 2018.

## **Banking Regulation**

### **2015 Banking Act**

*Zakon o bančništvu (ZBan-2)* (the "**2015 Banking Act**") entered into force on 13 May 2015. The 2015 Banking Act implemented Directive 2013/36/EU and accounted for Regulation 1024/2013/EU. In addition, the new legislation adjusted supervisory procedures pursuant to the requirements of the Single Supervisory Mechanism and introduced the recovery planning requirements and the early intervention measures of Directive 2014/59/EU. A separate law implementing certain measures of Directive 2014/59/EU entered into force in June 2016. Furthermore, an amendment of the 2015 Banking Act was adopted in July 2017 and entered into force on 29 July 2017. The aim of this amendment was mainly to clarify the obligation on safeguarding of confidential data and thus facilitate the work of a parliamentary commission of inquiry and the National Court of Auditors according to their mandates. On 13 June 2019, the Constitutional Court repealed the provision in the 2015 Banking Act, under which the provisions of Worker Participation in Management Act were not applicable to banks.

### **Act on the Macro Prudential Supervision of the Financial System**

In December 2013, the Act on the Macro Prudential Supervision of the Financial System (*Zakon o makrobonitetnem nadzoru finančnega sistema (ZMbNFS)*) came into force. The main objective of this Act is the establishment of a board (the "**Financial Stability Board**") which will be entrusted with the task of formulating macro prudential policy in the Republic, contribute to safeguarding the stability of the entire financial system, and prevent or reduce the accumulation of systemic risk. The act is designed to facilitate improved macro prudential supervision over financial institutions operating in different segments of the financial system. The established board is constituted of representatives from each national supervisor, including the Bank of Slovenia (*BoS, Banka Slovenije*), the Securities Market Agency (*SMA, Agencija za trg vrednostnih papirjev*) and the Insurance Supervisory Agency (*ISA, Agencija za zavarovalni nadzor*), as well as the Ministry of Finance.

Within the frames of ZMbNFS, the Bank of Slovenia introduced measures in the area of household lending as of 1 November 2019 with the adoption of the Resolution on Macroprudential Limitations of Household Lending by placing caps on (a) the maturity of consumer loans, and (b) the ratio of the annual debt servicing costs to the borrower's net income ("**DSTI**"). The second requirement also applicable to housing loans. The measure is aimed at maintaining financial stability, and pursues the intermediate macroprudential policy objective of "preventing excessive credit growth and excessive borrowing". At the same time it is forecast that by limiting ill-considered and excessive borrowing the measure will also limit or prevent the social pressures that can arise when household borrowing goes too far. It should be remembered that in addition to repaying the principal, consumers are also required to pay interest, which can be relatively high on

consumer loans. The average effective interest rate on consumer loans is 8.2 per cent. on fixed-rate loans and 6.5 per cent. on variable-rate loans. Effective interest rates can even exceed 15 per cent. Apart from shortening the maturity limit from 10 years to 7 years, the measure does not tighten the recommendation for household lending, which has been in force since November 2018.

### **Resolution and Compulsory Winding-Up of Credit Institutions**

The Resolution and Compulsory Winding-Up of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank (ZRPPB)*) entered into force on 25 July 2016. The act implemented the BRRD into the Slovenian legal system. It has introduced a wide scope of instruments for prevention and resolution of future issues regarding unstable or failing banks and other financial institutions. Its final aim is to prevent future needs for another recapitalisation of the banking sector from the state budget. In February 2019, the ZRPPB was amended according to the previously amended BRRD regarding the ranking of unsecured debt instruments in insolvency hierarchy.

### **Central Credit Register Act**

In December 2016, the Central Credit Register Act (*Zakon o centralnem kreditnem registru*) came into force. This Act provides the legal framework governing the establishment and operation of a central credit register and an electronic information exchange system by the Bank of Slovenia. The credit register contains information on the credit transactions of individuals and business entities, as well as information on credit risks and other exposures in relation to business entities. The information exchange system, which forms part of the credit register, is an electronic system for the exchange of data and information relating to the indebtedness of business entities and individuals.

### **The Bank Asset Management Company**

The BAMC, a state-owned asset management company, was established in March 2013 under the "Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability" (*Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB)*), which came into force in December 2012. The BAMC operates in a manner that ensures the efficient use of public funds and the recovery of the public funds engaged in the operation of banks, promoting lending to the non-financial sector, supporting the privatisation of banks and assessing responsibility for bad assets. In accordance with the provisions of the law, the Ministry of Finance prepared a comprehensive implementing act (the "**BAMC Regulation**") which provides the criteria and conditions which banks have to meet in order to qualify for the determination and implementation of particular measures according to the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability.

Pursuant to amendments to the ZUKSB that were adopted in 2015 and came into force in 2016, the BAMC will operate until 2022 with changed operational objectives focusing on the restructuring of companies, with the aim of maximising returns on public funds. The assets remaining under BAMC's management at the end of 2022 will be transferred to either the Slovenian Sovereign Holding (SDH) or other institutions.

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board of Directors. Following the provisions of ZUKSB and the Articles of Association, the Board comprises four non-executive directors and three executive directors. Non-executive directors have the powers equivalent to those of the Supervisory Board according to the law governing commercial companies and do not manage BAMC. They select executive directors, overview operations, decide on strategies and regulations but are not involved in operative decisions (apart from giving/denying consent as members of the Board Credit and Investment Committee).

The members of the Management Board are appointed for a period of five years, but due to the end of the life of BAMC on 31 December 2022, the mandate of all directors will end with later date.

Current non-executive directors are Tomaž Besek, Mitja Križaj, Marko Tišma and Aleksander Lozej. Tomaž Besek, Chairman of the Board of Directors, began his position as non-executive director at the BAMC on 8 December 2018. Mitja Križaj, Deputy Chairman of the Board of Directors, began his position as non-executive director at the BAMC since 28 January 2017. Marko Tišma was appointed to the post of non-executive director on 14 December 2018. Aleksander Lozej took office as non-executive director on 21 June 2019.



Current executive directors are Matej Pirc, Bojan Gantar and Andraž Grum. Matej Pirc took on the role of CEO of BAMC on 29 April 2019, after having served as acting CEO for three months and CFO for one-and-a-half years. Bojan Gantar, responsible for credit and equity operations, took over as BAMC's executive director as of 27 May 2019. Andraž Grum, executive director of BAMC, responsible for business analytics, legal matters, procurement, finance, accounting, controlling and IT, commenced his term on 27 May 2019.

The table below sets out the key performance indexes used by the Republic to monitor the BAMC's performance for the years ending 31 December 2018 to 2022.

	Year ending 31 December				
	2018	2019	2020	2021	2022
	(€ millions, except for percentages)				
<b>Performance index</b>					
Minimal cumulative income.....	877	1,078	1,279	1,480	1,681
Income/transfer value of assets.....	10.0%	10.0%	10.0%	10.0%	10.0%
Economic Return on Equity (EROE).....	8.0%	8.0%	8.0%	8.0%	8.0%
Cost efficiency <sup>(1)</sup> .....	2.0%	2.0%	2.0%	2.0%	2.0%
Cost efficiency No.2 <sup>(2)</sup> .....		2.06%	2.38%	2.56%	3.19%

(1) Costs without direct transaction costs / average value of assets under management.

(2) Costs without direct transaction costs, costs of lawsuits and related costs reservations, other extraordinary expenses and costs of real estate management / average value of assets under management Any footnote text here

### 2013 Stress Tests and Restructuring of Slovenian Banking Sector

In December 2013, the Bank of Slovenia and the Government announced the results of the comprehensive review of the banking sector, which included a system wide asset quality review and stress tests. The purpose of the comprehensive review was to assess, with the help of independent international experts, the robustness of the Slovenian banking system in an adverse macroeconomic scenario, and to determine any capital shortfall that could arise at an individual bank or consequently across the entire banking system in the event of such a scenario being realised.

According to the results of the stress tests, the capital shortfall at the banks covered by the review amounted to €4.779 billion under the adverse scenario.

Due to the requirements of the EU state aid rules, shareholders and subordinated debt holders have to participate in the burden sharing to limit the amount of state recapitalisations to the minimum necessary. In the case of the three biggest banks (NLB, NKBM and Abanka), cancellation of the existing shares in the amount of €335 million and a complete write off of subordinated debt in the amount of €426 million has been performed. In addition, Probanka and Factor banka, which were in the process of winding-down, had their shares cancelled in the amount of €30 million and wrote down subordinated instruments in the total amount of €64 million. Beneficiaries of deposits and non-subordinated debt were excluded from such requirements.

With respect to resolution measures adopted relating to failing banks, the 2006 Banking Act which was then in force contained provisions which denied affected shareholders and subordinated creditors the right to challenge the cancellation of shares and write-offs of subordinated debt instruments (also known as "bail-in") in court, leaving civil claims for damages against the Bank of Slovenia as their only remedy. Nevertheless, certain affected shareholders and subordinated creditors initiated administrative court proceedings, while others directly initiated proceedings at the Constitutional Court, seeking, among other things, the annulment of the decision of the Bank of Slovenia on the bail-in contending a breach of their constitutional rights. The Constitutional Court has referred several questions relating to this case to the Court of Justice of the EU which issued its judgment on 19 July 2016. By a decision dated 19 October 2016, the Constitutional Court confirmed that the challenged provisions are consistent with the Constitution of the Republic, except for the provision relating to the conditions which must be satisfied for successful claims of the persons affected by the bail-in against the Bank of Slovenia, which the Constitutional Court found to be in breach of the Constitution of the Republic and ordered the National Assembly to amend the legislation within six months after the publication of this decision in order to remedy the breach, which the National Assembly did with substantial delay by passing the Act on Judicial Relief Granted to Holders of Qualified Bank Credit (Zakon o postopku sodnega varstva imetnikov kvalificiranih obveznosti bank (ZPSVIKOB), the "Judicial Relief Act") which came into force on 19 December 2019. As the Constitutional Court did not repeal any of the challenged provisions, the Bank of Slovenia's bail-in decisions remain unaffected by such decision of the Constitutional Court.

The amendments to the legislation will result in claims by the affected shareholders and subordinated creditors against the Bank of Slovenia in the future, but not against the banks which benefited from the bail-in. Ten applicants filed applications against the Republic to the European Court of Human Rights in 2014 to 2018 claiming violation of fundamental human rights in the aforementioned bail-in procedures. The applicants claim the violation of the right to property (Article 1 of Protocol No. 1 ECHR) and the right to effective judicial protection (Article 13 of the ECHR). The Republic prepared a statement of facts and sent it to the ECHR on 15 April 2019. The Republic will also make sure that the ECHR is informed of the fact that the Judicial Relief Act came into force which, in the Republic's view, provides an effective remedy to the applicants.

After receiving a formal confirmation of restructuring plans from European Commission and accepting state aid commitments, the Government provided the requisite funds to NLB and NKBM in December 2013. After completing the recapitalisations, NLB and NKBM had overall capital adequacy ratios of approximately 15 per cent. On the basis of the EC confirmation, both banks transferred to the BAMC their mostly non-performing loans. To finance the purchase of the non-performing loans, the BAMC issued bonds.

The privatisation of NLB and NKBM was set to follow the completion of the recapitalisation and transfer of assets to the BAMC. On 30 June 2015, the Republic entered into a contract to sell the Government's entire interest in NKBM to Apollo Global Management and the European Bank for Reconstruction and Development. The transaction was completed on 21 April 2016. In the case of NLB, the Republic had previously committed to the European Commission to reduce its shareholding in NLB to not more than 25 per cent. plus 1 share by selling at least 50 per cent. of NLB's shares by the end of 2017 and the remainder of its shares by the end of 2018. However, as a result of the negative impact on the price of NLB caused by the ongoing dispute relating to foreign currency deposits in Croatia, the Republic made a formal request to the European Commission in December 2017 to amend its commitment and proposed to extend the deadline for selling its share in NLB. In November 2018, Slovenian Sovereign Holding sold 59.1 per cent. of the NLB in an initial public offering of NLB on behalf of the Republic for €608.6 million, thereby implementing the Republic's commitment to privatise the majority of NLB by the end of 2018. On 19 June 2019, the remaining part of the shares held by the Republic exceeding 25 per cent. plus one share, were sold by way of an accelerated bookbuild. Accordingly, the Republic has satisfied its set of commitments to the European Commission with regard to the privatisation of NLB that resulted from the state aid provided to NLB in 2013 (as amended in 2018). By way of this transaction combined with the sale of 59.1 per cent. of the NLB in 2018, international institutional investors have entered the ownership structure of NLB, giving NLB a good basis for ensuring its competitiveness and its further development in the future. In December 2013, the European Commission also approved a partial recapitalisation of Abanka. Afterwards, a restructuring plan of Abanka was formulated, and submitted to the European Commission and in August 2014, the European Commission confirmed that the restructuring plan was consistent with the rules of state aid. The remainder of the recapitalisation and the transfer of non-performing loans to the BAMC were carried out in early autumn 2014.

The stress tests conducted in 2013 indicated that UniCredit Banka Slovenija d.d. ("UniCredit Banka Slovenija"), Banka Celje, Hypo Alpe-Adria-Bank d.d. ("Hypo Alpe Adria Bank"), Raiffeisen banka d.d. ("Raiffeisen banka") and Gorenjska banka d.d., Kranj ("Gorenjska banka") could face a shortfall in available capital by the end of 2015. These banks were mandated by the Bank of Slovenia to strengthen their capital adequacy by increasing their income, achieving better loan recovery, redeeming collateral on non-performing loans, selling claims, transferring investments to companies in the same group, undergoing a capital increase, finding new investors and taking other measures. Additionally, the Government indicated that, should the capital shortfall not be sufficiently covered by the end of 2014, then, in accordance with the applicable rules relating to state aid, it would provide a backstop mechanism for the banks. Based on an assessment by the Bank of Slovenia, the Government concluded that Banka Celje was unlikely to strengthen its capital adequacy through private funding alone. Banka Celje failed to attract private capital and consequently the government decided that Banka Celje was eligible for state aid in the form of recapitalisation and the transfer of its bad assets to the BAMC. Other banks have ensured capital adequacy by internal measures.

As part of the state aid process for Abanka, the Republic committed to carry out a merger of Abanka and Banka Celje after acquiring a majority stake in Banka Celje, and submitted a restructuring plan to the European Commission in October 2014, which served as the basis for the state aid decision on Banka Celje. Consequently, an authorisation of state aid for Banka Celje in the form of recapitalisation and the transfer of bad assets to the BAMC was granted in December 2014. In October 2015, Abanka and Banka Celje

completed the merger. On 19 June 2019, the Supervisory Board of Slovenian Sovereign Holding gave its consent to enter into the Agreement for the Sale and Purchase of 100 per cent. shares of the Republic of Slovenia in Abanka d. d. with the best bidder being NKBM. NKBM was privatised in 2015 and is owned by Apollo Global Management and the European Bank for Reconstruction and Development.

### **2014 Stress Tests**

On 26 October 2014, the ECB and European Banking Authority published their 2014 EU-wide stress test results. The comprehensive assessment included three main elements: a supervisory risk assessment, stress tests, and a combination of an asset quality review and stress tests. The assessment focused on the three largest banks per EU Member State as measured by total assets as at 30 September 2013, covering 130 systemically important European banks, including three Slovenian banks, NLB, NKBM and SID banka. According to the results, none of the Slovenian banks was expected to show a capital shortfall at the end of 2016 under the baseline scenario of the stress test. The total capital surplus of the three banks under the baseline scenario amounted to €755 million. While NLB and NKBM would have a minor, combined capital shortfall of €65 million under an adverse scenario, SID banka would have a capital surplus under the same scenario. The restructuring of the banks with capital shortfalls improved their profitability in 2014 to the extent that such shortfalls were covered by retained profits.

### **Ongoing EU-wide Stress Tests**

Every two years, most recently in 2018, the European Banking Authority conducts pan-European stress tests on banks. In the interim of 2019, the European Central Bank, within the framework of the Single Supervisory Mechanism and in line with the already established practice, decided to carry out targeted stress tests, which this year focused on liquidity risk. Slovenian banks under the direct supervision of the ECB were also involved in the exercise and the Bank of Slovenia conducted stress tests under the model of the ECB for the less important Slovenian banks and majority foreign-owned subsidiaries. The findings of these tests was that, at the system level, banks displayed a good liquidity position, mainly due to the high level of secondary liquidity.

### **Legislative Amendments**

On 18 December 2015, the National Assembly amended the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability. The amendments extended the BAMC's mandate from 2017 to 2022 and changed its operational objectives to focus on the restructuring of companies, with the aim of maximising returns on public funds.

As at 30 June 2016, Slovenia fully implemented all of the EU directives related to the establishment of the Banking Union, including the Directive on Deposit Guarantee Schemes and the Bank Recovery and Resolution Directive.

### **Bank Deposit Guarantee Scheme**

The requirements of Directive 2014/49/EU on deposit guarantee schemes ("**DGSD**") came into force in April 2016, with the introduction of the deposit guarantee scheme act (Zakon o sistemu jamstva za vloge (ZSJV), the "Deposit Guarantee Act").

Since the end of 2010, deposits placed in credit institutions in Slovenia are protected to the maximum limit of €100,000. The guarantee covers the sum or total balance of all the deposits of individual depositors that are eligible for the guarantee based on the law. Payouts under the deposit insurance scheme are triggered when an institution is placed into bankruptcy. The Bank of Slovenia cannot place an insolvent institution into bankruptcy, though the competent court is mandated to do so solely at the proposal of the Bank of Slovenia.

In the event of bankruptcy proceedings being initiated against a bank or savings institution, the guaranteed deposits are to be paid out to depositors within 15 working days (in 10 working days from January 2021 and in 7 working days from January 2024). Guaranteed deposits in foreign currencies are to be paid out in euros after conversion at the exchange rate published by the Bank of Slovenia for the day that bankruptcy proceedings are initiated. The Bank of Slovenia, with the co-operation of the deposit guarantee scheme members, has defined the operational aspects of the deposit guarantee scheme. The deposit guarantee scheme makes payments for guaranteed deposits through a designated repayment bank which has

contractually defined obligations regarding the preparedness for potential payouts and is regularly tested for efficiency.

All banks and savings institutions registered in the Republic of Slovenia contribute to the deposit guarantee scheme. The deposit protection scheme is funded with "ex ante" financing. The target size of the deposit guarantee fund is a minimum 0.8 per cent. of covered deposits to be reached by 2024, with the possibility to collect extraordinary contributions in one year of up to 1.0 per cent. of total covered deposits. As at 30 June 2019, the size of the deposit guarantee fund was € 73.7 million. The Deposit Guarantee Act provides for an explicit Government funding backstop for financing the part of the payout which would not be paid in by the banks, members of the deposit guarantee scheme, temporarily and under additional conditions to be agreed in a specific case.

The Bank of Slovenia is a member of the European Forum of Deposit Insurers, sharing and introducing best practice solutions.

### **Prudential Standards**

The Slovenian prudential standards for banking supervision are comprised principally of the 2015 Banking Act and attendant defining regulations as well as directly applicable European legislation. Other legislation of importance includes the Companies Act (*Zakon o gospodarskih družbah (ZGD-1)*), the Conglomerates Act (*Zakon o finančnih konglomeratih (ZFK)*) and the Audit Act (*Zakon o revidiranju (ZRev-2)*), each of which contains provisions that round out and provide a comprehensive regulatory and supervisory structure.

All prudential standards for banking regulation and supervision are based on international standards in accordance with EU Directives (i.e. CRD) from 2007. In this manner, the entire Basel II regimen has been introduced into the Slovenian legal framework. Thus, the Bank of Slovenia has established minimum capital requirements and has the capacity to require additional capital as warranted. Regulations transposing Basel III into EU legislation, the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms CRR entered into force on 1 January 2014. This regulation is directly applicable to EU Member States and represents a prudential regulatory framework including all prudential rules for credit institutions and investment firms. The CRR is being supplemented with regulatory and implementing technical standards developed by the EBA as well as EBA guidelines and recommendations. CRD IV has been implemented by the 2015 Banking Act.

To implement prudential requirements, the Bank of Slovenia employs defining regulations on specific areas, ranging from risk management practices to governance issues. By implementing EBA guidelines and recommendations as well as ECB guidance on different policy issues, it ensures it is adapting Slovenian regulatory rules to the highest European standards. The Bank of Slovenia has implemented a risk based approach to supervision. This includes a robust supervisory approach featuring a strong International Capital Adequacy Assessment Process and the Supervisory Review and Evaluation Process programme and Risk Assessment System methodology. There is an extensive set of reporting requirements for banks (EU Common Reporting Framework) that provides a wide range of data and risk management information, both on a consolidated and unconsolidated basis. The information is used in the supervision process to evaluate risk and for other objectives.

### **Large Exposures**

Banks are required to identify, quantify, control and monitor their exposure towards their single borrowers and groups of connected borrowers (borrowers linked so closely that it is prudent to treat them as a single risk and respectively as a single counterparty).

Rules regarding limits on exposures derive from the CRR. A bank's exposure towards one borrower or a group of connected borrowers is considered large if it is equal to or exceeds 10 per cent. of the bank's eligible capital. As a general rule, exposure to a borrower or a group of connected borrowers shall not exceed 25 per cent. of the bank's eligible capital. An exception to this limit applies to exposures to institutions (as required by the CRR). According to it, the bank's exposure to an institution or group of connected borrowers which includes one or more institutions shall not exceed the higher of 25 per cent. of the bank's eligible capital or €100 million, under the condition that the sum of exposures to all connected borrowers in the group which are not institutions does not exceed 25 per cent. of the bank's eligible capital. Where the amount of €100 million is higher than 25 per cent. of the bank's eligible capital, exposure

exceeding 25 per cent. of the bank's eligible capital may not exceed 100 per cent. of the bank's eligible capital.

Banks are also required to comply with the limits regarding large exposures at the individual and consolidated levels. As part of the monitoring process of large exposures, banks are obliged to prepare reports on large exposures on a quarterly basis and submit them to the Bank of Slovenia.

### **Liquidity**

The liquidity risk framework comprises qualitative as well as quantitative requirements. The quantitative requirements include daily bank reporting of liquidity ratios, including both the first-bucket and second-bucket liquidity ratios. The requirement of prescribed first-bucket liquidity ratio is similar to the LCR . It is calculated by comparing financial assets to liabilities over a 30-day period and the required ratio is at least one-to-one. The second-bucket liquidity ratio is for informational purposes only and has no specifically required value.

From 28 June 2021 onwards, with the entering into force of the *Regulation (EU) 2019/876 of the European parliament and the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (CRR2)*, the banks will be required, together with the LCR requirement at a rate of 100 per cent, to meet also the NSFR requirement at a rate of 100 per cent.

Additionally, banks are required to regularly submit to the Bank of Slovenia additional liquidity metrics and funding plans as set out in relevant EU legislation (CRR, Commission Implementing Regulation (EU) 2016/313 with regard to additional liquidity monitoring metrics for liquidity reporting, EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions under recommendation A4 of ESRB/2012/2).

### **Payment Services and Systems**

The Republic has transposed the provisions of the Directive 2366/2015 of the European Parliament and of the Council of 25 November 2015 on the payment services, repealing Directive 2007/64/EC ("**PSD2**"), into Slovenian legislation by adopting the Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih, ZPlaSSIED*), the "**PSSIEM Act**", which entered into force on 22 February 2018. Banka Slovenije, as a competent authority under the PSSIEM Act, complies also with all EBA guidelines issued under the PSD2 mandate.

The PSSIEM Act provides a comprehensive legal framework governing the provision of payment services, the issuance of electronic money, prudential requirements for payment institutions and electronic money institutions, resolution of disputes relating to provision of payment services or issuance and use of electronic money, as well as the terms and conditions for the operation of payment systems and supervision of the payment system operators. In addition to incorporating Directive 2366/2015 into the Republic's legislation, the PSSIEM Act also implements (i) Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims (partially), (ii) Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of electronic money institutions and (iii) Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. The PSSIEM Act is fully harmonised with EU law.

### **The Insurance Supervisory Agency**

The ISA became operational in June 2000 when the Government appointed the Council of Experts (*strokovni svet*) and the director of the ISA. The objectives of the central supervisory institution in the insurance area are mitigating and eliminating irregularities in insurance; protecting policyholders' interests; and facilitating the functioning of the insurance industry, which in turn has a positive impact on the entire economy. The ISA is a legal entity and is independent in implementing its tasks and responsibilities. It is accountable to the National Assembly; however, it has its own rules of procedure stipulating in detail its

internal organisation and operation. The annual accounts and the financial plan of the ISA are approved by the Minister of Finance, while the control of regularity, effectiveness, economy and efficiency of use of the ISA's funds is performed by the Court of Auditors. The bodies of the ISA are the Council of Experts and the Director of the ISA. The members of the Council of Experts and the Director of the ISA are appointed and dismissed by the National Assembly on proposition by the Government. The members of the Council of Experts and the Director of the ISA are appointed for a period of six years and may be reappointed.

The ISA's responsibility for supervising the insurance market is currently based on the provisions of the Insurance Act (*Zakon o zavarovalništvu (ZZavar-1)*, the "**Insurance Act**"), which came into force on 1 January 2016 with important amendment (*ZZavar-1A*) among others implementing the Directive (EU) 2016/97 (IDD) as of 26 February 2019. The ISA's main responsibilities include supervising insurance undertakings, pension companies, insurance agencies, insurance brokerage companies, and insurance agents and brokers. In addition, the ISA is responsible for preparing and implementing regulations that align with the Insurance Act.

The ISA co-operates with international insurance and pension authorities, such as the European Insurance and Occupational Pensions Authority and the International Association of Insurance Supervisors, as well as with other supervisory authorities that deal with Slovenian entities which fall under the purview of the ISA.

### **The Securities Market Agency**

The Securities Market Agency is a legal entity in charge of supervising the market in financial instruments. It was founded in 1994. Its tasks and competencies are defined by the Market in Financial Instruments Act (*Zakon o trgu finančnih instrumentov (ZTFI)*), the New Market in Financial Instruments Act (*Zakon o trgu finančnih instrumentov (ZTFI-1)*) and other applicable legislation. The Securities Market Agency is independent in implementing its tasks and responsibilities. It is financed from levies and fees paid by the participants in the financial instruments market.

The Securities Market Agency's international co-operation includes activities within associations of securities market regulators, such as the International Organisation of Securities Commissions and the European Securities and Markets Authority ("ESMA"), as well as co-operation with other organisations and competent authorities.

Since 2009, the role and the performance of the Securities Market Agency has been strengthened due to the strengthened role of the ESMA. The Securities Market Agency issues authorisations and approvals, conducts supervision and exercises its other powers and responsibilities set out by the New Market in Financial Instruments Act, the Investment Funds and Management Companies Act (*Zakon o investicijskih skladih in družbah za upravljanje (ZISDU-3)*), the Alternative Investment Fund Managers Act (*Zakon o upravljavcih alternativnih investicijskih skladov (ZUAIS)*), the Takeovers Act (*Zakon o prevzemih (ZPre-1)*) and the Book Entry Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*).

### **Relevant Securities Acts**

#### **The New Market in Financial Instruments Act**

The New Market in Financial Instruments Act (*Zakon o trgu finančnih instrumentov (ZTFI-1)*) came into effect on 15 December 2018, providing for the implementation of the EU Directive 2014/65/EU (MiFID II). With ZTFI-1, all major EU securities market directives are transposed into the Slovenian legislation. The Securities Market Agency in May and June 2019 issued a package of secondary legislation on the basis of the ZTFI-1. The previous Market in Financial Instruments Act (ZTFI) remains applicable with respect to the organisation and certain competencies of the Securities Market Agency.

ZTFI-1 establishes regulations for the offering of securities to the public and the admission of securities to trade in a regulated market. It also establishes regulations concerning disclosure of information related to the securities admitted to trade on a regulated market as well as the terms and conditions for founding, operating, supervising and winding up investment firms, market operators and settlement systems with a registered office in the Republic. ZTFI-1 also provides the terms and conditions under which persons with a registered office outside the Republic of Slovenia may provide investment services in Slovenia and the rules of trading on regulated markets. It also outlines prohibited acts of market abuse and the rules for settling transactions. Furthermore, it introduces obligatory pre- and post-trade transparency requirements for trades in listed shares.

The ZTFI-1, and the previous Market in Financial Instruments Act (ZTFI), also require the Securities Market Agency to co-operate and share relevant information with the ESMA and competent authorities from other EU Member States.

In November 2019 the Act Amending the Market in Financial Instruments Act (*Zakon o spremembah in dopolnitvah Zakona o trgu finančnih instrumentov (ZTFI-1A)*) was published in Official Journal of the Republic of Slovenia. The changes of the ZTFI-1 repealed previously applicable provisions which implemented the Prospectus Directive, which corresponds to coming into force of the directly applicable Regulation 2017/1129/EC (*Prospectus Regulation*) on 21 July 2019.

### **2015 Book Entry Securities Act**

The first Book Entry Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP)*, the "**1999 Book Entry Securities Act**") was adopted in 1999. It established regulations on the method of issuing and transferring book entry securities, the method of exchanging already issued securities for securities issued in book entry form, conditions and restrictions of access to information on holders of book entry securities, as well as the rules for keeping a central register of book entry securities.

The Book Entry Securities Act was replaced with a new Book Entry Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*, the "**2015 Book Entry Securities Act**"), which came into force on 23 October 2015 and was amended in January 2017 and June 2019. The 2015 Book Entries Securities Act aims to harmonise Slovenian legislation with the requirements of T2S and Regulation 909/2014/EU on improving securities settlement in the EU and on central securities depositories.

### **Investment Funds and Management Companies Act**

The current Investment Funds and Management Companies Act (*Zakon o investicijskih skladih in družbah za upravljanje (ZISDU-3)*, the "**Investment Funds and Management Companies Act**") implemented provisions of Directive 2009/65/EC on the coordination of laws, regulations as well as administrative provisions relating to undertakings for collective investment in transferable securities ("**UCITS**") and Directive 2013/14/EU regarding amendments of Directive 2009/65/EC in respect of over-reliance on credit ratings issued by credit rating agencies. The Investment Funds and Management Companies Act also implements Article 43 of the Directive 2011/61/EU relating to the marketing of alternative investment funds ("**AIFMs**") to retail investors. The Act was amended most recently in 2016 in order to implement Directive 2014/91/EU relating to depositary functions, remuneration policies and sanctions.

### **The Alternative Investment Fund Managers Act**

The Alternative Investment Fund Managers Act (*Zakon o upravljavcih alternativnih investicijskih skladov (ZUAIS)*, the "**Alternative Investment Fund Managers Act**"), adopted in 2015, implemented the Directive 2011/61/EU on alternative Investment Fund Managers, which aims at establishing common requirements governing the authorisation and supervision of alternative investment fund managers in order to provide a coherent approach to the related risks and their impact on investors and markets in the European Union. The Alternative Investment Fund Managers Act also implemented provisions of Directive 2013/14/EU regarding amendments of Directive 2011/61/EU in respect of over-reliance on credit ratings issued by credit rating agencies.

### **Clearing and Settlement – KDD**

In the Republic, the Centralna klirinško depotna družba, d.d. (the "**KDD**") is the only available local clearing and settlement service. However, KDD has established links with Clearstream, Luxembourg and Euroclear which allow interests in securities to be held through fiduciary accounts of Euroclear and Clearstream, Luxembourg with KDD. The New Market in Financial Instruments Act provides that a clearing and settlement company should adopt its own rules of operation in which it defines in detail its operation including the process of admitting securities into the system, the rules relating to settlement of stock exchange transactions and takeover bids, including types of transfers between securities accounts. The rules become effective as soon as they have received approval from the Securities Market Agency.

## The Ljubljana Stock Exchange

Ljubljanska borza, d.d., Ljubljana (the "**Ljubljana Stock Exchange**") is the sole securities exchange in the Republic. Trading is conducted in compliance with the Ljubljana Stock Exchange's articles of association, rules and instructions as well as other applicable laws.

The following table sets out data regarding the Slovenian stock market for the years ended 31 December 2016 to 2018:

	As at and year ended 31 December		
	2016	2017	2018
	(€ billions, except for percentages)		
Market capitalisation .....	26.11	29.66	33.37
Share of market capitalisation in GDP (%).....	65.3%	62.4%	72.6%
SBI TOP (the Slovenian blue-chip index) .....	717.59	806.52	805.06
Number of financial instruments .....	92	79	58
Shares.....	47	39	22
Bonds .....	45	40	36
Turnover.....	0.33	0.35	0.34
Share of turnover in GDP (%).....	0.83%	0.74%	0.73%
Share turnover ratio .....	0.062	0.063	0.052
Bond turnover ratio .....	0.001	0.0004	0.0004

Source: *Ljubljana Stock Exchange*.

The number of long term financial instruments traded on the Ljubljana Stock Exchange decreased from 92 in 2016 to 58 in 2018.

Trading in financial instruments on the Ljubljana Stock Exchange was €337 million in 2018 which is approximately 3 per cent. more than in 2016. In 2018, the Slovenian blue chip stock index SBI TOP lost negligible value in nominal terms compared to 2017, equalling 805.06 points.

The share turnover ratio, calculated as the ratio of annual volume to market capitalisation at the end of the respective period, was 0.062 in 2016 and decreased to 0.052 in 2018. The bond turnover ratio decreased to 0.0004 in 2018 from 0.001 in 2016.

Market capitalisation of financial instruments on the Ljubljana Stock Exchange amounted to €33.37 billion at the end of 2018 (Investment Funds excluded), which is an increase compared to €26.11 billion in December 2016.

The following table sets out the volume of trading in financial instruments on the regulated market for the years ended 31 December 2016 to 2018:

	Year ended 31 December		
	2016	2017	2018
	(€ billions)		
Shares.....	0.31	0.34	0.34
Bonds .....	0.02	0.01	0.01
Investment Funds .....	0.00	0.00	0.00
Pension coupons.....	—	—	—
Long term financial instruments.....	0.33	0.35	0.35
Short-term financial instruments .....	0.00	0.00	0.00
<b>Total .....</b>	<b>0.33</b>	<b>0.35</b>	<b>0.35</b>

Source: *Ljubljana Stock Exchange*.

The volume of trading in financial instruments on the regulated market has increased by 6 per cent. in the last three years. The volume of trading in shares of companies was up by 9.7 per cent. in 2018 compared to 2016, while the volume of trading in bonds decreased by 50 per cent.



The following table sets out the market capitalisation of financial instruments on the Ljubljana Stock Exchange for the years ended 31 December 2016 to 2018:

	Year ended 31 December					
	2016		2017		2018	
	(€ millions)	(Share (%))	(€ millions)	(Share (%))	(€ millions)	(Share (%))
Share market.....	4,999.84	19.14	5,273.89	17.78	6,348.76	19.03
First listing.....	4,563.06	17.47	4,791.55	16.15	5,668.00	17.00
Standard listing.....	118.82	0.45	117.85	0.40	680.76	2.04
Entry market.....	317.96	1.22	364.49	1.23	—	—
Bond market.....	21,117.22	80.86	24,386.82	82.22	27,016.89	80.97
IC share market.....	—	—	—	—	—	—
<b>Total.....</b>	<b>26,117.07</b>	<b>100.00</b>	<b>29,660.70</b>	<b>100</b>	<b>33,365.64</b>	<b>100</b>

Source: Ljubljana Stock Exchange.

Market capitalisation of financial instruments on the Ljubljana Stock Exchange (including Investment Funds), calculated as the price of a financial instrument multiplied by the number of listed financial instruments, amounted to €33.37 billion at the end of 2018, which is 27.8 per cent. more than in December 2016, when the figure was approximately €26.12 billion. Total market capitalisation of all shares on the stock exchange stood at €6.3 billion at the end of December 2018, which was 27 per cent. more than at the end of December 2016. Total market capitalisation of bonds stood at €27.0 billion at the end of December 2018, up 27.9 per cent. from 2016, when it amounted to €21.12 billion.

## CLEARING AND SETTLEMENT

The Notes will be issued in accordance with the provisions of the Dematerialised Securities Act as entries within the central register (the "**Central Register**") maintained by KDD.

KDD was established to provide central securities register services, clearing and settlement of securities transactions and maintenance of the Central Register of dematerialised securities (and their holders) in the Republic of Slovenia. Currently KDD's legal status and operation is regulated by the Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 and the New Market in Financial Instruments Act.

The Notes will be issued in accordance with a written request (the "**Registration Order**") by the Republic to KDD to enter the Notes into the Central Register and credit them to the accounts of the person(s) specified in the Registration Order. The person to whose account a Note is credited in the Central Register will be considered as the holder of such a Note.

The Notes will be transferable between accounts held with KDD by registration of such transfers in the Central Register in accordance with the applicable KDD Operations Rules and Regulations. For the purpose of transfers, a Noteholder shall maintain a trading account operated by a KDD member (a stockbroker or a bank). KDD Operations Rules and Regulations and a list of KDD members are available on the website of KDD at [www.kdd.si](http://www.kdd.si) (the contents of such website do not form part of, nor are they incorporated in, this Offering Circular).

Transfers of the Notes between accounts held with KDD require an instruction for delivery as well as an instruction for receipt to be submitted to KDD by the respective KDD members operating the transferor's and transferee's account. If adequate, the instructions are matched and constitute a transfer order. Specific provisions apply to transfers of the Notes effected within the corporate actions (as defined by the KDD Operating Rules) and transfers of the Notes effected within settlements of the Ljubljana Stock Exchange trades.

Transfers of the Notes between accounts held with KDD will be subject to corresponding transfers being effectuated in Eurosystem's single platform for securities settlement (Target2-Securities). From 6 February 2017 onwards, KDD Operations Rules and Regulations have thus been aligned with the common legal and operational framework applicable for the Target2-Securities settlement platform.

KDD has established links with Clearstream, Luxembourg and Euroclear, which allow interests in the Notes to be held through fiduciary accounts of Euroclear and Clearstream, Luxembourg with KDD.

Accountholders with Euroclear or Clearstream, Luxembourg will not be considered as the legal owners of such Notes under Slovenian law.

Notwithstanding the foregoing, Accountholders are entitled to make a direct claim against the Republic for payments under the Notes subject to the provisions set out within the "*Terms and Conditions of the Notes – Payments*". In order for such persons to enforce any other rights (other than payment) conferred to Noteholders, such persons should look to the standard terms of business of Euroclear or Clearstream, Luxembourg (as applicable) with respect to indirect enforcement of their rights.

### **EUROPEAN CENTRAL BANK ELIGIBILITY**

KDD is an approved Central Securities Depository. The "bridge" between KDD and Clearstream, Luxembourg and the "bridge" between KDD and Euroclear are both eligible direct links for European Central Bank collateral purposes. See the website of the ECB ([www.ecb.int](http://www.ecb.int)) for further information. The contents of such website do not form part of, nor shall they be incorporated in this Offering Circular.

## SLOVENIAN TAXATION

The following is a general description of certain Slovenian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes and any other person that may become entitled to receive (directly or indirectly) any payment in respect of the Notes, should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Slovenia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

### Corporate Investors

Interest on the Notes received and/or capital gains earned on the sale or disposition of the Notes, in each case by:

- (A) a legal person resident for taxation purposes in the Republic of Slovenia; or
- (B) a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia,

is subject to Slovenian Corporate Income Tax (*davek od dohodkov pravnih oseb*) as a part of the overall income of such legal person resident for taxation purposes in the Republic of Slovenia, or, as the case may be, a permanent establishment in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia.

Interest on the Notes received by a legal person not resident for taxation purposes in Slovenia and not having a permanent establishment in Slovenia is not subject to Slovenian Corporate Income Tax.

No withholding tax is levied on payments under the Notes to legal persons regardless of their residence for taxation purposes.

### Individuals

The amounts of interest on the Notes received by an individual resident for taxation purposes in Slovenia are generally subject to Slovenian Personal Income Tax (*dohodnina*) at the rate of 27.5 per cent. There is no withholding tax on such interest; instead, residents are obliged to submit a return declaring such interest by 28 February in each calendar year for interest received in the previous calendar year. Such tax is the final tax imposed by Slovenia on interest derived by residents from the Notes.

An individual who is not resident for taxation purposes in Slovenia is fully exempt from Slovenian tax on interest derived from the Notes.

Individuals are not liable to Slovenian Personal Income Tax on capital gains resulting from disposals of the Notes.

**Any persons who are in doubt as to tax applicable to the Notes or any tax or stamp duty which may be applicable to the transfer or disposition of the Notes are advised to consult their professional advisers in connection therewith.**

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a subscription agreement dated 10 January 2020 (the "**Subscription Agreement**") and entered into between the Republic and the Joint Lead Managers, jointly and severally agreed with the Republic to subscribe and pay or procure the subscription and payment for the Notes pursuant to the Subscription Agreement, all on the terms set forth therein.

The Republic has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment of the net subscription monies for the Notes to the Republic.

In connection with the Notes, certain Joint Lead Managers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, certain Joint Lead Managers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Republic at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes (notwithstanding that such selected counterparties may also be purchasers of the Notes).

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Republic, including the Notes themselves. Certain of the Joint Lead Managers or their respective affiliates that have a lending relationship with the Republic routinely hedge their credit exposure to the Republic consistent with their customary risk management policies. Typically, such Joint Lead Managers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Republic's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of the Commonwealth of Australia (the "**Corporations Act**")) in relation to the Notes has been, or will be, lodged with the Australian Securities & Investments Commission ("**ASIC**") or any other regulatory authority in the Commonwealth of Australia.

Each Joint Lead Manager has represented and agreed that it:

- (a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Notes in, to or from Australia (including an offer or invitation which is received by a person in the Commonwealth of Australia); and
- (b) has not distributed or published, and will not distribute or publish, any preliminary or definitive offering circular, advertisement or other offering material relating to the Notes or any sale of the Notes in Australia,

unless (1) the aggregate consideration payable by each offeree or invitee is at least AUD500,000 (or equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act, (2) such action complies with all applicable laws, regulations and directives, (3) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act, and (4) such action does not require any document to be lodged with ASIC or any other regulatory authority in the Commonwealth of Australia.

## **Republic of Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. Each Joint Lead Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

## **United States**

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it will only offer and sell the Notes outside the United States in accordance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

## **United Kingdom**

Each Joint Lead Manager has represented, warranted and undertaken that

- (a) it has only communicated, or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## **General**

Neither the Republic nor any Joint Lead Manager has made any representation that any action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular, or any other offering material relating to the Notes or any supplement, in any country or jurisdiction where action for that purpose is required. Further neither the Republic nor the Joint Lead Managers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating the same.

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Offering Circular or any other offering material relating to the Notes including any supplement thereto, in all cases at their own expense. Persons into whose hands this Offering Circular is distributed are required by the Republic and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

1. The issue of the Notes has been duly authorised pursuant to the first paragraph of Article 84 of the Public Finance Act and the first and third paragraphs of Article 48 of the Republic of Slovenia Budgets for 2020 and 2021 Implementation Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti 2020 in 2021 (ZIPRS2021)*).
2. Application has been made for the Notes to be listed on the bond market and traded on the EEA Regulated Market of the Ljubljana Stock Exchange pursuant to the rules and regulations of the Ljubljana Stock Exchange.
3. The Notes will be issued in dematerialised registered form and held with KDD. The Common Code for the Notes is 210136746. The ISIN for the Notes is SI0002103966. Links between KDD and Euroclear and Clearstream, Luxembourg have been established which allow interests in the Notes to be held indirectly through the fiduciary accounts of Euroclear and of Clearstream, Luxembourg with KDD.

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