Slovenia

After a very strong growth in 2021 (+8.1%) and in 2022 (+2.5%) the GDP growth rate in 2023 moderated to 1.6%, which was still significantly above the 2023 growth rate both in the Euro area (+0.4%) and EU (+0.4%). Growth which was accelerated in the last quarter of the year was driven by strong domestic demand, including construction investments, while additionally net exports were also a strong growth contributor, which was reflected in current account balance surplus of 4.4% of GDP, as the imports fell faster than exports. The situation in the export sectors of the economy started to improve towards the end of 2023 but remained below 2022 levels.

Additionally, the rebound of GDP growth was also boosted by the reconstruction activities after devastating floods which affected several Slovenian regions and caused substantial damage to property and infrastructure. Also, the effect of high energy prices, which had the biggest impact on energy-intensive industries in 2022, have receded somewhat in 2023 and it had a beneficial effect for economic activity.

Labor market in Slovenia remained tight and unemployment rate decreased to 3.7% in 2023 and is expected to remain stable around this figure. Expectedly, wages have increased by 12% in 2023 and are anticipated to continue to grow in 2024, although at much slower pace. Inflation dropped to 7.6% in 2023 after a record level of 8.8% in 2022 and is forecasted to further decline in 2024. The fiscal position of the country remained stable despite the fiscal measures that were activated to mitigate the impact of elevated energy prices and despite the extraordinary expenditures for reconstruction after the floods which amounted to 0.4% of GDP. So, the general government deficit stood at 2.5% of GDP and government debt-to-GDP ratio at 69.2% in 2023.

As of year-end 2023 there were 9 commercial banks, 1 development and export bank (100% owned by the Republic of Slovenia), 3 savings banks and 2 branches of foreign banks operating in Slovenian banking sector. Total assets of the banking system increased by 5% in 2023 and reached €53.1 billion at the end of the year, which was equivalent to 83% of GDP. In February 2023, the OTP Bank Nyrt. (Hungary) took ownership of NKBM d.d., which was the second largest bank in the market at the time and, alongside SKB d.d., became the second bank owned by the OTP Group in Slovenian banking market. As a consequence, the merger process between the two banks was also launched, which foreshadowed the emergence of a second largest bank on the market, which together with NLB d.d. would represent a market share of around 60% as measured by total assets. The successful completion of this transaction would also bring to an end the process of bank consolidation in the post-2013 period, when the state had to carry out the rehabilitation of the country's largest banks, with a commitment to privatization and consolidation of the market.

In year 2023 banks were benefiting from the reversal in the monetary policy of the ECB and adjusted their lending rates upwards, while at the same time there was no significant monetary policy trans-mission in deposit rates, as the bulk of the deposits remained on demand and there was only a limited adjustment to interest rates on time deposits. On the other side, average interest rates on loans to households rose to 4.0% for housing loans and 6.8% for consumer loans, respectively. The interest rate dynamics together with a weak demand for credit on the side of corporate borrowers due to global economic development as well as geopolitical

uncertainties, also contributed to negative growth of loans (-4.9% annually) to non-financial corporations, while the total demand of households for credit was kept at +3.4. Decelerated credit activity of banks in 2023 reflected also lacking investment opportunities in Slovenian corporate sector since there have been signs of deteriorated competitiveness as a result of unfavorable tax burden and declining productivity. Despite that the reports of Bank of Slovenia show that credit risk exposures in banking sector were kept at a moderate level. At the same time banks increased substantially their holdings of liquid assets (+22.2%) and investments in securities (+12.1%), especially investments in debt securities (+23.7%) in year 2023.

A heavy reliance of banks on the deposits, as a major source of funding, continued in 2023, with non-banking deposits representing 77.4% of total liabilities, although their rate of growth decelerated in 2023 and ended up at +3.3% annually. In the total volume of households' deposits with its 49.9% share in total liabilities represented the largest portion of deposits and have increased by 2,8% in 2023.

Profitability of the banks in Slovenian banking sector, as measured by ROE, improved from 10.8% in 2022 to a record level of 20.6% in 2023, as a result of a favorable interest rated dynamics and beneficial cost-effective structure of deposits and especially related to very high excess liquidity position and deposits with central bank now bearing a positive interest rate. Net interest income almost doubled in 2023 as compared to 2022 and the net interest margin reached the level of 2.95% at the end of the year, while non-interest income decelerated by -5.6% in 2023 and thus bringing the net non-interest margin down to 1.05% only.

Banks' high profitability also allows them to maintain and improve capital adequacy and therefore it comes as no surprise that banks also achieved high capital adequacy ratios during the year 2023. So, the total capital ratio and the common equity Tier 1 capital (CET1) ratio on a consolidated basis reached the level of 20.3%, and 17.7%, respectively, which was above the level achieved in the euro area, where total capital ratio stood at 19.4% and CET1 ratio at 15.9%.

Banks have proved to be resilient to shocks and excess risk-taking in recent years. This was also demonstrated during the floods that hit some Slovenian regions in August 2023. Despite the significant material damage to local communities and households, banks were not affected by any major consequences, while at the same time they immediately provided financial assistance to those affected by the floods. In conclusion Slovenian banks in recent years as well as in 2023 further strengthened their capital position, which makes them even more stable and resilient.

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