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THE SLOVAK REPUBLIC

INVESTOR PRESENTATION

MAY 2012

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Introduction of Presenters

- **Peter Kažimír**, Deputy Prime Minister and Minister of Finance
- **Vazil Hudák**, State Secretary of the Ministry of Finance
- **Daniel Bytčánek**, Director, Debt and Liquidity Management Agency
- **Martin Filko**, Advisor to the Minister

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1. Country Overview

Slovak Republic at a Glance

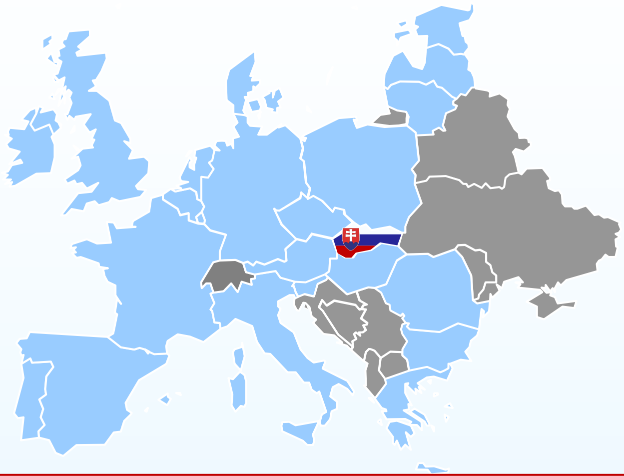
Territory: 49,035 km^2

Population: 5.4 million

GDP per capita: Approx. €12,700 in 2011[1]

Credit ratings: A2 (negative outlook) / A (stable outlook) / A+ (stable outlook)

Capital: Bratislava



1989 – End of Communist regime

1992 – WTO membership

1993 – Slovak Republic founded

2000 – OECD membership

2003 – EU accession referendum

2004 – NATO and EU membership

2005 – ERM-2 entry

2007 – Schengen area membership

2009 – Euro adoption

Continued economic and fiscal reforms

[1] Source: Eurostat

CEE Convergence with Eurozone Creditworthiness

Medium-term convergence story	• GDP growth reached 4.8% p.a. during the last decade (2002-11), highest in the EU[1] • The convergence story should continue in the future along with the transfer of technology, know-how and institutional improvements
EU, Eurozone and OECD member	• Slovakia became a member of the OECD in 2000, joined the EU in 2004 and adopted the Euro in 2009 • Eurozone membership shields Slovakia from balance-of-payments risk and provides banks access to ECB liquidity • Negligible share of foreign-currency loans (3.0% of total loans as of July 2010) • Country is highly attractive for foreign direct investments[2]
Low overall indebtedness	• One of the lowest levels in the EU in terms of public debt (43%) and private loans (47%) of GDP (below the Maastricht threshold) [1] • One of the lowest Loan/Deposit ratios at 90% in the EU banking sector[1]
Strong ratings	• Amongst the highest rated countries in the CEE region • A2 by Moody's, negative outlook, changed outlook on 14 February 2012 • A by S&P, stable outlook, changed 13 January 2012 • A+ by Fitch, stable outlook, affirmed on 26 January 2012

[1] Source: Eurostat
[2] Source: World Bank's "Doing Business" survey

Recent Political Developments

- **Decisive victory of the social-democratic SMER party in March 2012**
- SMER gained over **55% of parliamentary seats** (83 out of 150 MPs) which allowed them to form a one-party government
- SMER has a **simple but not a constitutional majority** in government (8 votes short)
- Prime Minister Robert Fico is an **experienced politician** (PM when the Slovak Republic joined the EMU in 2009)
- SMER declared **clear support to EU** as well as to Euro-zone, which also means support for **new fiscal rules in the Eurozone**
- Repeated public commitment and broad political consensus to cut the deficit to below 3% of GDP in 2013 and an additional 0.5% cut in the structural deficit from 2014 onwards
- At the end of 2011 the National Council has approved a **constitutional "debt ceiling" starting at 60% of GDP until the end of 2017, gradually declining to reach 50% of GDP** by 2028

Key Investment Considerations (1/2)

I. **Solid domestic environment:**

- Highest real GDP growth in the EU for the last 10 years (2002-2011), averaging 4.8%[1]
- Average nominal GDP growth larger than 10Y government yields between 2004-2010[1]
- Low private and public debt levels compared to EU average
- No exposure of corporate and private sector to FX loans
- Highly integrated economy with low cost, skilled labour in manufacturing
- Positive FDI despite global crisis (EUR 1,633mln in 2011 already picked up to 2008 level)
- Sound highly liquid banking sector wiithout government assistance

[1] Source: Eurostat

Key Investment Considerations (2/2)

II. <u>Strong fiscal discipline</u>:

- **Fiscal tightening worth 4% of GDP** implemented in 2011 based on consolidation effort of 3.4% of GDP
- Government thus succeeded **cutting its fiscal deficit** from **8.1%** of GDP in 2010, to **4.2%** in 2011, excluding one-offs.
- Clear strong public commitment to cut the deficit **below 3% of GDP by 2013 by the new government**

III. <u>Sound debt management</u>:

- Public debt at less than half the average of EMU countries (43.3% of GDP vs. 87.2% of GDP in the EMU in 2011)[1]

> ➢ **Slovakia remains amongst the highest rated countries in the CEE region** (recent downgrades were caused by situation in Eurozone, not by local factors)

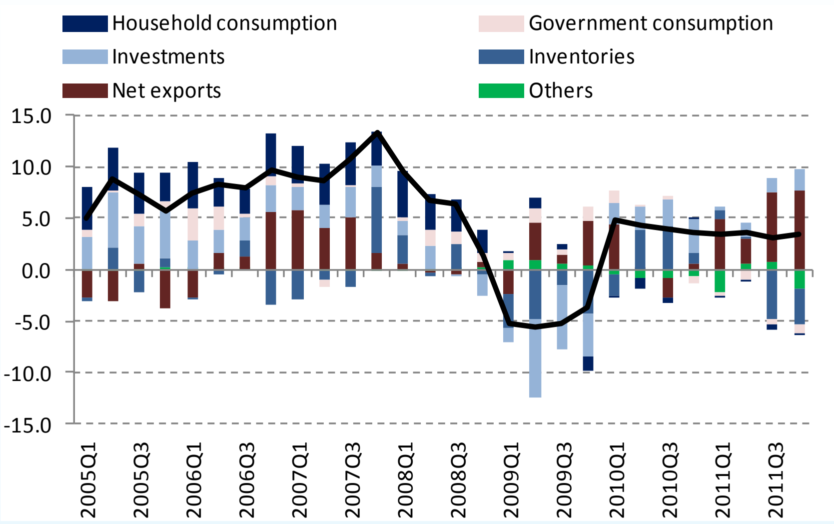
[1] Source: Eurostat

2. Strong Economic Performance

A Solid Recovery…

- **Strong recovery in 2010-11 fuelled by a competitive and dynamic export sector**
  - Following GDP slump in 2009, the Slovak economy staged a **convincing recovery in 2010**, with real GDP swinging from **-4.9%** in 2009 to **+4.2%** in 2010
  - Fiscal consolidation efforts have moderated the contribution of consumption and overall domestic demand to the recovery, which was replaced by a **16.5% increase in exports** in 2010
  - GDP growth of **3.3% in 2011**, **fuelled again by exports and private investment**

Components of GDP (real, y/y, in %)



Source: Statistical Office of the SR

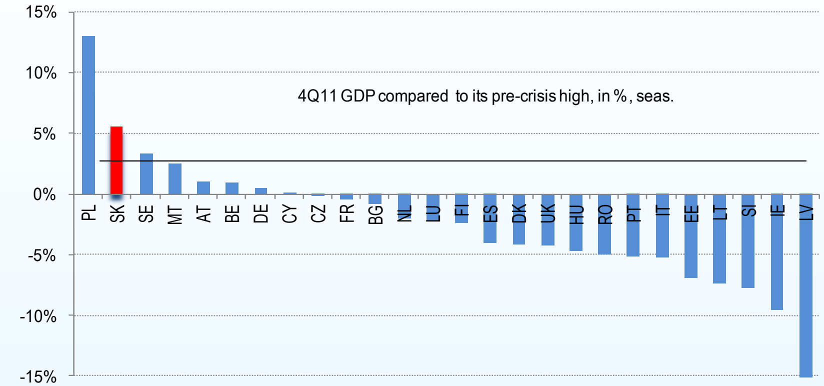
  - **2011Q4 q/q growth was the highest in the Eurozone**, despite "recession" in Slovak Republic's two biggest trading partners – Germany and the Czech Republic[1]
  - The slowdown in the Eurozone is an obvious threat to this recovery, but given the **structural reforms completed and the competitiveness of Slovakia's exports**, the average annual GDP growth in the country is expected to be around 2.3% over 2012-15[2]
  - **GDP per capita continues to rise** and was 74% of EU-27 GDP in PPP terms in 2010, up from 50% a decade earlier in 2000[1]

[1] Source: Eurostat
[2] Ministry of Finance

…Based on Strong Fundamentals

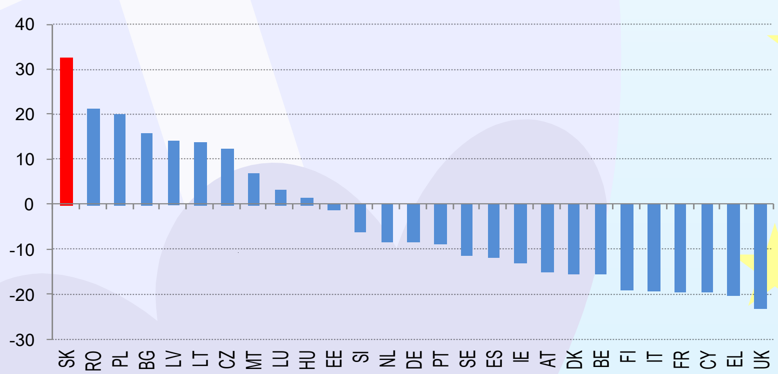
- **Competitive export-oriented economy** (the biggest increase in market share in world exports among EU countries in 2010 on a 5-year basis)
- **2nd strongest rebound** in EU in terms of GDP
- **The Slovak Republic continued to increase its export market share during the global crisis**

4Q11 GDP compared to its pre-crisis high, EU countries (in %, seas. Adj.)



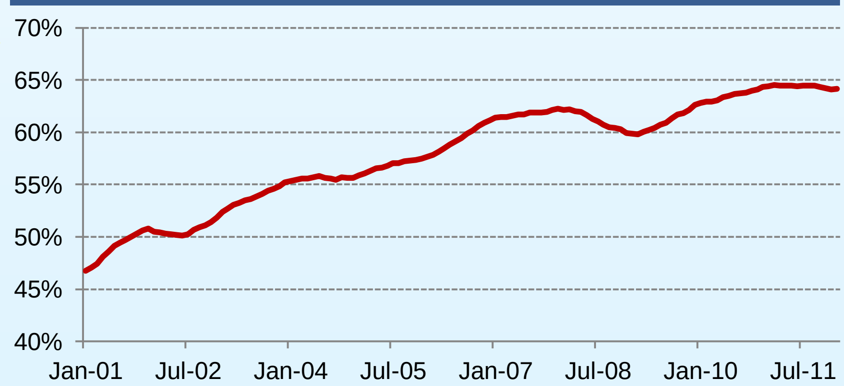
Source: Eurostat

Shares in world exports of EU countries, 2010 (% change, last 5 years)



Source: Eurostat

Export shares of Slovak manufacturing continue to increase

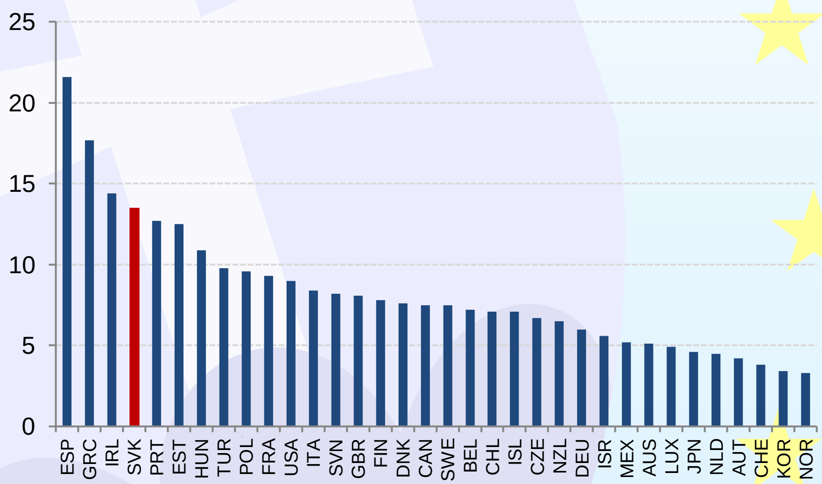


Source: Eurostat, Statistical Office of the SR

…And still space for more to come

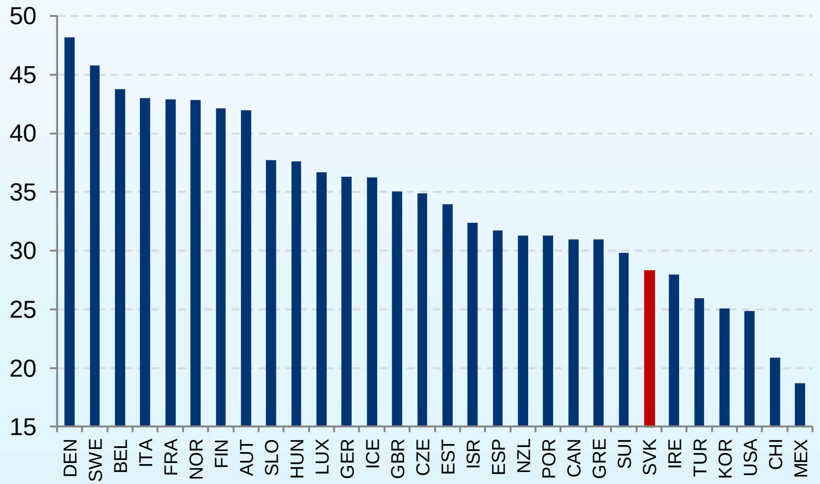
- Despite high growth, **still a sizeable pool of unemployed to be tapped** (no labour shortages on nation-wide level)
- **One of the lowest tax environment allows for consolidation also on the revenues side** (19% flat tax as of April 2012, ie, top individual and corporate tax rate at 19%)

No labour shortage - unemployment rate in OECD (2011 avg)



Source: OECD

Taxation is low in Slovakia



Source: OECD

Latest Macro Forecast (flash update, March 2012)

% y/y changes	2009	2010	2011	2012F	2013F	2014F	2015F
Real GDP growth	-4.9	4.2	3.3	***2.3***	*2.7*	*3.6*	*3.7*
Private consumption (growth)	0.1	-0.8	-0.4	***0.0***	*0.7*	*2.9*	*3.9*
Investments (growth)	-19.7	12.4	5.7	***4.3***	*2.1*	*1.9*	*2.9*
Export (growth)	-15.9	16.5	10.8	***3.8***	*8.2*	*5.9*	*5.3*
Import(growth)	-18.1	16.3	4.5	***1.2***	*7.8*	*5.2*	*4.7*
Employment growth (ESA 95)	-2.0	-1.5	1.8	***-0.3***	*0.3*	*0.5*	*0.8*
Unemployment rate (LFS)	12.1	14.4	13.5	***14.1***	*13.7*	*13.5*	*13.2*
Inflation (HICP)	0.9	0.7	4.1	3.2	2.3	2.3	2.5
Current Account Balance (% of GDP)	-2.6	-2.5	0.1	***1.4***	*1.4*	*2.0*	*2.4*
Net FDI (% of GDP)	2.4	0.5	2.4	***1.8***	*2.4*	*2.5*	*2.5*

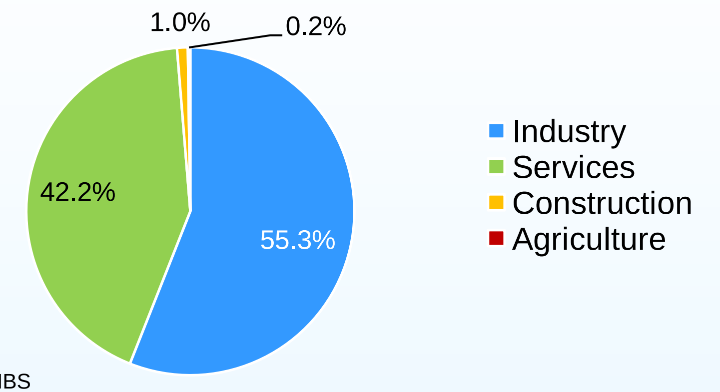
- **Updated 2012 GDP growth forecast from 1.1% to 2.3%**
- Better than expected 2011Q4 driven by private investments and exports
- Improved soft indicators out of Germany (eg, IFO)
- Weak performance of the labour market in 2011Q4 as domestic demand subdued

Source: Slovak MinFin

Structure of the Economy

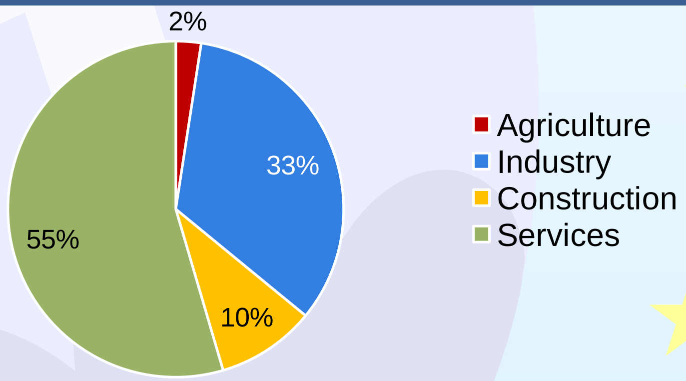
- Slovakia's economy is similarly structured to that of the Czech Republic or Germany:
  - Large industrial sector
  - Small agricultural sector
- Like the Czech Republic, Slovakia has two main industry clusters:
  - Automobiles and electronics
- FDI played a crucial role in determining the sectors, invested mostly in tradeables

FDI stock per sectors



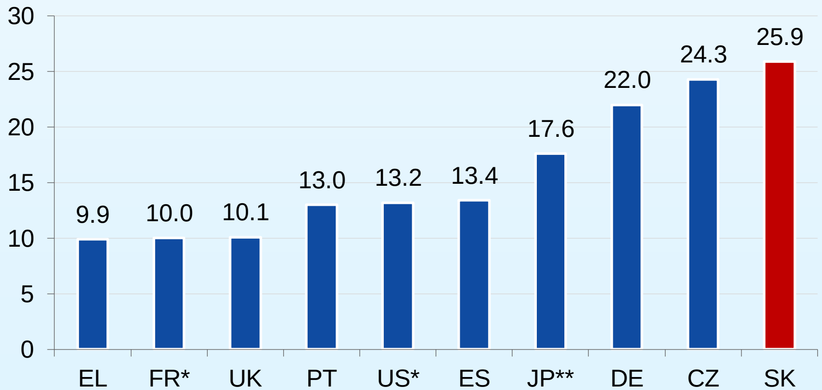
Source: NBS

Slovakia - gross value added by sector (2011)



Source: Statistical Office of the SR

Gross value in manufacturing (% of total), selected OECD countries (2011)

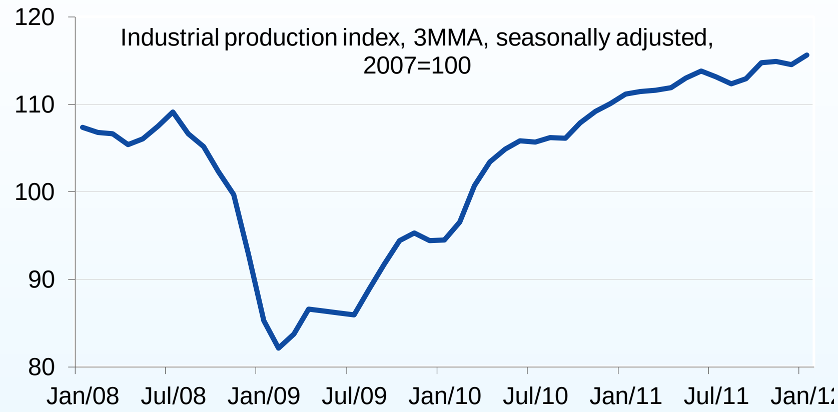


* 2010
** 2009
Source: OECD, Eurostat

Domestic Demand Continues to Suffer from Fiscal Tightening

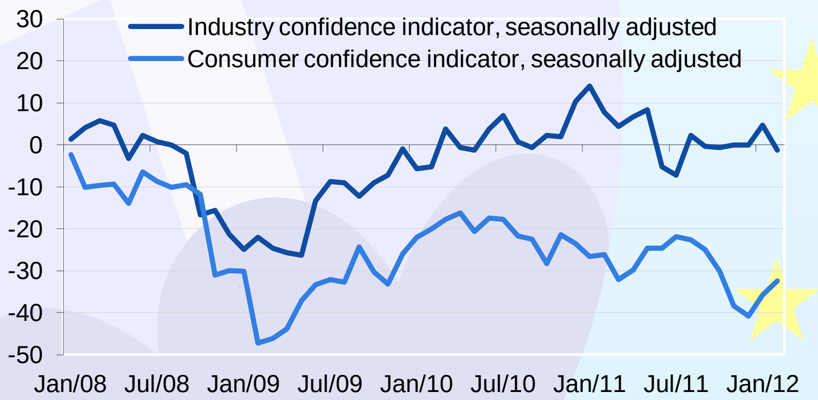
- Exports continue to support growth due to the pick-up in foreign demand and production reallocation
- Domestic demand is still weak due to strong fiscal tightening
- Weaker exchange rates in Poland and Hungary are a drag on retail and tourism

Industry continues to grow – Industrial production



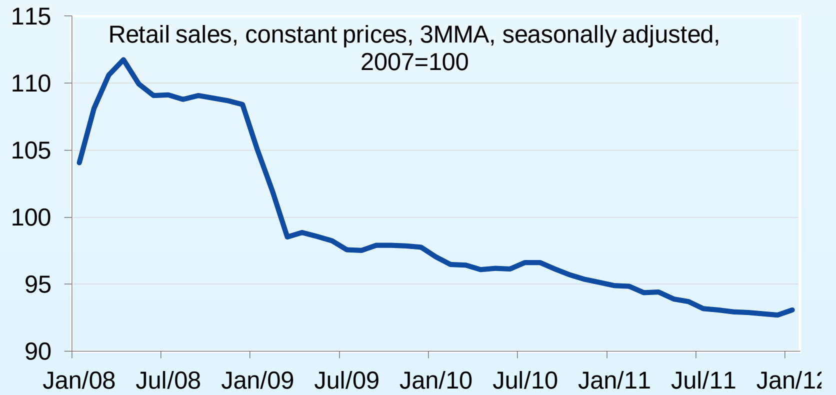
Source: Statistical Office of the SR

Industrial confidence returning, consumer confidence weak



Source: Statistical Office of the SR

Consumer demand yet to recover – Retail sales

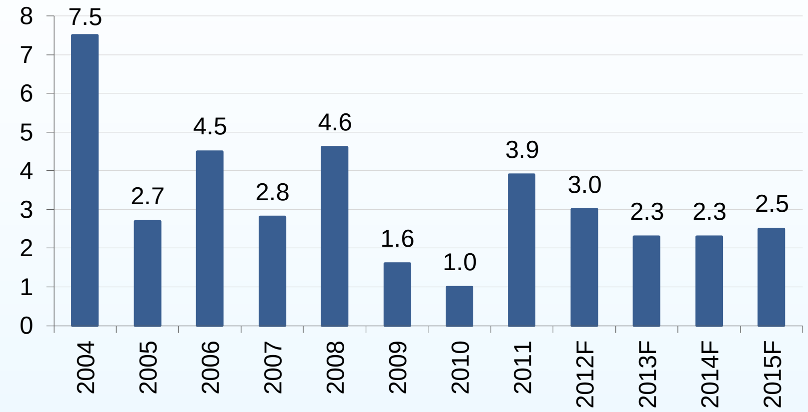


Source: Statistical Office of the SR

Inflation and Labour Market

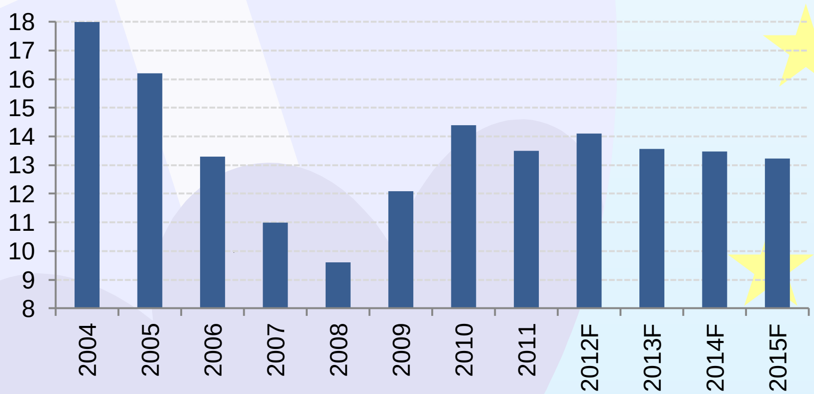
- Inflation slowed down to zero by end of 2009 and stayed low during 2010
- Prices accelerated in early 2011 due to higher energy and food prices combined with tax increases (VAT tax hike from 19% to 20%)
- In 2012, inflation is expected to decline to 3.0%, productivity growth will exceed wage growth
- The situation in the labour market deteriorated in the wake of the financial crisis
- Job recovery has been slow also due to layoffs in the public sector

Average annual inflation (%)



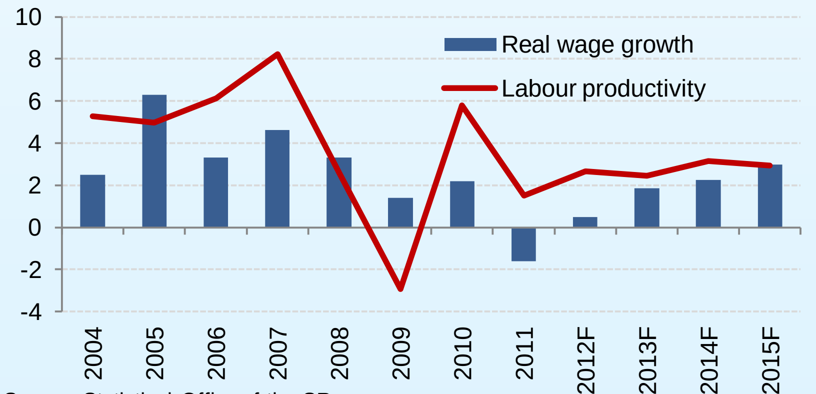
Source: Statistical Office of the SR

Unemployment rate (%)



Source: Statistical Office of the SR

Wage developments (real wage growth vs. productivity, YoY, %)

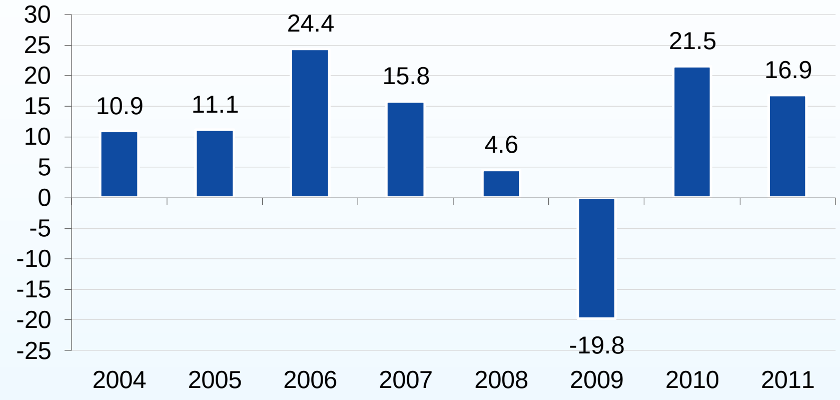


Source: Statistical Office of the SR

Exports

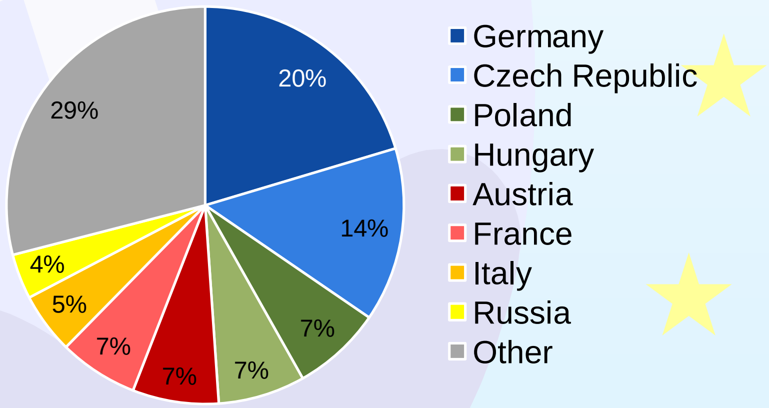
- As a small open economy, Slovakia's performance is highly dependent on foreign demand
- Both the 2009 recession and Slovakia's subsequent recovery have been driven by exports
- Exports are a key avenue to increase productivity

Export growth of goods (YoY, % chg)



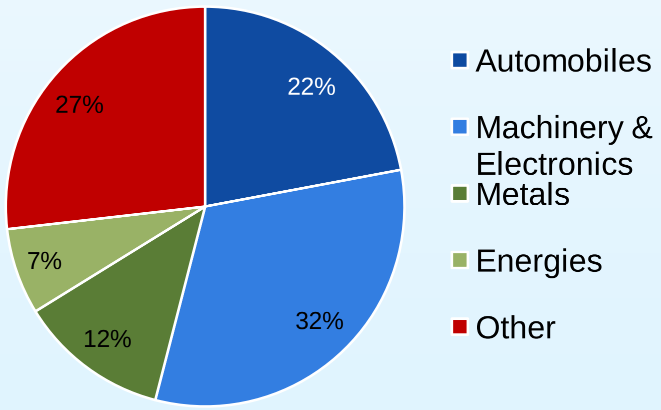
Source: Statistical Office of the SR

Exports by country (2011)



Source: Statistical Office of the SR

Composition of export sectors (2011)

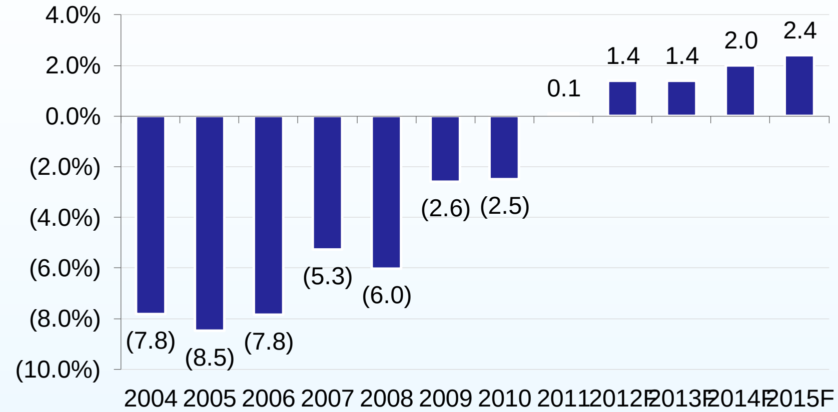


Source: Statistical Office of the SR

Current Account and FDI

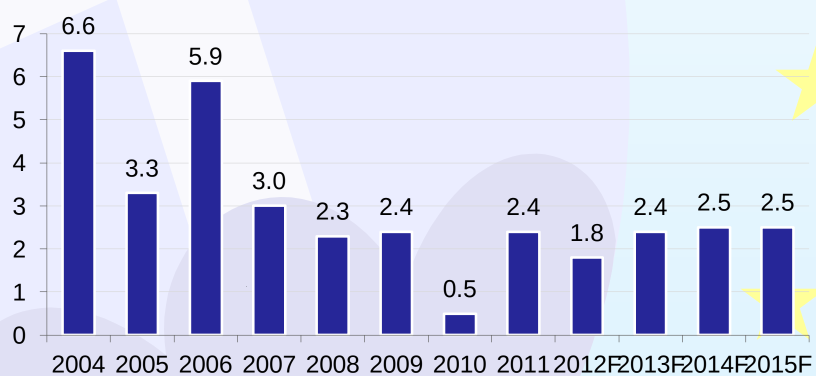
- 2011 saw the first balanced current account in Slovak history
- This suggests that the country is competitive externally while current domestic demand is still weak
- Domestic demand will continue to be subdued due to continuous fiscal tightening all the way to a structural deficit of 0.5% of GDP

Current account (% of GDP)



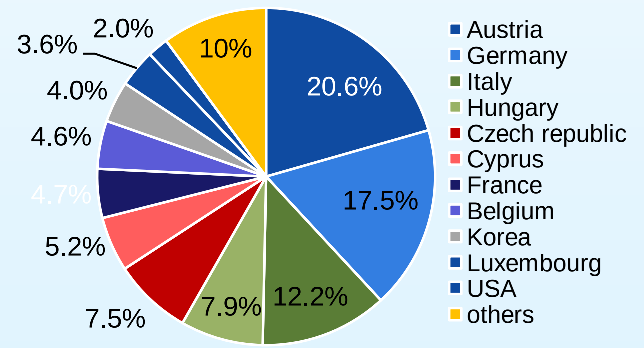
Source: NBS , Slovak MinFin

Net FDI (% of GDP)



Source: NBS , Slovak MinFin

Geographical location of FDI interest (ex-Netherlands)

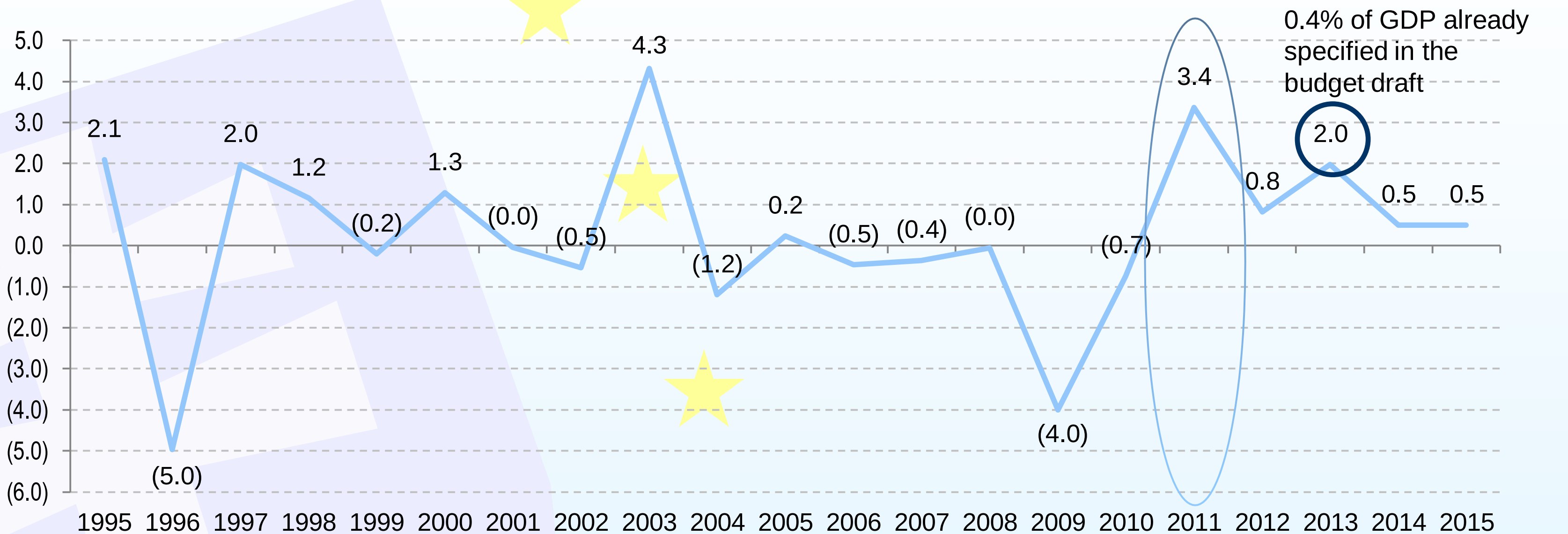


Source: NBS

3. Prudent Fiscal Policy

Consolidation Effort – Slovak History

Government measures to curb the deficit – consolidation effort (% of GDP)

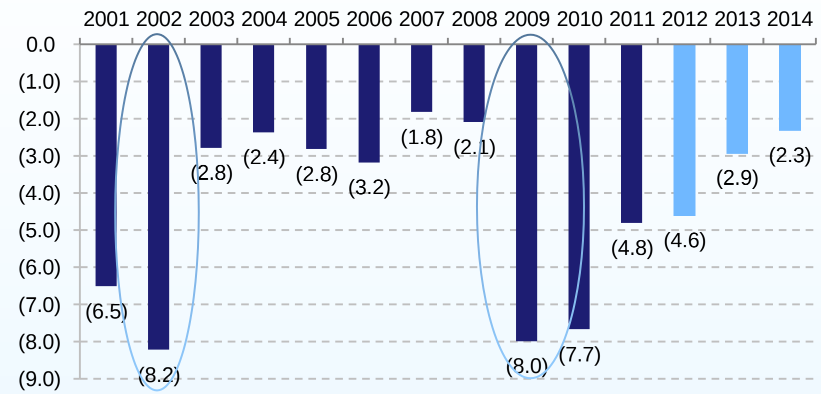


- Consolidation effort calculation adjusts for the economic cycle, interest rates, one-offs and other fiscal adjustments such as PPP projects
- Consolidation effort in 2011 was the second highest in Slovak history at 3.4% of GDP
- Some consolidation already assumed in the budget draft, **additional 1.6% of GDP (EUR1.2bn) needs to be specified**

Sizeable Cut of 4% of GDP in Fiscal Deficit in 2011

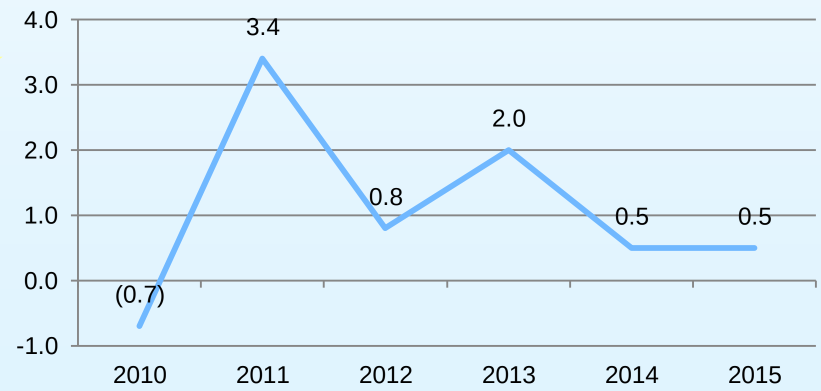
- The 2011 package:
  - Consumption taxes (VAT, excise taxes)
  - Expenditure cuts by nominal 10% (mainly public wages, consumption – 14% fall in real terms)
  - Increased usage of EU funds to finance highway construction
- Adjusted for economic cycle and interest rates, this represented a consolidation package **of 3.4% of GDP**
- **Fiscal deficit in 2011 at 4.2% of GDP without one-off factors** (budget assumed 4.9 % of GDP target), down **from 8.1% of GDP in 2010**. Slovakia likely to record **the second greatest fiscal tightening in EU**

Fiscal Deficit (% of GDP)



Source: Eurostat, Ministry of Finance, April 2012

Consolidation effort (% of GDP)



Source: Ministry of Finance, April 2012

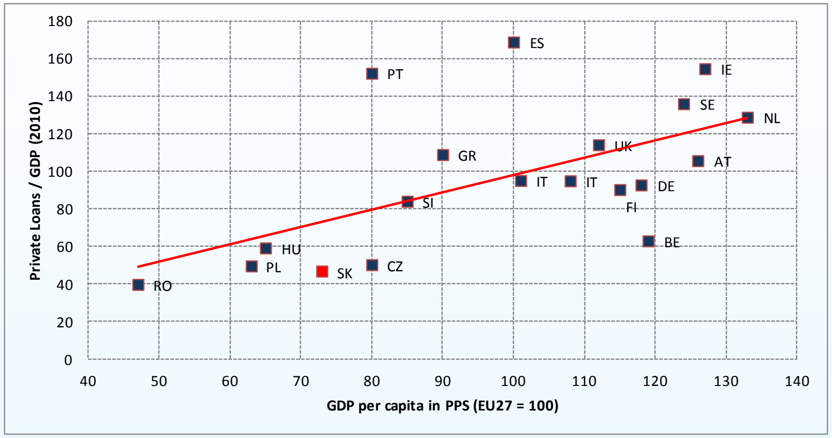
Public Finance Consolidation Strategy

- Slovakia strongly supported tightening of EU fiscal rules (Fiscal Treaty, 6 Pack) with focus on debt, sanctions in case of non-compliance and prescribes balanced budgets for Eurozone countries (structural deficit maximum 0.5% of GDP)
- Due to early elections and worse macroeconomic prospects, fiscal target for 2012 was set at 4.6% of GDP
- **Broad political consensus and a clear public commitment of the new government to cut the deficit below 3% of GDP in 2013**
- **The new government needs to specify additional measures to the tune of 1.6% of GDP in order to meet 2013 target (vs. 3.4% of GDP consolidation in 2011)**
- In addition to EU rules, **national fiscal rules** were further tightened **by constitutional law - debt ceiling in effect since 1 March 2012**
- An **independent fiscal council** financed by the central bank will be established to monitor public finances and the net wealth concept

Low Public and Private Debt

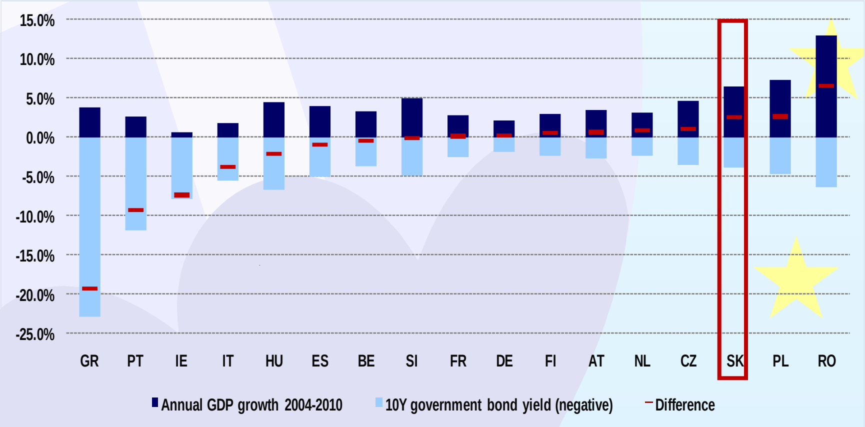
- **Low indebtedness level**
  - Taking into account relative levels of economic development, Slovakia's public and private debt to GDP ratios are both considerably below the EU average
  - Private debt ratio amongst the lowest in the EU
- **Excellent historical debt repayment ability**
  - Past nominal economic growth (average 6.5% p.a. in 2004-2010) as well as estimated medium-term growth well above the current long-term (10Y) government bond yield (3.8% p.a.)

Private Debt Ratio (% of GDP)



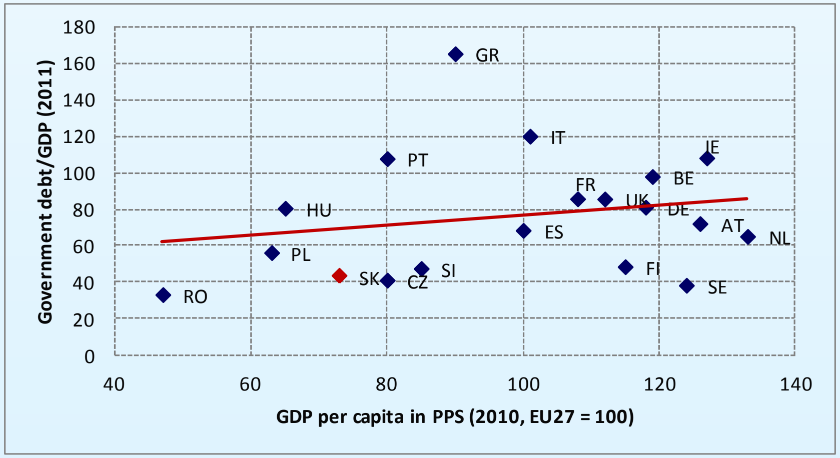
Source: Eurostat, March 2012

Debt Repayment Ability (Nominal growth less gov't yield)



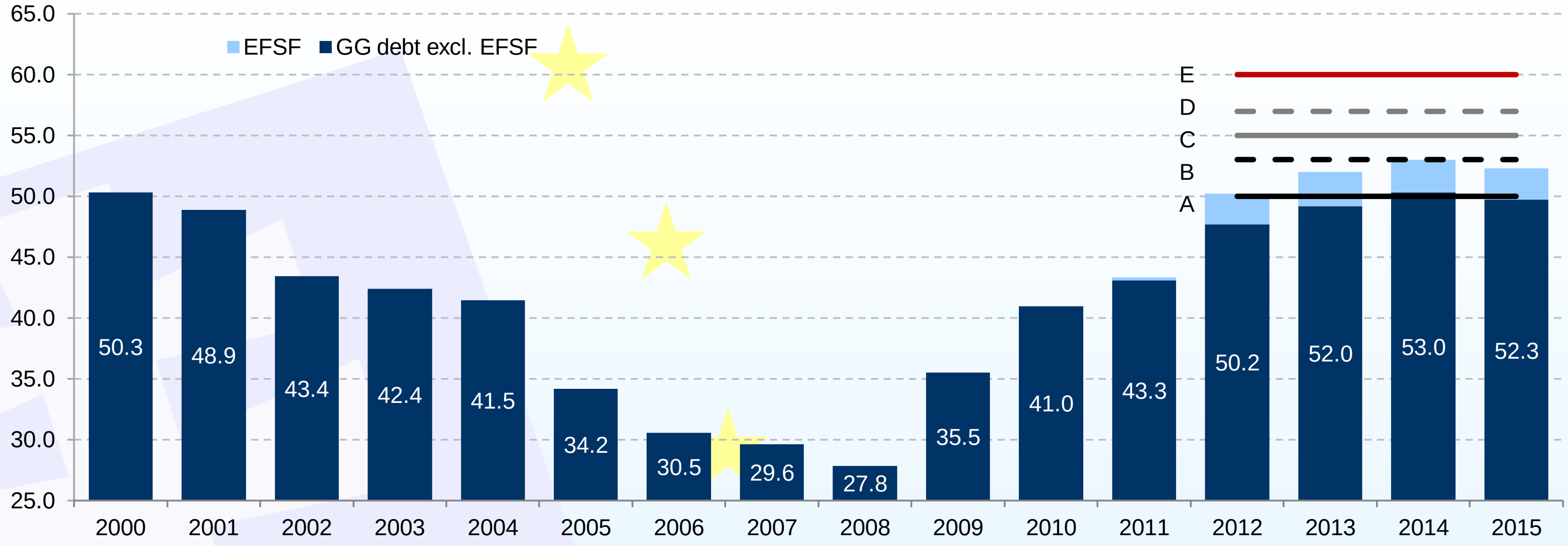
Source: Eurostat, Ardal, March 2012

Government Debt Ratio (% of GDP)



Source: Eurostat, April 2012

General Government Debt Forecast and Debt Break



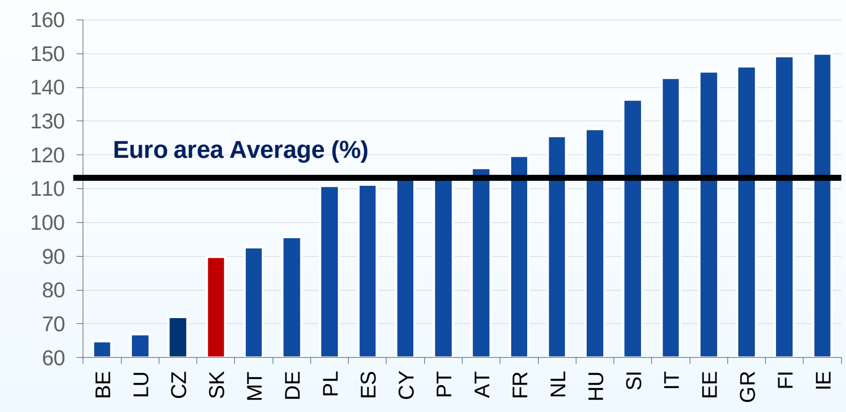
- Thresholds set by the constitutional act on fiscal responsibility:
  - A – 50% of GDP – letter from the Minister of Finance to the Parliament
  - B – 53% of GDP – proposal of measures by the Government to cut the debt
  - **C – 55% of GDP – expenditure freeze**
  - D – 57% of GDP – balanced general government budget requirement
  - **E – 60% of GDP – upper limit, vote of confidence in the Parliament has to take place**
- Starting from 2018, the thresholds will gradually decrease by 1 p.p., in 2028 the upper debt limit will be 50% of GDP

4. Liquid Traditional Banking Sector

Conservative and Sound Banking Sector

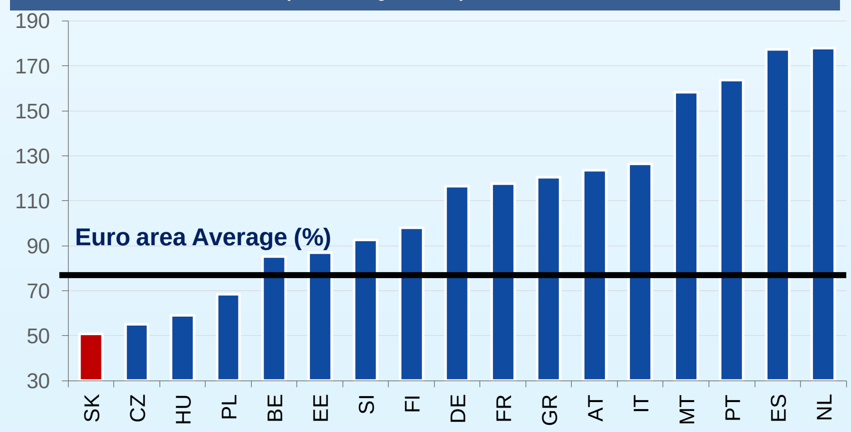
- **Banking system not a major source of risk**
  - Conservative "traditional" business model – retail dominates
  - Limited contingent liability for sovereign, given prudent policies and modest loan books to GDP (total loans to GDP ratio of 51% in 2011)
  - Capital adequacy at 13.4% (end of 2011)
  - Strong funding of banks from domestic sources (**loan-to-deposit ratio at 90%** - end of January 2012)
  - Profitability continued to recover in 2011, with system-wide ROA of 1.2% and **ROE of 14.2%**
  - **Direct access of banks to ECB liquidity operations**
  - Banking system almost entirely foreign-owned
  - Very low foreign currency loans and mortgages limit the risk of FX asset-liability mismatch

Loans-to-Deposit Ratio (January 2012)



Source: ECB

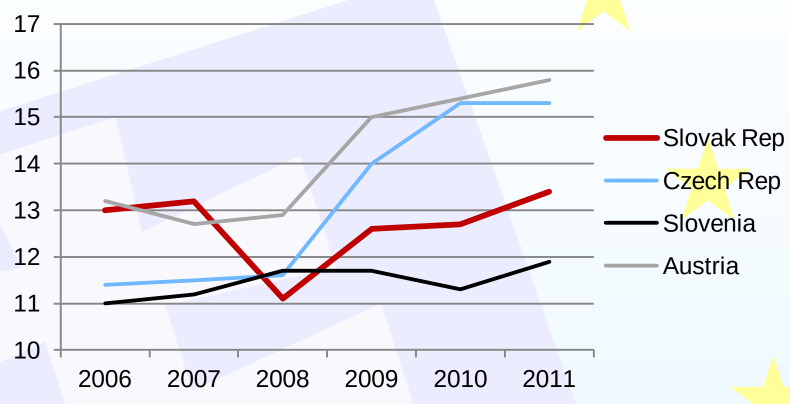
Loans to GDP Ratio (January 2012)



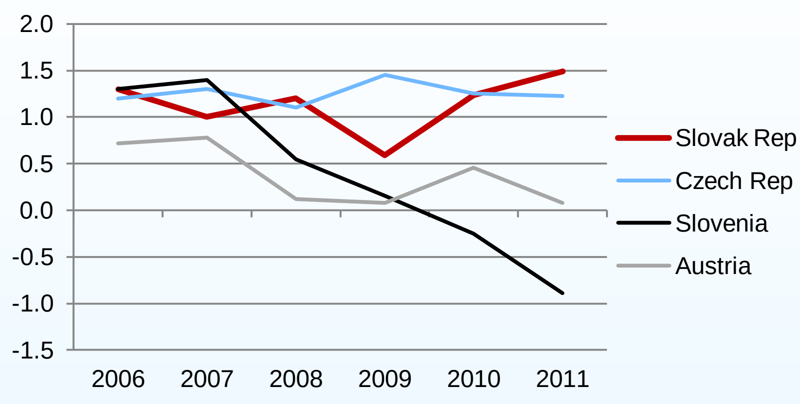
Source: ECB

The Slovak Banking Sector Compares Well Across CEE

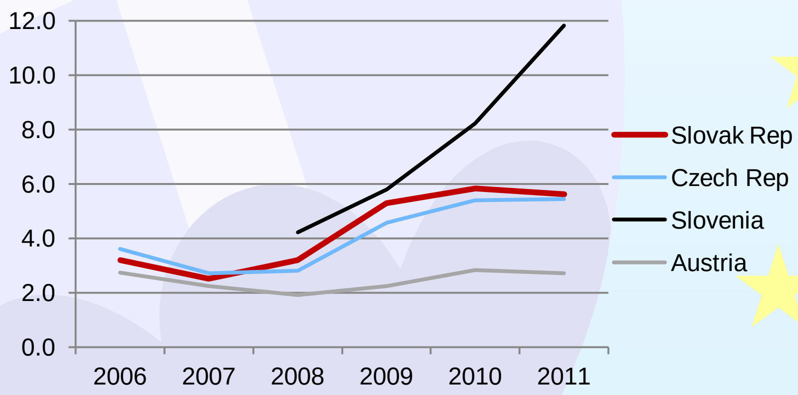
Bank regulatory capital to RWA (in %)



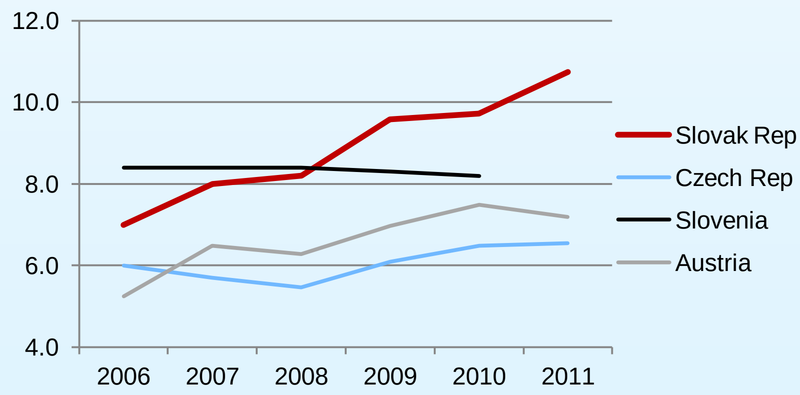
Bank return on assets (in %)



Bank NPLs to total assets (in %)



Bank capital to assets (in %)

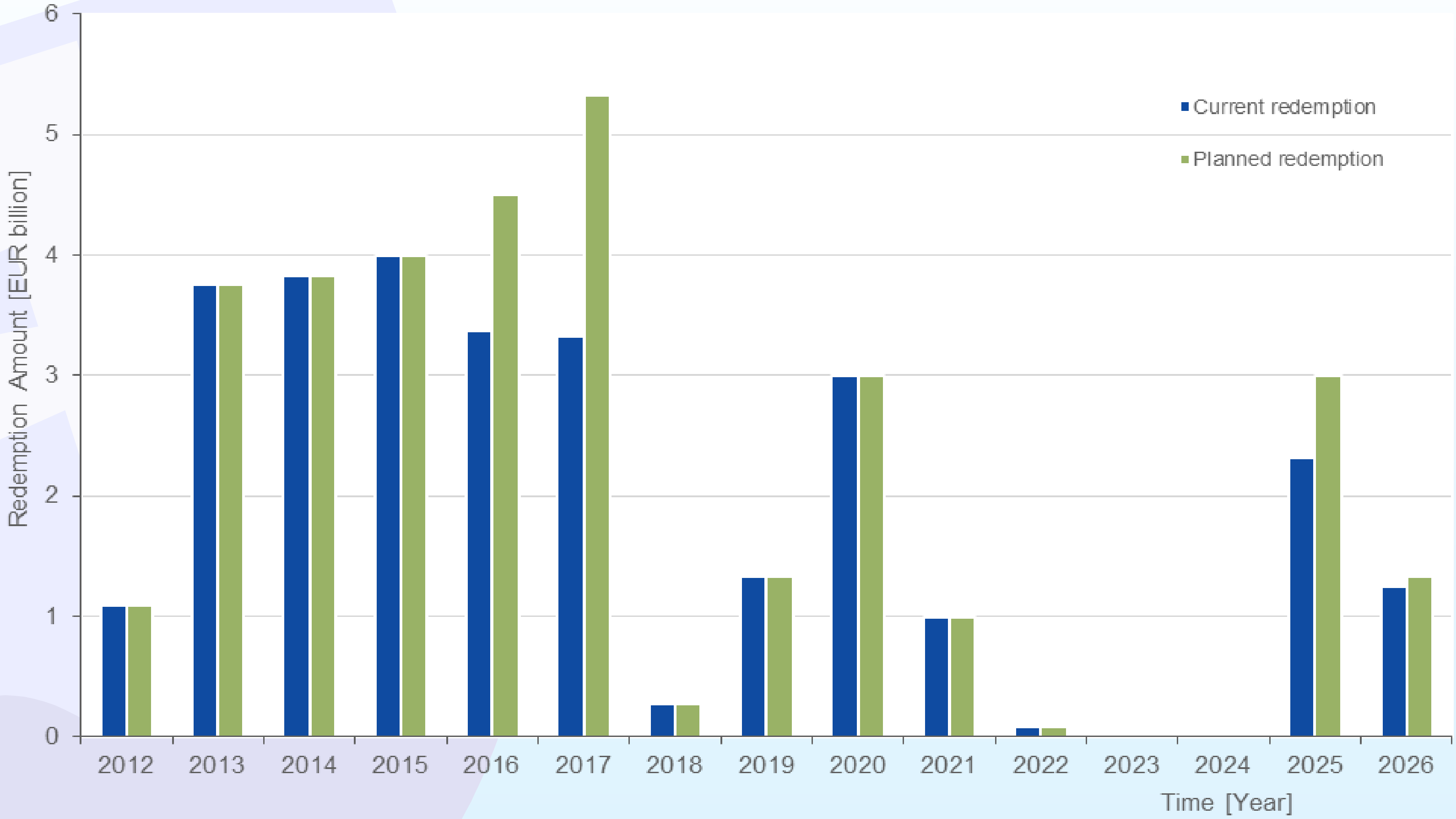


Source: IMF

5. Sophisticated Debt Management and Funding

Central Government Bond Redemptions

Central Government bond portfolio redemption profile was influenced by the financial market crisis resulting in a shift of investor's interest to shorter maturities

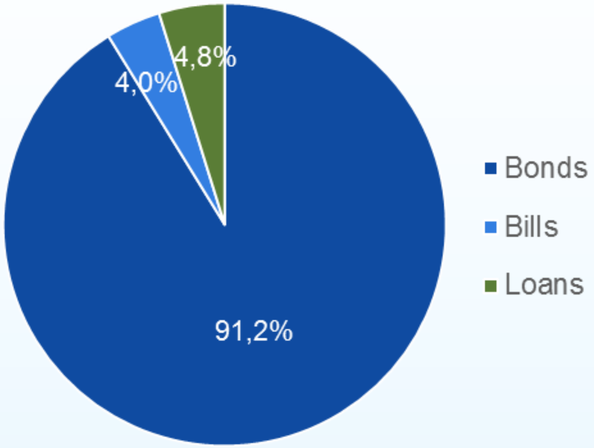


Source: ARDAL, as of April 2012

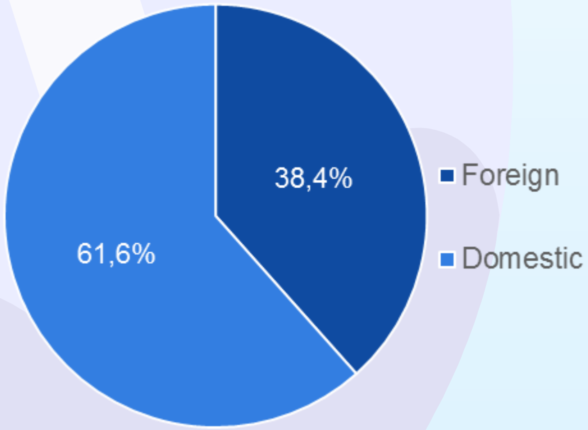
Central Government Debt Characteristics

- No impact of currency fluctuations, as 100% of outstanding public debt is euro-denominated (small part of debt issued in 2012 is hedged)
- Non-resident share at 38.4 % as of end 2011

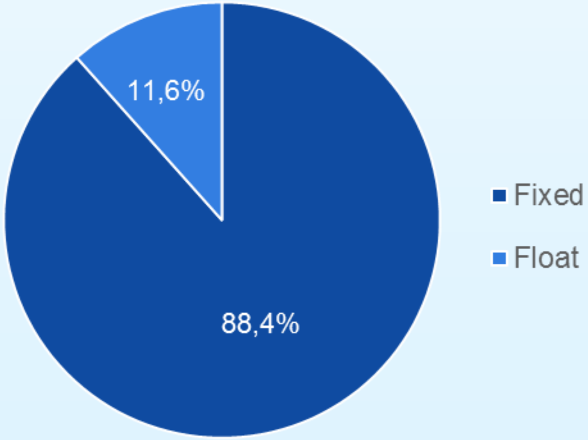
State debt by instrument



State bond portfolio by domicile



State bond portfolio by float/fixed coupon



Source: ARDAL and MoF

Debt Financing in 2011

- New “Debt Management Strategy for 2011 – 2014” with parameters similar as in previous one was approved by the government in March 2011
- In 2011, debt management has been aimed at **optimizing key parameters of the debt portfolio** in view of state budget expenditure targets and future external risks. Among these parameters:
  - Aim to keep average maturity of portfolio above 5 years (actual value is 5.1 years)
  - Aim to keep average duration of portfolio above 4 years (actual value is 4.3 years)
- Selective marketing efforts to **broaden the regional and institutional distribution of investors** in Slovak government securities
- Originally planned gross issuance EUR 8.5 billion was reduced to EUR 6.65 billion due to **lower state budget deficit** and better development of State Treasury sources
- Smaller than expected pre-financing for year 2012 - due to market conditions at the end of 2011

Source: ARDAL

Debt Financing in 2012

- Total **financing needs for 2012** are expected to be to **around EUR 7.6 billion** partially as a result of lower (due to consolidation) projected state budget deficit
- Approximately half of the amount is planned to be issued via syndication and the rest via auction
- As of end of April the government already issued approximately EUR 5.582 billion (almost 74 % of total financial needs for year 2012)
  - EUR 1.892 billion of government Bonds via auctions
  - EUR 1.854 billion of government Bonds via syndication
  - EUR 1.836 billion of government Bills via auctions (maturing next year)
- Successful debut issues in CHF and CZK completed in Q1 to broaden the investor base in Europe
- Cost of financing on approximately 3.5 % p.a. – the same level as in 2011

Source: ARDAL

Summary of Potential Bond Offering

Summary Terms	
Issuer	The Slovak Republic
Credit ratings	A2/A/A+ (neg/st/st)
Currency	US$
Maturity	TBA
Size	Benchmark
Denomination	200,000
Repayment	Bullet
Documentation	Stand Alone
Format and ranking	Senior unsecured, Reg S/144
Listing	Luxembourg
Joint Lead Managers	Barclays, Citi and J.P. Morgan

6. Credit positioning in the USD market and CE4[1] comparison

[1] The Czech Republic, Hungary, Poland and Slovakia are often referred to as "the CE4 countries"

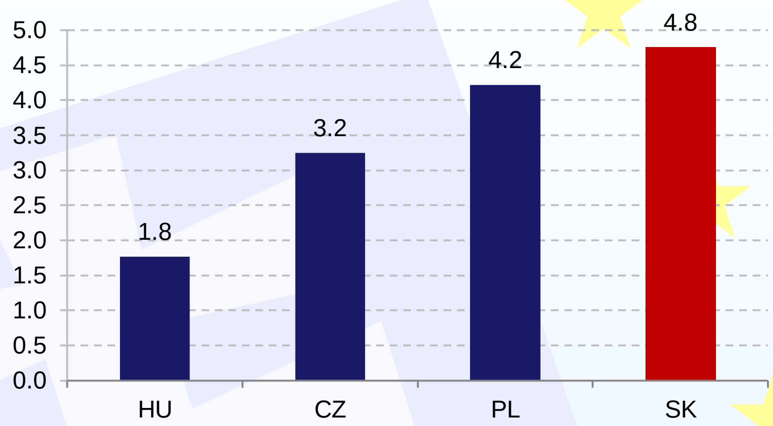
Slovakia's Fundamentals Compare well vs. its Peer-group Inside and Outside of the Eurozone (1)

%	Slovakia	Czech Republic	Poland	Slovenia	Belgium	Germany	Euro-zone average
Credit Ratings and outlook	A2/A/A+ (neg/st/st)	Aa1/AA-/A+ (st/st/st)	A2/A-/A- (st/st/st)	A2/A+/A (neg/neg/neg)	Aa3/AA/AA (neg/neg/neg)	Aaa/AAA/AAA (st/st/st)	Aaa/AAA//AAA (st/neg/st)[1]
Debt/GDP [2] % ('10 / '11 / '12E)	41.1 / 44.6 / 47.1	37.5 / 41.4 / 43.9	54.9 / 55.4 / 57.7	38.8 / 47.3 / 52.5	96.2 / 98.5 / 99.1	83.2 / 81.5 / 78.9	85.6 / 88.1 / 89.0
Deficit/GDP [2] % ('10 / '11 / '12E)	(7.7) / (4.8) / (4.6)	(4.8) / (3.8) / (3.5)	(7.8) / (5.2) / (3.2)	(5.4) / (5.7) / (4.7)	(4.2) / (4.2) / (2.9)	(4.3) / (1.0) / (0.8)	(6.2) / (4.1) / (3.1)
GDP growth [2] % ('10 / '11 / '12E)	4.2 / 3.3 / 2.4	2.7 / 1.6 / 0.1	3.9 / 4.3 / 2.6	1.4 / 0.2 / (1.0)	2.3 / 1.9 / 0.0	3.6 / 3.1 / 0.6	1.9 / 1.4 / (0.3)
CA/GDP [2] % ('10 / '11 / '12E)	(3.5) / 0.1 / (0.4)	(3.0) / (2.9) / 2.1	(4.7) / (4.3) / (4.5)	(0.8) / 1.1 / 0.1	1.5 / (0.1) / (0.3)	6.1 / 5.7 / 5.2	0.3 / 0.3 / 0.7
5yr $ CDS [3]	240	119	207	350	254	86	N/A
5yr € ASW [3]	140	81	145	280	87	-82	+8 [1]

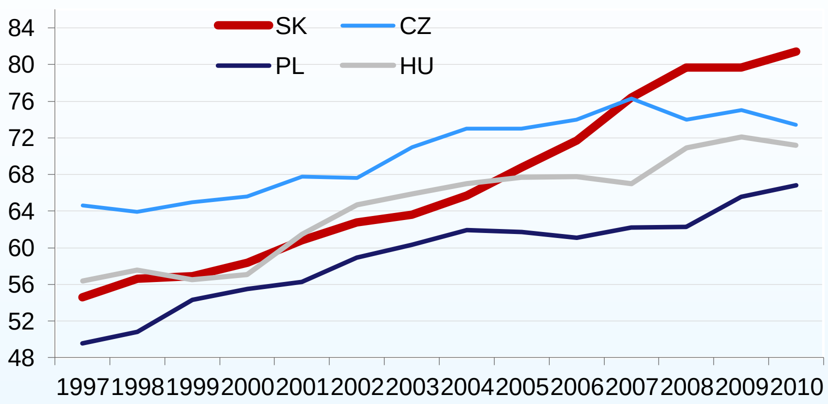
[1] Source: EU bond ratings and ASW level
[2] Source: IMF, World Economic Outlook Database, April 2012
[3] Source: J.P. Morgan as of 26th April 2012

Slovakia's fundamentals compare well vs. its peer-group inside and outside of the Euro-zone (2)

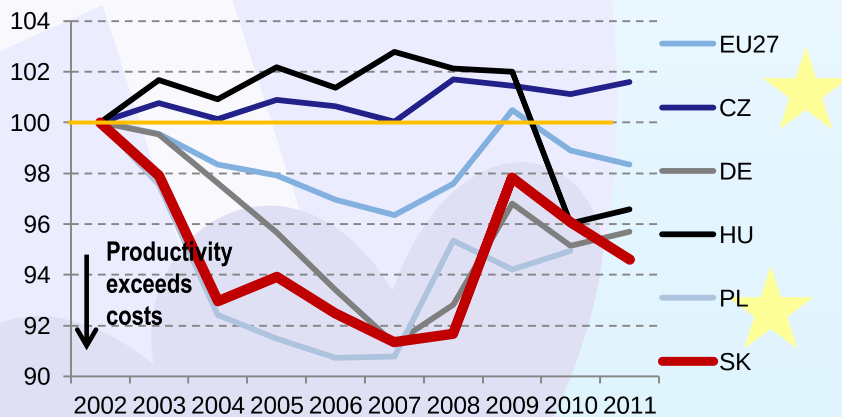
Average real GDP growth p.a. in CE4 countries (2002-2011, %)



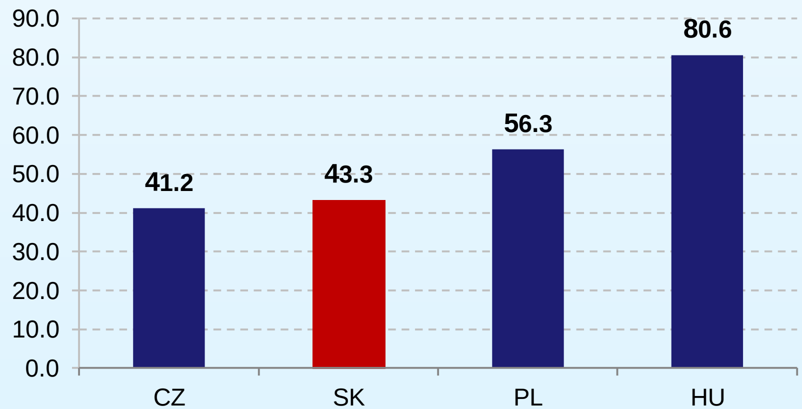
Labour productivity in CE4 countries (EU27=100, in PPS)



Nominal UCL index (wage bill/nominal GDP, last 10 years, 2002=100)



General government debt in CE4 countries (end of 2011, as % of GDP)



Source: Eurostat

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