

Debt and Liquidity
Management
Agency



SLOVAK REPUBLIC

June 2018



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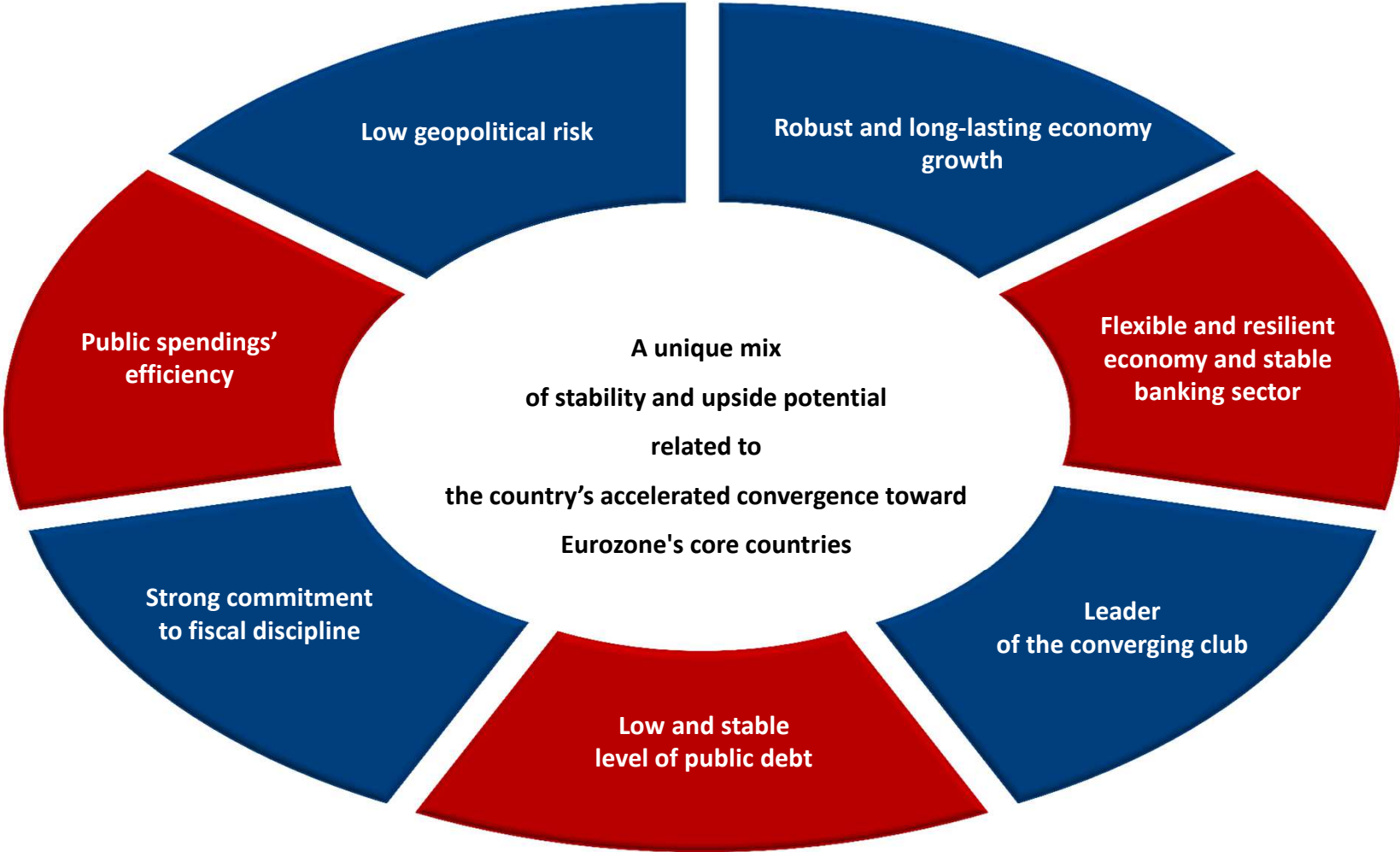


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Key Investment Highlights





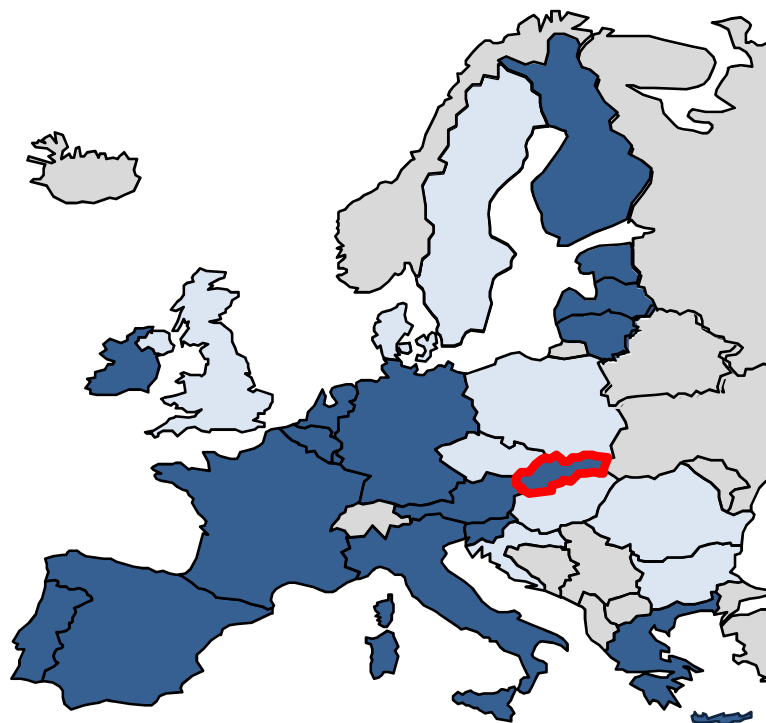
Overview



Slovakia – At a Glance



Geographical location



- Slovakia
- European Union (Euro Zone members)
- European Union (Non Euro Zone members)

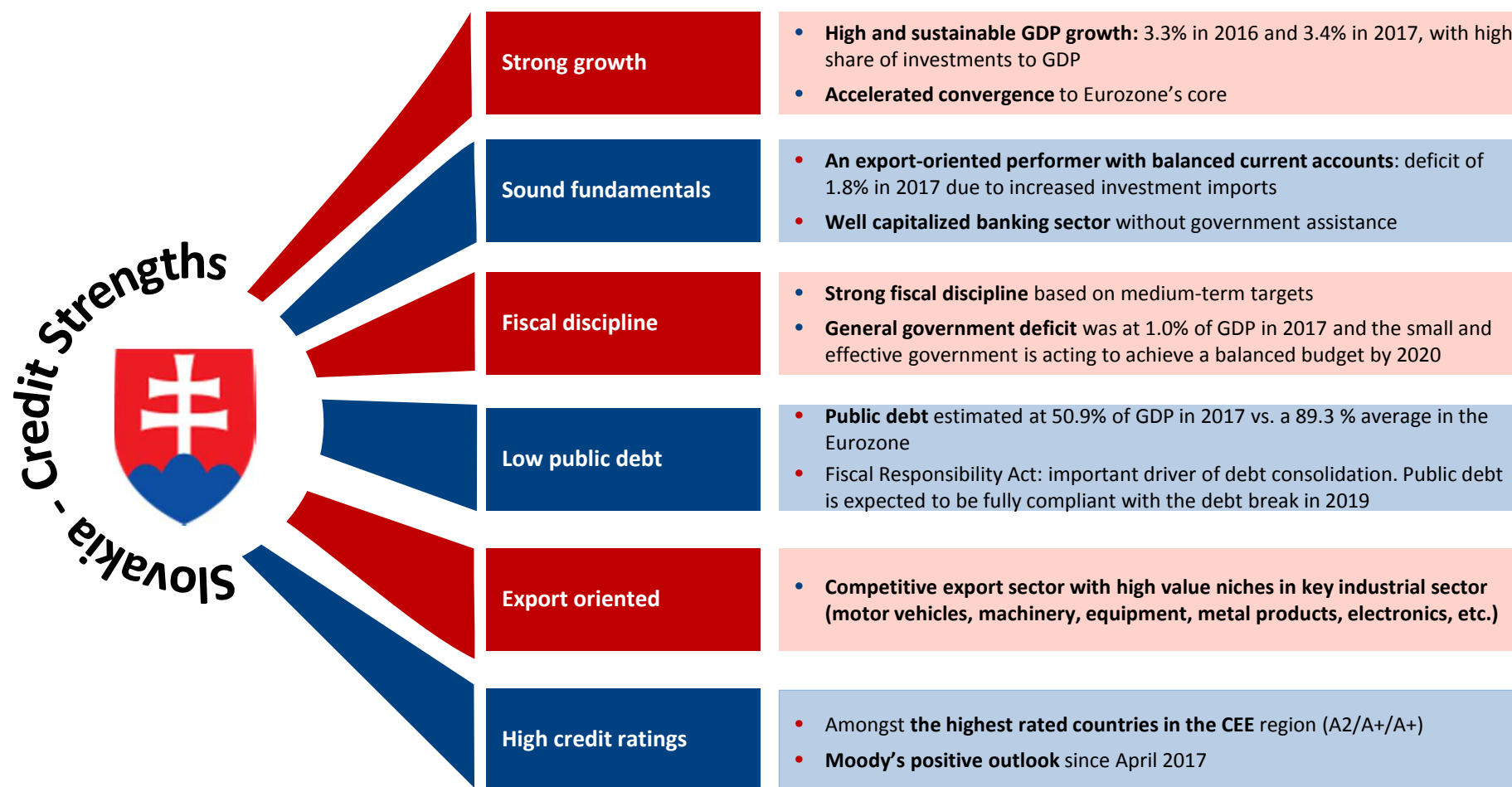
Key facts

Ratings (Moody's / S&P / Fitch)	A2 (pos.) / A+ (st.) / A+ (st.)
Nominal GDP (2017)	€ 84,985 million
Population (2017)	5.4 million
Real GDP growth (2017)	3.4%
Inflation (CPI – 2017)	1.3%
Currency	Euro
Key economic sectors	Manufacturing, Construction, Wholesale & Retail Trade
Memberships	OECD, EU, EMU, NATO
Head of State	President Andrej Kiska
Capital	Bratislava
Territory	49,036 km ²



Source: Eurostat, Ministry of Finance, NBS

Slovakia – A Successful Transformation Story



Source: ARDAL, Ministry of Finance SR



The Slovak government continues to push ahead a comprehensive program of structural reforms to improve economic competitiveness; key areas include *pensions* and *tax policy*

✓ **Pension Reform planned to save 3% of GDP on long term:**

- Retirement age linked to life expectancy
- Pensions linked to inflation
- Private pension schemes introduced

✓ **Improving Tax Collection and Combating Tax Evasion**

- VAT revenues have increased by 36 % since 2012 primarily due to more effective tax collection
- Law regulating offshore companies' participation in the public procurement process

✓ **Value for Money**

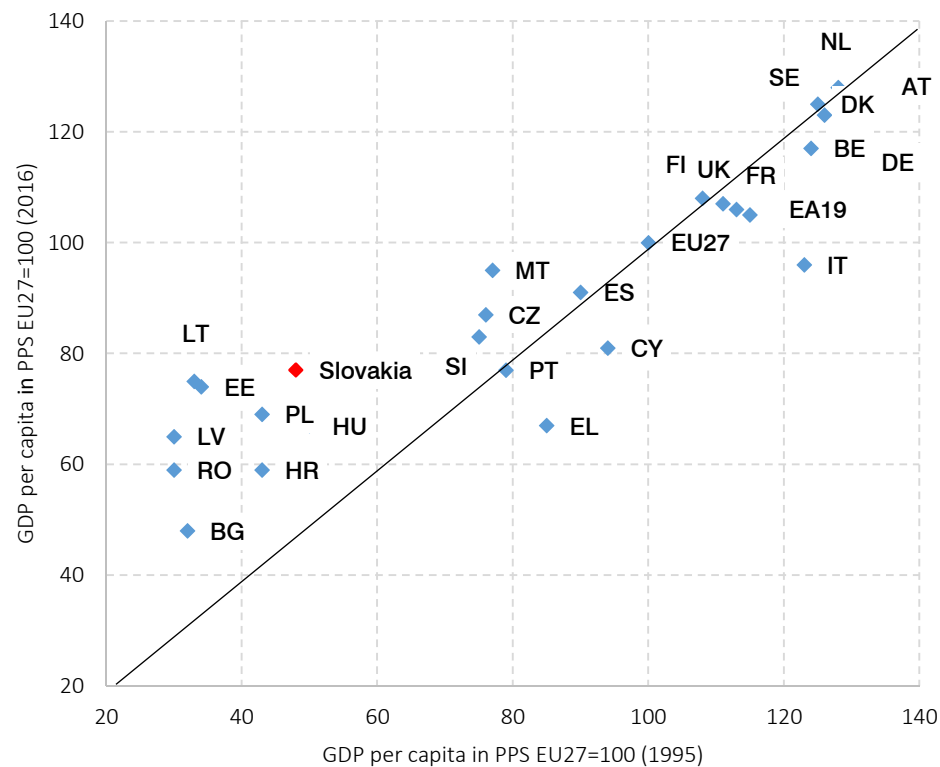
- Operational tool to raise the efficiency of public spending
- Comprehensive spending reviews of public sector expenditures:
 - Spending review of health care, transportation and the IT sector completed in 2016
 - Ongoing spending reviews in labor and social policies, education and environment sectors
 - Investment projects evaluated above 50 million EUR



Fast Convergence Towards Core Eurozone



Fast and Ongoing Convergence



- ✓ **Leading convergence player**
- ✓ **Currently: 77% of the EU27 GDP/capita**
- ✓ **Convergence: 30 p.p. in 20 years**
- ✓ **Continued fast convergence pace**

Source: Eurostat



Slovakia – On the Way to the European Core

- ✓ Slovakia's growth at almost double the euro area average compares favorably with most peers
- ✓ Convergence is almost complete in unemployment and inflation rate
- ✓ Low external imbalances suggest a high potential growth of the country
- ✓ Slovakia's public debt ratio is consistently among the region's lowest at almost half the euro area average

2018	Slovakia	Belgium	Finland	Euro Area
Real GDP growth (%)	4.0	1.8	2.5	2.3
Inflation – HICP (%)	2.4	1.6	1.4	1.5
Unemployment rate (%)	7.1	6.4	8.4	8.4
Current Account Balance (% of GDP)	0.8	0.5	1.0	3.4
General Government Balance (% of GDP)	-0.9	-1.1	-0.7	-0.7
Structural Budget Balance (% of pot. GDP)	-1.2	-1.4	-0.8	-0.8
General Government Gross Debt (% of GDP)	49.0	101.5	60.4	86.5

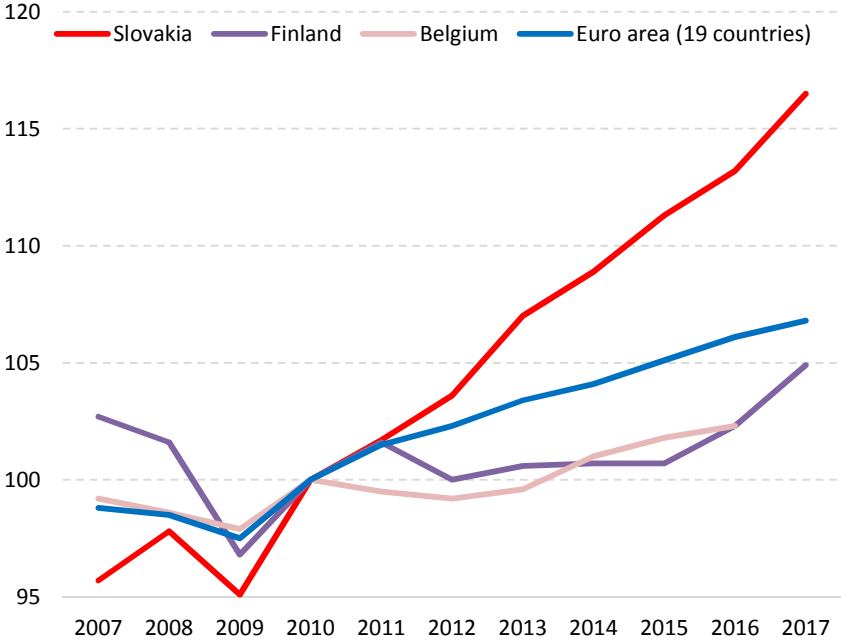
Source: EC Spring Forecast 2018 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip077_en.pdf)



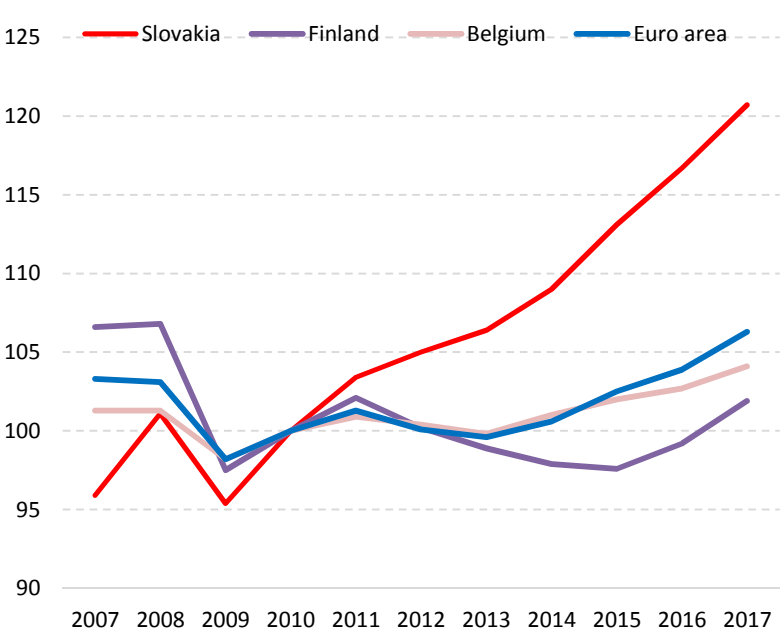
Strong Productivity and GDP Growth



Real labor productivity per hour worked
2010=100



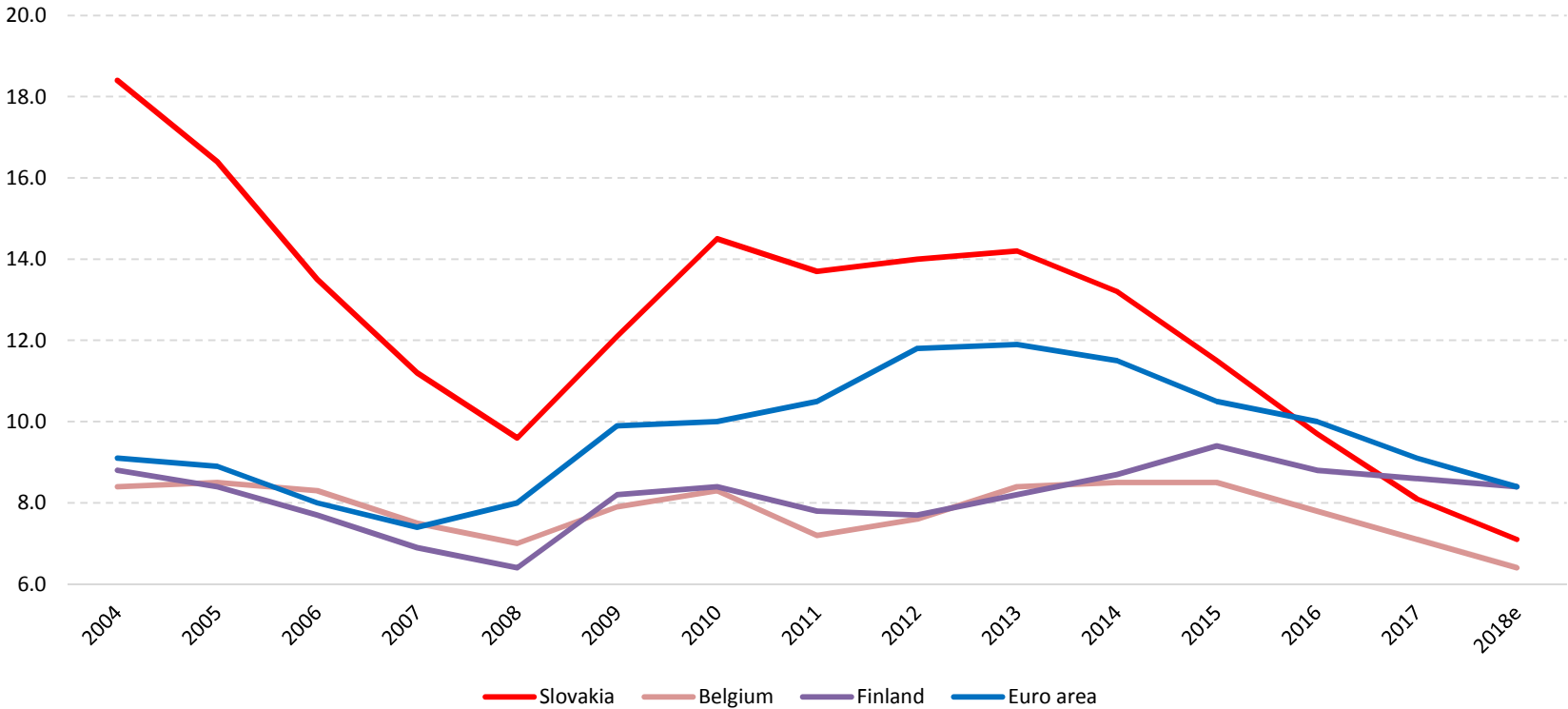
GDP per capita (chain-linked volumes)
2010=100



Source: Eurostat



Unemployment Rate at All Time Low



Source: Eurostat, EC Spring Forecast 2018 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip077_en.pdf)

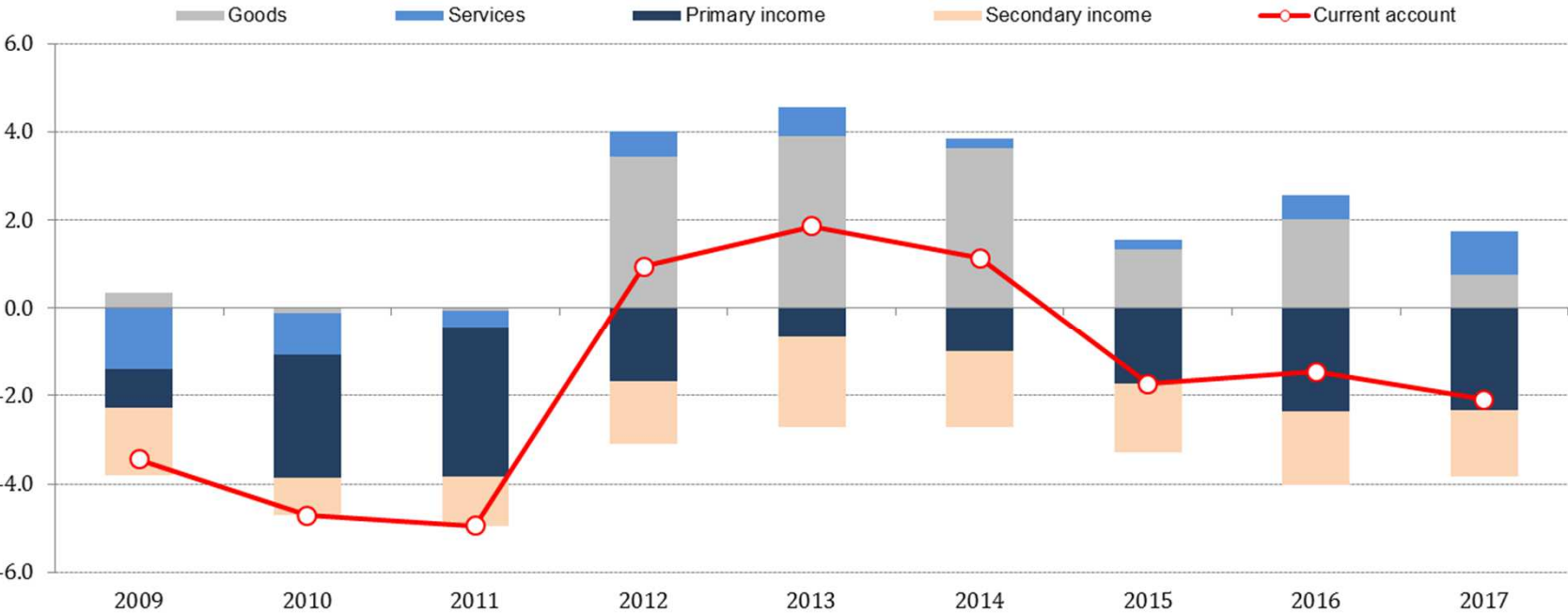
✓ **New industries and services translated into new jobs (automotive industry, shared services, IT sector)**



Open, Export – Oriented Economy



High Investment Imports Turning Current Account Negative



Source: NBS; Ministry of Finance

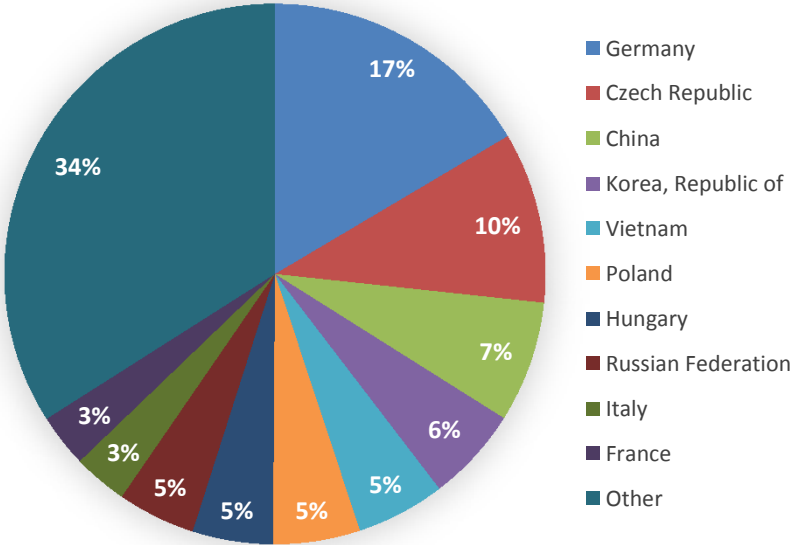
✓ From trade deficit (importing technologies) to trade surplus (export performer)



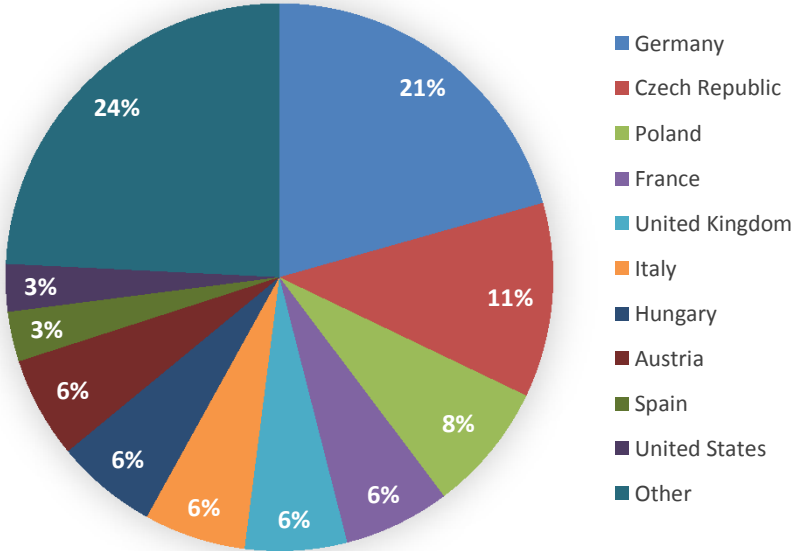
Key Trading Partners in 2017



Imports Geographical Structure (%)



Exports Geographical Structure(%)



73% of exports goes to EU countries

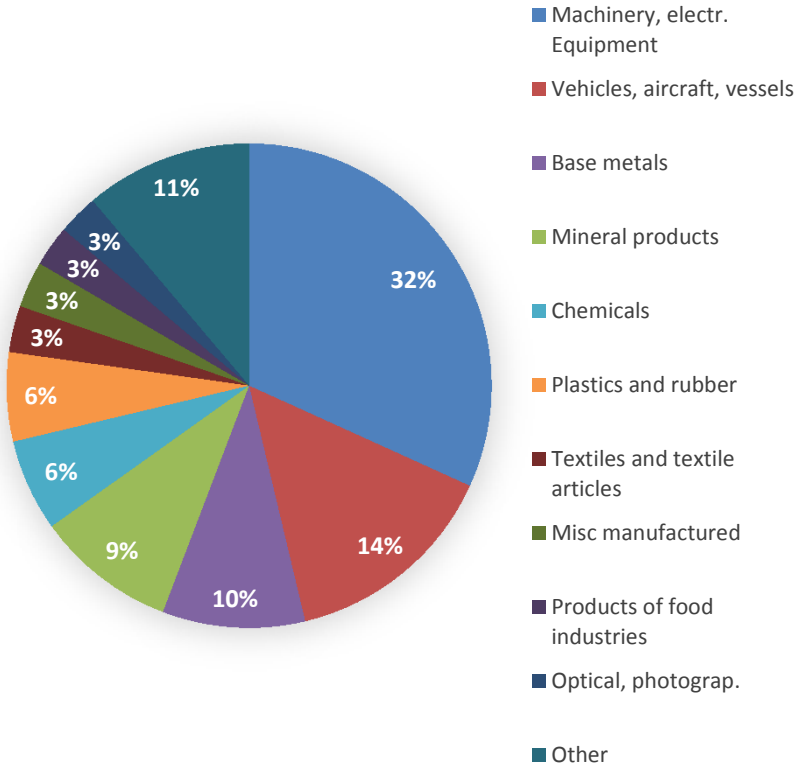


Source: Statistical Office of SR

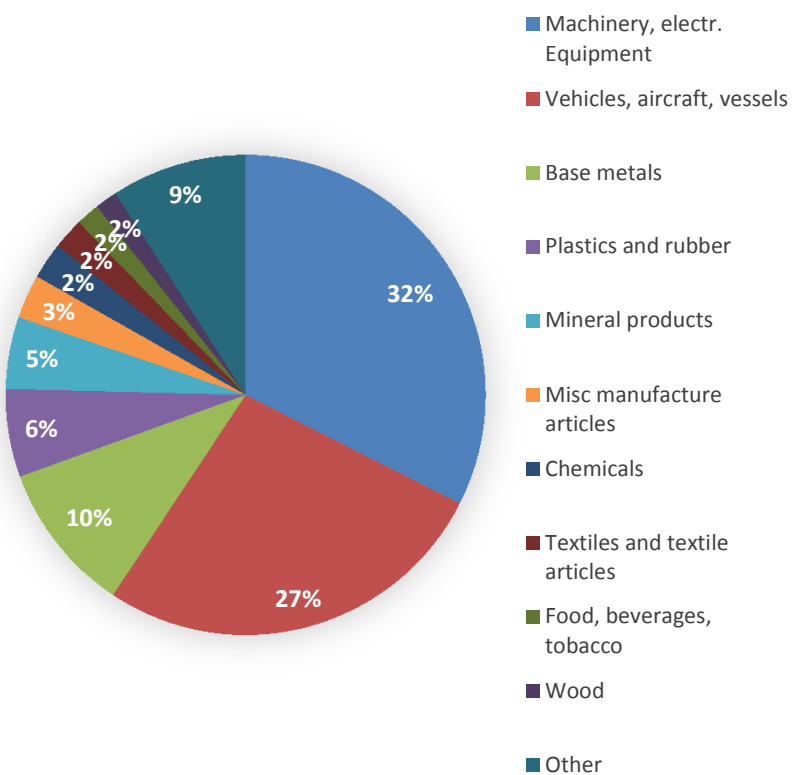
Key Export and Import Products in 2017



Imports by Product (%)



Exports by Product (%)



Source: Statistical Office of SR



Prudent Fiscal Policy



Ratings Reflect a Solid Credit Profile



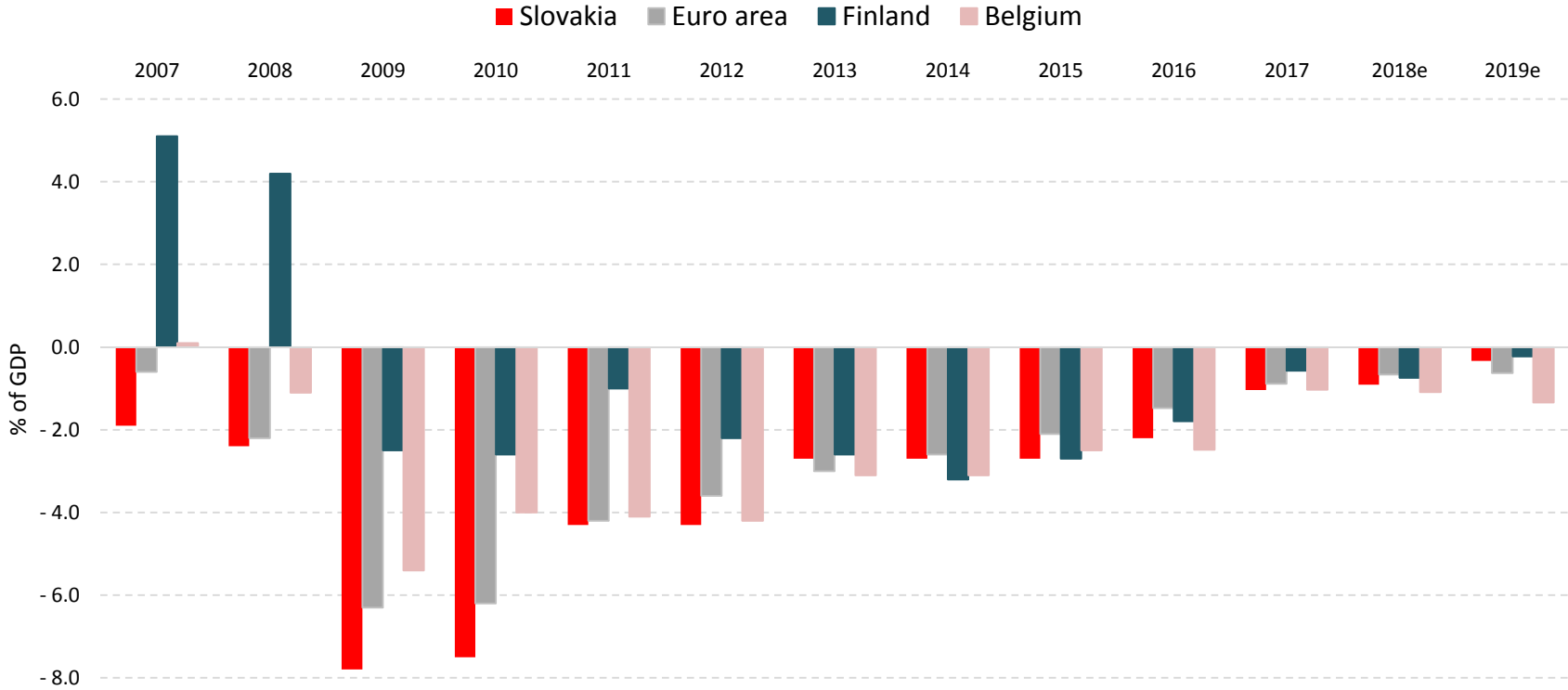
Rating Agency	Rating	Comments
	A2 Positive	<i>" ... the key credit strengths of Slovakia are: (1) Slovakia's continued strong economic growth prospects in the coming years, and (2) Anticipated pick-up in the pace of public sector debt reduction supported by robust growth and continued fiscal consolidation"</i>
	A+ Stable	<i>" ... positively evaluated the low debt burden of the public sector, sustainable public finances, the stable volume of foreign investments and the well-capitalised banking sector with a low incidence of troublesome credits (5%). According to its estimates, the Slovak public debt should decline to about 48 percent of GDP by 2020"</i>
	A+ Stable	<i>"... Slovakia's 'A+' ratings reflect its robust and credible economic framework, including its solid banking sector, eurozone membership and ability to attract foreign investment. EU membership supports political stability and institutional strength"</i>

- ✓ **Stable outlook by S&P and Fitch**
- ✓ **Positive outlook by Moody's since April 2017**

Sources: Moody's, S&P and Fitch



Balanced budget deficit within range



Source: Eurostat, EC Spring Forecast 2018 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip077_en.pdf)

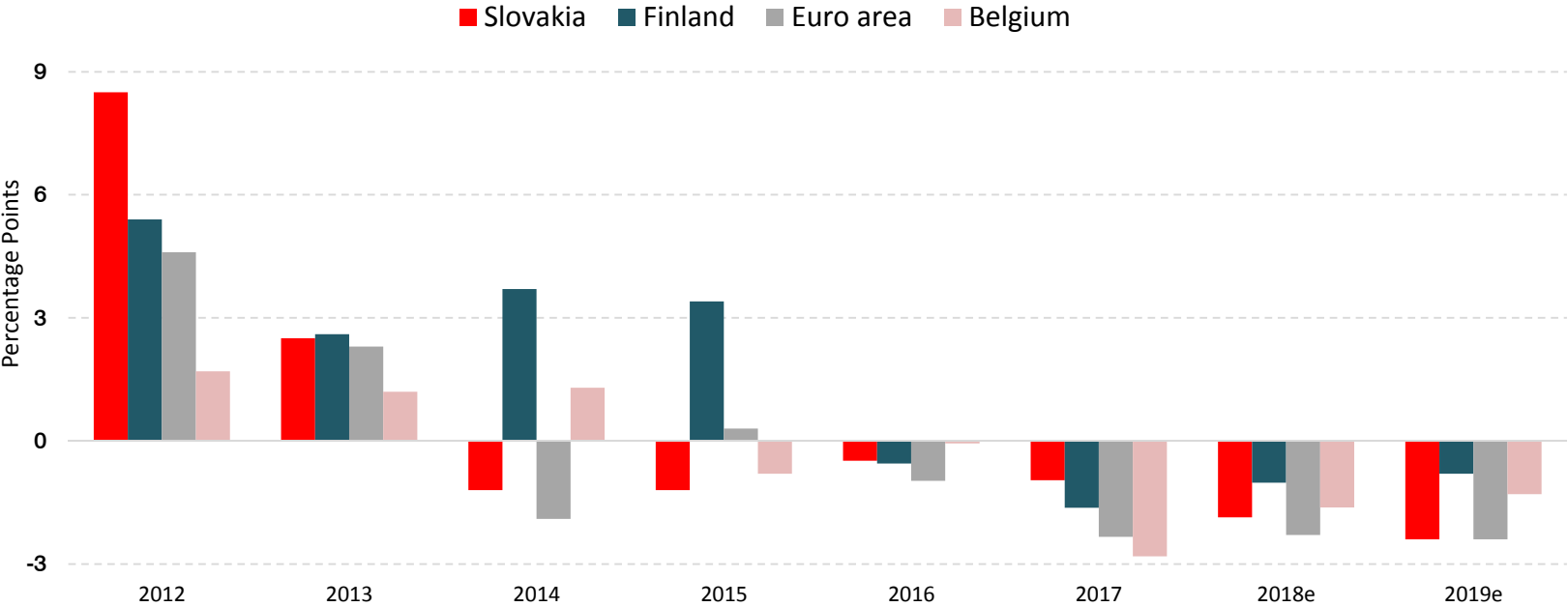
- ✓ **Primary balance surplus historically reached in 2017**
- ✓ **Very close to headline balanced budget in 2019**



Public Debt on a Steady Declining Path



Change in the public debt-to-GDP ratio

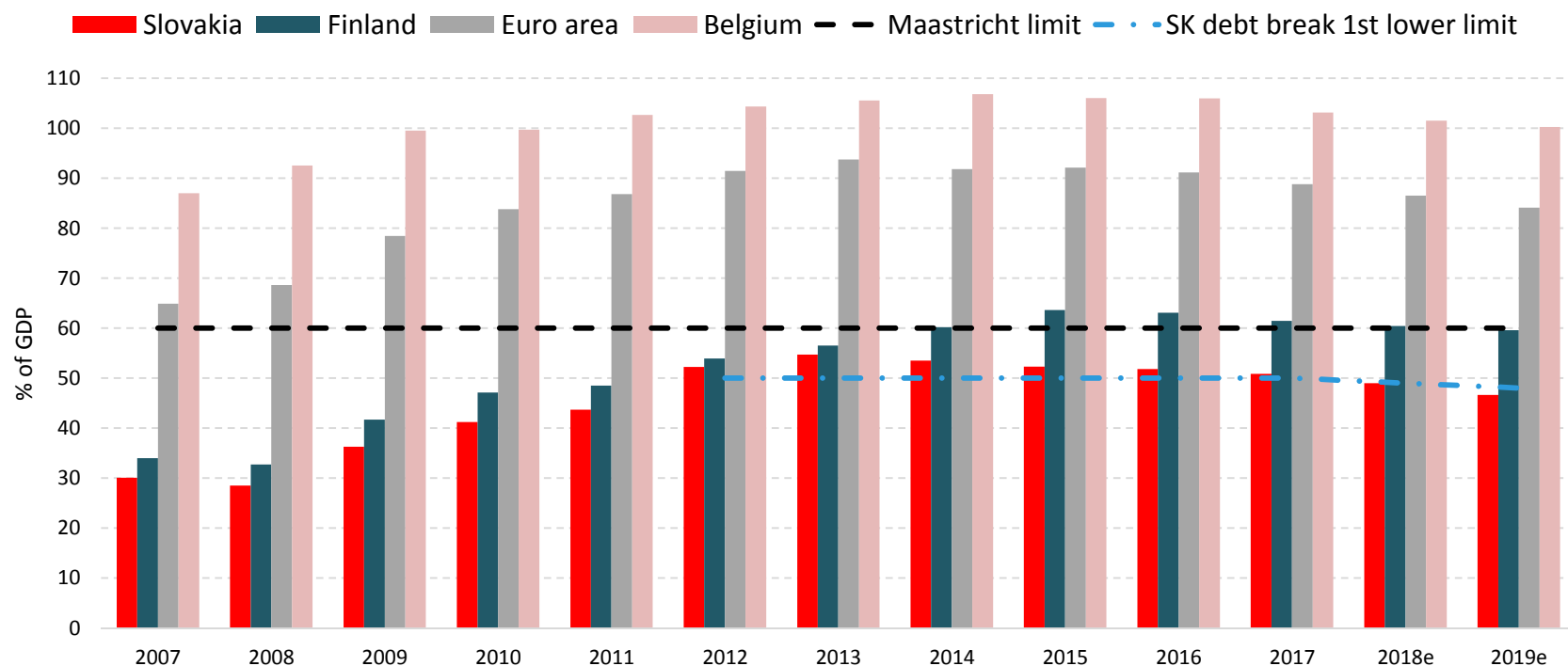


Source: Eurostat, EC Spring Forecast 2018 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip077_en.pdf)

- ✓ Public debt on a declining trajectory since 2014, with cumulative decline of 8 % of GDP until 2019
- ✓ Expected debt to GDP ratio decrease to be driven primarily by macroeconomic growth, inflation rebound and primary surpluses



Favorable Debt Position



Source: Eurostat, EC Spring Forecast 2018 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip077_en.pdf)

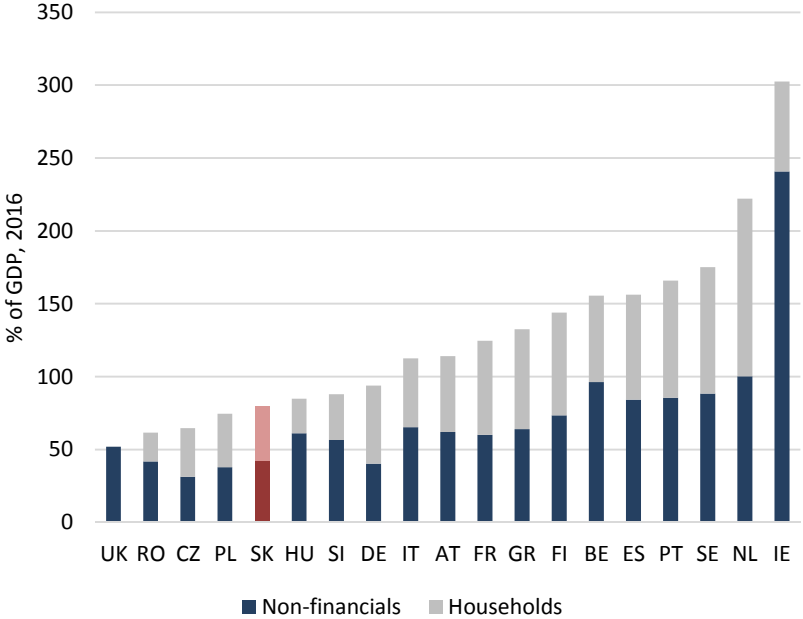
- ✓ Sufficient fiscal space while approaching debt level of 50 % of GDP (well below euro area average)
- ✓ Fiscal responsibility act (national debt brake) is becoming stricter from 2018:
 - ✓ debt level expected to leave the sanction thresholds in 2019 at the level of 46.6 % of GDP
 - ✓ by 2028 the lowest threshold of the debt break will fall to 40% of GDP



Low Household, Corporate and Private Debt

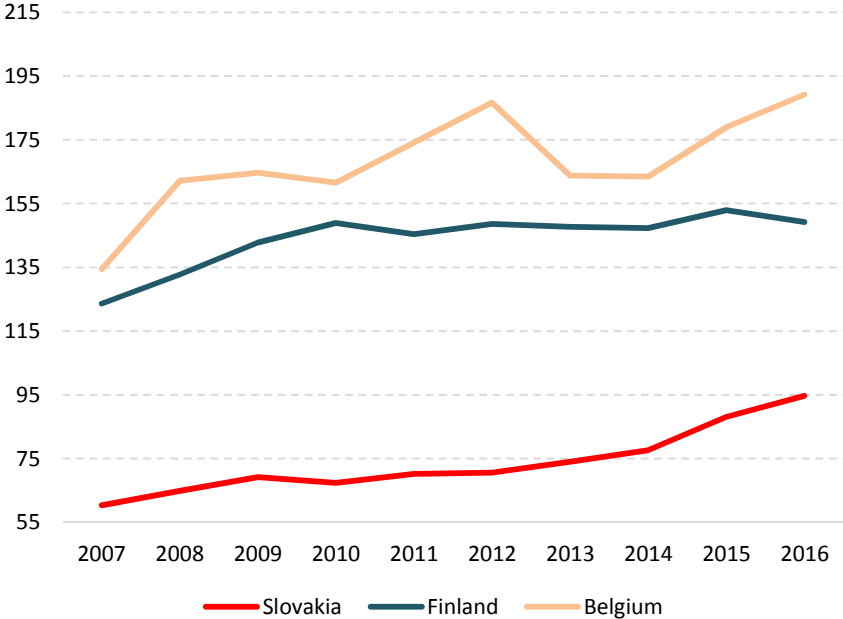


Household and Corporate Debt



Source: Eurostat, data as end of 2016

Private Debt - % of GDP



Source: Eurostat

✓ Low debt dynamics reflects high GDP growth



Prudent Debt Management Strategy



2017 Funding

- ✓ Bonds issued in total amount EUR 6.1bn of which EUR 3bn through syndicated bond issuance
- ✓ First syndicated transaction was completed in March 2017 – 20 year EUR 2bn bond
- ✓ Second syndicated transaction was completed in October 2017 – 30 year EUR 1bn bond

2018 Funding outlook

- ✓ Total funding needs at EUR 4.5bn
- ✓ Only one benchmark redemption of EUR 3.0bn in November
- ✓ Possible T-bills issue
- ✓ Only one syndicated bond transaction

Secondary market improvements

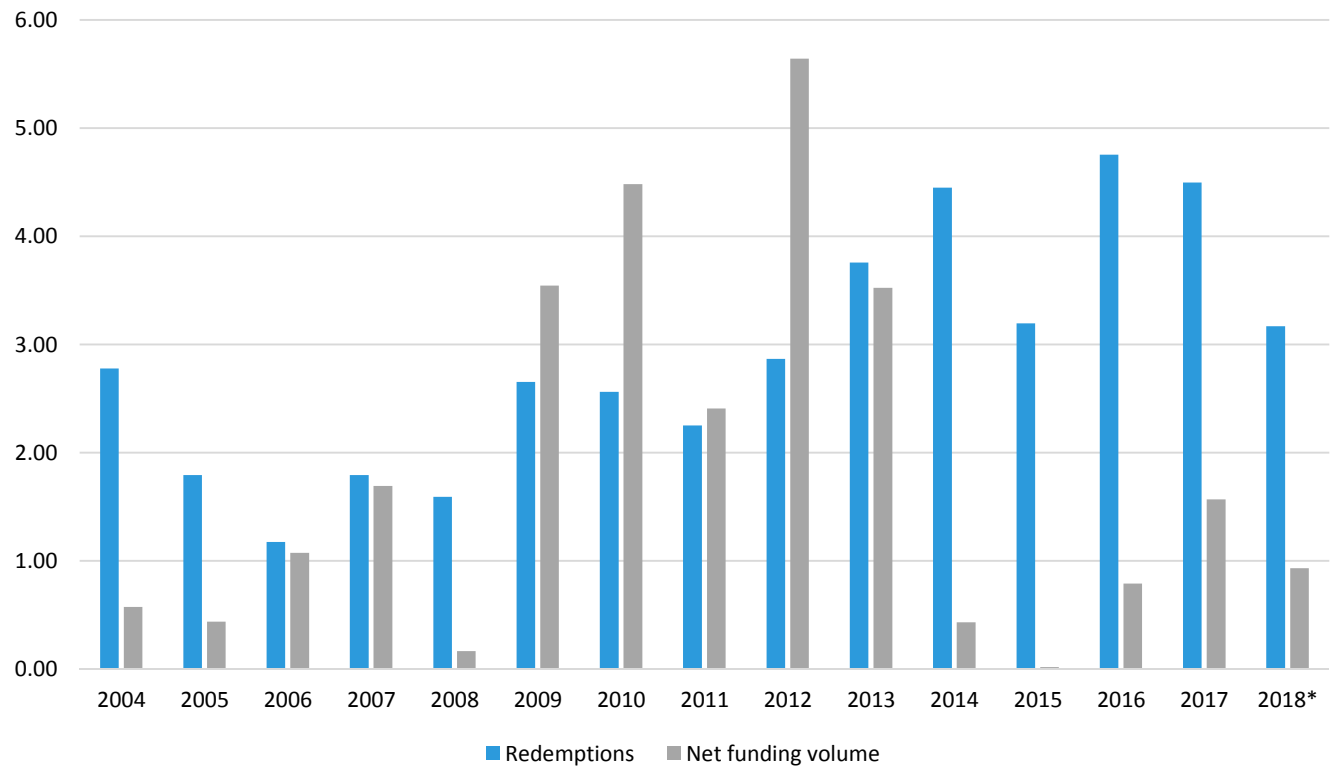
- ✓ Implementation of MTS platform in February 2018 (successfully completed)
- ✓ Adjustments in primary dealers evaluation – secondary market performance
- ✓ Create an active market for REPO operations



Total Gross Funding Development



Redemptions - Net Funding Volume (EUR bn)

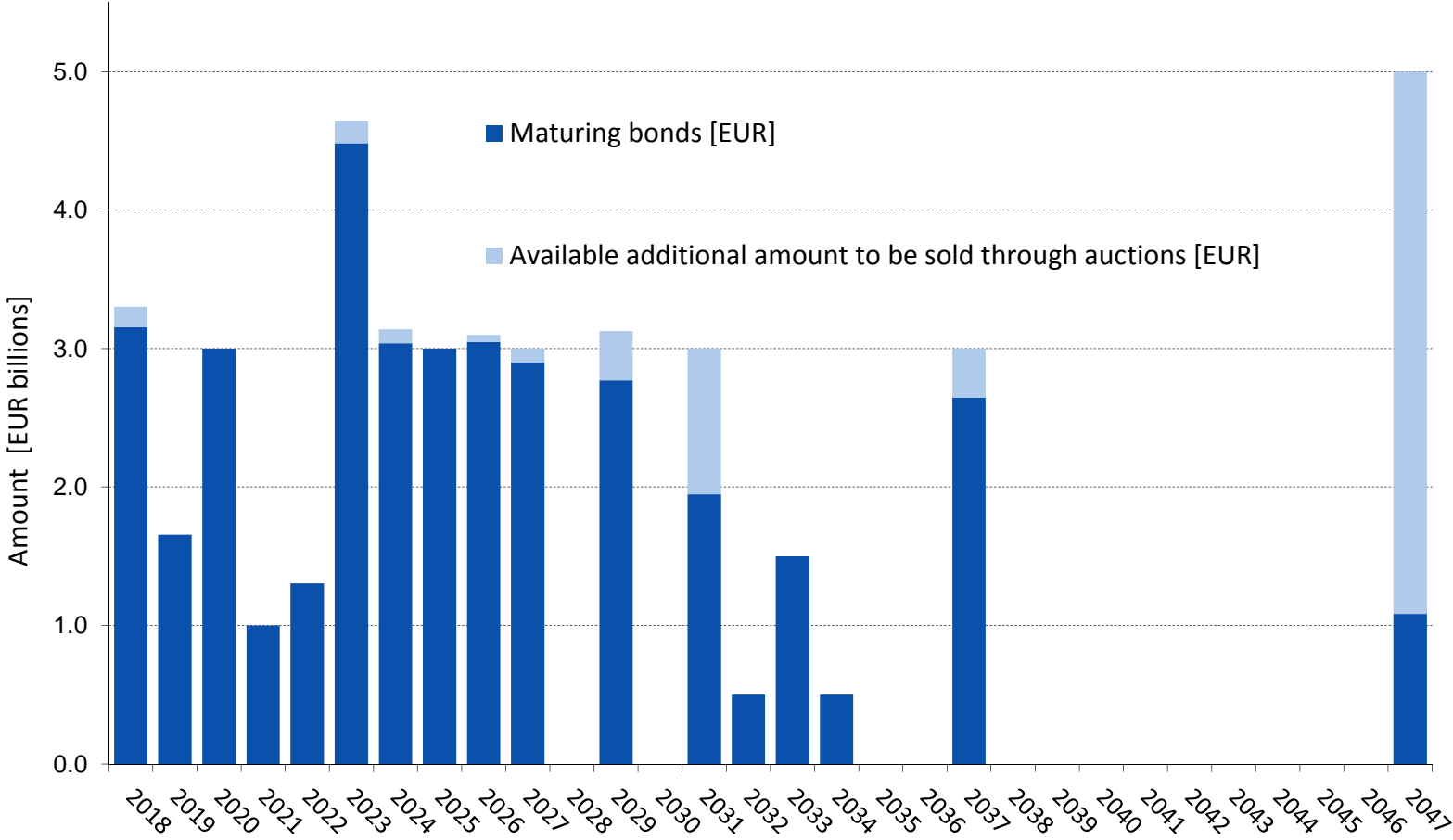


Source: ARDAL, as of 31/03/2018

*Estimate for entire year 2018



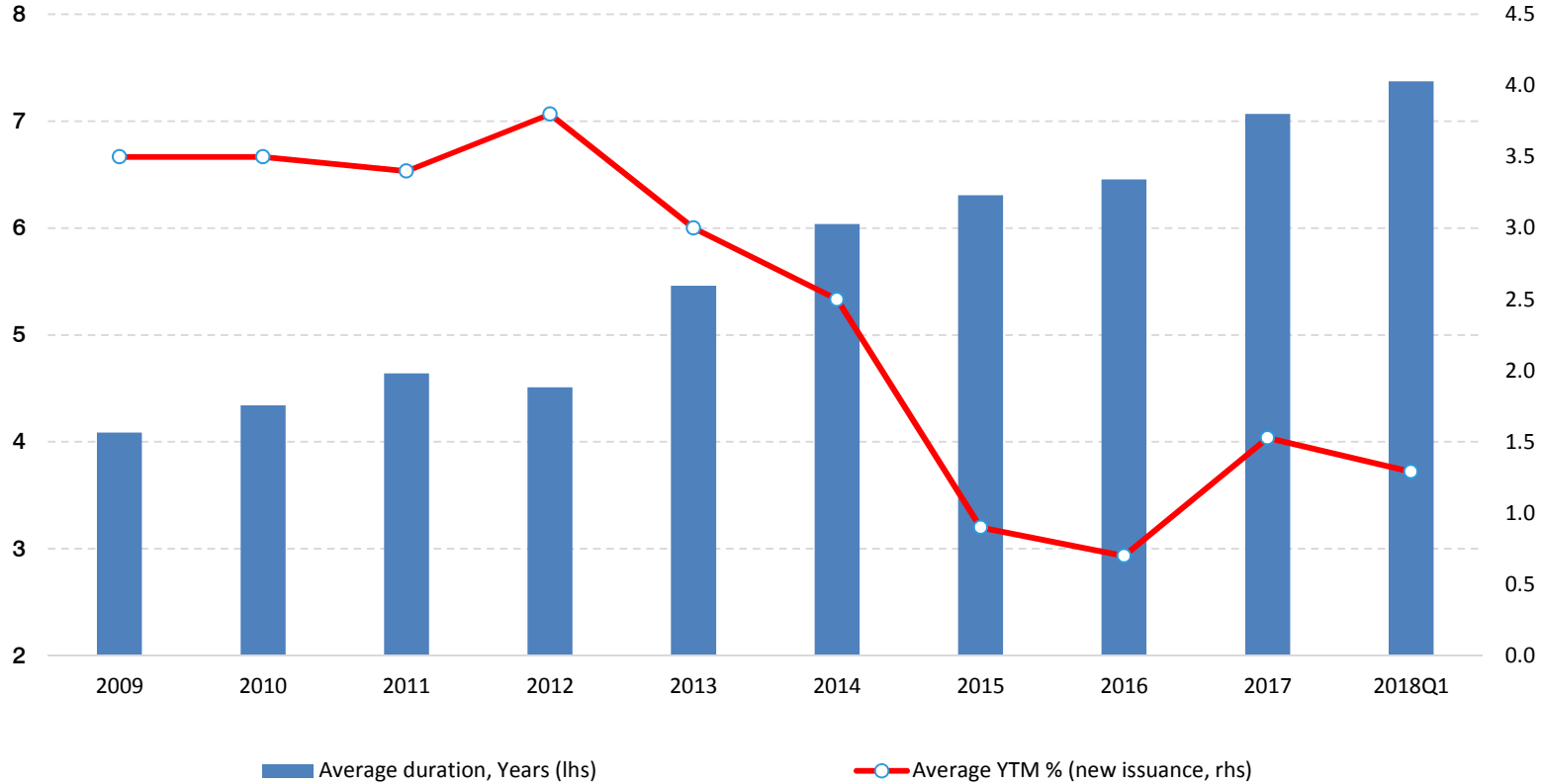
Bond Redemption Profile



Source: ARDAL as of 31/03/2018



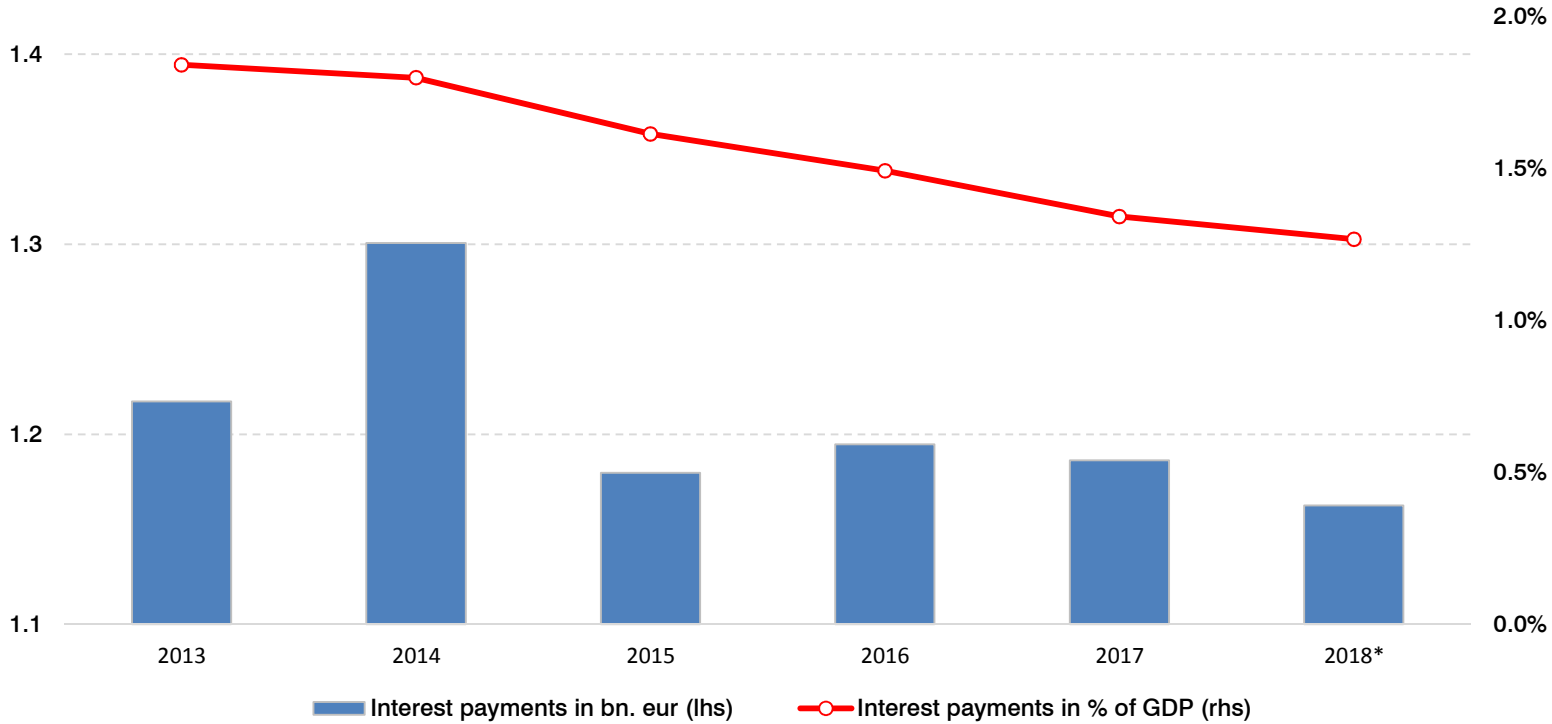
Government Bond Portfolio Metrics



Source: ARDAL



Interest Payments Development



Source: ARDAL, as of 31/03/2018

*Estimate for entire year 2018

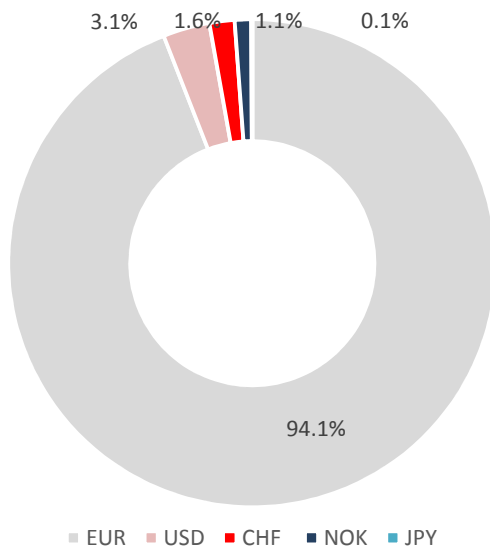
- ✓ Interest payments are at historical lows as a percentage of GDP
- ✓ ECB's PSPP further helped decreasing interest payments



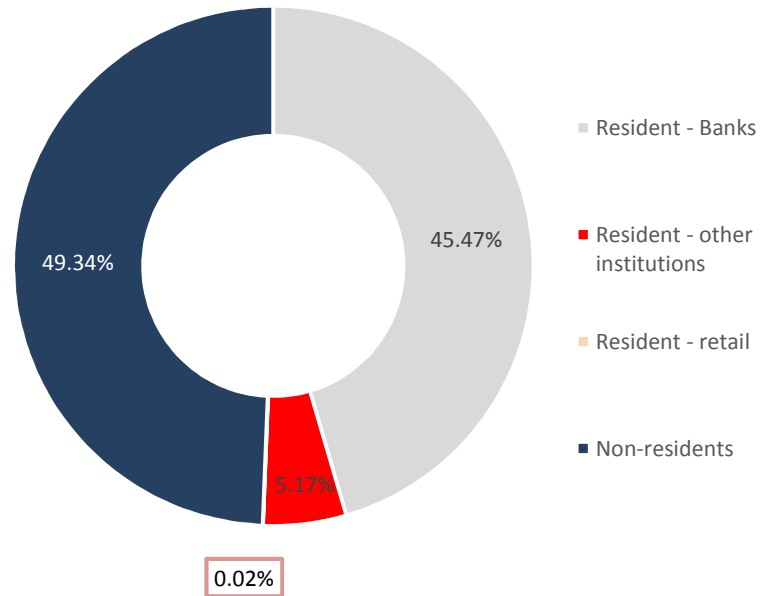
Low Currency Risk and Diversified Investor Base



Currency Breakdown in %



Investor Type Breakdown in %



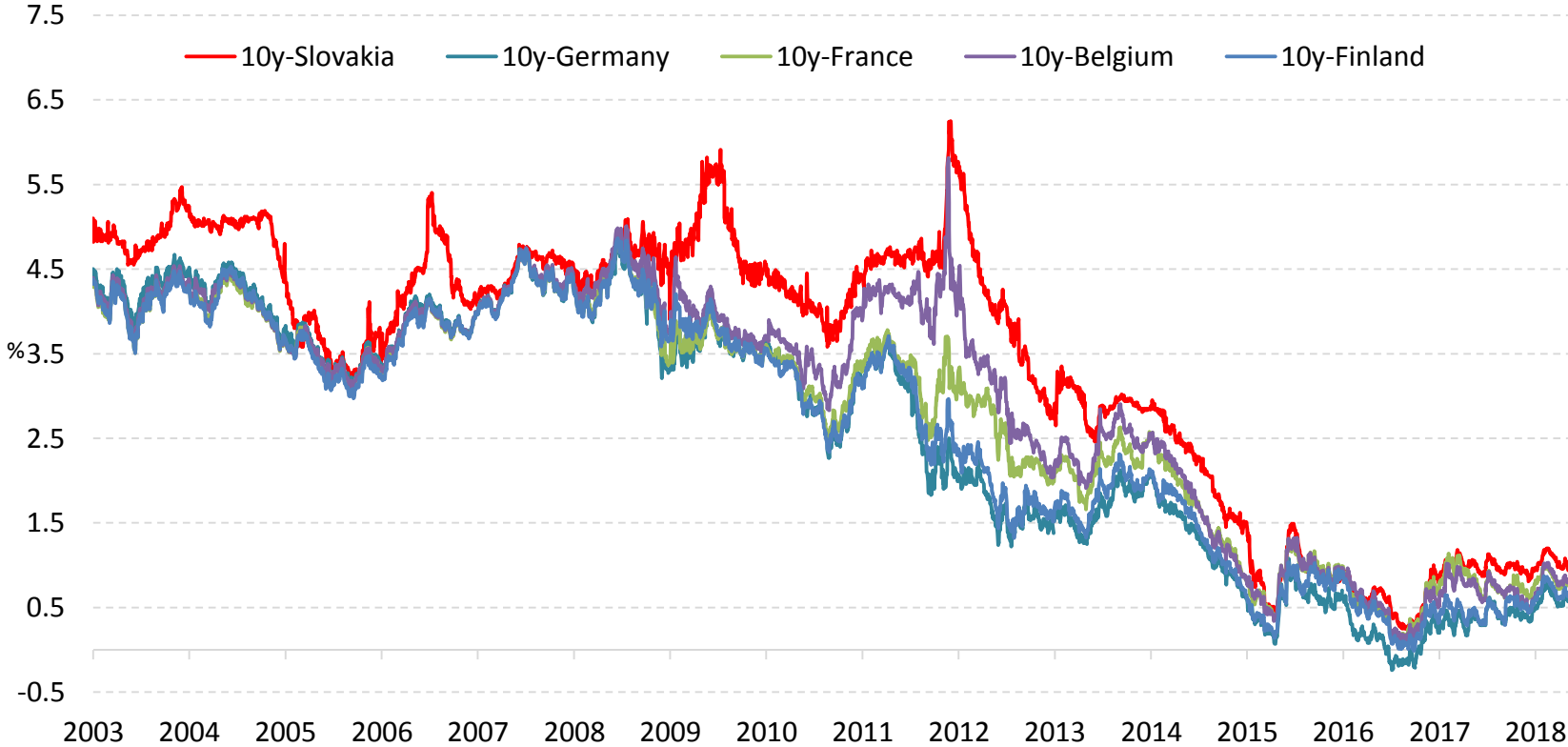
Source: ARDAL, as of 31/03/2018

✓ Debt hedged against FX risk

✓ Increasing portfolio holdings of residents due to ECB PSPP



Government Bond Yields



Source: Bloomberg, NBS, Deutsche Bundesbank, as of May 2018



Auction Calendar & Issuance 2018



Government Bonds		
	Auction date	Settlement date
	15 January	17 January
	19 February	21 February
	19 March	21 March
	16 April	18 April
	21 May	23 May
	18 June	20 June
	17 September	19 September
	15 October	17 October
	19 November	21 November
Treasury Bills		
1	On decision	On decision
2	On decision	On decision
3	On decision	On decision

Source: ARDAL



Primary Dealers



- ✓ **Barclays Bank PLC**
- ✓ **Citibank plc**
- ✓ **Československá obchodná banka, a.s. (KBC group)**
- ✓ **Deutsche Bank AG**
- ✓ **HSBC France**
- ✓ **Natixis S.A.**
- ✓ **Slovenská sporiteľňa, a.s. (Erste Group Bank)**
- ✓ **Société Générale S.A.**
- ✓ **Tatra banka, a.s. (RBI Group)**
- ✓ **Všeobecná úverová banka, a.s. (Intesa Sanpaolo Group)**



Indicative Term Sheet



Issuer	<ul style="list-style-type: none">• The Slovak Republic acting through the Ministry of Finance of the Slovak Republic and the Debt and Liquidity Management Agency (ARDAL)
Issuer Ratings	<ul style="list-style-type: none">• A2 by Moody's (Positive) /A+ by S&P (stable) /A+ by Fitch (stable)
Currency	<ul style="list-style-type: none">• EUR
Issue size	<ul style="list-style-type: none">• Benchmark
Denominations	<ul style="list-style-type: none">• €1x€1
Repayment	<ul style="list-style-type: none">• 10 years bullet [and potentially a long dated second tranche]
Format / Form of Notes	<ul style="list-style-type: none">• Regulation S only / Bearer
Documentation	<ul style="list-style-type: none">• Standalone
Governing Law	<ul style="list-style-type: none">• Slovak Law
Listing	<ul style="list-style-type: none">• Bratislava Stock Exchange
Joint Lead Managers	<ul style="list-style-type: none">• Barclays, Citi, Slovenska sporitelna (Erste Group), Tatra banka (RBI Group)



Contacts



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