



Slovak Republic

Investor Presentation

May 2009



Slovakia – fully integrated EU member

Strong economic and fiscal performance

Debt management and funding strategy

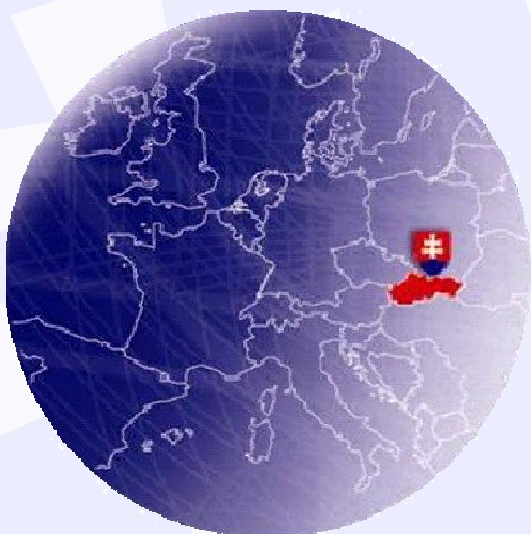


Key considerations

- Slovakia joined smoothly the eurozone on January 1, 2009
- Slovakia is quickly catching up on the eurozone (GDP growth 10,4% in 2007 and 6.4% in 2008). The IMF forecasts for GDP growth is -2.1% in 2009 vs. -4,2% for eurozone
- Slovakia had a relatively low deficit (2.2% of GDP) and debt (27.6% of GDP) level in 2008. Despite the impact of financial crisis, the principal aim is to continue again with fiscal consolidation from 2010.
- Excellent business environment
- Healthy banking sector



Key Credit Highlights



+ Strong Ratings

Moody's: A1 stable outlook
Fitch: A+ stable outlook
S&P: A+ stable outlook

+ International Integration

Euro zone member (2009)
EU member (2004)
OECD member (2000)

+ High GDP Growth

6.4 % in 2008, vs 0.8% for
Euro zone, one of the highest in
the World

+ Low Debt Levels

General government debt reached
27.6% of GDP (2008), compares
favourably with peers (Euro area
debt reached 69.3 % of GDP in
2008)



Long-term public finance sustainability

Pension reform:

- ✚ Radical reform of 1st pillar (pay-as-you-go pillar) in 2004
- ✚ Introduction of a strong 2nd pillar (private pension accounts invested in capital markets) in 2005 – contribution rates on pension insurance divided equally between the 1st and 2nd pillar (9% each)
- ✚ Improving the regulatory environment for efficient functioning of the 3rd pillar
- ✚ Introduction of the 2nd pillar – in the short-to-medium run lower revenues of the general government (GG), in the long-run lower GG expenditures on pensions
- ✚ Key fiscal medium-term goal – to reach a balanced GG budget

Introduction of the 2nd (fully-funded) pillar of pension scheme (ESA95, in % of GDP)

	2005	2006	2007	2008	2009B	2010B	2011B	2012B
Impact of 2nd pillar on GG balance	0.8	1.2	1.3	1.3	1.1	1.1	1.1	1.2

Note: B - budget



Flat Rate Tax

Radical simplification of the tax system from 2004

- + elimination of virtually all exceptions, exemptions, deductions, special rates, and special regimes
- + elimination of dividend, inheritance, gift taxes, and real estate transfer tax

Introduction of low nominal rates

- + 19% flat individual income tax
- + 19% corporate tax
- + 19% unified VAT on all goods and services (since 2007 VAT rate 10% applied on medicine and medical tools and since 2008 on books)

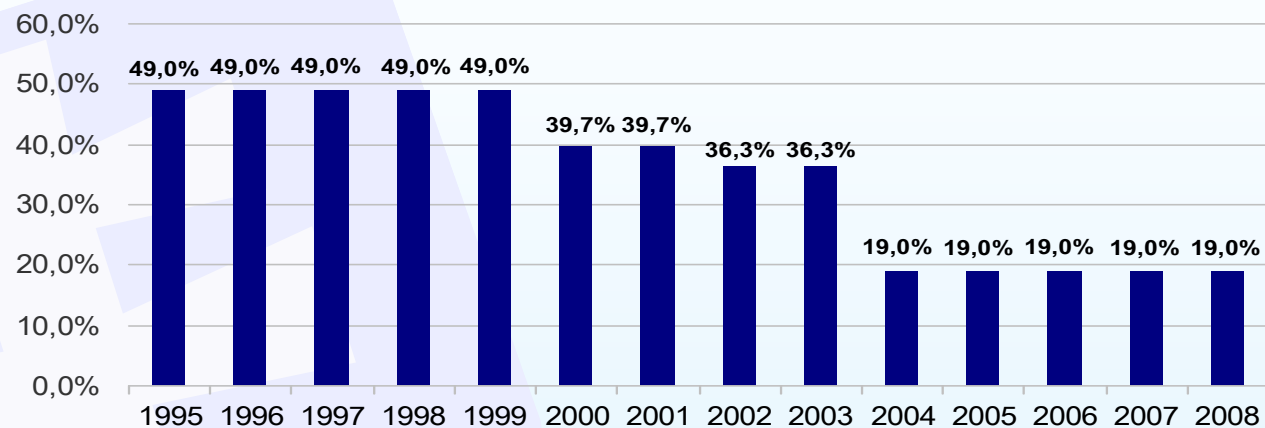
Shift from direct to indirect taxes

Slovakia has the lowest tax quota II in EU, in 2007 it reached 29.7% of GDP



Taxation of corporate income

Effective Corporate Tax Rate in Slovakia (%)



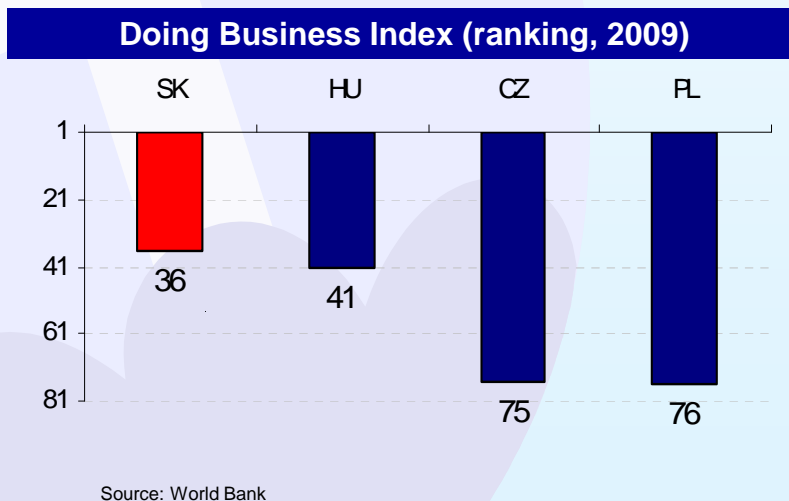
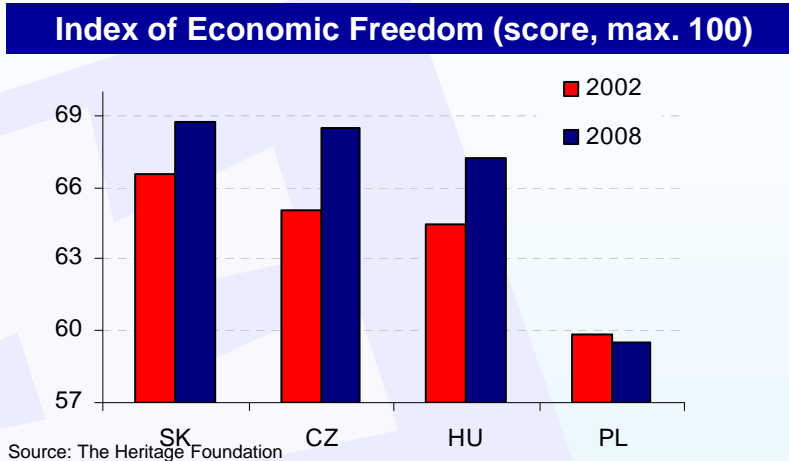
Effective corporate tax rate = statutory corporate tax rate x dividend tax rate

Source: Ministry of Finance

- + Top statutory tax rates on corporate income in V4 (2008): 18.6% in HU, 19% in SK and PL, and 21% in CZ
- + In Slovakia, since 2004, dividends are exempt from taxation



Business environment improvement



- + Index of Economic Freedom measures the economic freedom of 183 countries in the world. Slovakia scored much better than all other Central European countries both in 2002 and 2008.
- + Doing Business Index prepared by the World Bank provides an objective measure of business regulations and their enforcement across more than 180 economies. Slovakia achieved the 36th, best among the Visegrad countries

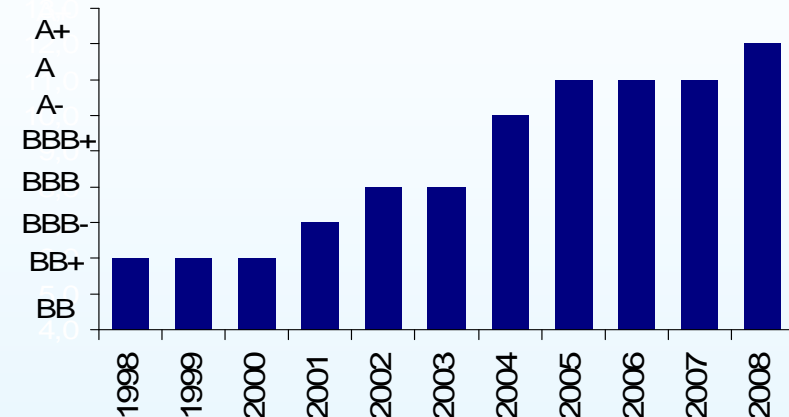


Radical rating improvement

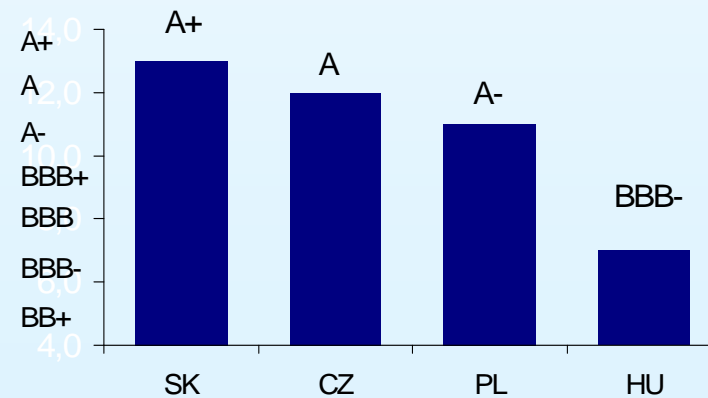
- + Slovakia has the highest rating of the V4 countries
- + Radical rating improvement since 2000 (from BB+ in 2000 to A+ in 2009)
- + Slovak government has the highest credibility confirmed by the independent, unbiased subject



S&P Rating Slovakia



S&P rating in countries V4



Building the knowledge economy

Conditions for strong growth are in place after recovery of the world economy

- + Slovakia is highly attractive for export oriented production

Focus on the knowledge economy through the national Lisbon strategy

- + highly focused on priorities most relevant for Slovakia
- + strong Government commitment:
 - + Modernization Programme Slovakia 21 (June 2008)
 - + National Reform Programme for 2008 – 2010 (October 2008)

Reforms of the knowledge infrastructure

- + reforms of the education system and R&D infrastructure
- + major investments from national and EU funds



Five priority areas for the coming years

R&D and innovations

- + support of high quality research, R&D and business innovations

Education

- + modern education, training, and student mobility

Employment

- + inclusion of the long term unemployed into the labour market, improved quality of human capital

Business environment

- + less and better regulation, e-government, and wider internet access

Climate Change and Energy Industry

- + low-carbon and energy efficient economy



Slovakia – fully integrated EU member

Strong economic and fiscal performance

Debt management and funding strategy

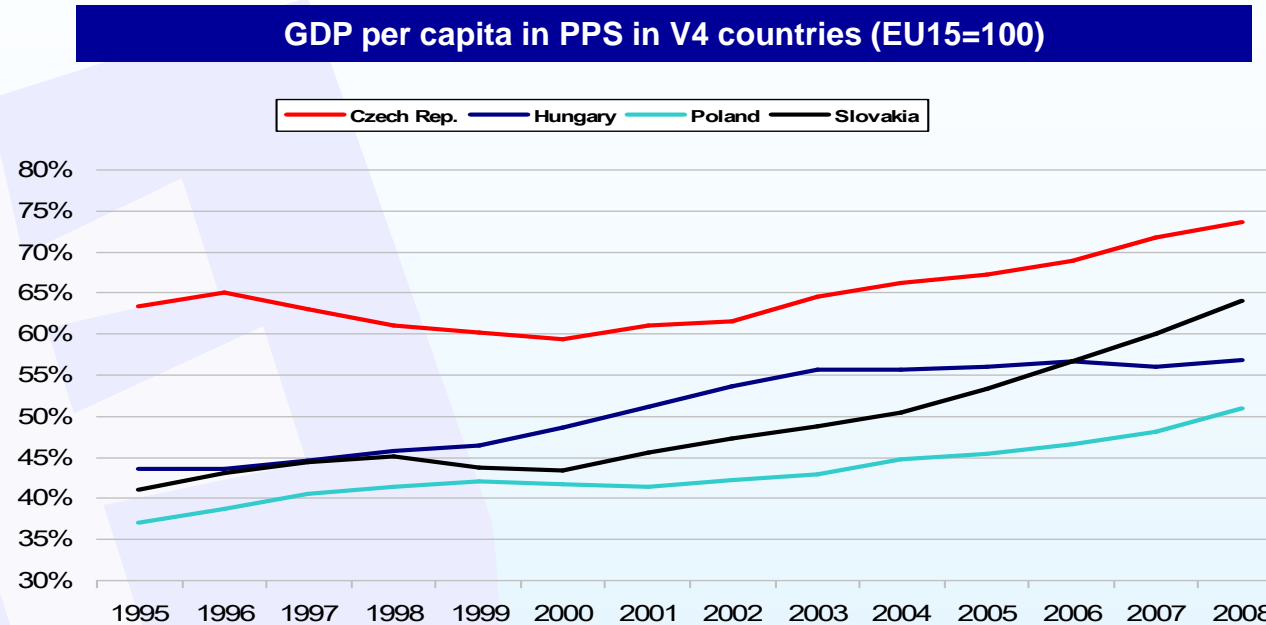


Excellent macroeconomic development

(growth in %)	2002	2003	2004	2005	2006	2007	2008
Real GDP	4,8	4,7	5,2	6,5	8,5	10,4	6,4
Real wages	5,8	-2,0	2,5	6,3	3,3	4,3	3,5
Employment (LFS)	0,2	1,8	0,3	2,1	3,8	2,4	3,2
Unemployment rate (LFS)	18,5	17,4	18,1	16,2	13,3	11,1	9,6
Inflation (annual average)	3,3	8,5	7,5	2,7	4,5	1,9	4,6
Current account balance (% of GDP)	-7,9	-5,9	-7,8	-8,5	-7,5	-5,3	-6,1



Real convergence



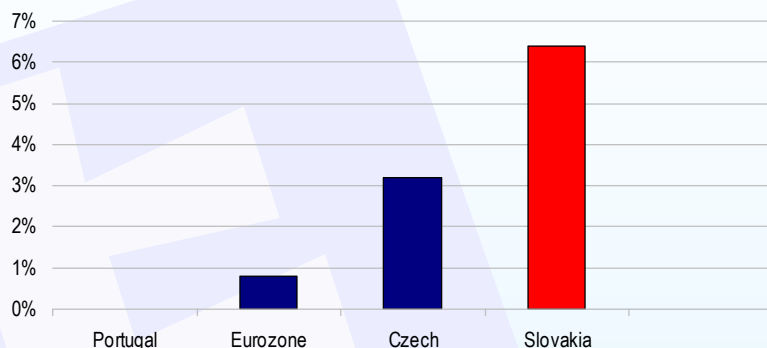
Source: Eurostat

- + Increase in GDP per capita from 41,1% of EU15 average in 1995 to 64,1% in 2008
- + The fastest rate of convergence among the V4 countries
- + Since 2007 second among the V4 countries

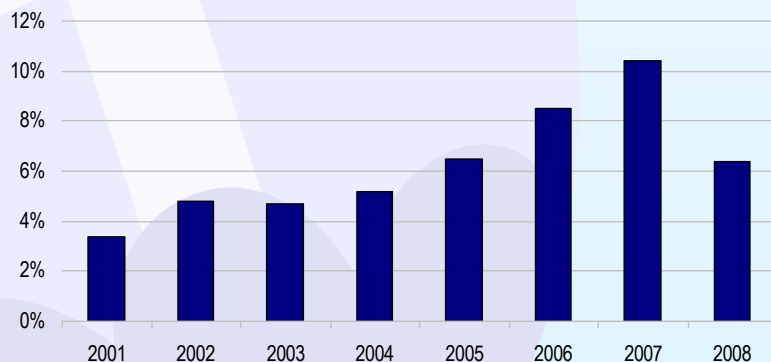


Economic growth still at the strong rates

2008 Real GDP Growth, Peer Comparison



Slovakia Real GDP Growth



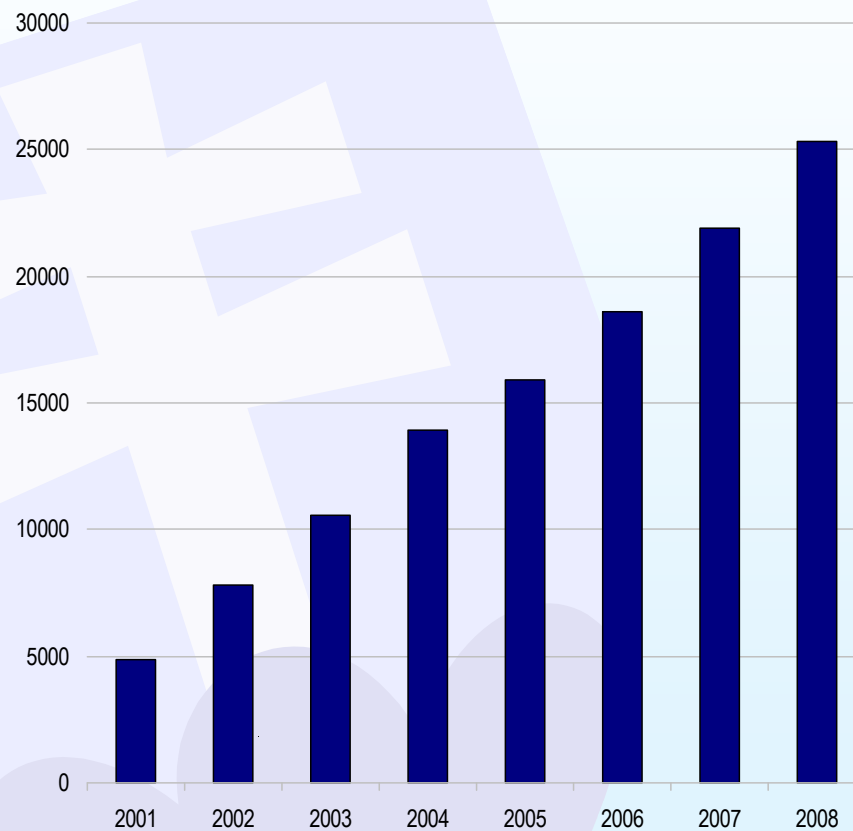
- + Second highest growth in Europe
- + Top performer in the OECD
- + Sustained robust growth
- + Driven by both domestic and external demand
- + Stimulated by significant FDI
- + Economic growth expected to accelerate again after crisis



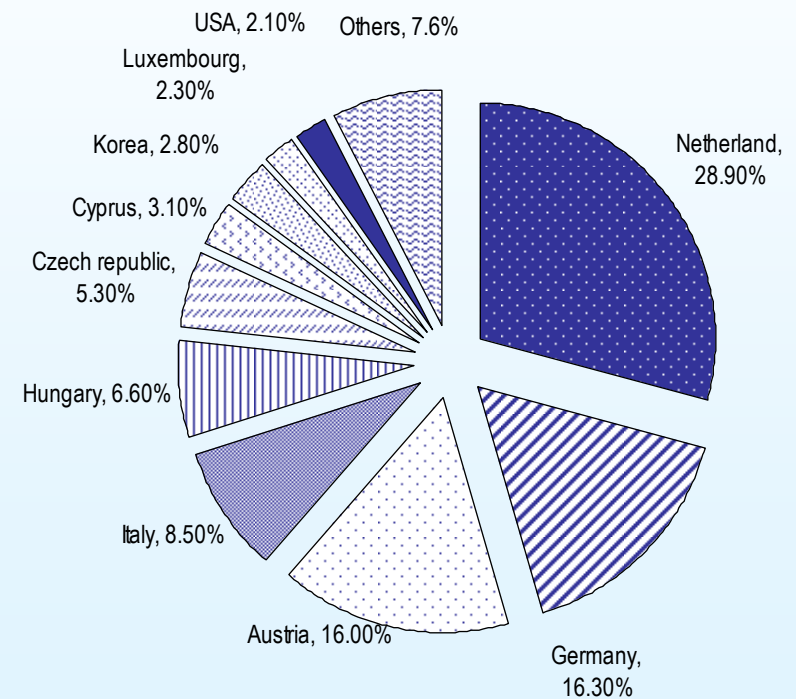
Source: Ministry of Finance, NBS, European Commission

Strong FDI inflows

Total FDI Stock (US\$ million)



FDI Stock by Country of Origin, 2007



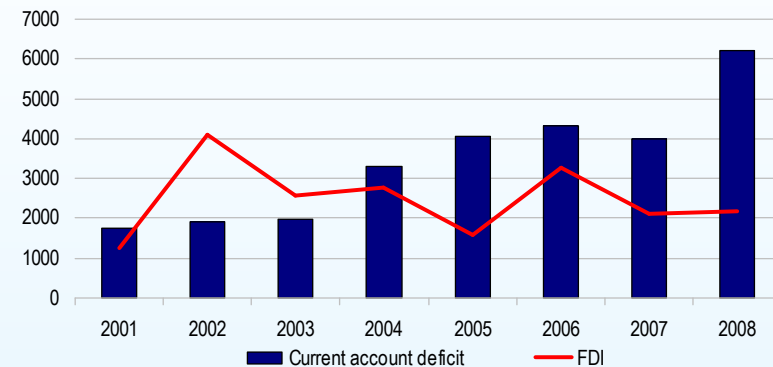
Source: Ministry of Finance, NBS

Trend in the current account

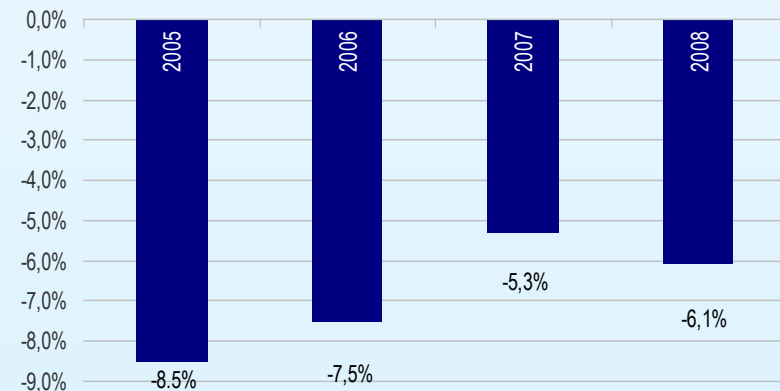
- + Exports of cars and durable consumer goods continued in the increasing trend in 2008
- + The current account deficit worsened to 6.1% in 2008 compared to 5.3% in 2007 due to slowdown of main trading partners
- + In 2008, EU countries represented 85,2% of total exports and 67,1% of total imports of goods



Slovakia Balance of Payments Components



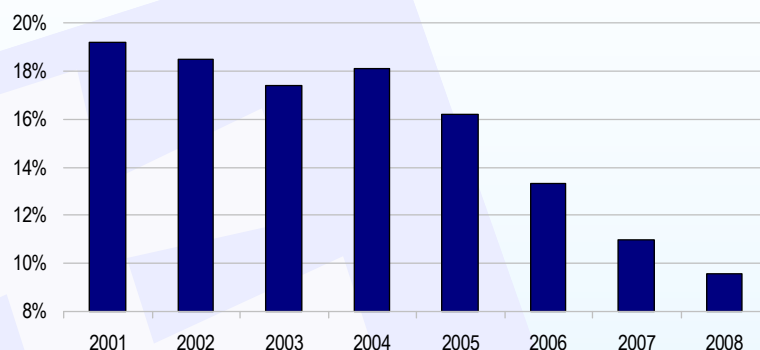
Dynamics of the Current Account Deficit as % of GDP



* Forecasts
Source: Ministry of Finance, NBS, European Commission

Unemployment continued to decrease in 2008

Slovak Unemployment Rate



Source: Eurostat

Development of the Unemployment Rate, Peer Comparison

	2002	2008	Change in p.p.
Slovakia	18.7%	9.5%	↓ -9.1
Czech	7.3%	4.4%	↓ -2.9
Greece	10%	7.7%	↓ -2.3
Portugal	5.1%	7.7%	↑ +2.6
Eurozone	8.3%	7.5%	↓ -0.8

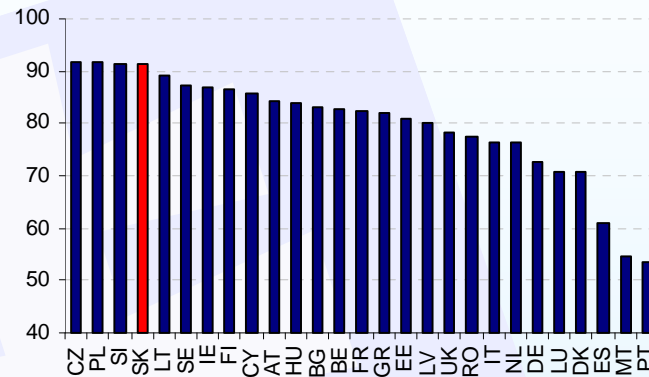
Source: Eurostat



- + Strong employment growth as the main factor behind declining unemployment
- + Employment grew at 2.4% in 2007 and 3.2% in 2008
- + In the European Union, Slovakia compares very favourably in the reduction of unemployment
- + Good prospects to recover employment due to relatively flexible labour market and low wage costs

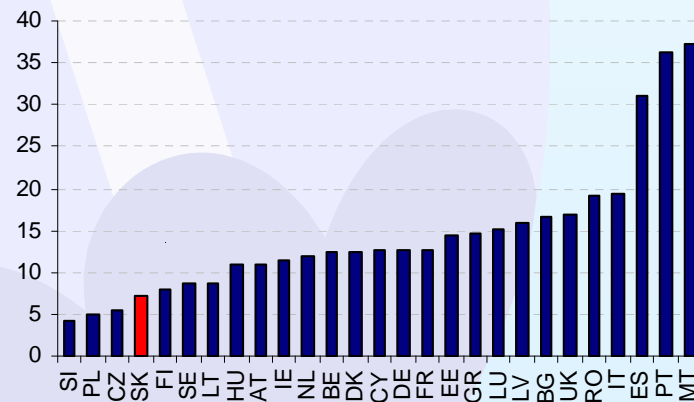
Secondary school education is widespread

Youth education attainment level (% , 2007)



Source: The Heritage Foundation

Early school leavers (% , 2007)



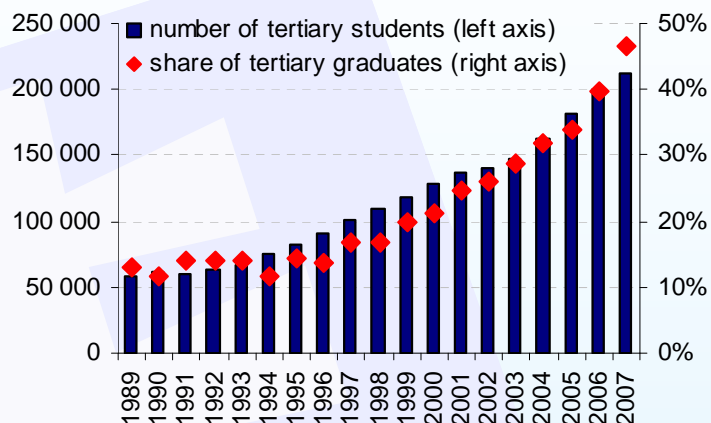
Source: World Bank



- + In Slovakia 91.3% of the population aged 20 to 24 have completed at least upper secondary education
- + An upper secondary school education is generally considered the minimum for taking part in a knowledge-based society, either for entering the labour market or higher education.
- + Only 7.2% of the population aged 18-24 have completed lower secondary education and are not continuing with further education or training

Rising number of tertiary graduates

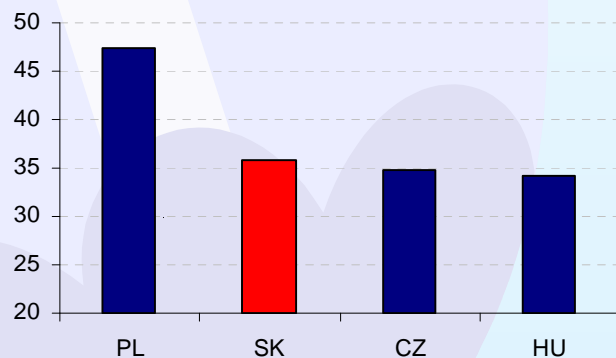
Number and share of tertiary students in Slovakia



Source: Ministry of Finance

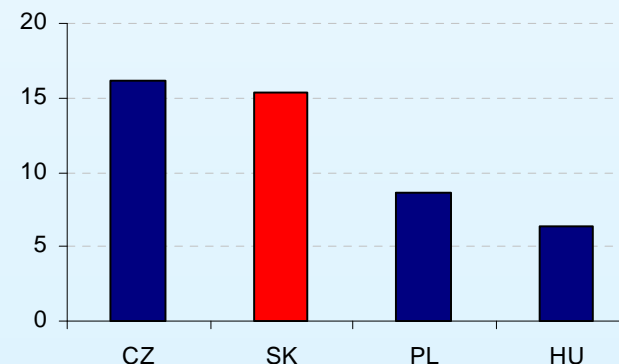
- ✚ The number of students in tertiary education in Slovakia has significantly increased in the last decade

Tertiary graduates (% , 2006)



Source: OECD

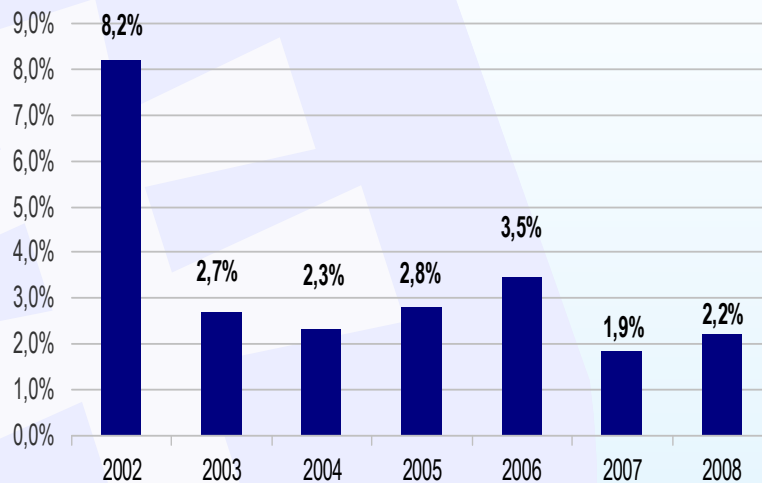
Tertiary graduates in engineering, manufacturing and construction (% , 2006)



Source: OECD

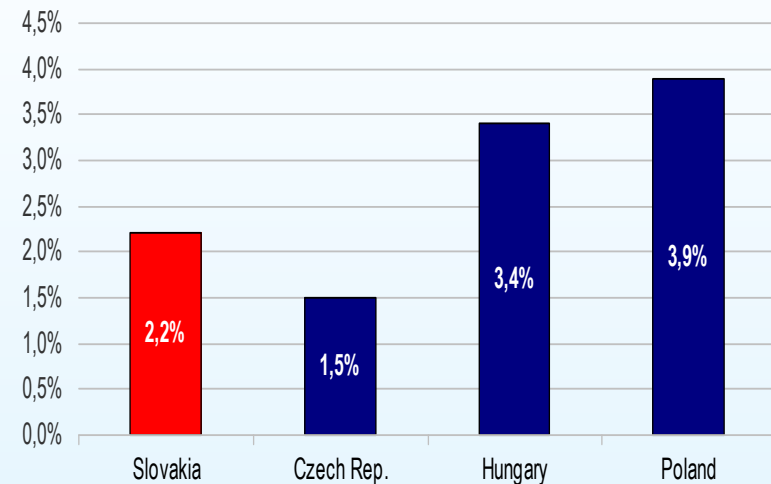
General government deficit

Slovakia General Government Deficit (% of GDP)



Source: Eurostat

2008 General Gov. Deficit (% of GDP), Peer Comparison

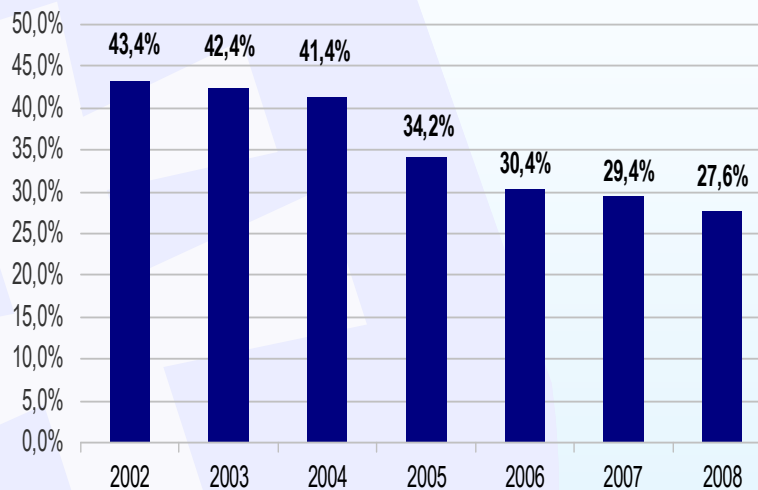


- + Reductions in GG deficit with the aim to meet the Maastricht fiscal criterion in 2007 and creating conditions for long-term fiscal sustainability
- + General government deficit of Slovakia reached 2.2% of GDP in 2008 (net of the pension reform costs it would be 0.9% of GDP)

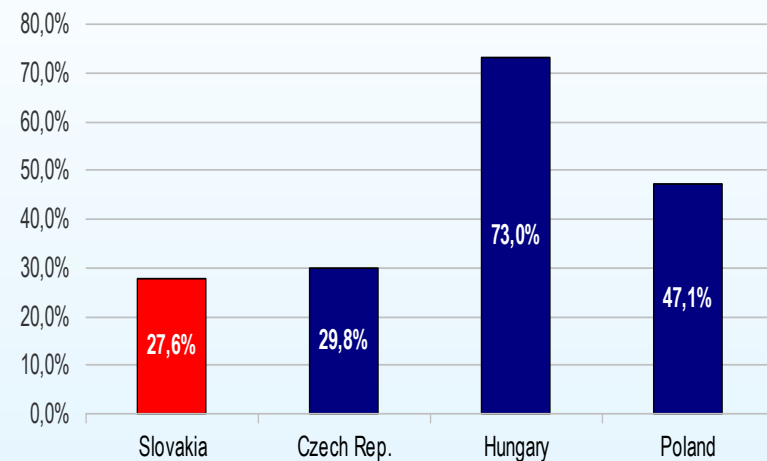


Gross general government debt

Slovakia General Government Debt (% of GDP)



2008 General Gov. Debt (% of GDP), Peer Comparison



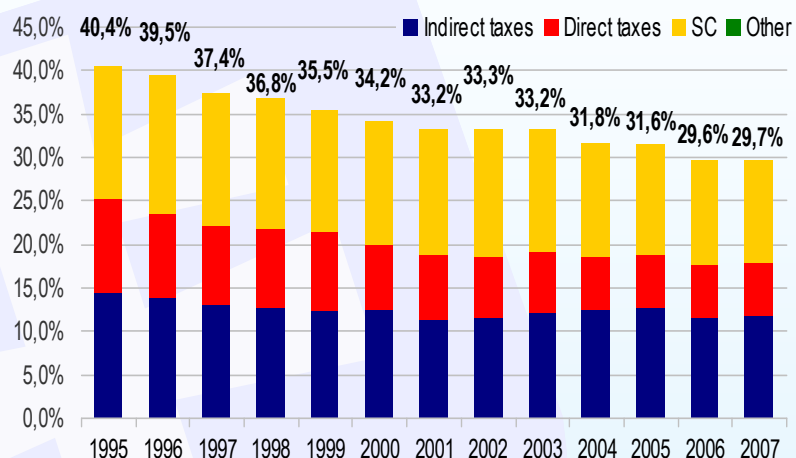
Source: Eurostat

- + Significant reduction of debt – consolidation, privatisation proceeds, establishment of State Treasury System (centralisation of funds and debt and liquidity management)
- + Lowest general government debt among V4 countries



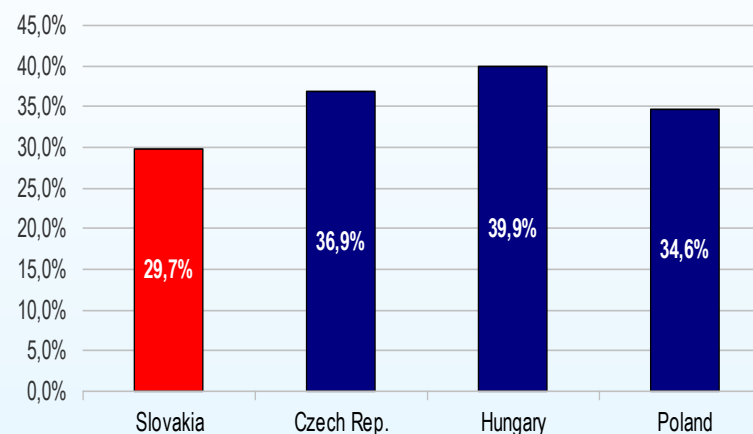
Tax quota II

Tax quota II in Slovakia (% of GDP)



Source: Eurostat

2008 Tax quota II (% of GDP), Peer Comparison

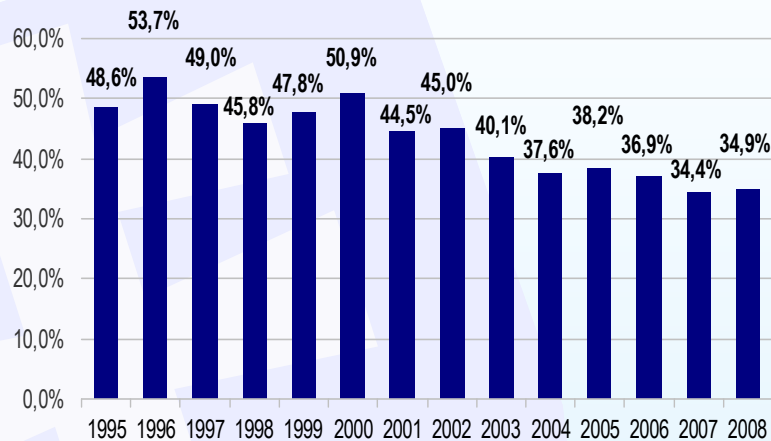


- + Significant decrease in tax burden between 1995 and 2007 by 10.7 p.p. (highest in the EU27)
- + Shift from direct taxes towards indirect taxes
- + Lowest tax burden in V4 and in the whole EU27



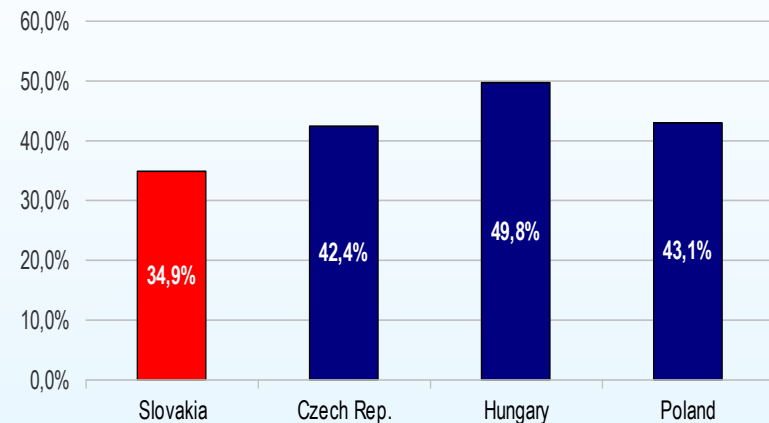
General government expenditures

Slovakia General Government Expenditures (% of GDP)



Source: Eurostat

2008 GG Expenditures (% of GDP), Peer Comparison



- + Fiscal consolidation after 2002 – driven by decrease in expenditures
- + Key sources: interest payments, state benefits and social assistance
- + Lowest redistribution among V4 countries



Slovakia – fully integrated EU member

Strong economic and fiscal performance

Debt management and funding strategy



Active debt and liquidity management

- Debt and liquidity management strategy
 - + refinancing risk (average maturity)
 - + refixing risk (average duration)
- Three pillars system:
 - + domestic capital market (primary dealership)
 - + international capital market (syndicate)
 - + State Treasury

- Instruments

Market	Non-market	
T-Bonds (domestic and international)	State Treasury sources	Bank Loans
T-Bills		
MM operations		



Government debt

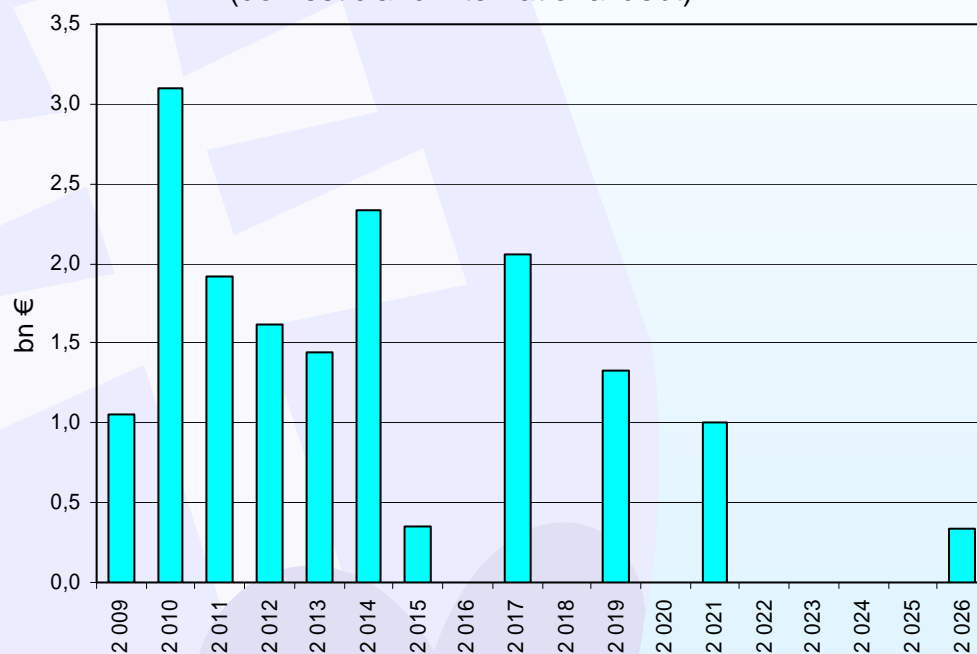
- **General government debt**
 - + EUR 21.5 bln.
 - + of which EUR 4 bln. is State Treasury resources
 - + of which EUR 16.5 bln. is tradable debt
- **Average annual financing needs lower than EUR 4 bln.**
 - + debt roll-over lower than EUR 3 bln.
 - + budget deficit usually up to EUR 1 bln.



Favourable government debt portfolio

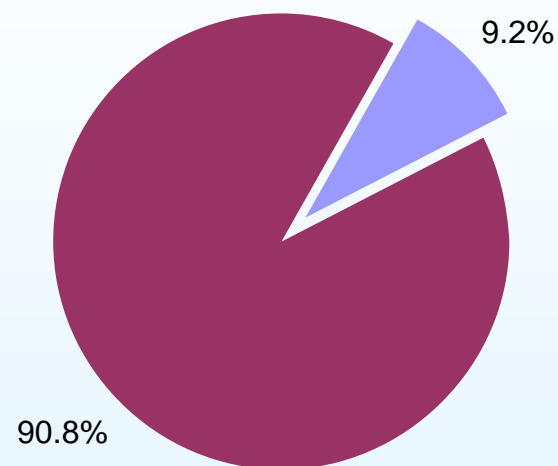
Debt redemption profile

Debt profile of the Slovak Republic
(domestic and international debt)



Source: ARDAL

Bond portfolio



Fix 90,8% Float 9,2 %

Debt currency composition
99,54 % EUR 0,46%JPY

Source: ARDAL



International issuance

- Annual issue of syndicated Slovak bond (benchmark size and maturity)
- Newly issued bonds to trade on major international trading platforms
 - + Euro MTS, TradeWeb, Bondvision, Bloomberg
 - + Bigger size (minimum € 1 bn) of new issues to ensure liquidity
- Broaden investor base to increase integration of Slovakia's sovereign debt in the Euro area



Main terms and conditions

Issuer	Slovak Republic
Rating	A+/A1/A+
Rating Outlook	Stable (Moody's, S&P, Fitch)
Currency	EUR
Amount	Benchmark size
Coupon Format	Fixed Rate
Issuance Format	EMTN Programme
EMTN Programme Size	EUR 2 bn
Issue date	May 2009
Maturity	5 yr
Listing	London Stock Exchange
Governing Law	English Law
Joint-Bookrunners	HSBC, SG



Additional details

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Reuters code and pages: DLMA



Additional details

- Ministry of Finance: www.finance.gov.sk
- All available data on state debt on the website: www.ardal.sk
- Statistical Office of the Slovak Republic: www.statistics.sk
- National bank of Slovakia: www.nbs.sk
- State Treasury: www.treasury.sk

