

# SLOVAK REPUBLIC

## Investor Presentation

October 2017



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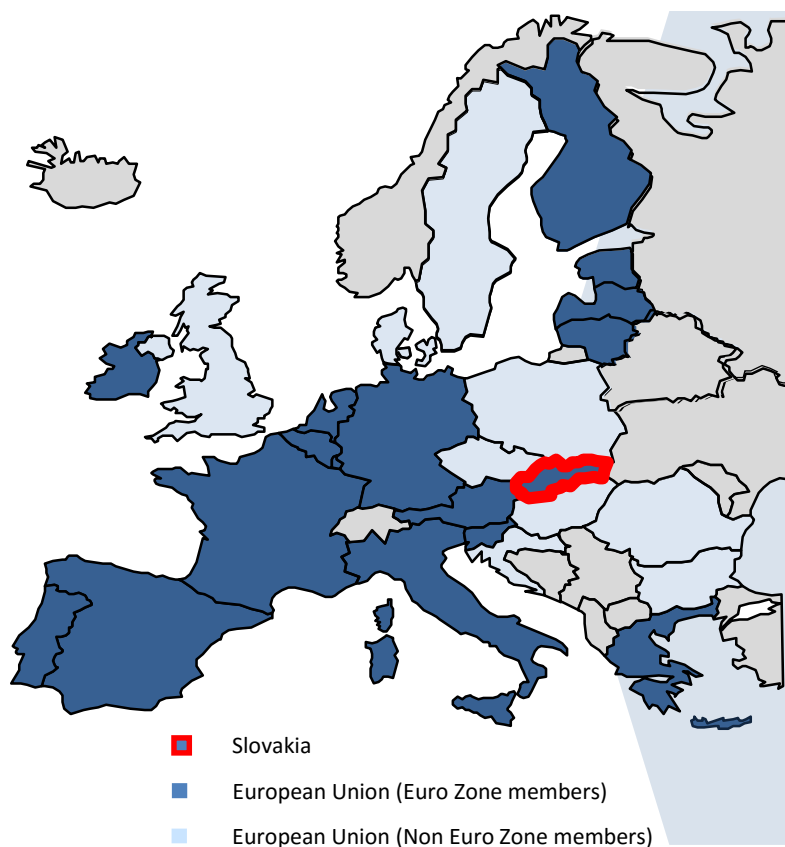
- Overview
- Fast Convergence Towards Core Eurozone
- Export-oriented Performer
- Strong and Long-lasting Commitment to Fiscal Discipline
- Efficient Funding and Debt Management
- Summary



# Overview

# Slovakia - At a Glance

## Geographical location



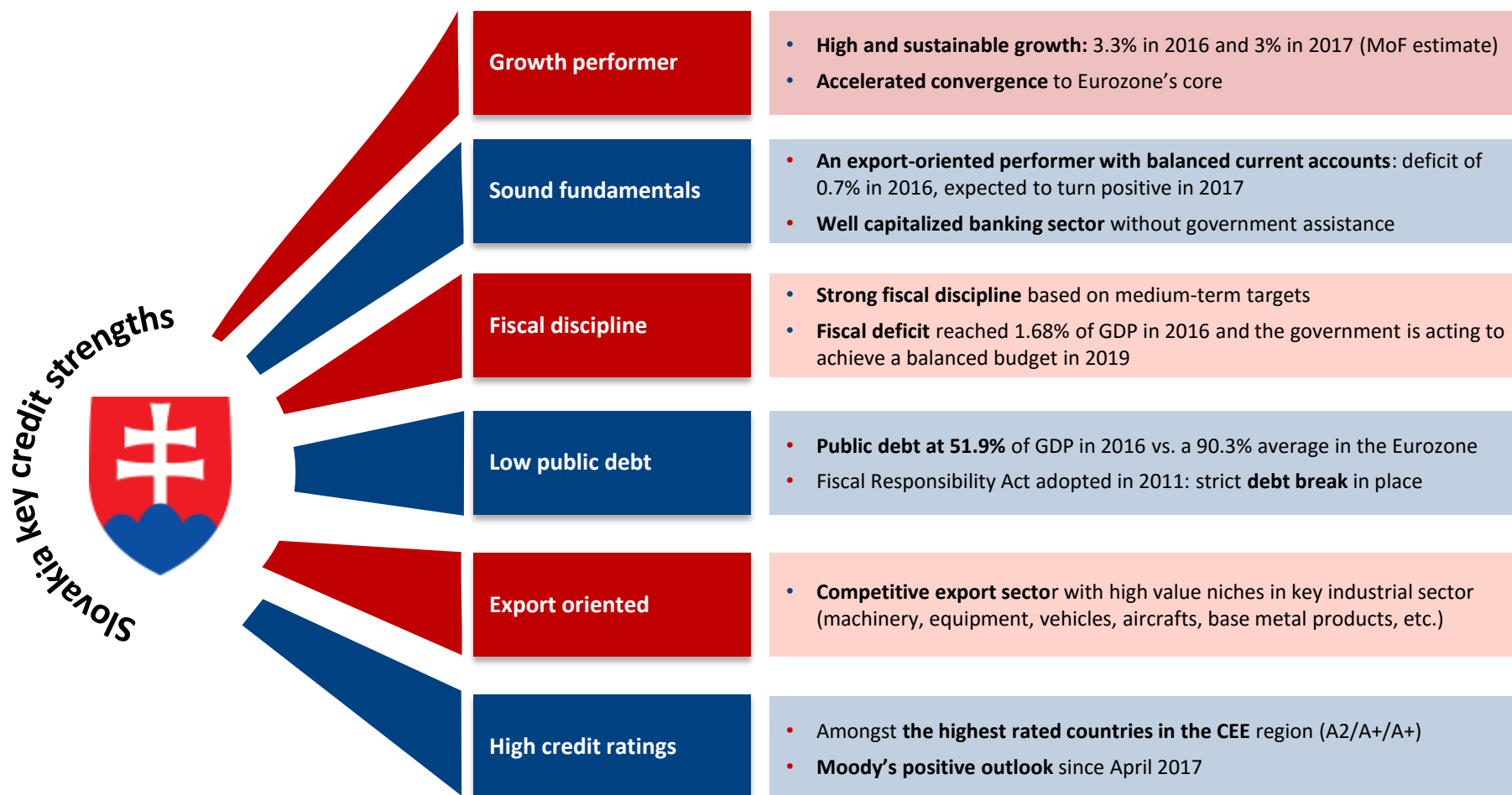
## Key facts

Ratings (Moody's / S&P / Fitch)	A2 (pos.) / A+ (st.) / A+ (st.)
GDP (2016)	€ 80,958 million
GNI per capita (2016)	€ 14.7k
Population (2016)	5.4 million
Real GDP growth (2016)	3.3%
Inflation (HICP – 2016)	-0.5%
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 <sup>2</sup>



Source: Eurostat, Ministry of Finance

# Slovakia – Key Strengths



# Transformation Success Story

- ✓ Small and effective government
- ✓ Sustainably robust GDP growth
- ✓ Commitment to fiscal discipline
- ✓ High share of investment to GDP
- ✓ Export-oriented economy
- ✓ Low debt and stable external account

SLOVAKIA	% of GDP (2015)	2014	2015	2016	2017e	2018e
<b>Real GDP Growth (in %)</b>		<b>2.6</b>	<b>3.8</b>	<b>3.3</b>	<b>3.0</b>	<b>3.6</b>
<i>Private Consumption</i>	54.9	1.4	2.2	2.9	3.1	2.9
<i>Public Consumption</i>	19.5	5.3	5.4	1.6	2.4	2.5
<i>Gross fixed capital formation</i>	23.0	1.2	16.9	-9.3	0.9	5.8
<i>Exports (goods and services)</i>	93.5	3.7	7.0	4.8	6.5	7.0
<i>Imports (goods and services)</i>	91.1	4.4	8.1	2.9	6.6	6.8
<b>GNI (real growth in %, adjusted by GDP deflator)</b>	<b>98.4</b>	<b>1.7</b>	<b>4.0</b>	<b>3.4</b>	<b>3.1</b>	<b>3.7</b>
<b>Employment Growth (% p.a.)</b>		<b>1.4</b>	<b>2.0</b>	<b>2.4</b>	<b>1.4</b>	<b>1.3</b>
<b>Unemployment rate (% of labour Force)</b>		<b>13.2</b>	<b>11.5</b>	<b>9.6</b>	<b>8.6</b>	<b>7.6</b>
<b>Current account balance (% of GDP)</b>		<b>1.1</b>	<b>0.2</b>	<b>(0.7)</b>	<b>0.1</b>	<b>0.4</b>
<b>Inflation (HICP) (% p.a.)</b>		<b>(0.1)</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>1.4</b>	<b>1.6</b>
<b>General government balance (% of GDP)<sup>1</sup></b>		<b>(2.7)</b>	<b>(2.7)</b>	<b>(1.7)</b>	<b>(1.3)</b>	<b>(0.6)</b>

Sources: EC Spring Forecast 2017 for forecasts (2017-18), Eurostat for historical data (2014-16)

<sup>1</sup> 2017 and 2018 as forecasted officially in the Stability Program of the Slovak Republic for 2017 - 2019



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 to 2060:**

- 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 25% since 2012 primarily due to more effective tax collection
- Law regulating offshore companies' participation in the public procurement process

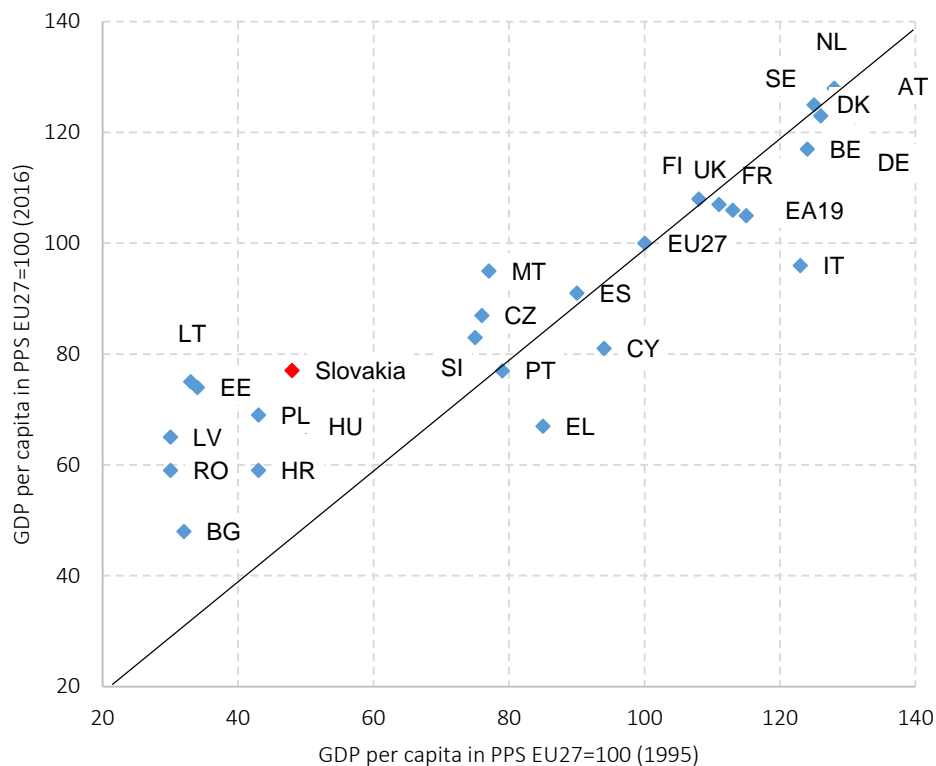
✓ **Value for Money**

- 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.





# Fast and Ongoing Convergence



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

Source: Eurostat



# Fast Convergence Towards Core Eurozone

# 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 among the region's lowest at almost half the euro area average

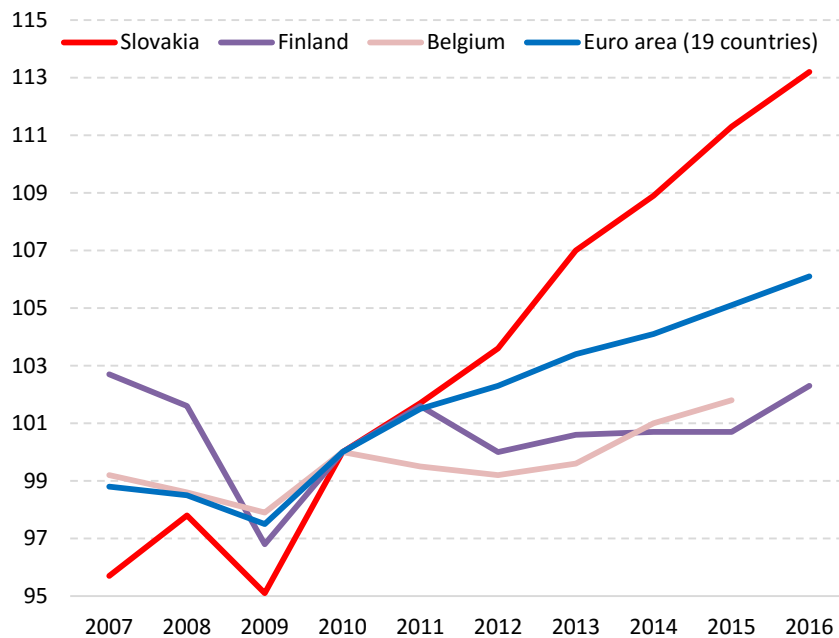
2017	Slovakia	Belgium	Finland	Euro Area
Real GDP growth (%)	3.0	1.5	1.3	1.7
Inflation – HICP (%)	1.4	2.3	1.0	1.6
Unemployment rate (%)	8.6	7.6	8.6	9.4
Current Account Balance (% of GDP)	0.0 <sup>(1)</sup>	1.5	-1.8	3.0
Budget Balance (% of GDP)	-1.3	-1.9	-2.2	-1.4
Structural Budget Balance (% of GDP)	-1.4	-1.6	-1.3	-1.1
General Government Gross Debt (% of GDP)	51.5	105.6	65.5	90.3

Source: EC Spring forecast 2017 and (1) NBS as of 30 June 2017

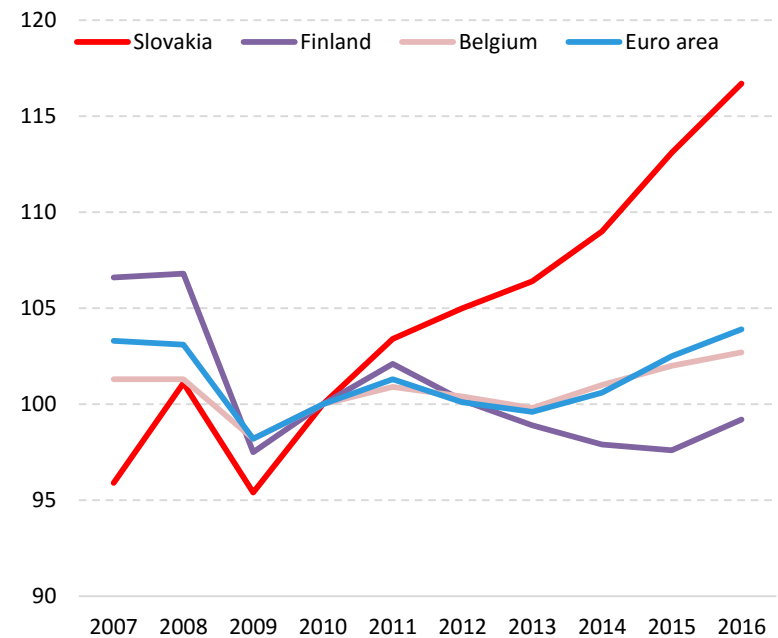


# Top Performer: Productivity and GDP Growth

Real labor productivity per hour worked  
2010=100

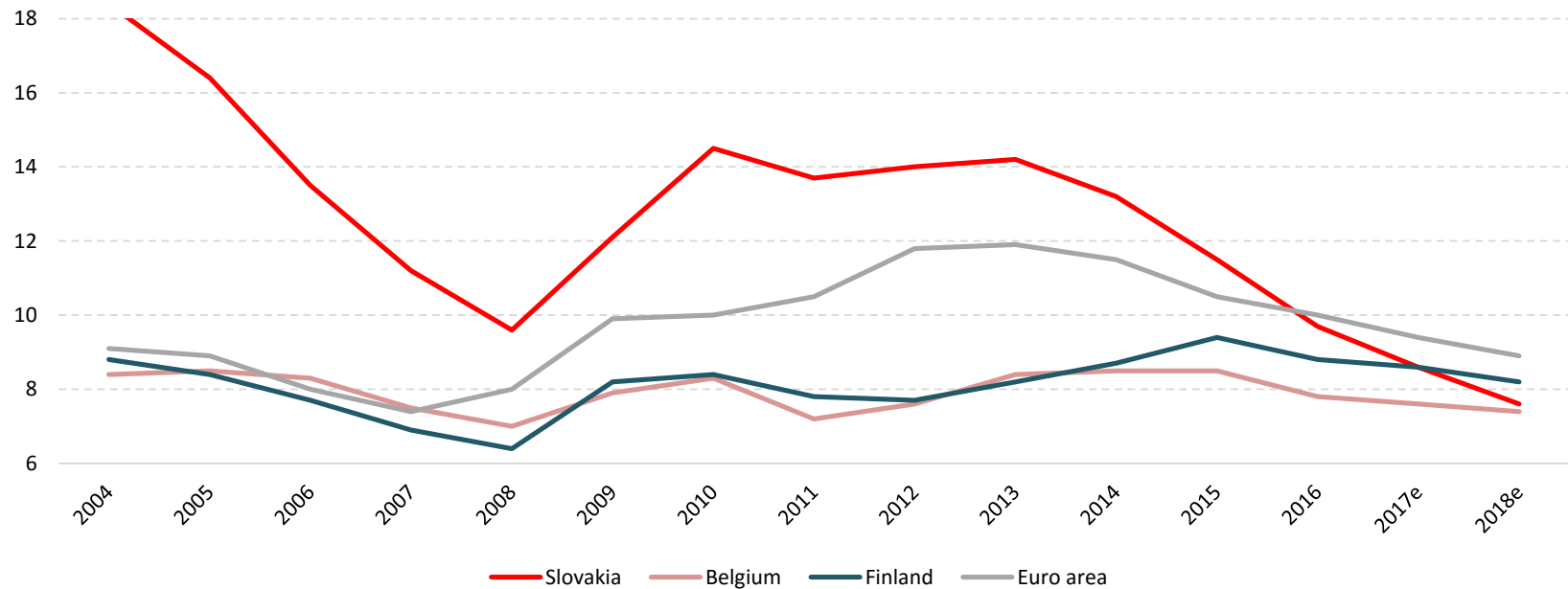


GDP per capita (chain-linked volumes)  
2010=100



Source: Eurostat

# Unemployment Rate at All Time Low



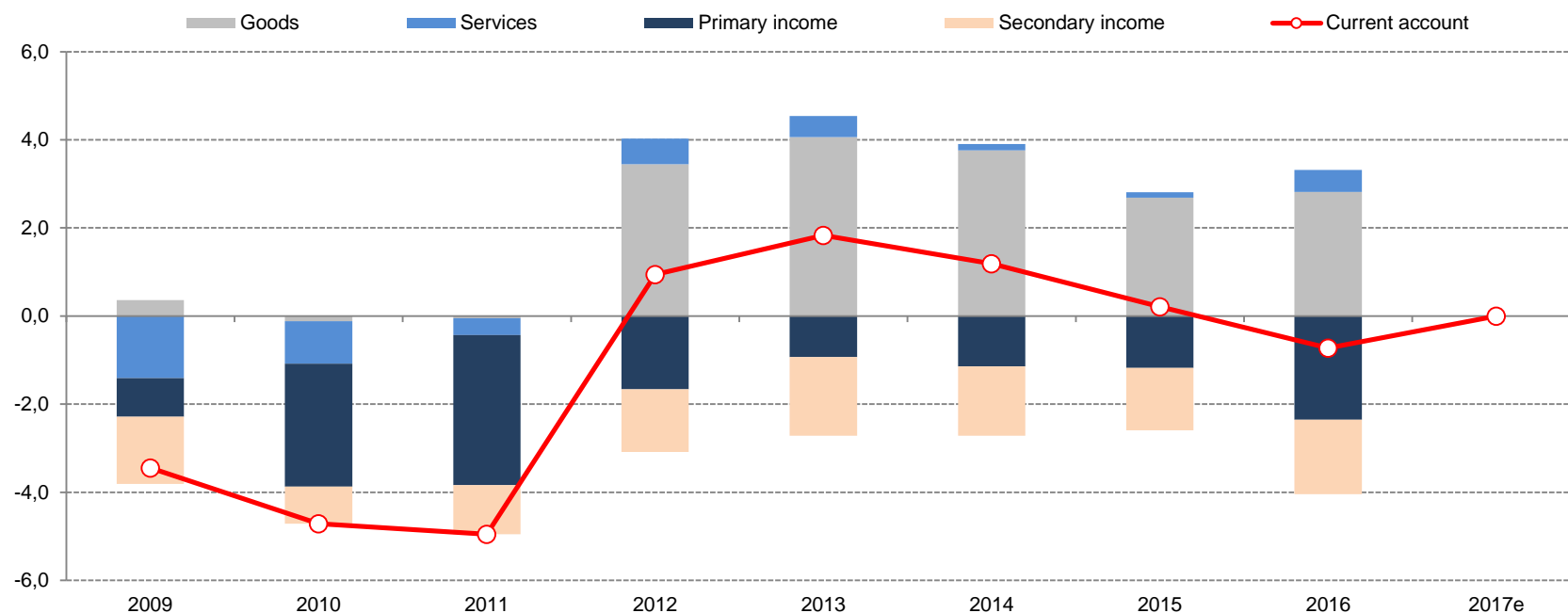
Source: Eurostat, EC Spring Forecast 2017

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



# Export-oriented Performer

# Current Account Turning Positive

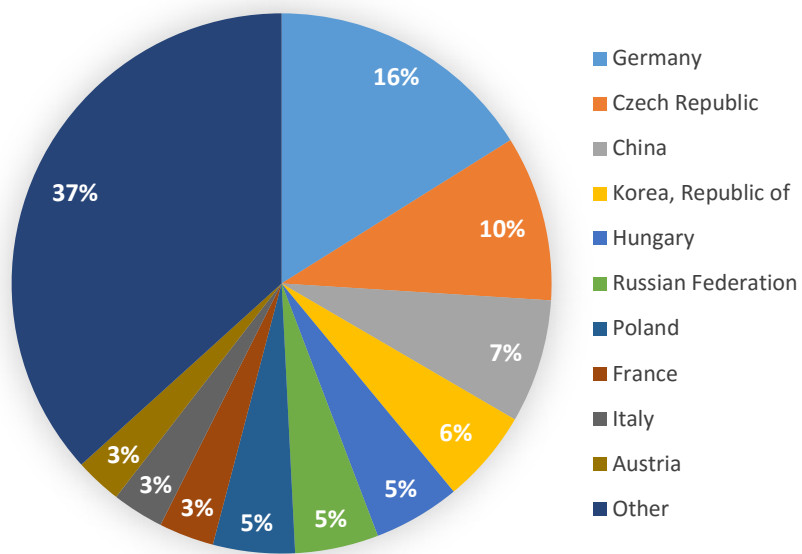


Source: NBS; Ministry of Finance, June 2017 Forecast

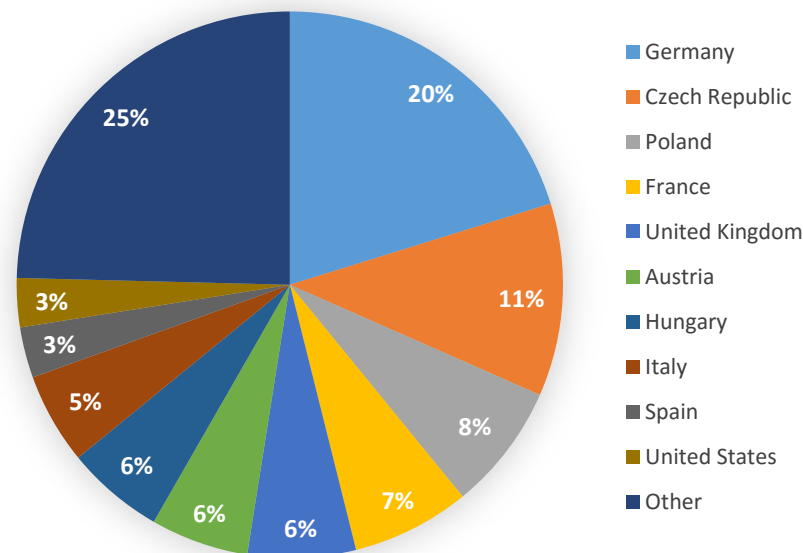
✓ **From trade deficit (importing technologies) to trade surplus (export performer)**

# Key Export and Recipient Countries

## Imports Geographical Structure (%)



## Exports Geographical Structure(%)



### Main 5 exports jurisdictions:

- ✓ **Germany**
- ✓ **Czech Republic**
- ✓ **Poland**
- ✓ **United Kingdom**
- ✓ **France**

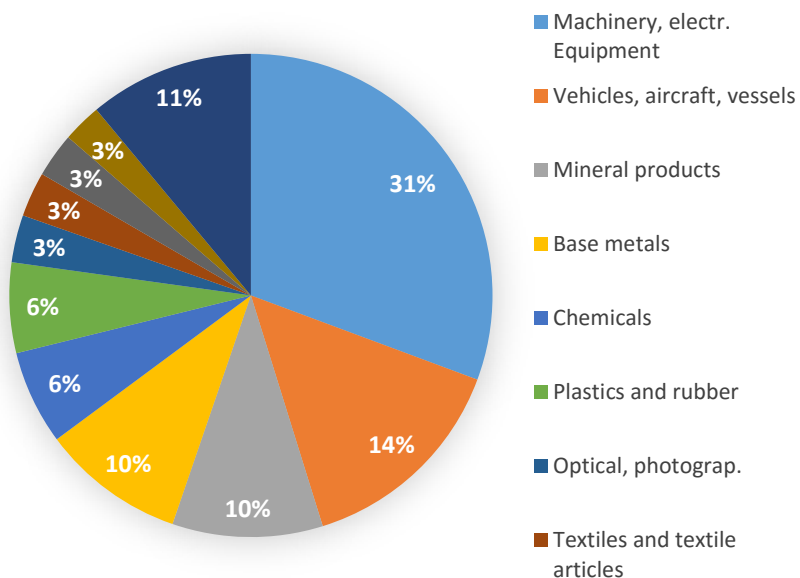
*Last observation refers to the period January through May 2017  
Source: Ministry of Finance*



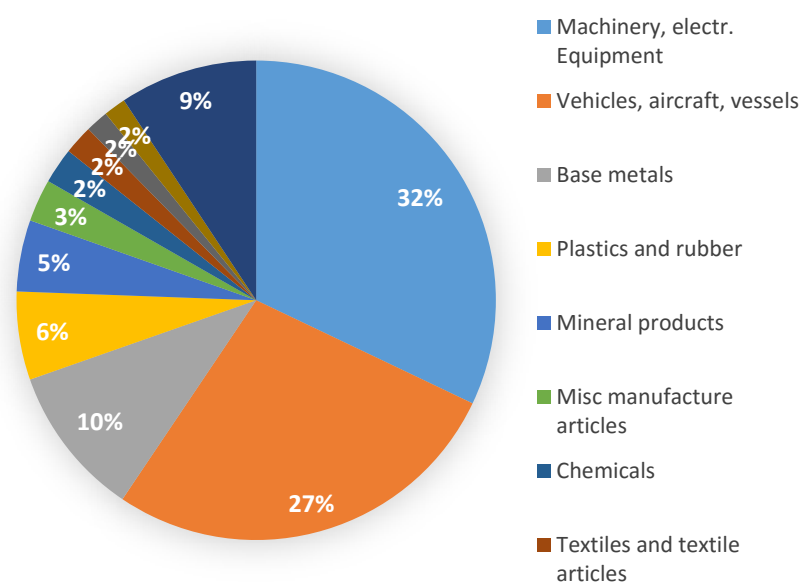


# Key Export and Import Products

## Imports by Product (%)






## Exports by Product (%)



*Last observation refers to the period January through May 2017*  
 Source: Ministry of Finance

# Strong and Long-lasting Commitment to Fiscal Discipline

## Ratings Reflect a Solid Credit Profile

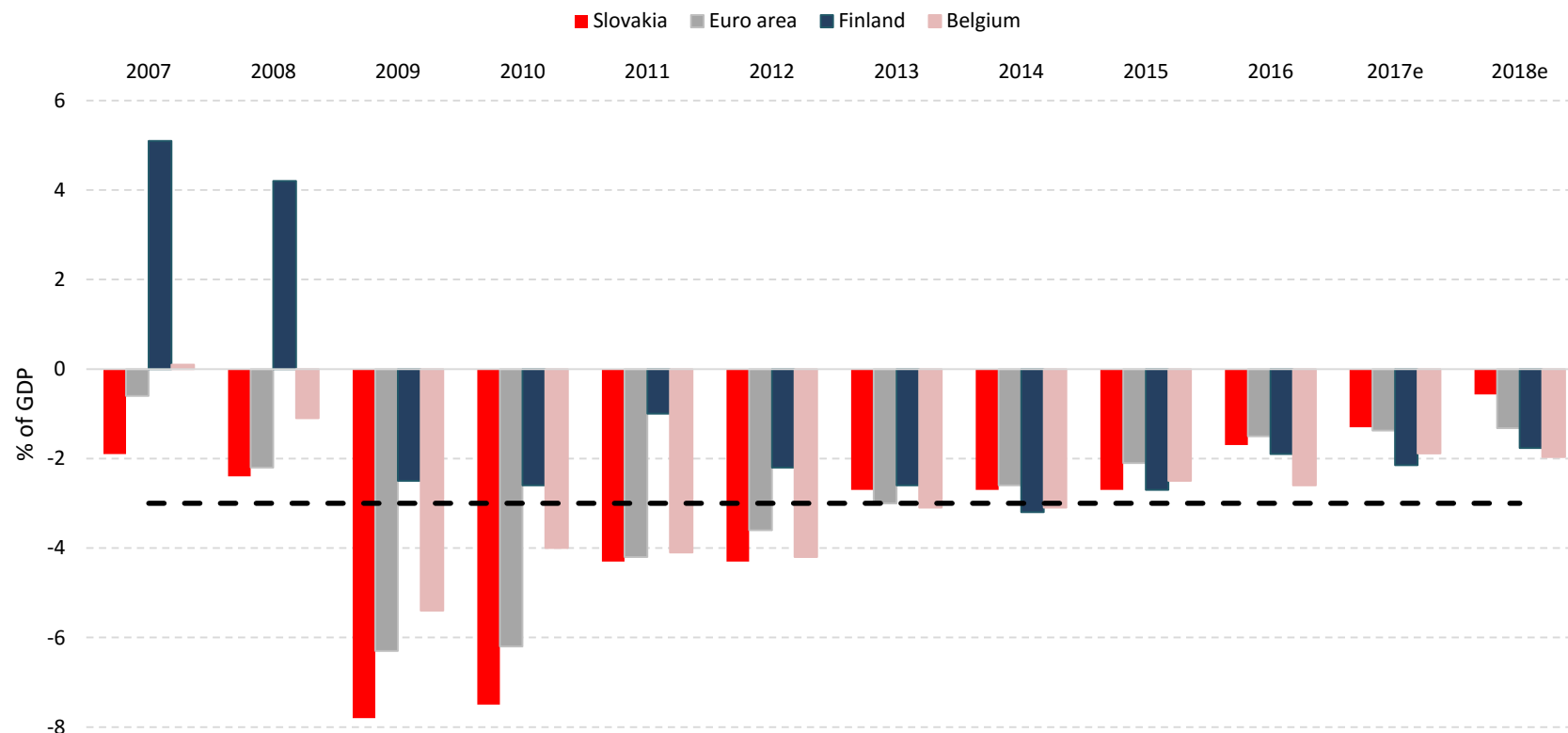
Rating Agency	Rating	Comments
	<b>A2 Positive</b>	<i>" ... the key credit strengths of Slovakia are: (1) Slovakia's continued strong economic growth prospects in the coming years, and (2) Anticipated pick-up in the pace of public sector debt reduction supported by robust growth and continued fiscal consolidation"</i>
	<b>A+ Stable</b>	<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>
	<b>A+ Stable</b>	<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>

- ✓ **A+ rating (Fitch) since 2008**
- ✓ **Recent outlook improvement to positive by Moody's (April 2017)**

Sources: Moody's, S&P and Fitch



# Very Limited and Declining Budget Deficit



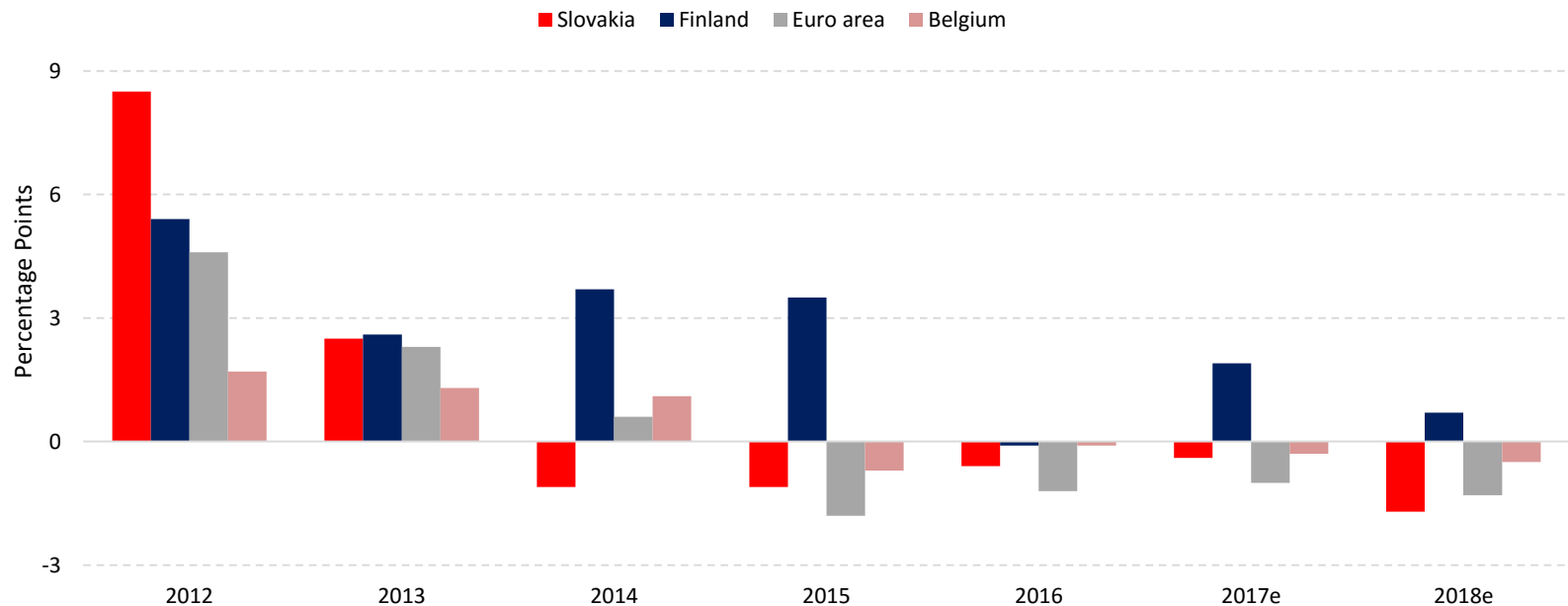
Source: Eurostat, EC Spring Forecast 2017

- ✓ Primary balance in surplus already this year
- ✓ Government balanced budget expected in 2019



# Public Debt on a Steady Declining Path

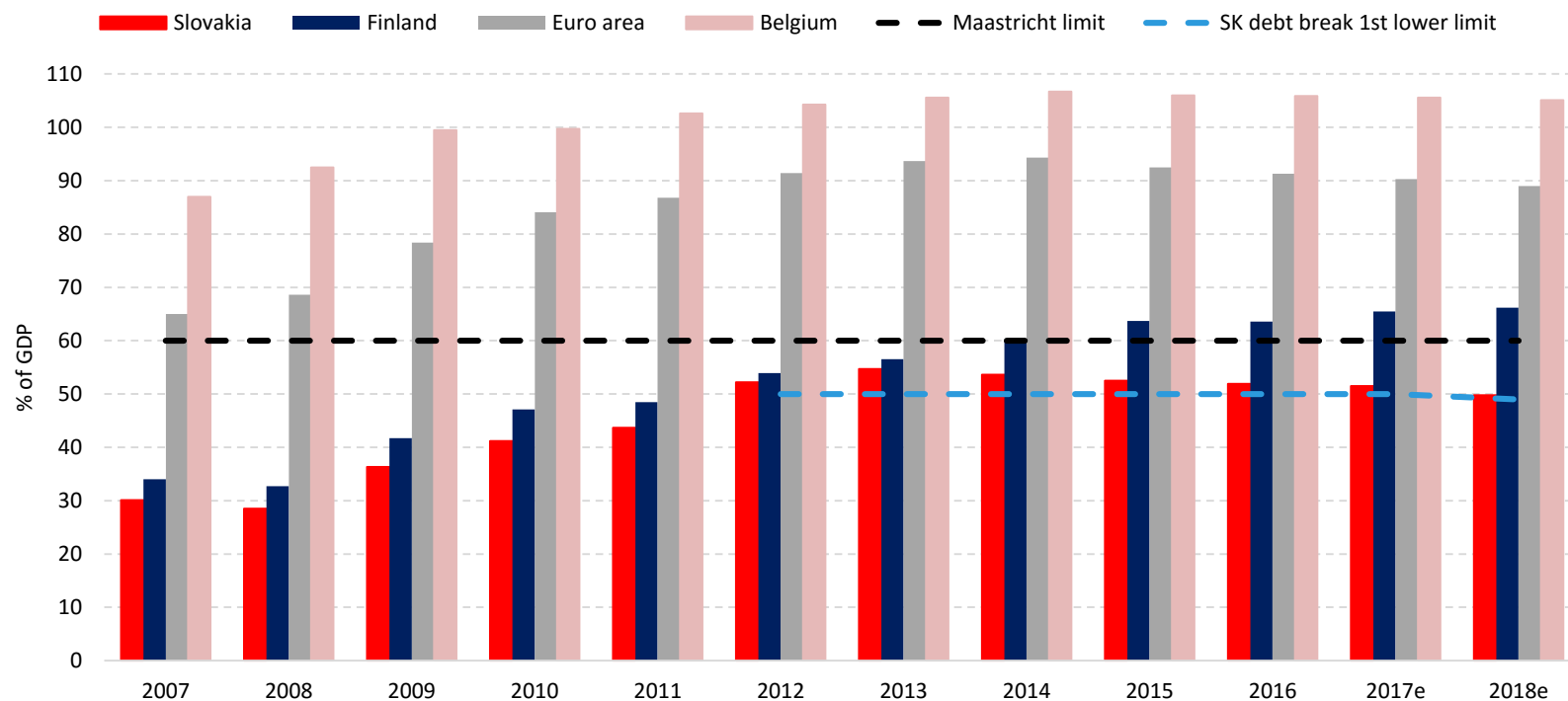
## Change in the public debt-to-GDP ratio



Source: Eurostat, EC Spring Forecast 2017, CBR

- ✓ Consolidation in 2013 has stabilized and set public debt on a declining trajectory
- ✓ Moderate consolidation on the revenue side of the budget in 2017

# Favorable Debt Position



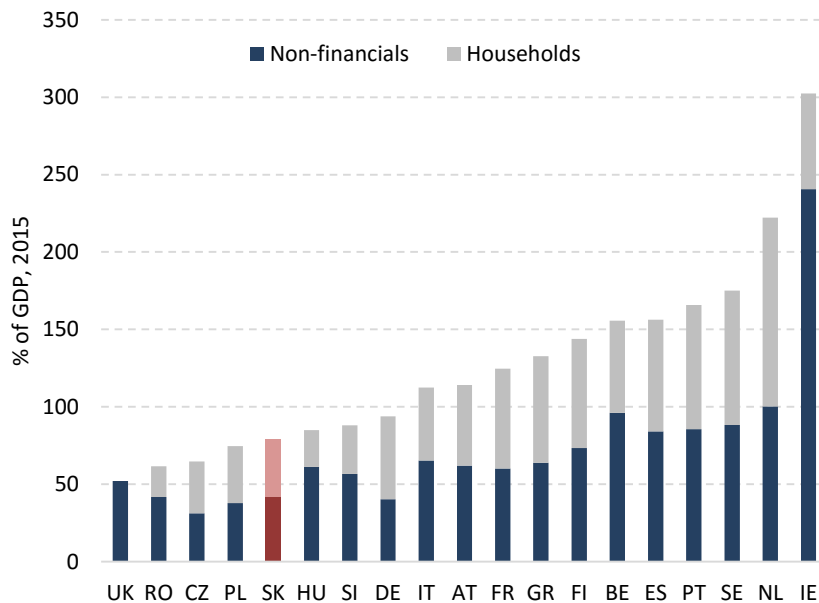
Source: Eurostat, EC Spring Forecast 2017, CBR

- ✓ Sufficient fiscal space with debt level below 53% of GDP
- ✓ Fiscal responsibility act target: the lowest threshold for application of the debt break to be below 40% of GDP in 2028 and 1<sup>st</sup> debt break lowest limit is 50% of GDP up to the end of 2017 and 49% in 2018
- ✓ Debt consolidation path: starting from 2018 1 p.p. annual decrease of lower debt limit (50% of GDP)



# Low Household and Corporate Debt

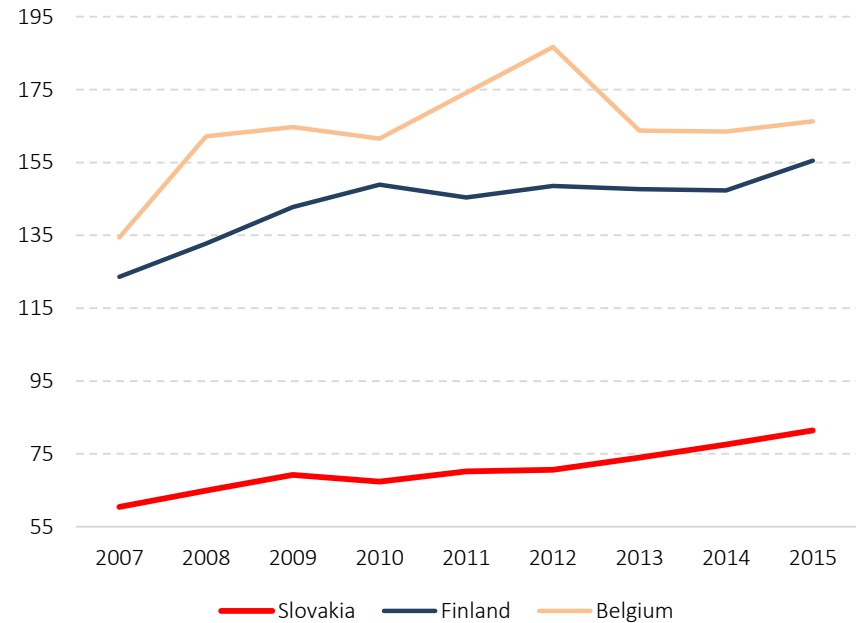
## Household and Corporate debt



\*Data for UK households unavailable

Source: Eurostat, data as end of 2015

## Private debt - % of GDP



Source: Eurostat

✓ **Low debt levels, dynamics reflecting high GDP growth**



# Efficient Funding and Debt Management



## **2017 Funding**

- ✓ Total funding needs at EUR 6.5bn of which up to EUR 3 bn through syndicated bond issuance
- ✓ First syndicated transaction was completed in March 2017 – 20 year EUR 2 bn bond
- ✓ Possibility of EUR 1.0 bn new issue benchmark bond this week subject to market conditions (in addition to size EUR 3.0 bn of bond sales via auctions tapping)

## **2018 Funding outlook**

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

## **Secondary market improvements**

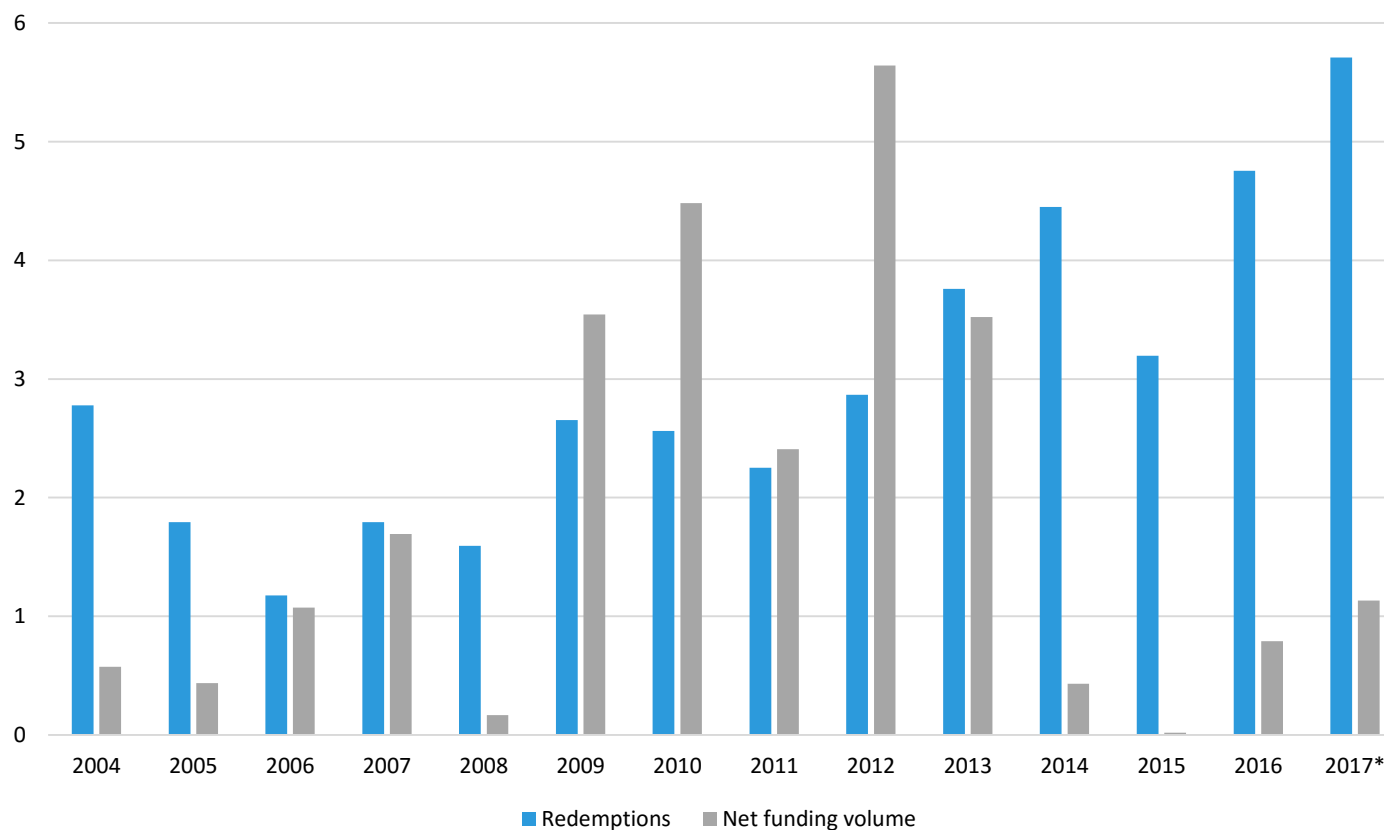
- ✓ Implementation of MTS platform from 1Q 2018
- ✓ Adjustments in primary dealers evaluation – secondary market performance
- ✓ Create an active market for REPO operations

## **T2S connection completed in February 2017**



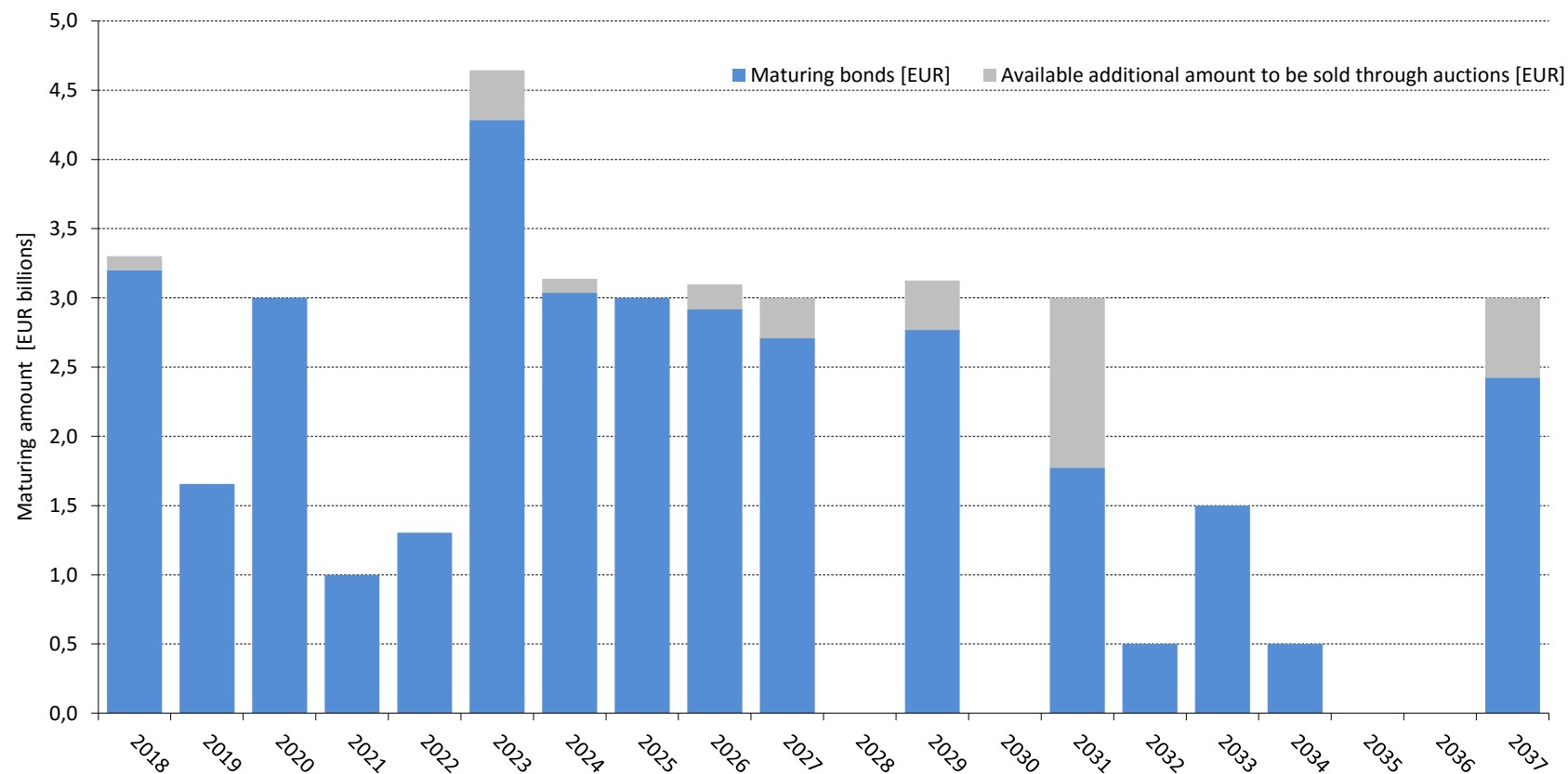
# Total Gross Funding 2004 - 2017

## Redemptions - net funding volume (EUR bn)



Source: ARDAL, \*estimate as of 30/06/2017

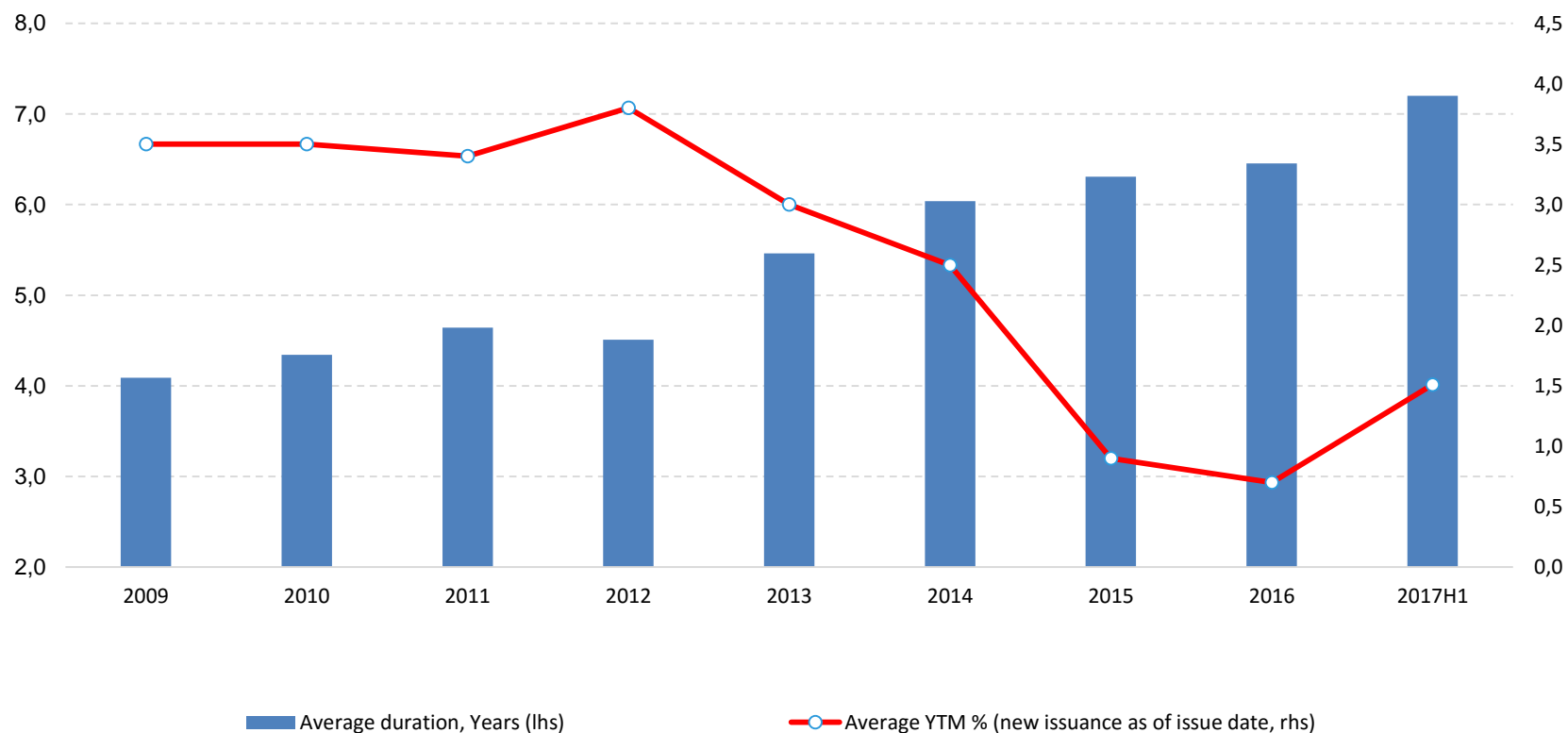
# Bond Redemption Profile



Source: ARDAL as of 30/09/2017



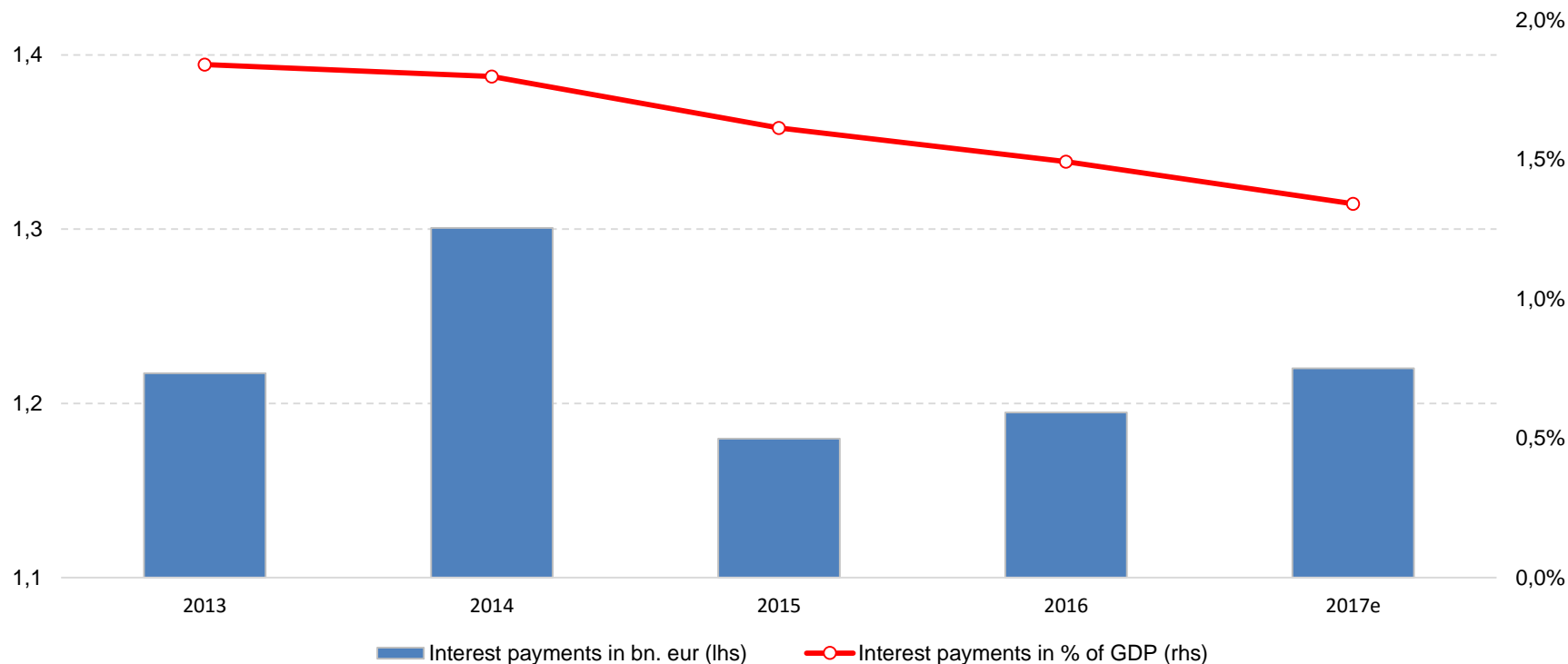
# Government Portfolio Metrics



Source: ARDAL, H1-2017



# Government – Interest Payments 2004 – 2017

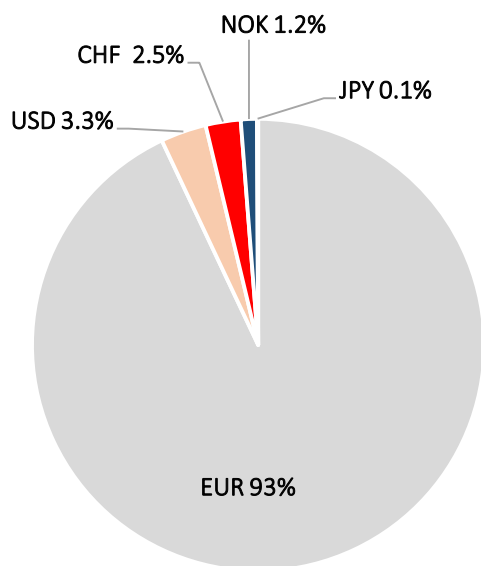


Source: ARDAL, \*estimate as of 30/06/2017

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

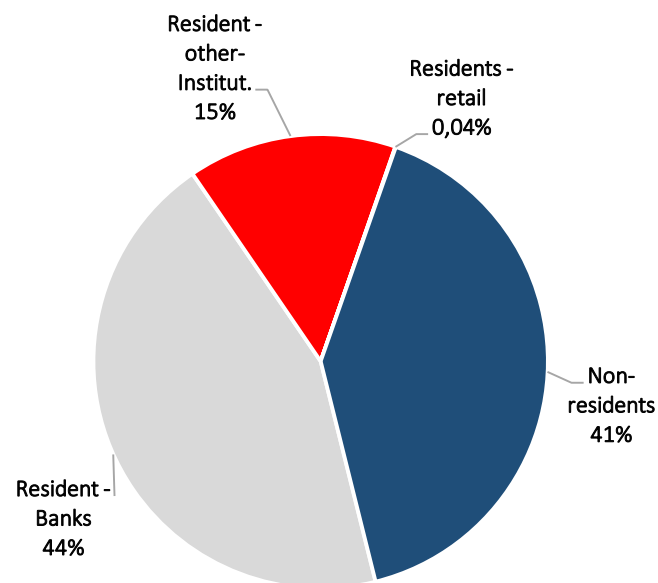
# Low Currency Risk and Diversified Investor Base

Currency Profile in %



Source: ARDAL, as of 30/06/2017

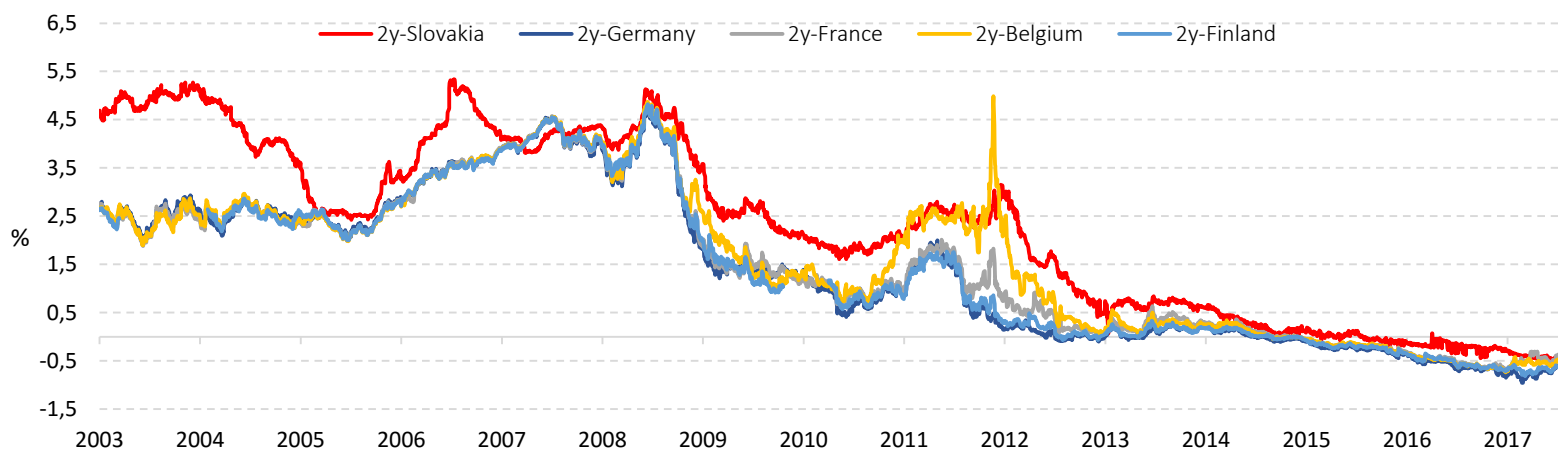
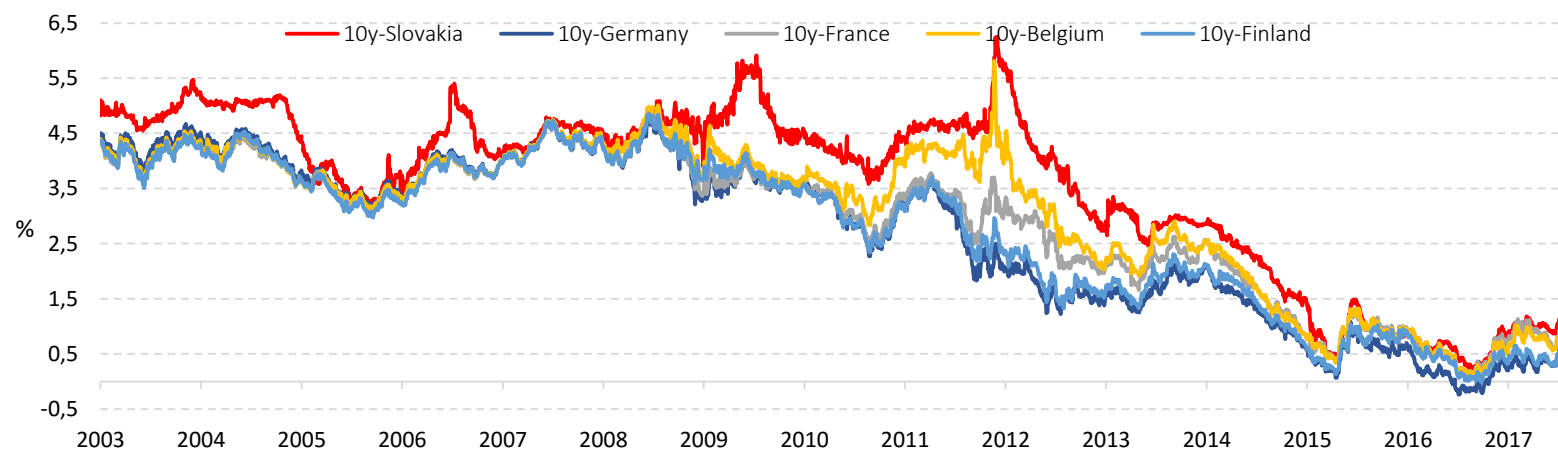
Investor Base in %



✓ Debt hedged against FX risk

✓ Increasing portfolio holdings of residents due to ECB PSPP

# Government Bond Yields



Source: Bloomberg, IFP, Deutsche Bundesbank, as of August 2017



# Auction calendar & Issuance 2017



## Government Bonds

### Auction date

### Settlement date

16 January

18 January

20 February

22 February

20 March

22 March

18 April

20 April

15 May

17 May

19 June

21 June

18 September

20 September

16 October

18 October

20 November

22 November

## Treasury Bills

1

9 January

11 January

2

13 February

15 February

3

13 March

15 March

Source: ARDAL





# Financing Instruments



## Government Bonds

ISIN	Maturity	Coupon (%)	Amount available (EUR mil.)
SK4120011636	13.11.2023	0	360
SK4120012220	22.5.2026	0.625	181
SK4120010430	21.1.2027	1.375	291
SK4120009762	16.1.2029	3.625	355
SK4120011420	21.1.2031	1.625	1 225
SK4120012691	9.3.2037	1.875	576

## Treasury Bills

SK6120000154	27.11.2017	0	300
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Source: ARDAL

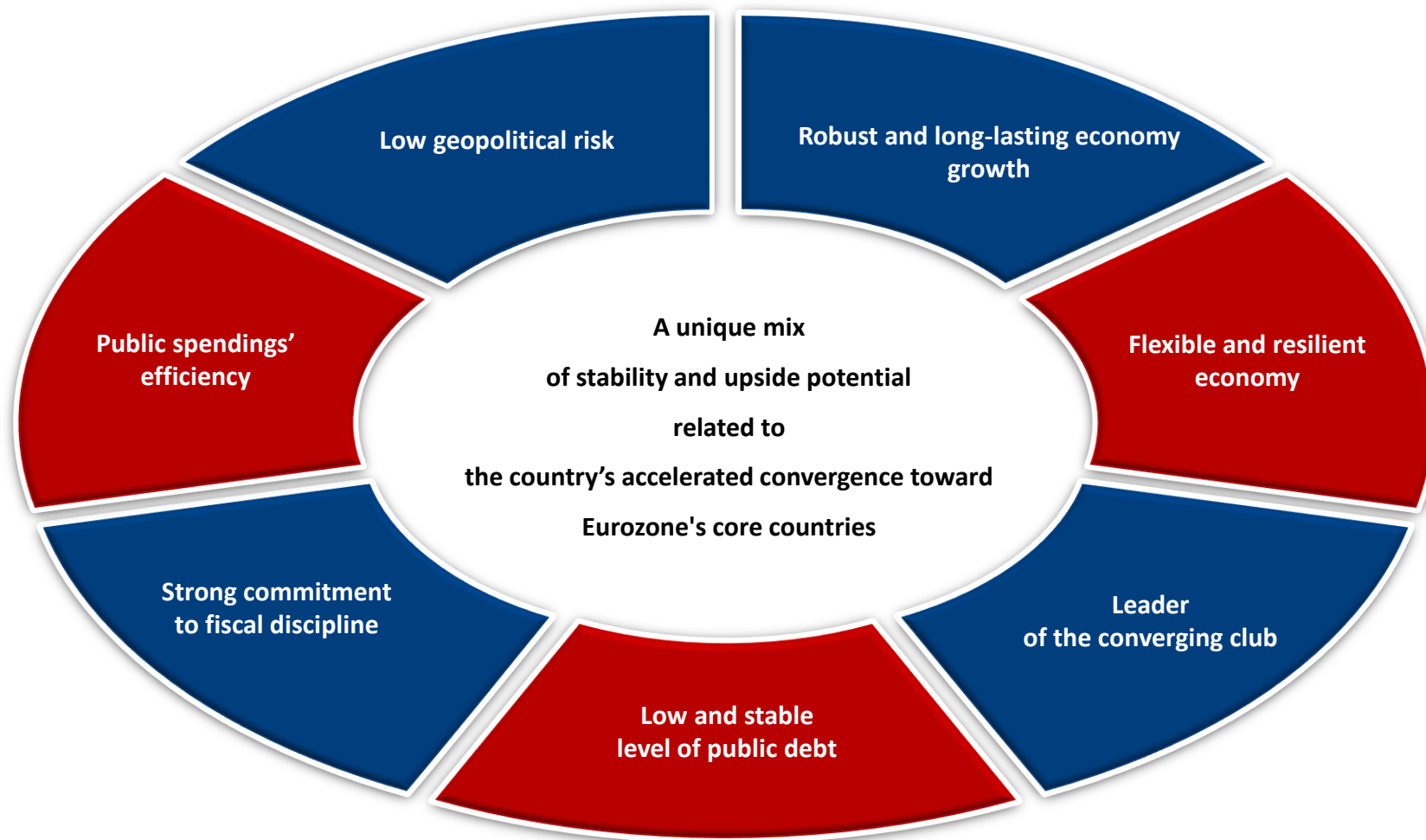


# Primary Dealers

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- ✓ **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)**
- ✓ **UniCredit bank Czech Republic and Slovakia, a.s.**
- ✓ **Všeobecná úverová banka, a.s. (Intesa Sanpaolo Group)**

# Summary



# Indicative Term Sheet

Issuer	<ul style="list-style-type: none"><li>• The Slovak Republic acting through the Ministry of Finance of the Slovak Republic and the Debt and Liquidity Management Agency (ARDAL)</li></ul>
Issuer Ratings	<ul style="list-style-type: none"><li>• A2 by Moody's (Positive) /A+ by S&amp;P (stable) /A+ by Fitch (stable)</li></ul>
Currency	<ul style="list-style-type: none"><li>• EUR</li></ul>
Issue size	<ul style="list-style-type: none"><li>• Benchmark</li></ul>
Denominations	<ul style="list-style-type: none"><li>• €1x€1</li></ul>
Repayment	<ul style="list-style-type: none"><li>• [30] years bullet</li></ul>
Format / Form of Notes	<ul style="list-style-type: none"><li>• Regulation S only / Bearer</li></ul>
Documentation	<ul style="list-style-type: none"><li>• Standalone</li></ul>
Governing Law	<ul style="list-style-type: none"><li>• Slovak Law</li></ul>
Listing	<ul style="list-style-type: none"><li>• Bratislava Stock Exchange</li></ul>
Joint Lead Managers	<ul style="list-style-type: none"><li>• Citi, ČSOB (KBC Group), HSBC, NATIXIS</li></ul>



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