# Slovak Republic

**Investor Roadshow**

March 2006


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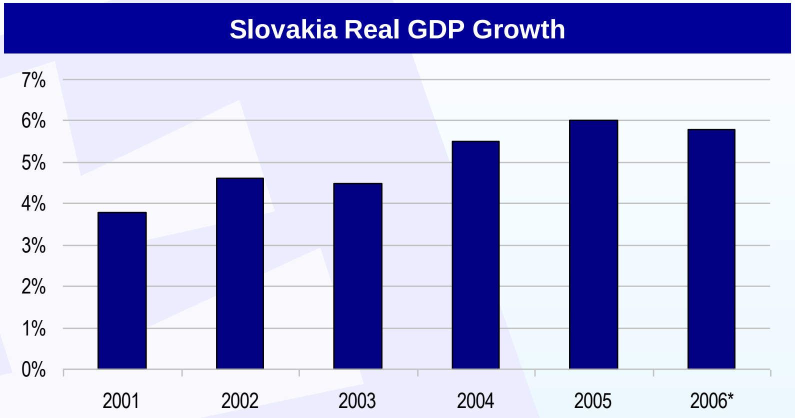
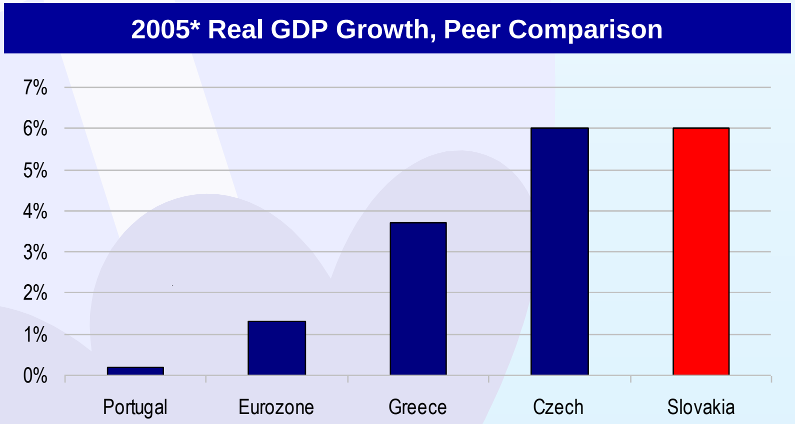
# Outline

# Slovakia : Key Credit Highlights

| | |
|---|---|
| **Strong Ratings** | Moody's: A2 positive outlook<br>S&P: A stable outlook |
| **International Integration** | EU member (2004)<br>NATO member (2004)<br>OECD member (2000) |
| **High GDP Growth** | 6.0 % in 2005, vs 1.3% for Eurozone, one of the Highest in Central Europe |
| **Low Debt Levels** | General government debt is 35.2% of GDP (2005), compares favourably with regional peers |
| **Early EMU Entry** | Slovakia one of the first Central European sovereigns to enter EMU, expected 2009 |

# GDP Growth Remains Robust



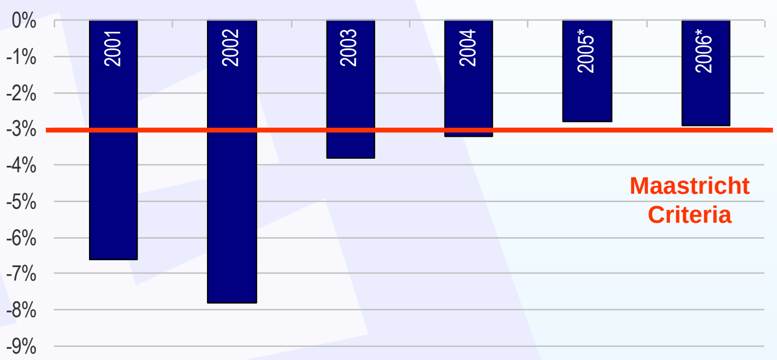




* Forecasts

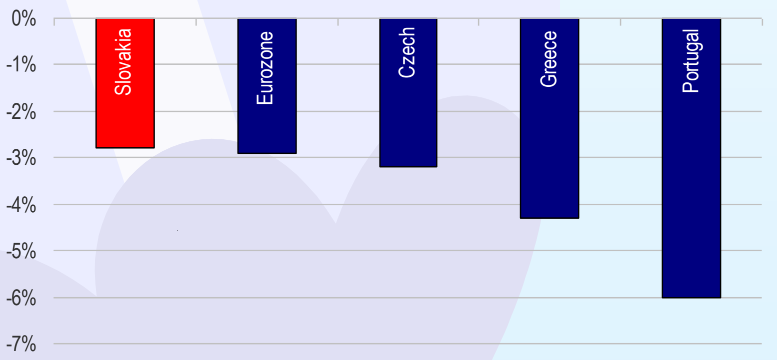
- Highest growth in Central Europe
- Top 3 performer in the OECD
- Sustained robust growth despite weak external environment
- Fuelled by domestic demand
- Stimulated by significant FDI
- Economic growth expected to remain high

# Fiscal Deficit Lower Than Most Neighbours

Slovakia General Government Deficit (% of GDP)




2005* General Gov. Deficit (% of GDP), Peer Comparison

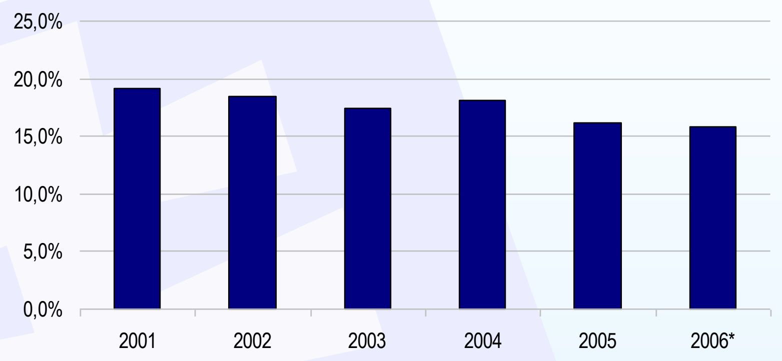



* Forecasts
Source: European Commission, spring 2005

- Continued fiscal prudence
- One of the strongest fiscal positions in Central Europe
- General government deficit is expected to be below 3.0% of GDP in 2005
- 2006 Budget set government deficit at 2.9% of GDP…
- …within Maastricht Criteria

# Unemployment Exepected to Continue to Decline

**Slovakia Unemployment Rate**




**Development of the Unemployment Rate, Peer Comparison**

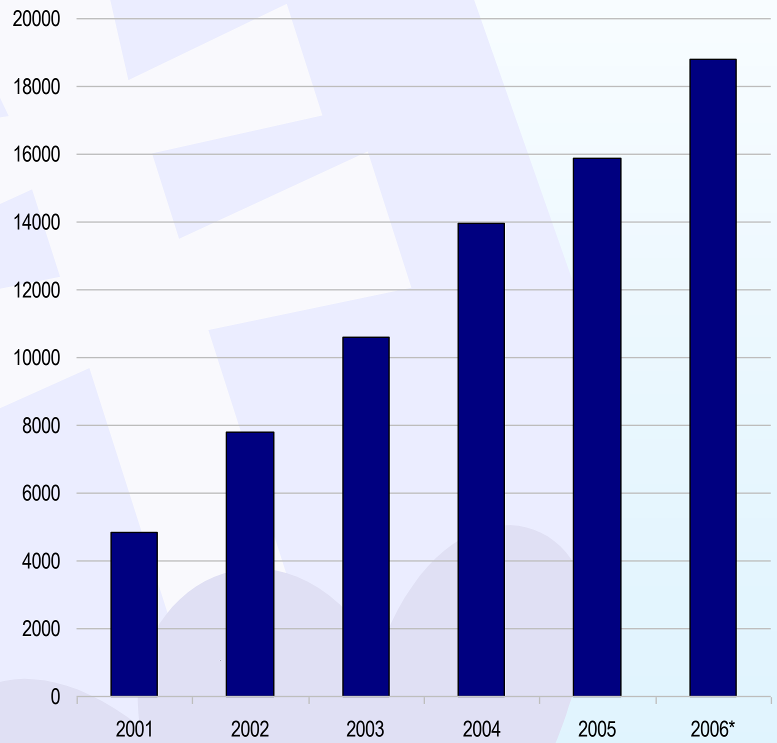
| | 2002 | 2007F | Change in p.p. |
|---|---|---|---|
| **Slovakia** | **18.7%** | **15.4%** | ↓ **-3.3** |
| Czech | 7.3% | 7.4% | ↑ +0.1 |
| Greece | 10% | 9.7% | ↓ -0.3 |
| Portugal | 5.1% | 7.8% | ↑ +2.7 |
| Eurozone | 8.4% | 8.0% | ↓ -0.4 |

* Forecast
Source: European Commission, autumn 2005

- Factors behind declining unemployment:
  - structural reforms leading to sustained economic growth
  - major labor market reform
  - more favorable demographic trends
- Employment forecast to grow average rate of 1.0% annually (2006-2008)
- In the European Union, Slovakia compares favorably in reduction of unemployment

# FDI Growing Steadily

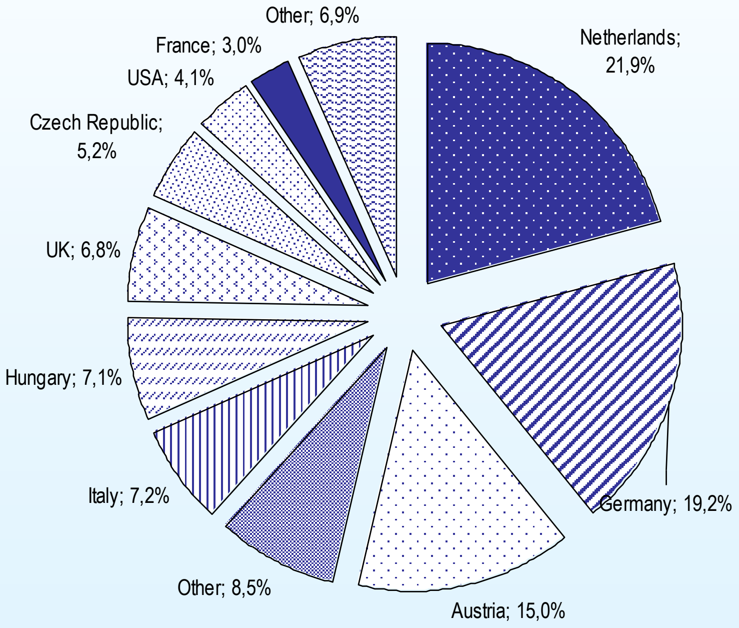
**Total FDI Stock (US$ million)**




* Forecasts

Source: National Bank of Slovakia

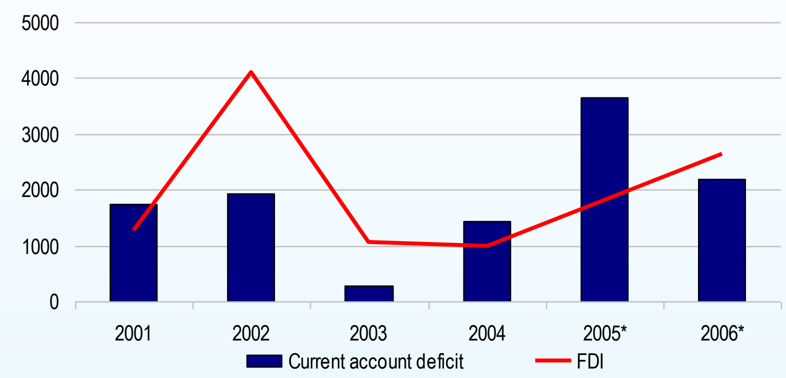
**FDI Stock by Country of Origin, 09/2005**



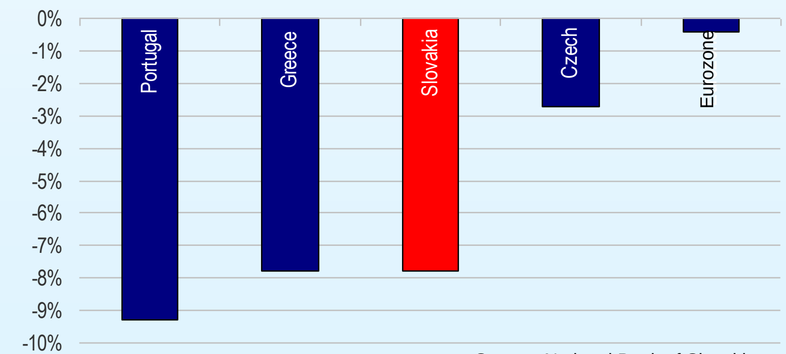
# Balance of Payments Expected to Improve

- 1999 Austerity Package reined in the Current Account deficit
- CA balance expected to improve in 2006 to 4,2% of GDP due to exports growth
- In 2005, EU countries represented 85.4% of total exports and 71.1% of total imports of goods
- Financing needs more than covered by FDI
- Lowest foreign financing need in the region (to be confirmed)

**Slovakia Balance of Payments Components**




**2005* Current Account, Peer Comparison**

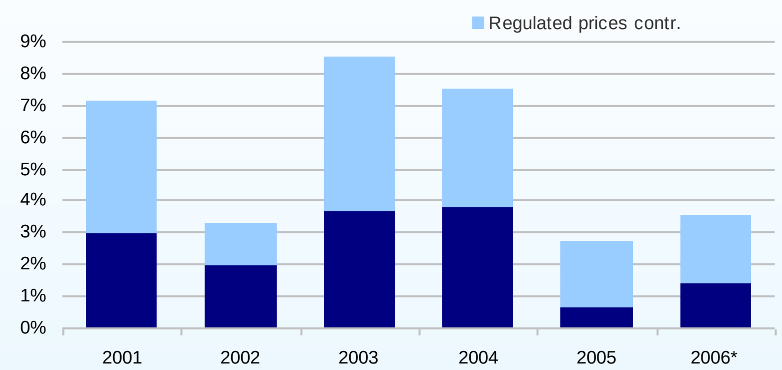



Source: National Bank of Slovakia
* Forecast

# Monetary Policy on Course

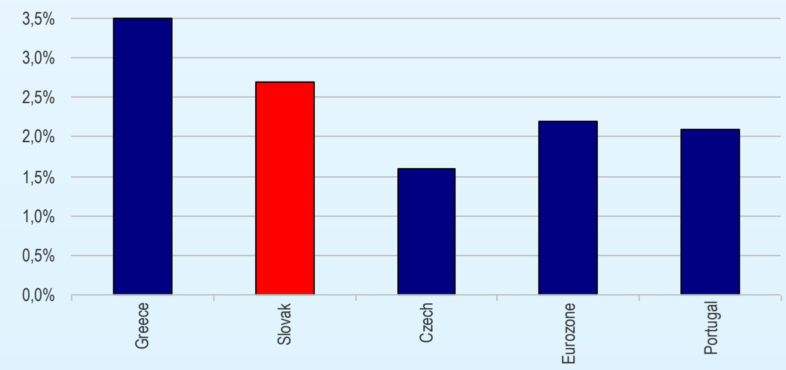
- Inflation fell sharply to current subdued level, despite surging oil prices...
- ...and is forecast to remain broadly flat (at 3.5%)
- Free float of the Koruna since 1998
- Successive liberalisation of financial transactions since 2000
- ERM II entry in November 2005 (1 EUR = 38.455 SKK)
- ERM II standard fluctuation band of +/- 15% will be observed

**Slovakia CPI Inflation**




Source: National bank of Slovakia, Ministry of Finance

**2005 CPI Inflation, Peer Comparison**

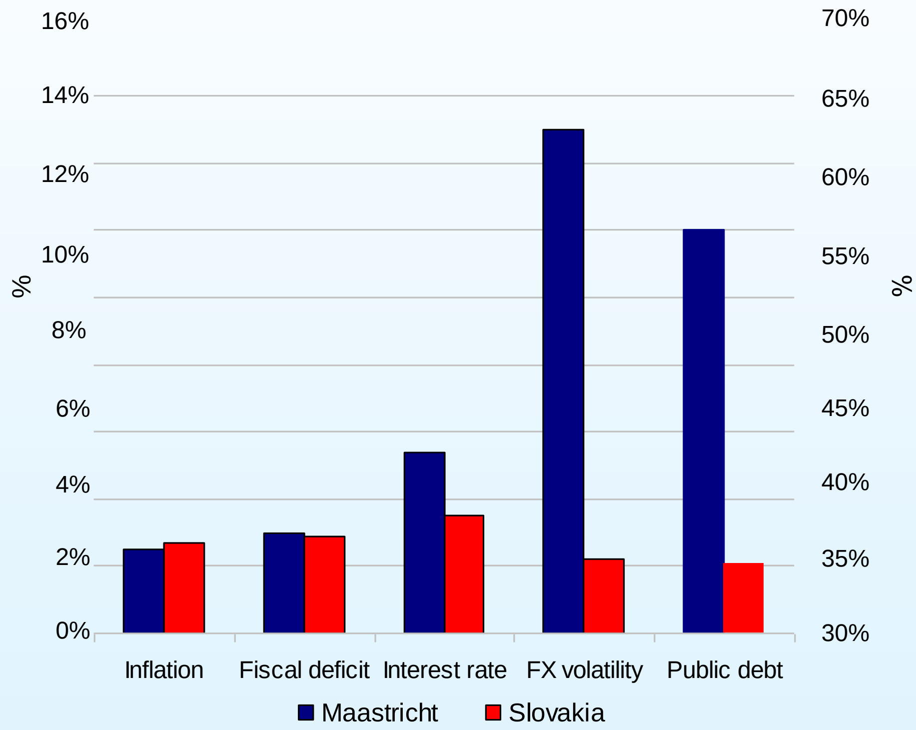



* Forecast

# EMU Entry in Sight

- Inflation targeting under ERM II conditions to continue
- Fiscal criterion to be met this year
- Long-term yields under reference value of Maastricht criteria
- Public debt level already below Maastricht threshold
- **EMU Entry Expected in 2009**

**Fulfilment of Maastricht Criteria**

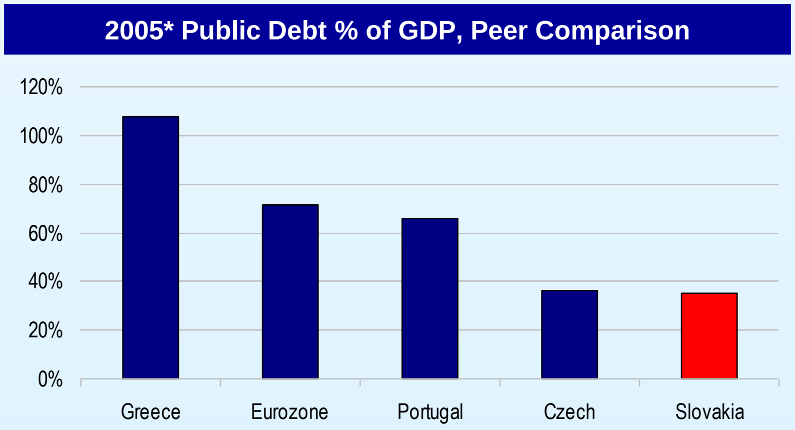



Source: Ministry of Finance, European Commission, NBS, SUSR

Note: FX volatility is defined as deviation from central parity at 38.455 SKK/€ within the period from 2004-2005

# Prudent Debt Management

- Since 2003, specialised Debt and Liquidity Management Agency, ARDAL, in place
- Fiscal adjustment and prudent debt management stabilised public indebtedness
- Successive reduction of state guarantees
- One of the lowest debt burdens in the region


Source: European Commission
* Forecast

# Outline

# Long-term Fiscal Sustainability Supported by Major Structural Reforms

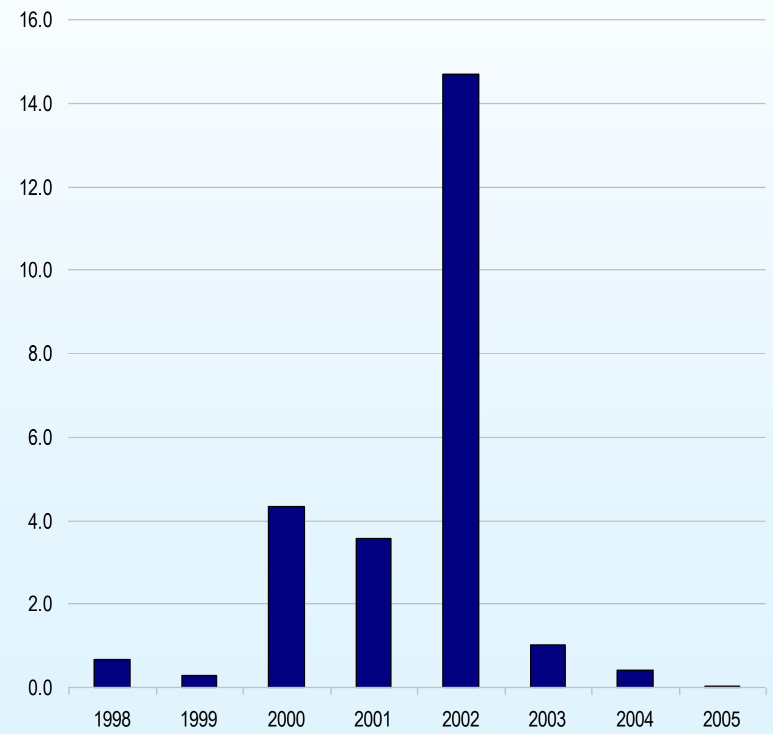
1989 → 2006

| | CENTRALLY PLANNED ECONOMY | FUNCTIONING MARKET ECONOMY |
|---|---|---|
| ***GOALS OF REFORMS*** | • **functioning market economy** | • **high and sustainable growth**<br>• **long-term competitiveness**<br>• **Lisabon strategy goals** |
| ***TYPE OF REFORMS*** | • **privatizations**<br>• **price deregulations**<br>• **market institutions** | • **structural reforms** |

# On-going Successful Privatisation Program

- Privatisation in two stages:
  - 2000-2001: Banking sector
  - 2002 onwards: Utility, Transportation
- Proceeds used to finance pension reform and repayment of state debt
- Left to be privatised:
  - Book value of SKK 100bn for sale
  - Total portfolio contains 118 companies
  - Approx 65% of book value in SE (electricity) and SPP (gas)

**Privatisation Receipts (% of GDP)**




Source: Fund of National Property

# Pension Reform : Well Funded

**Key reforms recommended by EC to relieve pressure on public financing:**

- Provide economic incentives to prolong working lives
- Limit access to early retirement schemes
- Strengthen link between contributions and entitlements
- Curtail future public spending requirements by instituting more appropriate pension indexation mechanism
- Spread future pensions-related risks across several pension pillars

**SLOVAK REFORM IMPLEMENTS ALL THESE RECOMMENDATIONS**

- Radical reform of 1st pillar (pay-as-you-go pillar)
- Introduction of the 2nd pillar (private pension accounts invested in capital markets)
- Improving the regulatory environment for efficient functioning of the 3rd pillar

# Introduction of Flat Rate Tax

**Radical simplification of the tax system**

- 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 - without any exceptions

Shift from direct to indirect taxes

***Slovakia has one of the lowest corporate and effective tax rates in EU***

# The Slovak Tax Reform : Results

**No decrease in tax revenues**

- Increased revenues from indirect taxes
- Less scope for tax evasion and tax avoidance
- More motivation to pay taxes

**Better incentives for investment and work**

- Lower marginal rates
- More transparent and equitable taxation

# Further Key Structural Reforms

**Health-Care**

- System financially self-sustainable
- Improved quality of services provided

**Education**

- Improved efficiency and quality of secondary education system
- Increased capacity and quality of tertiary education

**Public Administration**

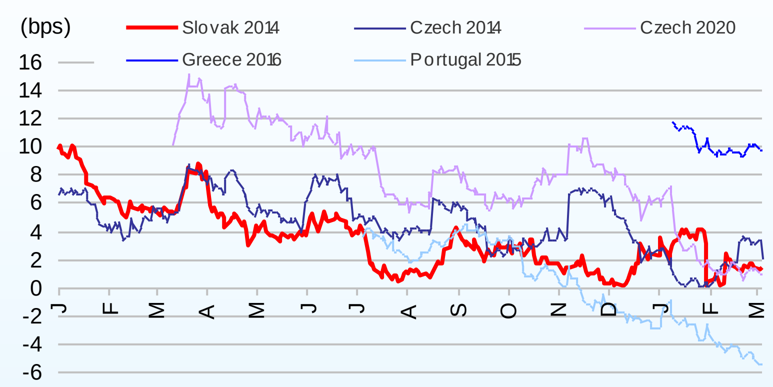
- Improved quality of public services
- Continued de-centralisation of public administration

## Outline

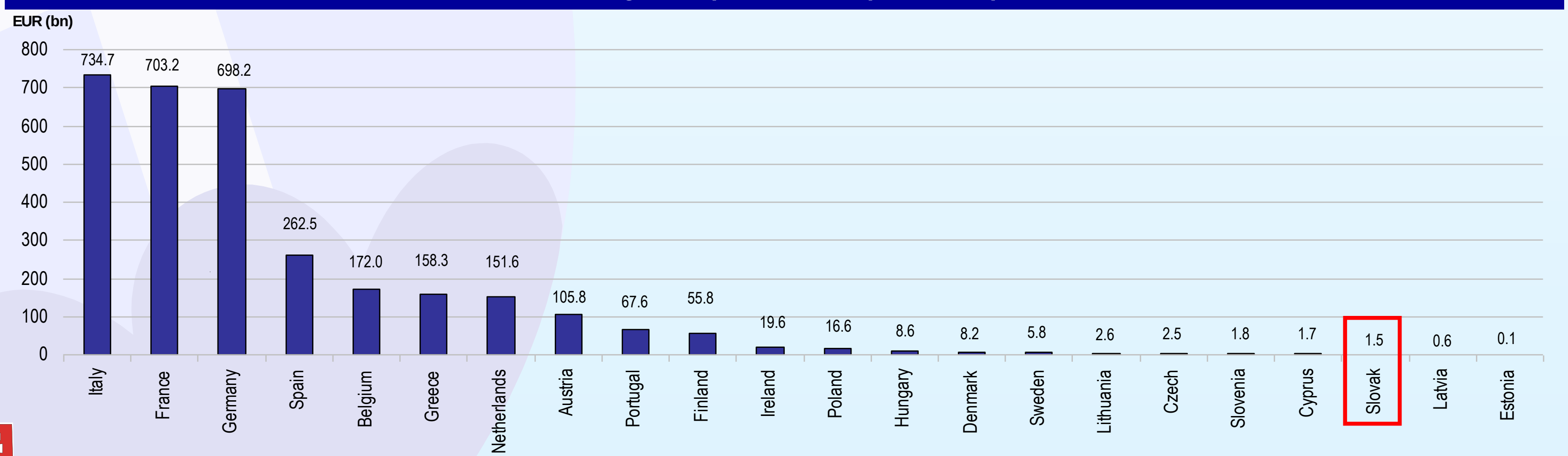
# A Strong Credit Offering Scarcity and Diversification

- One of the highest rated credits in Central Europe
- Strong performance of Slovakia eurobonds
- Planned issue represents the only foray to EUR markets in 2006

**Historical Spreads vs Swaps (2005 to date)**




**Outstanding Debt (EUR Billions), EU Comparison**




Source: Dealogic Bondware

# EMTN Programme and Inaugural Transaction Review

**EMTN Programme**

| | |
|---|---|
| ✚ Size | EUR 2bn |
| ✚ Joint Arrangers | BNP Paribas, Lehman Brothers |

**Eurobond Issue Details**

| | |
|---|---|
| ✚ Borrower | Slovak Republic |
| ✚ Rating | $A^{\text{positive outlook}}$ (Moody’s), $A^{\text{stable outlook}}$ (S&P), $A^{\text{stable outlook}}$ (Fitch) |
| ✚ Currency | EUR |
| ✚ Size | 1bn |
| ✚ Maturity | 15-years |
| ✚ Listing | London Stock Exchange |
| ✚ Roadshow | $20^{th}/21^{st}$ March 2006 |
| ✚ Launch and Pricing | $22^{nd}$ March 2006 |
| ✚ Joint Bookrunners | BNP Paribas, Lehman Brothers |

# Finance Ministry and ARDAL Contacts

**Ministry of Finance**

| | |
|---|---|
| ✚ Ivan Mikloš | Minister of Finance, Deputy Prime Minister |
| ✚ Vladimír Tvaroška | State Secretary |
| ✚ Martin Bruncko | Chief Advisor to Minister |

**Debt and Liquidity Management Agency (ARDAL)**

| | |
|---|---|
| ✚ Daniel Bytčánek | Director, ARDAL |
| ✚ Tomas Kapusta | Head of Debt Management Department, ARDAL |