January 2020

AGENTÚRA PRE RIADENIE DLHU A LIKVIDITY

DEBT AND LIQUIDITY MANAGEMENT AGENCY

ANNUAL REVIEW 2019 AND OUTLOOK 2020

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FOREWORD

The year 2019 was a year of further improvement of the Slovak state debt portfolio structure, mitigation of its market risks and a drop in its average interest costs. The average weighted yield to maturity of Government Bonds portfolio has achieved 2.47% p.a. and the cover of all state liabilities has reached the lowest cost level ever of 2.09% p.a. Due to very strict national legislation in the area of public finance as well as the State Treasury asset growth, Slovakia has borrowed on the financial market EUR 1.4 billion less than the planned amount. ARDAL has taken advantage of this less stressful period to improve the website and internal management processes.

Financing needs were covered smoothly, in April Slovakia sold on the financial market a 11–year benchmark issue worth EUR 1 billion with the lowest coupon rate in Slovak history 0.75% p.a. Good market conditions have also brought savings to the state budget of approximately EUR 141 million, which represents 12% of the 2019 debt service budget. The successful sovereign debt management was supported by a very well-functioning system of Primary Dealers, which in the year 2019 was composed of 11 domestic and foreign banks.

I would like on behalf of all of us at ARDAL to thank the Primary Dealers, business counterparties and investors for a very successful cooperation and smooth communication throughout the whole year 2019.

KEY INFORMATION

- *Original total gross needs decreased from planned EUR 4.7 billion to only EUR 3.3 billion. Breaking down this amount, EUR 1 billion was issued via 11-year bond syndication and EUR 2 billion was issued via bond auctions. No T-Bills were sold in 2019. In addition to the issuance program Slovakia also raised EUR 301 million in loans from supranational.*
- *ARDAL held 9 bonds auctions with total demand EUR 5.4 billion and with an average bid to cover ratio 2.8.*
- *Only one benchmark issue was opened in April through a syndicate of 5 Primary Dealers, in the size of EUR 1 billion for 11 years with 5 times oversubscription.*
- *The average yield of the new issues reached 0.72% p.a. with average maturity of 8.5 years. A small portion of bonds, value of EUR 153 million with average negative yield -0.02% p.a. and remaining maturity 8.6 years was issued.*
- *The Debt to GDP ratio is expected to further decrease to 48.4% at the end of 2019 (49.4% in 2018). The state budget cash deficit reached EUR 2.2 billion (budgeted EUR 2.04 billion).*
- *Slovakia maintained its average maturity and duration to the OECD and Euro area average levels reached approximately 8.7 years and 8.1 years respectively at the end of the year.*
- *ARDAL´s website was enhanced by adding an analytical section. This includes an automized connection to the real-time data warehouse.*

Chart 1: Government Bond Auction Results by Bond Line in 2019

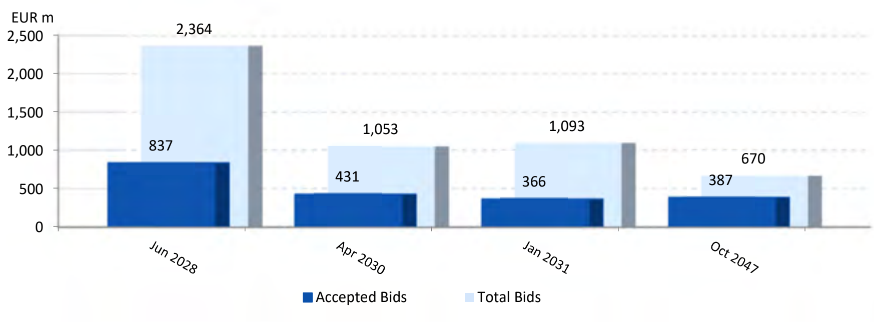
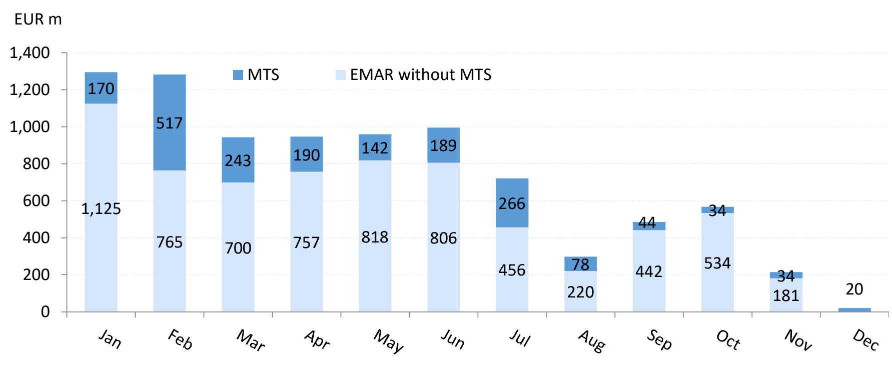


Chart 2: Slovak Primary Dealers Secondary Market (EMAR) in 2019



** EMAR for December 2019 is not available at time of publication*

CREDIT RATINGS

The Slovak Republic has a high rating for short and long term debt with a stable outlook by all major rating agencies. Slovakia's ratings reflect its strong macroeconomics performance and deep integration with major Eurozone economies. In recent years Slovakia has been among the top growth performers in the EU.

Slovakia has had a rating on A level or higher for the last 15 years. Slovakia is ranked 30th out of 65 countries worldwide in sustainable country rating. (Source: RobecoSAM, June 2019)

"Slovakia's ‚A+' ratings reflect its track record of competitive exports-based economic growth, stable FDI and EU capital inflows, and EU and Eurozone membership. The rating is constrained by potential vulnerabilities stemming from the country's relatively high dependence on the automotive manufacturing sector, weaker structural indicators compared with peers, high - albeit slowing - household credit growth, and relatively weaker external debt metrics." (Source: Fitch, November 2019)

"The stable outlook reflects our view that Slovakia's economic growth prospects will remain favourable over the next two years, despite its high reliance on auto exports. In our view, the country's institutional frameworks will be sufficiently robust to generate prudent economic policy that offsets downside risks. These could stem from either credit-driven economic overheating, or from potential difficulties forming government coalitions that could ensue following the upcoming 2020 parliamentary elections." (Source: Standard&Poor's, July 2019)

Table 1: Credit Rating

Current Ratings of the Slovak Republic		
Confirmation Date	Agency	Grade
July 2019	Standard&Poor's	A+ stable outlook
September 2019	Moody's	A2 stable outlook
November 2019	FITCH	A+ stable outlook
September 2019	DBRS	A (high) stable outlook

GOVERNMENT DEBT SECURITIES ISSUES AND AUCTION CALENDAR FOR 2020

The gross funding needs (bond redemptions and deficit of state budget) will reach EUR 5.4 billion in 2020. This amount is based on the Act on the State Budget for 2020 and is in line with the Act on State Debt and Guarantees.

Government Bonds

ARDAL intends to open 1 new line of Government Bonds via syndicated sale. The following line will be opened depending on the market conditions and investors' demand:

- *New bond line with issue size of EUR 3 billion in spring or autumn, with maturity according to market conditions (most likely 12 or 15 years). The expected maximum amount to be sold via the syndicated sale is EUR 1 billion. Other lines of bonds can be opened based on debt management requirements and investors' demand.*

The bond auctions will take place once per month – usually on the third Monday of a month. Based on liquidity and debt management requirements as well as demand of investors, more bonds can be auctioned in one auction day. Similarly to 2019, it is expected that auction of 1-3 bonds will take place on each auction day.

The non-competitive part of the auction will take place on the day following after the competitive part of the auction. Settlement of trades resulting from both auction parts, will be on the same day, the competitive part of the auction D+2 and the non-competitive part of the auction D+1.

Treasury Bills

ARDAL is planning to issue a new one year T-Bill line (TB 17, issue size EUR 1.0 billion) into its portfolio in January. The T-Bill line will be sold through competitive auctions (probably 3 – 5 auctions) on the fourth Monday of the first 3 months of 2020. ARDAL can continue with the T-bill auctions in the following months based on debt management requirements and market conditions.

Government Bond and Treasury Bill Auctions in 2020

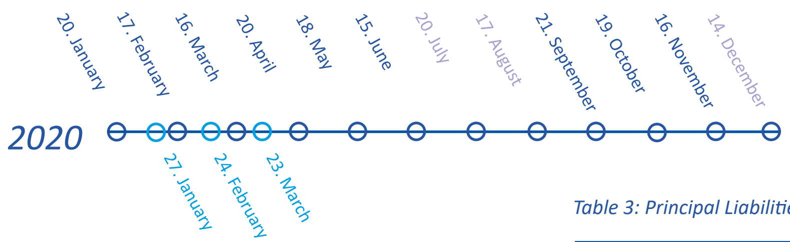


Table 2: Open Lines of Bonds (Available for Tapping) as of 31.12.2019

ISIN	Issue Date	Maturity	Coupon (% p.a.)	Available (EUR million)
SK4120009762	16.1.2014	16.1.2029	3.625	205.4
SK4120011420	21.1.2016	21.1.2031	1.625	450.8
SK4120012691	9.3.2017	9.3.2037	1.875	193.2
SK4120013400	17.10.2017	17.10.2047	2.000	3,305.0
SK4120014150	12.6.2018	12.6.2028	1.000	993.1
SK4120014184	12.6.2018	12.6.2068	2.250	4,500.0
SK4120015173	9.4.2019	9.4.2030	0.750	1,609.7
Total Amount				**11,257.2**

Table 3: Principal Liabilities Structure as of 31.12.2019

Liabilities	EUR (million)	Average Costs
Issued Bonds	38,166	2.47% p.a.
Issued T-Bills	0	0.00% p.a.
Loans	2,472	2.41% p.a.
Total	40,638	2.47% p.a.

Total average liabilities costs together with the State Treasury funds are close to 2.09% p.a.

The amount of the liabilities is in nominal value. The value of the EUR equivalent of foreign currency bonds is calculated using the exchange rate of the FX hedge transaction or by using the ECB's exchange rate valid for reporting date.

RISK MANAGEMENT

ARDAL manages the debt portfolio risks in accordance with the approved Government Debt Management Strategy.

This includes the monitoring of refinancing and refixing risks. In regards to the refinancing risk, there is a strategic intent to maintain the value of the liabilities to be redeemed within one/five years close to 20/55 per cent of total liabilities.

As for the refixing risk, there is a goal to maintain the value of the liabilities to be refixed within one/five years close to 25/55 per cent of total liabilities.

The weighted average maturity of the state debt portfolio reached the value of 8.7 years and the duration was 8.1 years at the end of 2019. These values are similar to the debt portfolio characteristics of the Eurozone core countries.

Chart 3: Average Maturity and Duration of the Slovak Debt Portfolio

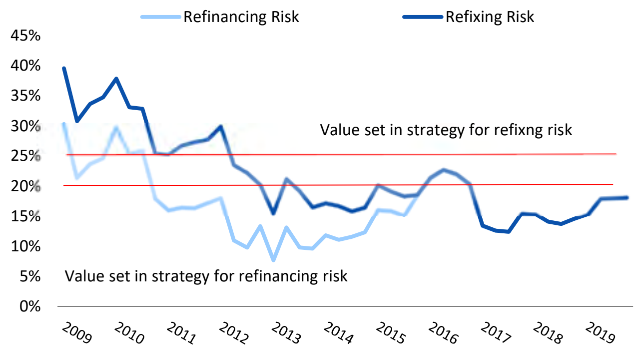


Chart 4: Risk Indicators of the Slovak Debt Portfolio for the next year

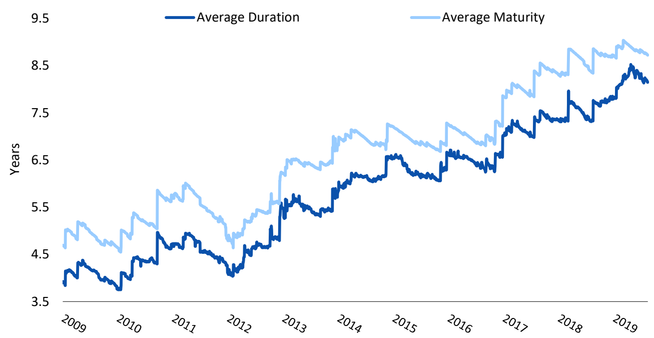
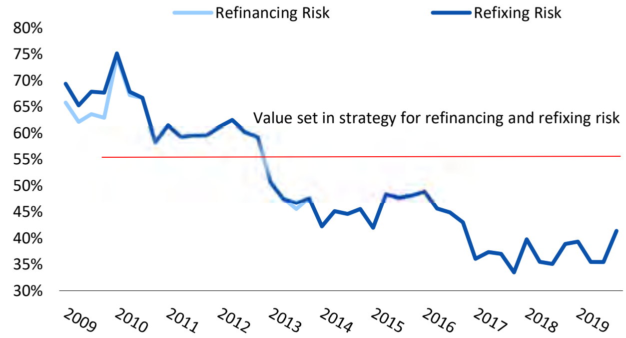


Chart 5: Risk Indicators of the Slovak Debt Portfolio for the next 5 cumulative years



BOND BENCHMARK SYNDICATION

In April 2019 the Slovak Republic successfully placed in the international capital markets a new EUR 1 billion 11-year benchmark issue. For the first time 5 Primary Dealers acted in one syndicate as a Joint Lead Manager.

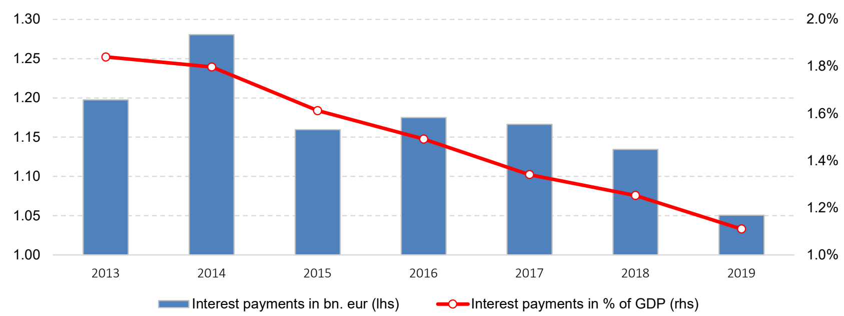
The strong market conditions allowed to price the bond at MS+21bps (yield 0.78% p.a. and the lowest coupon in Slovak history 0.75% p.a.). The Slovak Republic priced the transaction 1bp inside its fair value curve.

More than 150 investors, very diverse both geographically and by investor type participated in the transaction. With oversubscription levels of more than 5 times, the offering has exceeded demand in the previous CEE region debt sales from June 2018.

Table 4: 11-Year Issue

Distribution by Region	
Austria, Germany	28%
France	28%
Slovakia	13%
United Kingdom	11%
Southern Europe	5%
Nordics	5%
Others	10%
Distribution by Investor Type	
Fund managers	51%
Banks/Private banks	32%
Insurance/Pension funds	14%
Others	3%

Chart 6: Debt Service Costs



INTEREST COSTS

The nominal interest costs on a cash basis have declined third year in a row reaching EUR 1.0 billion. The costs went down albeit the nominal debt continued to rise due to cash deficits of state budget. In relative terms as a percentage of GDP, the cash costs hit all time low and were below 1.2% of GDP. The reason for both absolute and relative development is the continuing environment of low rates where high coupon bonds issued in the past are rolled over with bonds with yield to maturity close to zero.

KEY CHALLENGES

In addition to the continuing problems related to BREXIT and global trade wars, the year 2020 will probably be also heavily influenced by the already present economic slowdown in the whole world, not only in Europe.

Slovakia will have a general government election in February, which will form a new Government for the next 4 years. Although no major changes in public finance policy are expected, the new Government manifesto will lead the debt management area.

Forming a new coalition could re-open a discussion regarding technical changes in the existing prudent act on fiscal responsibility (so called debt brake). Moving to net debt formula from current gross debt formula could bring back flexibility in debt management and allow reasonable pre-funding, especially in the unpredictable environment of threatening recession.

Risk parameters of the Slovakia debt portfolio are in the best shape. Smoother redemption profile and sufficient liquidity position should work as an absorber of market distortions and shocks. Based on past successful fulfilment of the previous Debt Management Strategies the new Government should adopt very similar risk goals in the new Debt Management Strategy for the years 2020 – 2023.

Due to ARDAL´s role as a cash reserve manager, dealing with lowering interest rates is more and more challenging and positive rates are more than welcomed. In the medium term the ECB purchases will have to be replaced by real money investors, which will mean broadening of the existing investor pool.

Chart 7: Public Debt to GDP

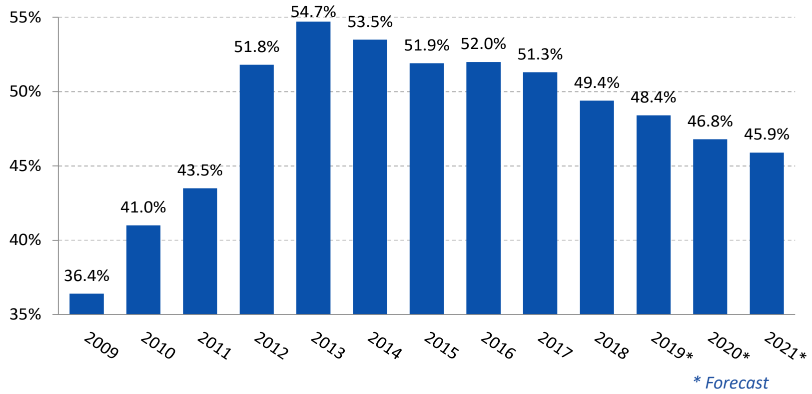
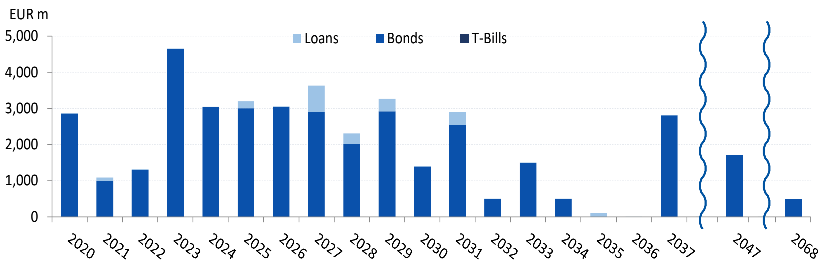


Chart 8: Maturity of the Securities and Loans



PRIMARY DEALERS FOR 2020

Barclays Bank plc
Citibank Europe plc
Československá obchodná banka, a.s. (KBC Group)
Deutsche Bank AG
HSBC France
Natixis S.A.
Slovenská sporiteľňa, a.s., (Erste Group)
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)

USEFUL LINKS

- *www.ardal.sk (Debt and Liquidity Management Agency)*
- *https://public.ardal.sk (Debt and Liquidity Management Agency)*
- *www.finance.gov.sk (Ministry of Finance of the Slovak Republic)*
- *www.statistics.sk (Statistical Office of the Slovak Republic)*
- *www.nbs.sk (National Bank of Slovakia)*
- *www.ecb.europa.eu (European Central Bank)*
- *www.pokladnica.sk (State Treasury)*
- *www.cdcp.sk (Central Depository of Securities)*
- *www.bsse.sk (Bratislava Stock Exchange)*
- *www.ec.europa.eu/eurostat (Eurostat)*
- *www.europa.eu/efc/esdm_en (ESDM)*

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