



ANNUAL REVIEW 2020 AND OUTLOOK 2021

Daniel Bytčánek, Managing Director

Daniel Bytčánek is the director of the Slovak Debt and Liquidity Management Agency (ARDAL). He has overall responsibility for government debt management and related activities such as investor relations and other strategic debt management issues. Daniel Bytčánek founded ARDAL in 2003.



KEY INFORMATION

- One of the most expected events in Slovakia in 2020 were parliamentary elections held in February. The brand new broad coalition of 4 middle-right oriented parties replaced the social democratic coalition after 8 years.
- The main driver of 2020, was COVID-19. GDP growth for 2020 that was originally planned at +2.3% was revised to -6.7% (September 2020). State budget deficit for 2020 was originally approved at EUR 2.4 billion, revised to EUR 12 billion in July 2020 and reality at the end of 2020 was EUR 7.8 billion.
- Gross Debt to GDP ratio is expected to increase from 48.5% in 2019 to 62.2% at the end of 2020. Net debt to GDP ratio should increase less to around 54% (from 43.2% in 2019). The state budget cash deficit at the end 2020 reached EUR 7.8 billion (budgeted EUR 12 billion – revised budget).
- Original total gross issuance increased from planned EUR 5.4 billion to EUR 11.5 billion. Breaking down this amount EUR 5.5 billion was issued via 2 syndication, EUR 4.5 billion was issued via bond auctions and EUR 3.2 billion issued by 4 T-Bills lines (out of it EUR 1.7 billion of T-Bills matured in 2020). Aside of the issuance program Slovakia raised EUR 1.1 billion in form of loans from supranational institutions, including EUR 300 million from SURE program.

- ARDAL held 10 multiple bond auctions with total demand EUR 8.3 billion and average bid to cover ratio 1.8. Aside of it 8 multiple T-Bills auction were held with total demand EUR 9.5 billion and bid to cover ratio 3.0.
- One benchmark issue in size of EUR 1.5 billion for 10.5 years was opened through syndicate of 3 local Primary Dealers in April. The second benchmark syndicate of 5 Primary Dealers was the largest dual tranche in the region with record demand of EUR 15 billion. The transaction was executed in May with total value of EUR 4 billion (EUR 2 billion for 5 and EUR 2 billion for 12 years).
- The average yield of new bond issues reached an all-time low 0.48% p.a. with average maturity of 9.6 years. Approximately EUR 4.1 billion (31%) of issued securities in 2020 were sold with negative yield. The record low yield -0.63% p.a. was recorded in 4 year bond auction in September.
- Slovakia maintained its average maturity and duration at the OECD and Euro area average levels reaching 8.3 years and 8.1 years respectively.

Chart 1: Slovak Primary Dealers Secondary Market (EMAR) in 2020

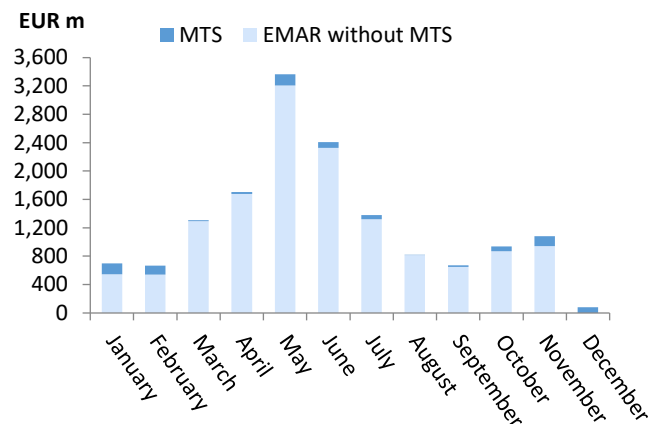
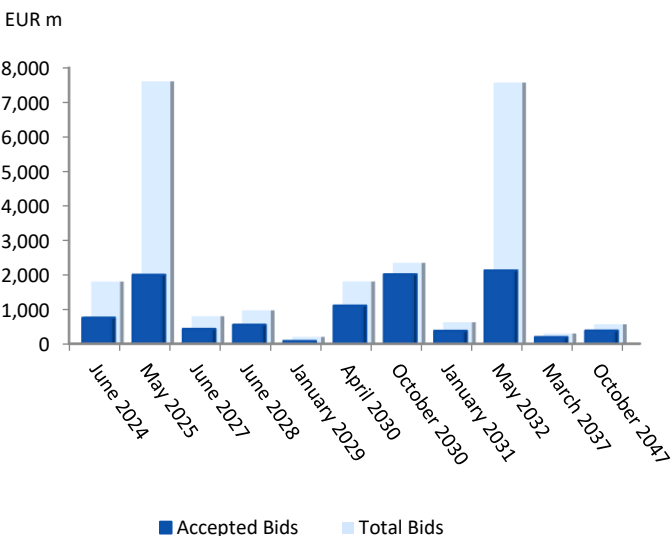


Chart 2: Government Bond Auctions Results by Bond Line in 2020



CREDIT RATINGS

The Slovak Republic has a high rating for short and long term debt by all major rating agencies. Slovakia's ratings reflect it's 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 better for the last 16 years. Slovakia is ranked 27th out of 166 countries worldwide in sustainable country rating.

(Source: SDG Index, June 2020)

Table 1: Credit Ratings

Current Ratings of the Slovak Republic		
Confirmation Date	Agency	Grade
July 2020	Standard&Poor's	A+ negative outlook
September 2019	Moody's	A2 stable outlook
November 2020	FITCH	A+ negative outlook
September 2019	DBRS	A (high) stable outlook

"We revised the outlook to negative because of the material erosion of fiscal space brought about by the COVID-19 pandemic and the risks that it could persist without a robust economic recovery, given the country's relatively narrow economic focus on highly cyclical sectors. Such cyclical was evident when the Slovak economy suffered one of the sharpest first-quarter real GDP contractions in the EU. We believe the recently elected government, potentially with help from the EU, will support the economic recovery following a deep recession in 2020, by beginning to implement economic measures to broaden Slovakia's economic base and further enhance the economy's valued-added. We affirmed the ratings because we consider Slovakia's debt levels to be manageable. Debt-servicing costs stand at historical lows as government bond yields benefit from European Central Bank (ECB) purchasing programs. Furthermore, the country's external debt remains low and balance-of-payments risks are mitigated by its Eurozone membership."

(Source: Standard&Poor's, July 2020)

GOVERNMENT DEBT SECURITIES ISSUES AND AUCTION CALENDAR FOR 2020

The gross funding needs (bond redemptions and deficit of state budget) should reach EUR 10.4 billion (government bonds, treasury bills and government loans) in 2021. This amount is based on Act on the State Budget for 2021 and is in the line with the Act on State Debt and Guarantees.

ARDAL intends to open 3-4 new line of government bonds via syndicated sale and/or auction in 2021. The following lines will be opened depending on the market conditions and the investors' demand:

- new bond line with issue size of EUR 3.0bn and with maturity according to market conditions (5, 7 or 8 years);
- new bond line with issue size of EUR 3.0bn and with maturity according to market conditions (10 - 12 years);
- new bond line with issue size of EUR 5.0bn and with maturity according to market conditions (19+ years).

The total expected maximum amount to be sold via syndicated sale is EUR 4.0 billion, regardless of the number of transactions.

Other lines of bonds can be opened based on debt management requirements and investors' demand.

ARDAL is planning to issue 2 new T-Bill lines (TB 21 and TB 22, both with issue size EUR 1.0 billion and maturity 364 days) into own portfolio in 2021. The T-Bill lines will be sold in the competitive auctions on the fourth Monday in the second quarter of 2021 and in the autumn 2021. ARDAL can continue with the T-bill auctions in the following months based on debt requirements and market conditions.

Government Bonds Auctions

The bond auctions will take place once per month – usually on the third Monday of a month. Based on liquidity requirements, debt management and demand of investors, more bonds can be auctioned in one auction day. It is expected that auction of 2 - 4 bonds will take place on each auction day.

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

Government Bond and Treasury Bill Auctions in 2021

Government Bonds	18.01.	15.02.	15.03.	19.04.	17.05.	21.06.	19.07.	16.08.	20.09.	18.10.	15.11.	13.12.
Treasury Bills	26.04.	24.05.	28.06.									

Table 2: Open Lines of Bonds (Available for Tapping) as of 31.12.2020

ISIN	Issue Date	Maturity	Coupon (% p.a.)	Available (EUR million)
SK4120009762	16.1.2014	16.1.2029	3.625	127.4
SK4120011420	21.1.2016	21.1.2031	1.625	78.4
SK4120013400	17.10.2017	17.10.2047	2.000	2,925.6
SK4120014150	12.6.2018	12.6.2028	1.000	444.1
SK4120014184	12.6.2018	12.6.2068	2.250	4,500.0
SK4120015173	9.4.2019	9.4.2030	0.750	505.0
SK4000017059	9.4.2020	9.10.2030	1.000	987.0
SK4000017158	14.5.2020	14.5.2025	0.250	1,000.0
SK4000017166	14.5.2020	14.5.2032	1.000	876.0
SK4000017398	17.6.2020	17.6.2024	0.000	1,246.0
SK4000017380	17.6.2020	17.6.2027	0.125	1,572.0
Total Amount				14.261.5

Table 3: Principal Liabilities Structure as of 31.12.2020

Liabilities	EUR (million)	Average Costs
Issued Bonds	45,298	1.93% p.a.
Issued T-Bills	1,380	-0.18% p.a.
Loans	3,583	1.67% p.a.
Total	50,261	1.85% p.a.

Total average liabilities costs together with the State Treasury funds are close to 1.51% 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 8.3 years and the duration was 8.1 years at the end of 2020. These values are similar to the debt portfolio characteristics of the Eurozone core countries.

Chart 4: Average Maturity and Duration of the Slovak Debt Portfolio

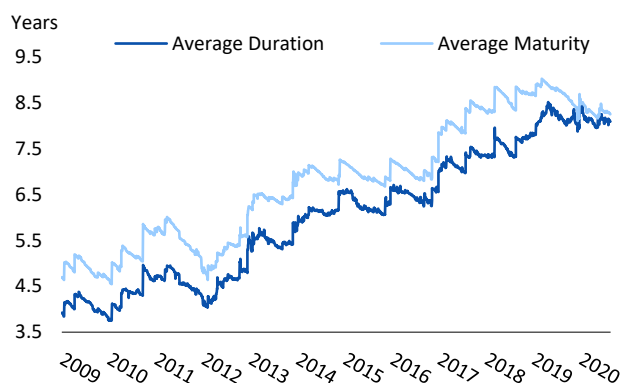


Chart 3: Risk Indicators of the Slovak Debt Portfolio for the Next Year

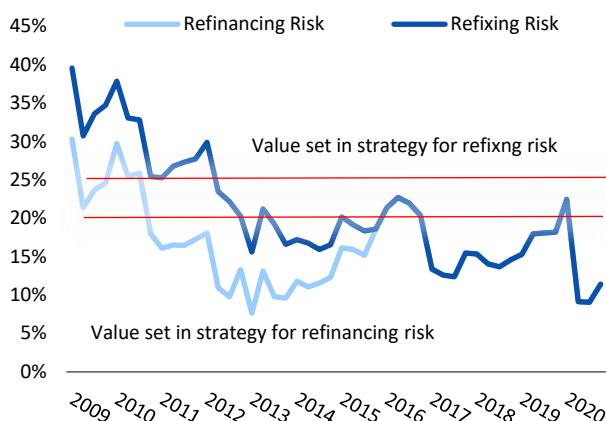
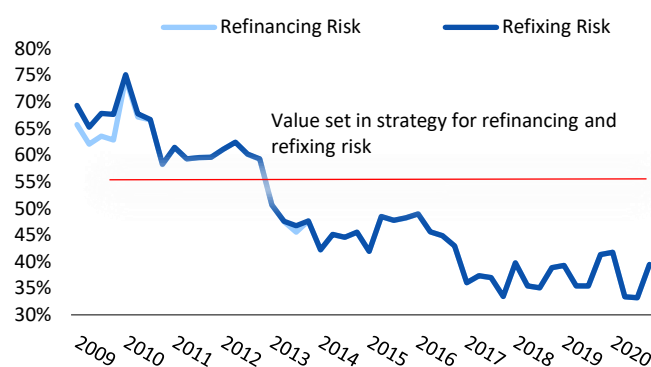


Chart 5: Risk Indicators of the Slovak Debt Portfolio for the Next 5 Cumulative Years



BENCHMARK BOND ISSUANCE

The Slovak Republic successfully came to the international capital markets with a new EUR 2.0 billion 5-year and a EUR 2.0 billion 12-year dual tranche bond issue. The transaction as a whole (EUR 4.0 billion) represents the largest-ever SLOVGB syndication on record, as well as the largest-ever government bond syndication in the CEE space. The transaction attracted the largest orderbook on record for a SLOVGB syndication, with final orders in excess of EUR 15 billion combined (EUR 7.6 billion for the 5-year and EUR 7.4 billion for the 12-year). The 5-year tranche priced at m/s+65bps, equivalent to a reoffer yield of 0.350%, the 12-year tranche officially priced at MS+110bps, equivalent to a reoffer yield of 1.056%. The investor base for the issue was well diversified both geographically and by investor type.

Table 4: 5 Year Issue

Distribution by Region	
United Kingdom	26%
Austria, Germany	24%
Benelux	16%
Nordics	13%
France	6%
Switzerland	6%
Slovakia	5%
Other Europe	4%
Others	1%
Distribution by Investor Type	
Fund managers	46%
Banks/Private banks	31%
Central banks	20%
Others	4%

Table 5: 12 Year Issue

Distribution by Region	
Austria, Germany	33%
United Kingdom	19%
France	14%
Slovakia	11%
Benelux	9%
Other Europe	7%
Nordics	4%
Switzerland	2%
Others	1%
Distribution by Investor Type	
Fund managers	50%
Banks/Private banks	27%
Insurance/Pension funds	13%
Central banks	8%
Others	2%

KEY CHALLENGES

Aside of continuing stories of BREXIT and global trade war between USA and China, the year 2021 will continue in presented economic slowdown caused by the COVID-19. Hope of rescue can be brought by early vaccination against the COVID-19. New life in the new world, after the successful activation of contingency plans will have to be enhanced by new sustainable measures.

The new Slovak Government will face not only COVID-19 crisis and its consequences, but the main challenges will also be to force structural changes in the field of finance, social and pension system, institutional and jurisdiction changes and improvement of existing healthcare system. To bring Slovakia back on a sustainable way will mean a short to middle term pressure on public finance and debt. No changes in general geopolitical direction are expected as Slovakia is very well incorporated in EU structures and the new Government has a strong pro EU orientation.

After 9 years of existence of prudent Act on Fiscal Responsibility (so called Debt Brake) there is a political will and also constitutional power to improve this act. Moving to net debt formula from gross debt formula could bring back flexibility and standard approach in debt management and allow reasonable pre-funding, especially in the unpredictable environment of threatening recessions and crisis.

Risk parameters of Slovakia debt portfolio, even after the COVID-19 experience, are in the best shape. Smooth and feasible redemption profile and sufficient liquidity position worked well as an absorber of market distortions and shocks. Based on the past successful fulfillment of the previous Debt Management Strategies, the new Government should approve very similar risk goals in the new Debt Management Strategy for the years 2021 – 2024.

ARDAL acts also as an asset manager (investing cash buffer), therefore existence in the low yield environment is from year to year more challenging and positive rates would be more than welcomed. In medium to long term, the ECB purchases will have to be replaced by real money investors, which will mean broadening of the existing investor's base and being regularly present in other markets outside Eurozone.

Chart 6: Public Debt to GDP

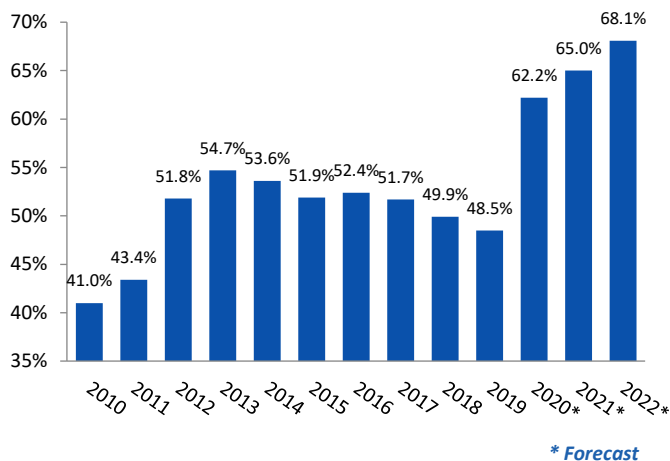
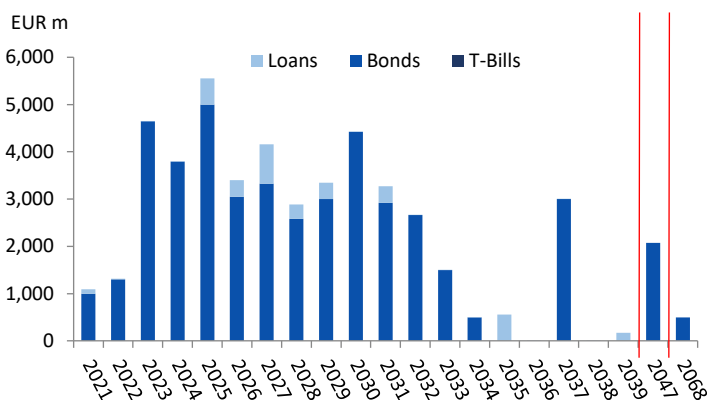


Chart 7: Maturity of the Securities and Loans



PRIMARY DEALERS FOR 2021

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