

ANNUAL REVIEW 2021 AND OUTLOOK 2022

FOREWORD

In 2021, new strong waves of COVID-19 completely changed the behaviour of the society when we all had to adapt to the new 'normal' and most of the communication in debt and cash management area moved to the online world.

The pandemic situation also caused an uncertainty in the financing of government debt. An ongoing change in estimates of real financing needs was driven by better-than-expected development of the state budget and a significant increase of State Treasury system resources. A good risk profile of the bond portfolio, small redemptions of state liabilities and higher than standard cash reserves were 3 pillars of accomplishment in the year 2021.

A strong second wave of the pandemic and constant tensions in the new government led to its reconstruction in the spring of 2021. Nevertheless, thanks to a functioning bond market supported by the ECB's bond purchase programs, it was possible to ensure smooth financing of the state's needs under extremely favourable conditions. The cost of funding state liabilities therefore dropped to 1.29 % p.a.

On behalf of all of us at ARDAL, I would like to thank the Primary Dealers, business counterparties and investors for a very successful cooperation and strong support throughout the whole year. Hopefully, next year will bring us a chance to return to what we considered normal conditions prior to the COVID-19 outbreak and it will be possible to meet our partners in person again.



Daniel Bytčánek
Managing Director

KEY INFORMATION

- The main driver of 2021, as in the previous year, was the pandemic of COVID-19 and economic lockdowns. GDP growth for 2021 should be around 3% compared to 2020 contraction of 4.8%. Public finance deficit for 2021 was originally approved at 7.4% of GDP and revised during the year to 8.8% of GDP. The final deficit is expected to be lower, as the state budget cash deficit for 2021 ended only at EUR 7 billion, instead of the approved EUR 11.8 billion.

- The Gross Debt to GDP ratio is expected to increase from 59.7% in 2020 to around 62% at the end of 2021. The Net Debt to GDP ratio is increasing at lower pace and should reach 53% (from 52% in 2020). ARDAL managed prudent liquidity buffer between 5-10% of GDP during the 2021.

- The original total gross issuance in 2021 was planned to reach EUR 10.6 billion. Following the July forecast and budget update the gross issuance forecast for 2021 increased to EUR 13.8 billion. A favourable Slovak redemption profile and decreasing budget deficit allowed ARDAL to take the foot off the pedal. The reality at the end of 2021 was much better, in fact the gross issuance was reduced to only EUR 6.7 billion. The main contributors to the positive result were a significant increase of funds in the State Treasury, a better development of the state budget and the pre-funding of the Recovery and resilience plan under the NextGenerationEU.

- ARDAL held 9 multiple bond auctions with the total demand of EUR 7.7 billion and an average bid to cover ratio 1.8. In the auctions ARDAL sold bonds worth of EUR 4.2 billion. Due to a comfort liquidity position and a supportive increase of the State Treasury balance sheet no T-Bills auction was held.

- On the top of regular auctions, Slovakia opened 2 new benchmark issues through the syndicate in total size of EUR 2.5 billion. In April 2021 Slovakia opened a new 15-year benchmark in the initial size of EUR 1.5 billion. In October Slovakia successfully reached investors with a new 30-year benchmark in size EUR 1 billion.

- Cheap financing continued also in 2021. The average yield of new bond issues reached an all-time low 0.24% p.a. With an average maturity of 14.9 years. Approximately EUR 2.7 billion (40%) of issued securities in 2021 were sold with negative yield and EUR 1 billion (14%) with yield below the ECB sterilization rate (-0.50% p.a.). The record low yield in history -0.76% p.a. was achieved in the auction of 2.6-year bond in November.

- At the end of 2021, the weighted average costs of Government Bonds reached 1.65% p.a. (in 2020 it was 1.91% p.a.). All in costs of debt management, including funds from the State Treasury, loans and other liabilities dropped to 1.29% p.a. at the end of 2021, from 1.53% p.a. (2020).

- Slovakia maintained its average maturity and duration at the OECD and Euro area average levels reaching 8.6 years and 8.2 years respectively.

Chart 1: Government Bond Auctions Results by Bond Line in 2021

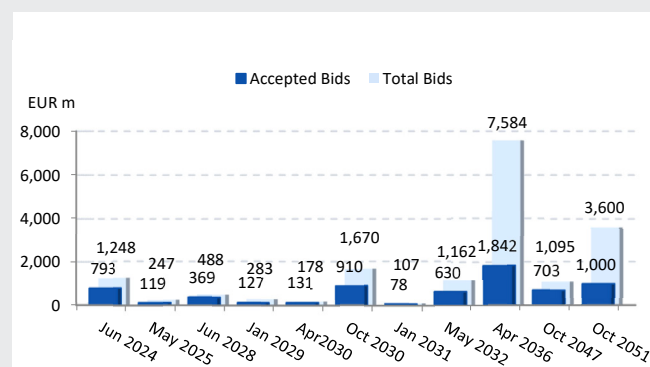
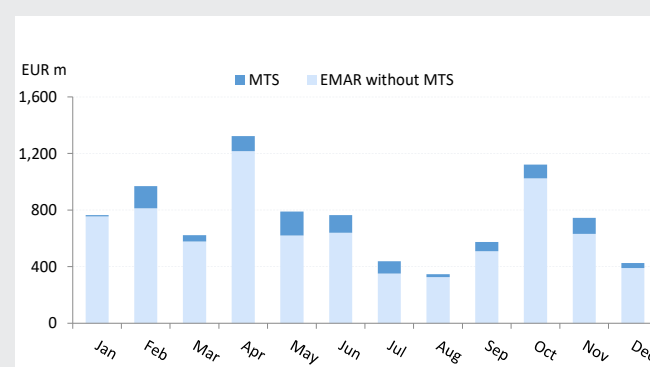


Chart 2: Slovak Primary Dealers Secondary Market (EMAR) in 2021



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 a deep integration with major Eurozone economies. In recent years Slovakia has been among the top growth performers in the European Union.

Slovakia has had a rating on A level or better since 2004 and is ranked 23th out of 180 countries worldwide in the sustainable country rating (Source: solability.com, October 2021) and 19th out of 165 countries by the SDG Index (Source: sdgindex.org, 2021).

"The stable outlook balances the consequences of the pandemic on public finances with our expectation of an economic rebound facilitated by a steady absorption of EU funds and continued investments from the private sector into Slovakia's productive capacity. The outlook revision reflects our view that Slovakia's economic recovery will mitigate the fiscal repercussions of stimulus introduced to support the economy during the COVID-19 pandemic. We consider debt

Table 1: Credit Rating

Current Ratings of the Slovak Republic		
Confirmation Date	Agency	Grade
January 2021	Standard&Poor's	A+, stable outlook
June 2021	Moody's	A2, stable outlook
October 2021	FITCH	A, stable outlook
August 2021	DBRS Morningstar	A (high), stable trend

manageable, despite a significant buildup in 2020." (Source: Standard&Poor's, January 2021)

"The outlook remains stable. The key drivers behind the rating action were: the Slovakian economy's relative resilience to the pandemic shock, as well as its solid post-pandemic growth prospects and a government debt burden that remains moderate despite the fiscal impact of the pandemic shock, as well as very strong debt affordability metrics." (Source: Moody's, June 2021)

GOVERNMENT DEBT SECURITIES ISSUES AND AUCTION

Gross funding needs should reach EUR 6.0 billion in 2022. This amount is in line with the Act on the State Budget for 2022 and with the Act on State Debt and Guarantees.

ARDAL intends to open 1 or 2 new line(s) of Government Bonds via syndicated sale and/or auction in 2022. The following lines will be opened depending on the market conditions and the investors' demand

- new bond line with an issue size of EUR 3bn or EUR 5bn and with a medium-term maturity.
- new bond line with an issue size of EUR 5bn and with a long-term maturity.

The total expected amount to be sold via syndicated sale(s) is EUR 2 –3 billion, regardless of the number of transactions.

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

Treasury Bills

ARDAL does not expect to issue any new T-bills line in 2022. However, in case of any unexpected circumstances ARDAL reserves the right of a change that will be announced early in advance to all Primary Dealers and investors.

Government Bonds Auctions

The bond auctions will take place once per month – usually on the third Monday of every 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.

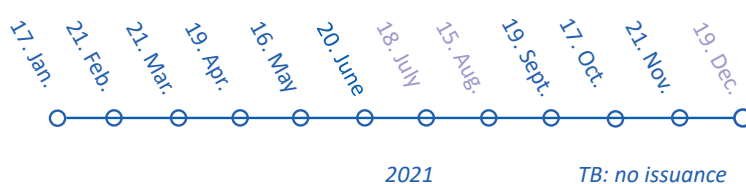
Table 2: Open Lines of Bonds (Available for Tapping) as of 31.12.2021

ISIN	Issue Date	Maturity	Coupon (% p.a.)	Available (EUR million)
SK4000017398	17.06.2020	17.06.2024	0.000	453.3
SK4000017158	14.05.2020	14.05.2025	0.250	881.5
SK4000017380	17.06.2020	17.06.2027	0.125	1,572.0
SK4120014150	12.06.2018	12.06.2028	1.000	75.5
SK4120015173	09.04.2019	09.04.2030	0.750	374.3
SK4000017059	09.04.2020	09.10.2030	1.000	77.2
SK4000017166	14.05.2020	14.05.2032	1.000	245.7
SK4000018958	21.04.2021	21.04.2036	0.375	3,157.6
SK4120013400	17.10.2017	17.10.2047	2.000	2,222.4
SK4000019857	13.10.2021	13.10.2051	1.000	4,000
SK4120014184	12.06.2018	12.06.2068	2.250	4,500.0
Total Amount				17,559.5

Table 3: Principal Liabilities Structure as of 31.12.2021

Liabilities	EUR (million)	Average Costs
Issued Bonds	51,000	1.66% p.a.
Issued T-Bills	0	0.00% p.a.
Loans	3,924	1.54% p.a.
Total	54,924	1.65% p.a.

Government Bond and Treasury Bill Auctions in 2021



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 8.6 years and the duration was 8.2 years at the end of 2021. These values are similar to the debt portfolio characteristics of the Eurozone core countries.

Chart 3: Risk Indicators of the Slovak Debt Portfolio for the next year

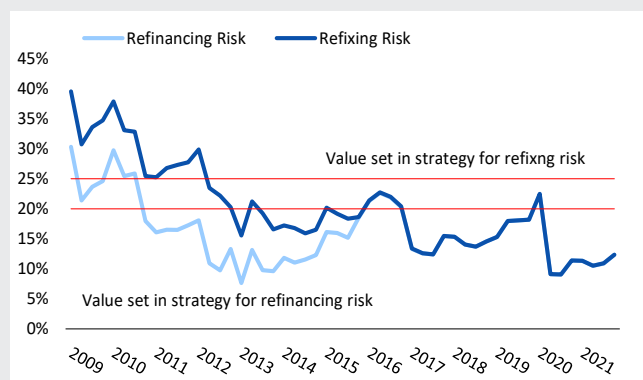


Chart 4: Risk Indicators of the Slovak Debt Portfolio for the next 5 cumulative years

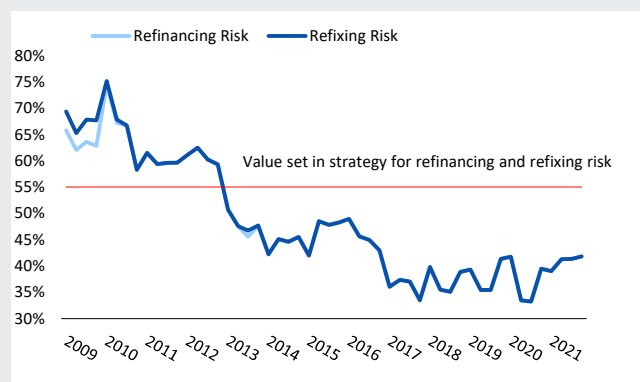
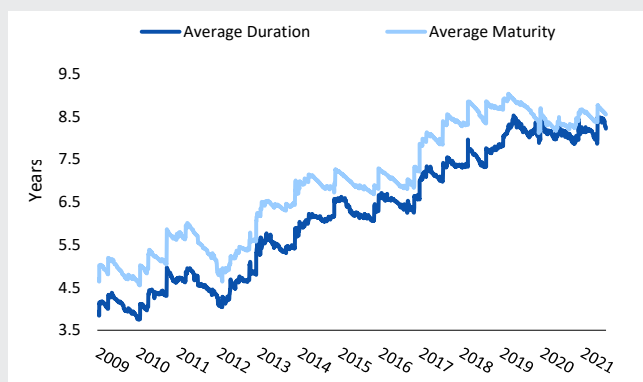


Chart 5: Average Maturity and Duration of the Slovak Debt Portfolio



BENCHMARK BOND ISSUANCE

The Slovak Republic successfully came to international capital markets with two transactions: a new EUR 1.5 billion 15-year bond and a EUR 1.0 billion 30-year bond. The 15-year bond issued in spring has the lowest coupon (0.375%) on a long tenor (above 10-year) for the Slovak Republic. The bond was priced at m/s+9bps, equivalent to a reoffer yield of 0.435%. The 30-year bond issued in autumn has the lowest coupon (1.000%) ever accomplished by the Slovak Republic in a maturity longer than 15 years. The bond was priced at m/s+47bps, equivalent to a reoffer yield of 1.006%. The investor base for both issues was well diversified both geographically and by investor type.

Table 4: 15-Year Issue

Distribution by Region	
Austria, Germany	22%
France	22%
United Kingdom	16%
Slovakia	16%
Other Europe	10%
Nordics	8%
Others	6%

Distribution by Investor Type	
Banks/Private banks	46%
Fund managers	35%
Insurance/Pension funds	14%
Others	3%
Central banks	2%

Table 5: 30-Year Issue

Distribution by Region	
Austria, Germany	44%
Nordics	12%
United Kingdom	8%
Others	8%
Slovakia	7%
Benelux	7%
France	4%
Other Europe	4%
Switzerland	4%

Distribution by Investor Type	
Banks/Private banks	35%
Fund managers	33%
Insurance/Pension funds	25%
Others	4%
Central banks	3%

KEY CHALLENGES

In the environment of continuing uncertainty surrounding COVID 19, 2022 will be also influenced by record high inflation, which may slow down the expected global economic recovery. Bringing Slovakia back on a sustainable way means 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 European Union structures and the new Government has a strong pro EU orientation. The planned structural changes and reforms could sustain economic growth and lead to a better credibility of Slovakia as well. The main areas of the Slovak resilience and recovery plan which will be largely financed from the NextGenerationEU funds are public finance, education, science and research, health care and business environment.

After 10 years of the prudent Act on Fiscal Responsibility (the so called Debt Brake) in existence there is a political will and also the 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 crises. In addition to the technical change, a broader amendment to this act is still the subject of political discussions. Even after the COVID-19 experience, risk parameters of Slovakia debt portfolio are in the best shape. A smooth and feasible redemption profile, an average debt maturity at OECD level, combined with a sufficient liquidity position worked well as an absorber of market distortions. Based on the past successful fulfilment of the previous Debt Management Strategies, the new Government should approve very similar risk goals in the new Debt Management Strategy for the years 2022-2025.

ARDAL acts also as an asset manager (investing cash buffer), therefore existence in the low or negative yield environment is more challenging every year. Changing the trend in yields and moving further into positive rates, is for that reason more than welcomed. In medium to long term, the European Central Bank purchases will have to be replaced by real money investors, which means broadening the existing investors' base and being potentially present in other markets outside the Eurozone.

PRIMARY DEALERS FOR 2022

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

RECOGNIZED DEALERS FOR 2022

Société Générale S.A.
UniCredit Bank Czech Republic and Slovakia, a.s.

Chart 6: Public Debt to GDP

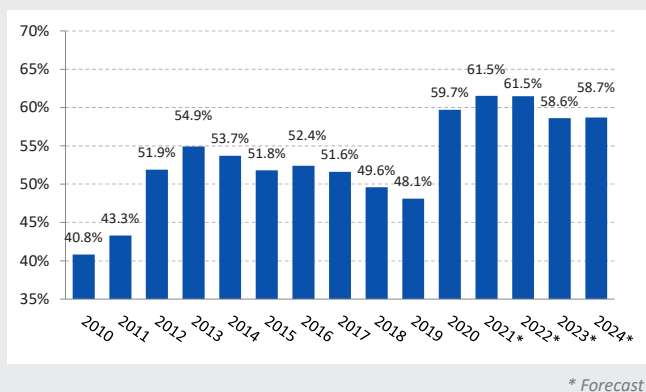
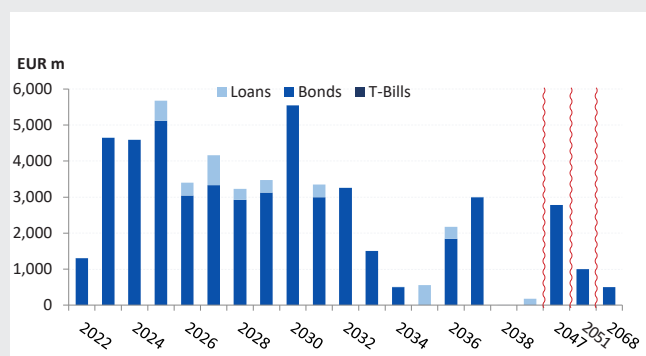


Chart 7: Redemption Profile



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)



Agentúra pre riadenie dlhu a likvidity
Debt and Liquidity Management Agency
Radlinského 32

813 19 Bratislava, Slovak Republic

Tel: + 421 2 57262 503, Fax: + 421 2 57262 525

Webpage: www.ardal.sk

Bloomberg/Refinitiv: DLMA



Agentúra pre riadenie dlhu a likvidity (hereinafter referred to as the "ARDAL"), with its registered seat at Radlinského 32, Bratislava, Identification No.: 30792053 acting on behalf of the Ministry of Finance. ARDAL manages the state debt according to the Act. No. 291/2002 Coll. on State Treasury, as amended, in line with the Debt Management Strategy approved for the given period by the Government of the Slovak Republic. For the avoidance of doubt, ARDAL notes that all the data contained herein are informational only and should not be used for legal purposes. The submitted information has no influence on investments or sales of the government securities. ARDAL is not responsible for any claims, losses, liabilities or expenses incurred as a result of decisions of these investments based on the data provided in this document.