Government Debt Management Strategy of the Slovak Republic

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Introduction

The Debt Management Strategy defines the key principles guiding the financing activities of the Slovak Republic, the management of the government debt portfolio, and the issuance of government debt securities. Following the European sovereign debt crisis, Slovakia gradually converged towards the core euro area countries. At present, the primary distinction remains the level of the sovereign risk premium, which is largely determined by developments in the country's credit rating.

Since 2013, debt management operations have been conducted within the framework of the Constitutional Act on Fiscal Responsibility (Act No. 493/2011 Coll., Constitutional Act on Fiscal Responsibility, hereinafter “the Act”). While the Act has strengthened fiscal discipline, its current design limits the operational flexibility of managing the sovereign debt and liquidity. Transitioning from a gross debt measurement to a net debt, defined as gross debt less government financial assets, would represent a practical enhancement by separating the creation of debt from the financing activities associated with debt management.

1. Debt and Liquidity Management

In the post-crisis period, economic conditions and financial markets gradually stabilized. Under the ECB’s monetary policy, market interest rates turned negative, reducing debt service costs for all euro area countries, including Slovakia, and enabling issuers to secure funding under highly favourable market conditions.

Debt management and the global economic environment have experienced significant volatility in recent years. Following a prolonged period of relative stability, funding conditions changed dramatically within weeks in the spring of 2020 due to the outbreak of the COVID-19 pandemic. All euro area countries, including Slovakia, were required to raise record levels of funding on financial markets during the first half of 2020.

Through the consistent implementation of the principles and objectives defined in the Debt Management Strategy, Slovakia successfully managed the crisis period without jeopardizing its ability to meet its obligations, without substantial extra costs to the state budget, and without increasing the risks associated with the government debt portfolio.

Following the COVID-19 pandemic, sovereign issuers have been confronted with a rapid increase in interest rates resulting from elevated inflation and the subsequent tightening of monetary policy by central banks. Despite the more challenging market environment, Slovakia’s government debt portfolio remains well positioned, with risk metrics maintained at low levels broadly comparable to those of euro area and OECD peers.

1.1. Debt Management

Debt issuance (government bonds, treasury bills and loans) is primarily determined by refinancing requirements and the financing needs associated with the state budget deficit. Prior to 2020, gross borrowing requirements exceeded maturing debt only modestly, while remaining below annual budget deficits. This positive gap resulted from growing resources in the State Treasury, which ARDAL (Debt and Liquidity Management Agency) has actively used as an additional source of financing. The State Treasury System has generated long-term savings for the state budget by reducing the need to cover the full deficit and refinancing requirements through new debt issuance. Instead, a portion of these financing needs has been met through the accumulation of State Treasury resources, which typically represent a lower-cost source of funding than borrowing from financial markets.

During the period of stable market conditions between 2014 and 2020, ARDAL actively enhanced the risk profile of the government debt portfolio by extending maturities and refinancing higher-cost debt at lower yields. The average maturity of the debt portfolio increased from around 7 years in 2014 to nearly 9 years at the end of 2019 and has remained above 8 years since then. Importantly, these improvements in debt portfolio risk metrics were achieved alongside a sustained reduction in funding costs. Government bonds issued in 2024 achieved a weighted average yield of 3.47% p.a. at an average maturity of 9.4 years. In the first half of 2025, the weighted average yield was 3.45% p.a. with an average maturity of 11.3 years.

The decline in interest rates over the past decade contributed to a reduction in debt servicing costs, both as a share of GDP and in nominal terms. Interest expenditure is estimated at 1.38% of GDP in 2025. These costs encompass all expenses associated with debt management, including government bonds, treasury bills and loans, as well as the costs and revenues related to State Treasury resources, fees and the investment of cash reserves.

To support the development of the secondary market, ARDAL established and actively promotes the MTS Slovakia platform, which represents the market standard for electronic trading of government bonds across Western Europe. Primary dealers are required to provide quotes for Slovak government securities on the platform in accordance with agreed quoting obligations, with both the quality and quantity of quotations forming part of their overall assessment within the Primary Dealer System.

Since its introduction, MTS Slovakia has significantly enhanced secondary market transparency, particularly in the area of price discovery. The platform is currently used by the largest banks active in the holding, distribution and trading of Slovak government bonds on both the primary and secondary markets. Quotes displayed on MTS are firm and executable, meaning that market participants are obliged to transact at the quoted prices. Average monthly turnover on the platform reached EUR 163.5 million in 2024.

1.2. Liquidity Management

ARDAL manages the liquidity of the State Treasury account in the Target2 system on a daily basis. All state budget payments, payments related to debt and risk management and payments of State Treasury clients are processed through this account. For the purposes of State Treasury liquidity management, ARDAL uses standard money market instruments, acting on behalf of and for the account of the Ministry of Finance of the Slovak Republic (MF SR).

Temporarily free resources of the State Treasury System that are not used to cover the needs of state debt and the state budget deficit constitute the state's cash reserve. Its main purpose is to ensure the smooth repayment of state liabilities, particularly to bridge timing mismatches between the issuance and redemption of government securities and to cover temporary discrepancies between state budget revenues and expenditures.

The cash reserve also serves to cover sudden or unexpected obligations or expenditures of the state, revenue shortfalls in the state budget, outflows of funds from the State Treasury, or temporary periods of market disruption or restricted market access. The importance of maintaining an adequate cash reserve has increased in recent years amid rising geopolitical tensions and economic shocks which may arise.

ARDAL invests the state's cash reserve in the money market, primarily through short-term deposits. The objective is to earn a market-based return on the cash reserve while maintaining a strong emphasis on minimizing credit risk. The allocation of deposits follows strictly defined credit limits, which are based mainly on counterparty credit ratings, and the maturity of deposits does not exceed one year.

Money market interest rates are primarily influenced by the monetary policy decisions of the European Central Bank (ECB) and expectations regarding their future path. Following a period of monetary tightening, during which the ECB's deposit facility rate reached its all-time high of 4% p.a., the ECB began to ease monetary policy in June 2024. Currently, after a series of eight consecutive rate cuts, the deposit facility rate has fallen to 2% p.a.

The ECB's main objective remains to ensure the timely return of inflation to its medium-term target of 2%. Future monetary decisions will be based on current economic and financial data, the inflation outlook and the effectiveness of monetary policy transmission.

1.3. Risk Management

Risk management is a fundamental tool of prudent sovereign debt management. Slovakia has consistently pursued a conservative and predictable approach, which has contributed to stable outcomes and strong investor confidence. As of 30 June 2025, the key portfolio risk indicators remained at very favourable levels, confirming the effectiveness of the debt management strategy.

Refinancing risk measures the share of debt maturing within a given time horizon and therefore requiring refinancing. Interest rate risk reflects the proportion of the debt that may be exposed to changes in market interest rates through repricing. In both areas, Slovakia continues to maintain one of the lowest risk exposures among EU countries — 10.36% of debt maturing within one year and 34.20% within five years.

This indicators demonstrate that Slovakia faces limited refinancing or repricing pressures, even under less favourable market conditions. This outcome reflects ARDAL's strategy of maintaining a well-diversified maturity profile and a predominantly fixed-rate debt structure. As a result, the government debt portfolio remains resilient to market volatility and provides a high degree of funding stability.

Table No. 1 Risk Indicators of Selected EU Countries as of 30 June 2025

ESDM Risk Indicators	Average Debt Maturity (Years)	Refinancing Risk within 1 Year (% of Government Debt)	Refinancing Risk within 5 Years (% of Government Debt)	Interest Rate Risk within 1 Year (% of Government Debt)	Interest Rate Risk within 5 Years (% of Government Debt)
Slovakia	8.33	10.36%	34.20%	10.36%	34.20%
Belgium	10.25	17.36%	39.46%	17.79%	39.89%
France	8.60	14.47%	47.84%	25.01%	54.75%
Slovenia	9.48	14.35%	39.22%	14.99%	39.63%
Latvia	6.46	8.66%	59.21%	8.81%	59.25%
Germany	8.04	14.88%	50.85%	17.54%	52.80%
Austria	11.50	13.01%	45.60%	14.84%	47.46%
Euro Area	8.54	14.25%	46.03%	21.38%	50.53%
EÚ (Average)	8.34	13.96%	46.63%	21.80%	51.16%
EÚ (Issuer)	10.25	9.73%	35.99%	9.73%	35.99%
EFSF	8.40	11.74%	49.04%	11.74%	49.04%
ESM	6.28	26.88%	65.24%	26.88%	65.24%

Source: ESDM

Another key element of the debt management strategy is the limitation of exchange rate risk. Slovakia maintains a limit of 3% on unhedged foreign currency exposure; however, as of 30 June 2025, the actual exposure was virtually zero, at less than 0.01%. In practice, this reflects that the government borrowing is conducted predominantly in euro. Even when an issuance is carried out in another currency, such as Swiss francs, it is always hedged against exchange rate fluctuations through hedging instruments. This effectively eliminates exchange rate risk and prevents currency fluctuations from affecting debt servicing costs.

The stability and credibility of the Slovak Republic are also reflected in its sovereign credit ratings. As of the second quarter of 2025, Slovakia was rated A+ by S&P (negative outlook), A3 by Moody's (stable outlook), and A– by Fitch (stable outlook). All ratings remain within the investment-grade category and support Slovakia's strong standing among international investors.

Overall, Slovakia continues to maintain a prudent risk management framework. In an environment of heightened geopolitical uncertainty and market volatility, these indicators demonstrate the resilience of the government debt portfolio and the sustainability of the debt management strategy.

2. Principles and Strategic Objectives of Government Debt Management

The primary objective of government debt management is to meet the financing needs and payment obligations of the Slovak Republic at the lowest possible cost over the medium to long-term, consistent with a prudent degree of risk. The objectives set out in this strategy build upon those of previous strategies. The current strategy introduces minor adjustments to the quantitative risk indicators while maintaining the objectives related to investor base diversification and the continued enhancement of the government debt management framework and market infrastructure.

The achievement of these objectives is underpinned by adherence to five key general principles:

Principle One: Transparency in Borrowing and Financing Operations – Borrowing and financing activities shall be conducted in accordance with the clearly defined objectives of the Debt Management Strategy. Any increase in government debt and the financing required to support it must be guided by a transparent strategic framework in order to prevent unjustified or unsustainable debt accumulation.

Principle Two: Focus on Long-Term Objectives – In managing the government debt portfolio, medium- and long-term objectives shall take precedence over short-term gains. Short-term cost savings should not be achieved at the expense of higher future costs or increased risk.

Principle Three: Risk Optimization – Active management of the government debt portfolio shall be based on an assessment of the trade-off between the potential costs arising from unmanaged risks and the costs associated with mitigating those risks.

Principle Four: Risk and Cost Management – The government debt portfolio shall be managed within clearly defined risk limits. The future cost of debt management is determined by the selected level of risk tolerance and the resulting portfolio structure.

Principle Five: Cost Optimization – The medium- and long-term objective of government debt management is to minimise borrowing and debt servicing costs, while operating within the established risk limits.

Strategic Objectives of Government Debt Management:

2.1. Standardization of New Securities Issuance Characteristics

Since joining the euro area, the Slovak Republic has issued benchmark bonds with a target outstanding volume of EUR 3 billion, and since 2017, bonds with medium and long maturities have been issued with a target outstanding volume of EUR 5 billion. All other bond characteristics are fully aligned with the euro are capital market standards, including the mandatory Collective Action Clauses (CACs). The objective is to continue this approach by maintaining benchmark bonds with a target outstanding volume of EUR 3 billion for maturities of up to 10 years and EUR 5 billion for maturities of 10 years and longer. An outstanding volume of EUR 5 billion is generally regarded as the minimum benchmark size required to support liquidity in the European government bond market. Standardised benchmark sizes also contribute to a well-balanced maturity profile and help ensure an even distribution of refinancing needs over time.

2.2. Optimization of the Non-Marketable Debt Portfolio

The use of financing in loans should be limited to situations where loans offer funding terms that are more favourable than, or comparable to, those available through government bond issuance, or where they contribute to broader debt management objectives, such as investor base diversification.

2.3. Compliance with Refinancing, Interest Rate, and Foreign Exchange Risk Parameters

Given the ongoing geopolitical uncertainty, weaker fiscal and economic situation in a number of countries and the evolving monetary policy of the European Central Bank, Slovakia has adopted a more conservative risk management framework. The strategic objectives in risk management have been adjusted accordingly. Under the new framework, the maximum one-year risk exposure is set at 15% and the cumulative five-year exposure at 45%, with these limits applying uniformly to both refinancing and interest rate risk.

This change represents a shift from the previous strategy, which allowed one-year limits of 20% for refinancing risk and 25% for interest rate risk, together with a cumulative five-year ceiling of 55%. The revised targets reflect the current market environment and are fully consistent with the recommendations of the European Commission under the ESDM (EU Sovereign Debt Management) framework. The new parameters also take into account Slovakia's position as a small and open economy with a less developed domestic capital market, making it more sensitive to external fluctuations.

The strategic objective of the Slovak Republic remains the prudent management and continuous monitoring of refinancing, interest rate and foreign exchange risks, while maintaining slightly revised target parameters compared with the previous strategy. In light of the current structure of the debt portfolio and the negligible share of floating-rate debt, the new strategy introduces a unified set of indicators for monitoring cumulative refinancing and repricing risks.

The strategic targets for refinancing and interest rate risk are defined as follows:

- The share of government liabilities maturing within one year shall be maintained close to 15%.

- The share of government liabilities subject to repricing within one year shall be maintained close to 15%.

- The cumulative share of government liabilities maturing within five years shall be maintained close to 45%.

- The cumulative share of government liabilities subject to repricing within five years shall likewise be maintained close to 45%.

Compliance with these targets will contribute to maintaining a prudent risk profile of the government debt portfolio with respect to refinancing and interest rate risk. The target levels are based on the assumption of normal market conditions, macroeconomic stability and a stable fiscal environment within the euro area. Under exceptional market conditions, maintaining these targets may require higher debt servicing costs.

In the area of foreign exchange risk, the strategic objectives remain unchanged. The limit on the open unhedged foreign currency position of government debt remains at a maximum of 3% of the state's total financial liabilities.

2.4. Diversification of the Investor Base

The halt of bond purchases by the ECB and the gradual reduction of the share of bonds purchased under quantitative easing creates new challenges for sovereign debt management. As the ECB's presence in the government bond market gradually declines, sovereign issuers will need to attract additional private-sector demand to absorb the reduction in central bank holdings. Thus each year, it will be necessary to find new investors to replace the ECB's position, valued at €1.0–1.5 billion. ARDAL will continue to diversify its funding sources and broaden its investor base, including through issuances in foreign currency markets. The regular retail government bond programme launched in 2025 will also contribute to this objective.

2.5. Further Enhancement of Government Debt Management Infrastructure

In recent years, Slovakia has made substantial progress in strengthening the infrastructure supporting government debt management most notably through the integration of the Central Securities Depository (CDCP) into the TARGET2-Securities (T2S) platform and the establishment of MTS Slovakia. The goal for further capital market development will be the implementation of all relevant new trends according to the standards applied in the core euro area countries.

3. Conclusion

Since the establishment of the Debt and Liquidity Management Agency, debt management in Slovakia has undergone a significant transformation and is now broadly aligned with the frameworks, practices and processes applied by other euro area sovereign issuers. The debt management framework is centred on prudent risk management with the objective of optimising the cost-risk trade-off and minimising debt servicing costs over the long term. Given the maturity and stability of the current framework, there is no need to limit the Debt Management Strategy to a predefined time horizon. Accordingly, this Strategy shall remain in force until such time as changes in market conditions, the economic environment or debt management objectives necessitate its revision.