



Slovak Republic

Investor Presentation
May 2007



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Healthy macro-economic fundamentals 04

Transforming Slovakia to a knowledge-based economy 14

Funding strategy and debt management 20

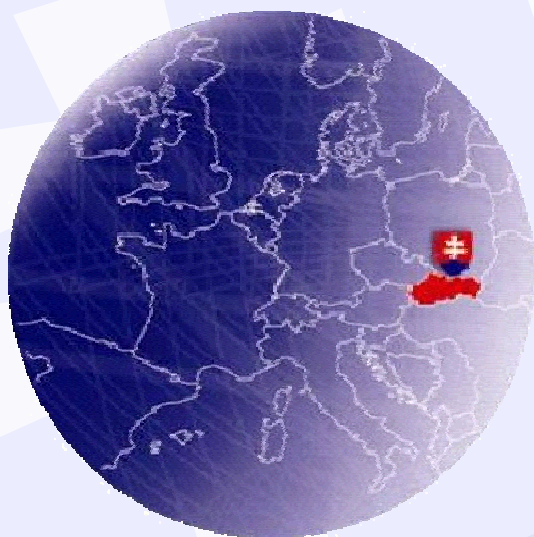


Key considerations

- § The Slovak authorities are set on joining the euro in January 2009 – Slovakia is already in ERM II since November 2005.
- § Slovakia is quickly catching up on the eurozone - S&P forecasts for Slovakia GDP growth of +7.2% this year, while Moody's forecasts 6.5%.
- § Moody's and S&P see Slovak general government debt as a % of GDP as low and stable based on their forecasts.
- § Slovak government bond spreads in EUR have been tightening vs. debt of EU and EMU Sovereign and agency peers



Slovakia : Key Credit Highlights



Ì Strong Ratings

Moody's: A1 stable outlook

S&P: A stable outlook

Fitch: A stable outlook

Ì International Integration

EU member (2004)

NATO member (2004)

OECD member (2000)

Ì High GDP Growth

8.3 % in 2006, vs 2.7% for Eurozone, one of the highest in the World

Ì Low Debt Levels

General government debt is 30.7% of GDP (2006), compares favourably with regional peers

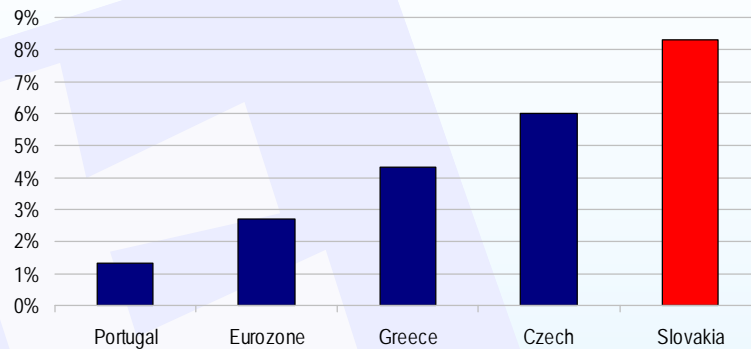
Ì Early EMU Entry

Slovakia is expected to be one of the first Central and Eastern European sovereigns to enter EMU, planned for 2009

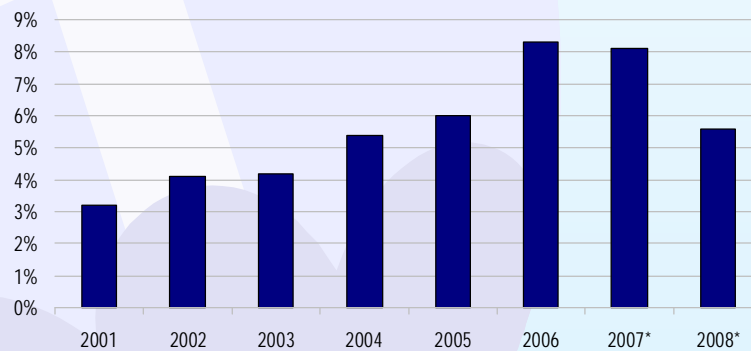


Economic growth shifting to a higher plateau

2006 Real GDP Growth, Peer Comparison



Slovakia Real GDP Growth

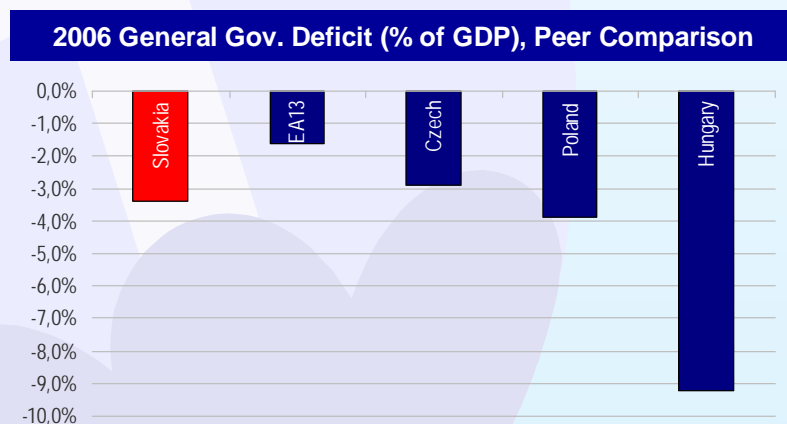
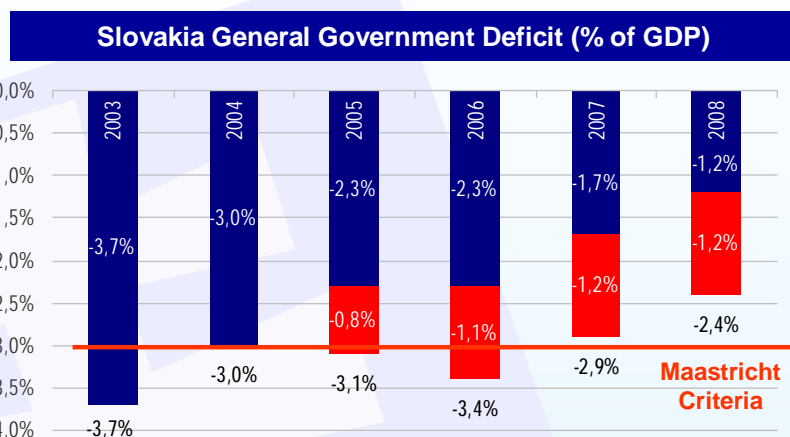


- ì Second highest growth in Europe
- ì Top performer in the OECD
- ì Sustained robust growth
- ì Fuelled by net exports and household consumption
- ì Stimulated by significant FDI
- ì Economic growth expected to remain high

Source: Ministry of Finance, NBS, European Commission
* Forecasts: Ministry of Finance



Fiscal Deficit Lower than Neighbouring Countries



Note: EA13 – euro area
Source: Ministry of Finance, NBS, European Commission
* Forecasts: Ministry of Finance



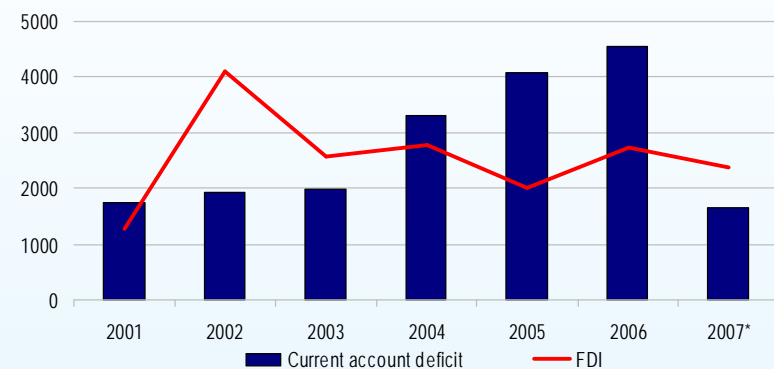
- İ Continued fiscal prudence
- İ Relatively strong fiscal position in Central Europe
- İ General government deficit reached 3.4% of GDP in 2006 (incl. pension reform costs 1.1% of GDP)
- İ 2007 Budget set general government deficit at 2.9% of GDP...
- İ ...within Maastricht Criteria

Positive trend in the current account

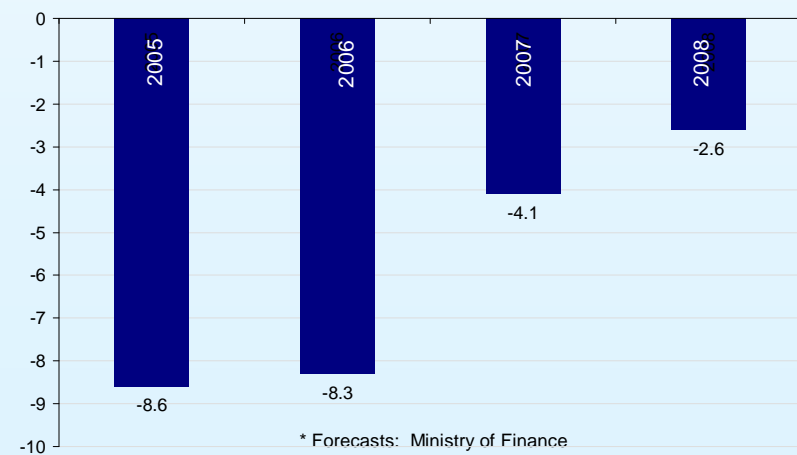
- İ Exports of cars and durable consumer goods are increasing, therefore...
- İ ...the current account deficit is expected to improve to 4.1% in 2007.
- İ In 2006, EU countries represented 85,1% of total exports and 68,0% of total imports of goods
- İ Financing needs more than covered by FDI (in 2006) and in 2007 FDI inflow expected to exceed CA deficit



Slovakia Balance of Payments Components (US\$ million)



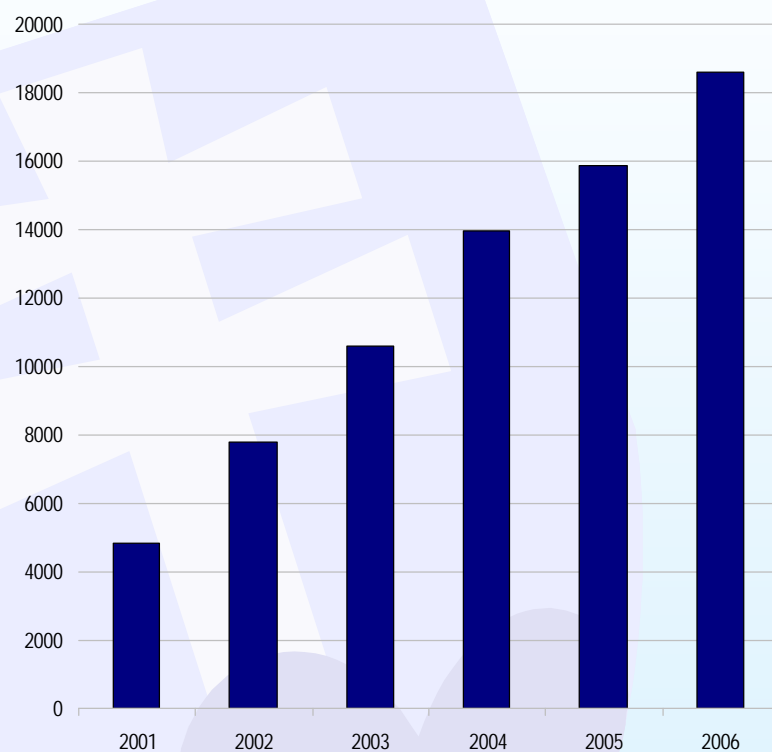
Positive dynamic of the Current Account Deficit as % of GDP



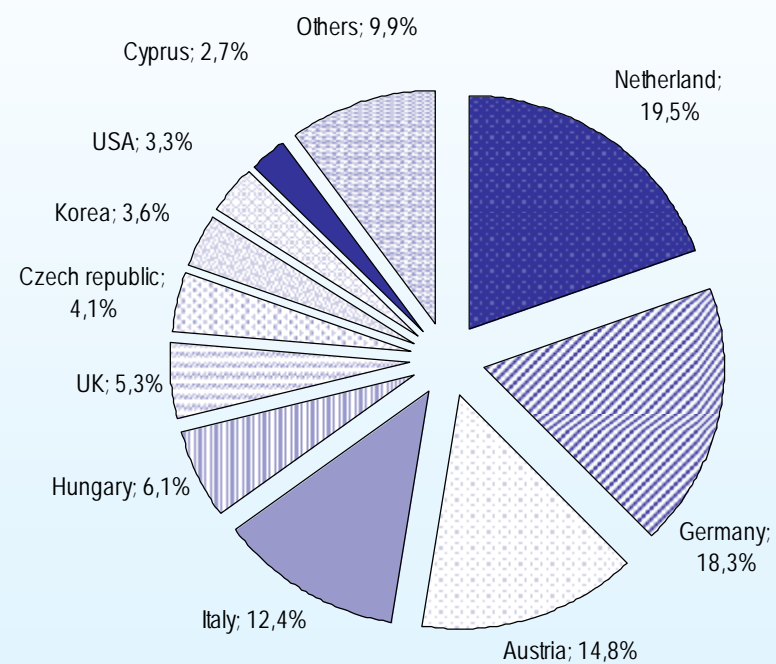
* Forecasts: Ministry of Finance
Source: Ministry of Finance, NBS, European Commission

Strong FDI inflows

Total FDI Stock (US\$ million)

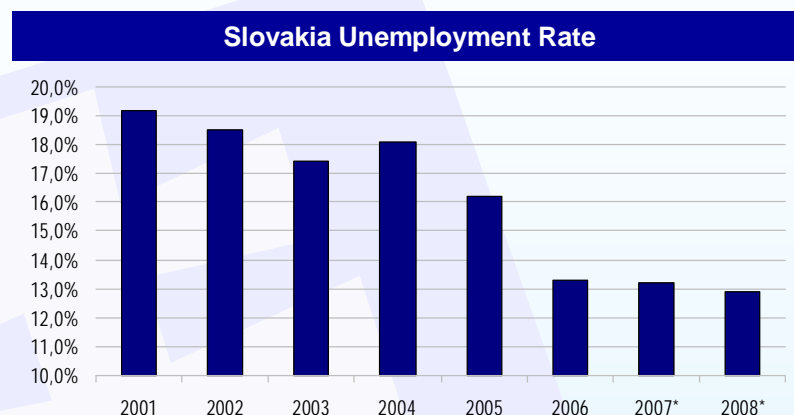


FDI Stock by Country of Origin, 2006



Source: Ministry of Finance, NBS

Unemployment Expected to Continue to Decline



Development of the Unemployment Rate, Peer Comparison

	2002	2007*	Change in p.p.
Slovakia	18.7%	13.2%	- 5.5
Czech	7.3%	7.1%	↓ -0.2
Greece	10%	8.9%	↓ -1.1
Portugal	5.1%	7.7%	↑ +2.6
Euroarea	8.3%	7.7%	↓ -0.6

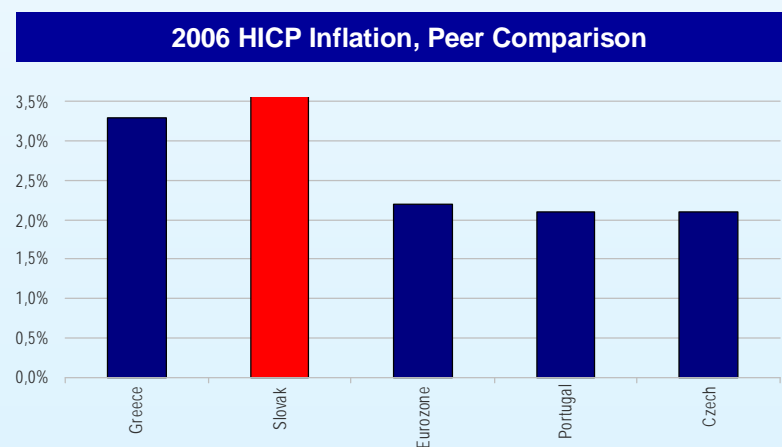
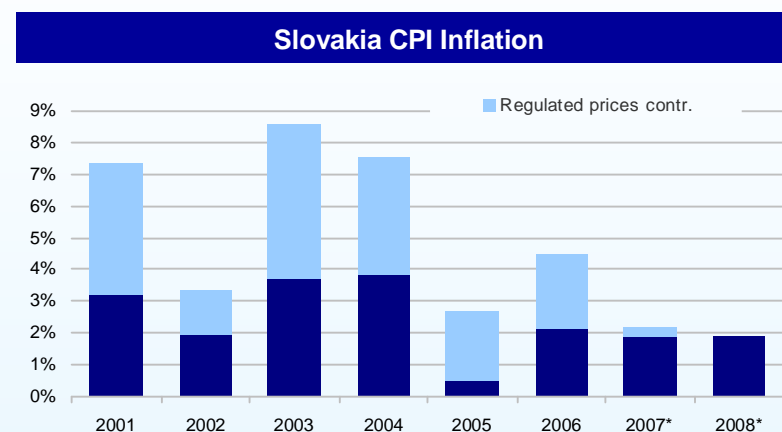
Source: European Commission NBS, Ministry of Finance
 * Forecasts: Ministry of Finance



- Ì Factors behind declining unemployment:
 - Ì strong employment growth
 - Ì structural reforms leading to sustained economic growth
 - Ì major labour market reform
 - Ì more favourable demographic trends
- Ì Employment forecast to grow at 1.5% in 2007 and 0.9% in 2008
- Ì In the European Union, Slovakia compares favourably in reduction of unemployment

The Koruna in ERM II since 2005

- İ Inflation is forecast to be 2,2% in 2007
- İ Free float of the Koruna since 1998
- İ Successive liberalization of financial transactions since 2000
- İ Healthy state of the financial system
- İ ERM II revaluation as of 19 March 2007 (1 EUR = 35.4424 SKK)
- İ ERM II standard fluctuation band of +/- 15% will be observed



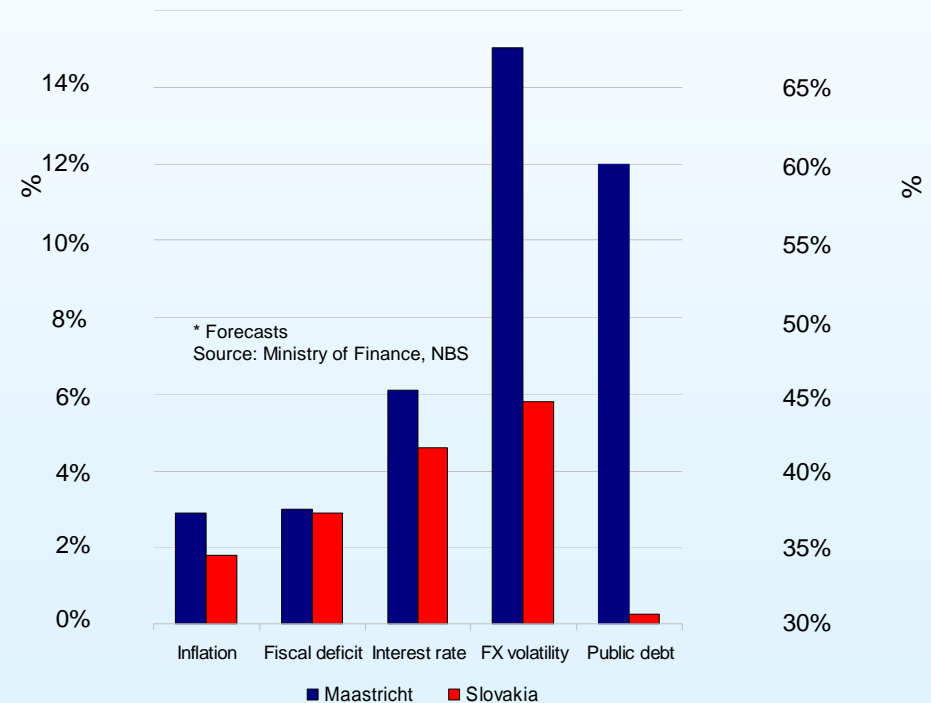
* Forecasts Ministry of Finance
Source: Ministry of Finance, NBS, European Commission

EMU Entry in Sight

- İ Inflation criteria expected to be met in 2H 2007
- İ Fiscal criteria to be met this year
- İ Long-term yields are below reference value of Maastricht criteria
- İ Public debt level already below Maastricht threshold
- İ **EMU Entry Expected in January 2009**



Fulfilment of Maastricht Criteria



Note: FX volatility is defined as deviation from central parity at 35.4424 SKK/€ within the period from revaluation of the central parity (19.3.2007) up to 20.4.2007

Outline

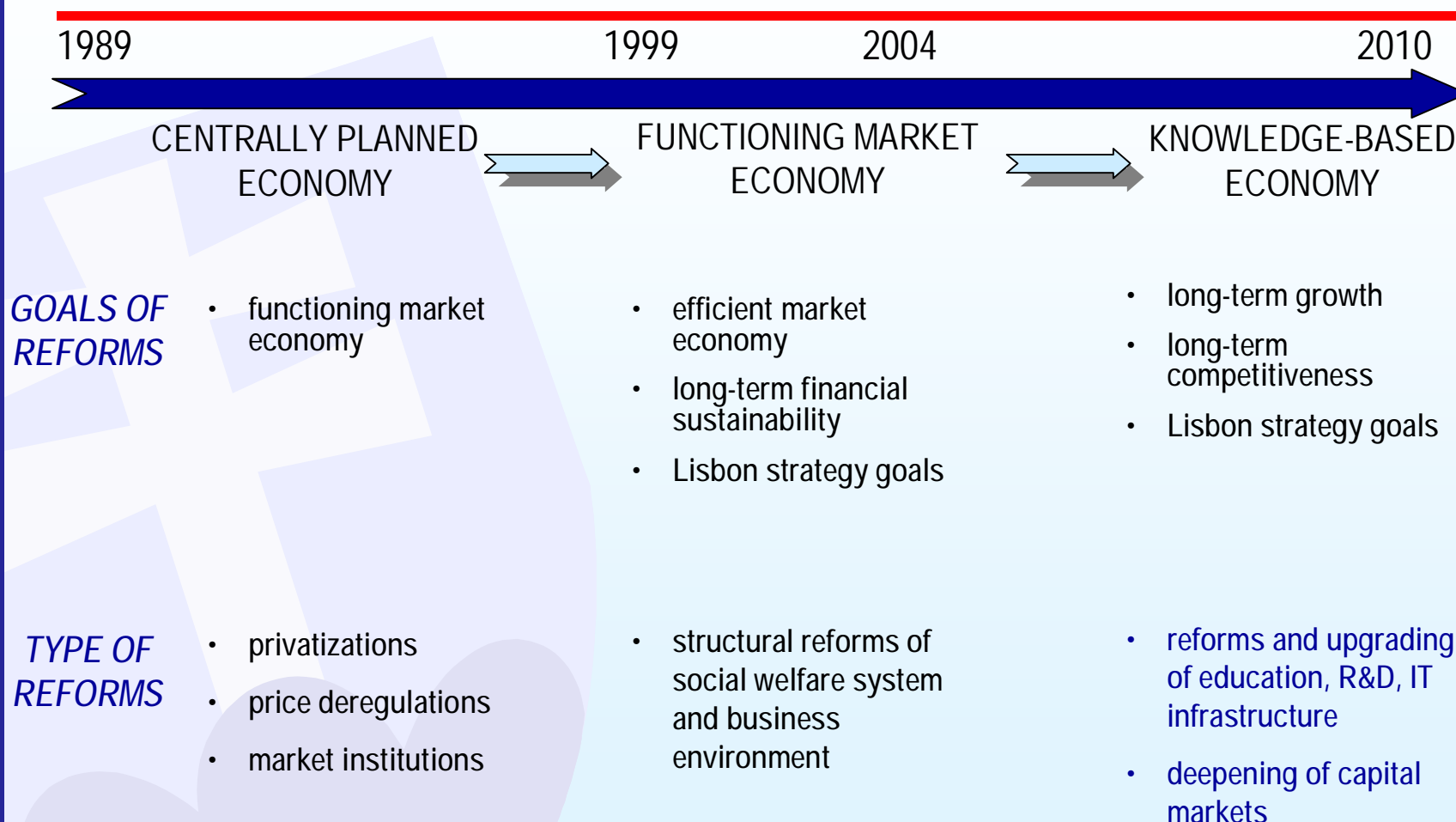
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Well-under way toward successful knowledge-based economy



Pension Reform

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

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

SLOVAK REFORM IMPLEMENTS ALL THESE RECOMMENDATIONS

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



Radical simplification of the tax system from 2004

- İ Elimination of virtually all exceptions, exemptions, deductions, special rates, and special regimes
- İ Elimination of dividend, inheritance, gift taxes, and real estate transfer tax

Introduction of low nominal rates

- İ 19% flat individual income tax
- İ 19% corporate tax
- İ 19% unified VAT on all goods and services (since 2007 VAT rate 10% applied on medicine and medical tools)

Shift from direct to indirect taxes

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



Next step: building the knowledge economy

Conditions for very strong growth in the next decade are in place

- İ Slovakia is currently highly attractive for production aimed at export

Focus on the knowledge economy through a national Lisbon strategy

- İ Highly focused on those priorities that are most relevant for Slovakia

Undergoing reforms of knowledge infrastructure

- İ Reforms of education and R&D systems
- İ Significant investments in these areas planned from national and EU funds



Four priority areas for the coming years

Information society

- İ Information literacy, e-government, and wide access to the internet

Science, R&D and innovations

- İ Support of high quality research, R&D and business innovations

Education and employment

- İ Modern education, training, and other active tools

Business environment

- İ Better enforcement of laws and contracts and less and better regulation



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Republic of Slovakia debt

- **Central government debt**

- EUR 16 bln.

- of which EUR 14 bln. is tradable debt

- **Annual financing needs lower than EUR 4 bln.**

- debt roll-over lower than EUR 3 bln.

- budget deficit and temporary shortcomings up to EUR 1 bln.

- **Instruments**

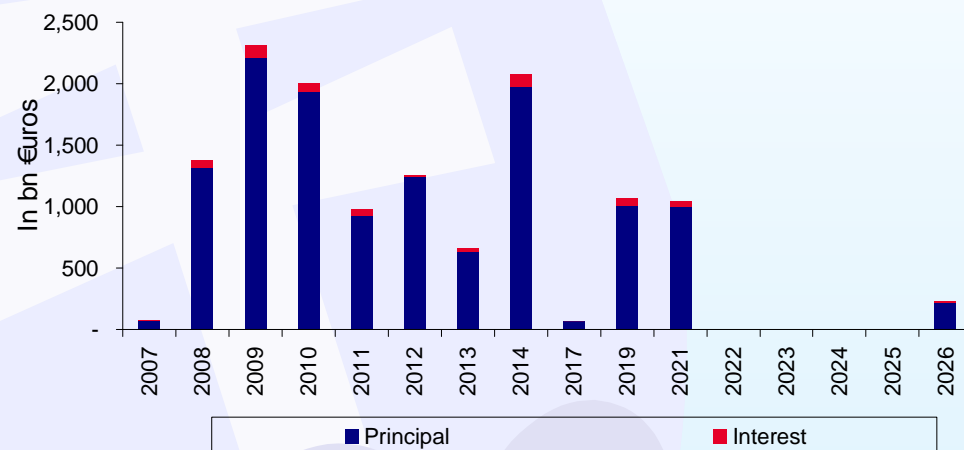
Market	Non-market
T-Bonds (domestic and international)	State Treasury sources via refinancing system
T-Bills	
MM Loans	



Favourable state debt portfolio

Stable debt service profile

Debt profile of Slovak Republic
(domestic and international debt)

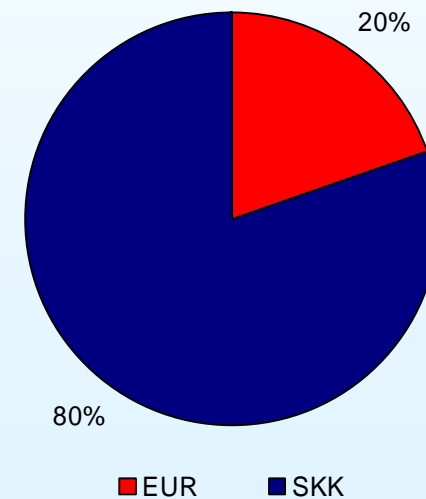


Source: SG CIB research, Bloomberg



Most debt denominated in local currency

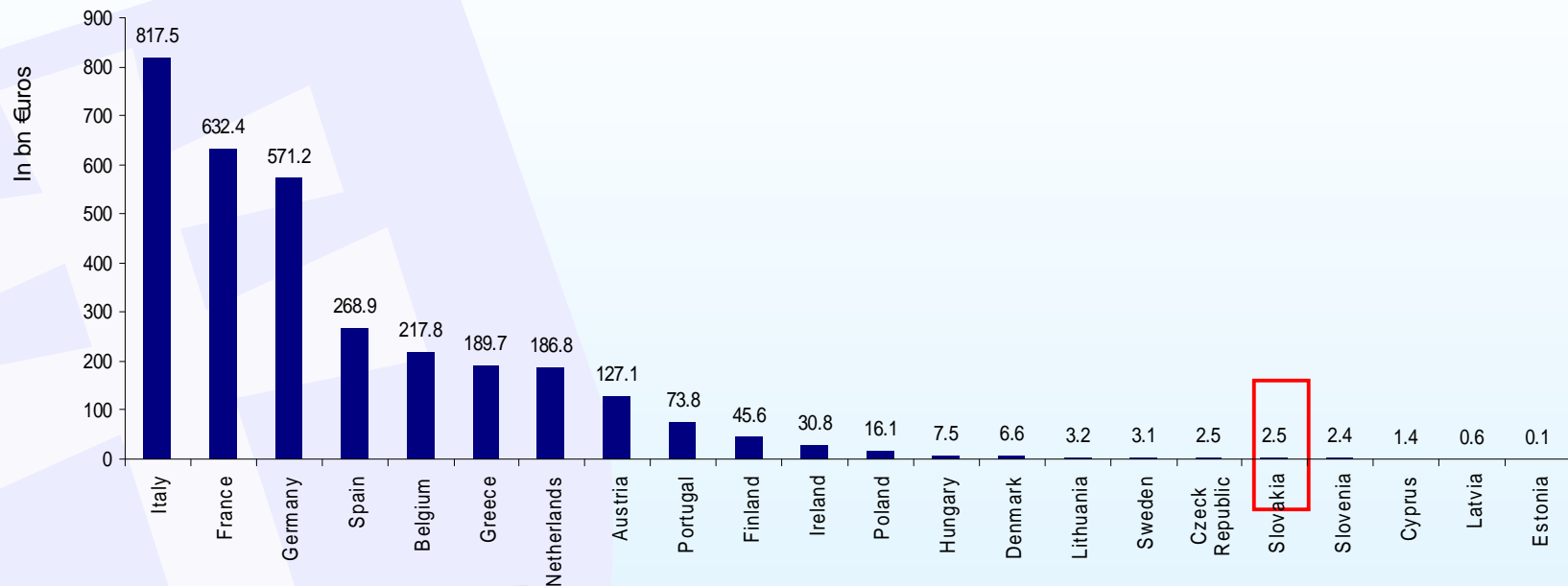
Outstanding debt by type of currency



Source: SG CIB research, Bloomberg

A Strong Credit Offering Scarcity and Diversification

Outstanding Euro denominated bonds (EUR Billions), EU Comparison



- ì One of the highest rated credits in Central Europe.
- ì Excellent performance of Slovakia Eurobonds over the last year.



International issuance

- ì 1998 – issuance of first foreign currency sovereign bonds with maturities from 3 to 5 years and in currencies of JPY, USD and DEM
- ì Subsequent foreign currency issues – were sold in 1999, 2000, 2003, 2004 and 2006 with maturities of 5, 10, 2, 10 and 15 years respectively, all in EUR
- ì 3 outstanding EUR issues (maturity 2010, 2014 and 2021)

Plans:

- ì Increase portion of EUR denominated bonds
 - ì Annual issue of Slovak Eurobond (benchmark size and maturity) initiated in 2004
1. Newly issued bonds to trade on major international trading platforms
 - ì New Euro MTS, TradeWeb, Bondvision, Bloomberg
 - ì Bigger size of new issues to ensure liquidity
 - minimum € 1 bn
 2. Broaden investor base to increase integration of Slovakia's sovereign debt in the Euro area



Additional details

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Additional details

- All available data on state debt on the website: www.ardal.sk
- State Treasury: www.treasury.sk
- National bank of Slovakia: www.nbs.sk
- Ministry of Finance: www.finance.gov.sk
- Statistical Office of the Slovak Republic: www.statistics.sk

