Investor Presentation

May 2024

SLOVAK REPUBLIC

ARDAL







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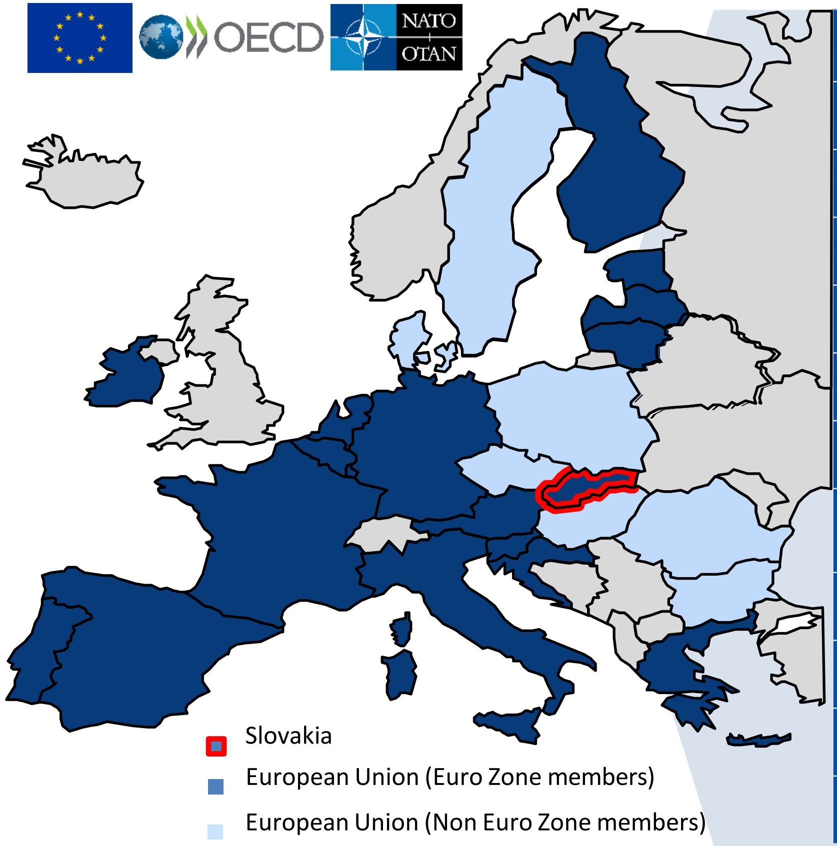
Agentúra pre riadenie dlhu a likvidity
Debt and Liquidity Management Agency

I Introduction

Slovakia – At a Glance

Geographical Location



Key Facts

Ratings (Moody's/S&P/Fitch)	A2 (negative) / A+ (stable) / A- (stable)
GDP (2023)	EUR 122.8 billion
GDP per Capita (2023)	EUR 22,210
Population (2023)	5.4 million
Real GDP growth (2023)	1.6%
Inflation (HICP – 2023)	11.0%
Currency	EUR
Key Economic Sectors	Services, Manufacturing, Wholesale & Retail Trade, Construction
Memberships	OECD, EU, EMU, NATO, Schengen Area
Head of State	President Mrs. Zuzana Čaputová
Capital	Bratislava
Territory	49,034 km²

Source: Eurostat, Ministry of Finance of the Slovak Republic (MoF), National Bank of Slovakia (NBS)

Slovakia – Credit Strengths

Slovakia - Credit Strengths

Resilient Economic Growth

- **Solid track record of economic growth:** Despite the pandemic and inflationary shocks, the real GDP in 2023 was 4.2% higher than the level in 2019.
- **Sustained medium-term outlook: GDP dynamics above 2 %** propelled by private consumption, steady labour market and diversified exports

Sound Fundamentals

- **An export-oriented performer with balanced external accounts**: moderate current account deficits explained by investment imports
- **Well capitalized and profitable banking sector** with good asset quality

Fiscal Responsibility

- Government commitment to **improve budget balance by 1 pp. per year from 2025 onwards**
- **Consolidation package of 1.5% of GDP** adopted for 2024

Below Average Debt

- **Public debt below 60% of GDP,** remains 30 pp. lower than Euro Area average
- **High debt affordability:** borrowing costs remain low around 1.5% of GDP owing to sound debt management

Export Oriented

- **World competitive industrial sector (motor vehicles, machinery, equipment, metal products, electronics, etc.)**

Member of Key Political and Economic Organizations

- **EU and Eurozone membership:** supports Slovakia's institutional strength and credible macroeconomic policies
- EU funds serve as **stable, predictable and low-cost source of growth**

Source: MoF, Fitch, IMF

Slovakia – Credit Strengths

Rating Agency	Rating	Comments
Moody's	**A2** **Negative** *(November 2023)*	*"The affirmation of Slovakia's A2 ratings reflects the country's solid economic strength, with high per-capita GDP levels, dynamic trend growth and moderate size. The improved energy situation significantly reduces the risk of energy rationing, limiting in turn the potential for permanent economic scarring."*
Standard & Poor's	**A+** **Stable** *(April 2024)*	*"The stable outlook reflects our expectation that Slovakia's fiscal deficits will start to narrow from next year, and that it will preserve a generally prudent fiscal policy. The outlook also reflects our view that the economy will remain resilient in the near term, despite challenges to the medium-term growth outlook."*
Fitch Ratings	**A-** **Stable** *(December 2023)*	*"Slovakia's rating is supported by EU and Eurozone membership that underpins a relatively stable and credible macro-economic framework and steady EU capital inflows, as well as a competitive export sector and stable foreign direct investment."*

Sources: Moody's, S&P and Fitch

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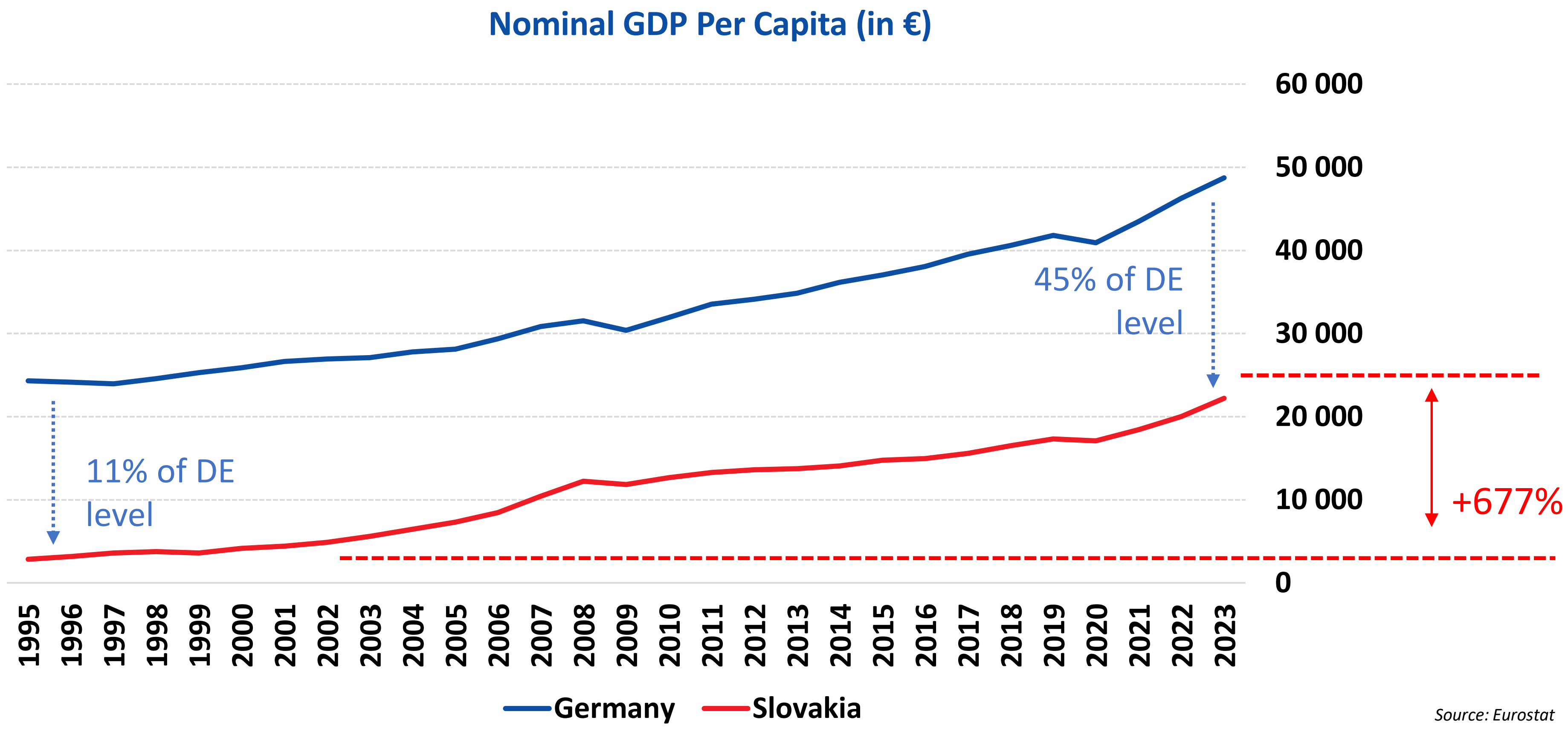
II Economic Developments

Ongoing Economic Convergence to EU27

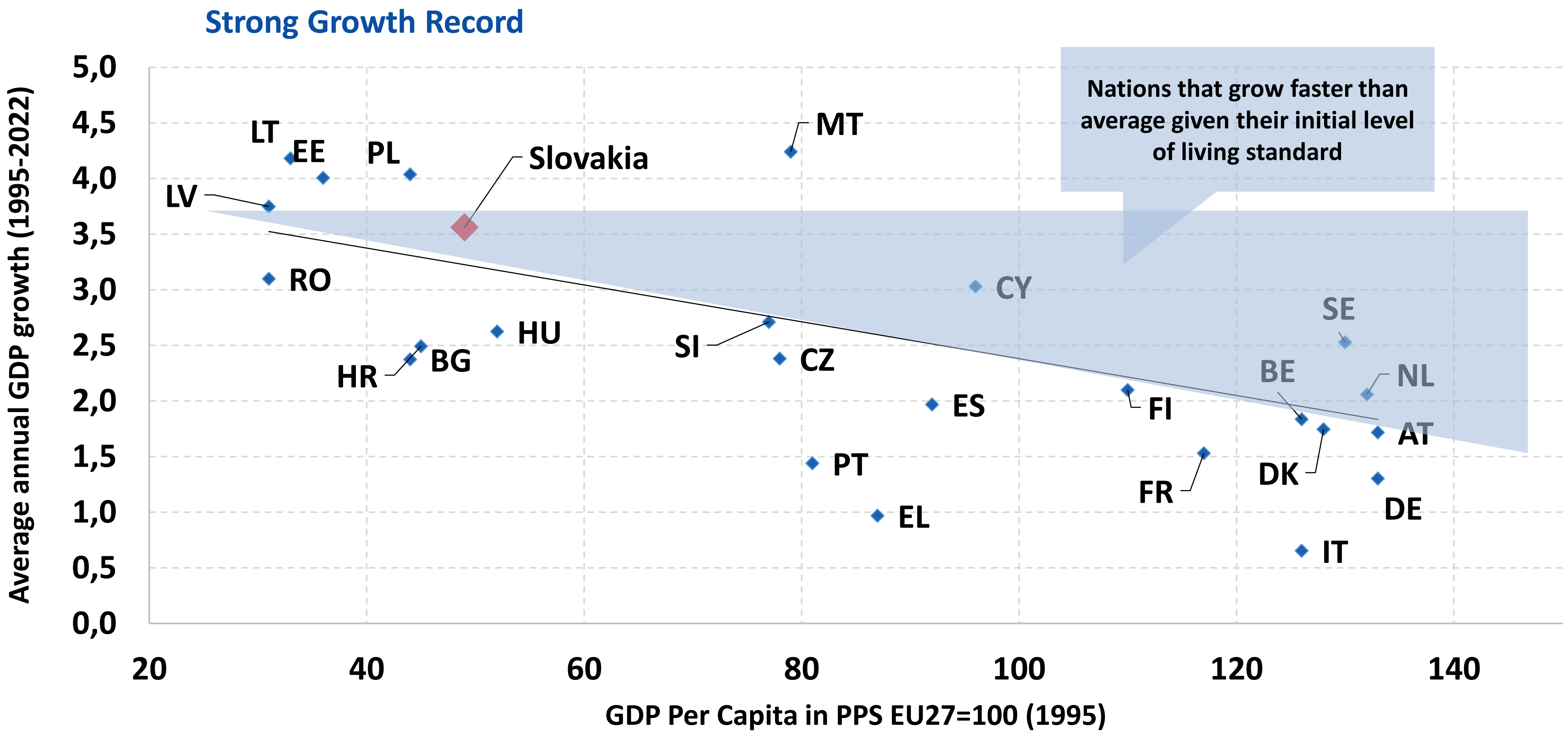
- ✓ Slovakia successfully managed to cut half of the convergence gap vis-a-vis western economies
- ✓ Further convergence is expected as there is still significant room for improvement



Source: Eurostat

Ongoing Economic Convergence to EU27

✓ Slovakia's economic growth has consistently outpaced the EU average, fostering convergence towards EU27 standards

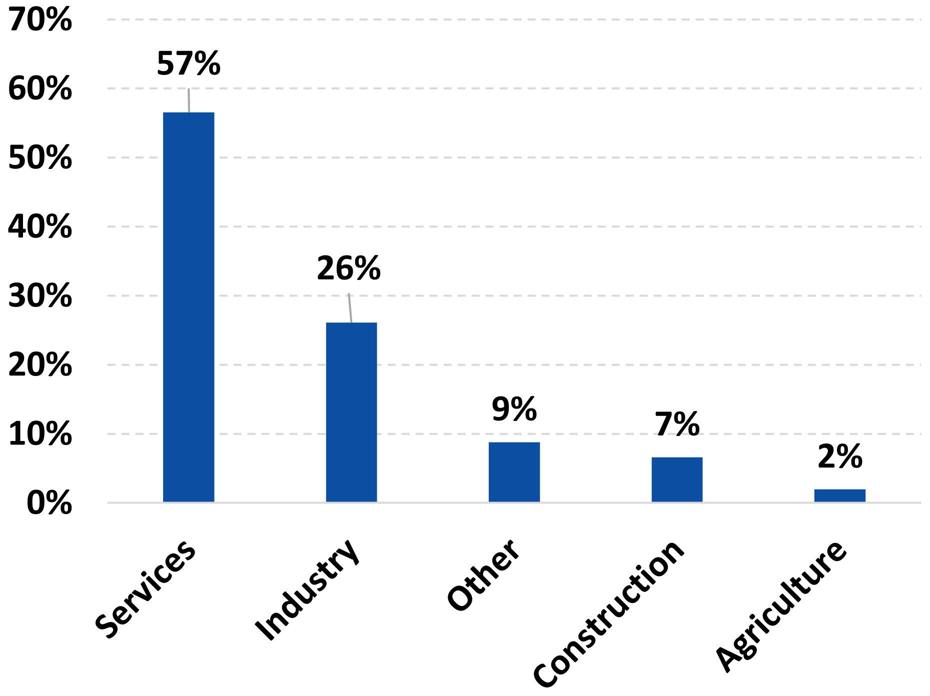


Source: Eurostat

Economy Based on Two Pillars: Industry and Services

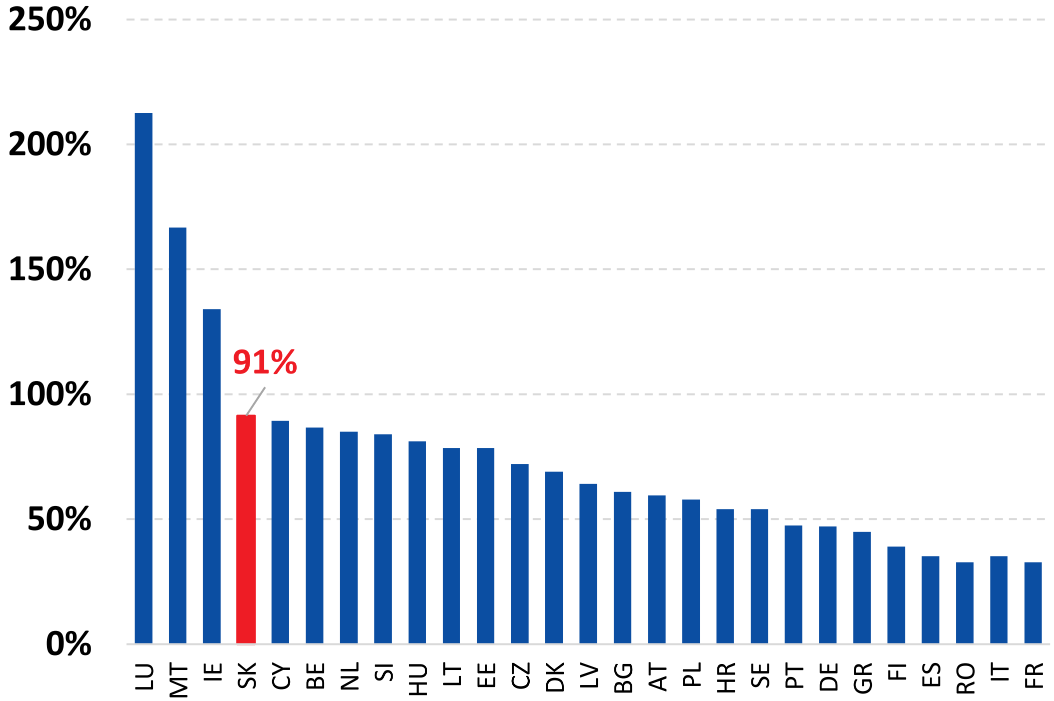
- ✓ **Services-based economy with resilient and competitive industrial sector**
- ✓ **Highly open economy benefiting from global growth**

Shares of Sectors on Nominal GDP (2022)



Source: Statistical Office of Slovak Republic (SO SR)

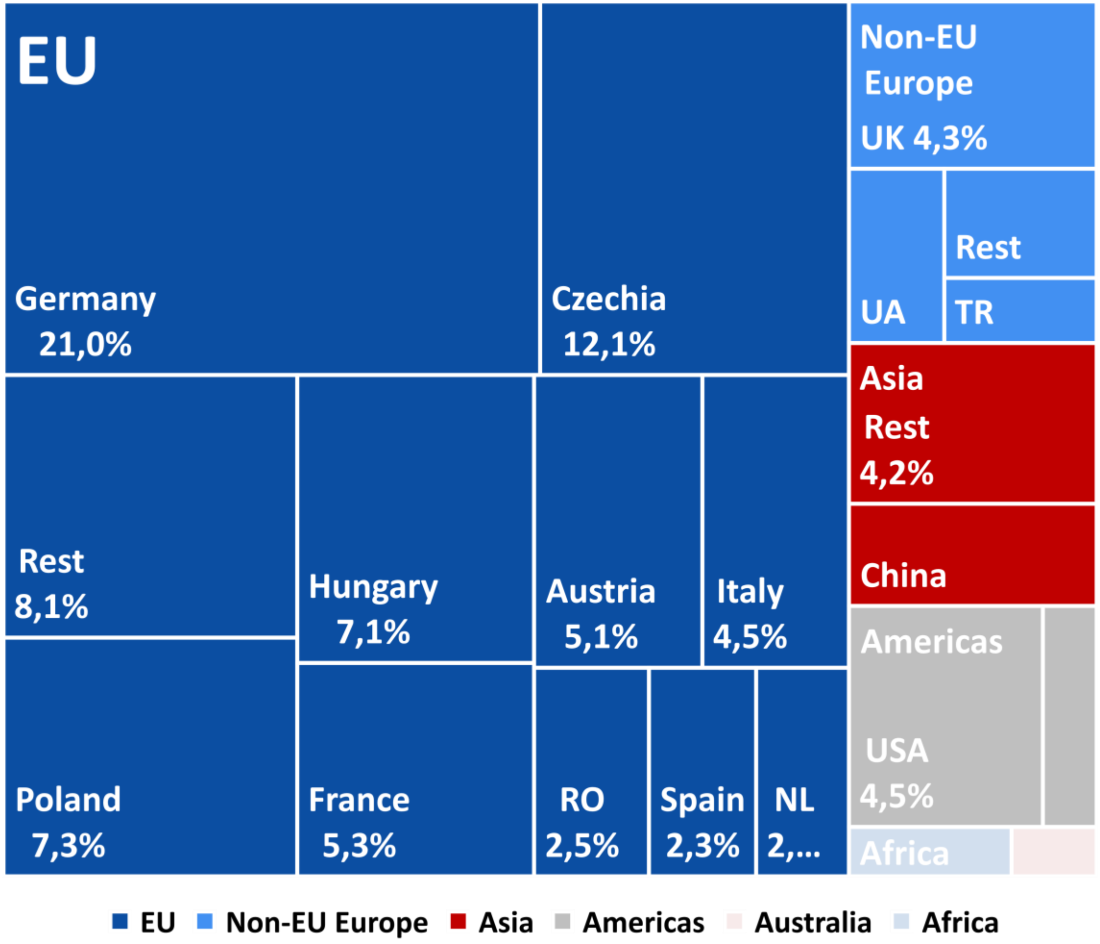
Share of Exports on GDP (2023)



Source: Eurostat

Industry: Competitive and Export-Oriented Economy

Exports by Country (% of Total)



Source: Statistical Office of the Slovak Republic

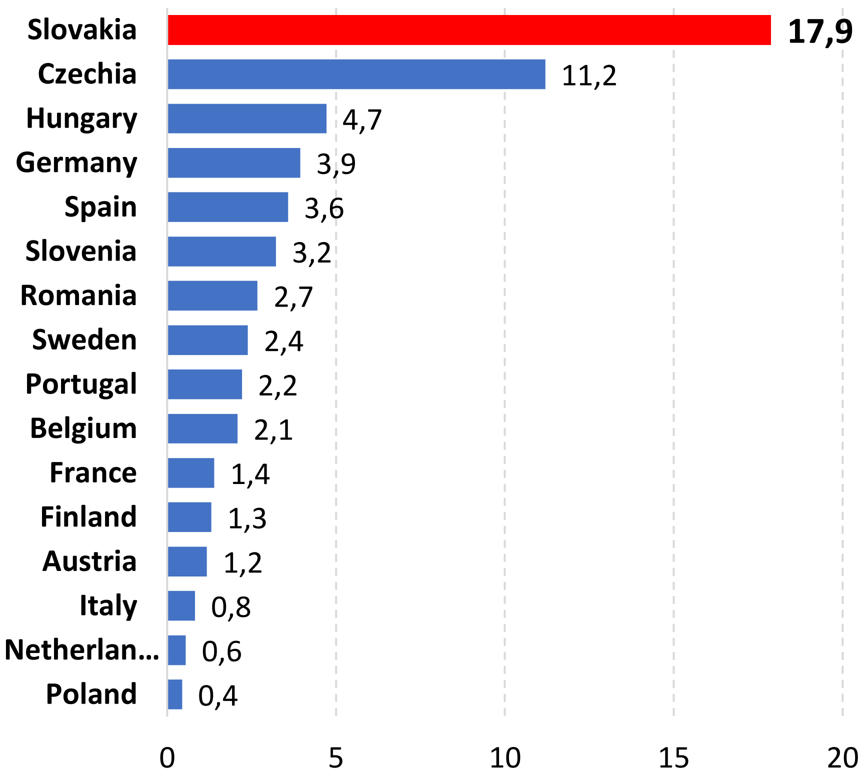
Top Industrial Companies

KIA
USS
PSA GROUPE
JAGUAR
LAND ROVER
SCHAEFFLER
Continental

Strong Industrial Efficiency

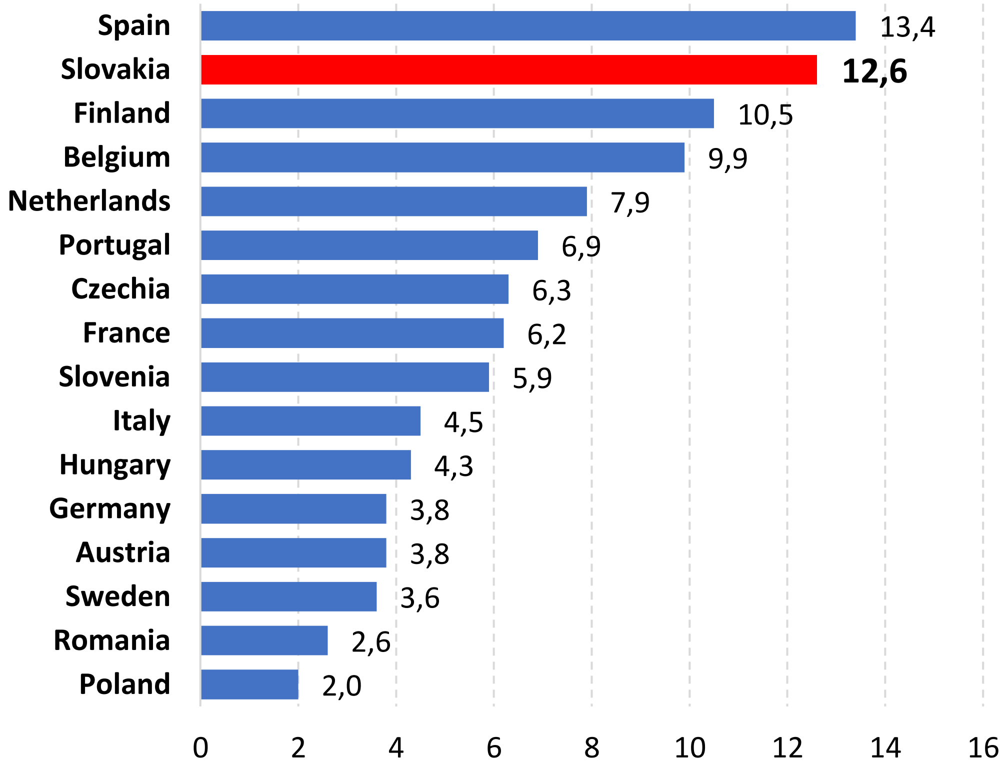
✓ **Powerful industry and labour productivity are key factors attracting investment, especially in the automotive sector**

Produced Cars per 100 Persons (2022)



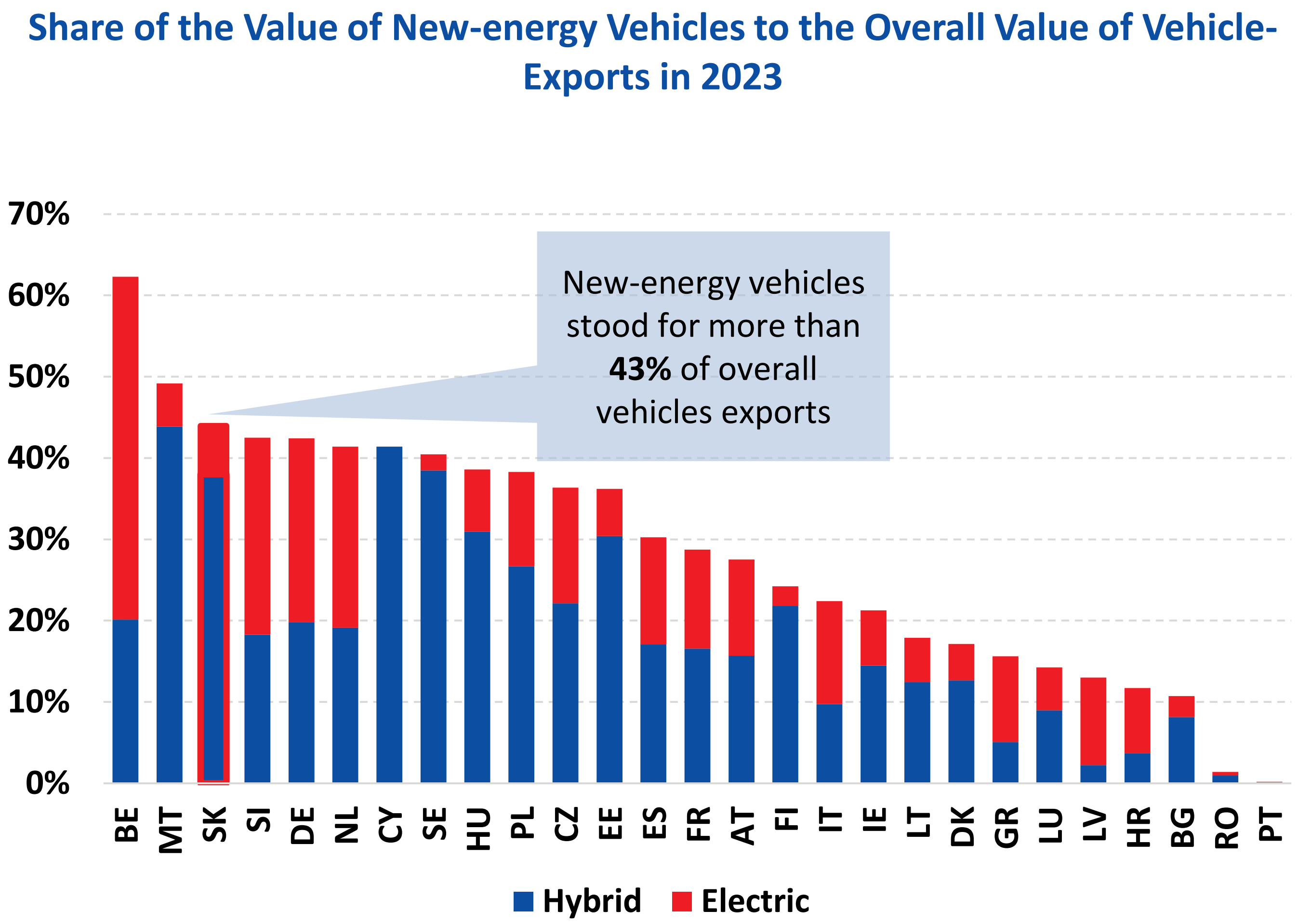
Source: S&P Global Mobility, UN

Vehicle Production per Direct Automotive Manufacturing Employee (2021)



Source: Eurostat, S&P Global Mobility

Slovak Automotive Is EV Ready



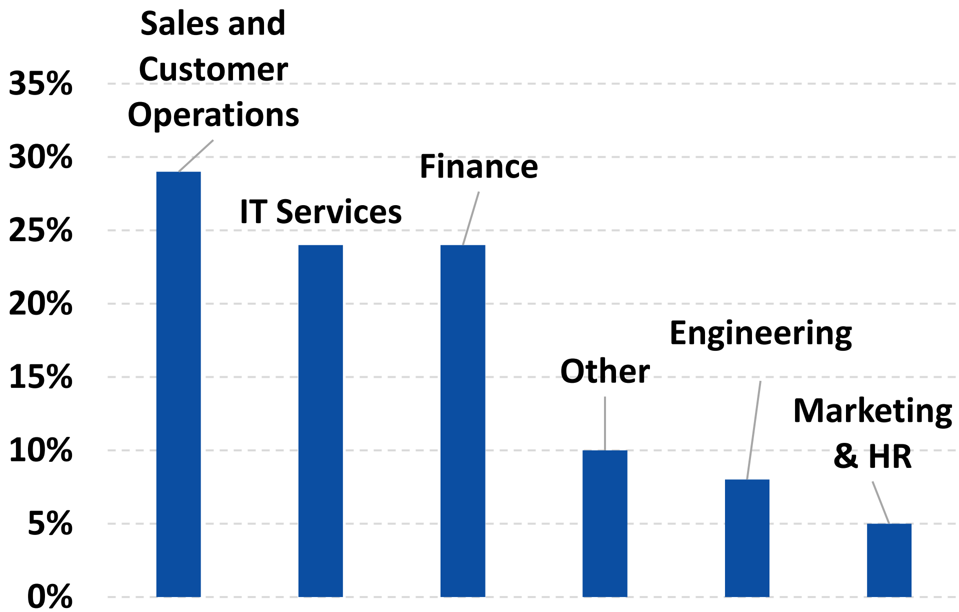
Source: Eurostat

- ✓ **The largest industrial sector has been smoothly transitioning to new trends**
- ✓ The well-established quality continues to attract new investors
- ✓ New VOLVO EV factory (1bn. EUR investment) in Slovakia starts production in 2027

Service: Shared Services Centers (SSC) and Business Process Outsourcing Centers (POC)

- ✓ More than **70** Shared Services Centers employing around **40,000 people**
- ✓ A **well-educated** and highly skilled workforce with excellent language skills provides a strong foundation for a thriving sector
- ✓ Vigorous SSC performance drives development towards **Centers of Excellence**

Area of Operation (Share of Total)



Source: SARIO

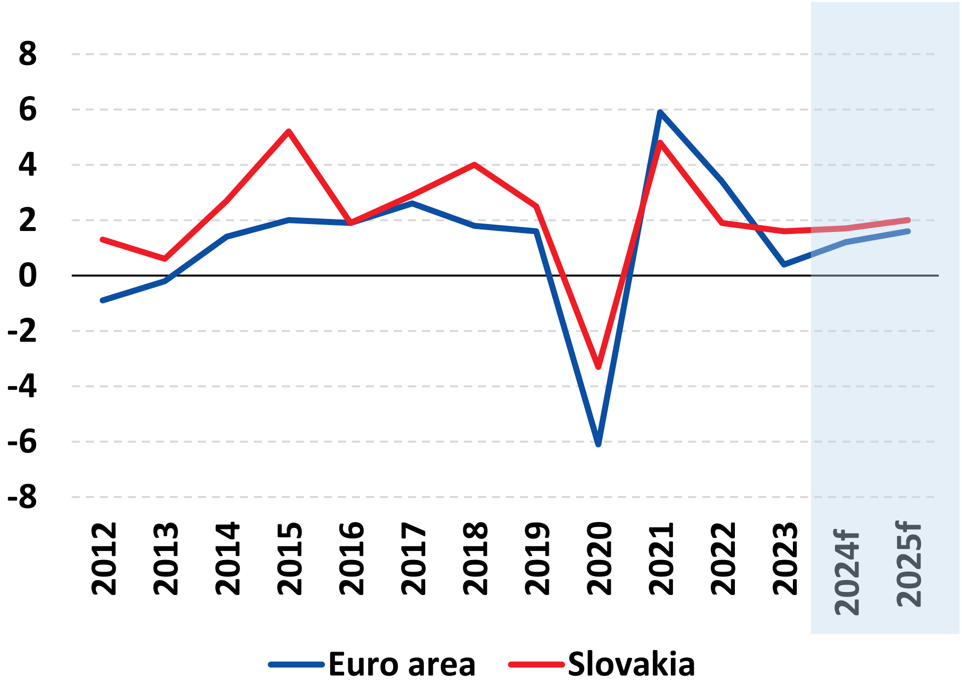
Top Employers in SSCs and POCs

Current Development in Economy

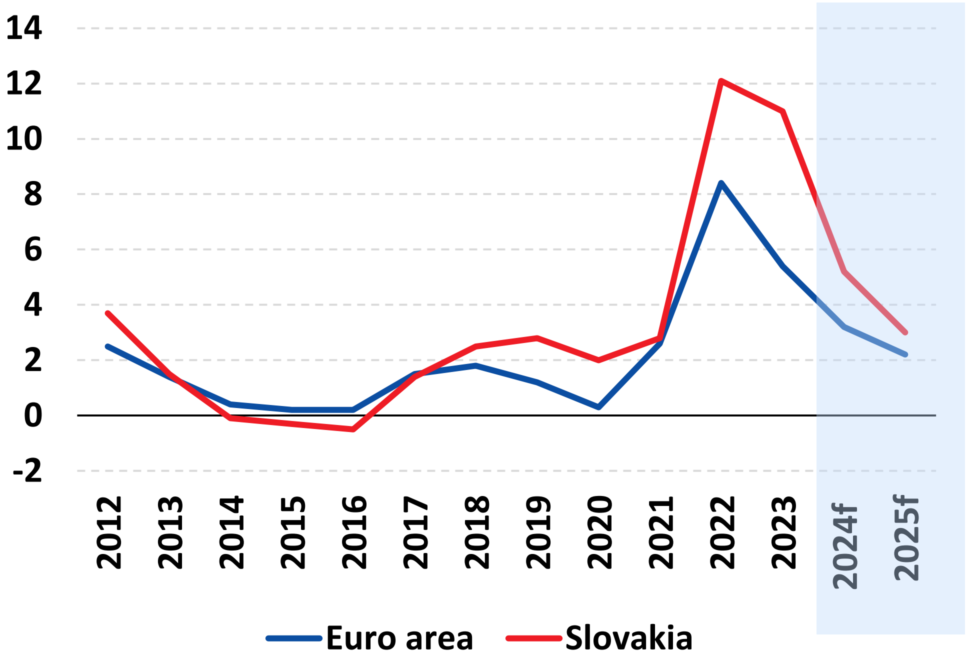
- ✓ The Slovak GDP dynamics should exceed the EU average in 2024-2025
- ✓ Acceleration of growth in coming years due to (i) revival of private consumption and (ii) implementation of Recovery and Resilience Program

- ✓ Inflation is back under control and is heading below 3% in 2024
- ✓ We expected further deceleration close to EU level in the following years

GDP Growth (%)



HICP Inflation (%)

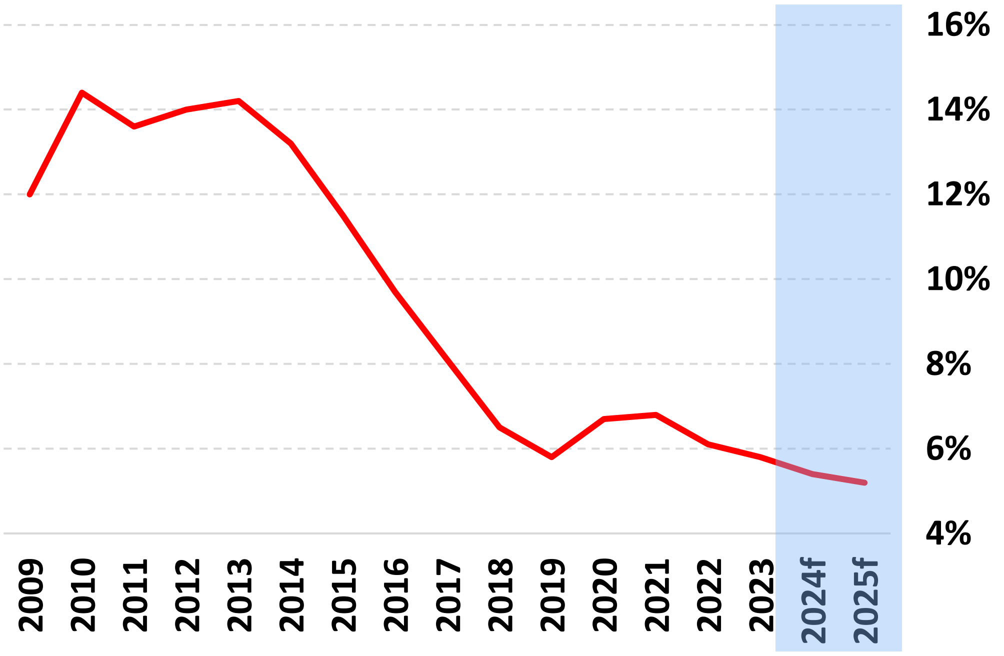


Sources: Eurostat, EC forecast

Labour Market Is Resilient

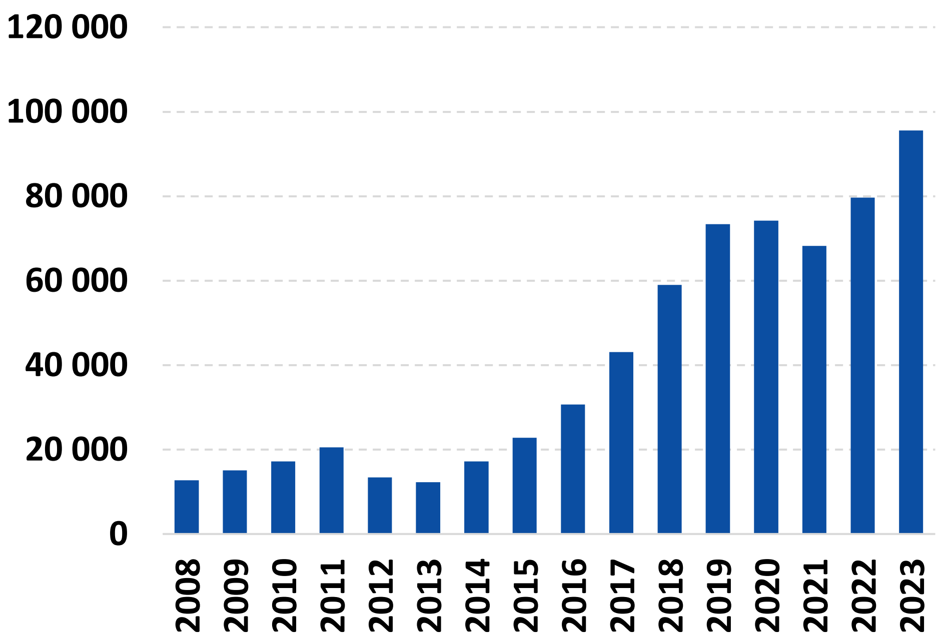
- ✓ Unemployment is at a record low (5.8 %) and is expected to decrease a bit further
- ✓ The influx of foreign labour is helping to keep the employment rising
- ✓ Government has recently relaxed legal requirements for employing foreign workers
- ✓ Most of the foreign workers come from Ukraine, Serbia and Romania

Unemployment Rate (in % of labor force)



Sources: Eurostat, EC forecast

Number of Employed Foreigners in Slovakia



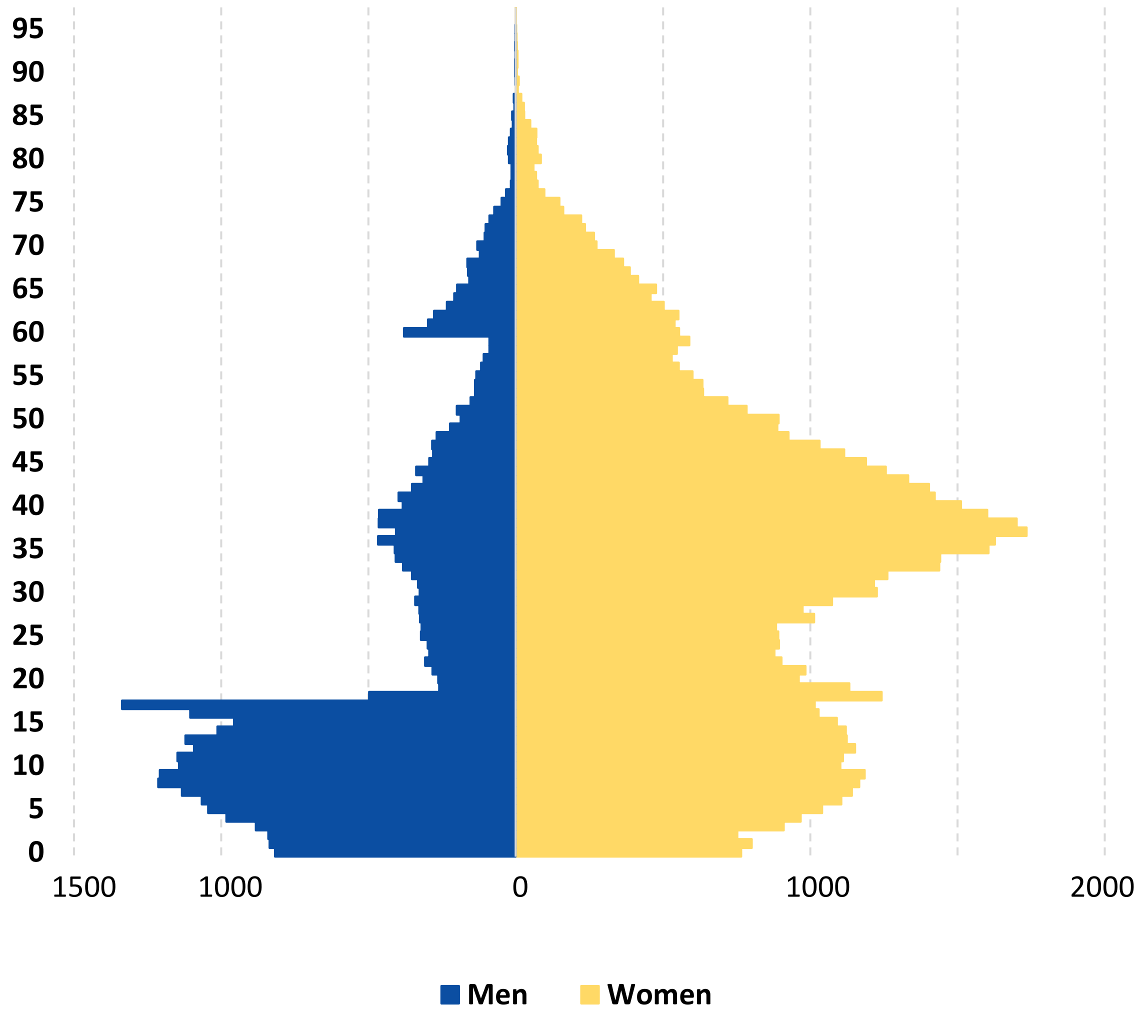
Source: Central Office of Labour, Social Affairs and Family

War Refugees Support the Slovak Labour Market

- ✓ Since the beginning of the war in February 2022, 135,000 Ukrainian refugees, mostly women and children, have applied for temporary refugee status in Slovakia

- ✓ So far, a quarter from 18 - 64 years old have found a job. Refugees occupy mainly low-skilled positions in manufacturing and services, and their integration represents a positive impact for the Slovak labour market

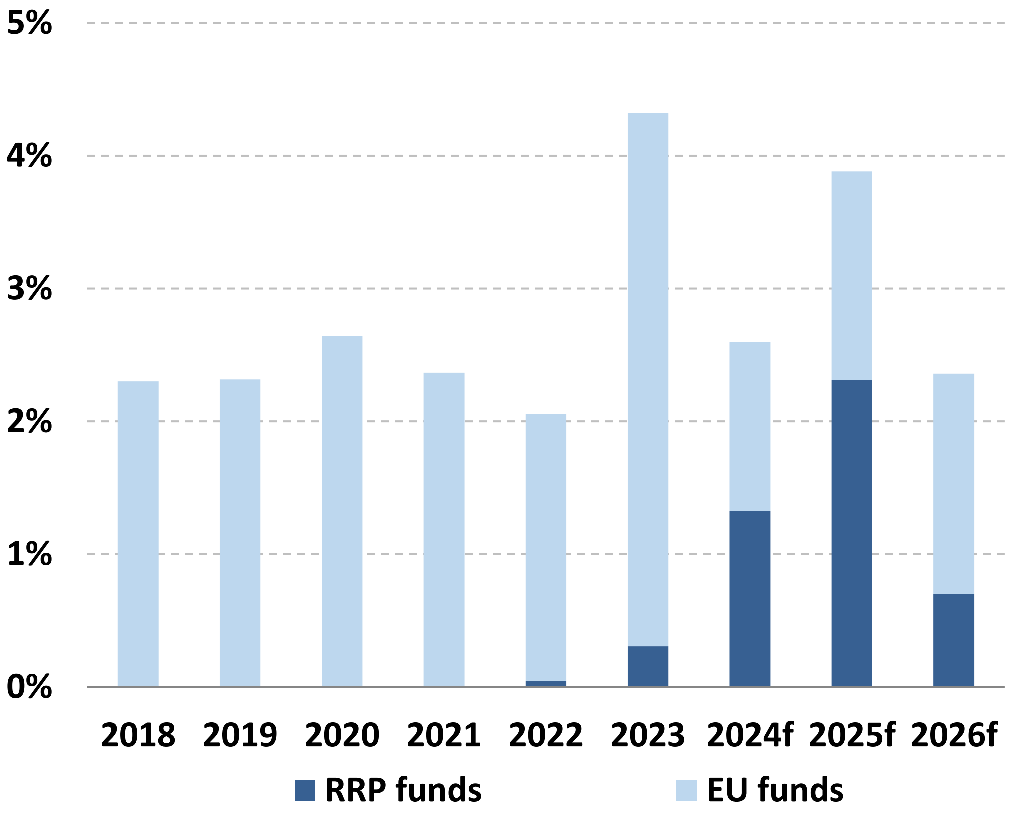
Age Distribution of Ukrainian Refugees



Source: Ministry of Interior of the SR

EU Recovery and Resilience Plan Supports Economic Growth

RRP and EU Funds Inflow (% of nominal GDP)



Source: Government Office of the Slovak Republic, MoF

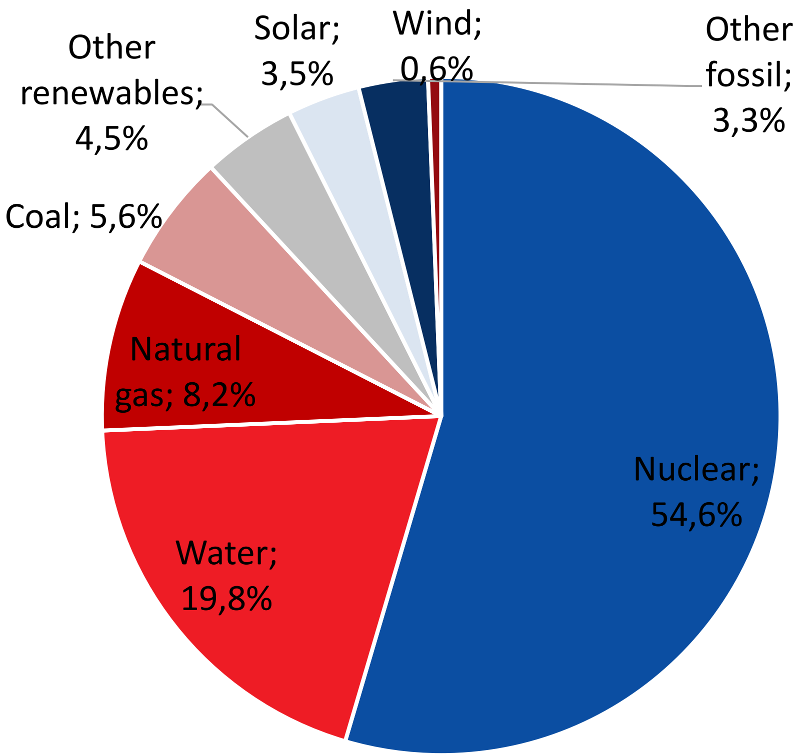
✓ **RRP is expected to prop up the economy mainly in 2025**

- Slovakia will be a key beneficiary of the RRP, boosting its productivity and accelerating the green and digital transformation
- Public investment funded by the RRP will support the output by over EUR 1 billion in 2024 and EUR 2 billion in 2025
- Slovakia has already received three tranches in the total amount of EUR 2 billion. Milestones and goals for the fourth tranche of over EUR 900 million have been met in terms of content and time already at the end of 2023

Energy Mix Relies on Nuclear Power Generation

- ✓ Elevated electricity output, facilitated by numerous **nuclear power plants**, fortifies the robustness of the economy
- ✓ A high degree of **self-sufficiency** with electricity production covering more than 90% of consumption in recent years
- ✓ Completion of new power units currently under construction will make Slovakia a **net exporter of energy**
- ✓ **No more energy subsidies** for companies, household energy subsidies are to be phased out by the end of the year

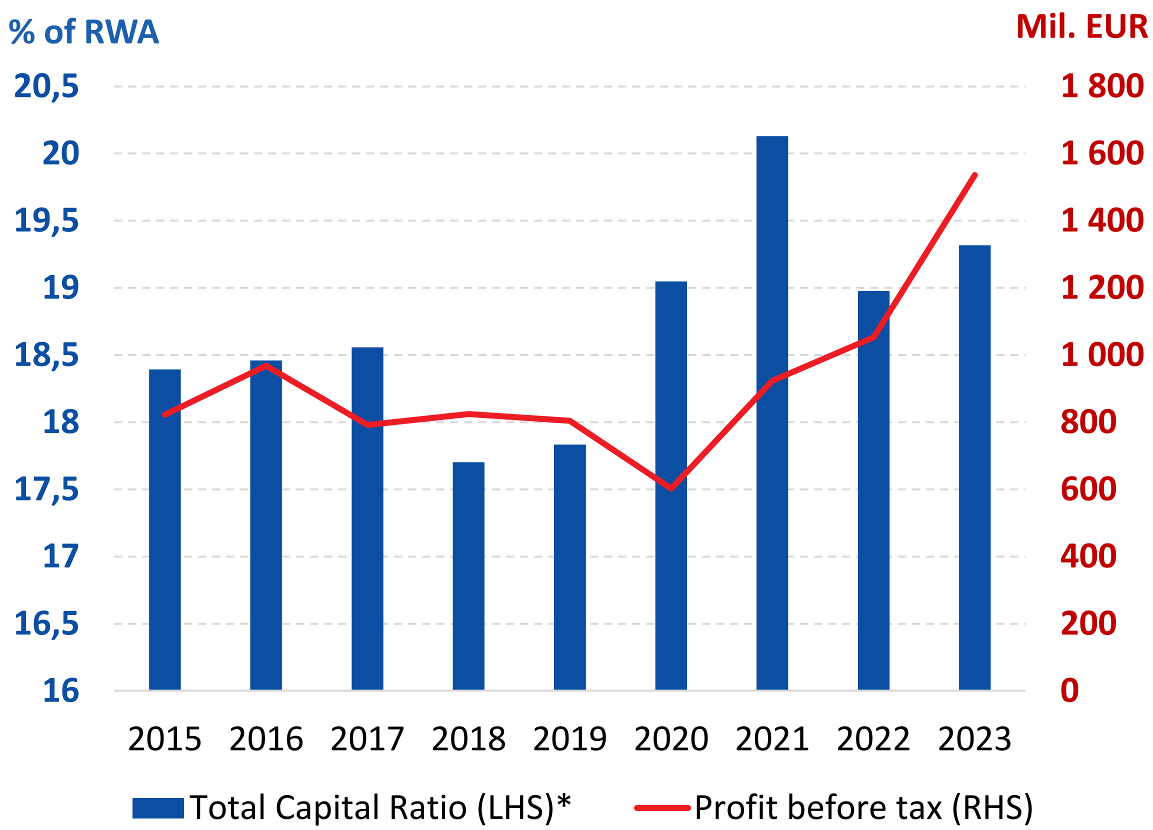
Energy Mix Shares (2022)



Source: SEPS

Resilient Banking Sector - Solid Profits and Ample Capitalization

Capital Ratio and Profitability of SK Banking Sector



Source: EBA, NBS

**The total capital ratio is the total capital (own funds) of the institution as a percentage of its total risk-weighted assets.*

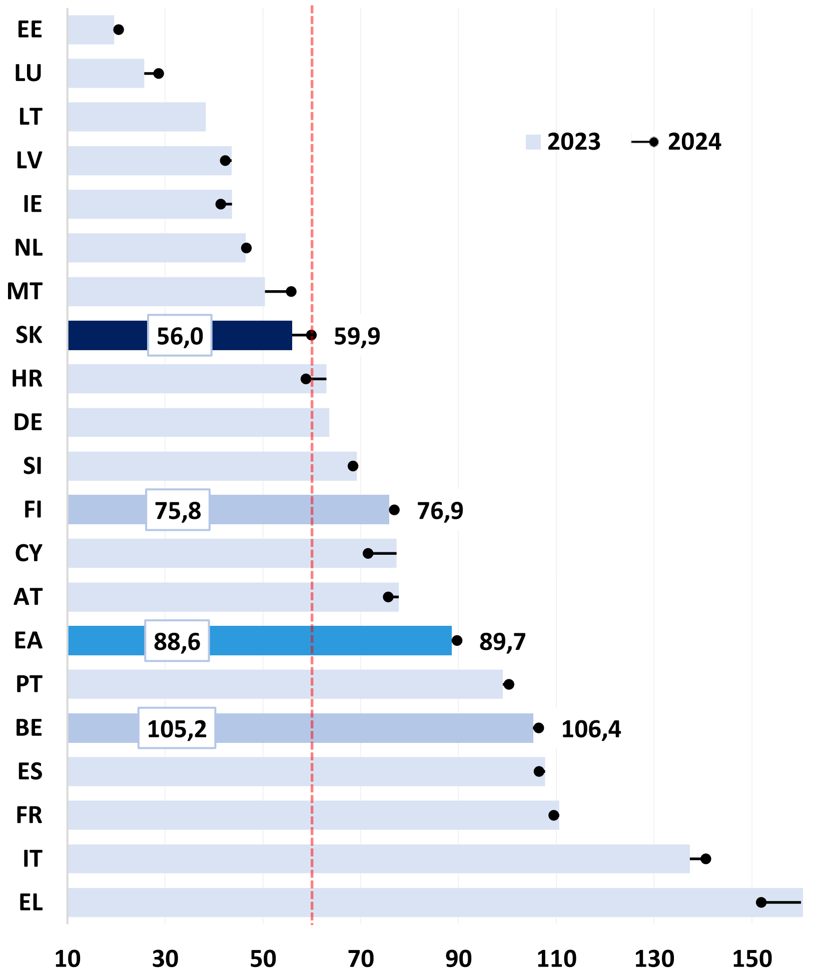
- ✓ Strong capitalization and profitability in Slovakia's banking sector signify **resilience** and growth potential
- ✓ Many Slovakian banks are affiliated with **prestigious global banking conglomerates**, illustrating integration into the international financial landscape
- ✓ **Strict supervision by the ECB and prudent policies** enforced by the National Bank of Slovakia, including additional capital buffers, fortify the financial sector against risks and bolster resilience
- ✓ Low levels of non-performing loans and almost non-existing foreign currency loans support stability

III Fiscal Policy

Slovak Debt Among the Lowest in the Euro Area

- In 2023 **gross public debt decreased to 56% of GDP** particularly driven by high inflation
- Gross debt **remains well below peer countries** and the Euro Area average
- Although debt will rise from 2024, **targeted deficits of Government should ensure slowly increasing trajectory** in debt dynamics
- Outlined Government medium-term consolidation strategy **should stabilize debt around 60% of GDP by 2027**

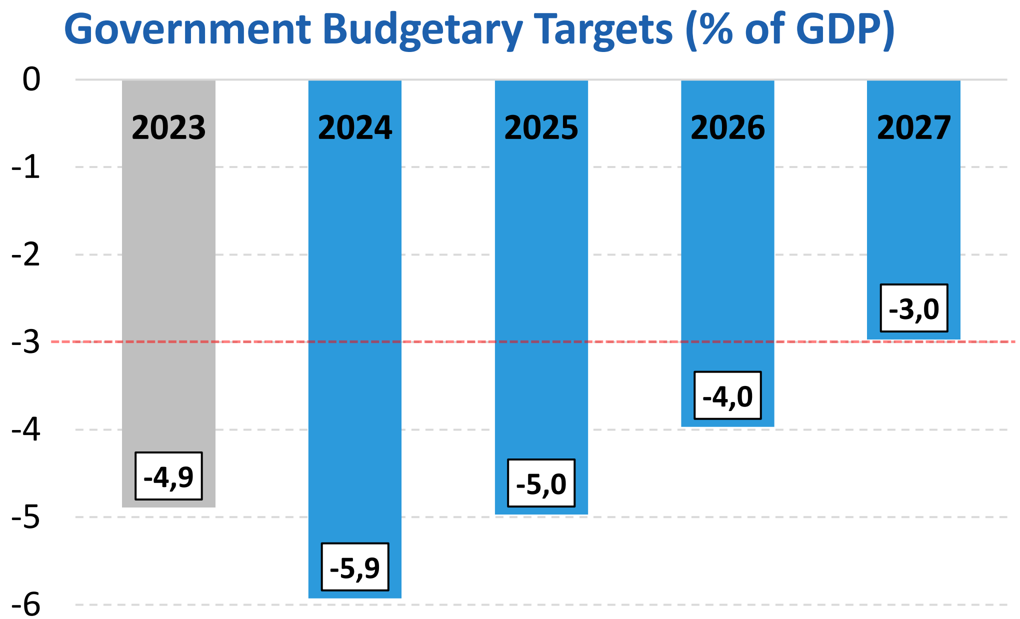
Public Debt-to-GDP Ratio (EC forecast)



Source: EC Autumn forecast 2023

Government Budgetary Targets in Line with the New EU Fiscal Rules (EGR)

- Nominal deficit will temporarily rise in 2024 due to defense, health care and social expenditure along with slower revenue growth
- The Government confirms **budgetary targets to reduce the deficit to 3% of GDP in 2027** and **stabilize debt slightly above 60% of GDP**
- The strategy also follows up on the approved new EU fiscal rules, which require an **adjustment of 1% of GDP per year**, including the Excessive Deficit Procedure being open in 2024



Source: Ministry of Finance

New EU Fiscal Rules Are Also Expected to Come with Stronger Enforcement

- ✓ **The new EU fiscal framework** entered into force in April 2024
- ✓ **Simplified rules**, with the emphasis on single indicator **under the control of policymakers** (expenditure rule), increase responsibility of the government for fiscal outcomes
- ✓ Introduction of **Medium term national fiscal-structural plan** aimed at fiscal strategy, commitments to reforms and investment presented by the Government and approved by the EU for 4 or up to 7 years
- ✓ National **fiscal-structural plan binding for budgetary targets** within the entire horizon of the Plan
- ✓ A new mechanism, **control account**, is set up to correct any fiscal slippage
- ✓ **Annual progress report** focusing on the implementation enhances the commitment to fiscal discipline

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IV Debt Management

Debt Management in 2023

Total redemptions EUR 4.6 billion equivalent

- ✓ EUR 3.0 billion – bond matured in February
- ✓ EUR 1.5 billion – bond matured in November
- ✓ EUR 0.14 billion equivalent – CHF 0.175 billion bond matured in October

Cash deficit of state budget at EUR 7.7 billion

- ✓ Uncertainty through the year mostly due to parliamentary election

Two syndicated deals in 2023 covered EUR 5.5 billion

- ✓ 12y + 20y in February Dual Tranche in total EUR 3.5 billion – largest EUR denominated transaction in CEE at that time
- ✓ 10y in June in total EUR 2.0 billion

Bond auctions stable on third Monday of each month except July, August & December

- ✓ EUR 4.9 billion sold in regular multiple auctions
- ✓ Four bonds offered in all auctions (except for February because of planned syndication), solid BID/COVER ratio
- ✓ Only bonds, No T-Bills

Financing of total debt portfolio at a manageable level

- ✓ Weighted average yield at 3.74% p.a. of total new issuance in 2023 EUR 10.4bn (average maturity 11.7y)
- ✓ Weighted average yield of all outstanding bonds at 1.99% p.a. (average maturity 8.6y)
- ✓ Weighted average yield of all liabilities 1.85% p.a.

Source: ARDAL, as of March 2024

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Debt Management Outlook in 2024

Total redemptions EUR 5.04 billion equivalent

- ✓ EUR 2.0 billion – bond matures in June
- ✓ EUR 2.9 billion – bond matures in November
- ✓ EUR 0.14 billion equivalent – NOK 1.150 billion bond maturing in March

Uncertainty about state budget cash deficit

- ✓ Cash deficit of state budget at 7.6 billion – Act on State Budget from 21 December 2023
- ✓ Several risks on both sides – the real development subject to continual monitoring

EUR 11 to 12 billion expected gross issuance (EUR 8.4 billion already issued in 2024)

- ✓ EUR 6 billion expected to be issued via regular monthly auctions (EUR 4.8 billion issued January – April)
- ✓ EUR 5.5 billion expected to be issued via syndications (EUR 3 billion issued in February; CHF 0.6 billion issued in April)
- ✓ No specific loans planned but could be arranged based on market conditions (EIB – EUR 72 million received)
- ✓ Some financing needs may be covered by increase from State Treasury funds + liquidity buffer optimization

Foreign currency issuances in consideration

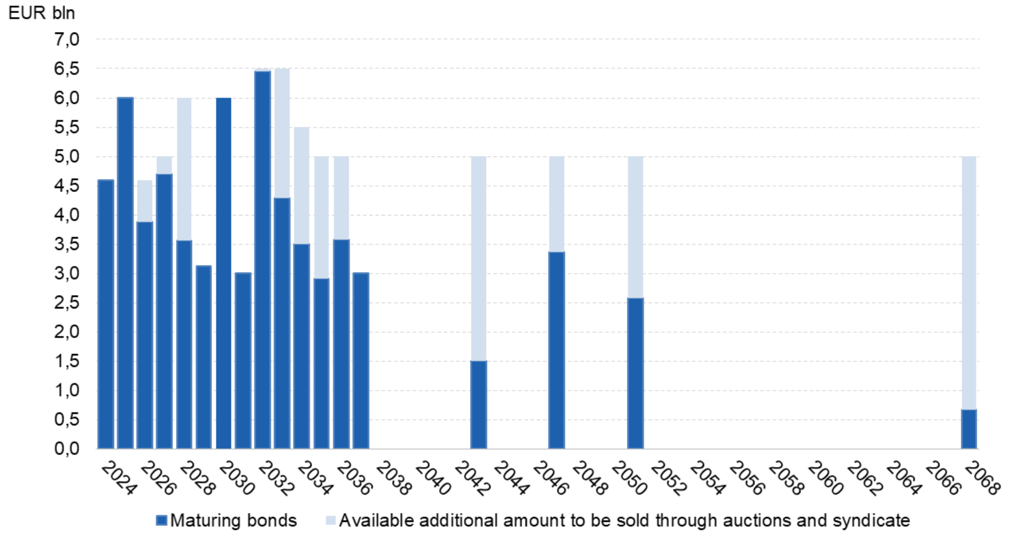
- ✓ More active in diversification base of investors (other markets roadshows)
- ✓ CHF deal was a start in April (settlement 10 May) and could be later followed by USD issuance – no specific timeline – the USD deal will probably take place in 2025

Source: ARDAL, as of March 2024

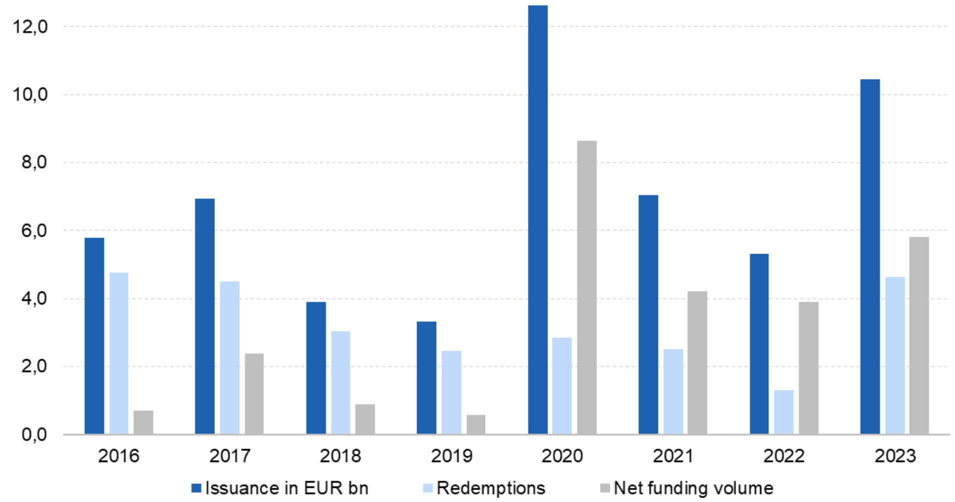
Well Balanced Bond Redemption Profile

- ✓ Smooth redemption profile not exceeding EUR 6.5 billion redemption in any single year
- ✓ Increased issuance after the COVID outbreak
- ✓ Low redemptions between 2019-2022
- ✓ Net funding volume expected to decrease in line with fiscal consolidation

Bond Redemptions Profile



Issuance and Redemptions

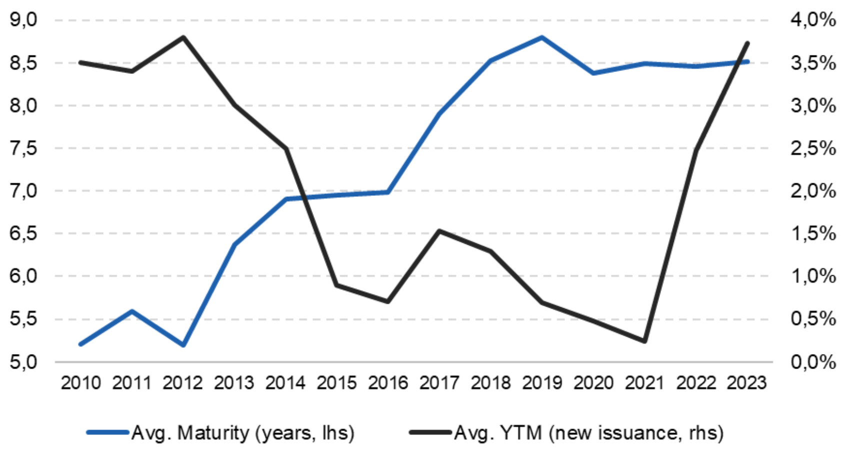


Source: ARDAL, as of March 2024

Risk Management

- ✓ Average maturity stabilized above 8 years since 2018 as a result of well maintained debt portfolio
- ✓ Rise of yields since 2022 reflects overall development in euro area + growth of risk premiums mainly due to recent energy crisis and Russian invasion of Ukraine
- ✓ Credible risk management considers various scenarios of potential development
- ✓ Average life of debt of Slovakia at Euro Area level and comparable to higher rated issuers
- ✓ Risk indicators indicate sufficient capacity in case of need for both short- and medium-term financing

Average Maturity and Yield Metrics



Risk Indicators International Comparison

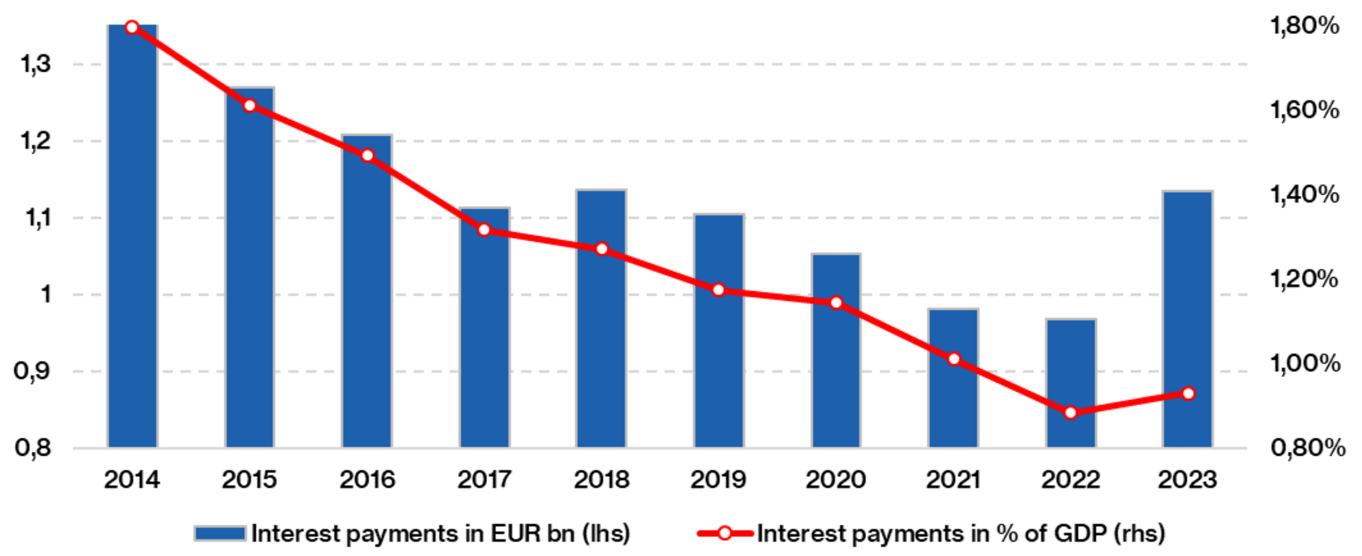
As of 31 March 2024	Slovakia	Belgium	France	Slovenia	Latvia	Germany	Austria	Euro Area
Average Life of Debt (years)	**8.42**	10.20	8.58	9.67	6.89	7.75	10.96	8.61
Refinancing Risk 1Y (% of total debt)	**6.59**	17.52	14.19	7.40	12.63	16.69	15.01	14.03
Refinancing Risk 5Y (% of total debt)	**39.08**	40.91	46.58	38.69	57.40	51.41	49.60	46.08
Refixing Risk 1Y (% of total debt)	**6.59**	17.94	24.06	8.37	12.82	20.97	15.50	20.84
Refixing Risk 5Y (% of total debt)	**39.08**	41.33	52.95	39.49	57.47	55.96	50.13	50.33
Foreign Debt to Total Debt (before derivatives) %	**0.27**	0.72	0.00	2.24	0.00	0.00	2.10	0.38
Foreign Debt to Total Debt (after derivatives) %	**0.00**	0.00	0.00	0.07	0.00	0.00	0.00	0.01

Source: ARDAL, as of March 2024

Interest Costs

- ✓ Interest payments were at historical lows as a percentage of GDP in 2022 and were declining even in nominal terms
- ✓ Reversal of trend since 2023 in line with overall development in Eurozone – however the increase is limited and spread in time due to prudent risk management in the past
- ✓ Increase as a % of GDP even more limited

Interest Payment Dynamics for Slovakia (accrual)



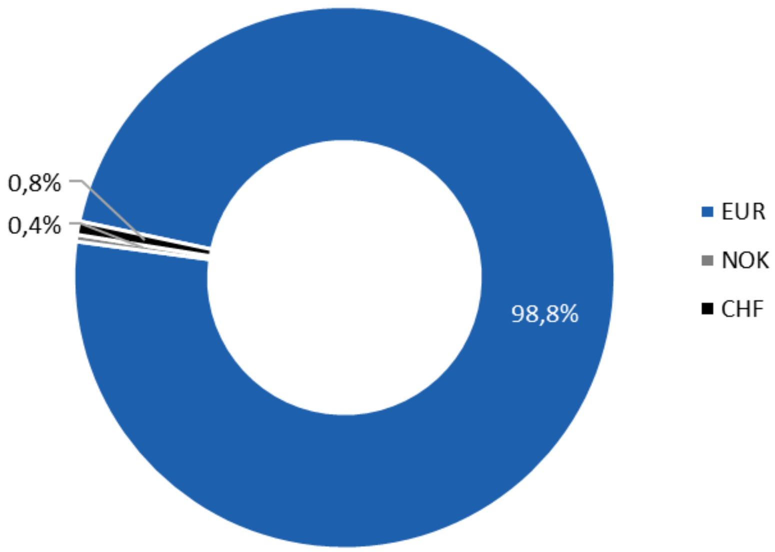
Source: ARDAL, as of December 2023

Strong Resilience to FX Volatility and Diversified Investor Base

- ✓ Debt primarily denominated in domestic currency (EUR)
- ✓ CHF, NOK, CZK, USD, JPY historically
- ✓ Return to CHF market in 2024

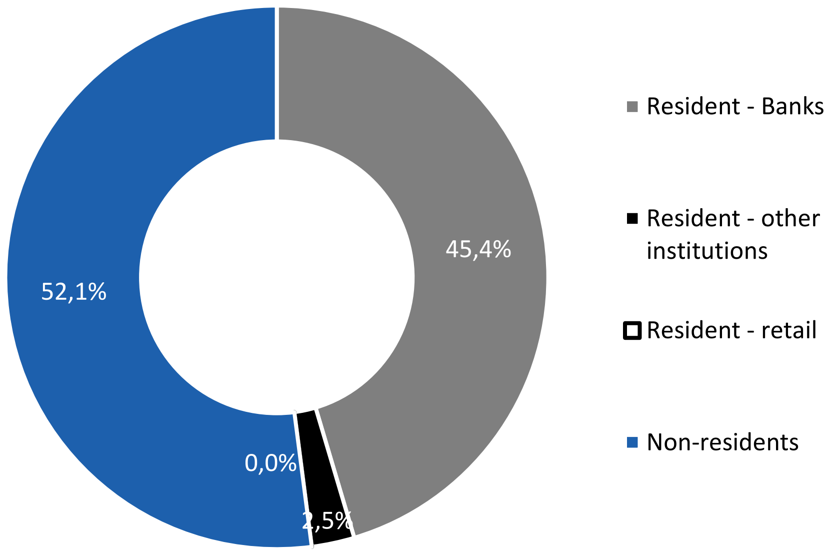
- ✓ Increased portfolio holdings of residents due to PSPP and PEPP

Currency Breakdown
(%)



Source: ARDAL, as of April 2024

Investor Type Breakdown
(%)*



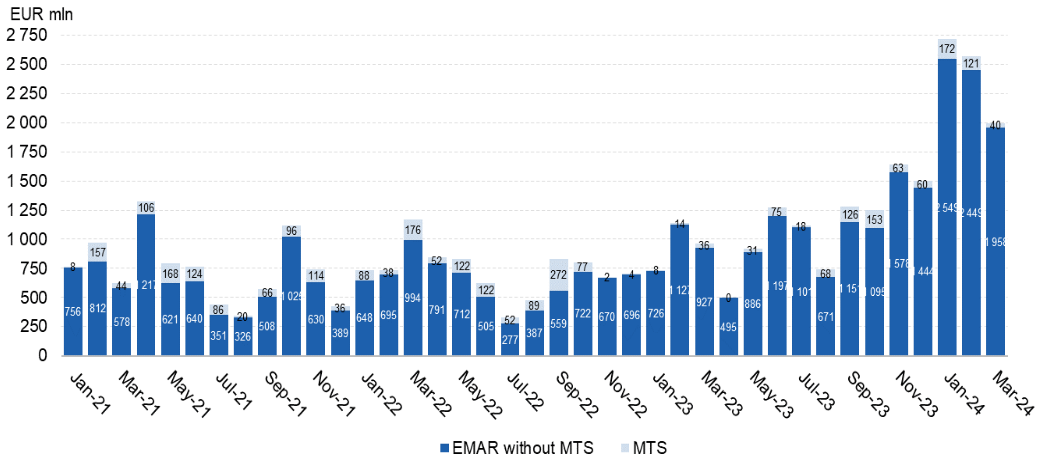
**Bonds held in Slovak Central Securities Depository*

Source: ARDAL, as of March 2024

Secondary Market

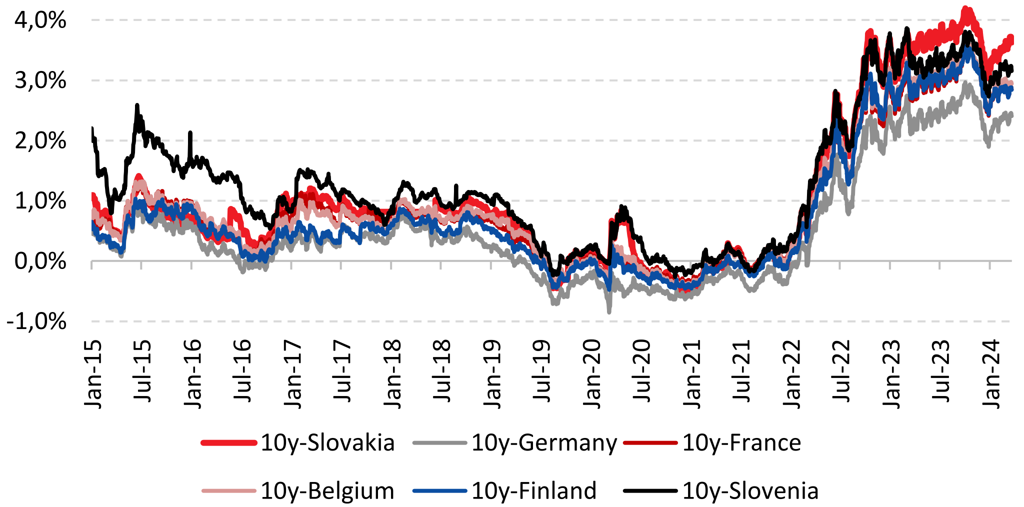
- ✓ Introduction of MTS Slovakia in February 2018
- ✓ Quoting obligation for Primary Dealers
- ✓ Average monthly trading volume on MTS Slovakia EUR 96 million since inception

Slovak PDs Secondary Market (EMAR)



Source: ARDAL, MTS

Slovakia 10Y Government Bond versus Peers



Source: ARDAL, Bloomberg

Auction Calendar 2024 – Regular Bond Auctions

Government Bonds		
Auction Date	**Settlement Date**	**Offered Bonds**
15 January	17 January	06/27, 10/32, 04/36, 10/51
19 February	21 February	06/27, 10/32, 06/33, 10/47
18 March	20 March	06/27, 10/32, 06/33, 02/35
15 April	17 April	02/26, 02/28, 03/34, 10/47
20 May	22 May	to be decided
17 June	19 June	to be decided
16 September	18 September	to be decided
21 October	23 October	to be decided
18 November	20 November	to be decided

Source: ARDAL

- ✓ Auctions on the third Monday of the month – no auction in July, August and December
- ✓ Settlement T+2 (Wednesday)
- ✓ Non-competitive part of the auction usually on the next day (Tuesday) with settlement T+1 (Wednesday)
- ✓ Possibility to include additional auctions based on the funding requirements and market conditions

Primary Dealers of the Slovak Republic

- ✓ Barclays Bank Ireland PLC
- ✓ Citibank Europe PLC
- ✓ Československá obchodná banka, a.s. (KBC Group)
- ✓ Deutsche Bank AG
- ✓ J.P. Morgan SE
- ✓ Slovenská sporiteľňa, a.s. (Erste Group)
- ✓ Tatra banka, a.s. (RBI Group)
- ✓ Všeobecná úverová banka, a.s. (Intesa Sanpaolo Group)
- ✓ UniCredit Bank GmbH

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