

The Slovak Republic Rating Report



STABLE OUTLOOK

A+

Credit strengths

- Euro area membership
- Robust economic performance
- Moderate levels of government debt
- Commitment to fiscal consolidation

Credit weaknesses

- External vulnerabilities
- Adverse demographic trends
- Rising household indebtedness
- Shortages of skilled labour supply

Rating rationale and Outlook: Slovakia's A+ rating is underpinned by the country's euro area membership, robust economic performance and commitment to fiscal consolidation. Slovakia's public debt dynamics are adequate, supported by a strong economic growth and favourable financing conditions, resulting in a moderate and decreasing public debt stock, which is projected to have fallen below 51% of GDP in 2017 (51.9 % in 2016). However, vulnerabilities to external shocks, adverse demographics, potential risks stemming from a rapid expansion in household indebtedness and shortages of skilled labour supply pose challenges. The Stable Outlook reflects Scope's assessment that the challenges faced by Slovakia are broadly balanced.

Figure 1: Sovereign rating categories summary

Scope's sovereign risk categories	Slovakia	Peer comparison		
		Average	Poland	Czech Republic
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	1		1	3
Final rating	A+		A+	AA

AAA AA A BBB BB B CCC CC C

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown together with two selected countries chosen from the entire CVS peer group. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Source: Scope Ratings GmbH

Positive rating-change drivers

- Increasing growth potential via implementation of structural reforms
- Further fiscal consolidation

Negative rating-change drivers

- Policy reversal weighing on investor sentiment
- Sharp deterioration in growth outlook
- Weakening fiscal consolidation effort

Ratings and Outlook

Foreign currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: SCOP

Strengthening economic performance

Domestic economic risk

Growth potential of the economy

Slovakia's economic growth remained strong in 2017 at a projected 3.4% (3.3% in 2016), according to Scope. The main drivers of this growth have been household consumption expenditure buoyed by favourable labour market developments, and a recovery in investment supported by private investments in the automobile industry. Favourable financial conditions backed by the ECB's accommodative stance have also contributed by facilitating private-sector credit growth. Scope expects Slovakia's GDP to continue growing vigorously at 4% in 2018 and 4.2% in 2019, driven by strong private consumption and a pick-up in investment activity due to new infrastructure projects (such as the Bratislava ring road) and planned investments in the automotive industry. In Scope's assessment, net trade will gradually increase its contribution to growth over the medium term, as production at Jaguar Land Rover's new plant gathers momentum.

Figure 2: Percentage-point contribution to real growth

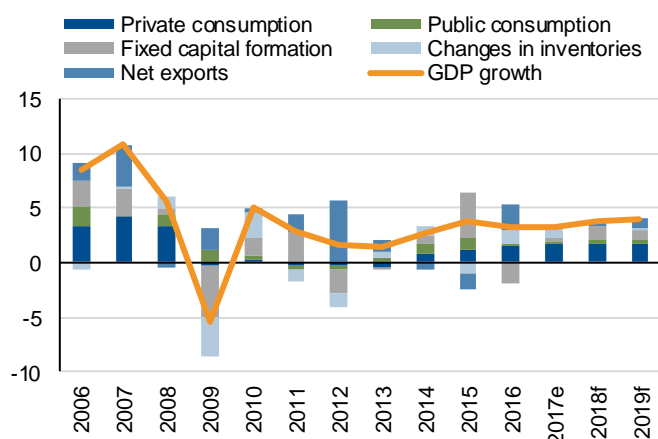
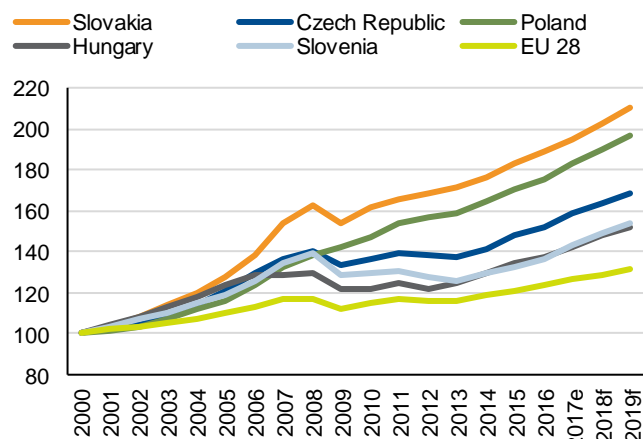


Figure 3: Real GDP, 2000=100



Source: European Commission

Source: European Commission, Scope Ratings GmbH

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Slovakia's economy is deeply embedded within global supply chains due to its competitive automotive and electronics industries. Currently, the country is home to four car manufacturers: Volkswagen (37% market share), Kia (33% market share), Peugeot-Citroën (30% market share) and Jaguar Land Rover (beginning operation in 2018). The automotive industry makes up around 44% of Slovakia's industrial production and 40% of total industrial exports. Scope believes that the Volkswagen emission scandal had a short-term impact on Slovakian industrial production, as the carmaker's turnover in Slovakia reached EUR 7.6bn in 2016 up from EUR 6.2bn in 2014. However, uncertainties stemming from external developments in key trading partners in Europe (e.g. the UK's exit from the EU), strong cost competitiveness from other eastern-European car manufacturers and structural changes in the automotive sector (the greening of the industry) pose challenges to the medium-to-long-term outlook for the Slovak car industry.

Productivity growth in manufacturing helped the average income in Slovakia converge towards that of the EU, with real GDP per capita (in Purchasing Power Standards) rising to a projected 78% (77% in 2016) of the EU average in 2017, up from 57% in 2004 when Slovakia joined the EU. While, the economy has witnessed some slowdown in productivity growth since 2011, the figures for 2017 Q2 and Q3 suggest an improving performance.

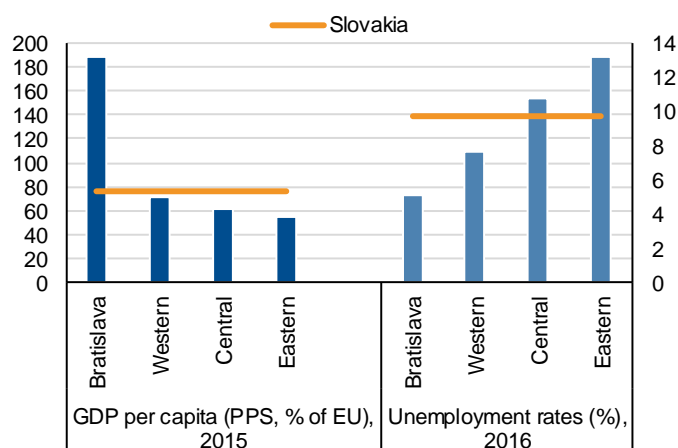
Economic policy framework & macroeconomic stability and imbalances

Slovakia's robust economic growth has led to steady improvements in the labour market

outcomes, with the unemployment rate falling to a projected 8.1% in 2017. Scope expects the unemployment rate to decline further in the near term, reaching 7.5% in 2018. Continued tightening of the labour market, as reflected in a share of employees in the labour force above 90%, is pushing nominal wage growth up, which jumped to 5.2% in the third quarter of 2017. Going forward, skilled labour shortages (particularly in manufacturing) will put pressure on the labour market and drive the upward trend in the wage growth further, in Scope's view.

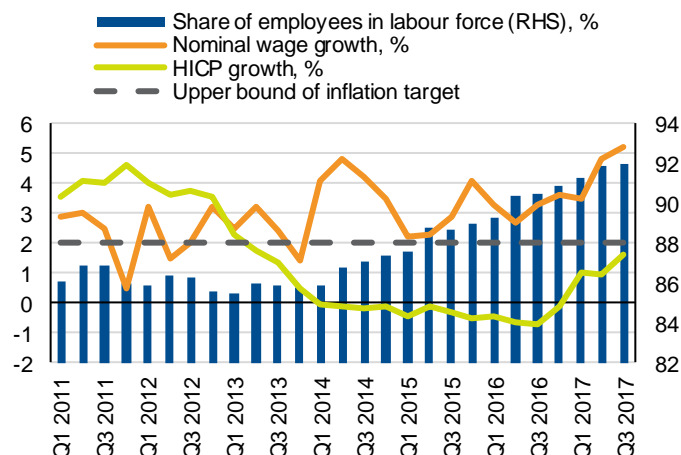
Following three consecutive years of falling consumer prices, inflation picked up in 2017 to a full-year average of 1.4%, in line with Slovakia's strong labour market performance and wage growth. Food and services have contributed most to the consumer price increase, with energy price inflation remaining in negative territory. Driven by rising wages and an assumed recovery in energy prices, Scope expects inflation to gradually accelerate in the coming years, edging up to the ECB's inflation target ceiling in 2018 and 2019.

Figure 4: Regional income and unemployment



Source: Eurostat

Figure 5: Labour market and inflation developments



Source: Statistical Office of Slovakia

Strong regional disparities, but reforms underway

Disparities between the Bratislava region and eastern/central regions, as reflected in the uneven distribution of labour market outcomes – in particular, high long-term unemployment rates in the east, and material differences in per-capita incomes – remain a central issue. These disparities are the result of a less developed infrastructure alongside lower educational attainment in eastern and central areas, which negatively affect growth potential and have centralised investment in the Bratislava region. In response, Slovakia's government has launched numerous reform measures to tackle these issues, including the Law on Support of Lagging Regions (Act No. 336/2015 Coll.) to bolster regional development. Initially, this law focused on 12 out of the 79 districts that posted the highest unemployment rates, with another 17 districts included in January 2018.

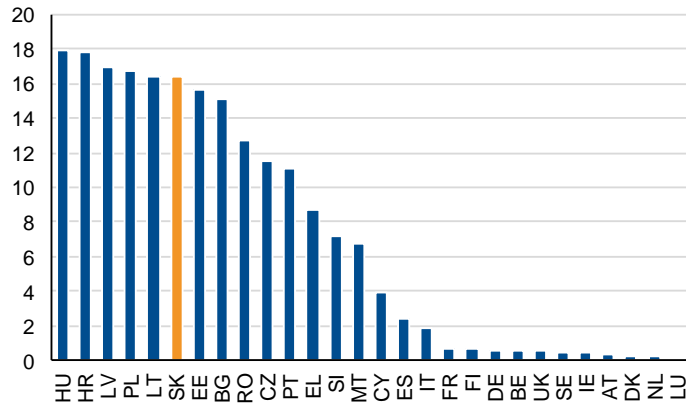
Scope notes that Slovakia is meeting or making substantial progress towards meeting Europe 2020¹ objectives on employment, R&D intensity, and renewable energy use. However, the weak link between the education system and labour market demands, particularly the specific needs of the car industry, could hamper future productivity gains.

Slovakia is a major beneficiary of EU funds and is eligible to receive up to EUR 15.3bn from the European Structural and Investment Funds by 2020, aimed at strengthening

¹ The European Union's ten-year growth and jobs strategy, launched in 2010.

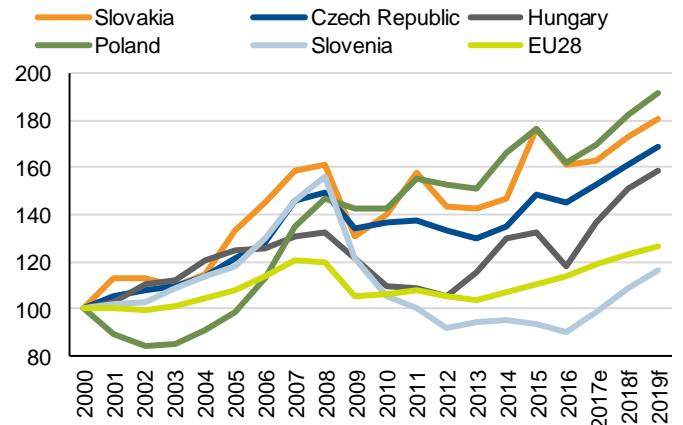
areas including transport and energy infrastructures, environmental protection and research & innovation.

Figure 6: EU structural funds allocations 2014-20 (% GDP)



Source: European Commission, Scope Ratings GmbH

Figure 7: Gross fixed capital formation, 2000=100



Source: European Commission, Scope Ratings GmbH

However, the relatively low absorption of EU funds under the current programming period (2014-2020) remains an important challenge.

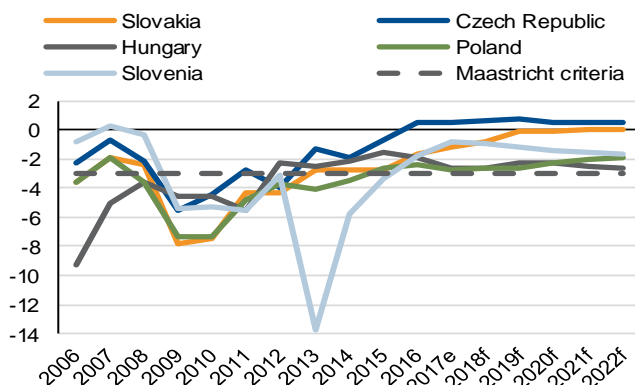
Public finance risk

Fiscal performance

Adequate fiscal space, improving fiscal metrics

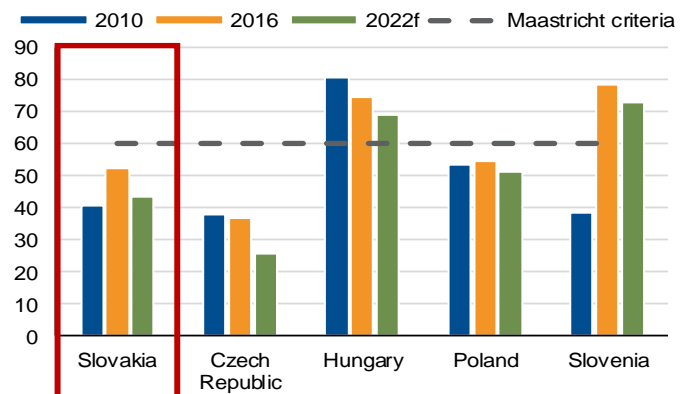
Slovakia progressed with fiscal consolidation in 2017. Scope estimates the headline fiscal deficit to have fallen to 1.3% of GDP in 2017, an almost 1 pp improvement compared to 2016 (the primary balance² improved to an estimated 0.1% of GDP from -0.7% in 2016). This improvement was mostly driven by a reduction in expenditure, reflecting savings in interest expenses, as well as a decline in social benefits. Compared to 2016, capital spending remained broadly unchanged owing to a slow take-up of EU funds. On the revenue side, favourable developments in the labour market helped to increase social contributions, while VAT tax collections also climbed.

Figure 8: Fiscal balances, % of GDP



Source: IMF

Figure 9: Debt levels, % of GDP



Source: IMF

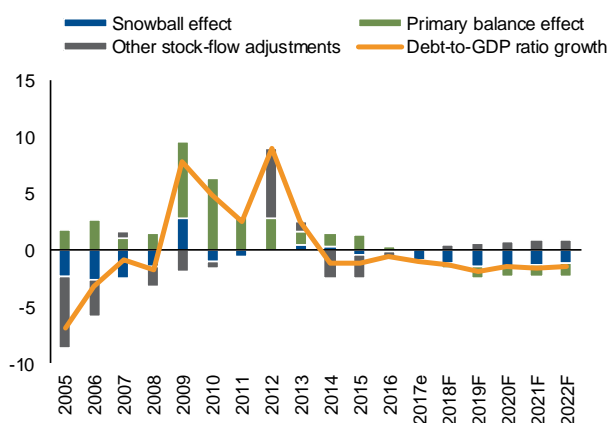
Despite progress on tax administration and the reduction of tax fraud (the percentage of companies with no corporate income tax liability declined from 59% in 2013 to 6% in

² General government primary net lending/borrowing as % of GDP.

2015³), the VAT gap (measured as the difference between VAT collected and total VAT liabilities) remained the second-highest in the EU, after Romania, at 29.4% or EUR 2.26bn⁴, suggesting that specific challenges to tax compliance remain.

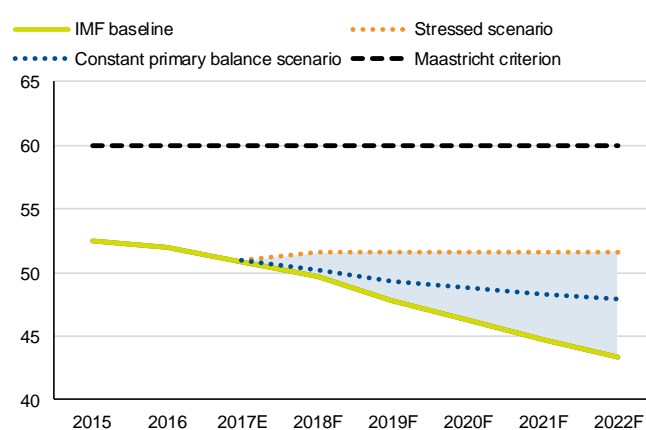
Scope anticipates the headline deficit to decrease further in 2018 to 0.9% of GDP driven by budget consolidation efforts, including expected revenue-enhancing measures such as a new 7% dividend tax, the extension of a levy on certain insurance policies and a better targeting of healthcare contribution allowances. These measures will be somewhat counterbalanced by the cancellation of the minimum corporate income tax and the expected drop in pension contributions to the public scheme in favour of private pension schemes. On the expenditure side, Scope notes that planned expansionary measures, such as higher pension and welfare spending will be offset by lower-than-expected public investment expenditure linked to delays in the use of EU financing. As a result, total expenditure as a percentage of GDP is set to decline, also due to strong GDP growth. Scope assesses Slovakia's fiscal space as adequate underpinned by moderate indebtedness and improving fiscal metrics.

Figure 10: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 11: Government debt, % of GDP



Source: IMF, Scope Ratings GmbH

Scenario	Time period	Real GDP growth (%)	Primary bal. (% of GDP)	Real eff. int. rate (%)	Debt end period (% of GDP)
History	2013-2017	2.9	-0.7	2.7	50.9
IMF baseline	2018-2022	3.6	0.9	0.8	43.3
Primary balance		3.6	0.1	0.8	47.9
Stressed scenario		1.8	0.5	1.6	51.7

Source: IMF, Scope Ratings GmbH

Debt sustainability

Challenges to debt sustainability from adverse demographic trends

Scope assesses Slovakia's public debt dynamics as adequate, the result of their relative robustness across several plausible scenarios over the projection horizon to 2022 (Figure 11). In 2017, gross debt as a percentage of GDP is projected to have fallen below

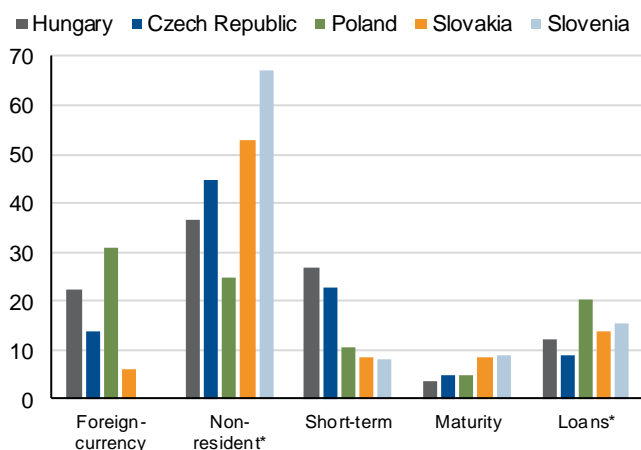
³ European Commission, "Country Report Slovakia 2017, p. 14".

⁴ Center for Social and Economic Research, "Study and Reports on the VAT Gap in the EU-28 Member States: 2017 final report, 2015 data".

51%, a more than 1 pp improvement on 2016. Scope expects the ratio to steadily decrease over the medium term, to around 43% in 2022, supported by robust economic growth and favourable financing costs. The current level of public debt is slightly over the national limit of 50% of GDP, set by the Fiscal Responsibility Act, but within a ‘tolerance’ band of up to 55%⁵. At present, the authorities are considering revisions to the act which would include shifting debt ceilings from a gross to a net debt basis and supporting higher infrastructure spending to reduce regional disparities. It is Scope’s view, that an adoption of a higher but still conservative debt limit will provide the government with greater financial flexibility.

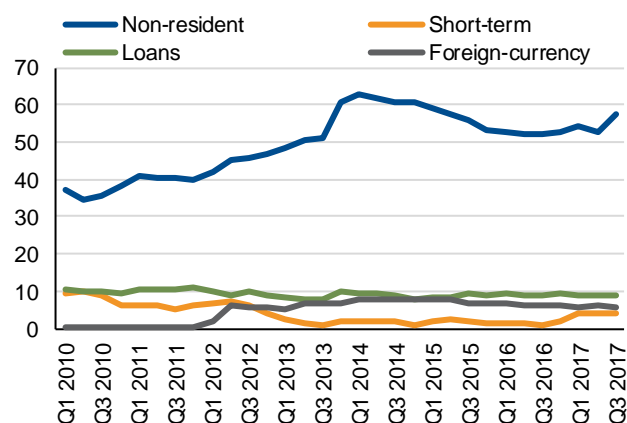
Long-term challenges to debt sustainability remain due to unfavourable demographics. According to the European Commission, the old-age dependency ratio in Slovakia is estimated to increase by circa 38 pp between 2016 and 2060 (from 21% to 59.4%), the second-fastest such increase across EU countries⁶. As a result, both pension and healthcare expenditure is projected to experience one of the biggest upswings in the EU, by around 2 pp⁷ of GDP each. Since 2012, however, the government has undertaken significant reforms to the pension system, including indexing pension hikes to consumer prices and linking the retirement age to life expectancy, thereby partially mitigating demographic pressures.

Figure 12: Government debt structure comparison with peers, % of total debt securities, Q4 2017



Source: European Central Bank, Eurostat, National central banks, Scope Ratings GmbH. Loans and Non-resident data refer to Q4 2016

Figure 13: Evolution of Slovak government debt structure, % of total public debt stock



Source: Ministry of Finance of Slovakia, Scope Ratings GmbH

Market access and funding sources

Slovakia benefits from a favourable debt structure reflected in an increasing average maturity – the weighted average maturity of debt reached 8.5 years at the end of 2017 compared to 7 years at the end of 2016 – which mitigates potential refinancing risks. Debt is mainly in local currency, with less than 6% in foreign currency. Securities make up 85.5% of total debt.

⁵ The FRA envisages gradual fall of sanction thresholds by 1 percentage point of GDP each year starting in 2018.

⁶ European Commission, “The 2018 Ageing Report”, November 2017

⁷ *Between 2013 and 2060*. European Commission, “The 2015 Ageing Report”, 2015

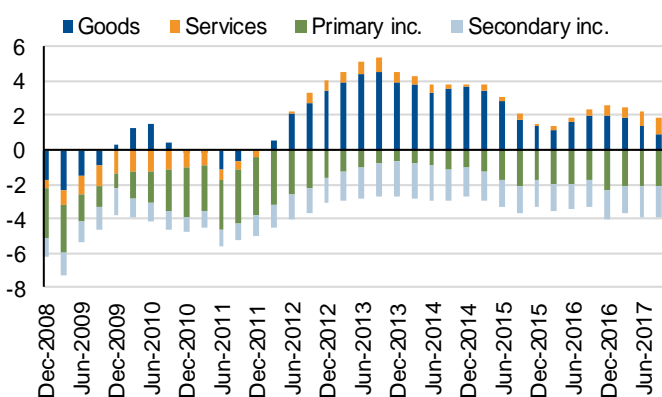
External economic risk

Current account vulnerabilities

Deep integration in global supply chains

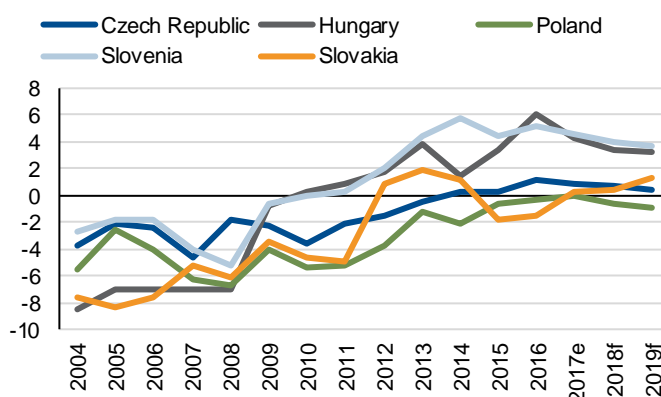
As a small, open economy that is focussed on the automotive industry, Slovakia is reliant on external demand and vulnerable to external shocks, such as increased political uncertainties in its main destination markets and global protectionist policies in the automobile sector. The country is closely integrated with both central and western European countries, underpinned by high-intra company trade and investments. The openness of the economy, measured by total exports and imports as a percentage of GDP (foreign trade turnover % GDP), stood at 173% at the end of 2017.

Figure 14: Composition of current account balance, % of GDP



Source: Statistical Office of the Slovak Republic, National Bank of Slovakia

Figure 15: Current account balances, % GDP

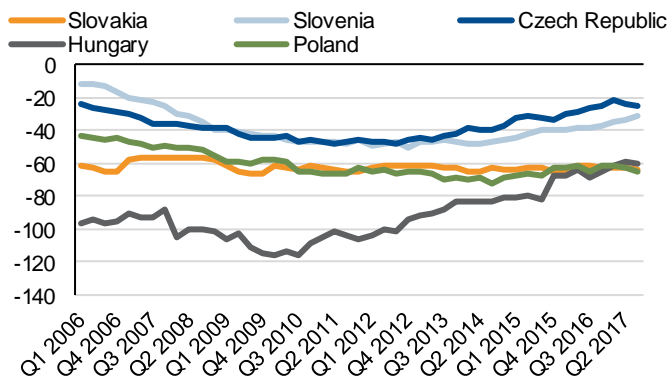


Source: European Commission

Slovakia's current account deficit is estimated to have widened to 1.9% of GDP last year from 1.5% in 2016. This was partly driven by the expansion of production capacities in car manufacturing plants, weighing on the balance of trade. Overall, Scope estimates, that net trade had a moderately positive impact on the GDP growth in 2017, which is set to increase over the medium term alongside the pick-up in car production owing to the new Jaguar Land Rover plant.

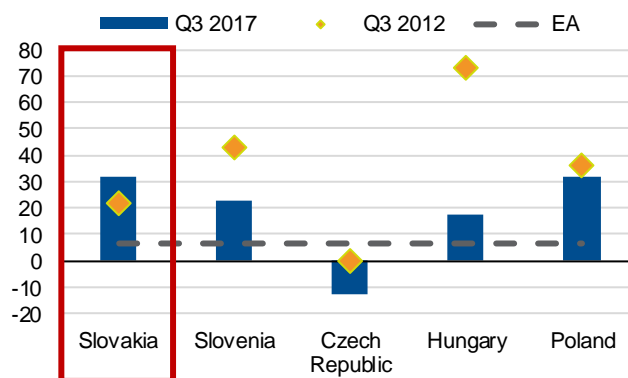
The year-on-year depreciation in the real effective exchange rate amounted to -0.4% in 2017. Scope expects this decline to support the price competitiveness of domestic producers, bolstering overall export growth in the medium term.

Figure 16: Net international investment position, % of GDP



Source: European Commission

Figure 17: Net external debt, % of GDP



Source: European Commission

Healthy and well-capitalised banking sector

External debt sustainability

Gross external debt stood at 95.8% of GDP in Q3 2017, 6.6 pp higher than the figure as of Q3 2016. Nonetheless, the ratio is materially under the euro area average of 124% of GDP. As for net external debt relative to GDP, the ratio of 32% remains one of the highest among central and eastern European economies, increasing sensitivity to adverse effects. However, most of external debt is denominated in euro, reducing exchange rate risks, and nearly 25% comes from intercompany lending, securing stable external funding.

Vulnerability to short-term shocks

Slovakia's net international investment position stood at -64% of GDP in Q3 2017, worse than the euro area average of -4.6%, reflecting a relatively high dependence on foreign capital inflows. However, almost half of these liabilities are foreign direct investments which are less prone to flight in times of market volatility.

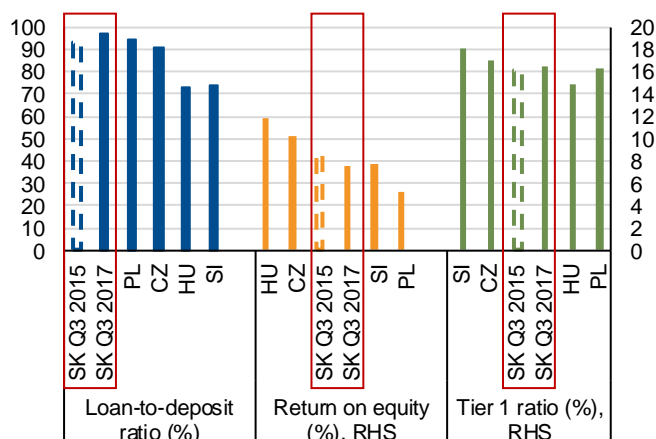
Financial stability risk

Financial sector performance

Slovakia benefits from a healthy and well-capitalised banking sector. According to Scope's estimates, the share of non-performing loans in total loans declined further in 2017 to around 3.3%, driven by a drop in non-financial corporations' non-performing loans. As of Q3 2017, the credit-to-GDP gap⁸ stood at 2.2%, an increase of about 3.7 pp from the beginning of the year, reflecting the continued deepening of the financial market and Slovak economy's convergence process.

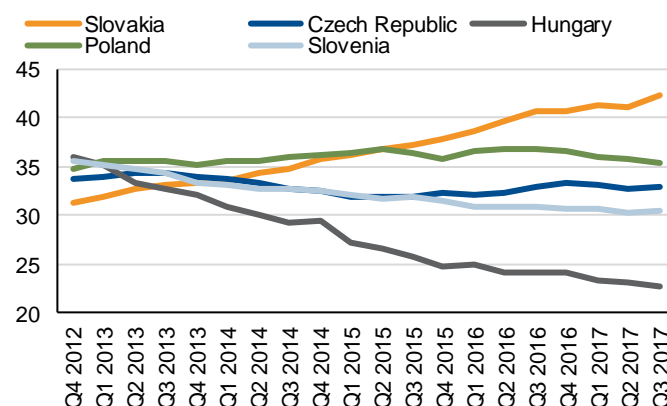
Amid the low interest rate environment, banks' net interest income and return on assets have only dropped slightly, offset by increased loan demand. A rise in retained earnings allowed banks to further improve their capital positions in 2017, as reflected in increasing total capital and Tier 1 ratios in the first half of 2017 to 18.6% and 16.1% respectively⁹.

Figure 18: Banking sector capitalisation and performance



Source: ECB

Figure 19: Household & NPISH Debt Outstanding, % GDP



Source: National Central Banks

⁸ The credit-to-GDP gap is defined as the difference between the credit-to-GDP ratio and its long-run trend.

⁹ The National Bank of Slovakia, Financial Stability Report, November 2017

Macro-financial vulnerabilities and fragility

A robust economic performance, the low interest rate environment and changes in market expectations drove strong growth in consumption and housing credit, which both accelerated to an annual rate of 12% in 2017. As a result, household debt has continued to increase steadily, reaching 42.3% in Q3 2017. If left unchecked, Scope believes that the rapid expansion in credit growth and indebtedness will raise household exposure to changes in market sentiment.

Financial sector oversight and governance

The National Bank of Slovakia has adopted several macroprudential policy measures to tackle the risk of a credit bubble and growing pressures in the financial market stemming from a steady expansion in household credit. The most important of these was its raising of counter-cyclical capital buffers, from zero to 0.5% with effect from 1 August 2017, and a further increase to 1.25% effective from 1 August 2018. All major banks in Slovakia are supervised directly by the ECB through the Single Supervisory Mechanism.

Institutional and political risk

Perceived willingness to pay

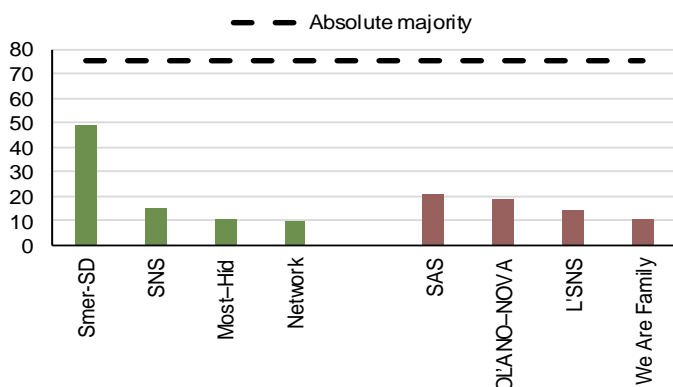
Slovakia joined the European Union in 2004 and has fully adopted the EU's regulatory framework, providing an anchor for institutional stability and predictability. In Scope's view, Slovakia is as likely as any EU peer to honour debt obligations in full and on time.

Recent events and policy decisions

Slovakia's centre-left governing party (Direction – Social Democracy [Smer-SD]) under Prime Minister Robert Fico lost its parliamentary majority in elections on 5 March 2016. Smer-SD's seats fell to 49, down from 83 in the 2012 election. The number of parties represented in parliament increased from six to eight, including the extreme-right People's Party Our Slovakia (L'SNS) led by Marian Kotleba, which won only two out of 416 seats in Slovakia's regional assemblies, losing the governance of the Banská Bystrica region. Though risks to political stability in Slovakia remain low, some intra-coalition disputes and the outcome of regional elections, where Smer-SD lost four of the six regional governorships it had held, could weaken the present multi-party coalition made up of Smer-SD, the conservative Slovak National Party (SNS) and centre-right parties Network and Most–Híd, potentially leading to new elections.

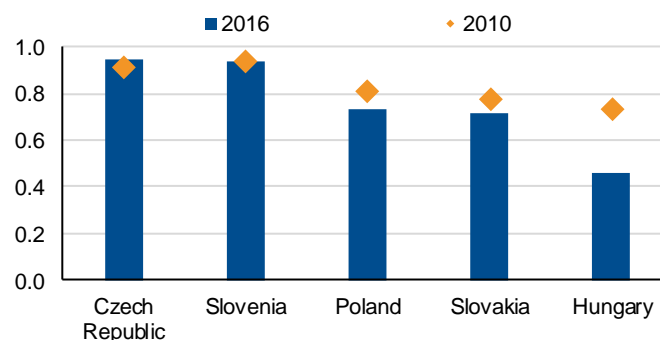
Recent elections followed by new political uncertainty

Figure 20: Distribution of seats in parliament



Source: Vol'by

Figure 21: Average World Bank Governance Indicators



Source: World Bank, Scope Ratings GmbH

Scope expects the present government to continue to pursue policies similar to those of the previous regime. The government's agenda includes plans to improve public administration, modernise the justice and tax collection systems, address issues in the efficiency of healthcare provision, and implement pension and social reforms. Nevertheless, administrative and regulatory barriers to business and public procurement, alongside government transparency, remain challenges.

Geopolitical risks

Scope assesses Slovakia's exposure to potential geopolitical risks to be neutral compared to its CEE and Visegrád peers.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

The historical default rates used by Scope Ratings can be viewed in the rating performance report on <https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration>.

Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>.

A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "A" ("a") rating range for the Slovak Republic. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For Slovakia, the QS signals relative credit strengths for the following analytical categories: i) growth potential of the economy; and ii) market access and funding sources. On the other hand: i) current-account vulnerabilities constitute a relative credit weakness. The combined relative credit strengths and weaknesses generate an upward adjustment and signal an A+ sovereign rating for Slovakia. The results have been discussed and confirmed by a rating committee.

Rating overview

CVS category rating range	a
QS adjustment	A+
Final rating	A+

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Slovakia's debt is predominantly issued in euros. Because of its history of openness to trade and capital flows, and the euro's reserve currency status, Scope sees no evidence that Slovakia would differentiate among any of its contractual debt obligations based on currency denomination.

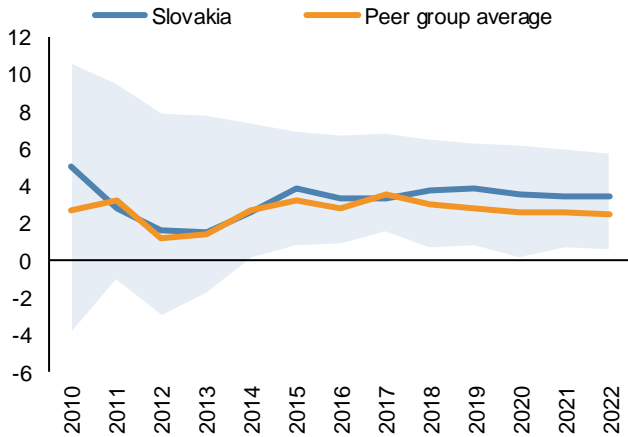
II. Appendix: CVS and QS results

CVS		QS					
Rating indicator	Category weight	Maximum adjustment = 3 notches					
		+2 notch	+1 notch	0 notch	-1 notch	-2 notch	
Domestic economic risk	35%	Growth potential of the economy	Excellent outlook, strong growth potential	Strong outlook, good growth potential	Neutral	Weak outlook, growth potential under trend	Very weak outlook, growth potential well under trend or negative
		Economic growth					
		Real GDP growth					
		Real GDP volatility					
		GDP per capita					
		Inflation rate					
Labour & population	Macroeconomic stability and imbalances	Unemployment rate	Excellent	Good	Neutral	Poor	Inadequate
		Population growth					
Public finance risk	30%	Fiscal performance	Exceptionally strong performance	Strong performance	Neutral	Weak performance	Problematic performance
		Fiscal balance					
		GG public balance					
		GG primary balance					
		GG gross financing needs					
		Public debt					
GG net debt	Debt sustainability	Interest payments	Exceptionally strong sustainability	Strong sustainability	Neutral	Weak sustainability	Not sustainable
External economic risk	15%	Current-account vulnerabilities	Excellent access	Very good access	Neutral	Poor access	Very weak access
		International position	Excellent	Good	Neutral	Poor	Inadequate
		International investment position					
		Importance of currency					
		Current-account financing					
Current-account balance	External debt sustainability	T-W effective exchange rate	Excellent resilience	Good resilience	Neutral	Vulnerable to shock	Strongly vulnerable to shocks
		Total external debt					
Institutional and political risk	10%	Perceived willingness to pay	Excellent	Good	Neutral	Poor	Inadequate
		Control of corruption					
		Voice & accountability	Excellent	Good	Neutral	Poor	Inadequate
		Recent events and policy decisions					
Rule of law	Geo-political risk		Excellent	Good	Neutral	Poor	Inadequate
Financial risk	10%	Financial sector performance	Excellent	Good	Neutral	Poor	Inadequate
		Non-performing loans					
		Financial sector oversight and governance	Excellent	Good	Neutral	Poor	Inadequate
Liquid assets							
Credit-to-GDP gap	Macro-financial vulnerabilities and fragility	Excellent	Good	Neutral	Poor	Inadequate	
Indicative rating range		* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10					
QS adjustment		a					
Final rating		A+					

Source: Scope Ratings GmbH

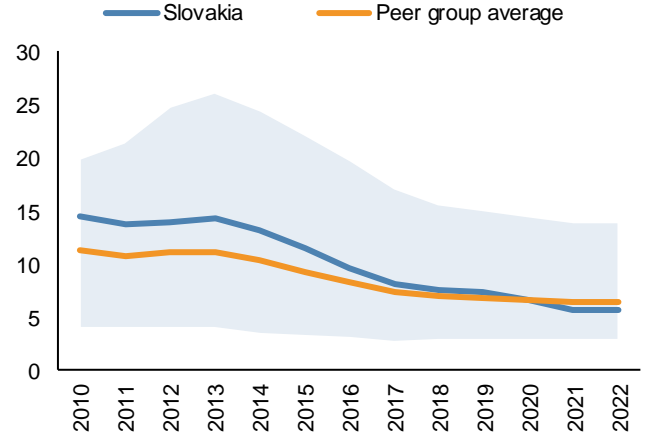
III. Appendix: Peer comparison

Figure 22: Real GDP growth, %



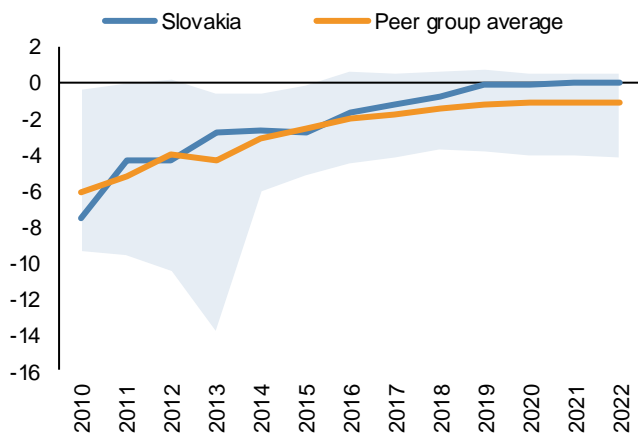
Source: IMF, Calculations Scope Ratings GmbH

Figure 23: Unemployment rate, % of total labour force



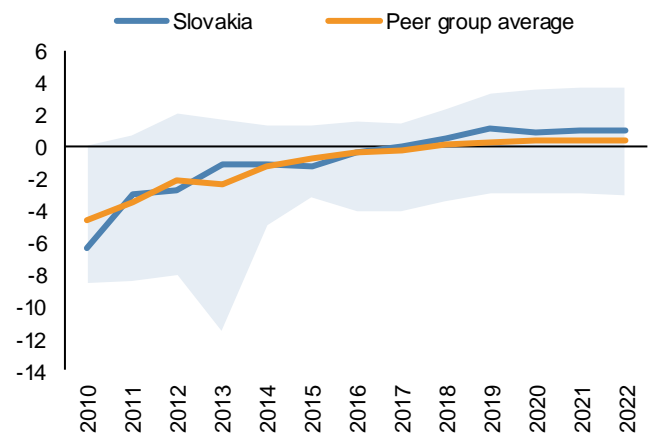
Source: IMF, Calculations Scope Ratings GmbH

Figure 24: General government balance, % of GDP



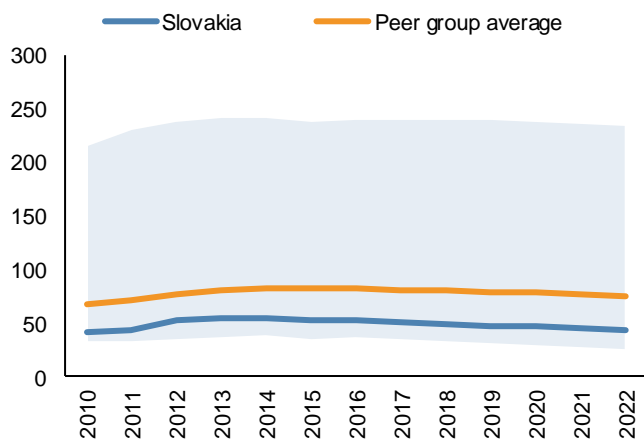
Source: IMF, Calculations Scope Ratings GmbH

Figure 25: General government primary balance, % of GDP



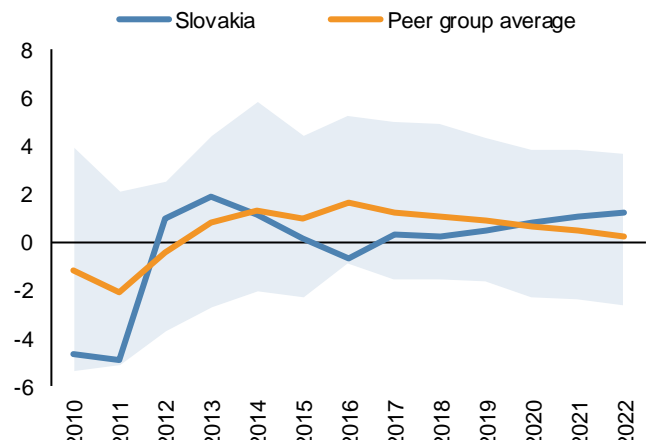
Source: IMF, Calculations Scope Ratings GmbH

Figure 26: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 27: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (EUR bn)	72.7	74.2	75.9	78.7	81.0	84.3	88.4
Population ('000s)	5,404.0	5,411.0	5,416.0	5,421.0	5,426.0	5,431.0	5,436.0
GDP per capita PPP (USD)	26,647.4	27,897.6	28,927.7	29,522.0	30,460.4	-	-
GDP per capita (EUR)	13,452.8	13,707.6	14,022.7	14,514.0	14,919.7	15,514.3	16,260.0
Real GDP growth, % change	1.7	1.5	2.8	3.9	3.3	3.4	4.0
GDP growth volatility (10-year rolling SD)	4.4	4.5	4.5	4.4	4.1	3.1	2.9
HICP % change	3.7	1.5	-0.1	-0.3	-0.5	1.4	2.2
Unemployment rate (%)	14.0	14.2	13.2	11.5	9.6	8.1	7.5
Investment (% of GDP)	20.9	21.0	21.7	23.2	21.5	22.5	23.0
Gross national savings (% of GDP)	21.9	22.8	22.8	23.4	20.8	22.9	23.4
Public finances							
Net lending/borrowing (% of GDP)	-4.3	-2.7	-2.7	-2.7	-2.2	-1.3	-0.9
Primary net lending/borrowing (% of GDP)	-2.8	-1.1	-1.1	-1.3	-0.7	0.1	0.5
Revenue (% of GDP)	36.3	38.7	39.3	42.8	39.3	39.9	39.4
Expenditure (% of GDP)	40.6	41.4	42.0	45.6	41.5	41.2	40.3
Net Interest payments (% of GDP)	1.6	1.7	1.6	1.5	1.5	1.3	1.3
Net Interest payments (% of revenue)	4.3	4.3	4.2	3.4	3.8	3.2	3.2
Gross debt (% of GDP)	52.2	54.7	53.6	52.5	51.9	50.9	49.7
Net debt (% of GDP)	-	-	-	-	-	-	-
Gross debt (% of revenue)	143.8	141.4	136.4	122.6	132.1	127.5	125.9
External vulnerability							
Gross external debt (% of GDP)	75.5	82.1	90.0	85.4	90.9	-	-
Net external debt (% of GDP)	22.3	23.9	27.5	28.9	28.4	-	-
Current account balance (% of GDP)	0.9	1.9	1.1	-1.8	-1.5	-1.9	-2.4
Trade balance [FOB] (% of GDP)	-	3.7	3.4	1.3	2.9	3.3	3.5
Net direct investment (% of GDP)	-3.2	0.3	0.5	-0.1	0.6	-	-
Official forex reserves (EOP, mil EUR)	13.0	39.4	537.1	1,094.5	1,200.0	1,206.8	-
REER, % change	0.1	1.0	0.2	-2.1	0.5	-0.4	-
Nominal exchange rate (EOP, USD/EUR)	1.3	1.4	1.2	1.1	1.1	1.2	-
Financial stability							
Non-performing loans (% of total loans)	3.8	3.8	4.1	3.6	3.9	-	-
Tier 1 Ratio (%)	14.9	16.2	16.0	16.5	16.2	-	-
Consolidated private debt (% of GDP)	77.9	82.9	87.8	88.1	94.7	-	-
Domestic credit-to-GDP gap (%)	-4.5	-2.9	0.3	-2.2	-1.5	-	-

Source: IMF, European Commission, European Central Bank, National Bank of Slovakia, World Bank, Haver Analytics, Scope Ratings

V. Regulatory disclosures

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Rating prepared by Levon Kameryan, Lead Analyst

Person responsible for approval of the rating: Dr Giacomo Barisone, Managing Director

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 01.09.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were last assigned by Scope on 01.09.2017.

The main points discussed by the rating committee were: i) the Slovak Republic's growth potential; ii) macroeconomic stability and imbalances; iii) fiscal performance; iv) public debt sustainability; v) the debt brake mechanism; vi) market access and funding sources; vii) recent political developments; and viii) peers.

Solicitation, key sources and quality of information

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The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the National Bank of Slovakia, the Statistical Office of the Slovak Republic, the European Commission, Eurostat, the ECB, the IMF, the WB and Haver Analytics.

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Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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