Slovak Republic successfully tests investor appetite for long CEE tenors with 15-year benchmark Eurobond

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- **15-year Slovak bond priced at MS + 105 bps and 3.655% yield is the longest syndicated CEE issue since 2011**
- **Excellent EUR 4bn order book due to well-managed market timing ahead of Fed tapering and robust demand from high quality investors**
- **More than 80% of the issue placed with European investors from over 20 countries**

Erste Group Bank AG ("Erste Group") through its subsidiary Slovenská sporiteľňa successfully managed a EUR 1.5bn 15-year new issue for the Slovak government as Joint Lead Manager. The Slovak Republic ("Slovakia"), rated A2 stable /A stable /A+ stable (Moody's/S&P/Fitch), acted through the Ministry of Finance and was represented by the Debt and Liquidity Management Agency (ARDAL).

Execution highlights

The issue was marketed on January 8 with Initial Price Thoughts (IPT) in the MS + 115 bps area. On the back of a positive market opening the following day and a price guidance further revised to MS + 105-110 bps, the order book quickly closed with total orders in excess of EUR 4bn and more than 170 investors. The strong and well-diversified demand allowed the Slovak Republic to ultimately set the issue size at EUR 1.5bn and price the issue at the very low end of the revised official price guidance at 105 basis points above the corresponding mid-swap rate.

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The transaction benefitted from a highly granular order book, with more than 80% of the issue placed outside Slovakia with European investors from over 20 countries. The distribution was dominated by real money accounts, with fund managers accounting for 44% of the total orders, insurance companies and pension funds for 36% and banks taking 17%.

"The issue is the first syndicated transaction for Slovakia this year and the longest-term syndicated bond in CEE since 2011. We expect other CEE sovereigns to also issue long tenors given their strong fundamentals," said Franz Hochstrasser, Deputy CEO of Erste Group.

"The debt map in Europe has undergone profound changes over the past 3 years, with investors now placing central European bonds on a par with the likes of France and Belgium. Slovakia's fundamentals compare well with its peer group inside and outside the Eurozone, which allowed for a remarkable pricing of its 15y benchmark issue at MS + 105 bps," concluded Hochstrasser.

Going into 2014, the Slovak debt agency continues to be in a very comfortable position due to low deficits, non-debt revenues from the upcoming privatization of the government minority stake in the main telecom operator and extra dividends from state enterprises. Furthermore, the Slovak Republic will continue to benefit from being part of the 'prime grade' club, as the stock of outstanding 'prime' grade debt in the Eurozone fell from almost EUR 7tn to just over EUR 4tn in a relatively short period of time. As a result, Slovakia's share in 'prime' grade Eurozone outstanding bonds has effectively tripled from 0.3% in 2009 to roughly 0.9% at present.

Total financing needs for 2014 are budgeted at EUR 7.4bn. Out of this, EUR 3.76bn will be due to the rollover of maturing bonds (already lowered via buy back trades under EUR 3 billion that will be replaced with the need to prefinance at the beginning of 2015), while he planned cash budget deficit is EUR 3.33bn.

According to Erste Group analysts, economic sentiment in Slovakia points to an acceleration of growth in 2014. Real GDP growth is expected to reach 1.7% in 2014, up from 0.7% y/y forecasted in 2013. Net exports should remain the main driver of growth, but household consumption is likely to record a positive contribution as well. Furthermore, the drop in fixed capital formation should gradually abate.