Creditreform Sovereign Rating

Creditreform Rating
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Rating Object	Rating Information	
SLOVAK REPUBLIC	Assigned Ratings/Outlook: **A+ /stable**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	28-10-2016 26-10-2018 "Sovereign Ratings"

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Rating Action

Neuss, 26 October 2018

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Slovak Republic to "A+" from "A". Creditreform Rating has also raised Slovakia's unsolicited ratings for foreign and local currency senior unsecured long-term debt to "A+" from "A". The outlook is stable.

Key Rating Drivers

1. Strong economic growth momentum, with private household spending benefiting from ongoing labor market recovery; growth should accelerate further, facilitated by pick-up in exports and investment; wage and credit growth have to be monitored vigilantly going forward against backdrop of possible build-up of macro imbalances
2. While automotive industry is supporting Slovakia's export performance and above-average potential growth, its dominant role leaves the economy vulnerable to cyclical downturn and exogenous shocks in general
3. Though being addressed, the institutional setup of the sovereign, which continues to be plagued by corruption and inefficient bureaucracy, has ample room to improve; despite recent political unrest, we view policy continuity to be given
4. Continuing improvement of fiscal credit profile, as strong growth and policy efforts have resulted in narrowing headline deficits; debt should continue on its downward trajectory, buttressed by tax-rich growth and increasing primary surpluses
5. Risks entailed by highly negative NIIP moderated by composition of external liabilities (FDI) and by the current account, which should shift into surplus in the medium term

Reasons for the Rating Decision

Creditreform Rating has raised its ratings on the Slovak Republic to "A+" from "A". The upgrade is underpinned by (i) accelerating and broad-based economic growth which should remain robust in the medium term; (ii) the improving labor market situation; and (iii) progress in fiscal consolidation, as well as prospects of further declining general government debt.

Our assessment of the Slovak Republic's creditworthiness continues to reflect its favorable macroeconomic performance profile, which features a strong and stable economic expansion backed by vivid employment growth, as well as relatively high levels of wealth and productivity as compared to Central and Eastern European (CEE) peers.

The Slovakian economy remains on track of solid and broad-based growth. Last year, real GDP came in at 3.2%, roughly the same pace as in 2016 (3.1%, 2012-16 5y-average: 2.7%), thus outpacing the average growth in the euro area and the European Union again. Private household spending was the main growth engine, expanding by 3.5% (2016: 2.9%), thereby contributing 1.8 p.p. to GDP growth. Private consumption was fueled by strong job and wage growth as well as favorable financing conditions, which translated into brisk credit expansion (see below). At the same time, the growth contribution of net external trade edged down (2017: 0.9 p.p.), as robust export performance was met by vigorous import growth which came on the back of rebounding investment activity. Partly mirroring the varying degree of European Structural Investment (ESI) fund absorption, and thus being subject to relatively large fluctuations, gross fixed capital formation rose by 3.4%, after falling by 9.4% in 2016. While investment in machinery and equipment continued to contract slightly (-1.4%), construction investment leapt by 10.2% (2016: -17.5%).

The recent years' robust pace of economic growth has bolstered Slovak per capita income levels. According to latest IMF data, the Slovakian GDP per capita rose to USD 33,070 in 2017 (PPP terms), well above the income levels observed in the largest majority of CEE peers, only surpassed by the Czech Republic (USD 35,537) and Slovenia (USD 34,480). What is more, Slovakia exhibits a relatively productive economy, with nominal labor productivity per person employed amounting to 77.1% of the EU-28 total. Among the CEEs, only Slovenia had a higher productivity level in 2017 (81.5%).

Facilitated by car manufacturers expanding their production, we expect that the economy will gather steam in 2018/19 and project real GDP to rise by 4.0% this year and by 4.1% in 2019. In particular, we expect that the growth contribution of net external demand will increase, as export growth is likely to pick up markedly going forward, with Jaguar Land Rover's (JLR) new car facility prospectively commencing its production in the fourth quarter. Car production in Slovakia exceeded the 1 million-mark again in 2017 and is expected to rise by roughly 30% by 2020 (Slovak Automotive Industry Association ZAP), with positive repercussions on car exports. Latest survey data on export expectations in the industry sector point to favorable export performance over the coming quarters (Eurostat data).

By the same token, investment activity should be supported by significant investments in the automotive sector. As highlighted by information contained in the Ministry of Finance latest Stability Program, Jaguar Land Rover is expected to allocate a total of EUR 630m to its new car plant in Nitra in 2018, followed by just over EUR 200m in 2019. In general, external demand and favorable financing conditions should foster investment activity, while high and rising capacity utilization in the industry sector indicates the need for further expansion investments. Thus, capacity utilization has been hovering at around 85% since 2015 and was reported at 84.0% in Q3-18, well above the long-term average of

80.4% (1994-2017). Likewise, we believe that public investment will benefit from infrastructure investment projects (e.g. Bratislava motorway, Haniska Strategic Park) and an accelerated drawdown on EU funding. Financial resources allocated to investment projects have increased from approx. EUR 4bn at the end of 2016 to EUR 10.1bn in Dec-17. As of 5 October, allocated funds amounted to 12.3bn or 63% of planned investment (EU cohesion data).

Incoming quarterly national account data suggests that stronger investment and export growth will significantly lift GDP growth this year and next, supporting our baseline forecast. The yearly growth rate reached its highest level since Q4-15, going up from 3.8% in this year's first quarter to 3.9% in Q2. Economic growth in the first half of the year was largely driven by booming investment, which posted y-o-y growth rates of 12.5 and 20.4% respectively.

Although private consumption growth softened somewhat (Q2-18: 2.7%, Q2-17: 3.6%), we expect household spending to grow at a robust pace going forward, with the driving forces remaining in place – namely low funding costs, a further declining jobless rate, and strong wage increases more than offsetting higher HICP inflation (2018e: 2.6%).

Against this background, credit growth is likely to further buoy consumption. In August 2018, the volume of outstanding loans to non-financial corporations (NFC) grew by a moderate 4.9% y-o-y. More importantly, housing loans and credit for consumption and other lending have continued to evolve vividly over the recent quarters, increasing by double-digits. Annual consumer loan growth skyrocketed to 18.2% in Aug-18, while lending for house purchase was up by 10.4% (ECB data).

Strong mortgage lending has to be seen in the context of rising housing prices. According to Eurostat data, house prices have increased by yearly rates of 11.7 and 7.0% in the first and second quarter of 2018 respectively – 3-year growth rates have been running at above 20% since Q3-17. At the current juncture we do not yet assess serious misalignments, as the Slovak price-to-income ratio only reached its long-term average (2005-2018) in Q1-18 (OECD data).

That being said, we see brisk credit growth harboring some risks, and we monitor its further development vigilantly, as it may precipitate a build-up of excessively high levels of private household sector debt, which entails a higher sensitivity towards adverse events in the short run. In addition, future economic growth could be constrained as a balance sheet clean-up in the household sector may act as a drag on future consumption in the next downturn. This is all the more relevant as the dominant role of Slovakia's automotive sector leaves its economy vulnerable to a cyclical downturn and exogenous shocks.

Indeed, we observe gradually diminishing risk-bearing capacities in the Slovakian household sector. Household loans now stand roughly 43% above the levels seen three years before. At the same time, private household debt has increased to 44.0% of GDP in Q1-18, up from 42.1% a year before and 7.3 p.p. GDP above the level of Q1-15 (Eurostat, non-consolidated financial sector accounts). We note that the current debt-to-GDP ratio of Slovakian households corresponds to the highest level among all CEE peers, albeit standing below the EA-19 average of 63.6% of GDP. Gross debt-to-income totaled 63.1%

in 2016, higher than in other CEE countries and more than twice as high as ten years ago (2007: 30.2%). What is more, an econometric exercise by NBS shows that the rise in household indebtedness lies above levels implied by economic fundamentals (Financial Stability Report May 2018).

To be sure, the mounting household leverage as well as real estate developments imply a heightened vulnerability of the banking sector. At this stage, however, we assess the Slovak banks to be in robust shape. The Slovak banking sector, which is the third-smallest in the EU-28 as measured by GDP (90.3%) and is dominated by foreign subsidiaries (76.4%), is characterized by broadly sufficient capital buffers, with the CET 1 ratio amounting to 14.7% in Q2-18, on par with the EU-28 average of 14.5% (EBA data). Moreover, asset quality is high as the NPL ratio is steadily declining, having dropped by 2.3 p.p. over the last three years and equaling 3.1% in this year's second quarter, somewhat below the EU average of 3.6%. Still, liquidity risks have increased to some extent. In this regard, the loan-deposit-ratio has been increasing steadily over the recent years and edged up from 105.4 in Q2-17 to 109.0% in Q2-18 (ECB data).

We acknowledge that NBS appears to be well aware of imminent risks and has acted accordingly, having tightened a number of macroprudential measures more recently. As of 1 August 2018, the countercyclical capital buffer rate was increased from 0.5 to 1.25%, and will amount to 1.5% with effect from 1 August 2019. Furthermore, at the end of May the NBS Consumer Loan Decree and the NBS Housing Loan Decree were adopted, thereby applying stricter loan-to-value and debt-to-income ratio limits. We believe that the measures taken will curb credit growth going forward.

On the other hand, we believe that private consumption will continue to be supported by favorable labor market conditions, which have vastly improved over the last years and should cater for continued wage growth. The quarterly average of the unemployment rate hit a historic low in the second quarter of 2018, posting at 6.8% and thus dipping below the EU-28 average of 5.8%. Additionally, the participation rate continued on its upward trajectory, ticking up to 72.4% in Q1-18 as compared to 72.3% in the previous year's first quarter.

At the same time, the Slovak labor market continues to be confronted with some enduring, unresolved structural issues. Certainly, the high demand for labor has translated into a decline in the long-term unemployment rate. After having peaked at 10.0% in 2013, long-term unemployment almost halved by 2017. Nevertheless, at 5.1% of the active population and 62.4% of total unemployment, long-term unemployment is still high, standing at one of the highest levels in the EU-28 and well above its CEE peers. What is more, low-skilled workers (ISCED levels 0-2) in Slovakia face significant obstacles regarding their employability, since the unemployment rate among the low-skilled still accounts for 29.8% (2017) – the highest reading in Europe. Also, we view the prospectively declining working-age population and rising old-age dependency ratio, both of which are forecast to evolve rather unfavorably as compared to EU-28 averages, as notable challenges for the Slovak economy. According to the EU's latest Ageing Report 2018, the economy's working-age population as a share of total population is projected to decline by 5.5 p.p. between 2016 and 2030, while the old age dependency ratio is expected to rise by 11.9 p.p.

to 32.9%, as compared with -4.2 p.p. and 9.9 p.p. (to 39.5%) in the EU-28 respectively. Demographic issues may act as a drag on labor supply, potentially constraining potential output which the European Commission estimates will move on a higher level than CEE peers going forward (2019: 3.6%, third to Romania and Poland).

Furthermore, these are likely to compound labor shortages, in particular of skilled work. The Slovak labor market exhibits a persistently rising number of vacancies. The vacancy rate (industry, construction and services) has thus climbed to its highest level since 2008 (Q2-18: 1.2), although it remains lower than in other V4-states such as Hungary (2.7%) and the Czech Republic (5.4%). Labor and skill shortages are also reflected by survey data, with the share of manufacturing enterprises citing labor shortages as a factor limiting production increasing to 34.9% in Q3-18 (Q3-17: 29.4%). In this context, wage pressure is likely to mount – possibly endangering the economy's cost competitiveness if structural challenges remain unaddressed. Cost competitiveness has been under pressure over the last three years, as real unit labor costs increased by 1.6-1.8% per year (AMECO data) – mainly driven by real compensation per employee, which outpaced real labor productivity growth. To be sure, the Czech Republic and Hungary experienced stronger ULC growth in 2016-17.

While such increases have also been witnessed in other CEE peers, we view booming private investment on behalf of car manufacturers as an important counteracting force, aiding Slovak labor productivity and export growth. In this vein, the country's global export market share remained stable at 0.4% in 2017 (average 2007-16: 0.39%) Moreover, the government is pushing forward structural reforms on several fronts to foster labor productivity. Authorities intend to bring more long-term unemployed into work by making public employment services more effective, e.g. by personalized services. Labor shortages shall be mitigated by measures geared towards facilitating foreign workers' access to the labor market and the mobility in the labor market. To increase labor participation among women and disadvantaged groups, the government envisaged to enhance childcare capacities and step up support to Roma people. In terms of education, policy-makers plan to increase the attractiveness of the teaching profession through wage increases and to better link education with labor market needs. We note that spending on active labor market policies and education continues to be among the lowest in the EU-28, totaling 0.6% of GDP and 3.8% of total government expenditure respectively (as of 2016).

Our sovereign credit assessment continues to reflect reservations concerning Slovakia's institutional framework. The World Bank's Worldwide Governance Indicators (WGIs) buttress Slovakia's institutional weaknesses, as the sovereign's WGIs stand well below the EU average and other A-rated peers. Having said this, Slovakia compares more favorably within the group of V4-states. When it comes to the quality of policy formulation and implementation, the Slovak Republic posts a mediocre rank 53 out of 209 economies (EU-28 median: rank 37). In the recent Stability Program 2018, the Ministry of Finance concludes that the current structure of its government at the local level is not effective, partly due to its high level of fragmentation – 91% of Slovak municipalities have less than 3,000 citizens and stand for almost 40% of total population, but are deemed significantly less effective than larger municipalities. The quality of contract enforcement, property rights,

and of courts is of particular concern, as the WGI rule of law (rank 60) is significantly weaker than that of A-rated peers. Although documenting a significant improvement in judicial efficiency, e.g. in terms of time needed to resolve cases, the latest edition of the EU Justice Scoreboard (2018) flags a broadly unchanged lack of judicial independence, according to which a large majority of companies and the general public view the courts' independence as fairly bad or very bad. Corruption appears to remain pervasive and represents arguably the sovereign's main weakness. Slovakia displays a sizable gap towards the EU-28 median (rank 79 vs. 45) and other A-rated sovereigns, and is among the worst performers in the EA-19. We assess that the performance in terms of control of corruption has even deteriorated over the last ten years (2008: rank 68).

Recent political developments may have weakened the perceived quality of policy-making, and corroborate our view of institutional weaknesses constraining the Slovak Republic's creditworthiness. In March 2018, political turmoil in Slovakia had reached its peak, with long-term PM Fico resigning after a political crisis caused by the murders of investigative journalist Jan Kuciak and his fiancée. Peter Pellegrini, also Smer and former deputy, took over power and formed a new cabinet. We believe that policy continuity is broadly given. Notwithstanding, we view the governing three-party coalition of Smer, SNS, and Most-Hid - holding a narrow majority (78 of 150 seats) - as fragile, and the probability of a snap election as elevated.

As is evident from the Global Competitiveness Report as well as the Doing Business report, corruption and weaknesses in the institutional setup in general continue to create obstacles for doing business in the Slovak economy. While the Global Competitiveness Index (GCI) indicates a relative deterioration in non-cost competitiveness, as the Slovak Republic fell to a mediocre rank 41 out of 140 economies (2017-18: 39/135), the World Economic Forum still highlights institutional deficiencies. Slovakia is attested very poor performance as regards burden of government regulation (rank 129/140 economies), future orientation of government (108), and efficiency of the legal framework in settling disputes and challenging regulations (128 and 125). In the World Bank's Doing Business report, the country slipped several places from 34 to a still decent rank 39 (out of 190 economies) in 2017-18. In its National Reform Program 2018, the government envisages to implement four packages of measures by the end of the legislative term, targeted towards reducing the administrative burden. After the government had approved a first package (containing 35 measures) in 2017, a second, 23-measure-package was endorsed this May.

By contrast, we continue to consider the sovereign's fiscal performance as a credit strength, as we observe steadily improving fiscal metrics. In 2017, the sovereign made further progress in fiscal consolidation, with the general government deficit reaching its lowest level on record (1995, Eurostat data). Moreover, as the headline deficits edged down from 2.2 to 0.8% of GDP in 2016-17, the government significantly overachieved its fiscal target (1.3%).

According to the Eurostat autumn notification, the improvement to -0.8% of GDP was mainly due to robust economic expansion and the concurrent job growth. While corporate income tax receipts fell short of their forecast and attenuated Slovak tax revenues, this

was countered by strong VAT and personal income tax intakes. Alongside VAT receipts, which grew by 0.3% of GDP, revenues were significantly boosted by social security contributions – net social contributions amounted to 14.8% of GDP in 2017, up by 0.5 p.p. We positively note that tax collection has significantly improved over the last years, with VAT revenues having risen by 36.7% since 2012. On the spending side, a 5.4% increase in compensation of public employees (0.1 p.p. of GDP) was overcompensated by declining interest expenses (-0.2 p.p. of GDP) and a lower-than-budgeted public investment (GFCF 3.2 vs. 3.3% of GDP), resulting in a significant decline in general government expenditure, falling by 1.3 p.p. to 40.2% of GDP.

We expect general government debt to continue on a firm downward trajectory, with robust economic growth and gradually increasing primary surpluses buttressing the Slovak Republic's favorable debt trend. After having peaked in 2013, debt-to-GDP has declined in every single year. Last year, gross debt came in at 50.9% of GDP, down from 51.8% in 2016. The headline deficit should narrow to 0.7% and 0.4% of GDP in 2018 and 2019 respectively. We believe that the government will meet its fiscal target of reaching a balanced budget by 2020.

Going forward, tax-rich growth and the benign labor market development will presumably boost general government revenues generated by higher VAT and PIT receipts as well as higher social security contributions. Still, fiscal consolidation should be largely driven by the spending side. Social payments are envisaged to decline to 17.4% of GDP by 2019. Mainly due to higher compensation of employees in education, the public wage bill is envisaged to rise notably, but at a slower pace than nominal GDP, enabling an increase in public investment, in particular allocated towards the modernization of defense. Among the additional discretionary measures, there also stand out higher intermediate consumption and social transfer outlays, owing to higher health insurance premia. Also, the government has proposed to introduce an exemption on the recreation allowance, a VAT deduction for accommodation, and tax bonuses for parents of children in the age up to 6 years. On the revenue side, a revamped gambling taxation as well as a new levy on the turnover of grocery retail chains are planned to balance the introduction of a tax-free 13th and 14th salary.

Meanwhile, policy efforts along the lines of the Value for Money program remain in place, as the third phase of spending reviews commenced in 2018, focusing on agriculture, the inclusion of groups at risk of poverty and social exclusion, and public employment and remuneration. Government measures have so far led to a marked improvement in VAT compliance. Although still exhibiting one of the highest VAT gaps in the EU, we observe a significant drop in the Slovak VAT gap, falling from 29.3 to 25.7% in 2015-16 (2012: 36.7% of VTTL). Authorities continue to attach a high importance to their mission of combating tax evasion, as underscored by e.g. the introduction of an online revenue registration (eKasa) and the labeling of fuel via nanomarkers. As a positive side-note, the government contemplates adopting an expenditure ceiling – the Ministry of Finance published technical proposal for parameters of expenditure ceiling, which could be simulated during subsequent years on real budget data.

Fiscal risks are mainly related to the expenditure side, in particular mounting wage pressures, which may result in an inflated public wage bill. The tightening labor market entails brisk wage growth in the private sector with potential knock-on effects in the public sector. Wage pressures have been aggravated by hefty increases in minimum wages over recent years. This October, authorities endorsed an 8.3% minimum wage hike to now EUR 520, roughly 37% above the level seen three years ago. Furthermore, we note that public investment projections appear somewhat below the levels which might be expected in view of an accelerated ESI fund absorption. The SP18 forecasts public investment to gradually rise to 3.0% of GDP in 2021 (average 2008-17: 3.8%). Additionally, we hold the 2017 increase in pension indexation to 2% and the introduction of a higher valorization for 2018-21 as detrimental in terms of fiscal sustainability. However, demographics and age-related costs appear to entail no fiscal risks at this stage.

We view these risks as broadly mitigated by the sovereign's fiscal leeway implied by moderate debt levels and a high debt affordability, which is reflected by moderate and downward trending interest outlays. Thus, interest expenditure levelled off to 3.53% of general government revenue, after standing at 4.19% in 2016 (2012: 4.86%). Moreover, affordability continues to be aided by historically low long-term government bond yields, which posted at 0.92% in Aug-18 (Aug-17: 0.83%), equating to a modest Bund spread of 63bp (Eurostat data). What is more, the sovereign's state debt portfolio shows an upward sloping weighted average maturity, which came in at 8.5y at the end of 2017, up from roughly 5y at the end of 2012.

Turning to the external side, we continue to view risks associated with Slovakia's highly negative net international investment position (NIIP) as tempered by the composition of its external liabilities and the current account, which we expect to shift into surplus in the medium term. The Slovak NIIP posted at -65.6% of GDP in 2017, down from -66.6% in 2016, and representing the most negative NIIP among the CEE economies. We assess a slight deterioration over the last years owing to large foreign direct investment inflows and other investments, which are closely linked to the automotive industry. Direct investment liabilities increased by 30% in 2014-17. For the same reason we view external sustainability as broadly given, since net FDI accounted for -51.5% of GDP at the end of 2017. What is more, the current account improved slightly in 2016-17 and we expect it to move closer to balance in 2018/19, as the new car plant is likely to boost Slovak export performance. In 2017, the current account deficit narrowed to 2.0% of GDP (2016: -2.2%, 2007-16 average: -2.6%), driven by improvements in the trade in services balance and the primary income balance cushioning the deterioration in the goods balance, which dropped by 1.2 p.p. GDP on the back of import-heavy investment activity.

Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – will remain fundamentally unchanged over the next twelve months.

Slovakia's credit ratings could come under downward pressure if the government, contrary to our belief, were to retreat from its path of prudent fiscal policy-making, resulting in a reversal of the debt trend, or if medium-term growth turned out to be significantly lower than currently expected. Increasing protectionism and/or a protracted growth slump in the euro area could seriously hurt Slovak export performance and economic growth. As its economy is highly dependent on car manufacturers, a pronounced shock to the automotive sector may hit economic growth strongly. The build-up of macroeconomic imbalances also remains a downside risk, as an overheating credit and/or labor market could negatively affect cost competitiveness and medium-term growth. We could also lower the ratings if we observe a further deterioration in intuitional conditions.

By contrast, we could raise our ratings on the Slovak Republic if stronger medium-term growth lifted GDP per capita to higher levels than currently projected, if government debt shifts to a steeper downward trajectory, implying a faster-than-expected decline in debt-to-GDP, or if the sovereign's institutional framework was to improve, supported by abating political tensions.

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Ratings*

Long-term sovereign rating	A+ /stable
Foreign currency senior unsecured long-term debt	A+ /stable
Local currency senior unsecured long-term debt	A+ / stable

*) Unsolicited

Economic Data

	2013	2014	2015	2016	2017	2018e	2019e
Real GDP growth	1.5	2.8	4.2	3.1	3.2	4.0	4.1
GDP per capita (PPP, USD)	27,467	28,730	30,125	31,438	33,070	35,099	37,268
HICP inflation rate, y-o-y change	1.5	-0.1	-0.3	-0.5	1.4	2.6	2.4
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	76.6	77.0	76.7	77.3	n.a.	n.a.	n.a.
Fiscal balance/GDP	-2.7	-2.7	-2.6	-2.2	-0.8	-0.7	-0.4
Current account balance/GDP	1.9	1.1	-1.7	-2.2	-2.0	n.a.	n.a.
External debt/GDP	82.1	90.0	85.2	92.2	111.0	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	28.10.2016	A /stable
Monitoring	27.10.2017	A /stable
Monitoring	26.10.2018	A+ /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Slovak Ministry of Finance (MoF) participated in the credit rating process as the authorities commented on a draft version of this report. Thus, the report represents an updated version, which was augmented in response to the factual remarks of MoF. The rating outcome as well as the related outlook remained unchanged.

The rating was conducted on the basis of CRAG´s “Sovereign Ratings” methodology in conjunction with its basic document “Rating Criteria and Definitions”. CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document “Rating Criteria and Definitions” is published on the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, Národná banka Slovenska (NBS), Štatistický úrad Slovenskej republiky, Ministry of Finance of the Slovak Republic, Zväz automobilového priemyslu (ZAP).

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at

the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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