MEDIUM-TERM PUBLIC DEBT MANAGEMENT STRATEGY FOR THE PERIOD 2023 - 2025

Contents

INDEX OF FIGURES

INDEX OF TABLES

1. INTRODUCTION

The Medium-Term Debt Management Strategy 2023-2025 aims to set out the strategic objectives pursued by the Ministry of Finance in public borrowing and debt management.

The strategy takes into account the macroeconomic and monetary environment, which has changed markedly in 2022. The risks of a recession in a high inflation environment and a further deepening of the Russia-Ukraine crisis are highlighted. The EU is among the most exposed advanced economies due to its geographical proximity to the war in Ukraine and its high dependence on energy imports from Russia. High inflation has become a central economic challenge for the euro area, as the Russia-Ukraine crisis pushes up global commodity, food and energy prices against a backdrop of already exposed disruptions in supply chains. The euro area's current account surplus on the balance of payments has been declining in the face of high energy and food prices, despite favourable developments in the euro area's external competitiveness indicators.

In 2022, the ECB launched a restrictive monetary policy to fight inflation, both in terms of the dynamics of decision-making and the unprecedented magnitude of the increases in the key reference interest rates in recent history. The marginal lending rate was increased from -0.50% to 1.50%, the main refinancing operations rate from 0.00% to 2.00% and the marginal lending facility rate from 0.25% to 2.25% as from the beginning of 2022. The ECB had previously completed its net asset purchases. The increase in the ECB's benchmark interest rates is reflected through the monetary policy transmission mechanism in the rise in yield to maturity in euro area countries' debt capital markets. The increase in the yield to maturity is mainly reflected in the growth of the euro-average interest rate swap, which now accounts for the bulk of the yield to maturity, with different intensities at different maturities. The remainder of the interest rate structure is accounted for by the credit premium, which is inherent to the Republic of Slovenia.

The medium-term strategic orientation and ambition of the Ministry of Finance remains unchanged in the period 2023-2025. Despite the challenging economic and fiscal circumstances as a result of the Covid-19 pandemic and the heightened geopolitical situation in the world, the favourable credit ratings achieved by the Republic of Slovenia are maintained, thus strengthening the resilience to the increase in credit spreads.

The establishment of the Euro yield curve up to 60 years and the improved risk metrics of the State Budget's debt portfolio in recent years, as well as the creation of high liquidity reserves of the State Budget, allow for a more optimal positioning and flexibility in planning the entry into debt capital markets, especially in uncertain environments. The Republic of Slovenia also maintains broad access to sources of financing, with debt repayments staggered over the years. Sustainability and thus manageable public debt dynamics are important for investors in Slovenian securities.

Government debt as a share of GDP is a relevant criterion for assessing credit risk (the spread) and, consequently, the yield to maturity. At the end of 2021, general government debt stood at EUR 38,877 million, or 74.5% of GDP. This places Slovenia below the euro area average (95.4% of GDP) and the EU average (87.9% of GDP).

The European Commission has submitted for discussion a proposal to overhaul the fiscal rules under the Stability and Growth Pact, which are expected to enter into force in 2024. The proposal abolishes the rule on the required pace of debt reduction of 1/20 and introduces a requirement for EU Member States with high or medium debt to draw up their own debt reduction plan, making them more committed to complying with it.

1.1. Legal basis for government borrowing

The two key laws governing government borrowing are the current Public Finance Act and the current Law on the Execution of the Budget of the Republic of Slovenia.

Article 81 of the current Public Finance Act provides that the State may borrow at home and abroad for the execution of the State budget in the current fiscal year up to the amount of the deficit of the revenue and expenditure balance, the lending and repayment account and of the principals of debt maturing in the current fiscal year and up to the amount necessary for the repayment of the principals of the State budget debt maturing in the following two fiscal years.

According to Article 84 of the current Public Finance Act, borrowing to finance the implementation of the state budget and to manage the national debt in each fiscal year is carried out on the basis of a financing programme adopted by the government. However, the extent of the State's borrowing for each year for the purpose of covering the excess of expenditure over revenue in the revenue and expenditure account, the excess of expenditure over revenue in the lending and repayments account, and the repayment of debts in the budget borrowing and amortization of debt account, is set out in each year's Act on the Execution of the Budget of the Republic of Slovenia.

1.2. Borrowing instruments and dynamics

The structure of borrowing instruments, the ratio of short-term to long-term financing and the dynamics of borrowing are planned on the basis of the strategic objectives and principles of borrowing for the budget of the Republic of Slovenia and the estimated dynamics of budgetary cash flows. The choice of financing instruments is an important factor in shaping the yield curve of government bonds and improving the level of liquidity in the secondary market for Slovenian government securities. The choice of instruments depends on market conditions, and internal and external factors may narrow the range of instruments and determines the timing of issuance. The overarching principle is predictability while maintaining maximum flexibility in the implementation of the borrowing. This is the only way to ensure that the implementation of borrowing can respond appropriately to changes in market conditions. Borrowing through the issuance of government bonds and treasury bills is envisaged as the primary instrument for financing the bulk of the government's budgetary needs.

1.2.1. Short-term borrowing instruments

The envisaged range of short-term instruments includes 3-, 6- and 12-month treasury bills, borrowing under the Treasury Single Account system and other market-established short-term instruments, such as the bond repurchase facility (repos). Borrowing through treasury bill issuances is expected to be executed in an auction-based manner.

1.2.2. Long-term borrowing instruments

Public issuance of government bonds is envisaged as primary instrument of long term borrowing, in European or other markets, in syndication or auction, as new or additional issuance to existing bonds. Other possible long-term borrowing instruments could be auctions of 18-month Treasury bills, bond issues to a limited number of investors (private placement), bank loans, "Schuldschein" or other long-term borrowing instruments established in the financial market.

1.3. Strategic framework for debt management in the medium term 2023-2025

The strategy is based on the strategic objectives for debt management in the period 2023-2025, which are:

1. Ensuring that the implementation of the state budget is financed on time and to

the extent necessary;

2. minimising the long-term cost of funding with acceptable refinancing risk and acceptable currency, interest rate and other market risks;
3. Expanding the investment base to strengthen permanent and reliable access to sources of funding and to communicate effectively with relevant international institutions;
4. strengthening the liquidity of government securities and developing the secondary market for government securities;
5. further centralisation and consolidation of the assets of the Treasury Single Account system;
6. Ensure the continued development of the country's EDF application system;
7. Ensuring the continued development, effectiveness and responsiveness of the information system for government debt control and data.

The main operational objectives of sovereign debt management to be pursued in debt capital markets in the fiscal years 2023-2025 are:

- Effective management of the maturity profile of debt in terms of the relationship between the cost of financing and the risk of refinancing government debt;
- expanding and strengthening the investment base, both in terms of investor type and geographical distribution, and diversifying the financing instruments, including a potential presence with a new issue of Slovenian bonds on the global primary market (USA, Japan);
- managing government debt within the general government debt targets;
- strengthening the liquidity of the euro SLOREP yield curve of the Republic of Slovenia through the implementation of an instrument for the temporary lending of Slovenian SLOREP bonds to banks' primary subscribers (repos).

2. THE STRATEGY'S STARTING POINTS FOR THE PERIOD 2023-2025

2.1. Macroeconomic and financial environment

The EU's geographical proximity to the war and its heavy dependence on energy imports from Russia make it one of the most exposed advanced economies. According to SORS data, EU Member States imported 24.4% of all available energy from the Russian Federation in 2020. In its structure mostly natural gas (41.1 %) and petroleum products (36.5. %). Slovenia imported 17.6% of its available energy from the Russian Federation (at least indirectly, as an estimated 80% of imports from Austria are actually from the Russian Federation). By energy source, Slovenia imported 81.0% of its total available natural gas and 24.9% of its petroleum products from the Russian Federation.

The outlook for economic growth in the euro area is worsening amid strong inflationary pressures, the energy crisis and tighter monetary policy. In its regular autumn trend analysis, the European Commission estimates that the European economy is facing two years of modest GDP growth and, in the face of very unfavourable external developments, a temporary technical recession (negative GDP growth in two consecutive quarters) is expected in most Member States.

Fiscal policy in the euro area remains expansionary to support the economy and the population in a context of high energy and food prices in particular. Based on the European Commission's Autumn Economic Forecast, the general government deficit is expected to reach 3.4% of GDP in the EU and 3.5% of GDP in the euro area (EA) in 2022. In 2023, the European Commission forecasts that the general government deficit will widen to 3.6% of GDP in the EU and 3.7% of GDP in the EA as a result of the introduction of new fiscal measures linked to high energy prices, refugee and security spending. In this context, the European Commission's autumn forecast is dominated by the estimate that the EU government debt-to-GDP ratio will fall from 89.4% of GDP in 2021 to 84.1% of GDP in 2024, mainly due to the denominator effect, i.e. nominal GDP growth. Among the favourable developments in the EU context, the labour market stands out, with the unemployment rate at historically low levels. According to Eurostat, the unemployment rate in the EU has fallen to 6.0% at end-September 2022 (6.6% at end-2019) and in the EA to 6.6% (7.4% at end-2019). In Slovenia, the rate of unemployment by ILO was 4.1% in October 2022.

Intensified inflationary pressures have become a medium-term problem for the euro area in 2022. The primary drivers of inflation, which started to emerge in 2021 through higher energy prices, have spilled over into most of the CPI products in

2022. Inflation in Slovenia, as in the euro area, is persisting at high levels and is becoming increasingly broad-based. The European Commission estimates the inflation rate for the EU at 9.3% in 2022 and for the EA at 8.5%, with the latter declining in 2023 but remaining relatively high at 7.0% (EU) and 6.1% (euro area) respectively. The 5-year euro inflation swap, which is used as a reference measure of market participants' inflation expectations 5 years from now for a 5-year period on an annual basis, is 2.3%. In the dollar monetary area, it is 2.5%.

High inflation is pushing central banks around the world to raise interest rates at an accelerated pace. The ECB is also easing inflationary pressures by raising key interest rates, which has had the effect of sharply increasing the yield to maturity on government bonds. The ECB has announced that it will continue to raise interest rates with the aim of preventing excessive inflation expectations, with decisions on individual hikes to be taken on a meeting-by-meeting basis in view of the high uncertainty. Market participants expect with a high probability that the ECB will raise the marginal deposit rate to between 2.75% and 3.00%. However, there is still uncertainty as to whether inflation has peaked, where core inflation data will be particularly relevant. The risk to interest rates is thus open to the upside. As part of the normalisation of monetary policy, the ECB has discontinued new net purchases of securities and is in the process of reinvesting maturing bond principal under the pandemic PEPP programme. The terms of the longer-term targeted financing operations (TLTRO III) are also changing as a first step towards reducing the ECB's balance sheet. The ECB has also confirmed that it will consider quantitative tightening in December this year. We can also expect the ECB to start selling securities in its portfolio next year. In order to prevent the fragmentation of the euro area securities market and to ensure the effective transmission of monetary policy, the ECB has set up the Transmission Protection Instrument (TPI).

Equity markets were at historic highs in 2021, but in 2022, under changed circumstances, there is a sharp downward correction. The value of the S&P 500 index, which includes the top 500 US companies, i.e. 80% of market capitalisation, has fallen from 4,766 to 4,006 since the beginning of 2022, i.e. by -15%. The volatility of the S&P 500 index, as measured by the VIX index, has increased compared to 2021 and averaged 25.6 (19.7 in 2021). In debt capital markets, 2022 showed a marked upward trend in yield to maturity and a consequent downward trend in bond prices. The yield to maturity on the long-term 10-year US Treasury bond was 1.49% at the beginning of 2022, and was already 3.7% at the end of November 2022. The German 10-year government bond increased from -0.12% at the beginning of 2022 to 1.9% at the end of November 2022.

Growth in economic activity in Slovenia and the EU remained relatively strong in the first half of 2022, mainly due to a recovery in the services sector and household consumption following the easing of Covid-19 restrictions. The situation in the second half of the year points to an expected slowing down of economic activity, which has not yet been reflected in the labour market. Labour market conditions remain markedly favourable, but the UMAR expects employment growth to slow in the autumn economic outlook as economic activity moderates. The further moderation in economic activity is also illustrated by the decline in the economic sentiment indicator, which has been below

the contraction threshold since mid-2022. In its autumn forecast, the European Commission estimates GDP growth in 2022 at 3.3% in the EU Member States and 3.2% in the euro area. For 2023, growth is forecast at 0.3% for both the EU and the EA, and at 1.6% for the EU and 1.5% for the EA in 2024.

Slovenia has proved remarkably resilient to the effects of the Covid-19 pandemic and the war in Ukraine, with high economic growth and historically low unemployment, according to the IMF.

2.2. Public finance baseline for the strategic period of debt management

As a share of GDP, Slovenia's general government debt stood at 65.4% at the end of 2019, reaching 79.6% of GDP in 2020, due to the fiscal stimulus measures taken to mitigate the impact of the Covid-19 epidemic, before declining to 74.5% of GDP in 2021, or by 5.1 percentage points, mainly on the back of high nominal GDP growth.

Consolidated general government debt at the end of 2021 is €38,877 million, an increase of €1,454 million compared to €37,423 million a year earlier. The largest increase was in the debt of central government units, which stood at €38,129 million at the end of 2021, compared with €36,758 million a year earlier. The debt of local government units increased by €57 million to €949 million by the end of 2021. The social security funds were debt-free at the end of 2021. General government debt represented 1.7 times annual general government revenue in 2021 (€23,296 million). The primary balance decreased in 2021, as did the budget's interest expenditure, which is shown in Table 1.

Table 1: Selected key Public Finance Parameters from Strategy Development Perspective

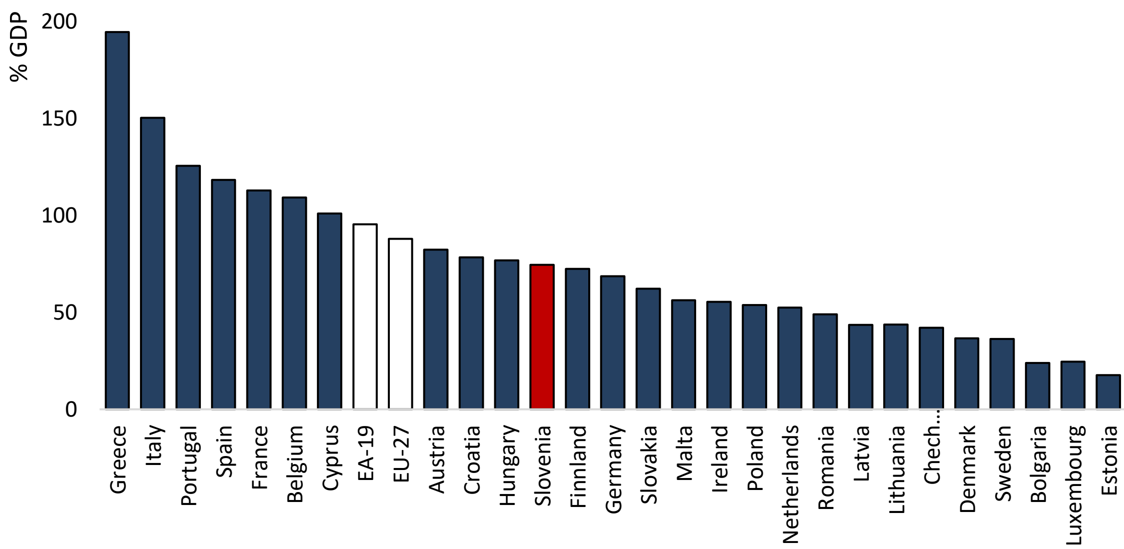
	2019	2020	2021	E2022
GDP Million EUR	48,533	47,021	52,208	57,921
Real GDP growth %	3.5	-4.3	8.2	5.0
General government balance as % of GDP (ESA2010)	0.6	-7.7	-4.7	-3.8
General government primary balance as % of GDP	2.3	-6.1	-3.4	-2.6
General government debt mln EUR (ESA2010)	31,751	37,423	38,877	41,425
General government debt as % of GDP (ESA2010)	65.4	79.6	74.5	71.5
General government interest expenditure (D.41) % of GDP (ESA2010)	1.7	1.6	1.2	1.1

Source: SORS, IMAD, Ministry of Finance, 25.11.2022

In 2021, the Ministry of Finance issued for the first time on the euro debt capital market bonds with a negative interest rate (yield to maturity) with maturity of 10 years with a total amount of €2.15 billion. In July 2021, the Ministry of Finance also issued for the first time a 10-year euro sustainability bond or dedicated sustainable financing under the Environmental, Social, and Governance (ESG) criteria, amounting to €1 billion.

Figure 1 shows the general government debt of the EU-27 countries at the end of 2021. In terms of government debt-to-GDP, the Republic of Slovenia (74.5% of GDP) ranks below the EU- 27 average (87.9% of GDP) and the average of the EA-19 euro area countries (95.4% of GDP).

Figure 1: General Government Debt at the end of 2021 in EU Member States



Source: Eurostat, 25.11.2022

2.2.1. Debt rule under the Stability and Growth Pact

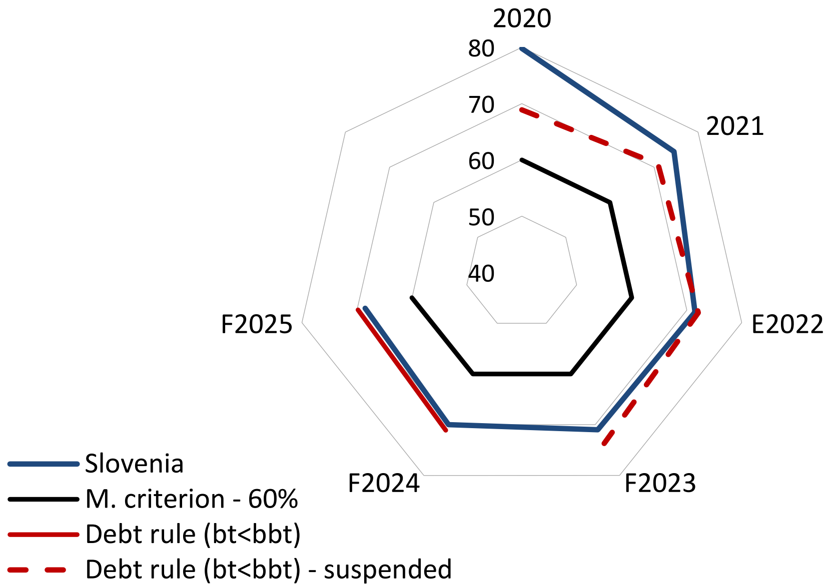
In the wake of the Covid-19 pandemic in 2020, the European Commission has suspended restrictive fiscal rules, including the Debt Rule, which is not binding in the 2020-2023 period. Until then, Member States exiting the Excessive Government Deficit Procedure (EDP) were required to comply with a rule on the reduction of excess debt, i.e. debt above 60% of GDP. The required pace of debt reduction was defined. The conditions of a "sufficient rate of reduction" and a "satisfactory speed" are defined in Regulation 1467/97 and are fulfilled if the excess debt, taking into account the three years following the reference value, is reduced on average at a rate of 1/20 per year, the so-called backward-looking debt evolution (backward-looking measure). The Regulation specifies how the satisfactory pace of debt reduction will be assessed during the transition period, taking into account the cyclically adjusted debt/GDP ratio and the forward-looking debt development (forward-looking measure), when European Commission data are used in the calculation without a policy change. The three-year transition period for the Republic of Slovenia was in force in 2016-2018.

In particular in response to the changed situation, the European Commission has put forward for discussion a proposal for new fiscal rules that could enter into force in 2024. The revised concept of the new rules is based on the logic of debt sustainability, i.e. to demonstrate in a projection the ability of a country to demonstrate its capacity to service on an ongoing basis the liabilities stemming from its past and future fiscal policies in the face of macroeconomic and fiscal shocks, and to demonstrate convincingly the country's capacity to continuously reduce debt-to-GDP over several years. The rule on the required speed of debt reduction is abolished and a speed tailored to each Member State is introduced. This provides more flexibility but at the same time strengthens surveillance. The aim is for Member States with high and medium debt to draw up a debt reduction plan as part of the proposed new set of rules. It is expected that having its own plan will help each Member State to ensure commitment to it.

Based on the latest revision of the SORS annual estimate of GDP and consolidated general government debt, this is estimated at 74.5% of GDP at the end of 2021. For 2022, the Ministry of Finance estimates general government debt at 71.5% of GDP. It also projects general government debt-to-GDP to fall to 68.5% of GDP by the end of 2025.

Figure 2 shows that the post-pandemic process of reduction of Slovenia's government debt-to-GDP ratio started in 2021. It is estimated to continue mainly through nominal GDP growth and a gradual reduction of the government budget's liquidity buffers. The evolution of Slovenia's consolidated government debt is already in line with the Stability and Growth Pact debt rule from 2020 onwards.

Figure 2: Consolidated General Government Debt in 2020 - F2025 as % of GDP



Source: Ministry of Finance, 24.11.2022

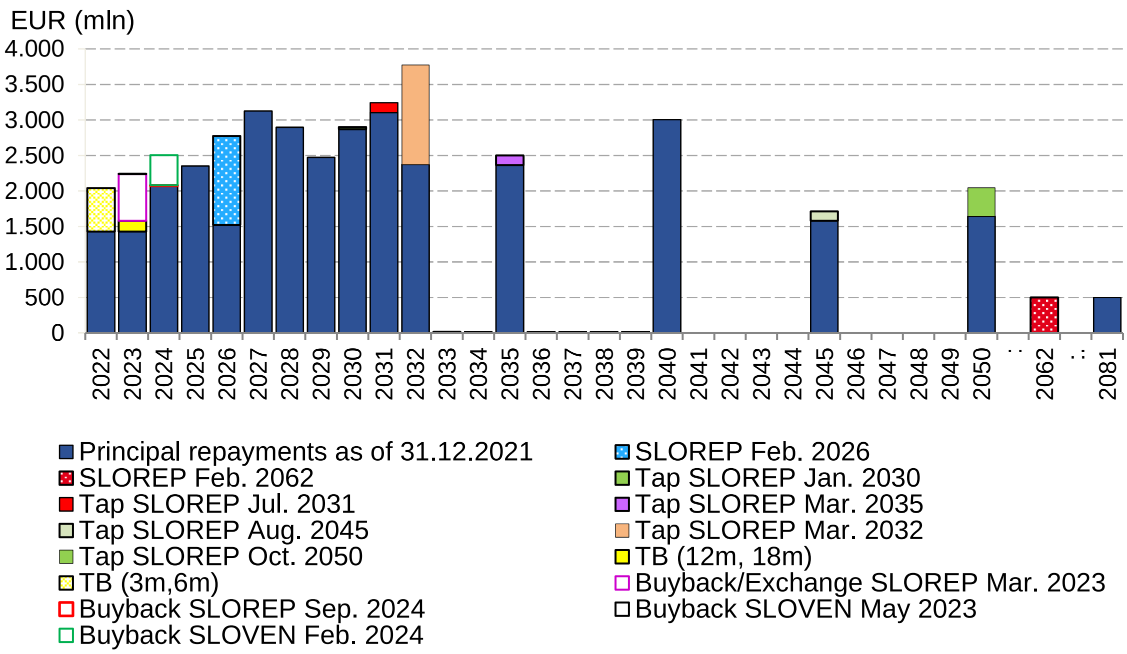
The success in achieving the strategic debt management and debt reduction objectives will be primarily influenced by the adopted budgets for the strategic period and the outlook for economic growth over the medium term. Compliance with the fiscal rule and commitment to structural reforms are of paramount importance as they have a direct impact on a country's credit rating and its cost of borrowing, and hence on debt sustainability.

2.3. General government debt development and its estimation for 2022

In 2022, the Ministry of Finance provided long-term financing of the State Budget in euro-denominated debt capital markets through the issuance of new bonds, additional issues of existing bonds and the issuance of 18-month Treasury bills for a total amount of EUR 4,625 million, and short-term financing of the State Budget through Treasury bills for an amount of EUR 193 million. The weighted average interest rate on long-term debt issued in euro in 2022 is 1.41% and the weighted average maturity of the debt issued is 13.9 years.

In 2022, the Ministry of Finance has been very proactive in managing the national budget debt. Six debt management transactions were executed, including the eighth USD-EUR cross-currency transaction. The financing and debt management executed is illustrated in the **Figure 3.**

Figure 3: Executed Borrowing and Debt Management of the State Budget in 2022 through the Optics of Redemption profile



Source: Ministry of Finance, 25.11.2022

The post-pandemic process of reducing government debt-to-GDP starts in 2021. It is estimated to continue mainly through nominal GDP growth and a gradual reduction of the government's liquidity buffers. For 2022, the Ministry of Finance estimates general government debt at 71.5% of GDP. (**Table 2**)

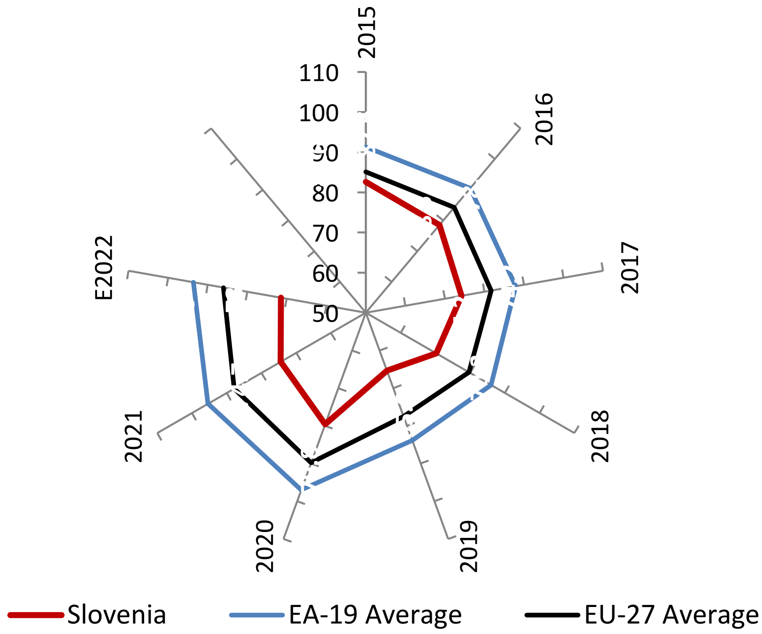
Table 2: General Government Debt Level and Estimate for 2022

	2019	2020	2021	E2022
General government debt in mln EUR (ESA2010)	31,751	37,423	38,877	41,425
GDP in million EUR (current prices)	48,533	47,021	52,208	57,921
General government debt as % of GDP	65.4	79.6	74.5	71.5
Debt rule as % of GDP	72.8	Suspended	Suspended	Suspended
General government interest (D.41) as % of GDP (ESA2010)	1.7	1.6	1.2	1.1

Source: Ministry of Finance, 25.11.2022

The pace of reduction of government debt-to-GDP is higher in Slovenia compared to the EU and EA averages. For 2022, as shown in the European Commission's AMECO database for the EA-19 and the EU-27, this difference is estimated at - 22.1 p.p. GDP below the EA-19 average of -14.5 p.p. GDP below the EU-27 average (**Figure 4**).

Figure 4: Consolidated General Government Debt 2015 - E2022 vis-à-vis EA and EU as % of GDP



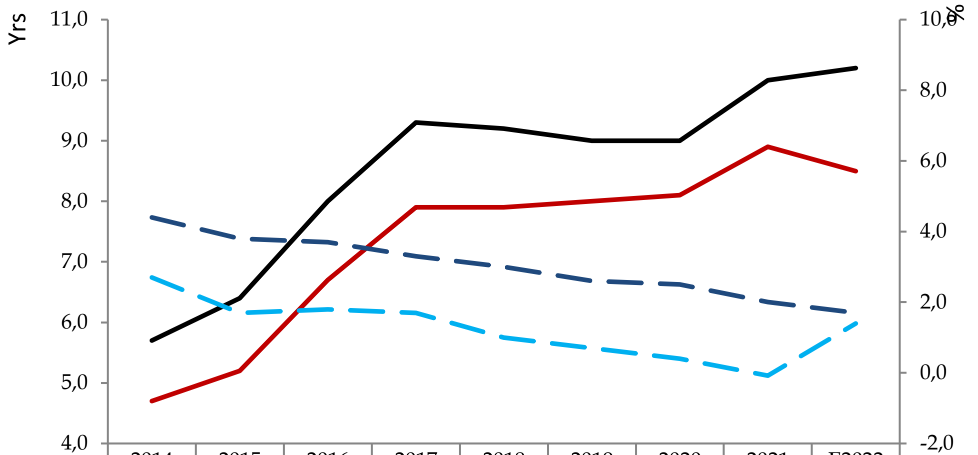
Source: Eurostat, EC AMECO database, Ministry of Finance, 25.11.2022

2.4. Government debt characteristics

According to ESA2010 rules, the debt of the State budget of the Republic of Slovenia represents the largest share of the consolidated debt of the general government sector; 94% in 2021. The following is a description of the main features of this segment in the debt structure.

Based on the executed financing and all implemented debt management transactions of the State Budget until the end of 2022, the average remaining maturity of the State Budget debt has increased from 5.7 years in 2013 to 10.2 years in 2022. Modified duration of the State Budget debt has increased from 4.5 years in 2013 to 8.5 years in 2022. At the same time, the average interest rate on the total debt of the State Budget has decreased from 4.3% in 2013 to 1.7% in 2022. The weighted average issued yield on issued long-term debt has been declining steadily over the same period, reaching -0.08% in 2021. With the start of a period of rising interest rates, it has increased to 1.4% in 2022. The risk metrics achieved show the pursuit of the strategic debt management objective of reducing refinancing risk, i.e. extending the average time to maturity while at the same time lowering the implicit interest rate (**Figure 5**).

Figure 5: Average Weighted Time to Maturity (AWTM), Duration (MD), Weighted Issued Yield (WIY) and Implicit Interest Rate of the Debt Portfolio (IIR) by year



	2014	2015	2016	2017	2018	2019	2020	2021	E2022
AWTM (LHS)	5,7	6,4	8	9,3	9,2	9	9,0	10,0	10,2
MD (LHS)	4,7	5,2	6,7	7,9	7,9	8	8,1	8,9	8,5
IIR (RHS)	4,4	3,8	3,7	3,3	3	2,6	2,5	2,0	1,7
WIY (RHS)	2,7	1,7	1,8	1,7	1	0,7	0,4	-0,08	1,4

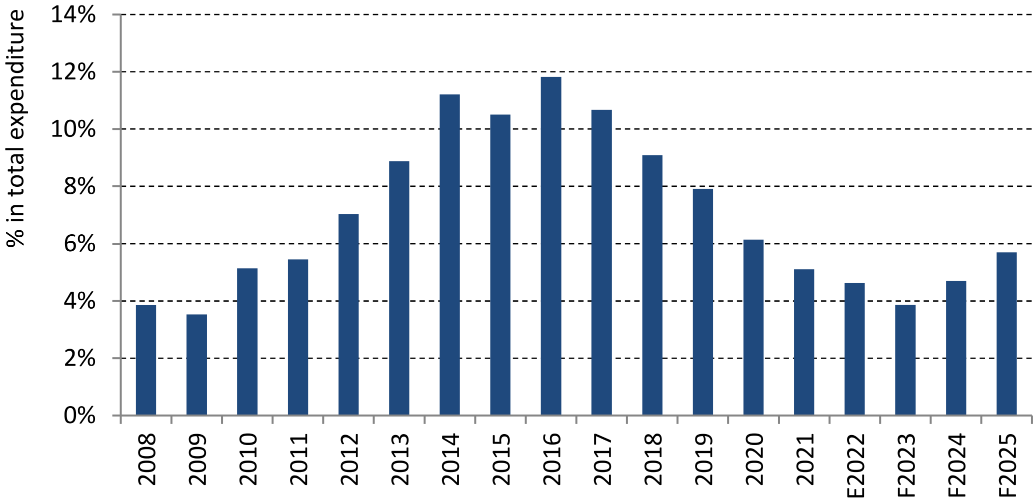
2.0

Source: Ministry of Finance, 25.11.2022

Interest expenditure on debt servicing of the state budget amounts to €727 million (1.4% of GDP) in 2021, a decrease of €356 million compared to €1,083 million (2.9% of GDP) in 2014. Debt management of the state budget accounts for a significant part of this reduction in interest expenditure.

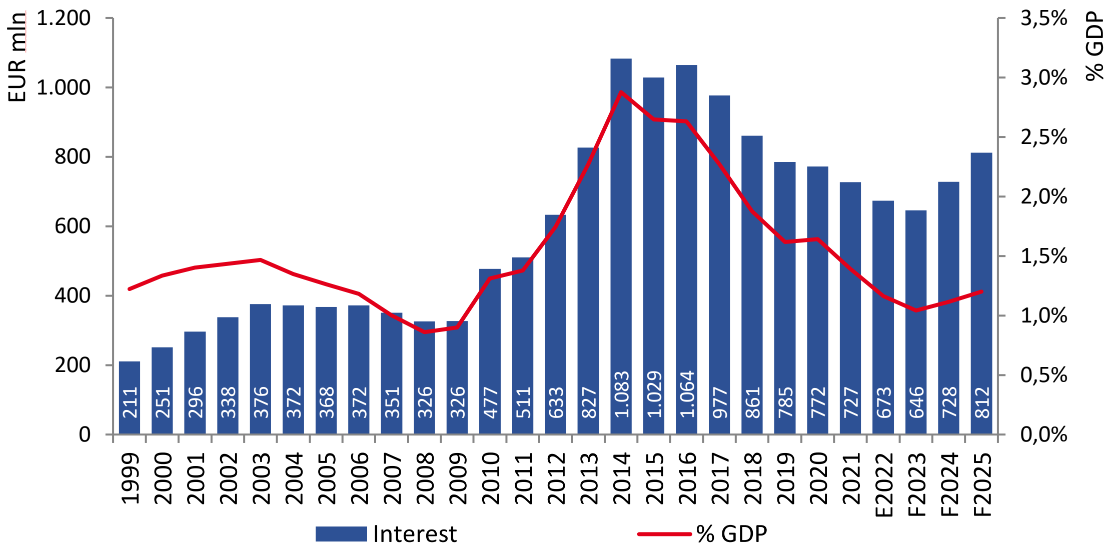
A second, equally important impact on the State Budget's interest expenditure is represented by the favourable borrowing for the refinancing of maturing debt and the execution of the State Budget on euro debt capital markets. The interest expenditure on the debt service of the State Budget is estimated at €673 million (1.2% of GDP) in 2022. The dynamics of the State Budget's interest expenditure as a share of the State Budget's expenditure is shown in **Figure 6**. The nominal interest expenditure of the state budget in EUR and as a percentage of GDP is shown in **Figure 7**.

Figure 6: Interest Expenditure as Share of total State budget Expenditure



Source: Ministry of Finance, 25.11.2022

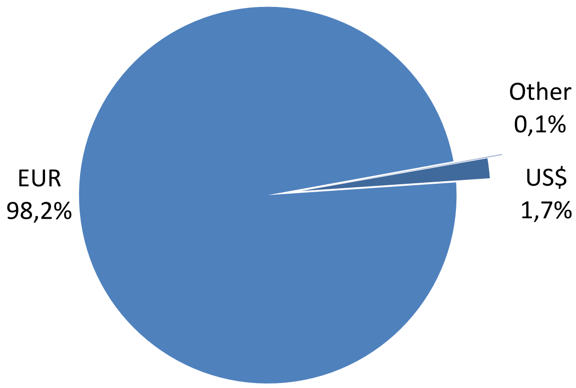
Figure 7: State budget Interest Expenditure in nominal terms and as % of GDP



Source: Ministry of Finance, 25.11.2022

In terms of currency structure, the share of the State budget debt denominated in US$ (all liabilities are otherwise swapped into euro) has decreased from 25% in 2015 to 2% in 2022. This allows the Republic of Slovenia to maintain a more optimal debt currency structure in light of local euro debt capital market conditions, and also increases the capacity of the Republic of Slovenia to finance budget execution in a larger global market in the event of a stressed situation. The currency structure of the State budget debt in 2022 is shown in **Figure 8**.

Figure 8: State budget Debt by Currency in 2022



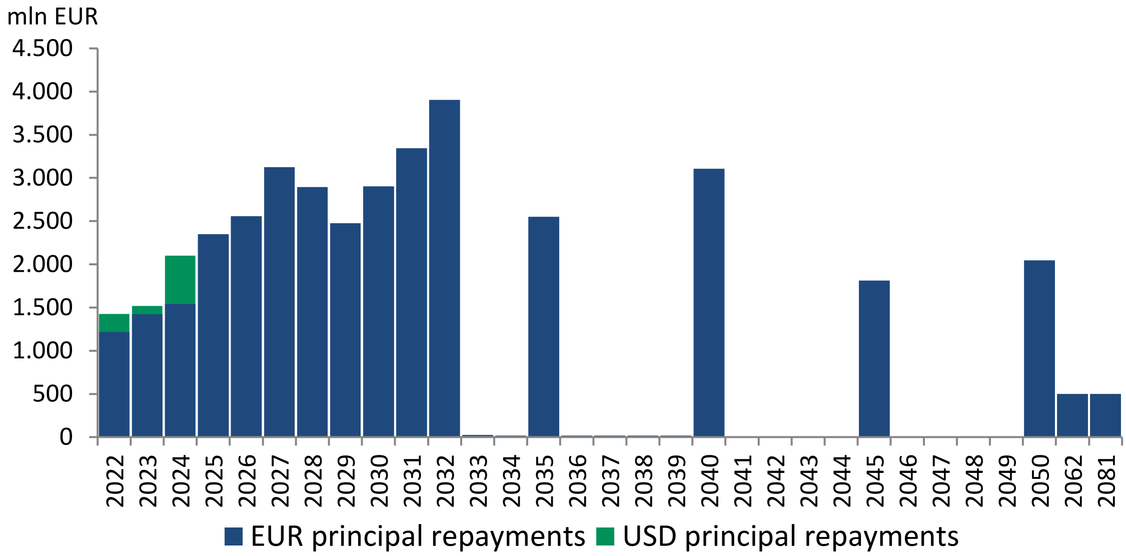
Source: Ministry of Finance, 25.11.2022

The cross-section of the interest rate structure is dominated by a high share (99.3%) of fixed-rate debt.

The central risk in debt management is the management of refinancing risk. **Figure 9** provides the most comprehensive picture of the refinancing risk exposure, it can be seen that the maturity of the principal amounts is spread over the years in a manageable manner. The weighted average residual time to maturity of the debt portfolio in 2022 is 10.2 years. The complementary risk measure shows that 4% of the debt matures in the next year 2023, 10% in two years (2023-2024) and 31% in 2023-2027.

In 2023, €1.5 billion of the State Budget's debt principal matures, a comparative low over the next 10-year period. In certain years, the maturity of the principal is relatively higher, but active management or early refinancing reduces this exposure. This is evidenced by the early refinancing of part of the dollar and euro bonds in 2022 (USD 5/2023, USD 2/2024, RS66, RS83, RS89) maturing in 2023, 2024 and 2026. The maturity profile of the debt by year is shown in **Figure 9.**

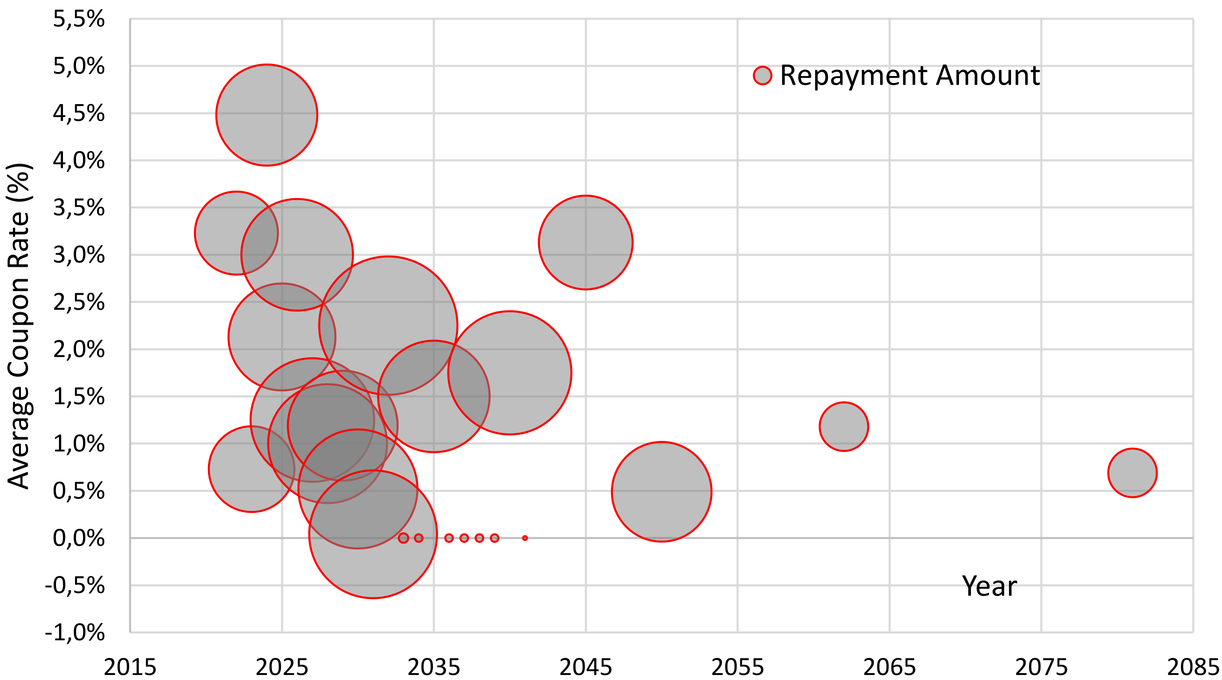
Figure 9: State Budget Debt Redemption Profile



Source: Ministry of Finance, 25.11.2022

Figure 10 shows the volume of principal repayments of the general government debt and, at the same time, the weighted average coupon rate. Increased debt repayments start in 2026, with the weighted average coupon rate peaking in 2024 (4.5%).

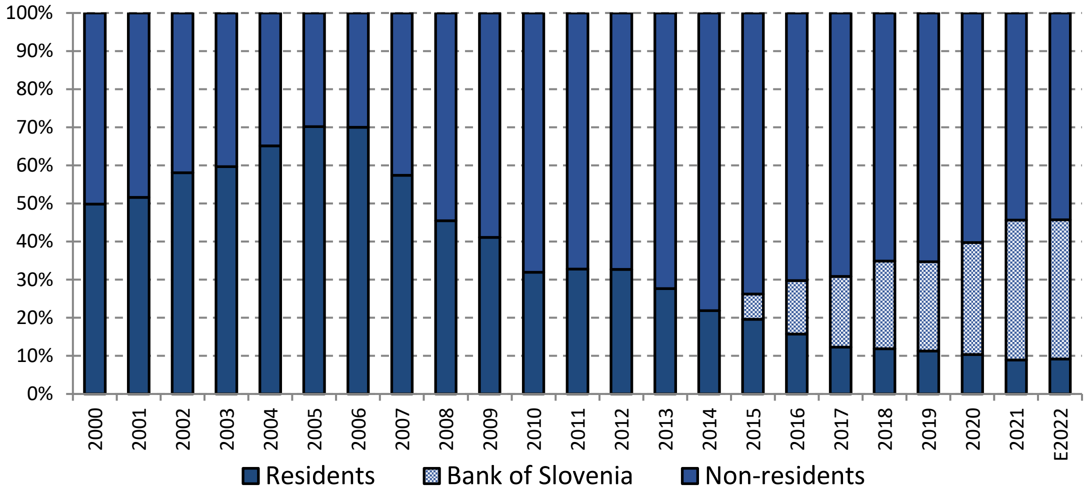
Figure 10: Principal repayments of state budget debt and its average coupon rate by year



Source: Ministry of Finance, 25.11.2022

The ratio of residents to non-residents, taking into account the ownership structure of government debt on the secondary market, is 54% in favour of non-residents, if we take into account the purchases of securities by the Bank of Slovenia as a result of the ECB's monetary policy measures, as shown in **Figure 11**.

Figure 11: State Budget Debt Structure 2000 - 2022 by Residency of Investors



Source: Ministry of Finance, 25.11.2022

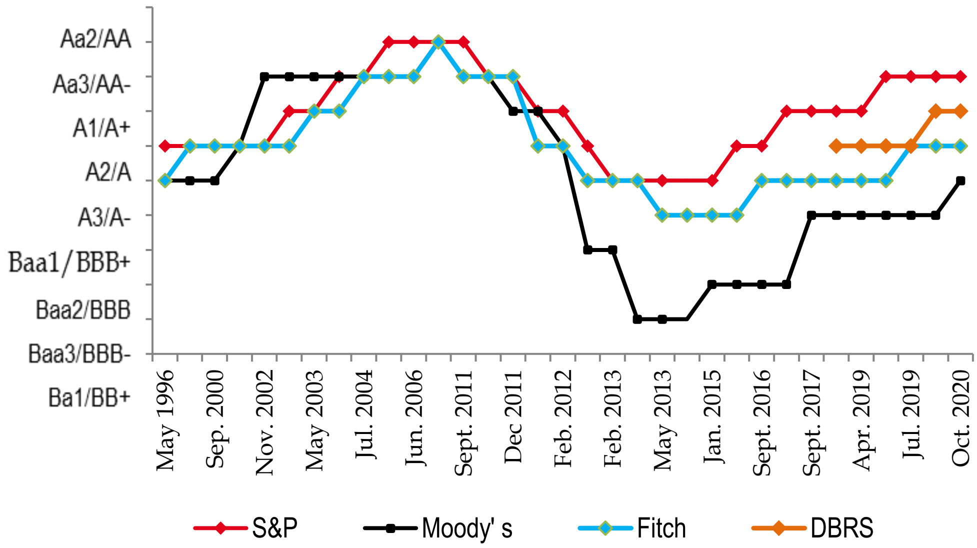
2.5. Development of the credit rating of the Republic of Slovenia

Slovenia is rated by three major credit rating agencies - Standard & Poor's, Moody's and Fitch Ratings. **Figure 12** shows how the three most important rating agencies have rated the Republic of Slovenia since 1996. Since the second half of 2011 and in 2013, all three agencies have downgraded the Republic of Slovenia several times. The reasons cited were problems in the banking sector, poor economic conditions and political instability. Since 2014, Slovenia has experienced a positive upward trend in its credit ratings. The main reasons cited by the agencies are improved macroeconomic indicators (low unemployment, higher economic growth compared to the EU and the euro area), a profitable and capital-robust banking system, the ability to reduce debt-to-GDP, and the favourable liquidity position of the single treasury account. Slovenia's resilience to the economic impact of the Covid-19 pandemic and the war in Ukraine has also been demonstrated, with high economic growth and record low unemployment.

The stable outlook for credit rating developments in the CRAs' individual credit ratings indicates that the CRAs assess it as most likely that the country's credit risk ratings will remain unchanged over the medium term.

The credit rating achieved has a significant impact on the cost of borrowing and hence debt sustainability, and maintaining and working towards an improved rating is a key strategic focus. An overview of the evolution of the credit rating of the Republic of Slovenia over time is presented in **Figure 12**, while the current situation is summarized in **Table 3.**

Figure 12: Credit Rating Overview of the Republic of Slovenia Over Time



Source: S&P, Moody's, Fitch, 25.11.2022

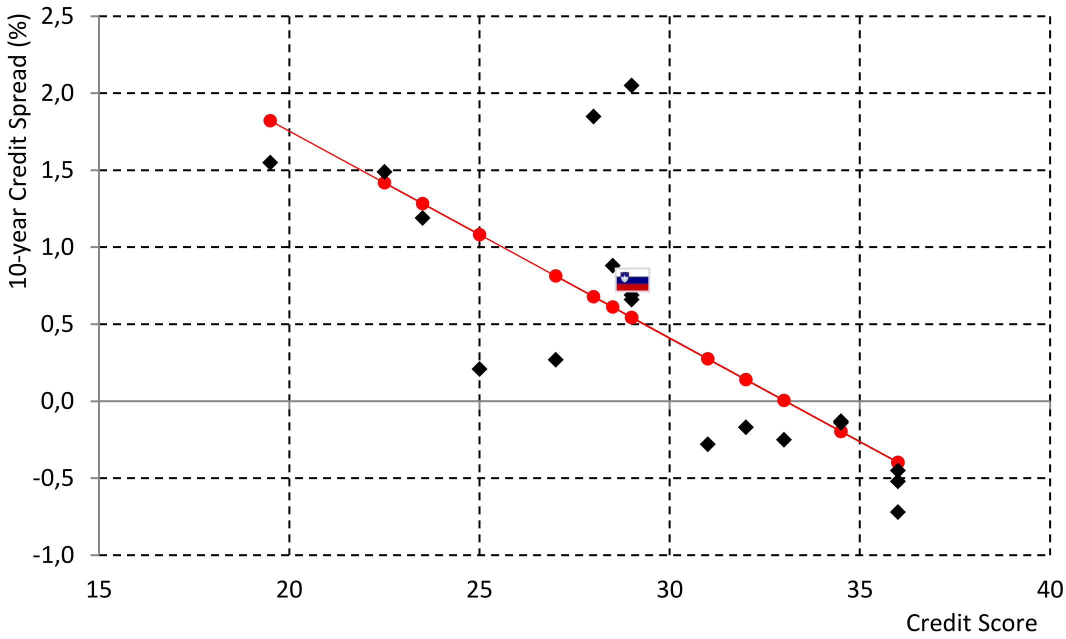
Table 3: Credit Ratings of the Republic of Slovenia

Agency	Credit rating	Outlook
S&P	AA-	stable
Fitch	A	stable
Moody's	A3	stable
DBRS	AH	stable

Source: S&P, Moody's, Fitch and DBRS, 22.11.2022

The regression analysis on a sample of 18 euro area countries, shown in **Figure 13**, shows that credit rating has a significant impact on the level of the credit spread. A higher credit rating lowers the credit spread and vice versa. This is all the more important when the level of the credit spread represents a significant share in the interest rate structure.

Figure 13: Credit Rating Impact on the 10-year Credit Spread Of Euro Area Countries



Source: Bloomberg, Ministry of Finance own calculations, 25.11.2022

*Due to the unavailability of data of the credit spread for Estonia, it is not included in the analysis.

3. TARGET VALUES FOR RELEVANT PUBLIC FINANCE PARAMETERS

The improved portfolio risk metrics and the size of the State budget's liquidity buffers provide Slovenia with a more optimal position in terms of flexibility in planning its entry into debt capital markets, especially in an uncertain environment of geopolitical risks, increased volatility and rising interest rates. The liquidity buffers created at the same time provide the State budget with the absorption capacity to mitigate unforeseen shocks in terms of managing the trajectory of the general government debt, which is relevant for the maintenance of a favourable credit rating.

The medium-term strategic orientation and ambition remains to maintain the Republic of Slovenia's current credit ratings of S&P: AA-/ Fitch: A/Moody's: A3, in the face of challenging economic and fiscal circumstances. The long-term objective remains to improve public finance indicators to the extent that the Republic of Slovenia would be able to establish itself in the group of highly rated countries by all three credit rating agencies. The RS has already reached 'AA' with S&P in May 2006, 'AA' with Fitch in July 2006 and 'Aa2' with Moody's in July 2006.

As shown in **Table 4**, the process of reducing government debt-to-GDP continues over the budgetary period from 2022 onwards, mainly through nominal GDP growth and a gradual reduction of the government's liquidity buffers.

Table 4: Strategic target parameters for the evolution of general government debt over the medium term

	2021	E2022	F2023	F2024	F2025
% OF GDP					
General government balance	-4.7	-3.8	-5.0	-2.2	-1.6*
General government primary balance	-3.4	-2.6	-4.0	-1.2	-0.4*
Interest D.41 General government (ESA2010)	1.2	1.1	1.0	1.1	1.2*
General government debt	74.5	71.5	71.0	70.0	68.5
EUR million					
General government debt	38,877	41,425	43,980	45,730	46,849
GDP (current prices)	52,208	57,921	61,951	65,311	68,388

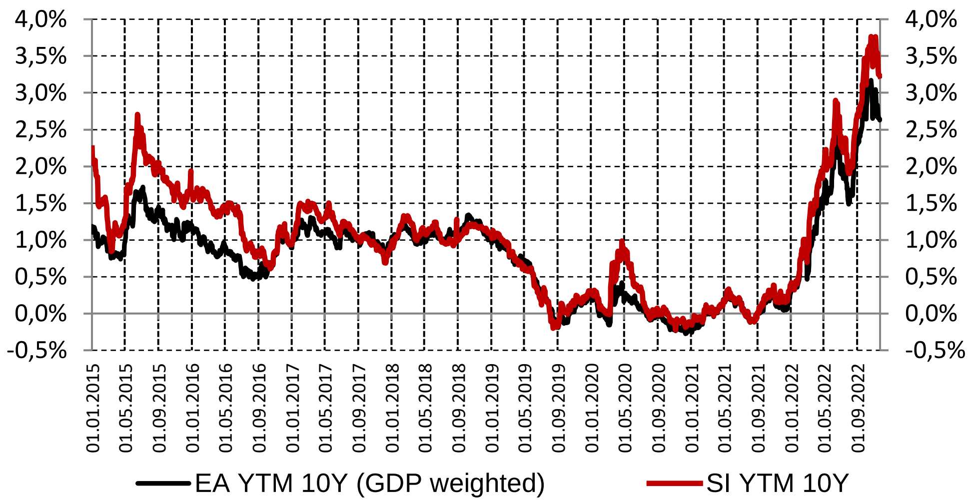
Source: Ministry of Finance, Stability Programme 2022-2025 (for 2025), IMAD, 23.11.2022

* Latest available data, source: the Stability Programme 2022 (without policy changes); available at: [stability-programme-2022.pdf (gov.si)]

3.1.1. Sustainability of general government debt

The sustainability or manageability of the debt dynamics of the general government is of central importance for investors in the securities of the Republic of Slovenia. The level of the interest rate depends on the probability of repayment or the credit risk premium. Slovenia's improved credit rating has brought it closer to the stronger part of the euro group, if Slovenia's YTM is compared to the weighted average YTM of euro area countries (the weight represents the GDP of individual countries in the total GDP of euro area countries). This shows that with exogenous shocks, such as the outbreak of the Covid-19 pandemic in 2020 and the escalation of the geopolitical situation and the energy cost of the war in Ukraine in 2022, Slovenia is slightly out of line with the core euro area countries, i.e. the largest in terms of GDP generated. (**Figure 14**)

Figure 14: Yield to Maturity of Slovenian 10-year Euro Bonds Compared to the Euro Area Average

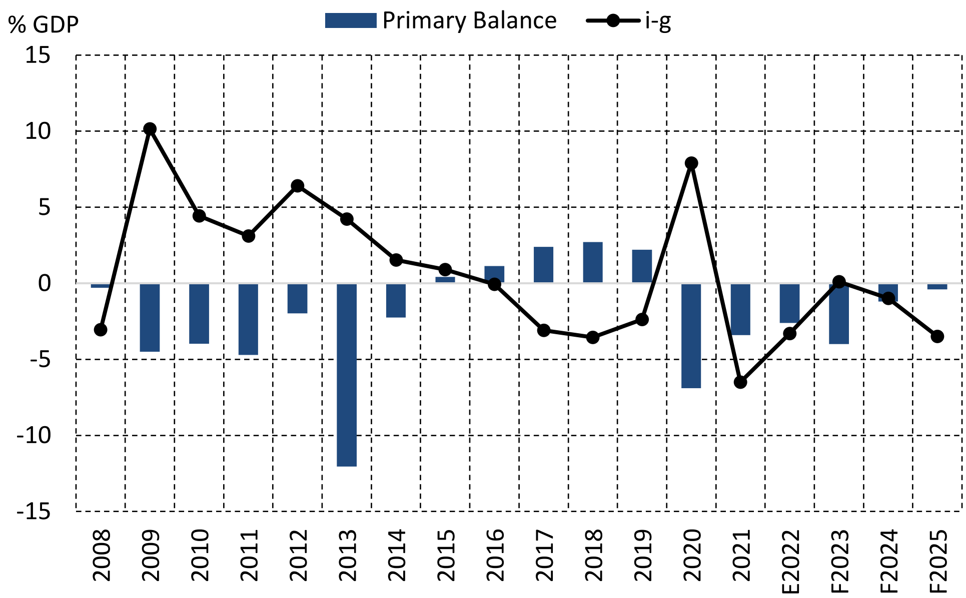


Source: Bloomberg, Ministry of Finance own calculations, 24.11.2022

Figure 15 shows the relationship between two key parameters of the government debt sustainability assessment. The difference between parameters "i-g" represents the difference between the average nominal interest rate on government debt (i-implicit interest rate) and nominal GDP growth (g). The difference turns positive in 2023 due to the expected tighter economic conditions and hence lower GDP growth. The estimate of the primary balance for the 2023-2025 strategy period is negative.

Despite the positive value of (i-g), debt can be stabilised if the primary balance is sufficiently positive. In this case, the challenge remain the level of nominal debt, as the higher it is relative to 'i-g', the higher the positive primary balance needed to stabilise debt. If the primary balance is negative, then a negative 'i-g' gap is needed, i.e. nominal GDP growth that is correspondingly higher than the nominal implicit interest rate. From the perspective of ensuring debt sustainability over the strategic period, in conjunction with the simultaneous management of refinancing risk, an adequate level of liquidity reserves of the State budget and given the characteristics (slope) of the euro yield curve of the Republic of Slovenia, a focus on the issuance of euro-denominated debt of an appropriate medium or shorter maturity seems to be an additional option. Also, the level of debt itself can be regulated through an appropriate reduction of the budget's cash reserves and privatisation proceeds, which are earmarked in a certain proportion for debt reduction (so-called *stock-flow adjustments*).

Figure 15: General Government Debt Sustainability Parameters



Source: Ministry of Finance, 24.11.2022

3.1.2. Debt sensitivity analysis

The debt sensitivity analysis for the 2023-2025 strategy period identifies the responsiveness of a change in the level of debt-to-GDP in the event of lower nominal GDP growth, a further increase in borrowing interest rates, an increase in the primary deficit, or all of the above. The sensitivity analysis is carried out under the following assumptions:

- the financing of new borrowing and the refinancing of existing debt is carried out with a benchmark 10-year euro bond, which in the prevailing monetary conditions represents an efficient relationship between maturity and yield to maturity;
- the reference interest rate is gradually increased by a total of 240bp over the 2023-2025 strategy period;
- in each strategic year by 1.5 p.p. GDP worse primary balance in comparison to the

planned one and

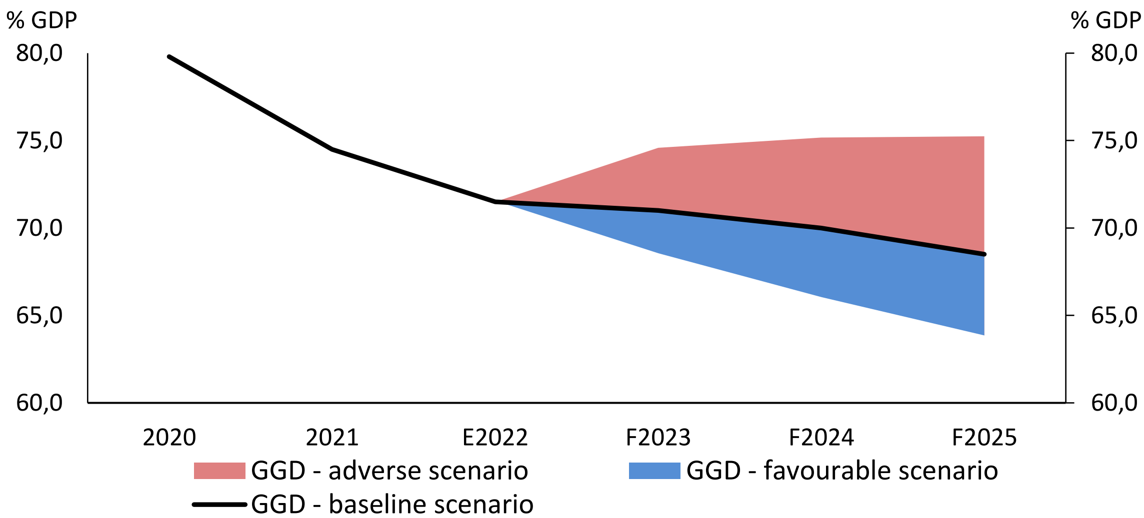
- 3.0 p.p. lower nominal GDP growth in each strategy year compared to the September 2022 IMAD forecast.

The sensitivity analysis calculates the change in debt as a share of GDP under the adverse scenario assuming lower nominal GDP growth, an increase in the interest rate and an increase in the primary deficit. The separate and combined effect of all assumed factors is calculated simultaneously. **Figure 16** shows the limits of the combined effect of all factors simultaneously, in both the adverse and the favourable scenarios. Borrowing in a given fiscal year has an impact on interest expenditure in the following years. The State Budget financing programme for 2022 is executed at the time of the preparation of the strategy, so the interest rate sensitivity analysis is no longer relevant for the remainder of 2022. The fixed-rate debt ratio of the State budget is 99.3%.

The debt position is projected at 68.5% of GDP at the end of the strategy period in 2025 under the baseline scenario. If the assumed annual decline in nominal GDP growth, the gradual increase in the reference interest rate and the annual increase in the primary deficit were to occur, the debt position would be 75.2% of GDP at the end of 2025.

Under the favourable scenario, we take into consideration an annual increase in nominal GDP growth of 1 p.p., then 1 p.p. of GDP better-than-targeted primary balance and an additional reduction of €0.5 billion cash reserves each year. Under the favourable scenario, government debt is reduced to 63.8% of GDP by the end of the strategic period 2025.

Figure 16: General government debt Sensitivity (% of GDP)



Source: Ministry of Finance, 24.11.2022

4. SECURITIES MARKET

4.1. Position of the Republic of Slovenia on capital markets

Slovenia's entry into the euro area on 1 January 2007 was a key turning point for the country, when it joined the common European financial market, of which the government securities market is an important part. With the entry into the euro area, the further integration of the sovereign securities market and thus of the entire financial system into a common, more developed and efficient European financial market required changes that ensured a structure of the Slovenian sovereign securities market comparable to that of other euro area Member States. Harmonisation with the common European government securities market took place in the areas of the structure and conventions of the reference government securities, the method of issuance, the organisation of the primary market, the organisation of the secondary market and the settlement of government securities transactions.

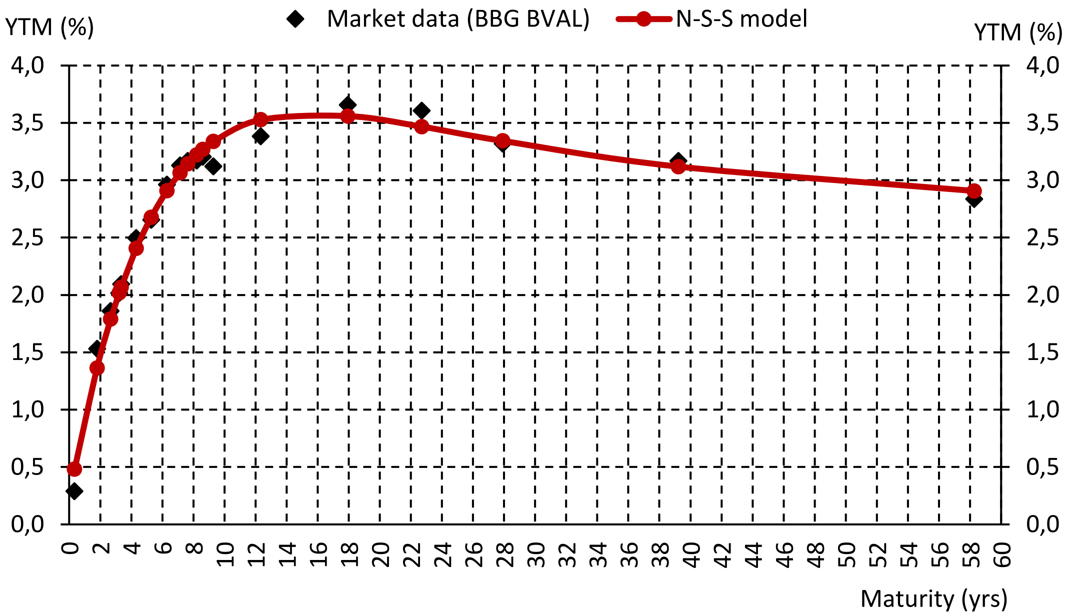
Upon joining the euro area, the Republic of Slovenia had to provide the institutional infrastructure in the area of state budget borrowing and the organisation of the primary and secondary markets for government securities, which enabled the country and other economic entities to integrate as quickly as possible into the cost-effective and operationally efficient common European financial market. With the aim of achieving sovereign yields comparable to the credit risk rating of the Republic of Slovenia, it was necessary to extend the investment base (institutional and geographic) to as wide a European area as possible, with an organisation and structure of the primary market for sovereign securities comparable to that of other euro area Member States, to ensure an efficient and transparent formation of a real market price for government securities in the European area by setting up an appropriate standardised trading platform for benchmark government securities and to ensure an adequate settlement system, which is at the same time a prerequisite for increasing the liquidity of long-term government securities.

In this context, the structure of primary subscribers of government securities has changed to include foreign financial institutions alongside domestic ones. The primary subscribers were also obliged to officially maintain a market for government bonds on the secondary market. The method of issuing government securities changed from a predominantly auction-based to a predominantly syndicated method of issuing government securities, with the aim of broadening and diversifying the investment base across the European area. Within the organisational framework of the pan-European electronic trading platform MTS, MTS Slovenia was established. The preferred choice of the Republic of Slovenia for listing and admission to trading remains the use of its domestic infrastructure, while ensuring the connection of the Slovenian clearing-depository company to at least one of the global clearing-depository companies Clearstream or Euroclear (ICSD).

The period of quantitative easing by the ECB and the strengthening of the credit risk assessments of the Republic of Slovenia since 2015 has allowed for a marked improvement in borrowing conditions (lowering the yield to maturity on debt issued, increasing the average time to maturity of the debt portfolio). During this period, the Republic of Slovenia also continued to build the yield curve for government securities in the European common market and issued euro-denominated benchmark bonds, with the ECB's quantitative easing measures allowing for borrowing with longer maturities. In 2015, 20-year and 30-year bonds were issued for the first time, followed by bond issues with a maturity of at least 10 years in the period up to and including early 2020. This period was also marked by the pursuit of the strategic objective of increasing bond liquidity, through additional issuance of existing bonds and a gradual increase in their nominal value.

A new euro 30-year RS 85 bond was issued in October 2020, a new euro 60-year RS 87 bond in February 2021 and a new euro 40-year RS 90 bond in January 2022, all of which extend the RS yield curve in a strategically important way. The **Figure 17** below thus shows the market yield curve of RS securities and a representation of the mathematical functional notation according to the Nelson-Siegel-Svensson model over the range of the existing residual maturity from 0 to 60 years. Secondary market data show that the yield to maturity increase up to a residual maturity of 18 years, after which they start to decrease. As of 23.11.2022, the yield to maturity on the Slovenian euro 18-year bond is 3.657% and the yield to maturity on the Slovenian euro 60-year bond is 2.837%.

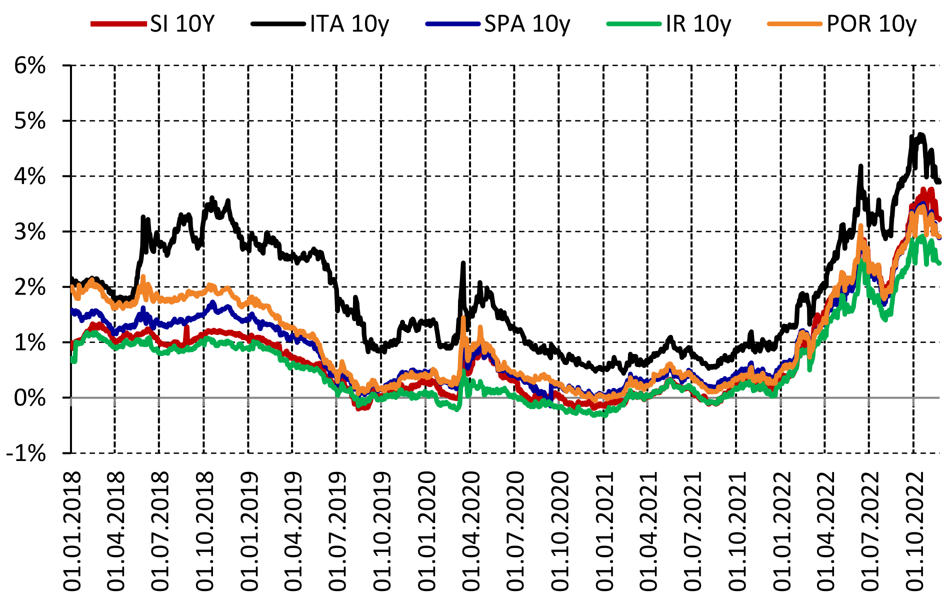
Figure 17: Slovenia Yield Curve



Source: Bloomberg, MF, own calculations, 23.11.2022

Figure 18 shows the evolution of the 10-year YTM of the Republic of Slovenia compared to selected euro area countries. The Republic of Slovenia has moved away from the semi-core euro area countries (Ireland) and closer to Spain and Portugal in terms of the yield to maturity level in 2022.

Figure 18: 10-year YTM of Selected Euro Area Countries over Time

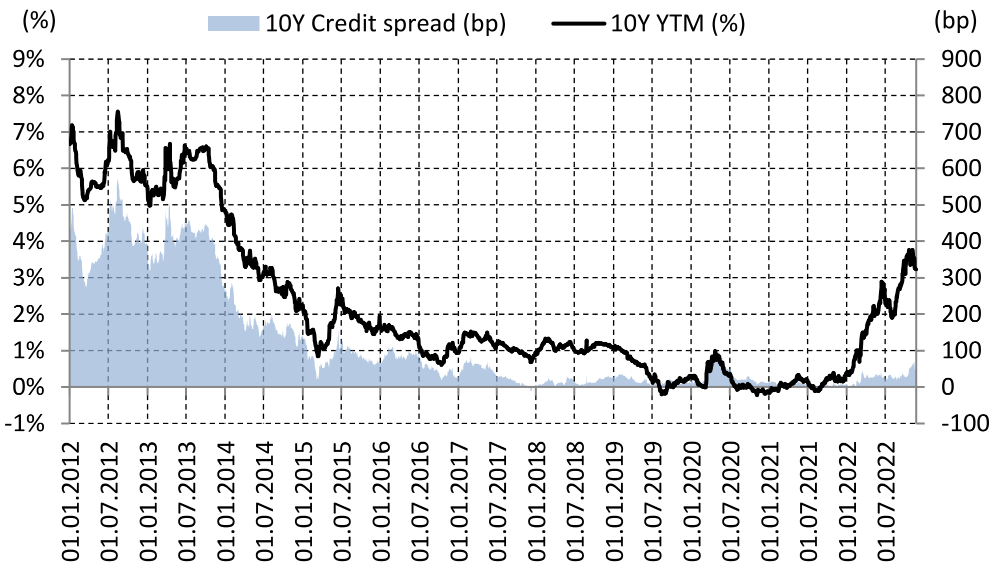


Source: Bloomberg, MF own calculations, 24.11.2022

Figure 19 shows that the 10-year credit spread on euro-denominated bonds of the Republic of Slovenia is lower compared to August 2012, when it peaked at 570bp, and at 52bp as of 23 November 2022.The figure also shows that the share of the credit spread in the interest rate structure (YTM) has been declining in the recent period. Whereas in 2020 it accounted for 100% of the total interest rate, on 23.11.2022 it is 16%.

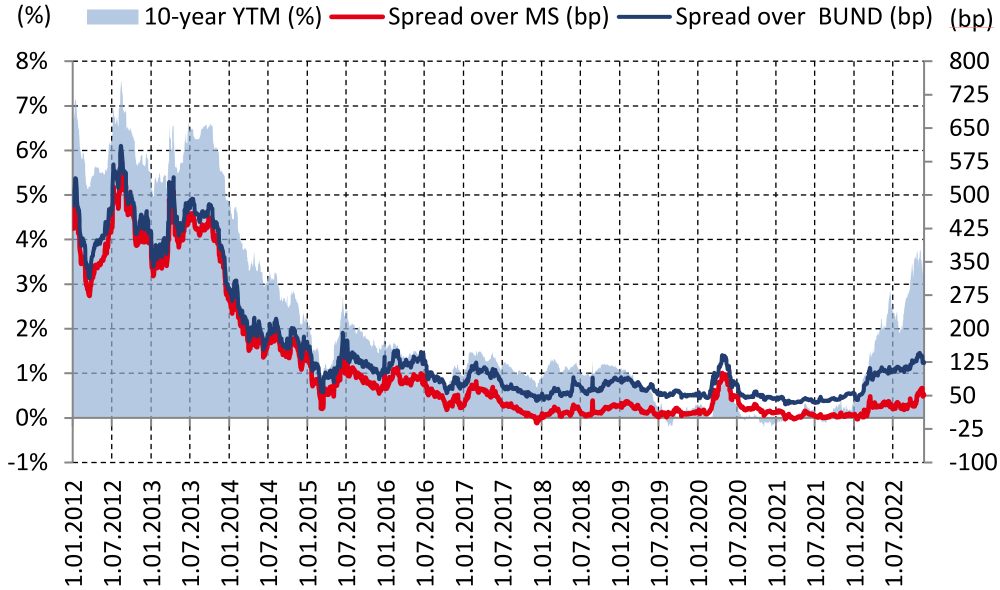
Figure 20 shows that the Slovenian spread over the German 10-year bund is higher than the spread over mid swap rate, which is used as the "reference" basis for the credit spread in the YTM structure of the euro bond issuance process. The mark-up over the *Mid-Swap (MS)* reference basis is 52bp and over the benchmark 10-year German government bond 123bp. This opens the way for the necessary further efforts to reduce the RS credit spread, given that spread over the benchmark 10-year German government bond have increased significantly for almost all euro area countries.

Figure 19: Slovenia 10-year YTM and Credit Spread from 2012



Source: Bloomberg, MF own calculations, 24.11.2022

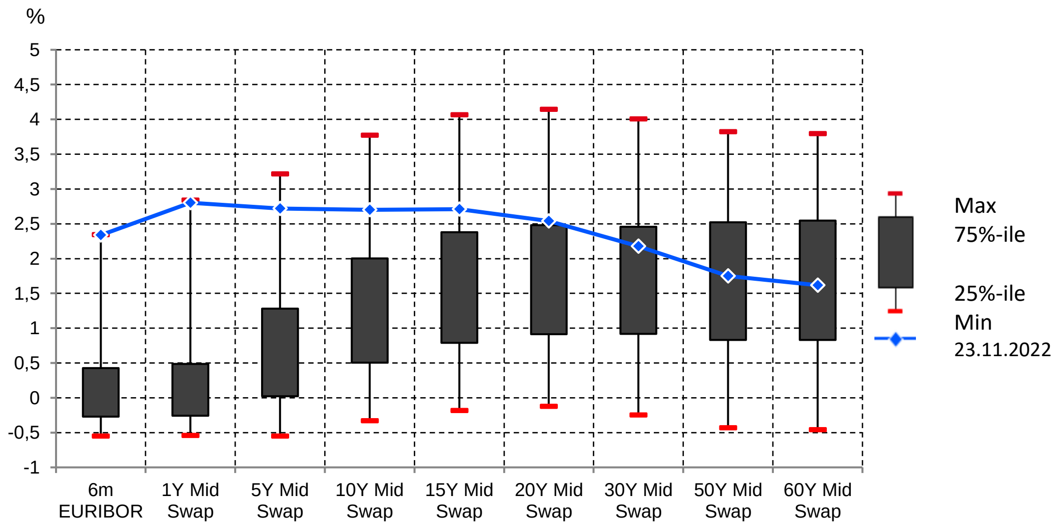
Figure 20: Slovenia 10-year YTM and Credit Spread over euro Mid Swap and the German Bund



Source: Bloomberg, MF own calculations, 24.11.2022

Historically, the current situation regarding the level of the euro mid swap rate, the so-called reference basis, and its shape is illustrated in **Figure 21**, i.e. the frequency distributions of the euro mid swap rate of different maturities and 6-m Euribor.

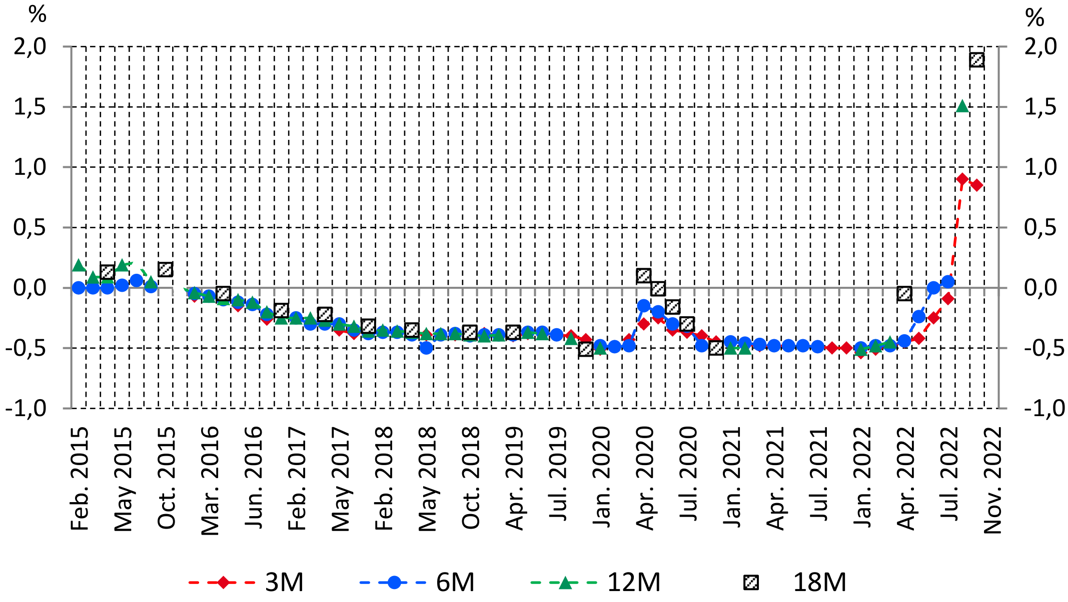
Figure 21: Frequency Distribution of the Average Euro Mid Swap since 2010 Compared to Current Levels



Source: Bloomberg, MF own calculations, 24.11.2022

The situation and realised yields on the Slovenian treasury bill market are shown in **Figure 22**. In February 2016, interest rates on 3-, 6- and 12-month treasury bills were negative for the first time. In April 2016, Slovenia also issued an 18-month Treasury bill with a negative interest rate. The trend of negative interest rates continued until this year, but in the second half of 2022, treasury bill rates followed the ECB's increase in the euro reference rate or the general increase in interest rates and turned positive.

Figure 22: Slovenia Yield Trajectory for Treasury Bills



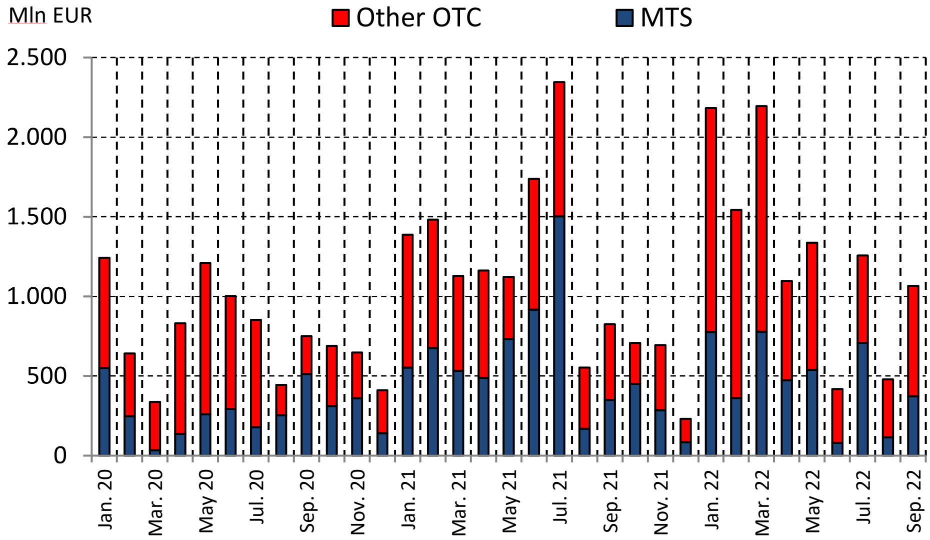
Source: Ministry of Finance, 24.11.2022

4.2. Secondary market liquidity of securities

Bonds of the Republic of Slovenia issued by subscription to the KDD are listed on the regulated stock market of the Ljubljana Stock Exchange, d.d. Bonds issued by subscription to Euroclear Bank SA/NV and Clearstream Banking societe anonyme are listed on the Luxembourg Stock Exchange. In order to ensure liquidity and to establish a transparent market price, benchmark government bonds with a nominal issue value of at least EUR 1 billion are traded on the official trading platform of MTS Slovenia, where the official market makers for Slovenian government securities trade with each other.

In 2021, the total trading volume on the MTS amounted to €6,738 million, while on the OTC secondary market it amounted to €6,641 million (with trading on the OTC secondary market mainly conducted via Bloomberg and other non-electronic platforms). In the first nine months of 2020, the trading volume on the MTS amounted to €4,200 million, while on the OTC secondary market we see a significant increase in trading volume, which reaches €7,372 million. The trading volumes of the Republic of Slovenia's securities in the period from January 2020 to September 2022 are shown in **Figure 23.**

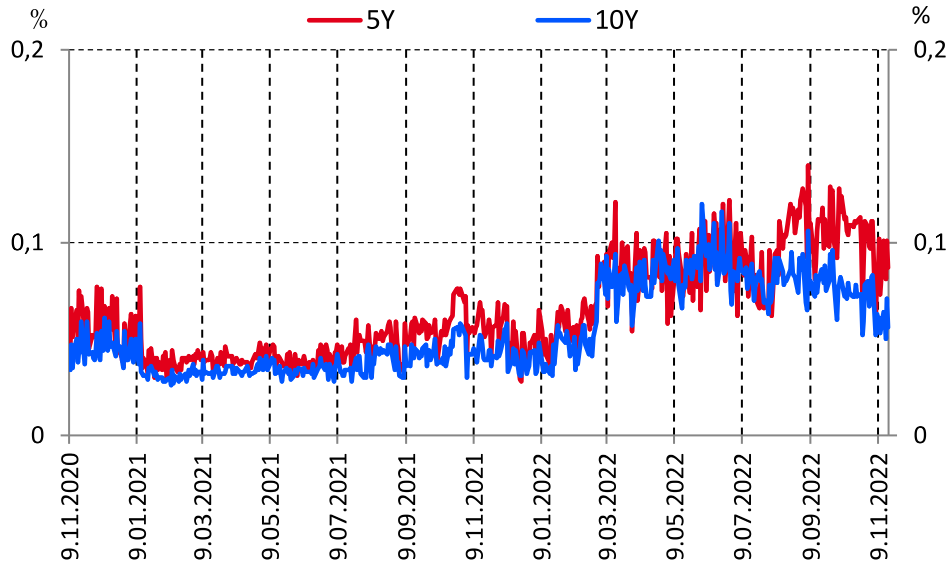
Figure 23: Trading Volumes on the Official Trading Platform (MTS) and Other Markets (OTC)



Source: Ministry of Finance, 23.11.2022

Figure 24 shows the volatility of the spread between the buy (BID) and sell (ASK) sides of the 5- and 10-year euro Slovenian bond. The BID-ASK spread has stabilised at 8.7bp for the 5-year maturity and at 5.6bp for the 10-year maturity.

Figure 24: Bid – Ask Spread of Euro 5-year and 10-year Slovenian Bond



Source: Bloomberg, Ministry of Finance own calculations, 23.11.2022

4.3. Institutional structure of investors in bonds of the Republic of Slovenia

Before the Republic of Slovenia's accession to the euro area, which Slovenia joined on 1 January 2007, it was necessary to ensure the conditions for the expansion of the predominantly domestic investor base on the international, primarily European, financial market. Such an orientation was dictated both by the limited investment capacity of domestic investors (mainly banks), and by the lower demand already in 2006, and also by the disinvestment of domestic investors in the debt securities of the Republic of Slovenia due to additional investment opportunities on the common European financial market.

In order to attract euro area investors, in particular non-bank financial institutions, a syndicated mode of issuance of debt securities of the Republic of Slovenia was introduced at the beginning of 2007. The effect of this mode of distribution on the primary market is also reflected in the institutional composition of the buyers of syndicated issues of the Republic of Slovenia's bonds from 2007 onwards.

In the immediate aftermath of euro area entry, fund managers accounted for the largest share of the shareholder structure (more than 50%), followed by commercial banks with a share of just over 30%. In 2008, the global financial crisis reversed this relationship. By the beginning of 2009, the banks' share had risen back above 50%. The dominance of banks continued until 2010, with the exception of a brief period in the second half of 2009. The marked dominance of financial funds in the period from 2012 to early 2014 also reflects the limited access to financing for the Republic of Slovenia on the domestic euro market. During this period, long-term financing on the global US debt capital market was more cost-effective, with funds with a riskier investment policy dominating the shareholding structure. Even after 2014, when the Republic of Slovenia financed domestically, fund managers remain the largest group of investors with a share of 46% in the institutional investor structure, while banks remain the second largest investor in the bonds of the Republic of Slovenia with a share of 27% in the total benchmark bond portfolio. The share of pension funds and insurance companies has reached 12.7% in recent years, mainly through the issuance of euro bonds of longer maturities, which demonstrates the long-term confidence in the issuer that has been built up. The investor structure achieved, both geographically and institutionally, is a testimony to the credibility of policies and, consequently, to the successful establishment of Slovenian debt securities as a low-risk investment. In recent years, the Republic of Slovenia has thus successfully diversified its investor base both geographically and institutionally. The latter is of paramount importance in terms of ensuring and strengthening permanent and reliable access to sources of financing for the State budget. (**Figure 25** and **Figure 26**).

Figure 25: Institutional Classification of
Investors

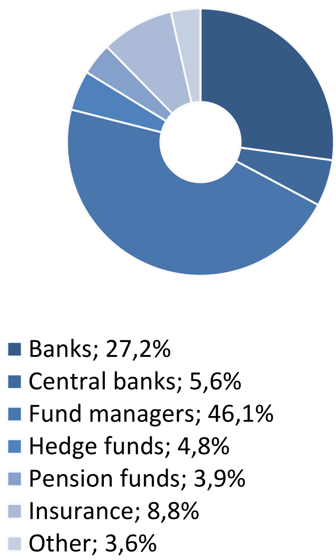
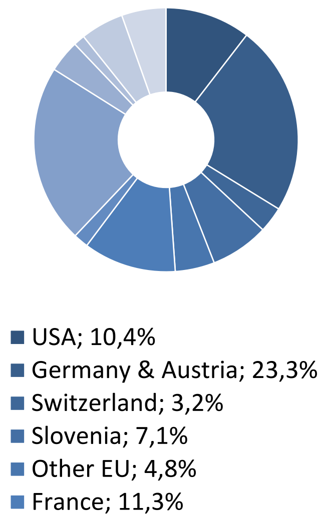


Figure 26: Geographical Breakdown of
Investors



Source: Ministry of Finance, 25.11.2022

5. DEBT MANAGEMENT

The types of debt management transactions and the basic purposes for which they are carried out are set out in Article 82 of the MFF. Article 82(1) of the MFF provides that the State may raise the funds necessary for the repayment of the State's debt before its maturity or for the redemption of its own securities by drawing on loans and issuing securities, provided that this is:

1. support measures to achieve macroeconomic balance;
2. reduce the cost of government debt; or
3. improves the quality of borrowing and thus does not increase government debt.

According to Article 82(2) of the MFF, in addition to the above-mentioned transactions, the State may also enter into other transactions related to sovereign debt (derivatives) for the purpose of the State's exchange rate and interest rate risk management.

The Minister responsible for finance decides on the conclusion of sovereign debt management operations on the basis of Article 84(1) of the JJF and the annual financing programme adopted by the government or another person under his/her authority.

The early repayment of debt before maturity referred to in Article 82(1) of the MFF may take the form of early repayment of the principal and related interest of the financing instruments containing the right of early repayment (loans or securities), through the repurchase or exchange of own securities. The choice of the form of repayment and the possibility of early repayment are conditional on the possibility of new indebtedness in the amount of the early repayment and on the yield and structure ensuring that at least one of the conditions set out in Article 82(1) of the SFF is fulfilled. For these sovereign debt management transactions, the effects on the structure of the debt, the exposure to macro-economic and market risks, on liquidity and on the yield curve of Slovenian government securities are assessed.

Derivatives for the purpose of hedging the exchange rate and interest rate risks referred to in Article 82(2) of the MFF may take the form of currency and interest rate swaps and transactions that reduce the credit exposure in relation thereto.

5.1. Securities redemptions and swaps

The Treasury Directorate of the Ministry of Finance monitors market conditions on an ongoing basis and executes transactions depending on market conditions, in an appropriate time sequence, in the auction mode and bilaterally with the primary subscribers for the bonds of the Republic of Slovenia.

Debt management transactions are market transactions, executed on market terms, but subject to the interest of bondholders and market conditions at any given time. In a low yield environment, bondholders have been faced with the challenge of reinvesting in other investments, which is usually expressed in auctions by security holders offering lower amounts and demanding a higher redemption premium. However, the Ministry of Finance, in accordance with the ZJF and the annual Budget Execution Financing Programme, accepts only those bids from holders that have a positive net present value and thus positive effects for the State budget.

5.1.1. Criteria for the execution of securities repurchase and swap transactions

Any securities repurchase and swap transactions will be carried out in accordance with Article 82 of the MFF. The effects of the repurchase and/or swap transactions will be assessed and the objectives of effective debt management of the State budget will be pursued in the light of the following criteria:

1. reducing interest expenditure;
2. increasing the average time to maturity of the debt and consolidating the structure of the State Budget's debt portfolio by replacing bonds with shorter remaining maturities with bonds of longer maturities, thereby reducing the refinancing risk;
3. estimates of the expected positive financial break-even economics, which implies that the early refinancing transaction of the shorter remaining maturities and the issuance of the longer maturities realise existing market interest rates for a longer period, which are expected with a high degree of certainty to be at least equal to or higher than the current market interest rates, given the broader macroeconomic and financial conditions over the next medium term. This has a positive impact both on the cost of borrowing and on the cost of holding the liquidity buffer of the liquidity manager of the government budget;
4. a positive budgetary impact in terms of a change in the debt stock, in terms of a positive net present value of the debt management transaction;
5. the selection of bonds for redemption and/or exchange, which allows the Republic of Slovenia to maximise the participation of holders and thus achieve a lower redemption premium and/or a lower conversion discount. The method of execution of such a transaction may be syndicated or through bids to a limited number of investors, if this would improve the terms achieved in the auction.

Based on the above criteria, the following positive effects are also sought to be achieved through buy-backs and/or exchanges:

1. increasing the liquidity of government securities on the secondary market;
2. consolidating the government debt portfolio;
3. Strengthening the benchmark yield curve for government securities;
4. effectively positioning government debt in the common European and global debt capital markets.

The buyback and/or exchange price of each security is determined on a market basis. The Republic of Slovenia may, if market conditions permit, offer for buy-back and/or exchange any of the existing securities in the debt portfolio of the Republic of Slovenia.

5.1.2. Method of execution of securities repurchase and swap transactions

Repurchase and swap transactions may be executed through auctions, using the rules for the conduct of auctions of government securities in force from time to time, or by other means, in accordance with standard market practice established in the financial market.

Securities repurchase and swap transactions will be executed in accordance with each year's annual financing programme, if market conditions allow, if there is interest in the market for the sale or swap of securities and depending on the liquidity of the State budget.

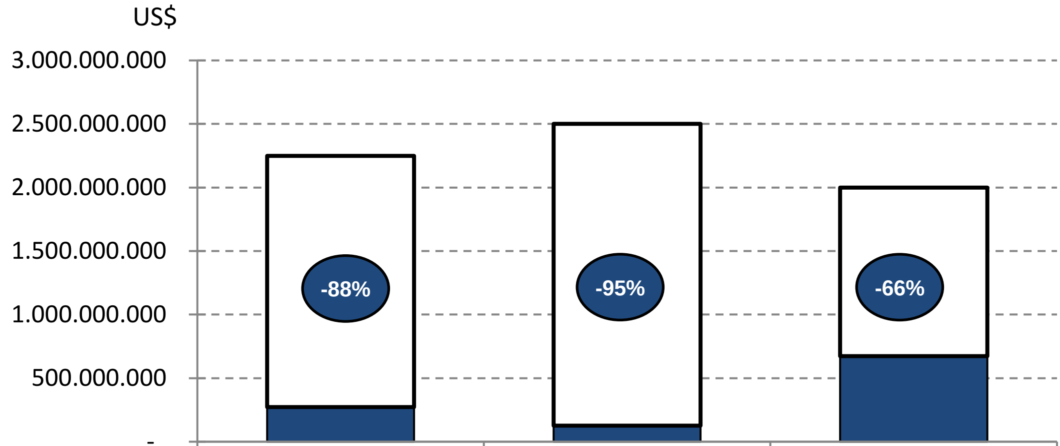
5.2. Currency and interest rate swaps

The Ministry of Finance may enter into foreign exchange swaps on behalf of the Republic of Slovenia to manage the exposure to exchange rate risk arising from the servicing of foreign currency borrowings. Interest rate swaps may be entered into for the purpose of managing interest rate risk as well as the risk of interest rate rises and for the purpose of optimising the structure of the government debt portfolio in terms of achieving an optimal ratio between fixed and variable interest rates. Currency and interest rate swaps are market transactions executed on market terms and in accordance with appropriate business practice.

Taking into account the EUR/USD cross-currency debt management transactions from May 2016 to February 2022, the Republic of Slovenia has replaced a total of 61.37% of its total more expensive dollar debt with cheaper euro debt of significantly longer maturities, as shown in **Figure 28.** The remaining balance of the dollar debt portfolio after the maturity of the SLOVEN 2018, SLOVEN 2019 bonds and after all eight executed cross-currency debt management transactions as at 23 February 2022 amounted to USD 1,072,940,000 (the starting balance as at 31 December 2015 was USD 9,250,000,000).

Figure 27 shows the share of the realised buy-back of each of the Republic of Slovenia's dollar bonds.

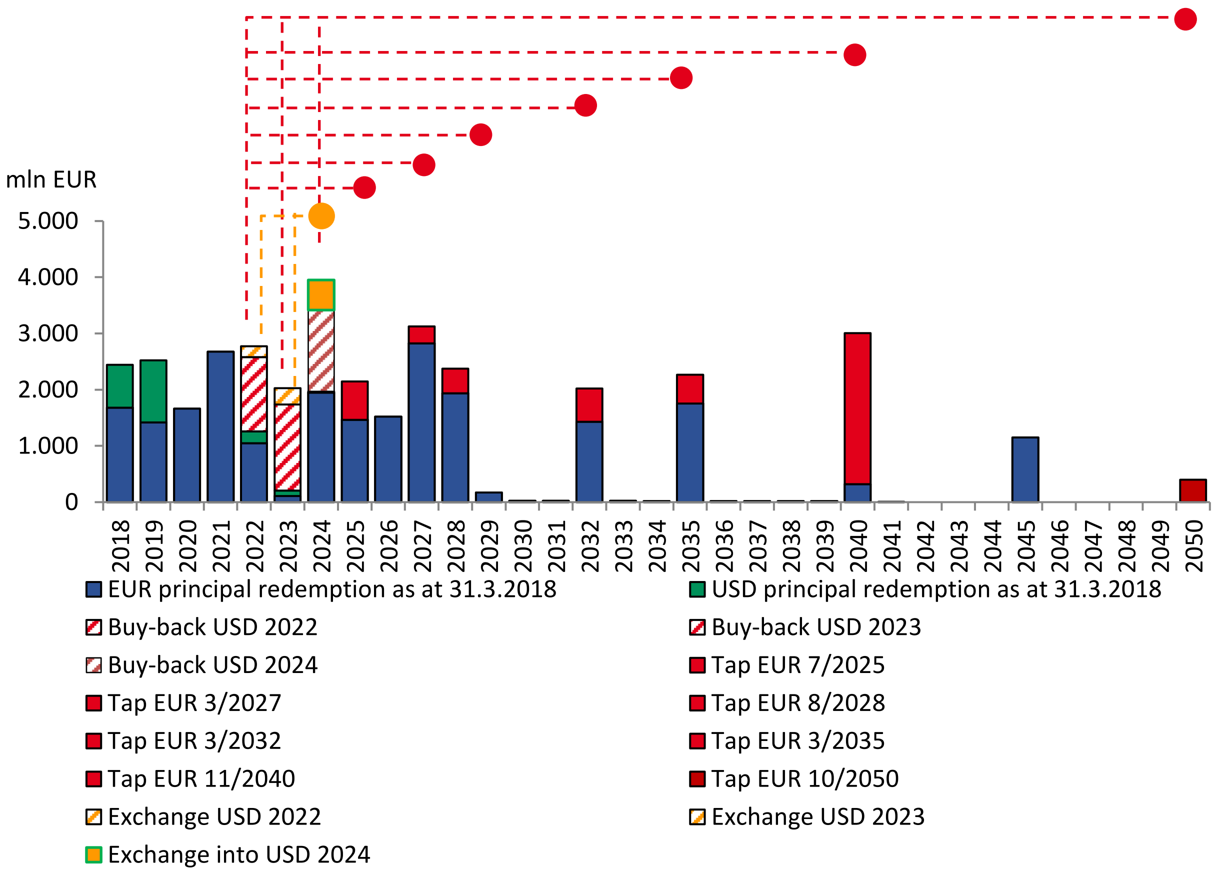
Figure 27: Balance of Individual USD Bonds of the Republic of Slovenia after the end of USD-EUR Debt Portfolio Management Transactions



	US$ 2022	US$ 2023	US$ 2024
Buy-back	1.977.490.000	2.373.585.000	1.325.985.000
US$ Balance 23.2.2022	272.510.000	126.415.000	674.015.000

Source: Ministry of Finance, 24.11.2022

Figure 28: Buy-back Scheme of US$ Bonds of Slovenia with Euro Bonds of Longer Maturities



Source: Ministry of Finance, 24.11.2022

5.2.1. Management of collateral under foreign exchange and interest rate swaps

The currency and interest rate swap transactions were executed on the basis of the "ISDA 2002 Master Agreement", which the Republic of Slovenia has with some of the primary subscribers of the bonds of the Republic of Slovenia. The Republic of Slovenia also has a Credit Support Annex ("CSA") with the primary subscriber banks with which it has an "ISDA 2002 Master Agreement".

Under the CSA, the Republic of Slovenia and the banks with which the Republic of Slovenia has entered into a currency and/or interest rate swap have mutually committed to provide cash or bond cover ("Credit Support") for the purpose of mitigating credit risk for the entire duration of the swap. This almost completely eliminates the risk of a counterparty defaulting on the transactions entered into.

In 2018, the Republic of Slovenia decided to switch to a daily cash margining (previously weekly), which allows for a lower credit spread and lower transaction costs when entering into new swap transactions. The CSA also specifies the currency of the margin and the interest rate paid or received by the Republic of Slovenia on the margin received or given.

The party receiving the cash margin thus becomes legally the "owner" of the money (in the sense that it can freely dispose of such money), but in economic terms the cash margin remains the property of the party that provided it until the transactions are terminated and the repayment obligation is no longer owed. Until such time, the party providing the margin remains the ultimate beneficiary of any return on the margin (the agreed interest rate on the margin).

The cash cover received by the Republic of Slovenia from banks increases the government debt according to ESA2010 rules, while according to the national methodology does not.

6. STRATEGIC OBJECTIVES 2023-2025

6.1. Strategic objective 1: Ensure timely financing of the execution of the State budget to the necessary extent

6.1.1. More detailed definition of the objective

The Treasury Directorate ensures that the Treasury has adequate and timely liquidity for the smooth implementation of the State budget. In doing so, it pursues the objective of achieving an optimal level of borrowing in relation to the dynamics of borrowing needs, as follows:

- borrowing with different instruments and different maturities within the framework of documents adopted by the Slovenian Government;
- ensuring the most optimal borrowing structure for the implementation of the national budget;
- Borrowing is carried out on the basis of transparent and pre-arranged procedures.

6.1.2. Criteria for achieving the target

- the share of the borrowing quota realised;
- Timeliness of implementation against plan;
- Comparison of outturn/plan.

6.1.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** participating in the preparation or revision of the national budget
Responsibility: Director-General of the Treasury Directorate
Year: Depends on the state budget preparation plan

ii. **Activity:** preparation and adoption of the annual Financing Programme for the Budget of the Republic of Slovenia
Responsibility: Director General of the Treasury Directorate, Government of the Republic of Slovenia on the basis of a proposal from the Ministry of Finance
Year: no later than 1 month after the adoption or amendment of the budget for the current or following year

iii. **Activity:** implementation of the national budget's borrowing
Responsibility: the Minister for Finance, or a person authorised by the Minister for Finance

Year: depends on market conditions and the annual borrowing calendar

iv. **Activity:** monitoring the implementation of borrowing and the government's borrowing quota
Responsibility: Director-General of the Treasury Directorate and Head of Front Office
Year: 5th working day of the month

v. **Activity:** cooperation within the Ministry of Finance's Liquidity Commission with other sectors within the Ministry of Finance
and its constituent bodies
Responsibility: Director-General of the Treasury Directorate and Head of Front Office
Year: 2nd working day of the month

vi. **Activity:** cooperation with the Primary Registrars Group
Responsibility: Director-General of the Treasury Directorate and Head of Front Office
Year: before the preparation of the regular annual Financing Programme for the following year, and at least once more during the year (usually mid-year)

6.1.4. Risks to achieving the objective and measures to manage the risks

Risk	Impact	Probability of occurrence	Managing	Action
Failure to adopt budget assumptions and prepare the annual budget.	Important	Medium	In part	Urgency to supply the relevant data for the preparation of the budget, if available, otherwise use the data of the last adopted budget for the current year or the data for the purpose of provisional financing.

Difficult or extremely costly debt execution due to the debt capital markets crisis.	Important	Great	Yes	Borrowing through alternative borrowing methods and instruments.

6.2. Strategic Objective 2: Minimise the long-term cost of funding with acceptable refinancing risk and acceptable currency, interest rate and other market risks

6.2.1. More detailed definition of the objective

The Analysis, Risk Management and Financial Statistics Division monitors risks in the preparation and execution of borrowing. Particular attention is paid to refinancing risk, which is particularly important in the event of a severe or unforeseen situation in the debt capital markets. It monitors currency, interest rate and other market risks and mitigates them as far as possible when executing borrowings. It mitigates refinancing risk and other market risks as follows:

- an appropriate borrowing plan, set out in the Financing Programme;
- managing the national budget's debt in line with the Financing Programme;
- maintaining and expanding the investment base;
- Ensuring an appropriate maturity profile of principal amounts and minimising refinancing risk;
- a borrowing strategy whose main principle is to strengthen the ability to flexibly access both domestic and global debt capital markets (EUR, US$, YEN) and to be time-responsive;
- the use of derivatives to hedge currency, interest rate and credit risks.

6.2.2. Criteria for achieving the target

- measuring the currency and interest rate risk of debt;
- monitoring the maturity profile of principal amounts by year;
- calculating the effects of early refinancing operations/debt exchanges;
- calculating the effects of a secondary market auction of bond buy-back or exchanges;
- monitoring the evolution of the currency and interest rate structure of the government debt;
- monitoring the portfolio of collateral provided/received as counterparty credit risk insurance;
- calculating and monitoring movements in the yield curve of securities.

6.2.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** monitoring the maturity profile of principal maturities in future years

Responsibility: Director-General of the Treasury Directorate and Head of the Middle Office

	Year:	when drawing up the commitment or the annual Financing Programme
ii.	**Activity:**	monitoring the currency and interest rate structure of the state budget debt
	Responsibility:	Director-General of the Treasury Directorate and Head of the Middle Office
	Year:	when drawing up the commitment or the annual Financing Programme
iii.	**Activity:**	the execution of debt buy-back or exchange transactions on the secondary market
	Responsibility:	Director-General of the Treasury Directorate and Head of the Middle Office
	Year:	subject to market conditions
iv.	**Activity:**	execution of an early refinancing of debt redemption
	Responsibility:	Director-General of the Treasury Directorate and Head of the Middle Office
	Year:	subject to market conditions
v.	**Activity:**	use of financial derivatives to hedge against financial risks
	Responsibility:	Director-General of the Treasury Directorate and Head of the Middle Office
	Year:	on a transaction-by-transaction basis, subject to market conditions

6.2.4. Risks to achieving the objective and measures to manage the risks

Risk	**Impact**	**Probability of occurrence**	**Managing**	**Action**
Non-operation of the "e-ZKL" application due to malfunctioning of the application.	Important	Medium	Yes	Analysis can be prepared using other tools (MS Excel, Matlab).
Non-operation of the "e-ZKL" application due to a fault outside the application (server down).	Important	Medium	No	Ensure ongoing monitoring and maintenance at server capacity level at the Ministry of Finance.
Failure of the existing web connection on the auction execution computer	Important	Medium	No	Ongoing monitoring and maintenance of a stable internet connection, which

Risk	Impact	Probability of occurrence	Managing	Action
(access to the Bloomberg financial platform) and consequent failure to execute the securities auction or the early refinancing/securities exchange analyses.				must allow faster and more reliable data transmission. Auction rules are in place which prescribe the possible actions.
Non-availability of access to the KDD's CRVP system and, as a consequence, the settlement of treasury bill issues.	Important	Medium	Yes	Possibility to send settlement instructions to the KDD by e-mail with Sigov-ca signature.
Lack of appropriate training profiles/staff to carry out individual transactions.	Important	Medium	Yes	Duplication of staff with relevant skills is ensured. Maintain the existing staffing structure with good working conditions.

6.3. Strategic Objective 3: Expanding the investment base to strengthen continuous and reliable access to sources of finance and to communicate effectively with relevant international institutions

6.3.1. More detailed definition of the objective

In order to issue debt in an efficient and timely manner, it is necessary to secure a certain group of investors who are familiar with the political and macroeconomic situation in the Republic of Slovenia. The activities of the Treasury Directorate in pursuing the objective of broadening the investment base as well as keeping credit rating agencies and other relevant international institutions informed are:

- attracting new potential investors and strengthening contacts with existing investors in government securities;
- increasing the share of resident domestic investors in the investor shareholding structure;
- Examination of the possibility of issuing other long-term securities (retail bond), USD bond, Samurai bond, Tokyo pro bond, Panda bond, off-shore RMB bond;
- up-to-date information on the state budget's borrowing and debt position to investors through regular publications - updating the investor presentation on the website, preparing and sending relevant newsletters via e-mail and regularly updating the information on the website, which is aimed at potential investors and other relevant entities such as credit rating agencies, IMF, etc.
- Encouraging foreign investors to invest in securities with a shorter maturity of up to one year;
- ensuring that CRAs are kept informed of the country's reform objectives and policies.

6.3.2. Criteria for achieving the target

- the share of new investors in the issuance of securities, both in terms of geographical distribution and type of investor.

6.3.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** carrying out investor visits
Responsibility: Director-General of the Treasury Directorate

Year: on a continuous basis or, if necessary, at the time of the issue of the security

ii. **Activity:** providing investors with information on the state budget's borrowing and debt position

Responsibility: Director-General of the Treasury Directorate

Year: regular quarterly or monthly information

iii. **Activity:** examining the possibility of issuing other long-term securities

Responsibility: Director-General of the Treasury Directorate and Head of the Front Office

Year: on a continuous basis according to market conditions

6.3.4. Risks to achieving the objective and measures to manage the risks

Risk	**Impact**	**Probability of occurrence**	**Managing**	**Action**
Failure to carry out the planned investor visit.	Important	Small	Yes	In addition to face-to-face contact with the investor, it is possible to communicate with the investor remotely by electronic means, videoconferencing, but this is less efficient given the nature of the business. Regularly sending reports to investors (Newsletter) on the occasion of major events in the Republic of Slovenia via e-mail.

6.4. Strategic Objective 4: Increase the liquidity of government securities and develop the secondary market for government securities

6.4.1. More detailed definition of the objective

Adequate liquidity of Slovenian benchmark government bonds on the secondary market allows for efficient real market pricing of government securities. The Treasury Directorate will carry out the following activities to achieve greater liquidity of government securities:

- official liquidity providers are offered the possibility to lend their own debt securities of the Republic of Slovenia listed on the official trading platform for the maintenance of liquidity in government securities for the purpose of settling transactions;
- daily and monthly monitoring and assessment of all banks participating as primary subscribers and official liquidity providers;
- the possibility of carrying out redemptions of bonds of the Republic of Slovenia that will be withdrawn from the MTS Slovenia when they reach a maturity shorter than the specified maturity is being examined;
- the possibility of increasing the nominal amount of bonds already issued in previous years with a nominal amount of issue lower than the current standard nominal amount of the reference bond by reopening these bonds in syndication or by auction is examined.

6.4.2. Criteria for achieving the target

- calculating daily performance indices for primary registrars;
- calculating the monthly performance of primary registrars;
- calculating various secondary market liquidity indicators;
- analysis of the secondary market for government bonds and benchmarking against other comparable markets;
- analysis of the performance of the secondary market bond buy-back auction.

6.4.3. Activities, responsibilities and deadlines for achieving the objective

i.	**Activity:**	monitoring the liquidity of the secondary market for Slovenian government bonds
	Responsibility:	Head of the Front Office and Head of the Middle Office

Year: daily or monthly

ii. **Activity:** implementation of a project to introduce bond lending for the purpose of settling trades

Responsibility: Director-General of the Treasury Directorate, Head of the Front Office and Head of the Back Office

Year: depending on market conditions

iii. **Activity:** the execution of a securities buy-back or exchange transaction on the secondary market

Responsibility: Head of the Front Office

Year: depending on market conditions

iv. **Activity:** auctioning of long-term securities using the Bloomberg financial platform

Responsibility: Head of the Front Office

Year: depending on market conditions

6.4.4. Risks to achieving the objective and measures to manage the risks

Risk	Impact	Probability of occurrence	Managing	Action
Non-operation of the "e-ZKL" application due to malfunctioning of the application.	Important	Medium	Yes	Analysis can be prepared using other tools (MS Office - Excel).
Non-operation of the "e-ZKL" application due to a fault outside the application (server malfunction).	Important	Medium	No	Ensure ongoing monitoring and maintenance at server capacity level at the Ministry of Finance.

Failure of the existing web connection on the computer for the execution of the auction (access to the Bloomberg financial platform) and consequent failure to execute the securities auction or the securities underwriting analysis.	Important	Medium	No	A more stable internet connection would be needed, which would also allow faster and more reliable data transmission. There are auction rules in place which defines the possible actions.
Failure to access the CSD's KDD system and, as a consequence, securities lending settlement is prevented.	Important	Medium	Yes	Possibility to send settlement instructions to the KDD by e-mail with Sigov-ca signature.
Staff overload.	Important	Medium / High	Yes	Ensuring and maintaining adequate staffing levels in line with the increase in workload.

6.5. Strategic objective 5: Further centralisation and consolidation of the assets of the Treasury Single Account system and further development of the EZRLKV application system

6.5.1. More detailed definition of the objective

The cash resources of the Treasury Single Account System (hereinafter "the TSA") are managed by the Treasury's TSA Asset Manager within the Ministry of Finance. The development of the national TSA system is moving towards further centralisation (integration of the TSA of the municipalities into the national TSA) and consolidation of public sector cash (covering the liquidity needs of the entities within the national TSA system with loans for which the sources of repayment are known), all of which would lead to even greater transparency over the public sector's cash flows and cash management.

6.5.2. Criteria for achieving the target

- integrating additional municipal TSAs into the state-level TSA;
- Increase in the volume of loans granted from the cash resources of the country's TSA system.

6.5.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** Continuing the integration of municipal TSAs into the national – state level TSA

Responsibility: Director-General of the Treasury Directorate, Head of the Front Office

Year: progressively, over the whole period covered by the strategy

i. **Activity:** Increase in the volume of loans granted from the cash resources of the country's TSA system.

Responsibility: Director-General of the Treasury Directorate, Head of the Front Office

Year: progressively, over the whole period covered by the strategy

6.5.4. Risks to achieving the objective and measures to manage the risks

Risk	Impact	Probability of occurrence	Managing	Action
Staff overload.	Important	High	In part	Ensuring adequate staffing levels in line with the increase in workload.
Low interest of municipalities in joining the country's TSA.	Important	Medium / High	In part	Informing municipalities and municipal indirect budget users about the benefits of joining the TSA.

6.6. Strategic objective 6: Ensure the continued development of the EZRLKV application system

6.6.1. More detailed definition of the objective

The EZRLKV application functionally supports the management and accounting of the cash resources of the country's TSA system. The EZRLKV web and desktop application enables the conclusion and validation of transactions within and outside the national TSA system, the validation of IOP forms, the monitoring of payment traffic in the individual sub-accounts of the national TSA system and in the national TSA itself with the central bank, and the processing of payment orders of the treasury sub-account. The application runs on the infrastructure of the Ministry of Finance, while also directly accessing the IT infrastructure of the Public Treasury.

The application is developed in such a way that it could also serve municipal financial services as managers of the municipal TSA, should they take over the active cash management of the municipal TSA system. The Ministry of Finance is responsible for the development and maintenance of the application and the system support for the operation of the application, as well as for the provision of consultancy services for the use of the application.

The increasing number of users of the EZRLKV application (currently there are 569 registered users of the web application and 16 users of the desktop application), the requirements for high responsiveness of the application in the execution of procedures (real-time transfer of funds within the TSA and externally) and the daily use of the application make it essential to ensure the maintenance and upgrading of the EZRLKV application (both desktop and web).

6.6.2. Criteria for achieving the target

- Ensure the smooth execution of payments by budget users participating in the country's TSA system;
- Ensuring that the EZRLKV application can be maintained;
- Provision of appropriate terminal equipment to enable the continued successful operation of the EZRLKV application.

6.6.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** ensure the smooth execution of payments by the entities participating in the country's TSA system;
Responsibility: Director-General of the Treasury Directorate and Head of the Front Office
Year: throughout the period covered by the strategy

ii. Activity: to ensure that the EZRLKV application can be further maintained
Responsibility: Director-General of the Treasury Directorate, Head of IT and Services, Task Force
Year: throughout the period covered by the strategy

iii. **Activity:** provision of appropriate terminal equipment to enable the continued successful operation of the EZRLKV application
Responsibility: Director-General of the Treasury Directorate, Head of IT and Services, Task Force
Year: throughout the period covered by the strategy

6.6.4. Risks to achieving the objective and measures to manage the risks

Risk	**Impact**	**Probability of occurrence**	**Managing**	**Action**
Inability to upgrade IT support (EZRLKV).	Important	Medium	In part	Ensuring financial resources for ongoing maintenance.
Staff overload.	Important	Medium	In part	Ensuring adequate staffing levels in line with the increase in workload and training.
Outsourcing risk.	Important	Medium	In part	Presentation of the importance of a uniquely developed application for the needs of the Ministry.

6.7. Strategic objective 7: Ensure the continued development, effectiveness and responsiveness of the information system for government debt control and data

6.7.1. More detailed definition of the objective

Maintenance and upgrading of the e-ZKL application, which provides a database for the management, reporting and management of the State budget debt and a tool for its smooth servicing. Upgrades to the e-ZKL application allow for adaptations to additional functionalities arising from the business and changing exchange requirements with other systems.

Maintenance and upgrading of the e-Debt IT support at government level to ensure a more user-friendly and faster production of the reports on indebtedness of public sector legal entities referred to in Article 87 of the Public finance act. The same applies to the application support and reporting system for State guarantees issued.

Adequate maintenance of the reporting system - support for obtaining up-to-date and accurate data on municipal borrowing and debt position.

The project for the maintenance and necessary upgrades of the Debt, Borrowing and Guarantee Information System (DZP-04) is crucial for obtaining reliable and accurate data on the indebtedness of the entities included in the general government sector in real time at the request of decision-makers and users. It is an application support which is defined as a critical infrastructure in the RS.

6.7.2. Criteria for achieving the target

- Provide contractual cover for the upgrade and maintenance of the DZP-04 application support (debt, borrowing and guarantees) when the existing maintenance and upgrade contract expires in 2022;
- Ensuring that the server equipment is adequate, i.e. powerful, to enable reliable and responsive operation of applications running on the updated .NET technology.

6.7.3. Activities, responsibilities and deadlines for achieving the objective

i. **Activity:** to provide contractual cover for the DZP-04 to upgrade and maintain existing application support

Responsibility: Director-General of the Treasury Directorate, Director-General of the Public Assets Directorate, Director-General of the Budget Directorate and Head of the Information Technology and Services Department

Year: The existing contract DZP- 03 is valid for the period 2018 - 2022. Ensure contractual coverage after expiry in 2022 for the next 4-year period.

6.7.4. Risks to achieving the objective and measures to manage the risks

Risk	Impact	Probability of occurrence	Managing	Action
Length of the procurement process and the signature of the contract with the successful contractor.	Important	Medium	Yes	Timely information to decision-makers, i.e. Heads of Directorates and IT, on the approaching expiry date of the contract. The Project Team Leader prepares annually the Investment Project Implementation Report in accordance with Article 58 of the Financial Management Manual of the Ministry of Finance. The contents of the Report shall be communicated to the decision-makers and to the DZP- 03 Project group.
Outsourcing risk.	Important	Small	Yes	Preparation of relevant indicators for the selection of a tenderer.
Preparation of project documentation for the implementation of the DZP-04 project.	Important	Small	Yes	Formation of an expert group to prepare the required documentation from the relevant Directorates & IT.