*UNOFFICIAL TRANSLATION of the Financing Program of the Republic of Slovenia Central Government Budget for the Fiscal Year 2021 (Government Decision No. 41003-20/2020/5 dated 9 December 2021).*

FINANCING PROGRAM OF THE REPUBLIC OF SLOVENIA CENTRAL GOVERNMENT BUDGET FOR THE FISCAL YEAR 2021

1st Amendment, consolidated version

# LEGAL BASIS AND STRATEGIC AND OPERATIONAL TARGETS OF THE CENTRAL GOVERNMENT BUDGET FINANCING

## LEGAL BASIS

According to Article 84 of the Public Finance Act (Official Gazette RS No.11/11 – official consolidated text, 14/13 – correction, 101/13, 55/15 – Fiscal Rule Act, 96/15 - Republic of Slovenia 2016 and 2017 Budget Execution Act and 13/18; hereinafter PFA), the financing of the central government budget execution and debt management operations in a given fiscal year are performed based on a financing program adopted by the government.

## STRATEGIC AND OPERATIONAL TARGETS

The strategic targets underlying the Financing Program are as follows:

1. to provide a sufficient and timely financing of the central government budget,
2. to minimize the long-term costs of financing, while maintaining acceptable refinancing, currency, interest rate and other market risks,
3. to execute the transactions in adherence to market principles,
4. to broaden the investor base and to ensure a permanent and steady access to the sources of financing, as well as
5. to increase liquidity of central government securities and to develop the secondary market of these securities.

According to PFA Article 84, the Financing Program represents the basic operational document for the execution of the central government budget financing as well as for execution of debt management transactions. The Program defines the framework of the central government financing and debt management instruments taking into account optimization of currency, maturity and interest rate structure of government budget debt and the risk management of the government debt portfolio.

The Financing Program for 2021 has been prepared following Article 81 of PFA, which allows the government to finance not only the execution of the central government budget for the fiscal year, but also additional financing for the purpose of prefinancing, which is limited by the level of debt principal repayments in the following two fiscal years.

Prefinancing reduces the risk of refinancing the central government budget debt and enables the Republic of Slovenia to adjust the financing dynamics according to market conditions and improves management of operational risks in execution of the Financing Program. Prefinancing also enhances flexibility in the choice of financing instruments. The aforementioned helps to achieve a more efficient financing execution, especially since the goals of building a yield curve of Slovenian central government securities and achieving syndicated bond size of €1 billion need to be considered when choosing funding instruments. The possibility to prefinance ensures more adequate responses to the market conditions, which is especially important in times of crisis and insecurity. Prefinancing is only a shift in the timing of financing and not financing in excess of funding necessary for financing of the budget in a given year, since every year the budget financing need of the current year is decreased by the amount of prefinancing executed in the previous year.

Following the strategic targets, the operational targets of the 2021 Financing Program are set by the announced types and structure of financing instruments and instruments of debt management, and the basic guidelines for execution of those operations.

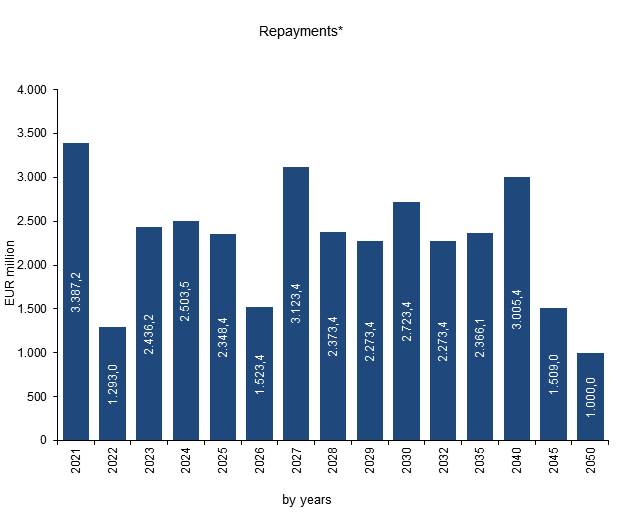
# FINANCING FOR THE EXECUTION OF THE REPUBLIC OF SLOVENIA BUDGET FOR THE YEAR 2021

## 2.1 PROJECTED SIZE AND STRUCTURE OF THE CENTRAL GOVERNMENT BUDGET DEBT AT THE END OF 2021

**2.1.1. The yearly central government budget debt principal repayments**

The chart below shows the outstanding central government budget debt repayments in the period from 2021 until 2081, projected on the basis of the outstanding central government budget debt as of 31 October 2021.

Chart 1: Central government budget debt repayments



\* Source: MoF, exchange rate - BoS rate 31 October 2021.

**2.1.2. The outstanding central government budget debt as at the end of 2020 and projected outstanding amount as at the end of 2021**

The outstanding amount of the Republic of Slovenia central government budget debt as at the end of year 2020 was €34,319 mio. The projected outstanding amount of the Republic of Slovenia central government budget debt as at the end of year 2021 shall be €36,408 mio representing 72.3 per cent. of GDP[[1]](#footnote-2).

Table 1: The outstanding central government debt of the Republic of Slovenia as at the end of 2020 and projected as at the end of 2021 in EUR and as percentage of GDP

*million €*

|  |  |  |
| --- | --- | --- |
|  | 31 December 2020 | 31 December 2021 |
| Central government budget debt\* | 34,319 | 36,408 |
| GDP\* | 46,918 | 50,364 |
| Debt / GDP | 73.1% | 72.3% |

Source: MoF

\*Source: SORS August 2021; IMAD, Autumn economic forecast, September 2021

**2.1.3. The currency structure of the outstanding central government budget debt**

In the years following the EMU accession, the outstanding central government budget debt in EUR remained at mostly the same levels and at the end of 2011 represented 99.8 per cent. of the total outstanding central government budget debt. In the period from 2012 to 2014, the Republic of Slovenia financed the central government budget in global capital markets by issuing bonds denominated in USD. The share of EUR denominated debt as at the end of 2014 stood at 73.0 per cent. of the total debt. 55.1 per cent. of the USD debt portfolio was changed to EUR in the seven cross currency debt management transactions executed in 2016, 2017 and 2018. A short term 1 bn USD denominated Republic of Slovenia bond was repaid in 2018. As a consequence, the share of the central government budget debt denominated in EUR represented 91.7 per cent. of the total central government budget debt outstanding at the end of 2018. Another short term 1.5 bn USD denominated Republic of Slovenia bond was repaid in 2019. The share of EUR denominated debt stood at 95.4 per cent. as of the end of 2019. Taking into account also the cross currency swap transactions executed at the time of the USD bond issues, following which the USD obligations were changed in EUR, the total outstanding central government budget debt in EUR increased to 99.9 per cent. as of the end of 2020 and is expected to remain at that level as of the end of 2021.

**2.1.4. The interest rate structure of the outstanding central government budget debt**

The outstanding central government budget debt was composed of 0.8 per cent. of floating rate financing instruments and 99.2 per cent. of fixed interest rate financing instruments at the end of 2020. The interest rate structure of the projected central government budget debt as at the end of 2021 does not change substantially.

## FUNDING SIZE IN 2021

Based on Article 81 of PFA, the Republic of Slovenia Budget adopted for the year 2021 (Official Gazette RS No. št. 11/11 – official consolidated text, 14/13 – correction, 101/13, 55/15 – ZFisP, 96/15 – ZIPRS1617, 13/18 in 195/20 – Consitituional Court Decision), and based on the amount of the central government financing needs for 2021, as determined by the Article 48(1) of the Republic of Slovenia 2021 and 2022 Budget Execution Act (Official Gazette RS No.174/20, 15/21 – ZDUOP, 74/21 in 172/21; hereinafter 2021 and 2022 Budget Execution Act) and considering the change of the cash position and prefinancing executed in 2020, the central government may in 2021 borrow for the financing of the execution of the 2021 central government budget and prefinancing up to the limits shown in the tables below:

**Financing in the year 2021 for execution of the central government budget**

Table 2: Financing of the execution of the Republic of Slovenia Budget for 2021

|  |  |  |
| --- | --- | --- |
| **I.** | **Central government budget of the Republic of Slovenia** |  |
|  | 1. Deficit of the central government budget (A.) | 2,746,789,588.25 € |
|  | 2. Deficit of the Central government budget lending and repayments account (B.) | 509,574,346.49 € |
|  | 3. Central government budget debt principal repayments in 2021 (C.)[[2]](#footnote-3) | 3,731,736,601.95 € |
|  | 4. Change (decrease) of the cash position (C.) | 254.999.999.99 € |
|  | **Total I. (+1.+2.+3.-4.)** | **6,733,100,536.70 €** |
| **II.** | **Prefinancing executed in 2020 and capital assets sales proceeds** |  |
|  | 1. Prefinancing executed in 2020[[3]](#footnote-4) | 1,929,661,894.10 € |
|  | 2. Prefinancing executed in 2020, included in change of the cash position | 254,999,999.99 € |
|  | 3. Capital assets sales proceeds, not used in 2020[[4]](#footnote-5) | 73,786,602.65 € |
|  | **Total II. (+1.-2.+3.)** | 1,748,448,496.76 € |
| **III.** | **Financing of the central government budget execution in 2021 (I.-II.)** | 4,984,652,039.94 € |

The amounts stated in the section I of the Table 2 are taken from the Republic of Slovenia Budget adopted for the year 2021 (Official Gazette RS No.75/19 and 174/20; further referred to as: 2021 central government budget).

Based on the adopted 2021 central government budget, which indicates in the A. account a deficit in the amount of €2,746,789,588.25 and in the B. account a deficit in the amount of €509,574,346.49 and taking into account the financing needs for principal repayments in 2021 in the amount of €3.731,736,601.95 and the change (decrease) of the cash position in C. financing account in the amount of €254,999,999.99, the financing needed for the execution of the central government budget in 2021 amounts to €6,733,100,536.70. This amount is further reduced for the portion of the prefinancing executed in 2020 and the capital asset sale in the total amount of €1,748,448,496.76. Taking this into account, the funding needs for financing the execution of the 2021 central government budget amount to €4,984,652,039.94. Despite the April and September 2021 change in the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period (Official Gazette RS, No. 26/19, 67/20, 128/20, 168/20, 65/21, 65/21 – OdPSD22–24 in 184/2021), which increase the maximum budget expenditure size related to COVID-19 pandemic containment measures, the total financing amount is not increased. According to the 48.a Article of the 2021 and 2022 Budget Execution Act this increase in the expenditures will be reflected in the change (decrease) of the cash position; consequently, no additional borrowing will be needed.

Following Article 81 of PFA, financing of a portion of the central government budget requirements for the next two years is permitted besides the 2021 budget financing. The maximal funding size permitted by law in 2021 for this purpose is the sum of 2022 and 2023 debt principal repayments, as stated in the central government budget debt records on the day of each financing in 2021.

## 2.3. EXECUTION OF FINANCING – ENVISAGED INSTRUMENTS AND FINANCING DYNAMICS

The structure of financing instruments, the size of short- versus long-term financing, and the dynamics of the financing execution are set in the Financing Program primarily in line with the strategic objectives and the principles of the central government budget financing as well as the central government budget cash flow projections.

The choice of financing instruments also represents an important factor for building the benchmark yield curve and improving the Slovenian government securities’ secondary market liquidity.

The predictability as the main principle of the financing strategy also has to be observed in the Financing Program in combination with the highest possible level of flexibility. Only in this way the execution of the program can adjust appropriately to changes in market conditions. Flexibility in the program execution is even more important in the case of volatile conditions, as an efficient use of alternative financing scenarios needs to be catered for in such an environment.

The Financing Program maintains adherence to the principle of predictability by stating the necessary amounts of financing and the instruments of financing (the primary and alternative ones). Following the flexibility principle, the actual choice of instruments (type, structure, maturity, currency), the size of each instrument selected and the timing of financing will depend on the actual market conditions and investors’ demand. In deciding on maturity of instruments, the principle of managing the refinancing risk will be taken into account. The maturity of a given financing is determined according to the size of the central government budget debt repayments in particular years, considering also the shape of the yield curve and liquidity of the central government budget debt securities along the curve.

The envisaged primary instrument for funding of the predominant part of the central government budget financing needs is financing by way of issuance of government bonds and T-bills. The strategic and operational targets, defined in the point 1.2 of the Financing Program, may also be reached by use of other financing instruments stated in the second paragraph of the point 2.3.2 of the Financing Program in smaller portion. The larger part of the yearly funding will be executed by issue of long term funding instruments. If, due to market conditions, it will not be possible to execute the central government budget financing in such a manner, the needed amount of financing will be carried out by issuing of the other financing instruments stated in the second paragraph of the point 2.3.2 of the Financing Program and by adapting the size of the long term and the short term funding.

**2.3.1 Short-term Financing Instruments**

The planned choice of short-term instruments that may be used in the execution of 2021 financing includes 3-, 6- and 12- month T-bills or T-bills with any other maturity, financing within the Single Treasury Account system, repo facility and other short-term instruments selected based on market conditions.

Financing via T-bills is planned to be executed by auctions. Auctions of the T-bills with maturities indicated above (including 18-month T-bills as a long-term instrument) shall be announced in line with an auction calendar, or outside the auction calendar if needed, and in provisional amounts, while the actual issue amount will depend on demand and on market conditions at the auction. The auction calendar can be amended in accordance to demand for certain maturities. The auction calendar will be determined by the Ministry of Finance following Finance Minister’s decision on the execution of the T-bills auction based on Article 84, paragraph one, of PFA and will be published on the Ministry of Finance’s website. Uniform price auctions will be executed electronically using the Bloomberg auction system, under the Ministry of Finance Auction Rules[[5]](#footnote-6).

The actual choice of short-term financing instruments during 2021, the choice of the financing dynamics, maturities and the choice of the issuance method will depend on current market conditions and the purpose of such financing, taking into account strategic and operational targets and maturity structure of existing central government budget debt.

**Main characteristics of the T-Bills:**

Type of security: discounted security, dematerialized security in book entry form, registered on the holders’ accounts, serial

Denomination: 1,000 EUR

Maturity: 3, 6, or 12 months or any other maturity

Repayment: nominal T- Bill value paid at maturity

Interest rate: nominal proportional (calculated as the difference between selling price and nominal value of the T-Bill)

Payment of interests: at maturity as the cashed-in difference between selling price and nominal value of the T-Bill

Issue venue: T-Bills shall be issued when entered into the central registry of KDD –Central Clearing and Depository Corporation, Ljubljana

### Long-term Financing Instruments

Within the framework of the long-term financing instruments, a public offering of bonds, issued on European or other financial markets via syndication or auctions represents the primary choice. The bonds can be issued as a new issuance or as a reopening of the existing ones, with stand alone or medium term programme issue documentation for the Republic of Slovenia debt securities[[6]](#footnote-7).

The rest of the long-term funding instruments may include regular 18-month T-bill auctions[[7]](#footnote-8), a private placement of bonds, loans, »Schuldschein«, repo facility or other established long-term financial market instruments.

The actual types of instruments, maturities and issuance dynamics will be decided by the Ministry of Finance based on the decision of the Minister (or a person authorised by the Minister) in line with the first paragraph of the Article 84 of the PFA following the conditions on markets, in line with the strategic and operational targets as defined in paragraph 1.2. Financing Programme, taking into account the maturity structure of the existing central government budget debt. Should the Ministry decide to execute government bond auctions in 2021, the auction calendar will be determined by the Ministry following Finance Minister’s decision on the execution of the bond auction based on Article 84, paragraph one, of PFA and will be published on the Ministry of Finance’s website. Auctions will be executed electronically using the Bloomberg auction system, under the Ministry of Finance Auction Rules[[8]](#footnote-9).

# MANAGING CENTRAL GOVERNMENT BUDGET DEBT

Types of central government budget debt management transactions and the main reasons for the execution of these transactions are set by Article 82 of the PFA.

The first paragraph of Article 82 of the PFA states that the government may use proceeds from loans and from issue of securities for prepayment of existing central government budget debt instruments and/or for buybacks of own securities, when this results in:

1. support of measures aimed at achieving macroeconomic equilibrium,
2. government debt costs reduction or
3. debt portfolio enhancement without increasing the outstanding central government debt amount.

Following the second paragraph of Article 82 of the PFA the government may, in order to regulate the exchange and interest risks related to the central government budget debt and in addition to the transactions mentioned above, conclude other transactions related to the central government budget debt (derivative financial instruments).

Following the first paragraph of Article 84 of the PFA, the Minister of Finance or a person so authorized by the Minister of Finance, is empowered to make decisions on concluding the central government budget debt management deals in line with annual Financing Program as adopted by the government.

The prepayments in line with the first paragraph of Article 82 of the PFA may be executed either as prepayment of principal and accrued interest of those instrument which hold the prepayment option (loans or securities), or as buybacks or exchange of own securities. The choice of method as well as actual execution depends on availability of new financing to cover the prepayment and compliance with at least one of the prepayment conditions stipulated in the first paragraph of Article 82 of the PFA. With regard to such debt management transaction effects on central government budget debt structure, exposure to macroeconomic risks, market risks, liquidity and yield curve of Slovenian government bonds are evaluated.

Derivative financial instruments used to regulate the exchange and interest risks referred to in the second paragraph of Article 82 of the PFA can be utilized in the form of cross currency, interest rate swaps and other derivatives commonly used in financial markets for such purposes, including transactions that reduce credit exposure related to them.

Criteria and methods for bond buybacks and exchanges are detailed in paragraph 3.1 below, whereas in the paragraph 3.2 of the Financing Programme derivative financial instruments for the management of exchange rate and interest rate risks are specified, and the purposes of the use of such instruments are given as well.

## GOVERNMENT SECURITIES’ BUYBACKS AND EXCHANGES

Bond buybacks and/or bond exchanges are market transactions, executed under current market conditions which depend on interest of bondholders to sell the government bonds to the Issuer or to exchange the government bonds at a certain price. The effects of such transactions depend on market conditions at the time of the execution and are evaluated.

**3.1.1 Criteria for Execution of Buybacks and Exchanges**

The execution of bond buybacks and/or exchanges will be in line with the Article 82 of the PFA. Furthermore, the effects of the bond buybacks and/or exchanges will be evaluated with respect to the achieved effectiveness of the central government budget debt management based on the following criteria:

1. A decrease of interest expenditure.
2. An increase of the average central government budget debt maturity and achieved quality of the portfolio structure of central government budget debt by substituting the bonds of the shorter remaining maturity with the bonds of a longer maturity and thus decreasing the refinancing risk.
3. An estimate of a positive financial break-even economics achieved by refinancing of bonds with a shorter remaining maturity and issuance of bonds with longer maturities and thus locking-in for a longer period the current market interest rates, which are highly likely to remain at least at the similar or slightly higher level in the future - given the expected near-future broader macroeconomic and financial situation. This strategy should have a positive effect on the financing costs as well as on the central government budget cash-flow management costs created by holding a liquidity buffer.
4. Positive effect on the central government budget in terms of the change in outstanding central government debt, measured by positive net present valuse of the debt management transaction.
5. The choice of bonds for the buyback in/or exchange execution in a way that will enable the Republic of Slovenia to achieve a much bigger participation of the bond holders and subsequently lower premium for the buyback and/or lower discount for the exchange.

Based on the above outlined criteria, the following positive effects will be targeted with the buyback / exchange transactions:

1. an increase in liquidity of government bonds in the secondary market,

2. consolidation of the central government budget debt portfolio,

3. building of a yield curve of the Slovenian government securities,

4. achieving an effective positioning of central government debt in the pan-European and global debt capital market.

The buyback and/or exchange price of a particular government security will be determined on the market.

In 2021, the Republic of Slovenia will, pending market conditions and fulfilment of criteria set by point 3.1.1 of the Financing Programme, offer in the buyback/exchange auction any of the existing securities in the central government budget debt portfolio.

**3.1.2 Mode of execution of buyback and exchange transactions**

The buyback and exchange transactions of government securities will be executed either via auctions, within the respective auction rules, or in any other manner that is in line with financial market standards.

The buyback and exchange transactions of government securities will be taking place pending market conditions, expressions of interest for such transactions in the markets and the liquidity of the central government budget. During the year, the Ministry of Finance will ascertain the level of interest for a buyback or exchange of the securities with the investors and primary dealers. If interest of the government bond holders for sale of the bonds will be identified at a level that could facilitate a transaction, the Ministry of Finance will determine the securities for it, the indicative total size of buyback or exchange, the time of public announcement of the buyback or exchange offer, and, in case of an exchange, the list of new securities which will be offered in exchange and their exchange ratio. The Ministry of Finance may execute a single buyback or exchange transaction on bilateral basis in case a security holder or the Ministry of Finance expresses interest for such transaction.

## DERIVATIVE FINANCIAL INSTRUMENTS FOR MANAGING CURRENCY AND INTEREST RISK

As referred to in points 2.3 and 2.3.2 of the Financing Programme, the primary instrument of the central government budget financing is long-term financing through public offerings of benchmark government bonds issued via syndication on the European or other markets. In line with the strategic objectives of government debt management the benchmark government bonds are typically issued with a fixed interest rate. The actual choice of instruments (type, structure, maturity, currency), the size of each instrument selected and the timing of financing will depend on actual market conditions and investors’ demand. In the event of financing through benchmark government bonds in foreign currency the government may, in order to regulate the exchange risks related to servicing the debt in foreign currency, conclude cross currency swap transactions. In the event of financing with variable interest rate the government may in order to reduce the risk arising from variable interest rate execute an interest rate swap of such variable interest rate for a fixed interest rate.

Other transactions with derivative financial instruments, established in the market, may also be concluded for the purpose of hedging against other currency and interest risks. According to the Financing Program, derivative financial instruments may also be concluded in 2021 and settled in the following years.

Derivative financial instruments for management of currency and interest risk are market transactions, executed under market conditions and in line with the relevant commercial practice.

1. Based on the Slovenia Excessive Deficit Procedure report, Slovenia, 2017-2021 the outstanding amount of the consolidated general government debt as at the end of 2021 is 80.4 % of GDP. Thus, the general government debt is 8.1 percentage points higher than the outstanding amount of the central government budget debt in 2021. The main reason for this difference is the different evaluation of the categories (ESA 10) and different scope of the institutions in the categorisation. Namely, the general government debt is defined as the sum of the central government debt, the local government debt and the debt of the Pension Social Security fund and the Health Social Security fund. [↑](#footnote-ref-2)
2. The amount of the 2021 central government budget debt principal repayments as set by the adopted Budget of the Republic of Slovenia for the year 2021. [↑](#footnote-ref-3)
3. The prefinancing amount executed in 2020 is lower from the prefinancing amount shown in the Financing Program for 2021(Government resolution No 41003-20/2020/3 dated 16 December 2020), by 688,618,687.96 €. The difference is the result of the realignement of the prefinancing amount with the Court of Audit revision of the annual accounts for 2020. [↑](#footnote-ref-4)
4. The amount of proceeds from the sale of capital assets, which has not been used to repay the debt in 2020. [↑](#footnote-ref-5)
5. The respective Rules of the Republic of Slovenia Government Securities’ Auctions, adopted by the Minister of Finance. [↑](#footnote-ref-6)
6. EMTN programme [↑](#footnote-ref-7)
7. The characteristics of short-term T-bills are applied to the main characteristics of 18-month T-bills. [↑](#footnote-ref-8)
8. The respective Rules of the Republic of Slovenia Government Securities’ Auctions, adopted by the Minister of Finance. [↑](#footnote-ref-9)