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Slovenia's Launch of Debt Buyback Is Credit Positive

From Credit Outlook

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Last Tuesday, Slovenia (Baa3 positive) launched a cash tender to buy back outstanding US dollar-denominated securities due in 2022-24 in order to reduce debt-servicing costs, building on last year's three successful buybacks of US dollar-denominated securities. The offers are credit positive because they will lower the sovereign's cost of debt.

Slovenia issued these bonds during 2012-14, when the country was in the midst of a domestic-driven banking crisis. Issuing securities with coupons of 5.25%-5.85%, the sovereign increased its reliance on external financing because euro-denominated debt was expensive. As a result, Slovenia's share of euro-denominated central government debt decreased significantly, falling to 73% at the end of 2014 from 99.8% at the end of 2011. The opportunity to lower interest costs led Slovenia's Ministry of Finance (MoF) to take advantage of improved investor confidence and low euro yields related to the European Central Bank's quantitative easing programme.

Between May and October 2016, Slovenia issued Eurobonds to buy back US dollar-denominated debt. The MoF bought back \$2.61 billion of bonds issued during 2012-14 (about 30% of Slovenia's total US dollar-denominated debt) that will deliver lifetime interest savings of €66 million. The savings equalled 0.2% of GDP in 2016, contributing to a reduction of interest to GDP to 3.2% in 2016 from 3.3% in 2015 and increasing the government's debt-weighted average maturity to 8.1 years at the end of 2016 from 5.7 years at the end of 2015.

At the same time, the MoF was successful in issuing cheaper eurobonds. For example, in October 2016 Slovenia issued a 24-year €1 billion tap issue at a very low yield of 1.863%. This issuance increased the share of central government debt denominated in euros to 81.5% of total central government outstanding debt at the end of 2016 from 73% at the end of 2014.

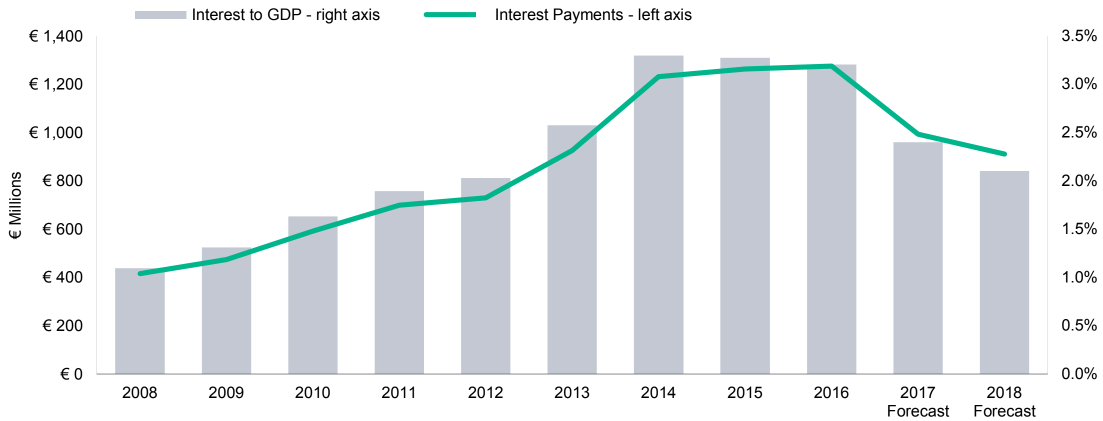
The MoF is revisiting its strategy of optimizing debt servicing costs with the launch of the cash tender offer. Given the uncertainty around the offer amount, the extent of interest savings that it will achieve is difficult to estimate, but we have included lower interest payments in our fiscal forecasts for this year (see exhibit).

What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's Credit Outlook informs our research clients of the credit implications of current events.

Slovenia's Interest/GDP and Interest Payments

A successful debt management strategy reduced interest payments from high levels.



Sources: Eurostat and Moody's Investors Service

Slovenia also benefits from a large cumulated cash buffer equivalent to around 15% of GDP as a result of pre-financing in a period of low yields. The government drew down some of it last year and will do so again over the course of this year, thus prompting a larger debt reduction than would be implied by deficit levels, interest rates and growth.

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