Slovak Economy and Banking Sector in 2021

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Summary

Covid pandemics is shaping economic landscape for the second year running

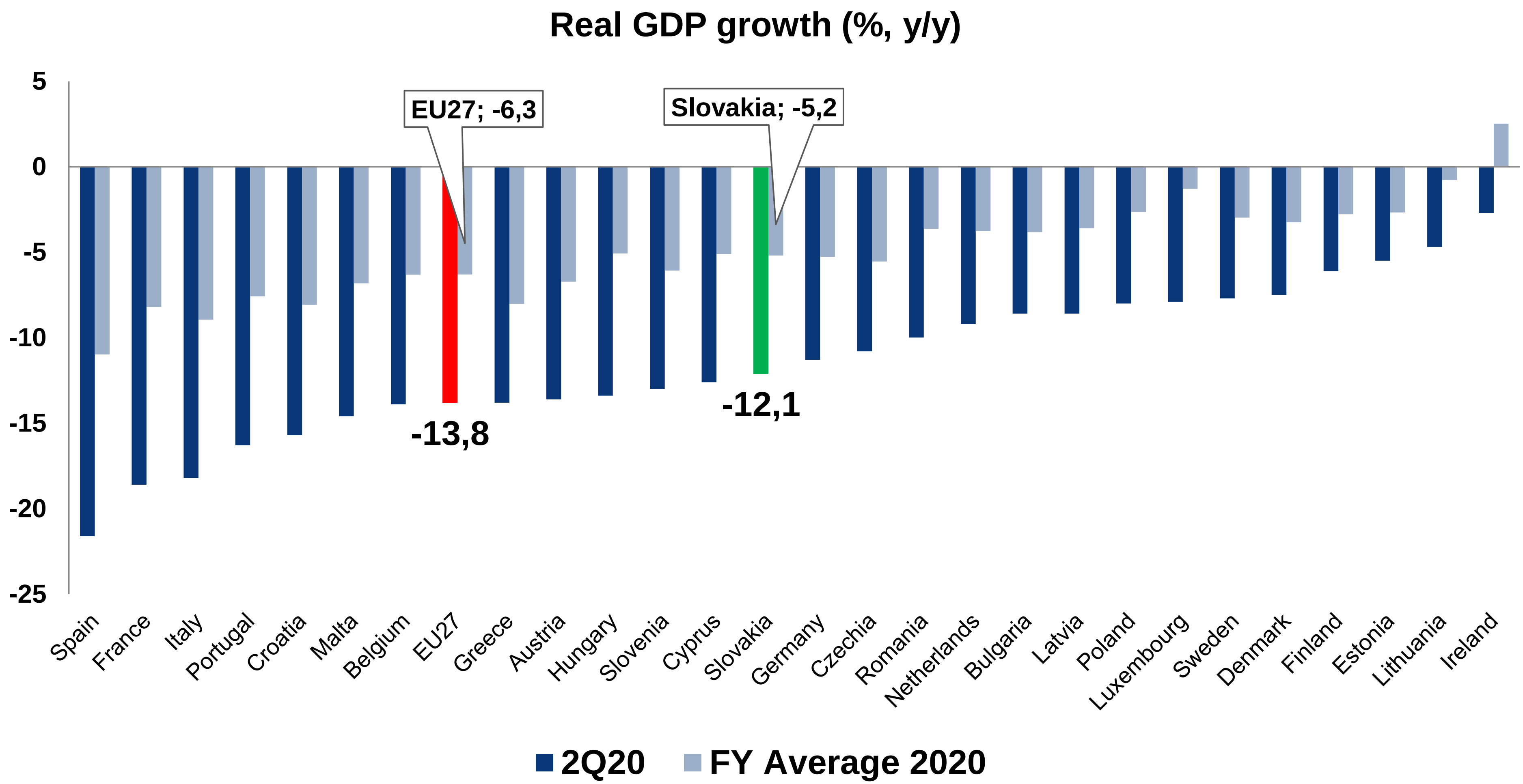
In 2020 households supported SK economy while industry has been switched off in spring, beginning of 2021 shows reversal of the driving forces

Efficient vaccination a key to "normal" life

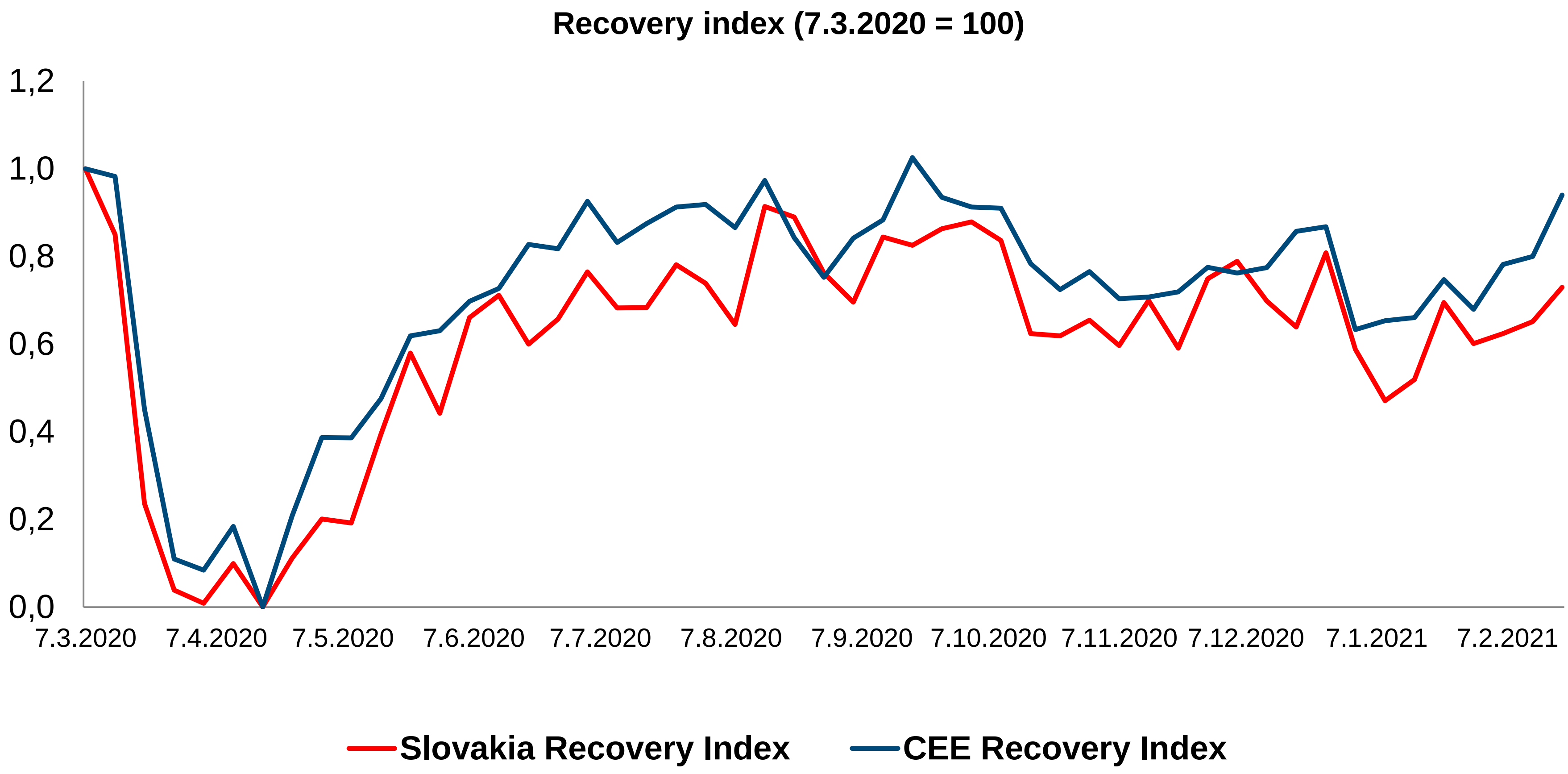
Banks continue to facilitate credit where needed

Moratoria blur the picture but so far failing loans seem contained

Unprecedented drop in GDP in the spring 2020 followed by quick recovery



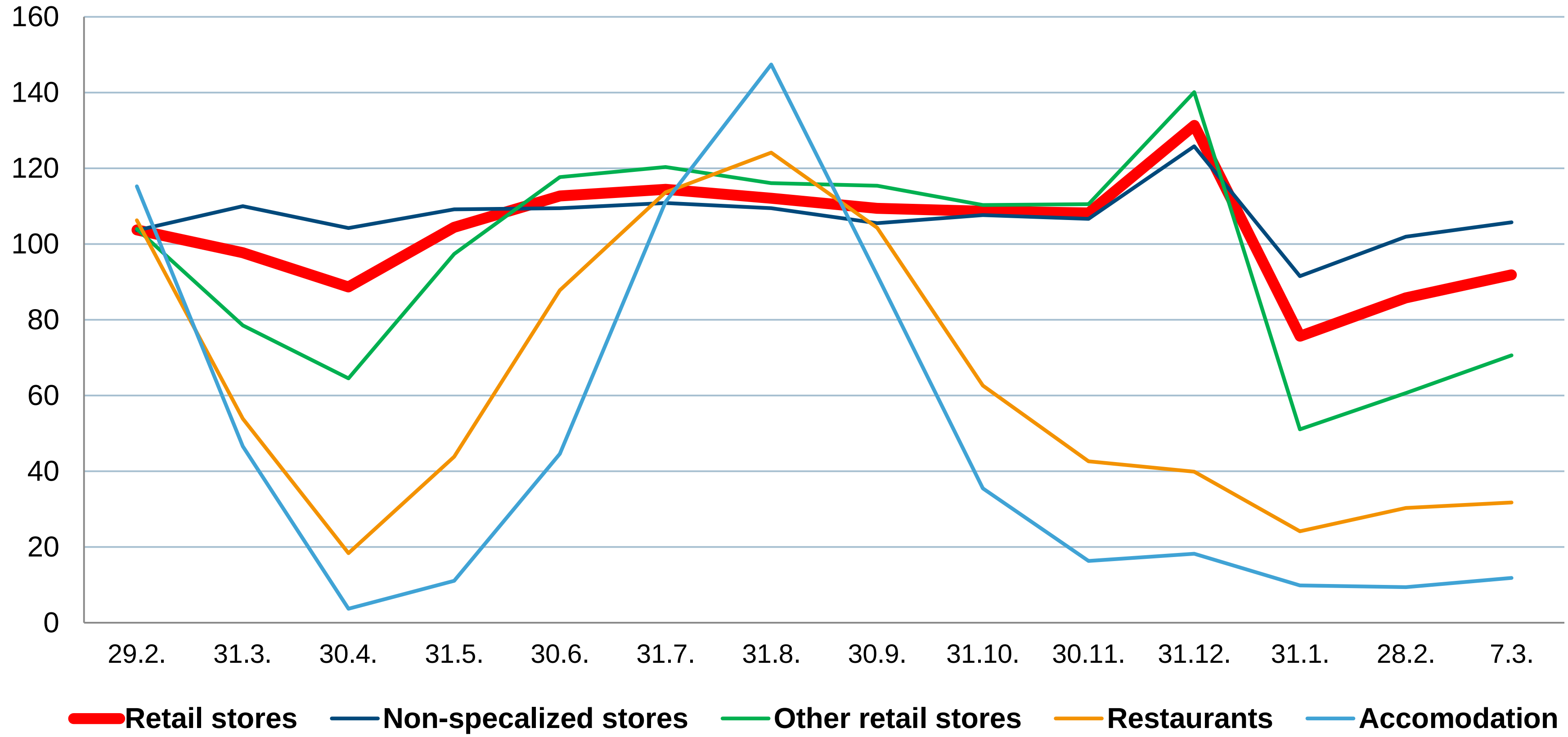
Due to the second wave, the recovery has paused at 2020-end



The second wave significantly affected consumption

- Beginning of 2021 brought steeper fall in consumption than spring 2020
- Stricter lockdown, supermarkets can sell only food, households save more

Retail sales (index, monthly average, 11.2.2020 = 100)

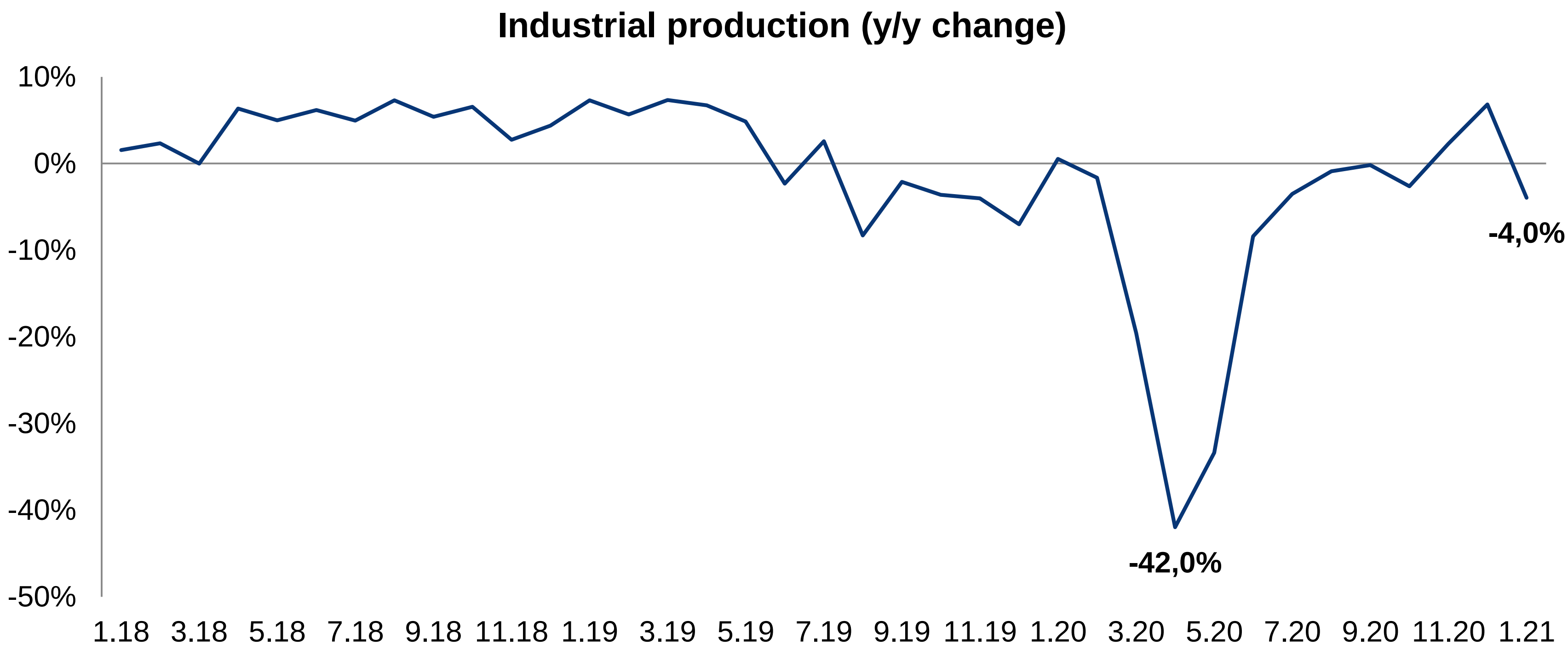


Source: eKasa, SLSP

Industry supports economy currently

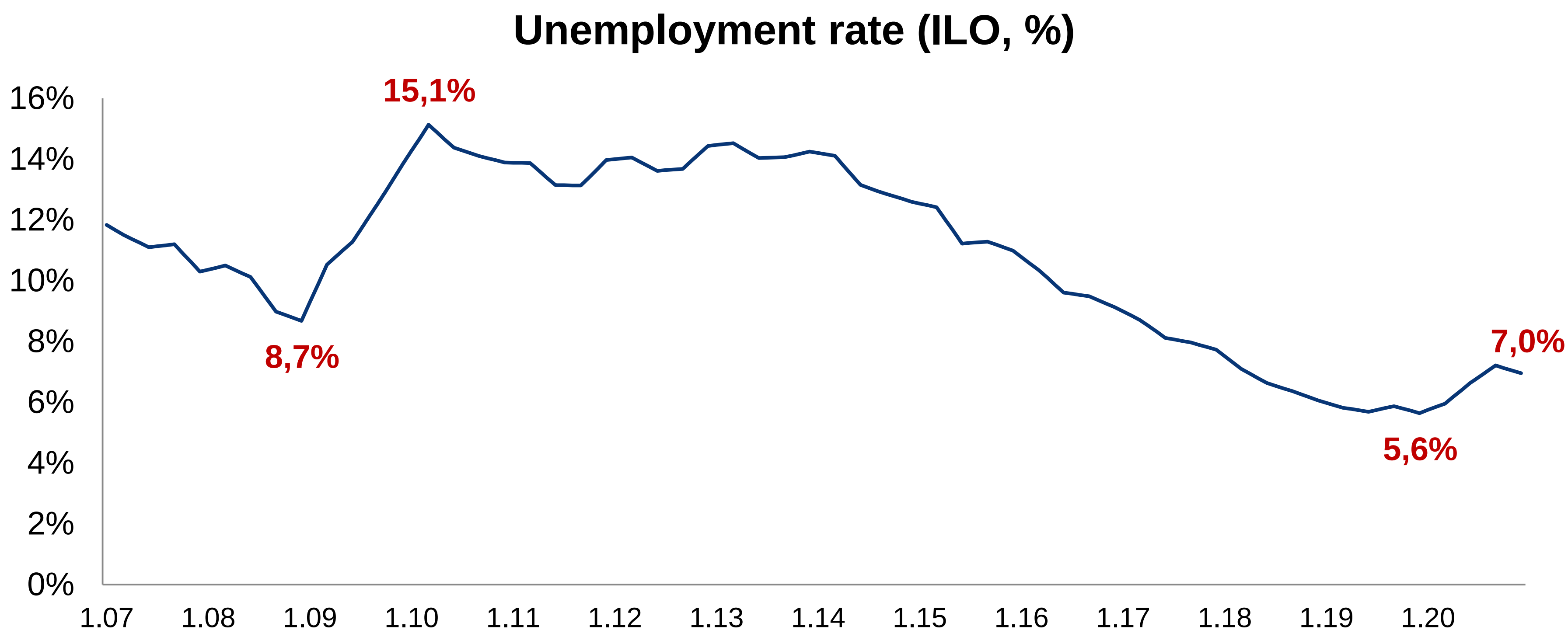
Restrictive measures are **affecting mostly services, brick-and-mortar shops and all contact-intensive parts of the economy**.

This, together with the solid development of European industry and foreign demand, laid the foundations for the good performance of Slovak industry.



Labor market remains robust

Unemployment rate increased only by around 1.5 percentage point in 2020, state compensation scheme helps, **unemployment rate expected at 7.3% on average in 2021**
Even in pandemic year, **wages grew by 4%** in 2020, similar rate of growth expected also in 2021



Source: ŠÚSR, SLSP

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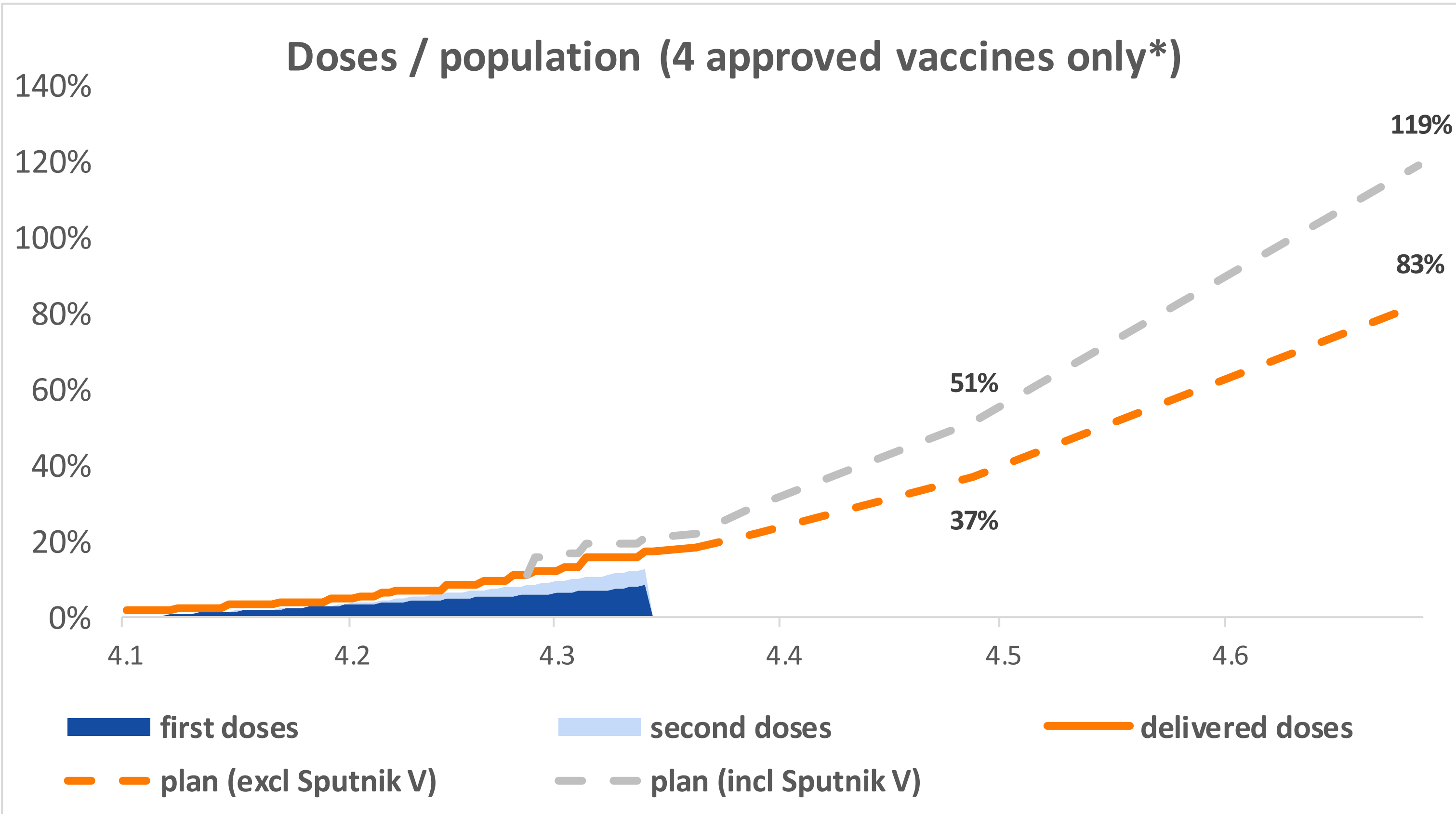
By end-June 50% of population could receive at least first dose

- Vaccination to accelerate, 10% of EU citizens had at least 1 dose by now, another 50% expected in 2Q (360m doses, mainly Pfizer), in Slovakia possibly another 40%
- Risks: delivery delays, SK specific problem - late purchases of Pfizer

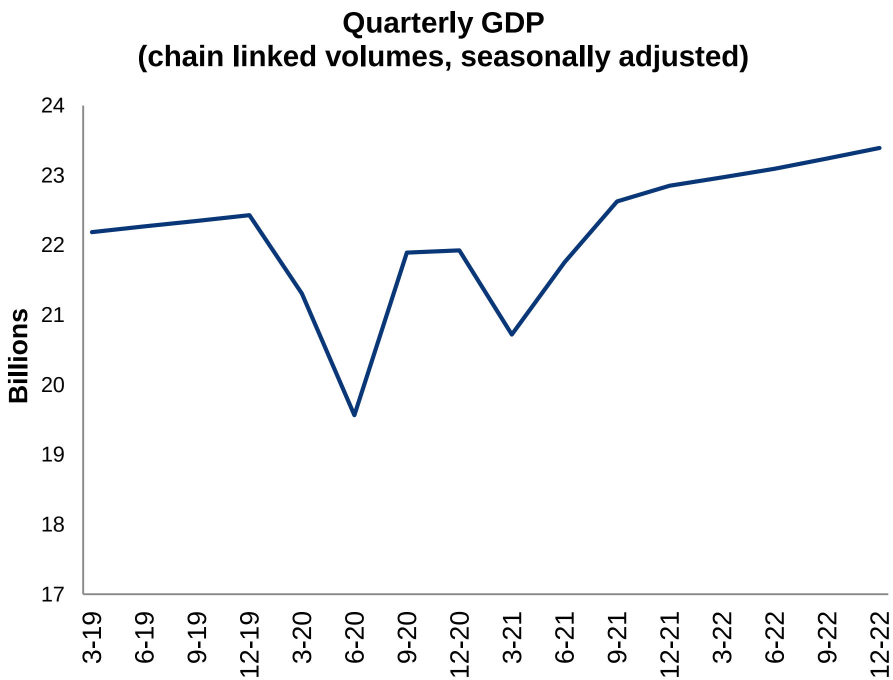


* Calculated based on 1.2% Slovak share on EU quota, which might be different. Pfizer/BioNTech, Moderna, AstraZeneca, J&J & (Sputnik V) vaccines included. Additional deliveries by not-yet-approved Novavax and Curevac are possible.

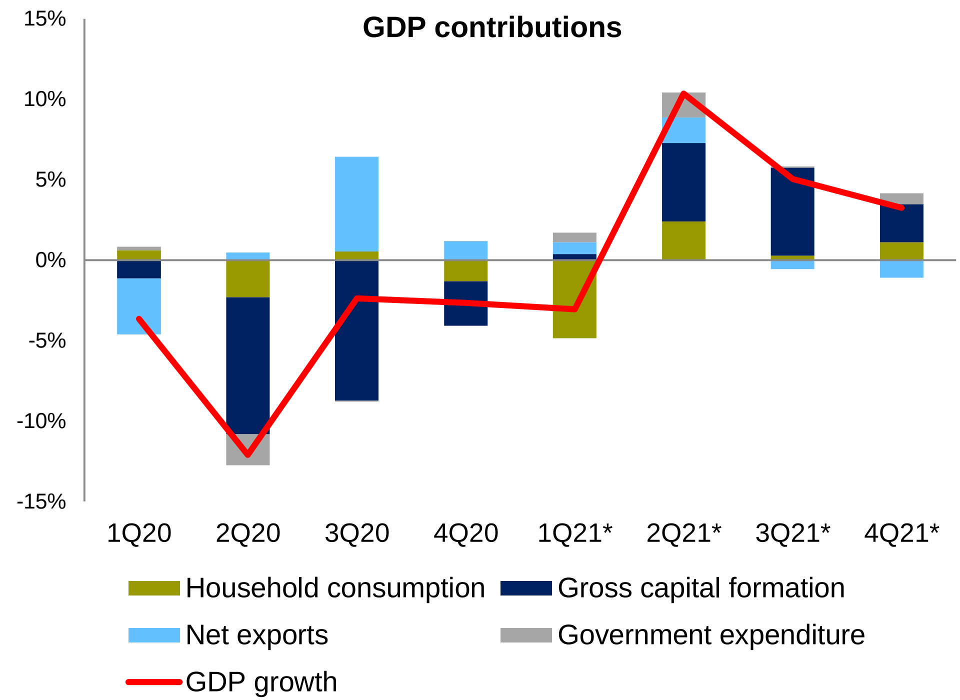
Recovery is non-linear

Once restrictions ease and normal activity resumes from late spring 2021 onwards, **economic recovery should pick up speed**. Slovakia is expected to **reach pre-crisis level in the second half of this year**.

Real GDP is expected to grow by **4.0% in 2021 and 4.8% in 2022** (aided by **new EU funds and NextGenEU grants**).



Source: ŠÚSR, SLSP

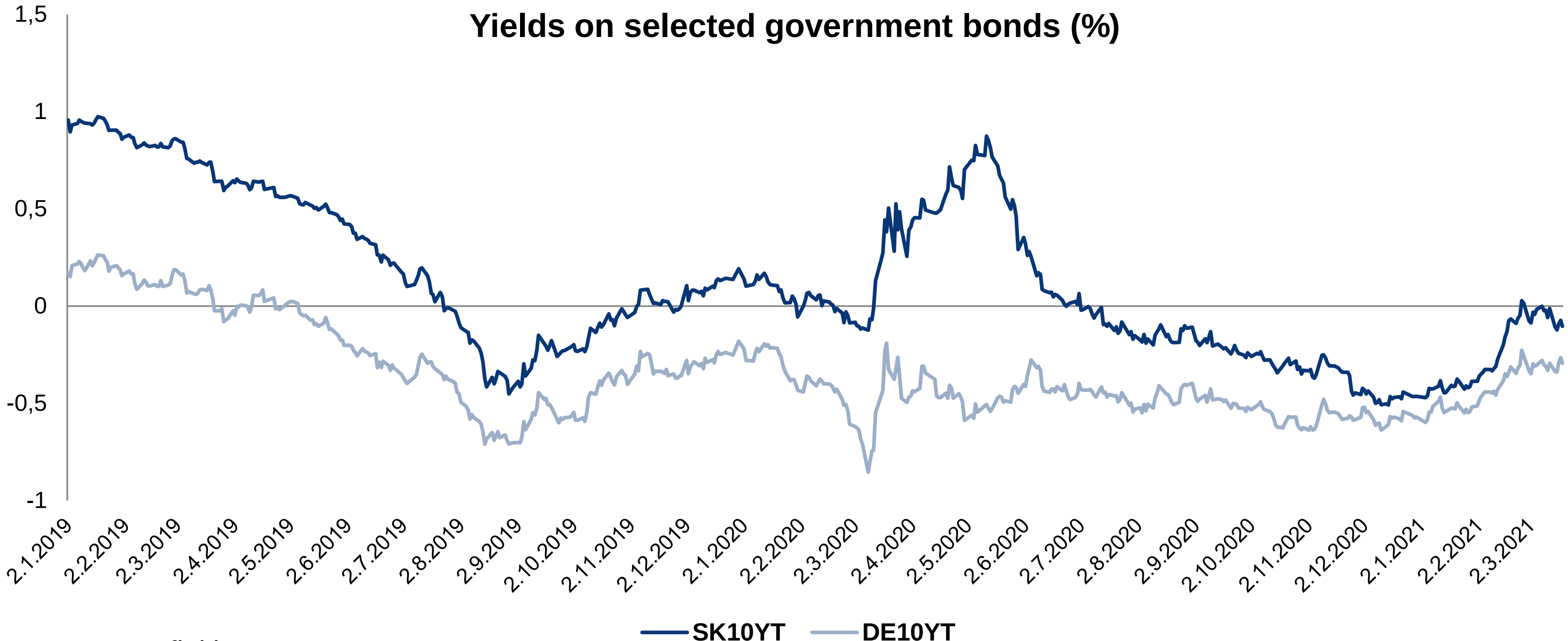


* forecasts

Source: ŠÚSR, SLSP

Inflation concerns pushed up bond yields

- the **ECB's ultra-accommodative monetary policy** measures drove yields into the negative territory last year
- recent weeks brought a **visible increase mainly due to expectations of inflation speed-up** related to rising commodity prices, a **better economic outlook**, and planned **fiscal responses**

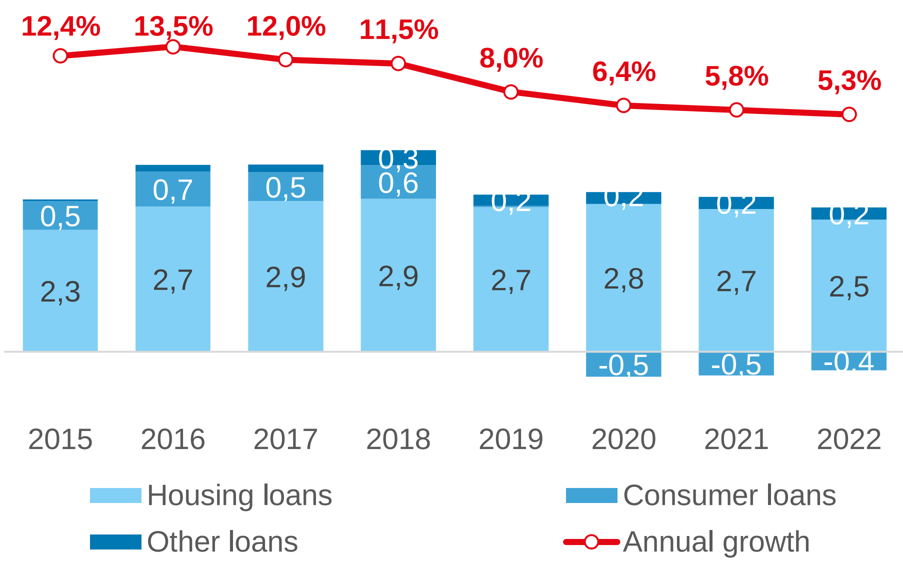


Source: Refinitiv, SLSP

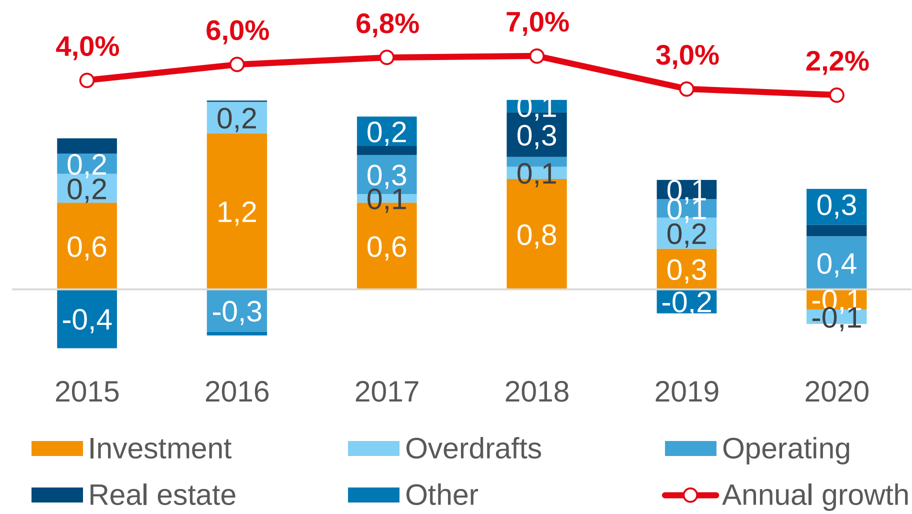
Has lending business suffered from the recession?

Long-term trend almost uninterrupted; some areas hit harder though

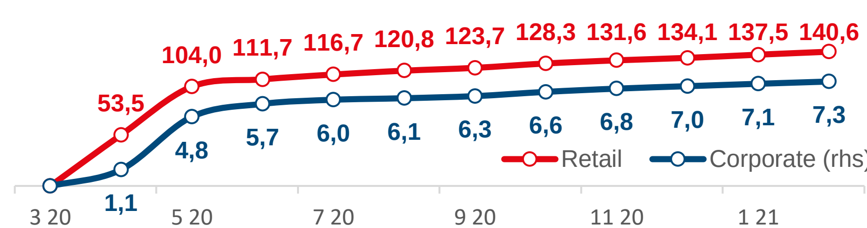
Retail loans – net additions (EURb)



Corporate loans – net additions (EURb)



Moratoria – no. of applications (ths.)



- **Retail**: Housing loans still fine, consumer loans has been shrinking due to various reasons
- **Corporate**: Significant change in product mix – investment loans on decline, short-term liquidity boosted

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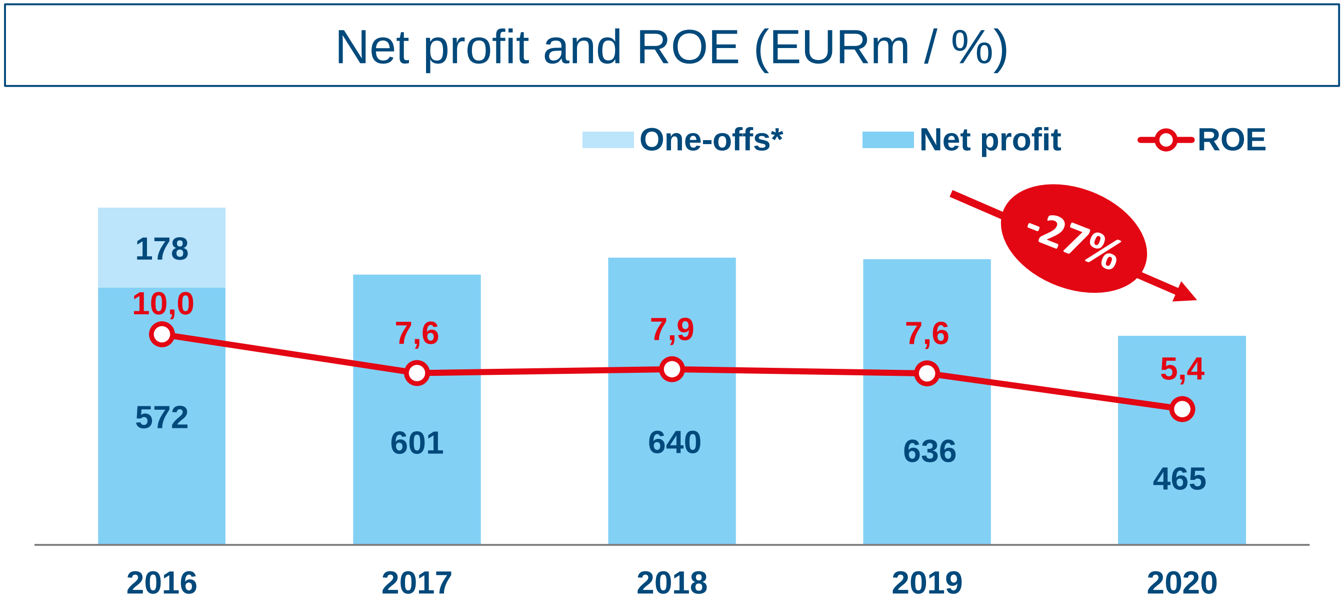
What was the impact on bottom line?
Profitability should rebound at least partially in 2021



- Risk costs up 2.5 times, should decline in 2021 but still at elevated levels
- Interest margins remain under pressure – significant impact on the main income source
- Focus on expenses optimization and fee income

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* Result in 2016 affected by two extraordinary items: (a) Sale of VISA shares, and (b) extraordinary dividend received by VÚB from its subsidiary Consumer Finance Holding