

Q&A with Ms. Maja Praprotnik Zupan, Head of Front Office, and Mr. Gašper Adlešič, Head of Debt Transaction Management Department in the Republic of Slovenia.

Slovenia's Samurai Social Bond Issuance: Interview Summary

Q: Why did Slovenia choose the Japanese Samurai market for issuing its first sovereign social bond instead of other global or domestic debt markets?

Maja Praprotnik Zupan:

Our primary market is the Eurobond market, where we regularly issue benchmark bonds to build a liquid yield curve. However, diversification is crucial, and we've previously accessed the USD market. We had been monitoring the Japanese market for over 15 years, maintaining relationships with key financial institutions and investors.

Although issuing in the Samurai market was a bit costlier than in the Eurobond market, its flexibility in issuance size aligned with our borrowing needs. Unlike Eurobond markets, where issuances typically start at €1 billion, the Samurai market allowed us to issue a smaller, €300 million-equivalent bond. This smaller size enabled us to structure the bond as a social bond, which would have been difficult in the Eurobond market due to limited green project expenditures in our budget. These factors—investor diversification and social bond structuring—drove our decision to enter the Samurai market.

Q: How was the response from Japanese investors to Slovenia's first Samurai social bond?

Gašper Adlešič:

The bond was well received, attracting a diverse investor base, including asset managers, banks, and life insurers. The order book was strong, with demand from both Japanese and international investors.

Maja Praprotnik Zupan:

Japanese investors made up the largest portion. Many appreciated the ESG labelling, particularly the social component, which aligned with their investment strategies. The transaction went smoothly, and investor feedback was positive. Demand leaned toward the 3-year tenor, which matched our preferences, creating a well-balanced issuance.

Q: What social projects were financed with the bond proceeds?

Maja Praprotnik Zupan:

Slovenia established a Sustainability Bond Framework in 2021 and updated it in 2023, covering both green and social projects. Proceeds from this issuance were allocated to healthcare, education, and social inclusion, with a significant portion supporting Ukrainian refugees.

Gašper Adlešič:

Projects included subsidized school meals, renovations of hospitals, kindergartens, and elderly care facilities.

Q: Do you have a fixed percentage allocation for social spending in your debt strategy?

Maja Praprotnik Zupan & Gašper Adlešič:

No, allocation depends on available projects. Slovenia's sustainability strategy aligns with the UN SDGs, and we issue sustainability bonds based on budget expenditures. Since finding sufficient green projects for a €1 billion Eurobond is challenging, the Samurai market's smaller issuance size was ideal for a social bond.

We are also exploring **Sustainability-Linked Bonds (SLBs)**, which differ from use-of-proceeds bonds as they are tied to specific sustainability KPIs with potential financial incentives like coupon step-ups or step-downs.

Q: Is Slovenia planning to issue a sovereign SLB soon?

Maja Praprotnik Zupan:

Yes, we've announced plans to issue a sovereign SLB in 2025, likely making Slovenia the first EU country to do so. The framework is nearly finalized, and we are working with an SPO provider for verification. The issuance will follow investor outreach and marketing.

Gašper Adlešič:

Corporates have widely adopted SLBs, but sovereign SLBs remain rare. Countries like Uruguay, Chile, and Thailand have issued them, but no European sovereign has done so yet.

Q: Could Slovenia issue a Samurai SLB in the future?

Maja Praprotnik Zupan:

It's possible, as we intend to maintain a presence in the Samurai market, potentially issuing every one or two years. Since the SLB framework covers multiple currencies, a Samurai SLB could be an option, depending on market conditions and investor demand.

Gašper Adlešič:

Investor appetite is key. While ESG-focused investors actively seek green and social bonds, it remains uncertain how SLBs fit into Japanese institutional investors' strategies.

Q: How many ESG sovereign bonds has Slovenia issued?

Maja Praprotnik Zupan:

We have issued two sustainability bonds totalling €2.5 billion, covering both green and social

projects. Green projects have mainly focused on clean transportation, such as railway electrification and rolling stock upgrades.

Q: How do Japanese and European investors differ in their approach to ESG sovereign bonds?

Maja Praprotnik Zupan:

European investors operate in a more regulated environment, requiring specific green asset allocations and extensive ESG reporting, creating strong demand for sustainable instruments.

Japanese investors, while less focused on secondary market liquidity, show growing interest in ESG investments. Some specifically sought allocations tied to Ukrainian refugee support.

Gašper Adlešič:

Europe is tightening ESG reporting standards to combat greenwashing, affecting both corporate and sovereign issuers. Japan's ESG focus is evolving but remains less driven by regulation compared to Europe.

Q: Will Slovenia continue engaging with Japanese investors?

Maja Praprotnik Zupan:

Yes, we have a dedicated Slovenia-Japan investment conference on February 13, featuring our Finance Minister and Slovenian companies. The event will cover both sovereign debt and potential FDI opportunities in Slovenia.

Q: Any final remarks on Slovenia's sustainability strategy?

Maja Praprotnik Zupan:

Slovenia is highly committed to environmental preservation, with extensive protected areas and biodiversity initiatives. Investors are increasingly interested in biodiversity and we are considering integrating this into future frameworks. While biodiversity is not yet included in our SLB framework, we recognize its growing importance and will explore its inclusion in future issuances.