Slovak Republic Country Strategy

2023-2028

as approved by the Board of Directors on 18 October 2023

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Glossary of key terms

ABI	Annual Business Investment	MSME	Micro, Small & Medium sized Enterprise
ATC	Advanced Transition Country	M&A	Mergers & Acquisitions
CEB	Central Europe and Baltic states	M&S	Manufacturing & Services
CPI	Consumer Price Index	MoU	Memorandum of Understanding
E&S	Environmental & Social	MREL	Minimum Requirement for own funds and Eligible Liabilities
EE	Energy Efficiency	NBFI	Non-Bank Financial Institution
EIB	European Investment Bank	NDCs	Nationally Determined Contributions
ESG	Environmental Social and Governance	NECP	National energy and climate plans
ETS	Emissions Trading System	ODA	Official Development Assistance
EU	European Union	OECD	Organisation for Economic Co-operation and Development
EV	Electric Vehicle	OSCE	Organization for Security and Co-operation in Europe
FDI	Foreign Direct Investment	PE	Private Equity
FI	Financial Institution	PPP	Private-Public Partnership
GBVH	Gender-based violence and harassment	PPS	Purchasing Power Standards
GDP	Gross Domestic Product	PR2	Performance Requirements
GEFF	Green Economy Financing Facility	PSC	Public Service Contracts
GET	Green Economy Transition	PTI	Portfolio Transition Impact
GHG	Greenhouse Gas	PV	Photovoltaic
GP	General Partner	R&D	Research and Development
GVC	Global Value Chain	RE	Renewable Energy
HIPC	The Harmonised Index of Consumer Prices	RO	Resident Office
ICA	Industry, Commerce & Agribusiness	RRF	Recovery and Resilience Facility
ICT	Information and communications Technology	RRP	Recovery and Resilience Plan
IEA	International Energy Agency	SME	Small and Medium sized Enterprise
IFI	International Financial Institution	SRSS	Structural Reform Support Service
ILO	International Labour Organisation	TC	Technical Cooperation
IMF	International Monetary Fund	VC	Venture Capital
IT	Information Technology	WDI	World Development Index
JTI	Just Transition Fund	WHO	The World Health Organisation

Executive Summary

The Slovak Republic's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system and guarantees for human rights and fundamental freedoms are largely in line with international and European standards. The media are pluralistic and competitive and civil society operates independently. Elections are conducted in a manner deemed by the OSCE to be broadly free, fair and competitive. The Slovak Republic has been a member of the European Union (EU) since 2004.

Following years of rapid catching up with the EU, the Slovak Republic's persisting long-term structural challenges have triggered a deceleration in its convergence in recent years. The shock of Russia's war on Ukraine has hit the economy before it managed to recover from the Covid-19 pandemic, causing value chain disruptions, input cost increases and growing concerns over energy security. Following the pandemic-induced recession in 2020, with a GDP drop of 3.3 per cent, the Slovak economy grew by 4.8 per cent in 2021, mostly driven by strong household consumption and government spending. Labour market remains tight, with several sectors facing labour shortages.

The **green economy transition** of the Slovak Republic will need to focus on incorporating ambitious sustainable energy targets for 2030 and 2050, including waste management and improving air quality. The country's annual mean concentration of PM2.5 is almost two times higher than the recommended maximum and is considered moderately unsafe by the World Health Organisation (WHO). Power generation, residential heating, manufacturing industry, food processing and vehicle emissions highly contribute to the poor air quality. Municipal waste management remains problematic, with the landfilling rate of municipal waste being significantly above EU levels. The challenges from the phasing-out of carbon intensive industries affect the three Slovak regions (Trenčín, Košice and Banská Bystrica) which have been identified for Just Transition Funding (JTF). Companies' awareness of the effect of weather events is increasing. To enhance **resilience**, energy security needs to improve through greater energy savings in industry and residential heating sectors, a faster uptake of renewables and reducing reliance on fossil fuel imports. Local capital markets remain shallow and alternative sources of financing are not sufficiently used. The modest role of capital markets is reflected in households' financial assets that are predominantly held in bank deposits. The private equity market as a share of GDP is among the lowest in the EU and lacks experienced General Partners to attract investors. Local SMEs strongly linked to big car producers are not keen to diversify funding. While well-integrated with global value chains, the country is heavily reliant on the automotive industry, and resilience to external shocks remains challenging, including through material shortages.

In view of the macroeconomic developments and structural challenges, together with the severe impact of Covid-19 pandemic, the war on Ukraine, energy crisis and increased economic uncertainty, EBRD's approach during the next strategy period will remain focused on the specific areas where pressures are the highest and where EBRD remains additional. The strategy will be reviewed as part of an extended Country Strategy Delivery Review for 2025, which will be informed by an analysis of market level additionality. As a consequence of such review, the Bank's objectives in the remainder of the strategy period will be adjusted as needed to focus on core strategic sectors and products where the Bank's additionality and the transition gaps are evident and material.

In response to the growing need to improve energy security in the Slovak Republic and speed up green transition, over the coming strategy period the Bank will continue pursuing opportunities to support energy efficiency improvements, renewable energy investments and green capital markets development, building on the results achieved in the previous period and seeking to complement the priorities of the Slovak Recovery and Resilience Plan (RRP). The Bank will also focus on providing innovative support to the financial sector to expand the range of available financial products and improve its resilience.

The Bank will pursue the following strategic priority in the Slovak Republic during 2023-2028:

- *Accelerate Green Transition and Support a More Resilient Economy*

Slovak Republic – EBRD Snapshot

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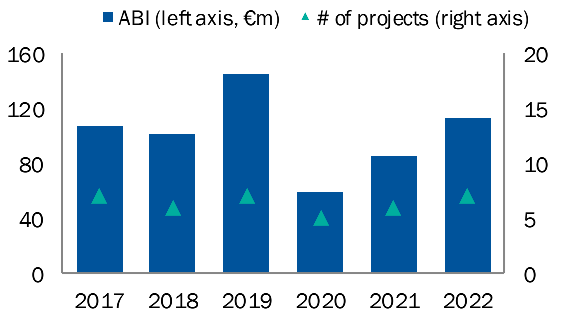
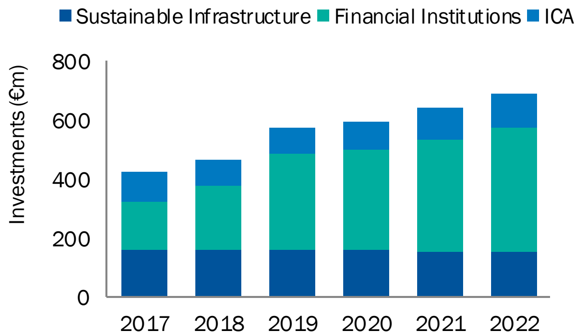
EBRD investment activities in Slovak Republic *(as of September 2023)*

Portfolio	€666m	Active projects	43
Equity share	5%	Operating assets	€630m
Private Sector Share[1]	100%	Net cum. investment	€2,999m

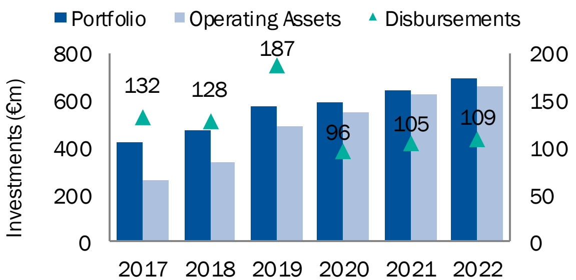
ABI and operations



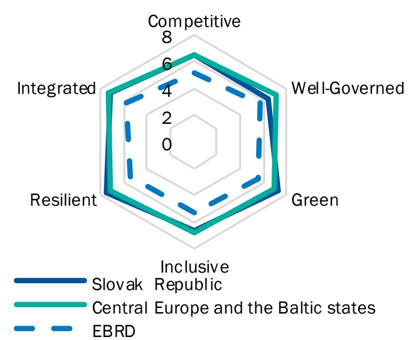
Portfolio composition



Portfolio dynamics



Transition Gaps[2]



1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2022- 2023; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA

Slovak Republic context figures

	Slovak Republic	Comparators
Population (million)[3] (2020)	5.5	*Czech Republic (10.7)* *Hungary (9.7)* *Poland (37.8)*
GDP per capita (PPP, USD)[3] (2021)	33,419	*Czech Republic (45,707)* *Hungary (36,765)* *Poland (38,125)*
New Business Density[4] (New registrations per 1,000 population, 2020)	5.1	*Czech Republic (3.8)* *Hungary (4.0)* *Poland (1.6)*
Unemployment (%)[5] (2022)	6.1	*Czech Republic (2.6)* *Hungary (3.5)* *Poland (2.7)*
Youth unemployment (%)[5] (2022)	19.3	*Czech Republic (7.6)* *Hungary (13.5)* *Poland (13.4)*
Female labour force participation (%)[5] (2021)	59.1	*Czech Republic (55.1)* *Hungary (55.)* *Poland (52.0)*
Energy intensity TES/GDP (GJ/2015 $)[6] (2019)	7.1	*Czech Republic (8.3)* *Hungary (7.8)* *Poland (7.4)*
Emission intensity/GDP (kgCO2/2015 $) (2020)[6]	0.3	*Czech Republic (0.4)* *Hungary (0.3)* *Poland (0.5)*

1. Implementation of Previous Strategy (2017-2023)

1.1. Key Transition Results Achieved during Previous Strategy (1/2)

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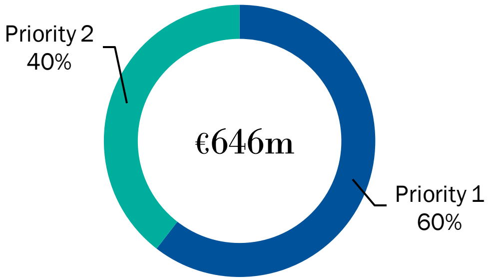
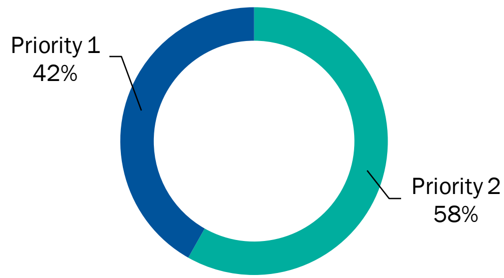
Strategic alignment 2017-2023

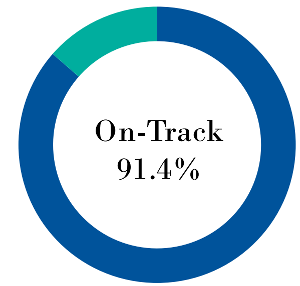
Annual Business Investment (ABI)



Technical assistance and investment grants



Transition impact performance[1]



Priority 1 | Supporting competitiveness through cutting-edge financial instruments and structures

Key quantitative results

Results Indicators	2017-2022
No. of companies financed targeting innovation and/or expansion through equity funds	3
No. of new or innovative capital market products introduced (incl. covered bonds	8
No. of PPPs or concessions or PSCs implemented	1

Key transition results

- Worked closely with the Ministry of Finance and the National Bank of Slovakia to develop a new covered bonds legislation, which entered into force on 1 January 2018 and delivered notable improvements recognised by issuers, investors and rating agencies who assigned the first AAA rating to a covered bond program in the Slovak Republic.
- After legislation was updated in 2018, the EBRD participated in multiple covered bond issuances and invested a total of EUR 190m; notably the 'first ever benchmark' bond issued on the Slovak capital market issued by Všeobecná úverová b anka, the 'first ever AAA rated' covered bond by Slovenská sporiteľňa, and 'the first ever sub-benchmark' covered bond by Tatra Banka.
- Invested in the first MREL eligible issuances by Slovak banks and contributed a total of EUR 100m in a series of investments, including the first ever issuance by Slovenská sporiteľňa as well as the first ever placement of MREL eligible instrument by Tatra Banka. The majority of these issuances were placed in green bond format, with EBRD contributing EUR 80m to green bond issuances by local banks.
- Invested in regional equity funds, including Genesis Private Equity Fund, Evolving Europe Principal Investments, Almaz Capital Fund, Innovation Nest Fund, enabling access of SMEs to equity finance and enhancing the competitiveness of the local economy.
- Worked with the Ministry of Health on a SRSS-funded project to improve public procurement, with assistance from the Ministry of Interior and funds from the Operational Program Effective Public Administration, which was sponsored by the EU.

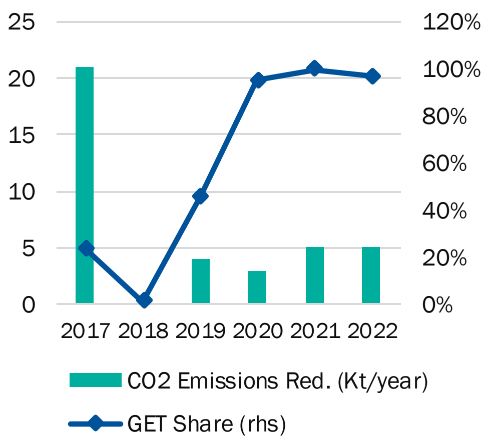
1. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio

1. Implementation of Previous Strategy (2017-2023)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

Priority 2 | **Supporting Green Economy Transition through dedicated financing facilities**

Green Economy Transition (GET)



Key transition results

- Achieved primary energy savings of 448,814 GJ/year through investments in energy efficiency, added 10MW renewable energy generation capacity.
- Invested EUR 75m (EUR 33.5m allocated to the Slovak Republic) in the bond issuance of Schaeffler AG, Germany based car supplier, to finance capex and R&D expenses to develop production of components for e-mobility.
- Supported green capital markets development by contributing EUR 30m to the country's first green bond issuance and EUR 30m to a subsequent senior preferred green bond issuance by Tatra Banka as well as EUR 20m to the first ever MREL eligible senior preferred green bond issued by Slovenská sporiteľňa.
- Invested in covered bonds with a significant GET component, including EUR 70m with 35% GET-eligible use of proceeds in an issuance by Všeobecná úverová banka and EUR 65m with 60% GET allocation in two issuances by Slovenská sporiteľňa and Tatra Banka.
- Channelled EUR 55m in the benchmark covered bond issuance of Slovenská sporiteľňa in 2022, with 100% GET allocation.
- Completed EBRD's long-standing flagship SlovSEFF programme and provided EUR 14m through credit lines.
- Signed a Memorandum of Understanding with the Ministry of Environment and the Slovak Environment Agency to deploy Invest EU and RRF funds for energy efficiency and deep renovation of 30,000 single family buildings, in partnership with FIs.
- Supported the Ministry of Transport and Construction in drafting of the Long-Term Renovation Strategy, a road map to net zero emission building stock by 2050.
- Supported full dismantlement and decommissioning of two Soviet-era reactors at Bohunice nuclear power plant, ensuring safe processing, decontamination and release of 95% of waste products and metals.

1. Implementation of Previous Strategy (2017-2023)

1.2. Challenges to Implementation and Key Lessons

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Context for implementation

The Slovak Republic's economy experienced significant difficulties during the previous strategy period. Lower than average economic growth due to long-standing structural challenges such as rising labour costs and export concentration was further affected by the COVID-19 pandemic and the war on Ukraine, which caused value chain disruptions, input cost increases and growing concerns over energy security. The past strategy period was characterised by a highly liquid financial sector, the availability of EIB and ESIF funds, and stimulus measures related to the COVID-19 pandemic. The Bank's portfolio recorded significant growth throughout this period, rising from EUR 347m at the end of 2016 to EUR 644m at the end of 2021, an 86% increase which was largely driven by FI transactions. Going forward, it is expected that financial institutions will continue to serve as the Bank's primary conduit for implementing the new Slovak Republic strategy. The Bank will remain additional in specific areas by providing resilience-focused and innovative support to the financial sector over the coming strategy period. In addition, the Bank will have more opportunity to engage in the areas of energy efficiency and renewable energy as a result of the growing need to improve energy security in the Slovak Republic and quicken the country's green transition..

Implementation challenges

- Liquid, well-established, sophisticated banks that can offer competitive pricing for mid-sized and larger corporates; also coupled with concessional financing.

- Abundance of EU funds. Focus on leveraging EU funds through grants and subsidised loans limits commercial lending opportunities. No cities in Slovakia to date in the Green Cities Programme as a result of difficulties to identify a trigger investment.

- Very limited appetite for PPPs and lack of project implementation capacity within the government hinders developing PPP projects.

- Limited fiscal space for advancing energy efficiency in public buildings, and lack of ambition in support for developing solar and wind renewables.

- Lack of the corporate portfolio limits the EBRD's ability to participate in supporting broader economic recovery.

Key lessons & way forward

- Continued focus on innovative financing products (e.g. equity, bail-in-able products, structured products, covered bonds, risk sharing). In addition, corporate lending by the local banking sector may slow down following the triple shock of the war on Ukraine, the pandemic and rising inflationary pressures.

- Potential co-financing and better leverage for EU funding, that is expected to gradually reduce.

- Continue advocating government engagement for a PPP agenda, policy activities and the use of in-house expertise.

- Policy engagement on energy efficiency in buildings and potential for financing of renewables.

- Resources on the ground and staying close to the corporate sector is critical. Dedicated and regular business development / market outreach campaigns together with sector teams are essential.

2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Slovak Republic - Main Macroeconomic Indicators

	2018	2019	2020	2021	2022
GDP growth (% y-o-y)	4.0	2.5	-3.3	4.8	1.8
CPI inflation (% avg.)	2.5	2.8	2.0	2.8	12.1
Government balance (% of GDP)	-1.0	-1.2	-5.4	-5.4	
Current account balance (% of GDP)	-2.2	-3.3	0.6	-4.0	-7.3
Net FDI (% of GDP) ***[minus indicates inflow]***	-1.3	-2.3	2.0	0.3	-2.1
External debt (% of GDP)	114.3	112.3	119.6	134.2	103.1
Gross reserves (% of GDP)	...	...	...	...	...
General government gross debt (% of GDP)	49.4	48.0	58.9	61.0	
Unemployment rate (%)	6.6	5.8	6.7	6.8	6.1
Nominal GDP (€bn)	89.9	94.4	93.4	100.3	109.6

Source: Eurostat, ILO estimates and EBRD calculations.

Following years of rapid catching up with the EU, the Slovak Republic's persisting long-term structural challenges have triggered a deceleration in its convergence in recent years. The country's export-driven growth model, to a large extent dependant on relatively low labour costs in industrial production, faces challenges as its important auto manufacturing industry faces significant risks from automation.

The shock of the war on Ukraine has hit the Slovak Republic before it managed to recover from the Covid-19 pandemic. Following the Covid-19 induced recession in 2020, with a GDP drop of 3.3%, the Slovak economy grew by 4.8% in 2021, mostly driven by strong household consumption and government spending. While direct exposure to trade with Russia and Ukraine are modest, the Slovak Republic is heavily exposed to disruptions of Russian energy imports and mounting import costs that has adversely hit the supply side of the economy.

Labour market remains tight, with several sectors facing labour shortages. Following a slight increase at the beginning of 2021, the unemployment rate has continued to decrease and fell to 6.1% in 2022. Nevertheless, the share of long-term unemployed remains high, at 67.6% of total unemployed persons, mostly among marginalised Roma community in Eastern Slovakia.

High energy and food prices fuel inflationary pressures. Together with persisting supply-side bottlenecks that increase goods prices, the economy is exposed to face an adverse cost-push shock. In 2022, the HIPC inflation jumped to 12.1%, while the average inflation in 2022-23 is expected to remain at 10%. Nominal wages increased by 7.7% in 2022, and are expected to rise by 7-9% in 2023-24. As a result, households' disposable incomes are losing their purchasing power.

Pandemic and war-related spending deteriorated public finances. The government deficit widened from 1.2% of GDP in 2019 to 5.4% in 2021. At the same time, general government gross debt jumped to 61% of GDP. Fiscal buffers are expected to be rebuilt once the economy is on a solid growth path. Higher EU funds inflow, including from the Recovery and Resilience Facility (RRF) to be disbursed until the end of 2026 will help to protect growth friendly investment amidst fiscal consolidation.

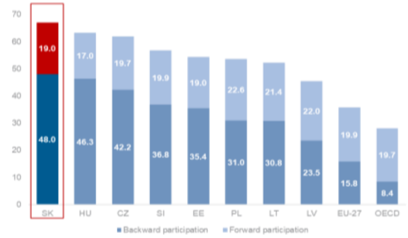
2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive (6.63)

- **Despite being highly integrated into global value chains (GVCs), Slovak economy is based on lower-competitive SMEs.** Value added of Slovak micro-companies is on average lower than in other CEB countries, while in manufacturing of motor vehicles, mid-sized firms show high performance.
- **Imported inputs account for almost half of total exports, but deep forward integration is missing.** Only 19% of exports are sold to 3rd countries for further export production (see chart below).
- **Growth contribution of total factor productivity is subdued,** to some extent driven by insufficient investment in R&D and the slow uptake of digital technologies by firms. Companies' expenditures on R&D amounted to 0.49% of GDP in 2020, below the EU average of 1.5%.
- **Circular material use is only half the EU average** (6.4% vs. 12.8% in 2020). While the efficient use of resources is important for competitiveness and green economy, it also reinforces the country's autonomy.

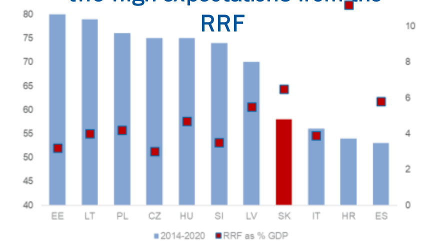
Imported inputs account for almost half of total exports. Forward integration is missing



Well-governed (6.32)

- **Administrative capacities, especially on the local level, have not been efficient enough to increase the absorption of EU funds.** The planned investments from the RRF amount to around 6.5 per cent of country's 2021 GDP, but the low absorption rate of the 2014-2020 ESIF funds undermines the high expectations (see chart below).
- **The Slovak Republic lags behind in terms of overall maturity of the use of ICT in public sector**, with some of essential online government services remaining completely lacking.
- **Speed of public procurement is improving due to ongoing reforms, but the use of quality criteria remains rare.** About 94% of contracts were awarded based only on the lowest price in 2020.
- **In terms of corporate governance, structure and functioning boards and rights of shareholders compare worse than the CEB average**, according to the EBRD assessment.

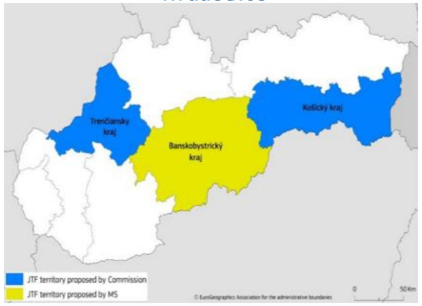
Past low absorption rate of ESIF funds may thwart the high expectations from the RRF



Green (7.07)

- **Three Slovak regions face challenges from the phasing-out of carbon intensive industries.** These are Trenčín, Košice and Banská Bystrica regions (see map below), to receive support from the Just Transition Fund (JTF).
- **Companies' awareness of the effect of weather events is increasing.** On average, 27% of firms in the Slovak Republic have already invested to tackle the impact of climate change, fewer than in the EU overall (43%). Large firms invest more, according to the EIB investment survey (2021).
- **The country's annual mean concentration of PM2.5 is almost two times higher than the recommended maximum, and is considered moderately unsafe by the WHO.** Power generation, residential heating, manufacturing industry, food processing and vehicle emissions highly contribute to the poor air quality.
- **Municipal waste management remains problematic**, with the landfilling rate of municipal waste being significantly above EU levels.

Regions facing challenges from the phasing-out of carbon intensive industries



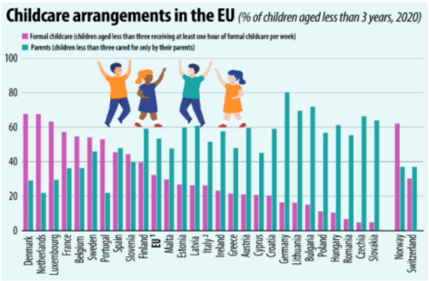
2. Economic Context

2.2 Key Transition Challenges (II/II)

Inclusive (6.45)

- **The availability of rental and social housing remains a key challenge for addressing social exclusion.** Share of people living in households renting their home was 7.7% in the Slovak Republic, below the EU average of 30%. Also, share of households living in rental flats owned by the public sector (1.6%) is lower than the EU average (10.8%).
- **The gender employment gap is close to the EU average, but is significantly higher for women of childbearing age,** corresponding to the limited use and availability of formal childcare under the age of 3 (see the chart).
- **Market for social bonds remains nascent.** These capital market instruments were identified with high potential in the Slovak Republic in the near to medium term, according to a 2021 EBRD study.
- **While digital skills are improving, persisting gaps in basic and specialist skills remain.** These barriers can make job transitions more difficult.
- **Youth unemployment is among the highest in the CEB region.** According to ILO estimates, it stood at 19.3% in 2022.

Use and availability of formal childcare under the age of 3 remains limited



Integrated (7.25)

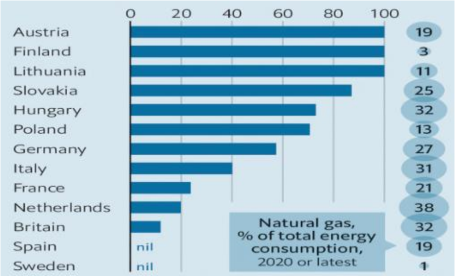
- **Uneven concentration of transport infrastructure** has attracted more investment to the western part of the country and has limited a more favourable regional development.
- **Further development of logistics centres, terminals and warehouses is needed.** The Slovak Republic's industry orientation and its geographical location, especially in the light of the future reconstruction efforts in Ukraine, highlight these needs.
- **Share of households with access to fixed very high-capacity networks is improving but remains below the EU average.** This is reflected by the digital transformation being at the centre of the Slovak RRF (21% in its total budget).

Unevenly distributed transport infrastructure, such as motorways, limits a more favourable regional development

Resilient (7.98)

- **Energy security needs to be improved through greater energy savings in the industry and residential heating sectors, a faster uptake of renewables and reducing reliance on fossil fuel imports.** Nuclear fuel and crude oil are supplied from Russia, at the rate of 100% in 2020. Share of gas in energy mix is 25%, mostly imported from Russia (85%) (see chart below).
- **Local capital markets remain shallow and alternative sources of financing are not sufficiently used.** The modest role of capital markets is reflected in households' financial assets that are predominantly held in bank deposits.
- **Private equity market lacks experienced GPs to attract investors.** Local SMEs strongly linked to big car producers are not keen to diversify funding.
- **While well-integrated with GVCs, the country's resilience to external shocks remains challenging**, including through material shortages.

Share of gas in energy mix is 25%, mostly imported from Russia (85%)



Sources: Eurostat, The Economist, Eurostat, Rystad. Note: Gas imports from Russia, % of total, 2021. Národná diaľničná spoločnosť (2022).

3. Government Priorities and Stakeholder Engagement

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3.1 Government Reform Priorities

- **The National Reform Programme of the Slovak Republic 2022 singles out the Government's reform efforts in key structural areas.** In terms of economic growth, the greatest challenges concern education, the labour market, effectiveness of the public administration and the country's innovation potential. In terms of quality of life, challenges involve housing, healthcare, and education and skills. These challenges are addressed to a significant extent by measures proposed in the Slovak Recovery and Resilience Plan (RRP):
- The Covid-19 pandemic has accentuated poor resilience of the healthcare sector, aggravated by medical staff shortages and weak healthcare infrastructure. The war on Ukraine has shown the need for accelerated green economic transition that should address the problem of energy dependence on Russia, especially for gas
- The main challenges for the green transformation concern improving air quality, promoting renewable energy sources and the circular economy, decarbonising industry, reducing energy consumption and implementing climate change adaptation measures, including the protection and restoration of ecosystems
- Public policies are expected to focus on promoting digitalisation by completing infrastructure in areas not covered by the market, improving digital skills, building an efficient e-government delivering quality citizen- and business-oriented services
- Education system requires improvements across all levels, especially the provision of pre-school childcare facilities needs to be extended
- In order to better integrate refugees from Ukraine, the Government intends to ease conditions of accessing the labour market, strengthen housing policy solutions, provide access to health insurance and enrol children into the formal education system
- The adoption of the Housing Policy of the Slovak Republic until 2030 together with the action plan aims to improve the physical and affordable accessibility of housing and its quality

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Scale up support for green transition and decarbonisation through investments to increase RES capacity, energy efficiency measures, and sustainability improvements of buildings
- Continue providing support to capital market development including through the introduction of innovative and viable financial instruments (e.g., green, sustainability and KPI-linked bonds)
- Explore opportunities to balance heavy reliance on the automotive sector through industrial and technology investments in other areas, focusing on digitalisation and skills upgrades to enhance diversification and entrepreneurship
- Seek engagement with municipal authorities on areas requiring essential support, such as waste management

3.3 Key Messages from Civil Society to EBRD

- CSOs endorsed the strategy priority to accelerate green transition and support a more resilient economy. In particular, they suggested that geothermal energy and clean hydropower have a high potential in the country, and these could be areas for the Bank to expand its operations. They encouraged the EBRD to shift away from fossil fuels and invest in renewable energy
- CSOs welcomed the objective to improve energy and resource efficiency, suggesting that Positive Energy District planning could be further expanded and supported by the Bank to develop new integrated strategies in order to address the urban energy system transformation towards low carbon cities
- CSOs endorsed the Bank's objective to support a more resilient, diversified, and inclusive economy, highlighting the importance of further integrating Ukrainian refugees, women, and other vulnerable groups into the economy. CSOs underlined the need for a long-term policy at municipal level to support these groups, as well as to promote quality education and healthcare

4. Defining Slovak Republic Country Strategy Priorities

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What needs to change? (Country Diagnostic)

- Economy strongly affected by the supply chain disruptions caused by the crisis brought on by the COVID-19 pandemic and the war on Ukraine.
- High energy intensity and dependency on Russia (85% of gas imports, 100% of nuclear fuel and crude oil).
- The value added of MSMEs needs to be improved (they make up 99% of the enterprises and employ 43% of population but only contribute to 23% of value added).
- Shallow local capital markets and alternative sources of financing.
- Private equity market as a share of GDP is 0.04%, among the lowest in the EU (bottom 4).
- Low share of renewables in electricity generation (22%); wind potential significantly underutilised.
- Emission intensity of the economy is 0.2 kg per $ of GDP (PPP), double the EU average.
- Industry is responsible for 37% of GHG emissions, especially steel and automotive industries are carbon-intensive.
- Despite recent improvements, municipal waste recycling rate at 38% is below the EU average.
- Funding structure of the banking sector is changing, with Loan to Deposit ratio reaching 109% in Q4 2022.

Can it be changed? (Political Economy)

- Sense of urgency in addressing energy dependency on Russia particularly following opening of gas interconnector with Poland).
- Energy resilience is the key theme of the RRP - €6.3 billion in grants for energy efficiency investments, e-mobility, innovation and digitalisation of SMEs.
- Government plans to stop supporting coal mining and end electricity production from coal by the end of 2023.
- Government plans to decarbonise the U.S. Steel Kosice steel plant, the largest integrated steel plant in central Europe
- The National energy and climate plan (NECP) calls for energy efficiency measures in buildings, public sector, industry and transport.
- The Slovak Republic targets to achieve climate neutrality by 2050, aiming at reducing emissions covered by EU Emissions Trading System (ETS) and contributing to the EU-wide reduction target of 62% (also by achieving 22.7% reduction in non-ETS sector emissions) until 2030.
- The NECP aims to increase share of renewables in electricity consumption to 29.5% by 2030.
- Incentives for electric vehicle (EV) production and sales highlight priority of e-mobility transition.
- With the capital market remaining shallow, EBRD's continuous presence in debt capital transactions, such as in covered bonds and bail-in-able bonds, can effectively close the funding gap, thus allowing carrying out a successful book-building process.
- Ongoing government programmes on waste management and prevention, in addition to 60% municipal recycling rate target by 2030 supporting circular economy transition.

What can the Bank do? (Institutional Capabilities)

- Dedicated frameworks in place to respond to crisis recovery.
- Experience supporting regulators and institutions with management of environmental, social and governance (ESG) standards and good corporate climate governance.
- A specialised EBRD team delivering the Bank's Green Economy Transition (GET) approach.
- Track record of addressing the demand for energy efficiency and renewable energy through the deployment of traditional and innovative financing products, and advising clients on green technologies/practices, including in the renovation of buildings, photovoltaic (PV) installation for Public Infrastructure and SMEs.
- Applicable tools and experience developing the banking sector and the capital markets, through policy advisory, introduction of innovative financial products in the region, and supporting private risk (PE/VC) capital.
- Experience helping promising corporates secure alternative sources of finance.
- Institutional know-how to develop financially and environmentally sustainable municipal infrastructure, including waste services, and innovative infrastructure finance solutions, including infrastructure bonds and PPPs.

Strategic Priorities (2023-2028)	What We Want to see in 2028
Accelerate Green Transition and Support a More Resilient Economy	• Strengthen the resilience of the financial sector to lead the transition to a green, low-carbon and climate resilient economy • Improve energy and resource efficiency / Decarbonisation of the economy • Support a more resilient, diversified, and inclusive economy

PUBLIC

5. Activities and Results Framework (1/2)

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Priority 1: Accelerate Green Transition and Support a More Resilient Economy

Key Objectives	Activities	Tracking Indicators (Outcomes)
Strengthen the resilience of the financial sector to lead the transition to a green, low-carbon and climate resilient economy	• Support issuance of capital market instruments (e.g. MREL, covered bonds) and extension of product range (e.g. structured finance, including, but not limited to ABS, RMBS, CB, SS, risk sharing products) to enhance resilience of local banks, optimize their funding structure, diversify their liability sources, and support financing of green projects. • Build financial institutions' capacity to align their financing with the objectives of the Paris Agreement and improve climate risk management across their portfolio. Engage with regulators on promoting financial institutions' climate risk awareness, transparency and disclosure. • Support the development of green capital markets. Promote and invest in Green/Sustainability Bonds. • Explore cooperation with local financial institutions through a range of financial products (e.g. Green Economy Financing Facilities; InvestEU) to finance low carbon growth by supporting businesses to lower their emissions and adapt business operations, and by financing energy efficiency and sustainability improvements of buildings and individual dwellings.	• Volume of capital market transactions facilitated • Practices of the client improved • Number of loans extended by partner financial institutions
Improve energy and resource efficiency / Decarbonisation of the economy	• Support achievement of the Low-Carbon Development Strategy and implementation of National Energy and Climate Plan. Assist with the change in the energy mix, through green economy transition investments, including financing for clean and efficient energy generation and supply, renewables, energy storage, just transition activities, and through continued monitoring of innovative technological and safety developments in the nuclear energy field for affordable, secure, safe and sustainable energy supply in line with the new EBRD Energy Sector Strategy. • Finance projects which help reduce energy intensity and support compliance with new standards and environmental legislation. • Consider financing waste reduction and waste management improvements (e.g. recycling) and support circular economy business models. • Support efforts to decarbonise heating and promote green transport. • Support projects reducing energy use and GHG emissions in buildings. • Consider supporting geothermal energy technologies • Finance innovative green infrastructure solutions (e.g. e-mobility), sustainable urban development and regeneration, including potentially through Green Cities.	• Primary energy saved (GJ/y) • Renewable Energy capa city installed(MW) • CO_2 emissions reduced / avoided (ton/yr)

5. Activities and Results Framework (2/2)

European Bank
for Reconstruction and Development

Priority 1: Accelerate Green Transition and Support a More Resilient Economy

Key Objectives	Activities	Tracking Indicators (Outcomes)
Support a more resilient, diversified, and inclusive economy	• Continue developing and deploying equity, debt and risk sharing products, including through growth capital and private equity to support increased productivity leading to improved competitiveness and higher resilience. Explore VCIP opportunities and collaboration with locally based funds. Encourage innovation and adoption of advanced technology to better respond to shocks (e.g. war, pandemics), focusing on areas of additionality, including but not limited to digitalisation and skills upgrades. Explore potential activities to address inclusion and governance issues. • Focus on supporting capital market development and growing investor and issuer base through financing and introduction of new instruments (e.g. Green/Sustainability-linked Bonds across all sectors, Real Estate Investment Trusts etc). Explore opportunities to support and invest in IPOs and PPPs, as well as blending opportunities with InvestEU. • Support industrial and technology investments to balance the concentration of investments in the automotive sector.	• Number of beneficiaries reached through advocacy or knowledge sharing activity • Client enters or expands activities in an international market • Client enters or expands activities in a domestic market

Impact Indicators: Market capitalisation (WEF, IMF, Bloomberg, local stock exchanges, 2020); Value added from industry per unit of CO2 emissions from industry (GVA($)/CO2) (World Bank, IEA, 2019)

6. Mapping of International Partners' Complementarity in EBRD Business Areas

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EBRD Business Areas

		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		FI		Strategic Initiatives			
Indicative annual average annual investments/ grants (€m, 2018-2022)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
EU*	2,117	€P	€P			€P	€P	€P	€P		€P	€P		€P
EIB	253		€		€		€	€	€	€	€			€
CEB	184							€P			€P			€
EIF	103													€
EBRD	**101**		€	€			€P	€P	€P		€P		€	€

€ Area of significant investments

P Area of significant policy engagement

Focus mostly on private sector (filled circle)

Focus mostly on public sector (empty circle)

Potential Areas of Cooperation

Green

- Continue close cooperation with the EU on improved energy and resource efficiency as well as green investments, leveraging InvestEU guarantees and risk-sharing arrangements

Competitive

- Explore opportunities to support the corporate sector through co-financing with the EIB, and co-financing equity funds with the EIF

Resilient

- Cooperate on structuring and implementation of innovative and viable financial instruments, leveraging Next Gen EU instruments to slow down impact of the war on Ukraine and rising inflationary pressures

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of investments signed from 2018
*Calculated based on EU contributions to the Slovakia country budget for 2014 - 2020 and 2021-2027

7. Implementation Risks and Environmental and Social Implications

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Risks to the strategy implementation	Probability	Effect
Macroeconomic risks, including due to higher inflation, rising energy prices, and continuing border and supply chain disruptions triggered by Russia's war on Ukraine could all undermine macroeconomic stability and longer-term investments.		
Instability of the investment climate, with frequent changes within government in recent years, may deter foreign investment.		
Changing funding structure of the banking sector with declining capacity of the local banks to fund lending growth through stable deposits. Increasing cost of long-term market funding for banking sector could impact cost of lending for real economy.		
The **worsening financial situation** among some firms and households may increase the risk of a rise in non-performing loans.		

High Medium Low

Environmental and social implications

- **Assessment and Management of E&S Impacts:** Ensure that direct, indirect, and cumulative E&S impacts (including gender impacts) of projects are appropriately assessed, avoided and mitigated. TC support to regulating E&S risks and impact and strategic assessments may be needed, as well as support to public sector clients with the implementation and monitoring of E&S management systems and contractor management according to EU and international standards.
- **Labour and Working Conditions:** Ensure that clients' labour practices comply with EBRD's PR2, in particular wages, benefits and conditions of work; non-discrimination and promotion of equal opportunities for women and young workers. Ensure prevention of GBVH and forced labour risks in contractors and supply chain by developing and implementing appropriate policies and response mechanisms with special attention on vulnerable groups, informal workers and refugees
- **Resource Efficiency and Pollution Prevention and Control:** Support projects in water and wastewater management. A priority should be on sustainable waste management and other investments that support circular economy and resource efficiency, prevent environmental pollution, and promote a just transition to a low carbon and climate resilient economy
- **Health and Safety:** Aim to improve occupational and community health and safety standards across all sectors and address security issues. TC funds and stakeholder engagement on road, traffic and electrical safety may be required to improve standards and raise awareness.
- **Land Acquisition, Involuntary Resettlement and Economic Displacement:** Ensure that any project requiring acquisition of land and resettlement comply with requirements of the Bank, with special attention on preserving livelihoods of vulnerable groups (e.g., Roma communities, informal land users and refugees)
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Support clients with assessments to ensure species and habitats of conservation importance are protected and ecosystem services and natural capital are sustainably managed. TC funds may be needed to support these activities or pursue nature-related activities and reporting.
- **Cultural Heritage:** Work with clients to ensure appropriate assessment is carried out on construction projects to identify impacts, consult with key stakeholders and preserve cultural heritage
- **Financial Intermediaries:** Ensure that FI partners have adequate E&S capacity and risk management procedures in place with a focus on capital market participation.
- **Stakeholder Engagement:** Support clients in delivering meaningful engagement, project disclosure and inclusive consultation accompanied with effective grievance mechanism throughout the project lifecycle.

8. Donor Partnerships Assessment

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Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including for:

- Grants and guarantees to cope with the fallout of the war on Ukraine, especially energy-wise
- CAPEX grants to promote investments in renewable energy and diversify energy sources as well as policy and advisory support to create a supportive regulatory environment
- Incentives for private companies to stimulate decarbonisation of the industry, especially automobile
- Introduce new instruments, and legal reforms to bolster local capital market development, expand and diversify sources of finance
- Introduce risk-sharing facilities and (quasi) equity instruments, combined with extended loans and indirect financing to strengthen SME's competitiveness

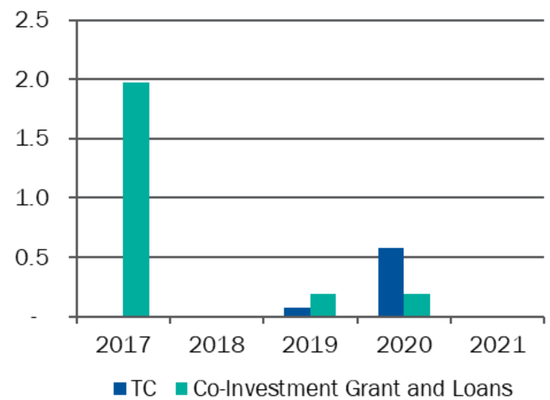
Potential Sources of Donor Funds

- The **EU** could be a major source of funding. Opportunities are available under the EU's multiannual financial framework for 2021-2027, including for:
  - Benefitting from EU Guarantees and technical assistance under InvestEU that EBRD expects to start deploying for Slovak companies and to some extent households in December, with a focus on green and digital
  - Co-financing with EU Recovery and Resilience Facility in the green and digital areas; including managing related TC and/or CAPEX grants for municipal clients or for resource efficiency programmes with financial intermediaries. The Memorandum of Understanding is in the process of being renewed.
  - Funding for initiatives promoting research, innovation in the areas of adaptation to climate change, climate-neutral and smart cities under HORIZON EUROPE
- As an ATC, the Slovak Republic is its own largest **bilateral contributor** notably through grants that support investments and policy engagement activities.

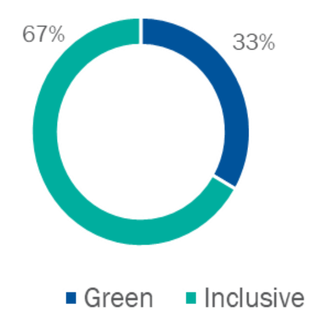
Selected Affordability Indicators

		EBRD regional percentile rank[1]
GDP per capita (PPP, current. $)[2]	33.010	75th
ODA Country	No	N/A

Donor finance during last strategy (€m)[4]



Use of grants in 2020-21[5]



1. Simple percentile rank reported as the share of EBRD economies represented below Slovak Republic; 2. Source: WDI (2020 or latest available year); 3. Source: OECD (2019); 4. 2017-2021 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings; 5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2020 and 2021

Annex

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Annex 1 – Political Assessment in the Context of Article 1 (1/3)

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The Slovak Republic's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, and guarantees for human rights and fundamental freedoms are largely in line with international and European standards. The media are pluralistic and competitive and civil society operates independently. Elections are conducted in a manner deemed by the OSCE to be broadly free, fair and competitive. The Slovak Republic has been a member of the European Union since 2004.

The Slovak Republic has achieved further progress in democratic transition in the period since the last Strategy, although some challenges remain in the area of the political participation of women and with respect to public perception of judicial independence.

Free Elections and Representative Government

The Slovak Republic is a multiparty parliamentary republic with a separation of powers and a functioning and stable system of democratic checks and balances enshrined in the Constitution and upheld in practice. The president is the head of state, elected directly by popular vote albeit with limited powers. Most executive power lies with the prime minister and democratic procedures of legislative oversight are in place.

The legal framework is in place to enable regular democratic elections. Parliamentary and presidential elections in the Slovak Republic are competitive and voters have a wide array of political alternatives. At the same time, during the last election cycle, the Organisation for Security and Cooperation in Europe (OSCE) expressed concern about previous recommendations that have not yet been addressed related to electoral dispute resolution, campaign financing and an existing extensive ban on pre-election opinion polls. [1] Additionally, the OSCE reported that a number of amendments were introduced less than a year before elections, which is not in line with international good practice.[2]

1. OSCE/ODIHR: Slovak Republic Parliamentary Elections February 2020 Election Assessment Mission Final Report, 15 May 2020, pp.16-17. 2. Ibid, p.1

Annex 1 – Political Assessment in the Context of Article 1 (2/3)

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Civil Society, Media and Participation

The Slovak Republic has a vibrant and independent civil society. However, Civil Society Organisations (CSOs) have raised concerns about the increasingly limited civic space for those working on LGBTIQ rights as well as women's rights, and the limited financing available for work on these issues.[3]

Slovak citizens are free to form political parties by law, which is upheld in practice with the existence of well-organised opposition parties that are able to campaign freely.

The Slovak Republic has an independent pluralistic media. In the period since the last Country Strategy, shortcomings in journalist protection have been highlighted since the assassination of an investigative journalist in 2018. The Constitution guarantees freedom of expression and the right to information. While this is generally respected, challenges are presented by substantial damages in civil libel cases and the criminalisation of defamation, one of the strictest in the European Union. The OSCE recommends the decriminalisation of defamation in the Slovak Republic and the European Commission's 2022 Rule of Law Report raises concerns that proposed legislation aimed at strengthening the protection of journalists and amendments to the criminal code to reduce the punishment for defamation, have been postponed.[4]

Rule of Law and Access to Justice

The Constitution guarantees all citizens equality before the law and provides for an independent judiciary. The right to a fair trial for all is enshrined in the Constitution and freedom from arbitrary arrest and detention is guaranteed. In the period since the last Country Strategy, the Slovak Republic has made continued progress in improving the independence of the justice system, as well as its efficiency and quality level. The new Supreme Administrative Court became operational in 2021, a reform of the judicial map has been approved by parliament, improvements were made to the Judicial Council and the disciplinary proceedings against judges, and an amendment to restrict the power of the Prosecutor General to annul prosecutorial decisions is being drafted. However, perception of judicial independence by the public continues to be low.[5]

Transparency International's 2021 Corruption Perceptions Index ranks the Slovak Republic 56th out of 180 countries assessed. The Slovak Republic has moved up four places since the 2020 CPI as a result of improved protection for whistleblowers. Improvements include the establishment of the dedicated Whistleblower Protection Office, increased transparency in the selection of high-ranking officials, and the improved performance in the judiciary and police in investigating corruption.[6] Anti-corruption is a political priority and efforts to tackle high-level corruption are underway, with several former high-ranking officials charged with corruption-related offences. However, anti-corruption monitoring reports, such as the 2021 GRECO evaluation report, reveal that progress remains slow with many reforms not yet implemented.[7]

3. European Commission: 2022 Rule of Law Report Country Chapter on the rule of law situation in Slovakia, 13 July 2022, p.23. 4. OSCE/ODIHR: Slovak Republic Parliamentary Elections February 2020 Election Assessment Mission Final Report, 15 May 2020, p. 13, and European Commission: 2022 Rule of Law Report Country Chapter on the rule of law situation in Slovakia, 13 July 2022, p.19 5. European Commission: 2022 Rule of Law Report Country Chapter on the rule of law situation in Slovakia, 13 July 2022, p.3 6. Transparency International (2021): Corruption Perceptions Index 2021. 7. GRECO (2021): Fifth Evaluation Round Compliance Report Slovak Republic, September 2021.

Annex 1 – Political Assessment in the Context of Article 1 (3/3)

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Civil and Political Rights

Civil and political rights, including freedoms of speech, information, religion and conscience, movement, association, assembly and private property are guaranteed in the Constitution and upheld in practice.

The Constitution guarantees the rights of national minorities and electoral participation of national minorities is protected by law and facilitated in practice. Electoral campaign information materials are provided in minority languages. In the last election, many political parties actively campaigned for minority votes and efforts were increased to nominate minority candidates.[8] The largest minority groups in the Slovak Republic are Hungarians and Roma, each group making up an estimated 8% of the population.9 The Hungarian minority has two well-established political parties representing their interests, yet there was no candidate list on behalf of the Roma community in the last election.10 While the Roma minority were more engaged, the level of political participation remained low.11 There are, however, barriers to political participation for people with disabilities. Legally incapacitated people, including those with disabilities, are not eligible to register as a political candidate, which is currently at odds with best international standards. 12

Although the country's first female president was elected in 2019, more could be done to enhance the participation and representation of women in the political process. In the World Economic Forum's 2021 Global Gender Gap Report the Slovak Republic ranks 77 out of 156 countries overall, but ranks 82nd for the political empowerment benchmark.[13] There are currently no legal or voluntary special measures addressing this and women represented only 20% of candidates in the last election.[14]

The Constitution of the Slovak Republic provides for citizens' freedom from harassment, intimidation and torture, and these freedoms are observed in practice.

8. OSCE/ODIHR: Slovak Republic Parliamentary Elections February 2020 Election Assessment Mission Final Report, 15 May 2020, p.2 and p.15. 9. The percentages of the Hungarian and Roma ethnic minority groups in the Slovak Republic are based on data from the 2021 official Slovak census and the 2019 Atlas of Romani Communities. 10. Council of Europe: The Fifth Report on the Implementation of the Framework Convention for the Protection of National Minorities in the Slovak Republic, 2018, p.85. 11. OSCE/ODIHR: Slovak Republic Parliamentary Elections February 2020 Election Assessment Mission Final Report, 15 May 2020, p.15. 12. Ibid, p.7.13. World Economic Forum: Global Gender Gap Report 2021. 14. OSCE/ODIHR: Slovak Republic Parliamentary Elections February 2020 Election Assessment Mission Final Report, 15 May 2020, p.8.