European Bank
for Reconstruction and Development

The Slovak Republic diagnostic

2022

Country diagnostics are an EBRD tool for identifying the main obstacles to entrepreneurship and private-sector development and helping to shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

Country diagnostics assess the progress and challenges of EBRD investee economies in developing a sustainable market economy. Private-sector development and entrepreneurship are at the heart of the Bank's mandate in the regions where the Bank operates, but the private sector in all EBRD economies faces a range of problems and obstacles. The diagnostics highlight the key challenges facing private companies and show where each country stands with regard to its peers in terms of six qualities of transition – competitive, well-governed, resilient, integrated, green and inclusive – and point out the main deficiencies and gaps in each.

The diagnostics draw on a range of methodologies and best practices for assessing how big different obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports from institutions such as the World Bank, World Economic Forum and Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical to private-sector development in the country.

The diagnostics are led by the EBRD's Policy Strategy and Delivery team, drawing substantially on the expertise of sector, governance and political experts in the Policy Strategy and Delivery department (PSD) and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

The views expressed in the diagnostic papers are those of the authors alone and not of the EBRD.

For more information, go to: https://www.ebrd.com/publications/country-diagnostics.

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Executive summary

In recent years, the domestic political environment in the Slovak Republic has been generally favourable for economic reform. In the early transition years, the country's political development was marked by upheaval, explaining its exclusion from initial negotiation rounds with the European Union (EU) and the North Atlantic Treaty Organization (NATO) in 1997. However, the electoral victory of pro-democratic forces in 1998 underscored the country's commitment to a pluralistic democracy and market economy, leading it to EU and NATO accession in 2004. Since then, there has been widespread national consensus on key economic and foreign policy priorities.

After years of rapid catch-up with the EU, the Slovak Republic's persistent long-term structural challenges have recently triggered a slowdown in its convergence. The shock of Russia's war on Ukraine hit the economy before it had managed to recover from the Covid-19 crisis. Following a pandemic-induced recession in 2020, which saw a decline of 3.4 per cent in gross domestic product (GDP), the Slovakian economy grew 3 per cent in 2021, mostly driven by strong household consumption and government spending. The labour market remains tight, with several sectors facing labour shortages. High energy and food prices are fuelling inflationary pressure. Together with persisting supply-side bottlenecks that have increased goods prices, the economy has suffered a cost-push shock. Pandemic and war-related spending have dented public finances. The government deficit widened from 1.2 per cent of GDP in 2019 to 5.5 per cent in 2021.

Industry, specifically, the automotive sector and its suppliers, forms the backbone of the Slovakian economy, accounting for about 25 per cent of added value in 2021. Slovakian trade and foreign direct investment (FDI) are highly dependent on the EU market and sensitive to external shocks. As a small and open economy, the Slovak Republic boasts the fourth-highest ratio of exports (94 per cent in 2021) and imports (95 per cent in 2021) to GDP in the EU. Micro, small and medium-sized enterprises (MSMEs) play a dominant role in the country's employment, but their productivity growth has been sluggish.

This diagnostic report highlights the key transition challenges that can be broadly attributed to individual Assessment of Transition Qualities (ATQs). These include:

- Competitive: Despite being highly integrated into global value chains, the Slovakian economy relies heavily on less competitive small and medium-sized enterprises (SMEs). Imported inputs account for almost half of total exports, but deeper forward integration into the value chain (from production to consumers) is lacking. Total factor productivity growth is subdued, caused to some extent by insufficient investment in research and development (R&D) and firms' slow uptake of digital technologies. To remain competitive, the Slovakian automotive sector needs to embrace the transition to e-mobility and go beyond passenger car production. SME financing is mostly bank-centric, which makes it difficult for start-ups and young companies to grow and improve efficiency. The availability of alternative sources of finance, such as crowdfunding, coupled with regulation and insufficient practical experience, limit private-sector investment. Fintech solutions could help reduce barriers to accessing credit and expand lending.

- Well-governed: Administrative capacity, especially at a local level, has not been sufficiently efficient to increase EU fund absorption. Insufficient use of e-government services limits interaction between citizens, businesses and the public administration. The speed of public procurement is improving thanks to ongoing reform, but there is scant use of qualitative criteria. When it comes to corporate governance, the structure and functioning of boards and shareholders' rights fare worse than the average in central Europe and the Baltic states (CEB). To improve business performance, family businesses need further support with regard to the transition of ownership and access to finance.

- Green: The green economy transition of the Slovak Republic will need to focus on incorporating ambitious sustainable energy targets for 2030 and 2050, but also on waste management and improving air quality. As of 2020, Slovakian electricity generation stemmed from nuclear power (54 per cent), hydropower (17 per cent), natural gas (13 per cent), coal (7 per cent), biofuels and solar photovoltaic (PV) (7 per cent) and other (2 per cent). The country's annual mean concentration of particulate matter ($PM_{2.5}$) is almost twice the recommended maximum and is considered moderately unsafe by the World Health Organisation (WHO). Three Slovakian regions face challenges from the phasing out of carbon-intensive industries – Trenčín, Košice and Banská Bystrica – and have been earmarked for support by the EU's Just Transition Fund. Municipal waste management remains problematic, with the landfill rate of municipal waste significantly above EU levels and circular material use only half the EU average.

- Inclusive: Despite an increase in employment, regional and gender differences persist. Programmes targeting women in business seek to reduce the significant gender gap in entrepreneurship. The gender employment gap is close to the EU average, but is substantially higher for women of childbearing age, in line with the limited use and availability of formal childcare for children under the age of three. Companies, especially in IT and engineering, suffer from labour shortages and skills mismatches. Projects focused on developing digital infrastructure in less developed regions could help reduce the regional disparities and address the digital skills gap, especially among more vulnerable groups. The availability of rental and social housing remains a key challenge in addressing social exclusion.

- Integrated: The uneven concentration of transport infrastructure has attracted more investment to the western part of the country and has limited more equalising regional development. Further development of logistics centres, terminals and warehouses is needed in the east of the country. The Slovak Republic's industrial orientation and geographical location, especially in light of future reconstruction efforts in Ukraine, underscore these needs. The percentage of households with access to very-high-capacity fixed internet networks is improving, but remains below the EU average. Consequently, digital transformation is at the heart of the Slovak Republic's Recovery and Resilience Facility (RRF), accounting for 21 per cent of the total budget.

- Resilient: Energy security needs to be improved through greater energy savings in both the industrial and residential heating sectors, the faster uptake of renewables and reduced reliance on fossil-fuel imports. Scaling up new forms of sustainable financing, such as social impact bonds, would widen the investor base and enhance sustainable investment, leading to higher environmental, social and governance (ESG) standards in the private and public sectors. Banking-sector concentration and the foreign ownership of banks present further challenges to the resilience of the financial sector. The modest role of capital markets is reflected in households' financial assets, which are still predominantly held in the form of bank deposits. Transaction and listing costs remain prohibitively high for local issuers and have resulted in a general lack of supply of corporate bonds. The absorption of EU funds in the last multiannual financial framework (MFF) programming period (2014-20) has lagged that of most EU Member States. The Slovak Republic will receive €6.3 billion in grants under the EU RRF. The successful deployment of RRF funds will require a significant amount of commercial bank co-financing, likely backed by unfunded InvestEU guarantees.

This report includes three annexes. The first is a chart presentation on the new EBRD digital concept, which consists of indicators comparing the Slovak Republic with other EBRD economies in two categories, digitalisation outcomes and digitalisation enablers. The second provides a short discussion on the challenges associated with integrating refugees from Ukraine. The third discusses the EBRD's additionality in the Slovak Republic over the 2017-22 country strategy period.

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1. Political and economic overview

1. Political economy

In recent years, the domestic political environment in the Slovak Republic has been generally favourable for economic reform. In the early transition years, the country's political development was marked by upheaval, explaining its exclusion from the first negotiation rounds with the EU and NATO in 1997. However, the electoral victory of pro-democratic forces in 1998 underscored the country's commitment to a pluralistic democracy and market economy, leading it to EU and NATO accession in 2004. Since then, there has been widespread national consensus on key economic and foreign policy priorities.

The Slovakian parliamentary system is characterised by regular multiparty elections and the peaceful transfer of power between rival parties. Two main political camps have emerged over the past 30 years: on the one hand, parties with nationalist and leftist appeal and, on the other, a scattering of centre-right parties. Party instability and political fragmentation remain high, however. The first degree of party rivalry is between the far right and the left, the second between the liberals and the conservatives, and the third between ethnicities.[1]

Significant efforts to improve the independence, quality and efficiency of the Slovakian justice system have continued, as noted in the 2021 Rule of Law report by the European Commission.[2] Nevertheless, high-risk sectors remained prone to corruption during the pandemic, including public procurement and the healthcare sector. In 2021, the Slovakian parliament approved a major revision to the Public Procurement Act. Although corruption has been a sensitive political issue – particularly following the murder of an investigative journalist and his fiancée in 2018 – the European Commission cited the country's progress on efforts to tackle it. Progress was also noted in the most recent Corruption Perceptions Index by Transparency International.[3] In the 2022 report, the Slovak Republic improved its score by four points from the 2020 report and moved up in the rankings, from 60th out of 180 countries in 2020 to 49th in 2022, making it one of the best improvers in the EBRD regions. However, the perception of corruption remained relatively high overall and the country continued to rank below the EU average.

The country's geographical location has exposed it to multiple crises, particularly following the war on Ukraine. Both the Slovakian government and opposition parties have condemned Russia's aggression and expressed their firm support for neighbouring Ukraine. However, the Slovak Republic is highly dependent on Russian gas and a prolonged supply cut would have a negative impact on its overall energy supply. At the same time, the country is at risk of a refugee crisis thanks to its shared border with Ukraine. As security risks in the wider area have increased, the Slovak Republic is likely to prioritise defence spending in the coming years, in line with NATO requirements.

The policymaking environment in the Slovak Republic has been made challenging by a protracted political crisis and will remain so until early elections in September 2023. President Zuzana Caputová, in accordance with her constitutional powers, appointed the Slovak Republic's first technocratic government in May 2023 following the collapse of the government. The conservative Ordinary People and Independent Personalities (OL'aNO) party had led a three-party coalition government with a strong anti-corruption platform since the February 2020 parliamentary election until the government was ousted by a vote of no confidence in December 2022. The government's plan for implementing radical changes in the country was hampered by frictions within the governing coalition and the ongoing healthcare, energy and geopolitical crises. Due to parliamentary deadlock, a new coalition could not be formed with the existing balance of power in parliament, so a snap election was called. Initially, outgoing Prime Minister Eduard Heger and the OL'aNO-led coalition government agreed to stay on in a caretaker capacity. However, Heger's caretaker government resigned in May 2023 and President Caputová appointed a technocratic government with economist and National Bank of Slovakia (NBS) Vice-Governor Ľudovít Ódor at its helm. The policymaking environment should improve when a new parliament is in place and a new government backed by a majority can be formed.

[1] See Bertelsmann Stiftung, 2022.
[2] See European Commission (2021g).
[3] See Transparency International (2022).

2. Economic overview

Following years of rapid catch-up with the EU, the Slovak Republic's persistent long-term structural challenges have triggered a slowdown in its convergence in recent years. GDP per person (purchasing power parity [PPP]-adjusted) shrank from 73 per cent of the EU average in 2016 to 68 per cent in 2021, according to NBS estimates. The country's export-driven growth model, to a large extent dependant on relatively low labour costs for industrial production, is coming up against challenges as its important car manufacturing industry faces significant risks from automation.

The shock of the war in Ukraine hit the Slovakian economy before it had managed to recover from the Covid-19 pandemic. Following a Covid-19-induced recession in 2020, which saw a drop of 3.4 per cent in GDP, the Slovakian economy grew 3 per cent in 2021, mostly driven by strong household consumption and government spending. While its direct exposure to trade with Russia and Ukraine is modest, the Slovak Republic is heavily exposed to disruptions in Russian energy imports and mounting import costs, which have adversely affected the supply side of the economy.

The 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, falling to 6.3 per cent in Q1 2022. Nevertheless, the unemployment rate of the low skilled, at 42.9 per cent in Q3 2021, is the highest in the EU, while the share of long-term unemployment remains high, at 61.3 per cent of total unemployment, mostly among the marginalised Roma community in the east of the country.

High energy and food prices are fuelling inflationary pressure. Together with persisting supply-side bottlenecks that have increased goods prices, the economy has been exposed to a cost-push shock. In mid-2022, Harmonised Index of Consumer Prices (HICP) inflation exceeded 12 per cent year on year, while the average inflation rate for 2022-23 is expected to remain at 10 per cent. Nominal wages increased 6.8 per cent in 2021 and are expected to rise by 7-9 per cent in 2022-23. As a result, disposable incomes are shrinking and households are losing their purchasing power.

Pandemic and war-related spending have dented Slovakian public finances. The government deficit-to-GDP ratio widened from 1.2 per cent in 2019 to 5.5 per cent in 2021. At the same time, general government gross debt jumped to 62.2 per cent of GDP from 58.9 per cent the year before. Fiscal buffers are expected to be rebuilt once the economy is on a solid growth path. The expected impact of fiscal consolidation on investment is likely to be offset by higher EU fund inflows, including from the RRF, which is to be disbursed through the end of 2026.

Table 1. Main macroeconomic indicators

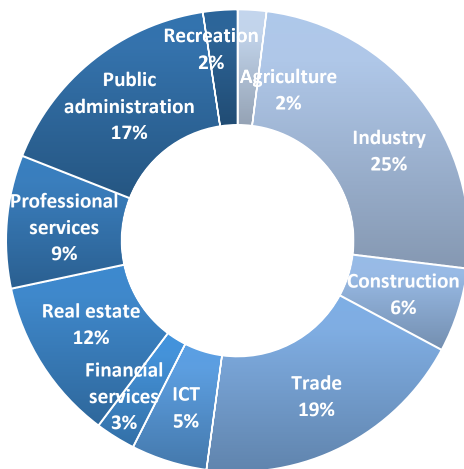
	2018	2019	2020	2021
GDP growth (% y/y)	4.0	2.5	-3.4	3.0
HICP inflation (% avg.)	2.5	2.8	2.0	2.8
Government balance (% of GDP)	-1.0	-1.2	-5.4	-5.5
Current account balance (% of GDP)	-2.2	-3.3	0.4	-1.9
Net FDI (% of GDP)	-1.3	-2.3	2.0	0.3
External debt (% of GDP)	114.3	111.7	118.7	135.1
General government gross debt (% of GDP)	49.4	48.0	58.9	62.2
Unemployment rate (20-64, %)	6.3	5.6	6.5	6.7
Nominal GDP (€ billion)	89.9	94.4	93.4	98.5

Source: Eurostat, authors' calculations.

3. Economic structure and private sector overview

Industry, specifically the automotive sector and its suppliers, forms the backbone of the Slovakian economy. Industry accounted for about 25 per cent of added value in 2021 (Chart 2), above the EU average of about 18 per cent of GDP. Traditionally, Slovakian manufacturing has been concentrated in the automotive sector. The Slovak Republic is highly integrated into global value chains, particularly within the EU and especially Germany.

Chart 2. Economic sectors, percentage of 2021 gross value added



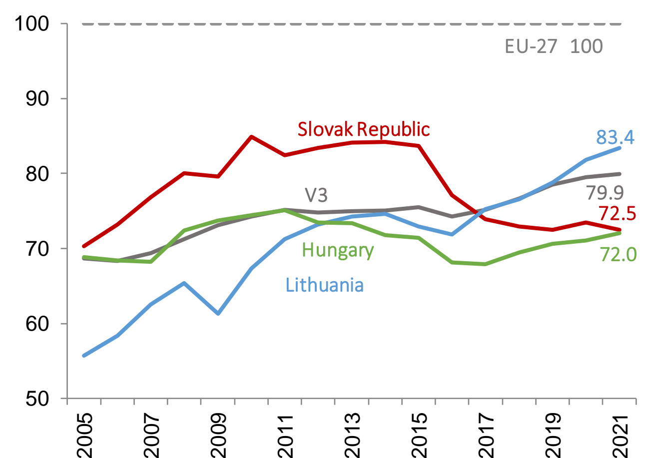
Source: Eurostat (2022a), authors' calculations.

Slovakian trade and FDI are highly dependent on the EU market and sensitive to external shocks. As a small and open economy, the Slovak Republic boasts the fourth-highest ratio of exports (94 per cent in 2021) and imports (95 per cent in 2021) to GDP in the EU. In 2020, almost 90 per cent of Slovakian exports were to the EU countries, while 75 per cent of its imports came from the EU. The Slovakian export structure is heavily concentrated in one product area – machinery and equipment, which comprised 62.5 per cent of exports in 2020. The majority of FDI inflows come from the EU, particularly from the Netherlands, the Czech Republic, Austria and Germany, to sectors such as manufacturing and industrial production and financial and insurance services.

According to United Nations Conference on Trade and Development (UNCTAD) data for 2020, the country's inward FDI stock amounted to around 56 per cent of GDP.

MSMEs employ most people in the economy, but their productivity growth has been slow. The SME sector covers 99.9 per cent of all Slovakian companies, with the majority of those (97.2 per cent) micro-sized enterprises having up to nine employees. Microenterprises account for more than 42 per cent of employment, but only 23 per cent of value added (compared with OECD averages of 29 and 17 per cent, respectively). The gap in labour productivity per person employed in the overall economy compared with the V3 peers[4] has shrunk since 2016 (Chart 3); in the case of the Slovak Republic, labour productivity was at 72 per cent of the EU-27 average as of 2021.

Chart 3. Labour productivity per person employed, overall economy



Source: Eurostat (2022b), authors' calculations.

[4] The Slovak Republic's peers in the Visegrád Group: the Czech Republic, Hungary and Poland.

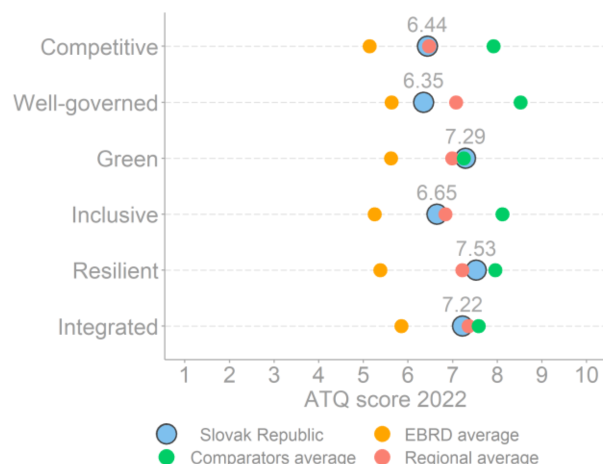
2. Qualities of a sustainable market economy

The ATQs are composite indices on six desirable qualities of a sustainable market economy: competitive, well governed, green, inclusive, resilient and integrated. They are obtained by combining information on a large number of indicators and assessments.

The Slovak Republic is the second least inclusive economy in the CEB region and the third-lowest scorer when it comes to governance. The country performs similarly to the rest of the region on the competitive and integrated qualities, while the gap is significant for the well-governed and inclusive qualities (see Chart 4). The Slovak Republic is above the EBRD average on all qualities, most notably on the resilient and green qualities.

The following sections provide a more detailed discussion on each of the qualities.

Chart 4. ATQ overview

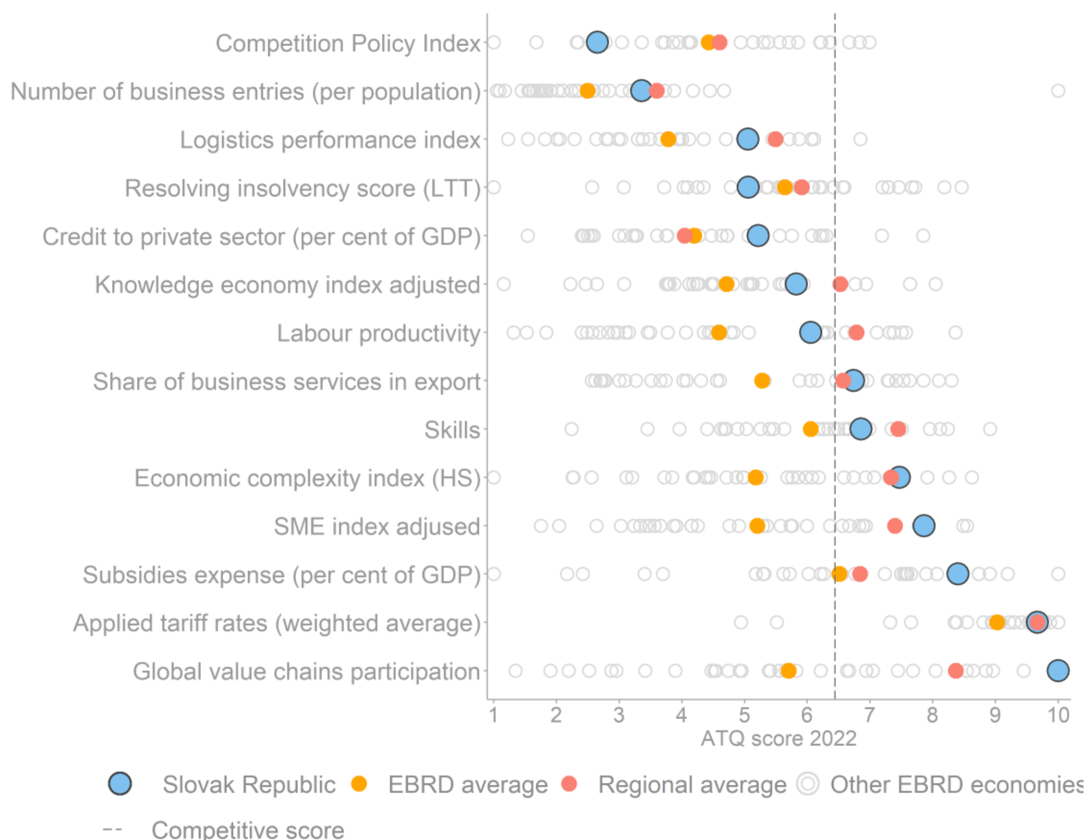


Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

Competitive [ATQ = 6.44]

Chart 5. EBRD 2022 assessment of the competitive transition quality



Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

Despite being highly integrated into global value chains, the Slovakian economy is dominated by less competitive SMEs. Foreign firms, mostly those in the manufacturing sector, typically rely on foreign suppliers and still have limited connections to domestic firms. Most foreign direct investments take place in the manufacturing sector, where the largest foreign producers tend to use a Slovakian workforce to assemble imported intermediate goods rather than local suppliers. For example, the transport equipment industry adds only 40 per cent of final product value locally.[5] Although the Slovak Republic has the largest number of companies involved in motor vehicle production in the EU (485 as of 2020), most of the main carmakers use their own affiliated global suppliers and domestically owned SMEs to a lesser extent. The value added of foreign affiliates is generally higher than that of Slovakian SMEs, which tend to have less innovative potential and find it harder to adapt their production to changes in the industry.[6] This is largely due to the fact that the productivity gains and technology from the large foreign companies, especially in the manufacturing sector, have not been sufficiently transferred to other sectors.[7] Less interaction with multinational firms does not favour the development of new technologies and knowledge transfer to local firms, which are mostly micro- and small firms. Coke and refined petroleum, computer, electronic and optical products, and motor vehicles, trailers and semi-trailers were the top three sectors in which more than 65 per cent of export values were imported inputs from third countries in 2018. These shares, though fluctuating slightly, have remained consistent since 2008.

Chart 6. Imported inputs accounted for almost half of total exports in 2018; deeper forward integration is lacking

Source: OECD.
Note: Backward and forward participation in global value chains in 2018.

Imported inputs account for almost half of total exports, but deeper forward integration into the value chain (from production to consumers) is lacking. Only 19 per cent of exports are sold to third countries for further export production (see Chart 6).

To remain competitive, the Slovakian automotive sector could embrace the transition to e-mobility, going beyond passenger car production. Car manufacturing is the largest industry in the country and is one of the most important sources of FDI inflows. Faced with the rapid transformation of the sector towards the less labour-intensive production of electric vehicles, a growing share of automation in production and the use of digital solutions, the automotive sector needs to maintain its competitiveness not only by providing skilled labour, but also by investing in R&D, digital education, connecting with local suppliers and encouraging new production lines.

Slovakian enterprises boast a lower level of digitalisation than their regional peers and the private funding of R&D is insufficient. Although digitalisation is rapidly being introduced into businesses, when it comes to companies' integration of digital technology, the Slovak Republic ranks 21st in the EU on the Digital Economy and Society Index (which summarises indicators on Europe's digital performance and tracks the progress of EU countries). The country's SMEs lie almost eight percentage points behind the EU average. Greater digitalisation of business is also needed on the administrative side, with only 16 per cent of companies using e-invoices compared with 32 per cent in the EU.[8] The slower uptake of e-commerce is also a potential missed opportunity, with both corporate (15.7 per cent of firms report receiving orders online versus 23 per cent in the Czech Republic) and non-corporate penetration lower than in neighbouring countries (41.7 per cent in the Slovak Republic versus 54 per cent in the Czech Republic).[9] During the Covid-19 pandemic, digitalisation rapidly changed the way that businesses operate, with 38 per cent of firms in the Slovak Republic saying they have become more digital in response to the pandemic.[10] In addition, investment in R&D is lower than in neighbouring countries. Private-sector companies invested 0.5 per cent of GDP in R&D in 2020, but the government sector invested only 0.18 per cent (compared with 0.34 per cent of GDP in the Czech Republic). As an Emerging Innovator on the EU Innovation Scoreboard, a comparative analysis of innovation performance in EU countries, the Slovak Republic improved its performance in the areas of tertiary education and government support for business R&D, but its overall performance relative to the EU deteriorated.[11]

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[5] See OECD (2021a).
[6] See Globsec (2021).
[7] See OECD (2022a).
[8] See European Commission (2021a).
[9] Ibid.
[10] See EIB (2021b).
[11] See European Commission (2021b).

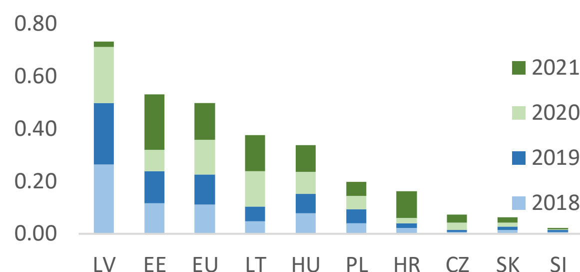
The manufacturing sector leads in terms of the shift from labour-intensive manufacturing to greater use of digital solutions. With the growing use of digital solutions, especially in the automotive industry, manufacturing is a change leader in the Slovakian economy. The sector is more likely to innovate (46 per cent) than infrastructure and construction firms (28 per cent and 24 per cent, respectively, in 2020).[12] The other advantage of the Slovakian manufacturing sector is its large share of foreign companies and enterprises with foreign capital, which are more likely to introduce automation than fully locally owned enterprises.[13]

SME financing is mostly bank-centric, which makes it difficult for start-ups and young companies to grow and improve efficiency. In the Slovak Republic, one of the key constraints on the further development of SMEs is a lack of equity capital and collateral, especially in their growth phase.[14] Although commercial banks in the Slovak Republic still dominate lending to SMEs, the continuous development of fintech companies may bring about changes in lending trends. SMEs in the Slovak Republic are below the OECD average when it comes to acquiring digital technologies and the majority are not able to fully access and combine government support, grants or subsidies.[15]

The availability of alternative sources of finance for funding new products or ideas, such as crowdfunding, coupled with regulation and insufficient practical experience, limit private-sector investment. In the Slovak Republic, more traditional alternatives to bank lending, such as leasing, are a widespread source of financing for entrepreneurs.[16] More than half of Slovakian enterprises (53 per cent) deem leasing or hire-purchase to be a suitable source of financing, compared with 47 per cent in the EU27. The use of factoring is similar to that in the rest of the EU.[17]

Most enterprises see equity capital as a less relevant source of funding (3 per cent), compared with 11 per cent in the EU27. When it comes to start-up finance, in particular, the amount of venture capital investment in the Slovak Republic increased by almost 90 per cent to US$ 23.8 million in 2015-20, although compared with SME bank financing, the amount of venture capital invested in 2020 was still in the minor leagues, amounting to 0.02 per cent of GDP. Crowdfunding is a favourable source of alternative funding, but Slovakian enterprises have less access to it than the Czech Republic (which offers comparatively better conditions) or Poland (which offers such funding on a larger scale).[18]

Chart 7. Venture capital financing, as a cumulative share of GDP, per cent



Source: European Commission (2021b), authors' calculations.

Note: LV: Latvia, EE: Estonia, EU: European Union, LT: Lithuania, HU: Hungary, PL: Poland, HR: Croatia, CZ: the Czech Republic, SK: the Slovak Republic, SI: Slovenia.

Fintech solutions could help reduce barriers to credit and expand lending. According to the European Investment Bank (EIB) Investment Survey 2021, companies that are dissatisfied with access to external finance point to the cost of finance and collateral requirements.[19] Despite its relatively small size, the Slovak Republic has advanced quite significantly when it comes to the digitalisation of financial service provision, with digital payments widely used and banks gradually introducing new digital services. Some 60 per cent of banks cite the use of machine learning to improve credit decision making, while 20 per cent of banks use robo-advisers for investment advice (BEEPS, 2021).[20] With the rising share and development of non-bank financial companies, which could reduce the costs and time involved in obtaining a loan, traditional banks may start to employ even more technological measures and widen their customer base to retain their dominant role in SME lending in the coming years.[21]

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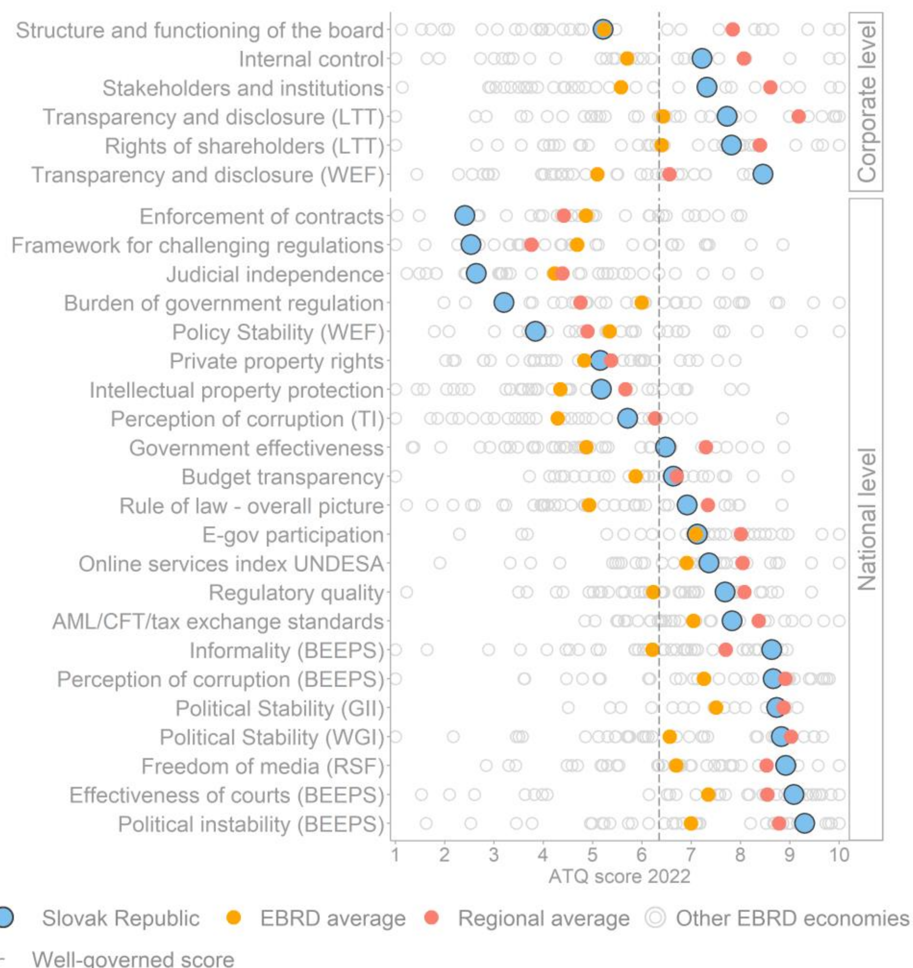
[12] See EIB (2021a).
[13] See European Commission (2021a).
[14] See SME ENVOY (2019).
[15] See OECD (2021b).
[16] See European Commission (2019).
[17] See ECB (2021).
[18] See Vrablova (2021).
[19] See EIB (2021a).
[20] See BEEPS (2021).
[21] See IFC (2019).

Well-governed [ATQ = 6.35]

Chart 8. EBRD 2022 assessment of the well-governed transition quality



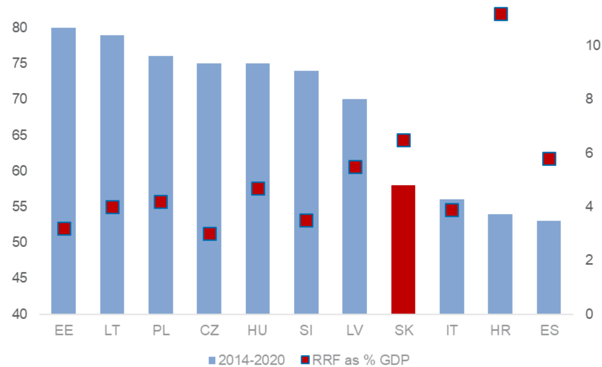
Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

Administrative capacity, especially at local level, has not been efficient enough to increase EU fund absorption. Planned RRF investments amount to around 6.5 per cent of country's 2021 GDP, but the low absorption rate of the 2014-20 European Structural and Investment Funds (ESIFs) underscores how ambitious these plans are. The problem is a combination of an overburdened central administration, where most decisions on fund allocation are made, and limited trust in the capacity of local administration to take up the task of managing a more significant share of EU fund deployment (see Chart 9). Procurement practices are another factor hampering EU fund absorption.

The speed of public procurement is improving thanks to ongoing reform, but there is scant use of qualitative criteria. About 94 per cent of contracts were awarded based solely on the lowest price in 2020.

Chart 9. The low absorption rate of ESIFs may thwart high expectations of the RRF (%)



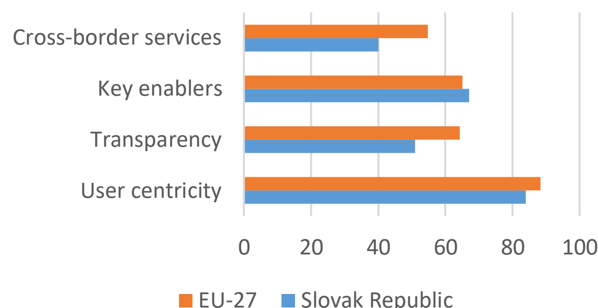
Source: European Commission.
Note: Absorption rate as of 10 June 2022 (LHS) and RRF as a percentage of 2021 GDP (RHS). EE: Estonia, LT: Lithuania, PL: Poland, CZ: the Czech Republic, HU: Hungary, SI: Slovenia, LV: Latvia, SK: the Slovak Republic, IT: Italy, HR: Croatia, ES: Spain.

Insufficient use of e-government services has limited the interaction between citizens, businesses and the public administration. The 2020 United Nations E-Government Development Index, a composite measure of three important dimensions of e-government – the provision of online services, telecommunications connectivity and human capacity – ranks the Slovak Republic 52nd out of a total of 193 countries, behind Poland and the Czech Republic. According to the 2020 Network Readiness Index, which addresses current topical concerns of trust, governance and inclusivity, the areas that need improvement include government online services, information and communications technology (ICT) use and government efficiency.[22] Although progress is visible, communication with citizens through e-government services remains limited.

In 2021, only 25 per cent of individuals used the internet to submit completed forms to the public authorities, compared with 52 per cent of individuals in the neighbouring Czech Republic.

Similarly, according to the European Commission's 2021 eGovernment Benchmark report, the Slovak Republic scores below the EU-27 average in three out of its four categories (see Chart 10).[23] While there have been efforts to improve the accessibility and variety of government services provided digitally, the low level of trust in digital services across the population will remain an obstacle. Currently, 19 per cent of individuals claim to have concerns about the security of digital public services, compared with 8 per cent in the EU. However, strengthening the digital literacy and skills of Slovakian society could promote more rapid acceptance of e-government platforms.[24]

Chart 10. eGovernment Benchmark, 2019-20



Source: European Commission (2021c), authors' calculations.

When it comes to corporate governance, the structure and functioning of boards and shareholders' rights fare worse than the CEB average, according to an EBRD assessment.

To improve business performance, family businesses need further support with regard to the transition of ownership and access to finance. In the Slovak Republic, up to 70 per cent of family businesses are microenterprises and about 15 per cent of them are small enterprises.[25] As family businesses in the economies where the EBRD operates emerged later than in western countries, the generational corporate transition has started only recently.[26] The first generation still runs the majority of family businesses (53 per cent).

[22] See Portulans Institute (2020).
[23] See European Commission (2021c).
[24] See OECD (2022a).
[25] See Tóthová and Tóth (2020).
[26] See Lušňáková et al. (2019).

According to a 2019 study by Lušňáková et al., most Slovakian family businesses (63 per cent of the 206 participants) have not developed a concrete succession plan to simplify the process of handing over the business to the next generation.[27] Consequently, a strategic approach is needed to raise the level of preparedness for succession, develop internal rules and governance.

Although more than 70 per cent of SME family businesses show some innovative activity, they face problems accessing funding. For example, of the companies applying for EU grant funding, only 58 per cent are successful. Almost half of companies do not embark on the process of applying for EU grants due to the large amount of bureaucracy involved (48 per cent) or excessively complex procedures (36 per cent). Another serious barrier is the lack of qualified employees.[28]

The absorption of EU funds in the last MFF programming period (2014-20) lagged that of most EU Member States. The funds had a significant impact on infrastructural development and increased living standards in the country. ESIF-financed projects amounted to 15 per cent of the country's GDP between 2015 and 2021. However, public investment levels, measured as general government gross fixed capital formation, were consistently lower than in neighbouring countries. In 2016-20, Slovakian public investment as a percentage of GDP increased only 0.1 percentage point (to 3.5 per cent of GDP in 2020), while in Hungary, it increased 3.2 percentage points (to 6.4 per cent of GDP in 2020), putting it at the top of the EU rankings. The Slovak Republic's sluggish ESIF implementation progress in 2014-20 placed it at the lower end of the EU rankings. With only 53 per cent of funding expenditure (total cost approach) completed as of the end of 2021, the country lags its regional peers. Absorption patterns were similar to the previous programming period, when only 26 per cent of total ESIF spending occurred within the first three years. Looking at the EU payments by fund, the most successful in terms of withdrawals were projects funded by the Youth Employment Initiative (95 per cent). Those that saw the least success were the Maritime and Fisheries Fund (34 per cent) and the European Fund for Regional Development (46 per cent).

The Slovak Republic will receive €6.3 billion in grants under the EU's RRF, of which 43 per cent will be allocated to measures supporting climate objectives and 21 per cent to measures supporting the digital transition. In addition, financial support for projects and reforms envisaged by the country's recovery and resilience plan, approved by the European Commission in 2021, may boost GDP growth by between 1.3 and 1.8 per cent over 2021-26 relative to a counterfactual scenario without the RRF.[29] Total funding from the RRF amounts to around 5.9 per cent of pre-crisis GDP and most of the projects will take the form of public investment.[30] The largest share of funds will be directed to projects to do with the transition to a greener economy, where the country faces challenges. Investments in the green transition are particularly complex due to the constantly limited absorption capacity of funds and the fact that most of the government's plans in this area are still in the initial stages.[31]

Likewise, the country's target of a 19.2 per cent renewables share of the energy mix by 2030, as set out in the Low-Carbon Development Strategy of the Slovak Republic until 2030 with a View to 2050,[32] is below the 24 per cent share calculated by the formula in Annex II of Regulation (EU) 2018/1999.[33] The reduction of industrial emissions will be encouraged with a new auction scheme, while carbon intensity should be reduced through modernisation and support for new renewable energy source capacity. A significant part of the funds will be directed to fostering energy efficiency solutions, particularly for households, as well as the large-scale renovation of buildings.

The successful deployment of RRF funds will require a significant amount of commercial bank co-financing, likely backed by unfunded InvestEU guarantees. RRF investments in the Slovak Republic are intended to be complementary to investments from other EU programmes, such as the Cohesion Funds. The Modernisation Fund will also support renovations and the heating sector transition, while the Just Transition Fund is backing projects in the Upper Nitra region.[34] The Slovak Republic has been identified as a country with limited market readiness – defined as having no (or an insufficiently developed) dedicated regulatory framework – for combining alternative sources of financing, such as crowdfunding and ESIF funds.[35] This is why the supplementary financing will require commercial bank co-financing. In addition, risk-sharing loan schemes can be used in cases where there is limited liquidity and guarantee schemes can support projects with high social added value.[36]

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[27] Ibid.
[28] See Urbaníková et al. (2020).
[29] See European Commission (2021f).
[30] Ibid.
[31] See WIIW (2022).
[32] See Slovak Republic (2020).
[33] See European Union (2018).
[34] See European Commission (2021f).
[35] See European Commission (2021d).
[36] See European Commission and EIB (2020).

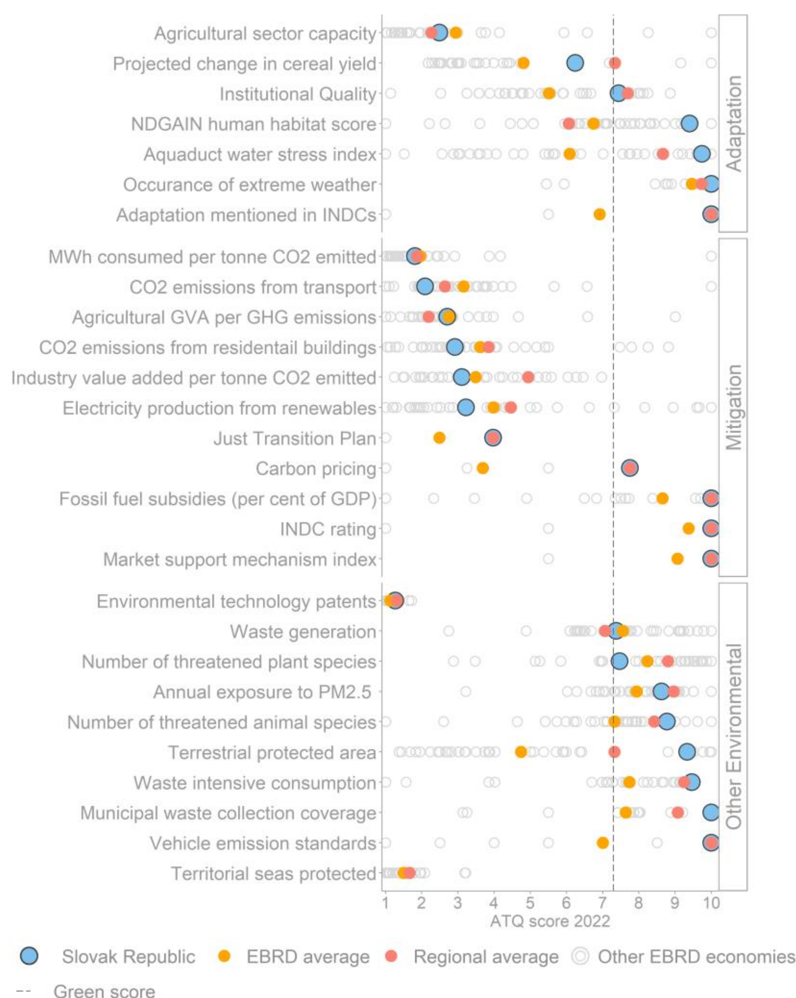
Specific projects earmarked for funding through the MFF 2021-27 and NextGeneration EU should raise the level of digital infrastructure, support the green transition and strengthen resilience after the pandemic. Investments in improving digital infrastructure and digitalisation in the public and business sectors should result in a new e-government platform, which should enhance the availability and transparency of public services. The business sector, with an emphasis on SMEs, will be supported by "digital and innovation vouchers" with a view to expanding its digital capacity. The country will profit from taking part in the EU's Digital Innovation Hubs, as well as the European High-Performance Computing (EuroHPC) project.

Investments in modernising the railway system (to increase their cost-effectiveness by up to 40 per cent, with a 17 per cent reduction in unit costs) should support green transition efforts and enhance regional connectivity, while clean transport measures include building new charging points and piloting refuelling points for hydrogen (around 3,000 are targeted by Q2 2026). After the pandemic highlighted the country's insufficient health and social capacity, envisaged health-sector reforms will be supported by investment in hospitals and healthcare facilities, as well as the expansion of preschool facilities.[37]

[37] See European Commission (2021f).

Green [ATQ = 7.29]

Chart 11. EBRD 2022 assessment of the green transition quality



Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

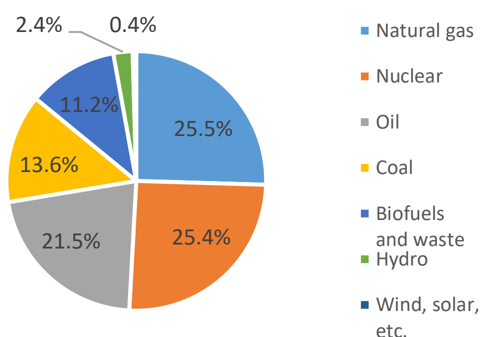
The green economy transition of the Slovak Republic will need to focus on incorporating ambitious sustainable energy targets for 2030 and 2050, but also waste management and improving air quality. As part of the EU, the Slovak Republic supports the EU's 2030 and 2050 climate and energy policy framework and its contribution to the global Paris Agreement, It is part of the EU carbon market and Emissions Trading System (ETS).

The Low-Carbon Development Strategy of the Slovak Republic until 2030 with a View to 2050[38] was approved by the government in 2020 and aligns with the United Nations Framework Convention on Climate Change.

The carbon intensity of the Slovakian economy is significantly above the EU average, but has fallen faster. The country's carbon intensity remained 66 per cent above the EU average in 2019 on account of the country's economic structure, with industry, including automotive and steel production, accounting for the largest share (37 per cent) of its GHG emissions. The United States Steel Corporation (US Steel) plant in Kosice accounts for almost 18 per cent of the country's total emissions.

Slovakian electricity generation relied on nuclear power (54 per cent), hydropower (17 per cent), natural gas (13 per cent), coal (7 per cent), biofuels and solar PV (7 per cent) and other (2 per cent) as of 2020.

Chart 12. Total energy supply in 2020, by source



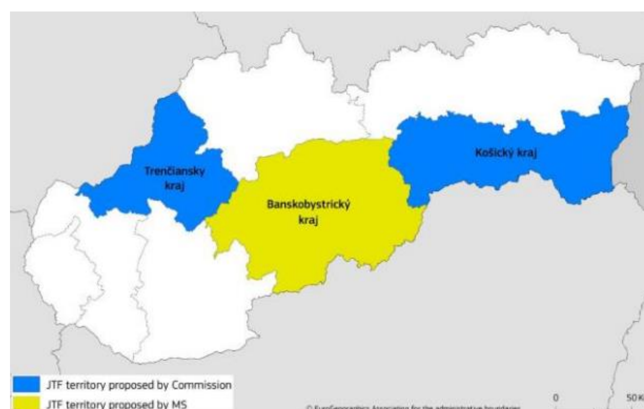
Source: IEA (2021), authors' calculations.

In terms of electricity production from renewables, the country performs far worse than both the CEB and EBRD averages. The Slovak Republic's National Energy and Climate Plan estimates the total investment required to reach a 19.2 per cent renewable energy contribution by 2030 at around €4.3 billion.

The country has committed to stopping its support for coal mining and electricity production from coal by the end of 2023. The Nováky lignite power plant is expected to be shut down in 2023 and the Vojany hard coal power plant in 2025.

Three Slovakian regions face challenges from the phasing out of carbon-intensive industries. These are the Trenčín, Košice and Banská Bystrica regions (see map below), all of which have been earmarked for support from the Just Transition Fund.

Chart 13. Regions facing challenges from the phasing out of carbon-intensive industries



Source: European Commission.
Note: Regions where carbon-intensive industries are located.

GHG emissions in the transport sector accounted for 20 per cent of total emissions in 2019, up 7 percentage points from 2005. To reduce transport emissions, the Slovakian government intends to promote biofuels for road transport, particularly those from non-food crops, wood, organic waste and food-crop waste.

The country lags both the regional and the EBRD averages when it comes to CO_2 emissions from residential buildings. The score for industry value added per tonne CO_2 emitted is similar.

The country's annual mean concentration of $PM_{2.5}$ is almost twice the recommended maximum and is considered moderately unsafe by the WHO. Power generation, home heating, the manufacturing industry, food processing and vehicle emissions contribute greatly to the poor air quality in the Slovak Republic.[39] Annual exposure to $PM_{2.5}$ is higher than in most CEB countries (only Poland performs worse), while the OECD estimates welfare costs as a result of this exposure to have reached 6 per cent of GDP in 2017. The National Reform Programme 2020 states that emissions of harmful particles are to be reduced through subsidies for the replacement of heating devices.

[38] See Slovak Republic (2020).

[39] See World Bank (2021).

Municipal waste management remains problematic, with the landfill rate of municipal waste significantly above EU levels. The landfill rate of municipal waste, at 60.5 per cent in 2017, remains significantly above the EU average of 23.5 per cent. Although some important legislation has been adopted, including the waste management programme for 2016 to 2020 and the waste prevention programme for 2019 to 2025, the circular economy concept is still not widespread throughout the country.[40] According to the United Nations, the inefficiency of the waste management system can be attributed to low public funding and insufficient private investment in R&D.

Circular material use is only half the EU average rate (6.4 per cent versus 12.8 per cent in 2020). While the efficient use of resources is important for competitiveness and the green economy, it also reinforces the country's autonomy.

The Slovak Republic updated its Climate Change Adaptation Strategy (NAS) in 2018, along with its corresponding monitoring and evaluation system, based on which the country's National Adaptation Plan is to be developed. At the same time, the Integrated National Energy and Climate Plan for 2021 to 2030 recognises that the energy sector should be adapted to the adverse effects of climate change, as set out in the National Adaptation Strategy.

In June 2021, the government adopted its National Hydrogen Strategy, "Prepared for the future", which also contributes to the concept of carbon-neutrality.

The country, especially the agricultural sector, is vulnerable to climate change from extreme weather events, such as rising rainfall and temperatures, the latter increasing the risk of drought.

Climate corporate governance has yet to be mainstreamed in the Slovak Republic. The number of companies reporting climate-related disclosures remains low.

Companies' awareness of the effect of weather events is increasing. On average, 27 per cent of firms in the Slovak Republic have already invested to tackle the impact of climate change, fewer than in the EU overall (43 per cent). Large firms invest more, according to the 2021 EIB investment survey.[41]

[40] See OECD (2020c).

[41] See EIB (2021a).

Inclusive [ATQ = 6.65]

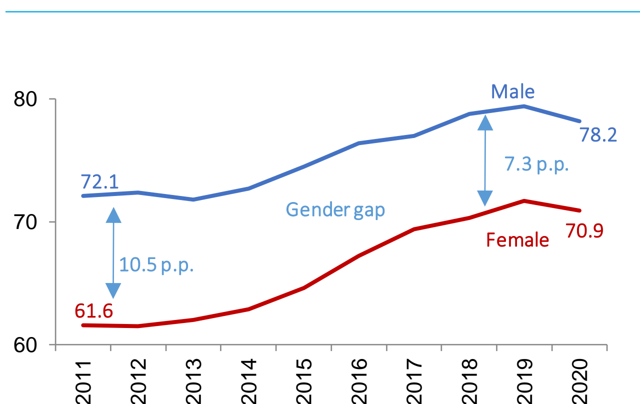
Chart 14. EBRD 2022 assessment of the inclusive transition quality

Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

Despite an increase in employment, regional and gender differences persist. The rise in economic activity has been accompanied by growing employment rates (in the 20-64 age group, from 69.9 in 2015 to 74.6 per cent in 2020). However, the employment rate of workers without a qualification or with an obsolete vocational qualification remains weak: it was at the bottom of the EU rankings in 2020, at 25.8 per cent. Gender differences in the labour market persist (Chart 15). The employment rate of women in 2020 was almost 8 percentage points lower than that of men (70.9 versus 78.2 per cent). Though it has decreased, long-term unemployment amounted to 56.6 per cent (as a share of the total unemployed) in 2021 and was the third highest in the EU. The share of young people neither in employment nor in education and training (NEET), aged between 15 and 34 years, has been higher in the Slovak Republic than in the EU or neighbouring countries, also reflecting the social exclusion of the young Roma population.

Chart 15. Differences in employment rate, by gender, per cent

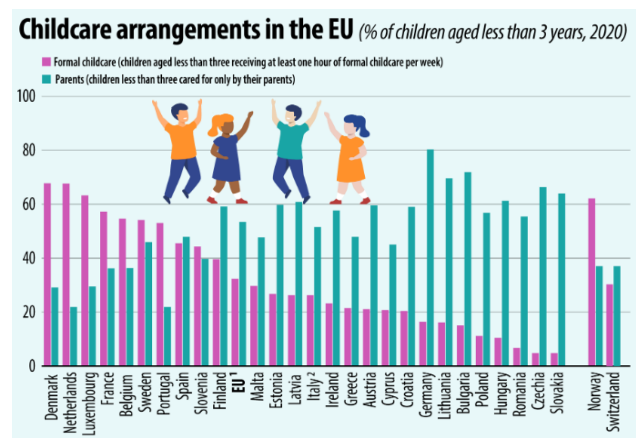


Source: Eurostat (2022c).

Programmes targeting women in business have sought to reduce the significant gender gap in entrepreneurship. The share of self-employed women (9.6 per cent) is lower than in the Czech Republic and Poland. Most of the Slovak Republic's self-employed women (84 per cent) do not have employees, suggesting possible entrepreneurship out of necessity. Women entrepreneurs were more affected by lockdowns and restrictions during the Covid-19 pandemic, both for family and work-related reasons.[42] The Slovak Business Agency implements the Women Business Angels programme, offering know-how and connecting women entrepreneurs with potential investors. At the same time, the Slovak Guarantee and Development Bank offers certain targeted products for women entrepreneurs, but the conditions for receiving the support would benefit from greater inclusivity to enable broader reach.[43] Support for women's entrepreneurship is different at regional levels. The Bratislava, Trnava and Nitra regions have comparatively better inclusion programmes and outcomes for women's entrepreneurship than the rest of the country.[44]

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 for children under the age of three (see Chart 16).

Chart 16. Use and availability of formal childcare for children under the age of three remains limited



Source: Eurostat.

Companies, especially in IT and engineering, suffer from labour shortages and skills mismatches. Among EU countries, the Slovak Republic has the largest share of companies (92 per cent) that say it is fairly or very difficult to find candidates with the desired skillset.[45] In the last EIB Enterprise Survey, companies highlighted the unavailability of skilled staff and the uncertainty about the future (81 per cent) as a barrier to doing business.[46] They further cited access to digital infrastructure and labour-market regulations as an additional barrier. Although the need for highly qualified technology workers is very noticeable, the share of STEM (science, technology, engineering, mathematics) graduates in tertiary education in 2019 was only 12.9 per 1,000 inhabitants, significantly below the EU

[42] See GEM (2022).
[43] See OECD (2020a).
[44] See OECD (2021a).
[45] See CEDEFOP (2019).
[46] See EIB (2021a).

average (20.8).[47] Digital skills should also be fostered through life-long education; the country's participation rate in life-long education and training (measured by education and training in the four weeks preceding the survey) in 2020 was the third lowest in the EU.

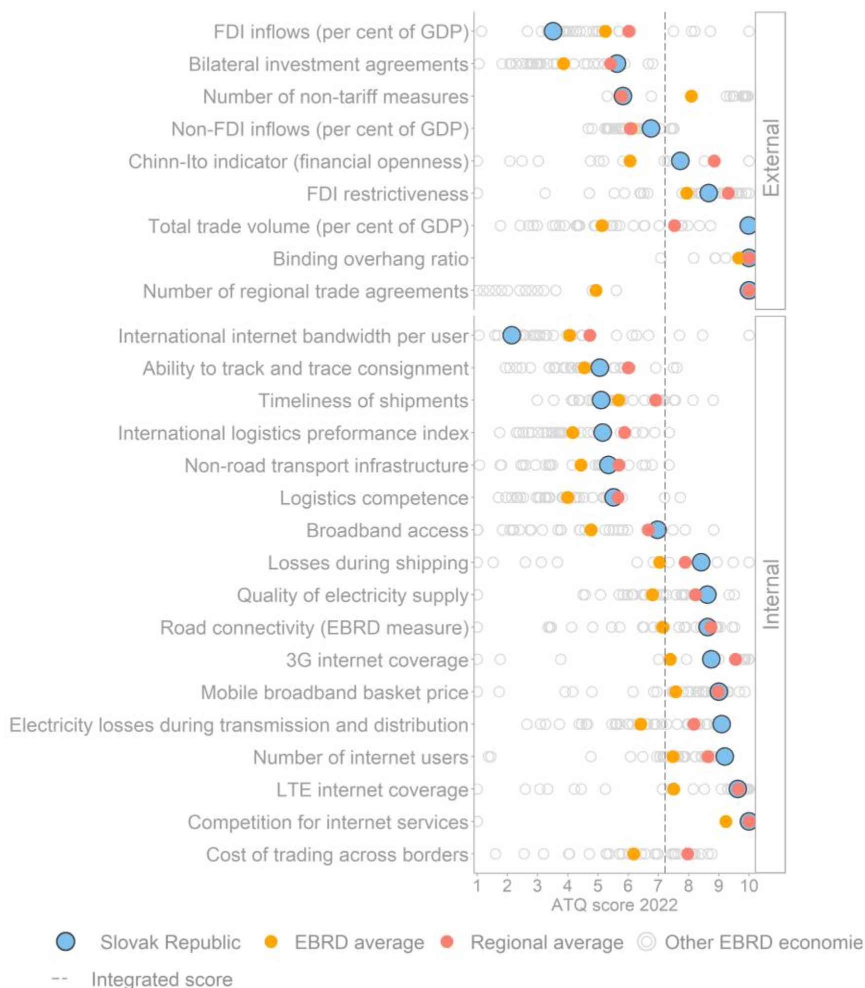
Projects funded by the EU, focused on promoting digital infrastructure in less developed regions, can help reduce regional disparities and address the digital skills gap, especially among more vulnerable groups. The largest regional differences evident in the OECD regional well-being indicators were in the area of job availability and income, with the eastern part of the country at around half the level of the Bratislava region.[48] Compared with an EU average of 59 per cent, only 50 per cent of households in the Slovak Republic had access to gigabit speed connectivity in 2020, whereas only 18 per cent of rural households had access to such services. Consequently, the government introduced the Slovakian national broadband plan in 2021, partially funded from public sources and EU funds, aimed at extending at least a 100 Mbps connection to all households and gigabit speed connectivity to all socioeconomic institutions by 2030.[49]

The availability of rental and social housing remains a key challenge in addressing social exclusion. In the Slovak Republic, the share of people living in households that rent their home is 7.7 per cent, below the EU average of 30 per cent. Also, the share of households living in rental flats owned by the public sector (1.6 per cent) is lower than the EU average (10.8 per cent). This reflects the general trend in the CEB region, linked to the legacy of privatised cooperative housing. However, in the case of the Slovak Republic, the shortage of rental and social housing amplifies regional differences to a greater extent, making it easier to emigrate from the east of the country than to move to job-rich Bratislava.

[47] See EIB (2021).
[48] See OECD (2020b).
[49] See European Commission (2021c).

Integrated [ATQ = 7.22]

Chart 17. EBRD 2022 assessment of the integrated transition quality

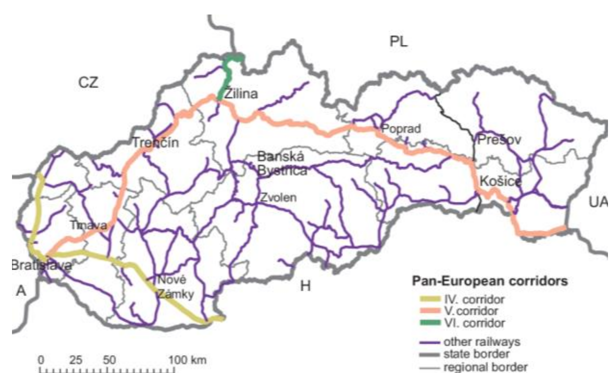


Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

The uneven concentration of transport infrastructure has attracted more investment to the western part of the country and hampered more equalising regional development (see Chart 18).

Chart 18. Unevenly distributed transport infrastructure limits regional development in eastern Slovak Republic



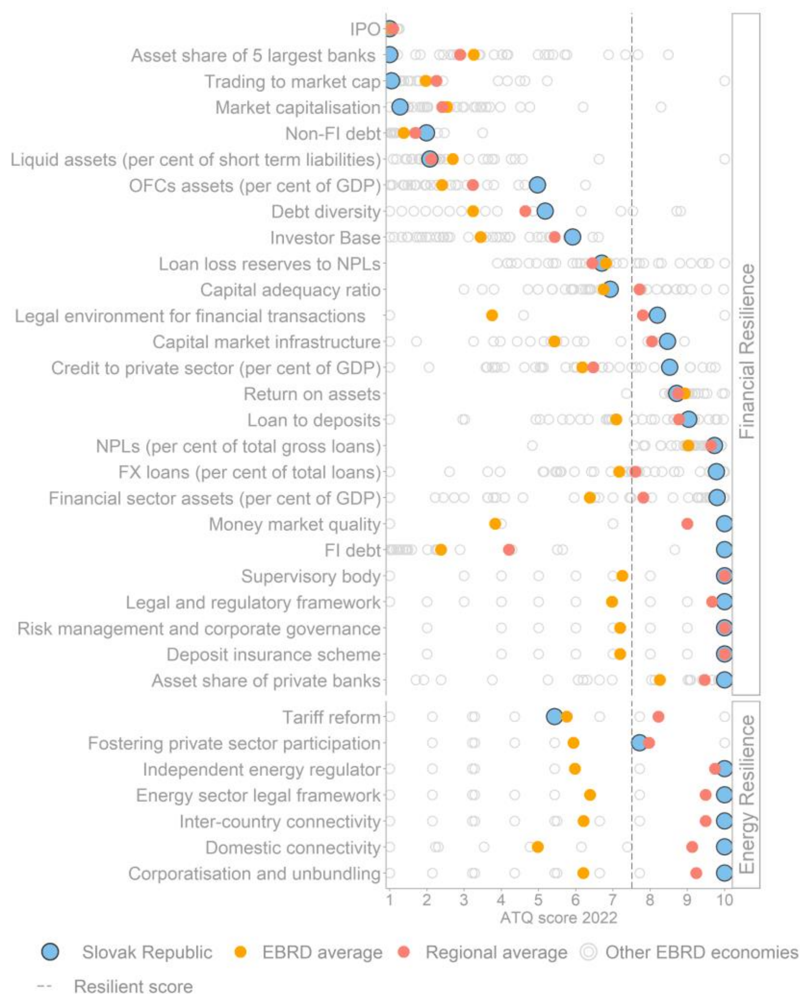
Source: Michnaik (2015).

Further development of logistics centres, terminals and warehouses is needed. The Slovak Republic's industrial orientation and geographical location, in light of future reconstruction efforts in Ukraine, underscore this need, especially in the eastern part of the country.

The share of households with access to a fixed, very-high-capacity internet network is improving but remains below the EU average. This is reflected in the fact that digital transformation is at the heart of the RRF (21 per cent of its total budget).

Resilient [ATQ = 7.53]

Chart 19. EBRD 2022 assessment of the resilient transition quality

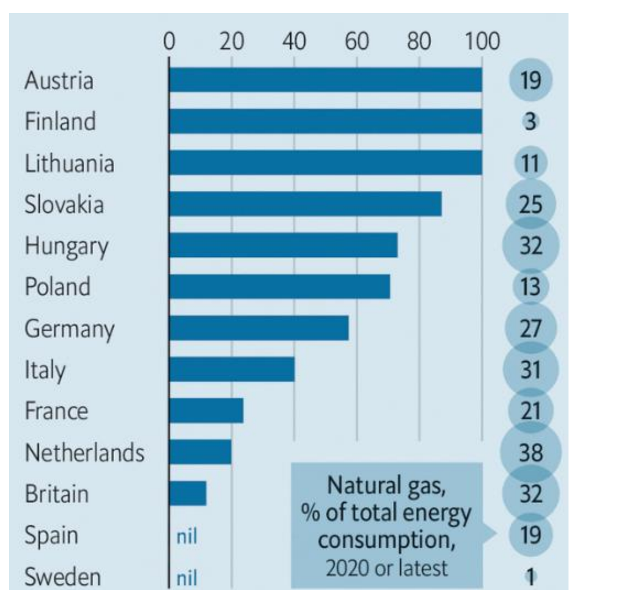


Source: EBRD calculations.

Note: Visit https://2022.tr-ebrd.com/structural-reform/ for a list of indicators, data sources and methodological notes.

Energy security needs to be improved through greater energy savings in the industry and residential heating sectors, the faster uptake of renewables and reduced reliance on fossil-fuel imports. All of the country's nuclear fuel and crude oil were supplied by Russia in 2020. Gas has a 25 per cent share of the energy mix, most of it imported from Russia (85 per cent) (see Chart 20).

Chart 20. Gas imports from Russia as a percentage of the total energy mix, 2021

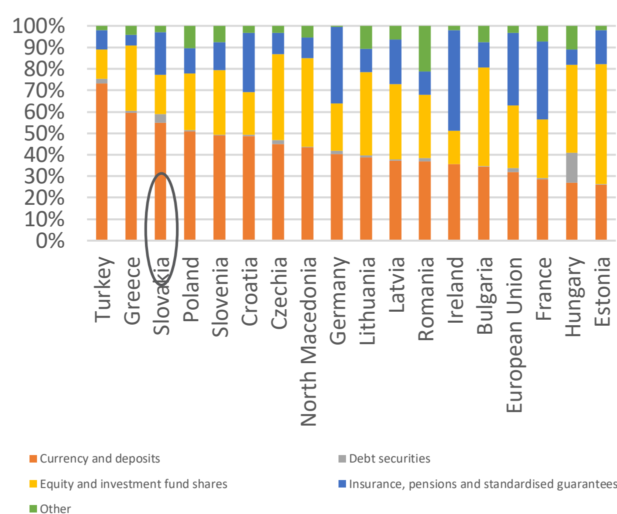


Source: *The Economist*, Eurostat, Rystad.

Scaling up new forms of sustainable financing, such as social impact bonds, would widen the investor base and enhance sustainable investment. This, in turn, could trigger higher ESG standards in both the private and public sectors. In 2021, the EBRD's ATQ findings rated the Slovak Republic first for financial resilience out the 38 economies in which the Bank operated. The banking sector was resilient enough to withstand the Covid-19 pandemic and saw a 15 per cent increase in banking-sector assets from 2021 to 2022. As of Q1 2022, banking-sector assets totalled €106 billion, up from €92 billion in 2021. Despite this impressive asset growth, the Slovak Republic's financial system is smaller than the EU average, accounting for only 2.6 per cent of GDP (compared with an EU average of 4.1 per cent).

In addition, the banking sector is concentrated and mostly foreign owned. The Slovakian banking sector is one of the most concentrated in all the economies in which the EBRD invests, as more than 60 per cent of its assets belong to just three banks – Slovenska Sporitelna, VUB Banka and Tatra Banka. In 2020, Slovenska Sporitelna (a subsidiary of Erste Group Bank AG, Austria) held total assets of €23 billion, VUB Banka (Intesa Sanpaolo, Italy) had total assets of €19 billion and Tatra Banka (Raiffeisen Bank, Austria) had total assets of €16 billion. The top five banks held 78 per cent of all banking-sector loans. Moreover, the top nine banks are all owned by foreign banks from the Eurozone, making the Slovakian financial sector somewhat vulnerable to external shocks.

Chart 21. Structure of households' financial assets, percentage of total, 2020



Source: Eurostat (2022f), authors' calculations.

Transaction and listing costs remain prohibitively high for local issuers and have resulted in a general lack of supply of corporate bonds. A 2020 EBRD study, which compared the cost effectiveness and issuance efficiency of eight countries in south-eastern and central Europe, found that the Slovak Republic came second last in terms of cost effectiveness and fourth in terms of issuance efficiency. The market funding ratio[50] for the Slovak Republic in 2019 (30.9 per cent) was well below the EU average (42.8 per cent), but only slightly lower than that of Slovenia, Hungary and Austria.[51]

Local capital markets remain shallow, with the country trailing its CEB peers when it comes to the depth of capital markets relative to GDP. This limits opportunities for equity finance, with the stock exchange seeing a

[50] Sum of the volume of corporate bonds and listed shares by non-financial corporations relative to the sum of the volumes of those two plus bank loans to non-financial corporations, with listed shares at constant prices.

[51] See European Commission (2021e).

continuous decrease in trading volumes in recent years. There have been no initial public offerings (IPOs) on the Bratislava Stock Exchange (BSSE) for some years and trading in shares has been limited. Equity market capitalisation and share trading volumes have decreased steadily in recent years, with market cap equivalent to around 4 per cent of GDP. While there have been no IPOs, venture capital investment in Slovakian start-ups has risen moderately over the past few years. For domestic issuers, the key investors in the domestic bond market are banks, insurance companies, the second-pillar pension system, supplementary pension companies and collective investment funds, which often buy and hold assets to maturity.

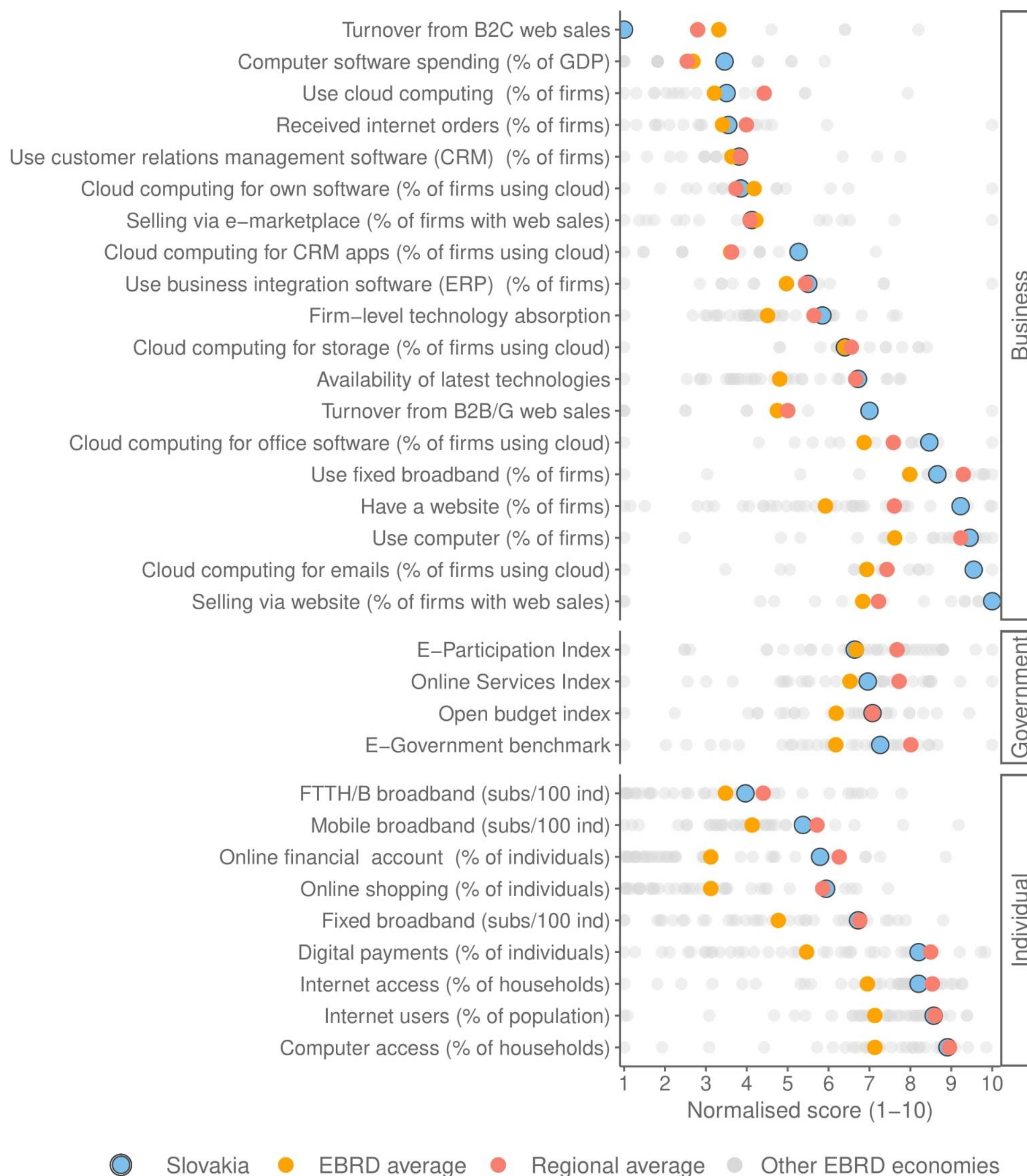
The modest role of capital markets is reflected in households' financial assets, which are still predominantly held in bank deposits (55 per cent of total financial assets compared with an EU average of 32 per cent) (Chart 20). Over the past few years, equity and investment fund shares have increased at the expense of bank deposits (18 per cent compared with 8.5 per cent in 2016), but are still well below the EU average of 29 per cent.

Bond market capitalisation jumped from almost €46 billion in 2019 to nearly €61 billion at the end of 2021. In 2021, 24 newly issued bonds were admitted to trading on the BSSE, including two government bonds, six bonds issued by financial corporations and 16 non-financial corporate bonds. In addition, a rise in the number of smaller transactions in debt securities resulted in an overall increase in trading volumes of 25.7 per cent from 2020.

The consolidation of the post-trading infrastructure was completed in 2021. In November 2021, the consolidation of the country's two central securities depositories was completed. Centrálny depozitár cenných papierov (CDCP) is now the only central securities depository in the Slovak Republic, in line with international best practice.

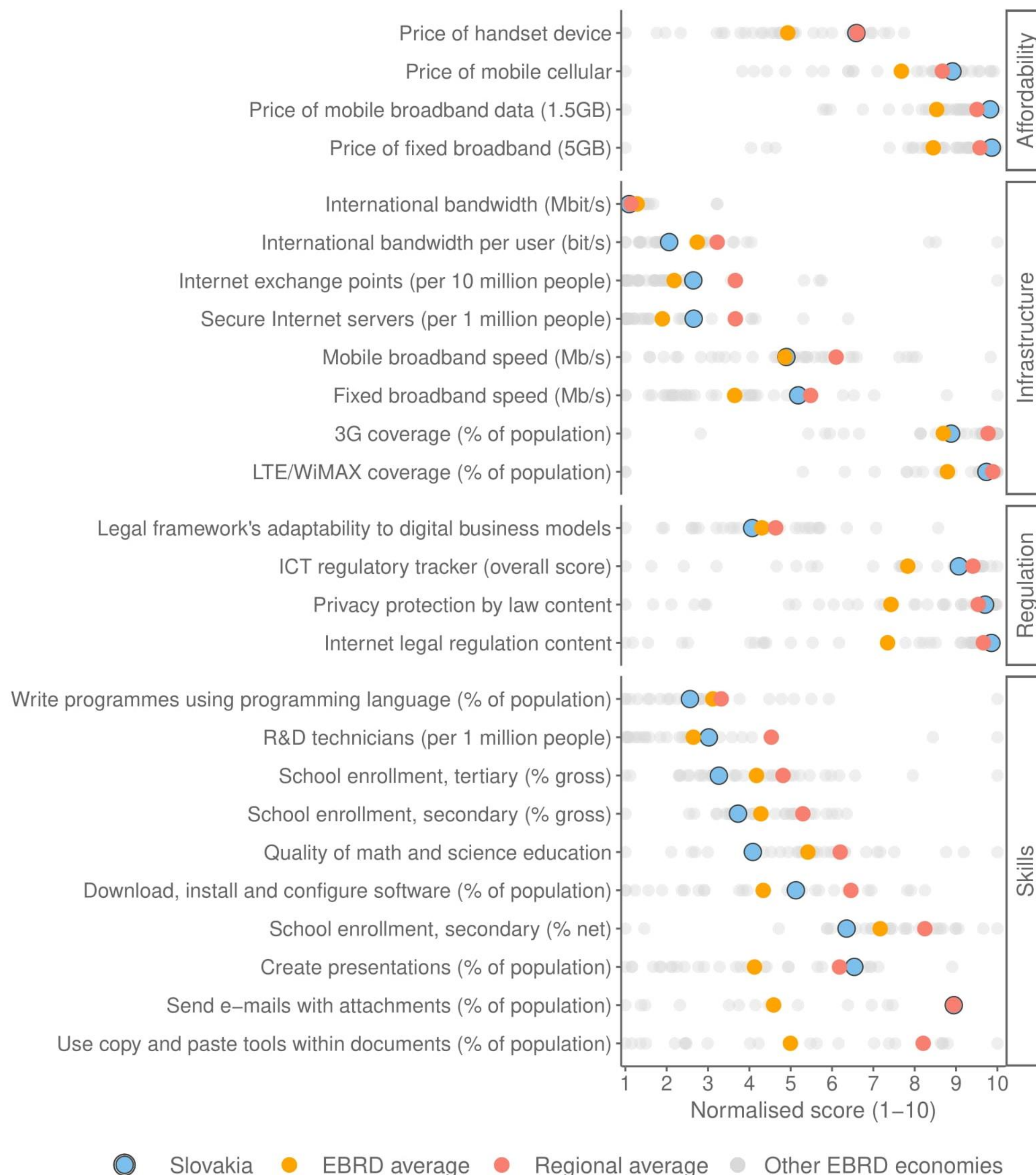
Annex 1. The digital landscape

Chart A1.1 Slovak Republic digital outcomes



Source: ITU, World Bank, WEF, EUROSTAT, UNDESA, UNCTAD and other publicly available data sources.
Note: The normalised scores reflect each country's performance relative to the frontier set by an advanced economy. The calculation is based on a similar methodology to the ATQ indices.

Chart A1.2. Slovak Republic digitalisation enablers



Source: ITU, World Bank, WEF, EUROSTAT, UNDESA, UNCTAD and other publicly available data sources.
Note: The normalised scores reflect each country's performance relative to the frontier set by an advanced economy. The calculation is based on a similar methodology to the ATQ indices.

Annex 2. Integration of refugees from Ukraine puts pressure on the country's social system and infrastructure

According to the Office of the United Nations High Commissioner for Refugees (UNHCR), from Russia's invasion of Ukraine in February 2022 to November 2022, more than 820,000 refugees had entered the Slovak Republic. Most of them were women and children, as well as other vulnerable population segments. With a population of just 5.5 million, the influx of refugees corresponds to almost 15 per cent of the Slovak Republic's overall population, putting strain on the economy's resources and infrastructure. As of the end of September 2022, about 95,000 people had applied for temporary protection, which provides them with basic healthcare, benefits and access to education and the labour market.[52] According to an International Organization of Migration (IOM) survey of refugees in March 2022, however, a majority (57 per cent) viewed the Slovak Republic as their main intended destination, suggesting the need for a long-term response to the refugee crisis. About 7 per cent did not yet know their main destination, while the remainder indicated other European countries as their main destination.[53]

By providing subsidies for the accommodation of refugee groups and including them in education programmes, the country has started the process of integration. The government is increasing the availability of accommodation by providing subsidies to private individuals who support refugee groups. Although the country invests about 4.6 per cent of its GDP on education, this is lower than the EU-27 average of 5 per cent. The Slovak Republic faces challenges across its "skills pipeline", from school-level education to higher education and adult education. Every child is able to attend school near to where they reside and extra support has been provided to both teachers and students to help them work with children that have fled the war. Regional and local governments have also taken additional steps to accommodate refugees. For example, in Bratislava, Ukrainians can use the services of doctors free of charge and, in many municipalities, public transport is available at no cost to refugees. Furthermore, all refuges that apply for temporary protection have equal access to the labour market and a social protection stipend to sustain them in the short term.[54] In addition, NGOs, civil-society organisations and private businesses are also responding to the crisis, especially by distributing crucial goods and services, by offering legal advice and psychological support, ensuring that refugees are aware of their rights and opening job vacancies specifically for those with protected status.[55]

The economic integration of refugees in the country remains complicated. Research from 2021 on the integration of refugees into the Slovakian labour market found that they faced multiple legal and practical barriers, unequal treatment and discrimination.[56] Another problem identified in the research study was that Slovakian legislation currently favours the immediate involvement of refugees in work rather than education, even young refugees.

As indicated in the inclusive section of this diagnostic, the rental market is not broad enough to absorb any future large inflow of migrants. According to data from the country's last population, housing and dwellings census in 2021, within the territory of the Slovak Republic, there are 1,994,897 dwellings, of which 89 per cent are permanently inhabited. The share of apartments in the rental sphere comes to less than 6 per cent, while public-sector ownership accounted for 3 per cent of apartments. A further 3 per cent are owned by private individuals and rented on the open market. That means that there is a sufficient number of apartments for all current inhabitants, but there could be additional scope to rent vacant houses and apartments to the war refugees.[57]

The financial inclusion of refugees plays a fundamental role in an adequate response to the refugee crisis. In contexts characterised by the presence of a large displaced population, the financial inclusion of the displaced population is of primary importance, as it offers tools to weather difficult situations, manage economic shocks and rebuild livelihoods. The need for financial support emerges as one of the top needs of the refugee population entering the Slovak Republic (50 per cent of participants in the 2022 IOM survey cited this as one of their main needs).[58] One of the major impediments to access to regulated financial services is the absence of means for displaced individuals to establish a legal identity.

The country has a strong social safety net and marginalised groups are relatively free from discrimination in dealings with the public sector. Although the EBRD's ATQ data show that the country lags its top-performing regional peers, such as Estonia, on ensuring the absence of discrimination in public life (for example, in the courts or government agencies), its social benefit spending, an effective proxy for how well

[52] See UNHCR (2022a).
[53] See IOM and UN Women (2022).
[54] See UNHCR (2022b).
[55] See European Commission (2022a; 2022b).
[56] See Liga za ľudské práva (2021).
[57] See Government of the Slovak Republic (2021).
[58] See IOM and UN Women (2022).

the government protects people in vulnerable situations, is one of the highest in the region. This increased from 14.3 per cent of GDP in 2019 to 16.3 per cent of GDP in 2020.

Annex 3. The EBRD's additionality in the Slovak Republic

The EBRD aims to provide financial and non-financial additionality in the Slovak Republic. Additionality is one of the three core principles of the EBRD's engagements, together with transition impact and sound banking. Any interventions made by the EBRD to support private-sector operations should contribute beyond what is available on the market and should not crowd out the private sector. As the Slovak Republic is an advanced transition country, with relatively small transition gaps, an abundant inflow of EU funds, including EIB loans, and a liquid banking sector, the EBRD sharpened its focus in its 2017-22 strategy. The Bank has largely narrowed its activities to capital-market transactions and energy-efficiency financing, where its additionality is greatest.

The EBRD works mostly with financially strong companies, often multiple times, to generate critical mass for markets to take off, for example, in various bond instruments. Recurring transactions with individual clients frequently call the EBRD's additionality into question. The broad expectation is that a one-off engagement, be it with a new client or a new type of instrument, should be enough to unlock future similar investments in the country without any further EBRD input that could risk crowding out private-sector financing. This is particularly relevant for advanced transition countries, where access to capital is more widely available. However, the capital market in the Slovak Republic remains shallow and the continued presence of the EBRD in debt capital transactions, such as covered bonds, can close the funding gap and enable a successful book-building process. According to the EBRD's Financial Market Development Index (FMDI), a new comprehensive measure of the development of local financial markets, the Slovak Republic scores only 26 (at a distance to frontier of 100) in terms of market depth, liquidity and diversification, below the Czech Republic (43) and advanced markets (more than 80). Also, since 2007, local banks have repeatedly approached the EBRD about its Sustainable Energy Financing Facility and Municipal Instrument to Finance Sustainable Energy Investments (SlovSEFF/MunSEFF), which consist of credit lines for on-lending to private enterprises and housing associations for investments in sustainable energy. To date, no other private financial institution has combined an energy-efficiency mandate, tailored technical assistance and grant incentives into a commercial financing scheme – something in which the EBRD specialises and excels.

The EBRD is well equipped to deliver niche and energy-efficiency financing. On the supply side, Slovakian commercial banks are highly liquid and EU and EIB financing is abundant. On the demand side, large multinationals present in the country often have access to other sources of financing, while viable SMEs are well served by local banks. The Bank learned two lessons from the implementation of its last country strategies. The first was to hone its strategic focus to employ a flexible and innovative approach to delivering niche financing products, for example, covered bonds, infrastructure bonds or private equity/venture capital. The second was to focus on the narrower sub-areas of competitiveness and the green economy, for example, through structured debt, private equity or venture capital, as well as energy-efficiency loans through financial intermediaries, leveraging EU funds whenever possible.

The most frequently provided sources of additionality in project documents involve risk mitigation, standard setting, policy change enablement and financing structure. Since the launch of the 2017-22 country strategy, the EBRD has signed 37 projects, mostly in the financial institutions sector (20), followed by the industry, commerce and agribusiness sector (17), which includes equity fund projects (8). In financial institution transactions, the EBRD's participation in capital market transactions is to provide comfort to other investors and widen market participation, especially for novel debt instruments, such as green covered bonds. In addition to providing financing to close a potential funding gap to enable a successful book-building process, the EBRD can trigger a change in domestic policy or the regulatory framework through its policy engagement, critical to the development of sustainable capital markets. Where private equity investments are concerned, the EBRD's participation is often critical for private equity funds to successfully raise the targeted fund amount. It also mitigates certain risks, especially for offshore investors without sufficient understanding of local markets, thus providing comfort and further broadening market participation. The private equity market in the Slovak Republic remains nascent, with investment totalling only 0.02 per cent of GDP in 2020, substantially below the EU-wide average of 0.5 per cent of GDP. The EBRD's expertise in corporate governance improvement, including for climate risk management, is one of the attributes most frequently sought by EBRD clients in the industry, commerce and agribusiness sector.

As markets fluctuate, so does the EBRD's additionality. By facilitating market development by improving transition qualities and providing risk mitigation, the EBRD can also act counter-cyclically. Its financing can effectively bridge financing gaps arising from adverse market conditions in economies beset by crisis. Russia's war on neighbouring Ukraine, which started in February 2022, also affected the Slovak Republic. The EBRD can play a significant role in addressing the refugee crisis and the impact of the war, using its best attributes to work with the authorities and other international financial institutions to improve the long-term sustainability of the Slovakian economy, so that it becomes even more inclusive, resilient, green, competitive, well governed and integrated.

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