DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR THE

SLOVAK REPUBLIC

As approved by the Board of Directors at its Meeting on 28 June 2006

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ABBREVIATIONS

ANO	Alliance of the New Citizen
BIDSF	Bohunice International Decommissioning Support Fund
BNPP	Bohunice Nuclear Power Plant
BSSE	Bratislava Stock Exchange
CEB	Central Europe & Baltics
CEI	Central European Initiative
EC	European Commission
EFSAL	Enterprise and Financial Sector Adjustment Loan
EIB	European Investment Bank
ENEL	Italian Electricity Company
ERM2	EU's Exchange Rate Mechanism
ESA	European System of Accounts
ESCO	Energy Service Company
ETS	Emissions Trading System
EU	European Union
EU's CAP	The Common Agricultural Policy of the EU
EUR	Euro
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GEF	Global Environment Facility
GMOs	Genetically Modified Organisms
HSMS SECAL	Health Sector Modernisation Support Sectoral Adjustment Loan
HZDS	Movement for a Democratic Slovakia
IAS	International Accounting Standards
IAIS	International Association of Insurance Supervisors
IFC	International Financial Corporation
IFI	International Financial Institution
ILO	International Labour Organisation
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
IPPC	Integrated Pollution and Prevention Control
ISPA	Instrument for Structural Policies for Pre-Accession
JSC	Joint Stock Companies
KDH	Christian Democratic Movement
KSS	Communist Party
KOZ	Confederation of Trade Unions
MEI	Municipal Environmental and Infrastructure sectors
MP	Member of the Parliament
MSMEs	Micro, Small and Medium Enterprises
NATO	North Atlantic Treaty Organisation
NBFI	Non Bank Financial Institutions
OECD	Organisation for Economic Cooperation and Development
PCB	Polychlorinated Biphenyls
PPP	Public- Private Partnership
PSP	Private Sector Participation

RONI	Regulatory Office for Network Industries
SAC	Special Areas of Conservation
SAX	Slovak Share Index
SDK	Slovak Democratic Coalition
SDKU	Slovak Democratic and Christian Union
SEPS	Slovenská elektrizačná prenosová sústava
SKK	Slovak Koruna
SMK	Hungarian Coalition Party
SMEs	Small and Medium Enterprises
SNS	Slovak National Party
SPA	Special Protection Areas
SPP	Slovenský plynárenský priemysel, a.s.
ST	Slovak Telekom
TAM	Turnaround Management Programme
TUSR	Telecommunications Office of the Slovak Republic
USD	United States Dollar
VAT	Value Added Tax
VUB	Všeobecná úverová banka, a.s.
VW	Volkswagen AG
WB	World Bank
ZSE	Západoslovenská Energetika, a.s.
ZSSK	Železničná spoločnosť Slovensko, a.s. (Slovak Railway Company)

EXECUTIVE SUMMARY

The Slovak Republic continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. The Slovak Republic has made significant progress in transition with 80 per cent of economic activity in private hands, a large degree of price liberalisation, an open foreign trade regime and a very conducive environment for attracting foreign investment. In May 2004, the country became a member of the European Union. The reform process is now oriented towards a business-friendly environment, which allows sustained growth and continued high levels of FDI.

The macroeconomic environment remains favourable. Real growth in GDP was 5.4 and 6.1 per cent in 2004 and 2005, respectively. Sound economic policies enabled the Slovak Republic's successful entry into ERM2 on 28 November 2005, with Euro adoption planned for January 2009. The general government deficit is estimated to have amounted to 2.9 per cent in 2005 (excluding the costs of pension reform), down from 3.0 per cent in 2004 and against a plan of 3.4 per cent. The current account deficit is estimated to have increased to 8.6 per cent in 2005, from 3.6 per cent a year earlier, mainly as a result of higher capital goods imports, higher commodity import prices and reduced car exports (since the VW plant underwent refurbishment). The economy has benefited from substantial inflows of net FDI over the past years, particularly to the automotive sector, with per capita FDI between 1989 and 2005 amounting to USD 2,500. Rapid GDP growth and high inflows of net FDI have contributed to reducing the unemployment rate from about 19 per cent in 2001 to about 16 per cent by the end of 2005.

Since coming to power in 2002, the reform-oriented multi-party government under Prime Minister Dzurinda has embarked on a series of major reforms, which have included bold changes to the tax regime, important labour market reforms as well as reforms to the pension system. Moreover, the privatisation of the remaining large state-owned companies resumed in 2004/2005. The sale of a 66 per cent stake in the dominant electricity generator Slovenske Elektrarne to ENEL (the Italian electricity company) was approved in 2005 and finalised in April 2006. The sale of additional stakes in the three regional power distributors is being offered to the existing minority shareholders, German RWE, E.ON and EdF. A tender for the 51 per cent stakes in 6 Slovak heating companies was launched in December 2005. The privatisation of Slovak Railway Cargo is underway, as well as the sale of a two-thirds stake in the country's two international airports, Bratislava and Kosice.

In spite of all these positive developments, this year will be shaped by the difficult political landscape of the looming elections. Following the recent departure of one of the coalition partners from government in February 2006, Prime Minister Dzurinda called early elections in June of this year (versus holding them as planned in September). This has put on hold the reform agenda, especially since the government announced a halt to ongoing privatizations. The Slovak Republic is still faced with a number of challenges. Key areas include bringing down inflation, fiscal consolidation, continuation of the health care and education reform and law enforcement as well as the increase of the absorption capacity of the country with respect to EU funding. Further sectoral challenges identified in the recent Assessment of Transition Challenges paper, which the EBRD can address and influence, are, among others:

- **SMEs/Private equity:** The creation of alternative employment opportunities is key to addressing the continued high unemployment rate, especially in the regions outside of the capital. Local SMEs should get more attention in terms of financial instruments available to them and improvement of the environment in which they operate. They continue to have limited access to equity capital and find it difficult to exit through the stock market. The development of private equity funds started later than in the neighbouring countries and the Slovak Republic is still trailing Poland, Hungary and the Czech Republic.

- **Capital markets & financial sector:** The size of capital markets is small compared to other EU members in CEB. Financial institutions also need to improve the management of their capital to deal with the Basel II requirements.

- **Energy efficiency and MEI:** Energy intensity (and dependence) remains high, even by regional standards. The market for energy conservation is in its infancy. Also, the market for renewable energy projects has not been developing at the pace required in order to meet EU directives for the promotion of renewable energy. Water sector reform is lagging behind, although the creation of regional water companies is intended to increase efficiency and enable access to capital and private sector participation, which is currently very limited.

- **Privatisation:** Several large-scale privatizations are still ongoing: the three regional electricity distributors, the six heating companies and the Railway Cargo Company.

- **Transport:** In railways, operating and policy setting functions have been separated and core railway businesses unbundled. The freight cargo company is in the process of being privatised. However, the quality of the road network varies according to region and type of roads. Secondary and smaller roads comprise around 75 per cent of all roads.

Since the last country strategy was approved, the Bank activities in the Slovak Republic have somewhat slowed as a result of significant progress in transition and, in particular, the emergence of a strong, competitive banking sector. The Bank has signed projects in an amount of EUR 106.9 million and EUR 54.8 million in years 2004 and 2005, respectively. The Bank has had a significant transition impact in supporting SMEs by providing credit lines to banks and leasing companies. The Bank's contribution in the infrastructure sector has remained moderate due to the availability of other sources of financing, the limited size of municipal projects and the still ongoing restructuring of the water sector.

Looking forward and taking into account the significant progress in transition and the principle of additionality, the Bank's activities in the Slovak Republic will be very selective and based on the following operational objectives:

- Provide equity and structured debt for local companies to fund their growth, in particular in the context of cross border expansion. Support foreign direct investment by medium-sized companies with higher risk products not offered by the private sector, particulary in regions of higher unemployment facing specific transition challenges.

- Develop a finance facility for investments in energy efficiency and renewable energy in cooperation with local banks and the Slovak Ministry of Economy.

- Work on a limited number of public private partnership projects in infrastructure, if possible in conjunction with Cohesion/Structural Funds.

- Offer capital market products to companies and financial institutions such as bonds and asset backed securities.

In accordance with this Strategy, the Bank will continue to ensure that all EBRD operations in the Slovak Republic meet sound banking principles, have transition impact, are additional, comply with the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans.

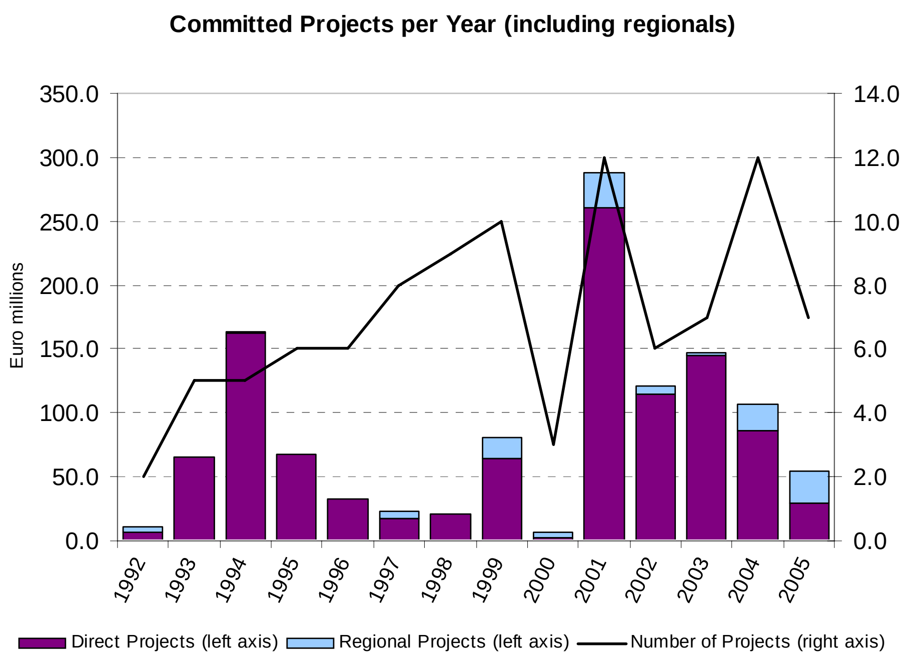
1. THE BANK'S PORTFOLIO

1.1 Overview of Activities to Date

The Bank has been an active participant in the Slovak Republic's successful transition to a market economy, financing mainly private sector projects across a broad spectrum of economic sectors. Up to the end of 2005, the Bank has committed EUR 1,189 million or 3.96 per cent of Bank-wide commitments. 38 per cent of the cumulative business volume relates to FI, a reflection of the Bank's significant role in the privatisation of the Slovak financial sector and the granting of the EU/EBRD SME Finance Facility to banks and leasing companies. The involvement of EBRD in General Industry and the Energy Sector has been significant, with 21 per cent and 24 per cent of total commitments, respectively. The Bank's role in infrastructure (transport, municipal and environmental infrastructure) has remained marginal with 4 per cent of cumulative business volume. For details on the Bank's commitment by industry and on a project by project basis, see Annex 1 and 2.

Chart 1 below illustrates the activity of the EBRD in terms of the number of projects and amounts committed by EBRD in the Slovak Republic since 1992. As shown, the activity of the EBRD increased significantly in years 2001 – 2004. The lower volume in 2005 is a reflection of the strong presence of commercial banks in the Slovak Republic and the progress in transition.

Chart 1:



The current portfolio is EUR 427.5 million or 2.5 per cent of total Bank portfolio. It has shrunk considerably from EUR 679.9 million at the end of December 2004, as result of repayments, prepayments and equity exits. The non-sovereign/sovereign ratio is 99 per cent and the private/state ratio 92.3 per cent. The impaired assets declined from EUR 25.7 million as of 31 December 2003, to EUR 15.1 million as of 31 December 2005.

1.2 Implementation of Previous Country Strategy

During 2004 and 2005, the Bank signed 19 projects, of which nine were regional projects relevant for the Slovak Republic.

- In the **enterprise sector,** the objective was to support company restructuring, greenfield investments and SMEs. The Bank provided a EUR 30 million restructuring loan to the Slovenske Elektrarne, the Slovak electricity company and a loan of EUR 14.5 million for a new greenfield wood processing plant in the eastern Slovak Republic. A number of credit lines were provided to financial intermediaries for the support of SMEs as outlined below.

- In the **financial sector**, the Bank set out to support SMEs, municipalities and agribusiness, invest in private equity funds and to promote the development of the second pension pillar. The Bank continued to provide credit lines under EU/EBRD SME Finance Facility to banks and leasing companies. The Bank also entered into a risk sharing facility with a local bank under the EU/EBRD Small Municipalities Finance Facility in support of projects in small municipalities and it provided a credit line to a local bank under the EU/EBRD Rural Finance Facility in support of SMEs and agricultural enterprises in rural areas. Finally, the EBRD signed a credit line with a bank under the EU/EBRD Preparatory Action for the support of small and micro enterprises. With respect to equity funds, the Bank participated in regional funds including the Slovak Republic.

- In **energy**, the Bank's objective was to assist potential investors with respect to the privatisation of Slovenske Elektrarne, support the completion of the electricity distribution companies, work on independent power plants and develop energy savings projects. The Bank did not sign energy related projects, but prepared the ground for a major initiative for the support of energy efficiency and renewable energy which will be launched in 2006.

- In **infrastructure**, the Bank wanted to make an impact in the various infrastructure sub-sectors. As outlined above, the Bank entered into a risk sharing facility with a local bank for the support of municipal projects. Overall the impact remained limited as a result of (i) the availability of other sources of funds (EIB and commercial banks), (ii) the late launch of the Slovak Republic's PPP initiative and (iii) the still ongoing privatizations of major infrastructure companies (rail cargo company; district heating plants).

1.3 Transition Impact of the Bank's Portfolio and Lessons Learned

1.3.1 The Financial Sector

- **Banking.** In part, as a result of Bank-supported restructuring throughout the 1990s, the sector has been completely privatised with close to 90% of assets controlled by foreign investors and the level of financial intermediation has substantially increased.

A lesson from the Tatra Bank project is that additionality of subordinated loan products should not deter the quest for equity (PE99-133).

- **NBFI.** In 2003, the most sizeable impact was achieved through the equity investment and subsequent privatisation of the dominant insurance company. This helped to limit public interference in the sector and, substantially, raised skills and corporate governance standards in the sector.

- **SMEs.** VUB, which started participating under the EU/EBRD framework in 2001, has achieved very good results to date. Under the leasing arm of the Facility, credit lines were extended to CAC Leasing, Tatra-Leasing and Volksbank Leasing for a total of 2,000 leases so far. Tatra-Leasing appears to be performing well, while CAC Leasing (which has received a second credit line) has lower performance indicators in terms of average lease amount, portfolio quality, subsidy utilisation and lease officer productivity.

  The SME sector in the Slovak Republic has been strengthened through the activities of Turnaround Management (TAM) Programme, designed to assist the development and growth of SMEs in the Bank's countries of operations, enabling them to adapt to a free market economy. TAM has carried 33 projects in the country.

Overall, *significant* transition impact has been achieved in the *Financial* Sector, according to the latest Transition Impact Retrospective.

1.3.2 The Enterprise Sector

- **Agribusiness.** The Bank pioneered a grain receipts programme that has developed into a model replicated elsewhere. The project has improved the functioning of markets by reducing the seasonal fluctuations in commodity prices, upgrading warehouse storage facilities, making improvements to the surveillance system and making markets more transparent.

- **Industry.** During the 1990s, the difficult investment climate in the Slovak industrial sector implied that corporate governance constraints reduced the scope of transition success for some of the Bank's investments (such as in the case of the Slovnaft privatisation). However, the transition impact ensuing from the Bank's successful investment in Slovalco was significant. Only three projects were done by the Bank in the Slovak Republic in the past 5 years, mainly aimed at supporting privatisation and post-privatisation restructuring. Unfortunately, one of them (Aquachemia) achieved no transition impact. The other project (Slovalco-ZSNP) has fared much better as it is considered to be a great success story in the restructuring and privatisation of a large industrial company, with all the expected benefits having materialised.

- **Property and Tourism.** In the last five years, the Bank financed several regional property funds with a component in the Slovak Republic. These projects contributed to providing liquidity to the market and developed a secondary market for property and fostered skills transfers in building and related industries. However, they focused on the relatively saturated retail and office sectors of the market and were limited to the main urban areas.

- **Telecommunications.** In the 1990s, the Bank co-financed the expansion and modernisation of the telecommunication infrastructure network. In 2001, through an equity investment in Globtel Orange Slovensko, the Bank supported the company during the privatisation and private placement exercise. **A lesson from the** Orange Slovensko project is that the Bank must be aware a minority partnership with a controlling strategic sponsor provides no leverage to optimise the realisation of its holding, short of launching an IPO to create liquidity for the shareholders. **Another lesson learned from** the same project is that the Bank should have cautious expectations regarding transition impact for equity investments. Often, the benefits of such operations are market driven, an area where the Bank may not have much leverage and where shareholders agreements may be more difficult to reach (PEX04-219).

Overall, *moderate* transition impact has been achieved in the *Enterprise* Sector.

1.3.3 Infrastructure and Power

- **Power.** In the last five years, the Bank's presence in the power sector in the Slovak Republic has been marked by three projects supporting sector reform and private sector involvement. Through a project with Slovenske Elektrarne in 2002, the Bank supported unbundling of the company into an independent transmission company, an electricity generation and a heat generation company. The Bank has also supported privatisation of the ZSE Electricity Distribution Company through an open and transparent sale to a strategic investor. A new project with Slovenske Elektrarne, signed in 2004, supported the privatisation process of the company. **A lesson from the** Slovenske Elektrarne project is that, when faced with a financial restructuring, the Bank needs to carefully assess its additionality *inter alia* by including non-financial conditions regarding, for example, corporate governance or policy dialogue to justify an on-going relationship with its client (PEX05-253).

- **Energy Efficiency.** Though small compared to the market potential, the two ESCO projects have established themselves well and are attracting both private and public sector customers. There is good potential for replication, but further market entry has so far been affected by the difficulty of start-ups to secure financing.

- **MEI.** The Bank's efforts have been limited to one sub-project in the last five years, a credit line to a bank for on-lending to small and medium sized municipalities. The take-up has only been moderate, hence the transition impact has not been fully realised.

Overall, *moderate* transition impact has been achieved in the *Infrastructure* Sector.

1.3.4 Financial Performance of the Existing Portfolio

- The Slovak portfolio risk rating was 4.85 in 2005, up from 4.56 in year 2004. The rating is comparable with the risk rating for central Europe of 4.86 in 2005.

1.3.5 Mobilisation of Co-Financing

- Overall mobilisation ratio (total project cost/EBRD financing) is 3.74.
- The following recent projects were co-financed: Slovenske Elektrarne Restructuring Loan II (2004) and Kronospan Presov (2005).

1.4 Portfolio Ratio

- The sovereign/non-sovereign ratio is 99 per cent. There are EUR 3.1 million still outstanding under an International Road Corridor Loan.

- The private/state ratio is 92.3 per cent. The two operations in the state sector relate to the restructuring loan II for Slovenske Elektrarne (which was privatised to ENEL, although contracts are not yet effective) and the International Road Corridor Loan.

2. OPERATIONAL ENVIRONMENT

For the next two years covered by this Strategy, the Bank is projected to be active in the Slovak Republic in accordance with the operational principles of transition impact, sound banking and additionality.

This Strategy will be implemented in accordance with the strategic outline for the years 2006 – 2010 agreed upon in Capital Resources Review 3 with respect to graduation.

2.1 The General Reform Environment

2.1.1 Political Environment

- **Political background.** The Slovak Republic continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. The Slovak Republic, an independent state since the dissolution of Czechoslovakia in 1993, has a population of approximately 5.4 million and an industrialised market economy. It is a multiparty parliamentary democracy, led by a Prime Minister, and with a 150-seat parliament. Mikulas Dzurinda has been Prime Minister for two parliamentary terms since September 2002, as the head of a reform-oriented coalition government. The Hungarian minority won 20 seats in parliament and is well represented in government. The President acts as the head of state and is elected by direct vote. Ivan Gasparovic was elected for a five-year term in April 2004. The next parliamentary elections will be held on 17 June 2006, a few months before the expiry of the present parliament’s mandate in September. The Constitution provides for an independent judiciary, but corruption and inefficiency within the judiciary are a serious problem.

- **Regional integration.** The Slovak Republic was invited to open accession negotiations with the European Union in December 1999. The Treaty of Accession was signed in April 2003. The Slovak Republic joined the EU on 1 May 2004. In November 2002, the Slovak Republic was invited to join NATO and joined it in March 2003. The Slovak Republic plays an active role in the Visegrad Group (V-4) founded in 1996 (Czech Republic, Hungary, Poland and the Slovak Republic), which continues to work in a low-key manner even after its four members' accession to the EU in 2004. The Slovak Republic also participates actively in the work of the Central European Initiative (CEI), founded in 1990-91 as a successor to the Pentagonale Group. CEI began with Austria, Czechoslovakia, Hungary, Italy, Poland and Yugoslavia. More countries joined – from Albania and Bulgaria to Belarus and Ukraine. CEI now has 17 members.

- **Integrity issues.** Corruption in the judiciary, local government and the health sector is publicly perceived as a problem and is regularly reported on in the media. In the Transparency International's 2005 Corruption Perceptions Index, the Slovak Republic is ranked in the 47th place out of 155 countries, just behind the Czech Republic, but ahead of Latvia and Poland. The Slovak Republic's score is 4.8 on a scale from 0 (clean) to 10 (very corrupt). The government and police cooperate in combating corruption. The new Conflict of Interest Law, which mandates the public disclosure of assets, applies to all mayors, town councils, regional authorities and national leaders. The government's increasing reliance in parliament in the past two years on current and former members of the opposition parties has led to widespread suspicion of corruption and vote-buying. Allegations of direct payoffs and clientelism have multiplied since September 2005, when the defection of two opposition MPs enabled the government to break an opposition boycott that had left it without a quorum in parliament. There are strong indications that such behaviour fits a wider pattern of political corruption, channelled through awards of public contracts to companies reportedly controlled by MPs or their family members. Investigations of several cases are in progress.

- **Legal progress.** As a result of the Slovak Republic's accession to the EU on 1 May 2004, and the resulting transposition of EU directives, substantial progress has been made in the last few years in aligning Slovak laws with EU law. The country is also engaged in an ambitious legal reform process with an aim to speeding up productivity growth and promoting FDI. One of the most important initiatives in this process was the tax reform, effective from 1 January 2004, which introduced a uniform corporate and personal income tax rate of 19 per cent. Furthermore, the amendments to the Civil Code, prepared with the Bank's assistance, and effective from 1 January 2003, substantially improved the law on collateral and generally improved the conditions for secured transactions in the Slovak Republic. Other improvements include new investment incentives legislation and corporate governance changes to the Commercial Code. Furthermore, at the beginning of 2006, a new Bankruptcy Act became effective, which provides a complete reform of the Slovak bankruptcy regime, establishes a swift pro-creditor oriented bankruptcy system and emphasizes the restructuring process for insolvent debtors as opposed to bankruptcy proceedings insofar as possible. Although several amendments were passed designed to reform the court system and strengthen the status of courts, the latest effective as of 1 January 2006, with the primary goal is of speeding up the procedure before the civil courts, there is still a substantial amount of work needed in order to dispense with inefficiency and corruption, thereby, increasing the overall independence of the judiciary.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions for Bank operations

Please refer to Annex 4 for the table on Selected Economic Indicators.

- **Output and labour market conditions.** Sound macroeconomic policies and a wide range of structural reforms have underpinned strong growth in real GDP over recent years. Real GDP growth is estimated to have reached 6.1 per cent in 2005, even higher than the 5.4 per cent recorded in 2004. Private consumption was fuelled by rapid growth in bank lending and rising real wages and employment. Growth of government consumption remained negligible. Fixed investment strengthened appreciably throughout the year, while the contribution of inventory accumulation fell. The contribution of net exports remained negative against the backdrop of lower real growth of both exports and imports.

  Real wage growth is estimated to have accelerated to 6.3 per cent in 2005, from 2.5 per cent the previous year. In 2005, as a whole, the average monthly wage reached 17,274 koruna (US$ 557), up 9.2% over the previous year's level in nominal terms. The unemployment rate fell by more than two percentage points in 2005 (from 18.1 per cent end-2004 to 16.2 per cent end-2005). However, there remain large regional differences in labour market conditions, with regions such as Bratislava experiencing skill shortages and particularly acute wage pressures and some of the eastern regions still recording unemployment rates of over 20 per cent. The largest trade union body, the Confederation of Trade Unions (KOZ), has 464,000 members in its 35 constituent unions. KOZ represents the trade union at the national level in tripartite bodies also including the government and the employers. Trade Unions are widely considered as weak and lacking in influence.

- **Inflation and monetary policy.** The downward trend in inflation that resulted from the strong koruna appreciation and other factors, such as the relatively low increase in regulated prices in early 2005, higher retail competition, etc., was partially reversed during the end of 2005, following increases in regulated prices in October and high fuel prices. Inflation at the end of 2005 is estimated at 3.7 per cent, compared to 5.9 per cent at the end of 2004. Consumer price inflation has been rising in 2006, partly because of hikes in energy prices that took effect in January. In April, the National Bank of Slovakia revised its 2006 end-year inflation projection upwards from 2.5 to 3.9 percent in CPI terms.

  In January 2005, the National Bank of Slovakia adopted an inflation targeting regime under ERM2 conditions and announced end-year inflation targets for 2005-2008. At the same time it continued intervening in support of the exchange rate throughout the year. Sound economic and monetary policies enabled the Slovak Republic's successful entry into ERM2 on 28 November 2005. The central parity was set at SKK 38.455 per euro, equal to the market rate at the time. The koruna has further appreciated since ERM2 entry, in line with other currencies in the region. Euro adoption is planned for January 2009. Although the economy is well positioned for Euro adoption by this date, the immediate challenge will be to reduce inflation and the fiscal deficit to levels that meet the Maastricht criteria. Given the recent inflation developments, many market observers and the National Bank view the achievement of Maastricht inflation criterion actually as the greater challenge for Euro adoption than the fiscal deficit criterion. The inflation criterion has so far always been applied strictly. However, the revised Stability and Growth pact, which allows for the pro-rata deduction of the pension reform costs as long as the fiscal deficit is close to 3 per cent of GDP and has declined substantially and continously, might provide for some leeway on the fiscal front.

- **Public finances and fiscal policy.** Fiscal performance in 2005 was better than expected on the back of high tax revenues and some expenditure savings. The general government deficit, according to ESA methodology, is estimated to have amounted to 2.9 per cent of GDP in 2005 compared to the 3.4 per cent that were envisaged in the budget (excluding pension costs) and the 3.0 per cent recorded in 2004. Tax collection across most categories surpassed all expectations on account of higher economy-wide growth. There were significant savings on co-financing of EU projects since receipts from the EU budget amounted to only around 50 per cent of their envisaged level.

  However, the costs of pension reform, estimated at 0.6 per cent of GDP for 2005, are not included in the headline budget calculations since the government has been granted a transition period by the EU until 2007 for accounting for these costs. The inclusion of these costs starting next year, when the Slovak Republic wants to comply with Maastricht criteria, will put pressure on the government to find alternative adjustment measures. Although the authorities are confident that fiscal policy is on track to meet the Maastricht deficit criterion in 2007, the EU considers the budget for 2006, with an envisaged budget deficit of 2.9 per cent of GDP (or 4.2 per cent including pension costs), as not ambitious enough as it implies an expansionary fiscal stance. Similarly, the IMF is concerned that the 2006-08 budget is not sufficiently ambitious to support the inflation and exchange rate objectives. Looming elections in June could pose further risks to the government's fiscal adjustment strategy.

- **External sector.** Despite the surge in exports towards the end of the year, the current account deficit has reached 8.6 per cent of GDP in 2005 (up from 3.6 per cent recorded in 2004). The increase is expected to have resulted primarily from higher imports of capital goods, the surge in oil prices, curtailed production at the local VW plant and rising FDI profit repatriation as reflected in the income deficit. However, net FDI inflows are likely to have increased sharply to USD$ 1.9 billion in 2005 from USD$ 1.4 billion in 2004, due in part to the privatisation of the electricity generator Slovenske Elektrarne.

- **The outlook over the next strategy period.** Real growth is expected to stay strong at around 6 per cent in 2006 and possibly even higher over the medium term. However, pension reform costs and pending elections during the year could pose some risks to the government's fiscal adjustment strategy. Higher energy prices and demand-led pressures on consumer prices might put the disinflation strategy at risk. Following accession to ERM 2, the government's aim to join the Euro area in 2009 requires further fiscal consolidation and disinflation, as well as structural reforms to increase the flexibility of the economy.

2.2.2 Transition Success and Transition Challenges

The 2005 Assessment of Transition Challenges highlighted the following challenges for the Slovak Republic. Please refer to the snapshot table in Annex 2 for individual sector-by-sector ratings and to the Structural Change Indicator Table in Annex 6 for cross-country comparative data for the EU-8 region.

Industry

- **General industry:** In the last strategy period, measures have been taken to adapt the law on bankruptcy and to modernise the judiciary. More transparency has been introduced in the legal system with the establishment of an electronic commercial registry. The tax system has also been simplified with the introduction of a flat tax rate of 19 per cent on personal and corporate incomes and the unification of the VAT rate at 19 per cent. Recent improvements in the business environment need to be strengthened by consistent implementation of rules and regulation and lowering of corruption. The privatisation of some of the remaining large state-owned companies, such as Slovenske Elektrarne, the three regional distributors, the six heating companies, the Railway Cargo Company and the two international airports, has been initiated, although several deals have now been put on hold until after the upcoming elections (see below).

- **Natural resources:** The main domestic oil and gas operators have been corporatised and partially privatised. The oil company Slovnaft is 98.5 per cent owned by Hungarian MOL, while the dominant gas company SPP is 51 per cent owned by the state along with a consortium of Gaz de France and Ruhrgas, which hold the remaining 49 per cent with management rights. Some minor state-owned mines exist, but are due to be closed by 2010. Market institutions and policies are strong with, e.g., a February 2005 amendment to the anti-trust legislation authorising the competition authority to levy fines on companies show to be abusing market power. The gas market was fully liberalised for industrial customers in January 2005 and should be so for households in July 2007, along with the electricity market. Prices were brought to cost-recovery levels over 2003-04. A regulator for network industries is in place since January 2002.

- **Property and tourism:** The full tradability of land, except to foreigners, is possible. The real estate sector is developing fast, including new types of property as well as financing instruments. There is some government interference in the sector, distorting the market.

- **Agribusiness:** The Slovak Republic maintained some support to the sector throughout the transition period (through, e.g., border measures, domestic price supports, subsidies and government intervention). Policies are now being integrated to the EU's CAP. The transformation of collective farms and the privatisation of state farms has been completed, but land ownership is still highly fragmented, the land market is not very active and its use as collateral limited. Privatisation of agribusinesses has also been completed, but efficiency improvements are still necessary. FDI into the sector has been limited to industries such as sugar, confectionary, dairy, beer and malt. The development of competitive distribution/packaging industries and improvements in the traceability of produce remain a challenge. High risk stemming from undercapitalisation, ongoing fragmentation of ownership, high debt levels, and poor credit history has limited the access of the farm sector to credit, but the situation is improving. Lending against warehouse receipts and supplier's credit schemes are well advanced.

Infrastructure and Energy

- **Power:** The Slovak Republic power sector has been successfully unbundled with independent transmission, distribution and generation companies. The sale of a 66 per cent stake in the dominant electricity generator Slovenske Elektrarne to ENEL (the Italian electricity company) for EUR 840 million was approved in 2005 and the final transfer of the stake took place on 26 April. The sale of additional 41 per cent stakes in the three regional power distributors is being offered to the existing minority shareholders, German RWE, E.ON and Electricite de France. There is an independent network regulator, which has implemented a comprehensive set of regulatory reforms including tariff increases and rebalancing. The finalisation of all these deals is still pending and likely to be delayed until after the elections.

- **MEI:** Local infrastructure has been decentralised. The reforms are most advanced in district heating, which sector is commercialised. Significant PSP and tariffs have been adjusted to better reflect costs, although they are not yet fully cost-reflective. A tender for the sale of 51 per cent stakes in six Slovak heating companies was launched in December 2005. Water sector reform is lagging behind, although the creation of regional water companies is intended to increase efficiency and access to capital and private sector participation, which is currently very limited.

- **Energy efficiency:** A new energy efficiency law is under preparation; the market for energy conservation is in its infancy. Also, the market for renewable energy projects has not been developing at the pace it needs in order to meet the EU directives for the promotion of renewable energy. Energy tariffs have been raised to reflect costs and regulation in the energy sector appears to be relatively independent and sound. The Slovak Republic has ratified the Kyoto protocol and as a new EU member is part of the Emissions Trading System.

- **Telecoms:** A 51 per cent stake in the dominant fixed line operator Slovak Telekom has been privatised to Deutsche Telecom in 2000. The telecoms market has been fully liberalised since 1 January 2003. However, it was more than two years before alternative operators began entering the market. Tariff re-balancing has yet to be completed with respect to residential and business charges.

- **Transport:** In railways, operating and policy setting functions have been separated and core railway businesses (infrastructure, passenger, freight, etc.) have been unbundled, while ancillary services have been divested. In June 2004, the government announced the split of the public railway company, Zeleznicna Spolocnost (ZSSK), into two entities in charge of passenger and freight transport, and the subsequent privatisation of the freight company. The privatisation of a 100 per cent stake in the railway freight company ZSSK Cargo is underway and in February 2006, the consortium of Railway Cargo Austria and J&T Finance Group has been selected as the preferred bidder (with a bid of SKK 13.1 billion). There is a railway regulator, but not in full compliance with EU directives. There are also a small number of private rail operators.

In roads, a road sector strategy was approved in 1991 and a state road fund was also established. Road user charges only cover its marginal costs. A National Highway Company to develop highways and motorways has been established in 2005.

Furthermore, the government is in the process of selling a 66 per cent stake in the country's two international airports, Bratislava and Kosice. The Austrian TwoOne consortium (led by the operators of the Vienna airport) was selected as the preferred bidder. However, the selection is being contested by some politicians and one of the losing bidders. The final approval by the Slovak anti-monopoly offices is expected by mid-August 2006.

Financial Institutions

- **Banking:** The basic regulatory framework is in place. The sector has been completely privatised, with close to 90 per cent of banking assets controlled by foreign investors. Increasing competition will lead to further consolidation in the sector in coming years, initiated by the owners of banks. Market-based conduct, approached through the domestic credit to private sector/GDP ratio, is low. Given the very rapid rise in household credit, banks have accumulated a sizeable negative net open foreign exchange position, which will have to be monitored carefully. However, so far there have been no indications of deteriorating asset quality. The supervision of the financial sector was unified in January 2006, under the auspices of the National Bank of Slovakia, which should help supervision of the sector going forward.

- **NBFI:** Securities markets legislation and regulation almost meet IOSCO standards, but progress is to be made on regulations concerning self-regulating organisations, information disclosure requirements and segregation of assets and conduct rules of the market intermediaries. Insurance legislation and regulation almost meet IAIS standards, but the effectiveness of the regulator should be further strengthened. The size of capital markets in terms of stock market capitalisation is small compared to other EU members in CEB. Insurance penetration is comparable to Hungary and Poland and the largest insurance company, Slovenska poistovna, was privatised to Germany's Allianz AG in 2002. There are voluntary privately managed pension funds and mandatory privately managed funds, which are growing rapidly. Leasing and consumer finance markets are thriving.

- **MSMEs:** Starting a business has, until recently, carried medium costs: it took nine different procedures, an average of 52 days and 5.7 per cent of GNI to register a company. A new commercial registry act has considerably shortened, standardized, and simplified firm registration procedures. A private credit bureau is in place providing information on 0.6% of population. Collateral and bankruptcy legislation are very supportive of MSME lending. The cost of registering collateral is four times higher than in OECD countries. Local banks and leasing companies extend some loans/leases to MSMEs, often under IFI-supported credit lines.

- **Private equity:** The development of private equity funds started later than in the neighbouring countries and the Slovak Republic is still trailing Poland, Hungary and the Czech Republic. In addition to some money from domestic government agencies local financial groups are using their funds to buy companies.

2.3 Access to Capital and Investment Requirements

- **Domestic credit:** As a result of the advanced stage of development of the banking sector, competition is strong. Credit is readily available for good clients and most banks are now also pro-actively targeting the SME sector. Domestic credit to the private sector amounted to 35 per cent at the end of 2005. However, banks are not able to increase their debt exposure to clients indefinitely, creating a gap which has to be reduced through equity and equity-type products. Despite a surge in consumer credits and mortgage loans, banks remain faced with a substantial over-liquidity, which is invested mainly in state bonds.

- **Capital markets:** The Bratislava Stock Exchange is small (market capitalisation equals only around 10 per cent of GDP) and illiquid (annual turnover is only 20 per cent of market capitalisation). It remains a secondary source of financing for the private sector (no initial public offering since its creation in 1993) and benefits mainly the public sector with a well developed and growing government bond market.

- **Foreign direct investment:** The Slovak Republic experienced a substantial increase in FDI from 2002 (with a blip in 2003) mainly due to large privatisations and greenfield investments in the automotive sector. In 2005, net FDI inflows are estimated to have amounted to almost USD 2.0 billion, largely as a result of the privatisation of Slovenske Elektrarne. Net inflows are expected to remain high in 2006 because of the ongoing large-scale privatisations in the municipal, power, and transport sectors.

2.4 Legal Environment

- **Legal Reform:** The Slovak Republic has made considerable reforms to its legal framework, leading to improvements in the country's legal and business environment. As a new EU Member State, the country has completed its implementation of EU legislation. The country continues to make progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law and human rights. However, effort is still required to address shortcomings such as corruption, excessive bureaucracy and inconsistency in legislation.

  The Slovak Republic is a parliamentary democracy where separation of powers and independence of the judiciary are recognised. The judiciary is legally independent, and improvements have recently been made to consolidate the structure of the judiciary and the position of the judges. Such improvements have generated a certain confidence of the business community in the court system. However, inefficiencies and corruption in the judiciary remains a concern.

The country continues to make efforts in investment promotion and has steadily been enhancing its international credibility in the area of foreign direct investment. A flat 19% corporate and personal income tax, together with a skilled labour force and stability of the country's institutions, are main attractions for foreign investors, being demonstrated particularly in the automobile industries. Furthermore, dividend distribution and distribution of liquidation surpluses, from both domestic and foreign companies, are no longer subject to Slovak tax. The implementation of the secured transactions reform, prepared with the Bank's assistance and introducing the most advanced framework for secured credit of any country in Europe, has given positive effects. As the implementation enters its third year, the number of all registrations performed in the electronic Notarial Central Registry of Pledges over Movable Property has been steadily increasing. The creation of security is now accessible, simple and rapid and is publicised through registration. Major improvement has also been seen in the country's bankruptcy legislation. A new bankruptcy act, effective from the beginning of 2006, completely reformed insolvency proceedings in the Slovak Republic, introducing a new pro-creditor oriented system with a tighter control over bankruptcy proceedings. The status of bankruptcy trustees was also changed, with a closer supervision over their actions both from creditors and government authorities. The country's foreign exchange legislation has been further liberalised and the accounting standards harmonised with EU regulations as well as with International Accounting Standards.

The privatisation process is almost complete, and several of the last remaining state-owned assets are in various stages of privatisation, including the railways and Bratislava and Kosice airports. The outgoing government has, however, put a temporary freeze on privatisation until elections are held in June this year, but this temporary freeze is not expected to adversely affect the overall privatisation process.

2.5 Environmental Issues

- **Environment:** Having entered the EU on 1 May, 2004, the Slovak Republic environmental regulation is in line with the EU environmental aquis (see attached Annex)

  The Bank's environmental approach supports the country's EU acquis objectives as well as addresses key environmental concerns, focusing on further improving specific environmental management areas through EBRD's projects in line with the EU acquis process. Investing in environmental improvements to meet EU standards is an ongoing process and the Bank will continue to cooperate with other institutions such as EU ISPA and EIB to enhance environmental acquis and improvements.

  Assisted by grants from the Bohunice International Decommissioning Support Fund (BIDSF), the EBRD is setting up a credit line to Slovakian banks for on-lending to the private and residential sectors for energy investments that mitigate against the closure of the Bohunice Nuclear Power Plant (BNPP). The first two units of the four BNPP generating units, which provide 50% of BNPP's output (and approximately 11% of Slovak energy output) will be decommissioned by 2006 and 2008 respectively. This was agreed prior to the Slovak Republic's EU accession.

In the financial sector, a monitoring trip to five financial institutions in the Slovak Republic was carried out in 2005. Also, in 2005, a tailored environmental training programme was developed to assist OTP strengthen their environmental due diligence capacities. The Bank will continue to require that partner financial institutions in the Slovak Republic implement environmental due diligence procedures, which are incorporated into the credit/investment appraisal process.

The most important international agreements signed by the Slovak Republic include the Kyoto Protocol to the UN Framework Convention on Climate Change, ratified in May 2002, according to which the Slovak Republic pledges to decrease the total emission of greenhouse gases by 2008-2012 by 8% compared to the 1990 level; the UN Convention to Combat Desertification; the Cartagena Protocol on Biological Safety to the Convention on Biological Diversity, intended to ensure protection and safety in handling, using and transferring living modified organisms that are a result of modern biotechnology and that could have a detrimental effect on the protection and use of biological diversity and the Convention on Environmental Impact Assessment in a Transboundry Context (the Espoo Convention). In 2004, the Slovak government signed the Stockholm agreement on persistent organic compounds

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for Strategy Period

- **Key Short Term Operational Priorities.** Provide equity and structured debt for local companies to fund their growth, in particular in the context of cross border expansion. Support foreign direct investment by medium-sized companies with higher risk products not offered by the private sector, particulary in regions of higher unemployment facing specific transition challenges.

  Develop a finance facility for investments in energy efficiency and renewable energy in cooperation with local banks and the Slovak Ministry of Economy.

  Work on a limited number of PPP projects in infrastructure, if possible in conjunction with Cohesion/Structural Funds.

  Offer capital market products to companies and financial institutions such as bonds and asset backed securities.

- **Policy Dialogue.** The Bank will work with the government on a finance facility for investments in energy efficiency and renewable energy. The Ministry of Economy is supporting this initiative and the use of Bohunice International Decommissioning Support Fund monies to support this programme.

  The Bank will work with the government with respect to the combined use of EU funds and private funds to provide seed capital and start-up financing.

  The Bank will work with the government and its agencies to seek ways to assist the Slovak Republic to maximise the use of the EU cohesion and structural funds.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 The Enterprise Sector

- **Transition Goals.** Reduce the widening gap between successful international companies and local companies in the Slovak Republic through company restructuring, support for SMEs and mergers and acquisitions.

  Reduce regional imbalances by supporting FDI, SMEs and company restructuring in less developed regions.

- **Operational Priorities.** Provide equity and mezzanine financing to the private sector for local operations as well as cross border expansion targeting Eastern and South Eastern Europe.

  Support FDI by medium-sized companies targeting greenfield and brownfield projects in less developed regions of the country and acquisitions/expansions of their existing operations. Provide guidance to investors with limited country experience.

3.2.2 The Financial Sector

- **Transition Goals.** Increase the range of financial products available to the SME sector.

  Provide tools to financial institutions to manage their regulatory capital which is likely to increase as a result of Basel II becoming effective in 2007.

- **Operational Priorities.** Consider the involvement in a private equity fund focusing on start-ups, possibly in conjunction with the provision of sub-ordinated funds from the EU and the granting of SME credit and risk sharing lines to financial intermediaries on a selective basis.

  Roll out a major energy efficiency and renewable energy programme in support of investments by companies and residential owners of flats and housing associations and use resources from the Bohunice International Decommissioning Support Fund to support this initiative.

  Offer risk mitigation instruments to the financial sector such as securitisation, risk sharing, guarantees and credit derivatives.

  Support the strengthening of non-bank financial institutions in the form of equity.

3.2.3 Infrastructure and Energy

- **Transition Goals.** Contribute to the increase of the absorption capacity of the country with respect to EU funding for infrastructure projects.

  Increase the involvement of the private sector in infrastructure through the promotion of PPPs, where appropriate and feasible.

  Support energy efficiency measures in the corporate sector, for public buildings and private flats as well as renewable energy.

  Assist in the installation of new and replacement power generation capacity (non-nuclear) necessary as a result of the closure of Units 1 and 2 of Bohunice V1.

  Encourage the privatisation of important infrastructure companies (transport, municipal and energy companies).

- **Operational Priorities.** Roll out a major energy efficiency and renewable energy programme in support of investments by companies and residential owners of flats and housing associations and use resources from the Bohunice International Decommissioning Support Fund to support this initiative.

  Support companies, which may be privatised or have recently been privatised, such as Slovak airports, the rail cargo company, district heating plants, electricity distributors and water companies.

  Assist Slovenske Elektrarne and other Independent Power Producers in installing new and replacement capacity. Support private investors obtaining majority ownership of the regional distribution companies.

  Support the only pilot PPP project in the transport sector, a stretch of motorway in the northwest of the Slovak Republic as well as PPPs in the water sector.

4. ACTIVITIES OF OTHER IFIs AND THEIR CO-OPERATION WITH EBRD

- **European Union (EU):** The EU committed EUR 434.8 million under the Phare programme until the end of 2000 and EUR 106 million of pre-accession aid for 2000-2004. The EU started early to support SMEs through technical assistance without substantial lending. The EU/EBRD SME finance facility combines lending with EU grants. On 18 December 2003, the European Commission announced on a total envelope for cohesion and structural funds of EUR 1,611 million for 2004-2006. The EU funds available for the period 2007-2013 will substantially exceed the pre-accession funds. The joint EU/EIB/EBRD Jaspers initiative should contribute to the selection of high quality priority projects for EU co-financing.

- **International Monetary Fund (IMF):** The Slovak Republic joined the IMF in January 1993. The latest stand-by facility expired in March 1996. The Article IV consultations are held on the standard 12-month cycle. A concluding statement by the IMF following its December 2005 Art IV consultation discussions noted that sound macroeconomic management and a wide range of fundamental structural reforms over the past few years have facilitated Slovakia's successful entry into ERM2 in November 2005. The IMF projects a strengthening in real GDP growth to 6.3 per cent in 2006 and 6.7 per cent in 2007 (largely due to increased production at new car plants) and the current account deficit to narrow. However the IMF points to significant challenges in reigning in inflation and the fiscal deficit to meet Maastricht requirements for Euro adoption.

- **World Bank (WB):** The World Bank has supported the Slovak Republic since 1993. To date, World Bank commitments to the country have totalled USD 566.3 million for eight operations. The main priorities of the WB under Country Partnership Strategy for the Slovak Republic for 2005-2007 relate to (i) fiscal consolidation, (ii) the implementation of structural reforms to enhance competitiveness of the economy, (iii) poverty reduction and social inclusion (labour market reform; SME development, education and improvements of basic communal services and community infrastructure). Seven ongoing projects provide lending and technical assistance for modernizing the health sector, strengthening the country's capacity for using public resources effectively, reforming the pension system and improving social protection, placing the country's economy on a sound macroeconomic footing and a GEF supported project for grassland conservation.

- **International Finance Corporation (IFC):** By 2002, when the IFC closed its office, it had financed four projects including a pre-privatisation equity stake in VUB, together with EBRD. The IFC re-opened its office in 2003 mainly to roll out a regional energy efficiency credit and risk sharing line for local banks.

- **European Investment Bank (EIB):** Since 1990, the EIB provided 37 loans, including global loans for financing of smaller scale projects. As of 31 December 2005, the total volume committed was EUR 1, 961 million. Important sectors for the EIB are transport (EUR 526 million), telecommunications (EUR 280 million), energy (EUR 236 million) and industry (EUR 414 million). Global loans for smaller scale projects in an amount of EUR 447 million were extended to nine banks. In addition, two smaller municipal infrastructure projects were financed directly (EUR 42 million).

ANNEX 1: COMMITTED PROJECTS PER YEAR

(in million EUR as of 31 December 2005)

Year	Op ID	Op Name	Regional/Direct	Total	EBRD	Debt	Equity	Stage
1992	346	Czech & Slovak Investment Corp	Regional	7.0	3.6	0.0	3.6	Disbursing
1992	171	Eurotel Bratislava Spol s.r.o.	Direct	32.1	6.8	6.8	0.0	Completed
1992		2		**39.2**	**10.4**	**6.8**	**3.6**	
1993	139	Slovak Telecom Project	Direct	272.0	44.0	44.0	0.0	Completed
1993	648	International Road Corridor	Direct	41.6	15.0	15.0	0.0	Repaying
1993	44	Renaissance Fund	Regional	3.3	0.9	0.0	0.9	Repaying
1993	43	Slovenska Pol'Nohospordarska Banka	Direct	3.6	3.6	0.0	3.6	Completed
1993	25178	Unibanka (equity)	Direct	2.4	2.4	0.0	2.4	Disbursing
1993		5		**322.9**	**65.8**	**59.0**	**6.9**	
1994	684	Sloveca	Direct	14.8	7.7	7.7	0.0	Completed
1994	638	ZSNP Tranche A	Direct	32.8	32.8	32.8	0.0	Completed
1994	1309	Advent Private Equity Fund - Central Europe LP	Regional	5.5	1.5	0.0	1.5	Repaying
1994	2177	Slovalco - ZSNP Tranche B & C	Direct	389.9	104.8	93.0	11.8	Repaying
1994	1061	Slovnaft a.s	Direct	36.7	16.9	16.9	0.0	Completed
1994		5		**479.7**	**163.7**	**150.4**	**13.3**	
1995	2148	MBA Loan Project (guarantee)	Regional	0.7	0.4	0.4	0.0	Repaying
1995	1650	Tatra Bank Credit Line	Direct	15.3	15.3	15.3	0.0	Completed
1995	2161	Slovnaft a.s. Equity	Direct	447.4	44.2	0.0	44.2	Completed
1995	2551	Slovenska Pol'nohospodarska Banka ("SPB")	Direct	10.0	1.4	0.0	1.4	Completed
1995	3032	SPB Cofinancing Facility – Miva	Direct	1.8	0.5	0.5	0.0	Completed
1995	2559	Istrobanka Credit Line	Direct	5.8	5.8	5.8	0.0	Completed
1995		6		**481.1**	**67.7**	**22.1**	**45.6**	
1996	3677	Pol'nobanka (Formerly Slovenska Pol'nohospordarska Banka)	Direct	15.0	2.3	0.0	2.3	Completed
1996	3594	Dalkia Termotech	Direct	11.0	2.0	1.5	0.5	Repaying
1996	3620	FGG Municipal Services MPF: Heatco District Heating Project	Direct	10.6	3.1	3.1	0.0	Completed
1996	3300	Tatra Banka Subordinated Debt	Direct	12.8	12.8	12.8	0.0	Completed
1996	2407	PBK General Purpose and Energy Efficiency Credit Facility	Direct	15.6	11.8	11.8	0.0	Completed
1996	3851	SPB Cofinancing Facility - Mineralne Vody	Direct	1.7	0.8	0.8	0.0	Completed
1996		6		**66.6**	**32.9**	**30.1**	**2.8**	
1997	4503	PPF - Slovak – Mopedy	Direct	14.3	1.0	0.0	1.0	Completed
1997	3626	CGE MPF - Banska Bistrica Waste Management Project	Direct	2.6	1.0	1.0	0.0	Repaying
1997	4390	SPB Co-financing Facility – Topolciansky	Direct	2.0	1.0	1.0	0.0	Completed
1997	3491	DBG Osteuropa Holding GmbH	Regional	7.1	2.6	0.0	2.6	Repaying
1997	4900	PPF - Slovak - Liptovska Mliekaren A.S.	Direct	1.6	1.5	0.0	1.5	Completed
1997	3813	Prva Komunalna Banka a.s. (credit line)	Direct	10.2	10.2	10.2	0.0	Completed
1997	4607	Advent Central & Eastern Europe II - Regional Fund	Regional	6.7	2.3	0.0	2.3	Repaying
1997	5002	PPF - Slovak - Hydina ZK a.s.	Direct	4.0	2.7	0.0	2.7	Repaying
1997		8		**48.4**	**22.4**	**12.2**	**10.1**	
1998	4465	PBK Equity Investment	Direct	3.5	3.5	0.0	3.5	Completed
1998	26939	PBK Equity write off	Direct	0.3	0.3	0.0	0.3	Completed
1998	4681	L&G ESCO Slovakia	Direct	6.1	2.0	1.6	0.4	Completed
1998	5024	Innova/98 LP	Regional	2.0	0.4	0.0	0.4	Repaying
1998	2460	Bucina Zvolen, a.s.	Direct	7.3	7.3	7.3	0.0	Completed
1998	5600	Slovak Grain Receipt Program - Pol'nobanka	Direct	15.4	3.1	3.1	0.0	Completed
1998	6071	PPF - Slovak - Nabytok Bodnar	Direct	1.5	1.0	0.4	0.7	Completed
1998	6074	PPF - Slovak - Hydina Presov	Direct	4.7	3.1	0.0	3.1	Repaying
1998	6176	MBA Loan Project II (guarantee)	Regional	0.2	0.1	0.1	0.0	Signed
1998		9		**40.8**	**20.8**	**12.6**	**8.3**	

Year	Op ID	Op Name	Regional/Direct	Total	EBRD	Debt	Equity	Stage
1999	6237	PPF - Slovak - OFZ Profily a.s.	Direct	4.0	4.0	0.0	4.0	Repaying
1999	4442	Info. and Comm. Tech & Industrial Electronic Fund Ltd.	Regional	8.6	1.9	0.0	1.9	Disbursing
1999	5049	AIG New Europe Fund	Regional	41.4	7.1	0.0	7.1	Repaying
1999	6374	Slovak Grain Receipt Program - Pol'nobanka (1999/00)	Direct	14.5	4.2	4.2	0.0	Completed
1999	9002	PPF - Slovak - Radio D-Express	Direct	3.5	3.5	0.0	3.5	Completed
1999	6326	Polus Center	Direct	83.7	23.0	23.0	0.0	Completed
1999	7693	SPP Bond Issue	Direct	149.8	29.8	29.8	0.0	Completed
1999	9144	Regional/Private Equity Fund Facility – Trigranit	Regional	19.2	3.4	0.0	3.4	Completed
1999	5058	Central & Eastern Europe Power Fund	Regional	3.3	0.9	0.0	0.9	Repaying
1999	5422	Energy Efficiency and Emissions Reduction Fund	Regional	10.7	3.0	0.0	3.0	Disbursing
1999		10		**338.7**	**80.8**	**57.1**	**23.8**	
2000	13304	PPF - Slovak - Topos Tovarniky	Direct	2.5	2.5	0.0	2.5	Disbursing
2000	9620	EU/EBRD Phase I - GIMV Czech and Slovak SME Fund	Regional	7.5	1.5	0.0	1.5	Disbursing
2000	13828	TBIH Financial Services Group N.V. (debt & equity)	Regional	5.4	3.0	0.4	2.6	Completed
2000		3		**15.4**	**7.0**	**0.4**	**6.6**	
2001	14807	Vseobecna Uverova Banka Pre-Privatisation (debt & equity)	Direct	24.7	23.5	0.0	23.5	Completed
2001	13120	EU/EBRD Phase I - Euroventures Danube BV	Regional	0.4	0.1	0.0	0.1	Disbursing
2001	7587	Slovalco Expansion – Equity	Direct	64.7	55.9	55.9	0.0	Disbursing
2001	18490	Slovalco Expansion – Debt	Direct	64.4	18.1	18.1	0.0	Completed
2001	16908	Unibanka (equity)	Direct	10.1	10.1	0.0	10.1	Disbursing
2001	19234	EU/EBRD Phase I – VUB	Direct	20.0	20.0	20.0	0.0	Repaying
2001	15213	Orange Slovensko, A.S.	Direct	204.6	23.5	0.0	23.5	Completed
2001	18190	SLSP (portage equity)	Direct	425.0	97.5	97.5	0.0	Completed
2001	13199	Raiffeisen EU Enlargement Fund	Regional	1.8	0.9	0.0	0.9	Repaying
2001	25820	PPF - Slovak - Eduard Rada	Direct	5.0	3.5	0.0	3.5	Disbursing
2001	17767	Regional Europolis Portfolio	Regional	75.0	26.3	10.9	15.3	Repaying
2001	10653	Aquachemia	Direct	14.1	8.1	8.1	0.0	Completed
2001		12		**909.8**	**287.4**	**210.5**	**76.9**	
2002	8902	Accession Mezzanine Capital LP	Regional	8.3	3.9	0.0	3.9	Repaying
2002	14644	Slovenske Elektrarne - Sector Restructuring Loan	Direct	114.7	88.0	88.0	0.0	Completed
2002	29935	UniBanka capital increase 2002	Direct	19.4	3.6	0.0	3.6	Disbursing
2002	27587	Heitman Central Europe Property Partners Fund II	Regional	7.6	2.3	0.0	2.3	Repaying
2002	24838	Value Growth Fund	Direct	17.1	8.0	0.0	8.0	Disbursing
2002	29892	EU/EBRD Phase II - CAC Leasing Slovakia	Direct	15.0	15.0	15.0	0.0	Disbursing
2002		6		**182.1**	**120.8**	**103.0**	**17.8**	
2003	29308	EU/EBRD Extension 3 - Tatra Leasing (RZB)	Direct	5.0	5.0	5.0	0.0	Disbursing
2003	32253	PPF - Slovak - SkyEurope Holding	Direct	7.2	2.7	0.0	2.7	Disbursing
2003	32349	EU/EBRD Extension 3 - VUB II	Direct	20.0	20.0	20.0	0.0	Repaying
2003	29124	ORCO APARTHOTELS	Regional	16.8	2.2	0.5	1.7	Disbursing
2003	23930	Project Bridge	Direct	49.2	49.2	0.0	49.2	Disbursing
2003	35084	Bucina ddd	Direct	8.0	8.0	8.0	0.0	Repaying
2003	26969	ZSE Electricity Distribution Privatisation	Direct	324.5	60.5	60.5	0.0	Disbursing
2003		7		**430.7**	**147.6**	**94.0**	**53.6**	
2004	29307	EU/EBRD Extension 3 - Ludova banka	Direct	10.0	10.0	10.0	0.0	Disbursing
2004	34551	Polish Enterprise Fund V	Regional	1.9	1.9	0.0	1.9	Repaying
2004	35037	Slovenske Elektrarne Restructuring Loan II	Direct	350.0	30.0	30.0	0.0	Disbursing
2004	32904	EU/EBRD Extension 3 - VB Leasing Slovakia	Direct	10.0	10.0	10.0	0.0	Disbursing
2004	33187	TriGranit III	Regional	34.1	7.5	0.0	7.5	Repaying
2004	34722	EU/EBRD Extension 3 – Unibanka	Direct	8.0	8.0	8.0	0.0	Disbursing
2004	34563	Advent Central & Eastern Europe Successor Fund	Regional	33.0	5.0	0.0	5.0	Disbursing
2004	33058	Raiffeisen International	Regional	4.0	2.0	0.0	2.0	Repaying
2004	35257	EU/EBRD MFF (Risk sharing) - Dexia Slovensko MFF	Direct	32.5	8.0	8.0	0.0	Signed

Year	Op ID	Op Name	Regional/Direct	Total	EBRD	Debt	Equity	Stage
2004	35120	Europolis II	Regional	18.0	4.5	3.3	1.2	Disbursing
2004	35159	EU/EBRD Extension 5 - CAC Leasing II	Direct	10.0	10.0	10.0	0.0	Disbursing
2004	34930	EU/EBRD Extension 5 - OTP Bank Slovensko	Direct	10.0	10.0	10.0	0.0	Disbursing
2004		12		**521.6**	**106.9**	**89.3**	**17.6**	
2005	36167	Emerging Europe Convergence Fund II	Regional	3.6	3.6	0.0	3.6	Repaying
2005	36262	EU/EBRD Ext. 5 Rural – UniBanka	Direct	5.0	5.0	5.0	0.0	Signed
2005	35813	Istrobanka SME line	Direct	10.0	10.0	10.0	0.0	Signed
2005	32251	Kronospan Slovakia MDF Facility	Direct	95.5	14.5	14.5	0.0	Signed
2005	36260	Connex Equity Investment	Regional	49.5	17.8	0.0	17.8	Disbursing
2005	35987	Argus Capital Partners II	Regional	0.6	0.6	0.0	0.6	Signed
2005	36617	SG AM Eastern Europe L.P.	Regional	3.3	3.3	0.0	3.3	Signed
2005		7		**167.5**	**54.8**	**29.5**	**25.3**	
	SLOVAK REPUBLIC TOTAL	**97**		**4,050**	**1,188.9**	**876.9**	**312.0**	

ANNEX 2: NET CUMULATIVE BUSINESS BY INDUSTRY

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Energy Efficiency	1.8	38	10	6	4	1%
	Natural Resources	4.0	649	99	54	44	8%
	Power and Energy	3.2	792	179	179	1	15%
Sub-total Energy		**9.0**	**1,479**	**288**	**239**	**49**	**24%**
Financial Institutions	Bank Equity	9.0	518	150	97	53	13%
	Bank Lending	5.8	149	149	149	0	13%
	Equity Funds	3.5	199	73	0	72	6%
	Non Bank Financial Institutions	1.4	95	82	30	52	7%
Sub-total Financial Institutions		**19.7**	**960**	**454**	**278**	**177**	**38%**
General Industry	General Industry	7.0	677	250	238	12	21%
Sub-total General Industry		**7.0**	**677**	**250**	**238**	**12**	**21%**
Infrastructure	Municipal & Env Inf	0.3	85	27	9	18	2%
	Transport	1.0	42	15	15	0	1%
Sub-total Infrastructure		**1.3**	**126**	**42**	**24**	**18**	**4%**
Specialised Industries	Agribusiness	1.8	35	10	10	0	1%
	Property and Tourism	1.8	254	69	38	31	6%
	Telecoms Informatics & Media	3.1	517	76	51	25	6%
Sub-total Specialised Industries		**6.8**	**807**	**155**	**98**	**57**	**13%**
SLOVAK REPUBLIC TOTAL		**43.8**	**4,050**	**1,189**	**877**	**312**	**100%**

ANNEX 3: SELECTED ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006
						Estimate	*Projection*
Output and expenditure[1]			*(Percentage change in real terms)*				
GDP	2.0	3.2	4.1	4.2	5.4	6.1	6.1
Private consumption	na	5.2	5.2	0.2	4.2	7.0	na
Public consumption	na	5.2	5.2	3.9	2.0	0.5	na
Gross fixed capital formation	na	12.9	0.3	-2.3	5.0	13.8	na
Exports of goods and services	na	6.8	4.7	15.9	7.9	13.5	na
Imports of goods and services	na	13.5	4.6	7.6	8.8	15.5	na
Industrial gross output	8.3	7.0	6.3	5.1	4.0	3.9	na
Agricultural gross output	3.2	-4.0	10.9	4.4	1.2	na	na
Employment			*(Percentage change)*				
Labour force (end-year)	1.3	1.4	-0.5	0.1	0.8	0.1	na
Employment (end-year)	0.2	0.8	0.5	0.9	1.3	2.5	na
			(In per cent of labour force)				
Unemployment (end-year)	18.0	19.2	18.5	17.5	18.1	16.2	na
Prices and wages			*(Percentage change)*				
Consumer prices (annual average)	12.0	7.3	3.3	8.5	7.5	2.7	4.9
Consumer prices (end-year)	8.4	6.5	3.4	9.3	5.9	3.7	5.6
Producer prices (annual average)	9.8	6.6	2.1	8.3	2.6	5.3	na
Producer prices (end-year)	9.1	3.4	2.3	8.7	5.9	5.2	na
Gross average monthly earnings in economy (annual average)	6.5	8.2	9.3	6.3	10.2	9.2	na
Government sector[2]			*(In per cent of GDP)*				
General government balance[3]	-12.3	-6.0	-7.7	-3.7	-3.0	-2.9	-3.5
General government expenditure	63.1	43.8	43.3	39.4	38.9	36.8	na
General government debt	49.9	48.7	43.3	42.7	41.6	34.5	na
Monetary sector[4]			*(Percentage change)*				
Broad money (M2, end-year)	15.4	11.9	3.4	-4.9	9.5	7.4	na
Domestic credit (end-year)	9.1	13.3	-12.7	9.3	6.9	12.0	na
			(In per cent of GDP)				
Broad money (M2, end-year)	64.6	66.6	63.2	55.1	54.0	53.4	na
Interest and exchange rates			*(In per cent per annum, end-year)*				
Refinancing rate	8.0	7.8	6.5	6.0	4.0	3.0	na
3-month BRIBOR	7.9	7.8	6.0	6.0	3.7	3.1	na
Deposit rate[5]	5.6	4.8	3.5	3.0	2.0	1.4	na
Lending rate[5]	10.1	9.8	8.8	7.7	6.4	5.9	na
			(Korunas per US dollar)				
Exchange rate (end-year)	48.6	48.2	41.1	33.6	29.1	31.9	na
Exchange rate (annual average)	46.2	48.4	45.3	36.8	32.3	31.0	na
External sector			*(In millions of US dollars)*				
Current account	-702	-1,746	-1,924	-276	-1,507	-4,090	-1,750
Trade balance	-904	-2,125	-2,117	-637	-1,536	-2,450	-2,000
Merchandise exports	11,872	12,645	14,382	21,843	27,621	32,026	38,000
Merchandise imports	12,777	14,770	16,499	22,480	29,157	34,476	40,000
Foreign direct investment, net	1,897	1,520	4,130	737	1,403	1,951	2,000
Gross reserves, excluding gold (end-year)	4,022	4,141	8,809	11,678	14,419	14,901	na
External debt stock	10,804	11,269	13,188	18,090	23,764	26,898	na
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	3.3	3.0	5.6	5.5	5.3	4.6	na
			(In per cent of exports of goods and services)				
Debt service due	17.4	19.5	11.7	11.6	2.9	3.4	na
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	5.4	5.4	5.4	5.4	5.4	5.4	na
GDP (in billions of korunas)	941	1,021	1,111	1,213	1,355	1,472	1,639
GDP per capita (in US dollar)	3,771	3,910	4,559	6,131	7,811	8,823	na
Share of industry in GDP (in per cent)	25.5	25.2	23.5	24.3	24.5	23.9	na
Share of agriculture in GDP (in per cent)	4.2	4.5	4.0	3.6	3.6	3.5	na
Current account/GDP (in per cent)	-3.4	-8.3	-7.8	-0.8	-3.6	-8.6	-3.3
External debt - reserves (in US$ million)	6,782	7,128	4,379	6,412	9,345	11,997	na
External debt/GDP (in per cent)	53.0	53.4	53.8	54.9	56.6	56.7	na
External debt/exports of goods and services (in per cent)	76.5	74.5	76.8	72.0	75.8	73.8	na

[1] Due to a revision of GDP data for the period 2000 to 2005, no consistent growth rates are available for the year 2000 for the following items: private and public consumption, gross fixed capital formation and exports and imports of goods and services.

[2] General government includes central government, municipalities and extra-budgetary funds.

[3] The general government balance excludes privatisation revenues and is calculated according to Eurostat methodology (ESA95). In line with the Eurostat derogation the second pillar pension funds are included from 2005.

[4] Until 2002 monetary data are compiled in national methodology. From 2003 they are compiled in the harmonised ECB methodology.

[5] Weighted average over all maturities.

ANNEX 4: SNAPSHOT TABLE FROM THE ASSESSMENT OF TRANSITION CHALLENGES

SLOVAK REPUBLIC	Structure	Institutions	Conduct	Comments
Agribusiness	*Small*	*Small*	*Small*	Poorly functioning land market. Agroprocessors still need to improve efficiency and standards. Improvements to distribution and traceability are necessary. Credit to the sector is increasing. WHR system and supplier credit schemes are well advanced.
Banking	*Negligible*	*Small*	*Small*	Basic regulatory framework is in place. Financial sector supervision to be unified from 2006. Sector has been completely privatised with close to 90% of assets controlled by foreign investors. Domestic credit to the private sector (as % of GDP) is low.
Energy Efficiency	*Small*	*Medium*	*Medium*	A new energy efficiency law under preparation, but the market for energy conservation has already been established. Energy tariffs have been raised to reflect costs. Has ratified Kyoto and is part of the EU ETS.
General Industry	*Negligible*	*Small*	*Small*	Recent improvements in business environment, but need for consistent implementation of rules and regulations, lessening corruption. Restructuring of some large formerly state owned companies is also still not complete.
MEI	*Medium*	*Medium*	*Medium*	Local infrastructure has been decentralised. The reforms are most advanced in district heating. Water sector reform is lagging behind, although creation of regional water companies is intended to increase efficiency and access to capital and private sector participation, which is currently very limited.
MSMEs	*Small*	*Medium*	*Medium*	A new commercial registry act, has considerably shortened, standardized and simplified firm registration procedures. A private credit bureau is in place. Collateral and bankruptcy legislation are very supportive of MSME lending. The cost of registering collateral is four times higher than in OECD countries.
Natural Resources	*Small*	*Small*	*Small*	Oil company Slovnaft, is 98.5% owned by Hungarian MOL, while the dominant gas company, SPP, is 51% owned by the state and 49% by a consortium of Gaz de France and Ruhrgas with management rights. Some minor state-owned mines exist but are due to be closed. Market institutions and policies are strong.
NBFIs	*Negligible*	*Small*	*Small*	Securities and insurance markets legislation and regulation almost fully meet IOSCO / IAIS standards, but regulation needs to be enhanced. Stock market capitalisation is small compared to other CEB countries. Insurance penetration is comparable to Hungary and Poland and the largest insurance company was privatised to a foreign strategic investor. There are voluntary privately managed pension funds and mandatory privately managed funds. Leasing and consumer finance markets are thriving.

Power	*Small*	*Small*	*Medium*	Sector has been successfully unbundled with independent transmission, distribution and generation companies. The three regional distribution companies have been 49% sold to the private sector. The sale of state generation company should be completed by mid-2005. There is an independent network regulator, which has implemented a comprehensive set of reforms including tariff increases and rebalancing.
Private Equity Funds	*Medium*	*Medium*	*Medium*	The development of private equity funds started later than in the neighbouring countries and the Slovak Republic is still trailing Poland, Hungary and the Czech Republic. In addition to some money from domestic government agencies, local financial groups are using their funds to buy companies.
Property + Tourism	*Medium*	*Small*	*Negligible*	Full tradability of land except foreigners. The real estate sector is developing fast, including new types of property as well as financing instruments. There is some government interference in the sector.
Telecoms	*Small*	*Small*	*Small*	The dominant fixed line operator has been privatised. There is an independent regulator, but in some areas, the country appears to be lagging behind. Tariff re-balancing has yet to be completed.
Transport	*Medium*	*Medium*	*Medium*	In railways, operating and policy setting functions have been separated and core railway businesses have been unbundled. There is a railway regulator, but not in full compliance with EU directives. Road user charges only cover marginal costs. A company is in the process of being established to develop highways.

ANNEX 5: STRUCTURAL CHANGE INDICATORS IN THE EU-8 REGION

	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Slov. Rep.	Slovenia
Enterprises (2005)								
Privatisation revenues (cumulative, in per cent of GDP)	24.3	na	34.2	5.4	13.7	13.9	28.3	4.7
Private sector share in GDP (in per cent)	80.0	80.0	80.0	70.0	75.0	75.0	80.0	65.0
Private sector share in employment (in per cent)	70.0	na	79.4	na	na	71.0	75.0	na
Budgetary subsidies and current transfers (in per cent of GDP) [1]	9.1	na	2.3	4.7	0.3	na	1.4	1.4
Share of industry in total employment (in per cent)	30.1	na	32.4	na	na	21.2	29.3	na
Change in labour productivity in industry (in per cent)	8.2	na	6.8	na	na	7.8	10.2	6.5
Investment/GDP (in per cent)	26.4	31.8	20.3	na	25.0	20.2	28.4	na
EBRD index of small-scale privatisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of large-scale privatisation	4.0	4.0	4.0	3.7	4.0	3.3	4.0	3.0
EBRD index of enterprise reform	3.3	3.7	3.7	3.0	3.0	3.7	3.7	3.0
Markets and trade (2005)								
Share of administered prices in CPI (in per cent)	10.9	26.7	17.0	14.3	na	1.2	21.9	16.7
Number of goods with administered prices in EBRD-15 basket	1.0	3.0	2.0	2.0	1.0	0.0	2.0	1.0
Share of trade with non-transition countries (in per cent)	na	na	80.2	na	na	75.9	64.0	na
Share of trade in GDP (in per cent)	123.9	131.2	115.2	89.6	94.2	65.0	134.9	113.8
Tariff revenues (in per cent of imports)	0.2	na	0.1	0.3	0.5	0.4	0.1	na
EBRD index of price liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.0
EBRD index of forex and trade liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of competition policy	3.0	2.7	3.0	2.7	3.0	3.0	3.0	2.7
Financial sector (2004)								
Number of banks (foreign-owned)	35 (26)	9 (6)	38 (27)	23 (9)	12 (6)	57 (44)	21 (16)	22 (7)
Asset share of state-owned banks (in per cent)	2.9	0.0	6.6	4.0	0.0	19.4	1.3	12.6
Asset share of foreign-owned banks (in per cent)	84.9	98.0	63.0	48.6	90.8	71.4	96.7	20.1
Non-performing loans (in per cent of total loans)	4.1	0.3	3.7	1.1	2.4	17.5	9.6	7.5
Domestic credit to private sector (in per cent of GDP)	27.1	43.3	46.0	49.9	25.1	22.5	25.8	48.3
Domestic credit to households (in per cent of GDP)	11.3	20.4	13.1	18.0	7.2	11.2	8.8	12.3
Of which mortgage lending (in per cent of GDP)	6.0	16.4	9.5	12.2	5.6	4.0	2.9	2.8
Stock market capitalisation (in per cent of GDP)	25.7	50.3	25.5	11.7	26.4	24.9	9.5	27.5
Stock trading volume (in per cent of market capitalisation)	64.3	14.7	51.0	7.0	0.0	27.5	16.8	13.2
Eurobond issuance (in per cent of GDP)	2.8	8.4	4.2	0.0	5.0	1.8	2.9	0.7
EBRD index of banking sector reform	3.7	4.0	4.0	3.7	3.3	3.3	3.7	3.3
EBRD index of reform of non-bank financial institutions	3.3	3.3	3.7	3.0	3.0	3.7	2.7	2.7
Infrastructure (2004)								
Fixed-line (mobile) penetration rate (per 100 inhabitants)	33.7 (105.3)	34.0 (96.0)	36.4 (88.8)	27.6 (67.2)	23.8 (99.3)	31.9 (59.9)	23.1 (79.1)	40.9 (94.1)
Internet penetration rate (per 10,000 inhabitants)	376.1	486.3	492.1	258.7	274.3	233.5	226.3	269.7
Railway labour productivity (1989=100)	72.4	294.4	145.1	125.9	71.0	103.3	61.5	163.2
Residential electricity tariffs, USc kWh	10.3	8.1	13.5	8.2	9.7	9.9	13.7	12.9
Average collection rate, electricity (in per cent)	100.0	na	98.6	na	97.0	na	na	na
GDP per unit of energy use (PPP in US dollars per kgoe) (2003)	na	3.7	5.6	5.1	4.2	4.6	3.8	5.3
EBRD index of infrastructure reform	3.3	3.3	3.7	3.0	2.7	3.3	3.0	3.0
Electric power	3.3	3.0	4.0	3.3	3.3	3.3	4.0	3.0
Railways	3.0	4.3	3.3	3.3	2.3	4.0	2.7	3.0
Roads	2.3	2.3	3.3	2.3	2.3	3.0	2.3	3.0
Telecommunications	4.0	4.0	4.0	3.0	3.3	4.0	3.3	3.0
Water and waste water	4.0	4.0	4.0	3.3	3.3	3.3	2.7	3.3

[1] Subsidies to enterprises and financial institutions, including the Czech Consolidation Agency.

ANNEX 6: POLITICAL AND SOCIAL ASSESSMENT

Political Assessment

Background. The Slovak Republic, which came into existence following the break-up of the Czech and Slovak Federative Republic on 1 January 1993, enjoys a high reputation abroad as one of the reform leaders in the entire transition region. This was not always so. Only a decade ago, the deteriorating political climate in the country, under the increasingly authoritarian government of Vladimir Meciar, in power during most of the early and mid-1990s, provoked repeated criticism from the European Union and the United States. In July 1997, the European Commission and NATO announced that the Slovak Republic would not be invited to join either of the two organisations in the next round of their expansion. The European Commission's decision was confirmed at the EU summit in Luxembourg in December 1997. The Slovak Republic was the only EU accession candidate excluded from the start of negotiations solely on the basis of its failure to satisfy the EU's political criteria.

At the September 1998 parliamentary election, Meciar's Movement for a Democratic Slovakia (HZDS) emerged as the largest party, but its share of the vote had declined sharply. He was invited by the Speaker of the Parliament to form a government, but was unable to do so because all the other parliamentary parties, with the exception of the far-right Slovak National Party (SNS), refused to join an HZDS-led administration. Eventually, following negotiations lasting a month, a broadly-based coalition government was established with the support of a three-fifths parliamentary majority under Mikulas Dzurinda, leader of the Slovak Democratic Coalition (SDK) as Prime Minister. During his tenure as Prime Minister in 1998-2002, there were political tensions within his multiparty coalition, owing chiefly to ideological disagreements over the pace and scope of reform. Nevertheless, Dzurinda managed to keep his unwieldy government together while pursuing pro-market reforms.

Much surprise was caused by Dzurinda's victory in the parliamentary elections in September 2002, in which four centre-right parties gained a majority of 78 out of 150 seats and speedily formed a government. The government, with Dzurinda once again as Prime Minister, was made up of the three parties from the former coalition – Dzurinda's (now reorganised and widened) Slovak Democratic and Christian Union (SDKU); the socially conservative Christian Democratic Movement (KDH); the Hungarian Coalition Party (SMK), which is supported by the 560,000 people-strong Hungarian minority; and the newly formed neo-liberal Alliance of the New Citizen (ANO). Within weeks of assuming office, the Slovak Republic's new government, which in many respects was a continuation of the previous one, received from NATO a formal invitation to begin membership negotiations at the Prague summit in November 2002. At the Copenhagen EU summit in December 2002 Slovakia was invited to join the EU.

With the benefit of its greater ideological cohesion, Dzurinda's second government carried out major reforms of the pensions and healthcare systems, overhauled the tax system and liberalised the Labour Code. This was achieved despite the ruling coalition's chronic and increasingly bitter infighting. The government suffered a sharp fall in popular support during the first two years of its electoral term as ambitious economic reforms caused a steep short-term decline in household income and consumption, but by the beginning of 2005 its public support began to recover as economic reforms began to feed through into rapid GDP growth, real wage gains and lower unemployment. The government also continued to benefit from deep divisions among the opposition forces – notably between the two largest opposition parties – the HZDS and the similarly populist Smer-SD led by Robert Fico. The departure of ANO in August 2005 and the KDH in February 2006 was a blow to the government leading the surviving coalition members, Dzurinda's SDKU and the Hungarian SMK, to propose that the parliamentary elections, originally due in September 2006, should be brought forward to 17 June. This proposal was duly ratified by parliament.

International relations. The terms of the association agreement signed by Czechoslovakia with the European Union in December 1991 were transferred to the Slovak Republic in 1993, ensuring asymmetrical access to EU markets while committing the new state to the completion of legal harmonisation with EU norma. The strong commitment of the post-1998 Dzurinda government to Western integration bore fruit at the end of 2002. In mid-November, NATO invited the Slovak Republic to become a member, along with six other Central and East European countries. In December 2002, the EU invited the Slovak Republic, along with nine other countries, to join the Union in May 2004. In a referendum on 16 and 17 May 2003, the Slovak voters approved membership of the EU, with 92% voting in favour, although the run out, at 52%, was only just above the 50% threshold required to validate the outcome. In April 2003, parliament ratified the Slovak Republic's accession to NATO, with 124 out of 150 deputies voting in favour. Only the far-left Communist party (KSS) openly opposed NATO membership, which Slovakia had joined in March 2004. At the beginning of 2006, The Slovak Republic began a two-year term at the UN Security Council. According to the Foreign Minister, Eduard Kukan, The Slovak Republic is concentrating on human-rights and peace-keeping issues, drawing on its considerable diplomatic experience in South-Eastern Europe, including Kukan's own personal mediation in the Kosovo crisis in 1998-99 and, latterly, the activity of a Slovak diplomat acting as an international mediator in Montenegro. The Slovak Republic's relations with neighbours remain stable. The participation of SMK in the government has helped avert the risk that issues concerning The Slovak Republic's Hungarian minority could lead to deterioration in relations with Hungary. A positive factor has also been the predominance of moderate political force in both counties. An official visit by the Hungarian president, Laszlo Solyom in December 2005, only his second trip abroad since his election in June 2005, was seen as evidence of the importance attached by both sides to good neighbourly relations.

Social Assessment

Population. The Slovak Republic has a population of approximately 5.4 million. In 2004, the population increased by about 4,800 people, but is expected to contract at the annual rate of –0.1% in the next few years, owing to the falling birth rate, down from 28.8 per 1,000 in 1950 to 15.1 per 1,000 in 1990 and 10.0 per 1,000 in 2004. The main causes have been urbanisation, secularisation, increasing proportion of women in the labour force and declining infant mortality (down from 12 per 1,000 live births in 1990 to 6.8 in 2004). The marriage rate has declined from 7.6 per 1,000 inhabitants in 1990 to 5.2 in 2004. Both the average age of first marriage and the incidence of divorce have increased. The share of the youngest age (0-14 years) cohort in the population has dropped to 17.1% in 2004 down from 25% in 1990. The share of the oldest cohort (65 years and over) has increased to 11.6% in 2004 from 10.4% in 1990. The proportion of the people of productive age (15-64 years) is expected to grow till 2010 and then start declining. Life expectancy was 70.3 for men and 77.8 years for women in 2004, up from 66.6 years for men and 75.4 for women in 1990.

The majority of population (85.7%) are ethnic Slovaks followed by Hungarians (9.6%), Roma (1.8%) and Czechs (0.9%). Other ethnic groups include Ruthenians and Ukrainians (0.7%), Germans (0.1%), Russians (0.03%) and Poles (0.05%) The law prohibits discrimination based upon race, gender, disability, language or social status. The law is effectively enforced in practice. But, according to the U.S. State Department report on human rights in The Slovak Republic, published on 8 March 2006, there is widespread discrimination against Roma in areas of employment, education, housing and health services. They number 90,000, according to the 2001 census, but according to some expert estimates they are actually between 350,000 and 400,000 (the discrepancy is attributed to Roma identifying themselves as Hungarians or Slovaks). The government's plenipotentiary for Roma affairs maintains five regional offices to supervise the implementation of official policy on Roma issues, support infrastructure development and cooperate with municipalities and villages to improve relations between Roma and non-Roma. Specially-trained social workers are attached to Roma settlement to provide various forms of assistance. A special police unit monitors extremist activities and a commission, consisting of NGOs, police and government officials, advises the police on minority issues

The law prohibits trafficking in persons, but it is reported that persons are being trafficked from, within and through the country. The International Organisation for Migration estimates that between 100 and 200 persons are trafficked annually from or through the country, mainly for the purposes of sexual exploitation, with Western Europe as the main final destination. Most of the victims come from Moldova, Ukraine and the Balkans. The government agencies responsible for combating trafficking include the national coordinator for the fight against trafficking in persons, the police anti-trafficking unit, the Ministry of the Interior, the prosecutor's office, the border police and the equal opportunity office at the Ministry of Social Affairs and Labour. Corruption among border official, police officials and asylum officials allegedly impairs efforts to combat trafficking.

Education. The Slovak Republic has a labour force, whose educational attainment is higher than in most of Central and Eastern Europe and compares well with that in advanced OECD countries. The educational system is well developed at all levels and the number of university students has risen from 66,900 in 1994 to 98,409 in 2003. Under socialism, the secondary school system included a high proportion of technical schools, reflecting the allocation process in the command economy which favoured industrial technology. Since the second half of the mid-1990s enrolment in secondary technical schools has fallen sharply, from a peak of 126,798 in 1997 to 93,353 in 2003. Enrolment in secondary grammar schools has grown from 76,662 in 1999 to 93,353 in 2003. The lacking quality of education and training programmes has been of concern to both the World Bank and the OECD. Investment at the university level has lagged behind the strong rise in admissions. Low faculty salaries are driving qualified staff into the private sector. Introduction of university tuition payments is unpopular. In May

2005 parliament rejected for the second time in a year a bill that would have allowed universities to charge annual tuition fees up to 30% of total costs for the student (about $810).

Health. Doctors are mostly independent, but have contracts with the health insurance funds. About a half of all specialists are in private practice. The doctor/patient ratio has been rising in recent years and was 3.5 per 1,000 population in 2003. Hospital capacity has been reduced to 7.4 beds per 1,000 population in 2003 from 8.1 in 1999. In 2003, a measure came into force aimed at preventing over consumption of healthcare, including fees of 20 crowns (about 55 US cents) for doctor's visits and 50 crowns per day for hospital stays. In 2004, the Dzurinda government brought in a package of six laws that went much further, aiming to complete the overhaul of the existing healthcare system by implementing greater reliance on market mechanisms. The law on healthcare defined individual services and procedures. The law on health insurance introduced two types of insurance, public and voluntary, with the latter covering services that exceed the scope of public coverage. This in turn is regulated by law on the scope of healthcare, which defines diagnoses that will be fully covered by public health insurance and those that must be partly or fully paid by patient. The law on health insurance companies has transformed them into joint-stock companies. However, the two largest will be 100% state-owned. The law on healthcare providers similarly transforms hospitals into joint-stock companies. The law on ambulance services introduces sanctions for failure to deliver emergency assistance to patients.

The Slovak Republic spent nearly 7.2% of GDP on healthcare in 2003. Public expenditure on health accounted for some 90% of all health spending in 2002, according to OECD. The cost of medical treatment is covered b a compulsory employer and employee contributions to health insurance fund. The fund has suffered from a build-up of arrears due to an increase in enterprise insolvencies. The new healthcare reform includes measures to repay all old debts and stop creating new ones. The financial contributions from patients and improved economic performance, reflected in lower unemployment and higher wages, are expected to boost the flow of funds into the system.

ANNEX 7: ENVIRONMENT

In the **air quality** sector**,** legislation is in place and is in line with the acquis. Administrative capacities are in place and function adequately. Air quality plans and programmes need to be completed. However, the capacity to establish and implement plans and programmes needs to be enhanced. As regards volatile organic compound emissions from the storage and distribution of petrol, a transitional arrangement until 31 December 2007, with intermediate targets, has been agreed for certain installations in the Slovak Republic.

In the field of **waste management,** legislation is in place and is in line with the acquis. There are new regulations for handling, utilization and safe disposal of old cars and for handling, utilization and safe disposal of old electronic equipment. They provide for both a system of collection and recycling/safe disposal of these types of waste. However, there is a delay in implementation and this needs to be improved. As regards packaging waste, a transitional arrangement until 31 December 2007, with intermediate targets, has been agreed. There is regulation for the handling and safe disposal of equipment containing PCB. There is a project under way funded by GEF for disposal of PCBs, which will be implemented in 2009.

In the area of **water quality**, legislation is in place and is in line with the acquis. The Slovak Republic has transposed and implemented measures, which are set up in the water protection and nature protection legislation of the EU. The Slovak Republic is party to the Ramsar Convention on Wetlands and is active in its implementation. The Slovak Republic is party to the Convention on Cooperation for the Protection and Sustainable Use of the River Danube, in which protection of water related ecosystems plays an important role. The Slovak Republic has ratified the Protocol on Water and Health and committed to ensure access to drinking water for all inhabitants, focusing on sustainable use of water sources, quality surface water and groundwater and the protection of water ecosystems. Transitional arrangements until 31 December 2015, for urban waste water and until 31 December 2006, for discharges of certain dangerous substances, with intermediate targets, have been agreed.

In the field of **nature protection,** legislation is in place and is in line with the acquis. There are nine national parks and 14 protected landscape areas designated. The total acerage of these protected nature areas represents 1,135,427 ha, 23.16% of the total area of the country. As part of the Slovak Republic’s membership in the EU, the network of protected areas (NATURA 2000) has been established. There are 382 Special Areas of Conservation (SAC) designed in accordance with the EU Habitats Directive with total area of 573,690 ha, 11.7% of the whole country. There are 38 Special Protection Areas (SPA), designed in accordance with the EU Birds Directive, with a total area of 1,236,545 ha, which is 25.2% of the country.

The legislation on **industrial pollution and risk management** is in place and is in line with the acquis. While administrative capacities are largely in place and function, enhanced efforts are required to further strengthen the administrative capacity as well as to ensure that permits are issued and complied with as regards all new installations subject to the rules on Integrated Pollution and Prevention Control (IPPC) and that, regarding existing installations, they continue to be issued and complied with until

October 2007. Transitional arrangements for IPPC until 31 December 2011, for certain large combustion plants until 31 December 2007 and until 31 December 2006 for incineration of waste have been agreed for certain categories of activities and operations at certain installations in the Slovak Republic.

The legislation concerning **chemicals and genetically modified organisms** (GMOs) is in place and is in line with the acquis. Attention must be paid to its implementation. Administrative capacities are in place and function. Coordination between the organisations involved needs to continue to be enhanced.

As regards **nuclear safety and radiation protection**, legislative alignment has been largely completed and the legislation is in line with the acquis. Administrative capacities in this area are largely in place and function adequately.

In conclusion, the Slovak Republic is essentially meeting the commitments and requirements arising from the accession negotiations and is in a position to implement the acquis in the areas of **horizontal legislation**, **air quality**, **waste management**, **water quality, nature protection, industrial risk management, chemicals and genetically modified organisms**, **noise and nuclear safety and radiation protection**. It needs to complete air quality plans and programmes and continue to enhance water quality monitoring. The Slovak Republic needs to make further efforts to implement the legislation on electrical waste and electronic equipment (EU WEEE Directive). In addition, the Slovak Republic needs to continue to strengthen its administrative capacity and ensure that permits are issued and complied with as regards all new IPPC installations and that, regarding existing installations, permits continue to be issued and complied with until 2007.

ANNEX 8: BILATERAL ASSISTANCE

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Operation Leader	Sector	Business Group
SLOVAK REPUBLIC									
AUS-1995-09-02	Slovenske Lodenice a.s and Contexco a.s	AUS	24,585	24,585	01/09/95	Closed	Janssens R.	Manufacturing	Central Europe
AUS-1996-05-02	Energy efficiency project preparation	AUS	212,202	212,202	21/05/96	Closed	Grunig M.	Energy	Energy
CEI-1995-07-01	Industrial zone development (Phase I)	CEI	19,923	19,923	04/07/95	Closed	Mogull M.	Community/Social Services	Specialised Industries
CEI-2005-12-09	Market Study for Sustainable Energy in the Slovak Republic	CEI	50,000	0	28/12/05	Committed	Van de Ven J.	Energy	Energy
DEN-2004-10-05	Strategy Plan for Bratislava Airport	DEN	49,500	0	28/10/04	Committed	Earle R.	Transport, Storage	Infrastructure
EC-1992-08-35	Danube River Basin Development - industrial waste management	ECP	281,713	281,713	10/08/92	Closed	Bastin J.	Local Authority Services	Infrastructure
EC-1992-09-41	Regional Cities Development Programme - Bratislava solid waste management	ECP	47,828	47,828	15/09/92	Closed	Toregas G.	Local Authority Services	Infrastructure
EC-1993-06-17	Slovak Post-privatisation Fund - feasibility study	ECP	185,400	185,400	20/06/93	Closed	D'Amico A.	Finance, Business	Financial Institutions
EC-1993-12-60	Slovak Post-privatisation Fund - legal feasibility study	ECP	149,984	149,984	29/10/93	Closed	D'Amico A.	Finance, Business	Financial Institutions
EC-1994-06-12	ZSNP - Alumina plants study	ECP	139,953	139,953	30/05/94	Closed	Sipos T.	Manufacturing	Central Europe
ECP99-99-09-16	Slovak Railways - economic recovery and commercialisation programme	ECP	491,493	491,493	07/09/99	Closed	Barrett S.	Transport, Storage	Infrastructure
ENE-1998-06-01	Extension of the contract with Haskoning for Supervision of Environmental Remediation for ZSNP and Slovalco	ENE	47,193	47,193	15/06/98	Closed	Lecavalier F.	Energy	Central Europe
EUSPP-2001-09-01F	Slovak Post-privatisation Fund - pre-investment framework contract for investment advisory services (B)	EUSPP	54,480	54,480	17/09/01	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-2001-09-03F	Slovak Post-privatisation Fund - Specialised Advisory Services - individual contracts	EUSPP	1,268,097	1,158,116	17/09/01	Disbursing	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2001-12-06F	Slovak Post Privatisation Fund - Investment Advisory Services	EUSPP	122,335	122,335	05/12/01	Closed	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2001-12-07F	Slovak Post Privatisation Fund - Investment Advisory Services "B"	EUSPP	428,098	428,098	05/12/01	Closed	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2003-11-04F	PPF - Slovak PPF -Investment Advis. Servic (Pre & Post Inv)	EUSPP	211,902	96,490	28/11/03	Disbursing	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2003-11-05F	Slovak PPF: Investment Advisory Services "A"	EUSPP	306,950	166,720	28/11/03	Disbursing	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2003-12-06F	PPF - Slovak PPF - Legal Advisory Services	EUSPP	180,000	145,728	04/12/03	Disbursing	Pasian A.	Finance, Business	Financial Institutions
EUSPP-2005-06-01F	PPF - Slovak PPF - Specialised Advisory Services - EXTENSION - FRAMEWORK CONTRACT WITH BADUCCI	EUSPP	88,000	36,242	30/06/05	Committed	Pasian A.	Finance, Business	Financial Institutions
EUSPP-96-09-01	Slovak Post-privatisation Fund - fund manager	EUSPP	2,850,747	2,850,747	18/09/96	Closed	Pilotto R.	Finance, Business	Financial Institutions
EUSPP-96-09-02	Slovak Post-privatisation Fund - pre-investment framework contract for investment advisory services (A)	EUSPP	410,817	410,817	19/09/96	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-96-09-03	Slovak Post-privatisation Fund - pre-investment framework contract for investment advisory services (B)	EUSPP	203,421	203,421	19/09/96	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-96-09-04	Slovak Post-privatisation Fund - pre-investment specialised advisory services (procurement agent)	EUSPP	2,213	2,213	19/09/96	Closed	Pilotto R.	Finance, Business	Financial Institutions
EUSPP-96-09-05	Slovak Post-privatisation Fund - pre-investment individual contracts	EUSPP	26,725	26,725	19/09/96	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-96-09-06	Slovak Post-privatisation Fund - post-investment framework contract for investment advisory services (A)	EUSPP	118,725	118,725	19/09/96	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-96-09-07	Slovak Post-privatisation Fund - post-investment framework contract for investment advisory services (B)	EUSPP	6,200	6,200	19/09/96	Closed	Ankara M.	Finance, Business	Financial Institutions
EUSPP-96-09-08	Slovak Post-privatisation Fund - post-investment specialised advisory services (procurement agent)	EUSPP	26,034	26,034	19/09/96	Closed	Pilotto R.	Finance, Business	Financial Institutions
EUSPP-96-09-09	Slovak Post-privatisation Fund - post-investment individual contracts	EUSPP	431,450	431,450	19/09/96	Closed	Pasian A.	Finance, Business	Financial Institutions
EUSPP-96-13-10	Slovak Post-privatisation Fund - pre-investment specialised advisory services (procurement agent)	EUSPP	55,957	55,957	19/09/96	Closed	Pilotto R.	Finance, Business	Financial Institutions
FIN-1996-04-02	Evaluation of tenders for two global systems for mobile communication standard licences	FIN	49,916	49,916	25/04/96	Closed	Lonnen K.	Telecommunications	Specialised Industries
FRA-1994-03-03	Slovak Post-privatisation Fund - TurnAround expert	FRA	60,980	60,980	16/03/94	Closed	D'Amico A.	Finance, Business	Financial Institutions
FRA-1999-06-02	Kosice geothermal advisory services	FRA	20,827	20,827	07/06/99	Closed	Herman E.	Energy	Energy
GER-1993-08-08	Slovenske Lodenice a.s. and Contexco a.s. legal audit, structuring and contract documentation	GER	132,200	132,200	17/08/93	Closed	Janssens R.	Manufacturing	Central Europe
GER-1994-02-03	Slovak Post-privatisation Fund - accounting team	GER	155,913	155,913	08/02/94	Closed	D'Amico A.	Finance, Business	Financial Institutions
GER-95-12-08PS	Monitoring and advisory group of the Zsnp/Slovalco aluminim restructuring project	GE03	101,609	101,609	07/09/95	Closed	Lecavalier F.	Manufacturing	Non-Banking
GRE-2000-11-07F	TurnAround Management Programme (TAM) - Team Coordinator for The Slovak Republic	GRE	46,400	24,594	14/11/00	Disbursing	McPhee J.	Manufacturing	SEEC
HOL-1993-07-10	Slovenske Lodenice a.s. and Contexco a.s. - environmental audit	HOL	31,861	31,861	01/07/93	Closed	Janssens R.	Manufacturing	Central Europe
HOL-1993-11-20	Slovenske Lodenice a.s. and Contexco a.s.- financial audit	HOL	70,407	70,407	19/11/93	Closed	Janssens R.	Manufacturing	Central Europe
HOL-1993-12-21	ZSNP soil and groundwater study	HOL	134,371	134,371	24/12/93	Closed	Hussey M.	Manufacturing	Central Europe

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Operation Leader	Sector	Business Group
HOL-1993-12-23	TurnAround Management Programme - Tesla Nove Zamky	HOL	48,781	48,781	24/12/93	Closed	McAlister M.	Manufacturing	Financial Institutions
HOL-1993-12-25	TurnAround Management Programme - Strojsmalt	HOL	44,554	44,554	24/12/93	Closed	McAlister M.	Manufacturing	SEEC
HOL-1994-12-15	Slovenske Lodenice	HOL	37,600	37,600	01/12/94	Closed	Janssens R.	Manufacturing	Central Europe
HOL-1994-12-16	Remediation supervisor for ZSNP and Slovalco environmental remediation	HOL	126,012	126,012	14/12/94	Closed	Lecavalier F.	Energy	Non-Banking
HOL-1995-02-01	Slovenske Lodenice - environmental audit	HOL	9,023	9,023	01/02/95	Closed	Janssens R.	Manufacturing	Central Europe
HOL-1995-03-03	TurnAround Management Programme - Tesla Nove Zamky (II)	HOL	13,838	13,838	16/03/95	Closed	McAlister M.	Manufacturing	Financial Institutions
JAP-1992-10-24	Due diligence study - SPB Bank	JAP	75,080	75,080	01/10/92	Closed	Insel B.	Manufacturing	Specialised Industries
JAP-1993-11-60	Railways adjustment and pre-investment study	JAP	451,559	451,559	17/11/93	Closed	Smith I.	Transport, Storage	Infrastructure
JAP-1994-08-30	Development of SPE (export credit insurance) - export financing, refinancing, fund-raising	JAP	88,820	88,820	01/08/94	Closed	Harfield J.	Finance, Business	Financial Institutions
NORG-1993-06-03	Slovenske Lodenice a.s. and Contexco a.s. - feasibility report and analytical support	NORG	76,508	76,508	01/06/93	Closed	Janssens R.	Manufacturing	Central Europe
SPA-2000-06-02	Power Supply Curves for the Period 2000-2020	SPA	39,776	39,776	09/06/00	Closed	Kuno C.	Energy	Energy
SWE-2001-01-01	TurnAround Management Programme (TAM) - Tento	SWE	48,400	48,400	15/01/01	Closed	McPhee J.	Manufacturing	SEEC
SWI-1998-07-03	Slovak Post-privatisation Fund - assessment of marketing activity and preparation of restructuring programme for Mopedy sro Kolarovo	SWI	68,734	68,734	28/07/98	Closed	Pilotto R.	Finance, Business	Financial Institutions
TAI-2002-03-09	Close-Out Netting Legislation/The Slovak Republic	TAI	50,000	0	14/03/02	Committed	Cigna G.	Community/Social Services	Non-Banking
UK-1994-02-01PS	Military conversion project	UK9401	47,710	47,710	08/03/94	Closed	D'Amico A.	Manufacturing	Financial Institutions
UK-94-04-07PS	Mochovce power project - public participation review	UK9407	46,847	46,847	14/04/94	Closed	Pilloux A.	Energy	Central Europe
UK-94-04-08PS	Mochovce power project - financial advice	UK9408	124,438	124,438	14/04/94	Closed	Pilloux A.	Energy	Central Europe
UK-94-04-09PS	Mochovce power project - environmental assessment and audit	UK9409	299,818	299,818	14/04/94	Closed	Vitchev D.	Energy	Central Europe
UKC-1994-09-08	Development of SPE (export credit insurance) - export financing, refinancing, fund raising - legal advice	UKC	34,923	34,923	12/09/94	Closed	Harfield J.	Finance, Business	Financial Institutions
UKC-1995-03-04	Slovenska Pol'Nohospodarska Banka a.s. agribusiness SME financing facility	UKC	118,054	118,054	06/03/95	Closed	Weatherseed S.	Manufacturing	Specialised Industries
UKC-1995-05-13	Mochovce power project - public participation review (extension)	UKC	20,588	20,588	01/05/95	Closed	Murphy T.	Energy	Central Europe
UKC-1995-12-24	Assistance in developing a secured transactions law	UKC	47,044	47,044	12/12/95	Closed	Dahan F.	Community/Social Services	Non-Banking
UKC-1996-02-02	Slovenske Lodenice a.s. - insurance	UKC	20,520	20,520	06/02/96	Closed	Janssens R.	Finance, Business	Russia & Central Asia
UKC-1996-10-23	Slovak Post-privatisation Fund - legal feasibility (extension)	UKC	50,501	50,501	23/09/96	Closed	Pilotto R.	Finance, Business	Financial Institutions
UKE-2001-04-12F	Secured Transactions Legislative Reform and Implementation	UKE	229,067	223,777	04/04/01	Disbursing	Dahan F.	Community/Social Services	Non-Banking
UKE-2002-05-07	Power Distribution Privitisation	UKE	30,001	8,029	02/05/02	Disbursing	Kuno C.	Energy	Deputy Vice President
UKE-2002-07-08F	Secured Transactions Legislative Reform Phase II	UKE	172,078	138,719	19/07/02	Disbursing	Dahan F.	Community/Social Services	Non-Banking
USTD-2002-04-02	Power Distribution Privitisation	USTDA	115,626	115,626	19/04/02	Closed	Kuno C.	Energy	Energy
			11,832,311	**11,148,731**					
			11,832,311	**11,148,731**					
	No of Commitments:		**68**						

ANNEX 9: ASSESSMENT OF THE SLOVAK REPUBLIC'S COMMERCIAL LAWS

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of such laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for the Slovak Republic, accompanied by critical comments of the Bank's legal experts, who have conducted the assessments.

Capital Markets

The primary legislation governing the securities market includes the 2001 Act on Securities and Investment Services, the 2003 Act on Collective Investment, the 2002 Act on Stock Exchange, the 1990 Act on Bonds, and the 2004 Act on Financial Market Supervision, all as amended.

The Slovak Republic joined the EU in May 2004. As a consequence of the transposition of the relevant EU legislation (the so-called "Financial Services Action Plan"), Slovak legislation on securities market has been significantly amended in recent years.

Among the most recent changes, in July 2005, the Act on Securities and Investment Services was amended in order to transpose the so-called Prospectus Directive (Directive 2003/71/EC) setting a single European prospectus allowing issuers to offer and list securities on any regulated market in the EU on the basis of the home country regulator's approval. The amendments further introduce new provisions on insider trading and market manipulation. In the same month, the 2005 Act on Consumer Protection in Distance Marketing of Financial Services, harmonising Slovak legislation with Directive 2002/65/EC on Distance Marketing of Consumer Financial Services, entered into force.

Starting from 1 January 2006, the National Bank of Slovakia incorporated the functions of the Financial Market Authority and assumed the integrated supervision of the financial market in the area of banking, capital market, insurance and pension savings within the scope and meaning of the competences laid down by the 2004 Act on Financial Market Supervision.

The Bratislava Stock Exchange (BSSE) was founded 15 March 1991. Trading on the BSSE started 6 April 1993. Since June 2004, the BSSE has been a member of the Federation of the European Securities Exchanges. In 2004, the Central Securities Depository started its operation, which resulted in the transfer of competence in the clearing and settlement of transactions from the BSSE. In 2005, the BSSE registered 381 issues of securities while the Slovak share index (SAX) rose by 26.5% with an increase of 86.7 points in absolute terms.

On 28 November 2005, the Slovak Republic joined the EU's ERM2, the obligatory waiting room for the adoption of the Euro. The central rate of the Slovak Koruna was set at EUR1 = SKK38.455. In order to adopt the Euro, EU Member States must participate in ERM2 for at least two years and meet the so-called "Maastricht criteria" involving inflation, interest rates, budget deficit, and public debt. The Slovak Republic is expected to meet all Maastricht criteria by 2007, which would enable the country to adopt the Euro in 2009.

According to the EBRD Securities Markets Legislation Assessment conducted in 2004, the country was found to be in "medium compliance" with the Objectives and Principles of Securities Regulation published by the IOSCO. The assessment was recently updated and the findings evidenced several improvements to the Slovak legislation (especially in the areas of Issuers and Disclosure, Market Intermediaries and Secondary Market). As a result, the Slovak Republic was upgraded to the "high compliance" category.

Company Law and Corporate Governance

The principal legislation concerning corporate governance is essentially included in the Commercial Code (Act No. 513/1991 Coll.), which was enacted in 1 January 1992 and amended several times, most recently in October 2004 to transpose six EU company law directives. Among the various issues dealt with by the amendment, a new definition of the seat of a company, new provisions on accounting, new rules on the effectiveness of the resignation from office of members of the company's bodies, new legislation on winding up of a company, new provisions on transfer of shares and on a company's registration and, finally, the possibility to express the company's capital in Euro.

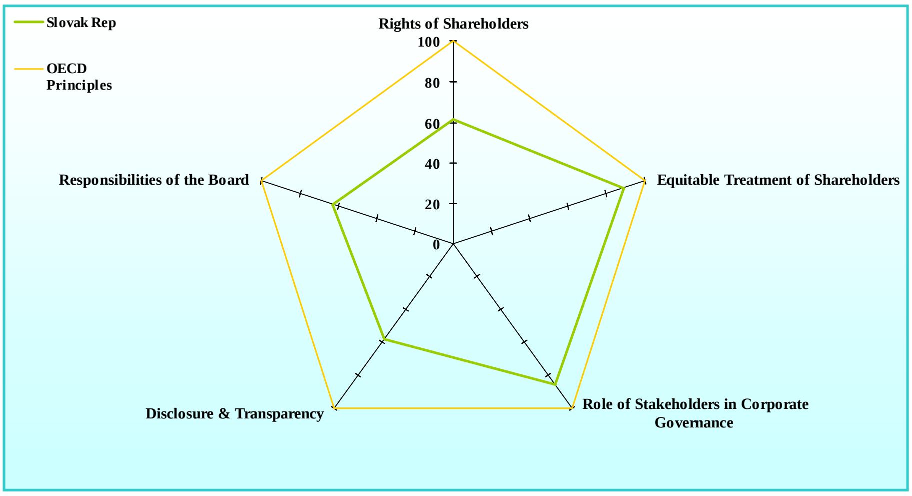
Joint stock companies (JSC) can be organised in "private" or "public" form. Public JSCs have their shares issued on the basis of a public call for subscription or have them listed in a stock exchange. JSCs are organised under a two-tier system. Members of the Board of Directors are elected by the General Meeting for a period not exceeding 5 years. The bylaws may also provide that the Directors shall be elected by the Supervisory Board. Two-thirds of the members of the Supervisory Board are appointed by the General Meeting and one third by the employees of the company, provided there are more than 50 full-time employees at the time of election.

In September 2002, the BSSE enacted a Code of Corporate Governance.[1] Since 2003, the Stock Exchange Rules require companies to report their compliance with the Code - under the so-called "comply or explain" rule.

According to the 2004 results of the EBRD's Corporate Governance Sector Assessment Project, under which corporate governance related "laws on the books" were assessed, the Slovak Republic was rated as having achieved "medium compliance", when compared to the OECD Principles of Corporate Governance. As shown in the chart below, shortcomings were mainly found in the "responsibilities of the board", "disclosure and transparency" and "right of shareholders" sections.

[1] See http://www.cecga.org/files/CorporateGoveranceCodeAJ.pdf

Quality of corporate governance legislation – Slovak Republic (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the 'web', the more closely thecorporate governance laws of the country approximates these principles

Source: EBRD Corporate Governance Sector Assessment, 2004 assessment

In 2005, the EBRD launched a survey for testing the effectiveness of corporate governance (how the law works in practice). Two case studies dealing with related-party transactions in a listed and unlisted company scenario were designed. The case studies investigated the position of a minority shareholder seeking to access corporate information in order to understand if a related-party transaction was indeed entered into by the company and on how it was possible to obtain compensation in case damage was suffered. Effectiveness of legislation was then measured according to four principal variables: institutional environment, enforceability, complexity and speed. The survey revealed that corporate governance legislation is relatively effective, although with some shortcomings. In particular it might be difficult for a minority shareholder to obtain disclosure from the company in case of obstruction by the controlling shareholders.

The institutional environment showed several shortcomings: the legal framework detailing related party transactions is weak, prosecutors are not sufficiently experienced in corporate law cases and the availability and use of case law by judges and lawyers is very limited.

Concessions

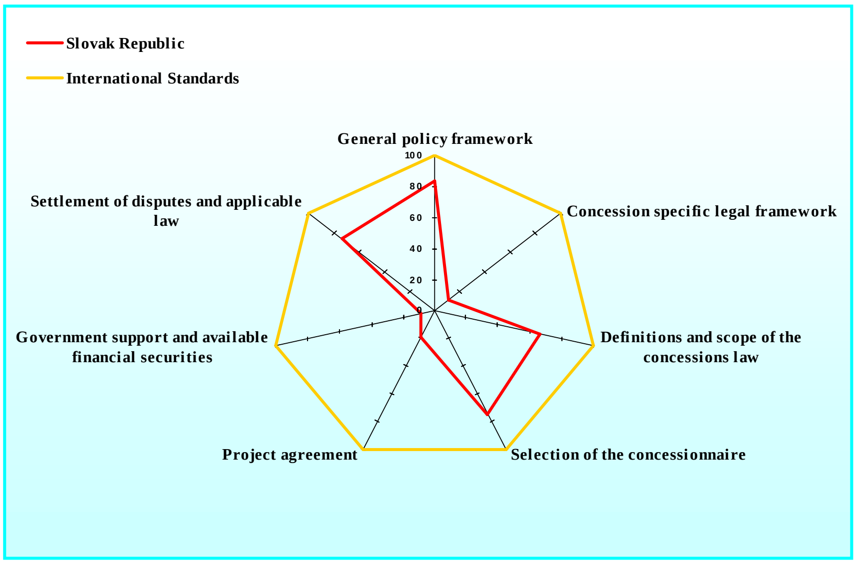
In 2004, the Slovak Republic repealed its 1996 Concession Law and approved the Public Procurement Law, which was further amended in 2006, and contains provisions regulating concessions. However, this effectively means that the country no longer has a specific concession law. This follows the endorsement of a number of governmental policy framework documents developed in the past couple of years aimed at improving the legal environment and promoting Private Sector Participation (PSP) in the Slovak Republic. Making concession rules a part of the general Public Procurement Law means that the latter is not sufficiently specific to concessions. This undermines concessions as an important type of private sector participation and might limit investors' options and thus interest. Moreover, the adoption of a specific Concession Law is not currently being considered.

Although the Public Procurement Law covers fairly comprehensively the selection process and settlement of disputes, it is not sufficiently clear on a number of areas, in particular regarding the content of the project agreement. Neither does it regulate project agreements in any way, apart from referring to their possible duration. Similarly, it defines concession contracts (through a reference to a public works contract), but not the concession itself. The Public Procurement Law seems to apply to all public contracts including concessions and to all sectors of public works and services, but only implicitly and not expressly.

Among the other shortcomings of the Public Procurement Law is the lack of specific grounds for contract termination and of provisions for compensation of the concessionaire. The selection procedure may not be suitable for certain PSP projects, in particular, there is no reference to the possibility of a two-stage procedure and to unsolicited proposals. The Public Procurement Law does not govern or even discuss such important issues as the ownership by the concessionaire of land or project assets, assignment of security interests, "step-in" option. Furthermore, it does not allow parties to negotiate the applicable law. Availability of financial instruments and state support need also to be dramatically improved.

The recent EBRD Concession Laws Assessment undertaken to evaluate applicable regimes throughout the EBRD's 27 countries of operations (the laws on the books only rather than how they work in practice), concluded that Slovak laws had "medium compliance" with internationally accepted standards in this sector. The overall conclusion is that Slovak concession laws need further improvement in order to be in line with the modern best standards and practices.

Quality of concession legislation –Slovak Republic (2005)



Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

Source: EBRD Concessions Sector Assessment 2005

In addition to the Public Procurement Law (regulating public contracts and possibly certain works concessions), the development of PSP in the Slovak Republic requires the adoption of a specific concession law.

Insolvency

On 1 January 2006, the Act on Bankruptcy and Insolvency ("Insolvency Act") was brought into force, fully repealing the Act on Bankruptcy and Composition of 1991. The Insolvency Act was the second part of a broad overhaul of the insolvency system in the Slovak Republic. It was preceded by an Act on Administrators, which came into force in July 2005, setting standards for the training and regulation of administrators.

The Insolvency Act will be fully reviewed as part of the upcoming update of the EBRD Insolvency Sector Assessment, to be completed at the end of 2006. The comments made here are based upon initial analysis of the Insolvency Act.

The Insolvency Act was brought in as a complete reform of the bankruptcy system with the goal of establishing a quicker, more creditor-friendly regime that emphasises restructuring rather than liquidation. The time period for an insolvency proceeding, which could be 18 months or longer under the previous law, could be shorter under the new process because of what appear to be tighter time frames for key events in an insolvency, such as the filing of claims, and authority for the judge to shorten statutory time periods when a bankruptcy is deemed to be 'small-scale'.

The Insolvency Act places more emphasis on the role of the administrator, clarifying and expanding that role and reducing the discretion of the courts with respect to the administrator. Under the previous bankruptcy law, courts had complete authority to appoint administrators. It now appears that the selection will be made by the court on a randomised basis, or, when they express a preference, in accordance with the will of the creditors. Creditors will have the ability to replace an administrator during the course of a proceeding. In combination with the new Act on Administrators, the functions of administrators should be much more effective, predictable and transparent. This could translate into a more effective and transparent insolvency process.

Restructuring is a prominent feature of the Insolvency Act. Several new features will make it easier to achieve a successful restructuring proposal. One key feature is the removal of the previous law's requirement that a proposal could not be approved without the consent of creditors holding not less than 75% of the debt. In addition, the Insolvency Act appears to contemplate that post-filing financing ("DIP financing") can be given a priority ranking ahead of other secured creditors. Post-filing financing is essential in most restructurings, but without the ability to grant a priority ranking access to that capital is unlikely. The Insolvency Act also appears to allow restructuring proceedings to be started by debtors, who are at risk of becoming insolvent. This could encourage debtors to seek restructuring earlier, when success is more likely.

The actual process of restructuring appears to be one that progresses through negotiation between the debtor and creditors with the court having only a limited role. The Insolvency Act also appears to contemplate supervisory administration where the administrator and the court oversee the activities of the debtor during a restructuring. Finally, it should be noted that the Insolvency Act allows a restructuring process to be commenced during the course of a bankruptcy, where permitted by the court.

The Insolvency Act also sets out a more detailed approach to be followed by an administrator when avoiding pre- and post-bankruptcy transactions. These transactions, intentionally or otherwise, often have the effect of defeating creditor interests and it is important for an insolvency regime to have clear rules allowing an administrator to efficiently and fairly avoid these transactions.

The Insolvency Act also appears to adopt new rules with respect to cross-border insolvencies, contemplating recognition of not only proceedings from EU member countries, but also proceedings from other countries. These rules appear to be compliant with the EU Regulations and international best practices.

Finally, the Insolvency Act adopts a new set of rules on the bankruptcy of financial institutions, which appear to be based upon European Commission directives.

Given the importance of administrators in the new insolvency process, it is worth noting a few of the key elements of the Act on Administrators. The Ministry of Justice has responsibility for licensing administrators, maintaining a national list of administrators, overseeing their training, supervising their activities and administering a code of ethics. Discipline will be carried out by a discipline committee appointed by the Ministry of Justice. The Act appears to allow both natural and legal persons to perform the duties of an administrator, but limited liability entities are excluded from such a role.

Secured Transactions

The Slovak Republic undertook in 2000 a thorough revision of the Civil Code provisions relating to secured transactions. The complete new regime, which entered into force on 1 January 2003, has been operating since and there is evidence, both quantitative and qualitative, that the system is working well and enables creditors and lenders to secure their claims simply and efficiently, giving the Slovak Republic one of the most advanced frameworks for secured credit in Europe.

The main features of the regime are:

Any asset: Security can be taken over any asset that is capable of being transferred. The law covers security over real property, movable assets and intangibles (such as rights and receivables). The assets may be identified by general description and may include assets to be acquired by the debtor at a future date. It is possible to take security over a group of assets even where it is constantly changing, such as inventory or trade receivables or even an enterprise.

Any debt: All types of claim may be secured. The secured debt may be denominated in any currency, may be of fixed or varying amount and may include claims that will arise in the future. The law is not restricted to bank lending but covers credit given by any person.

Non-possessory: The debtor may retain possession and continue to use the assets taken as security. He can thus use the assets to generate the revenue needed to service and repay the secured debt.

Simple formalities: Creation of security is simple and rapid. The requirements are a written agreement and publication of the security by registration. If the agreement is in notarial form subsequent enforcement of the security is facilitated. The costs of creation are low.

Publicity: Security has to be publicised through registration. Where the assets are already registered (e.g. land or ships) registration is in the existing register. In all other cases registration is made against the name of the debtor in a new charges registry operated by the Slovak Chamber of Notaries. The registry is held in a single electronic database and registration will be made instantly via a terminal in any notary's office. The information in the registry is public and can be consulted by anybody for free on the internet.

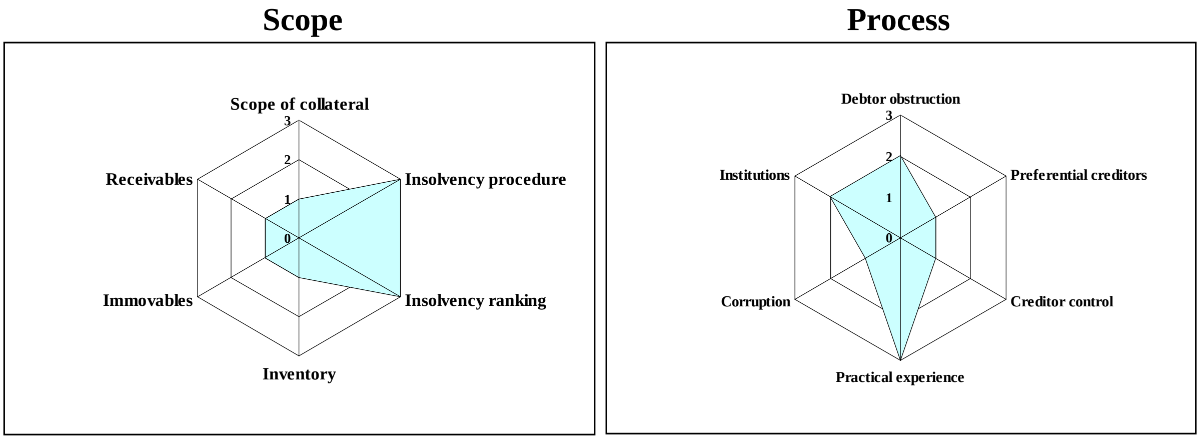
Priority: The creditor has a first right in the assets taken as security, subject to any prior security given to other creditors. Other persons dealing with the debtor are able to ascertain whether assets are subject to security or not by consulting the register. Normal rules are included to protect ordinary course of business transactions. Tax claims are no longer paid ahead of secured creditors.

Enforcement and realisation: If the debtor fails to pay the secured debt when due the secured creditor has the right to take possession and to sell the assets given as security and to use the proceeds to repay the debt. Sale may be through a court procedure, or by auction or private sale organised by the creditor. A Law on voluntary private-held auctions also provides the framework for realisation to be achieved rapidly and efficiently through auction.

Contractual flexibility: The new law allows broad scope for debtor and creditor to determine the terms of the security in a way which fits with what they agree between themselves and with the circumstances of their particular commercial transaction.

In 2003, the EBRD conducted a Survey to gauge the efficiency of enforcement of charges in all of its countries of operations. As the graphs below evidence, the results of such survey for the Slovak Republic were very positive – the main problems noted by local practitioners were the regime applicable when the debtor had become insolvent and these problems have, it is expected, been lifted by the 2006 Insolvency Law reform detailed elsewhere in this annex.

Obstacles to charge enforcement process – Slovak Republic (2003)



Note: The fuller the web, the more serious the problems are in each of the respective categories. "Process" factors measure the impact that specific obstacles would have on the enforcement proceedings. "Scope" factors give an indication of how effective enforcement would be when conducted on various types of collateral and in the case of debtor insolvency.

Source: EBRD Legal Indicator Survey 2003

Telecommunications

The telecommunications sector in the Slovak Republic is currently regulated by the Telecommunications Office of the Slovak Republic ('TUSR') and is governed, primarily, by the Electronic Communications Law, 2003 (the 'Electronic Communications Law'), as amended. TUSR responsibilities include licensing, equipment approvals, interconnection administration, dispute resolution, tariff regulation and spectrum administration. The Ministry of Transport, Post and Telecommunications (the "Ministry") is responsible for policy and development activities. The Electronic Communications Law transposes key features of the European Union (EU) communications regulatory framework into domestic law, *inter alia*, providing for the identification of operators that possess significant market power, establishing obligations for operators so identified, imposition of local loop unbundling and development of the interconnection framework.

In January 2003, the market was formally liberalised and fixed line penetration stood at approximately 22% at end of 2005, a level significantly lower than in other Central European countries. In line with the growth of the mobile market fixed line take up has begin to decline. The number of alternative licensed operators currently stands at approximately 70 (though a number have yet to launch service) and, as of the beginning of 2006, eight interconnection agreements had been signed by incumbent Slovak Telekom (ST) and competitive operators. ST is majority-owned (51%) by Deutsche Telekom and the state holds the remaining share of ST, split between the Ministry (34%) and the National Property Fund (15%). Privatisation of the state holding in ST remains on the cards, though its most recent efforts in this respect (September 2004) ended in failure, with blame being assigned to prevailing market conditions.

The mobile market is currently served by two operators: Orange Slovensko and T-Mobile Slovensko. While a third GSM licence was awarded in 2002, the holder failed to comply with licence obligations and its licence was subsequently revoked. Although the government has indicated an intention to offer a third combined licence during 2006, firm plans have yet to materialise. The mobile market in the Slovak Republic is reaching saturation with 2005 penetration levels at almost 85%. Both operators also hold 3G licences and began service provision in early 2006.

While most of the formal framework necessary for a competitive marketplace is already present, practical implementation of specific elements of this framework appears deficient. In this respect the European Commission (EC) has opened a number of infringement proceedings related to incorrect implementation of the EU framework. Of particular concern is the impact on independence of TUSR of the continuing dual role of the Ministry as policy maker and shareholder of ST and the continuing funding of TUSR operations from the state budget. The EC has also criticised the continued absence of critical competitive market instruments such as number portability and carrier pre-selection. Although it is understood that the government is currently working on addressing the issues highlighted, it is crucial that all outstanding framework issues are swiftly resolved and rapidly followed through to full practical implementation. In particular, the government should move to immediately resolve the inherent conflict present in the dual role performed by the Ministry and take all necessary steps to ensure that TUSR is appropriately resourced and empowered with the necessary legal and regulatory tools to fully implement the competitive market envisaged in sector policy and law. The TUSR, for its part, should prioritise appropriate regulatory intervention to ensure the full implementation of the regulatory framework contained in the sector policy and legislation. Of particular note in this respect are interconnection issues, including the apparent absence of cost-orientation, the imbalance of fixed tariffs and the resulting high charges for interconnection and wholesale local access, which appear to be hindering the emergence of a more competitive environment.