

Slovenia

Status Index (Democracy: 5.0 / Market Economy: 4.6)		9.6	Management Index		7.0
System of government	Parliamentary Democracy		Population	2.0 Mio.	
Voter turnout	55.5 %		GDP p. c. (\$, PPP)	17,130	
Women in Parliament	12.2 %		Unemployment rate	6.9 %	
Population growth	0.5 %		HDI	0.881	
Largest ethnic community	-		UN-Education Index	0.94	
			Gini-Index	28.4 (1998)	
<small>Figures for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Sources: UNDP: Human Development Report 2003.</small>					

1. Introduction

The assessment period (1998–2003) in Slovenia was marked by early parliamentary elections in 2000, as well as presidential and local elections in December 2002. All elections served to confirm support for Janez Drnovšek, who is now president. Since the first free elections in 1990 following Slovenia's the declaration of independence from Yugoslavia, the Liberal Democratic Party of Slovenia (LDS) party led by Drnovšek has run the government with various coalition partners with only brief interruptions. Then the acting prime minister, Drnovšek first stood for election in the summer of 2002 for the office of president, and was supported by then-President Milan Kučan, who had already served the maximum two terms. As expected, Drnovšek won the runoff election in December 2002, with 56.54 % of the vote, against his opponent, Barbara Brezigar, Slovenia's chief public prosecutor.

The continuity of leadership personnel is an important hallmark of the stability and consolidation in the Slovenian transformation process. Drnovšek is a well-seasoned representative of the post-communist establishment who has proven his integration capabilities. However, the relatively high percentage of votes (43.46 %) received by the losing candidate was surprising. This is possibly a sign that growing segments of the public, who still largely shy away from reform, are slowly developing the desire for growth and change. This is particularly true among young people and in urban areas, where Brezigar received most of her support. The old-new government was sworn in on 19 December 2002, with former Finance Minister Anton Rop at its head. In March 2003, Slovenians voted to accept invitations to join NATO and the European Union. Slovenia formally joined the EU on May 1, 2004.

The preceding years were strongly shaped by preparations for accession, which included domestic political discussions, intensive social debate and major adjustments following the quick implementation of the *acquis communautaire*—the document outlining an EU candidate’s terms for accession. Accession to the EU is among the highest priorities for all Slovenian parties, large and small. The belief that there is no alternative for Slovenia, a small and extremely open country that has already long been fully integrated in the Western European economy, also bridges party lines.

In the period from 1998 to 2003, transformation has progressed in many performance criteria. Management of the pace of integration—so that it remains balanced between winners and losers of the process in the medium-term—is very important to the political actors of the consolidated Slovenian democracy. This fundamental expectation will play a particularly important role with the Slovenian population, which is decidedly consensus-oriented. As the “little model state“ of the former Yugoslavia, there is a need in the coming years not only for stable economic strength, but also for social reforms and a change in mentality toward a more open society.

2. History and characteristics of transformation

The change of the Slovenian system, which required the creation of a new nation-state in addition to political and economic transformation, was marked by a couple of significant characteristics. One is the relatively comfortable path that Slovenia is taking in the transformation process, and the other is the minimal price that the society has had to pay. Reasons for this lie in the ethnic homogeneity of the population, the high level of economic development and the long tradition of civil society. Timing played a role as well in that political and social change had already begun in the 1980s.

Slovenia was never an independent nation at any time in its history. It was always part of a confederation of states. In 1991, efforts to achieve an independent state were primarily associated with the concepts of democratization, human rights and political pluralism. The fact that the Slovenian population felt politically dominated and economically exploited by the Serbs certainly contributed to efforts to achieve independence. The homogenous ethnic structure served to ensure that the questions of a nation state and nationality policy did not play a mobilizing role in the political discussion.

A traditionally high level of education and a strong civil society were further positive initial conditions. Many elements and mechanisms of fundamental participatory democracy had already developed under the Yugoslav system of self-management. This enabled people to gather experience and knowledge of democratic decision-making processes in mostly non-political situations. With

progress being made in deregulation, a growing number of groups aside from the unions began to articulate opinions about current social issues. The freedom to travel abroad that was standard in Yugoslavia in the 1960s allowed Slovenes to work in Western Europe, thereby learning modern production and management structures. Slovenia's open borders with Italy and Austria consequently had a strong influence on the orientation and mentality of the people.

Slovenia was by far the most affluent part of Yugoslavia before the upheaval, with a per capita income of \$5,700—double the Yugoslav average. After economic restructuring and painful disintegration that came with sovereignty and resulted in a steep drop in the country's economic potential, the GDP level of 1990 was reached once again by the mid-1990s. Measured by other significant indicators such as education level, corruption and poverty index, as well as income differences, the country is in good condition—not only compared with other transformation countries, but worldwide as well.

These positive initial conditions (ethnic homogeneity, strong tradition of civil society and high economic standards) made an independent Slovenian variation of the transformation possible. This included concurrent political democratization, change of economic system and national emancipation. The change of system was further supported by a consensus-oriented, gradualistic policy that corresponded rather closely to the political culture of the population.

3. Examination of criteria for democracy and market economy

3.1 Democracy

In transforming its political order, Slovenia has made progress in some areas under evaluation. Despite institutional stability, which serves as a guarantee for stable democracy, certain shortcomings continue to exist in institutional efficiency.

3.1.1 Political organization

(1) *Stateness*: The state has an unchallenged monopoly on the use of force extending over its entire territory. All citizens possess equal civic rights. Members of the Serbian and Croatian minorities who live in Slovenia as a result of migratory movements acquired Slovenian citizenship through a simplified process if they had been registered as long-term residents of Slovenian territory on 23 December 1990. Since September 1999, the law covers the status of all citizens of the former Yugoslav republics, including the status of refugees. Slovenia has ratified most international agreements regarding the protection of minorities.

Church and state are, for the most part, separate. Religious dogmas have no noteworthy influence over policy or law. Recent rulings by the Constitutional Court regarding religious instruction in public schools confirm the strict constitutional separation of church and state. Understandably, the Catholic Church continues to fight these developments.

The state provides fundamental infrastructure throughout its entire territory. Public safety and order are assured. However, public administration still functions at a partially inadequate level. In the newest civil service laws of 2002, the duties and responsibilities of public administration were defined, as well as the relationship between the government, ministries, administrative bodies and local authorities. A great deal of effort was exerted to improve staffing and technical equipment. Training and continuing education were strengthened, and salaries were raised above average.

(2) *Political participation*: By April 2003, four parliamentary elections, three presidential elections and four local elections were all successfully conducted in complete compliance with European standards for free, equal and secret balloting. For the most part, the results of parliamentary elections were predictable to a high degree a few weeks before elections. The electorate's party preferences have begun to consolidate. Elected representatives have full, effective power to govern. Unlimited freedom of association and assembly exists within the bounds of the Constitution. Freedom of the press and freedom of speech are also assured. However, close connections among the country's elite must be noted here because they helped to shape public perception through the mostly state-owned media, even before the change from socialism to democracy.

(3) *Rule of law*: A president with restricted power, a strong Parliament and a strong executive branch monitored by Parliament are all established in the constitution. The significance of the president has meanwhile undergone a change. In the phase immediately following independence, the president primarily represented the state to the outside world. Since then he has increasingly assumed an equalizing and mediating domestic function.

There are highly visible shortcomings in the practical implementation of parliamentary procedure. The old rules of procedure placed too many limits on the government's ability to act. A new law from April 2002 is intended to simplify and expedite the legislative process. Opposition parties have criticized the changes, particularly time limits placed on speakers and duration of debates, as well as the strengthened role of the committee composed of the president and his representatives.

The judicial branch is professionally balanced and operates independently, but its function is partially limited. There has been progress in judicial reform. However, excessive duration of judicial proceedings continues to be a problem. Since March

2000, the government and Supreme Court have introduced a number of measures to reduce the backlog of cases. Technical and staffing resources were improved, as were salaries in agencies that administer justice.

According to surveys, the problem with corruption in Slovenia apparently remains within limits, and Slovenia was ranked 27th out of 102 countries worldwide in the 2002 Corruption Perceptions Index. However, critical observation has revealed a growing tendency toward abuse of authority, and public consciousness also perceives corruption to be more widespread than official statistics suggest. In spite of this, the government has not made fighting corruption a high priority. Although there is no legislation specifically for fighting corruption, a legal framework for anti-corruption measures has been created. The state anti-corruption office founded last year has the task of developing a general strategy for fighting corruption.

Civil rights are not limited and can be defended with legal action. Human rights and fundamental freedoms are written into the constitution and respected for the most part. There are no known serious infringements by the state upon these basic rights in Slovenia. The country has already ratified most important international agreements for protecting human rights. The ombudsman for human rights is an important institution. Most complaints concern the length of legal proceedings. The ombudsman considers the implementation of the Denationalization Law concerning the return of private property to be a particular problem.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The constitutional framework, proportional distribution of seats in Parliament and a low requirement on the percentage of votes a party has to win for representation in Parliament have necessitated multi-party coalition governments and supported consensus-building in Slovenia. In 2000, the system survived a period of a minority government, or, rather, the precarious situation of having two prime ministers. Janez Drnovšek, who lost a vote of no confidence, remained the acting prime minister while the newly elected Andrej Bajuk took office without a cabinet. The crisis ended with an amendment to the Constitution establishing proportional representation in Parliament was adopted. In the period from 1997 to 2002, the LDS, led by Drnovšek, has increasingly taken on the role of the main political party. In its central and pivotal role, the LDS has greatly influenced cooperation among political institutions. These institutions are fundamentally accepted by the influential actors and regarded as legitimate.

(2) *Political and social integration*: The party system continues to be characterized by a lack of loyalty - measured by opinion polls - and a high level of fluctuation. LDS as a leading party changes its coalition partners and few MP change their places within the political spectrum. Political parties can be, with

some reservation, grouped into christian democrat, liberal and social democrat categories. Since 1997, about half the electorate has positioned itself at the center of the party landscape, signaling a shift from the original right-left configuration. Views from the extreme right or left find very little support and received less than 1 % of the votes.

The party system is fragmented, but not particularly polarized. Personalities and personal connections are more important than party platforms due to the small size to the country. This is especially true of parties in the right-wing spectrum. Fragmentation, as with the Social Democrats, or fusion, as with the Christian Democrats and People's Party, are still common occurrences. New parties continue to spring up, such as the Slovene Youth Party (SMS). The disappearance of the Green Party, the new Communists, and the extreme rightist Mini Party in the 2000 parliamentary elections should be noted.

Although political parties are the most important platform for consensus-building and are, therefore, a proven means of conflict resolution, they receive little public approval because they are insufficiently anchored in society and have a weak connection with their constituencies. On the scale of public trust, the president continually ranks highest, followed by unions, government, parliament and, lastly, political parties.

Slovenia has a relatively dense network of self-organized groups that, for the most part, originated in the old Yugoslav system of self-management. The high proportion of unionized workers (60 %) and the extensive legal right to strike both point to the continued importance of unions in Slovenia. These organizations have shown themselves willing to participate in cooperative action. Trade Unions and representatives of employers signed in May a social pact with the representative of government for the next two years to moderate social policies.

At the same time, signs of growing cynicism and indifference have appeared in public opinion. Low voter turnout in the last parliamentary election (55.5 %) confirms this trend. Voters have expressed a clearly more developed interest in direct, personal(ized) elections, such as the presidential or local elections. (2002: 65,22 %, 67,18 %). This indicates that democratic norms and potentials for democratic self-organization meet general approval.

3.2 Market economy

Slovenia has made progress in transforming its economic order. Macroeconomic stability is assured, and market mechanisms guarantee efficient allocation and offer actors security in planning. There are shortcomings in competition regulation and capital market openness.

3.2.1 Level of socioeconomic development

Key indicators show a high level of development. The country's level of development allows all citizens adequate freedom of choice. Also during the observation period, Slovenian society maintained its positive qualities: a low poverty rate, relatively even distribution of wealth and equal opportunities for different segments of the population. In contrast to the positive overall picture, losers in the transformation process—fringe groups such as the Roma and industrial workers with low education levels, as well as low-level employees in public administration—must be mentioned, along with the continued existence of regional disparities.

3.2.2 Market structures and competition

Slovenia has a relatively liberal trade system and is continuing to deregulate its trade policy. The state complies with EU regulations governing the distribution of state subsidies. The government still influences the competitive ability of the economy to a great extent, even if a more market-oriented approach is gradually establishing itself. The state still directly or indirectly controls almost half of the economy. A rather market-oriented approach in the politics of competition is gradually gaining acceptance. In this context, the final closing of the Development Corporation of Slovenia constitutes an important advancement. In order to ensure effective competition in the Slovenian markets, greater attention must be paid to the increased implementation of existing anti-trust and subsidy regulations.

Access to the Slovenian market remains difficult for foreign capital. Until 2000, Slovenia showed a relatively small influx of foreign direct investments at about 1 % of GDP annually, but this more than doubled in 2001, to 2.3 % of GDP, essentially because of foreign acquisitions in the banking and telecommunications sectors.

The banking system and capital markets are not well differentiated despite the recent positive developments. Privatization in this sector has begun, but not without problems. The government halted the sale of one state-owned bank and changed the privatization plan of another in the final stages.¹ This also holds partially true for the insurance industry, although Parliament passed a new law on the transfer of ownership in May 2002 that should finally clear the way for reforms in this sector.

¹ In a lengthy and continuous consolidation process, the number of banks dropped from 28 in 1997 to 21 in 2001, four of which are subsidiaries of foreign banks. The two largest banks, NLB and NKBM, have a 40 % market share and 41 % of the banking assets.

3.2.3 Stability of currency and prices

Inflation has remained in the high single digits, at 8 % on average, and is a serious macroeconomic problem. Inflationary strain continues to exist due, among other things, to salary increases in the public sector. This is intensified by the indexing applied—even if it is decreasing—and a far-reaching supportive monetary and exchange rate policy. The objective of the monetary policy was a gradual lowering of inflation and the increased stability of the actual exchange rate. The Bank of Slovenia proceeded pragmatically, pursuing both goals even though they were potentially contradictory in the short term. The continuous deregulation of capital movements has also made this system increasingly unwieldy.²

Slovenia's fiscal policy was solid, the indebtedness of the government remained moderate, fluctuating between 0.8 and 2.3 % of the GDP. Aside from increasing transfer payments to social security and costs for adjustment to the EU, the growing deficit could also be traced back to two elections in this period. By 2005 the government plans to present a balanced budget. In order to achieve this objective, additional, yet unused resources in the Slovenian economy need to be mobilized. First and foremost, this denotes the reform of the finance and corporate sector as well as a more consistent fight against inflation.

3.2.4 Private property

Property rights and the acquisition of property are adequately defined. However, the privatization of state companies proceeded quite slowly as a rule. This reflects the gradual and cautious approach to structural reforms in Slovenia. Large companies continue to dominate the economy, and small and medium-sized companies have lost significance.³ The trend to start-up companies has waned substantially in recent years, and while large companies were able to show a significant increase in employment, it increased very slowly in small companies. Small and medium-sized businesses still have some interim problems, and there are only a few innovative, knowledge-based high-tech companies due to bureaucratic hindrances and the relatively difficult access to research and development resources, as well as financial resources.

² For this reason, the central bank established new guidelines in November 2001 valid until accession to the EU that reduce the limits on the money supply and the exchange rate, and expressly sets a medium-term inflation goal at 3 % to 4 %.

³ In 2001 the small and medium-sized companies earned less than 29 % of total income and had an employment share of 37 %, in contrast to 38 % and 41 %, respectively, in 1997.

3.2.5 Welfare regime

There is a solid network in place to compensate for social risks. The basis for a universal health care system was established in the Yugoslav federation. The new unemployment and social security insurance system expanded after the change from socialism to democracy. Due to the changing job market, measures also include employment policy actions to improve the chances of older and lesser-qualified unemployed persons.⁴ Unemployment, calculated according to the International Labor Organization definition, has gradually receded since 1999 and averaged 6.9 % from 1997 to 2001.

According to current statistics, income differences in Slovenia seem, overall, limited. However, the poverty level of 13.7 % led to a program combating poverty and social exclusion. In the social security sector, the new law for parental protection and family allowances passed in 2000 offers better protection to poor families and families with many children. Slovenia has also introduced various programs for the Roma community aimed at raising the education level and improving professional qualifications.

Furthermore, a law on equal opportunity was passed in June 2002. The law forms the foundation of equal opportunity for women in the public sector. In practice women continue to be underrepresented in leadership positions within political parties and in Parliament.⁵

3.2.6 Strength of the economy

The Slovenian economy has grown continually, with an average annual growth rate of 4.2 % since 1997. Growth lost momentum, however, in 2001 and 2002 and ended at 3 % and 2.3 %, respectively. This results only partly from the weakened global economy. In the first half of this time period, growth was essentially driven by domestic demand, private consumption and investments. Since then, growth has mainly been driven by exports, and low exports to the EU were countered by an export boom to Russia and Yugoslavia.

Slovenian fiscal policy was stable, the government's debt remained moderate and fluctuated between 0.8 % and 2.3 % of GDP. In addition to increasing transfers to social insurance programs and the costs of adjusting to EU standards, the growing

⁴ The percentage of long-term unemployed persons remains very high at 63 %, as is the percentage of unqualified persons seeking employment (47 %).

⁵ There are only two women in government and 12.2 % in Parliament. Among the parties, the LDS showed the most growth in the number of women running as candidates in the last parliamentary elections: their percentage grew from 9.3 % to 13.6 %. Of three ZLSD ministers, one is a woman. Of its 11 MP, two are women, and the party has always appointed women for at least 1/3 of its candidates.

deficit can also be attributed to the two elections during this period. The government plans to present a balanced budget by 2005. To achieve this, further untapped reserves in the Slovenian economy must be mobilized. This primarily means reform of the financial and business sectors, as well as more consistent efforts to curb inflation.

3.2.7 Sustainability

Public environmental awareness has developed only in the past few years. Slovenian lawmakers have passed a number of laws and signed a number of international agreements within the context of conforming to EU requirements. Compliance and practical implementation of new legislation, which will require extensive investment and administrative effort, and not least a change of mentality, can only be expected in the long term.

Slovenia has traditionally enjoyed a well-developed public school system. The largest universities, in Ljubljana and Maribor, are also state institutions. The state's expenditures for education in the 1990s were a considerable 5.7 % of GDP. Despite this, serious reforms are necessary, above all in professional training, which is unable to address structural changes in the job market. At 1.5 % of GDP, average expenditures for research and development place Slovenia in the middle of the pack in Europe. The basics of a modern infrastructure exist, and further modernization is planned because of the country's strategic geographical location at the intersection of two EU-supported transit axes.

4. Trend

4.1 Democracy

A stable framework for democracy was created during the period before the evaluation and has been widely consolidated. Elections and election results are widely accepted as legitimate, as is the state's power to govern. However, the parties' and politicians' integration performance remains low. The dialog between social partners functions well, but the numerous civil society organizations have a decreasing influence on the political agenda. Even if the National Council sometimes plays a hesitant and reserved role in the lawmaking process, there is no visible policy of obstruction.

Unclear jurisdiction between the president and the government, or Parliament, occasionally caused difficulties, but these were constitutionally resolved following the 2000 elections. Despite major efforts and institutional improvements, the judicial branch and public administration do not operate

efficiently enough. Intensive pressure from the EU has, however, elicited progressive tendencies.

As the party landscape consolidates, certain characteristics of increasing party rule can be identified. This ‘partyness’ can be seen in the monopoly position of the party elite, as well as in the occupation of state and quasi-state institutions by the parties. The Liberal Democrats’ longtime governmental power and the consequent continuity of high-ranking personnel also contribute to this impression.

4.2 Market economy

The fundamental macroeconomic data show further improvement in the already high level of development. Along with solid economic growth, structural changes are ongoing. Slovenia continues to develop into a service society. The increasing importance of the service sector—it accounts for 60 % of gross value added—has also been correspondingly expressed in the export structure and has contributed positively to the current account balance and the balance of payments. Despite a slight increase in income differences, the standard of living remained high. Measured in terms of the purchasing power parity, per capita income is approximately 70 % of the EU average. The country’s level of development improved slightly between 1995 and 2000 (HDI change: +0.27).

The Slovenian government’s efforts to keep down the social costs of transformation will meet with increasing difficulty, particularly since remaining unimplemented reforms in the social insurance system are an essential requirement on the path to consolidating the budget. The institutional framework for market economy-based action has improved mainly following negotiations on accession to the EU. Shortcomings remain in competition policy; above all, the pace and scope of privatization and the opening of financial markets have not developed satisfactorily. Overall economic development has slightly improved both qualitatively and quantitatively, but it still remains below potential.

Table 2: Development of socioeconomic indicators of modernization (1997–2002)

	1997	1998	1999	2000	2001	Average	2002 (est.)
Real GDP growth in %	4.6	3.8	5.2	4.6	3.0	4.2	2.2
Average rate of inflation in %	8.3	7.9	6.1	8.9	8.6	8.0	7.8
Unemployment rate/ILO definition in %	6.6	7.4	7.3	6.9	5.7	6.8	5.9
Budget deficit in % of GDP	-1.2	-2.3	-2.2	-3.2	-2.5	-2.3	2.4
Current account surplus/deficit in billion \$	0.1	-0.8	-3.9	-3.4	-0.4	-1.7	0.8
Direct investment in % of GDP	2.1	1.3	0.9	1.0	1.9	1.4	n.a.

Sources: European Commission, regular report from the Commission on Slovenia's progress towards accession, 2002; 2002 (est.) estimate: F.A.Z. Institute Country Analysis 2002/August.

5. Transformation management

5.1 Level of difficulty

Based on the overall favorable initial conditions in the economy and society, the level of difficulty of transformation must be considered low. There was a fundamental consensus on democracy and market economy throughout the assessment period. Shortcomings still exist in state administration because it was established during the creation of the new state and, therefore, has little experience with democratic practice. Aside from domestic political turbulence, which was caused by several elections—two local elections, one parliamentary and one presidential election—and after a brief quiet phase in the summer and fall of 2000, conditions for stabilization were favorable during the assessment period. Only in 2001 did the West European (primarily German) recession negatively affect the Slovenian economy, which could compensate only partially due to its own structural shortcomings.

5.2 Reliable pursuit of goals

Influential actors have continued to pursue the transformation objective of a consolidated democracy and market economy, and they have endeavored to live up to the expectations of both the population and international partners. The government has attempted to proceed as carefully as possible and to cushion social costs during the consolidation phase. However, in the course of EU accession negotiations, strategic goals have been strongly aligned with conditions of the agreement. This framework limits the government's leeway for action on one hand. On the other, it forces action that would otherwise be neglected or pursued only sluggishly. Consequently, the setting of strategic goals often collided with the gradualistic approach, delaying tactics and lengthy pursuit of consensus in the implementation of concrete measures.

5.3 Effective use of resources

For the most part, the government makes effective use of available resources and pursues a fundamentally stable budgetary policy. The major portion of public funds was used for social services, where fundamental deregulation still needs to be implemented. However, public services facilitate the desired developmental steps to a great extent. Shortcomings continue to exist in the administrative machine in terms of both structure and staff. Indications of an efficient administrative organization, as well as greater transparency in personnel policy, have only become more evident since 2001. A similar trend can gradually be discerned in the battle against corruption. Even though legal regulations are already clear, they must be applied more strictly. They offer far greater potential than has previously been utilized. This is also necessary because the topic is receiving an increasing amount of public attention. On corruption, the government must take into account the common Slovenian legal understanding, which is shaped by a strong belief in the effectiveness of legal norms. Other than that, the government often succeeded in including wide-spread attitudes of economic actors such as inflexibility, tendency to rely on authority and an unwillingness to take risks aside from the well-known difficulties when small companies want to take out loans.

It is mostly these tendencies that inhibit innovation and the development of small business. Extremely cautious privatization, hesitant restructuring of the business sector, rejection of foreign investors and the continued importance of the state's role all lead to the conclusion that Slovenian policy, in some respects, is too concerned with retaining well-established structures and patterns of behavior. This raises the question whether well-established mutual interests of politics and business shall be retained in this way.

5.4 Governance capability

The reform policy was prudent and wise in both the economic as well as the political spheres. The fact that these programs were well anchored in society presented a favorable opportunity. The leadership elite—consisting of President Drnovšek, his deputy Podobnik, and President Kučan have a great deal of influence and respect for this. However, the slow pace of action, the expansive time frame for implementing the necessary instruments, even turning away from steps already decided upon—particularly in economic policy—must be noted. This has led to the misallocation of production factors, limiting growth potential. The possibility for domestic political reform existed despite unfavorable majority relationships in parliament until spring 2000, and some success was achieved in social legislation, as well as foreign policy.

During the interlude of Bajuk's interim government (lasting from the vote of no confidence in spring to the elections in October 2000), the acting leadership was a lame duck government, and Slovenia was on the verge of a constitutional crisis. This became evident in foreign policy with the delay in NATO membership negotiations. An unusual pace of government activity was discernable just following the Liberal Democrats' subsequent election victory and the founding of a broad four-party coalition centered on the LDS. However, the very heterogeneous coalition has been only partially successful in implementing a clear reform strategy in economic policy, namely in privatization.

5.5 Consensus-building

Agreement on the reform objective, as well as consolidation of democracy and a market economy, remains high. The government's strong orientation toward consensus is rooted in political culture inherited from former Yugoslav federalism and the system of self-management. It is also promoted by the Slovenian constitution. In the 1980s, the original lines of conflict between the Communist Party and civil society/opposition groups, as well as within the party, were outweighed by the conflict between Belgrade and Ljubljana. A high degree of consensus was reached in the question of secession and the formation of an independent Slovenia. A fragile balance was achieved between two blocs, the moderate left and the moderate right, after 1992. Conflict between capital and labor is traditionally not very pronounced in Slovenia and does not hinder consensus building. A system of social partnership has been introduced since 1994.

Veto powers do not exist. The opposition also acts exclusively within the bounds of Parliament. Revived efforts by the Catholic Church concerning church property, supported by some right-leaning parties, could not breach the coalition.

President Drnovšek succeeded, however, in reaching an agreement on the topic only with the support of the ZLSD (former Communists).

Reforms were delayed not by a policy of obstruction pursued by the opposition or other social forces, but rather by lengthy negotiations between coalition partners and strenuous efforts to reach a consensus. This has sometimes even jeopardized Slovenia's credibility and international standing. For example, negotiations with Italy on the acquisition of property by foreign country nationals concluded when the Association Agreement with the EU was ratified. Compared with the beginning phase of the transformation process, the government is less and less inclined to collaborate with civil society groups, whose influence on the political agenda is diminishing.

Consensus-building about the past is not really necessary in Slovenia, because the public places little pressure on the political elite. Large segments of the population do not regard the past as conflict-laden or unjust. This positive assessment of the late 1980s, and the relatively high acceptance of the old Liberal Democratic Party explain the pragmatic dealings with the old-new political elite.

5.6 International cooperation

Slovenia's solid transformation performance is based partially on good, reliable and diverse cooperation with international organizations. The government has always pursued the rapid integration of Slovenia into the international arena, not just in the beginning phase of state building, but later on as well. Slovenia is among the countries that have signed the most agreements and reliably met obligations. The country supports the UN—or rather the SFOR Operation led by NATO in Bosnia—in the military sector as well. However, NATO criticized the government during accession negotiations for failing to reorganize the structure of its armed forces and for its hesitant efforts at military modernization.

The Slovenian economy's already strong integration with the West European economy has intensified since 1997 by growing formal collaboration with EU organizations. These organizations have often brought new momentum to lagging reform efforts. After initial difficulties, assistance from EU programs and initiatives are now being utilized more efficiently. Judicial and administrative reforms would scarcely have been possible without this assistance.

Because of the reliability of expectations, Slovenia is generally viewed positively in the international arena. It also ranks among the best situated in the financial markets. The internationally recognized ratings of the most important agencies identify Slovenia as one of the leading Central and Eastern European reform states. It is the only CEE country that has received an A rating.

There are significant differences in bilateral relationships with neighboring states, depending upon the historical background. Relations have been positive with Hungary and, in part, with Austria as well, although populist noises from Carinthia have made this more difficult. Relations with Croatia and Italy were tense for years and normalized only through EU pressure. Longtime negative feelings and mutual distrust certainly played a role in the conflict with Italy over the question of property rights. This was intensified by Italy's manner, which was perceived as arrogant. The Slovenian negotiating style—which is consistent and sovereign, but can also be narrow-minded and sometimes provincial—makes it clear just how much the small, independent country will need to redefine its identity within the new European framework. Slovenia must open itself to the international arena if it hopes to pursue its interests long-term.

6. Overall evaluation

(1) *Initial conditions*: The initial conditions for transformation were favorable; the country possessed the fundamental structures for democracy and a market economy even before the report period. A homogenous population, a high economic standard, an existing civil society tradition and a high education level all enabled the rapid building of an independent state. During the assessment period, the transformation proceeded as a combination of deepening democratic consolidation and economic stabilization. EU accession negotiations, for the most part, contributed positively to both the economic and political consolidation after 1997. A consensus bridging party lines prevailed on the established objective—accession to the EU, and the foreign policy framework conditions in the Balkans also improved after 1999.

(2) *Current status and evolution*: Democratic and economic transformation did not take long to evolve. The political institutions have become established for the most part and are widely accepted; however, there has been no visible general, qualitative deepening of the transformation process in recent years. Shortcomings continue to exist in the areas of political representation and integration, institutional efficiency of the government system, as well as active citizen participation in shaping the democratic system. These qualitative deficiencies are by no means a threat to democracy.

Economic recovery followed initial long-term recession, and structural changes continued. Most macroeconomic indicators show a high level of development, although it remains below the Slovenian growth potential. The ambient market-economy structures were improved further, but at the same time important structural reforms remained unfinished, i.e. privatization, establishment of a healthy banking system and financial market, and reform of the social insurance system.

(3) *Management*: During the report period, political actors stood by their fundamental approach to transformation. They aimed to implement change slowly and carefully, diminishing frictional losses as much as possible. The gradualist approach was in harmony with the public's need for consensus as well as with the tradition of collaboration and conflict resolution across ideological boundaries. The lingering presence of a few leaders (Drnovšek and Kučan) and the role of a single party (LDS) in government ensured macroeconomic stability as well as collaboration with external actors. These also contributed positively to the consolidation. On the other hand, latent weaknesses and shortcomings became evident with stagnation and a reform backlog in both the political and economic sectors.

7. Outlook

Aside from the favorable initial conditions, the overall positive transformation process in Slovenia can be attributed primarily to domestic actors. They succeeded in carefully and gradually introducing democracy and a market economy while taking into account well established structures. However, the years from 1998 to 2003 have demonstrated that this strategy can no longer be applied. Because of changing framework conditions and the increased level of competitive pressure in the global arena, Slovenia can no longer neglect further consistent modernization. No new laws are required to eradicate these shortcomings. Rather, existing laws must be implemented more consistently and rapidly.

To counter the dominance of the powerful parties, civil society groups should be included in the communication of interests more than before, accompanied by efforts to affect a changing of the elite guard and monitoring of the political elite. The further consolidation in Slovenia assumes a change of mentality and public willingness to learn as a prerequisite, with openness to things new and foreign as essential elements. With regard to integration in the EU, the political leadership faces the difficult task of conducting the processes transparently and mediating between future winners and losers in Slovenian society.