

BTI 2008 | Slovakia Country Report

Status Index	1-10	9.14	# 7 of 125	
Democracy	1-10	9.20	# 10 of 125	➔
Market Economy	1-10	9.07	# 6 of 125	➔
Management Index	1-10	7.20	# 4 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.4	HDI	0.86	GDP p.c.	\$	14,120
Pop. growth ¹	% p.a.	0.1	HDI rank of 177	42	Gini Index		25.8
Life expectancy	years	74	UN Education Index	0.92	Poverty ³	%	2.9
Urban population	%	56.2	Gender equality ²	0.60	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The parliamentary elections of June 2006 produced a governing coalition that has provoked international concern over Slovakia. Winning 29.14% of the vote, the Robert Fico-led Smer-Social Democracy (Smer-SD) party emerged as the electoral victor and formed a government with two parties that had been prominent in the 1990s, the People's Party - Movement for a Democratic Slovakia (ĽS-HZDS), led by Vladimír Mečiar, and the Slovak National Party (SNS), led by Ján Slota. It was the latter's entry into government that has raised concerns in the Party of European Socialists (PES) and led to the suspension of the Smer-SD's provisional membership, since both coalition partners had been largely responsible for democratic deficiencies from 1994 to 1998. Socioeconomic concerns, in particular the extent to which the state should be involved in the economy, dominated the 2006 election campaign. From 2002 to 2006, Slovakia had been governed by a coherent coalition of center-right parties, led by Mikuláš Dzurinda, the leader of the Slovak Democratic and Christian Union (SDKÚ). His coalition cabinet passed major reforms in tax policy, labor relations, social policy, pensions, health care, state administration, the judiciary and education. Under Dzurinda's government, Slovakia not only entered the European Union, but was also perceived as a reform leader in the region. However, reforms have been rather painful for citizens and have been attacked by the opposition. Although Dzurinda's party gained 4% in the 2006 elections, his coalition proved unable to win a majority. Despite the major changes in the cabinet's party composition there has been a great deal of continuity in major policies. Although Prime Minister Fico continues to ardently criticize certain market mechanisms, his cabinet introduced only minor changes in income tax, health care and social policy. The main government priority remains the adoption of the euro in 2009 as scheduled by the previous government. The government's sound financial and budgetary policy together with the unexpected growth of the economy may create room for more socially inclusive policies, the

declared priority of the Smer-SD in the past. Since the new government has taken office, tensions have increased between Slovaks and the Hungarian minority as well as between the governments of Slovakia and Hungary.

History and Characteristics of Transformation

After the Velvet Revolution of 1989, a multiparty democracy and a parliamentary system of government with effective separation of powers into legislative, executive and judicial branches emerged in Slovakia. The unicameral parliament, the National Council of the Slovak Republic, and the presidency (as of 1999) were legitimized by direct election. After the dissolution of the Czecho-Slovak Federal Republic (CSFR, Czechoslovakia) in 1993, the independent Slovak Republic strayed from the path of democratic consolidation under the semi-autocratic rule of Vladimir Mečiar, who led the country as prime minister from 1992 to 1998, with a brief pause in 1994. In December 1997, Slovakia found itself excluded from the first negotiation round with the European Union and in 1999 it was not accepted into NATO along with Hungary, Poland and the Czech Republic. The government was, at the time, embroiled in a sharp conflict with the president and opposition parties, some constitutional principles as well as decisions made by the Constitutional Court were ignored, and both the Constitutional Court and the president's office were impaired in their constitutional functions. The polarization between advocates and opponents of democracy in Slovak society was extreme. During the 1998 parliamentary elections, political parties and NGOs mobilized large numbers of citizens in support of democracy. Previously highly fragmented opposition groups joined forces and created a broad anti-Mečiar alliance to prevent the authoritarian regime from gaining a solid hold on Slovakia. The resulting victory of democratic forces underscored the Slovaks' devotion to democracy. In the 1998 – 2002 legislative term, Slovakia again embarked on the path toward European integration, democracy and a market economy. An ideologically diverse and heterogeneous coalition of formally four, but in fact eight parties, also known as the "Coalition of Coalitions," held power during this period. The fundamentally different approaches of the coalition partners in solving urgent social problems reduced the government's efficiency. Collaboration between the center-right and leftist parties, which was difficult from any perspective, was further impaired by lobbying on the part of various interest groups and government cronies. However, the coalition survived the entire term, largely due to the remarkable consensus-building capacities of Prime Minister Mikuláš Dzurinda. The system of constitutional institutions based on the separation of powers functioned well, and relations among the constitutional institutions remained cooperative. Constitutional amendments in 2001 closed several loopholes that had previously enabled authoritarian forces to weaken the separation of powers in their favor. Several new institutions were created, including an ombudsman

for human rights and the Judicial Council. The position of the Constitutional Court was strengthened, and a second (regional) self-governing administrative level was created. The Slovak system of checks and balances became similar to those systems found in developed democracies. Accession negotiations with the European Union were closed by the end of 2002. The ideologically coherent conservative ruling coalition under Dzurinda's leadership that was formed after the 2002 elections launched major structural reforms. Citizens perceived some of these reforms as unfair and painful, demonstrating their dissatisfaction with public policies in the 2004 presidential election. None of the democratic candidates survived the first round because the conservative camp could not agree on a common candidate, resulting in a choice between Vladimír Mečiar (40.1%) and his former party colleague Ivan Gašparovič (59.9%). The latter finally won candidacy, supported by Smer-Social Democracy (Smer-SD) and Gašparovič's own Movement for Democracy (HZD). The election result confirmed the residual widespread support for Vladimír Mečiar, whose party had always gained the majority of the votes until the 2006 elections. The social democrats had gathered behind Gašparovič. And as the conservatives were incapable of agreeing on a joint candidate, their votes were scattered amongst three different candidates. The electoral defeat of the Dzurinda government was partly due to the fragmentation and disunity of its supportive center-right parties, and partly due to the popular dissatisfaction with health care, social policy and labor code reforms. The 2006 elections fully altered the party composition of the government. The new ideologically heterogeneous coalition cabinet composed of the left and nationalist oriented parties raised many doubts about the course of Slovakia's development. However, the government preserved meeting the economic criteria for adoption of the euro as scheduled on 1 January 2009 as its main economic priority. Slovakia has clearly become a functioning multiparty democracy with a market economy. Whether the government will change the latter to become more socially oriented remains to be seen.

Transformation Status

I. Democracy

1 | Stateness

The state has an unrestricted monopoly on the use of force throughout the country.

Monopoly on the use of force

All citizens have the same civic rights, and a majority of citizens acknowledge the constitution. There are only miniscule irredentist tendencies among leaders (Miklos Duray) of the Hungarian minority, although the majority of Slovak Hungarians are loyal to the state.

State identity

The state is based on a largely strict constitutional separation of church and state, with minor exceptions. Religious dogmas have no direct influence on policies or law. Relations between the state and the Catholic Church are regulated by a treaty with the Vatican. Relations between the state and other churches are based on special treaties with these churches. The state fully finances the salaries of priests and subsidizes central church offices, maintenance of buildings and church schools. In 2006, the state increased clergy salaries by 6% and the law envisaged regular salary increases. The Slovak population is overwhelmingly nominally Catholic (69%), but only a smaller portion thereof practices the faith regularly.

No interference of religious dogmas

The state's administrative structure functions throughout the entire territory and the state extracts and allocates state resources on a broad basis. Administrative tasks are carried out in part by state administrative institutions, and in part by self-governing bodies on the regional and local level. The power of these bodies increased substantially with the complex public administration reform (2001-2004), which also provided for fiscal decentralization (2004) and empowered the local level by transferring 94% of income tax revenue to the municipalities.

Basic administration

2 | Political Participation

Elections are free and fair. They determine the composition of both the Slovak parliament (direct election of representatives to the National Council of the Slovak Republic) and Slovak members of the European Parliament, the head of state (direct presidential elections), and the self-governing administrative bodies of municipalities and regions (direct elections for municipal and city councils, self-governing regions, heads of municipalities, mayors and regional governors).

Free and fair elections

Slovakia has a functional parliamentary democracy and the government enjoys the effective power to govern. There are no influential non-constitutional veto players who would be able to veto the government's decisions.

Effective power to govern

The freedom of association and assembly is unrestricted within the basic democratic constitutional order.

Association / assembly rights

The freedom of the press and of opinion is unrestricted. The mass media system provides for a plurality of opinions, as several private television and numerous radio stations operate in the country besides the public Slovak TV and Slovak Radio Broadcasting companies. The print media are even more pluralistic.

Freedom of expression

3 | Rule of Law

There are no constraints on the separation of powers. Constitutional powers check and balance each other. There is no excessive influence by any one of the branches.

Separation of powers

The justice system is essentially free from unconstitutional interference by other institutions, and it is professionally differentiated. There is a three-tier court system (ordinary jurisdiction) and a specialized Constitutional Court. The Constitutional Court has the power of judicial review of legislative and executive acts. There have been two vacancies in the Constitutional Court since 2004, because the parliament was unable to elect candidates. The selection of these and other candidates whose terms expired in January 2007 was highly politicized by disagreements among the coalition and opposition. A major reform of criminal law began in May 2005 when the new criminal code replaced the outdated criminal statutes of 1961. The new code strengthens the rights of citizens and specifies criminal offences. A special court and attorney's office were established in 2004 to prosecute corruption and organized crime. In addition, the civil code was amended in order to reduce the length of proceedings. A new court management system based on electronic data processing was introduced. The judiciary's functions are partially restricted by corruption and overload, and there

Independent judiciary

are therefore delays in judiciary decision-making.

As a rule, corrupt politicians and civil servants are usually prosecuted under existing laws, although loopholes often enable them to avoid criminal prosecution. The situation improved following the 2002 elections, due to more effective management of the justice and interior ministries, as well as more powers given to the self-governing judicial council. Widespread corruption is strongly criticized by the public. According to public opinion polls and Transparency International's CPI, the subjective perception of corruption has decreased. In 2006, Slovakia ranked 49th out of 163 countries evaluated on the Index. Compared to its score in 1998, the first time Slovakia was ranked, the country has risen from 3.9 points to its current 4.7 on a scale of 0-10 (the higher the mark, the lower the perceived level of corruption).

Prosecution of
office abuse

There are no restrictions on civil rights. The state established special institutions to provide legal help to low-income citizens. There are also several NGOs providing legal advice to low-income and other disadvantaged citizens. There is nearly equal access to courts, ombudsmen and the like.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions, administrative bodies and the justice system work. As part of the public administration reform between 2001 and 2004, the state transferred many of its powers to the self-governing bodies at the regional or local level in the fields of education, health care, social services and taxation. However, the regions are still fiscally dependent on the national budget. No serious failures occurred within the transition process, and the performance of municipalities on the regional and local level has improved during the period of 2004 – 2006. However, both the judicial system and the public administrative bodies still show some inefficiencies.

Performance of
democratic
institutions

All relevant political and social players accept democratic institutions as legitimate. However, at least two relevant parties, the Slovak National Party (SNS), in government since 2006, and the orthodox communist party cannot be considered fully democratic players. Still, up to now, the SNS is playing according to the democratic rules of the game as one of the governing parties. The communist party is no longer a relevant political player.

Commitment to
democratic
institutions

5 | Political and Social Integration

Party politics in Slovakia has been fragmented and unstable, with new parties regularly emerging and gaining seats in parliament and in the government and older parties breaking up. This has prevented the emergence of stable party competition with systemic characteristics. Parties focus more on personalities than programs, are elitist and are only weakly rooted in society. Their local and regional organizations serve more as election-campaign machines than as intermediaries between state and society. Parties founded by elites do not have strong accountability mechanisms. Voters' affiliation along left-right, conservative-liberal and national-ethnic issues has remained quite stable over the years. If voters are disappointed, they tend to vote for a new party with a similar ideological profile. Voter volatility has decreased during the last decade. The 2006 elections strengthened party competition over socioeconomic issues, although national-ethnic issues continue to shape party competition. The latter dimension is dominated by the Slovak National Party (SNS) and the Party of Hungarian Coalition (SMK), which unites all centrist, rightist, leftist, conservative and liberal elements of the ethnic Hungarian minority. Support for the Peoples Party - Movement for a Democratic Slovakia (ĽS-HZDS) rapidly declined and dropped by more than 10%. On the left, the Smer-SD became the only non-communist left-wing party after it merged with four smaller leftist parties. Parties on the right are fragmented; relations between the Slovak Democratic Coalition-Democratic Party (SDKÚ-DS) and Christian Democratic Movement (KDH) became tense over religious issues and their rivalry over leadership within the conservative camp. The effective number of parties (ENP) ranges from 3.19 (1992) to 6.12 (2002). After the 2006 elections, the ENP decreased to 4.88. Polarization has gradually decreased and there has been a reconstruction of party competition that may lead to a more stable pattern of party interactions. The 2006 elections led to a considerable stabilization of the party system, which is now approaching the degree of stability found in western European party systems. Both the center-right and center-left gained votes, while the radical parties lost support. These losses may be due to the populist campaign of the victorious Smer-SD.

Party system

Slovakia's civil society is relatively well differentiated and organized. Interest groups have direct influence on policy-making. However, a majority of NGOs lack political autonomy because they are often too closely linked with political parties. Under the second Dzurinda government, the influence of business, financial and employers' organizations increased, and the voice of trade unions was marginalized in the wake of neoliberal reforms and the weakening power of the tripartite negotiation at the end of 2004. The new government promised to

Interest groups

include trade unions in decision-making more often.

While the dynamics of civil society are rather positive, satisfaction with democracy and citizens' trust in democratic institutions are both rather low. More than two thirds of the population approve of democracy as the best form of government, but less than one fifth are satisfied with the performance of democracy (Eurobarometer 2006). Since 2002, only 13% have recognized an improvement in democracy (Focus 2006). Social and political participation among the population is relatively weak. Compared to previous parliamentary elections (2002), electoral participation decreased substantially from 70.1% to 54.67% in the 2006 elections. Participation in the 2005 regional elections was only 18%; in the 2006 local elections it was 47.7%.

Consent to
democratic
norms

Slovak society is traditionally rather individualistic and is characterized by low interpersonal trust (15.7% in 1999, 21.6% in 2004, according to a survey conducted by the Sociological Institute, Slovak Academy of Sciences, 2005). The family and informal social networks persist as the most reliable resources for help and support. However, the number of NGOs has increased by 20% from 2002 to 2006, though not all of them are very active. Only one-quarter compete for donations out of individual and corporate income tax (taxpayers in Slovakia can donate 2% of their taxes directly to the NGO of their choice). The most influential NGOs and think-thanks (a legacy of the anti-Mečiar movement in late 1990s) are located mostly in the capital and participate in policy-making; some of them have promoted major reforms to improve the quality of democracy. NGOs providing public services have increased in number in the regions. Lately, there has been concern that the new government will downsize its support for the NGO sector.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

In a comprehensive comparison of transformation countries in East-Central Europe, the Slovak Republic reaches a relatively high level of socioeconomic development. Absolute poverty amounts to two percent, relative poverty is above seven percent. In general, income distribution shows an egalitarian pattern. The relation of the upper quintile to the lowest is 4.0, and the Gini coefficient (0.33) is just slightly above the EU average (0.30). These positive results do not mean Slovakia is free of social exclusion. Despite the recent economic boom,

Socioeconomic
barriers

unemployment is still one of the highest in the European Union. As a consequence of the far-reaching economic reforms, however, the unemployment rate has decreased rapidly by 1% annually. In particular, the appalling long-term unemployment rate of almost 70%, strong disparities between regions and continuing discrimination of the Roma minority on the labor market and in the public sphere represent ongoing challenges to social justice. But beginning in 2005, the authorities have introduced programs to foster investment in economically underdeveloped regions, measures of affirmative action for the Roma, as well as essential labor market reforms that have improved work incentives and promoted job creation.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	24,234	32,665	41,094	46,412
Growth of GDP	%	4.6	4.5	5.5	6.0
Inflation (CPI)	%	3.3	8.6	7.5	2.7
Unemployment	%	18.6	17.5	18.1	-
Foreign direct investment	% of GDP	16.9	1.7	3.1	4.1
Export growth	%	5.6	22.5	11.4	10.9
Import growth	%	5.5	13.6	12.7	11.2
Current account balance	\$ mn.	-1955.0	-281.9	-	-
Public debt	\$ mn.	4,295.0	4,507.7	5,162.9	3,340.0
External debt	\$ mn.	13,112.1	18,172.5	22,211.2	23,653.6
External debt service	% of GNI	14.3	11.1	12.5	13.2
Cash surplus or deficit	% of GDP	-	-3.3	-3.4	-3.4
Tax Revenue	% of GDP	-	16.7	16.9	15.1
Government consumption	% of GDP	20.9	20.8	20.3	19.9
Public expnd. on edu.	% of GDP	4.4	4.4	-	-
Public expnd. on health	% of GDP	6.0	5.7	5.3	-
R&D expenditure	% of GDP	0.6	0.6	0.5	-
Military expenditure	% of GDP	1.8	1.9	1.7	1.7

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

To some extent, the Slovak government has implemented drastic structural reforms since 2000. Among other things, adaptation to EU law has increased free and efficient market competition. The currency, the koruna, is freely convertible and has been institutionally bound to the euro since adoption of the ERM2. Nevertheless, further deregulation of administration is needed to ease market entry for start-up enterprises, support entrepreneurship and accelerate the enforcement of legal contracts in court.

Market-based competition

Like all EU members, Slovakia is subject to EU anti-trust and competition laws. However, the efficient implementation of the law has its limits, as is also the case in many OECD countries.

Anti-monopoly policy

The Slovak market has been liberalized and integrated into the European Common Market. The Slovak Republic now has one of the most open economies in the world.

Liberalization of foreign trade

Judging from IMF assessments, the banking system is healthy. The lion's share of banks is owned by foreign investors. Just one medium-sized bank is still in domestic hands. Due to a surge in private household credits, the central bank has intensified its monitoring of banks' risk management practices and is aiming for a unified supervision of the financial sector. Currently, however, the number of non-performing loans is still low and has actually been falling. Problems still exist regarding restricted access to loans for start-up and medium-sized enterprises.

Banking system

8 | Currency and Price Stability

The National Bank of Slovakia (NBS) enjoys a good reputation due to its sound monetary management and independence from political influence. Until 2007, the NBS maintained a free-floating policy for the koruna. The exchange rate is set to be stabilized from 2007 to 2009 within a corridor around the peg of SKK 38.455 per euro, as stipulated in the ERM2 framework. In 2009, the country will introduce the euro as currency. After successful disinflation, the target inflation rate of 3-4% for 2005 was met near the upper limit with an end-of-year inflation rate of 3.9%. The average inflation rate remained below four percent in 2006 as well. The target for 2007 and 2008 is 2.75%, in order to stay below the Maastricht three-percent threshold. According to current projections, this goal will be achieved. Dangers in price stability may arise from the surge in real wages, rising energy prices and strong domestic demand, which could compel the NBS to a more restrictive monetary policy, resulting in an appreciation of the Slovakian

Anti-inflation / forex policy

currency, lower competitiveness and an unfavorable conversion rate against the euro. This possible scenario reveals the tension that exists between the objectives of disinflation and exchange-rate stability.

The simple and efficient tax system is one factor contributing to the country's economic boom since it minimizes price distortions. Downsized tax rates also led to the abolishment of a considerable part of the shadow economy. Tax revenues were higher than expected in 2005 and 2006 and will probably exceed earlier estimates in 2007 as well. Thus, fears that the implementation of a flat-tax regime could cause lagged tax deficits were not justified by the evidence. However, in the medium and long term, the flat tax rate of 19% may not be sufficient to produce all the public goods necessary to running a modern and socially fair state. Like monetary policy, debt policy is oriented toward adoption of the euro and thus fulfillment of the Maastricht criteria. At present, total public debt lies under 40%, and it is projected that it will sink to 30% by 2010. The general government budget deficit amounted to -3.1% in 2005 and -2.0% in 2006 – better than expected – and is supposed to drop to -1.25% in 2008.

Macrostability

9 | Private Property

Although the system of property rights nominally complies with European standards, in the aftermath of extensive structural reforms over the last years, there are still problems with the effective enforcement of legal norms. The reasons for this include efficiency deficits in administration and judiciary.

Property rights

Private enterprises are seen as the main pillar of the Slovak economy. The majority of former state-owned companies have been privatized. The scope of privatization outperforms denationalization in many western European countries. In addition to telecommunication and energy companies, the railways and utilities have also been transferred into private hands. The new government, however, halted all privatizations, even canceled contracts that had already been signed. Consortium 2-1, which purchased Bratislava Airport, sued the Slovak Republic due to infringement of the contract that had already been signed.

Private
enterprise

10 | Welfare Regime

The expensive and inefficient social security net of the communist past underwent radical restructuring in the course of transformation. Nowadays, unemployment benefits are paid for six, in some cases, nine months, and there are mandatory pension, health care and unemployment insurance funds for citizens. They are managed by independent institutions and financed through payroll taxes that add up to almost half of earned wages. Following the recently implemented capitalization scheme, the pension system is a combination of a pay-as-you-go and a funded system. The introduction of a second scheme brought more private

Social safety nets

accountability, thereby addressing the risks of an aging society. In the face of demographic change and cost explosion, gradual increases in the minimum retirement age for both genders to 62 years seemed necessary in order to guarantee a sustainable financial base. The constitution guarantees free health care, but the second Dzurinda government launched several reforms introducing market incentives aimed at more accountability and transparency. It transformed public health insurance funds into joint stock companies, privatized some health care services and hospitals and settled debts in the health care system. It also introduced supplementary fees for medical treatment that were then abolished by the Fico government.

In principle, the system grants assistance to all needy persons. Social expenditures and transfers have risen during the last years. The most urgent problems regarding equal opportunity remain the discrimination and impoverishment of the Roma minority and persistent high unemployment, especially among unskilled workers. Apart from that, Slovakia's active labor market policies that support job creation, further education, eager job seeking and mobility seem to be partially successful and have been praised by the OECD. There is no official discrimination of women in the educational system with access to higher offices or on the labor market. The UNDP's gender-related development index (99.7% of HDI) implies approximate equality between genders, though women still earn 40% less than their male colleagues because they often do work that is poorly paid. In general, Slovaks value equality highly – a legacy of the communist past. Income equality in the public sector and claims for higher minimum wages are hallmarks of this mentality.

Equal opportunity

11 | Economic Performance

The economy continues its upswing. GDP grew by 6.0% in 2005 and by at least 8.2% in 2006. The latest OECD forecasts predict growth rates of 8.0% for 2007 and 5.5% for 2008, making Slovakia one of the top performers in Europe. This positive development comes from strong domestic demand and growing automobile, machinery and equipment exports. All basic macroeconomic indicators indicate a positive trend. Foreign direct investment is rising; after doubling in 2005, the current accounts deficit is diminishing along with public debt and the budget deficit. Since 2001, unemployment has shrunk by almost one third, amounting to 12.8% in the fall of 2006. The average unemployment rate for 2007 will be around 12%. Even though this is still in double digits and per-capita income is still less than in most EU countries, Slovakia is catching up fast. Competitiveness is high and should rise further after adoption of the euro – provided the boom is not choked off by a too restrictive monetary policy.

Output strength

12 | Sustainability

Environmental issues and the inclusion of external costs are increasingly taken into consideration in policy-making. Particularly foreign (mainly EU-based) companies try to comply with European Community law on this matter.

Environmental
policy

The Slovak authorities took over a well-functioning educational system from their communist predecessors. However, 17 years after the collapse of the communist regime, the quality of primary, secondary and tertiary education has deteriorated and may become one of the weak points of a sustainable modern and prosperous economy and society in the future. There is good gender-independent access to all levels of education. Expenditures on education (4.4%) are low, however, as are investments in research and development. In 2004, R&D expenditures (0.76% of GDP) were considerably less than those of comparable transformation countries such as the Czech Republic (1.15%) or Slovenia (1.29%). Slovakia must therefore make greater effort to uphold its economic success in the long term.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The structural constraints on governance are low and include the vast regional differences between the relatively developed West (Bratislava region) and the rest of the country, missing infrastructure in central and eastern Slovakia and lack of skilled labor. Ethnic heterogeneity and increasing social dissatisfaction has not led to broad public unrest – with the exception of food riots among parts of the eastern Slovak Roma population in early 2004. In the short term, the relatively weak political and civil society seems to be an advantage for the reform-minded political leadership, as their reform policy has not been confronted with strong civic opposition. In the long run, however, it may jeopardize the sustainability of reforms.

Structural
constraints

Civil society traditions and current trends present an unbalanced mixture of traditional and (post-) modern elements. On the one hand, Slovakia has a long pre-communist tradition of numerous but small associations, which aimed mainly at self-help, charity, and local and vocational interests. Generally, they were mostly embedded in family and neighborhood relations. After the collapse of the communist regime, such associations re-emerged immediately, but they have acted separately, locally and without any attempts at coordinated action. Thus, this segment of civil society has had little impact on policy-making. On the other hand, large collective organizations based on a modern industrial society and organized along class and professional alliances do not have a strong tradition in Slovakia. The so-called politics of Mečiarism stimulated the massive emergence of NGOs aimed at promoting democracy. After the 1998 elections, they modified their focus to include policy alternatives, and many of them promoted the reforms implemented under the second Dzurinda government. Trust in institutions and social trust are both very low. Participation in public life is moderate and can be attributed to the following factors: an almost nonexistent protest culture, traditions of subordination, economic hardships that leave little spare time or energy for public activities, and specific subjective orientations that are linked to the nation, religion and family and that have shaped political culture.

Civil society
traditions

The deep polarization and confrontational nature of politics that characterized Slovakia in the mid-1990s have decreased substantially. There is no tradition of violent collective action, and previously radical political actors have become increasingly moderate in their mobilization appeals. The most salient division of Slovak society is the split along ethnic lines, which manifests itself in party politics and breeds the unity of the Party of Hungarian Coalition and the persistence of the Slovak National Party with their adversarial style of politics. Although there is a relatively strong tradition of power-sharing arrangements among Hungarian and Slovak parties at the local and regional level, the participation of the Hungarian Coalition Party in both Dzurinda governments has not lessened the support for the Slovak National Party. On the contrary, the SNP – as a junior coalition partner in the Fico government – tried to modify its political behavior and avoid mobilizing along ethnic cleavages. Nevertheless, there is still a strong tendency among all major Slovak parties to play the “Hungarian card” in order to exploit and mobilize nationalist Slovak sentiments. These changes in the SNP’s strategy and the increasing salience of socioeconomic cleavages in the 2006 elections may help to mitigate ethnic polarization. Depolarization by means of inclusion in government could ameliorate ethnic cleavages in the future. However, it is too early to tell whether it will actually happen. Even if it does take place, however, it would not affect the Roma’s marginalization and insufficient representation.

Conflict intensity

II. Management Performance

14 | Steering Capability

Governance and political leadership have steadily improved in Slovakia since 1998. Both Dzurinda governments have implemented substantial structural reforms. Due to the participation of two left-wing parties, the first Dzurinda government was able to balance effectiveness and responsiveness and reached a broad political consensus, particularly on fiscal and economic reforms (privatization of the banking sector and public utilities). The reforms (tax, pension, social security, health care, education, judicial) implemented under the second Dzurinda government, however, did not attract broader social and political support. These reforms were elite projects, designed with the close assistance of international actors and representatives of the Slovak leading (right-wing) think tanks. Thanks to massive advertisement campaigns, some reforms later received broader support while others failed to do so (health care

Prioritization

and higher education). However, the pension reform, the tax reform, and the transfer of financial resources to the local level were successful and contributed to positive economic development. Despite this considerable reform package, the conservative parties won every single election (local, regional and European) until 2006, when they gained more votes but lost the government. As of early 2007, Fico's coalition has not yet profoundly changed any of the previously criticized reforms and has introduced only minor compensation to pensioners and young families. The second Dzurinda government continued in implementing neoliberal policies and invested in these long-term policy aims. It implemented several reforms, including the tax reform (19% flat tax), social security and labor market reforms; it transformed the pension system into a three-pillar system (state, private and voluntary supplementary schemes), introduced reforms in health care, education, administration, and the judiciary. All of these reforms aimed at building and strengthening a market economy by introducing private ownership and individual responsibility in social welfare and health care. It remains to be seen, however, whether these reforms will have a long-term positive impact on the economy and the fair distribution of income. The lack of reforms in the educational system may pose problems for modernizing the economy and society. The second Dzurinda government overestimated public support for reforms; large parts of the population, especially those who stand to suffer negative effects from the changes involved with neoliberal transformation, were not convinced of the fairness of the government's reform package. However, the government, free of re-election concerns, implemented those steps it deemed necessary for the welfare of the nation and the people. However, Dzurinda's reforms gained the broad support of international financial organizations and foreign investors. On the one hand, the economy has been growing steadily; on the other hand, poverty among the Roma population and long-term unemployment have not improved. The unbalanced regional and social impact of reforms prompted strong opposition to reform-minded parties and led to the electoral victory of the left-populist Smer-SD. Given the party's critique of the Dzurinda reforms, it is surprising that Fico's government did not implement most of his electoral promises. On the contrary, it continues to pursue macroeconomic orthodoxy in order to meet the Maastricht criteria to be able to adopt the euro in 2009, as foreseen by the previous government.

The second Dzurinda government was fully committed to democracy and a market economy; however it had only limited success in implementing social reforms. This is due to several strategic errors: (1) The government introduced too many reforms simultaneously; (2) the financial and political transaction costs of some reforms were very high (especially the pension, social security and health care reforms) and contradicted other goals; (3) reforms were not efficiently coordinated; (4) the majority of reforms were designed by tiny groups

Implementation

of technocrats, and in some cases, the important social and political stakeholders were not consulted at all. The government has gradually lost public support and trust. The health care reform provoked the first strike by medical staff in Slovakia in the spring of 2006. Moreover, the constitutional court decided that the law on social security passed in 2003 violated the constitution because it retroactively denied or cut pensions for disabled persons. The second Dzurinda government was relatively effective in its implementation of numerous radical neoliberal reforms without consulting or responding to public demands and critique. Paradoxically, this is one of the reasons for the party's electoral defeat, but also for the country's economic prosperity.

The organization and sequencing of reforms was not discussed in the cabinet. It seems that individual ministers launched a kind of competition among themselves over who will implement more radical, market oriented reform. Dzurinda's government pursued reforms and attempted to implement them without admitting any mistakes, fiercely opposing any criticism. Thus, the learning process has been very slow and sporadic. The government was convinced of the merits of their policies and of the superiority of their neoliberal ideology. It was not until the end of the electoral cycle that it admitted some mistakes and accepted criticism, at least as far as the reforms in social security and health care were concerned. The government learning process did not bring about any innovative actions and solutions that could modify the substance of reforms and/or change the knowledge base or cognitive framework. Learning has led only to a reshuffling of the cabinet and a campaign promoting reforms. This campaign was financed by a World Bank grant, which provoked public criticism and reinforced the widely spread perception that reforms are implemented only in the interest of the financial and international actors who benefited from these costly reforms. The conditions for learning deteriorated after the government lost the majority in parliament and was forced to focus on seeking support among so-called independent (non-affiliated) parliamentarians who had defected from the parties that nominated them for parliament. Nontransparent relations between the government and these parliamentarians led to numerous accusations of bribery on the part of and of pork-barrel politics in parliament. Prime Minister Fico has evidently learned from the mistakes of the second Dzurinda government and has focused on communication with the public, although mainly at the rhetorical and symbolic levels. As of the end of January 2007, only minor changes have been introduced to previous policies.

Policy learning

15 | Resource Efficiency

The second Dzurinda government improved the productive use of financial and organizational resources. Since Mečiar's rule, a balanced state budget has been a

Efficient use of assets

priority for all governments, and the new Fico government has also made this goal a priority. The 2007 budget includes a deficit of 2.9% of GDP, but it is not necessarily true that the new government's aim of building a sound welfare state will be incompatible with maintaining tight fiscal discipline and strong economic growth. The state budget mainly supports the health care system, agriculture and transport infrastructure. Spending on education, science and research were frozen or lowered in 2007. This may have a negative impact on development of human resources, which was partly neglected by the previous government as well. The simple tax system stimulated higher tax revenue in 2005 and 2006 thanks to VAT revenue. In human resources, the second Dzurinda government's efficiency increased with the successful implementation of fiscal decentralization in 2005. Due to changing laws and constant amendments, some state agencies (such as the Social Insurance Company or General Health Care Insurance) were transitionally overloaded with the implementation of new policies and administrative rules; in the end, however, they completed all tasks. Efficiency also suffered from the lack of qualified staff in local civil service, from frequent ministerial changes, the gradual curtailing of powers and the independence of the Civil Service Bureau (responsible for the training and selection of civil servants), which was consequently abolished in 2006. This decision paved the way for Fico's political appointments and the curtailing of powers of some independent regulation agencies, which represented one of the main pillars of the second Dzurinda government's reform package. Thanks to the civil service reform, regionalization and decentralization, the performance of public service has improved slightly. Professionalism and the quality of civil service increased due to an improved selection system, specialized training and higher wages for top civil servants. However, elected representatives and civil servants at the regional and local levels of self-government are more prone to corruption, and this level of administration still suffers from a lack of public involvement and control.

The second Dzurinda government was politically and ideologically the most coherent in Slovakia's short history. All four coalition parties were center-right oriented and acknowledged the need for structural reforms. However, the reforms were not carefully prepared, sequenced and coordinated. Some reforms, such as the pension and labor market reforms, had conflicting goals, and were carried out while Slovakia was simultaneously aiming to fulfill the Maastricht criteria, which were difficult to reconcile with each other and to achieve. Moreover, intra-coalition frictions over ideological issues such as the Vatican Treaty, the Hungarian Status Law and the law on abortion have limited the coordination of complex economic and social reforms within the government.

Policy coordination

Despite the fight against corruption being one of the government's main priorities, all four coalition parties of the second Dzurinda government have

Anti-corruption
policy

been suspected of corruption. The government has introduced several anti-corruption measures into legislation, but the lack of effective sanctions has limited their results. Among many reforms, the second Dzurinda government launched a special anti-corruption program, which aimed at systematically building institutions to prevent corruption. The program has produced a business register accessible on the Internet and established a special court and attorney charged with battling corruption. While the public has shown appreciation for the business register, the utility of the special court and attorney is difficult to evaluate, as it began operations in late 2005. The government's Department for Combating Corruption drafted several anti-corruption bills that were passed by the parliament, but their performance has been limited by inactivity on the part of most ministries. The Supreme Audit Office and Public Procurement Office also have important powers and tools to limit corruption. Unfortunately, their anti-corruption performance has been rather weak, not least due to the political appointments of top officials. Public officials often continue their private business activities while in office – despite the Act on Conflicts of Interest. Politicians are rarely held politically accountable when caught or suspected of corruption; only two ministers resigned after being suspected of corrupt activities. Moreover, the government's 2006 strategy in this area was unclear. Fico's government did not include any relevant anti-corruption measures into its program.

16 | Consensus-Building

Major political actors agree on both the market economy and democracy, but they differ on their preferred type of market. While liberal-conservative parties prefer a market economy, leftists insist on a socially oriented market. At the beginning of its term, the second Dzurinda government was very coherent but not really able to build consensus with the left-wing opposition and traditional social actors, such as trade unions. Following a departure of breakaway factions from the SDKÚ and the New Citizens' Alliance (ANO) in 2003, the government's minority status promoted a special consensus-building mechanism with so-called independent parliamentarians who had defected from the HZDS in late 2002 and early 2003. The leftist parties Smer-SD and the Communist Party of Slovakia oppose the neoliberal policies and advocate instead a socially oriented market economy.

Consensus on goals

There are no clearly anti-democratic veto power actors in Slovakia. Political conflict is increasingly shaped along socioeconomic cleavages that do not lead to the escalation of irreconcilable political conflicts. However, some ethnic conflicts continue to exist. The inclusion of the semi-democratic HZDS and Slovak National Party into the government may moderate and democratize them.

Anti-democratic veto actors

At present, there are no political tendencies that could lead to destabilizing and irreconcilable conflicts. Due to a concerted effort on the part of the HZDS to become more democratic, the party's opposition activities became more moderate toward the center-right government under Dzurinda, and it took a moderate position regarding Slovakia's Hungarian minority. However, after the 2006 election, ethnic tensions increased slightly due to the inclusion of nationalist forces in the governing coalition. Up to now, the present government has done nothing to overcome these ethnic tensions.

Cleavage / conflict management

The first Dzurinda government implemented many legal changes to increase the participation of civil society actors in politics; it passed the Act on Free Access to Information (2000) and opened the legislative process to public proposals (2001). However, the second Dzurinda government had a more selective approach to civil society, co-opting many think tanks into policy-making on the one hand while on the other hand successfully excluding trade unions from the social dialogue on the national level by dismissing the law on tripartite negotiation and weakening its status. Fico's government has promised to engage with trade unions on policy-making.

Civil society participation

A majority of relevant political actors in Slovakia acknowledge the need to overcome past injustices and crimes. Therefore, a Nation's Memory Institute (NMI) was finally established under the second Dzurinda government. The NMI provides access to up-to-date and previously undisclosed records of the activities of the repressive organs of the Slovak and Czechoslovak states in the period of oppression from 1939 to 1989. However, the Slovak political community is still split over the two authoritarian regimes (the clero-fascist Tiso regime and the communist one). Therefore, the process of reconciliation has been rather weak. Secret police files seem to be manipulated occasionally and used against important public and political figures.

Reconciliation

17 | International Cooperation

The second Dzurinda government effectively used international aid to implement its reform priorities. The international acceptance of the new coalition government is visibly lower due to its populist rhetoric.

Effective use of support

The second Dzurinda government convinced international financial organizations that it was fully dedicated to a market-based democracy and was perceived as credible and reliable by the international community. International economic actors and institutions have been satisfied with the Fico government's focus on sound macroeconomic policies aimed at the adoption of the euro in 2009 . However, there is still some international concern about the populist

Credibility

tendencies within the coalition.

The second Dzurinda government successfully and actively built cooperative international relationships and focused on aid to neighboring transition countries such as Ukraine, Croatia, Serbia and Montenegro. Fico's government announced an "economization" of foreign policy, also implying closer cooperation with Russia and China. Considering the constraints of European Union membership, this may be more rhetoric than anything else. Tensions between Hungary and the Slovak Republic will increase if the Slovak National Party in particular does not temper its anti-Hungarian rhetoric.

Regional cooperation

Strategic Outlook

Slovakia has clearly become a functioning multiparty democracy with a prospering market economy. The current government has the benefit of being able to enjoy an advantageous starting position. Unpopular structural changes have already been launched by the previous government, and as a result, the economy is booming and unemployment continues to fall, albeit rather slowly. Structural constraints on governance are low, so the main challenge in the short term will be the new government itself. The ruling coalition is not ideologically coherent, and Prime Minister Fico will therefore have to make many concessions and compromises that may subvert his position as a social democratic leader. On the one hand, the main governing force, Smer-Social Democracy (Smer-SD), advocates a more socially oriented market economy and a fair distribution of national wealth and economic growth. On the other hand, two junior parties are actually more pro-market and right-wing oriented. The Slovak National Party and HZDS oppose an increased regulation of the economy and they also oppose the amendment of the labor code, which could decrease labor market flexibility. One concern is the Slovak economy's and industry's high dependence on one industrial branch, the automotive sector. Even if car suppliers constitute aspects of several industries (machinery, chemicals, electronics, etc.) and this diversification actually promotes efficiency gains across the industry, it is not sufficient. The major challenge here is the move toward services and production with higher value added, such as software development, biotechnology industries, or research and development in general. The country needs to secure its future and invest heavily in human resources. Medium- and long-term challenges include restructuring the previously under-financed and neglected education system and investment in R&D. Should Slovakia fail to meet these challenges, will not be able to maintain its economic success in the long term. Unfortunately, Smer-SD, together with its coalition partners, seems to favor more traditional sectors such as agriculture and transport infrastructure. Social exclusion of the poor and especially of the Roma population remains high in Slovakia. The change in government significantly raised expectations that the country would move toward a more just and fair society. To date, the current government appears ill-prepared to meet the challenge; it has failed to initiate any policy measures on poverty and has no experienced policy advisors or experts tasked with the issue. Slovakia is in an urgent need of relevant international assistance in this field, but the most influential international actors (EU, OECD, World Bank and IMF) continue to focus on sound monetary and budget policies associated with joining the Euro area. Occasionally, they even advise keeping wages low as a comparative

advantage vis-à-vis the “old” member states, a move that may increase tensions among EU member states and decrease the legitimacy of the Fico government, which has promised to improve living standards and balance regional disparities. The current government has to balance dynamic economic growth with a fair distribution of income and opportunities. Otherwise, it will lose support throughout much of Slovak society. The current government also faces the important challenge of maintaining its international image as a reliable and credible partner. In this, its role within the European Union is of utmost importance. The fight against corruption constitutes another key challenge, but this issue was not even mentioned in the government agenda and is therefore not likely to see any improvement. There is a danger that corruption may become a semi-institutionalized feature of the Slovak polity, economy and society. In general, Slovakia needs a credible, coherent and operational government that will implement more reforms in education and R&D to complement the country’s economy with a strong knowledge-based sector in order to secure its future growth and prosperity potential.