

# BTI 2010 | Slovenia Country Report

<b>Status Index</b>	1-10	<b>9.52</b>	# 2 of 128	
Democracy	1-10	9.75	# 3 of 128	➔
Market Economy	1-10	9.29	# 2 of 128	➔
<b>Management Index</b>	1-10	<b>6.55</b>	# 18 of 128	

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	2.0	HDI	0.93	GDP p.c.	\$	26753
Pop. growth	% p.a.	0.6	HDI rank of 182	29	Gini Index		31.2
Life expectancy	years	78	UN Education Index	0.97	Poverty <sup>2</sup>	%	<2
Urban population	%	48.9	Gender equality <sup>1</sup>	0.63	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The reviewed period (Jan. 2007 – Jan. 2009) was marked by the presidential elections held in October/November 2007 and parliamentary elections held in September 2008. In the second round of presidential elections, Danilo Türk, with the support of the largest opposition parties and one government party, easily defeated Lojze Peterle, who ran with the support of three government parties.

In the 2008 parliamentary elections, three center-left parties – the Social Democrats, Zares and Liberal Democracy of Slovenia – presented themselves as partners throughout the election campaign. They received a combined 45.03% of votes and 43 of 90 seats in parliament. Following the elections, the Democratic Party of Retired Persons of Slovenia also joined the center-left government coalition, enabling the coalition to rely on a majority of parliamentary deputies. The Social Democrats won with a lead slightly more than one percentage point over the Slovenian Democratic Party (which led government from 2004 to 2008), allowing them to elect their candidate, Borut Pahor, prime minister.

In 2004, the center-right government encountered no serious opposition to the measures it took, which was partly due to the fact that some of these policy changes were very popular, such as cutting the prices of notary services by 50%, and partly also because of the weakness of the opposition parties. In 2005, however, the government began to face some opposition. For instance, the largest trade unions organized two significant protests (in 2005 and 2007) and demanded that proposed reforms be debated, as in the past, within the framework of the Economic and Social Council. From 2005 to 2008, media independence was a point of contention between the center-right government on one side and the opposition parties and a large contingent of journalists on the other. In October 2007, 571 journalists signed a petition which alleged the government was censoring the media via direct or indirect methods. The government denied this several times. In 2007, Reporters Without Borders ranked Slovenia

much lower than in 2006 (from 10th to 21st place). In 2007, there were also some major conflicts between Prime Minister Janša and President Drnovšek, mainly over the division of power and the allocation of assignments and responsibilities.

From 2004 to 2008, Slovenia experienced some very positive results in their macroeconomic indicators. But in mid-2007, some economists warned of a possible combination of high levels of economic growth and high inflation. This indeed happened, despite the center-right government's attempt to deny this development; the same government also refused to acknowledge the first signs of the world financial crisis and the ensuing recession. The center-left government elected in autumn 2008 was immediately faced with both. The present government's most important tasks seem to be the fight against these crises, which have both heavily affected Slovenia, and a reform of the health service and pension system.

After being unsuccessful in some of its domestic reforms, Janša's center-right government successfully oriented itself toward an international agenda. Slovenia entered the European Monetary Union (EMU) on 1 January 2007, and became a signatory to the Schengen treaty in December 2007. Slovenia was the first new EU country to hold the presidency of the EU Council (January-June 2008).

## History and Characteristics of Transformation

Slovenia's metamorphosis, 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. This may be attributed to 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, as political and social change had already begun in the 1980s.

Slovenia has never been an independent nation at any time in its history. It was always part of a confederation of states. In 1991, efforts to create 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 precluded some of the typical questions raised within a nation-state, and nationality policy did not play a mobilizing role in the political discussion.

Additional positive initial conditions were the traditionally high level of education and a strong civil society. 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 primarily non-political situations. With progress being made in the deregulation of the labor market, a growing number of groups in addition to 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, where they learned modern production and management practices. Slovenia's open borders with Italy and Austria also 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 the painful disintegration that came with sovereignty resulted in a steep drop in the country's economic potential, Slovenia's GDP did not return to the 1990 level until the mid-1990s.

Measured by other significant indicators such as education level, corruption and the poverty index, as well as income differences, the country is in relatively good condition, not only when compared with other transformation countries, but worldwide as well.

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

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state has an unchallenged monopoly over the use of force extending through its entire territory. A small part of the border with Croatia, where incidents occasionally occur, remains the only unresolved question.

Monopoly on the use of force

All citizens possess equal civil rights. Ethnic minorities have been especially protected and represented in the parliament and in related local community councils. Slovenia has ratified most international agreements regarding the protection of minorities.

State identity

One unsolved problem are the so-called “erased citizens,” people erased from the register of permanent residency and who consequently lost their rights as citizens in 1992 and 1993. A majority of these erased citizens were non-Slovenians, and a few of them acted against Slovenia’s strategic interests during the Ten-Day War in 1991. As of winter 2009, evidence had revealed that 18,305 people were “erased,” but the present center-left government has found out that the actual number is around 25,000 people. In 2003, the Constitutional Court ruled erasure unconstitutional and decided that people who had had their permanent residence approved in the meantime (from 1992 to 2003) should also gain this status for the period from 1992 onwards. In other words, the Court effectively nullified the withdrawal of citizenship. Between 2004 and 2008, the center-right government tried to change the Constitutional Court’s decision with a proposal which did not enough get support in the parliament that erased persons would be eligible for restoration of permanent residence rights, but only if they had previously requested permanent residence and been denied; this effectively meant that the problem would be dealt with on a case-by-case basis. To restore the citizenship of erased persons, the center-left government (Ministry of Internal Affairs) began issuing letters in November 2008 in accordance with the 2003 Constitutional Court decision.

The state is defined and recognized by a great majority as a secular order. In Slovenia, 43 religious communities were formally registered in 2007 and this number has not changed during the last two years. Religious dogmas have no direct influence on politics, although during discussions on building an Islamic center or mosque in Ljubljana, strong opposition movements – partly inspired by the Roman Catholic Church – emerged in order to put an end to this initiative. Despite the constitutionally determined separation of church and state, and constitutionally defined equality among religious communities, it seems that the Roman Catholic Church has continuously accrued power, as was especially on display from 2004 to 2008. During the reign of the center-right government, a law on religious freedom was passed. The law was publicly criticized as being favorable towards the Catholic Church. The law placed great obligations on the state to provide assistance to the Church's activities. The upper house of the Slovenian parliament even issued a veto, arguing that the law was not in line with the constitutional separation of church and state, but this was overridden in the lower house of the parliament. In the same period, the presence and importance of the Catholic Church grew in various social sub-systems, especially in education, health, economic as well as media organizations (it should be mentioned here that the Catholic Church has three out of 29 representatives in the council of public radio and TV). Additionally, the church gained more influence by installing theologians in public administration.

No interference of religious dogmas

The state has a differentiated administrative structure throughout the country and has no trouble with collecting taxes, providing law and order, and exercising other important functions.

Basic administration

## 2 | Political Participation

In the presidential elections held in October/November 2007, voter turnout was 57.7 % in the first round and 58.4 % in the second round. This was the lowest turnout to date ever on presidential elections. A referendum (demanded by the upper house of the parliament) about the amended Law on the Ownership Transformation of Insurance Companies was held simultaneously with the second round of presidential elections. Unlike most other referendum turnouts in Slovenia, turnout was relatively high at 58% (most likely because it was held at the same time as the presidential elections). In contrast, a referendum called by the government on the Law Establishing Provinces, held in January 2008, saw a turnout of less than 11%.

Free and fair elections

Parliamentary elections were held in September 2008 and turnout was 63.1%, only a little higher than in 2004, a year that saw the nadir of voter turnout at 60.4%. In European Parliament (EP) elections held in June 2009, voter turnout was very low, staying at the same level as the first EP elections in 2004, namely 28.3%.

Elections have always been free and fair and organized very well since Slovenia became an independent country. For the first time, the party defeated in the

parliamentary elections of 2008, the Slovenian Democratic Party, expressed doubts about the results and publicly expressed astonishment at the high level of invalid votes. However, the number and percentage of invalid votes at the 2008 elections was the lowest in the era of democratic and free elections in Slovenia. The party formally contested results at several of Ljubljana's polling stations. Competent electoral commissions processed the party's formal appeal concerning these polling stations but formally declared that any such irregularity would not have influenced the election results. The party then accepted the decision and the results.

Just before the 2007 presidential elections, the center-right government changed the electoral law to favor votes from abroad. Previously, only voters requesting to do so could vote by mail (this was usually done by fewer than 5,000 voters), while according to new legislation the electoral commission was obliged to send ballots to all voters residing abroad (approximately 40,000 ballots were sent abroad respectively for presidential, national and European parliamentary elections). This change had almost no influence on the result of elections, despite the fact that changes in electoral rules are not supposed to be made just before elections are held.

Elected rulers have the effective power to govern with no veto powers or political enclaves within the country. Only the upper house of the parliament has a right to issue a veto on adopted legislation, but it can be overridden by an absolute majority (46) of all members of parliament. As a rule, vetoes are indeed overridden. Otherwise, it is also possible to call a referendum, which can be done by voters, government, or the upper or lower house of the parliament. In independent Slovenia, 16 nationwide referendums have been held.

Effective power to govern

Political and other groups can associate and assemble freely and also express their opinion without any restriction within the basic democratic order provided by the constitution.

Association / assembly rights

Freedom of the press is provided formally. The previous/present opposition is promoting an initiative to create a special government-funded budget for financing opposition press. After becoming a government in 2004, they have established a foundation for supporting media, but data shows that they mostly support media that is directly or indirectly connected with individual center-right parties. According to the Ministry of Culture, in 2008 there were 915 printed media sources in Slovenia, including seven daily newspapers, 43 weeklies and 57 biweeklies. There were 65 commercial radio stations and one public radio station as well as one public and 36 private television stations.

Freedom of expression

If in the past the main pressure on media came from the political arena, during the last several years pressure from businesses has increased. This is especially true in the case of daily newspapers. Pressure from both politics and companies can be direct (via ownership) or indirect. For example, in recent years the number of

lawsuits against journalists has increased. On the other hand, a number of politicians, including former Prime Minister Janša, have initiated some legal proceedings against journalists during last years. In some cases, it has been also possible to observe the intertwining of economic and political pressures (for example, at the Delo daily newspaper).

On the other hand, there has always been pressure to politically control public broadcasters. These pressures were indeed amplified in 2005 when the center-right government decided to pass a new law governing Radio-Television Slovenia (a public broadcaster). The law has introduced a new supervisory council composition for public broadcasters which enhances government influence; members of parliament are entitled to appoint a majority of supervisory council members, while in the past civil society organizations played a more dominant role. Consequently, conflicts between journalists and the center-right government were hardly a surprise. On the other hand, new Prime Minister Pahor argued during the 2008 campaign that without free media there is no free society and that there is a need to enhance media independence. The center-left government is trying to formulate a new law on radio and television with the aim to reduce government influence in public broadcasting.

### 3 | Rule of Law

The system of checks and balances has been working well in general, though within the framework of the parliamentary system that implies a fusion of the legislative and executive branches. However, as in many parliamentary systems, a majority in the parliament defer to government proposals.

Separation of powers

On the other hand, in 2007 there were several conflicts between Prime Minister Janša (and his center-right government) and President Drnovšek. Some of these contestations were political, while others raised questions regarding the constitutionally defined separation of powers between both. The first larger conflict was related to the promulgation of a law on asylum. According to the constitution, the president must promulgate a law within eight days of its passage, or the president is in violation of the constitution. Since Drnovšek did not agree with the law, he refused to promulgate it. After a heated debate, President Drnovšek decided to promulgate the law after all. Additional controversial moments for the government were the president's opinions regarding international relations, which were voiced separately from the Slovenian Foreign Ministry (particularly with regard to the cases of Darfur and Kosovo). In 2007, one of the biggest criticisms of the government was the president's statement that the government would be unsuccessful in their attempt to subordinate the president of the Republic, even though it had already subordinated almost all sub-systems of society. Another conflict was related to the composition of the Constitutional Court. In 2007, the



terms of five judges (out of nine) of the Constitutional Court were set to expire. The president proposed five candidates for new judges, and they were all approved in parliamentary committee, yet the parliament only supported two of them. Then President Drnovšek decided not to propose any new candidates, and the problem was resolved only at the beginning of 2008 when a new president proposed new judicial candidates. Nonetheless, conflicts between the government and the president did not disappear completely when the new president was elected at the end of 2007. In 2008, the issue of nominating new ambassadors caused a dispute between the new President Türk and the center-right government. The president decided not to appoint any new ambassadors prior to the autumn parliamentary elections, offering by way of explanation that the proposals he had received did not contain enough information for him to determine whether the candidates met the legally defined conditions for appointment. At the end of 2008, the president had only appointed a few of the ambassadors proposed by Janša's center-right government.

The judiciary is in general free of unconstitutional intervention by other institutions and private interests.

Independent  
judiciary

In the last two years, there was one major conflict between the executive and judicial branches. The Minister of Justice in the center-right government in 2007 refused to reappoint a chair of the Supreme Court three times due to his "ideological-political inappropriateness," despite the Judicial Council's support for the candidate and the Administrative Court's decision that the candidate's application had been treated in a discriminatory way. A present minister is preparing a new solution, according to which the Judicial Council will appoint chairs of courts.

Here it is also necessary to mention another problem: since the mid-1990s, the judicial system has been overburdened with cases. One consequence has been long delays in trials. This fact has affected trust in the judicial system as well as in the rule of law. However, statistics have shown that, in at least some courts, there are no longer extensive backlogs in casework.

Also, in 2008, the center-right government concluded long-term negotiations with trade unions on a collective agreement for the public sector. According to the agreement, judges are also public employees. Judges have consistently demanded status comparable to that of members of parliament and ministers because judges represent the third independent branch of power, and are therefore above the status of public employees. They even decided to conduct a silent strike before the elections. The new minister of justice is trying to find a new solution for judges within the framework of the public sector collective agreement.

There are mechanisms for judicial review of legislative and executive acts, the latter of which resides with the Constitutional Court. Officeholders are severely prosecuted for abuse of their positions. There are two important non-governmental institutions that combat abuses, namely the Court of Auditors and the Anti-Corruption Commission.

Prosecution of  
office abuse

The country has already ratified most of the important international agreements for the protection of human rights. In general there are no restrictions of human rights, although there have been some violations. This is visible in ombudsman statistics; in 2008, the ombudsman received 4% more requests for human rights violation investigations than in 2007. In general, in 2007 as well as in 2008, a majority of complaints (24%) focused on police procedure and judicial processes (related mainly to trial delays), as well as social security (15%).

Civil rights

Despite the fact that the center-right government granted same-sex couples some rights (including the right to register their partnership), homosexuals still do not have the other rights to which they feel entitled.

#### 4 | Stability of Democratic Institutions

Democratic institutions are established and work effectively and efficiently. The biggest problem remains trial delays in the judiciary. There are numerous reasons for this, including inadequate organization of work, a huge number of lawsuits (since different venues for dispute resolution and mediation have not yet been developed), complex procedures and the ability to shift a case from one institutional level to another and then back again. The process of de-nationalization, which started in 1991, is still not completely finished; in some cases (e.g., de-nationalization of larger territories or properties), the administration lacks sufficient authority to make final decisions, which leads to a prolongation of the process.

Performance of  
democratic  
institutions

All political and social actors accept democratic institutions as legitimate.

Commitment to  
democratic  
institutions

#### 5 | Political and Social Integration

As in the past, there were a relatively large number of parties (17) in the 2008 elections, with seven parties elected to parliament (since 1992, the number of parliamentary parties has been varied between seven and eight). The Slovenian party system has achieved a high level of consolidation and stability. There is also the question of the ideological characteristics of the party system in Slovenia. Especially at the beginning of the transition period, there was a deep cleavage along the communism–anticommunism line that was even more pronounced since it was

Party system

overlapped by the liberalism–conservatism cleavage. These elements can be described as elements of polarized pluralism, but some other important elements of polarized pluralism have been missing. It is important to note the absence of an anti-system party in the new millennium. There are no significant extreme right or left parties in Slovenia, with the only partial exception being the Slovenian National Party. Two other important factors deserve to be mentioned. First, since 1996 there has been a special interest party, namely the Democratic Party of Retired Persons of Slovenia. The party has been a member of all governmental coalitions and its de facto importance has been strengthened since 2004, and it has played a decisive role in the formation of center-right as well as center-left governments. Secondly, in the 2008 elections a new party entered the parliament: Zares (direct translation: For Real). The party was established in 2007 and includes some politically experienced people (particularly from the period of Liberal Democracy of Slovenia governments). On the other hand, two center-right governmental partners, the Slovenian People's Party and New Slovenia, recorded the worst results in their history. Furthermore, the latter did not win any seats in parliament. After multiple conflicts and splits in Liberal Democracy of Slovenia after its defeat in the 2004 elections, its 5% of the 2008 vote cannot be regarded as a big surprise. As in the past, parties have been coping with very low levels of trust in public opinion polls.

There is a large network of interest groups and organizations which reflect societal interests, and this network tends to exercise an influence on the policy-making process. It seems that economic interest groups (in the form of employers and employees organizations) are the most active, as well as an interest group of retired people and some environmental interest groups. However, only the economic interest groups have gained privileged access to policy-making processes via the Economic and Social Council, which is comprised of representatives of employers and employees and the government. While in the early years of the center-right government, the government tried to downgrade the council's importance (for example, by giving the council short deadlines to discuss proposals), the same government in 2007 and 2008 to a certain extent tried to re-establish the council's importance in policy-making processes. The center-left government has publicly confirmed its importance several times and also appointed a state secretary in the prime minister's cabinet who is responsible for the organization and management of social dialogue.

Consent to democracy is very high, particularly when taking into account that there is neither formal nor informal constitutional opposition in the country.

Self-organized groups have appeared mainly in urban parts of the country, though a more traditional form of mutual aid along kinship lines takes place on the countryside. A number of newer organizations have been established, such as organizations that aim to help women and children who are victims of violence. They enjoy broad support within the population.

Interest groups

Consent to democratic norms

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Social exclusion is not structurally ingrained. The country's level of development allows all citizens adequate freedom of choice. 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. According to official statistical data for 2007, 11.5% of the population lived under the threshold of poverty, while trade unions estimated in early 2009 that 30% of the population live in poverty. Unemployed and retired persons, as well as those not entitled to social transfers are among the most vulnerable parts of the population.

According to data in other countries, Slovenia has low income inequality and a low level of poverty risk. According to the Human Development Index, Slovenia is ranked 26th.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	33724	35694.5	38898.7	<b>47181.7</b>
Growth of GDP	%	4.3	4.3	5.9	<b>6.8</b>
Inflation (CPI)	%	3.6	2.5	2.5	<b>3.6</b>
Unemployment	%	6.1	5.8	5.9	<b>4.6</b>
Foreign direct investment	% of GDP	2.5	1.5	1.7	<b>3.1</b>
Export growth	%	12.4	10.6	12.5	<b>13.8</b>
Import growth	%	13.3	6.6	12.2	<b>15.7</b>
Current account balance	\$ mn.	-892.5	-680.5	-1088.3	<b>-2292.6</b>

		2004	2005	2006	2007
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-0.3	-0.4	-0.2	<b>0.2</b>
Tax Revenue	% of GDP	4.9	4.9	5.0	<b>19.7</b>
Government consumption	% of GDP	18.9	19.0	18.8	<b>17.7</b>
Public expnd. on edu.	% of GDP	5.8	5.8	5.8	-
Public expnd. on health	% of GDP	6.2	6.2	6.1	-
R&D expenditure	% of GDP	1.4	1.5	1.6	<b>1.5</b>
Military expenditure	% of GDP	1.5	1.4	1.6	<b>1.4</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Slovenia has a relatively liberal trade system and is continuing to deregulate its trade policy. The country 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 increasingly establishing itself. At the end of 2007 (more recent data was unavailable), the state still controlled – directly or indirectly – 23% of the economy.

Market-based competition

There is a coherent antimonopoly policy and adequate institutions to deal with problems of monopolization and non-discrimination principles. The main institution dedicated to the protection of competition is the governmental Competition Protection Office. The office's work has been heavily criticized in the past, and as a consequence the center-right government appointed a new leader of the office in 2007. Since then, the office has been much more active.

Anti-monopoly policy

Access to the Slovenian market remains somewhat difficult for foreign capital, although it is much easier than in the past. One important reason is relatively high labor costs and high taxes, but on the formal level there is no state intervention in the liberalized market.

Liberalization of foreign trade

According to World Investment Report 2008 prepared annually by UNCTAD, there was \$1,428 million of FDI in Slovenia in 2007. FDI has increased in comparison with the previous three years. But it is also interesting to note that, according to the same data, Slovenia has in fact been a net investor in terms of FDI since 2003 (i.e., Slovenia has more investments abroad than there are foreign investments in Slovenia).

The ownership structure of the banking sector (by equity) in Slovenia in 2008 was as follows: non-residents (more than 50% of management rights) 27.6%, non-residents (less than 50% of management rights) 10.6%, central government 17.7% and other domestic persons 44.1%. The government has in fact controlled the two banks that also had the biggest market shares in Slovenia in 2008; NLB had 30.2% and NKBM 9.6% of market share. Total assets as a percentage of GDP of Slovenian banks were 123.6% in 2007 and 128.8 % in 2008. The central bank in Slovenia continues to be politically independent, and it plays the role of an effective regulator and supervisor of the banking system.

Banking system

## 8 | Currency and Price Stability

Slovenia recorded some very good results in macroeconomic terms in the years leading up to mid-2007, including a low level of inflation. But, already in mid-2007, some economists warned of a possible Portuguese scenario (a combination of high levels of economic growth and high inflation). In late 2007 and early 2008, Slovenia had an inflation rate of 5.7%, the highest in the euro zone. Otherwise, the average inflation rate in Slovenia was 3.6% in 2007 and 5.7% in 2008. In early 2009, the average inflation rate was around 0%, while in some months low deflation was even recorded.

Anti-inflation /  
forex policy

Trade balance in Slovenia has been favorable over the last several years, despite the fact that Slovenia has been a net importer.

On 1 January 2007, Slovenia became a member of the European Economic and Monetary Union (EMU). Slovenia's fiscal policy was solid and government indebtedness remained moderate but higher than in the 1990s, fluctuating between 1% and 3% of GDP. At the end of 2008, the trend in public finance has become worse. A budget passed by the center-right government for 2009 has predicted debt levels of 0.3% of GDP. However, at the beginning of 2009, the center-left government passed a supplemental budget that anticipated debt levels of 3.1% of GDP, and just a few months later the same government made another modification of the budget that anticipates debt levels of 5.5% of GDP. During the economic crisis in the late 2008 and early 2009, the unemployment rate (at least according to official reports) has increased from its previous, relatively stable low level.

Macrostability

## 9 | Private Property

Property rights and the acquisition of property are adequately defined. However, despite the center-right government's acceleration of the privatization of companies completely or partly owned by the state at the beginning of its term, this process almost stopped during the last part of its term. This interruption was caused by some publicly exposed abuses in the privatization process; namely, several directors of big Slovenian companies found a legal loophole that allowed them to buy shares of companies (sold by the state) using credits covered or secured by assets of companies. In addition to these problems, the economic crisis and a lack of available disposable funds were further reasons that the process has been stopped.

Property rights

While the first big wave of new small companies occurred at the beginning of the 1990s, this changed by the turn of the century. The center-right government, however, emphasized the importance of SMEs because they were viewed as the primary engines of economic development. Several small and medium sized companies have been established during the center-right government's term, but the number of employees at these companies remained low, while some large companies were able to show a significant increase in employment.

Private enterprise

## 10 | Welfare Regime

There is a solid network in place to compensate for social risks. According to official data in 2007, even 40% of Slovenians would be under the threshold of poverty if there weren't a good network of programs for different kinds of social support.

Social safety nets

The basis for a universal health care system was established in the Yugoslav federation, and there has been pressure to reform it into a more participatory one, in the sense of expecting patients to co-finance their health care services. One of the biggest problems with the universal health care system has been long waiting queues.

The unemployment and social security insurance system expanded after the transition from socialism to democracy. In the period under review, the welfare system has been endangered by the center-right government trying to incrementally privatize and/or liberalize the health sector; the government also did this indirectly by broadening the system of concessions. The center-left government has stressed a need to modernize the public health care system and to limit stealth privatization caused by state concessions. A reform proposal is still being debated among professional associations and interest groups.

In addition to public social safety nets, the center-right government demonstrated the need to develop more expansive security nets in the third sector.

Slovenia has also introduced various programs for the Roma community that aim to raise their education level and improve professional qualifications. Formally, gender equality exists, but some gaps between the formally defined situation and actual practice were observed. This, for example, is illustrated in wage differences for the same work. Nevertheless, over the past three years Slovenia has been among those EU countries with the narrowest income gap between men and women. In practice, women continue to be underrepresented in leadership positions, despite gender quotas that were introduced for candidate lists on local (in 2006), parliamentary (in 2008) and European Parliament (in 2004) elections. In the new center-left government, five female ministers were nominated and the prime minister publicly stated that this should be considered an important message promoting the participation of women in public life.

Equal opportunity

## 11 | Economic Performance

GDP growth in recent years has been relatively high; in 2007, GDP growth stood at 7%, due in large part to highway construction and other projects in the construction sector. But the economic crisis has changed this data dramatically: GDP has decreased by 8.5% in the first four months of 2009 in comparison with first four months of 2008. Also, the volume of industrial production has declined since May 2008.

Output strength

## 12 | Sustainability

Environmentally compatible growth that prevents industries from externalizing costs is taken into account institutionally at both macro- and micro-levels, and by complying with international agreements. 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 attitude, can only be expected in the long term. In several cases in the last two years, Slovenia has to pay penalties because legislation and some parts of ratified international agreements have been violated.

Environmental policy

Slovenia has traditionally enjoyed a well-developed public school system. There are only three private elementary schools. The first Catholic one opened its doors in September 2008. On the secondary level, Slovenia has six private schools. Half of all high schools (two-year schools after secondary level) are in private ownership. Slovenia has four public universities. The first private university was established in

Education policy / R&amp;D



2008. The center-right government stressed a need for more private schools and universities with the argument that this is the only way in which a right to choose will be really implemented. The majority of private schools have been receiving state money and it is indeed hard to consider them truly private. There are some high schools, faculties and university departments all over Slovenia that hope to develop a university in the near future (Novo mesto, Brežice, Celje), but it seems that the center-left government, unlike the center-right government, is not inclined to support private universities and schools with public money anymore.

The state's expenditures for education in the 2000s were considerable at 6% of GDP. Despite this level of spending, serious reforms are necessary, above all in professional training, which is unable to address structural changes in the job market. The government has recently attempted to reach that goal by forcing more students into professional and technical schools. 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. Forms of continuing education have been increasing in the last four years. More than 20% of population has been involved in at least one form of continuing education in 2007 (more recent official data unavailable).

# Transformation Management

## I. Level of Difficulty

The structural constraints on governance are low.

Structural  
constraints  
Civil society  
traditions

Civil society is enjoying a relatively strong tradition, the reason being that Slovenia lacked independent political life organized in the form of an independent state. Therefore political life has been organized in societies, clubs and associations ever since the mid-nineteenth century. There are more than 18,000 registered organizations, nongovernmental organizations and groups. Interest groups and other civil society groups are beginning to play an increasingly important role in the formation of various policies. The center-left government has decided to formally emphasize the traditional importance of NGOs by appointing a state secretary in the prime minister's cabinet who is responsible for NGOs. NGOs and civil society organizations have been faced with the general problem of personnel deficits, which mostly stems from their inadequate financial resources.

A substantial segment of interest groups has been acknowledged as vital and important to the state, and has been elevated to a special status and institutionalized in the National Council (the upper house of the parliament).

As already mentioned, specific interests of employers and employees are separately organized or institutionalized within a social partnership system.

There are no significant ethnic cleavages in Slovenia. Italians and Hungarians both enjoy minority status and are therefore protected at the local and national level, and many also enjoy special (political, cultural, etc.) rights. No political parties with a nationalist background are present on the national level. The Roma population receives special concern and status, primarily on the local level. There are also a lot of Serbs, Bosnians and Croats in Slovenia who do not have special status but are organized on the principles of civil society and in the form of religious groups (Orthodox and Muslim).

Conflict intensity

As mentioned, there is a traditionally strong and very deep cleavage which divides Slovenia into two blocks: Roman Catholic conservatives on the one side, and socialist liberals on the other. The first is inclined to be opposed to the other, for example by promoting lustration laws in 1997.

## II. Management Performance

### 14 | Steering Capability

Political leadership has been successful in recent years in setting strategic priorities and unsuccessful in maintaining them. At the beginning of its term, the center-right government tried to introduce major reforms (for example, liberalization and privatization of the health care system, reform of the school system, modernization of the welfare state and tax reforms including the introduction of a flat-rate tax) that were prepared by some young neo-liberal economists. Since the government did not respect the tradition of social dialogue, it was not very difficult to mobilize people against the proposed reforms and the government was quickly encountered opposition. In the second part of its term, the government slowly abandoned its plans for comprehensive reforms and implemented only some parts of its planned and announced reforms. On the other hand, the government maintained the practice of hiring individuals based on their political credentials rather than their professional skills. The government partly also (in)directly promoted a political climate conducive to xenophobia, nationalism, populism and anti-intellectualism.

Prioritization

The center-left government has stressed the need for structural reforms, which are supposed to include modernization of the health care and school systems – although not in terms of liberalization or privatization – as well as changes in the pension system and the tax system.

The government has not experienced any major problems in achieving reform goals connected to EU policies. On the other hand, the center-right government was not very successful in implementing major reforms in 2007 and 2008, although it succeeded in the implementation of other important reforms (for example, the new penal code, changes in some parts of the tax system and the simplification of administrative procedures in many fields).

Implementation

The government is sometimes, but not always, able to replace failed policies with innovative ones. The question in Slovenia is whether different reforms are the results of analyses or only of the new needs and different views of different governments. Nevertheless, in recent years an evaluation phase has been introduced in the majority of policy areas that institutionalizes complex learning. Still, it is an open question as to what extent collected information and data are used in drafting new policies.

Policy learning

## 15 | Resource Efficiency

The previous government preferred to a greater extent than former governments political criteria over professional ones (there was a special term developed for its practice, namely “cadre tsunami”). During the so-called cadre tsunami (primarily in the public sector, but also on other sectors) from 2004 to 2008, several highly competent and experienced individuals in the field of public administration were removed, or they simply left the public sector and thereby caused a substantial lack of competent and experienced individuals. This could be described as a waste of human and organizational resources. They have been replaced at least partially by other experts who are typically less experienced. New Prime Minister Pahor has emphasized several times that both Slovenia and its government need to use all the best human resources and that there is no place for a cadre tsunami or exclusion of competent people simply because they don’t agree with the government or were appointed by the previous government. But the government has experienced significant obstacles in implementing its aim, as there is a lack of consensus on this among coalition partners.

Efficient use of assets

Although a majority of analysts would say that the center-right government demonstrated a great degree of indifference towards the opposition and has showed no interest or preparation in coordinating conflicts – preferring instead to establish a voting bloc in the parliament –two formal policy coordination “instruments” were formed. In April 2006, all parliamentary parties, except for the biggest opposition party at the time, the Liberal Democracy of Slovenia, signed an agreement called the Partnership for Development. This partnership was to provide the framework for co-operation between relevant political actors and harmonization of key legal projects in the context of economic and social reforms required to realize Slovenia’s development strategy as well as the goals of the Lisbon Treaty. The partnership never coalesced and simply vanished in 2007. Due to the economic crisis, new Prime Minister Pahor floated the same idea at the beginning of his term, but coalition partners did not want to establish a similarly ineffective partnership. In May 2007, a majority of parliamentary parties (with the exception of Liberal Democracy of Slovenia and the Slovenian National Party) signed the “Agreement on the Co-Operation of Political Parties and Representatives of National Minorities in the Parliament for Successful Implementation of the Preparation and Presidency of the EU.” Due to some very heated domestic debates at the end of 2007, Prime Minister Janša criticized the opposition for deliberately exhausting the government in the period just before Slovenia took over the EU presidency, accusing the opposition of doing this to stall the agreement.

Policy coordination

There are two important non-governmental institutions that fight corruption, namely the Court of Auditors and the Anti-Corruption Commission. Both have been very active during the period under review. During the center-right government's term, the Anti-Corruption Commission experienced several direct attacks (the government proposed and the parliament passed a law according to which the independent anti-corruption commission was to be replaced by parliamentary commission, but the Constitutional Court revoked it) or indirect attacks (in 2008, the parliament approved the lowest budget in its history, and the Commission was struggling with serious financial problems). The financial status of the Commission has been improved under the center-left government.

Anti-corruption  
policy

The Corruption Perception Index (Transparency International) ranked Slovenia 27th in 2007 and 26th in 2008.

One of the biggest corruption affairs in Slovenia deserves mention here. In 2008, allegations surfaced regarding the bribery of Slovenian officials by the Finnish state-owned company Patria to help finalize the purchase of armored personnel carriers for the Slovenian army. This political controversy reached its peak during the electoral campaign just three weeks before the elections when the Finnish public television station YLE published an investigation implicating several Slovenian civil servants, including Prime Minister Janša. The affair is still under investigation, and the Finnish police have been very active in this regard.

## 16 | Consensus-Building

Major political actors agree on a market economy and democracy as strategic aims.

Consensus on goals

There are no (significant) anti-democratic political actors in Slovenia, so there is also no need to exclude or co-opt them.

Anti-democratic  
veto actors

During the period under review, the political leadership has been able to politicize the most delicate and crucial of cleavages – Catholic conservatism vs. non-Catholic liberalism. Previous government policies supported that division and the country became increasingly divided along the cleavage line in comparison to the previous ten years.

Cleavage /  
conflict  
management

Governments in Slovenia during the last several years have been inclined to enhance the participation of civil society in the political process and policy-making. This has been done mainly by the publication of policy proposals on the web pages of individual ministries or government offices, along with several public calls to participate in concrete policy-making. As already mentioned, there is a more general problem with personnel and financial deficits in civil society organizations which has diminished their ability to become more influential actors. During the center-right government's term, there were two other problems concerning the

Civil society  
participation

ability of civil society organization participation: sometimes the government only allowed particular civil society organizations to follow and co-operate in policy preparation, while sometimes it simply did not give civil society organizations enough time to study the material and to effectively participate. As of this writing, the center-left government has presented itself as more open toward civil society organization participation and as more inclined to a consensus-based style of politics. One trademark of Prime Minister Pahor's leadership style is the prominence of consultations and/or consensus-building; indeed, he is frequently criticized because of it, as some believe that sometimes it is necessary to make a decision without broader consultations.

The political leadership has managed to achieve some reconciliation on issues of historical acts of injustice, but with a clear and distinct perception of who the victims were. From the Catholic point of view, the victims were those who were tortured by the partisans, even though they collaborated with Nazism and fascism, whereas others view the victims as those who were tortured by Nazis, fascists and their collaborators. All these groups have been provided with at least minimal recognition and compensation.

Reconciliation

On the other hand, there is a problem with perpetrators of past injustices regarding the so-called erased people. Although the implementation of a Constitutional Court decision in this regard was postponed under the center-right government implementation, the center-left government has started to implement its decision (see also section 1.2., "State Identity").

## 17 | International Cooperation

The political leadership has very rarely used the support of international partners to improve domestic reforms or to implement its long-term strategy of development (think tanks, public administration consultants, public officials). In some cases, all Slovenian governments have tried to use different documents drafted by international actors to advocate proposed domestic reforms and aims; during the center-right government's term, for example, they relied upon the authority of the Lisbon Treaty, as well as some recommendations of the IMF or EU commissioners, while the center-left government has so far drawn mainly upon international organizations' articulation of a need to reform the pension system because of demographic trends.

Effective use of support

Slovenia is recognized by the top levels of international community as a reliable partner. This is also clear from the fact that Slovenia was the first new EU member state to hold the EU presidency (from January 2008 to July 2008), and just a few years before (in 2005), it presided over OSCE.

Credibility

There was an event which, according to some observers, created doubts regarding Slovenia's reliability in the EU. Before the Slovenian took on the EU presidency in 2008, there was a public disclosure of some parts of the minutes of talks between Slovenian and American diplomats in the Slovenian newspaper, suggesting that Slovenia received a secret list of demands for its EU council presidency from the United States. Although, with some exceptions, this diplomatic awkwardness did not attract significant attention abroad, it did spark controversial debates in Slovenia.

Slovenia has a long tradition of cooperation on the regional level since its time as a part of the Yugoslav federation. The Alpe-Adria network remains very active and Slovenia has an active role in it. Slovenia is involved in different networks and initiatives with Italy, Croatia, Austria and Hungary dealing with common interests in the region. Slovenia is generally viewed positively in the international arena. It is also one of the best-situated countries in the financial markets. The internationally recognized ratings from highly respected agencies identify Slovenia as one of the leading Central and Eastern European reform states. There are significant differences in handling bilateral relationships with neighbor states, depending upon the specific historical background. Relations have been very positive with Hungary and also with Austria (although there are long-lasting problems connected with the implementation of the rights of the Slovenian minority in Austria). Relations with Croatia and to some extent with Italy were tense for years and were, at least in the latter case, normalized only through EU pressure. There is a conflict with Croatia regarding the demarcation of the border in the Adriatic Sea, and Slovenia did not allow Croatia to open some files in the negotiations with the EU. For a long time, negative sentiments and mutual distrust certainly played a visible role in the conflict with Italy concerning the question of property rights and the proper interpretation of fascist and partisan crimes before and during World War II as well as long-lasting problems with implementations of Slovenian minority rights in Italy.

Regional  
cooperation

## Strategic Outlook

Slovenia will become a member of the OECD in the near future. In the global economic crisis, which profoundly affected Slovenia, the government's main task will be to find the best solutions in both the economic and welfare sectors. Aside from the favorable initial conditions at the end of the 1980s, the overall positive transformation process in Slovenia can be attributed primarily to domestic actors and to the fact that Slovenia is a small homogeneous country with no special resources to attract large multinational companies. The Slovenian elite succeeded in carefully and gradually introducing democracy and a market economy while taking into account well-established welfare structures.

In the past several years, attempts to introduce more radical neo-liberal policies, which have also lacked consensus among the most important political as well as social partners, has been recognized as inappropriate for Slovenia. Despite the economic crisis, or simply because of it, the center-left government will have to face with some necessary structural reforms (for example, reform of the pension and tax systems).

At least the first signals from the center-left government, influenced also by the prime minister's consultative leadership style, have indicated that civil society groups will be included in policy-making efforts to a greater extent than before and will also be involved in elite building and monitoring of the political elite.

Further consolidation in Slovenia will require a change of attitude, public willingness to learn and openness to new and foreign ideas and influences. With regard to deeper integration in the EU, the political leadership faces the difficult task of conducting processes transparently and mediating between future winners and losers in Slovenian society.

Public expenditure for formal education in terms of GDP has been declining for years, and the center-left government has stated its aim to significantly increase spending on education. Similar promises were also made in the past, but it seems that this time there is a greater chance that they will be fulfilled, primarily because, for the first time, the position of a minister in this policy area is held by a leader of a governmental party (the second biggest governmental party). Another important aim should be to attract foreign intellectual human capital, if Slovenia wants to compete in the international arena. One of the most important measures for future development would be the reform of higher education, which is still the most rigid field in the country. To reach higher levels of development, new foreign investment is also needed in environmental and high-tech production, which requires favorable education infrastructure. Because of the financial problems within the public health care system, a major reform will be needed in the coming years to reduce increasing pressure on public financing. And the same applies to the pension system.



On the labor market, Slovenia has to strike a balance between security and flexibility; in the last several years, there have only been changes toward greater flexibility. Since public opinion polls (Eurostat as well as Slovenian public opinion polls) have indicated in the last two years that Slovenians are hard workers, but are simultaneously among the least satisfied workers in the EU, such a discrepancy could lead to lower labor efficiency in the future. It seems that, on the labor market, the younger generations have been subjected to greater pressures to be flexible, since almost all new employment is only on a temporary basis. And in Slovenia, such employment is strongly connected with lower employment security.