

BTI 2014 | Slovakia Country Report

	scale	score	rank	trend
Status Index	1-10	8.79	# 9 of 129	
Political Transformation	1-10	9.05	# 10 of 129	➔
Economic Transformation	1-10	8.54	# 10 of 129	➔
Management Index	1-10	7.09	# 7 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	5.4	HDI	0.840	GDP p.c.	\$ 25300.5
Pop. growth ¹	% p.a.	0.2	HDI rank of 187	35	Gini Index	26.0
Life expectancy	years	76.0	UN Education Index	0.870	Poverty ³	% 0.1
Urban population	%	54.7	Gender inequality ²	0.171	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Slovakia was susceptible to the global recession due to the nature of its– small, open and export-dependent economy. The crisis worsened living conditions in the country’s less developed regions (eastern, northern and southern Slovakia), which suffer from long-term unemployment and have significant Roma minority populations. None of the previous Slovak governments has managed to address these long-term structural challenges successfully.

The period under consideration was marked by political conflict within the former government coalition and by early elections which took place on 10 March 2012. Our report covers the second year of Ivetta Radičová’s short tenure and the first ten months of Robert Fico’s second term as prime minister. Radičová’s government ended due to intra-coalition disagreement over the European Financial Stability Facility (EFSF), which was strongly opposed by one of the junior coalition partners, Freedom and Solidarity (SaS).

The performance of the Radičová government left a rather ambiguous overall impression, passing only a few legislative changes, including the requirement that all contracts involving public funds be published on the internet (and conditioning the validity of these contract by that very publication), some changes to the judicial system, including a new system for the selection of judges, and finally amendments to the Labor Code to introduce flexibility to the hiring and firing of employees. Radičová’s government failed to pass needed reforms such as the unification of tax and payroll-levy systems, changes to local government finances, transformation of state hospitals and amendments to laws on citizenship.

The quality of democracy improved under the Radičová government thanks to dynamic civil society actors, watchdogs and the media. Changes to the Press Act brought greater media freedom. However, the Ministry of Justice only implemented some of the proposed reforms, highlighting worrying levels of politicization among the judiciary. Petty quarrels within the ruling coalition concerning the election of the General Prosecutor damaged the image of the Radičová government;

controversially, the president exercised his powers and refused to appoint the chosen candidate. The post remains vacant.

Numerous scandals related to office abuse demonstrated that corruption and party cronyism flourish among all parties, regardless of ideology. The Radičová government did not manage to improve Slovak-Hungarian relations and failed to negotiate a bilateral treaty on dual citizenship.

In December 2011 the parliament unanimously passed a constitutional debt-ceiling law that confirms both governments in the period under review agreed that consolidation of public finances as their top priority; however the Radičová government preferred increases in indirect taxation, a flexible labor market and business environment as well as transparency. Fico, on the other hand, relied on a program of increased direct taxes and payroll payments.

On 10 March 2012 the Smer-Social Democracy party (Smer-SD) won a sweeping victory in the parliamentary elections, gaining 83 seats in the 150 seat parliament. Fico successfully mobilized left-leaning voters and achieved a vote share of 44.4% (with a 59% turnout).

The current Fico administration, referred to here as the second Fico cabinet, is seeking budget consolidation through increased direct taxes, which resulted in de facto abolition of flat tax and raised income tax rates on companies, politicians, and those with higher earnings. On the other hand, his government also introduced social contributions for groups previously excluded (non-standard workers, the self-employed and students).

In general, the second Fico cabinet has been less hostile toward the media and civil society organizations. Fico is also inclined to govern in a more inclusive way as seen in his establishment of a Solidarity and Development Council for “dialogue with social partners.”

History and Characteristics of Transformation

After the dissolution of the Czech and Slovak Federal Republic (CSFR, or Czechoslovakia) in 1993, the independent Slovak Republic abandoned the path of democratic consolidation. From 1992 to 1998, with a brief pause in 1994, the country’s prime minister was Vladimír Mečiar, whose semi-autocratic rule led to the exclusion of Slovakia from the integration process. In December 1997, Slovakia was excluded from the first negotiation round with the European Union. In 1999, unlike Hungary, Poland and the Czech Republic, Slovakia was not accepted into NATO. The Mečiar government was embroiled in a sharp conflict with opposition parties and the president. Some constitutional principles and decisions by the Constitutional Court were disregarded. Society was extremely polarized between advocates of democracy and those who appeared only to pay lip service to the idea.

In the 1998 parliamentary election, previously highly fragmented opposition groups and NGOs mobilized democratically inclined citizens and created a broad-based anti-Mečiar alliance to stop

his somewhat authoritarian regime. The resulting victory for democratic forces underscored the Slovaks' devotion to democracy. In the 1998 – 2002 election term, Slovakia again embarked on the path toward integration, democratic consolidation and a market economy. The first government led by Mikuláš Dzurinda also launched foreign policy reforms focusing on membership in NATO, the European Union and the OECD as well as on gaining international credibility. After the 2002 elections, the second Dzurinda government introduced major structural reforms closely linked to ideas derived from the Washington Consensus, such as introducing a flat-tax system, reforming the pension and health care systems, creating incentives for foreign investors, and welfare state retrenchment. This neoliberal reform package was in many points introduced without broad social support. Nevertheless, the institutional structure of Slovakia made it rather easy to reform, and most social actors were still too weak to play an effective role as veto players. Due to these reforms and a massive inflow of foreign investments, Slovakia experienced unprecedented economic growth from 2006 on; however, popular dissatisfaction with health care, social policy and labor code reforms fully altered the party composition of the government in the 2006 elections.

The new ideologically heterogeneous coalition cabinet composed of the left (Smer-Social Democracy), and nationally oriented parties (the Slovak National Party and the People's Party-Movement for Democratic Slovakia) raised many doubts about the course of Slovakia's development. Though the coalition parties' official ideologies differed, all three parties appealed to social strata that were socially and culturally similar, and used similarly populist styles of communication. The lead party in the coalition, Robert Fico's Smer-SD, aimed to increase the role of the state in the economy. However, the Fico government did preserve the previous government's main economic priority of meeting the economic criteria for adoption of the euro on schedule on 1 January 2009. Given this goal, the government pursued a sound fiscal and monetary policy during the first half of its term (2006 – 2008). The Fico government increased the role of the state in the economy only through minor changes; for example, in health care it imposed a (unconstitutional) ban on profit distribution for insurance funds. When the economic crisis hit Slovakia in 2009, the Fico government was hesitant to address the major social challenge – increasing unemployment.

From the beginning, the first Fico administration showed less respect for media freedom, judicial independence and the law in general than did its predecessor, and the commitment to fight discrimination and corruption weakened. The government also had a different approach to decision-making and civil society. It clearly favored big social organizations representing the interests of industries (especially car-makers), employers and employees; territorial self-government organizations; and professional associations. The government tried to curtail the donation mechanism (tax assignment) for NGOs, mobilizing a wave of protest that forced abandonment of the plan. Likewise, the government proved hostile toward the media and journalists. It passed a controversial press law in 2008 that provoked harsh criticism at home and also abroad.

Tensions between Slovakia and Hungary also increased under the Fico government, ultimately becoming problematic. The extremist nationalist coalition partner SNS was the main source of this increase in bilateral problems, as well as the anti-Hungarian approach crystallized in the State

Language Act and the Patriotism Act. The SNS fueled ethnic tensions and negatively shaped the public discourse without being consistently criticized or corrected by coalition partners Smer-SD and LS-HZDS.

Between the 2002 and 2006 elections, debate over socioeconomic issues established itself as the dominant conflict between parties in the country, replacing previous points of contention such the character of the democratic regime, Slovak nationalism and state-building.

While socioeconomic issues remained the dominant source of conflict in the 2010 elections, arguments differed compared to the previous election. Smer-SD was forced to adopt the rhetoric of the strong social state (and defense of its achievements) in the context of the global economic crisis mostly because the “reformed” welfare regime under Fico was not systematic, relating mostly to one-time direct payments. The opposition parties focused on the government’s inability to cope with the impact of the global recession on Slovakia and stressed its ability to govern the country with fiscal responsibility and blamed the Fico government for the increased budget deficit during the crisis (1.9% of GDP in 2007 to 7.8% in 2010). The topic of (the governing parties’) clientelism – as a factor in poor governance – has become a part of the dominant socioeconomic left-right divide between political parties.

Popular dissatisfaction, primarily with corruption and party cronyism, were the main factors in the 2010 election results, which once again completely altered the government’s party composition. The elections thus cleared the way for a center-right coalition consisting of the Slovak Democratic and Christian Union – Democratic Party (SDKU-DS), the Christian Democratic Movement (KDH) and two new parties, the liberal Freedom and Solidarity Party (SaS) and a new Hungarian minority party (Most-Hid).

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Slovak Republic has an unchallenged monopoly on the use of force throughout the country.

All citizens have the same civic rights, and the majority of citizens acknowledge the legitimacy of the state. There is a group of Hungarian minority leaders who exhibit irredentist tendencies, which are supported by Hungarian governments to varying degrees. This issue is always sensitive, as Slovak governments perceive it as a threat to the unity of state. Nationalist leaders in both countries traditionally use the Hungarian minority in Slovakia to stoke bilateral tensions and so increase their support. The case of dual citizenship is just one illustration of this situation.

Shortly before Slovakia's 2010 parliamentary election, the Hungarian parliament, supported by the incoming government of prime minister Viktor Orbán, passed a law on dual citizenship which permits ethnic Hungarians to gain Hungarian citizenship in addition to their Slovak citizenship. This move not only complicated Slovak-Hungarian relations, but increased concerns about the loyalty of ethnic Hungarians in Slovakia and gave rise to political controversy. The first Fico government (2006 – 2010) responded immediately by amending Slovakia's Citizenship Act. This amendment automatically rescinds Slovak citizenship from any citizen who voluntarily (apart from cases of birth or marriage) obtains the citizenship of another state. The Radičová government (July 2010 – March 2012) attempted to soften Fico's amendment in such a way that Slovak citizens with "genuine" ties to other countries (through residency or work, for example) would not lose their Slovak passport when applying for second citizenship. However frictions in Radičová's coalition foiled these proposals. Her government consequently attempted to solve the issue through a bilateral treaty with Hungary, similar to the one that Slovakia has with the Czech Republic. However, this solution – which had the approval of Fico – was rejected by the Hungarian government, which considers dual citizenship "an exclusive part of

Question

Score

Monopoly on the
use of force

10

State identity

9

domestic policy.” Since the change of government in March 2012, Slovak-Hungarian relations have improved, the double citizenship issue has been swept under the carpet and Orbán praised Fico for his “fight against the financial crisis.”

So far it is mostly non-Hungarian Slovaks who have fallen victim to Fico’s unfortunate amendment, including some three hundred Slovak citizens living and working abroad who lost citizenship prior to 2013. There are no reliable data on the number of ethnic Hungarians in Slovakia apply for or obtaining Hungarian citizenship as they are not obliged to reveal this. Only a handful of cases, such as the application of the chairman of the non-parliamentary Hungarian Coalition Party (SMK), József Berényi, have been publicized.

According to analysts ethnic Hungarians have thus far showed little interest in acquiring Hungarian citizenship, but some minority leaders claim that the current situation is increasing fear among this group. They point out that in the 2011 census only 8.5% of citizens declared their Hungarian identity, while 9.4% of the population stated that Hungarian was their mother tongue. Ten years previously, the figures had been 9.7% and 10.7%.

Religious dogmas have no influence on the legal order or political institutions. The Slovak Republic is based on constitutional separation of church and state. However one legacy of the communist regime is that the church has never fully separated from the state, as it receives funding from the state budget. The state fully finances salaries of priests and subsidizes central church offices, building maintenance and church schools.

The majority of the Slovak population is nominally Roman Catholic, however according to the 2011 census their number decreased from 69 % in 2001 to 62 %. The Roman Catholic Church plays an important role in everyday issues. Relations between the state and the Catholic Church are regulated by a 2000 treaty with the Vatican which obliges the country to codify certain treaty principles, including celebration of religious holidays.

Under the first Fico government, relations with the Catholic Church were grounded in quiet tolerance and tacit agreement, an approach typical of the last years of the communist regime. However, the second (single-party) Fico government is now considering a reduction in the number of holidays, which may complicate relations with Vatican. Slovakia currently celebrates 15 national holidays, nine of them based on religious observance. The second Fico government is seeking to eliminate one religious holiday (the one which remembers Our Lady of Seven Sorrows, the patron saint of Slovakia) by shifting celebrations to a Sunday if the holiday, on September 15, falls on a workday. The prime minister said this change would not require an amendment of the Vatican treaty, –under which Slovakia pledged to observe 10

No interference of
religious dogmas
10

religious holidays as state holidays. Authorities of the Slovak Roman Catholic Church argue that citizens “have a right to spend time with their families.”

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 local state administrative institutions, and in part by self-governing bodies on the regional and local level. They have strictly separated competencies, which also determine principles of coordination on specific matters such as territorial planning and emergency situations.

Basic
administration
10

2 | Political Participation

Elections are free and fair without any significant restrictions. Slovakia’s unicameral parliament is elected under a proportional electoral system in a single nationwide constituency with a five-percent threshold. Early parliamentary elections were held on 10 March 2012, and the turnout was 59 percent. Since 2004, political parties have been required to pay a deposit of €6,596 in order to register for national parliamentary elections. The deposit is returned only to parties that receive at least 2% of the vote.

Free and fair
elections
10

The democratically elected parliament, government and other elected bodies have the effective power to govern, and are not constrained by any nondemocratic veto powers.

Effective power to
govern
10

The freedom of association and assembly is unrestricted within the basic democratic order. Citizens can freely join independent political and civic groups, including unions, professional groups, foundations and sport, cultural and religious associations. The Ministry of the Interior has registered over 35,000 such associations and over 60 political parties. By the end of 2011 49 parties had submitted their financial reports to the parliament.

Association /
assembly rights
10

The most active NGOs have created professionalized networks and support for other NGOs. In recent years these networks and peak associations have offered fundraising training to increase the sustainability and advancement of NGOs in Slovakia.

Since the end of 2010 collective protests and strikes have become more frequent, but they are usually non-violent and the police, while maintaining a visible presence, rarely intervene.

Freedoms of speech and the press are guaranteed in Slovakia by law, and there is a strong independent media, but there are still some attempts to limit these democratic norms either by politicians or by courts. Frequently, these freedoms are restricted in favor of politicians and financial tycoons in the name of “protection of privacy.”

Freedom of
expression
9

The Radičová government in 2011 had to revise the Press Act, previously amended by the first Fico government. Her government limited the right to reply of “persons libeled by the press.”

In 2012 there were new controversies connected with court decisions, which again favored privacy over freedom of speech. One case related to the injunction of a book by investigative journalist Tom Nicholson, about high-level political corruption in 2005 and 2006. A district court upheld a complaint by the co-owner of Penta, one of the country’s most influential financial groups, which was allegedly involved in corruption. This ruling was perceived as censorship and provoked mass protests. Thanks in part to this mobilization of the public, a regional court overturned this decision in June 2012 and the book was finally published.

Another case which might threaten freedom of expression was a criminal prosecution against filmmaker Zuzana Piussi, whose critical documentary ‘The Disease of the Third Power’ mapped shortcomings in Slovakia’s judiciary, attracting a lot of attention. The case arose after a judge featured in the film submitted a criminal complaint against Piussi, based on “violation of confidentiality of verbal expression in a private conversation.” The police dropped the case in January 2013, satisfied that no criminal offence had taken place.

3 | Rule of Law

The system of checks and balances has been fairly effective within the framework of the parliamentary system. Occasional conflicts between democratic institutions, especially those representing different political camps, have usually been solved in accordance with the Constitution.

In this context the October 2011 vote of confidence that brought down the Radičová government revealed a gap in Slovakia’s constitution because the document provided no clear answer on how to proceed after the dismissal of a government. This situation was used by President Gašparovič (backed by the opposition Smer-SD) as a strategic opportunity to diminish the powers of the outgoing government. An amendment to Article 115 of the constitution passed later grants the president the power to (a) dismiss the cabinet if it has lost parliament’s confidence, and (b) to charge a dismissed cabinet with ruling the country until a new government emerges from early parliamentary elections. However the amendment diminished the competencies of the interim government, which was not allowed to decide on “important measures” of economic, social and foreign policy. It also has no power to file motions with the Constitutional Court to scrutinize the constitutionality of international treaties. Any such decision must be approved by the president and implemented only with his/her

Separation of
powers

9

approval. The constitution thus significantly increases the power of the country's president during an interim government period.

However conflict between the Radičová government and President Gašparovič overloaded the Constitutional Court's agenda with political issues, with political actors unwilling to find consensual solutions. Slovak politics returned to a pattern of decision-making from the mid-1990s, when arbiters were frequently required to settle political controversies.

Moreover, in January 2013 President Gašparovič refused to appoint a General Prosecutor who had been elected by the parliament in 2011. The selection became a point of contention both within Radičová's coalition and between President and parliament, and the position has remained vacant since February 2011.

The Constitutional Court has twice ruled on this issue. In October 2012 it confirmed the constitutionality of the election procedure but later upheld the president's right to reject a candidate elected by parliament. These controversies have undermined institutional performance.

The judiciary remains extremely politicized and suffers from three long-standing problems: the slow speed of court proceedings, poor overall effectiveness of the justice system, and the low level of trust in judges, often perceived as corrupt. Some experts consider the biggest problem to be not the quality of the laws, but rather the integrity of judges, and the reluctance of the majority to speak out against them.

Independent
judiciary
8

The Radičová government launched extensive judicial reforms and introduced several measures to bring more transparency to the judiciary. They aimed to re-balance the judicial system, opening it up to public scrutiny and public control. The amended law on judges requires the publication of all court rulings on the internet, forbids discretionary bonuses for judges previously awarded by court presidents, requires more detailed declarations of assets by judges, and introduces public selection procedures for new judges and court presidents. It also reintroduces compulsory evaluation of judges every five years, something that the previous law (passed under the First Fico administration) had abolished.

A proposal to prohibit the head of the Supreme Court from also chairing the country's Judicial Council was voted down. Both posts are currently held by Štefan Harabin, a justice minister under the first Fico government, who sued numerous newspapers which had connected him to scandals. Harabin also sued the Slovak Republic at the European Court for Human Rights (ECHR) over the Constitutional Court decision, which confirmed a cut in his salary he refused to allow Finance Ministry auditors to examine Supreme Court accounts, arguing that the only the Supreme Auditing Office has such authority. However, the ECHR did not his salary cut, only his right to a fair hearing. The ECHR ruled that this right was violated. In May 2012 Harabin attempted to influence the election of new members to the Judicial Council (a self-governing

judiciary body with the right to nominate judges, including the Supreme Court Chair). Not all his favored candidates were elected, so the first Fico government, recalled three judges from the Judicial Council who were perceived to be critics of Harabin, thus shortening their five-year terms. This, along with the Radičová government's recall of three judges nominated by the first Fico government, can be understood as a revenge tactic. In both cases these sackings were politically motivated and indicate efforts by the executive to gain control over the nomination of judges.

The political culture and legal loopholes often enable office holders to avoid prosecution, although investigative media often report on corruption among politicians. Existing laws and institutions used against those who abuse public office are ineffective. During the period of assessment there were only two major changes. Firstly, in February 2012 parliament abolished immunity for misdemeanors by MPs and some top public officials. This decision was influenced by upcoming elections and "the Gorilla" protests against high-level corruption. "Gorilla" refers to the codename of a wiretapping operation by the Slovak Information Service (SIS), which collected information about the influence of the Penta financial group on the second Dzurinda government between 2005 and 2006. A file of the operation was leaked to online in 2012.

Secondly, after the 2012 elections the Smer-SD drafted an amendment to the Criminal Code cancelling MPs' immunity from criminal prosecution, which was passed in July 2012 in a rare, nearly unanimous vote. The country had been waiting for this change for almost 20 years, and without NGO pressure and spontaneous mass mobilization it would not have been possible. However, parliament can still veto police investigations against politicians. These amendments mean that only judges remain 'above the law', and that the judiciary is undergoing a crisis.

Slovakia has established standard European institutions to supervise the observance of civic rights, which are largely respected. The recent abolition of immunity from prosecution for politicians and some high officials means greater equality. However the Roma minority is frequently subject to mistreatment by state authorities (including police). Civil and human rights watchdogs in Slovakia have a key role in enforcing equal treatment of Roma, with majority views of this minority becoming increasingly negative. Two cases are especially significant here. The first was an ECHR ruling that Roma women's right to freedom from inhuman and degrading treatment and their right to a private and family life was infringed by sterilization without consent. The second was a decision by the Prešov District Court (in eastern Slovakia), which ruled that special classes constitute discrimination, an important precedent for the fair treatment of Roma children.

While the Radičová government hoped to introduce further reforms addressing Roma minority issues, the Smer-SD has not declared specific measures in its program. The second Fico cabinet has established the new post of government proxy for Roma

Prosecution of
office abuse
8

Civil rights
9

communities, occupied by opposition politician Peter Pollák, Slovakia's first-ever ethnic Roma MP and a member of Ordinary People and Independent Personalities (OLaNO), whose functions now come under the Interior Ministry. Pollák launched the "Roma Reform" which as yet has no clear contours beyond modifications to the system of social benefits and employment which have been discussed at the ministerial level.

4 | Stability of Democratic Institutions

Democratic institutions are institutionalized within a parliamentary democracy framework. Despite the increased polarization between the opposition and government, both sides tend to respect the separation of powers and in the most extreme cases have approached the Constitutional Court to solve their conflicts. However conflict between the executive and judiciary have increased in recent years, overloading the Constitutional Court's agenda with political issues, with political actors were unable or unwilling to find consensus. Slovak politics returned to a pattern of decision-making in which marked the mid-1990s, when arbiters were required to settle political stalemates. Some Constitutional Court rulings are ambiguous (such as those related to the election of the Prosecutor General), and political actors sometimes take liberties in their interpretation of rulings.

Performance of
democratic
institutions
8

All political and social actors accept democratic institutions as legitimate, however there is tension between the executive (Justice Minister in the Radičová government) and judiciary, represented by Štefan Harabin (the Justice Minister under the first Fico government), who has been the Supreme Court president since 2009, and thus automatically chairs the Judiciary Council. This concentration of judicial power dating from his time in government remains a liability and his subsequent actions worsened conditions in the judiciary.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

The party system and competition in Slovakia remain open and a new party entered the parliament in the 2012 elections, although four of its leaders previously belonged to the Freedom and Solidarity party (Sloboda a Solidarita, SaS). This new party, Ordinary People and Independent Personalities (OLaNO), is not properly institutionalized; rather it is a loose group of independent candidates who run for elections on a common party list. The party advocates changes to the proportional representation election system and its members are united by criticism of the "partocracy."

Party system
7

While Smer-Social Democracy faces no real competition on the left, the right wing remains fragmented. OLaNO and the Christian Democratic Movement (KDH)

gained 16 seats each in the March 2012 elections, whereas the Slovak Democratic and Christian Union-Democratic Party (SDKÚ-DS) and the Freedom and Solidarity Party of Richard Sulik obtained just 11 seats. The Bridge party (Most-Híd), an ethnically mixed project (Hungarian-Slovak) founded by Béla Bugár, defended its parliamentary position (13 seats) and the Hungarian Coalition Party (SMK) once again failed to win a single seat in parliament. The right-wing parties are apparently suffering from a major generational crisis, particularly the once dominant SDKÚ-DS and KDH.

Party competition in Slovakia is weakly structured, and parties are built around personalities as much as programs or social strata. Parties remain elitist, and are rather weakly rooted in society. While the main ruling party (Smer-SD) has made progress in its institutionalization, it remains highly centralized and dependent on Robert Fico, its founder and leader.

Voter affiliation along left-right, conservative-liberal and national-ethnic issues has remained relatively stable over the years, and voter volatility has decreased over the last few years, however there are always disappointed voters (within the two ideological blocks) looking for something new. This may also explain the success of OĽaNO.

National-ethnic and value issues (e.g., the communist past) still shape party competition, however neither the Slovak National Party (SNS) nor SMK have attracted enough voters to gain seats in parliament. Fico's party attracted former voters of the SNS and Mečiar's LS-HZDS.

The 2012 elections once again strengthened party competition over ideological and socioeconomic issues, party corruption was also a key concern. The SDKÚ-DS lost voters due to the so-called "Gorilla" scandal. Most "interest mediation processes" remain hidden from the public; however, the degree of coordination in official bargaining among interest groups and parties has increased.

The split of the SMK in 2009 again resulted in the division of ethnic Hungarians' vote, with the SMK winning just 4.3% of the vote. Support for LS-HZDS has also rapidly declined, with the party also attracting 4.3%, insufficient for entering parliament. Traditional polarization between government and opposition remains relatively high, and the two blocs rarely cooperate or support one another's legislative proposals.

The effective number of parties has ranged between 3.19 (1992), 6.12 (2002), 4.88 (2006) and 4.01 (2010) dropping to 2.88 after the 2012 elections due to the dominant position of the Smer-SD, with 83 MPs.

Interest groups in Slovakia are well-differentiated and well-organized. The pattern of cooperation between labor and business follows the West European pattern. There

are peak organizations in all interest and professional sectors that represent and mediate the demands of interest groups vis-à-vis the government and its institutions. The main interest groups have direct access to policymaking through various advisory bodies (e.g., a tripartite mechanism, advisory bodies at the government level and within all ministries). Business and selected professional organizations dominate decision-making more than organizations such as unions, consumer groups, patients and the various NGOs.

The Radičová government tried to support civil society development, especially NGOs. Some of its policies increased the influence of watchdogs and think tanks in society, e.g. the requirement to publish all contracts involving public funds on the internet (and conditioning the validity of these contracts by that very publication). Moreover, her government made concessions to unions, increasing the minimum wage and accepting the wage demands of doctors and nurses following a series of protests in 2011. On the other hand, the Radičová government also amended the Labor Code to increase flexibility in accordance with business demands.

The second Fico government attempted to improve relations with civil society groups, arguing that the country needs “stability, order and social peace.” Fico reshuffled some advisory posts (human rights and civil society) created by Radičová, but his attitude to NGOs and think tanks is now more balanced than it was previously. Moreover, he allocated some ministerial posts to representatives of business (such the Economy Minister, who headed the employers’ association) and professional organizations (such as the Minister of Justice, who chaired the Slovak Bar Association). However the Fico government remains closer to the trade unions than to business sector interests, despite the unions’ loss of support and members and a negative perception due to their close ties with Smer-SD.

Approval of democracy as a form of government is high. Democracy is generally associated with freedom, participation, high socioeconomic status and education. There are no political protests or relevant movements that question democracy as such. The majority of the political elite and citizens say they see no alternative to democracy, and the public approves of democracy and democratic norms and procedures, though not necessarily the way that they function in Slovakia.

Approval of
democracy
9

Trust in national institutions is low, and declined after the 2012 elections. According to the November 2012 Eurobarometer survey, 30% of citizens trusted the Slovak parliament, 32% trusted the government and only 19% trusted political parties (Eurobarometer, November 2012).

Social capital in Slovakia is influenced by its historical legacy of mistrust of ‘strangers’, but there were strong social networks among relatives and close friends. Society is still not really open to social relationships that promote cohesion and inclusion of strangers but there is a strong tendency to social bonding that promotes

Social capital
8

mutual support. In the 2010 International Social Survey Program almost 57% of respondents declared that one “has to be very or rather careful in dealing with people.”

There is a relatively robust and heterogeneous network of autonomous, self-organized groups, associations and organizations. There is a high professionalization of watchdogs, think tanks and NGOs. Media outlets frequently approach their representatives for “expert” opinions on different issues, although the public does not necessarily accept them.

According to polls about 35% of citizens are members of civil organizations and about 20% of citizens participate in collective action.

The collective protest culture in the country has changed significantly since 2011. Collective action in Slovakia tends to manifest as low-level participation such as petitions and peaceful rallies. However in 2012, doctors, nurses and later teachers organized strikes on a mass scale. This indicates a profound change in society historically disinclined to protest. The Radičová government acceded to doctors’ and nurses’ wage demands. However, the Fico government offered a mere 5% increase in teachers’ salaries rather than the 10% they had called for. These varied responses were more reflective the respective protest power of these professions than the governments’ differing ideologies.

II. Economic Transformation

6 | Level of Socioeconomic Development

Socioeconomic development in Slovakia has remained vulnerable, unstable and regionally unbalanced mainly due to the country’s small, open economy with its specialization in the automotive and electro-technology industries. The economy’s high dependence on exports rendered it susceptible to the effects of the global recession, which worsened living conditions. Strong regional disparities, long-term unemployment and social exclusion among the Roma minority continue to make development uneven.

The economy’s dependence on exports of automotive and electronic products caused a worsening of living conditions in parallel with worsening economic conditions throughout Europe. According to Eurostat, 22% of the population lived with material deprivation in 2011 while 13.7% of population had an equalized disposable income below the risk-of-poverty level.

Question
Score

Socioeconomic
barriers

9

Structurally, women are well integrated into the education process and labor markets. The female-to-male ratio of the population with at least secondary education is 0.895. The labor force participation rate is 0.747 (UNDP Human Development Report 2011).

The Roma population still face major structural barriers. The practice of isolating Roma pupils into classes with “special” needs continues and even the landmark ruling of the Prešov District Court will not alleviate this discrimination in the short term. Roma children have less access to education and thus lower chances of participation in the labor market. According to World Bank policy advice (2012), 87% of Roma households live in poverty. Only 20% of Roma men are employed (compared to 65% in the general Slovak population), and only 9% of Roma women have jobs (52% in the Slovak population). The exclusion of the Roma population overlaps to a great extent with regional disparities.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	87239.7	87220.5	96034.9	91604.6
GDP growth	%	-4.9	4.4	3.2	2.0
Inflation (CPI)	%	1.6	1.0	3.9	3.6
Unemployment	%	12.1	14.4	13.5	-
Foreign direct investment	% of GDP	1.8	0.8	3.8	-
Export growth	%	-15.9	15.4	12.8	8.6
Import growth	%	-18.1	13.7	10.3	2.7
Current account balance	\$ M	-3161.1	-3240.3	-2027.2	2039.4
Public debt	% of GDP	35.6	41.0	43.3	52.3
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-7.4	-6.8	-4.9	-
Tax revenue	% of GDP	12.4	12.5	12.7	-
Government consumption	% of GDP	20.1	19.4	18.0	17.6
Public expnd. on edu.	% of GDP	4.1	4.2	-	-
Public expnd. on health	% of GDP	6.0	5.8	5.5	-
R&D expenditure	% of GDP	0.48	0.63	-	-
Military expenditure	% of GDP	1.5	1.3	1.1	1.1

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Slovakia successfully developed market competition before and shortly after its accession to the EU, becoming a reform champion among EU member states during the center-right coalition (2002 – 2006). However since then market institutions have been weakened due to the 2006 change of government (the first Fico government) and the 2009 crisis. The administrative burden for companies remains relatively high; the Ministry of Economy estimated these costs at up to €2 billion, or 3% of GDP. In 2011 the Radičová government prepared a strategy (called the Singapore Project) to ease the administrative burden on businesses. It was expected that about hundred measures would lower costs by about 25%. These include simpler processes for setting up firms, simpler construction procedures, better law enforcement, and simpler administration of taxes and payroll taxes. However after the 2012 election the new Smer-SD Economy Minister Tomáš Malatinský halted the project, declaring that he would create his own program.

Another indicator of change was came with competitiveness rankings. While not the sole factor in attracting investors, they are important signals of a country's competitiveness. The 2012 WEF Global Competitiveness Report Slovakia indicated that state bureaucracy was the most problematic factor in doing business (21% of responses), which included poor law enforcement, low efficiency in settling disputes legally, unequal treatment of companies, low public trust, high levels of government regulation and low quality of government services for businesses.

Significantly, domestic business organizations (the Slovak Trade and Industry Chamber, whose members account for 84% of Slovakia's GDP creation, and the Business Alliance of Slovakia) have also pointed out deterioration of the business environment. These evaluations were among the reasons listed for measures

Market-based
competition
9

introduced by the second Fico government, as well as increases in taxes and levies and changes to the Labor Code.

Market competition remains particularly weak in the energy sector. The Radičová government sought to strengthen competition by privatizing a number of heating plants across the country and by liberalizing prices in the gas industry. The second Fico government returned to the relatively strict regulation of pricing seen in the 2006-2010 period. Moreover, his government intended to buy back part of the previously privatized Slovak Gas Company and will include nuclear energy in its energy mix, “since it significantly contributes to energy security and thus economic independence.” The government is hoping that investors will allow it to finish the Mochovce nuclear power plant.

Slovakia is subject to EU antitrust and competition laws and in the past it has implemented laws protecting the market from monopolies and concentration of dominant actors. The country has also established antitrust institutions; while adequately configured, they sometimes react slowly. The Anti-Monopoly Office (AMO) regularly fines companies for participating in cartels or abuse of dominant positions (e.g., in electricity or telecommunication). Many of these companies, which are co-owned by multinationals, have successfully contested AMO decisions in Slovak courts. It then becomes the European Commission’s responsibility to apply a coherent anti-monopoly policy, but even when it does there is a lengthy procedure (e.g., the case of Slovak Telecom is pending from 2009).

Anti-monopoly
policy
9

The Competition Act was amended under the Radičová government in 2011 and it streamlined the rules of the merger review process, largely in accordance with the AMO’s suggestions. However, some legal experts have called for further changes which address antitrust rules. In 2012 the AMO acknowledged the need for such amendments, but not have been prepared to date and the new government made no changes to the leadership of the AMO, the current incumbent having been appointed in 2011.

Foreign trade is fully liberalized, and the country is integrated in the EU Single Market. Tariffs are uniform and low, and there is no state intervention in free trade. Slovakia has one of the most open economies in the world.

Liberalization of
foreign trade
10

Despite turmoil in the euro zone, the Slovak banking system has remained relatively stable and healthy thanks to the central bank’s intensive monitoring of risk management practices. In 2011, Slovak banks’ capital-to-asset ratio was 9.8%. The ratio of nonperforming loans to total gross loans was 5.8% in the same year.

Banking system
9

Although most Slovak banks are owned by Western European banks, they remained unaffected by their problems and none of the banks in Slovakia required help either from the government or the European level institutions (ESM and EFSM). In fact their profits increased and both governments under review increased taxation of

banks. Since January 2012 banks are required to pay a special levy of 0.4% on corporate deposits (introduced under Radičová). And since September 2012 banks have also been required to pay the levy on private individuals' deposits. At the end of 2012 the Slovak banking sector reported a drop in after-tax profits, amounting 34.9% compared with the same period of 2011.

8 | Currency and Price Stability

Since Slovakia's accession to the euro zone, anti-inflation and forex policy has been in the hands of the European Central Bank (ECB) and recently (2011 – 2012) inflation has apparently not been the main target of the ECB.

Anti-inflation /
forex policy

9

After relatively stable price levels in the 2009 – 2010 period the consumer price index increased from 1% in 2010 to 3.9% in 2011 before dropping to 3.6% in 2012, according to the Slovak Statistical Office. The rise is driven mainly by food prices and excise duties levied on alcohol and tobacco products. The Slovak National Bank (the central bank) forecasts 2013 inflation at 2.4%, reflecting the second Fico government's efforts to lower energy prices by returning to the policies of 2006 – 2010.

The ongoing crisis in the euro zone influenced the macroeconomic stability of the country. Thanks to the reforms of the Radičová government the budget deficit decreased from 7.7% in 2010 to 4.9% in 2011 (Eurostat). Since the second Fico government took over in March 2012 it has confirmed that macrostability is to remain its highest priority. This appears to be one of the few issues where there is a solid consensus among all political actors, confirmed by the establishment of an independent fiscal council (Council for Budgetary Responsibility) in December 2011, charged with monitoring and evaluating fiscal policy and its effects on fiscal development.

Macrostability

9

The second Fico government introduced several measures to further cut the budget deficit, mostly by increasing direct taxes, which resulted in the de facto abolition of flat tax and increased income tax rates on companies, politicians, and those with higher earnings. On the other hand, his government has also introduced social contributions for groups previously excluded (non-standard workers, self-employed and students). Despite recommendations from OECD to shift from direct to indirect taxes to assist job creation (lower for individual earnings but higher for consumer and property taxes) Robert Fico insists on keeping consumer taxes at the same level, arguing that this protects the poor. However business representatives opposed his measures as they consider flat tax one of the key markers of a progressive economy.

Prime Minister Fico has repeatedly declared that he wants to cut the budget deficit to less than 3% of GDP; however several forecasts (ECB, Finance Ministry's Institute for Finance Policy) indicate that the budget deficit will exceed 5% in 2013.

Rising unemployment and lower tax revenues have resulted in an increase of public debt, from 40% in 2010 to 43.3% in 2011 and an estimate 53.1% in 2012 (estimates from the Council for Budgetary Responsibility). The Constitutional Act on Budgetary Responsibility requires the Ministry of Finance to present parliament with a plan for cutting public debt whenever it exceeds a threshold of 50% of GDP. If Eurostat confirms that debt has exceeded 53%, the government is required to pass consolidation measures, including salary freezes.

The biggest challenge for the government will be fulfilling its own goals in fiscal policy which have also been stressed by the OECD and the WEF. The main concern is the planned tax collection. Slovakia was ranked among three least effective European countries for tax collection (IMF). Another challenge will be the increase in social benefit costs due to rising unemployment (currently at the highest levels since the EU accession in May 2004). Numerous think tanks have also predicted higher tax evasion and a flourishing grey economy due to changes in the labor code and newly introduced social contributions.

9 | Private Property

Property rights and related issues (acquisition and mergers of firms, sale and purchase of property) are very well defined and protected both by the constitution and law, but the incumbent social-democratic government has a clear preference for public ownership, especially in the healthcare and energy sectors.

The first Fico cabinet failed in its 2007 attempt to ban for-profit health insurers, with the Constitutional Court ruling the law unconstitutional in January 2011. However Fico's decision turned to be costly for the country: in December 2012 the International Court of Arbitration ruled that Slovakia must pay €22 million to the Dutch investor behind Union Insurance Company, because it had violated the provisions of the investment treaty between Slovakia and the Netherlands. Fico rejected the legitimacy of this decision, declaring that Slovakia would pay neither the financial compensation nor the court fees.

Moreover, his second government has announced a new plan to "unite all three health insurers into the single state-owned" company. Since the two private insurance companies rejected the government's offer to buy their businesses, this plan essentially mandates nationalization of private health insurers.

Property rights

9

Although several reputable lawyers and institutions pointed out that nationalization of the insurers would be unconstitutional, the prime minister has repeatedly stated that the “political decision has been made.”

Private enterprise is the main pillar of the Slovak economy, with the majority of formerly state-owned companies privatized by 2006, as well as considerable flow of foreign direct investments and multinational corporations into the country. However, the Smer-SD party clearly favors public over private ownership and during the 2012 election campaign “No privatization” was again the motto of Fico’s party. His new single-party government halted plans to privatize heating plants drafted by Radičová’s government while also considering buybacks of previously privatized energy companies. However this course of action may be nothing more than a cover for resale of the privatized shares in energy utilities to companies which are closer to Fico’s party. His government announced its intention to buy back the previously privatized 49% of the Slovak Gas Company (SPP), but lacked the funds to do so. In a strange move, the government allowed a minority share in SPP currently owned by a German-French consortium (E.ON Ruhrgas and GDF Suez) to be sold to the Czech firm Energetický a Průmyslový Holding (EHP) in December 2012. This might be the cause of the subsequent downgrading of SPP credit.

Private enterprise
9

10 | Welfare Regime

Since Slovakia acceded to the EU its social security system covers all the standard social risks associated with the capitalist economic system. Historical legacies mean the social security is mainly financed via social contributions (58.63% of total receipts), to a lesser extent by government contributions/taxes (28%) and other sources, including health insurance (13.37%).

Social safety nets
9

The latest figures on social protection pertain to the year 2010 (Eurostat, Slovak Statistical Office). On the whole, Slovakia redistributes over 18% of GDP on social protection (including healthcare; the EU27 average is 28.23%). The largest portion, over 6.8% of GDP, goes to old-age pensions. Healthcare spending amounts to 5.6% of GDP. Family/children policies redistributed 1.75% (the EU27 average is 2.25%) and for social exclusion policies government allocated 0.46% of GDP (slightly higher than the EU27 average, 0.44% of GDP).

The institutional and organizational structure of the social protection system is fairly satisfactory and covers standard social risks. Social policy includes financial and non-financial benefits, direct and indirect payments as well as tax base deductions and subsidies. According to Eurostat, the proportion of people at risk of poverty was 13.7 % in 2011, a slight increase from 13.1% in 2010.

The Roma minority is the most at risk of poverty due in part to social discrimination. Roma children are the country's most vulnerable group. The Radičová government prepared a package of changes in order to help Roma children integrate into the education system and alleviate poverty in their communities. However, these measures did not take the form of legislation.

The Roma issue is a low priority for the incumbent ruling party and its approach is calculating. Its leaders are aware of the difficulties linked with this issue, but Prime Minister Fico has stated that he considers the Roma problem to be a "European" issue. Moreover, the government manifesto has no mention of the issue and the position of head of the Governmental Office for Roma Communities was offered to a Roma member of parliament from an opposition party.

The principles of equal opportunity are anchored in the constitution and in anti-discrimination laws. Legally, there is a structure of norms and system of legal enforcement to ensure that the discriminatory behavior is punished. However gender and ethnic discrimination is rarely the subject of legal enforcement in practice. The social exclusion of Roma minority in particular is reinforced by a lack of the government action.

Equal opportunity

8

According to several surveys (ISSP, SILC, WB Roma Survey) the Roma population is the most deprived in terms of equal access to education, health care and the labor market. Only 28% of Roma children attend preschool compared to 59% in the overall population. As the World Bank report (2012) highlights, Roma children are "much more likely" to end up in special schools for the mentally disabled. This poor standard of education is the reason, the World Bank claims, that Roma find jobs almost exclusively in low-skilled, low-paid sectors and so few of them work in social and service industries such as leisure services (3% of total), healthcare (2%), or education (2%). The report also pointed out that almost half of the Roma population (45%) does not seek medical assistance when it is required because the costs of transport or the medication would be prohibitive.

The Radičová government tried to address some of these issues, however the end of its term stopped any further developments in this area.

11 | Economic Performance

Slovakia was one of the fastest growing economies in the euro zone before the crisis and managed to maintain average growth within the currency union. GDP growth dropped from 4.4% in 2010 to 3.2% in 2011 and is expected to be 2.6% in 2012 (Eurostat). International organizations (IMF, OECD) forecast a further slowdown in economic growth. GDP per capita increased from €8,900 in 2010 to €9,200 in 2011, a 3% year-on-year increase. In 2012 it is expected to rise by a further 2.3%.

Output strength

8

It is, however, questionable whether this growth in output strength will continue. Slovakia has a very small and open economy and membership in the euro zone has only increased the mobility of capital and deepened the dependency of the economy on exports. It wasn't just the biggest companies in the automotive and technology industries, but also representatives of SMEs who announced problems with maintaining the same production level as the previous year. The largest employer in eastern Slovakia, US Steel, may well leave the country and offer its steel plant for sale. At time of writing, the company is in negotiation with the government on conditions for staying in the country.

The most serious problem is that the government is unable to attract further foreign direct investment which fueled rapid economic growth in the past. Local employers' associations and entrepreneurs' organizations also highlight the damaging effect of the second Fico government's policies regarding tax increases and changes to the Labor Code. Fiscal consolidation will also have a negative effect on output since cuts to public finances will result in lower domestic demand.

The current government has repeatedly stated that its main tool in boosting economic output is government expenditures and public investment. However, this approach to supporting the economy will be limited by budgetary restrictions and rapidly growing public debt (see section 8.2. on macrostability). Therefore economic output in Slovakia is vulnerable and very sensitive to developments in other euro zone countries.

12 | Sustainability

Slovakia has considerable of natural resources, mainly water resources and wood (about 40% of territory is covered by forests). The recent history of the country indicates that industrialization is a higher priority than environmental protection. As an EU member states Slovakia adheres to strict environmental standards, however the historic legacy is still present in policymaking and administrative approach to environmental issues. There are many cases where the state administration, including the Environmental Inspection Authority, favored economic interests over the environment (the case of the Pezinok waste dump being one example).

With a level of industrialization which remains low Slovakia ranked 27th (out of 132) in environmental health and 43rd in ecosystem vitality, according to the Environmental Performance Index 2013. Overall the country ranked 12th, putting it ahead of such countries as Finland, New Zealand and Iceland. This ranking can be also attributed to the efforts of NGOs and the EU's impact on Slovakia's policymaking.

Environmental
policy
7

Slovakia has a developed and functioning system of educational institutions offering all levels of education from preschool to tertiary education as well as life-long learning programs. The proportion of the population aged 20 to 24 which has attained at least secondary education is the highest in the EU (93.3% in 2011, Eurostat). Those aged 30 to 34 who have tertiary education represent 23.4% of the population, with 40% as the government's long-term target.

Education policy /
R&D
7

Public expenditure on education has declined from 3.12% of GDP in 2010 to a forecast 2.95% of GDP in 2012 (Council for Budgetary Responsibility).

The second Fico government intensified the discussion on the mismatch of skills gained in the education system and those required by the labor market, with a rapidly rising number of university graduates in certain fields with very low prospects of employment. This discussion has resulted in two major changes. Education Minister Dušan Čaplovič has proposed several measures to shift secondary pupils' orientation from general education to more technical and vocational skills. The government also introduced minimum average grades required for pupils willing to study at the general secondary schools.

The amendment to the Law on University Education allows the Education Ministry to limit the number of students supported by public funds. Schools are free to admit more students, however state subsidies will be limited to the number set by the ministry.

There is a political consensus that support for the knowledge-based economy is the priority, however the governments have been slow to act. R&D expenditure remains low, but has increased from 0.43% of GDP in 2009 to 0.68% of GDP in 2011 (Eurostat). Support in this area has been unsatisfactory but the long-term objective is to reach 1% of GDP by 2020. Universities have several hurdles to overcome if they choose to cooperate with the private sphere. Moreover, many multinational companies finance research activities at home and transfer the resulting innovations rather than supporting local research.

Transformation Management

I. Level of Difficulty

Structural socioeconomic constraints on governance in Slovakia are relatively low, although even 20 years after the formation of the independent nation state, no government has addressed the remaining constraints in an efficient and sustainable way. The global economic crisis exacerbated these structural constraints and posed a serious challenge to the country's development. Constraints remained the same, with the 2011 – 2012 period merely bringing added urgency:

Structural
constraints

1

1) Slovak unemployment was already very high before the crisis, but by the end of 2012 it increased to 14.4%, the highest level since 2004. This poses an additional burden on social expenditure and for consolidation of public finance.

2) Substantial regional differences between the relatively developed western part of the country (the Bratislava region) and the rest of the country persist, and infrastructure remains underdeveloped overall.

3) High-tech industry representatives consistently point out that Slovakia's education system does not produce highly-skilled labor in the required, usually technical fields.

4) Poverty, low education, disease and discrimination faced by the Roma population remain long-term, serious challenges to good governance.

Slovakia has a long and vibrant civil society tradition which includes numerous citizens' associations as well as large interest-based organizations participating in social dialogue. Moreover, thanks to broad opposition to the Mečiar regime, a wide variety of NGOs emerged which continue to act as efficient watchdogs. Numerous think tanks have been established and they serve to analyze and evaluate the government's policies. NGOs in the reviewed period were effective in organizing campaigns and protests against contentious issues, however many of their demands remained unfulfilled. Some of them face financial difficulties due to a lack of stable funding and this threatens their sustainability.

Civil society
traditions

3

The most salient division in Slovakian society remains the split along ethnic lines that manifests itself in party politics; in the past its intensity at any time depended largely on party mobilization. The most obvious rivals on either side of this divide

Conflict intensity

3

are the Slovak National Party (SNS) and the Hungarian Coalition Party (SMK). While the former traditionally and often aggressively “protects the Slovak nation against its enemies,” meaning Hungary and ethnic Hungarians living in Slovakia, the latter seeks to protect the Hungarian minority’s interests. However the SMK split in 2009, when deep intra-party conflict prompted Béla Bugár, SMK’s experienced and popular leader to form a new party. “Most-Híd” (meaning “bridge” in Slovak and Hungarian, respectively) promotes ethnic cooperation in Slovakia, but has split the ethnic Hungarian vote; SMK was unable to pass the 5% threshold for entering parliament in either 2010 or 2012.

Slovakia’s population, especially those living in parts of the country with a significant Roma minority population, has become more prone to racist sentiments. A tragic shooting incident in June 2012 underscored this rising tension; an off-duty police officer killed three Roma people and injured another two.

II. Management Performance

14 | Steering Capability

During the period under review, Slovakia held early parliamentary elections in March 2012 which reinforced the ideological and political split between the country’s left- and right-leaning parties. While Prime Minister Radičová had six well-formulated priorities, Robert Fico responded with 10 of his own, including his main election promise: “to strengthen the certainties of the people by alleviating the impacts of the crisis.”

Despite ideological differences, there is a strong underlying consensus on general priorities, which include fiscal consolidation, economic growth and jobs; however the two political camps have totally different approaches to their implementation. These fiscal priorities result from the requirements of Slovakia’s membership in the European Union and the euro zone. This priority was confirmed when parliament unanimously passed a constitutional debt-ceiling law in December 2011. For both of the governments under review, bringing the deficit below 3% of GDP in 2013 by consolidating public finances was the top priority; however the Radičová government favored increases in indirect taxation, a flexible labor market and business environment and transparency. Fico, with his mission of increasing the solidarity of “the rich with the poor,” turned instead to a program of increased direct taxes and payroll payments.

In setting priorities for fiscal consolidation and economic issues, both prime ministers have relied heavily on advisory teams, with the Finance Ministry’s Institute for

Question
Score

Prioritization
8

Financial Policy also playing a key role. In general there is more continuity in prioritizing than in the past, especially in fiscal policy.

Past democratic and economic reforms introduced by Slovak governments were generally driven by their exposure to the EU and by the obligations of EU membership, and their implementation was largely effective. Since Slovakia's accession to the EU, frequent amendments to basic legal regulations and adoption of new regulatory measures combined with poor coordination has created numerous implementation problems and increased transaction costs for society. The alternation of left and right-wing parties in government also undermines efficient implementation, with major administrative and personnel reshuffles following each change of government.

Implementation
8

The overall implementation of policy goals set by the Radičová government was complicated by to the heterogeneous composition of her coalition. The government promised to lower the deficit, promote a healthier business environment and encourage the development of a more active civil society. The government's agenda also included fighting corruption and cronyism, increasing employment, and improving the health care, judicial and education systems. Due to internal conflict among coalition partners and within its constituent parties, there was a substantial gap between objectives and results. Many planned reforms were dropped when the Radičová government fell.

Moreover, the failure of plans to implement a new IT system for tax and customs collection in 2011 is a clear case of inefficient implementation. Prime Minister Robert Fico has already changed several pieces of legislation (including the Labor Code) which were amended by Radičová. While his government is striving to consolidate public finances, some of its measures are questionable, focusing on revenues rather than spending cuts.

In the lead-up to Slovakia's accession to the European Union, policy learning was more efficient thanks to EU legislation and different schemes of cooperation. However in the period under consideration, both governments have had to cope with the challenges of economic crisis, seeking optimal solutions either abroad internally. However, constant friction between ministries under Radičová's coalition and frequent exchanges of personnel in the state administration have weakened innovations in policymaking.

Policy learning
8

The impact of the EU remains strong, especially in fiscal consolidation requirements, while in other areas domestic reforms tend to be driven by differing political interests. However, the adoption and implementation of legislation is frequently inspired by foreign models according to reports from advisory bodies within parliament and ministries. While the Radičová government learnt more from past experiences of both Dzurinda governments, the second Fico government takes more inspiration from

abroad (especially from small Nordic countries with open economies). Prime Minister Fico committed to more inclusive governance, establishing the Solidarity and Development Council as “a platform for dialogue with social partners” (employers, trade unions, churches, commerce chambers), which may increase learning and innovations in policymaking.

In Slovakia the issue is not so much a lack of innovation in policymaking as the capacity for systematic impact assessment. Governments focus more on fiscal impact than on evaluating market and social impact.

15 | Resource Efficiency

The performance of the public administration, its professionalism and efficiency have suffered from growth in the central state apparatus, a lack of qualified staff in the civil service, and the return of the Smer-SD government, which politicized appointments and abolished the flat tax.

Efficient use of
assets

8

However the plans of the Radičová government, which promised to reform tax and customs systems by unifying them under the new Financial Administration (FS), failed. Instead a new IT system due to launch on 1 February 2012 collapsed, resulting in chaos in the collection and administration taxes at a particularly sensitive time. The blame fell on outgoing Finance Minister Ivan Mikloš and police launched an investigation based on the findings of the Supreme Audit Office (NKÚ), which claimed that the law on public administration information systems had been violated. This event helped discredit the SDKÚ-DS in the March 2012 elections and may also result in a shortfall in tax and payroll revenues.

The second Fico government sought to cut the budget deficit by increasing direct taxes on companies, a de facto abolition of the flat tax, which was criticized by business representatives who argued that Slovakia was losing one of the key symbols of a progressive economy.

In December 2012 the second Fico government announced “the most fundamental reform in public administration since 1989,” a project called “Efficient, Reliable and Open Government in Slovakia” (ESO). It aims to abolish 64 specialized regional state administration offices which should simplify citizens’ contact with government authorities. In the second phase of the ESO, starting on 1 January 1 2014, all local state administration functions will be integrated into a single state administration office.

Unlike the Radičová government, the incumbent single-party government does not need to reconcile the conflicting objectives and interests of coalition partners. Under Radičová The policy coordination suffered from ongoing conflicts, eventually resulting in the fall of the government. Departmentalism, or ongoing conflict between

Policy
coordination

9

ministries led by different parties, were part and parcel of her government decision-making. Moreover, her position as Prime Minister was particularly weak, lacking even the support of her own party, with numerous disagreements between her, party leader Dzurinda and Finance Minister Mikloš.

Fico's single-party government has an opportunity to centralize policymaking which he appears to be utilizing. Since Fico's political authority is not challenged within his cabinet, he has been able to coordinate between different line ministries. He has built a "shadow cabinet" which will operate from the Government Office (GO). He is seeking to construct a strong team of advisers within his office, in which every department must have a partner at the GO.

Slovakia's ongoing problems with corruption are so entrenched that the public has become blasé. Most known or suspected cases of corruption are not properly investigated. State-run companies and institutions often include political appointees who lack expertise or integrity. The main obstacles in fighting corruption include weak police and prosecution offices, and the notoriously inconsistent justice system. Existing anti-corruption legislation has room for improvement and its current implementation is weak due to dishonest state officials.

Anti-corruption
policy
7

Throughout 2011 the Radičová government continually emphasized its efforts to fight corruption by increasing transparency. According to transparency watchdogs, changes implemented by her government, such as the amended laws on judges and public prosecutors' offices, did indeed help in the fight against corruption. A key step was the requirement that of all state, regional and municipal offices publish their contracts, invoices and purchase orders online. This information, designed to show how the government spends public money, helped the media uncover dubious expenses incurred by government offices and state-run companies.

In Slovakia NGOs often substitute for state administration in this area. Transparency International Slovakia, for example, designed the Open Municipality project to reveal and compare levels of transparency, the quality of anti-corruption mechanisms and municipalities' openness toward citizens. Overall improvements were affected by new legislation (publication of contracts and invoices on the internet), as well as changes implemented by the municipalities themselves, particularly regarding the publication of reports from council meetings.

Two other organizations, Fair Play Alliance and Via Iuris, established the White Crow award to recognize individuals who fight corruption, in the face of personal risk.

During the 2012 election campaign all parties, including Smer-SD, promised to change the rules for party financing in order to remove loopholes which permit party funding from dubious sources. While high-level political corruption (including the

“Gorilla” case) was one of major issues in the 2012 election campaign, the second Fico government’s program does not include aggressive anti-corruption legislation.

16 | Consensus-Building

Major parties agree on the desirability of fostering both a market economy and democracy, but there are differences of opinion when it comes to the nature of the market economy. While right-leaning parties prefer “pure” market economic principles, Smer-SD insists on a socially-oriented market model, without providing detailed specifications. However, political rhetoric between the right and left tends to be confrontational, and consensus concentrates on a few issues usually related to the EU priorities, such as the need for financial consolidation and the establishment of the Council for Budgetary Responsibility.

The Radičová and second Fico governments have also attempted to promote a broad social consensus. Large economic organizations have become well-established as part of the social dialogue. Business interest groups wield significant influence whatever the ideological leanings of respective governments. While the Radičová government tried to tighten rules concerning state incentives for domestic and foreign investors, the second Fico government approved state aid of about €21 million to companies that which promised to preserve existing jobs by the end of 2012. This decision attracted considerable criticism and in January 2013 the government drafted new legislation which would ban such subsidies. However, big business in Slovakia has been always successful in lobbying for access to public resources via state contracts or direct state incentives at the expense of small and medium companies, tradespeople and the self-employed. On the other hand, under the second Fico government unions have successfully lobbied for changes to the Labor Code which have increased protection for employees. Because of ideological differences, the Labor Code seems to be the most frequently amended legislation.

There are no significant anti-democratic veto players. During the period under review nationalist and ethnic conflicts decreased thanks to the absence of nationalist parties from parliament. In the 2012 elections neither SNS nor SMK passed the 5% threshold needed to win seats in the National Council. The anti-Roma agenda of the SNS was partially taken up by Marián Kotleba, the controversial leader of the extremist People’s Party – Our Slovakia. His party, which shifted its focus from a broader nationalist agenda to the “Roma issue” in recent years, joined with other groups in organizing (non-violent) anti-Roma protests, with increasing local support.

Slovakia suffers from several cleavages (ethnic, class, regional and religious), and at one time nationalism played a major role in politics. Thanks to the absence of the SNS and the SMK from parliament and the urgency of socioeconomic divisions and the economic crisis, Slovak-Hungarian tensions have become less significant. Rather

Consensus on goals
10

Anti-democratic
actors
10

Cleavage /
conflict
management
8

than ethnic Hungarians the Roma minority has become a more frequent target for popular dissatisfaction, exploited by politicians. The second Fico government is seeking to defuse tension by downplaying issues related to the Roma.

While economic cleavages are exploited in election campaigns, they are moderated by the shared goals of both political camps.

Participation of civil society actors in politics depends on the government's party composition. While the Radičová government favored business, think tanks and watchdogs, the second Fico government prefers trade unions. However including business is perceived as a means of maintaining social peace. Fico also now presents a more friendly face to the media and NGOs. Both political camps acknowledge the importance of social dialogue and respect tripartite negotiations; however, policy outcomes differ according to ideological leanings.

Prime Minister Iveta Radičová declared that enhancing civil society activity as a priority and civil society representatives praised her government for its open attitude, with NGOs participating in the drafting of legislation (e.g., the law on volunteering that had been pending for four years under the first Fico government). Radičová also established the post of government proxy for the development of civil society. However, the fall of the government brought a stop to many initiatives in this area. Plans to repeal an amendment made by the first Fico government which prevents corporate income tax assignment for NGOs, for example, went unfulfilled. Nonetheless NGOs still benefit from a 2% personal income tax assignments.

The second Fico government has shown a less hostile attitude toward civil society organizations. The post of civil society proxy was retained, albeit shifted to the Interior Ministry with the argument that this department has responsibility for registering NGOs. However his cabinet has set up a new advisory body, a government council for NGOs, chaired by the Interior Minister. While the future will determine if Fico's ruling style has changed in his second term, by January 2013 there had been no fundamental conflicts. It is not clear if his government would improve conditions for the development of civil society infrastructure and its organizational capacity which had been weakened due a shortage of funds for training and networking under the first Fico government.

Slovakia remains split over the legacies of two authoritarian regimes (fascist and communist). The process of reconciliation has been more complicated than in neighboring countries, and it has taken longer to establish institutions able to cope with the totalitarian past. The Nation's Memory Institute (UPN) was only established in 2002 and its main responsibility was to provide access to records of the secret police, although this process was allegedly manipulated and utilized against public and political figures. The UPN is also responsible for documenting both totalitarian regimes in Slovakia. For several years the UPN was led several years by a nominee

Civil society
participation

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Reconciliation

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of the now extra-parliamentary Slovak National Party (SNS). During this time he attended a commemoration of the establishment of the fascist Slovak regime during World War Two, attracted widespread criticism. His term expired on 31 January 2013 and he hasn't yet been replaced. Smer-SD was unable to choose a successor due to tensions within the party which highlighted ambiguous attitudes toward the past. Smer-SD officially rejects both authoritarian regimes, however in reality the party is less united on this issue, dropping its own candidate, who did not support a historically dubious statue in the courtyard of Bratislava Castle and rejected commemoration of the Slovak state. Smer-SD did not support the opposition candidate, František Mikloško, one of the leading figure of the dissident movement, who was nominated by the Christian Democrats.

17 | International Cooperation

Slovakia is fully integrated in the international community, however it does not always fully profit from its integration in meeting its own development agenda. Firstly, there is no clear and consensual developmental strategy and secondly, governments' ability to learn from international know-how and effectively mobilize their own resources has turned out to be rather limited. While the second Dzurinda government (2002 – 2006) attracted significant foreign investment, the first Fico government focused on its retention. The Radičová government initiated the "Singapore" project, which was intended to ease the administrative burden on businesses, however the second Fico cabinet stopped it with a promise to elaborate its own project. So far this has not been forthcoming, meaning that the country is increasingly dependent on EU structural funds in meeting its developmental goals.

Effective use of support

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Since the 1998 elections Slovakian governments have been trustworthy and reliable partners in relations with the international community. Recognition as a credible partner by the international community is an underlying state priority. During the celebrations for the 20th anniversary of independent statehood this was hailed as the country's biggest achievement.

Credibility

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The Radičová government paid a high price for confirming its credibility within the EU, when her junior coalition partner Freedom and Solidarity (SaS) refused support for the European Financial Stability Facility. The party considered EFSF a "moral hazard," because "it the crisis can't be solved by new debts." On 11 October 2011 Prime Minister Radičová linked the vote on the EFSF with a vote of confidence in the government, believing that rejection of the EU scheme would be a threat to the European single currency. She hoped to coerce SaS into compliance through the vote of confidence but it abstained and with the Smer-SD voting against, the three parties of the ruling coalition failed to win the confidence vote. Two days later, parliament

ratified the document after Smer-SD agreed to support it in exchange for early elections.

The Smer-SD government tends to focus more on economic interests, including its commitments to the euro, than on human rights issues. Fico wants Slovakia to be in the “inner circle of the EU” and supports the enhancement of “economic diplomacy” as the main instrument of Slovakia’s foreign policy.

The second Fico government fully supports regional cooperation within the Visegrád Group (Slovakia, the Czech Republic, Hungary and Poland) and within the EU. Fico initiated the Bratislava summit of those EU countries that agreed to the 2014–2020 budget proposed by the European Commission. These countries also declared that there is no scope for further cuts to cohesion funds. Moreover, relations with Hungary have significantly improved with the recognition of domestic (economic) policies as a priority.

Regional
cooperation
10

Strategic Outlook

Slovakia has consolidated democratic and market economy structures. While the Radičová government addressed some of the negative legacies of the first Fico government (Press Code, intimidation of media, anti-corruption measures), it lost office in the early election of 2012.

The single-party second Fico government has initiated reforms in the taxation and payroll system, public administration (tending toward centralization) while also drafting changes in the public procurement law, which centralized the process.

There has been significant improvement in relations with Hungary. Slovak prime minister Robert Fico and his counterpart Viktor Orbán have presented themselves as close friends at recent press conferences. Fico has also refrained from anti-Hungarian rhetoric in the media. Political commentators agree that both prime ministers are focusing more on domestic issues rather than wasting energy and political capital on international relations.

The biggest challenge for the ruling party lies in the structural problems of the economy. Rising unemployment and a decline in private investment have triggered automatic stabilizers. The government will need to spend more on unemployment benefits and social protection than it budgeted for, while at the same time receiving less in tax revenues. There are two sets of particular structural challenges (a) on the expenditure side, particularly healthcare and education systems, and (b) on the revenue side, with ongoing corruption and tax evasion.

The healthcare system is generating debt more rapidly than projected and according to many analysts is subject to over-consumption, inefficiency and corruption. The education system has been under-financed for years and witnessed a general strike calling for wage increases and better funding. More strikes within the education system were due to take place in 2013.

Slovakia is regularly cited as among the worst offenders in the EU when it comes to corruption and tax evasion and international organizations (WB, OECD, WEF) have repeatedly called for changes. So far the ruling party has done little to suggest that it will address these structural problems. This is particularly problematic for a political party elected on promises to maintain living standards and provide social security for the poorest.

The government will also face increasing conflict over Roma issues. The Roma are among the poorest members of the population, with limited access to education and the labor market. This makes them most vulnerable to crises. With little government interest in the issue there is little hope of improvement any time soon.

With the structural problems in the economy on the one hand and a combination of EU budgetary pressures and financial market pressures on the other, we expect the government's popularity to decline and the erosion of social peace and cohesion in the near future.

The ruling party is not yet well institutionalized so its stability, and consequently that of the government, depends on the party's founder and current leader. The continued existence Smer-SD is almost entirely dependent on Robert Fico, his charisma, political skill and his traditional bread-and-butter approach, which makes the party vulnerable to unforeseen internal and external developments.