

# BTI 2010 | Slovakia Country Report

<b>Status Index</b>	1-10	<b>9.14</b>	# 6 of 128	
Democracy	1-10	9.35	# 7 of 128	➔
Market Economy	1-10	8.93	# 6 of 128	➔
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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.	5.4	HDI	0.88	GDP p.c.	\$	20076
Pop. growth	% p.a.	0.1	HDI rank of 182	42	Gini Index		25.8
Life expectancy	years	74	UN Education Index	0.93	Poverty <sup>2</sup>	%	<2
Urban population	%	56.4	Gender equality <sup>1</sup>	0.64	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

Slovakia is a successfully consolidated democratic state with a developed market economy that has experienced high economic growth since 2006 due to the rigid and successful reforms of the previous center-right government. After the elections in 2006, the government changed fundamentally. Three parties – the left-wing Smer-Social Democracy (Smer-SD), the Slovak National Party (SNS) and the People’s Party-Movement for Democratic Slovakia (LS-HZDS) – formed a coalition government led by Prime Minister Robert Fico. The cabinet composed of a left-populist and two nationalist parties raised many doubts about the course of Slovakia’s development. Despite its populist announcements during the electoral campaign, the new government has stuck in many aspects to the economic policy of the previous two governments led by Mikuláš Dzurinda, a chair of the right-wing Slovak Democratic Christian Union-Democratic Party (SDKÚ-DS).

Political and economic developments during the period under consideration were marked by several changes following the 2006 elections. The major ruling party, the Smer-SD, aims to increase the role of the state in the economy. Prime Minister Fico’s hostile declarations toward the foreign owners of public services (e.g., gas, electricity, private health-care insurance and private pension funds) and disrespect toward the opposition are balanced by rational policies conducted by the appropriate ministries and state institutions, such as the central bank and independent regulatory agencies. Thus, it would seem difficult to substantially reverse the course that has been followed in terms of privatization and market and political reforms. Since society has become more differentiated, organized (in terms of powerful economic and social actors) and institutionalized, the government has very little room for instituting fundamental institutional changes.

Despite the very confrontational political and nationalist rhetoric of the government and the strong polarization between the coalition and the opposition, there is a strong – though implicit – consensus about many political and economic goals (e.g., joining the euro zone in 2009,

becoming a Schengen country, foreign policy orientation, multilateral and bilateral international cooperation in foreign and security policy). Preparations for introducing the euro in 2009 were given priority the by the governing coalition (as well as by the previous government), which also limited the government's leeway in terms of policy-making. Slovakia joined the Schengen zone in 2007 and introduced the common European currency in January 2009, fully completing its transformation into an EU member state, which also imposes many constraints on the ruling coalition. In March/April 2009, incumbent President Ivan Gašparovič was re-elected. Gašparovič is supported by two parties in Fico's coalition government, the Smer-SD and the SNS.

The new government has a different approach to decision-making and civil society. It clearly favors big social organizations representing the interests of industries (especially the automotive one), employers and employees, organizations of territorial self-government and professional associations. Compared to the previous government, the incumbent one lacks an influential epistemological community to prepare new policy proposals; as a result, the implementation of policy measures is usually less fundamental and more driven by the interests and concerns of social actors. Moreover, the Fico government has shown a rather adversarial attitude toward the media, journalists and NGOs. The new, controversial press law, from 2008, has provoked harsh criticism from Slovak as well international organizations, such as the OECD. Likewise, a planned law on NGOs led to widespread protests, including ones by international actors, which forced it to be dropped. The most worrying development since 2006 is the increasingly nationalist rhetoric of the SNS party, a member of the ruling coalition, which has led to tensions in society as well as between Slovakia and Hungary.

## 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 excluded 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 government was embroiled in a sharp conflict with opposition parties and the president. Some constitutional principles and decisions by the Constitutional Court were disregarded. The functioning of the Constitutional Court, as well as the Office of the President, was impaired by the parliamentary process. Society was extremely polarized between advocates and opponents of democracy.

During the 1998 parliamentary election, political parties and NGOs mobilized large numbers of democratically inclined citizens. Previously highly fragmented opposition groups joined forces and created a broad-based anti-Mečiar alliance to prevent his authoritarian regime from gaining a

solid foothold in Slovakia. The resulting victory of democratic forces underscored the Slovaks' devotion to democracy. In the 1998 – 2002 election term, Slovakia again embarked on the path toward integration, democracy 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, which were closely linked to ideas of 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 of the social actors were still too weak to play an effective role as veto players. Due to these reforms and massive foreign investments, Slovakia has experienced unprecedented economic growth since 2006; however, popular dissatisfaction with health-care, social-policy and labor-code reforms fully altered the party composition of the government in the 2006 elections.

## Transformation Status

### I. Democracy

The most serious political problem during the transformation period (1990 – 1998) was the centralization of power in the executive, the weak rule of law, the unstable party system and nationalistic politics. When two of the parties that were closely linked to the problematic deconsolidation of democracy (the LS-HZDS and the SNS) returned to the government after the 2006 elections, it raised many concerns about the course of Slovakia's political development. While this change in government has not undermined the stability of democratic institutions, it has entailed a polarization of interethnic relations in Slovakia and veiled threats against independent media organizations and NGOs.

#### 1 | Stateness

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

Monopoly on the use of force

All citizens have the same civic rights, and the majority of citizens acknowledge the legitimacy of the constitution. Nationalist politicians, such as Miklós Duray or Ján Slota, have so far not been able to mobilize large proportions of citizens. On the contrary, leaders and citizens on the local and regional levels have organized rallies supporting peaceful coexistence in ethnically mixed regions.

State identity

The state is based on the strict constitutional separation of church and state. Religious dogmas have no direct influence on policies or laws, although several groupings have launched a strong and controversial pro-life campaign and called for a complete ban on abortion. The Slovak population is overwhelmingly Catholic (69%), though only a proportion of them are practicing Catholics. Relations between the state and the Catholic Church are regulated by a treaty with the Vatican. Relations between the state and other churches are also based on treaties. The state fully finances the salaries of priests and subsidizes central church offices as well as the maintenance of buildings and church-run schools.

No interference of religious dogmas

The state's administrative system is stable. 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 by both state administrative institutions and self-governing bodies on the regional and local levels.

Basic administration

## 2 | Political Participation

Elections are free and fair. They determine the composition of both the Slovakian parliament (via direct election of representatives to the National Council of the Slovak Republic) and Slovak members of the European Parliament, the head of state (via direct presidential elections) and the self-governing administrative bodies for municipalities and regions (via direct elections for municipal and city councils, self-governing regions, heads of municipalities, mayors and regional governors). The electoral turnout in all types of elections has been declining since the beginning of the 1990s. For example, while it was 69.99% in the 2002 parliamentary elections, it dropped to 54.67% in 2006.

Free and fair elections

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

Effective power to govern

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

Association / assembly rights

There are unrestricted freedoms of opinion and press. The mass-media system provides for a plurality of opinions. In addition to the public media organization, Slovak TV and Slovak Radio Broadcasting, several private TV and radio stations operate in the country. The printed media are more diverse. During the period under examination, the government did not make any visible attempts to influence public broadcasting. However, media watchdogs (e.g., MEMO'98) believe that there is some evidence of self-censorship in the public media and that the editorial/journalistic autonomy of private media outlets is constrained because they depend on their owners.

Freedom of expression

## 3 | Rule of Law

There are no constraints on the separation of powers within the parliamentary-democracy arrangement. Governmental bodies limit and monitor each another. There is no excessive influence by any one of the branches and no visible tendency toward the collusion of powers among the democratic institutions.

Separation of powers

In addition to the separation of powers between the legislative and executive branches, the judicial branch has maintained its independence. The judicial system is free from unconstitutional interference by other institutions and professionally differentiated. There is a three-tier court system (ordinary jurisdiction) and a specialized Constitutional Court. The performance of the Constitutional Court is still constrained by the workload resulting from its very broad powers in protection of human rights and judicial review. The main criticism of the judicial branch

Independent judiciary

relates to the amount of time it takes to adjudicate cases. Due to their onerous workloads and the sometimes inadequate professional qualifications of some judges, ordinary courts bear most of the blame for delays in legal proceedings. As a result, individual citizens have exercised their right to appeal to the Constitutional Court when they feel that long-drawn-out proceedings have violated their constitutional right to court proceedings that are not unnecessarily delayed. The large number of such cases might compromise the Constitutional Court's most important role – that is, judicial review – and has often led justices to delay decisions on controversial issues, such as abortion.

Corrupt politicians and civil servants are usually prosecuted under existing laws, although the political culture and legal loopholes often enable them to avoid criminal prosecution. Although Slovakia has established most mechanisms to safeguard public integrity, its performance has been rather weak due to the lack of effective sanctions and the public's rather high tolerance for corruption. In 2008, the Council of Europe's Group of States against Corruption (GRECO) criticized Slovakia's legal provisions dealing with corruption for being too complex and bulky. GRECO emphasized that the offence of bribing public officials should also apply to situations in which there is neither "a breach of duty nor procurement of a thing of general interest."

Prosecution of  
office abuse

The Slovak Constitution, Bill of Fundamental Rights and Freedoms, and other laws protect human and civil rights. Citizens are free to turn to the Constitutional Court if they believe a state organ has violated their constitutional rights. Several other institutions, such as the Office of the Public Defender of Rights (the first ombudsperson was elected in 2002), the Slovak National Human Rights Center and several influential NGOs (e.g., Charta 77, the Helsinki Committee for Human Rights, the Milan Šimečka Foundation and Amnesty International) are actively engaged in protecting civil rights. There are no restrictions on civil rights. The state established special institutions to provide legal help to low-income citizens, and several NGOs provide legal advice to low-income and other disadvantaged citizens in order to protect their civil rights.

Civil rights

Services and information provided by the public administration to citizens has improved considerably since 2000. The Act on Free Access to Information has been increasingly employed, and Internet-based communication has improved. The act stipulates that the government, parliament, ministries, courts and all public bodies and institutions must publish "everything that is not classified" on their Web sites. Moreover, the state administration is obliged to provide information to any person or organization that demands information held by state and public institutions, regional and local self-governing bodies as well as private organizations making public decisions.

#### 4 | Stability of Democratic Institutions

Democratic institutions, the administration and the justice system are functional. There are no serious conflicts between the parliament, president, executive and judicial branches of power. The main conflict line is between the parties in the ruling coalition and the opposition.

Performance of democratic institutions

All relevant political and social players accept democratic institutions as legitimate.

Commitment to democratic institutions

#### 5 | Political and Social Integration

Since the 2006 elections, the party system in Slovakia has become more stable than it was in the past. For the first time, no major new party gained seats in the parliament and in the government. The degree of party fragmentation within the parliamentary party groups has also decreased, and only a few members of parliament have left their party caucuses. However, party competition still lacks systemic characteristics, and parties are built more around personalities than programs. Parties in Slovakia are elitist and rather weakly rooted in society, and their local and regional organizations serve mostly as election-campaign machines rather than as brokers between the state and society. Elite-created parties do not have strongly developed mechanisms of accountability, which may undermine party organizations and interest mediation. This results from the low degree of coordination among interest groups and parties. However, voters' affiliation along left-right, conservative-liberal and national-ethnic issues has remained rather stable over the years, and voter volatility has decreased over the last few years.

Party system

The 2006 elections have strengthened party competition over socioeconomic issues, although the national-ethnic issue still influences party competition in a salient way. The latter dimension is dominated by the SNS and the SMK (Party of the Hungarian Coalition), which unites all centrist, rightist, leftist, conservative and liberal elements among ethnic Hungarians. Support for the LS-HZDS rapidly declined and dropped to below 10%. On the left, Smer-SD became the only non-communist, left-wing party after it merged with four smaller leftist parties. Parties on the right are fragmented, and religious issues have strained relations between the SDKÚ-DS and the KDH (Christian Democratic Movement). The effective number of parties (ENP) ranges between 3.19 (1992) and 6.12 (2002). After the 2006 elections, the ENP decreased to 4.88. Traditional polarization between "the coalition" and "the opposition" has remained relatively high, and the government shows particular disregard for the declarations and proposals of the major opposition party, the SDKÚ-DS, led by former Prime Minister Dzurinda.



Interest groups in Slovakia are well-differentiated and -organized. 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 policy-making through various advisory bodies (e.g., tripartite mechanism, advisory bodies for minorities and NGOs). In the context of the introduction of the euro and the emerging economic crisis, the Fico government has initiated several “social agreements” with business, financial and employers’ organizations and the trade unions. The government re-passed the act on tripartite dialogue that was abolished by the second Dzurinda government, and it also amended the Labor Code in accordance with the majority of trade-union demands. The trade unions’ access to the government has clearly improved. Despite the prime minister’s populist and hostile rhetoric toward the “multinational monopolies” and “foreign companies,” the voices of employers and businesses have not been marginalized. In the end, a majority of the government’s demands and proposals have been settled. The fact that none of the interest groups dominates the process of interest representation indicates the presence of competing social interests. Under these conditions, a relative social consensus has been established, and the risk of social protest lies within the limits of consolidated democracies.

Interest groups

The dynamics of civil society have also remained rather positive under the Fico government, and consent to democracy has increased. This increase could be explained by improvements in economic and social conditions. From 2006 to 2008, citizens’ satisfaction with democracy and trust in political institutions increased, according to Eurobarometer surveys in that period. This is especially the case when it comes to trust in the government (+16%) and in the parliament (+7%). The overall satisfaction level with the way democracy works in Slovakia has increased by 10%, up to 35%, which is still not very high when compared to those in other EU member states. Nevertheless, more than two-thirds of the population approves of democracy as the best form of government. Still, only 48-49% is satisfied with the democratic political regime when compared to the previous communist regime, 18% do not see any change and 27% view the current regime as the worst form of government (Institute for Public Affairs 2008). There are no political protests that would question democracy as such.

Consent to  
democratic norms

A prevailing majority of political elites and citizens do not see any alternative to democracy, and the public strongly approves of democracy and democratic norms and procedures. Democracy is generally associated with freedom, participation, high socioeconomic status and education. In the past, trust in political institutions was usually low. Since Robert Fico and his party have assumed power, trust in state institutions has increased. This can be attributed to increasing levels of satisfaction with the improving social and economic situation as well as to the prime minister’s charisma and ability to successfully communicate with a broad section of the public.

The most influential NGOs and think tanks are a legacy of the anti-Mečiar mobilization in the late 1990s and are primarily based in the capital. They participate in policy-making, and some of them have been responsible for a large number of reforms. At the regional level, the number of NGOs providing beneficial public services has increased. Since 2002, the number of interest groups, professional organizations and civic associations has been increasing, and they have jointly contributed to the institutionalization of civil society. The parliament passed an act on tax assignment in 2001 that allows taxpayers to donate 1% of their personal income taxes to an NGO of their choice. A 2002 amendment broadened the applicability of the provision to the corporate income tax. In 2004, the donation level was increased to 2%.

Associational  
activities

All three parties in the governing coalition favor a stronger role for the state and do not have much trust in the third sector. This attitude was behind the 2006 proposal to abolish the 2% tax assignment for corporations while increasing the minimum amount that individuals may assign. This move provoked a broad-based mobilization of the third sector, which succeeded in getting the Finance Ministry to drop the proposed changes. In December 2007, the Interior Ministry proposed an amendment to the act on associations that would have strengthened the powers of the state over association activities. Once again, civil society actors protested and organized a campaign against the amendment, which led the ministry to drop the proposed amendment.

Slovak society has traditionally had an individualistic character marked by low interpersonal trust (16% in 1999 and 22% in 2004). According to public opinion polls, three-quarters of the population supports NGO activities (Institute for Public Affairs, 2008).

## II. Market Economy

The Slovak Republic is a functioning market economy that has been gradually converging with the economies of other EU member states. In general, there is no massive exclusion due to poverty, education or sex-specific discrimination; the Roma minority is the only exception.

### 6 | Level of Socioeconomic Development

The Slovak Republic has reached a relatively high level of socioeconomic development compared to other former communist countries. Especially after the pro-market reforms of the second Dzurinda government, including the cuts in social spending and the 2004 tax reform, the economy was the fastest-growing one in the

Socioeconomic  
barriers

EU-27 between 2006 and 2008. Thanks to high economic growth and an increased employment rate, the overall effects of Dzurinda's policies on inequality and poverty were rather modest. Income disparities have grown since 1989, but they are still limited in absolute terms.

The economy has continued its upswing. This positive development can be attributed to the strong domestic demand for and the growing exports of cars, machinery and equipment. All basic macroeconomic indicators exhibited a positive trend in the period under observation. FDI was rising. After doubling in 2005, the current account deficit was diminishing, as were public debt and the negative budget balance. GDP grew in 2005 by 6.6%, in 2006 by 8.5%, in 2007 by 10.4%, and in 2008 by 6.4 %. This sustained level of growth has made Slovakia one of the top performers in Europe. However, the global economic crisis has hit Slovakia's automotive industry hard. Slovakia's exports are dependent on this industry (e.g., a total of 770,000 cars were manufactured in Slovakia in 2008). According to the country's central bank, Slovakia's economy will only grow by 2.1% in 2009.

The positive results occurring between 2006 and 2008 did not make Slovakia free from social exclusion. Despite the recent economic boom, unemployment is still one of the highest in the European Union. However, during this period, the unemployment rate dropped by an annual rate of 1%. In the fall of 2006, it was 12.8%, and in November 2008, it was 9.1%, which was the second-highest rate in the European Union. Particular ongoing challenges to social justice can be found in the appalling long-term unemployment rate (of almost 70%), strong regional disparities and chronic discrimination against members of the Roma minority in both the labor market and public space. Although the Fico government has promised to correct the "neoliberal" bias of its predecessor and to restore social cohesion, the changes to date have only been moderate.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	42227.3	47890.9	55826.9	<b>74971.9</b>
Growth of GDP	%	5.2	6.5	8.5	<b>10.4</b>
Inflation (CPI)	%	7.5	2.7	4.5	<b>2.8</b>
Unemployment	%	18.1	16.2	13.3	<b>11.0</b>

		2004	2005	2006	2007
Foreign direct investment	% of GDP	7.2	5.0	7.5	<b>4.5</b>
Export growth	%	7.4	10.0	21.0	<b>13.8</b>
Import growth	%	8.3	12.4	17.7	<b>8.9</b>
Current account balance	\$ mn.	-3296.1	-4004.7	-3937.5	<b>-4102.6</b>
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-2.7	-2.8	-3.4	<b>-1.8</b>
Tax Revenue	% of GDP	15.8	14.9	13.8	<b>14.1</b>
Government consumption	% of GDP	19.3	18.5	19.2	<b>17.3</b>
Public expnd. on edu.	% of GDP	4.2	3.9	3.8	-
Public expnd. on health	% of GDP	5.3	5.2	5.0	-
R&D expenditure	% of GDP	0.5	0.5	0.5	<b>0.5</b>
Military expenditure	% of GDP	1.7	1.7	1.6	<b>1.5</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

Ideologically and rhetorically, the main ruling party, the Smer-SD, clearly favors state regulation over market-based competition. However, owing to the previous institutional and structural reforms as well as EU-membership restrictions, the government has very little room to reintroduce price regulations, subsidies and restrictions on entrepreneurship. Adaptation to EU laws has increased free and efficient market competition. Despite making economic regulation more competition-friendly, substantial impediments to competition remain, particularly in network industries and in terms of self-employment in creative fields. Further changes are needed so as to facilitate the entry of new market participants. Reform of the public sector is also required in order to reduce the administrative burden on

Market-based  
competition

corporations as well as to support and accelerate the enforcement of legal contracts in court. All these barriers tend to limit growth in productivity.

At the beginning of 2009, the OECD urged Slovakia to step up its reform program, as it still lags far behind the best-performing members in terms of per capita GDP. Since this can partially be attributed to low levels of labor utilization and productivity, the OECD has recommended that reform efforts continue in as areas including the labor market, education and competition.

The Antimonopoly Office of the Slovak Republic was established as a central state administrative body in 1990. Its role is to intervene against competition restriction by entrepreneurs, agreements restricting competition and abuse of a dominant position as well as to take preventive control over market structures through the assessment of ownership concentrations. The office may also sanction the conduct of other state authorities or municipality bodies when they distort the conditions of competition.

Anti-monopoly  
policy

Like all other EU member states, Slovakia is subject to EU antitrust and competition laws. However, as is the case in many EU countries, the efficient implementation of these laws has had its limits. Moreover, there are legal loopholes. For example, foreign companies often complain about the time-consuming procedure for concentration clearance. Since the definition of size thresholds for notifying mergers is very low, some businesses have chosen to ignore notification requirements. In December 2008, the European Commission opened infringement proceedings against Slovakia for failing to reopen competition in parts of its postal sector. Slovenská Pošta, the state postal company, appealed the ruling the same day. However, under the close monitoring of the European Commission, similar attempts to limit free competition have usually died away.

Slovakia's market has been liberalized and integrated into the European Union's common market, and foreign trade and domestic prices are fully liberalized. The Slovak Republic has one of the most open economies in the world.

Liberalization of  
foreign trade

The current government tries to keep internal prices under control. For example, in July 2008, the Regulatory Office for Network Industries (ÚRSO) gained more power to control energy prices. This move should prevent low-income households from spending a higher share of their income on energy. In public speeches, Prime Minister Fico often speaks critically of foreign owners of public utilities, private health-care insurance companies and private retirement funds and threatens to change their legal powers and property rights.

The banking system in Slovakia is healthy. The large majority of banks are owned by foreign investors. Because they are subject to the strict rules of the central bank, none of the banks suffered serious damage during the current financial crisis. In fact, they have continued to enjoy high liquidity and reported solid profits for 2008.

Banking system

The National Bank of Slovakia (NBS) intensified its monitoring of the risk-management practices of banks and aims for unified supervision of the financial sector. At the same time, though, start-ups and medium-sized companies still have problems in securing loans. Problems can still be found in the fact that start-up and medium-sized enterprises still have restricted access to loans. According to data from the NBS, Slovakia's banking sector closed 2008 with a post-tax profit.

## 8 | Currency and Price Stability

The Fico government has been continuing its predecessor's consistent policy on inflation and currency. It has also focused on the consolidation of Slovakia's public finances, which enabled the country to fulfill the Maastricht criteria and introduce the euro. The Slovak Finance Ministry has been carefully watching inflation figures since 2006 and, despite the worries of the European Central Bank, the sound anti-inflation policy in 2008 confirms its promises to keep price increases under control even after entering the euro zone. The period under evaluation was characterized by a high appreciation of the Slovak koruna (SKK) that kept inflation low. The revaluation of the koruna did not considerably affect the price of industrial goods, except for energy. Consequently, the government used all possible measures to keep energy prices under control, which led to controversies between foreign owners and the government. Ultimately, intensive negotiations between the two sides kept prices low, and Slovakia fulfilled the Maastricht inflation criteria in a sustainable way.

Anti-inflation /  
forex policy

The Fico government inherited a stable macroeconomic situation from the Dzurinda cabinet, which is mainly the result of the latter's sound economic policies aiming at macroeconomic stability to enable the country to adopt the euro by 2009. According to a 2008 report by the European Commission Directorate-General for Economic and Financial Affairs, Slovakia meets all the necessary convergence criteria to adopt the euro. The report also states that this favorable situation will more or less continue during the next couple of years with the exception of the inflation rate. The European Central Bank is more skeptical concerning future developments, as already mentioned above (see 8.1 Anti-inflation/forex policy).

Macrostability

## 9 | Private Property

Property rights are adequately defined and protected as civil rights, and the system of property rights complies nominally with EU standards. There are still problems with the effective enforcement of legal norms due to efficiency deficits in the administration and judiciary. Land property rights, in particular, are not adequately protected in practice. For example, in connection with highway construction, the government has revised the country's legislation. Under the new law, passed in

Property rights

November 2008, the state does not need to have all the ownership rights to the land settled in order to receive a construction license. Rather, it just needs to have these rights settled by the time the construction is finished and approved. The opposition rejects the law, which effectively allows the state to build motorways on privately owned land without the consent of the owners. The opposition said it regards the revision as unconstitutional. However, the Constitutional Court has yet to deal with the case concerning the original law, passed at the beginning of 2008, which provided even more freedom to the state.

Private enterprises are the main pillar of the economy in Slovakia. The majority of big industrial companies were privatized by international and multinational firms. Enterprise policy has traditionally been weak. The Dzurinda government increased financial support for foreign investors, especially for those investing in regions with high unemployment rates or in R&D. Likewise, it strengthened its research and innovation policy, and it tried to intensify competition in the domestic market, especially in the network industries. These measures were in line with reform strategies developed at the EU level. According to a survey organized by the Slovak Business Alliance (PAS), the business environment has worsened since the Fico government came into power. The business environment index has dropped 6.5 points over the last two years, and PAS considers law enforcement to be weak. Additional problems that hamper business activities are nontransparent and opaque legislation, high social-security and health-insurance payments, an ineffective social system, high levels of corruption and bureaucracy, and an educational system that is slow to adapt. Although representatives of the PAS concluded that the current business environment may lower economic growth, they nevertheless acknowledged the Fico government's efforts to achieve macroeconomic stability, a balanced budget and the euro changeover.

Private enterprise

## 10 | Welfare Regime

The social safety net is based on three main pillars: social security, state social support and social assistance. Slovakia's welfare system was subject to radical reforms under the previous government. The new government under Fico promised to correct some of these "neoliberal reforms." However, up to now, the changes have only been moderate, and the effects should not be overrated.

Social safety nets

The pension system is a combination of a pay-as-you-go and a funded system. With half of the overall pension contribution rate of 18% flowing into privately funded accounts, the mandatory second pillar became quite big. In addition to the new labor market entrants, who are obliged to contribute to the second pillar, about 1.5 million Slovak citizens have entered the second pillar voluntarily. While the reforms have improved the sustainability of the system, the first pillar still suffers from fiscal problems. Some governmental moves have further aggravated the fiscal problems of the first pillar by introducing a Christmas bonus for pensioners in three

successive years. The government has tried to strengthen the first pillar to the detriment of the second pillar by opening the latter twice to allow contributors to return freely to the first one. According to the OECD, these openings set inappropriate incentives and undermined the long-term sustainability of the pension system. The government defended its actions by saying that it needed to shelter people from the possible impact of the global financial crisis.

The constitution guarantees free health care and provides universal access to reasonably good health care, though it has suffered from inefficiencies and rising costs. In 2007, the Slovak health-care system was ranked 22nd out of 31 European countries in terms of user access, according to the Euro Health Consumer Index (EHCI), which marks an improvement by one rank over 2006. Slovakia recorded a certain improvement regarding patients' rights as well as information and results. However, it could improve its results by introducing preventive measures for previously diagnosed treatments.

The Dzurinda government started to reform the health-care system with a view to increasing its efficiency and reducing costs. It aimed to introduce a two-tiered system consisting of a mandatory health-insurance scheme (with competing insurance funds financing a basic basket of services) and voluntary health-insurance schemes covering additional services. Because of the partial privatization of health care, reforms were highly unpopular. Confronted with heavy political resistance, the Dzurinda government did not succeed in completing the reforms before the 2006 elections, which postponed the privatization of state-run hospitals and the definition of the universal level of health-care services. It also introduced supplementary fees for medical treatment that were abolished immediately after the Fico government came to power. Fico's government has undone part of the reforms and has once again increased the role of the state.

Poverty is no major problem in Slovakia, and policies to ease poverty range from direct financial transfers (e.g., financial assistance to increase income, social subsidies and alimonies) to reductions in expenses (e.g., via school subsidies for children, social services, social-legal protection for children and other specific social programs). Among the Roma, poverty is dramatically high. Social discrimination against marginalized groups is the primary obstacle to their gaining access to social services and education. Compared to those in the majority population, a large portion of Roma children are almost automatically placed in "special needs" schools. During the period under investigation, the situation of the Roma population did not improve because the extremely right-wing SNS participated in the governing coalition and blocked effective policies aimed at reducing sociopolitical discrimination.

The constitution and related laws prohibit discrimination. Due to strong pressure from NGOs and the European Union, an anti-discrimination law was adopted after long political struggles in 2004. However, this law has suffered from serious legal



loopholes, and there have only been a few court cases so far. In general, all Slovak governments have had a narrow understanding of gender-related policies and have been skeptical of cross-cutting gender-mainstreaming policies. Existing legislation and institutions have not been sufficient for preventing a substantial degree of discrimination, especially against women, the Hungarian ethnic majority and, above all, the Roma. The Roma population experiences widespread discrimination and inequality in education, housing, employment, public services and the criminal justice system. Roma also face the threat of racially motivated violence. Even though the law criminalizes such acts, watch-dog organizations report that investigations of crimes against Roma are biased. Since the 2006 elections, the return of the SNS and the LS-HZDS – two parties with strong anti-Hungarian, anti-Roma and homophobic records – into government has raised concerns about the Fico government's commitment to combating discrimination.

## 11 | Economic Performance

Since 2000, the country has experienced continuous economic growth. According to the OECD, real GDP increased by more than 15% between 2006 and 2008. The influx of foreign capital was one of the distinct factors contributing to growing prosperity. FDI recorded a steady increase during the period under consideration, which also confirms the trust placed in the investment climate. In 2008, FDI added up to 4.5% of GDP. The biggest proportion of foreign investment took place in the automobile sector.

Output strength

## 12 | Sustainability

Within the framework of the country's accession to the European Union, environmental protection became a high political priority on the micro- and macro-level. The State Environmental Fund and the Recycling Fund are the key vehicles for implementing obligations arising from international conventions on environmental protection and from the State Environmental Policy. However, the implementation process is very slow, and Slovakia may not meet its obligations, as defined by the Accession Treaty, by 2013, when the transitional period ends. Government spending on environmental protection in Slovakia is lower than the EU average. Environmental policy has not yet become a government priority. During the period under evaluation, more than half of the budget of the Ministry for the Environment was provided by EU funds (in 2008, it was 86%, and it is expected to be 68% in 2009). While the implementation of EU directives is fairly good, the ministry has not managed to spend all the EU money that is potentially available. Most initiatives are based on EU obligations or on pressure by NGOs, which usually lose out when their desires go against the interests of big industrialist groups and developers. The Fico government emphasized its commitment to a better

Environmental policy

environmental policy in its program manifesto. However, its first steps pointed in a different direction and included drastic cuts in the spending of the Ministry for the Environment and the abolition of the parliamentary committee that deals with the environment and nature conservation.

In Slovakia, all public educational institutions are free of charge, and there are also private schools at all levels. Slovakia has one of the highest proportions of people (about 85%) who obtain secondary-education degrees among EU countries. The situation is significantly worse in terms of tertiary education, from which only about 14% of the population obtains degrees. One of the educational system's main social objectives is to enable upward social mobility for individuals based on individual abilities and merits as well as to limit the influence of inherited privileges. However, surveys have shown that the reinforcement of inequalities in intergenerational education is higher in Slovakia than in most EU countries. There is a need to increase public expenditures on education, as government spending on education amounts to only approximately 4.5% of GDP, which is below the EU average.

R&D in Slovakia has suffered from low public spending and weak cooperation between universities and enterprises as well as between foreign and domestic enterprises. The Dzurinda government promised to increase public R&D spending from 0.74% of GDP in 2004 to about 1.8-2.0% of GDP in 2010. It created the Slovak Research and Development Agency and launched a number of programs aimed at promoting qualified researchers and at strengthening cooperation between universities and the business sector. The reforms that were adopted pointed in the right direction, but they did not suffice so as to overcome the existing problems. The Fico government has even reduced public R&D spending, spending only about 0.48% of GDP on R&D. The problem of "brain drain" became salient during the period under observation, and policies were adopted to maintain and increase human capital in R&D, including possibilities of additional funding for junior researchers returning from abroad.

Education policy /  
R&D

# Transformation Management

## I. Level of Difficulty

The structural socioeconomic constraints on governance in Slovakia are very low. First, there are the substantial regional differences between the relatively developed western part of the country (i.e., the Bratislava region) and the rest of the country. Second, there is a lack of infrastructure in central and eastern Slovakia. Third, Slovakia has relatively high long-term unemployment as well as an insufficient amount of skilled labor. Significant ethnic, regional and social heterogeneity (e.g., poverty among Roma population) has not led to serious conflicts, but it remains a long-term, serious challenge to good governance. Profound economic and social structural reforms had already been accomplished under the previous Dzurinda government. As a result, the economy has been constantly growing since 2006, which has significantly improved employment and infrastructure. However, the developing global economic crisis can seriously hit Slovakia because the country has a very open economy that is very dependent on exports, especially automobile exports.

Structural  
constraints

Slovakia has a long tradition of civil society in terms of numerous but small associations, which have aimed mainly at self-help, charity and local and vocational interests. Such associations were mostly embedded in family and neighbor relations. Although the large organizations based on a modern industrial society and organized along class and professional alliances do not have such a long tradition, they have nevertheless become well-established and -respected in recent years as part of the social dialogue. Dissatisfaction with the Mečiar regime stimulated the massive emergence of NGOs focused on monitoring human rights, the quality of democracy, economic performance, corruption and the government's agenda. Since the 2006 elections, these organizations have effectively observed the government's policies and derailed some draft legislation proposed by the Fico government (e.g., the Press Act and the Education Act), which was forced to take the interests and objections of the NGOs into account. NGOs are usually very effective at mobilizing media and public attention as well as communicating via Internet-based networks. The main pattern of collective action that prevails in Slovakia is moderate participation; collective protest culture is limited to petitions and peaceful rallies. Trust in political institutions and social trust have increased under the Fico government thanks to efficient communication with the public. Fico has become the most popular and trusted of politicians despite the fact that his popularity has been

Civil society  
traditions

very divisive for politics and society.

In Slovakia, violent collective protests are absent. The deep polarization and confrontational nature of politics that characterized Slovakia in the mid-1990s have substantively decreased. The most salient division in Slovakian society is the split along ethnic lines that manifests itself in party politics and breeds the unity of the Slovak Hungarian Coalition Party (SMK) and the persistence of the Slovak nationalist SNS and its adversarial style of politics. Although there is a relatively strong tradition of power-sharing arrangements among Hungarian and Slovak parties at both the local and regional levels, the participation of SMK in both Dzurinda governments has not lessened support for the SNS. Since the SNS became a junior coalition partner after the 2006 elections, ethnic polarization has again increased, and there have been a few violent conflicts, including a very serious clash between Slovakian football fans and the Slovak police in Dunajska Streda. This clash actually provoked more protests in Hungary than in Slovakia, where several initiatives demanding the peaceful solution of conflicts took place in the ethnically mixed regions.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

Due to populist announcements during the electoral campaign, the new government led by Prime Minister Robert Fico and composed of the left and nationally oriented parties raised many doubts about the course of Slovakia's development. However, in many aspects, the new government has stuck to the economic policies of the previous two governments and introduced only minor changes, all of which have aimed at returning more power to the state. In addition, society has become more differentiated, organized (in terms of powerful economic and social actors) and institutionalized, which has given the government even less room to implement fundamental institutional changes.

Prioritization

Preparations for introducing the euro were the highest priority of the governing coalition (as it had been for the former government), which further limited governmental discretion. The fact that Slovakia joined the Schengen passport free zone in 2007 and introduced the common European currency in January 2009, thereby fully completing its membership in the European Union, has also imposed additional constraints on the ruling coalition.

The Dzurinda government had been rather effective at simultaneously implementing a number of radical pro-market reforms, which left the economy in very good condition. As a result, the Fico government did not have to deal with any substantial reforms at the beginning of its term. Given the Smer-SD critique of the “neoliberal” reforms and pro-social-welfare commitments, it was quite surprising that the Fico government continued to pursue macroeconomic criteria and prepare a budget that was balanced and sound enough to allow the adoption of the euro in 2009. A sound monetary policy and a balanced budget are the main priorities in actual policy-making.

Although the government has claimed that it is pursuing long-term goals of improving welfare and promoting education and research, it has not been able to demonstrate how it would achieve these goals. The main issues have been related to a lack of financial funds in the Social Insurance Company, the prices of gas and oil, and the financing of highway construction under the private-public partnership arrangement. The government’s steering capability has primarily suffered from a lack of clarity about how to manage these problems as well as from a lack of policy coordination. However, the ongoing economic crisis has forced the political leadership to adopt some measures aimed at countering declining economic growth. The government started negotiations with the main business groups and trade unions over measures to help declining industrial performance and rising unemployment. The government adopted around 62 anti-crisis measures, which include increasing the maximum amount that can be deducted from income taxes, increasing the use of EU funds in operational programs, re-evaluating the public administration’s budgetary goals and shortening the deadline for requesting a refund of excessive VAT paid on input. Parliament has also relaxed budgetary rules for local and regional authorities, thereby allowing local and regional authorities to use revenues from their capital budgets and money from past years to make up for shortfalls in their ordinary budgets. According to the opposition, the government’s measures against the crisis are insufficient and were passed too late.

The opposition argues that the government should focus on decreasing the income tax rate, decreasing social fund contributions, simplifying these complex contributions and further amending the Labor Code, and it has called for measures that would help reduce government expenditures. The measures contained in the crisis package passed by the government have primarily encouraged consumer demand and improved the business environment. However, priorities remain unclear, and many policy measures are only aimed at meeting short-term goals.

The Fico government has been quite successful at implementing policies related to the country’s entry into the Schengen and euro zones. It met the demands of the main trade unions and amended the Labor Code, and it has changed some social policies. The government has tried to introduce some changes to the legal regulation of associations, but doing so has provoked sharp criticism from the

Implementation

political opposition and civil society actors. However, the Fico government has implemented neither a coherent anti-corruption policy nor additional measures aimed at decentralizing public administration. Likewise, modernization of the school system and R&D policies has continued to be rather limited by the institutional inertia in these sectors.

The Fico government has clearly learned from the mistakes of the second Dzurinda government and focused on using a rather populist form of communication with the public, criticizing “international monopolies” and “foreign owners,” and making the improvement of welfare a major priority. However, only minor changes to previous economic policies have been introduced, and no major reforms have been discussed in the cabinet. The Fico government’s learning process has not brought about any innovative actions or solutions that could modify either the substance of reforms or change the knowledge base or cognitive framework. Learning has only led to a sporadic reshuffling of the cabinet.

Policy learning

## 15 | Resource Efficiency

Since Mečiar’s rule, having a balanced state budget has been a priority for all governments, including Fico’s. The 2007 budget had a deficit of 2.9% of GDP, however it is not granted that the new government’s aim of building a social state will be incompatible with maintaining tight fiscal discipline and strong economic growth. The state budget mainly supports the health-care system, agriculture and transport infrastructure. Spending on education, science and research were frozen or lowered in 2007. This may have a negative impact on developing human resources, which was also partly neglected by the previous government. The simple tax system stimulated higher tax revenue in 2005 and 2006, particularly thanks to increased VAT revenues.

Efficient use of assets

In terms of human resources, the efficiency of the second Dzurinda government increased along with the successful implementation of fiscal decentralization in 2005. Due to changing laws and numerous amendments, some state agencies (e.g., the Social Insurance Company and the General Health Care Insurance) were constantly overloaded by the additional burdens associated with implementing new policies and administrative tasks. In the end, however, they did succeed in fulfilling all their duties. Efficiency under the Fico government has suffered from an increase in the central state apparatus, a lack of qualified staff in the local civil service and relatively frequent ministerial changes. The current government uses political appointments and limits the powers of independent regulatory agencies, thereby going against one of the main pillars of the previous government’s reform package.

Thanks to reforms to the civil service, regionalization and decentralization, the performance of public service has slightly improved. Professionalism and the

quality of civil service increased due to a better selection system, specialized training and special (higher) wages for the top civil servants. However, elected representatives and civil servants at the regional and local levels of self-government are more prone to corruption, and these levels of administration still suffer from a lack of public involvement and control.

Under Fico, drawing from the European Structural Funds has improved. When the cabinet took office in July 2006, it was rather low, but the current figure is more than 90%. This has resulted mainly from the gradual formation of specialized teams tasked with drawing EU funds.

Unlike the current government, the second Dzurinda government was politically and ideologically the most coherent in Slovakia's short history, and all coalition parties acknowledged a need for structural reforms. However, because some of the planned reforms (e.g., in the health and education sectors) were not carefully prepared, sequenced and coordinated, the previous government lost its public support. The Fico government has not offered any fundamental policy changes and prefers to coordinate its policies with the major business and trade-union organizations as well as with other relevant economic and business actors (e.g., banks). By dismissing several ministers and officials nominated by the SNS and the LS-HZDS who were involved in the inappropriate use of public funds, the Fico government has tried to discipline its junior coalition partners. Policy coordination appears more "streamlined" and facilitates a more majoritarian style when compared to that of the Dzurinda governments.

Policy  
coordination

The institutional structure for combating corruption is well-established in that there are several special institutions that deal with corruption. In 2002, Dzurinda's government introduced reforms to prevent and prosecute corruption (e.g., with the establishment of the Special Court and the Special Attorney's Office for corruption cases in 2005). It also strengthened the powers of existing institutions (e.g., those of the Supreme Auditing Office) improved the law on party financing, increased transparency in the judiciary and local governments and raised the accountability of public officeholders (e.g., when it comes to asset declarations and conflicts of interest). Several proposed pieces of legislation (e.g., a bill on demonstrating the origin of assets and another on lobbying) were not passed at all due to a lack of sufficient support in the parliament at the end of its term. The enforcement mechanisms regulating the auditing of party finances, public procurement, control over the allocation of state subsidies and EU funds are not sufficiently effective. Although the Fico government took over anti-corruption institutions, it has not paid particular attention to combating corruption. For example, it did not incorporate any relevant new anti-corruption measures into its program. In 2006, the new minister of justice submitted draft legislation that would do away with the Special Court and the Special Attorney's Office, but the proposal was ultimately withdrawn.

Anti-corruption  
policy

## 16 | Consensus-Building

Despite the very confrontational political and nationalist rhetoric between the coalition and opposition, there is a strong – though implicit – consensus about many political and economic goals.

Consensus on goals

Major political actors agree on fostering both a market economy and democracy, but there are differences of opinion when it comes to the particular kind of market economy. While right-leaning parties prefer just a market economy, left-leaning parties insist on a socially oriented market model. Prime Minister Fico has preserved the main policies passed by the previous Dzurinda government. As a result, although there is a de facto political consensus, it does not seem that way when it comes to political rhetoric and action. For example, the current opposition parties have refused to sign a memorandum on adopting the euro, while the most important social actors (i.e., the employers' unions, trade unions and municipalities) signed a pact of stability supporting the government's declaration on the adoption and use of the euro and promised to refrain from taking any steps that would threaten the country's plans to adopt the euro.

The government and the opposition have continued to use hostile and critical rhetoric over the market economy and the role of the state. Although the leftist Smer-SD has opposed any neoliberal policies and has advocated in favor of a socially oriented market economy, its actual policies have not offered any systematic alternative to the previous reforms.

Anti-democratic veto power actors do not exist in Slovakia. Although nationalist and ethnic conflicts have increased and have become violent on a number of occasions (e.g., after a football match in Dunajska Streda), irreconcilable political conflicts are not likely to emerge. Although the unreformed communists (in the Slovak Communist Party, or KSS) failed to re-enter parliament in 2006, they received almost 4% of the vote.

Anti-democratic  
veto actors

There are no political tendencies that could lead to irreconcilable conflicts. However, since the inclusion of the SNS into the coalition government, the ethnic issue has again been politicized by both nationalist/ethnic parties (i.e., the SNS and the SMK) because both parties believe that they can increase their popularity by fostering ethnic friction. The previously minor irredentist tendencies of leaders of the SMK have increased. This has been the case since March 2007, when Pál Csáky replaced the former moderate leader Béla Bugár after Miklós Duray, who has frequently and ardently propagated irredentist appeal, became a vice-chairman for strategy and used this position to express his opinions in a more militant way. The nationalist clashes were primarily related to the so-called Benes decrees, the Education Act, the SMK's participation in the Forum of Hungarian Members of Parliament of the Carpathian Basin, and the violent accident after the football match

Cleavage /  
conflict  
management



in Dunajska Streda. Ján Slota, the leader of the SNS, has frequently used nationalistic and offensive rhetoric toward ethnic Hungarians and official Hungarian representatives and symbols. Prime Minister Fico has tolerated these outbreaks and has not sought to limit the damage they have caused to Slovak-Hungarian relations. The events and Slota's statements have triggered popular protests in Hungary, including nationalist campaigns by the Hungarian Guard, a right-wing organization in Hungary whose members don military uniforms reminiscent of the fascist regime of Miklos Horthy, who ruled Hungary between 1920 and 1944. In response, a group of mayors of Slovak towns with mixed populations called for reconciliation and declared that neither Slovaks nor Hungarians wish to be hostages to nationalist agendas.

Before the 2006 elections, Fico's party concluded an agreement with the Confederation of Trade Unions and promised to strengthen social dialogue at the national level, which had previously been weakened by the repeal of the law on tripartite negotiation under the center-right Dzurinda government. The Fico government has co-opted trade and employers' unions into policy-making, and it has attempted to change laws regulating civil society organizations. These attempted moves have led to a broad mobilization of NGOs, which have successfully used Internet-based networks to block proposed changes. Although the Fico government consults with external experts and policy advisers (e.g., individuals in the Slovak Academy of Science), there is less consultation between the government and think tanks.

Civil society  
participation

Since a majority of relevant political actors in Slovakia acknowledged a need to overcome past injustices and crimes, the Nation's Memory Institute (NMI) was established during the second Dzurinda government. The NMI provides up-to-date access to previously undisclosed records of the activities of the repressive organs of the Slovak and Czechoslovakian states in the period of oppression between 1939 and 1989. However, since the Slovak polity is still split over the two authoritarian regimes (e.g., the clero-fascist and the communist ones), the process of reconciliation has been rather weak. Secret police files occasionally seem to be manipulated and used against important public and political figures.

Reconciliation

## 17 | International Cooperation

The second Dzurinda government effectively used international aid to implement its reform priorities; it also founded the Slovak Aid Agency. Since 2008, Slovakia has no longer taken advantage of the resources of the World Bank. Although the current leadership works with bilateral or multilateral international donors and tries to make use of international assistance, this has yet to facilitate significant policy learning and improvement.

Effective use of  
support

By meeting its international obligations, the Fico government has convinced the European Union and financial organizations that it is fully dedicated to market-based democracy. Likewise, the United States announced in October 2008 that Slovakia, along with five other formerly communist eastern European countries and South Korea, had been accepted into the Visa Waiver Program, which allows citizens of those countries to visit the United States without a tourist visa. Slovakia's government is also perceived as credible and reliable by the international community, which particularly appreciated the sound macroeconomic policies it implemented in order to be able to adopt the euro in 2009. However, Fico's speeches against international economic actors, foreign investors and institutions as well as his lack of criticism toward Russia, Belarus and Cuba have raised doubts about Slovakia's credibility, and this discrepancy between his rather rational foreign policies and rhetoric remains his main weakness. The Party of European Socialists (PES) in the European Parliament suspended Smer-SD's membership because it entered into a coalition with the SNS. In 2008, this suspension was lifted, but the coalition still remains controversial in the European political family.

Credibility

The Fico government has announced an "economization" of its foreign policy, which implies closer cooperation with Russia and China. However, until the end of 2008, it primarily focuses on multilateral cooperation by meeting the criteria for EMU accession. By joining the EU club of developed countries, Slovakia has acquired greater credibility among foreign partners, which has led to a growing influx of FDI. The changes of the government and the global economic crisis have tested investors' trust in the country's reliability and the true advantages of introducing the euro. In January 2009, Slovakia suffered from the gas crisis brought on by the conflict between Russia and Ukraine. This event confirmed the advantages of EU membership because the country received gas deliveries from the Czech Republic via a route that bypassed Ukraine.

Regional  
cooperation

The Fico government declared that it will pursue a policy of closer cooperation within the framework of the Visegrad Group. However, its closest partner remains the Czech Republic, while relations with Hungary have continued to be strained over the position of the Hungarian minority in Slovakia and due to instigative statements by SNS leader Ján Slotá and the subsequent mobilization of militant groups in Hungary. Relations with Poland have remained stable and neighborly.

## Strategic Outlook

Democracy in Slovakia is consolidated, and the country maintains democratic structures. Although the functioning of institutions continues to improve, there are some drawbacks in terms of policy-making and government decentralization. The country's membership in the European Union and the OECD functions as an additional stabilizing factor.

During the period under review, Slovakia enjoyed many positive trends in its economy until mid-2008, when the country experienced serious hits due to the global economic crisis. Since the 2006 elections, the government has successfully completed its process of becoming an EU member by joining Schengen at the end of 2007 and introducing the euro in January 2009. Slovakia proved that it was efficient by adopting the *acquis communautaire* and improving its economic and administrative conditions. Nevertheless, there is room for improvement both politically and economically. The increasing polarization between the government and the weak and fragmented opposition, which is usually ignored and insulted by the prime minister, does not undermine its institutional stability, but it may lead to the institutionalization of a similar pattern of polarized government and opposition relations that hinder government efficiency in Hungary and the Czech Republic.

Public policies must focus on the fight against organized crime and corruption in the state administration and judiciary. Slow, sluggish courts constitute another urgent issue that needs to be addressed. Maintaining a balanced budget and increasing expenditures on R&D and education must also be on the government agenda. Several reforms to the country's welfare regime are needed, particularly regarding health care and the stabilization of pension and social policies. More energetic measures must be introduced into labor market policy, and labor mobility must improve. In response to the global economic crisis, the government has adopted crisis measures and moved toward greater regulation of energy prices and revising the country's pension system. However, the majority of policies are still just ad hoc responses to changing conditions, and a clear policy program is absent.

This will require solid consensus among political parties on long-term goals, which has proven impossible so far. The government's public policies have gained the approval of major social partners. Although the Fico government and Fico himself remains highly popular, citizen participation in political life and civil society has not been strengthened. Doing so will require coordination between civic organizations and interest groups at the national, regional and sectoral levels.