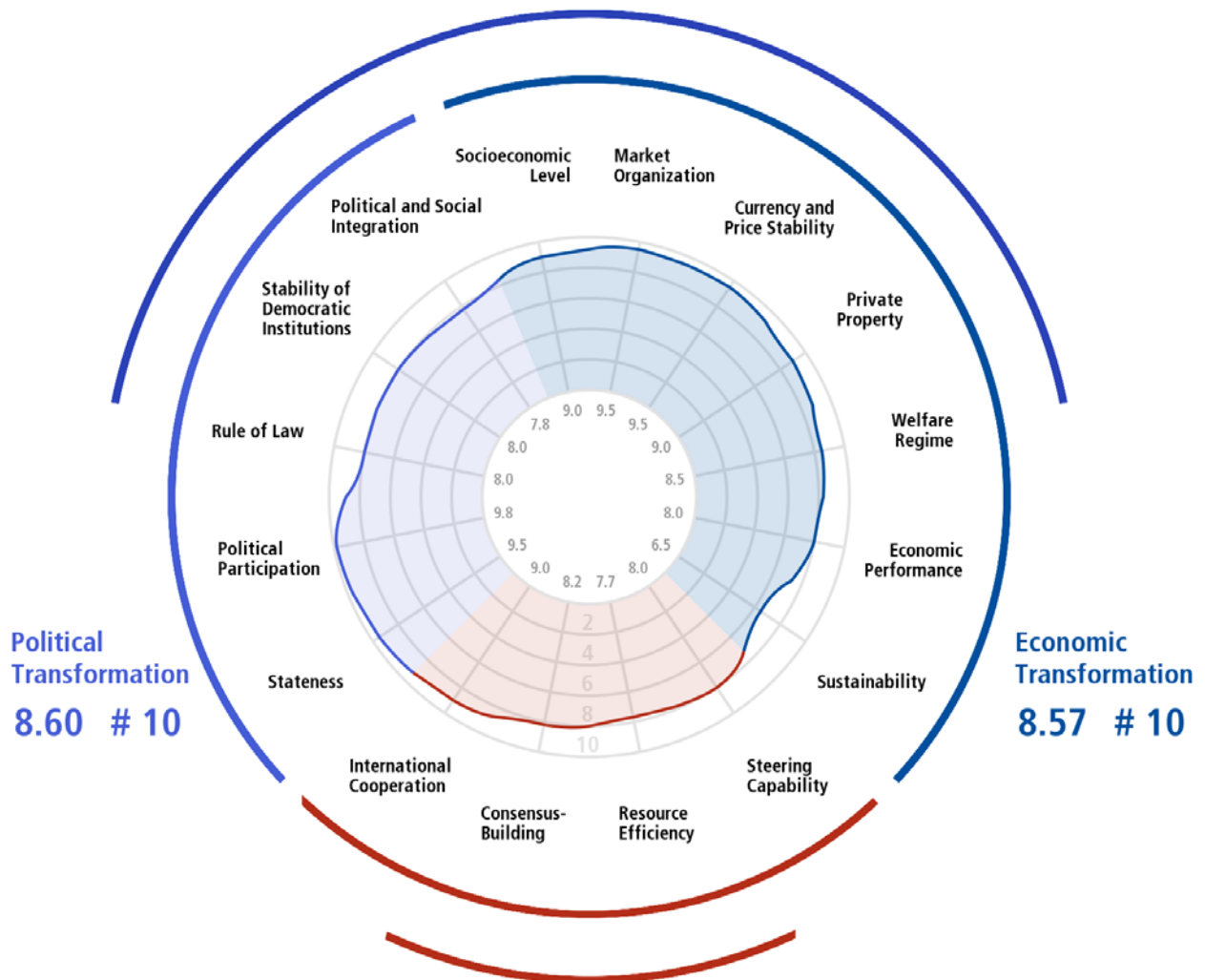


Slovakia

Status Index

8.59 # 9

on 1-10 scale out of 129



Political Transformation
8.60 # 10

Economic Transformation
8.57 # 10

Governance Index

6.70 # 11

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	0.845	GDP p.c., PPP \$	30632
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	40	Gini Index	26.1
Life expectancy	years	77.2	UN Education Index	0.838	Poverty ³	% 1.2
Urban population	%	53.5	Gender inequality ²	0.180	Aid per capita \$	-

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review, there were two governments in Slovakia. Since 2012, a single-party government (Direction-Social Democracy, Smer-SD) led by Robert Fico ruled the country. After the parliamentary elections on March 5, 2016, Fico was reelected as prime minister. However, this time the government has completely changed because the elections produced a fractious parliament with eight parties. Forming a stable government that would last the four years until the next scheduled elections looked almost impossible.

Fico had to accept new coalition partners, including three other parties. Two of them belong to the center-right (Most-Híd and Siet') while the Slovak National Party belongs to the radical nationalist right; however, the party before the elections reformed its program and got rid of some old discredited leadership, namely the former chairman Ján Slota.

Although Slovakia is governed by the same prime minister, the political situation has changed since the elections. However, it is difficult to define the main developmental trajectory. Policy-making and politics are slowly muddling through in different policy areas.

The electoral campaign was shaped by the governing party Smer-SD's attempts to instrumentalize the migration crisis in Europe. Smer-SD's support was decreasing given the high levels of corruption and inability to deliver proper social democratic policies. Strikes of teachers and nurses and scandals in the health care sector undermined Fico's credibility and his party's rating. Moreover, the government's latest package of welfare changes offered pensioners a measly increase of €1.90 per month, undermining support in one of the party's core demographic cohorts. Aware of this decline of support, Fico responded by pandering to nationalistic sentiments. Smer-SD's main campaign slogan shifted from "We work for the people!" to "We will defend Slovakia!" Fico continued with an anti-Islam discourse constantly repeating that there is no place for Islam (ergo Muslims) in Slovakia. Even at the final pre-election party rally, Fico reiterated his desire not to see a single Muslim migrant on Slovakia's soil.

The March 2016 elections have almost fully shattered the party system. Even given the previous high levels of fragmentation and instability of individual parties, especially on the center-right, the election reshuffling has been considerable. Firstly, the number of parliamentary parties increased to eight. Three new parties entered parliament: the extremist right-wing party Kotleba-People's Party Our Slovakia (Kotleba-Ľudová strana – Naše Slovensko, ĽSNS), the populist xenophobic We Are a Family (Sme Rodina – Boris Kollár) and the mainstream moderate conservative center-right party Siet' (Network). Two former center-right government parties – SDKÚ-DS and KDH – experienced a harsh loss of votes and thus lost parliamentary representation. Libertarian party SaS became the second strongest party. The governing party Smer-SD lost its absolute majority (and 40% of its seats). An alarming development was the success of right-wing extremist and populist nationalist parties (Kotleba – ĽSNS, Sme Rodina – Boris Kollár as well as SNS). Together they received more votes than Smer-SD. Obviously, Fico's intention to attract voters with a populist and nationalist campaigning did not succeed in as anticipated. Rather it seems to have strengthened the extreme right and nationalist parties like ĽSNS and SNS. As a consequence of this election result, a coalition government was formed. The coalition initially consisted of Smer-SD, SNS, Most-Híd and Siet' but in August 2016 Siet' practically collapsed after several defections of deputies. This means that the majority of the ruling coalition is quite narrow.

The dominant topic in the political debate remained the stubborn position toward the refugee crisis and common European solution regarding the redistribution of migrants. Fico filed a lawsuit against the EU decision of quota at the European Court of Justice. Fico's positions in essential EU matters has made Slovakia's presidency controversial. Paradoxically, Fico continues to support sanctions against Russia (see his closing speech in the European Parliament) which have some speculating that he is playing a double role.

Slovakia took over the EU Presidency for the first time on July 1, 2016, under difficult circumstances, just after the Brexit referendum and the escalation of migration crisis. The government was eager to have a positive record; however, its harsh position on the migration issue made it difficult to act as an "honest broker" which is the traditional role of the presidency.

In the period under review, the Slovak economy recorded one of the highest rates of GDP growth in the EU and OECD; in 2015 3.6%, and in 2016 3.2%. For 2017 the expected growth is 3.3%. Economic growth was largely driven by private consumption and public investment financed by EU funds. Favored by the strong economic growth, unemployment declined and the fiscal stance improved.

As for the quality of democracy, ongoing problems with media, the judiciary, discrimination against the Roma and with corruption have largely persisted. Despite spectacular corruption scandals, most notably in the health sector, few attempts to strengthen integrity mechanisms were undertaken, and no political or businessperson was sentenced or convicted up to now. It remains quite unclear how the new government is aiming to tackle these problems.

History and Characteristics of Transformation

After the dissolution of the Czech and Slovak Federal Republic (CSFR, or Czechoslovakia) in 1993, the independent Slovak Republic deviated from the liberal 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 EU 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, the president, independent media, NGOs, ethnic minority representatives and churches. 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 the continuation of the semi-authoritarian regime. The resulting victory for democratic forces underscored the Slovaks' devotion to democracy. In the 1998 to 2002 election term, Slovakia again embarked on a path toward integration, democratic consolidation and a market economy. The first post-Mečiar government, led by Mikuláš Dzurinda, launched a renewed foreign policy line focusing on membership in NATO, the European Union and the OECD, as well as on gaining broader 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. The reformist political and societal forces (the parties, NGOs, experts and public intellectuals) maintained dominating positions over the anti-reformist 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, some aspects of social policy and the implemented labor code reforms, as well as the coalition strategies of the anti-reformist Smer-SD party, led to a complete change of party composition in the government following the 2006 elections. The ideologically heterogeneous coalition government composed of the left (Smer-Social Democracy), and the nationally oriented authoritarian parties (the Slovak National Party and the People's Party – Movement for Democratic Slovakia) raised many doubts about the course of country's development. Nevertheless, the first Fico government maintained the previous government's main economic priority of meeting the economic criteria for adopting the euro on schedule on January 1, 2009. Given this goal, the government pursued sound fiscal and monetary policies during the first half of its term (2006 – 2008). However, since the global crisis Fico abandoned this course and the budget deficit increased which increased the role of the state in the economy through minor changes only; e.g., concerning health care, it imposed an (unconstitutional) ban on profit distribution for insurance funds. During crisis the first Fico government did not properly address the major social challenge – increasing unemployment, despite Smer-SD's promises that the

government would revive the social state. Welfare policies were not systematic and mostly included one-time direct payments. Moreover, during his first term Fico showed less respect for media freedom, judicial independence and the rule of law in general, and the commitment to fight against discrimination and corruption weakened. The government tried to curtail the donation mechanism (tax assignment) for NGOs, mobilizing a wave of protests that forced the 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. Under the Fico I, tensions between Slovakia and Hungary also increased due to the participation of the radical nationalist SNS in the coalition, as well as Smer-SD own anti-Hungarian approach crystallized in the State Language Act, the Patriotism Act and amendment to the Law on Citizenship.

The 2010 elections brought the center-right parties back in the government as a reaction to the poor performance of the previous government, which was not able to cope with the impact of the global recession on Slovakia. Although Smer-SD emerged as the strongest party (with 34.8% of the vote), the party failed to form a majority coalition with other 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 path for a center-right coalition government headed by Iveta Radičová (Slovak Democratic and Christian Union – Democratic Party), which included the Christian Democratic Movement (KDH) and two new parties, the liberal Freedom and Solidarity party (SaS) and a new Hungarian minority party (Most-Híd).

Radičová's government, however, collapsed in March 2012 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 government lost a vote of confidence in parliament in October 2011. The performance of the Radičová government left a rather ambiguous overall impression. In its short time in office it passed a limited number of important legislative changes, including the requirement that all contracts involving public funds be published on the Internet (making the validity of these contract conditional on 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 with respect to the hiring and firing of employees. 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.

On March 10, 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 second Fico government benefited from Smer-SD's clear parliamentary majority and the prime minister's strong position within the party. At the same time, the government has lacked transparency and has done little to improve anti-corruption measures and efficiency of economic development. Fico's approach to governing has limited checks and balances and has deprived the government of the opportunity to benefit from the inclusion of non-governmental experts.

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

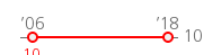
The Slovak Republic has an unchallenged monopoly on the use of force throughout the country. However, in April 2016, Marián Kotleba, leader of the far-right ultranationalist People's Party – Our Slovakia (ĽSNS) set up patrols on trains in response to an attack on a young woman which took place on a train. He argues that if the state fails to provide safety, his party will take over. The state-owned rail company issued a new transport regulation forbidding such activities, but it did not discourage ĽSNS from its patrols. Therefore, in October 2016, the parliament passed the legislation that stipulates the only subjects authorized to monitor the public order on trains and at railway stations are police and people designated by railways.

All citizens have the same civil rights, and the majority of citizens acknowledge the legitimacy of the state. The citizenship and loyalty of ethnic Hungarians living in Slovakia has always been a sensitive issue, as Slovak nationalist forces, including those in the government, perceive it as a threat to the unity of the state. Nationalist leaders in Slovakia and Hungary traditionally use the Hungarian minority in Slovakia to stoke bilateral tensions, and so increase their support. However, during the last five-six years, Slovak-Hungarian relations are calm.

According to the law, religious dogmas have no influence on the legal order or political institutions. The constitution contains a provision that the “state is not linked to any religion.” However, the church has not been fully separated from the state, as it receives funding from the state budget. The state fully finances the salaries of priests and subsidizes central church offices, building maintenance and church schools.

Question
Score

Monopoly on the
use of force
10



1

State identity
9



1

No interference of
religious dogmas
9



1

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 at the regional and local levels. They have separated and some shared competencies, which also determine principles of coordination on specific matters such as territorial planning and emergency situations.

The supply of drinkable water via water piping was not secured in six illegal Roma settlements, in some of these settlements they use the water from wells that are not checked. Slovak authorities focus on resettling the Roma minority and not on providing water and electricity in these; however, this is not very efficient, and only a few municipalities implemented effective policies, e.g., loans and subsidies for the Roma citizens in self-help construction of their new homes.

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 5% threshold.

All parties registered by the Ministry of Interior can apply for participation in elections; the main condition for a political party to be registered by the ministry is the collection of 10,000 citizen signatures. Parties must also make a deposit of €17,000 which is returned only to parties that receive at least 2% of the vote. The new Election Act (no. 180/2014) has changed the main electoral management body from Central Election Commission (created before each type of elections and its mandate was temporary) to the State Commission for Elections and for Supervision of Political Parties' Financing. This body reflects the supremacy of the parliament, as it has 14 members, of which 10 are delegated by parliamentary parties, based on the equal representation of the government and the opposition parties. The heads of the Constitutional and Supreme Courts, National Supervising Office and prosecutor-general nominate one member each. The State Commission for the 2016 elections was elected by the parliament on 25 August 2015 and its term expired after the elections and this commission will serve for a four-year term.

Parliamentary elections were held on 5 March 2016 with a turnout of nearly 60%. According to the OSCE election observer mission, voters had the opportunity to make an informed choice on a variety of political options, and fundamental freedoms were respected. Some candidates made accusations of corruption and fraud during the electoral campaign, and there were allegations of misuse of administrative resources for campaign purposes by the ruling party.

Basic
administration

10



1

Free and fair
elections

10



1

The democratically elected president and parliament, as well as the government and other constitutional institutions, have the effective power to govern and are not constrained by any non-democratic veto powers. Asset-stripping oligarchs or politically-connected business tycoons exist, but do not exercise veto powers.

Effective power to govern

10



In Slovakia, political rights are largely respected. Citizens can freely join independent political and civic groups. Slovak citizens exercise their right to assemble freely to articulate their opinions and interests on national, regional and local developments. The Ministry of Interior has registered over 42,000 non-profit associations and over 60 registered parties.

Association / assembly rights

10



In 2016, the Slovak National Party (SNS) proposed the legislation which increases the threshold for registration of churches and religious societies. According to this amendment, new churches will be required to back their application up with at least 50,000 members who are adult Slovak citizens with permanent residence in Slovakia. Previously only 20,000 such members were necessary.

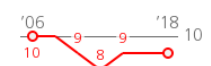
President Andrej Kiska vetoed the amendment arguing in December 2016 that it impinges on fundamental rights and freedoms guaranteed by the Slovak Constitution; however, the parliament easily overrode the president's veto.

SNS claimed that its proposal aimed at preventing alleged religious entities from registering themselves in a speculative manner with the sole aim of acquiring financial contributions from the state. However, during the last decade, no new church or religious society has been registered as the president has pointed out.

Freedom of expression is guaranteed in Slovakia by law, and there are viable independent media outlets. There are still some attempts to limit these democratic norms either by politicians or by the courts. In the name of "privacy protection," freedom of speech is frequently restricted by courts in favor of politicians, oligarchs and judges. Fico's single-party government returned to the previous more restrictive version of the Press Act passed by the first Fico administration in 2008, which limited the right of reply to "persons libeled by the press." However, by the end of 2016, the prime minister has returned to a more confrontational approach toward the media and journalists. He used very offensive words for journalists reporting on the alleged corruption of his party ministers. Moreover, his three consecutive administrations have done nothing to make media ownership more transparent or to increase media pluralism.

Freedom of expression

9



3 | Rule of Law

Generally, the system of checks and balances has functioned within the framework of the parliamentary system; however, serious problems linked to the formation of the 2012 – 2016 single-party government persisted. Several attempts by the ruling Smer-SD party to concentrate its power actually backfired. Fico lost the 2014 presidential elections, and his party lost a vast majority of voters in the March 2016 parliamentary elections; as a result, he had to form a coalition government. Since his election, President Andrej Kiska consistently tried to counterbalance the power ambitions of Smer-SD. Judicial reform and the promise of fair and just judiciary was a key theme of Andrej Kiska's campaign in 2014. However, due to his relatively weak constitutional powers, he operates more as a moral voice than a real balancing force and even in areas where he can have an influence several conflicts occur. The most important is the conflict between the president and the parliament over the nomination of constitutional justices.

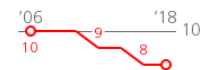
Between 2014 and early 2017 the Constitutional Court was not fully staffed, as its 13-member senate lacked three judges. In April/May 2014, the Smer-SD deputies, who then formed an absolute majority of parliament, selected candidates that included active Smer-SD politicians and pro-government judges with a damaged reputation, Andrej Kiska then rejected five out of six candidates for three vacancies, who were selected by the parliament. This immediately raised the conflict between the president and some of the court judges. The president appealed to the court to explain how judicial appointments should be handled to avoid such conflicts in the future. Taking the side of the Smer-SD administration, judges of the court rejected his appeal and accepted the complaint of the rejected nominees of Smer-SD, who had complained that their access to the public offices under non-discriminatory conditions had been violated. In March 2015, the court ruled that the president violated the rights of the candidates.

In this case, the Constitutional Court has again demonstrated its evident political bias and a lower level of efficiency, especially in such a politically sensitive case. Some constitutional judges tend to avoid a clear interpretation and decline to focus on complaints by pointing to the formal shortcomings of appeals. The above case of president's powers over the nomination of constitutional judges raises doubts about whether the separation of powers is respected.

In the period under review, the Slovak courts have generally operated independently from the executive. However, the courts suffer from widespread nepotism and cronyism, typical features of Slovakia's political culture. According to the research conducted by Samuel Spáč for Transparency International Slovakia (TIS), every fifth judge has family ties to some other judge. These close family ties together with the relatively high autonomy of the judiciary have turned the courts into a very closed

Separation of powers

8



1

Independent judiciary

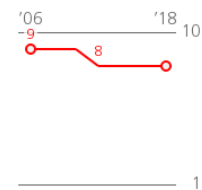
8

and not sufficiently transparent institution. Several reform initiatives were launched since the 2010 elections; however, the recent events seem to be taking “one step forward, two back.” When people do not trust in the judiciary, they tend to “buy” privileges for themselves, i.e., bribe justice, which is the case in Slovakia. Together with corruption and the rule of law, the state of the judiciary is usually rated among the worst indicators for quality of democracy and doing business in Slovakia. The concerns are mainly connected with poor law enforcement in which the courts have very important role.

In the past, the Constitutional Court (CC) exercised the most active control on executive actions, but due to the recent institutional and personnel crisis, this democratic function has been weakened, because the CC rulings in some issues related to the interpretation of the constitution have become politicized as they are not always coherent. In 2014, Slovakia’s President Andrej Kiska rejected five out of six candidates that had been selected by the parliament for three Constitutional Court judge vacancies, because he considered them insufficiently qualified. The court, however, accepted complaints submitted by the non-appointed candidates and ruled that the president’s discretion to reject candidates was limited. In addition, the court obliged the president to choose two judges from among the five remaining candidates. The court also refused to institute disciplinary proceedings against three of its judges as requested by the president who, among others, had considered his procedural rights violated by these judges. This case of failed appointments has worsened the relations between the President, the Constitutional Court and Parliament.

Since Štefan Harabin’s departure from the post as Supreme Court (SC) Chair, the SC’s performance has improved; however, it still has to cope with Harabin’s negative legacy, who cleverly uses any opportunity to discredit Daniela Švecová (SC Chair, since 2014) and Jana Bajánková (Chair of the Judicial Council, the self-governing body of the judiciary).

According to a September 2016 opinion poll sponsored by the Slovak Judicial Council and the non-governmental organization Via Iuris (conducted by TSN polling agency) almost one-third – around 33% of Slovaks – trust the courts while more than 60% of respondents do not trust them. Compared to a similar poll conducted in October 2015 this has slightly improved, as a previous 74% of respondents did not trust the courts or the judicial system. The most criticized areas remain corruption and lengthy court proceedings. Up to 85.6% of 1,014 respondents said that corruption contributes the most to mistrust. Respondents stressed they would appreciate having more information about the courts and better communication from the judiciary.



Officeholders who break the law and engage in corruption and are prosecuted under established laws often attract adverse publicity; however, they frequently slip through political, legal or procedural loopholes.

During the period under review, Slovakia again witnessed high levels of mobilization against the alleged corruption and cronyism of Prime Minister Fico and Interior Minister Robert Kaliňák. Many NGO leaders and media have hoped that any prosecution of corruption at top political levels would diminish the allegedly high levels of abuse of power; arguing that in Slovakia, unlike in the Czech Republic or Romania, none of the top politicians who were seemingly involved in corruption scandals were investigated or prosecuted. High-level corruption seems almost non-punishable in Slovakia, the courts may easily catch a “small fish,” but big ones go on unpunished. President Andrej Kiska in his 2017 New Year’s speech said that many Slovaks consider the unwillingness of the state to fight corruption properly a serious problem. Such situation decreases trust in democracy and the rule of law.

Minister of Interior Robert Kaliňák is suspected of involvement in a murky case of purchase of shares in the B. A. Haus company of tycoon Ladislav Bašternák in 2013. Bank clerk and aide of the opposition MP Jozef Rajtár of Freedom and Solidarity (SaS), Filip Rybanič, took documents from the bank “Tatra banka,” where he worked, which indicated that the sum of €60,000 was transferred to Kaliňák’s account from B.A. Haus. Bašternák is suspected of tax fraud since October 2013. Similar payments were also made to the account of former Transport Minister Ján Počiatek who left politics shortly after the March 2016 elections.

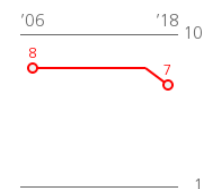
The National Criminal Agency (NAKA) launched a criminal prosecution in the so-called Bašternák case. The statutory representatives (one of them is also Ladislav Bašternák) of Real Forum Invest, which constructed the residential house (called Bonaparte), where also Slovak Prime Minister Robert Fico lives, is suspected of not paying taxes and insurance and owes the state more than € million via taxes.

Other suspicions are related to overpriced activities during Slovakia’s EU Council presidency and alleged abuse of children in the Čistý deň (Clean Day) re-education center. So far, none of these alleged cases of abuse of power was properly investigated. Consequently, these case lead to increase of people’s dissatisfaction with democracy and mainstream politicians.

Slovakia has established standard European institutions to supervise the observance of civil rights, which are largely respected. Their observance is supervised by the Constitutional Court, the Supreme Court, general courts, prosecutor offices, the Office of the Ombudsman (Public Defender of Rights), special committee of parliament and National Center for Human Rights. In association with the EU accession, Slovakia strengthened the non-discrimination against illegal interference by public administrative bodies. In sum, all these changes shall improve citizens’

Prosecution of
office abuse

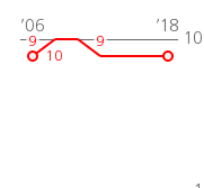
7



1

Civil rights

9



1

rights vis-à-vis the state. The delays in judicial proceedings constitute a persistent obstacle to Slovakia's citizens' access to their rights.

The most vulnerable segment of society is still the Roma minority, who is frequently subject to mistreatment by state authorities (including the police) and discrimination on racial grounds (especially in the labor market). Civil and human rights watchdogs in Slovakia have a key role in enforcing the equal treatment of Roma, with majority views of this community becoming increasingly negative.

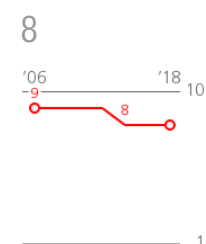
During the period under review, none of the Smer-SD governments (of Fico's second and third term) declared any new specific measures in its program manifestos. The second Fico administration mainly sought to improve the housing and education of the Roma. The most disputed measures are those introducing cuts to welfare benefits for those (Roma or non-Roma) unwilling to participate in the so-called "activation work."

At its December 2016 party congress, Smer-SD proposed in a bombastic manner a "new" solution to the Roma criminality in their settlements. Following this claim Interior Minister Robert Kaliňák promised to renew "order" mission by increasing the number of police officers in "problematic localities" and, if necessary, also adopt more repressive measures. This immediately has increased disagreement among NGOs and several local governments who prefer to enable Roma communities to prevent crimes in cooperation with the police as a reasonable and effective way to integrate Roma.

4 | Stability of Democratic Institutions

Democratic institutions are institutionalized within a parliamentary democracy framework. Before the March 2016 elections, there was high-polarization between the opposition and the government, and the ruling Smer-SD party demonstrated a clear tendency to concentrate powers, which made the regime of separation of powers less functional. While the elections brought about a rather strange coalition of Smer-SD with two center-right former opposition parties (Most-Híd and Siet') and nationalist SNS, the polarization between the government and the opposition has increased as the dividing line has substantially shifted from different policies to different politics, as the far-right ultranationalist party gained seats in parliament. Moreover, given the increase of the soft and hard line Eurosceptic rhetoric among all current opposition parties (SaS, OĽaNO and Kotleba – ĽSNS, respectively), this dividing line can be easily turned into the deeper political conflict over foreign policy and membership in NATO and the EU.

Performance of democratic institutions



The majority of political parties in Slovakia are committed to democratic institutions, or at least they rhetorically support democratic norms and institutions. Influential business actors, the clergy and the military also accept most democratic institutions as legitimate.

The right-wing extremist party Kotleba – People’s Party – Our Slovakia has obtained 8% of the vote in elections and has had 14 members of parliament. It has marked a distinct change in Slovak politics. Kotleba’s party promotes a vision of an ethnically “clean” nation-state and defines as its main enemies Roma population, other minorities, ruling political elites, the European Union and NATO. SNS leader Marián Kotleba has bridged nationalist, populist and xenophobic discourses, with stronger success during refugee crises in Europe. In the previous 2010 and 2012 parliamentary elections, the party received substantially fewer votes, 1.33%, and 1.58%, respectively. The increasing support for the party was suggested already in the 2013 regional elections when its leader became a governor of the Banská Bystrica region when he scored 55.53% of the votes (71,397 votes) in the second round of the elections.

5 | Political and Social Integration

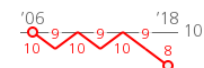
The fragmentation of the party system in Slovakia has increased after the March 2016 elections. The dominant Smer-Social Democracy party, the self-declared “social democratic” political force, faces no real competition on the left, even if its support has substantially declined (from 44% in 2012 to 28% in 2016).

The center-right part of the party system became even more fragmented. The Slovak Democratic and Christian Union-Democratic Party (SDKÚ-DS) and Christian Democratic Movement (KDH) failed to pass the 5% threshold. The new party on the center-right, Siet’ (Network), founded by a former member of the KDH, Radoslav Procházka was widely expected to replace SDKÚ-DS. Its leader appeared to be the most likely person to replace Fico as Slovak prime minister, however the Siet’ barely passed the threshold with 5.6%. After a few months, the party ceased to exist as at the beginning several MPs left the party immediately after elections as they did not agree to be a part of a coalition with Smer-SD and later on another group of MPs left the party and joined Most-Híd parliamentary party club. The Most-Híd party, an ethnically mixed party project (Hungarian-Slovak) founded by a popular politician of Hungarian origin Béla Bugár, achieved some success in the 2012 parliamentary elections, but its support decreased in 2016 to 6.5%. Its main competitor within the Hungarian minority, the Party of Hungarian Community, received only 4% and did not pass the threshold.

This situation on the right of center has allowed the establishment of a new entity, the non-party movement, Ordinary People and Independent Personalities (OLaNO), which is not fully institutionalized. It is rather a loose group of independent

Commitment to democratic institutions

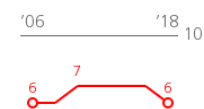
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Party system

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candidates who run for elections on a common candidate list. Its members are united by criticism of the “partocracy.” In general, the behavior of its founder and leader Igor Matovič damages the party system and the competition, as he does not hesitate to use any opportunity to discredit the “old” parties just to get media attention.

New political parties are built around personalities as much as programs or social strata. They remain elitist and are rather weakly rooted in society. A new populist and opportunist party without a clear ideology called “We are Family – Boris Kollár” entered the parliament with 6.6% of the vote. The party played on many typical appeals of new parties. Its leader Boris Kollár mixed an anti-politics appeal and rude xenophobic messages with a stress on his business career and personal wealth.

Perhaps the most surprising result of the March 2016 election is the 12.1% of Freedom and Solidarity (SaS). A new entrant in 2010, the party has suffered several defections and its support had been fluctuating around the 5%. The current success of the party owes much to the party leader Richard Sulik’s prominent Euroscepticism, the party’s pro-market and socially liberal views and its effective use of social media.

Party membership is very low, the total number of members of all parties is lower than 100,000. While the main ruling party (Smer-SD) has progressed 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 issues continue to shape party competition. The Slovak National Party (SNS) under the new leadership of Anton Danko successfully returned in the parliament with 8.6% of the vote and joined the coalition government together with Most-Híd. All these changes in the party system and coalition of “strange bedfellows” makes party politics very vulnerable.

The traditional polarization between the government and the opposition has after the 2016 elections increased, and the two blocs rarely cooperate or support one another’s legislative proposals. Cooperation among parties became completely unpredictable.

Interest groups in Slovakia are well-differentiated and organized. The pattern of cooperation between labor and business follows the European continental model. There are umbrella organizations in all special-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 access to the policy-making process through the tripartite mechanism of “social dialog” and various advisory bodies (e.g., councils at the government and ministerial levels). Business and professional

organizations try to influence the decision-making process, as do organizations such as trade unions, consumer groups, NGOs and churches.

Smer-SD prefers to negotiate mainly with the traditional interest groups (business associations and trade unions). Fico's party ties to the trade unions are more transparent than to business sector interests; the former is loaded with alleged corruption. However, the main trade unions' association KOZ is directly politically tied with Smer-SD on the base of the signed agreement on cooperation which is undermining the independent status of trade unions associated in KOZ.

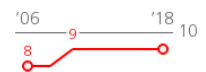
The center-right parties in the past were closer to NGOs and other civil society actors. However, given the post-2016 election party system earthquake, only Most-Híd continues to cooperate with the NGOs. Slovakia has a law on tax-assignment for civil society organizations which helps to sustain some important watch dogs and think tanks. The second Fico cabinet was less hostile to civil society groups than the first one, and its attitude to NGOs, think tanks and civic initiatives are more balanced than they previously were.

Approval of democracy as a form of government seemed to decrease given the support for extremist and populist parties. According to the autumn 2016 poll, carried out by the Focus agency for the INEKO think tank, up to 43% of respondents think the quality of democracy in Slovakia has worsened in the past five years. 40% of respondents consider democracy in Slovakia to be in bad shape, while only 26% are satisfied with it. The most satisfied are Smer-SD voters, while the most frustrated respondents are supporters of the right-wing extremist Marián Kotleba and xenophobic populist Boris Kollár, respective parties.

Democracy is generally associated with freedom, civil liberties, participation, high socioeconomic status and education. There are no political protests or relevant movements that question democracy as such; however, in recent years there has been increasing support for returning to the previous state socialism or to strong personal leadership. About 20% of citizens seem to be willing to sacrifice political liberties in favor of social securities.

This situation signals the disappointment of some groups of the population with liberal democratic principles. Yet, 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.

The degree of trust in national political institutions is relatively low, and it depends on the ability of the institutions to satisfy the general needs of socioeconomic well-being. Trust in national political institutions has continued to stagnate or decline since the 2012 elections. Only trust in the judiciary has increased, from 17% to 33% of Slovaks trust courts, while more than 60% of respondents still do not trust them. The



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Approval of democracy

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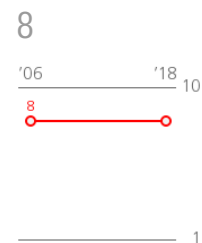
improved trust in courts might be linked with the fall of former justice minister and chairman of the Supreme Court and Judicial Council, Štefan Harabin.

Social capital in Slovakia is influenced by its specific historical legacies, such as a mistrust of strangers, a parochial political culture, social pessimism, and passivity; however, strong social networks among relatives and close friends have always existed. In a representative opinion survey conducted on behalf of the European Bank for Reconstruction and Development in 2016, 20% of Slovakia's citizens declared that most people could be trusted. This level of interpersonal trust was the third lowest in East-Central and Southeast Europe, trailed only by Romania and Albania. Among the respondents, 10% were members of one or more civil society organizations which was the second lowest degree of associational activity in that region (in contrast to Poland's 27%, and the Czech Republic's 17%). Society is still not particularly open to social relationships that promote cohesion and the inclusion of strangers, but there is a strong tendency to social bonding that promotes mutual support.

Increasing socioeconomic differences have widened social distances between different social groups in Slovakia. The dominant political discourse practiced by Smer-SD as well as extremist parties continues to divide society in "we" and "others" has led to increasing polarization toward "non-us," i.e., migrants, refugees, members of Roma community, holders of other views. This trend may further undermine social trust in Slovakia.

Grassroots civil society remains weak and has not yet generated any viable political alternatives to the mainstream political parties that are uprooted from society.

Social capital



II. Economic Transformation

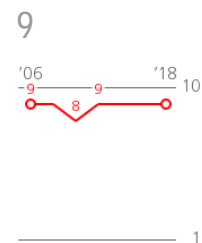
6 | Level of Socioeconomic Development

Slovakia is characterized by high human development (ranked 35th in the 2015 Human Development Index), by relatively a low share of people in need, and a relatively low degree of inequality when compared to Visegrád countries (only the Czech Republic performs better). According to Eurostat, the Gini index was 24.3 in 2016 which is one of the lowest inequality ratios in new EU member states. The Gender Inequality Index was 0.180 in 2015, better than Hungary (.252), but worse than the Czech Republic (.129).

The economy's high dependence on exports rendered it susceptible to the effects of the global recession, which worsened living conditions; however, the Slovakian economy seems to have recovered. The issue is the sustainability of this economic growth. Strong regional disparities (western Slovakia is more developed than the

Question
Score

Socioeconomic
barriers



central and eastern regions), long-term unemployment and social exclusion among citizens of Roma origin continue to make outcomes of economic development uneven.

According to the 2015 report by the European Institute for Gender Equality (EIGE), the groups which are most threatened by poverty include young people, single-parent families, families with many children, disabled people and members of the Roma community. 18.4% of Slovakia's people are in danger of poverty. Compared with 2010 findings, the number endangered by poverty has slightly decreased.

By contrast, the share of seniors (65 and older) endangered by poverty has fallen from 21.9% in 2007 to 12.8% in 2015. This seems to be a result of policies implemented during the second Fico administration. To reduce the poverty of pensioners, the second Fico administration introduced a minimum pension benefit which was implemented in July 2015 and was expected to apply to some 75,000 of the existing pensioners.

In his third term, Fico continues to focus on increasing the minimum wage. Given the fast economic recovery, this strategy seems to work; the problem is that Slovakia's labor market is missing a qualified labor force and many unemployed people do not have interest in accepting the available jobs.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	98478.3	100760.6	87267.6	89551.8
GDP growth	%	1.5	2.6	3.8	3.3
Inflation (CPI)	%	1.4	-0.1	-0.3	-0.5
Unemployment	%	14.2	13.2	11.5	10.0
Foreign direct investment	% of GDP	1.0	-0.4	1.3	4.0
Export growth	%	6.7	3.7	7.0	4.8
Import growth	%	5.6	4.4	8.1	2.9
Current account balance	\$ M	1797.3	1198.8	152.2	-640.8
Public debt	% of GDP	54.7	53.6	52.5	51.9
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-2.9	-2.7	-2.9	-
Tax revenue	% of GDP	15.9	16.7	17.7	-
Government consumption	% of GDP	18.4	19.0	19.5	19.5
Public education spending	% of GDP	4.1	4.2	-	-
Public health spending	% of GDP	5.8	5.8	-	-
R&D expenditure	% of GDP	0.8	0.9	1.2	-
Military expenditure	% of GDP	1.0	1.0	1.1	1.2

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition is consistently defined and implemented both macroeconomically and microeconomically in Slovakia. Prices are fully liberalized, and the size of the “shadow” economy is around 15% GDP (2015). Slovakia fully complies with international rules for the equal treatment of companies.

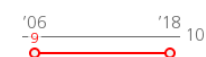
The country has a rather complex legal framework regulating business competition. Slovakia used to be a market reform champion among EU member states during the center-right ruling coalition (2002 – 2006). However, since then, market institutions have been weakened due to the 2006 change of government, when Fico was first elected as prime minister, and the 2009 crisis. The state of the judiciary, weak law enforcement, corruption and the excessive administrative burden remain the main obstacles to improving the business environment.

Fico’s coalition government, during his third term as prime minister, has improved some legal conditions for business. A new act on public procurement entered into force in 2016 which means certain progress, especially in the strengthening of transparency and predictability. Minister of Justice also prepared measures leading to increased transparency and efficiency of the courts which used to be the weakest institution.

In late 2016, a reduction in corporate tax from 22 to 21% was passed in parliament. The Business Alliance of Slovakia (PAS), has been monitoring the condition of the local business environment since 2001 and reports that by the end of 2016 entrepreneurs perceive the business environment as worse. PAS attributes this decline to changes in taxes and compulsory contributions that were gradually introduced

Market-based competition

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during the summer of 2016 and the reduction of corporate tax perceived as insufficient.

Slovakia is subject to EU antitrust and competition laws and has previously implemented laws protecting the market from monopolies and a concentration of dominant actors. The country has also established antitrust institutions; while adequately configured, they sometimes react slowly. The Anti-Monopoly Office (Protimonopolný úrad, PMÚ) regularly fines companies for participating in cartels or abuse of dominant positions (e.g., in electricity or telecommunications). Many of these companies, which are co-owned by multinationals, have successfully contested PMÚ 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.

Frequently PMÚ decisions are often blocked and/or delayed by the courts in Slovakia, e.g., the case of cartel formed by six construction companies with nearly €6 million for making a cartel agreement on the construction of highways from 2006 was finally confirmed by the Supreme Court in November 2016. The Regulatory Office for Network Industries (ÚRSO) has been exposed to political pressure from the government.

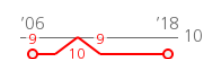
Foreign trade is fully liberalized, and the country is integrated in the EU Single Market. There are few non-tariff barriers. Entry and exit barriers within product, factor and capital markets are low or do not exist. There is no state intervention in free trade. Slovakia has one of the most open economies in the world.

Despite turmoil in the eurozone, the Slovak banking system has remained stable and healthy thanks to the central bank's intensive monitoring of risk management practices. 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. Slovakia has a well-capitalized and liquid banking system (non-performing loans: 11.1% in 2015, and bank capital to assets ratio: 4.9% in 2015, according to the World Bank), as confirmed by the European Central Bank (ECB) assessment, which reflects improvements in the macroeconomic environment.

In general, this healthy environment will limit the downside risks to asset quality and profitability and, combined with the system's healthy capital buffers and stable funding and liquidity profiles; this will underpin the stable outlook of the country's banks.

Anti-monopoly policy

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Liberalization of foreign trade

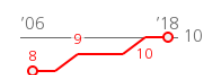
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Banking system

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Since January 2015, the Slovak central bank (Národná banka Slovenska, National Bank of Slovakia (NBS)) has received more supervisory powers over other financial institutions in Slovakia thanks to the amended Bank Act, implementing European Union directives ensuring greater supervision over banks by supervisory bodies. The NBS is able to demand specific reports or scrutinize banks' plans, and the NBS has to create a schedule of bank inspections based on the results of their stress tests.

The same amendment granted the NBS new supervisory powers with respect to banks' customer protection. NBS used these new powers, especially drafted measures in the field of housing loans, as the level of household debt in Slovakia has been increasing. NBS warned that Slovak households lack financial assets when compared with their counterparts in other eurozone countries. Therefore, NBS plans in 2017 to present draft measures in the field of consumer loans, as was the case with housing loans.

8 | Currency and Price Stability

Since Slovakia's accession to the eurozone, anti-inflation and forex policy has been in the hands of the European Central Bank (ECB).

According to the Slovak Statistics Office (ŠÚ), the core inflation amounted to 0.4% year-on-year by the end of 2016, while net inflation stood at 0.5% y/y, according to the Statistics Office. In November 2016, annual deflation was the mildest it has been in the past 15 months and since January 2017 consumer prices have shown growth again. Though they have increased only modestly now, the last time they showed an annualized growth was in December 2013.

The Fico cabinets from both his second and third terms have fully focused on fiscal consolidation. The general government gross debt was 52% of GDP in 2015/16, down from 54% in 2014, and the deficit was reduced to -2.0 (2016, IMF data). These efforts were necessary to expand fiscal scope and reduce public debt, as well as to strengthen the image of Slovakia as a reliable and trustworthy member of the eurozone. The government has conducted some organizational measures in the public sector and has undertaken measures to improve tax collection and strengthen the fiscal framework.

This appears to be one of the few issues where there is a solid consensus among all political actors, which is confirmed by the establishment of the Council for Budgetary Responsibility, in December 2011, an independent fiscal council charged with monitoring and evaluating fiscal policy and its effects on fiscal development. However, the second Fico administration focused mainly on the revenue side and did not introduce substantial cuts to public expenditure, which sacrificed the previous (very successful) neoliberal growth model but did not replace it with a consistent new, social-democratic, one. Tax increases were targeting mostly labor and business and were thus much more distortive. To a large degree, this might explain why the

Anti-inflation /
forex policy

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Macrostability

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development of the labor market was lagging so much behind economic growth; GDP reached its pre-crisis level in 2011, while the labor market conditions followed suit at the end of 2016. Economic convergence and FDI inflow also slowed down significantly.

For the upcoming years, a “hard Brexit” could hit Slovakia’s economic partners, and that could subsequently cause an economic slowdown (0.5% of the growth), as foreseen by Ján Tóth, vice-governor of the National Bank of Slovakia (NBS). The NBS will include the impact of Great Britain’s planned withdrawal from the EU in its next economic forecast; therefore, the government must be responsive to this situation and prepare new relevant measures.

9 | Private Property

Private-property rights in Slovakia are respected, and government authorities regulate the acquisition, use and sale of property. Property rights are sometimes abridged by the overriding rights of constitutionally defined public interests, for instance by highway construction projects, the protection of cultural heritage objects, and environmental-protection measures.

While the previous Fico single-party government had a clear preference for public ownership and stronger role of the state in the economy, especially in the health care and energy sectors, it is likely as the new coalition government will not continue in such strictly defined policy and will support more protection for private-property rights.

Since the 1998 elections, the privatization of state companies in Slovakia has followed market principles. Private enterprise is the central pillar of the Slovak economy; the majority of state-owned utilities and companies were privatized by 2006, and there is a considerable flow of foreign direct investments and multinational corporations into the country.

The second Fico administration was a single-party government and favored public ownership over private ownership; repurchasing 49% of the previously privatized Slovak Gas Company (SPP) in December 2012. Although the government argues that households should be able to control energy prices through a market mechanism, these prices are in the hands of the Regulatory Office for Network Industries (ÚRSO), and Fico has established very close ties with ÚRSO to secure stable energy prices for households. Companies insist high electricity prices make them uncompetitive when compared with those abroad. Despite previous plans to acquire the Slovak Electric Company, it was not bought back.

By early 2017, there was no clear political agreement within the new coalition government regarding what should remain in the state’s possession and what should

Property rights

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Private enterprise

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be offered for privatization or repurchased. The third Fico government does not regard privatization of state property as a top priority; however, in its manifesto, it promised to prepare a new version of the law on strategic companies and prohibition of privatization of strategic state property.

10 | Welfare Regime

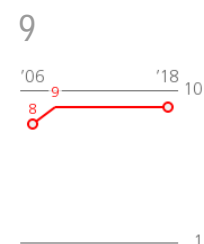
Since Slovakia acceded to the EU, its social security system has covered all the standard social risks associated with the developed market economic system. The state social-support system is regulated by law and financed mainly by employee/employer contributions. The system guarantees basic benefits to the whole population. There are no sectors or social groups that are in principle excluded from the welfare system. Citizens are granted the right to benefits if they and their household members permanently reside in Slovakia, or if they are EU citizens. For non-EU foreign nationals, special rules apply.

However, domestic analysts criticize that there are no signs for a reform of public expenditures in education, health care and social affairs. They considered the second Fico government's non-systematic measures like the so-called social packages counterproductive and stressed a need to improve comprehensive legal measures.

The institutional and organizational structure of the social protection system is fairly satisfactory, and it covers standard social risks. The social policy includes financial and non-financial benefits, direct and indirect payments as well as tax base deductions and subsidies. The Slovak economy recovered in the period under review, and new jobs were finally created in 2016. The unemployment rate fell more than 1% from 2015 (11.5%) to 2016 (10.3%) and is expected to decrease further in 2017 (9.3%).

In Slovakia, the risk of poverty is low due to the country's relatively uniform income distribution. In 2015 about 18.4% of Slovakia's inhabitants were in danger of poverty (The EU average was almost six percentage points higher). Compared with 2010, the number of endangered people at risk of poverty in Slovakia has decreased; however, children from disadvantaged families are now the most endangered group. There are about 200,000 children younger than 16 brought up in families that are threatened by poverty, or social exclusion, i.e., the share of children and youth at risk of poverty or social exclusion is at 24.9%. The Roma families face the highest poverty risk within the Slovak population. By contrast, the share of elder persons (65 and older) at risk of poverty has fallen from 21.9% in 2007 to 12.8% in 2015. The second Fico government has implemented measures to prevent elder poverty because pensioners constitute a key constituency of Smer.

Social safety nets



The legal system in Slovakia guarantees equality of access to work, education and social services. There is no official discrimination on the basis of gender, race, religion or social origin. Literacy rates in the country are very high. Both men and women have the same degree of opportunity in the education system. Women account for a larger share of students within the tertiary education system. But, women continue to be under-represented in leading positions in various sectors of society. Education at state schools is free of charge at all levels.

However, a structured support system intended to allow marginalized groups to overcome their initial disadvantages has been insufficient. This problem has been greatest for the Roma community, who still struggle to access education and employment. Frequently, Roma pupils are automatically determined to be suited “only” for education in so-called special schools dedicated to those with learning disabilities, and state authorities have taken little action to eliminate this discrimination and segregation. The Slovak government has done little to eliminate the existing discrimination and segregation of Roma children at schools according to the Amnesty International Slovensko. This view has been supported by the Ombudswoman Jana Dubovcová who criticized a lack of significant measures to eliminate the segregation. Though the country changed the Education Act under the pressure of the European Commission, only time will tell whether this has helped

The issue of special schools is a long-term weakness within Slovakia’s education system, which insufficiently addresses the special needs of Roma children. The special schools are mostly enrolled by children of Roma descent or those from otherwise socially disadvantaged families, and opportunities to return to the mainstream educational system are very limited. Inter-regional disparities between urban growth and remote rural localities have increased.

11 | Economic Performance

Slovakia was one of the fastest-growing economies in the eurozone before the global crisis and in 2016 managed to maintain relatively high growth within the EU currency union. The economy has been recovering quickly from the 2009 recession, but growth levels are still too low to substantially increase the country’s wealth.

The Slovak economy recorded one of the highest rates of GDP growth in the EU and OECD: 2015: 3.6%, 2016: 3.2%. The National Bank of Slovakia (NBS) predicted in early 2017 that Slovakia’s GDP would rise by 3.1% in 2017.

The NBS expects growth in employment by 0.3% to 1.6%, which should decrease the unemployment rate to 8.8% in 2017. All this should result from investments into the automotive sector. However, the high dependency on one sector of the economy makes the economic performance very vulnerable to any external shock.

Equal opportunity

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Output strength

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12 | Sustainability

Slovakia has considerable natural resources, mainly in water and wood. Industrialization and general economic development are still higher priorities than environmental protection. As an EU member state, Slovakia adheres to strict environmental standards; however, its historical legacy still influences the policy-making process and administrative approach to the environmental agenda.

However, public awareness of environmental issues has been gradually changing, and people have organized several protests challenging state administration decisions that could negatively affect the health and quality of the environment. The most outspoken representative of these voices remains Greenpeace Slovakia (GS). According to this NGO Slovakia belongs to the three weakest countries of the EU in waste recycling and separation. Slovaks recycle only 6% of the waste they produce.

The government responded to the increasing awareness of environmental concerns, so far mostly in its rhetoric and in amending some legislation.

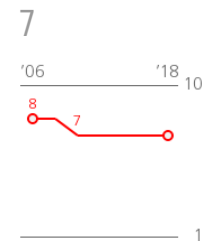
It agrees that Slovakia should cut financial support for the mining and burning of coal. However, automotive and supporting industries are so extensive that they classify Slovakia among the most energy intensive countries in the EU. Slovakia is the biggest automotive producer per capita, and when the fourth carmaker Jaguar Land Rover reaches full production, the Slovak economy will produce more than double the number of vehicles than the Czech Republic does, which is the second biggest automotive producer per capita. But, such a strong dependence on only one industry creates a serious problem with sustainability.

Slovakia has a developed and functional system of educational institutions offering all levels of education from preschool to tertiary education, as well as life-long learning programs. However, the quality of this system is declining compared to more developed countries due to the low level of spending on education and insufficient implementation of progressive teaching and learning methods. Total educational spending remains the lowest among the Visegrád (V4) countries.

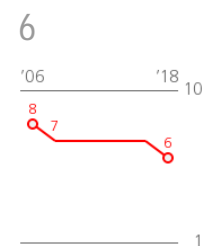
EU, as well as OECD, repeatedly emphasized the importance of improving several parameters in the educational system (low attraction of teaching, tertiary education attainment, segregation of Roma) as the education system is insufficiently geared toward increasing Slovakia's economic potential. In 2015 Slovakia introduced a dual vocational education training system, but interest among potential participants remains limited.

The quality of education and training in Slovakia has suffered both from low levels of spending and a lack of structural reforms. At 4.2% of GDP in 2014, public

Environmental
policy



Education policy /
R&D



spending on education in Slovakia is among the European Union's lowest and has fallen as a percentage of GDP since 2009.

According to the recent PISA report, only children from disadvantaged groups reached worse results in the previous tests; however, in 2015 all children scored worse. This general decline is alarming, and so far, the government has not addressed this properly despite declaring education and R&D a priority in 2016. Although public R&D expenditure increased to 1.18% of GDP in 2015 (from an annual average of 0.83% of GDP in 2012 – 2014, according to a European Commission report), it is still lower than the EU average.

Governance

I. Level of Difficulty

Structural socioeconomic constraints on governance in Slovakia are relatively low, although the post-1989 administrations have not addressed the existing constraints efficiently or sustainably.

1) Substantial regional disparities between the relatively developed western part of the country (the Bratislava region, where there is export-oriented manufacturing FDI) and the central, southern and eastern parts of the country. These regions are still lagging behind, and their infrastructure remains underdeveloped. The second and third Fico administrations attempted to address these disparities by providing direct support to investors in the most disadvantaged regions.

2) Unemployment, especially long-term, poses an additional burden on social expenditure and the consolidation of public finances. However, many of these long-term unemployed people are either not-qualified or not-willing to accept jobs that are currently available due to recent economic recovery. Therefore, the third Fico government will have to pass a measure to allow foreign workers to come to Slovakia. Labor legislation in this field is rather restrictive.

3) High-tech industry representatives consistently point out that Slovakia's education system does not produce a highly skilled labor force in the required (usually technical) fields. Although the government has prepared some reforms, thus far they have had no effect.

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

Slovakia has a long and vibrant civil society tradition, which includes numerous citizens' associations, civic initiatives and platforms as well as large interest-based organizations participating in the social dialog. Moreover, thanks to broad opposition to the Mečiar regime, a wide variety of NGOs emerged that continue to act as effective watchdogs and policy proposal producers. Numerous think tanks have been established and serve to analyze and evaluate the government's policies. NGOs in the reviewed period were again effective in organizing campaigns and protests against contentious issues; however, many of their demands remained unfulfilled. Since the

Structural constraints

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Civil society traditions

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March 2016 elections, several ministers, e.g., Minister of Justice Lucia Žitňanská closely cooperated with watchdogs and think tanks in preparing new legislation aiming to improve the law enforcement process, increase the speed of court proceedings and amending the anti-shell legislation.

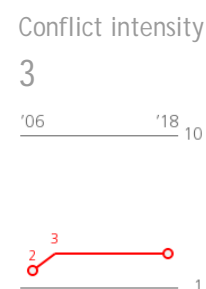
Some NGOs face financial difficulties due to a lack of stable funding, and this threatens their sustainability. Extremist political forces have shown open hostility toward NGOs and civic activists, indicating a growing backlash of “uncivil society.”

The most salient division in Slovak society remains the split along ethnic lines that manifests itself in party politics. Given the fact that the two proponents of this cleavage, i.e., the Slovak National Party (SNS) and Most-Híd (meaning “bridge” in Slovak and Hungarian, respectively) became members of the new coalition government. This conflict could become less salient in the short term. Most-Híd was founded to promote the idea of ethnic cooperation in Slovakia, therefore, at least at the leadership level, the cooperation with SNS has been accepted. The impact on party’s voters is not clear. Relations between SNS and the extra-parliamentary Hungarian Community Party (SMK) are so far unpredictable; it is possible that SMK will try to appeal to the disappointed ethnic Hungarian voters of Most-Híd.

However, there are new emerging conflicts related to increasing nationalism, extremism and even neo-Nazism. The main actor of this trend is Marián Kotleba and his party ĽSNS. Slovakia’s population, especially those living in parts of the country with a significant Roma population, have become more prone to racist sentiments. Such sentiments account for the victory of Marián Kotleba, the leader of ĽSNS, in the November 2013 regional elections in Banská Bystrica in central Slovakia, as well as his entry in parliament in 2016. The support for this extremist party has prompted cooperation among mainstream parties that formed the coalition led by Smer-SD.

Due to considerable politicization in the new parliament, a new conflict between the coalition and the opposition has emerged over corruption and good governance issue. The most active is the leader of OĽaNO, Igor Matovič, who frequently challenges the new coalition government, especially Smer-SD’s leaders (Fico and Kaliňák, Minister of Interior) and Anton Danko, the SNS leader and speaker of parliament. Matovič was able to organize protests which, though not on a mass scale, lasted several weeks.

Other dividing lines in Slovakia’s society, such as between conservative and progressive or liberal groups, became less salient in 2016. None of these old and new cleavages and conflicts have escalated into violent incidents.



II. Governance Performance

14 | Steering Capability

Despite the left-right ideological differences that have dominated Slovak politics since the 2002 elections, there is a strong underlying consensus on general priorities, which include fiscal consolidation, economic growth and jobs and fair regional development. Since December 2011, when the parliament unanimously passed a constitutional debt-ceiling law, the main parties have agreed that consolidation of public finances is the top priority. However, the center-right parties prefer increases in indirect taxation, a flexible labor market and business environment, and transparency. The second Fico government launched a program of increased direct taxes and payroll payments which ultimately seems to have achieved the desired outcomes as employment has increased.

The third Fico government prepared a very long program manifesto with many priorities which seem to include the left and center-right parties, of the new broad ruling coalition.

Informal coordination played a significant role in policy coordination under the second Fico government, and it is likely to increase under the new coalition government. While Prime Minister Fico has extended the formal role of his office in policy coordination. The government relies on various temporary or permanent advisory committees, and there are several public research institutions with close linkages to ministries that are largely dependent on state funding and provide their analysis to the government. However, the impact of these bodies on decision-making is not transparent. Fico has also resorted to informal negotiations with individual ministers, advisers and economic and social stakeholders to settle issues before cabinet meetings; however, some future clashes over priorities are likely to emerge.

Business representatives before the March 2016 elections formulated their priorities for the next government; they gave the highest priority to consolidated public finance, judicial reform, law enforceability, increased quality of the legislative process and competition policy.

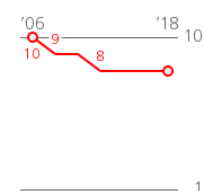
So far, the third Fico government's main accomplishment is a stable political environment.

Past democratic and economic reforms introduced by Slovak governments were generally driven by their exposure to the EU and by the obligations proceeding from their EU membership, and their implementation was largely effective. Since Slovakia's accession to the EU, frequent amendments to basic legal regulations and

Question
Score

Prioritization

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Implementation

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adoption of new regulatory measures combined with poor coordination has created numerous implementation problems and increased transaction costs for society. Following the parties' 2011 consensus on the Fiscal Responsibility Act, this situation has partially improved, at least in this policy area.

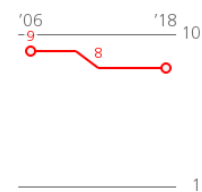
The single-party government during Fico's second term promised to provide "social security" and create new jobs while at the same time consolidating public finances. These promises were fulfilled, to some extent; the economy has been growing, unemployment has been decreasing while the minimum wage has increased, despite the complaints of employers. For the third Fico term, the main challenge is to maintain a coalition and to pass structural reforms in education, health care and social policy. So far, the implementation has been slow, most of the planned reform measures were passed in the justice ministry and are designed to fight corruption (e.g., the amendment to the anti-shell law).

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. 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. During the period under review, the second Fico government seems to have learned how to follow EU requirements as well as his own ideological and pragmatic priorities. However, Smer-SD lost in the March 2016 elections despite the strong anti-migrant rhetoric and the avoidance of political correctness, which has paved the way for Kotleba's far-right extremist party and the political opportunist and populist, Boris Kollár's party.

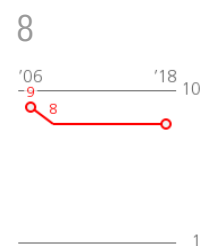
The adoption and implementation of legislation during Fico's second term was frequently inspired by foreign models. However, the organization of the government and public administration remains relatively rigid, even following EU accession. A new program, known as ESO, was initiated to improve administrative practices and to take advantage of modern management methods. However, much of the practice of governing has been affected by the scandals of Fico's second term, and reinforced by the inertia of officials, leading to a lack of progress.

15 | Resource Efficiency

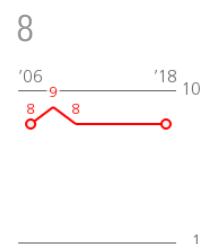
The government makes efficient use of most of the available human, financial and organizational resources. The performance of the public administration, its professionalism and efficiency have suffered from growth in the size of central state apparatus and lack of qualified staff in the civil service. Immediately following the 2016 elections, the new coalition again politicized the personnel appointments, as new coalition parties pushed their party-nominees for civil service. Clientelist and politicized appointment practices in public administration also increase the risk of corruption.



Policy learning



Efficient use of assets



The second Fico government cut the budget deficit by increasing direct taxes on companies and increasing payroll contributions, benefiting from the increase in VAT introduced by the Radičová government (2010 – 2012). These measures de facto abolished the flat tax, which was criticized by business representatives, who argued that Slovakia was losing one of the key symbols of a progressive economy. Shortly after the March 2016 elections, the corporate tax was lowered from 22 to 21% and this much-awaited decision is valid from January 1, 2017. Taxes imposed on dividends was lowered to 7%, and the obligatory payment of health insurance contributions was abolished. The flat rate expenditures of self-employed people have increased up to 60% of total costs. All these changes are supposed to improve the business environment.

In December 2012, the second Fico government launched the public administration reform (Efficient, Reliable and Open Government in Slovakia, ESO). According to many analysts and organizations, e.g., the National Union of Employers (NUE) the reform failed to reach its objectives, and there was more redressing than systematic changes. For example, so-called client centers were created which are supposed to handle several agendas; state citizenship, trade licenses, issuing IDs, drivers' licenses and verification of documents and signatures, among other functions. According to several estimations, the turnover of civil servants has slightly diminished compared to previously high levels; however, this seems to be the result of the continuity of Smer-SD nominees.

While the single-party government of Fico's second term, did not need to reconcile the conflicting objectives and interests of coalition partners, after the March 2016 elections, the situation changed. The first signs of difficulties emerged in the preparation of the program manifesto, as it was very long (about 70 pages), and in the field of education, about 50 different goals were stated.

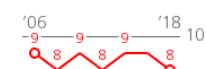
A coalition council has been formed for cooperation and the coordination of the activities of coalition sub-councils. The council also negotiates solutions of potential disputes between the coalition parties. The council has originally had four members, i.e., the chairmen of the four coalition parties, since September 2016 the number of coalition members dropped to three following the implosion of the Siet' party; this may create easier conditions for consensus.

Formal and informal mechanisms of inter-ministerial cooperation are one means of coordinating policy, but informal coordination mechanisms among the leaders of coalition parties seem to be more decisive. The effectiveness of these practices in resolving disagreements is evident by the low frequency of open disputes within the government that is composed of three very different parties.

The government's legislative plan divides tasks among the ministries and the state's other central administrative bodies and sets deadlines for the submission of bills to the cabinet. The government takes part in the inter-ministerial consultation process

Policy
coordination

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along with other ministries. However, strong barriers between the ministries exist, and crosscutting project groups are rarely established.

While communication with the media improved during the first half of Fico's second term, the situation has changed and even got worse after the March 2016 elections. Robert Fico called journalists "dirty anti-Slovak prostitutes" when media questioned the alleged procurement anomalies related to the country's EU presidency.

Compared to the first Fico government, the new coalition's program manifesto "perceives corruption as the enemy of democracy which opens doors to false and extremist solutions." It has declared "a vigorous anti-corruption program aimed at strengthening the rule of law" as a priority. The third Fico government plans to amend an anti-shell law which would apply to all public resources and oblige public officials to prove the source of their property; the aim is to strengthen open governance, introduce individual material responsibility of officials and to depoliticized public administration.

However, the previous Fico-led governments failed to propose effective measures to fight corruption affecting the public administration, the police forces or politics in general. On the contrary, the Smer-SD top politicians (Fico and Interior Minister Robert Kaliňák) became suspects in corruption shortly after the formation of the coalition government. Thus, the new coalition's anti-corruption efforts are limited by Smer-SD's reluctance to acknowledge alleged corruption among its top politicians. So far, no top politician or businessperson have been sentenced for corruption. The so-called Bašternák case (the Interior Minister's purchase of underpriced shares of a company established by Bašternák) and the resignation of the top investigator in the Gorilla case (leaked wiretaps indicating the bribing of politicians by business executives in exchange for access to procurement and privatization contracts) confirmed that equality before the law is not applied to top political echelons. This was reinforced in early 2017 when Kaliňák stated that Slovakia will not see an investigation of corruption among the highest political circles in 2017 as this socially undesirable phenomenon does not exist among top politicians.

The new Justice Minister, Lucia Žitňanská from the Most-Híd party, has been efficiently preparing the anti-corruption measures as well as judicial reform. Žitňanská is an experienced lawyer having served already as state secretary (2002 – 2005) and as a Justice Minister (2006, 2010 – 2012) under the SDKU-led governments. She was an outspoken critic of the previous Fico governments, and she is committed to improving the anti-corruption policies. The law against shell corporations was passed, and it has strengthened rules for a register of private companies who are partners with the public sector, i.e., they are profiting from the public financial resources. However, it is uncertain whether the new anti-corruption measures will be effectively implemented.

Anti-corruption
policy

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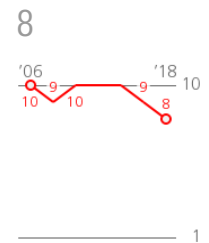
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16 | Consensus-Building

In the past, the major parties agree on the desirability of fostering democracy, but recently the situation has changed. The March 2016 elections marked the end of the wide post-Mečiar consensus on liberal democracy as “the best of possible political orders” and membership in the EU. Moreover, the support for liberal democratic values has been decreasing, and social conservatism prevails in some parties’ programs and public discourse. Populism and extremism have also been flourishing in Slovakia; however, it is unlikely that the country will turn to an illiberal path in the short term. There are some signs of illiberal tendencies, notably the political control over large parts of the justice system (especially police and prosecutors), some institutions which should serve as “checks and balances” but fall short of their mission, and the feeble media. Public media is subject to frequent political involvement, and numerous private print and electronic media organizations are owned by local oligarchs and financial groups with political ties. Still barriers against illiberal prevail. First, PR electoral system makes it hard to create a consecutive single-party government, let alone one with a constitutional majority. In 2012, Smer-SD profited from its policy of weakening former coalition partners (SNS and HZDS) and the center-right parties. Second, directly elected president Kiska who defeated Prime Minister Fico, with a great margin in the second round of the 2014 presidential elections, is still popular and committed to democratic and liberal values. Third, EU membership is popular among the population, even more so with the business elites. Even oligarchs have a rational economic interest to stay in the EU and have access to the single market and EU funds. And finally, the Slovak civic sector and media still has a relatively fresh experience fighting governments with authoritarian tendencies in the 90s. Therefore, it is expected that the support for the far-right extremist party Kotleba-ESNS and populist groups with xenophobic leanings such as “We Are A Family” of Boris Kollár or unpredictable socially conservative Igor Matovič, of OĽaNO, will be limited to their current level of support. After March 2016, diverse parties have formed a new coalition of “strange bedfellows” in the face of the rise of extremism, populism and anti-EU appeals. Although many center-right voters have been very disappointed, many citizens supported this coalition. It will depend on the performance of this third Fico government if the popular support for the mainstream democratic parties will increase in the near future. There is a structural weakness in Slovakia’s party system. In the period under review, the mainstream center-right parties became increasingly fragmented, and many have disappeared. It is expected that new pro-democratic parties will be soon established and some old parties, such as Christian Democrats will regain seats in parliament; however, it is not possible to fully rely on this hope.

The major parties agree on the desirability of fostering a market economy, but there are differences of opinion when it comes to the nature of the market economy. While the center-right parties prefer “pure” market economic principles, the left-leaning

Consensus on goals



Smer-SD insists on a socially oriented market model, without providing detailed specifics. However, political rhetoric between the center-right and left tends to be confrontational, and consensus concentrates on a few issues usually related to EU priorities, such as the need for fiscal consolidation and the establishment of the Council for Budgetary Responsibility. Third, there are still a number of independent institutions which could work as barriers, e.g., the debt-brake law and the CBR or the Slovak National Bank (member of the Euro system).

For a long period, there were no anti-democratic veto players in Slovakia. During the period under review, nationalist, ethnic and religious conflicts have increased due to the presence of extremist political forces in the parliament and due to anti-migrant and anti-Islam discourse from the majority of the mainstream political parties, including the prime minister's party.

Many political reformers committed to a liberal, Western-style democracy are in the opposition or outside of parliament. In its program manifesto, the new coalition government has declared its support for liberal democracy, European Union and NATO membership. Commitment to the rule of law is weak given the murky relations of Smer-SD with some oligarchs. The governing political elites cannot completely control Kotleba's political party but have tried to limit LSNS influence by introducing restrictive legislative measures or by giving attention to education in schools. However, police did not intervene when the unofficial paramilitary organization "Slovenski branci" staged spectacular public marches in uniforms.

So far, the parties of Kotleba and Boris Kollár have not formed any serious veto actors' block in parliament or society. It is alarming to note that their support is rather stable and popular disappointment with the economic performance of democracy remains rather high. Reformers in Slovakia are shrinking in size either on the elite or mass level, however it may soon change if the economic performance improves (i.e., unemployment further decreases) and the government will be able to prosecute top-level corruption. So far, Fico's Smer-SD has been focusing on prohibition and prosecution, less on prevention when it comes to anti-democratic actors and movements.

Slovakia suffers from several cleavages (ethnic, social status, political, regional and religious), and ethnic nationalism once played a major role in politics. While thanks to the absence of radical nationalists in the parliament, Slovak-Hungarian tensions have become politically less salient. The Roma population and (nonexistent or non-present) Muslim migrants have overtaken ethnic Hungarians as a target for dissatisfaction, which has been exploited by politicians. While the Fico cabinet was seeking to defuse tensions by downplaying issues related to the Roma, Fico himself opened Pandora's box when he irresponsibly targeted Muslim migrants before the March 2016 elections. Fico and his rhetoric seem to have contributed to the victory of Marián Kotleba, the controversial leader of the extremist people's party, Our Slovakia, who in the 2013 elections won the post of a regional governor in Banská

Anti-democratic actors

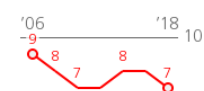
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Cleavage / conflict management

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Bystrica. In the 2016 elections, Kotleba's party passed the threshold to parliament. The anti-migrant attitude prevails in Slovakia, and President Andrej Kiska is almost the only political actor who opposed this rhetoric. Most-Híd also tried to take some moderate stance on this issue, but the majority of all mainstream parties followed Fico's discourse.

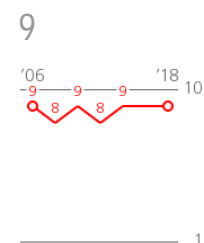
So far, Kotleba and Boris Kollár remain the most outspoken opponents of EU policy on the migration crisis. None of these new actors have challenged the major democratic rules, although they have propagated anti-Roma, anti-migrant, anti-EU and anti-NATO politics; thus, they have increased the degree of social-polarization which undermines democracy.

The participation of civil society actors in politics depends on the government's party composition. The previous cabinets led by Robert Fico preferred trade unions and employers' organizations, churches, academic institutions and universities as partners. Dialogue has been perceived as the main tool for maintaining societal peace. Center-right parties tended to cooperate more with NGOs and they are usually less friendly toward trade unions and formalized institutions of social bargaining. Given its diverse composition, the current Fico cabinet has not elaborated any salient or detailed policy toward civil society organizations. Actually, NGOs are explicitly mentioned only in relation to the government's goal of opening the selection of judges to public scrutiny. Ministry of Justice is in the hands of Most-Híd and Minister Žitňanská has experience including NGOs in policy making. It is expected that coalition partners will hold a variety of stances on civil society participation in deliberating and determining policies. Therefore, it is very likely that many different civil society actors will participate due to the composition of the government; both political camps acknowledge the importance of broad social dialog and respect tripartite negotiations.

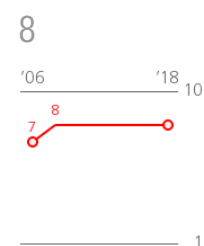
Slovakia remains split over the legacies of two authoritarian regimes (fascist and communist). The process of reconciliation has been more complicated than in neighboring countries, and it has taken longer to establish institutions able to cope with the totalitarian past. The Nation's Memory Institute (ÚPN) was only established in 2002, the delay a result of its highly politicized nature, its main responsibility is to provide access to records of the secret police (STB). Allegedly, some top figure of the former ruling party HZDS, including Vladimír Mečiar were collaborators of the STB. Allegedly there have been instances in which the archives were manipulated and utilized against public and political figures, including Ján Budaj, one of the leaders of November 1989. The ÚPN is also responsible for documenting totalitarian regimes in Slovakia. The nomination of the head of the ÚPN has always been politicized. Since February 2013, the ÚPN has been led by Ondrej Krajňák, who came from within the ÚPN.

The Smer-SD party is often reluctant to propose dealing with the legacy of the communist regime. In 2014, a Smer-SD majority rejected legislative proposals

Civil society participation



Reconciliation



suggested by opposition parties aiming at the restriction of benefits gained by the perpetrators of political repression during the country's communist period.

On the other hand, proponents and supporters of the clerical fascist wartime Slovak state and its ideology, have been strengthened by the presence of Kotleba's party in parliament which has proven that the state is not prepared to fight right-wing or left-wing extremism.

Moreover, a new issue has re-emerged that needs to be reconciled; Mečiar's amnesties. The former Slovak prime minister, also served as a temporary president before the 1998 elections and in that brief period pronounced amnesty for every crime connected with the abduction of then-president Michal Kováč's son. In the cases pardoned by Mečiar, there are serious suspicions that state bodies were involved in the criminal activities and the amnesties prevented the investigation of these crimes. Several politicians, activists and constitutional lawyers have stressed that this was an unprecedented abuse of law in modern Slovakian history; thus, this case is often revisited. Fico's Smer-SD together with Mečiar's HSDS and SNS, have blocked previous proposals to scrap these amnesties through a constitutional law arguing that this was an unconstitutional move. Public debate on the subject has changed dramatically since the autumn of 2016, when several top lawyers voiced their support for scrapping amnesties. They argued that removing the amnesties is essential to a constitutional order aimed at protecting the fundamental rights of victims of amnestied crimes. Repeals of unjustified amnesty decisions are also expected to increase the trustworthiness of applying law and justice in Slovakia.

17 | International Cooperation

Slovakia is fully integrated into the international community, including the UN, the OECD and the EU. In recent years, the previous and incumbent governments have placed particular focus on the direct material benefits from its EU integration, over 80% of public investments are fully financed by EU funds. Since accession, the previous governments agreed on fiscal consolidation and developing the country's international image as a reliable and fiscally responsible partner, and on using this image to promote its long-term development agenda. However, the country has become increasingly dependent on EU structural funds to meet its developmental goals and lacks alternative means of development. Despite several attempts at reform, the rate of absorption of EU funds has remained low. The absorption of EU funds has been hindered by dysfunctional planning procedures, poor project design and selection, and failure to comply with the requirements of environmental impact assessments.

Effective use of support



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Since 1998, all Slovak governments have been trustworthy and reliable partners in relations with the international community. An underlying state priority is to be recognized as a credible partner by the international community, especially by the UN, the OECD, NATO, the EU, the eurozone and in bilateral relations with individual states. For example, Slovakia's credible fiscal consolidation efforts enabled the country to exit the EU's Excessive Deficit Procedure in 2014.

However, this image has been slightly damaged during the Greek debt crisis and more importantly by the Fico's negative position toward the EU refugee crisis. While Fico supported a consensus in the Greek crisis, he defied the official EU position in the case of the distribution of refugees by quota to member states. Fico filed a lawsuit against the EU quota decision at the European Court of Justice.

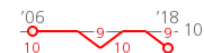
Moreover, Fico repeatedly criticized the EU sanctions imposed on Russia in his public statements; however, he always supported them at the official meetings and summits. His double game has raised doubts about his sincerity and reliability. Fico's decisions and his anti-Muslim statements have undermined the credibility of Slovakia.

During his second term, Fico's single-party government tended to focus more on economic interests, including its commitments to the euro. It is a little difficult to predict the performance of the new coalition formed in Fico's third term, in terms of building cooperative and neighborly international relationships. Worries about the Slovak National Party's positions toward NATO and EU integration were disproved by sustained commitments in the new program manifesto and statements of the party chairman Andrej Danko.

The ongoing, inconsistent and even contradictory statements of Prime Minister Fico regarding the EU sanctions against Russia due to its aggression against Ukraine have complicated Slovakia's position within the Visegrád Group, especially in the context of Poland's stances. On the other hand, Visegrád countries found a new common denominator related to their rejection of the EU migrant quota system. In this way, Slovakia's efforts to act as a predictable and reliable partner within the EU in cooperative neighborly and international relationships have been weakened.

Credibility

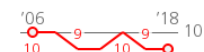
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Regional cooperation

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Strategic Outlook

The new coalition government under Prime Minister Robert Fico faces two main types of challenges. In the short-term, party politics are the inherent challenge of a coalition government. In the long-term, structural conditions such as regional disparities, demographic challenges and weak sustainable development, (i.e., high dependence on automotive industry, long-term unemployment, social exclusion of Roma and a lack of highly qualified labor force) present difficulties.

The first type of challenge relates to Slovakia's latest elections in March 2016, which have produced a more fractious parliament with eight parties and brought large portions of populists and right-wing extremists to parliament. The 2016 elections confirmed that many citizens are disillusioned with mainstream politics and politicians when some frustrated voters easily turned to the extreme right. Corruption scandals and poor governance, under consecutive Fico governments, have siphoned support from established parties and created space for newcomers who offer extreme or vague solutions. Electoral success, of non-standard parties, highlights many of the deeper causes of Slovakian political instability and the challenges facing modern democracies. It is likely that the new coalition composed of three strange bedfellows will damage the Most-Híd as many of their supporters were disappointed by the partnership with the incumbent. Moreover, the participation of the SNS might undermine the coalition's efforts to fight right-wing extremism and nationalism.

One of the possibilities to turn negative developments in party politics and to stop public support for extremism is to efficiently implement reforms in the most sensitive areas of governance (i.e., health care, education and welfare).

While Slovakia's short-term fiscal and economic perspectives are favorable, the government faces many policy challenges. The long-term perspective in addressing the challenges of regional disparities is limited by the poor state of the infrastructure, a lack of qualified labor force, insufficient R&D support, and the inefficiency of public administration (e.g., in attracting qualified foreign workers). State-sponsored incentives for foreign investors, such as Jaguar Land Rover, are likely to boost the economy and to reduce unemployment in the short-term but will exacerbate the imbalanced structure of the Slovak economy. The automotive sector already accounts for a large share of the industry and is especially vulnerable to the external shocks of Slovakia's open economy. Any Slovakian government has to balance any external economic shock within very limited margins. Moreover, more than 80% of public investments are exclusively financed from EU funds, which is a potential liability to positive long-term economic performance.

Reforms in areas of education, health care, research and development are difficult to implement despite repeated recommendations elaborated by the European Commission, OECD or by domestic social actors. For example, the education system does not reflect the country's economic needs, and some partial reforms such as dual education for the automotive industry has not been

efficiently implemented as there are many obstacles and it is administratively demanding. Moreover, the government must focus more on family policy issues, in particular by strengthening support for families with children and enabling women to return to work after maternity leave, if they are going to effectively face demographic challenges (e.g., sustainability of the pension system).

In sum, Slovakia faces some significant political and policy challenges, and if optimal measures to tackle these future challenges are to be created, the strategic dimension of governance must be enhanced. However, given the increasing “departmentalism” within the coalition, i.e., each party respects reforms initiated at ministries governed by coalition partners, the strategic capacity is not likely to be improved.