

Slovakia

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|---|--------|-------------|--------------------------------------|-------------|-------------|
| Status Index (Democracy: 9.20/ Market economy: 8.93) | | 9.06 | Management Index | | 7.38 |
| HDI | 0.849 | | Population | 5.4 mn | |
| GDP per capita (\$, PPP) | 13.494 | | Population growth¹ | 0.5 % | |
| Unemployment rate | 17.5 % | | Women in Parliament | 16.7 % | |
| UN Education Index | 0.91 | | Poverty | N/A | |
| | | | Gini Index | 25.8 (1996) | |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. | | | | | |

A. Executive Summary

The Slovak Republic was established on January 1, 1993 with the dissolution of the Czecho-Slovak Federal Republic (CSFR, Czechoslovakia). The aim of democratic transition was to create a constitutional state based on the rule of law and to provide optimal conditions for the positive development of civil society and citizens' intense participation in political and social life. Slovakia's transition from communism to democracy and a market economy was impeded by the creation of an independent state. The Slovak Constitution was adopted shortly before the dissolution of the CSFR as the constitution of an independent and democratic state. One of the goals of this new state was to join the integrated structures of the EU and NATO.

With a brief break in 1994, the period from 1992 – 1998 was marked by the semi-authoritarian rule of then Prime Minister Vladimir Mečiar, and his Movement for a Democratic Slovakia party (HZDS). During this period, the government failed to respect all democratic principles, and its economic policies focused on selling state companies to its allies and cronies for low prices. These and other undemocratic practices and procedures were sharply criticized by the EU and NATO, leading to the suspension of EU and NATO integration in 1997/98. The parliamentary, constitutional and legal institutions of Slovakia's democracy were threatened, but proved sufficiently resistant. Democratic elections were successfully held in 1998 in a polarized climate; the HZDS and its allies lost their parliamentary majority.

A coalition government was installed in 1998 that consisted of both center-right and center-left parties and was led by Mikulas Dzurinda. This government quickly restored the rule of law and won the respect of international bodies. It

reintroduced political and market economy reforms essential to consolidating the political system. In April 2004, Slovakia joined NATO and the EU in May 2004.

The 2002 parliamentary elections confirmed Slovakia's path toward consolidation. The elections resulted in a more coherent coalition of center-right parties, namely of the Slovak Democratic and Christian Union (SDKÚ), the Hungarian Coalition Party (SMK), the Christian Democratic Movement (KDH) and the New Citizen's Alliance (ANO). This coalition passed major reforms in the fields of taxes, labor relations, social benefits, pensions, health care, state administration, the judiciary and education. Slovakia is thus perceived as a reform leader in the Central European region. Already visible reform results bode well for the ruling parties' prospects for success in the 2006 parliamentary elections.

Even if a different ruling coalition should come to power in 2006, the majority of reforms will continue as the main opposition parties support these reforms as well. However, some aspects of these reforms may be altered.

B. History and Characteristics of Transformation

After the Velvet Revolution of 1989, a Western-type multiparty democracy system was established in Slovakia. A parliamentary system of government was created, with effective separation of powers into legislative, executive and judicial branches. The unicameral parliament, the National Council of the Slovak Republic, and—as of 1999—the presidency were legitimized by direct election.

After its creation, the independent Slovak Republic left the path of consolidation being followed by other Central Eastern European countries and halted democratic and market economy reforms. From 1992 to 1998, with a brief pause in 1994, the country's prime minister was Vladimir Mečiar, whose semi-autocratic rule excluded Slovakia from the integration process that took place in neighboring transition economies. In December 1997, Slovakia was excluded from the first negotiation round with the European Union. In 1999, Slovakia was not accepted into NATO along with Hungary, Poland and the Czech Republic. The government was embroiled in a sharp conflict with opposition parties and the president. Constitutional principles were often ignored; decisions by the Constitutional Court were disregarded; and the functioning of the Constitutional Court, as well as the office of the president, were severely impaired within the parliamentary process. Society was extremely polarized between advocates and opponents of reform.

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

prevent the authoritarian regime from gaining a solid hold in Slovakia. The resulting victory of democratic forces underscored the Slovaks' devotion to democracy.

In the 1998–2002 election term, Slovakia again embarked on the path toward integration, democracy and a market economy. An ideologically diverse and heterogeneous coalition of formally four, but in fact eight parties, also known as the “Coalition of Coalitions” held power during this period. The fundamentally different approaches of the coalition partners to solving urgent social problems reduced the government's efficiency. Collaboration between the center-right and leftist parties, which was difficult in any case, was further impaired by the lobbying of various interest groups and government cronies.

However, the coalition survived the entire term intact largely due to the remarkable consensus-building capacities of Prime Minister Mikuláš Dzurinda. The system of constitutional institutions based on separation of powers functioned well, and relations among the constitutional structures remained cooperative. Constitutional amendments in 2001 closed several loopholes that had previously enabled authoritarian forces to weaken the separation of powers in their favor. Several new institutions were created, including an ombudsman for human rights and the Judicial Council. The position of the Constitutional Court was strengthened, and a second self-governing administrative level was created. The Slovak system of checks and balances became similar to those systems found in developed democracies.

By the end of 2002, negotiations with the EU could be closed. The last open question was the result of the 2002 elections. The European Union and NATO would not have accepted a Meciar government. Voter support allowed Dzurinda a second legislature.

The ideologically coherent ruling coalition that was formed after the elections launched a major economic reform package that made Slovakia a regional reform leader. Citizens perceived these reforms as painful. The dissatisfaction with the politics of the ruling coalition was shown in the 2004 presidential elections. None of the democratic candidates survived the first round, creating a choice between Vladimir Meciar (40.1%) and his former party fellow Ivan Gasparovic (59.9%). The latter finally won, supported by Smer and nationalist forces (HZD). Gasparovic articulated national thinking and social sensibility.

After the Accession Treaty with the EU was signed, the Referendum on membership in May 2003 showed a high support among citizens (92.46%); Slovakia has clearly become a functioning multiparty democracy with a market economy.

C. Assessment

1. Democracy

1.1. Stateness

The state has an unrestricted monopoly on the use of force throughout the country. Its exercise of power is impaired by a lack of efficiency in government bodies, including administration, the police and the judiciary. Corruption and a lack of equipment weaken these bodies. According to the constitution, all citizens have the same rights. The vast majority of Slovak citizens acknowledge the national constitution in principle. There are irredentist tendencies among one small portion of the Hungarian minority, although the majority of Slovak Hungarians are loyal to the state.

There is a fairly strict constitutional separation of church and state. Religious dogmas have no direct influence on policies or law. Relations between the state and the Catholic Church are regulated, apart from other laws, by a treaty with the Vatican. Relations between the state and other churches are based on special treaties with these churches. Salaries of priests and expenses of churches are either fully or partially financed by the state budget. The Slovak population is overwhelmingly Catholic and the Catholic Church is a politically respected institution trusted by the citizens. In the 1998 elections, the church supported pro-democratic forces, and in 2002, Catholic bishops advocated Christian parties (KDH, SDKÚ) during religious services.

The state's fundamental infrastructure functions throughout the entire territory. There is a two-track administrative system. Administrative tasks are carried out in part by state administrative institutions, and in part by self-governing bodies, the power of which increased substantially by the public administration reform (2001-2004).

1.2. Political participation

Elections are free and fair. They determine the composition of both the Slovakian parliament (direct election of representatives to the National Council of the Slovak Republic) and Slovak members of the European Parliament, the head of state (direct presidential elections), and the self-governing administrative bodies for municipalities and regions (direct elections for municipal and city councils, self-governing regions, heads of municipalities, mayors and district heads). Elected leaders have the power to govern. There are no individual power groups with their own domains.

There is unlimited freedom of association and assembly within the scope of the basic democratic system. After 1989, a number of new parties, as well as other intermediary institutions, were created. Social and political participation among the populace is relatively weak, although it has increased over the course of Slovakia's transformation. In the 1998 and 2002 parliamentary elections, civic institutions helped to mobilize voters and win votes for anti-authoritarian parties. Participation in these elections was quite high (84.2% in 1998 and 70.1% in 2002), while in municipal and regional elections there has been a lower turnout. Freedom of opinion and freedom of the press are embodied in the constitution and guaranteed in practice.

1.3. Rule of law

Political institutions respect and implement the constitutionally codified separation of powers. Governmental bodies limit and monitor one another. There appears to be no excessive influence by any one of the branches. The judicial system is professionally differentiated. There is a three-tier court system (ordinary jurisdiction) and a specialized Constitutional Court. The justice system is essentially free from unconstitutional interference by other institutions. The judiciary was under strong pressure in the Mečiar era but remained intact and retained its independence to a certain extent. The Constitutional Court and the high court helped to maintain the basic elements of democracy and thus permitted the transfer of power in 1998. From this perspective, the transfer of power in 1998 can be considered an institutional victory. The judicial reforms continued in May 2005 when the penal code was amended. The new law strengthens the rights of citizens, replacing Slovakia's outdated criminal statutes of 1961. A special court and attorney were established to prosecute corruption and organized crime. In addition, the civil code was amended in order to reduce the length of proceedings. A new court management system based on electronic files was introduced.

Despite this progress, there are frequent complaints of corruption in the administration and in the courts. This corruption is widespread, according to various reports. Corrupt elected officials are usually prosecuted under existing laws, although loopholes often enable them to avoid criminal prosecution. The situation improved after the 2002 elections, due to more effective management of justice and interior ministries, as well as more powers given to the self-governing Judicial Council. Widespread corruption is strongly criticized by the public. Civil rights are anchored in the constitution and guaranteed in principle. The fact that civil rights have not yet been fully realized is linked to inefficiency in the judiciary and administrative systems.

The new Anti-Discrimination Law (2004) was supported by 85% of the population. In February 2004, the government reduced the social benefit payment and several Roma groups protested against this law. The police used inappropriate methods and used stun guns when demonstrations got out of control after a group of 80 Roma looted a food store in eastern Slovakia on February 18, 2004.

1.4. Stability of democratic institutions

Democratic institutions are functional. Within the public administration reform between 2001 and 2004, the state transferred many powers and jurisdictions from the state level to the self-governing one, for instance in education, health care, social services or even local taxes. This radical reform was accompanied by problems one would expect in such a complex matter. Municipalities were slow in actually exercising newly acquired powers. Often powers did not go along with sufficient financing. Gradually, though, municipalities are learning how to apply their powers in managing schools or hospitals. No serious failures occurred within the transition process. There was a confrontation between Prime Minister Dzurinda and the director of Slovakia's secret service in 2003. During 2003, the judicial council was unable to elect a chief justice to the Supreme Court.

1.5. Political and social integration

The party system was very unstable from 1992 to 2004. In all four parliamentary elections since 1990, at least one newly created party entered parliament. A number of parties and coalitions split, irrespective of whether they were left or right wing, government or opposition. The degree of fragmentation is high, with seven parties represented in the National Council and eight to ten parties in existence. The popular base for parties is rather small, and voter volatility is relatively high. The degree of polarization is likewise rather high, although on a downward trend. After the 2002 elections, two new parties have split from HZDS and SDKÚ, and one merger occurred. The populist left-wing party Smer swallowed three smaller leftist parties to become a non-contested force.

On the other end of the political spectrum, several smaller parties also joined forces, but several independent parties persist. Aside from this political line, the SMK (Party of Hungarian Coalition) exists, polling around 10% and representing the Hungarian ethnic minority in Slovakia. It merges all centrist, rightist, leftist, conservative and liberal elements, and has been in government since 1998. Support for nationalist and extremist parties has weakened while populist parties have continued to be supported. The second most popular party, HZDS, is amorphous, dependent on the appeal of its aging leader, Mečiar.

Support for democracy is moderate, albeit growing, but the 2002 reforms have caused some disappointment among ordinary Slovaks. More than two-thirds of the population approve of democracy as the form of government. Social participation (for instance, in form of volunteerism) is increasing.

2. Market economy

2.1. Level of socioeconomic development

Social exclusion is quantitatively and qualitatively significant and, to some extent, structurally embedded. Slovakia does not have extremely high differences in income; the Gini coefficient is relatively low (28.4). There are no discriminatory laws, and nominal legal equality among citizens exists. Nevertheless, some groups lack sufficient freedom of choice due to their poverty and their lack of education. This applies, in particular, to the Roma minority.

2.2. Organization of the market and competition

Firmly anchored, the institutional basis for free market competition underwent major improvements from 2000 to 2005. There is very limited room for unequal treatment, also thanks to implementation of EU laws. Privatization of former state-owned monopolies (in telecommunications and energy sectors) and the EU-sponsored liberalization of energy and telecommunications markets (2002-2003) contribute to fairer competition on the market. Although their institutional framework and legislation are firm, actual implementation of the policies lags behind.

Foreign trade has been liberalized, and Slovakia is one of the most open economies in the world. Customs barriers are low, and government intervention in foreign trade is an exception.

Institutional foundations exist for a stable banking system based on international standards with effective oversight by the central bank. Currently, only one bank (mid-sized) is in Slovakian hands, the rest belong to large (mostly European) financial groups. Capital markets are open to domestic and foreign investment, and the regulatory framework is fully in line with EU legislation. An independent financial market authority supervises the capital market. The power will later be moved to the central bank. The local capital market is, however, almost non-existent, due to a tradition of bank financing of the corporate sphere, and a lack of liquidity. Most of the trading on the capital market is in bonds; share trades are minimal.

2.3. Currency and price stability

The central bank (National Bank of Slovakia, NBS) was praised for its independence even during the period 1992-1998. Anti-inflation and exchange rate policies are still in accord with other economic policy goals. The law establishing the NBS is in accordance with international standards and guarantees extensive independence from political influence. The Slovakian crown is allowed to float freely in the foreign exchange market; meanwhile the central bank tries mainly to iron out what it sees as too speedy moves in the exchange rate induced by speculators. This floating regime is set to end in 2007, when a two-year period will begin, during which the crown will be allowed to fluctuate only with a limited range in preparations for the adoption of the euro in Slovakia. The government's plan is to launch the euro in Slovakia in 2009.

Inflation was high from 2002 to 2004, mainly because of increases in state-administered prices. After effects of the price liberalization fade away, inflation is set to fall to EU levels (this is one of the conditions for the adoption of the euro). In December 2004, a report by the Organization for Economic Cooperation and Development (OECD) gave a quite optimistic outlook on the reduction of inflation in 2005 to 3.6% and in 2006 to 3.1%.

In 2004, the government presented an elaborate concept of three-year budget planning. This concept is accompanied with a strategy for the adoption of the euro in 2009. The current ruling parties are committed to meeting goals included in these materials, and major opposition forces expressed only minor objections. Therefore, the strategy is likely to be implemented as planned.

2.4. Private property

Both property rights and the acquisition of property are conventionally defined and constitutionally embodied in terms of purchase, use and sale. Given the inefficiencies in the judiciary and administrative systems, however, problems continue with their implementation and the ability to institute legal action on property rights. This is true despite major efforts of the current government to improve the judiciary.

Privately owned companies are considered one of the main underpinnings of economy. There are still state owned companies, but the majority of them are allotted for privatization or partial privatization. The government installed in the 2002 elections set out boldly to privatize assets that are not being privatized even in most EU countries (such as railways or utilities). All privatizations were

through open international tenders, with large global investment banks or consultancies acting as government advisors.

2.5. Welfare regime

During the communist past, an excessively large, comprehensive social safety net was created. The basic principles of social policy were distorted. The expanse of the social safety net and its ambiguity in providing services created an excessive burden on the economy and on public finances. In addition, the social network failed to effectively help those who actually relied upon its services. Therefore, major reforms were implemented in all areas of social policy after 1989.

Pension, health care, sickness and unemployment insurance are mandatory in Slovakia. All these systems are administered by independent institutions, separated from the state budget. Payroll taxes financing these systems account for almost 50% of wages, and are paid by both employees and employers. The state pays the insurance for those without work (children, unemployed, pensioners, etcetera). The current government implemented reforms that increase the individual's role in the system. A system of personal accounts (a so-called capitalization pillar) was added to the pay-as-you-go pension system. Co-payments for health care patients were introduced for pharmaceutical drugs, as well as for visiting a doctor or for a prescription. Health care treatment is still free to all, although a legislation framework is already in place allowing the introduction of co-payments for treatment. There is no political will to introduce the co-payments however. Unemployment benefits are paid to all who are unemployed for at least six months.

Although limited since 1998, the system of social assistance provides assistance to all in need. Granting some of these allowances is tied to participation in various community services. The system motivates people to be active, increase their qualifications or move for jobs. The Slovakian system is being copied in neighboring countries. The social welfare system irons out the sharpest social differences, although the very poor (mostly Roma minority) receive too little for a decent living.

Equality of income has survived in the public sector, although wage differentiation is growing in the economy as a whole. The egalitarian ideas from the communist era continue to exist in Slovakian society, with much of it rejecting a larger differentiation in wages or overall income.

There is no discrimination against women in access to higher education or opportunities to hold high office. Average wages for women, however, are only 75% of average wages for men. This is due particularly to the high proportion of

women in economic sectors with low wage levels (education, health care and public administration) and the significantly higher proportion of men in high-salary professions (banking, top management).

2.6. Economic performance

The governments of Mikuláš Dzurinda oversaw a period of strong GDP growth that is ideally balanced, pulled by both household consumption and exports. This style of growth is set to continue in the medium term. Per capita GDP remains relatively low compared with the EU average, and Slovakia is still among the poorest members of the EU, together with Poland and Baltic states. Slovakia, though, is catching up fast and its nominal growth rates are several times higher than that of the EU. In addition, Slovakia is one of a small group of transformation countries whose performance measured by the GDP is already above the level at the beginning of transformation. The OECD expects the Slovakian economy to grow 4.8% in 2005 and 5.7% in 2006. Financial analysts say that private consumption will push the growth.

Fiscal policy used to be one of the weakest points of Slovakian economy, but Dzurinda's second government made substantial progress in this respect. The goal of adopting the common EU currency, the euro, is a strong motivator, and the government looks likely to keep its budget under control. The most serious problem of the economy is high unemployment, ranging from 14% to 17% according to various methodologies. Progress in this area will be painfully slow, as both the corporate sector and public administration are reducing their payrolls in order to streamline their activities. The situation is made worse by the large Roma minority (8% of the entire population), of which 75% to 80% are unemployed; its outlook on the labor market is rather grim.

2.7. Sustainability

Environmental aspects of growth are increasingly taken into account, mainly after Slovakia's entry into the EU and adoption of EU norms. Slovakia inherited industries from the communist era that paid little attention to environmental aspects, but the transition crisis led to bankruptcies, or at least to severe production cuts, in many of the largest polluters. Paradoxically, the economic slump improved Slovakia's environment. New investors entering Slovakia usually bring production processes not harmful to the environment, not least due to Slovakia's EU membership.

Research and development (R&D) experienced a sharp downturn after 1989, with both companies and the state cutting their R&D budgets. Now, foreign investors

are slowly beginning to move their R&D facilities to Slovakia. Overall, though, spending on R&D in Slovakia is one of the lowest of all EU or OECD members.

The education system underwent major changes between 2001 and 2004, and is now among the government's top priorities. Increased flow of money should maintain a solid system of education inherited from the communist era.

3. Management

3.1. Level of difficulty

State identity, the rule of law and political participation strongly improved from 1998 to 2004. There were two free and fair parliamentary elections in which the possibility of an authoritarian government was averted and the transformation trajectory was redirected toward a market economy and democratic consolidation. These elections prompted a complete turnover of personnel in almost every constitutional institution. There were popular elections for a new parliament (which also led to the formation of a new government), presidents, as well as regional parliaments and local self-governing administrative bodies. Slovak members of the European Parliament were elected as well. As a respectable EU and NATO member, Slovakia fully implements the principles of the rule of law. Intermediary organizations are more strongly integrated into the political process, and the position of the independent mass media (most of them foreign owned) is strong.

The level of democratic consolidation improved significantly and along a broad front. In the 1994 - 1998 period, the resistance to the Mečiar's regime helped to create a strong NGO sector. After 2002, this sector provided many individual personalities who took important positions within various layers of public administration. These people helped improve efficiency of the state's activities. A short but strong history of civil society is behind many ambitious reforms implemented in the 2002 - 2004 period.

The cohabitation of the majority Slovak population with its minorities is often difficult, albeit improving. Especially troublesome are relations with the two major minorities: Hungarian (some 10% of population) and Roma (8%). In the 1994-1998 period, relations with the Hungarian minority were tense and hostile while the Roma minority was overlooked. Representatives of the Hungarian minority have been in government since 1998, the leader of their party is even deputy parliament speaker, and the position of this minority is normal.

The condition of the Roma minority improved thanks to some EU-sponsored programs; however, competitive pressures have driven them out of the labor

market. Their social situation has deteriorated drastically, and the level to which they are ostracized had increased. Riots are rare, though, and the Roma minority

lacks articulate leaders capable of representing it efficiently. Relations between the Roma minority and the majority have not yet taken a form of open conflict. There are no conflicts between religious groups.

Profile of the Political System

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|--|---------------------------|
| Regime type: | <i>Democracy</i> |
| System of government: | <i>Parliamentary</i> |
| 1. Head of Government: | <i>Mikulás Dzurinda</i> |
| Type of government: | <i>coalition majority</i> |
| 2. Head of Government: | <i>Mikulás Dzurinda</i> |
| Type of government: | <i>coalition majority</i> |
| 3. Head of Government: | <i>Mikulás Dzurinda</i> |
| Type of government: | <i>coalition minority</i> |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. Effective number of parties denotes the number of parties represented in</p> | |

3.2. Steering capability

The government identifies the optimal resources and long-term goals for the country's transformation process and gives these goals priority over short-term objectives in its policy-making. In February 2005, the situation in this area improved notably with the adoption of the Competitiveness Strategy by 2010 (the so-called Lisbon Strategy for Slovakia). This strategy stresses the need to continue with the current economic policies, and the need to implement the approved structural reforms. It also highlights four priorities for building up a knowledge based economy including: education and the development of human resources; science, research, and innovations; information society; and the business environment. These four priorities will be binding for other government's policies, for example when preparing projects asking for support from EU funds.

From 2002 to 2004, the government's reform policy was consistent and coherent. Voter support allowed Dzurinda a second legislature. He led a much more ideologically coherent coalition, but after the departure of some members of parliament, since December 2003 he has been in a minority situation. However, in spite of this, Dzurinda was able to bring through all his reform projects. He successfully managed to get the support for important laws, like sensible health

care reform, from independent members of parliament. This also applies to the budget. Therefore, the government shows an unexpected stability in spite of the difficult situation. International bodies praised Slovakia's reform efforts and Slovakia is being used as an example in far reaching reforms. Reforms in many areas (tax, pensions, social system, health care, education, public administration, labor relations, etc.) were all aimed at increasing individual responsibility and improved efficiency of resource allocation. They have helped consolidate democracy and a market economy.

Government policy now guarantees reliable expectations for both individuals and the corporate sphere. Social and economic actors, however, must expect a certain amount of politically related uncertainty associated with the incalculable aspects of the transformation process.

Dzurinda's second government (after 2002) learned from the mistakes of the first Dzurinda cabinet, and implemented all reforms in the first half of the election term. Most of the reforms were very complex and the government must have compromised on some issues to secure passage of the reform laws. It reverted some of the measures approved by the first Dzurinda cabinet, admitting mistakes.

3.3. Resource efficiency

For the most part, the government makes efficient use of its available human, financial and organizational resources. Politically motivated firing and hiring of public officials are currently rather rare. The budget deficit is high and equals 3.9% of the GDP (2004), but is expected to drop below 3% in 2007.

Following the 2002 parliamentary elections, the government introduced a comprehensive reform program that through increased participation of citizens, it improved the efficiency of resource allocation in many areas. Increased co-payments in health care limited needless consumption of drugs or excessively long stays in hospitals. The new labor code reduced illegitimate rates of illness as it reduced the scope for manipulation. Similarly, the new social system tied drawing of social benefits to various community services, and eliminated illegal labor.

As part of the public administration reform, many tasks related to governing the state were decentralized (many were moved to the local level or to self-governments). This led to elimination of oversupply in health care or education, as many schools or hospitals were shut down.

In both the self-government and the state administrations, there are shortcomings associated with the change of political system. Older employees are insufficiently motivated, new employees are inexperienced, while all of them are low paid. There is a lack of equipment. Government salaries are too low to recruit and effectively motivate highly qualified young people. The area of public services remains inefficient. In 2004, an efficiency audit at the Finance Ministry resulted in a reduction in the ministry's payroll by 30%. Similar results could be expected at any state institution; however, such audits are deeply unpopular and scarce. Compared to the Mečiar era, however, improvements are sizeable.

The protection of property rights has been improved, as Slovakia's entry to the EU brought many EU-sponsored laws. The viability of the market has been improved by the implementation of EU law, too. The provision of infrastructure and the development of human resources (education, health care) are insufficient, as Slovakia is still among countries spending the lowest proportion of its GDP on education or research and development. This can be attributed largely to the modest financial means of a post-communist society.

The second Dzurinda-led administration also made major improvements in terms of its coordination of reforms. All reforms had similar ideological background – to increase efficiency through increased participation of citizens and/or market forces. Reform in health care was made in close cooperation with social reform, for instance. Since 2004 and in 2005 the biggest problem is the ruling coalition itself because of the coalition's internal frictions. As the government is a coalition of four parties with partly different approaches (conservative and liberal), there are conflicting objectives and often quite emotional debates in cabinet and parliament. Until the beginning of 2005, however, Dzurinda managed to ensure a coherent policy.

The struggle against corruption is one of the greatest challenges facing the current government. The government made strong effort in the 2003 - 2005 period, but implementation of legislation is often weak. Among the administration's major successes is the perceived decline in corruption in health care, due to health care reform. Public procurement and the legal system, though, are still locations of corruption, due to poor implementation of EU-sponsored procurement legislation, or due to lagging reform of judiciary. Convictions due to corruption remain the exception, but the introduction of undercover police agents led to charges against several politicians both on regional and national level. Private interest groups influence parts of the state and the economy. Slovakia ranks 57th in the corruption perception index published by Transparency International, after Hungary and the Czech Republic, but ahead of Poland.

3.4. Consensus-building

The coalition parties in the current governing administration agree on the goals of a market economy and democracy. A consensus must still be found in many cases regarding the most suitable means of achieving these goals, given the fragile position of the coalition in the parliament. Many of the reforms were adopted because of support (votes) from the opposition or independent members of parliament. This proves the government is capable of forming a strong front backing the reforms. The nationalist forces (Slovak National Party or SNS, Movement for Democracy or HZD, Slovak Workers' Front or ZRS) vanished from parliament. However, it must be taken into account that the newly elected president, Ivan Gašparovič, is the leader of HZD and supported by nationalistic parties as well as by the populist party, Smer. In a certain measure, it depends on his performance if a new conflict about certain strategic aims will appear.

Of the opposition parties, only the Communist Party of Slovakia can be considered an anti-system party (backing a return to communism). The most powerful opposition group is the HZDS. The HZDS has been on the defensive since the 1998 parliamentary elections and is splintering. Given its past (1994-1998), its coalition potential has been minimal, which would trouble any party, given the Slovak voting system, which gives way to coalition governments. Therefore, the HZDS backed many of the government reforms, and it has claimed it would not reverse them should it be in the government after the 2006 election. This is unacceptable to some ruling parties, as they fear of a return to autocratic practices.

The other main opposition party, Smer (Direction), has consolidated forces on the left side of the political spectrum. It opposes most of the government's reforms, and would welcome a more "socially-balanced" approach. Even this party, though, would not revert the reforms, but would only made changes to them (reintroduction of progressive taxation of citizens, less co-payments in health care, etc.). While being a member of the European club of social-democratic parties, Smer is considered a populist, anti-establishment party by many observers.

The government is attempting to prevent the disintegration of society along potential cleavages. The most pronounced lines of conflict exist between the ethnic groups, i.e. between Slovaks and Hungarians, and between Slovaks and Roma. The ethnic conflict between Slovaks and Hungarians was largely defused after 1998. The Party of the Hungarian Coalition (SMK) participated as a coalition partner in the Slovak government after both the 1998 and 2002 parliamentary elections, and has ministers responsible for its priority agenda – farming and the environment. The Hungarian minority in Slovakia has since successfully defended its minority rights. The situation with the Roma minority is quite different. Roma as a group have suffered extensive social exclusion and are

rejected by 80% of Slovak society. The Roma minority is not politically organized, and there is no respected or acknowledged spokesperson for this group vis-à-vis the Slovak government. As of yet, there has been no significant reduction in the potential for conflict (although perhaps one could mention the Roma protests in eastern Slovakia).

The government's social reforms have, at least temporarily, undermined the social solidarity or accumulation of social capital. Its right wing policies, promoting individual responsibility, have hurt the poor the most, and reduced their living standard. The severe reforms evoked a sense of disillusionment in public opinion. Populist parties, which continue to be significant, could profit from this state of affairs. Gradually, though, the population is coming to terms with the idea behind the reforms. The notion that those who used to abuse the social system can no longer do so is widely popular. Since the reforms are already increasing living standards and effects of austerity packages are fading out, the ruling parties and their reforms are getting more popular. This promotes further accumulation of social capital.

Many reforms of the current government originated in various think tanks and NGOs, which provided many (temporary) civil servants. Their participation in developing the reform concepts was actively sought out. In later stages of the reforms' passage, though, political wrangling came into play, and many NGOs were unhappy with compromises that made the passage in parliament possible.

At the close of 2004, the state finally began publishing the official lists of members and agents of the secret service (Štatni Bezpecnost, ŠtB) members before 1989. In addition, in 2004, acts were passed compensating for the historical wrongs committed under past regimes. The contrast between perpetrators and victims is not particularly prominent in Slovakia, however, because communism was perceived by the public as a regime forced upon them by Prague.

3.5. International cooperation

Slovakia's international isolation before 1998, which was apparent to the population and deeply unpopular, was an essential factor in the parliamentary elections and transfer of power at that time. The governments led by Dzurinda moved swiftly to restore cooperation with the international community, and Slovakia was awarded memberships to the EU and NATO in 2004. This has been the greatest success of Slovak reform policy since the founding of the Slovak Republic. Relations with neighboring countries saw major improvements as well. The Dzurinda government successfully restored the Visegrad Group (including Slovakia, Hungary, Poland and the Czech Republic, or V4 countries) cooperation that is working well. The V4 even decided to continue their work after the

accession. Political actors make well-focused use of international aid for the needs of transformation. Prime examples of this might be technical assistance received from the World Bank, along with minor loans, used to prepare and tune reforms in health care or social fields. Slovak officials are demonstrating sufficient capacity to learn and are using suggestions from international organizations in order to optimize their policies.

Political actors are making active and successful efforts to expand and intensify as many international cooperative relationships as possible. Slovak military forces are involved in U.N., NATO or EU-sponsored programs in Cyprus, Kosovo, or Iraq.

4. Trend of development

4.1. Democratic development

The stateness, political participation and the rule of law continued to improve in the 2001 - 2004 period. Major improvements were seen after the 1998 elections, marked by the end of the semi-autocratic rule of then Prime Minister Mečiar. The 2002 elections brought to power an ideologically coherent coalition that pushed through a bold reform package that cemented the rule of law. Also, the formerly authoritarian party, HZDS, one of two major opposition parties, changed its focus and supported Slovakia's EU and NATO membership, as well as many government's reforms. Therefore the risk of a return to non-democratic rule after elections in 2006 subsided. The next government is expected to continue reforms, bringing Slovakian political and economic life ever closer toward EU standards.

Public administration reform transferred significant jurisdictions from the state to regional level, and to self-governments, during the period of review. This improved the overall level of democracy in Slovakia. Legal reform and a bolder approach of the police helped curb corruption, further improving the quality of democracy.

4.2. Market economy development

Measured by the HDI, the level of socioeconomic development in Slovakia has improved slightly in the period from 1997 to 2002. In 1997, this indicator had a value of 0.813, which increased by 0.029 to 0.842 in 2002 (as of this writing the latest available data). With this HDI, Slovakia ranked 42nd of 177 countries. The increase in the HDI was achieved largely through the higher GDP index, which represents the material side of human development. The GDP index increased from 0.73 in 1997 to 0.81 in 2002. The HDI is also expected to increase after

2002, thanks to robust economic growth in the country. Slovakia's per capita GDP, according to purchasing power parity in 2003, was 52% of the average of the enlarged union. Slovakia was thus the fifth poorest EU member. The prerequisites are in place for a further increase in per capita GDP.

The period from 2001 to 2005 also saw improvements in the legal framework, thanks to the government's ambitious reform package. Judiciary reform improved the enforceability of law, and thus property rights. That said the efficiency of government administration still leaves a lot to be desired.

Major improvements were also seen in macroeconomic development. Before 2001, economic growth was largely based on exports, but from 2003 to 2004, growth was more balanced and also was pulled by domestic consumption. Investments are also starting to picking up. In the medium term, growth will stay balanced, thanks to massive inflows of foreign investments and improved living standards.

D. Strategic perspective

After its creation, the Slovak Republic experienced political and economic instability. The division of Czechoslovakia in 1992 created political and economic burdens for the transformation process. Political elites in Slovakia were highly polarized and society was deeply divided. However, after parliamentary elections in 1998, the political situation improved, as internal divisions were resolved and the consolidation process has become significantly more robust because of the 2002 elections. The chances of a return to autocratic rule are therefore slim.

The major challenge facing political parties in the Slovak Republic is the need to create a coherent coalition after the 2006 elections. The Slovak proportionate election system leads to coalition governments. A credible, coherent and operational government is needed to carry out needed reforms to transform the country's economy into a knowledge-based economy. A government forged of both center-left and right parties cannot be excluded. The fight against corruption constitutes another key challenge.

The overall institutional conditions for economic growth improved significantly from 2001 to 2005. EU and NATO membership in 2004 translated into Slovakia's full integration into the international community. To secure the country's accession into the EU, the Slovak legal system was brought in line with EU standards. The government's ambitious reform package implemented in the 2003 – 2004 period dramatically improved Slovakia's long-term competitiveness. Privatization in the financial and energy sectors created the foundation for further liberalization of services in these areas, again in line with EU standards.

Independent supervision was installed in both these sectors. By revamping economic rules, the government initially slowed GDP growth and increased inflation. However, as Slovakia prepares to adopt the euro in 2009, all economic parameters are improving.

These efforts have already been rewarded with a massive inflow of foreign investment that is re-shaping the Slovak industrial map. Of concern however, is the dependence of the Slovak industry and entire economy on one industrial branch, the automotive sector. Nevertheless, car suppliers are located in many industries (machinery, chemicals, electronics, etc.) and this diversification actually promotes efficiency gains across the industry. The major challenge here is the move toward services and production with higher value added, such as software development, biotechnology, or research & development in general. The government recognizes the need to confront this issue and has made it top priority.

The elections in 2006 will be a turning point in this respect. One of the key questions in the next elections is the role to be played by populist parties such as Smer and the moderate HZDS, ANO and possible coalitions to be formed.