

BTI 2016 | Slovenia Country Report

Status Index	1-10	9.01	# 7 of 129	
Political Transformation	1-10	9.20	# 7 of 129	➔
Economic Transformation	1-10	8.82	# 7 of 129	➔
Management Index	1-10	6.47	# 18 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	2.1	HDI	0.874	GDP p.c., PPP \$	29917.0
Pop. growth ¹	% p.a.	0.1	HDI rank of 187	25	Gini Index	25.6
Life expectancy	years	80.3	UN Education Index	0.863	Poverty ³	% 0.1
Urban population	%	49.7	Gender inequality ²	0.021	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

From January 2013 to January 2015, political and economic developments in Slovenia continued to be turbulent. In January 2013 the Commission for the Prevention of Corruption released findings that then-Prime Minister Janez Janša (Slovene Democratic Party) and the mayor of Ljubljana, Zoran Janković (then also head of the largest party, Positive Slovenia), had systematically and repeatedly violated the law by failing to properly report their assets to the Commission. The Janša government started to disintegrate in late January 2013. In February 2013, Alenka Bratušek replaced Janša as prime minister after a constructive vote of no-confidence. Bratušek also became acting leader of Positive Slovenia after Janković stepped down from leadership due to the findings of the Commission.

The Bratušek government managed to prevent the need for a bailout while preserving some of the main contours of the welfare state. Additionally, the government successfully brought some cases in the fight against corruption. By March 2013, these actions had calmed public protests, which had broken out in late 2012 to demand the deposition of Janša's government and some opposition leaders, the re-establishment of the rule of law, the escalation of anti-corruption initiatives and the restoration of ethics in politics.

Nonetheless, under the Bratušek government, both public debt and the budget deficit increased significantly. In April 2014, Janković successfully challenged Bratušek for leadership of the party he had founded. This led to a split in Positive Slovenia and the collapse of the governing coalition as the smaller governing parties refused to work alongside Positive Slovenia with Janković as its leader. In early May 2014, Bratušek submitted her resignation as prime minister, which triggered the automatic resignation of her government. A month later, she established the Alliance of Alenka Bratušek, which crossed the parliamentary threshold in the July 2014 elections. These early elections again saw the success of new parties. The Party of Miro Cerar, established only a month and a half before the elections, won with 34.5% of the votes, mainly because voters saw its leader, Miro Cerar, as a credible candidate to fight corruption and re-establish the rule of law. Another

newcomer, the United Left Coalition, crossed the parliamentary threshold with calls for fundamental changes to political and economic thinking and directed its firestorm against austerity policies.

After the 2014 elections, for the first time in the history of independent Slovenia, a claim was made that the elections were not free and fair. The Slovene Democratic Party made this claim because in late April 2014 the Higher Court (Appellate Court) upheld a two-year prison sentence for party leader Janša. This sentence originated from a 2013 conviction for taking payments from a Finnish defense contractor during his 2004 to 2008 term as Slovenia's prime minister (i.e., the Patria scandal). The party, which organized public gatherings outside the Supreme Court, claimed that the judgment was politically motivated and that its leader was a political prisoner. Although Janša was imprisoned, he ran as a candidate in the elections and was elected as a member of parliament (MP). In December 2014, Janša was released from prison on a temporary injunction issued by the Constitutional Court, which will remain in effect until the court reaches a final decision on his appeal.

In 2013, Slovenia managed to avoid a bailout by making two constitutional amendments to ensure its political stability and commitment to balanced public spending: 1) changes to referendum legislation passed in May 2013 were intended to prevent political deadlock and ensure an effective government (since May 2013, some issues are excluded from being put to a referendum and a referendum can only be held if 40,000 voter demand it); 2) the so-called Fiscal Golden Rule (the rule on a balanced budget) was added to the constitution but will not be enforced until 2015 (securing a two-thirds majority for the bill was possible only with this delay). Additionally, representatives of employers, employees and the government reached consensus on a new social pact (the last social pact terminated in 2009).

However, the topic of privatization has continued to introduce instability in the political arena. In 2013, under economic and political pressure from the EU, Bratušek's government prepared a list of 15 companies to be privatized, including Telekom Slovenia and Ljubljana Airport.

History and Characteristics of Transformation

Slovenia held its first post-World War II, free, democratic, multi-party elections in 1990. With the 1990 elections, three simultaneous transformations also started: the establishment of an independent country for the first time in its history, political and economic transformation. In 1991, Slovenia formally declared independence from Yugoslavia and adopted a new constitution which introduced a parliamentary political system.

Before independence, EU membership had become a key political and economic aim for Slovenia. The goal was achieved in 2004, the same year Slovenia joined NATO. Slovenia entered the European Monetary Union (EMU) and the Schengen zone in 2007 and became a full member of the OECD in 2010.

In the 1990s, the two key political leaders of Slovenia were President Milan Kučan and Prime Minister Janez Drnovšek, also leader of the Liberal Democracy of Slovenia, the largest political party from 1992 to 2004. Drnovšek served as prime minister for 10 years and formed ideologically heterogeneous coalitions. Later, he became president of Slovenia for one term.

Since the 2004 elections, Slovenia has faced the alternative of a center-right or a center-left government, and the political arena has been dominated by two politicians: Janez Janša (leader of the Slovene Democratic Party since 1993 and prime minister from 2004 to 2008 and again from 2012 to 2013) and Borut Pahor (leader of the Social Democrats from 1997 to 2012, prime minister from 2008 to 2011 and president of Slovenia since 2012). In recent years, Karel Erjavec, a leader of the single-issue Democratic Party of Retired Persons of Slovenia, has become an important political figure. His party first competed on its own in the 1996 elections and since then has continually participated in government. Over time, the party's position has shifted from a supplementary role to a more decisive one in forming both center-left and center-right coalitions.

In contrast to many other countries, Slovenia experienced a relatively stable party system for almost two decades. This situation changed with the first early elections held in 2011 when two parties with new leaders – Positive Slovenia with Zoran Jankovič and Civic List with Gregor Virant – together won 37% of the vote. These results were repeated in early elections in 2014, when the new party of Miro Cerar won 35% of the votes, while another newcomer (the United Left Coalition) received 6% of votes and the Alliance of Alenka Bratušek 4.4%.

The structure of cleavages in Slovenia has followed widely known patterns. The libertarian-authoritarian cleavage has consistently been the most important in Slovenia, as it has been interwoven with other cleavages (communism-anticommunism, state-church, modernism-traditionalism, center-periphery and urban-rural). This cleavage is mostly associated with the role of the Roman Catholic Church in Slovenian society and politics, the rights of ethnic and sexual minorities and events during WWII (e.g., Partisans versus Home Guard, opponents versus collaborators of the occupation forces).

For a decade, disagreements on economic issues have been less profound. Given Slovenia's gradual approach to economic transition and the population's clear desire to preserve the welfare state, all parliamentary parties advocated similar social-democratic socioeconomic policies until the 2004 elections. In 2004, two developments contributed to an intensification of the left-right economic cleavage. First, the Liberal Democracy of Slovenia, which since 1992 had attempted to introduce a liberal market economy while preserving the welfare state and social cohesion, lost the election to the Slovene Democratic Party. Second, as the largest government party from 2004 to 2008, the latter made a conservative turn and introduced many neoliberal policies. Since the economic and financial crisis began in Slovenia in 2009, the cleavage between socio-democratic and neoliberal economic policies has become more prominent, although Slovene parties have generally moved slightly to the economic right.

In its economic transition, Slovenia took a first step toward privatization in 1992. Deviating from the general pattern seen in Central Eastern European countries and running counter to the advice

given by international experts, Slovenia introduced privatization that strongly supported internal buy-offs in which all key players – the state, workers and managers – were included in the redistribution of former social property. Later, when workers sold most of their shares, it became evident that managers and the state benefited the most from this privatization process, which led to economic entrenchment of the existing elites. Between 2004 and 2008, Janša's government responded to this result by announcing radical privatization, which was in line with the new, more conservative economic position of the Slovene Democratic Party. In this situation, many managers felt that their best option was to become owners of the companies they managed. A massive wave of managerial buy-offs of companies followed. However, these buy-offs were financed by loans that frequently burdened companies and deprived them of capital. This form of privatization also had harmful consequences for the Slovenian banking system, which ultimately had to be saved by the taxpayers in 2013. Many such privatization attempts have come under police and judicial investigation for suspicious practices, and several tycoons recently were found guilty and sent to prison.

These developments, along with the governments' inability to fight the economic crisis and the increasing (perception of) systemic corruption, led to a collapse of trust in political institutions and Slovenia's present democratic arrangement (in January 2014, according to Politbarometer, only 1% of respondents expressed trust in the present arrangement of democracy). Such circumstances make both the low voter turnout in all elections held in 2014 (24% in European Parliament elections, 51% in parliamentary elections and 45% in local elections) and the high support for new parties in parliamentary elections and non-partisan candidates in local elections unsurprising.

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

Question
Score

The Slovene state has an unchallenged monopoly on the use of force throughout its entire territory. After independence, a small part of its border with the Republic of Croatia remained the only unresolved question and occasionally led to incidents between the countries' police forces. In 2010, the two countries agreed to solve this issue through international arbitration. In June 2014, oral hearings in the border arbitration procedure between Slovenia and Croatia at the Permanent Court of Arbitration in The Hague were concluded. A decision is expected to be delivered in 2015.

Monopoly on the
use of force
10

All major groups in Slovenian society accept and support the nation state as legitimate. Hungarian and Italian minorities enjoy special protection as the constitution guarantees their representation in the National Assembly (each group has one reserved seat in the National Assembly) and in several municipal councils (in three of the 212 municipalities). Since 2002, the Law on Self-Government has stipulated that, in municipalities where the Roma population is autochthonous (in 20 of the 212 municipalities), it has reserved seats in local councils. In local and European Parliament elections, citizens from other EU countries with permanent residence in Slovenia may vote.

State identity
10

The numerous Serbs, Bosnians, Croats and citizens from former Yugoslavian nations in Slovenia (approximately 200,000) are treated as non-autochthonous minorities and, therefore, are not granted any special status. Under pressure from the Council of Europe and Slovenian Ombudsman, the National Assembly in 2010 passed the Declaration on the Situation of National Communities from the Former Yugoslavia, which formally expressed the Slovenian state's willingness to formally regulate the collective rights of these groups; however, no progress toward this goal has been made in the 2013 to 2015 period.

In line with 2010 and 2012 decisions by the European Court of Human Rights, the National Assembly in 2013 adopted a law on state compensation for Slovenia's "erased." The "erased" are approximately 30,000 natives of other Yugoslav republics who had been citizens of the Socialist Yugoslavia and permanent residents of Slovenia but did not file applications for Slovenian citizenship or acquire new residence permits within the short time permitted after Slovenia formally declared its independence. Subsequently, these individuals were erased from the registry of permanent residents, which prevented them from accessing health care, employment and unemployment benefits. The debates on this issue concentrated on whether 1) the Slovene government violated their human rights by erasing them and 2) whether their rights of citizenship should be restored by fiat, by instituting new procedures or not at all. For almost two decades, the issue of the "erased" reflected the general attitude of the Slovenian state toward non-Slovenes from the territory of the former Yugoslavia.

Slovenia is constitutionally defined as a secular state. In Slovenia, 48 church and religious communities were formally registered as of January 2015. From 2013 to 2015, none were deleted from the register.

No interference of
religious dogmas

9

The constitution gives assurances of the equality of all religious communities, but the Roman Catholic Church is clearly more equal than others. The status the Catholic Church has historically enjoyed in various states has kept Slovenes almost exclusively within this church and maintained the overriding perception that a Slovenian is a Catholic. In the 2002 census, however, only 58% of Slovenians declared themselves members of the Catholic Church. The next largest group was Muslims, accounting for 2.4% of the population.

The Catholic Church's indirect role and presence in social sub-systems, such as education, health and welfare organizations, has been growing steadily since 1990. The state does not finance religious communities as such, as it may legally only financially support activities of religious communities which are beneficial to society in general. However, in 2012, the state paid social contributions to nearly 1,000 priests, of whom 95% were Catholic. The Catholic Church has one primary school (it is the only religious community with their own school) and according to a January 2015 Constitutional Court decision, the state must finance private schools (including the Roman Catholic school) in the same manner as public primary schools: at 100%, not 85%, as had been the case.

The early 1990s law on denationalization entitled the Catholic Church to restitution for expropriated property (including feudal property). The Church has become an important economic actor and established its own financial structures. The Church, however, has lost a great deal of trust in the past decade – in 2011, according to Slovenian Public Opinion Poll only 24.6% of respondents expressed either "a great deal" or "quite a lot" of confidence in the Church, the lowest level in the post-

independence era. This low level of trust stemmed from the 2010 collapse of the Archdiocese of Maribor's financial empire and its investments; unsurprisingly, the largest decline in trust occurred in areas under the authority of the Archdiocese of Maribor. The Catholic Church was also actively involved in the second privatization scheme and has frequently been described as an important Slovenian tycoon. Two church financial-management companies were together responsible for nearly one-third of bad debts in Slovenia. Pope Francis acknowledged the wrongdoings of the Maribor diocese, and in 2013, several of its highest clergymen were forced to resign from their positions. This measure was sometimes described as "beheading" the Church. It was not until the autumn of 2014 that the Vatican appointed new leadership for the Church in Slovenia.

The state has a differentiated administrative structure which provides all basic public services throughout the country. In Slovenia, some functions (such as water supply and waste management centers) have been decentralized or devolved from the nation state and are primarily the responsibility of municipalities. In Slovenia, 212 municipalities form the first level of local self-government structures and serve as a means to decentralize the state. There is no second level (e.g., regions, provinces) to the structure of local self-government. To further decentralize the state, Slovenia also has 58 administration units responsible for fulfilling all the administrative tasks of the state, except for those within the jurisdiction of the municipalities. The state has no difficulty in ensuring law, order and jurisdiction throughout its territory.

Basic
administration
10

2 | Political Participation

In Slovenia, elections are regularly conducted. In the period under review, three elections and one referendum were held: regular European Parliament (EP) elections in May 2014, early parliamentary elections in July 2014 and regular local elections in October 2014. For each election, relatively low turnout was recorded: 24% for the EP elections, 51% in the parliamentary elections and 45% in the local elections.

Free and fair
elections
10

The Slovene Democratic Party's poor electoral result (21%) in the parliamentary elections in 2014, along with its party leader's imprisonment and conviction only a few weeks before the elections for taking payments from a Finnish defense contractor (in the so-called Patria scandal), prompted the party to claim that the elections were not free and fair – and, therefore, not legitimate – the first such claim by any Slovenian party in more than twenty years of independence. No other party expressed any doubts about the voting results of the 17 candidate lists. As commonly occurs, some non-parliamentary parties expressed dissatisfaction that parliamentary parties received more airtime in debates organized by media stations. Unlike commercial televisions which may freely choose which parties to invite and how to allocate time among parties, public television is constrained by law to give all competing candidate lists the possibility to participate in debates. Parliamentary parties, though, receive

positive discrimination in the form of more airtime. An analysis showed that the Slovene Democratic Party was the winner in the battle for coverage from primetime shows on the four main television channels which covered news during the election campaign. In the EP elections, 16 candidate lists competed and none expressed any doubts about the results or organization of the elections, the same held for national elections.

Electoral commissions are impartial and effective and ensured free and fair elections in between 2013 and 2015. Results verification and complaints resolution were guaranteed, and a demand for a recount was made on only in some local elections when the difference between candidates was only few votes. All the elections and the referendum held in the period under investigation met the norm of universal suffrage with a secret ballot.

Elections in Slovenia are held on a Sunday or another holiday. Voter registration in Slovenia is automatic; there is no need for voters to undergo a special registration procedure. When citizens turn 18 years old, they receive both passive and active voting rights. There are many polling stations throughout the country and voting is also routinely organized in hospitals, prisons, nursing homes, and within the armed forces. Voters may also, in advance, request to cast a vote at home (mobile polling stations). In addition, voting abroad is also possible either via the post or at Slovenia's diplomatic-consular missions. Voting a few days before the election day is also permitted. The Slovene president's decision to call the 2014 parliamentary elections on a Sunday in mid-July when the largest number of voters are not at home triggered some dissatisfaction, reflected in the 117% higher turnout for advance voting (in 2014, 3.9% of voters cast their votes in advance). Still, the turnout was only 51%, by far the lowest turnout for parliamentary elections since Slovenia's independence.

Since 1990, a proportional representation system with a threshold (since 2000, the threshold has been 4%) and eight constituencies, each further divided into 11 sub-constituencies, has been used for parliamentary elections. Although reforming the electoral system has been on the agenda for two decades, only small changes have been made. In 2014, the National Assembly rejected a proposal to introduce a German-style electoral system. It seems that the proposal with the greatest support, though not enough for a two-thirds majority, is to retain the proportional representation system and introduce preferential voting, while the second layer-constituencies (sub-constituencies) would be eliminated. The Slovene Democratic Party has attempted to introduce a two-round electoral system.

Slovenia has no military, clergy or political enclaves that would be able to constrain democratically elected representatives in their effective power to govern. There are influential business interests, but no individual or group is holding any de facto veto power.

Effective power to govern
10

The constitution ensures the right to freely associate and assemble, including for political and other groups. In December 2014, the number of registered non-governmental organizations was more than 26,000, which constitutes one of the highest per capita densities of civic associations in the world. The government uses transparent, non-discriminatory criteria to evaluate requests for permits to associate and assemble.

Association / assembly rights
10

A protest movement has heavily declined since mass public protests in early 2013, some of which became very violent (followed by accusations that police used excessive force against peaceful protesters) and the replacement of Janša's government in February 2013. Some smaller protests and gatherings with similar aims as those of the 2012 to 2013 winter (anti-corruption, ethical politics, protection of the welfare state) occurred but attracted only handfuls of protestors and none were violent. Between 2013 and 2015, there were also no important mass protests organized by trade unions, which had mobilized thousands in the past.

In 2013 and 2014, the Slovene Democratic Party was very active in organizing protests against the courts which found its leader Janša guilty of corruption in the Patria scandal. Protesters demanded that courts act impartially. After Janša went to prison in late June 2014, gatherings were held daily outside the Supreme Court in the center of Ljubljana, alleging that Janša is a political prisoner and calling for a lustration of judges.

The constitution guarantees the freedom of expression and freedom of the press. The media operates mostly without direct political interference. However, indirect forms of interference seem to have become more prominent. For example, advertisers – among whom state-owned companies have been major players – can make the difference between solvency and insolvency for media outlets. Under such circumstances, journalists have started to practice some forms of self-censorship, especially as advertisements can be crucial to the survival of a particular media outlet during economic crisis. As both journalists' associations have exposed, media freedoms have regressed in the past 20 years and pressure intensified during the economic crisis, when journalists' working conditions (lower salaries, part-time or temporarily work) worsened, making them more vulnerable to influence.

Freedom of expression
8

Three events between 2013 and 2015 illustrate the pressures exerted by state institutions on media and journalists. First, in 2014, journalists' right to protect their sources came under pressure from a public prosecutor's demand that a journalist disclose a source on the investigation against the defense minister. Second, in October

2014, a Delo newspaper journalist was put on trial on accusations of publishing classified information. In 2011, Anuška Delić wrote several stories linking men associated with the neo-Nazi group Blood and Honour to the Slovene Democratic Party. She also reported about a Ministry of Defense investigation into a small number of Blood and Honour members who also served in the Slovene armed forces. Delić was accused of publishing information about the extremist group gathered by the Slovenian Intelligence and Security Agency, although she claimed that she collected all material independently. The motion for her prosecution was brought while the party exposed in her articles led the agency. In addition, in late January 2015, public television journalist Erik Valenčič was interrogated over the alleged publication of classified intelligence information in his 2014 broadcast “Coalition of Hate” on extremist groups in Slovenia. Such interventions by the Office of the Public Prosecutor were enabled by 2008 changes to the Penalty Code which eliminated the clause allowing publication of information of public interest which does not potentially pose harm to the state.

Although more media outlets (radio and TV stations and print publications) existed in 2012 than in previous years, critical views of media pluralism were voiced by media specialists in 2013. Among the most important criticisms are the concentration of ownership and that media activity is not the primary activity of media owners, who do not perform strategic management of their media holdings. In 2014, after being up for sale for several years, the third-largest daily newspaper Večer was bought for €1 million by a company established only a few weeks earlier.

The independence of public radio and television should increase as changes adopted in 2014 mean that its funding will not be set every year in the state budget but determined by the Law on Public Radio and TV.

3 | Rule of Law

There is a clear separation of powers with mutual checks and balances. The checks and balances within the framework of Slovenia’s parliamentary system function well. However, as in many other parliamentary systems, the Slovene government has become more powerful in relation to parliament. As a rule, the majority in parliament follows government proposals, and in 2013 and 2014, the government proposed the most bills. During the period under review, the National Council, the upper house of the parliament, issued 15 suspensive vetoes, but all except one were overridden by the National Assembly. In 2013 and 2014, the Constitutional Court found several government and parliamentary decisions unconstitutional and issued opinions on requests submitted by the government.

Separation of
powers
10

The judiciary is generally free from unconstitutional intervention from other institutions and private interests. There is a system of courts established throughout the country. Judges are independent, hold a permanent mandate and are elected by the National Assembly after being nominated by the Judicial Council, an independent and autonomous body. There are mechanisms for the judicial review of legislative and executive acts which culminates with the Constitutional Court.

Independent
judiciary

9

The period between 2013 and 2015 was quite turbulent for the judicial branch. For the first time, a district court judge was imprisoned for accepting bribes and the Judicial Council withdrew a permanent mandate from another judge. In some widely publicized cases (e.g., the Balkan Warrior case), mistakes in the work of courts were detected and new trials granted by the Higher (Appellate) Court. In 2013 and 2014, as a result of charges against and convictions of influential persons, particularly tycoons, trust in the judiciary started to grow but remains low compared to other institutions and sub-systems. The judicial system is still characterized by long delays in trials.

The judicial branch came under considerable criticism and verbal attacks in 2013 and 2014, mainly by supporters of the Slovene Democratic Party and its leader, convicted by two courts in the Patria scandal. Before the 2014 parliamentary elections, the Supreme Court president appeared on posters declaring him responsible for the legitimacy of elections as the Supreme Court did not quickly pass a decision on Janša's appeal. The poster sponsor was Committee 2014, which organized public gatherings outside the Supreme Court supporting Janša.

One of the Bratušek government's first moves in 2013 was to return the Prosecutor's Office to the Ministry of Justice. The transfer of this office's competences to the Ministry of Interior in 2012 by Janša's government provoked much debate and protests.

Various cases and developments between 2013 and 2015 show that officeholders who break the law and engage in corruption, corruption-risk activities or misdoings are prosecuted under established laws. In 2014, the courts concluded the most prominent scandal to cast a shadow over Slovene politics since 2008, the Patria scandal involving alleged bribes paid by a Finnish defense contractor for the purchase of armored personnel carriers. Slovene Democratic Party leader Janša was found guilty of taking these bribes during his 2004 to 2008 term as Slovenia's premier. The 2013 verdict was upheld by the Higher Court in late April 2014 and, two months later, Janša started a two-year prison sentence and was ordered to pay a fine of €37,000. However, in December 2014, he was released from prison on a temporary injunction issued by the Constitutional Court, which will remain in effect until the court reaches a final decision on his appeal. In this period, several other legal investigations against Janša have also taken place.

Prosecution of
office abuse

9

In January 2013, the Commission for the Prevention of Corruption announced the findings of a year-long investigation into asset declaration and financial disclosure laws by the holders of the highest political offices and the heads of seven parliamentary parties. The Commission's investigation found that then-Prime Minister Janša and Janković, the mayor of Ljubljana and head of the main opposition party, had systematically and repeatedly violated the law by failing to properly report their assets to the Commission. Based on the findings of the Commission, a constructive vote of no confidence was held and Janša's government was terminated. Janković was forced to step down from his party leadership position and withdraw from national politics.

Several ministers in Bratušek's government were investigated for alleged irregularities or abuses of power, including Minister of Defense Roman Jakič and Minister of Infrastructure Samo Omerzel. Minister of Economy Stanko Stepišnik resigned due to allegations that he applied for state subsidies from his ministry for a company he co-owns.

In addition, two members of the judicial branch, one prosecutor and one judge, were imprisoned for misdoings (corruption, false deposition). Lastly, the nomination of Prime Minister Bratušek for EU commissioner prompted an investigation by the Commission for the Prevention of Corruption. All of these cases attracted a great deal of publicity and wide media coverage.

Civil rights are guaranteed by the constitution and respected by state institutions. These rights include the protection of personal liberty against state and non-state actors, including the right to life and security of the person, the prohibition of torture, cruel and inhuman treatment or punishment and the protection of privacy, equality before the law, equal access to justice and due process under the rule of law. Residents are protected by mechanisms and institutions established to prosecute, punish and redress violations of their rights. However, the Ombudsperson for Human Rights in her 2014 report noted that backlogs of unsolved cases and lengthy proceedings have constrained citizens' rights to trial within a reasonable time. Roma and other vulnerable groups are subject to discrimination. According to the Ombudsperson's report, some municipalities have not ensured access to drinking water, sanitation, electricity and housing to Roma communities in their territories.

Civil rights

9

4 | Stability of Democratic Institutions

Democratic institutions are established. Due to recent political instability – frequent changes in governments, political disputes among coalition partners and two early parliamentary elections (2011 and 2014) – questions about the efficient and effective work of the institutions have been raised more frequently.

Performance of
democratic
institutions
9

In two decades, 23 nationwide referendums have been held, mainly due to a generous institutional arrangement (40,000 voters, one-third of MPs or the National Council – the upper house of parliament – can demand that a referendum be called) and liberal regulation of referendums. Previously, there were no restrictions on which issues could be put on a referendum, although in the past, different governments asked the Constitutional Court to decide whether a referendum on a specific question could be held. There was also no regulation on voter turnout. A referendum would be valid with any level of turnout. In recent years, the high number of referendums held has been criticized for obstructing the legislative process and contributing to political instability. These criticisms sparked a debate on how to change legislation on referendums to ensure, on the one hand, the right to demand referendums as a necessary and appropriate means of direct democracy and, on the other hand, policymakers' ability to govern effectively. In 2013, the constitutional provisions on referendums were amended. A referendum may now be demanded only by a minimum of 40,000 voters. A referendum may reverse legislation if voted for by the majority of valid ballots but only if at least one-fifth of all eligible voters voted for the reversal. These amendments also restrict the range of issues for which a referendum may be held; referendums may not be held for laws concerning the implementation of the state budget, emergency provisions for national defense and security or natural disaster response, the ratification of international treaties and unconstitutional changes in human rights and other areas. In the period under review, only one referendum was held.

The National Council, as the upper house of the parliament, generally has limited powers but can issue a suspensive veto on legislation passed by the National Assembly. The veto can be overridden by an absolute majority of all MPs. This is indeed a regular practice. In 2013 and 2014, the Council issued no less than 15 suspensive vetoes, but all except one were overridden.

In 2013 and 2014, the Constitutional Court made several widely publicized orders declaring unconstitutional decisions by governments and the National Assembly. However, between 2013 and 2015, some in the public regularly described the courts as ineffective, inefficient and biased (recall the Patria scandal).

All relevant political and social actors accept democratic institutions as legitimate, although immediately after the 2014 parliamentary elections, the Slovene Democratic Party claimed that they were not free and fair and, therefore, not legitimate because of developments in the Patria scandal and imprisonment of the party's leader. Nevertheless, the party has since participated in the National Assembly.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

Slovenia's traditionally stable party system has been affected by increasing polarization, organizational changes and electoral volatility in the period under review. The number of parliamentary parties has varied from seven to eight since 1992. Between 1990 and 2011, the Slovenian party system achieved a high level of stability without any major electoral engineering. Although new parliamentary parties appeared at almost every election, they remained small. However, since the 2011 elections, new parties have been the most important political actors. In 2011, two new parties, established only a month before the early elections, won 37% of the vote, with one securing the largest share of votes. The same pattern repeated itself in the 2014 elections when three new parties, two established barely a month before the elections, entered the National Assembly. Moreover, the new Party of Miro Cerar won the elections with 34.5% of the votes, while neither of the two new parties that successfully entered the National Assembly in 2011, the Positive Slovenia and Civic List, received enough votes to enter the National Assembly again. These developments indicate voter volatility and instability in a party system that for a long time was stable. These trends can be explained by recent developments: corruption scandals; dissatisfaction with the governments' effectiveness at dealing with crises; lower levels of trust in the government, political parties and National Assembly; a lack of accountability and historical distrust toward parties; and the weak roots of political parties in society (though, comparatively, Slovenian political parties do not have extremely low membership density: 5.4% in 2003 and 4.5% in 2013 according to public opinion polls and 6% in 2009 based on data obtained from political parties). Forming a party in Slovenia is easy, as only a program, statutes and the signatures of 200 citizens are required. In January 2015, 91 parties were registered in Slovenia (15 more than in January 2013). In local elections in the 212 municipalities, 115 non-partisan mayors were elected and non-partisan lists won nearly 30% of votes in municipal councils.

Party system
7

The structure of cleavages in Slovenia has followed widely known patterns. The libertarian-authoritarian cleavage has consistently been the most important in Slovenia as it has been interwoven with other cleavages (communism-anticommunism, state-church, modernism-traditionalism, center-periphery and urban-rural). Precisely this overlap of cleavages, along with an absence of politicians who can link different party poles (as then-Prime Minister Drnovšek did in the 1990s), has led to the recent rise in polarization.

A broad range of interest groups operate at the national and local levels and, despite differences, cooperate quite frequently. The most active and powerful are economic interest groups (employer and employee organizations), an interest group of retired people and environmental interest groups. Available resources (full-time employees, budget, leadership by former politicians) are important determinants of interest groups' power.

Interest groups
9

Economic interest groups have enjoyed privileged access to policy-making processes via the Economic and Social Council, which includes representatives of employers, employees and the government. In recent years, trade unions were treated as very influential actors as they could mobilize masses to collect enough signatures to demand referendums or organize broad public protests. However, with the 2013 referendum legislation limits on the range of issues on which referendums may be held, trade unions' influence has somewhat diminished. Since 2010, an umbrella organization representing young people's interests, the Youth Council of Slovenia, has held a special status with policymakers at the national and local levels. When dealing with policies that affect young people, legislators must consult the Youth Council.

Although Slovenian voters clearly prefer a democratic to an authoritarian system, satisfaction with the practice of democracy in Slovenia has declined since the early 1990s. Although this trend has been evident since 2005, a collapse of trust in democratic institutions and the present democratic arrangement in Slovenia has become obvious since 2009. According to Slovenian Public Opinion Poll, in mid-2013, only 8% of respondents expressed satisfaction with the practice of democracy, while only 1% trusted parties (in 2005, 11% trusted parties). In 2013, 44.8% of respondents expressed satisfaction with the practice of democracy ten years ago, but only 15.3% believed that the practice of democracy in the next ten years would be good.

Approval of
democracy
7

Slovenian Public Opinion Poll also revealed that, from 2003 to 2013, the share of respondents who think that they do not have any influence on government activity rose from 69% to 78%. The percentage of respondents who agreed with the statement that the government is not interested in knowing what they think grew from 72% in 2003 to 85% in 2013.

Between 2013 and 2015, research commonly found that solidarity remained among the most important values in Slovenia. In 2013, according to Legatum Institute data, 32% of Slovenes had volunteered (compared to a global average of 21%) and 41% had donated money to charity in the past month (compared to the 29% global average). In a Slovenian Public Opinion Poll conducted in 2013, 88% of respondents believed it was important to help people in Slovenia who are in a worse position than they are. According to 2013 public opinion poll data, 29.4% respondents thought that people can always or usually be trusted (compared with 31.7% in 2003).

Social capital
9

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
10

According to statistical data, 14.5% of the Slovene population was at risk of poverty in 2013, 1 percentage point higher than in 2012. The level of risk of social exclusion increased from 19.6% in 2012 to 20.4% in 2013 (Eurostat data). Changes brought about by the Social Assistance Act and the Law on Balancing Public Finances, both passed in 2012, contributed the most to this increase. This pattern suggests that social transfers lost some of their power to ensure social security. As in the past, unemployed and retired persons, especially women older than 64, were among the most vulnerable to poverty in the period under investigation. Although governments in the 2013 to 2015 period have launched special programs to reduce high levels of those at risk of poverty in some areas, regional differences remain considerable, with eastern and southern Slovenia reporting the highest levels of poverty risk. Nonetheless, Slovenia had the lowest income inequality (23.7% in 2012 and 24.4% in 2013) among OECD countries.

In Slovenia, the level of exclusion is not based on religion, gender or ethnicity. Several data sources confirm the relatively low socioeconomic barriers in Slovenia in the 2013 to 2015 period: a Human Development Index score of 0.884 in 2013, consistent with previous years; Gender Inequality Index scores of 0.133 in 2010 and 0.021 in 2013; and a female-to-male enrolment ratio of 100.2 in primary schools, 99.2 in secondary schools and 149.5 in tertiary education. According to Eurostat, the employment rate was 68% in 2014. The youth unemployment rate (percent of youth labor force aged 15-24) was 22% in 2014.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	36347.0	47973.0	47989.9	49416.1
GDP growth	%	4.0	1.2	-1.0	2.6
Inflation (CPI)	%	2.5	1.8	1.8	0.2
Unemployment	%	6.5	7.2	10.2	-

Economic indicators		2005	2010	2013	2014
Foreign direct investment	% of GDP	2.7	0.6	0.2	3.1
Export growth	%	11.4	10.1	2.6	6.3
Import growth	%	7.3	6.6	1.4	4.1
Current account balance	\$ M	-680.5	-37.4	2688.3	2842.6
Public debt	% of GDP	26.3	37.9	70.5	80.8
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-1.5	-5.4	-	-
Tax revenue	% of GDP	20.2	16.7	-	-
Government consumption	% of GDP	18.7	20.4	20.4	19.3
Public expnd. on education	% of GDP	5.6	5.6	-	-
Public expnd. on health	% of GDP	6.2	6.7	6.6	-
R&D expenditure	% of GDP	1.44	2.11	-	-
Military expenditure	% of GDP	1.4	1.6	1.1	1.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The Slovene state in general complies with EU regulations governing the distribution of state subsidies which ensure market-based competition. Still, in recent years, some subsidies given by Slovenian state institutions to different companies have come under the EU's scrutiny. For example, in the case of Elan (a sport equipment company), state subsidies did not follow EU regulations, so the EU demanded that they be returned. As of 2014, this demand had not been met, so the European Commission demanded that the company be declared bankrupt and liquidated in order to return the subsidies.

The freedom to launch and withdraw investments is ensured, and there is no discrimination based on ownership and size. Prices are fully liberalized. According to the 2015 Doing Business Survey, establishing a company requires two procedures and six days on average and the average costs amount to 1.5% of Slovenia's per capita income.

Market-based
competition

9

Despite several governments' plans to fight the grey economy, it remains large. Although accurate data on its scope are difficult to find, some estimations are possible. The largest hurdle to determining the scope of the grey economy is the different methodologies applied to do so. According to different international researchers, the scope of the grey economy in Slovenia is approximately 24% of national GDP, while the Slovenian Statistical Office estimates it to be 10% of GDP. Between 2013 and 2015, the government undertook some measures to combat the grey economy, resulting in taking in an additional €100 million in taxes, according to estimates by the Financial Administration of Slovenia.

Slovenia has in place adequate laws and institutions to deal with monopolization and to establish non-discrimination principles. The main institution dealing with the protection of competition is the state Competition Protection Agency. According to a 2015 report published by the European Commission, the agency lacks the power to impose fines on businesses directly, having to initiate separate minor offense proceedings. After some decline in the publicity of its work in the last few years, the agency seems to have become (publicly) more active in 2014 and in 2015. For example, in January 2015, the agency found that Geoplin abused its dominant position in the gas supply market by using prohibited contractual clauses. In 2014, the agency imposed a nearly €5 million fine for abuse of dominant market position on PRO PLUS, a leading broadcasting and internet media company in Slovenia. The fine was the highest ever imposed for breaking competition rules in Slovenia. According to the agency, PRO PLUS abused its dominant position in the television advertising airtime market in Slovenia and the internal market by concluding exclusive arrangements with advertisers and granting conditional rebates for loyalty. After a procedure initiated by the agency in 2014, Minister of Economy Jožef Petrovič was forced to step down only two weeks after Cerar's government was elected because of his participation in an alleged cartel agreement among several companies conducted years ago. The increase of agency employees from 16 to 28, even amid cuts to the public sector, has brought visible results.

Slovenia is a member of the EU and follows its trade policy. Since 1995, Slovenia has also been a member of the WTO and abided by its principles. Consequently, Slovenia has a relatively liberal trade system and, on the formal level, there is no state intervention in the liberalized market. In 2012, Slovenia's applied average tariff rate was 1.5% (World Bank data). According to World Bank data, foreign trade accounted for an equivalent of 143% of GDP in 2013, indicating a relatively high level of trade integration.

Anti-monopoly
policy
9

Liberalization of
foreign trade
10

The banking system was a hotly debated issue between 2013 and 2015. For months in 2013, financial markets around the world speculated about the size of the capital hole in Slovenia's banks and whether Slovenia would need a bailout. Stress tests revealed a total capital shortfall of €4.8 billion, of which the three largest banks, all state controlled, accounted for €3.7 billion. This hole was partly filled by such measures as a bail-in of subordinated debt, but the Slovenian government still had to pump €3 billion into the three banks. Three other banks had until the end of June 2014 to cover their €1.1 billion shortfall through a combination of asset sales and private capital injections. They failed to do, so the government had to intervene again.

To tackle the banking crisis, the government established the Bank Assets Management Company (BAMC), also called the Bad Bank, a government-owned company tasked with restructuring banks with systemic importance that faced severe solvency and liquidity problems in March 2013. By the end of 2013, the state had recapitalized the two largest banks and a substantial part of their non-performing assets had been transferred to BAMC. The banks entered 2014 with strengthened balance sheets and sufficient capital and liquidity to start new lending, contributing to renewed economic growth in Slovenia. In late 2014, BAMC faced criticisms for not being transparent enough and paying salaries considered too high, given Slovenia's economic situation.

At the end of 2013, the Slovenian banking system consisted of 17 banks and three savings banks. State steps to save banks resulted in significant changes to the ownership structure of the banking system. The government recapitalized three state-owned banks (NLB, NKBM and Abanka Vipava) and two smaller banks (Factor Banka and Probanka) which had been undergoing a controlled wind-down process since September 2014 on the basis of a decision to grant state aid to cover the losses with shares of existing owners, making the state the sole owner. In terms of equity, the ownership structure of the banking sector in 2013 was as follows: non-residents (more than 50% control) 30.6% (33.3% in 2012); non-residents (less than 50% control) 0.4% (8.7% in 2012); central government 58.1% (22.8% in 2012); and other domestic entities 35.2% (10.9% in 2012). Market shares by bank group (in % of total assets) in 2013 barely changed in comparison with 2012. Large banks had 58.3%, foreign banks 33.3% and small banks 8.2% market share.

The solvency risk of banks has declined since the December 2013 measures. According to the Bank of Slovenia, common own funds (Tier 1) accounted for 94.2% of total own funds, while the overall capital adequacy ratio on a solo basis was 14.3%. The expropriation of existing owners and the recapitalization by the government effected major structural changes. The proportion of own funds accounted for by common own funds increased by 9.2 percentage points to 94.2%. As capital requirements declined, the overall capital adequacy ratio, which had been stable at slightly less than 12%, increased to 14.3%, comparable to other European banking systems. Due to measures taken to stabilize the banking system, the national deficit

grew for 10.3% in 2013. The share of non-performing loans in total loans increased to 16% in 2014.

8 | Currency and Price Stability

Slovenia is a member of the European Monetary Union (EMU), so its exchange rate policy is determined by the European Central Bank (ECB). Membership in the euro zone protects Slovenia from foreign-exchange volatility and has contributed to maintain low inflation. The inflation rate was 2.6% in 2012, 1.8% in 2013 and 0.2% in 2014.

Anti-inflation /
forex policy
10

In 2013 and 2014, the Bratušek government followed mainstream macrostability policy and passed several austerity measures targeting the state bureaucracy, public education and health care system. Some measures were moderate in comparison to those passed in 2012 by Janša's government. The largest problem confronting the Bratušek government was the growing public debt. In 2012, it reached more than 50% of GDP and continued to grow in 2013 and 2014, reaching 70.4% of GDP in 2013 and was predicted to rise to 80% by the end of 2014. As agreed upon by a majority of political and economic actors, the biggest problem in Slovenia in recent years was this rapid increase in public debt.

Macrostability
8

The budget deficit was 1.9% in 2008, 6.3% in 2009 and 4.0% in 2012. The 2013 deficit was even larger, primarily due to the financial assistance given to domestic banks to stabilize the banking system: the deficit leapt from 10.3% to 14.7%. This increase was due to a one-time expenditure, so the estimated deficit for 2014 was much lower, at 4.3%, and it is projected to be 2.9% in 2015. To tackle these problems, the government tried to find additional money but could not always pass or implement new rules. For example, it tried to reduce the number of municipalities but in the end, this proposal did not even reach the National Assembly. The government introduced a new property law to gain a fresh injection of money for the budget, but the Constitutional Court annulled the law. The government did manage to raise the value-added tax.

Despite some difficulties, the European Council in June 2013 extended Slovenia's deadline to reduce the deficit below 3% of GDP to 2015. The extension was approved on the basis of the finding that Slovenia took effective action to reduce the deficit in line with European Council recommendations but encountered unexpected economic developments with major adverse fiscal consequences.

9 | Private Property

Property rights and the acquisition of property are adequately defined. Property rights are limited solely and rarely by the overriding right of constitutionally defined public interest. According to World Bank data, registering property requires 110 days and five procedures to complete, indicating some bureaucratic difficulties. Lengthy court proceedings and the high number of unresolved cases constrain the enforcement of property rights. According to a 2015 report published by the European Commission, Slovenia had the second highest backlog and the highest number of incoming civil, commercial, administrative and other non-criminal cases per inhabitant in the EU.

Property rights
9

Private companies are seen as the primary engines of economic production and are given appropriate legal safeguards. According to a World Bank survey, an entrepreneur only needs to overcome some obstacles to incorporate and register a new firm: two procedures which take six days to complete.

Private enterprise
9

The first wave of privatization in the early 1990s let the state retain significant ownership in privatized companies through state-controlled funds. The second wave of privatization between 2004 and 2008 resulted in a fiasco when many managers, with the help of generous loans from banks, tried to privatize many companies. In 2012, Janša's government announced a third wave of privatization because the state was not considered to be a good owner and also additional money was needed for the budget. In late 2012, the government established Slovenian State Holding to manage state property and decide which companies' shares to sell. The Bratušek government in 2013 also recognized a need to continue the third wave of privatization – selling companies to foreign companies and investors – in large part because of EU economic and political pressures. Some in Slovenia also advocated for privatization as a means to fight systemic corruption. In 2013, the government quickly prepared a list of 15 companies to be privatized. As of 2014, the state still had majority or partial ownership in 124 companies. Privatization again became a hot political issue because of better hard economic data and due to strange practices in the privatization story (some smaller foreign companies with worse business records than the Slovenian target bought Slovenian companies). Additionally, fierce critics of privatization revealed that Germany or its individual states had purchased a large part of Slovenian companies on the privatization list. As some warned, it is difficult to present selling companies to German state(s) as privatization rather than as the selling of (good and/or infrastructure) companies due to external pressures. In December 2014, Jože Mencinger, a respected economist and economic minister in the first Slovenian democratic government, prepared a petition against fast, ill-considered privatization. In January 2015, a counter petition advocating privatization was prepared and, according public opinion polls, the anti-privatization camp has more support.

10 | Welfare Regime

Among other austerity measures adopted to handle the fiscal situation were changes to the welfare state regime, including social transfers. The first major reforms were passed under very favorable statistical economic data between 2004 and 2008, when Janša's government tried to introduce the idea of privatizing social risks, an argument continued by his second government in 2012 and 2013. Surprisingly, the center-left 2008 to 2011 government, led by the Social Democrats and Prime Minister Borut Pahor, mainly followed the line set by the center-right government, even though Pahor had won the 2008 elections after criticizing the center-right government for introducing a neoliberal welfare state regime. The first significant increase in the at-risk of poverty rate was noted in 2008, which was a period of economic growth, but new social policy prevented low-income people from benefitting from the welfare state generated by economic growth. However, the later deterioration of the economic and fiscal situation led governments to make further reforms. In 2012, a controversial reform adopted by the center-left government at the end of its term came into force. The most controversial measure was to require that social assistance received as cash be returned after the death of a receiver, whose heirs were not entitled to the whole inheritance. This clause led many receivers to renounce social assistance in 2013 and 2014, as they did not want to burden their children.

Social transfer cuts were among the actions protested in early 2013, showing that the majority of the Slovene population still considered the welfare state worthwhile to fight for. Changes were made to legislation in 2013 and mid-2014 to increase the scope of those eligible for assistance. In mid-2013, 51,000 people were entitled to some form of social assistance, while in mid-2014, this number was almost 56,000.

The welfare regime still depends heavily on public organizations. However, in 2013 and 2014, circumstances forced NGOs to be more active than in the past and undertake many different actions to provide assistance. It is possible to conclude that, between 2013 and 2015, NGOs became more important in ensuring social safety nets, justifying a statement by the president of the National Forum of Humanitarian Organizations in late 2014 that these organizations had taken on a larger role.

A universal health care system has been introduced in Slovenia, but for years, warnings that the health care system needs major reforms to avoid collapse have been ignored. The extent of systemic corruption is one of the most frequently exposed problems in the health care system. In the fall of 2013, Minister of Health Tomaž Gantar resigned because of disagreements within the government over health care reforms and the fight against corruption. Until the new government elected in September 2014 appointed a new minister of health, other ministers and Prime Minister Bratušek were responsible for the ministry. Cerar's government has made health care reform one of the highest priorities on its agenda.

Social safety nets

9

Equality of opportunity has been achieved to a large extent as women and ethnic, religious and other minorities have equal access to education, public office and employment. In 2013, the gross enrolment ratio was 98.9% for primary school, 97.6% for secondary school and 86% for tertiary school, while the rate of female workforce participation was 45.9%, consistent with previous years.

Equal opportunity
9

In Slovenia, formal gender equality is not problematic, but some gaps between formal principles and actual practices can be observed. For example, the wage difference for men and women in the same positions is 4.4%. In 2013, the ratio of female to male enrolment was 100.2% for primary school, 99.2% for secondary school and 149.5% for tertiary education.

Gender differences in economic and labor force participation, health and education are not as visible as those in political participation or, more precisely, the number of women in elected political bodies. Women had accounted for a small but stable share of MPs (approximately 13%), but in the 2011 elections, a significant number of women were elected for the first time, followed by a second time in the 2014 elections (one-third of MPs are women). Whether this development is a consequence of the gender quota introduced for parliamentary elections in 2008 (for European Parliament elections in 2004 and local elections in 2006) remains an open question as in both elections, most women elected have belonged to the victorious new parties established immediately before the elections which focused their campaigns on their (male) leaders. However, the considerable under-representation of women in political bodies at the local level continued in the 2014 local elections, despite the gender quota introduced years ago.

11 | Economic Performance

Measuring Slovenia's output strength based on hard economic data shows that the situation has worsened since the start of the recent economic crisis. In 2012 and 2013, the country was under huge external pressures and was continually mentioned as the next in the line to need a bailout. However, this situation stabilized when Slovenia recapitalized its banks on its own, added the Fiscal Golden Rule to the constitution and committed itself to fiscal consolidation. In January 2015, ratings agency Moody's upgraded Slovenia's rating from Ba1 to Baa3 with a stable outlook, moving the country from speculative to investment territory because of its progress toward fiscal consolidation and the stabilization of the banking sector. The credit ratings of both the state and the banks had otherwise been rapidly downgraded since 2011, and in mid-2013, Slovenian bond yields were 6.4% and, for a short time, even exceeded 7%. At the end of 2013, the situation had improved due to the recapitalization of five banks, and in January 2015, Slovenian bond yields were 1.7%.

Output strength
7

Fiscal consolidation was also the focus of the country-specific recommendations issued by the European Commission in 2014. The Commission issued Slovenia nine instructions with deadlines, including the consolidation of public finances, continuation of privatization and, for the first time, a fight against corruption. The importance of the external environment for Slovenia is illustrated by the new government's promise in 2015 to continue the privatization of companies named in the list prepared in 2013 in order to maintain credibility with external actors.

After a huge drop of the GDP in 2009 (-7.9%), Slovenia recorded only minimal growth in 2010 and 2011, followed by drops of -2.6% in 2012 and -1.0% in 2013. Forecasts for 2014 were also negative, but at the end of the year, Slovenia had experienced GDP growth of 2.5%.

As many companies closed during the economic downturn, unemployment rose from 6.7% in 2008 to 12% in 2011 and 13.5% in 2013. In early 2014, unemployment increased slightly, exceeding 14% but decreased throughout the rest of the year.

In 2013, as in the past, the export sector was the main engine of economic growth in Slovenia.

12 | Sustainability

In Slovenia, environmental concerns are considered and appropriate legislation adopted. The Environment Performance Index (EPI), which tracks developments in environmental policies, shows that some reforms were clearly made in the past two years. In late 2013, the government adopted Slovenia's Development Strategy 2014-2020 that defines sustainable development goals and targets. The Ministry of Environment and the Institute of Macroeconomic Analysis and Development coordinate the implementation of this strategy. They established a new governmental office for development and cohesion policy and launched a public debate on a new environmental progress report focusing on the Natura 2000 areas. Slovenia has transposed most EU environmental directives into national legislation. In 2013 and 2014, Slovenia also adopted new or revised existing environmental quality and emission standards, established a multi-tier system of granting environmental permits and improved compliance monitoring and enforcement.

Environmental
policy
9

Education policy ensures a nationwide system of education and training which has resulted in a high level of literacy (99.6%). Slovenia's 2013 United Nations Educational Index score was 0.863, the same as in 2012.

Education policy /
R&D
8

Altogether, public, international and private expenditures on education accounted for 6.3% of GDP in 2012, and public sources provided 87% of these expenditures. Expenditures on education in 2012 were lower than in 2011 and the largest decrease was recorded at the university level, where spending fell from 1.30% of GDP in 2011

to 1.15% in 2012. Recently, additional cuts were made to higher education, though Slovenia continues to rank among the countries with the highest percentage of the population involved in tertiary education.

In the 2012 PISA study, Slovenian pupils attained a mean score of 499 in mathematics, science and reading, placing the country about the OECD average of 497.

In 2009, Slovenia dedicated 1.86% of its GDP to research and development (R&D), rising to 2.8% in 2012 and falling to 2.6% in 2013. Major cuts to the state research budget prompted important changes to the R&D funding structure. The state contributed 35.3% and companies 58.4% of all R&D funds in 2010, but in 2013, the state contributed 26.9% and companies 63.8%.

Transformation Management

I. Level of Difficulty

In 2013 and 2014, structural constraints on governance, such as extreme poverty and a lack of an educated labor force, were low, but several natural disasters, including major floods and strong sleet, occurred in 2014.

Structural
constraints
1

Civil society enjoys a relatively strong tradition in Slovenia. Most statistics show that Slovenia has among the highest number of civil society organizations per capita in the world, with more than 26,000 NGOs as of December 2014. Although in 2013 NGOs had their largest staff numbers in the past five years (7,445, or 0.8% of the active workforce), the most significant problems they face are shortages of personnel and financial resources. According to 2013 public opinion polls, nearly 34% of respondents belonged to sport, cultural or other leisure associations and 20.1% to other voluntary associations.

Civil society
traditions
1

Between 2013 and 2015, there were no violent incidents based on social, ethnic or religious differences in Slovenia. Slovene society is highly homogeneous: more than 80% of the population is Slovenian. Slovenia has in recent years faced greater political and social polarization. As mentioned elsewhere, the libertarian-authoritarian cleavage, which is interwoven with other cleavages, has been the most important in Slovenia. It sometimes led to such extreme polarization that it is possible to speak of a “division of spirits” as a metaphor for the all-embracing conflict in the pre-WWII era in Slovenia.

Conflict intensity
2

II. Management Performance

14 | Steering Capability

Since the long-lasting economic and fiscal crisis hit Slovenia in 2009, governments have attempted to set and meet priorities. How difficult it is to achieve such goals is indicated by the four governments in power and two early parliamentary elections since 2008. If the political elite have a consensus on what needs to be achieved – acceptable levels of public debt and budget deficit – they disagree on how and when to achieve these goals. In 2012 and 2013, Janša's government set and pursued clear priorities. When it tried, as promised, to impose responsible policies and gain international credibility it encountered strong resistance and conflict from different segments of the population. The Bratušek and Cerar governments have also set clear priorities, but have more readily adapted announced measures to accommodate (potential) conflicts (e.g., with public sector representatives) and demonstrate responsiveness, even occasionally at the expense of responsibility.

Within the ministries, capacities for planning are limited and there is no central policy-planning unit in the Government Office. The Office focuses on the legal and technical coherence of draft bills, but lacks the capacity and sectoral expertise to evaluate their policy content. Absorbed by crisis management, the Bratušek government took a more short-term approach. The incoming Cerar government announced an expansion of planning capacities.

From 2012 to 2014, the Janša and Bratušek governments set several important priorities to tackle the economic crisis and its consequences. Changes to legislation on referendums, supported by a large majority in the National Assembly, meant that none of these priorities faced the policy implementation problems that the 2008 to 2011 Pahor government did. However, Janša's government did face implementation problems because of resistance from important segments of society to austerity policies passed in the National Assembly. Bratušek's government, which had promised to undertake austerity measures with more sensitivity, since it was aware that these policies would increase poverty and social exclusion, soon faced fiscal problems. Her government wanted to adapt several measures to combat fiscal problems but had to withdraw planned policies (e.g., a plan to reform the system of local self-government in a country with 212 municipalities and 2 million inhabitants). In some other cases, the government pursued its policies, but the Constitutional Court ruled against laws passed by the National Assembly. Therefore, it is possible to say that neither government could implement its desired policies completely or effectively. The first steps taken by Cerar's government in late 2014 suggest that it will try to avoid major conflicts with segments of society. His government has

Question
Score

Prioritization
8

Implementation
7

already announced or passed decisions which faced considerable public dissatisfaction and, in response, the government already modified them.

In the period under review, governments could not always replace failed policies with innovative ones. The question in Slovenia is whether policies and various proposed reforms are the results of deep, wide-ranging analyses or merely ad hoc responses to emerging needs and the varying ideological views of different governments. Although in recent years most policy areas have undergone an evaluation phase to institutionalize complex learning, the extent to which the information collected by evaluations is used in the drafting of new policies remains unclear. Regulatory impact assessments differ strongly in their quality and do not cover fast-track legislation. The government led by Prime Minister Miro Cerar has increased the number of ministries, re-established a separate ministry for public administration, and again divided the task areas of infrastructure and environment/spatial planning into two ministries. Previously, the government led by Alenka Bratušek had established a new governmental office for the development of European cohesion policy. These reforms have been aimed at increasing Slovenia's capacity to absorb EU funds.

Policy learning

7

15 | Resource Efficiency

The Court of Auditors has consistently provided effective, independent auditing. Based on the Court's reviews, provisions regarding the transparent and efficient use of finances, human resources and information in the public sector have not been implemented in full compliance with the law. Therefore, the Court has regularly called offenders to eliminate anomalies.

Efficient use of assets

7

It is hard to judge in certain cases whether merit, political criteria or both were used in the selection of candidates for the public administration, but in some cases, judgments can be made based on media comments and publicly available data. Although Slovenia has adopted a merit system to recruit its administrative elite, meritocratic criteria are not always applied properly. Ministers exercise the right to directly hire those who work as their closest collaborators and share the ministers' fate. Additionally, incoming governments, as a rule, choose their own office and department heads, but strong job security rules in the civil service require that the replaced heads be offered an equivalent job elsewhere within the administration. When power changes hands once again, the former head might return. Therefore, "rotation" is a better term than "replacement" to describe this system.

In early 2015, Slovenia had begun to adopt legislation on fiscal rules and on rules defining the drafting, implementation and monitoring of the government budget in more detail. Public sector debt increased significantly to 82% of GDP in 2014 and the general government deficit peaked at 14.6% of GDP in 2013 mainly due to bank recapitalizations.

Governments in the period under investigation tried to assure policy coordination among departments, but in some cases failed to do so. Several (formal) coordination bodies have been established at the level of individual ministries. These include civil servants, interest groups, experts and government representatives and attempt to ensure the necessary policy coordination.

Policy
coordination
8

The Government Office is not directly and systematically involved in line ministries' preparation of policy proposals. Once the coalition agreement and government program have defined certain projects, the full responsibility for drafting bills rests with the line ministries. Although the Office is entitled to reject draft bills on policy reasons or other grounds, the Office does not constitute an important gatekeeper, since most legislative projects are discussed beforehand at the coalition meetings, mostly just between presidents of coalition parties, and then undergo a complex process of interministerial coordination. The main mechanisms of interministerial coordination are cabinet committees and meetings of senior civil servants. The government of Prime Minister Alenka Bratušek (February 2013 to May 2014) struggled to achieve policy coherence. During its period in office, four ministers resigned, partly because of controversies over the course of the government and partly because of an inability to explain personal assets.

Three important watchdog institutions have been established to fight abuse and corruption: the Court of Auditors, Office of the Information Commissioner and Commission for the Prevention of Corruption. All three organizations are important structures, though their activities have fluctuated over time. In fighting corruption, the later organization is the most important, though for a long time public opinion polls in Slovenia, together with some international research, revealed that corruption is not a big problem. However, these studies and surveys exposed petty corruption. In addition, state capture and the problem of systemic corruption have been neglected for a longer time, though this form of corruption is the most problematic in Slovenia.

Anti-corruption
policy
7

To fight corruption more efficiently, in 2012 the Anti-Corruption Commission prepared changes to legislation which would further empower the Commission. However, a parliamentary alliance crossed party lines to oppose the proposal. The Commission leadership resigned in late 2013 to protest the government's inadequate anti-corruption efforts. New leadership for the Commission was appointed in the spring of 2014 but only after several complications. An unknown lawyer, Boris Štefanec, who a day prior to his appointment was still a member of Positive Slovenia, was appointed the new president of the Commission. Due to his "baggage," both of the two new deputy leaders resigned. Soon after the new Commission finally began working, the leadership engaged in several internal disputes, which led a deputy leader to call for the president of the Commission to resign. In only a few months, the Commission's reputation as an effective, trustworthy, independent watchdog institution faded.

To fight political corruption, legislation on party and electoral campaign funding was changed in late 2013. All corporate donations were banned and the Court of Auditors' role as a control body was strengthened. In January 2015, the government adopted a new two-year program to fight corruption.

16 | Consensus-Building

Despite significant differences among major actors concerning the development of society, all actors agree that consolidating and vitalizing both democracy and the country's market economy are primary strategic aims. During the 2014 election campaigns, one new parliamentary party, United Left Coalition, did call for fundamental changes to established political and democratic principles and practices as well as a shift in economic thinking, but it did not question the democratic system or the fundamentals of a market economy as such.

Consensus on goals
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There are no (significant) anti-democratic political actors in Slovenia, so there is no need to exclude or co-opt them. However, given events connected with the Slovenian Intelligence and Security Agency's report on extreme (neo-Nazi) groups, some anti-democratic elements are present but not (highly) visible.

Anti-democratic actors
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While Slovenia has no ethnic or religious cleavage, signs of potential class and regional differences have emerged, mainly due to the economic crisis and structural differences in the economic wealth and vitality of statistical regions. However, none of these differences translated into cleavage between 2013 and 2015.

Cleavage / conflict management
7

The 2012 to 2013 Janša government's decision to deliberately exclude a set of ideological issues from the political agenda was not effective (it was explicitly written into the coalition agreement that partners would not raise questions related to WWII in the government nor the National Assembly). As soon as two of the coalition partners (Slovene Democratic Party and New Slovenia) violated the agreement by raising ideological issues, bitter conflicts between these parties and the Civic List and Democratic Party of Retired People occurred. In 2013 and 2014, Bratušek's government only partly managed to depolarize the most vital cleavage in the country.

Interest and other civil society groups play important roles in the formulation of various policies as some interest groups are recognized to be of vital importance to the state (e.g., representatives of employers, employees, farmers, crafts and trades, independent professions and non-commercial fields). These segments of society hold a special status and their cooperation in policy-making is institutionalized in the National Council. Additionally, the interest groups of employers and employees have a special role in Slovenian society, evidenced by institutionalized cooperation with the government in a social partnership system. From 1994 to 2009, they made a series of social pacts, but during the crisis could not find common ground and concluded no social pact. Only in January 2015 did they agree on a new social pact, scheduled for ratification in February 2015.

Civil society
participation
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The 2009 Resolution on Normative Activity requires that ministries prepare draft legislation in a transparent manner and grant interested or affected public organizations at least a month to participate in the policy-making process. However, this resolution does not have the status of an obligatory act and the principle of allowing civil society participation in policy-making has in practice frequently not been respected. Janša's government, as discovered by the Center for Information, Service, Cooperation and Development of NGOs, violated this provision in a huge majority of cases, citing as justification that the economic situation demanded fast decision-making. This pattern did not improve with the Bratušek government, which has violated the Resolution in 65.5% of cases. According to the Center, Cerar's government violated the principles of the Resolution in nearly 70% of cases in its first 100 days in power.

The political leadership is seeking reconciliation on historical acts of injustice that occurred during and after WWII. However, political elites continue to be divided with regard to the interpretation of Slovenia's recent history. Mainly the representatives of the center-right Slovenian Democratic Party have emphasized the crimes committed during Yugoslavia's Communist period and complained about Communist remnants in the center-left parties. Center-right politicians have campaigned to investigate the role of the Communist era secret service in killing diaspora political activist Stjepan Crnogorac.

Reconciliation
9

Recently, a decision by the European Court of Human Rights ordered Slovenia to resolve the injustice against the "erased people," those who in the early 1990s were erased from the register so that, from an administrative perspective, they no longer exist in Slovenia and lost all rights. In 2014, the same court gave Slovenia one year to compensate Yugoslav-era foreign currency deposit holders of the now defunct Ljubljanska Banka in Sarajevo. The court found that Slovenia violated the European Convention on Human Rights' provisions on the protection of property and effective legal remedies for violations.

17 | International Cooperation

Due to Slovenia's inclusion in the EU and the euro zone, governments during the period 2013 to 2015 have had to subscribe to the framework set by EU institutions. Some Slovenian governments also used various documents, suggestions, analyses and opinions from international actors to advocate for proposed domestic reforms and aims that they wanted to achieve, which was, in turn, also suggestive of an inclination toward following their own ideological positions. According to a report published by the European Commission in early 2015, Slovenia drew 82% of all allocated EU cohesion policy funds for the programming period 2007 to 2013, which was higher than the average absorption rate in all EU countries. However, irregularities in public tender procedures led the Commission to suspend payments from the Cohesion Funds twice in 2013 and 2014.

Effective use of
support
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Nevertheless, assistance offered by foreign actors is frequently perceived as a desire by these actors to influence/direct developments in Slovenia. Such concerns and fears about threats to Slovenia's sovereignty have constrained the effective use of foreign support.

Slovenia is recognized by the international community as a reliable partner who is also willing to participate in different forms of international collective action, for example, in the form of a financial aid package designed to assist Greece and other countries facing crisis in the EU, despite the fact that Slovenia was facing its own problems, and participation in various peacekeeping missions. In the period under review, the credibility of Slovenia was threatened several times in connection with its ability to handle crises – fiscal, political and economic – and this was also reflected in statements by domestic politicians that Slovenia has to do what it has promised in terms of addressing the crisis to retain its credibility. In a 2015 report on Slovenia, the European Commission noted that frequent changes of government contributed to uncertainty and the postponement of investment decisions. However, Slovenian entrepreneurs have also been able to attract foreign funding for innovative product ideas.

Credibility
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In the 2013 to 2015 period, Slovenia has also continued to follow its tradition of cooperation at the regional level. Even more, in this period, it has tried to rekindle its cooperation with the Visegrad Group (Slovakia, Czech Republic, Hungary and Poland). Being a member of the euro zone since 2007, Slovenia has been hit hard by the economic and financial crisis, but avoided a bailout during the period under review. Slovenia supported the EU's economic sanctions against Russia over the Ukraine crisis, but has not promoted tougher measures. Relations with Croatia improved after the two countries' disputes over their maritime border had been solved and Slovenia accepted a European Court of Human Rights decision to compensate former deposit holders of Ljubljanska Banka (a former state-owned bank that was

Regional
cooperation
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restructured by the Slovenian government in 1994). Slovenia actively participates in the Regional Cooperation Council and other regional cooperation initiatives involving South East European countries. The government also advocates for the EU accession of the Western Balkan countries.

Strategic Outlook

The newly elected Cerar government will have to continue to deal with the crisis and to devise policies that guarantee development in the next decade. Over the last several years, it has become clear that in seeking to accomplish these aims in Slovenia, it will be necessary to try to find a balance between responsibility, on one the hand, and responsiveness, on the other. Responsibility, particularly in relation to external actors, will be even more important in the next few years than it has recently been simply because it became clear how vulnerable Slovenia has been in relation to these actors. However, the government should also be responsive to domestic actors, particularly due to the huge expectations of the public and some prevalent values (e.g., the importance of the welfare state, solidarity, preservation of public services – particularly in the fields of education and health care – and the importance of the budget deficit and public debt reduction) which make finding a balance between the two objectives difficult, though not impossible. A distribution of political power can help the government achieve this, though it will not be easy to maintain a balance within the governing coalition of the economically liberal (and politically more inexperienced) governing party, on the one hand, and the single-issue (Democratic Party of Retired Persons) and social democratic parties, on the other hand. However, the opposition is ideologically divided between liberal, conservative and more radical left parties, and therefore, the expectation is that it will be difficult for the opposition to unify itself against the government.

Other very important objectives for Slovenia are to fight corruption more effectively and to re-establish the rule of law. These issues were exposed by the 2014 parliamentary elections winner and current prime minister, Miro Cerar. Both of these aims can help increase trust in political institutions. The extremely low levels of trust in political institutions reported over the last few years cannot continue without significant consequences for democracy in the longer term.

For some time, there have been warnings about the younger generation becoming disadvantaged. Although some measures to include a greater number of young people in the labor market have been taken, the situation has not changed significantly and this will remain one of the most important focal points for the government in the coming years. In addition, although Slovenia still has a very low level of income inequality, this statistic should not mislead. As one sociologist warned, a low Gini coefficient in Slovenia simply indicates that Slovenes are equally poor. If Slovenian society is to be qualitatively developed further, a low Gini coefficient must be matched by broad-based increases in income and quality of life.