

# Slovenia

<b>Status Index</b> (Democracy: 9.55 / Market economy: 9.36)		<b>9.45</b>	<b>Management Index</b>		<b>7.41</b>
<b>HDI</b>	0.904		<b>Population</b>	2.0 mn	
<b>GDP per capita (\$, PPP)</b>	19.50		<b>Population growth<sup>1</sup></b>	0.4 %	
<b>Unemployment rate</b>	N/A		<b>Women in Parliament</b>	12.2 %	
<b>UN Education Index</b>	0.98		<b>Poverty</b>	N/A	
			<b>Gini Index</b>	28.4 (1998)	
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003.					

## A. Executive Summary

During the period under review, Slovenia held referenda on accession to the European Union and NATO in March 2003, became a member of NATO in April 2004 and of the EU in May 2004, and held parliamentary elections in October 2004. As a small country with a long history of economic and cultural ties to Western Europe, 89.64% of Slovenia's population voted in favor of EU accession and 66.06% in favor of joining NATO.

Parliamentary elections brought the former opposition to power with Janez Janša, president of the Slovene Democratic Party (SDS), as the new prime minister. Janša's election represented a major political shift, as the Liberal Democratic Party of Slovenia (LDS) had been running the government together with various coalition partners from 1992 – 2004, with only one six-month interruption in 2000.

The previous years were shaped significantly by final preparations for accession. This included domestic debate on remaining adjustments following Slovenia's expedited implementation of body of EU legislation (*acquis communautaire*) and changes to its constitution.

Slovenia modified its constitution in 2003 and 2004; article 47 on extradition and article 68 on non-citizens' property rights were changed in 2003. Article 3a has been added to allow Slovenia to transfer certain sovereign rights to the supranational level with international treaties. These changes were made during the process of EU accession in preparation for accepting a limitation of sovereign rights as a EU member. Article 14 was changed in 2004 to include persons with disabilities into the guaranty of equality before the law. In addition, the

amendments concerned article 50 guaranteeing pension rights and article 43, which addresses gender rights and envisages measures for encouraging the equal opportunity of men and women in state and municipal elections. Based upon this latter provision, a law now stipulates that a minimum of one-third of candidates have to be represented by both genders.

Slovenia's transformation process showed progress from 2000 – 2004. Political actors in Slovenia's consolidated democracy stressed the importance of managing the integration of transformation's winners and losers in the medium-term. This basic expectation will be of particular importance to the Slovenian population, which is clearly consensus-oriented. As the "small model state" of former Yugoslavia, Slovenia will need to experience economic stability in the near future, implement social reforms, and navigate a shift toward more openness and social sensitivity among its population.

However, measured in terms of other key indicators such as education level, corruption, poverty and income disparities, Slovenia is faring well compared both regionally and globally.

## **C. Assessment**

### **1. Democracy**

#### **1.1. Stateness**

The state has an unchallenged monopoly on the use of force extending over its entire territory, with the exception of a small part of the border with the Republic of Croatia where incidents occasionally occur.

All citizens possess equal civil rights. Minorities are protected and represented in parliament and in related local community councils. Slovenia has ratified most international agreements regarding the protection of minorities.

The state is secular and recognized as such by a majority of the population. Religious dogmas have no direct influence on politics, although during discussions on building an Islamic center or mosque in Ljubljana, strong opposition movements backed by the Roman Catholic Church arose to stop this initiative. Despite a constitutionally guaranteed separation of church and state, the Roman Catholic Church repeatedly forces its agenda on the state. This has lessened somewhat since the nomination of a new archbishop in the autumn of 2004; the situation appears to be evolving in a somewhat less radical direction. The Constitutional Court finally decided that a referendum on building an Islamic

cultural center with a mosque should not be allowed, as it would constitute a referendum on human rights.

The state has a differentiated administrative structure throughout the country and has no difficulty collecting taxes, providing law and order, and exercising other important functions.

## **1.2. Political participation**

Elections have always been free, fair and very well organized. In 2004, 20 lists or parties offering 1,359 candidates participated in the elections for the National Assembly (parliament).

Elected rulers have the effective power to govern with no veto powers or political enclaves within the country.

The constitution provides political and other groups the rights to associate, assemble freely and express their opinions without any restriction within the basic democratic order. Trade unions have been engaged in numerous demonstrations during the period of review. Other protest movements have been less successful in bringing people together and uniting them on the streets.

Freedom of the press is guaranteed. There has been an initiative by the previous opposition to introduce a special budget for financing opposition press. Slovenia has five daily newspapers, each independent of political parties, and a national broadcasting company (RTV) governed by a council consisting of 25 members, among which five are appointed by the parliament (and others) through different interest groups and employers. Weekly political magazines represent both main political blocs. Freedom House rated the country 1 on political rights and the same on civil rights, both on a scale of 1 to 7 (in which mark 1 is "most free"). However, the indirect influence of the LDS, the former leading governmental party and current opposition, can be felt on the press.

## **1.3. Rule of law**

A system of checks and balances has been functioning well, though it occurs within the framework of the parliamentary system.

The judiciary is independent from unconstitutional intervention by other institutions and private interests. However, the excessive length of judicial proceedings continues to present a problem.

There are mechanisms for judicial review of legislative and executive acts embodied in the Constitutional Court. Officeholders are severely prosecuted for abuse of their positions. An anti-corruption office was founded in 2002 with the task of developing a general strategy for fighting corruption. The Corruption Perception Index for Slovenia was 6.0 (on a scale of 1 to 10, with 10 being a “clean score”) in 2004.

There are no restrictions on human rights, although some tensions can be observed regarding the growing number of Muslims in the population. The country has already ratified most international agreements important to protecting human rights. In Slovenia, the ombudsman for human rights represents an important institution. Most complaints concern the duration of legal proceedings. The ombudsman considers the implementation of the Denationalization Law concerning the return of private property to be a particular problem. According to the Rule of Law Index, Slovenia was graded 0.89 in 2000 (in the World Wide Governance Data Indicator Index, the highest rank is +3, lowest -3).

#### **1.4. Stability of democratic institutions**

Democratic institutions are established and work effectively and efficiently. The judiciary is, in some parts of Slovenia, the sole exception as it is overburdened with cases concerning the country’s transition process. In some cases (for example, denationalization of larger territories or properties) administration lacks sufficient competency to make final decisions which leads to prolonging the procedure, shifting a case from one institutional level to another and then back again. As a rule, political decisions are proposed, implemented and reviewed using legitimate procedures by the appropriate authorities.

All political and social actors accept democratic institutions as legitimate.

#### **1.5. Political and social integration**

The party system is based on a religious cleavage dividing the country into two: Christian, right, conservative on the one side and socialist, liberal, left on the other. Slovenia has a moderate party of pensioners whose role is to protect sufficient pension rates in relation to salaries. This party has a long history in government coalitions, and has succeeded in acquiring a more favorable position for pensioners in terms of paying the costs arising from the transition process. Before losing its position in a recent election, the Slovene Youth Party (SMS) had four representatives in parliament. Women continue to be underrepresented in key positions. There were only 24.9% of women on the list of candidates in the election for National Assembly in 2004 and only 12.2% of members of parliament

are women. Due to international efforts and inside pressures, however, the new government finally has at least one female member. Fragmentation is very high, as indicated by seven parties in parliament, although parties are integrated and chiefly function as two greater blocs. Public consent of the party system is very broad, despite the fact that parties receive very low ratings in public surveys.

There is a large network of cooperative interest groups and organizations that reflect social interests and tend to influence decision-making processes. The Economic Social Council connects representatives of employers and employees, and influences the process of government. There are some other neo-corporate associations with certain “clientelistic tendencies” in the political system, too, particularly in agriculture. In April 2003, these social partners concluded an agreement for the period 2003-2005. The main objective of the agreement is to formulate such wage policy for private and public sectors that will help bring inflation down. The long-term wage policy has been set to ensure that real wage growth lags behind labor productivity growth by at least one percentage point.

Consent to democracy is very high particularly considering that there is neither formal nor informal constitutional opposition in the country.

Self-organized groups have appeared in urban parts of the country, though a more traditional form of self-help along kinship lines is taking place in the countryside. A number of organizations have been established to address drug policies and medical treatment with the aim of helping women and children victims of violence. These initiatives enjoy great support from the population.

## **2. Market economy**

Slovenia has made progress transforming its economic order. Macroeconomic stability is assured, and market mechanisms guarantee efficient allocation and offer actors security in planning. Competition regulation and openness in the capital market demonstrate shortcomings.

### **2.1. Level of socioeconomic development**

Social exclusion is minor and not structurally ingrained. The country’s level of development allows all citizens adequate freedom of choice. Slovenian society maintained its positive qualities during the observation period: a low poverty rate (less than 2% of population living below \$1 per day), relatively even distribution of wealth and equal opportunities for different segments of the population. In contrast to the generally positive picture, the losers in the transformation process (groups such as the Roma and industrial workers with low education levels, as

well as low-level employees in public administration) must be mentioned, along with the continued existence of regional disparities. The UNDP Gender-related Development Index for Slovenia is 0.892. Slovenia is ranked 26th of 144 countries.

## **2.2. Organization of the market and competition**

Slovenia has a relatively liberal trade system and is continuing to deregulate its trade policy. The state complies with EU regulations governing the distribution of state subsidies. Although a more market-oriented approach is gradually establishing itself, the government continues to exercise great influence on the economy's competitive ability. The state still directly or indirectly controls about one-third of the economy.

There is a coherent anti-monopoly policy and there are adequate institutions addressing monopoly formation and non-discrimination principles.

Access to the Slovenian market remains difficult for foreign capital due to relatively high labor costs and taxes. In formal terms however, there is no state intervention in the liberalized market. Labor costs for the real working hour increased 55.7% in 2004 in relation to average costs in 2000.

The integration process of banks in Slovenia continued during the period of review. This may present a problem for the Slovenian government because 36% of banks are in foreign hands. On the other hand, the government will not sell Slovenian banks, which are considered support for further economic development.

## **2.3. Currency and price stability**

Inflation is no longer a serious macroeconomic problem for the country, and fell from 8% to 4% during the period under review. Previously, fighting inflation was one of the country's priorities on the way to becoming a member of the European Monetary Union.

Slovenia's fiscal policy was solid, the indebtedness of the government remained moderate, but higher than in the previous period. It fluctuated between 1.3% of the GDP in 2000, reaching 2.98% in 2002 and then decreasing to 1.75% in 2004. Aside from increasing transfer payments to social security and costs for adjustment to the EU, the growing deficit could also be traced to two elections during this period. By 2007, the debt should not change significantly, but in 2008 it should decline (compared to prior projections by the central government's debt service). In order to achieve this objective, additional, yet unused resources in the

Slovenian economy need to be mobilized. The new government aims to include foreign investments in financing the rebuilding of infrastructure (main roads) to reduce pressure on the budget.

#### **2.4. Private property**

Property rights and the acquisition of property are adequately defined. However, the privatization of state companies proceeded quite slowly as a rule. This reflects the gradual and cautious approach to structural reforms in Slovenia.

The start-up company trend has waned substantially in recent years. While large companies were able to show significant increases in employment, employment growth in small companies was sluggish. Private companies are viewed as the primary engines of economic production.

#### **2.5. Welfare regime**

There is a solid network in place to compensate for social risks. The basis for a universal health care system was established in the Yugoslav federation. This system has been under pressure to reform and become a more participatory system, in the sense that it expects patients to co-finance the health care services they use. New participation rates (for instance, user charges) have been introduced gradually during the period under review. The new unemployment and social security insurance system expanded after the change from socialism to democracy. In the last period, the welfare system had been improved under the participation and influence of the United List of Social Democrats leading the ministry.

According to current statistics, income differences in Slovenia appear limited. While the absolute poverty rate has not been very high, relative poverty was considered high enough that it eventually led to a program to combat poverty and social exclusion. In the social security sector, a new law for parental protection and family allowances (2000) offers improved protection to poor families and families with many children. Slovenia has also introduced various programs for the Roma community aimed at raising the education level and improving professional qualifications. Furthermore, a law on equal opportunity was passed in June 2002. The law forms the foundation of equal opportunity for women in the public sector. In practice, women continue to be underrepresented in leadership positions.

## **2.6. Economic performance**

Growth in per capita GDP is relatively high (+3.6% on average since 2000). Its momentum is associated with positive macroeconomic data. Employment rates are slightly increasing (56.5% of economically active people); the unemployment rate in 2004 was 6.6% - the lowest since 1990. Price stability is much higher than it was in 2002. Slovenia's budget only has small problems and its trade balance is favorable. Slovenia meets the Maastricht criteria, demonstrating a high degree of economic convergence.

## **2.7. Sustainability**

Environmentally compatible growth, avoiding the externalization of costs, is taken into account on both macro- and microeconomic terms. Slovenia complies with international environmental agreements. Public environmental awareness has begun developing only since 2001. Slovenian lawmakers have passed a number of laws and signed several international agreements within the context of conforming to EU requirements. Compliance and practical implementation of new legislation, which will require extensive investment and administrative effort, and not least a change of mentality, can only be expected in the long term. The percentage of total investments for the purpose of preservation of the environment in 2001 (reported in December 2003) was 5.2% of investments made in that year, and 9.5% in the field of industry - mostly for preservation of water resources (42%) and air quality.

Slovenia has traditionally enjoyed a well-developed public school system. The largest universities in Ljubljana and Maribor are also state institutions. In 2004, a third university was established in Koper. There are some high schools, faculties and university departments in other parts of Slovenia. The state's expenditure for education since 2000 has been a considerable 6% of the GDP. Despite this, serious reforms are necessary - above all in professional training, which is unable to address structural changes in the job market. Recent government attempts aimed to do so by forcing more students into professional schools. At 1.5% of the GDP, average expenditures for research and development place Slovenia in the middle of the pack in Europe. The basics of a modern infrastructure exist, and further modernization is planned because of the country's strategic geographic location at the intersection of two EU-supported transit axes. Informal forms of education have been increasing since 2000: 19.3% of the population was involved in at least one form of informal education in 2003.

### **3. Management**

#### **3.1. Level of difficulty**

As a small country, Slovenia does not have adequate resources. Therefore, although structural constraints on governance are low, government should make efficient use of all possible human resources. The Janša government preferred political to professional criteria, which has already created problems for the country's efficiency and legitimacy. The minister of public administration, a former secretary for the same field in the previous government, set a new course by shifting from professionalism as the main criteria to that of political acceptance. Consequently, previously non-existent structural constraints began to pose a real problem.

Having previously lacked independent political life organized in the form of an independent state, civil society now enjoys a relatively strong tradition. Since the middle of the 19th century, political life has been organized in societies, clubs and associations. There are more than 18,000 registered organizations, NGOs and groups. Interest groups are beginning to play an increasingly important role in the formation of various policies. Several interest groups have been acknowledged as vital and important to the state and have been elevated to a special status institutionalized in the National Council.

Following an almost identical process, many interest groups are also represented on the board of RTV, Slovenia's national broadcasting company. The specific interests of employers and employees are separately organized or institutionalized within a social partnership system. Only labor union representatives are allowed to negotiate with employers and the state on behalf of employees. There are 31 such labor unions. There are four labor union umbrella organizations in Slovenia: the Association of Free Slovenian Labor Unions (ZSSS), Neodvisnost – KNSS (Independence-Confederation of Independent Slovenian Labor Unions), Konfederacija sindikatov Pergam Slovenije (Confederation PERGAM) and the Confederation of Independent Labor Unions '90. Slovenia has three large associations of employers that are a constituent part of the social partnership system: the Chamber of Commerce, the Association of Employers and the Trade Chamber.

There are no significant ethnic cleavages in Slovenia. Italians and Hungarians both have minority status and are therefore protected at local and national levels. No political parties with national background are present at the national level. Roma are of special concern and status. The large number of Serbs, Bosnians and Croats in Slovenia do not have a special status. However, they are organized on the principles of civil society and in religious groups (orthodox Christian and Muslim).

The most important and powerful cleavage in Slovenian politics is the religious cleavage dividing the country into two blocs: Roman Catholic and socialist-liberal. The Roman Catholic bloc tends to exclude the other, promoting a lustration (purification) law in 1997 and a one-bloc government. The socialist-liberal bloc has traditionally proposed bloc-coalition governments, including at least one party from the opposition. Political parties are also recognized as representative of one or another bloc: the Catholic bloc is represented by a Slovenian democratic party, the New Slovenia and Peoples Party, whereas the socialist-liberals are represented by the United List of Social Democrats, Liberal Democrats, DESUS- Pensioners Party and also the Slovene National Party.

### Profile of the Political System

Regime type:	<i>Democracy</i>
System of government:	<i>Parliamentary</i>
1. Head of Government:	<i>Anton Rop</i>
Type of government:	<i>coalition majority</i>
2. Head of Government:	<i>Anton Rop</i>
Type of government:	<i>coalition majority</i>
3. Head of Government:	<i>Janez Jansa</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 <math>i</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Effective number of parties denotes the number of parties represented in</p>	

### 3.2. Steering capability

Political leadership has been successful in setting and maintaining strategic priorities connected to the European Union and NATO. Political consensus concerning these particular aims has always been very strong. For that reason, the political process of integration has been shown and it has recognized accommodation to the European standards. The previous government gave strategic goals priority over short-term expediency, which was also one of the reasons it lost the election.

Slovenia's government is experiencing no major problems in achieving reform goals connected to the European Union. The most important laws have been adopted in due time, macroeconomic processes have been under control, and the referendum result was very high.

The political leadership demonstrates the ability for complex learning, acts flexibly and is able to replace failed policies with innovative ones. School system reforms (requiring nine years of elementary school and the reform of universities according to Bologna criteria) introduced by the previous government place pressures on the new administration that will implement these reforms. There is a similar case regarding public administration reform. The question remains whether these reforms are the result of analyses or only of emerging needs and different views of the new government. An evaluation phase has been introduced for the majority of policies that has institutionalized complex learning.

### **3.3. Resource efficiency**

The previous government generally made efficient use of available human, financial and organizational resources. The new government headed by Prime Minister Janša, however, fired several highly competent and experienced individuals in the field of public administration and research from the policy-making process and thereby created a substantial shortage of competent individuals. This decision may be labeled as a waste of human and organizational resources.

The previous government made great efforts to coordinate conflicting viewpoints, particularly those concerning citizens erased from the register of permanent residency. These persons lost their rights as citizens in 1992 and 1993; most of them were of non-Slovenian nationalities. Very few of them could be seen as dissidents acting against the strategic interests of Slovenia. The opposition recognized this issue as an extremely vital instrument to mobilize its voters and proposed a referendum, which it also won with a great majority of votes in its favor. The referendum was unsuccessful in solving the problem, however, since the issue has merely been put aside – which in fact has been the actual political aim of the opposition all along. The Constitutional Court reached a decision before the referendum in favor of “the erased,” but the previous opposition - the current government - has not been willing to implement the decision. Furthermore, it has demonstrated a great degree of indifference toward the new opposition and has showed no interest or preparation to coordinate conflicts.

The previous government introduced an independent commission to fighting corruption. Despite this fact, the opposition succeeded in making a high profile issue of corruption (2003-2005) for the purpose of mobilizing political supporters. In forming the new government, the opposition proclaimed the very same commission no longer necessary and insisted on its dissolution. Slovenia is not characterized as a country with a high level of corruption, in fact there has been only one single case of corruption in public administration in the past four years’

time – that of Šuštar, the secretary in the ministry of economics – where the prosecution process continued in 2005.

### **3.4. Consensus-building**

Agreement on the objective of reform and on the consolidation of democracy and market economy remains high. The previous government's strong orientation toward consensus is rooted in a political culture inherited from former Yugoslav federalism and the system of self-management. Consensus is also promoted by the Slovenian constitution. Conflict between capital and labor is not traditionally accentuated and does not hinder consensus-building. A system of social partnership was introduced in 1994 to promote consensus among associations of employees and employers. A certain clash of views has emerged regarding the role of referendums, which were used relatively often by the previous opposition, generally to depict the government and parliamentary majority as illegitimate and rather than to promote democratic decision-making. Referenda have been organized on rather obscure topics such as the financing of the bankrupted region of Trbovlje, artificial insemination of single women, the question of "the erased" and also on building the Islamic mosque, the latter being merely proposed but later rejected by the Constitutional Court.

There are no significant political actors entitled to veto. The government has thus always succeeded in dealing successfully with all actors in the political process.

Political leadership has not been able to prevent the country from politicizing the most delicate and crucial of cleavages - Catholicism versus non-Catholicism. The former opposition leader and current Prime Minister Janša, managed to mobilize the entire Catholic bloc for a few referenda only to provoke a division in the country and consolidate his electoral base. His strategy of sharp conflict proved successful and won him the election in 2004 and the position of prime minister. Should his strategy remain unchanged, the country will grow increasingly divided along these lines of cleavage compared to recent years (1995-2005).

The political leadership promotes and develops social capital among social groups and citizens with somewhat notable success.

Political leaders include civil society actors in decision-making processes, particularly the most established ones such as trade unions and employers' organizations, chambers and professional associations. The new government is inclined to show a receptive attitude only toward organizations of their ideological bloc, whereas it tends to neglect independent and other bloc organizations.

While the political leadership manages to achieve reconciliation on issues of historic acts of injustice, there is a clear and distinct perception of who constituted a victim: From the Catholic point of view, the victims were those tortured by the partisans and collaborators with Nazism and fascism; for the other bloc, the victims were those tortured by Nazi-fascists and their collaborators and those ill-treated during the first two years of one-bloc government (from 1990-1992). All the above-mentioned groups have been provided at least minimal recognition and compensation.

### **3.5. International cooperation**

Political leadership used the support of international partners to improve domestic reforms (think tanks, public administration consultants, public officials). It has also been influenced by some actors to promote certain acts, such as the agreement with the Holy Seat regarding the relations between the Catholic Church and the state. International support and influence have also been employed in order to achieve domestic goals. Slovenia was, for example, very active in organizing the “new Europe” against the “old” one under the influence of the United States.

Slovenia is recognized as a good partner by top officials in the international community. As a small country however, it has played no important or active role in the international community - despite having some influential positions such as holding the presidency of the Organization for Cooperation and Security in Europe (OCSE) in January 2005.

Slovenia has a long tradition of cooperation on the regional level that dates to the Yugoslav federation era. The Alpe-Adria network remains dynamic and Slovenia has an active role in it. Slovenia is involved in different networks and initiatives with Italy, Croatia, Austria and Hungary dealing with common interests in the region. The country is generally viewed positively in the international arena. It also upholds a position among the best situated in financial markets. The internationally recognized ratings of the most acknowledged agencies identify Slovenia as one of the leading Central and Eastern European reform states. There are significant differences in handling bilateral relationships with neighbor states, depending upon the specific historical background. Relations have been positive with Hungary and, in part, with Austria as well. Relations with Croatia and Italy were tense for years and normalized only through EU pressure. For a long time, negative sentiments and mutual distrust certainly played a visible role in the conflict with Italy concerning the question of property rights and a legitimate interpretation of fascist and partisan torture during World War II. The issue grew progressively intense through Italy's style of action, which was perceived as

arrogant. There still remain a few relatively important open issues with Croatia to resolve.

#### **4. Trend of development**

##### **4.1. Democratic development**

Stateness, political participation and the rule of law have remained at their former levels. During the period under review, Slovenia underwent four election referenda: presidential, local, parliamentary, and in the National Council and the European Parliament. All of the election results underscored a trend well-known to Western democracies - a higher turnout at presidential and parliamentary elections and lower at local and European elections. The present government has not yet recognized the Constitutional Court's decision considering "the erased."

Democracy as a whole has further consolidated. The country has finally changed the last visibly influential individual in position ever since 1990, namely president Kučan, by electing Janez Drnovšek. Slovenia experienced the first election of members of the European Parliament and finally replaced the traditional leaders, the LDS, in government. Overall, these changes have been recognized by the population as legitimate and the country is considered to be demonstrating its political maturity. Furthermore, a much more moderate Alojzij Uran replaced radical Archbishop France Rode in 2004. This particular process is also very important for vitality of democracy in Slovenia.

##### **4.2. Market economy development**

The HDI index for Slovenia in 2002 was 0.895, which is 0.02 points higher compared to 2000.

The institutional framework for market-based activity has improved since 2000. Economic growth is permanent and has been greater than 1% during the observation period, more accurately between 2.5% and 3.9%.

**Table: Development of macroeconomic fundamentals (2000-2004)**

	2000	2001	2002	2003	2004 estimate
Growth of GDP in %	3.9	2.7	3.3	2.5	4.0
Export growth in %	13.0	6.3	6.7	3.2	8.5
Import growth in %	7.6	3.0	4.9	6.8	9.2
Inflation in % (end year)	8.9	7.0	7.2	4.6	3.5
Investment in % of GDP	25.1	24.5	23.3	23.9	24.6
Tax Revenue (in % of GDP)	37.6	37.8	35.9	38.1	n.a.
Unemployment (ILO, in %)	7.0	6.4	6.4	6.7	6.4
Budget deficit in % of GDP	-1.3	-1.3	-2.9	-1.4	-1.8
Current account balance (in mio EUR)	-583	38	335	-91	-60

Source: Autumn Report 2004, IMAD.

#### **D. Strategic perspective**

Slovenia plans to enter ERM2 in the first half of 2005 and aims to become a member of the Eurozone in 2007. Setting up the Schengen border and professionalizing the Slovene army will place a heavy burden on the 2005 budget and those of the years to come. However, the government plans to keep the deficit from exceeding 1.58% in 2005. By 2007, the deficit should drop below 1% of GDP.

Aside from Slovenia's favorable initial conditions, key factors in the country's overall transformation success include domestic actors and the fact that Slovenia is a small, homogeneous country without specific resources attracting large multinational corporations. The Slovenian elite succeeded in carefully and gradually introducing democracy and a market economy while taking into account well-established structures.

The new government fails to tap human resources and emphasizes political rather than professional qualifications in appointing public positions. Consequently, stated aims are unlikely to be achieved unless policies change in the near future. Introducing much sharper neo-liberal policies would increase the unemployment rate and lower the GDP. Civil society groups should be more thoroughly incorporated in the communication of interests and policy-making, and should also be engaged in elite building and monitoring the political elite.

Further consolidation in Slovenia requires not only a shift in mentality, but also public willingness to learn and remain open to things new and foreign. In terms of deepening EU integration, the political leadership faces the difficult task of

conducting processes transparently and mediating between future winners and losers in Slovenian society.

Defining church roles and ensuring transparency of their finances would help moderate religious cleavages. The Catholic Church has received a large amount of property due to denationalization, which remains outside the bounds of the legal framework.

The government should promote greater mobility, invest in shaping public attitudes and provide improved support for tertiary education. Public expenditure on formal education has been declining: 6.13% of GDP in 2001 to 6.02% in 2002 and 6.09% in 2003. Attracting foreign intellectual capital should be a priority in the next few years if Slovenia wants to compete internationally. Reform of Slovenia's rigid tertiary education sector is key to future development.

New foreign investment is also needed, particularly in environmental and hi-tech production sectors that depend on a favorable education framework and infrastructure. Finally, the health system is in urgent need of reform if increasing pressures on public financing are to be alleviated.