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](http://www.bti-project.org).


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<th>Status Index</th>
<th>1-10</th>
<th>8.75</th>
<th># 9 of 129</th>
</tr>
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</table>

| Political Transformation | 1-10 | 8.85 | # 10 of 129 | ➔ |
| Economic Transformation | 1-10 | 8.64 | # 8 of 129 | ➔ |

| Management Index | 1-10 | 6.96 | # 9 of 129 |

scale score rank trend
Key Indicators

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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

On 10 March 2012, the Smer-Social Democracy party (Smer-SD) won a sweeping victory in the parliamentary elections, gaining 83 seats in the 150-seat parliament. Robert Fico successfully mobilized left-leaning voters and achieved a vote share of 44.4% (with a 59% voter turnout). Party politics is shaped by a dominant Prime Minister Fico and his party on one side, and a fragmented and weak parliamentary opposition the other. Since taking office, the ruling Smer-SD party has constantly and openly tried to weaken the opposition in parliament, applying the “tyranny of majority” method in procedural issues, neglecting the legitimate demands of opposition MPs.

The current Fico administration, referred to here as the second Fico cabinet, is quite pragmatic. During its first two years in office, the government focused on the consolidation of public finances. The government increased direct taxes, which resulted in de facto abolition of the flat tax, and raised income tax rates on companies, politicians, and those with higher earnings. On the other hand, the government also introduced social contributions for groups previously excluded (non-standard workers, the self-employed and students).

However, the prime minister’s promises to lower the deficit were fulfilled. Due to various fiscal measures, comprised mostly of increasing taxes and improving tax collection, the government reduced its deficit and, on 20 June 2014, exited the Excessive Deficit Procedure. Prime Minister Fico seems to be following the clear political cycle typical of his first government. In his first two years in office, he paid attention to EU commitments and implemented fiscally responsible measures, focusing more on revenues than on spending cuts. However, since Slovakia left the Excessive Deficit Procedure, he started the implementation of a “positive social package” to bring immediate tangible outcomes for some groups of citizens (such as free trains for students and pensioners). The single-party government has also succeeded in fighting tax evasion and has increased tax revenues by raising selected income taxes. However, the government did not decrease the VAT from 20% to 19% as was foreseen by the law passed by the previous Radičová government in 2010. At that time, Robert Fico was the most outspoken critique of that measure, accusing the center-right coalition of being unsocial.
However, the impact of Robert Fico on Slovakia’s politics seems to have some limits. He was defeated in the (direct) presidential elections in March 2014. In the second round, Andrej Kiska received 59.38% of the popular vote, while Fico received only 40.61%. In the election, Kiska ran as independent candidate, not as a member of any political party. Unlike all his predecessors in the presidential office and his rival Fico, he was not a member of the Communist Party. As a successful businessman and philanthropist, Kiska presented an alternative to the current political class in the country. He promised to “counterbalance the government” and has, thus far, not been involved in major conflicts with the government and has stable approval ratings. The presidential campaign - especially in the second round - focused on the potential threat to democracy should all high constitutional posts be in the hands of a single party. The presidential elections confirmed the broad frustration and the erosion of trust of the citizens in the current political class (namely the current party leaders) due to high corruption and cronyism. The local elections held on 15 November 2014 also confirmed that trend, as well as that of the continuing fragmentation of the opposition parties.

The Slovak economy has recovered rather quickly from the recession, however the pace of economic growth is not sufficient to create new jobs and substantially reduce high unemployment, which remains the biggest challenge. In general, the second Fico cabinet has been slightly less hostile towards the media and civil society organizations.

History and Characteristics of Transformation

After the dissolution of the Czech and Slovak Federal Republic (CSFR, or Czechoslovakia) in 1993, the independent Slovak Republic abandoned the path of democratic consolidation. From 1992 to 1998, with a brief pause in 1994, the country’s prime minister was Vladimír Mečiar, whose semi-autocratic rule led to the exclusion of Slovakia from the EU integration process. In December 1997, Slovakia was excluded from the first negotiation round with the European Union. In 1999, unlike Hungary, Poland and the Czech Republic, Slovakia was not accepted into NATO. The Mečiar government was embroiled in a sharp conflict with opposition parties, the president, independent media, NGOs, ethnic minority representatives and churches. Some constitutional principles and decisions by the Constitutional Court were disregarded. Society was extremely polarized between advocates of democracy and those who appeared only to pay lip service to the idea.

In the 1998 parliamentary election, previously highly fragmented opposition groups and NGOs mobilized democratically inclined citizens and created a broad-based anti-Mečiar alliance to stop the continuation of the semi-authoritarian regime. The resulting victory for democratic forces underscored the Slovaks’ devotion to democracy. In the 1998 – 2002 election term, Slovakia again embarked on a path towards integration, democratic consolidation and a market economy. The first post-Mečiar government, led by Mikuláš Dzurinda, launched a new foreign policy line focusing on membership in NATO, the European Union and the OECD, as well as on gaining
broader international credibility. After the 2002 elections, the second Dzurinda government introduced major structural reforms closely linked to ideas derived from the Washington Consensus, such as introducing a flat tax system, reforming the pension and health care systems, creating incentives for foreign investors, and welfare state retrenchment. This liberal reform package was in many points introduced in an environment where support for some reform measures from different groups in the population was not sufficiently high. Nevertheless, the institutional structure made it rather easy to reform, and the reformist political and societal forces (the parties, NGOs, experts and public intellectuals) happened to maintain dominating positions over the anti-reformist veto players. Due to these reforms and a massive inflow of foreign investment, Slovakia experienced unprecedented economic growth from 2006 on. However, popular dissatisfaction with health care, some aspects of social policy and the implemented labor code reforms, as well as the coalition strategies of the anti-reformist Smer-SD party, led to a complete change of party composition in the government following the 2006 elections. The ideologically heterogeneous coalition government composed of the left (Smer-Social Democracy), and the nationally oriented authoritarian parties (the Slovak National Party and the People’s Party - Movement for Democratic Slovakia) raised many doubts about the course of country’s development. The leading party in the coalition, Robert Fico’s Smer-SD, intended to increase the role of the state in the economy. Nevertheless, the Fico government maintained the previous government’s main economic priority of meeting the economic criteria for adopting the euro on schedule on 1 January 2009. Given this goal, the government pursued sound fiscal and monetary policies during the first half of its term (2006 – 2008). However, following this period it abandoned this course and the budget deficit increased from 1.9% of GDP in 2007 to 7.8% in 2010. The Fico government increased the role of the state in the economy through minor changes only; for example, with respect to health care, it imposed a (unconstitutional) ban on profit distribution for insurance funds. When the economic crisis hit Slovakia in 2009, the Fico government was hesitant to address the major social challenge – increasing unemployment, despite the Smer-SD promises that the government would revive the social state. Welfare policies were not systematic and mostly included one-time direct payments. Moreover, the ruling parties showed less respect for media freedom, judicial independence and the rule of law in general, and the commitment to fight discrimination and corruption weakened. The government tried to curtail the donation mechanism (tax assignment) for NGOs, mobilizing a wave of protests that forced the abandonment of the plan. Likewise, the government proved hostile towards the media and journalists. It passed a controversial press law in 2008 that provoked harsh criticism at home and also abroad. Under the first Fico government, tensions between Slovakia and Hungary also increased due to the participation of the radical nationalist coalition partner SNS, as well as the anti-Hungarian approach crystallized in the State Language Act, the Patriotism Act and amendment to the Law on Citizenship.

The 2010 elections brought the center-right parties back in the government as a reaction to the poor performance of the previous government, which was not able to cope with the impact of the global recession on Slovakia. Although Smer-SD emerged as the strongest party (with 34.8% of the vote), the party failed to form a majority coalition. Popular dissatisfaction, primarily with corruption and party cronyism, were the main factors in the 2010 election results, which once
again completely altered the government’s party composition. The elections thus cleared the path for a center-right coalition government headed by Iveta Radičová (Slovak Democratic and Christian Union – Democratic Party), which included the Christian Democratic Movement (KDH) and two new parties, the liberal Freedom and Solidarity party (SaS) and a new Hungarian minority party (Most-Híd).

Radičová’s government ended in March 2012 due to intra-coalition disagreement over the European Financial Stability Facility (EFSF), which was strongly opposed by one of the junior coalition partners, Freedom and Solidarity (SaS). The government lost a vote of confidence in parliament in October 2011. The performance of the Radičová government left a rather ambiguous overall impression. In its short time in office it passed a limited number of important legislative changes, including the requirement that all contracts involving public funds be published on the Internet (making the validity of these contract conditional on that very publication), some changes to the judicial system, including a new system for the selection of judges, and, finally, amendments to the Labor Code to introduce flexibility with respect to the hiring and firing of employees. However, due to its short time in office, Radičová’s government failed to pass needed reform measures such as the unification of tax and payroll-levy systems, changes to local government finances, transformation of state hospitals and amendments to laws on citizenship. The quality of democracy improved under the Radičová government thanks to dynamic civil society actors, watchdogs and the media. Changes to the Press Act brought greater media freedom.

On 10 March 2012, the Smer-Social Democracy party (Smer-SD) won a sweeping victory in the parliamentary elections, gaining 83 seats in the 150 seat parliament. Fico successfully mobilized left-leaning voters and achieved a vote share of 44.4% (with a 59% turnout). The center-right parties, especially the SDKU-DS, suffered in the wake of the orchestrated revelations about corruption during the second Dzurinda government (2002 - 2006). The corruption scandal was named “Gorilla” in reference to the code name of a file that leaked from the Slovak Information Service (SIS), which contained significant information about the influence of the Penta private equity group on governance. Gorilla immediately became a catchphrase for widespread political corruption and the single-most resonant issue in Slovakia’s pre-election discourse. The Gorilla issue was significant not only for its scope but also for its timing: the leaked document was emailed to several newspapers and appeared on the Internet in December 2011, just two months before parliamentary elections. It provoked a series of mass protests around the whole country, which were well covered by the media, and reinforced voters’ mistrust in the established center-right parties.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

**Transformation Status**

I. Political Transformation

1 | Stateness

The Slovak Republic has an unchallenged monopoly on the use of force throughout the country.

All citizens have the same civic rights, and the majority of citizens acknowledge the legitimacy of the state. However, the issue of the country’s citizens of Hungarian origin has a special significance in this respect. Since 2009, two parties have represented citizens of Hungarian origin in Slovakia – the Party of the Hungarian Community (SMK, formerly known as the Party of Hungarian Coalition) and Most-Híd (meaning “bridge” in Slovak and Hungarian, respectively). While the former relies more on appeals based on ethnicity and receives more support from Hungary’s Viktor Orbán government, the latter tries to promote co-operation, to “bridge” ties between ethnic Hungarians and Slovaks.

The citizenship and loyalty of ethnic Hungarians has always been a sensitive issue, as Slovak nationalist forces, including those in the government, perceive it as a threat to the unity of the state. Nationalist leaders in both countries traditionally use the Hungarian minority in Slovakia to stoke bilateral tensions and so increase their support. The case of dual citizenship is just one illustration of this situation.

Shortly before Slovakia’s 2010 parliamentary election, the Hungarian parliament, supported by the incoming government of Prime Minister Viktor Orbán, passed a law on dual citizenship permitting ethnic Hungarians to gain Hungarian citizenship in addition to the citizenship of the countries where they live. The first Fico government (2006 – 2010) responded immediately by amending Slovakia’s Citizenship Act. This amendment automatically rescinds Slovak citizenship from any citizen who voluntarily (cases of birth or marriage aside) obtains the citizenship of another state. Since then, there have been several attempts to moderate the effects of the law, but none have been successful. Even the Constitutional Court did not resolve the problem in 2014, as the judges there passed the buck on the pretext of not being able to find a
required majority to decide the issue, and left it to the government. The ECHR has already twice dismissed the complaints, being unable to find any violation of human rights in Slovakia’s law. It took almost five years to find an appropriate institutional solution. Only since 1 February 2015 has the Interior Ministry started returning citizenship to select categories of people who lost it after receiving citizenship of another country. This was based on an internal directive of the ministry (not on an approved amendment to the law).

More than 900 people have been deprived of their Slovak citizenship. There are no reliable data on the number of ethnic Hungarians in Slovakia who applied for Hungarian citizenship. According to analysts, ethnic Hungarians have thus far showed little interest in acquiring Hungarian citizenship, but some minority leaders claim that the current situation is increasing fear among this group. They point out that only 8.5% of citizens declared their Hungarian origin in the 2011 census and 9.4% of the population stated that Hungarian was their mother tongue. Ten years previously, the respective figures were 9.7% and 10.7%.

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

The majority of the Slovak population is nominally Roman Catholic, however, according to the 2011 census, their number decreased from 69% in 2001 to 62%. The Roman Catholic Church plays an important role in the everyday lives of considerable groups of people. Relations between the state and the Catholic Church are regulated by a 2000 treaty with the Vatican, which obliges the country to codify certain treaty principles, including the celebration of religious holidays.

Under the Fico governments, relations with the Catholic Church were grounded in quiet tolerance and tacit agreement. It seems that, following the unsuccessful 2014 presidential elections, Fico again turned toward more conservative cultural policies and appeals. He is currently courting Christian Democrats, as he has realized that he has more support from the traditional, conservative electorate. In June 2014, Smer-SD prepared a political deal with the Christian Democratic Movement (KDH), and they passed a constitutional amendment that defines marriage as a union of man and woman only. This results in a de facto ban on same-sex marriage. Although Robert Fico stressed this move was motivated by the need to amend the constitution to reform the judiciary, his party takes a far from liberal approach with respect to the so-called cultural and ethical issues.

Support for traditional Catholic values has been increasing over time. For example, in 2014, the conservative NGO Alliance for the Family (AZR) gathered 400,000
signatures for a referendum on protecting the traditionalist model of the family. Although there was a heated public debate over the issue, the Constitutional Court issued the ruling that the questions do not contradict the constitution. As such, President Andrej Kiska announced the referendum on “protection of the family” for 7 February 2015. However, the referendum failed due to the low voter turnout of 21.4%.

Fico’s government stepped back from its ambition to reduce the number of state holidays as this could damage relations with Vatican. Previously the government had planned to eliminate one religious holiday.

The state’s administrative structure functions throughout the entire territory, and the state extracts and allocates state resources on a broad basis. Administrative tasks are carried out in part by local state administrative institutions, and in part by self-governing bodies at the regional and local levels. They have separated and some shared competencies, which also determine principles of coordination on specific matters such as territorial planning and emergency situations.

2 | Political Participation

Elections are free and fair without any significant restrictions. Slovakia’s unicameral parliament is elected under a proportional electoral system in a single nationwide constituency with a 5% threshold. During the period under review, four different elections took place in Slovakia: the regional elections took place in 2013, and three elections took place in 2014 - presidential, local and to the European parliament. There were no violations of electoral process in these elections. Since 2004, political parties have been required to pay a deposit of €16,596 in order to register for national parliamentary elections. The deposit is returned only to parties that receive at least 2% of the vote.

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

In Slovakia, political rights are largely respected. Citizens can freely join independent political and civic groups. The Ministry of Interior has registered over 35,000 such associations and over 60 political parties. Slovak citizens exercise their right to assembly freely in the broader context of national, regional and local developments.
Freedom of expression is guaranteed in Slovakia by law and there are viable independent media outlets. However, there are still some attempts to limit these democratic norms either by politicians or by the courts. Freedom of speech is frequently restricted by court in favor of politicians and financial tycoons in the name of “protection of privacy.” There were concerns that Fico’s single-party government would returned to the previous version of the Press Act passed by the first Fico government in 2008, which limited the right to reply of “persons libeled by the press.” So far, however, this has not happened. In October 2014, Penta Investments, a major Slovak business group involved in the wiretapping of politicians (the “Gorilla” scandal), bought a majority stake in the daily newspaper SME, known for its critical and investigative journalism. This takeover caused the editor-in-chief of SME and 66 of 102 journalists to resign because they were concerned about their editorial independence.

3 | Rule of Law

The system of checks and balances has functioned within the framework of the parliamentary system in general, however, there were serious problems in 2013 - 2014. Since the 2012 elections determined the formation of a single-party government (a rather unusual phenomenon under the PR system), there were serious concerns about the temptation for the ruling Smer-SD party to concentrate its power. The power practices of the party have demonstrated that these concerns were based on a realistic assessment of the situation. In 2014, the newly elected president Andrej Kiska tried to counterbalance these tendencies using his competences of nominations in judiciary area.

The Constitutional Court has demonstrated a lower level of efficiency, especially in politically sensitive cases. In some of these cases, judges avoided a clear interpretation. They eventually reached decisions in some pending cases (e.g., the case of the General Prosecutor Jozef Čentš). Although a majority of the parliamentary deputies supported Čentš’s appointment to the position of general prosecutor in 2011, the then President Gašparovič refused to appoint him. Gašparovič considered the voting to be driven by partisan political interests and voiced doubts about Čentš’s integrity, arguing that Čentš as a prosecutor had deleted a parliamentary deputy’s testimony concerning corruption in politics. In December 2014, the Constitutional Court ruled that the president had violated Čentš’s rights, especially his access to elected and other public positions under fair conditions, and awarded Čentš financial compensation. This ruling did not have any consequences for Jaroslav Čižnár, who was elected by the Smer-SD majority to the position of general prosecutor in mid-2013. The whole case of the election and appointment of the general prosecutor raised doubts about whether the separation of powers was
respected and it demonstrated that the ruling party’s ambitions to keep and concentrate power take precedence over abiding by the mentioned principles.

The election of a new president, who ran as an independent candidate and is not a member of any party, may help limit the current executive dominance of Smer-SD.

The state of the judiciary seemed to slightly improve in 2014. The judiciary has been extremely politicized and suffered from three long-standing problems: the procrastination of court proceedings, the poor overall effectiveness of the justice system, and the low level of trust in judges, who are often perceived as corrupt.

Most importantly, Štefan Harabin was not elected to the Supreme Court Chair, and was later also not elected to the Judicial Council, the self-governing body of the judiciary. Harabin became notorious for damaging the quality of judiciary. He was first minister of justice (2006 - 2009) and then chaired the Supreme Court and the Judicial Council, the two above-mentioned positions. A Harabin-free judiciary may open way for reforms and the gradual improvement of a system which very much needs to be cleansed of cronyism and corruption.

Harabin’s departure was possible thanks to an amendment of the constitution that separated the position of the chairman of the Supreme Court and the Judicial Council (another reason was the previously announced position of the newly elected president Kiska that he would not appoint Harabin under any circumstance, due to his general discredit). However, the amendment also introduced clearance procedures for judges, which provide a significant foundation for cleansing the judiciary. This has raised concerns among watchdog and transparency organizations. They accused Smer-SD of a lack of public debate, rushing the amendment and possible misuse of the clearance procedures by the executive power.

The Council of Europe’s special body - the Consultative Council of European Judges (CCJE) expressed concerns over the ability to recall judges from their posts if they are evaluated as not fulfilling the prerequisites of judges’ competence. The CCJE claimed that this can be seen as a violation of the international standards of an independent judiciary. Prime Minister Fico reiterated that this provision is necessary to cleanse the judiciary of corrupt officials.

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

During his second term in office, Prime Minister Fico has been slightly and slowly changing his position towards corruption and abuse of office. In the past, he was not sensitive to cronyism. For example, at one of many press conferences in 2008, he stated that his government would accept decisions in favor of projects submitted by
those who support the government where there were “two equal projects of the same quality.”

In May 2014, the parliament adopted new election rules that, for example, impose limits on the financing of election campaigns, create transparent accounts of parties and candidates, punish vote buying, and create a committee to supervise the elections and electoral campaigns. At the end of 2014, Fico responded quickly in recalling the speaker of parliament and the health care minister, who were suspected of corruption with respect to dubious health care contracts. However, clientelistic practices and their selective punishment still persist and the whole system needs more clarity and consistency with respect to the investigation and prosecution of office abuse.

Slovakia has established standard European institutions to supervise the observance of civil rights, which are largely respected. The most vulnerable segment of society is the Roma minority, who are frequently subject to mistreatment by state authorities (including the police) and discrimination on racial grounds (especially in the labor market). Civil and human rights watchdogs in Slovakia have a key role in enforcing the equal treatment of Roma, with majority views of this minority becoming increasingly negative.

The Smer-SD government has not declared specific measures in its program, but it established the new post of Government Plenipotentiary for Roma communities as a division of the Interior Ministry. This is occupied by opposition politician Peter Pollák, Slovakia’s first-ever ethnic Roma deputy of the Slovak parliament and a member of the Ordinary People and Independent Personalities party (OLaNO). Pollák launched the Roma Reform, which mostly focuses on various social programs that aim at improving housing and education (such as motivating Roma children to attend school, increasing the number of community centers, and pre-school education projects). The most disputed measures are those introducing cuts in welfare benefits for those (Roma or non-Roma) unwilling to participate in the so-called activation work.

According to the Roma Advocacy and Research Centre, these measures will only strengthen stereotypes about Roma being unwilling to work. In mid-2013, the police search for criminals in the Roma settlement near the town of Moldava nad Bodvou in eastern Slovakia resulted in the injury and arrest of innocent (Roma) citizens. Ombudswoman Jana Dubovcová tried to approach the government to discuss her report on this and other human rights violations by state bodies towards Roma, but the report was ignored and she was accused of politicizing the Roma issue.

In addition, in June 2014, Smer-SD agreed with the conservative Christian Democratic Movement (KDH) on an amendment to the constitution that would define marriage exclusively as a union of man and woman, which would effectively ban same-sex marriage. On top of this, the conservative NGO Alliance for the Family (AZR) submitted a petition for a referendum on the “protection of the family.”
4 | Stability of Democratic Institutions

Democratic institutions are institutionalized within a parliamentary democracy framework. There is high polarization between the opposition and the government, and the ruling Smer-SD party demonstrated a clear tendency to concentrate powers, which made the regime of separation of powers less functional.

The positive developments in 2014 included some personnel changes in top constitutional institutions (for instance, the replacement of the Speaker of Parliament, who was suspected of corrupt practices and was notorious for his frequent violations of parliamentary procedures). The long-pending conflict over the judiciary has slowly been resolved. As the Constitutional Court and the Supreme Court are now complete and new judges and officials have been appointed by the newly elected president, the overall situation may improve within a few years. The only concern is the application of the constitutional provision on the clearance of judges.

All political and social actors accept democratic institutions as legitimate. The major outspoken critics of democracy and liberal values in Slovakia are traditionally the representatives of radical nationalist and extreme right forces, including Marian Kotleba, de facto leader of the extremist and racist People’s Party — Our Slovakia (ĽSNS), who won in the November 2013 regional elections in the Banská Bystrica region. Kotleba does not recognize the symbols (flag) of the European Union and forces his employees to allocate some parts of their wages to his party.

His rhetoric appeals to the anti-Semitic, homophobic and especially anti-Roma attitudes that have been on the rise since the crisis hit Slovakia and unemployment increased.

The refusal of the Smer-SD party to recognize the legitimacy of Jozef Čentėš, the candidate elected by the parliament in the preceding electoral term for the post of General Prosecutor, demonstrated the politically motivated limits of commitment to democratic institutions by select political actors.

5 | Political and Social Integration

The party system in Slovakia remains open, but highly fragmented. The dominant Smer-Social Democracy party, the self-declared “social democratic” political force, faces no real competition on the left.

The center-right part of the party system is highly fragmented. The party of Mikuláš Dzurinda, the two-time former prime minister, the Slovak Democratic and Christian Union-Democratic Party (SDKÚ-DS) lost the majority of its MPs in the parliament when they left the party or switched party affiliations. There is a new, stronger party
on the center-right, SIEŤ (NETWORK), founded by a former member of the KDH, Radoslav Procházka. Procházka ran in the 2014 presidential elections and ended up as the third-most successful candidate, with 21% of the vote in the first round. Some splinters from the “old” center-right parties have promoted their new individual projects (Nova, Šanca/Chance, SKOK), which has increased the level of fragmentation of the center-right camp. The Most-Híd party, an ethnically mixed project (Hungarian-Slovak) founded by Béla Bugár, achieved some success in the 2012 parliamentary elections. However, its main competitor, the Party of Hungarian Community, seemed to be more appealing to the electorate in the 2014 local elections.

The center-right parties are apparently suffering from a major generational crisis, particularly the SDKU-DS.

This situation on the right has allowed the establishment of the new entity, the non-party formation (movement) Ordinary People and Independent Personalities (OĽaNO), which is de facto not fully institutionalized; it is rather a loose group of independent candidates who run for elections on a common party list. The formation advocates changes to the proportional representation election system, and its members are united by criticism of the “partocracy.” In general, the behavior of its founder and leader damages the party system and the competition, as he does not hesitate to use any opportunity to discredit the “old” parties just to get media attention.

Political parties are built around personalities as much as programs or social strata. They remain elitist, and are rather weakly rooted in society. Party membership is very low, the total number of members of all parties is lower than 100,000. While the main ruling party (Smer-SD) has progressed in its institutionalization, it remains highly centralized and dependent on Robert Fico, its founder and leader.

Voter affiliation along left-right, conservative-liberal and national-ethnic issues has remained relatively stable over the years, and voter volatility has decreased over the last few years. However, there are always disappointed voters within the two ideological blocks looking for something new. This may also explain the success of OĽaNO.

National-ethnic and value issues (e.g., the communist past) still shape party competition. However, neither the Slovak National Party (SNS) nor the SMK have attracted enough voters to gain seats in parliament in the last elections. Fico’s party attracted former voters of the SNS and Mečiar’s LS-HZDS.

Traditional polarization between the government and the opposition remains relatively high, and the two blocs rarely cooperate or support one another’s legislative proposals.

The effective number of parties has ranged between 3.19 (1992), 6.12 (2002), 4.88 (2006) and 4.01 (2010), dropping to 2.88 after the 2012 elections due to the dominant position of the Smer-SD, with 83 MPs.
Interest groups in Slovakia are well-differentiated and organized. The pattern of cooperation between labor and business follows the European continental model. There are umbrella (top) organizations in all interest and professional sectors that represent and mediate the demands of interest groups vis-à-vis the government and its institutions. The main interest groups have access to the policy-making process through the tripartite mechanism of “social dialogue” and various advisory bodies (e.g., councils at the government and ministerial levels). Business and professional organizations try to influence the decision-making process, as do organizations such as trade unions, consumer groups and NGOs.

While Smer-SD prefers to negotiate mainly with the traditional interest groups (business associations and trade unions), the previous center-right government also engaged in dialogue and communication with NGOs and other civil society actors. Slovakia has a law on tax-assignment for civil society organizations. The policies of Iveta Radičová’s government were generally supportive of a more robust role for watchdogs and think tanks in society. It introduced the obligation to publish all contracts involving public funds on the Internet (and made the validity of these contracts conditional on that very publication).

The second Fico cabinet is less hostile to civil society groups than the first one and its attitude to NGOs, think tanks and civic initiatives is more balanced than it was previously. However, Fico’s government remains closer to the trade unions than to business sector interests, despite the unions’ dramatic loss of membership and the widespread negative perception of the close political ties between KOZ, the trade union umbrella association, and Smer-SD.

Approval of democracy as a form of government is high. According to the European Social Survey conducted in 2012, 83.1% of the citizens of Slovakia found it important to live in a democratically governed country, which was close to the average share in 12 post-communist countries. Democracy is generally associated with freedom, participation, high socioeconomic status and education. There are no political protests or relevant movements that question democracy as such, however, in recent years there has been visible support for the introduction of “direct democracy” to replace representative democracy. Although this support is not well-articulated (and sometimes serves as a camouflage for anti-democratic appeals), it signals the disappointment of some groups of the population with liberal democratic principles. The majority of the political elite and citizens say they see no alternative to democracy, and the public approves of democracy and democratic norms and procedures, though not necessarily the way that they function in Slovakia.

The degree of trust in national political institutions is relatively low and it depends on the ability of the institutions to satisfy the general needs of socioeconomic well-being. Trust in national political institutions has been declining since the 2012 elections. According to the Eurobarometer survey, trust in the Slovak parliament
declined from 39% in May 2012 to 26% in November 2014. In the same period, trust in the government declined from 32% to 27%. While 26% people trusted political parties in May 2012, only 14% did in November 2014.

Social capital in Slovakia is influenced by its specific historical legacies (such as a mistrust of strangers, a parochial political culture, social pessimism, and passivity), however, strong social networks among relatives and close friends have always existed. Society is still not really open to social relationships that promote cohesion and the inclusion of strangers but there is a strong tendency to social bonding that promotes mutual support.

Citizens in Slovakia traditionally tend to perceive themselves as being altruistic and helping poor people in general. However, the results of the Eurobarometer show that the number of people who do not help poor people increased significantly: in 2010, 19% declared that they did not provide such support, increasing to 41% in 2014. This trend may be influenced by the global economic crisis, which hit the country’s economy and particular segments of the population.

There is a relatively robust and heterogeneous network of autonomous, self-organized groups, associations and organizations. Watchdogs, think tanks and NGOs are highly professionalized. They recently complained about the lack of finances and resources for their activities, as the lower income from the tax assignation during the economic crisis proved insufficient.

According to polls, about 35% of citizens are members of civil organizations and about 20% of citizens participate in collective action, however, there is a difference between patterns of mobilization in urban and rural areas. Slovakia has a lower level of urbanization than in Western European countries, with only two major cities with a population over 100,000. However, since 2011, the collective protest culture has slightly changed and the incidence of protests has slightly increased. Collective action in Slovakia usually tends to manifest as low-level participation in forms such as petitions and public rallies. Since the “Gorilla” related protests, people have been more willing to display their dissatisfaction by participating in protests. This indicates a profound change in a society historically disinclined to protest. During the period under review, Slovakia witnessed the highest level of mobilization when the scandal involving the purchase of overpriced CT machine for hospitals erupted, resulting in the stepping down of the high-ranking Smer-SD officials linked to this corruption.
II. Economic Transformation

6 | Level of Socioeconomic Development

Socioeconomic development in Slovakia has remained vulnerable, unstable and regionally unbalanced, mainly due to the country’s small, open economy with its specialization in the automotive and electro-technology industries. The economy’s high dependence on exports rendered it susceptible to the effects of the global recession, which worsened living conditions. Strong regional disparities (western Slovakia is more developed than the central and eastern regions), long-term unemployment and social exclusion among citizens of Roma origin continue to make development uneven.

According to the Slovak Statistical Office (ŠÚ), 13.2% of the population (715,000 people) faced the risk of poverty in 2012. The poverty line was €4,156 per year in 2012, which is equivalent to €346 a month for one-person households. Fico’s government increased the minimum wage by €28 (8%) compared to 2014, up to €380 in 2015. The group at highest risk of poverty was jobless people, measured at 44.6%. This was a rise of 2% on a per annum basis. Households with three or more dependent children or single-parent households were also included among the groups at highest risk. Poverty among the working population decreased slightly: 6.2% of working individuals faced the risk of poverty in 2012.

However, the key challenges remain the living conditions of citizens of Roma origin and their unemployment rate, which amounts to 70-80%. The exclusion of the Roma population overlaps to a great extent with regional disparities. In 2013, the government initiated the Local and Regional Initiatives to Reduce National Inequalities and to Promote Social Inclusion program (funded by the EU), however the benefits of the program are not yet clear.

Structurally, women are well integrated in the education process and labor markets, however, inequality in functional positions and in remuneration persists.
**Economic indicators**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2010</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>GDP</td>
<td>$M</td>
<td>62676.5</td>
<td>89011.9</td>
<td>97712.7</td>
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<tr>
<td>GDP growth</td>
<td>%</td>
<td>6.5</td>
<td>4.8</td>
<td>1.4</td>
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<tr>
<td>Inflation (CPI)</td>
<td>%</td>
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<td>1.0</td>
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<tr>
<td>Unemployment</td>
<td>%</td>
<td>16.2</td>
<td>14.4</td>
<td>14.2</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>% of GDP</td>
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<td>2.4</td>
<td>2.2</td>
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<tr>
<td>Export growth</td>
<td>%</td>
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<tr>
<td>Import growth</td>
<td>%</td>
<td>15.3</td>
<td>14.7</td>
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<tr>
<td>Current account balance</td>
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<td>1452.5</td>
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<tr>
<td>Public debt</td>
<td>% of GDP</td>
<td>33.8</td>
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</tr>
<tr>
<td>External debt</td>
<td>$M</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total debt service</td>
<td>$M</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash surplus or deficit</td>
<td>% of GDP</td>
<td>-2.5</td>
<td>-6.6</td>
<td>-</td>
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<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
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<td>-</td>
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<tr>
<td>Government consumption</td>
<td>% of GDP</td>
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<td>Public expnd. on education</td>
<td>% of GDP</td>
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<td>4.1</td>
<td>-</td>
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<td>Public expnd. on health</td>
<td>% of GDP</td>
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<td>R&amp;D expenditure</td>
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<td>-</td>
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<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.7</td>
<td>1.3</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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

Slovakia successfully developed market competition before and shortly after its accession to the EU, becoming a reform champion among EU member states during the center-right ruling coalition (2002 – 2006). However, since then, market institutions have been weakened due to the 2006 change of government (the first Fico government) and the 2009 crisis. The administrative burden for companies remains relatively high; the Ministry of Economy estimated these costs at up to €2 billion in 2012, or 3% of GDP. Reforms prepared by the previous center-right government led by Iveta Radičová were stopped, but no new reforms were prepared and introduced.
The state of the judiciary, weak law enforcement, corruption, and the excessive administrative burden remain the main obstacles for improving the business environment.

While competitiveness rankings are not the sole factor in attracting investors, they are important signals of a country’s competitiveness. Slovakia has slightly improved its competitiveness ranking in some indexes (e.g., it went up three places to 75th in the Global Competitiveness Report 2014-2015, published by the World Economic Forum (WEF)). The higher rank can attributed to an improvement of macro-economic stability, the decreasing deficit, and the government’s efforts in fighting tax evasion.

According to the WEF, the country’s barriers include administrative burdens, the low transparency and limited effectiveness of public expenses, rigid labor legislation, a stagnant education system and low level of innovation.

In this area, Fico’s second cabinet has, from its formation, focused on fiscal consolidation in an effort to exit the Excessive Deficit Procedure. This was necessary to expand fiscal room and reduce public debt, as well as to strengthen the image of Slovakia as a reliable and trustworthy member of the euro zone. The government promised that the consolidation in 2014 would take place on the expenditure side. However, it actually took place on the income side (once again), mainly through increases to VAT and corporate income tax.

According to a survey organized by six chambers of commerce operating in Slovakia, which gathered responses from 196 European companies, foreign investors already doing business in the country view the country as the most attractive location for conducting investments among the countries of central and eastern Europe. Slovakia topped this survey, replacing the Czech Republic. The foreign investors perceived the main advantages of Slovakia to be its EU membership, the effective and productive, yet relatively low-cost labor force, and the accessibility and quality of local suppliers. The vocational education system stands out among the areas which have worsened since 2013. Employers complained that there is a lack of qualified young people. The government plans to improve the vocational and the technical university system.

Transparency International Slovensko (TIS) and the Institute for Economic and Social Reforms (INEKO) analyzed the public procurement activities in public hospitals conducted between April 2012 and February 2014 and found out that the hospitals procured 63% of orders (totaling €525.6 million) in competitions with only one bid. There are other sectors which are not competitive enough, but this may be due to size of the country not allowing room for more free market activities. Fico’s government has continued its efforts to get the energy sector under state control. Since June 2014, the state has been the sole owner of Slovak Gas Industry (Slovenský Plynárenský Priemysel, SPP) when the government purchased a 49% share and
gained managerial control of SPP. Cabinet approved the takeover in September 2013, claiming that the state has a vested interest in having gas prices for Slovak households and small and medium-sized enterprises under control. This move may weaken market competition in the energy sector.

According to comparative studies, approximately 15% of Slovakia’s GDP is generated in the shadow economy and the share of individuals working in the informal sector is estimated at 7%.

Slovakia is subject to EU antitrust and competition laws and has previously implemented laws protecting the market from monopolies and concentration of dominant actors. The country has also established antitrust institutions; while adequately configured, they sometimes react slowly. The Anti-Monopoly Office (Protimonopolný úrad, PMÚ) regularly fines companies for participating in cartels or abuse of dominant positions (e.g., in electricity or telecommunications). Many of these companies, which are co-owned by multinationals, have successfully contested PMÚ decisions in Slovak courts. It then becomes the European Commission’s responsibility to apply a coherent anti-monopoly policy, but even when it does there is a lengthy procedure.

For example, in 2006, the PMÚ fined six construction companies (Doprastav, Strabag, Skanska, Inžinierske Stavby, Mota–Engil and Betamont) for forming a cartel when competing for a highway construction order in a public tender for a part of the main (D1) cross-country highway. The Supreme Court upheld the PMÚ’s decision only in December 2013. With the deadline for paying the fines (one of the heaviest fines ever: a cumulative €45 million) having passed, three of the companies immediately challenged the Supreme Court’s ruling in the Constitutional Court.

The Competition Act was amended under the Radičová government in 2011, which streamlined the rules of the merger review process largely in accordance with the PMÚ’s suggestions. In May 2014, Fico’s second cabinet made minor changes to this law and, for example, introduced financial rewards for individuals who submit evidence of horizontal agreements (cartels) restricting competition.

Foreign trade is fully liberalized, and the country is integrated in the EU Single Market. Tariffs are uniform and low, and there is no state intervention in free trade. Slovakia has one of the most open economies in the world.

Despite turmoil in the euro zone, the Slovak banking system has remained stable and healthy thanks to the central bank’s intensive monitoring of risk management practices. Although most Slovak banks are owned by Western European banks, they remained unaffected by their problems and none of the banks in Slovakia required help either from the government or the European level institutions (ESM and EFSM). Slovakia has a well-capitalized and liquid banking system, as confirmed by the ECB.
assessment, which reflects improvements in the macroeconomic environment. In general, this healthy environment will limit the downside risks to asset quality and profitability and, combined with the system’s healthy capital buffers and stable funding and liquidity profiles, this will underpin the stable outlook of the country’s banks. In 2013, the ratio of regulatory tier 1 capital to risk-weighted assets was 14.4% and the share of non-performing loans was 5.1% (according to IMF data).

In July 2014, the Slovak central bank (Národná banka Slovenska, NBS) received more supervisory powers over other financial institutions in Slovakia. Parliament amended the Bank Act, implementing European Union directives ensuring greater supervision over banks by supervisory bodies. The NBS will be able to demand specific reports or scrutinize banks’ plans and the NBS has to create a schedule of bank inspections based on the results of their stress tests. The same amendment granted the NBS new supervisory powers with respect to banks’ customer protection, starting in January 2015.

8 | Currency and Price Stability

Since Slovakia’s accession to the euro zone, anti-inflation and forex policy has been in the hands of the European Central Bank (ECB). According to the Slovak Statistics Office (ŠÚ), the annual inflation rate, as measured by the harmonized index of consumer prices, reached 0% in 2014.

The second Fico cabinet fully focused on fiscal consolidation in order to exit the Excessive Deficit Procedure, and succeeded in summer 2014. These efforts were necessary to expand fiscal room and reduce public debt, as well as to strengthen the image of Slovakia as a reliable and trustworthy member of the euro zone. The government has conducted some organizational measures in the public sector and has undertaken measures to improve tax collection and strengthen the fiscal framework.

This appears to be one of the few issues where there is a solid consensus among all political actors, confirmed by the establishment of an independent fiscal council (Council for Budgetary Responsibility) in December 2011, charged with monitoring and evaluating fiscal policy and its effects on fiscal development. However, the government has focused mainly on the revenue side and has not introduced substantial cuts to public expenditure.
**9 | Private Property**

Property rights and related issues (such as the acquisition and mergers of firms, and sale and purchase of property) are very well defined and protected both by the constitution and law. However, the incumbent Smer-SD government has a clear preference for public ownership and stronger role of the state in economy, especially in the health care and energy sectors. Slovak Gas Industry has already been purchased and Smer-SD plans to buy the Slovak Electric Company (SE) as well, following the Italian company Enel’s 2014 announcement of its intention to sell its 66% share of SE. However, there are problems with the completion of the two nuclear units in Mochovce. They are behind schedule and will cost a total of €4.6 billion, up from the original €2.8 billion.

So far, the governmental plans announced in 2012 to “unite all three health insurers into a single state-owned” company have not been realized, as the two private insurance companies rejected the government’s offers.

According to the 2015 Doing Business report, enforcing a contract on average takes 545 days, requires 33 procedures, and costs 30% of the claimed value.

Private enterprise is the main pillar of the Slovak economy; the majority of state-owned utilities and companies were privatized by 2006 and there is a considerable flow of foreign direct investments and multinational corporations into the country. However, the Smer-SD party clearly favors public ownership over private ownership. Although the government argues that households should be able to control energy prices through a market mechanism, these prices are in the hands of the Regulatory Office for Network Industries (ÚRSO). Although gas and electricity prices were quite stable for households in 2014, companies insist high electricity prices make them uncompetitive when compared with those abroad.

Fico’s government bought back the previously privatized 49% of the Slovak Gas Company (SPP) from the Czech firm Energetický a průmyslový holding, a.s. (EHP), which acquired it from a German-French consortium (E.ON Ruhrgas and GDF Suez) in December 2012. The Slovak Electric Company is also likely to be acquired in coming years.
10 | Welfare Regime

Since Slovakia acceded to the EU, its social security system has covered all the standard social risks associated with the developed market economic system. Historical legacies mean the social security is mainly financed via social contributions (58.63% of total receipts), and to a lesser extent by government contributions/taxes (28%) and other sources, including health insurance (13.37%).

According to the OECD database, Slovakia has redistributed over 18% of GDP to social protection since 2009. The largest portion always goes to old-age pensions in 2011 (the latest figures on social protection available) it was slightly over 7% of GDP and, given the demographic trend, this is likely to increase over time. Health care spending amounts to between 5-6% of GDP and, given the investment in medical facilities, it has been increasing over time as well. Such investments were financed from the EU funds and were often linked with alleged corruption. Family/child policies redistributed 2.00% of GDP (the EU27 average is 2.25%) and the government allocated 0.46% of GDP to social exclusion policies (slightly higher than the EU-27 average of 0.44% of GDP).

The institutional and organizational structure of the social protection system is fairly satisfactory and covers standard social risks. Social policy includes financial and non-financial benefits, direct and indirect payments as well as tax base deductions and subsidies. The Slovak economy recovered in the period under review; however new jobs were not created due to an insufficient growth rate. The low labor market performance in Slovakia is associated with a higher risk of poverty and social exclusion. According to the Slovak Statistical Office, the proportion of people at risk of poverty and social exclusion was 20.5% in 2012 (which is less than the EU-28 average of 24.8%). Poverty has slightly increased (by 1%) from the 2009 crisis. In 2014, the National Reform Program (NRP) defined a target of 17% for 2020.

The Roma minority is at the greatest risk of poverty, due in part to social discrimination. Roma children are the country’s most vulnerable group. The system of material assistance was transformed into a tool to activate the long-term unemployed. Eligible individuals are required to participate in so-called activation works organized by local communities to obtain benefits. The Roma issue is a low political priority for the Smer-SD party and its approach remains calculating. Its leaders are aware of the difficulties linked with this issue, but Prime Minister Fico argued that he considers the Roma problem to be a broader “European” issue. During the economic crisis, the negative sentiments toward the Roma minority grew, which indeed makes it politically risky. However, the new National Strategy for the Integration of Roma, mandated by the European Commission, could be a good starting point according a report by the Milan Šimečka Foundation (NMŠ), which assessed the policies of the government. The report criticizes the ruling party for its
preference of using populist rhetoric. However, the report acknowledged that some quantitative indexes have improved, thanks to higher spending in existing programs, but complains that new policy ideas are missing in the government strategy and activities.

Peter Pollák (from the opposition movement OĽaNO), the Government Plenipotentiary for Roma Communities, said he disagrees with the report because it does not fully reflect all activities and projects. He pointed to improved school attendance of Roma children and an increasing number of community centers, and pre-school education projects. In addition, he stressed that the EU will contribute €383 million in grants for the 2014 - 2020 period.

The principles of equal opportunity are anchored in the constitution and in anti-discrimination legislation. Legally, there is a set of norms and a system of legal enforcement to ensure that discriminatory behavior is punished. However, discrimination based on gender or ethnicity is rarely the subject of legal enforcement in practice. Individuals belonging to the LGBTI community complain that the existent legislation cannot be applied to them in some areas of the lives (for instance partnerships or adopting and raising children). Roma exclusion remains society’s most pressing problem. Some of the governments’ measures have improved the situation of Roma children in recent years.

However, in 2013 there was an incident where the Slovak police were accused of using excessive force when entering a Roma settlement in eastern Slovakia, during which some 30 people were injured. According to a study by the Institute for Financial Policy at the Finance Ministry, the Roma minority faces more discrimination than any other group in the labor market.

11 | Economic Performance

Slovakia was one of the fastest-growing economies in the euro zone before the crisis and managed to maintain average growth within the currency union.

The economy has been recovering quickly from the 2009 recession, but growth levels are still low. The government complied with the provisions of the Stability and Growth Pact (SGP), reducing its deficit, and left the Excessive Deficit Procedure on 20 June 2014. Shortly thereafter, Prime Minister Fico proposed a “social measures package” worth €250 million, arguing that, after times of austerity, there is time and scope to improve living conditions. Included in the 15 measures are free trains for students and pensioners, an increase of the minimum wage, and a reform of payroll taxes for low-wage workers to increase their wages and reduce unemployment. The last measure introduces the so-called payroll taxes’ deductible item of €380 per month, reducing the base for the calculation of compulsory health insurance.

Equal opportunity

Output strength
contributes. This reduces health insurance premiums paid by workers as well as their employers and applies up to a maximum gross of €570.

The government has very slowly been attempting to attract further foreign direct investment, however, there have not yet been any clear direct positive outcomes. The current government has repeatedly stated that its main tool for boosting economic output is government expenditure and public investment. As such, since January 2015, it has focused on new public-private projects in transport (highways) and a major national hospital in Bratislava. Economic output in Slovakia remains vulnerable to developments in other euro zone countries.

The economy’s dependence on automotive and electronic product exports is a vulnerability of Slovakia’s economy in the context of economic conditions in Europe and in the world. However, over the last decade, these industrial branches were the strongest driving forces of the country’s economic growth and subsequently generated more favorable conditions for policies in the welfare social sector.

12 | Sustainability

Slovakia has considerable natural resources, mainly of water and wood. Industrialization and general economic development are still higher priorities than environmental protection. As an EU member state, Slovakia adheres to strict environmental standards, however, its historic legacy still influences the policy-making process and administrative approach to the environmental agenda. So far, the second Fico cabinet has not updated the National Strategy for Sustainable Development that was passed in 2001 and the new Action Plan is absent as well. As such, there is no systematic document to sufficiently define Slovak priorities. In consequence, government policy deals more with only day-to-day tasks and compliance with EU requirements and legislation. The implementation of environmental laws and regulations is weak.

However, public awareness of environmental issues has been gradually changing and people have organized several protests challenging state administration decisions that could negatively affect the health and quality of environment. In 2014, the government responded to this changing awareness and amended at least some legislation. For example, the mining of gold using cyanide leaching is now only possible with the consent of the people living in the affected area, determined by local referendum. In October 2014, the parliament, by a 102 (out of 150) majority, passed a constitutional ban on the export of water. However, part of opposition claimed that this was another “marketing move” by Prime Minister Fico. In October 2014, parliament approved the amendment of the Law on Environmental Impact
Assessments, which was positively received by representatives of environmental NGOs and experts.

Slovakia is ranked 21st (out of 178) in the 2014 Environmental Performance Index. Its main problem is the high level of air pollution, and its ranks 162nd in average exposure to fine particulate matter (PM2.5 - air pollutants that can penetrate human lung and blood tissue). Poor air quality could be one reason why the number of people dying of cancer is growing. Compared to 1992, this has increased from 10,625 to 13,183 cases and is responsible for around one quarter of all deaths.

Slovakia has a developed and functional system of educational institutions offering all levels of education from preschool to tertiary education, as well as life-long learning programs. However, the quality of this system is declining compared to more developed countries due to the low level of spending on education. Total educational spending is the lowest among the Visegrád (V4) countries. According to the World Bank and the OECD, in 2011, spending totaled only 4.1% of GDP as compared to the 6.1% OECD average. There are currently no realistic prospects for an increase, as the government prefers direct benefits such as free trains for students and pensioners, and investments in infrastructure. Educational mobility is low: only 33% of the population have a higher level of education than their parents compared to the 39% OECD average.

The government’s education reforms remain unbalanced. The former education minister, Dušan Čaplovič, attempted to shift secondary pupils’ orientation from general education to technical and vocational schools by introducing minimum average grades required for pupils intending to study at the general and upper professional secondary schools. However, the Constitutional Court declared this unconstitutional in October 2014.

As employers have long-complained about the lack of trained workers and called for the return of the previous dual education system, the government has mainly focused on reforms in this area. The Education Ministry is preparing to adopt a dual education scheme with the prospect of launching a nation-wide project at specific schools in September 2015, and has re-defined its key priorities: developing secondary vocational schools, a national system of qualifications (the ambition of which is to describe 1,000 qualifications and define the basic skills and knowledge required for certain professions) and modernizing primary schools. Several companies in Slovakia have since demonstrated more flexibility and have established cooperation with secondary vocational schools in order to train workers lacking in the market. The reform of higher education has also stagnated and, despite the changes in leadership of the Education Ministry (there were two new ministers in 2014), this situation is not likely to improve.
Levels of R&D intensity, public expenditure on R&D, the number of patent applications and employment in knowledge-intensive activities are some of the lowest in the EU. Research and innovation efforts are predominantly undertaken by the public sector and therefore depend on the state budget, where public expenditure is increasing only slowly. The fiscal measures introduced to address the debt crisis negatively affected the funding of R&D. However, in January 2015, the government introduced long-promised tax relief for companies conducting research and development. However, the plan to transform public research and development organizations to remove obstacles for cooperating with the private sector has not progressed. The low share of innovative domestic enterprises limits the country’s competitiveness.
Transformation Management

I. Level of Difficulty

Structural socioeconomic constraints on governance in Slovakia are relatively low, although none of the post-1989 governments have addressed the existing constraints in an efficient and sustainable manner. The global economic crisis exacerbated these structural constraints and posed a serious challenge to the country’s development. In late 2014, the second Fico cabinet attempted to address some of these challenges to the country’s sustainable development:

1) Substantial regional disparities between the relatively developed western part of the country (the Bratislava region, where export-oriented manufacturing FDI is located) and the central, southern and eastern parts of the country. These are still lagging behind and their infrastructure remains generally underdeveloped.

2) Unemployment, especially long-term, poses an additional burden on social expenditure and the consolidation of public finances. Thanks to the slight economic recovery, unemployment decreased from 14.4% in December 2012 to 12.29% in December 2014. According to the minister of labor, social affairs and family, Ján Richter, the unemployment rate declined by 1.21% on a year-on-year basis. However, economic growth remains weak and the forecast is uncertain.

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

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

Slovakia has a long and vibrant civil society tradition, which includes numerous citizens’ associations as well as large interest-based organizations participating in social dialogue. Moreover, thanks to broad opposition to the Mečiar regime, a wide variety of NGOs emerged that continue to act as efficient watchdogs. Numerous think tanks have been established and serve to analyze and evaluate the government’s policies. NGOs in the reviewed period were again effective in organizing campaigns and protests against contentious issues, however, many of their demands remained unfulfilled. Some of them face financial difficulties due to a lack of stable funding and this threatens their sustainability. However, they are gaining increasing respect from a society that is increasingly disappointed by political parties.
The most salient division in Slovakian society remains the split along ethnic lines that manifests itself in party politics. However, due to considerable politicization, a new conflict has emerged over the last couple of years concerning the issue of the family model and reproductive behavior. The referendum “on family” (but de facto on LGBTI rights) quite sharply articulated the division between conservatives and liberals. The intensity of this conflict depends largely on ability of the Catholic Church, political parties and NGOs to mobilize people.

The most vocal political rivals on the opposite sides of the ethnic divide are the Slovak National Party (SNS) and the Hungarian Coalition Party (SMK), which are both extra-parliamentary. While the former, using aggressive nationalist rhetoric, speaks about the “protection of the Slovak nation from its enemies” (meaning Hungary and ethnic Hungarians living in Slovakia), the latter seeks to protect the interests of ethnic Hungarians. In 2009, the SMK split and a new party, Most-Híd (meaning “bridge” in Slovak and Hungarian, respectively), was founded, promoting the idea of ethnic cooperation in Slovakia. At the same time, the Most-Híd party has criticized the current Fico government for its poor performance in the area of minority policy. The political aspect of the ethnic divide has been less present in recent years, as the SNS and the SMK did not pass the 5% threshold for entering parliament in 2012.

Slovakia’s population, especially those living in parts of the country with a significant Roma minority population, have become more prone to racist sentiments. Such sentiments account for the victory of Marian Kotleba, the leader of the far right People’s Party – Our Slovakia (ĽSNS) in the November 2013 regional elections in Banská Bystrica in central Slovakia.

In Slovakia, conservative attitudes towards the LGBTI community prevail and these are actively encouraged by the Catholic Church, which fights against the “gender ideology” and defends a traditional notion of the family. A few years ago, the traditionalist conservative organization Alliance for the Family shaped a new conflict that, in the period under review, came to dominate public discourse and led to the referendum on “protection of the family” scheduled for 7 February 2015.
II. Management Performance

14 | Steering Capability

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

In setting priorities for fiscal consolidation and economic issues, Slovakia’s government relies heavily on the Finance Ministry’s Institute for Financial Policy and the central bank.

The government manifesto has defined policy priorities that are elaborated in the legislative plans, which divide tasks and responsibilities among the line ministries and other central bodies. Capacities for planning in the ministries are limited, and there is no central policy-planning unit in the Government Office. The governing party’s interests in retaining and expanding political power dominate long-term strategic considerations and approaches. This was evident in 2006 – 2010, as well as in the performance of the incumbent Smer-SD government since 2012.

Past democratic and economic reforms introduced by Slovak governments were generally driven by their exposure to the EU and by the obligations of EU membership, and their implementation was largely effective. Since Slovakia’s accession to the EU, frequent amendments to basic legal regulations and adoption of new regulatory measures combined with poor coordination has created numerous implementation problems and increased transaction costs for society. The alternation of left and right-wing parties in government has complicated efficient implementation, with major administrative and personnel reshuffles following each change of the government. Following the parties’ 2011 consensus on the Fiscal Responsibility Act, this situation has partially improved, at least in this policy area.

The single-party government promised to provide “social security” and create new jobs while at the same time consolidating public finances. This ambition is now much easier to reach, given a political and institutional environment that is much friendlier than the previous one, with its intra-coalition turbulences. Thanks to its majority in
the parliament and the continuing fragmentation of the center-right parties, Smer-SD has not met serious opposition. As such, policy implementation is much easier.

Prime Minister Fico seems to follow an obvious political cycle. While in the first two years in office he focused on the implementation of fiscal policies (though concentrating more on revenues than on spending cuts), since Slovakia left the Excessive Deficit Procedure he has started the implementation of a “positive social package” to bring immediate tangible outcomes for some categories of citizens. The single-party government has also had more success in fighting tax evasion than the previous multi-party coalition, and the increase of selected income taxes has raised total tax revenues.

In the lead-up to Slovakia’s accession to the European Union, policy learning was more efficient thanks to EU legislation and different schemes of cooperation. The impact of the EU remains strong, especially in fiscal consolidation requirements, while in other areas domestic reforms tend to be driven by differing political interests. During the period under review, Robert Fico seems to have learned how to follow EU requirements as well as his own ideological and pragmatic priorities. The adoption and implementation of legislation is frequently inspired by foreign models. For example, the VAT lottery launched in September 2013 was inspired by similar policy in Malta. However, some of the social measures, such as free trains, have a clear domestic origin. The second Fico cabinet has taken inspiration from abroad to a similar degree, but has attempted to invent its own new measures. As of 2 February 2015, his government increased the rail discount for employees who commute on daily basis (from approximately 35% to 50%). The government expects the discounts to bolster the mobility of the labor force.

The issue in Slovakia is not so much a lack of innovation in policy-making as the capacity for systematic impact assessment. Governments focus more on fiscal impact than on evaluating market and social impact.

15 | Resource Efficiency

The performance of the public administration, its professionalism and efficiency have suffered from growth in the central state apparatus and a lack of qualified staff in the civil service. Immediately following the 2012 elections, the returning Smer-SD government again politicized appointments in the civil service and raised negative expectations based on the previous corruption cases that occurred during the first Fico cabinet. The second Fico cabinet cut the budget deficit by increasing direct taxes on companies and increasing payroll contributions, benefiting from the increase in VAT introduced by the Radičová government (2010 - 2012). These measures de facto abolished the flat tax, which was criticized by business representatives, who argued that Slovakia was losing one of the key symbols of a progressive economy. In a 2015
report on Slovakia, the European Commission noted that the government had not designed binding and enforceable expenditure ceilings in its budget process legislation.

In December 2012, the second Fico cabinet announced – in its own words - “the most fundamental reform in public administration since 1989,” a project titled “Efficient, Reliable and Open Government in Slovakia” (ESO). The first phase of this reform abolished 64 specialized regional state administration offices, aiming to simplify citizens’ contact with government authorities. Since October 2013, 72 district state offices have been established, taking on the responsibilities of 50 regional offices and 248 local state administration bodies. The opposition accused Interior Minister Robert Kaliňák of conducting only a simple merger of offices rather than reform. The opposition also stated that this move facilitates the minister’s ability to concentrate greater powers in his own hands. Citizens can comment on the ESO reform by using a form on the www.eso-portal.sk website, however, there has not yet been any analysis of these measures.

Kažimír conceded that the EC is concerned about the following two years (2014 and 2015).

The finance minister put priority into communicating to the Commission (EU) and the public that the government is capable saving resources through the ESO public administration reform, which will sustain public finances in the upcoming years.

The incumbent single-party government does not need to reconcile the conflicting objectives and interests of coalition partners, so acts in a coherent manner. Communication with the media has improved to a certain degree compared to the first Fico cabinet. The government and the prime minister hold regular press conferences, but refused to communicate with the SME daily and have repeatedly refrained from answering critical questions. The prime minister has so far retained the unity and cohesion of his party at the national level as well as within the party parliament group.

Fico’s single-party government has effectively centralized policy-making. Where there have been public protests and/or suspicion of corrupt or ineffective performance of his ministers, he has been able to remove some of them from office. For example, the education, economy and health care ministers, together with the chairman of the parliament, had to step down from office (in the second case, however, under huge pressure from the public, political opposition and media). Fico’s “shadow cabinet,” which operates from the Government Office (GO), seems to be capable of defining any political risk. His team of advisers within his office, in which every department must have a partner at the GO, seems to be effective in supporting this coherence.
Slovakia’s ongoing problems with corruption are so entrenched that the public has become blasé. State-run companies and institutions often include political appointees who lack expertise or integrity. Most known or suspected cases of corruption are not properly investigated, which creates the biggest obstacles in public perception of corruption. People are also afraid to report corruption when they know about it. Other obstacles in fighting corruption include weak police and prosecution offices, and the notoriously inconsistent justice system. Existing anti-corruption legislation has room for improvement and its current implementation is weak due to dishonest state officials.

Compared to its first term in office, the second Fico cabinet paid more attention to corruption as early as the 2012 election campaign. Apparently, the prime minister is aware that the lack of transparency and alleged corruption account for the loss of support of the center-right parties (in the wake of the “Gorilla” case). In the period under review, the parliament passed several legislative changes aiming to fight corruption. First, the stricter rules for financing political parties were adopted in May 2014. The law on election campaigns imposed new limits on the financing of election campaigns (up to €3 million for parties). A presidential candidate is allowed to spend €500,000, as are candidates in regional and communal elections. More importantly, the amendment introduced fines (of up to €300,000) and new measures to secure implementation. Parties and candidates have an obligatory transparent account for elections, which will serve as a tool for monitoring transactions and donors. Buying of votes is to be punished, and a 14-member State Committee will oversee the elections, the campaigns and impose fines. This State Committee is to be composed of 10 members appointed by political parties (five by the ruling coalition, five by the opposition), and the chair of the Constitutional Court, the chair of the Supreme Court, the general prosecutor and the head of the Supreme Audit Office are to propose one member each.

The parliament passed a law on the protection of whistleblowers and launched the e-marketplace for state orders to limit corruption. In the wake of public protests following the scandal concerning an overpriced computer tomography (CT) scanner purchased by a hospital in Piešťany, parliament revised the public procurement law in order to ban “shell companies” from public procurement. However, in December 2014, the newly elected president, Andrej Kiska, returned this legislation to the parliament, arguing that the opposition, watchdogs and even some Smer-SD MPs admitted that the law will not be efficient. The real test for all the adopted laws will be their implementation. In the 2016 elections, the committees for supervising the financing of campaigns will be appointed for the first time. The e-marketplace will have to verify that it can attract enough suppliers to increase competitiveness, avoid cartels and allow effective purchasing of goods and services.

In Slovakia, NGOs often substitute for state administration in this area. Watchdogs like Fair-Play Alliance, Transparency International Slovensko, the Slovak...
Governance Institute and the Institute for Economic and Social Reforms (INEKO) pressured the government to implement some of the above changes. In addition, several private companies and NGOs have formed a coalition (the Slovak Compliance Circle) to fight corruption and weak transparency.

16 | Consensus-Building

The major parties agree on the desirability of fostering a democracy.

However, there are some differences with respect to the concept of democracy and its quality. The center-right (conservative, liberal, civic) parties put more emphasis on the performance of democratic institutions, the division of powers, human rights, civil society and transparency of the state institutions. As the only relevant left-wing party in Slovakia, Smer-SD pays more attention to the situation of particular social groups than to a notion of individual freedoms. The declared popular support for the values of democracy, political freedom and human rights is high. However, in such issues as the family model and reproductive behavior, cultural conservatism prevails over cultural liberalism. Among the major political parties, there is a tendency towards a simple majority rule. It is especially characteristic of the Smer-SD party, whose representatives have presented arguments such as “We won the election, therefore we do not need the opposition.” Previously, Slovakia had coalition governments, making consensual decision-making procedures necessary within the ruling coalition, however, the second Fico single-party government has tended to limit opposition rights even more. Moreover, in the period under review, the center-right parties became increasingly fragmented, limiting their performance as an efficient opposition. In addition, Prime Minister Fico tends to use a “divide and rule” approach when it is conducive to his goals. On occasion, he has succeeded in getting support for his policy proposals from individual parties (most frequently from the KDH) or from individual independent MPs.

The major parties agree on the desirability of fostering a market economy, but there are differences of opinion when it comes to the nature of the market economy. While the center-right parties prefer “pure” market economic principles, Smer-SD insists on a socially oriented market model, without providing detailed specifics. However, political rhetoric between the right and left tends to be confrontational, and consensus concentrates on a few issues usually related to EU priorities, such as the need for financial consolidation and the establishment of the Council for Budgetary Responsibility.

The second Fico cabinet has attempted to promote a broad social consensus by cooperating with trade unions (politically close to this party) and employers’ organizations. The government has made concessions to unions with respect to labor legislation, however, large economic organizations have become well-established as
part of the social dialogue and have frequently used this position for lobbying. Business interest groups wield significant influence regardless of the ideological leanings of respective governments. After receiving a great deal of criticism, the second Fico cabinet stopped providing state aid to companies just for preserving existing jobs and, in April 2013, passed a law banning such subsidies. Since then, the government can provide the state aid only to companies that create new jobs. The European Commission has closely monitored all such cases.

Nevertheless, big business in Slovakia has always been successful in lobbying for access to public resources via state contracts or direct state incentives at the expense of small and medium companies, tradespeople and the self-employed.

There are no real anti-democratic veto players. During the period under review, nationalist and ethnic conflicts decreased due to the absence of extremist political forces in the parliament.

Slovakia suffers from several cleavages (ethnic, social status, political, regional and religious), and ethnic nationalism once played a major role in politics. Thanks to the absence of radical nationalists in the parliament and the urgency of socioeconomic divisions and the economic crisis, Slovak-Hungarian tensions have become politically less salient. The Roma population has overtaken ethnic Hungarians as a target for dissatisfaction, which has been exploited by politicians. The second Fico cabinet is seeking to defuse tensions by downplaying issues related to the Roma, however, the government has paid more attention to this issue following the victory of Marian Kotleba, the controversial leader of the extremist People’s Party – Our Slovakia, in the 2013 regional elections.

This party actively exploits the anti-Roma sentiments and its local support has increased after the party shifted its focus from a broader nationalist, revisionist, anti-Semitic and homophobic agenda to the “Roma issue.”

With the activation of the NGO Alliance for the Family, a new cultural dividing line has been more sharply articulated and split the population over the issue of “traditional” and “non-traditional” (i.e., homosexual) families and their rights. So far, none of these new actors have challenged the major democratic rules, although they have increased the degree of polarization in society.

The participation of civil society actors in politics depends on the government’s party composition. The second Fico cabinet prefers trade unions and employers’ organizations. Social dialogue is perceived as a means of maintaining social peace. Fico also now presents a more friendly face to the media and NGOs. Both political camps acknowledge the importance of social dialogue and respect tripartite negotiations; however, policy outcomes differ according to ideological leanings.
The second Fico cabinet has shown a slightly less hostile attitude toward civil society organizations. The post of government plenipotentiary for civil society development was retained, but shifted to the Interior Ministry with the argument that this department has the responsibility for registering NGOs. The post was vacant for almost a year following the resignation of Filip Vagač, who was appointed by the Radičová government. It was filled again in November 2014, when the government approved Martin Giertl, who previously worked as a human rights expert at the Foreign Affairs Ministry and for the Charter 77 Foundation.

At the beginning of his term, Giertl stressed that the economic and legal framework for civil society is not yet sufficient and that many NGOs lack finances after foreign donors leave. He also stressed that the current financing from the income tax assignation mechanism (2%) is not sufficient to strengthen civil society.

After the 2014 presidential elections, this segment of society gained a new strong ally thanks to the victory of the philanthropist Andrej Kiska, who has a very positive attitude towards the NGOs work and fully supports their participation.

The second Fico cabinet set up a new advisory body, a government council for NGOs, chaired by the interior minister. So far, there have been no fundamental conflicts between the government and the NGOs over the rules of game. However, the government plans to revise the law on free access to information that is the crucial mechanism for public control in Slovakia.

The government has definitely not improved the conditions for development of civil society infrastructure and its organizational capacity. Nevertheless, the major watchdogs have - so far – been successful in gaining finances for their activities that are improving the quality of democracy. Given the weak opposition in the parliament, civil society has a crucial function in monitoring the government.

Slovakia remains split over the legacies of two authoritarian regimes (fascist and communist). The process of reconciliation has been more complicated than in neighboring countries, and it has taken longer to establish institutions able to cope with the totalitarian past. The Nation’s Memory Institute (UPN) was only established in 2002 and its main responsibility was to provide access to records of the secret police, although this process was allegedly manipulated and utilized against public and political figures. The UPN is also responsible for documenting both totalitarian regimes in Slovakia. The nomination of the head of the UPN was always politicized in the past and, after the term of the previous head (nominated by the Slovak National Party) expired on 31 January 2013, the elections for a new head created controversy between the opposition and the ruling party. Smer-SD was unable to choose a successor due to tensions within the party, which highlighted ambiguous attitudes towards the past. It took three parliamentary votes to elect the new head, Ondrej Krajňák, who came from within the UPN and received 105 votes (out of the 140 MPs
present) on 13 February 2013. He received all Smer-SD votes, while the opposition candidate nominated by the center-right parties (the SDKÚ-DS, the KDH and Most-Híd), Marián Gula, who also worked at the UPN, received only 18 votes.

The ruling Smer-SD party is often reluctant to propose dealing with the legacy of the communist regime. In 2014, a Smer-SD majority rejected legislative proposals suggested by opposition parties aiming at the restriction of benefits gained by the perpetrators of political repression during the country’s communist period.

**17 | International Cooperation**

Slovakia is fully integrated in the international community, including the UN, the OECD and the EU. In recent years, the previous and incumbent governments have placed particular focus on the direct material benefits from its EU integration, as over 80% of public investments are fully financed from EU funds. At the same time, the previous Radičová and the second Fico cabinet agreed on fiscal consolidation and developing the country’s international image as a reliable and fiscally responsible partner, and on using this image to promote its long-term development agenda. A key aim of this agenda is to strengthen Slovakia’s competitiveness as a knowledge-based economy. However, the country has consequently become increasingly dependent on EU structural funds in meeting its developmental goals and lacks alternative means of development. It seems that the second Fico cabinet understands these limits and, since 2015, has focused on public-private partnerships to foster economic growth. However, the government’s focus on innovation as the main resource for developing the economy and society is slowly changing from rhetoric into legislative and material incentives intended to help reduce regional disparities and improve long-term unemployment.

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

Effective use of support

Credibility

Regional cooperation

The Smer-SD single-party government tends to focus more on economic interests, including its commitments to the euro. The performance of the current government in terms of building cooperative neighborly and international relationships can be considered sufficient. However, the inconsistent and even contradictory statements of Prime Minister Fico regarding the EU sanctions against Russia due to its aggression against Ukraine have complicated political relations within the Visegrad Group, especially Poland.
Strategic Outlook

According to the government and its National Reform Programme 2014 (NRP), its priorities are achieving sustainable economic growth, creating new jobs and improving the quality of life. The NRP defines employment as the biggest challenge for the upcoming period after the consolidation of public finance, as in mid-2014 the country left the Excessive Deficit Procedure. However, another very important challenge is the uneven regional development. The Bratislava region where export-oriented manufacturing FDI is located is the most developed and has very low levels of unemployment (e.g., in the city of Bratislava it is about 5%), while the central and eastern parts of the country are still lagging behind; some districts face almost 30% unemployment and their infrastructure remains underdeveloped.

The pragmatic approach of Robert Fico toward governing suffers from some shortcomings, even if his behavior toward the media and NGOs has slightly improved in comparison to his first term in office as prime minister. His attitude toward political opponents and especially toward the center-right opposition parties remains quite aggressive. Fico and his party MPs often ignore the opposition in the parliament and there is a tendency to vote against the agenda of extraordinary parliamentary sessions called by the opposition. In addition, some opposition MPs have reported that they cannot properly carry out their supervisory role in the parliamentary committees.

There are also more long-term challenges, as more than 80% of public investments are exclusively financed from EU funds, which presents a potential vulnerability to the good economic performance. Slovakia remains highly dependent on exports as well as on its economic performance in the euro zone given the structure of the economy, which consists primarily of the automotive and electronic industries.