

# Slovenia 2017



Total: 71.85

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## Political Freedom

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### Free and Fair Elections : 10

Free and fair elections are commonly held in Slovenia since its independence. Citizens are able to freely exploit this constitutional right and vote for parties from all sides of ideological spectrum. Throughout the last year, there were no elections or some major political happenings. Governing coalition led by Prime Minister Miro Cerar from the Party of the Modern Center remained stable, although certain disputes and dissatisfaction occur among coalition partners. Due to a weak coalition and cooperation potential of the Slovenian Democratic Party leader Janez Janša, opposition doesn't represent a serious challenge at the moment. Elections for largely ceremonial presidential position in Slovenia were scheduled for October 2017, with the incumbent president Borut Pahor running for his second term and leading in the opinion polls.

### Absence of Unconstitutional Veto Players : 9.17

There are no unconstitutional veto players in Slovenia. All three constitutional branches of power are free and independent in their work, set in a way that provides stable and efficient democracy. Security forces are under effective civilian control. Corruption among officials is not pervasive in Slovenia. Nevertheless, some cases of alleged high profile corruption were brought to the public. In the Transparency International 2016 Corruption Perception Index, the country is ranked as 31st, along with Taiwan, Qatar and Barbados.

### Freedom of Press : 7.7

Freedom of the press is granted by the constitution in Slovenia and to a significant degree upheld in practice. Landscape of both traditional and online media is diverse and plural, giving citizens opportunity to have access to different views and opinions. Alas, there are two bad practices in Slovenian media: defamation is a criminal offense, and media outlets which report in favor of ruling politicians are usually getting more finance through advertising of state-owned enterprises. Both practices could pose a danger to journalists' independence. The latter practice is in decline. Also, traditional media outlets are often politicized, especially at the local level.

# Rule of Law

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## Independence of the Judiciary : 5.09

In June 2017, international Arbitration Court ruled in the border dispute between Slovenia and Croatia caused by imprecise pre-1991 cadastre and land registries in communist Yugoslavia. Even though some of its demands on sea and majority regarding river-border were not met, Government of Slovenia promptly accepted the decision. In other areas too (such as investment or other commercial disputes), Slovenia accepts the principle of international arbitration. Slovenia's own judiciary enjoys a mottled record of integrity and independence. Citizens perceive it as free of direct bribery (although companies are thereby a bit skeptical), but heavily exposed to political interference, especially in corruption cases. Court efficiency was bad for long – the backlog of cases was serious - but it has recently been improving. Constitutional Court proved its relative independence from both the government and the public opinion, but it faced objections for alleged right-wing bias. Political row over the head of the Supreme Court, as well as bipartisan political deal over nomination of two CC judges (as of July 2016) actually proved that there was a desire by politics to interfere with judiciary.

## Corruption : 6.1

Despite slow improvement, Slovenia has year and again lagged behind countries it would like to be compared with regarding corruption purity (such as Austria or Estonia). Experts disagree on whether the reason is just political (not enough will to let institutions work) or it is systematic (incomplete transition from dirigisme to market economy). Some experts even blame the alleged state capture by ex-Yugoslav secret services as the main source of corruption. Transparency International's Corruption Perceptions Index 2016 has put Slovenia to the place 31 of 176 (together with Barbados, Qatar and Taiwan), with a decent score of 61/100. Global Corruption Barometer 2016 found the bribery rate at just 3%, the smallest in ex-communist countries of Europe. Still, 59% of citizens regarded corruption as one of the three main problems of the country, 77% though that the government performed badly in fighting it, while just 25% thought that parliament was to blame for the situation. In spite of the best regulation of lobbying in the entire EU (by a TI's assessment as of 2015), a scandal erupted in September 2016 regarding illicit access of lobbyists to some ministries. Besides military procurement and urban development in the past, health care procurement has recently also come into focus of attention of the anti-corruption minded public. Privatization of the main state-controlled bank is constantly delayed, thus leaving further ground for "political loans".

## Protection of Human Rights : 8.29

With accelerated payback of the "old banking deposits", Slovenia is resolving the last remaining problems regarding restitution of private property seized during communism, or blocked during immediate post-communist times. Most civil liberties in Slovenia are guaranteed and freely enjoyed. Freedoms of speech, association or religion are highly respected. While members of some minorities are well accepted by vast majority, be they native minorities or Yugoslav-times` or globalization-era immigrants (all three might be found among the directly elected Mayors), others

still struggle to overcome discrimination, such as Romany, or those “erased” from citizenship after independence in 1991. In March 2017, another step was made in equaling the rights of LGBTs to other citizens, with same-sex weddings introduced. In 2015, a national referendum produced a ban on child adoption by those couples. Remarkable number of ministerial posts (8/17) or MP seats (33/90) held by women shows an improvement regarding women participation in politics. Discrimination at work is in retreat, while gender pay gap fell well below 10%. Prostitution is legalized, yet measures against trafficking of women (for forced prostitution) or children (for begging) are still insufficient. Initial Slovenia’s reaction to the migration challenges as of 2015 was building a wired fence somewhat similar to Hungary’s. In spite of the subsequent closing of the Western Balkans route the barrier was only partially removed. Slovenia started participating in the EU program of resettlement of asylum seekers from Italy and Greece.

## Economic Freedom

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### **Security of Property Rights : 6.07**

Property rights in Slovenia are mostly respected. Government holds the right to expropriate private property in case of public interest, but it is seldom exercised, whereby monetary compensation must be in line with the perceived market value. There are certain restrictions and limitations to foreign (non-EU) ownership in several sectors, mostly in financial services and banking, gaming and air and maritime transport. Judiciary is mostly independent from out-of-the-court influences, but there are some reports regarding influence of the political elite on the judiciary in high profile cases. However, judiciary still holds very low level of trust among the broad population when compared to other civil service branches, and courts are not considered as fully impartial. Low efficiency of court dealings, which result in very long judicial processes, significantly undermines the rule of law in the country. On average, a trial lasts longer than 3 years. One of the reasons for the situation is the high number of over 100 000 old cases that still haven’t been resolved, further augmented by lax adjournment regulations, with no maximum number of adjournments and a frequent use of the mechanism. On the other hand, resolving insolvency is streamlined, with relatively quick procedures, very high recovery rates and low costs. Most cases are resolved via going concern sales. Registering a property is an unnecessarily long procedure – albeit inexpensive - due to long data entry at the Land Register and tax determination at the Tax office.

### **Size of Government: Expenditures, Taxes, and Enterprises : 4.37**

Government expenditures in Slovenia are slightly below European average, reaching 41.5% of GDP in 2016. Bulk of expenditure consists of social transfers, aimed at income redistribution through welfare programs. Public debt is high, standing at 79% of GDP in 2016, but for the first time since the 2008 economic crisis the debt is on a downward spiral, mostly due to robust growth and lower deficits, which enabled Slovenia to exit the EU excessive deficit procedure by mid-2016. But the debt level still poses significant macroeconomic risk. Economic prospects for the time being are positive, with solid growth rates, but low investments compared to other ex-transition economies and still high NPLs within the banks continue to raise concerns. Since there was never a full scale privatization program in Slovenia, state-owned enterprises (SOE) are present in many

areas of the economy, especially in banking and insurance, energy, transport and telecommunications, within an intricate web of cross-enterprise ownership. Troubled SOEs are usually linked to big state banks with increasing level of NPLs, which further aggravates risks for public finances. Asset management strategy for companies in state ownership, adopted in 2015, includes detailed privatization plans: classifying SOEs to different groups, such as strategic, important and portfolio. State approach to an individual SOE will depend on its classification (majority equity, controlling equity, or non-mandatory equity). However, privatization is stalling or it was even canceled, as in the case of the biggest bank in the country, the NLB. Corporate tax was recently increased to 19%, while VAT is at 22% (standard) and 9.5% (reduced) rate. Personal income tax is highly progressive, with rates of 16%, 27%, 34%, 39% and even 50%. Social contributions paid by the employee and employer are also high, leading to overall high tax wedge, above the OECD average.

## **Regulation of Credit, Labour, and Business : 6.36**

Regulation of business activities is overall positive towards business activities. However, there are still complicated or unclear procedures that fuel administrative costs. Starting a business is easy and does not incur any costs in fees, but this is negated by a very high minimum paid in capital of 7500 euro. Getting electricity is also relatively easy due to streamlined procedures. However, obtaining a construction permit is a durable task, due to a high number of procedures, but also due to inefficient land registry. Tax compliance is complicated, incurring a high number of hours for regulatory compliance. Corruption and favouritism in the work of civil servants is still present, although not prevalent. Working hours are mostly flexible, but hiring and firing rules are not. Maximum length of a fixed contract is 24 months, and fixed term contracts are prohibited for permanent tasks. More seasoned workers enjoy a higher level of workplace protection and other perks, such as a higher number of paid annual-leave days, while notice-period and severance-pay increase according to years in tenure, all of which puts younger workers at a disadvantage. Minimum wage is set very high, above 800 euro per month, reaching 50% of the average wage in the country. Inefficient government bureaucracy alongside high tax rates are regarded as the most important hurdles to doing business in Slovenia. A set of structural reforms was set up by the government with the objectives of reducing the red tape and of planning further regulation, tax administration and labour market reforms, but their implementation is yet to come.

## **Freedom to Trade Internationally : 8.7**

Trade freedom in Slovenia is mostly protected. Being a small open economy, the importance of free trade is even more emphasized in the Slovenian case, for production specialization and for integration into the world economy. Since its accession in 2004, Slovenia implements the common EU trade policy, with overall low tariffs, which are mostly pronounced for agricultural than for industry products. Also, Slovenia has been a WTO member, since its establishment in 1995. However, non-tariff trade barriers in the form of mandatory and costly product standardization remain as an obstacle to trade. Slovenia enjoys a very high level of trade integration, measured through the share of imports and exports in GDP. Its main trade partners are other EU members, most notably Germany, Italy and Austria. Customs office procedures are efficient and inexpensive - with only 4 documents both for import or export goods - not posing impediments to free trade flow. Good public transportation infrastructure also provides a strong point for free movement of goods, by lowering freight costs. However, the railroads are in a significantly less fortunate condition than roads or ports. Slovenia was the first post-transition country that entered the Euro-zone by adopting the euro in 2007; this move further facilitated trade by abolishing currency conversion costs. Obtaining work and residence permits for non-EU nationals is complicated and costly procedure. Work permits are also - still - necessary for Croatian citizens,

since Slovenia was among the few EU countries that barred free access to their labour market to Croatian citizens (alongside the United Kingdom, the Netherlands, Austria and Malta). This measure is to be reconsidered in 2018.