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Positions of the Fiscal Council

Fiscal risks related to the decision of the State regarding large infrastructure projects

Example: Construction of the second track of the Divača-Koper railway line

In accordance with the proposal for the investment programme drafted in October 2013, the gross investment value of the construction of the second railway track between Divača and Koper is estimated at EUR 1.3 billion, which slightly exceeds 3% of the current GDP.

Despite its large scope this project is not mentioned in the Stability Programme, 2017 amendment (SP 2017). The Programme states: "In 2017, gross fixed capital formation financed from public funds will increase by 20%, i.e. to 3.5% of GDP, in comparison to 2016, while in 2018 it will increase by a further 12.9%, i.e. to 3.8% of the GDP. With regard to the high drop in 2016 such an increase is expected. The level of gross fixed capital formation from public funds is anticipated at EUR 1.4 to 1.5 billion per year, which is still below the pre-crisis level. As regards investments, a redirection of drawing EU funds supporting "traditional" investments into supporting "soft content", i.e. investing in people, knowledge and development, is also anticipated. Slovenia plans key investments in transport and the transport infrastructure (state roads, railway infrastructure, train sets, sustainable mobility) and in the energy industry (hydropower plant on the lower section of the Sava River), as well as the establishment of a production zone for a larger foreign investment."

Positions of the Fiscal Council

- Efficient infrastructure development is very important for Slovenia, because it increases its **long-term economic potential**. However, in the current and expected macroeconomic and fiscal situations the decision for such an extensive, transparently and appropriately set-up infrastructure project should not only be focused on providing conditions for the participation of other sources of financing but should in particular involve the redirection of the use of EU funds, funds for investments and other sources instead of a **non-transparent increase** in total general government expenditure.
- Positive **multiplier effects** of such an extensive investment on domestic consumption and employment must be taken into consideration. However, in the current situation, when the economy is undergoing a transition towards a positive output gap (opinion of the Fiscal Council of 6 June 2017), high short-term multiplier effects may (i) reduce the pro-cyclical

orientation of the fiscal policy or even cause a **pro-cyclical expansive fiscal policy** and (ii) increase the risk of overheating of the economy (the positive output gap might exceed 1.5%) and as a result trigger demands for additional fiscal efforts.

- The possible **public finance effects of the second-track project in the medium term are also unclear**, because to date neither a more detailed time frame for the planned investment nor the financial structure have been defined. According to the available estimates the overall project costs are expected to exceed 3% of the gross domestic product in the medium and long term. Private and other partnerships are also envisaged but have not yet been guaranteed. This means significant risks and potential burdens for public finances in the medium term.
- The carefully estimated public expenditure and the risks of such an extensive project should be transparently **positioned in the applicable medium-term framework** and taken in due consideration in the definition of the public finance objectives, also in terms of approaching the medium-term objective. According to the estimates of the Fiscal Council (of 13 April 2017) and the European Commission (of 23 May 2017), even with regard to the current medium-term plans stated in the SP 2017, Slovenia has not been duly following the structural effort requirements and the expenditure rule to be considered in accordance with the EU rules and in accordance with the Fiscal Rules Act (also taking into consideration the convergence towards achieving the medium-term objective).