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Commission for Public Finance Control
National Assembly of the Republic of Slovenia
Šubičeva 4
1000 Ljubljana

Re: Answer of the Fiscal Council to the request of the Commission for Public Finance Control

The Commission for Public Finance Control of the National Assembly of the Republic of Slovenia asked the Fiscal Council, within the 3rd resolution of the 6th emergency session of 20 February 2019, "...to deliver an opinion on the fiscal justification and risks entailed by the construction project of the second track of the Divača-Koper railway line as set out in the Investment Plan adopted by the Government at its 16th regular session on 24 January 2019."

The Fiscal Council notes, on the basis of paragraph one of Article 7 of the Fiscal Rules Act, that it is part of the Fiscal Council's powers to make assessments concerning compliance of the fiscal policy with the fiscal rules on the basis of the budgetary documents referred to in paragraph two of Article 7 of the Fiscal Rules Act. In accordance with point 9 of paragraph two and in accordance with point 6 of paragraph three of Article 7 of the Fiscal Rules Act, the Fiscal Council also performs other tasks necessary for the exercise of its powers on the basis of a request from the National Assembly, the Government or at its discretion. The assessments arising from such tasks need to be forwarded by the Fiscal Council to the Government and the National Assembly in accordance with point 6 of Article 9f of the Act amending the Public Finance Act (ZJF-H) within 15 days of the receipt of the request.

The Fiscal Council notes that the Investment Plan adopted by the Government during its 16th ordinary session on 24 January 2019 is not a budget document, and the investment in question would only make up a part of the total general government expenditure. Therefore, the Fiscal Council considers that merely assessing this investment project's fiscal justification exceeds its jurisdiction. Further to taking into account the costs related to the investment, an additional comprehensive assessment of the long-term (several decade long) effects of the investment on the full spectrum of macroeconomic aggregates, the development of a long-term economic potential and the thereof originating benefits related to national economy and public finances is required for such an assessment.

In the past, the Fiscal Council has already highlighted the potential risks associated with large general government investment projects in the document "Fiscal risks related to the decision that the State made regarding large infrastructure projects", which was published on 15 June 2017 (<http://www.fs-rs.si/positions-of-the-fiscal-council-fiscal-risks-related-to-the-decision-the-state-made-regarding-large-infrastructure-projects/>). In this document, the Fiscal Council expressed the requirement that general government expenditure and the related risks be presented in a

transparent manner and positioned in the medium-term framework. Additionally, it was pointed out that a decision for such a large infrastructure project should, in particular, prevent non-transparent increases in the general government's total expenditure.

We believe that only the efficient construction of cost-effective infrastructure can improve the fiscal position, otherwise the government debt-to-GDP ratio deteriorates even in the long run. Therefore, it is crucial for fiscal stability to properly set up the project and to monitor in a timely manner the efficiency of general government expenditure for this purpose. Financial resources should be provided in such a way as to minimize the burden on public finance and to make the most of the available EU funds of both current and future financial perspectives.

The Fiscal Council will make an implicit assessment of the construction of the second track of the Divača-Koper railway line and its adherence to the fiscal rules in the medium term in the context of assessing a comprehensive budget document, which will actually include this investment in the general government expenditure. The Government has not yet submitted the budget document that would explicitly include this investment; however, the next document that the Government is obliged to prepare is the Stability Programme. Pursuant to point 2 of Article 6 of the Fiscal Rules Act, the Government is liable to submit it to the National Assembly and the Fiscal Council no later than 20 days before the deadline for submitting the Stability Programme to the European Commission. According to the EU rules, this deadline expires at the end of April. Even with this kind of assessment, it will be necessary to take into account that, (i) given the data currently known, the total investment will extend beyond the expected period of the future Stability Programme (2019-2022 period) and therefore, (ii) it will not be possible also in the medium-term framework to take into account all benefits and risks relating to national economy and public finances arising from such a project. The Fiscal Council expects the Stability Programme to contain all the measures that the Government will adopt before its elaboration and present them in a transparent manner. At the same time it expects that the medium-term measures that must accompany the Stability Programme in accordance with the Fiscal Rules Act will ensure compliance with the Constitution and fiscal rules governed by law, allowing for the medium-term sustainability of the general government sector.

Yours faithfully,

Dr Davorin Kračun
President