



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Public expenditure reviews: good practices and the situation in the EU and Slovenia

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Executive summary

Expenditure reviews are in-depth and systematic analyses of total public expenditure or its individual segments. One of the fundamental responsibilities of the state is to ensure the quality of public services. The purpose of expenditure reviews is to identify socially acceptable and financially sustainable ways to improve the cost-effectiveness and efficiency of spending, thereby ensuring the continued provision of public services. The goal is thus not to reduce the quality and availability of public services, but to improve them in relation to the public funds invested, thereby contributing to the long-term sustainability of public finances.

Successful conduct of expenditure reviews requires strong political support and clearly defined responsibility for carrying out the reviews and implementing the proposed measures. The objectives of these reviews must be clearly defined in advance and communicated to the public. The same applies to their results, even when these may be politically unfavourable. Since expenditure reviews should constitute an integral part of the budgetary process, they must be conducted regularly, and the list of planned reviews should be updated continuously.

The majority of EU Member States already conduct expenditure reviews, often with the support of the European Commission. Although institutional arrangements vary, all practices are based on a high-level political decision – either as a self-initiated effort to enhance efficiency or as a response to recommendations from international institutions. The outcomes of these reviews vary and may include various measures ranging from restructuring expenditures by prioritising key areas to establishing specialised institutions in order to enhance cost-effectiveness. Several countries make use of technical assistance from the European Commission to carry out these reviews, and some have even included them as milestones for obtaining funds from the Recovery and Resilience Facility. The need for expenditure reviews is increasing in response to growing pressures on public finances.

The declarative commitments applied in Slovenia will need to be replaced by a comprehensive and systematic approach – one supported by strong political will. Expenditure reviews should constitute an integral part of budgetary planning, be supported by appropriate legislative provisions and their findings should be systematically incorporated into the policymaking process. Particular attention should be given to the supervision of public procurement and to improving public investment management practices, which is especially important given the numerous fiscal challenges Slovenia is currently facing.

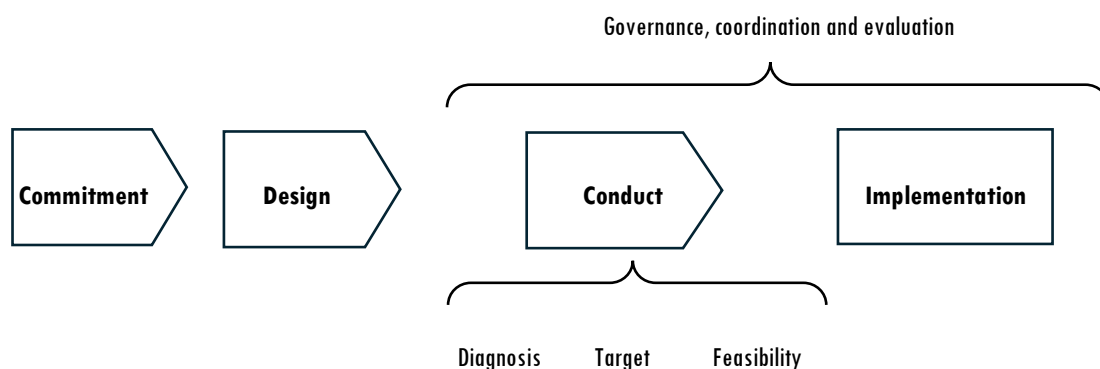
Based on publicly available data, Slovenia falls behind most EU Member States in the area of expenditure reviews. Although international institutions have recommended them several times and technical assistance has been provided over a decade ago, reviews are still not carried out regularly. The reviews carried out so far did not follow the recommendations of good practices. They lacked political support, the process missed the transparency and the findings were rarely applied in practice.

Within the context of the EU's revised economic governance framework, the Fiscal Council will be tasked with regular assessing the compliance, integrity and effectiveness of the national budgetary framework. The assessment may also include an evaluation of the implementation of expenditure reviews, which – in accordance with recommendations from international institutions – are a key element of budgetary planning and public finance management.

1. Definition of expenditure review

Expenditure reviews are comprehensive analyses of public expenditure intended to support the provision of public services. Their primary objective is to increase the efficiency of public funds or, at the very least, to maintain the availability and quality of public services while reducing the financial contribution.¹ This includes identifying potential savings and opportunities to cut inefficient expenditure. Reducing such expenditure in practice could create more fiscal space and enable the adoption of more efficient public finance measures. Special attention should also be given to the indirect effects of expenditure², which may have either a positive or negative impact on economic activity and overall prosperity. Expenditure reviews should not only aim to reduce expenditure; they can also be used to identify the need for (targeted) increased spending to ensure an adequate level of public services.³ Nevertheless, stakeholders generally do not welcome expenditure reviews for fear of losing funds at their disposal. Efficient expenditure review therefore requires strong political support, clearly defined goals and adequate administrative assistance, as well as a structured implementation process based on systemic or legislatively supported regulation.

Figure 1.1: Phases of the illustrative spending review roadmap



Source: Vandierendonck (2014).

Expenditure reviews may provide a general overview of all public spending or focus on specific categories.⁴ General reviews are rarely carried out because they require significant investment, particularly in terms of human resources, and accountability for their execution is spread across the entire scope of government activity. They are generally only carried out in response to demands for broader fiscal consolidation. Targeted reviews are more appropriate when the primary objective is to improve the efficiency and timeliness of the delivery of individual public services. They can be divided into:

¹ Expenditure reviews can relate to the efficiency or effectiveness of public spending. In this context, an efficiency review relates to spending that enables the implementation of a specific measure or a policy (e.g. education expenditure) involving the smallest possible share of public funds, while an effectiveness review relates to achieving the desired objective (e.g. the number of persons with higher education) as a result of a measure or a policy involving the smallest possible share of public funds. As the purpose of economic policy is to achieve specific objectives, the terms "cost-effectiveness" and "efficiency" of public spending are used equivalently in this paper.

² See discussion in Mazucatto (2018).

³ See e.g. van Eden (2023) or expenditure review of wages and salaries in the general government sector in Slovakia (Ministry of Finance of the Slovak Republic, 2020).

⁴ More in Vandierendonck (2014) and Doherty and Sayegh (2022).

- vertical and
- horizontal reviews.

Vertical reviews typically focus on the expenditure of a specific budget user, such as a ministry, whereas horizontal reviews examine a particular budget category, such as subsidies or funding the information technology services. Both vertical and horizontal reviews have their respective advantages and drawbacks. In general, vertical reviews are easier to carry out, while horizontal reviews help identify overlapping functions within the public sector. The main drawback of vertical reviews is that they have limited capability to determine priority areas for increasing the efficiency of expenditure as a whole, because they are conducted for individual budget users. On the other hand, horizontal reviews are generally more challenging, as they involve analysing the same spending components in several different institutions simultaneously.

Findings on the level of government expenditure required for the provision of public services cannot, on their own, justify reduction. Decisions of this kind demand broader consideration of the efficiency of both expenditure and services. The total general government expenditure of each country compared to other countries, as well as the size of individual expenditure components compared to other components, reflects political decisions and the priorities of society. Following an expenditure review, the level and accessibility of public services vital to ensuring prosperity should remain at least unchanged. According to the European Commission's (EC) analysis, public expenditure beyond a certain level tends to become inefficient, as reflected, for instance, in diminishing returns or only marginal improvements in outcomes.⁵ However, it should also be noted that relatively low levels of public expenditure, compared to other countries, can likewise prove ineffective. Medium- and long-term economic and fiscal challenges call for a thorough consideration of how public funds are managed, including both the scope of potential public expenditure and the extent to which such funds are effectively used to pursue the direct and indirect objectives of economic policy. Over the past decade, periods of crisis have generally coincided with expansionary monetary policy and, consequently, favourable conditions for financing (public) debt. This is also one of the reasons why the economic policy measures (e.g. expenditure on matters unrelated to the crisis) have significantly increased expectations regarding the role of the state and the availability of public funds,⁶ while the simultaneous ageing of the population has a negative impact on economic potential, which forms the basis for the future repayment of public debt.

Only a handful of countries choose to review efficiency of their tax expenditure and identify potential savings in this area. Tax expenditures comprise various exceptions and favourable tax rates relating to specific taxable persons or products, and are designed to achieve particular economic and social objectives. While they can be an important redistribution and incentive instrument, they can also reduce transparency, increase complexity and, subsequently, contribute to inefficiencies in the tax system. In general, losses in government revenue related to tax expenditures represent a relatively high percentage of GDP and total general government revenue.⁷ Regular reporting, oversight and assessments of the efficiency of tax expenditures provide the foundation for reforms in taxation. This creates fiscal room for manoeuvre and enables a revenue-neutral tax reduction in basic tax rates. According to publicly available data, only Ireland,⁸ Germany and the Netherlands⁹

⁵ Canzoneri and Gambioni (2024). The study is theoretically based on DEA (Data Envelopment Analysis), but does not specify the value of the efficiency threshold.

⁶ See e.g. The Economist (2024).

⁷ On average, they account for around 5% of GDP in EU Member States. The proportion is similar in Slovenia. See Turrini et al. (2024) and Beznoska et al. (2023).

⁸ Based on the available public information, Ireland is the only country to have published guidelines for reviewing tax expenditures (see the Government of Ireland, 2024).

⁹ See also FiFO (2019) and the Ministry of Finance of Netherlands (2023).

regularly review their tax expenditure, with Spain having conducted its first review recently.¹⁰ In Slovenia, the Ministry of Finance publishes an annual statistical review of the tax expenditure use with comments.¹¹ Although these reviews¹² contain some general findings on the necessity of reviewing the efficiency of the tax expenditure system, such findings have remained unchanged for several consecutive years. There are no records of the implementation of these findings or the conclusions of the analysis, on the basis of which more effective measures could be adopted.

2. Reasons for conducting expenditure reviews

The reasons for conducting expenditure reviews tend to change over time.¹³ In the 1970s and 1980s, as well as in the years following the global financial crisis, expenditure reviews were primarily carried out to support decisions on substantial spending cuts, which typically affected the majority of the public sector in order to ensure fiscal sustainability. Subsequent reviews typically focused on specific areas. In recent years, governments have sought to improve expenditure efficiency by only limited addressing of individual components of public expenditure. A survey conducted among EU Member States shows that expenditure reviews are primarily carried out to improve the quality of public services and to reallocate spending to other areas, rather than being driven by the need for fiscal consolidation.¹⁴

Expenditure reviews also help avoid across-the-board spending cuts. Such measures are typically implemented under unfavourable economic conditions and fiscal pressure, as these decisions are often taken under significant time limit. Although across-the-board spending cuts can be implemented relatively easily and quickly, this type of consolidation is typically not sustainable, as reductions in effective public services may undermine long-term economic potential.¹⁵ It is therefore more advisable to conduct expenditure reviews during periods of favourable economic conditions. This allows fiscal policy the necessary room to take action in a timely manner, reducing the need for such across-the-board measures.

Due to limited fiscal space and medium-term policy challenges, calls to improve public spending efficiency and accelerate the implementation of expenditure reviews are once again gaining momentum. Reviews of academic literature show a renewed interest in determining the efficiency of public spending.¹⁶ This is understandable, given the unpopularity of tax rate increases and the extensive medium- and long-term need for additional public expenditure. An analysis by Afonso and Alves (2022) shows that higher spending efficiency directly improves the general government financial balance and medium-term fiscal sustainability, even when the scope and quality of public services remain unchanged. Apart from their primary objective – enhancing public spending efficiency – expenditure reviews should also serve as a foundation for improving overall economic efficiency. The Annual EU Competitiveness Report¹⁷ warns that the level of public sector expenditure on innovation –

¹⁰ See: <https://www.airef.es/en/document-center/studies-document-center/tax-benefits/>

¹¹ Regular publishing of data on tax expenditure or its impact on general government revenue is one of the requirements of EU Directive 1265/2024 (Article 14) within the revised EU Economic Governance Framework. The Directive is available at: <https://eur-lex.europa.eu/eli/dir/2024/1265/oj?locale=en>

¹² The most recent report available refers to 2022. See <https://www.gov.si/assets/ministrstva/MF/Davcni-direktorat/DOKUMENTI/Porocilo-o-davcnih-izdatkih-v-letu-2022>. The complete set of reports is available at:

<https://www.gov.si/drzavni-organi/ministrstva/ministrstvo-za-finance/o-ministrstvu/direktorat-za-sistem-davcnih-carinskih-in-drugih-javnih-prihodkov/> (Only in Slovene)

¹³ See OECD (2023b).

¹⁴ See Hoogeland (2024).

¹⁵ See IMF (2014).

¹⁶ See Afonso et al. (2020).

¹⁷ Draghi (2024).

Box 2.1: Effective public funds management: as review of the effectiveness of public investment management

One of the most common expenditure reviews is that of the effectiveness of public investment management. According to the IMF analysis, inadequate management of public investments (this includes planning, selection and implementation) results in yields being lower by approximately one-third in developing countries and almost 15% in the developed countries.¹ The same analysis estimates that better investment management could offset at least half of those losses. Public investments are an important part of total government expenditure and play a key role in shaping economic potential. To help countries increase investment efficiency, the International Monetary Fund (IMF) developed the Public Investment Management Assessment (PIMA)² tool. PIMA provides an overview of the management and efficiency of institutions involved in various phases of the investment cycle, as well as factors present throughout that may affect public investment management.

Expenditure reviews, which are conducted with the aim of increasing the efficiency of public investments, are rare in the euro area.³ Apart from increasing the yield of investment projects, expenditure reviews are also supposed to improve the management of public investments. To assess the efficiency of public investments, expenditure reviews must evaluate the scope of public capital (state-owned fixed assets – for Slovenia see selected indicators in Brložnik, 2021) and, within the scope of available data, its quality. This should form the basis for evaluating the need for further investment. Surveys conducted by Belu Manescu (2022 and 2024) suggest that EU Member States tend to neglect the evaluation of investments prior to project initiation in the management of public investments. They also tend to overlook the identification of alternative projects to achieve the desired outcomes and mitigate risks. The same analyses also show that projects funded by EU funds are subject to more stringent rules and oversight than investment projects financed solely from domestic sources. To increase the efficiency of public investment, an informal group of experts from EU Member States is active within the EC framework. They aim to exchange good practices in public investment management. The EC also prepares recommendations in this area as part of its regular reviews of the macroeconomic situation and economic policy guidelines. As part of the technical assistance programmes, it offers Member States support with expenditure reviews and public investment management.⁴

Effective public investment management can, among other things, be supported through the application of project management principles. Based on lessons learned in Norway,⁵ the success of investment projects largely depends on the initial phase. Before a final decision on the project⁶ is taken by the Parliament, at least two phases of external project quality review are conducted. The first phase occurs prior to the government's decision on the project structure, while the second phase assesses the implementation plan and its budgetary implications. The Department of Public Expenditure, National Development Plan Delivery and Reform, which operates within the Irish Department of Finance, prepared a document entitled "Project Ireland 2040". This document is also based on the PIMA⁷ review from 2018. It links the strategic objectives of economic policy and a ten-year investment plan designed to achieve these goals, along with an assessment of the adequacy of domestic and EU funding sources. In this regard, a group of interdepartmental ministries was formed to supervise and coordinate project execution. Prior to making a decision on a project, reviews by external experts were introduced to assess its quality and feasibility. To increase transparency, the public has access to up-to-date information on the status of investment projects. This ensures a more

realistic assessment of costs and risks, as well as the implementation timeline, prior to project approval and throughout the public procurement process (Meaney, 2024).

The efficiency of public investment in Slovenia falls behind the EU average. This is evident from the Brložnik (2021) and PIMA (IMF, 2023) analyses. Based on the former analysis, the inefficiency of public investment in Slovenia mainly stems from the quality of its institutional framework, with fast growth and a high level of investment exacerbating the issue. The PIMA analysis confirms this and also shows that investment efficiency is threatened by the simultaneous completion of multi-annual EU funding programmes. While the EU lags behind the most successful countries by almost one-fifth,⁸ Slovenia's public investment efficiency lags behind the EU average by around 4%. According to the IMF's assessment, the most important factors are inadequate project planning and the inclusion of projects in budget plans. Other important factors are delays in project approval and difficulties in obtaining permits, as well as capacity limitations.

¹ Baum et al. (2020).

² See <https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/What-is-PIMA.html>

³ EC (2019).

⁴ Belu Manescu (2024).

⁵ Zerjav (2024).

⁶ This applies to projects exceeding approximately EUR 90 million or EUR 30 million for projects linked to information technology investments.

⁷ IMF (2017).

⁸ Measured using qualitative and quantitative indicators according to the methodology presented in the IMF (2015a).

the key driver of productivity – is comparable in size to that of the United States, but less efficient.¹⁸ McKinsey (2019) emphasises that a more effective use of these funds is urgently needed in order to create fiscal space for addressing future challenges. The German Council of Economic Experts reached similar conclusions.¹⁹ Among other things, the Council suggests setting a time-limit on certain measures – the so-called sunset clause – and carrying out regular checks on their adequacy, particularly in the area of subsidies and tax expenditures, in order to increase spending efficiency.²⁰

¹⁸ The report attributes much of the inefficiency of public funds to the fragmentation of public funds for innovation and weak collaboration between countries in this area.

¹⁹ Sachverständigenrat (2024).

²⁰ During recent crises – particularly the COVID-19 pandemic and the cost-of-living crisis – there has been a greater prevalence of time-limited measures both in the EU and in Slovenia.

3. Good practices of expenditure review

International institutions have established general principles intended to enhance the effectiveness of expenditure reviews. The effectiveness of conducting expenditure reviews is primarily hindered by a lack of data, insufficient political accountability, unclear strategic direction and the absence of decision-making at a sufficiently high political level. Additional obstacles include a weak identification of responsibilities, resulting in poor inter-institutional cooperation among the entities subject to review, as well as a shortage of adequately qualified personnel to carry out the reviews. The principles of good practice advocated by the Organization for Economic Cooperation and Development (OECD)²¹ include the following:

a. Defining clear objectives and scope for the expenditure review

Defining clear objectives and the scope of the expenditure review in advance – including potential approximate savings in public funds – helps to increase the focus of the analysis. Different review objectives determine the process of conducting the review, the persons or institutions involved and their roles in the process. The goals should be defined based on the size of the desired savings.²² The actual implementation potential of the review findings should be taken into account and measures should only be implemented if their costs do not exceed the targeted savings.²³ Conducting detailed reviews of all expenditures every year is not feasible due to the excessive burden placed on the institutions involved. The implementation of measures resulting from an expenditure review generally requires more than one year. Commitments regarding objectives tend to be more binding when all stakeholders are well-informed about them and the review process, with the ministry of finance and other relevant ministries cooperating in the communication effort. Informing the public about the objectives of the reviews is also beneficial, as it increases the pressure to achieve the stated goals.

b. Taking the political responsibility and cooperation of civil servants

Taking the political responsibility is crucial for ensuring the effectiveness of expenditure reviews. Namely, political support significantly increases the likelihood that expenditure reviews will be carried out as planned.²⁴ Such support is particularly important at the beginning and at the end of the process – during the setting of objectives and the implementation of review findings.²⁵ Political backing for reviews tends to be stronger at the start of a government's term of office.²⁶ Support from independent fiscal institutions (such as fiscal councils) and supreme state auditors (such as the Court of Audit) is also desirable.²⁷ In this context, the provisions of EU Directive 2024/1265 are telling, as they require independent financial institutions (including the Fiscal Council) to conduct regular reviews of the budgetary framework.

The cooperation of civil servants is essential throughout the entire expenditure review process – both in setting objectives and in proposing measures based on the review findings. The involvement of

²¹ OECD ((2023a). Very similar, though somewhat less structured, are the principles of the Eurogroup (Eurogroup, 2017).

²² For an overview of the objectives in selected OECD countries see Box 2 and Table 2 in OECD (2024).

²³ EC (2020).

²⁴ Conducting reviews whose findings are not implemented is also considered an inefficient use of public funds.

²⁵ Survey results from EU Member States show that commitments are strong at the outset and during the expenditure review process. However, they decline significantly during the implementation and monitoring of recommendations, which coincides with insufficient public communication regarding the implementation of expenditure review findings. See Hoogeland (2024).

²⁶ Following the formation of the government, political parties in the Netherlands also commit to conducting expenditure reviews within the framework of the Coalition Agreement for the duration of the term of office. On this basis, the government approves the reviews and defines their objectives. Both the objectives and the results are subsequently made public. At the conclusion of the reviews, the government decides which findings will be implemented and publicly announces its decision (Tryggvadottir, 2022). A substantial part of the recommendations concerning the measures is usually included in the political manifestos of parties for the next political cycle (de Jager, 2024).

²⁷ Finn (2023).

individuals with diverse knowledge and experience is vital. In addition, the inclusion of external experts – such as academics or international experts – can provide added value. This reduces the risk of political influence and the lack of adequately trained personnel.²⁸ Since expenditure reviews are time-bound, require specific expertise and demand an understanding of the functioning of the public sector, civil servants – usually from the ministry of finance²⁹ – must possess appropriate knowledge and understand the challenges faced by the stakeholders under review. In this context, cooperation must be established between the ministries participating in the reviews.

c. Establishing a system for managing the entire expenditure review process

Expenditure reviews must be supported by a clearly defined process established in advance. The ministry of finance must be involved in all phases of the process, with the primary objective of ensuring a link between the expenditure review and the budgetary process. Individual ministries subject to expenditure reviews should be involved in all phases of the process – particularly in the final stage, during which, together with the ministry of finance, they ensure the implementation of recommendations and measures. Government cooperation is beneficial – particularly at the beginning, when the subject and scope of the review are defined, and at the end, when the measures are implemented. The entire process must be monitored through regular oversight of implementation.³⁰ Good practices underline the importance of introducing a two-tier implementation system, in which a steering committee (typically composed of high-level representatives of ministries) oversees and directs the expenditure review process,³¹ while a working group carries out ongoing tasks and prepares opinions and reports for the steering committee.

d. Ensuring the integration of expenditure reviews into the budgetary process

In most countries, the expenditure review process is formally integrated into the medium-term budgetary framework or the annual budgetary cycle, as applicable. At the time of the annual budget adoption, the expenditure review timeline must enable the government³² to align proposals for additional expenditure made during budget negotiations with any findings concerning the need or potential to adjust the expenditure structure. The longer time frame of medium-term budgetary planning provides greater opportunities to incorporate proposals based on expenditure reviews. Some common recommendations arising from such reviews – including changes in the provision of certain public services or legislative amendments – can actually not be incorporated into the budgetary cycles at all.

e. The findings and recommendations arising from the reviews must be implemented in a transparent manner

Recommendations based on expenditure reviews must be clear and well-founded. Alternative scenarios and proposals are also useful, including the presentation of the most conservative scenario or the scenario with the highest potential savings.³³ Ministries involved, as well as the ministry of finance,

²⁸ An analysis by Ciobanu and Bova (2020). Among the main drawbacks of involving external experts, the OECD (2024) lists the weakening of the central role of the ministry of finance and other ministries, limited linkage to the budgetary process and an increased risk that expenditure reviews are replaced by financial audits carried out by external contractors. A related additional drawback is the loss or lack of opportunities for public employees to acquire knowledge and develop skills.

²⁹ The ministry of finance usually assigns the task of conducting expenditure reviews to a dedicated unit within the ministry (see Chapter 4 for institutional arrangements in EU Member States).

³⁰ Vandierendonck (2014).

³¹ Vandierendonck (2014) suggests regular public statements following the steering committee's sessions.

³² It is therefore not necessary for all expenditure reviews to be conducted simultaneously. Given the limited capacities, this would place a significant burden on the administration (OECD, 2023b).

³³ Vandierendonck (2014).

must inform the government of the progress made in implementing the recommendations. Once again, the ministry of finance plays a key role, as it must require the participating ministries to implement the recommendations in full and in a timely manner.

f. Ensuring full transparency of reports on the expenditure review process

Transparency promotes integrity, accountability and oversight of expenditure reviews. It encourages the actual implementation of measures and enhances the understanding of related budgetary decisions. Intermediate reports on the expenditure review process, as well as the final reports and the resulting decisions, must be publicly available. This also applies in cases of politically unfavourable conclusions, such as those related to expenditure reductions.

g. Regular updating of the set of expenditure reviews

Due to changing circumstances in the functioning and priorities of fiscal policy, regularly updating the set of expenditure reviews is beneficial. Therefore, the expenditure review must be prepared in accordance with the defined objectives, the economic situation and fiscal outcomes. Clear performance indicators, defined in advance, must be used.³⁴ Based on such reviews, it is possible to identify potential shortcomings in the institutional arrangements governing the conduct of the reviews, as well as the actual capacities to carry them out. In this way, risks related to the implementation of the recommended measures can be identified. From this perspective, it is essential to analyse the effects of previously implemented measures. The OECD (2024) also recommends using clear criteria to establish and regularly update the set of expenditures that may be subject to review.

4. Expenditure reviews in the EU

Expenditure reviews are conducted in numerous countries. In recent years, expenditure reviews have been conducted in more than half of EU Member States and have not been limited to countries with high fiscal risks or limited fiscal space.³⁵ For example, Denmark began conducting expenditure reviews in the 1970s. Although not required by law, the practice has been informally institutionalised. The reviews and their findings were regularly integrated into the budgetary process.³⁶ The Netherlands also follows a similar practice, while general expenditure reviews were introduced following the oil and economic crisis of 1973.³⁷ Reviews may be general or focused on a specific set of expenditure categories. Targeted reviews largely focus on the areas of health, green policy and social security.³⁸ Several countries have set up dedicated units responsible either exclusively for conducting or coordinating expenditure reviews, or for doing so alongside other tasks. Slovakia (see also below), Ireland, and Portugal have permanent bodies within the ministry of finance or the ministry of the economy. Germany and the Netherlands have ad hoc working bodies within the ministry of finance, while in Spain, an independent fiscal institution coordinated the expenditure reviews during

³⁴ Ciobanu and Bova (2020).

³⁵ See, for example, expenditure reviews in Austria https://www.bmf.gv.at/en/topics/climate-policy/green_budgeting_en/spending_review_en.html, in Belgium <https://bosa.belgium.be/nl/themas/begroting-en-boek-houding/federale-begroting/cijfers-en-analyse/spending-review>, in Ireland <https://www.gov.ie/en/organisation-information/8f949-irish-government-economic-and-evaluation-service-igees/#spending-reviews>, in Germany <https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Public-Finances/Articles/spending-reviews-in-the-federal-budget.html>, in Portugal https://www.gpeari.gov.pt/documents/35086/372556/SR_Manual_1_Design+%26+implementation_V1.pdf and in Spain <https://www.airef.es/en/spending-review/>.

³⁶ Hoogeland (2024).

³⁷ Ministry of Finance of Netherlands (2025).

³⁸ Hoogeland (2024).

the initial phase of the process. Following legislative changes and staff reinforcement, the institution also assumed responsibility for conducting the reviews.³⁹

The European Commission provides technical support to Member States in the field of expenditure reviews.⁴⁰ Since 2017, the EU has financially supported 28 expenditure reviews in 15 Member States.⁴¹ This constituted one of the key areas of assistance within the programmes aimed at enhancing the quality of public finances for 2024 and 2025.⁴² In Slovakia, technical assistance was used to establish a dedicated department⁴³ that conducts regular expenditure reviews within the Ministry of Finance.⁴⁴ The Commission's focus on supporting expenditure reviews stems directly from their inclusion in an increasing number of Country-Specific Recommendations under the European Semester for several Member States (including Slovenia; see Chapter 5), where they have proven to be an effective tool for improving the quality of public finances. Nine EU Member States included expenditure reviews as milestones in the context of accessing funding from the Recovery and Resilience Facility.⁴⁵ Within it, the milestones refer both to the implementation of expenditure reviews and to the adoption of legislation formalising their regular conduct and integration into the budgeting process.

5. General government sector expenditure and expenditure reviews in Slovenia

In the long-term, the share of general government expenditure in Slovenia's GDP is comparable to the EU average. Over the past three decades, the share averaged 48% of GDP, placing Slovenia 17th among the 27 EU Member States. In the EU, the share of general government expenditure in GDP is lowest in Ireland and several new Member States, and highest in France and the Nordic countries. As in approximately half of the EU Member States, the share of total general government expenditure in Slovenia in 2024 was lower than in 1995, the first year for which comparable data are available (–6.2 pp of GDP; EU27: –4.3 pp of GDP).

A detailed analysis reveals deviations in certain areas of public expenditure. An expenditure review by purpose of use (classification of the functions of government (COFOG) classification) indicates that in 2023 (the latest available data), Slovenia deviated most above the EU average in terms of expenditure as a share of GDP in the areas of (a) education, (b) recreation, culture and religion and (c) healthcare (see Figure 5.2). A notable deviation was also observed in the area of economic affairs. This reflects a high level of state involvement in economic affairs and the provision of related support. In the field of education, Slovenia deviates from the EU average in both primary and secondary education. In healthcare, deviations are observed in outpatient services and indirect public healthcare services.⁴⁶ In the area of economic activities, the largest upward deviations relate to

³⁹ EC (2024). According to Escriva (2020), AIReF initially assumed only a coordination role due to a lack of its own staff.

⁴⁰ DG-REFORM within the context of the so-called TSI ("Technical Support Instrument"). See:

https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument/technical-support-instrument-tsi_en

⁴¹ The assistance was structured around three areas: (i) developing the capacity to conduct expenditure reviews, including the strengthening of methodology and analytical capabilities; (ii) integrating expenditure reviews into budgetary processes; and (iii) linking expenditure reviews to the effectiveness of budgetary management. See Hoogeland et al. (2024).

⁴² See https://reform-support.ec.europa.eu/tsi-2024-flagship-enhancing-quality-public-finances_en and

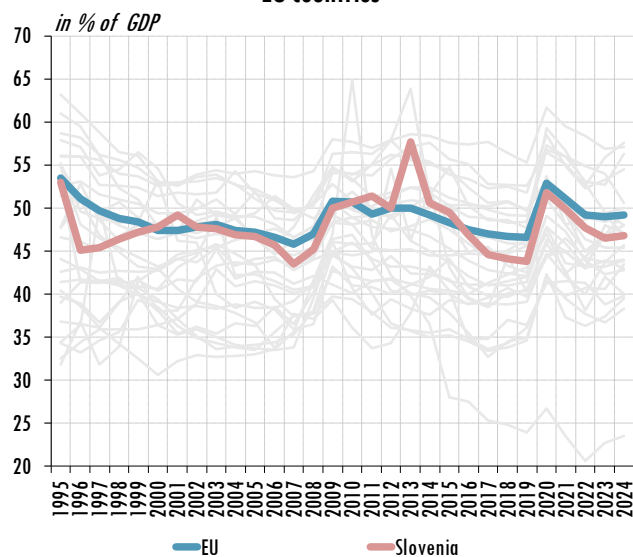
https://reform-support.ec.europa.eu/our-projects/flagship-technical-support-projects/tsi-2025-flagship-innovative-public-financial-management_en

⁴³ See <https://www.mfsr.sk/en/uhp/>. English translation: "National Institute for Value and Technologies in Healthcare".

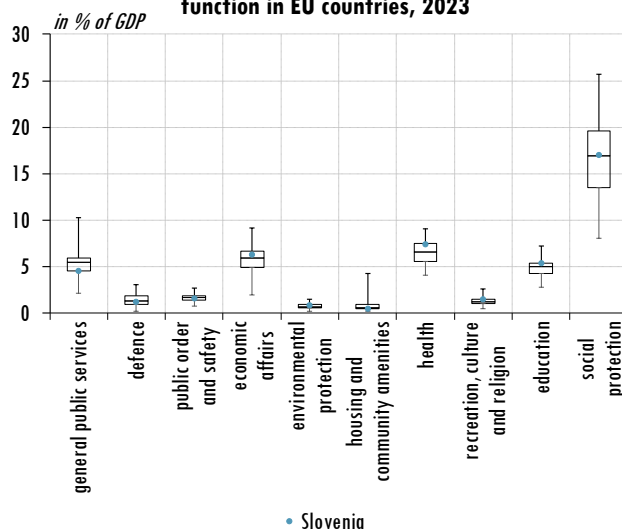
⁴⁴ In Slovakia, the National Institute for Value and Technologies in Healthcare (NIHO) was established with the aim of increasing transparency in healthcare expenditure, particularly in relation to medicines and medical devices. See <https://niho.sk/en/niho/>

⁴⁵ Hoogeland et al. (2024).

⁴⁶ The administration, inspection services, support services (e.g. blood banks), disease diagnosis, preventive care and supervision, data collection, and public health information activities (Eurostat, 2019).

Figure 5.1: General government expenditure share in EU countries

Source: Eurostat.

Figure 5.2: General government expenditure share by function in EU countries, 2023

Source: Eurostat. Author's calculations. Note: Along with data for Slovenia the figure shows average, minimum and maximum values as well as 2nd and 3rd quartiles of expenditure share by function in EU countries.

agriculture and transport. An expenditure review by economic purpose indicates that Slovenia exceeds the EU average particularly in the areas of investment and personnel spending. As the data on expenditure by economic purpose pertain to the general government sector as a whole and more detailed data are not available, the observed deviations – similar to those in specific categories of expenditure by purpose of use – could only be interpreted as indicative of inefficiencies.

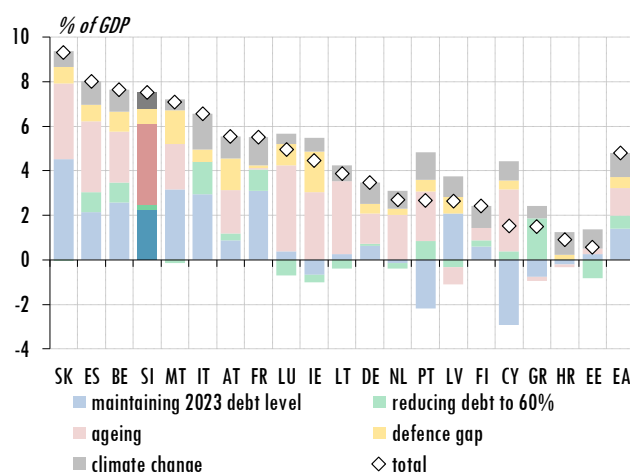
Analyses based on government performance outcomes indicate potentially limited efficiency in certain areas of public expenditure in Slovenia. An analysis by Dutu and Sicari (2016) shows that, based on performance indicators (e.g. life expectancy or PISA results), Slovenia ranks among the countries with medium-level efficiency in the fields of education and healthcare, but among the less efficient countries in the area of public administration services.⁴⁷ Their system of public administration performance indicators⁴⁸ is based on various dimensions of state performance, including public administration, education, healthcare and infrastructure. The indicators also include factors that reflect various aspects of pursuing the objectives of the public sector, such as income distribution and inequality, as well as economic stability and performance. The aggregation of the above-mentioned fields and factors, along with their comparison to the general government expenditure-to-GDP ratio, indicates that, when efficiency is measured in this way, Slovenia ranks among the countries that significantly lag behind others with a similar level of public expenditure as a share of GDP ("input inefficiency" or expenditure inefficiency). This group of countries, which includes Slovenia, also lags behind some countries with a lower expenditure-to-GDP ratio, whose public administration effectiveness – measured by the above aggregation indicator – is equal to or higher than that of Slovenia ("output inefficiency"). However, there are several countries, particularly the Nordic countries, with substantially higher expenditure-to-GDP ratios, yet their public administration performance indicators are not proportionally higher.⁴⁹

⁴⁷ Public administration "outputs" include product market regulation indicators, which reflect the level of bureaucracy, as well as survey results that assess the quality of the judiciary and the perceived levels of government corruption and inefficiency. The listed indicators refer to the period during and after the global financial crisis and are therefore somewhat outdated. According to the OECD (available at: <https://www.oecd.org/en/topics/product-market-regulation.html>) and the Institute of Macroeconomic Analysis and Development (IMAD) indicators (2024, 2025), the market regulation indicator and the Rule of Law Index in Slovenia have shown some improvement since the global financial crisis. The government effectiveness perception indicator showed significant improvement, while the perception of corruption in Slovenia has remained unchanged over the past decade.

⁴⁸ See e.g. Afonso and Kazemi (2016), Dutu and Sicari (2016) and Afonso et al. (2020).

⁴⁹ All data refer to 2017.

Figure 5.3: Fiscal efforts required in response to long-term public finance challenges*



Source: ECB (2024). Note: *the chart depicts the required immediate and permanent one-off improvement in the GDP ratio of structural primary balance to bring the debt ratio to 60% of GDP by 2070, incorporating financing for any additional expenditure until 2070 arising from an ageing population, defence and

In addition to the identified inefficiencies, Slovenia faces significant medium- and long-term fiscal challenges. Based on the results of the ECB⁵⁰ analysis, Slovenia ranks among the EU Member States with the highest long-term fiscal risks when compared to currently identified common fiscal risks (see Figure 5.3). In addition to short- and medium-term factors, the public finance risks also include elements that will have an impact on debt sustainability in the longer term. Among these are the costs of population ageing and the green transition – both of which could have a substantial impact on budget revenue generation. Increased defence spending poses additional risks. The currently identified medium- and long-term fiscal risks in Slovenia amount to approximately 5%–7% of GDP. Taking into account the fiscal effects of potential reforms, this should represent the approximate order of magnitude to be targeted for savings or efficiency gains in government expenditure in order to ensure fiscal sustainability.⁵¹

Proposals for conducting expenditure reviews in Slovenia date back nearly two decades. The IMF study (Mattina and Gunnarsson, 2007) identified numerous inefficiencies in general government expenditure in Slovenia, particularly in the areas of healthcare, education and social protection.⁵² It also pointed to the need to reduce inefficient spending, which could help avoid an approach where, in response to fiscal consolidation demands, more flexible budget components are cut. At the initiative of the Ministry of Finance, the IMF (2015b) prepared an analysis of potential expenditure reviews in Slovenia as part of the technical assistance. The analysis recommended conducting expenditure reviews in areas identified as potential candidates for review in the 2007 study. The analysis also found that working groups had been established to conduct the reviews and that the main challenge would be to adopt the decisions and implement the proposed measures. While the analysis highlighted the need to adopt decisions that would increase expenditure efficiency in the short term, it also underlined the importance of institutionalising expenditure reviews and their implementation within the budgetary process and legal framework.

⁵⁰ ECB (2024).

⁵¹ The recommended pension system reform could reduce the scope of adjustment by approximately 2 p.p. of GDP. This would place Slovenia among the countries facing medium- or long-term risks of average EU values.

⁵² The impact of increased efficiency in certain components of the social protection system on public expenditure in Slovenia is presented in IMAD (2016).

To date, expenditure reviews in Slovenia have not been conducted in line with good practice.

According to publicly available data, expenditure reviews were conducted infrequently, and their findings or the measures based on them were not presented in a transparent manner. These findings suggest that good practices derived from the recommendations of international institutions were not followed in the conduct of these reviews. Publicly available reviews indicate that they were not prepared systematically, nor were they managed centrally or under the supervision of the Ministry of Finance. This is consistent with the finding of the EC (2018), namely that Slovenia is the only country with a "very low" accountability rating (Point b, Chapter 3) regarding the conduct of expenditure reviews. Public announcements indicate that the implemented reviews were limited to the areas of social and pension security, healthcare, and civil society. Healthcare and culture⁵³ are currently the only areas, aside from education, in which Slovenia deviates most significantly from the EU average (see Figure 5.2). In 2015, an expenditure review in the area of healthcare was carried out for the Ministry of Health by external experts.⁵⁴ The findings were relatively general and did not include concrete recommendations or implementation timelines. Potential public expenditure savings were also not presented. The same applies to the detailed support studies conducted within the framework of the aforementioned review.⁵⁵ In 2023, the Ministry of Health prepared an updated assessment of the healthcare sector⁵⁶; however, this review also contains mostly general findings and does not specify concrete measures. The analysis of the functioning of the public sector in the field of healthcare – prepared by the Commission for the Prevention of Corruption of the Republic of Slovenia (2023) – primarily provides an overview of risks, and to a lesser extent, recommendations, which mostly concern the area of public procurement (see also Box 5.1). The report on the expenditure review in the fields of culture and civil society from 2017⁵⁷ does not list the authors or the institution that conducted the review. It includes recommendations that primarily highlight the need to amend the legislation to increase efficiency; however, it does not specify the timeline or the responsible implementing bodies. The expected outcome of the recommended amendments is savings of approximately 1.5% of the total expenditure for this purpose (equivalent to around 0.02% of GDP). The review also mentions several measures on which the authors could not reach an agreement. Similarly, after the review of individual social security components (Ministry of Finance, 2016), no agreement was reached on the majority of the measures. All proposed measures were expected to amount to approximately 0.4% of GDP, with about 0.1% of GDP corresponding to the measures on which the review authors reached an agreement.

Even in the recent period, Slovenia has failed to respond to numerous initiatives and recommendations concerning expenditure reviews. Slovenia is among the few EU Member States for which the available data indicate an absence of expenditure reviews⁵⁸, and is one of the very few that, according to publicly available information, has neither conducted an expenditure review with the support of technical assistance (TSI) nor included it in the National Recovery and Resilience Plan. The OECD report (2021) also states that Slovenia, along with Hungary, is the only EU Member State that did not plan to conduct an expenditure review. The EC report (2023) on the National Reform Programme and the Stability Programme also underlines the need for an expenditure review in the

⁵³ In addition to culture, the COFOG classification includes recreation and religion within the same expenditure group at the aggregate level.

⁵⁴ Available at:

https://www.gov.si/assets/ministrstva/MZ/DOKUMENTI/Organizacija-zdravstvenega-varstva/Analiza-zdravstvenega-sistema-v-Sloveniji/SLO_Pregled-izdatkov-v-zdravstvu.pdf (Only in Slovene)

⁵⁵ These are: a) Overview of health care financing schemes, b) Report on the process of purchasing and paying for healthcare services and c) Optimisation of healthcare provision.

⁵⁶ Ministry for Health (2023).

⁵⁷ Available at: http://arhiv.ds-rs.si/2017-2022/sites/default/files/dokumenti/porocilo_mf_izdatki_za_kulturo_in_civilno_druzbo.pdf (Only in Slovene)

⁵⁸ See Finn (2023).

area of long-term care and healthcare, in order to eliminate bottlenecks and assure efficient expenditure and the financial sustainability of both aforementioned social security systems. The necessity of conducting expenditure reviews in the field of social security systems in Slovenia is also emphasised in the recommendations, which highlight the importance of identifying inefficient spending and recognising areas that could be addressed through means other than public funding (EC, 2024b). In order to increase the efficiency of public expenditure in Slovenia, the EC recommended conducting expenditure reviews and improving the management of public investments (see Box 2.1). Similar recommendations can be found in the assessment of the medium-term structural fiscal plan (EC, 2024c), which was prepared last year.

Certain changes are expected with regard to the institutionalisation of efforts to increase the efficiency of public expenditure; however, the stated intentions will need to be implemented in practice. The publicly available organisational chart shows that the Public Finance Internal Control Service⁵⁹ was established within the Ministry of Finance. This unit should not merely represent a formal response to the aforementioned European Commission recommendations, but should instead make a substantive contribution to the efficiency of public expenditure. Its role should not be limited to auditing – this function is already performed by other institutions – but should involve evaluating the expediency of public expenditure based on appropriate analyses, including expenditure reviews. As the service is part of the Ministry of Finance, responsibility for its functioning is assumed by the Minister of Finance, in line with established good practices. Due to varying circumstances in individual countries, there is no single ideal approach to expenditure reviews. However, careful consideration of established good practices in the field of institutionalisation and throughout all phases of the expenditure review process may contribute to greater efficiency of public expenditure in Slovenia. When deciding on whether to conduct an expenditure review, it is important to ensure that they will not remain a one-time measure but become a regular part of the budgetary process. By institutionally embedding the service within the Ministry of Finance and ensuring that civil servants conduct reviews independently, the public sector would develop and retain the necessary skills for the effective implementation of expenditure reviews. If expenditure reviews are required by legislation, which would be reasonable to introduce in Slovenia, for example through amendments to the Public Finance Act, this would ensure additional political responsibility for their regular implementation.

⁵⁹ <https://www.gov.si/drzavni-organi/ministrstva/ministrstvo-za-finance/o-ministrstvu/sluzba-za-notranji-nadzor-javnih-financ/> (Only in Slovene). The listed website currently does not provide any additional information on the areas of activity or working principles of this service.

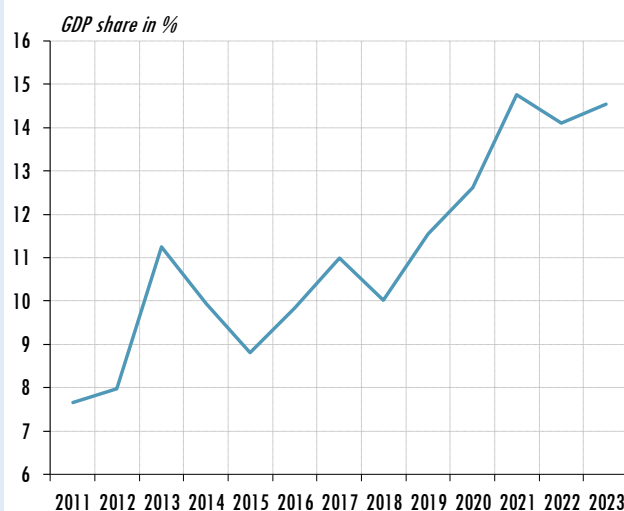
Box 5.1: Effective management of public funds: public procurement

Public procurement practices can significantly influence the efficiency of general government sector spending. Public procurement accounts for a substantial share of total general government sector spending. Due to these factors – such as vested financial interests, the complexity of the process, potential relationships between civil servants and the private sector, and the large number of actors involved – public procurements are particularly vulnerable to potential corruption, which can directly reduce the efficiency of public expenditure.¹

The value of public procurement in Slovenia is high. In 2023, public procurement in Slovenia amounted to slightly over EUR 9 billion, representing approximately 15% of GDP and 40% of total expenditures of the state budget, local government budgets, and the budget of the Health Insurance Institute of Slovenia (ZZZS).² The majority of contracting entities were engaged in general public administration activities and accounted for just under one-fifth of the total procurement volume (EUR 1.8 billion). The highest number of procurements was placed by entities in the hospital sector, with 25 contracting authorities accounting for approximately 17% of all orders (EUR 0.7 billion). The highest values of submitted procurements were recorded in the fields of hospital services, regulation of economic sectors aimed at improving business operations, defence, and other entrepreneurial and business consulting, with a total order value of approximately EUR 3.4 billion.

An international comparison reveals certain shortcomings in Slovenia's public procurement system. The European Commission publishes comparative data on the characteristics of public procurement systems in the EU³ and monitors 12 indicators.⁴ More deviations from the threshold values – reflecting the efficiency of public procurement – are observed in seven EU Member States than in Slovenia, and fewer in six. Slovenia falls particularly behind on the indicator reflecting the share of public procurement procedures with only one tenderer,⁵ which is the second most frequently exceeded indicator in the EU. In addition, Slovenia falls behind the threshold values in the indicators for direct contracting without competitive tendering, joint procurement, and contracts with insufficient traceability at the time of contract award. At the same time, the share of public procurements from Slovenia

Figure: Public procurements expenditure in Slovenia



Source: Directorate for Public Procurement, Ministry of Public Administration.

published on the European public procurement platform⁶ accounts for just under 5% of GDP (2023 data). This places Slovenia at the upper end of the bottom third of EU Member States in terms of the share of published public procurements.

There are several ways to enhance the efficiency of public procurement procedures. Analyses by the Public Procurement Directorate at the Ministry of Public Administration can serve as one of the bases for preparing various expenditure reviews.⁷ These analyses show that the number of participants and the level of competition – both domestic and foreign tenderers – can be increased through more transparent procedures and publication on the public procurement portal. Documentation related to public procurements is often extensive and complex. This discourages business entities – especially small ones – from submitting tenders and reduces competition. Therefore, it would be beneficial to simplify the procedures, reduce administrative barriers, and enable these entities to participate more effectively in the procurement process. Greater transparency of procedures and enhanced competition among tenderers can also be achieved through further digitalisation and automation of public procurement processes, as well as through the introduction of new technologies and procedures. Greater public procurement efficiency can also be achieved through joint procurement – particularly involving smaller contracting authorities. Encouraging the authorities and informing them about the benefits of joint public procurement and the use of digital auctions – which enhance transparency and lead to potential savings – can contribute significantly to this goal.

Supervisory authorities also play a key role in the implementation of all the measures listed above. These include the National Review Commission, the Court of Audit of the Republic of Slovenia, the Slovenian Competition Protection Agency, and the Budget Supervision Office of the Republic of Slovenia. These institutions can significantly enhance trust in the functioning of the public procurement system. Although their primary role is to audit past events, enhanced powers could enable them to contribute to a more efficient conduct of public procurement.

¹ By some estimates (Garcia, 2019), 10–25% of public funds are "lost" due to corruption in the procurement of medical devices and medicines at the global level. See analyses WHO (2023) and EK (2013 and 2017). The latter particularly highlights the issues of systemic corruption in this field in the countries of Central and Eastern Europe.

² Including VAT (Ministry of Public Administration, 2024).

³ Available at: https://single-market-scoreboard.ec.europa.eu/business-framework-conditions/public-procurement_en

⁴ The applied indicators reflect only selected challenges and do not encompass other issues within the public procurement system, such as corruption, administrative barriers, or the level of professionalism in conducting procedures.

⁵ The IMF (2023) also highlights this issue in the context of its analysis of public procurement management.

⁶ TED – Tenders Electronic Daily. Available at: <https://ted.europa.eu/en/simap/statistics-on-ted-notices>. Although publication is mandatory above certain public procurement values, it remains voluntary below these thresholds. Among the countries with the highest share of published procurement relative to GDP are also some smaller EU Member States, such as Latvia and Estonia.

⁷ The continuation of this paragraph and the next paragraph are mainly a summary of the public procurement analysis for the year 2023 (Ministry of Public Administration, 2024). The reports and analyses of public procurements in Slovenia are available at: <https://ejn.gov.si/direktorat/porocila-in-analize.html> (Only in Slovene).

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