

Republic of Slovenia: Report on the Observance of Standards and Codes—Fiscal Transparency Module

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REPUBLIC OF SLOVENIA

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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March 14, 2002

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in Slovenia against the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF Manual on Fiscal Transparency (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Slovenia meets the requirements of the fiscal transparency code in many important respects. The basic legislation and practices is in line with many OECD and EU countries, and there is generally a clear specification of the roles and responsibilities of different institutions. The basic policies for provision of information are consistent with international practices, and procedures for budget preparation, in particular the macroeconomic framework and the program budget structure, is quite advanced. Several additional improvements in fiscal management are currently under implementation, and will provide the basis for continued strengthening of fiscal transparency.

Despite the high degrees of fiscal transparency in many areas, there is room for further improvement in order to comply with the requirements of the code and be consistent with best international practices. The report emphasizes three main priority areas for further improvements. Budgets and fiscal reports should give a more complete picture of the general government sector. There should be more comprehensive reporting of the overall public sector finances. The authorities should establish a comprehensive government accounting and reporting system, covering all of central government.

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ABBREVIATIONS AND ACRONYMS

BoS	Bank of Slovenia
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
IMAD	Institute for Macroeconomic Analysis and Development
MOF	Ministry of Finance
SDC	Slovene Development Corporation
QFA	Quasi-fiscal Activities
PFA	Public Finance Act
SDDS	Special Data Dissemination Standard
SOE	State-owned Enterprise

I. INTRODUCTION¹

1. This report provides an assessment of fiscal transparency practices in Slovenia against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of the fiscal transparency questionnaire response and additional information provided by the authorities. The second part is an IMF staff commentary on fiscal transparency in Slovenia.

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

2. **General government is fairly clearly defined, but some aspects require further clarification.** The division between the general government and the rest of the economy is defined by the *Decree on introduction and use of the standard classification of institutional sectors* (Official Gazette 56/1998). However, the *Public Finance Act* (Official Gazette 79/1999) makes a distinction between the responsibilities of “direct budget users,” including line ministries and major agencies, and “indirect budget users,” typically smaller organizations, such as hospitals, schools and cultural institutions. The indirect budget users may receive funds from both central and local government and in addition have significant cost recovery and even some commercial operations. Most of these entities carry out government functions. According to GFS standards, most indirect budget users should be included in the general government sector. However, in Slovenia there is a lack of clarity as to whether they belong to the public or the private sector.² Government budgets and accounts only include the transfers to the indirect budget users, not their actual revenues and expenditures. This means that official figures underestimate the size of the general government sector. The existence of several extrabudgetary funds, as further described in paragraph 11, has also tended to diffuse the definition of general government.

3. **There are no indications of any substantial quasi-fiscal activities.** The Slovene Development Corporation (SDC), which was established as a holding company in 1995, handled state assets scheduled for privatization and transferred parts of the proceeds to various extrabudgetary funds through the budget. SDC was financed from a fee deducted from privatization receipts, and the fee was not reported in the budget. SDC was scheduled to be liquidated by the end of 2001. However, this process has been delayed and is now

¹ Discussions on fiscal transparency were held in Ljubljana during June 17–23, 2000. The staff team, comprising Messrs. Eivind Tandberg and Duncan Last met with officials from the Ministry of Finance and other government institutions.

² Some of the indirect budget units, such as pharmacies, are currently being considered for transformation to commercial status.

expected to be completed by the end of 2002. The payment agency, which has been acting as an intermediary between the commercial banks and their customers (both public and private), has also received a fee. This fee has been included in the final accounts since 1998 and in the budget since 2001. The two largest commercial banks are state owned, but these are operated on a commercial basis. There are no indications that state-owned enterprises are involved in any significant quasi-fiscal activities.

4. **Privatization processes have generally been carried out transparently.** The initial phase of ownership transformation from “social ownership” under the Yugoslav system to either government or private ownership is largely completed. Many businesses and enterprises have been privatized. Most of the core state-owned enterprises (telecom, post, railways, steel industries, mines) have been fully incorporated. Some of the communal services have been established as local government-owned enterprises, while others remain as departmental operations for which fees are collected directly by the municipality. The privatization process has now entered a second phase, which aims at divesting most of the remaining state-owned enterprises (SOEs). The responsibility for the process is divided among the SDC, the Ministry of Finance (MOF), and other ministries, mainly the Ministry of Economy. Privatization receipts are channeled through the budget, except, as mentioned above, in the case of the fees that were retained by SDC.

5. **The central bank does not play a fiscal role or carry out QFAs.** The *Constitution* determines that the Bank of Slovenia is independent and reports directly to the National assembly. The fiscal agent roles of the bank are defined in the *Bank of Slovenia (BoS) Act* (June 1991, English version available on BoS website, Law currently under revision).³ The Act provides for extending short-term credit to government up to a maximum of 5 percent of the budget, and a maximum of 20 percent of the anticipated deficit, to be repaid before the end of the fiscal year. The Act neither allows nor specifically prohibits QFAs, but there are no indications that such activities have taken place in recent years.

6. **Government regulation of the non-bank private sector is increasingly implemented with clear simple regulations and open regulatory process.** The involvement of the state in the rest of the economy is regulated by the *State Aid Control Act* (December 1999). The MOF has established a new department responsible for monitoring and reporting of state subsidies. A special order determines when acquisition of equity stakes in an enterprise is regarded as a state subsidy. The monitoring covers direct grants, tax relief, investments, loans and guarantees. At the moment, it does not cover the possible use of concessions and licensing arrangements, price controls or import restrictions as possible means of state support. There is no information available on the extent or possible implications of such measures.

7. **Government equity holdings are extensive, but are not yet clearly reported.** A complete inventory of state equity holdings has been compiled. At the end of 2000, the

³ The BoS website is <http://www.bsi.si/> which is available in several languages.

government held equity in 563 legal entities, of which more than 400 are indirect budget users and the rest commercial enterprises, with a book value of 2.2 billion SIT, about 5.5 percent of GDP. The MOF Financial Assets Department is monitoring the equity stakes of the state, but so far no procedures for external reporting of this information have been established. Partial information regarding such assets is made available to the public and the parliament in connection with asset sales and privatization.

8. **The allocation of responsibilities between different levels of government is clearly defined in many respects.** The relationship between central and local government is regulated by the *Law on financing of local governments* (December 1994, amended July 1998). The main remaining ambiguity in this area is related to the indirect budget users that were mentioned in paragraph 2. Many of the approximately 2000 indirect budget users are subordinate to local governments. However, many of these receive direct transfers from both state and local government, and are held accountable to both levels of government. These practices dilute the boundaries between central and local government.

9. **Roles of the executive, legislative, and judicial branches are clearly defined in the Constitution.** The government proposes laws, the state budget, national programs and other general documents to the national assembly, and answers to the national assembly for implementation of the budget. The national assembly adopts the state budget and supervises the implementation through semi-annual reporting of the government and the adoption of the final accounts. The national assembly has limited powers to amend the budget. Proposals for increasing expenditure must include solutions for increasing receipts or decreasing other expenditures. The *Constitution* also establishes the independence of the judiciary system from the executive and legislative branches of government.

10. **Fiscal management is defined by a clear legal and administrative framework.** The *Public Finance Act* (PFA) is the main legislation for state and local government financial management. The PFA regulates the composition, preparation and implementation of budgets, management of state and municipal property, borrowing of the central and local governments, guarantees, management of public debt, accounting, and budgetary supervision. It also covers extrabudgetary funds, including the two large social security funds and the activities of the indirect budget users. The main focus of the PFA is on financial compliance, but it also includes provisions for efficiency and cost effectiveness of budget expenditures. All laws and regulations must be accompanied by cost estimates, and all major budget proposals must include cost-benefit analyses. The PFA includes provisions for the budget proposal and the financial statements of the governments, but there are no specific legal requirements for transparency in budget management and reporting.

11. **Mechanisms for the coordination and management of extrabudgetary activities are gradually being defined.** The PFA issued in 1999 clarifies the relationship between the budget and the extrabudgetary funds, and stipulates approval and reporting requirements. There are 13 central government extrabudgetary funds. This includes two social security funds, the Pension and Disability Insurance Fund and the Health Insurance Fund, which are by far the largest. These funds are financed by mandatory social security contributions. The

budgets for the two major funds are presented to parliament together with the state budget, and accounting and reporting is done separately, but according to the same procedures, and includes monthly reporting. The 11 smaller funds⁴ are mainly financed by earmarked revenues, receipts from privatization and by transfers from the budget. These receipts are recorded in the state budget and accounts on a gross basis. The budgets for the smaller funds are provided to parliament for information, but approved by their respective boards. The smaller funds only provide financial accounts to the MOF at the end of the year, and are not at present included in the monthly reports for general government. There are also a significant number of Housing and Local Development Funds at the local government level. All public funds are now subject to a new law on public funds adopted in February 2000, which creates a consistent framework for management and reporting.

12. Legislative bases for taxation, regulation, and administrative procedures are clear and are observed in practice. Taxes, customs duties and other duties are required to be regulated by law (Article 147 of the *Constitution*).⁵ The basic obligations and rights of taxpayers and payers of customs and other public duties in Slovenia are determined by specific laws. Procedural questions regarding tax matters are regulated by a special law on tax procedure. The tax and customs services issue mandatory administrative instructions for uniform implementation of regulations. Laws and executive regulations can be subject to judgment by the constitutional court. Individual administrative decisions of tax and customs organs can be subject to complaint procedures within each of the services, and to judgment by the Administrative Court. The operations of the tax and customs services are subject to control by the Court of Audits (the Supreme Audit Institution).

13. Public servants are subject to a code of behavior. The Government has recently adopted a Codex (Official Gazette 8/2000) of behavior for public employees, based on a Council of Europe recommendation. The Codex defines principles for performing public tasks, which must be applied by public employees, and it informs the public about the behavior that can be rightfully expected from public employees.

⁴ Guarantee Fund, Ecological Development Fund, Fund for Development of Small Enterprises, Fund for Regional Development, Housing Fund, Fund for the Development of Triglav National Park, Fund for Nonprofessional Cultural Activities, Film Fund, Fund for Agricultural Land and Forests, Succession Fund, and Fund related to closing the nuclear plant Krsko.

⁵ Key tax laws include the VAT law (December 1998, amended April 2001), Excise Duties Act (December 1998, amended May 2001), Personal Income Tax Law (December 1993, amended September 1998), Profit Tax Law (January 1993, amended in 1995 and 1998), Tax Procedures Law (April 1996, amended December 1999), Law on Tax Administration (April 1996, amended September 2000), Law on Social Security Contributions (February 1996, amended September 2000), Payroll Tax Law (July 1996, amended July 1997), Tax on Defined Receipts Law (covers contractual work) (1993, amended 1997), Law on Tax on Citizens (includes property tax) (January 1991, amended January 1999), Law on Administrative Fees (February 2000), Customs Law (1995, amended 1999), and Customs Tariffs Law (1995, amended 2000).

B. Public Availability of Information

14. **The budget documents provide a fairly comprehensive and detailed coverage of fiscal activity.**⁶ The state budget covers most central government financial operations. The main exceptions are the extrabudgetary funds, which are completely excluded, and the state indirect budget users, which are partially covered. The budget documents include outturns for the preceding two years and estimates for the next three years. The budgets for 2002 and 2003 were both submitted to parliament in the fall of 2001. The government also presents a consolidated budget for general government, which includes the two main social security funds and the local government financial operations. The consolidated budget excludes the smaller extrabudgetary funds and the operations of indirect budget users that are not covered by transfers from the state or from the municipalities. However, from 1999, budgetary documents submitted to parliament have included a special section detailing each extrabudgetary fund. The budget documents are made available to the public in the official gazette of the parliament. No summary documents in languages other than Slovenian are made available for the international community.

15. **Defense expenditures are reported in the budget.** However, Defense procurements, which are financed from special borrowings (known as TRP), remain outside the main budget documents, although the borrowing level is approved by parliament at the same time as the budget. The payments of interest and principal from this borrowing are covered by the budget in the year when debt service comes due. The borrowing is included in separate tables of outstanding debt. The Court of Audit carries out regular audits of the Ministry of Defense, but the audit reports are confidential.

16. **No statements on contingent liabilities, tax expenditures, or quasi-fiscal activities are included in the budget documents.** The MOF does not have any routines for comprehensive identification and monitoring of the government's contingent liabilities, but has done some initial work in this area, primarily related to state guarantees. The ministry publishes a report on state debt, which also gives an overview of outstanding guarantees. At the end of 2000 these amounted to 8 percent of GDP. This report does not include any forecasts for the future—for instance regarding the probability that a guarantee will be called. There are no specific budgetary contingencies for this purpose, but actual expenditures on called guarantees are expected to be very modest. The MOF debt report also includes overviews of non-guaranteed debt of SOEs. The second annual report about state subsidies, covering 1998 and 1999, included some data for tax expenditures.

17. **Information on public debt is published regularly. There is no reporting of financial assets.** The MOF publishes quarterly debt data in the monthly bulleting and more

⁶The budget documents include the budget memorandum, proposed central government budget with explanation, planned sales of central government physical and financial assets for next year, proposed financial plans for Health and Pension Funds, Public Funds and agencies established by the central government, with explanations, and proposed laws required to implement the proposed budget. The MOF website is at <http://www.sigov.si/mf>.

detailed data about the amount and composition of state debt once a year. The report includes the entire general government debt (including local communities, social security funds and other funds). Several year projections of debt servicing are also published. The debt is classified by short term and long term, by domestic and foreign, and by currency. Data about the amount and composition of short-term debt are published monthly in the Bulletin of public finance. There is no regular reporting of government financial assets at the moment. The compilation of assets mentioned in paragraph 7 is only used for internal purposes. However, the government submits a program for sales of state financial and real assets for the next year to the National Assembly together with the budget proposal.

18. Formal commitments for regular publication of fiscal data have been made. Slovenia has committed itself to publish information about public finance in accordance with the Special Data Dissemination Standard (SDDS). The MOF publishes public finance information in the monthly *Bulletin of Public Finance*, and also makes the information available on the web pages of the ministry. The MOF publishes a calendar of announced publications for three months in advance in its *Bulletin of Public Finance*. In addition to this, and in accordance with the SDDS, the Bank of Slovenia publishes a schedule for publication of data about debt, interest rates of government securities, operations of the state budget and those of general government in the following week, at the end of the preceding week.

C. Open Budget Preparation, Execution, and Reporting

19. Fiscal and macroeconomic forecasts are clearly presented in the budget documents. The Institute for Macroeconomic Analysis and Development (IMAD) prepares estimates and forecasts for basic macroeconomic aggregates, based on the system of national accounts, twice a year. The MOF uses these estimates to prepare a macro-fiscal scenario at the beginning of the budget preparation cycle in March each year. The scenario covers the budget year and the following four years. It serves as the basis for the government's budget decisions. Both the IMAD analysis and the MOF macro-fiscal scenario are presented in significant detail in the budget documents. The MOF has initiated work on longer-term fiscal assessments, including on fiscal sustainability, but this is still at an early stage. The main focus so far has been on debt sustainability calculations. The budget documents do not contain any long-term analyses of the fiscal position.

20. There is limited analysis of sensitivity of the estimates to changes in economic variables in published documents, and main fiscal risks are generally not stated. Although IMAD and the MOF put significant efforts in assessment of risks and uncertainties, and development of strategies to meet these challenges, these analyses are not described in any detail in the budget documents. The budget tends to focus on a single set of estimates. For instance, there is no explicit discussion about contingent liabilities, or uncertainties about future costs of certain programs. However, the budget estimates seem to be quite reliable. There have not been any major fiscal problems due to systemic over- or underestimation of fiscal movements the last few years.

21. **The main indicator of the fiscal position is the budget balance as a percentage of GDP.** The balance concept used by the MOF for policy purposes is the overall balance excluding financial transactions (net lending and transactions in financial assets). The deficit target is related to the consolidated general government, including the major, social extrabudgetary funds and local governments. The government also pursues a maximum level of public debt as a percentage of GDP as a fiscal target. The Annual Law on the execution of the budget establishes legal restrictions on borrowing during the budget year. There are more permanent legal constraints on borrowing by local governments defined in the PFA, which limits liquidity borrowing to 5 percent of the local budget. All borrowings and guarantees have to be reported to the minister responsible for finance. Fiscal targets for the overall public sector (both general government and publicly owned enterprises) are enforced by an overall cap on borrowing and a maximum level of guarantees within the budget year, as defined in the annual *Law on the Execution of the Budget*. At the moment, there are no formalized, long-term fiscal rules for the central government. However, from 2002, the budgets approved by the parliament will cover a two-year period. The newly released Pre-Accession to the EU Economic Program also commits the government to specific macroeconomic targets over the longer term.

22. **Estimates of ongoing costs of government policies are not clearly distinguished in the budget documents.** A program classification structure was introduced with the 2001 budget. The classification covers 23 expenditure areas, around 90 main expenditure programs (government-wide), and more than 400 subprograms under the responsibility of individual ministries. The objective is to focus more attention on the objectives and actual achievements of the government sector, and to gradually introduce a system of performance budgeting. In the preparation of the budget for 2002 and 2003, the MOF carried out detailed estimates of the costs of continuation of current policies for the different line ministries, and these have been asked to identify the costs related to new projects and proposals. The line ministries will also specify the objectives that are to be achieved by each of the major budget programs. The recent and planned changes in budget preparation, in particular the shift to program budgeting, will facilitate improved monitoring and assessment of expenditure policies.

23. **Internal control procedures are currently being established.** Over the last few years, the Budget Control Service has gradually been shifting its focus from traditional financial inspection towards a modern internal audit functions. There have been few problems related to financial irregularities during the last years. Unlike in most other transition countries, accumulation of arrears has not been a major problem. The traditional financial inspection function will gradually be subsumed in a broader systems approach. The legislation has been updated and general guidelines are in place. The central budget units (line ministries and some agencies that manage EU funds) were required to establish their internal audit bodies from the beginning of 2001. Public procurement is regulated by the *Public Procurement Act* (April 1997, amended April 2000). Government employment is regulated by the Law on Employment in government offices (1990, amended 1991, 1993, 1994, 1997, 1999), and by specific laws related to each sector of government activity (Courts, Education, Tax and Customs administrations, Health, Culture, ...). The number of

new central government employees allowed each year is regulated by the Law on the Execution of the Budget.

24. **There is no integrated accounting system that covers all central government entities.** The MOF Accounting Department is responsible for preparing accounts for most direct budget users. However, two of the line ministries, the Ministries of Defense and Interior, as well as a number of other direct budget users (National Assembly, Court of Audit, Courts), do their accounting outside the MOF accounting system. The extrabudgetary funds and indirect budget users are outside this computerized system. The MOF accounting system records transfers of funds to these users, but these are not reconciled with the actual expenditures of the users. Neither the own revenue of these users, nor the expenditures financed by these revenues, is recorded in the central system. The Accounting Department in the MOF does not prepare any consolidated government accounts. The introduction of a unified treasury management system, with consolidation of all funds in a treasury single account and processing of all payments through the proposed Office for Public Payments, will make it possible to establish a ledger accounting system that covers the whole of general government, including the local governments. This will allow for the preparation of fiscal reports based on primary accounting data. However, the MOF does not plan to fully include the indirect budget users in the fiscal reports in the short term.

25. **Fiscal reporting to the public and the legislature is done on a monthly basis.** The monthly bulletin is prepared by the Government Accounts and Analysis Department, in cooperation with the Public Debt and Liquidity Management Department, in the MOF, and covers the cash flows of the central government budget, local communities, and social security funds. The smaller extrabudgetary funds and the own-revenue activities of indirect budget users are not included in the monthly reports. At present, the data is not accompanied by analysis of the deviations from budget. Due to the limitations of the government accounting system, the monthly reports and the annual final “accounts” are based on a combination of primary accounting data from the central government (MOF) system, and secondary reports, with unclear and undocumented links to the primary data, from the entities that are outside the system. None of these reports are subject to a complete audit.

D. Independent Assurances of Integrity

26. **Budget data are quite reliable.** The underlying assumptions for the budget estimates are clearly described in budget documents. Deviations between estimates and actual figures tend to be fairly moderate, and can be explained by specific changes in underlying assumptions. Supplementary budgets are rarely used.

27. **There are statements of accounting policy in the budget and in fiscal reports, including the final “accounts.”** The budget and the fiscal reports are on a modified cash basis. Individual budget organizations record accounts payable and receivables, but these data are not consolidated across government. At year-end, the cash flow figures are adjusted for payments (both receipts and expenses) that relate to the fiscal year but are made at the

beginning of the following year. At the moment, no consolidated balance sheet of government assets and liabilities is published, neither for central nor for general government.

28. **The processes of accounts reconciliation and fiscal reporting are not fully integrated.** The MOF prepares a consolidated report of budget outcomes, partly based on the central accounting system and partly on separate reports from the entities that are outside this system. There will be inconsistencies between the transfers recorded in the accounting system and the actual revenues and expenditures covered in the separate reports. The current accounting system does not allow for detailed reconciliation of these inconsistencies. The consolidated report is reconciled with budget appropriations and with monetary data.

29. **External audit is independent of the executive branch.** The Court of Audits is established by the *Constitution*, and its mandate covers performance as well as financial compliance. The members of the court are appointed by the national assembly. Its findings are publicly available, with the exception of the audits of the Ministry of Defense. *The Law on Court of Audits* (July 1994, revised January 2000) regulates all substantive aspects of the workings of the court, including mechanisms for following up audit findings. The court covers all general government activities. Its work is based on annual audit plans, but it can do special audits at the request of the national assembly.

30. **External scrutiny of macroeconomic models and assumptions is encouraged.** The IMAD is an agency under the Prime Minister. IMAD prepares macroeconomic forecasts and estimates, and discusses and compares these estimates with other institutions and experts. At the moment, the MOF does not have any significant internal capacity for macroeconomic forecasting. It is dependent on IMAD, which, in this regard, functions as a part of the central government. IMAD is fairly autonomous in its other activities, for instance research, and there is some ambiguity regarding the precise nature of the relationship between the MOF and IMAD.

31. **The national statistics office is given legislative assurance of technical independence,** in accordance with the *Law on National Statistics* (July 1995, amended January 2001). Slovenia subscribes to the IMF SDDS, and has been in full compliance with the requirements of this standard since 2000.

III. IMF STAFF COMMENTARY

32. **Slovenia meets the requirements of the fiscal transparency code in many important respects.** The basic legislation is well in line with practices in many OECD and EU countries. There is generally a clear specification of the roles and responsibilities of different institutions, and the different levels of government. The basic policies for provision of information are well in line with international practices. The budget preparation process, including the development of the macroeconomic framework and the program budget structure, is quite advanced. There are strong statutory provisions for the institutional independence of the Court of Audits and the Statistical office. This situation is a result of the

very impressive improvements in the fiscal management processes in Slovenia over the last decade. Since independence in 1991, successive governments have taken far-reaching and decisive actions towards establishing a modern framework for fiscal management and information.

33. **The fiscal reform process continues at a high pace.** Several additional improvements in fiscal management are currently under implementation, whereas others are at the planning or development stage. These projects and plans will provide the basis for continued strengthening of fiscal transparency. Steps are underway to clarify the boundaries between different government levels and institutions more conclusively, and to increase the coverage, comprehensiveness and timeliness of fiscal reporting. The new budget methodology, which was used for the first time in the 2001 budget, forms the basis for a more stringent program budget approach in the 2002/2003 budget. The introduction of a treasury single account system will allow for more efficient monitoring and reporting on government resources, and for establishing more effective accounting mechanisms. The MOF is planning to strengthen its capacity for macroeconomic forecasting and analysis.

34. **Development of a more comprehensive approach to public sector reporting is crucial for Slovenia to attain a high standard of fiscal transparency.** Three areas are of particular importance:

- **Budgets and fiscal reports should give a complete picture of the general government sector.** The current practice of omitting extrabudgetary funds and parts of the activities of indirect budget users from the budget presentation should be discontinued. All indirect budget users that carry out government functions should be fully incorporated in the budget process, and all reporting should be done on a gross basis. Military expenditures should also be fully covered by the budget in the year that they are incurred, in line with the fiscal transparency code and best international practices. These steps will help to bring the Slovenian budget and financial statistics more fully in line with international practices. It will also help to resolve the current ambiguities regarding the boundaries between the state, the municipalities and the private sector and may thus facilitate other reforms.
- **A more comprehensive system of reporting on the overall public sector finances should be developed.** Such a system should include complete and regular reporting about government involvement in commercial activities. The budget document should include an overview of public sector finances, and this should be supplemented by in-year reports, at least every quarter. In the past, the government has been heavily involved in market activities. There is now a policy to gradually divest most state holdings in enterprises. Due to the current lack of information on the actual size of the government's involvement, it is difficult for market participants and other observers to ascertain the actual effects of this policy. Improvements in reporting and disclosure of information will help to reduce the uncertainty regarding the government's intentions, creating a more stable regulatory framework and making Slovenia more attractive for investment.

- **The authorities should establish a comprehensive accounting and reporting system covering all of central government.** Currently, the accounting system does not cover all central government entities. This objective can be achieved by accelerating the introduction of a single account system, which has been under preparation for the last three years, but has suffered from frequent delays. Until this system is in place, there should be a significant strengthening of reconciliation procedures for fiscal reports.

35. **There are several additional areas, where further improvements in fiscal transparency are possible** and would be of high value for financial management and market perceptions. Many of these are related to continuation and completion of processes that already are initiated. The following improvements should be priorities in the short to medium term:

- Include all operations related to the SDC in the budget documents, including any associated with its proposed liquidation. This should be an immediate priority.
- Establish regular reporting about state support of enterprises, including the use of concessions, license agreements, price controls and import restrictions.
- Review whether remaining extrabudgetary funds could be fully incorporated into regular budget entities, or privatized.
- Review the framework for financing of local governments, further clarify the roles of the different levels of government, and establish transfers schemes that are consistent with these roles.
- Provide budget and accounts summary documents in a major European language to financial markets.
- Improve the analytical content in the monthly budget reports, including discussion of deviations from plans and the causes of these.
- Develop mechanisms for assessment and monitoring of contingent liabilities, tax expenditures and quasi-fiscal activities, and include statements on these topics in the budget documents and reports.
- Strengthen the capacity for long-term budget analysis, including assessments of fiscal sustainability. Clearly distinguish between ongoing and new budget programs.
- Expand the discussions of fiscal risks, including those linked to possible negative developments in the economic environment and to contingent liabilities, and possible strategies for mitigating such risks, in the budget documents.

- Clarify the boundary between the MOF and IMAD in the development of macroeconomic plans and analysis.