

Summary of the audit report *Effectiveness of planning State borrowing requirements*

Borrowing as an instrument allows the State to bridge the discrepancies in budget revenues and expenditure. Such discrepancies can be the consequence of internal or external factors. In either case, a strategic, well considered and transparent borrowing is a must for sustainable public finance.

Recently the Republic of Slovenia has been quite active in the field of borrowing, mostly on account of restructuring of banks with the aim to create stability in the banking sector. Based on the insights from annual audits of the State budget and other developments in Slovenia, the Court has decided to undertake an audit which would give a comprehensive overview of State borrowing and public debt in the years 2013 and first half of 2014. Looking at the trends of the last mid-term that lead to the results in this period, the goal was to bring attention to the potential risks they carry.

The key national document in the field of borrowing is the Financing Program of the Republic of Slovenia Central Government Budget adopted by the Government, which defines strategic and operational targets of borrowing for a given fiscal year. In the audit it has been established that these strategic targets of borrowing comply with best practices recommended by international financial institutions and represent the appropriate basis for the future phases of planning State borrowing requirements. In accordance with the guidelines from the international financial institutions, the strategic targets were not modified much. The Court considers this an appropriate practice, since strategic targets are set for a longer period of time and are developed to be followed up, regardless of current macroeconomic circumstances of a State or capital market conditions.

Such strategic targets should represent the basis for defining medium-term borrowing strategy which the Government has not yet adopted. Specific elements that should be integral parts of the borrowing strategy are envisaged within the financing programs, which are annual documents and cannot provide the Ministry of Finance (hereafter: Ministry) with the formal guidelines for borrowing in the long term nor are they as such at all presented to the public and the stakeholders. The borrowing strategy should mainly give a clear directive to the Ministry as to the level of the acceptable risks to minimize the costs of borrowing. Since the Government did not adopt such guidelines, the Ministry was forced to undertake a conservative policy of borrowing in order to minimize the risks. The same fact emerges from the Court’s analyses of the debt portfolio in which no specific risks with regard to debt management were detected. Even though the Government did not formally adopt a medium-term strategy, the Ministry of Finance reasonably applied procedures and methods that are recommended by the international financial institutions as necessary when developing medium-term strategy of borrowing and when planning borrowing execution.

Documentation shows that the Ministry routinely monitored and analysed the structure of debt portfolio and capital market conditions, while setting up of the formal framework for monitoring and risk management has only started in the years 2013 and 2014. An important step forward in this field was made by establishing a Board for risk management and debt capital markets at the Ministry. Its task is to provide for appropriate recording of the decision-making and enabling easier reproduction of circumstances at the time when the decisions were adopted. The process of recording the analyses and decisions that were adopted on the basis of such data was until now not complete, this being the case as the employees performed large scope of tasks in the period referred to in the audit. By reducing the number of employees in the recent years, the operational risk increased, especially in cases of unexpected absences. Risks pertaining to effective implementation of the borrowing execution also relate to providing all necessary information on the situation of the State to possible investors by the Ministry. Specific communication channels between the Ministry and the stakeholders were not well established. Moreover, special protocols on communication and on sharing information affecting topical decisions and current situation were not adopted.

Operational targets of borrowing underlying the financing programs for the fiscal years 2013 and 2014 were defined solely by debt instruments without any specific directions explaining what risks the Ministry can bear in order to minimize the costs of borrowing and what portfolio structure it should reach. Thereby, the Ministry was given more flexibility in the implementation of the borrowing execution, which would in turn require undertaking more responsibility of the stakeholders and offices at the Ministry.

The Court also reviewed compliance of planning State borrowing requirements by issuing new bonds with the strategic and operational targets. The Court believes that the Ministry adopted its decisions on borrowing by issuing new bonds in the year 2013 and in the first half of the year 2014 based on the analyses performed with the aim to minimize the exposure of the debt to market risks as much as possible. At the beginning of the year 2013 the State could have benefited from more favourable conditions of borrowing compared to the result achieved later, but the Financing Program of the Republic of Slovenia Central Government Budget for the fiscal year 2013 was not adopted at that point and the Ministry was also not given a specific approval. Due to the political instability of the State at the time, the expected response of the international financial markets to a bond issued would probably not be favourable.

The Court requested from the Government and the Ministry to submit response reports in which they should present a plan of activities for adoption of the communication protocols, for defining the procedure of preparation of the annual Financing Program and for an analysis of the procedures of the execution of borrowing and State debt managing. They have indeed done so in the time requested which enabled the Court to assess their actions as satisfactory to remedy the inefficiencies detected.

In addition the Court submitted to the Government and the Ministry several recommendations concerning development of the medium-term borrowing strategy, implementation of stress tests, and recording of input information and different factors affecting the preparation of the annual Financing Program.

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