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Commentary on the Economic and Fiscal Policy Guidelines for the Period 2011-2013

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This article offers a brief commentary on the "Economic and Fiscal Policy Guidelines for the Period 2011-2013" and a comparison of this document with the "Economic and Fiscal Policy Guidelines for the Period 2010-2012".

At its session held on October 6, the Government presented its "Economic and Fiscal Policy Guidelines for the Period 2011-2013". Following the introduction, the second part of the document outlines the Government's goals and priorities that produce an excellent impression. They include macroeconomic and economic stability, an optimum environment for the development of a competitive economy, strengthening the law-based state and the rule of law, promoting knowledge, excellence and culture, etc., the things probably wished for by every citizen. The third part offers a realistic overview of macroeconomic developments in the, unfortunately, crisis period between 2009 and 2010, including the most interesting thing, i.e. the projections for the period 2011-2013.

Macroeconomic projections for this period are very modest: a 1.5 percent real GDP growth in 2011, 2 percent in 2012 and 2.5 percent in 2013. Modesty is a virtue, so, better modest than overestimated projections. However, what worries us is that even such modest recovery is based on "more favourable movements in the economic environment, primarily real GDP growth in the European Union in 2011, as suggested by the European Commission's economic forecasts. The economic growth projections for Croatia in the period after 2011 rely on an assumed continuation of favourable economic trends in the EU". Moreover, even the authors of the Guidelines note that in the EU, "a considerable amount of uncertainty is still present and that a return to negative trends in the environment would certainly affect Croatia through reduced foreign demand, higher prices of and limited access to capital and mounting consumer pessimism".

Isn't an exclusive reliance on the EU recovery actually a confession that there is absolutely nothing we will do ourselves to stimulate real GDP growth? Unfortunately, it is. Although the goals and priorities of the Government, set out early in the Guidelines, include an optimum environment for a competitive economy development and a more competitive agricultural, foodstuff and fisheries sector, the authors of these very Guidelines emphasize that "there is a problem of the sizeable foreign debt which is in conflict with the need to improve cost and price competitiveness of the economy and limits the room for manoeuvre of economic policy." How then can macroeconomic and economic stability be ensured and other Government objectives and priorities achieved, if the economic policy cannot function?

The fourth part deals with the key issue, namely medium-term fiscal policy. When reading it, we cannot help recollecting 15 budget revisions we had in the last 12 years, unrealistic planning for 2009 which ended up in three revisions and a surge in budget deficit from HRK 2.3 billion to HRK 9.3 billion, as well as the unrealistic plan for 2010, when the envisaged annual deficit was reached as early as in the first half of the year, and it is expected to reach a minimum of HRK 14 billion by the end of the year. What we are talking about is merely the central government's deficit of 4.2 % of GDP, or the deficit of 4.6% of GDP incurred by the general government. Let us recall that, for introducing the euro, the EU will require from us to bring the general government deficit below 3% of GDP.

A general government deficit below 3% of GDP has only been envisaged for 2013. This is not so far in the future that we would not be able to wait. However, if we look back at the Guidelines for the 2010-2012 period (adopted in autumn 2009), we see that the envisaged general government deficit for 2010 of 2.3% will actually reach 4.6%; the deficit for 2011 was estimated at 2.2%, and now it is envisaged to be 4.8% of GDP. For 2012, the envisaged deficit was 1.4% and now it is planned to be 3.2% of GDP. Given that from year to year deficit outturns have been two, or almost three times higher than the plan, what gives us the right to expect the deficit to be "only" 1.9% of GDP in 2013? After as many as three budget revisions in only a few months, couldn't the planning at the end of 2009 have been more realistic?

A comparison with public debt projections, offered in the fifth part of the new Guidelines (2011-2013) conveys a similar picture. According to the old Guidelines (2010-2012), the initially envisaged financing to the amount of HRK 8 billion now shoots up to HRK 15.4 billion; the initially envisaged amount for 2011 was HRK 8.3 billion, and now it is HRK 16.5 billion; the target for 2012 was HRK 5.6 billion and now it is HRK 11.7 billion. Given that each time the outturns were double the planned amounts, what gives us grounds for believing that the financing requirements will be "as low as" 7 and not 14 billion kuna?

Similar comparisons could be drawn between numerous other figures presented in old and new Guidelines. For those interested or curious, both the "Economic and Fiscal Policy Guidelines for the Period 2010-2012" from autumn 2009, and the "Economic and Fiscal Policy Guidelines for the Period 2011-2013" from autumn 2010, offering plenty of (mis)information¹, can be found at the Government's website

Once again, a key question arises: can we trust any Government in Croatia, and will we ever see the day when the real, but unfortunately tragic facts will be openly presented to the public? And these facts are the following: an extremely uncompetitive economy and an oversized public sector which undermines the improvement in the economy's competitiveness. Without a government that is brave enough to deal with and present these facts to the citizens in this country, we cannot expect the citizens to support the Economic Recovery Programme from April this year, or any other programme. Without the resolute implementation of a proper economic agenda and without radical institutional and structural reforms, neither the economic recovery of the EU nor our joining it will be of any help to us.

¹Available at: [http://www.mfin.hr/adminmax/docs/Smjernice_ekonomske_i_fiskalne_politike_2010._-_2012.pdf], and [http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2010/83_sjednica_vlade_republike_hrvatske].