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Kesner-Škreb, Marina

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PRESS RELEASE

Eight Findings about the 2010 State Aid in Croatia

MARINA KESNER-ŠKREB, MSC, Institute of Public Finance, Zagreb

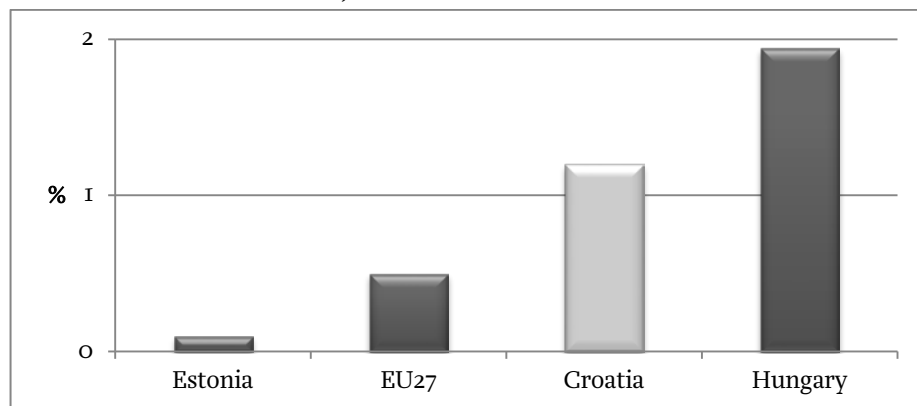
On March 14, 2012, the Croatian Parliament discussed the *Annual Report on State Aid for 2010*¹, submitted by the Croatian Competition Agency. The Report concludes that "... the old inherited system of state aid still dominates, selectively promoting sectors in difficulty, to the disadvantage of others that produce goods and services of high value added or introduce new forms of entrepreneurship". Below are brief comments on eight findings supporting this conclusion.

1. **Total state aid rose again in 2010**, following a slight decline in the previous year, and reached HRK 9.4bn. This suggests that each employed person allocated HRK 6,800 for aid to businesses, HRK 800 more than in 2009.
2. **The bulk of aid continued to be granted to specific sectors** - agriculture and fisheries (HRK 4bn), transport (HRK 1.5bn), shipbuilding (HRK 1.2bn) and Croatian Radio-Television (HRK 1.2bn).
3. **Agriculture was the largest aid recipient among all sectors**. This aid grew continuously, and its amount doubled in 2010 from 2004. Its average annual growth rate reached a high of 18.9% over that period.
4. **The second largest amount of aid in 2010 went to transport** - HRK 1.5bn. It is worth noting that these funds did not represent investments in infrastructure, but aid to support the operation of enterprises otherwise unable to survive in the market. These primarily included Croatian Railways, Croatian Airlines and Jadrolinija, which received HRK 850m, HRK 280m and HRK 300m respectively in 2010.
5. **Horizontal aid decreased in 2010**, standing at a low of HRK 636m, which was negligent compared with a total of HRK 9.4bn allocated for supporting enterprises in that year, while it is exactly this kind of aid that the modern industrial policy should be based on, because it is meant for all entrepreneurs and not only for selected enterprises or sectors (sectoral aid). Moreover, such aid is intended to rectify the situations of market failure, and it thus contributes to economic growth and improves the competitiveness of the economy.
6. **State guarantees containing aid element increased** by 48.6% in 2010 relative to 2009, and were mostly granted to shipbuilding. While state guarantees issued in 2010 amounted to a total of HRK 9.6bn, only HRK 1.7bn was considered as state aid according to the EU methodology and the Croatian State Aid Act. The remaining amount does not constitute state aid because it is allocated for the construction of roads, motorways and hospitals, the development of railway and port infrastructure, investments in electric power industry, capital investments in water supply, etc.

¹ CCA, 2012. *Annual Report on State Aid for 2010*. Zagreb: Croatian Competition Agency.

7. **The state aid-to-GDP ratio in Croatia was 2.4 times higher than that in EU27.** While in EU27, state aid accounted for 0.5% of GDP in 2010, its share in Croatia, was much larger, 1.2% of GDP. As concerns its allocation for state aid, Croatia was closer to the European record holder - Hungary, allocating 1.9% of its GDP for state aid, than to Estonia, which earmarked as little as 0.1% of GDP for state aid (the least of all EU member states and 12 times less than Croatia).

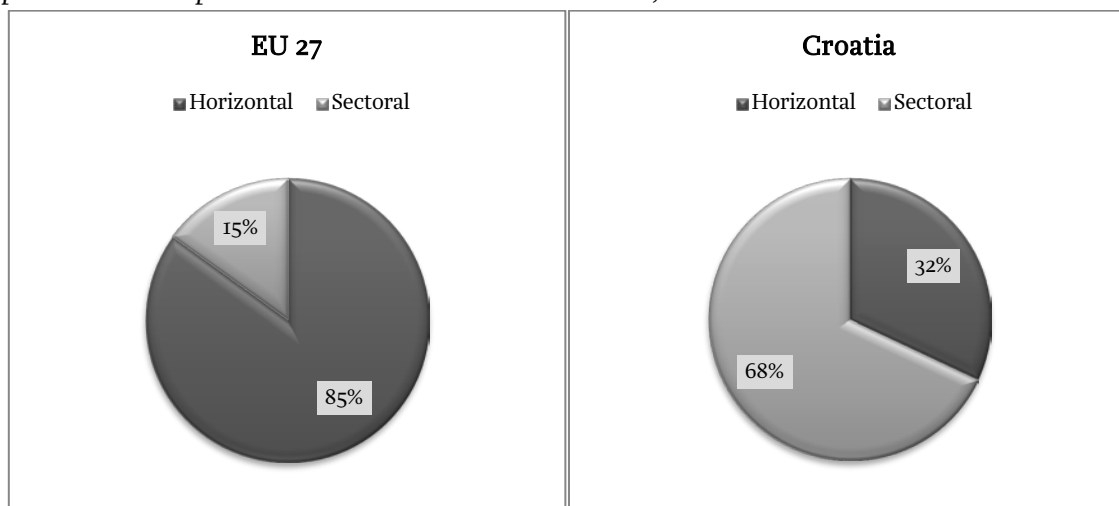
Graph 1 Total state aid*-to-GDP ratio, 2010.



*excluding agriculture, fisheries and transport.

8. **Croatia supports sectoral losers, while EU27 stimulates 'horizontal winners'.** Horizontal aid in Croatia fell in 2010, and accounted for 32% of total aid, whereas in EU27, it predominated and accounted for as much as 85% of the total. By contrast, the share of sectoral aid in Croatia was 4.5 times larger than that in EU27 (68% vs. 15%).

Graph 2 The shares of sectoral and horizontal aid in total aid*, 2010



* excluding agriculture, fisheries and transport.

There should be a shift in the mind-set of all Croatian citizens, in order to make them aware that state aid must provide equal playing ground and chances of success to all enterprises, rather than favour companies with poor prospects on the market. It may be that the recent protests with tractors on the roads and milk poured into the sewer are just a sign that these changes have just begun.