

# Draft Proposal for a State Property Management Strategy, 2013-2017

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# PRESS RELEASES

## Public sector assets and liabilities management in Croatia

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**A Draft Proposal for a State Property Management Strategy, 2013-2017, prepared by the State Office for State Property Management (SOSPM) is currently under public debate. This is the first state property management strategy to be used by the Government for developing privatisation plans, and most of all for drawing up a new Public Debt Management Strategy for the period 2013-15.**

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Up to 2013, Croatian governments have formulated numerous strategies and strategic development plans, but unfortunately, without any in-depth analysis, assessment or valuation of the financial and non-financial assets owned by the government, government bodies, units of local self-government, companies, agencies or other government institutions.

The privatisations completed since 1990 have made it additionally difficult to establish the balance and value of government property. The non-existence of any records of assets (especially the non-financial assets) is the result of a vaguely defined government role in the economy, and, consequently, a lack of a clear vision and purpose of the management and economic use of the assets. This "dormant capital" only sporadically becomes the subject of public debates, i.e. when state-owned financial and non-financial companies are privatised in order to raise funds necessary for the repayment of public debt principal and interest.

Efficient record-keeping and use, as well as prudent management of state property is crucial for the development of a real estate market, compliance with the requirements of the EU (where the establishment and protection of ownership rights, as well as clearly defined property relationships, provide a basis for responsible management of the state) and control of the growth of public and potential government debts.

**Property record-keeping.** There is no single register of state property in Croatia, and the list of non-financial assets is especially problematic. There are several registers including certain forms of government property, such as the Central Register of State Property (currently under construction), Concession Register, Agricultural Land Register, Cultural Heritage Register, etc. In contrast to the non-financial assets, financial assets can be evaluated and assessed in terms of its size and structure. The Croatian National Bank (CNB) and Eurostat have complete and publicly available information on the financial assets of all economic sectors in Croatia, including the general government assets (which encompass the financial assets of the government, social security funds and units of local self-government). The available data relate to the period 2001-11. Only in 2011, the general government's financial assets were worth EUR 33.6 billion (76% of GDP). Among 30 European countries (EU27 plus Norway and Iceland), Croatia occupies a high fourth place in terms of the value of general government assets (behind Norway, Finland and Iceland)<sup>1</sup>.

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<sup>1</sup> Available at: [[http://epp.eurostat.ec.europa.eu/portal/page/portal/sector\\_accounts/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/sector_accounts/data/database)].

**Revenues and receipts from property.** It is necessary to assess the financial impact of revenues and receipts from property, and, most of all, to assess and analyse the profits of public limited companies and CNB, as well as revenues from numerous concessions. This information is key to budget planning, maturity risk management and government liability financing. It is therefore laudable that the SOSPM intends to monitor the business performance of companies owned by the state and units of local self-government. Croatia must continue the privatisation process, especially as concerns companies in which the state holds minority stakes. The government owns shares/business interests in 420 out of a total of 555 companies, which are fully or partially available for sale.

**Non-financial assets of the state and units of local self-government.** The absence of a single state property register makes it difficult to monitor the use of such property. The state Property Management Act does not adequately regulate the management of the entire property, but it is rather focused on shares and participating interests. The management and use of non-financial assets owned by the Republic of Croatia (RC) is regulated by special laws. The (estimated or accounting) value of the state property donated to units of local self-government is dubious. The government has donated real estate to units of local self-government for the construction of infrastructure and other facilities aimed at improving the educational, cultural and other standards<sup>2</sup>. Thus, for example, over 40 million square meters of land owned by the RC have been donated for the construction of business zones, of which only a small number are in operation. These donations were not effectively supervised, neither was it checked whether the real estate concerned had been put into operation and whether it operated in accordance with the purpose of donation.

**Efficient management of state assets and liabilities.** The data on the value of (financial and non-financial) assets provide a basis for prudent management of not only the assets but also the liabilities of the state. The state treasury system and the Treasury General Ledger have long functioned without full information on the non-financial assets, necessary to ensure the compilation of the government's consolidated balance sheet (of assets and liabilities). The Ministry of Finance is interested in creating a single register of real property and the property evaluation (in order to include it in the State Treasury), and has already issued Instructions for the Recognition, Measurement and Recording of State Property.<sup>3</sup> The government does not have a balance sheet, such as the consolidated financial statement, because of a lack of information on the value of its non-financial assets. A comparison between total assets and total liabilities provides a more accurate picture of government finance, as confirmed by an insight into the financial assets and liabilities. In 2011, the general government's financial assets and liabilities stood at EUR 33.6bn (76% of GDP) and EUR 37.8bn (85.2% of GDP) respectively. This indicates a negative net financial value of EUR 4.2bn (-9.2% of GDP). However, despite the negative value, Croatia was still among eight EU countries with the lowest net financial values, and it ranked in the middle on the general government liabilities as a percent of GDP. By assessing the total value of its assets and compiling a balance sheet (of assets and liabilities), the country would enhance its credibility and reputation in relation to domestic and foreign investors and creditors, which would give strong impetus to an investment climate change and improve the terms and conditions of its borrowing in the financial markets.

**State property and public debt management strategies.** The property management strategy should go hand in hand with the public debt management strategy, so that public finance would be more than just the management of revenues and expenditures, as well as potential risks arising from the relevant transactions. The finance ministries of both EU and non-EU countries have prepared such strategies on a regular basis and published them on their websites. It is necessary to work out a strategy of public debt management for the period 2013-15 with maturity projections of liabilities up to 2022 (when bonds fall due) and contingent liabilities (government guarantees) up to 2038.

The state property management is a step forward in the consolidation of government finance and improving credibility of the country in the financial markets. This is particularly important in an environment of financial crises, because it demonstrates the government's responsibility for not only

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<sup>2</sup> The real estate has been donated pursuant to the Regulation on Donation of Real Estate Owned by the Republic of Croatia (Croatian version: NN 123/11 and 129/11) and the Act on the Regulation of Property Rights for the Purpose of Construction of Infrastructure Facilities (Croatian version: NN 80/11).

<sup>3</sup> The Instructions comprise obligated entities, the scope of application, reconciliation between the book and actual values of property, reporting principles, the valuation procedure and property booking within the budget accounting system.

current but also future financial outcomes and results of its operation. The State Office for State Property Management deserves commendation and should be supported in drafting a final Strategy proposal. The state property management strategy is an economic, as well as a legal and political issue of importance for the long-term sustainable development of the Republic of Croatia.