Croatian fiscal (dis)orientation

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PRESS RELEASES

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The European Commission's statistical office (EUROSTAT) on October 29, 2013 released a Report on government deficit and debt levels for 28 EU member states including, for the first time, Croatia. On the same day, the Croatian Bureau of Statistics published its Excessive Deficit Procedure Report for the Republic of Croatia, in accordance with the ESA95 methodology. Croatia's fiscal position indicators are unfavourable with respect to the fiscal criteria set out in the Maastricht Treaty.

The actual government deficit and debt levels. According to the EUROSTAT Report, the general government deficit and debt for the period 2009-12, reported in accordance with the ESA95 methodology, exceed the Government's estimates produced on the basis of IMF GFS 2001. Over the entire period, the general government deficit according to Excessive Deficit Procedure (EDP) exceeded 5% of GDP, and in 2011, it peaked at 7.8% of GDP (3.3 percentage points in excess of the deficit under the IMF's GFS standard). Up to 2012, general government debt according to EDP never exceeded 60% of GDP, and it was the hugest in 2012 (55.5% of GDP). The sharpest difference between the public debt-to-GDP ratios under the old and the new methodology was recorded in 2011 – 4.4 percentage points.

Table 1 *General government deficit and debt according to IMF GFS and EDP (% of GDP)*

	2009	2010	2011	2012	2013*	2014*	2015*	2016*
1 General government debt (EDP)	36.6	44.9	51.6	55.5				
2 General government debt (IMF GFS)	35.8	42.2	47.2	53.7	56.6	60.6	63.4	65.3
3 Debt - difference (1-2)	**0.8**	**2.7**	**4.4**	**1.8**				
a) General government deficit (EDP)	5.3	6.4	7.8	5.0				
b) General government deficit (IMF GFS)	3.1	4.3	4.5	3.5	3.5	5.5	5.1	4.5
c) Deficit - difference (a-b)	**2.2**	**2.1**	**3.3**	**1.5**				

Sources: Ministry of Finance, Monthly Statistical Reviews and Economic and Fiscal Policy Guidelines; CBS; Eurostat.
** Planned values and projections.*

Fiscal orientation. If a member state reports a deficit in excess of 3% of its GDP, the European Commission prepares a report. Within one to two months, it also prepares three documents to be published on the same day, namely a Commission Opinion on the existence of an excessive deficit, a Recommendation for a Council Decision on the existence of an excessive deficit and a Commission Recommendation for a Council Recommendation to end the excessive deficit situation. Based on these documents, in a period from 10 days up to a maximum of 2 months, the EU Council simultaneously adopts a Decision on the existence of an excessive deficit and a Recommendation to end the excessive deficit situation. In this Recommendation (pursuant to Article 126.7 of TFEU[1]), the EU Council: (1) sets the deadlines for reducing a member state's deficit below the 3% of GDP threshold; (2) determines the

[1] Treaty on the Functioning of the European Union.

average annual deficit reductions over a set period of time; and (3) calls on the member state to propose concrete measures with a view to bringing the deficit below the 3%-of-GDP reference value. Once the member state has proposed the action to correct its excessive deficit within a set timeframe, the European Commission reviews the measures, confirms their effectiveness and closely monitors their implementation. Upon expiry of a six-month period, the Commission issues a Communication to the EU Council regarding the progress of the proposed (and approved) action to address the excessive deficit. The EU Council adopts its Conclusions within a one-month period. After that, the Commission closely monitors whether the measures and requirements are complied with.

Fiscal discipline. Where a member states complies with the agreed measures and meets the targets within the set timeframe, the Commission adopts a Recommendation for a Council Recommendation to end the excessive deficit situation, which the Council normally endorses within a one-month period. This usually takes place early in the year following the year set as a target year of exit from an EDP programme, so that, at the end of the European semester and subject to continuous monitoring of the situation, the member state concerned could formally exit from EDP in the middle of that year. A formal decision to that effect is adopted by the EU Council on the recommendation of the Commission. Should a member state fail to correct its deficit (after the release of the Conclusions), the EU Council issues a revised Recommendation (pursuant to Article 126.7 of TFEU) to end the excessive deficit situation, which normally includes a new timeline to correct the excessive deficit, new deficit targets for each year of the extension period, a call for a more efficient implementation of the proposed measures to achieve the set goals, as well as a call for proposals for additional action. The member state must prove that it implements long-term reforms aimed at cutting its excessive deficit and not one-off measures, such as, for example, the sale of state property and privatisation of state-owned companies.

It is absolutely clear that the Government must resort to unpopular measures on the expenditure side, which have been implemented by other EU member states within their EDPs. They involve at least two to four more years of saving, in order to reach a sustainable level of public finance. Regrettably, this will be the price Croatian citizens will have to pay for the missed reforms of former Governments.