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PRESS RELEASES

General Government Accounts Statistics and Fiscal Transparency in Croatia

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In late July 2013, the minister of finance, governor of the Croatian National Bank (CNB) and director general of the Croatian Bureau of Statistics (CBS) jointly signed a Memorandum of Cooperation in the Field of General Government Accounts Statistics and Related Statistics. The seemingly common provisions of the Memorandum aim at improving the statistical scope and quality of government finance data in Croatia.

The Memorandum provides a basis for setting up an efficient system of general government statistics to be primarily in compliance with the Eurostat statistics and the European Statistics Code of Practice. A potential outcome of the Memorandum will be a more efficient fiscal reporting system which should facilitate the understanding of financial changes in the public sector, improve fiscal research and analysis and upgrade decision-making in the area of government finance. The Memorandum lays down a statistics compilation framework for reporting to the European Commission, Eurostat, International Monetary Fund (IMF) and the European Central Bank (ECB), which will ensure better representation of Croatia in the international fiscal statistics. The Government will probably reap the greatest benefit from fiscal statistics, as it will be able to use the data provided therein to draw up the economic and fiscal policy guidelines, Government Programme Strategy and State budget, as well as to pursue a prudent fiscal policy.

Government finance statistics before 2013. Croatia has a long history of tardy disclosure of government finance statistics figures which have been released with significant time lags, with constant methodological changes and inconsistencies caused by changing the institutional scope which influences the size of fiscal aggregates, notably the sizes of budget deficit and public debt. It took the Ministry of Finance (MoF) a lot of time to start publishing on its website more detailed figures on government guarantees, public debt or state budget. The methodological inconsistencies and differences in the scopes of budget deficit, public debt and government guarantees between the MoF and CNB are still present. Until the signing of the Memorandum, the CBS was hardly a place to find credible government finance data. While in some periods analytical data on government finance statistics were made available to the representatives of international financial institutions (e.g. IMF and World Bank), they were not publicly accessible to the wider scientific and professional community on the websites of the relevant institutions in the country. This posed a serious impediment to the valuation and assessment of the Croatian Governments' fiscal policy effects and to the proposing of alternative measures to improve fiscal performance and financial governance, not only of the general government but also the public sector as a whole. However, fiscal transparency improvement has long been no major priority of Croatian governments.

Government finance statistics of Croatia as an EU Member State. As a result of Croatia's accession to the EU, the fiscal (and budget) transparency has gradually improved. Admittedly, there are still problems with the general government budget consolidation, gaining a better insight into the size and structure of the general government budget and the presentation of analytical data by expenditure category according to the functional classification. Due to harmonisation with the EU statistics, dilemmas over the scopes and definitions of budget deficit, public debt, etc. are still there. For two years past, the CNB published the general government financial accounts statistics on its website. Interestingly, the same data are presented in an analytically more elaborate form on the Eurostat website than on the CNB website. Nevertheless, Croatia is making progress and has finally surmounted the initial difficulties of establishing its government finance statistics by adopting international financial and fiscal standards and methodologies.

The Memorandum of Cooperation introduces several key changes in the organisation and fiscal reporting (Table 1).

- *A new role of the **Croatian Bureau of Statistics**.* The CBS is to become the Croatian Centre of Excellence for the introduction, implementation and methodological interpretation of the European system of national and regional accounts. Under the Memorandum, the CNB and MoF are required to cooperate with the CBS, to provide it with timely information for the compilation of statistics and to ensure access to primary data providers. The CBS is especially responsible for the compilation and production of the general government's non-financial accounts statistics, reporting on excessive budget deficit procedure, provision of tax and social contribution data broken down by sector and presentation of government's expenditures according to the functional classification. A *Committee to manage the implementation of the Memorandum of Cooperation* must be set up within the CBS. The Committee will analyse the content of new or amended regulations and will consist of the director of the CNB's Statistics Department, head of the MoF's Bureau of Macroeconomic Analyses and Planning and head of the CBS's Business Statistics Directorate.
- *The **Ministry of Finance** will continue to report to the IMF on government finance statistics.* The novelty is that it will also report to the European Commission on the VAT calculation base for payments into the EU budget and on data for the implementation of the budgetary framework (according to the Council Directive 2011/85/EU). The bulk of the MoF's professional work relates to the submission of data to the CNB and CBS, which will make statistical compilations in accordance with the ESA 95 i ESA 2010 methodologies and will deliver these data to the international institutions.
- *The **Croatian National Bank** takes on a more important role in the compilation and reporting of data to the international financial institutions but also in the domestic fiscal reporting.* Its primary task will continue to be the monitoring of the general government's financial accounts, providing the ECB with government finance statistics and preparing quarterly reports on public debt in accordance with the Maastricht criteria. The relatively passive role of the CNB and CBS so far will change and they will, together with the MoF, act as the reference sources of information for government finance analyses.

The fiscal transparency improvement will be the most beneficial for MPs and members of the Government, as it will facilitate the adoption of fiscal decisions, and especially for the administrative and professional services of these bodies which make fiscal analyses as a basis for decision-making. Improvements in fiscal statistics will be beneficial for the scientific and professional communities and wider interested public, as well as the media, in terms of having a clearer perception a possibility of a more thorough analysis of government finance. Teaching students about statistical and methodological changes remains an imperative for university professors dealing with public finance, in order to promote better understanding and the use of data published on the Eurostat's website and, soon, to increase the use of the Internet data of the Croatian Bureau of Statistics.

Table 1 A new organisation of general government accounts statistics and related statistics

| | Report | Data-providing institution | Responsible for methodology | Reporting institution (Recipient) | Data source |
|-----|---|----------------------------|-----------------------------|-----------------------------------|-------------|
| 1. | Annual non-financial accounts statistics according to ESA 95 and ESA 2010 | CBS | CBS | CBS (Eurostat) | MoF, CNB |
| 2. | Annual financial accounts statistics according to ESA 95 and ESA 2010 | CNB | CNB | CNB(Eurostat) | MoF, CBS |
| 3. | Quarterly non-financial accounts statistics for the general government sector | CBS | CBS | CBS (Eurostat) | MoF |
| 4. | Quarterly financial accounts statistics for the general government sector | CNB | CNB | CNB (Eurostat) | MoF |
| 5. | Quarterly financial accounts statistics for the general government sector | CNB | CNB | CNB (ECB) | MoF, CBS |
| 6. | Reporting on excessive budget deficit procedure | CBS | CBS | CBS (Eurostat) | CNB, MoF |
| 7. | Government finance statistics | CNB | CNB | CNB (ECB) | CBS, MoF |
| 8. | Quarterly report on public debt according to the Maastricht criteria in accordance with ESA 95 and ESA 2010 (Manual on government deficit and debt) | CNB | CNB | CNB (Eurostat) | MoF |
| 9. | Detailed data on revenues from taxes and social contributions by sector | CBS | CBS | CBS (Eurostat) | MoF |
| 10. | General government expenditures according to functional classification (COFOG) | CBS | CBS | CBS (Eurostat) | MoF |
| 11. | Government finance statistics (GFS) | MoF | MoF | MoF (IMF) | MoF |
| 12. | Report on the base for own resources from VAT | MoF | MoF (and CBS) | MoF (European Commission) | MoF, CBS |
| 13. | Monthly and quarterly data according to the Council Directive 2011/85/EU in accordance with Member States' budgetary frameworks | MoF | MoF | MoF (Eurostat) | MoF |

Source: Memorandum of Cooperation in the Field of General Government Accounts Statistics and Related Statistics.