

# Finally, a State Asset Management Plan in Croatia

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# PRESS RELEASES

## Finally, a state asset management plan in Croatia

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**The State Office for State Assets Management (SOSAM) released a **Plan for the Management of Assets Owned by the Republic of Croatia for 2015**. This 338-page draft document, although relating to an annual period, sets out the potential design and structure of the Croatian public sector until 2050. Representatives of the interested public can submit their comments on the proposed Plan to the SOSAM by October 20, 2014. The bulk of the draft Plan relates to companies of special national interest, the business performance of which considerably affects the national budget and economy.**

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**State property management as a means of stabilisation and public debt reduction.** As affirmed by the SOSAM, one of the goals of state assets management is to stabilise and reduce public debt. Expected revenues from the sale of financial and non-financial assets in 2015 will amount to about HRK 3.4bn. The fulfilment of this optimistic expectation might considerably relieve the burden of repayment of government liabilities falling due in the next three to four years, which will shoot up unless the announced motorway monetisation is implemented. The sale of real estate is expected to bring in about HRK 1bn and the profits of companies about HRK 870m. However, the bulk of revenues are expected to come from the sale of public companies through public tender offers (HRK 630m) and on the stock market (HRK 670m). The government will raise another HRK 170m through the sale of its stake in Končar Electrical Industry, Inc.

**The SOSAM has divided the companies of special national interest into three groups.** The first group comprises 27 trading companies and other legal entities for which there is a long-term social need and which are not envisaged to be privatised in the period 2013-17 under the Strategy for the Management and Disposal of Property Owned by the RC (OG 76/2013). They include companies in the following sectors: transportation (road, railway and air transport), energy, forestry, water and lottery, as well as some agencies. In this context, it should be noted that the current 'special status' of some government agencies is questionable. The second group includes 26 companies in majority state ownership, which are envisaged to be restructured, privatised, sold or listed on the capital markets. These are mostly entities from the air transport (airports), tourism (hotels) and IT sectors (an IT company). The third group contains 6 companies in which the government owns stakes below 50% and whose shares are listed on regulated capital markets. These are envisaged to be sold or purchased by third parties.

**Companies' profits.** The net profits of the companies are expected to stand at about HRK 1.4bn and HRK 1.7bn in 2014 and 2015 respectively. The profits to be paid into the state budget by these companies in 2014 are estimated at about HRK 870m, while the amount to be paid in 2015 is still uncertain. The SOSAM will prepare a draft proposal for a decision on the amount of dividends and the manner of and deadlines for their payment into the State Budget following the distribution of profits earned in 2014 by companies and other legal entities of strategic and special interest. According to available data (see Table 2), the bulk of the profits are expected to be earned (and paid into the Budget) by 21 companies and 6 other legal entities

of strategic and special interest (HRK 1bn in 2014 and HRK 1.4bn in 2015). Most of the profits come from the national electricity company (HEP), between HRK 0.9bn and HRK 1bn, gas transmission system operator (Plinacro, Ltd), between HRK 100m and HRK 160m, and other energy producing companies (JANAF Plc. and Podzemno skladište plina, d.o.o.), as well Croatian Lottery. What is encouraging is the growth in the planned net profits of the Croatian Forests Ltd., from HRK 26m in 2014 to HRK 80m in 2015.

**We need detailed plan and outturn analyses, as well as performance forecasts for public companies till 2020.** The SOSAM has announced that it will also make, in cooperation with the Ministry of Finance, business analyses of strategic companies and publish their annual and semi-annual financial statements. Following the example of OECD countries, the SOSAM intends to publish the companies' performance data from the previous year, with a view to providing timely information to potential investors and interested public. It is essential that the SOSAM makes comparisons between the companies' plans and outturns on a quarterly basis. The results obtained will provide a basis for long-term financial projections and successful intra-year operational risk management.

**Ongoing review of criteria for the classification of companies as strategic companies or companies of special national interest.** The SOSAM deserves to be commended for preparing a draft proposal for amendments to the Government Decision on Compiling a List of Companies and Other Legal Entities of Strategic and Special Interest. It is planned to further reduce the number of companies and legal entities on the list of companies of strategic and developmental importance, due to a lack of interest on the part of the government or due to privatisation. Also in its operating documents, the SOSAM clearly specifies that the government and public sector must conform to changes in the market conditions and ensure funding based on their own fiscal and financial capacities. No matter how silent we may be on this issue, the role and size of government and the public sector are far from being what they were 25 years ago.

**Where are the balance sheets, debt overviews and repayment projections?** During 2015, the SOSAM will continue to request and collect the performance data of companies of strategic and special state interest (such data were first released in September 2014). The SOSAM has drawn up a list of all necessary data for the evaluation of a company's business performance (income statement, financial results vs. plan, a breakdown of results by activity, number of employees and labour costs, planned vs. realised investments in the current period, etc.). Also missing are requests for the balance sheet and a detailed overview of financial liabilities, by type of loan and borrowing terms, for each company. The greatest risks to the public debt of the RC arise directly from the debts of state-owned companies, still receiving government guarantees.

**Holistic planning of development priorities and public investment.** Within a comprehensive strategic approach to state property management and the restructuring and privatisation of companies, there is one more task to be completed, namely to draft an overview and programme of public investments through the companies. The SOSAM should provide, in cooperation with the relevant ministry, an overview of capital investments and their sources of funding. This should be a relatively easy task with retroactive effect for the period 2000-14, and it should be a starting point for further development of the public sector investment activities. It is also necessary to provide an overview of public investment by county, since all public sector resources have a spatial dimension. This would form a sound basis for a discussion about the potential regional organisation and better formulation of public sector development priorities.

**Further technical improvements for a more efficient management process.** There are plans to invite tenders for the selection of the companies' management boards, with a possibility of engaging *head hunting* agencies, and to improve the procedures for proposing supervisory board members. The SOSAM will ensure, where possible, that the companies are (fully or partially) listed on a capital market (stock exchange). The Office continues to edit and complete the database of companies created in 2014, trying to ensure direct recording of changes in the companies (changes in government equity and shares) included in the State Assets Register, for the purpose of updating publicly available information.

**A short planning period.** The SOSAM should be commended for preparing a document which will strongly affect the future profile and structure of the public sector. Although the Plan relates to 2015, its horizon is much longer and the consequences of its implementation are more far-reaching. The year

2015 is the parliamentary election year, and the new (or old) Government will have to continue working towards the goals and objectives set out in the Plan. The list of implementation activities and measures to improve state property management (especially the restructuring and privatisation of the companies) gives additional credibility to the Plan.

**European Commission and improvement in the state property management process.** The state property management process should have been established and put in place long ago. As a result of its EU accession, Croatia has started to set up strategic and operational documents relating to state assets management. The company restructuring processes take place under the supervision of the European Commission, given that Croatia is currently undergoing an Excessive Deficit Procedure (EDP), in which the restructuring of public companies has an important place. Thanks to this procedure, Croatia has finally started to recognize key fiscal risks and demystify the management of public companies by disclosing information necessary for their review. This is a guarantee that the privatisation and restructuring processes will be more transparent than they have been so far. An optimistic outlook for the state property management is further supported by the application of the OECD corporate governance principles, which the SOSAM has followed in this Plan.

**Members of Parliament, the Government and trade unions should scrutinize the State Asset Management Plan.** Otherwise, according to public perception, this will be another document Croatia produces under the pressure of some international institution or subnational authority (formerly the IMF, nowadays the European Commission). The Plan successfully coordinates the goals of individual Government strategies for the period 2013-20. Trade unions should participate in the restructuring and privatisation processes, proposing solutions based on detailed economic and social analyses of the companies' operations. Focusing the trade unions' attention on individual public sector-related issues, without considering the overall concept of the public sector, only leads to cheap populism and attracting publicity through unclear messages which hardly contribute to solving the crucial problems of the public sector or creating a clear vision of the future fiscal and economic position of the country.

**Table 1.** Budget revenue plan for 2015

	billion HRK	%
Real estate	1.04	31
Državne nekretnine d.o.o.*	0.03	1
Companies' profits	0.87	25
Sale of companies (through public tender offers)	0.63	18
Sale on a regulated capital market (Zagreb Stock Exchange)	0.67	20
Končar, Inc. (average price at the Zagreb Stock Exchange as at 8 July 2014)	0.17	5
<b>Total</b>	<b>3.40</b>	<b>100</b>

\* Revenues of the company for the management and disposal of the housing and commercial property stocks, coming from its commercial activities, as well as the maintenance of residential buildings and other real estate owned by the RC, which are managed and disposed of by the SOSAM.

Source: State Office for State Asset Management, 2014.

**Table 2.** Companies' Profit/Loss Plans for 2014 and 2015 (in billion HRK)

	Number of companies	2014		2015	
		gross	net	gross	net
Companies and other legal entities of strategic and special interest	14	1.162	1.081	1.779	1.423
Legal entities	6	0	0	0	0
Companies of developmental importance in majority state ownership	23	0.033	0.155	0.273	0.295
Companies whose shares are listed on regulated markets and in which the RC owns stakes below 50%	6	0.235	0.188	0.006	0.005
<b>Total profit</b>		<b>1.781</b>	<b>1.425</b>	<b>2.058</b>	<b>1.723</b>
Companies and other legal entities of strategic and special interest	7	0.417			
Companies of developmental importance in which the RC has majority shares stakes	3			0.095	
<b>Total loss</b>		<b>0.417</b>		<b>0.095</b>	

Source: State Office for State Asset Management, 2014.