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PRESS RELEASES

Changes of methodological coverage of public debt and budget deficit in Croatia

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On October 20, 2014 Croatian Bureau of Statistics published the **report on the excessive budget deficit and the level of general government debt** for the period 2010-13. Croatia has so far registered financial transactions according to the Government Finance Statistics (GFS 2001), whereas data presented in this report are for the first time based on the European System of National and Regional Accounts (ESA 2010) and Eurostat's Manual on Government Deficit and Debt.

Since September 2014, all EU countries are obliged to implement the ESA 2010 - European version of the methodological framework System of National Accounts (SNA 2008) of the United Nations. Due to a new way of expressing various items of the national economy the scope of economic sectors changed significantly. In addition to changes in the calculation of GDP, the implementation of new methodological framework influenced also the scope and size of the budget deficit and general government debt.¹

New scope of general government debt and the budget deficit is primarily expanded with obligations of public companies – Croatian Railways Infrastructure, Croatian Radio Television, Croatian Motorways and Rijeka - Zagreb Motorway - which are now classified in the sector of central government. An additional reason for the increase in the general government deficit and debt is the expansion of the scope of local government units' debt.

The growth of the general government deficit. The application of the new methodology has statistically increased general government deficit in 2013 for more than HRK 1bn (to 17.2bn, or from 4.9 to 5.2% of GDP). The biggest influence on the increase in the level of deficit for 2013 had the inclusion of Croatian Motorways and Rijeka – Zagreb Motorway in the coverage of the general government (HRK 337m) and the revision of gross fixed capital in the amount of HRK 461m (see Table 1).

The growth of the consolidated general government debt. Only in 2013 the difference between the old and the new method of calculation amounted to almost HRK 30bn. Under the new methodology, the consolidated general government debt rose to HRK 250bn (from 66.7 to 75.7% of GDP), mainly due to the expanded scope of the subsector central government (the inclusion of loans to public companies in the coverage of public debt). According to the projections of the Ministry of Finance, the budget deficit in 2014 will amount to roughly HRK 19bn (5.8% of GDP) and the consolidated debt of the general government to HRK 268.6bn (81.8% of GDP). Significant differences are also present in the amount of debt of the local government sector. Under the old methodology (GFS 2001), the total debt of the local

¹ A discussion of the statistical increase of general government debt due to changes in its scope and the differences between the ESA 95 and GFS methodology has already been conducted in Institute's publications: *Newsletter*, No. 80 and No. 82.

sector in 2012 was HRK 1.9bn, whereas according to the new methodology (due to a far wider coverage) it amounted to almost HRK 4.3bn, exceeding the level of HRK 5bn (1.5% of GDP) in 2013.

Differences in the size of interest expenditures are also significant. Under the new methodology, interest expenditures increased in 2013 to HRK 11.1bn, while the estimation for 2014 reaches HRK 13.2bn (about 4% of GDP). The methodological difference in some years amounted to (even exceed the level of) HRK 2bn.

Management of fiscal risks. Acceptance of a wider European framework of national statistics allows obtaining a thorough picture of government finances. Inclusion of institutions that operate outside the budget into the scope of general government helps in alleviating fiscal risks and ensuring sustainability of public finances. Thanks to more comprehensive information, the Ministry of Finance (MoF) should, in cooperation with the Croatian National Bank (CNB) pay more attention to fiscal risks within the public debt management policy. These two institutions could jointly perform sensitivity tests that would include the simulation of realization of the credit risk of legal entities that are not in the budget, but the realisation of their credit risk could result in a direct (or indirect) state aid (the state covers the cost of credit instead of company – the initial debtor). This primarily applies to companies owned by state and local governments.

Table 1. Budget deficit, debt and interest expenditures, 2010-14. (in million HRK and % of GDP)

Sources	2010		2011		2012		2013		2014 (plan)	
	million HRK	%	million HRK	%	million HRK	%	million HRK	%	million HRK	%
GDP (ESA 2010) ^(c)	328,041	100	332,587	100	330,456	100	330,135	100	328,155	
Consolidated general government deficit										
MFIN 2012 ^(a)	14,740	4.5	14,878	4.5	11,225	3.4				
MFIN XII/2013 ^(b)	14,625	4.5	14,964	4.5	10,855	3.3	17,603	5.3		
ESA 95 ^(c)	20,564	6.3	25,759	7.7	16,288	4.9	16,172	4.9		
ESA 2010 ^(c)	19,795	6.0	25,494	7.7	18,654	5.6	17,189	5.2	19,010	5.8
ESA 2010-ESA 95	-769	-0.3	-265	0.0	2,366	0.7	1,017	0.3		
Consolidated general government debt										
MFIN 2012 ^(a)	138,008	42.1	155,972	46.9	177,308	53.7				
MFIN VIII/2013 ^(d)	138,008	42.1	155,972	46.9	177,434	53.7				
ESA 95 ^(c)	145,722	44.4	170,860	51.4	183,677	55.6	220,196	66.7		
ESA 2010 ^(c)	173,087	52.8	199,311	59.9	212,964	64.4	249,836	75.7	268,560	81.8
ESA 2010-ESA 95	27,365	8.4	28,451	8.5	29,287	8.8	29,640	9.0		
Local government sector debt										
MFIN 2012 ^(a)	2,017	0.6	2,002	0.6	1,927	0.6				
ESA 2010 ^(c)	4,410	1.3	4,416	1.3	4,279	1.3	5,007	1.5		
Consolidated general government interest expenditures										
MFIN XII/2013 ^(b)	6,654	2.0	7,570	2.3	8,849	2.7	9,798	3.0		
ESA 2010 ^(c)	7,773	2.4	9,690	2.9	10,779	3.3	11,103	3.4	13,199	4.0
ESA 2010-MFIN	1,119	0.4	2,120	0.6	1,930	0.6	1,305	0.4		

Sources: ^(a) MFIN 2012. *Annual report of the Ministry of Finance for 2012*. Zagreb: Ministry of Finance.

^(b) MFIN XII/2013. *Monthly Statistical Review of the Ministry of Finance number 219*. Zagreb: Ministry of Finance.

^(c) ESA 95 and ESA 2010. *Excessive Deficit Procedure Report, Republic of Croatia, October 2014 (ESA 2010)*. Zagreb: Ministry of Finance.

^(d) MFIN VIII/2013. *Monthly Statistical Review of the Ministry of Finance number 215*. Zagreb: Ministry of Finance.