



Press Release

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Which Government to Trust?

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In only a couple of days the Croatian Government adopted two completely opposite programmes: first, the proposal of Guidelines for Aid to Ailing Companies, providing, among other things, for the conversion of government claims against such companies into equity stakes, and after that, a perfectly conceived Economic Recovery Programme, one of the main goals of which is to reduce government interference in business flows. Do we have one or two governments, and which of them should we trust - the one from Monday or the one from Thursday?

On Monday, April 19 the Croatian Government announced its [Economic Recovery Programme](#) which is excellently conceived and should indeed be welcomed as a strategic document. The Programme incorporates almost everything that the Institute of Public Finance has been supported for many years - the state's withdrawal from the economy, the implementation of necessary structural reforms, public administration rationalisation and efficiency improvement, budget expenditure reduction, tax system simplification, state aid system reform, etc. The Program includes everything that we have desired, but similar documents, usually called 'strategies', have already existed before. Now that we are using this 'military' terminology, it should be noted that so far, strategies have never developed into tactics. The implementation has always been missing, and even in this Programme it is not clearly specified when it will become operational.

The document lacks information on the persons responsible and time limits for its implementation, the allocation of tasks and methods of work, as well as the Programme costs and sources of its funding.

More specifically, the Programme includes a fair number of activities which, if implemented, will be far from cheap. The promotion of investment projects, particularly in the field of energy (with an emphasis on renewable sources of energy), environmental protection (focused on 'green' technologies) and infrastructure (railways, sea, river and airports and water supply) is only one example of such activities. Which ministries are competent for the implementation of individual tasks? What are the deadlines for the completion of each phase of these activities? Who will do what and how? What will be the cost of each of these measures by phase? Has the funding been provided and from what sources?

The Programme deadlines, when provided, are rather unambitiously set. A public sector employees register is envisaged to be set up by March 31, 2011. Most public sector employees receive their salaries through the State Treasury, so these data are already known. If the Government really wants a public sector employees register, public enterprises and extra-budgetary funds can submit the relevant data, at request, in only a week. But of course, an additional problem here is the public sector definition and scope which will be

mentioned later in the text. A gradual reduction of the share of general government revenue and expenditure in GDP by 3 percentage points is not expected before 2020. Since the general government budget accounts for almost a half of GDP in Croatia (relative to the transition countries' average of as little as about one third of GDP), its downsizing should really be accelerated.

A question eventually occurring to the Programme reader is how, and on what basis, will the Government make monthly assessments of the effects and status of all the measures and activities, as provided at the end of the Programme.

Only four days earlier, on Thursday April 15, this very Government proposed [Guidelines for Aid to Ailing Companies](#). It is intended to support enterprises by two kinds of aid: by write-off or partial write-off of their debts to the government, and by transforming government claims to equity stakes, i.e. recapitalisation. This relates to loans, taxes, contributions, customs duties and similar corporate debts.

Applications for such aid will be processed by the responsible ministries, and subject to subsequent consent by the Ministry of Finance. After being consented to by the Ministry of Finance, the applications must be approved by the Croatian Competition Agency and then finally decided upon by the Government. In the case of agriculture and fisheries, the process excludes the Competition Agency.

Regrettably, this gives rise to a lot of problems, in particular:

- Who will decide, and on what basis, whether the debt to the government will be written off or transformed into government's equity stakes?
- The definition of an "ailing company" is very arguable, and besides, some exemptions have been envisaged.
- It is questionable whether the ministries are capable of processing the applications in a professional and objective manner and of checking the applicant's compliance with numerous criteria defined in the Guidelines. Who are the persons in the responsible ministries that are able to assess certain aid as minimally distorting market competition, or to estimate the impact on the state and economy? Who will grant such consents on behalf of the Ministry of Finance? Once again, the question arises of the public administration's objectivity, capability and competence, especially given the ban on employment and inadequate employee remuneration system. Maybe the Competition Agency will manage to reject at least some unfounded applications, but agriculture and fisheries, being not within its competence might get out of control.
- There are reasonable fears that the Guidelines would increase the state's participation in the economy. Moreover, the employees of enterprises co-owned by the state will rightfully raise their expectations from the state.
- Apart from all other things, the Guidelines create opportunities for arbitrary decisions and corruption.

To sum up, the Guidelines and the Programme represent opposed Government views on tackling economic difficulties.