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Prudent management of government financial assets and the stability of public finance in Croatia

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The greater part of the financial assets of Croatian general government is located in companies in which the government or state has majority or minority holdings. In comparison with other European countries, the financial assets of the government are undiversified and have not been turned into negotiable instruments listed on the capital market. The financial effects of privatisations and the management of government financial assets of general government and their contribution to the funding of the budgetary deficit are dubious and are often cancelled out by high government subsidies and guarantees to government companies. The Government and Parliament should improve transparency and management of companies majority owned by the state, sell off minority holdings and draw up and publish strategies for the privatisation and management of government financial assets up to 2021.

1. INTRODUCTION

When the public sector in Croatia is discussed, topics related to the revenue and expenditure of the budget tend to dominate, along with the growth and sustainability of budget deficits and the public debt. The government makes sure of a balanced budget by borrowing on the domestic and foreign financial markets. Since 2007, there has been no record of any major privatisation of companies majority owned by the state to help in the financing of the budget deficit. In its new *Guidelines for economic and fiscal policy from 2012 to 2014* the government has heralded about 460 million euros in privatisation receipts. But unluckily, previous Croatian governments did not prepare a number of key strategic documents such as a list of and programme for capital investments in the public sector with sources of financing, nor did they determine outline strategies and plans for managing government financial and non-financial assets. Croatia has failed a score of years by now to settle the structural issues of records and the organisation of registers of government financial and non-financial assets and plans for their use in the next ten years. Can the government prudently and properly manage financial (and non-financial) assets, ensure the institutional preconditions for state owned companies to be able to palliate budgetary imbalances, foster economic growth and the development of the capital market?

Some of the answers should be sought in analyses of financial assets owned by general government. The government's financial accounts could show whether there is actually the financial potential to pay off debts and whether there is property that objectively speaking should not be government owned. This is to do with assets that because of subsidies and government guarantees become an additional financial burden that does not allow the reduction of tax or other non-tax burden on households and private firms. Should any of the financial assets of the government be leased out? Should some part of them be privatised and offered to potential investors on the capital market? Thanks to Eurostat information about government financial accounts, including information about Croatia, it is possible to give at least approximate answers to some of these questions.

2. FINANCIAL ACCOUNTS AND FINANCIAL ASSETS

The statistics of financial accounts consist of a set of tables that show the value of the state of financial assets and financial liabilities on a given day (usually the last day of the year) in terms of individual institutional sectors and financial instruments (the balance). The drawing up of the annual financial accounts was defined by the European system of national and regional accounts of 1995 (European System of Accounts – ESA 95), which defines the basic provisions related to sectorisation, classification of financial instruments, recording information about the stocks and transactions and rules concerning value adjustment (CNB, 2011). The financial accounts cover financial assets and liabilities of non-financial corporates, financial corporates (and the central bank), general government (central government, local units and social security funds), households and non-profit institutions serving households.

In this paper, the financial assets of general government divided according to instruments are analysed. These are: monetary gold and SDRs, cash and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves and accounts of other claims (for a more detailed methodological explanation see: http://www.hnb.hr).

General government covers all units the main activity of which is the production of non-market goods and services meant for individual and common consumption and/or redistribution of the national income and wealth. General government consists of central government, local government units and social security funds.[1]

The Croatian National Bank (CNB) draws up the financial accounts according to available groups of data. These are: monetary statistics and stocks of international investments, (data from CNB statistics), statistical reports of insurance and reinsurance and leasing corporations (HANFA data), statistical reports of investment and pension funds and their management companies (CNB and CFSSA), annual reports of corporations GFI-POD (Financial Agency), reports on central and local government equity in corporations (Croatian Privatisation Fund and Ministry of Finance), information about the debt of general government (Ministry of Finance and CNB) and reports on trading on the Zagreb Stock Exchange. The CNB annually informs Eurostat of the financial accounts of all the institutional sectors. Financial accounts for the period 2001-09 are published at http://www.hnb.hr/statistika/hstatistika.htm and a more detailed elaboration comes on the internet site of Eurostat http://epp.eurostat.ec.europa.eu/portal/page/portal/sector_accounts/data/database.

3. FINANCIAL ASSETS OF GENERAL GOVERNMENT

The financial assets of general government rose from 17 billion in 2001 to about 37 billion in 2007. This growth was partially a result of the enlargement of the scope and in an even greater part of changes in market prices that up to 2007 contributed to a rise in the value of financial assets. The value of the financial assets of general government fell from 2007 and came in 2009 to about 31.4 billion euros, but as proportion of GDP had fallen ever since 2004 and came in 2009 to 68% of GDP (see graph 1).

In terms the amount of financial assets as proportion of GDP, Croatia comes after the Scandinavian countries (Norway, Finland, Iceland and Sweden) (see graph 2). The structure of the financial assets of general government in Croatia reveals a number of interesting facts. Firstly, the greatest part of financial assets of general government in 2009 is located in shares and other equity, which makes up about 60% of GDP. Then come accounts of other accounts receivable, currency and deposits of general government, which together make up on average the equivalent of 7% of GDP in the period under consideration (see graph 3). Secondly, Croatia does not have any diversified financial assets in other instruments. Thirdly, the financial assets of general government are concentrated in the equity of government in corporations and financial institutions (see table 1).

Croatia has as much as 85% of its financial assets in shares and other equity, while the average of other European countries is about 40%. Other European countries observed have a greater degree of diversification in the structure of their financial assets portfolio (see graph 4). But not even this fact has to suggest any adverse structure of financial assets or their poor management. On the contrary, government can provide good, transparent and responsible management of the portfolio of assets in state-owned corporations, generate additional revenue from dividends that can be used for funding budgetary shortfalls or to increase the total financial assets of the state. Even without dividends from such companies, business without great losses and debts can be expected, at the level of the coverage of marginal costs. To be able to draw proper conclusions, it is needful to compare the structure of shares and other equity owned by government.

1 Central government covers bodies of the government administration and other bodies of central government with responsibility for the whole of the economic territory of the country, except the social security funds. Local government covers that part of the public administration whose purview relates only to the local part of the economic territory, exclusive of local bodies of the social security funds. Social security funds are institutional units at the central and local level, whose basic activity is the provision of social security (in which contributors pay a premium disproportioned to the risk insured). For example: the Croatian Institute for Health Insurance, the Croatian Institute for Retirement Insurance, the Croatian Employment Service, the Croatian Institute for Health Insurance of Protection of Health at Work.

Table 1

Financial assets of general government from 2001 to 2009 (% of GDP)

		2001	2002	2003	2004	2005	2006	2007	2008	2009
	Financial assets	67	62	57	94	88	83	83	66	68
1	Monetary gold and SDRs	0	0	0	0	0	0	0	0	0
2	Currency and deposits	2	3	2	2	2	2	2	2	3
3	Securities other than shares	0	0	0	0	0	0	0	0	0
4	Loans	1	1	0	0	0	0	0	0	0
5	Shares and other equity	58	54	49	87	81	75	76	58	60
6	Insurance technical reserves	0	0	0	0	0	0	0	0	0
7	Other accounts receivable	5	5	5	5	5	5	5	6	6

Source: Eurostat, 2011

SHARES AND OTHER EQUITY – AMOUNT AND STRUCTURE

Most of the financial assets of general government in Croatia consist of other shares and particularly equity that is not negotiable and has not been transformed into shares, whether or not they are quoted on the financial market (see graph 5). These are shares and equity in state owned corporations that have been classified by government decisions since 2004 into *companies of special state interest* and shares and other equity of the state that up to 2010 have been in the portfolio of the Croatian Privatisation Fund (CPF/HFP).

The sum of about 27 billion euros, then, or 60% in terms of GDP, of government financial assets is to be found in shares and particularly in equity in state owned firms. Only Finland and Norway have a large share of shares and other equity in GDP while in most of the countries observed, shares are equivalent to less than 10% of GDP (see graph 6).

The development of the financial markets of given countries (particularly of small open economies) depends to a great extent on the availability of quality shares on the capital market. A government offering quality financial assets can ensure additional sources of funding the budget and also indirectly encourage development and investor buoyancy on a well-managed capital market.

In comparison with other countries, Croatia has the biggest proportion, 46% of GDP value of equity in state owned firms (see graph 7). The high percentage of GDP equivalent of financial assets immobilised in equity shows the need for this phenomenon of Croatian government finances to be observed from some additional angles. First needing to be ascertained is the amount of receipts from privatisation in Croatia, with, in comparison with other countries, an approximate insight into the dynamics of implementation. Secondly, by an analysis of the amount and structure of revenue from financial assets, the extent to which the financial operations of the companies contribute to the stabilisation of public finances should be indicated. Thirdly, by an analysis of the size and structure of subsidies and government guarantees provided, to ascertain how much the companies are dependent on the government.

4. PRIVATISATION AND RECEIPTS OF THE BUDGET.

From 2002 to 2010 the budget of general government obtained about 1.9 billion euros worth of receipts from privatisation, that is, the sale of shares and other major or minor equities in corporations. From 2012 to 2014 the government expects about 460 million euros. Revenues from privatisation were the highest in 2003, reducing in 2006 and 2007. Since 2007 there have been no major pri-

Table 2

Structure of shares and other equity from 2001 to 2009 (% of GDP)

		2001	2002	2003	2004	2005	2006	2007	2008	2009
FA5	shares and other equity	58	54	49	87	81	75	76	58	60
FA51	listed shares	2	2	2	2	3	4	13	4	5
FA52	non-listed shares	22	20	18	17	15	13	9	8	8
FA53	other equity	34	31	29	67	62	58	52	45	46

Source: Eurostat, 2011

Table 3

Selected states' budgetary revenues from privatisation from 2000 to 2008 (in million US$).

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Russia	314	1	121	287	4,633	165	10,844	28,948	6,077	**51,390**
Turkey	2,604	...	218	10	1,087	11,517	8,099	4,257	6,673	**34,465**
Poland	6,174	1,805	847	905	2,704	1,855	375	471	969	**16,105**
Czech R.	667	1,783	4,222	729	785	3,932	...	456	7	**12,581**
Romania	97	7	29	815	2,163	146	4,745	2,635	715	**11,352**
Hungary	94	78	17	729	1,226	2,617	1,921	530	...	**7,212**
Slovakia	984	1,047	3,484	143	197	16	1,105	6	...	**6,982**
Serbia	...	...	258	667	9	1,085	3,054	163	1,007	**6,243**
Bulgaria	344	157	109	784	1,248	444	259	149	371	**3,865**
CROATIA*	353	600	317	519	60	89	483	568	179	**3,169**
Latvia	10	88	56	297	37	13	852	...	2	**1,355**
Slovenia	...	...	...	...	...	...	...	824	...	**824**
Estonia	176	59	...	...	...	...	6	...	...	**241**
Lithuania	...	...	71	15	...	...	135	...	...	**221**

**Author's computation on the basis of Republic of Croatia Ministry of Finance data, kuna being converted into dollars according to mean exchange rate of the CNB for HRK/USD from 2000 to 2008.*

vatisation operations, for which reason budgetary receipts have been smaller. According to government announcements, from 2012 to 2014, government receipts from privatisation could grow (see graph 8).

The World Bank for the period from 2000 to 2008 gives an insight into an international comparison of revenues acquired by governments from privatisation operations (http://rru.worldbank.org/Privatization/Methodology.aspx). The information is based on data gathered by the OECD and EBRD, systematised into databases with a list of privatised government firms. The database contains data expressed in terms of sale price, and relates only to monetary receipts arising from the sale of state-owned firms. Without entering into potential methodological restrictions, data about budgetary revenues from privatisation operations of selected countries of CEE are useful for our analysis (see table 3).

Table 3 shows that it is not only considerably bigger countries like Russia and Turkey that achieved more significant and larger receipts from privatisation than Croatia. Thus the Czech Republic got four times as much, and Slovakia, Bulgaria and Serbia twice as many receipts from privatisation as Croatia.

Part of the reason for the slow process of privatisation in Croatia should be sought in the last report about the operations of the CPF for 2010 (see: http://www.sabor.hr/Default.aspx?art=39520). Up to 2010, then, the CPF managed only a part of the total share and equity portfolio of 738 firms (478 joint stock and 252 limited liability firms). In most of these companies, the government has a less than 25% share, and it is among these that there are the fewest in which business activities are at a standstill because of bankruptcy and liquidation (see table 4).

Table 4

Share of CPF shares and equity in the founding capital of companies (in %)

Stake of government (in %)	Number of companies	No business activity	% of the total
0-25	587	23	4
25-50	66	21	32
50-100	77	17	22
Total	**730**	**61**	**8**

Source: CPF, 2011

Shares of listed companies have the greatest value (see table 5).

Table 5

Shares and other equity of the CPF in 2010 (in billion euros)

	Number of companies	Nominal value, in billion euros	Market value, in billion euros
Shares in listed companies	217	1.28	1.21
Shares in unlisted companies	261	0.44	-
Other equity in companies	252	0.09	-
Total	**730**	**1.81**	**-**

Source: Author's computation from CPF figures, 2011. Converted into euros according to the mean annual CNB HRK/EUR exchange rate.

The total nominal value of shares and equity is about 1.8 million euros. The portfolio structure is dominated by listed joint stock companies, whose market value is 1.21 billion euros (see table 5). It should be remarked that shares of unlisted firms and government equity are not expressed in terms of market value.

In brief, the major part of the financial assets of general government, amounting in value to 27 billion euros, is concentrated in majority holdings and shares in companies of special state interest. Then come shares of local units in local firms, in the amount of 2.6 billion euros, and shares and government equity in companies in the CPF portfolio of about 1.8 billion euros.

In order to carry out the economic recovery programme, the government appointed the CPF the competent body for the elaboration of a book of Regulations Determining the Initial Prices in the Sale of State Equity in Companies of less than 25%, a proposal for the Privatisation Strategy and a draft of a Plan for the Privatisation of State Owned Firms. During 2011, the Ministry of Economy, Labour and Entrepreneurship should supply proposals for the Strategy and Privatisation Plan to the government for debate and adoption. In 2011 the government should send the Strategy and Plan down to the parliament for debate. But bearing in mind that 2011 is leading up to an election, it is hard to expect that such serious documents will be offered for public debate. Still, it is questionable what criteria the government will use as foundations for its privatisation programme for 2012 to 2014.

At the beginning of 2011 the government adopted an Ordinance on the sale of shares and equity in companies owned by the Republic of Croatia, the institutes and other legal entities the owner of which is the Republic of Croatia (NN 64/2011). This prescribed the technicalities of sale depending on the amount of state ownership in the companies and institutes to be privatised.[2] However, the Ordinance was not followed by the adoption of a Strategy and Plan for privatisation to be adopted by the Parliament, by a list of kinds and priority companies for privatisation, the chronological order of privatisations, with an evaluation of the expected financial effect, both on the budget and on the operations of the companies.

One of the initial problems for the implementation of privatisation and a qualitative management of government financial assets is the absence of any clear criteria for a definition of and the scope of companies of special interest to the state. This scope has changed over the years, as has the system for reporting on their financial operations (see table 6).

Table 6

Number of companies and other legal entities of special interest to the government from 2004 to 2010

Year	Companies	Institutes	EBF
2004	210		
2009	66		
2010	63	97	5

Source: author pursuant to data from NN nos 144/2010, 56/2010, 132/2009, 174/04 140/04 and 160/04.

Since 2004 the number of companies of special interest to the state has been reducing, and in 2010, following government decisions, institutes and extra-budgetary funds (users) were added to them, and there are now 165 of them all told. The search for transparent reports from these companies is often reduced to the adventure of browsing the internet sites of the Zagreb SE, the Parliament, Government, MoF, Financial Agency, CPF and those of the companies. In 2010 the government published for the first time a *Report on the operations of companies of special interest to the state,* with aggregate explanations of their financial operations and an outline survey of their assets and liabilities. In December 2010 the parliament debated and adopted this report. In a *Decision about the list of companies of special interest to the state* of 2009 (NN 132/2009) the Government is authorised to submit the Report on the operations of companies of special interest to the state by at the latest the end of September in a given year for the preceding year. This provision was rescinded when a new Decision on the list of legal entities of special interest to the state was adopted in December (NN 144/2010). Thus in 2011 there will be no public debate on – next to the national budget – one of the most important financial reports of the government.

5. REVENUE OF GENERAL GOVERNMENT FROM ASSETS

Assets-derived income covers revenue from financial (interest on loans given, securities, time deposits, receipts from dividends, revenue from the profits of companies, banks and other institutions according to special regulations) and non-financial assets (concessions, leases and renting of assets, various levies such as monumental rent, road rent and so on).

The average revenues from assets in Croatia come to about 0.7% of GDP and the most were obtained in 2007, coming then to more than 600 million euros, or equiva-

2 Thus shares are sold by various methods – public offers (initial public offer), public bidding (auction), public tendering, offer of shares on the capital market, taking over companies, squeezing out minority shareholders, public call for additional capitalisation. The sale of equity is carried out through processes of public bidding (auctioning), public tendering, and a public call for additional capitalisation (NN 64/2011).

lent to 1.5% of GDP (see graph 9). The greatest was the revenue from leases (concessions) and revenue from the profit of public corporations (see table 7).

Table 7

General government property income from 2002 to 2010 (% of GDP)

	Total property income	Interest (1)	Dividends (2)	Withdrawals from income of quasi-corporations (3)	Lease fees (concessions and the like) (4)
2002	1.0	0.1	0.2	0.4	0.3
2003	0.5	0.0	0.0	0.0	0.4
2004	1.6	0.1	0.8	0.2	0.5
2005	1.3	0.1	0.4	0.2	0.6
2006	0.8	0.1	0.1	0.3	0.4
2007	1.5	0.1	0.4	0.2	0.9
2008	0.9	0.1	0.1	0.3	0.5
2009	1.2	0.1	0.0	0.6	0.5
2010	0.9	0.1	0.0	0.2	0.5

Source: Author's computation according to data from the Ministry of Finance, 2011

Croatia (alongside Norway and Finland) has the greatest part of its financial assets in shares and other equity, but realises much lower revenues from these assets (interest, dividends, revenue from the companies, concessions). Revenue from assets in the companies considered varies from 0.1% of GDP in Italy to 11% of GDP in Norway (see graph 10).

DIVIDENDS AND PROFIT OF COMPANIES IN WHICH THE GOVERNMENT HAS A CONTROLLING OR MAJORITY HOLDING

Firms in the CPF portfolio in which the government has equity and shares achieved low levels of profit. From 1993 to 2010 they made only about 127.5 million euros. On the other hand in 2010 the CPF had high levels of liabilities to government institutions and commercial banks. Public sector institutions (MF, HZMO, HZZ, Croatian Water, Croatian Railway and DAB) had outstanding claims of 401 million euros on the CPF. These were mainly outstanding receivables for additional capitalisation of the Croatian Postal Bank, sold shares and equity in companies in the portfolios of the CPF, HZMO and HZZ, sold real estate and flats, called-on guarantees of shipyards and so on. In addition, the CPF has liabilities for loans from commercial banks in the amount of 67.6 million euros.

Let us look at the outline picture of the financial operations (dividends and profit) of companies of special state interest in order to ascertain their contribution to the financing of the budget.

DIVIDENDS AND PROFIT OF COMPANIES OF SPECIAL GOVERNMENT INTEREST

Up to 2010 there was little complete information about the financial operations and value of assets and liabilities of special state interest. That is, the MF (Economy Directorate) delivered to the government during 2007 and 2008 its reports on the financial operations of 19 companies for 2006 and 2007. However, it was only in 2010 that the government for the first time sent down to the parliament for debate and adoption the most complete report on financial operations in 69 companies of special state interest. The parliament adopted this report in a session held on December 10, 2010 (http://www.sabor.hr/Default.aspx?art=35628).

Judging from MoF information, from 2002 to 2010 on average, from the profit of the public companies, about 0.2% of GDP was paid into the budget of general government. At the height of the financial crisis in 2009 the budget of general government recorded profits payment of 0.6% of GDP. Pursuant to government decisions some of the 20 firms that made a profit in 2009 had to pay part of the profit to the budget. In this manner, they were deprived of some of the resources earmarked for capital investment in 2010. Because of the financial crisis, in 2008 and 2009, the firms paid out no dividends (see table 7).

We should recall that in the report of the government for 2009 the operations of 69 companies or groups that enjoy special status according to a Decision of parliament about the list of companies of special state interest (NN 132/2009, 56/2010). Because of the losses made, after tax, in 2008 and 2009 the companies were unable to make any considerable contribution to the financing of the budget (see table 8).

Table 8

Financial operations of companies of special interest to the state (in billion euros)

	2008	2009
Total revenue	12.2	10.1
Total expenditure	12.0	10.5
Profit/loss	0.2	-0.4
Profit/loss after taxation	-0.3	-0.5

Source: Government of the RC, Report on the operations of companies of special state interest

Total losses of the companies of special state interest were made up by the government in subsidies and considerable amounts of government guarantees issued. In the last eight years, in total, companies were given 4.2 million euros of subsidies, which comes to the equivalent of 1.2% of GDP average in the observed period (see table 9).

Table 9

Government subsidies to public sector companies from 2002 to 2010 (in million euros and % of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Subsidies (mil. euros)	296	332	456	465	465	516	582	578	584
Subsidies (% of GDP)	1.05	1.10	1.38	1.29	1.17	1.19	1.22	1.26	1.27

Source: Author's computation on the basis of figures from the Ministry of Finance, 2011. Converted into euros according to the mean HRK/EUR rate of exchange of the CNB.

As well as making direct budgetary subsidies, the government often figures as a guarantor for the loan liabilities of its firms. Government guarantees are growing and from 2011 the government has gradually been transforming them from the category of contingent loans (on the whole to the shipyards) into direct liabilities and accordingly increasing the total debt of general government. The large amount of government guarantees shows the need for the government to change the statistical scope and define the public debt as the debt of general government augmented by the debt of companies of special state interest.

6. GOVERNMENT GUARANTEES

Guarantees are kept off-balance sheet, which means that they are not a component part of the financial reports, rather, the MoF records them separately as a contingent debt category. From 1995 to 2006 the government issued financial and performance guarantees, while from 2006 officially at least there were only financial guarantees (see table 10). However, in 2011, the government reactivated the instrument of the performance guarantee for the liabilities of the shipyards http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2011/146_sjednica_vlade_republike_hrvatske).

Applications for guarantees grew markedly after 2003. Guarantees for borrowing at home prevailed, and in the last three years, guarantees for borrowing abroad have dominated. From 1996 to 2007 the government issued performance guarantees on the whole for the borrowings of the shipyards, but from 2007, instead of performance it issued financial guarantees. Because of this substitution the amount of active financial guarantees as contingent government liabilities rose: from 0.1 billion in 1996 to 8 billion euros in 2010.

With the exception of 2005, all the other years saw financial guarantees issued that considerably exceed the amount laid down by the laws on the Execution of the Budget. Issued and still active financial loans potentially threaten growth of the debt of general government. In 2010 the debt of general government not including guar-

Table 10

Issued and outstanding (financial and performance) guarantees from 1996 to 2010 (in billion euros).

	Plan	Financial (1)	Domestic (a)	Foreign (b)	Performance (2)	Total (1+2)	Outstanding guarantees
1996	0.367	0.122	0.018	0.104	0.200	0.322	
1997	0.431	0.454	0.198	0.256	0.426	0.880	0.115
1998	0.140	0.711	0.174	0.537	0.469	1.180	1.428
1999	0.396	0.779	0.152	0.627	0.236	1.015	1.371
2000		0.707	0.658	0.049	0.569	1.276	2.060
2001		0.971	0.407	0.628	0.789	1.760	2.423
2002		1.132	0.768	0.365	0.386	1.518	2.716
2003	0.780	1.190	0.666	0.524	0.360	1.550	2.715
2004	0.654	0.770	0.393	0.378	0.636	1.406	2.438
2005	0.541	0.501	0.371	0.131	0.467	0.969	2.667
2006	0.546	1.280	0.658	0.622	0.200	1.480	2.999
2007	0.668	1.854	0.609	1.245	0.000	1.854	5.354
2008	1.024	1.099	0.471	0.628	0.000	1.099	6.184
2009	0.668	0.501	0.338	0.163	0.000	0.501	6.944
2010	0.673	1.104	0.550	0.554	0.000	1.104	8.086

Source: Ministry of Finance and CNB, 2011 antees came to 41% of GDP, while with the outstanding guarantees it came to 59% of GDP (see graph 11).

It is hard to believe that some of the guarantees will not become direct debt. For example, the called on guarantees of the shipyards are a risk for the financial position of the government if the government assumes their liabilities. The government proposed and in May 2011 the parliament passed a law according to which credit liabilities guaranteed by government guarantees for four shipyards were to be turned into a direct public debt (NN 61/2011).[3] At a stroke, then, the public debt of general government rose by about 1.53 billion euros. (see: http://www.vlada.hr/hr/naslovnica/novosti_i_najave/2011/svibanj/vlada_u_javni_dug_moglo_bi_biti_prenijeto_11_3_milijardi_kuna_jamstava_brodogradilistima).

7. Conclusion concerning the management of government (financial) assets

Croatian experience to date is that the management of financial assets, in particular through privatisation of state equity in firms and financial institutions, has often been shrouded in a veil of secrecy and accompanied by the absence of information about the financial effects. This was reason enough for the public to feel contempt for and adopt a negative viewpoint about any concept of privatisation.

In Croatia there is clearly an institutional problem about managing government financial assets. Let us recall, the board of supervision of the CPF was bound to submit a report on its work at least once annually. Since 1998, the board has not regularly met and held sessions. No board had actually been appointed from January 2008 to 2010. It was only on July 9, 2010 (two and a half years being confirmed for the sixth time) that the parliament adopted a decision to appoint new members. The new board of supervision held three sessions in half a year. The last session of the board of supervision was held on March 9, 2010, three weeks before the deadline set by law for the CPF to stop working, and the Agency for the Management of State Assets to start operating.

The government is authorised to submit to the parliament a report on the operations of companies of special state interest in the previous year by the end of September of the current year. This provision was rescinded by the adoption of a new Decision on the list of legal entities of special state interest in December (NN 144/2010). Thus in 2011 there has been no debate in parliament about one of the most important financial reports of the government.

3 Law concerning the government of the rights and obligations of shipyards in the process of restructuring, NN 61/2011

The current government has taken a number of good steps in the process of creating an institutional structure for a better management of government financial and non-financial assets. This refers primarily to:

- Definition of companies of special state interest (2006, 2009 and 2010)
- Passing of a law on the management of state assets (2010)
- Foundation of the Agency for the Management of State Assets (2010)
- Passing an Ordinance on the sale of shares and equity in companies owned by the Republic of Croatia, institutes and other legal entities owned by the Republic of Croatia (2011).

To round off the institutional structure, what remains for the government is the obligation to draw up proposals for and organise public debate about:

- Strategy for the Privatisation of Companies Owned by the State
- Plan of Privatisation of Companies Owned by the State.

In order for privatisation to continue and for the improvement of the management of government financial assets the competent bodies (the government the Agency for the Management of Government Assets and the Ministry of Economy, Labour and Entrepreneurship) should carry out a number of operational assignments primarily:

- Define the deadlines by which the government has to supply the parliament its Report on the Operations of Companies of Special State Interest.
- Provide publically available information about the operations of all companies of special state interest on the Internet sites of the Government, the Ministry of Economy, Labour and Entrepreneurship or the Ministry of Finance.
- Determine the value of the assets, in particular the liabilities of state owned companies.
- Encourage state-owned companies to draw up strategic development plans with set missions and operational objectives, along with the determination of strategic performance indicators.
- Define steps for the solving of structural problems in the financing and financial sustainability of existing companies and for the reduction of their dependence on government subsidies and guarantees.
- Ascertain which part of the shares or equity of the state in companies should be assigned to local government units.
- Ascertain the existing value of the shares and equity allotted to Croatian defenders and to evaluate the total value of the assets and the deadlines for the allotment of the shares.

- Define the framework for the privatisation of firms in which the state has a minority holding with collection of claims from privatisation operations already carried out.
- Evaluate the costs and benefits and expected financial effect of potential privatisation of some of the companies of special state interest.
- Set the schedule (strategy) and plans and deadlines for privatisation.

In truth, this is a process that cannot be concluded in the term of office of a single government. But it is high time that greater public attention was devoted to the management of government financial and non-financial assets, both because of their current poor financial effect on the budget and because of the fact that by joining the EU Croatia will become part of a larger market in which the management of state owned assets will be crucial for the stabilisation and long-term financial sustainability of the public sector.

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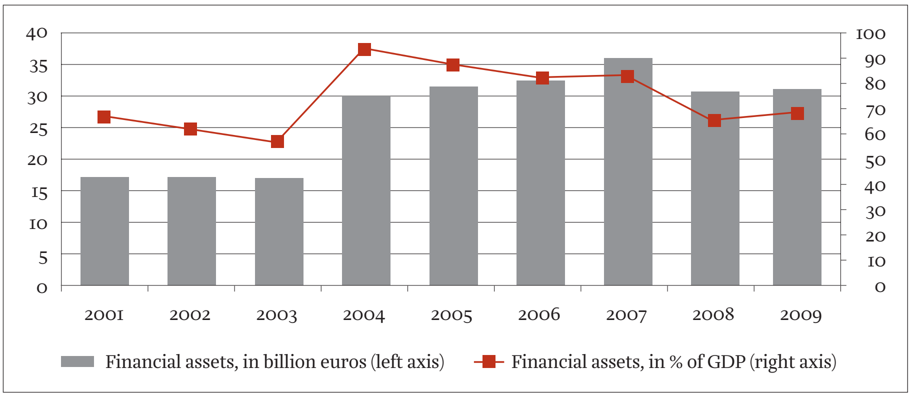
Graph 1

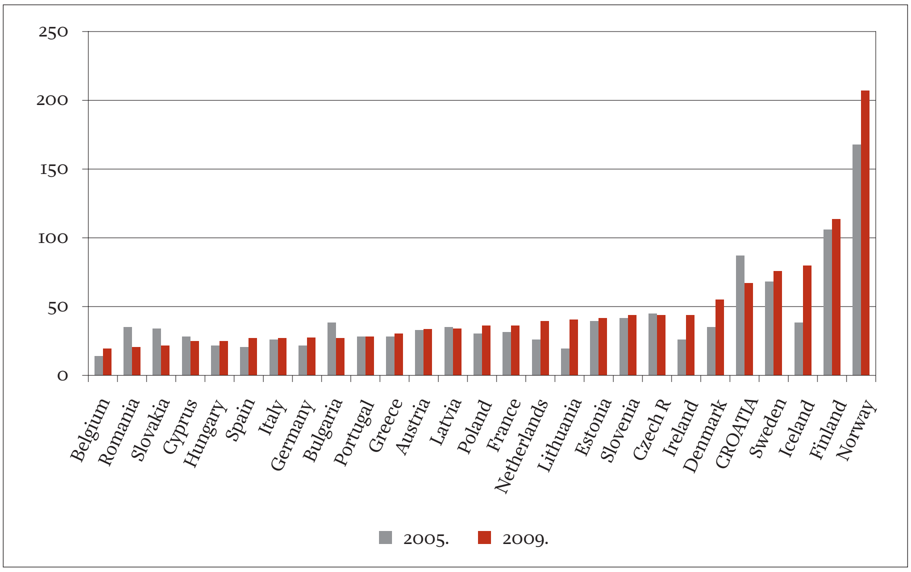
Tre financial assets of general government in Croatia from 2001 to 2009 (in billions euros and % of GDP)



Source: Eurostat, 2011

Graph 2

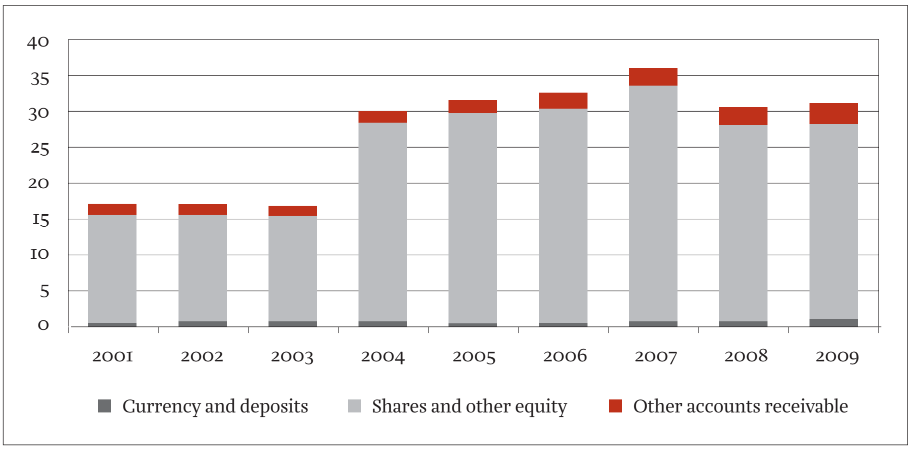
Financial assets of general government of European countries in 2005 and 2009 (% of GDP)



Source: Eurostat, 2011

Graph 3

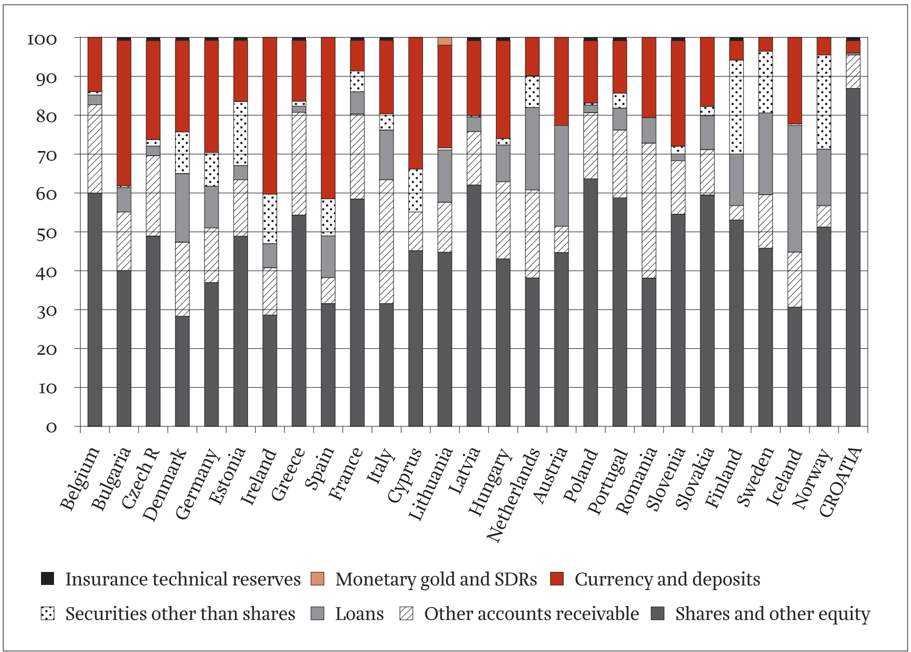
Financial assets of general government in Croatia from 2001 to 2009 (in billion euros)



Source: Eurostat, 2011

Graph 4

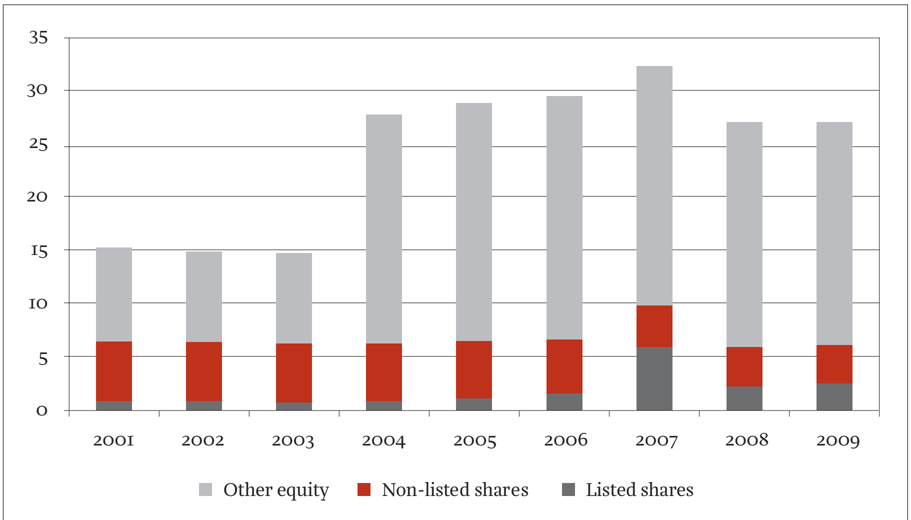
Structure of financial assets of general government in European countries in 2009 (in %)



Source: Eurostat, 2011

Graph 5

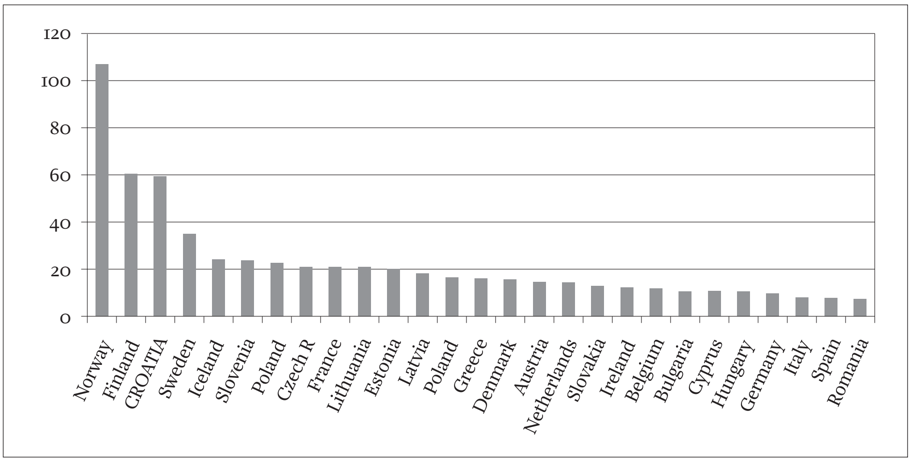
Shares and other equity (excluding shares of mutual funds) from 2001 to 2009 (in billion euros)



Source: Eurostat, 2011

Graph 6

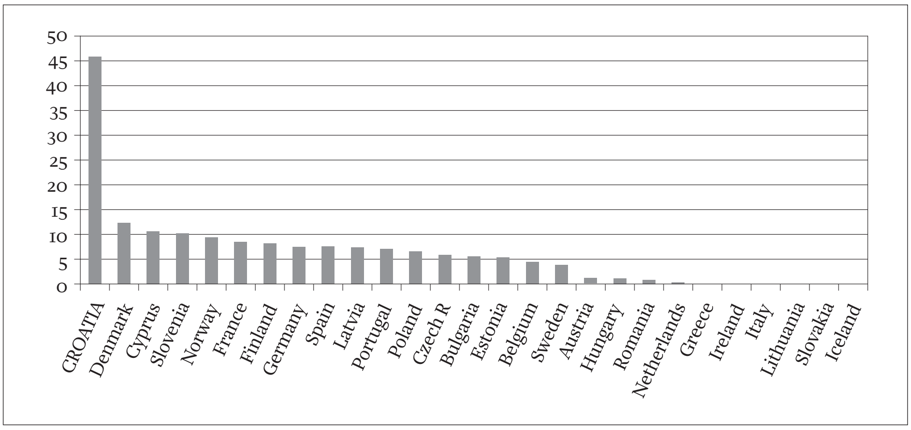
Shares and other equity (excluding shares of mutual funds) of European countries in 2009 (% of GDP)



Source: Eurostat, 2011

Graph 7

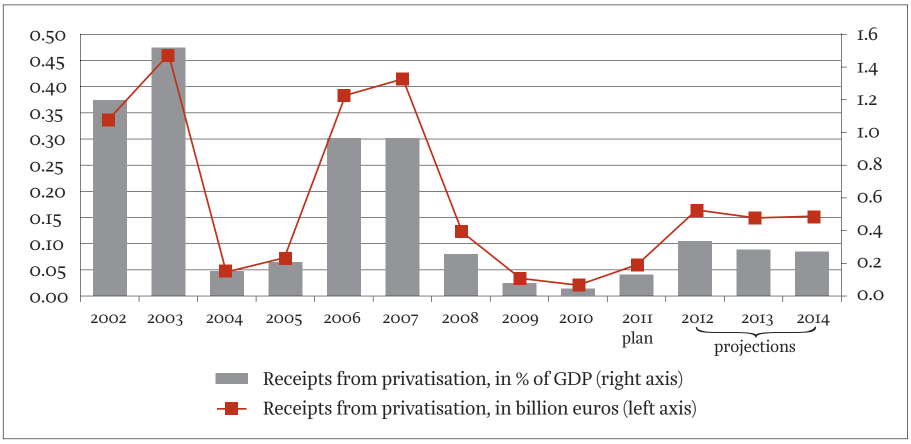
Other equity of general government of European countries in 2009 (% of GDP)



Source: Eurostat, 2011

Graph 8

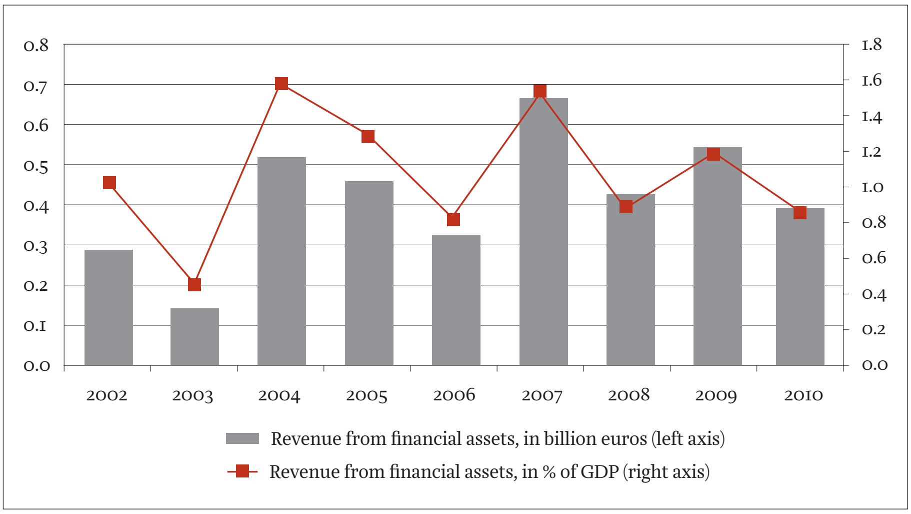
Receipts of general government in Croatia from privatisation from 2002 to 2014 (in billion euros and % of GDP)



Source: Author's computation according to data of the Ministry of Finance (2011). This assumes the kuna/euro exchange rate being at 7.34 from 2011 to 2014.

Graph 9

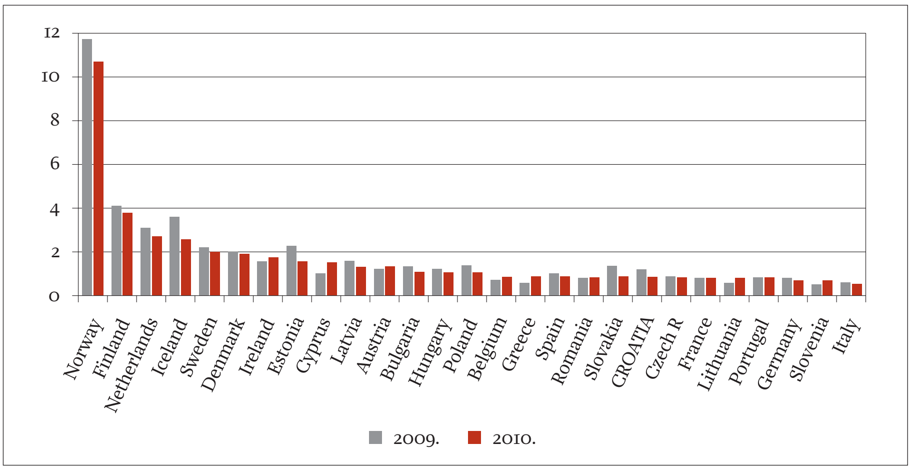
Revenue from assets of general government in Croatia from 2001 to 2010 (in billion euros and % of GDP)



Source: Author's computation, figures converted into euros according to the annual mean exchange rates of the CNB

Graph 10

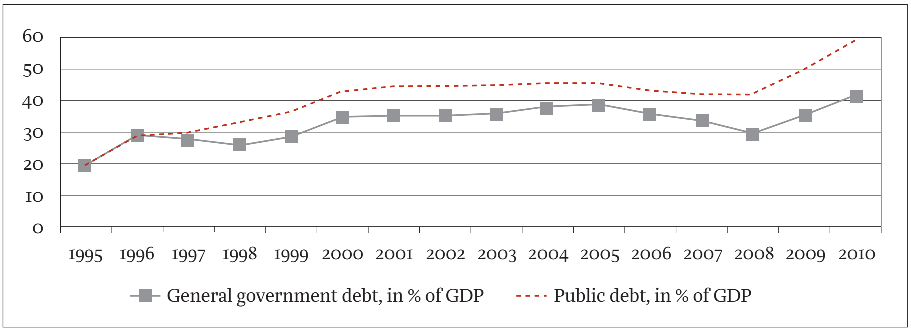
General government property income of European countries in 2009 and 2010 (% of GDP)



Source: Eurostat, 2011. For Croatia, author's computation.

Graph 11

Public debt and debt of general government in Croatia from 1995 to 2010 (% of GDP)



NB: The debt of general government includes the direct debt of the budget, of extrabudgetary spending agencies and local units. Active guarantees and the CBRD debt are included in the public debt.

Source: Ministry of Finance and CNB, 2011.