



PRESS RELEASES

Can we hope to break the vicious circle of inertia in Croatia? A commentary on the Commission's European Semester Winter Package

KATARINA OTT, Institute of Public Finance, Zagreb

On March 13th in Zagreb, the European Commission representation in Croatia presented the **analysis of the economic and social situation**, including, among other things, an analysis of the implementation of country-specific recommendations (CSRs) and an assessment of potential economic imbalances.

Since the **country report for Croatia** was unfavourable, as usual, its recent release caught – unfortunately, only briefly – the attention of Croatian media and politicians. Instead of focusing on the burning issues of excessive economic imbalances and the failure to implement reforms, the spotlight quickly turned to the passionate discussion on the subject of the Istanbul Convention. No one is questioning the importance of the Convention; however, its ratification or the failure to do so will not bring about any immediate significant changes, while ending excessive economic imbalances would considerably change the lives of all Croatian citizens. Since the amount of attention given to the issue by politicians and the media is obviously not sufficient to result in any constructive action, it is important to stress the significance of this document, as well as its potential and intended purpose within the context of not only the European Commission but the Croatian government and Croatian citizens as well.

The document in question is the so-called European Semester Winter Package that the Commission forwards to the European Parliament, the Council, the European Central Bank and the Eurogroup¹. The package analyses both the state of the Union as a whole and the state of 27 individual Member States (except Greece, which is under a stability support programme) and includes special in-depth reviews for 12 selected Member States (Croatia being one of them).

The Winter Package accompanies previously published EU documents: the **Annual Growth Survey**, **Recommendation for the Euro Area** and **European Semester Autumn Package** all from November 2017, as well as the February 2018 **Winter Interim Forecast**. It should provide the foundation for Member States to present their national programmes by mid-April, which will serve as a basis for the Commission's proposals of CSRs in May².

¹ The Eurogroup is an informal but influential body of euro-area Member States' finance ministers.

² See the **visual presentation of the European Semester calendar**.

Croatia facing excessive imbalance, has made limited or no progress

Some seventy pages of the Winter Package refer to Croatia, its economic situation and outlook, as well as progress shown in the implementation of CSRs. Furthermore, it includes the findings of the in-depth review and the reform priorities in the following areas: public finances and taxation, private sector and financial sector debt, labour market, social policies and education, competitiveness and investment, and public governance.

Two facts stand out: (1) Croatia is experiencing *excessive economic imbalances* and (2) Croatia has made *limited or no progress when it comes to the implementation of European Commission recommendations*.

More specifically, last year's in-depth reviews for selected Member States indicated that six Member States were facing imbalances and six were facing excessive imbalances. On the other hand, this year only three "incurable" Member States were experiencing excessive economic imbalances, Croatia, unfortunately, being one of them.

For instance, Slovenia was identified as facing imbalances last year, but this is no longer so – stability risks have receded and the country has shown an overall satisfactory progress in terms of implementation of recommendations from earlier years, and their implementation continues. Unlike Slovenia, Cyprus, Italy and Croatia continue experiencing excessive imbalances. Imbalances are being reduced in Croatia and Italy, supported by a combination of reforms, favourable economic conditions and a reduction of risks in the banking sector. There is however a need for more determined policy implementation, notably in Croatia.

Five CSRs (with sub-CSRs) were addressed to Croatia in 2017, specifically in the areas of fiscal policy, the pension and social security system, education, public administration, and state-owned enterprises and state assets. No progress has been made in the implementation of CSRs regarding public administration, and limited progress has been made in the remaining four areas. There has been no progress whatsoever in the implementation of five sub-CSRs, limited progress has been made in the implementation of seven sub-CSRs, and there has been some progress in only one case (the framework for public debt management has been improved).

More of the same, no change for the better

To those who keep up with European Commission reports, this Winter Package is no news. The current Croatian government and those that came before have been given more or less the same recommendations in all documents addressed to them, year after year, since before EU accession. However, they have been sloppy and lacking in addressing them or have failed to implement them altogether. More details are given below, where the categories distinguished by the European Commission in its assessment of recommendation implementation progress are presented.

There is, for instance, *no progress* when "the fragmentation and functional distribution of competencies of sub-national units have not been addressed". On the other hand, *progress is limited* when „The new Ministry has advanced efforts in sales of minority shares in state-owned companies and further reduced the list of companies of strategic and special interest. However, there are considerable delays in the legislation aimed at improving the management of state assets and corporate governance in SOEs“.

Can we hope to break the vicious circle of inertia?

Just like numerous earlier documents addressed by the European Commission to the current and previous Croatian governments, this Winter Package clearly states what is to be done in order to graduate from the *no progress* and *limited progress* categories to *full implementation* or at least *substantial progress*. All measures needed to address the CSRs appropriately have to be implemented, or, at the very least, measures that go a long way in addressing the CSRs have to be adopted and most of them have to be implemented.

How come that Slovenia, for instance, managed to eliminate imbalances, while Croatia, together with Italy and Cyprus, which suffer from the same kind of paralysis, is still battling excessive imbalances? Slovenia's success lies in the complete and permanent implementation of Commission recommendations, while Croatia still shows limited or no progress.

Will the Government pull itself together and, for once, act in accordance with the Commission suggestion that the National Reform Programme and Convergence Programme, for a change, be drafted with the support of the Parliament and all key stakeholders (social partners, regional and local authorities, and civil society organisations)?

Will new legislation, committing this and future governments to implement such, more transparent, more participative, and therefore more accountable procedures, finally be adopted? By the way, this is one of the recommendations concerning which no progress has been made, i.e. “No progress in reinforcing the budgetary framework. The new Fiscal Responsibility and Budget Acts, aimed at addressing many of the outstanding issues, have still not been adopted.”

Since the current government, like more or less all those that came before it, consistently blames its inertia on the lack of support for reforms, which are said to be “unpopular”, more transparent, participative, and accountable procedures might just do the trick in ensuring such support. However, we are already in mid-March and the National Reform Programme and Convergence Programme are due to be presented to the Commission as early as in mid-April (according to the Croatian Budget Act, by the end of April?!). There is concern that, just like last year, these programmes would be presented before the Parliament no sooner than the end of April, in their final form and thus not allowing the opportunity for discussion or exerting influence. If this will be the case, “key stakeholders” will again remain powerless when it comes to having an impact on the reform programme, allowing them to justify the lack of interest and the consequential lack of support for reform, while the Government will be able to justify the non-implementation of reforms by saying that support is lacking. Instead of discussing these key existential issues, everybody will continue to quarrel about the Istanbul Convention, which hardly anyone has even read. Then again, does anyone read European Commission reports anyway?

Assessment categories used by the Commission in its evaluation of CSRs implementation

No progress. The Member State has not credibly announced nor adopted any measures to address the CSR. Below is a number of non-exhaustive typical situations that could be covered under this, to be interpreted on a case-by-case basis taking into account country-specific conditions:

- No legal, administrative, or budgetary measures have been announced in the National Reform Programme or in other official communication to the national Parliament / relevant parliamentary committees, the European Commission, or announced in public (e.g. in a press statement, information on government’s website);
- No implementing acts have been presented by the Government and the Parliament;
- The Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures that would need to be taken (unless the CSR explicitly asks for orientations or exploratory actions), while clearly-specified measures to address the CSR have not been proposed.

Limited progress. The Member State has:

- Announced certain measures but these only address the CSR to a limited extent; and/or
- Presented legislative acts in the Government or the Parliament but these have not been adopted yet and a substantial number of implementing acts is needed before the CSR will be implemented;
- Presented implementing acts, yet with no further follow-up in terms of implementation which is needed to address the CSR.

Some progress. The Member State has:

- Adopted measures that partly address the CSR; and/or
- The Member State has adopted measures that address the CSR, but a fair amount of work is still needed to fully address the CSR as only a few of the adopted measures have been implemented. For instance: adopted by national parliament; by ministerial decision; but no implementing decisions are in place.

Substantial progress. The Member State has adopted measures that go a long way in addressing the CSR and most of which have been implemented.

Full implementation. The Member State has implemented all measures needed to address the CSR appropriately.