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PRESS RELEASES

Institutional Framework for Government Asset Management in Croatia

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Shortly after the Strategy, a Bill on the Management and Disposal of Assets owned by the Republic of Croatia has now been put in parliamentary procedure. The bill proposing and strategy adoption procedures have been accelerated due to a surge in public debt, growing need for borrowing and the giving under concession or sale of the state property in order to relieve the pressure on public finance in the current year and the years to come.

The Act provides an institutional framework for the centralised management of government financial and non-financial assets, with the State Office for State Property Management as the key co-ordination point for numerous government institutions in their record-keeping and register-updating activities, especially in the field of the restructuring, identification and evaluation of assets. Through high-quality management, the Office should increase the currently low marketability of the assets and provide the Government with information on the value of its assets as potential collateral for future borrowing.

The value of government financial and non-financial assets. During the legislative process, no information was available on the estimated value of the financial and non-financial assets. According to Eurostat, the non-consolidated value of financial assets of the general government (comprising central government, extra-budgetary funds and local government units) stood at EUR 32bn (71% of GDP) in 2011. However, of the total assets, 90% were shares and other equity reported at book value, rather than fair (market) value. In that year, the total value of the general government's financial assets was EUR 6.9bn (15.8% of GDP) lower than that of its financial liabilities.

Financial potential of government (financial and non-financial) assets. In the period from 2002 to 2012, budget revenues from property and proceeds from the sale of financial and non-financial assets reached HRK 32.6bn (about HRK 3bn or 1% of GDP on average per year). The bulk of the revenues came from concessions (HRK 19.4bn), dividends, withdrawals of income from public company profits and interest. Revenues from the sale of non-financial assets (mainly buildings) stood at HRK 6.4bn. Another HRK 9.8bn came from privatisation (the sale of shares and equities), particularly in the years of major privatisations (2003, 2006 and 2007). Apart from the state budget, the budgets of local government units also generated considerable revenues from their assets. Only in the period between 2002 and 2011, they received HRK 24bn in revenues and proceeds from assets. The total annual financial potential of the central and local governments' assets was about HRK 5bn on average between 2002 and 2012. This amount included neither tax and non-tax revenues from the assets, nor revenues from the assets of extra-budgetary funds. These assets obviously have significant financial potential which has been systematically neglected and excluded from the analyses of government finance sustainability.

Centralisation and a strategic and operational framework for asset management. The proposed Act is aimed at centralising the management and disposal of the 36 forms of government assets. The existing records (scattered in numerous institutions) will be organised in a State Property Register. The Office will propose a decision to the Government on making a list of companies and other legal entities of strategic and special interest to the state. Moreover, four-year strategies for government asset management will be developed and annual management plans will be worked out to define short-term goals, guidelines and operational measures for the implementation of the Strategy. The Government will issue a decree, prescribing in detail the implementation of the Asset Management Plan and the obligation of the Office to submit regular reports thereon to the Government. The Act should have provided that the Plan and its implementation be discussed by not only the Government but also the Parliament.

As of 30 September, the *Centre for Restructuring and Sale* (instead of the State Property Management Agency which will be closed down) will be responsible for companies not identified as strategic. These companies will probably be the first on the list for sale. The Centre will participate in pre-bankruptcy settlement proceedings and the appointment of the companies' supervisory board members, prepare asset balance reports, etc. The powers of the Centre are broadly defined, thus limiting its ability to carry out its numerous tasks. The Centre is supposed to be a technical operative body, but its operating efficiency is impaired by the fact that the members of its Governing Council are deputy ministers (of finance, tourism, maritime affairs, transport and infrastructure and of agriculture, including a trade union representative). The deputy ministers should be part of the management infrastructure, but not the members of the Governing Council.

Commission on Strategic Company Management and *Commission on Real Estate Management and Disposal.* Two commissions have been set up within the Office. A *Commission on Strategic Company Management,* consisting of the representatives of relevant ministries (of finance, economy, agriculture, entrepreneurship and crafts, labour and pension system), will consider plans and reports on the performance of companies, propose a code of management practice, members of supervisory and management boards and consider restructuring plans. A *Commission on Real Estate Management and Disposal,* consisting of the ministers whose portfolios comprise the bulk of government real estate (the ministers of justice, construction and physical planning, agriculture, tourism and defence), will dispose of real estate worth up to HRK 100m, while the disposal of assets worth over HRK 100m will be within the competence of the Government. The joint task of the Office and the Government will be to set up a final list of enterprises and institutions of special national interest and to publish reports on their financial performances.

A key prerequisite for good asset management is timely and credible information on government liabilities. Therefore, the Government and its Ministry of Finance should finally formulate a new Public Debt Management Strategy for the period 2014-16 and a Public Debt Act. Such strategies are normally developed by the finance ministries of all the EU Member States, whereas even some non-EU Member States (such as Serbia and Bosnia and Herzegovina) have public debt legislation. The described institutional improvements would significantly facilitate public debt management and help reduce the cost of borrowing, as well as enable the Government to control the public sector’s assets and liabilities. As in the case of asset management, the Government should also consider the possibility of establishing a separate State office for public debt management. An institutional link between the management of assets and liabilities would mitigate financial risks and enhance the Government's credibility in public finance management.