

## BRUSSELS ON CROATIA'S DEFICIT:

### Croatia can no longer hide its debts!

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**Tportal.hr spoke to a Brussels insider about the broader significance of Croatia's increasing budget deficit for the EU, and about the consequences of introducing a "deficit procedure". The office of EU vice-president Olli Rehn insists that there is no need for alarm, but others are warning that "the current approach is making the situation worse."**

Croatia is slowly but surely being confronted with the practical consequences of EU membership. Although public attention is mainly focused on the so-called "**Lex Perković**", a far greater challenge lies in bringing the Croatian budget deficit into line with EU law, with the prospect of a **deficit procedure** looming. In late October, Eurostat will publish its report on government debt. For the first time the report will include Croatia, which is clearly having trouble with its budget deficit. It is worth noting that Eurostat uses another calculation method than the one that has conventionally been used in Croatia, which means that the Croatian deficit is likely to be revised upwards to as much as five per cent. Croatia will therefore have to reckon with a deficit procedure, which, as it happens, has already been launched against no fewer than 15 other EU Member States.

Under this procedure, the Croatian government will have to propose measures to reduce the budget deficit to the European Commission, which will issue an opinion and provide specific recommendations in response. Given that the Croatian authorities already had a year to balance the public books, it remains to be seen where and to what end the Croatian government will cut spending and what sort of role Brussels will play in this.

Responsibility for the deficit procedure lies with **Olli Rehn, EU vice-president responsible for economic and monetary affairs**, who is very familiar with the situation in Croatia having previously been responsible for EU enlargement. In response to tportal.hr's request for comment on the prospect of a deficit procedure against Croatia, **Olli Rehn's spokesperson Vandna Kalia** said that "an assessment is under way as to the existence of an excessive deficit," and "a report on the matter is being drawn up". Nevertheless, we have learnt from an anonymous source in Brussels that the Commission is well aware that there is such a deficit. This means that Croatia is probably facing a deficit procedure, even though Rehn does not want to publicly confirm this yet.

The EU vice-president's office says that "Croatia must meet its obligations under the Stability and Growth Pact and align its statistics with Eurostat standards". In other words, the time is up for creative accounting and window dressing of debts, something Croatian finance minister **Slavko Linić** is still trying to pull off. Rehn's office also says that Croatia needs "macro-economic, fiscal and structural reforms", and that next year the country should take "fiscal consolidation measures." If Croatia wants

to avoid a deficit procedure and achieve a lasting recovery, it needs to decide a "clear and sustainable strategy for consolidation and at the same time implement structural reforms", because there is no other way to achieve a "stable economy and finances". In plain English, this means that the Croatian government obviously does not yet have a "clear and sustainable strategy" to address these questions.

Rehn's office has also made clear that in response to "an excessive deficit, certain budgetary recommendations" will be made and "specific deadlines and targets" set, which means that Brussels will nudge the Croatian government to make painful cuts that it has avoided thus far. Nevertheless, the EU vice-president insists that "the national parliament retains sovereignty in decisions to amend or adopt the budget".

**Thomas Delapina, an Austrian economist and member of the European Economic and Social Committee (EESC)**, an advisory body to the European Commission, takes a different view of the matter. The European Commission's decision to gradually eliminate mobile roaming charges goes back to an EESC initiative. Also worth noting is that Delapina's opinion on the deficit procedure was adopted by a majority of the EESC to only three "no" votes. The EESC is made up of representatives of workers, employers and civil society groups. European economic representatives thus also agree that "the Commission's current approach is making the situation worse," as Delapina tells tportal.hr: "This is all creating unacceptable social conditions. There's no doubt that fiscal policy needs to be better coordinated between individual Member States, but Commission interference in national politics seems seriously questionable from the point of view of democracy."

Delapina does not want to tell Croatia what to do, but notes that "a strong industrial base is the best weapon for overcoming the economic crisis" (no need to mention the state of Croatian industry here!). Moreover, countries with a healthy social dialogue are less crisis-prone. The best way to "stabilise employment, incomes, confidence and government expenditure is to achieve consensus among the social partners" through dialogue, something that no longer exists in Croatia.

All sources agree that a deficit procedure against Croatia will begin as early as next year, and it will have a far greater impact on the social and economic state of the country than the farcical exchange over the European Arrest Warrant. Perhaps the only source of comfort is that Croatia is not the only EU country with a deficit, but is in the fine company of France, Portugal, Italy, Slovenia, Poland and Spain, among others.