EUROPEAN
COMMISSION

Brussels, 10.12.2013
C(2013) 9200 final

COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact (SGP).

2. According to Article 126(2) TFEU, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% of GDP (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

3. Article 126(3) TFEU stipulates that, if a Member State does not fulfil the requirements under one or both of the above criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State".

CONSIDERATIONS CONCERNING CROATIA

4. On the basis of the data notified by the Croatian authorities in September 2013[2] and taking into account the Commission 2013 Autumn forecast, the Commission adopted a report under Article 126(3) TFEU for Croatia on 15 November 2013[3].

5. Subsequently, and in accordance with Article 126(4) TFEU, the Economic and Financial Committee formulated an opinion on the Commission report on 29 November 2013.

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1 OJ L 209, 2.8.1997, p. 6. The opinion also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 3 September 2012, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm .

2 According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Croatia can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables.

3 All EDP-related documents for Croatia can be found at the following website: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/croatia_en.htm.

6. Article 126(5) TFEU requires the Commission to address an opinion to the Member State concerned and inform the Council, if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 126(3) TFEU and (ii) the opinion of the Economic and Financial Committee on this report under Article 126(4) TFEU. On the basis of these elements, the Commission has established a number of considerations for Croatia.

7. According to the revision of the 2013 budget and the draft 2014 budget[4] adopted by the government and sent to Parliament on 14 November, the Croatian authorities plan a general government deficit of 5.5% of GDP for 2013, after 5% of GDP in 2012, and expect the ratio to remain unchanged in 2014 and to decrease only gradually in 2015 and 2016. The Commission 2013 Autumn forecast, released on 5 November 2013, projects a general government deficit significantly above the 3% of GDP reference value in 2013, rising to above 6% of GDP in the period 2014-2015 in the absence of countervailing measures. As indicated in the Commission report under Article 126(3) TFEU, the planned and forecast deficits are above and not close to the Treaty reference value. The excess over the reference value can be considered as exceptional within the meaning of the SGP. In particular, it results in part from a severe economic downturn in the sense of the SGP. Economic activity is estimated to have contracted by almost 12% since its peak in 2008. Real GDP is projected to contract further in 2013, with a slight recovery expected only in 2014. Potential output growth, as estimated by the Commission services according to the commonly agreed method, stagnated in 2009, turned negative in 2010, and has remained negative since then. The calculated output gap, which has been negative since 2009, is expected to narrow gradually over the forecast period yet remain negative through 2015, confirming the depth and the extension of the recession. The planned excess over the reference value cannot be considered temporary in the sense of the SGP. According to the projections of the authorities and the Commission 2013 Autumn forecast, the general government deficit will remain significantly above the reference value also in 2014 and 2015 on current policies. The requirement concerning the deficit criterion of the Treaty is therefore not fulfilled.

8. In the draft 2014 budget, the government foresees an increase in the debt-to-GDP ratio from 58.1% in 2013 to 62% in 2014 and further to 64.1% in 2015 and 64.7% in 2016. These figures are different compared to those presented earlier in the September 2013 Economic and Fiscal Policy Guidelines, where the debt ratio had been forecast to reach 56.6% in 2013, and 60.6%, 63.4% and 65.3% in 2014, 2015 and 2016 respectively. The projection for the general government debt in 2013 is 59.7% of GDP in the Commission Autumn 2013 forecast. On unchanged policies, the debt ratio is expected to rise above 60% in 2014, thus exceeding the 60% of GDP Treaty reference value and remain above this threshold thereafter. According to currently available information a USD-denominated bond issuance in November 2013 would bring the general government debt ratio above the 60% threshold already by the end in 2013.The plans and both the authorities and the Commission forecasts

[4] The draft budget is not prepared according to the ESA 95 methodology. General government deficit estimates for 2009-2012 based on ESA95 are between 1.5 and 3.3 percentage points higher than those reported according to the national methodology. Differences stem mainly from the fact that deficit figures according to ESA95 include certain guarantees payments, debt assumptions and the repayment of the debt to pensioners.

show that debt is on a steep upward trend and is expected to remain so over the forecast horizon. This indicates that the Treaty requirement concerning the debt criterion is not fulfilled.

9. In line with the provisions in the Treaty, the Commission also analysed “relevant factors” in its report according to article 126(3) TFEU. As specified in Art. 2.4 of Regulation 1467/97, for countries with a debt ratio above the reference value, these factors can only be taken into account in the steps leading to the decision on the compliance with the deficit criterion if the general government deficit remains close to the reference value and if its excess over the reference value is temporary, which is not the case for Croatia. The relevant factors, in particular the deep and protracted recession against the backdrop of unsupportive external conditions, have been taken into account in the assessment of compliance with the debt criterion. They do not modify the conclusion that the debt criterion in the Treaty is not fulfilled.

10. The Economic and Financial Committee issued its opinion in accordance with Article 126(4) TFEU on 29 November 2013; this opinion is consistent with the assessment in the Commission report under Article 126(3) TFEU.

CONCLUSION

The monitoring of the budgetary situation in Croatia and, in particular, the examination of the compliance with the criteria laid down in Article 126(2) TFEU have led the Commission to prepare a report in accordance with Article 126(3) TFEU. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Croatia.

Done at Brussels, 10.12.2013

For the Commission
Olli REHN
Vice-President