



**COUNCIL OF
THE EUROPEAN UNION**



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PRESSE 29

Council opens excessive deficit procedure for Croatia

The Council today¹ opened an excessive deficit procedure for Croatia, adopting a decision² on the existence of an excessive government deficit as well as a recommendation³ setting out measures to be taken to correct the deficit by 2016.

The Council concurred with the Commission's view that Croatia does not meet the EU's deficit and debt criteria.

According to data notified by the Croatian authorities, Croatia's government deficit for 2013 was significantly above the EU's 3 % of GDP reference value and is set to increase in 2014 and 2015. The Commission's 2013 autumn forecast projects the deficit to rise to above 6 % of GDP in the 2013-2015 period if corrective measures are not taken.

This is partly due to a severe economic downturn, with economic activity estimated to have contracted by almost 12 % since the peak it reached in 2008. The Council considers that although the projected excess over the reference value is exceptional, it cannot be considered temporary.

The Commission's autumn forecast projects Croatia's general government debt to have reached 59,7 % of GDP in 2013. In an unchanged policy scenario, it is expected in 2014 to rise above the EU's 60 % of GDP reference value for government debt.

¹ At a meeting of the Economic and Financial Affairs Council.

² Under article 126(6) of the Treaty on the Functioning of the European Union (TFEU).

³ Under TFEU article 126(7).

P R E S S

Forecasts of both the Croatian authorities and of the Commission services confirm this upward trend, which is attributable to continuing high deficits and weak economic activity, and it is expected to continue over the forecast horizon. Hence the EU debt criterion is not fulfilled.

The Council in its recommendation calls on Croatia to correct the deficit by 2016. It sets deficit targets of 4,6 % of GDP for 2014, 3,5 % of GDP for 2015 and 2,7 % of GDP for 2016, consistent with an annual improvement in the structural balance of 0,5 % of GDP in 2014, 0,9 % of GDP in 2015 and 0,7 % of GDP in 2016.

The Council sets a deadline of 30 April 2014 for Croatia to take effective action and to report in detail on the consolidation strategy it envisages in order to achieve these targets.

Furthermore, the Council invites the Croatian authorities to carry out a thorough expenditure review, to improve tax compliance and increase the efficiency of its tax administration, and to improve the institutional framework of its public finances. It calls on the Croatian authorities to implement structural reforms, in particular to address labour market rigidities and an unfavourable business environment and to improve the quality of public administration, with a view to promoting potential GDP growth.
