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ABSTRACT

This paper attempts to answer the question whether transparent and timely preparation of the Public Debt Management Strategy of the Republic of Croatia can improve the quality of management of public debt in Croatia, and with that, if it can affect the quality of budget policy in general. The terms *public debt management* and *debt management strategy* are not new in the professional and scientific literature. Certain suggestions and solutions already exist, but failed to be implemented. Deadlines for the preparation, as well as the content of the public debt management strategy, are not legally regulated. As a result, only two strategies have been prepared so far, and only one has met the defined standards. Furthermore, PDMS¹ for the current period does not exist, and it is questionable by which guidelines public debt management in Croatia has been carried out. The paper is composed of two parts. The first part shows the theoretical overview and analysis of the current state of public debt in the Republic of Croatia. The second part deals with the theoretical guidelines and quality analysis of previous versions of PDMS.

Keywords: Public debt, management of public debt, Public Debt Management Strategy of the Republic of Croatia

1. Introduction

The development of the situation in Greece, related to the management of public debt, directly or indirectly brought forward the debate on public debt management (whether it is durable or unbearable, whether it is well managed or not, etc.). The current situation related to the public debt and public debt management in Croatia could result in the so-called Greek scenario.

If continued growth of the public debt and the ratio of public debt in relation to GDP are not adequately addressed, such a scenario can happen in Croatia. Each EU member state, in accordance with the Maastricht criteria and financial viability, wants to avoid such a scenario. Therefore, public debt management is one of the most important economic issues in Croatia.

Table 1 Plans and projections of realization of the state budget

mil. HRK	Plan 2014	Plan 2015	Projection 2016	Projection 2017
Revenues	117,064	106,434	106,155	109,596
Revenues from operating	116,749	105,265	104,998	108,445
Revenues from the sale of nonfinancial assets	316	1,168	1,158	1,150
Expenditures	130,651	118,975	118,364	117,973
Operating expenditures	128,088	115,669	115,712	116,203
Expenditures for procurement of nonfinancial assets	2,564	3,306	2,652	1,770
Total deficit / surplus	-13,587	-12,541	-12,209	-8,377
% of GDP	-4.1	-3.8	-3.5	-2.3

Source: Explanation of the proposal of the state budget and financial plans of extra-budgetary users for 2015 and projections for 2016 and 2017, Available at: <http://www.mfin.hr/adminmax/docs/Obrazlozjenje%20Prijedloga%20drzavnog%20proracuna%20i%20financijskih%20planova%20izvanproracunskih%20korinika%20za%202015.%20godinu%20i%20projekcije%20za%202016.%20i%202017.%20godinu.pdf> (Accessed on: August 21, 2015)

The status of Croatian public debt in relation to the Greek public debt, measured by certain indicators, suggests that for each of the analysed periods certain similarities can be noticed. Unclear and non-transparent insight into the current and previous borrowing, as well as non-compliance with the borrowing plan, indicate that guidelines, strategic targets and priority needs have not been adequately implemented. In order to identify and resolve any problems related to the management of public debt, it is necessary to have a transparent overview of the current situation and to develop an action plan for future periods in line with defined guidelines, stra-

Table 2 Public debt of certain EU member states and total public debt in EU 28 (in mil. EUR)

Country	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
EU 28	11,067,080.3	11,164,272.6	11,232,330.5	11,346,049.7	11,482,739.6	11,515,063.6
Belgium	409,584.0	408,418.0	403,175.0	422,679.0	426,757.0	423,861.0
Bulgaria	6,320.7	7,260.5	7,356.6	7,214.7	7,230.0	6,960.9
Germany	2,183,530.6	2,178,369.2	2,184,909.1	2,173,977.2	2,174,540.4	2,155,935.6
Spain	811,691.0	824,285.0	890,976.0	930,348.0	950,403.0	961,231.0
Greece	301,511.0	300,936.0	304,714.0	306,431.0	317,405.0	317,739.0
France	1,869,797.0	1,855,408.0	1,869,155.0	1,903,495.0	1,949,823.0	1,938,947.0
Italy	1,982,697.4	1,996,248.9	1,938,901.1	2,035,288.9	2,075,922.1	2,067,901.0
Hungary	77,159.0	78,053.9	76,681.7	76,772.1	78,929.1	77,531.9
Austria	261,935.1	257,841.6	258,525.6	262,079.9	262,165.4	269,429.3
Slovenia	17,516.2	17,4021.7	19,336.4	19,243.2	21,988.8	22,038.6
Sweden	148,027.2	155,444.2	156,968.5	174,769.9	165,500.0	168,967.9
Croatia	29,904.6	30,040.7	30,273.2	30,975.2	32,592.5	32,910.4

Source: Eurostat, Available at: <http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&code=teina230&language=en> (Accessed on: August 22, 2015)

tegic targets and priority needs. That is included in one of the most crucial documents for the sustainability of public finances – “Public debt management strategy”. The aim of this paper is to point out the importance of PDMS in Croatia, to stress its priority needs and compliance with a stabilizing fiscal policy. The methodological approach is focused on analyzing the current strategy and achieved results in the area of public debt management, more so as there is no clear model of analysis and presentation of public debt scenarios. This paper is trying to create better assumptions when defining the clearer parameters regarding debt management, as well as the precise strategic framework. The goal of this paper is to indicate the exceptional importance of the PDMS in Croatia and its compliance with the priority needs and stabilizing fiscal policy. Therefore, the research in this paper is directed towards presenting the latest strategies and efficiency analysis in the management of public debt. The main intention of this paper is to show and emphasize that a defined strict legal framework, together with the content and methods of public debt management strategy can contribute to the better management of public debt, satisfy the priority needs and achieve preferred intergenerational effects of public debt.

2. Public debt and public debt management in the Republic of Croatia

According to Rosen and Gayer, public debt is the sum of all budget deficits in the previous period. This definition indicates that in a year with a deficit the debt will increase, and in a year with a surplus the debt will decrease. In economic terms, debt is a *stock variable* measured at a given time, while the deficit and the surplus are *flow variables* measured over a period of time (Rosen, Gayer, 2010: 521, 522). In Croatia, the state budget deficit seems to be a predetermined and constant result. Table 1 shows the plan and future realization of the state budget, proving previously mentioned arguments.

In the case of extreme need, as in the case of the budget deficit, the state can provide funding in three ways: by increasing taxes and other charges, by sale of assets or by public borrowing (Rosen, Gayer, 2014: 474). Since the increase of taxes and the sale of state property are extremely unpopular measures and often insufficiently efficient and effective, public borrowing and public debt management is becoming one of the primary and highly complex tasks. The level of seriousness in the approach to public debt management, in addition to being extremely high in the current period, is increasing more and more in each reporting period.

2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
11,566,286.5	11,735,520.0	11,949,798.0	12,005,322.2	12,100,632.7	12,405,539.5
412,770.0	431,068.0	434,054.0	433,663.0	428,365.0	447,843.0
7,532.0	8,056.0	8,444.1	9,838.4	11,603.6	12,537.8
2,171,447.1	2,159,903.7	2,167,532.6	2,168,309.3	2,175,713.5	2,175,885.1
966,169.0	995,832.0	1,012,585.0	1,020,302.0	1,033,848.0	1,046,192.0
319,178.0	315,025.0	317,529.0	315,462.0	317,094.0	301,527.0
1,953,409.0	1,998,942.9	2,027,608.9	2,035,428.9	2,037,771.9	2,089,360.9
2,058,721.8	2,119,470.6	2,167,689.1	2,133,293.1	2,134,906.3	2,184,491.7
77,716.8	81,137.8	82,213.2	80,794.8	77,703.8	83,411.0
260,976.8	263,002.6	268,233.2	264,707.5	278,083.8	280,246.9
25,427.1	28,083.9	28,737.8	28,813.0	30,132.6	30,747.8
165,081.3	168,443.7	166,603.3	171,359.1	182,894.9	187,627.6
34,895.9	35,002.7	35,361.9	36,333.8	36,506.8	37,733.6

Table 3 Public debt to GDP ratio in certain EU member states and the average ratio of public debt in GDP of all EU 28 (%)

Country	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
EU 28	83.4	83.6	83.7	84.5	85.3	85.4
Belgium	106.5	105.8	103.9	108.6	109.1	107.8
Bulgaria	15.8	18.1	18.0	17.5	17.6	17.1
Germany	80.0	79.5	79.5	79.0	78.5	77.3
Spain	76.2	77.7	84.4	88.6	90.7	91.7
Greece	150.3	152.5	156.9	160.1	168.4	171.0
France	90.2	89.2	89.6	91.3	92.8	91.9
Italy	121.7	123.1	123.1	126.5	129.3	128.6
Hungary	78.2	77.8	78.5	81.3	79.9	78.4
Austria	83.9	82.0	81.5	82.3	82.0	84.0
Slovenia	47.9	47.9	53.7	54.0	61.7	61.6
Sweden	36.3	35.7	36.6	39.4	39.1	39.1
Croatia	67.9	67.7	69.2	71.2	73.3	75.8

Source: Eurostat, Available at: <http://www.zakon.hr/z/283/Zakon-o-proračunu> (Accessed on: August 24, 2015)

That is due to the constant increase of total amount of public debt as well as the increase of ratio of public debt in GDP. These problems are not exclusive only for Croatia. A large number of EU member states are facing the problems of debt, high levels of public debt in GDP ratio and the constant growth of public debt in the observed reporting periods.

Table 2 shows the structure of public debt of randomly selected member states and the total debt of all 28 EU member states in previous twelve reporting periods (quarters) expressed in millions of euros.

Table 2 shows that Croatia is not the only country in the European Union faced with the problem of public debt structure and with constant increase of public debt in almost every reporting period (in this case, quarterly). Similarly, the sum of the public debt of all 28 member states is growing in each quarter, which leads to the conclusion that this is a problem of a large number of member states as well as the problem of the integrative community which comprises a total of 28 members. A similar issue occurs when observing the share of public debt in GDP, although in this case there are certain states that are temporarily improving this result. The Eu-

ropean semester is an important instrument for the implementation of fiscal reforms in EU member states, which implies a real potential of fiscal challenges and budgetary possibilities in accordance with the implementation of structural fiscal reforms, which should necessarily lead to an improvement in the structure of public debt, and with time and improved results, in the sphere of employment, growth and investment in line with the fiscal targets of the European Union.

Table 3 shows the share of the public debt in GDP in randomly selected member states, including the Republic of Croatia, and the average share of the public debt in GDP of all 28 member states.

Management of public debt includes decisions on refinancing or repayment of debt, conversion and rescheduling, emission of new loans or debt, selection of the maturity models that minimize the cost of borrowing etc. (Jurković, 2002: 135). Besides previously mentioned activities for management of public debt, it is crucial to develop a Public Debt Management Strategy as one of the essential documents related to the state finances. Borrowing and public debt are considered to be the main sources for financing the state budget and thus they represent an extremely important act of fiscal responsibility, imposing the necessity of transparency regarding the results, planning and legislation. The Budget Law (NG 87/08, NG 136/12, NG 15/15)

2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
85.5	86.2	87.2	86.9	86.9	88.2
104.4	108.5	108.9	108.3	106.6	111.0
18.3	19.7	20.5	23.6	27.6	29.6
77.3	76.0	75.8	75.3	74.9	74.4
92.1	94.9	96.4	96.8	97.7	98.0
175.0	174.3	177.4	175.8	177.1	168.8
92.3	94.2	95.5	95.7	95.6	97.5
128.5	131.2	134.1	132.0	132.1	136.1
77.3	82.3	82.7	80.1	76.9	77.6
80.9	81.1	82.3	80.8	84.6	84.9
70.3	77.1	78.2	77.7	80.9	81.9
38.7	39.6	39.8	40.4	43.9	44.0
80.8	81.5	81.7	82.3	85.1	87.7

defines the fundamental objective of borrowing and public debt management in Croatia. According to this law, borrowing and public debt management is focused on covering the financial needs of the state budget by realizing the lowest middle term and long term financing expense, with a reasonable risk level. Annual laws on the execution of the state budget determine the total amount of the planned new state debt and the planned state guarantees that the state has to take or issue during the fiscal year, as well as the maximum amount of government debt achieved at the end of the budget year. Twice a year the Croatian Parliament reports on public borrowing, both on domestic and foreign capital markets, and on issued state guarantees and expenses. Reporting is conducted in the form of semi-annual and annual reports on implementation of the state budget. Legal regulation of public debt management is indirectly related to additional similar laws. Current amendments of the Fiscal Responsibility Act defining the *rule of public debt* are also relevant. The draft proposal of amendments of the Fiscal Responsibility Act passed a public debate, which officially lasted until 22 August 2015. That means the first step towards the adoption of the law is initiated. The draft proposal of the amendments to the Fiscal Responsibility Act is establishing the previously mentioned rule of public debt. The rule of public debt has two points (The draft bill on fiscal responsibility, 2015): (1) The share of public debt

in GDP must not exceed the reference value of 60% in accordance with the legal provisions of the European Union; (2) If the ratio of public debt in GDP exceeds the reference value of 60%, the difference shall be reduced by an average rate of 1/20 per year over the next three years from the year in which the ratio of public debt in GDP exceeded the reference value of 60%. The following question arises: is the *rule of public debt*, which has been constructed within the draft proposal of the Fiscal Responsibility Act, sufficiently ambitious and concrete and does it contain all the most important rules that should be followed? The Fiscal Responsibility Act is an instrument which can ensure the sustainability of public finances as it can achieve, with the application of fiscal rules, the necessary fiscal adjustment and ensure the sustainability of public debt (Public debt management strategy for the period 2011-2013, 2011: 5). Feasibility and implementation of the new regulatory framework is based on the requirements of the European Union, but also intends to define the financial behaviour of the state and all of the relevant subjects of the state. Fiscal rules in the framework of this law must be applied in all procedures of making the most important strategic documents that integrate future economic development at the national level, which includes additional controlling of the process of borrowing and improvement of the quality of borrowing.

Table 4 Basic characteristics of the public debt management strategy 2007

Public debt management strategy for year 2007
Legal and institutional framework for public debt management
Situation and projections of public debt
Projection of repayment of domestic public debt between years 2007 and 2009
Analysis of credit rating of the Republic of Croatia
Basic guidelines for public debt management 2007-2009

Source: *Annual Report and debt management strategy*, Available at: <http://www.mfin.hr/adminmax/docs/108-1.1%5B1%5D.pdf>, Accessed on: August 27, 2015)

3. Concepts and strategies for public debt management in the Republic of Croatia

The previous chapter points out that the borrowing and public debt management is one of the main ways of financing the needs of the state budget and therefore an important part of fiscal responsibility. For this reason, there is the need for transparency in planning of all activities related to the public debt management. A transparent analysis of recent results of public debt management and strategic planning of future activities require quality research and study. The primary and most important document containing the legal and institutional framework for borrowing and public debt management, structure

of public debt, general guidelines and strategic targets for public debt management and projections of borrowing needs is the public debt management strategy. If the aforementioned strategy for a given period is not prepared or if it does not exist, it can be considered that borrowing and public debt management is carried out randomly or according to the discretion of individuals responsible for the tasks. Consequently, it can be concluded how important it is to legally determine and define deadlines, content and other guidelines for the preparation of public debt management. A regulated deadline, content and methods of development of a public debt management strategy could directly influence the planning of public debt, increased level of transparency, and accordingly, it could lead to the increase of the quality of public debt management. Procedurally, the Directorate for Public Debt Management, in the Ministry of Finance, is responsible for preparing a three-year strategy for managing the state debt. The strategy is then submitted to the Government for approval. The Office of the Public Debt Management, in the Ministry of Finance, implements the public debt management strategy over the three-year period, following the approval of the Government, with the assistance of the Croatian National Bank (Dernaj, 2014: 42). In Croatia, in previous years, only two public debt management strategies have been developed. *Annual Report and the debt management strategy* (Available at: <http://www.mfin.hr/adminmax/docs/108-1.1%5B1%5D.pdf>, Accessed on: August 27, 2015) prepared in 2006, and *Public Debt Management Strategy for the period 2011-2013*, (Available at: <http://www.mfin.hr/adminmax/docs/Godisnjelzvjesce.pdf>, Accessed on: August 27, 2015) prepared in 2010. As documents, the Annual report and the Public debt management strategy presents the legal and institutional framework for public debt management, the status and projection of public debt trends, the status of the central government debt by instruments

Figure 1 Basic guidelines for the public debt management strategy 2007

- **Prudent and careful public debt management**
- **Transparent and predictable public debt management**
- **Promoting liquidity and a wide circle of investors in government securities, and the development of an effective infrastructure on the domestic capital market**

Source: *Annual Report and debt management strategy*, Available at: <http://www.mfin.hr/adminmax/docs/108-1.1%5B1%5D.pdf>, Accessed on: August 27, 2015)

Table 5 Results of the public debt management in the period 2006 - 2010

Public debt in millions of HRK	2006	2007	2008	2009	2010
1. Domestic public debt	58,326.30	60,135.60	65,743.30	75,799.70	89,249.10
2. Foreign public debt	44,710.40	44,524.20	34,878.80	41,933.30	48,754.10
Total public debt (1+2)	103,036.70	104,659.90	100,622.20	117,733.00	138,003.20
Public debt (% of GDP)	35.40%	32.90%	29.20%	35.10%	41.20%

Source: *Annual Report of the Ministry of Finance for 2010*, Available at: <http://www.mfin.hr/admin-max/docs/Godisnjak%202010.pdf> (Accessed on: September 20, 2015)

bills and bonds), projections of repayment of domestic debt and international bonds, credit capacity of Croatia and foreign exchange rates at the end of the year. However, the report takes into account the analysis of projections of domestic debt repayment plans and borrowing needs for the medium term period from 2007 to 2009. The primary goal of borrowing and public debt should include management according to the financial requirements of the state budget, by minimizing the time period of financing cost and within the reasonable risk level.

An additional objective covered by the strategy is the development of the domestic market of government bonds. The development of the financial market is a basic requirement for effective management of public debt, i.e. the analysis of effective cost of borrowing and liquidity, as well as proper debt portfolio diversification (Prohaska, Olgić Draženović, 2010: 839). Table 4 shows basic characteristics of the public debt management strategy for 2007.

A major disadvantage of the strategy for 2007 arises from the fact that it shows projections only for the repayment of domestic debt, although it emphasizes foreign debt may cause larger difficulties than the domestic debt. Figure 1 shows the basic guidelines for the public debt management strategy for 2007.

The quality of PDMS, except in thoroughly prepared plans, guidance, projections and ability to address the potential problems, is best reflected in the public debt management results, which are usually expressed as the ratio of public debt in GDP and the amount of debt incurred in the period.

Table 5 shows results of the public debt management in the period 2006 – 2010 derived from the management of public debt on the basis of the

guidelines outlined in the “Annual Report and the public debt management strategy”.

According to the results of public debt management, shown in Table 5, it is visible that the public debt management achieved very good results according to both indicators: the total amount of public debt in million HRK and the public debt to GDP. The year 2009, and the following year even more, showed significant increase of public debt according to both indicators. Therefore, it can be concluded and confirmed by the results that the period with public debt management strategy realized better results than the period without existing public debt management strategy.

Table 6 The main characteristics of public debt management strategy 2011 - 2013

Public debt management strategy 2011-2013
Legal and institutional framework for public debt management
Structures of public debt and public debt development
Analysis of credit rating of the Republic of Croatia
Guidelines for public debt management 2011-2013
Display of maturity of government debt in the period 2011-2020
The main objectives of public debt management strategy 2011-2013

Source: *Public debt management strategy 2011 – 2013*

The public debt management strategy for the period 2011–2013 was prepared in a more professional way. It contained a detailed analysis of the legal and institutional framework for public debt management, structure of public debt (currency, interest rate and maturity of government debt and the structures according to the type of instruments) and the

Figure 2 The main objectives of public debt management strategy 2011 - 2013

- **Contribution to the stabilization of the public debt-to-GDP ratio**
- **Extension of the average deadline maturity and reducing the share of short-term debt in the total amount of public debt**
- **Establishment of mechanisms of protection against currency risk**
- **Development of the yield curve on domestic and foreign markets**
- **Continuous development and improvement of the domestic securities market**

Source: *Public Debt Management Strategy 2011-2013*

basic guidelines for public debt management for the period from 2011 to 2013.

The public debt management strategy for the period from 2011 to 2013 indicated that public debt management is a process in which the main efforts are focused on the evaluation and analysis of the debt structure in order to minimize generated risk due to its direct impact on the state budget, financial system, capital market and fiscal and macroeconomic stability of the country (Public Debt Management Strategy for the period 2011-2013, 2011: 19).

In order to achieve the quality level of public debt management and following the example of other EU countries, preferred high level of transparency is achieved by determining the objectives of public debt management and preparing annual reports on borrowing and public debt management.

In accordance with the specific objectives, the Directorate of Public Debt Management, which operates within the Ministry of Finance, brings decisions on the debt management strategy and sets strategic

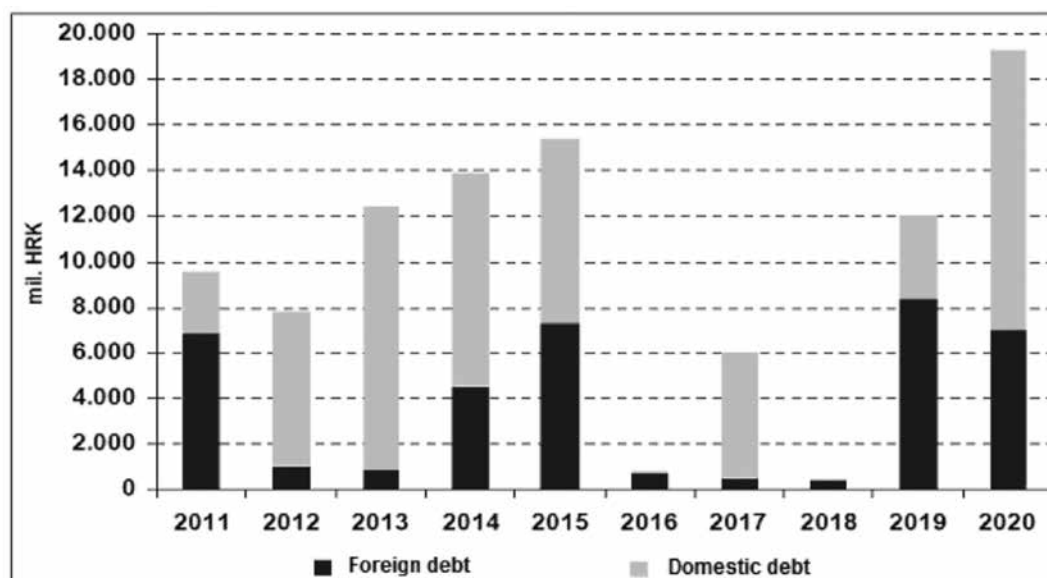
targets based on the results of the expected costs and risks in a given moment. Strategic targets are defined as desirable values of debt portfolio with an acceptable level of risk within a stipulated period. Potential strategic targets are an integral part of the proposal of public debt management strategy, developed by the agency, government or the sector for public debt management. Minister of Finance approves the public debt management strategy that is consistent with the national risk tendency (Bajo et al., 2011: 97). Table 6 shows the main characteristics of public debt management strategy 2011 – 2013.

The more serious approach in the development of the public debt management strategy for the period 2011 - 2013, when compared with 2007, arises from the fact that it provides a more detailed description of the legal and institutional framework for public debt management, as well as precise guidelines for public debt management in the medium term, i.e. a three-year period, and shows the long-term maturity of government debt, i.e. over a ten-year period.

Table 7 Results of public indebtedness in the period 2009 - 2013

Public debt in millions of HRK	2009	2010	2011	2012	2013
1. Domestic public debt	86,218.20	104,361.80	125,709.10	131,504.20	152,273.70
2. Foreign public debt	60,936.20	68,725.70	73,602.00	81,494.00	97,787.50
Total public debt (1+2)	147,154.40	173,087.50	199,311.10	212,998.20	250,061.20
Public debt (% of GDP)	44.50%	52.80%	59.90%	64.50%	75.70%

Source: *Annual Report of the Ministry of Finance for 2013*, Available at: <http://www.mfin.hr/adminmax/docs/Godisnjak%202013.pdf> (Accessed on: September 20, 2015)

Figure 3 Maturity of government debt in the period 2011 - 2020

Source: *Public Debt Management Strategy for the period 2011–2013 (2011)*, p. 11

In addition, the main objectives of public debt management strategy 2011 – 2013 were specific, comprehensively elaborated and explained in detail.

The results of public debt management between 2009 and 2013, which are largely the result of the public debt management strategy 2011 – 2013, are shown in Table 7.

The data presented in Table 7 once again confirm that the results of the public debt management are better in the period for which the public debt management strategy is prepared, showing a small increase of public debt and the ratio of public debt in GDP. It is necessary to clarify that the results of the public debt management in the period from 2009 to 2013 are clearly different and significantly inferior to the results of the previous period shown in Table 6.

The reason for this is the fact that the results of the public debt management presented in annual reports for 2010 and 2013 have been calculated according to different methodologies. Furthermore, the results of public debt shown in the Annual Report of the Ministry of Finance (for all periods) differ from the results of EUROSTAT. This is presented in Tables 2 and 3. The methodology used for EUROSTAT calculations is ESA, 2010.²

The contribution to the transparency of borrowing and planning of future public debt management within the Public Debt Management Strategy for the period 2011 - 2013 can be seen in the overview of the maturity of government debt. This is described in the chapter Maturity structure of government debt. In order to achieve further progress in preparation of debt management strategy it is proposed to show the maturity structure of public debt classified according to its use.

The projected debt repayment, which indicates increased burden of repayments in the first half of the period, up to date, is certainly significantly changed because one of the basic guidelines of PDMS 2011 – 2013 is the prolongation of the average maturity and reduction of the share of short-term debt in total amount of debt. Therefore, it is assumed that the implementation of the basic guidelines of PDMS 2011 - 2013 influenced the harmonization of maturity of the debt over the years. Further implementation of the same guidelines proved to be essential. If harmonization of debt repayment is not taken into account, it can bring into question the impact of inter-generational fairness in the management of public debt.

Figure 4 Proposal of main guidelines of PDMS for future period

- Stabilization of public debt to GDP ratio by stimulating the growth of GDP and export
- Extension of the average deadline maturity and reducing the share of short-term debt in the total amount of public debt
- Continuous development and improvement of the domestic securities market
- Legalization of the time limit and manner of drafting of public debt management strategy through law on the fiscal responsibility
- Development of the project for decrease of unemployment, demographic renewal and mitigation of emigration of young and educated people from Republic of Croatia

Source: Authors

Simply put, each accounting period in which there is a strong burden of debt repayment is likely to lead to aggravation or inability to prioritize investments directed towards the present generation, e.g. reduction of the unemployment rate, lack of funds for pension benefits (members of the so-called previous generation), or to a further increase for future generations to finance the costs of the previous periods. Inter-generational fairness in the management of public debt emphasizes the need to minimize government borrowing in order to relieve future generations of financing costs from the past. At the same time, it does not influence the lack of priority investment of the present generation nor does it call into question the payment of pension benefits.

This could probably be achieved by limiting public borrowing for financing the deficit of the state budget, and with efficient and effective management of public debt (Šundalić, Dernaj, 2012: 240, 241). Accordingly, as seen through the chronology of the development of the strategic framework, more consistent framework for public debt management is proposed.

Points from 1 to 3 of the proposal of basic guidelines of PDMS for the future three-year period present a continuation of positive activities in the public debt management strategy 2011-2013. Point 4 is described in detail above. Point 5 can be achieved by establishing the Fund for the decrease of unemployment, demographic renewal and mitigation of emigration of young and educated people from the Croatia. The fund could be financed through public borrowing, donations and EU funds. A guarantee for the financial viability of the fund could be ensured by state properties and assets, and managed by DUUDI.³ A number of properties and assets that are not in the function of financial resources represent untapped potential in the structure of guarantees. On the other hand, within the framework of the privatization process and quality management of debt they could affect the improvement of the value of financial collateral. A high level of transparency, timely, regular and efficient management strategy, and comprehensive view of the maturity of the public debt, are the basis for successful management of the public debt. Secrecy in reporting, incomplete data in the historical period, and a vague framework of borrowing on international markets that does not comply with the real objectives of borrowing are elements that lead to the need to incorporate a strategic document into government policy planning. Such a document would encompass future activities in the short-, medium- and long term and thus facilitate access to public debt management, particularly in the transition periods when there is a change of government.

4. Conclusion

One of the biggest problems in the management of public debt is its legal definition, where the major issue arises from the fact that it is extremely difficult to predict the results of future realization of the state budget and the public needs for the future period. This problem might also be emphasized and influenced by the economic developments, on EU level and beyond, or by certain crises and natural disasters. However, legal determination of the date and conditions of development of the public debt management strategy, in order to maximize the level of transparency and enable quality planning of public debt management with better macroeconomic forecasting, would make a significant step towards achieving the desired level of impact of inter-generational fairness in the management of public debt. According to the guidelines, goals and strategic targets adopted in PDMS, management of the public debt is considered to be fully justified and can minimize the possibilities of decision-making processes based on personal discretion of responsible individuals. The solution of this problem could be achieved with amendments of the Fiscal Responsibility Act. The main purpose of PDMS is to maximize the level of transparency of the results of public debt management, and thus to enable the predictions of future activities and quality planning

of public debt management, with the main goal of meeting the priority needs and to achieve the desired level of impact on intergenerational fairness in the management of public debt in Croatia. Given that PDMS represents a crucial document for the country's finances, there is extreme need for legal regulation of its contents, models and deadlines. In accordance with the implementation of structural fiscal reforms, which should lead to the improvements in the structure of public debt, and indirectly to improvement of employment, growth and investments, in line with the fiscal targets of the EU, it is necessary to come up with activities that would encourage the growth of GDP and exports. Fiscal reforms should also include better allocation of planned maturities and borrowing components as well as a framework for the development of the financial market of securities with active role of the population. Furthermore, the establishment of the Fund for the unemployed and youth would make it possible to respond to the EU guidelines for employment and growth, and help in improving the management of public debt. As a conclusion, it is necessary to systematize in advance the time frame and conditions for developing the strategy for each time period, because it is evident that the management of public debt has been neglected, with adverse effects on the budget policy, as well as on the preconditions for achieving better credit rating.

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(ENDNOTES)

- 1 Public Debt Management Strategy (hereinafter PDMS)
- 2 European system of national and regional accounts (ESA) refers to the harmonized methodology to be used in the preparation of required data on national accounts in the EU. Usage of unified methodology at the level of the entire EU is extremely important in order to achieve a unified, comparable, reliable and modernized production of economic statistics in the Member States.
- 3 DUUDI – State Office for State Property Management

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KONCEPTI STRATEGIJE UPRAVLJANJA JAVNIM DUGOM REPUBLIKE HRVATSKE

SAŽETAK

Rad nastoji dati odgovore na pitanje može li transparentna i pravovremena izrada Strategije upravljanja javnim dugom Republike Hrvatske unaprijediti kvalitetu upravljanja javnim dugom Republike Hrvatske te time utjecati i na kvalitetniju proračunsku politiku. Pojmovi *upravljanje javnim dugom i strategija upravljanja javnim dugom* u stručnoj i znanstvenoj literaturi nisu novi, postoje određeni prijedlozi i rješenja, ali u stvarnoj primjeni nisu zaživjela. Rokovi izrade kao i sadržaj same strategije upravljanja javnim dugom Republike Hrvatske nisu zakonski propisani što je rezultiralo činjenicom da su do danas izrađene svega dvije strategije od kojih samo jedna udovoljava zadanim standardima. Nadalje, Strategija upravljanja javnim dugom Republike Hrvatske (SUJD RH) za trenutno razdoblje uopće nije izrađena te je upitno prema kojim se smjernicama u ovome trenutku provodi upravljanje javnim dugom. Rad se sastoji od dva dijela. U pr- vome dijelu prikazan je teorijski pregled i analiza aktualnoga stanja upravljanja javnim dugom u Republici Hrvatskoj. U drugom dijelu prikazuju se teorijske odrednice i analiza kvalitete izrade dosadašnjih SUJD RH.

Ključne riječi: javni dug, upravljanje javnim dugom, Strategija upravljanja javnim dugom Republike Hrvatske