EU imposes harsh austerity on Croatia, its newest member

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European Union (EU) finance ministers have placed Croatia, which joined the bloc last July, in "excessive deficit procedure." Acting on recommendations from the European Commission, the measure subjects countries with budget deficit in excess of 3 percent and debt of more than 60 percent of Gross Domestic Product (GDP) to direct economic control by the EU, and currently affects 16 other member states.

Olli Rehn, the EU commissioner for economic and monetary affairs, demanding stepped-up austerity, declared, "It will be essential for Croatia to take decisive action in order to achieve this in order to restore confidence in the economy…. This means that by April, Croatia is asked to undertake adequate and specifically specified [sic] measures to ensure progress towards the correction of its excessive deficit and debt."

The EU will be the sole arbiter of whether the measures implemented by the Croatian government are adequate, and if deemed insufficient, the country could face possible sanctions, Rehn added.

The World Bank joined in, with its office in Zagreb stating, "The excessive deficit procedure is a good disciplinary tool for restoring macro-stability and reducing macro-imbalances. If it does not solve its economic weakness through sustainable fiscal adjustment and institutional reforms, Croatia will not fully benefit from EU membership, and the search for future prosperity may prove unsuccessful."

The Social Democratic Party (SDP)-led coalition government is more than willing to oblige. Prime Minister Zoran Milanovic fell in line, defending the procedure in parliament as something "nearly all EU members went through last year" and adding, "the programme would help Croatia put its budget in order and implement reforms without delay."

Since coming to power in late 2011, the SDP, in coalition with the Croatian Peoples Party (HNS) and the regional Istrian Democratic Assembly (IDS), has continuously pursued anti-working class policies, cutting public spending, raising Value Added Tax (VAT) to 25 percent—among the highest rates in Europe—and further privatising state assets and companies. Defending the privatisation drive, Finance Minister Slavko Linic, also of the SDP, said, "[O]ne should send a message that privatisation is in the function of reducing our foreign debt and covering this year's deficit, because that is what rating agencies and creditors will appreciate."

All three major rating agencies rate Croatia's debt below investment level, with Standard & Poor's further downgrading it on January 24.

After drafting the 2014 budget last November, the government set about implementing a whole raft of austerity measures, including cutting farm subsidies and health spending, raising VAT on tourism and levies on gas and tobacco—claiming they would cut the deficit to 5.5 percent in 2014. The EU found the measures insufficient, triggering the "excessive deficit procedure."

"Our aim was to avoid burdening the economy," Linic said, trying to justify the November budget draft. He submitted right away to the new EU demands, which included a cut of a further billion euros in the deficit this year and adjusting Croatia's deficit targets to 4.6, 3.5 and 2.7 percent of GDP for the years 2014-2016. The new measures will force an unspecified number of public employees to retire early without filling the vacancies, while others will see their allowances cut. Further cuts in subsidies, health spending and pensions, as well as new taxes on gambling, have been announced.

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The austerity measures the EU is forcing throughout the continent have had a major impact on Croatia. The country has been in continuous recession since 2009, with GDP contracting by almost 20 percent by 2012. A further drop is expected in 2013. The government was forced to slash its 2014 growth estimate from the previous 1.3 percent to only 0.2 percent, as the result of the latest cuts demanded by the EU.

Official unemployment reached 21.6 percent in December 2013. Youth unemployment is well over 50 percent and "one of the highest in Europe," according to the World Bank. The bank noted a sharp rise in poverty to over 14 percent by the end of 2012, underlining that "the profile of the poor has changed, with the educated and younger living in richer urban areas now more affected."

The latest statistics show the average full-time monthly wage for January to November 2013 was 5,511 kunas (around €720, or US$1,030), or 1.7 percent less in real terms compared to the same period a year ago. Some 55 percent of employees receive less than 5,000 kunas (€650). Even these figures understate the real conditions, because part-time wages are not included. Widespread disillusionment with the main political parties and the EU is evident, as noted by an article in the *Economist,* titled "Euphoria over joining [the EU] has given way to a morose mood."

There is a growing concern in ruling circles that the overwhelming opposition to never-ending austerity measures might erupt in violent protests, as has happened in neighbouring Bosnia-Herzegovina. The ruling class know they can count on the unions to suppress workers' resistance, but the fear is that popular discontent might develop independent of and in opposition to the unions.

The business portal *SEEbiz.eu* carried an article last month dedicated to discussing the possibility of and strategies for controlling public protests, after the *Economist* put Croatia high on the list of countries at risk of social unrest in 2014. *SEEbiz* spoke with two union leaders, one of whom—perhaps saying more than he intended—graphically exposed the role of the unions as advisers to the ruling class and as an industrial police force. Kresimir Sever, president of the Independent Croatian Unions, stated as clearly as possible, "What those in power should be afraid of are spontaneous unrest and going out in the streets. While it is organised by the unions, they are under surveillance."

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