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Former MEP Andrej Plenkovic Forms New Croatian Centre-Right Government

On 19 October, the Croatian Parliament (i.e. Sabor) approved the new centre-right Croatian Government with 91 votes “for”, 45 “against” and 3 abstained (at least 76 votes are required for a majority). Andrej Plenkovic, President of the Croatian Democratic Union (HDZ) (relative victor in the 11 September parliamentary elections), and former Member of the European Parliament (MEP-EPP), was elected Prime Minister (PM). Additionally, HDZ and the Bridge of Independent Lists (MOST) formed a strategic partnership to establish the new Government with a stable majority in the Sabor. With former HDZ member Kolinda Grabar-Kitarovic holding the presidency of the country since February 2015, the centre-right option will have control of the legislative and executive branches of government.

Coalition Between the HDZ and MOST

Since securing 61 parliamentary seats (out of 151) at the September 11 general election, Plenkovic was clear that his priority was to form a strategic coalition Government with MOST’s 14 MPs and 8 MPs representing minorities. In parliamentary mathematics, this would secure Plenkovic the support of 83 MPs, well above the

needed sum of 76 for a majority. However, not leaving anything to chance, 5 MPs from the Croatian Peasant’s Party (HSS) and 3 MPs from the Bandic365 /People’s Party - Reformist camp confirmed that they also have given their support to Plenkovic.

The final version of the agreed partnership has MOST MPs heading four Ministries – the Interior (i.e. police), Justice, Environmental Protection and Energy, and Public Administration. Interestingly, this new deal sees the energy portfolio taken out of the Economy Ministry and added to the Environmental Ministry. This move is one of the examples where both parties made compromises during the post-election negotiation process. MOST was keen to retain the Economy sector under its jurisdiction, citing their special interest in how the energy sector is managed, while the HDZ was not initially willing to relinquish control over the energy portfolio. It remains to be seen if HDZ will retain their influence over the strategic energy portfolio by appointing their own official as the ministry’s State Secretary responsible for the management of this portfolio or by appointing their personnel to manage the strategic state-owned companies (e.g. Croatia Electra (HEP), Plinacro, LNG Croatia, etc.) responsible for the realisation of strategic energy sector projects.



Government Restructured

In terms of the structure of the new Government, the number of ministries is reduced from 20 to 19, with Goran Maric (HDZ) as a Minister without Portfolio. Furthermore, Plenkovic will have four deputy Prime Ministers, essentially serving as an inner political council within the Government Cabinet. Three of the Deputies – Foreign Minister Davor Ivo Stier, Economy Minister Martina Dalic, Defence Minister Damir Krsticevic - will hail from HDZ and one from MOST – Public Administration Minister Ivan Kovacic.

Given that in some ways this new Government Cabinet is a continuation of the last government led by now former PM and former Teva CEO Tihomir Oreskovic, since the same parties – HDZ and MOST – have formed both Government Cabinets, there are elements of continuity for various governmental ministries, especially among the MOST personnel. Indeed, the ministers who will remain in their positions come from the following ministerial sectors: finance, interior, justice, construction and physical planning, environmental protection, transport and infrastructure, and veteran's affairs.

Along with the above-mentioned restructured ministries, the following areas will be managed by new cabinet members: foreign affairs, economy, defence, public administration, regional development and EU funds, labour and pension policies, health, demographic and social policy, and science and education. Therefore, these are the areas where we can expect significant policy changes from the new Government. From the perspective of overall governmental policies that have an impact on the hopefully continued economic growth of the country, these new policy changes will need to have an integrated strategy towards this objective and will need to be managed particularly well by Plenkovic and the new government coalition.

Experienced Chief of Staff

Another strategic area of interest in Plenkovic's future Government will be the digital economy. Namely, Plenkovic announced the formation of a special Government Office, directly under the auspices of the Prime Minister's Office, that will focus on developing this sector, which is seen as one of the fastest growing industries within the European Union and a potentially large job creator. Media speculation has this new focus on the digital economy as being "spearheaded" by Foreign Minister Stier, while a VG source disclosed that this was proposed by MOST.

The most significant and politically intriguing appointment was that of Davor Bozinovic as Chief of Staff to the Prime Minister. Traditionally, this position has been awarded to a young up-and-comer who acted as the candidate's right hand in the election. Bozinovic, former Defence Minister and head of Croatia's Mission to NATO, stands above the usual appointees and is an experienced

diplomat and politician. It is expected that the appointment of the experienced Bozinovic will be an efficient mechanism for Plenkovic to skillfully manage his new government.

State Secretary Voting in the EU Council

The new Government re-introduces the old concept of State Secretaries within ministries to manage particular policy areas (e.g. future State Secretary for Energy will manage the energy portfolio of the Ministry of Environmental Protection and Energy). This replaces the current structure with Deputies and Assistants. Taken at face value, this appears to be a cosmetic and insignificant change. However, this decision is very significant when taken in the context of Croatia's participation in the meetings of the Council of the EU. Namely, in the structure of the previous government, assistant ministers were allowed only to participate at Council meetings without voting rights, while ministers and deputy ministers where the only Croatian representatives allowed to vote. In practice, this hierarchy proved challenging since ministers and deputy ministers could not physically participate in all meetings. However, at EU level, state secretaries are allowed to vote instead of ministers.

Government Stability and Foreign Policy

PM Andrej Plenkovic takes the Government reins at a time when a recession stricken Croatia has begun a positive streak of slow economic growth (Q2 2016: 2.8%, source: Croatian Bureau of Statistics) – a solid tourist season filled the state coffers and lowered the foreign debt. However, soon into the honeymoon period of his first 100 days, Plenkovic will have to deal with the looming issues of a € 2.5 billion debt and unresolved regional strife. At his final Government session held on 12 October, former Prime Minister Tihomir Oreskovic advised his successor to focus on three areas – fiscal responsibility, reforms (esp. tax, public procurement and health) and improving the management of state-owned companies.

The primary positive aspects of Plenkovic's Government are that this is a stable coalition Government, meaning that they form a stable parliamentary majority, and Plenkovic has a good reputation throughout the corridors of Brussels. This positive reputation within EU institutions is a reflection of his proactive work as an MEP and diplomat. Some may question the stability of this Government because of MOST's political inexperience. However, the HDZ's relative victory in these elections is such that they have the realistic option of keeping a majority in the parliament even without the participation of MOST. This option essentially ensures that both sides will remain committed (out of interest) to this marriage; therefore, this Government has a realistic chance of completing its mandate of 4 years and providing Croatia with governmental stability, in lieu of Croatia taking over the EU Presidency in January 2020.



Plenkovic Government Agenda

On 19 October, Prime Minister-Designate Andrej Plenkovic presented the agenda for his 4-year government term 2016-2020 to the Croatian Sabor. During his 30-minute long speech, he outlined his government's priority policies:

- **Reducing public debt and balancing the state budget:** The future Government plans to further consolidate the state budget, reducing the debt-to-GDP ratio. The Government will adopt the Debt Management Strategy and implement a comprehensive tax reform. The process of fiscal decentralisation will continue, and the Government will also pay attention to the problems of indebted citizens and businesses.
- **Strong agricultural development:** The Government will work towards optimally utilizing unused farmland and promote the development of small family-owned farms. The National Irrigation Plan will be fully implemented; VAT on agricultural raw materials will be reduced.
- **Energy sector important for new investments:** The Government will develop the "Energy Development Strategy through 2050". The specific objectives are to secure oil and gas supply. New investments in natural gas infrastructure will ensure the cost-effective supply of gas.
- **Supporting tourism sector:** Measures for improving tourism quality will be implemented, with expectations of increasing the number of overnight stays, tourist spending, and tourism employment. New investments in tourism will be encouraged.
- **Further transport development:** Croatian transport routes will be integrated into European corridors, and the Government will continue to develop a modern and efficient transport system. The focus will be on the development of the new generation broadband infrastructure. The following projects will continue to be developed: The Pelješac Bridge construction, construction of the motorway to Dubrovnik and the Istrian Y Motorway; Split airport upgrade and island airports. Railway infrastructure investments are also planned, as well as river and sea port infrastructure.
- **Focus on re-industrialisation and employment:** The industry sector will be supported by affordable financial sources, and cheaper and more available raw materials and energy. Special attention will be given to youth employment and the long-term unemployed.



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