Croatia's planned purchase of the shares of the national energy company INA from the Hungarian energy company MOL is bound to increase Croatia's public debt, an economic analyst told BIRN.
Prime Minister Andrej Plenkovic said on Christmas Eve that purchasing MOL's share of INA – 49.1 per cent of the shares – can be done without enlarging the public debt.
But economic analyst Damir Novotny told BIRN that Croatia would struggle to buy out the shares – which could cost 4 billion euros – and that any attempt to buy them through a state company would clearly increase Croatia's public debt.
"Technically, it could be done through investments banks and funds that would hide the transaction being done by the state," he said, offering the example of the Greek government, which used US investment bank Lehman Brothers for such purchases.
But he explained that these transactions were later revealed and Greek public debt "exploded" in consequence.
"Such a move by Croatia would be risky in a situation when a fifth of the public debt has to be repaid in the following year, along with financing the budget deficit. In this sense, the government would be seen as inconsistent," Novotny explained.
The government did not respond to BIRN's inquiry about the way MOL's shares would be bought without raising the public debt. Croatia's public debt is now around 38.5 billion euros.
The government revealed the move at a press conference on Christmas Eve after Croatia lost its arbitration process against MOL before the UN Commission on International Trade Law, UNTRAIL, in Geneva.
Croatia sued MOL in January 2014, claiming that MOL's management rights over INA, incorporated into the 2009 shareholders' agreement, was the result of corrupt activity between MOL's chair Zsolt Hernadi and Croatia's former Prime Minister Ivo Sanader.
Croatia's Supreme Court jailed Sanader for eight-and-a-half years in June 2014, but the Constitutional Court quashed the verdict in July 2015, citing procedural errors.
Hernadi is currently wanted by Croatian authorities, but a Budapest court refused to extradite him in October 2013.
Croatia took the case to UNTRAIL after attempts failed to reach an agreement on management rights and in response to MOL's lawsuit before the International Centre for Settlement of Investment Disputes, ICSID, in Washington in November 2013.
MOL had sued Croatia for not keeping to an agreement from 2009 about the gas business.
Croatia was obliged to store, sell and buy out all the gas production from INA for 15 years.
Croatia aims to buy back the shares sold by the state to MOL in 2003 and 2008, with

additional shares that MOL bought from funds ran by Croatian war veterans and INA employees. In this way, Croatia hopes to regain control over the company and prevent the possible closure of the country's biggest oil refinery in Sisak in central Croatia.
Novotny said another option was for INA to pull out all MOL's shares and then find another buyer for them within a year. If no buyer is found, Croatia would have to buy the shares.
He sees an additional problem in that only a few per cent of the shares are in free float, which meant that the real value of the company "is hard to estimate".
Pedja Grbin, an MP from the opposition centre-left Social Democratic Party, SDP, said on Wednesday that his party was not opposed to buying back MOL's shares in principle.
"Show us the numbers. The nationalization of INA isn't a priori unacceptable for us," he said. "I allow that such a model exists and we want to hear the arguments, perhaps it is indeed possible," Grbin said.
Talk of the state-planned purchase benefited INA's shares, whose value rose on Tuesday and Wednesday.
source: balkansnght.com