

1 Maastricht Criteria and the Inclusion of the Underground Economy - the Case of Croatia

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Abstract

European Union has introduced an explicit obligation for all member countries that the official GDP data needs to include the estimation of the underground economy, resulting from statistical or economic reasons. For this purpose, the so-called Eurostat Exhaustiveness programme has been developed for the group of candidate countries, of which ten have become full members as of the 1st of May 2004. In line with the results of this programme, the new EU members include the correction for the value of the underground economy into their official GDP figure.

With the inclusion of underground economy, the consequent value of Croatian per capita GDP, measured according to the purchasing power parity, reduces the gap in comparison to the EU-25. Furthermore, the proportion of total expenditures in GDP of the general government sector is reduced as well, which places Croatia below the NMS-8 country average. In terms of the Maastricht convergence criteria, the underground economy inclusion procedure does not affect the fact that the criteria are not met. The inclusion of the underground economy influences two indicators: the proportion of the state sector deficit in the GDP and the proportion of the public debt in the GDP. The inclusion of the

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underground economy does not help fulfilling the criteria concerning the state sector deficit. The criteria concerning the size of public debt is fulfilled by Croatia even without the inclusion of the underground economy. The inflation criteria and the size of the long-term interest rates criteria are not directly linked to the GDP value.

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