

# **PUBLIC FINANCE SYSTEM IN CROATIA**

**Overview of the Croatian Public  
Finance System - Future Reforms and  
activities**

***Central, Eastern and South-Eastern  
European Senior Budget Officials  
Network***

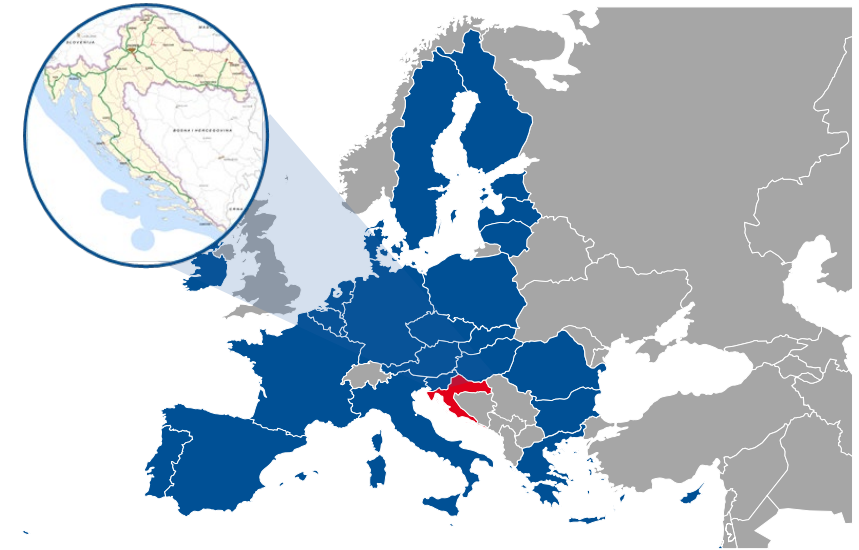
***December 5th, 2023***



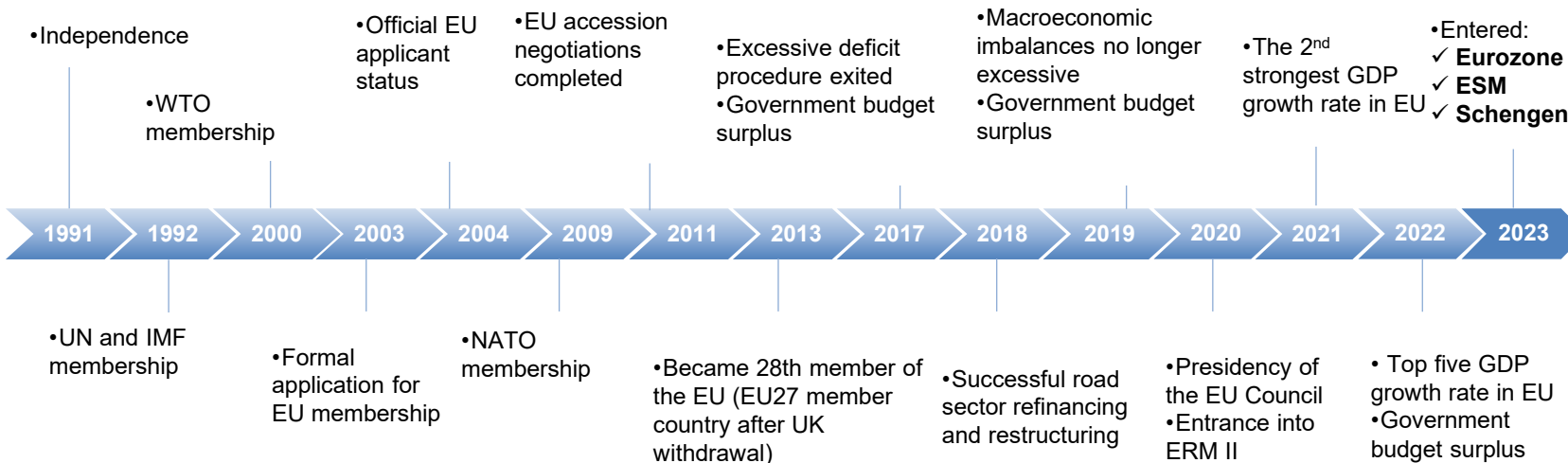
# Country Overview



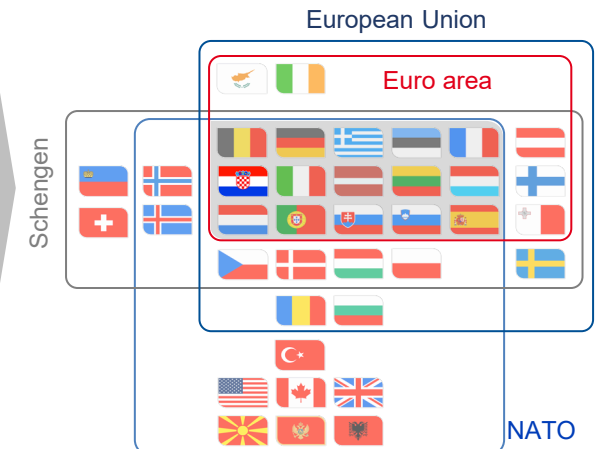
Territory	56,594 sq.km (land), 31,067 sq.km (sea)
Population	3.9 mil. (estimate for 2022, end of year)
Currency	EUR (Since January 1st, 2023)
GDP	EUR 66.9 bil. (current prices, 2022)
Real GDP growth rate	6.2% (2022), 2,8% (2023 projection)
GDP per capita in PPS	Croatia 73%; (EU=100%; Slovakia 68%, Greece 68%, Bulgaria 59%)
GDP per capita	EUR 17,130 (current prices, 2022)
Government	Parliamentary republic
Credit ratings	Moody's: Baa2 (positive) / S&P: BBB+ (positive) / Fitch: BBB+ (positive)
Capital	Zagreb
EU border countries	Italy (Maritime Border), Slovenia, Hungary
Other borders	Bosnia & Herzegovina, Serbia, Montenegro



## Key milestones



## Fully-integrated in important Pan-European/global organisations:



## New EU Member State Growth Champion

- **6.2% GDP growth in 2022** among the highest rates within EU (after all-time high of 13.1% in 2021)
- In 2023, we expect the real GDP to grow at 2.8%

## Robust fiscal position with balance surplus

- **General Government debt to GDP** downward trend continued post COVID-19 pandemic, reaching **68.8%** in 2022 (the lowest share in GDP since 2011)
- **General Government Balance surplus** of **0.4% GDP** in 2022, due to better than anticipated inflow of tax revenues, strong growth of economic activity and increase in the level of prices, but also strong rationalization of expenditure side
- For **2023** estimated fiscal deficit is at the level of **0.3%**.

## Largest Beneficiary of the EU Stimulus Package

- ~**EUR 25 bn** allocated funds **available to be disbursed** in **4-year horizon**, to support investments and GDP growth

## Strong resilience of Banking System

- Among **the most capitalized EU banking systems** (high level of accumulated capital surpluses)
- Continuous decrease of **NPLs' share** towards the historic low of **3.0%** in 2022



## Euro adoption

- A new chapter of Croatian monetary history - joining **euro area** as of January 1<sup>st</sup> 2023
- CNB became part of the Eurosystem and thus an active participant in a common monetary policy under ECB

## Euro Stability Mechanism ("ESM") member

- Became the **20<sup>th</sup> member** of the **ESM** (March 22<sup>nd</sup> 2023)
- Complete integration within euro area
- Contribution to **stronger resilience** of its' **financial system** and **economy**

## Joining the Schengen area

- 281 requirements of Schengen acquis met to enter a **border-free** zone as of January 1<sup>st</sup> 2023 guarantying **free movement** between **Croatia** and **26 countries**

## Negotiations on OECD accession started

- **Invitation to open negotiations** received on January 25<sup>th</sup> 2022
- Accession process to allow **convergence** with **best practices** of most developed countries in the world across different areas

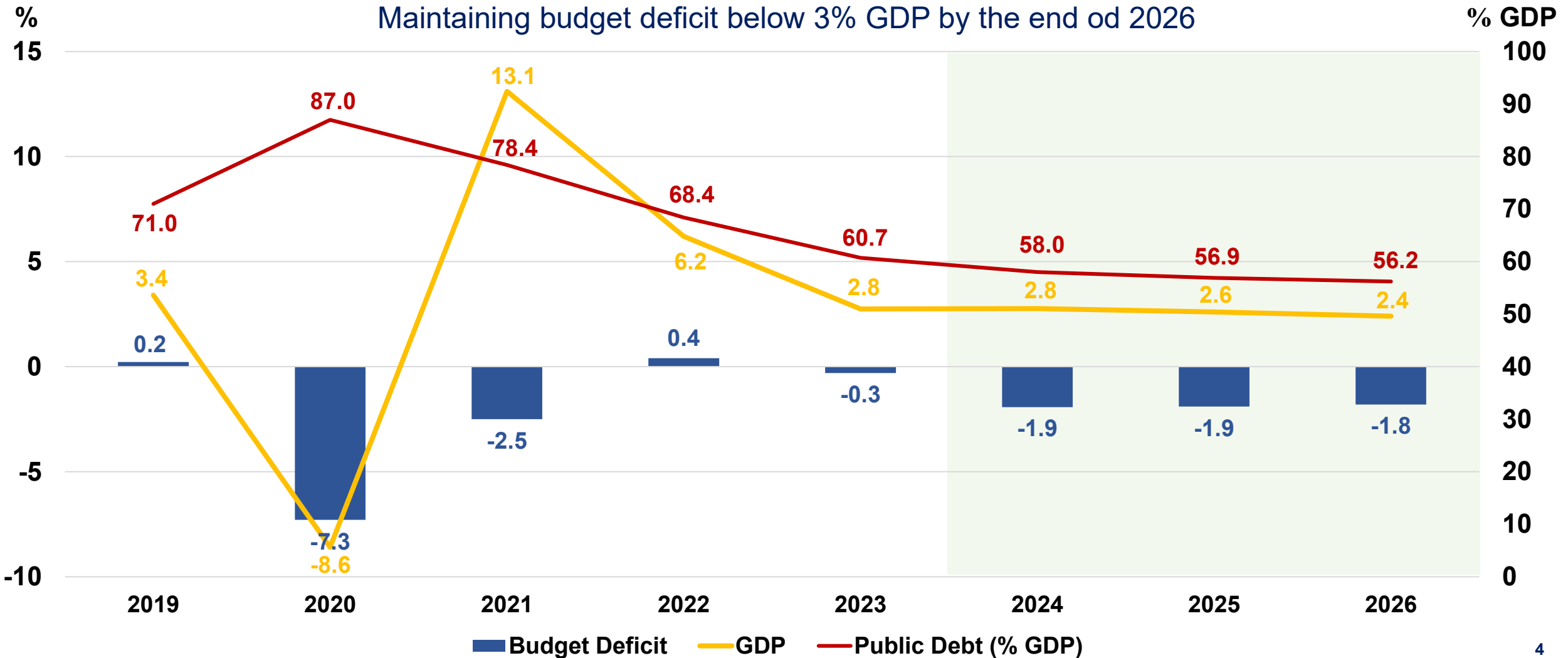




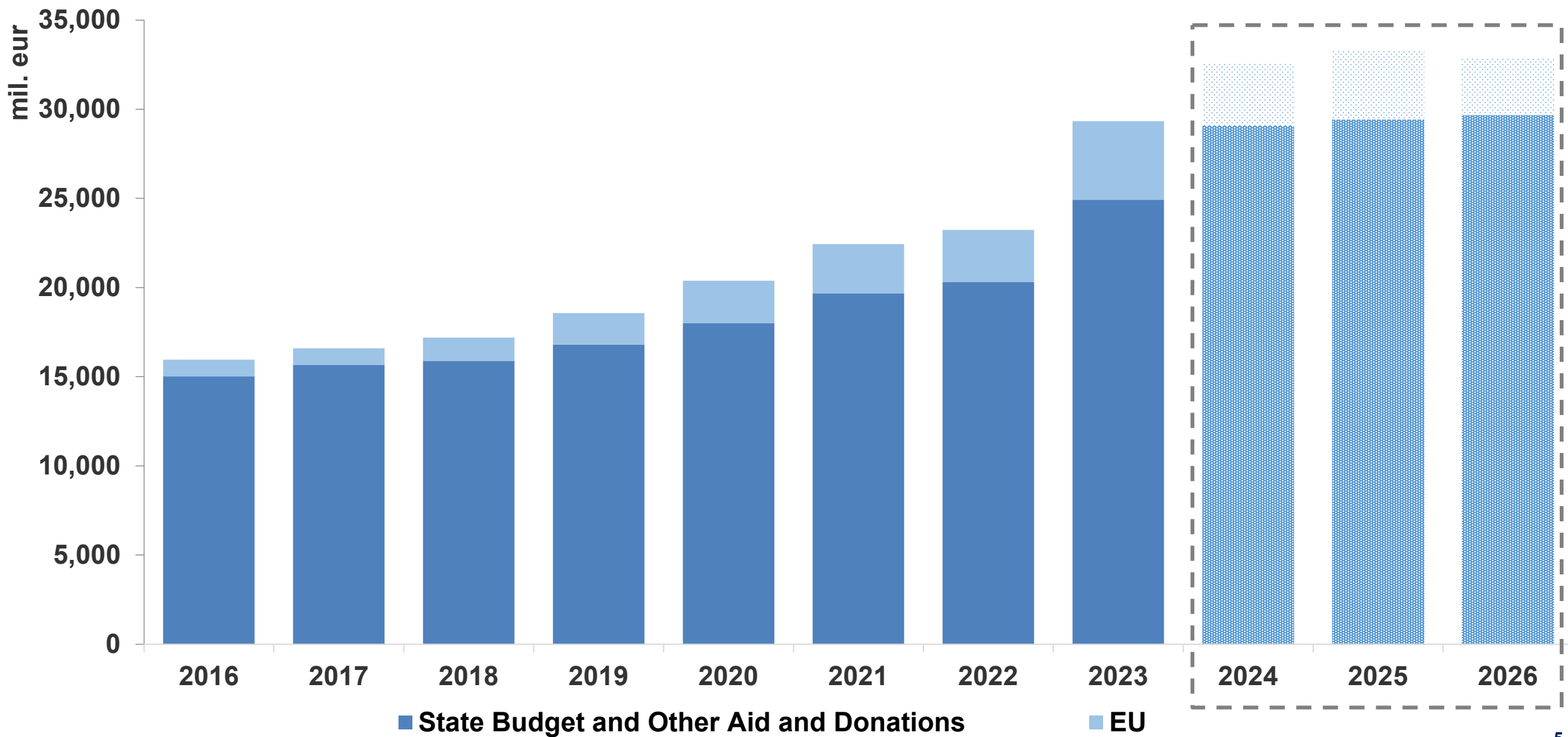
## Strengthening fiscal sustainability

Continuous and permanent decrease of the share of public debt in GDP

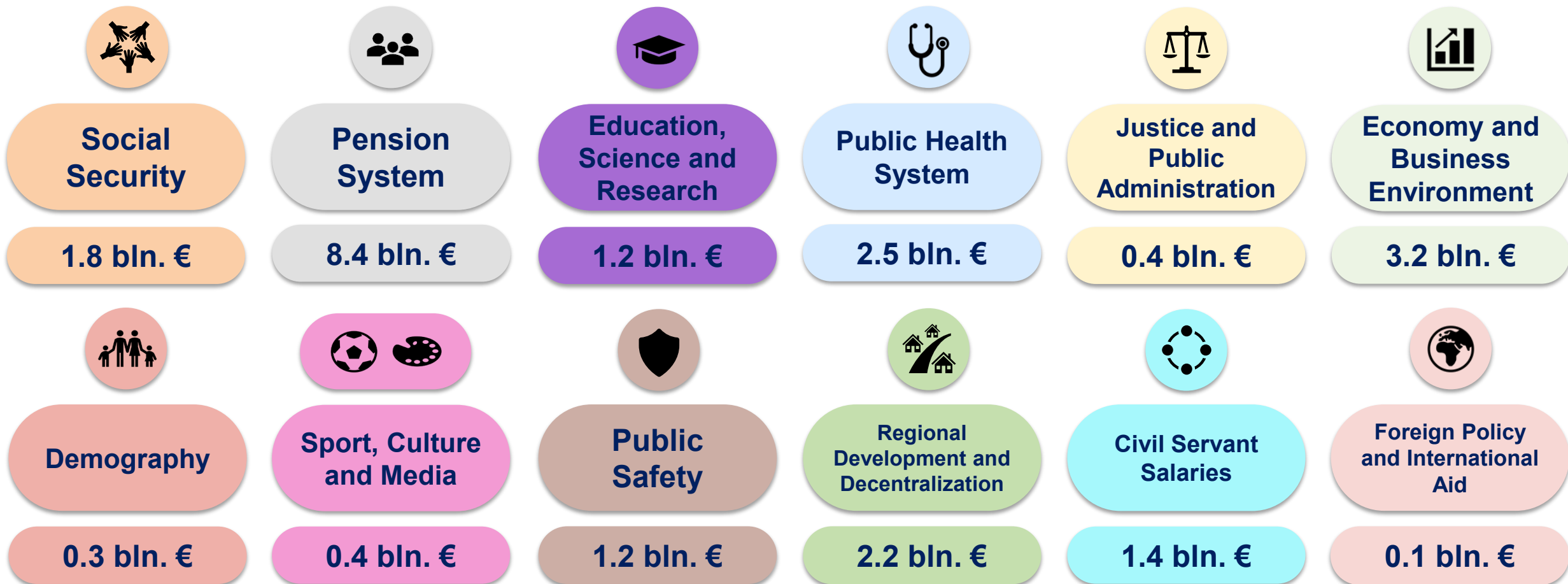
Maintaining budget deficit below 3% GDP by the end of 2026



# Total Expenditures 2016-2026



# Total Expenditures 2024 – State Budget



## Data is presented using the following methodology:

2016 – 2022 - actually incurred expenditures for the specified period

2023 - „rebalanced” budget plan for 2023 (11/2023)

2024 – 2026 - planned data and projections for the specified period

Data by category of expenditure shows expenditure excluding expenditure for employees and expenditure for earthquake reconstruction - the listed categories are shown as separate categories

# Main Drivers of the Expenditure Growth in the Upcoming Period



**Pensions and Retirement Benefits**

**Regular indexing and an increase in the number of users**



**Effect of the New Law on Public Sector Wages**

**Comprehensive solution for public and civil servant's salaries  
„Equal salary for the same amount of work”**



**Package of Legislative Changes in the Field of Social Policy and Security**

**Better governing of the system of social protection benefits**



**Implementation of projects funded by the Recovery and Resilience Facility grants**

**Implementation of single-shift classes  
Gas pipeline construction  
Digitalisation of G2B services  
Decarbonisation of the energy sector  
Water supply and sewage development  
Electronic tolling system  
Railway reform and modernisation  
Increasing justice system efficiency**



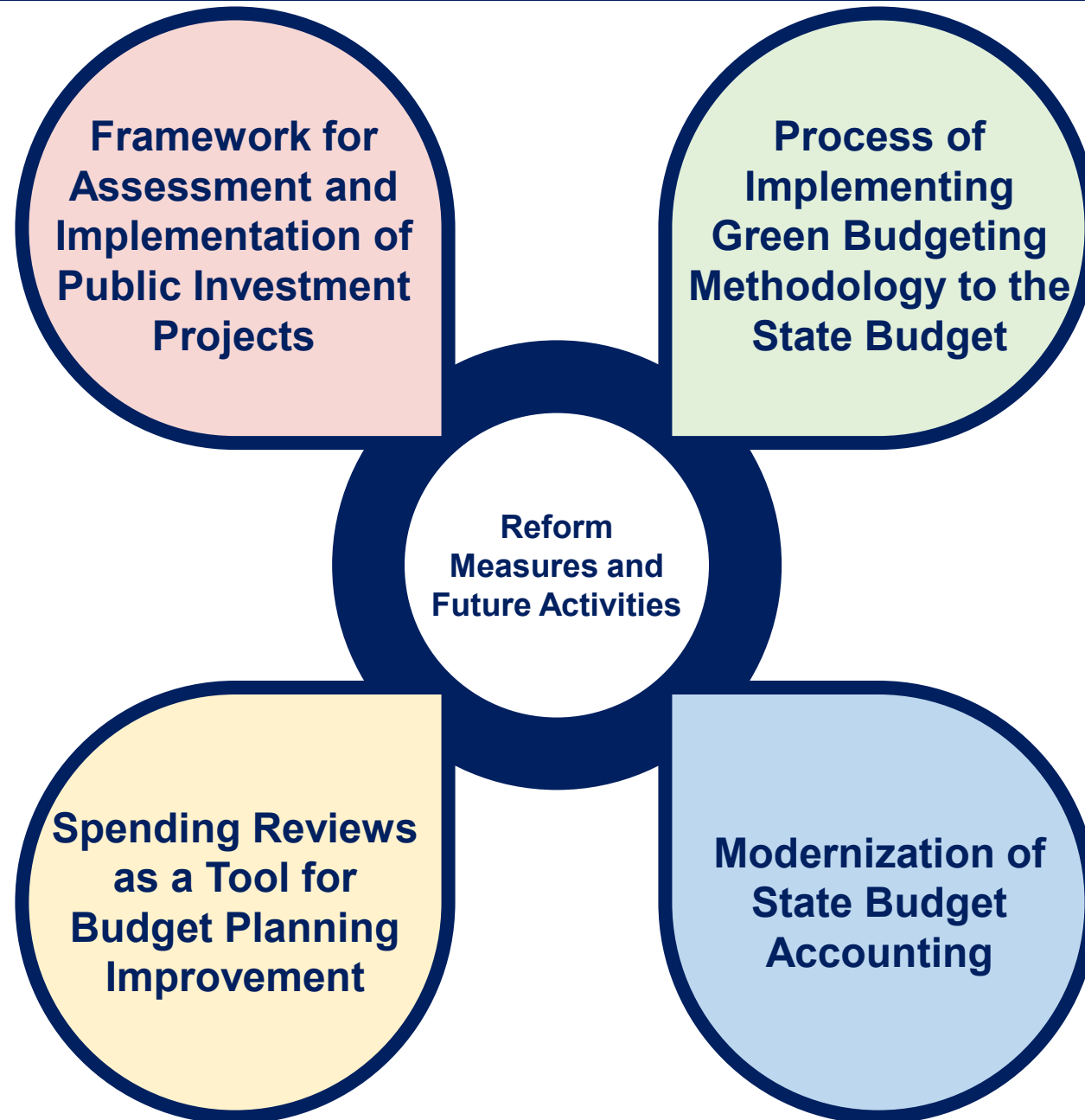
**Costs of reconstruction and repair of damage caused by the 2020 earthquakes**

**Solidarity fund until 30 June 2023 – EUR 1.003 bil.  
Upcoming period – RRF and state budget**



**Fiscal sustainability of kindergartens**

**Additional source of funding for local and regional units**







MoF is implementing modifications within the state budget accounting framework with goals to further improve budgetary processes

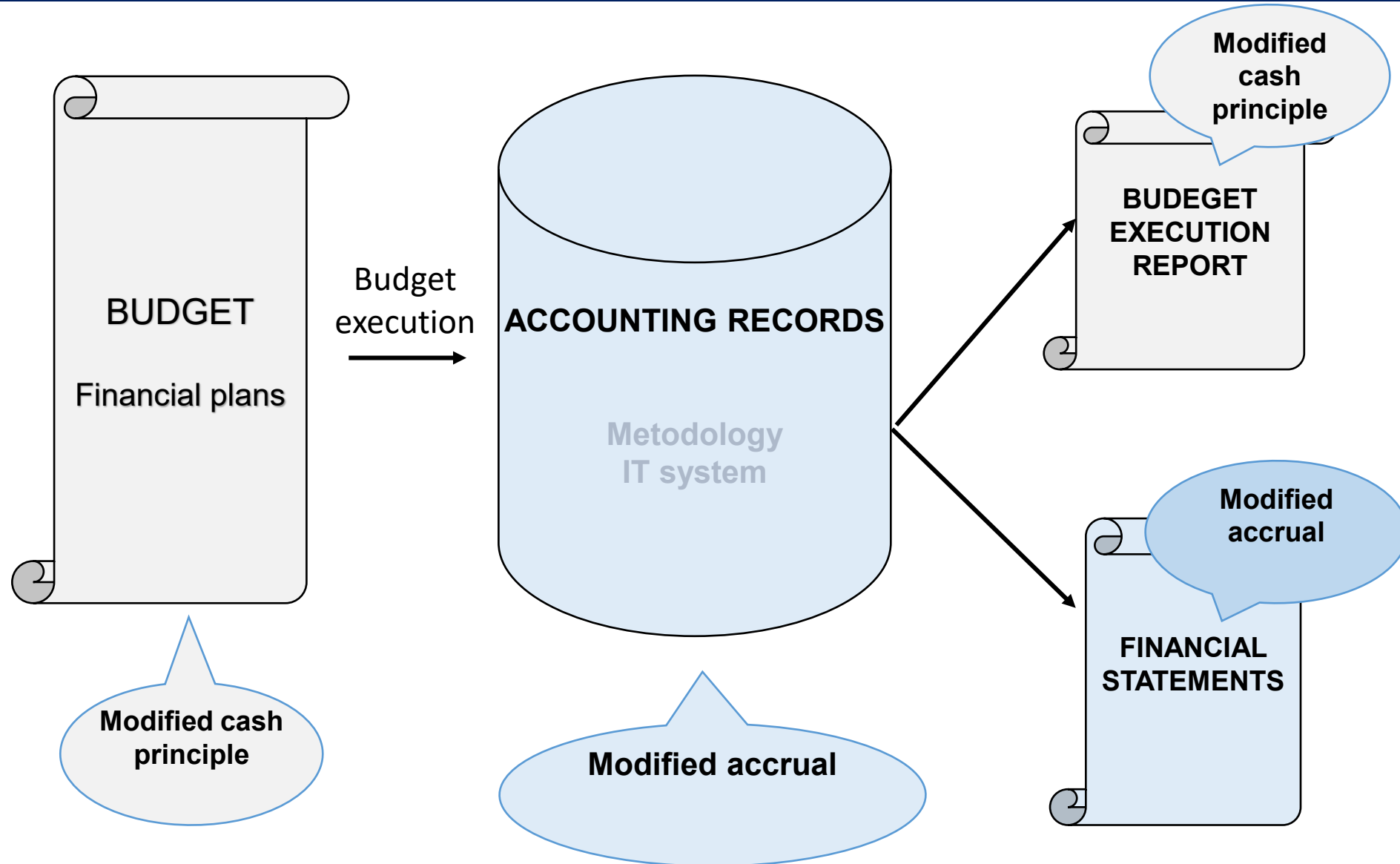
New bylaws are in the preparation phase with the goal to approve them by the end of 2023

Currently, accounting is based on a modified accrual principle which means that revenue is recorded when both measurable and available, while expenses are recognized on an accrual basis in the reporting period to which they relate

Updates of budgeting processes to include green budgeting, sustainable budgeting methodologies etc. are needed and planned

**Modernization of  
State Budget  
Accounting**

# Reform Measures and Future Activities





## GOALS OF FURTHER DEVELOPMENTS

- ❖ Improvement of the content and quality of data in budgetary processes
- ❖ ensuring more efficient and faster preparation of information needed for official statistics records of Croatia when calculating the results according to ESA 2010
- ❖ ensuring methodological pre-conditions for further informatization of business processes within the budgetary cycle

Modernization of  
State Budget  
Accounting



The Technical Support Instrument of the European Commission and DG Reform as a tool to upgrade the budget process and methodology

The project *Modernization of Accounting and the State Budget Execution Process in Croatia*

- ❖ analysis of the existing processes in account and budget execution following modernized accounting methodology
- ❖ upgrade of the IT system
- ❖ capacity building of MoF and state budget users' employees and knowledge sharing in at least 2 EU MS
- ❖ new methodology incorporating cash based and accrual principles in state accounting

**Modernization of  
State Budget  
Accounting**



## Framework for Assessment and Implementation of Public Investment Projects

### Public Investment Projects

- ❖ institutional framework foreseen by the Budget Law
- ❖ Decree on the assessment method and approval procedure of Public Investment Projects
- ❖ standardized methodology
  - ❖ different approach depending on the size of project (€)
- ❖ minimum standards that are required by project owner
- ❖ Committee at the state and local level
- ❖ Overview of all projects at the level of MoF
  
- ❖ CAPACITY BUILDING AT THE STATE AND LOCAL LEVEL
  - ❖ DETAILED MANUAL
  - ❖ WORKSHOPS

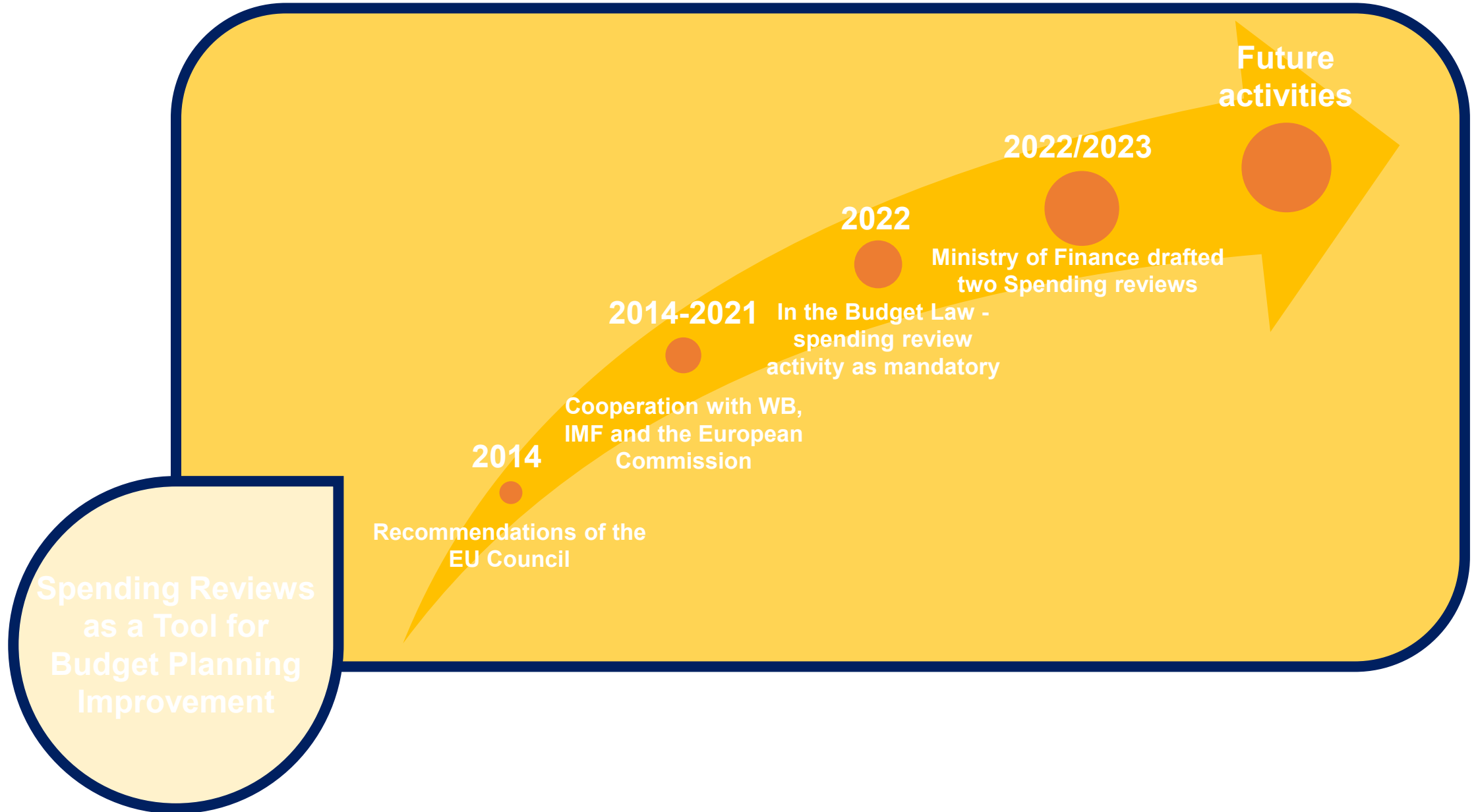




Process of  
Implementing  
Green Budgeting  
Methodology to the  
State Budget

## Green Budgeting Process in Croatia

- ❖ many activities related to green policies are carried out to achieve climate/environmental goals
- ❖ no systematic information on green policies - monitored at the project level through program classification
- ❖ growth of costs related to climate change has been evident
- ❖ Development of measures and tools to assess cost of green policies
  - ❖ Green budget tagging
  - ❖ Green dimension in SR
  - ❖ Ex ante and ex post environmental impact assessment





The EU Council adopted the Decision on the **existence of the condition of the excessive budget deficit** for the Republic of Croatia and in its Recommendations **specially stated that Croatia should carry out a thorough expenditure review**

One of the measures within Croatia's Plan of Implementation of Country-Specific Recommendations for 2014 is **to carry out the Spending Review**

Therefore, the focus of Croatia's Spending Review was mostly on the one and only objective - **fiscal consolidation!**

Spending Reviews  
as a Tool for  
Budget Planning  
Improvement



## The Spending Review included the following categories:

- ❖ expenditures for salaries of employees in the public sector
- ❖ subsidies (except subsidies in agriculture)
- ❖ health system
- ❖ agencies, institutes, funds and other legal entities with public authorities
- ❖ tax expenditures

## In cooperation with the World Bank and IMF, the Ministry of Finance organized workshops (as preparatory activities) to:

- ❖ exchange best practice and experience of other countries
- ❖ define the key objectives of the spending review
- ❖ present the methodology, data needs and analytical tools and
- ❖ lessons learned - recommendations based on their experience

## Results of the performed review

Spending Reviews  
as a Tool for  
Budget Planning  
Improvement



In the period from 2013 do 2021, MoF in cooperation with WB, IMF and the European Commission did spending reviews in areas of:

Water and waste management

Public health system

Public sector (agencies, funds, offices etc.)

The analyses are related to ensuring:

- ❖ the sustainability of the fiscal management of these activities,
- ❖ continuous improvement of the budget planning system and
- ❖ better control of expenditures

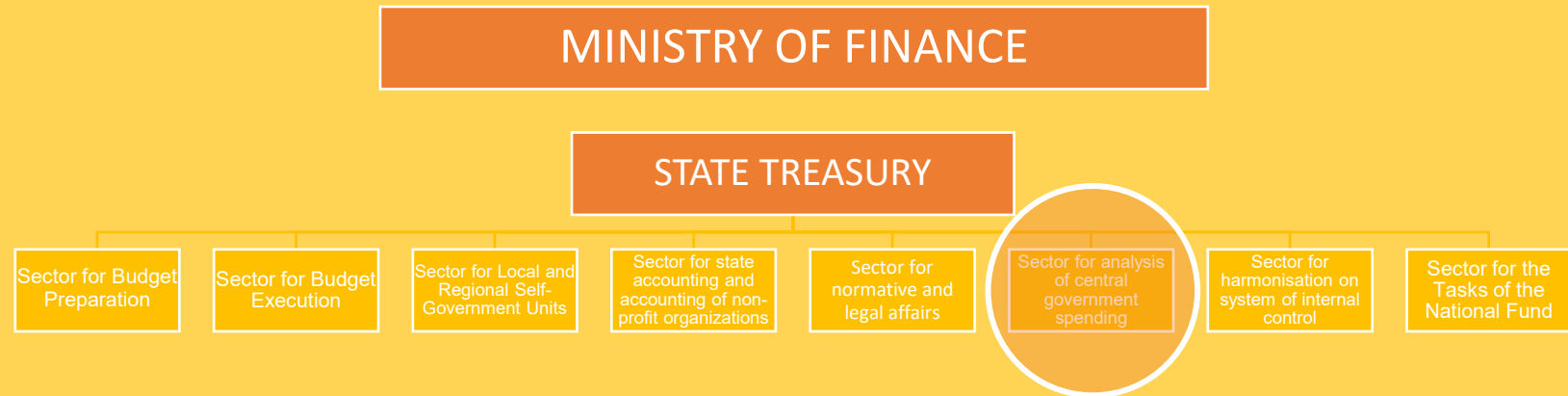
Spending Reviews  
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Following conducted reviews and lessons learned, MoF from 2022 introduced in the Budget Law the spending review activity as mandatory



## Spending reviews in Croatia

- ❖ framework foreseen by the Budget Law
- ❖ to improve the budget planning system and better control the purposefulness and justification of the use of funds from public sources
- ❖ **Sector for analysis of central government spending (within the State Treasury)**



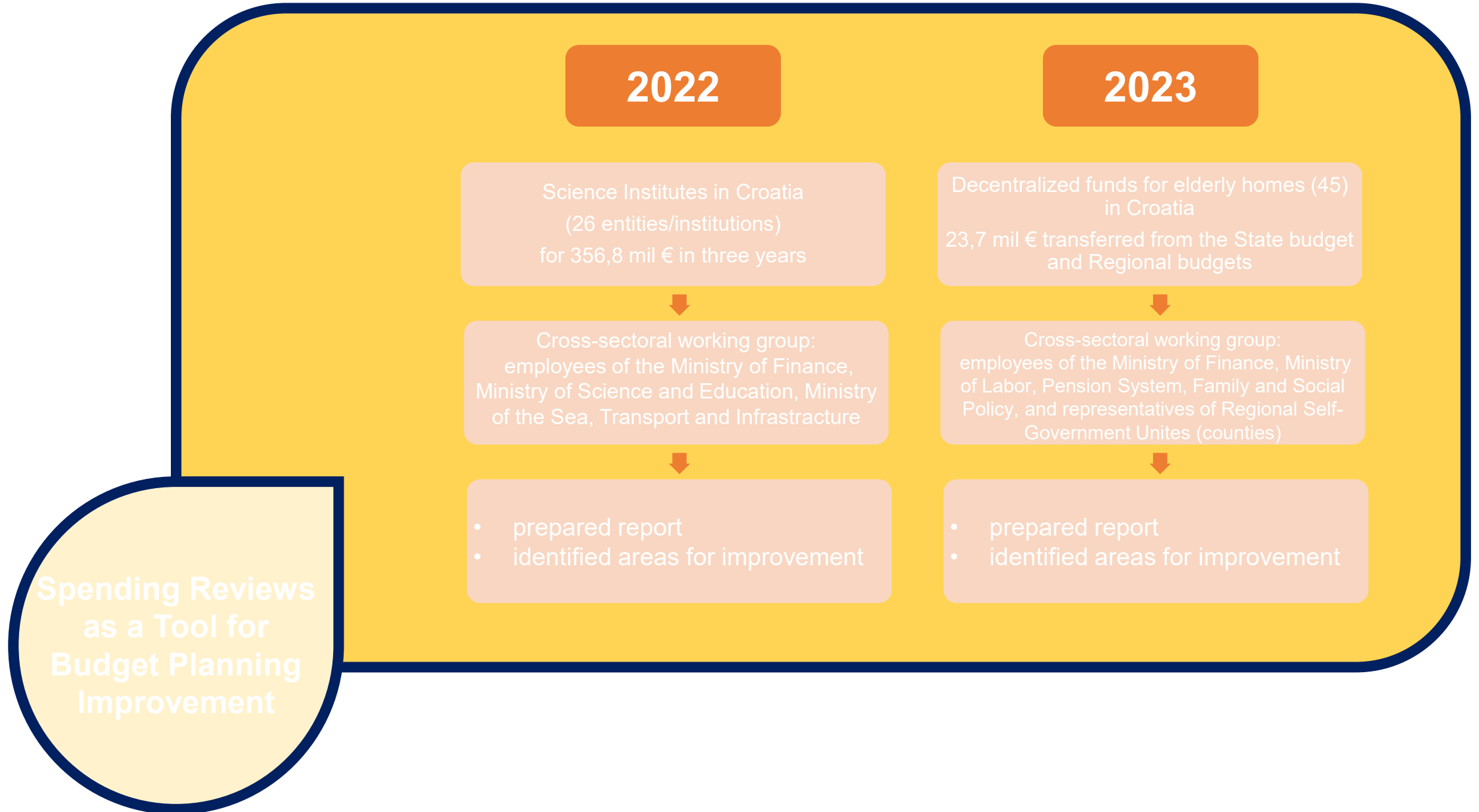
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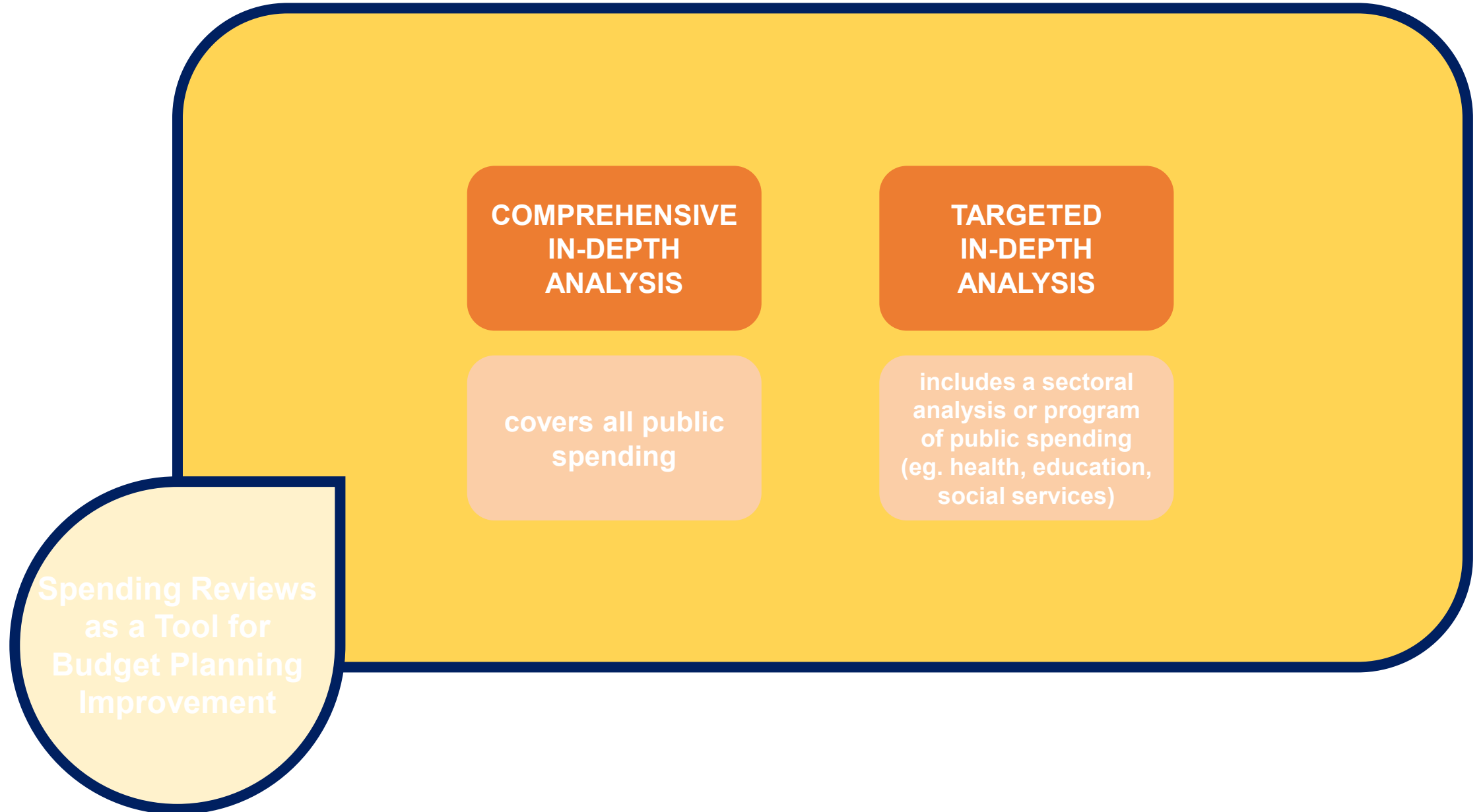


## In line with the Budget Law:

- ❖ each year the Minister of Finance adopts a decision on the **Annual Plan of Spending Review**
- ❖ the Minister of Finance adopts a decision on the **Establishment of a cross-sectoral working group with the task to conduct the Spending Review** (employees from sectoral bodies are also involved in cross-sectoral working group/sectoral knowledge within the scope of entity that which is crucial for the spending review analysis)
- ❖ obligation to **prepare a report on the results of the analysis of expenditures and expenses**, which will contain recommendations for improving the efficiency of budget funds spending and which will identify potential improvements in the allocation of existing expenditures and expenses
- ❖ **the report on the results of the analysis must be submitted by the MoF to the Government for adoption by the end of the current year.**

Spending Reviews  
as a Tool for  
Budget Planning  
Improvement







## Future activities:

- ❖ targeted analyses that can have the greatest effect
- ❖ analyses that contribute to Government priorities (National Acts, Government Program)
- ❖ the results of the analysis should contribute to the improvement of the budget planning system according to programs and effects and their connection with a specific goal
- ❖ conducting inter-departmental analyses/involvement of several bodies, it is in the interest of the competent bodies/ministries to contribute to the quality of the process of analysis of expenditures
- ❖ development of work methodology (tools)
- ❖ IT supported process
- ❖ IT networking with the data available to MOF
- ❖ use of expert knowledge (lessons learned, experiences)

Spending Reviews  
as a Tool for  
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**THANK YOU FOR YOUR  
ATTENTION!**

