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Public investments in the European Union (EU) in the past decade have mostly been stable, averaging around 3 to 3.5% of GDP, with few oscillations. Croatia – with a 5.7% share in 2024, rising from 3.8% in 2010 – is substantially above that average, mostly due to the high share of EU funding. The 2024 European Commission report highlights the importance of strategic public investment planning to meet rising demand. The analysis of the European Commission's most successful projects systematized key aspects of their effective management, including the alignment of long-term strategies with regional, local, and sectoral strategies, data transparency, and political support. Such an approach is particularly important for Croatia to secure the continuity of public investment and properly prepare for a potentially reduced inflow of European funds in the future.

According to the Budget Act, the term "investments" or "capital investments" refers to investments made to increase and preserve asset value, investments in land, buildings, equipment and other long-term tangible and intangible assets, including investments in education and training, new technology development, improvements to the quality of life and other investments generating benefits. As they are key for stimulating economic growth, improving infrastructure and reaching long-term sustainability and competitiveness, investments must be strategically planned. However, due to great demand and limited fiscal resources, only projects that can bring in the highest benefit should be selected and their progress monitored, which could support a country's long-term vision for development and deliver measurable results for the citizens.

In its report *The Planning of Public Investments in EU Member States: Long-Term Strategy, Selection and Budgeting Issues* (2024), the European Commission presented the challenges of public investment planning in the EU. The report is based on a survey conducted in Member States in 2022 (including Croatia), interviews and consultations with experts on public investment management, accompanied by examples of good practice. The results demonstrate that national approaches to public investment management differ and are highly dependent on factors such as institutional history or government structure. However, regardless of the differences, strategic planning mechanisms of public investments are in place in all Member States, albeit with varying sectoral coverage. The report identifies one-third of Member States (Bulgaria, Croatia, France, Greece, Ireland, Latvia, Lithuania, Poland, and Portugal) that have adopted long-term national strategies covering all sectors (e.g., education, social welfare, environmental protection, national security, healthcare and public services) and that are further accompanied by sectoral and sub-sectoral strategies. Half of the Member States predominantly adopted strategic plans related to the transportation sector (occasionally defence), while four of them (Czechia, Cyprus, Hungary, and Slovenia) identified the EU Partnership Agreements as their main long-term strategic planning document.

Project Ireland 2040 has been highlighted as an example of good strategic planning at the national level, integrating the National Planning Framework and the National Development Plan. The National Planning Framework defines ten national strategic outcomes as future objectives, such as enhanced regional accessibility, sustainable mobility or transition to a climate-resilient society, considering long-term demographic and economic trends. The National Development Plan is an investment document setting out the funding available to support the delivery of each of the ten outcomes. National investments are accompanied by strict requirements for the plan to be aligned with the public assessment system, while progress is monitored digitally. Other countries, such as Austria, Germany, Latvia, Lithuania, Portugal, Bulgaria, Poland, Cyprus, Czechia, Greece, Hungary, and Slovenia have also implemented national development strategies or EU partnership agreements which include elements of spatial planning, long-term visions, clear strategic objectives, financial frameworks and measurable progress indicators.

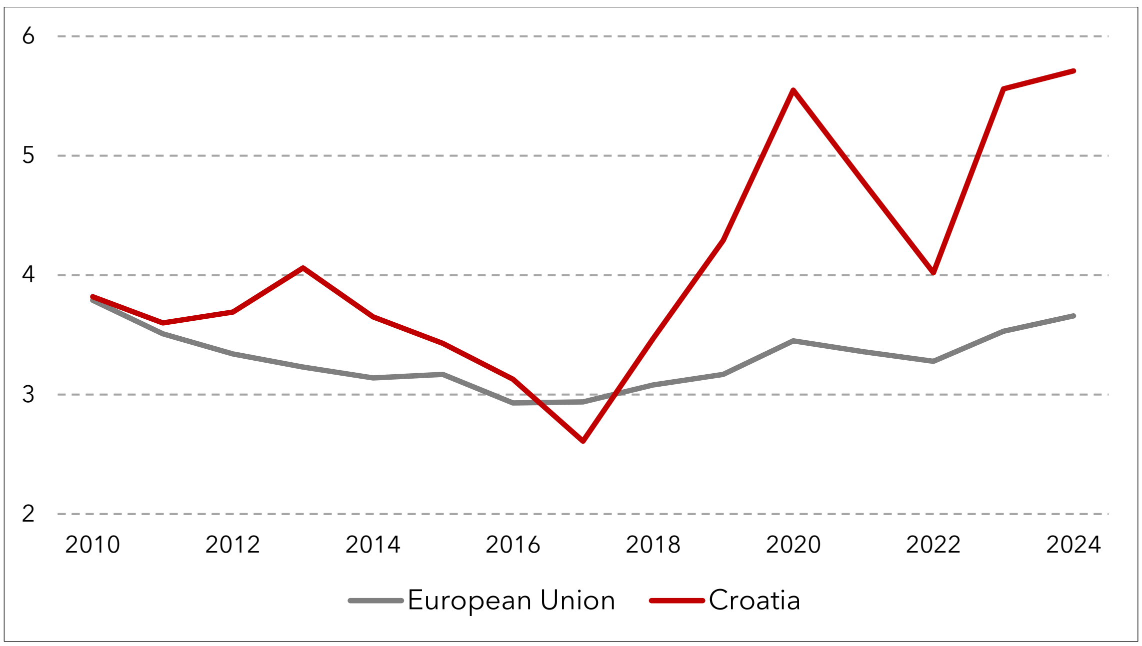
In 2021, the Croatian Parliament adopted the National Development Strategy until 2030, which defines 2030 as the year by which Croatia should become a "competitive, innovative and safe country with a distinctive identity and culture, preserved resources, favourable living conditions and equal opportunities for all." Four strategic priority clusters have been defined (Sustainable economy and society, Strengthening resilience to crises, Green and digital transition, and Balanced regional development) as well as thirteen strategic objectives that are monitored through pre-defined indicators. Priority clusters and strategic objectives are aimed at optimal utilization of potential, removing the economic and social effects of global crises and accelerating the country's recovery. They are related to the objectives of the European Green Deal and the European Territorial Agenda 2030, setting the groundwork for sustainable, inclusive and innovative economic development.

In May 2023, the Croatian Parliament adopted the First Annual Strategy Implementation Report for 2021, which highlighted the successful adaptation to the COVID-19 pandemic, strong recovery of economic activities and GDP growth of 10.2%. It was driven by higher rates of exports, income from tourism, investments and household consumption as well as positive trends in industrial production, construction and trade sectors. Stable fiscal policy, political stability and the fulfilment of convergence criteria laid the foundation for the introduction of the Euro in 2023, which further enhanced Croatia's macroeconomic resilience. The Second Annual Strategy Implementation Report for 2022, submitted to parliamentary proceedings on 31 January 2024, highlighted real GDP growth of 6.3%, stimulated by higher export and investment rates, despite global challenges such as growing inflation, supply chain disruptions and the war in Ukraine. In 2022, Croatia recorded a budgetary surplus of 0.4% of GDP, reduced its public debt to 68.4% of GDP and increased the general government budget income to 45.2% of GDP, accompanied by a more moderate expenditure growth (44.8% of GDP). Income growth was supported by positive economic trends and fiscal effects of the 2021 tax reforms, further amplified by the availability of EU funds from the Multiannual Financial Framework, as well as the EU Solidarity Fund and the Recovery and Resilience Facility. Employment rates have increased, unemployment rates have decreased, and visible progress has been achieved in digitalization, macroeconomic management and the efficiency of the public and business sectors. By adopting principles of good governance in all public administration bodies, Croatia continued the process of modernising public administration to increase the efficiency and quality of services provided to all its citizens. To streamline the process of launching and managing a business in Croatia, measures for reducing administrative burden and simplifying operating conditions have been implemented. Responsible fiscal policy management, timely measures to tackle the energy crisis, efficient utilization of EU funds, and continuous public sector reforms were all major contributing factors to increasing the competitiveness of the national economy.

Public investments in Croatia and the European Union

Public investments are a key indicator of a government's ability to support economic growth and social development, which is why they should be adequately monitored to ensure the efficient implementation of reforms.

Graph 1. Public investments in Croatia and EU, 2010-2024 (as % of GDP)



Source: European Commission (2024), Annual macro-economic database (AMECO)

Public investments in the EU have, with occasional oscillations, mostly been stable (3-3.5% of GDP). Austerity measures introduced after the global financial crisis (2008) and the European debt crisis (2015) caused a slight drop in 2016 and 2017, but from 2018 onwards, they stabilized and gradually increased, indicating economic recovery and a revival of economic activities. Public investments remained stable even during the 2020 pandemic period, gradually increasing ever since, with 2025 projections estimating them at 3.8% of GDP. In its 2024 Annual Single Market and Competitiveness Report, the European Commission highlights that public investments increased due to EU Cohesion

Funds, Recovery and Resilience Facility and other programmes that help finance the green and digital transition, maintain equal market conditions and promote economic convergence among Member States. However, the Union requires increased and more strategic public investment, including the use of more innovative financial instruments to reduce risk and boost private investment. Its role will remain crucial in the upcoming years for driving private sector engagement, supporting infrastructure development, and assisting projects of national interest which do not attract enough private investors. Public investments will also be relevant for facing numerous challenges that lie ahead in an increasingly complex and tense geopolitical environment, such as population ageing, climate and digital transitions, competition and defence allocations.

In comparison to the EU, public investments in Croatia in the observed period have been above the EU average, which is largely due to the funds available from the Instrument for Pre-Accession Assistance – IPA, the benefits of EU membership and cohesion policy instruments. In 2017 they recorded a slight drop when unfavourable loans for infrastructure projects (such as motorways) had to be serviced through re-financing, which continued into 2018. According to the Analysis of the Croatian Banking Association, this drop was further driven by the pro-cyclical nature of investments and the temporary slowdown in the utilization of EU funds, also accompanied by the country's limited technical and organizational capacities. Public investments have been on the rise since 2018, primarily due to EU funds, which provide the means for investing in large-scale infrastructure projects. The Ministry of Regional Development and EU Funds reports that the current Multiannual Financial Framework 2021-2027 places more than 25 billion EUR of the EU budget at Croatia's disposal, which directly affects the share of public investment. In 2021 and 2022, this share was more than 4% of GDP, in 2022 and 2023 it rose to more than 5.5%, while it is projected to grow even further in 2025, to 5.9% of GDP. Such a substantial share of public investments indicates the need to further strengthen both the theoretical and practical models of how they are managed to ensure maximum efficiency and long-term sustainability, especially once the Multiannual Financial Framework 2021-2027 comes to an end, when Croatia might be faced with a reduced inflow of European funding.

Efficient public investments

Recommendations

Many EU Member States implemented reforms of the entire or parts of their public investment management systems in the past decade. The European Commission's 2024 report verified that efficient public investment planning, supported by scientific research, is applicable within national frameworks specific to each Member State. It also indicated shortcomings present in the system of managing public investments, such as a lack of analyses of alternative solutions in early planning stages and a lack of transparent multiannual budgets. The report analysed successful projects and systematised key factors for efficient public investment management. These are:

1. A long-term planning strategy built on hard data, with transparent performance indicators to facilitate monitoring of projects. All other regional, local and sectoral strategies should be fully aligned with the high-level strategy and share the same targets,
2. effective coordination across levels of government and sectors that would define shared strategic objectives and build support for their achievement,
3. development of five-to-ten-year national investment plans with clear objectives aligned with investment priorities,
4. medium-term capital expenditure allocation by programme or ministry, which offers predictability in planning and a clear anchoring of investment plans in the annual budgetary process,
5. regular monitoring of both processes and outcomes, often conducted by specialised units, independent bodies and institutions,
6. data transparency – publication of analyses and detailed progress reports on implementation, which facilitates learning and improves the process, particularly if done in a digital environment,
7. strong political support, which is indispensable for driving change, especially when it is wide-ranging.

The recommendation for managing large-scale investment projects is to use: (1) the stage-gate model, in which the most important stages are the initial ones – verifying strategic relevance, project selection and cost estimation, and (2) multiannual investment budgets with clear distribution of funds. These budgets should be updated on an annual basis, be publicly available and increase accountability, transparency and efficiency of public investments. In Croatia, the Ministry of Finance issues the Manual to the Regulation on Assessing and Selecting Investment Projects, which serves as a guide for public sector employees and heads of public institutions to more efficient utilization of public funds. It provides a comprehensive overview of elements of pre-investment studies and reports on the impact of investment projects. The Manual highlights the relevance of pre-investment studies, which lead to decisions on projects and potential alternatives.

Development framework for the European Union and Croatia

Public investments in Croatia have been on the rise and amounted to 5.7% of GDP in 2024. Since they are to a large extent funded by the EU, additional fiscal space for investments should be secured when this specific source becomes reduced. According to the National Development Plan for Public Service from 2022 to 2027, key measures for development include creating a centralised system for assessing and monitoring public investments, speeding up reforms, and placing a stronger focus on the green and digital transition. Croatia is also faced with challenges related to maintaining fiscal sustainability, adapting to demographic and climate change, increasing productivity and securing the long-term sustainability of public investments. Substantial obstacles also arise when public investments are used at the local level, primarily due to a lack of administrative capacities, which reduces the potential for efficient management of projects and large-scale investments. An additional challenge is poor coordination and exchange of information between local and regional government units. Continuous capacity building, expert support and education, the introduction of digital solutions for better cooperation and information exchange, the functional and physical merging of local government units and the adoption of multiannual development plans accompanied by systematic monitoring, oversight and assessment of their implementation are all elements necessary for a national system to succeed.

The financial impact of the Cohesion policy on Croatia after 2027 will largely depend on the general situation in the EU. According to a publication by the Institute for Development and International Relations, the overall EU funds may decrease due to an increased need for investment in security, defence, strategic autonomy and migration and climate policies, which might lead to Croatia having reduced access to funds in the upcoming period. Even though such a scenario is less than favourable for Croatia, which still lags behind more developed Member States, high-quality strategic planning and responsible management of public investments could stimulate greater domestic (and foreign) investments in long-term development priorities and reduce the high levels of dependence on EU sources. In this context, the Croatian Government adopted a Decision to launch the creation of the National Plan for Stimulating Investments until 2030, adopted within the framework of the National Recovery and Resilience Programme. This Plan is directed toward attracting foreign direct investments, increasing their quality and enhancing the resilience and sustainability of the Croatian economy through the coordination of public policies and more balanced regional development.

The European Commission formed a working group on the future of cohesion policy, which, in its 2024 Report, presented proposals for the future of cohesion policy that may have a positive effect on the Croatian economy. One of the key recommendations is an adjustment of the territorial approach, which would divert public investments not only to the poorest but also to underdeveloped regions and those that are at risk of poverty and social exclusion. For regions such as Slavonia, Baranja, Lika, Gorski kotar, and Banovina, this might lead to a rise in financial support and interventions being adjusted to their specific needs. In addition, institutional capacities need to be enhanced, the quality of management of local units improved, and the private sector and civil society included as they can contribute to higher-quality planning and implementation of development projects. Improving all forms of innovation is strongly encouraged, as is a greater degree of openness to conceiving new development strategies for regions, including access to new economic activities and sectors. Cooperation between European regions also needs to be enhanced, particularly in those specializing in knowledge-sharing and innovation development, to attract foreign direct investments. For instance, cooperation with multinational companies and other enterprises (technological, production) can provide less developed regions with access to new technologies and expert knowledge, whereas public institutions such as regional agencies can facilitate the connection of local capacities with international opportunities. Such an approach stimulates economic growth, enhances regional resilience, and allows them to capitalize on their specific advantages in a global environment. In addition, cohesion policy should be aligned with broader EU sustainable development goals, while the European Commission should play a more proactive role in future cohesion programmes by designing strategies, forming partnerships and evaluating results.

Conclusion

Proper and responsible management of public investments is important for policymakers, national and local governments, but also for the general public as it can improve quality of life and increase the competitiveness of the economy in the long term. Previous public investments in Croatia were largely focused on utilizing EU funds for infrastructure development, digitalization, and the modernization of public services. However, as the current Multiannual Financial Framework 2021-2027 draws to a close, management strategies for investment activities should be planned further to ensure their continuity. Croatia should be prepared for potentially reduced access to European funds, which would make private investments (national and foreign) more relevant. This is possible only through the creation of a favourable business environment, enhancement of climate and digital transition, the adaptation of development strategies to specific regional needs, improved coordination across all levels of government, and strengthening of administrative capacities at the local level. Knowledge gained from previous experience with EU funds can be used for future public investment planning efforts to build a unique national public finance management system that would be less dependent on EU funds. Ireland is a prime example of how strategic planning of public investments may lead to a long-term strategy based on specific data and transparent performance indicators. When medium- and long-term investment plans are defined with clear objectives, fund distribution, and systematic monitoring of implementation and impact, public investments can stimulate strong economic growth and contribute to the generation of long-term social value at both the local/regional and national levels.

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