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Bronić, Mihaela

Source / Izvornik: **Press releases, 2012, 5, 1 - 3**

Journal article, Published version

Rad u časopisu, Objavljena verzija rada (izdavačev PDF)

<https://doi.org/10.3326/pr.2012.43>

Permanent link / Trajna poveznica: <https://urn.nsk.hr/urn:nbn:hr:242:725668>

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Download date / Datum preuzimanja: **2024-07-28**



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PRESS RELEASE

The Revision of the Croatian State Budget for 2012 : Why are the expenditures of the State Budget rising?

MIHAELA BRONIĆ, PHD, Institute of Public Finance, Zagreb

On November 15, the Croatian Government sent the Parliament a **revision of the state budget for 2012**.¹ Revenues for 2012, after the revision, came to 110.3 billion kuna (1.4 billion more than had been planned), and expenditure to 120.3 billion kuna (or 1.5 billion more than had been planned). The budget deficit now comes to about 10 billion kuna, which is 94 million kuna more than was planned earlier (Table 1). Since revenues and expenditures rose by similar amounts, the revision did not have any very significant impact on the state budget deficit.

Table 1: Total revenues and expenditures of the state budget (in millions of kuna)

| | 2011 | Plan 2012 | Revision of 2012 | Enlargement or reduction by the revision |
|--|---------|-----------|------------------|--|
| Revenue and expenditure account | | | | |
| Total revenues | 107,417 | 108,950 | 110,343 | 1,393 |
| Total expenditures | 121,425 | 118,841 | 120,328 | 1,487 |
| Deficit | -14,008 | -9,891 | -9,985 | -94 |

Source: Government of the Republic of Croatia, 2012

In what follows below the objective is briefly to analyse the budgetary expenditures that were most increased in the revision. Table 2 gives a breakdown of expenditures that increased by more than 50 million kuna; in total they amount to almost 2.5 billion kuna.

The question necessarily arises where the 2.5 billion kuna increase in expenditure via the revision of the budget as shown in Table 2 comes from, if at the beginning of this article we said that the expenditures would not be more than 1.5 billion kuna in excess of those planned earlier. Expenditures really will be more than 1.5 billion in excess of those planned earlier, but in the revision there is also a change in the structure of the expenditures previously planned. Certain items of the previously planned expenditures have been decreased (most of all material costs, expenditures related to non-financial assets [i.e. investment projects] and grants), and instead of them, some other expenditures have been financed. For example, the Ministry of Science, Education and Sport has given up on some previously planned capital investments: in the pupils' hostel in Bjelovar (5 million kuna), in the Artisan School in Sisak (5 million kuna) and in the Mijat Stojanović Elementary School in Babina Greda (5 million kuna). In this way it has provided some of the money for increasing expenditures for the wage bill.

¹ Government of RC., 2012. *Draft Proposal for Amendments to the Government Budget of the Republic of Croatia for 2012*. 61st session of the Government, November 15, 2012.

Table 2: Expenditures of the state budget that were increased by more than 50 million kuna in the revision (in millions of kuna)

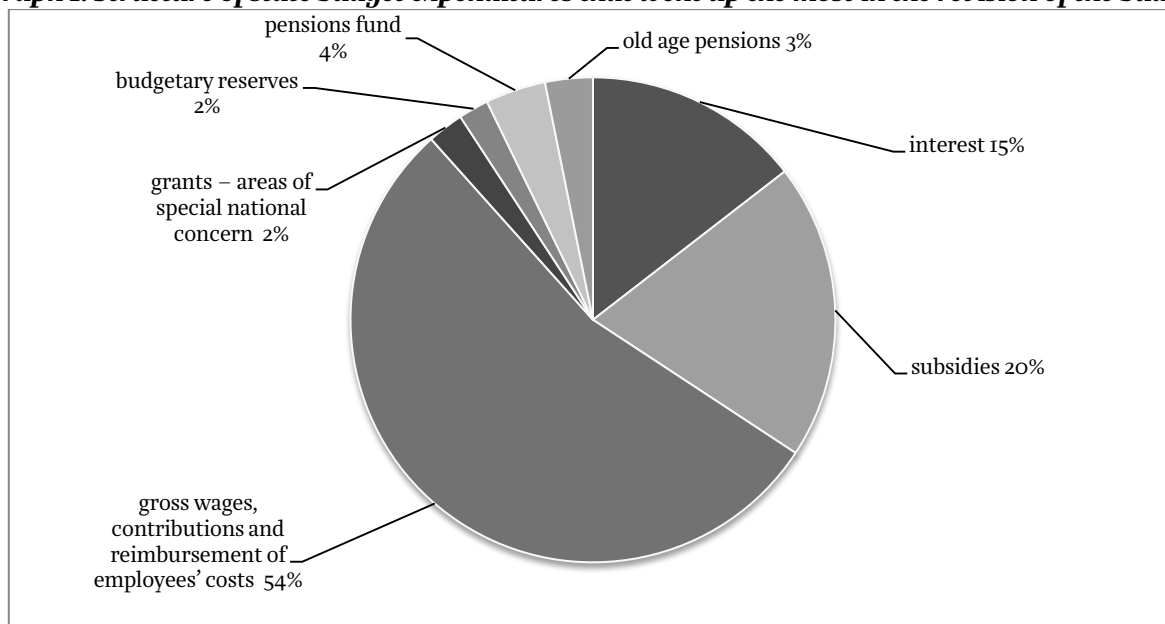
| | Spending agency | Expenditure items increased by more than 50 million kuna | Increase in million kuna | Proportion of total increase (in %) |
|-----|--|--|--------------------------|-------------------------------------|
| I. | Ministry of Health – Cro. Inst. Health Insurance | expenditures for employees of healthcare institutions – hospital health protection* | 510 | 21 |
| 2. | Ministry of Finance | interest on bonds issued abroad | 361 | 15 |
| 3. | Ministry of the Economy | subsidies – restructuring of the ship industry | 290 | 12 |
| 4. | Interior Ministry | gross wages and contributions for administration and governance | 235 | 9 |
| 5. | Ministry of Science, Education and Sport | elementary education – gross wages and contributions | 195 | 8 |
| 6. | Ministry of Agriculture | subsidies – incentivising farm production and market interventions | 139 | 6 |
| 7. | Ministry of Science, Education and Sport | secondary education – gross wages and contributions | 128 | 5 |
| 8. | Ministry of Finance | pensions fund – payment of the last instalment of the debt to retirees* | 100 | 4 |
| 9. | Ministry of Science, Education and Sport | elementary education – reimbursement of employee costs | 80 | 3 |
| 10. | Ministry of Labour and the Pensions System | old age pensions* | 79 | 3 |
| 11. | Ministry of Science, Education and Sport | tertiary education – U. of Zagreb - gross wages and contributions | 74 | 3 |
| 12. | Interior Ministry | gross wages and contributions for administration and governance of the system of the state borders | 68 | 3 |
| 13. | Ministry of the Economy | payments to individuals and households – shipbuilding* | 61 | 2 |
| 14. | Ministry of Finance | grants to areas of special national concern | 60 | 2 |
| 15. | Ministry of Defence | reimbursement of employee costs – peacekeeping missions | 55 | 2 |
| 16. | Ministry of Finance | budgetary reserves | 50 | 2 |
| | TOTAL | | 2,485 | 100 |

* According to an economic classification of the budget, this expenditure is booked under payments to individuals and households.

Source: Government of the Republic of Croatia, 2012

The major proportion in the considerably increased expenditures analysed in Table 2 is taken by wages and reimbursement of employee costs (54%) (in the Ministry of Science, Education and Sport, the Ministry of Health, the Interior Ministry and the Ministry of Defence), expenditures on interest payments (15%) (for bonds issued on the American market) and subsidies from the Ministry of the Economy and the Ministry of Agriculture (20%) (most of it going to the shipyard in Split).

Graph 1. Structure of state budget expenditures that went up the most in the revision of the budget



Source: Government of the Republic of Croatia, 2012

Table 2 and Graph 1 depict fairly well the most important problems of the expenditure side of the state budget, the reform of which has been deferred for years (reform of wages in public services, reform of the healthcare and pensions systems, privatisation of the shipyards and reform of local and regional self-government). It would be good if the Government implemented such reforms as soon as possible, for this would enable a long-term reduction of the deficit, of the public debt and the debt servicing that are all burdens on the state budget.