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Bajo, Anto; Primorac, Marko; Sopek, Petar; Vuco, Marin

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Net fiscal positions of counties in Croatia from 2011 to 2013

ANTO BAJO, MARKO PRIMORAC, PETAR SOPEK AND MARIN VUGO¹

The main aim of this study was to determine the net fiscal positions of counties, i.e. the net fiscal positions of all cities and municipalities in the territory of each county. The analysis was carried out for the period from 2011 to 2013. The distribution of general government revenue and expenditure of around HRK 129bn was carried out according to established distribution keys and the net fiscal positions of counties were determined. The results revealed that, out of 21 counties (20 counties and the City of Zagreb), only four recorded positive net fiscal positions. The best average annual net fiscal position was found in the City of Zagreb (HRK 13.7bn), followed by the positions of Istarska County (HRK 795m), Primorsko-goranska County (HRK 731m) and Zagrebačka County (HRK 134m). Other counties recorded negative net fiscal positions, with the weakest (negative) ones identified in Vukovarsko-srijemska County (HRK 1.69bn of annual deficit) and Osječko-baranjska County (HRK 1.67bn).

1 INTRODUCTION

The main aim of this study was to determine the spatial dimension of the general government budget, i.e. which counties are net beneficiaries and net contributors to the general government budget (total consolidated budget of the central government, local and regional governments and extra-budgetary users). The distribution of HRK 129bn (around 90% of the general government budget revenue and expenditure (according to ESA 2010 methodology) by counties was simulated based on specified keys from 2011 to 2013. The research aims to encourage the Government and Parliament to create a general government budget according to geographical location classification. The distribution of the general government revenue and expenditure by counties creates a good analytical basis for discussions about the regional restructuring or improvement of the existing model of (administrative, territorial and fiscal) decentralization. The research results further justify such an approach.

2 GENERAL GOVERNMENT BUDGET

From 2011 to 2013, total general government revenue stood at about HRK 136.4bn (41.2% of GDP) on average, while expenditure amounted to about HRK 156.9bn (47.4% of GDP). Within the general government budget, the budgets of all local government units amounted to HRK 15.5 billion (only

¹ The authors would like to thank their colleagues Saša Ljepović and Irena Klemenčić for valuable comments and suggestions.

around 10% of the general government budget). Therefore, the research was aimed at the analysis and distribution by counties of HRK 129bn of general government revenue and expenditure.

Table 1

Total general government revenue and expenditure (ESA 2010 methodology), 2011-13 (in HRK billion and % of GDP)

| | billion HRK | | | % of GDP | | |
|-------------|-------------|-------|-------|----------|------|------|
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Revenue | 134.9 | 136.4 | 138.0 | 40.6 | 41.3 | 41.8 |
| Expenditure | 160.4 | 155.1 | 155.2 | 48.2 | 46.9 | 47.0 |

Note: The data follow the methodology of the European system of national and regional accounts (ESA 2010), in effect as of September 2014. It is particularly important for Croatia in terms of fiscal surveillance under the excessive budget deficit procedure.²

Source: GBS (2014a).

The analysis included about HRK 129bn (see Table 2), distributed by counties (according to geographical location). These were the revenue and expenditure of local and central government (the government budget and extra-budgetary funds), presented by counties.

Table 2

Total revenue and expenditure used in the analysis, 2011-13 (in HRK billion and % of total general government revenue and expenditure) according to ESA 2010 methodology

| | billion HRK | | | % of revenue/expenditure | | |
|-------------|-------------|-------|-------|--------------------------|------|------|
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Revenue | 127.4 | 130.4 | 129.4 | 94.4 | 95.6 | 93.8 |
| Expenditure | 128.4 | 126.4 | 131.2 | 80.0 | 81.5 | 84.6 |

Source: Authors' calculations.

Taking into account the wider scope of the general government (according to ESA 2010), the analysed revenue covers most of the total revenue (about 94.6 % on average). On the expenditure side, the share of coverage is slightly lower (about 82.1 % on average) due to the exclusion of certain transactions from the analysed expenditure.

3 METHODOLOGY FOR DETERMINING THE NET FISCAL POSITION

The net fiscal position of a county implies the difference between the total operating revenues and expenditures (of the general government) realized in the territory of that particular county.³ Monitoring the net fiscal position by counties is important for the implementation of the regional policy because it reveals the fiscal capacities (the ability to raise revenue) and fiscal needs of local government units in the territory of particular counties.

For the sake of analysis, it was necessary to develop an analytical framework for the distribution of general government revenue and expenditure, or present them according to the geographical location they belong to - the area where the revenue was collected or expenditure spent. The methodological

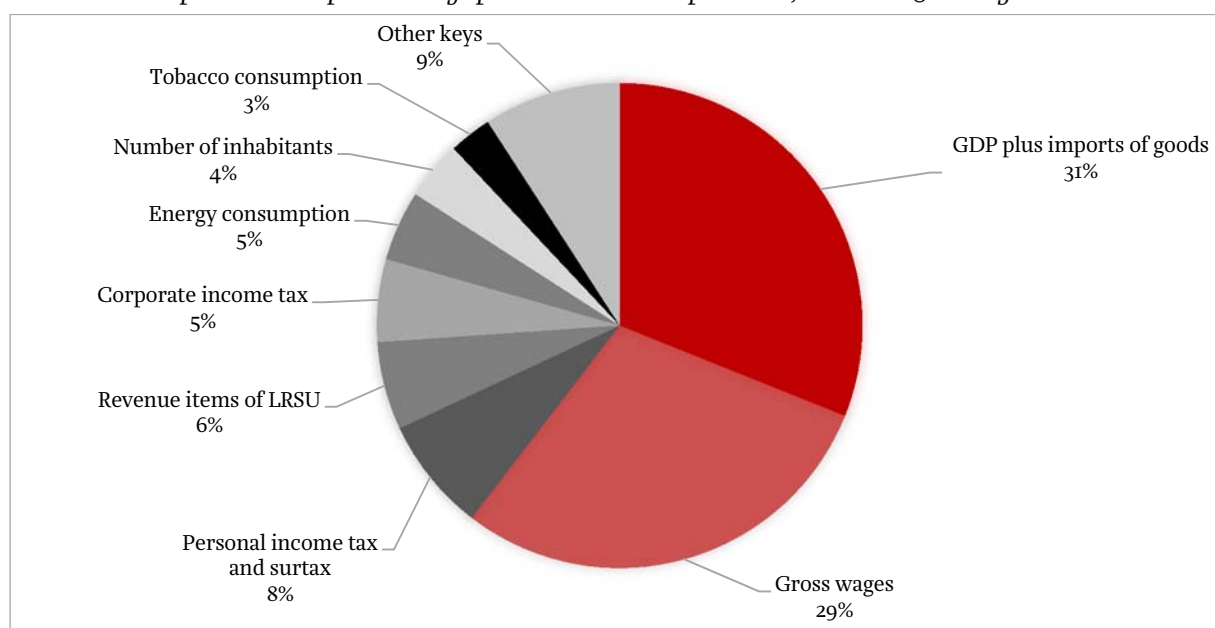
² Compared to the national methodology (published by the Ministry of Finance), the general government, according to ESA 2010, includes the public companies Croatian Highways and Rijeka-Zagreb Highway, Croatian Radio Television and Croatian Railways Infrastructure, whereas the local government sector additionally includes the revenues and expenditures of particular local budgetary users. Another significant difference between the national and ESA 2010 methodologies exists in the recording of fiscal transactions. According to ESA 2010, fiscal transactions are accounted for on an accrual basis (revenues and expenditures are recorded at the time they occur), whereas under the national methodology they are mainly accounted for on a cash basis (at the time of payment into the budget).

³ The revenue collected in a county does not only include the revenues recorded in the local and regional government budgets, but also total general government revenues generated in the territory of the county (even those recorded in the central government budget). The same applies to expenditure.

framework followed a seemingly simple logic of determining “keys” for distributing the revenue and expenditure items by counties. Due to their specificities (one-off nature), some items of revenues and receipts as well as expenditures and expenses are excluded from the analysis. The basic methodological concepts are presented below, whereas detailed explanations are available from the authors.

Revenue breakdown. The revenue breakdown methodology is based on the economic classification and information on revenue allocation to each level of the general government budget (central government budget, extra-budgetary funds and local government budgets). The analysis encompasses the general government’s operating revenue, whereby certain items of revenues and receipts, which could distort the picture because of their unpredictability, one-offness or double accounting, are excluded from the analysis.⁴ For the revenue breakdown, 27 keys have been applied to 46 revenue items (see Figure 1). GDP increased by imports of goods accounts for the largest share of revenue (CBS, 2012; 2013; 2014b) and it is used as a key for the distribution of VAT and other taxes on goods and services, jointly accounting for 31% of the observed revenue. The data on gross wages were used for the distribution of social contributions (29% of the observed revenue) by counties (the Ministry of Finance data and CBS, 2013b; 2014c). Smaller shares of revenue were distributed according to the data on personal income tax and surtax (8%) and other categories of local government revenue (6%) downloaded in the aggregated form from the website of the Ministry of Finance (2014).

Figure 1
The structure of the most important keys for the allocation of revenue, the 2011-13 average



Source: Authors' calculations.

Expenditure breakdown. The general government expenditure is divided by levels of government where it is spent, according to the functional classification. The corresponding organizational units (ministries, offices, services, etc.), the expenditures of which mostly belong to the above mentioned functional classification, were presented within functions.⁵

⁴ Revenues from the sale of non-financial assets, revenues from entities within the general government budget, as well as receipts from financial assets and borrowing are excluded from the analysis.

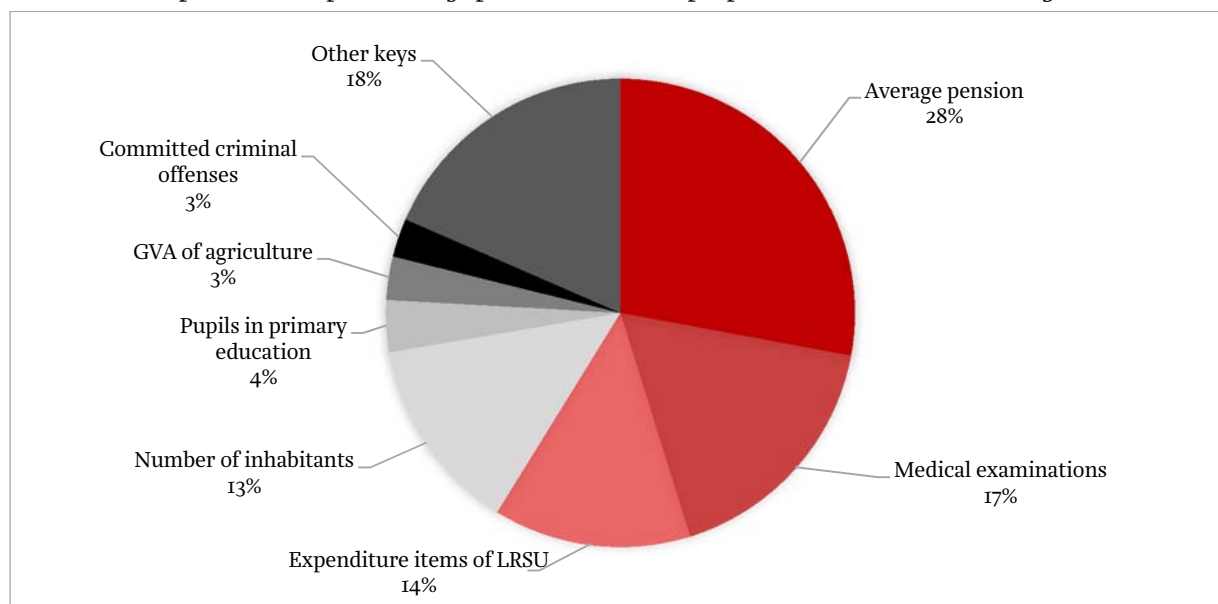
⁵ Due to differences in the methodology used for the analysis of the revenue and expenditure sides of the budget, it is not possible to unambiguously identify the net effects by sources or functions – the revenue sources cannot be unambiguously matched with expenditures. For example, pension insurance contributions appear on the revenue side, whereas on the expenditure side, there is total expenditure of the CPII (Croatian Pension Insurance Institute), which includes the payment of pensions, but also employee and material expenses of the Institute.

The distribution of expenditure by counties was carried out in even greater detail - according to these organizational units' programs. In addition to the central government budget, a separate distribution of expenditure was made for the expenditures of local and regional government units and non-budgetary funds. Certain expenditure items (expenditures for the acquisition of non-financial assets, expenditures for entities within the general government budget, expenses for financial assets and borrowing and the expenditures and expenses of public sector entities outside the scope of the general government) were excluded from the analysis. Local government expenditure was analysed by economic classification (for example, compensation of employees, subsidies, aid and so on).

Due to the exclusion of items associated with transactions in non-financial assets on the revenue and expenditure sides, as well as receipts from and expenses for financing (financial assets and borrowing), the calculated net fiscal position of the Republic of Croatia should not be confused with the official measure of surplus/deficit of the general government budget. Due to a delay in the dissemination of certain official statistical information used in the distribution of expenditure, the latest available data were used for certain years, although they did not necessarily refer to the corresponding year. For expenditure breakdown, 44 different keys were applied to 163 expenditure items (see Figure 2).

Figure 2

The structure of the most important keys for the allocation of expenditure, the 2011-13 average



Source: Authors' calculations.

The largest share of expenditure was distributed by counties based on the amount of average pension and the number of pensioners (CPII, 2011; 2012; 2013), which is used as a key for the distribution of the Pension Insurance Institute's expenditure, representing 28% of the observed expenditure. The second most important key refers to the data on the number of examinations performed (in the office and at home) and referrals to specialists (CNIPH, 2012; 2013; 2014) used to distribute 17% of expenditure related to health – the Croatian Institute for Health Insurance, a part of the Ministry of Health and the health protection, preservation and promotion program. The data on certain local government expenditure items, downloaded in the aggregated form from the website of the Ministry of Finance (2014), were used for the distribution of 14% of expenditure. The number of inhabitants was used as a key for the distribution of 13% of total expenditure observed (CBS, 2014d), relating to as many as 72 budgetary users (mainly services of general public interest, such as the Government, Croatian Parliament, State Inspectorate, Ministry of Public Administration, Constitutional Court, etc.).

4 RESULTS – NET FISCAL POSITIONS OF COUNTIES

The average net fiscal position at the national level was positive and amounted to HRK 383m.⁶ However, the analysis conducted by counties reveals some worrying results. Out of 21 counties, only four had positive net fiscal positions in the period from 2011 to 2013.

As expected, the City of Zagreb had the best average annual net fiscal position (HRK 13.7bn)⁷, followed by Istarska (HRK 795m), Primorsko-goranska (HRK 731m) and Zagrebačka (HRK 134m) Counties. Other counties had negative net fiscal positions, especially Vukovarsko-srijemska (HRK 1.69bn) and Osječko-baranjska (HRK 1.67bn) Counties.

Table 3

Total analysed revenues, expenditures and net fiscal positions of counties, the 2011-13 average (in HRK million)

| County code | County | Revenue | Expenditure | Net fiscal position |
|----------------|------------------------|----------------|----------------|---------------------|
| 01 | Zagrebačka | 8,417 | 8,283 | 134 |
| 02 | Krapinsko-zagorska | 2,964 | 3,709 | -746 |
| 03 | Sisačko-moslavačka | 4,047 | 5,193 | -1,146 |
| 04 | Karlovačka | 3,188 | 3,920 | -732 |
| 05 | Varaždinska | 4,277 | 4,726 | -449 |
| 06 | Koprivničko-križevačka | 2,777 | 3,385 | -608 |
| 07 | Bjelovarsko-bilogorska | 2,513 | 3,469 | -956 |
| 08 | Primorsko-goranska | 10,519 | 9,788 | 731 |
| 09 | Ličko-senjska | 1,263 | 1,924 | -662 |
| 10 | Virovitičko-podravsko | 1,699 | 2,452 | -752 |
| 11 | Požeško-slavonska | 1,522 | 2,160 | -638 |
| 12 | Brodsko-posavska | 2,969 | 4,117 | -1,148 |
| 13 | Zadarska | 4,397 | 5,146 | -749 |
| 14 | Osječko-baranjska | 7,113 | 8,787 | -1,674 |
| 15 | Šibensko-kninska | 2,686 | 3,529 | -844 |
| 16 | Vukovarsko-srijemska | 3,387 | 5,076 | -1,689 |
| 17 | Splitsko-dalmatinska | 11,647 | 13,042 | -1,396 |
| 18 | Istarska | 7,475 | 6,680 | 795 |
| 19 | Dubrovačko-neretvanska | 3,520 | 3,969 | -449 |
| 20 | Međimurska | 2,586 | 2,886 | -300 |
| 21 | City of Zagreb | 40,117 | 26,456 | 13,661 |
| Croatia | | 129,083 | 128,700 | 383 |

Source: Authors' calculations.

The per capita net fiscal positions of counties in the period from 2011 to 2013 are shown in Table 4.

⁶ It should be noted that the calculated net fiscal position of the Republic of Croatia should not be confused with the official measure of the general government surplus/deficit, because this analysis considers only operating revenue and expenditure (excluding transactions in nonfinancial assets, as well as receipts from and expenses for financing) as explained in the methodology section.

⁷ The City of Zagreb is the cultural, scientific, economic, political and administrative centre of the Republic of Croatia; it has the highest level of employment – the share of employed persons in the total population in 2013 was 45%, whereas the average for the Republic of Croatia was 26% (CBS, 2014c; 2014d). It also has the highest average net wage – In 2012, the average net wage in Zagreb amounted to HRK 6,366, whereas the average for the Republic of Croatia was HRK 5,469 (CBS, 2014c). About half of the total profits of entrepreneurs in Croatia are generated by Zagreb-based enterprises (FINA, 2013).

Table 4

Total analysed revenues, expenditures and net fiscal positions per capita of counties, the 2011-13 average (in HRK million)

| County code | County | Revenue | Expenditure | Net fiscal position |
|----------------|------------------------|---------------|---------------|---------------------|
| 01 | Zagrebačka | 26,450 | 26,029 | 421 |
| 02 | Krapinsko-zagorska | 22,492 | 28,151 | -5,659 |
| 03 | Sisačko-moslavačka | 23,892 | 30,661 | -6,768 |
| 04 | Karlovačka | 25,092 | 30,851 | -5,759 |
| 05 | Varaždinska | 24,426 | 26,990 | -2,564 |
| 06 | Koprivničko-križevačka | 24,172 | 29,464 | -5,292 |
| 07 | Bjelovarsko-bilogorska | 21,271 | 29,361 | -8,090 |
| 08 | Primorsko-goranska | 35,616 | 33,142 | 2,474 |
| 09 | Ličko-senjska | 25,253 | 38,489 | -13,237 |
| 10 | Virovitičko-podravska | 20,274 | 29,250 | -8,976 |
| 11 | Požeško-slavonska | 19,830 | 28,144 | -8,314 |
| 12 | Brodsko-posavska | 18,902 | 26,207 | -7,305 |
| 13 | Zadarska | 25,725 | 30,109 | -4,384 |
| 14 | Osječko-baranjska | 23,496 | 29,024 | -5,528 |
| 15 | Šibensko-kninska | 24,930 | 32,760 | -7,831 |
| 16 | Vukovarsko-srijemska | 19,082 | 28,601 | -9,519 |
| 17 | Splitsko-dalmatinska | 25,613 | 28,682 | -3,069 |
| 18 | Istarska | 35,965 | 32,140 | 3,826 |
| 19 | Dubrovačko-neretvanska | 28,772 | 32,446 | -3,674 |
| 20 | Međimurska | 22,765 | 25,407 | -2,642 |
| 21 | City of Zagreb | 50,589 | 33,362 | 17,227 |
| Croatia | | 30,245 | 30,155 | 90 |

Source: Authors' calculations.

There are only slight changes in the per capita net fiscal positions of counties. The City of Zagreb still holds the best net fiscal position – the general government revenue per capita generated in the territory of the City of Zagreb exceeds by an average of HRK 17.2 thousand the expenditure. The second best is Istarska County, with an average surplus of HRK 3.8 thousand per capita, followed by Primorsko-goranska County with a surplus of HRK 2.5 thousand per capita. The lowest net fiscal position is recorded in Ličko-senjska County, with a deficit of HRK 13.2 thousand per capita.

There are no significant deviations with respect to annual changes.

From 2011 to 2013, the per capita net fiscal position improved in Šibensko-kninska (by HRK 1,026 per capita) and Splitsko-dalmatinska Counties (by HRK 907 per capita). Despite the positive trends in the three years observed, Šibensko-kninska and Splitsko-dalmatinska Counties maintained negative net fiscal positions in 2013. Positive trends were also recorded in Zadarska (HRK 243), Istarska (HRK 237), Varaždinska (HRK 227), Virovitičko-podravska (HRK 99), Osječko-baranjska (HRK 85) and Brodsko-posavska Counties (HRK 76). Among these counties, only Istarska County recorded a positive net fiscal position in the three years observed, with a positive trend in 2013 compared to 2011.

Table 5
Per capita net fiscal positions of counties, 2011-13 (in HRK)

| County code | County | 2011 | 2012 | 2013 | Change 2013/2011 |
|-------------|------------------------|-------------|------------|-------------|------------------|
| 01 | Zagrebačka | 180 | 1,041 | 43 | -137 |
| 02 | Krapinsko-zagorska | -5,922 | -4,601 | -6,459 | -537 |
| 03 | Sisačko-moslavačka | -6,794 | -6,011 | -7,510 | -717 |
| 04 | Karlovačka | -5,876 | -4,953 | -6,453 | -577 |
| 05 | Varaždinska | -3,023 | -1,872 | -2,797 | 227 |
| 06 | Koprivničko-križevačka | -5,542 | -4,406 | -5,930 | -388 |
| 07 | Bjelovarsko-bilogorska | -8,411 | -6,755 | -9,109 | -698 |
| 08 | Primorsko-goranska | 1,856 | 3,835 | 1,731 | -125 |
| 09 | Ličko-senjska | -11,975 | -12,500 | -15,277 | -3,302 |
| 10 | Virovitičko-podravska | -9,339 | -8,349 | -9,240 | 99 |
| 11 | Požeško-slavonska | -8,480 | -7,263 | -9,206 | -726 |
| 12 | Brodsko-posavska | -7,681 | -6,627 | -7,605 | 76 |
| 13 | Zadarska | -4,752 | -3,893 | -4,509 | 243 |
| 14 | Osječko-baranjska | -6,032 | -4,606 | -5,947 | 85 |
| 15 | Šibensko-kninska | -8,672 | -7,161 | -7,646 | 1,026 |
| 16 | Vukovarsko-srijemska | -9,492 | -8,375 | -10,700 | -1,208 |
| 17 | Splitsko-dalmatinska | -3,683 | -2,749 | -2,776 | 907 |
| 18 | Istarska | 3,211 | 4,819 | 3,447 | 237 |
| 19 | Dubrovačko-neretvanska | -3,882 | -2,264 | -4,876 | -994 |
| 20 | Međimurska | -3,021 | -1,831 | -3,073 | -52 |
| 21 | City of Zagreb | 17,258 | 18,143 | 16,282 | -977 |
| | Croatia | -239 | 936 | -428 | -189 |

Source: Authors' calculations.

In contrast, Ličko-senjska County recorded the lowest net fiscal position, with a further downward trend throughout the observed period. Thus, in 2013 alone the per capita net fiscal position of Ličko-senjska County was in the red by over HRK 15 thousand (down HRK 3,302 from 2011). The City of Zagreb also recorded a negative trend in the observed period, with its per capita net fiscal position in 2013 deteriorating by HRK 977 from 2011.

5. CONCLUSION

The budget of the Republic of Croatia is not presented according to the location classification, which prevents the monitoring of the fiscal position by regional (county) dimension. This further prevents the analysis of government policies and reforms and assessment of their impact on the regional development and fiscal position of certain regions.

The Institute of Public Finance has developed a methodology for the location classification of revenue and expenditure according to selected keys. Based on this methodology, it is possible to determine the net fiscal position of each county (revenue collected and expenditure spent in the territories of individual counties) and provide a framework for the evaluation of government policies and reforms aimed at regional development, but also to evaluate their impact on revenue and expenditure.

The analysis results indicate that there are certain inefficiencies in the existing regional organization. Only four out of 21 counties are net contributors, while the other 17 counties are net beneficiaries from

the general government budget. Such a regional organization model (where a vast majority of counties spend more than they collect in revenues) is clearly not sustainable in the long run.

The proposed methodology opens a new perspective for fiscal policy monitoring in the Republic of Croatia, at both local and regional levels. This is a useful tool for the state to review regional policies and better monitor the effectiveness of fiscal policy instruments on the revenue and expenditure sides in the counties.

For local and regional governments with weaker net fiscal positions (as well as for leaders who run them), the analysis results can be a motivation to improve their fiscal positions. For best performing counties, they are a confirmation of success that can help them in lobbying for more funds from the general government budget, or a powerful argument for further decentralization.

This research aims to encourage expert debate on possible and necessary options for regional reorganization of the Republic of Croatia, based on indicators rather than subjective or general impressions.

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Figure 3

The map of net fiscal positions per capita, from 2011-13 average (in HRK)

