

# A Brief Guide to the National Budget Process

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# **A Brief Guide to the National Budget Process**

Zagreb, 2020

The purpose of this brief guide is to present, in the simplest and most concise way, the very complex national budget process to new members of parliament (MPs) as well as the media, citizens and other interested parties.

The budget process at the national level is implemented in accordance with the **Budget Act** and the **Parliament's Rules of Procedure**. Although the budget covers only a one-year period, the main phases of the budget process, i.e. budget preparation, adoption, execution and reporting on the budget, take about two and a half years in total. The budget passes through several steps within each of these phases. A single cycle of the national budget process is shown in the summary table and text below, using the 2021 Budget as example.

Not only should the citizens be familiar with the national budget process in general, they can also participate in the process – or, in the case of newly elected MPs, must participate:

- **by demanding from the Government and the Ministry of Finance timely publication** of accurate, reliable and understandable **key budget documents and guides accompanying these documents**, so that the citizens and MPs would have enough time to analyse them and express their respective opinions;
- **by demanding from the Government and the Ministry of Finance that all phases and steps of the national budget process take place within the legally prescribed time limits.** Timeliness is one of the basic prerequisites for the adoption of realistic and high-quality budget documents because it enables MPs and all other participants in the budget process to examine them and engage in reasoned discussions;
- **by analysing key budget documents and posing questions about the budget.** The citizens' questions can be addressed personally to MPs, in their respective electoral units or via contact forms available at the **Parliament's website**. Apart from this, citizens can send an anonymous message to an MP via a **web form** available at the Parliament's website or send letters to the Parliament, addressed personally to the MP.
- The Prime Minister and Government members share responsibility for the Government's decisions, while each of them is individually responsible for their scope of work. Each MP is a representative of citizens, and their function also includes controlling the work of the executive branch and posing questions to the Prime Minister and Government members on the citizens' behalf, for example during the **Parliament question time** or **in writing**. Since the Government is accountable to the Parliament for its work and decisions, MPs can request reports and data from ministers and public administration officials through parliamentary working bodies as well. The latter are obliged to respond to such requests. In addition, the MPs have access to all official materials, documents and data that are prepared or collected by the Parliament's working bodies and staff services, the Government, ministries and other state administration bodies and that pertain to the issues discussed by the Parliament;
- **by demanding that the Parliament responds to the citizens' petitions and proposals in a timely manner.** The **Parliament's Rules of Procedure** regulate that, if a citizen files a petition or proposal to the Parliament for adopting a law or other acts, the Speaker of Parliament is required to forward it to the chairperson of the relevant working body, who is obliged to notify the person who filed the petition or proposal about its outcome not later than three months after it has been filed.

- **by demanding the establishment of a parliamentary office for budget analysis**, which would offer professional assistance to both MPs and citizens by providing explanations, advice and guidelines for easier and quicker understanding of what are often complex and voluminous budget documents, so that they would be able to participate in the process as efficiently and effectively as possible.
- **by engaging in the work of parliamentary working bodies**. According to the **Parliament's Rules of Procedure**, a working body of the Parliament may include academic and other organisations as well as individual experts in the preparation of legislative acts or consideration of matters within its competence. In addition, it may also propose to the Government for such tasks to be delegated to ministries or other state administration bodies. Unless defined otherwise in the Rules of Procedure, the working bodies may be composed of up to six experts from the public, academic and professional sector, who bear the same rights as the members except voting rights.
- **by participating in public consultations**. Government bodies, local and regional self-government units and legal persons with public-law authorities are obliged to hold consultations with the public during the preparation of acts and by-laws as well as before adopting general acts and strategic or planning documents, when these documents are intended to affect the interests of citizens and legal persons (**Right to Access to Information Act**, Article 11).<sup>1</sup> Citizens should become involved in these consultations, thus increasing their quality, and should insist that the bodies provide valid arguments for accepting or not accepting citizens' suggestions.
- **by acting through a referendum**, provided that at least 10 percent of the total electorate calls for a referendum on a draft act or another issue falling within the Parliament's competence.

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<sup>1</sup> State administration bodies carry out public consultations through the national e-Consultations portal, while other mandatory consultation subjects usually conduct it through their websites.

## What does the national budget process for 2021 look like?

Timeframe	Activity
	<b>PHASE I PREPARATION OF A NATIONAL BUDGET PROPOSAL</b>
	<b>Step 1 National Reform Programme and Convergence Programme</b>
By end -February 2020	The Ministry of Finance, in cooperation with the ministry responsible for structural reforms and EU funds coordination, compiles Guidelines for drafting strategic plans for 2021-23 and submits this document to the ministries and other government bodies.
By end -March 2020	Based on the Guidelines, the ministries and other government bodies prepare their strategic plans for the period 2021-23 and submit them to the Ministry of Finance.
By end -April 2020	On the basis of the received strategic plans, the ministry responsible for structural reforms and EU funds coordination, in cooperation with the ministries responsible for specific structural reforms, drafts the <b>National Reform Programme</b> , while the Ministry of Finance drafts the <b>Convergence Programme</b> . Both these documents are then adopted by the Government.
	<b>Step 2 Economic and Fiscal Policy Guidelines</b>
By end -July 2020	Based on the strategic plans, the National Reform Programme and Convergence Programme, as well as the EU Council's Recommendations for the Republic of Croatia, the Ministry of Finance prepares a draft of the Economic and Fiscal Policy Guidelines for the period 2021-23, which are later adopted by the Government.
	<b>Step 3 Instructions for drafting a National Budget Proposal</b>
By .15 August 2020	Based on the adopted Guidelines, the Ministry of Finance delivers Instructions for drafting a National Budget Proposal to the ministries and other government bodies as well as to extra-budgetary users.
	<b>Step 4 Financial plan proposals of budget and extra-budgetary users</b>
By 15 September 2020	Based on the Instructions, budget and extra-budgetary users draft proposals of their respective financial plans and submit them to the ministries and other government bodies.
By end -September 2020	The competent ministries and other government bodies submit the coordinated financial plan proposals of budget and extra-budgetary users to the Ministry of Finance.
	<b>Step 5 The Ministry of Finance prepares a National Budget Proposal and submits it to the Government</b>
By 15 October 2020	The Ministry of Finance prepares a Draft of the 2021 National Budget and projections for 2022-23 and submits them to the Government, together with the financial plans of extra-budgetary users.

By 15 November 2020 The Government approves the 2021 National Budget Proposal, projections for 2022-23 and the financial plans of extra-budgetary users and submits them to Parliament.

## **PHASE 2 NATIONAL BUDGET ADOPTION**

### **Step 6 The Parliament discusses and adopts the National Budget Proposal**

By end-2020 The Parliament adopts the 2021 Budget and projections for 2022-23 and gives its approval of the financial plan proposals of extra-budgetary users, all within the time limits that would enable the implementation of these documents as of 1 January 2021.

## **PHASE 3 NATIONAL BUDGET EXECUTION**

### **Step 7 National budget execution**

By 15 January 2021 Based on the amounts planned in the national budget, the Ministry of Finance may require budget users to prepare monthly financial plans for the whole of 2021, which are subject to approval by the Ministry of Finance.

1 January - 31 December 2021 The budget is executed in accordance with the available resources and due liabilities.

### **Step 8 Mid-year report on the national budget execution**

By 30 July 2021 Extra-budgetary users prepare mid-year reports and explanation of the execution of their financial plans for the past semi-annual period and submit them to the Ministry of Finance.

By 5 September 2021 The Ministry of Finance submits to the Government a Mid-year report on the execution of the national budget and financial plans of extra-budgetary users.

By 15 September 2021 The Government submits the Mid-year report on national budget execution to the Parliament.

### **Step 9 Year-end report on the national budget execution**

By 31 March 2022 Extra-budgetary users prepare year-end reports and explanation of the execution of their financial plans for 2021 and submit them to the Ministry of Finance.

By 1 May 2022 The Ministry of Finance prepares a Year-end report on the execution of the national budget and financial plans of extra-budgetary users for 2021 and submits them to the Government.

By 1 June 2022 The Government submits the 2021 Year-end report to the Parliament.

### **Step 10 Budget supervision and internal audit**

## What does the national budget process for 2021 look like?

### PHASE I: PREPARATION OF A NATIONAL BUDGET PROPOSAL

#### Step 1

##### National Reform Programme and Convergence Programme

The Ministry of Finance, in cooperation with the ministry responsible for structural reforms and EU funds coordination, is required to compile **Guidelines for Drafting Strategic Plans** and deliver them to ministries and other **government bodies at section level within the organizational classification** by end-February 2020. The ministries and other government bodies are required to prepare their respective strategic plans and submit them to the Ministry of Finance by end-March 2020. Based on the received strategic plans, the ministry responsible for structural reforms and EU funds coordination, in cooperation with the ministries responsible for specific structural reforms, drafts the National Reform Programme, while the Ministry of Finance formulates the Convergence Programme. Both programmes should be adopted by the Government no later than end-April 2020.

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*The Convergence Programme should lay down the macroeconomic and fiscal frameworks for the Republic of Croatia in the current year and the subsequent three-year period. This includes a presentation of macroeconomic trends, a mid-term budgetary framework with projections of general government budget, public debt and fiscal risks, a sensitivity analysis of the general government deficit/surplus and public debt trends, as well as qualitative and institutional characteristics of public finances.*

*The National Reform Programme should set out the strategic framework for the implementation of structural reforms in the current year and the subsequent three-year period, including key elements of the macroeconomic scenario and key reform measures envisaged in the strategic plans, to be implemented by government in the medium term.*

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#### Step 2

##### Economic and Fiscal Policy Guidelines

Based on the strategic plans, the National Reform Programme and Convergence Programme, as well as the **EU Council's Recommendations for the Republic of Croatia**, the Ministry of Finance prepares a draft of the Economic and Fiscal Policy Guidelines for the period 2021-23 and presents them to the Government. The Government should adopt these Guidelines by end-July 2020 so that they can be used by budget users (e.g. Ministry of Science and Education) and **extra-budgetary users** (e.g. Croatian Pension Insurance Agency) for the preparation of their financial plans. Thus, the National Reform Programme, Convergence Programme and the Guidelines provide a basis for the implementation of all other steps of the budget process.

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*The 2021-2023 Economic and Fiscal Policy Guidelines should include the following:*

- *economic policy objectives for 2021-23;*
  - *macroeconomic and fiscal frameworks, including potential changed circumstances compared to those set forth in the Convergence Programme;*
  - *the amount of the financial plan, broken down by sections within the organisational classification for the past year (2019), current year (2020) and the following three years (2021-23).*
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**Step 3****Instructions for drafting a National Budget Proposal**

Based on the adopted Guidelines, the Ministry of Finance should draft the **Instructions for drafting a national budget proposal for the period 2021-23** and deliver them to budget and extra-budgetary users by 15 August 2020. The Instructions introduce the users to basic economic and fiscal indicators, as well as to the methods and deadlines for drafting a national budget. In addition, the Instructions will invite the users to prepare and substantiate their own financial plans, i.e. requests for the necessary budget resources, taking account of the available revenues and time limits.

**Step 4****Drafting financial plan proposals of budget and extra-budgetary users**

Budget users use the Instructions to draft proposals of their respective financial plans and submit them to the competent ministries and other government bodies by 15 September 2020. The competent ministries and other government bodies are obliged to adjust the plans, adopt them and submit them to the Ministry of Finance by end-September.

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*A budget user's financial plan proposal should contain:*

- revenues by type,
  - expenditures according to the budget classifications and
  - explanations of the financial plan proposal.
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At the same time, extra-budgetary users prepare their financial plan proposals and submit them to the competent ministries. The latter have to review the received proposals and forward them to the Ministry of Finance.

**Step 5****The Ministry of Finance prepares a National Budget Proposal and submits it to the Government**

After the competent ministries and other government bodies have drawn up their financial plans and submitted them to the Ministry of Finance, the Ministry prepares a Draft National Budget for 2021 and projections for 2022-23 and submits them to the Government by 15 October, along with the financial plans of extra-budgetary users.

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*Should any disagreements occur between certain budget users or between competent ministries and the Minister of Finance during the debate about the proposed national budget, the Minister notifies the Prime Minister, who makes the final decision.*

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The Government discusses the received drafts and, by 15 November, submits to the Parliament Speaker the National Budget Proposal, projections and extra-budgetary users' substantiated financial plans, as well as the final proposal of the National Budget Execution Act.

**PHASE 2:****NATIONAL BUDGET ADOPTION****Step 6****The Parliament discusses and adopts the National Budget Proposal**

In the second half of November, the Speaker of Parliament delivers the National Budget Proposal to all MPs and chairpersons of **the Parliament's working bodies** (committees, commissions, etc.).



The **Finance and Central Budget Committee** and **Legislation Committee** are required to discuss the National Budget Proposal and express their opinions to Parliament. Other working bodies are free to hold their own discussions and submit their opinions to this effect either to the Finance and Central Budget Committee or to the Parliament.

All MPs must be given sufficient time to study the National Budget Proposal closely. Each MP, a deputy club, a working body and the Government may submit their respective motions for changes and supplements to the National Budget Proposal to the Speaker of Parliament. Such motions are called amendments, which the Speaker must forward without delay to all MPs, the Government, the Finance and Central Budget Committee and the Legislation Committee. All amendments must be in line with the determined amounts of the permissible budget deficit of the National Budget Proposal and projections. In accordance with the principle of equilibrium, amendments aimed at increasing budget expenditures above the amounts specified in the budget proposal can only be accepted if accompanied by proposals to reduce other expenditures. Moreover, they must not burden budgetary reserves or previously assumed liabilities, or lead to further borrowing.

The final debate on the National Budget Proposal is held at the parliamentary session in December. The MPs and deputy clubs usually demand more funds for certain ministries and regional/local government units. MPs are the elected representatives of citizens coming from different political parties, which makes the adoption of the national budget also a political affair, heavily influenced by the balance of power in the Parliament.

A joint debate is held on the National Budget Proposal and the proposed amendments in one parliamentary reading, usually at section level. The submitted amendments and National Budget Proposal cannot be voted on before three days have passed from the date of that joint debate.

After the National Budget and Budget Execution Act have passed in the Parliament, the execution of the Budget becomes obligatory for all participants and users of the budget. In order to start applying the national budget as of 1 January 2021, the Parliament is obliged to pass the Budget and the Budget Execution Act no later than 31 December 2020. In accordance with the principle of transparency, both the budget and Budget Execution Act must be published in the **Official Gazette**. Except in cases of temporary financing, as was the case with the 2016 National Budget (due to general election), the Parliament usually passes **the national budget and gives its approval to the financial plans of extra-budgetary users** in December.

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*Should the national budget not be passed before the start of the budget year, the Parliament adopts a **Decision on temporary financing (Article 42)** to continue the financing of activities, functions and programmes of government bodies and other budget and extra-budgetary users. The funds thus provided will be proportional to expenditures realised in the same period of the previous year, up to one fourth of the total realised expenditures minus outlays. Temporary financing may be authorised for the period not exceeding the first three months of the budget year.*

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## **PHASE 3**

### **NATIONAL BUDGET EXECUTION**

#### **Step 7**

##### **National budget execution**

After the budget has been adopted by the Parliament, the Ministry of Finance notifies the ministries and other users of the funds they have been allocated. The fiscal year officially begins on 1 January 2021, which is when budget execution starts, i.e. revenues start to be collected and resources spent, with all operations subject to supervision and control.

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*The head officials of every budget and extra-budgetary user are responsible for the lawful planning and execution of their respective parts of the budget or the financial plans.*

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## Step 8

### Mid-year report on the national budget execution

Extra-budgetary users prepare mid-year reports on the execution of their financial plans and submit them to the Ministry of Finance by end-July 2021. The Ministry of Finance is obliged to prepare and submit a **mid-year report on the execution of the national budget and the financial plans of extra-budgetary users** to the Government by 5 September. The Government is obliged to hold a debate on these reports and submit them for parliamentary approval no later than 15 September 2021.

## Step 9

### Year-end report on the national budget execution

The fiscal year closes on 31 December 2021. Extra-budgetary users are obliged to prepare reports on the execution of their financial plans for 2021 and submit them to the Ministry of Finance by end-March 2022. The Ministry of Finance is obliged to draw a report on the execution of the 2021 National Budget and submit it to the Government by 1 May 2022. The Government adopts the report and submits it, together with the Year-end reports on the execution of extra-budgetary users' financial plans, to the Parliament for discussion and approval no later than 1 June 2022. This report provides a potential basis for parliamentary debate to determine policy essentials for the next period, directions for budget preparation and conditions/criteria for the financing of government bodies and organisations, as well as other public needs.

The budget process formally ends after the Year-end report on the national budget execution has been adopted by the Parliament. Therefore, for example, the budget process for 2018 formally ended on 18 October 2019, when the Parliament adopted the **Report on the Execution of the 2018 National Budget**.

## Step 10

### Budget supervision and internal and external audit

Internal and external budget supervision and audit of the spending of budget resources are carried out simultaneously through all the phases and steps of the budget process.

**The Ministry of Finance's Sector for Financial and Budget Supervision** carries out permanent external budget supervision of all budget and extra-budgetary users, companies and other legal and natural persons receiving funds from the budget as well as financial plans of extra-budgetary users, including the supervision of expenditure of credit funds for which the state provided its guarantee. Apart from this, relevant officers in all budget and extra-budgetary users carry out internal budget supervision. The purpose of this is to supervise the lawfulness, purposefulness and timeliness of the collection and use of budget resources, so as to eliminate irregularities and abuses, as well as to prevent mismanagement through appropriate measures, and thus avoid possible adverse consequences.

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*The Sector for Financial and Budget Supervision is obliged to conduct budget supervision based on citizens' petitions, requests submitted by central government administration bodies, local and regional self-government units and other legal entities, as well as by order of the Finance Minister.*

*Moreover, any person can report irregularities in the management of the national budget resources and local and regional self-government units' budgets to the Ministry of Finance's **e-mail address**.*

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Given the complexity and importance of the national budget, the way in which national budget resources are being spent is a matter of deep public interest. Therefore, the **State Audit Office** (SAO) must conduct annual audits of the national budget and all of its users, including the following legal entities:

- entities funded from the national budget,
- entities founded by the Republic of Croatia,
- entities in which the Republic of Croatia is a majority shareholder,
- entities that collect funds for their work from mandatory contributions, membership fees or other revenues pursuant to the law,
- entities in the Republic of Croatia that use funds from the EU, international financial mechanisms and other international organizations or institutions for funding public needs,
- legal entities – subsidiaries of legal entities who were founded by the Republic of Croatia.

Each year, SAO conducts an audit of the national budget execution report for the previous year and notifies the Parliament thereof no later than 1 June. After the parliamentary debate, the report should be published at the **SAO's website**.

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*The SAO examines whether the annual financial statements were assembled in accordance with the relevant legislative and financial reporting framework. Moreover, it assesses whether the programmes, projects and activities of revision subjects are being implemented economically, i.e. in line with the principles of cost-efficiency, effectiveness, and expediency and whether they can improve.*

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## Useful websites

### State Audit Office

Audit Reports

### Institute of Public Finance

Press releases

Newsletter

Budget Transparency in Croatian Counties, Cities and Municipalities

Glossary of Public Finance (in Croatian)

Lexicon of Public Finance (in Croatian)

### Ministry of Finance

State Treasury

Budget

Statistics and reports

Local self-government

Public debt

Citizens' guides

Information Officer

### Information Commissioner

Right to Access to Information Act

### Central e-Government Portal

Public consultations for adopting laws, acts and other regulations

### The Croatian Parliament

Rules of Procedure

Citizens' service

### The Government

Citizens' queries