

# Croatian 2025 state budget - on what grounds, when and what kind?

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## **Croatian 2025 state budget - on what grounds, when and what kind?**

**Katarina Ott**

*A budget is always the result of a political negotiation process. Estimating how might Croatia's budget for next year look like is an ungrateful task, especially in a situation where the parliamentary election saw the instalment of a new Government, of a slightly different political structure compared to the previous two. In previous years, mid-July was usually the period when the public - awaiting instructions for drafting the next year budget - had a pretty clear overview of the macroeconomic, fiscal and budgetary framework for the upcoming three years. However, this year this is not the case. The websites of the Ministry of Finance and the Government make no reference to the 2025 state budget and 2026-2027 budget projections nor to the convergence programme that the Government usually sent to the European Commission by the end of April. The decision on the budgetary framework, which was to be adopted by the end of June, is also missing. If the reason why this information is lacking is related to EU-level events, the Ministry of Finance and the Government should keep the public informed.*

Although the state budget covers only a single calendar year, the main stages of the budget process, i.e. budget preparation, adoption, execution and reporting, take about two and a half years. Every stage of the budget process is relevant in itself; however, the very initial stage is of special relevance, i.e. the preparatory steps which will define the foundation from which the budget will be built. Without high-quality predictions and projections of the macro-economic, fiscal and budgetary framework, we cannot expect high-quality budget planning or execution either. If the initial

information to be used for planning is not sufficient, and if the time for planning is short, the budget outturns will deviate from the planned amounts, which will require budget amendments, which will, in turn, lead to lack of budget credibility. Such a situation may lead to less efficient public services, budget deficits, increase of public debt and lack of public trust. Since these first steps are so relevant in the first budgetary stage, they have been amended on numerous occasions to improve the budget planning process.

For years, the first stage of drafting the state budget<sup>1</sup> included the following steps:

<b>Step 1</b>	By end-February	The Ministry of Finance, in collaboration with the ministry responsible for structural reforms and coordination of EU funds, compiles guidelines for drafting strategic plans for the upcoming three-year period and forwards this document to the ministries and other government bodies.
	By end-March	Based on the guidelines, the ministries and other government bodies prepare their strategic plans for the upcoming three-year period and submit them to the Ministry of Finance.
	By end-April	Drawing from the received strategic plans, the ministry responsible for structural reforms and coordination of EU funds, in collaboration with the ministries responsible for specific structural reforms, drafts a national reform programme, while the Ministry of Finance drafts a convergence programme. Both these documents are then adopted by the Government.
<b>Step 2</b>	By end-July	Based on the strategic plans, the national reform programme and convergence programme, as well as the EU Council's recommendations, the Ministry of Finance prepares a draft of the economic and fiscal policy guidelines for the upcoming period, to be adopted by the Government.
<b>Step 3</b>	By 15 August	Based on the adopted guidelines, the Ministry of Finance delivers instructions for drafting the national budget proposal to the ministries and other government bodies, as well as to extra-budgetary users.

In order to align with EU legal order, Croatia adopted the council directive on requirements for budgetary frameworks of the member states, followed by the adoption of the new **Budget Act** in late December 2021, which now defines the stages in the budget adoption process as follows:

<sup>1</sup> This, and all other stages, have been explained in much detail in the **Brief Guide to the National Budget Process** published by the Institute of Public Finance.

<b>Step 1</b>	By 30 April	The Ministry of Finance uses the macro-economic and budget projections to draft the convergence programme for the upcoming three-year period, which the Government should adopt and forward to the European Commission.
<b>Step 2</b>	By 30 June	Based on the convergence programme, the Ministry of Finance proposes the budgetary framework for the upcoming three-year period, to be adopted by the Government.
<b>Step 3</b>	By 20 August	Pursuant to the Government's decision on the budgetary framework for the upcoming period, the Ministry of Finance delivers to the ministries and other government bodies the Instructions for drafting the state budget proposal for the upcoming three-year period.

In late April 2024, the EU Council adopted **three pieces of legislation** aiming to reform the EU's economic and fiscal governance framework. Due to these changes, the calendar above will no longer apply, necessitating also the Croatian Budget Act amendments until the end 2025 the latest. The main objective of the reform is to ensure sound and sustainable public finances, simultaneously promoting sustainable and inclusive growth in all member states through reforms and investments. Under the new rules, all member states will be asked to prepare national medium-term fiscal structural plans that span over 4-5 years and report on their implementation to the Commission, replacing the current stability programmes.

Despite numerous changes to the procedures, the public got used to receiving an overview of the macro-economic, fiscal and budgetary framework for the upcoming three-year period in the middle of summer. The documents used to be published on websites of both the Ministry of Finance and the Government<sup>2</sup> and were publicly available, often being subject of public debates. It is possible that due to the revised package for economic governance of the EU being adopted in April, the Ministry of Finance will be unable to draft the new medium-term fiscal plan before autumn.<sup>3</sup> However, when and on what grounds will the Ministry of Finance be able to issue the instructions for drafting the next year's budget? Ministries and other government bodies used to receive these instructions (or were supposed to receive them) by 15 or 20 August. If the instructions for drafting next year's budget arrive toward the end of the current year, financial offices of budget users will once again be in a difficult position. This was often the case in previous years when these instructions used to

<sup>2</sup> E.g. **Decision on budgetary framework for the period 2024-2026**, adopted as early as 30 June 2023. Also, decision pertaining to the **period 2023-2025**, dated on 30 June 2022.

<sup>3</sup> All documents pertaining to the April 2024 reform of fiscal rules are available in Croatian on the **European Parliament** and **EUR-Lex** websites, even on the website of one private Croatian company; however, on the Ministry of Finance's website they are nowhere to be found.

arrive late or at the last minute with extremely tight deadlines for drafting budget users' own proposals, leading to users drafting less than realistic financial plans.

In other words, the timeframe to draft the state budget, discuss it in the Parliament and adopt it always used to be extremely short; this year, it could end up being even shorter. We cannot but refer here to the recommendation of the authors of a recent **IPF Note** on the results of the international research on central government budget transparency: "The Parliament can assume a more prominent role in the process of budget oversight only if it becomes involved in the process of budget policy planning, i.e. in the initial stage of the budget process. As a start, the Government should send a draft proposal of the budget to the Parliament at least two months before the start of the new fiscal year so that the MPs would have enough time to analyse the document."

There can be only one conclusion: the Ministry of Finance should make known the deadlines and plans regarding the new budgetary framework as soon as possible, so that the public would know what to expect this year. Whether the Ministry will act on this conclusion remains to be seen. Let us hope they do.