



**FISCAL POLICY  
COMMISSION**

---

**35<sup>th</sup> POSITION PAPER OF THE  
FISCAL POLICY COMMISSION  
ON THE DRAFT ANNUAL REPORT ON THE  
EXECUTION OF THE STATE BUDGET OF  
THE REPUBLIC OF CROATIA FOR 2025**

---

**Published by:**

**Fiscal Policy Commission**

**For the publisher:**

*Prof. Sandra Krtalić, PhD*

*President of the Commission*

**Address:**

*Boškovićeva 23*

*10000 Zagreb*

**Phone:**

*+385 1 6341 070*

**Official web page:**

[www.pfp.hr](http://www.pfp.hr)

**E-mail:**

[info@pfp.hr](mailto:info@pfp.hr)

---

Within the scope of application of the Fiscal Responsibility Act (Official Gazette 111/18, 83/23) in the Republic of Croatia, the establishment of a permanent, independent and autonomous fiscal body was defined and implemented: the Fiscal Policy Commission tasked with performing works within its area of activities and competence laid down by the above-mentioned Act.

The Fiscal Policy Commission is an independent and expert institution whose primary mission is to monitor public finances to ensure their long-term sustainability and improvement. It serves as a supervisor overseeing the implementation of the country's fiscal policy in its entirety. The Commission advocates for transparency and fosters a culture of fiscal responsibility in the execution of fiscal policy in the Republic of Croatia through its independent analysis and by encouraging

---

## **TABLE OF CONTENTS**

<b>1</b>	<b>MACROECONOMIC FRAMEWORK OF 2025 .....</b>	<b>4</b>
<b>2</b>	<b>FISCAL FRAMEWORK IN 2025.....</b>	<b>7</b>
<b>3</b>	<b>ORIGINAL BUDGET PLAN FOR 2025 .....</b>	<b>9</b>
<b>3.1</b>	<b>New budget plan for 2025 (Budget amendments).....</b>	<b>11</b>
<b>4</b>	<b>EVALUATION OF THE EXECUTION OF THE STATE BUDGET FOR 2025....</b>	<b>12</b>

At its 15<sup>th</sup> session held remotely on 25 May 2026, the Fiscal Policy Commission (hereinafter: the Commission) discussed the Draft Annual Report on the Execution of the State Budget of the Republic of Croatia for 2025 adopted by the Government of the Republic of Croatia (hereinafter: the Government) at its 117<sup>th</sup> session held on 21 May 2026.

**The macroeconomic environment in 2025 can be assessed as a relatively stable and marked by continued economic growth, albeit in the presence of several pronounced risks, primarily related to inflation pressures, increased levels of global uncertainty and fiscal expansion. Although macroeconomic developments were relatively favourable, they have not been sufficiently utilized to strengthen fiscal consolidation and increase fiscal resilience.**

**Quite the contrary, the implementation of the 2025 budget shows that an expansionary and pro-cyclical fiscal policy has continued. Such developments have resulted in a general government deficit of 3 % of GDP, in accordance with the rules of the Stability and Growth Pact, according to the ESA 2010 methodology, with the general government deficit increasing by 0.7 percentage points compared to 2024. The European Commission's Spring macroeconomic forecasts of 21 May 2026 suggest a relatively optimistic fiscal scenario, according to which the short-term deficit should remain below the reference value of 3 % of GDP, which is why the initiation of an excessive deficit procedure is currently not particularly likely.**

**Indicators of an adjusted general government deficit also indicate unfavourable developments. Compared to 2024, both primary and structural deficits have increased. The structural deficit (representing a general government balance adjusted by the impact of the economic cycle and one-off and temporary measures) was -3.8 % of GDP, while the difference between the total deficit and the structural deficit of -0.8 percentage points was the second biggest among the European Union Member States. This further confirms the strong impact of the favourable economic cycle on the general government deficit development. Under the new fiscal rules, the target structural deficit framework should range up to a maximum of -1.5 % of GDP.**

**A more pronounced deterioration of the fiscal position is recorded at the level of the local government. The central government deficit was -2.5 % of GDP, the social security funds deficit was -0.1 % of GDP, while the local government deficit was -0.4 % of GDP. The increase in the local government deficit was 0.7 percentage points and in the social security fund deficit it was 0.1 percentage points, while the central government deficit decreased by 0.1 percentage points compared to 2024. In addition, local government statistics are available only on an annual basis and published approximately five months after the expiry of the reference period. This publishing schedule makes it difficult to identify in a timely manner the deterioration of the fiscal position of the local government and take appropriate corrective measures. The Report on the Execution of the State Budget, which covers thousands of pages, contains only a limited part of the data and explanations about the local state and does not fully provide a**

clear explanation why the local government deficit achieved according to the national methodology is 0.3 percentage points higher than the deficit planned by the amending budget from October 2025.

In 2025, the public debt-to-GDP ratio decreased to 56.3 %, that is, by 1.0 percentage point compared to 2024, while the nominal level of public debt increased by EUR 2.8 billion in the same period. The decrease of the debt-to-GDP ratio is primarily due to strong nominal GDP growth, partly driven by inflation, and not the nominal decrease in borrowing. Such dynamics suggest that fiscal stabilization relies more heavily on favourable macroeconomic circumstances and less on the actual decrease in nominal debt levels.

In 2025, fiscal policy faced, and continues to face, unfavourable global circumstances and necessary adjustments of certain policies that have a significant impact on the expenditure side of the budget. In this context, the Commission highlights the need to implement stronger fiscal consolidation in order to reduce the risk of initiating the excessive budget deficit procedure in the Republic of Croatia. Fiscal consolidation is of particular importance for maintaining budgetary stability, favourable credit rating and compliance with fiscal rules.

Croatian public finances are not only exposed to the existing internal risks, but also to numerous external ones. These particularly include the possible re-acceleration of inflation due to geopolitical tensions, global economic growth slowdown, geopolitical instability, changes in the development of global interest rates and climate change which, in the long term, will pose an increasingly heavy burden on public finances.

In conclusion, the Commission invites the Government of the Republic of Croatia to turn toward a more restrictive fiscal policy, as the basis for macroeconomic stability, sustainable economic development and long-term sustainability of public finances.

# 1 MACROECONOMIC FRAMEWORK OF 2025

The macroeconomic environment in 2025 can be assessed as relatively stable, marked by continued economic growth as well as pronounced risks related to global trade, inflationary pressures and geopolitical instability. A similar assessment also applies to Croatian economy, which was not exposed to significant extraordinary circumstances, but recorded a moderate and expected slowdown in growth compared to the previous years. Key macroeconomic indicators were broadly consistent with projections made at the end of 2024, with an important exception related to inflation which was significantly higher than expected. The global environment in 2025 saw increased uncertainty, primarily due to the strengthening of trade protectionism and geopolitical risks. This has been reflected in downward revisions of global growth forecasts: The IMF has revised its global growth forecast downward from 3.3 % to 2.8 %, while the European Commission lowered its global economy growth forecast from 3.3 % to 2.9 % and the EU economy growth forecast from 1.5 % to 1.1 %. Despite these circumstances, global trade has shown greater resilience than expected, so 2025 saw stronger growth than the previous year. The volume of global goods exports increased by 5.7 % compared to 3.1 % in 2024, while the growth in the volume of goods and services exports accelerated from 3.8 % to 4.5 %. Similar developments have also been observed in the EU, with an increased contribution of the real growth of exports of goods and services to the overall GDP developments. The GDP structure shows that the real growth rate of exports of goods and services of the Member States (intra-EU and extra-EU) increased from 0.8 % in 2024 to 2.3 % in 2025, while goods exports recorded a growth of 2.6 %, following a real decline of -0.4 % in the previous year. However, due to the simultaneous significant increase in the real value of imports of goods and services, there was no positive contribution of net exports, i.e. of the difference between the value of exports and imports, to overall real GDP growth.

In addition to the described developments, the global economy achieved a growth of 3.4 % in 2025. This growth was slightly higher than the initial estimates and almost the same as the previous year. At the same time, developments in the EU economy were largely in line with the main forecasts from November 2024. Real GDP growth of 1.5 % was fully consistent with these forecasts, while the inflation of 2.5 % and the unemployment rate (age group 15-74) were only 0.2 percentage points higher than expected. More specifically, the employment rate of 76.1 % (age group 20-64) reached its highest level in the last fifteen years. The current account surplus of 1.9 % of GDP nevertheless significantly deviated from the foreseen 3.4 %, while the general government deficit, with a minimum deviation, was -3.1 % of GDP compared to the projected -3.0 %. Compared to the previous year (2024), deviations in inflation, unemployment rates and general government deficit were minimal, while real GDP

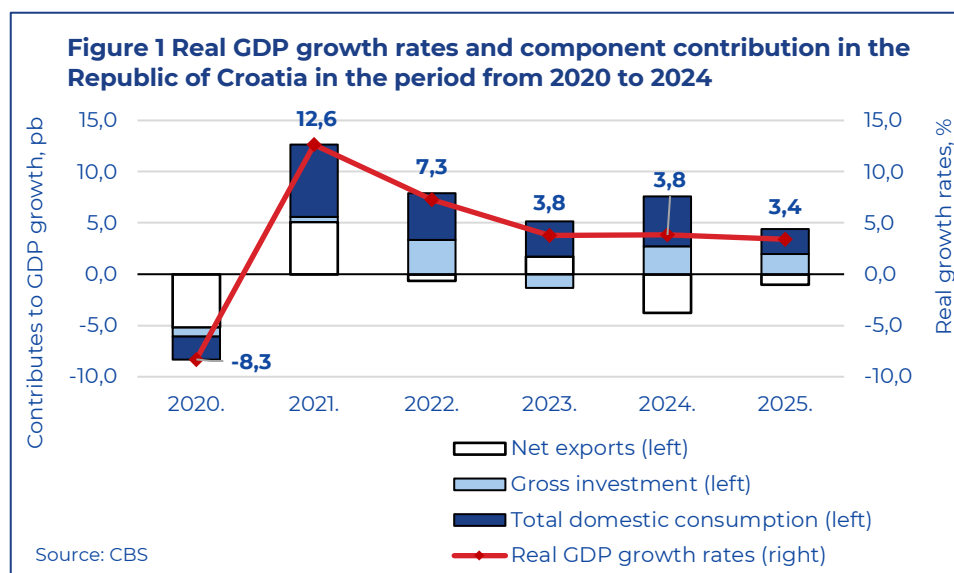
growth accelerated by 0.4 percentage points and the share of current account surplus in GDP decreased by 0.8 percentage points.

**Table 1 Development of approved indicators for EU and Croatia in the period from 2020 to 2025**

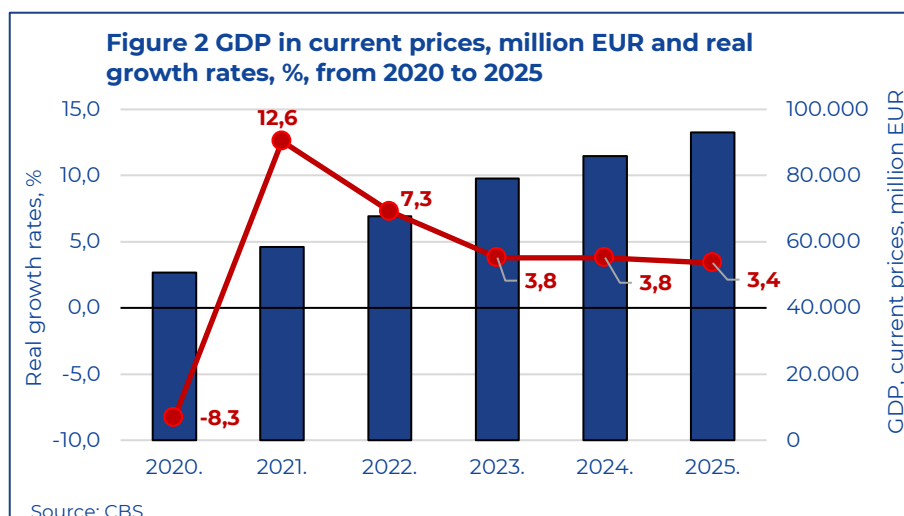
CATEGORY / YEAR	2020.	2021.	2022.	2023.	2024.	2025.	Ministry of Finance's / EC's expectations for 2025 at budget adoption
GDP EU27, real growth rates, %	-5.6	6.4	3.5	0.4	1.1	1.5	1.5
Inflation EU27, HICP, %	0.7	2.9	9.2	6.4	2.6	2.5	2.4
GDP RH, real growth rates, %	-8.3	12.6	7.3	3.8	3.8	3.4	3.2
Personal consumption	-5.2	10.9	6.9	3.2	5.9	2.5	3.7
Government spending	3.4	2.8	2.2	6.6	7.3	4.2	3.2
Gross fixed capital investments	-6.3	4.9	10.7	22.7	5.3	6.1	4.1
Export of goods and services	-23.2	32.7	27.0	-1.4	1.6	0.9	2.6
Import of goods and services	-12.3	17.3	26.8	-4.2	8.4	2.8	3.4
Growth of consumer prices, % (inflation)	0.1	2.6	10.8	8.0	3.0	3.7	2.7
Change in the number of employees, %	-0.7	2.1	2.8	2.7	3.4	2.2	3.1

Source: National Bureau of Statistics,  
Ministry of Finance, Eurostat

Limited global impacts, especially those related to the EU market, had no significant impact on the Croatian economy, and the real GDP growth rate was approximately in line with the forecast from the end of the previous year (State Budget of the Republic of Croatia for 2025). Growth projections were 3.2 %, while the outturn was 3.4 %. However, the growth projections of individual demand-side categories of GDP have, to some extent, deviated from the outturn. The real growth rate of gross investment in fixed capital was underestimated the most, while the expected growth of service exports was overestimated the most as this category recorded a real decline of 2.6 %.



Economic developments in the Republic of Croatia in 2025 were marked by continued positive trends which gradually slowed down compared to 2024. The stability of economic developments in the Republic of Croatia is reflected in the minimal deviation between the growth projection from the end of the previous year and the achieved growth of gross domestic product in the last six years. The achieved growth rate of 3.4 % was only 0.2 percentage points higher than expected. In 2025, Croatia remained among the EU Member States with the most dynamic economic growth, with a higher growth rate recorded in only four Member States. Real GDP growth slowed from 3.8 % in 2024 to 3.4 % in 2025, and the same trend was recorded in the labour market where overall employment growth according to administrative sources decelerated from 3.4 % to 2.2 %. The slowdown in growth dynamics was also visible in the average gross wage, whose growth decreased from 15.0 % to 10.7 %, the same as in the average pension. A slowdown was also recorded in most indicators of the real sector, with the exception of industrial production, which has maintained relatively favourable dynamics. These developments are in line with the expectations of economic adjustment following the above-average expansion period. In fact, 2024 was characterized by relatively strong growth, although hardly sustainable in the long term, in available income and domestic demand, driven primarily by favourable labour market developments and a significant increase in social benefits. In such a context, the slowdown in growth in 2025 can be interpreted as a phase of gradual normalization of economic developments.



In addition, 2025 was also marked by a more pronounced price increase than expected, which was significantly higher compared to the EU average. The inflation rate, which was estimated at 2.7 % in the November 2024 forecast, reached 3.7 %. Such price growth was driven by high aggregate demand, with inflation dynamics being significantly more pronounced in the services segment than in the goods segment. Inflation in the services segment was 6.2 %, while in the goods segment, which had almost three times the weight in the calculation of the overall index of consumer prices, showed a more moderate increase — 2.8 %. This structure of inflationary trends points to differences in price dynamics between individual expenditure sectors and to the relatively pronounced pressure of domestic and foreign (tourism) demand in the services sector. Price developments were also reflected in a higher GDP deflator, i.e. stronger nominal GDP growth than previously projected. While the November 2024 forecast expected nominal GDP growth of 7.0 %, it was 8.2 % in 2025. As a result, there have also been some discrepancies in indicators expressed as a share of GDP, including most fiscal indicators (aggregates).

## 2 FISCAL FRAMEWORK IN 2025

Although the new EU fiscal rules, i.e. the new economic and budgetary governance framework from 2024,<sup>1</sup> have not yet been fully integrated into national legislation, they already represent a key reference framework for national fiscal policy formulation and

<sup>1</sup> Regulation EU No. 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No. 1466/97 (preventive regulation); Regulation No. 2024/1246 amending Regulation EU No. 1467/97 and clarifying the implementation of the excessive deficit procedure (corrective regulation), and Council Directive EU No. 2024/1265 amending Directive 2011/85/EU on requirements for budgetary frameworks

budget execution. The state budget of the Republic of Croatia is prepared and monitored in accordance with the national budget methodology, i.e. according to the provisions of the Budget Act (Official Gazette 144/21). However, at the same time, appropriate adjustments are being made in line with the European System of National and Regional Accounts (ESA 2010), and fiscal indicators are being developed for the general government sector, which are relevant for the assessment of the overall fiscal position and fiscal policy.

The new economic governance system from 2024 provides for the development of national medium-term fiscal-structural plans (hereinafter: NMFSP) for a period of four, five or exceptionally seven years, which plan the necessary reforms and determine the trajectory of fiscal indicators. This framework also introduced a new single fiscal indicator – the development of nationally financed net primary expenditure (hereinafter: net expenditure). The introduction of this indicator partially changed the excessive deficit procedure as well as the criteria for its initiation. Although the general government deficit above 3.0 % of GDP and general government debt above 60 % of GDP (i.e. its insufficient decrease in cases where it exceeds the specified limit), have been retained as the basic criteria for initiating the procedure, it may also be activated in the event of a significant deviation of the net expenditure trajectory beyond the limits established by the NMFSP.

For the Republic of Croatia, the revised plan from the end of November 2024 foresees a growth of net expenditure of 18.6 % in 2024 and 6.4 % in 2025, that is, cumulatively 26.2 % in the said two-year period. The total cumulative growth of net expenditure for the entire period of 2024-2028 is projected at 42.9 %, with a trend of gradual decrease of annual growth rates for these expenditures.

This fiscal framework, applied from 2025 until the end of the implementation of the first NMFSP, has been further supplemented by the option of activating the national escape clause to derogate from the fiscal rules due to increased defence expenditure. This clause is activated at the recommendation of the European Commission and with the approval of the Council of the EU, in the context of the need to strengthen Member States' defence capabilities, which includes increasing defence spending. The national escape clause allows for a net expenditure increase at the level of the difference between the share of total defence expenditure in GDP in the current year and the reference year 2021, with a maximum allowable increase of 1.5 % of GDP. For the Republic of Croatia, this clause was activated by the decision of the Council of the EU of 8 July 2025, enabling its application the same year.

In addition to the framework defined by fiscal rules, the fiscal framework for each year is largely determined by the projections of macroeconomic developments and the characteristics of fiscal policy in the previous periods, with a particular emphasis on the achieved level of budgetary balance. After 2020 and 2021, which were marked by the COVID-19 pandemic crisis, the Republic of Croatia stabilized public finances in

2022 and achieved a slight surplus of the general government budget in the amount of 0.01 % of GDP. This was followed, however, by a period of an expansionary fiscal policy, which was particularly reflected in the increase in compensations to employees and the total amount of social benefits. In the conditions of extremely high nominal GDP growth, the share of compensation to employees increased in 2024 to 13.1 % of GDP, which is the highest level since 2000, while the share of social benefits reached 15.2 % of GDP, i.e. the highest level since 2017 (with the exception of the pandemic years of 2020 and 2021).

A much more pronounced growth in total general government expenditure compared to revenue growth in 2024 resulted in an increase in the general government deficit to -2.3 % of GDP. At the same time, changes in the system of salaries in public services (base and coefficients), changes in the system of social benefits (including the amendments to the Act on Social Welfare, introduction of the Act on Inclusive Allowance, amendments to the Act on the National Benefit for the Elderly, Act on the Amendments to the Act on the Reduction of Pensions Earned under Special Regulations), as well as significant scheduled adjustments of pensions under the influence of high inflation and wage growth, contributed to the continuation of the trend of increasing total expenditure in 2025. These effects had to be taken into account and incorporated into the process of drafting the state budget for 2025.

### **3 ORIGINAL BUDGET PLAN FOR 2025**

In the first state budget plan for 2025 (developed according to national methodology) with a presumed nominal GDP growth of 7.0 %, total revenue was planned to increase by 8.6 % compared to the revised budget plan for 2024. Such revenue developments were most affected by revenue from value added tax, contributions and aid which primarily relates to EU funds and mechanisms. A relatively minor impact on the projected revenue development came from the implementation of a new cycle of the tax reform at the beginning of 2025, which continued the income tax relief, with minor corrections in the contribution system, increase of the threshold for entry into the VAT system and introduction of the real estate tax, which constitutes the largest part of the revenue of local and regional self-government units.

At the same time, a growth of 10.2 % is planned at the level of the total expenditure of the state budget, with the largest contribution to the increase coming from expenditure for the acquisition of non-financial assets, assistance granted abroad and within the general budget, and compensations to citizens and households. The increase in expenditures for the acquisition of non-financial assets should have been the result of higher expenditures for equipping the Croatian Armed Forces, the

continuation of the earthquake remediation process and the increase of investments in the health and justice system, as well as in other public activities. The increase in aid expenditure primarily concerned water utilities and transport projects, earthquake remediation, but also the growth of expenditure for education and healthcare workers. Most of the increase in compensations to citizens and households was related to increased pension spending.

Looking at individual expenditure categories, the largest contribution to the planned growth of total expenditure in 2025, amounting to EUR 3.42 billion, should have come from pension expenditure, with an increase of EUR 778.5 million, then expenditure for employees (with aid relating to primary and secondary school and healthcare institutions, added to employee expenditure), with an increase of EUR 516.4 million, energy sustainability expenditure, which was expected to rise by EUR 352.8 million, and expenditure for equipping and modernizing the Croatian Armed Forces, with an increase of EUR 293.9 million.

As a result of these developments on the revenue and expenditure sides, the deficit of the state budget should have increased, under the new 2024 plan, from EUR -3.25 billion to EUR -4.05 billion in 2025, or from -3.8 to -4.4 % of GDP.

According to general government projections prepared in line with the ESA 2010 methodology, contained in the Draft Budgetary Plan for 2025, an increase was expected of the total revenue-to-GDP ratio (compared to the new plan for 2024) by 0.5 percentage points, i.e. to the level of 46.3 % of GDP. At the same time, an increase in total expenditure was also projected by 0.7 percentage points, to the level 48.6 % of GDP. On the revenue and expenditure sides, according to the accounting principle, a significant impact should have come from an increased amount of transactions related to EU funds, as well as expenditure financed by EU programs. Their increase was estimated at 0.6 percentage points, which implies that, excluding the effects of EU flows, a decrease in revenues from national sources by 0.1 percentage points was projected, alongside a simultaneous increase in nationally financed expenditures by 0.1 percentage points.

According to the forecast, the difference in the dynamics of overall revenue and expenditure developments should have led to a slight increase in the general government deficit-to-GDP ratio, from -2.1 %, to -2.4 % of GDP, while maintaining the level well below the reference limit of -3.0 % of GDP. At the same time, the projected movement of other key fiscal indicators mostly indicated more favourable developments. Thus, with a slight increase in the primary deficit from -0.7 % to -0.8 % of GDP, a decrease in the structural primary deficit from -1.5 % to -1.3 % of GDP was expected, as well as an improvement in the structural deficit from -3.0 % to -2.8 % of GDP. As a result of these developments, presuming nominal GDP growth of 7.1 % in 2025, a continuation of the downward trend of general government debt-to-GDP ratio was projected from 57.4 % in 2024 to 56.0 % in 2025.

The structure of the foreseen increase on the revenue and expenditure sides of the general government budget was essentially consistent with the developments at the level of the state budget. On the revenue side, the largest contribution to GDP growth, amounting to 0.5 percentage points, concerned social contributions and EU flows. On the expenditure side, the most pronounced increase in the share in GDP, of 0.3 percentage points, was foreseen in capital transfers, while compensations to employees should have increased by 0.2 percentage points.

In addition, nationally financed net primary expenditure growth of 6.3 % was foreseen for 2025. Given that growth achieved in 2024 was slightly lower than the binding fiscal trajectory, projections indicated that cumulative growth for the period from 2024 to 2025 would be 24.7 % instead of 26.2 %.

### **3.1 NEW BUDGET PLAN FOR 2025 (BUDGET AMENDMENTS)**

The adjustment to macroeconomic and fiscal developments recorded in 2025 resulted in budget amendments, i.e. drafting of the new budget plan in October. The new plan foresees a slight increase in the state budget revenue, according to the national methodology, of 0.1 % compared to the initial plan, alongside more pronounced changes in their structure: a 2.2 % decrease in tax revenues and a 4.6 % increase in contribution revenues. At the same time, on the expenditure side, a decrease of 0.6 % of the total expenditure is foreseen. Such development is the result of conflicting effects, where an increase in expenditure for employees of 4.1 % was foreseen as well as an increase in compensations to citizens and households of 6.1 %, with a simultaneous significant decrease of expenditure for the acquisition of non-financial assets of 21.6 %.

Individually, the largest growth in expenditure compared to the first plan, in the amount of EUR 509 million, is foreseen in pensions and pension benefits. Expenditure for employees should increase by EUR 306 million, while social assistance and benefits are expected to grow by EUR 188 million. At the same time, the largest savings are focused on the implementation of different capital projects.

The changes are intended to reduce the government budget deficit from EUR -4.1 billion to EUR -3.8 billion, i.e. from -4.4 % to -4.2 % of GDP. However, given that the new budget plan foresees a significant change in the local unit balance – from a surplus of 0.6 % of GDP under the first budget plan to a deficit of -0.4 % of GDP – the general government budget deficit, according to the national methodology, was increased from -4.0 % to -4.4 % of GDP. Following appropriate adjustments according to the ESA methodology, with a simultaneous slight revision of the GDP estimate, the deficit increased from -2.3 % to -2.9 % of GDP, bringing it closer to the reference value of 3 %

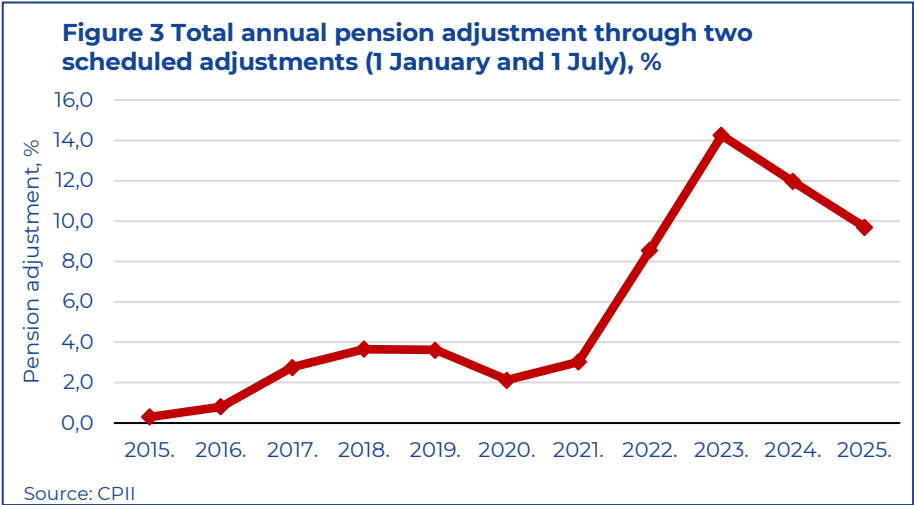
of GDP under the Stability and Growth Pact, i.e. it has reached the cap of the allowable deficit under the Stability and Growth Pact. The increase in the deficit implied higher demand for general government borrowing, and the new projection of the public debt-to-GDP ratio increased to 56.9 %.

## **4 EVALUATION OF THE EXECUTION OF THE STATE BUDGET FOR 2025**

The execution of the 2025 budget was strongly influenced by macroeconomic circumstances and the changes in the legislative framework. First of all, a slightly higher nominal and real GDP growth was achieved than projected at the time of budget adoption, along with higher inflation, generating higher revenue. The fiscal results were additionally influenced by the effects of the implemented tax reform, as well as the decision on the level of the wage base in public and state services in 2025, increasing wages by 3 % on two occasions. Since this decision was brought at the end of 2024, it was not fully covered by the state budget for 2025. In addition, budgetary developments were also affected by the continued implementation of measures aimed at protecting the citizens' living standard and preserving the competitiveness of the economy. Although the recommendations of the European Commission since mid-2023 went in the direction of phasing out such measures, in March 2025, the Government of the Republic of Croatia adopted the 8<sup>th</sup> package of measures worth a total of EUR 296 million, and in September of the same year, the 9<sup>th</sup> package of measures worth EUR 175 million. The majority of these packages of measures concerned the maintenance of stable and affordable energy prices for citizens.

The packages concerned also included significant amounts of different forms of social benefits, including benefits for vulnerable energy buyers, pensioners and unemployed Croatian veterans. In 2025, several amendments to the legislative framework governing certain forms of social benefits were adopted, which continued the trend started in 2024. At the end of January 2025, the amount of compensation for newborn children and the limit of parental leave allowance was increased, and the lowest monthly amount of sick leave compensation was increased in August. At the end of October, the Government of the Republic of Croatia made a decision on the payment and the amount of the annual pension supplement for all pensioners. In addition, for the first time, Easter bonus was paid in the amount of EUR 50 to all pensioners. In the context of increasing inflation and continued wage growth, two scheduled, relatively high, pension adjustments were implemented. In the last ten years, significant adjustments were only recorded in 2023 and 2024. As pension expenditure increased by EUR 1.1 billion in 2025 compared to 2024, we point to the potential risk associated with the sustainability of the pension system. The existing

negative demographic trends could, lacking appropriate measures, make the system non-sustainable in the long term if structural reforms are not implemented in the coming period.



All of this was reflected in the execution of the state budget for 2025 according to the national methodology, both in relation to the previous year and in relation to the original plan. Total budget revenue amounted to EUR 32.6 billion, representing an increase of EUR 2.1 billion compared to the previous year, but also a deviation of EUR 374 million below the originally planned level. The biggest contribution to the growth of total revenue came from VAT and contributions revenue which increased by EUR 889 and 830 million, respectively. This is primarily a result of growth in overall consumption, driven by inflation trends, as well as favourable labour market developments. Significant growth, in the amount of EUR 385 million, was recorded in the revenue of the Croatian Health Insurance Fund, primarily due to increased revenue of state hospitals. Compared to the original budget plan, the largest deviation was recorded in assistance revenue which was EUR 564 million less than planned. Approximately 90 % of this deviation concerned funds from international institutions and the EU. A lower outturn was also recorded in VAT revenue which was EUR 210 million lower than originally planned. On the other hand, contribution revenues exceeded the planned values by EUR 268 million, thus achieving the highest positive deviation compared to the original budget plan.

Total expenditure was achieved in the amount of EUR 36.0 billion, which represents an increase of EUR 3.2 billion compared to 2024, but also a decrease of EUR 1.1 billion compared to the original plan. The largest share of total budgetary expenditure concerned pension system expenditure, expenditure for employees and social benefits. At the same time, a high level of expenditure for earthquake remediation, amounting to EUR 851 million, as well as expenditure related to the implementation

of citizen protection measures, which amounted to EUR 635 million, was retained. The largest contribution to the growth of total expenditure in 2025 compared to the previous year came from an increase in compensations to citizens and households of EUR 1.6 billion. Assistance expenditure, primarily assistance to local and regional self-government units, which increased by EUR 678 million, as well as expenditure for employees, exceeding EUR 610 million, also made a significant impact. On the other hand, the largest decrease in expenditure was recorded in subsidies, which is primarily related to the cost of securing gas stocks and high amounts of compensation for differences in energy prices recorded in 2024. Compared to the original state budget plan, the largest negative deviations were achieved in expenditure for the acquisition of non-financial assets and assistance granted abroad and within the general budget. In contrast, benefits to citizens and households and expenditure for employees exceeded the originally planned amounts by EUR 745 and 131 million, respectively.

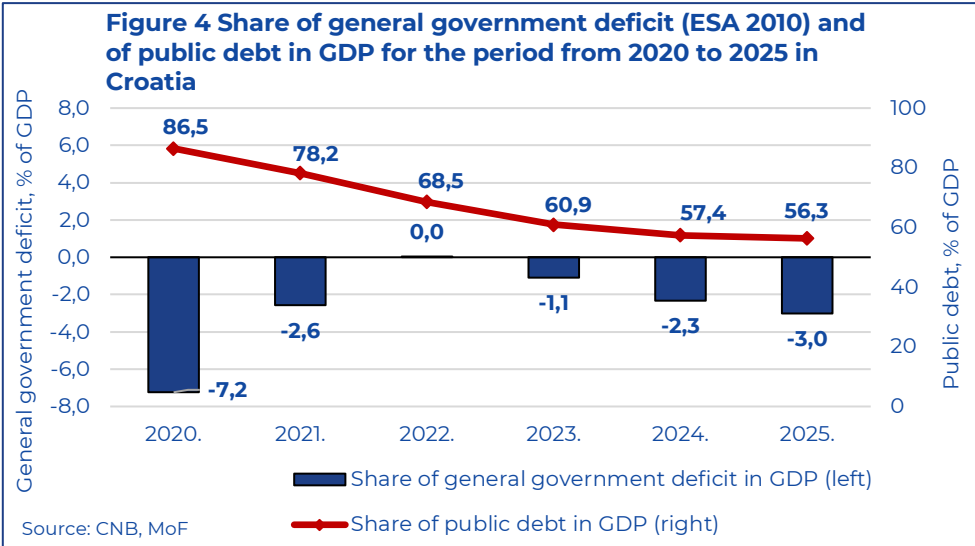
Looking at individual expenditure categories, the biggest increase was recorded in pension expenditure, which increased by EUR 1.1 billion. Total employment expenditure increased by EUR 767 million, social welfare benefits by EUR 481 million, medicines and hospital consumables costs by EUR 259 million, and a significant impact on the increase in total expenditure also came from expenditure for equipping and modernizing the Croatian Armed Forces, which increased by EUR 214 million.

As a result of all these developments, the government budget deficit was achieved in the total amount of EUR 3.4 billion, which is 1.16 billion more than in 2024, but also EUR 681 million less than the amount provided for in the original plan. The government budget deficit-to-GDP ratio increased from -2.6 % in 2024 to -3.6 % of GDP in 2025. Considering that extra-budgetary users ended the year with a surplus of 0.2 % of GDP, and local and regional self-government units achieved a deficit of -0.7 % of GDP, the total general government deficit according to the national methodology was -4.2 % of GDP. This was only a slight deviation from the 4.0 % level foreseen by the original 2025 budget plan. However, the deviations between the original plan and the achieved balances of individual levels of the general government were more pronounced. The largest deviation was recorded in local and regional self-government units, for which a surplus of 0.6 % of GDP was primarily planned, while a deficit of -0.7 % of GDP was actually achieved.

According to the ESA 2010 methodology, general government revenue increased by 10.6 % in 2025, i.e. their share in GDP increased from 46.1 % to 47.1 %. At the same time, the revenue generated was 0.8 percentage points higher than the original plan. This growth was mainly driven by higher tax revenues and social contributions, while significant growth was also achieved by capital revenues, which mainly concern EU funds. The growth of general government revenue was strongly influenced by continued economic growth, favourable labour market developments and more pronounced inflationary pressures. The share of achieved revenue in GDP was the

highest in the last 25 years, with no significant deviation from the other EU Member States. The revenue-to-GDP ratio was slightly higher than that at the EU level which was 46.4 %. According to this indicator, with a deviation of 2.9 percentage points, the Republic of Croatia ranked 11<sup>th</sup> among EU Member States.

According to the ESA 2010 methodology, general government expenditure in 2025 increased by 12.0 % at the annual level, i.e. its share in GDP increased from 48.4 % to 50.1 %. The achieved share of expenditure was 1.5 percentage points higher than originally planned. The biggest contribution to growth came from social benefits and compensations to employees, while at the same time the value of investments in fixed capital also increased significantly. These developments were accompanied by an increase in EU-funded expenditure, whose share in GDP increased from 2.1 % to 2.5 %, where the largest share concerned investment activities. The share of general government expenditure in GDP reached its highest level since 2001, excluding exceptional circumstances in 2020, and was above the EU average of 49.5 % of GDP. Observing Croatia’s position relative to other EU Member States, its ranking was lower than with the revenue indicators. Compared to the Member States’ average, the share of general government expenditure was 3.5 percentage points higher, with the Republic of Croatia taking eighth place in terms of expenditure-to-GDP ratio.

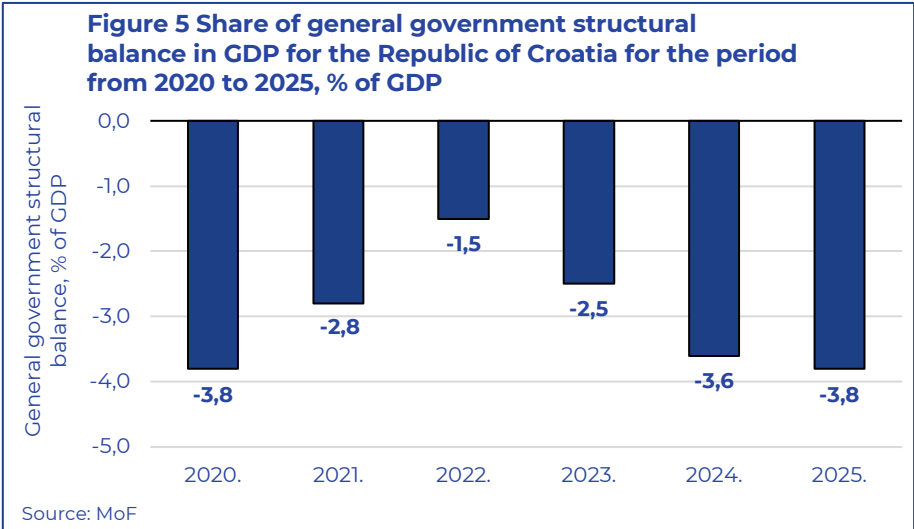


As the growth of the expenditure-to-GDP ratio compared to the original plan was more pronounced than in the case of revenue, there was also an increase in the general government deficit compared to the planned level. Thus, in 2025, there was a deficit of 3.01 % of GDP, which is 0.1 percentage points higher than the planned level and 0.7 percentage points higher than in 2024. By slightly exceeding the reference limit of 3.0 % of GDP, the Republic of Croatia has been ranked among eleven EU Member States which, based on their achievements in 2025, are potential candidates

for initiating the excessive budget deficit procedure. Croatia was already applying this procedure in the period from 2014 to mid-2017. In accordance with the provisions of Council Regulation EU 2024/1264, such exceeding of the reference value may be considered exceptional if it results from exceptional circumstances beyond the government's control. In this particular case, such a deviation could be linked to the need for increased defence expenditure.

The development of nationally financed net primary expenditure in 2024 and 2025 also outlines an expansionary character of fiscal policy, particularly in 2025, when its growth was 11.1 %, compared to the planned 6.4 %. The cumulative increase in net expenditure over the two-year period observed was 30.3 %, well above the planned level of 26.2 %. At the end of 2025, there was a cumulative deviation of EUR 1.4 billion, i.e. 1.5 % of GDP. According to the relevant EU Regulation, the deviation of the net expenditure growth rate recorded in the control account of a Member State should not exceed 0.3 percentage points on an annual basis, or 0.6 percentage points cumulatively. In this context, a cumulative deviation of 4.1 percentage points indicated a significant deviation from the prescribed fiscal rules framework.

It should be stressed once again that the limit of net expenditure growth was introduced with the aim of ensuring long-term sustainability of debt and public finances. Since the Republic of Croatia took advantage of the possibility to activate the national escape clause, according to the criteria set out above and with the application of this clause, the deviation not covered by its application in the first two years covered by the first NMFSP amounted to approximately EUR 1.0 billion, or 1.0 % of GDP.



The outturns in primary and structural balance of the general government were also significantly less favourable compared to the original plan for 2025 and the outturn in 2024. The primary deficit was -1.6 % of GDP, while structural deficit reached -3.8 % of

GDP. Compared to 2024, primary deficit worsened by 0.8 percentage points and structural deficit by 0.2 percentage points. At the same time, the general government debt-to-GDP ratio, influenced by strong nominal growth of the economy, decreased from 57.4 % in 2024 to 56.3 % in 2025. Despite the positive trend of the relative debt indicator, the nominal value of public debt increased by EUR 3.1 billion compared to 2024, just above the amount of EUR 2.8 billion required to finance general government deficit. Such developments point to the difference between relative and nominal indicators of the fiscal position and highlight the important role of economic growth in the dynamics of public debt. In other words, the economy grows faster than borrowing, which is why the relative burden of debt is decreasing despite the growth of its nominal value. This combination shows that fiscal stabilization over the observed period relies more heavily on favourable macroeconomic circumstances (in particular GDP growth) than on a decrease in nominal debt levels, while there is a continuing need for refinancing and active management of existing public debt.

## ANEX

**Table 2 Achieved state budget income and expenditure in the period from 2020 to 2025, the plan and the amended plan for 2025 (according to the national methodology), in billions EUR**

CATEGORY / YEAR	2020.	2021.	2022.	2023.	2024.	Plan for 2025	New plan for 2025	2025.
<b>Revenue</b>	<b>17.46</b>	<b>20.45</b>	<b>22.79</b>	<b>27.37</b>	<b>30.50</b>	<b>32.95</b>	<b>32.98</b>	<b>32.58</b>
Operating revenue	17.39	20.36	22.60	27.29	30.29	32.86	32.93	32.53
Revenue from taxes	9.71	11.10	12.99	15.50	17.49	18.50	18.08	18.28
Corporate income tax	1.24	1.05	1.55	2.35	2.71	2.76	2.65	2.70
VAT	6.27	7.58	8.79	10.27	11.44	12.54	12.16	12.33
Excise duties	1.93	2.17	2.26	2.41	2.81	2.91	3.00	2.97
Contributions	3.02	3.35	3.80	4.39	4.99	5.55	5.81	5.82
Grants	2.41	2.92	3.17	4.07	3.10	3.68	3.73	3.11
Revenue from assets	0.40	0.41	0.33	0.73	0.62	0.57	0.47	0.56
Revenue from duties	0.51	0.82	0.63	0.73	0.93	1.18	1.30	1.30
Revenue from sale of goods and services	0.17	0.21	0.19	0.22	0.24	0.23	0.26	0.25
Revenue from the budget (from the Croatian Health Insurance Fund)	1.09	1.44	1.37	1.54	2.64	2.98	3.10	3.03
Fines, administrative measures and other revenue	0.11	0.14	0.14	0.12	0.27	0.16	0.18	0.18
Revenue from sales of non-financial assets	0.07	0.09	0.20	0.10	0.22	0.09	0.05	0.05
<b>Expenditure</b>	<b>20.38</b>	<b>22.43</b>	<b>23.23</b>	<b>28.10</b>	<b>32.72</b>	<b>37.01</b>	<b>36.78</b>	<b>35.95</b>
Operating expenditure	19.73	21.45	22.16	26.58	31.12	34.16	34.55	33.85
Expenditure for employees	3.04	3.21	3.38	3.90	5.66	6.14	6.40	6.27
Material expenditure	1.90	2.39	2.55	2.82	3.22	3.73	3.81	3.66
Financial expenditure	1.15	1.03	0.97	0.97	1.16	1.17	1.20	1.20
Subsidies	1.89	1.59	1.14	1.62	2.38	1.80	1.71	1.64
Grants	4.06	5.29	5.36	6.63	6.70	7.73	7.50	7.38
Compensations to citizens and households	6.82	6.99	7.52	8.81	10.48	11.28	11.96	12.03
Other expenditure	0.86	0.94	1.24	1.82	1.53	2.30	1.97	1.71
Expenditure for acquisition of non-financial assets	0.65	0.99	1.07	1.52	1.60	2.85	2.24	2.10
<b>Total budget deficit/surplus</b>	<b>-2.92</b>	<b>-1.99</b>	<b>-0.44</b>	<b>-0.73</b>	<b>-2.22</b>	<b>-4.05</b>	<b>-3.80</b>	<b>-3.37</b>
<b>Total deficit/surplus, % of GDP</b>	<b>-5.7</b>	<b>-3.4</b>	<b>-0.7</b>	<b>-0.9</b>	<b>-2.6</b>	<b>-4.4</b>	<b>-4.2</b>	<b>-3.6</b>

Source: Ministry of Finance

**Table 3 Achievements of fiscal indicators for the general government in the period from 2020 to 2025 and the plans for 2025 (according to the ESA 2010 methodology), % of GDP**

CATEGORY / YEAR	2020.	2021.	2022.	2023.	2024.	Plan for 2025*	New plan for 2025*	2025.
<b>Total revenue</b>	<b>46.5</b>	<b>45.6</b>	<b>45.2</b>	<b>45.5</b>	<b>46.1</b>	<b>46.3</b>	<b>47.2</b>	<b>47.1</b>
<i>Total current revenue</i>	44.8	44.0	43.6	43.2	44.6	44.2	45.3	44.9
<i>Direct taxes</i>	6.9	6.1	7.3	7.2	7.9	7.6	8.0	7.9
<i>Indirect taxes</i>	19.2	19.6	19.2	19.0	19.2	19.2	19.2	19.2
<i>Social contributions</i>	11.5	11.1	10.8	10.6	11.4	11.8	12.4	12.2
<i>Other current revenue</i>	3.6	3.7	2.8	3.2	3.1	-	-	2.8
<i>Revenue from sale</i>	3.5	3.6	3.4	3.2	3.0	-	-	2.8
<i>Total capital revenue</i>	1.7	1.6	1.6	2.3	1.4	2.1	2.0	2.2
<b>Total expenditure</b>	<b>53.8</b>	<b>48.2</b>	<b>45.1</b>	<b>46.6</b>	<b>48.4</b>	<b>48.6</b>	<b>50.2</b>	<b>50.1</b>
<i>Total current expenditure</i>	46.7	42.1	38.7	38.9	41.0	40.6	42.2	42.2
<i>Current transfers</i>	22.6	19.7	18.2	18.3	18.8	18.6	19.7	19.4
<i>- Social benefits</i>	16.9	15.2	14.1	14.0	15.2	15.0	16.1	15.8
<i>- Subsidies</i>	3.4	2.2	1.9	2.0	1.6	1.4	1.4	1.4
<i>- Other current transfers</i>	2.3	2.4	2.1	2.3	2.0	2.2	2.2	2.2
<i>Interest</i>	2.0	1.5	1.4	1.6	1.6	1.6	1.5	1.4
<i>Compensations to employees</i>	13.4	12.4	11.4	11.3	13.1	13.0	13.6	13.6
<i>Intermediate consumption</i>	8.7	8.4	7.8	7.7	7.6	7.4	7.6	7.8
<i>Total capital expenditure</i>	7.1	6.1	6.4	7.7	7.4	7.9	7.8	7.8
<i>Investments</i>	5.6	4.8	4.1	5.7	5.2	5.8	5.7	6.0
<i>Other capital transfers</i>	1.5	1.3	2.3	2.0	2.1	2.1	2.1	1.8
<b>Net lending (+) / borrowing (-)</b>	<b>-7.2</b>	<b>-2.6</b>	<b>0.0</b>	<b>-1.1</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.9</b>	<b>-3.0</b>
<b>Primary balance</b>	<b>-5.3</b>	<b>-1.0</b>	<b>1.4</b>	<b>0.5</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-1.4</b>	<b>-1.6</b>
<b>Structural balance</b>	<b>-3.8</b>	<b>-2.8</b>	<b>-1.5</b>	<b>-2.5</b>	<b>-3.6</b>	<b>-2.8</b>	<b>-3.8</b>	<b>-3.8</b>
<b>Public debt, % of GDP</b>	<b>86.5</b>	<b>78.2</b>	<b>68.5</b>	<b>60.9</b>	<b>57.4</b>	<b>56.0</b>	<b>56.9</b>	<b>56.3</b>

\* The plan according to the Draft Budgetary Plan of the Republic of Croatia for 2025, the New Plan according to the Draft Budgetary Plan for 2026

Source: Croatian National Bank, Ministry of Finance