FISCAL POLICY

COMMISSION

37th POSITION PAPER

OF THE FISCAL POLICY COMMISSION

ON THE DRAFT AMENDMENTS TO THE STATE BUDGET OF THE REPUBLIC OF CROATIA AND FINANCIAL PLANS FOR EXTRA-BUDGETARY USERS FOR 2026

Zagreb, October 2026

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

E-mail:
info@pfp.hr

Within the scope of application of the Fiscal Responsibility Act (Official Gazette 111/18, 83/23) in the Republic of Croatia, a permanent, independent and autonomous fiscal body was defined and established, i.e. 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 an independent analysis of fiscal policy and by encouraging professional discussions on fiscal

TABLE OF CONTENTS

1. INTRODUCTION 7

2. MACROECONOMIC AND FISCAL PROJECTIONS AND DEVELOPMENTS IN 2026 FOR THE EUROPEAN UNION AND CROATIA 8

3. TRENDS IN STATE BUDGET AND GENERAL GOVERNMENT BUDGET DEVELOPMENTS OVER THE LAST THREE YEARS 13

4. THE ORIGINAL STATE BUDGET AND GENERAL GOVERNMENT BUDGET PLAN FOR 2026 14

5. LEGISLATIVE CHANGES AND MEASURES AFFECTING REVENUE AND EXPENDITURE DEVELOPMENT AND THE NEW BUDGETARY PLAN FOR 2026 16

6. EVALUATION OF THE DRAFT AMENDMENTS TO THE STATE BUDGET FOR 2026 18

7. ANALYTICAL ANNEX 21

At its 18th session held on 16 October 2026, the Fiscal Policy Commission (hereinafter: the Commission) discussed the Draft Amendments to the State Budget of the Republic of Croatia and Financial Plans for Extra-Budgetary Users for 2026 adopted by the Government of the Republic of Croatia (hereinafter: the Croatian Government) at its 212th session held on 9 October 2026.

Although the Croatian economy remained resilient in the first half of 2026, achieving real growth of gross domestic product (hereinafter: GDP) of 1.9 %, a number of indicators points to a slowdown in economic activity, a stagnation in employment, a slower growth in real income and persisting inflationary pressures. Such developments further highlight the challenges associated with preserving the citizens' purchasing power, the competitiveness of the production sector and the long-term sustainability of public finances.

The Amendments to the State Budget of the Republic of Croatia for 2026 (hereinafter: the Amendments) represent an adjustment of budgetary metrics to the new estimates of revenue and receipts, and expenditure and outlays. According to the ESA 2010 methodology, the general government deficit is slightly increased by EUR 78 million. At the same time, compared to the original plan, the state budget deficit according to the national methodology is reduced by EUR 108 million. By contrast, the deficit of the consolidated local government and extra-budgetary users, expressed according to the national methodology, is increased by EUR 173 million, while the overall adjustments from national to ESA methodology further increase the general government deficit by EUR 12 million.

The increase in the general government deficit indicates a stronger growth in expenditure than in revenue at the general government level. Since the draft amendments do not present revenue and expenditure of the general government according to the ESA 2010 methodology, their dynamics and structure cannot be precisely analysed based on the budgetary document alone. However, certain indications of expected developments derive from the state budget data according to the national methodology. The Amendments thus foresee an increase in state budget revenue of EUR 853 million compared to the original plan, with the largest part of the increase relating to tax revenues, in particular revenues from value added tax. Also, in relation to the original plan, an increase in revenue from contributions and revenue from the Croatian Institute for Health Insurance is foreseen (hereinafter: HZZO), while slightly reducing aid revenues. On the expenditure side of the state budget, the Amendments foresee an increase in expenditure by EUR 745 million. The largest part of this increase relates to compensations to citizens and households. In relation to the original plan, an increase in subsidies and aid expenditure is also expected, including funding for salaries of the employees in the education system. On the other hand, a significant reduction is planned of the expenditure for the purchase of non-financial assets, which are mainly

related to investments in the state budget. However, other general government sub-sectors foresee an increase in investment expenditure in relation to the original plan, indicating different dynamics of investment spending within the general government sector.

The Amendments alone do not address the structural challenges of public finances, in particular the need for long-term alignment of revenue and expenditure, increasing the efficiency of public spending and preserving fiscal space for future investments in development. The increase in planned revenues relies heavily on consumption-related tax revenues and the overall economic activity, which is why their outturn also depends on future economic developments. The slowdown in economic growth or weaker consumption dynamics could therefore limit the achievement of planned revenues and further hamper budget execution.
At the same time, the increase in expenditure is primarily linked to higher and inflexible expenditure on pensions, wages and social benefits. The funding for the implementation of the National Recovery and Resilience Plan has also been increased (hereinafter: NRRP), as the implementation of this instrument is approaching its end. The Amendments also withdrew from the initially planned reduction in subsidy expenditure in 2026. The assessment of the dynamics and structure of expenditure should not be limited to the financial value of commitments undertaken but should also cover impact assessment. Expenditure growth requires a systematic monitoring of performance indicators to ensure optimal allocation and dedicated use of budgetary resources in line with the objectives set.

Despite a reduction in the planned budget deficit by EUR 108 million, total expenditure continues to exceed revenues by approximately EUR 4 billion. Therefore, the impact of the Amendments cannot be assessed solely on the basis of the change (reduction) in the nominal deficit, but it should also be considered in view of the structure of expenditure, the sustainability of public finances and the ability of the state to settle its commitments in the long term.

The reduction of public debt to 55.5 % of GDP, i.e. below the reference value of 60 %, should not be interpreted as a basis for a permanent increase in public spending. On the contrary, the development of this indicator should be considered in the context of nominal GDP dynamics, public debt financing costs and the state's future needs for borrowing. A lower public debt-to-GDP ratio can contribute to the creation of fiscal space, but its long-term sustainability also depends on the ability of the state to control expenditure, preserve revenue stability and respond to any economic shocks in a timely manner.

These developments should also be considered in the context of the commitments of the Republic of Croatia under the fiscal rules of the European Union, in particular the commitments laid down in the National Medium-Term Fiscal-Structural Plan (hereinafter: the Plan) and the requirements for consistent adherence to the agreed net expenditure trajectory. According to the projections of the Ministry of Finance from the Progress Report on the National Medium-Term Fiscal-Structural Plan of the Republic of Croatia for 2025

and 2026, the growth of net expenditure in 2026 is expected at approximately 5.6 %, which exceeds the permitted rate of 4.9 %. The cumulative deviation from the defined trajectory until the end of the year is estimated at 1.1 % of GDP, with the activated national escape clause, which is well above the permitted cumulative deviation of 0.6 % of GDP. While not all increased expenditure is directly reflected in the calculation of net expenditure, the growth of expenditure financed from national sources is further hampered by the alignment with the undertaken fiscal trajectory. Such developments point to the need for investing further efforts into maintaining the compliance of fiscal policy with the commitments contained in the plan. Future fiscal adjustment will also have to take into account the growth of defence expenditure, which will have considerable effects on the fiscal position after the expiry of the relevant temporary exception at the end of 2028. Without timely and credible corrective measures, the risk of initiating the excessive deficit procedure increases, while the delay of fiscal adjustment makes it even more difficult to return to a trajectory that ensures the long-term sustainability of public finances.

The Commission estimates that fiscal risks in 2026 mainly concern achieving a greater-than-planned deficit and additional growth of net expenditures. Continued growth in expenditure could undermine the achievement of the annual fiscal target, which requires increased monitoring of budget execution and consistent expenditure control. Such an approach is important in order to increase the likelihood of achieving the planned deficit and ensure compliance with the undertaken net expenditure trajectory.

The amendments to the state budget of the Republic of Croatia for 2026 demonstrate an effort to preserve short-term fiscal discipline, but do not provide sufficiently convincing indicators of the structural shift toward more sustainable public consumption. Although the planned state budget deficit is decreasing despite the increase in expenditure, the nominal deficit remains high, amounting to almost four billion euros. At the same time, a significant share of the budget is directed at settling the current liabilities, while a high level of public expenditure and costs of interest narrows the fiscal space for manoeuvre in the medium term. Ensuring long-term fiscal sustainability therefore requires a more convincing medium-term path of reducing the structural budget deficit, a systematic review of the efficiency and justification of existing expenditure and improvement of transparency and methodology of evaluating the results of public investments.

Judging from all of the above, the Commission stresses the need for stronger fiscal consolidation and the adjustment of the direction of fiscal policy in order to strengthen the resilience of public finances, increase the efficiency of public spending and consistent compliance with medium-term fiscal commitments. The main recommendation of the Commission for the Croatian Government is to strengthen the control of expenditures during the remainder of 2026 and take the necessary measures to align their developments with the established fiscal trajectory. At the same time, the budgetary documents from 2027 to 2029 should contain concrete, credible and enforceable measures aimed at

permanently improving the fiscal position, preserving fiscal space and strengthening the public finances' resilience to future economic shocks.

1. INTRODUCTION

The adoption of the amendments to the state budget and the general government budget during the budget year in the Republic of Croatia is a regular and established practice. In each of the last ten years, new budgetary plans were adopted. In the turbulent period from 2020 to 2023, marked by the COVID-19 pandemic and global price growth, two amendments to budgetary plans were made in some of those years, mid-year and end of the year. A comparison of the original budgetary plans, subsequently revised plans and final outturns, expressed according to the ESA 2010 methodology, shows that the revised plans, observed according to the balance of the state budget, were generally closer to the final outturns than the original plans. The exception is 2022. Nevertheless, significant discrepancies have been observed between the revised plans and the final outturns. The analysis of the state budget balance shows that in all the ten years under observation the achieved balance was more favourable than planned, i.e. that a positive deviation was recorded in relation to the revised budgetary plans. In contrast, when it comes to the consolidated general government balance, a lower-than-planned achievement was recorded only in 2023 and 2025, while in all other years under observation the results obtained were more favourable than those foreseen by the revised plans.

The discrepancies between the original budgetary plans and the final outturns of the national budget in a certain year are primarily due to differences between the projected and achieved values of key macroeconomic indicators as well as legislative changes, decisions and measures that directly affect budget revenues and expenditures. In the last five years, the average deviation from the projected real growth rates of gross domestic product (GDP), established at the time of budget adoption, was 3.0 percentage points. The average deviation of GDP deflator, which reflects the changes in general price levels and affects nominal GDP growth, was slightly lower and reached 2.9 percentage points. The overall deviations of these two indicators, observed in view of their combined impact on nominal GDP growth, have been significantly lower in the last two years than in the years before, at 1.1 and 1.2 percentage points respectively. The decrease in these deviations has also mitigated the impact of macroeconomic projections on the need for subsequent amendments to the budgetary plans.

On the other hand, among the measures with fiscal impact carried out over the last four years and in the current year, those aimed at protecting citizens and the economy against the consequences of price increases particularly stand out. Their total fiscal cost reached EUR 7.65 billion, equivalent to around 1.8 % of GDP and 4.8 % of total budget expenditure over the observed period. Budgetary developments were significantly influenced by numerous changes in the social benefit system, which contributed to changes in the level and structure of budgetary expenditure over the years observed.

2. MACROECONOMIC AND FISCAL PROJECTIONS AND DEVELOPMENTS IN 2026 FOR THE EUROPEAN UNION AND CROATIA[1]

The European Commission's projections for 2026, drawn up in November last year, indicated at the time of budget adoption a continuation of stable economic growth and a slowdown in inflation compared to 2025. For the European Union, an unchanged real GDP growth rate of 1.4 % and employment growth remaining at 0.5 % was foreseen. At the same time, the unemployment rate was expected to remain at 5.9 %, while inflation, measured by the Harmonized Index of Consumer Prices (HICP), was expected to slow down from 2.5 % in 2025 to 2.1 % in 2026. The fiscal space is projected to see a slight increase in the general government deficit, from 3.3 % to 3.4 % of GDP.

Projections for the Republic of Croatia indicated a slowdown in economic growth, primarily as a result of relatively strong growth achieved during 2025. Real GDP growth rate was expected to decrease from 3.2 % in 2025 to 2.9 % in 2026, while employment growth was expected to slow down from 2.1 % to 1.5 %. At the same time, the unemployment rate was projected to continue to decrease, from 4.7 % to 4.5 %, while the inflation rate was expected to slow down from 4.3 % to 2.8 %. In terms of fiscal developments, a slight increase in the general government deficit was projected for the Republic of Croatia, from 2.8 % of GDP in 2025 to 2.9 % of GDP in 2026. Finally, the general government deficit in 2025 was 3.01 % of GDP, which is less favourable than the previously projected value. It was also expected that the public debt-to-GDP ratio would continue to decline, but only slightly: from 56.2 % of GDP, which was then projected as the debt ratio in 2025, to 56.1 % of GDP in 2026.

However, developments during 2026 have again shown a strong impact of the global factors on the economy of the European Union, but also a high exposure of the Croatian economy to international economic developments, especially those at the

[1] In the Calendar of Statistical Data Issues, the Croatian Bureau of Statistics announced a revision of gross domestic product on October 19. The publication of fiscal data reporting for 2025 was announced for October 21. The announced revision of statistical data may also result in a change in the metrics referred to in this material.

level of the European Union (hereinafter: EU), which is at the same time the most important market for the exchange of goods and services. This year so far has been largely marked by the attacks by the US and Israel on Iran and the further escalation of their conflict, which has, first and foremost, led to a strong increase in energy prices on the world markets. Brent crude oil price, which was about USD 70 per barrel just before the conflict began, rose to USD 115 in early May. After that, along with significant volatility accompanying the course of the conflict, at the end of September it amounted to approximately USD 100 per barrel. Natural gas prices on the global market did not follow an equally expressed pattern, but there was a strong price increase on the EU market, from around EUR 31/MWh to as much as EUR 82.5/MWh in mid-September. Such developments on the energy markets have also reflected on the inflation trends in the European Union. Inflation measured by the Harmonized Index of Consumer Prices (HICP) rose from 2.5 % in 2025 to 2.8 % in the first eight months of 2026. At the same time, the inflation projection for 2026 was revised upwards from 2.1 % in the projection from November last year to 3.1 % in the May projection. Rising energy prices have further weighed on household budgets and increased costs for businesses, with most EU Member States once again resorting to measures to alleviate rising costs of living. These measures included, in particular, the reduction of taxes and excise duties on energy products, administrative price restrictions and direct financial support to households and businesses. In addition to energy shocks, economic developments during 2026 were also marked by the effects of the tariffs imposed by the US on imports of goods from the European Union. The value of EU exports of goods to the US market decreased by 16.0 % on an annual basis during the first seven months of the year. This reduction had a decisive impact on the overall developments in EU trade in goods with the rest of the world and contributed to a slight nominal decrease in total extra-EU exports of 0.7 % annually.

Changes in the trends in overall demand led to a decrease in economic growth projections for 2026 at EU-level and in most Member States, with simultaneous changes in the projections of some other macroeconomic indicators. The projection of real GDP growth for the EU decreased from 1.4 % in November last year to 1.1 % in May, while the domestic demand growth projection was revised from 1.8 % to 1.5 %. At the same time, the expected employment growth rate decreased from 0.5 % to 0.3 % as did the real benefit growth rate for employees from 1.2 % to 0.4 %. Projections of real GDP growth per Member State show that as many as 23 Member States experienced a negative correction, while Spain, Lithuania and Poland were the only ones to avoid such a reduction. Unlike the projection of real economic growth, the EU GDP deflator projection did not change and remained at 2.4 %. The increased budgetary costs associated with measures to mitigate the effects of price growth, with a simultaneous impact of the inflation on budget revenue growth and the expected slight slowdown in nominal GDP growth, also reflected on the fiscal projections for the EU. Thus, the projection of the general government deficit

deteriorated slightly, from 3.4 % to 3.5 % of GDP, while the projection of the general government debt-to-GPD ratio increased from 83.8 % to 84.2 % of GDP.

Economic developments in the Republic of Croatia largely fit the pattern described, which was primarily manifested in a slight reduction of the projection of real GDP growth and a significant increase in the expected inflation rate. Between November 2025 and May 2026, the European Commission lowered the projection of real GDP growth from 2.9 % to 2.7 %. At the same time, the projection of inflation, measured by the Harmonized Index of Consumer Prices (HICP), increased significantly, from 2.8 % to as much as 4.6 %, which indicates a much more dynamic growth of consumer prices in the Republic of Croatia compared to the EU average. Unlike EU projections, the GDP deflator projection was significantly corrected in Croatia, from 3.6 % to 4.7 %. As a result, according to European Commission estimates, the nominal GDP growth projection was increased from 6.6 % to 7.5 %. In line with such expectations, price growth, despite a slight slowdown in real economic activity, was expected to contribute to an increase in the general government revenue as well as its share of GDP from 47.1 % to 47.7 %. At the same time, the share of general government expenditure was expected to increase from 49.9 % to 50.6 % of GDP. Despite these changes, the projection of the general government deficit for the Republic of Croatia remained at the previously foreseen level of 2.9 % of GDP. By contrast, the expected general government debt-to-GDP was slightly reduced, from 56.1 % according to the projection from November 2025 to 55.9 % according to the May projection. However, taking into account the change in nominal GDP growth projections, maintaining the deficit-to-GDP ratio unchanged implied its nominal increase compared to the previous projection. According to these estimates, the nominal general government deficit should be approximately EUR 30 million higher, while the nominal amount of general government debt should increase by approximately EUR 270 million compared to the projection from November 2025.

The International Monetary Fund (hereinafter: IMF) in the latest edition of its *World Economic Outlook*, published a few days ago, presents updated macroeconomic projections for the Republic of Croatia. According to these estimates, the real GDP growth rate could be 2.2 % in the current year, while the growth of the implicit GDP deflator is estimated at 5.0 %. At the same time, the expected annual inflation rate is 4.5 %, measured by the Consumer Price Index (CPI).

The available data on the development of certain macroeconomic and fiscal indicators in the Republic of Croatia confirms that such corrections of the projections for 2026 are justified. In the first half of the year, real GDP growth slowed from 3.7 % in the same period last year to 1.9 %, at the annual level. There was a slowdown in the growth of almost all demand categories, with the exception of exports of services, while the decline in the dynamics of exports of goods had the biggest impact on the

slowdown of economic activity. The slowdown in economic activity also affected employment developments. According to administrative sources, which are initially published as temporary data and usually subsequently corrected upwards, in the first eight months of 2026 there was a 1.4 % decrease in the number of employed persons. In contrast, according to survey data, the number of employed persons in the first six months increased by 1.2 % at the annual level. In those same periods of the previous year, employment growth was 2.6 % according to administrative data and 0.4 % according to survey data. Despite the differences between the two sources, both point to the need for a more cautious consideration of labour market dynamics and its contribution to economic growth.

The average nominal gross wage growth during the first seven months decreased from 11.0 % last year to 8.7 % this year and real gross wage growth from 7.1 % to 4.0 %. At the same time, while real net wage growth slowed down from 6.4 % in the first seven months of the previous year to 3.1 % in the same period in 2026, there was also a noticeable slowdown in the growth of the real purchasing power of employed persons. In contrast, the average pension showed a slight acceleration of nominal growth, from 11.7 % in the first eight months of the previous year to 12.5 % in the same period of 2026, while maintaining a real growth rate at 7.7 %. The growth of citizen-oriented credit activity slowed down both in nominal and real terms compared to the previous year. In combination with slower growth of real incomes of employed persons, such developments contributed to a slowdown in real growth of the citizens' total available resources, which in turn resulted in a slowdown in real growth of personal consumption.

The price increase in the Republic of Croatia, measured by the Consumer Price Index (IPC), accelerated compared to the previous year. In the first nine months of 2026, consumer prices rose 4.5 % at the annual level, compared to a 3.7 % increase in the same period last year. By contrast, according to the Harmonized Index of Consumer Prices (HICP), calculated according to Eurostat methodology, there was a slight slowdown in inflation, from 4.5 % in the first nine months of the previous year to 4.3 % in the same period in 2026. Despite this slowdown, the Republic of Croatia was still among the four EU Member States with the highest increase in consumer prices in the observed period.

It is important to underline a significant deviation of the achieved inflation trends from the initial projections. At the time of budget adoption, the Ministry of Finance estimated that inflation in 2026, measured by the consumer price index, would be 2.8 %. The same inflation rate, measured instead by the harmonized index of consumer prices, was projected by the European Commission. The trends achieved therefore point to significantly stronger inflation pressures than originally expected,

where, in comparing budget projections and outturns, the differences between the applied price indices need to be taken into consideration.

The rise in prices on the domestic market and the international markets also affected the development of GDP deflators, which increased significantly in the first half of 2026 compared to the same period of the previous year, from 3.2 % to 6.0 %. The acceleration of deflator growth contributed to the increase in nominal GDP growth, which was 8.0 % in the first six months of 2026, compared to 7.0 % in the same period of the previous year. Such developments have also affected indicators expressed as a share of GDP, since changes in nominal GDP value affect their relative values, regardless of the changes in nominal amounts themselves.

The available data on the execution of revenues and expenditures of the state budget according to the national methodology in the first six or nine months of 2026 are not sufficient to reliably predict the achievements at the level of the entire year, but they do indicate that the amendments to the budget are justified. Despite revenues growing faster than expenditure on an annual basis, 15.5 % compared to 12.2 %, thus reducing budget deficit by 14.2 % compared to the same period of the previous year, the dynamics of execution of certain budget items indicated possible pressures in the rest of the year. By the end of June, 48.5 % of the planned annual revenues and 47.6 % of the planned annual expenditure was achieved, which shows a somewhat slower pace of execution of the expenditure side of the budget. According to the individual expenditure categories, subsidies, which also include funds intended for the implementation of aid measures for the citizens and the economy, were executed at the level of 54.9 % of the annual plan. Benefits to citizens and households reached 49.7 % of the planned amount, with additional expenditure expected in the second part of the year, including due to the July adjustment of pensions. On the other hand, expenditure for the acquisition of non-financial assets, accounting for approximately 8 % of total expenditure, was achieved at the level of only 26.4 % of the annual plan. Such dynamics indicated a much slower implementation of capital expenditures in the first half of the year, but also the possibility of their intensification in the rest of the budgetary period. A further illustration of possible fiscal developments was provided by a simulation of expenditure execution in line with revenue-generating dynamics. If expenditure in the first six months had been achieved in the same percentage of the annual plan as revenue, i.e. at 48.5 %, the annual budget deficit would have been higher by approximately 4.5 % compared to the previous year. It was, however, significantly lower than the increase in the deficit foreseen in the original budgetary plan, which was 22.2 %, or approximately EUR 750 million. However, such a calculation should be considered only as a simplified simulation, and not as a reliable forecast of annual achievements, since the dynamics of revenue and expenditure differ between individual months and budget categories. The latest available data on the execution of the general government budget for the first quarter of 2026 also does not allow for

a reliable conclusion on annual trends. Nevertheless, they point to a deterioration in the fiscal balance: the general government deficit-to-GDP ratio, according to the ESA 2010 methodology, looking at the achievement in the last four quarters, increased from 2.8 % of GDP in the first quarter of 2025 to 3.2 % of GDP in the first quarter of 2026.

3. TRENDS IN STATE BUDGET AND GENERAL GOVERNMENT BUDGET DEVELOPMENTS OVER THE LAST THREE YEARS

The basic properties of fiscal policy of the Republic of Croatia in 2026 build on the fiscal trends from the previous three years. The analysis of longer-term trends in the execution of the state budget and the general government budget is hampered by the impact of the 2020 pandemic crisis which led to a decline in economic activity and a significant deterioration of fiscal indicators. It was followed by two years of strong economic growth and fiscal consolidation. However, in 2023, a period of pronounced growth of budget expenditures began and surpassed the simultaneous growth in revenue, resulting in an increased deficit of the state budget and the general government budget. A comparison of budget outturns in 2025 and 2022 provides a more detailed insight into the changes on the revenue and expenditure sides of the budget. On the revenue side, economic growth and employment increase were the greatest contributors to the growth of revenues from value added tax (VAT) and contributions. On the expenditure side, the most pronounced increase was recorded in benefits to citizens and households, expenditure for employees and aids. The latter category includes, among other, funding for wages in primary and secondary education and part of healthcare institutions, as well as transfers of funding from EU funds to other levels of the general government. Despite strong growth in budget revenues, the increase in expenditure was more pronounced. Total budget revenues in 2025 were EUR 9.8 billion higher than in 2022, while total expenditure increased by EUR 12.7 billion. As a result, the budget deficit increased from EUR 440 million, or 0.7 % of GDP in 2022, to EUR 3.4 billion, or 3.6 % of GDP in 2025. These developments suggest that, despite the growth of economic activity and revenues, the fiscal position deteriorated due to an even stronger growth in public expenditure.

Looking at the general government budget according to the ESA 2010 methodology, the period from 2023 to 2025 was marked by a strong positive fiscal impulse, that is, a pro-cyclical expansionary fiscal policy, which contributed to the deterioration of the general government balance. The general government expenditure-to-GDP ratio increased from 45.1 % in 2022 to 50.1 % in 2025, with the greatest contribution to this growth coming from expenditure for employee benefits, public investment and social benefits. As revenue growth was significantly weaker than expenditure growth, the general government balance changed from an almost balanced budget, with a slight

surplus of 0.01 % of GDP in 2022, to a deficit of 3.01 % of GDP in 2025. Such fiscal balance developments resulted in a slight exceeding of the reference deficit limit of 3 % of GDP set by the European fiscal rules under the Stability and Growth Pact. In addition, in 2025, there was a significant deviation from the cumulative trajectory of nationally financed net primary expenditure of 1.5 % of GDP which, in the revised economic governance framework of the European Union, is a key indicator for assessing the compliance of fiscal policy with the rules. The derogation was recorded even though the national escape clause was activated to provide flexibility due to increased defence expenditure. Thus, after a deduction for eligible defence costs of 0.5 % of GDP, a cumulative derogation of 1.0 % of GDP was achieved, which is still above 0.6 % of the cumulative derogation that the Member States are allowed.

In contrast to the budgetary balance trend, strong nominal GDP growth contributed to a reduction in the general government debt-to-GDP ratio. Despite the nominal debt increase of EUR 6.0 billion, or 13.0 % in 2025 compared to 2022, its share in GDP decreased from 68.6 % to 56.3 %. This has led to the public debt ratio falling below the reference limit of 60 % of GDP set by the Stability and Growth Pact. These developments show that nominal GDP growth played an important role in improving the relative indebtedness indicator, despite a simultaneous increase in the nominal amount of public debt.

4. THE ORIGINAL STATE BUDGET AND GENERAL GOVERNMENT BUDGET PLAN FOR 2026

According to the original 2026 budgetary plan, any further expansion of fiscal policy that had been present over the previous three years was to be stopped. This included a significant slowdown in the growth of the planned government budget deficit according to the national methodology and maintaining the general government deficit, expressed according to the ESA 2010 methodology, at the level foreseen by the revised plan for 2025. With projected real GDP growth of 2.7 % and nominal growth of 6.3 %, the government budget deficit-to-GDP ratio was expected to increase slightly from 4.1 % to 4.2 %, while the share of the general government deficit was expected to remain unchanged at 2.9 % of GDP. Such projections indicated a planned mitigation of fiscal expansiveness, while maintaining a general government deficit below the reference limit of 3 % of GDP set by the European fiscal rules. In 2026, the growth of nationally financed net primary expenditure, a new key indicator of fiscal policy introduced by the reform of the EU Economic Governance Review (EU EGR) in 2024, was also projected to slow down significantly. Following the 10.0 % growth forecast by the revised plan for 2025, a growth of 5.0 % was projected for 2026. However, despite

the slowdown in the annual growth rate, the cumulative level of these expenditures was still expected to remain above the binding trajectory set out in the Plan.

The state budget for 2026 foresees an increase in total revenue by EUR 2.7 billion, or 8.3 % compared to the revised plan for 2025. At the same time, total expenditure was expected to increase by EUR 3.1 billion, i.e. also by 8.3 %. Such projections indicated continued growth of budget revenues and expenditures, where a slightly higher absolute expenditure growth was expected to reflect on the further development of the budget balance. The largest contribution to the planned revenue growth was expected from value added tax (VAT), aid and contributions. Such expectations stemmed from continued economic growth, continued strong price increases, favourable labour market developments and more intensive use of funds from the Multiannual Financial Framework for the period from 2021 to 2027 and the Recovery and Resilience Facility in the last year of its use. In these circumstances, an increase in aid revenues by EUR 1.0 billion was planned. This amount corresponded to projected growth in total tax revenues and was significantly higher than the increase in aid revenues recorded in the previous five years.

On the expenditure side of the budget, the largest growth was planned in compensations to citizens and households, aid and expenditure for the purchase of non-financial assets. The increase in benefits to citizens and households was primarily related to the growth of pensions due to regular adjustment, the full application of the new Pension Insurance Act and other amendments that entered into force on 1 January 2026. The planned growth of aid expenditure mainly concerned financing investments in water-utility infrastructure, energy sustainability projects, waste management centres and post-earthquake remediation activities. On the other hand, the largest increase in expenditure for the acquisition of non-financial assets is foreseen in military expenditure, investments in health infrastructure and investments related to management and protection of state borders. The structure of the planned growth of expenditure thus reflects the simultaneous increase in outlays for social welfare, infrastructure projects and the state's defence needs.

According to the ESA 2010 methodology, for a consolidated general government in 2026, compared to the revised plan for 2025, the share of revenue and expenditure in GDP was forecast to increase equally, ensuring an unchanged general government deficit-to-GDP ratio. Data from the Draft Budgetary Plan for 2026 show that the share of revenue should have increased from 47.2 % to 47.8 % of GDP and the share of expenditure from 50.2 % to 50.8 % of GDP. As both categories predicted growth of 0.6 percentage points, the general government deficit was expected to remain at the previously planned level of 2.9 % of GDP. On the expenditure side of the general government budget, the greatest growth, and thus also a crucial contribution to the increase of the total expenditure-to-GDP ratio, was expected in social benefits. Their

share of GDP in 2026 should have increased by 0.8 percentage points, indicating their particularly important contribution to the planned dynamics of public expenditure. An important feature of the budgetary plans for 2026 was also to maintain a high level of public investment, projected at 5.7 % of GDP. However, changes in the structure of funding sources were expected within the total investment expenditure: a decrease in the share of nationally financed investments and at the same time an increase in the share of expenditure financed by EU programs, particularly investment projects, as well as expenditure for national co-financing of EU funded programs. This structure points to an increased importance of European funding sources and national co-financing in maintaining a high level of public investment.

In addition to the projected retention of the general government deficit at the level of the revised plan for 2025, some more favourable trends have been projected for 2026 in other relevant fiscal indicators. In the primary balance, which represents a budgetary balance without expenditure for interest on public debt, a slight improvement of 0.1 percentage points was expected, to the level of -1.3 % of GDP At the same time, the structural balance, which reflects a fiscal position adjusted for the effects of the economic cycle and one-off measures, predicted an improvement of 0.4 percentage points compared to the revised plan for 2025, bringing its value to -3.4 % of GDP. In addition to these developments, the 2026 budget also projected a continued decrease of the general government debt-to-GDP ratio.

According to budgetary projections, the general government debt-to-GDP ratio was expected to decrease to 56.0 % at the end of 2026. Despite continued growth in the nominal amount of public debt, its dynamics were expected to remain slower than nominal GDP growth, which would continue the downward trend of the state's relative indebtedness, which has been present over the previous five years. However, the projected decrease of the share of debt by only 0.3 percentage points compared to the revised plan for 2025 indicated a significant slowdown in this process. According to the initial projections, this was the smallest annual reduction in the public debt-to-GDP ratio since 2021.

5. LEGISLATIVE CHANGES AND MEASURES AFFECTING REVENUE AND EXPENDITURE DEVELOPMENT AND THE NEW BUDGETARY PLAN FOR 2026

The adoption of a new state budget plan for 2026 was conditioned not only by macroeconomic factors but also by a number of legislative changes and measures that were not fully covered by the original budgetary plan and whose fiscal impact at the time of its adoption was unknown or could not be accurately estimated.

In mid-January, the Government of the Republic of Croatia increased the base for the calculation of the guaranteed minimum fee by EUR 10, and the base for certain other social benefits, including the allowance for foster parents, by EUR 5. At the end of the month, Appendix V to the Collective Agreement was signed and the decision was made according to which the base for the calculation of salaries in state and public services was planned to increase on three occasions in 2026, each time by 1 %. At the beginning of March, the Government of the Republic of Croatia re-introduced the measures to mitigate the consequences of the rapid increase in crude oil prices, including the regulation of the level of excise duties on energy products and electricity.

At the end of March, the tenth package of measures to help citizens and the economy, worth EUR 450 million, was adopted. Its value, contrary to expectations, was higher than the value of the previous package from September 2025. In April, the Government of the Republic of Croatia presented a new model of primary healthcare financing, with an estimated fiscal impact of approximately EUR 30 million over a period of six months.

In the second half of the year, additional pressure on budget expenditure was created due to the adjustment of the current pension value by 5.4 % in July. The inflation rate was significantly higher than in January and higher than the expectations built into projections from the end of the previous year. An additional factor that affected the development of budgetary expenditures and the need for the amendments was the adoption of the 11th package of measures to protect the citizens' standards of living and the competitiveness of the economy in mid-September, with a total value of EUR 260 million.

In addition to these measures, it is important to highlight the continued growth of the number of inclusive allowance beneficiaries. According to the budget for 2026, their number was foreseen to increase from 190.9 thousand to approximately 200.4 thousand, whereas according to available data, the number of beneficiaries reached 232.2 thousand at the end of August. Such a derogation from the intended number of beneficiaries indicates an additional increase in expenditure for this purpose in relation to the original budgetary projections.

On the basis of these trends, and before the adoption of the new budgetary plan, it was reasonable to expect that the revised projections on the revenue side would include an increase in tax revenues, driven by the dynamics of price growth, but also a decrease in the expected revenues from excise duties due to the reduction thereof on energy sources. On the expenditure side, it was reasonable to expect an increase in the compensations to citizens and households, in subsidies and in certain expenditure categories for the purchase of non-financial assets.

Since the originally planned general government deficit was already only slightly below the reference limit of 3 % of GDP, the amendments were expected to align revenue and expenditure to keep the deficit at an unchanged level. The final general government deficit-to-GDP ratio will also depend on the nominal GDP growth rates achieved. In this context, a somewhat slower real economic growth than originally projected could be partly offset by higher GDP deflator growth, which would affect the final value of nominal GDP and consequently of the relative fiscal indicators.

6. EVALUATION OF THE DRAFT AMENDMENTS TO THE STATE BUDGET FOR 2026

A comprehensive evaluation of the amendments to the budget for 2026 is not possible because of lacking updated projections of key macroeconomic indicators compared to those set out in the April Progress Report on the Implementation of the National Medium-Term Fiscal-Structural Plan underlying the amendments. From the macroeconomic aspect, the projections of nominal GDP growth, i.e. its real growth, inflation and GDP deflator are crucial for an assessment of total budgetary outturns, especially on the revenue side of the budget, as well as for the analysis of the trends of the shares of certain fiscal indicators in GDP. However, the new plan only states that "a new projection of GDP and its components on the expenditure side, as well as other key macroeconomic metrics, will be published within the framework of the Draft Budgetary Plan of the Republic of Croatia for 2027, which the Government of the Republic of Croatia will adopt and submit to the European Commission by the end of October this year".

On the revenue side of the budget, the new plan foresees an increase in revenue by EUR 853 million compared to the original plan. The most significant deviations are related to tax revenues, revenues from the sale of non-financial assets and contributions. Total tax revenues this year should be EUR 528 million higher than originally planned, primarily owing to an increase in VAT revenues of EUR 676 million, while at the same time it is foreseen that excise tax revenues will be reduced by EUR 226 million. Revenues from sales of non-financial assets should be higher by EUR 23.2 million and revenues from contributions by EUR 172 million, which is attributed to positive labour market developments. On the other hand, in revenues from aid, which mainly relate to EU funds and already had a significant share of the projected growth in total revenues in the original plan, the new plan foresees a slight reduction of EUR 8.9 million.

On the expenditure side of the state budget, the new plan foresees an increase in total expenditure by EUR 745 million compared to the original plan. The highest growth, amounting to EUR 463 million, relates to benefits to citizens and households, while the increase of EUR 277 million relates to aid, through which, among other, funds are provided for salaries of primary and secondary education employees, as well as for contribution to the EU budget. According to the data of the Ministry of Finance, observed according to individual expenditure items, the largest increase compared to the original plan is foreseen for social assistance and benefits, primarily the inclusive allowance, in the amount of EUR 227 million. Expenditure for employees in the education system is increased by EUR 189 million, while the planned contribution of the Republic of Croatia to the EU budget is increased by EUR 173 million. In addition, expenditures for interest on public debt are EUR 164 million higher, and the funds to cover energy costs, in accordance with the previously adopted packages of aid measures, are EUR 144 million higher than in the original plan.

The projected changes on the revenue and expenditure side of the budget should result in a reduction of the budget deficit by EUR 108 million compared to the original plan, to a total of EUR 4.0 billion, i.e. 4.0 % of GDP. But despite this reduction, the deficit is higher than in 2025 when it was EUR 3.4 billion or 3.6 % of GDP. Therefore, despite this decrease, the previous conclusion remains that the deficit of the state budget in the current year will be significantly higher than in the previous years, regardless of whether its absolute value or share in GDP is observed. Consequently, it is expected to have a more pronounced negative contribution to the overall general government deficit.

Significant changes in relation to the original plan are also visible in the state budget financing account. The new plan foresees an increase of EUR 626 million in transfers of funds from the previous year, while the planned transfer of funds to the next year has been reduced by EUR 825 million. These changes result in a reduction of the necessary receipts from financial assets and borrowing, i.e., more specifically, the required borrowing, by EUR 1.44 billion compared to the original plan.

According to the national methodology, the general government deficit under the new plan should increase from 4.2 % to 4.3 % of GDP, slightly exceeding the level recorded in the previous year. The new plan, compared to the original plan, foresees a decrease in the state budget deficit from 4.1 % to 4.0 % of GDP, as well as an increase of the extra-budgetary users' deficit from 0.0 % of GDP, or EUR 16 million, to 0.1 % of GDP. The local government deficit should also increase, from 0.1 % to 0.3 % of GDP. According to the Ministry of Finance, the increase in the local government deficit by EUR 131 million compared to the original plan is a result of more intensive investment activity, i.e. greater use of EU funds ensured through the implementation of the National Recovery and Resilience Plan.

For a full assessment of fiscal policy in the current year, and thus of the new state budget plan, the expected trend of general government deficit according to the ESA 2010 methodology is nevertheless more important. According to this methodology, the new plan foresees an increase in the general government deficit by EUR 78 million, while its share of GDP remains at the initially planned level of 2.9 %. More specifically, in absolute terms, the deficit is increasing while its share in GDP is not because nominal GDP is growing faster than deficit. The expected development of the general government debt-to-GDP ratio is equally important. Under the new plan for 2026, this ratio should be slightly lower than originally planned. In particular, having amounted to 56.3 % of GDP in 2025, the general government debt ratio in 2026, which was originally planned to be 56.0 % of GDP, should be reduced to 55.5 % of GDP under the new plan.

Finally, it should be noted that the proposed amendments to the state budget for 2026 could have additional fiscal effects. Although the budgetary categories in the amendments are expressed according to the national methodology, an increase in expenditure financed from general revenues and receipts, contributions and dedicated receipts of EUR 622 million could significantly affect the growth of planned net expenditures in 2026. This presents a potential fiscal risk of the proposed amendment to the state budget, in particular given the importance of net expenditure for the assessment of fiscal policy.

7. ANALYTICAL ANNEX

Table 1 Dynamics of macroeconomic projections of the European Commission for the EU and the Republic of Croatia for 2026 from the adoption of the budget for 2026 until May (annual change rates)

CATEGORY / FORECAST	Forecast for 2026, November 2025, EU27	Forecast for 2026, May 2026, EU27	Change in pp EU27	Forecast for 2026, November 2025, Croatia	Forecast for 2026, May 2026, Croatia	Change in pp Croatia
GDP (real)	1.4	1.1	-0.3	2.9	2.7	-0.2
Personal consumption	1.5	1.1	-0.4	3.8	3.0	-0.8
Government spending	1.5	1.7	0.2	3.0	3.2	0.2
Gross fixed capital investments	2.7	2.2	-0.5	3.2	3.0	-0.2
Export of goods and services	1.6	0.9	-0.7	2.4	2.1	-0.3
Import of goods and services	2.3	1.7	-0.6	3.7	2.9	-0.8
Potential GDP	1.3	1.3	0.0	3.6	3.7	0.1
Output gap*	-0.4	-0.6	-0.2	0.6	0.6	0.0
GDP deflator	2.4	2.4	0.0	3.6	4.7	1.1
HICP inflation	2.1	3.1	1.0	2.8	4.6	1.8
Number of employees	0.5	0.3	-0.2	1.5	1.0	-0.5

Source: EC; *Share in potential GDP (in %)

Table 2 Dynamics of fiscal projections of the European Commission for the EU and the Republic of Croatia for 2026 from the adoption of the budget for 2026 until May (GDP shares in %, ESA 2010)

CATEGORY / FORECAST	Forecast for 2026, November 2025, EU27	Forecast for 2026, May 2026, EU27	Change in pp EU27	Forecast for 2026, November 2025, Croatia	Forecast for 2026, May 2026, Croatia	Change in pp Croatia
Total general government revenue	46.6	46.8	0.2	47.1	47.7	0.6
Total general government expenditure	50.0	50.3	0.3	49.9	50.6	0.7
General government deficit	-3.4	-3.5	-0.1	-2.9	-2.9	0.0
Cost of interest	2.0	2.1	0.1	1.5	1.4	-0.1
Primary balance	-1.4	-1.4	0.0	-1.4	-1.5	-0.1
Cyclically adjusted primary balance*	-1.1	-1.1	0.0	-1.7	-1.7	0.0
Structural balance*	-3.1	-3.1	0.0	-3.1	-3.1	0.0
Gross debt	83.8	84.2	0.4	56.1	55.9	-0.2

Source: EC; *Share in potential GDP (in %)

Table 3 Real GDP growth in 2025 and estimates for 2026 according to Eastern Europe Consensus Forecasts, November 2025 and September 2026, %

COUNTRY / YEAR	2025.	Forecast for 2026, November 2025	Forecast for 2026, September 2026	Change: September 2026 forecast to 2025, pp	Change: September forecast to November forecast, pp
Slovenia	1.5	2.2	3.0	1.5	0.8
Latvia	2.1	2.1	2.2	0.1	0.1
Lithuania	2.9	2.8	2.9	0.0	0.1
Poland	3.6	3.4	3.4	-0.2	0.0
Bulgaria	3.1	2.9	2.7	-0.4	-0.2
Czech Republic	2.6	2.3	2.0	-0.6	-0.3
Estonia	1.3	2.4	2.1	0.8	-0.3
Croatia	3.4	2.7	2.3	-1.1	-0.4
Hungary	0.5	2.4	1.8	1.3	-0.6
Slovakia	0.8	1.5	0.8	0.0	-0.7
Romania	0.7	1.5	-0.5	-1.2	-2.0

Source: Eurostat, Consensus Economics

Table 4 Development of selected macroeconomic indicators in the first six months, from 2024 to 2026, growth rates %

CATEGORY / YEAR	Jan-Jun 2024	Jan-Jun 2025	Jan-Jun 2026
GDP **EU27**, real growth rates in %, seasonally adjusted and calendar adjusted	1.0	1.4	1.2
GDP, real growth rates in %	3.7	3.7	1.9
Consumer prices - inflation, growth rates in %	3.6	3.6	4.6
Industrial production, original rates in %	-3.5	3.1	0.3
Retail trade, original real growth rates in %	9.0	3.5	2.0
Scope of construction works, original growth rates in %	15.7	6.9	2.8
Overnight tourist stays - total, growth rates in %	3.3	4.2	0.5
Overnight stays - domestic tourists, growth rates in %	3.5	11.7	7.7
Overnight stays - foreign tourists, growth rates in %	3.3	3.2	-0.6
Foreign currency revenue from tourism, growth rates in %	7.5	5.9	4.9
Goods export in EUR, growth rates in %	0.6	6.5	11.1
Goods import in EUR, growth rates in %	6.5	4.2	7.4
Total number of employees, administrative sources, growth rates in %	3.1	2.9	-1.4
Number of unemployed persons, growth rates in %	-5.6	-17.5	-14.3
Net salary, real growth rates in %	11.5	6.7	3.0
Average disbursed net pensions (without inter.), growth rates in %	17.2	11.9	12.4
Loans to the non-financial sector - companies (end of period), growth rates in %	4.6	11.9	9.5
Loans to citizens, end of period, growth rates in %	10.9	13.5	10.8
Number of fiscal invoices, growth rates in %	3.7	1.6	3.1
Amount of fiscal invoices in EUR, growth rates in %	12.9	9.0	24.8
First registration of new cars, growth rates in %	16.1	6.0	5.3

Source: Croatian Bureau of Statistics, Croatian National Bank, Croatian Institute for Pension Insurance, Ministry of Finance, ACEA

* First assessment

Table 5 Achieved state budget revenue and expenditure in the period from 2021 to 2025, the original plan and the new plan for 2026 (acc. to the national methodology), in EUR bil.

CATEGORY / YEAR	2021	2022	2023	2024	2025	Original plan for 2026	New plan for 2026
Revenue	**20.45**	**22.79**	**27.37**	**30.50**	**32.58**	**35.72**	**36.58**
Operating revenue	20.36	22.60	27.29	30.29	32.53	35.65	36.48
Revenue from taxes	11.10	12.99	15.50	17.49	18.28	19.08	19.61
Corporate income tax	1.05	1.55	2.35	2.71	2.70	2.69	2.77
VAT	7.58	8.79	10.27	11.44	12.33	12.93	13.61
Excise duties	2.17	2.26	2.41	2.81	2.97	3.17	2.95
Contributions	3.35	3.80	4.39	4.99	5.82	6.29	6.46
Aids	2.92	3.17	4.07	3.10	3.11	4.73	4.72
Revenue from assets	0.41	0.33	0.73	0.62	0.56	0.53	0.50
Revenue from duties	0.82	0.63	0.73	0.93	1.30	1.30	1.33
Revenue from sale of goods and services	0.21	0.19	0.22	0.24	0.25	0.25	0.26
Revenue from the budget (from the Croatian Health Insurance Fund)	1.44	1.37	1.54	2.64	3.03	3.29	3.41
Fines, administrative measures and other revenue	0.14	0.14	0.12	0.27	0.18	0.19	0.19
Revenue from sales of non-financial assets	0.09	0.20	0.10	0.22	0.05	0.08	0.10
Expenditure	**22.43**	**23.23**	**28.10**	**32.72**	**35.95**	**39.85**	**40.59**
Operating expenditure	21.45	22.16	26.58	31.12	33.85	36.78	38.09
Expenditure for employees	3.21	3.38	3.90	5.66	6.27	6.70	6.72
Material expenditure	2.39	2.55	2.82	3.22	3.66	4.17	4.25
Financial expenditure	1.03	0.97	0.97	1.16	1.20	1.06	1.24
Subsidies	1.59	1.14	1.62	2.38	1.64	1.56	1.76
Aids	5.29	5.36	6.63	6.70	7.38	8.05	8.33
Compensations to citizens and households	6.99	7.52	8.81	10.48	12.03	13.08	13.54
Other expenditure	0.94	1.24	1.82	1.53	1.71	2.16	2.24
Expenditure for acquisition of non-financial assets	0.99	1.07	1.52	1.60	2.10	3.07	2.51
Total budget deficit/surplus	**-1.99**	**-0.44**	**-0.73**	**-2.22**	**-3.37**	**-4.12**	**-4.02**
Total deficit/surplus, % of GDP	**-3.4**	**-0.7**	**-0.9**	**-2.6**	**-3.6**	**-4.1**	**-4.0**

Source: Ministry of Finance

Table 6 The original and the new plan of the state budget for 2026 (according to the national methodology), in EUR bil.

CATEGORY / YEAR	Original plan for 2026	The new plan for 2026	The difference in EUR bil.	Growth rate, %
Revenue	**35.72**	**36.58**	**0.85**	**2.4**
Operating revenue	35.65	36.48	0.83	2.3
Revenue from taxes	19.08	19.61	0.53	2.8
Corporate income tax	2.69	2.77	0.08	2.8
VAT	12.93	13.61	0.68	5.2
Excise duties	3.17	2.95	-0.23	-7.1
Contributions	6.29	6.46	0.17	2.7
Aids	4.73	4.72	-0.01	-0.2
Revenue from assets	0.53	0.50	-0.03	-6.2
Revenue from duties	1.30	1.33	0.03	2.2
Revenue from sale of goods and services	0.25	0.26	0.01	4.5
Revenue from the budget (from the Croatian Health Insurance Fund)	3.29	3.41	0.12	3.7
Fines, administrative measures and other revenue	0.19	0.19	0.00	1.7
Revenue from sales of non-financial assets	0.08	0.10	0.02	30.5
Expenditure	**39.85**	**40.59**	**0.75**	**1.9**
Operating expenditure	36.78	38.09	1.30	3.5
Expenditure for employees	6.70	6.72	0.02	0.2
Material expenditure	4.17	4.25	0.08	1.9
Financial expenditure	1.06	1.24	0.18	16.9
Subsidies	1.56	1.76	0.20	12.8
Aids	8.06	8.33	0.28	3.4
Compensations to citizens and households	13.08	13.54	0.46	3.5
Other expenditure	2.16	2.24	0.08	3.9
Expenditure for acquisition of non-financial assets	3.07	2.51	-0.56	-18.2
Total budget deficit/surplus	**-4.12**	**-4.02**	**0.11**	**-2.6**
Total deficit/surplus, % of GDP	**-4.1**	**-4.0**	**-**	**-**

Source: Ministry of Finance

Table 7 Development of state budget revenue, expenditure and balance, first half of 2025 and 2026, the plan for 2026 and the share of the first six months in the plan, in EUR mil. and %

CATEGORY / YEAR	Jan-Jun 2025, EUR mil.	Jan-Jun 2026, EUR mil.	Growth rate '26/'25, %	Difference '26-'25, EUR mil.	The original plan for 2026, EUR mil.	Share Jan-Jun in the plan, %
Revenue	**15,009.1**	**17,340.7**	**15.5**	**2,331.6**	**35,723.6**	**48.5**
Operating revenue	14,986.2	17,326.3	15.6	2,340.0	35,647.4	48.6
Revenue from taxes	8,521.5	9,213.4	8.1	691.9	19,080.5	48.3
Corporate income tax	1,603.6	1,633.4	1.9	29.8	2,692.1	60.7
VAT	5,439.8	6,082.1	11.8	642.3	12,930.5	47.0
Excise duties	1,341.9	1,353.8	0.9	11.9	3,171.5	42.7
Contributions	2,802.3	3,108.2	10.9	305.9	6,286.0	49.4
Aids	1,206.4	2,383.9	97.6	1,177.5	4,729.3	50.4
Revenue from assets	213.0	189.7	-10.9	-23.3	526.4	36.0
Revenue from duties	564.8	580.6	2.8	15.8	1,301.4	44.6
Revenue from sale of goods and services	113.1	102.0	-9.8	-11.0	245.1	41.6
Revenue from HZZO	1,482.1	1,660.7	12.0	178.6	3,288.8	50.5
Fines, administrative measures and other revenue	83.1	87.7	5.6	4.6	189.9	46.2
Revenue from sales of non-financial assets	22.9	14.4	-36.9	-8.4	76.2	18.9
Expenditure	**16,908.1**	**18,970.6**	**12.2**	**2,062.5**	**39,847.1**	**47.6**
Operating expenditure	16,280.1	18,151.9	11.5	1,871.8	36,781.5	49.4
Expenditure for employees	3,075.6	3,259.2	6.0	183.7	6,696.3	48.7
Material expenditure	1,587.3	1,813.9	14.3	226.6	4,171.1	43.5
Financial expenditure	802.7	820.5	2.2	17.8	1,063.5	77.2
Subsidies	709.0	845.0	19.2	135.9	1,556.9	54.3
Aids	3,489.1	3,931.2	12.7	442.1	8,054.6	48.8
Compensations to citizens and households	5,772.1	6,497.1	12.6	725.0	13,079.8	49.7
Other expenditure	844.4	985.0	16.7	140.6	2,159.3	45.6
Expenditure for acquisition of non-financial assets	628.0	818.7	30.4	190.8	3,065.6	26.7
Total budget deficit/surplus	**-1,899.0**	**-1,629.9**	**-14.2**	**269.1**	**-4,123.4**	**39.5**

Source: Ministry of Finance

Table 8 Achievements of fiscal indicators for the general government in the period from 2021 to 2025 and the plans for 2026 (according to the ESA 2010 methodology), % of GDP

CATEGORY / YEAR	2021.	2022.	2023.	2024.	2025.	Original plan for 2026	New plan for 2026
Total revenue	**45.6**	**45.2**	**45.5**	**46.1**	**47.1**	**47.8**	-
Total current revenue	44.0	43.6	43.2	44.6	44.9	45.4	-
Direct taxes	6.1	7.3	7.2	7.9	7.9	8.1	-
Indirect taxes	19.6	19.2	19.0	19.2	19.2	19.2	-
Social contributions	11.1	10.8	10.6	11.4	12.2	12.5	-
Other current revenue	3.7	2.8	3.2	3.1	2.8	-	-
Revenue from sale	3.6	3.4	3.2	3.0	2.8	-	-
Total capital revenue	1.6	1.6	2.3	1.4	2.2	2.4	-
Total expenditure	**48.2**	**45.1**	**46.6**	**48.4**	**50.1**	**50.8**	-
Total current expenditure	42.1	38.7	38.9	41.0	42.2	43.0	-
Current transfers	19.7	18.2	18.3	18.8	19.4	20.2	-
- Social benefits	15.2	14.1	14.0	15.2	15.8	16.9	-
- Subsidies	2.2	1.9	2.0	1.6	1.4	1.3	-
- Other current transfers	2.4	2.1	2.3	2.0	2.2	2.0	-
Interest	1.5	1.4	1.6	1.6	1.4	1.6	-
Compensations to employees	12.4	11.4	11.3	13.1	13.6	13.6	-
Intermediate consumption	8.4	7.8	7.7	7.6	7.8	7.6	-
Total capital expenditure	6.1	6.4	7.7	7.4	7.8	7.8	-
Investments	4.8	4.1	5.7	5.2	6.0	5.7	-
Other capital transfers	1.3	2.3	2.0	2.1	1.8	2.1	-
Net lending (+) / borrowing (-)	**-2.6**	**0.0**	**-1.1**	**-2.3**	**-3.0**	**-2.9**	**-2.9**
Primary balance	**-1.0**	**1.4**	**0.5**	**-0.8**	**-1.6**	**-1.3**	**-**
Structural balance	**-2.8**	**-1.5**	**-2.5**	**-3.4**	**-3.7**	**-3.4**	**-**
General government debt, % of GDP	**78.2**	**68.5**	**60.9**	**57.4**	**56.3**	**56.0**	**55.5**

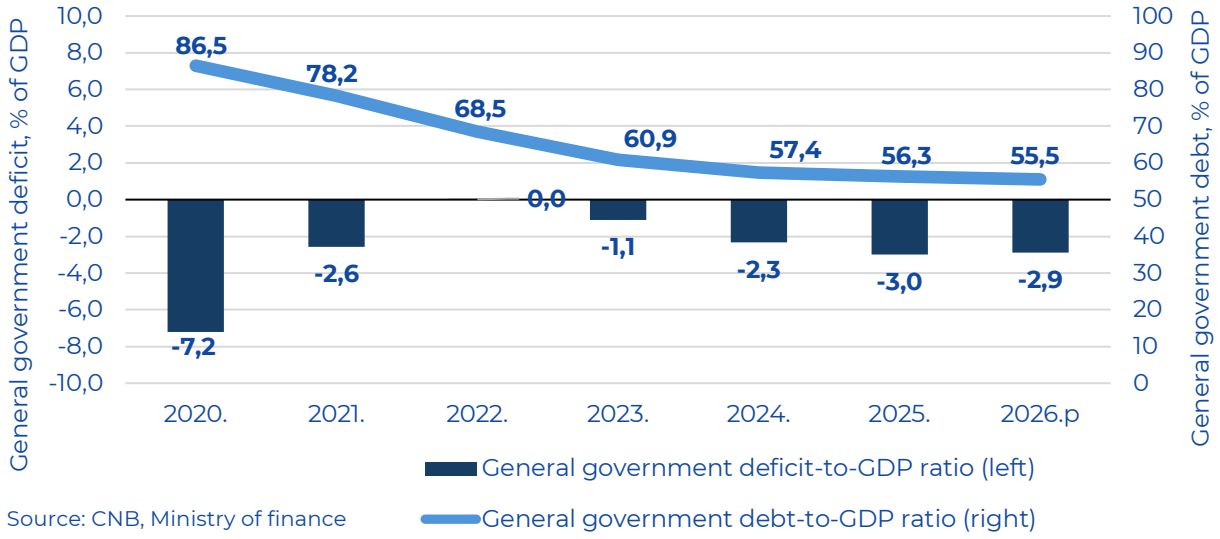
Source: Croatian National Bank, Ministry of Finance

Table 9 Development of general government balance by EU Member State, 2022 to 2026, European Commission's projections from May 2026, % of GDP

CATEGORY / YEAR	2022.	2026p	Change in balance 2026 compared to 2022, pp
Italy	-8.1	-2.9	5.2
Greece	-2.5	0.8	3.3
Malta	-5.2	-2.2	3.0
Spain	-4.6	-2.4	2.2
Latvia	-4.9	-3.3	1.6
Czech Republic	-3.1	-2.8	0.3
Romania	-6.4	-6.2	0.2
Portugal	-0.3	-0.1	0.2
Hungary	-6.2	-6.2	0.0
Slovenia	-3.0	-3.3	-0.3
EU	**-3.2**	**-3.5**	**-0.3**
Ireland	1.7	1.4	-0.3
France	-4.7	-5.1	-0.4
Cyprus	2.7	2.1	-0.6
Austria	-3.4	-4.1	-0.7
Bulgaria	-3.0	-4.1	-1.1
Luxembourg	0.2	-1.2	-1.4
Lithuania	-0.7	-2.2	-1.5
Germany	-2.1	-3.7	-1.6
Belgium	-3.6	-5.2	-1.6
Denmark	3.4	0.9	-2.5
The Netherlands	0.0	-2.5	-2.5
Slovakia	-1.7	-4.6	-2.9
Croatia	**0.1**	**-2.9**	**-3.0**
Poland	-3.4	-6.5	-3.1
Estonia	-1.1	-4.5	-3.4
Sweden	1.0	-2.8	-3.8
Finland	-0.2	-4.5	-4.3

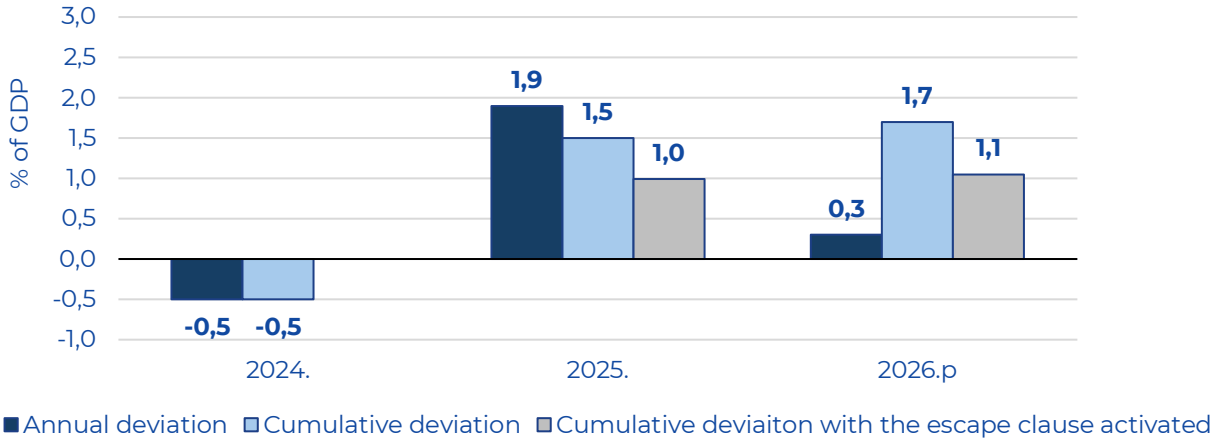
Source: EC

Chart 1 The share of general government deficit and debt (ESA 2010) in GDP from 2020 to the new plan for 2026, Croatia, % of GDP



Source: CNB, Ministry of finance

Chart 2 Annual and cumulative deviation of nationally financed net primary expenditure from the mandatory fiscal trajectory without and with the acivated national escape clause due to increased defence expenditure in 2025 and 2026, % of GDP



Source: Ministry of finance