



THE REPUBLIC OF CROATIA



Pula, Zagreb, April 24, 2023

Esteemed Minister Marko Primorac, Associate Professor, PhD,

To ensure the realism of the budgetary plans, an independent body responsible for assessing fiscal policy must confirm the macroeconomic projections on which the Stability Program is based (Fiscal Responsibility Act, NN 111/18; Budget Act, NN 144/21). Therefore, the Fiscal Policy Commission (hereinafter: the Commission) as an independent body responsible for assessing fiscal policy, has a legal obligation to consider the proposal of macroeconomic projections on which the Stability Programme of the Republic of Croatia will be based, which is to be prepared by the Ministry of Finance.

On April 12, 2023, the Commission received the preliminary and on April 20, 2023, the final macroeconomic projections from the Ministry of Finance. The Commission discussed these projections with the Ministry of Finance at the meeting held on April 21, 2023.

In endorsing macroeconomic projections, the Commission aims to impartially and comprehensively determine the extent to which the macroeconomic projections presented by the Ministry of Finance provide an accurate and realistic picture of the macroeconomic situation in the Republic of Croatia and whether the proposed macroeconomic projections can be used as a basis for decision-making and implementation of fiscal policy activities.

Taking into account the high degree of uncertainty of macroeconomic forecast, the Commission assessed the credibility of the presented macroeconomic scenario based on its realism and compared it to the projections of other relevant institutions. The macroeconomic projections of the Ministry of Finance are more optimistic than the latest projections of other relevant institutions (European Commission, EBRD, World Bank, and IMF). The Commission believes that these differences are due to the time lag in the preparation of the projections, as the latest available data on economic trends are better than previously expected, indicating the need to increase the expected growth rates.

**Therefore, the Fiscal Policy Commission endorses the macroeconomic projections of the Ministry of Finance and emphasizes that the projections are within an acceptable range.**

Strong fiscal consolidation in the past two years has been achieved in conditions of strong economic recovery and high inflation. In the continuation of such positive macroeconomic trends (currently, the Croatian economy is in a phase of a positive output gap), it is necessary to continue with further fiscal consolidation and reduction of public debt. At the same time, numerous challenges, threats, and negative risks for public finances, make it necessary to pursue an exceptionally cautious fiscal policy in the upcoming period. First and foremost, cautious fiscal policy should be reflected in the abolition of fiscal support measures introduced due to high uncertainty and rising prices, but without endangering the most vulnerable social groups and individuals. Since national elections will be held relatively quickly, it is extremely important to manage public finances prudently and not to undertake fiscal expansion due to possible fiscal pressures. In other words, it is crucial to focus on the stabilization function of fiscal policy and act counter-cyclically, in order to correct cyclical oscillations in the medium and long term, and continue to reduce public debt. Indeed, fiscal discipline is crucial for fiscal sustainability, ensuring the creation of fiscal space for future crises.

Yours sincerely,

Prof. Sandra Krtalić, PhD

The President of the Fiscal Policy Commission