



**FISCAL  
POLICY  
COMMISSION**

---

**EVALUATION**

**OF THE PROGRESS REPORT ON  
THE NATIONAL MEDIUM-TERM  
FISCAL-STRUCTURAL PLAN OF THE  
REPUBLIC OF CROATIA FOR 2025  
AND 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](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 professional discussions on fiscal policy matters.

---

## TABLE OF CONTENTS

1	INTRODUCTION.....	6
2	MACROECONOMIC DEVELOPMENTS AND THE IMPACT OF GLOBAL CIRCUMSTANCES .....	8
3	FISCAL TRENDS.....	14
4	ACHIEVING THE OBJECTIVES OF THE PLAN AND THE RISKS .....	19

At its 14<sup>th</sup> session held on 12 May 2026, the Fiscal Policy Commission (hereinafter: the Commission), examined the Progress Report on the National Medium-Term Fiscal-Structural Plan for 2025 and 2026 (hereinafter: the Progress Report), approved at the 167<sup>th</sup> session of the Government of the Republic of Croatia (hereinafter: The Croatian Government) held on 7 May 2026.

**For the second year in a row, the Fiscal Policy Commission has evaluated the annual progress report regarding the implementation of the National Medium-Term Fiscal-Structural Plan of the Republic of Croatia (hereinafter: the Plan or NMFSP), which constitutes a longer-term macroeconomic and fiscal policy framework directed at stimulating stable economic growth, without creating unfavourable fiscal effects, and ensuring long-term sustainability of public finance. The Commission underlines the key elements of fiscal developments, while the European Commission, within its mandates and powers, will evaluate the management of fiscal policy in the context of the reformed Stability and Growth Pact (hereinafter: the Pact).**

**The Commission assesses that in 2025 fiscal policy retained an expansive and pro-cyclical character, reflecting in a faster growing general government expenditure in relation to income and in a deterioration of the general government balance. The general government deficit slightly exceeded the upper limit of 3 % of GDP prescribed by the Pact, whereas negative deviations compared to the forecasts were recorded in primary and structural balance as important indicators of the fiscal position. The greatest contribution to expenditure growth in 2025, just as in the year before, came from increased compensation to employees and social benefits. Although part of these developments resulted from the justified adjustment after a period of increased inflation, their cumulative effect on the level of expenditure has a permanent effect.**

**The new, reformed version of the Pact from 2024 is based on defined maximum annual growth rates of nationally financed net primary expenditure (hereinafter: net expenditure) in the medium term. In the context of fiscal governance, the introduction of rules on net expenditure establishes a framework for controlling the growth of public spending and managing a stabilizing fiscal policy. The Government of the Republic of Croatia defined the net expenditure growth path in the NMFSP for the period from 2025 to 2028, which the Council of the European Union confirmed, recommending maximum cumulative net expenditure growth rates.**

**The current forecasts show significant deviations from the planned limits, with net expenditure growth exceeding the set objectives established by the medium-term fiscal plan. The planned growth for 2025 was 6.4 %, while the latest data from the Ministry of Finance show an actual growth of 11.1 %, which is an overshoot of the target net expenditure level of 1.9 % of GDP, without activating any additional exemptions. The growth forecast for 2026 is 5.6 %, which is above the reference rate of 4.9 %. Cumulatively, net expenditure**

growth in the period from 2024 to 2026 has reached 37.6 %, exceeding the originally planned 32.3 % by 5.3 percentage points. The discrepancies between the planned and the actual net expenditure growth rates indicate a deviation from the fiscal framework provided for by the NMFSP. Achieving the planned cumulative targets in the remaining period of the Plan would require very low expenditure growth rates, which currently seem difficult to achieve. Therefore, assuming the projected net expenditure growth is achieved according to the 2026 Progress Report, net expenditure growth in 2027 and 2028 would have to be on average 1.9 % on an annual basis to achieve the set cumulative level.

It is important to point out that fiscal policy during the period covered by the NMFSP has been facing adverse global circumstances and necessary adjustments of individual policies that have a significant impact on budgetary expenditure. In this context, defence expenditure particularly stands out, which is supposed to increase to 3.5 % of GDP by 2035, or 5.0 % of GDP when wider-purpose security expenditures, including civil components, are included. Consequently, the Government of the Republic of Croatia has activated the national escape clause regarding defence expenditure, in accordance with the recommendations of the European Commission. However, it is important to note that such an exemption, under the applicable rules, should not affect the medium-term general government debt trajectory, that it is intended exclusively for defence expenditure and that the problem of increased defence expenditure can be permanently solved only by prioritizing that expenditure over other types of public spending.

In the context of the implementation of the NMFSP, the trend of continuous decrease of the general government debt-to-GDP ratio should be highlighted. In 2025 and 2026, its decline was mostly affected by inflation and real GDP growth, while interest expenditures and the primary deficit had the opposite effect. According to the Progress Report, the general government debt-to-GDP ratio should decrease from 57.4 % of GDP at the end of 2024 to 54.8 % of GDP at the end of 2026, i.e., by 2.6 percentage points. A high level of investment in fixed capital, financed from EU funds, has contributed significantly to economic growth and development, and increased the share of general government budget revenue and expenditure in GDP.

In view of the above, the Commission invites the Government of the Republic of Croatia to manage a more restrictive and fiscally sustainable policy in order to preserve the stability of public finances and create fiscal space for future challenges. Although the current budgetary documents (State Budget for 2026 with the forecasts for 2027 and 2028 and the NMFSP Progress Report for the Republic of Croatia for 2025 and 2026) predict a stabilization of fiscal trends, more favourable fiscal indicators were also expected for 2025 according to earlier forecasts, whereas the final results are significantly less favourable. The Commission notes that these developments are taking place in conditions of decelerating economic activity and weakening labour market trends, which further underlines the importance of prudent and responsible management of public finances in the upcoming period.

# 1 INTRODUCTION

With the coming into force of the reformed economic governance framework at the EU level on 30 April 2024, the process of its reform (European Governance Review – EGR), launched in late 2021, was concluded. The reform process aimed to streamline fiscal rules and make them more adapted to the specificities of Member States, while increasing the space for targeted public investments, notably in green transition, digital transformation and defence. The new rules require each Member State to draw up a National Medium-Term Fiscal-Structural Plan for a period of four years, that is, seven years in the extended version, which, in line with the European Commission's frameworks, sets out fiscal adjustment and defines appropriate structural reforms and planned public investments. The fiscal basis are still the provisions of the Pact which caps the annual general government deficit at 3 % of GDP and public debt at 60 % of GDP.

On the basis of these criteria, differentiation of Member States has also been established as regards the framework for the development of the NMFSP. Countries that did not meet one or both of these fiscal criteria in 2023, i.e. whose public debt did not decrease at a satisfactory rate, received so-called reference paths from the European Commission. On the other hand, Member States with more favourable fiscal indicators, including the Republic of Croatia, received so-called technical information which allow for a greater degree of flexibility in determining fiscal adjustment. Unlike reference paths, technical information does not include a safeguard, i.e., a mechanism that further strengthens fiscal stability through more stringent adjustment requirements. In drafting the NMFSP, fiscal adjustment is defined by the projected structural primary balance of the general government, while the binding fiscal path by which it is achieved is operationalised through the development of nationally financed net primary expenditure of the general government. The achievement of the target level of the structural primary balance, that is, the decrease of the structural primary deficit, allows for a medium-term decrease of the share of general government deficit and public debt in GDP, that is, their remaining within the limits defined by the Pact.

Before the delivery of its Plan, the Republic of Croatia requested technical information which the European Commission delivered on 21 June 2024 and published on 14 November 2024. Technical information is composed in two scenarios: one implies alignment with the deficit resilience safeguard, pursuant to Article 9(3) of Regulation (EU) 2024/1263, while the other presumes its absence. The technical information establishes the level of structural primary balance in 2028 necessary for general government deficit to remain below 3 % of GDP and general government deficit below 60 % of GDP in the medium term (defined as the period of ten years after the

expiry of the adjustment period), even without further fiscal measures after the four-year adjustment period. It was determined for the Republic of Croatia that structural primary deficit should amount to not more than -0.4 % of GDP at the end of the adjustment period (2028, in the scenario without the deficit resilience safeguard). To achieve this goal, the path of nationally financed net primary expenditure was defined for the period from 2024 to 2028, with its growth ranging from 6.4 % in 2025 to 3.7 % in 2028, which is consistent with the average net expenditure growth of 4.8 % in the observed period.

On 14 November 2024, the Republic of Croatia submitted to the Council of the European Union and the European Commission the first [National Medium-Term Fiscal-Structural Plan of the Republic of Croatia for the 2025-2028 period](#) as a strategic document that lays down the macroeconomic and fiscal framework as well as priority reforms and public investments for the said medium-term period. On 21 November 2024, the Republic of Croatia submitted an addendum to the plan to revise the net expenditure growth trend, using a more conservative approach to fiscal policy planning during the adjustment period, aiming to ensure that general government debt convincingly remains at acceptable levels. On 21 January 2025, the Council of the European Union adopted recommendations approving the national medium-term fiscal-structural plans and laying down binding net primary expenditure paths for the 21 Member States of the European Union, including the Republic of Croatia. This made the net primary expenditure path legally binding, defining the frameworks for managing national fiscal policy in the 2025-2028 period.

In accordance with Article 21 of Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance, Member States are obligated to submit the Progress report at the annual level. In this context, the Republic of Croatia prepared and submitted to the European Commission the Progress Report regarding the implementation of the NMFSP of the Republic of Croatia for 2025 and 2026. This Report, which represents the second annual report on the implementation of the adopted Plan from 2024, was prepared by the Government of the Republic of Croatia in accordance with the Instructions of the European Commission to the Member States on the necessary information for the preparation of national medium-term fiscal-structural plans and annual progress reports, from June 2024. The Report was adopted at the session of the Government of the Republic of Croatia held on 7 May 2026. The document shows the latest forecast of the macro-fiscal framework for 2026, as well as its execution for 2025. It also includes a presentation of the implementation of the binding path of net primary expenditure and broader reforms and investments in the context of the European Semester.

## 2 MACROECONOMIC DEVELOPMENTS AND THE IMPACT OF GLOBAL CIRCUMSTANCES

The macroeconomic environment in the second year of implementation of the NMFSP is marked by a pronounced level of global uncertainty and risks, as well as inflation pressures on the domestic market that exceed expectations and are significantly more pronounced than the EU average.

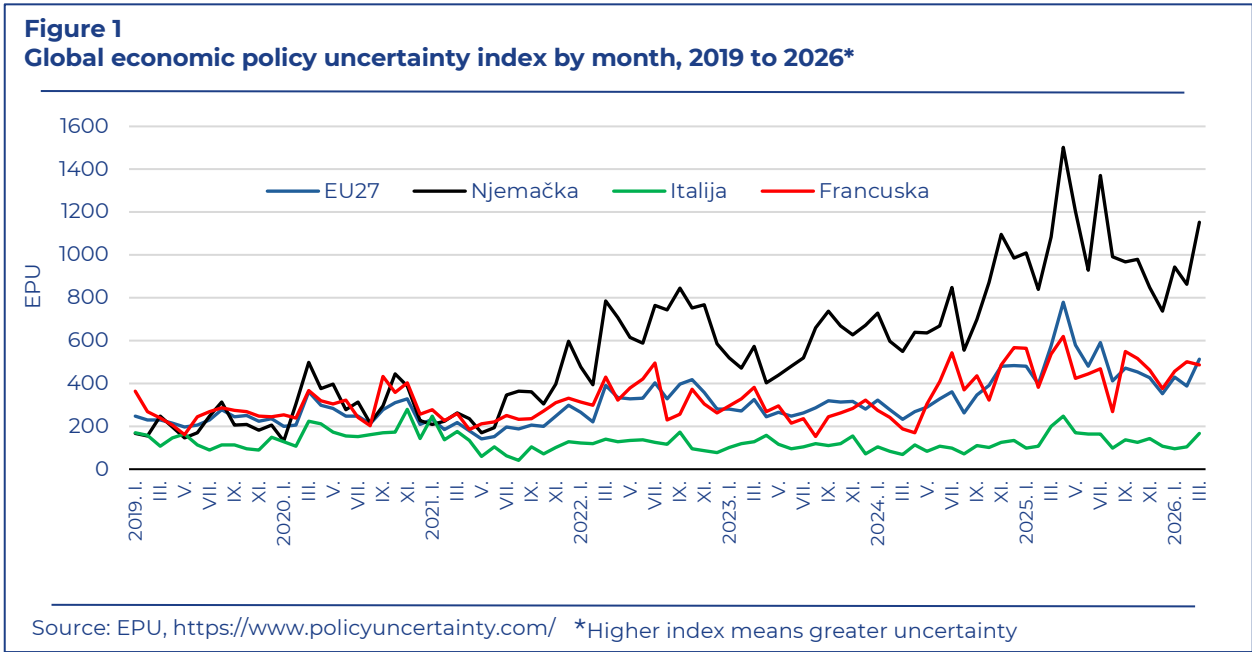
The outbreak of conflict in the Middle East has further disrupted the global economic balance. Supply disruptions through the Strait of Hormuz and damage to crucial energy infrastructure have caused energy prices to rise and disrupted global supply chains, including the fertilizer market. In the coming months, the impact on international air transport is expected due to reduced fuel availability. These disruptions generate significant import pressure, particularly in Europe, which will affect future monetary policy decisions.

At the same time, the volatility of financial markets has increased, and there has been a slight tightening of financial conditions. Even before the war, the global environment was fragmented, but it was seeing moderate growth. In the United States of America (USA), growth slowed down in the second half of 2025, although it remained more dynamic than in the euro area. China maintained strong production, driven by exports despite US tariffs.

This development, along with the building up of trade tensions, has resulted in revisions to global growth projections downward. The International Monetary Fund (hereinafter: the IMF) revised its global growth estimate from 3.3 % to 3.1 % for the current year, while increasing the forecast global inflation from 3.8 % to 4.4 % for 2026 and from 3.4% to 3.7% for 2027. On the other hand, in its 2026 spring forecast, the OECD expects moderate but stable global growth of around 3 %, with a slowdown compared to the previous period due to increased geopolitical risks. A key factor in uncertainty remains the Middle East war that disrupts energy markets and global supply chains, especially through the volatility of oil and gas prices. Inflation is again under pressure from rising energy prices, so it is expected to remain higher in 2026 than previously anticipated, especially in advanced economies. The eurozone is seeing weaker growth due to energy costs, while the US is slowing down, and China is maintaining a relatively stable but somewhat weaker growth dynamic. The OECD warns that the risks to the global economy are overwhelmingly negative and that longer-term disruptions to energy supply could further slow growth and increase inflation pressures. In such an environment, the OECD recommends managing a prudent

monetary policy, applying targeted and time-limited fiscal measures and strengthening energy efficiency.

The international geopolitical risk is driven by already high levels of economic uncertainty, which is reflected in the higher volatility of energy prices and financial conditions and in the deterioration of expectations of market participants. This trend is also reflected in composite uncertainty indicators, including the Economic Policy Uncertainty (EPU) index, which has shown high volatility over the past year. Since April 2025, the US EPU index has recorded a surge, coinciding with the announcement of new trade policy measures. The level of uncertainty in Europe has been rising since September 2025, primarily due to negotiations on trade agreements with the US administration and geopolitical tensions in the neighbouring countries, with significant differences between individual Member States. In March 2026, the global EPU index recorded an additional increase caused by the escalation of conflicts in the Middle East.



Even before the escalation of the conflict in the Middle East, the high level of global uncertainty had a significant impact on the EU economy (hereinafter: EU) and the national economies of the Member States. The conflict between Russia and Ukraine has led to structural changes in the EU energy policy, primarily through the implementation of the REPowerEU Plan, integrated into the Recovery and Resilience Mechanism in February 2023. There have also been significant changes in the area of EU defence policy. The ReArm Europe Plan, presented in March 2025, enabled the activation of a national escape clause allowing to derogate from fiscal rules for the

purpose of increasing defence spending, establishing at the same time the SAFE instrument, which provided favourable loans of €150 billion to acquire military equipment and strengthen the European defence industry.

The national escape clause for the Republic of Croatia was activated in July 2025, which supports the planned growth dynamics of defence expenditure. According to the functional classification of expenditure and the national budgetary methodology in the preparation of the budget for 2026, it was precisely in defence expenditure in the period until 2028 that the most pronounced growth was expected among all categories, with an increase of 79.4 % compared to 2024. Although a certain increase in defence expenditure has already been included in the NMFSP forecasts for the 2025-2028 period, it is certain that additional budgetary burdens in this segment will have a greater impact on the fiscal framework and significantly increase deviations from the fiscal objectives set out in the plan<sup>1</sup>.

In line with these global trends, the European Commission's spring forecast is expected to further reduce the forecasts of economic growth for the European Union, and probably for the Republic of Croatia, which is significantly exposed to the demand trends on the EU market. Such conditions represent an additional aggravating factor for the achievement of budgetary objectives and the implementation of the NMFSP.

Despite the unfavourable global environment, in the period from 2022 to 2025 the Croatian economy achieved an average real GDP growth rate of 4.6 %, one of the highest achieved averages among EU Member States. Economic growth was primarily driven by an increase in the real value of exports, with services particularly highlighted, strong growth in personal and state consumption and investments in fixed capital. Household consumption was supported by real net wage growth in the private and public sectors, increased pensions and social transfers, a recovery in credit activity and nine packages of measures to protect households and the economy from rising prices.

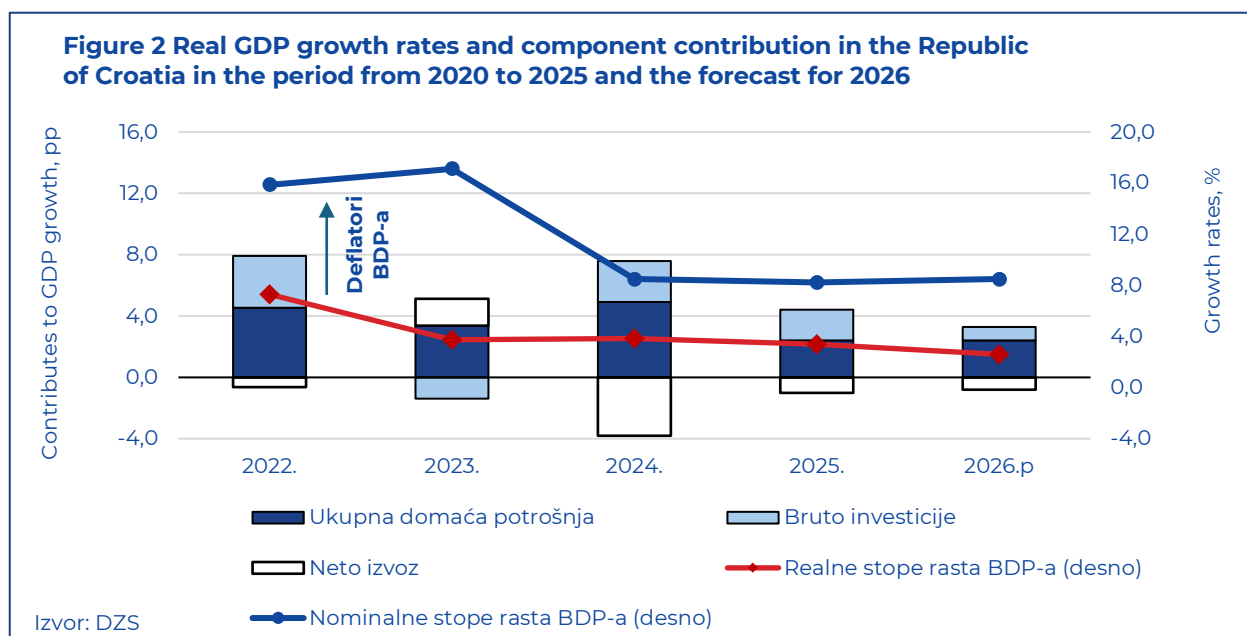
Taking into account the significant contribution of increased government spending, the strong impact of fiscal policy on the level of economic activity achieved is clearly visible. In doing so, the growth of public sector wages and social expenditure was partly linked to the election cycles but was largely due to the period of increased inflation in 2022 and 2023 and labour market developments. In this context, real

---

<sup>1</sup> The flexibility defined by the exemption from fiscal rules due to increased defence expenditure can amount to a maximum of 1.5 % of GDP and last up to four years, and it is calculated as an increase in defence expenditure compared to 2021. In its annual report, the European Fiscal Board stated: "Member States that increased defence expenditure in the period from 2021 to 2024 are granted a type of loan that can be used to finance (non-)defence expenditure or reduce taxes in the period from 2025 to 2028 within the total limit of 1.5 % of GDP." In the period from 2021 to 2024, Croatia increased the share of defence expenditure by 0.45 % of GDP.

wages in the public sector in 2023 were approximately at the level of 2021, with a slight lag in relation to the recovery of wages in the private sector, while the real value of most social transfers stagnated or recorded only limited growth. For example, the average net pension, despite a nominal increase of 14.9 % in 2023, was only about 2.5 % higher in real terms than in 2021. This development has led to significant changes in wage and social policy, resulting in a marked increase in wages in public and civil services at the end of 2023 and in particular in 2024, as well as a significant increase in social benefits from 2023 onwards. Although their growth rates in 2025 have somewhat slowed down, there has been no significant shift in the established development trends. In this regard, the average rate of increase in compensations for employees in general government expenditure in the period from 2023 to 2025 was high, amounting to 18.1 %, while the corresponding average growth rate in social benefits was slightly lower, but still significant at 15.5 %.

Investment activity is largely funded by the European Union, including the European Structural and Investment Funds, the European Union Solidarity Fund (until mid-2023) and the Recovery and Resilience Mechanism. A significant part of these investments concerned the continuation of earthquake remediation, as well as other activities provided for in the multiannual financial framework and the National Recovery and Resilience Plan, adopted in mid-2021. The use of EU grants had a positive impact on the overall economic activity, while from the fiscal point of view it was neutral for the general government balance, given the simultaneous recording on the revenue and expenditure side of the general government budget. Also, in accordance with the applied methodology, investments financed by grants from the European Union did not affect the development of nationally financed net primary expenditure, whose growth cap is set in the NMFSP.



The relatively dynamic growth of total demand and economic activity nevertheless had adverse effects on the development of the general price level, i.e. inflation. In addition to one of the highest real GDP growth rates, the Republic of Croatia also recorded one of higher average inflation rates measured by the harmonized Index of Consumer Prices (HICP) in the European Union. In the period from 2022 to 2025, the average annual inflation rate was 6.9 %, making Croatia tenth among the EU Member States. At the same time, as a result of a more pronounced growth in domestic demand, in 2024 and 2025 the Republic of Croatia was among the three Member States with the highest inflation rates in the European Union. Such inflationary developments, in the context of the global circumstances described, further increase the pressures on wage and social benefits coordination and on the implementation of measures aimed at preserving the citizens' standard of living. In this regard, in March 2026, the Government of the Republic of Croatia adopted the tenth package of measures for the protection of citizens' standard and the competitiveness of the economy, worth EUR 449 million, thus increasing the total value of all the measures adopted so far to approximately EUR 9.0 billion. These measures further weigh on the expenditure side of the state budget and pose an additional challenge in the context of achieving the fiscal objectives set by the NMFSP.

In 2025, real GDP growth was 3.4 %, while nominal growth reached 8.2 %, with both rates being higher than the forecasts from late 2025, by 0.2 and 1.2 percentage points, respectively. The continued dynamic nominal GDP growth continues to have a significant impact on indicators expressed as the share of GDP, including most fiscal

aggregates. Positive developments have also affected the improvement of the credit rating, which has a positive impact on borrowing costs.

Macroeconomic projections for 2026 indicate an increased level of uncertainty and subjection to audits. Projections of the Ministry of Finance for the Republic of Croatia for 2026 and 2027, based on which the state budget for 2026 was prepared, which were drafted in November 2025, i.e. before the growth of energy prices in March and April, predicted the continuation of economic growth at rates of 2.7 and 2.5 %. Short-term trends in the second half of 2025 and the beginning of 2026 point to a cooling of the labour market and a stagnation in the number of employees, which requires a correction of earlier forecasts and inclusion of the effects of the conflict in the Middle East in the economic outlook.

In its spring forecast, in a baseline scenario that assumed an end to the conflict in the Middle East by the end of March this year, the Croatian National Bank projected real GDP growth of 2.8 % and a maintaining of the inflation rate, measured by the national price index, at 3.7%, the same as in 2025. In a stressful scenario, starting from the premise of ending the conflict by the end of April and stabilizing the global energy and raw materials market until the same period, GDP growth of 2.7% is projected, with a more pronounced increase in the inflation rate. In the IMF projections from April this year, based on assumptions similar to those from the CNB stress scenario, real GDP growth of 2.6% was forecast in 2026. However, as conflicts in the Middle East have not yet ended, the IMF president said in early May that existing projections of economic growth have become obsolete and should be revised downwards.

The report on the progress of the projections of real GDP growth for 2026 was revised to 2.6% from the previously estimated 2.7%, based on assumptions comparable to the aforementioned CNB stress scenario and the IMF's basic scenario. According to the same projections, employment growth is expected to be significantly slower in 2026, i.e. a slowdown from 1.8% to 0.9%, but at the same time a stronger gross wage growth, from the previously projected 5.8% to 8.0%. In the context of highly volatile global economic developments, it is extremely difficult to produce precise macroeconomic projections, which is why the most appropriate approach seems to be the development of several alternative macroeconomic scenarios.

### 3 FISCAL TRENDS

Despite the high nominal rate of GDP growth, there has been a continuous increase in the share of general government revenue and expenditure in its value over the past three years. According to the Progress Report, the share of general government revenue increased from 45.2 % in 2022 to 47.1 % in 2025, while the share of expenditure in the same period rose from 45.1 % to 50.1 % of GDP. Compared to the previous year, the general government expenditure achieved strong growth at 12.0 % (2024: 12.7 %), with its share in GDP increasing by 1.7 percentage points. This increase is primarily due to the continued increase in compensations for employees and the continued strong growth of social benefits. The increase in compensations for employees was 12.6 %, mainly as a result of the implemented reform of the wage system and further adjustments. The share of compensations for employees in GDP has increased by 0.5 percentage points in the past year. At the same time, the strong growth of social benefits of 12.4 % continued, mainly due to increased pension expenditure and other social transfers, which grew faster than nominal GDP. Furthermore, fixed capital investments also recorded a high growth of 24.8 %, influenced by intensified EU-funded investments.

On the revenue side, growth accelerated at the annual level to 10.6 % (2024: 9.8 %) under the influence of changes in the dynamics of capital revenue developments. At the same time, tax revenue growth slowed to 8.2 % and fully corresponded to nominal GDP growth. The slowdown in income tax growth is due to the tax reform implemented in early 2025, but also the gradual weakening of positive labour market trends, especially in terms of employment and wage growth. There was also a slight slowdown in contribution revenue growth, from 17.5 % in 2024 to 15.4 % in 2025.

The structure of revenue and expenditure indicates that, under the influence of economic growth, wage growth and favourable labour market developments, the highest increase compared to 2022 occurred in contributions to GDP, followed by tax revenues and capital transfers, including EU funds. On the expenditure side, the most pronounced increase relates to the compensation for employees whose share of GDP increased by 2.2 percentage points, then to investments in fixed capital with a growth of 1.9 percentage points, as well as to social benefits with a growth of 1.7 percentage points. These increases in compensations for employees and social benefits are primarily a result of a number of administrative and political measures, including a reform of the wage system and an increase in the calculation base, the adjustment of pensions, the disbursement of pension benefits, one-off payments (Easter bonus) to pensioners, measures to protect the population from price increases, an increase in parental leave benefits, increase of the basis for social benefits and the increase of the

compensation during temporary incapacity for work. As these increases were achieved during a period of strong economic growth, elements are visible of a pro-cyclical fiscal policy that further stimulated the existing cycle of economic activity, which is contrary to the approach recommended in the conditions of a cyclical upsurge.

From the indicators presented, it is clear that the growth in the share of expenditure was significantly more pronounced than the increase in the share of revenue, which resulted in a deterioration of the budgetary balance. Thus, the general government balance transitioned from an almost balanced position, i.e. a small surplus of 0.01 % of GDP in 2022, into a deficit of 3.01 % of GDP in 2025, primarily due to a significant acceleration in expenditure growth. This slightly exceeded the reference general government deficit cap defined by the Pact. Compared to the previous year, when the deficit stood at -2.3 % of GDP, this represents an increase in the deficit of almost 40 %. By comparison, in 2023, the deficit amounted to EUR -865 million or -1.1 % of GDP, which means that it has almost tripled by 2025.

At the same time, as a result of strong nominal GDP growth, there has been a continuous decrease in the general government debt-to-GDP ratio. At the end of 2025, the general government debt amounted to 56.3 % of GDP, representing a 1.1 % decrease compared to the end of 2024 when it was 57.4 % of GDP. This decrease is primarily a result of inflation trends, i.e. strong nominal GDP growth. At the same time, the state of consolidated general government debt reached EUR 52.4 billion, which is an increase of 3.1 billion euros or 6.3 % compared to late 2024, where this growth almost entirely relates to the covering the general government deficit.

According to the projections from the Progress Report on the implementation of the NMFSP, a further increase in the share of general government expenditure by 0.2 percentage points is foreseen for 2026, reaching the level of 50.3 % of GDP. The most significant growth of the share in GDP is expected in social benefits and gross investments in fixed capital, by 0.3 percentage points each. As the share of expenditure financed by EU programs should increase by 0.7 percentage points, it is clear that the share of nationally financed expenditure in GDP for 2026 should decrease by 0.5 percentage points.

According to the Draft Budgetary Plan for 2026, drafted in October 2025, the general government revenue was projected to increase to 47.8 % and expenditure to 50.8 % of GDP, resulting in a general government deficit of 2.9 % of GDP. At the same time, the Progress Report on the implementation of the NMFSP continues to foresee a deficit at the level of -2.9 % of GDP, but with a lower level of revenue (47.4 % of GDP) and expenditure (50.3 % of GDP). Such a change in fiscal projections, which will also

reflect on the new state budget plan for 2026, is expected considering the change in the macroeconomic circumstances. At the same time, measures to reduce the share of expenditure in GDP are not clearly specified.

**Table 1**

**The achievements for 2024 and the projections of macro and fiscal indicators for 2025 and 2026 in the National Medium-Term Fiscal-Structural Plan and the Progress Report for 2025 and 2026**

	2024p NMFSP (Sep 2024)	2024 outturn	2025p NMFSP (Sep 2024)	2026p NMFSP (Sep 2024)	2025 outturn Progress Report (April 2026)	2026 p Progress Report (April 2026)
Maximum growth of nationally financed net primary expenditure - Binding fiscal path, %	18.6	17.3	6.4	4.9	6.4	4.9
Total general government income (% of GDP)	45.8	46.1	46.3	46.2	47.1	47.4
Total general government expenditure (% of GDP)	47.9	48.4	48.6	48.2	50.1	50.3
General government deficit (% of GDP)	-2.1	-2.3	-2.3	-1.9	-3.0	-2.9
Public debt (% of GDP)	57.4	57.7	56.0	55.0	56.3	54.8

Source: MF (p - projection)

The Commission reiterates that the NMFSP introduced a new criterion for assessing fiscal policy orientation - the upper limit of nationally financed net primary expenditure growth (net expenditure), established on an annual and cumulative level. In the context of fiscal management, the introduction of rules on net expenditure establishes the framework for controlling the growth of public spending and managing a stabilizing fiscal policy. In the consultations with the European Commission, it was agreed to limit the growth of net expenditure to 6.4 % in 2025 and 4.9 % in 2026, implying cumulative growth of 11.6 % over that two-year period. As final data for 2024 were not available at the time of plan creation, the projections were based on estimates that cumulative net expenditure growth for the period from 2024 to 2026 should be 32.3 %. As the actual net expenditure growth in 2024 was slightly lower than projected, limited fiscal space opened for its slightly stronger growth in 2025 and 2026, with the maintaining of the overall agreed limits.

In the context of the described global circumstances and the implementation of fiscal policy with a strong focus on social measures, the growth of net nationally funded primary expenditure, according to the progress report on the implementation of the NMFSP of the Republic of Croatia for 2025 and 2026, significantly exceeds the previously planned values. According to the current projections of the Ministry of

Finance, net primary expenditure grew by 11.1% in 2025, exceeding the EU Council's recommendation for the period in question in the amount of 6.4 %, i.e. the annual deviation from the binding trajectory in 2025 was 1.9 % of GDP without using the activated national escape clause. For 2026, projections indicate foreseen net primary expenditure growth of 5.6 %, exceeding the recommended growth rate set by the EU Council at 4.9 %. The cumulative growth of this expenditure over the three-year period should be 37.6 %, which exceeds the initial projection by 5.3 percentage points.

**Table 2**  
**Binding fiscal path, outturn and projection**

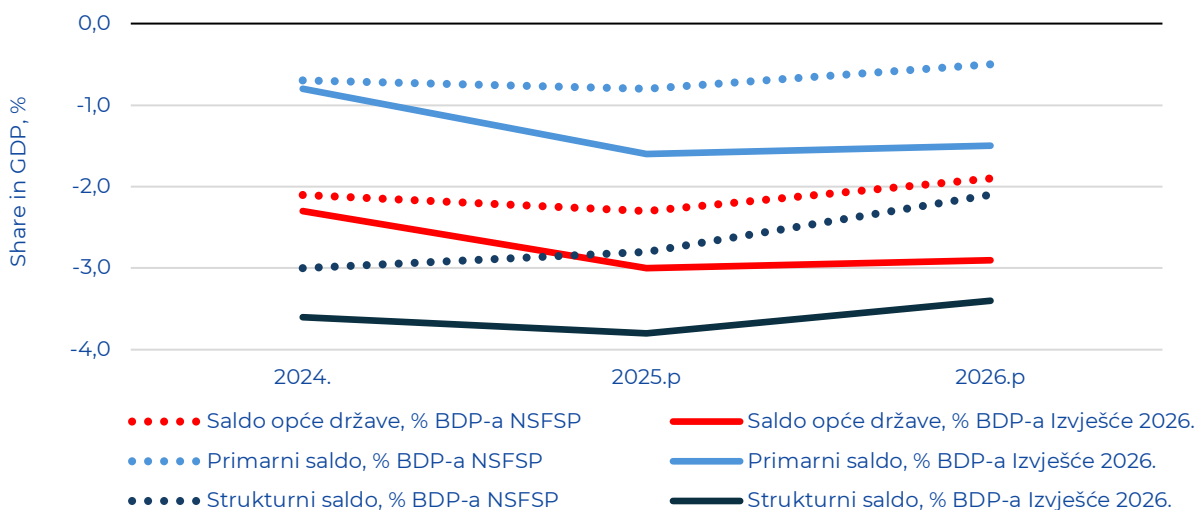
	2024	2025p	2026p	2027p	2028p
<b>NMFSP, November 2024</b>					
Nationally financed net primary expenditure, growth rate %	18.6	6.4	4.9	4.1	3.7
Nationally financed net primary expenditure, cumulative growth rate %	18.6	26.2	32.3	37.8	42.9
<b>Outturn / projection May 2026 Report</b>					
Nationally financed net primary expenditure, growth rate %	17.3	11.1	5.6	-	-
Nationally financed net primary expenditure, cumulative growth rate %	17.5	30.3	37.6	-	-

Source: Ministry of Finance, European Commission

These deviations confirm the need for stronger fiscal consolidation in the medium term. A part of the deviation can be attributed to an increase in defence expenditure and the activation of the national escape clause; however, even with its application in 2025 and 2026, the cumulative deviation of net expenditure from the projected path in 2026 will be around 1.1 % of GDP, or approximately EUR 1 billion. This will exceed the cumulative deviation limit of 0.6 % of GDP which was considered acceptable under fiscal rules.

At the same time, projections of public debt-to-GDP ratio continue to show a favourable trend. For 2026, the general government debt-to-GDP ratio of 54.8 % is estimated, which is more favourable than the NMFSP projection, which predicted 55.0 % of GDP, i.e. Its share is expected to further decrease by about 1.5 percentage points compared to 2025 when it was 56.3 %.

**Figure 3 Outturns and projections of the share of general governments balance, primary balance and structural balance in GDP according to the NMFSP and the Progress Report for 2025 and 2026**



Izvor: MFIN

**Table 3**  
**The achievements for 2024 and the projections of the share of certain general government expenditure in GDP for 2025 and 2026 in the National Medium-Term Fiscal-Structural Plan and the Progress Report**

	2024p NMFSP (Sep 2024)	2024 outturn	2025p NMFSP (Sep 2024)	2026p NMFSP (Sep 2024)	2025 outturn Progress Report (April 2026)	2026 p Progress Report (April 2026)
Compensations to employees	12.8	13.1	13.0	12.8	13.6	13.4
Intermediate consumption	7.4	7.6	7.4	7.5	7.8	7.7
Interest expenditure	1.5	1.6	1.6	1.5	1.4	1.4
Social benefits (total)	14.9	15.2	15.0	15.3	15.9	16.2
Subsidies	1.6	1.6	1.4	1.3	1.4	1.3
Other current transfers	2.2	2.0	2.2	2.2	2.2	1.9
Gross fixed capital investments	5.7	5.2	5.8	5.7	6.0	6.3
Capital transfers	1.8	2.2	2.1	1.7	1.7	1.9
Other capital expenditure	0.1	0.0	0.2	0.2	0.2	0.1
<b>Total expenditure</b>	<b>47.9</b>	<b>48.4</b>	<b>48.6</b>	<b>48.2</b>	<b>50.1</b>	<b>50.3</b>

Source: MF (p - projection)

## 4 ACHIEVING THE OBJECTIVES OF THE PLAN AND THE RISKS

**Fiscal developments in 2025, as well as the projections for 2026, deviate significantly from the commitments defined under the NMFSP.** The general government deficit and the cumulative growth of net expenditure have deteriorated, with the achieved and projected levels exceeding the previously set targets. The general government deficit in 2025 increased to -3.01 % of GDP, primarily due to the marked growth of the expenditure side of the budget, while it is planned to be at the level of -2.9 % of GDP in 2026. However, the achievement of this objective remains uncertain given the present risks of budget execution. Key factors in such fiscal developments were the strong growth of compensations for employees due to the reform of the wage system, as well as the further increase in social benefits. Such continuous increase in expenditure levels adversely affects the structural position of public finances. At the same time, revenue growth slowed down, in line with the effects of legislative changes and the slowdown in the dynamics of economic activity.

**The annual growth in net expenditure in 2025 significantly exceeded the projections and had a particularly adverse impact on the cumulative outturn.** Even after the exclusion of defence expenditure, the cumulative growth of net expenditure according to projections for 2026 continues to exceed the allowable deviation limit and exceeds the initial projection by 5.3 percentage points.

**The deteriorating state of public finances and the negative global circumstances in the upcoming period require more careful planning and management of public finances.** The Committee stresses that the effects of all fiscal measures should be seen more realistically and in the long term and be supported by credible and timely calculations of financial consequences, contributing to greater stability of the economic framework. Such measures must be more prudent, taking into account full impact assessments, and supported by more reliable fiscal projections.

The Commission understands the objective of the Government of the Republic of Croatia aimed at improving the citizens' living standards, which, with the increase of the expenditure side of the budget, was also achieved through nine cycles of the tax reform, with the resulting reduction of tax revenues. However, the potential measures aimed at mitigating exceptional circumstances should be more targeted and time-limited, especially compared to the COVID-19 epidemic and the 2022 energy crisis.

The Commission points out that fiscal policy should have a pronounced countercyclical character and create fiscal reserves during periods of economic

stability, given that, under conditions of heightened global uncertainty, shocks are becoming more frequent and intense.

**Any deviation from the Plan reduces the possibility of fiscal activity in conditions of uncertainty.** The risks to fiscal sustainability increase rapidly in conditions of heightened geopolitical tension. According to the Commission's assessment, the realization of risks related to the crisis in the Middle East could lead to additional deviations from the planned fiscal consolidation, which, with further deterioration of global economic developments, pressures on raw material prices, lower foreign demand and increased uncertainty, would pose a serious fiscal risk. In addition, Croatia's fiscal policy faces long-term challenges (demographic changes, costs of climate transition), which will further limit the fiscal space for action in future crises.

Consequently, the Commission points out the importance of consistent compliance with the fiscal framework laid down by EU rules and points out that compliance with the objectives and obligations under the NMFSP is not merely a formality, but a prerequisite for preserving long-term sustainability of public finances.