



**FISCAL
POLICY
COMMISSION**

**CONFIRMATION OF THE
MACROECONOMIC PROJECTIONS
OF THE MINISTRY OF FINANCE OF
THE REPUBLIC OF CROATIA**





Zagreb, 8th November 2024

MINISTRY OF FINANCE

Attn: Minister Dr. Marko Primorac, PhD

Dear Minister, Associate Professor PhD. Marko Primorac,

In accordance with its legal obligations¹, the Fiscal Policy Commission (hereinafter: the Commission) is required to confirm the macroeconomic projections prepared by the Ministry of Finance, which will serve as the basis for the Draft Budgetary Plan (hereinafter: the Plan), the National Medium-Term Fiscal and Structural Plan (hereinafter: NSFSP) of the Republic of Croatia 2025-2028, as well as the State Budget of the Republic of Croatia for 2025.

The legal framework for the evaluation of these budgetary documents is defined by the new fiscal rules adopted by the European Parliament and the Council of the European Union in April of this year as part of the reform of the economic governance system within the European Union (hereinafter: EU). These changes have been implemented through two regulations (the "preventive" Regulation EU 2024/1263 and the "corrective" Regulation EU 2024/1264) and a directive (Directive EU

¹ The Fiscal Responsibility Act (Official Gazette Nos. 111/18, 83/23), Article 22, Paragraph 2, stipulates that the Fiscal Policy Commission must review and compare the macroeconomic and budgetary projections from medium-term budgetary documents with the latest available projections of the European Commission. Additionally, the Budget Act (Official Gazette No. 144/21), Article 21, Paragraph 2, requires that macroeconomic and budgetary projections undergo an impartial and comprehensive evaluation by an independent body responsible for fiscal policy assessment. The results of these evaluations are to be taken into account when preparing future macroeconomic and budgetary projections, in accordance with the provisions of legislative and regulatory frameworks governing fiscal responsibility. Furthermore, Paragraph 3 specifies that the macroeconomic projections underpinning the convergence program referenced in Article 22 of the Budget Act, as well as the draft budgetary plan described in Article 27 of the same Act, must be confirmed by an independent body responsible for fiscal policy assessment.

2024/1265)². The aforementioned regulations came into force immediately, while Member States are required to transpose Directive EU 2024/1265 into their national legislation by the end of 2025.

The "Preventive" Regulation EU 2024/1263 establishes procedures, content, and rules for the preparation of the NSFSP and the Plan. These rules define the path to ensure medium-term public finance sustainability, determined by the growth of so-called "cleaned" or net primary expenditures of the general government over the medium term, depending on the legislative mandate length (four or five years). The same regulation also sets deadlines for submitting the NSFSP and the Plan to the European Commission (hereinafter: EC). Given that 2024 serves as a transitional period for the implementation of new fiscal rules, the submission deadline was September 20, 2024, or later, depending on agreements between the EC and Member States.

Since the current Budget Act and Fiscal Responsibility Act are not aligned with the changes and new provisions of the EU's economic governance system, the Commission highlights the following:

- I. Preserving the Role of Independent Fiscal Bodies:
The reformed EU legal framework emphasizes the importance of maintaining the current role of independent fiscal bodies and their evaluation of medium-term budgetary documents.
- II. Role of Independent Fiscal Bodies in the NSFSP and the Plan:
Article 11 of the "Preventive" Regulation EU 2024/1263 and Article 8(a) of the Directive stipulate that a Member State's government may request an independent fiscal institution to confirm or evaluate the macroeconomic forecasts and assumptions used in the NSFSP and the Plan. Although Croatia does not require this in the first iteration of the revised EU economic governance framework, from 2032 onward, independent fiscal institutions will be obligated to prepare such evaluations without government requests, per the regulation. These evaluations must also be included in the NSFSP and the Plan when submitted to the EC.

² The aforementioned documents are available at: <https://eur-lex.europa.eu/homepage.html>

- III. Misalignment of EU Governance Framework with National Legislation: The Commission points to the current misalignment between the revised EU economic governance framework and the national legislative framework defining fiscal policy, fiscal rules, and the role of the Commission. It also stresses the importance of defining submission deadlines for macroeconomic, fiscal, and budgetary documents and indicators, along with accompanying methodological explanations from the Government of Croatia (Ministry of Finance) to the Commission in the future.
- IV. Integration of the NSFSP with National Budgetary Planning: The integration of the NSFSP with annual and medium-term national planning must be ensured during the transposition of Directive EU 2024/1265 into national legislation by the end of 2025.
- V. Inclusion of New National Fiscal Rules: With the upcoming amendments to national legislation (the Fiscal Responsibility Act), the Commission emphasizes that new legislative solutions should include a national fiscal rule and/or indicators to be used in the future. At present, due to the abolition of the old fiscal rules, it is no longer possible to evaluate macroeconomic, fiscal, and budgetary documents as prescribed by the current Fiscal Responsibility Act. Therefore, the Commission can no longer assess fiscal rules in accordance with Article 22 of the Fiscal Responsibility Act.

The Commission discussed expected macroeconomic trends with the Ministry of Finance during a meeting held on October 31, 2024. Following the meeting, the Commission received projections of key macroeconomic and fiscal aggregates for the period 2024–2028 from the Ministry of Finance (hereinafter: MoF). In confirming the macroeconomic projections, the Commission's goal is to impartially and comprehensively determine whether the MoF's macroeconomic projections for the period until 2028 provide an accurate and realistic picture of the macroeconomic state in Croatia and whether these projections can serve as a foundation for decision-making and fiscal policy activities. Considering the inherent uncertainties of macroeconomic forecasts, the Commission assessed the credibility of the presented macroeconomic scenario based on its realism compared to projections from other

relevant institutions, as well as by reviewing past forecast errors to identify institutional or systemic biases.

The Fiscal Policy Commission concludes that the projected rates of real GDP growth, the implicit GDP deflator, and the national price index are appropriate and can serve as a basis for the preparation of the three key fiscal policy documents. The Commission found that MoF's macroeconomic projections are largely consistent with or slightly higher than the currently available projections of other relevant institutions. Additionally, the projections are realistic, supported by ongoing economic developments. Finally, given the strong fiscal expansion in 2023, and especially in 2024, fiscal policy should act countercyclically in the future, focusing more on controlling expenditure growth. Fiscal discipline, ensuring the creation of necessary fiscal space for potential future crises, is of utmost importance for fiscal sustainability.

In conclusion, the Fiscal Policy Commission confirms the macroeconomic projections for the period up to 2028 prepared by the Ministry of Finance, emphasizing that these projections fall within an acceptable range and provide a sound basis for drafting the National Medium-Term Fiscal and Structural Plan, the Draft Budgetary Plan for 2025, and the State Budget of the Republic of Croatia for 2025.

Yours sincerely,

President of the Commission

Prof. Sandra Krtalić, PhD

