



**FISCAL POLICY
COMMISSION**

34TH POSITION PAPER OF THE FISCAL POLICY COMMISSION

**ON THE DRAFT BUDGETARY PLAN OF THE
REPUBLIC OF CROATIA FOR 2025 AND
ON THE DRAFT STATE BUDGET OF THE
REPUBLIC OF CROATIA AND FINANCIAL
PLANS FOR EXTRA-BUDGETARY USERS FOR
2026 AND THE FORECASTS FOR
2027 AND 2028**



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In the context of the 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 established: 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 professional institution whose primary mission is to monitor public finances to ensure their long-term sustainability and improvement, where 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.

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At its 13th session held on 19 November 2025, the Fiscal Policy Commission (hereinafter: the Commission) examined two official budgetary documents of the Government of the Republic of Croatia (hereinafter: Croatian Government): the Draft Budgetary Plan for 2026 (hereinafter: DBP, Draft) adopted at the 124th session of the Croatian Government held on 30 October 2025 and the Draft State Budget of the Republic of Croatia and Financial Plans for Extra-Budgetary Users for 2026 and Forecasts for 2027 and 2028 adopted at the 127th session of the Croatian Government held on 13 November 2025.

In the period between 2022 and 2025, the Croatian economy was marked by strong economic growth, matched by simultaneous growth of budgetary revenue as well as significant growth of expenditure and general government budget deficit, resulting in a deterioration of the fiscal position. An expansionary and procyclical fiscal policy additionally enhanced the economic cycle, increasing the risk of higher budgetary deficits and reducing available fiscal space. Nevertheless, owing to favourable economic developments, the general government deficit and the public debt-to-GDP ratio remained below the reference values under the Stability and Growth Pact (3.0 %, that is, 60 % of GDP; hereinafter: the Pact). The fiscal situation in Croatia, compared to EU member states, thus remained relatively favourable.

After a few years of accelerated economic growth, real GDP growth is expected to decelerate in the upcoming period, first and foremost due to the slower growth of personal consumption and investments. Economic growth perspectives are negatively affected by global factors, such as geopolitical tension and the introduction of custom duties. Some of the factors within the country that might contribute to decelerating growth are the decline in international competitiveness due to strong growth of unit costs of labour, the gradual decline in the transfers from the European Union (hereinafter: EU) funds after the expiry of the current financial perspective of the EU (Recovery and Resilience Facility), the negative fiscal impulse compared to the previous years and lack of workforce.

In its evaluation of the Draft Budgetary Plan and the Draft State Budget for 2026, with the forecasts for the next two years, the Commission underlines the challenges and the risks related to the forecast values. Both budgetary documents point to a continuation of the expansionary and procyclical fiscal policy. Although negative fiscal trends are expected to end and the consolidated general government deficit to remain below the upper limit of - 3.0 % of GDP in 2026, budgetary forecasts for 2026 to 2028 demonstrate that the deficit will hover around the cap defined by the Pact. The Commission warns that even a minor negative shock in 2026 could result in a general government deficit below the reference level.

The Commission highlights that fiscal expansion, that is, expenditure growth, was extremely strong and that any further increase of expenditure in the upcoming period would not be sustainable. Growth of current spending should be limited because its increased level is, in principle, becoming entrenched. Any

deviation from fiscal discipline, especially on the expenditure side, could expose the Republic of Croatia (hereinafter: Croatia) to the risk of launching the excessive deficit procedure. The expected deceleration of economic activity and the possibility of achieving lower revenue from taxes, especially value added tax (hereinafter: VAT), additionally increase the risk of unfavourable fiscal deviations.

In the light of current forecasts, the Commission also assesses that fiscal consolidation stronger than foreseen should be implemented. Weakened economic prospects, moderate revenue growth dynamics and the set high level of public spending additionally constrict available fiscal space.

This is also confirmed by the development of nationally financed net primary expenditure, whose cumulative cap is defined by the National Medium-Term Fiscal-Structural Plan for the 2025-2028 period (hereinafter: NMTFSP). The Commission underlines that cumulative net expenditure growth for 2024, 2025 and 2026, excluding defence expenditure, exceeds the binding fiscal trajectory assumed by the Government in the NMTFSP for the 2025-2028 period, which increases the risk of the sustainability of public finances. The presented forecasts indicate that fiscal policy is gradually moving away from the NMTFSP trajectory which should ensure medium-term sustainability of public finances.

Another important factor in this regard is the activation of the national escape clause (for increased defence expenses) which allows to temporarily deviate from the net expenditure growth set by the Council when endorsing the NMTFSP. Since the clause is limited in time, after the expiry of the application period, the state will have to ensure for expenditure to return within the limits and explain how it plans to finance any permanent increase in defence expenditure.

As in its earlier evaluations, the Commission highlights the importance of implementing structural reforms and strengthening the productivity of the public sector. In the context of strong growth of certain types of expenditure, such as the defence expenditure and demographic measures, lack of structural reforms – especially those aimed at the optimization and more efficient management of public expenditure – additionally exacerbates the challenges of long-term sustainability of Croatia's public finances. Increasing labour costs in the public sector should be sustainable in the long term and aligned with the growth of labour productivity in the economy as a whole.

The Commission indicates that following the objectives and commitments under the NMTFSP is not merely a formality, but a precondition for preserving trust in long-term sustainability of public finances.

The Commission highlights that fiscal policy should be accountable, well advised and aimed at achieving long-term development goals, and also be a source of stability, instead of risk, for the country's future economic development.

1 DYNAMICS OF MACROECONOMIC FORECASTS AND THE CIRCUMSTANCES IN WHICH THE BUDGET IS ADOPTED

The adoption of the Draft Budgetary Plan of the Republic of Croatia for 2026 and the Draft State Budget for 2026, 2027 and 2028 is based on the National Medium-Term Fiscal-Structural Plan (NMTFSP), that is, on the fiscal rules defined by the Stability and Growth Pact and additional rules set out in this document. The target levels of general government deficit are determined according to the ESA 2010 methodology, public debt-to-GDP ratio and the nationally financed net primary expenditure cap which, if respected, could allow for an appropriate public debt trajectory after the expiry of the adjustment period, i.e. after 2028.

The estimate for 2026 shows that the trend of moderate deceleration of economic activity will continue. The Ministry of Finance, whose estimates are used in preparing the budget, foresees a 2.7 % GDP growth in 2026, which is 0.5 percentage points lower than the estimate for 2025. With the deceleration of real GDP growth, the Ministry of Finance also forecasts a lower GDP deflator, that is, that nominal GDP growth will decelerate, from this year's 7.4 % to 6.3 %, which is still relatively high. Such developments will continue significantly impacting both budgetary revenue and fiscal indicators which are expressed in the GDP ratio. The available forecast scenarios of global and domestic institutions for 2026 do not differ significantly and also foresee a lower GDP growth rate than in 2025. With relatively minor deviations, a growth of 3.1 % on average is expected in 2025 and 2.8 % in 2026. In its new autumn forecasts from mid-November for Croatia, the European Commission foresees a growth of 3.2 % in 2025 and 2.9 % in 2026, with its forecast for 2026 being more optimistic than the one of the Ministry of Finance.

Observing the elements of total demand, the forecasts are consistent in that they estimate that domestic demand – personal and government spending and investments in fixed capital – will continue to decelerate, and they also foresee that the growth of export of goods and services will slightly accelerate. Domestic demand development is first and foremost determined by internal factors, while a slight increase in the dynamics of export of goods and services is expected despite the period of pronounced global uncertainty, elicited by the introduction of US custom duties and the ongoing war conflicts, as well as by the forecast mild deceleration of economic growth at the global level and the retention of this year's growth rate at the level of the EU as the most important market for goods and services originating from Croatia. More specifically, the International Monetary Fund forecasts a deceleration of global growth from 3.2 % to 3.1 %, while the European Commission in its new forecasts expects the EU economy to grow by 1.4 % this year and the next one. In accordance with the forecasts of other institutions, the Ministry of Finance foresees that the

contribution of final domestic demand to GDP growth will decrease from 4.8 percentage points in 2025 to 3.4 in 2026. At the same time, the negative impact of net export is expected to decrease from -1.5 % to -0.7 percentage points due to the mild acceleration of growth and export and, at the same time, a deceleration of the import of goods and services.

Growth deceleration forecasts are consistent with the trends which have already marked 2025. According to revised data for the first half of 2025, all the elements of domestic demand recorded a deceleration of growth compared to the same period last year. This first and foremost relates to personal consumption whose real growth at the annual level fell from 5.8 % in the first six months of 2024 to 2.8 % in the first six months of 2025. Deceleration is also visible in state spending and investments in fixed capital which reached extremely high levels in the last few years. In fact, the current deceleration is a partially expected result of a high basis.

The planned developments of budgetary revenue and expenditure depend on the estimates of the GDP and its elements as well as on the developments in prices and employment levels. All the values forecast for 2026 foresee that the consumer price index will grow somewhat slower than this year. Accordingly, the Ministry of Finance expects this index to decelerate its growth from this year's 3.7 % to 2.8 %. At the same time, positive trends on the labour market are expected to continue but further decelerate. The annual employment growth should decelerate to 1.8 %, the unemployment rate slightly decrease by app. 0.1 percentage points, while the growth of real gross salaries is expected at much lower rates – decrease from 11.7 % in 2024 to 5.9 % in 2025 and 3.0 % in 2026. These factors should affect the deceleration of growth of certain budgetary revenue, first and foremost, revenue from VAT and social contributions, which should also reflect on the necessary deceleration of expenditure growth.

Judging from the current conditions on the global and domestic market, certain types of expenditure, subsidies in particular, are expected to decrease. In fact, the past period, starting with 2020, was marked by the COVID-19 crisis, earthquakes in Zagreb and Petrinja and a strong price increase on the global and domestic markets, leading to an increase in certain budgetary expenditure. In the period between 2020 and 2025, the Croatian Government adopted nine packages of measures to protect the citizens' standard and the competitiveness of the economy, in the total value of app. EUR 8.5 billion, spending at the same time a total of EUR 4.2 billion for the renovation of public and private property where the largest share of the funding was provided from EU mechanisms and funds. The consequences of the COVID-19 crisis and increasing prices have been almost completely neutralized, which allowed to gradually reduce, that is, discontinue, the protection measures. At the same time, the impact of the renovation expenditure on the increase of budgetary expenditure was

reduced, taking into consideration the high intensity of these investments in the previous years. The only exception is the part of the renovation financed from the Recovery and Resilience Facility in the last year of using those funds.

In addition, in 2024 and 2025, employee compensation and social benefits have significantly increased. The share of employee compensation in the general government increased from 11.7 % of GDP in 2019 to 13.6 % according to the forecast for 2025, with the greatest increase being recorded in 2024. In the first eight months of 2025, net salaries of public sector employees were approximately 80 % higher than in 2019, while at the same time this increase in the private sector amounted to 63 %. Corrected by the consumer price index, net salaries in the public sector realistically increased by app. 36 %, which represents significant real growth.

General government expenditure for social benefits also increased significantly, from 15.0 % of GDP in 2019 to 16.9 % according to the estimate for 2025, despite significant nominal GDP growth. In addition to all the allowances paid through the above-mentioned aid measures, legislative amendments resulted in an increase of various forms of social benefits: the inclusive allowance was introduced, compensations for newborns and parental leaves were increased and so were the minimum and maximum compensation for sick leaves and the amount of the minimum compensation in households with children, the annual pension supplement was introduced and the manner of calculating pensions was changed. As the biggest social expenditure, pensions recorded a significant nominal and real growth, which was most intense in 2024. The average pension for September 2025 amounted to EUR 688.80, which is a 66 % nominal and 26 % (corrected by the consumer price index development) real increase compared to the pension paid out in December 2020. Considering the achieved salaries and social benefits increase, there is much less pressure for additional administrative increase in 2026, especially because the measures adopted this and last year will greatly impact total budgetary expenditure in the upcoming years.

Building on the finding of the European Commission that EU funds are currently “cushioning the effect of fiscal consolidation”, the Commission highlights two key yet opposed developments. Firstly, expenditure for employees and social benefits have permanently and structurally increased. Secondly, 2026 is the last year for using significant funds from the Recovery and Resilience Facility. Using temporary revenue to finance long-term liabilities creates a high risk of structural imbalance after 2026 when the budget will have to deal with the same expenditure, yet without a significant part of the revenue that has been supporting it until then.

2 EVALUATION OF THE DRAFT BUDGETARY PLAN OF THE REPUBLIC OF CROATIA FOR 2026

On 24 October 2025, the Commission confirmed macroeconomic forecasts which served as the basis for preparing the DBP for 2026 which provides insight into specific measures on the revenue and expenditure side for the upcoming year for the purpose of achieving the net expenditure trajectory defined by the Recommendations of the Council of the EU, i.e., the NMTFSP.

According to the DBP for 2026, an increase of the share of the general government revenue in GDP is planned from 47.2 % in 2025 to 47.8 % in 2026, primarily owing to a higher share of capital transfers related to the use of the Recovery and Resilience Facility and EU funds. Significant impact is also expected from the increase of social benefits as a result of continued positive trends on the labour market.

On the other hand, the share of general government expenditure is increasing from 50.2 % in 2025 to 50.8 % in 2026. In 2024, the share of revenue in GDP was 46.1 % of GDP, and the share of expenditure in GDP was 48 %, meaning that the revenue ratio in 2026 compared to 2024 is increasing by 1.7 and the expenditure ratio by as much as 2.8 percentage points. Such a trend indicates a significant increase of expenditure. The greatest impact on the increase of the total expenditure ratio will come from social benefits whose share should increase significantly, from 16.1 % in 2025 to 16.9 % (0.8 percentage points) in 2026. Such an increase in social benefits is a result of further pension adjustment according to the new indexation from 1 July 2025, the expected growth of the total amount of the annual pension supplement and several legislative amendments related to social benefits: increase of compensations for newborns and the parental leave, increase of the minimum and maximum compensation for sick leave, increase of the amount of guaranteed minimum compensation in households with children, further resolution of the applications for the inclusive allowance and other social policy measures with a lesser fiscal effect.

The share of employee compensation, the second largest general government expenditure, should remain at this year's level of 13.6 % of GDP, which is a significant change in relation to the previous years which were marked by a more significant growth of this share. Accordingly, the growth of the total amount for this purpose should not exceed the said 6.3 %, i.e. nominal GDP growth.

A slight increase of the share in GDP is expected in expenditure for interest, while in other general government expenditure items, the share is expected to remain at the same level or slightly decrease. Out of these items, the following ones are prominent: maintaining the share of expenditure for intermediate consumption

under a major influence of higher outlays of healthcare institutions to settle debts towards suppliers; slight decrease of the share of subsidies as a consequence of gradual relaxation of the measures of subsidies for households and the economy, and maintenance of a high level of investments in fixed capital, of 5.7 % of GDP, with the support of the funds from the Recovery and Resilience Facility and the EU funds. The fact that the use of these funds shows an increasing trend also confirms a simultaneous decrease of the share of nationally financed public investments, from this year's 4.4 % to 3.8 % in 2026.

In 2026, a general government budget deficit was forecast at the same level as in 2025, that is, -2.9 % of GDP according to the ESA 2010 methodology, which is only slightly below the target deficit cap of -3.0 % of GDP defined by the Stability and Growth Pact. In such circumstances, even a minor negative shock might result in a deficit that would reach or exceed the 3 % of GDP limit. European Commission's latest Autumn Economic Forecast indicates an EU-wide worsening of the fiscal situation where the deficit is expected to increase to 3.4 % of GDP. Therefore, Croatia's hovering at the level of the reference limit of -2.9 % of GDP, when the fiscal position in the EU is worsening, additionally constricts available fiscal space and increases the risk of launching the excessive deficit procedure in case of any additional unforeseen deceleration of economic growth. Moreover, in its Concluding Statement, the International Monetary Fund calls for a "stronger and front-loaded fiscal consolidation and recommends an ambitious goal of decreasing the deficit to app. -2.5 % of GDP in 2026" which means that the Croatian Government's plan to maintain the deficit at -2.9 % of GDP is not vigilant enough. This is why stronger fiscal consolidation is key to achieving buffers amid elevated global uncertainty.

The forecasts of the Ministry of Finance from the 2026 Draft demonstrate that the central government, with a deficit of -2.8 % of GDP according to the ESA 2010 methodology, remains the main generator of the general government deficit. Local units should decrease their current-year deficit from -0.3 % of GDP to -0.1 % of GDP in 2026, while extrabudgetary users should operate with a slight surplus of 0.03 % of GDP. The Commission warns that the forecasts for the local government are still unavailable and insufficiently transparent, which increases the risk that the fiscal performance of local government units will deviate. We reiterate that the plan for 2025 was revised, within only a year, from the planned surplus of +0.6 % of GDP (in the NMTFSP) to a planned deficit of -0.3 % of GDP in the 2025 forecasts in the Draft without an appropriate explanation. Such instability in planning and a lack of transparency regarding the reasons for the worsening represent a constant risk for achieving the target general government result.

A very slight improvement is expected in other major fiscal indicators compared to 2025. The primary deficit ratio, which does not include outlays for interest, should

marginally decrease from -1.4 % of GDP to -1.3 % of GDP in 2026, while the structural balance ratio, which does not include the effects of the economic cycle and one-off measures, should decrease from -3.8 % to -3.4 % of GDP in 2026. At the same time, the structural primary deficit should decrease from 2.2 % of GDP in 2025 to 1.7 % of GDP in 2026, meaning that fiscal consolidation announced for 2026 amounts to 0.5 percentage points according to this indicator. The quantification is derived from the evaluation of the domestic product gap, taking into consideration the positive gap of 2.8 % in 2024 which plummets to 0.9 % of GDP in 2026. On the other hand, according to the European Commission's new Autumn Forecast, the positive gap in 2024 amounted to 2.3 % and is decreasing to 0.6 % of GDP in 2026.

Owing to a relatively high nominal GDP growth (real growth and inflation impact), the public debt-to-GDP ratio has shown a positive decreasing trend since 2021. In 2024, this ratio dropped below the upper limit of 60 % of GDP, defined by the Stability and Growth Pact. For 2026, the Ministry of Finance foresees it will decrease further from 56.3 % in 2025 to 56.0 % of GDP, that is, the decrease forecasts were previously evidently more ambitiously set.

Unlike these indicators, the Draft foresees stronger growth of nationally financed net primary expenditure than the growth foreseen by the NMTFSP. Cumulative net expenditure growth for 2024, 2025 and 2026 exceeds the binding fiscal trajectory assumed by the Government in the NMTFSP for the 2025-2028 period, which increases the risk for the long-term stability of public finance. The key reason for this is a strong growth of current spending, prompted by the increase in public sector salaries and the increase in pensions and social benefits. According to the data of the Ministry of Finance, net expenditure growth in 2025 will amount to 10.0 % instead of the forecast 6.4 %. In 2026, their growth of 5.0 % will slightly exceed the foreseen 4.9 %, and that being with a significantly higher basis. Since the medium-term fiscal-structural plans allow for certain deviations by years, it is paramount to monitor cumulative data, that is, cumulative net expenditure growth rates (including the developments for 2024). The upper limit of the cumulative growth rate of nationally financed net primary expenditure according to the NMTFSP amounts to 26.2 % in 2025 and 32.3 % in 2026. According to the Draft, the cumulative net expenditure growth amounts to 29.1 % in 2025 and 35.6 % in 2026, which means nationally financed net primary expenditure in 2026 could be app. EUR 1.0 billion higher than the amount foreseen by the NMTFSP.

In planning the general government budget for 2026, the activation of the national escape clause requires special mention. Together with 15 other members states, Croatia requested the activation of this clause. The activation of the clause allows to increase, in the 2025-2028 period, nationally financed net primary expenditure above the foreseen cap due to increasing defence expenditure, in the

maximum annual amount of 1.5 % of GDP. Although the Ministry of Defence presented the target investments plan of EUR 1.95 billion for the modernization of the Croatian Army by 2030, according to the forecasts for 2026, the clause will not be applied, and defence expenditure will remain at the last year's level of 1.5 % of GDP. However, it is important to mention that the Croatian Government announced even more intense usage of EU funds for projects of a wider defence purpose, which will be enabled by a redistribution of funds from the Multiannual Financial Framework. However, these funds are not factored into this general government budget item.

3 EVALUATION ON THE DRAFT STATE BUDGET OF THE REPUBLIC OF CROATIA AND FINANCIAL PLANS FOR EXTRA-BUDGETARY USERS FOR 2026 AND THE FORECAST FOR 2027 AND 2028

The Croatian Government adopted the draft state budget and financial plans for extrabudgetary users for 2026 prepared according to the Draft Budgetary Plan. The development of state budget revenue in the 2026-2028 period will depend on economic activity development, the international environment and the dynamics of EU funds uptake. GDP growth and price increase is expected to decelerate next year, consequently slowing down revenue growth. At the same time, under the influence of the last year of using the Recovery and Resilience Facility and the successful use of the funds from the Multiannual Financial Framework, and possibility of redirecting them, increased usage of EU funds is expected in 2026.

According to the national methodology, total revenue is increasing by 8.3 % at the annual level, i.e. by EUR 2.7 billion compared to 2025. In 2026, the total state budget revenue was planned in the amount of EUR 35.7 billion, while these are forecast at EUR 35.8 and 36.6 billion for 2027 and 2028, respectively. At the same time, tax revenue was planned in the amount of EUR 19.1 billion for 2026, which is 5.5 % more than last year. The greatest contribution to growth in 2026 will come from aid (almost entirely EU funds) with an increase of EUR 1.0 billion, VAT revenue with an increase of EUR 0.8 billion and contributions with an increase of EUR 0.5 billion. In regard to revenue from aid, the greatest growth is expected from EU instruments of the new generation, that is, funds from the Recovery Facility. Compared to this year's plan, total revenue should grow at a marginally higher rate, that is, by 260 million more, which is similarly a consequence of planned acceleration of the increase in tax revenue and in aid revenue.

Considering the foreseen deceleration of GDP growth, the structure of the planned acceleration of the growth of tax revenue is interesting. Such developments are largely a result of the reclassification of the fees for organizing games of chance which were classified as tax revenue in 2024 and non-tax revenue since 2025. Therefore, in 2025, they had a negative impact on tax revenue of EUR 265 million. Additionally, under the new plan for 2025, revenue from corporate income tax has been reduced by EUR 63 million, while in 2026 it is expected to increase by EUR 47 million based on the projected growth in company profits in 2025. The third most significant factor is the expected continuation of the same growth dynamics of VAT revenue, despite the expected slowdown of economic activity and inflation. Due to the differences in bases, VAT revenue should increase in 2026 more than in 2025: by EUR 769 million compared to EUR 718 million in 2025.

Total state budget expenditure according to the national methodology is planned in the amount of EUR 39.8 billion, increasing by 8.3 % at the annual level, i.e. EUR 2.7 billion compared to 2025. In 2027, the total expenditure is planned at the level of EUR 39.7 billion, and in 2028 at the level of EUR 38.8 billion. The Croatian Government plans to increase the expenditure more than nominal GDP growth, indicating a continuing trend of an increasing share of government spending in GDP. The greatest part of this growth in 2026, EUR 1.1 billion, pertains to compensations to citizens and households, i.e. social benefits, where the increase mostly relates to further pension adjustment due to the legislative amendments implemented this year. Moreover, in the previous years, especially in 2025, employee expenditure turned out to be underestimated. Therefore, their growth is planned at 4.9 % in 2026, which raises the concern that these costs might have been underestimated. Except for the compensations to citizens and households, the greatest increase is expected in outlays for aid and expenditure for the acquisition of non-financial assets, which predominantly relate to state investments and transfer to other general government levels. Outlays for aid include increased salaries of employees in primary and secondary schools and healthcare institutions, while the expenditure for the acquisition of non-financial assets include major capital investments in healthcare infrastructure and outlays for equipping the Croatian Army.

Looking at individual budget items, the greatest impact on the increase of the total expenditure in 2026 would come from pensions which are expected to increase by EUR 1.0 billion compared to 2025. The total increase of employee expenditure (including the employees of primary and secondary schools and healthcare institutions), should, according to the data of the Ministry of Finance, amount to EUR 354 million. In addition, the plan is to increase investments in equipping and modernizing the Croatian Army in the amount of EUR 210 million, outlays for energy renovation in the amount of EUR 187 million and capital investments in healthcare infrastructure in the amount of EUR 184 million. Taken

together, the increase of these five expenditure items constitutes app. 64 % of the total increase on the expenditure side of the budget. On the other hand, expenditure lower than in 2025 is only foreseen in subsidies, as a result of reduced subsidization of energy prices.

Another issue to mention in the context of expenditure is the increase of the outstanding liabilities of extrabudgetary users in 2025. According to the data of the Ministry of Finance, the debt of budgetary users at the end of September 2025 compared to the end of 2024 increased by 44.0 % or by EUR 240.7 million, with the largest share of the increase pertaining to the Ministry of Health. Although the explanation of the budget indicates the procurement of additional funding for healthcare institutions, considering the well-known dynamics of increasing debt to wholesale pharmacies, it is evident that sufficient funds for substantial resolution of this issue have not been foreseen in 2026. In addition, the IMF indicates that Croatia “dedicates a larger share of its resources to healthcare than its peers, but health outcomes are lower”, highlighting that public spending for healthcare in Croatia exceeds the EU average by about 1.5 % of GDP (together with education). Failing to address these fundamental inefficiencies guarantees that unsettled liabilities will continue to add up, regardless of the planned budgetary resources.

The Draft State Budget for 2026 foresees a state budget deficit according to the national methodology of EUR -4.12 billion, which represents the biggest deficit since 2020, the year marked by the COVID-19 crisis. According to the national methodology, the share of the state budget deficit in GDP should amount to -4.2 % of GDP, while the consolidated general government deficit should amount to -4.4 % of GDP. In 2026, extrabudgetary users are expecting balanced revenue and expenditure, i.e., a deficit of EUR 16 million or 0.02 % of GDP is planned, while local units should record half of this year's deficit, i.e. -0.1 % of GDP. State budget forecasts for 2027 and 2028 foresee a trend of further decrease of the state budget deficit which should amount to EUR 2.2. billion or -2.1 % of GDP in 2028.

According to the ESA 2010 methodology, forecasts for 2027 and 2028 foresee that the planned general government deficit will amount to 2.8 % of GDP. Pursuant to the general government budget balance development, a further decrease of the public debt-to-GDP ratio is expected from 56 % of GDP in 2026 to 55.8 % of GDP in 2028.

4 ANNEX

Table 1 European Commission's macroeconomic forecasts for the EU and Croatia for 2025 and 2026, November 2025, annual change rates

CATEGORY / FORECAST	Forecast for EU27 for 2025	Forecast for EU27 for 2026	Change in pp EU27	Forecast for Croatia for 2025	Forecast for Croatia for 2026	Change in pp Croatia
GDP (real)	1.4	1.4	0.0	3.2	2.9	-0.3
Personal consumption	1.5	1.5	0.0	4.2	3.8	-0.4
Government spending	1.8	1.5	-0.3	4.7	3.0	-1.7
Gross fixed capital investments	2.0	2.7	0.7	4.8	3.2	-1.6
Export of goods and services	1.6	1.6	0.0	1.5	2.4	0.9
Import of goods and services	3.0	2.3	-0.7	4.2	3.7	-0.5
Potential GDP	1.4	1.3	-0.1	4.2	3.6	-0.6
Output gap*	-0.5	-0.4	0.1	1.3	0.6	-0.7
GDP deflator	2.7	2.4	-0.3	4.6	3.6	-1.0
HIPC inflation	2.5	2.1	-0.4	4.3	2.8	-1.5
Number of employees	0.5	0.5	0.0	2.1	1.5	-0.6
Employee compensation by employee	4.0	3.3	-0.7	9.8	5.9	-3.9

Source: EC; *Deviation of the real output from potential output as % of potential GDP

Table 2 European Commission's fiscal forecasts for the EU and Croatia for 2025 and 2026, November 2025, share in GDP in %, ESA 2010

CATEGORY / FORECAST	Forecast for EU27 for 2025	Forecast for EU27 for 2026	Change in pp EU27	Forecast for Croatia for 2025	Forecast for Croatia for 2026	Change in pp Croatia
Total general government revenue	46.3	46.6	0.3	46.8	47.1	0.3
Total general government expenditure	49.6	50.0	0.4	49.6	49.9	0.3
General government deficit	-3.3	-3.4	-0.1	-2.8	-2.9	-0.1
Cost of interest	2.0	2.0	0.0	1.5	1.5	0.0
Primary balance	-1.3	-1.4	-0.1	-1.4	-1.4	0.0
Cyclically adjusted primary balance*	-1.1	-1.1	0.0	-2.0	-1.7	0.3
Structural balance*	-3.0	-3.1	-0.1	-3.4	-3.1	0.3
Gross debt	82.8	83.8	1.0	56.2	56.1	-0.1

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

Table 3 Real GDP growth in 2024 and the forecasts for 2025 and 2026 according to the Eastern European Consensus Forecasts, October 2025, %

COUNTRY / YEAR	2024, %	Forecast for 2025, October 2025, %	Forecast for 2026, October 2025, %	Forecast for 2025, according to the achievement in 2024, pp	Forecast for 2026, according to the forecast for 2025, pp
Czech Republic	1.2	2.2	2.1	1.0	-0.1
Hungary	0.6	0.6	2.6	0.0	2.0
Poland	2.9	3.3	3.3	0.4	0.0
Bulgaria	3.4	3.0	2.9	-0.4	-0.1
Croatia	3.8	3.0	2.7	-0.8	-0.3
Estonia	-0.1	1.0	2.4	1.1	1.4
Latvia	0.0	1.0	2.1	1.0	1.1
Lithuania	3.0	2.7	2.7	-0.3	0.0
Romania	0.9	1.0	1.6	0.1	0.6
Slovakia	1.9	0.9	1.5	-1.0	0.6
Slovenia	1.7	1.0	2.2	-0.7	1.2

Source: Eurostat, Consensus Economics

Table 4 Development of selected macroeconomic indicators in the first nine months, from 2022 to 2025, growth rates %

CATEGORY / YEAR	Jan-Sep 2022	Jan-Sep 2023	Jan-Sep 2024	Jan-Sep 2025
GDP EU27 , real growth rates in %, seasonally adjusted and calendar adjusted	4.2	0.6	0.8	1.6
GDP, real growth rates in % (*data for Jan-Jun)	8.5	3.0	3.8	3.4*
Consumer prices - inflation, growth rates in %	9.9	9.0	3.0	3.8
Industrial production, original rates in %	2.4	-0.7	-2.2	2.2
Retail trade, original real growth rates in %	2.5	2.5	8.1	3.0
Scope of construction works, original growth rates in % (* Jan-Aug)	3.9	3.7	16.1	6.6*
Overnight tourist stays - total, growth rates in %	28.1	2.2	0.9	1.2
Overnight stays - domestic tourists, growth rates in %	4.5	3.9	6.9	6.1
Overnight stays - foreign tourists, growth rates in %	30.6	2.0	0.4	0.7
Foreign currency revenue from tourism, growth rates in %	43.5	11.4	1.7	-
Goods export in EUR, growth rates in % (*first estimate)	34.5	-4.0	3.7	5.5*
Goods import in EUR, growth rates in % (*first estimate)	52.0	-4.1	7.2	4.6*
Total number of employees, growth rates in %	2.9	2.6	1.8	1.0
Number of unemployed persons, growth rates in %	-17.3	-7.5	-9.6	-16.4
Net salaries, real growth rates in % (*data for Jan-Aug)	-2.5	3.2	11.8	6.2*
Average disbursed net pensions (without inter.), growth rates in %	4.9	13.6	16.3	11.6
Loans to the non-financial sector - companies (end of period), growth rates in %	21.2	7.5	3.6	12.6
Loans to citizens, end of period, growth rates in %	5.1	7.8	10.6	13.6
Number of fiscal invoices, growth rates in %	11.9	2.2	3.2	1.8
Amount of fiscal invoices in EUR, growth rates in %	25.0	20.3	10.9	8.2
First registration of new cars, growth rates in %	-6.6	33.8	12.0	7.5

Source: Croatian Bureau of Statistics (DZS), Croatian National Bank (HNB), Croatian Institute for Pension Insurance (HZMO), Ministry of Finance (MF), ACEA

Table 5 Achievements of state budget revenue and expenditure in the period from 2020 to 2024 and the forecasts for 2025 and 2026 (acc. to the national methodology), in billions EUR

CATEGORY / YEAR	2020	2021	2022	2023	2024	New plan for 2025	Plan for 2026
Revenue	17.46	20.45	22.79	27.37	30.50	32.98	35.72
Operating revenue	17.39	20.36	22.60	27.29	30.29	32.93	35.65
Revenue from taxes	9.71	11.10	12.99	15.50	17.49	18.08	19.08
Corporate income tax	1.24	1.05	1.55	2.35	2.71	2.65	2.69
VAT	6.27	7.58	8.79	10.27	11.44	12.16	12.93
Excise duties	1.93	2.17	2.26	2.41	2.81	3.00	3.17
Contributions	3.02	3.35	3.80	4.39	4.99	5.81	6.29
Grants	2.41	2.92	3.17	4.07	3.10	3.73	4.73
Revenue from assets	0.40	0.41	0.33	0.73	0.62	0.47	0.53
Revenue from duties	0.51	0.82	0.63	0.73	0.93	1.30	1.30
Revenue from sale of goods and services	0.17	0.21	0.19	0.22	0.24	0.26	0.25
Revenue from the budget (from the Croatian Health Insurance Fund)	1.09	1.44	1.37	1.54	2.64	3.10	3.29
Fines, administrative measures and other revenue	0.11	0.14	0.14	0.12	0.27	0.18	0.19
Revenue from sales of non-financial assets	0.07	0.09	0.20	0.10	0.22	0.05	0.08
Expenditure	20.38	22.43	23.23	28.10	32.72	36.78	39.85
Operating expenditure	19.73	21.45	22.16	26.58	31.12	34.55	36.81
Expenditure for employees	3.04	3.21	3.38	3.90	5.66	6.40	6.71
Material expenditure	1.90	2.39	2.55	2.82	3.22	3.81	4.04
Financial expenditure	1.15	1.03	0.97	0.97	1.16	1.20	1.27
Subsidies	1.89	1.59	1.14	1.62	2.38	1.71	1.30
Grants	4.06	5.29	5.36	6.63	6.70	7.50	8.29
Compensations to citizens and households	6.82	6.99	7.52	8.81	10.48	11.96	13.08
Expenditure for capital aids and other exp.	0.86	0.94	1.24	1.82	1.53	1.97	2.12
Expenditure for acquisition of non-financial assets	0.65	0.99	1.07	1.52	1.60	2.24	3.04
Total budget deficit/surplus	-2.92	-1.99	-0.44	-0.73	-2.22	-3.80	-4.12
Total deficit/surplus, % of GDP	-5.7	-3.4	-0.7	-0.9	-2.6	-4.1	-4.2

Source: Ministry of Finance

Table 6 Comparison of the new state budget plan for 2025 and the plan for 2026 (acc. to the national methodology), in billions EUR

CATEGORY / YEAR	The new plan for 2025	Plan for 2026	The difference in billions EUR	Growth rate, %
Revenue	32.98	35.72	2.74	8.3
Operating revenue	32.93	35.65	2.71	8.2
Revenue from taxes	18.08	19.08	1.00	5.5
Corporate income tax	2.65	2.69	0.05	1.8
VAT	12.16	12.93	0.77	6.3
Excise duties	3.00	3.17	0.17	5.7
Contributions	5.81	6.29	0.48	8.2
Grants	3.73	4.73	1.00	26.6
Revenue from assets	0.47	0.53	0.06	12.6
Revenue from duties	1.30	1.30	0.00	0.4
Revenue from sale of goods and services	0.26	0.25	-0.02	-5.9
Revenue from the budget (from the Croatian Health Insurance Fund)	3.10	3.29	0.18	5.9
Fines, administrative measures and other revenue	0.18	0.19	0.01	8.1
Revenue from sales of non-financial assets	0.05	0.08	0.03	50.3
Expenditure	36.78	39.85	3.06	8.3
Operating expenditure	34.55	36.81	2.26	6.5
Expenditure for employees	6.40	6.71	0.31	4.9
Material expenditure	3.81	4.04	0.23	6.1
Financial expenditure	1.20	1.27	0.07	5.8
Subsidies	1.71	1.30	-0.40	-23.7
Grants	7.50	8.29	0.79	10.5
Compensations to citizens and households	11.96	13.08	1.11	9.3
Expenditure for capital aids and other exp.	1.97	2.12	0.15	7.4
Expenditure for acquisition of non-financial assets	2.24	3.04	0.81	36.1
Total budget deficit/surplus	-3.80	-4.12	-0.32	8.5
Total deficit/surplus, % of GDP	-4.1	-4.2	-	-

Source: Ministry of Finance

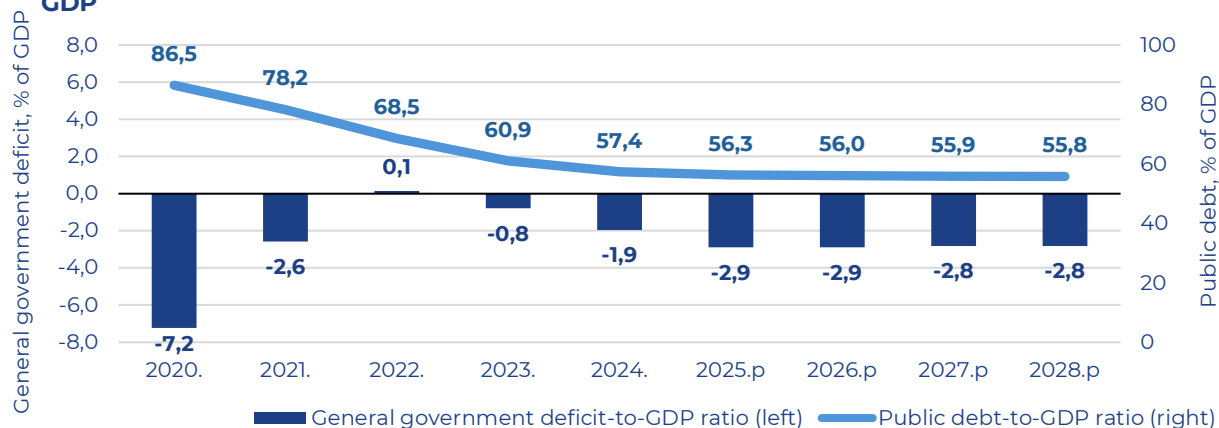
Table 7 Achievements of fiscal indicators for the general government in the period from 2020 to 2024 and the forecasts for 2025 and 2026 (acc. to the ESA 2010 methodology), in % of GDP

CATEGORY / YEAR	2020	2021	2022	2023	2024	New plan for 2025*	Plan for 2026*
Total revenue	46.5	45.6	45.2	45.5	46.1	47.2	47.8
Total current revenue	44.8	44.0	43.6	43.2	44.6	-	-
Direct taxes	6.9	6.1	7.3	7.2	7.9	8.0	8.1
Indirect taxes	19.2	19.6	19.2	19.0	19.2	-	-
Social contributions	11.5	11.1	10.8	10.6	11.4	12.4	12.5
Other current revenue	3.6	3.7	2.8	3.2	3.1	-	-
Revenue from sale	3.5	3.6	3.4	3.2	3.0	-	-
Total capital revenue	1.7	1.6	1.6	2.3	1.4	2.0	2.4
Total expenditure	53.8	48.2	45.0	46.3	48.0	50.2	50.8
Total current expenditure	46.7	42.1	38.6	38.6	40.6	42.4	43.0
Current transfers	22.6	19.7	18.1	18.1	18.5	19.7	20.2
- Social benefits	16.9	15.2	14.1	13.8	14.9	16.1	16.9
- Subsidies	3.4	2.2	1.9	2.0	1.6	1.4	1.3
- Other current transfers	2.3	2.4	2.1	2.3	2.0	2.2	2.0
Interest	2.0	1.5	1.4	1.6	1.6	1.5	1.6
Compensations to employees	13.4	12.4	11.3	11.2	13.0	13.6	13.6
Intermediate consumption	8.7	8.4	7.8	7.7	7.6	7.6	7.6
Total capital expenditure	7.1	6.1	6.4	7.7	7.4	7.8	7.7
Investments	5.6	4.8	4.1	5.7	5.2	5.7	5.7
Other capital transfers	1.5	1.3	2.3	2.0	2.2	2.1	2.0
Net lending (+) / borrowing (-)	-7.2	-2.6	0.1	-0.8	-1.9	-2.9	-2.9
Primary balance	-5.3	-1.0	1.5	0.8	-0.4	-1.4	-1.3
Structural balance	-3.6	-2.6	-1.1	-1.8	-3.2	-3.8	-3.4
Public debt, % of GDP	86.5	78.2	68.5	60.9	57.4	56.3	56.0

*Data from the Draft Budgetary Plan for 2026

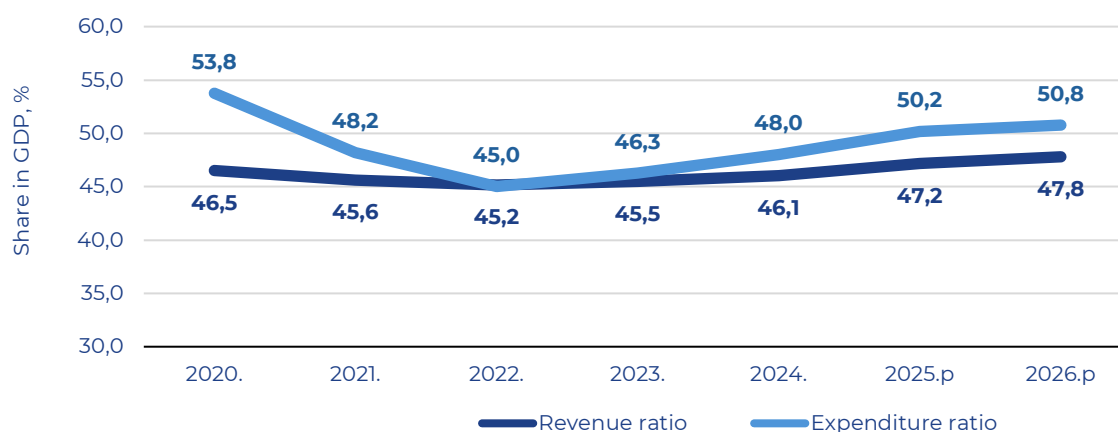
Source: Croatian National Bank, Ministry of Finance

Figure 1 Share of general government deficit (ESA 2010) and public debt in GDP from 2020 to 2024 and the forecasts for 2025 to 2028 for Croatia, % of GDP



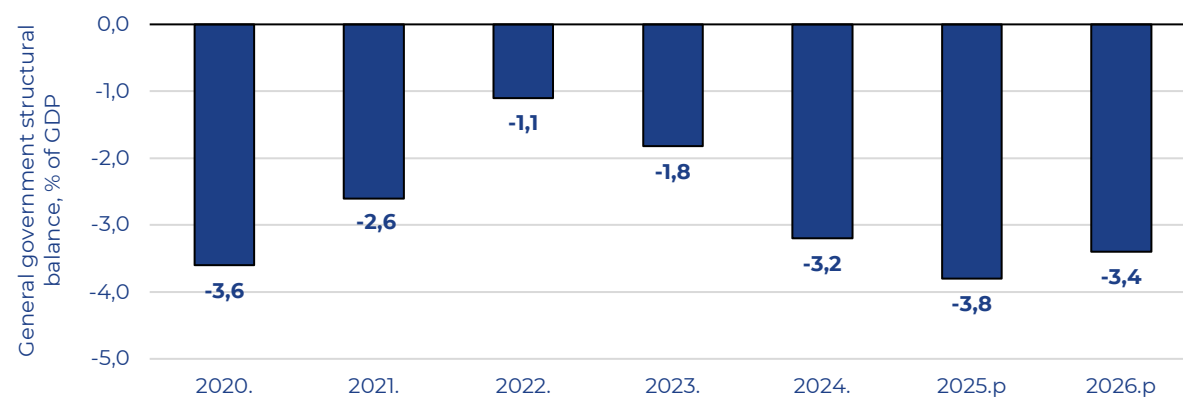
Source: MF, CNB, CBS

Figure 2 Share of general government revenue and expenditure (ESA 2010) in GDP, from 2020 to 2024 and the forecasts for 2025 and 2026, % of GDP



Source: MF, CNB, CBS

Figure 3 Share of general government structural balance in GDP for Croatia for the 2020-2024 period and the forecasts for 2025 and 2026, % of GDP



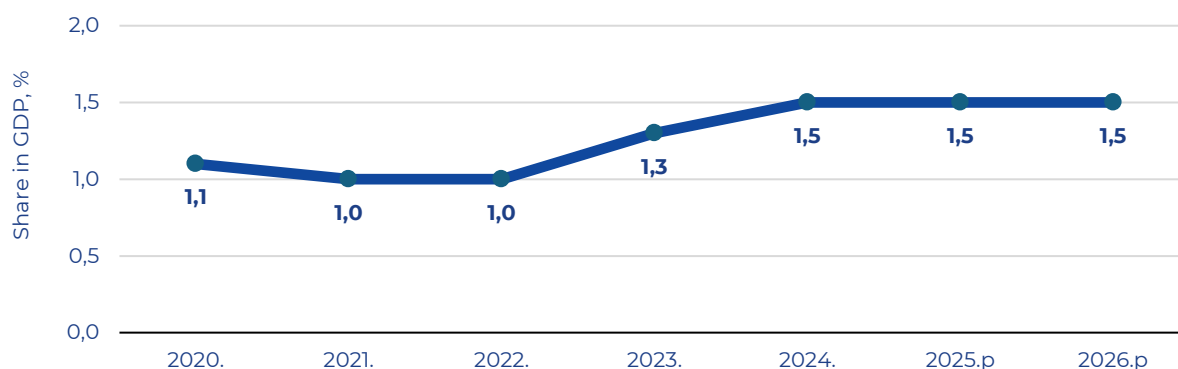
Source: MF

Table 8 The binding fiscal trajectory defined by the growth of nationally financed net primary expenditure (2024-2028), the achievement for 2024 and the forecasts for 2025 and 2026, %

CATEGORY / YEAR	2024	2025p	2026p	2027p	2028p
Binding fiscal trajectory, NMTFSP, April 2024, %	18.6	6.4	4.9	4.1	3.7
Binding fiscal trajectory, cumulative growth	18.6	26.2	32.3	37.8	42.9
Growth of nationally financed net primary expenditure, achievement for 2024 and new forecasts for 2025 and 2026, %	17.4	10.0	5.0	-	-
Cumulative growth of nationally financed net primary expenditure according to the achievement and new forecasts, %	17.4	29.1	35.6	-	-

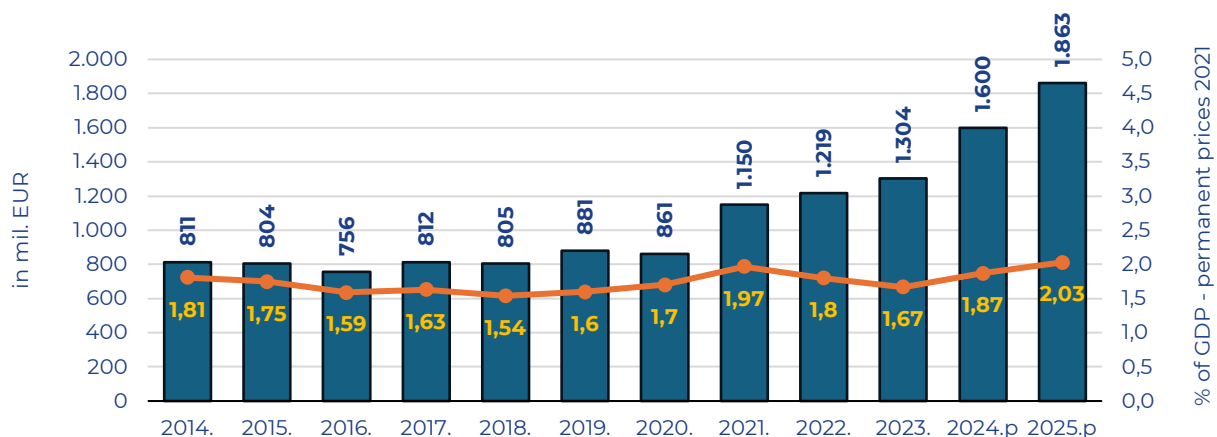
Source: Ministry of Finance

Figure 4 The share of defence expenditure in GDP according to the functional classification of the general government expenditure, achievement from 2019 to 2024 and the forecasts for 2025 and 2026, % of GDP



Source: MF

Figure 5 Croatia's defence expenditure, NATO, 2024-2025 (estimate), EUR mil.



Source: NATO, June 2025

Table 9 Development of general government balance by EU member state, 2022 and 2025, European Commission's forecasts for 2025 from November 2025, % of GDP

CATEGORY / YEAR	2022	2025p	Declining difference in percentage points
Italy	-8.1	-3.0	5.1
Greece	-2.6	1.1	3.7
Malta	-5.3	-3.2	2.1
Spain	-4.6	-2.5	2.1
Latvia	-4.9	-3.1	1.8
Hungary	-6.2	-4.6	1.6
Czech Republic	-3.1	-1.8	1.3
Slovenia	-3.0	-2.2	0.8
Cyprus	2.7	3.3	0.6
Portugal	-0.3	0.0	0.3
EU	-3.2	-3.3	-0.1
Bulgaria	-2.9	-3.0	-0.1
Ireland	1.6	1.5	-0.1
Estonia	-1.0	-1.3	-0.3
France	-4.7	-5.5	-0.8
Luxembourg	0.2	-0.8	-1.0
Austria	-3.4	-4.4	-1.0
Denmark	3.4	2.3	-1.1
Germany	-1.9	-3.1	-1.2
Lithuania	-0.7	-2.2	-1.5
Belgium	-3.6	-5.3	-1.7
The Netherlands	0.0	-1.9	-1.9
Romania	-6.5	-8.4	-1.9
Sweden	1.0	-1.7	-2.7
Croatia	0.1	-2.8	-2.9
Poland	-3.4	-6.8	-3.4
Slovakia	-1.6	-5.0	-3.4
Finland	-0.2	-4.5	-4.3

Source: EC