



**FISCAL POLICY  
COMMISSION**

# **2024 ANNUAL REPORT OF THE FISCAL POLICY COMMISSION**

**2024**



***Published by:***

***Fiscal Policy Commission***

***For the publisher:***

*Prof. Sandra Krtalić, PhD*

*President of the Commission*

***Address:***

*Boškovićeve 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)

**Zagreb, June 2025**

---

Within the scope of application of the Fiscal Responsibility Act (FRA, 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.

---

## TABLE OF CONTENTS

INTRODUCTION BY THE PRESIDENT OF THE FISCAL POLICY COMMISSION	2
1 ABOUT THE FISCAL POLICY COMMISSION .....	8
2 EVALUATION OF THE STATE OF PUBLIC FINANCE.....	12
2.1 Macroeconomic trends in 2024.....	12
2.2 Fiscal developments and evaluation of public finances in 2024 ....	16
3 ACTIVITIES OF THE FISCAL POLICY COMMISSION .....	24
3.1 The schedule of sessions and meetings of the Fiscal Policy Commission in 2024 .....	25
4 THE TIMELINE OF COMMISSION'S ACTIVITIES WITH HIGHLIGHTS.....	27
5 COMMISSION'S PUBLICITY .....	32
6 DOMESTIC AND INTERNATIONAL COOPERATION .....	33
7 ANNUAL REPORT ON THE EXECUTION OF THE FINANCIAL PLAN OF THE FISCAL POLICY COMMISSION FOR 2024.....	35

# INTRODUCTION BY THE PRESIDENT OF THE FISCAL POLICY COMMISSION

It is my pleasure to present the fifth Annual Report of the Fiscal Policy Commission (hereinafter: the Commission) which presents an overview of the activities carried out by the Commission in 2024 as well as a review and evaluation of the macroeconomic developments and fiscal policy in 2024, focusing on key challenges and priorities of the Croatian fiscal policy in the short and medium term.

Pursuant the Fiscal Responsibility Act (Official Gazette 111/18; 83/23; hereinafter: FRA), the Fiscal Policy Commission is obligated to report annually to the Croatian Parliament on its work in the previous year, not later than by 1 July of the current year. The Commission's work is based on the Fiscal Responsibility Act, the Budget Act (Official Gazette 144/21; hereinafter: BA) and and the Commission's Annual Plan and Work Programme.

In 2024, independent fiscal institutions in the European Union (hereinafter: the EU), including the Croatian Fiscal Policy Commission, continued working in complex and uncertain circumstances which are primarily a result of geopolitical instabilities in several regions across the world as well as of variable trade relationship dynamics.

Despite the challenging environment, European economy started showing signs of recovery, as it recorded an economic growth of 1.0 %, mostly supported by the resilient labour market and real wage recovery. Although energy prices remained high, the trend of decreasing inflation continued throughout the year. Moreover, fiscal consolidation continued in 2024. The European Commission (hereinafter: the EC) expects that the general government deficit in the EU will decrease by 0.4 percentage points, to 3.1 % of GDP, meaning it will remain above the 3 % threshold. In the meantime, public debt is expected to increase slightly, by 2.6 percentage points, that it, to 83.4 % of GDP, remaining significantly above the reference level of 60 %. In 2024, the European Council initiated procedures to respond to the excessive deficit for eight member states, the escape clause which was in force since 2020 ended with the deactivation of the general escape clause, and the new EU economic-fiscal framework was adopted in April 2024.

Despite the prevailing fragility of the international economic environment, in 2024 once again, the Croatian economy showed strong growth and proved to be dynamic and resilient (growth rate was 3.9 %, among the highest in the eurozone). Strong contribution to Croatia's economic growth in 2024 came from domestic demand, primarily personal consumption, and gross fixed capital investments, based on EU grants. On the other hand, import of goods and services, export of services and the category of change in reserves (at a lesser extent) negatively contributed to GDP

increase. Furthermore, the labour market remained strong, the employment rate increased by 5.5 % and the unemployment rate was 5 %. Following European trends, inflation decrease continued and was moderated compared to the previous two years. Inflation measured by the Consumer Price Index (CPI) amounted to 3 % in 2024. The price increase would have been even more prominent had the Government discontinued the implementation of the measures for protecting citizens and a part of the economy from increasing prices owing to which the prices of the most important energy sources remained limited for consumers, as did the retail prices of certain basic products.

If we analyse 2024 with a time lag, it can be concluded that, although the year was economically more favourable than previously expected, relatively favourable macroeconomic circumstances were not used optimally at a sufficient extent for strengthening consolidation and fiscal resilience and sustainability. In the 2015 - 2019 period, the Republic of Croatia implemented a major fiscal adjustment (the existing fiscal rules mostly worked well in this period) which opened up fiscal space for stimulating the economy and providing support to citizens in the 2020 - 2023 period of crises. However, despite the relatively high economic growth, the Republic of Croatia recorded a noticeable increase of the general government deficit in 2024, which is also projected for 2025, indicating a re-relaxation of fiscal constraints.

The fiscal position which actually started slightly deteriorating in 2023 shows that fiscal achievements for 2024 have significantly deteriorated. During 2024, the Government opted for more expansionary fiscal policy management. Increased expenditure due to the reform (increase) of the wage system in public and civil services, the measure for the protection of households and economies from price pressures, and provision of support to the most vulnerable social groups, as well as continued remediation of buildings damaged by the earthquake contributed to the increase of the general government deficit in 2024. Fiscal policy was procyclical and expansionary in 2024 when fiscal developments resulted in a general government budget deficit of 2.4 % of GDP (ESA 2010). Strong recovery of economic activity in the 2021 - 2024 period which contributed to a significant decrease of the public debt-to-GDP ratio, continued in 2024 when the public debt-to-GDP ratio reached 57.6 % and decreased by 4.2 percentage points compared to 2023. However, nominal public debt is still on the rise, and it increased by EUR 1 billion compared to 2023. Relative debt decrease is primarily a result of nominal economic activity growth driven by inflation.

Although the Republic of Croatia was in a relatively strong fiscal position in 2024 and complied with both main fiscal rules under the Stability and Growth Pact (hereinafter: the Pact), the general government deficit below 3 % of GDP and public debt below 60 % of GDP, a number of additional criteria were not met according to the preventive part of the Pact. Thus structural primary deficit (-0.8 % of GDP) and structural deficit

(-3.3 %) deteriorated significantly, whereas the target framework of structural balance should not be more than 1.5 % of GDP according to new fiscal rules.

The reformed economic governance framework of the EU (reactivation of fiscal rules) which came into force on 30 April 2024 was the key factor in shaping public finance. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance, amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States constitute the main framework for future fiscal guidelines in the EU. The sustainability of public debt and sustainable and inclusive growth are the main objectives of the framework achievable through reforms and investments. The framework concerns the medium term, stimulates responsibility at the national level and an effective and coherent application of regulations. The new framework focuses more on the different fiscal positions of individual member states, enabling access to fiscal rules better adjusted to each state, while strengthening national responsibility for fiscal policies.

In the centre of the new economic governance framework are National Medium-Term Fiscal-Structural Plans (hereinafter: the Plan; NMFSP) to be delivered by the member states to the Council and the European Commission. Those plans have two main objectives:

- i) ensuring that, inter alia by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3 % of GDP over the medium term, and
- ii) ensuring the delivery of reforms and investments responding to the main

challenges identified in the context of the European Semester and addressing the common priorities of the EU.

The revised economic governance framework of the EU lays down that member states whose fiscal balance and public debt values are below the reference values of 3 %, that is, 60 % of GDP, instead of the reference course, may request so-called technical information which represent fiscal guidelines for preparing the national medium-term fiscal-structural plan. The revised framework shifts the focus to expenditure control, especially by limiting the growth of nationally financed net primary expenditure<sup>1</sup>. In the Plan, the state commits to the net expenditure path in the medium term, which in fact means the introduction of budgetary constraints for the duration of the plan, from four to five years (depending on the regular duration of the

---

<sup>1</sup> National net primary expenditure is defined as general government expenditure net of discretionary revenue measures, interest expenditure, cyclical elements of unemployment benefit expenditure, national expenditure on co-financing of programmes funded by the Union and one-offs and other temporary measures.

legislative period in the member state). Besides, the plan must elaborate how the member state plans to overcome, through reforms and investments, the main challenges determined in the context of the European Semester and how it will contribute to the common priorities of the EU. The period for fiscal adjustment covers a period of four years which may be extended by up to three years if the member state commits to delivering relevant reforms and investments that meet the criteria under Regulation (EU) 2024/1263.

This new reporting obligation introduced under the revised EU framework regarding its first National Medium-Term Fiscal-Structural Plan (NMFSP) was adopted on 14 November 2024. The Plan was delivered to the Council and the European Commission after, in agreement with the European Commission, the deadline was extended according to Article 36 of Regulation (EU) 2024/1263. The delivery had to be delayed to ensure that the National Medium-Term Fiscal-Structural Plan is complete and aligned with the draft national budget for the 2025 - 2027 period, which is foreseen to be brought on 14 November 2024. In addition, the idea was to use the most recent dataset published in the revision of reference national accounts statistical data to make the plan as precise as possible. On 21 November 2024, the Government supplemented the Plan with a revision of the net expenditure growth path under the Plan and a more conservative approach in planning fiscal policy (expenditure) during the adjustment period, ensuring that the foreseen general government debt sustainably remains at reasonable levels.

Since Croatia's budgetary deficit and public debt are below reference values, the Government requested and obtained from the EC, on 21 June 2024, the Technical Information which defines the medium-term fiscal objective, i.e. the structural primary balance for Croatia. According to this information, the structural primary balance (deficit) should amount to -0.4 % of GDP during the four-year period for fiscal adjustment until 2028. This objective enables the budgetary deficit and public debt to remain below the set reference values even ten years after the end of the NMFSP period.

Moreover, the Plan is binding in terms of nationally financed net primary expenditure. In the adjustment period from 2025 to 2028, an average growth of nationally financed net primary expenditure is projected at the level of 4.8 % which should ensure the decrease of structural primary deficit to -0.2 % of GDP in 2028 which is more than the minimum level of structural primary balance of -0.4 % of GDP in 2028. If this projection is attained, Croatia will achieve a more ambitious fiscal objective compared to EC's defined requirement from the Technical Information issued in June 2024 (target structural primary deficit of -0.4 of GDP). If the obligations for the net expenditure path under the plan are achieved, the general government debt should gradually decrease from 57.6 % of GDP in 2024 to 53.1 % at the end of the adjustment period in 2028.

Looking ahead, there are two key challenges that demand special attention. The first concerns the drivers of Croatia's economic growth. Although Croatian economy is achieving relatively high economic growth rates, significantly contributed by EU funding, it will not be possible to maintain high growth rates based only on an inflow of funds from the EU in the long term. Economic growth rates might decelerate in the upcoming period and be significantly lower than in the 2022 - 2024 period, which might negatively affect the fiscal indicators and long-term sustainability of public finance. To ensure the sustainability of Croatian economy and increase its resilience, the focus must be shifted from spending to private investments and (industrial) production, especially in the industrial sectors that generate added value. Croatia should invest in sectors such as information technology, green energy and artificial intelligence, opening new jobs for highly qualified workers. As a small and open economy, Croatia cannot base its growth only on a few sectors and personal consumption in the long term. The Commission underlines that labour competitiveness and productivity should be continuously improved, both in the private and public sector. Achieving this objective requires a comprehensive economic vision which prioritizes high value-added activities instead of those with low added value.

Croatia is additionally facing serious risks in terms of demographic challenges (population ageing and emigration of young, working-age population) which create pressure on the sustainability of the pension system and decrease workforce productivity. Lack of qualified workforce is already visible in most sectors, which additionally affects economic growth. Population ageing and further workforce emigration may significantly limit productivity and increase pressure on the health and social system.

The other challenge concerns the ensuring of efficiency of public spending, with expenditure growth control following the path defined in the NMFSP. After an expansionary fiscal policy in the previous years, which lead to a deterioration of fiscal indicators, measures must be undertaken to consolidate public finance. In its recommendations in 2024, the Commission insisted on the necessity to prepare Croatian public finances for reintroducing fiscal rules and paying sufficient attention to the sources of their vulnerability and the long-term sustainability of public debt. In this context, the Commission holds that reintroducing a conservative and counter-cyclical fiscal policy management, which includes building fiscal reserves for future crises periods would be instrumental for strengthening Croatia's fiscal resilience and ensuring continuity in managing a responsible fiscal policy. The Government of the Republic of Croatia should insist on fiscally responsible behaviour and start preparing for operation in an economic framework where economic growth rates will be lower than 3 % a year.



Moreover, Council Directive (EU) 2024/1265 on requirements for budgetary frameworks of the Member States should be transposed into national legislation by the end of 2025. The Commission holds that this is a key opportunity for updating the Fiscal Responsibility Act, taking into consideration the former experience with its application, as well as fiscal development during the last seven years.

In 2024, the Commission again continued performing its tasks at a high quality and professional level, keeping up-to-date. The Commission regularly published its position papers and provided reliable information and evaluations of the sustainability of public finances and the state of fiscal policy on which it reported to the Croatian Parliament and the general public in a timely manner. All the position papers, confirmations of macroeconomic projections and other analyses and information on activities were published on the Commission's website, which contributes to our increased transparency and responsibility. In 2024, the media followed our work more intensely, resulting in greater public awareness of Croatia's fiscal policy.

In the future period, the Commission will continue consistently following the implementation of fiscal policy and try to successfully perform its tasks pursuant to the new framework on fiscal rules.

Finally, on behalf of the members of the Commission and myself personally, I would like to express my deep gratitude to all the stakeholders, both at home and abroad, associates and employees of the Fiscal Policy Commission on their support and stimulative cooperation in our joint work during 2024. Their commitment and professionalism were key to an efficient and successful performance of our tasks.

June 2025

Prof. Sandra Krtalić, PhD

A handwritten signature in blue ink, appearing to be 'S. Krtalić', written in a cursive style.

# 1 ABOUT THE FISCAL POLICY COMMISSION

In the period from 2011 until 2024, the work and activity of the Fiscal Policy Commission (hereinafter: Commission or FPC) took place in several stages.

The first Fiscal Responsibility Act (hereinafter: FRA; Official Gazette 139/10 and 19/14) was adopted by the Croatian Parliament with the aim of ensuring and maintaining fiscal responsibility and transparency and achieving medium- and long-term sustainability of public finance. By this first Fiscal Responsibility Act, fiscal rules and rules for enhancing fiscal discipline were introduced into the Croatian legal system. In addition, for the purpose of monitoring the implementation of the Fiscal Responsibility Act, in 2011, the Fiscal Policy Committee was initially established as a professional body presided by the then minister of finance, based on the Decision on the Establishment of the Fiscal Policy Committee (Official Gazette 40/11) adopted by the Government on 25 March 2011.

Pursuant to the provisions of the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States and to enhance the role of the Committee as the body supervising the implementation of the Fiscal Responsibility Act (Official Gazette Official Gazette 139/2010), on 18 December 2013, the Croatian Parliament adopted the Decision on the Establishment of the Fiscal Policy Commission (Official Gazette 156/13). By this Act, for the first time, a professional and independent body was established whose main task was to monitor the application of the fiscal rule, a body separate from the executive branch, i.e. the Ministry of Finance.

For the purpose of completely adjusting national legislation to the provisions of the Stability and Growth Pact and the Recommendations obtained from the Council of the European Union within the framework of the European Semester, the preparation of the new Fiscal Responsibility Act started in 2018. It was adopted at the session on 3 December 2018 and came into force on 1 January 2019 (Official Gazette 111/18). It prescribes numerical fiscal rules and additionally enhances the independence of the Commission which is defined by this Act as a permanent, professional, independent and autonomous body tasked with a stronger role of supervising the application of the Fiscal Responsibility Act as well as the country's fiscal policy in its entirety.

For the purpose of the final adjustment with the provisions of the Council Directive 2011/85/EU on the requirements for member states' budgetary frameworks and the Budget Act (hereinafter: BA; Official Gazette 144/21), the last amendments to the FRA (Official Gazette 83/23) aimed to change, that is, expand the tasks of the Fiscal Policy Commission which include examining and comparing the macroeconomic and budgetary projections with the achieved values in a period of four consecutive years which is to be carried out at least once in two years, as well as the confirmation of

macroeconomic projections underlying the stability program and the draft budgetary plan in accordance with the Budget Act (hereinafter: BA; Official Gazette 144/21).

Since on 30 April 2024, the European Parliament and the Council of the European Union implemented a reform of the economic governance system in the European Union (hereinafter: EU) by which three new regulations were adopted amending the economic governance framework in the EU (Regulation EU 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No. 1466/97 (preventive regulation); Regulation No. 2024/1264 amending Regulation EU No. 1467/97 and clarifying the implementation of the excessive deficit procedure (corrective regulation), and Council Directive EU No. 2024/1265 on the amendments to Directive 2011/85/EU on requirements for budgetary frameworks), the Fiscal Responsibility Act which directs the implementation of fiscal policy must be amended, and the deadline for its transposition into national legislation is 31 December 2025.

For eight whole years, the Commission acted as the working second body of the Croatian Parliament, until 2021, when its first chairwoman was elected and the Commission was registered as a business operator at the Croatian Bureau of Statistics, and thus became an independent and autonomous body. The process of registration of this body also marked the first steps in the operative establishment of the Commission Office (as the Commission's specialist service).

The Commission belongs to the group of independent fiscal institutions whose basic task is to supervise public finances to ensure their long-term sustainability and improvement.

The mission of the Commission, as an independent fiscal body, is to act with the aim of ensuring medium- and long-term sustainability of public finances, that is, fiscal policy of the Republic of Croatia in its entirety.

The Commission's vision is directed at being recognised as an independent, specialist and highly professional institution whose primary function is to act in the public interest and whose unbiased, efficient and transparent monitoring encourages long-term fiscal sustainability and thus contributes to Croatia's prosperity.

According to the currently valid FRA (Article 18), the Commission's main tasks are:

- considering and assessing the risk of application of the fiscal rules established in Articles 6, 7 and 8 of the FRA in the stability program, in the state budget and financial plans of extra-budgetary users for the planned budget year and the projections for the next two years and the annual report on budget execution
- considering and comparing macroeconomic and budgetary projections from medium-term budgetary documents with achieved values in the period of four consecutive years which will be implemented at least once in two years

- confirming the macroeconomic projections underlying the stability program and the draft budgetary plan pursuant to the law regulating the budget
- producing an opinion to the Government on the temporary postponement of the application of fiscal rules referred to in Articles 6, 7 and 8 hereof in case of extraordinary circumstances.

The Commission is obligated to comment on the consequences of the decisions of all government levels (first and foremost the Government of the Republic of Croatia) on medium- and long-term sustainability of public finances and public debt and their impact on future generations.

Furthermore, the Budget Act (Official Gazette 144/21) defines the following tasks of the Commission according to which it:

- carries out an unbiased and comprehensive evaluation of macroeconomic and budgetary projections and
- confirms macroeconomic projections underlying the stability programme (Article 22 of the Budget Act) and the draft budgetary plan (Article 27 of the Budget Act).

The Commission is composed of the chairperson and six members appointed for a five-year term by the Croatian Parliament. The chairperson is elected through a public call, and the six members are elected from among prominent scientists and professionals at the proposal of the State Audit Office, Institute of Economics in Zagreb, Institute of Public Finance, the Croatian National Bank and faculties of economics and law of the universities in Zagreb, Split, Osijek, Rijeka, Pula and Dubrovnik.

In 2024, the term of the members active in the period from 12 July 2019 until 12 July 2024 expired, and by the Decision on the dismissal of the members and the appointment of the members of the Fiscal Policy Commission brought by the Croatian Parliament in October 2024, new members of the Commission were appointed as follows:

- Ljubinko Jankov, MSc, representative of the Croatian National Bank, Deputy Chairperson
- Igor Karlović, M.Econ., representative of the State Audit Office
- Tajana Barbić, PhD, representative of the Institute of Economics, Zagreb
- Zoran Bubaš, PhD, representative of the Institute of Public Finance
- Associate Prof. Maja Mihelja Žaja, PhD, Faculty of Economics and Business, University of Zagreb, from among the representatives of faculties of economics, and
- Prof. Sonja Cindori, PhD, Faculty of Law, University of Zagreb, from among the representatives of faculties of law.

The employment cycle in the Commission Office, which started in 2023 when two civil servants - administrative secretary and senior expert adviser were successfully employed, continued in 2024 with three senior specialist advisors (analysts). Employment of the planned number of officers was not completed entirely according to the needs and the Rules on the internal organization. More specifically, for the purpose of performing very complex jobs in the Commission, employees need to have specific knowledge and competencies from the field of macroeconomy, econometrics, (public) finance and quantitative analyses, which are in fact in-demand, highly valued professions on the Croatian labour market. It is challenging and difficult to find a sufficient number of trained candidates for these specific jobs on the labour market. Moreover, the salary level for analysts in the Commission Office is not competitive and should be aligned with comparative positions to attract qualified candidates and ensure a comprehensive meeting of the standards in performing the works in the Commission Office.

Furthermore, starting from 1 October 2024, the Commission became independent in managing its administrative and technical affairs: Until then, the Commission Office received administrative support from the Service for General Affairs of the Croatian Parliament and the Government of the Republic of Croatia (UZOP). At the request of UZOP's principal, in 2024, the Commission Office went through the very demanding process of functional emancipation in performing administrative (financial, accounting, public procurement etc.) and technical affairs, which also resulted in new challenges for the FPC. In this process, financial affairs were entrusted to a private business operator. In fact, as early as when outsourcing financial services, it became evident that market interest was very low, i.e. that there were no interested companies skilled in budget accounting and work in the State Treasury. Over time, the weaknesses of outsourced accounting activities, preparation and execution of the budget, working in the State treasury etc. have become evident as they became a challenge for the operation of the Commission Office. Administrative and technical affairs, as an important support to the Commission, should be entrusted to a certain state authority which would manage them for the FPC, just as in the other independent fiscal bodies of member states.

Therefore, since the Commission, according to the valid provisions of the Fiscal Responsibility Act, cannot achieve its full and complete functional independence, we expect that the announced amendments to the Act will bring a major step forward in strengthening its position. In the recent period, the Fiscal Policy Commission invested great effort to constitute itself and preserve its financial, operative and functional independence. Although the previous amendments to the Act already resulted in certain improvements, there is a clear need for further institutional improvement of the Commission and its supporting expert team - the Commission Office which offers analytical, expert and administrative assistance, strengthening its capacities and improving its work methodology.

## 2 EVALUATION OF THE STATE OF PUBLIC FINANCE

An evaluation of the state of public finance is made based on the achieved indicators for the general government according to the ESA 2010 methodology.

Positive macroeconomic trends in the Republic of Croatia (hereinafter: Croatia) contributed once again in 2024 to an expansionary and procyclical fiscal policy of the Croatian Government. Because such policy was defined already in the first budget plan, a more dynamic economy growth than the expected, and thus also an appropriate revenue growth, mitigated the final indicators. The year was finally concluded, due to achieved expenditure much higher than the plan, with a higher general government deficit than the initial plan and with a deterioration of its structural balance. On the other hand, under the influence of inflation and real economy growth, further decrease of the public debt-to-GDP ratio was achieved.

### 2.1 MACROECONOMIC TRENDS IN 2024

In late 2023, when the GDP growth rate for that year was approximately known, it was expected that GDP would grow in 2024 at last year's level. According to the estimate of the Ministry of Finance from early November 2024, GDP growth was expected at the level of 2.8 % for both years. However, 2024 was primarily marked by unexpected strong growth of citizen spending which, together with other demand categories, resulted in a significantly higher GDP growth rate (3.9 %).

In 2024, Croatian economy no longer felt the negative impacts of the crisis caused by the global COVID-19 pandemic in 2020, nor any positive effects of the ensuing recovery, while the negative effects of the pronounced global price growth and the consequentially high inflation on the domestic market present in 2022 and 2023 also significantly decreased. In such conditions, economy growth became more dynamic compared to the previous year (according to the three-month calculation, in 2023, growth was 3.3 %) which was consistent with the trends at the level of the European Union (Figure 2) and partially global trends. At the EU27 level, GDP growth intensified from 0.4 % in 2023 to 1.0 %, whereas at the global level, according to the last estimates of the MMF, it was approximately at the same level as the previous year.

Comparison with the other EU member states shows a relatively high GDP growth dynamic in Croatia in 2024. A higher growth rate was achieved on Malta (6.0 %), while five member states still saw a real decline of GDP. GDP structure by member state also shows that nine member states recorded a real decline in the value of import of goods and services at the annual level, and as many as fourteen member states recorded a real decline in the value of goods import. The first of these included Italy, Austria and

Hungary, and the second group additionally included Germany, that is, the countries which are among the most significant markets for export of Croatian goods and services. These developments thus largely account for the real decline in the value of export of services (-3.0 %) and a moderate increase in the value of the import of goods (5.4 %) in the structure of Croatia's GDP last year. All the while, increase in the export of goods ensued after a significant decline in 2023, which is why its real value remained 2.1 % lower than in 2022.

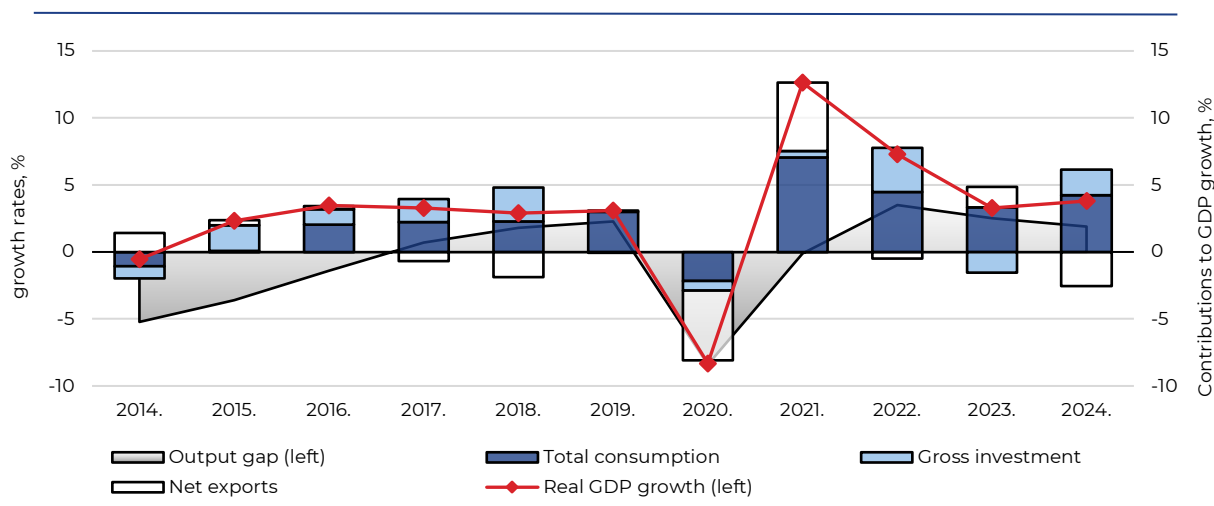
The achieved growth was therefore mostly based on the developments in domestic demand, primarily the indicated citizen spending which, compared to previous year, recorded a real increase of 5.8 %. Such development of citizen spending was a consequence of a significant real increase of net salaries, substantial increase of pension fees and other social benefits, continued positive trends on the labour market, further recovery of credit activity toward citizens and continuously high personal transmittances from abroad. In addition to personal consumption, a significant contribution to growth came from gross fixed capital investments, primarily investments related to construction activities, including continued earthquake remediation.

Government spending and import of goods also contributed to achieved growth, while on the other hand, the decrease in the value of the export of services and the significant increase in the value of the import of goods and services had a negative impact on the achieved growth. Decrease of the real value of the export of services was primarily under the influence of developments in tourism, that is, low growth rates of achieved overnight stays and foreign currency revenue from tourism, while increased import was the usual consequence of growing demand.

It is important to highlight that fiscal policy played an important role in 2024 in terms of GDP growth. Fiscal policy was largely focused on increased wages of civil servants, and at a lesser extent on reducing the tax burden on all wages and receipts, increasing different forms of compensations to citizens and households, as well as the implementation of the National Recovery and Resilience Plan which made it possible to use EU funds from the Recovery and Resilience Facility first and foremost intended for various forms of investments.



**Figure 1.**  
**Contributions of GDP Components to Real Growth and the Output Gap Level in Croatia, 2014–2024**



Izvor: Ministry of finance, CBS, AMECO

Inflation (Figure 3) measured by the Consumer Price Index (CPI) significantly slowed down in 2024 (3.0 %) compared to the last two years, yet it remained somewhat higher than in most other EU27 member states (measured by HICP). Such an inflation trend was largely a consequence of increasing demand, especially in the area of services. Therefore, compared to previous year, the increase in the prices of goods and services was 2.0 % and 5.9 %, respectively. The price increase in the area of goods was based on food products, and in case of services, it was based on the hospitality industry. The price increase would have been even more prominent had the Croatian Government discontinued, in 2024, the implementation of the measures for protecting citizens and a part of the economy from increasing prices, making it possible for the consumers to enjoy limited prices of the most important energy sources and retail prices of certain basic products.

Developments in the most important activities of the real sector of the economy differed significantly in 2024. In industrial production, a years-long trend of low growth or decline of production continued (not counting 2021 and growth due to a low basis) and its level was 1.9 % lower than in 2023. Such a decline was mostly caused by decreased production (and much lower export) of electricity. The tourism activity also saw relatively modest achievements in 2024, that is, the number of overnight stays increased only by 1.4 % at the annual level, and foreign currency inflow from tourism increased nominally only by 2.7 %. Such results are much worse than in the previous years.

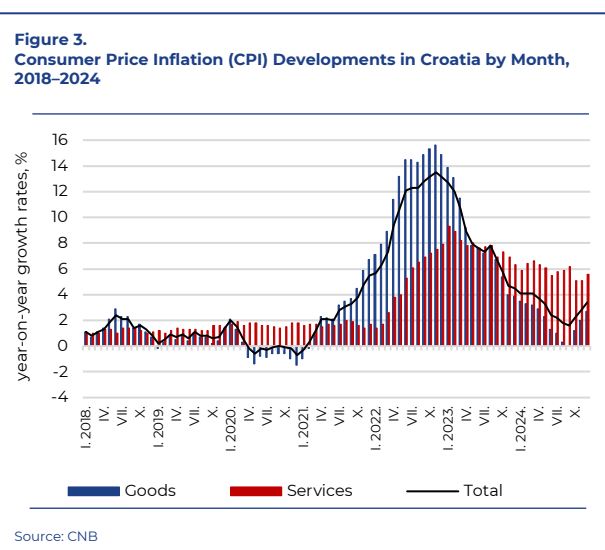
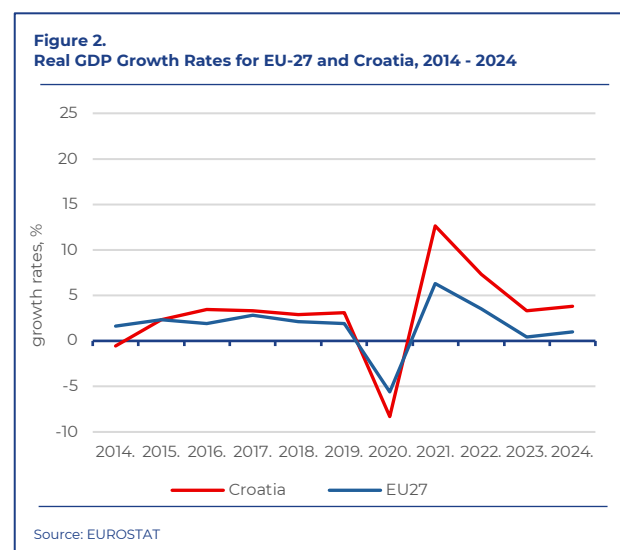
On the other hand, in retail trade and the construction industry, growth was much more pronounced than in the previous years. Retail trade turnover increased by 9.8 %



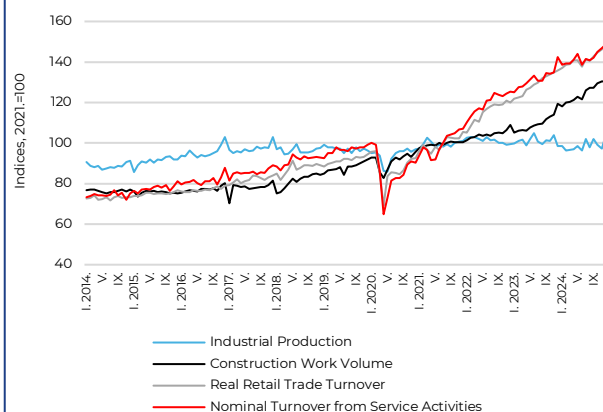
in nominal terms, and 7.7 % in real terms, whereas construction activity was 15.6 % higher than in 2023. Developments in trade were a consequence of the described spending developments, while growth in construction was driven by the developments on the real estate market and their record-high prices as well as the execution of earthquake remediation and other public investments.

In 2024, the labour market was still marked by a lack of workforce and an increasing number of foreign workers. According to the 2024 Workforce Survey, 1.68 million persons were employed in the Republic of Croatia (i.e. 95.0 % of active population older than 15), which represents an increase of 4.0 % compared to 2023. There were 89 thousand unemployed persons, and the annual unemployment rate for the age group of 15 - 64 was 5.1 %, which is a decrease of 0.9 percentage points compared to 2023. According to the data of the Ministry of the Interior, 206,529 foreign workers were employed in Croatia in 2024, which constitutes 12.3 % of the total number of employed persons. This share was 10.3 % in 2023.

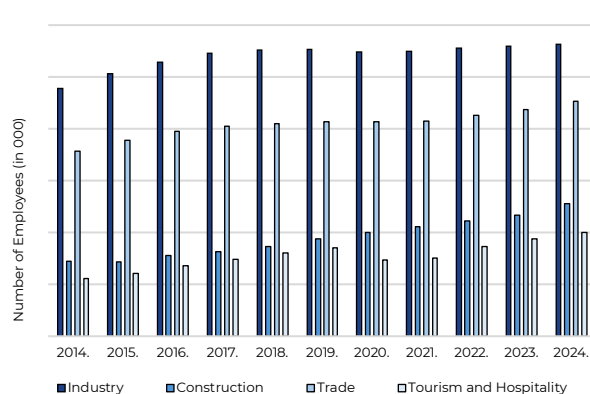
In 2024 again, the developments on the labour market and the need to adjust salaries to rising costs of living resulted in a nominal and real growth of gross and net salaries (Figure 7). Compared to the previous years, real growth of net and gross salaries was especially pronounced, amounting to app. 11.5 %, whereas in the last five years it was at the level of app. 2 % on the average. Such salary development was significantly a result of increasing wages for civil servants. Thus, according to selected data of the Croatian Bureau of Statistics, in the activity of public administration and defence; mandatory social insurance, real wage increase was 18.2 %, in education 17.8 % and in healthcare and social welfare 19.2 %. Average gross salary in 2024 amounted to EUR 1,821, and the average net salary was EUR 1,318.



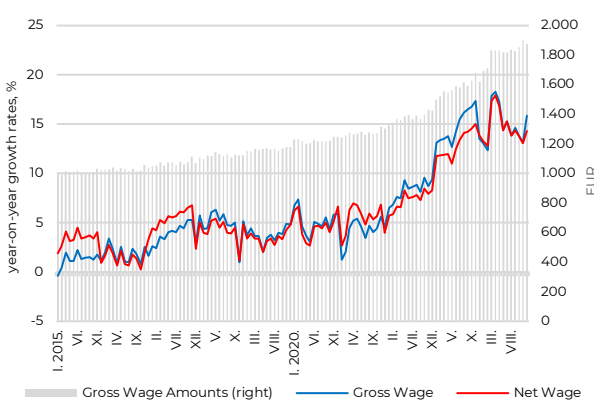
**Figure 4.**  
Trends in Selected Business Activity Indices in Croatia for the Period 2014–2024



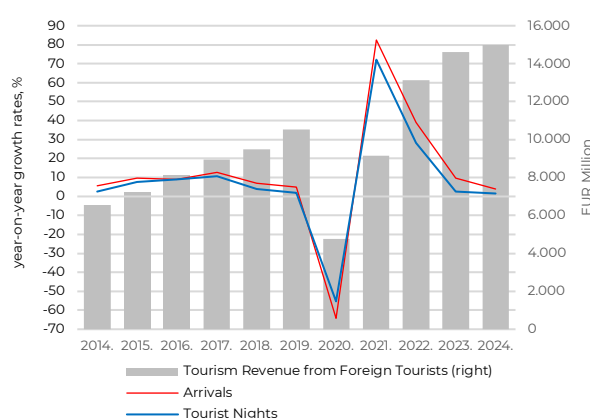
**Figure 5.**  
Trends in the Number of Employees in Selected Economic Activities in the Republic of Croatia for the Period 2014–2024



**Figure 6.**  
Annual Rates of Change in Gross and Net Wages and the Amount of Gross Wage for the Period 2015–2024



**Figure 7.**  
Tourism Indicators in Croatia for the Period 2014–2024



## 2.2 Fiscal developments and evaluation of public finances in 2024

In 2024, the Croatian Government decided to continue last year's expansionary and procyclical fiscal policy, strongly focusing on the social dimension. It is worth noting here that parliamentary, presidential and European Parliament elections were held the previous year. Expecting that a continuation of the relatively dynamic GDP growth and somewhat more prominent inflation will contribute to a moderate increase of the state budget revenue, the Government planned, already in the first budget estimate, a significant increase of budgetary expenditure as well as of the state budget deficit and its share in GDP.

In evaluating fiscal policy, indicators for the general government are examined according to the ESA 2010 methodology. These indicators demonstrate that the trend of their deterioration from 2023 continued in 2024 and that, although growth was more dynamic than expected, the general government deficit was higher than planned.

Initial projections provided by the Ministry of Finance (hereinafter: MF) regarding the state budget and general government budget for 2024 that were prepared under the presumption that growth would remain at the level from 2023, indicated a significant increase of the general government deficit to -1.9 % of GDP (ESA 2010) compared to the previous year when the deficit was -0.8 % of GDP. Nevertheless, as a consequence of nominal growth of GDP, further decrease of the level of public debt is foreseen at 58.0 % of GDP, meaning Croatia would be below the reference limit defined by the Stability and Growth Pact for the first time after fifteen years. In the conditions of positive macroeconomic trends during the year and due to the need to adjust revenue and expenditure with the real developments, the Government suggested the usual amendments to the state budget and the general government budget.

By the new budget plan from October 2024, the total state budget revenue increased more significantly than the expenditure, according to the national methodology, which reduced the expected state budget deficit. At the same time, an additional increase of the general government deficit according to the ESA methodology was foreseen at -2.6 %, as well as a somewhat higher public debt-to-GDP ratio of 58.9 %.

Table 1

*Derogations of MF projections from the realizations for the selected indicators in 2024*

	Plan	New plan	REALIZATION
<b>GDP, real growth (%)</b>	2.8	3.6	3.8
<b>General government balance (% of GDP)</b>	-1.9	-2.6	-2.4
<b>Primary balance (% of GDP)</b>	-0.5	-	-0.8
<b>Structural balance (% of GDP)</b>	-2.6	-	-3.0
<b>Public debt (% of GDP)</b>	58.0	58.9	57.6
<b>Inflation (measured by CPI)</b>	3.1	3.0	3.0

Source: Ministry of Finance

The final realization in the state budget showed 7.0 % better revenue achievement than the initial plan, while the total expenditure increased by a mere 0.3 % which allowed for a decrease of the state budget deficit of 46 % compared to the initial plan. According to the ESA methodology, in the general government, a deficit of -2.4 % of

GDP was achieved, much more than the initial plan and somewhat less than the second plan. The level of public debt of 57.6 % of GDP was also achieved, which is somewhat less than both budget plans.

Table 2

*Developments of budgetary categories of the state budget in 2024 (according to the national methodology, in mil. of EUR)*

	Initial plan	New plan	Realization	New plan / First plan, growth rate %	Realization / First plan, growth rate %	Realization / New plan, growth rate %
<b>TOTAL REVENUE</b>	28,518.6	30,332.4	30,501.6	6.4	7.0	0.6
Operating revenue	28,431.5	30,151.5	30,287.0	6.0	6.5	0.4
Revenue from sales of non-financial assets	87.1	180.9	214.6	107.7	146.5	18.7
<b>TOTAL EXPENDITURE</b>	32,611.0	33,586.6	32,720.2	3.0	0.3	-2.6
Operating expenditure	30,524.4	31,717.5	31,122.1	3.9	2.0	-1.9
Expenditure for the acquisition of non-financial assets	2,086.6	1,869.1	1,598.1	-10.4	-23.4	-14.5
<b>DIFFERENCE - SURPLUS / DEFICIT</b>	-4,092.4	-3,254.2	-2,218.5	-20.5	-45.8	-31.8

Source: Ministry of Finance

State budget revenue in 2024 increased compared to the previous year by EUR 3.14 billion, mostly under the influence of increasing revenue from VAT and dedicated revenue from the Croatian Health Insurance Institute. At the same time, total expenditure increased at the annual level by EUR 4.62, mostly under the influence of increased expenditure for employed persons, subsidies and compensations to citizens and households.

General government revenue, according to the ESA 2010 methodology, was EUR 39.1 billion or 45.7 % of GDP in 2024, which is an increase of EUR 3.2 billion or 8.9 % compared to the previous year, mostly due to increasing revenue from taxes and contributions. Total expenditure amounted to EUR 41.1 billion or 48.1 % of GDP, that is, EUR 4.6 billion or 12.6 % more than the previous year, mostly due to increasing outlays for employed persons and social benefits. Such congruence is understandable since the state budget makes up the largest part of the general government budget, and

the indicated main causes of the increase in expenditure confirm a pronounced social fiscal policy of the Government of the Republic of Croatia in 2024.

As regards social policy, in 2024, the Government of the Republic of Croatia continued applying the measures for the protection of population from the consequences of high inflation in 2022 and 2023. Within the framework of two packages of measures, price subsidies for the main energy sources continued (affecting the indicated increase in the amount of subsidies), as did the disbursements of supports to vulnerable energy buyers and unemployed Croatian homeland war veterans as well as one-off income support for pensioners and beneficiaries of allowances for the elderly. In 2024, due to salary increase, the second greatest annual adjustment of pension fees in the last fifteen years was carried out, child benefits and national allowances for the elderly underwent an increase of the means test. Moreover, in early 2024, the implementation of the Act on Inclusive Allowance (allowances for persons with disabilities) started.

Increase of the outlays for unemployed persons was at the same time a result of all the legal amendments and decisions in the second half of 2023 and 2024 whereby wages for civil servants were significantly increased. As regards the wages, early last year, the Government of the Republic of Croatia implemented another cycle of the tax reform abolishing the surtax, making it possible for local self-government units to determine the amount of the personal income tax rate, increasing the amount of personal deduction, increasing the threshold for applying the higher income tax rate, and decreasing the monthly basis for calculating the contribution for pension insurance for persons with lower gross salaries. The reform also encompassed many other measures with a minor effect on budget revenue and expenditure.

In addition, 2024 was marked by a significant decrease of the amount of revenue from aid, mostly concerning EU funds, for the first time since 2004. According to data available so far, the total amount of aid was reduced by almost a billion euros or 23.8 %. Such reduction was mostly influenced by the withdrawal from structural and investment EU funds and lack of inflow from the EU Solidarity Fund (funds could have been used by mid-2023). Therefore, the foreseen increase of the amounts from the Recovery and Resilience Facility could not replace these sources. Nevertheless, in 2024, last year's high level of general government investments was maintained which also represented a significant burden on the expenditure side of the budget.

The achieved indicators and their comparison with the previous years demonstrate relatively negative trends in Croatia's fiscal policy. With an almost stagnating general government revenue-to-GDP ratio according to ESA 2010 in the last two years, there has been quite an expressed increase in the expenditure-to-GDP ratio: from 45.0 % in 2022 to 48.1 % in 2024. This resulted in a negative trend of the general government balance development which turned from a 0.1 % GDP surplus in 2022 into a -2.4 % GDP deficit in the period of a relatively dynamic and strong economy growth.

A similar negative trend was recorded in primary and structural balance. The primary balance, the impact of the cost of borrowing (interest) on expenditure turned from a surplus of 1.5 % of GDP in 2022 into a deficit of 0.8 % of GDP in 2023, while a primary deficit of 0.8 % of GDP was recorded in 2024. Structural balance, which was adjusted by the impact of the economic cycle and the effect of one-off measures, has seen an increase of the amount of deficit from 1.1 % of GDP in 2022 to -2.0 %, and then also to -3.0 % in 2024 (according to the latest available estimates of the European Commission). Thus, the public debt-to-GDP ratio is the only indicator which showed a continuation of positive developments in 2024, that is, it decreased from 68.5 % of GDP in 2022 to 61.8 % in 2023, and then to 57.6 % in 2024 under the prevailing impact of a high nominal GDP growth.

Table 3

*Developments in public finance categories (ESA 2010) in Croatia, 2014 - 2024*

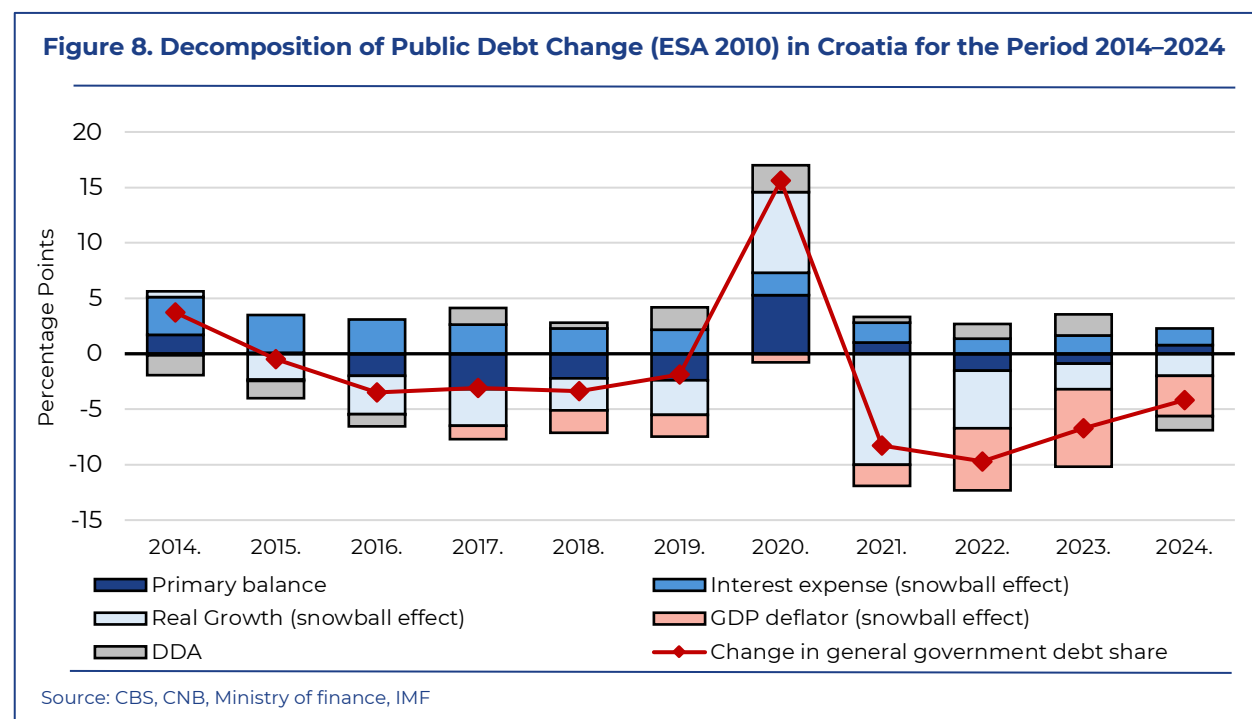
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>TOTAL REVENUE (% of GDP)</b>	<b>43.6</b>	<b>44.1</b>	<b>44.8</b>	<b>44.8</b>	<b>45.1</b>	<b>46.5</b>	<b>46.4</b>	<b>45.5</b>	<b>45.1</b>	<b>46.0</b>	<b>45.71</b>
Total revenue growth rate (annual change, %)	2.3	3.7	5.3	4.5	5.6	8.6	-7.8	12.8	14.7	17.8	8.9
<b>TOTAL EXPENDITURE (% of GDP)</b>	<b>48.7</b>	<b>47.5</b>	<b>45.9</b>	<b>44.3</b>	<b>45.1</b>	<b>46.3</b>	<b>53.7</b>	<b>48.1</b>	<b>45.0</b>	<b>46.8</b>	<b>48.1</b>
Total expenditure growth rate (annual change, %)	1.2	0.0	-0.2	0.9	7.0	7.9	7.1	3.1	8.3	20.1	12.6
<b>BUDGETARY BALANCE (% of GDP)</b>	<b>-5.1</b>	<b>-3.5</b>	<b>-1.0</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>-7.2</b>	<b>-2.6</b>	<b>0.1</b>	<b>-0.8</b>	<b>-2.4</b>
Change in budget balance, percentage points	0.4	1.7	2.4	1.6	-0.6	0.3	-7.5	4.7	2.7	-0.9	-1.6
<b>PRIMARY BALANCE (% of GDP)</b>	<b>-1.7</b>	<b>-0.1</b>	<b>2.0</b>	<b>3.2</b>	<b>2.2</b>	<b>2.4</b>	<b>-5.3</b>	<b>-1.0</b>	<b>1.5</b>	<b>0.8</b>	<b>-0.8</b>
<b>STRUCTURAL BALANCE (% of GDP)*</b>	<b>-3.0</b>	<b>-2.1</b>	<b>-0.7</b>	<b>0.4</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-3.5</b>	<b>-2.5</b>	<b>-1.1</b>	<b>-2.0</b>	<b>-3.0</b>
<b>PUBLIC DEBT (% of GDP)</b>	<b>83.2</b>	<b>82.8</b>	<b>79.3</b>	<b>76.2</b>	<b>72.8</b>	<b>70.9</b>	<b>86.5</b>	<b>78.2</b>	<b>68.5</b>	<b>61.8</b>	<b>57.6</b>

Source: EUROSTAT, \*EC,

\*\*Ministry of Finance

Public debt decomposition presents in more detail the effect of certain factors on the development of the public debt-to-GDP ratio, i.e. the snowball effect which arises from the relationship between the effective interest rate on public debt and nominal GDP growth. If the interest rate exceeds the nominal GDP growth, primary surplus should cover this difference to avoid an increase of the debt ratio. The decomposition for 2024 shows that, despite the negative effect of the increase of the amount of interest rate

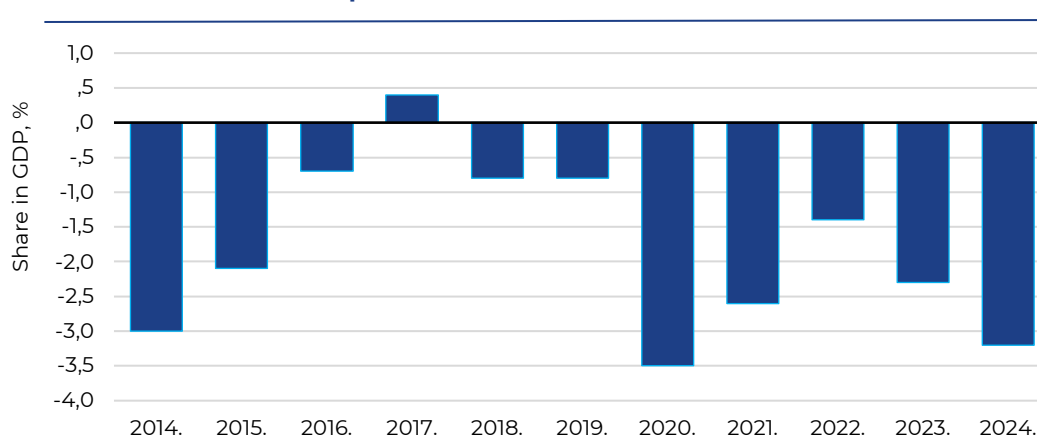
on debt and the recorded primary deficit, nominal GDP growth (real growth + deflator) was sufficient to result in a decrease of the public debt-to-GDP ratio. All these years also saw a greater or lesser impact of other items, especially the acquisition of the state's financial assets which includes the pre-financing intended for financing expenditure and repaying debt in the upcoming year.



Since the temporary suspension of fiscal rules (implemented during the COVID-19 pandemic and continued due to high global inflation and the war in Ukraine) was discontinued in 2024, it is significant for the Republic of Croatia that in 2024, despite all the negative trends, it complied with both main fiscal rules under the Stability and Growth Pact, i.e., general government deficit lower than 3 % of GDP and public debt lower than 60 % of GDP. This placed Croatia into the group of EU member states which, after the fiscal rules reform last year and the obligation of composing medium-term fiscal-structural rules, were given so-called technical information and milder frameworks for implementing fiscal policy in the medium term.

In the medium term, these frameworks foresee a fiscal consolidation defined by the upper limit of the structural primary balance which, for Croatia, at the end of the first medium term (2025-2028) amounts to -0.4 % of GDP, and which should have been achieved with an annual decrease of that share by 0.4 percentage points (in its first National Medium-Term Fiscal-Structural Plan, Croatia projected an even more ambitious adjustment to -0.2 % of GDP). The European Commission marks the structural deficits of more than 1.5 % of GDP in red, so presented data (Figure 9) additionally emphasize the “different” path of fiscal policy in the last two years.

**Figure 9. Share of General Government Structural Balance (ESA 2010) in GDP in Croatia for the 2014 - 2024 period**



Source: AMECO

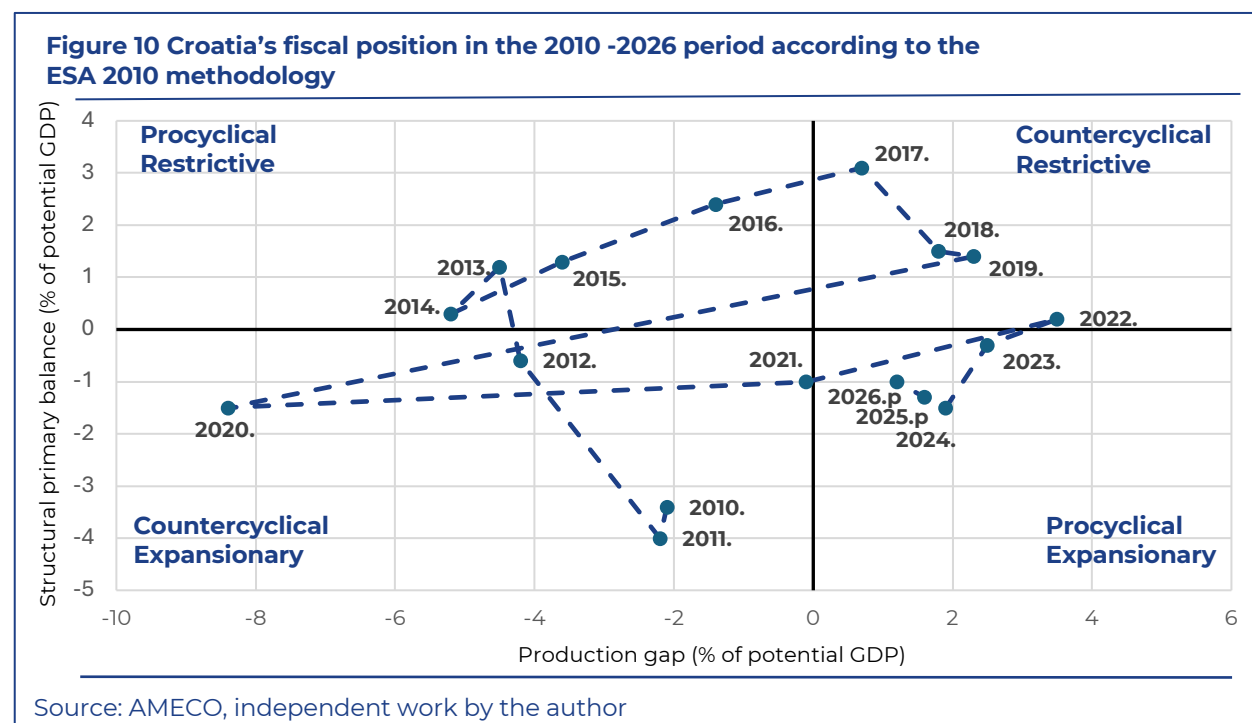
The ratio between the primary balance and the production gap (difference of real and potential real growth of GDP) additionally demonstrates the fiscal position, i.e. fiscal policy management path in Croatia (Figure 10). According to this indicator which is based on data from the European Commission, since 2023 as well as this and next year (according to projections), Croatia has been conducting a procyclical expansionary policy in the observed period from 2010 to 2026. In 2022 and 2023, such fiscal policy was heavily determined by a very high inflation which aggravates fiscal policy management. More specifically, in the initial stage, increased inflation has a positive effect on increased revenue with slower growth of expenditure (2022), while in the second stage expenditure grows more dynamically than revenue (2023 and 2024) which, combined with other factors, reflected on the development of all forms of general government balance.

According to the current projections, inflation should additionally slow down this year and the next one, but fiscal policy will remain expansionary, with a decreasing level of its expansionary nature as defined by the NMFSP. Therefore, the Government of the Republic of Croatia should insist on fiscally responsible behaviour and start preparing for operation in an economic framework where economic growth rates will be lower than 3 % per year.

The Republic of Croatia did not use the favourable period of economic growth to create fiscal reserves. Instead, it allowed budget expenditure to dynamically increase together with economic growth. Acting in this manner enhances economic cycles, creates the risk of significantly higher budgetary deficits and reduces fiscal space for manoeuvre in the future periods when economy might slow down or a crisis ensue. In the upcoming period, economic growth rates might be significantly lower compared to the 2022 -2024 period of faster and stronger growth (average real GDP growth was



4.8 %). It is therefore necessary to reapply a responsible and counter-cyclical fiscal policy in the upcoming period and strengthen fiscal discipline.



In addition, internal and external fiscal challenges call for attention and proactive governance. Internal fiscal risks are primarily a result of structural weaknesses and demographic trends, so it is crucial to make sure no permanent financial pressures are created that are unsustainable without structural reforms. Public expenditure resilience to decrease impairs the flexibility of fiscal policy because once wages in the public sector or social benefits rise, it is difficult to reduce them. This means a high level of expenditure will be secured and maintained even in unfavourable economic times, that is, in the periods of economic deceleration, with more expressed budgetary deficit and limited leeway for stabilization measures.

In addition to internal risks, public finance is exposed to a number of external ones: inflation which might accelerate again due to geopolitical tension, global economic growth which might decelerate, geopolitical instability, global interest rate developments and, finally, climate change which will be an increasingly heavy burden for public finance in the long term.

### 3 ACTIVITIES OF THE FISCAL POLICY COMMISSION

During 2024, pursuant to the FRA and the BA, the Commission directed its activities toward evaluating and confirming macroeconomic projections and examining and comparing macroeconomic and budgetary projections from medium-term budgetary documents with the last available projections of the European Commission and other international institutions. The Commission evaluated all the budgetary documents from the perspective of ensuring fiscal sustainability, that is, examining and assessing the risks of applying fiscal rules in medium-term budgetary documents and the annual report on budget execution.

To ensure medium- and long-term sustainability of Croatian public finances, in 2024 again, the Commission published its position papers in which it continuously and firmly highlighted the need:

- to further consolidate public finances
- for improved expenditure planning and control, that is, better prediction of certain budget items, such as, for example expenditure for employed persons, pension fees and healthcare, which are often initially planned at unrealistically low levels, in order to increase them in the subsequent amendments to the budget
- to implement and continue structural reforms (in public administration, healthcare, pension, educational and social welfare system) that would significantly minimize the generation of additional losses in certain sectors often necessitating the amending of the state budget
- to attract investments enabling stronger growth in the future, where most of the available funds, first and foremost those from EU sources, must be directed toward all those activities that would preserve and maintain economic activity, help the most vulnerable households and contribute to a long-term sustainability of public finances
- for temporary, targeted and efficient fiscal policy measures aimed at alleviating the consequences of inflationary pressures;
- to constantly and meticulously monitor economic and budgetary achievements as well as a timely reaction of economic and fiscal policy in case of any serious deviations in uncertain and changed circumstances for the purpose of ensuring continuity of fiscal policy, that is, long-term sustainability of Croatian public finances.

In addition, in 2024, the Commission started publishing new publications of Monthly Information and preparing different analyses.

The Commission regularly and often met with key domestic and international stakeholders. To discuss and exchange ideas on macroeconomic and fiscal

assessments and the applied methodology of predicting and assessing risks, regular communication was maintained and professional meetings also held with the representatives of the Ministry of Finance.

In addition, in composing its analyses and position papers, the Commission also used different reports and forecasts of other institutions (Croatian National Bank (hereinafter: CBS), Croatian Bureau of Statistics, Organization for Economic Cooperation and Development (hereinafter: OECD), the International Monetary Fund (hereinafter: IMF) and the World Bank). During 2024, the Commission continued its international activities within the framework of the EU Independent Fiscal Institutions Network and the EU Independent Fiscal Institutions and OECD.

The Commission’s position papers, as in the previous years, were also sent to the members of the Croatian Parliament’s Finance and Central Budget Committee before their discussion on budgetary documents. Moreover, pursuant to its task laid down in Article 21 of the FRA and Article of the Budget Act, the Commission provided the Croatian Government with the confirmation of the macroeconomic projections underlying the Draft Budgetary Plan for 2025.

**3.1 THE SCHEDULE OF SESSIONS AND MEETINGS OF THE FISCAL POLICY COMMISSION IN 2024**

In 2024, the Commission held six (6) expert meetings and seven (7) sessions where the Annual Report on the Work of the Fiscal Policy Commission for 2023 was passed, four (4) position papers brought and macroeconomic projections (1) confirmed. Position papers and confirmations are published in Croatian and English on the Commission’s website.

During the year, the Commission held expert meetings on the topic of institutional and functional organization and work of the Fiscal Policy Commission Office.

The agendas of the Commission’s sessions are listed below.

TABLE 4  
THE SCHEDULE OF THE FISCAL POLICY COMMISSION SESSIONS IN 2024

SESSION	DATE OF SESSION	RESULT OF SESSION
24th session	4 June 2024	Annual Report on the work of the Fiscal Policy Commission in 2023
25th session	17 June 2024	27th Position Paper of the Fiscal Policy Commission on the Draft Annual Report on the Execution of the State Budget of the Republic of Croatia for 2023

<b>26th session</b>	8 July 2024	Final session of the Commission members' term from 12 July 2019 until 12 July 2024
<b>New Commission term</b>		
<b>1st session</b>	2 October 2024	28th Position Paper of the Fiscal Policy Commission on the Draft Semi-Annual Report on the Execution of the State Budget of the Republic of Croatia for 2024
<b>2nd (online) session</b>	9 October 2023	29th Position Paper of the Fiscal Policy Commission on the Draft Amendments to the State Budget of the Republic of Croatia and the Financial Plans of Extra-Budgetary Users for 2024
<b>3rd session</b>	8 November 2024	Confirmation of macroeconomic projections of the Ministry of Finance/Croatian Government for 2025-2028
<b>4th (online) session</b>	15 November 2024	30th Position Paper of the Fiscal Policy Commission on the Draft State Budget of the Republic of Croatia and the Financial Plans of Extra-Budgetary Users for 2025 and the Projections for 2026 and 2027, and on the Draft Budgetary Plan for 2025 and the National Medium-Term Fiscal-Structural Plan of the Republic of Croatia for the 2025 - 2028 period.

## 4 THE TIMELINE OF COMMISSION'S ACTIVITIES WITH HIGHLIGHTS

This part presents a short overview of the Commission's position papers and conclusions from its sessions. The activities are listed chronologically and linked to the adopted position papers on budgetary documents discussed by the Commission in 2024.

### **27th Position Paper of the Fiscal Policy Commission on the Draft Annual Report on the Execution of the State Budget of the Republic of Croatia for 2023**

At its 25th regular session held on 17 June 2024, the Commission discussed the Draft Annual Report on the Execution of the State Budget of the Republic of Croatia for 2023 adopted by the Government of the Republic of Croatia (hereinafter: the Government) at its 1st session held on 20 May 2024 and published the conclusions in its 27th position paper. The summary of the position paper was as follows:

**The Commission assessed that the Government of the Republic of Croatia (hereinafter: the Croatian Government) used favourable macroeconomic trends in 2023 for fiscal expansion, and that state budget and consolidated general government expenditure (nominal and real) increased significantly. Nevertheless, the general government balance remained well below the 3 % of GDP level defined by the Stability and Growth Pact, whereas, due to the inflation and growth of GDP, the public debt-to-GDP ratio continued to decrease. In 2023, fiscal policy used favourable economic trends to increase public consumption. Since it is difficult to reduce public consumption, a continuation of such fiscal policy will very probably result in a significant budgetary deficit in the future, especially in the years of subdued growth or GDP decrease, indicating the need for additional adjustment. The Commission concluded that in 2023 the long-term sustainability of public finance did not deteriorate but indicated the need to restore the countercyclical character of fiscal policy and apply fiscal rules.**

### **28th Position Paper of the Fiscal Policy Commission on the Draft Semi-Annual Report on the Execution of the State Budget of the Republic of Croatia for 2024**

At its 1st regular session held on 2 October 2024, the Commission discussed the Draft Semi-Annual Report on the Execution of the State Budget of the Republic of Croatia for the first half of 2024 adopted by the Government of the Republic of Croatia (hereinafter: the Government) at its 26th session held on 20 September 2024. The summary of the position paper was as follows:

**The Commission assesses that the fiscal policy management path in the first six months of 2024 was a continuation of last year's and was compliant with the adopted budget plan for 2024 which, in the conditions of relatively high GDP growth, in the Commission's opinion, represents a continuation of a procyclical fiscal policy. The Draft Semi-Annual Report on the Execution of the State Budget for 2024 foresees an increase of (operating) revenue, as well as an increase of state budget expenditure (primarily increase of expenditure for employed persons and compensations to citizens and households). The Commission underlines that the current macroeconomic developments are positive and favourable, and that increased fiscal pressures demand extra caution in managing public finance because the developments in expenditure represent a challenge for fiscal sustainability. Moreover, the Commission underlines a pronounced deterioration of the general government structural balance, above the newly defined upper limit according to the new fiscal rules. The Commission therefore invites to use the positive macroeconomic moment to consolidate public finance and strengthen fiscal resilience and fiscal discipline.**

At its 24th session held on 4 June 2024, the Fiscal Policy Commission considered and adopted the **Annual Report on the Work of the Fiscal Policy Commission in 2023**. Based on Article 29 (1) of the Fiscal Responsibility Act (Official Gazette 111/18), the Commission reports to the Croatian Parliament on its work at least once a year, not later than by 1 July of the current year for the previous year. The Annual Report of the Fiscal Policy Commission describes the Commission's work and activities and provides comments on, and an overview of, macroeconomic and fiscal policy trends throughout the previous year, underlining the importance of the challenges and priorities for the short- and medium-term period of Croatia's fiscal policy.

### **29th Position Paper of the Fiscal Policy Commission on the Draft Amendments to the State Budget of the Republic of Croatia (hereinafter: Croatia) and the Financial Plans of Extra-Budgetary Users for 2024**

At its 2nd session held on 7 October 2024, the Fiscal Policy Commission examined the Draft Amendments to the State Budget of the Republic of Croatia (hereinafter: Croatia) and the Financial Plans of Extra-Budgetary Users for 2024 adopted at the 28th session of the Government of the Republic of Croatia (hereinafter: Croatian Government) held on 3 October 2024. The summary of the position paper was as follows:

**The Commission assesses that the suggested amendments to the state budget are necessary in order to correct certain revenue and expenditure categories, and that they also represent somewhat of a regularization of the current condition. On the one hand, the Commission underlines that macroeconomic achievements in 2024 are better than the macroeconomic projections from**

November 2023 underlying the State Budget for 2024. On the other hand, the fiscal situation deteriorated.

In 2024 (the last ten months), fiscal policy was procyclical. It was largely marked by increasing revenue (due to real and nominal GDP growth and partially the effect of inflation), as well as pronounced expenditure growth (primarily expenditure for employed persons and compensations to citizens and households). Although it is expected that in 2024 a general government balance and public debt will be achieved within the limits of the Stability and Growth Pact (general government deficit should amount to 2.6 % of GDP and public debt to 58.9 %), the Commission underlines that, in 2024, fiscal space necessary for adjustment to possible negative economic shocks in the future period is reduced. The excessive growth of expenditure is influenced by a strong increase of the primary structural deficit in the amount of 1.9 % of GDP (such strong fiscal impulse should be avoided in conditions of a relatively strong economic growth and increased inflationary pressure) and a strong increase of the structural deficit from -1.8 % in 2023 to -3.6 % of GDP in 2024.

In the context of such expenditure increase, the Commission warns and underlines that, from the point of view of long-term sustainability of public finance, as early as next year, a comprehensive and prudent fiscal adjustment (in the amount of at least 0.25 % of the structural primary balance annually in GDP when adopting the longer seven-year fiscal adjustment plan, pursuant to the reformed directives of the Stability and Growth Pact) must commence, along with further (non-)tax relief and stronger expenditure control. The Commission also indicates a significant growth of the government-to-GDP ratio which is returning to the levels recorded during previous recessions due to which public finances could be exposed to increased risks in case economic activity slows down significantly. On the other hand, the Commission recognizes the efforts invested by the Croatian Government in decreasing the public debt-to-GDP ratio as an indicator of fiscal sustainability.

Accordingly, and taking into consideration the current macroeconomic and fiscal situation, the Commission accepts the proposed budgetary plans but warns about the importance of prudent fiscal (budgetary) planning and invites the Croatian Government to return to a counter-cyclical fiscal policy next year. Just like many times before, the Commission invites the Croatian Government to undertake the necessary structural reforms.

### **30th Position Paper of the Fiscal Policy Commission on the Draft Budgetary Plan of the Republic of Croatia for 2025, National Medium-Term Fiscal-Structural Plan of the Republic of Croatia for 2025 for the 2025-2028 period and the Draft State Budget of the Republic of Croatia and the Financial Plans of Extra-Budgetary Users for 2025 and the Projections for 2026 and 2027**

At its 4th session held on 15 November 2024, the Commission examined three official budgetary documents of the Croatian Government: Draft Budgetary Plan for 2025, National Medium-Term Fiscal-Structural Plan for the 2025-2028 period and the Draft State Budget of the Republic of Croatia and the Financial Plans of Extra-Budgetary



Users for 2025 and the Projections for 2026 and 2027 adopted at the 39th session of the Croatian Government held on 14 November 2024. The summary of the position paper was as follows:

**In 2025, favourable economic growth development dynamics are expected to continue, albeit in a decelerating fashion, in the context of a positive production gap. Although Croatian economy is marked by positive indicators, the Commission highlights the challenges related to projected values. These need to be viewed in the context of external and internal risks. This primarily relates to risks with a (projected) real GDP growth, taking into consideration economic and geopolitical trends and circumstances, changes in global foreign trade relationships, possible introduction of protectionist measures as well as the possibility of further damped growth of Croatia's certain important foreign trade partners.**

**If Croatian economy fails to find new growth drivers, the expected growth rates could tend to decelerate further in the long term, affecting the fiscal indicators and long-term sustainability of public finance. For the purpose of ensuring sustainability and increasing the resilience of Croatian economy, the focus should be shifted from consumption to private investments and (industrial) production. Public investments supported by EU funds were an important and strong driver of economic growth in the last years; however, as their dynamic subsidies, Croatian economy might undergo a decrease of investment activity. A logical alternative is precisely the enhancement of the private sector and private investments.**

**Croatia is additionally facing serious risks in terms of demographic challenges (population ageing and emigration of young, working-age population) which create pressure on the sustainability of the pension system and decrease workforce productivity. Lack of qualified workforce is already visible in most sectors, which additionally affects economic growth. Population ageing and workforce emigration may significantly limit productivity and increase pressure on the healthcare and social system.**

**Considering the current global circumstances and internal and external risks, the Commission assesses the continuation of the practice of conservative budget (revenue) planning as appropriate to the current situation. According to the proposal of the State Budget for 2025 which is based on the Draft Budgetary Plan for 2025, expectation and forecasts for 2025 indicate favourable yet restrained macroeconomic developments. In addition, a gradual decrease of the general government deficit compared to 2024 is expected in the observed period of 2025-2027. Intervention measures which amounted to more than eight billion euros in the 2020-2024 period should not have a negative effect on the balance since they are being gradually discontinued.**

**The Commission holds that, in case the foreseen favourable macroeconomic developments are realized, medium-term fiscal sustainability will mildly improve and the relative public debt ratio is expected to decrease. Strong recovery of economic activity in the 2021-2024 period affected a significant decrease of the public debt-to-GDP ratio which in turn contributed to fiscal sustainability, decreasing fiscal risks. Nevertheless, nominal public debt is on the rise and represents a source of vulnerability for the Croatian economy.**



In accordance with the foreseen fiscal adjustment, the structural primary deficit of the general government should significantly improve in the observed period, that is, it should decrease from the level of 1.5 % of GDP in 2024 to 0.2 % of GDP in 2028. The Commission assesses that fiscal policy will remain expansionary in the upcoming period, albeit at a decreasing degree. In this context, the Commission holds and underlines that, after a significant deterioration of the structural balance in 2024, it is not expected to return to the 2023 level before 2026.

Just like many times before, the Commission underlines that long-term sustainability of public finance and a healthy balance between the private and public sector requires focusing on increasing productivity and efficacy in both sectors. In conclusion, the Commission invites the Government to insist on structural reforms and investments that would contribute as much as possible to increasing the economic growth rate. Economic growth is a collateral of fiscal stability.

### **Confirmation of macroeconomic projections**

At its 3rd session held on 8 November 2024, the Fiscal Policy Commission examined **macroeconomic projections of the Ministry of Finance / Croatian Government for the 2025-2028 period** and assessed the credibility of the presented macroeconomic scenario based on how realistic it was compared to the projections of other competent institutions. The Commission confirmed that the macroeconomic projections of the Ministry of Finance were within the acceptable range and that they represent a good basis for drafting the National Medium-Term Fiscal-Structural Plan for 2025 and the National Budget of the Republic of Croatia for 2025.

## 5 COMMISSION'S PUBLICITY

The Commission's publicity is mainly achieved in the manner laid down in Article 23 (4) of the FRA which stipulates that the Commission shall inform the public on the positions taken during the performance of its tasks referred to in Article 22 of the FRA by posting on the Commission's website.

The Commission uses its own website (<https://pfp.hr>) to publish its position papers and other analyses as well as the results of its activities and other documents defined by legal regulations.

To enhance its visibility and inform the public on its work, the Commission informed the public of its position papers through publications issued by the Croatian News Agency (HINA) which were also often published by other media.

Moreover, to expand its public reach, the Commission opened its official account on the LinkedIn platform, the business social network where it introduces itself to various stakeholders and associates from the fiscal area. To increase the Commission's visibility during 2024, the members of the Commission also participated in various paper presentations, conferences, round tables and other public events.

## 6 DOMESTIC AND INTERNATIONAL COOPERATION

In 2024, the Commission again regularly held meetings with key domestic and international stakeholders and, just as in the previous years, regular consultations were held with the representatives of the MF and other Croatian institutions (Croatian National Bank and the National Bureau of Statistics).

The Commission held expert meetings related to the topic of institutional and functional organization and work of the Fiscal Policy Commission and the current issues of evaluating the cyclical nature of the economy and developments in public finance as well as the challenges of fiscal policy.

The meetings were held to discuss and exchange opinions on macroeconomic and fiscal forecasts, clarify the presumptions and methodologies used and consider the related risks. Meetings were also held to discuss national implications of the new EU framework for economic governance, adopted in April 2024.

In addition, the Commission started the process of concluding the Cooperation Agreement with the Croatian Bureau of Statistics and the Croatian National Bank.

During the year, the Commission also held meetings with the officials of the Directorate-General for Economic and Financial Affairs (DG ECFIN) within the European Commission in June and October.

Moreover, the Commission held a meeting with the representatives of the IMF as part of the mission/consultations based on Article IV of the Articles of Agreement of the IMF as well as the representatives of the Organisation for Economic Co-operation and Development (OECD).

During these technical meetings, the Commission exchanged opinions related to the macroeconomic and fiscal situation and development and discussed possible risks that might endanger the official short- and medium-term economic forecast of the Ministry of Finance / Croatian Government, particularly considering the high level of uncertainty during the period (geopolitical tensions between Russia and Ukraine and Israel and Palestine).

The Commission also participated in numerous events (meetings, seminars and conferences) convened by the EU Network of Independent Fiscal Institutions (EUNIFI), the EU Independent Fiscal Institutions (IFI) and the Directorate-General for Economic and Financial Affairs of the European Commission (DG ECFIN Unit 4), by joining discussions on prevailing economic issues and an overview of economic and fiscal governance.

Table 5

*Participation at meetings, seminars and conferences in 2024*

EVENT	ORGANISED BY
Various meetings of the EUNIFI network	EUNIFI
Strengthening the Capacity of Independent Fiscal Institutions	EUNIFI
The future of public spending	OECD
What public investment for the future?	DG ECFIN
Joint meeting between IMF and FPC	IMF
Meeting of the Economic and Financial Committee Alternates	Economic and Financial Committee
The role of independent advice on fiscal policy	European Fiscal Board
Annual Meeting of the European Network of Independent Fiscal Institutions (EU IFIs)	EUNIFI Stability Council Germany
16th Annual Meeting of OECD Parliamentary Budget Officials and Independent Fiscal Institutions)	OECD
DSA analysis and EGR implementation	EUIFI
The DSA methodology in the new economic governance framework	DG ECFIN
Meeting of the Experts Group “Economic forecasts”	DG ECFIN
ECFIN Conference on National Fiscal Frameworks (Planning of Public Investment Projects and Climate Risk Assessment and Risk Financing)	EUNIFI
21st meeting of the EU Network of EUNIFI	EUNIFI DG ECFIN

## **7 ANNUAL REPORT ON THE EXECUTION OF THE FINANCIAL PLAN OF THE FISCAL POLICY COMMISSION FOR 2024**

### **TABLE OF CONTENTS**

#### **1 INTRODUCTION**

#### **2 ANNUAL REPORT ON THE EXECUTION OF THE FINANCIAL PLAN**

- 2.1 General part of the annual report on the execution of the financial plan
- 2.2 Reasoning of the general part of the execution of the financial plan
- 2.3 Special part of the annual report on the execution of the financial plan
- 2.4 Reasoning of the special part of the report the execution of the financial plan
- 2.5 Special reports in the annual report on the execution of the financial plan

#### **3 LIST OF TABLES**

### **1 INTRODUCTION**

The Fiscal Policy Commission, as a budgetary user of the state budget composed the Annual report on the execution of the financial plan for 2024 pursuant to the Budget Act (Official Gazette 144/21) and the Rules on the semi-annual and annual report on the execution of the budget and the financial plan (Official Gazette 85/23), and is hereby submitting it to the Government of the Republic of Croatia, i.e. the Croatian Parliament.

### **2 ANNUAL REPORT ON THE EXECUTION OF THE FINANCIAL PLAN**

According to the Rules on the semi-annual and annual report on the execution of the budget and the financial plan (Article 4), the annual report on the execution of the financial plan consists of:

- the general part of the annual report on the execution of the financial plan,
- the special part on the execution of the financial plan,
- the reasoning of the general part of the execution of the financial plan,
- the reasoning of the special part of the execution of the financial plan.

#### ***2.1 General part of the annual report on the execution of the financial plan***

The general part of the annual report on the execution of the financial plan consists of:

- the summary of the Revenue and Expenditure Account and the Financing Account,
- Revenue and Expenditure Account,
- Financing Account.

A summary of the Revenue and Expenditure Account contains the total achieved revenues and receipts as well as executed expenditures and outlays, and the difference between the total achieved revenues and expenditures and receipts and outlays. It also contains the transfer of last year's carry-forwards and the carry-forwards to next year. The Revenue and Expenditure Account consists of revenue and expenditure expressed according to the economic classification and according to the sources of financing as well as expenditure expressed according to the functional classification. In the Financing Account, receipts and outlays are presented according to the economic classification and the sources of financing.

The tables below present data related to the general part, the summary of the Revenue and Expenditure Account and the Financing Account, The following is presented for the Revenue and Expenditure Account: The Revenue and Expenditure Statement according to the economic classification, Report on Revenue and Expenditure according to sources of financing and the Expenditure Report according to the functional classification. The following is presented for the Financing Account: The Financing Account Report according to the economic classification and the Financing Account Report according to the sources of financing.

Table 1

## I GENERAL PART

### 1.1 SUMMARY OF THE REVENUE AND EXPENDITURE ACCOUNT AND THE FINANCING ACCOUNT

#### SUMMARY OF THE REVENUE AND EXPENDITURE ACCOUNT

CLASSIFICATION AND NAME	EXECUTION 2023	INITIAL PLAN OR AMENDMENTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5=4/2*100	6=4/3*100
6 OPERATING REVENUE	111,791.66	695,011	351,656.95	314.56	50.60
7 REVENUE FROM SALES OF NON-FINANCIAL ASSETS	0.00	0	0.00		
<b>TOTAL REVENUE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
3 OPERATING EXPENDITURE	109,034.09	568,107	305,978.96	280.63	53.86
4 EXPENDITURE FOR THE ACQUISITION OF NON- FINANCIAL ASSETS	2,757.57	126,904	45,677.99	1,656.46	35.99
<b>TOTAL EXPENDITURE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>DIFFERENCE - SURPLUS / DEFICIT</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>		

## SUMMARY OF THE FINANCING ACCOUNT

CLASSIFICATION AND NAME	EXECUTION 2023	AMENDMENTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5=4/2*100	6=4/3*100
<b>8 RECEIPTS FROM FINANCIAL ASSETS AND BORROWING</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>		
<b>5 OUTLAYS FOR FINANCIAL ASSETS AND LOAN REPAYMENTS</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>		
<b>CARRY-FORWARDS FROM THE PREVIOUS YEAR</b>					
<b>CARRY-FORWARDS TO THE FOLLOWING PERIOD</b>					
<b>NET FINANCING</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		
<b>SURPLUS/DEFICIT + NET FINANCING</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		

In accordance with Article 31 (3) of the Rules on the Semi-Annual and Annual Report on the Execution of the Budgetary and Financial Plan, the general part of the semi-annual and annual report on the execution of the financial plan contains amendments, if any since the adoption of the financial plan, that is, the amendments and current plan if any redistributions were carried out subsequently after the amendments of the financial plan. If no redistributions were carried out after the amendments, the column "Current Plan" is not necessary.

Table 2

## 1.2 REVENUE AND EXPENDITURE ACCOUNT

### 1.2.1 REPORT ON REVENUE AND EXPENDITURE ACCORDING TO THE ECONOMIC CLASSIFICATION

CLASSIFICATION AND NAME	EXECUTION 2023	AMENDME NTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5	6
<b>6 OPERATING REVENUE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>67 Revenue from the budget</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
671 Revenue from the budget	111,791.66		351,656.95	314.56	
6,711 Revenue from the relevant budget for financing expenditure	109,034.09		305,978.96	280.63	
6,712 Revenue from the relevant budget for financing expenditure	2,757.57		45,677.99	1,656.46	

CLASSIFICATION AND NAME	EXECUTION 2023	AMENDMENTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5	6
<b>TOTAL EXPENDITURE</b>	<b>111,791.66</b>	<b>695,011.00</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>3 Operating expenditure</b>	<b>109,034.09</b>	<b>568,107</b>	<b>305,978.96</b>	<b>280.63</b>	<b>53.86</b>
<b>31 Expenditure for employed persons</b>	<b>55,763.35</b>	<b>247,585</b>	<b>198,017.31</b>	<b>355.10</b>	<b>79.98</b>
311 Salaries (gross)	47,178.84		166,842.50	353.64	
3111 Salaries for regular work	47,178.84		166,561.19	353.04	
3113 Salaries for overtime work			281.31		
312 Other personnel expenditure	800.00		3,645.79	455.72	
3121 Other personnel expenditure	800.00		3,645.79	455.72	
313 Contributions on salaries	7,784.51		27,529.02	353.64	
3132 Contributions for mandatory health insurance	7,784.51		27,529.02	353.64	
<b>32 Material expenditure</b>	<b>53,202.90</b>	<b>319,617</b>	<b>107,950.37</b>	<b>202.90</b>	<b>33.77</b>
321 Compensation of costs to employees	5,575.99		18,249.73	327.29	
3211 Business trips	5,516.50		13,376.02	242.47	

3212	Transport, field work and living-away-from-home allowances	59.49		4,723.71	7,940.34	
3213	Professional training of employees			150.00		
322	Expenditure for material and energy	1,671.35		6,685.46	400.00	
3221	Office material and other material expenditure	846.42		2,498.56	295.19	
3223	Energy	129.90		1,644.72	1,266.14	
3224	Materials and components for operating and investment maintenance			221.95		
3225	Small inventory and car tyres	695.03		2,320.23	333.83	
323	Expenditure for services	18,637.48		54,842.14	294.26	
3231	Phone, internet, mail and transport services	223.34		1,492.24	668.15	
3232	Operating and investment maintenance services	2,628.73		1,734.41	65.98	
3233	Promotion and information services	1,805.02		4,296.24	238.02	
3234	Utility services	1,208.94		1,745.16	144.35	
3235	Rent and lease fees	6,449.10		28,046.07	434.88	
3236	Health and veterinary services	102.00		159.00	155.88	
3237	Intellectual and personal services	4,989.90		4,197.70	84.12	
3238	Computer services	1,230.45		10,821.32	879.46	
3239	Other services			2,350.00		
324	Compensation of costs to non-employees	6,952.21		1,838.76	26.45	
3241	Compensation of costs to non-employees	6,952.21		1,838.76	26.45	
329	Other operating expenditure, not mentioned elsewhere	20,365.87		26,334.28	129.31	
3291	Allowances for the work of representative and executive bodies, commissions, etc.	19,861.78		23,826.90	119.96	
3293	Representation	227.55		2,028.88	891.62	
3294	Memberships fees and standards	276.54		313.54	113.38	
3295	Duties and fees			164.96		
<b>34</b>	<b>Financial expenditure</b>	<b>67.84</b>	<b>268</b>	<b>11.28</b>	<b>16.63</b>	<b>4.21</b>
343	Other financial expenditure	67.84		11.28	16.63	
3431	Banking and money transfer services	66.36			0.00	
3433	Default interest	1.48		11.28	762.16	
<b>37</b>	<b>Compensations to citizens and households based on insurance and other compensations</b>		<b>637</b>			<b>0.00</b>
<b>4</b>	<b>Expenditure for the acquisition of non-financial assets</b>	<b>2,757.57</b>	<b>126,904</b>	<b>45,677.99</b>	<b>1,656.46</b>	<b>35.99</b>
<b>41</b>	<b>Expenditure for the acquisition of non-produced fixed assets</b>		<b>17,918</b>			
<b>42</b>	<b>Expenditure for the acquisition of produced fixed assets</b>	<b>2,757.57</b>	<b>108,986</b>	<b>45,677.99</b>	<b>1,656.46</b>	<b>41.91</b>
422	Plants and equipment	2,757.57		22,607.99	819.85	
4221	Office equipment and furniture	2,757.57		20,488.29	742.98	
4222	Communication equipment			2,119.70		
426	Intangible assets produced			23,070.00		
4262	Investments in computer programs			23,070.00		



Table 3

**1.2.2 REPORT ON REVENUE AND EXPENDITURE ACCORDING TO SOURCES OF FINANCING**

NUMERICAL DESIGNATION AND NAME	EXECUTION 2023	AMENDMENTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5	6
<b>REVENUE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>1 General revenue and receipts</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
11 General revenue and receipts	111,791.66	695,011	351,656.95	314.56	50.60
<b>EXPENDITURE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>1 General revenue and receipts</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
11 General revenue and receipts	111,791.66	695,011	351,656.95	314.56	50.60

Table 4

**1.2.3 REPORT ON EXPENDITURE ACCORDING TO THE FUNCTIONAL CLASSIFICATION**

NUMERICAL DESIGNATION AND NAME	EXECUTION 2023	AMENDMENTS 2024	EXECUTION 2024	INDEX (4)/(2)	INDEX (4)/(3)
1	2	3	4	5	6
<b>TOTAL EXPENDITURE</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>Functional classification</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
<b>01 General public services</b>	<b>111,791.66</b>	<b>695,011</b>	<b>351,656.95</b>	<b>314.56</b>	<b>50.60</b>
011 Executive and legislative branch, financial and fiscal affairs	111,791.66	695,011	351,656.95	314.56	50.60

Table 5

**1.3 FINANCING ACCOUNT****1.3.1 FINANCING ACCOUNT REPORT ACCORDING TO THE ECONOMIC CLASSIFICATION**

CLASSIFICATION AND NAME	EXECUTION 01.2023 - 12.2023	AMENDMENTS 2024	CURRENT PLAN FOR 2024	EXECUTION 01.2024 - 12.2024	INDEX	INDEX**
1	2	3	4	5	6=5/2*100	7=5/4*100
<b>8 Receipts from financial assets and borrowing</b>	0	0	0	0		
<b>5 Outlays for financial assets and loan repayments</b>	0	0	0	0		

Table 6

### 1.3.2 FINANCING ACCOUNT REPORT ACCORDING TO SOURCES OF FINANCING

CLASSIFICATION AND NAME	EXECUTION 001.2023 - 12.2023	2 AMENDMENTS 2024	CURRENT PLAN FOR 2024	EXECUTION 001.2024 - 12.2024	INDEX	INDEX**
1	2	3	4	5	6=5/2*100	7=5/4*100
<b>TOTAL RECEIPTS</b>	0	0	0	0		
<b>1 General revenue and receipts</b>	0	0	0	0		
11 General revenue and receipts	0	0	0	0		
12 Aid participation funds	0	0	0	0		
....	0	0	0	0		
<b>2 Contributions</b>	0	0	0	0		
21 Contributions for pension insurance	0	0	0	0		
<b>3 Own revenues</b>	0	0	0	0		
31 Own revenues	0	0	0	0		
...	0	0	0	0		
<b>TOTAL OUTLAYS</b>	0	0	0	0		
<b>1 General revenue and receipts</b>	0	0	0	0		
11 General revenue and receipts	0	0	0	0		
12 Aid participation funds	0	0	0	0		
....	0	0	0	0		
<b>2 Contributions</b>	0	0	0	0		
21 Contributions for pension insurance	0	0	0	0		
<b>3 Own revenues</b>	0	0	0	0		
31 Own revenues	0	0	0	0		
...	0	0	0	0		

## 2.2 Reasoning of the special part of the report on the execution of the financial plan for 2024

*Reasoning of the achievement of revenue and expenditure, receipts and outlays in the reporting period*

### **REVENUE AND RECEIPTS**

The Fiscal Policy Commission achieved revenue for 2024 in the total amount of EUR 351.656,96 within the group of revenue 67 Revenue from the budget and sources of financing 11 General revenue and receipts.

### **EXPENDITURE AND OUTLAYS**

Total expenditure for 2024 was executed in the amount of EUR 351.656,95 which is 50.60 % compared to the current (final) plan for 2023 and 214.56 % more than the execution in 2023.

### **Operating expenditure**

Operating expenditure for 2024 was executed in the amount of EUR 305,978.96 which is 53.86 % compared to the current (final) plan for operating expenditure for 2024 and 180.63 % more than the execution in 2023.

#### ***Expenditure for employed persons***

Expenditure for employed persons for 2024 was executed in the amount of EUR 198,017.34 which is 79.98 % compared to the current (final) plan for 2024 and 255.10 % more than the execution in 2023. After the chairwoman of the Commission was appointed in 2021, the long-expected staffing of the Commission Office started.

#### ***Material expenditure***

Material expenditure for 2024 was executed in the amount of EUR 107,950.37 which is 33.77 % compared to the current (final) plan for 2024 and 102.90 % more than the execution in 2023. Material expenditure was executed to settle fixed operating costs and activities aimed at functional setting-up of the Commission Office.

#### ***Financial expenditure***

Financial expenditure for 2024 was executed in the amount of EUR 11.28 which is 4.21 % compared to the current (final) plan for 2024 and EUR 56.56 less than the execution in 2023.

### **Expenditure for the acquisition of non-financial assets**

Expenditure for the acquisition of non-financial assets for 2024 was executed in the amount of EUR 45,677.99 for office equipment and furniture, communication equipment and investment in computer programs, which is 38.99 % compared to the current (final) plan for 2024 and 1,556.46 % more than the execution in 2023. The increase in acquisition was a result of the continuation of the process of establishment of a functional Commission Office to be able to perform its regular business obligations.

## ***2.3 Special part of the annual report on the execution of the financial plan***

The special part of the annual report on the execution of the financial plan contains the execution of the expenditure and outlays according to sources of financing and economic classification, distributed across programs which consist of activities and projects.

The Special Part table, the report according to program classification, presents data on the planned expenditure according to the initial plan for 2024, planned expenditure according to the current plan for 2024 and executed expenditure for 2024.

Table 7

## II SPECIAL PART

## 2.1 REPORT ACCORDING TO PROGRAM CLASSIFICATION

CLASSIFICATION AND NAME		AMENDMENTS 2024	EXECUTION 2024	INDEX (3)/(2)
1		2	3	4
01105	FISCAL POLICY COMMISSION	695,011	351,656.95	50.60
11	General revenue and receipts	695,011	351,656.95	50.60
22	FINANCIAL AND FISCAL SYSTEM	695,011	351,656.95	50.60
2211	INDEPENDENT MONITORING OF THE IMPLEMENTATION OF FISCAL POLICY	695,011	351,656.95	50.60
A926001	ADMINISTRATION AND MANAGEMENT	583,650	311,004.46	53.29
11	General revenue and receipts	583,650	311,004.46	53.29
31	Expenditure for employed persons	247,585	198,017.31	79.98
3111	Salaries for regular work		166,561.19	
3113	Salaries for overtime work		281.31	
3121	Other personnel expenditure		3,645.79	
3132	Contributions for mandatory health insurance		27,529.02	
32	Material expenditure	303,026	106,553.27	35.16
3211	Business trips		13,376.02	
3212	Transport, field work and living-away-from-home allowances		4,723.71	
3213	Professional training of employees		150.00	
3221	Office material and other material expenditure		2,498.56	
3223	Energy		1,644.72	
3224	Materials and components for operating and investment maintenance		221.95	
3225	Small inventory and car tyres		2,320.23	
3231	Phone, internet, mail and transport service		1,492.24	
3232	Operating and investment maintenance services		1,734.41	
3233	Promotion and information services		4,296.24	
3234	Utility services		1,745.16	
3235	Rent and lease fees		26,648.97	
3236	Health and veterinary services		159.00	
3237	Intellectual and personal services		4,197.70	
3238	Computer services		10,821.32	
3239	Other services		2,350.00	
3241	Compensation of costs to non-employees		1,838.76	
3291	Allowances for the work of representative and executive bodies, commissions, etc.		23,826.90	
3293	Representation		2,028.88	
3294	Memberships fees and standards		313.54	
3295	Duties and fees		164.96	
34	Financial expenditure	268	11.28	4.21
3433	Default interest		11.28	
37	Compensations to citizens and households based on insurance and other compensations	637		0.00
42	Expenditure for the acquisition of produced fixed assets	32,134	6,422.60	19.99
4221	Office equipment and furniture		4,302.90	
4222	Communication equipment		2,119.70	
K926002	INFORMATIZATION	111,361	40,652.49	36.51
11	General revenue and receipts	111,361	40,652.49	36.51
32	Material expenditure	16,591	1,397.10	8.42
3235	Rent and lease fees		1,397.10	
41	Expenditure for the acquisition of non-produced fixed assets	17,918		0.00

<b>42</b>	<b>Expenditure for the acquisition of produced fixed assets</b>	<b>76,852</b>	<b>39,255.39</b>	<b>51.08</b>
4221	Office equipment and furniture		16,185.39	
4262	Investments in computer programs		23,070.00	

## 2.4 Reasoning of the special part of the report on the execution of the financial plan for 2024

The main task of the Fiscal Policy Commission, as an independent, autonomous, expert and highly professional body, is to ensure medium-term and long-term sustainability of public finance. The Fiscal Policy Commission, whose main tasks and activity are defined under the Fiscal Responsibility Act (Official Gazette 111/18; 83/23), is also, as an independent and autonomous body, competent for evaluating fiscal policy according to the Budget Act (Official Gazette 144/21). The Fiscal Policy Commission strives to openly and transparently monitor and promote fiscal sustainability - in the public interest, impartially, ethically and efficiently. It also advocates responsibility, warns about excessive public spending, impartially monitors the implementation of budgetary plans and monitors the compliance with fiscal rules.

The Commission's general objective is to ensure and carry out tasks pursuant to the provisions of the Fiscal Responsibility Act which concerns the improvement of the public finance system, while the Commission's special objectives are aimed at strengthening the institutional and legal framework, developing administrative, analytical and infrastructural capacities as well as strengthening international cooperation. General and special objectives are achieved as part of the Commission's activities.

Activities are defined by the financial plan and include the following: A926001 - Administration and management, and implementation of a capital project: K926002 - Informatization.

### 01105 FISCAL POLICY COMMISSION

	<b>Execution in 2023 (EUR)</b>	<b>Plan for 2024 (EUR)</b>	<b>Execution in 2024 (EUR)</b>	<b>Execution index 2024/2023</b>	<b>Execution index 2024 / Plan for 2024</b>
01105-Fiscal Policy Commission	111,791.66	695,011	351,656.95	314.56	50.60
2211-INDEPENDENT MONITORING OF THE IMPLEMENTATION OF FISCAL POLICY	111,791.66	695,011	351,656.95	314.56	50.60

## 2211 INDEPENDENT MONITORING OF THE IMPLEMENTATION OF FISCAL POLICY

	Execution in 2023 (EUR)	Plan for 2024 (EUR)	Execution in 2024 (EUR)	Execution index 2024 / 2023	Execution index 2024 / Plan for 2024
2211-INDEPENDENT MONITORING OF THE IMPLEMENTATION OF FISCAL POLICY	111,791.66	695,011	351,656.95	314.56	50.60

## A926001 ADMINISTRATION AND MANAGEMENT

Name of activity	Execution in 2023 (EUR)	Plan for 2024 (EUR)	Execution in 2024 (EUR)	Execution index 2024/Plan for 2024	Execution index 2024/2023
A926001-ADMINISTRATION AND MANAGEMENT	109,034.09	583,650	311,004.46	285.24	53.29

During 2024, the Commission continued with targeted activities aiming at functionally setting up the Commission Office (acquiring and furnishing business premises, and recruitment). As part of the activity A926001 Administration and management, the amount of funds spent was EUR 311,004.46 or 53.29 % compared to the final plan for this activity for 2024.

During 2024, the amount of funds spent on expenditure for employed persons was EUR 198,017.31 or 79.98 % compared to the final plan for this group of expenditure for 2024. Funds were spent to settle expenditure for employed persons for: 1 official and 2 servants (for the entire reporting period), and one servant each starting with February, March and April 2024.

In addition to salaries for regular work and contributions, Easter bonuses were paid to 4 servants in the total amount of EUR 400, holiday allowance for 5 servants in the amount of EUR 1500, gift for children for 2 children in the total amount of EUR 200 and Christmas bonuses for 5 servants in the total amount of EUR 1500.

Material expenditure amounted to EUR 106,553.27 or 35.16 % compared to the final plan for this group of expenditure for 2024. The most significant costs within the material expenditure relate to:

- travel expenses at home (arrivals to Commission's sessions) and abroad (participating in official meetings in Berlin, Athens, Vienna and Brussels) - achievement of EUR 13,376.02
- rent and lease fees mostly relate to the annual costs of leasing the business premises for the Commission Office in Boškovićeva ulica 23 since the allocated space at the location of Trg bana Josipa Jelačića 15 is uninhabitable due to earthquake damage and awaiting a complete reconstruction - execution of EUR 26,648.97
- computer services - execution of EUR 10,821.32

- allowances for the work of representative and executive bodies, commissions, etc. - execution of EUR 23,826.90.

The other funds relate to the settling of fixed costs which include: compensation for civil servants' travelling to and from work, office supplies, overheads, telecommunication and utility costs, supply of inventory, maintenance of equipment, examinations at employment, intellectual and personal services, cleaning services, representation and memberships.

The reason for the lower percentage of achievement within this activity was the fact that in the reporting period, no servants were employed according to the foreseen recruitment plan and the Commission Office's intensified work. More specifically, to strengthen the Commission's professional capacities, the plan was to recruit a certain number of professional and specialist personnel in the Commission Office. The idea was for the Commission Office to be structured horizontally and predominantly employ consultants, that is, analysts with specialist knowledge and skills in macroeconomics, econometrics, (public) finance and quantitative analyses. Because it is very difficult to find a sufficient number of qualified candidates for these jobs on the market, the foreseen recruitment was not achieved, and the funds planned based on the determined need to complete the Commission Office and necessary employment were not realized in their entirety.

#### **K926002 INFORMATIZATION**

<b>Name of activity</b>	<b>Execution in 2023 (EUR)</b>	<b>Plan for 2024 (EUR)</b>	<b>Execution in 2024 (EUR)</b>	<b>Execution index 2024 / 2023</b>	<b>Execution index 2024 / Plan for 2024</b>
K926002-INFORMATIZATION	2,757.57	111,361	40,652.49	1,474.21	36.51

As part of this capital project, EUR 40,652.49 was spent on the procurement of 6 desktop computers, 4 keyboards, 3 laptops, 4 monitors, 2 tablets, 1 TV set, 4 chairs and small inventory. The reason for the lower percentage of achievement within this capital project was the fact that no servants were employed in the reporting period according to the foreseen recruitment plan and the Commission Office's work intensification.

## **2.5 Special reports in the annual report on the execution of the financial plan for 2024**

### **REPORT ON THE STATE OF RECEIVABLES AND OUTSTANDING LIABILITIES AND THE STATE OF CONTINGENT LIABILITIES BASED ON COURT PROCEDURES**

#### **RECEIVABLES**

The budgetary user has no recorded non-collected receivables for budget revenue and budgetary users at the end of the budget year.

#### **LIABILITIES**

The budgetary user has no recorded outstanding liabilities of the budget and budgetary users at the end of the budget year.

#### **POTENTIAL LIABILITIES BASED ON COURT PROCEEDINGS**

The budgetary user has no recorded potential liabilities based on court proceedings of the budget and budgetary users at the end of the budget year.

Pursuant to the Rules on the semi-annual and annual report on the execution of the budget and the financial plan (Official Gazette 85/ 23) special reports in the annual report on the execution of the financial plan of the budgetary and extra-budgetary user are as follows:

- 1) report on borrowing on the domestic and foreign money and capital market,
- 2) report on use of EU funds,
- 3) report on loans given and receivables based on loans given and
- 4) report on the state of receivables and outstanding liabilities and the state of potential liabilities based on court procedures.

Special reports also contain the Report on guarantees issued and payments under contested guarantees if the budgetary or extra-budgetary user issued any.

During 2024, the Fiscal Policy Commission did not borrow any money or issue any loans, it did not have any loan and credit repayments, it did not issue guarantees or use any EU funds. Accordingly, the Commission has no special reports for 2024.

## **3 LIST OF TABLES**

Table 1 Summary of the revenue and expenditure account and the financing account

Table 2 Report on revenue and expenditure according to the economic classification

Table 3 Report on revenue and expenditure according to sources of financing

Table 4 Report on expenditure according to the functional classification

Table 5 Financing account report according to the economic classification

Table 6 Financing account report according to sources of financing

Table 7 Report according to program classification