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15th Position Paper of the Fiscal Policy Commission of the Croatian Parliament on the Draft Amending Budget of the Republic of Croatia and Financial Plans of Extra-Budgetary Entities for the year 2017

At its 21st meeting held on 7 November 2017, the Fiscal Policy Commission discussed the Draft Amending Budget of the Republic of Croatia and Financial Plans of Extra-Budgetary Entities for the year 2017, submitted to the Speaker of the Croatian Parliament by the Government of the Republic of Croatia on 2 November 2017.

In the explanatory memorandum accompanying the Draft Amending Budget of the Republic of Croatia and Financial Plans of Extra-Budgetary Entities for the year 2017, the Government of the Republic of Croatia points out that the expenditures financed from the sources influencing the budget deficit level (general revenue and proceeds, contributions and assigned proceeds) remain unchanged (at the level of HRK 107.2 bn), adding however that a HRK 3.4 bn adjustment has been made within the said expenditures. On the other hand, when the state budget includes all the revenue sources (those influencing and those not influencing the deficit level, such as revenue from own resources, revenue for specific purposes, aid and donations), then the expenditures decrease by HRK 1.62 billion (from HRK 128.4 bn to HRK 126.8 bn), and this mostly due to a weaker use of EU funds. Simultaneously, the state budget revenues are increasing by almost HRK 876 million (from HRK 121.6 bn to HRK 122.5 bn). Due to these trends, the Government of the Republic of Croatia anticipates in 2017 a decrease of the state budget deficit from -1.9% GDP to -1.2% GDP and a decrease of the public debt-to-GDP ratio to below 80%.

Amendments to the 2017 State Budget are being proposed mainly due to internal redistributions among individual ministries because decisions have been adopted over the year that had not been analysed at the time when the state budget for 2017 had been drafted. For the most part this refers to the increase of the wage base of civil servants and employees in the public sector as well as to the debts in the healthcare sector. Actually, when the 2017 budget was being drafted, the Government's obligation to increase the wage base of civil servants and employees in the public sector was not taken into account although its impending discharge was evident. Additionally, healthcare has been building up debt year after year. The Fiscal Policy Commission has been demanding, at almost every meeting, that a report on the state of total unpaid liabilities (due and undue) in healthcare be submitted. The current state of affairs corroborates the Fiscal Policy Commission's opinion that the separation of the Croatian Health Insurance Fund from the State Treasury alone will not provide for savings or help make the healthcare system financially balanced – it will rather increase the risks of accruing liabilities as they are no longer subject to the fiscal authorities' direct control.

The Fiscal Policy Commission estimates that the proposed amendments will ensure compliance with the fiscal rule under the Fiscal Responsibility Act whereby the increase in the budget expenditure must not exceed the GDP growth rate. Likewise, the Commission recons that the fiscal rules under the Stability and Growth Pact, relating to the structural budget deficit and expenditure growth, will also be observed.

The Fiscal Policy Commission welcomes the Croatian Government's accountable approach that has resulted in the reduction of the budget deficit (from -1.9% to -1.2%) in 2017. However, at the same time the Commission emphasizes the necessity to improve the state budget planning system in order to avoid subsequent needs for budget reviews except in the events of natural disasters. Namely, some amendments to the 2017 State Budget concern items that could have been more carefully planned in the original budget, such as wage and pension bills as well as revenues and expenditures related to the use of EU funds. The current review instead largely legalizes expenditures already incurred or assumes the liability for payments without the real possibility to influence the amounts thereof by measures of economic or fiscal policy.