

The Proposed Croatian State Budget for 2010 – Maintaining Social Peace¹

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On November 21, 2009 the Croatian Government sent the draft proposal of the State Budget for next year to Parliament. Revenues are planned of 112.8 billion kunas (1.5% more than this year), and expenditure of 121.4 billion kunas (0.75% more). The State Budget deficit is 8.6 billion kunas (8% less).

REVENUES In 2010 the Ministry of Finance expects inflation (the growth of consumer prices) to be at 3% and real growth of GDP of 0.5%. It foresees a fall in revenues from corporate income tax (of 13.4%) and personal income tax (1%) but also, for example, a rise in revenues from VAT (of 5.4%) and excise taxes (by 3%). In view of the current crisis, high unemployment, illiquidity and the fall in consumption, we will see if the expected growth of these taxes is over optimistic. There is also a significant reduction planned in revenues from financial and non-financial assets (of 70%, or from 5 billion in 2009 to 1.5 billion in 2010). No explanation is given with this reduction and it is possible that this is in fact not a fall in revenues but the transfer of certain types of revenue from this position to another, so it would be good in future for the explanatory notes to the proposed state budget to be more detailed.

EXPENDITURE Even at first sight, the picture shows that it is doubtful whether the long awaited and necessary reform of the expenditure side of the state budget will take place. It seems that even in the coming years there is no significant reform of expenditure planned, since total expenditure is still growing and there are no major changes to its structure.

Most of the expenditure from the state budget is already defined by various laws and rights and is the largest burden on the budget. For example, salaries in the public sector account for 18% of the state budget for 2010, and pensions and social benefits 53%. No reduction in salaries, pensions or social payments is planned for the next three years, rather they will increase slightly. Therefore it will be interesting to see whether the Government has the strength and how in future it will reform the oversized public administration and pensions and social benefit payment. Next year an increase in expenditure is planned for obligations related to adjustment of the Republic of Croatia in the process of accession to the EU and co-financing projects within the EU (in 2010 this amounts to 2.4 billion kunas). Expenditure

¹ This analysis of the Croatian state budget is based on the budget documents of the Government available to the public on: http://www.vlada.hr/hr/naslovnica/sjednice_i_odluke_vlade_rh/2009/26_sjednica_vlade_republike_hrvatske. Additionally data from the Internet site of the Croatian Ministry of Finance (<http://www.mfin.hr>) and the Croatian Parliament (<http://www.sabor.hr/Default.aspx?art=30939&sec=17>) were used.

on interest will also increase by a billion kunas, and those costs in total will amount to 6.3 billion kunas in 2010. The only significant reduction planned next year is in expenditure on subsidies, by about 15%, or about one billion kunas (mainly to shipbuilding yards, the railways and agriculture). However, it is doubtful whether and to what extent the guarantees given to the shipbuilders will be activated in the next few years and whether that expenditure will be an additional burden on the budget.

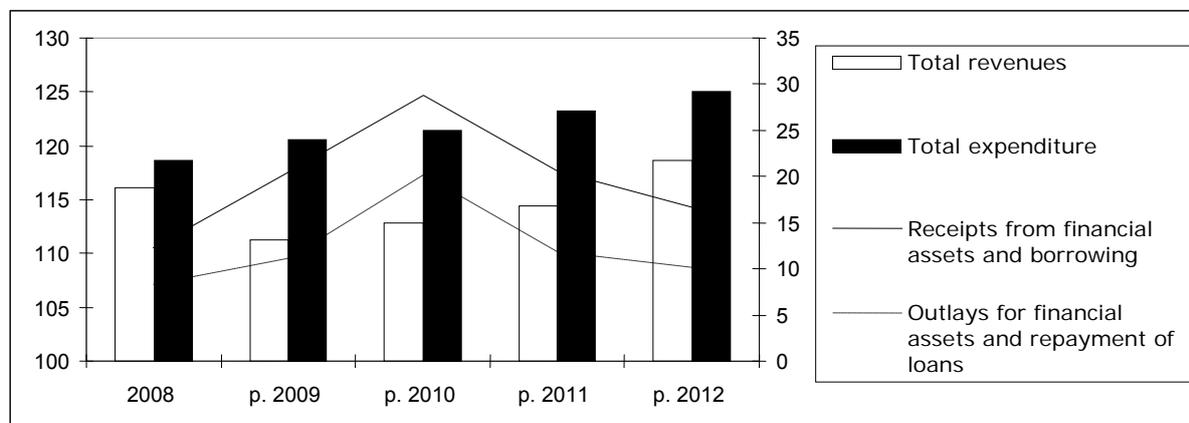
Table 1 Total Revenues, expenditure and financing of the state budget (in millions of kunas)

	2008	Plan for 2009	Proposal for 2010	Projection for 2011	Projection for 2012
Revenues and Expenditure Account					
Total revenues	116,076	111,209	112,830	114,367	118,624
Total expenditure	118,584	120,536	121,442	123,219	125,071
Deficit	-2,508	-9,327	-8,612	-8,852	-6,447
Financing account					
Receipts from financial assets and borrowing	12,308	20,471	28,790	20,667	16,601
Outlays for financial assets and repayment of loans	8,360	11,144	20,177	11,815	10,154
Change in the deposit balance	1,440	n.d.	n.d.	n.d.	n.d.
Net financing	2,508	9,327	8,612	8,852	6,447

n.d. = no data

Source: Croatian Parliament, Proposed state budget of the Republic of Croatia for 2010, and projections for 2011 and 2012. Available on: [<http://www.sabor.hr/Default.aspx?art=30939&sec=17>].

Figure 1 Total revenues and expenditure (the left hand scale) and financing of the state budget (the right hand scale) in billions of kunas



Source: as for Table 1

THE STATE BUDGET DEFICIT Since a higher amount of expenditure from the state budget is planned than revenue, the deficit of 8.6 billion kunas for 2010 (on the graph the difference between the unbroken and the dashed lines) will be financed from the sale of financial assets or additional borrowing. Thus, the total revenues from financial assets and borrowing (unbroken line) in 2010 are planned to amount to 28.8 billion kunas. The largest part consists of revenues from planned issues of securities (14.8 billion kunas) and revenues from borrowing in Croatia and abroad (13.7 billion kunas). This will be used to cover the deficit (8.6 billion kunas) but also to repay the financial obligations that already exist (mainly for repayment of the principal of loans received and securities issued). It is planned that the state budget deficit will be reduced from 2.5% of the GDP in 2010 to 1.6% of the GDP in 2012 (Table 2).

Table 2 Assessment of total deficit of consolidated general government (as % of GDP)

	Plan for 2009	Proposal for 2010	Projection for 2011	Projection for 2012
Total deficit				
State budget	-2.8	-2.5	-2.4	-1.6
Extra budgetary beneficiaries	-0.1	-0.1	-0.1	-0.1
Units of local self-government	0	-0.1	-0.1	-0.1
General Government	-2.9	-2.7	-2.6	-1.8

Source: Croatian Parliament, Proposed state budget of the Republic of Croatia for 2010, and projections for 2011 and 2012. Available on: [<http://www.sabor.hr/Default.aspx?art=30939&sec=17>].

GENERAL GOVERNMENT DEFICIT² The Government estimates that the deficit of the consolidated general government will decrease from 2.7% of the GDP in 2010 to 1.8% of the GDP in 2012. However the Government, in its proposal of the state budget, this year again did not enclose execution and plans for the consolidated budget of the general government. Therefore it is difficult to establish the true size of the budget of the general government and assess how realistic it is the planned deficit of the consolidated general government for the next three years.

In **conclusion** we can say that in the budget for 2010 there are no significant winners or losers. But if the trend of excessive expenditure continues, we will all be losers. The state will have to borrow more and more, citizens and business will have to repay those loans and how will the economy in crisis be able to bear with that, remains to be seen.

² The consolidated general government consists of: consolidated state budget, financial plans of extrabudgetary beneficiaries and budgets of local units