



Institut za
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INSTITUTE OF PUBLIC FINANCE

A Brief Guide to the National Budget Process

Zagreb, 2016

The purpose of this brief guide is to present, in the simplest and most concise way, the very complex national budget process to members of parliament (MPs), as well as the media, citizens and other interested parties.

The budget process at the national level is implemented in accordance with the Budget Act and Parliament's Standing Orders. Although the budget covers only one year, the three main phases of the budget process, i.e. budget preparation, adoption, execution and reporting on the budget, last about two and a half years. Each of the three phases includes several steps. The national budget process is shown in the summary table and text below.

Beside the need for citizens to understand the national budget process in general, every individual also can (and the MPs must) participate in it by:

- **Demanding from the Government and Ministry of Finance** the timely publication of accurate, reliable, relevant and understandable **key budget documents and guides accompanying these documents**, so that citizens and MPs have enough time to analyse them and express their respective opinions.
- **Demanding from the Government and Ministry of Finance that all the phases and steps of the national budget process should take place within the legally prescribed time limits.** Timeliness is one of the basic prerequisites for the adoption of realistic and high-quality budget documents, because it enables MPs and all other participants in the budget process to examine them and engage in reasoned discussions.
- **Analysing key budget documents and posing questions about the budget.** The citizens' questions can be addressed personally to MPs, or raised in electoral units or at the Parliament's website. Each MP is the representative of citizens, and he/she can pose questions to Government members on their behalf, for example orally during the Parliament question time or in writing. Since the Government is accountable to Parliament for its work and decisions, MPs can request reports and data from the ministers and government administration officials through the parliamentary working bodies as well. The former are obliged to respond to such requests. In addition, the MPs have access to all official materials, documents and data that are prepared or collected by Parliament's working bodies and Parliament's staff services, the Government, ministries and other state administration bodies and that pertain to the issues discussed by Parliament.

- **Demanding that Parliament should respond to citizens' petitions and suggestions in a timely manner (3 months from submission).**
- **Demanding that a parliamentary office for budget analysis be established** to provide professional assistance to both MPs and citizens.
- **Engaging in the work of parliamentary working bodies.** According to the Parliament's Standing Orders, a working body of Parliament may include academic and other organisations, as well as individual experts in the preparation of legislation or consideration of matters within its competence. In addition, it may also propose to the Government for such tasks to be delegated to the ministries or other state administration bodies.
- **Participating in public consultations.** Government bodies are obliged to hold such consultations during the preparation of laws and other regulations, and therefore should try to ensure that they are as effective as possible, for example that government bodies provide a more detailed explanation of reasons for accepting or rejecting citizens' proposals.
- **Acting through a referendum,** provided that at least 10 percent of the total electorate requires a referendum on an act proposal or another issue falling within the competence of Parliament.



What should the national budget process for 2017 look like?

DEADLINE ACTIVITY

PHASE 1 • THE PREPARATION OF A NATIONAL BUDGET PROPOSAL

Step 1 • A National Reform Programme and a Convergence Programme for a three-year period

By
end-February 2016

The Ministry of Finance, in co-operation with the ministry responsible for structural reforms and EU funds co-ordination, compiles Instructions for drafting strategic plans for the period 2017–19, and submits them to the ministries and other government bodies.

By
end-March 2016

Based on the Instructions, the ministries and other government bodies prepare strategic plans for the period 2017–19, and submit them to the Ministry of Finance.

By
end-April 2016

On the basis of the received strategic plans, the ministry responsible for structural reforms and EU funds co-ordination, in co-operation with the ministries responsible for specific structural reforms, formulates a National Reform Programme. On the other hand, the Ministry of Finance formulates a Convergence Programme. Both documents are subject to adoption by the Government.

Step 2 • Economic and Fiscal Policy Guidelines for a three-year period

By
end-July 2016

Based on the strategic plans, the National Reform Programme and Convergence Programme, as well as the EU Council's Recommendations for the Republic of Croatia, the Ministry of Finance prepares a draft of the Economic and Fiscal Policy Guidelines for the period 2017–19, to be adopted by the Government.

Step 3 • Instructions for drafting a national budget proposal

By
15 August 2016

Based on the adopted Guidelines, the Ministry of Finance delivers Instructions for drafting a national budget proposal to the ministries and other government bodies, as well as to extra-budgetary users.

Step 4 • Financial plan proposals of budget and extra-budgetary users

By
15 September 2016

Based on the Instructions, budget and extra-budgetary users draft proposals for their respective financial plans and submit them to the ministries and other government bodies.

By
end-September 2016

The competent ministries and other government bodies submit the adjusted financial plan proposals of budget and extra-budgetary users to the Ministry of Finance.

Step 5 • National Budget Proposal

By 15 October 2016	The Ministry of Finance prepares a Draft National Budget for 2017 and projections for 2018–19, and submits them to the Government together with the financial plans of extra-budgetary users.
By 15 November 2016	The Government approves the 2017 National Budget Proposal and projections for 2018–19 and submits them to Parliament together with the financial plans of extra-budgetary users.
PHASE 2 • NATIONAL BUDGET ADOPTION	
Step 6 • Parliament discusses and adopts the National Budget Proposal	
By end-2016	Parliament adopts the 2017 Budget and projections for 2018–19, and gives its approval to the financial plan proposals of extra-budgetary users, all within the time limits enabling the implementation of these documents as of 1 January 2017.
PHASE 3 • NATIONAL BUDGET EXECUTION	
Step 7 • National budget execution	
By 15 January 2017	Based on the amounts planned in the national budget, the Ministry of Finance may require budget users to draft their monthly financial plans for the whole of 2017 which are subject to approval by the Ministry of Finance.
1 January – 31 December 2017	The budget is executed in accordance with the available resources and due liabilities.
Step 8 • Mid-year report on the national budget execution	
By 30 July 2017	Extra-budgetary users prepare (substantiated) mid-year reports on the execution of their financial plans for the past semi-annual period and submit them to the Ministry of Finance.
By 5 September 2017	The Ministry of Finance submits to the Government a mid-year report on the execution of the national budget together with the reports on the execution of financial plans of extra-budgetary users.
By 15 September 2017	The Government submits the mid-year report on the national budget execution and the reports on the execution of financial plans of extra-budgetary users to Parliament.
Step 9 • Year-end report on the national budget execution	
By 31 March 2018	Extra-budgetary users prepare (substantiated) reports on the execution of their financial plans for 2017 and submit them to the Ministry of Finance.
By 1 May 2018	The Ministry of Finance prepares a report on the execution of the national budget and the reports on the execution of financial plans of extra-budgetary users for 2017, and submits them to the Government.
By 1 June 2018	The Government submits to Parliament the report on the execution of the national budget and the reports on the execution of financial plans of extra-budgetary users for 2017.
Step 10 • Budget supervision and internal audit	

PHASE 1

PREPARATION OF A NATIONAL BUDGET PROPOSAL

Step 1

A National Reform Programme and a Convergence Programme for the period 2017–19

The Ministry of Finance, in co-operation with the ministry responsible for structural reforms and EU funds co-ordination, is required to compile Instructions for Drawing up Strategic Plans for the Period 2017–19 and submit them to the ministries and other government bodies at the level of sections (organisational classification) by end-February 2016. The ministries and other government bodies are required to prepare their respective strategic plans and submit them to the Ministry of Finance by end-March 2016. Based on the received strategic plans, the ministry responsible for structural reforms and EU funds co-ordination, in co-operation with the ministries responsible for specific structural reforms, should formulate a National Reform Programme and the Ministry of Finance a Convergence Programme. Both programmes should be adopted by the Government no later than end-April 2016.

The Convergence Programme should lay down the macroeconomic and fiscal frameworks for the Republic of Croatia in the current year (2016) and in the next three years (2017–19). This includes a presentation of macroeconomic trends, a mid-term budgetary framework with projections of general government budget, public debt and fiscal risks, and a sensitivity analysis of the general government deficit/surplus and public debt movements, as well as qualitative and institutional characteristics of public finances.

The National Reform Programme should set out the strategic framework for the implementation of structural reforms in the current year (2016) and the next three-year period (2017–19), including key elements of the macroeconomic scenario and key reform measures envisaged in the strategic plans to be implemented by government in the medium term.

Step 2

Economic and Fiscal Policy Guidelines

Based on the strategic plans, National Reform Programme and Convergence Programme, as well as the EU Council recommendations for the Republic of Croatia, the Ministry of Finance is obliged to prepare Economic and Fiscal Policy Guidelines for 2017–19 and submit them to the Government, which adopts them by end-July 2016. The adopted Guidelines can be used by budget users (e.g. Ministry of Science, Education and Sports) and extra-budgetary users (e.g. Croatian Pension Insurance Agency) for the preparation of financial plans. Thus, the National Reform Programme,

Convergence Programme and the Guidelines provide a basis for the implementation of all the other steps of the budget process.

The Economic and Fiscal Policy Guidelines should include the following:

- *economic policy objectives for 2017–19,*
 - *macroeconomic and fiscal frameworks, including possible changes in circumstances compared to those set forth in the Convergence Programme,*
 - *the amount of the financial plan, broken down by sections (organisational classification) for the past year (2015), current year (2016) and the next three years (2017–19).*
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Step 3

Instructions for drafting a National Budget Proposal

Based on the adopted Guidelines, the Ministry of Finance should issue Instructions for drafting a National Budget Proposal and submit them to all budget and extra-budgetary users by 15 August 2016. The Instructions will provide the users with information on the basic economic and fiscal indicators, as well as on the methods and deadlines for drafting a national budget. In addition, the Instructions will foster the users to prepare and substantiate their own financial plans, i.e. requests for the necessary budget resources, taking account of the available revenues and time limits.

Step 4

Drafting the financial plan proposals of budget and extra-budgetary users

On the basis of the Instructions, budget users are required to draft proposals for their respective financial plans and submit them to the competent ministries and other government bodies by 15 September 2016. The competent ministries and other government bodies are obliged to adjust the plans, adopt them and submit them to the Ministry of Finance by end-September.

A budget user's financial plan proposal should contain:

- *revenues by type,*
 - *expenditures according to the budget classifications, and*
 - *substantiation of the financial plan proposal.*
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At the same time, extra-budgetary users prepare their financial plan proposals and submit them to the competent ministries. The latter have to review the received proposals and forward them to the Ministry of Finance.

Step 5

National Budget Proposal

After the competent ministries and other government bodies have drawn up their financial plans and submitted them to the Ministry of Finance, the Ministry prepares a Draft National Budget for 2017 and projections for 2018–19 and submits them to the Government by 15 October, along with the financial plans of extra-budgetary users.

Should any disagreements occur between certain budget users or competent ministries and the minister of finance during the debate about the proposed national budget, the minister notifies this to the Prime Minister, who takes the final decision.

The Government discusses the received drafts and submits to the Parliament Speaker, by 15 November, the National Budget Proposal for 2017, the projections for 2018–19 and extra-budgetary users' financial plans with explanations, as well as the final proposal of the National Budget Execution Act.

PHASE 2

NATIONAL BUDGET ADOPTION

Step 6

Parliament discusses and adopts the National Budget Proposal

In the second half of November, the Speaker of Parliament delivers the National Budget Proposal to all the MPs and chairpersons of Parliamentary working bodies (committees, commissions, etc.).

The Finance and Central Budget Committee and Legislation Committee are required to discuss the National Budget Proposal and express their opinions to Parliament. Other working bodies are free to hold their own discussions and submit their opinions to this effect either to the Finance and Central Budget Committee or to Parliament.

All the MPs must have sufficient time to study the budget proposal closely. Each MP, a parliamentary party club, a working body and the Government may submit their respective motions for changes and additions to the budget proposal. Such motions are called amendments; the Speaker must forward them without delay to all the MPs, the Government, the Finance and Central Budget Committee and the Legislation Committee. All amendments must be in line with the determined amounts of the permissible budget deficit of the budget proposal and projections. In accordance with the principle of equilibrium, amendments aimed at increasing budget expenditures above the amounts specified in the budget proposal can only be accepted if accompanied by proposals to reduce other expenditures. Moreover,

they must not burden budgetary reserves or previously assumed liabilities, or lead to further borrowing.

The final debate on the National Budget Proposal is held at a parliamentary session in December. The MPs and party clubs usually demand more funds for certain ministries and regional/local government units. MPs are the elected representatives of citizens coming from different political parties. Therefore, the adoption of the national budget is also a political affair, heavily influenced by the balance of forces in Parliament.

A joint debate, in general by sections, is held on the budget proposal and the proposed amendments in one parliamentary reading. The submitted amendments and budget proposal cannot be voted on before the expiry of three days from the date of that joint debate.

After the National Budget and Budget Execution Act are voted through, the execution of the Budget becomes obligatory for all the participants in and users of the budget. In order to start applying the national budget as of 1 January 2017, Parliament is obliged to pass the budget and the Budget Execution Act no later than 31 December 2016. In accordance with the principle of transparency, both the budget and Budget Execution Act must be published in the *Official Gazette*. Except in the cases of temporary financing, as in the case of the 2016 national budget (due to parliamentary elections), Parliament usually passes the national budget and gives its approval to the financial plans of extra-budgetary users in December.

Should the budget not be passed before the start of the budget year, Parliament adopts a decision on temporary financing to continue the financing of the activities, functions and programmes of government bodies and other budget and extra-budgetary users. The funds thus provided will be proportional to expenditures realised in the same period of the previous year, up to one fourth of total realised expenditures minus outlays.

PHASE 3

NATIONAL BUDGET EXECUTION

Step 7

National budget execution

After the budget is voted through by Parliament, the Ministry of Finance notifies the ministries and other users of the funds they have been allocated. On 1 January, the fiscal year officially begins, the budget starts to be executed, i.e. revenue starts to be collected and spent, and these operations supervised and checked.

The top officials of all budget and extra-budgetary users are responsible for the lawful planning and execution of their respective parts of the budget or the financial plans.

Step 8

Mid-year report on the national budget execution

Extra-budgetary users prepare mid-year reports on the execution of their financial plans and submit them to the Ministry of Finance by end-July 2017. The Ministry of Finance is obliged to prepare and submit a mid-year report on the execution of the 2017 national budget to the Government by 5 September 2018, together with the mid-year reports on the execution of the financial plans of extra-budgetary users. The Government is obliged to hold a debate on these reports and submit them for parliamentary approval no later than 15 September 2017.

Step 9

Year-end report on the national budget execution

The fiscal year closes on 31 December 2017. Extra-budgetary users are obliged to prepare reports on the execution of their financial plans for 2017 and submit them to the Ministry of Finance by end-March 2018. The Ministry of Finance is obliged to draw a report on the execution of the 2017 national budget and submit it to the Government by 1 May 2018. The Government adopts the report and submits it, together with the year-end reports on the execution of extra-budgetary users' financial plans, to Parliament for discussion and approval no later than 1 June 2018. This report provide a potential basis for a parliamentary debate to determine policy essentials for the next period, directions for budget preparation and conditions/criteria for the financing of government bodies and organisations, as well as other public needs.

The budget process formally ends after the year-end report on the national budget execution is adopted by Parliament. So, for example, the budget process for 2014 formally ended on 3 July 2015, when Parliament adopted the Report on the Execution of the 2014 National Budget.

Step 10

Internal and external budget supervision and audit

The **internal and external budget supervision and audit of the spending of budget resources** are carried out simultaneously through all the phases and steps of the budget process.

The Ministry of Finance's Sector for Financial and Budget Supervision carries out permanent **external budget supervision** of all budget and extra-budgetary users, whereas the relevant officers in all budget and extra-budgetary users carry out **internal budget supervision**. The purpose of this is to supervise the lawfulness,

purposefulness and timeliness of the collection and use of budget resources, so as to eliminate irregularities and abuses, as well as to prevent mismanagement through appropriate measures, and thus avoid possible adverse consequences.

The Sector for Financial and Budget Supervision is obliged to conduct budget supervision based on citizens' petitions, requests submitted by central government administration bodies, units of local and regional self-government and other legal entities, as well as by order of the finance minister.

Moreover, any person can report irregularities in the management of resources of the national budget and local and regional self-government units' budgets to the Ministry of Finance's e-mail address: nepravilnosti@mfin.hr.

Given the complexity and importance of the budget, the way of spending the national budget resources is a matter of deep public interest. Therefore, the State Audit Office (SAO) must conduct annual audits of the national budget and all of its users, including legal entities funded from the national budget, established by the Republic of Croatia, or entities in which the Republic of Croatia is a majority shareholder or holds a majority stake. Each year, the SAO conducts the audit of the national budget execution report for the past year and notifies Parliament thereof no later than 1 June. After the parliamentary debate, the report should be published at the SAO's website.

The State Audit Office examines whether budget resources have been used in a lawful manner, whether the financial statements present a true financial position and whether the financial results are in line with the accepted accounting standards and principles. Moreover, it assesses the efficiency and economy of operations, as well as the effectiveness of achieving goals.

Useful websites

Consultation with the Interested Public in Procedures of Adopting Laws, other Regulations and Acts

Croatian Parliament

Citizens Service

Standing Orders of Croatian Parliament

Government of the Republic of Croatia

Citizens' enquiries

Information Commissioner

Freedom of Information Act

Institute of Public Finance

Newsletters

Press Releases

Promoting transparency, accountability and participation in public sector

Public finance glossary

Public finance lexicon

Ministry of Finance

Annual reports

Budget Act and national budget planning

Monthly statistical reviews

National budget

Public debt

Regional and local budgets

Time series data sets

Official Gazette

State Audit Office

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