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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Croatia

{SWD(2024) 950 final}

(only the Croatian text is authentic)

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GENERAL CONSIDERATIONS

(1) Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

(2) Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

(3) On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

(4) In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

(5) The Recovery and Resilience Facility provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union’s energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level (‘REPowerEU objectives’). The Facility is expected to strengthen the resilience and potential growth of Member States’ economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support (“grants”), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

CONSIDERATIONS CONCERNING CROATIA

(6) On 14 November 2024, Croatia submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Croatia of 21 October 2024[2]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Croatia for the years 2025 to 2028[3], which the Commission expects the Council to act upon in a timely manner.

(7) On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Croatia of 19 June 2024[4], the Council recommended Croatia, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

(8) On 14 November 2024, Croatia submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[5]. The plan commits to net expenditure growth not exceeding 6.4% in 2025, 4.9% in 2026, 4.1% in 2027 and 3.7% in 2028. The Commission has assessed the medium-term fiscal-structural plan of Croatia and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

(9) According to the Draft Budgetary Plan, Croatia's real GDP is projected to grow by 3.2% in 2025 (3.6% in 2024), while CPI inflation is forecast at 2.7% in 2025 (2.9% in 2024). According to the Commission 2024 autumn forecast, Croatia's real GDP is projected to grow by 3.3% in 2025 (3.6% in 2024), while HICP inflation is forecast at 3.4% in 2025 (4.0% in 2024). The main differences between both sets of projections reflect the different inflation measures used, whereby Commission forecasts the HICP inflation and Croatia forecasts the inflation measured by the national CPI. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 and 2024. Croatia complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

(10) Based on the Commission's estimates, the fiscal stance[6] is projected to be expansionary by 0.5% of GDP in 2025, following an expansionary fiscal stance of

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2 Not yet published.

3 Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Croatia, 26.11.2024, COM(2024)729 final.

4 Commission recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Croatia, 19.6.2024, COM(2024) 611 final.

5 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

6 The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from

1.6% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

(11) According to the Draft Budgetary Plan, Croatia's general government deficit is projected to increase to 2.3% of GDP in 2025 (2.1% in 2024), while the general government debt-to-GDP ratio is set to decrease to 56.0% at the end of 2025 (57.4% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 18.6% in 2024 and 6.3% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is below the growth rate in the medium-term fiscal-structural plan submitted by Croatia on 14 November 2024. In turn, according to the European Commission Autumn 2024 Forecast, Croatia's general government deficit is projected to remain at 2.1% of GDP in 2025 (2.1% in 2024), while the general government debt-to-GDP ratio is set to decrease to 56.0% at the end of 2025 (57.3% at the end of 2024). According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 17.0% in 2024 and 6.2% in 2025.

(12) The Draft Budgetary Plan assumes that expenditure amounting to 1.6% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 1.2% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Croatia. The Draft Budgetary Plan also assumes expenditure supported by loans from the Recovery and Resilience Facility, amounting to 1.2% of GDP in 2025, compared with 0.6% of GDP in 2024.

(13) The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include increases in the tax range and base for the property tax and in the tax on income from short-term rentals; changes to Personal Income Tax (PIT) decreasing revenues, namely: an increase in the thresholds for non-taxable income and for the top tax bracket and a reduction of PIT rates for both brackets; an increase in the turnover threshold for entering the simplified VAT system for small businesses, and the removal of the health social security exemption for young employees. On the expenditure side, the measures include an increase in the pension indexation formula and an additional pension service entitlement in the form of twelve-months for each child. According to the Commission estimates, the overall additional impact of the revenue measures decreases the general government deficit by 0.3% of GDP in 2025.

(14) According to the European Commission Autumn 2024 Forecast, Croatia's net expenditure is projected to increase by 6.2% in 2025, which corresponds to a cumulative growth of 24.2% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Those net expenditure growth rates would be

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the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

(15) According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to decrease to 4.8% of GDP in 2025 (from 4.9% of GDP in 2024). In turn, public expenditure financed by EU fund revenue, including Recovery and Resilience Facility grants, is expected to increase to 2.7% of GDP in 2025 (from 2.1% of GDP in 2024).

(16) Overall, the Commission is of the opinion that the Draft Budgetary Plan of Croatia is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Croatia's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	3.3	3.6	3.6	3.2	3.3
2	HICP inflation (***)	% change	8.4	2.9	4.0	2.7	3.4
3	General government balance	% GDP	-0.9	-2.1	-2.1	-2.3	-2.1
4	Primary balance	% GDP	0.8	-0.7	-0.6	-0.8	-0.6
5	General government gross debt	% GDP	61.8	57.4	57.3	56.0	56.0
6	Fiscal stance (**)	% GDP	-2.4		-1.6		-0.5
7	Net expenditure growth (annual)	% change		18.6	17.0	6.3	6.2
8	Net expenditure growth (cumulative)	% change				26.1	24.2
			Commission Recommendation for Council Recommendation setting the net expenditure path of Croatia				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**6.4**	
10		% change			Cumulative	**26.2**	

Notes :
* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Croatia for the years 2025 to 2028.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.
*** DBP numbers reflect forecasts of inlfation measured by the national consumer price index (CPI).

Source : Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
Paolo GENTILONI
Member of the Commission