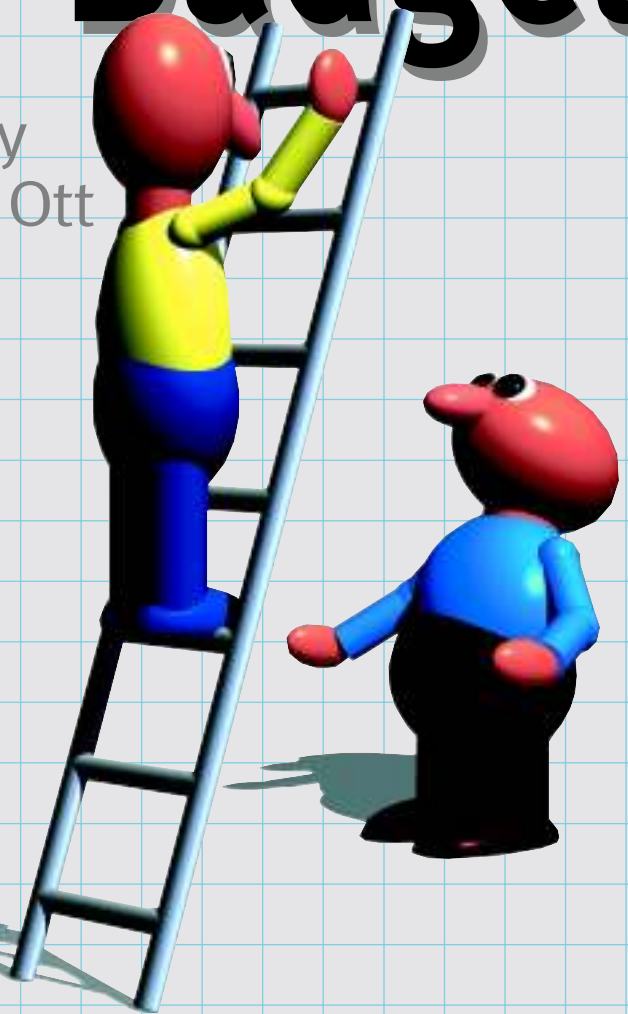
A Citizen's Guide to the Budget

Edited by
Katarina Ott



INSTITUT ZA JAVNE FINANCIJE

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Note

The Institute of Public Finance has for almost thirty years been concerned, directly or indirectly, with the Budget. The form of government and the nature of the state, as well as budgetary systems, policies, techniques, methodologies and terminologies have all changed. The people who have to deal with the Budget have changed too. But it is still, in spite of its exceptional importance, a great unknown to many people.

For this reason we have tried to bring it a little closer to all those interested with A Citizen's Guide to the Budget. The Guide has been printed in Croatian and in English, and in addition to the hard copy, there is also an electronic edition to be found on the Web site of the Institute for Public Finance: http://www.ijf.hr

The particular purpose of the Guide resulted in its conception and composition being entrusted to both Institute of Public Finance researchers Katarina Ott[1], Anto Bajo and Mihaela Pitarević and journalist éeljko Ivanković from the magazine Banka. It was hoped that this close cooperation between research team and professional writer would ensure the necessary combination of expertise and readability. Stefan Falk of the Center on Budget and Policy Priorities, Washington, an establishment with which the Institute for Public Finance works closely, and from which it has learned a great deal, took care that Guide should be brought into line with the best of such editions published elsewhere in the world.

Financial support for the publication of the Guide and the organisation of its presentation was given by the Ministry of Finance - Tax Administration Office and through its Zagreb office, by the Friedrich Ebert Foundation.

As editor of the book and director of the Institute for Public Finance, I would like to offer my very cordial thanks to all those mentioned.

In spite of the considerable cost and effort involved, I hope that this will be only the first edition of our Guide, and that in future we will be able to update, modify and improve it. Accordingly, I would like to thank readers in advance for all their advice and suggestions, trusting that future editions will be both more informative and more interesting.

Zagreb, December 2000 Katarina Ott

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Contents

Note 3

Introduction 7

I. What is the Budget? 9

1. The national Budget 11

1.1. What does the national Budget show, and what is it for? 12

1.2. Revenues of the Budget 14

1.3. Expenditure of the Budget 17

1.4. The financing account - deficits, surpluses and rebalancing 25

2. The budget of the extra-budgetary funds 27

What is the consolidated general government budget? 29

3. The budget of local government and administration units 30

4. The consolidated budget of the general government. 33

5. What is the size of our state? 38

II. The budgetary process 39

1. Who are the main participants in the budgetary process? 40

2. The basic phases of the budgetary process. 42

Preparing for and planning the budget. 44

Debating and approval of the budget 45

Execution of the budget (implementation, supervision and control) 47

Glossary of terms 51

Appendix: Taxes in the fiscal system of the Republic of Croatia 54

Introduction

In the last six post-war years, from 1995 to 2000, only in two years, 1996 and 1997, has the government not carried out a budgetary rebalance. This indicates something of the problems involved in drawing up a realistic Budget and actually putting it into practice in the financial year involved. The main reasons for rebalancing a Budget are to be found in the lack of realism present in the estimates of budgetary revenue, or the need to increase certain items of expenditure.

According to the explanations of the administration, the reasons for a rebalance in 2000 were an inflow of revenue that was lower than planned, the increased expenditures of the extra-budgetary funds, the failure to realise revenue expected from privatisation, and the need for increased borrowing abroad.

The budget is the principal economic policy document. It should be based on an accurate assessment of the fiscal situation, and it should not have to undergo major revisions during the year in which it is being executed[M1]. The fiscal year in Croatia coincides exactly with the calendar year but the process of preparing the annual budget takes a substantially longer period of time. Formulation, enactment, execution and reporting of the annual budget demands a period of almost two and a half years.

As many as nine months before the beginning of the given fiscal year, the Ministry of Finance is duty bound to start off the process of planning and drawing up the next Budget, including all the forecasts of macroeconomic trends and needs of budgetary beneficiaries. About seven months after the period of realisation is over, the lawfulness of the implementation of the Budget is checked by the National Audit Office, resulting in the writing of a report that has to be accepted in Parliament.

A proper preparation and realisation of the Budget is an expression and mark of the maturity and competence of a given administration, and also a sign of the realism, quality and power of a given political will, and in this way is one of the fundamental expressions of the whole of social life.

The Budget does not, of course, reflect the conscious will of all the citizens, although all of us, to a greater or lesser degree, at least unconsciously, do have an impact on the creators of the budgetary policy through our economic activities and behaviour. But once accepted and voted in by Parliament, a budget has an effect on each and every one of us. The Budget, for example, directly or indirectly, has a powerful influence on people's ability to get jobs, how much pay they get, their pensions, child benefits, health care, and the condition, development and prices of municipal services and utilities, water, sanitation and street lighting, even on the direct security of life. Hence the demand for a Budget that is competently drawn up, with the highest level of expertise.

That is why we think it is necessary to have this guide to the Budget. In Croatia, there is no single resource offering complete information about the Budget and the budgetary process. Reading over the great masses of paper involved, particularly the laws and technical articles, would take a good deal of time, as it does for both those experts who deal with the Budget, and for employees in the Finance

and other ministries. A rebalance (revision) of the Budget is an almost regular occurrence in the budgetary policy of the Republic of Croatia, and is quite clearly brought about by lack of realism at the planning level and by sudden U-turns in the implementation of fiscal policy. Furthermore, it is sometimes extremely hard to compare two budgets that come one after the other; the items, the places where expenditure is made, suddenly fade away and pop up in a completely different place, which occasionally makes a proper analysis or projection of the development of events impossible.

For this reason, a guide is really essential to provide at least the basic information; about, for example, how many budgets there are in Croatia, the question the book starts with, and to which few people know the answer. How are budgetary resources allotted, what is the role of the extra-budgetary funds, what do members of parliament and the government debate?

To make a clear, concise and useful introduction to some area of life is perhaps the greatest challenge in any discipline, and is possible only when all the pitfalls have been sidestepped and all the main dilemmas cleared up. When things are clear in the head, they become clear on paper as well.

The basic objective of this guide is, then, apparent: to let the reader have a more complete understanding of the system of national finances, in which the Budget has a special role, as well as the procedures and actions of the persons and institutions involved in its drawing up, approval and implementation. It should never be forgotten that the Budget contains public money that has to be used for public interests. The guide is so conceived as to provide the fundamental information about how the state, through its budget, allots resources, defines financing priorities, and makes decisions that result in the supply of goods and services to each individual.

Who should read the guide? It is meant for everyone who is directly or indirectly involved in the system of government finances. Members of parliament, citizens, entrepreneurs, media professionals, students and professors of the Economics Faculty, the broader academic public that can, and should, with the help of this guide find space for itself in the budgetary process and make its own contribution to a reasoned debate about the Budget.

The government will satisfy the desires and needs of those who manage to express them publicly, justify them and fight for them. Whether these are our own needs and wishes will depend to a large extent upon us. The guide should be a means to make the understanding of the Budget easier, and the process through which it is approved and executed. Our public should be able to see and comprehend both where it stands and what opportunities it has, and act in such a way as to increase the likelihood that it will be included in that part of the population whose needs the government ought to and must meet.

What can the reader find in the guide? This is a guide, then; it offers tips and strategies for understanding the Budget and the budgetary process, but it is not intended to provide answers to all the questions. However, the list of Internet addresses and other clues, about what the laws actually say, for example, will make it possible to cope and to arrive at further, more detailed information and figures. The many instructive tables and figures should help to provide a fuller picture of the finances of the state.

I. What is the Budget?

Confusion can quite easily be created by such constructions, regularly found in the press or in public life in general, as "there are budgets of extra-budgetary funds that are financed in part from the budget". And yet that is really how things are. Everyone with only elementary knowledge is aware that there is a healthcare fund; people who are only a little more interested will know that the healthcare fund has its own budget, which is partly filled autonomously, while in part the expenses of health care are met from the Budget, that is, from some other budget. Counties, communes and cities also have their own budgets, which the state records and runs as one, the budget of units of local government and the local administration. There are few people who pay attention to the exceptionally important difference between the consolidated budget of the central government and the consolidated budget of general government. How many budgets are there, then, and what is their purpose?

In the Republic of Croatia there are three levels of budget: the national or state Budget, the budget of the extra-budgetary funds and the budgets of units of local government and administration (referred to below as the local units budget). All these budgets together form a single whole - the budget of general government. The general government budget does not pass through the same administrative procedure as the national or state Budget, and yet it is extremely important as it constitutes an overall indicator of how much revenue the government has collected and, which is rather vital, how it has spent this revenue.

The word budget (German Haushalt, Italian bilancio), derives from the medieval English or French word bougette, diminutive of bouge, a leather bag.
In English parliamentary terminology it meant the leather bag in which the Chancellor of the Exchequer brought proposals for national revenues and expenditures for the coming period to Parliament - and thus it is used for the plan of revenue and expenditure in a given period of time. In Croatia, as well as the word budget, the term proračun is used.

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While explaining the concept of a budget, use is often made of a comparison with the finances of an individual or a family. For the possession of money is one of the main preconditions for an individual or family to be able to meet its needs and fulfil its wishes. And money is, alas, usually limited, particularly as compared to the desires and needs to spend. For this reason it is important that the wishes or the needs to be met on the one hand be adjusted to financial abilities on the other. Rational behaviour

enjoins that a plan of income and expenditures be drawn up for a given period of time - in other words, a personal or family budget. The size of this budget depends on the level of income that can be obtained or earned during the year and spent for given purposes in line with the established priorities.

Often, of course, expenditure is greater than revenue. Then one plans to borrow or to cut costs. When, which is by far the best situation to be in, revenue is greater than expenditure, the money surplus can be invested, lent or saved for the future.

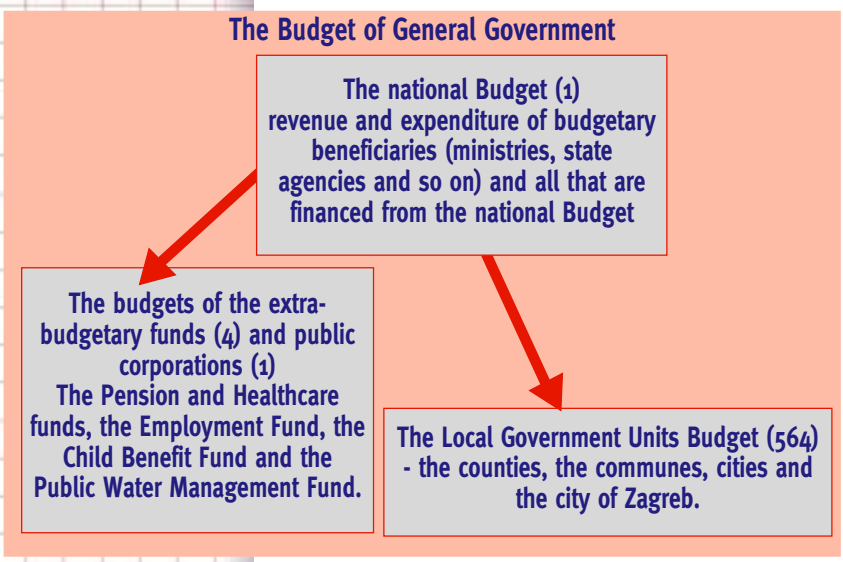
Every budget consists of three parts: revenue, expenditure, and the part of the budget that is called the financing account. In the financing account, the shortfalls are denoted, as is the manner in which they can be financed; in this part of the budget, borrowings and repayments of loans are shown. If there is no shortfall, the financing account shows any surpluses there might be. The manner in which surpluses are used and the purposes they are put to are prescribed each year in the Budget Execution Law.

The state, just like the individual, has to concern itself with the regular financial incomings and outgoings. For this reason, in its Budget, the government plans:

1. revenue, that is, how much money it will gather in a year, and how it will gather it and

2. expenditure, that is, how much money it will spend in that same year, and on what.

In the Republic of Croatia, the Budget Law (Official Gazette 92/94) determines the planning, manner of working out, approving and executing the national Budget, the local government units budget and the budget of the extra-budgetary funds. That is, all these three levels of budget (the national Budget, the extra-budgetary funds budget, and the local units budget) have their own revenue and expenditure. In order to find out what the total public or government expenditure is, all these three kinds of budget have to be added up and presented as a single or unified budget, that of general government.



The relationships between these budgets can be shown in the following way (the number in brackets is the number of different budgets of a given kind).

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Government, then, gathers and spends money through three different budgets, or through three different compartments of a

single purse - the budget of general government. However, it is usual for the budgets of the extra-budgetary funds and the budgets of the local units to get at least part of their revenue from the national Budget in the form of transfers, as they are called, as shown by the arrows on the diagram. All three kinds of budget go through a more or less similar procedure of preparation, approval and execution. In this guide there will mainly be discussion of the national Budget, for which the term the Budget will be used. But, of course, to get as complete as possible a picture of the finances of the state, there will be some discussion of the budget of the extra-budgetary funds and the local units budget. It is important to repeat once again: by adding the revenues and expenditures of all the compartments in the purse, the budget, we can find out how much money our state has really collected and spent.

1. The national Budget

In the papers and parliamentary discussions, and in public life in general, when one talks of the budget, it tends to mean the national Budget. It is this Budget that it is concerned when one hears that less money has been set aside for education or agriculture than the teachers or farmers really wanted. It is the same thing with the bailing-out of the banks, which not so long ago was much talked and written about; although it had collapsed, a bank kept on operating thanks to the money that came in from the Budget. According to the plan as it originally was, in the Budget for 2000, all such expenditure was supposed to be met by the 48.3 billion kuna in revenues and receipts in the national Budget.

What is the national Budget then? A simple administrative definition is given by the Budget Law (Official Gazette 92/94), according to which the national Budget is the estimate of the annual revenue and receipts and the determined amount of expenditure and other payments of the state as approved by the Croatian Parliament.

What are the receipts of the Budget?
Receipts are resources obtained by borrowing in the form of loans received, the issue of bonds and other securities

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It is a matter, then, of a plan, or of an estimate of revenues and receipts and expenditures that have to be approved by the Parliament. The Budget is usually adopted in December, that is, before the beginning of the fiscal year it relates to.

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What is the fiscal year?
The twelve-month period for which the state plans revenue and expenditure. In the Republic of Croatia the fiscal year lasts from January 1 to December 31, i.e. it overlaps precisely with the calendar year. In the United Kingdom, however, the fiscal year begins on April 1 and lasts until March 31 the following calendar year.

1.1. What does the Budget show and what is it for?

The Budget has three main functions:
1. to show the most important objectives of the government in the fiscal year,
2. to serve as an instrument that enables the state to have an influence on the economic situation in the country and
3. to serve as a system that controls the gathering and spending of budgetary resources.

Analysis of any given Budget is made easier if one pays attention to this triple function. The objectives or targets, then. What targets? Is the government most interested in stimulating enterprise and economic growth, or in directing part of the revenue towards welfare spending? Clearly, the objectives can sometimes work against each other. From the budgetary positions it is possible to find out how the state plans to meet its expenditure[M2]: whether it will take on more debt, for instance, or put up taxes. On the other hand there is the answer to on what the state plans to spend the funds it has collected. Is it more important, for example, to build a Zagreb-to-Dubrovnik motorway or to spend the money on the wages of members of parliament? Both sides of the budget, the revenue and the expenditure sides, answer questions about the objectives, even the most important of the government's objectives, that are accomplished via the Budget.

In addition, according to Point 2, the Budget serves as an instrument of economic policy through which it is possible to direct and influence the condition of the economy (economic growth, employment, the distribution of incomes, consumption, savings, inflation and so on).

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Three objectives of economic policy are accomplished through the Budget:
1. The allocation of public goods to the citizens.
Because of its imperfections, the market is incapable of providing certain categories of public goods. These are, for example, defence, the construction of motorways and the like. For this reason a certain amount of money has to be diverted from the private sector to the state, so that it can produce public goods, choosing the most desirable combination of them to provide (who will spend the money, on what, and how much).
2.The (re)distribution of wealth (incomes).
›From the rich to the poor (through welfare for example), from the younger to the older (via the payment of pensions), and from more highly developed to less developed regions (through subsidies and grants of various kinds).
3. Stability.
This is an abiding concern of the state: to try to ensure the desired level of employment combined with a low level of inflation.

The Budget, then, provides for control over the gathering and spending of public money:
* during the fiscal year - control of the budget is done by the administrative units in the Ministry of Finance, but every ministry ought also to carry out internal control,
* the National Audit Office carries out control after the event, after the execution of the Budget.

However, citizens and taxpayers also have an indispensable role in the control of the money of the Budget, in proportion of course to the extent they are informed and their ability to obtain information about the Budget. Failure to adhere to the provisions

of the Budget or using resources in ways not intended by the Budget can of course be penalised. Thus every law about a budget and its execution contains penal provisions.

The responsible person in a budgetary beneficiary, the person or persons in charge of the executive government in a unit of local government or administration, the manager of a body of local government and administration responsible for the budget will be fined from 5,000 to 25,000 kuna if: he or she pays from the budgetary account for some expense not envisaged in the budget.

The principle of budgetary balance and how it is achieved

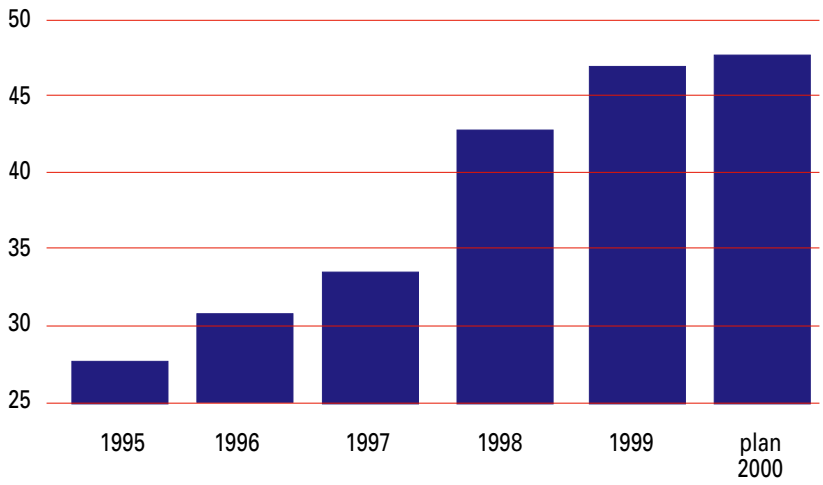
Alongside everything that has been said, it is a basic rule, as far as revenue and expenditure is concerned, that a budget has to be balanced, that is, that total revenue must be the same as total expenditure. To meet its general and specially declared objectives, the government spends public money. The nature of this money requires that the government adhere to a rational plan of financial action, that is, that the budget be balanced.

It is unnecessary to mention that the expenditure of the state in a given fiscal year may be greater than revenue, which is financed through receipts from borrowing. The definition of budgetary balance is then modified, so that the sum of revenue and receipts from borrowing has to be equivalent to the sum of expenditure and repayments of debts. To put it another way, just as much can be spent as comes into the budget. Or, as one Croatian former finance minister said, the Budget is a transient account for paying into and taking out of, with the proviso that payments into the account have to be the same as withdrawals. Then comes the question of from where money comes into the Budget, where and how it is spent, and how the state keeps up with and records its borrowings and debt repayments.

Where can one find a list of the revenue and expenditure of the national Budget, the budget of the extra-budgetary funds and the budget of the local units? Information about revenue and expenditure and budgetary deficits can be found at the Web site: http://www.mfin.hr/publikacije.htm or in Narodne novine (http://www.nn.hr). In addition, the individual budgets of local units are published in the official gazettes of these units.

2. Revenues of the Budget

The total revenue of the Budget has been increasing in recent years. In 1995 it was 27.98 billion kuna, but in 1999 46.35 billion. In the last five years, budgetary revenue has increased by 18.37 billion kuna. The figure below shows the rise of budgetary revenue in the period 1995-2000.



NB: amounts in billion kuna

According to the plan for 2000, the total revenue of the budget will be 47 billion kuna, plus 1.3 billion kuna of receipts to be obtained by borrowing, which is accordingly 48.3 billion in total.

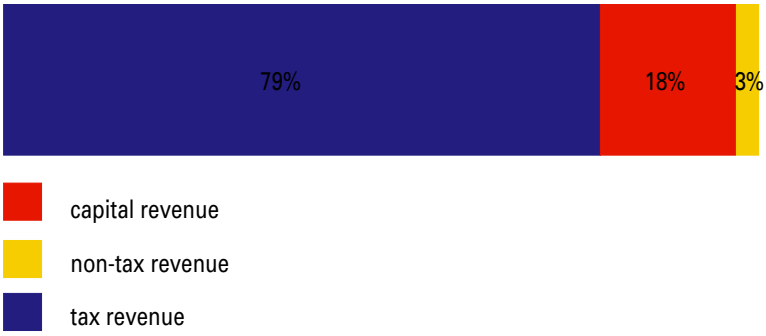
From what sources does the state draw its money?

The main revenues and receipts of the national Budget derive from: 1, taxpayers or taxation; 2, subsidies obtained and 3, receipts from borrowing at home or abroad (there will be more about this in the section about the financing account).

The revenue side of the Budget in 2000, according to the plan, will come to 47 billion, not including borrowing. Revenue is divided into:

* current - tax and non-tax revenue,
* capital revenue and
* home and foreign grants and subsidies.

Planned budgetary revenue in 2000



Current revenue

Tax revenue

By far the most important source of revenue for the government is tax revenue. Taxes are paid directly or indirectly. Direct taxation (on income, or profits and so on) is borne directly by the taxpayer, who pays one part of his or her income or profit into the national Budget. Indirect taxation (such as VAT, customs duties and customs fees) is paid to the state through the purchase of consumer goods and other goods and services (the Appendix will show a table with all kinds of taxes and their basic elements). In 2000, the state expects to collect 36.6 billion kuna from all kinds of taxation. The table below shows the structure of taxation revenue between 1995 and 2000.

Table 1 The proportion of given taxes in total tax revenue

KIND OF TAX	1995	1996	1997	1998	1999	Plan 2000
Income tax	13,20	14,78	13,09	12,19	11,93	9,20
Profit or corporation tax	3,81	4,46	5,70	6,10	6,17	5,50
Real estate commerce tax	0,53	0,60	0,77	0,67	0,64	0,71
Tax on goods and services	48,30	47,33	48,29	4,89	1,01	0,55
Value added tax				50,16	51,75	54,44
Excise	18,65	18,82	17,13	14,30	15,69	19,06
Customs duties and customs fees	14,86	13,90	14,92	10,55	11,58	10,54
Other taxes	0,65	0,12	0,10	1,13	1,22	0,01
Total tax revenue	100	100	100	100	100	100

Source: Execution of the Budget between 1995 and 1999, and the Budget for RC for 2000. OG 33/2000

From 1995, sales tax, or tax on goods and services, has been a much more important element in taxation revenue. When Valued Added Tax was introduced in 1998, revenue from this kind of taxation started to account for more than 50% of all tax revenue. The second most important taxes are excise taxes (on tobacco, cigarettes, alcohol and the like), which amount on average to 17% of all taxation revenue. Then come customs duties, which account

for an average of 12% of all tax revenue. All these three taxes are part of the indirect taxation group. Income and profits tax are of less importance in the taxation revenue structure, coming on average to 11 and 4.5%. Quite clearly, the Republic of Croatia places much more emphasis on indirect taxation, and less on direct taxation.

Who collects taxes in the Republic of Croatia?
The Tax Administration does, via its offices. The Financial Police is charged with forcible collection of that part of taxation revenue that the Tax Administration did not manage to collect in its regular collection procedure.

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Non-tax revenue

All non-recoverable payments to the state, such as the profits from the public and state corporations and the National Bank of Croatia, come into the category of non-taxation revenue. This also includes administrative fees (stamps), fines imposed by courts, and other revenue such as the revenue from the administration, road charges and so on. Non-tax revenue does not represent a very significant part of the Budget. Thus, according to the plan for 2000, it will come to only 4% of overall budgetary revenue.

Capital revenue

Capital revenue is all revenue derived from the sale of assets such as land, intangible assets, commodity reserves and other things that have a life of more than one year.

It is divided into revenue from:
* the sale of buildings owned by the state (state-owned and military flats, resorts, utility facilities...)
* privatisation
* the sale of national commodity reserves
* the sale of land (agricultural land owned by the state) and
* capital transfers from non-state sources (money transfers from individuals, private non-profit making institutions, non-governmental foundations, corporations and so on).

The most important and high-yield item in capital revenue is income from privatisation, which has increased its share in the Budget in the last two years. In 1997 privatisation income came to 143 million kuna, but in the plan for 2000, as much as 8.5 billion kuna is anticipated. Over the short term, this is very good, but over a longer period of time it is not sustainable. Revenue such as that from the sale of Croatian Telecom is a one-off affair. When once sold, such assets as the state banks, the public corporations, the national oil company and so one can no longer provide revenue for the state. One thing is certain: after 2000, such revenue will diminish, and the state will have to find new high-yield sources of financing the budget, or reduce its expenditure.

Grants

Grants are all non-repayable, non-returnable payments involving no counter-obligations from other states or international institutions. Included are war reparations and gifts for individual programmes or projects or any other purpose. Grants can be gained from abroad or from supra-national governments, such as the EU. Grants have not been a very important part of the Budget. This is shown by Table 2.

Table 2 Revenue of the national Budget in %

		Realisation (in %)					Plan
		1995	1996	1997	1998	1999	2000
I	Total revenue and grants (II +VII)	100	100	100	100	100	100
II	Total revenue (III + VI)	99,64	100	100	100	100	100
III	Current revenue (tax IV + non-tax V)	97,52	96,42	98,64	95,92	86,38	82,00
IV	Tax revenue	94,73	90,96	92,59	92,05	82,72	77,87
V	Non-tax revenue	2,79	5,46	6,05	3,86	3,65	18,00
VI	Revenue from capital	2,12	3,58	1,36	4,08	13,62	18,00
VII	Grants	0,36	0,00	0,00	0,00	0,00	0,00

Source: Monthly Statistical Review of the Ministry of Finance, Ministry of Finance of RC, February 2000

1.3. Expenditure of the Budget (What does the state spend money on?)

It is important that the items on the expenditure side of the budget do not change places radically every year, as they have tended to do recently. One year the item is in one place, the next year in another place, and it is difficult to tell whether the expenditure involved has been a one-off occurrence, or whether it is hidden inside some other item. Some years, transfers to communities of Croats outside Croatia or to victims of the war went from the Ministry of Defence, sometimes partially from the Ministry of Labour and Welfare, and yet a third time from the Veterans' Ministry. Even experts whose business it is to analyse the Budget sometimes have difficulty in determining just where and how the money goes out. In addition, any analysis of the degree of realism manifested in the planning of the expenditure for the coming year should pay attention to whether the trend in a given item is upward or downward. This is possible, or at least much easier, if the same expenditures are placed in the same position each year.

However this may be, the Budget is divided on the expenditure side into a number of items, or positions, and accounts, which need to be carefully investigated, and from which it should be possible to see where the money is going. The expenditure of the

budget is divided into current, capital and "borrowing minus repayments".

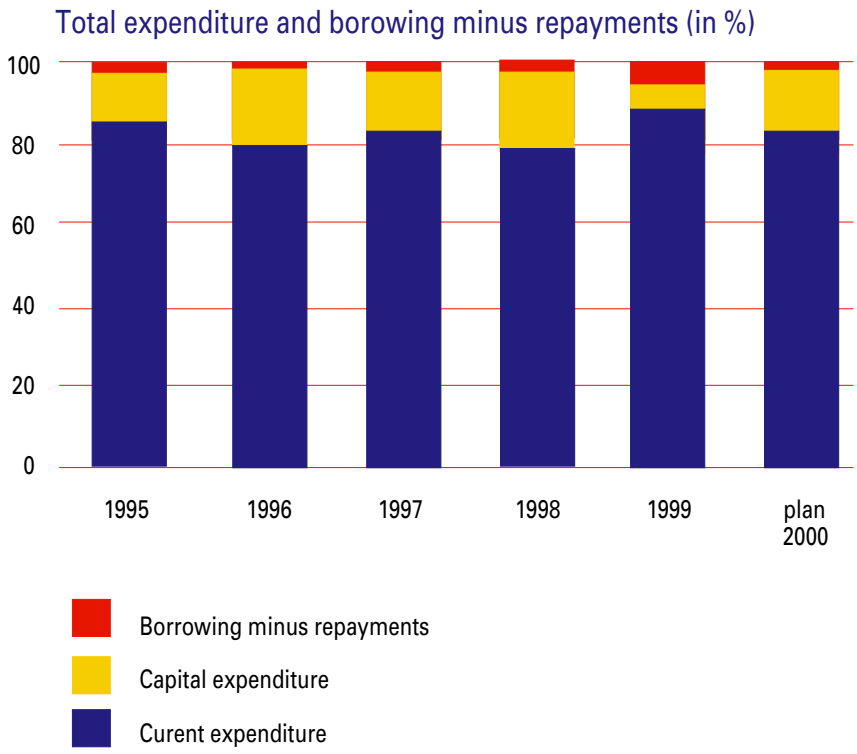
So, then, the expenditure of the Budget is divided into:

* current expenditure,
* capital expenditure,
* borrowing minus repayments, subdivided into
  - loans made by the government and the equity it holds,
  -repayments of loans that the government has made.

How are the revenue and expenditure of the Budget divided?

The best way in which to become informed about individual revenue and expenditure in the Budget is to take a look at the account plan of the Budget (OG 09/94, NN 15/96, 94/98 and 165/98), and the Regulations about the Implementation of the Account Plan of the Budget (NN 165/98). Thus for example value added taxes, special taxes and turnover tax are all entered under account group 020. Each of these individual taxes is further divided into sub-groups, e.g., VAT into sub-group 10, and excise into sub-group 20. The sub-groups of the account are further divided into sections and basic accounts. There is the same kind of division for expenditures.

GROUP	SUBGROUP	SECTION	BASIC ACCOUNT	NAME OF BUDGETARY ITEM
				Revenue
020				Value added tax, special tax, turnover tax
020	10			Value added tax
020	10	010		Value added tax
020	10	010	10	Value added tax
020	10	010	20	Value added tax on imports
020	10	010	30	Value added tax on the services of foreign companies
020	20			Special taxes (excise)
020	20	010		Special taxes on petroleum derivates
020	20	020		Special tax on alcohol
		030		Special tax on beer
-	-	-	-	-
				Expenditure
100				Operating expenses
100	10			Expenses for employees
100	10	010		Gross pay and wages
100	10	010	10	Pay of junior and senior civil servants
100	10	010	20	Pay of trainees and temporary employees
100	10	010	30	Civil servants' overtime
-	-	-	-	-



The graph clearly shows that the major part of government expenditure goes on current expenses, which between 1995 and 2000 made up on average about 80% of the total expenditure of the budget. The second category is capital expenditure, accounting for an average of 18%, and loans (to the counties and so on) for 2%.

What is current expenditure?

As briefly as possible, this is government expenditure as a result of which goods and service with a lifetime of less than one year come into being. Among these we can count:

* operational expenses (pay and benefits for people employed in the public sector),
* financial and other external expenses (repayment of interest and principal, defence, education, payments clearing and so on),
* current transfers and supports to budgets and budgetary beneficiaries (national institutions, ministries, healthcare establishments, counties...),
* current transfers and supports to extra-budgetary beneficiaries (transfers for items that have a welfare component, such as welfare, child supplement, maternity leave, pensions, non-profit organisations, religious communities and the like),
* current transfers abroad (membership dues in international institutions),
* subsidies (agriculture and so on),
* other current transfers (to companies like the Electricity Corporation, the Railways, etc.)

Capital expenditure

Capital expenditure refers to spending to obtain fixed assets, to capital transfers and supports in money and things. Capital expenditure usually relates to good or services that have a lifetime of longer than a year, and can have an influence on future income and the current state of assets.

Capital expenditure is divided into the following categories in the Budget:

* expenditure for procurement, construction and investment maintenance (roads, railways, bridges...)
* domestic capital transfers (to financial institutions, firms, citizens...) and
* capital transfers abroad (to other states, international institutions, individuals and so on).

Loans minus repayments

The budgetary item of loans minus repayments shows loans that the state makes to beneficiaries at home and abroad, and repayments of loans made by beneficiaries at home or abroad. It aslo shows equity in public corporations and in other firms in which the government has holdings. Accordingly, the loans minus repayments item has actually got three compartments.

In the first part, which is called "loans made by the government and equity", government loans at home (to counties, communes, citizens, public corporations, non-profit organisations, commercial banks and so on) and abroad (to other governments and international organisations) are shown.

The second part relates to loan repayments to the government. In other words, "repayments" means the money that is being returned to the state or government by all those whom the government has lent it to (the counties, citizens, corporations, commercial banks and so on).

The third part shows the equity held by the state in public and private corporations and companies, institutions and other organisations.

Here one should stress that the item called loans minus repayments does not include or show transactions that the state undertakes when it has a surplus and wishes to invest somewhere in order to make money, or when it has a deficit and has to borrow. Such transactions, it should be remembered, are shown in the financing account, and the financing account has no similarities whatsoever to the item loans minus repayments. In fact, we shall soon have something to say about the financing account in more detail.

Urgent and unforeseen expenditure

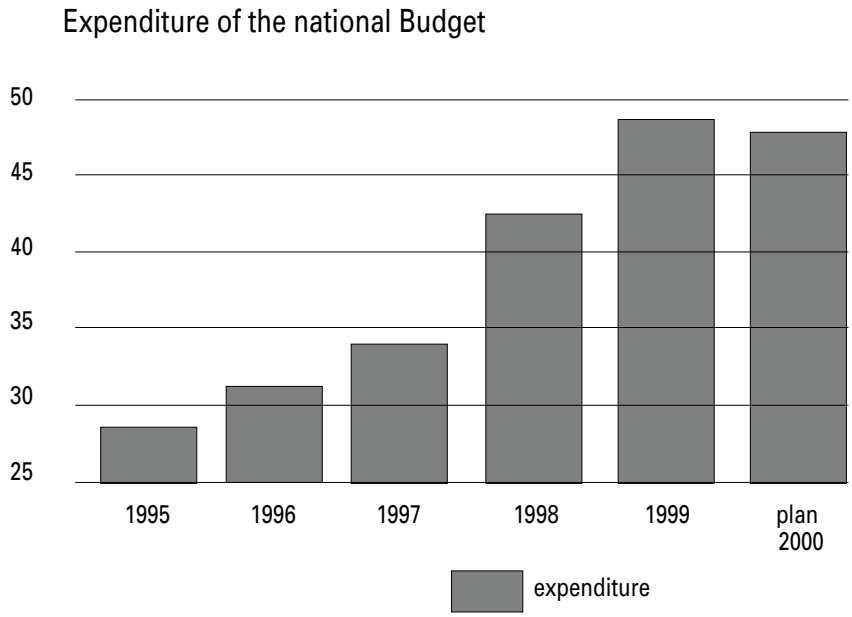
There need not be many words wasted on the fact that the state, like an individual, may have to set aside something for urgent and unforeseen expenditure. The solution for this, of course, is in the existence of certain reserves, which are in fact called the current reserves of the budget. One of the key points here is who approves the use of these reserves. The Government of the country, the prime minister and the finance minister all have this power. Thus, for example, in the Budget for 2000, it was

prescribed that the finance minister could approve the employment of these reserves for an individual amount of 100,000 kuna, the prime minister for up to 500,000. Bigger sums have to be approved by the Government as a whole. The conditions under and ways in which reserves are used are prescribed in the Budget Execution Law, which is adopted each year together with the national Budget.

The amounts and the employment of the current reserves can change from year to year. How much each beneficiary has used can be seen only at the end of the budget year. Only then will the execution of the budget and the list and amounts of resources used from the current reserves of the budget be placed before the Parliament. How current reserves were used in 2000 will become evident only in May 2001, when Parliament debates the execution of Budget 2000.

Total expenditure of the national Budget

It has already been stated that total expenditure and loans minus repayments will be included into the expenditure side of the Budget. How has the overall level of expenditure changed since 1995?



NB: amounts are in billion kuna

Since 1995, the expenditure of the national Budget has almost doubled. In 1995, it came to 28.6 billion kuna. In the next five years it increased and in 2000 was planned to come to 48.4 billion kuna. This is more than enough reason to look at the structure of expenditure, particularly during the period of greatest growth, i.e., in 1998 and 1999.

To obtain a complete picture about how the expenditure of the budget was distributed, one should follow the standard budgetary

classification. Budgetary expenditure is shown in tables 3 and 4, which are drawn up according to the administrative and the functional classification of the Budget. The administrative classification shows where the money was spent, and the functional classification shows what on.

It should be mentioned that expenditure shown according to the administrative classification includes some resources from the financing account that relate to borrowing (repayment of interest and principal of government debts) and are shown in the Ministry of Finance position. The functional classification shows a smaller amount of expenditure for 1998 and 1999, since it does not include the financing account. At this point, however, one should draw attention to how the money is split up among individual users, or which budgetary beneficiaries have swallowed the biggest part of the Budget cake.

Table 3 The administrative classification of budgetary expenditure (in %)

Budgetary beneficiarires	1995	1996	1997	1998	1999	Plan 2000
Ministry of Finance	12,20	17,30	18,57	22,19	18,60	26,76
Ministry of Defence	35,96	25,51	23,94	15,74	10,72	8,71
Ministry Marine Affairs, Transport and Comm.	7,52	9,98	8,98	8,86	10,09	6,33
Ministry of Labour and Welfare	4,37	6,30	7,81	7,94	10,48	11,30
Ministry of Education and Sport	8,89	8,47	8,37	7,76	8,58	8,99
Ministry of Internal Affairs	9,54	8,79	8,73	6,90	6,10	5,72
Ministry of Development, Immigration and Reconstruction (from 2000, Ministry for Public Works, Reconstruction and Construction)	3,09	5,32	5,16	5,43	4,04	5,17
Ministry for Veterans			0,00	4,66	4,91	4,49
National Institute for the Protection of the Maternity and the Family			2,04	3,00	4,00	3,81
Ministry of Science and Technology	3,79	3,62	3,66	3,52	3,51	3,78
Ministry of Agriculture and Forestry	1,78	1,87	1,92	2,55	3,01	3,15
Ministry of Health	1,41	2,21	0,47	1,90	2,21	2,30
Ministry of Justice (from 2000 Ministry of Justice, Administration and Local Government)	1,93	1,97	2,02	1,91	2,38	3,67
Ministry of Administration (National Directorate for the Civil Service and Local Government)	1,36	1,16	1,22	1,09	1,08	
Ministry of Culture	0,58	0,61	1,04	0,90	0,90	0,97
National Water Administration	0,03	0,31	0,29	0,67	0,80	0,67
Ministry of the Economy	0,85	1,10	0,99	1,55	5,43	0,76
Ministry of Foreign Affairs	1,17	0,84	0,88	0,74	0,71	0,58
Ministry of Tourism	0,18	0,21	0,19	0,53	0,61	0,53
Government of RC	4,03	2,96	2,55	0,37	0,34	0,31
Croatian Mine Clearing Institute				0,20	0,29	0,42
Croatian Parliament	0,15	0,19	0,20	0,18	0,26	0,23
Office of National Security	0,01	0,22	0,26	0,13	0,14	0,10
Ministry of Planning, Construction and Housing	0,35	0,29	0,07	0,06	0,09	
National Statistics Office	0,11	0,08	0,09	0,06	0,09	0,07
State Inspectorate				0,05	0,08	0,23
State Administration for the Protection of Nature and the Environment	0,03	0,02	0,02	0,08	0,08	0,17

Budgetary beneficiarires	1995	1996	1997	1998	1999	Plan 2000
National Geodetic Institute	0,09	0,13	0,11	0,09	0,08	0,19
State Hydro-Meteorological Institute	0,11	0,09	0,10	0,08	0,08	0,07
National Audit Office	0,08	0,06	0,06	0,05	0,07	0,07
President of the Republic	0,05	0,05	0,05	0,04	0,06	0,04
Ministry of Return and Immigaration		0,00	0,04	0,03	0,01	
Ministry of Privatisation	0,00	0,01	0,03	0,02	0,00	
HINA				0,04	0,04	0,03
State Standards Institute	0,04	0,03	0,03	0,02	0,03	0,03
Constitutional Court	0,04	0,03	0,03	0,02	0,04	0,04
State Intellectual Property Institute	0,01	0,01	0,01	0,01	0,01	0,01
Securities and Exchange Commission			0,01	0,01	0,01	0,01
Croatian Agency for the Promotion of Investment				0,01	0,01	0,01
State Hydrographic Institute	0,01	0,01	0,01	0,01	0,01	0,01
Agency for the Protection of Market Competition			0,00	0,01	0,01	0,01
Croatian Information and Document Reference Agency					0,01	0,01
Public Defender's Office	0,01	0,01	0,00	0,00	0,01	0,01
Commission for Relations with Religious Communities					0,00	0,00
State Institute for Macroeconomic Analysis and Forecasting	0,01	0,01				
State Agency for the Protection of the Cultural and Natural Heritage	0,21	0,21				
State Directorate for Commodity Reserves	0,01	0,03				
Ministry for European Integration (from 2000)						0,05
Ministry for Trades and SME (from 2000)						0,23
Total expenditure	100	100	100	100	100	100

Source: Ministry of Finance of RC, 2000

The first seven ministries swallowed 80% of the cake. The other beneficiaries, far more of them, had only 20% at their disposal.

The classification of the Budget

Budget expenditure can be classified administratively or functionally. An administrative classification implies the presentation of expenditure in terms of the administrative units that use budgetary resources (the ministries of defence, welfare and so on). Functional classification purports to show the amount spent on a certain purpose such as defence, education, health care, public order and security and so on. But just because resources are allocated to a given ministry, it does not necessarily mean that they are spent in this ministry for its nominal function. The ministry of defence, for example, can give various kinds of welfare supplements to ex-soldiers. In this case, functionally, the expenditure should be shown as welfare, and not as defence. Looking at the administrative classification alone, then, can lead members of parliament astray in evaluating and deciding about the allocation of budgetary resources.

For a better insight into how budgetary resources are actually spent on given purposes it is necessary to look at the functional classification. Expenditure shown according to a functional

classification is, we repeat, smaller, because borrowings that are shown in the financing account are not included.

Table 4. Expenditure of the national Budget according to a functional classification

	1997	%	1998	%	1999	%	Plan 2000	%
1. General public service	2.182	6,30	3.382	8,17	3.047	6,4	2.572	5,4
2. Defence	6.990	20,30	7.373	17,81	5.617	11,9	4.786	10,0
3. Law and order	4.169	12,10	4.251	10,27	4.628	9,8	4.845	10,2
4. Education	4.050	11,80	4.669	11,28	5.718	12,1	6.501	13,6
5. Health	184	0,50	817	1,97	476	1,0	466	1,0
6. Welfare	6.451	18,80	8.025	19,39	11.300	23,9	11.818	24,8
7. Housing and utilities	2.069	6,00	2.620	6,33	2.025	4,3	1.550	3,3
8. Recreation, culture and sport	539	1,60	577	1,39	842	1,8	898	1,9
9. Fuel and power	-	-	-	-	0,7	0,0	0,3	0,0
10. Agriculture, forestry, hunting and fishing	616	1,80	1.103	2,66	1.245	2,6	1.520	3,2
11. Mining, industry and construction	692	2,00	729	1,76	2.819	6,0	626	1,3
12. Transport and communications	3.433	10,00	4.073	9,84	5.304	11,2	4.558	9,6
13. Other economic operations and services	648	1,90	548	1,32	659	1,4	753	1,6
14. Expenditures not classified in the main groups	2.364	6,90	3.222	7,78	3.694	7,8	6.806	14,3
TOTAL EXPENDITURE	34.395	100	41.390	100	47.379	100	47.705	100

Source: Monthly Statistical Review of the Ministry of Finance no.56. 2000 NB: amounts are in million kuna

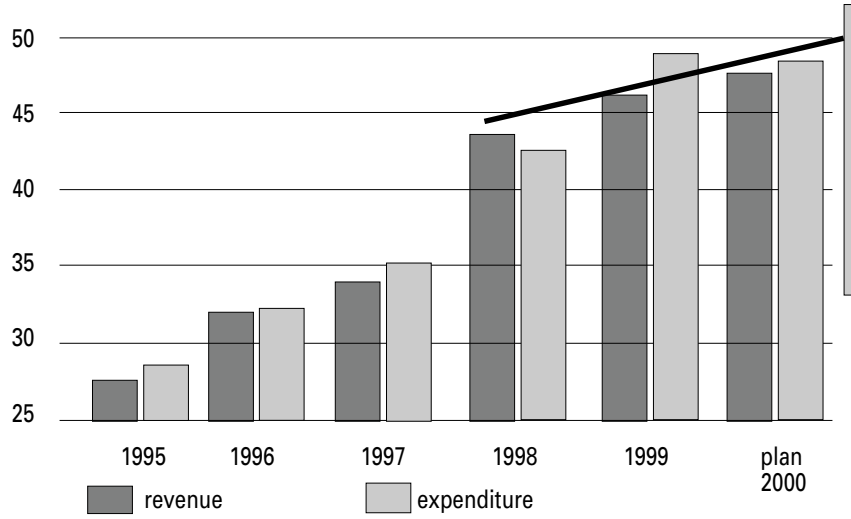
In terms of a functional classification, in 1997 to 2000 most went on defence, education, welfare, and general public service.

It should be emphasised that defence costs did decrease from 20% in 1997 to 11.9% in 1999, and to 10% in the plan for 2000. It is the same with expenditure on law and order, which decreased from 12% in 1997 to 9.8% in 1999. In terms of a functional classification, welfare costs rose from 18.8% in 1997 to 24% in 1999. Expenditure for transport and communications (road and bridge building and the like) amounted on average to about 10% of expenditures shown according to the functional classification.

1.4. The financing account - deficit, surplus and rebalancing

If budgetary expenditure is greater than income or revenue, then the state has to decide to borrow money at home or abroad. The government can borrow to precisely the amount it needs to make up the shortfall. In practice, things work in the following way. The parliament has voted a budget of 48.3 billion kuna. That is how much budgetary expenditure amounts to for 2000. But in fact, revenue is 47 billion. Accordingly, we need another 1.3 billion, to cover the necessary level of expenditure in 2000 of 48.3 billion kuna. For this reason, the state resolves to borrow abroad.

It may of course happen that, as in 1998, there is an unexpectedly large influx of money into the Budget. Thanks to VAT, in that year the Budget had an unforeseen surplus. This surplus was used to pay off foreign and domestic debts. All such transactions (borrowing or paying back loans) that relate to the surplus or deficit of the Budget are entered in the part of the Budget that is called the financing account.



NB: Amounts are in billion kuna

In other words, as well as the part of the Budget that covers expenditure and revenue, there is another part, the financing account. This consists of:

a) receipts from financing - money that the state has obtained by borrowing, from the World Bank, the European Bank for Reconstruction and Development and so on;

b) repayments - money with which the government pays domestic and foreign loans that have fallen due (interest and principal);

c) the statement of surplus (or deficit) (Use of a surplus is not shown directly in the financing account. The use of potential surpluses from the year before is prescribed by the Budget

Execution Law, passed each year together with the Budget proposal for the next year.)

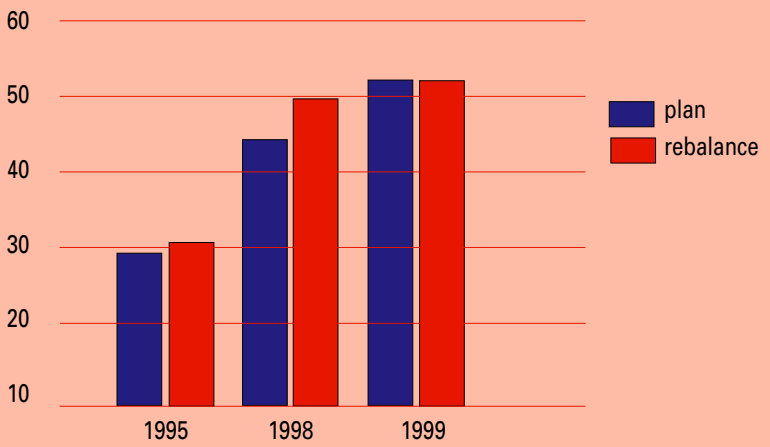
For this reason the financing account shows how much the state intends to borrow in the fiscal year, how much money it intends to earmark for repayment of debts that have fallen due, and the statement of surpluses.

If the revenue and expenditures of the fiscal year are put together, and if the expenditure is greater than the revenue, then the budget is said to be in deficit (the state lacks the money to do everything it planned to do). If the state has not enough money to cover its expenses, it can decide to use the instrument of the public debt (like loans and government bonds). When this borrowed money has to be given back, the repayment is also shown in the financing account. It can also happen that the budget is in surplus (there is an excess of money). Following Article 10 of the Budget Law, the manner in which a surplus is used is laid down in the Budget Execution Law, passed each year with the Budget proposal for the next year.

This ends the story about one compartment of our purse, the Budget. In the sequel we will show the basic elements of the budgets of the extra-budgetary funds. In addition, the notion of the consolidated budget of central government will be explained.

What is rebalancing the Budget?

A rebalance or revision of the Budget is a change of the amounts of the Budget, that is, their diminution or enlargement as against the plan of the Budget passed at the beginning of the year. Reasons for rebalancing a budget often relate to lack of realism in the evaluation of individual budgetary revenue items, or the need to increase given items of expenditure. They are largely related to changes in the level of economic activity, which have a direct impact on the regular inflow of revenue to the national Budget. In the last five years (1995 to 2000) there have been three Budget rebalances: 1995, 1998 and 1999.



NB: amounts are in billion kuna

In 2000, Croatia is going on with the practice of rebalancing the Budget. The reasons for the rebalance are a reduced level of revenue as against planned revenue, increased expenditures of the extra-budgetary funds and the need to finance them, the failure to realise planned privatisation revenue, and the need to increase government borrowing abroad.

2. The budget of the extra-budgetary funds

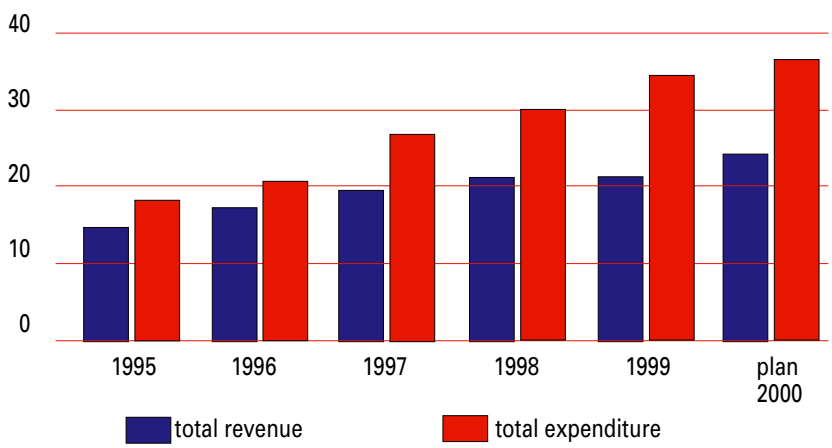
The government finances most of its welfare functions through the extra-budgetary funds. Here one means primarily health care, pensions, employment, welfare and child benefit. The government also runs the budget of the Public Water Management Fund, a public corporation, as an extra-budgetary fund. Thus in Croatia there are five extra-budgetary funds, and each of them has its own budget. However, they are regarded as being one, the budget of the extra-budgetary funds.

The extra-budgetary funds are defined as legal entities founded pursuant to the law, and financed from contributions, transfers from the national Budget and revenue from the sale of shares (the Pension Fund).

The extra-budgetary funds	Sources of revenue
1. Pension Fund	Employees' and employers' contributions (10.75% and 8.75% of wages, respectively), the shortfall being made up from the Budget.
2. Health Insurance Fund	Employees' and employers' contributions (9% and 7% of wages), the shortfall being made up from the Budget
3. Employment Fund	Employees' and employers' contributions (0.85% and 0.85%), the shortfall being made up from the Budget.
4. Child Benefit Fund	Transfers from the Budget and other revenue
5. Public Water Management Fund	Fees and transfers from the Budget

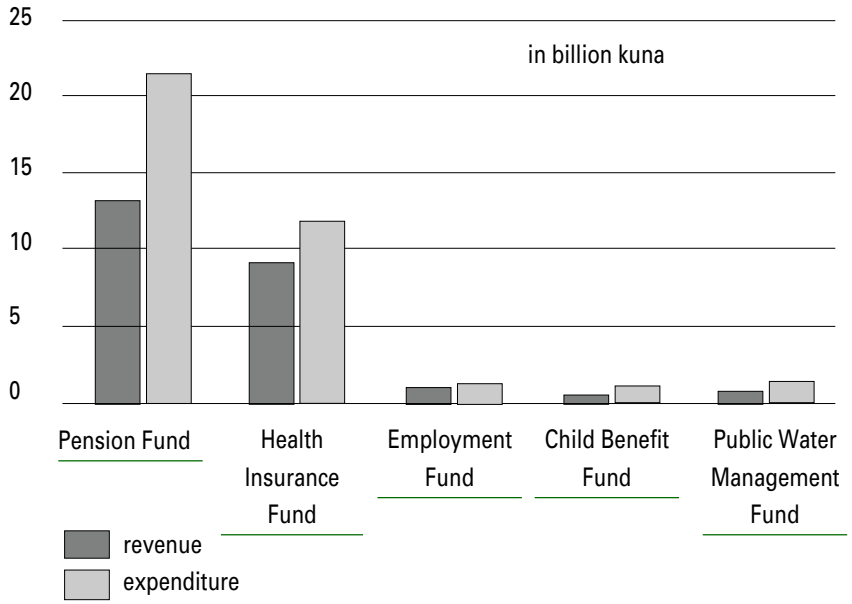
The extra-budgetary funds, then, have their revenue from their own proper sources, but also receive some of their revenue from the Budget. The figure below shows to what extent the funds' resources are capable of covering their expenditure.

Total revenue and expenditure of extra -budgetary funds in billion kuna



It is easy to see that the revenue of the extra-budgetary funds is not enough to cover their expenditure. In the period from 1995 to 2000 they were clearly in deficit. In 1995 the deficit came to 2.2 billion kuna, which went up so much that in 1999 it came to 13 billion kuna, and in 2000 the planned deficit is 12 billion kuna.

Plan of revenue and expenditure for the extra-budgetary funds in 2000



The picture clearly shows that all the Croatian extra-budgetary funds in 2000 are in deficit individually, not just as a group. Thus the Pension Fund alone is in deficit to the tune of 7.8 billion kuna. A way out of this situation has been sought through transfers from the national Budget, planned in 2000 in the amount of 9 billion kuna. The question, of course, remains of how to finance the remaining deficit of the funds. The answer is - borrowing. The state has used the instrument of the public debt, that is, loans and bonds that are sold on the international capital markets so as to cover the expenditure of the extra-budgetary funds in the year 2000.

You can find summaries of the budgets of the extra-budgetary funds in the Official Gazette or on the Internet at www.nn.hr in the official part of the paper for the days when the national Budget and the Budget Execution Law are voted in. For 1999, these are NN 167/98, 17/99, 70/99, 113/99 and for 2000 they are 128/99 and 33/00.

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A simple calculation of the relations between the national Budget and the extra-budgetary funds enables us to arrive at the meaning of the concept of the consolidated budget of central government.

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The extra-budgetary funds draw up their budgets at the same time as the national Budget is being made. Each fund makes its own proposal for a financial plan and submits it to the finance minister, as a proposal of a financial plan, by the end of September for the following year. Then the abstracts of the financial plans of the extra-budgetary funds are appended to the proposal for the national Budget and submitted to parliament for debate. After the debate, the parliament will approve them together with the national Budget (usually at the end of December for the coming year). You can find more about the way they work in NN (Official Gazette) 92/94.

What is the consolidated budget of the central government?

There are, as has already been said, three levels of budget through which the state gathers and also spends the money. For the sake of easier understanding, the budgets are presented as three compartments of a single purse - the budget of general government; they are the national Budget, the budget of the extra-budgetary funds and the local government budget.

The consolidated central government budget is nothing but the sum of receipts and expenses of the two parts that are at the level above the local: the government Budget and the budget of the extra-budgetary funds. In the consolidation, one omits the monetary transactions through which money is transferred from one part, the Budget, to the other, the extra-budgetary funds.

All this is done in order to find out how much money altogether has arrived into these two parts of the budget, and how much has been paid out from them. The expenditure of the extra-budgetary funds, their deficits that is, is partially financed with resources from the national Budget. In order to arrive at the consolidated central government Budget, one has to go through two steps, that is:

1. consolidation within the extra-budgetary funds, which implies the cancelling out or omission of transfers among the extra-budgetary funds (for example, the money that the Health Insurance Fund pays to the Employment Fund, and vice versa, and the same for all the other extra-budgetary funds),

2. consolidation (or cancellation) of money transfers from the national Budget to the extra-budgetary funds.

Through data about the plan for the consolidated central government Budget for 2000, a second level of consolidation between the Budget and the extra-budgetary funds can be seen.

Table 5. The consolidated plan of the budget of the central government for 2000 (in million kuna)

Total revenue and grants	**71.213,1**
National budget	47.030,1
Extra-budgetary funds	24.183,0
Pension Fund	12.907,0
Health Insurance Fund	9.489,0
Employment Fund	823,0
Child Benefit Fund	1,0
Public Water Management Fund	963,0
Total expenditure	**73.614,4**
National budget	37.192,0
Extra-budgetary funds	36.421,4
Pension Fund	20.727,0
Health Insurance Fund	11.962,0
Employment Fund	1.124,4
Child Benefit Fund	1.135,5
Public Water Management Fund	1.474,5
Total deficit/surplus	**-2.400,0**
National budget	***9.838,1***
Extra-budgetary funds	***-12.238,0***
Pension Fund	-7.820,0
Health Insurance Fund	-2.473,6
Employment Fund	-301,4
Child Benefit Fund	-1.132,5
Public Water Management Fund	-511,5

Surce: Official Gazette 33/00.

The consolidated revenue of the central government is 71.2 billion kuna. When we put this against the total consolidated expenditure of 73.6 billion kuna we obtain deficit of 2.4 billion kuna for the consolidated central budget.

The total deficit of the extra-budgetary funds is 12.2 billion kuna, which is covered by 9.8 billion in transfers from the Budget. Thus the resulting deficit of 2.4 billion kuna of the consolidated central budget as to be financed by borrowing.

We repeat: the consolidated budget of the central government is mainly useful as an indicator of the real state of financial relationships between the Budget and the extra-budgetary funds.

3. The budget of local government and administration units

Citizens of the Republic of Croatia have the constitutional right to local government, which includes the right to take part in the decision-making about local needs and issues. For this reason, the country is divided into cities and communes (local administration units) and counties (local government and administration units). Local units are the third level of the budget through which the state gathers and spends money. In Croatia, each local unit has its own budget, that is, its own revenue and expenses.

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Croatia has 20 counties (and the city of Zagreb), 420 communes and 123 cities. The basic laws that regulate the distribution of responsibilities, the territorial organisation and budgetary issues are: the Local Government and Administration Law (NN 90/92; the County, Commune and City Areas Law, NN 90/92; the City of Zagreb Law, NN 22/93; the Local Government and Administration Units Financing Law, NN 117/93; the Zagreb County Law, NN 69/95; the County, Commune and City Areas Law, NN 10/97; the Law on Amendments to the Country, Commune and City Areas Law, NN 68/98.

Nevertheless, what is essential here is that all the budgets of the local units are at the national level managed as a single budget - the local units budget. For this reason it is not necessary to go into an analysis of the budget of each and every local unit. In the budget of each local unit, the revenue and receipts that belong to that unit are shown, as well as the expenditure necessary to support its work, and the receipts and expenses related to the assets owned by the unit.

The most important revenue of the local units budget

The revenue of the local units budget is recorded in the same way as that of the national Budget. All the revenue of the local units is divided into tax revenue, non-tax revenue, capital revenue and grants.

Table 6 Revenue of local units in the Republic of Croatia in % of budgetary revenue

Revenue	1995	1996	1997	1998	1999
Tax revenue	66,24	55,89	52,73	55,94	51,83
Non-tax revenue	22,69	31,41	33,32	29,25	30,87
Capital revenue	4,80	4,93	6,25	5,12	7,13
Grants	6,27	7,77	7,70	9,70	10,17
Total	100	100	100	100	100

Source: Ministry of Finance, 2000

Taxation is the leading item in the budgets of local units, although there is an evident downward trend, from 66.24% in the total revenue in 1995 to 51.83% in 1999. Second most important is non-tax revenue, the share of which has been on the increase from the 22.69% of 1995 to 30.87% in 1999. The share of capital revenue has also increased, and in 1999 represented 7.13% of all the revenue of local government. Grants from the central government to local government represented 10.17% of the revenue of the local units in 1999.

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What are grants?
Grants are additional sources of financing for local units. Only those local units that have below-average fiscal capacity have the right to grants, that is, those units that cannot cover their necessary budgetary expenditure with their own revenue. The grants for local units depend on the differences between the amount of their necessary budgetary spending and the magnitude of their fiscal capacity. In Croatia there are two kinds of grant - general and special-purpose.
General grants and the manner in which they are made are governed by articles 48 and 49 of the Local Government and Administration Financing Law. Counties in the area of which the revenue of all local units, assuming an average tax burden, is below the national average (saving the city of Zagreb) are given grants from the national Budget in the amount of the difference between their realised per capita revenue and 75% of the national per capita average. A grant is not provided to a county in the region of which the amount of surtax is less than 1% or the rate of tax and the amount of tax is lower than the legal minimum rate. By the same criterion, a county provides a fiscal equalisation grant from its own budget to the cities and the communes, with the proviso that it takes the average county per capita income as the base for the fiscal equalisation. Grants do not apply in the case of cities with a population of above 40,000 that can introduce surtax.
The government can also give local units special-purpose grants and assistance to communes and cities that have suffered from war damage or natural disasters.

The basic source for the financing of local governments is the legally defined sharing of common taxes between the central government and the lower levels of government, i.e., local units. Common taxes are: personl income and corporate income tax, the gambling tax and the real estate commerce tax, all of which are divided among central government, county and city or commune. The following table shows the way in which the tax is divided among the individual levels of government:

Table 7 Common taxes and their division in % among the levels of government

Kind of tax	Central government	County	Commune or city	Zagreb
Income tax	60	8	32	—
Income tax (Zagreb)	50	5	—	45
Profit tax	70	10	20	—
Real estate commerce tax	40	—	60	—

Source: Local Government and Administration Financing Law, NN 117/93, NN 33/2000

Local public expenditure is largely financed by joint taxation, mostly income tax and surtax. This is shown by the extent to which income tax and surtax account for overall taxation.

Table 8 The main sources of taxation revenue of local units in Croatia in percentages of total taxation revenue

Taxes	Counties		Communes		Cities		Zagreb	
	1997	1998	1997	1998	1997	1998	1997	1998
Income tax and surtax	52,57	54,02	66,61	66,28	66,78	67,46	68,59	69,23
Profits tax	28,23	27,33	6,82	7,15	17,98	19,07	20,62	22,19
Real estate commerce tax	4,17	6,13	22,21	21,54	12,62	10,79	8,80	6,72
Inland tax on goods and services*	12,95	12,52	4,08	4,70	2,50	2,60	1,99	1,86
Other taxes	2,08	0,00	0,28	0,32	0,12	0,07	0.00	0,00
Total	100	100	100	100	100	100	100	100

*Inland taxes on goods and services are taxes on consumption, organising sports and entertainment events, gambling, advertising, road motor vehicles, vessels.

Source: Ministry of Finance of RC, 1998

Income tax and surtax account for more than 50% of all taxes in the revenue of local units, thus playing a major role in their budgets. Other taxes have varying roles. Thus, profits tax and inland taxes on goods and services represent on average 27.5 and 12.7% respectively of county revenue. For communes, the second most important tax is the real estate sales tax, an average of 22%.

What is surtax?
Surtax is an addition to a tax (usually to income tax), the base for it being constituted by a tax that has already been paid. It is usually introduced on direct taxation. In Croatia, cities with more than 40,000 inhabitants have the right to introduce surtax. The rate of surtax usually ranges between 6 and 7.5%, but in Zagreb it is 18%,

The procedure of adopting local unit budgets
The deadlines for the planning, drawing up and adoption of local government units are prescribed in the Budget Law (NN 92/94). The process is quite similar to that in the national Budget. The competent local office draws up the proposal of the local budget, submits it to local executive government, and during the month of October submits it to the local authority.
The authority discusses the budget proposal, and takes part in the process of adjusting the various demands of budgetary beneficiaries. After this, by 15 November at the latest, the authority submits the proposal to the council for adoption. The council should adopt the budget by 15 December for the next year at the latest.

However, for what purposes are the resources of local units used?

The expenditure of local units

Table 9 Expenditure of local units, a functional classification in %

EXPENDITURE	1996	1997	1998	1999	Plan 2000
General public services	23,00	19,64	19,52	21,30	21,09
Law and order	0,52	0,48	0,44	0,48	1,01
Education	11,62	11,07	10,72	11,36	10,99
Health care	0,98	0,98	4,30	1,10	0,82
Social insurance (welfare)	3,62	3,55	3,23	3,09	3,19
Municipal services	26,97	30,64	24,59	23,52	24,92
Recreation, culture and religion	9,60	13,24	13,39	16,18	14,58
Agriculture, forestry and fisheries	0,67	0,85	0,66	0,71	0,86
Mining, trades and construction	4,15	3,34	4,36	3,69	3,73
Transport and communications	13,23	10,95	13,04	13,24	12,68
Other economic affairs	4,13	4,28	4,65	3,55	4,25
Miscellaneous expenditure	1,51	0,98	1,09	1,78	1,89
TOTAL EXPENDITURE	100	100	100	100	100

Source: Finance Ministry, 2000

The functional classification of local unit expenditures between 1996 and 2000 shows what local units used their resources for. The biggest item was municipal services (utilities), 23% on average, then general administrative services (21%). After that came expenditure on transport and communications (bridges and roads and so on, 11%), and education (10% of all expenditure).

4. The consolidated budget of the general government

We have already remarked that there are three levels of the budget into which the state collects, and from which it spends, money. The consolidated budget of the central government, as has been said, is the sum of receipts and expenditures of two sections (the national Budget and the budgets of the extra-budgetary funds), it being most important to leave out the transfers of money from one part to the second part of the purse. To get a complete picture it is necessary to consolidate the Budget of the central government with the budgets of the local government units. In this way, all transactions between all the budgets are eliminated, and a consolidated general government Budget is obtained.

Four steps to a consolidated general government budget

1. Consolidation within the extra-budgetary funds, which means leaving out payments among the funds (i.e., the money paid by the Health Insurance Fund to the Employment Fund, and vice versa, and so on in the case of all the other funds).
2. Consolidate payments from the national Budget to the extra-budgetary funds.
3. Consolidation of payments of local units with their budgetary beneficiaries (counties and communes or cities). Thus a so-called consolidated local units budget is obtained (the local government budget).
4. Consolidation of payments between the budgets of the central government and the budgets of the local units, which thus provides a consolidated general government budget.

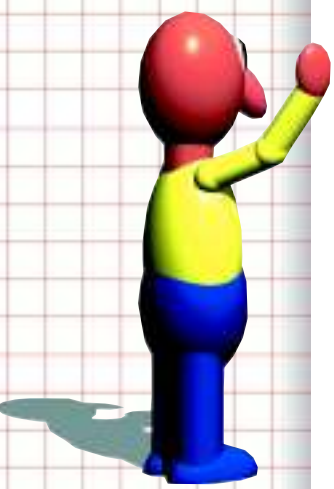
The consolidated Budget of general government is, then, the result of consolidation, that is, the cancellation of all monetary transactions among the sectors, of all three compartments of the purse - the national Budget, the budget of the extra-budgetary funds, and the budget of local government units. Only the Budget of general government can give a real picture of the size of the state or government sector, that is, the revenues and expenditures of the public sector.

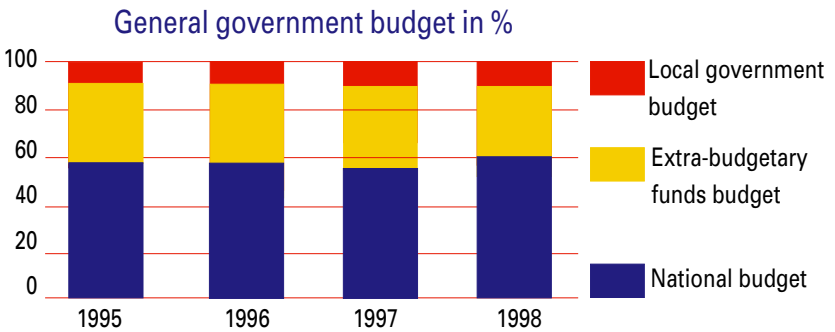
In practice to date, Parliament has not discussed the budget of general government, although the provisions of the Budget Law states that this should be done. What is the problem about drawing up a budget for general government? Employees of the Finance Ministry who deal with the budget do not manage to register all the payments between the Budget and, for example, local government units. On the other hand, people working in the budget departments of communes, cities and counties often plan their revenues and expenditures unrealistically and send them to the Finance Ministry late. This is a constraint on the planning of the budget of general government and its approval in Parliament.

Officially, only data about the execution of the budget of general government are published. The last available data are published with a delay of two years. For this reason government statistics can show only the execution, or realisation, of general government budget for 1998. Because of this kind of technical problem the proposal, or plan, of the general government budget has never yet been discussed in Parliament as part of the Budget debate. The absence of parliamentary debate about the general government budget in Parliament means that there is no debate about the expected or planned overall surplus or deficit of the state. For this reason, then, problems arise to do with the lack of any restrictions on the overall deficits of the general government budget, because of which in turn it is very difficult to keep up with and to record the levels and structure of the public debt of the Republic of Croatia.

What is the structure of the budget of general government?

If one looks at the overall amount of the general government budget and compares this amount with the parts of the three budgets mentioned (the national Budget, the budget of the extra-budgetary funds and the local government budget), the following magnitudes can be arrived at.





The national budget, its revenue and expenditure, accounts on average for 58% of the total amount of the general government budget. The budget of the extra-budgetary funds accounts on average for 31%, and the local government and administration budget for 11%.

For a better insight into the revenue and expenditure of the government, one can take a look at the general government budget after payments among all three levels of the budget have been cancelled, that is, eliminated.

Revenue and expenditure of the (consolidated) general government budget

The table shows the revenue and expenditure of the general government budget for the years 1995 to 1998, the date until which data about the budget are officially accessible and available.

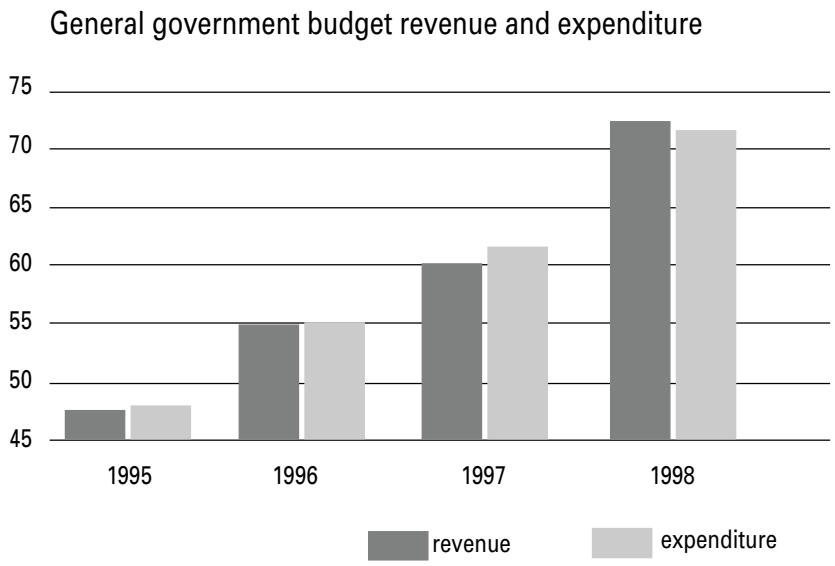
Table 10 The consolidated general government budget (in million kuna)

	1995	1996	1997	1998
A/ Overall revenue and grants (1+2+3)	**47.440**	**54.385**	**60.200**	**72.737**
1. National budget	27.880	31.367	33.846	43.808
2. Extra-budgetary funds	15.191	16.896	19.344	21.067
Pension Fund	8.646	9.503	10.926	10.591
Health Insurance Fund	4.520	5.151	5.771	8.166
Employment Fund	691	673	631	708
Child Benefit Fund	782	878	976	542
Public Water Management Fund	550	688	1.037	1.058
3. Local government and administration	4.368	6.121	7.009	7.861
B/ Total expenditure and borrowings minus repayments(1+2+3)	**48.139**	**54.784**	**61.697**	**72.059**
1. National Budget	26.032	27.376	29.124	33.602
2. Extra-budgetary funds	17.976	21.376	29.124	33.602
Pension Fund	8.860	10.459	13.795	16.170
Health Insurance Fund	7.083	8.357	8.742	10.776
Employment Fund	445	676	714	571
Child Benefit Fund	820	853	1.003	1.032
Public Water Management Fund	766	935	1.266	1.553
3. Local government and administration	4.130	6.126	7.050	8.353
Total deficit/surplus (A-B)	**-699**	**-399**	**-1.497**	**678**

Source: Ministry of Finance of RC, 2000

Total revenue of general government increased from 47.4 billion kuna in 1995 to as much as 72 billion in 1998. By 1997, expenditure in the budget was rising faster than revenue; it had increased from 48 billion kuna in 1995 to 61 billion in 1997. In these three years budgetary expenditure of the general government was greater than budgetary revenue. There was, that is, a deficit in the general government budget. An exception came in 1998, when revenue was greater than expenditure. Only in this year was the state in surplus, in the amount of 678 million kuna.

A graph has been drawn on the basis of the previous table showing the changes in the level of revenue and expenditure in the general government budget during the period 1995-1998.



NB: amounts in billion kuna

In the period 1995 to 1997, the general government budget was in deficit. Only in one year, in 1998, was the revenue of the general government budget greater than expenditure. The budget was in surplus.

Does this mean that the state has no debts to foreign creditors, such as the World Bank, the IMF and so on? The answer is a decided no. The state borrowed before, but also during the whole of the time under consideration, 1995-1998. The surplus in 1998 was used to repay debts owed by the state to domestic and, particularly, foreign creditors. All the debts of the state derived from the need to finance the deficits of general government (embracing all three of our budgets) are called **the public debt.**

What is the public debt?

The public debt may be defined as the accumulated borrowings of the state, or all the claims that creditors have upon the state at a given moment. At issue here are the accumulated budgetary deficits, which the government has financed by borrowing. The public debt is on the whole used as a synonym for the financing of the deficit of the public sector (in our case the deficit of general government). As well as public debt, the phrase national debt is also used.

Depending on whether the state has creditors at home or abroad, there is an understandable distinction between internal and external public debt. Only when the deficits of the local government budgets and the deficits of the extra-budgetary funds are added to the national Budget deficit is the overall indebtedness of the state to home and foreign creditors at a given moment obtained.

Every year the Budget Execution Law lays down the ceilings for borrowing and the total amounts of guarantees. This decision is made by Parliament at the recommendation of the government. The Finance Ministry keeps a list of debts, guarantees given and loans made. Decisions about the national debt, state guarantees and loans are published in Official Gazette.

What are the basic problems that a large public debt brings the state?

1. Because of repayments of interest and principal, the country has less money to use on the financing of public needs (for example, the reconstruction of war-torn areas, the building of motorways, payments of pensions and the like).
2. Through high taxes, the repayment of the public debt burdens not only the present but also future generations of taxpayers.
3. With its borrowing, the state limits the amount of money that could be lent to the private sector (private enterprises), particularly at home when access to foreign funds is limited.
4. An excessive public debt destabilises the domestic economy through possible increased inflation, and the rise in interest rates on loans to households and companies. An excessive public debt reduces the growth capacity of the gross domestic product.

Who are the main creditors?

A large part of the Croatian public debt is the consequence of the particular features of the previous political and economic system and the collapse of SFR Yugoslavia. This refers to both the internal and the external public debt.

The commercial banks are the biggest public sector creditors in the country. At the end of August 1998, claims against the public sector amount to 18% of the total assets of Croatian commercial banks. The biggest creditors abroad are the official creditors like the IBRD and the EBRD and figures in the international financial markets, such as banks, investment funds, insurance companies and so on.

What is the size of our state?

This time, an answer to the question of how big our state is cannot be found in censuses or atlases. In public finances, the size of the state (or government) is used as a concept that signifies the proportion of budgetary expenses of general government in the gross domestic product.

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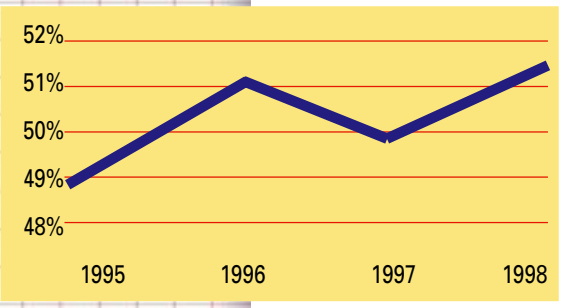
What is the gross domestic product?
Gross domestic product is the indicator of the total value of all goods and services produced in a country during a year.

A state that is too large, meaning, government spending that is too large a proportion of GDP, can be an indicator that the welfare role of the state has expanded, and that the state has to finance such expenditures (on pensions, health care and the like) by increasing its revenue and expenditure. Too great a rise in government expenditure and too great a government on the one hand can be an indicator that a large part of the expenditure is not very sensible. Accordingly, an increase in state expenditure that is in harmony with the growth in growth domestic product is recommended.

Our government is too large. Many experts agree with this judgement, not only at home, but also abroad. How big our government really is can be seen from the following graph.



The proportion of the expenditure of our government in GDP between 1995 and 1998 is on average about 50%. This means that 50% of our GDP is spent through the government and goes on expenditures financed by the state. Bearing in mind that Croatian GDP rises at a rate that is smaller than that at which state spending increases, the only thing to do is to keep an attentive eye on the way the money is spent, and try to ensure that those expenditures in which the money of the taxpayer is consumed irrationally are reduced. In other words, it is necessary to make a redistribution of resources in such a way that it is national priorities that will ensure long-term economic growth that are financed.

The public sector is growing and growing in Croatia
In Croatia it is not possible to say with any certainty what the size of the government is. The Ministry of Finance confirms that in Croatia in the 1995-2000 period the level of state spending rose, and that in 1999 it came to 54% of GDP. Existing indicators of the growth of state spending do not portray the real state of affairs because the total obligations of the state are not included, nor are guarantees, which have to be paid, included in the size of state spending and the budgetary deficit. And so the Strategy for Economic Growth in Croatia in the 2000 to 2003 period says that "if all the unpaid obligations were included, total public spending in Croatia would amount to over 60% of GDP." (Ministry of Finance RC, 2000).

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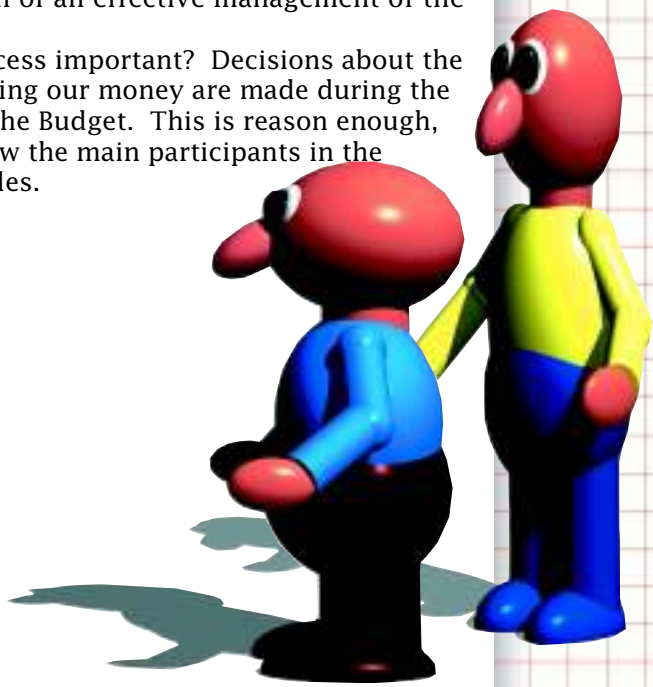
Decisions about the distribution of budgetary resources, the reduction of individual expenditures and so on are part of the budgetary process, in which all of us, all taxpayers, should have an important role. This is an additional reason for all the actions and procedures that precede the drawing up and passing of the Budget to be better known. Accordingly, it is worth getting to know the budgetary process and the people and institutions that take part in it.

II.The budgetary process

The process of preparing, voting in and executing the national budget

The budgetary process is the set of rules (formal and informal) that lets the executive make decisions leading to the preparation of the Budget, its proposal and acceptance in Parliament, and its ultimate execution. In the budgetary process, the government defines the overall plan of the Budget (as well as the planned level of revenue and expenditure), within which decisions are made about the distribution of budgetary resources. Through this distribution, the budgetary process becomes a useful resource in the provision of an effective management of the country.

Why is the budgetary process important? Decisions about the manner of collecting and spending our money are made during the preparation and acceptance of the Budget. This is reason enough, and more, for us to want to know the main participants in the budgetary process, and their roles.



1. Who are the main participants in the budgetary process?

The most important figures involved in the process of preparing and adopting the national Budget are: Parliament (the legislature), the government (the executive), the Finance Ministry, other beneficiaries of the national Budget, and the people. We shall have a little more to say about each of them.

Parliament (www.sabor.hr) is the representative body of all the citizens, it keeps a check on the executive (the government) and is the legislative body of the country. The parliament consists of the House of Representatives and the House of Counties. The houses are in session twice a year - between January 15 and June 30, and between September 15 and December 15. Sessions of the parliament, the Sabor, are public. In this period there are debates about the proposals, and the proper execution, of the Budget.

The House of Representatives has 21 working bodies, the most important of which for the budgetary process are the Legislative Committee and the Finances and National Budget Committee.

Both houses of parliament can protect the interests of citizens. Through its committees and debates, Parliament in both houses analyses the programmes and fiscal policy proposed by the government. Parliament is also the legislative arm of government, and only after it has approved the expenditure and the revenue collection measures recommended by the government can they formally become the Budget for the next year.

The government (www.vlada.hr), the executive arm of government, carries out the policy that is determined by Parliament. The role of the government in the budgetary process is to propose fiscal policy and define the national Budget policy within the context of economic, social and political objectives that have been laid down.

The task of the government is to define all the measures necessary to collect revenue, and makes proposals about the distribution or allocation of budgetary money for individual purposes and priorities.

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The Ministry of Finance (www.mfin.hr) is in fact one of the beneficiaries of the national Budget. However, the Ministry of Finance also has an important role in the budgetary process. It does all the work for the government with respect to collecting resources for the budget and paying them out. The Ministry of Finance, through its agencies, draws up and checks the Budget, that is plans and keeps an eye on the execution of public revenue and

All information about the organisation and sphere of competence of ministries and civil service organisations can be found in the Organisation and Sphere of Competence of Ministries and National Administrative Organisations Law (NN 48/1999) and the Law on Amendments to the Organisation and Sphere of Competence of Ministries and National Administrative Organisations Law (NN 15/2000). If you want to know how much individual beneficiaries of the national Budget will use, and on what, in 2000, you can look at NN 33/00 or at www.mfin.hr/proracun/2000/index.htm.

expenditure. As well as this, the Ministry of Finance is responsible for proposals and advice related to the macroeconomic framework and fiscal strategy (this will be discussed below), and predictions of the inflow of revenue and receipts into the national Budget.

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The beneficiaries of the national Budget are all the institutions, ministries, state agencies and companies that are financed out of the national Budget. This group includes the Parliament, the President of the Republic, the government and the Finance Ministry, which are all at the same time key figures in the process of drawing up the national Budget. Budgetary beneficiaries have to use their budgetary resources for the purposes and objectives they were founded for (the Ministry of Public Works, Reconstruction and Construction for rebuilding the war-torn areas, the building of roads and routes and so on). Keeping a check on the use of budgetary resources by budgetary beneficiaries is done via the plans showing the main programmes and intentions for which budgetary money is used.

For the sake of a proper management and use of resources, the Finance Ministry is responsible for:
*** laying down the total magnitude of public expenditure in the coming year,**
*** proposing to budgetary beneficiaries ways of cutting expenditure if their requirements exceed the amount of resources available in the Budget**
*** providing expertise relating to beneficiaries' capital investments,**
*** proposing ways of financing budgetary deficits**
*** drawing up budgetary documentation,**
*** monitoring the execution of the national Budget**
*** consolidating the planning of expenditure and the analysis of information about revenue, expenditure, borrowing and so on and**
*** monitoring all transactions of the Budget (borrowing and repayments) related to the national debt.**

The people. We live in a political community in which we elect our representatives in the government. They make the decisions about all the important questions in the country, and thus about the Budget as well. In the Budget, large amounts of money are put together, but then they are spent as well. How money is collected, and still more how it is spent, is not just the concern of our representatives in the government, Parliament, the Finance Ministry and other ministries. The Budget is too important to be left to individual politicians and the interest groups they might represent. The people and various governmental and non-government establishments and organisations may be actively involved in the budgetary process.

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The government spends limited budgetary resources without very many checks. Sometimes, the government will even finance private firms through the Budget. Our representatives in the government can lay down budgetary priorities in financing that do not necessarily reflect the desires of us who elected them. And yet, through the media, through academic institutions, NGOs and interest groups the public and public opinion really ought to be involved in the debate about the adoption of the Budget

What can every citizen do?
According to article 126 of the Standing Orders of Parliament (NN 99/93), members wanting to move changes to a given law or regulation can refer to proposals from citizens.
In line with the Constitution, article 46, every citizen has the right to send a complaint or to make proposals to national and other public bodies and to receive replies from them as well. If a citizen's complaint or proposal is sent to the House of Representatives, the President of the House will send it to the chairperson of the relevant working body, which is bound, within a period of at most three months, to make a report about it.

and the allocation of budgetary resources. Interest groups like unions or employers' associations do try, and very often manage, to push through their own interests. For this reason, anyone who understands the budgetary process can get involved in it more easily and thus make some impact on the proper management of budgetary money.

2. Basic phases of the budgetary process

The Budget is the outcome of the budgetary process. This is a whole set of relations among the main participants, on the basis of which Parliament debates and adopts the Budget. For this reason it is necessary to understand the whole procedure of the preparation, adoption, execution and control of the Budget, so that we can ourselves affect the allocation of budgetary resources.

For a better understanding of the relations in the budgetary process, the Budget for 1999 can be taken as an example. What is the lifetime of a Budget that has gone through all the phases of the process? What are these phases? The Croatian national Budget goes through three stages of development.

The first phase is the **preparation phases of the Budget**, in which the revenue and the expenditure of the Budget are planned. This phase lasts about nine months - in our case for the 1999 Budget, from April 1998.

The second phase is the **debate in parliamen**t, in the Houses of Representatives and Counties.

The third phase is the **execution of the Budget** - in which the planned money is collected in the budget (the revenue) and also spent on the purposes planned in the Budget for the year. In the third phase there is also the **control of the collection of the revenue and spending of budgetary resources.**

The life of the budgetary process, of the Budget, then, is about 2.5 years.

In what way does the plan of the Budget differ from the execution of the Budget?
The plan of the budget is the amount of the revenue and the expenditure that the government intends to collect and spend in the next year, and the execution is the endeavour to put into practice the plan. In reality, the plan and the execution will differ, for it is impossible to foreseen exactly what government revenue and expenditure will be, for a number of political, economic and social reasons. In order to explain the reasons for the differences, at the end of the year the government submits to Parliament a Report on the Execution of the Budget for the past year, with an explanation of major departures.

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To understand more completely what happened with the 1999 Budget we should look at the budgetary process according to phases and times, that is, from the beginning to the end of the lifetime of our Budget.

Budgetary process according to phases and times

Time	Actions
PHASE 1	**THE PREPARATION AND PLANING OF THE NATIONAL BUDGET**
Step 1	Proposal for the fiscal policy for the coming fiscal year.
April 1998	The Finance Ministry plans the revenues and receipts for the coming financial year and draws up a proposal for the fiscal policy for the next year.
July 1998	The Finance Ministry delivers to the government projections of economic trends and a proposal for fiscal policy for the year to come. The government considers and adopts this proposal.
Step 2	The national Budget circular
September 1998	The Finance Minister plans expenditure for coming year, sending beneficiaries a document called a Circular asking them to draw up applications for Budgetary resources and send them to the Finance Ministry by the end of September.
Step 3	The phase of negotiating and adjusting the demands of budgetary beneficiaries.
The end of September and the beginning of October 1998.	The Ministry of Finance talks with beneficiaries of the Budget to adjust the expenditures they have requested with the principles of the fiscal policy adopted in July.
Until 10 October 1998	The Ministry of Finance draws up and submits to the government some documents that it has to confirm: 1. Proposal for the national Budget 2. Financial plans for the extra-budgetary funds, 3. Prioposals for capital projects 4. The National Budget Execution Law.
PHASE 2	**PROPOSAL AND APPROVAL OR ACCEPTANCE OF THE BUDGET**
Step 4	Debate in Parliament ending with the adoption of the Budget
by 15 November 1998	The government supplies the Parliament with the budgetary documents for discussion by the committees and submits reports in the form of amendments.
by the end of December 1998	Final debate at a session of the two houses of the Parliament and adoption of the national Budget, and adoption of the Budget Exectuion Law, consent given to the financial plans of the extrabudgetary funds and the consolidated budget of central government.
PHASE 3	**THE EXECUTION OF THE NATIONAL BUDGET** (Implementation, supervision and control)
Step 5	Execution of the national Budget
from 1 January to 31 December 1999	Budgetary users gather and spend budgetary resources on the basis of quarterly and monthly plans about its execution, in line with the resources available.
Step 6	Report about the execution of the Budget for the first half year
Before the end of July 1999	The Finance Ministry, according to reports by beneficiaries submitted, draws up a report about the execution of the national Budget for the first half of the fiscal year and delivers it to the government.
by 5 August 1999	The government submits the half yearly report to the Parliament, after which there is a debate in the Houe of Representatives.
Step 7	Execution of the Budget and the closing of the open accounts of the Budget
by 20 December 1999	The Finance Ministry makes instructions about closing accounts opened at the National Bank of Croatia and other, commercial, banks, by 31 December 1999, because the Budget has to be executed by that day.
Step 8	Drawing up the annual accounts for the preceding year and control published by the National Audit Office.
by 15 April 2000	The Finance Ministry draws up the annual accounts of the national Budget, the budget of the extra-budgetary funds and the budget of the local units for the preceding year.
by 15 May 2000	The Minister of Finance reports to the government about the annual accounts, that is the execution of the Budget for the previous year.
by 15 July 2000	The government reports to the Parliament about the annual accounts, or the execution of the national Budget for the previous year, and the National Audit Office reports to Parliament about the audit that has been done.

The whole of our budgetary process goes through a number of steps within the individual phases. The first phase, preparation of the Budget, includes three steps.

Phase One: The preparation and planning of the Budget

With the Phase One of the budgetary process there are three steps.

Step One: the proposal for the fiscal policy for the next year

The first step is taken by the Finance Ministry, which in April 1998 draws up a proposal for fiscal policy for 1999. This proposal outlines the main economic indicators that should mark the implementation (realisation) of the future Budget. The fiscal policy proposal states the expected level of GDP, of unemployment, of whether prices are likely to change, whether there will be any inflation, and if so, how much. The Finance Ministry states all this in its report so that it can estimate the total size of the Budget for 1999. Thus in April of 1998, the Finance Ministry is preparing the proposal of fiscal policy for 1999.

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The first step in the making of the national Budget ends in July 1998, when the Finance Minister proposes to the government a projection or proposal of fiscal policy for 1999, with explanations, that is with guidelines for and the objectives of fiscal policy, and in which the plan for the main kinds of revenue and outline expenditure for 1999 is stated. When the government accepts this, then these principles of a fiscal policy for 1999 become the point of departure and basis for the implementation of the other steps in the budgetary process.

Step Two: the national Budget Circular

In the second step, the Finance Ministry has to lay down the planned expenditures of the budgetary beneficiaries so as to be able to define total budgetary expenditure for 1999. For this reason, at the beginning of September 1998, the Ministry gives beneficiaries of the Budget a document called the National Budget Circular. The main aim of the circular is to acquaint beneficiaries of the Budget with the outline plan of resources that has been drawn up by the Finance Ministry for each of them. Budgetary beneficiaries are able thus to become acquainted with the macroeconomic framework (nominal and real GDP, the expected rate of unemployment, reconstruction of the country, promotion of the private sector and so on) of the making of the Budget for 1999, which has already been defined in Step One.

What is the three-year fiscal policy proposal?

The Republic of Croatia has accepted the three-year budgetary planning system. The proposal is in fact the drawing up of a three-year plan for the macroeconomic and fiscal forecast. The three-year plan should be drawn up by the Finance Ministry in such a way as to evaluate the position of the government in the economy. The Ministry estimates the direction of economic trends (whether GDP will increase, whether and to what extent there will be a foreign trade deficit, the expected price levels and the exchange rate for the kuna, the level of employment and so on). All this is included in the forecast in which a special place is occupied by the budgets that will be adopted for those three years. The Ministry of Finance will then make a projection of budgetary revenue and expenditure for the next three years (a fiscal forecast) and define the basic elements of its policy and the key magnitudes that have to be adhered to by budgetary beneficiaries and the extra-budgetary funds while planning their revenues and expenditure in the next three years.

In the Circular, budgetary beneficiaries are asked to draw up and explain, on their own behalf, on the basis of the data obtained, their requirements for the necessary budgetary resources. Budgetary beneficiaries, while drawing up their proposals and applications for resources, have to bear in mind the amount of resources available and other constraints.

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Budgetary beneficiaries should pay particular attention to the definition and maintenance of a register of capital projects. Any capital expenditure greater than 200,000 kuna is considered a capital project, and if it takes more than one year to bring to fruition. For economic growth, that is, it is particularly important how the capital part of the Budget is ordered, for the success of the government and the contribution of overall economic development and growth is often measured by the success of the capital part of the Budget.

After drawing it up, Budget beneficiaries send their plan of revenue and expenditure to the Ministry of Finance, by the end of September at the latest. This ends the second step, and the third step starts: talks with the beneficiaries, and the necessary adjustments to their applications.

Step Three: talks and adjusting beneficiaries' requests

Budgetary beneficiaries are bound to supply the Finance Ministry with their draft applications for budgetary resources; the Ministry is duty bound to adjust with the available planned resources of the budget. If it does not manage, then the government will do so. It can happen that the needs for budgetary resources exceed the planned level of budgetary revenue. Then the Ministry of Finance plans and lays down the manner in which budgetary shortfalls will be financed.

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The Ministry of Finance has three ways of financing a planned deficit:
1. raising the rate of a tax, of VAT, for example, or income or profits tax. This is the least popular option.
2. It can sell off state assets, such as state owned companies or banks, a device that Croatia has often resorted to in the last couple of years.
3. It can borrow, at home, but particularly abroad. This is the option most frequently used.

The third step, negotiations between the Ministry of Finance and the beneficiaries or users of the Budget, and adjustment of the various applications of the beneficiaries, end on 10 October 1998. Then the Ministry draws up the final proposal for the Budget (revenue, expenditure and borrowing), which the Finance Minister supplies to the government for it to consider.

Phase Two: Debate about and approval of the Budget

Step Four: the Budget debate in Parliament and the adoption of the Budget

Step four begins on 10 October 1998, when a government session discusses the proposal of the Budget and the Budget Execution law. 15 November is the final deadline by which the government is bound to confirm the proposal for the national Budget and deliver it to the President of the House of Representatives, together with the proposed Budget Execution Law.

The proposal of the Budget has about 250 pages, and arrives in the hands of the President of the House, who gives it to the working bodies and all the members of both Houses.

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A special place in the House of Representatives belongs to the Committee for Finance and the National Budget and the Committee for Legislation. These two committees have to give their opinions (reports) to the House of Representatives. There is a real possibility that the proposed Budget and the Budget Execution law have not been drawn up with the due professional expertise, and that the President of the House sends them back, at the recommendation of the committees, for reconsideration by the government and the Finance Ministry. That is why these two committees should have well-informed and professional personnel to be able to pick up any shortcomings in the proposal for the Budget and the Law.

Before the parliamentary debate starts, all the members have to have had delivered to them in good time the proposal of the Budget so that they can look carefully through it and understand all the figures.

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In practice to date, a considerable number of members of parliament (who have different professions and educational backgrounds) have found it difficult to cope with the numerous tables, and the copious paperwork that they are supposed to have studied before the session devoted to the Budget. In a great number of cases the members receive the proposal some dozen days before this session. Many of them do not find this period of time adequate to study the figures in detail or to define their attitude to the Budget, which they are supposed to be able to state at the session.

Every member, working body of the Parliament and the government can give the President of the House their proposals for changes or additions to the Budget proposal. Such suggestions are known as amendments. The President of the House of Representatives sends copies of all amendments to all members and to the government before the start of the session. Amendments are also sent to the committees for Legislation and Finances and the Budget, and they too can give their opinions about the proposed changes to the Budget.

Finally, in December 1998, at a session of the House of Representatives of the Croatian Parliament, there is a debate about the proposed national Budget. On the whole, the resources allotted to individual beneficiaries are not big enough. The debate in the House is an opportunity for members to give reasoned arguments on behalf of ministries or constituencies they are lobbying on behalf of. Members of parliament are representatives of the people, elected at the elections, from various different parties. Thus the adopting of the Budget is also a political affair, which depends on the balance of forces in the parliament.

The debate has its own particular timetable. First of all there is a general discussion about the Budget. Then the amount of funds allotted to individual ministries and other beneficiaries financed out of the budget is debated. Only at the end of the debate on the Budget proposal is there voting. In the voting, the Budget and the Budget Execution Law are adopted; the Law means that all the participants in and beneficiaries of the Budget are obliged to carry out the Budget in the way enjoined.

What is a provisional Budget?
In 1999 we experienced the passing of a provisional Budget for 2000. This provisional Budget was good only for three months. Why was this necessary, and when is a provisional Budget adopted?
The Parliament is duty bound to adopt the national Budget for the following year by 15 December. If the Budget is not passed in this period, the President of the House can, at the request of the government, call an extraordinary session of the Houses so that the Budget can be passed. The final deadline by which the national Budget has to be passed is December 31. If no Budget is passed by even this date, the Parliament makes a decision to resort to provisional financing. Provisional financing is in fact a quarter of the Budget for last year, which is passed for three months only. The amount of money stated in the three months' Budget is determined in proportion to the funds that were used in the same period of the preceding year, and cannot be more than one quarter of the revenue realized in the preceding year.
If the national Budget is not passed in a month of submitting the proposal for it to the Parliament, the President of the Republic may, at the recommendation of the government, and with the joint signature of the prime minister, after consultation with the President of the House of Representatives, dissolve parliament. In this case, the parliament can pronounce the making of the proposal of the budget urgent. The purpose of this is to avoid the parliamentary crisis that might arise if the parliament were dissolved.

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After the debate, and the adoption of the Budget in Parliament, comes the fourth step in the budgetary process, which is the first step in the phase of the execution of the Budget.

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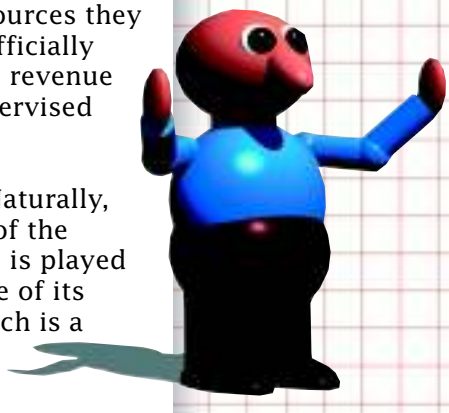
Fundamental regulations governing the Budget
1. The Budget Law (NN 92/94), see www.nn.hr
2. The Execution of the Budget Law
3. The Local Government and Administration Law (NN 90/92) and
4. The Local Government and Administration Financing law (NN 117/93)

Phase Three: Execution of the Budget (implementation, supervision and control)

After the Budget is voted in by Parliament, the Finance Ministry informs the ministries and other beneficiaries what resources they have been allotted. On 1 Janaury 1999 the fiscal year officially begins; the implementation of the Budget starts, that is, revenue is collected, money spent, and these operations are supervised and checked.



Who is responsible for the execution of the Budget? Naturally, the government, the ministries and other beneficiaries of the resources of the national Budget; however a special role is played in the execution of the Budget and the control of the use of its resources by the Finance Ministry and the Treasury, which is a part of it.

What is the Treasury?

This is nothing like a safe or a vault, but the complex budgetary and financial management of national revenue and expenditure.

It plans, executes and supervises the Budget, manages the cash and the public debt. Accordingly, to carry out these jobs, the Treasury, an administrative organization within the Finance Ministry, is linked with three administrations inside the Finance Ministry: 1, the Administration for cash management and the public debt; 2, the Administration for state accounting; and 3, the Administration for the execution of the national Budget. The point of the work of these three administrations is that the state should know at any moment what funds it has at its disposal with the aid of the Single Account of the Budget to which all national revenue and receipts arrive, and from which all national expenditures and other payments are made. The Single Account is kept at the Croatian National Bank.

The Administration for cash management and the public debt ensures the provision of data about the state of the daily solvency of the account of the state and the need for cash money. The Administration obtains information about the real expenditure of budgetary beneficiaries, the inflow of revenue, the cash situation in the accounts of the Budget. The Finance Ministry uses this information to make decisions about restricting the budget and the resources that are spent via the ministries and the budgetary beneficiaries, and about the time of issuing and the maturation date of treasury bills, meant for the financing of short-term imbalances in the Budget.

As well as this the Administration is bound to provide information about the home and foreign indebtedness of the state. This includes information about the conditions of loans, transactions, and the issue of government bonds. Managing the public debt implies prompt information about withdrawing and repayments of debts, and about loans through bond issues.

The state accounting Administration sets the state accounting standards, prepares the statistical data on the basis of which decisions about the spending of budgetary resources and putting the Budget into debt are made. The accounting system every day provides data for the management of money and the public debt. The planning and implementation of the Budget depends on the state accounting system and the accounting classification system. The principles and standards of the accounting classification system are determined by the Finance Ministry.

The Budget execution Administration monitors the execution of the Budget through the dynamic plan for the execution of the Budget. This administration carries out the job of budgetary control, to make sure of the lawful use of budgetary resources. As well, it keeps an eye on how the resources of the Budget reserves are used, and draws up a report about this (NN 65/00, the Decree about the internal organization of the Ministry of Finance).

The Treasury (that is, that Administration of the Finance Ministry that constitutes the Treasury) is represented by organizational units that, assuming the existence of a developed state financial information system, should provide total supervision and control of the use of budgetary resources.

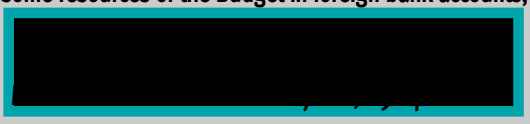
Supervision of the Budget (without supervision)

Budgetary and internal supervision were not set up during 1998 or 1999, nor were the operations of the Ministry of Finance supervised. There is the same problem with other beneficiaries of the Budget. For this reason, no particular cooperative relations between the institution of national auditing and the institution of national supervision were established.

What are the consequences of poor internal control and supervision of the Budget?

In practice today a great problem has been poor control of the Budget and the absence of any internal control above all in the ministries. The expenditure of the Budget has thus increased from year to year.

Irresponsible behaviour with respect to use of Budgetary resources has led to an absurd situation in which the Minister of Finance himself put some resources of the Budget in foreign bank accounts, without the Ministry recording or monitoring it.



We can hope that, in future, taxpayers and all interested parties will be able to have complete view of how budgetary money is being spent.

Supervision and control of the Budget. Supervision and control of the Budget, as well as by the Treasury, have to be carried out internally by every ministry.

In order for the state of budgetary resources to be ascertainable, the Finance Ministry is bound to draw up a report in the middle of the year about the half-yearly realization of the Budget and submit it to the government, which, after discussion, will send it to Parliament.

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What is the objective of the half-yearly report on the Budget?

The Ministry of Finance and other beneficiaries of the budget are bound to draw up a report on the execution of the Budget and submit it to the government. The government must send it to Parliament by 5 August [GM4]. As well as the report, during the year the government is obliged to supply Parliament a number of reports about the realization of the budgets of the extra-budgetary funds and the budgets of local units. On the basis of these reports, when it notices any failure to implement the Budget Execution Law, the House of Representatives may charge the government with taking measures necessary to ensure the planned allocation of budgetary resources. This has an automatic impact on budgetary beneficiaries, i.e., will make sure that they use budgetary resources lawfully and effectively.

If the government does not take appropriate measures to remedy the discrepancies noted, the House can have a vote of no-confidence in the government and the Finance Minister.

The fiscal year closes on 31 December 1999. A number of payments have been made during the year into and from the Budget. A part of the deficit has been covered by borrowing abroad, and part by the sale of state-owned banks and firms. From 1 January, then, a whole series of actions have to be undertaken by the Finance Ministry to draw up the final report about the use of budgetary resources in 1999.

It draws up the annual account of the national Budget by 15 April 2000, for 1999. The Finance Minister must supply the government with the Report on the Execution of the National Budget for 1999 by 15 May 2000. After being discussed in the government, the report is sent to Parliament by 15 June 2000 at the latest, and is debated in the House. The whole budgetary process and the execution of the Budget is finished when Parliament accepts the report about the annual account of the national Budget and the report of the National Audit Office.

The National Audit Office

The National Audit Office is an independent institution that started working in 1994, and is responsible exclusively to the House of Representatives. With its sphere of competence lie the auditing of the national Budget, the local units budget, the budgets of the extra-budgetary funds, of state and public corporations, and of companies that are partially or entirely financed from the Budget.

The National Audit Office estimates the degree to which the spending of budgetary resources is in line with planned and approved amounts. It reports to the House of Representatives once a year about the audit it has made. After debate in the House, the report of the National Audit Office becomes a public document and is available to the public and the media.

Glossary of terms

ccount group - the symbol or number of a given budgetary position or item that serves to record and monitor the level of revenue collected and expenditure made.

dministrative classification - expenditures displayed in terms of individual budgetary beneficiaries (ministries, agencies and so on), see functional classification

mendments - proposals for changes and additions to the proposal of the Budget, which usually come down to increased or decreased amounts for individual budgetary beneficiaries.

udget - an estimate of the annual revenue and receipts and the determined amount of expenditure and other payments by the government, or local government, approved by the Parliament of the Republic of Croatia, or the assembly of a local government unit in line with the provisions of the Constitution and other laws.

udgetary deficit - the amount by which government expenditure exceeds government revenue in a given period, most often a year.

udgetary beneficiaries - the agencies, ministries and other administrative bodies and all others financed from the Budget.

udgetary position - the name for a given budgetary revenue and receipt and expenditure, which is further classified in terms of groups and sub-groups of accounts (see item, functional classification, administrative classification)

udgetary item - (see budgetary position)

apital outlays - outlays for the procurement of land, non-material assets, reserves, non-financial assets and the like, the life of which is more than one year

capital revenue - revenue from the sale of non-financial capital assets, such as land, non-material assets, commodity reserves and other things the life of which is more than one year.

central government - according to the public finance statistical system of the IMF, this in the Republic of Croatia includes the Budget and the extra-budgetary funds.

capital project - a project the execution of which lasts more than one year and from which a return is expected in the years after the building (schools, hospitals, roads, bridges and soon). Any capital outlay the value of which exceeds 200,000 kuna is considered a capital project.

consolidated budget of central government - the budget after transactions between the Budget and the extra-budgetary funds are cancelled out.

consolidated budget of general government - the budget after transactions between the Budget, the extra-budgetary funds and the local units budget are cancelled out. This is the real indicator of the financial position, that is, the revenue, expenditure and borrowings of the state.

contributions - a kind of public revenue in which the service provided is proportional to the contribution made. In Croatia, contributions are paid by both employers and employees. They form the revenue of the extra-budgetary funds - for health and retirement insurance. They are used to finance government services that have a welfare component.

counter-obligation - the situation when for an amount received or paid a service or good has to be given in return.

deficit - the amount expenditure exceeds revenue in a given period.

direct tax - tax that is imposed immediately upon the taxpayer, such as profits or income tax, tax on gifts and inheritances.

expenses - non-returnable current and capital payments, with or without counter-

obligations, and grants and transfers made to others.

extra-budgetary funds - legal entities that are financed from special-purpose taxes, or contributions, or non-taxation revenue. In Croatia these are the Pension Fund, the Health Insurance Fund, the Employment Fund, the Child Benefit Fund, and the Public Water Management Fund.

execution of the Budget - the use of budgetary resources during the year for the purposes and objectives laid down in the plan of the Budget.

financing account - that part of the Budget in which the manner of financing deficits is shown, as well as the way in which a budgetary surplus is used.

fiscal year - a period of 12 months for which the state plans revenue and expenditure. In Croatia, this is the same as the calendar year (1 January to 31 December).

fiscal capacity - the ability of the local units of government (counties, communes and cities) to finance budgetary expenditure with their own budgetary revenue.

functional classification - expenditure displayed according to individual purposes (law and order, defence, health care and so on). see administrative classification

GDP - see gross domestic product

general government - according to the public finance statistical system of the IMF, this covers all levels of government and all institutions that collect revenue and execute expenditures for the government. In Croatia, general government includes the Budget, the local units' budgets and the budgets of the extra-budgetary funds.

general grants - a set amount of resources given by the government to local units without prescribing the purposes to which they are to be applied. Local units make their own use of these funds and use them for purposes they themselves determine. The manner in which general grants are allotted is defined by Articles 48 and 49 of the Units of Local Government and Administration Financing Law.

gross domestic product (GDP) - the total value of all goods and services produced in a country during a single calendar year.

grant - a fixed amount of funds provided by the government to local government units (counties, communes and cities) according to measured fiscal inequality. The right can be claimed only by those local units that have below-average fiscal capacity, i.e., that cannot cover the required budgetary spending with their own revenue.

indirect tax - tax on goods and services that is collected indirectly, via an agent such as an importer, producer or shop; examples are VAT, excise, customs duty, turnover tax.

instruments of the public debt - loans, credits, bonds, treasury bills that the state uses to finance excessive expenditure (deficits).

internal public debt - the total borrowing of the government at home, when the main creditors are citizens, firms and domestic financial institutions.

joint taxation - division or sharing of taxes (of their tax bases) between central and lower levels of government. By changing the rate and the ratios in the tax revenue of local and central government, the central government controls and affects the amount of tax that remains at the local level. The state and local government in Croatia share income tax, profits tax, real estate sales tax and the gambling tax.

loans minus repayments- state transactions with other figures at home or abroad. Loans that entail repayments are given at home to for example the counties, communes and cities, and abroad to for example governments and international institutions.

local government and administration units - the communes, cities, counties.

national Budget - also state budget, the budget of the country.

National Audit Office - an independent institution that carries out auditing of the national Budget, the budgets of local government units, of the extra-budgetary funds, state and public

corporations, and firms that are partially or wholly financed out of the Budget. The National Audit Office estimates the extent to which budgetary resources have been spent in line with planned and approved amounts.

public finances - that branch of economics dealing with the analysis of the policy of national revenue and expenditure.

public debt - the total indebtedness of the country to home or foreign creditors at a given moment. It represents the cumulative deficit of all levels of the Budget in which the state collects and spends resources (the national Budget, the local units budget, the budget of the extra-budgetary funds).

public sector - that part of the national economy that in the widest sense comprehends all levels of government, the welfare system, and the public corporations.

provisional budget - a budget that lasts three months. It is passed when Parliament does not adopt a budget before the beginning of the financial year (see temporary financing)

revenue - money collected by the state. It includes taxes, fees and charges for various services, and income from the sale of state-owned capital assets.

rebalance (also a revision) - a change in the sums of the Budget, i.e., their reduction or increase as compared with the originally planned Budget. It is done during the fiscal year.

receipts of the budget - resources that the state obtains by borrowing via loans, issuing bonds and other securities.

state budget - see national budget.

supports - receipts of the state without any counter-obligation, non-repayable and non-obliging from home or foreign units of government or international institutions.

size of government - the proportion of government spending in GDP.

surplus - excess of revenue over expenditure in a given period.

surtax - a financial instrument the base for the payment of which is the amount of a tax already paid. It is usually put onto a direct tax. In Croatia, cities with more than 40,000 inhabitants have the right to introduce surtax on personal income tax.

tax - a kind of public revenue which is manifested as a forced payment to the state without there being any counter-benefit.

tax sharing - division of responsibility for collecting and using taxation revenue between the central and lower levels of government (see joint taxation).

tax base - the thing or amount to which the tax rate is applied; for example, the profit of a company, the wages of a private person, real estate. The amount arrived after all losses, personal allowances and offsets have been taken into consideration.

tax rate - usually a percentage or a fixed amount of the income, profit, value of goods and services, which is paid to the state. If it is expressed as a percentage, it can be progressive, proportional or regressive. Irrespective of kind, it is applied to the tax base, which differs according to the nature of the tax concerned.

taxpayer - the person who bears the tax burden for any given status, work or transaction.

temporary financing - financing the budget for three months periods. It can be done at the most up to 25% of the budgetary resources used in the same period in the preceding year. (see: provisional [GM2]budget.)

treasury - the system of budgetary and financial management of government revenue, expenditure and the public debt. It includes the planning, execution and supervision and use of the resources of the Budget.

transfers - financial resources that the central government gives local units in the for of a share in one or other tax (vertical fiscal equalisation), and in the form of inter-county (horizontal) fiscal equalisation by grants from the higher to the lower levels of government.

Appendix

Taxes in the Fiscal System of the Republic of Croatia

TAX	TAXPAYER	TAX BASE	RATE	LAW	REVENUES TO
VAT	Physical and legal entities who supply goods or perform services	The charge for the good delivered or the service performed	22% i 0%	Valued Added Tax Law (NN 47/95, 106/96, 164/98, 105/99, 54/00 and 73/00. Regulations: NN 60/96, 113/97, 7/99, 112/99, 119/99, 44/00, 63/00 and 80/00.	Republic, 100%
EXCISE special taxes on:					
1.COFFEE	Physical and legal entities who import or bring coffee into RC, or receive it.	Kilogram net weight of coffee or coffee product.	From 5 to 20 kuna, depending on kind of coffee.	Special Tax on Coffee Law, NN 139/77, 55/00 and 59/00 corr. Regulations NN 71/03, 1009/96 and 73/00	Republic, 100%
2. PETROLEUM DERIVATIVES	Producer and importer of pet. derivatives and competent body of national directorate for commodity reserves	Per litre of petroleum derivateive (at a temp. of 15 °C or kilo net weight.	from 0.30 to 3.50 kuna litre or 0.00 to 1.40 kuna kg.	Special Tax on Petroleum Derivatives Law NN 55/00, Regulations NN 63/00	Republic, 100%
3. TOBACCO	Producer and importer of tobacco products	Cigarettes and other tobacco products	5.00 to 8.90 kn per packet of cigarettes; 38.0 kuna kg tobacco, 1.1 kuna per cigar, 4.4 kg per packet of cigarillos	Special Tax on Tobacco Products Law, NN 51/94, 56/95, 67/99, 105/99, 55/00; Regulations NN 63/00	Republic, 100%
4. BEER	Producer and importer of beer	Hectolitre of produced or imported beer and beer obtained from concentrates	120 kuna per hl of beer, 60 kuna per hl no-alcohol beer.	Special Tax on Beer Law, NN 51/94, 139/97, 55/00. Regulations, NN 59/94, 109/96 and 46/98	Republic, 100%
5. NON-ALCOHOLIC BEVERAGES	Producer and importer of non-alc. beverages	Hectolitre of produced or imported non-alc. beverage	40 kuna per hectolitre	Special Tax on Non-Alcoholic Beverages Law NN 51/94 and 139/97, Regulations NN 59/94 and 109/96	Republic, 100%
6. SPIRITS	Producer and importer of alcohol or alcoholic drinks	Litre of pure alcohol, distilled products or alcoholic drinks at a temperature of 20° C.	80 kuna per litre of pure alcohol, 0% paid on alcohol in wine.	Special Tax on Sprits Law, NN 51/94, 141/98 and 55/00; Regulations NN 59/94, 109/96, 158/98, 164/98, 27/99	Republic, 100%

TAX	TAXPAYER	TAX BASE	RATE	LAW	REVENUES TO
7. CARS AND OTHER MOTOR VEHICLES, VESSELS AND PLANES	a) importers or producers b) purchaser or acquirer of used car, other motor vehicle, boat or plane	Car and motorcycle; sale price not inc. VAT, and on import the base is the customs base plus the amount of customs duty (from 0 to over 300,000 kuna)	a) from 0 to 42,000 kuna and 0% to 35%, b) 5%	Special Tax on Cars, Other Motor Vehicles, Vessels and Planes Law NN 51/94, 139/97, 105/99 and 55/00	Republic 100%
		1 vessels up to 8 m, power over 35 kW (in kuna) 2 vessels over 8 km in length to over 15 m (in kuna)	1 no cabin 6,000 with a cabin 15,000 2 no cabin 6,000 to 48,000 with a cabin from 15,000 to 150,000 kuna b)5%		
		Planes - number of seats, only for private use, from 1 to over 50 seats	a) 7,000 to 300,000 kuna b)5%		
8. LUXURY PRODUCTS	Legal and physical entity - producer and importer	Sales value of good not inc. VAT - watches, jewellery and similar products, clothing and footwear of leather and reptile skin, weapons, fireworks	- at import, of customs base, 30% of tax base	Special Tax on Luxury Products Law, NN 105/00, Regulations NN 112/99	Republic, 100%
GAMES OF CHANCE (GAMBLING) TAX	a)Physical entities who win in games of chance b) Physical and legal entities who organise games of chance c) Physical and legal entities that organise games for fun	a) Winnings b) Profit c) tax on payment to take part in the games on slot machines	a) 10% of amounts above 20,000 kuna b) profits tax, standing charge of 400 kuna per machine c)5%	a)Games of Chance Law NN 36/98, Regulations NN 59/00 b) Games of Chance and Games for Fun Law NN 61/91, 2/94, 56/95 c)Tax on Commerce in Goods and Services Law NN 95/94 and 34/95	a)Republic 100% b)Republic 70%, County 10%, Commune 20% c) Republic 100%
INCOME TAX	Physical entity who makes a taxable income in Croatia	Total income that the taxpayer makes at home and abroad (minus personal allowances)	20% and 35%	Income Tax Law NN 109/93, 95/94, 25/95, revised text, 52/95, 106/96, 164/98 and 33/00; Regulations NN 104/95, 109/96, 67/98, 155/98, 1/00 and 62/00	Republic 60%, County 8%, Commune, City 32%, Zagreb 45%
PROFITS TAX	Enterprise (legal and physical person who independently and lastingly carries out some work to make a profit)	Difference between equity at the end and the beginning of the period, augmented or diminished according to the law	35 %	Profits Tax Law NN 109/93, 95/94, 35/95, revised text 106/96, Regulations NN 7/96, 143/97, 17/98	Republic 70% Country 10% Commune or city, 20%

TAX	TAXPAYER	TAX BASE	RATE	LAW	REVENUES TO
REAL ESTATE COMMERCE TAX	Acquirer of real estate	Market value at the moment of the origin of the obligation to pay tax	5 %	Tax on Real Estate Commerce Law NN 69/97	Republic 40% Commune, city 60%
INHERITANCE AND GIFTS TAX	Legal and physical entities who inherit or receive gifts of taxable assets	Market value of inherited or gifted assets at the moment of the origin of the obligation to pay tax minus costs and debts	5 %	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00 Tax on Real Estate Commerce Law 69/ 97 (inheritance of real estate)	Republic 40% (real estate), Country 100% (money and movables), Town/ city 60% (real estate)
ORGANISATION OF SPORTING EVENTS AND ENTERTAINMENTS TAX	Organiser of event	Amount of tickets sold	5 %	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	County 100%
ROAD MOTOR VEHICLES TAX	Legal and physical entities the registered owners of passenger cars and motorcycles	Cars up to 10 years old and motorcycles up to 5 years old according to engine power	30 to 200 DM for cars and 20 to 100 DEM for motorcycles per annum	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	County 100%
VESSELS TAX	Owners of vessels, physical and legal entities	The vessel, depending on length, equipment and age	30 to 550 DM per annum	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	County 100%
CONSUMPTION TAX	Legal and physical person providing catering service	Sales price of drinks sold in catering establishments	up to 3%	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	Commune or city 100%
SECOND HOME TAX	Legal or private persons owning holiday homes	Square metre of usable space	from 1 to 3 DM per annum	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	Commune or city 100%
ADVERTISEMENT TAX	Taxpayers, legal or physical persons, liable to income or profits tax	per public advertisement	up to 200 DM per annum	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	Commune or city 100%
TRADING NAME TAX	Pravne i fizičke osobe obveznici poreza na dohodak ili dobit	A trading name	up to 500 DM per annum	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	Commune or city 100%
USE OF PUBLIC AREAS TAX	Amount, manner and conditions prescribed by city or commune	Size of area used	per square metre in DM	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	Commune or city 100%
SURTAX	Cities with pop. of more than 40,000 can bring in surtax on income tax up to 30%, Zagreb up to 60%	Part of income tax that belongs to the city	Zagreb 18%	Financing of Units of Local Government Law NN 117/93, 33/ 00 and 73/00	100% city above 40,000 inhabitants