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Fiscal Policy Commission
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2nd Position Paper of the Fiscal Policy Commission of the Croatian Parliament on the Draft Semi-annual Report on the Execution of the Budget of the Republic of Croatia for the First Semester of 2019 and the Draft Semi-annual Report on the Application of Fiscal Rules for the First Semester of 2019

At its 1st meeting held on 24 September 2019, the Fiscal Policy Commission of the Croatian Parliament (hereinafter referred to as: Commission) discussed the Draft Semi-annual Report on the Execution of the Budget of the Republic of Croatia for the First Semester of 2019 and the Draft Semi-annual Report on the Application of Fiscal Rules for the First Semester of 2019, submitted to the Speaker of the Croatian Parliament by the Government of the Republic of Croatia on 12 September 2019.

The Commission is of the opinion that the macroeconomic and budgetary projections used in the preparation of the Draft State Budget 2019 were realistic and, if no significant unexpected events occur, they will ensure the implementation of fiscal rules in 2019.

***Structural balance rule*. Macroeconomic projections from the *Convergence Programme of the Republic of Croatia for the period 2020-2022* indicate that the structural budget balance rule is met in 2019**. The structural budget balance for 2019 is projected to be around -0.8% of GDP, which is higher than the medium-term budgetary objective of -1.75% of GDP.

Expenditure rule. In the case of compliance with the structural budget balance rule, the rule limiting expenditure growth (expenditure rule) does not apply.

***Debt rule*. The macroeconomic and budgetary developments outlined ensure that the debt rule is met**. Specifically, public debt should fall from 74.5% of GDP from the end of 2018 to 71.3% of GDP at the end of 2019. The reduction in the public debt-to-GDP ratio in 2019 is estimated at 3.2%, which is more than required.

The Commission warns of the growing risk of failing to comply with the fiscal rules. Revenues are in line with the plan in the context of continued economic growth, despite tax changes in 2019 that cut revenues by as much as 1.7% of GDP. At the same time, expenditures are growing faster than potential growth, and there is a risk of spending on newly approved guarantees to the shipyards and that problems in the health sector would persist despite increased revenues. This consumes the savings made in the past and reduces the scope for counter-cyclical fiscal policies. Therefore, the Commission warns the Government of the Republic of Croatia of the need for strict control over expenditure growth in the coming period, in particular because of the expected decrease in budget revenues due to the anticipated tax changes and the growing risks of the global growth slowdown.