

# CROATIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: NON-OECD Local currency - KUNA

### POPULATION AND GEOGRAPHY

AREA: **56 590** km<sup>2</sup>

POPULATION: **4.233** million inhabitants (2014), a decrease of -0.37% per year (2010-14)

DENSITY: **75** inhabitants/km<sup>2</sup>

URBAN POPULATION: **58.6%** of national population

CAPITAL CITY: **Zagreb** (16.1% of national population)

Sources: Eurostat, OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **91.7** billion (current PPP international dollars) i.e. 21 664 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **17.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 937** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.818** (very high), rank 47

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>555</b>	<b>-</b>	<b>21</b>	<b>576</b>
127 TOWNS (GRAD) AND 428 MUNICIPALITIES (OPĆINA) AVERAGE MUNICIPAL SIZE: 7 625 INHABITANTS		20 COUNTIES (ŽUPANIJAS) AND ONE CAPITAL CITY	

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Today's territorial organisation is established on the basis of the 1990 Constitution and by a set of laws from 1992 and 1993, which brought back the territorial division of counties (abolished in 1922). The country has a two-tier subnational government system consisting of 21 counties (including Zagreb, the capital city, which is both a county and a city) and a local level made up of municipalities and towns. The town status is given to municipalities that are seats of counties with more than 10 000 inhabitants. The average town size is around 24 000 inhabitants, while those of municipalities is 3 000 inhabitants. There are also 6 762 settlements which can be established by the municipalities and the cities and which have their own councils. A reform of local and regional government, part of a wider public administration reform, and which would result in larger regions and municipalities, is currently being discussed.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The SNG system was established through the 1992 and 1993 laws on local self-government and administration. A major new phase of decentralisation took place in 2002 with the transfer of new responsibilities and financial means to counties and 32 towns with the strongest fiscal capacity. Decentralisation of tasks has been gradually extended over the last decade to counties, towns and some other units on an individual basis. In 2010, the Government adopted the *Guidelines and Principles for a Functional Decentralisation and Territorial Reorganisation*. The breakdown of responsibilities is quite complex and unclear because of this asymmetric process. Counties are responsible for secondary education, health care (including hospitals), housing and community planning, economic development, traffic and transport infrastructure, waste management, waste water, social services, etc.

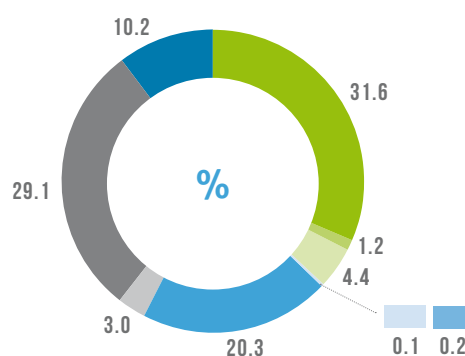
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	12.3%	25.8%	100%
CURRENT EXPENDITURE	11.0%	-	89.7%
STAFF EXPENDITURE	5.5%	45.4%	44.5%
INVESTMENT	1.0%	26.9%	8.2%

Despite a strong decentralisation process, the share of SNG spending in GDP and public spending is below the EU average (respectively 15.9% and 32.8% in 2013), but slightly higher if only the local level is considered. While SNG staff expenditure accounts for a significant share of SNG expenditure, it represents only 26% of public staff expenditure. SNG investment is low as a share of public investment, particularly compared to the EU average (26.9% vs 55.3%).

## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



While spending on education accounts for almost 30% of SNG expenditure, it does not cover teacher and staff wages (which are funded by central authorities). Other major SNG expenditure includes general public services, healthcare and social protection.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL REVENUE (2013)</b>	<b>12.3%</b>	<b>29.0%</b>	<b>100.0%</b>
TAX REVENUE	4.5%	17.8%	36.6%
GRANTS AND SUBSIDIES	7.1%	-	57.9%
OTHER REVENUES	0.7%	-	5.5%

The Law on Local and Regional Self-Government Financing describes SNG revenue types and distribution. In 2013, almost 60% of SNG revenue came from grants and subsidies. The major source of revenue is PIT which serves both as tax revenue (surtax) and grants (tax sharing arrangements).

**TAX REVENUE.** Three-quarters of tax revenue come from the PIT surtax of up to 18% on the amount PIT taxpayers owe to the national government. Other taxes are property taxes (communal charges), which are also shared between the central government and towns and municipalities, with 60% of property tax receipts being granted to local governments (representing 15% of SNG tax revenues in 2013). A reform of communal charges is underway aimed at introducing a proper recurrent property tax.

**GRANTS AND SUBSIDIES.** The major grant to SNGs consists of a share of the PIT. They receive between 56.5% and 90% of the PIT generated in their jurisdictions, depending on their development index and the functions they perform. Sixty percent of PIT revenues paid by local residents are retained by towns and municipalities and 16.5% by counties. SNGs are granted an additional share of the PIT (which reach up to 6%) if they perform additional decentralised functions.

The remaining share of PIT is pooled at the central level into a “fiscal equalisation fund”; it is redistributed to local units unable to fully support their decentralised functions. The central government has set “minimum financial standards” for the provision of public services devolved to SNGs, based on a set of indicators, defining minimum expenditure at local unit level in each individual decentralised activity.

**OTHER REVENUES.** The vast majority of other revenues include sales of goods and services and property income (sale and rental of municipal assets).

## OUTSTANDING DEBT

	% GDP	% GENERAL GOVERNMENT
<b>OUTSTANDING DEBT (2013)</b>	<b>3.0%</b>	<b>3.3%</b>

In 2010, the Fiscal Responsibility Act was adopted. It sets limits on national and SNG spending, strengthens the legal and functional accountability of budgetary resources, and introduces stronger controls for financial reporting. SNGs can borrow to finance capital investment (golden rule), with previous approval by the central government. SNG borrowing is decided annually by central authorities, according to two main restrictions: a general limit on the aggregate borrowing of all SNGs and an individual limit on each SNG borrowing. These limits do not include communal utilities and/or guarantees issued by local governments. SNG debt is relatively low, in particular financial debt. In fact, 47% of outstanding debt corresponds to loans and 3% comes from bonds while 50% are made up of commercial debts (“other accounts payable”).

A joint- study of:



Publication date: October 2016

**Sources:** Eurostat (Government Finance Statistics) • European Commission staff working document (2016), Country Report Croatia 2016 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances • Network of Associations of Local Authorities of South-East Europe (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014 • Croatian Bureau of Statistics (2015) Statistical yearbook of the Republic of Croatia • Kopri, I., M. Klari (2015) New Developments in Local Democracy in Croatia • World Bank (2014) Croatia Public Finance Review • Jutlina Alibegovic D., Slijepcevic S., Kordej-de Villa Z. (2014) Regional Development and Decentralization: two Options to Overcome Lack of Funding Transylvanian Review of Administrative Sciences, No. 43 E/2014, pp. 146-167 • Dubravka Jurlina Alibegovi and Sunana Slijepcevi (2012) Decentralisation in Croatia: problems and possible solutions. Working Paper No. 33/2012, The Institute of Economics, Zagreb • Ministry of Finance of Croatia (2012): Annual Report 2012.