

FISCAL RESPONSIBILITY ACT

CONTENTS AND OBJECTIVES OF THE ACT

Article 1

This Act shall set forth the rules aimed at limiting government spending, strengthening responsibility for a legal, earmarked and purposeful spending of budget resources and reinforcing the system of controls and supervision for the purpose of ensuring fiscal responsibility.

Article 2

- (1) The objective of this Act shall be to ensure and maintain fiscal responsibility, transparency and medium- and long-term sustainability of public finance.
- (2) The objective referred to in paragraph 1 of this Article shall be achieved through the establishment and strengthening of fiscal rules and rules aimed at ensuring fiscal responsibility on the basis of which the Government of the Republic of Croatia (hereinafter referred to as the Government) shall set and run the fiscal policy.

Article 3

The provisions contained in this Act shall pertain to the state budget and budgets of local and regional self-government units, the budget and extra-budgetary users of the state budget and budgets of local and regional self-government units as identified in the Budget and Extra-Budgetary Users Register in keeping with the Rulebook on identifying budget and extra-budgetary users of the state budget and budget and extra-budgetary users of the budgets of local and regional self-government units and on the manner of keeping the Budget and Extra-Budgetary Users Register (hereinafter referred to as the general budget).

MEANING OF TERMS

Article 4

Some terms in the context of this Act shall have the following meanings:

1. Cyclically-adjusted primary fiscal balance shall be a fiscal ratio of the difference between revenues and expenditures net of interest under the circumstances where there shall be an equality between the actual and potential Gross Domestic Product calculated via the application of the European Central Bank (ECB) methodology with an assessment of the discrepancies against the potential Gross Domestic Product with the help of the HP filter.
2. The Fiscal Responsibility Statement shall be an annual statement whereby heads of budget and extra-budgetary users of the state budget and budgets of local and regional self-government units and heads of local and regional self-

government units (hereinafter referred to as the Head) shall confirm that he/she has ensured legal, earmarked and purposeful spending of resources in the work, as well as an efficient and effective functioning of the financial management and control system within the framework of resources determined in the budget, i.e. the financial plan.

3. General budget shall be the central budget and budgets of local and regional self-government units as well as the financial plans of the extra-budgetary users of the local and regional self-government units.
4. Primary fiscal balance of the general budget shall be the difference between total revenues and total expenditures of the general budget less expenditures of the general budget for interest.
5. The central budget shall be the state budget and financial plans of the extra-budgetary users of the state budget.

FISCAL RULES

Article 5

- (1) Total expenditures of the general budget expressed as a share in the estimated Gross Domestic Product shall annually be reduced by no less than 1 percentage point.
- (2) The reduction referred to in paragraph 1 of this Article shall be conducted until a point when the primary fiscal balance of the general budget shall be equal to nil or positive in nominal terms.
- (3) From the point when the primary fiscal balance of the general budget shall be equal to nil or positive in nominal terms onwards the objective shall be the reaching of the cyclically-adjusted primary fiscal balance of the general budget at nil level or positive during the cycle to achieve public debt to Gross Domestic Product share stabilisation and reduction.

FISCAL RESPONSIBILITY STRENGTHENING RULES

Article 6

- (1) In an instance of creating commitments with maturities in excess of the amount envisaged in the state budget, the financial plan level for a state budget user for the following budget year shall be reduced by the amount of the commitments created in excess of the amount envisaged in the state budget.
- (2) Proposed acts, decrees, other regulations and enactments that the Government shall adopt or that the Government shall propose for the passage by the Croatian Parliament may not be adopted or defined without a prior opinion of the Ministry of Finance concerning the Fiscal Impact Assessment Statement.
- (3) During the state budget execution process the Ministry of Finance may carry out financial control of legal and earmarked spending of budget resources with central budget users and end beneficiaries.
- (4) The control referred to in paragraph 3 of this Article shall be carried out by persons authorised by the Minister of Finance.

(5) The persons referred to in paragraph 4 of this Article shall be obliged to report the detected suspicion of irregularities to an organisational unit of the Ministry of Finance in charge of conducting budget supervision in keeping with the provisions contained in the Budget Act.

(6) The provisions contained in this Article shall appropriately apply to local and regional self-government units.

FISCAL RESPONSIBILITY STATEMENT

Article 7

(1) The Head shall be responsible for:

1. legal, earmarked and purposeful spending of resources; and
2. efficient and effective functioning of the financial management and control system within the framework of funds defined by the budget or the financial plan.

(2) The Head shall be obliged to produce a Fiscal Responsibility Statement (hereinafter referred to as the Statement) each year for the previous budget year, for a period in which he/she has been in office or performed matters falling under Head's remit.

(3) In the Statement referred to in paragraph 2 of this Article, the Head shall confirm:

1. legal, earmarked and purposeful spending of resources;
2. efficient and effective functioning of the financial management and control system within the framework of funds defined by the budget or the financial plan.

The Statement shall be accompanied by a weaknesses and irregularities removal plan, a report on the removed weaknesses and irregularities detected in the previous year and an opinion of internal auditors on the financial management and control system for the areas audited a year earlier.

(4) Heads of the state budget and extra-budgetary users shall supply the Statement to a competent Ministry which will review its contents.

(5) Heads of budget and extra-budgetary users of the local and regional self-government units' budgets shall supply the Statement to a municipality head, a mayor or a county prefect of the competent local and regional self-government units which will review its contents.

(6) The Ministers and heads of other state bodies at the first organisational classification level and the municipality heads, the mayors, i.e. the county prefects shall supply the Statement to the Ministry of Finance which will review its contents.

(7) The competent ministries and local and regional self-government units shall be obliged to notify the Ministry of Finance of the irregularities detected on the basis the conducted reviews as referred to in paragraphs 4 and 5 of this Article.

(8) The reviews referred to in paragraphs 4 and 5 of this Article may also be conducted by persons referred to in Article 6, paragraph 5 of this Act.

(9) The Government will pass a decree to prescribe the layout and contents of the Statement, the procedure and deadlines for the production and the supply of the Statement as well as the deadlines for reporting the Ministry of Finance on the identified irregularities referred to in paragraph 7 of this Article.

FISCAL RULES APPLICATION

Article 8

(1) The deficit and net borrowing levels for a three-year period shall be determined in the Economic and Fiscal Policy Guidelines, in keeping with the fiscal rules set forth in Article 5 of this Act.

(2) Should there be an in-year creation of new commitments for the general budget or changes in the economic trends resulting in an increase in expenditures or a decrease in revenues which may result in a failure to meet the fiscal rules referred to in Article 5 of this Act, the Government must propose amendments to the state budget and the financial plans of the extra-budgetary users of the state budget.

(3) Increases in the general budget expenditures directly related to natural disasters, epidemics and environmental incidents shall be excluded from the set fiscal rules referred to in Article 5 of this Act.

(4) Increases in the general budget expenditures directly related to financing projects under co-financing from the pre-accession aid programmes and the European funds in the process of Republic of Croatia's accession to the European Union and during the three first years of membership shall be excluded from the set fiscal rules referred to in Article 5 of this Act.

REPORTING

Article 9

(1) The application of the rules referred to in Article 5 of this Act shall be reported on semi-annually and annually along with the semi-annual and annual state budget execution report within the deadlines envisaged in the Budget Act to be published in the Official Gazette *Narodne novine* and on the website of the Ministry of Finance.

(2) In the Decree referred to in Article 7, paragraph 9 of this Act the Government shall prescribe the form and contents of the report on the application of fiscal rules referred to in Article 5 of this Act.

SUPERVISION

Article 10

The Ministry of Finance shall supervise the implementation of this Act.

LIABILITY FOR BREACHES OF THE PROVISIONS OF THE ACT

Article 11

(1) In instances where it shall be established that a Head of a state budget and extra-budgetary user has found himself/herself in breach of the provisions contained in this

Act, he/she shall offer his/her resignation to the Prime Minister, the Government, i.e. a body that appointed him/her, in keeping with the appointments regulations.

(2) In instances where it shall be established that a Head of a budget and extra-budgetary user of a local and regional self-government unit has found himself/herself in breach of the provisions contained in this Act, he/she shall offer his/her resignation to a body that made his/her appointment.

(3) In instances where it shall be established that a Head of a local and regional self-government unit has found himself/herself in breach of the provisions contained in this Act, he/she shall offer his/her resignation in agreement with the regulations providing for his/her election, i.e. the appointment.

TRANSITIONAL AND FINAL PROVISIONS

Article 12

The Government will pass the Decree referred to in Article 7, paragraph 9 of this Act within four months after this Act's entry into force.

Article 13

The fiscal rules referred to in Article 5 of this Act shall be applied in 2011 concerning budget processes relative to the development and adoption of the 2012 budget and financial plans and the projections for the years of 2013 and 2014.

Article 14

The Statement referred to in Article 7 of this Act shall be produced for the year 2011 within the deadlines set forth in the Decree referred to in Article 7, paragraph 9 of this Act.

Article 15

This Act shall be published in the Official Gazette *Narodne novine*, and shall enter into force on 1 January 2011.