

NATIONAL BUDGET ACT

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THE REPUBLIC OF CROATIA

NATIONAL BUDGET ACT

I. GENERAL PROVISIONS

Article 1. Purpose

- (1) This Act shall govern the content and planning of the budget, the preparation, passage and implementation of the budget of the Government of the Republic of Croatia (hereinafter the Government), the budgets and budgetary relations between the Government budget and budgetary funds, guarantees of the Government, borrowing and public debt and accounting and budget control.
- (2) Local authorities (county, city, and municipal governments) continue to operate under the 1994 Budget Act (Official Gazette Number 92/94).
- (3) Where existing laws are inconsistent with this Act, the provisions of this Act prevail.
- (4) The Minister of Finance may make such orders, regulations, decrees, guidelines, instructions or directions as necessary to implement the law.

Article 2. Definitions

For the purposes of this Act, the terms used shall have the following meanings:

- (a) A budgetary fund shall mean a legal person established on the basis of a law that is financed through an earmarked tax and/or non-tax income or contributions, or budget transfer, and accounted for within the Treasury Consolidated Fund.
- (b) The budget shall mean an estimate of annual revenues and receipts and the established level of expenditure and other disbursements made by the state approved by the Parliament of the Republic of Croatia in accordance with the provisions of the Constitution and other laws.
- (c) The state budget shall mean the budget at the level of the Republic of Croatia.
- (d) Spending agencies shall mean the government ministries and other state administrative bodies, state government agencies, state funds, agencies founded by the central government, and other registered agents of the Government that are financed by the budget or compulsory levies.

- (e) The recipients of budget appropriations shall mean natural persons or legal entities which, pursuant to an agreement entered into with a spending agency, or a decision or resolution made by a direct spending agency, receive budget appropriations.
- (f) Revenues shall mean all non-repayable and non-refundable current and capital receipts with or without counter-obligation, except for non-obligatory and non-repayable receipts without obligation.
- (g) Grants shall mean receipts without counter-obligation, non-repayable and non-obligatory receipts from domestic and foreign units of state administration , international institutions, or receipts from an entity or natural person for a specific purpose (e.g. gift, aid, bequest, financial legacy).
- (h) Taxes shall mean mandatory, non-repayable receipts without counter-obligation which are determined by the state.
- (i) Expenditure shall mean non-refundable current and capital cash payments with or without counter-obligation and grants and transfers paid out to others.
- (j) Counter-obligation shall mean an instance when the delivery of goods or service must occur in return for a received or paid amount.
- (k) Borrowing reduced by repayments is a transaction in relation to claims from third parties deriving from public policy. Borrowing reduced by repayments is not considered a transaction in relation to liquidity or with the intention of making a profit in the form of interest.
- (l) Financing shall mean obtaining loans to fund the budget deficit or to use the budget surplus. Financing shall include principal amortization of public debt.
- (m) Capital expenditure shall mean payments to obtain land, intangible assets, stockpiles, non-financial and other assets whose life exceeds one year; all expenditure towards purchasing military assets and all other expenditure shall be regarded as current expenditure.
- (n) Capital revenues shall mean proceeds from the sale of non-financial capital assets, such as land, intangible assets, stockpiled goods and other assets whose life exceeds one year, all other revenues being regarded as current revenues.
- (o) Budget deficit or surplus shall equal revenues plus grants minus expenditure and borrowing diminished by repayment.
- (p) Liquidity borrowing shall mean drawing short-term loans and/or issuing short term securities to finance temporary deficits in Government cash balances resulting from unbalanced movements in receipts and cash outlays of the budget. Short-term is defined as a period less than one year, where the principal and interest are fully repaid in less than one calendar year.

- (q) A commitment is any action or binding agreement that, at the time the action is taken, is reasonably expected to result in a cash outlay (payment), immediately or in the future, by the Government. This includes hiring a new employee, or signing a contract for the receipt of goods or services. The Minister of Finance shall issue regulations further defining and regulating commitments.
- (r) A financial plan shall mean a schedule or calendar of the estimated or planned volume and timing of revenues and other receipts, commitments, expenditures and other outgoings, for the fiscal year.

II. BUDGET CONTENT AND PLANNING

Article 3. Fiscal Year and Temporary Financing

- (1) The budget shall refer to the fiscal year and shall be valid during the year for which it is passed.
- (2) The fiscal year shall be a period of twelve months, which commences on 1 January and concludes on 31 December of each calendar year.
- (3) In the event that the Parliament of the Republic of Croatia (hereinafter: the Parliament) fails to pass the budget before the commencement of the fiscal year, funding shall be done on a temporary basis for a maximum period of the first three months of the fiscal year.
- (4) Within the meaning of Article 3(3) above, temporary funding shall be executed in proportion to funds utilized in the same periods in the preceding year's budget up to a maximum of one-fourth of the total revenues allocated through the preceding year's budget.
- (5) Any decision on such temporary funding shall be passed by the Parliament or the representative body of a local self-government and administration unit, as the case may be.

Article 4. Passage of the Budget

- (1) The state budget shall be passed by the Parliament.
- (2) The budget of a budgetary fund shall be passed by its competent body, as stipulated by law or a by-law of this body in a manner foreseen by these regulations and under the conditions stipulated by this Act, prior to passage by Parliament.
- (3) Unless otherwise stipulated by law, bodies legally bound to prepare budgets shall autonomously allocate total revenues, commitment authority and expenditure belonging to them under law.

- (4) Budget commitments and expenditure shall be met by revenues and receipts defined by this Act.

Article 5. Scope of Budget

- (1) All budget revenues and receipts shall be allocated, and stated by source, in the budget.
- (2) All budget commitments and expenditure shall be determined in the budget. All commitments shall balance out with revenues and receipts.
- (3) No unplanned or uncommitted expenditure may be paid out of the Treasury Consolidated Fund.
- (4) The actual collection of revenues shall not be limited by revenue estimates stated in the budget.
- (5) In the event that during the fiscal year a law or regulation is adopted having an effect of decreasing the planned revenues and receipts or increasing the planned expenditure, a decision shall be passed at the same time determining additional revenues or expenditure reductions needed to balance the budget.
- (6) In the event that during the fiscal year due to extraordinary circumstances and needs there occurs an increase in expenditure or a decrease in revenues or receipts, the budget shall be balanced out by either lowering the planned expenditure or by finding new revenues.
- (7) Budget balancing shall be done through budget amendments passed in compliance with the budgetary procedure.
- (8) No law or regulation may be passed or action taken which would create extra-budgetary spending.

Article 6. Revenues

Revenues and receipts of the state budget shall consist of:

- (a) Tax revenues,
- (b) Non-tax revenues, such as profits of public and state-owned companies, profit of the National Bank of Croatia, duties, fines for criminal acts and repayments on loans granted,
- (c) Revenues earned on core activities of spending agencies under special regulations,
- (d) Domestic and foreign grants,
- (e) Domestic and foreign borrowing aimed at financing the budget deficit or repaying principal on loans,
- (f) Other revenues paid to the Government in accordance with law.

Article 7. Expenditures

Expenditure and other outlays from the state budget shall consist of:

- (a) Current expenditure, such as salaries, allowances, outlays for goods and services, current transfers, interest payment and grants in cash and in kind,
- (b) Capital expenditure, such as purchase of fixed assets, capital transfers and grants in cash and in kind,
- (c) Lending and equity participation,
- (d) Repayment of principal on borrowing.

Article 8. Accounting and Cash Management

- (1) All state budget revenue, receipt, commitments, expenditure and payment transactions shall be entered into the Treasury's general ledger.
- (2) All revenues raised pursuant to Article 6 of this Act shall form one Treasury Consolidated Fund.
- (3) The Minister of Finance shall open, and keep open, one or more bank accounts for the receipt, safekeeping, payment and transfer of state moneys constituting the Treasury Consolidated Fund.
- (4) The Minister of Finance is authorized to enter into an agreement with any bank, including the National Bank of Croatia, regarding the conduct of banking business of the Government, including the establishment of overdraft arrangements.
- (5) Subject to consent of the Government, the Minister of Finance may defer the collection of a claim, postpone the time of payment or allow collection in installments.
- (6) The balance of the Consolidated Fund may be invested by the Minister of Finance in a form of investment approved by the National Bank of Croatia, with the expenses of investing the money being debited from the Consolidated Fund and interest received credited to the Fund. The Consolidated Fund is hereby permanently appropriated for these purposes.

Article 9. Borrowing and Deficits

- (1) The annual budget shall determine the manner in which budget surplus is to be used and budget deficit financed. The state budget deficit shall be financed by borrowing home or abroad.
- (2) Beginning in Fiscal Year 2004, the borrowing referred to in Article 9 (1) above, excluding short-term liquidity borrowing, may be done only for the purpose of financing capital commitments or expenditure, except in cases of national emergency or when the economy is in recession. Government budgets submitted to Parliament should make equal annual progress towards balancing current commitments with current revenues by 2004.

III. BUDGET DRAFTING AND PASSAGE

Article 10. Bases of Budget Preparation

The bases for the preparation of the state budget shall rest on the needs of economic development, macroeconomic stability and the policies and regulations adopted by the Parliament, the Government and the Minister of Finance in accordance with their jurisdiction and competence.

Article 11. Budget Development Process and Schedule

- (1) In co-operation with the state administrative body responsible for economic development, the Minister of Finance shall prepare a report on economic and fiscal policy in the month of July for the following fiscal year.
- (2) In co-operation with the competent state administrative bodies, the Minister of Finance shall propose the guidelines and objectives of fiscal policy to the Government and prepare an estimate of the main types of revenues and expenditure for the following fiscal year.
- (3) On the basis of an opinion of the Government, the Minister of Finance shall send spending agencies an instruction on the method and elements of annual budget preparation in the month of September.
- (4) The instruction referred to in Article 11 (3) above shall lay down the basic elements of the policies which must be observed, the key parameters that must be utilized and the procedures and deadlines for the preparation of requests for the allocation of funds.
- (5) The instruction referred to in Article 11(3) above shall contain the estimated amount of commitment and expenditure for each spending agency.

Article 12. Spending Agency Budget Requests

- (1) The Minister of Finance shall determine the content and method of preparation of spending agencies' requests for funds, as well as the procedure for the allocation of said funds.
- (2) The spending agencies' requests for funds referred to in Article 12(1) above shall contain:
 - (a) Commitment and Expenditure planned for the budget year (by class and sub-class), as categorized under the accounting regulations and the budget chart of accounts, including estimated expenditures resulting from prior year commitments and current year commitments.
 - (b) Commitment and Expenditure planned for the next two years, by expenditure groups prescribed by the Minister of Finance as needed.
 - (c) A brief overview and structure of staff and officials for whom budget funds are sought.

- (d) An explanation of planned requirements enabling the Ministry of Finance to approve the received requests.
- (e) Request proposals pertaining to future commitments, liabilities or expenditure planned for several years in advance, including investment projects, to be submitted separately from requests pertaining to expenditure projected for each following year.

Article 13. Resolving Ministry Budget Requests

- (1) The Minister of Finance shall consider the estimated revenues and requests for budget funds, propose necessary modifications to spending agencies, and determine requirements and examine potential sources of borrowing.
- (2) Derogating from the provisions of Article 6(1)(c), of this Act, revenues generated from service fees charged by spending agencies for their core and other activities on the marketplace shall be considered revenues of such spending agencies and credited to the spending agencies budget. Rules on the purpose of use of such revenues shall be laid down in the by-laws referred to in Article 50(2) of this Act.
- (3) The Minister of Finance shall prepare a draft state budget for the following fiscal year and submit it to the Government by 10 October of the current year.
- (4) In the event that during discussion of the proposed state budget any disagreement occurs between the Minister of Finance and ministers competent for particular spending agencies, the Minister of Finance shall prepare a report for the prime minister who shall reach a final and binding decision.

Article 14. Submission of State Budget to Parliament

The Government shall submit the draft state budget to the Parliament for passage not later than 15 November.

Article 15. Budget of Budgetary Funds

- (1) Draft budgets of budgetary funds shall be prepared in accordance with such budget accounting classification system and such budget preparation procedures and schedule as the Minister of Finance may specifically determine as required.
- (2) Draft budgets of budgetary funds shall be submitted to the Minister of Finance, who shall be authorized to propose amendments thereto in accordance with the provisions of Article 12 of this Act.
- (3) In order to ensure the validity of the budget of a budgetary fund for the purposes of Article 15(2) above, it shall obtain a prior consent.
- (4) The consent referred to in Article 15(3) above shall be given by the Parliament at the proposal of the Government, the latter being prepared by the Minister of Finance.

- (5) Budgetary fund budgets shall be included in the draft state budget submitted to the Parliament.
- (6) The Parliament shall approve all budgetary fund budgets as part of the passage of the state budget.

Article 16. Content of Budget Submission to Parliament

- (1) The state budget as well as reports submitted therewith to the Parliament shall contain:
 - (a) An explanation of the macroeconomic assumptions used in developing total revenue and expenditure estimates included in the budget. This shall include a table comparing:
 - the economic growth projections (Gross Domestic Product) and other key economic variables as used by the Government in developing the state budget,
 - estimates for the same economic variables for the fiscal year as projected by the Ministry of Economy, State Statistical Office, and National Bank of Croatia,
 - the macroeconomic forecasts of the International Monetary Fund, and Croatian or foreign private sector forecasts, as available.

The table will identify the median forecast for estimate Gross Domestic Product growth, and include an explanation of the major sources for variation in the Government forecast from the median forecast. The explanation will also include estimates of total Government revenue and expenditure if the median GDP forecast were used.

- (b) A detailed presentation of budget revenues, commitments and expenditure,
- (c) A proposal for the use of budget surplus and, in the event of budget deficit, sources for its financing, provided that the amount of any such deficit is equal to the ceiling referred to in the provisions of Articles 31 and 33 of this Act,
- (d) A functional classification of commitments and expenditures to be incurred by each spending agency and budgetary fund, presented in accordance with such methodology as may be determined by the Minister of Finance,
- (e) Revenues, commitments and expenditure of each spending agency and budgetary fund presented in accordance with revenues, commitments and expenditures (by class, subclass and item) presented under the chart-of-accounts classification.
- (f) Revenues, commitments and expenditure of each spending agency and budgetary fund presented by major program or activity, including identification of major outputs or levels of service associated with the program or activity.
- (g) Description and estimate of tax expenditures.
- (h) Summary and structure of total outstanding debt and guarantees, including totals for the prior year, estimate for the current year, and the budget year. A brief assessment of the risk of expenditures deriving from the outstanding guarantees, and the Government plan for financing activated guarantees.
- (i) Brief assessment of other contingent liabilities and their potential impact on the budget.

- (2) The document referred to in Article 16(1)(b), above shall contain the corresponding data for the preceding fiscal year, updated estimates for the current fiscal year and projections for the following two fiscal years.
- (3) The document referred to in Article 16(1) above shall also contain an itemized annual overview of planned commitments and expenditures for investment projects planned for two fiscal years.
- (4) The document referred to in Article 16(1) above shall contain a proposal of legal provisions and/or decisions enabling the implementation of the proposed budget.

Article 17. Parliamentary Consideration of Budget

- (1) Each modification made by the Parliament to the proposed budget shall be in compliance with the deficit ceiling of the Government-proposed budget. Any proposal to increase an item of commitment or expenditure shall also state measures to increase revenues or reduce other commitment or expenditure by the same amount.
- (2) Amounts stated in the budget, except debt principal and interest repayments, shall be considered maximum amounts, ensuring that actual commitments do not exceed revenues allocated under the law and/or the decision on the implementation of the state budget.
- (3) Any proposed increase in commitment or expenditure, along with proposed measures to offset any such increase by increasing revenues or reducing commitments or expenditures under another item, shall be formulated as an amendment to the budget, i.e. its balancing, and submitted to the Parliament for consideration and passage prior to implementation.

Article 18. Emergency Budget Reserve

- (1) Urgent and contingent commitments or expenditures occurring in the course of the fiscal year shall be covered from reserves established in the annual budget.
- (2) Up to specific amounts, the use of such reserves shall be approved by the prime minister or the Minister of Finance, whereas the use of the remaining amount established in the annual budget shall be approved by the Government.
- (4) The Minister of Finance shall submit to the Government a monthly report on the use of budget reserves referred to in Article 18(1) above.
- (5) The Government shall submit to the Parliament a quarterly report on the use of budget reserves referred to in Article 18(1) above.

Article 19. Publication of Budget

The state budget shall be published in *Narodne novine* (the Official Gazette).

IV. BUDGET IMPLEMENTATION

Article 20. Allocation of Spending Authority

- (1) Upon the passage of the state budget, the Ministry of Finance shall inform other ministries, i.e. spending agencies, on the approved funds.
- (2) The ministries which are, in budgetary terms, responsible for other spending agencies shall determine the amounts allocated to their respective spending agencies within the framework of the approved funds.
- (3) Each spending agency shall be responsible for the collection of revenues under its jurisdiction and spending in accordance with previously established purposes.
- (4) Within its jurisdiction and competence, each spending agency shall be responsible for the compliance with budget-related regulations.
- (5) The Minister of Finance shall have the right to suspend the execution of any decision contravening this Act or the budget itself.

Article 21. Financial Plans

- (1) Each Ministry, spending agency, and budgetary fund shall prepare a financial plan based upon the budget levels of the Parliamentary-passed Budget.
- (2) The financial plan shall include the:
 - (a) planned schedule of revenues and other receipts,
 - (b) planned commitments
 - (c) estimated expenditures resulting from the commitments
- (3) for each month of the fiscal year or on such other time period and on such other basis as the Minister of Finance may determine.
- (4) Financial plans are submitted to the Budget Office of the Ministry of Finance for review and approval.
- (5) The Budget Office shall review and approve agency spending plans for consistency with
 - (a) the Parliamentary-passed Budget,
 - (b) policies of the Government and Parliament as contained in the Budget,
 - (c) current law,
 - (d) sound financial practices, and,
 - (e) in conjunction with the Government Treasury, effect on cash management.

- (6) Approved financial plans are forward to the Government Treasury for execution. The Government treasury will use the aggregated plans from all spending agencies and budgetary funds to:
 - (a) develop consolidated Government revenue, commitment, expenditure, and cash balance forecasts for the fiscal year, and
 - (b) to plan for the timely issuance of debt or short-term borrowing to assure sufficient cash balances are available for prompt payment of Government financial obligations.

Article 22. Revenue Collection Responsibilities

- (1) State administrative bodies in charge of the collection of budget revenues, shall be responsible for a complete and timely collection of revenues payable into the Treasury Consolidated Fund in accordance with relevant laws and regulations.
- (2) Moneys received by the Government must be banked promptly in an official account of the Treasury Consolidated Fund.

Article 23. Commitment and Expenditure Responsibilities

- (1) Actual commitments incurred by each ministry shall comply with budgeted amounts planned for each quarter or any such other period as the Minister of Finance may determine.
- (2) The funds referred to in Article 23(1) above shall be allocated on the basis of funds currently available in the state budget and their amount shall be announced to each ministry at least ten working days before the commencement of the period to which they pertain.
- (3) The Ministry of Finance remits the planned commitments to spending agencies according to a written financial plan of the competent ministry or budgetary fund manager, i.e. body responsible for budget implementation.
- (4) Spending agencies may conclude procurement contracts based on amounts planned on a quarterly basis, in compliance with effective legislation pertaining to this particular area and instructions issued by the Minister of Finance.
- (5) A spending agency may enter into a commitment the expenditures from which will extend into subsequent fiscal years provided the full financial assets to liquidate the commitment are committed in the current fiscal year.
- (6) All commitments and financial obligations of the Government must be paid (liquidated) only in cash from the Treasury Consolidated Fund.

Article 24. Commitment Management

- (1) Committed financial assets remaining in the Treasury Consolidated Fund at the end of the fiscal year shall be retained for payment of those commitments in future years, unless the

commitment is cancelled or becomes inactive. The Minister of Finance shall develop guidelines and procedures for implementing this provision.

- (2) Financial assets associated with commitments that are cancelled after the end of the fiscal year in which the commitment was originally made shall return to the Treasury for inclusion in subsequent budgets.
- (3) Commitments cancelled during the fiscal year in which originally budgeted may be re-committed by the spending agency for the same purposes for which they were budgeted. The Minister of Finance shall issue regulations governing the cancellation and re-use of commitment authority.
- (4) Commitment authority and associated financial assets that remain uncommitted at the end of the fiscal year in which budgeted to a spending agency are retained for use of that spending agency in future years for the purposes for which they were budgeted, provided they are reported in future budgets.
- (5) Spending agencies shall enter into commitments on the basis of written agreements unless otherwise provided by law.
- (6) Expenditures arising from commitments entered into in prior years shall be included in the budget of the year they fall due and are paid.
- (7) In entering into commitments, spending agencies and budgetary funds must follow guidelines on terms and conditions of payment as may be determined by the Minister of Finance.
- (8) Commitments incurred in excess of authority granted in the Budget or incurred in contravention of this Act or other legal requirements, shall not be a financial obligation of the Government.

Article 25. Reallocation of commitment authority

- (1) Commitment authority allocated in the budget shall not be reallocated among the ministries, unless the law regulating budget implementation expressly provides for such reallocation, which shall be determined by the Minister of Finance.
- (2) Under the budget item of each ministry the established commitment authority may be reallocated among individual commitment items or among individual spending agencies, which shall be subject to approval from the Minister of Finance.
- (3) The amount of commitment authority reallocated under Article 25(2) above shall not exceed 5 percent of the total commitment authority earmarked for the item being reduced.

Article 26. Budget Fund

- (1) A budget or budgetary fund is a record account within the Treasury Consolidated Fund opened by the central government in order to separately keep certain budget receipts and outgoings for budgetary funds or for international agreements.
- (2) A budget fund is opened pursuant to a legal document specifying the purpose of the fund, the period of time for which the fund is established, the government Ministry or agency responsible for managing the fund, and the sources of financing of the fund.
- (3) Budget funds are financed through funds provided in the annual budget, earmarked receipts of the budget that have been earmarked for the fund, and receipts arising from management of the assets of the fund.
- (4) Commitments arising from the activity for which the budget fund was established shall be met with the assets of the budget fund. Commitments or payments burdening the budget fund may only be made up to the resources available in the budget fund. Commitments by the budget fund manager may only be made within the framework of realistically planned receipts consistent with the economic assumptions of the budget.
- (5) At the end of any fiscal year, unused resources or assets of the budget fund shall be carried over into the subsequent year.
- (6) Unless amended by subsequent law, all formerly extra-budgetary funds become separate budget funds within the Treasury Consolidated Account, and financial resources of the former extra-budgetary funds are transferred to their respective budget fund.

Article 27. Minister of Finance Reporting Responsibilities

- (1) The Minister of Finance shall submit to the Government a report on the implementation of the state budget for the first six months of the current fiscal year by the end of July.
- (2) The report referred to in Article 27(1) above shall contain:
 - (a) A presentation of macroeconomic and fiscal situation,
 - (b) A comparative presentation of budgeted and actual revenues, commitments, expenditures, shortfalls and borrowings, accompanied by an explanation of discrepancies, if any,
 - (c) Proposed measures to improve the current situation, if and as necessitated by the circumstances.

Article 28. Government Reporting Responsibilities

- (1) The Government shall submit to the Parliament a report on the implementation of the state budget for the first six months by 5 August of the current fiscal year.

Article 29. Scope of Budget Accounts

- (1) The annual budget shall be implemented until 31 December of the fiscal year.
- (2) Any commitments or financial obligations not settled by 31 December of the current year shall be settled from the earmarked funds approved in the budget of the following fiscal year.
- (3) Only those revenues which are actually collected during a fiscal year shall be considered revenues for that year.
- (4) The expenditures from the budget in the current year are those cash payments that have been paid from the budget by the end of the current year.
- (5) Only those commitments signed during the current year are considered new commitments for the current fiscal year.

Article 30. Government-owned Enterprises

- (1) In the context of budget implementation, the Government shall undertake measures in respect of companies owned by the Republic of Croatia.
- (2) The balance sheets of Government-owned enterprises shall be included as an informational appendix to annual budget submissions to Parliament.

V. BORROWING AND PUBLIC DEBT**Article 31.**

- (1) The law regulating the implementation of the annual budget shall also provide for a ceiling amount for borrowing, which shall also include liabilities incurred by way of account overdrafts and other short-term borrowing.
- (2) The total ceiling amount referred to in the preceding paragraph shall also include loans raised from the National Bank of Croatia and debts assumed by the state budget.
- (3) The annual budget shall determine the total amount of guarantees to be issued.

Article 32. Public Debt

- (1) Public debt may be incurred by way of loans, securities issue or by entries into the book of accounts.

- (2) Data on each holder of securities referred to in the preceding paragraph shall be kept by the National Bank of Croatia and/or financial institution authorized therefor by the National Bank of Croatia.

Article 33. Public Debt Limitations

- (1) All decisions on public debt and government guarantees shall be passed by the Parliament, at the proposal of the Government.
- (2) The decisions referred to in the preceding paragraph shall be passed in compliance with amounts and purposes established in the annual budget.
- (3) All agreements on state budget borrowings and the issue of guarantees shall be signed by the Minister of Finance.
- (4) The Minister of Finance shall make all decisions on loan terms and the type of collateral.
- (5) The Minister of Finance shall conclude with the National Bank of Croatia a contract on the performance of services required to implement all decisions on public debt.
- (6) The total public debt outstanding from all Government sources may not exceed the limit established in the annual Budget, or 60 % of GDP, whichever is less.

Article 34. Debt Record

The Ministry of Finance shall keep a record of debt raised, guarantees issued and loans taken.

Article 35. Debt Reporting

- (1) All decisions on public debt, government guarantees and loans shall be published in *Narodne novine* (the Official Gazette).
- (2) The Government may not unilaterally modify contractual terms related to public debt, government guarantees and loans granted.

Article 36. Permanent Authority for Debt Service

For the purposes of this Act, any amount of interest and principal related to public debt and government guarantees may be paid out of the Treasury Consolidated Fund, in accordance with terms and conditions agreed to by the Republic of Croatia.

VI. BUDGET ACCOUNTING, CONTROL AND AUDIT

Article 37. Responsibilities

- (1) Ministers shall be responsible for the accounting and internal control of transactions related to revenues, commitments, and expenditure of ministries and spending agencies falling within their jurisdiction.
- (2) Along with revenues, commitments and expenditure of the Ministry of Finance, the Minister of Finance shall, on behalf of the Government, bear responsibility for accounting and internal control of borrowing and debt transactions.
- (3) The Ministry of Finance may control and inspect accounting documents related to revenues, commitments and expenditure of spending agencies, budgetary funds, local self-government and administration units, budget recipients and government-owned commercial enterprises.
- (4) The control referred to in Article 37(1), (2) and (3) above shall be carried out according to methodology determined by the Minister of Finance and may take place periodically.

Article 38. Authority to Establish Accounting Regulations

- (1) The Government shall enact a decree on the accounting system applicable to the state budget.
- (2) The Government shall enact a decree regulating the Treasury's general ledger system and the method of keeping a Treasury Consolidated Fund.
- (3) The Minister of Finance shall pass by-laws on accounting and the content and mode of financial reporting for all ministries, spending agencies, and budgetary funds.
- (4) The Minister of Finance may issue special instructions on financial reporting to certain state administration bodies.
- (5) All revenues, commitments and expenditure shall be entered as gross amounts independent of the actual amounts crediting or debiting the budget account.

Article 39. Closing Accounts

- (1) The Minister of Finance shall issue by 20 December of the fiscal year an instruction on the closure of the budget accounts and on the preparation of the annual statement.
- (2) Spending agencies and budgetary funds shall prepare their annual statements for the preceding year and submit them to the competent ministry by the end of February of the current year.

- (3) The ministries shall review and reconcile the annual statements of such spending agencies or budgetary funds, as the case may be, falling within their competence, consolidate said statements and produce a consolidated annual statement.
- (4) The annual statement for the preceding year referred to in Article 39(3) above shall be submitted to the Ministry of Finance by 31 March of the fiscal year.
- (5) On the basis of the annual statements for the preceding year referred to in Article 39(3) above, the Ministry of Finance shall produce the annual state budget statement by 15 April of the fiscal year.

Article 40. Reporting Requirements

- (1) The Minister of Finance shall submit to the Government a report on the implementation of the state budget for the preceding year by 15 May of the fiscal year.
- (2) The Government shall submit to the Parliament a report on the implementation of the state budget for the preceding year by 15 June of the fiscal year.
- (3) The content of the reports referred to in Articles 40(1) and 40(2) of this Act shall follow the classification of accounts and shall contain:
 - (a) Opening and closing balance on the budget account,
 - (b) Clarification of major discrepancies,
 - (c) Data on any borrowing and debt management operations,
 - (d) Data on the use of budget reserves and on any guarantees issued during the fiscal year.

Article 41. Auditor General

The Auditor General shall carry out the audit of the state budget, the budgets of local self-government and administration units and of budgetary funds in a manner and by deadlines laid down in the legislation governing government audit activities.

VII. GOVERNMENT TREASURY

Article 42. Scope of duties

The Government Treasury is an office within the Ministry of Finance that carries out the following duties:

- (a) budget execution: executing cash payments and controls the financial conduct of the government budget; monitors the financial conduct of budgetary funds and local government and self-government bodies.
- (b) Conducts financial transactions associated with the execution of the budget, including: cash management; maintaining a register of government property, receivables,

- payables, and commitments; issues government paper and guarantees; manages domestic and external debt of the Government; manages international grants, assistance, and loans.
- (c) Manages the government accounting system, the financial information system, and central government accounting issues; under the guidance of the budget office, manages the governments budget accounting system; and manages the development of the government accounting and financial information system.
 - (d) Manages the cash balances of the Government;
 - (e) Manages financial assets, oversees accounts receivable, and through issuance of debt and oversight of the sale of financial and non-financial assets, assures that sufficient cash balances remain in the Treasury Consolidated Fund to pay government financial obligations in a timely manner.
 - (f) Manages cash payments and the commitment process to assure that all cash payments are legal and valid obligations of the Government prior to the payment being made. The Treasury may request such documentation from spending Ministries in meeting this responsibility.
 - (g) Provides financial reports;
 - (h) Supports analysis of the government financial system;
 - (i) In conjunction with the budget office, plans and monitors the execution of the government budget;
 - (j) Participates in the drafting of normative legal acts in the field of public finance.

Article 43. Treasurer General

- (1) The Treasurer General manages the Government Treasury.
- (2) The Treasurer General may have one or more Assistant Treasurers.
- (3) The Government of the Republic of Croatia nominates the Treasurer General and Assistant Treasurers upon the suggestion of the Minister of Finance.

Article 44. Duties of the Treasurer General

- (1) The Treasurer General shall:
 - (a) organize and ensure the legal and effective conduct of duties of the Government Treasury;
 - (b) take part in the policy discussions and decisions related to the scope of duties of the Government Treasury and ensure those polices are carried out;
 - (c) ensure monitoring of accepted standards and the conduct of duties of the Government Treasury;
 - (d) determine methodology and provide instructions and directions for the conduct of Government Treasury duties and ensure consistent application of Treasury standards;
 - (e) determine work practices and professional relationships related to the implementation of the Government Treasury information system;

- (f) carry out acts which are in their domain and such duties as defined in laws related to the Government Treasury;
 - (g) conduct other duties necessary for the functioning of the Government Treasury System.
- (2) The Treasurer General reports to the Minister of Finance and the Government of the Republic of Croatia.

VIII. INTERNAL CONTROL

Article 45. Internal Control

- (1) There is established within the Ministry of Finance a Budget Inspectorate reporting to the Minister of Finance. The Budget Inspectorate shall have government-wide responsibility for:
- (a) Conducting internal audits of
 - (i) all government organizations, spending agencies, and budgetary funds
 - (ii) funds received by non-governmental bodies.
 - (iii) Local-governments
 - (iv) Government-owned enterprises
 - (b) Conduct internal control assessments to evaluate the effectiveness of internal controls in spending agencies and budgetary funds.
 - (c) Developing and issuing internal control and auditing guidelines, standards, and best practices for internal controllers and auditors.
 - (d) Developing and issuing professional standards for internal controllers and auditors.
 - (e) Issue written reports of the result of internal audits and internal control assessments.
 - (f) Assess penalties for offences detected through internal audits and internal control assessments, as specified below in Article.
- (2) All spending agencies and budget fund managers shall establish internal control and audit functions for all transactions relating to revenues, commitments, expenditures, financial and other assets, and liabilities.
- (a) Internal control shall be organized as a system of procedures and responsibilities of all persons involved in the procedure of making commitments or payments, as well as organized service of internal controllers and auditors.
 - (b) Internal control shall involve control over legality, economy, efficiency, effectiveness, and stewardship of financial assets.
 - (c) Persons exercising internal control shall be internal controllers and auditors reporting directly to the head of the spending agency or budget fund manager.
 - (d) The Minister of Finance shall determine common criteria, procedures, and best practices for internal control and auditing for all Government organizations.
- (3) Should a budget inspector establish that a law, regulation, or other legal act has been violated, the inspector shall issue a written decision.

- (a) The written decision shall identify the responsible party or parties, and identify remedial action to be taken to correct the deficiency.
- (b) On the basis of the written decision, the Budget Inspectorate may impose disciplinary action against the responsible party or parties, as identified in Article 46, below.

Article 46. Penalties

A fine of HRK 10,000 to 50,000 shall be payable for an offence committed by the responsible official of any spending agency, the responsible official of any budgetary fund responsible for the budget or any other responsible official:

1. If such person approves any borrowing which contravenes the provisions of this Act;
2. If such person defers the collection of any claim or approves the collection in installments of any claim without prior consent of the Government;
3. If such person enters into a commitment or pays out of a budget account any expenditure which has not been foreseen in the budget;
4. If such person does not comply with the provisions of Articles 10 through 15 of this Act in the preparation and passage of the budget;
5. If the state budget and reports to be submitted therewith to the Parliament fails to contain the sections stipulated by Article 16 this Act;
6. If such person fails to comply with the provisions of Articles 20 through 30 of this Act in the implementation of the budget;
7. If such person borrows in a manner contravening the provisions of Articles 31 through 35 of this Act;
8. If such person fails to comply with other provisions of Articles 37 through 40 of this Act;
9. If such person fails to remedy problems identified in written external or internal audit or control reports in a timely fashion;
10. If such person fails to apply the provisions of this Act abrogating the provisions of the erstwhile effective laws and regulations governing the content, mode of preparation, passage and implementation of budgets and budgetary funds.

IX. BUDGET OFFICE

Article 47. Budget Office

- (1) There is established within the Ministry of Finance a Government Budget Office, headed by an Assistant Minister, that reports to the Minister of Finance. The Government Budget Office shall, on behalf of the Minister of Finance, be responsible for the Government budget development system.
- (2) The Government Budget Office shall:
 - (a) Manage the Government budget process and budget;
 - (b) Be responsible for implementing Parts II and III of this Act related to the budget and budget process;
 - (c) Participate in formulating the budgetary issues of the state;
 - (d) Develop and propose guidelines for preparation of the Government Budget;
 - (e) Develop and prescribe technical standards related to preparation, planning, implementation, revision, and evaluation of budgets;
 - (f) Review and analyze the initial budget requests of spending agencies, budgetary funds, or other state organizations, and propose such adjustments thereto as it may consider appropriate;
 - (g) Prepare the budget and budget law for the Government;
 - (h) Review spending agency financial plans and recommend such modifications as it may deem appropriate, and transmit these plans to the Government Treasury for use in budget execution and cash management;
 - (i) Review and approve all proposed spending agency or budgetary fund transfers of budgetary resources as authorized under this Act, and transmit approved transfers to the Government Treasury for execution;
 - (j) In conjunction with the Treasury, manage all commitments for consistency with Government and Parliamentary policy as contained in the Budget passed by Parliament.
 - (k) Provide advisory support on budgetary issues to all Government agencies and budgetary funds.
 - (l) Develop and propose improvements to the budget development process.
 - (m) Undertake such other duties related to the Budget or budget process as the Minister of Finance may determine.
- (3) All offices performing budget functions in all spending agencies and budgetary funds are responsible for complying with this Act, all regulations or guidance issued under this Act, and for compliance with the policies and decisions as set forth in the annual Budget as passed by Parliament.

X. TRANSITIONAL AND FINAL PROVISIONS

Article 48

All provisions of any law or regulation governing the content, mode of preparation, passage and implementation of the state budget and the budgetary relations between the state and budgetary funds shall become null and void on the day this Act becomes applicable.

Article 49. Treasury Consolidated Fund

- (1) The Government of the Republic of Croatia is mandated to publish a program by September 30, 2000, for closing all accounts of budget users to ensure the establishment of a Treasury Consolidated Fund. The Government is further mandated to have a fully functional Treasury Consolidated Fund and fully operational Treasury Office no later than July 1, 2001.
- (2) The Minister of Finance is hereby authorized to close the accounts of ministries and other state administration and government bodies opened at the organization in charge of payments system. These accounts shall be closed no later than 1 July 2001.
- (3) All resources remaining in budget user accounts are to be transferred to the Treasury Consolidated Fund, where these resources shall remain available for the use of the budget user consistent with this Act.

Article 50.

- (1) The Government is hereby authorized to issue decrees on the application of this Act.
- (2) The Minister of Finance is hereby authorized to issue by-laws, ordinances and instructions on the application of individual provisions of this Act.

Article 51. Effective Date

This Act shall enter into force on the eighth day after its publication in *Narodne Novine* (the Official Gazette).