

# Zagreb Croatia

Work on a northern bypass has been underway in Zagreb since 2013

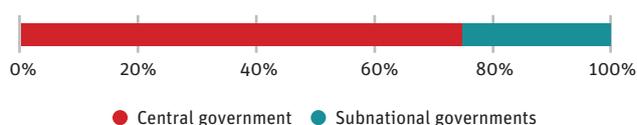
● CITY:  
0.8 mil. inhabitants

● METROPOLITAN AREA  
N/A

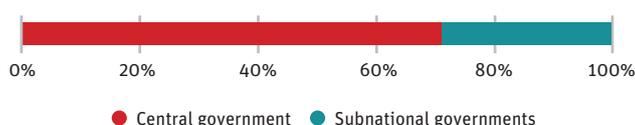
GDP: N/A

## How local public finance systems work in Croatia

PUBLIC REVENUE



CAPITAL EXPENDITURES



Croatia has a **two-tier system of subnational governments** (SNG), consisting of counties (županije) on the regional level and of cities (gradovi) and municipalities (općine) on the local level.

The Law on Local and Regional Self-Government Financing of 2001 defines sources of financing for counties, cities and municipalities, including types of taxes, non-tax revenues and a equalisation fund to redistribute funds among levels. It states that SNGs' own revenues should be proportional to their tasks, and they should be able to use them freely.

**SNG investment represents a low share (34%) of public investment** (EU28 51%, 2016). **Nonetheless, as a share of the GDP it is comparable with the EU28 average.** Since the crisis and 2014, investment has declined due to growing operational costs and wages. From 2007 to 2017, it declined in real terms by 6% annually. **Investment currently represents 9% of SNG expenditures.**

The SNG system of finances relies both on transfers and tax revenues (in ratios comparable with the EU28 average). However, the share of transfers and grants in Croatia is slightly higher (49% compared to EU28 44%), while the share of tax revenue is lower (39% compared to EU28 41%). The share of transfers in total revenue has recently decreased (in 2013 it was still nearly 60%) due to a reform of the financial system.

SNG tax revenues represent 17% of public tax revenue and 4.5% of the GDP (EU28 24% and 6.4% of the GDP, 2016). SNG tax revenues include both shared and own taxes. **67% of SNG tax revenue (26%**

**of total SNG revenue) comes from personal income tax. This is both a shared tax and own-source tax. Legislation provides cities and municipalities greater tax autonomy (in the form of setting local income tax surcharges) – the surtax may account for up to 18% of the income tax.** Municipalities set tax rates within the limits established by the central government. The current maximum rate is 10% for municipalities, 12% for cities up to 30,000 inhabitants, 15% for cities over 30,000 inhabitants and 18% for the City of Zagreb (30% before the reform of 2015). Cities and municipalities received 60% of the personal income tax collected within their jurisdiction, while 17% of this goes to regions. The City of Zagreb receives 77% (although this is not the case administratively, the amount of income tax functions as if Zagreb were both a municipality and region).

A second source of shared tax revenue is the tax on real estate transactions. In 2018, the centrally-established tax rate was reduced from 5% to 4%, while 100% of the collected revenue is now earmarked for local government. Other own-source local taxes include a “communal fee”, the consumption tax, tax on vacation homes, and the tax on public area use. The “communal fee” is a quasi-property tax. In 2016, it accounted for 17% of SNG tax revenue and 6% of total SNG revenue. The municipality sets the base of the fee and decides how often it is collected. In 2016, property tax amounted to 0.7% of the GDP (OECD 1.1%). Counties' own-source taxes include the tax on inheritance and gifts, motor vehicles, boats and vessels, and gambling machines. County tax rates are set by the state government only. In contrast, the rates on municipal,

town and city taxes are set by the municipal authority, within a range that is controlled by the central government.

**An inter-government grant system consists of two main equalisation grants.** The fiscal equalization fund is a block transfer from the central level funded from personal income tax revenue (approximately 17% of the revenue). It equalises revenue disparities among SNGs. It is redistributed according to the individual shares of SNGs determined each year in the budget, calculated based on five-year personal income tax revenue per capita and anticipated revenue in the given year. The second transfer, earmarked, allocates 6% of the personal income tax through the Equalisation Fund for Decentralised Functions (education, social care, health care and fire fighting).

**Total current transfers represent 94% of all transfer revenue and nearly one half of total SNG revenue (2106), while capital grants are minimal.**

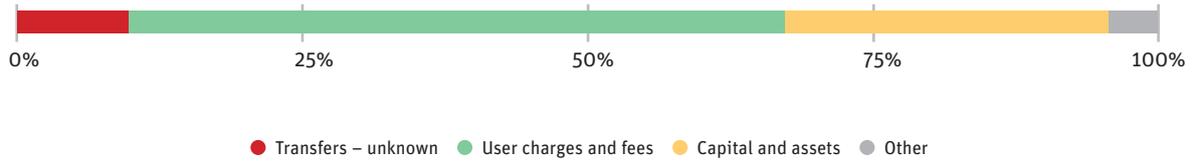
SNGs receive revenue from fines, administrative fees and fees for using public or municipal land. They set the rates and collect the fees themselves. There are also “shared fees”, such as the fee for using mineral resources and thermal waters (50% goes to the local budget) and fees for drinking water (30% goes to the local and 70% to the central budget). **Fees make up 11% of SNG revenue** (EU28 12%). Income from the sale and lease of property and financial asset income (profit from municipal companies) are an important part of municipal revenue (2%). Generally, this is used to build and maintain public service infrastructure. This represents a relatively high level of income compared to the EU28 average of 1.2%.

*Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>*

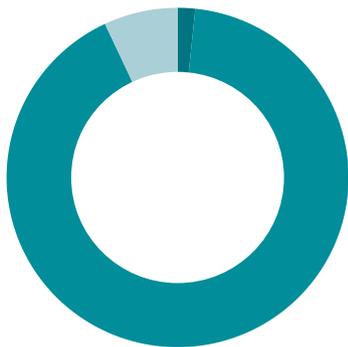
# Finances of the City of Zagreb

## REVENUE SOURCES

### Economic classification of revenue

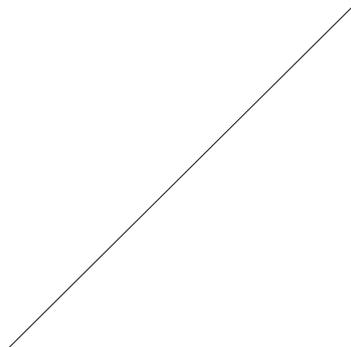


### Tax base

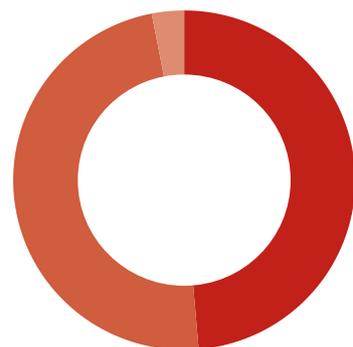


● Production ● Income and wealth  
● Assets

### Transfers conditionality (data unavailable)



### Transfers origin



● Other SNGs ● Central  
● International

### Balance sheet and debt

+33%

BUDGET BALANCE

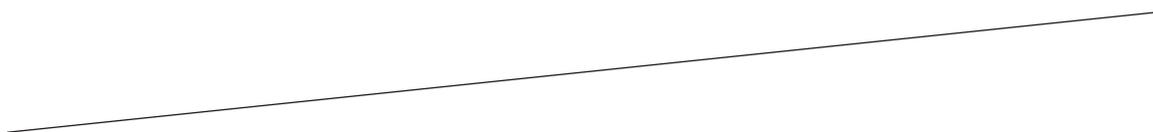
25%

DEBT AS A PERCENTAGE OF ANNUAL REVENUE

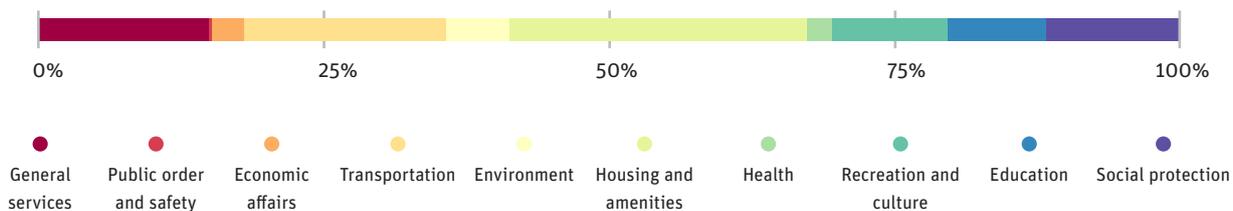
# Finances of the City of Zagreb

## EXPENDITURE COMPOSITION

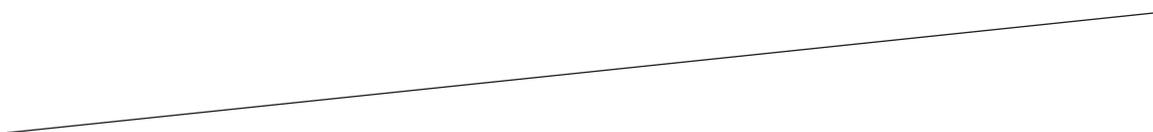
Economic classification of expenditure  
(data unavailable)



Functional classification of expenditure



Functional classification of capital expenditure  
(data unavailable)



Source: Own questionnaire survey (2019)

# State highway D14

## Expressway north of Zagreb

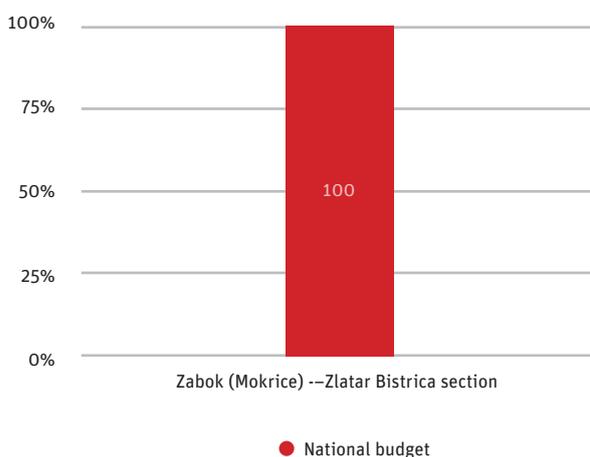
State highway D14 is an expressway that will serve as a northern bypass of Zagreb when completed and will also serve the Chorvastke Zahori region (which is why the road is called the Zagorska brza cesta).

It is planned to run roughly 40 km. Circa 10 km of the expressway is currently open (the Zabok- Bedekovčina section). Road construction was begun in the spring of 2013, the first two sections running 10 km were opened in the fall of 2015 and winter of 2017. Plans call for opening another 6.5 km (Bedekovčina-Zlatar Bistrice section) in the fall of 2019.

Total D14 highway construction costs (from Zaboku to Zlatar Bistrice) have so far amounted to HRK 400 million and were covered by the Hrvatske ceste state enterprise.



### State highway D14



Source: Krapinsko-zagorska županija, zagorje.com, 24sata d.o.o., radio-stubica.hr