BUDGET ACT

I. GENERAL PROVISIONS

THE CONTENT AND SCOPE OF APPLICATION OF THE ACT

Article 1

This Act shall regulate the planning, preparation, passage and execution of the budget, asset and debt management, public debt management, borrowing and the guarantee of the state and of the local and regional self-government units, budgetary relations in the public sector, accounting, budgetary control and other issues in related to public finance management.

Article 2

(1) The provisions of this Act shall relate to the state budget and the budgets of local and regional self-government units (hereinafter referred to as: the budget), and to state budget users and users of the local and regional self-government units' budgets (hereinafter referred to as: budget users).

(2) Particular provisions of this Act shall regulate the budgetary relations and rules applied to extra-budgetary funds, companies and other legal persons in which the state or the local and regional self-government unit has a decisive influence on the management, or on the preparation of financial plans, cash management, borrowing and issuing guarantees, accounting, producing and submitting reports and carrying out the budgetary control, which are, with regards to financing sources, included in the general budget (hereinafter referred to as: extra-budgetary users).

(3) The Minister of Finance shall establish by a Book of Rules budget and extra-budgetary users of the state budget and the local and regional self-government units’ budgets, as well as the manner of keeping the register of budget and extra-budgetary users of state budget and of local and regional self-government units’ budgets.

THE MEANING OF TERMS

Article 3

For the purpose of this Act certain terms shall have the following meaning:

1. **AFCOS** is a system through which the coordination of legislative, administrative and operative activities is implemented with the purpose of protecting financial interest of the European Union and direct cooperation with the European anti-fraud office (OLAF);

2. **Activity** is a part of a program for which duration is not determined and in which the expenditures and expenses for achieving the objectives established by the program are planned;

3. **Acts of planning** are projects, plans, programs, strategies and similar documents;

4. **Given donations** are a current or capital transfer of funds to non-profit organizations and to citizens and households that include transfers in kind, made by the budget and budget users for a specific purpose;
5. **State Budget** is an act, passed by the Croatian Parliament (hereinafter referred to as: Parliament), by which the revenues and receipts are estimated and state expenditures and expenses for one year established in accordance with law;

6. **State Treasury** is a system which provides organizational and informational integration of budgetary processes: budget preparation, state budget execution, state accounting, financial resources management and public debt management;

7. **State guarantee** is an instrument of insurance by which the Republic of Croatia guarantees the settlement of liabilities for which the guarantee is given;

8. **State debt** is central budget debt;

9. **State grants** are actual and potential expenditures or reduced revenues of the state allocated by state grant payers to state grant users that are undermining, or that could undermine market competition by granting a market advantage to a state grant user, regardless of the form of the grant, to the extent in which it can influence the settlement of internationally assumed obligations of the Republic of Croatia;

10. **Economic classification** is a presentation of revenues and receipts by natural types and expenditures and expenses according to the economic purpose they serve, and they are classified in classes, groups, subgroups, divisions and basic accounts.

11. **Financial assets** are monetary funds, claims, legal persons’ stocks and equity shares, securities and other investments in legal persons;

12. **Financial plan** is the budget user’s and extra-budgetary user’s document that establishes their revenues and receipts and expenditures and expenses in accordance with budget classifications;

13. **Financial reporting** is a set of information on financial position, business performance and cash flows of the budget, budget users, and extra-budgetary users;

14. **Functional classification** is a presentation of budget and extra-budgetary users’ activities and projects classified according to the purpose they serve;

15. **Capital investments** are investments in the increase and preservation of the value of assets, investments in land, buildings, equipment and other long-term material and nonmaterial assets, including investments in education and training, development of new technologies, improvement in quality of life and other investments that will create gain;

16. **Extra-budgetary users** are extra-budgetary funds, companies and other legal persons in which the state or the local and regional self-government unit has a significant influence on the management;

17. **Extra-budgetary fund** is an extra-budgetary user, legal person founded on the basis of law, which is financed from the earmarked contributions and other revenues;

18. **Sources of financing** are groups of revenue and receipts from which expenditures and expenses of specific type and defined purpose are settled;

19. **Executive body** is the Government of the Republic of Croatia (hereinafter referred to as: the Government) and the executive body of the municipality, City of Zagreb, town and county (hereinafter referred to as: local and regional executive body) that submits the budget and annual and semi-annual report on budget execution to its representative body;
20. **Public debt** is general budget debt;
21. **Public sector** are the state budget, the units of local and regional self-government, budget and extra-budgetary users of the state budget and of the budgets of the local and regional self-government units;
22. **Local and regional self-government unit** is the municipality, town and county, whose bodies perform functions, carry out tasks and pass programs prescribed by laws and decisions made on the basis of law, for which the funds are provided in their budget and in the financial plan of the budget user;
23. **Consolidation** is a presentation of financial data of several interrelated budgets and/or budget users, and extra-budgetary users as if a single entity were in question;
24. **Location classification** is a presentation of expenditures and expenses according to the territorially defined structures in accordance with the constitution of the Republic of Croatia, the European Union countries and other countries;
25. **Budget user’s monthly financial plan** is a monthly presentation of expenditures and expenses by economic, organizational and program classification with planned values by sources of financing in accordance with the expected maturity;
26. **Local self-government** includes local administrative offices, residential quarters and districts established by the statute of the local self-government units;
27. **Compensation** includes pensions, and compensations to citizens and households by virtue of special laws;
28. **Non-financial fixed assets** are non-produced and produced fixed assets.
29. **Responsible person** are the budget and extra-budgetary user’s Head, municipal prefect, mayor or county prefect and a person to which such authority is delegated by their decision;
30. **General budget** is the central budget and the local and regional self-government units’ budgets and extra-budgetary users of local and regional self-government units;
31. **Organizational classification** is a presentation of connected and harmonised (hierarchically and according to relation of rights and responsibilities) structures of budget and budget users which by appropriate material resources achieve set goals, and which is established through first level budget users, second level budget users and budget users (third level);
32. **Development programs plan** is a presentation of planned expenditures concerning conducting investments and giving capital aids and donations;
33. **Aids** are current or capital transfers to international organizations, foreign governments, budgets, extra-budgetary users, banks and other financial institutions and companies;
34. **European Union aids** are funds that the Republic of Croatia receives through pre-accession programs and funds of the European Union;
35. **Legal person with a direct or indirect majority state ownership** is a legal person whose shares or equity share constitute the Republic of Croatia’s portfolio, or in relation to which the Republic of Croatia has founding (ownership) rights;
36. **Legal person with a direct or indirect majority ownership of the local and regional self-government unit** is a legal person whose shares or equity share belong to the local and regional self-government unit’s portfolio, or in relation to
which the unit of the local or regional self-government has the founding (ownership) rights;

37. **Representative body** is the Croatian Parliament, county assembly and Zagreb City Assembly, as well as the municipal and city council (hereinafter referred to as: Parliament and the representative body) that passes the budget, the state budget execution act and the decision on budget execution, the annual and semi-annual report on budget execution;

38. **Revenues for special purposes** are revenues whose use and purpose is determined by special laws;

39. **Recipients of funds** are legal and natural persons receiving budget funds on the basis of special regulations, court decisions and agreements;

40. **Received donations** are earmarked funds which the budget and budget users realise from natural persons, non-profit organizations, companies and other subjects outside of the general budget;

41. **Received aids** are current and/or capital transfers which the budget and budget users receive from foreign governments, international organizations or from other subjects within the general budget;

42. **Program** is a set of independent, closely related activities and projects oriented towards the achievement of a common goal;

43. **Program classification** is a presentation of programs and their component parts activities and projects, defined in accordance with the acts of planning as well as goals and tasks of the budget and budget and extra-budgetary users of the budget;

44. **Budget projection** (hereinafter referred to as: projection) is an estimate of budget revenues and receipts and expenditures and expenses for the period of several years, which is adopted by the Parliament or the representative body;

45. **Project** is a component part of a program for which duration is determined in advance and in which the expenditures and expenses for achieving the objectives established by the program are planned;

46. **Local and regional self-government unit’s budget** is an act, passed by its representative body, by which the revenues and receipts are estimated and expenditures and expenses of the local and regional self-government unit established for one year, in accordance with law and decision made on the basis of law;

47. **Budget classifications** are a frame by which revenues and receipts and expenditures and expenses are stated and systematically monitored by the responsible body, goal, purpose, type, location and source of financing;

48. **Budgetary fund** is a budget user founded on the basis of law by the date of coming into force of this Act, and is financed from the budget and the earmarked revenues of the fund;

49. **Budget users** are state bodies, institutions, boards of minority self-governments, budgetary funds and local self-government, whose staff expenditures and/or material expenditures are provided for in the budget;

50. **Budget supervision** is a system of control of material and financial business operation of budget and extra-budgetary users of the state budget, local and regional self-government units and their budget and extra-budgetary users and
legal and natural persons for which the funds are provided in the budget (hereinafter referred to as: subjects of control);

51. **Budget accounting** is an accounting system that regulates the bookkeeping, analysis and reporting on business events of the budget and budget and extra-budgetary users;

52. **Financing Account** is a part of the budget which shows the manner of financing budget deficit and the use of budget surplus;

53. **Register of budget and extra-budgetary users of state budget and of local and regional self-government units' budget** is a list of budget and extra-budgetary users;

54. **Central budget** is the state budget and the financial plans of extra-budgetary users;

55. **Strategic plan** is a document that contains the vision, strategic goals, methods of achieving goals (acts of planning), measures of results assessment and the system of monitoring of achieving results;

56. **Subsidies** are current transfers of funds to producers to encourage the production of certain products and the providing of services, which can be determined on the basis of the level of production and/or the amount of the produced, sold or imported goods and services;

57. **The municipal and county financial affairs administrative body** (hereinafter referred to as: financial affairs administrative body) prepares the budget, annual and semi-annual report on budget execution and performs other financial tasks for the local and regional executive body;

58. **Borrowing** is obtaining a loan or issuing of securities.

**BUDGET PRINCIPLES**

**Article 4**

The budget shall be adopted and executed in accordance with the principle of budget unity and accuracy, one year principle, principle of balance, accounting unit principle, universality principle, specification principle, sound financial management principle and transparency principle.

The principle of budget unity and accuracy

**Article 5**

(1) Revenues and receipts belonging to the state and local and regional self-government units, as well as all their expenditures and expenses for particular purposes shall be presented in the budget on the gross-principle.

(2) Budget funds shall be used for financing of expenditures, functions and programs of government bodies and bodies of local and regional self-government units and other budget and extra-budgetary users of the budget in the amount determined by the budget.

(3) Proposed decrees, other regulation and acts of planning (projects, plans, programs, strategies, policies and similar documents) which are adopted by the Government as well as proposed laws and acts of planning which are adopted by the Parliament (hereinafter referred to as: laws, other regulations and acts of planning) shall contain an assessment of fiscal impact on the budget in accordance with special regulations.
One year principle
Article 6
(1) The budget shall be passed for the budget year and be in force in that year.
(2) The budget year shall be a twelve-month period, starting as of January 1 and ending on December 31 of the calendar year.
(3) Parliament or the representative body shall pass the budget for the budget year that corresponds to a calendar year prior to the beginning of the year to which it relates.
(4) The revenues and receipts paid to the budget by the end of the current year shall be the revenues of that current year’s budget.
(5) Funds for covering of assumed liabilities from the previous year/s as well as funds for settlement of liabilities created in the current fiscal year, for which the budget is being adopted, shall be planed in the budget.

Principle of balance
Article 7
(1) The budget shall be balanced – total revenues and receipts shall cover total expenditures and expenses.
(2) If expenditures and expenses increased, or if revenues and receipts decreased during the budget year due to extraordinary events and requirements, the budget shall be balanced by finding of new revenues and receipts, and/or reduction of projected expenditures and expenses.
(3) The budget balance shall be carried out during the budget year through amendments to the budget, pursuant to the procedure for the passage of the budget.

Principle of the accounting unit
Article 8
Revenues, receipts, expenditures and expenses in the budget shall be presented in HRK and financial reports shall be prepared in HRK.

Universality principle
Article 9
(1) The revenues and receipts shall serve for the settlement of all expenditures and expenses unless otherwise prescribed by this Act, State Budget Execution Act or the decision on budget execution.
(2) In accordance with the provisions of Articles 48 and 70 of this Act earmarked revenues and receipts shall be used for financing of specific expenditures and expenses.

Principle of specification
Article 10
(1) Budget revenues and receipts shall be allocated by economic classification in the budget and presented by sources.
(2) Budget expenditures and expenses shall be allocated in the budget according to budget classifications and balanced with revenues and receipts.

Principle of sound financial management
Article 11
Budget funds shall be used in accordance with the principles of sound financial management, and especially in accordance with the principle of cost-effectiveness and efficiency.

Principle of transparency
Article 12

(1) The budget is passed and executed in accordance with the principle of transparency.

(2) The budget and the projection, the amendments to the budget and projection and the decision on temporary financing shall be published in the National Official Gazette, the official gazette of the Republic of Croatia (hereinafter referred to as: the National Official Gazette) or in the official bulletin of the local and regional self-government unit.

(3) Semi-annual and annual report on budget execution shall be published in the National Official Gazette, or in the official bulletin of the local and regional self-government unit.

RESPONSIBILITY FOR BUDGET PLANNING AND EXECUTION
Article 13

(1) Executive body shall be responsible to its representative body for budget planning and execution and shall report to it thereof in a manner prescribed by this Act.

(2) The responsible person of the local and regional self-government unit and of budget and extra-budgetary user shall be responsible for the lawful and proper planning and execution of the budget or the financial plan.

SUBJECT MATTER OF THE REGULATIONS ON BUDGET EXECUTION FOR THE BUDGET YEAR
Article 14

(1) The State Budget Execution act shall be passed along with the state budget and a decision on budget execution along with the budget of the local and regional self-government unit.

(2) The regulation referred to in section 1 of this Article shall regulate the structure of revenues and receipts and expenditures and expenses of the budget and its execution, the magnitude of borrowing and guarantees of the state or of the local and regional self-government units, public debt management and financial and non-financial asset management, the rights and obligations of the users of budget funds, particular authorizations of the Government or local and regional executive body, and of the Prime Minister or the president of the local and regional executive body, the Ministry of Finance and the Minister of Finance in the process of the budget execution for a particular year, the penalties for failing to meet the obligations, and other issues in the budget execution.

FISCAL ESTIMATE OF THE IMPLICATIONS OF LAWS, OTHER REGULATIONS AND ACTS OF PLANNING FOR THE BUDGET
Article 15
Proposals of laws, other regulations and acts of planning shall contain a fiscal estimate of the implications for the budget, which shall make clear whether the budget revenues or expenditures are increasing or decreasing. The fiscal estimate of the implications for the budget shall include:

1. projected budget revenues and expenditures and receipts and expenses for the budget year and for the following two years,
2. proposals for the covering of increased budget expenditures and expenses,
3. proposals for the compensation of the reduced budget revenues and receipts, and
4. the consent of the Ministry of Finance.

If laws, other regulations and acts of planning are passed during the year on the basis of which new liabilities for the budget are arising, the funds shall be provided in the budget for the next budget year in accordance with three-year fiscal projections and possibilities.

The provisions of this Article shall apply accordingly to extra-budgetary users and local and regional self-government units.

II. THE CONTENT OF THE BUDGET AND FINANCIAL PLAN

THE CONTENT OF THE BUDGET AND STRUCTURE OF THE USERS’ FINANCIAL PLANS

Article 16

(1) The budget shall be composed of a general and a special part, and at the level of local and regional self-government units also of development programs plan.

(2) The general part of the budget shall include the Revenues and Expenditures Account and Financing Account.

(3) The special part of the budget shall include the budget users' plan of expenditures and expenses presented by type, allocated to programs which consist of activities and projects.

(4) The development programs plan by years shall include the budget users' development programs plans established by documents on a medium-term or long-term development plans, special laws or other regulations.

Article 17

(1) The budget users' financial plan shall consist of revenues and receipts, expenditures and expenses allocated to programs which consist of activities and projects.

(2) The extra-budgetary users' financial plan shall consist of a general part, which includes a Revenues and Expenditures Account and a Financing Account, and a special part, where the revenues and receipts, and expenditures and expenses, allocated to programs which consist of activities and projects, shall be presented.

THE REVENUES AND EXPENDITURES ACCOUNT

Article 18

The budget Revenues and Expenditures Account shall consist of revenues and expenditures in accordance with the economic classification:
1. Revenues
   a) revenues from taxes,
   b) contributions,
   c) aids,
   d) property income,
   e) revenues from fees and compensations,
   f) penalties and administrative measures,
   g) other revenues, and
   h) revenues from the sale of non-financial assets.

2. Expenditures
   a) expenditures for employees,
   b) material expenditures,
   c) financial expenditures,
   d) subsidies,
   e) aids,
   f) compensation to citizens and households on the basis of insurance premiums and other compensations,
   g) other expenditures, and
   h) expenditures for the acquisition of non-financial assets.

FINANCING ACCOUNT
Article 19
The receipts from financial assets and borrowing, as well as expenses for financial assets and the repayment of loans shall be stated in the Financing Account.

FINANCIAL PLAN OF BUDGET AND EXTRA-BUDGETARY USERS
Article 20
(1) The financial plan of budget and extra-budgetary users shall include programs established by acts of planning.
(2) Programs shall describe planned revenues and receipts, as well as expenditures and expenses classified by:
   - types of revenues and receipts,
   - particular activities and projects,
   - years in which they will charge the budget.
(3) The programs shall include:
   a) name of program,
   b) program description (general and specific goals),
   c) legal basis for the introduction of a program,
   d) funds needed for the implementation of the program,
   e) number of staff necessary for the implementation of the program,
   f) results assessment, and
   g) an estimate of unpredicted expenditures and risks.

BUDGET CLASSIFICATIONS
Article 21
(1) Revenues, receipts, expenditures and expenses of the budget and financial plan shall be presented according to budget classifications.

(2) The budget classifications shall be:
   a) organizational,
   b) economic,
   c) functional,
   d) location,
   e) program,
   f) according to sources of financing.

(3) The Minister of Finance shall pass a Book of Rules on the budget classifications referred to in section 2 of this Article.

III. BUDGET AND FINANCIAL PLAN PREPARATION

ASSUMPTIONS FOR BUDGET PREPARATION

Article 22

(1) The state budget preparation shall be based on the estimation of the economic development and macroeconomic indicators specified in the regulations and other acts of the Parliament, Government and the Minister of Finance in accordance with their scope of work and competencies.

(2) The provisions of section 1 of this Article shall be applied accordingly on the budgets of local and regional self-government units.

STRATEGY OF GOVERNMENT PROGRAMS FOR A THREE-YEAR PERIOD

Article 23

(1) The Ministry of Finance in cooperation with the central state administrative body responsible for the development strategy and the coordination of the European Union Funds shall prepare the instruction for development of strategic plans for a three-year period and deliver it to responsible ministries and other state bodies at the first level of budget users, by mid March of the current year.

(2) Ministries and other state bodies shall prepare strategic plans for a three-year period in accordance with the instruction referred to in section 1 of this Article, and deliver it to the Ministry of Finance by mid April of the current year at the latest.

(3) Strategic plans for a three-year period shall contain vision, strategic goals, ways of achieving these goals (acts of planning), measures for result assessment and the system of monitoring of achieving results.

Article 24

(1) On the basis of strategic plans referred to in the Article 23 of this Act the Ministry of Finance in cooperation with the central state administrative body responsible for the development strategy and the coordination of the European Union Funds shall prepare the strategy of Government programs for a three-year period and propose the strategy to the Government.

(2) The strategy of Government programs shall contain:
   a) joint vision, strategic goal and macroeconomic framework,
b) main strategic areas of Government activities with identified goals, ways of achieving these goals and measures for result assessment,
c) ranked strategic priorities and their link to organizational and program classification.

(3) The Government shall enact the strategy of Government programs for a three-year period by mid May of the current year at the latest.

GUIDELINES OF ECONOMIC AND FISCAL POLICY

Article 25

(1) On the basis of the strategy of Government programs for a three-year period the Ministry of Finance shall prepare draft guidelines of economic and fiscal policy for a three-year period (hereinafter referred to as: guidelines) and propose them to the Government by the end of May at the latest.

(2) The guidelines shall contain:
1. strategic goals of economic and fiscal policy of the Republic of Croatia,
2. basic macroeconomic indicators of the Republic of Croatia,
3. basic indicators of fiscal policy of the Republic of Croatia,
4. an estimate of revenues and expenditures and receipts and expenses of all levels of the general budget,
5. a proposal of the financial plan scope by budget users of the first level of organizational classification, which consist of the financial plan scope for the previous budget year and the current budget year, as well as proposal of the financial plan scope for the following budget year and for the following two years, and
6. projected changes in public debt and a strategy of public debt management.

(3) The Government shall enact the guidelines by mid June of the current year at the latest.

INSTRUCTIONS FOR DEVELOPMENT OF BUDGET PROPOSAL

Article 26

(1) On the basis of the Government's guidelines referred to in Article 25 of this Act, the Ministry of Finance shall deliver to ministries and other state bodies at the first level of organizational classification and extra-budgetary users the instructions for the development of the state budget proposal by the end of June of the current year.

(2) The instructions referred to in section 1 of this Article shall include:
1. the basic economic indicators from the guidelines referred to in Article 25 of this Act, and
2. the method and time limits for the state budget preparation.

Article 27

(1) On the basis of the Government's guidelines and the instructions for the development of the state budget proposal the Ministry of Finance shall prepare the instructions for the development of budgets of local and regional self-government units and deliver them to local and regional self-government units.

(2) After receiving the instructions referred to in section 1 of this Article, the financial affairs administrative body shall prepare the instructions for the development of
local and regional self-government unit’s budget and deliver the instructions to budget
and extra-budgetary users of the local and regional self-government unit’s budget.

(3) The instructions referred to in section 2 of this Article shall include:
1. basic economic outcomes and assumptions for the preparation of the local
   and regional self government unit’s budget proposal,
2. description of the policies planned for local and regional self-government
   units,
3. an estimate of revenues and expenditures and receipts and expenses of the
   local and regional self-government unit’s budget in the following three
   years,
4. a proposal of the financial plan scope by budget users, which consist of the
   financial plan scope for the previous budget year and the current budget
   year, as well as proposal of the financial plan scope for the following
   budget year and for the following two years, and
5. the method of preparation and the time schedule for the preparation of the
   budget and financial plans of budget and extra-budgetary users of the local
   and regional self-government unit’s budget.

BUDGET USER’S FINANCIAL PLAN PROPOSAL

Article 28
(1) State budget users shall prepare their financial plan proposal on the basis of the
instructions for the preparation of the state budget proposal.
(2) The financial plan proposal shall include:
1. revenues and receipts presented by types,
2. expenditures and expenses anticipated for a three-year period, classified
   according to the budget classifications prescribed by this Act, and
3. an explanation of the financial plan proposal.

Article 29
(1) Budget users of local and regional self-government units shall prepare their
financial plan proposal on the basis of the instructions for the preparation of the local and
regional self-government units’ budget proposal.
(2) The financial plan proposal shall include:
1. revenues and receipts presented by types,
2. expenditures and expenses anticipated for a three-year period, classified
   according to the budget classifications prescribed by this Act,
3. an explanation of the financial plan proposal, and
4. a development programs plan.

Article 30
The explanation of the financial plan proposal referred to in Article 28, section 2,
item 3 and Article 29, section 2, item 3 of this Act shall include:

a) a resume of the budget user’s scope of work,
b) a statement of reasons for programs in a particular area,
c) legal and other backgrounds that the programs are based on,
Article 31
(1) State budget users shall deliver financial plan proposals to ministries and other state bodies on the first level of organizational classification by July 15 of the current year.
(2) Ministries and other state bodies referred to in section 1 of this Article shall deliver harmonized financial plan proposals to the Ministry of Finance by the end of July of the current year.

Article 32
Budget users of local and regional self-government units deliver their financial plan proposal to the financial affairs administrative body by September 15 of the current year at the latest.

DEVELOPMENT PROGRAMS PLAN
Article 33
(1) The budget user of the local and regional self-government unit shall prepare the proposal of the development program plan with an explanation and submit it to the administrative body responsible for the budget user.
(2) The development program plan proposal referred to in section 1 of this Article shall be harmonised with the budget user’s financial plan proposal.
(3) The administrative body responsible for the budget user referred to in section 1 of this Article shall prepare a joint proposal of the development program plan that shall be harmonised with the local and regional self-government unit’s budget proposal and deliver it to the financial affairs administrative body.

Article 34
(1) The planned expenditures of the local and regional self-government unit’s budget in connection with investment implementation, giving capital aids and donations in the following three years shall be presented in development programs plan and classified:
   1. by particular programs,
   2. by years in which the expenditures for programs will charge the budgets of the following years, and
   3. by sources of financing for the entire implementation of program.
(2) The development programs plan referred to in section 1 of this Article shall be adjusted every year.

EXTRA-BUDGETARY USER’S FINANCIAL PLAN PROPOSAL
Article 35
(1) The extra-budgetary user of the state budget shall prepare a financial plan proposal on the basis of the instructions referred to in Article 26 of this Act.

(2) The extra-budgetary user shall deliver the financial plan proposal to the responsible ministry, which shall deliver it to the Ministry of Finance along with its own financial plan proposal.

(3) The Parliament shall approve the financial plan proposal referred to in section 2 of this Article along with the passing of the state budget.

Article 36

(1) The extra-budgetary user of the local and regional self-government unit shall prepare the financial plan proposal on the basis of the instructions referred to in Article 27 of this Act.

(2) The extra-budgetary user of the local and regional self-government unit shall deliver the financial plan proposal to the financial affairs administrative body.

(3) Representative body shall approve the financial plan proposal referred to in section 2 of this Article along with passing the local and regional self-government unit’s budget.

IV. PROCEDURE FOR THE PASSAGE OF THE BUDGET

BUDGET PROPOSAL

Article 37

(1) The Ministry of Finance or the financial affairs administrative body shall review the proposals and reconcile the financial plans with the estimated revenues and receipts.

(2) The Ministry of Finance or the financial affairs administrative body shall prepare the draft budget for the budget year and the projection for the following two years and submit them to the Government or the local and regional executive body by October 15 of the current year.

(3) If during the deliberations on the proposed state budget a disagreement should occur between the Minister of Finance and a budget user, or between the ministers responsible for particular budget users, the Minister of Finance shall prepare a statement for the Prime Minister who shall make a final decision thereof.

(4) The government or the local and regional executive body shall establish the proposal of the budget and the projections and submit them to the Parliament or the representative body for adoption by November 15 of the current year.

(5) The provisions of section 3 of this Article shall apply accordingly to the units of the local and regional self-government.

DEBATE ON THE BUDGET

Article 38

(1) All amendments to the proposed budget and projections adopted by the Parliament must not exceed the established amount of the allowed deficit of the state budget and the projections.

(2) During the debate on the proposal of the budget and the projections, the submitted amendments proposing an increase of budget expenditures and expenses beyond the
amounts established by the budget proposal may be accepted provided that the reduction of other expenditures and expenses is proposed at the same time.

(3) The proposals from section 2 of this Article may not burden the budgetary reserve or cause additional borrowing.

(4) The provisions of this Article shall apply accordingly to the units of the local and regional self-government.

PASSING OF THE BUDGET AND THE PROJECTIONS
Article 39

(1) The Parliament or the representative body shall pass the budget on the level of subgroup (third level) of economic classification for the next budget year and projections on the level of division (second level) of economic classification for the following two years by the end of the current year, within the time frame that allows for the application of the budget as of January 1 of the year for which the budget is passed.

(2) Amendments to the budget and the projection shall be carried out by the procedure for the passing of the budget and projection.

SUBMISSION OF THE LOCAL AND REGIONAL SELF-GOVERNMENT UNITS’ BUDGETS
Article 40

The president of the local and regional executive body shall submit the budget and amendments to the budget of the local and regional self-government units to the Ministry of Finance, as well the decision on the budget execution to the State Audit Office within 15 days from the date of the coming into force of the said documents.

THE BUDGET USER’S MONTHLY FINANCIAL PLAN
Article 41

(1) On the basis of amounts planned in the state budget, the state budget user shall prepare a financial plan by months for the whole year, in accordance with the planned maturity of liabilities.

(2) The financial plan referred to in the section 1 of this Article shall be prepared by January 15 of the current year.

(3) The Ministry of Finance shall review and approve the budget users’ financial plans in order to establish that they are in conformity with the budget passed by the Parliament.

(4) During the year the monthly financial plans may be modified in accordance with the changes in the liabilities’ maturity, approved reallocations and the amendments to the state budget.

(5) The provisions of this Article shall apply accordingly to the local and regional self-government units’ budgets and their budget users.

TEMPORARY FINANCING OF THE GOVERNMENT OR THE LOCAL AND REGIONAL SELF-GOVERNMENT
Article 42

(1) If the Parliament or the representative body failed to pass the budget before the beginning of the budget year, the financing of the tasks, functions and programs of the
state bodies and bodies of the local and regional self-government units and other budget and extra-budgetary users shall continue temporarily, on the basis of the decision on temporary financing, in the amount necessary for their performing and execution, and for the rights of the recipients of budgetary funds established by laws and other regulations passed on the basis of laws (hereinafter referred to as: temporary financing).

(2) The Parliament or the representative body shall make the decision on temporary financing.

(3) Temporary financing in terms of section 1 of this Article shall be carried out proportionally to the revenues realized in the same period pursuant to the budget for the previous year and up to 1/4 of the total revenues realized excluding the receipts.

(4) In an exception to section 3 of this Article, paid and carried over aids, donations, revenues for special purposes and earmarked receipts from borrowing, which were planned less or not planned at all, may be executed above the amount prescribed in section 3 of this Article with a prior consent of the Ministry of Finance, or the local and regional executive body.

(5) Temporary financing shall be carried out for the first three months of the budget year at the longest.

(6) During the period of temporary financing, the same programs shall be financed and users may not increase the number of their staff in relation to the condition as of December 31 of the previous budget year.

(7) During temporary financing, the budget users may not assume new liabilities.

(8) After the expiry of temporary financing, the revenues and receipts realized and expenditures and expenses executed in that period shall be included in the budget of the current budget year.

TEMPORARY MEASURES FOR THE BUDGET BALANCE AND AMENDMENTS TO THE BUDGET

Article 43

(1) If during the budget year expenditures and/or expenses increase, or if revenues and/or receipts decrease due to the occurrence of new liabilities for the state budget or changes in the economic developments, the Government may, at the proposal of the Ministry of Finance, suspend the execution of specific expenditures and/or expenses (hereinafter: temporary suspension of execution). By applying the measures for temporary suspension of execution, the Government may:
   - stop the assumption of liabilities and/or
   - propose the extension of the time frame of payment agreed upon, and/or
   - stop the reallocation of budget funds.

(2) The Government may, in addition to the measures referred to in section 1 of this Article, issue a decision that state budget users shall obtain the previous consent of the Ministry of Finance in order to enter into contracts.

(3) The Ministry of Finance shall prepare, with the participation of ministries and other state bodies at the first level of organizational classification, the proposal of measures for temporary suspension of execution. The measures for temporary suspension of execution shall apply equally to all ministries and other state bodies at the first level of organizational classification.
(4) The Government shall notify the Parliament on the decision referred to in section 2 of this Article immediately upon its adoption.

(5) If the state budget cannot be balanced during temporary suspension of budget execution, the Government shall propose amendments to the state budget, not later than 15 days prior to the expiry of the term for temporary suspension of the state budget execution.

(6) The revenues and receipts and expenditures and expenses shall be rebalanced by amendments to the state budget referred to in section 5 of this Article.

(7) During the procedure of amending the budget, the Government may again temporarily suspend the execution of particular expenses, at the proposal of the Minister of Finance.

(8) The provisions of this Article shall apply accordingly to the budgets of local and regional self-government units.

ASSUMING OF LIABILITIES AGAINST THE BUDGET

Article 44

(1) State budget users may assume liabilities against the current year state budget only for purposes set and up to the amount determined by the state budget, if all requirements for assuming liabilities established by law and other regulations are met, unless otherwise provided by this Act.

(2) A state budget user may assume liabilities based on contracts requiring payment in the following years with the approval of the Government, and at the proposal of the Minister of Finance.

(3) The restriction referred to in section 1 of this Article shall not apply to liabilities in relation to state borrowing and public debt management, as well as to liabilities assumed on the basis of international agreements.

(4) The state budget user shall include payments arising from liabilities assumed in conformity with this Article in the financial plan in the year in which the liability is due.

(5) The provisions of this Article shall apply accordingly to local and regional self-government units.

ASSUMING OF LIABILITIES FOR INVESTMENT PROJECTS

Article 45

(1) State budget users may assume liabilities for investment projects only after expert assessment has been completed and the investment project’s justification and efficiency were evaluated.

(2) The provisions of this Article shall apply accordingly to local and regional self-government units.

(3) The Government shall prescribe the methodology of preparation, evaluation and execution of investment projects by a decree.

REALLOCATION OF FUNDS

Article 46

(1) Budgetary funds may not be reallocated, except under the terms and in the manner stipulated by this Act and a State Budget Execution Act or a decision on budget execution.
(2) Exceptionally, if the reallocation was not made in accordance with section 1 of this Article, the reallocation of funds under budget items by state budget users or between state budget users and at extra-budgetary users of state budget, may be executed up to 5% of expenditures and expenses at the most for the item to be reduced which is adopted by the Parliament, if the Minister of Finance approves it.

(3) With the request for reallocations of the approved funds the state budget user shall submit relevant documentation which allows the Ministry of Finance insight into reasons for the need for additional funds under the budget item being increased by the end of the year that is for the decrease of the approved budget items.

(4) The budgetary funds may not be reallocated between the Revenues and Expenditures Account and the Financing Account, except under the terms prescribed by the State Budget Execution Act or the decision on budget execution.

(5) The Government or the local and regional executive body shall notify the Parliament or the representative body on reallocations within the time limit specified by the State Budget Execution Act or the decision on budget execution.

V. BUDGET EXECUTION

BUDGET REVENUES AND RECEIPTS AND PAYMENTS INTO THE BUDGET

Article 47

(1) Budget users and local and regional self-government unit bodies shall be responsible for the full and timely collection of revenues and receipts in their scope of work, their payment into the budget and for the execution of all expenditures and expenses in accordance with their purposes.

(2) Budget revenues shall be collected and paid into the budget in conformity with law and other regulations, independently of the amount of revenues planned in the budget.

EARMARKED REVENUES AND RECEIPTS

Article 48

(1) Earmarked budget revenues and receipts are aids, donations, revenues for special purposes, revenues arising from the sale or swap of state or local and regional self-government units’ property, compensations on account of insurance premiums and earmarked receipts from borrowing and sale of stocks and equity shares.

(2) The revenues and receipts referred to in section 1 of this article are paid into the budget.

(3) The State Budget Execution Act or the decision on budget execution determines exception from the obligation of payment of revenues and receipts referred to in section 1 of this Article in the budget.

Article 49

Earmarked budget revenues and receipts not used in the previous year are carried over into the budget for the current budget year.

Article 50
(1) If the earmarked revenues and receipts are paid into the budget at the level lower than the one presented in the budget, the user may assume the liabilities and pay for them only in the amount of funds actually paid or available.

(2) Aids, donations and revenues for special purposes that are paid and carried over, but planned at a lower level in the state budget may be executed above the planned level and up to the amount of paid and/or carried over funds.

(3) Earmarked receipts from borrowing that are paid and carried over, but planned at a lower level in the state budget may be executed above the planned level and up to the amount of paid and/or carried over funds, with prior consent of the Ministry of Finance.

(4) Aids, donations, revenues for special purposes and earmarked receipts from borrowing that are paid and carried over, but not planned in the state budget may be used according to subsequently established activities and/or projects in the state budget, with a prior consent of the Ministry of Finance.

(5) The provisions of this Article shall apply accordingly to local and regional self-government units.

Article 51
For the amount of funds referred to in Article 48 of this Act spent for purposes other than designated the budget funds shall be reduced for the budget user in the year in which he must return the funds spent for purposes other than designated.

OWN REVENUES
Article 52
(1) Own revenues are revenues that budget users realize by the activities on the market within the market conditions that are not financed from the budget.

(2) Revenues referred to in section 1 of this Article shall be paid into the budget.

(3) Own revenues that are not used in the previous year shall not be carried over into the budget for the current budget year.

(4) The State Budget Execution Act or the decision on budget execution shall determine exception from the liability of the payment of revenues referred to in section 1 of this Article into the budget.

PAYMENTS FROM THE BUDGET
Article 53
(1) An advance payment shall be possible only exceptionally and on the basis of the consent of the Minister of Finance or the president of a local and regional executive body.

(2) Exceptionally, the budget user shall be allowed to make an advance payment without the consent referred to in section 1 of this Article up to the amount prescribed by the State Budget Execution Act or the decision on budget execution.

Article 54
(1) Every expenditure and expense paid from the budget shall be based on a valid bookkeeping document evidencing the payment obligation.

(2) Prior to the payment, a responsible person shall check and sign the legal basis and the amount of the liability arising from the bookkeeping document.
Article 55

(1) The budget shall be executed consistently with the funds available and arrears.
(2) Repayments of the principal and interests of the state debt and state guarantees can be executed above the planned level.
(3) If activities and projects, for which the funds were planned in the current year budget, were not executed in the amount determined by the budget, they may be executed in that amount in the following year in a way and in accordance with the terms prescribed by the State Budget Execution Act or the decision on budget execution.
(4) The Minister of Finance, and the representative body, shall elaborate in the Book of Rules, and an act respectively, the means and conditions of executing the budget from the budget account.

BUDGETARY RESERVE

Article 56

(1) The funds for budgetary reserve shall be established in the budget.
(2) The budgetary reserve funds shall be used for unpredicted purposes, for which the means were not provided in the budget, or for those purposes for which it will be revealed during the year that sufficient funds were not established in the budget during the budget planning, as it was not possible to foresee them at that time.
(3) The budgetary reserve funds shall be used to finance the expenditures created during the removal of consequences of natural disasters, epidemics, ecological accidents or extraordinary events and other unforeseeable accidents, as well as for other unforeseeable expenditures during the year.
(4) The budgetary reserve funds referred to in sections 2 and 3 of this Article may not exceed 0.50 % of the planned budget revenues (excluding receipts).
(5) The State Budget Execution Act or the decision on budget execution shall establish the level of budgetary reserve funds referred to in section 4 of this Article.
(6) The budgetary reserve funds may not be used for borrowing.

Article 57

(1) The Government or the local and regional executive body, the Prime Minister or the president of local and regional executive body and the Minister of Finance shall make a decision on the use of the budgetary reserve funds referred to in Article 56 of this Act.
(2) The State Budget Execution Act or the decision on budget execution shall establish the level of the use of funds referred to in section 1 of this Article.
(3) On a monthly basis, the Minister of Finance shall notify the Government, and the president of local and regional executive body shall notify the local and regional executive body on the use of the budgetary reserve referred to in section 1 of this Article.

Article 58

If, over the course of the year and on the basis of regulations, the scope of work or the responsibility of the budget user became reduced, requiring reduced funds, or if the budget user is dissolved, the funds that were not spent for their expenditures and expenses shall be carried over to the budgetary reserve or to the budget user who has assumed their operations.
RETURN OF FUNDS INTO THE BUDGET

Article 59

(1) If it is subsequently established that a payment from the budget was unlawful and/or unjustified, the budget user shall immediately request the return of the budgetary funds into the budget.

(2) Should the budgetary supervision establish that the use of funds was contrary to law or the budget, the budgetary supervision inspector shall issue a decision on the return of the funds into the budget.

(3) Appeal against the decision referred to in section 2 of this Article shall not be admitted but an administrative dispute can be initiated.

(4) The Minister of Finance shall regulate by the Book of Rules referred to in Article 55 section 4 the means of the return of the funds and of making records on the return of the funds referred to in section 1 and 2 of this Article.

SYSTEM OF ACCOUNTS FOR THE EXECUTION OF THE STATE BUDGET AND BUDGETS OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Article 60

(1) The state budget and budgets of local and regional self-government units shall have one account for all payments.

(2) The budget users shall have one account that shall be a part of the budget account referred to in section 1 of this Article.

(3) The person responsible for the budget or for the budget user shall open the account referred to in section 1 and 2 of this Article.

VI. STATE, LOCAL AND REGIONAL SELF-GOVERNMENT ASSET MANAGEMENT

ASSETS OF THE STATE AND LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Article 61

(1) Pursuant to this Act, the state and local and regional self-government assets shall be financial and non-financial assets owned by the state and local and regional self-government units.

(2) In order to provide public services and activities in the public interest, the state or local and regional self-government units may use their assets to found institutions, companies and other legal persons.

MANAGEMENT OF MONETARY FUNDS

Article 62

(1) In accordance with Article 60 of this Act, the Minister of Finance or the president of the executive body of local and regional self-government unit shall manage the available monetary funds in the budget account.

(2) The available monetary funds referred to in section 1 of this Article may be deposited in the Croatian National Bank, business bank, and invested in government
securities, following the principles of safety, liquidity and cost-efficiency of the investment.

(3) The Minister of Finance or the president of local and regional executive body shall issue a decision on the selection of the bank referred to in section 2 of this Article.

(4) The monetary funds referred to in section 2 of this Article may not be invested in the stocks and equity shares of companies.

LIABILITIES OF LEGAL PERSONS REGARDING THE REPORTING AND REVISING OF ACCOUNTING STATEMENTS

Article 63

(1) Legal persons in which the Republic of Croatia or the local and regional self-government unit has at least 25% equity share shall, within the time frame of 9 months after the expiry of the business year, but at least 30 days prior to the convening of the assembly session at the latest, submit to the Ministry of Finance or the local and regional executive body the agenda for the assembly session and all audit reports, as well as the reports of supervisory bodies for the previous business year, if these are not included in the agenda of the assembly session.

(2) The Government or the local and regional executive body may submit to the Parliament a request for the extraordinary audit of the business operation of the legal persons under the jurisdiction of the State Audit Office in which the Republic of Croatia or the local and regional self-government unit has at least 25% of equity share.

SETTING UP AND CLOSING OF LEGAL PERSONS AND THE ACQUISITION AND SALE OF EQUITY SHARES IN COMPANIES

Article 64

(1) At the proposal of the Government or the local and regional executive body, the Parliament or the representative body shall decide on the setting up or the closing of legal persons whose founder or co-founder is the state or the local and regional self-government unit, unless otherwise defined by special laws or by the Law on Local and Regional Self-government.

(2) The Government or the representative body of the local and regional self-government unit may, at the proposal of the responsible minister or the local and regional executive body, decide on the purchase of stocks or equity shares in a company, if the funds for the purchase are provided for in the budget and if the public interest or the interest of the local and regional self-government units is protected thereby.

(3) The provisions in section 2 of this Article shall not apply to local and regional self-government units, users of state budget aids for areas of special government care.

(4) In case the public interest of the Republic of Croatia or the local and regional self-government unit ownership of stocks or equity shares of legal persons should cease to exist, the Parliament or the representative body, at the proposal of the Government or the local and regional executive body, shall make a decision about the sale of the stocks or equity shares, if this is not contrary to special law.

FUNDS OBTAINED FROM THE SALE OF EQUITY SHARES OF THE STATE AND LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Article 65
(1) Funds obtained from the sale of stocks and equity shares referred to in Article 64 of this Act shall be used only for the repayment of debt in the Financing Account.

(2) If the funds from section 1 of this Article are realized in the amount greater than the one necessary for the repayment of the debt referred to in section 1, it shall be used for the purchase of non-financial and financial assets.

(3) The provisions of this Article shall apply in an appropriate manner to the local and regional self-government units.

COLLECTION OF REIMBURSEMENT CLAIMS ON ACCOUNT OF GUARANTEES
Article 66

(1) If the budgetary funds were used for the settlement of liabilities arising from loan agreements or any other liabilities for which the budget of the local and regional self-government units provided a guarantee, a debit claim shall be established against the main debtor, instead of whom the obligation was paid.

(2) The president of the local and regional executive body shall, immediately after the payment of liabilities from section 1 of this Article, institute proceedings for the collection of the reimbursement claim from the main debtor on the basis of the security contract.

SWAP OF DEBIT CLAIMS FOR EQUITY SHARE
Article 67

(1) The Republic of Croatia may acquire an equity share in companies without any compensation and from the budget funds.

(2) The acquisition of equity shares in a company may be carried out by the Republic of Croatia through:
   1. the swap of non-collected taxes, contributions and any other mandatory payments of debtors,
   2. the swap of debit claims on account of loans granted and guarantees paid,
   3. by the investment of movable and immovable real estates, except for real estates used for delivering public services,
   4. the swap of stocks and shares,
   5. the purchase from the state budgetary funds.

(3) At the proposal of the responsible ministry and in accordance with the Ministry of Finance, the Government shall decide on the acquisition of the Republic of Croatia equity share in a company referred to in section 2, items 1, 2, 3, and 4 of this Article.

(4) At the proposal of local and regional executive body, the representative body shall make a decision on the acquisition of company equity share by the local and regional self-government.

WRITING OFF, PARTIAL WRITING OFF, ROLLING BACK AND REPAYMENT OF DEBT IN INSTALLMENTS
Article 68

(1) The Government may, at the proposal of the Minister of Finance, and at the request of the debtor, with an appropriate security and interest, roll back the payment or approve repayment of debt in installments if this significantly improves the ability of the
debtor, from whom it would not be possible to collect the entire debt otherwise, to repay
the debt.

(2) As an exception to section 1 of this Article, the Minister of Finance may, at the
request of the debtor and with an appropriate security and interest, roll back or approve
the repayment of debt in installments up to the amount prescribed by The State Budget
Execution Act.

(3) The Minister of Finance may request the payment of the entire debt the collection
of which debt was rolled back if any of installments were not paid timely.

(4) The Government may at the proposal of the Minister of Finance sell, write off or
partially write off the debit claim.

(5) As an exception to section 4 of this Article the Minister of Finance may sell, write
off or partially write off the debit claim up to the amount prescribed by The State Budget
Execution Act.

(6) The provisions of sections 1 to 5 of this Article shall apply in an appropriate
manner to the local and regional self-government units.

(7) The Government shall by a decree prescribe the criteria, standards and procedure
for the rolling back of debt, repayment of debt in installments, writing off and partial
writing off debit claim referred to in this Article for the state and local and regional self-
government units.

(8) The debts referred to in this Article shall not include the debts to the state or the
local and regional self-government units on account of public levies.

ACQUISITION OF NON-FINANCIAL ASSETS OF THE STATE OR LOCAL AND
REGIONAL SELF-GOVERNMENT UNITS

Article 69

(1) Non-financial fixed assets may be acquired by purchase only to the extent
required for the fulfilling of the tasks of the users of state budget or users of the local and
regional self-government units budget.

(2) For acquisition of assets without compensation, the budget user from section 1 of
this Article shall obtain a previous consent of the Government or the local and regional
executive body or any other body authorized by the Statute or a local and regional self-
government unit if such acquisition should cause considerable costs for the state or the
local and regional self-government unit.

FUNDS FROM THE SALE OR SWAP OF NON-FINANCIAL FIXED ASSETS OF
THE STATE OR LOCAL AND REGIONAL SELF-GOVERNMENT UNITS AND
FROM THE INDEMNITY FOR THE DAMAGE ON THE BASIS OF THE
INSURANCE PREMIUM

Article 70

(1) The funds from the sale or the swap of the state or the local and regional self-
government non-financial fixed assets and the indemnity on the basis of insurance shall
be used exclusively for the capital expenditures of the state or local and regional self-
government units.

(2) Capital expenditures referred to in section 1 of this Article are expenditures for
the acquisition of non-financial assets, expenditures for the maintenance of non-financial
assets, capital aids, which are given to companies in which the state or the local and
regional self-government unit has a decisive influence on the management, for the acquisition of non-financial assets and additional investments in non-financial assets as well as investments in stocks and equity shares of companies.

(3) The provisions of this Article that refer to investments in stocks and equity shares of companies shall not apply to the local and regional self-government units referred to in Article 64 section 3 of this Act.

VII. BORROWING, DEBT MANAGEMENT, THE STATE, LOCAL AND REGIONAL SELF-GOVERNMENT UNITS AND PUBLIC SECTOR GUARANTEES

BORROWING AND STATE DEBT

Article 71

(1) The main objective of borrowing and debt management shall be the securing of financial requirements of the state budget by securing the lowest medium and long-term cost of financing at a reasonable risk level.

(2) The borrowing can take place in the country or abroad in magnitudes prescribed by law.

(3) The State Budget Execution Act shall determine the upper limit of the new borrowing, as well as the liability on the basis of current repayments of the state debt.

(4) During temporary financing, the state may borrow up to the amount necessary for the repayment of the state debt principal due in that period.

Article 72

(1) The borrowing shall be carried out with the purpose of:

1. financing the budget deficit,
2. financing investment projects and special programs, under Parliament approval,
3. payment of current repayments of state debt,
4. settling the payments due associated with state guarantees,
5. budget liquidity management,
6. meeting the needs of the Croatian National Bank for foreign exchange reserves.

(2) The borrowing with the purpose of a premature buying off of state debt shall be carried out with the objective of:

1. lowering the existing costs of the state debt repayment,
2. extending the average period of maturity (change in the length of repayment) of public debt,
3. achieving a balanced schedule of state debt repayment.

Article 73

The State Budget Execution Act shall establish for the fiscal year the total amount of the new state debt and state guarantees that may be assumed or issued during the fiscal year and the total amount of the state debt at the end of the budget year.

Article 74
The ratio of the unsettled amount of the state debt at the end of the year in relation to the projection of the gross domestic product may be greater than the last year’s ratio, provided that the mentioned ratio does not exceed 60% of the gross domestic product.

Article 75
(1) The decision on the level of borrowing and the amount of state guarantees shall be made in accordance with the amounts and purposes established by the annual budget and The State Budget Execution Act that is enacted by the Parliament at the proposal of the Government.
(2) The Minister of Finance shall issue a decision on the state budget borrowing to the level determined in accordance with section 1 of this Article and shall sign the agreements on the state budget borrowing and state guarantees.
(3) The Government may propose restriction measures in connection with the borrowing made by local and regional self-government units and extra-budgetary funds specified in The State Budget Execution Act for the particular year.
(4) The Ministry of Finance shall keep the records of debt, issued guarantees and loans.

Article 76
(1) The state debt may be contracted and paid in HRK or foreign currency.
(2) The liabilities due on account of the payment of interests and the state debt principal shall be the priority payments of the state.

STATE DEBT MANAGEMENT
Article 77
(1) The state may acquire the funds necessary for the repayment of the state debt before its maturity date, or for the redemption of its own securities by raising loans and issuing securities.
(2) The Minister of Finance may prematurely buy off the state bonds and make premature repayments of bank and other loans when bond redemption and premature loan repayment are allowed by the agreement in the case that premature repayment can be carried out by funds obtained under more favorable form of borrowing with resulting savings in interest payments and other benefits.
(3) The Minister of Finance may carry out transactions with financial derivatives in order to achieve more favorable maturity, currency and interest structure of the state debt, and the least possible risk of inter-currency changes and interest rate growth.
(4) Borrowing for the purpose of premature redemption of bonds and repayment of bank and other loans, and claims and liabilities that arise due to financial derivatives shall not be part of restrictions in Article 71 section 3 of this Act.

Article 78
(1) The Minister of Finance may transfer the borrowed funds to government bodies, financial institutions and/or other legal entities in accordance with the terms agreed upon in the case when the agreement on the state loan allows for earmarked financing.
(2) The government bodies, financial institutions and/or other legal entities from section 1 of this Article may use the funds received to finance investment projects or activities of third parties meeting the requirements of the creditors.

(3) The government bodies, financial institutions and/or other legal entities from section 1 of this Article shall present to the Ministry of Finance bookkeeping documents regarding the balance and movements of the funds within the approved loan in a way specified by the Minister of Finance.

CONDITIONS AND WAYS OF CONTRACTING LOANS WITH FOREIGN COUNTRIES

Article 79

(1) The Parliament may authorize the Government by The State Budget Execution Act to enter into loan arrangements for specific purposes and to issue guarantees to specific domestic legal persons within the amount earmarked for such purposes and established in the state budget for each particular year.

(2) At the proposal of the Ministry of Finance, the Government shall give consent for loan arrangements and guarantees referred to in section 1 of this Article on the basis of a separate decision made for each particular arrangement.

Article 80

(1) The decision on issuing state guarantees shall be made by the Government, with the exception of those state guarantees which are under the authority of the Parliament.

(2) The Ministry of Finance shall take part in the negotiations for obtaining loans with the state guarantee and shall approve agreements on issuing state guarantees in accordance with the Government decision on behalf of the Government.

(3) The Government may appoint other state bodies to take part in the negotiations for loans with state guarantee alongside the Ministry of Finance.

(4) The Minister of Finance shall prescribe by a Book of Rules the terms and the way of issuing state guarantees.

Article 81

(1) The state shall enter into any loan arrangement with a non-resident and shall provide guarantee regarding a loan arrangement with a non-resident in conformity with the State Budget Execution Act or on the basis of a special law for each loan arrangement.

(2) Loan agreements as well as the guarantee agreements referred to in section 1 of this Article entered into with non-residents, who are the subjects of international law, and treaties on the basis of succession, on the basis of which financial obligations for the state arise or may arise shall be ratified by law.

(3) The Act referred to in sections 1 and 2 of this Article shall regulate the sources of funds and terms and ways of settling state obligations that result, or could result, on the basis of the loans or guarantees agreed.

(4) The Minister of Finance shall enter into a special agreement with the user of the loan for guarantees referred to in section 1 of this Article, following the signing of the loan contract and before initiating procedures referred to in section 2 of this Article.
(5) The Republic of Croatia shall by the contract from section 4 of this Article obtain the rights of the creditor in the amount of the executed payment regarding liabilities form the loan contract.

(6) The Croatian National Bank shall be informed of the loan arrangements with a foreign county, in a way and according to the time frame specified by the Croatian National Bank.

Article 82

(1) A legal person in the majority direct or indirect state ownership shall enter into a loan arrangements or issue guarantees on the basis of the decision of Government consent if the value of the arrangement or guarantee exceeds the amount established by The State Budget Execution Act.

(2) The decision from section 1 of this Article shall contain provisions regarding the obligation of loan repayment until final repayment, as well as provisions on other guarantees with respect to the compensation and the security of the state budget in the event of the change of ownership structure of the loan or guarantee user.

(3) The legal person referred to in section 1 of this Article shall ensure that a loan arrangement is not entered into with the intention of avoiding provisions from section 1 of this Article.

Article 83

Proposals of amendments to a loan or guarantee agreement when state guarantees have already been issued shall be given with a previous consent of the Minister of Finance.

Article 84

(1) The users of loans with the state guarantee shall by the 15th of every month deliver to the Ministry of Finance information regarding the balance of funds of the loan approved.

(2) If necessary the Minister of Finance may request additional information on the loans with the state guarantee from the state administration bodies that have proposed the issuing of the state guarantee.

Article 85

(1) The users of loans with the state guarantee shall settle all liabilities to the creditor duly and regularly.

(2) The payment related to the issued state guarantee shall be made:

1. when the user of the loan fails to make full or partial payment in accordance with the terms from the loan agreement,

2. when the creditor takes action established by the loan agreement.

(3) When the terms referred to in section 2, item 2 of this Article are not regulated by the agreement on the issuing of state guarantee, the Minister of Finance shall establish, in cooperation with the creditor, the measures to be taken in the case of the payment due from the state guarantee and time limits within which the state should settle the arrears, pursuant to special regulations.
(4) The Minister of Finance shall establish in a special agreement with the user of loan with the state guarantee how the state shall acquire the rights of the creditor to the amount of the payment made on the basis of state guarantee.

(5) The user of loan shall return to the state every amount paid by the Ministry of Finance on the basis of the state guarantee.

(6) The Minister of Finance shall take all measures established by the agreement and law for the return of the amounts paid on the basis of state guarantees.

BORROWING AND ISSUING OF GUARANTEES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Article 86
(1) A local and regional self-government unit may make borrowings by obtaining a loan and by issuing securities.

(2) A local and regional self-government unit shall issue securities according to law.

Article 87
(1) A local and regional self-government unit may make long-term borrowings only for an investment financed from its own budget and approved by its representative body with the consent of the Government and at the proposal of the Minister of Finance.

(2) The borrowing agreement shall be contracted by the president of the local and regional executive body on the basis of the approved budget, with the consent of the Government and at the proposal of the Minister of Finance.

(3) The consent referred to in section 1 of this Article shall be a constituent part of the borrowing agreement.

(4) The Government shall decide on the request for the consent to the borrowing within 40 days following the receipt of the complete request.

(5) The consent shall not be issued if the request is contrary to law.

(6) The Minister of Finance shall prescribe by the Book of Rules the mandatory components of the request, mandatory attachments and documentation, the manner of reporting on the borrowings, and on the granting of consent to borrowing and issuing of guarantees and consent.

(7) An agreement entered into in a manner contrary to the provisions of section 2 of this Article shall be void.

(8) The local and regional self-government unit is obliged to inform the Ministry of Finance of the contracted agreement within 8 days of its contracting.

(9) The local and regional self-government unit is obliged to inform the Ministry of Finance quarterly within the budget year, by the 10th of the month for the previous reporting period, on the repayment of loan for which it obtained the Government consent referred to in section 2 of this Article.

Article 88
(1) The total annual liability of the local and regional self-government unit referred to in Article 86 of this Act may amount up to 20 percent of the revenues realized in the year preceding that in which it makes the borrowing.

(2) The amount of the total annual liability referred to in section 1 of this Article shall include the amount of average annual annuities by loans, liabilities on the basis of the
issued securities and guarantees and consents given referred to in Article 90 section 2 of this Act and due outstanding liabilities from the previous years.

(3) The annual liabilities on the basis of securities issued shall be established for annuity bonds in the amount of the annuity, and for the bonds for which the principal on the liability is depreciated they shall be established for the assumed liability for the pertaining annual part of the principal and the pertaining interest.

(4) The realized budget revenues shall mean the revenues realized by a particular local and regional self-government unit referred to in Article 18 of this Act minus the revenues:

1. from domestic and foreign aids and donations,
2. from special agreements: co-financing of citizens for local self-government, and
3. realized on the basis of additional share in the personal income tax and equalization grants for the financing of decentralized functions.

(5) Provisions of this Article shall not apply to projects co-financed from European Union pre-accession programs and European Union funds in which units of local and regional self-government participate.

Article 89

(1) Local and regional self-government units, institutions founded by a local and regional self-government unit and companies with local and regional self-government unit majority ownership (hereinafter referred to as: public partner) may enter into a public-private partnership agreement following a private financial initiative model if the total annual amount of all fees, that the public partner pays to private partners on the basis of all public-private partnership contracts shall not exceed 25% of realized budgetary revenue of the previous year minus capital revenues, with the consent of the Ministry of Finance and the ministry or another central government administrative body under whose authority the subject of the contract belongs.

(2) Realized budgetary revenues from section 1 of this Article are revenues listed in Article 88 section 4 of this Act.

(3) Capital revenues from section 1 of this Article are revenues from the disposal of non-financial assets, receipts from sales of securities and receipts from sales of stocks and shares in the principal.

Article 90

(1) A legal person with the direct or indirect local and regional self-government majority ownership and institution founded by a local and regional self-government unit may make long-term borrowings only for an investment with the consent of the majority owner or founder.

(2) The magnitude of possible borrowing of the local and regional self-government unit from Article 88 of this Act shall include consents from section 1 of this Article:

1. for borrowings of legal persons with the direct or indirect local and regional self-government majority ownership that have in annual financial reports for the year preceding the year of the borrowing suffered a loss,
2. for borrowings of legal persons with the direct or indirect local and regional self-government majority ownership borrowing in the period of two years form the day of entry of their founding into court register,
3. for borrowings of institutions founded by a local and regional self-government unit.

(3) If the Statute or the decision of the local and regional self-government unit does not prescribe who shall decide on the consent from section 1 of this Article, the decision on the consent referred to in section 1 of this Article shall be made by the representative body of the local and regional self-government unit proportionally to its share in the ownership.

(4) The local and regional self-government unit is obliged to inform the Ministry of Finance of the consents from section 1 of this Article within 8 days from the given consent and of loan agreement of legal persons and institutions from section 2 of this Article within 8 days from its contracting.

(5) The local and regional self-government unit is obliged to inform the Ministry of Finance quarterly within the budget year, by the 10th of the month for the previous reporting period, of the repayment on the basis of loan agreements of legal persons and institutions from section 2 of this Article.

Article 91

(1) A regional self-government unit may issue a guarantee to the local self-government unit within its area with the consent of the Government. The issued guarantee shall be included in the magnitude of possible borrowing of the regional self-government unit from Article 88 of this Act.

(2) A local and regional self-government unit may issue a guarantee to a legal person in direct or indirect local and regional self-government majority ownership and to the institution whose founder it is for the fulfillment of the obligations of the legal person and institution. The issued guarantee shall be included in the magnitude of possible borrowing of the local and regional self-government unit from Article 88 of this Act.

(3) If the Statute or the decision of the local and regional self-government unit does not prescribe who shall decide on the guarantee from section 2 of this Article, the decision shall be made by the representative body of the local and regional self-government unit proportionally to its share in the ownership.

(4) Before issuing the guarantee from section 2 from this Article, the majority owner or founder is obliged to obtain the consent of the Minister of Finance.

(5) The guarantee agreement from sections 1 and 2 of this article shall be contracted by the president of local and regional executive body on behalf of the local and regional self-government unit.

(6) The local and regional self-government unit is obliged to inform the Ministry of Finance of the guarantee agreement from section 1 and 2 of this Article within 8 days from its contracting.

(7) The local and regional self-government unit is obliged to inform the Ministry of Finance quarterly within the budget year, by the 10th of the month for the previous reporting period, of the state of active guarantees for which the consent was given.

Article 92

(1) A newly founded local or regional self-government unit is not allowed to borrow, issue consents or guarantees for borrowing, until the mutual property rights relations have been regulated pursuant to the Local and Regional Self-government Act.
(2) After the regulation of mutual property rights relations, only the local and regional self-government that did not exceed the borrowing and the issuing of guarantees limit on the 31 December of the year when the previous local and regional self-government unit ceased to operate, may borrow and issue guarantees pursuant to provisions of Article 106 of this Act.

(3) If the revenues realized cannot be established for the newly founded local and regional self-government unit in the year preceding the borrowing, the estimated revenues in the current year shall be used as a criterion.

BORROWING AND ISSUING OF GUARANTEES BY EXTRA-BUDGETARY USERS

Article 93

(1) Extra-budgetary users of the state budget may borrow and issue guarantees only under conditions established by the Government at the proposal of the Minister of Finance.

(2) The total level of borrowings and issued guarantees referred to in section 1 of this Article shall be established by The State Budget Execution Act.

Article 94

(1) Extra-budgetary users of the budgets of local and regional self-government units may borrow and issue guarantees only for investments with the consent of a local and regional self-government unit. Borrowing and the guarantee issued with the consent given shall be included in the magnitude of possible borrowing of the local and regional self-government unit from Article 88 of this Act.

(2) Before giving the consent from section 1 of this Article, the local and regional self-government unit shall be obliged to obtain the consent of the Minister of Finance.

(3) The local and regional self-government unit is obliged to inform the Ministry of Finance of the loan arrangement and guarantee issued from section 1 this Article within 8 days from the contracting.

(4) The local and regional self-government unit is obliged to inform the Ministry of Finance quarterly within the budget year, by the 10th of the month for the previous reporting period, of the repayment of the loan and of state of active guarantees for which the consent was given.

(5) The total level of borrowings and issued guarantees referred to in section 1 of this Article shall be determined by the decision on budget execution of the local and regional self-government units for a particular year.

VIII. POWERS AND RESPONSIBILITIES OF THE HEAD OF LOCAL AND REGIONAL SELF-GOVERNMENT UNIT AND BUDGET USER AND THE PRINCIPLE OF DIVISION OF RESPONSIBILITIES

POWERS AND RESPONSIBILITIES OF THE HEAD OF LOCAL AND REGIONAL SELF-GOVERNMENT UNIT AND THE BUDGET USER

Article 95
(1) The head of local and regional self-government unit and budget user shall be responsible for:
   a) the planning and execution of their part of the budget,
   b) the collection of revenues and receipts within the area of their responsibility and their payment to the budget,
   c) the assumption of liabilities, verification of liabilities, issuing payment orders against budgetary funds of the body that they are in charge of, and for the establishing the claims of payment and for the issuing of payment orders in favor of budgetary funds,
   d) lawfulness, purposefulness, efficiency and cost-effective management of budgetary funds.

(2) The head of local and regional self-government unit and budget user may, for performing of orders from section 1 of this Article, authorize other persons by specific decision in accordance with internal regulations. The transfer of powers entails the transfer of responsibility but does not exclude the responsibility of the head of the budget user.

(3) The transfer of powers from section 2 of this Article must be carried out by the head of the budget user respecting the principle of the division of responsibilities.

THE PRINCIPLE OF THE DIVISION OF RESPONSIBILITIES
Article 96

The duties of lawful execution of orders laid out in Article 95 of this Act in accordance with the financial accounting regulations and the duties of lawful and purposeful spending of public money for purposes determined by the budget and the financial plan are incompatible.

IX. BUDGET ACCOUNTING

CONTENT OF ACCOUNTING
Article 97

Budget accounting regulates business books, accounting documents and data processing, the content of accounts in the chart of accounts, recognition of revenues and receipts and expenditures and expenses, estimates of balance positions, value adjustment, financial reporting and other areas related to budget accounting.

BUDGET ACCOUNTING PRINCIPLES
Article 98

(1) Budget accounting is based on the generally accepted accounting principles: accuracy, authenticity, reliability and individual presentation of business events, and on the International Accounting Standards for the public sector.

(2) Budget accounting shall be kept according to the principle of double entry bookkeeping and the distribution of accounts in the chart of accounts.

APPLICATION OF BUDGET ACCOUNTING
Article 99
(1) Budget accounting shall be applied to the budgets and by budget users referred to in Article 2 section 1 of this Act.
(2) Budget accounting shall be applied by the extra-budgetary users referred to in Article 2 section 2 of this Act only with respect to financial reporting.

POWERS FOR THE PASSING OF A BOOK OF RULES
Article 100
(1) The Minister of Finance shall pass a Book of Rules on budget accounting and chart of accounts.
(2) The Minister of Finance shall pass a Book of Rules on financial reporting in budget accounting.

RESPONSIBILITIES AND OBLIGATIONS
Article 101
(1) The responsible person of local and regional self-government unit and budget user shall be accountable for the organization and lawful and accurate implementation of budget accounting.
(2) The keeping of budget accounting may be entrusted to a certified professional organization or person.
(3) The person managing the local and regional self-government unit's and budget user's accounting unit or the person entrusted with accounting shall be responsible for the preparation of financial reports.
(4) The responsible person of local and regional self-government unit and budget user or the person authorized by them shall sign financial reports and be responsible for their submitting.

BUSINESS BOOKS AND ACCOUNTING DOCUMENTS
Article 102
(1) The business books of a local and regional self-government unit and budget user shall include the journal, general ledger and subsidiary ledgers.
(2) The Minister of Finance shall prescribe by the Book of Rules from Article 100 section 1 of this Act the types and content of business books from section 1 of this Article.

Article 103
(1) The accounting document is written or memorized electronic evidence of the occurred business change.
(2) The data entry in business books shall be based on credible, authentic and proper accounting documents.
(3) A responsible person of local and regional self-government unit and budget user or person authorized by them shall certify by their signature or electronic signature the credibility of the accounting document.
(4) The responsible person shall secure the data from section 2 of this Article in writing.
PRINCIPLES OF PRESENTATION OF ASSETS, LIABILITIES, OWN RESOURCES, REVENUES AND EXPENDITURES

Article 104

(1) The recognition of revenues and receipts and expenditures and expenses shall be based on the modified accrual accounting principle.

(2) The assessment of assets, liabilities and sources of ownership shall be carried out according to the modified accrual accounting principle with the application of the method of historical cost.

(3) The Minister of Finance shall prescribe by the Book of Rules referred to in Article 100 section 1 of this Act the concept and meaning of the modified accrual accounting principle and procedure for the revalorization of fixed assets.

FINANCIAL REPORTING

Article 105

(1) The budget and budget users shall prepare financial statements.

(2) The financial statements of the budget and budget users are statements regarding the condition and structure, and changes in the value and size of assets, liabilities, own resources, revenues, expenditures, receipts and expenses, or cash flows.

(3) Financial statements shall be prepared for periods in the course of the budget year and for the current budget year.

(4) Financial statements prepared for periods in the course of the year shall be kept until the financial statements for the same period of the following year are submitted and the annual financial statements shall be kept permanently and in their original form.

(5) The users referred to in Article 2 of this Act shall prepare and submit financial statements in accordance with the Book of Rules from Article 100 section 2 of this Act.

(6) The Minister of Finance shall prescribe by the Book of Rules referred to in Article 100 section 2 of this Act, the form and content of financial statements, the period for which they shall be prepared, liabilities and the timeframe for their delivery.

Article 106

For the purpose of preparing of financial statements from Article 105 of this Act the central government administration body responsible for the management of state property shall prepare and submit to the Ministry of Finance by 15 February of the current budget year at the latest the register of the state property outstanding on 31 December of the year for which the register is submitted.

Article 107

(1) The ministries and other state bodies at the first level of organizational classification shall consolidate financial statements of the budget users that are, according to the organizational classification, within their responsibility, and their own financial statement, and prepare the consolidated financial statement that they shall submit to the Ministry of Finance.

(2) The local and regional self-government unit shall consolidate the financial statements of the budget users within its responsibility, according to the organizational classification, as well as its own financial statement and prepare the consolidated financial statement that it shall submit to the Ministry of Finance.
(3) The Ministry of Finance shall consolidate:
   1. consolidated financial statement from section 1 of this Article and financial statement of the state budget and prepare the consolidated financial statement of the state budget,
   2. consolidated financial statement of the state budget from item 1 of this section and financial statements of extra-budgetary users of the state budget and prepare the consolidated financial statement of the central budget,
   3. consolidated financial statements of all local and regional self-government unit budgets and financial statements of all extra-budgetary users of local and regional self-government units and present them in the consolidated financial statement,
   4. consolidated financial statement of the central budget from item 2 of this section and consolidated financial statement from item 3 of this section and prepare the consolidated financial statement of the general budget.

X. SEMI-ANNUAL AND ANNUAL STATEMENT ON BUDGET EXECUTION

CONTENT OF SEMI-ANNUAL AND ANNUAL STATEMENT ON BUDGET
EXECUTION
Article 108

(1) The semi-annual and the annual statement on budget execution shall include:
   1. the overview of the total revenue and receipts and expenditures and expenses on the level of division of the chart of accounts
   2. the special part of the budget according to the organizational and program classification on the level of division of the chart of accounts
   3. the statement on borrowing on domestic and foreign money and capital market
   4. the statement on the use of budgetary reserve
   5. the statement on the state guarantees issued and expenses on state guarantees
   6. the explanation of the realization of revenue and receipts and expenditures and expenses
   7. the explanation of macroeconomic indicators

(2) The semi-annual and annual financial statement on budget execution in addition to the content from items 1 to 7 of the section 1 of this Article shall include:
   1. the execution of the financial plans of extra-budgetary users on the level of division of the chart of accounts
   2. the explanation of the realization of revenues and receipts, expenditures and expenses
   3. the general budget deficit

(3) The provisions of section 1 of this Article, excluding item 7 and section 2 of this Article shall apply in an appropriate manner to the local and regional self-government units.

(4) The Minister of Finance shall prescribe by the Book of Rules on semi-annual and annual statement on budget execution the content and bodies obliged to prepare semi-annual and annual statement on budget execution.
ADOPTION OF SEMI-ANNUAL STATEMENT ON BUDGET EXECUTION
Article 109
(1) The Ministry of Finance or financial affairs administrative body shall deliver to the Government or the local and regional executive body the semi-annual statement on the budget execution for the first half of the current budget year by the September 5 of the current budget year.

(2) The Government or the local and regional executive body shall submit to the Parliament or to the representative body for adoption the semi-annual statement on the budget execution by September 15 of the current budget year.

ADOPTION OF ANNUAL STATEMENT ON BUDGET EXECUTION
Article 110
(1) The Ministry of Finance or financial affairs administrative body shall prepare the annual statement on the budget execution and submit it to the Government or the local and regional executive body by the May 1 of the current year for the previous year.

(2) The annual statement on the budget execution the Government or the local and regional executive body shall submit to the Parliament or to the representative body for adoption by June 1 of the current year for the previous year.

SUBMISSION OF SEMI-ANNUAL AND ANNUAL STATEMENT ON FINANCIAL PLAN EXECUTION OF EXTRA-BUDGETARY USERS
Article 111
(1) The extra-budgetary user shall prepare and submit the semi-annual and annual statement on the financial plan execution for the previous period, including the explanation, to the Ministry of Finance by July 30 of the current year or March 31 of the current budget year.

(2) The semi-annual and annual statement on the financial plan execution of the extra-budgetary users together with the semi-annual and annual statement on budget execution from Articles 109 and 110 of this Act shall be submitted by the Government or the local and regional executive body for consent to the Parliament or the representative body.

SUBMISSION OF ANNUAL STATEMENT ON BUDGET EXECUTION OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS
Article 112
The local and regional executive body shall submit to the Ministry of Finance and the State Audit Office the annual statement on budget execution of local and regional self-government unit within 15 days of its adoption by representative body.

SUBMISSION OF DATA OF THE LOCAL AND REGIONAL SELF-GOVERNMENT UNITS
Article 113
For the local and regional self-government unit that has failed to submit the data within the time frame and in the way prescribed by provisions of Articles 40, 87, 90, 91, 94 and 112 of this Act the transfer of aids and equalization grants from the state budget shall be temporarily suspended.
XI. EUROPEAN UNION AIDS

Article 114

(1) Activities and projects which are financed from the European Union aids are planned in the state budget.

(2) The European Union aids implementation system is regulated by special laws and in accordance with internationally assumed obligations of the Republic of Croatia.

(3) The Republic of Croatia as a country user of the European Union aids, through the European Union aids implementation system shall ensure:
   (a) application of the division of responsibility principle,
   (b) functioning of financial internal control,
   (c) specific monitoring of projects financed from the European Union funds and annual reporting on expenditures,
   (d) the existence of national institution for performing independent external audit,
   (e) transparent, indiscriminating public procurement process by which conflicts of interest shall be prevented,
   (f) regular controls by which proper execution of activities financed from the European Union funds is ensured,
   (g) undertaking of relevant measures for prevention of irregularities and fraud and, if necessary, initiating of court procedure for the return of wrongfully spent funds.

(4) The Republic of Croatia as user of the European Union aids shall ensure the protection of financial interests of the European Union by establishing the system for prevention of irregularities and fraud (AFCOS).

XI. BUDGET SUPERVISION

SCOPE OF BUDGET SUPERVISION

Article 115

(1) Budget supervision is a procedure of monitoring the lawfulness, purposefulness and timeliness of the use of budgetary funds which prescribes measures for eliminating the identified unlawfulness and irregularities.

(2) Budget supervision shall include the supervision of accounting, financial and other business documents of subjects of supervision.

(3) The Ministry of Finance shall conduct budget supervision of budget users and extra-budgetary users of the state budget, local and regional self-government units and their budget users and extra-budgetary users, legal and physical persons that are the recipients of budget funds and financial plans of extra-budgetary users as well as the supervision of the use of loan funds based on state and local and regional self-government units’ guarantees (hereinafter referred to as: subjects of supervision).

(4) The Minister of Finance shall issue a Book of Rules on the budget supervision and in it prescribe the goals, scope of work, content, method and requirements, authorized person for budget supervision as well as the measures of budget supervision.

METHOD OF CONDUCTING THE BUDGET SUPERVISION
Article 116
(1) Budget supervision shall be conducted based on citizens’ petitions, requests of central government administration bodies, local and regional self-government units and other legal persons which arise suspicion of irregularities and fraud, as well as on the order of the Minister of Finance.

(2) Budget supervision of the operations of a budget user shall be carried out by direct supervision on the premises of budget user, and by the analysis of their financial and accounting documentation.

(3) The provisions of general administrative procedures shall be accordingly applied to the procedure of budget supervision.

Article 117
(1) The budget supervision inspector who has, in the course of supervision, identified the actions that constitute an offence, shall, on behalf of the Ministry of Finance, prepare an indictment proposal against the offender and submit it to the responsible regional office of Tax Administration.

(2) The procedures regarding the offences established by this Act shall, in the first instance, be carried out by the competent regional office of Tax Administration.

(3) It is impossible to initiate offence prosecution after three years have expired since the offence was committed.

Article 118
(1) The provisions of Offence Law shall apply to the rules for conducting offence proceedings, appellate proceeding and extraordinary legal remedies.

(2) Regarding the coercive collection of the fine with final force and effect in offence proceedings, provisions of the General Tax Law shall apply.

Article 119
Should the budget supervision inspector in the course of supervision identify the actions for which a reasonable doubt for offence committed exists he shall submit offence report to the competent state attorney’s office.

OBLIGATION OF PARTICIPATION OF THE SUBJECT OF SUPERVISION IN THE COURSE OF SUPERVISION
Article 120
(1) The responsible person of the subject of supervision or the person authorized by them is obliged to participate in the course of supervision and on the request of the budget supervision inspector shall submit all necessary documentation.

(2) The responsible person of the subject of supervision is obliged to ensure for the budget supervision to be conducted without disturbance and shall ensure the appropriate working conditions.

SPECIAL AUTHORIZATIONS OF PERSONS CONDUCTING BUDGET SUPERVISION
Article 121
(1) Authorized budget supervision persons shall be the budget supervision inspectors from the Ministry of Finance.

(2) Budget supervision inspectors shall have official cards that shall be issued by the Minister of Finance.

(3) The Minister of Finance shall issue the Book of Rules by which he shall prescribe the look of the official card of the budget supervision inspector, the keeping of the inquest register of official card and their publishing, usage and replacement.

Article 122

The budget supervision inspector is obliged to keep confidential the business and professional secret and classified information which he shall come to know when conducting supervision and other doings in his responsibility in accordance with the established degree of confidentiality.

XII. PREPARATION AND IMPLEMENTATION OF TRAINING

Article 123

(1) The Ministry of Finance shall prepare and implement the training for the employees in the budget system.

(2) The Ministry of Finance shall organize the specialist training program in the budget area for the civil servants according to special regulations.

(3) After the successful completion of the training program an appropriate certificate shall be issued.

(4) The Government shall prescribe the program, training categories, conditions for participants, organization, ways of implementation and the conditions the participants have to fulfill and looks and content of the certificate on successful completion of the program by a decree on forms, ways and conditions of training in the budget system.

XIII. PENALTY CLAUSES

Article 124

A fine of 500,000.00 kn up to 2,000,000.00 kn shall be imposed on a legal person for the offence:

1. if budget funds were not used in accordance with Article 5 section 2 of this Act,
2. if during preparation and proposal of a development program plan the budget user of local and regional self-government unit acted contrary to provisions of Article 33, section 1 and 2, and Article 34 of this Act,
3. if the state budget user failed to prepare the financial plan in accordance with provisions of Article 41, section 1 of this Act,
4. if the budget user of the local and regional self-government unit acted contrary to provisions of Article 41 of this Act,
5. if the budget user acted contrary to provisions of Article 42, section 6 of this Act,
6. if the budget user acted contrary to provisions of Article 42, section 7 of this Act,
7. if the budget user assumed liabilities against the current year's budget contrary to provisions of Article 44, section 1 of this Act,
8. if the budget user assumed liabilities based on contracts requiring payment in the next years contrary to provisions of Article 44, section 2 of this Act,
9. if the budget user assumed liabilities for investment projects contrary to provisions of Article 45, sections 1 and 2 of this Act,
10. if the budget funds were reallocated contrary to provisions of Article 46, sections 1, 2 and 4 of this Act,
11. if the budget user failed to establish, make the collection and payment of revenues and receipts in the budget in accordance with provisions of Article 47, sections 1 and 2 of this Act, and if it failed to execute expenditures and expenses in accordance with provisions of Article 47, section 1 of this Act,
12. if the budget user acted contrary to provisions of Article 48, section 2 of this Act,
13. if the budget user acted contrary to provisions of Article 52, section 2 of this Act,
14. if, while paying in advance, the budget user acted contrary to provisions of Article 53 of this Act,
15. if the budget user acted contrary to provisions of Article 60, section 2 of this Act,
16. if the amount from the sale of stocks and equity shares was used contrary to provisions of Article 65, section 1 of this Act,
17. if the budget user used funds obtained by the sale of stocks and equity shares in a manner contrary to provisions of Article 65, section 2 of this Act,
18. if the local and regional self-government unit made borrowings contrary to provisions of Article 87, section 1 of this Act,
19. if a public partner signs a public-private partnership contract contrary to provisions of Article 89 of this Act,
20. if a legal person with a controlling direct or indirect ownership of the local and regional self-government unit and an institution whose founder is a unit of local and regional self-government made borrowings contrary to provisions of Article 90, section 1 of this Act,
21. if a regional self-government unit issued guarantee to a local self-government unit in a manner contrary to provisions of Article 91, section 1 of this Act,
22. if a local and regional self-government unit issued guarantee to a legal person with a controlling direct or indirect ownership of the local and regional self-government unit and an institution, whose founder is the unit, contrary to provisions of Article 91, section 2 of this Act,
23. if a decision on the issuing of a guarantee was not made in accordance with provisions of Article 91, section 3 of this Act,
24. if a local and regional self-government unit acted contrary to provisions of Article 91, section 4 of this Act,
25. if the newly organized unit of the local and regional self-government made borrowings and issued consent and guarantee for borrowing contrary to provisions of Article 92, section 1 of this Act,
26. if the local and regional self-government unit made borrowings and issued guarantees contrary to provisions of Article 92, section 2 of this Act,
27. if the extra-budgetary user of the state budget made borrowings and issued guarantees contrary to provisions of Article 93, section 1 of this Act,
28. if the extra-budgetary user of the local and regional self-government units' budget made borrowings and issued guarantees contrary to provisions of Article 94, section 1 of this Act,

**Article 125**

A fine of 50,000.00 kn up to 100,000.00 kn shall be imposed on a responsible person of the budget and the budget user for the offence:

1. if the budget preparation and execution is not based on the principles established by the provisions of Article 4 of this Act,
2. if budget funds were not used in accordance with Article 5, section 2 of this Act,
3. if during preparation and proposal of a development program plan the responsible person acted contrary to provisions of Article 33, section 1 and 2, and Article 34 of this Act,
4. if the administrative body responsible for the budget user did not develop a joint development program plan proposal in accordance with provisions of Article 33, section 3 of this Act,
5. if the budget user did not prepare the financial plan in accordance with Article 41, section 1 of this Act,
6. if the budget user of the local and regional self-government unit acted contrary to provisions of Article 41 of this Act,
7. if the temporary financing is carried out contrary to provisions of Article 42, section 3 of this Act,
8. if the budget user did not finance the same programs and increased the staff number during temporary financing contrary to Article 42, section 6 of this Act,
9. if the budget user assumed new financial liabilities during the period of temporary financing, which is contrary to provisions of Article 42, section 7 of this Act,
10. if the budget user assumed liabilities against the state budget contrary to provisions of Article 44, section 1 of this Act,
11. if the budget user assumed liabilities based on contracts requiring payment in the following years contrary to provisions of Article 44, section 2 of this Act,
12. if the budget user assumed liabilities for investment projects contrary to provisions of Article 45, sections 1 and 2 of this Act,
13. if the budget funds were reallocated contrary to provisions of Article 46, sections 1, 2 and 4 of this Act and if the Parliament or the representative body was not informed of reallocations in accordance with provision of Article 46, section 5 of this Act,
14. if budget users and bodies of local and regional self-government unit failed to establish, make the collection and payment of revenues and receipts in the budget in accordance with provisions of Article 47, sections 1 and 2 of this Act, and if they failed to execute expenditures and expenses in accordance with provisions of Article 47, section 1 of this Act,
15. if action contrary to provisions of Article 48, section 2 of this Act was taken,
16. if action contrary to provisions of Article 50, sections 1, 2, 3 and 4 of this Act was taken,
17. if action contrary to provisions of Article 52, section 2 of this Act was taken,
18. if, while paying in advance, action contrary to provisions of Article 53 of this Act was taken,
19. if budget expenditure and expense is not based on a credible bookkeeping document by which the obligation of payment is evidenced in accordance with provisions of Article 54, section 1 of this Act,
20. if, prior to the payment, the responsible person failed to check and sign the legal basis and the amount of liability resulting from the bookkeeping document in accordance with provisions of Article 54, section 2 of this Act,
21. if the budget user, upon establishing that the payment from the budget was made unlawfully and/or unjustifiably, failed to act in accordance with provisions of Article 59, section 1 of this Act,
22. if the budget user acted contrary to provisions of Article 60, section 3 of this Act,
23. if monetary funds were invested contrary to provisions of Article 62, section 4, of this Act,
24. if the amount from the sale of stocks and equity shares was used contrary to provisions of Article 65, section 1 of this Act,
25. if the funds obtained by the sale of stocks and equity shares were used contrary to provisions of Article 65, section 2 of this Act,
26. if non-financial fixed assets were not acquired in accordance with provisions of Article 69, sections 1 and 2, of this Act,
27. if the funds from the sale and replacement of non-financial fixed assets of the state or of local and regional self-government units and from compensations on the basis of insurance were used in a manner contrary to provisions of Article 70 of this Act,
28. if the local and regional self-government unit made borrowings contrary to provisions of Article 87, section 1 of this Act,
29. if the total annual obligation of local and regional self-government units referred to in Article 86 of this Act is contrary to provisions of Article 88, section 1 of this Act,
30. if a legal person with a controlling direct or indirect ownership of the local and regional self-government unit and an institution whose founder is a unit of local and regional self-government made borrowings contrary to provisions of Article 90, section 1 of this Act,
31. if a regional self-government unit issued guarantee to a local self-government unit in a manner contrary to provisions of Article 91, section 1 of this Act,
32. if local and regional self-government unit issued guarantee to a legal person with a controlling direct or indirect ownership of the local and regional self-government unit and an institution, whose founder is the unit, contrary to provisions of Article 91, section 2 of this Act,
33. if a decision on the issuing of a guarantee was not made in accordance with provisions of Article 91, section 3 of this Act,
34. if a local and regional self-government unit acted contrary to provisions of Article 91, section 4 of this Act,
35. if the newly organized unit of the local and regional self-government made borrowings and issued consent and guarantee for borrowing contrary to provisions of Article 92, section 1 of this Act,
36. if the local and regional self-government unit made borrowings and issued guarantees contrary to provisions of Article 92, section 2 of this Act,
37. if it failed to act in accordance with the responsibilities established in the provisions of Article 95, sections 1 and 3 of this Act,
38. if it failed to separate the responsibilities between in accordance with the provisions of Article 96 of this Act,
39. if it failed to organize and carry out budgetary accounting in accordance with provisions of Article 101, sections 1 and 2 of this Act,
40. if it failed to prepare, sign and submit financial statements in accordance with provisions of Article 101, sections 3 and 4 of this Act,
41. if it failed to keep business books in accordance with provisions of Article 102, section 1 of this Act,
42. if it failed to act in accordance with provisions of Article 103 of this Act with regards to bookkeeping documents,
43. if financial statements were not prepared in accordance with provisions of Article 105, sections 1, 2 and 3 of this Act,
44. if the financial statements were not kept in accordance with provisions of Article 105, section 4 of this Act,
45. if budget users failed to prepare and deliver the financial statements in accordance with provisions of Article 105, section 5 of this Act,
46. if they failed to consolidate and deliver the financial statements in accordance with provisions of Article 107, sections 1 and 2 of this Act,
47. if the content of the semi-annual report on budget execution and annual report on budget execution is not in conformity with provisions of Article 108, sections 1, 2 and 3 of this Act,
48. if the annual report on execution of local and regional self-government unit’s budget was not delivered in accordance with provisions of Article 112 of this Act,
49. if it did not participate in the procedures of budget control and did not allow insight into the documentation in accordance with Article 120, section 1 of this Act,
50. if it failed to ensure an uninfluenced performance of budget control contrary to provisions of Article 120, section 2 of this Act.

Article 126

A fine of 50,000.00 kn up to 100,000.00 kn shall be imposed on the responsible person of the extra-budgetary user for the offence:
1. if extra-budgetary user of the state budget made borrowings and issued guarantees contrary to provisions of Article 93, sections 1 and 2 of this Act,
2. if extra-budgetary user of the local and regional self-government unit’s budget made borrowings and issued guarantees contrary to provisions of Article 94, sections 1 and 2 of this Act,
3. if the extra-budgetary user failed to prepare and deliver the annual and semi-annual report on execution of the financial plan in accordance with provisions of Article 111, sections 1 of this Act.

Article 127
A fine of 50,000,00 kn up to 100,000,00 kn shall be imposed on the responsible person of the public partner for the offence:
- if he/she acted contrary to provisions of Article 89 of this Act.

Article 128
A fine of 20,000,00 kn up to 50,000,00 kn shall be imposed on the financial controller of the of the budget user for the offence:
- if he acted contrary to provisions of Article 122 of this Act,

Article 129
A fine of 10,000,00 kn up to 20,000,00 kn shall be imposed on the responsible person of the budget and the budget user for an offence:
1. if revenues, receipts, expenditures and expenses were not presented in accordance with the provisions of Article 21, sections 1 and 2 of this Act,
2. if the local and regional self-government unit failed to notify the Ministry of Finance in accordance with provisions of Article 87, sections 8 and 9 of this Act,
3. if the local and regional self-government unit failed to notify the Ministry of Finance in accordance with provisions of Article 90, sections 4 and 5 of this Act,
4. if the local and regional self-government unit failed to notify the Ministry of Finance in accordance with provisions of Article 91, sections 6 and 7 of this Act.

XIII. TRANSITIONAL AND FINAL PROVISIONS

Article 130
With the day of coming into force of the Law on amendments to the Law on Local and Regional Self-Government (National Official Gazette, No. 109/07):
- in Article 3 item 19 of this Act words: “the executive body of the municipality, City of Zagreb, town and county (hereinafter referred to as: local and regional executive body)” shall be replaced with the words: “in municipality municipal prefect, in town mayor and in county county prefect (hereinafter referred to as: municipal prefect, mayor county prefect)”,
- in Article 14 section 2 of this Act words «or the president of the local and regional executive body” shall be deleted,
- in Article 57 section 1 of this Act words:” or the president of local and regional executive body” shall be deleted,
- in Article 57 section 3 of this Act words:” and the president of local and regional executive body shall notify the local and regional executive body” shall be replaced by the words:” and municipal prefect, mayor, county prefect shall notify the representative body”,
- in the entire body of this Act word:” local and regional executive body” and words:” the president of local and regional executive body” in adequate case shall be replaced with the words:” municipal prefect, mayor, county prefect” in adequate case.

Article 131
(1) Decree from Article 45 section 3, Article 68 section 7 and Article 123 section 4 of this Act the Government shall pass within 120 days from the day of coming into force of
this Act.

(2) Book of Rules from Article 55 section 4, Article 80 section 4 and Article 108 section 4 of this Act the Minister of Finance shall pass within 60 days from the day of coming into force of this Act.

(3) Book of Rules from Article 2 section 3, Article 21 section 3, Article 87 section 6, Article 100 sections 1 and 2, Article 115 section 4, Article 121 section 3 of this Act the Minister of Finance shall pass within 30 days from the day of coming into force of this Act.

Article 132

Until the day of coming into force of regulations from Articles 131 sections 2 and 3 of this Act, if not contrary to the provisions of this Act, the provisions of the following regulations shall apply:

1. Book of Rules on identifying budget users and of keeping the register of budget users (National Official Gazette, No. 80/04),
2. Book of Rules on Budget Classifications (National Official Gazette, No. 94/07),
3. Instruction on the budget execution from the Single Treasury Account (National Official Gazette, No. 4/01),
5. Book of Rules on Budget Accounting and Chart of Accounts (National Official Gazette, No. 27/05 and 127/07),
7. Book of Rules on Budget Supervision (National Official Gazette, No. 42/04 and 6/06),

Article 133

On budgetary funds founded by the day of coming into force of this Act, up to their closure the provisions of Article 57 section 2, Articles 58, 59, 60, 61 and 140 items 31, 32 and 33 of the Budget Act (National Official Gazette, No. 96/03) shall apply.

Article 134

With the day of coming into force of this Act the following regulations shall become invalid:

1. Budget Act (National Official Gazette, No. 96/03)
2. Decree on Budget Accounting (National Official Gazette No. 96/94, 108/96, 119/01 and 74/02),
3. Decree on the Treasury general ledger system and manner of keeping the Single Treasury Account (National Official Gazette, No. 97/95),
4. Book of Rules on criteria for the use of budget users revenues realized in the market by performing their core and other activities (National Official Gazette, No. 146/98).
Article 134

This Act shall be published in the National Official Gazette and shall come into force on the January 1 2009.