RESEARCH WORKSHOP

Fiscal decentralization in Croatia

Twenty-five years after the reform

Current state, persistent challenges and policy implications

Branko Stanić, Dubravka Jurlina Alibegović and Mihaela Bronić

24 November 2026

This work was supported by the Croatian Science Foundation under the project number UIP-2025-02-3913.

Project: Fiscal decentralization in Croatia – current state, challenges, and potential solutions (FISDEC)

1 **Fiscal landscape of local government units in Croatia**

2 Fiscal autonomy and local economic development

3 Fiscal transfers and efficiency of local public services

4 Fiscal decentralization and income inequality

5 Fiscal decentralization and local-government debt

Why start with an overview?

The challenge

Fiscal decentralization covers many interconnected issues, each of which could be examined in greater detail.

Our approach

We review key reforms and selected fiscal indicators to identify persistent challenges and discuss possible policy implications.

What do we examine?

1 / DECENTRALIZATION

How has fiscal decentralization in Croatia evolved since 2001?

2 / FISCAL CAPACITY

How large are the differences in fiscal capacity?

3 / DEPENDENCE ON GRANTS

How dependent are local governments on grants?

4 / FINANCIAL SELF-SUFFICIENCY

Can local governments cover employee expenditures without grants?

Approach: institutional overview, descriptive indicators and spatial patterns

Data: Eurostat (2026) and Ministry of Finance (n.d.)

Decentralizing selected public functions

2001

1 JULY 2001 – PRIMARILY COUNTIES AND SELECTED CITIES

Primary and secondary education

Healthcare and social welfare

2003

ADDITIONAL DECENTRALIZED FUNCTION

Public firefighting

The reform transferred selected expenditure responsibilities, rather than the full financing of public services.

Key challenges were identified early in the reform process

1. Fragmented territorial structure
2. Limited own-source revenues
3. Large differences in fiscal capacity
4. Dependence on central government transfers
5. Unclear division of responsibilities and fiscal equalization criteria

Twenty-five years later, to what extent have these challenges been addressed?

Sources: Ott & Bajo (2001); Jurlina Alibegović, D., & Šišinački, J. (2004). Intergovernmental fiscal relations and decentralization process in Croatia. *Lex Localis – Journal of Local Self-Government*, *2*(3), 105–122.

The rules changed. What about the challenges?

2001

Initial reform

Transfer of selected public functions

2003

Firefighting

Added to decentralized functions

2018

Fiscal equalization

Based on PIT capacity per capita

2024

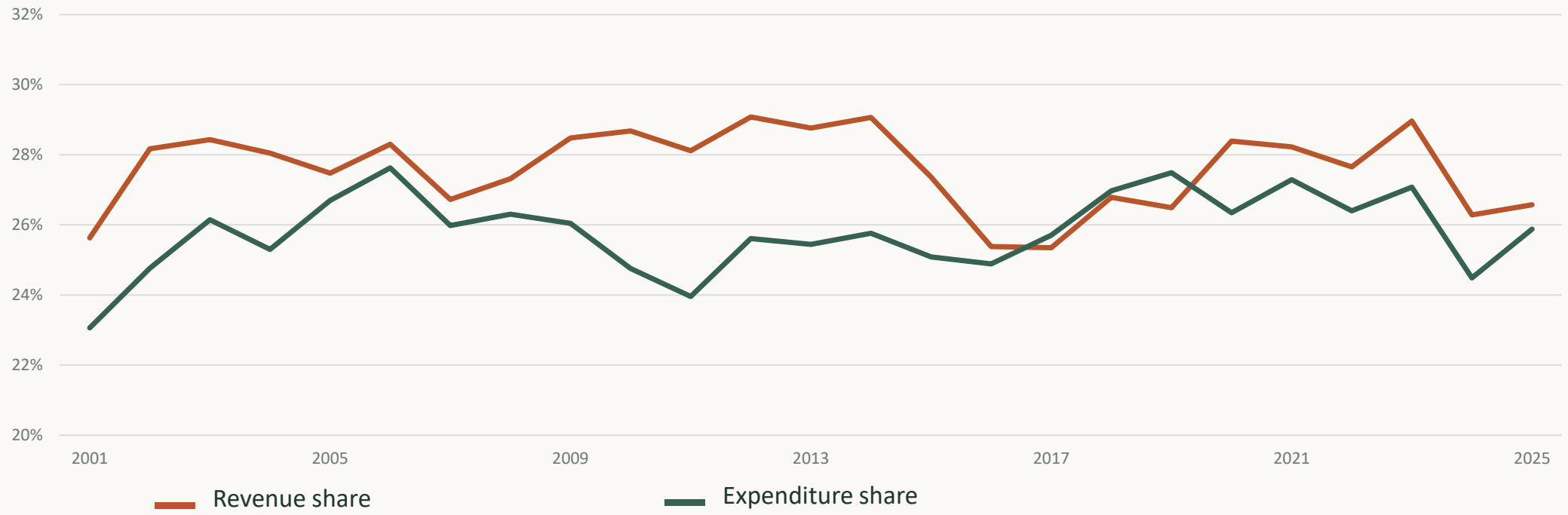
PIT rate autonomy

Municipalities and cities can can set PIT rates within statutory limits

Milestones selected for this overview; they do not exhaust all legislative changes.

Aggregate decentralization has changed relatively little

Local government shares in general government revenue and expenditure, 2001–2025

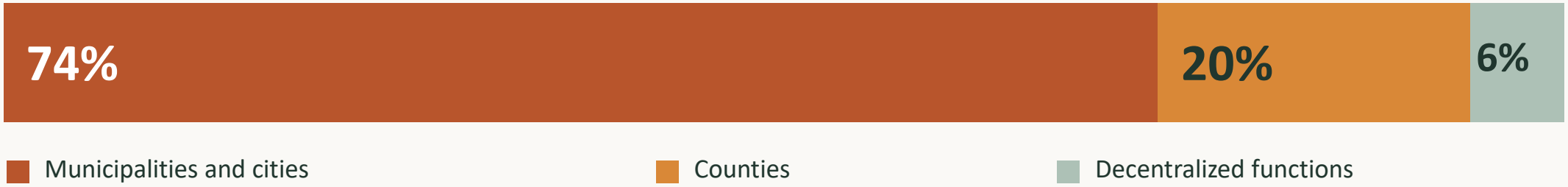


These shares have changed relatively little, but they do not necessarily reflect the actual fiscal autonomy of local governments.

Source: Authors' calculations based on Eurostat (2026), ESA 2010.

Receiving tax revenue does not mean controlling the tax

Personal income tax: current revenue-sharing framework



LOCAL PIT AUTONOMY SINCE 2024

Municipalities and cities can set lower and higher PIT rates within statutory limits. Counties do not have this authority.

CENTRALLY DETERMINED ELEMENTS

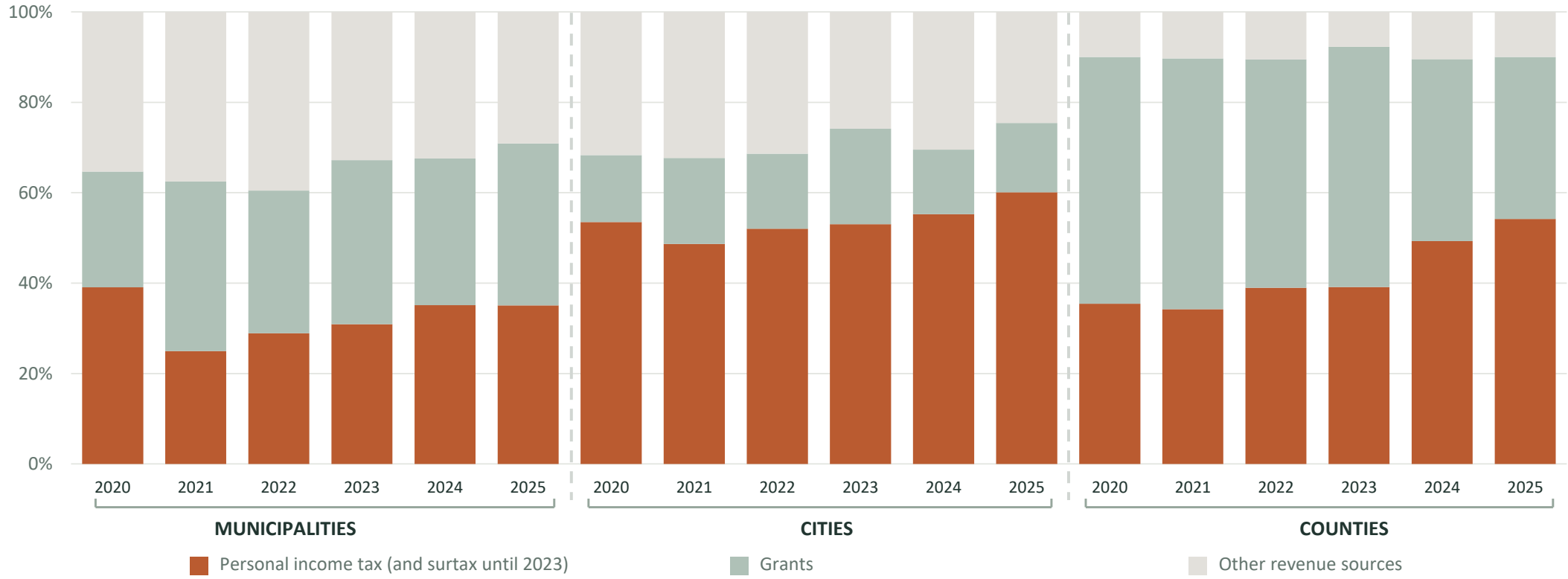
Tax exemptions, personal allowances, tax base rules, and tax brackets.

The degree of tax autonomy also varies across other local taxes, such as consumption tax, property tax, and the tax on the use of public spaces.

Revenue structure varies across LGU types and over time

Composition of total revenues, 2020–2025

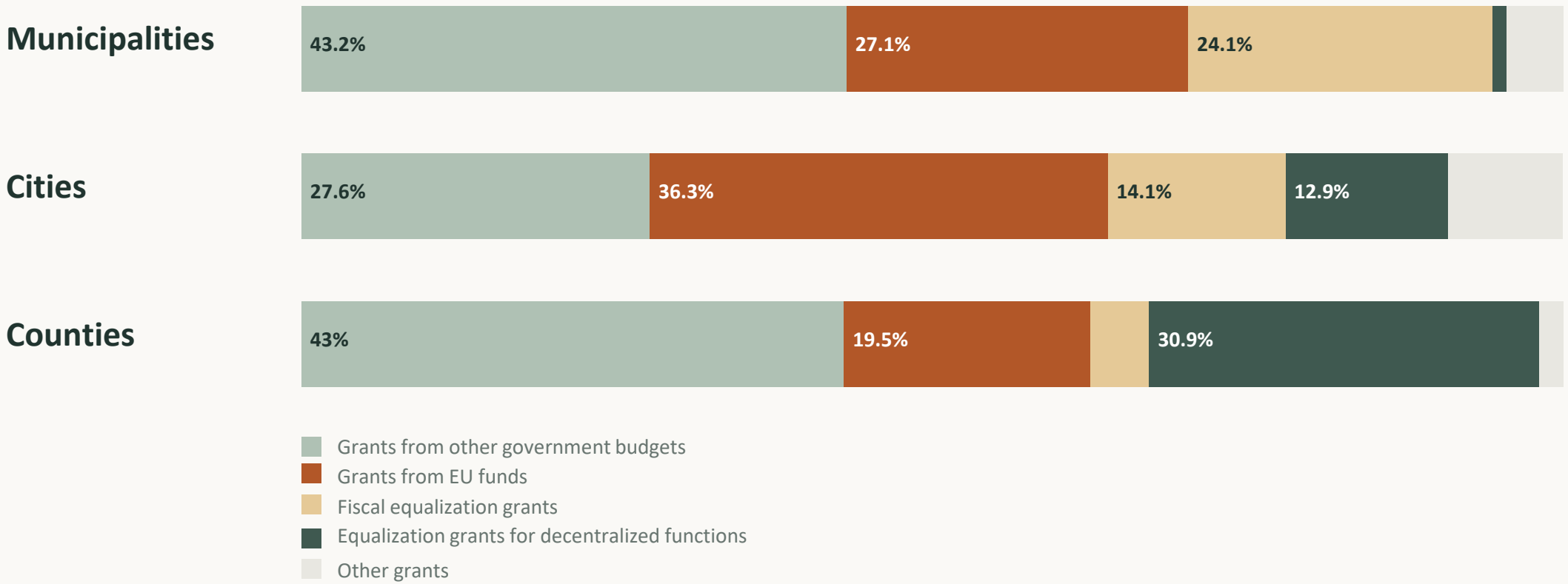
Source: Authors' calculations based on Ministry of Finance (n.d.). Excludes budget users.



Note: Other revenue sources include local and county taxes, real estate transfer tax, administrative fees and charges, income from property, revenues from the sale of non-financial assets.

Not all grants serve the same purpose.

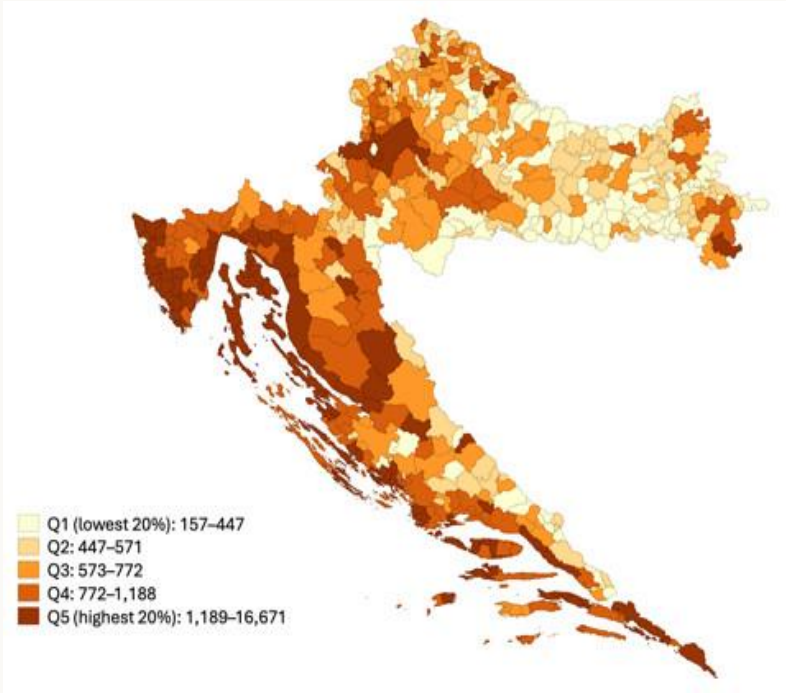
Composition of grants received by local governments, 2025



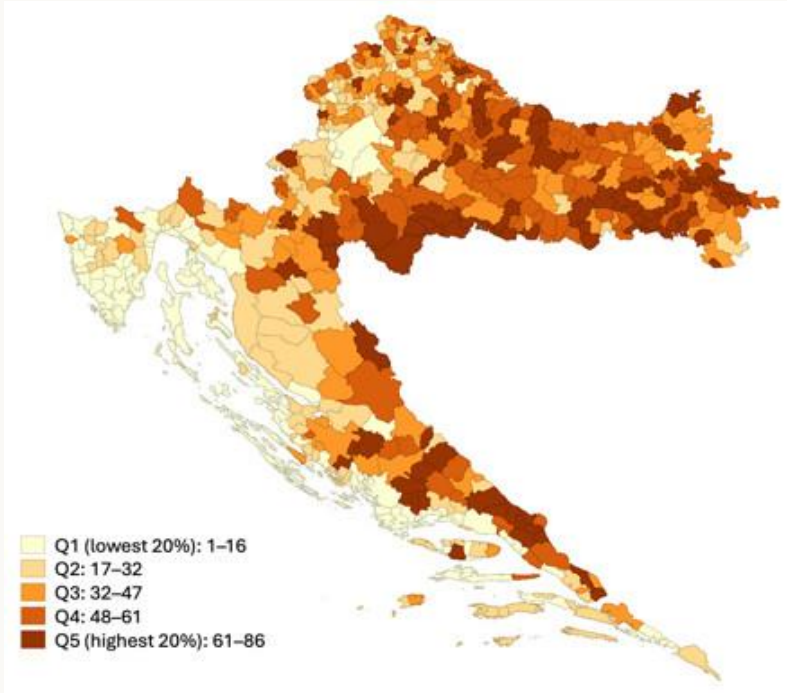
Source: Authors' calculations based on Ministry of Finance (n.d.)

Fiscal disparities show clear geographical patterns.

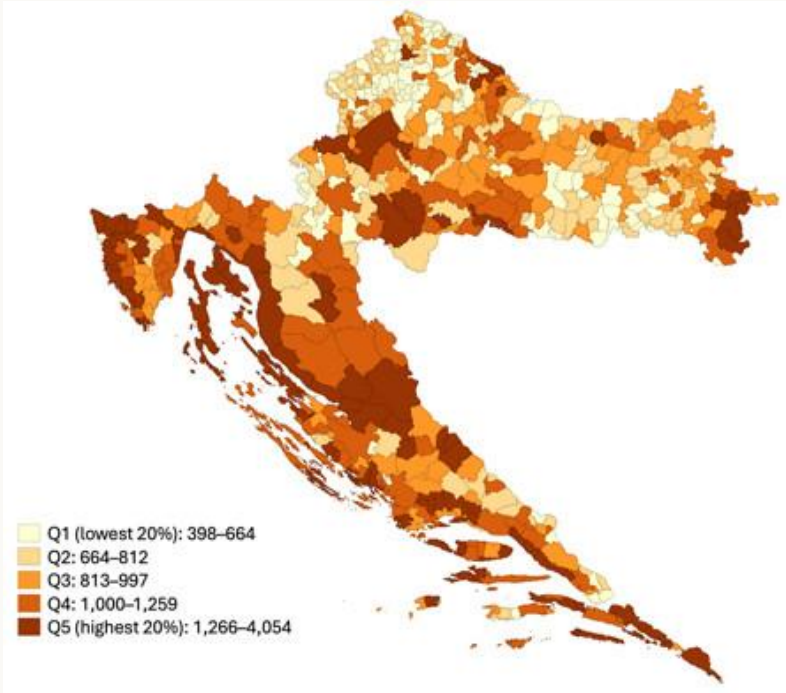
Fiscal capacity per capita (2025)



Dependence on grants (2025)



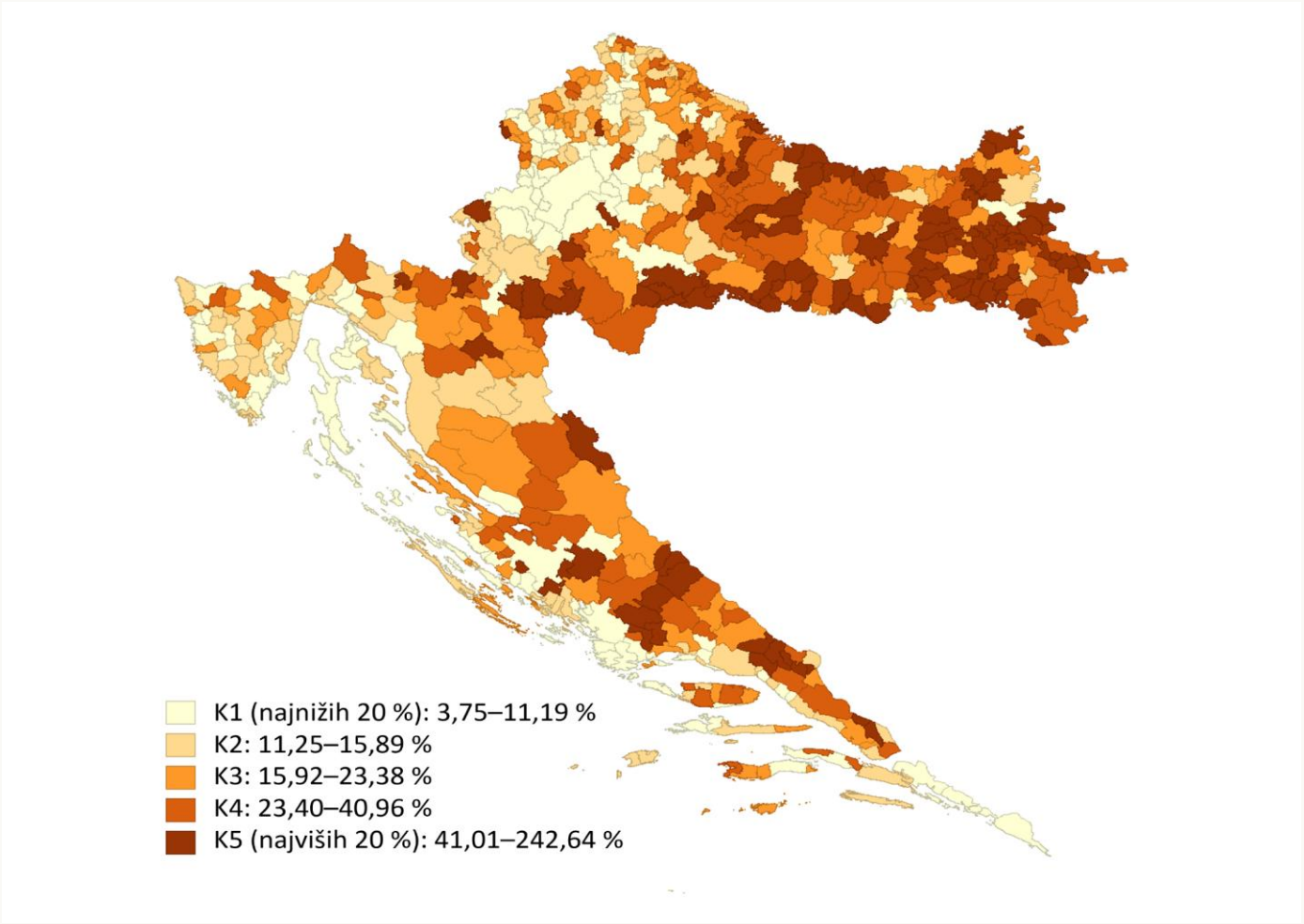
Current expenditure per capita (2025)



Note: Fiscal capacity = current revenues excluding grants per capita; grant dependence = grants divided by current revenues. Per capita values use 2024 population estimates.

Source: Authors' calculations based on Ministry of Finance (n.d.) and CBS (2026).

Can local governments cover employee expenditures without grants?



2025 employee expenditures / (current revenues − grants). Values above 100% lie within the darkest quintile.

18

municipalities above 100%

21.7%

median for municipalities

Source: Authors' calculations based on Ministry of Finance (n.d.)

Twenty-five years later: progress and persistence.

EARLY CHALLENGE		TODAY
Limited tax autonomy	→	Greater PIT-rate discretion for municipalities and and cities; key tax elements remain centrally determined
Unclear responsibilities and equalization criteria	→	Clearer general equalization criteria since 2018; broader expenditure needs remain outside this mechanism
Uneven fiscal capacity	→	Large territorial disparities persist
Dependence on central government transfers	→	Grants remain important, but their sources and purposes vary considerably
Limited own-source revenues	→	Uneven capacity to cover employee expenditures without grants

POLICY DIRECTIONS

Where do we go from here?

1	**Reassess fiscal equalization**	Consider revenue sources beyond PIT and broader broader expenditure needs.
2	**Strengthen local revenue autonomy**	Explore greater flexibility over local taxes, fees and charges.
3	**Align resources and responsibilities**	Ensure that any transfer of additional functions is accompanied by adequate, stable and predictable funding. funding.
4	**Cooperation and economies of scale**	Further examine the effects of inter-municipal cooperation on costs and public service delivery.

LET'S DISCUSS

Questions, comments and suggestions

- Have we captured the most important challenges?
- Which policy implications deserve closer attention?
- Are there additional issues we should consider within FISDEC?