



REPUBLIC OF CROATIA

MINISTRY OF FINANCE

A N N U A L R E P O R T

OF THE MINISTRY OF FINANCE

1994 - 1997



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## **FOREWORD**



*I have the pleasure to present the first Annual of the Ministry of Finance of the Republic of Croatia. Since it is the first Annual, an outline of fiscal policy achievements in the period from 1994 to 1997 has been set forth. In the last four years, a modern and transparent fiscal system, adjusted to market economy needs, has been developed. An insight into changes and reforms taken place in the course of the referred period is an essential precondition for the understanding of present position and fiscal policy characteristics.*

*The success of the stabilization program from October 1993 has opened the gate to a strong economic growth and ensured the implementation of a transition process in macroeconomic conditions typical for developed countries. In addition, in the beginning of 1994, the process of more significant fiscal reforms has been initiated, with the objective of developing a tax system and the system of overall finances which shall favor the macroeconomic stability and economic growth, ensuring an adequate social care for the part of population mostly in need.*

*The tax system reform has been initiated by a direct taxation system reform. Since 1994, personal income tax has been in force, based on the principles of economic efficiency and fairness. Personal income tax is not applied to interests, dividends and capital gains whereby the Republic of Croatia is ranged among countries, which have created mechanisms for stimulating savings. At the same time, profit tax is not applied to the part of profit, which is equal to the opportunity cost of the capital which, together with the personal income tax, results in a direct taxation system, which jeopardizes, to a minimum extent, the allocative function of the market.*

*The indirect taxation reform has been initiated together with the direct taxation reform. In 1994, the system of excise taxes has been introduced, and preparations for the introduction of value added tax have been initiated by an adequate reduction of tax burden imposed by the sales tax which was in force at the time. Value added tax has been successfully introduced on January 1, 1998 which has marked the end of the tax reforms. The introduction of a new customs tariff in 1996 has been an essential element in regulating the overall tax system. In that manner, the Croatian new tax system has become compatible with tax systems of the developed countries. At the same time, Croatia has, by implementing a comprehensive tax reform, taken the opportunity to create a system, which is in many elements more efficient than the systems currently applied in the developed Western European countries.*

*The organizational and personnel improvement of Tax Administration, Customs Administration and Financial Police, which are responsible for an effective and regular public revenue collection, has contributed to the success of the tax system reform.*

*The process of improving the effectiveness of public revenues spending has been initiated together with the process of tax reform introduction. A sound and transparent system of the government budget development and execution has been implemented, which has been particularly supported by a gradual development of the government treasury system. By developing government treasury system, the number of intermediaries between government budget users has been minimized and the control of spending government budget funds has been improved.*

*The period from 1994 to 1997 will be undoubtedly remembered as a period in which Croatia has very successfully settled its relations with international financial institutions and creditors, with regard to taking over a part of the former state's debt. By taking over a part of the former state's debts, Croatia has presented itself to the international financial community as a reliable debtor responsible for the settlement of its liabilities. Such a relation development with the international financial community, and the economic growth in a stable macroeconomic and internal political environment have resulted in obtaining the investment credit grade rating of the Republic of Croatia, which was granted by the most prominent credit rating agencies in the beginning of 1997. In that manner, Croatia has been ranged among the most successful transitional countries, with the perspective of a rapid and sustainable growth and development.*

*In the course of the previous four years, fiscal policy has successfully met enormous requirements and it has at the same time acted as a significant factor of macroeconomic stability. The financing of the country's defense, reconstruction of regions devastated by the war, construction of infrastructure, social care for the thousands of displaced persons, refugees and war victims, the increase of pensions, as well as salaries of the government officials, are goals which have been achieved in the previous period with the budget surplus or deficit below 1% of GDP. The greatest number of countries in transition has not yet achieved such an effective fiscal policy and has not had such enormous requirements to be met. In view of all what has been achieved, the results are even greater. Notwithstanding the significant results already achieved, the Ministry of Finance has a number of important tasks still to perform. A further tax relief in the economy, strengthening of a rapid and sustainable economic growth, implementation of reforms and rationalization of the public sector are fiscal priorities, which must be fulfilled in the subsequent medium-term period.*

*In the end, I would like to point out that such results would not have been achieved without a devoted work and an enormous efforts involved on the part of my predecessors, Ministers of Finance, as well as on the part of all 7000 officials of the Ministry of Finance. I would like to dedicate this Annual to them in token of my gratitude.*

Borislav Škegro



Deputy Prime Minister and  
Minister of finance

# I BUDGETARY PROCESS





The Government Budget is considered as the evaluation of annual revenues and receipts and the established amount of expenditures and other central government payments, namely local government payments, approved by the Croatian Parliament, namely the representative body of local government. The Budget is composed of a detailed evaluation of revenues, which the government expects to realize in the fiscal year for which the Budget is approved, as well as a detailed allocation of funds disbursements according to individual requirements and users. The Budget must be balanced, which means that it should comprise a detailed outline of the eventual budget deficit financing namely a detailed allocation of the eventual budget surplus.

Therefore, the Government Budget is an important economic, political but also social document. It is a basic government document by means of which the Government undoubtedly and concretely presents the way in which it intends to fulfill its stabilization, allocative and redistributive function in the fiscal year.

The Organic Budget Law<sup>1</sup> establishes the content, means of drafting, approval and execution of central government budget, local government budget, extrabudgetary funds budgets, as well as the budgetary relation between central government budget, local government and extrabudgetary funds budgets.

The budgetary process must comprise the development and approval of separate documents as follows:

- central government budget,
- extrabudgetary funds budget,
- consolidated central government budget,
- local government budget.

The approval of the Law on Government Budget Execution is an integral part of the budgetary process.

**The central government budget** is the evaluation of annual revenues and receipts and the appropriated amount of expenditures and other government payments for all budgetary users in the Republic of Croatia in the course of the fiscal year. The budgetary users are considered spending ministries and other government administration bodies, government authorities bodies and other users who are financed through the government budget.

**The extrabudgetary funds** budget is an annual financial plan of the extrabudgetary funds which are legal entities established on the basis of the law and which are financed through earmarked taxes, namely contributions and/or nontax revenues. The extrabudgetary funds in the Republic of Croatia are considered Pension Fund, Health Insurance Fund, Employment Fund, Child Benefit Fund and Public Water Management Fund.

The financial plan of an extrabudgetary fund must comprise projected revenues and grants, as well as projected expenditures and borrowings and the overall financing of operations within the scope of an individual extrabudgetary fund. The financial plan of the extrabudgetary fund is approved by its authorized body and submitted to the budgetary procedure established by the Organic Budget Law.

**The consolidated central government budget** is the result of the consolidation of financial operations between the government budget and extrabudgetary funds budgets. The objective of budget consolidation is to eliminate the same transactions between government authorities units, for the purpose of preventing double transactions on the revenue and expenditure side of the budget.

Two levels of consolidation are essential for the establishment of the scope of Consolidated Central Government, as follows:

- consolidation within extrabudgetary funds, which means the avoidance of transactions between individual funds and,
- consolidation of operations between the central government budget and extrabudgetary funds.

**The local government budget** is considered local unit's budget that is approved by the representative body of local authorities units in accordance with the Organic Budget Law.

The Ministry of Finance derives the consolidated general government budget as well, which is the result of the consolidation of financial operations among all levels of government – central government,

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<sup>1</sup>The Organic Budget Law, Official Gazette 92/1994.

extrabudgetary funds and local government budgets. The importance of the consolidated general government budget stands in the fact that it presents a real size of the public sector, as well as the real level of fiscal burden on the economy. The consolidated general government budget is not a part of formal budgetary process and it does not have to be approved by the Croatian Parliament.

The Budget is approved for a fiscal year and it is valid for the year for which it is approved. The fiscal year in the Republic of Croatia is considered a period of twelve months, starting on January 1 and ending on December 31 for each calendar year.

## **1. Process of Government Budget Preparation and Approval**

The most important participants in the process of government budget preparation and approval are as follows:

### **Croatian Parliament**

The Croatian Parliament is responsible for analyzing the government budget draft within its working bodies such are parliamentary committees. After being discussed in the House of Counties, the House of Representatives adopts the Central Government Budget and approves the extrabudgetary funds budgets and the consolidated central government budget.

### **Government of the Republic of Croatia**

The Government of the Republic of Croatia is responsible for proposing a fiscal policy and defining the strategy of government budget within its general economic, political and social objectives, as well as for establishing government budget allocations to budgetary users in accordance with the set economic, fiscal and budgetary policy objectives for the fiscal year.

### **Government Budget Users**

The authorized spending ministries are main participants in the process of Government Budget development. The referred ministries participate in developing projected expenditures and revenues for the existing programs and policies. Their role is to defend their budget proposals for spending budgetary funds, which are to be used for new proposed plans, as well as to react on proposals, and measures aimed at saving and reducing projected expenditures. The task of each authorized spending ministry, as a budgetary user, is to implement set policies and programs through planning and managing budgetary funds and to compete for limited resources in accordance with set budgetary restraints, in order to implement the approved programs.

### **Ministry of Finance**

The coordination of activities between the Government of the Republic of Croatia, Ministry of Finance and budgetary users is essential in the process of government budget preparation and development. The Ministry of Finance has the key role in coordinating activities aimed at developing Government Budget Draft. In the budgetary process, the Ministry of Finance is responsible for the following:

- establishment of the entire scope of public expenditures and consumption in the forthcoming year;
- proposal of public expenditure reduction in case when expenditure requirements of budgetary users exceed the amount of funds available;
- provision of expert opinion with respect to capital investments;
- proposal of the eventual budget deficit financing;
- compilation of budgetary documentation;
- government budget execution and transactions related to public debt.

#### **1.1. Principle Phases of Government Budget Development**

The Budget preparation for the forthcoming year starts at the beginning of the current fiscal year.

**The first phase** of the government budget preparation starts with the preparation of fiscal policy proposal for the subsequent year, which in practice means the implementation of a three-year fiscal policy draft. The

referred budget draft must contain macroeconomic and fiscal forecasts. The development of macroeconomic forecasts is related to the establishment of three-year general macroeconomic aggregates' projection. The fiscal policy development is related to the establishment and projection of general budgetary aggregates on the basis of which a three-year fiscal strategy is defined. The first phase of government budget development ends in July when the Minister of Finance proposes to the Government a fiscal policy projection for the forthcoming fiscal year. The proposed fiscal policy principles, after being discussed and adopted by the Government, are considered, together with macroeconomic and budgetary aggregates projections, the basis for the implementation of other budgetary process phases.

**The second phase** of the Budget development starts in September when the Minister of Finance provides all budgetary users with a document called the Government Budget Circular, which is aimed at calling upon all users to start planning their part of budgetary expenditure requirements. The Circular informs all budgetary users on the macroeconomic aggregates' projection, as well as on the projected growth of the most significant budgetary aggregates such as total revenues and expenditures, current and capital expenditures, wages, transfers and subsidies. Budgetary users are called to make a detailed draft of budget proposals for spending budgetary funds which is essential for the financing of activities within their scope of activity. Budget proposals for the financing of capital projects must be elaborated in details in forms prepared for such purposes. Capital projects are considered capital expenditures which exceed 200,000.00 kunas and which are implemented over more than one year. Budgetary users must provide the Ministry of Finance with a detailed explanation of budget proposals by the end of September.

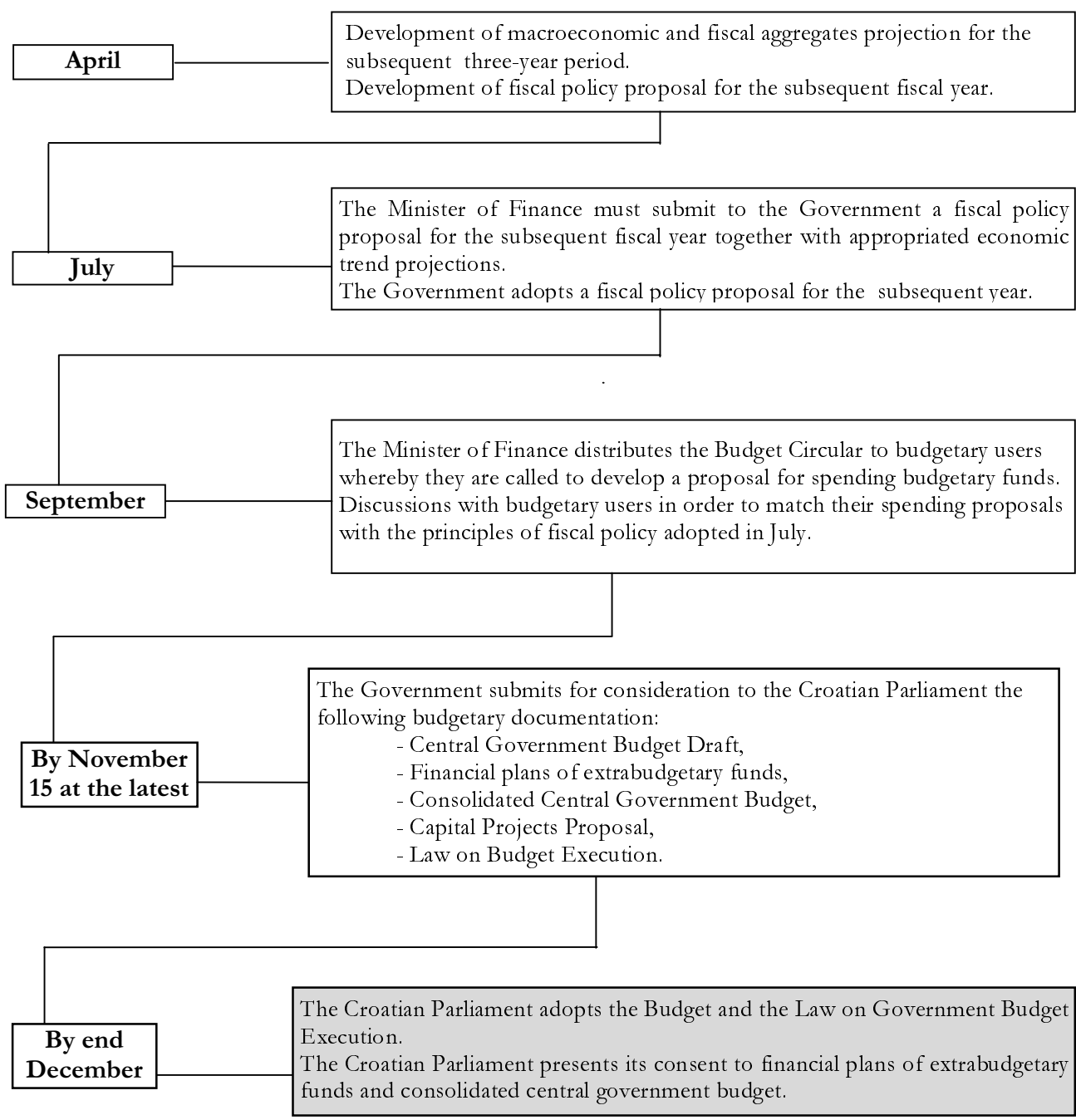
After all budget proposals for spending budgetary funds are collected in the Ministry of Finance, **the third phase** of budgetary process starts, namely the phase of negotiating and reconciling spending ministries' budget proposals. In case the referred spending proposals exceed the overall amount of expenditures and the deficit established by the principles of fiscal policy adopted by the Government of the Republic of Croatia in July, the referred budget proposals must be reconciled. The reconciliation process means, in practice, that the Ministry of Finance, in discussions with budgetary users, limits their budget proposals within the established objectives and principles of fiscal policy.

After having discussions with budgetary users, the Ministry of Finance compiles the Government Budget Draft, which the Minister of Finance must, according to the Organic Budget Law, submit to the Government of the Republic of Croatia by October 10 in the current year. If the Ministry of Finance fails, in discussions with budgetary users, to reduce expenses to the extent established by the Government which adopted the principles of fiscal policy, the Minister of Finance must notify the Prime Minister who must then make the final decision on the matter.

The Government of the Republic of Croatia must submit a balanced Government Budget Draft to the Croatian Parliament by November 15 at the latest. The documentation provided by the Government of the Republic of Croatia to the Croatian Parliament must contain Central Government Budget Draft, Extrabudgetary Funds' Budgets Draft, Consolidated Central Government Budget Draft, Capital Expenditures Draft, which must explain in details the proposed capital projects, and Budget Execution Law Draft.

**The fourth phase** of the budgetary process is a discussion in the Croatian Parliament, which ends with the adoption of the Budget. The budgetary documentation, which the Government must submit to the Croatian Parliament, goes through a detailed discussion in the parliamentary committees and other parliamentary bodies, after which a discussion in the House of Counties and the House of Representatives takes place. In case the Croatian Parliament fails to adopt the Budget for the subsequent fiscal year by the end of the current year, a measure of temporary financing shall be applied in January, on which the Croatian Parliament must make a decision. The referred means of temporary financing shall not last more than three months and the amount of a temporary financing shall be established proportionally to the funds used in the same period of the previous year and shall not exceed one fourth of the revenues realized in the previous year. The phases of the budgetary process are shown in the Table 1.

**Table 1: The Outline of Government Budget Preparation and Approval**



## **2. Process of Budget Preparation and the Approval of Extrabudgetary Funds Budgets**

Extrabudgetary funds develop their budgets simultaneously with the development of central government budget. When developing financial plans of extrabudgetary funds, they must apply a classification system of budget accounting, as well as the procedures and order of government budget development. The Minister of Finance may, if necessary, stipulate in details the procedures and schedules for the preparation of extrabudgetary funds budgets. The authorized body of each extrabudgetary fund shall develop a financial plan of the fund and it must submit it to the Minister of Finance. The Minister of Finance is authorized to propose amendments to the proposed financial plan of the extrabudgetary funds, if he establishes that they are not in accordance with the projected macroeconomic indicators, namely if they are not consistent with the general economic policy of the Government. The financial plans of extrabudgetary funds must be submitted together with the Central Government Budget Proposal for consideration to the Croatian Parliament. On the proposal of the Government, the Croatian Parliament shall adopt financial plans of extrabudgetary funds together with the Government Budget.

## **3. Process of Local Government Budget Preparation and Approval**

The process of preparation, development and approval of local government budgets must be consistent with the procedure of central government budget approval, which is stipulated by the Organic Budget Law. The Budget Circular must also be submitted to local government units in the process of local budget preparation. The main objective of the Circular is to inform budget users on the starting points and set budget restraints and parameters related to their part of the central government budget. In that manner, budget planning becomes decentralized, so that budgetary users may plan and manage budgetary funds.

The Organic Budget Law stipulates a time-horizon for budget proposal projection, development and issuance within local government units and it must be consistent with the time-horizon of other budgetary users. The Department for Financial Affairs of the local government prepares a budget proposal as well as other required documentation.

The executive body of the local authorities' units discusses the budget proposal, after which it is submitted for approval to the representative body of local government. The local authorities' representative body shall thus adopt a local government budget by end December at the latest in the current year for the forthcoming year. In case the representative body of local government fails to adopt local government budget before the beginning of the fiscal year, an interim financing shall be applied. The interim financing shall be performed in accordance with the provisions of the Organic Budget Law and it may not last longer than three months.

## **4. Budget Execution**

After the Central Government Budget is approved by the Croatian Parliament, the Ministry of Finance is required to inform all budgetary users on the approved funds as well as their monthly budget appropriations.

The funds appropriated in the Budget may not be reallocated between budgetary users. The reallocation of funds appropriated to a certain budgetary user may exceptionally be executed if approved by the Government of the Republic of Croatia. The amount of funds, which may be reallocated in such a manner, may not exceed 5% of the overall amount of item.

The Minister of Finance is required to submit for consideration to the Government a report on the budget execution for the previous fiscal year by May 15 at the latest. The Government must submit the report on the budget execution for the previous fiscal year to the Croatian Parliament by June 15 in the current year. The Government of the Republic of Croatia must also report to the Croatian Parliament on the execution of government budget for the first semi-annual period in the current fiscal year by August 5.



## II CENTRAL GOVERNMENT BUDGET REVENUE





The success of the stabilization program from October 1993 and the macroeconomic stability in the course of the previous years have been achieved to the great extent by a fiscal discipline. At the same time, a stable economic background has helped in implementing fiscal reforms, reducing tax burden and enhancing a fiscal discipline.

The period from 1994 to 1997 was dominated with fundamental and technical changes performed in the tax system with the objective of its modernization and the establishment of a system compatible with market economy, as well as for the purpose of reducing tax burden and increasing the efficiency of tax administration and enhancing fiscal discipline. In the course of 1994, the Financial Police and Tax Supervision Division were established as institutions in charge of performing control, enhancing fiscal discipline and increasing the efficiency of tax collection.



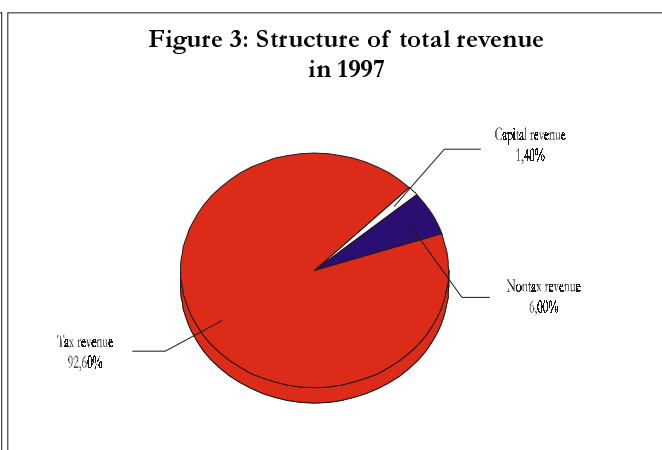
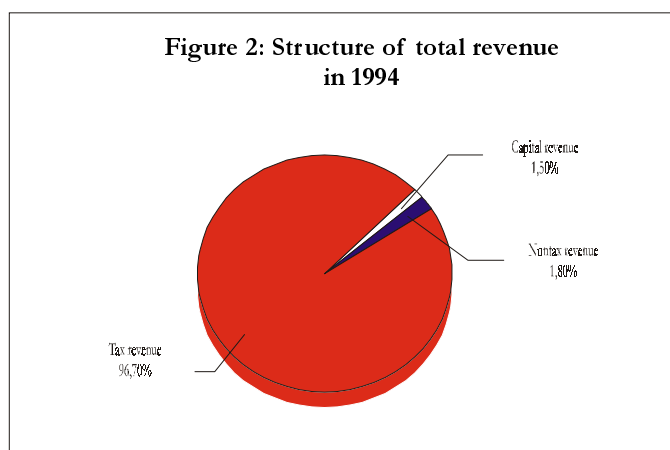
The effects of reforms performed in the field of public finances and the achievement of a macroeconomic stability are clearly shown in Figure 1. In the course of the stabilization program preparation in 1993, the basis for a sustainable fiscal policy and the reduction of fiscal deficit, which can be seen in the growth of tax revenues' share in GDP, was ensured. However, in the period subsequent to the beginning of the stabilization program and reducing of hyperinflation, even with the measures for reducing the tax burden, a tax revenue share in GDP has grown. Furthermore, the increase of tax revenues has been considerably higher than the growth rate of economy or any other tax base. The trend of real tax revenues and the inflation. Apart from a disinflationary dynamics and the introduction of excise taxes in mid 1994, a significant growth of tax revenues in 1994 and 1995 was achieved due to the improvement of tax discipline enhanced by Financial Police and Tax Administration. Tax burden reduction, enhanced by a further reduction of retail sales tax rates, as well as personal income tax rates, can be clearly seen in the reduction of a tax revenue share in GDP after 1996.

A trend of basic revenue aggregates in the period from 1994 to 1997 is shown in Table 1. A detailed revenue statistics can be seen in the appendix. The structure of the total revenues has shown that, with the growth of economy, the relevance of nontax revenues has increased, so that their share in the total budget revenues has increased from 2% in 1994 to 6% in 1997. This can be clearly seen in Figure 2 and Figure 3. In the forthcoming years, a further increase of non-tax revenues may be expected, primarily due to the fact that the

government shall realize a greater income from its capital shares in public enterprises with the significant growth of economy.

**Table 1: Outturn of Total Budget Revenues**

(000 HRK)	1994	1995	1996	1997
<b>Total revenues and grants</b>	23,142,632	27,980,779	31,367,481	33,846,123
<b>Tax revenue</b>	22,377,482	26,505,353	28,530,426	31,338,173
<b>Nontax revenue</b>	411,400	781,766	1,713,917	2,046,813
<b>Capital revenue</b>	353,750	593,660	1,123,138	461,137
<b>Grants</b>	0	100,000	0	0



In the following chapters, we will describe in details the characteristics of the tax system and other central government budget revenues.

## 1. TAX REVENUE

The Tax Administration Department is an integral part of the Ministry of Finance of the Republic of Croatia and it is responsible for tax collection, as well as for the improvement and development of the tax system. The Tax Administration was established in 1994. In the period prior to 1994, the supervision of the tax regulation application on the part of legal entities was performed by former Institute of Payments, so called SDK (Social Accounting Service) and on part of physical persons was performed by municipality administration for social revenues. Based on the Law on Tax Administration, a uniform and independent administrative organization within the Ministry of Finance was established for the purpose of taking over all tasks of recording, monitoring and supervising tax payers, which was prior to its establishment performed by the above-mentioned institutions.

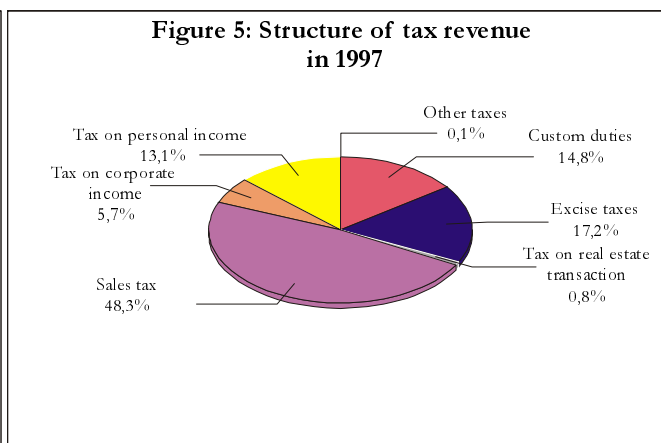
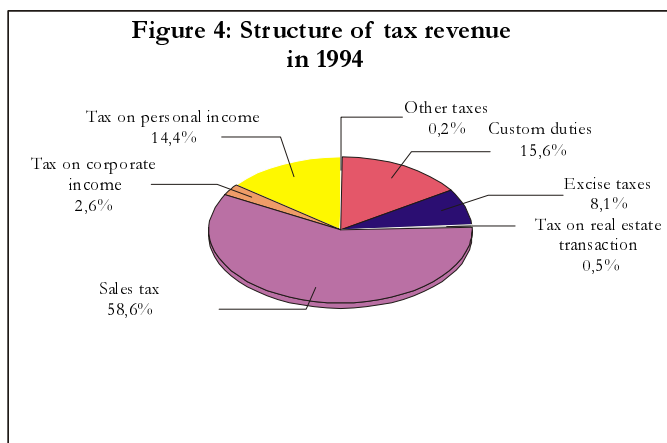
The newly-established Tax Administration Department is responsible for the performance of tasks within its scope of activity in the Central Office in Zagreb and regional offices, which were established in counties, and local offices which were set up in towns and municipalities within each county. The organization of the Central Office, regional offices and their local offices is regulated by the Decree issued by the Government of the Republic of Croatia and the Regulations on the Internal Organization of the Ministry of Finance. Tax Administration is responsible for the performance of following tasks: the organization and monitoring of tax revenue collection, compiling and processing of data by means of a uniform information system, determination of legal entities and individual tax liabilities and verification of submitted tax returns, supervision of tax payers for the purpose of establishing the completeness and accuracy of calculated and executed tax liabilities, revealing possible tax regulation violations, instituting legal proceedings, monitoring and analyzing the application of tax regulation and the development and improvement of tax system. A significant support in the establishment of tax system and the organization of Tax Administration was provided by the German consultant agency called Deutsche gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH, which provided its consultant services also in 1998 in order to carry out the tax reform as a whole, by the implementation of Value Added Tax (VAT) and the approval of General Tax Law.

Tax Administration has, in cooperation with a Higher Tax School in Ludwigsburg, organized a Tax Study within the Law Faculty in Zagreb, in order to achieve an additional high-grade education for its future officials. Currently, the Tax Administration has 3500 people employed and it is constantly improving and developing human potentials. It should be also noted that the Financial Police provides support to the Tax Administration in performing tax supervision.

Trends of the tax revenues are shown in Table 2, while changes in their structure are shown in Figure 4 and Figure 5.

**Table 2: Tax Revenue Trends in the Period from 1994 - 1997**

(000 HRK)	Outturn 1994	Outturn 1995	Outturn 1996	Outturn 1997
<b>TAX REVENUE</b>	<b>22,377,482</b>	<b>26,505,353</b>	<b>28,530,426</b>	<b>31,338,173</b>
Tax on personal income	3,211,607	3,497,588	4,216,938	4,102,217
Tax on corporate income	591,585	1,009,073	1,271,183	1,785,259
Tax on real estate transaction	117,672	141,756	171,776	242,702
Sales tax	13,107,159	12,802,257	13,504,368	15,133,172
Excise taxes	1,813,581	4,960,440	5,390,785	5,404,837
Custom duties	3,486,771	3,922,481	3,942,438	4,639,995
Other taxes	49,107	171,758	32,938	29,991



### 1.1. PERSONAL INCOME TAX

Although a systematical reform of the entire tax system has been initiated in 1994, Croatia has started immediately after its independence with a number of changes in the fiscal system. However, changes, which were taken before 1994, resulted in a nontransparent system with extremely high effective tax rates. Namely, in July 1990, a cedular system of direct taxation on personal income was introduced, together with the tax on the total income of citizens, which was paid at the end of the year if the annual net income exceeded three times the amount of the average annual salary. In September 1990, so called “war tax” was introduced on net wages and other personal incomes, and all these impositions together with a special municipality tax resulted in a marginal tax rate higher than 90% for the highest incomes. The consequence of such a system was the emergence of a high tax evasion, particularly with persons earning greater income. Tax evasion and nonreporting of tax liabilities were particularly induced by the existence of a number of tax exemptions and tax relief. It is understandable why a high grade tax system reform was impossible to implement before 1994, when we all know that at the time Croatia was in war and the economic conditions were dominated by hyperinflation. Such taxation system was inappropriate for a modern market economy and thus, in 1994, it was replaced by a new personal income tax based on consumption. The basic characteristics of a new taxation system are economic neutrality, fairness and administrative simplicity. Unlike the old system of personal income taxation, where each type of income was taxed differently, a newly introduced personal income tax is equally imposed on any type of personal income.

A personal income tax is applied to annual personal income for which the taxable base is considered the total income earned during one year. The total income is reduced by eventual losses carried over from previous period and taxpayer's personal deductions as well as the deductions of supported members of the immediate family. According to the Law, a personal income is divided between:

- Employment income,
- Self-employment income, and
- Property and proprietary rights income.

**Employment income** is considered all receipts which are paid in cash, in kind or in some other form to the employee by the employer, in relation to current, previous or future work. Employment income are also considered salaries, retirement pensions, allowances, benefits and bonuses which exceed the amounts stipulated by the Minister of Finance, and other receipts in kind and services provided by the employer to the employee. **Self-employment income** is considered income earned from small business, professional work, farming and forestry and income earned from other activities performed independently on a continuous or temporary basis for the purpose of earning income. **The income earned from property and proprietary rights** includes income realized by a natural person from renting or leasing real estate or movable property, and income earned from temporary granting copyright and other proprietary rights and disposing of real estate.

**Receipts which are not considered as income** are the following: interest earned on savings in kunas or foreign exchange, interests from securities, dividends, profit shares, capital gains, various benefits and similar. Tax exemptions related to the above-mentioned receipts have been introduced for the purpose of preventing double taxation and they are in consistent with the consumption based taxation.

A personal income tax scale comprises two tax rates, which are applied within two tax groups. Immediately after the introduction of personal income tax, a rate of 25% was applied to the taxable base up to the level of three times the basic personal allowance, and a rate of 35% was applied on the rest of the taxable base. In January 1997, the tax rate applicable to the first part of the taxable base was reduced to 20%. So, the amount of the taxable base depends on the basic personal allowance, which corresponds to a minimum personal consumption essential to a taxpayer. The possibility of having various amounts of a basic personal allowance, depending on the number of children and other dependent members of a tax payer's immediate family, ensures the principle of fairness.

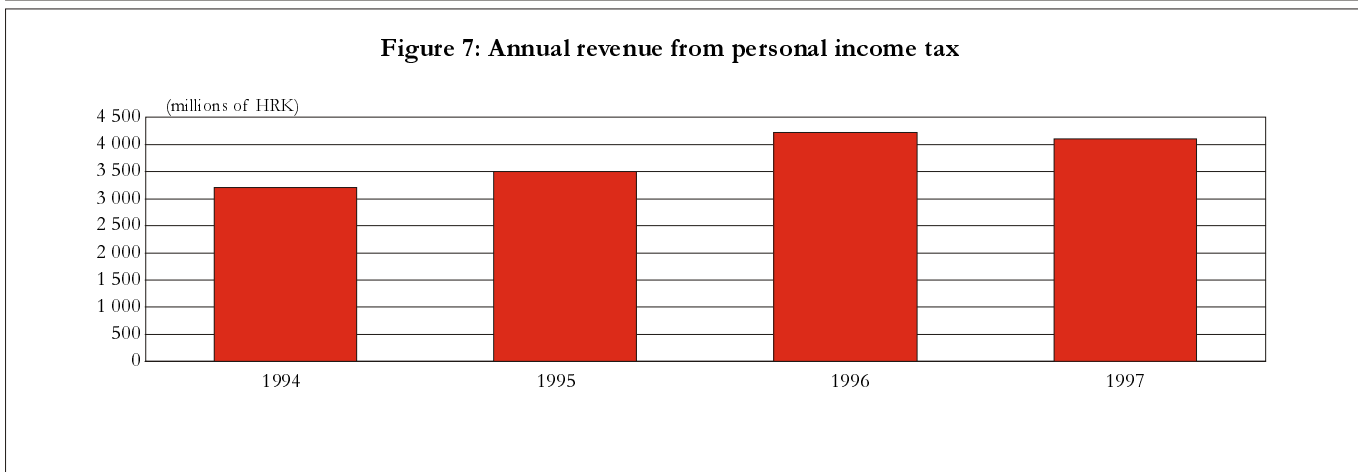
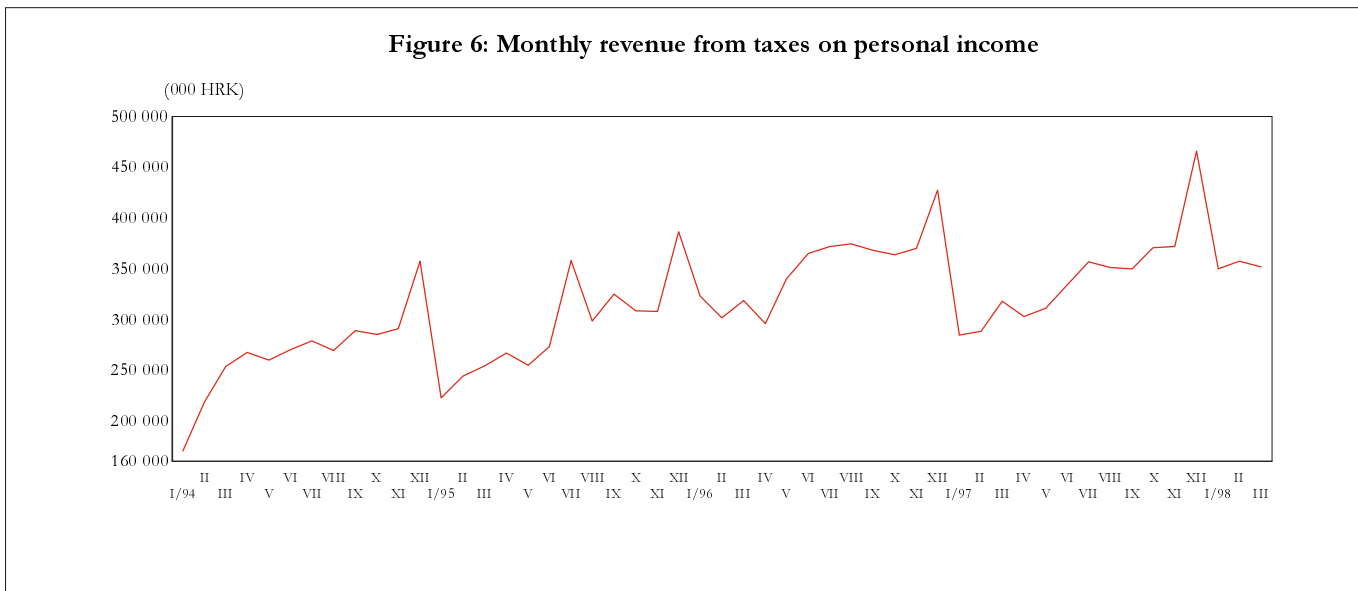
In January 1994, the basic personal allowance amounted to 332 kunas, in February of the same year it was increased to 400 kunas, and in July to 500 kunas. At the beginning of 1995, the basic personal allowance amounted to 700 kunas and it stayed as such by the end of 1996. Since the beginning of 1997, it has amounted to 800 kunas. The amount of a personal allowance depends on the number of children and other dependent members of the tax payer's immediate family, so that a tax payer's personal allowance, having one child, is multiplied by 1,3 and it amounts to 1,040 kunas, while a taxpayer's personal allowance, having two children, is increased by 1,4 and it currently amounts to 1,456 kunas. The personal allowance for a retired person amounts to 2,000 kunas. Accordingly, a personal income, which is below the personal allowance, is nontaxable. The first part of the taxable income has the taxable base up to the level of three times the basic personal allowance, which currently amounts to 2,400 kunas on a monthly level (3 x 800 kunas), namely 28,000 kunas on the annual level (12 x 2,400 kunas). Therefore, the lower personal income tax rate of 20% is applied to the taxable base, which is below 2,400 HRK per month. The higher income tax rate is applied on the taxable base, which exceeds three times the basic personal allowance per month, namely on the annual level it is applied on the taxable base, which exceeds 28,000 kunas. Apart from the personal income tax, every town having more than 40,000 inhabitants has a right to impose so called "surtax", for which the taxable base is personal income tax liability, whereby the applicable tax rate may not exceed 28%.

Apart from the above-mentioned differences in personal income tax allowances, the Croatian system of personal income taxation has no other tax exemptions. However, for the purpose of stimulating the return of displaced persons to the regions devastated by the war, the Law on the Regions of a Special Government Interest was passed in mid 1996, stipulating additional tax relief for tax payers originally coming from the above-mentioned regions. The referred regions are classified in two groups. In the first group, a basic

personal income tax allowance is established to 3,500 kunas and in the second to 2,800 kunas, under the condition that a taxpayer is a resident of the referred region. During 1996, the Law on the Rights of Croatian War for Independence Veterans and their Family Members has been approved in which it is stated that all Croatian military invalids who participated in the war for Croatian independence are exempted from paying any kind of taxes, surtaxes and contributions on the salary, as well as on the wage reimbursement. In the same year, the Law on the Rights of Independent Artists and Cultural Activities Encouragement and in 1997 the Law on Sports were passed, which stipulate certain privileges related to the taxation of income and grants to culture and sport.

### 1.1.1. Trend Indicators of Personal Income Tax Revenues

A monthly trend of revenues realized from personal income tax is shown in Figure 6. A continuous growth of revenues derived from this type of tax is in correlation with the trend of gross wages, but it also points to a continuous improvement of the efficiency in collecting this type of tax. The fact that in 1997, when the tax rate was reduced and a nontaxable part of the salary was increased, 2.7% (or 114 million kunas) less tax was collected than in 1996, favors the above-mentioned opinion. The trend of the overall annual amount of personal income tax collected is shown in Figure 7.



Apart from revenue trends, it is interesting to consider a trend of annual tax returns shown in the Table 3. The number of tax returns registered in a certain time period is increased by double, which is the result of more efficient Tax Administration performance, due to a much better information background and better education of tax officials, as well as due to a much better knowledge of tax regulations on the part of tax payers, according to which they have a right to a personal income tax refund. In 1996, the number of

taxpayers who filed their tax returns for the purpose of obtaining tax refunds has considerably increased, which is partly the consequence of the enforcement of the Law on the Regions of a Special Government Interest. Namely, in 1996, the amount of 341,971,485 kunas was reimbursed to 306,476 taxpayers (56% of the total amount of tax returns filed).

**Table 3: Total Number of Tax Returns**

DESCRIPTION	1994	1995	1996
Number of tax returns processed	264,436	434,629	545,151
Additional tax payments according to annual tax returns (in HRK)	438,922,069	428,788,154	450,003,823
Tax refunds according to annual tax returns (in HRK)	83,031,941	213,214,230	341,971,485

Among all tax returns, a special interest is applied to tax returns filed by small businesses (Table 4). It is interesting that small entrepreneurs reported in 1996 the overall income of 2,568,040,921.08 kunas, while tax officials after the tax returns processing discovered that their overall income amounted to 2,904,019,355.00 kunas.

**Table 4: Tax Returns Filed by Small Businesses**

DESCRIPTION	1994	1995	1996
Number of tax returns filed by small businesses	87,100	97,744	95,705
Total income of small businesses (in HRK)	1,507,610,699	2,668,726,880	2,904,019,355
Average income of small businesses (in HRK)	17,308.96	27,303.23	30,343.44

Apart from the average income, the information on the highest personal income earned from small business is also interesting. The activities in which the highest incomes from small business and professional work in the Republic of Croatia were earned are shown in the Table 5.

**Table 5: Small Businesses with the Highest Income Realized in 1996**

No.	The highest income in HRK	Activity
1	3,836,063.30	house-painter
2	2,383,707.37	excavations in construction industries
3	2,026,126.40	trade
4	1,882,948.15	trade
5	1,600,362.41	excavations in construction industries
6	1,499,980.70	joinery
7	1,481,779.60	smiting and pressing of metal
8	1,453,281.93	building construction
9	1,450,768.25	metal-plastic fancy articles
10	1,346,952.85	renting of private real estates

The Tax Administration is constantly working on the improvement of applications related to tax returns processing, which should decrease the number of tax payers who have the intention of avoiding some income earned. At the same time, Tax Administration has been working on improving and fastening the processing and issuance of decrees on the tax paid and tax refunds realized. So, for the year 1994, the first decrees were issued to taxpayers in August 1995 and the last were issued in the first half of 1996. Personal income tax returns for 1995 were processed much quicker. The greatest number of tax returns registered for 1996 was processed in June 1997 (around 75% of tax returns), while almost all decrees on the tax paid (around 98% of tax returns) were issued in October 1997.

## 1.2. CORPORATE INCOME TAX

The corporate income tax (or profit tax) reform was carried out simultaneously with the introduction of the personal income tax reform. The old system of corporate income taxation, in which resident entrepreneurs were paying corporate income tax at the rate of 35%, and non-resident at the rate of 17.5%, was replaced in 1994 by a single rate profit tax system. Corporate income or profit tax was applied at the rate of 25%, which was justified at the time by the necessity of attracting foreign investments. However, apart from the harmonization of tax basis, the personal income tax and corporate income tax must be adjusted with respect to tax rates, namely corporate income tax rate must be equal to the highest personal income tax rate. This discrepancy was settled in the beginning of 1997, when corporate income tax rate was increased to 35%. One of the distortions caused by the profit tax rate of 25% was a voluntary registration of personal income taxpayers in the register of profit taxpayers. In that manner, a number of personal income taxpayers intended to decrease their overall tax liability by the application of a lower tax rate, and thus avoiding even municipality surtaxes.

One of the most significant characteristic of the new tax system is the emergence of a so-called “protective interest rate” by which the neutrality of the new tax system is ensured. The “protective interest rate” is considered interest on the equity and it is calculated by the application of the interest factor on the value of the equity at the beginning of the year for which the calculation is performed. The value of the profit tax base is deducted by the amount of the determined protective interest. In reality, the “protective interest” stands for the opportunity cost of the equity and ensures the economic neutrality of the profit tax. The fact that a taxpayer may deduct from his tax liability the amount of the “protective interest” implies that the existence of profit tax does not have an impact on his decision to invest in financial or real property. By the introduction of the “protective interest” in the profit tax system, the harmonization of profit tax base with the personal income tax base is ensured.

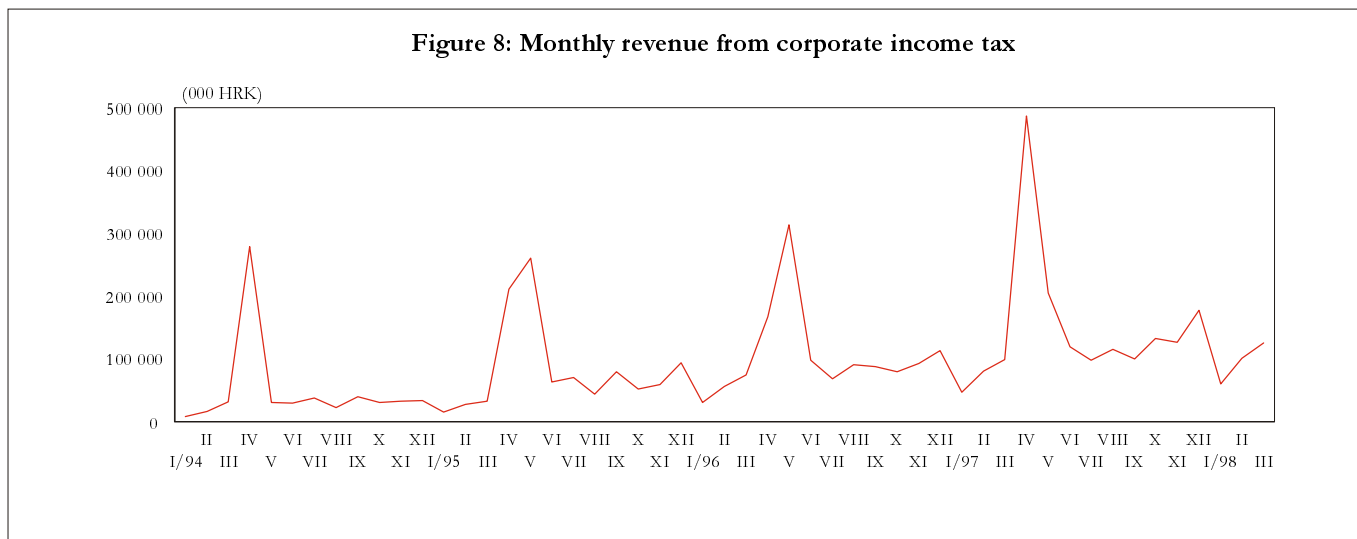
The scope of interest factor must depend on the standard interest rate for a certain type of government bonds or similar. However, since the capital market has not developed enough in Croatia, and at the time when the Law was passed the conditions were even worse, it was regulated by the Law that the protective interest factor be calculated on the basis of the presumed standard interest rate and the inflation rate which was measured by the manufacturers’ prices. From the period when the Corporate income Tax Law was first applied (January 1, 1994) to January 1, 1997, the rate of 3% was used for the calculation of the “protective interest” increased by the inflation measured by manufacturers’ prices. The standard interest rate has been increased to 5% in the beginning of 1997.

A profit taxpayer is defined as an entrepreneur who is a physical person or a legal entity independently and permanently engaged in a business activity for the purpose of gaining profit, liable to keep business books and submit financial reports in accordance with the accounting and other relevant legislation. Resident branch offices of non-resident entrepreneurs are liable to pay profit tax, too, as well as entrepreneurs who are engaged in managing capital shares. An entrepreneur - a physical person liable to pay profit tax is considered a person whose total revenue in the preceding calendar year was higher than 2,000,000 kunas or whose personal income was in excess of 300,000 kunas or who possesses durable property whose value exceeds 2,000,000 or if he employed in the preceding calendar year more than 30 employees on average.

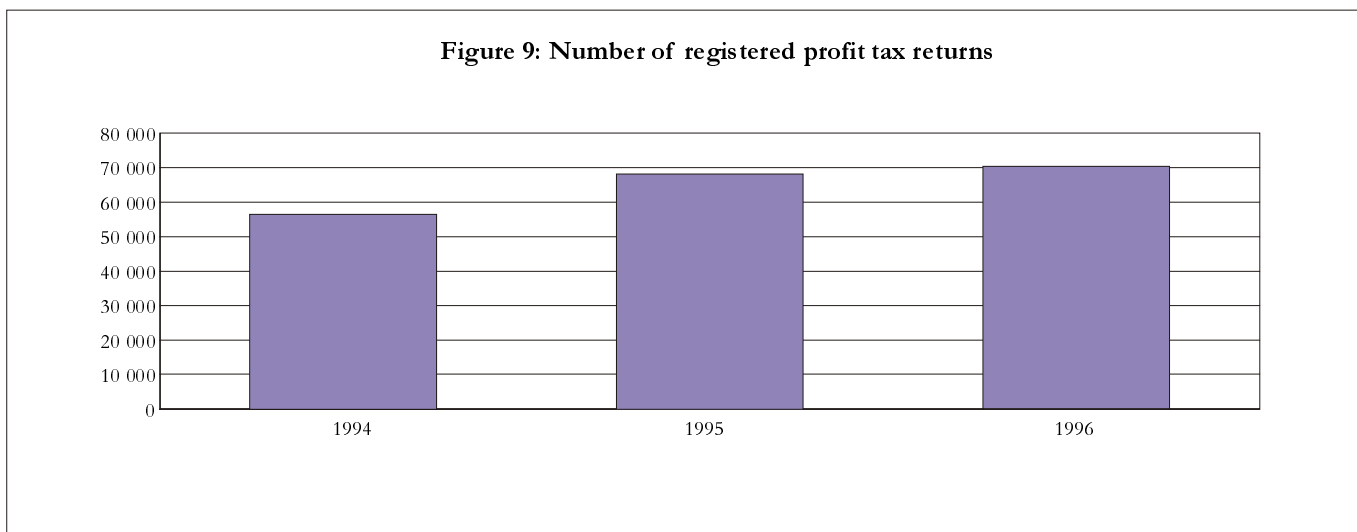
Profit tax payments into the government budget are composed of monthly prepayments, which are determined by the Tax Administration on the basis of the tax return filed for the preceding year. The final tax liability is determined at the end of the business year on the basis of the annual financial statements of the entrepreneur. The time limit for the submission of a tax return is April 30, and thus final profit tax payments are performed from March to May in the current year for the tax liability incurred in the previous business year.

### 1.2.1. Trends of Profit Tax Revenues

The government budget is currently collecting between 1.2% and 1.5% of GDP from profit tax. A trend of monthly revenue from profit tax is shown in Figure 8.



The figure clearly shows a growing trend in monthly payments, as well as the greatest seasonal inflow of profit tax revenues present in April and May, depending on the quickness of processing tax returns and enterprises' financial statements. High growth rates of profit tax in the period from 1994 to 1997 are the confirmation of a strong growth of Croatian economy.



As it is shown in Figure 9, the total number of registered profit tax returns has grown for 24.6%, that is from 56,517 tax returns registered in 1994 to 70,421 in 1996. Apart from greater number of taxpayers, the amount of prepayments for the future period implies a strong economic growth trend. Namely, the increase of prepayments in 1995 in comparison to 1994 amounted to 38.8% nominally, while in 1996 the referred increase amounted to 42.9% nominally in relation to 1995.

### 1.2.2. Awards Granted to the Biggest Taxpayers

In 1997, the Ministry of Finance has for the first time granted awards to the biggest taxpayers. One of the preconditions for obtaining such an award is a regular settlement of tax liabilities towards the budget. On the basis of such a criteria and the amount of the profit and income realized, the enterprises and entrepreneurs stated in Table 6 were granted awards for 1996.

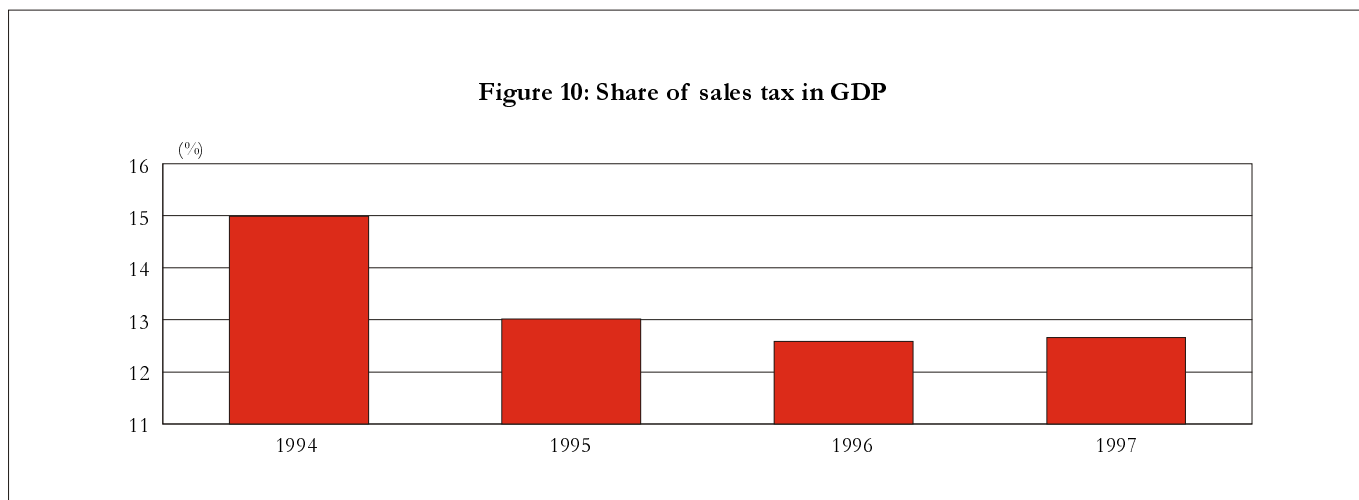


**Table 6: Outline of the Greatest Taxpayers in 1996**

Tax payers of corporate income tax	Tax payers of personal income tax
PLIVA D.D., ZAGREB	MILE ČALIŠ, ĐAKOVO
TVORNICA DUHANA ROVINJ, ROVINJ	DAVOR BEGIĆ, ZAGREB
ZAGREBAČKA BANKA D.D., ZAGREB	MILAN VASIĆ, PULA
ERICSON NIKOLA TESLA, ZAGREB	ZVONKO GELO, KUTINA
FRANCK D.D., ZAGREB	MILAN VLAH, MATULJI
LURA GROUP D.O.O., ZAGREB	IVAN VUKELIĆ, BJELOVAR
DUKAT MLJEKARA D.D.	JERE IVIĆ, DRNIŠ
TVORNICA DUHANA ZAGREB	FRANJO MARTINEZ, VARAŽDIN
DALMATINSKA BANKA D.D., ZADAR	FRANJO LADIĆ, ČAKOVEC
BELUPO D.O.O., KOPRIVNICA	SLAVKO SERTIĆ, LIPIK,

### 1.3. SALES TAX

A sales tax was the most abundant revenue of the government budget by 1998. A share of sales tax in the total budget revenues amounted from 58.6% in 1994 to 45.6% in the last year of its application. The reduction of a share of sales tax in the total revenues was enabled by the previously described reforms of direct taxation and by the introduction of excise taxes. At the same time, better efficiency of Tax Administration and the growth of economy, as it is clearly shown in Figure 10, have helped in maintaining a constant share of sales tax revenues in GDP, despite the multiple decreases of sales tax rate. The trend of outlined sales tax revenues reflects the number of changes in sales tax characteristics, as well as in the number and amount of tax rates.



In 1991, the sales tax was divided between eight tariff classes, and the rates were between 1% to 90%. During 1993, the number of tariff classes was reduced to 7 and the general rate was decreased from 50% to 40%. Since July 1, 1994, the number of tariff classes was reduced to 5, and the tax rates were between 2.5 to 20% for all products except one type of gas which was taxed at the rate of 60%. The standard tax rate was 20%. In the end of 1994, the sales taxation of the greatest part of intermediary and capital goods was completely eliminated. In the course of 1995, tariff classes were further reduced to 4. The last change in a standard sales tax rate was enforced in March 1996, when the standard tax rate was reduced to 15%, and the sales tax tariff was divided in the manner shown in Table 7. During the overall period, the scope of tax exemptions in retail trade has been limited.

**Table 7: Scope of Sales Tax on Products in 1997**

Tax rate	Products subject to sales tax rate
Tax rate of 20%	Oil derivatives, alcohol, beverages and tobacco products
Tax rate of 10%	Building materials
Tax rate of 5%	Food, medicaments
Tax exemptions	Bread, oil, milk and baby food made of milk
<b>Standard rate of 15 %</b>	<b>All other products</b>

The referred changes in the sales taxation of goods indicate that the sales tax has been slowly changing from a classical sales tax applicable in all production and distribution phases to the sales tax applicable to the greatest extent in the retail trade. In this manner, the economic efficiency and transparency of sales tax has been strengthened. At the same time, by reducing tax rates, motives for tax evasion have been reduced, which has, together with the improving of Tax Administration efficiency, resulted in a continuous growth of revenues derived from sales tax.

Simultaneously with the changes introduced in the sales tax on goods, the way of service taxation has also been changed. During 1991, two sales tax rates were applied (a basic rate of 3% and a rate of 10% on lottery). In 1992, a number of different rates for certain types of services were applied with the basic rate of 5%, namely 10% from October 1992. Services were taxed in the above-mentioned way by July 1, 1994, when a uniform tax rate of 10% was introduced. All services were taxed by sales tax, except those that were exempted from taxation, as stipulated by the Law on Sales Tax on Goods and Services. The Law defined wholesale trade in the same way as retail trade.

Such a definition of the sales tax base on services indicated that, in practice, the sales of products in retail trade was taxed by a tax rate calculated in the way that the rate was multiplied by 10% of the sales tax rate on services. Thus, sales tax rates on goods and services ranged between 15.5% and 32% during whole 1996 and 1997. However, the actual sales tax rates on goods and services were even higher.

Since the sales tax on services in retail trade was calculated on the taxable base in which sales tax on goods was already calculated, the price contained an element of tax on tax. The existence of a tax on tax is called a cumulative or cascading effect, which was one of the most significant deficiencies of the system of goods and services' sales taxation. The cascading effect was additionally strengthened by the provisions of the Law on Sales Tax on Goods which stipulated that sales tax on goods and services be paid on certain business inputs (energy, oil derivatives, office facilities, as well as on the greatest part of services), regardless of the tax status of the customer and the purpose of the inputs bought. Due to the stated reasons, the effective sales tax rates were even greater than those which were derived directly from the Law on Sales Tax on Goods and Services Tariff. The Ministry of Finance has estimated, together with the International Monetary Fund, the average cascading effect to be 4.6%.

Although the modifications in legal provisions concerning the sales taxation have increased the economic efficiency and the neutrality of sales tax, as well as the administrative simplicity, the sales tax caused considerable distortions in the market mechanism operation, provoked changes in relative prices and it was a complex and very often ambiguous system. At the same time, the complexity of the system, a number of tax exemptions and the individual solutions contributed to a tax evasion. Due to the referred reasons, and for the purpose of implementing a complete tax system reform, sales tax on goods and services was replaced by value added tax on January 1, 1998.

#### **1.4. VALUE ADDED TAX**

The preparations for the introduction of value added tax were long and prudent. Namely, the Law on Value Added Tax was passed in July 1995, but its implementation was postponed to 1998. The Law on Value Added Tax has marked the end of tax reforms in the Republic of Croatia, which is an essential presumption for better and quicker integration of Croatia in economic trends on the European and global market. Value added tax prevails in the European Union countries, since the First Directive stipulates that all EU member countries must incorporate value-added tax in their tax systems.

A value added tax is applied in the Republic of Croatia at the single rate of 22% on deliveries of all kinds of goods and all services with a very narrow scope of exemptions. The value added tax is not applied to banking and insurance services, education services and services in the field of culture, as well as on services provided by medical doctors and dentists. A very narrow scope of exemptions ensures a broad taxable base, while the application of a uniform tax rate ensures the economic neutrality.

The value added tax is considered a multiphase sales tax, which means that it is calculated and paid in all phases of the production and distribution cycle. Croatian value added tax is based on the consumption, where the tax base is considered the overall personal consumption. Tax credit method has been chosen as a method of calculating value added tax. A tax credit method ensures that the actual tax burden bears the final consumer. The consumption based value added tax and a tax credit method of its calculation are considered the most common forms of VAT application.

The introduction of VAT has aroused in Croatia, as well as in other countries which have introduced VAT earlier, a great public interest. A possible inflationary effect of VAT is one of the most common questions posed. However, price trends after the implementation of VAT have been completely within the expectations of the Ministry of Finance. After a one-shot increase in prices for 2.4% in January, price trends have stabilized in the following months and returned to the usual levels. The one-shot price increase in January was expected because it was known in advance that the implementation of VAT would increase the burden in food taxation for about 2%. On the contrary, the manufacturers' prices have been in January and February reduced by 0.4% and 0.1%, respectively, which is the reflection of a partial reduction of the cascading effect of the old system. In the end of March 1998, it has become perfectly clear that the inflation in 1998 would be below 5%. Such a result has been expected due to the fact that VAT was designed to bring tax relief by reducing the average tax rate from 26.5% to 22%.

## 1.5. SPECIFIC TAXES OR EXCISES

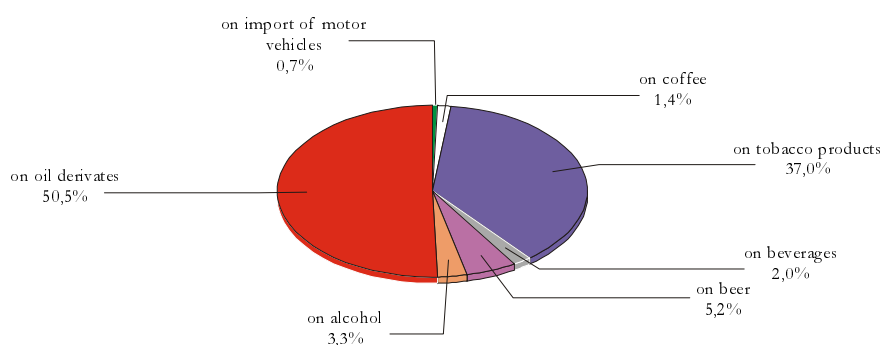
Based on the tax systems applied in developed European countries, Croatia has implemented specific taxes or excises in 1993, when excise tax on coffee was introduced. The introduction of excises on certain tax attractive products has helped that the Sales Tax on Goods Tariff be significantly amended, in order to alleviate the transition from the sales tax system to VAT system. Excises are paid in the absolute amount according to the measure unit (with automobiles according to the engine power), and in July 1994 excises were introduced on products which were taxed at high sales tax rates: oil derivatives, personal cars, tobacco and its products, alcohol and alcohol drinks, beer and beverages. In December 1997, excises on planes and vessels were introduced.

**Table 8: Revenues from Excises**

(000 HRK)	1994	1995	1996	1997
<b>Total excise taxes</b>	1,813,581	4,960,440	5,390,785	5,404,837
a) on oil derivatives	670,441	2,559,021	2,691,840	2,728,346
b) on alcohol	75,140	183,458	197,623	176,681
c) on beer	128,983	266,031	262,080	279,086
d) on beverages	51,208	108,498	108,737	110,255
e) on tobacco products	880,466	1,759,266	2,039,532	1,999,988
f) on coffee	0	67,642	68,704	74,959
g) on import of motor vehicles	7,343	16,524	22,269	35,522

Trend of excise revenue is shown in Table 8. The excises make a significant item in the total central government budget revenues. A share of excises in the total revenues has been between 8.10% in 1994 to 17.25% in 1997. In 1993 and 1994, excises on coffee were processed in accounting as a part of sales tax on goods and services and they amounted to 41,234 kunas in 1994. As it is shown in Figure 11, the most significant excises with respect to revenues collection are excises on tobacco and oil derivatives, which make together more than 87% of revenues collected from excises.

**Figure 11: Structure of excises in 1997**

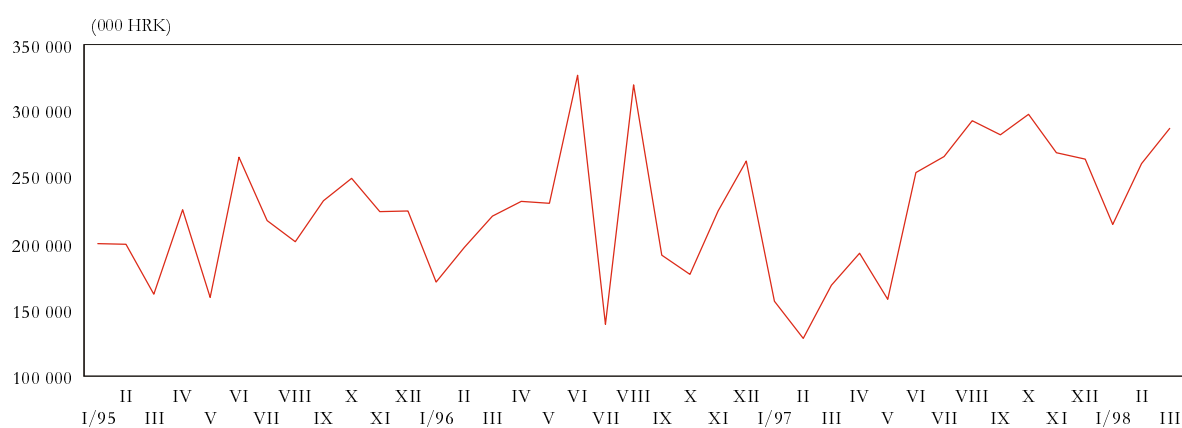


The simplicity of excise tax collection is one of the important characteristics, which points to the justifiability of its implementation. Namely, unlike sales tax, a relatively small number of taxpayers pay considerable amounts of tax into the government budget. For the illustration purposes, the excise on oil derivatives is paid by a domestic producer “INA” and fifteen importers. The second most important revenue is excise tax on tobacco products paid by two domestic factories, and a small part paid by certain importers. The reduced number of taxpayers and the simplicity of excise tax collection enable an efficient supervision, which is continuously performed with the greatest taxpayers. The excise tax becomes an integral part of the product’s price and it is a base for value-added tax calculation. In other words, after VAT introduction, the supervision of excises’ collection would also be more efficient, so that 18% more revenues derived from that type of tax are expected in 1998 in comparison to 1997.

### 1.5.1. Excise Tax on Oil Derivatives

An excise on oil derivatives is a tax, which makes the greatest part of revenues derived from excises, and in 1997 it amounted to 51% of the total revenues collected from excises. Accordingly, the collected amount of excise tax on oil derivatives is even greater than the overall amount of all other collected excises. Monthly revenues from excises on oil derivatives are shown in Figure 12.

**Figure 12: Monthly revenue from excises on oil derivatives**

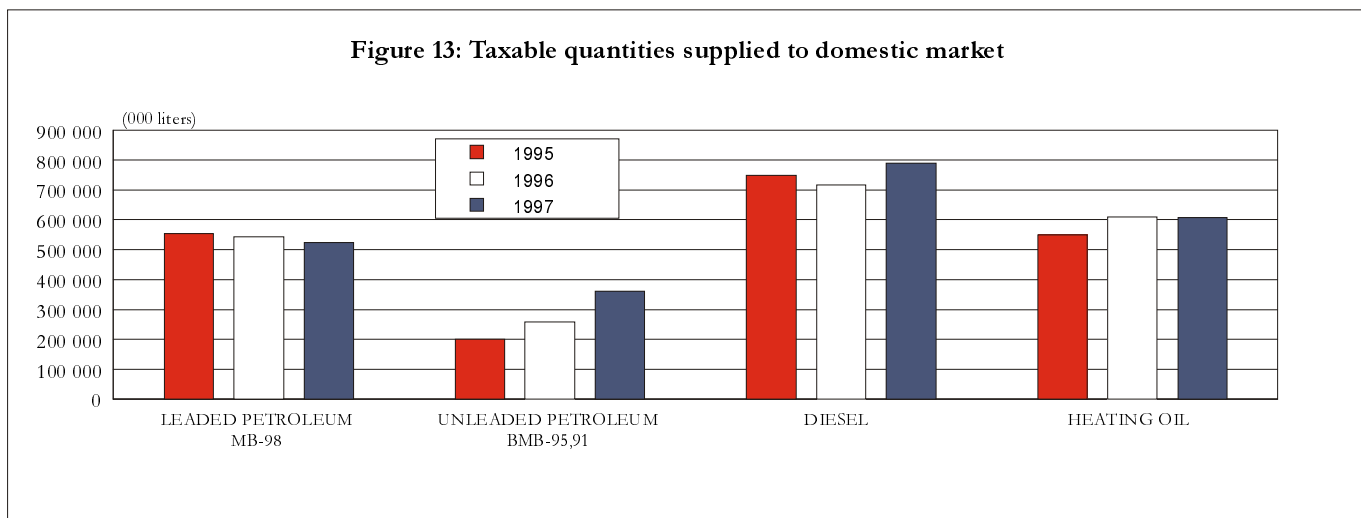


The excise tax on oil derivatives is paid per liter at the temperature of +15 C, namely per kilo of the products manufactured in the Republic of Croatia and imported in the customs territory of the Republic of Croatia. The excise tax is paid on:

- Leaded petroleum MB-98 1.90 kn,
- Unleaded petroleum (BMB) 1.60 kn,
- Diesel 1.40 kn,
- Heating - oil 0.30 kn per liter,
- Paraffin oil 1.40 kn per kilo (from June 4, 1997) and
- Gas oil 0.10 kn per kilo (from January 1, 1998).

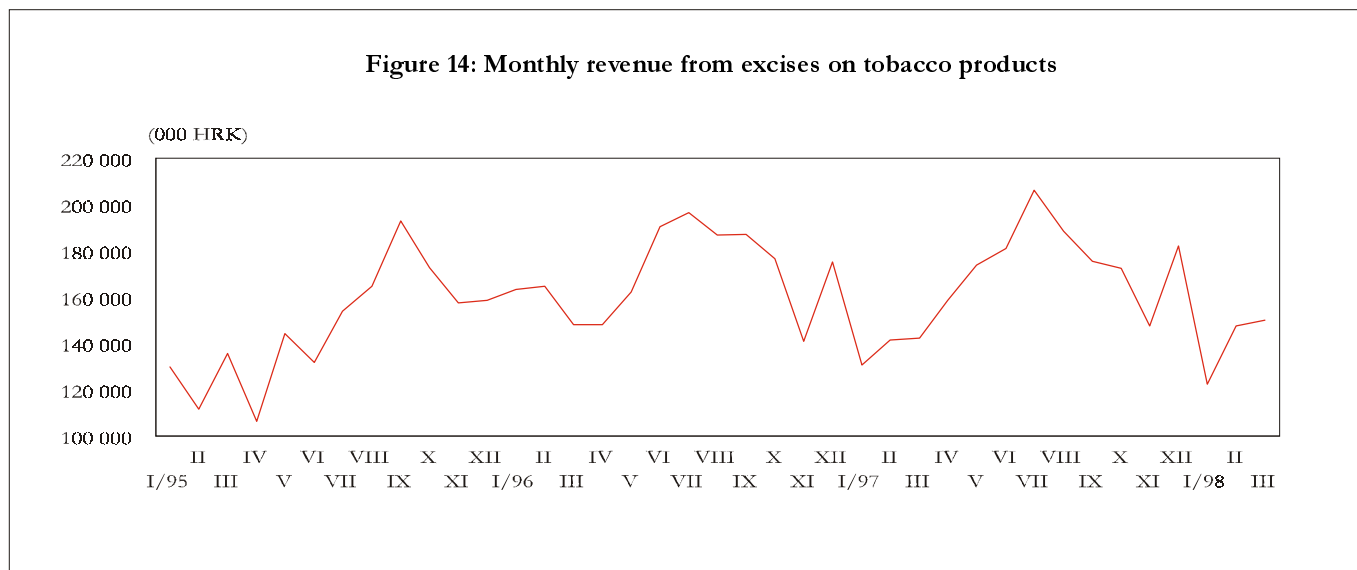
The manufacturers and importers of oil derivatives pay the same amount of excise tax on domestic and imported products. The tax liability incurs when the delivery from the reported warehouse is made, and the excise tax must be paid within 30 days from the day of delivery.

In the last two years, there have been significant changes in the taxation structure of oil derivatives. In 1996, 2,128 million liters of oil derivatives were taxed, out of which 7% were imported, and the remaining quantity was delivered by INA-Petroleum industry d.d. The greatest part of taxed oil derivatives in 1996 was taxable diesel fuels, heating-oils and leaded petroleum MB-98 (super) and the smallest part was unleaded petroleum. When we look into taxable quantities of oil derivatives in 1997, a considerable increase in imported oil derivatives has been noticed, as a result of the liberalization of imports, namely the abolition of restrictions with respect to the quantity contingents. In 1997, the imports of oil derivatives made 12.7% of the overall taxable quantity. The reduction of leaded petroleum MB-98 in the Croatian market in favor of the increase of unleaded petroleum has shown that people of Croatia replace more and more old cars by newer ones that spend unleaded petroleum.



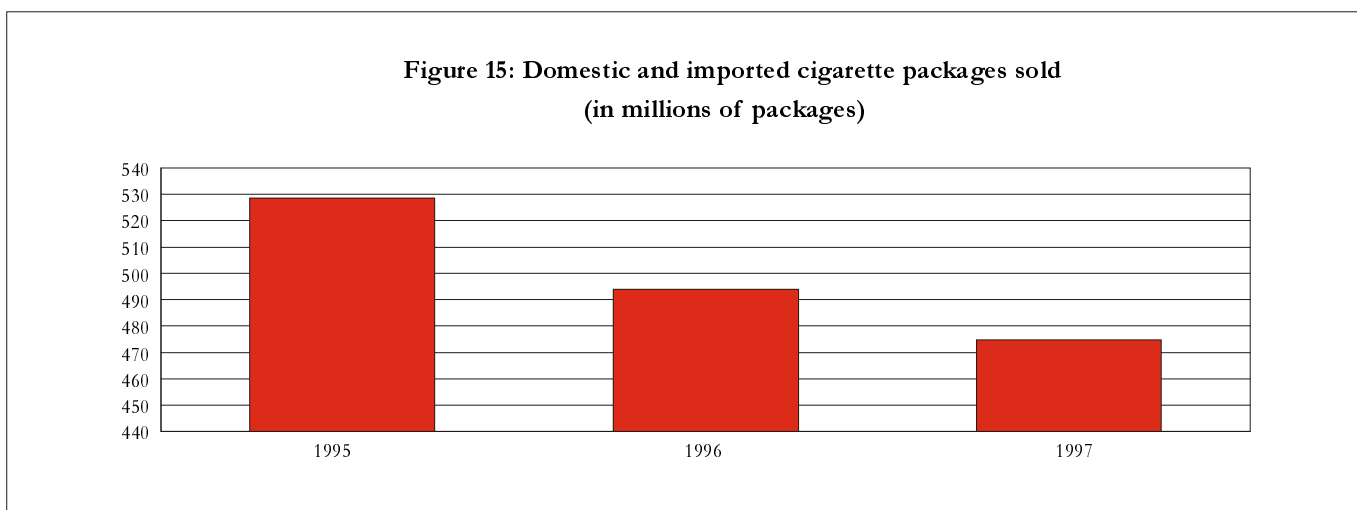
### 1.5.2. Excises on Tobacco Products

Excises on tobacco products are considered the second important excises. A trend of revenue from excises on tobacco and tobacco products is shown in Figure 14.



The excise tax on tobacco and tobacco products is paid on domestic and imported cigarettes and other tobacco products. Tobacco products, which are traded in the customs territory of the Republic of Croatia, must be marked with control stamps issued by the Ministry of Finance. The excise tax liability on tobacco products shall incur when control stamps are taken over and it must be paid within 15 days from the day the control stamps were taken over. The amount of excise tax on cigarettes ranges from 3.5 kunas per soft package of domestic cigarettes to 8.5 kunas for imported cigarettes. The excise tax per kilo of imported tobacco amounts to 56 kunas and per kilo of domestic tobacco to 28 kunas.

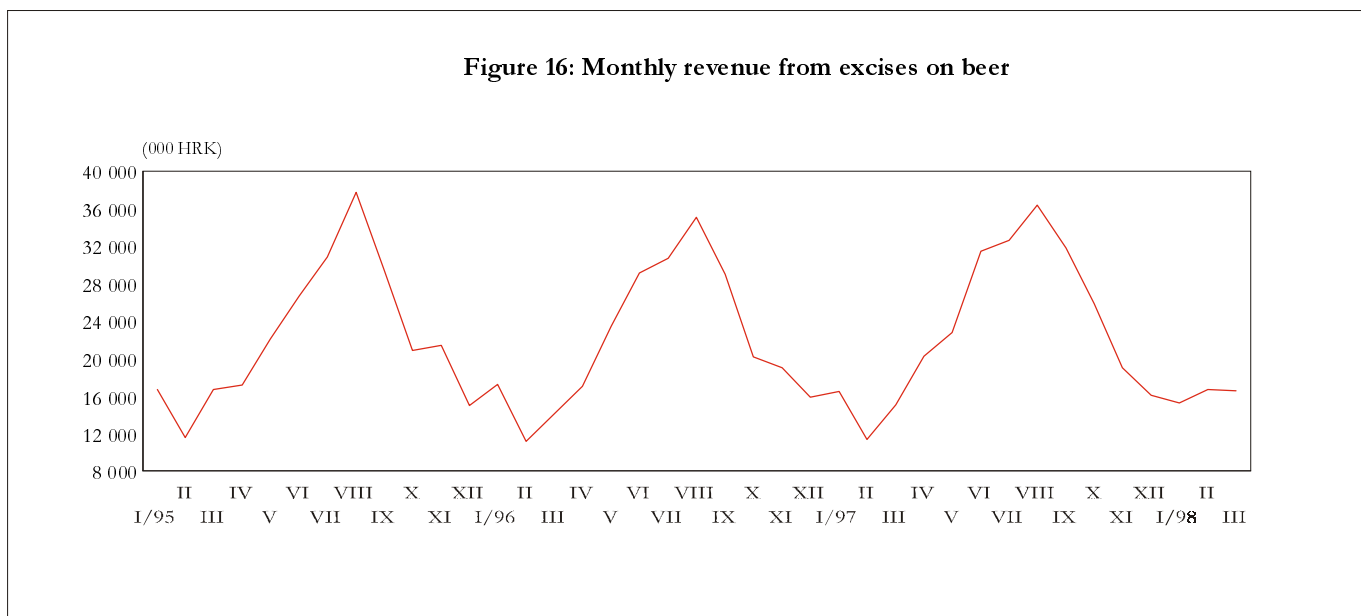
The excise tax on tobacco products is paid by domestic tobacco factories from Rovinj and Zagreb, while the part of excise tax on imported products is small. For example, out of the total number of cigarettes sold in 1996 - 493,816,445 packages, only 197,845 packages were imported, which makes less than 0.05%.



It is interesting to note that, in 1997, out of 474,702,117 domestic and imported packages sold, the number of imported packages were even smaller than in the previous year. The number of total cigarette packages sold is reduced by 10.2% in comparison to 1995.

### 1.5.3. Excises on Beer

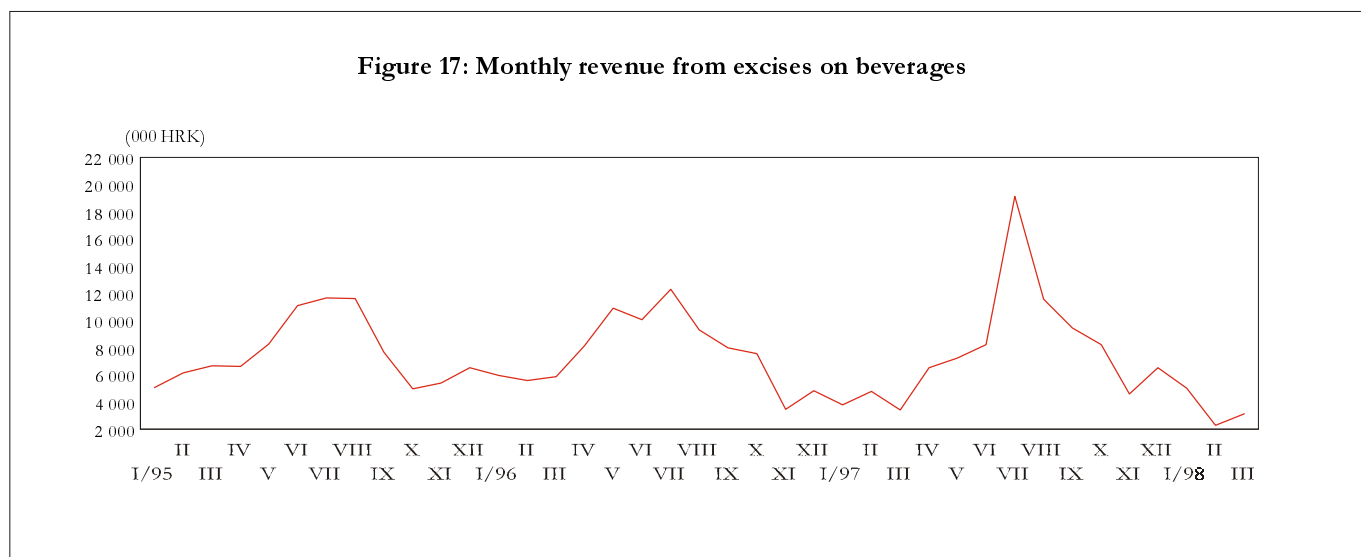
The excise tax on beer is paid on domestic products and those imported in the customs territory of the Republic of Croatia, where domestic and imported products are equally taxed. Namely, according to the latest legal regulations passed in December 1997, the excise tax per hectoliter of a domestic and imported beer amounts to 80 kunas, and per hectoliter of a domestic and imported non-alcoholic beer (up to 0.5% vol/vol.) 40 kunas. By 1997, excise tax on imported beer was paid in the amount of 120 kunas, while excise tax on domestic beer was 80 kunas. A clearly seasonal revenue trend from this type of excises is shown in Figure 16.



The most important taxpayers of excise tax on beer are seven breweries, among the biggest are “Karlovačka pivovara” and “Zagrebačka pivovara”. Several small breweries also trade in the Croatian market. In 1996, 2,939,800 hectoliters of domestic beer and 224,080 hectoliters of imported beer were taxed, which means that the imported beer in the overall quantity amounted to 7%. In 1997, taxed domestic beer has increased by 12.8% in relation to 1996, while taxed imported beer was reduced by 8.8%. It can be assumed from the referred details that the presence of domestic beer on the Croatian market is growing together with the beer consumption.

### 1.5.4. Excises on Beverages

The excise tax on beverages, as well as the excise tax on beer, is equally applied to domestic and imported goods. The excise tax per hectoliter of domestic and imported refreshing beverages amounts to 40 kunas, while up to 1997, it amounted to 80 kunas per hectoliter of imported beverages. The fiscal effect neither of



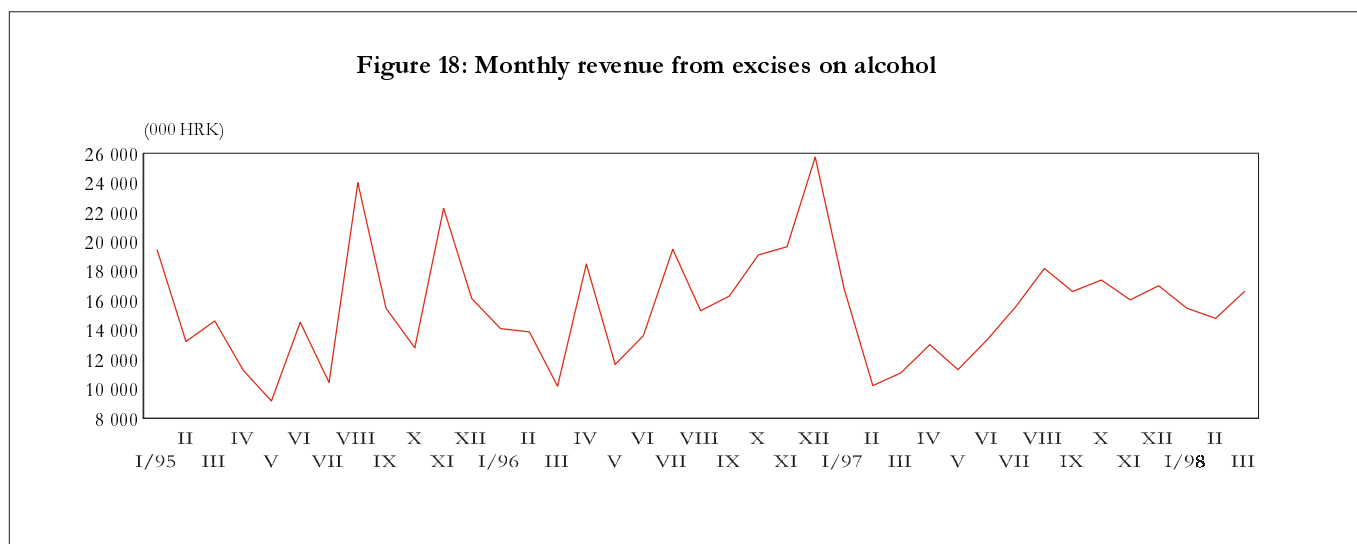
this type of excise tax nor of excise tax on beer is significant. A monthly trend of the referred revenues is shown in Figure 17.

“Coca Cola” is the most significant of all domestic beverages producers, which pays more than half of the total tax collected from this type of excises. Other important beverage producers are Vindija-Varaždin, Amfora-Makarska and Badel-BAP-Zagreb. In 1996, the calculated excise tax amounted to 1,630,858 hectoliters of domestic beverages, while in 1997 it was calculated to 39.4% hectoliters more. The imports of beverages in 1996, which amounted to 543,789 hectoliters, is very significant and makes 25% of the total beverages taxed. In 1997, the imported beverages were for 27.1% less than in the previous year, and they made 14.9% of the overall taxed beverages. As with beer, the presence of domestic beverages on the Croatian market has grown in 1997, as well as the consumption of beverages.

### 1.5.5. Excise Tax on Alcohol and Alcoholic Drinks

An excise tax on alcohol and alcoholic drinks does not treat equally a domestic production and imports, according to the current legal regulations (up to March 1998). The excise tax on alcohol and alcoholic drink amounts to 30 kunas and on imported drinks 60 kunas per liter of pure alcohol contained. The taxed quantities of domestic alcohol come from “Sladorana”, Županja and “Badel” d.d. Zagreb. In 1996, the excise tax was calculated on 5,583,555 liters of pure alcohol produced in the Republic of Croatia and on 501,937 liters of imported alcohol, which means that the imports made 8.2% of the overall quantities taxed. In 1997, 11.7% of the domestic production was less taxed, but also 9.6% less imported pure alcohol than in 1996. In 1997, the imports made around 8.3%.

The discrepancies in the taxation of domestic and imported products and the privileged position of domestic products on our market were not in accordance with the requests of the World Trade Organization. Therefore, with the implementation of VAT (January 1, 1998), tax burden of domestic and imported drinks was equaled for beverages and beer and the amendment of the Law on Excise Tax on Alcohol and Alcoholic Drinks is in the preparation process. Monthly revenues collected from this type of excises are shown in Figure 18.

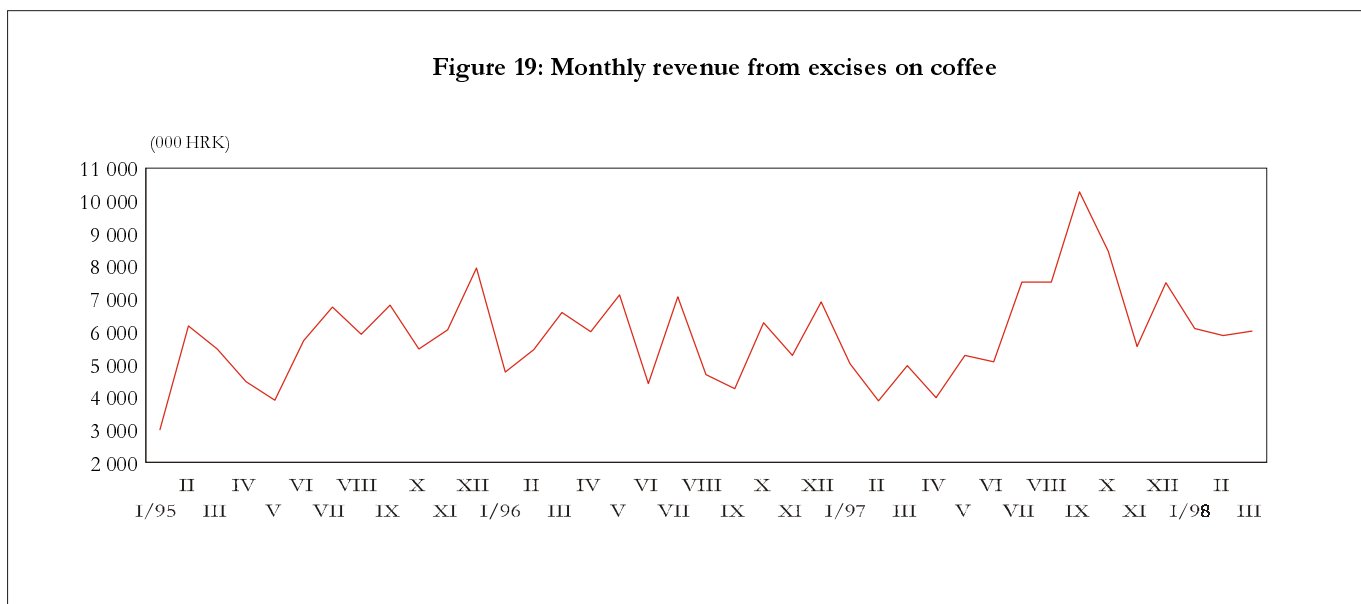


### 1.5.6. Excises on Coffee

The introduction of excises in the tax system of the Republic of Croatia has been initiated by the introduction of excise tax on coffee on July 17, 1993. A physical person or legal entities which imports, carries into or accepts coffee in the customs territory of the Republic of Croatia are liable to pay excise tax on coffee. The excise tax per net kilo amounts to 3.60 kunas for raw coffee, and 9.00 kunas for roasted coffee, 12.00 kunas for coffee husks and 15.00 kunas for coffee substitutions, concentrates and extracts.



In the structure of imported coffee, mainly non-roasted coffee is present, of which 19,084 tons were imported in 1996. In 1997, 9.1% more kilos of coffee were taxed than in the previous year, and 75 million kunas in total were collected from excise tax on coffee. Accordingly, in the structure of total revenues, this type of excise tax has a very little significance. Monthly revenues collected from excise tax on coffee are shown in Figure 19.



### 1.5.7. Excises on Personal Cars, Other Motor Vehicles, Vessels and Planes

The excise tax on the imports of new personal cars was introduced at the same time when other excises were introduced, in July 1994, and it was paid by December 1997 in the amount of 7,000 to 30,000 kunas, depending on the engine power in kilowatts (kW). Croatian War for Independence invalids, diplomatic and consular representative offices and those who imported personal cars on a temporary basis were exempted from excise tax on new imported personal cars. However, in 1997, the Law on Excise Taxes on Personal Cars, other Motor Vehicles, Vessels and Planes imported or sold in the Republic of Croatia was passed and the Law on Excise Taxes on the Import of Cars, passed in 1994, has ceased to be in force. The excise tax base is considered a personal car and motorcycle depending on the engine power measured in kilowatts (kW), a vessel depending on the length measured in meters, and planes depending on the number of seats. Excise tax base on the sales of used personal cars, other motor vehicles, vessels and planes is considered a market value at the time the tax liability incurred, on which 5% tax must be paid.

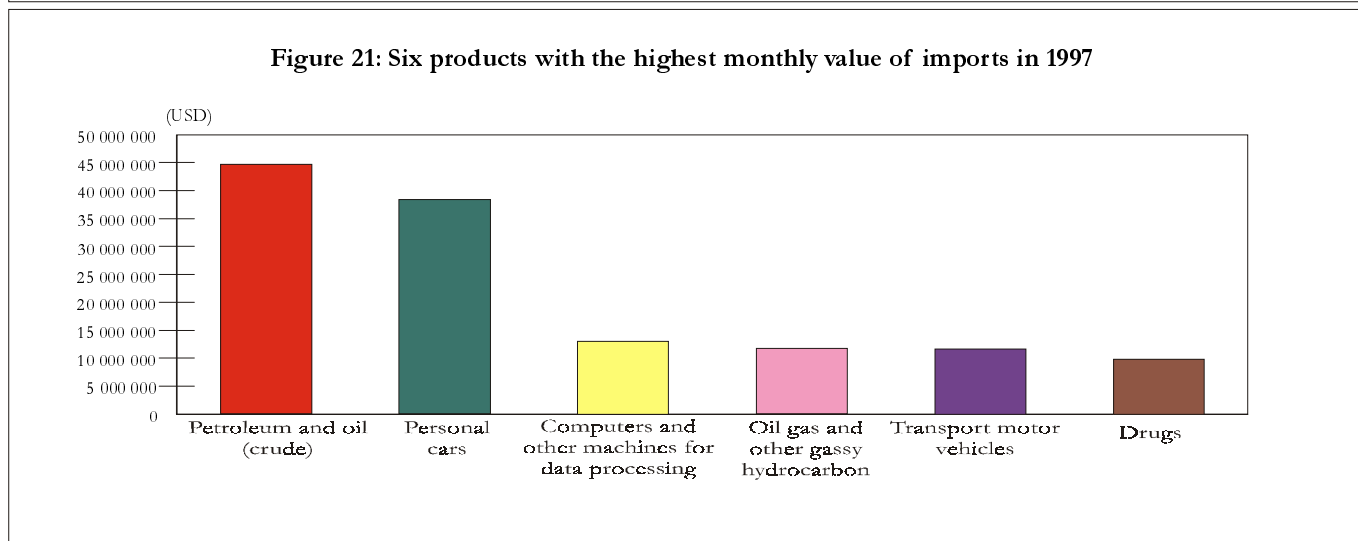
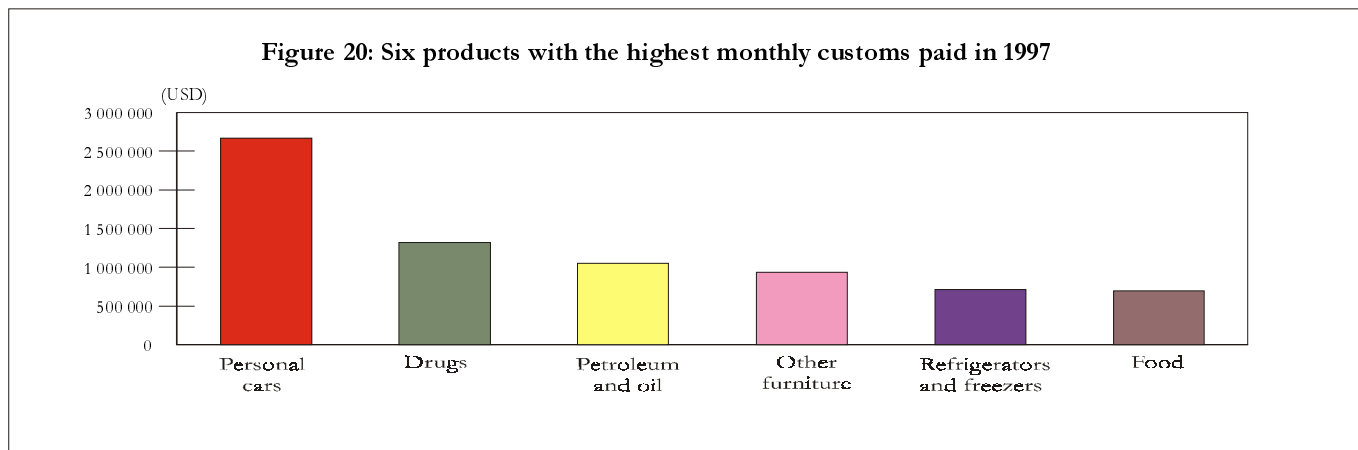
## 1.6. CUSTOMS AND CUSTOMS DUTIES

The Republic of Croatia has, with the establishment of independence and sovereignty, set up its customs system and Customs Administration, and on October 8, 1991, three basic laws which make the customs system were passed as follows: Customs Law, Law on the Customs Tariff and the Law on Customs Administration. However, the economic and political development of the country has been a precondition for amending referred laws in view of the adjustment to the criteria of the World Trade Organization and the European Union. Therefore, a new Customs Tariff was passed in July 1996, which has been harmonized with the Convention on the Harmonized System of Names and Numbers of Goods. This was essential for ensuring transparency of the Croatian customs documentation with the documentation of other countries, which apply the Harmonized System. The new Customs Tariff has 9,500 tariff items. By introducing a new Customs Tariff, the payment of customs, as unique duties on goods imported, was introduced, except with the imports of agricultural and nutritional products where additional customs duty is paid and it is measured according to the quantity of goods imported.

The Law on Customs Service regulates the organization, work performance, duties and responsibilities of the Customs Administration. The Customs Administration is an integral part of the Ministry of Finance, and it performs its work in the central office and 10 custom-houses. The scope of activity of the central office and

custom-houses comprises the following: customs surveillance, customs clearance, the control of goods for which the exports and imports are separately regulated, the prevention and revelation of foreign exchange violations, criminal offenses and commercial offenses in customs matters, conducting of the first and the second degree administrative and legal procedures, the collection, processing and monitoring of statistical data on imports and exports. The Customs Administration has been actively participating in the work of the World Customs Organization (WCO) since 1993. In February 1997, it has become a full member of the International Drugs Control Program (RILO). The Customs Administration is also involved in the Croatian delegation as a mediator in the SECI project, where details on the international transit of goods and people through the international corridor, which goes through the Republic of Croatia, are exchanged.

Figure 20 shows six products with the highest average monthly collected customs duties, while Figure 21 shows six products with the highest average monthly value of imports in 1997.



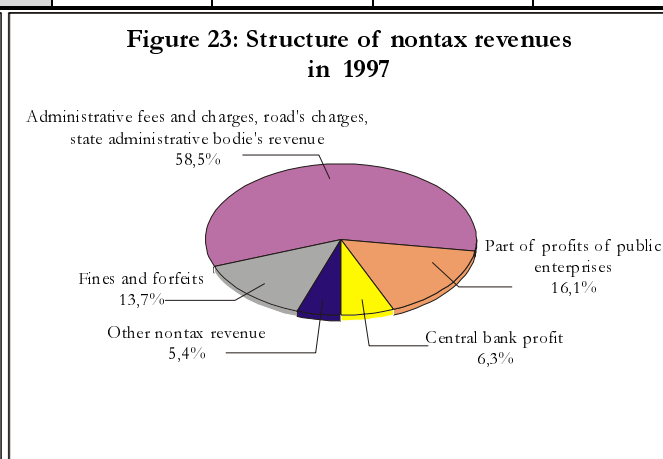
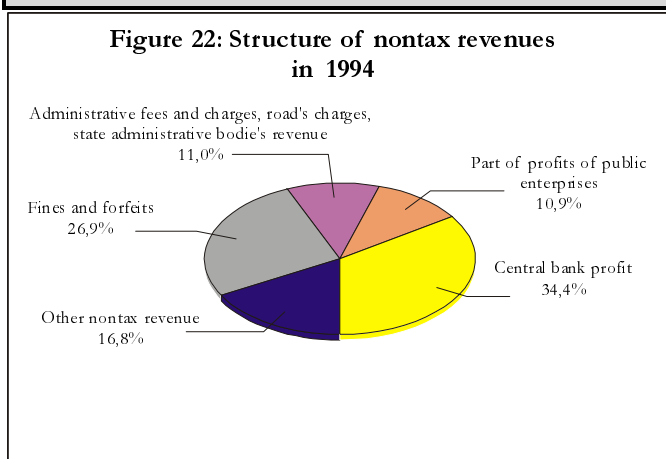
In a continuous process of the liberalization of international trade and the reduction of customs protection, revenues from this type of tax amount to hardly 4% of GDP. The growth of the referred type of tax was in 1997 under the influence of VAT introduction, which effect has been the strongest in the last month of the year. The growth rate of collected custom duties thus amounted to 17.7% in 1997. In the long run this type of revenue will loose its relevance for the government budget by bilateral negotiations on the mutual trade with the member's countries of CEFTA, European Union and WTO.

## 2. NONTAX REVENUE

A trend of nontax revenues is shown in the Table 8, while changes in their structure are clearly seen in Figures 22 and 23.

**Table 8: Nontax Revenue in the Period from 1994 - 1997**

(000 HRK)	1994	1995	1996	1997
<b>Nontax revenues</b>	<b>411,400</b>	<b>781,766</b>	<b>1,713,917</b>	<b>2,046,813</b>
Central Bank profit	141,473	165,889	82,255	129,207
Part of profit of public enterprises	44,765	142,812	134,866	329,842
Revenue from interest	0	7,580	3,038	1,421
Other property income	0	13,207	116,163	82,082
Administrative fees and charges, road charges, state administration bodies revenue	45,451	211,071	946,130	1,196,527
Fines and forfeits	110,547	187,584	228,547	281,011
Other nontax revenue	69,164	53,623	202,918	26,723



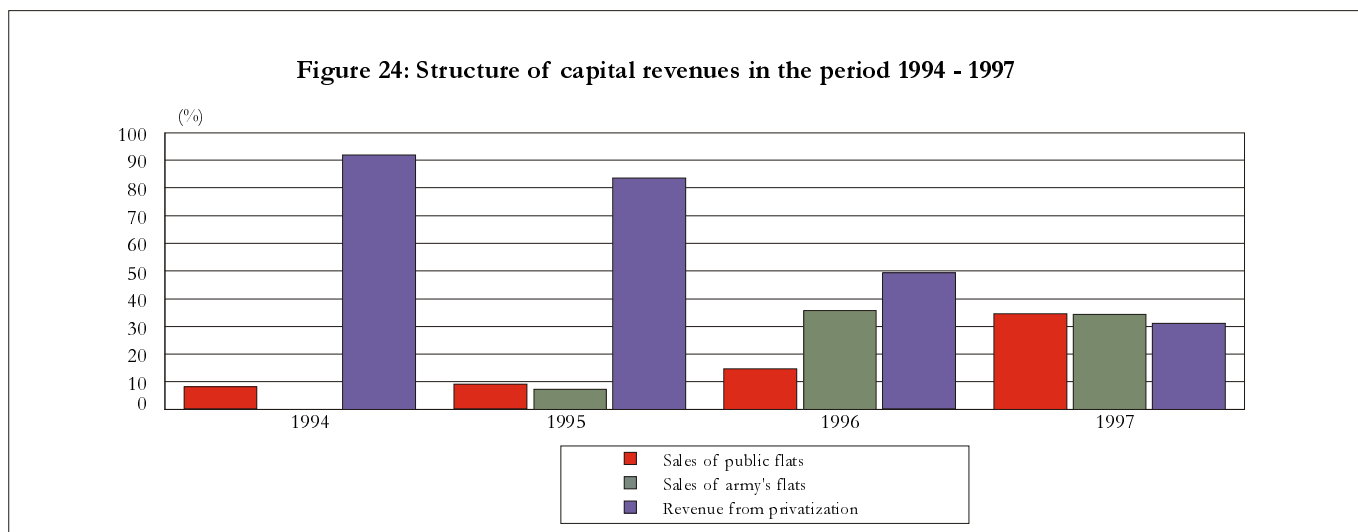
Although nontax revenues made only 6% of the total revenues in 1997, their relevance has increased in relation to 1994 when they made only 2% of the total revenues. The most important nontax revenues are: administrative and legal fees and charges, roads' charges, fines and forfeits, as well as the part of public enterprises' profit. In the last two fiscal years, revenues derived from dividends have become more important nontax revenues, which make between 80 to 100 million kunas. However, the fact that the government intends to decrease its owner's function in the medium-term to several public enterprises, this type of revenues will again become fiscally nonsignificant.

## 3. CAPITAL REVENUE

Capital revenues are specific government budget revenues of all transition countries where the property in the former system was state-owned. In Croatia too, a great part of economic subjects were state-owned. When in 1991 the privatization process initiated, it was agreed with the International Monetary Fund that revenues from the privatization can be registered as regular revenues of the government budget, and not as receipts from the financing. The revenues from the privatization process have not significantly filled up the government budget except in 1996, due to a specific privatization process in the Republic of Croatia, but also due to directing a significant part of these revenues into the financing of small and medium size enterprise development. However, in 1998, significant revenues from the privatization of some public enterprises are expected.

Apart from privatization revenues, revenues from the sale of state and military flats appear as capital revenues as well. Namely, the tenants who had tenant's right may repurchase flats in the former state ownership at the significantly reduced prices. The repurchase of the referred flats was available with a thirty-year period of

deferred payment, offsetting frozen foreign exchange deposits or purchase of bonds for the reconstruction of the Republic of Croatia. The structure of capital revenues is shown in Figure 24.



### III CENTRAL GOVERNMENT BUDGET EXPENDITURE



Central government budget expenditure in the period from 1994 to 1997 has clearly reflected economic and political conditions that marked the referred period. At the same time, economic and fiscal policy objectives, revived through the expenditure side of the budget, were realized within the financial capabilities of the country. This means that in the whole observed period a policy of low deficit and its financing in a transparent and sustainable manner was conducted. A detailed description of the expenditure side of the government budget is outlined in the following pages.

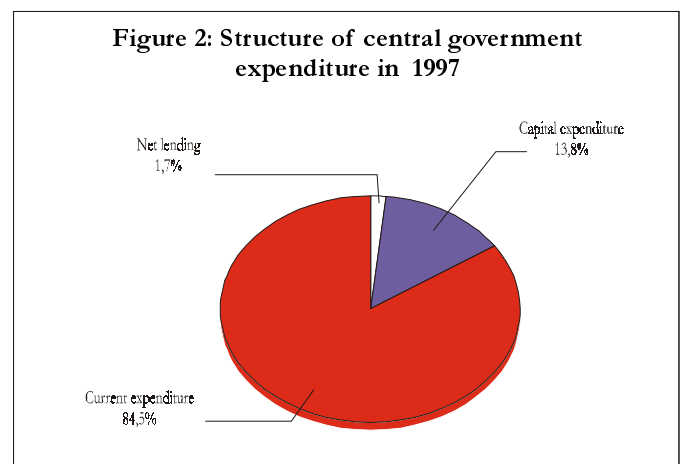
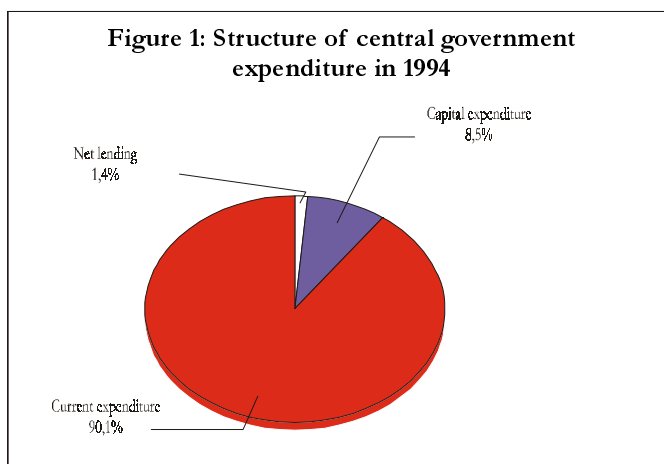
## 1. ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT BUDGET EXPENDITURE

The economic classification of public expenditures implies the division of the total expenditures according to their economic characteristics on current and capital expenditures. The economic classification also shows which transactions are used by the government in the performance of its functions and shows the government influence on the goods and services market, financial market and the distribution of income.

**Table 1: Total Expenditure in the Period from 1994 to 1997**

(000 HRK)	1994	1995	1996	1997	Share in GDP (%)			
					1994	1995	1996	1997
Total expenditure and net lending	22,598,774	28,696,186	31,501,501	35,006,314	25.84	29.17	29.37	29.29
Total expenditure	22,282,792	28,475,583	30,972,816	34,395,182	25.48	28.94	28.88	28.78
Current expenditure	20,360,525	25,495,182	25,930,068	29,579,721	23.28	25.91	24.18	24.75
Capital expenditure	1,922,267	2,980,401	5,042,748	4,815,461	2.20	3.03	4.70	4.03

Government expenditures and their share in GDP are shown in Table 1. A detailed statistics of the expenditure side of the government budget is shown in the appendix. When analyzing the scope and the structure of government expenditures, we should bear in mind that Croatia was at the observed period within a political climate which was marked by the consequences of the war on its territory, as well as by the war in the neighboring Bosnia and Herzegovina. Such a political climate has imposed on the Government of the Republic of Croatia the objectives and tasks with which other transition countries was not been faced. Up to 1995, the greatest impact on the total expenditure aggregates had defense expenditures, and therefore, the total expenditures were dominated by current expenditures as shown in Figure 1. However, after the greatest part of the occupied territory by rebelled Serbs has been reintegrated into the legal system of the Republic of Croatia in 1995, the structure of the total, as well as current expenditures, has been modified to peacetime circumstances. The changes in the structure of the total expenditures are clearly shown in Figure 2. After 1995, a share of capital expenditures has grown in the structure of the total expenditures, due to the reconstruction of the regions devastated by the war and the financing of the infrastructure development. Back in 1996, a further nominal growth of current expenditures has been stopped, which resulted in reducing their share in the total expenditures to 84.5% in 1997. After 1994, such trends have enabled, as shown in Table 1,



to limit a further increase in the public consumption of the central government. As shown in the last Chapter, consolidated government accounts undoubtedly show that the government budget is neither a generator of the public sector growth nor a generator of a public sector deficit.

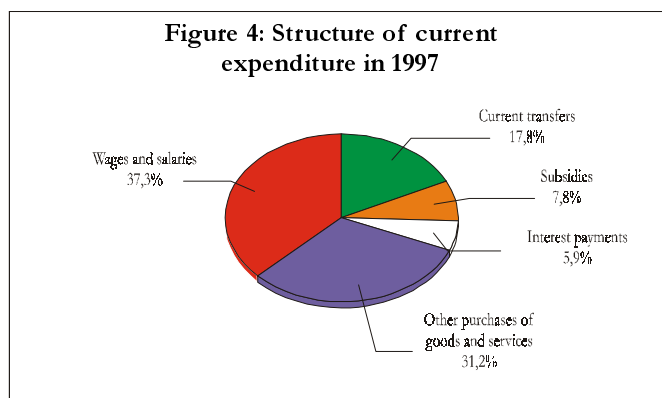
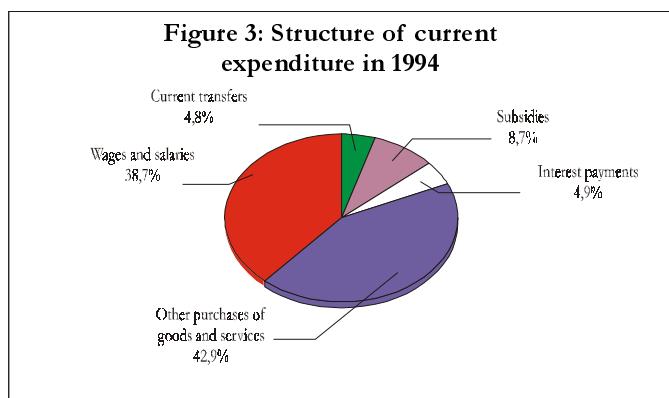
### 1.1. Current Expenditure

With the reduction of a current expenditure share in the total expenditures, their structure has been changed, too. The trend of the main components of the current expenditures is shown in Table 2, while changes in their structure are shown in Figure 3 and Figure 4.

**Table 2: Current Expenditure in the Period from 1994 to 1997**

(000 HRK)	1994	1995	1996	1997
Expenditure for goods and services	16,613,749	20,743,529	19,623,107	20,263,325
- Wages and salaries	6,517,586	8,393,597	8,365,211	9,147,512
- Employers contributions	1,367,573	1,716,123	1,966,383	1,892,364
- Other purchases of goods and services	8,728,590	10,624,809	9,291,513	9,223,449
Interest payments	1,002,506	1,392,084	1,217,618	1,737,016
Subsidies	1,762,667	1,809,780	2,076,847	2,307,071
Current transfers	981,603	1,558,789	3,012,496	5,272,309

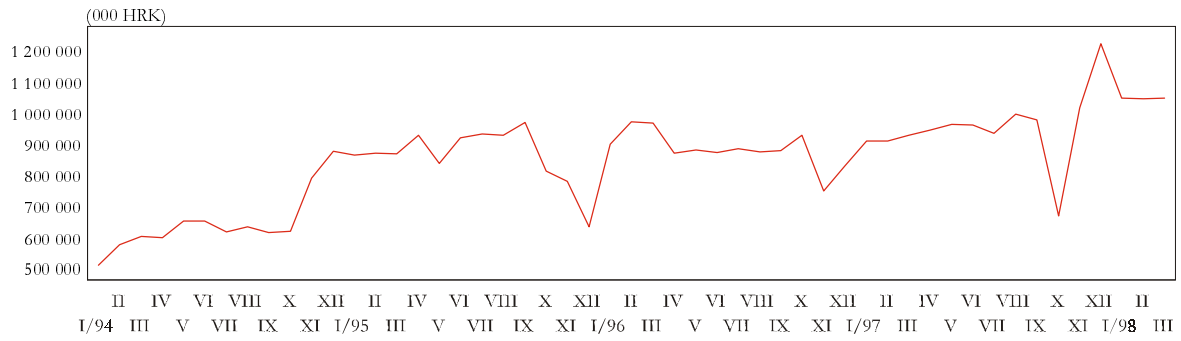
The basic characteristic of current expenditures in the last four years has been the fall of defense expenditures after 1995, which can be seen in the other purchases of goods and services item and the increase at the same time of expenditures related to social security of pensioners, war and civil victims of the war for independence. The increase in the social transfers has resulted in current transfers' growth for 93% in 1996 and 75% in 1997. The structure of current expenditures has clearly shown that the settlement of relations with the international financial institutions has resulted in a significant increase in interest payments.



A monthly trend of **gross wage bill** is illustrated in Figure 5 and it includes government officials' wages, reimbursements to employed persons, severance pays and employers' contributions. In 1994, the growth of nominal wages of government officials was frozen as a part of the stabilization program, but in the end of the referred year, a real growth of wages was registered due to deflation. A high growth of wages in 1995 was the result of a change in the methodology of wage calculation, so that the wage bills in 1995 and 1994 are not directly comparable. However, in 1995, less restrictive wage policy was conducted in order to reduce the gap between government officials' wages and wages of the private sector, created in the course of 1993 and 1994. During 1996, there were no significant changes in wage bill until 1997, when government officials' wages increased again in order to catch up with the private sector wages.

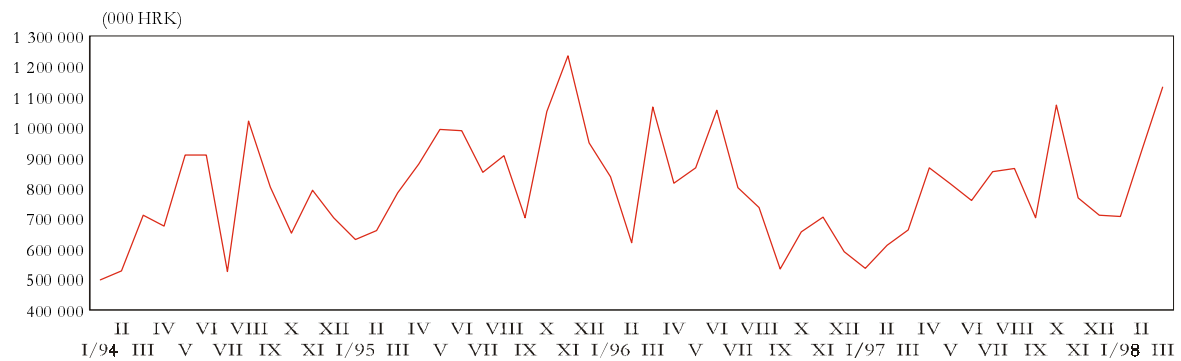


**Figure 5: Gross wage bill of the Budget users**



**Other purchases of goods and services** comprise all government expenditures which together with salaries make real government consumption. Besides, this item comprises expenditures for defense and police, expenses for refugees, material costs of the government budget users and similar. As it has been already stated, these expenditures were to 1995 dominated by defense expenditures. As government priorities have changed after 1995 in favor of peacetime expenditures, a nominal and real fall of this category of expenditures has been noticed. Monthly trends of other purchases of goods and services are shown in Figure 6.

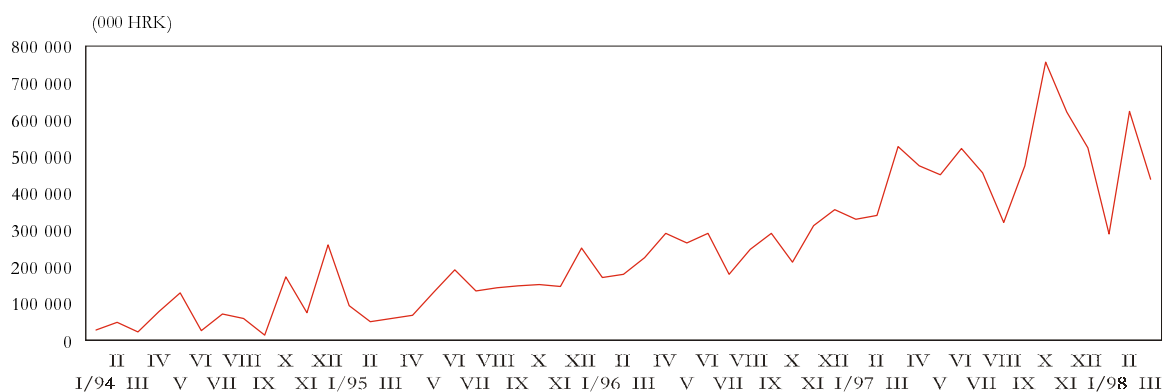
**Figure 6: Other purchases of goods and services**



**Current transfers** are considered a category of expenditures, which has significantly increased in 1996 and 1997. Current transfers have been after 1996 influenced by transfers to Pension Fund and transfers related to the social security of military and civil victims of the Croatian War for Independence. Transfers to the Pension Fund are the result of a more difficult operation of the current system of generation solidarity, which fails to meet, in an efficient manner, all the needs related to the growth of retired persons. Transfers to the Pension Fund which are not related to social welfare of war victims have increased from 280 million kunas (or 0.3% of GDP) in 1995 to 1,620 million kunas (1.4% of GDP) in 1997. The Pension Fund has, as it can be seen in the last Chapter where consolidated accounts are shown, become one of the basic generators of the consolidated deficit and therefore a thorough reform of the pension insurance system is essential.

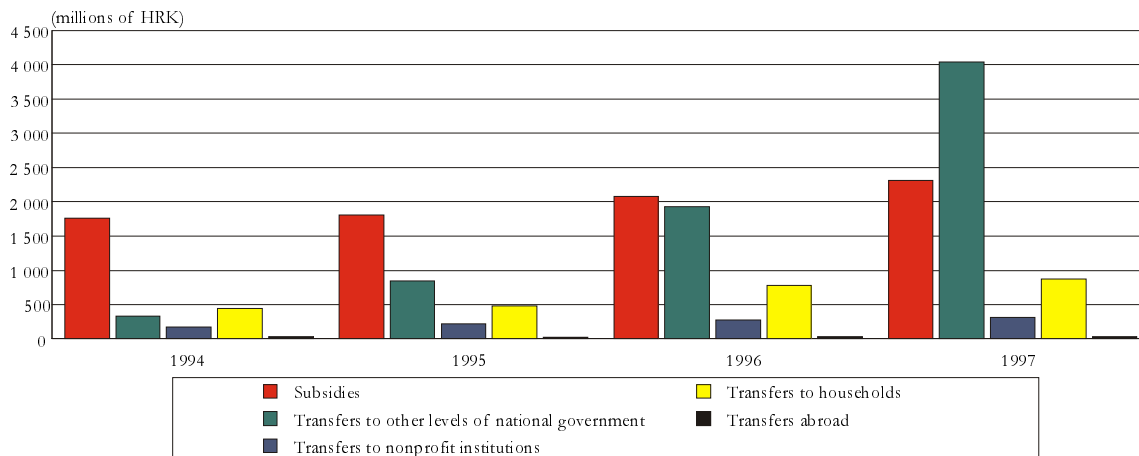
Expenditures for social welfare of the war victims are another important growth component of the current transfers, which has in 1997 reached the amount of 1.5% of GDP. The overall effect of such trends may be seen in the growth of current transfers from 1.5% of GDP in 1995 to 4.41% of GDP in 1997. Monthly trends of current transfers' expenditures are shown in Figure 7.

**Figure 7: Current transfers**



In the previous four-year period, expenditures for subsidies have been constant on average and they have been below 2% of GDP. The greatest item in the total subsidies is public enterprise “Croatian Railways”, which spent over 50% of the total subsidies. Significant subsidies to “Croatian Railways” are the result of the war impact on their operation. Namely, the greatest part of the capacity of “Croatian Railways” has not been used due to the consequences of aggression on Croatia and the war in the neighboring Bosnia and Herzegovina.

**Figure 8: Subsidies and current transfers**



The scope and the structure of current transfers and subsidies are shown in Figure 8. Every year, 500 million kunas are spent on average for the subsidies in agriculture, while in 1997, subsidies for the restructuring of economy in the amount of 214.8 million kunas appeared in the government budget. These funds were withdrawn for the restructuring of enterprises in the regions devastated by the war with the objective of their economic recovery and the return of refugees in these regions.

In spite of the fact that Croatia is according to the international standards a low indebted country, interest payments, namely a fiscal cost of the public debt, has become a more significant item of the government budget. When Croatia in the course of 1996 regulated its relations with international financial institutions and took over its part of the former state debt, expenditures for interests in 1997 were 502 million kunas higher than in 1996. Monthly trends of the interest payments are shown in Figure 9, while the relation of interests paid to domestic and external creditors are shown in Figure 10.

Figure 9: Interest payments

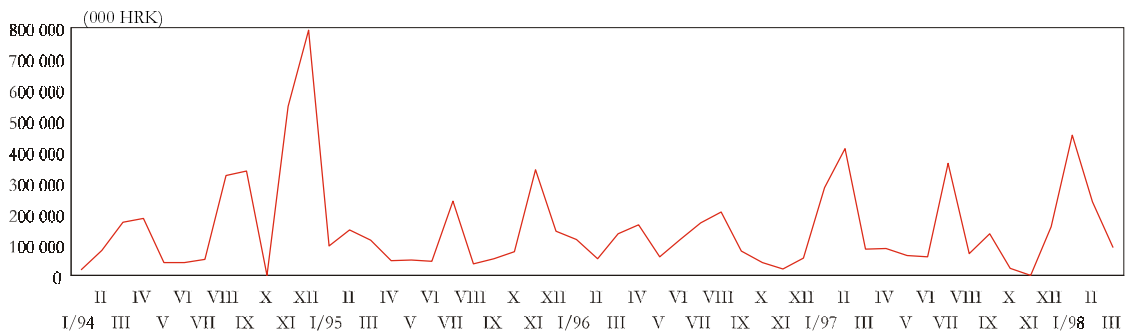
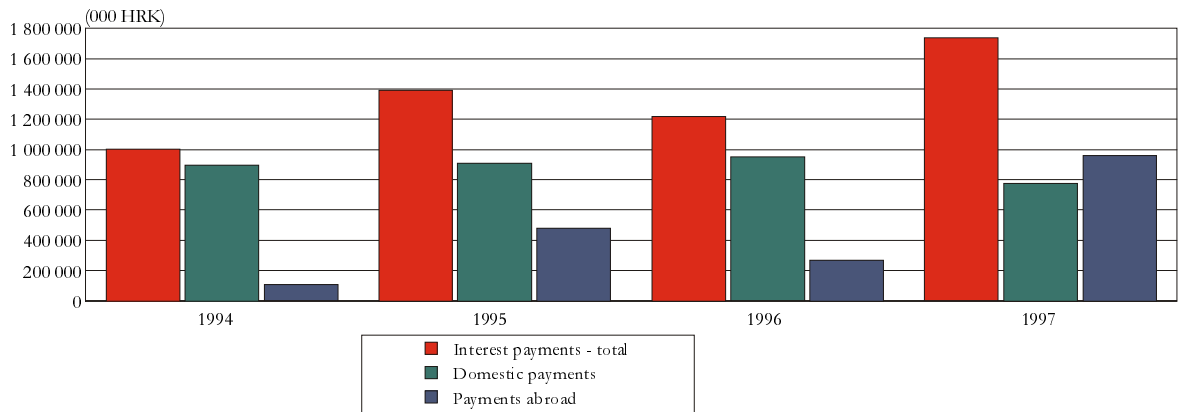


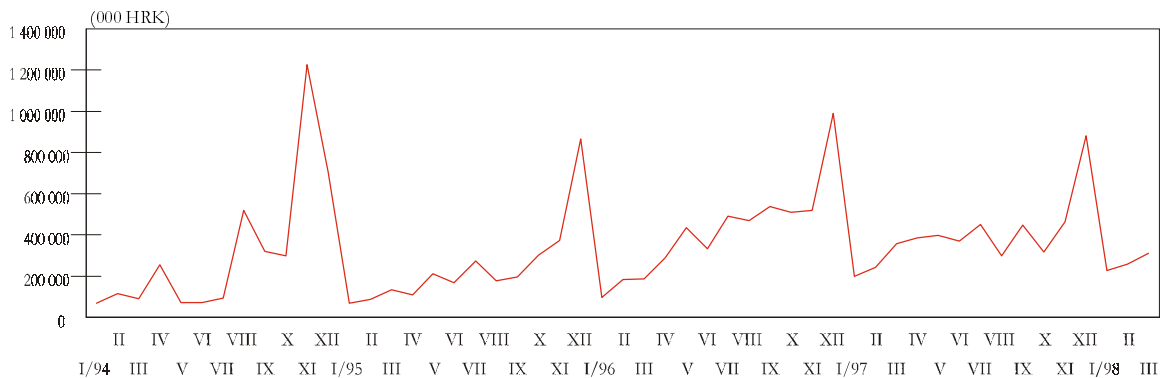
Figure 10: Interest payments to domestic and external creditors



## 1.2. Capital Expenditure and Net Lending

In the last four years, a significant growth of capital expenditures in the structure of total expenditures has been noticed. Their share in the total expenditures has grown from 8.5% in 1994 to 13.5% in 1997, namely their share in GDP has grown from 2.2% to 4.03%, respectively. In the observed period, the growth of capital expenditures was a result of the increase in the expenditures for the reconstruction and development of the regions devastated by the war, as well as the intensive roads' construction. Capital expenditures for the reconstruction have increased from 454.7 million kunas in 1994 (0.5% of GDP) to 1.843 million kunas in 1997. At the same time, significant funds have been invested in the construction of roads infrastructure, which have reached in 1997 the amount of 926 million kunas. A monthly trend of capital expenditure is shown in Figure 11.

Figure 11: Capital expenditure



A detailed analysis of the capital expenditures structure reveals that a significant part of capital expenditures has been transferred to the private sector, as expenditures for the reconstruction of houses devastated by the war. In 1997, the referred budget item amounted to over 2 billion kunas, while the government direct capital investments has been realized in somewhat smaller amount. Since 1996, the government has invested in capital projects more than 4% of GDP, which has certainly contributed to the private sector investment trends. Namely, the calculation of GDP, according to the SNA methodology, has shown that the total investments have increased for 14% in 1995 and for 37.2% in 1996, which is a highly desirable and essential trend for a country in transition.

Net lending represents mainly the funds that the government allocates for the rehabilitation of the banking system, as well as the funds aimed at financing the construction of a water-supply system. In 1997, 611.1 million kunas of net lending have been realized in total, which is 93.4% more than in the first year of the stabilization program. The government has thus had a significant impact on the improvement of the financial system liquidity, which also had an impact on interest rates that have significantly decreased since 1996.

## 2. FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT BUDGET EXPENDITURE

The classification of public expenditures by function is a classification of government's functions according to the UN methodology. This classification is not identical to the government accounting plan that reflects the organizational structure of the government, but it is useful because of the possibility of comparing various countries and eliminating the organizational changes and differences between countries. The classification of public expenditures by function divides expenditures according to government functions which may be arranged in four major groups as follows: (1) general government services - public order and safety, foreign affairs, defense, tax services, employment policy and similar; (2) social services - social security and welfare, housing and community services, recreational and cultural services, health care and similar; (3) economic services - economic development, undeveloped regions development, research, trade improvement and similar; (4) other services - issuance of public debt, interest payments, transfers to other levels of the government authority and similar. A more detailed division of the main government functions and their shares in GDP are shown in Table 3.

**Table 3: Central Government Expenditure by Function - a Share in GDP (as %)**

	EXPENDITURE	1994	1995	1996	1997
I.	<b>Total expenditure</b>	25.48	28.94	28.88	28.78
1.	General public services	1.92	1.94	1.78	1.83
2.	Defense affairs and services	8.75	10.07	7.24	5.85
3.	Public order and safety	3.25	3.41	3.46	3.49
4.	Education affairs and services	3.28	3.33	3.36	3.39
5.	Health affairs and services	0.07	0.08	0.14	0.15
6.	Social security and welfare affairs and services	2.91	3.24	4.11	5.40
7.	Housing and community amenity affairs and services	0.53	1.37	2.43	1.73
8.	Recreational, cultural and religious affairs	0.35	0.44	0.37	0.45
10.	Agriculture, forestry, fishing, hunting affairs	0.75	0.52	0.51	0.52
11.	Mining, manufacturing, construction affairs	0.22	0.26	0.36	0.58
12.	Transport and communication affairs and services	1.71	2.27	3.17	2.87
13.	Other economic affairs and services	0.31	0.23	0.28	0.54
14.	Expenditures not classified by major group	1.44	1.79	1.65	1.98

The Table 3 shows a trend of individual expenditures in GDP and the expenditure-switching policy towards more peacetime and productive expenditures that incite growth. The total expenditures less net lending have decreased in the last two years as a percentage of GDP. In 1996, due to the growth of expenditures aimed at the rehabilitation of banks, which were defined as net lending, the total expenditures with net lending have

increased their share in GDP in comparison to 1995. Two types of expenditures are especially emphasized and they are typical for a country in the post-war period: defense and social safety and welfare. The growth trend of the referred expenditures is proportionally opposite after 1995 - a share of expenditures aimed at defense has been decreased for 4.22% in GDP, while expenditures for social safety and welfare have been increased for 2.16%. A detailed analysis of individual central government functions is shown in the following chapters.

## 2.1. General Public Services

Year	Expenditure for general public services (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	1,674,965	7.52	...
1995	1,911,166	6.71	14.10
1996	1,911,595	6.17	0.02
1997	2,182,768	6.35	14.19

General public services cover the expenditures of the executive and legislative bodies, expenditures for financial and fiscal affairs, and the expenditures for foreign affairs, except foreign aid. A share of general public services in GDP has been approaching 2% of GDP in the observed period. On the contrary, a share of general public services in the structure of total expenditures has been decreasing from 7.52% in 1994 to 6.35% in 1997.

## 2.2. Defense Affairs and Services

Year	Expenditure for defense (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	7,650,165	34.33	...
1995	9,910,927	34.81	29.55
1996	7,760,190	25.05	-21.70
1997	6,990,659	20.32	-9.92

In the observed period of time, defense expenditures have been decreasing in the absolute as well as in the relative indicators. The highest level of military expenditures was noticed in 1995, in the time of final military-police actions for the liberation of the country. In that year, military expenditures amounted to 9.9 billion kunas and they represented 34.81% of the total public expenditures and 10.48% of the total realized GDP. After 1995, military expenditures have been decreasing, so that in 1996 they were nominally reduced by 22% and represented 25.05% of the total public expenditures and 7.49% of GDP. In 1997, the government's policy aimed at reducing military expenditures was continued, so that in that very year they were reduced by further 10% in the absolute amount in relation to 1996, which reduced their share in the total public expenditures to 20.32%.

## 2.3. Public Order and Safety Affairs

This government function covers the following state affairs:

- Police and fire protection affairs
- Judiciary affairs
- Other public order and safety affairs

Year	Expenditure for public order and safety affairs (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	2,841,432	12.75	...
1995	3,351,489	11.77	17.95
1996	3,714,158	11.99	10.82
1997	4,169,881	12.12	12.27

Public order and safety expenditures have shown in the observed period minor fluctuations in relative indicators. In 1994, this type of expenditures represented 12.75% of the total expenditures and 3.25% of GDP. In 1997, they were reduced in the overall structure of expenditures and amounted to 12.12%, but they increased their share in GDP to 3.49%.

#### 2.4. Education Services and Affairs

Year	Expenditure for education (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	2,864,662	12.86	...
1995	3,277,776	11.51	14.42
1996	3,599,830	11.62	9.83
1997	4,050,800	11.78	12.53

Education services and affairs cover the following activities:

- Preschool and elementary school education services and affairs
- Secondary school education services and affairs
- Tertiary education services and affairs

In the observed period of time, education services and affairs represented approximately 12% of the total government expenditures. A share of these expenditures in GDP has been slightly increasing in the observed period. In 1994, a share of this type of expenditures in GDP amounted to 3.36%, and in 1997 it increased to 3.39% of GDP.

#### 2.5. Health Care Services and Affairs

Year	Expenditure for health care (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	57,245	0.26	...
1995	78,167	0.27	36.55
1996	151,619	0.49	93.97
1997	184,758	0.54	21.86

It can be seen from what has been outlined that a role of this government function is irrelevant in the central government level. This government function is mainly financed through Health Insurance Fund. On the central government level, this type of expenditures covers transfers to the Health Insurance Fund and partly capital expenditures for the maintenance and construction of health care institutions.

#### 2.6. Social Security and Welfare Affairs and Services

Year	Expenditure for social security and welfare affairs (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	2,547,002	11.43	...
1995	3,185,789	11.19	25.08
1996	4,408,288	14.23	38.37
1997	6,451,998	18.76	46.36

The government performs its redistributive role by social security and welfare affairs and services. By its share in the total expenditures, this type of expenditures is currently one of the most significant government functions. The post-war period has caused a significant increase in expenditures for social security and welfare. So, in 1994 a share of this type of expenditures amounted to 11.43% of the total central government expenditures or 2.9% of GDP, while in 1997 this type of expenditures has increased to 18.76% of the total expenditures or 5.40% of GDP. This type of government functions comprises transfers to the Pension Fund for military pensions, military and family disability pensions, expenditures for social care of refugees and displaced persons and funds aimed at the social care program, so that the growth of these expenditures in the last two years has not been unexpected.

## 2.7. Housing and Municipal Affairs and Services

Year	Expenditure for housing and municipal affairs and services (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	462,741	2.08	...
1995	1,343,216	4.72	290.27
1996	2,602,722	8.40	193.77
1997	2,069,451	6.02	79.51

Housing and municipal affairs and services have showed an increase in the observed period of time. In 1996, these expenditures were doubled in the absolute amount and represented 8.40% of the total public expenditures and 2.43% of GDP. This type of expenditures mainly covers the reconstruction of houses for returnees and the construction of houses for the war invalids and disabled war veterans. In 1997, these expenditures were reduced in the absolute and relative amount. The reduction of these expenditures has resulted from the upkeeping of established budgetary restraints, as well as the utilization of some other instruments for the reconstruction, such are shares in the portfolio of the Croatian Privatization Fund. In 1997, expenditures for housing and municipal services represented 6.02% of the total public expenditures, which was 1.73% of GDP.

## 2.8. Recreational, Cultural and Religious Affairs and Services

Year	Expenditure for recreational, cultural and religious affairs and services (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	308,960	1.39	...
1995	430,115	1.51	139.21
1996	410,711	1.33	95.49
1997	539,479	1.57	131.35

This type of expenditures represents approximately 0.50% of GDP and it makes 1.57% of the total expenditures. A more significant increase in this type of expenditures is expected in the subsequent period of time, which will be the result of a public expenditure policy that will favor culture, sport and recreation when establishing priorities.

## 2.9. Agriculture, Forestry, Fishing and Hunting

Year	Expenditure for agriculture, forestry, fishing and hunting (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	652,968	2.93	...
1995	511,479	1.80	78.33
1996	550,976	1.78	107.72
1997	616,317	1.79	111.86

Expenditures for agriculture, forestry, fishing and hunting are mainly related to the expenditures for subsidies to agriculture, as well as to the incitement of agricultural development. The above mentioned expenditures have stabilized in the course of the observed period to 1.8% of the total central government budget expenditures and 0.52% of GDP.

## 2.10. Mining, Manufacturing and Construction

Year	Expenditure for mining, manufacturing and construction (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	192,398	0.86	...
1995	255,352	0.90	132.72
1996	381,307	1.23	149.33
1997	692,771	2.01	181.68

This type of expenditures mainly covers the expenditures of the rehabilitation and restructuring of industry in the regions devastated by the war and the rehabilitation of shipbuilding industry. It is obvious that the referred expenditures have increased in the overall structure of public expenditures, as well as in its share in GDP. In 1997, this category of expenditures amounted to 2.01% of the total central government budget expenditures which was around 0.58% of GDP.

## 2.11. Transport and Communication Affairs and Services

Year	Expenditure for transport and communication affairs and services (in 000 HRK)	Share in total expenditure (as %)	Growth rate (as %)
1994	1,498,506	6.72	...
1995	2,232,489	7.84	148.98
1996	3,404,954	10.99	152.52
1997	3,433,519	9.98	100.84

This category of expenditures comprises expenditures for the construction and maintenance of road, air, railroad and water infrastructure. During the observed period, it was noticed that this government function increased and in the last two years it has stabilized at the level of 10% of the total central government budget expenditures and 3% of GDP. The Croatian Government has established the investment in roads as one of the priorities of its economic policy, due to a positive correlation with the economic growth.



## IV CENTRAL GOVERNMENT SURPLUS AND DEFICIT MEASURES



## 1. Total Deficit/Surplus and Its Financing

The total surplus/deficit of the government budget is calculated as a difference between the total revenues and expenditures increased by net lending and it represents the general measure of the fiscal policy position. After a surplus of 0.62% of GDP realized in 1994, central government budget has had a deficit that in 1997 amounted to 0.97% of GDP. The most important measures for central government budget surplus/deficit, calculated as percentage of GDP, are shown in Table 1, while absolute relations of the realized government budget surplus/deficit measures are shown in Figure 1.

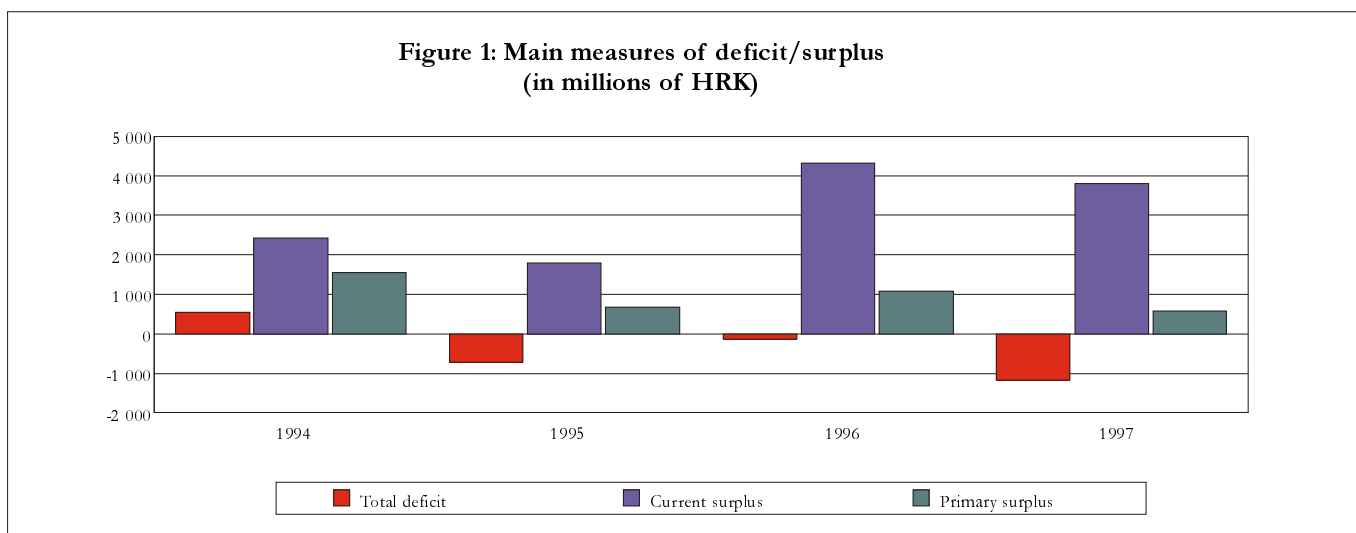
**Table 1. Central Government Deficit/Surplus Measures (% of GDP)**

	1994	1995	1996	1997
<b>Total deficit/surplus<sup>1</sup></b>	0.62	-0.73	-0.12	-0.97
<b>Current deficit/surplus<sup>2</sup></b>	2.78	1.82	4.02	3.18
<b>Primary deficit/surplus<sup>3</sup></b>	1.77	0.69	1.01	0.48

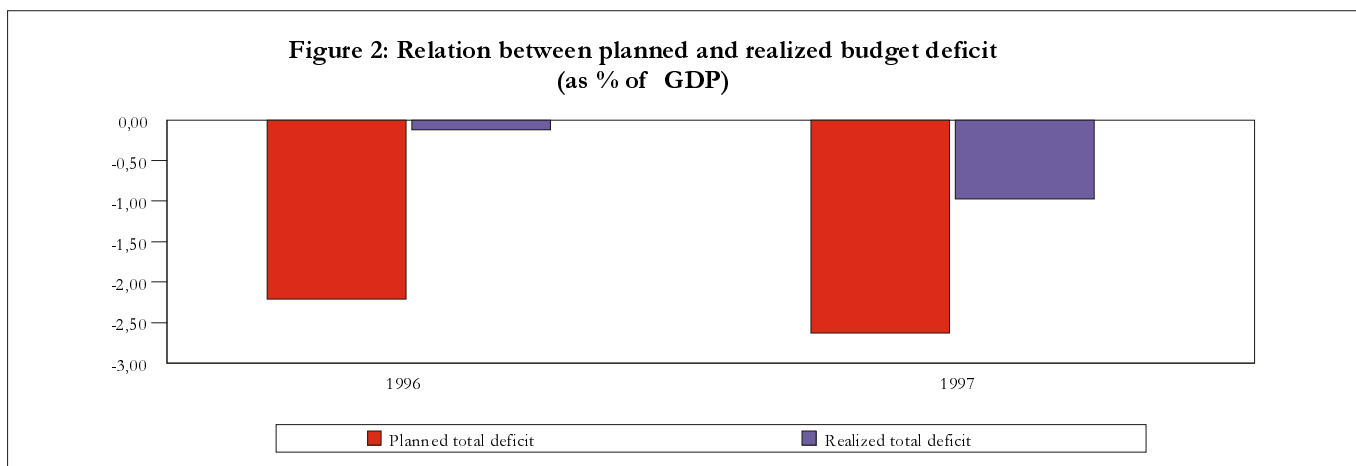
<sup>1</sup> Total deficit/surplus = Total revenue – Total expenditure and net lending

<sup>2</sup> Current deficit/surplus = Current revenue – Current expenditure

<sup>3</sup> Primary deficit/surplus = Total deficit excluding interest payments



It has been indicated that, after the period of budgetary surplus and a relatively balanced fiscal policy during 1995 and 1996, a fiscal policy in 1997 could be defined as an expansive policy. At the same time, the total deficit realized in 1997 is considerably smaller than the projected deficit, which undoubtedly shows the effectiveness and the intensity of fiscal discipline in the government budget. The relation between the planned and realized budget deficit is shown in Figure 2 and it clearly shows the capability of the fiscal policy-makers to adjust deficit trends to the sources of financing as well as to the actual macroeconomic trends in the whole observed period of time.



Deficit realized in 1997 is an expected and planned consequence of the government's capability to finance a part of its needs on the international capital market under relatively favorable conditions. At the same time, a rather expansive fiscal policy in the country, which has successfully overcome the war and has to reconstruct the regions devastated by the war, has a positive effect on the growth of economy. Although the total deficit realized in 1997 could be observed as a certain turning-point in the fiscal policy position, the budget for 1998 has shown that the fiscal policy-makers are decisive in further keeping the government budget deficit, as well as the consolidated deficit, much under the Maastricht limit of 3%. The projected deficit of the government budget for 1998 amounts to 1.52% of GDP, but the budget deficit trends in the first quarter of the year go in favor of the assumption that the deficit will be even in 1998 far below the planned one. The structure of the total deficit financing is shown in Table 2.

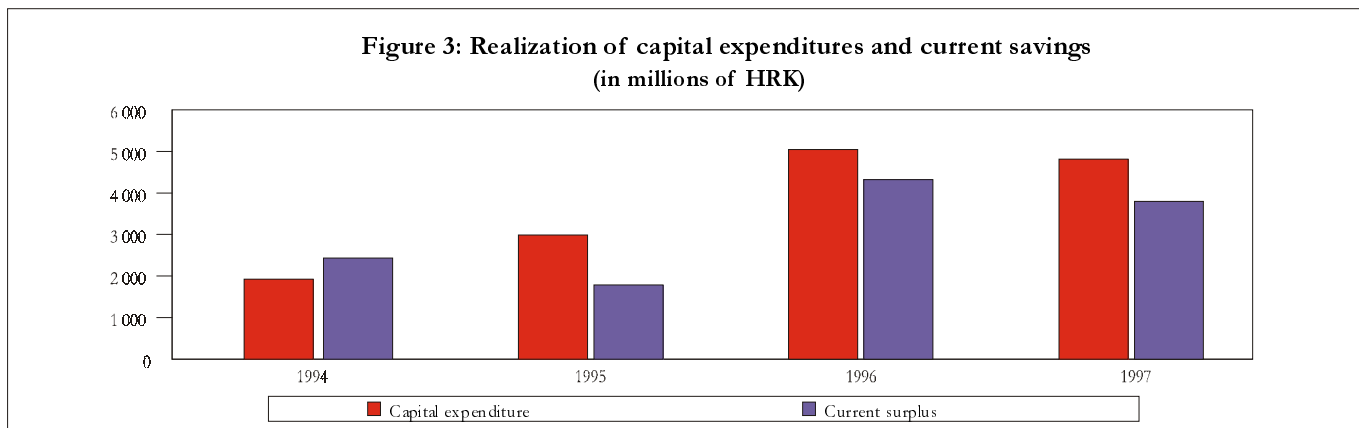
**Table 2: Total Deficit Financing**

(000 HRK)	1994	1995	1996	1997
<b>Financing (1+2)</b>	<b>-543,858</b>	<b>715,407</b>	<b>134,020</b>	<b>1,160,191</b>
<b>1. Borrowing (a+b)</b>	<b>207,671</b>	<b>1,936,745</b>	<b>2,736,607</b>	<b>3,840,235</b>
a) long-term	207,670	1,110,844	1,839,494	3,726,265
- foreign	47,331	215,828	1,294,356	3,580,015
- domestic	160,339	895,016	545,138	146,250
b) short-term	0	825,901	897,113	113,970
<b>2. Amortization</b>	<b>-751,528</b>	<b>-1,221,338</b>	<b>-2,602,587</b>	<b>-2,680,044</b>
- of domestic debt	-751,528	-1,160,395	-1,574,963	-2,085,969
- of external debt	0	-60,943	-1,027,624	-594,075

Tendencies in the deficit financing show the possibilities of the Republic of Croatia's entrance to the international capital market, which is primarily due to the settlement of external liabilities (Agreements with London and Paris Club), as well as the almost complete elimination of its war and political risk. This fact has had an impact on the establishment of the Croatian investment credit rating. Accordingly, in the observed period, the government has improved its capabilities to finance budget deficit by long-term borrowings abroad. It has also showed a tendency to refinance domestic debt liabilities through long-term foreign loans that are at the same time cheaper source of financing. These tendencies in the financing of budget deficit imply that the government absorbs less and less domestic credits, thus increasing the availability of domestic credits to the private sector. The banking sector balance goes in favor of this statement and shows that as the absolute claims to government sector fall so the share of these claims fall in the overall assets of banks. For example, in 1994, a share of the banks' claims towards the government amounted to 32.8% of the total banks' assets, while in 1997 it was reduced to 18.01%. However, one should bear in mind that the changes in the structure of the public debt thus go in favor of the external part of the debt.

## 2. Current Surplus - Government Budget Savings

Apart from the total deficit /surplus trends, a current surplus or government savings provide a significant information on the position of fiscal policy. The current surplus is calculated as the difference between current revenues and expenditures and it represents the basic measure for the sustainability of the fiscal policy. The existence of the current surplus implies that the government is capable of saving a part of its revenues and finances, from its proper funds, a part of its investments (capital expenditures). The relation of current savings and capital expenditures is shown in Figure 3.



The existence of government savings has shown that in the entire previous period the government budget has significantly contributed to the level of aggregate savings and thus has strengthened a domestic financing component of aggregate investments. The total deficit and the structure of its financing together with a high degree of capital expenditures coverage with its own savings have shown that the government has managed to finance its investments with a minimum crowding-out effect on private investments.

## 3. Primary Deficit/Surplus

The primary deficit/surplus is calculated as a difference between the total revenues and expenditures from which interests are excluded. Briefly, a primary deficit shows whether and to which extent the government is capable of paying interests from its own current revenues. The existence of a primary deficit essentially implies that the government partly incurs debts for paying the interest. The emergence of a primary deficit is therefore an indication of a fiscal policy weakness. However, as it is indicated by the theory of the budgetary restraints, a short-term emergence of the primary deficit does not necessarily indicate an unsustainable fiscal policy, but an eventual emergence of primary deficits must be succeeded by a number of primary surpluses. The existence of a number of primary surpluses ensures the minimization of the possibility of new debt creation, which in the long run enables the tax burden reduction, as well as the support to the macroeconomic stability. The capability of the Croatian fiscal policy to ensure the existence of a significant primary surplus in the entire observed period is another indication that the Croatian fiscal policy is in the long run stable and sustainable. In this manner, the current fiscal policy creates stable basis for a sustainable and healthy future fiscal policy.



## V INVESTMENT CREDIT GRADE RATING





In the end of 1996, three most prominent global agencies for the evaluation of credit rating have initiated the process of the Republic of Croatia's credit rating evaluation. The Republic of Croatia has requested a credit rating from the agencies Standard & Poors and IBCA, while Moody's Investor Service has initiated the process of credit rating evaluation without an explicit request on the part of the Republic of Croatia. All three agencies were uniform in their evaluation of the Republic of Croatia's credit rating and in the beginning of 1997 they attributed an investment credit grade rating to the Republic of Croatia. As it is shown in Table 1, the attributed investment credit grade rating has classified the Republic of Croatia among more progressive transitional countries together with Poland and Hungary. The referred agencies have, by attributing a credit grade rating to the Republic of Croatia, positively evaluated the political stability of the country, its economic policy and the results achieved in the structural changes performed in the previous five years. The investment credit grade rating granted to the Republic of Croatia has completed the process of the regulation it's relations with foreign creditors and allowed Croatia access to the international capital market under favorable terms.

**Table 1: Comparison of Long-Term Credit Ratings**

COUNTRY	S&P	Moody's	Fitch-IBCA	JBRI
CZECH REPUBLIC	A	Baa1	BBB+	A-
GREECE	BBB-	Baa1	BBB	A
<b>CROATIA</b>	<b>BBB-</b>	<b>Baa3</b>	<b>BBB-</b>	<b>BBB</b>
HUNGARY	BBB-	Baa3	BBB	BBB+
POLAND	BBB-	Baa3	BBB	-
SLOVENIA	A	A3	A-	-
SLOVAKIA	BBB-	Ba1	BBB-	BBB

In the end of 1997, the Republic of Croatia requested a credit rating evaluation even from a Japanese agency called The Japan Bond Research Institute - JBRI. The credit rating triple B (BBB) was attributed to the Republic of Croatia, which is for one degree higher than the evaluation of the above mentioned American and European agencies.

**Table 2: Outline of Credit Ratings Attributed to the Republic of Croatia**

	Long - term rating foreign currency	Long - term rating domestic currency	Short - term rating foreign currency	Short - term rating domestic currency
Moody's Investors Service	Baa3	-	P-3	
Standard & Poors	BBB-	A-	A3	A2
IBCA	BBB-	A-	A3	
JBRI	BBB	-	-	-



## VI PUBLIC DEBT OF THE REPUBLIC OF CROATIA



The public debt of the Republic of Croatia, as shown in this Annual, may be divided between debts of the Republic of Croatia to its residents and debts to abroad. The overview of the government guarantees is not included in the public debt outline showed in this report.

When considering the public debt, one should always bear in mind specific circumstances in which it occurred. The greatest part of the public debt of the Republic of Croatia has emerged either by taking over a part of the former SFRY debts (towards London and Paris Club, namely to official creditors) or as a consequence of the disintegration of the former SFRY (frozen foreign currency deposits, JDA, JDB bonds). Only a minor part of the total public debt is an original debt of the independent Republic of Croatia. In the subsequent pages, the characteristics of internal and external public debt are shown, while a separate chapter is dedicated to the development of relations with the international financial institutions.

## **1. STRUCTURE OF THE INTERNAL DEBT**

The structure of the internal debt of the Republic of Croatia as well as the stock of debt at December 31, 1996 is shown in Table 1. The stock of debt in the period from 1991 to 1996 is shown in Table 1 in Deutsche marks, in order to ensure the comparability of data for high-inflationary years 1991 to 1993. That is the reason why the greatest part of the internal debt, which was incurred in the course of 1991, 1992 and 1993, is originally indicated in Deutsche marks, which additionally justifies the existence of such table. In the subsequent pages, the debt stock at the end of 1997, as well as the repayment plan, will be denoted in kunas.

### **1.1. Frozen Foreign Exchange Deposits and Related Debt Elements**

So called “frozen foreign exchange deposits” represent a major component of the internal debt. The Republic of Croatia ceased to be a part of the monetary system of the former SFRY in June 1991 by a decision passed by the former National bank of Yugoslavia. Accordingly, all business relations between the Croatian commercial banks and the former Central Bank were broken off. The result of such a decision issued by the National Bank of Croatia was reflected in the impossibility of Croatian commercial banks to realize their claims towards the National Bank of Yugoslavia related to foreign exchange deposits of the citizens. Namely, commercial banks in SFRY were liable to deposit foreign exchange funds in the National Bank of Yugoslavia, and they obtained in return the equivalent value in the former domestic currency.

With the disintegration of the former SFRY, Croatian commercial banks have realized, on behalf of the foreign exchange deposits, claims towards the former National Bank of Yugoslavia. Since the referred funds represented at the same time foreign exchange deposits of the Croatian citizens, the Government of the Republic of Croatia issued in the end of 1991 a Decree on the Conversion of the Citizens’ Foreign Exchange Deposits with Banks into the Public Debt of the Republic of Croatia.<sup>2</sup> More precisely, the citizens’ foreign exchange deposits with banks, which performed their business activity in the territory of the Republic of Croatia as at April 27, 1991, were transformed in the public debt of the Republic of Croatia, increased by the interests realized on these deposits in 1991.

After the Decree was issued, the procedure for determining the amounts of claims of the Croatian commercial banks towards the former National Bank of Yugoslavia was initiated. It was determined that the referred claims amounted to 5.034 billion Deutsche marks. The conversion procedure for foreign exchange deposits older than April 27, 1991 was performed in the way that the Republic of Croatia issued its bonds to commercial banks, denominated in notes of 100, 500 and 1000 Deutsche marks. Such bonds are repayable in 20 semi-annual installments, with the first installment falling due as at June 30, 1995 and the last as at June 30, 2005. The bonds were issued with the interest rate of 5%. The interests are calculated from January 1, 1992 and they are paid twice in a year - on June 30 and December 31, with the first payment on June 30, 1992. The

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<sup>2</sup>Decree on the Conversion of the Citizens’ Foreign Exchange Deposits into the Public Debt of the Republic of Croatia issued in the Official Gazette No. 71/91, 3/92, 12/92, 71/92, 58/93. Finally, on November 25, 1993, the Law on the Conversion of the Citizens’ Foreign Exchange Deposits into the Public Debt of the Republic of Croatia entered into force, Official Gazette No. 103/93.

principle and interest falling due on June 30 must be paid in July, while the principle and interests falling due on December 31 must be paid in January.

**Table 1: Stock of Internal Debt, End of the Year (indicated in DM millions)**

	1991	1992	1993	1994	1995	1996
<b>1. Frozen foreign exchange deposits</b>	5,033.90	4,653.61	3,989.68	3,245.91	2,796.28	2,382.75
<b>2. Big Bonds (total)</b>	1,550.09	1,597.28	1,420.03	1,360.72	1,301.42	1,087.37
2.1 Big Bonds I						445.07
2.2 Big Bonds II						219.97
2.3 Big Bonds III						208.95
2.4 Big Bonds IV						213.38
<b>3. Bonds 93</b>			107.37	89.48	53.69	17.90
<b>4. Bonds 94-1</b>				47.61		
<b>5. Bonds 94-2</b>					9.66	
<b>6. Bonds JDA</b>					153.70	128.08
<b>7. Bonds JDB</b>						147.10
<b>8. Reconstruction Bonds</b>			16.25	10.87	7.96	7.32
<b>9. CNB I Loan</b>		31.31	4.08	4.27	3.78	3.48
<b>10. CNB III Loan</b>					100.33	54.44
<b>11. Banks Rehabilitation Agency's Bonds - total</b>						736.59
11.1 BRA I (Riječka and Splitska banka)						313.06
11.2 BRA II (Privredna banka - DM)						86.38
11.3 BRA III (Privredna banka - KN)						216.51
11.4 BRA IV (Privredna banka- KN)						120.64
<b>I TOTAL</b>						
<b>Long-term internal debt (1 - 11)</b>	<b>6,583.99</b>	<b>6,282.20</b>	<b>5,537.41</b>	<b>4,758.86</b>	<b>4,426.82</b>	<b>4,565.03</b>
<b>II TREASURY BILLS</b>						<b>76.39</b>
<b>TOTAL</b>						
<b>Long-term and short-term debt (I + II)</b>	<b>6,583.99</b>	<b>6,282.20</b>	<b>5,537.41</b>	<b>4,758.86</b>	<b>4,426.82</b>	<b>4,641.42</b>

Apart from the possibility of waiting for 20 semi-annual installments, the citizens have the opportunity to request from the banks bonds that were issued by the Republic of Croatia. By these bonds the citizens could buy flats which were owned by the state and for which they had the tenant's right or they could buy stocks and shares of enterprises. By the amount of deposits that were replaced by the bonds the banks reduced their total liability towards citizens. Simultaneously, on the basis of the bonds received the banks reduced for the same amount their claims towards the Republic of Croatia.

The citizens were using to the great extent this measure to replace "frozen foreign exchange deposits" with bonds convertible in cash when buying flats, stocks and shares of enterprises. The result of this conversion was the reduction of the total debt incurred by "frozen foreign exchange deposits" for 2.084 billion Deutsche marks (DM) in the period from April 1991 to June 1995. Namely, when the first out of 20 installments of the foreign exchange deposits fell due on June 30, 1995 - the stock of debt incurred by "frozen foreign exchange deposits" amounted to DM2.950 billion, which is DM2.084 billion less than the stock of the foreign exchange deposits converted into the public debt four years ago.

For interests ascribed to "frozen foreign exchange deposits" falling due on July 1, 1993, the Republic of Croatia has issued bonds repayable in six semi-annual installments, out of which the first installment fell due on July 1, 1994. These bonds are called Bonds 93 in Table 1. Bonds 93 were completely repaid in 1997. In the same manner, the payment of interests falling due on December 31, 1993 and June 30, 1994 was partly refinanced by the issuance of bonds - Bonds 94-1 and Bonds 94-2 which were repaid in full.

With respect to the repayment of the first out of 20 annuities of the principle of the “frozen foreign exchange deposits” which fell due on June 30, 1995, the Republic of Croatia has also issued so called JDA bonds in the amount of DM153,700,700.00 which according to the exchange rate at that time amounted to 554,549,600.00 kunas.<sup>3</sup> JDA bonds were issued with the annual interest of 12% and the repayment in six equivalent semi-annual annuities, of which the first fell due on September 1, 1996. The last annuity for the repayment of JDA bonds will fall due on March 1, 1999. At the same time, commercial banks have paid out to citizens - holders of “frozen foreign exchange deposits” the first out of 20 installments. There was also an opportunity for depositors whose deposits exceed DM20,000 to request from the bank to replace the first installment out of 20 for frozen foreign exchange deposits by an adequate number of JDA bonds. All annuities that have fallen due so far according to JDA bonds have been regularly repaid from the government budget. As it is shown in the Table 2, the stock of debt incurred by JDA bonds amounted to 270,590,000.00 kunas as at December 31, 1997, namely it amounted to DM76.85 million.

In the same manner, the payment of the second annuity for the principle of “frozen foreign exchange deposits” fallen due on December 31, 1995 was replaced by the issuance of bonds - Bonds JDB in the amount of DM147,100,000.00 which according to the exchange rate at that time, amounted to 545,137,890.00 kunas.<sup>4</sup> Bonds JDB were issued with the annual interest rate of 8% that have been calculated from January 1, 1996. These bonds are repayable in six equivalent semi-annual annuities, with the first annuity fell due on April 1, 1997, and the last falling due on October 1, 1999. The banks have paid out the citizens - holders of “frozen foreign exchange deposits”- the second installment in foreign currency. There was also an opportunity for the depositors, whose deposits exceed DM19,000, to request from the bank to replace the first installment of “frozen foreign exchange deposits” by an adequate number of JDB bonds. The funds for the repayment of annuities, which have fallen due so far, have been ensured by the government budget and they have been regularly repaid to the bonds’ holders. The stock of the debt incurred by JDB bonds amounted to 345,331,000.00 kunas as at December 31, 1997.

Both bonds JDA and JDB have been listed on the Zagreb Stock Exchange. Bonds JDA, namely JDB, may be used for the purchase of stocks and shares of the Croatian Privatization Fund and the Croatian Pension Insurance Fund d.d. Zagreb. In accordance with the above mentioned, the debt of the Republic of Croatia incurred by the referred bonds will cease to exist when the Croatian Privatization Fund take hold of them on behalf of the purchase of stocks and shares in enterprises.

After the first and second annuity of the “frozen foreign exchange deposits” was paid out in the above-mentioned manner, other annuities fallen due were regularly repaid from the government budget. The stock of the “frozen foreign exchange deposits” debt amounted to 7,093,300,000.00 kunas as at December 31, 1997 (Table 2). The amortization plan of principle and interest repayment is shown in Table 3.

## 1.2. Big Bonds

So called “Big Bonds” issued in the nominal amount of DM1,550,090,000 in 1991 represent the other major component of the internal debt.<sup>5</sup> The bonds were issued to enterprises which deal with the economic infrastructure, export capital goods, perform investment works abroad, other exporters, as well as to the manufacturers of the basic agricultural products with the aim of settling their liabilities towards banks. The share of the Republic of Croatia in the enterprise’s capital has been increased by the amount of bonds received by the certain enterprise. The Government of the Republic of Croatia determined the amount of bonds received by individual enterprises after its bodies had evaluated the rehabilitation and restructuring program proposed by these enterprises. The referred bonds are today present in the portfolio of 20 commercial banks.

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<sup>3</sup>Decree on the Issuance of Bonds of the Republic of Croatia for the Refinancing of the First Installment of the Public Debt Falling Due on June 30, 1995, Official Gazette, No. 85 dated October 23, 1995.

<sup>4</sup>Decree on the Issuance of Bonds of the Republic of Croatia Series JDB for the Refinancing of the Second Installment of the Public Debt Falling Due as at December 31, 1995, Official Gazette No. 85 dated May 8, 1996.

<sup>5</sup>The Law on the Issuance of Bonds for the Restructuring of the Economy of the Republic of Croatia, Official Gazette No. 27/91.

**Table 2: Stock of the Internal Debt as at December 31, 1997 (in million HRK)**

Debt by items:	Amount	Maturity	Interest rate (%)
Frozen foreign exchange deposits	7,093.3	2005	5.00%
Big Bonds I	1,462.6	2011	
Big Bonds II	744.2	2011	7.20%
Big Bonds III	722.2	2012	7.20%
Big Bonds IV	643.6	2000	12.00%
Bonds JDA	270.6	1999	12.00%
Bonds JDB	345.3	1999	8.00%
Reconstruction Bonds	19.3	2003	7-10%
Eurokuna	300.0	1998	12.50%
BRA I (Riječka and Splitska banka)	1,084.6	2007	6.00%
BRA II (Privredna banka - DM)	297.4	2012	5.00%
BRA III (Privredna banka - KN)	756.3	2012	7.20%
BRA IV (Privredna banka - KN)	419.8	2012	5.00%
<b>TOTAL – Long-term Debt</b>	<b>14,159.1</b>		
Treasury Bills	449.6		
<b>TOTAL LONG-TERM AND SHORT-TERM DEBT</b>	<b>14,608.7</b>		

In 1996, Big Bonds were divided between Big Bonds - Series I, Big Bonds - Series II, Big Bonds - Series III and Big Bonds - Series IV. Such a division of Big Bonds was of a technical nature and it was performed after the rehabilitation of Riječka banka d.d. Rijeka, Splitska banka d.d. Split and Privredna banka d.d. Zagreb. Namely, in the process of rehabilitation of the referred banks, convertible bonds were issued to those banks for claims towards the Republic of Croatia on the basis of Big Bonds. Big Bonds - Series I thus comprise Big Bonds which are in the possession of all banks except Riječka banka, Splitska banka and Privredna banka. Big Bonds - Series II comprise Big Bonds in the portfolio of Riječka banka and Splitska banka, while Big Bonds - Series III and IV comprise Big Bonds in the portfolio of Privredna banka.

Big Bonds are issued on the name and at the repayment period of twenty years in 40 semi-annual annuities. Since the referred Bonds were issued in the time of high inflation, their issuance conditions are of a specific nature. In principle, these bonds do not bear interest, but the revaluation of the remaining debt incurred by these bonds is performed on a semi-annual basis. The revaluation of bonds is performed by the producers' price index. The stock of debt incurred by these bonds as at December 31, 1997 is shown in Table 2, while the principle and interest repayment plan is shown in Table 3.

### 1.3. Reconstruction Bonds

Reconstruction bonds were issued during 1992 and 1993 with the purpose of raising funds for the reconstruction of factories, sacral buildings and the objects of the cultural heritage devastated in the war.<sup>6</sup> These reconstruction bonds were issued three times. The first issue was done on January 1, 1992 and it was denominated in Deutsche marks and American dollars. In the first issue, bonds in the amount of DM50,000,000 with the annual interest rate of 9.25% were issued, as well as the bonds in the amount of US\$30,000,000 with the annual interest rate of 8%. In the second issue, bonds in the amount of 10,000,000 Canadian dollars with the annual interest rate of 7% were issued. The third issue was performed on February 1, 1993 in the amount of 25,000,000 Australian dollars with the interest rate of 10%.

<sup>6</sup>Decree on the Issuance of Bonds aimed at Raising Funds for the Reconstruction of the Republic of Croatia, Official Gazette, No. 65/1991.



The issuance conditions were as follows: the repayment of the principle in 10 semi-annual installments with the first installment falling due after the two-year grace period. The coupon rate was determined according to the interest rate on the government bonds of the countries in whose currency the bonds were issued and increased by the 1% margin. The buyers of these bonds had certain privileges when purchasing them. The Croatian citizens who are residents of the Republic of Croatia had a discount of 10% when purchasing them, while this discount amounted to 20% for Croatian citizens with the residence abroad. Furthermore, the buyers of these bonds had a right to reduce profit taxable base to 5% of the nominal value of the bonds purchased in the year when they were paid. Natural persons had a right to reduce income taxable base in the amount of 10% of the nominal value of the bonds purchased. Bonds were to the great extent sold to the Croatian immigrants, and about 90% of these bonds were used in the privatization process.

#### **1.4. Loans from Croatian National Bank**

Loans granted by the Croatian National Bank in 1991 and 1995 were repaid in total in the end of 1997, regardless of longer maturities.

#### **1.5. Bonds for the Rehabilitation of Banks**

Bonds issued for the rehabilitation of banks are considered bonds issued in the time of the rehabilitation of Riječka banka, Splitska banka and Privredna banka. Bonds in the amount of 552 million kunas were issued by the Decree on the Rehabilitation of Riječka banka<sup>7</sup> out of which 246 million kunas covered potential losses which could not be written off against guarantee capital and 306 million kunas for the initial increase of equity. Bonds for the rehabilitation of Riječka banka were issued with a ten-year maturity and the interest rate of 8.5%. The Agency for the Rehabilitation of Banks should repurchase up to 170 million kunas of the bonds issued within a month of the issuance of the Decree at the latest. According to the Decree on the Rehabilitation of Riječka and Splitska banka in 1996, these bonds should have been repaid on June 30 and January 31, starting with January 31, 1997. In 1997, the redemption of annuities falling due was realized in the manner stipulated by the Decree on the Rehabilitation issued in 1996.

However, in the beginning of 1998, Decision on the Amendment of the Decree of the Rehabilitation of Riječka banka d.d. Rijeka<sup>8</sup> was passed. Accordingly, non-purchased bonds issued by the Decree on the Rehabilitation of Riječka banka from 1996 were replaced by convertible bonds with a changed terms and conditions of redemption. Convertible bonds were issued in the amount of 352.6 million kunas, with a currency clause, interest rate of 6% and with a ten-year maturity. The principle and interest repayment was rescheduled from June 30 and January 31 to May 20 and November 20, starting with May 20, 1998. The last annuity falling due on May 20, 2007. Simultaneously, with the amendment of the Decision on the Rehabilitation, bonds for the increase of Riječka banka liability towards London and Paris Club were issued in the amount of DM23 million with the currency clause, a ten-year maturity and the interest rate of 6%. The first annuity of the referred bonds falls due on May 20, 1998.

Bonds in the amount of 765 million kunas were issued by the Decision on the Rehabilitation of Splitska banka d.d. Split<sup>9</sup>. For the coverage of potential losses which could not be written off against the guarantee capital 765 million kunas were utilized, while 320 million kunas were utilized for the initial increase of equity. Bonds were issued with a ten-year maturity and the interest rate of 8.5%, the annuities falling due on June 30 and January 31, starting with the January 31, 1997. The Agency for the Rehabilitation of Banks should have repurchased a part of the bonds issued in the amount up to 100 million kunas. However, the Decision on the Amendment of the Decision on the Rehabilitation of Splitska banka d.d. Split has modified the date and the repayment terms and conditions of a nonpurchased part of bonds issued in 1996.<sup>10</sup> The nonpurchased part of 663 million kunas determined by the Decision on the Amendment of the Decision of the Rehabilitation of

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<sup>7</sup> Decision on the Rehabilitation and Restructuring of Riječka banka d.d. Rijeka, Official Gazette 31/1996.

<sup>8</sup> Decision on the Amendments of the Decision of the Rehabilitation and Restructuring of Riječka banka d.d. Rijeka, Official Gazette 20/1998.

<sup>9</sup> Decision on the Rehabilitation of Splitska banka d.d. Split, Official Gazette, 31/1996.

<sup>10</sup> Decision on the Amendment of the Decision on the Rehabilitation and Restructuring of Splitska banka d.d. Split, Official Gazette 22/1998.

Splitska banka was replaced by convertible bonds with the currency clause, a ten-year maturity and the interest rate of 6%. Convertible bonds will be repaid in 20 semi-annual annuities falling due on May 20 and November 20, starting on May 20, 1998. The last annuity of bonds issued for the purpose of the rehabilitation of Splitska banka will fall due on May 20, 2007. Bonds in the amount of 46 million kunas, with the currency clause and under the same conditions like convertible bonds, have been additionally issued for the purpose of covering increased liabilities of Splitska banka towards London and Paris Club.

Bonds issued for the rehabilitation of Riječka and Splitska banka are called in our tables **“Rehabilitation of banks BRA I (Rb, Sb)”**. According to the Decisions on the Amendment of the Decision of Riječka and Splitska banka, the stock of the debt by BRA I bonds has been determined in the amount of 1,084.06 million kunas as at December 31, 1997 (Table 2). The repayment plan of the principle and interest and the stock of debt in the end of the year for the period to 2005 are shown in Table 3 and 4.

The Agency for the Rehabilitation of Banks has issued bonds in the amount of 1,463.00 million kunas in order to increase the equity capital of the bank of Privredna banka d.d. Zagreb.<sup>11</sup> The bonds have been issued in three series which are in our tables called BRA II bonds (PBZ-DM), BRA III (PBZ-KN), BRA IV (PBZ-KN).

Bonds **“Rehabilitation of banks - BRA II (PBZ - DM)”** have been denominated in Deutsche marks and issued in the amount of DM84,333,623.82 or in the amount of 300 million kunas. Bonds BRA II (PBZ-DM) have been issued on the term of 15 years and are repayable in 30 semi-annual installments, of which the first fell due on August 1, 1997. The interest rate on these bonds amounts to 5% per year and it is calculated and paid every August 1 and February 1, starting on August 1, 1997. The repayment of bonds is realized in kunas at the exchange rate valid on the date of repayment.

As the Decision on the Rehabilitation of Privredna banka was passed in the end of 1996, the initial stock of debt incurred by these bonds has been increased by resting interest, so that the initial stock of debt amounted to DM86.4 million, as showed in the Table 1. The repayment plan of the principle and interest and the stock of debt as of the end of the year for the period to 2005 are shown in the Table 3 and Table 4.

Bonds of the series **“Rehabilitation of Banks BRA III (PBZ-KN)”** have been issued in the amount of 744 million kunas with the repayment period of 15 years. BRA III will be repaid in 30 semi-annual installments, of which the first installment fell due on August 1, 1997, and the last falling due on February 1, 2012. The interest rate amounts to 7 1/5% per year, and it is calculated and repaid every August 1 and February 1, starting on August 1, 1997. The initial stock of debt by these bonds is also increased by the interest accrued in the grace period, which amounted to 771.1 million kunas as of December 31, 1996 or as it is shown in the Table 1, it amounted to DM1,216.51 million. The repayment plan of the principle and interest and the stock of debt as of the end of the year for the period to 2005 are shown in the Table 3 and Table 4.

The bonds of series **“Rehabilitation of banks BRA IV (PBZ-KN)”** have been issued in the amount of 419,777 million kunas with the interest rate of 5%. The initial stock has been increased by the resting interest, so that it amounted to 429.6 million kunas as at December 31, 1996 or, as it is shown in the Table 1, it amounted to DM1,120.64 million. BRA IV bonds have been issued with the repayment period of 15 years, and they will be repaid in 30 semi-annual installments of which the first installment falling due on August 1, 1997. The last annuity will fall due on February 1, 2012. The repayment plan of the principle and interest and the stock of debt as of the end of year for the period to 2005 are shown in the Table 3 and Table 4.

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<sup>11</sup>Decision on the Rehabilitation and the Restructuring of Privredna banka d.d. Zagreb, Official Gazette No. 106/1996.

**Table 3: Internal Debt Amortization up to 2005 (In million of HRK)**

	1998	1999	2000	2001	2002	2003	2004	2005
<b>AMORTIZATION OF PRINCIPLE</b>	<b>2,154.65</b>	<b>1,805.21</b>	<b>1,437.34</b>	<b>1,302.06</b>	<b>1,318.31</b>	<b>1,335.61</b>	<b>1,354.11</b>	<b>896.59</b>
Frozen foreign exchange deposits	946.30	946.30	946.30	946.30	946.30	946.30	946.30	469.17
Big Bonds I	104.47	104.47	104.47	104.47	104.47	104.47	104.47	104.47
Big Bonds II	32.53	34.02	37.39	40.08	42.96	46.06	49.38	52.92
Big Bonds III	28.53	30.63	32.89	35.29	37.88	40.65	43.64	46.83
Big Bonds IV	235.20	264.25	144.15	0.00				
Bonds JDA	180.38	90.21	0.00					
Bonds JDB	172.63	172.67	0.00					
Reconstruction Bonds	6.46	6.46	6.41	0.00				
BRA I (Riječka and Splitska banka)	82.79	86.86	92.14	97.78	103.73	110.03	116.76	123.83
BRA II (Privredna banka - DM)	14.04	14.74	15.48	16.27	17.09	17.96	18.87	19.82
BRA III (Privredna banka - KN)	30.99	33.26	35.70	38.31	41.12	44.14	47.37	50.84
BRA IV (Privredna banka - KN)	20.31	21.34	22.42	23.55	24.74	26.00	27.31	28.70
Eurokuna Bonds	300.00	0.00						
<b>INTEREST PAYMENTS</b>	<b>795.77</b>	<b>639.97</b>	<b>480.31</b>	<b>409.49</b>	<b>346.50</b>	<b>282.91</b>	<b>217.18</b>	<b>150.80</b>
Frozen foreign exchange deposits	338.22	291.47	244.72	197.98	151.23	104.48	57.74	10.99
Big Bonds II	52.08	49.74	47.24	44.54	41.65	38.56	35.24	31.68
Big Bonds III	49.66	47.56	45.31	42.89	40.31	37.53	34.56	31.36
Big Bonds IV	70.38	41.30	8.66	0.00				
Bonds JDA	57.36	28.70	0.00					
Bonds JDB	36.79	36.79	0.00					
Reconstruction Bonds	1.13	0.65	0.17	0.00				
BRA I (Riječka and Splitska banka)	64.08	58.80	53.52	47.92	41.97	36.13	28.91	21.83
BRA II (Privredna banka - DM)	14.32	13.61	12.87	12.09	11.27	10.39	9.48	8.54
BRA III (Privredna banka - KN)	53.91	51.64	49.20	46.58	43.77	40.76	37.52	34.05
BRA IV (Privredna banka - KN)	20.74	19.71	18.63	17.50	16.30	15.05	13.73	12.35
Eurokuna Bonds	37.09	0.00						
<b>DEBT SERVICE TOTAL</b>	<b>2,950.41</b>	<b>2,445.18</b>	<b>1,917.66</b>	<b>1,711.55</b>	<b>1,664.81</b>	<b>1,618.52</b>	<b>1,571.29</b>	<b>1,047.39</b>

**Table 4: Internal debt stock projection, end of year (in million of HRK)**

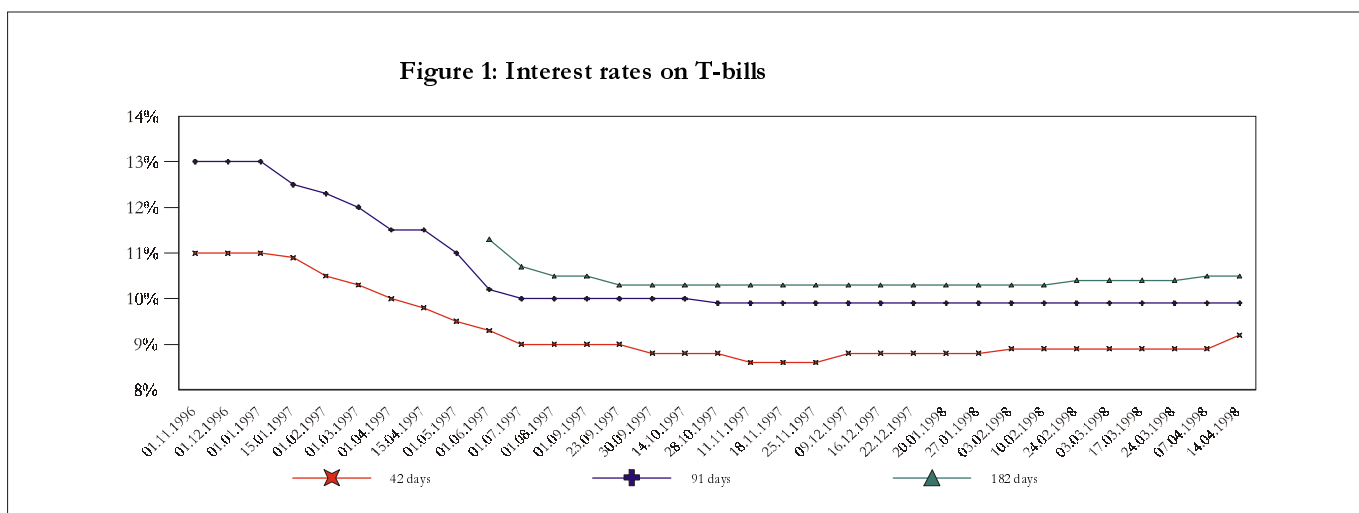
	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Frozen foreign exchange deposits</b>	7,093.30	6,147.00	5,200.69	4,254.39	3,308.09	2,361.78	1,415.48	469.17	0.00
<b>Big Bonds I</b>	1,462.62	1,358.15	1,253.67	1,149.20	1,044.73	940.25	835.78	731.31	626.84
<b>Big Bonds II</b>	744.17	711.64	677.62	640.23	600.16	557.19	511.13	461.75	408.82
<b>Big Bonds III</b>	722.17	693.64	663.00	630.12	594.83	556.95	516.30	472.66	425.83
<b>Big Bonds IV</b>	643.60	408.40	144.15	0.00					
<b>Bonds JDA</b>	270.59	90.21	0.00						
<b>Bonds JDB</b>	345.30	172.67	0.00						
<b>Reconstruction Bonds</b>	19.32	12.86	6.41	0.00					
<b>BRA I (Riječka and Splitska banka)</b>	1,084.60	1,001.94	915.07	822.93	725.15	621.42	511.39	394.63	270.80
<b>BRA II (Privredna banka - DM)</b>	297.38	283.33	268.59	253.12	236.85	219.76	201.79	182.92	163.10
<b>BRA III (Privredna banka - KN)</b>	756.31	725.32	692.07	656.37	618.05	576.93	532.80	485.43	434.58
<b>BRA IV (Privredna banka - KN)</b>	419.78	399.47	378.13	355.71	332.16	307.42	281.42	254.11	225.41
<b>Eurokuna Bonds</b>	300.00	0.00							
<b>TOTAL</b>	<b>14,159.14</b>	<b>12,004.62</b>	<b>10,199.41</b>	<b>8,762.07</b>	<b>7,460.01</b>	<b>6,141.70</b>	<b>4,806.09</b>	<b>3,451.98</b>	<b>2,555.39</b>

## 1.6. Treasury Bills

Treasury bills are short-term securities by which the Ministry of Finance collects funds on a domestic money market for the purpose of a more efficient government budget execution. Treasury bills harmonize the dynamics of the realized budgetary revenues with expenditures established by the budget. The Ministry of Finance has established a model of the regular T-bills' issuance by means of auctions that are held three times a month. Auctions are held on Tuesdays and the payment and repurchase of T-bills are held on Thursdays. Treasury bills are issued with maturities of 42, 91 and 182 days.

Treasury bills are issued at a uniform selling price that is realized on the auction. The Ministry of Finance determines the planned amount of issue by a call to the auction. Collected bids are ranked according to the price offered and when their amount reach the planned one, the Ministry of Finance determines a uniform selling price in accordance with the marginal bid which reaches the planned amount of the issue. Bids with lower price are automatically rejected.

A direct access of foreign investors to the T-bills' auction is not allowed. In practice, foreign investors purchase Treasury bills mainly through domestic commercial banks. On first T-bills' auctions, the structure of buyers was the following: public enterprises made 48% of all buyers, while the remaining 52% made banks and other physical and legal entities. After more than a year of organizing T-bills' auctions, the structure of buyers has significantly changed in favor of banks, while a share of nonbanking investors in the structure of subscribed T-bills has decreased. The structure of T-bills has indicated that the highest investors' interest is



concentrated on 42 days bills. The movement of interest rates on T-bills is shown in Figure 1.

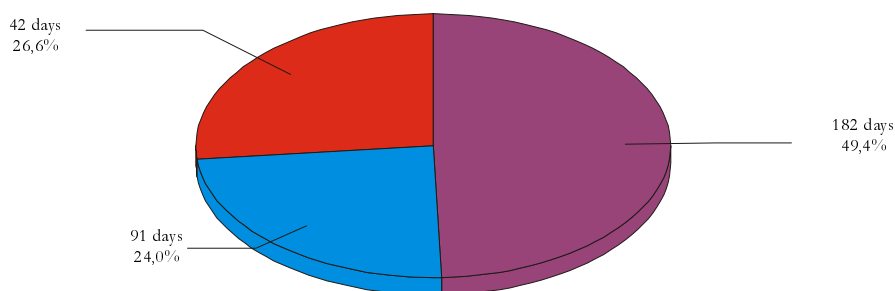
**Table 5: Interest Rates Differences between T-bills and CNB bills (the last auction in the year)**

Maturity (in days)	Treasury Bills of Ministry of Finance			CNB Bills		
	42	91	182	35	91	182
1996	11.00%	13.00%	-	8.00%	9.50%	18.71%
1997	8.55%	9.90%	10.25%	8.00%	9.00%	10.00%

When comparing interest rates on Treasury bills and bills of the Croatian National Bank (Table 5), it can be seen that interest rates on T-bills of comparable maturities (91 and 182 days) are higher than interest rates on CNB bills. However, it is important to note that interest rates on both money market instruments in 1997 have been considerably lower than in the previous year.

The last auction in 1997 was held on December 22 when 42 days' T-bills were sold. The stock of the total outstanding bills amounted to 388.3 million kunas in 1997, with the maturity as shown in the Figure 2.

**Figure 2: Structure of T-bills according to the maturity, end of 1997**



## 2. STRUCTURE OF THE EXTERNAL PUBLIC DEBT

In the following pages, there is an outline of the procedure of regulating relations with Paris and London Club creditors and the effects of the Croatia's independent emergence on the international capital market, namely, in the so far realized issues of the international bonds. A separate chapter is dedicated to the financial relations with official creditors.

### 2.1. Regulation of Relations with the Member Governments of the Paris Club and the Commercial Banks of the London Club

During 1995 and 1996, the Republic of Croatia has successfully finalized negotiations with the member governments of the Paris Club, as well as with the commercial banks of the London Club, whereby provisions on the common responsibility of all SFRY Republics for the total debt of the former state have formally and legally ceased to be in force.

#### 2.1.1. Provisions of the Agreement with the Member Governments of the Paris Club

After meetings held in Paris on January 26 and March 20 and 21, 1995, the Agreement on the Consolidation of Debt of the Republic of Croatia was signed on March 21 between the representatives of the Government of the Republic of Croatia and the greatest part of countries creditors.<sup>12</sup> The representatives of the Government of the Republic of Croatia, together with the representatives of the Government of Austria, Belgium, Denmark, France, Germany, Italy, Japan, Kuwait, Netherlands, Norway, Spain, Switzerland, Sweden, Great Britain and United States participated in the above mentioned negotiations. The observers of the Government of Canada and Finland, the representatives of the International Monetary Fund, International Bank for the Reconstruction and Development, Organization for the Economic Cooperation and Economic Commission, participated in negotiations as well.

In accordance with the Agreement on the Consolidation of Debt of the Republic of Croatia, the Government has taken over:

- debts of the former SFRY which were contracted or guaranteed by legal entities residents of the Republic of Croatia. This type of debt is called “allocated debt”;
- 28.49% of debts which were contracted or guaranteed by the former SFRY or which could not be directly attributed to neither country of the former SFRY. This type of debt is called “non-allocated debt”.

<sup>12</sup>Law on Terms and Conditions of the Settlement of Liabilities Incurred by Credit Lines and other Businesses from the Agreement with Member Countries of Paris Club, Official Gazette No. 34/96

Allocated and non-allocated debts, which were taken over by the Republic of Croatia on the basis of the referred Agreement, include:

- commercial credit lines for which foreign governments issued guarantees, and for which agreements were adopted prior to December 2, 1982,
- loans of foreign governments or their institutions on which the agreements were adopted prior to December 2, 1982 and
  - the repayment of principle and interest which were incurred on the basis of consolidated agreements of the former SFRY signed with the member countries of Paris Club in the period from May 22, 1984 to July 13, 1988.

The total debt taken over by the Agreement on the Consolidation of Debt of the Republic of Croatia from March 21, 1995 towards 15 creditors member countries of the Paris Club amounted to US\$1,086,900,000.

According to the provisions of the referred Agreement, the debt incurred by outstanding principles and interests (excluding interests on arrears) has been rescheduled for the period of 14 years, starting from January 31, 1998. Accordingly, the first annuity of liabilities towards Paris Club fell due in the amount of 1.29% of the total debt taken over on January 31, 1998. After this date, the debt taken over by the above-mentioned Agreement will fall due on July 31 and January 31 of each year. The last annuity will fall due on July 31, 2009 in the amount of 8.23% of the total debt taken over by the Agreement.

Interests on arrears by the allocated and nonallocated debt taken over by the Agreement which fell due by December 31, 1994 will be repaid in 10 equal semi-annual installments, whereby the first installment fell due on July 31, 1996. The last annuity of interests on arrears fallen due by December 31, 1994 should be paid on January 31, 2001.

Detailed arrangements on the rescheduling and refinancing of debts taken over by the Agreement on the Consolidation of Debt of the Republic of Croatia have been reached by bilateral agreements with each creditor country. Up to date, bilateral agreements with 13 out of 15 creditors of the Paris Club have been signed: with Kuwait on January 3 and October 22, 1996,<sup>13</sup> Spain on January 7, 1996,<sup>14</sup> Switzerland on January 9, 1996,<sup>15</sup> the United States of America on February 1, 1996,<sup>16</sup> France on February 20, 1996,<sup>17</sup> Netherlands on February 29, 1996,<sup>18</sup> Belgium,<sup>19</sup> United Kingdom on April 4, 1996,<sup>20</sup> Austria on April 9, 1996,<sup>21</sup> Germany on

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<sup>13</sup>Law on the Ratification of Agreement and Amendment to the Agreement Signed between the Government of the Republic of Croatia and the Government of Kuwait on the Consolidation and Rescheduling of Established Debts of the Republic of Croatia towards the Government of Kuwait (Official Gazette - International Agreements, No. 3/97, entered into force on February 25, 1997).

<sup>14</sup>Law on the Ratification of Bilateral Agreement Signed between the Republic of Croatia and Spanish Agency for the Insurance and Financing of Export (CESCE) on the Rescheduling of External Debt of the Republic of Croatia (Official Gazette - International Agreements, No. 1/8/96, which entered into force on July 12, 1996).

<sup>15</sup>Law on the Ratification of Agreement Signed between the Republic of Croatia and the Government of Swiss Confederation on the Rescheduling of Debts of the Republic Croatia (Official Gazette - International Agreement, No. 1/8/96, which entered into force on July 12, 1996).

<sup>16</sup>Law on the Ratification of Agreement Signed between the Republic of Croatia and the United States of America on the Consolidation and Rescheduling of Debts which were Approved and Guaranteed by the United States of America and its Agencies (Official Gazette - International Agreements, No. 1/8/96, which entered into force on July 12, 1996).

<sup>17</sup>Law on the Ratification of Agreement on the Rescheduling of Debt between the Republic of Croatia and the Government of the Republic of France (Official Gazette - International Agreements, No. 1/9/96, which entered into force on July 19, 1996).

<sup>18</sup>Law on the Ratification of Bilateral Agreement on the Consolidation of the External Debt Redemption of the Government of the Republic of Croatia to Dutch Creditors (Official Gazette- International Agreements, No. 1/9/96, which entered into force on October 18, 1996).

<sup>19</sup>Law on the Ratification of the Agreement on the Consolidation between the Republic of Croatia and the National du Ducroire, Place Meeus 40, Bruxelles, Belgium (Official Gazette - International Agreements, No. 1/9/96, which entered into force on October 18, 1996).

<sup>20</sup>Law on the Ratification of the Agreement on Debts Signed between the Republic of Croatia and the United Kingdom No. 1 (1995) - (Official Gazette - International Agreements, No. 1/9/96, which entered into force on October 18, 1996).

<sup>21</sup>Law on the Ratification of the Agreement on the Reorganization of Debts Signed on April 9, 1996 between the Republic of Croatia which is represented by the Ministry of Finance for and on behalf of the Government of the Republic of Croatia and Oesterreichische Kontrollbank AG, Vienna which represents the Republic of Austria in accordance with the Law on the

June 20, 1996<sup>22</sup> Japan on March 4, 1997<sup>23</sup> and Denmark on January 27, 1998. The Agreement with Denmark has been in the process of ratification, the Agreement with Sweden has been initiated and it is expected to be signed by the end February 1998, while the consolidation of data with Italy is still in the process. It is important to note that principal arrears and current payments including unconsolidated debt which fell due in 1995, 1996 and 1997 have been paid in accordance with the Agreement on the Consolidation of Debt of the Republic of Croatia, even to those countries with which bilateral agreements have not yet been finalized or signed.

Simultaneously with the signing of individual bilateral agreements with countries creditors, the process of establishing and consolidating liabilities, which were the subject of agreement with Paris Club, between the Republic of Croatia, banks debtors and final users of loans has been initiated. The objective of the referred procedure is that the real burden of the repayment of allocated debt taken over by the referred Agreement should be taken over by those users which were at the time using the referred funds.

### **2.1.2. Agreement with London Club**

The Agreement with London Club is the agreement of the representatives of the Government of the Republic of Croatia on the taking over of debt that is determined by the New Financial Agreement and the Agreement on the Trade and Deposit Relief from 1988.

The New Financial Agreement is the agreement which was signed by the former National Bank of Yugoslavia, certain banks from the region of former SFRY and Chemical Investment Bank Limited, as the bank agent, on September 20, 1988. The Agreement on the Trade and Deposit Relief is the agreement which was signed by the former National Bank of Yugoslavia, certain banks from the region of former SFRY and Chemical Investment Bank Ltd., as the bank agent, on March 20, 1988.

The basic agreement signed with the presiding countries of London Club on April 26, 1996 has established the taking over and conversion of debt in the manner and according to the terms and conditions of the Informative Memorandum from May 9, 1996 and the Bid Notice from June 14, 1996. The Republic of Croatia took over 29.5% of the outstanding principle according to the New Financial Agreement and it has converted it into the government bonds of the Republic of Croatia (series A) issued on July 31, 1996 in the amount of US\$857,796,000. The Republic of Croatia has also taken over 29.5% of the value of the principle and interest which fell due according to the New Financial Agreement, as well as 19.7% according to the Agreement on Trade and Deposit Relief. This part of debt taken over has been converted into bonds of the Republic of Croatia (series B) issued on July 31, 1996 in the amount of US\$604,426,000.

The total debt taken over by the Republic of Croatia towards commercial banks, members of the London Club, amounts to US\$1,462,222,000. The bonds of series A are issued with the repayment period of 14 years with 3.5 years of grace period. The interest rate amounts to six-month LIBOR on the US\$ increased by 0.81%. The repayment of bond series B will be realized in 20 semi-annual installments in the course of 10 years, without grace period. The bonds of series A and B are listed on the Luxembourg Stock Exchange.

The signing and practical implementation of the Agreement with London and Paris Club has defined Croatia as a credible debtor and it has given Croatia the opportunity to emerge independently on the international capital market.

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Improvement of Export from 1981 (Official Gazette - International Agreements, No. 1/9/96, which entered into force on July 19, 1996).

<sup>22</sup>Law on the Ratification of the Agreement Signed between the Government of the Republic of Croatia and the Federal Republic of Germany on the Taking Over and Rescheduling of External Debt (Official Gazette - International Agreements, No. 1/11/96, which entered into force on October 4, 1996).

<sup>23</sup>Law on the Ratification of Verbal Notes between the Republic of Croatia and the Government of Japan and the Agreement on the Taking Over and Rescheduling of Debts between the Republic of Croatia and Export - Import Bank of Japan (Official Gazette - International Agreement, No. 8/97, which entered into force on June 25, 1997).



## **2.2. External Debt Incurred by Republic of Croatia as a Sovereign State**

By reaching the agreement with the member countries of Paris Club and banks members of London Club, the grounds for the Republic of Croatia's first emergence on the international capital market have been accomplished. The following chapters will present the overview of the new original debt of the Republic of Croatia after its independence.

### **2.2.1. Syndicated Loan**

After negotiations held with a number of international banks, the tender of Dresdner Bank Luxembourg has been accepted and Dresdner Bank has been appointed the Leading Bank of the International Syndicate of Banks. Other 28 banks from 12 countries of the world have joined the above-mentioned syndicate. The loan, which was initially arranged in the amount of DM150 million, has been increased to DM200 million. Syndicated Loan Agreement between the Republic of Croatia and 28 participant banks was signed in Zagreb on October 17, 1996. The Agreement has determined the loan repayment period of two years, with the interest rate of six-month LIBOR for DM increased by 1.75%.

### **2.2.2. Eurobonds Denominated in Kunas**

On January 8, 1997, the Republic of Croatia has issued bonds denominated in Croatian kunas in the amount of HRK300 million to domestic and foreign investors, with a fixed interest rate of 12.5%, falling due in December 1998. The interest payment on bonds denominated in kunas realizes twice a year, the first installment fell due in June 1997.

Out of the total value of bond issue denominated in eurokunas, 150 million kunas have been issued on the domestic market and 150 million kunas on the international market. Merrill Lynch International was the leading manager for the international market, while Creditanstalt Investment Bank AG and Union Bank of Switzerland were co-managers. Zagrebačka banka was the leading manager on the domestic market, while the co-managers were Trgovačka banka d.d. Zagreb, Dalmatinska banka d.d. Zadar and Varaždinska banka d.d. Varaždin. The issuance of the referred bonds was aimed at strengthening the confidence in the economic policy and Croatian economy, and encouraging the domestic capital market development.

Namely, the placement of bonds on the international capital market denominated in the national currency with a stable interest rate is possible only in case when investors have an exceptional confidence in the issuer's country. This fact implies international investors' confidence in a long-term macroeconomic stability of the Republic of Croatia. By accepting kuna in Euroclear - the International System for Settlement and Clearance, kuna has become one of the 36 Euroclear currencies. The preconditions for the acceptance to Euroclear are very strict and include convertibility, a very low inflation, a low degree of indebtedness, general economic stability, political stability and the investment credit rating.

### **2.2.3. Eurodollar Bonds**

In February 1997, the Republic of Croatia has issued inaugural eurobonds in the amount of US\$300 million with the interest rate of 7% and with maturity by year 2002. The interest rate of American Treasury bonds with a five-year maturity has taken as a referential interest rate for the price determination. The interest rate on the five-year American bonds amounted to 6.22% on the issuance date of Croatian Eurodollar bonds. A "spread" was added to the interest rate, which reflected the investors' perception of additional risk of the country issuer in comparison to the American Treasury Department. In case of this issue, this spread is determined at 0.80%, and it has been verified several times in the market by the demand greater than the planned amount of issue.

The total transaction of the bonds issue denominated in Eurodollar was arranged by Merrill Lynch International, Union Bank of Switzerland and a syndicate of 17 banks. The characteristics of government bonds are shown in Table 6, while the principle and interest repayment plan is shown in Table 7.

**Table 6: Outline of International Bonds of the Republic of Croatia**

<b>London Club Series A:</b> <b>US\$857,796,000</b> - 3 years grace, 11 yrs amortizing - US\$ 6 month LIBOR+81 bp Signed: July 1996 Listing: Luxembourg	<b>London Club Series B</b> <b>US\$604,426,000</b> - 10 yrs amortizing - US\$ 6 month Libor + 81bp Signed: July 1996 Listing: Luxembourg
<b>Eurokuna</b> <b>HRK 300 million</b> - 2 yrs, bullet - 12.5% coupon Led by Merrill Lynch and Zagrebačka bank Signed: December 1996 Listing: Luxembourg, Zagreb	<b>Euro-dollar bonds</b> <b>US\$300 million</b> - 5 yrs, bullet - 7% coupon (80 bp over 5 year Treasuries) Led by Merrill Lynch and UBS Signed: February 1997 Listing: Luxembourg
<b>Syndicated Loan</b> <b>DM200 million</b> - 2 yrs, bullet - 175 bp over LIBOR Led by Dresdner banka Signed: October 1996	<b>Euro-DM bond</b> <b>DM300 million</b> - 7 yrs, bullet - 6,125% coupon (95 bp over relevant Bond) Led by Credit Suisse and Deutsche Morgan Grenfell Signed: July 1997 Listed: Frankfurt
<b>ATS bond (HBOR with a guarantee of Croatian Government)</b> <b>ATS 700 million</b> - 5 yrs, bullet - 5.625% coupon Signed: May 1997 Listed: Vienna	<b>Matador Bonds</b> <b>ESP 15 billions</b> - 3 yrs, bullet - 6.5% coupon Led by Santander Investment Signed: March 1998 Listed: Madrid

#### 2.2.4. Eurobonds Denominated in Austrian Shillings

The Croatian Bank for Reconstruction and Development has also issued in 1997, with the guarantee of the Government of the Republic of Croatia, eurobonds on the international capital market. The value of the total issue amounts to ATS700 million, with the interest rate of 5 5/8%, and the maturity by year 2002.

#### 2.2.5. Eurobonds Denominated in Deutsche Marks

In July 1997, the Republic of Croatia has issued eurobonds denominated in Deutsche marks (DM) in the amount of DM300 million, with the interest rate of 6.125% or 6 1/8% and the maturity by year 2004. The bonds were issued with a spread of 0.95% above the similar German government bonds.

The leading managers of the issue have been Credit Suisse First Boston and Deutsche Morgan Grenfell, which were accompanied by the syndicate of 16 banks. The bonds were placed to institutional and private investors in Europe. The greatest part of bonds was sold in Switzerland, Germany, Great Britain, Italy, Austria and the Benelux countries.

#### 2.2.6. Matador Bonds

In the beginning of 1998, the Republic of Croatia has issued bonds denominated in Spanish pesetas or so called "Matador bonds" in the amount of ESP 15 billion or about US\$97,443,665. The interest rate under which the bonds were issued amounted to 6.5%, with the maturity by 2001. The issue manager was Santander Investment, while other 13 banks participated in the syndicate. These bonds have been listed on the Madrid Stock Exchange.

**Table 7: Repayment Plan of the International Bonds of the Republic of Croatia (in 000 US\$)**

(000 US\$)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>London Club Series A</b>	0	0	0	77,981	77,981	77,981	77,981	77,981	77,981	77,981	77,981	77,981	77,981	77,981
- coupon: 6m LB+13/16 (US\$857,796,000)	57,734	57,776	57,776	56,011	50,371	45,205	40,039	34,872	29,706	24,540	19,374	14,207	9,041	3,875
<b>London Club Series B</b>	33,777	23,777	23,777	47,554	71,331	71,331	83,220	83,220	83,220	83,220	0	0	0	0
- coupon: 6m LB+13/16 (US\$604,426,000)	39,956	37,412	35,836	34,261	30,323	25,597	20,675	15,162	9,648	4,135	0	0	0	0
<b>Eurokuna</b>	0	46,848	0	0	0	0	0	0	0	0	0	0	0	0
- coupon: 12.5% (HRK300,000,000)	5,689	5,856	0	0	0	0	0	0	0	0	0	0	0	0
<b>EuroUS\$</b>	0	0	0	0	0	300,000	0	0	0	0	0	0	0	0
- coupon: 7% (US\$300,000,000)	10,500	21,000	21,000	21,000	21,000	21,000	0	0	0	0	0	0	0	0
<b>EuroDM</b>	0	0	0	0	0	0	0	165,134	0	0	0	0	0	0
- coupon: 6.125 % (DM300,000,000)	0	10,114	10,114	10,114	10,114	10,114	10,114	10,114	0	0	0	0	0	0
<b>HBOR (guaranteed)</b>	0	0	0	0	0	54,776	0	0	0	0	0	0	0	0
- coupon: 5.625% (ATS700,000,000)	0	3,081	3,081	3,081	3,081	3,081	0	0	0	0	0	0	0	0
<b>Matador</b>	0	0	0	0	97,444	0	0	0	0	0	0	0	0	0
- coupon: 6.50% (ESP15,000,000,000)	0	0	6,334	6,334	6,334	0	0	0	0	0	0	0	0	0
<b>TOTAL PRINCIPAL REPAYMENT</b>	33,777	70,625	23,777	125,536	246,756	504,089	161,201	326,335	161,201	161,201	77,981	77,981	77,981	77,981
<b>TOTAL INTEREST REPAYMENT</b>	113,879	135,239	134,142	130,802	121,224	104,998	70,828	60,148	39,354	28,675	19,374	14,207	9,041	3,875
<b>TOTAL DEBT SERVICE</b>	147,656	205,864	157,919	256,337	367,980	609,087	232,029	386,484	200,555	189,876	97,355	92,189	87,022	81,856
<b>DEBT STOCK</b>	2,092,647	2,022,022	1,998,245	1,872,709	1,625,953	1,121,864	960,663	634,328	473,127	311,926	233,944	155,963	77,981	0

### **3. COOPERATION WITH LEADING INTERNATIONAL FINANCIAL INSTITUTIONS**

In the period after Croatia's independence and international recognition, the Republic of Croatia has become a member of the most prominent financial institutions with which it has developed a productive cooperation. The cooperation development with the International Bank for Reconstruction and Development, European Bank for Reconstruction and Development, European Investment Bank and the Council of Europe Social Development Fund is described in more details in the following pages.

#### **3.1. International Bank for Reconstruction and Development**

##### **3.1.1. Membership in IBRD**

With the application of the principle of a partial succession of the former SFRY in accordance with the provisions of the international law on the succession of governments and on the basis of the Republic of Croatia's regulations from 1992, the Republic of Croatia has become a full member of the International Monetary Fund on December 14, 1992<sup>24</sup>. By becoming a member of the International Monetary Fund, Croatia has made an enormous step in view of initiating talks on the cooperation with other international financial institutions. Namely, by accepting the Republic of Croatia to its membership, IMF has established a formula (by the application of a macroeconomic indicator comprised of different variables) aimed at the division of shares of the former state in the property and liabilities in the Fund, between the countries which inherited the former state. This formula has been later used as a basic principle according to which the Republic of Croatia has taken over its part of rights and liabilities of the former state in some international financial institutions, as well as in the settling of relations with London and Paris Club.

The Republic of Croatia has become a member of the International Bank for Reconstruction and Development - IBRD and its affiliations (IFC, IDA, MIGA) on February 25, 1993, by the application of the above mentioned principle of a partial succession and on the basis of the regulations of the Republic of Croatia from 1992/1993<sup>25</sup>.

In the course of 1993 and 1994, the Ministry of Finance, as a financial institution authorized to perform on behalf of the Republic of Croatia all activities and transactions permitted by the provisions of the IBRD's Statute<sup>26</sup>, made all the preparations in relation to the establishment and signing of the agreement with IBRD. The Ministry of Finance also developed regulations that arranged the take-over of rights and liabilities on the basis of the succession of the former SFRY. In accordance with the above-mentioned documentation, Croatia took over 29.38% of the former SFRY share in the capital of the World Bank's group. At the same time, the Republic of Croatia took over 7.6% of outstanding debts of the former SFRY towards IBRD, according to, so called, territorial principle. It is essential to note that Croatia has taken over the outstanding debt incurred by loans or parts of loans of final users who were residents of the Republic of Croatia. With the Agreement on the Guarantee from February 25 and the Agreement on the Take-Over of Loan between the Republic of Croatia and IBRD<sup>27</sup>, the Republic of Croatia has taken over debts of the former SFRY incurred by 17 loans. Sixteen loans or part of loans have been taken over in the form of a guarantee, while one loan has been taken over in the form of a borrower<sup>28</sup>.

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<sup>24</sup>Law on the Membership of the Republic of Croatia in the International Monetary Fund and other International Financial Institutions on the basis of Succession (Official Gazette, No. 89/1992).

<sup>25</sup>Ibidem and Decision on the Membership of the Republic of Croatia in the International Bank for Reconstruction and Development and its affiliations (Official Gazette, No. 14/1993).

<sup>26</sup>In accordance with Article 3, Item 2 of the Law on the Membership of the Republic of Croatia in the International Monetary Fund and other International Financial Organizations on the basis of Succession (Official Gazette, No. 89/1992 and Article 3, Item 2 of the Agreement on the International Bank for Reconstruction and Development (Official Gazette - International Agreements, No. 2/1993).

<sup>27</sup>Law on the Ratification of the Agreement on the Guarantee between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement on the Take-Over of the Loan between the Republic of Croatia and the International Bank for Reconstruction and Development signed on February 25, 1993 (Official Gazette - International Agreements No. 7/1994).

<sup>28</sup>Article 2 of the Agreement on the Guarantee regulates that the Republic of Croatia unconditionally guarantees, as a primary debtor, and not only as a guarantee, timely and accurate repayment of principle, interests, other costs and premium if it exists on the premature loan repayment.

The total determined debt of the Republic of Croatia incurred by the inherited loans amounted to US\$134.80 million as at December 31, 1992. In the period from 1993 by the end of 1997, nine long-term loans were entirely repaid, and the debt by eight outstanding loans (signed in the period between 1974 to 1990) has amounted to US\$30.29 million. The list of loans taken over and still outstanding, together with the stock of debt incurred by the referred loans, as at December 31, 1997 is shown in Table 1. In the framework of this group of inherited loans, the only loan provided which was not entirely used was the Loan for the Financing of the Water - Supply System Construction Project in Istria. According to the data provided by IBRD from August 14, 1997, the balance of nondisbursed principle amounts to US\$15,968,056.84.

After Croatia's acceptance to the full membership of IBRD and signing of the agreements on the take-over of a part of rights and liabilities of the former SFRY, IBRD has performed a new registration of the loans taken over, which are regularly repaid by the Ministry of Finance, as well as by other final users.

### **3.1.2. Relations between the Republic of Croatia and IBRD after 1994**

After the Croatia's acceptance to the IBRD membership and the succession of the former state, the period of a very productive cooperation has been initiated between the Republic of Croatia and IBRD. As a result of numerous IBRD missions to the Republic of Croatia in the period from 1993 to 1994, which monitored the overall macroeconomic development, a program IBRD document "A Strategy of Providing Support to the Republic of Croatia" was developed in April 1995. The referred document contains an annual financing program for different projects by means of loans, which amount in total between US\$180 to 220 million per annum. Financing projects established by the document from 1995 underpin the implementation of the stabilization program from October 1993 and the initiated structural changes, which are related to the period by the end of 1998.

During 1997, IBRD presented to the Government of the Republic of Croatia "The Memorandum on the Economic Policy". After extensive discussions held on the above mentioned Memorandum with the representatives of the Croatian Government, Croatian National Bank, Parliament, Trade Unions and others, IBRD has defined a final form of the Memorandum, which is a starting point for the establishment of "A Strategy for Providing Support to the Republic of Croatia" in the period after 1998. The basic emphasis of "The Memorandum on the Economic Policy" is directed to the necessity of accelerating of structural reforms and public sector reforms (among others Pension System Reform), in order to maintain a rapid and sustainable growth of the Croatian economy.

The importance of a financial and technical assistance, which IBRD provides to the Republic of Croatia, can be viewed in the opening of the World Bank's Office in Zagreb on January 1, 1998.

### **3.1.3. Outline of Long-Term Loans Provided by IBRD after 1994**

In the period from 1994 to 1997, ten new long-term loans for the financing of various projects have been signed with IBRD, with a fifteen-year maturity and a four-year, namely five-year grace period. The list of loans provided by IBRD with general financial parameters and the stock of debt as at December 31, 1997 is shown in Table 2. The overall value of loans, approved in American dollars or US\$ equivalent, amounts to US\$312 million, while the overall value of loans approved in Deutsche marks amounts to DM377.1 million. Five out of ten loans have been approved in the currency group (Pool) and US\$ equivalent, while the remaining five loans are Single Currency Loans (SCL Loans), out of which one is in US\$ and other four in DM (Table 2). It is essential to emphasize that the financial conditions of the loans approved by IBRD are the most favorable loans that the Republic of Croatia has signed for its reconstruction and development projects.

Funds of the **Emergency Reconstruction Loan** in the amount of US\$128 million have been earmarked for the financing of the reconstruction of houses devastated and damaged by the war, an urgent reconstruction of essential and social infrastructure (roads, bridges, railway-tracks, electricity and water supply, schools, hospitals and primary health care institutions), and investments in the agricultural sector (breeding stock, procurement of tractors, motocultivators and equipment for cereals drying).

IBRD has approved US\$40 million, as a support to the **Loan Agreement - Health Project**, for the procurement of diagnostical equipment, first aid equipment, intensive and prenatal care equipment, information technology of the health insurance and for the education of physicians and medical staff.

**Table 1: Inherited IBRD Loans (in 000 US\$)**

No.	Loan mark	Name of the project	Amount taken over	Amount cancelled	Disbursed	Not disbursed	Interest rate (as %)	Outstanding debt	Last maturity
1	1026-9 HR	Modernization of Railways	12,274.62	0.00	12,274.62	0.00	7.25	3,367.29	01/04/1999
2	1066-0 HR	Water-Supply System Construction in Dubrovnik	6,000.00	132.68	5,867.32	0.00	8.00	545.32	15/10/1998
3	2338-2 HR	Construction of 380 kV network	18,900.00	15,987.88	2,912.12	0.00	6.70	8.47	01/03/1998
4	2595-0 HR	Oil and gas Research - Molve	55,000.00	302.32	54,697.68	0.00	6.70	11,382.08	01/05/2000
5	2715-1 HR	Construction of Roads - XII Loan for Roads	33,378.00	0.00	33,378.00	0.00	6.70	9,748.00	01/04/2001
6	2878-1 HR	II Sectoral Loan for Construction of Roads	5,900.00	66.13	5,833.87	0.00	6.70	2,437.10	15/09/2001
7	2790-9 HR	Environment Protection and Energy Savings Project	1,303.49	0.00	1,303.49	0.00	6.70	570.27	15/02/2001
8	3069-0 HR	Water-Supply System Construction Project-Butoniga	28,000.00	0.00	12,031.94	15,968.06	6.70	2,231.94	15/04/2004
<b>TOTAL (1-8)</b>			<b>160,756.10</b>	<b>16,489.01</b>	<b>128,299.03</b>	<b>15,968.06</b>		<b>30,290.48</b>	

**Note:** For loans under No.1 and 2 the fixed interest rate is stated. For loans No.3 to 8 variable lending rate calculated during 1997 has been stated. In the period from 1993 – 1997 IBRD applied the annual variable lending rate at the range from 6.94% to 7.43%.

**Table 2: IBRD Loans approved after 1994**

No.	Name of the project	Signed at:	Currency	Value Agreed	Interest rate	Disbursed funds	Not disbursed	Repayments date	
								First	Last
1	Emergency Reconstruction Loan	27/06/1994	000 US\$	128,000.00	6.70	119,696.75	8,303,25	15/12/1998	15/06/2011
2	Loan Agreement – Health Project	08/03/1995	000 US\$	40,000.00	6.70	30,208.89	9,791,11	15/06/2000	15/12/2011
3	Roads Reconstruction Project	27/04/1995	000 US\$	80,000.00	6.70	58,722.96	21,277,04	15/12/1999	16/06/2012
4	Capital Market Development Project	23/04/1996	000 DM	14,200.00	LIBOR +0.50	3,969.27	10,230,73	15/10/2001	15/04/2013
5	Private Farmer Support Project	23/04/1996	000 US\$	17,000.00	6.70	1,454.34	15,545,66	01/03/2001	01/09/2012
6	Technical Assistance Project	23/04/1996	000 US\$	5,000.00	LIBOR + 0.50	2,803.97	2,196,03	15/10/2001	15/04/2013
7	Emergency Transport and Mine Clearing Project	04/12/1996	000 DM	150,900.00	LIBOR +0.50	11,000.00	139,900,00	15/07/2002	15/01/2012
8	Coastal Forest Reconstruction and Protection Project	31/01/1997	000 US\$	42,000.00	6.70	0.00	42,000,00	15/06/2002	15/12/2013
9	Enterprises and Financial Sector Adjustment Project	04/06/1997	000 DM	160,000.00	LIBOR +0.50	80,000.00	80,000,00	15/12/2002	15/06/2012
10	Investment Recovery Project	04/12/1997	000 DM	52,000.00	LIBOR +0.50	0.00	52,000,00	15/03/2003	15/09/2012
<b>TOTAL (1-10)</b>			<b>US\$</b>	<b>312,000.00</b>		<b>212,886.90</b>	<b>99,113.10</b>		
			<b>DM</b>	<b>377,100.00</b>		<b>94,969.27</b>	<b>282,130.73</b>		

**Note:** In Table 2 the interest rate applied to the last repayment in the current year is stated (6.7%). Namely, IBRD applies the standard variable lending rate according to the methodology from 1989 to the disbursed amount in the group of currencies (Pool). The standard lending rate was from 1994 to 1997 in the range between 6.7% to 7.27%. In the beginning 1997 the interest of loans in DM was paid under the interest rate of 3.38% and 3.5% in August, while loans in US\$ under the rate 5.29% and 6.22% in the middle of the year.

In cooperation with EBRD, IBRD has supported the financing of roads restructuring, for the purpose of an immediate reconstruction of transportation sector. IBRD has approved a loan in the amount of US\$80 million for the **Roads Reconstruction Project**, while IBRD has approved a loan in the amount of DM70.9 million for the same project.

In the **Emergency Transport and Mine Clearing Project**, a loan in the amount of DM150.9 million has been approved for the purpose of reconstructing railway and road network, the port of Ploče and mine clearing.

**Capital Market Development Project** supports the program of the economic transformation and the capital market institutions' development essential for a successful implementation of the privatization process. The implementation of the referred project has been financed through the loan provided by IBRD in the amount of DM14.2 million. The project covers a normative regulation, the organization of the Commission for Securities and the Register of Securities, providing technical assistance for the managing of Pension Fund portfolio, procurement of essential equipment and the promotional activities through media, for the purpose of informing the public on the market operation and the possibility to participate in the market.

**Private Farmer Support Project**, financed through the loan approved in the amount of US\$17 million, is a support to the transformation of the agricultural sector into the market economy, by organizing public and private consulting services with the objective of increasing productivity and competitiveness of private farmers. The project also comprises the project of development research in the field of agriculture, improvement of veterinary service, development of pasture production and utilization of forage crops, development of seeds production, improvement of the agricultural policy analysis, providing technical assistance and procurement of equipment essential for the implementation of the project.

For the purpose of preparing and implementing the reconstruction and privatization processes of selected enterprises and banks in the Republic of Croatia, IBRD has approved a loan in the amount of US\$5 million in the framework of **Technical Assistance Project**. The purpose of the referred project is to provide expert assistance and engagement of consultants for the development of special sector studies (electric-supply industry, telecommunications, oil and gas industry) in order to prepare public sector privatization.

IBRD has approved a loan in the amount of US\$42 million for the **Coastal Forest Reconstruction and Fire Protection Project**, which envisages the reconstruction of almost 5,880 hectares of wood out of 11 thousand hectares which were devastated by the war and fire in the region of Senj, Zadar, Šibenik, Split and Dubrovnik.

Through the loan approved in the amount of DM160 million, IBRD has financed the **Enterprises and Financial Sector Adjustment Project**. The referred program comprises the rehabilitation and privatization of the banking sector, accelerated privatization of enterprises which were owned by the state (and make a part of the portfolio of the Croatian Privatization Fund), privatization of the restructured enterprises, restructuring and privatization of public enterprises and the improvement of business and banking management. The policy and the adjustment measures in the financial and real sector will be performed in accordance with the Letter on the Development Policy that is an integral part of the Loan Agreement.

In November 1997, IBRD has approved the tenth loan in the amount of DM52 million, with the guarantee of the Republic of Croatia, for the purpose of **financing long-term investment projects** of private firms and the development of private commercial banks. The total amount of loan has been allocated to four banks as follows: Slavonska banka d.d. Osijek (DM17.3 million), Dalmatinska banka d.d. Zadar (DM15.6 million), Varaždinska banka d.d. Varaždin (DM13.9 million) and Alpe Jadran banka d.d. Split (DM5.2 million). Each of the above mentioned banks has on December 4, 1997, signed with IBRD the Loan Agreement on a certain amount, which is a significant support to the development of the Croatian financial market for a medium and long term investment financing. The funds provided by the referred loan will be used in 1998, after the approval of adequate regulations and in accordance with the IBRD instructions, exclusively for technically, financially and commercially maintainable projects, in accordance with the ecological standards.

So far, US\$212.88 million and DM94.96 million have been used from the proceeds provided by nine operative loans signed from 1994 to 1997 (excluding **Investment Recovery Project Loan**), while US\$99.11 million and DM230.13 million are to be used. IBRD charges a commission of 0.25% annually on all

nondisbursed IBRD funds. All the liabilities falling due according to the inherited and new loans have been regularly and timely repaid, according to IBRD and domestic regulations.<sup>29</sup> Liabilities incurred on the basis of all 12 loans have been directly repaid from the government budget<sup>30</sup> (according to the annual government budget appropriations, Laws on the budget execution for current fiscal years and other regulations), while liabilities incurred by other loans have been covered by final users of loans.<sup>31</sup>

Owing to a regular and timely settlement of liabilities fallen due and the application of IBRD's strict financial discipline, the users of IBRD loans in the period from 1994 to 1997 have realized significant savings on the basis of the realized right to a partial interest charge waiver. Namely, IBRD approves a partial interest charge waiver only to those debtors which timely and regularly fulfill their liabilities (within 30 calendar days from the maturity date). According to the IBRD records, debtors from the Republic of Croatia have saved (according to the inherited loans) US\$458,424.66, namely they have paid, in the course of the previous fiscal year (from July 1, 1996 to June 30, 1997), less interest than it was originally contracted.

## **3.2. European Bank for Reconstruction and Development**

### **3.2.1. Membership of the Republic of Croatia in EBRD**

The Ministry of Finance has prepared all the regulations and performed numerous activities with regard to a complex procedure of accepting the Republic of Croatia to a full membership in the European Bank for Reconstruction and Development – EBRD.<sup>32</sup> The Republic of Croatia has been proclaimed a full member of the EBRD on April 15, 1993.<sup>33</sup> Immediately, the initial subscription of the Republic of Croatia in the bank's capital was performed in the amount of ECU 1,000,000 (100 shares at the price of ECU 10,000, out of which 30 shares due and 70 shares at call) and such a situation prevailed by the time of the final distribution of 12,800 shares, which the former SFRY had in EBRD.<sup>34</sup> The distribution of the subscribed shares of the former SFRY was performed in 1995, by the application of the IMF criteria, which was accepted by Slovenia, Croatia and Macedonia. In that manner, Croatia has acquired 28,49% of the share of former SFRY in EBRD, namely 3,546 shares (out of which 1,064 are shares due and 2,482 shares at call).

In 1997, the increase of Croatia's share in the equity capital of the EBRD for 100 % has been approved, which is 3,646 shares out of which 820 are repayable in eight equivalent semi-annual installments and 2,826 shares at call.<sup>35</sup> Accordingly, Croatia has acquired a share in the EBRD's capital with the total number of 7,292 shares (out of which 1,914 are shares due and 5,378 shares at call). On behalf of the share in EBRD's capital, the Republic of Croatia has already paid ECU 6,654,000 in the period from 1993 to May 28, 1997, out of which a part of the share has been paid in cash, and the other part in promissory notes of the Ministry of Finance. However, for a complete realization of managing rights that are obtained by the number of shares allocated to the Republic of Croatia, it is essential that the Republic of Croatia pay another ECU 12,486,000 by April 15, 2009.

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<sup>29</sup>Decree on the Terms and Conditions of the Settlement of Liabilities Incurred by the Loans Approved to the Users from the Republic of Croatia by the International Financial Institutions (Official Gazette, No. 88/1992) and the Law on the Terms and Conditions of the Settlement of Liabilities Incurred by Loans Approved to the Users in the Republic of Croatia by International Financial Institutions (Official Gazette, No. 106/1993).

<sup>30</sup>It is the question of settling liabilities related to the repayment of loans used for the financing of railways, roads and water supply system and the payment of interests falling due and commissions on the new public loans.

<sup>31</sup>For example: liabilities incurred by old loans - Croatian Electric-Supply and INA-Naftaplin, and liabilities incurred by new loans - Croatian Health Insurance Fund.

<sup>32</sup>Agreement on Establishing the European Bank for Reconstruction and Development issued in the original version in English and in Croatian translation (Official Gazette - International Agreement, No. 4/1993).

<sup>33</sup>After the approval and entering into force the Law on the Republic of Croatia's Membership in the European Bank for Reconstruction and Development (Official Gazette, No. 25/1993).

<sup>34</sup>The former SFRY was a member of EBRD from its establishment to September 8, 1992, when the Committee of Executive Directors of EBRD decided to annul the SFRY membership because the referred state ceased to exist. Furthermore, the committee has decided that new countries would inherit the subscribed capital of the former state by common distribution (which was ratified by the Resolution No.30 from October 9, 1992).

<sup>35</sup>Further to the EBRD Resolution No. 59 and the Decision on the Approval of the Capital Increase in the European Bank for Reconstruction and Development and the allocated number of shares to the Republic of Croatia (Official Gazette, No. 27 / 1997).



### 3.2.2. Cooperation of the Republic of Croatia and EBRD after 1993

The EBRD activity plan to the Republic of Croatia has been established by the document “The Strategy for Croatia” (from May 1993, amended in June 1995, August 1996 and November 1997).

The priority regions in performing business with the Republic of Croatia, according to the EBRD strategy, are as follows:

- a direct support to the development of private sector and privatization of enterprises,
- strengthening of a financial sector by providing direct financial support to selected banks and ensuring funds for the development of small and medium size enterprises,
- support to priority investments in infrastructure and
- restructuring of selected economic sectors (tourism and shipbuilding).

In the period from 1994 to 1997 (according to the records as at November 30, 1997), EBRD has approved 17 loans in total to the Republic of Croatia for the financing of earmarking established by the Strategy, in the total amount of DM497.89 million and US\$40 million.

Croatian banks are the users of 12 loans, enterprises of 3 loans and the Republic of Croatia of 2 loans. Loans provided to the Republic of Croatia or approved with a government guarantee are shown in Table 3.

**Table 3: EBRD Loan Agreements and Guarantee Agreements with the Republic of Croatia**

	Name of the project	Government Role	Signed at:	Currency	Loan amount	Interest rate	Repayments date First/Last
1	<b>Air Navigation Development Project</b>	debtor	21/09/1994	000 US\$	20,000.00	LIBOR +1%	21/09/1996/ 21/03/2004
2	<b>Highway and Regional Roads Reconstruction Project</b>	debtor	17/01/1995	000 DM	70,900.00	LIBOR +1%	10/04/1998/ 10/12/2009
3	<b>Electric-Energy Infrastructure Reconstruction Project(HEP)</b>	guarantee	2/02/1995	000 DM	63,000.00	LIBOR +1%	10/03/1998/ 10/03/2005
4	<b>Credit Line for Tourism (HBOR)</b>	guarantee	26/06/1996	000 DM	50,000.00	LIBOR +1%	23/12/1998/ 23/12/2002
5	<b>Local Infrastructure and Environment Protection Program (HBOR)</b>	guarantee	9/12/1996	000 DM	105,000.00	LIBOR +1%	10/04/2001/ 10/10/2011
<b>TOTAL (1-5)</b>				<b>000 DM</b>	<b>288,900.00</b>		
				<b>000 US\$</b>	<b>20,000.00</b>		

The Republic of Croatia has signed with EBRD two Loan Agreements and three Guarantee Agreements. The Republic of Croatia is a debtor by the loan provided for the financing of **Air Navigation Development Project** in the amount of US\$20 million, as well as by the loan provided for the financing of the implementation of **Highway and Regional Roads Reconstruction Project** in the amount of DM70.9 million. The Republic of Croatia has emerged as a guarantee for three EBRD loans that amount in total to DM218 million. The guarantees have been provided to the Croatian Bank for Reconstruction and Development (HBOR) for loans aimed at the financing of **Credit Lines for Tourism and Environment Protection**, while a guarantee for the financing of the **Electric-Energy Infrastructure Reconstruction Project** has been issued to the Croatian Electric-Supply (HEP). The loans have been signed in accordance with the standard EBRD conditions<sup>36</sup>: the loan repayment between 5-14 years with grace period of 2-5 years, variable interest rate, 1% margin, commission of 1% payable within 7 days of the date the loan becomes effective and a fee of 0.5% per annum on the nondisbursed funds.

<sup>36</sup>Standard Terms and Conditions of the European Bank for Reconstruction and Development originally issued in English and translated into Croatian in the “Official Gazette - International Agreements” No. 10/1997.

The Ministry of Finance has, as an authorized body on behalf of the Republic of Croatia to perform activities with EBRD,<sup>37</sup> coordinated and participated in signing the above mentioned agreements, created the laws and documentation related to the signed agreements and supervised the implementation of their application (loans disbursement and repayment).<sup>38</sup>

As at December 31, 1997, the amount of US\$15.44 million have been disbursed for the reconstruction of air navigation system, while the remaining US\$4.56 million are still to be withdrawn. DM41.28 million have been disbursed for the reconstruction of highways and the procurement of equipment for the supervision and management of roads and the reconstruction of bridges, while DM29.62 million have left nondisbursed. Liabilities incurred by these two loans have been regularly settled from the government budget by maturity.<sup>39</sup>

With the objective of supporting the privatization and encouraging private sector development, EBRD has, without the guarantee of the Republic of Croatia, approved 10 loans to commercial banks and other two loans to enterprises. The terms and conditions of the referred loans are as follows: the principle repayment within the period of 5-8 years, grace period of 18 months, interest rate based on the six-month LIBOR increased by the margin of 1-1.8 % and standard fees and charges.

In the period from 1993 to the end of 1997, EBRD has financed 28 different technical assistance projects to the Republic of Croatia in the amount of ECU 3.35 million. These projects have mainly supported the preparation and implementation of infrastructure projects (reconstruction of roads, electric supply, airports, environment protection), food production projects, tourism development and the financial system reform (drafting of law which regulates banks' business operations and securities issue and trade).

If we take into account the loans and technical assistance that have been granted to the Republic of Croatia so far, EBRD, together with IBRD, have become the most important foreign financial resources. In the beginning of relations development with EBRD, the reconstruction of regions devastated by the war and damaged infrastructure, strengthening of financial sector by means of EBRD loan arrangements and the investment of its capital into domestic banks, have been taken as priorities. Today, the participation of EBRD in the privatization process and the restructuring of enterprises have been stressed. EBRD has provided a significant support in the Croatian transition process, and has ensured, by its support, the emergence of the Croatian enterprises and banks on the international financial market.

By the opening of a permanent EBRD representative office in Zagreb in mid 1996, a significant support has been given to the cooperation with EBRD and the beneficiaries from the Republic of Croatia.

EBRD has lately shown greater interest for a direct participation in the privatization of Croatian banks and enterprises and the development and promotion of the alternative ways of enterprises' financing, by encouraging investment funds establishment. Namely, EBRD, Holding of Zagrebačka banka and CCP Capital Ltd., Jersey, have signed at November 25, 1997 in London, the Agreement on the Establishment of the First Investment Fund for a direct investments in small and medium-size enterprises. The Fund will operate under the name Adriatic CCP (Adriatic Croatia Capital Partnership), with a basic task of investing

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<sup>37</sup>In accordance with Article 5 of the Law on the Republic of Croatia's Membership in the European Bank for Reconstruction and Development (Official Gazette, No. 25/1993), and the Article 34 of the Agreement on Establishing the European Bank for Reconstruction and Development (Official Gazette - International Agreement, No. 4/1993).

<sup>38</sup>Law on the Ratification of Air Navigation Development Project Loan between the Republic of Croatia and the European Bank of Reconstruction and Development (Official Gazette - International Agreements, No. 13/1994, Law on the Ratification of Highway and Regional Roads Reconstruction Project Loan between the Republic of Croatia and the European Bank of Reconstruction and Development (Official Gazette - International Agreements, No. 6/1995), Law on the Ratification of Guarantee Agreement for the Loan to Croatian Electric Supply between the Republic of Croatia and the European Bank of Reconstruction and Development (Official Gazette - International Agreements, No. 6/1995) and the Law on the Ratification of Guarantee Agreement of the Republic of Croatia for the Local Infrastructure and Environmental Protection Project between the Republic of Croatia and the European Bank for Reconstruction and Development (Official Gazette-International Agreements, No. 4/1997).

<sup>39</sup>In the period from 1995 to 1997, it has been repaid in total: 1. US\$5.52 million (3.75mm of the principle plus 1.03mm of the interest plus 0.74mm of the commission) from the loan approved in US\$20 million, aimed at the reconstruction of air navigation system, 2. DM2.93 million (1.47mm on interest plus 1.46mm by accrued commissions) from the loan approved in the amount of DM70.9 million allocated for highways reconstruction.

capital in enterprises, for financing the business operations, namely development or enlargement of enterprises, whereby the Fund will, in principle, participate in the ownership, but without the intention of being major shareholder.

### 3.3. European Investment Bank

After the establishment of diplomatic relations with the European Community in 1992, the Ministry of Finance has initiated a direct cooperation with the European Investment Bank (EIB) in Luxembourg. Financial relations have been based on the application of so called "territorial principle". During 1992 and 1993, the Ministry of Finance has developed the regulations in order to regulate the terms and conditions of the take-over and settlement of liabilities incurred by loans approved to budget users, having their seat in the Republic of Croatia, for the repayment of which the Republic of Croatia has taken over liabilities by the guarantees formerly issued by the former SFRY, which encompass the EIB loans. In accordance with the referred regulations, borrowers have regularly repaid liabilities falling due towards EIB and have withdrawn the remaining nondisbursed loan proceeds.

In 1994, EIB has divided loans previously approved to the former SFRY according to the principle of partial succession and has registered, under new numbers, six remaining outstanding loans or parts of loans which were used by the borrowers from Croatia (Croatian Electric Supply, Croatian Roads and Croatian Railways). Inherited long-term loans approved in the period from 1982 to 1989 have been denominated in ECU and are repayable in various currencies. The outline of EIB loans taken over and the stock of debt in the end of 1997 is shown in Table 4.

The Ministry of Finance, according to the authorization of the Government of the Republic of Croatia, has finalized negotiations and participated in the procedure of establishing the amount of inherited debt towards EIB. The total debt taken over, which is outlined in 11 currencies, amounted to HRK 877,147,661.94 as at December 31, 1994, which is ECU 127,078,648.29 according to the medium exchange rate of CNB. During the negotiations held with EIB, solutions for the regulation of legal and financial relations of the Republic of Croatia with EIB and Croatian public enterprises (borrowers) have been found. The Guarantee Agreements and Notes No. 0298, 0296 and 0297 were signed between the Republic of Croatia, European Investment Bank and Croatian public enterprises (borrowers). By signing the above-mentioned agreements, the Republic of Croatia has become a guarantee or borrower by the old EIB loans and statutory changes of old borrowers and guarantees incurred.

By Guarantee Agreement, the Republic of Croatia has become a guarantee for old loans taken over, signed in 1982, 1984 and 1989, which were approved for the purpose of financing electric supply and railway projects. The Republic of Croatia has taken the responsibility of the first debtor, not only as a guarantee, to fully guarantee the overall and timely settlement of all liabilities which EIB claims from borrowers (Croatian Electric-Supply and Croatian Railway).<sup>40</sup> Amendments to the Agreements on the referred three old loans have been established by Notes No. 0296 and 0297 by which EIB has regulated the legal and financial relations with borrowers, taking into account their new legal status, as well as the status of the Republic of Croatia.

Further to the Note No. 0298, the Republic of Croatia has become a borrower on the basis of the previously approved loans for roads reconstruction and it has taken over the responsibility to settle the principle, interest and other costs falling due. In that way, any common or solidary guarantee of Croatian banks (more precisely of the Privredna banka Zagreb) and banks from other Republics of the former SFRY has been erased with respect to loans that were discussed.

In the period from 1995 by the end 1997, liabilities falling due by loans for the financing of roads and railways have been regularly and timely settled from the government budget, while Croatian Electric-Supply (HEP) has paid its liabilities with its own funds. After the settlement of all liabilities falling due in 1997, the debt towards EIB showed in 11 various currencies amounted to HRK 726,815,824.19 as at November 30, 1997, which is ECU 104,037,420.62 according to the medium exchange rate of the Croatian National Bank.

In cooperation with the Ministry of Foreign Affairs, the Ministry of Finance has during 1995 participated in the preparation of Draft Agreement on Trade and Cooperation with Financial Protocol between the Republic

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<sup>40</sup>Law on the Ratification of Guarantee Agreement between the Republic of Croatia and the European Investment Bank and Note No. 0298, signed on January 12, 1995 in Luxembourg and February 10, in Zagreb (Official Gazette - International Agreements, No. 6/1995), which entered into force on May 23, 1995.

of Croatia and the European Union. The referred Agreement was intended to establish institutional relations of Croatia with the European Union (EU) and to determine a future development of the economic cooperation, especially in the field of trade, agriculture, traffic and finances. The EU support has been expected (by means of long-term EIB loans) in the financing of projects aimed at encouraging economic development of Croatia and other projects of a common interest for Croatia and EU (infrastructure projects, which will enable the integration of the Croatian territory in the European traffic system). However, after the military action taken by Croatia in August 1995 for the liberation of occupied regions, the European Union has brought to a standstill initiated discussions on the establishment of institutional relations with the Republic of Croatia, and thus the continuation of a direct cooperation with EIB, with respect to signing new credit arrangements, has been stopped.

**Tabela 4: Outline of the Inherited EIB Loans and Debt Stock at the end of 1997**

<b>EIB Loan Mark</b>	<b>New Debtors According to Notes</b>	<b>Guarantee by Notes</b>	<b>Original Loan Value (millions ECU)</b>	<b>Currency (in 000)</b>	<b>Debt Stock 31/12/1994</b>	<b>Debt Stock 30/11/1997</b>
<b>1</b> <b>16275</b> <b>EEMS-HE</b> <b>CRO</b>	HEP d.d. Zagreb Note No. 0297	Republic of Croatia	10,552.00	GRD	16,1061.18	106,572.52
				ITL	4,557,897.05	3,015,913.47
				GBP	2,165.20	1,432.69
<b>2</b> <b>16279</b> <b>TYH-II-HC</b> <b>CRO</b>	Republic of Croatia Note No. 0298	Republic of Croatia	16,000.00	GRD	372,982.50	284,379.19
				DM	4,986.10	3,801.64
				US\$	7,114.21	5,424.21
<b>3</b> <b>16284</b> <b>TYR-I-HZ</b> <b>CRO</b>	Croatian Railways Note No. 0296	Republic of Croatia	19,190.00	FRF	33,619.18	26,336.42
				DM	17,234.24	13,500.87
				DKK	33,020.15	25,867.15
				US\$	2,537.37	1,987.72
				GBP	904.83	708.82
				GRD	105,884.98	82,947.61
<b>4</b> <b>16289</b> <b>TYH-III-HC</b> <b>CRO</b>	Republic of Croatia Note No. 0298	Republic of Croatia	15,250.00	DM	834.61	664.63
				FRF	18,025.37	14,354.28
				GBP	2,141.73	1,705.54
				ITL	3,058,367.52	2,435,492.04
				DKK	12,891.07	10,265.64
				US\$	2,946.90	2,346.73
				CHF	514.94	410.07
<b>5</b> <b>13554</b> <b>TYH-IV-HC</b> <b>CRO</b>	Republic of Croatia Note No. 0298	Republic of Croatia	60,000.00	GBP	1,798.91	1,554.83
				NLG	18,891.25	16,327.94
				JPY	2,977,805.49	2,673,752.10
				BEF	164,250.77	141,963.86
				DM	15,933.32	13,771.36
				CHF	18,029.37	15,583.00
<b>6</b> <b>14090</b> <b>TYR-IIB-HZ</b> <b>CRO</b>	Croatian Railways Note No. 0296	Republic of Croatia	18,000.00	DM	9,934.92	8,707.34
				CHF	6,597.52	5,782.32
				US\$	2,390.31	2,094.96
				FRF	27,292.28	23,919.99
				GBP	2,322.79	2,035.79
<b>TOTAL</b>			<b>148,992.00</b>	<b>US\$</b>	14,988.82	11,853.62
				<b>GRD</b>	639,928.66	473,899.32
				<b>ITL</b>	7,616,264.59	5,451,405.51
				<b>GBP</b>	9,333.49	7,437.67
				<b>DM</b>	48,923.21	40,445.84
				<b>FRF</b>	78,936.85	64,610.68
				<b>DKK</b>	45,911.22	36,132.79
				<b>CHF</b>	25,141.84	21,775.39
				<b>NLG</b>	18,891.26	16,327.94
				<b>BEF</b>	164,250.78	141,963.86
				<b>JPY</b>	2,977,805.50	2,673,752.10
				<b>HRK</b>	<b>877,147.67</b>	<b>726,815.82</b>

### 3.4. Council of Europe Social Development Fund - CEF

#### 3.4.1. Membership Regulation

Direct relations of the Republic of Croatia with the Council of Europe Social Development Fund have been established in the beginning of 1992. The Government of the Republic of Croatia has directed all its activities towards development of the cooperation with that specific financial institution, which provides support to European countries in the field of humanitarian issues, social and developing problems. With the objective of becoming a full member of the Council of Europe and CEF, the Government has permanently had in mind extremely high social needs of displaced people and refugees and the reconstruction and development of the economic, infrastructural, cultural and housing facilities devastated by the war. In the period from 1992 to 1994, the Ministry of Finance has, in cooperation with the Croatian National Bank and commercial banks, realized the cooperation with CEF, for the purpose of establishing outstanding liabilities and the stock of debt falling due, and then completely regulate the relations of the Republic of Croatia with CEF.

In the former Yugoslav federation, fifteen enterprises located in less developed regions of the Republic of Croatia have withdrawn funds from eighteen loans provided by CEF in the total amount of DM23.14 million in the period from 1987 to 1990. These loans were at the time provided for the financing of industry development projects, with the objective of increasing employment of local population. The loan proceeds were used on the basis of agreements signed between CEF and the former SFRY in four tranches<sup>41</sup>, with the guarantee issued by the former SFRY, Croatian commercial banks and other banks from the former SFRY.

Legal and financial relations of the Republic of Croatia with CEF are regulated by signing:

- Agreement between the Government of the Republic of Croatia and CEF (June 15, 1996) and
- Loan Agreements (July 22, 1996)<sup>42</sup>:
  - Loan Agreement between the Republic of Croatia and CEF
  - Loan Agreements between CEF and six commercial banks (Dalmatinska banka, Privredna banka, Riječka banka, Slavonska banka, Splitska banka and Zagrebačka banka), with the guarantee issued by the Croatian government.

By signing the Agreement between the Government of the Republic of Croatia and CEF, the Government has accepted the distribution of disbursed original loans, which were at the time approved by CEF to the resident beneficiaries in Croatia, in the original amount of DM23,140,427.70. The stock of debt taken over by the referred loans amounted to DM8,083,407 while the stock of arrears amounted to DM8,203,295.24.

General financial details of the loans taken over, as well as the stock of debt in the end of 1997 are shown in Table 5. As a guarantee, the Croatian Government has taken the responsibility to ensure the settlement of arrears and the repayment of debt.

By the Loan Agreement signed between the Republic of Croatia and CEF, the government has, as borrower, taken over original CEF loans, which the users in Croatia received through the banks having their seat in other Republics of the former SFRY. There are four such loans in the total amount of DM6,174,257. According to these loans, the Croatian government has also taken over the settlement of arrears, incurred in the period from October 14, 1991 to August 20, 1996 in the amount of DM3,954,377.76, which was paid out in two equal tranches amounting to DM1,977,188.88 with maturities to August 30, 1996 and November 30, 1996, and the remaining debt in the amount of DM1,700,380.42 falling due in the period from August 20, 1996 to August 20, 1999.

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<sup>41</sup>Former SFRY had a status of the associate CEF member in the period from 1986 to November 25, 1991, when its right to use loan proceeds was suspended by the Decision issued by the Parliamentary Assembly of the Council of Europe.

<sup>42</sup>Loan Agreements with CEF were compiled according to the CEF Statute which was in force at the time, by the adopted Decision 56 (9) of the EC Council of Ministers from April 16, 1956, Regulations on Loans, Third Amended Protocol with the General Agreement on the Privileges and Immunity of the Council of Europe and by the Decisions of the CEF Management. A new CEF Statute from June 8, 1993 was adopted by the Decision 248 (1993) of the CEF Administrative Council and entered into force on March 18, 1997, so that future Loan Agreements will be based on its provisions.

Loan Agreements signed between CEF and commercial banks regulate that commercial banks as borrowers take over original loans, which were earlier used for the financing of projects of their customers, in the total amount of DM16,966,170.70. The banks have also taken over the repayment of arrears, in the amount of DM4,248,917.47 (Dalmatinska banka, Riječka banka and Splitska banka) in two equal installments with maturities to August 30, 1996 and November 30, 1996, and the repayment of the remaining debt in the amount of DM6,383,026.58. The Republic of Croatia emerges as a guarantee in the Loan Agreements between Croatian commercial banks and CEF.

The Ministry of Finance has drawn up the Law on the Ratification of Agreement and Loan Arrangements (which was approved by the House of Representatives of the Croatian Parliament on its session on February 7, 1997)<sup>43</sup> and it is responsible for its application. The Law stipulates that all financial liabilities, based on the Loan Agreement signed between CEF and the Republic of Croatia, must be settled by the loan users or their legal representatives, and the financial liabilities, based on the Agreements signed between CEF and commercial banks, with a guarantee issued by the Republic of Croatia, must be settled by debtors or their legal representatives. All arrears towards CEF have been paid (DM8,203,295.24) and all liabilities in accordance with the repayment schedule are regularly settled<sup>44</sup>, so that the total debt has been reduced from DM8.08 million to DM4.12 million, after the settlement of all liabilities falling due (Table 5).

With the full membership in the Council of Europe on November 6, 1996, the Republic of Croatia has realized the right to become a CEF member country, by the procedure stipulated for member countries of the Council of Europe (according to the Article III of the CEF Statute).

The Ministry of Foreign Affairs has submitted a Letter of Intent to the CEF Management Body on November 20, 1996, whereby the procedure for the Republic of Croatia's membership in CEF has been initiated. After the ratification of the CEF Statute and the acceptance of the membership financial conditions<sup>45</sup>, the Republic of Croatia has forwarded the Declaration on the Membership to the General Secretary of the Council of Europe, whereby the Republic of Croatia has become on June 24, 1997 a twenty-sixth member of CEF. The financial conditions of the membership are as follows:

- the subscription of capital of the Republic of Croatia in CEF in the amount of ECU 5,534,000 and
- the payment of the part of subscribed capital in the amount of ECU 611,000 and the contribution to the CEF reserves in the amount of ECU 250,000 (namely, all together ECU 861,000) in four annual installments, with the precondition that the first annuity falling due within 30 days from the day of the CEF membership at the latest.<sup>46</sup>

By becoming a member of CEF, the Republic of Croatia has realized rights in the CEF management, in its capital and has a right to become the beneficiary of favorable long-term loans (the signing of new loan agreements is expected in 1998 in the amount of about US\$30 million).

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<sup>43</sup>Law on the Ratification of Agreement Signed between the Council of Europe Social Development Fund and the Republic of Croatia, Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia and Loan Agreements between the Council of Europe Social Development Fund and Dalmatinska banka, Privredna banka, Riječka banka, Slavonska banka, Splitska banka, and Zagrebačka banka, signed with the guarantee issued by the Republic of Croatia (Official Gazette - International Agreements, No. 3/1997).

<sup>44</sup>In accordance with the provisions of the Law, in 1996, the total amount of DM3,886,568.48 have been paid from the government budget on behalf of arrears and regular liabilities (for four enterprises, with one enterprise which has partially settled its own liabilities), while the debtors and users have settled the total amount of DM5,988,377.74. In 1997, DM767,760.84 have been paid from the government budget, while debtors and users have paid DM2,264,671.87 on the basis of regular repayments.

<sup>45</sup>Law on the Republic of Croatia's Membership in the Council of Europe Social Development Fund and the Ratification of the Statute of the Council of Europe Social Development Fund on June 8, 1993 (Official Gazette -International Agreements, No. 8/1997) entered into force on June 6, 1997.

<sup>46</sup>The first annuity in the amount of ECU 215,250 was paid to CEF on July 23, 1997 from the government budget. Besides, the Republic of Croatia is liable to the Council of Europe to settle (on the basis of Article 39 of the Statute of the Council of Europe) the amount of FRF 20,569.00 by March 31, 1998 on behalf of the business costs of CEF for the period from June 24 (when Croatia became a member of CEF) to December 31, 1997.

In June 1997, the Ministry of Finance has initiated a proposal for Urgent and Priority Reconstruction of Schools and Health Insurance Infrastructure Project in Eastern Slavonija. In September 1997, the Republic of Croatia hosted a CEF mission with the task of supporting the preparation of the final projects, according to the CEF methodology and regulations. The Government has charged the Ministry for Reconstruction and Development, Ministry of Education and Sport, Ministry of Health and Ministry of Finance to perform further preparations for the current projects. Besides, the preparations for the Reconstruction and Development Project in the region of Šibensko-Kninska County, which is supported by UNDP, have been initiated.



**Table 5: Inherited CEF Loans and the Stock of Debt, as the end of 1997**

	Final User	Original loan amount (000 DM)	Transche	Banks - original debtors	Arrears taken over (000 DM)			Debt taken over	Debt stock, 14/ 10/ 97	Last repayment
					Interest	Principal	Total			
1	Čaraparija, Čakovec	1,011.43	B	Ljubljanska banka, Ljubljana	123.39	449.52	572.92	224.76	112.38	14/04/1998
2	Velebit, Karlovac	1,311.38	B	Ljubljanska banka, Ljubljana	159.99	582.84	742.82	291.42	145.71	14/04/1998
3	Vlado Bagat, Zadar	1,927.31	B	Dalmatinska banka, Zadar	280.85	1,070.73	1,351.58	428.29	214.15	14/04/1998
4	Pamučna predionica, Glina	2,373.99	B	Jugobanka, Zagreb	345.94	1,318.89	1,664.83	527.55	236.78	14/04/1998
5	Agrodelta, Ploče	1,477.46	C	Privredna banka GF Ploče	317.16	656.65	973.81	656.65	328.32	20/08/1999
6	Zdenka (1), V. Zdenci	577.79	C	Privredna banka, Zagreb	0.00	0.00	0.00	256.79	128.40	20/08/1999
7	Ličanka, Srb	1,548.32	C	Privredna banka, Zagreb	0.00	0.00	0.00	688.14	344.07	20/08/1999
8	RIZ, Slunj	1,949.96	D	Privredna banka, Zagreb	0.00	0.00	0.00	1,083.31	649.99	30/07/2000
9	Zdenka (2), Veliki Zdenci	818.90	D	Privredna banka, Zagreb	0.00	0.00	0.00	454.94	272.97	30/07/2000
10	Torpedo, Rijeka	3,007.08	A	Riječka banka, Rijeka	358.31	1,656.64	2,014.95	334.12	0.00	12/02/1997
11	Opeka, Đakovo	1,462.84	C	Slavonska banka, Osijek	0.00	0.00	0.00	650.15	325.08	20/08/1999
12	Trnovača, Sinj	1,133.49	D	Splitska banka, Split	378.62	503.77	882.39	629.71	377.83	30/07/2000
13	Kordun (1), Karlovac	1,190.00	B	Zagrebačka banka, Zagreb	0.00	0.00	0.00	264.44	132.22	14/04/1998
14	Kordun (2), Karlovac	1,019.55	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	453.13	226.57	20/08/1999
15	Bor, Novi Marof	942.86	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	419.05	209.52	20/08/1999
16	Suvremena žena, Zagreb	451.99	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	200.88	100.44	20/08/1999
17	Virovitičanka (1), Virovitica	586.09	D	Zagrebačka banka, Zagreb	0.00	0.00	0.00	325.61	195.36	30/07/2000
18	Virovitičanka (2), Virovitica	350.00	D	Zagrebačka banka, Zagreb	0.00	0.00	0.00	194.44	116.67	30/07/2000
	<b>TOTAL (1-18)</b>	<b>23,140.43</b>			<b>1,964.27</b>	<b>6,239.03</b>	<b>8,203.30</b>	<b>8,083.41</b>	<b>4,116.45</b>	



VII CONSOLIDATED GENERAL  
GOVERNMENT IN THE PERIOD  
FROM 1994 TO 1996



The consolidated general government includes: central government, local government (municipalities, towns and counties), social security funds, public enterprise “Croatian Roads” by the year 1994 and public enterprise “Croatian Water Management Fund” from the year 1994. Details on all levels of the government have only been available from 1994, since when there has been an obligation for all government units to submit their plans for spending budgetary funds and the execution of the budget to the Ministry of Finance. However, details on the consolidated general government for 1997 have not been the issue of this Annual, since the statistical data of local government have not been processed at the time of writing this Annual. The outlined data have been classified in accordance with the international comparable methodology, Government Financial Statistics as defined by the International Monetary Fund. It is essential to emphasize that the statistical resources on the local government for the year 1994 are rather inadequate. However, enormous efforts have been made in the years 1995 to 1996 to improve the quality of statistical resources on the local government, which is reflected in the quality of achieved consolidation results.

**Table 1: Consolidated General Government Revenues and Expenditures  
in the Period from 1994 to 1996**

(000 HRK)	1994	1995	1996	as % GDP		
				1994	1995	1996
<b>TOTAL REVENUE AND GRANTS</b>	<b>40,194,334</b>	<b>47,440,127</b>	<b>54,385,153</b>	<b>45.97</b>	<b>48.22</b>	<b>50.71</b>
I Total revenue	40,194,016	47,430,146	54,371,483	45.97	48.21	50.69
1. Current revenue	39,833,410	46,451,138	52,778,745	45.55	47.22	49.21
Tax revenue	37,767,041	43,677,476	47,962,322	43.19	44.40	44.72
Nontax revenue	2,066,369	2,773,661	4,816,423	2.36	2.82	4.49
2. Capital revenue	360,606	979,009	1,592,738	0.41	1.00	1.48
II Potpore	318	9,981	13,670	0.00	0.01	0.01
<b>TOTAL EXPENDITURE AND NET LENDING</b>	<b>38,597,985</b>	<b>48,139,844</b>	<b>54,784,640</b>	<b>44.14</b>	<b>48.93</b>	<b>51.08</b>
III Total expenditure	38,273,826	47,881,837	54,297,299	43.77	48.67	50.62
1. Current expenditure	35,606,602	43,409,085	46,941,087	40.72	44.12	43.77
2. Capital expenditure	2,667,224	4,472,752	7,356,212	3.05	4.55	6.86
IV Lending minus repayments	324,159	258,007	487,341	0.37	0.26	0.45

Basic aggregates of the consolidated general government are shown in Table 1. A detailed outline of consolidated general government accounts, with the corresponding unconsolidated accounts of central government, local government and extrabudgetary funds, can be seen in the Appendix. When taking a first glance at the data presented in the table, an increase trend of the total public consumption can be seen, measured by the total consolidated revenues, as well as by the total consolidated expenditures. The increase in the total consolidated general government revenues is to the greatest extent the result of an increase in tax revenues from 43.19% of GDP in 1994 to 44.72% of GDP in 1996. The total consolidated general government expenditures have also showed in the observed period a significant nominal, as well as real growth. Their share in GDP has increased from 44.14% in 1994 to 51.08% in 1996. It is important to point out that a significant increase in the structure of consolidated expenditures have been noticed with capital expenditures which have increased from 3.05% of GDP in 1994 to 6.86% of GDP in 1996. After a real increase in 1995, a share of current expenditures in GDP has decreased in 1996 to the level of 43.77% of GDP.

The most significant issue of the consolidated balance is the issue of public consumption growth generators. The consolidated general government budget according to the government authorities units is shown in Table 2.

**Table 2: Consolidated General Government according to the Government Authorities Units**

(000 HRK)	OUTTURN			As share in GDP as %		
	1994	1995	1996	1994	1995	1996
<b>TOTAL REVENUE AND GRANTS</b>	<b>40,194,334</b>	<b>47,440,127</b>	<b>54,385,153</b>	<b>45.97</b>	<b>48.22</b>	<b>50.71</b>
<b>I Budgetary Central Government</b>	<b>23,142,632</b>	<b>27,880,779</b>	<b>31,367,481</b>	<b>26.47</b>	<b>28.34</b>	<b>29.25</b>
<b>II Extrabudgetary Funds</b>	<b>13,659,619</b>	<b>15,191,309</b>	<b>16,896,135</b>	<b>15.62</b>	<b>15.44</b>	<b>15.75</b>
1. Pension Fund	7,113,499	8,646,961	9,503,847	8.14	8.79	8.86
2. Health Fund	3,746,823	4,520,547	5,151,911	4.28	4.59	4.80
3. Employment Fund	556,729	691,171	673,826	0.64	0.70	0.63
4. Child Benefit Fund	689,405	782,087	878,500	0.79	0.79	0.82
5. Croatian Water Management Fund	435,655	550,543	688,051	0.50	0.56	0.64
6. Croatian Road Fund	1,117,508	0	0	1.28	0.00	0.00
<b>III Local Government</b>	<b>3,392,083</b>	<b>4,368,039</b>	<b>6,121,537</b>	<b>3.88</b>	<b>4.44</b>	<b>5.71</b>
<b>TOTAL EXPENDITURE AND NET LENDING</b>	<b>38,597,985</b>	<b>48,139,844</b>	<b>54,784,640</b>	<b>44.14</b>	<b>48.93</b>	<b>51.08</b>
<b>I Budgetary Central Government</b>	<b>20,616,667</b>	<b>26,032,112</b>	<b>27,376,158</b>	<b>23.58</b>	<b>26.46</b>	<b>25.52</b>
<b>III Extrabudgetary Funds</b>	<b>14,736,923</b>	<b>17,976,836</b>	<b>21,282,136</b>	<b>16.85</b>	<b>18.27</b>	<b>19.84</b>
1. Pension Fund	6,685,575	8,860,687	10,459,776	7.65	9.01	9.75
2. Health Fund	5,255,669	7,083,073	8,357,507	6.01	7.20	7.79
3. Employment Fund	416,095	445,942	676,184	0.48	0.45	0.63
4. Child Benefit Fund	665,178	820,581	853,165	0.76	0.83	0.80
5. Croatian Water Management Fund	507,432	766,553	935,504	0.58	0.78	0.87
6. Croatian Road Fund	1,206,974	0	0	1.38	0.00	0.00
<b>IV Local Government</b>	<b>3,244,395</b>	<b>4,130,896</b>	<b>6,126,346</b>	<b>3.71</b>	<b>4.20</b>	<b>5.71</b>
<b>TOTAL DEFICIT/SURPLUS</b>	<b>1,596,349</b>	<b>-699,717</b>	<b>-399,487</b>	<b>1.83</b>	<b>-0.71</b>	<b>-0.37</b>

It is clearly shown in the table that the increase of tax burden, measured by the share of total revenues in GDP, was under the influence of an increase in central government and extrabudgetary funds revenues. There is a broad explanation of the total central government revenues in Chapter II, which were in the observed period under the influence of tax reduction policy, strengthening of financial discipline and the disinflation dynamics, which had, particularly in the period from 1994 to 1995, an impact on a more rapid increase of tax revenues than the corresponding tax bases. Simultaneously, the government budget realized in 1996 the revenues from privatization in the amount of 1% of GDP that effected the level of total consolidated revenues, but one should also bear in mind that their emergence is a single occurrence. When we take into account the effect of capital revenues in 1996, it is obvious that local government had the most influence on the aggregate growth of tax burden. The increase of local government share is the result of implementation of a decentralizing policy of certain government functions and the introduction of the Law on Local Government in the end of 1995.

When observing the expenditure side of the consolidated accounts, it can be seen that the central government budget has been in a constant consolidated surplus and that consolidated government expenditures have started to decrease in 1996. A further decrease of consolidated central government expenditures may be expected in 1997. However, the expenditures of extrabudgetary funds and local government undoubtedly show that the reason of a rapid increase in public consumption may be found exactly in this sphere. An additional gap expansion between the consolidated revenues and expenditures of extrabudgetary funds has shown that extrabudgetary funds (in the first place Pension Fund) are basic generators of consolidated deficit. Thus, it is obvious that the system of generation solidarity and the existing retirement conditions are no longer financially sustainable. It is expected, therefore, that the overall pension system reform will be initiated on January 1, 1999.

## 1. Structure of Current Expenditures

A trend of consolidated current expenditure shows that, in the observed period, there has been a decline of their share in the total consolidated expenditures from 92.25% in 1994 to 85.68% in 1996. Due to the referred trends in the central government budget during 1997, a further decline of their significance may be expected. The trends of most important current consolidated expenditures are shown in Table 3. Expenditures on goods and services have decreased in the structure of total expenditures from 58.73% in 1994 to 49.58% in 1996, which is 25.32% of GDP.

**Table 3: Structure of Current Expenditures**

(000 HRK)	Nominal values			Share in GDP (%)		
	1994	1995	1996	1994	1995	1996
<b>CONSOLIDATED CURRENT EXPENDITURE</b>	<b>35,606,602</b>	<b>43,409,085</b>	<b>46,941,087</b>	<b>40.72</b>	<b>44.12</b>	<b>43.77</b>
1. Expenditure for goods and services	22,669,186	27,369,895	27,160,325	25.93	27.82	25.32
- Wages and salaries	9,063,537	11,739,444	12,051,216	10.37	11.93	11.24
- Other purchases of goods and services	13,605,649	15,630,450	15,109,109	15.56	15.89	14.09
2. Interest payments	1,138,202	1,423,033	1,243,318	1.30	1.45	1.16
3. Subsidies and other current transfers	11,799,214	14,616,157	18,537,443	13.49	14.86	17.28

Subsidies and other current transfers have significantly increased their shares in the structure of consolidated current expenditures. In 1996, these expenditures made one third of the total expenditures. This category of expenditures on the consolidated level is including expenditures related to subsidies in agriculture, the policy of transfers to public enterprises and the population (social care programs and the program of social care for Croatian soldiers).

## 2. Current Surplus of Consolidated General Government – General Government Savings

The reduction of current expenditures in the structure of total expenditures has been accompanied by the increase of capital expenditures' share in the observed period. A relative reduction of current expenditures in the structure of total expenditures has been also accompanied by the increase of consolidated general government current surplus (savings). A trend of current surplus is shown in Table 4. The increase of the government sector savings contributes to the increase of the aggregate savings of the economy by which the inland investments are financed and the need for borrowing on a domestic or foreign capital market is reduced.

**Table 4: Current Surplus of Consolidated Government and a Degree of the Capital Expenditures' Coverage**

Year	Amount of savings (000 HRK)	Share in GDP	Capital expenditure (000 HRK)	Coverage degree
1994	4,227,126	4.83%	2,667,224	158.48%
1995	3,048,771	3.0%	4,472,752	68.16%
1996	5,846,352	5.45%	7,356,212	79.48%

Savings, measured by the difference between current revenues and current expenditures, have been in the observed period of time the most significant source of the government capital expenditures financing. In 1995, 68.16% of capital expenditures were financed through the savings, while in 1996, the saving covered 79.48% of the consolidated general government capital expenditures.

### 3. Total General Government Deficit and Its Financing

The trend of the total consolidated government surplus/deficit is shown in table 5. In 1994, the consolidated government surplus was realized in the amount of 1.59 billion kunas, which represented 1.83% of GDP. In the remaining period, consolidated general government deficit has not exceeded 1% of GDP. In 1995, a deficit of 699 million kunas was realized, which represented 0.71% of GDP, while in 1996, the consolidated budget deficit in the amount of 399 million kunas was realized, which was considerably less than in the previous year and it represented 0.37% of GDP. Such a trend has ranged Croatia among a rare number of countries that satisfy the fiscal convergence criteria of Maastricht Treaty. This result is even more important if we take into consideration the economic and political circumstances in which Croatia lived at that period of time. At the same time, the outlined deficit trend and its financing has described the fiscal policy contribution to the macroeconomic stability in the most convincing way. However, on the basis of table 5, the changes in the structure of the total public debt may also be discussed. Namely, the reduction of a domestic component of public debt in favor of a foreign component of public debt is strongly emphasized. Data related to 1997 have shown that the continuation of such a trend may be expected in 1997, which is a fact we should take into account in future.

**Table 5: Consolidated General Government Deficit and Its Financing**

(000 HRK)	Nominal values			Share in GDP (%)		
	1994	1995	1996	1994	1995	1996
<b>Total deficit/surplus</b>	<b>1,593,649</b>	<b>-,699,717</b>	<b>-399,487</b>	<b>1.82</b>	<b>-0.71</b>	<b>-0.37</b>
<b>Total financing</b>	<b>-1,596,349</b>	<b>699,717</b>	<b>399,487</b>	<b>-1.83</b>	<b>0.71</b>	<b>0.37</b>
Domestic financing	-1,565,115	-56,811	-530,293	-1.79	-0.06	-0.49
External financing	-31,234	756,528	929,780	-0.04	0.77	0.87



## VIII ORGANIZATIONAL STRUCTURE OF THE MINISTRY OF FINANCE



The Ministry of Finance is one of the five state ministries. The status of the state ministry is attributed to the Ministry of Finance as a result of the relevance of tasks performed by the Ministry of Finance in the framework of the entire government administration, and the fact that all tasks within the scope of the Ministry of Finance are performed at the centralized level for the entire state.

The organizational scheme of the Ministry of Finance is shown in the diagram 1. The head of the Ministry of Finance is the Minister of Finance. The Minister of Finance has one Deputy. The Ministry of Finance is divided between fifteen organizational units, as shown in the organizational scheme for the performance of tasks within the scope of the Ministry of Finance. The organizational units within the Ministry of Finance are as follows:

- Customs Administration
- Foreign Exchange Inspectorate
- Financial Police
- Tax Administration
- Macroeconomic Analysis and Forecasts Department
- Budget Preparation and Consolidation Department
- Budget Execution Department
- Cash and Debt Management Department
- International Financial Relations Department
- Economic Affairs Department
- Banking, Foreign Exchange and Insurance Department
- Government Accounting Department
- Information Technology and Procurement Department
- Cabinet of the Minister
- Office of the Secretary of the Ministry of Finance

Custom Administration is responsible for proposing the custom policy measures, organizing the activities of the custom offices, discovering and preventing the offence against customs regulations, as well as for the performance of other tasks as requested by the Minister. The head of Custom Administration is Assistant to Minister.

Tax Administration Department is responsible for organizing, coordinating and supervising the payments of government revenues, proposing the tax policy measures, analyzing and surveying the application of tax laws as well as the functioning of the tax system. It is also responsible for the performance of other tasks as requested by the Minister. The head of Tax Department is Assistant to Minister.

Foreign Exchange Inspectorate is responsible for the supervision of foreign exchange and foreign trade operations, as well as for foreign loans arrangements and the performance of tasks as requested by the Minister. The head of Foreign Exchange Inspectorate is general foreign exchange inspector who is also Assistant to Minister.

Financial Police is responsible for the supervision of payments of government revenues as well as local government and extrabudgetary funds' revenues. It is also responsible for the performance of tasks as requested by the Minister. The head of Financial Police is general financial police inspector who is also Assistant to Minister.

Macroeconomic Analysis and Forecasts Department is responsible for the performance of macroeconomic trends analysis and forecasts, analysis of fiscal policy effects on the economy and other tasks as requested by the Minister. The head of the Macroeconomic Analysis and Forecasts Department is Assistant to Minister.

Budget Preparation and Consolidation Department is responsible for the development and preparation of government budget and extrabudgetary funds budgets, for budget consolidation, development of public revenues and expenditure trends report, drafting of laws within the financing of local government and other

tasks as requested by the Minister. The head of the Budget Preparation and Consolidation Department is Assistant to Minister.

Budget Execution Department is responsible for budget execution and the performance of administrative tasks related to budget execution, development of annual budget report documentation, performance of budgetary control with respect to ensuring legal utilization of budgetary funds and other tasks as requested by the Minister. The head of the Budget Execution Department is Assistant to Minister.

Government Accounting Department is responsible for Treasury Ledger System, determination of government accounting standards and other tasks as requested by the Minister. The head of Government Accounting Department is Assistant to Minister.

Cash and Debt Management Department is responsible for ensuring cash management, supervision of all transactions related to government debt, keeping records of the government debt, supervision and analysis of government borrowings and other tasks as requested by the Minister. The head of the Cash and Debt Management Department is Assistant to Minister.

Government Treasury System is divided between Budget Execution Department Cash and Debt Management Department and Government Accounting Department.

International Relations Department is responsible for the preparation of legal regulations, which are related to international financial relations, performance of tasks related to negotiations on foreign loans, preparation of draft decrees on the issuance of foreign loan guarantees and other tasks as requested by the Minister. The head of International Relations Department is Assistant to Minister.

Economic Department is responsible for the surveillance and analysis of public enterprises business operations, surveillance of disasters effects and war devastation, performance of tasks related to concessions and other tasks as requested by the minister. The head of Economic Department is Assistant to Minister.

Banking, Foreign Exchange and Insurance Department is responsible for the participation in developing legal regulations related to banking, foreign exchange and insurance systems, monitoring capital market operations and the performance of other tasks as requested by the Minister. The head of Banking, Foreign Exchange and Insurance Department is Assistant to Minister.

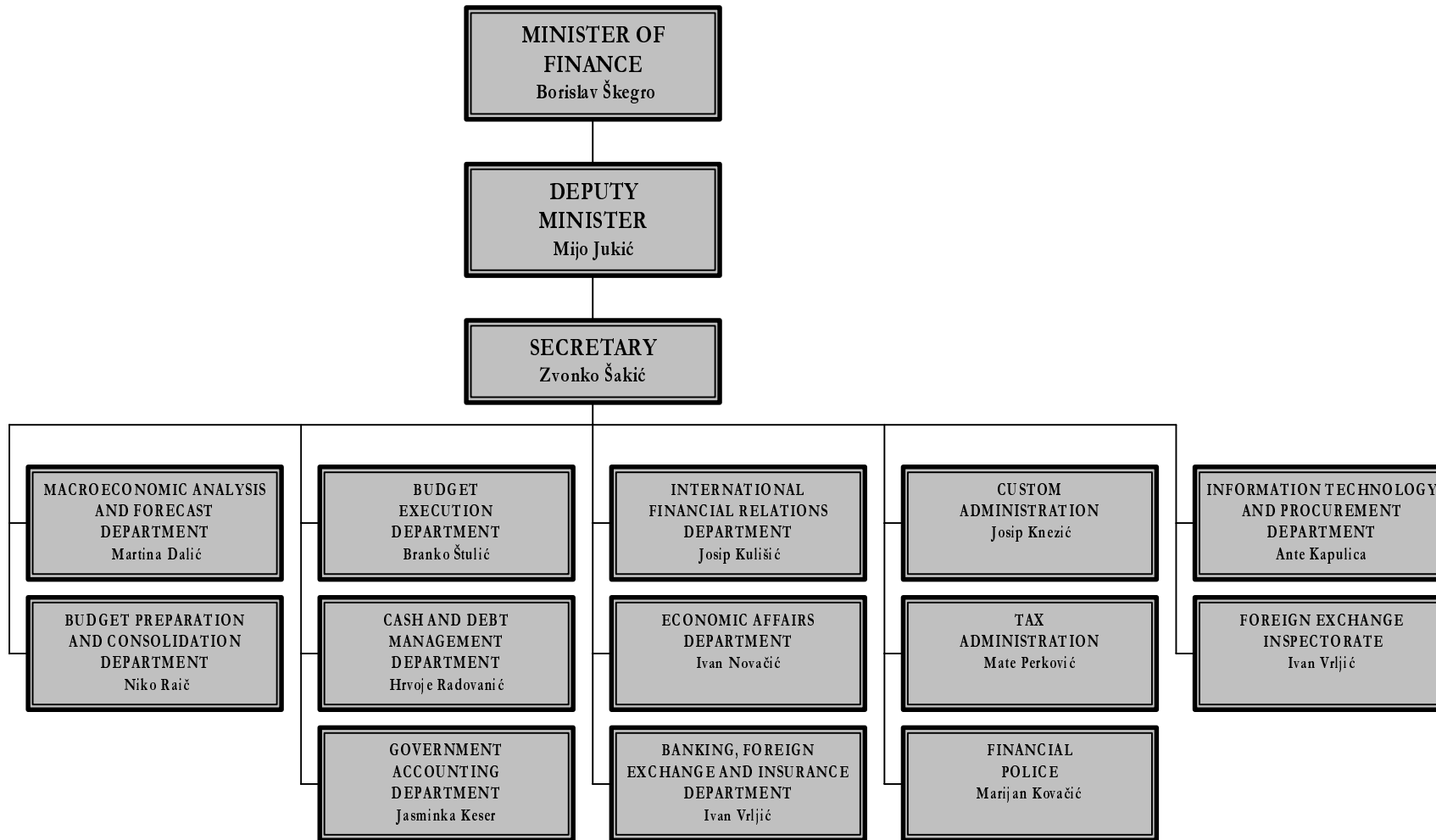
Informatization and Procurement Department is responsible for the performance of tasks related to the building and maintenance of the Ministry's computer network, public procurements, as well as for the performance of general administrative tasks and other tasks as requested by the Minister. The head of the Informatization and Procurement Department is Assistant to Minister.

The Cabinet of the Minister is responsible for the performance of protocolary tasks on behalf of the Minister and his Deputy, public relations, administrative tasks related to the communication with the Government and the Croatian Parliament and other tasks as requested by the Minister of Finance.

The Office of the Secretary of the Ministry of Finance is responsible for providing coordination in developing laws and other regulations within the scope of the Ministry of Finance, and for the performance of employment policy and other tasks as requested by the Minister. The head of the Office is Secretary of the Ministry.

In the end of 1997, the total number of employees in the Ministry of Finance amounted to 7,162 people employed.

# THE ORGANIZATIONAL SCHEME OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA



**FORMER MINISTERS OF FINANCE  
OF THE REPUBLIC OF CROATIA**

**MARIJAN HANŽEKOVIĆ, Ph.d.**

July 27, 1990 – August 3, 1991

**JOZO MARTINOVIĆ**

August 4, 1991 – August 12, 1992

**ZORAN JAŠIĆ, Ph.d.**

August 12, 1992 – July 7, 1994

**BOŽO PRKA**

July 7, 1994 – September 11, 1997

## MEDIUM LEVEL MANAGEMENT STRUCTURE OF THE MINISTRY OF FINANCE

### Custom Administration

*Milivoj Fučkar*, Deputy Director of Custom Administration  
*Mladen Barišić*, Deputy Director of Custom Administration  
*Stanko Karačić*, Deputy Director of Custom Administration  
*Snježana Kovaček*, Deputy Director of Custom Administration  
*Tomislav Radovanić*, Deputy Director of Custom Administration  
*Tomislav Javor*, Head of Custom-House Zagreb  
*Drago Brhan*, Head of Custom-House Pula  
*Anton Uljar*, Head of Custom-House Rijeka  
*Branko Ganzulić*, Head of Custom-House Zadar  
*Stjepan Luetić*, Head of Custom-House Split  
*Semira Škugor*, Head of Custom-House Šibenik  
*Zdenka Vicić*, Head of Custom-House Ploče  
*Željko Dominis*, Head of Custom-House Dubrovnik  
*Mibajlo Filipčić*, Head of Custom-House Koprivnica  
*Zdravko Milić*, Head of Custom-House Osijek

### Financial Police

*Ivan Pudar*, Deputy of the Chief Inspector  
*Branko Miloloža*, Deputy of the Chief Inspector  
*Mato Pelivan*, Head of the Financial Police of the City of Zagreb and Zagreb County  
*Božidar Pavelić*, Deputy of the Head of the Financial Police of the City of Zagreb and Zagreb County  
*Zlatko Jurina*, Head of the Financial Police of the Krapinsko-Zagorska County  
*Milan Bradarić*, Head of the Financial Police of the Sisačko-Moslavačka County  
*Josip Šafar*, Head of the Financial Police of the Karlovačka County  
*Josip Hofman*, Head of the Financial Police of the Varaždinska County  
*Stanislav Domović*, Head of the Financial Police of the Koprivničko-Križevačka County  
*Vinko Jelić-Balta*, Head of the Financial Police of the Bjelovarsko-Bilogorska County  
*Petar Čarić*, Head of the Financial Police of the Primorsko-Goranska County  
*Nikola Grbac*, Head of the Financial Police of the Ličko-Senjska County  
*Ivan Domšić*, Head of the Financial Police of the Virovitičko-Podravska County  
*Zdenko Budimir*, Head of the Financial Police of the Požeško-Slavonska County  
*Ivan Vargašević*, Head of the Financial Police of the Brodsko-Posavska County  
*Žarko Knežević*, Head of the Financial Police of the Zadarska County  
*Stanko Mikulić*, Head of the Financial Police of the Osječko-Baranjska County  
*Ivan Lucić*, Head of the Financial Police of the Šibensko-Kninska County

*Mirko Dujmić*, Head of the Financial Police of the Vukovarsko-Srijemska County  
*Mirko Budić*, Head of the Financial Police of the Splitsko-Dalmatinska County  
*Tomislav Vukoja*, Deputy of the Head of the Financial Police of the Splitsko-Dalmatinska County  
*Dušan Sinčić*, Head of the Financial Police of the Istarska County  
*Siniša Novak*, Deputy of the Head of the Financial Police of the Istarska County  
*Milo Pavlović*, Head of the Financial Police of the Dubrovačko-Neretvanska County  
*Ivan Baksa*, Head of the Financial Police of the Međimurska County

## **Tax Administration**

*Stipe Čecura*, Deputy Director of Tax Department  
*Josip Ložančić*, Deputy Director of Tax Department  
*Božo Smirčić*, Deputy Director of Tax Department  
*Andelko Dvorščak*, Deputy Director of Tax Department  
*Davor Bišćan*, Deputy Director of Tax Department  
*Miroslav Butorović*, Deputy Director of Tax Department  
*Zrinka Akrap*, Head of Regional Office of Tax Department Zagreb  
*Slavica Kamenčki*, Head of Regional Office of Tax Department Krapina  
*Božica Suljić*, Head of Regional Office of Tax Department Sisak  
*Danica Ivasić*, Head of Regional Office of Tax Department Karlovac  
*Ružica Brčić*, Head of Regional Office of Tax Department Varaždin  
*Branko Vrtiprah*, Head of Regional Office of Tax Department Koprivnica  
*Đuro Šadek*, Head of Regional Office of Tax Department Bjelovar  
*Višnja Felker*, Head of Regional Office of Tax Department Rijeka  
*Blaž Jurković*, Head of Regional Office of Tax Department Gospić  
*Silvestar Beneš*, Head of Regional Office of Tax Department Virovitica  
*Zdenko Farkaš*, Head of Regional Office of Tax Department Požega  
*Vladimir Abramović*, Head of Regional Office of Tax Department Slavonski Brod  
*Davor Klapan*, Head of Regional Office of Tax Department Zadar  
*Zvezdana Tima-Pavlov*, Head of Regional Office of Tax Department Osijek  
*Dražžen Crnogača*, Head of Regional Office of Tax Department Šibenik  
*Milan Matak*, Head of Regional Office of Tax Department Vukovar  
*Ivica Mladineo*, Head of Regional Office of Tax Department Split  
*Ivan Desantolo*, Head of Regional Office of Tax Department Pazin  
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## **Macroeconomic Analysis and Forecast Department**

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## **Budget Preparation and Consolidation Department**

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*Vesna Brkić*, Head of Unit for Budget Consolidation

*Maja Lukeš-Petrović*, Head of Unit for Extrabudgetary Funds and Local Government Budgets

## **Budget Execution Department**

*Đurđa Hunjet*, Head of Unit for Budget Execution

*Toma Burić*, Head of Unit for Budget Control

## **Cash and Debt Management Department**

*Ivan Mijatović*, Head of Unit for Cash Management

*Branka Grabovac*, Head of Unit for Debt Management

## **Government Accounting Department**

*Tibomir Domazet*, Head of Unit for Accounting Standards

*Janja Zobundžija*, Head of Unit of the Ledger of the Government Treasury

## **International Financial Relations Department**

*Vladimira Ivandić*, Head of Unit for the Relations with International Financial Organizations

*Miroslav Vilbar*, Head of Unit for Bilateral Financial Relations and Foreign Investment Promotions

## **Economic Affairs Department**

*Štefanija Jakopčević*, Head of Unit for Observing the Financial Management of Public Enterprises

## **Banking, Foreign Exchange and Insurance Department**

*Mirjana Kovačić*, Head of Unit for Foreign Exchange System

*Ivica Maras*, načelnik Head of Unit for Foreign Exchange Violation

*Slavica Pezer-Blečić*, Head of Unit for Exchange and Foreign Trade Controls

## **Information Tehnology and Procurement Department**

## **Cabinet of the Minister**

*Branka Vine*, Secretary of the Cabinet of the Minister

## **Office of Secretary of the Ministry of Finance**

*Vesna Šekoranja*, Head of Unit for Accounting Affairs



# APPENDICES



## Appendix 1: Budgetary Central Government Revenue and Grants

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>23,142,632</b>	<b>27,980,779</b>	<b>31,367,481</b>	<b>33,846,123</b>	<b>37,123,996</b>
<b>II.</b>	<b>Total revenue</b>	<b>23,142,632</b>	<b>27,880,779</b>	<b>31,367,481</b>	<b>33,846,123</b>	<b>37,123,996</b>
<b>III.</b>	<b>Current revenue</b>	<b>22,788,882</b>	<b>27,287,119</b>	<b>30,244,343</b>	<b>33,384,986</b>	<b>34,954,810</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>22,377,482</b>	<b>26,505,353</b>	<b>28,530,426</b>	<b>31,338,173</b>	<b>32,795,663</b>
1.	Taxes on personal income	3,211,607	3,497,588	4,216,938	4,102,217	4,394,765
2.	Taxes on corporate income	591,585	1,009,073	1,271,183	1,785,259	1,913,256
3.	Taxes on real estate transactions	117,672	141,756	171,776	242,702	235,865
4.1.	Sales tax	13,107,159	12,802,257	13,504,368	15,133,172	0
4.2.	Value added tax	0	0	0	0	15,038,544
5.	Excises	1,813,581	4,960,440	5,390,785	5,404,837	6,389,983
	a) on oil products	670,441	2,559,021	2,691,840	2,728,346	3,294,260
	b) on alcohol	75,140	183,458	197,623	176,681	271,284
	c) on beer	128,983	266,031	262,080	279,086	296,131
	d) on beverage	51,208	108,498	108,737	110,255	120,118
	e) on tobacco products	880,466	1,759,266	2,039,532	1,999,988	2,292,486
	f) on coffee	0	67,642	68,704	74,959	85,221
	g) on imports of motor vehicles	7,343	16,524	22,269	35,522	30,483
6.	Taxes on international trade and transactions	3,486,771	3,922,481	3,942,438	4,639,995	4,791,861
6.1.	Custom duties	714,839	782,860	3,942,438	4,639,995	4,791,861
6.2.	Other imports charges	2,771,932	3,139,621	0	0	0
7.	Other taxes	49,107	171,758	32,938	29,991	31,389
<b>V.</b>	<b>Nontax revenue</b>	<b>411,400</b>	<b>781,766</b>	<b>1,713,917</b>	<b>2,046,813</b>	<b>2,159,147</b>
8.	Central bank profits	141,473	165,889	82,255	129,207	106,215
9.	Part of profits of public enterprises	44,765	142,812	134,866	329,842	391,625
10.	Revenue from interests	0	7,580	3,038	1,421	2,000
11.	Other property income	0	13,207	116,163	82,082	111,770
12.	Administrative fees and charges	25,575	49,501	510,489	562,611	579,711
13.	State administration bodies' revenue	19,876	55,370	304,702	286,830	89,442
14.	Roads' charges	0	106,200	130,939	347,086	340,212
15.	Fines and forfeits	110,547	187,584	228,547	281,011	303,727
16.	Other nontax revenue	69,164	53,623	202,918	26,723	234,445
<b>VI.</b>	<b>Capital revenue</b>	<b>353,750</b>	<b>593,660</b>	<b>1,123,138</b>	<b>461,137</b>	<b>2,169,186</b>
17.	Sales of public flats	28,456	54,740	166,683	159,420	150,000
18.	Sales of army's flats	0	43,210	401,931	157,940	109,186
19.	Revenue from privatization	325,294	495,710	554,524	143,777	1,910,000
<b>VII.</b>	<b>Grants</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Appendix 2: Budgetary Central Government Expenditure and Net Lending by Economic Categories

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total expenditure and lending minus repayments</b>	<b>22,598,774</b>	<b>28,696,186</b>	<b>31,501,501</b>	<b>35,006,314</b>	<b>39,134,564</b>
<b>II.</b>	<b>Total expenditure</b>	<b>22,282,792</b>	<b>28,475,583</b>	<b>30,972,816</b>	<b>34,395,182</b>	<b>37,477,377</b>
<b>III.</b>	<b>Current expenditure</b>	<b>20,360,525</b>	<b>25,495,182</b>	<b>25,930,068</b>	<b>29,579,721</b>	<b>31,988,195</b>
1.	Expenditures on goods and services	16,613,749	20,734,529	19,623,107	20,263,325	21,700,193
1.1.	Wages and salaries	6,517,586	8,393,597	8,365,211	9,147,512	10,094,661
1.2.	Employer contributions	1,367,573	1,716,123	1,966,383	1,892,364	2,188,909
1.3.	Other purchases of goods and services	8,728,590	10,624,809	9,291,513	9,223,449	9,416,623
2.	Interest payments	1,002,506	1,392,084	1,217,618	1,737,016	2,572,250
2.2.	Domestic payments	895,235	911,473	949,879	775,007	1,183,299
2.3.	Payments abroad	107,271	480,611	267,739	962,009	1,388,951
3.	Subsidies and other current transfers	2,744,270	3,368,569	5,089,343	7,579,380	7,715,752
3.1.	Subsidies	1,762,667	1,809,780	2,076,847	2,307,071	2,380,324
3.1.1.	To nonfinancial public enterprises	1,709,155	1,766,074	1,995,594	2,085,988	2,116,824
3.1.2.	To financial institutions	0	0	1,684	1,281	0
3.1.3.	To other enterprises	53,512	43,706	79,569	219,802	263,500
3.2.	Transfers to other levels of Government	330,215	842,135	1,933,068	4,041,503	3,863,295
3.3.	Transfers to nonprofit institutions	177,192	216,148	275,224	314,696	363,892
3.4.	Transfers to households	442,120	477,387	774,412	878,006	1,071,550
3.5.	Transfers abroad	32,076	23,119	29,792	38,104	36,691
<b>IV.</b>	<b>Capital expenditure</b>	<b>1,922,267</b>	<b>2,980,401</b>	<b>5,042,748</b>	<b>4,815,461</b>	<b>5,489,182</b>
4.	Acquisition of fixed capital assets	1,588,767	1,634,158	2,216,434	1,977,534	2,554,504
5.	Purchases of stocks	180,000	0	0	0	0
6.	Purchases of land and intangible assets	0	0	194,214	238,691	283,458
7.	Capital transfers	153,500	1,346,243	2,632,100	2,599,236	2,651,220
7.1.	To other levels of national government	140,000	0	100,000	113,000	173,995
7.2.	To nonfinancial public enterprises	0	194,674	270,000	434,713	298,500
7.3.	To financial institutions	0	0	0	0	0
7.4.	To other enterprises	0	0	1,480	3,100	46,360
7.5.	Other domestic capital transfers	13,500	1,144,169	2,245,820	2,036,583	2,117,365
7.6.	Capital transfers abroad	0	7,400	14,800	11,840	15,000
<b>V.</b>	<b>Lending minus repayments</b>	<b>315,982</b>	<b>220,603</b>	<b>528,685</b>	<b>611,132</b>	<b>1,657,187</b>
8.	To other levels of national government	0	1,141	0	43,587	65,000
9.	To nonfinancial public enterprises	0	40,675	0	-263,142	318,845
10.	To financial institutions	268,651	78,631	147,506	603,948	725,500
11.	Other domestic lending minus repayments	47,331	81,095	367,841	205,734	519,842
12.	Net lending abroad	0	19,061	13,338	21,005	28,000
	<b>Current surplus</b>	<b>2,428,357</b>	<b>1,791,937</b>	<b>4,314,275</b>	<b>3,805,265</b>	<b>2,966,615</b>
	<b>Total deficit/surplus</b>	<b>543,858</b>	<b>-715,407</b>	<b>-134,020</b>	<b>-1160191</b>	<b>-2,010,568</b>

### Appendix 3: Budgetary Central Government Expenditure by Function

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I</b>	<b>Total expenditure</b>	<b>22,282,792</b>	<b>28,475,583</b>	<b>30,972,816</b>	<b>34,395,182</b>	<b>37,477,377</b>
1.	General public services	1,674,965	1,911,166	1,911,595	2,182,768	2,598,097
2.	Defense affairs and services	7,650,165	9,910,927	7,760,190	6,990,659	7,500,081
3.	Public order and safety affairs	2,841,432	3,351,489	3,714,158	4,169,881	4,478,696
4.	Education affairs and services	2,864,662	3,277,776	3,599,830	4,050,800	4,745,538
5.	Health affairs and services	57,245	78,167	151,619	184,758	254,254
6.	Social security and welfare affairs and services	2,547,002	3,185,789	4,408,288	6,451,998	6,227,067
7.	Housing and community amenity affairs and services	462,741	1,343,216	2,602,722	2,069,451	2,401,841
8.	Recreational, cultural and religious affairs	308,960	430,115	410,711	539,479	597,754
9.	Agriculture, forestry, fishing, hunting affairs	652,968	511,479	550,976	616,317	698,714
10.	Mining, manufacturing, construction affairs	192,398	255,352	381,307	692,771	492,947
11.	Transport and communication affairs and services	1,498,506	2,232,489	3,404,954	3,433,519	3,645,710
12.	Other economic affairs and services	273,661	226,887	305,008	648,405	550,402
13.	Expenditures not classified by major group	1,258,087	1,760,731	1,771,458	2,364,376	3,286,276

#### Appendix 4: Financing by Type of Debt Holder

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I</b>	<b>Total financing</b>	<b>-543,858</b>	<b>715,407</b>	<b>134,020</b>	<b>1,160,191</b>	<b>2,010,568</b>
<b>II</b>	<b>Domestic financing</b>	<b>-591,189</b>	<b>29,402</b>	<b>-669,912</b>	<b>-1,825,749</b>	<b>-2,350,147</b>
1.	From monetary authorities	-617,286	395,967	-152,745	-354,848	-58,000
1.1.	CNB - net borrowing	-284,690	126,186	-233,834	-241,340	-58,000
1.2.	Changes in deposits	-332,596	269,781	81,089	-113,508	0
2.	From deposit money banks	-63,832	1	-308,357	-1,357,298	-1,920,845
3.	Other domestic financing	89,929	-366,566	-208,810	-113,603	-371,302
3.1.	From other financial institutions	0	25,000	10,000	-12,303	-41,000
3.2.	From nonfinancial public enterprises	0	0	0	0	0
3.3.	From nonfinancial private sector	0	0	0	0	0
3.4.	Other domestic financing n.e.c.	89,929	-391,566	-218,810	-101,300	-330,302
<b>III</b>	<b>Financing abroad</b>	<b>47,331</b>	<b>686,005</b>	<b>803,932</b>	<b>2,985,940</b>	<b>4,360,715</b>
4.	From international development institutions	0	63,540	482,028	470,073	1,756,945
4.1.	Drawings	0	124,483	581,243	557,570	1,889,245
4.2.	Amortization	0	-60,943	-99,215	-87,497	-132,300
5.	From foreign governments	47,331	29,570	-364,330	-502,829	-50,600
5.1.	Drawings	47,331	29,570	0	0	125,000
5.2.	Amortization	0	0	-364,330	-502,829	-627,600
6.	Other borrowing abroad	0	592,895	686,234	3,018,696	3,106,370
6.1.	Other borrowing abroad	0	592,895	686,234	-3,749	-1,438,950
6.2.	Supplier credits	0	0	0	0	0
6.3.	Other borrowing abroad n.e.c.	0	0	0	3,022,445	4,545,320
7.	Changes in cash, deposits and securities	0	0	0	0	0



## Appendix 5: Financing by Type of Debt Instrument

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I</b>	<b>Total financing</b>	<b>-543,858</b>	<b>715,407</b>	<b>134,020</b>	<b>1,160,191</b>	<b>2,010,568</b>
<b>II</b>	<b>Domestic financing</b>	<b>-591,189</b>	<b>29,402</b>	<b>-669,912</b>	<b>-1,825,749</b>	<b>-2,350,147</b>
1.	Long-term bonds	160,339	-303,255	-712,116	-1,572,385	-2,227,632
1.1.	Issues	160,339	554,551	545,138	146,250	0
1.2.	Amortization	0	-857,806	-1,257,254	-1,718,635	-2,227,632
2.	Short-term bonds and bills	0	0	268,824	113,970	0
3.	Long-term loans n.e.c.	-273,719	79,376	-292,922	-240,642	-44,515
3.1.	Drawings	0	340,465	0	0	0
3.2.	Amortization	-273,719	-261,089	-292,922	-240,642	-44,515
4.	Short-term loans n.e.c.	0	25,000	10,000	0	0
5.	Other liabilities	-63,832	0	-855	-183	-20,000
6.	Changes in cash, deposits, and securities	-413,977	228,281	57,157	-126,509	-58,000
<b>III</b>	<b>Financing abroad</b>	<b>47,331</b>	<b>686,005</b>	<b>803,932</b>	<b>2,985,940</b>	<b>4,360,715</b>
7.	Long-term bonds	0	0	0	3,022,445	3,535,290
7.1.	Issues	0	0	0	3,022,445	3,835,290
7.2.	Amortization	0	0	0	0	-300,000
8.	Short-term bonds and bills	0	0	0	0	0
9.	Long-term loans n.e.c.	47,331	154,885	830,811	-36,505	515,395
9.1.	Drawings	47,331	215,828	1,294,356	557,570	2,014,245
9.2.	Amortization	0	-60,943	-463,545	-59,4075	-1,498,850
10.	Short-term loans n.e.c.	0	531,120	-26,879	0	310,030
11.	Other liabilities	0	0	0	0	0
12.	Changes in cash, deposits and securities	0	0	0	0	0

## Appendix 6: Consolidated Central Government

(000 HRK)	Outturn				Budget
	1994	1995	1996	1997	1998
<b>Total revenue and grants</b>	<b>36,882,251</b>	<b>43,283,059</b>	<b>48,396,602</b>	<b>53,345,263</b>	<b>58,263,492</b>
<b>Budgetary central government</b>	<b>23,142,632</b>	<b>27,980,779</b>	<b>31,367,481</b>	<b>33,846,123</b>	<b>37,123,996</b>
<b>Extrabudgetary funds</b>	<b>13,739,619</b>	<b>15,302,280</b>	<b>17,029,121</b>	<b>19,499,140</b>	<b>21,139,496</b>
1. Pension fund	7,165,145	8,720,426	9,584,721	11,022,237	11,972,544
2. Health insurance fund	3,775,177	4,558,053	5,196,313	5,824,150	6,359,842
3. Employment fund	556,729	691,171	676,112	638,330	662,110
4. Child benefit fund	689,405	782,087	878,500	976,695	1,105,000
5. "Croatian roads"	1,117,508	-			
6. Public water-management fund	435,655	550,543	693,475	1,037,728	1,040,000
<b>Total expenditure and lending minus repayments</b>	<b>35,469,290</b>	<b>,44,166,098</b>	<b>48,874,039</b>	<b>54,931,935</b>	<b>60,387,596</b>
<b>Budgetary central government</b>	<b>20,732,367</b>	<b>26,189,262</b>	<b>27,591,903</b>	<b>29,409,442</b>	<b>33,363,256</b>
<b>Extrabudgetary funds</b>	<b>14,736,923</b>	<b>17,976,836</b>	<b>21,282,136</b>	<b>25,522,493</b>	<b>27,024,340</b>
1. Pension fund	6,685,575	8,860,687	10,459,776	13,795,119	14,181,896
2. Health insurance fund	5,255,669	7,083,073	8,357,507	8,742,813	9,621,712
3. Employment fund	416,095	445,942	676,184	714,077	764,437
4. Child benefit fund	665,178	820,581	853,165	1,003,702	1,122,000
5. "Croatian roads"	1,206,974	-			
6. Public water-management fund	507,432	766,553	935,504	1,266,782	1,334,295
<b>Total deficit/surplus</b>	<b>1,412,961</b>	<b>-883,039</b>	<b>-477,437</b>	<b>-1,586,672</b>	<b>-2,124,104</b>
<b>Total financing</b>	<b>-1,412,961</b>	<b>883,039</b>	<b>477,437</b>	<b>1,586,672</b>	<b>2,124,104</b>
1. Financing from abroad	-12,982	755,158	931,093	3,111,719	4,392,051
2. Domestic financing	-1,399,979	127,881	-453,656	-1,525,047	-2,267,947

## Appendix 7: Revenues and Expenditures of the Pension Fund

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>8,324,988</b>	<b>10,524,558</b>	<b>12,407,222</b>	<b>15,299,580</b>	<b>16,231,491</b>
<b>II.</b>	<b>Total revenue</b>	<b>8,321,836</b>	<b>10,192,283</b>	<b>11,246,813</b>	<b>12,675,281</b>	<b>13,861,078</b>
<b>III.</b>	<b>Current revenue</b>	<b>8,321,836</b>	<b>10,030,464</b>	<b>11,105,745</b>	<b>12,439,164</b>	<b>13,510,598</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>8,040,501</b>	<b>9,807,001</b>	<b>10,951,042</b>	<b>12,243,659</b>	<b>13,321,424</b>
1.	Social security contributions	8,040,501	9,807,001	10,951,042	12,243,659	13,321,424
1.1.	From employees	3,799,376	4,710,925	5,266,590	5,918,109	6,454,112
1.2.	From employers	3,799,376	4,710,925	5,266,590	5,918,109	6,454,112
1.3.	From self-employed or unemployed	180,409	236,817	293,213	343,041	360,600
1.4.	Unallocable social security contributions	261,340	148,334	124,649	64,400	52,600
<b>V.</b>	<b>Nontax revenue</b>	<b>281,335</b>	<b>223,463</b>	<b>154,703</b>	<b>195,505</b>	<b>189,174</b>
2.	Income from dividends and interests	281,335	223,463	154,703	195,505	129,064
3.	Other nontax revenue	0	0	0	0	60,110
<b>VI.</b>	<b>Capital revenue</b>	<b>0</b>	<b>161,819</b>	<b>141,068</b>	<b>236,117</b>	<b>350,480</b>
4.	Sales of shares and public flats	0	161,819	141,068	236,117	350,480
<b>VII.</b>	<b>Grants</b>	<b>3,152</b>	<b>332,275</b>	<b>1,160,409</b>	<b>2,624,299</b>	<b>2,370,413</b>
5.1.	Current grants	3,152	332,275	1,160,409	2,624,299	2,370,413
5.1.1.	From other levels of national government	3,152	332,275	1,160,409	2,624,299	2,370,413
5.2.	Capital grants	0	0	0	0	0
<b>I.</b>	<b>Total expenditure and net lending</b>	<b>8,001,740</b>	<b>10,667,302</b>	<b>12,411,104</b>	<b>15,547,850</b>	<b>16,231,491</b>
<b>II.</b>	<b>Total expenditure</b>	<b>8,001,740</b>	<b>10,667,302</b>	<b>12,411,104</b>	<b>15,547,850</b>	<b>16,231,491</b>
<b>III.</b>	<b>Current expenditure</b>	<b>8,001,740</b>	<b>10,651,243</b>	<b>12,393,518</b>	<b>15,532,570</b>	<b>16,205,342</b>
1.	Expenditures on goods and services	379,199	477,785	427,870	534,291	615,320
1.1.	Wages and salaries	99,365	132,769	142,824	163,699	226,100
1.2.	Employer contributions	21,580	24,129	26,626	30,742	38,900
1.3.	Other purchases of goods and services	258,254	320,887	258,420	339,850	350,320
2.	Interest payments	4,020	2,270	884	13,736	9,600
2.1.	Domestic payments	4,020	2,270	884	13,736	9,600
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	7,618,521	10,171,188	11,964,764	14,984,543	15,580,422
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	1,294,585	1,782,486	1,924,702	1,721,990	2,010,695
3.4.	Transfers to households	6,304,740	8,355,121	10,002,364	13,217,390	13,523,127
3.5.	Transfers abroad	19,196	33,581	37,698	45,163	46,600
<b>IV.</b>	<b>Capital expenditure</b>	<b>0</b>	<b>16,059</b>	<b>17,586</b>	<b>15,280</b>	<b>26,149</b>
4.	Acquisition of fixed capital assets	0	16,059	17,586	15,280	26,149
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current surplus with grants</b>	<b>323,248</b>	<b>-288,504</b>	<b>-127,364</b>	<b>-469,107</b>	<b>-324,331</b>
	<b>Total deficit/surplus</b>	<b>323,248</b>	<b>-142,744</b>	<b>-3,882</b>	<b>-248,270</b>	<b>0</b>
<b>VI.</b>	<b>Total financing</b>	<b>-323,248</b>	<b>142,744</b>	<b>3,882</b>	<b>248,270</b>	<b>0</b>
1.	Financing from abroad	0	0	0	0	0
2.	Domestic financing	-323,248	142,744	3,882	248,270	0
2.1.	From deposit money banks	0	142,744	3,882	248,270	0
2.2.	Other domestic financing	-323,248	0	0	0	0

## Appendix 8: Revenues and Expenditures of the Health Insurance Fund

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>5,941,720</b>	<b>7,601,890</b>	<b>8,750,894</b>	<b>9,342,902</b>	<b>10,376,476</b>
<b>II.</b>	<b>Total revenue</b>	<b>5,819,357</b>	<b>7,252,905</b>	<b>8,134,192</b>	<b>8,560,479</b>	<b>9,524,485</b>
<b>III.</b>	<b>Current revenue</b>	<b>5,819,357</b>	<b>7,252,905</b>	<b>8,134,192</b>	<b>8,535,594</b>	<b>9,523,865</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>5,553,362</b>	<b>6,959,719</b>	<b>7,778,910</b>	<b>8,417,942</b>	<b>9,346,185</b>
1.	Social security contributions	5,553,362	6,959,719	7,778,910	8,417,942	9,346,185
1.1.	From employees	1,982,132	2,396,100	2,712,698	3,082,123	3,371,045
1.2.	From employers	1,982,132	2,396,100	2,712,698	3,082,123	3,371,045
1.3.	From self-employed or unemployed	182,818	271,173	308,199	325,535	353,700
1.4.	Unallocable social security contributions	1,406,280	1,896,346	2,045,315	1,928,161	2,250,395
<b>V.</b>	<b>Nontax revenue</b>	<b>265,995</b>	<b>293,186</b>	<b>355,282</b>	<b>117,652</b>	<b>177,680</b>
2.	Income from dividends and interests	0	0	0	0	1,800
3.	Other nontax revenue	265,995	293,186	355,282	117,652	175,880
<b>VI.</b>	<b>Capital revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24,885</b>	<b>620</b>
4.	Sales of shares	0	0	0	24,885	620
<b>VII.</b>	<b>Grants</b>	<b>122,363</b>	<b>348,985</b>	<b>616,702</b>	<b>782,423</b>	<b>851,991</b>
4.1.	Current grants	122,363	348,985	616,702	782,423	851,991
4.1.1.	From other levels of national government	122,363	348,985	616,702	782,423	851,991
4.2.	Capital grants	0	0	0	0	0
<b>I.</b>	<b>Total expenditure and net lending</b>	<b>5,635,856</b>	<b>7,592,694</b>	<b>8,924,017</b>	<b>9,433,605</b>	<b>10,373,012</b>
<b>II.</b>	<b>Total expenditure</b>	<b>5,635,856</b>	<b>7,592,694</b>	<b>8,924,017</b>	<b>9,433,605</b>	<b>10,373,012</b>
<b>III.</b>	<b>Current expenditure</b>	<b>5,635,856</b>	<b>7,528,432</b>	<b>8,736,628</b>	<b>9,176,087</b>	<b>10,141,754</b>
1.	Expenditures on goods and services	4,980,512	6,398,022	7,102,801	7,211,883	8,150,468
1.1.	Wages and salaries	1,810,416	2,580,362	2,806,889	3,353,355	3,792,600
1.2.	Employer contributions	380,187	509,621	566,510	690,792	751,300
1.3.	Other purchases of goods and services	2,789,909	3,308,039	3,729,402	3,167,736	3,606,568
2.	Interest payments	0	0	0	15,163	16,900
2.1.	Domestic payments	0	0	0	15,163	16,900
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	655,344	1,130,410	1,633,827	1,949,041	1,974,386
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	0	0	0	0	0
3.4.	Transfers to households	655,344	1,130,410	1,633,827	1,949,041	1,974,386
<b>IV.</b>	<b>Capital expenditure</b>	<b>0</b>	<b>64,262</b>	<b>187,389</b>	<b>257,518</b>	<b>231,258</b>
4.	Acquisition of fixed capital assets	0	64,262	187,389	257,518	231,258
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current surplus with grants</b>	<b>305,864</b>	<b>73,458</b>	<b>14,266</b>	<b>141,930</b>	<b>234,102</b>
	<b>Total deficit/surplus</b>	<b>305,864</b>	<b>9,196</b>	<b>-173,123</b>	<b>-90,703</b>	<b>3,464</b>
<b>VI.</b>	<b>Total financing</b>	<b>-305,864</b>	<b>-9,196</b>	<b>173,123</b>	<b>90,703</b>	<b>-3,464</b>
1.	Financing from abroad	0	1,653	84,073	70,903	-3,464
2.	Domestic financing	-305,864	-10,849	89,050	19,800	0
2.1.	From deposit money banks	0	0	89,050	19,800	0
2.2.	Other domestic financing	-305,864	-10,849	0	0	0

## Appendix 9: Revenues and Expenditures of the Employment Fund

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>645,729</b>	<b>747,171</b>	<b>722,042</b>	<b>874,645</b>	<b>956,837</b>
<b>II.</b>	<b>Total revenue</b>	<b>556,729</b>	<b>691,171</b>	<b>722,042</b>	<b>746,867</b>	<b>785,837</b>
<b>III.</b>	<b>Current revenue</b>	<b>556,729</b>	<b>691,171</b>	<b>722,042</b>	<b>746,867</b>	<b>785,837</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>542,694</b>	<b>657,284</b>	<b>699,785</b>	<b>740,466</b>	<b>780,837</b>
1.	Social security contributions	542,694	657,284	699,785	740,466	780,837
1.1.	From employees	542,694	657,284	699,785	370,233	390,419
1.2.	From employers	0	0	0	370,233	390,419
<b>V.</b>	<b>Nontax revenue</b>	<b>14,035</b>	<b>33,887</b>	<b>22,257</b>	<b>6,401</b>	<b>5,000</b>
2.	Other nontax revenue	14,035	33,887	22,257	6,401	5,000
<b>VI.</b>	<b>Capital revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VII.</b>	<b>Grants</b>	<b>89,000</b>	<b>56,000</b>	<b>0</b>	<b>127,778</b>	<b>171,000</b>
3.1.	Current grants	89,000	56,000	0	127,778	171,000
3.1.1.	From other levels of national government	89,000	56,000	0	127,778	171,000
3.2.	Capital grants	0	0	0	0	0
	<b>Total expenditure and net lending</b>	<b>535,626</b>	<b>582,591</b>	<b>832,968</b>	<b>883,743</b>	<b>956,837</b>
<b>II.</b>	<b>Total expenditure</b>	<b>535,626</b>	<b>582,591</b>	<b>832,968</b>	<b>883,743</b>	<b>956,837</b>
<b>III.</b>	<b>Current expenditure</b>	<b>535,626</b>	<b>582,591</b>	<b>803,181</b>	<b>868,319</b>	<b>928,941</b>
1.	Expenditures on goods and services	275,228	195,032	219,414	175,002	183,238
1.1.	Wages and salaries	0	0	0	34,838	44,945
1.2.	Employer contributions	0	0	0	7,111	7,800
1.3.	Other purchases of goods and services	275,228	195,032	219,414	133,053	130,493
2.	Interest payments	0	0	0	0	0
2.1.	Domestic payments	0	0	0	0	0
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	260,398	387,559	583,767	693,317	745,703
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	119,531	136,649	156,784	162,555	184,600
3.4.	Transfers to households	140,867	250,910	426,983	530,762	561,103
3.5.	Transfers abroad	0	0	0	0	0
<b>IV.</b>	<b>Capital expenditure</b>	<b>0</b>	<b>0</b>	<b>29,787</b>	<b>15,424</b>	<b>27,896</b>
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current surplus with grants</b>	<b>110,103</b>	<b>164,580</b>	<b>-81,139</b>	<b>6,326</b>	<b>27,896</b>
	<b>Total deficit/surplus</b>	<b>110,103</b>	<b>164,580</b>	<b>-110,926</b>	<b>-9,098</b>	<b>0</b>
<b>VI.</b>	<b>Total financing</b>	<b>-110,103</b>	<b>-164,580</b>	<b>110,926</b>	<b>9,098</b>	<b>0</b>
1.	Financing from abroad	0	0	0	0	0
2.	Domestic financing	-110,103	-164,580	110,926	9,098	0
2.1.	From other general government	0	0	0	0	0
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	0	0	110,926	9,098	0
2.4.	Other domestic financing	-110,103	-164,580	0	0	0

## Appendix 10: Revenues and Expenditures of the Child Benefit Fund

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>689,405</b>	<b>782,087</b>	<b>878,500</b>	<b>1,013,473</b>	<b>1,122,000</b>
<b>II.</b>	<b>Total revenue</b>	<b>689,405</b>	<b>782,087</b>	<b>878,500</b>	<b>993,473</b>	<b>1,122,000</b>
<b>III.</b>	<b>Current revenue</b>	<b>689,405</b>	<b>782,087</b>	<b>878,500</b>	<b>993,473</b>	<b>1,122,000</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>669,285</b>	<b>773,444</b>	<b>877,429</b>	<b>992,289</b>	<b>1,120,000</b>
1.	Social security contributions	669,285	773,444	877,429	992,289	1,120,000
1.1.	From employees	669,285	773,444	877,429	975,511	1,103,000
1.4.	Unallocable social security contributions	0	0	0	16,778	17,000
<b>V.</b>	<b>Nontax revenue</b>	<b>20,120</b>	<b>8,643</b>	<b>1,071</b>	<b>1,184</b>	<b>2,000</b>
3.	Other nontax revenue	20,120	8,643	1,071	1,184	2,000
<b>VI.</b>	<b>Capital revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VII.</b>	<b>Grants</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,000</b>	<b>0</b>
4.1.	Current grants	0	0	0	20,000	0
4.1.1.	From other levels of national government	0	0	0	20,000	0
4.2.	Capital grants	0	0	0	0	0
<b>I.</b>	<b>Total expenditure and net lending</b>	<b>665,178</b>	<b>820,581</b>	<b>853,165</b>	<b>1,003,702</b>	<b>1,122,000</b>
<b>II.</b>	<b>Total expenditure</b>	<b>665,178</b>	<b>820,581</b>	<b>853,165</b>	<b>1,003,702</b>	<b>1,122,000</b>
<b>III.</b>	<b>Current expenditure</b>	<b>665,178</b>	<b>820,581</b>	<b>853,165</b>	<b>1,003,702</b>	<b>1,122,000</b>
1.	Expenditures on goods and services	26,854	19,041	27,916	24,432	36,560
1.1.	Wages and salaries	0	0	0	0	0
1.2.	Employer contributions	0	0	0	0	0
1.3.	Other purchases of goods and services	26,854	19,041	27,916	24,432	36,560
2.	Interest payments	0	0	0	0	0
3.	Subsidies and other current transfers	638,324	801,540	825,249	979,270	1,085,440
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	0	0	0	0	0
3.4.	Transfers to households	638,324	801,540	825,249	979,270	1,085,440
<b>IV.</b>	<b>Capital expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current surplus with grants</b>	<b>24,227</b>	<b>-38,494</b>	<b>25,335</b>	<b>9,771</b>	<b>0</b>
	<b>Total deficit/surplus</b>	<b>24,227</b>	<b>-38,494</b>	<b>25,335</b>	<b>9,771</b>	<b>0</b>
<b>VI.</b>	<b>Total financing</b>	<b>-24,227</b>	<b>38,494</b>	<b>-25,335</b>	<b>-9,771</b>	<b>0</b>
1.	Financing from abroad	0	0	0	0	0
2.	Domestic financing	-24,227	38,494	-25,335	-9,771	0
2.1.	From other general government	0	0	0	0	0
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	0	38,494	-25,335	-9,771	0
2.4.	Other domestic financing	-24,227	0	0	0	0

## Appendix 11: Revenues and Expenditures of the Water Management Fund

(000 HRK)		Outturn				Budget
		1994	1995	1996	1997	1998
<b>I.</b>	<b>Total revenue and grants</b>	<b>440,755</b>	<b>608,093</b>	<b>797,575</b>	<b>1,146,762</b>	<b>1,163,995</b>
<b>II.</b>	<b>Total revenue</b>	<b>435,655</b>	<b>550,543</b>	<b>688,051</b>	<b>1,037,728</b>	<b>1,040,000</b>
<b>III.</b>	<b>Current revenue</b>	<b>435,592</b>	<b>550,450</b>	<b>687,357</b>	<b>1,037,205</b>	<b>1,039,700</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>146,765</b>	<b>172,664</b>	<b>197,002</b>	<b>224,510</b>	<b>245,000</b>
1.	Other tax revenues	146,765	172,664	197,002	224,510	245,000
<b>V.</b>	<b>Nontax revenue</b>	<b>288,827</b>	<b>377,786</b>	<b>490,355</b>	<b>812,695</b>	<b>794,700</b>
2.	Income from dividends and interests	5,422	6,928	5,073	10,718	6,000
3.	Administrative fees and charges	283,405	346,982	454,460	731,366	715,000
4.	Other nontax revenues	0	23,876	30,822	70,611	73,700
<b>VI.</b>	<b>Capital revenue</b>	<b>63</b>	<b>93</b>	<b>694</b>	<b>523</b>	<b>300</b>
5.	Sales of shares and public flats	63	93	694	523	300
<b>VII.</b>	<b>Grants</b>	<b>5,100</b>	<b>57,550</b>	<b>109,524</b>	<b>109,034</b>	<b>123,995</b>
6.	From other levels of national government	5,100	57,550	109,524	109,034	123,995
6.1.	Current grants	5,100	57,550	109,524	0	0
6.2.	Capital grants	0	0	0	109,034	123,995
<b>I.</b>	<b>Total expenditure and net lending</b>	<b>509,914</b>	<b>769,404</b>	<b>940,400</b>	<b>1,275,917</b>	<b>1,345,995</b>
<b>II.</b>	<b>Total expenditure</b>	<b>505,295</b>	<b>769,404</b>	<b>940,400</b>	<b>1,275,917</b>	<b>1,345,995</b>
<b>III.</b>	<b>Current expenditure</b>	<b>211,156</b>	<b>266,123</b>	<b>377,775</b>	<b>580,213</b>	<b>640,000</b>
1.	Expenditures on goods and services	209,569	260,303	361,792	555,224	614,000
1.1.	Wages and salaries	11,864	14,926	25,243	44,671	60,300
1.2.	Employer contributions	2,482	2,851	4,896	9,135	11,700
1.3.	Other purchases of goods and services	195,223	242,526	331,653	501,418	542,000
2.	Interest payments	1,587	5,820	15,983	24,989	26,000
2.1.	Domestic payments	1,587	5,820	15,983	24,989	26,000
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	0	0	0	0	0
<b>IV.</b>	<b>Capital expenditure</b>	<b>294,139</b>	<b>503,281</b>	<b>562,625</b>	<b>695,704</b>	<b>705,995</b>
4.	Acquisition of fixed capital assets	99,310	262,353	303,788	396,559	330,995
5.	Acquisition of land and intangible assets	2,167	1,961	2,227	6,294	8,000
6.	Capital transfers to nonfinancial public enterprises	192,662	238,967	256,610	292,851	367,000
<b>V.</b>	<b>Lending minus repayments</b>	<b>4,619</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current surplus with grants</b>	<b>229,536</b>	<b>341,877</b>	<b>419,106</b>	<b>456,992</b>	<b>399,700</b>
	<b>Total deficit/surplus</b>	<b>-69,159</b>	<b>-161,311</b>	<b>-142,825</b>	<b>-129,155</b>	<b>-182,000</b>
<b>VI.</b>	<b>Total financing</b>	<b>69,159</b>	<b>161,311</b>	<b>142,825</b>	<b>129,155</b>	<b>182,000</b>
1.	Financing from abroad	34,205	67,500	43,088	54,876	34,800
2.	Domestic financing	34,954	93,811	99,737	74,279	147,200
2.1.	From other general government	4,619	1,141	62,004	40,974	65,000
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	0	96,975	40,767	33,305	82,200
2.4.	Other domestic financing	30,335	-4,305	-3,034	0	0

Appendix 12: Outturn of Local Government Budget

(000 HRK)	Outturn 1995				Outturn 1996				Budget 1997			
	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total
<b>Total revenue and grants</b>	<b>870,747</b>	<b>3,211,681</b>	<b>569,801</b>	<b>4,652,229</b>	<b>883,863</b>	<b>4,939,789</b>	<b>786,155</b>	<b>6,609,806</b>	<b>1,110,800</b>	<b>6,024,989</b>	<b>863,138</b>	<b>7,998,927</b>
<b>Total revenue</b>	<b>765,063</b>	<b>3,169,624</b>	<b>426,200</b>	<b>4,360,886</b>	<b>734,809</b>	<b>4,836,147</b>	<b>526,380</b>	<b>6,097,337</b>	<b>850,958</b>	<b>5,829,701</b>	<b>558,934</b>	<b>7,239,594</b>
<b>Current revenue</b>	<b>730,568</b>	<b>2,993,910</b>	<b>412,886</b>	<b>4,137,364</b>	<b>681,830</b>	<b>4,574,021</b>	<b>516,326</b>	<b>5,772,178</b>	<b>775,153</b>	<b>5,404,207</b>	<b>551,138</b>	<b>6,730,497</b>
<b>Tax revenue</b>	<b>399,290</b>	<b>2,396,934</b>	<b>284,623</b>	<b>3,080,847</b>	<b>329,706</b>	<b>3,017,248</b>	<b>350,984</b>	<b>3,697,938</b>	<b>345,385</b>	<b>3,305,035</b>	<b>379,654</b>	<b>4,030,074</b>
Taxes and surtaxes on personal income	280,568	1,770,178	173,122	2,223,868	241,708	2,231,787	213,981	2,687,476	244,465	2,423,008	225,961	2,893,434
Taxes on corporate income	19,609	316,507	55,884	391,999	12,894	412,762	75,210	500,866	15,405	452,159	85,951	553,515
Taxes on property	75,994	242,395	18,044	336,433	60,890	297,473	20,375	378,738	67,568	336,301	21,329	425,198
Domestic taxes on goods and services	18,734	67,139	37,380	123,253	12,615	73,056	39,105	124,776	16,650	90,071	44,173	150,893
Other tax revenues	4,386	715	193	5,294	1,599	2,170	2,312	6,082	1,297	3,497	2,240	7,034
<b>Nontax revenues</b>	<b>331,277</b>	<b>596,976</b>	<b>128,263</b>	<b>1,056,516</b>	<b>352,124</b>	<b>1,556,773</b>	<b>165,342</b>	<b>2,074,240</b>	<b>429,768</b>	<b>2,099,172</b>	<b>171,484</b>	<b>2,700,423</b>
<b>Capital revenues</b>	<b>34,495</b>	<b>175,714</b>	<b>13,313</b>	<b>223,522</b>	<b>52,979</b>	<b>262,125</b>	<b>10,054</b>	<b>325,159</b>	<b>75,806</b>	<b>425,495</b>	<b>7,796</b>	<b>509,096</b>
<b>Grants</b>	<b>105,685</b>	<b>42,058</b>	<b>143,601</b>	<b>291,343</b>	<b>149,054</b>	<b>103,642</b>	<b>259,774</b>	<b>512,470</b>	<b>259,841</b>	<b>195,287</b>	<b>304,205</b>	<b>759,333</b>
<b>Total expenditure and lending minus repayments</b>	<b>795,587</b>	<b>3,103,485</b>	<b>538,961</b>	<b>4,438,032</b>	<b>815,766</b>	<b>4,886,013</b>	<b>798,114</b>	<b>6,499,892</b>	<b>1,094,668</b>	<b>6,125,975</b>	<b>865,504</b>	<b>8,086,147</b>
<b>Total expenditure</b>	<b>790,176</b>	<b>3,070,937</b>	<b>533,763</b>	<b>4,394,876</b>	<b>807,176</b>	<b>4,874,224</b>	<b>796,576</b>	<b>6,477,975</b>	<b>1,085,888</b>	<b>6,116,385</b>	<b>860,204</b>	<b>8,062,477</b>
<b>Current expenditure</b>	<b>541,433</b>	<b>2,443,877</b>	<b>408,170</b>	<b>3,393,480</b>	<b>483,030</b>	<b>3,690,549</b>	<b>619,384</b>	<b>4,792,963</b>	<b>599,810</b>	<b>4,546,518</b>	<b>691,174</b>	<b>5,837,503</b>
Wages and salaries	106,309	478,067	33,257	617,633	97,191	562,510	48,748	708,449	119,495	647,107	66,813	833,415
Employer contributions	17,206	83,291	5,699	106,196	16,449	103,801	7,299	127,549	20,106	121,512	10,999	152,617
Other purchases of goods and services	243,657	620,127	101,507	965,290	238,509	912,101	153,810	1,304,421	287,324	1,076,013	193,615	1,556,952
Interest payments	1,015	21,008	1,117	23,140	591	5,777	2,720	9,088	811	6,341	3,240	10,391
Subsidies and current transfers	173,246	1,241,384	266,590	1,681,220	130,289	2,106,360	406,806	2,643,456	172,075	2,695,545	416,507	3,284,127
<b>Capital expenditure</b>	<b>248,743</b>	<b>627,060</b>	<b>125,593</b>	<b>1,001,396</b>	<b>324,146</b>	<b>1,183,675</b>	<b>177,191</b>	<b>1,685,012</b>	<b>486,078</b>	<b>1,569,867</b>	<b>169,030</b>	<b>2,224,974</b>
<b>Lending minus repayments</b>	<b>5,410</b>	<b>32,547</b>	<b>5,198</b>	<b>43,156</b>	<b>8,590</b>	<b>11,790</b>	<b>1,538</b>	<b>21,917</b>	<b>8,780</b>	<b>9,590</b>	<b>5,300</b>	<b>23,670</b>
<b>Current surplus without grants</b>	<b>189,134</b>	<b>550,033</b>	<b>4,717</b>	<b>743,884</b>	<b>198,800</b>	<b>883,472</b>	<b>-103,058</b>	<b>979,215</b>	<b>175,342</b>	<b>857,689</b>	<b>-140,036</b>	<b>892,995</b>
<b>Total deficit/surplus</b>	<b>75,161</b>	<b>108,197</b>	<b>30,840</b>	<b>214,197</b>	<b>68,097</b>	<b>53,776</b>	<b>-11,959</b>	<b>109,914</b>	<b>16,131</b>	<b>-100,986</b>	<b>-2,366</b>	<b>-87,220</b>



## Appendix 13: Consolidated General Government Revenue and Grants

(000 HRK)		Outturn		
		1994	1995	1996
<b>I.</b>	<b>Total revenue and grants</b>	<b>40,194,334</b>	<b>47,440,127</b>	<b>54,385,153</b>
<b>II.</b>	<b>Total revenue</b>	<b>40,194,016</b>	<b>47,430,146</b>	<b>54,371,483</b>
<b>III.</b>	<b>Current revenue</b>	<b>39,833,410</b>	<b>46,451,138</b>	<b>52,778,745</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>37,767,041</b>	<b>43,677,476</b>	<b>47,962,322</b>
1.	Taxes on personal income	5,316,629	5,731,844	6,915,910
2.	Taxes on corporate income	886,817	1,400,964	1,772,121
3.	Social security contributions	11,524,971	13,919,768	15,533,703
4.	Taxes on property	305,635	475,848	551,049
5.	Sales tax	13,107,159	12,802,257	13,504,368
6.	Excises	2,689,453	4,960,440	5,390,785
7.	Local taxes on goods and services	347,569	146,704	152,607
8.	Taxes on international trade and transactions	3,486,771	3,922,481	3,942,438
9.	Other tax revenues	233,157	349,715	236,022
<b>V.</b>	<b>Nontax revenues</b>	<b>2,066,369</b>	<b>2,773,661</b>	<b>4,816,423</b>
10.	Profits of departmental enterprises	1,792	2,954	1,306
11.	Central bank's profit	141,473	165,889	82,255
12.	Part of profits of public enterprises	45,078	143,328	134,955
13.	Revenue from interests	26,338	50,987	76,909
14.	Revenue from dividends	286,757	230,391	228,718
15.	Other property income	178,342	266,657	375,135
16.	Administrative fees and charges	550,756	794,938	2,220,703
17.	State administration bodies' revenue	28,771	70,030	340,720
18.	Roads' charges	162,681	176,556	217,178
19.	Revenue under the special regulations	112,610	190,984	231,064
21.	Other nontax revenue	531,771	680,948	907,479
<b>VI.</b>	<b>Capital revenue</b>	<b>360,606</b>	<b>979,009</b>	<b>1,592,738</b>
22.	Sales of fixed capital assets	358,062	949,759	1,505,029
23.	Sales of stocks	0	0	0
24.	Sales of land and intangible assets	459	15,087	47,771
25.	Capital transfers from nongovernment sources	2,085	14,163	39,938
<b>VII.</b>	<b>Grants</b>	<b>318</b>	<b>9,981</b>	<b>13,670</b>
26.	Grants from abroad	318	9,981	13,671
26.1.	Current grants	318	6,718	8,695
26.2.	Capital grants	0	3,262	4,976
27.	From other levels of national Government	0	0	0
27.1.	Current grants	0	0	0
27.2.	Capital grants	0	0	0

## Appendix 14: Consolidated General Government Expenditure and Net Lending

(000 HRK)		Outturn		
		1994	1995	1996
<b>I.</b>	<b>Total expenditure and lending minus repayments</b>	<b>38,597,985</b>	<b>48,139,844</b>	<b>54,784,640</b>
<b>II.</b>	<b>Total expenditure</b>	<b>38,273,826</b>	<b>47,881,837</b>	<b>54,297,299</b>
<b>III.</b>	<b>Current expenditure</b>	<b>35,606,602</b>	<b>43,409,085</b>	<b>46,941,087</b>
1.	Expenditure for goods and services	22,669,186	27,369,895	27,160,325
1.1.	Wages and salaries	9,063,537	11,739,444	12,051,216
1.2.	Employer contributions	0	0	0
1.3.	Other purchases of goods and services	13,605,649	15,630,450	15,109,109
2.	Interest payments	1,138,202	1,423,033	1,243,318
2.1.	Domestic interest payments	965,577	942,422	975,566
2.2.	Interest payments abroad	172,625	480,611	267,752
3.	Subsidies and current transfers	11,799,214	14,616,157	18,537,443
3.1.	Subsidies	2,065,106	2,042,674	2,345,459
3.2.	Transfers to other levels of national Government	0	0	0
3.3.	Transfers to nonprofit institutions	1,410,988	1,466,871	2,399,271
3.4.	Transfers to households	8,271,848	11,049,809	13,722,957
3.5.	Transfers abroad	51,272	56,802	69,757
<b>IV.</b>	<b>Capital expenditures</b>	<b>2,667,224</b>	<b>4,472,752</b>	<b>7,356,212</b>
4.	Acquisition of fixed capital assets	2,216,119	2,502,140	3,752,841
5.	Purchases of stocks	180,000	135	8,076
6.	Purchases of land and intangible assets	2,167	37,728	314,622
7.	Capital transfers	268,938	1,932,749	3,280,674
<b>V.</b>	<b>Lending minus repayments</b>	<b>324,159</b>	<b>258,007</b>	<b>487,341</b>
8.	Domestic net lending	319,540	238,946	473,976
9.	Net lending abroad	4,619	19,061	13,366
<b>Current deficit/surplus</b>		<b>4,227,126</b>	<b>3,048,771</b>	<b>5,846,352</b>
<b>Total deficit/surplus</b>		<b>1,596,349</b>	<b>-699,717</b>	<b>-399,487</b>

## Appendix 15: Consolidated General Government Financing by Type of Debt Holder

(000 HRK)		Outturn		
		1994	1995	1996
<b>I</b>	<b>Total financing</b>	<b>-1,596,349</b>	<b>699,717</b>	<b>399,487</b>
<b>II</b>	<b>Domestic financing</b>	<b>-1,565,115</b>	<b>-56,811</b>	<b>-530,293</b>
1.	From other general government	0	0	0
2.	From monetary authorities	-617,286	395,967	-152,745
3.	From deposit money banks	-301,679	96,484	-172,258
4.	Other domestic financing	-646,150	-549,262	-205,289
4.1.	From other financial institutions	2,515	27,515	11,985
4.2.	From nonfinancial public enterprises	0	0	3,239
4.3.	From nonfinancial private sector	-2,950	-2,950	-348
4.4.	Other domestic financing - n.e.c.	-645,716	-573,828	-220,166
<b>III</b>	<b>Financing abroad</b>	<b>-31,234</b>	<b>756,528</b>	<b>929,780</b>
5.	From international development institutions	-60,313	132,693	609,189
6.	From foreign governments	47,331	29,570	-364,330
7.	Other borrowing abroad	0	592,895	686,234
8.	Changes in cash, deposits and securities	-18,252	1,370	-1,313



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