

**ANNUAL REPORT
OF THE MINISTRY
OF FINANCE
1999**

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A Word from the Minister of Finance



Following the victory of the opposition parties coalition at the January parliamentary elections in the Republic of Croatia, the new Government embarked upon getting insight into the state of affairs in all areas of the country's economic and political life. Public finance, of crucial importance for the overall development and prosperity of the country, proved to be an area in which additional adjustments and reforms are necessary.

Following assessment of the state of affairs in the state finance and establishing the level of outstanding obligations of budget users and extra-budgetary funds amounting to HRK 9.58 billion, the Government started settling the aforementioned debts by means of the 2000 budget. In a situation of general illiquidity of Croatian economy in the last several years, settling of the state debt arose as the beginning of solving the problems of the illiquidity of the economy and an incentive for further development.

Furthermore, the adequate fiscal policy in the forthcoming period of reducing the overall tax burden should be ensured, which on the level of consolidated general government totals 47% of GDP. This, in comparison with other advanced transition countries, makes Croatia highly burdened with taxes. However, relieving the tax burden should be planned well and in concordance with the expenditure side of the state budget. One of the primary measures of reducing state expenditures in 2000 is definitely the nominal and real decrease in the overall budget expenditures. Nevertheless, it is necessary to carry out the most important adjustments in the area of extra-budgetary funds, and specifically the Pension Insurance and Health Insurance Institutes in the first place.

It was also evident in 1999 that the biggest sources of pressures on the public sector volume growth were in the sphere of those two extra-budgetary funds. Therefore, it is crucial that the commenced pension system reform be continued as soon as possible, as it will ensure a fiscally sustainable pension insurance system, and to also carry out a thorough health insurance financing system reform. The announcement of the beginning of functioning of the so-called "second pillar" of pension reform on January 1, 2002 was the most significant first step at the final solving of the unsustainable situation in the pension system.

In concordance with the attempts at making budget spending transparent and above all controlled, the establishment of the State Treasury in the Ministry of Finance was the most important step toward curbing

fiscal expansion, which has been evident in the last several years. The State Treasury should start its operations as early as during year 2000, which would considerably influence the forthcoming budget processes. During 2000 the Ministry of Finance will embark on drafting the proposal of the budget plan for the period 2001 - 2003. The main objective in the forthcoming three-year period will be a sustainable fiscal policy which will strongly support a fast and sustainable economic growth, macroeconomic stability and a quicker access of Croatia to the international economic and political integration. In line with that, the Government of the Republic of Croatia and the Ministry of Finance face a very demanding period, full of new challenges. Therefore, I would like to thank all my associates, as well as all the staff of the Ministry of Finance, for their enthusiasm and efforts aimed at further improvement of the Republic of Croatia fiscal policy.

Zagreb, 25. May 2000

Prof. Mato Crkvenac Ph.D.



Minister of finance

I MACROECONOMIC TRENDS IN 1999

1.1. EXTERNAL SITUATION

External situation has always significantly influenced economic trends in small open economies, and Croatian economy may be characterized as one. In 1999 the following economic and political developments had a significant impact on the local situation

- As early as January the Brazil financial crisis, which caused an abrupt decline of the Brazilian currency, *real*, considerably raised the price of loans for emerging markets.
- The NATO Pact operations in Kosovo during the spring had a specifically negative impact on tourism and transport in Croatia. Air traffic during the interventions was limited, whereas the number of room/nights dropped by 15% compared to 1998. At the same time, the 1999 income from tourism was by 8.5% smaller compared to the previous year.
- The external situation also partially affected the drop in exports of Croatian products. In 1999 the most important importers of Croatian products, Germany, Italy, and Austria, recorded lower growth rates, which simultaneously affected reduced demand for Croatian products. Furthermore, during 1999 a very important Russian market failed to recover from economic shocks experienced in the previous year. At the same time, the free trade treaty with Bosnia-Herzegovina was terminated, which reduced the share of trade volume with Bosnia-Herzegovina in the overall trade volume from 14.4% to 12.8%.
- At the same time, due to the disagreement of the international community with the politics of the former government, Croatia's political isolation also manifested itself as economic isolation. In 1999 Croatia did not have the benefit of a privileged trade status with the European Union, whereas, as Croatia is not a member of CEFTA, the export of Croatian products into Central European transition countries was burdened with non-competitive customs duties.

However, all those events indicate certain weaknesses of the Croatian economy, because, while the European Union did not record a satisfactory growth, the United States experienced a record economic growth which Croatian manufacturers were not able to use to their own benefit. Furthermore, macroeconomic imbalances which were indicated by the Russian crisis in 1998, are still present in the Croatian economy, thus limiting the efficiency of economic subjects. Unless public expenditures are reduced and reforms are carried out in the health and pension systems, which will burden the state budget to a significantly smaller extent, unless public enterprises are restructured, unless a credible judiciary system is established, and unless other, not less significant measures are introduced, Croatian economy will feel the brakes of those weakness in the years to come.

Table 1.1: Growth and inflation in transition countries

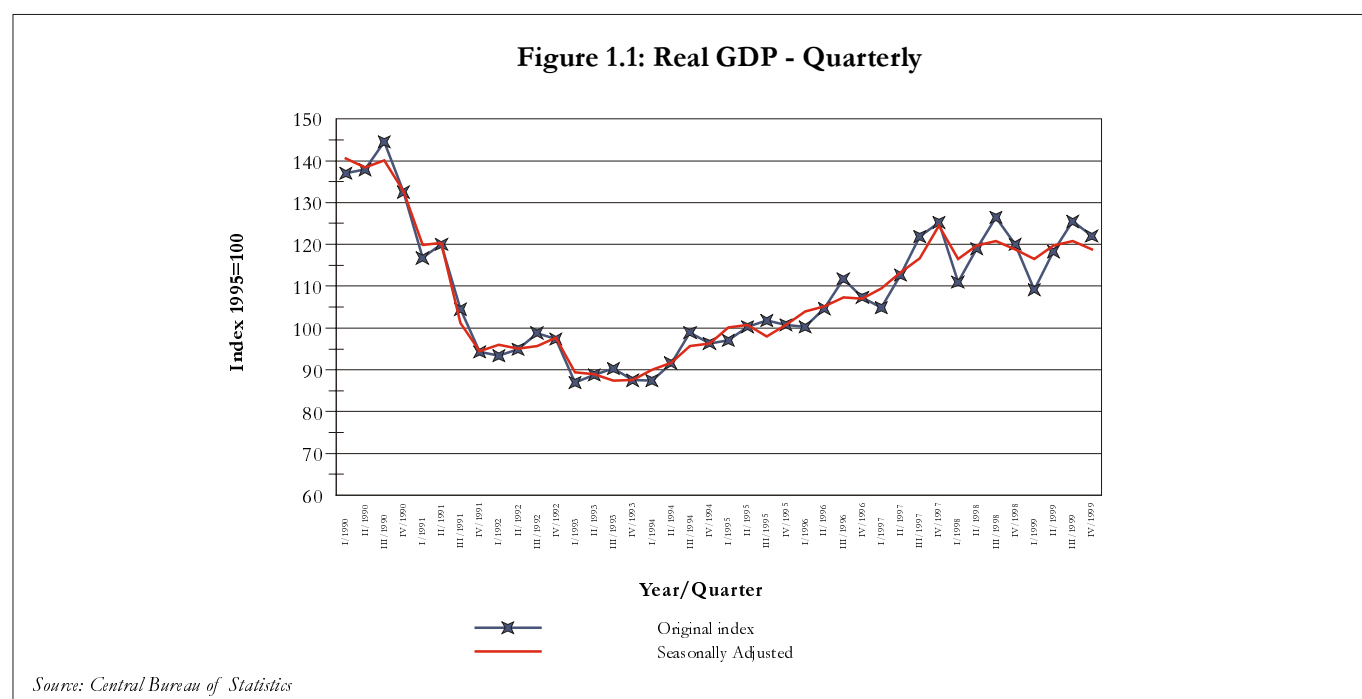
(percentage change)	1998	1999 (forecast)
Real GDP		
Czech Republic	-2.3	0.0
Hungary	5.1	3.0
Poland	4.8	3.5
Slovakia	4.4	1.8
Slovenia	3.9	3.5
Croatia	2.5	-0.3
Inflation		
Czech Republic	6.8	3.5
Hungary	10.3	8.0
Poland	8.6	6.5
Slovakia	5.6	14.5
Slovenia	6.5	6.5
Croatia	5.4	4.0

Source: EBRD Transition Report 1999

1.2 THE REAL SECTOR

The gross domestic product (GDP) growth is considered to be one of the most important macroeconomic development indicators of any economy. After 5 years of continuous growth, in 1999 GDP value declined by 0.3%. The downward trend commenced in the last quarter of 1998 and continued during 1999 until the last quarter of 1999, when an increase of 1.6% in comparison with the comparable period last year was recorded. This growth was achieved due to a higher level of liquidity of economy following the inflow from Croatian Telecommunications privatization and

the sale of samurai bonds. In that way the state covered a portion of its debts toward the private sector, which stimulated growth in the turnover of retail trade and industrial output growth (which in the last quarter grew by 2.8% compared to the same period in the previous year).



Following a strong increase in personal and public expenditures in the last four years, in 1999 personal expenditure decreased by 3.0%, and its share in GDP was reduced by 2.3%. A two-digit investment growth rate in the period 1994-97 slowed down in 1998 and was interrupted in 1999 due to public investment reduction, decrease in liquidity and the problem of outstanding payments in the construction sector, but also due to decrease in capital goods import in 1999 by 6.6%.

Table 1.2: GDP by Expenditure Method and Rates of Growth of Individual Sectors (1997 prices)

	Personal Consumption	Public Consumption	Investment	Exports	Imports
Structure					
1998	126,929	77,958	32,253	30,849	53,769
1999	126,539	75,605	32,227	29,039	53,682
Growth Rate					
1998	2.5	1.2	0.9	3.0	6.9
1999	-0.3	-3.0	-0.1	-5.9	-0.2

Source: Central Bureau of Statistics

The methodology of GDP calculation in the Republic of Croatia is adjusted to the methodology of the UN System of National Accounts - SNA 1993. There are three methods of calculating GDP: GDP by output, GDP by income and GDP by expenditure. By using the GDP by expenditure method, GDP is calculated as a sum of personal expenditures, state expenditures, gross investments and net imports or exports; GDP by output is characterized by the calculation of gross added value with breakdown in economy sectors; GDP by income is calculated as the sum of wage bill and other incomes paid to employees, operational producer surpluses and all indirect net taxes. In the long run, all the three methods should yield the same results.

The problem with the aforementioned methods is in that they are based on the presumption that all the necessary data is always available. In terms of that, all transition countries, including Croatia, must adjust to the international data collection standards. As far as the GDP by expenditure method is concerned, a satisfactory level of assessment of expenditure volume and private investments has not yet been established. The use of household expenditures and household budget survey in Croatia is fairly new (since 1998) and further methodology improvements are following.

Furthermore, the official statistical GDP calculation does not include the estimates of the gray economy. The 1997 analyses performed by the Institute of Public Finance and the Ministry of Finance showed that the official estimates of

GDP rate underestimate the real GDP amount by as much as 25%. The fact that GDP is underestimated was also indicated by the Ministry of Finance analyses on the basis of revenue from VAT collection. More precisely, according to an international comparison, countries with a single VAT rate collect roughly 9.5% of GDP, whereas in Croatia this share is 11.5%, which indicates the fact that the denominator value is underestimated.

Recently the first phase of the research on GDP level was finalized in the Ministry of Finance, with a view to improving GDP growth rate estimates in the subsequent years. Due to the lack of necessary data it was decided that neither the GDP by income nor GDP by expenditure methods would be used for GDP growth rate estimate, but to rely on the sector distribution of gross added value according to the National Classification of Activities (NKD). The first step was to forecast growth rates of some sectors by using the ARIMA method. ARIMA is a statistical method which forecasts the growth of economic series based on the former trend of the series. For certain series of economic data monthly data was used, whereas for some sectors quarterly data was used. Based on such analysis the real GDP growth rate was forecast at approximately 2.8%.

Table 1.3: Forecast Growth of GDP in 2000

	Structure	Growth Rate 2000/1999	Share in GDP
Agriculture, Hunting, Fishing and Forestry	8.5	2.5%	0.2
Mining	0.5	2.1%	0.0
Manufacturing	19.9	2.2%	0.4
Electrical Energy	3.8	1.4%	0.1
Construction	6.7	0.0%	0.0
Retail Trade	11.5	4.6%	0.5
Hotels and Restaurants	3.0	20.0%	0.6
Transport and Communication	9.2	0.0%	0.0
Financial Intermediation	4.7	5.0%	0.2
Real Estate	10.6	5.0%	0.5
Public Administration and Defence	10.3	-3.5%	-0.4
Education	4.2	-3.5%	-0.1
Health Care	4.7	-3.5%	-0.2
Other	2.4	2.0%	0.0
Total	100	Growth in 2000 (%)	2.8

Source: Central Bureau of Statistics. Ministry of Finance Estimates

1.2.1. Industrial Output

In 1999 industrial output recorded a real decrease of 1.4%, which was the first decrease after four years of constant increase. A negative trend in industrial output was recorded in the period between mid 1998 to February 1999, followed by a mild positive trend. Although a positive trend was recorded since March 1999 and although in the fourth quarter of 1999 industrial output recorded a 2.8% real growth rate compared to the same period in 1998, it wasn't possible to make up for the initial decline of industrial output on the annual level.

Among the main branches of industry, in 1999 the energy sector increased by 9.3%, whereas the output of other intermediary products decreased by 1%. Capital products recorded a 5.3% decline, and durable consumer goods a 9.7% growth, whereas non-durable consumer goods decreased by 5.8% in 1999.

According to the National Classification of Activities, output in mining and quarrying grew by 1.9%, whereas the value of manufacturing industry, which makes up almost 84% of the total industrial production, decreased by 2.9%. On the contrary, the output of electrical energy, natural gas and water supply industry increased by 7.0% in 1999.

The trend in finished industrial product inventories in 1999 indicates a positive trend in the year 2000 industrial output. Although inventories increased by 6% in 1999 in comparison with the previous year, inventories growth rate decreased during last year, which is corroborated by a positive growth trend of industrial output at the end of 1999 and beginning of 2000.

Table 1.4: Indicators of Industrial Production, Stocks and Exports (Growth rates in 1999)

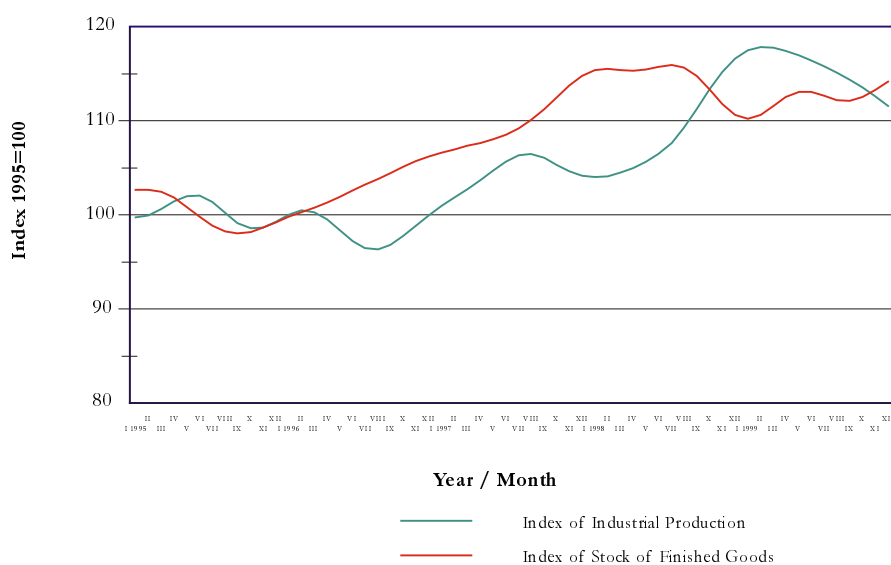
(%)	Industrial Production	Stocks of finished Products	Export of Goods (USD)
INDUSTRIAL PRODUCTION TOTAL	-1.4	6.0	-5.8
Mining and Extraction	1.9	-8.6	13.1
Electrical Energy	7.0	-	704.3
Manufacturing	-2.9	6.3	-5.8
<i>Food and Beverages</i>	-7.0	18.1	-22.1
<i>Tobacco Products</i>	10.2	30.3	30.1
<i>Chemicals and Chemical Products</i>	1.0	-3.3	-5.1
<i>Paper Products</i>	20.7	-	0.0
<i>Oil Derivatives</i>	7.5	-18.7	23.6
<i>Electrical Machinery and Equipment</i>	3.6	27.0	-4.1
<i>Vehicles</i>	-5.0	-	-9.2
<i>Other Transport Equipment</i>	12.6	12.0	-7.9

Source: Central Bureau of Statistics

Among individual industries, the biggest increase in 1999 was recorded by tobacco products (10.2%), paper industry (20.7%), and means of transportation, except for motor vehicles, trailers, and semi-trailers (12.6%). Production of food and drink products, metals and computers are among industries with negative growth rates.

CROLEI index, which is regularly published by the Ministry of Finance and the Institute of Economics in the Ministry's monthly bulletin, is an important indicator of future industrial output trends. In 1999 the index also indicated the lower industrial activity in the first three quarters of 1999, whereas in the fourth quarter growth was envisaged.

Figure 1.2: Industrial Production and Stocks - Trend



Source: Central Bureau of Statistics

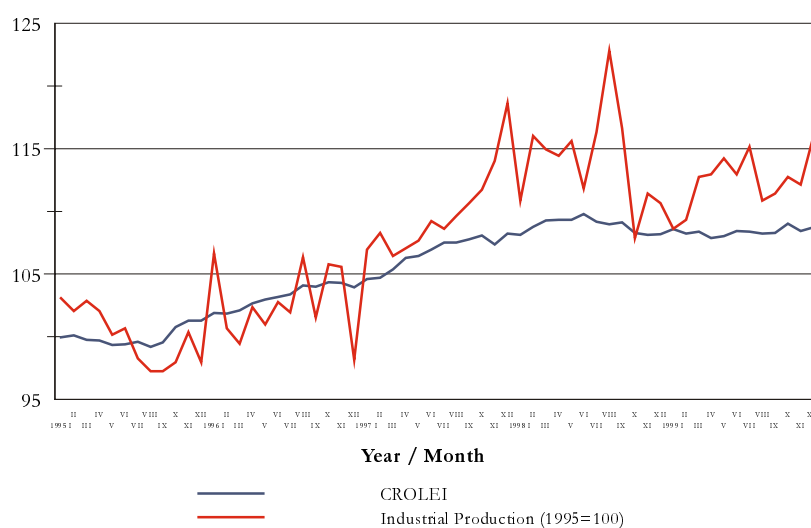
1.2.2. Construction Industry

Following the two-digit growth rates in construction industry in 1996 and 1997, and minimum increase of 0.7% in 1998, in 1999 a 7.7-percent decrease was recorded measured by physical volume of construction works. Due to a shortage of revenues caused by economic recession, the inflow of budgetary resources for reconstruction in 1999 declined more significantly (from HRK 1,414 million to 1,014 million). Another indicator of the drop in construction industry activities are net orders, which were significantly lower in 1999 than in 1998.

The announced additional budget cuts in capital expenditures will in the short term be the continuity of the negative trend in construction industry public investments volume, however, along with the strengthening of economic activities

in Croatia, the withdrawal of the state in construction industry will open up a space for private entrepreneurs to meet the demand for construction services.

Figure 1.3: CROLEI Index - Leading Indicator of Economic Activity



Source: Central Bureau of Statistics, Institute of Economics Zagreb

1.2.3. Tourism

As a result of the Kosovo crisis in the spring of 1999, the Croatian tourism experienced a significant drop both in the number of room-nights and the number of tourist arrivals. The number of room-nights in 1999 decreased by 15% in comparison with 1998, whereas the revenues from tourism dropped by 8.5%.

Due to the recent political changes in Croatia, in the perception of foreign observers, Croatia does not have a negative connotation any more, which is already evident from a visible revitalization of our tourist industry. Tourist agencies announce as much as 35-percent growth in the number of tourists in this year's tourist season.

Despite optimistic expectations for the new tourist season, the fact is that the Croatian tourism does not sufficiently use its potentials. Hotels are not capitalized sufficiently, the tourist season does not last long enough, there are not enough tourist attractions and programs for more demanding and wealthier tourists. Therefore, it is essential that the overall tourist infrastructure be recapitalized and modernized.

1.3. PRICES AND EXCHANGE RATE

1.3.1. Prices

In 1999 prices increased more than in any other year since the inception of the Stabilization Program in 1993, if we deduct the one-off impact of VAT introduction to the inflation rate in 1998. More precisely, in 1999 retail prices increased by 4.2%. In 1999 the cost of living grew by 3.5%, whereas producer prices grew by 2.5% in relation to 1998.

Table 1.5: Prices and the Cost of Living

	1996	1997	1998	1999
Retail Prices, average, %	3.5	3.6	5.7	4.2
Producer Prices, average, %	1.4	2.3	-1.2	2.5
Cost of Living, average, %	4.3	4.1	6.4	3.5

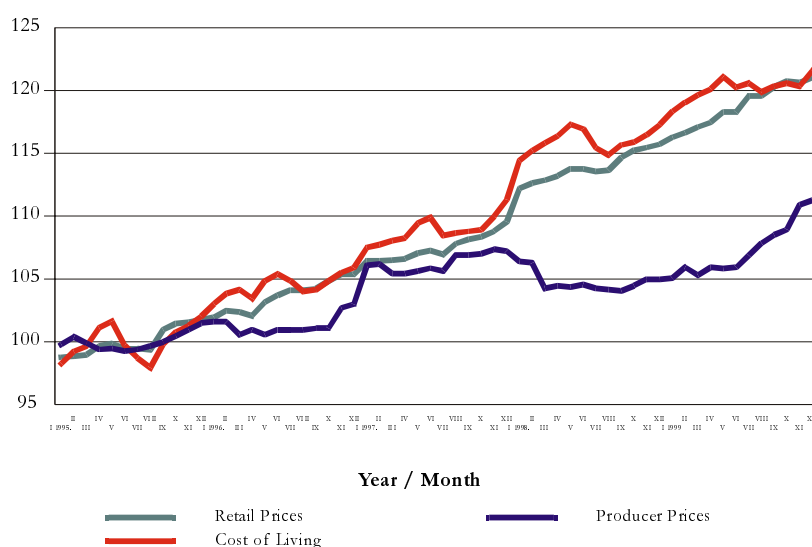
Source: Central Bureau of Statistics

It is a fact that the kuna depreciation, primarily against the US dollar, as well as against all other foreign currencies, and also the soaring of crude oil prices on the international markets from US\$ 10 to US\$ 28 per barrel was influenced the price trends in Croatia. We should also bear in mind that the state several times refused the demands of the crude oil industry INA public enterprise to raise prices of oil products, which, no doubt, would have reflected even more in the

inflation in the Croatian economy. The increase in excise taxes on oil products and tobacco products in July, together with a subsequent increase in excise tax on tobacco products in November, accounted for a big portion of price increase in 1999. The increase in excise tax on oil products in July resulted in the 11.1-percent increase in producer prices on the item *crude oil and natural gas extraction* in August, whereas their increase from July until the end of the year totaled 37.8%. Oil price increase as a rule multiplies after a certain time onto the prices of all other products and services. However, despite the price correction of this important energy product, the prices of other products were not significantly increased due to a reduced demand on the local market.

The prices of goods in 1999 on the average grew by 3.3%, whereas the prices of services grew by 4.4%. The prices of goods in Croatia increased at a rate higher than the inflation rate in the majority of Croatia's foreign trade partners, which further reduced the export competitiveness of Croatian products. In the year 2000 a further price increase may be expected. More specifically, the price of household electrical energy is subsidized with higher electrical energy prices for producers, so that in the privatization preparation process of this sector it is possible to expect an approximate 12-percent price adjustment of this energy product.

Figure 1.4: Prices and the Cost of Living



Source: Central Bureau of Statistics

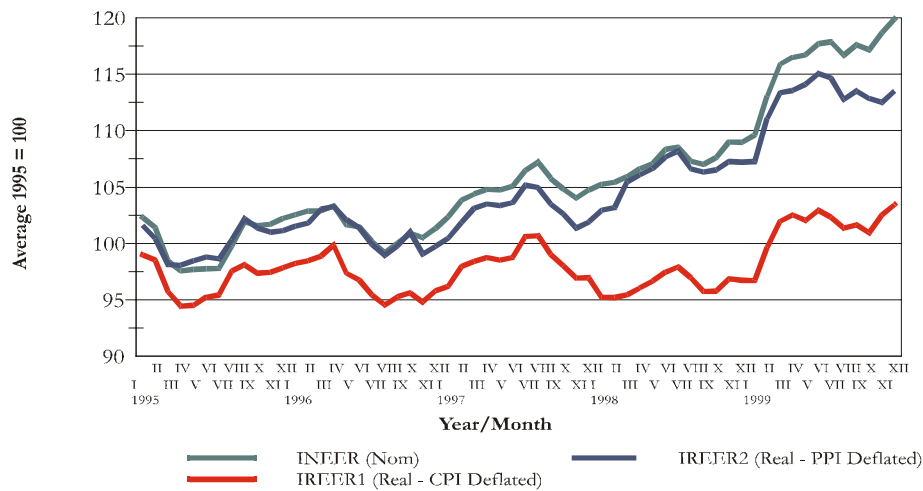
1.3.2. Exchange Rate

Since the introduction of the Stabilization Program at the end of 1993, the Croatian National Bank has been maintaining the policy of the so-called “managed floating exchange rate”. The purpose of such policy is to alleviate the oscillations of the kuna value, i.e., ensure macroeconomic stability.

During 1999 the kuna nominally depreciated by 5% against the German mark, and as much as 22.4% against the American dollar. The nominal effective exchange rate dropped by 8.6% in the course of the year, whereas the real kuna exchange rate, deflated by retail prices, depreciated by 7%, and by 6.1% deflated by producers' prices.

During the year the kuna was exposed to many pressures. The devaluation of the kuna against the American dollar was a result of the dollar strengthening against the Euro, which is also the reference exchange rate of the Croatian exchange rate policy. The beginning of the year was marked by a strong depreciation pressure on the domestic currency. The reason for a great demand for foreign currency, especially by commercial banks, were the due dates for foreign loan repayment and creation of the so-called long foreign currency positions. Numerous interventions of the Croatian National Bank on the market and a low seasonal foreign currency inflow in January and February reflected on the drop of the foreign currency reserves to the lowest annual level.

Figure 1.5: Nominal and Real Effective Exchange Rate Indices



Source: Croatian National Bank

The exchange rate was stabilized by the state borrowing amounting to EUR 300 million on the European capital market in March. During March and April the demand for the kuna was growing, whereas the foreign loan repayments in this period were also lower. During the summer the kuna appreciated mildly, despite a bad tourist season caused by the Kosovo crisis. In July the real effective exchange rate even appreciated in spite of a record high strength of the American dollar. The fall depreciation of the kuna was diminished by the Croatian Telecommunications privatization in October, which contributed to the kuna stability. At the year's end the kuna was at the level of HRK 3.93 for 1 DEM, and HRK 7.64 for 1 US\$.

Figure 1.6: Daily Money Market Interest Rate (%)



Source: Croatian National Bank

1.4. MONETARY TRENDS

The goal of the monetary policy in Croatia has been maintaining the stability of prices and exchange rate. The year 1999 was marked by bankruptcies of several banks in May, which reflected on a number of monetary aggregates and reduced the possibility of adequate monetary analysis.

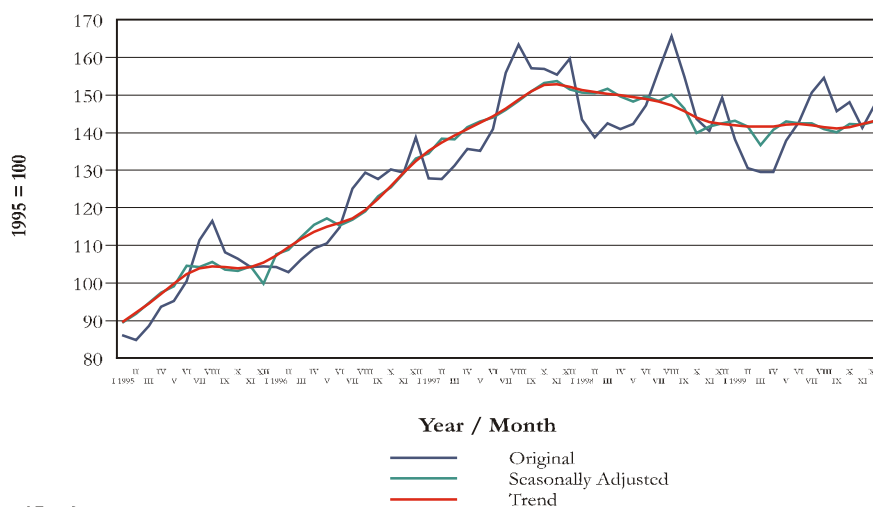
Given the monetary effects of the privatization of Privredna banka Zagreb, credit volume in December 1999 was by 1.9% lower than in the same period in 1998. More precisely, in December 1999, due to “cleaning” of Privredna Banka

Zagreb (PBZ) balance prior to sale, credit volume approved to public enterprises on the basis of PBZ debt with London Club creditors was transferred to the Agency for Bank Rehabilitation. If this credit volume is included in the total credit volume, there is a 1.9% decrease. Thus, it can be said that 1999 there was credit restriction. In the household sector an 8.6-percent increase in credit volume was recorded and in the enterprise sector a 7.0-percent decrease was recorded (compared to a 17.1-percent increase in 1998).

As far as granting credits is concerned, it can be said that banks have become more conservative. The reasons for that are bankruptcies of several banks in May and economic recession. More precisely, bankruptcies of certain banks surely forced other banks to grant loans more carefully. The impact of recession may be described as an increase in the number of insolvent legal entities during 1999. According to the ZAP data (Payments System Bureau), the number of insolvent legal entities increased from 26,500 in January to 30,300 in December, whereas the number of reported outstanding claims grew by almost HRK 10 billion, reaching the level of HRK 26.6 billion by the end of 1999. It is understandable why under those circumstances, credits to corporate sector dropped by 7.0% in 1999.

Money supply in relation to 1998 increased by 4.4%, whereas company deposits decreased by 0,5%, which indicates further liquidity problems of companies, although the volume of deposit reduction is considerably lower than in 1998. Unlike the corporate sector, reduction in household sector deposits amounted to 2.5%. Last year the trend of foreign currency deposits continued (7.1%), whereas kuna deposits remained almost unchanged. A smaller increase in foreign currency deposits in 1999 may be accounted for by the fact that during the recession period citizens were forced to spend a part of their savings, or kept their savings outside of the banking system as a reaction to bankruptcy of several banks. The last quarter of 1999 recorded positive trends, which continued at the beginning of 2000, indicating a considerable increase in foreign currency deposits.

Figure 1.7: Real Money Supply M1



Source: Croatian National Bank

Net claims from the central government in 1999 were almost the same in comparison with 1998, although the structure of claims changed during the year. The claims in kuna terms from the Republic of Croatia in form of securities and loans increased by HRK 2.86 billion. Claims in kuna terms by Republic funds are higher as well, by HRK 280 million. On the other hand, foreign currency claims from the central government were almost halved, after a portion of proceeds obtained by the privatization of Croatian Telecommunications and samurai bonds was used for loan repayment.

Table 1.6: Monetary and Credit Aggregates

(Millions of kuna, end of Period)	1997	1998	Growth Rate 1998/1997	1999	Growth Rate 1999/1998
Primary Money	10,346.1	9,954.2	-3.8	10,310.0	3.6
Money Supply M1	13,731.4	13,531.4	-1.5	13,858.9	2.4
Broad Money Supply M4	50,742.0	57,340.3	13.0	56,698.6	-1.1
Domestic Credit	48,863.4	59,792.0	22.4	55,875.1	-6.6
Net Domestic Assets	33,829.0	44,626.8	31.9	40,003.8	-10.4

Source: Croatian National Bank

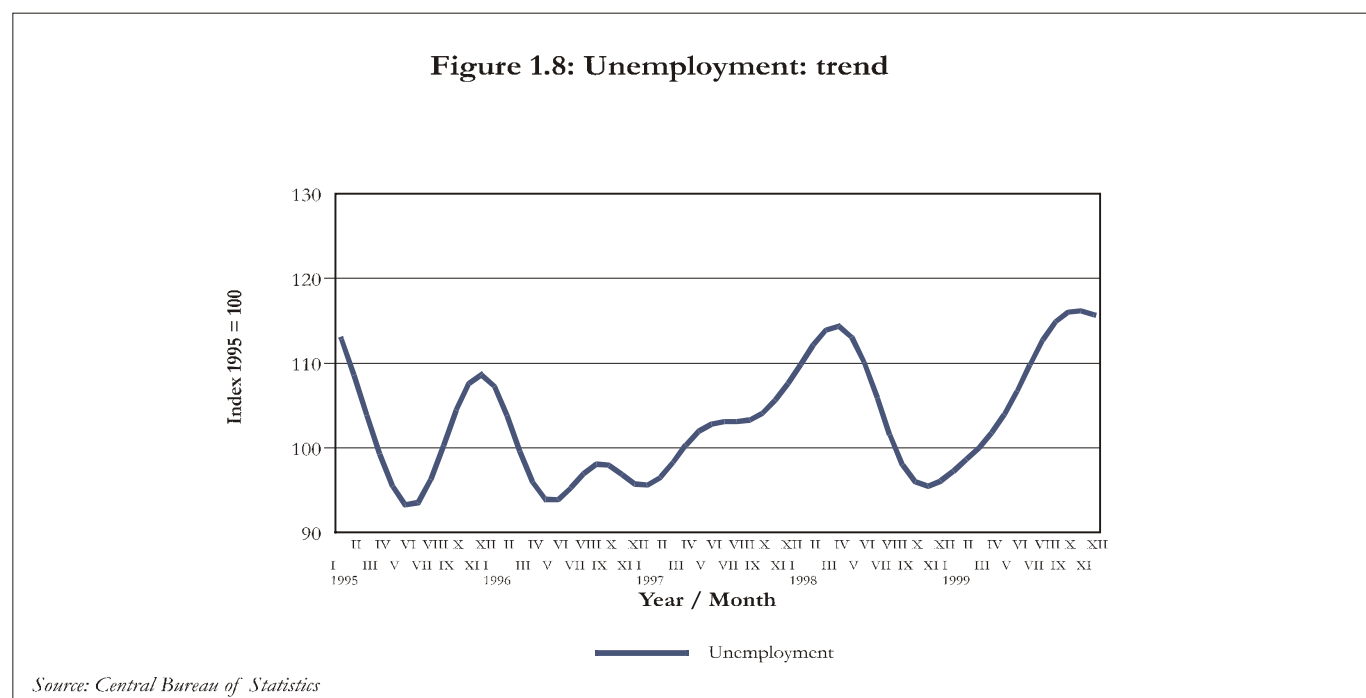
It may be concluded from the above that monetary policy reacted adequately to expansion-oriented policy of the state in 1999, maintaining by means of its restrictiveness the exchange rate and price stability. However, bankruptcy proceedings over several banks and the “cleaning” of bank portfolios prior to bank privatization imposed an additional burden on the fiscal policy in the last two years, amounting to HRK 7 billion.

The banking system is, after several years of problems, bankruptcy proceedings, merging and privatization, fundamentally of sufficient quality and healthy, whereas individual marginal cases will be solved by the end of year 2000.

1.5. LABOR MARKET TRENDS

1.5.1. Employment and Unemployment

In the year 1999, the number of employed people, according to the State Bureau of Statistics (DSZ), was reduced by 1.7% comparing December data. According to the State Bureau of Statistics data, in 1999 there were 80,000 less employees than in 1998. The average number of the unemployed also grew, from 17.6% in 1998 to 19.5% in 1999. The unemployment rate at the end of 1999 equaled 20.8%.



With regard to statistics of the employed and the unemployed, apart from the State Bureau of Statistics calculations, there are two more criteria which indicate that the official data underestimate the number of the employed. Since health insurance is mandatory for all employees, the Croatian Health Insurance Institute (HZZO) data base also reveals a picture of employment and unemployment in Croatia. According to HZZO data base, the number of employees and the unemployment rate is considerably lower than the one recorded by the State Bureau of Statistics, although the unemployment rate is by 1.4% higher in 1999 in comparison with 1998.

Table 1.7: Measures of Employment and Unemployment

	1994	1995	1996	1997	1998	1999
Total Employment						
- Central Bureau of Statistics	1,437,059	1,417,427	1,329,547	1,310,918	1,384,841	1,304,540*
- Health Insurance Institute	1,654,494	1,588,344	1,599,226	1,604,895	1,430,649	1,416,617
Unemployment						
- Employment Institute	243,324	240,601	261,022	277,691	287,762	341,730*
- Health Insurance Institute	161,660	158,164	174,123	189,844	192,148	251,833
Rate of Unemployment						
- Central Bureau of Statistics	14.5	14.5	16.4	17.5	17.2	20.8
- Health Insurance Institute	9.4	9.1	9.8	10.6	11.8	15.1

* = end period

Source: Central Bureau of Statistics, Health Insurance Fund, Employment Fund

The labor survey carried out semi-annually by the State Bureau of Statistics, which is based on the methodology of the International Labor Organization (ILO) and is internationally comparable, also indicates a considerably lower unemployment rate which, but it also shows an upward trend.

Table 1.8: Unemployment - Labour Force Survey

	Current Active Population	Total Employment	Employment - Private Sector	Employment - Public Sector and Privatised Sector	Unemployment	Unemployment Rate (%)
November 1996	1,710,553	1,540,319	789,319	751,000	170,234	10.00%
June 1997	1,768,167	1,593,008	818,008	775,000	175,159	9.90%
January - June 1998	1,731,916	1,538,372	-	-	193,544	11.20%
July - December 1998	1,752,646	1,549,237	-	-	203,409	11.60%
January - June 1999	1,721,127	1,504,320	-	-	216,807	12.60%

Since in 1999 the Croatian economy was in recession, a higher unemployment rate did not come as a surprise. However, in spite of that, employment trends since the end of the war clearly show that further economic reforms are necessary with a view to reducing such a high unemployment rate. In this respect, the necessity for health and pension reforms is being reiterated in order for labor costs to be reduced, which would give incentives for new employment.

1.5.2. Salaries and pensions

In 1999 net salaries nominally grew by 13.9% and really by 9.9%. The biggest impact on the increase in net salaries had the increase in public servants' salaries, which rose by 5% in August and 12% in December. The increase in the non-taxable portion of gross salaries from HRK 800 to HRK 1,000 on January 1, 1999, as well as a significant increase in personal coefficients for dependent family members also contributed to the net salaries growth. In 1999 the average gross salary was HRK 4,551.5 (or US\$ 640), whereas the average gross salary in manufacturing totaled HRK 3,868.8 (or US\$ 544), which still makes Croatian labor inexpensive and competitive compared with the international labor. The average gross salary nominally rose by 10.1%, whereas the salary growth in real terms was 6.0%.

Table 1.9: Wages and Pensions

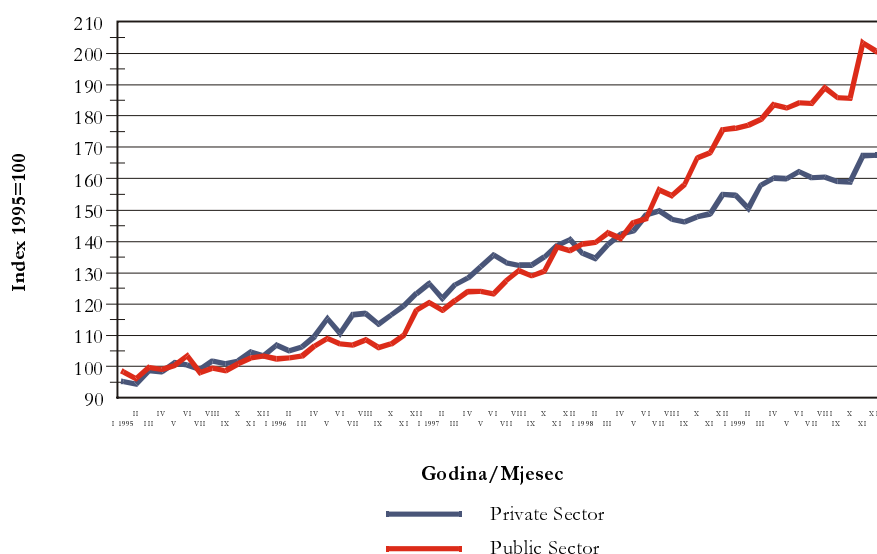
(in HRK)	1995	1996	1997	1998	1999
Average monthly net Wage	1,818	2,033	2,377	2,681	3,055
(real rate of growth, %)		7.0	12.2	5.9	10.0
Average monthly gross Wage	2,887	3,243	3,668	4,131	4,551
(real rate of growth, %)		7.5	7.9	5.5	6.0
Average monthly Pension	922	1,015	1,179	1,314	1,434
(real rate of growth, %)		5.4	11.5	4.7	5.3

Source: Central Bureau of Statistics

In 1999 pensions increased by 9.2% nominally or 5.4% in real terms compared to 1998. The share of the average paid-in pension contributions in net salaries in 1999 amounted to 47%. Since in December the number of pensioners totaled 1,016,601, the ratio of active insured persons and retired persons has been reduced to 1.3, meaning that presently 1.3 active insured persons finance one pensioner. This again indicates the necessity of the pension system reform, which, although it has still not fully come to life, is among the priorities for the Government of the Republic of Croatia.

In the last several years salaries have been increased above productivity rate, which additionally forced manufacturers to raise prices of their products in order to cover for increased manufacturing costs. By reaching the macroeconomic stability, Croatia now has to make additional efforts to uplift the overall productivity of its economy. There are two key consequences of the aforementioned productivity increase. Firstly, higher productivity enables entrepreneurs to reduce prices of their products, thus affecting inflation reduction which does not only automatically increase really available household income, but also introduces a higher level of price stability. Secondly, higher productivity implies that entrepreneurs and the state sector may redirect resources to new activities, which in the long run may create new jobs.

Figure 1.9: Wages and Salaries in the Private and Public Sectors



Source: Central Bureau of Statistics

According to the official statistical data, gross salaries in the public sector are higher in relation to the average salary in Croatia, as follows: in public administration and defense sectors they are higher by 35.9%, in health system 27.2% and education 1.6%. If we compare the average salary in the public sector, obtained by weighting of net salaries in the public administration, defense, health system and education sectors, with an average net salary in the remaining sectors, the so-called private sector, it can be seen that in 1999 the average salaries in the public sector were higher by 16.2% than in the private sector.

The structure of salary classes indicates that 8.5% of the employed was receiving a net salary lower than HRK 1,500, whereas the salaries of 57.9% of the employees were in the range HRK 2,400 to 4,500.

1.6. ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

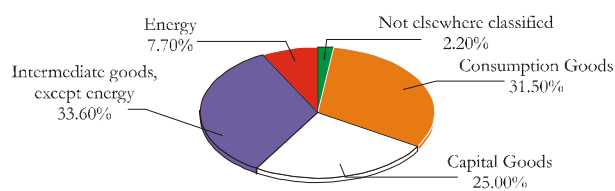
1.6.1. Foreign Trade

In 1999 the total amount of exports accounted for US\$ 4,279.7 million, or 5.8% less than in the previous year. Commodity imports had a declining trend, and last year's commodity imports accounted for US\$ 7,777.4 million, which was 7.2% less than in 1998. The total merchandise trade deficit for 1999 accounted for US\$ 3,497, which was by US\$ 345 million less than in 1998. The coverage of merchandise imports by exports in 1999 amounted to 55%, i.e., there was a one-percent improvement compared to 1998.

Among the more important Croatian exported commodities there was only an increase in raw materials (5%), mineral fuels and lubricants (25.8%), medical and pharmaceutical products (12.6%) and non-metal minerals (16.9%). At the same time, a decline was recorded in ships (-7.5%), electrical machines, apparatuses and appliances (-1.4%) as well as

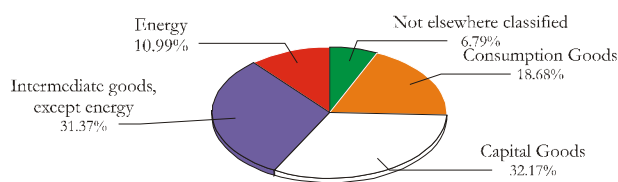
clothes (5.7%). According to the National Classification of Economic Activities (NCEA), only energy sector recorded an increase in foreign trade volume, i.e., exports and imports, whereas all other categories recorded a decline both in exports and in imports.

Figure 1.10: Structure of Exports of Goods in 1999



Source: Central Bureau of Statistics

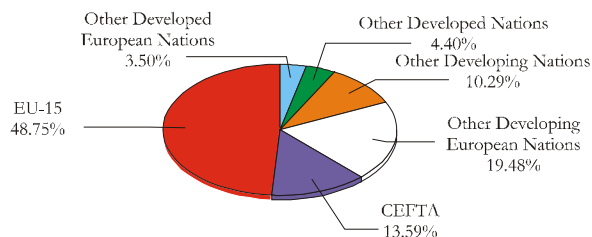
Figure 1.11: Structure of Imports of Goods in 1999



Source: Central Bureau of Statistics

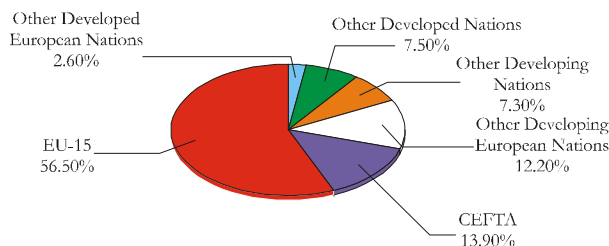
The recession on the local market reduced the import demand and led to an improvement in the foreign commodity trade balance. It is evident that in the conditions of the depreciation in real terms of the domestic currency Croatian exporters were unable to use the opportunity to increase export. This can be partly justified by a reduced demand by Croatia's most important trade partners. However, apart from recession, there are other obstacles to a better business results of Croatian exporters, such as poor payment collection, illiquidity, inefficiency, and too low productivity.

Figure 1.12: Structure of Trade. Structure of Exports in 1999



Source: Central Bureau of Statistics

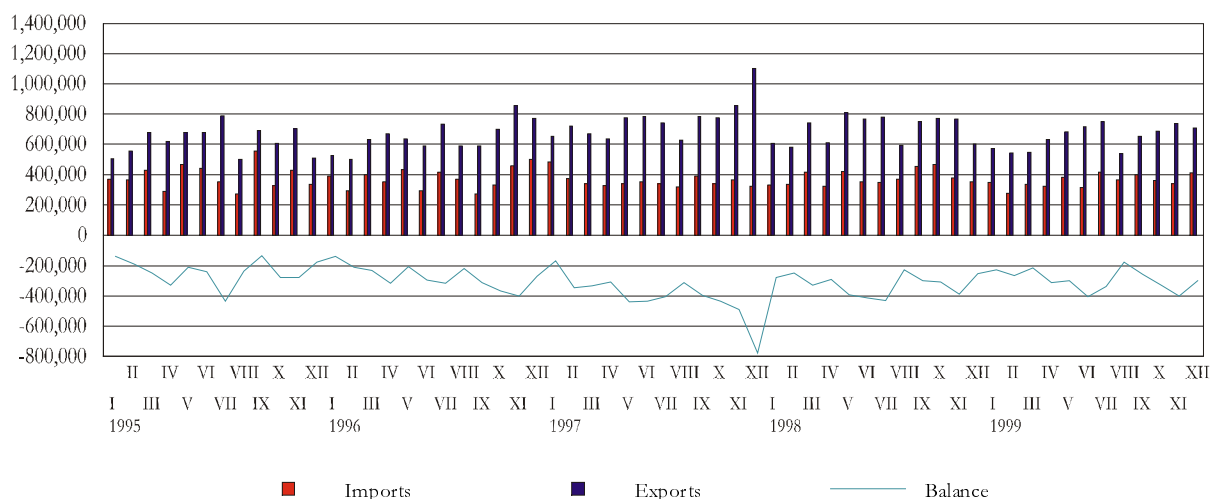
Figure 1.13: Structure of Trade. Structure of Imports in 1999



Source: Central Bureau of Statistics

Despite the above mentioned, the structure of Croatian imports and exports shows that the potential for export growth is relatively high. Namely, almost 75% of commodity imports in Croatia are energy, intermediary products and capital products, which clearly shows that Croatian industry produced goods characterized by high additional value. On the

Figure 1.14: Monthly Import and Export of Goods in 000 USD



Source: Central Bureau of Statistics

other hand, more than 50% of Croatian exports are capital products or mass consumption products.

1.6.2. Balance of Payments

Preliminary data on foreign trade in 1999 indicates a significant deficit reduction on the balance-of-payments current account. The current balance-of-payments deficit totaled US\$ 1,613.7 million, which was by 22.6 % less than in 1998. Like in 1998, this outcome was a result of the decrease in trade deficit of more than 20%, due to a considerably higher decrease in imports than the decrease in exports. The surplus on the service account was significantly reduced (18.7%), which can be accounted for by the impact of the Kosovo crisis on revenues from tourist services. The income account in 1999 worsened as a result of the increase in foreign debt interest payment. Transfers to Croatia were reduced by 7.2%, whereas transfers from Croatia into foreign countries increased by 23% due to the transfer increase of Croatia to Bosnia-Herzegovina.

Table 1.10: Balance of Payments 1994 - 1999

(millions of USD)	1994	1995	1996	1997	1998	1999*
Goods, f.o.b.	-1,171.8	-3,268.0	3,690.2	-5,224.3	-4,168.9	-3,300.7
Services	1,633.3	1,041.1	1,580.0	2,030.9	2,074.8	1,678.7
Income	-164.5	-28.6	-69.7	-22.2	-163.7	-346.4
Current Transfers	529.1	804.0	1,032.3	871.7	708.1	499.9
Current Transactions	826.1	-1,451.5	-1,147.5	-2,344.0	-1,549.7	-1,468.5
Direct Investments	106.3	95.7	509.1	323.7	800.6	1,304.4
Portfolio Investments	8.6	4.8	628.3	576.5	14.9	575.8
Other Investments	387.7	1,435.2	1,430.5	2,158.3	776.2	-65.7
Financial Transactions (without CNB International Reserves)	502.6	1,535.6	2,567.8	3,058.5	1,591.6	1,814.5
CNB International Reserves	-743.4	-443.1	-533.3	-428.0	-151.5	-428.5
Net Errors and Omissions	-585.3	359.0	-903.2	-307.9	90.6	57.6

* Preliminary data

Source: Croatian National Bank

The balance-of-payments financing in the last couple of years has indicated a positive trend. More precisely, whereas the balance-of-payments current account deficit was financed by borrowing in 1997, in 1998, and especially in 1999 this deficit was financed by foreign direct investments. In 1999 foreign direct investments covered almost 80% of the current account deficit and it is expected that the percentage will grow in the following years. Due to the Kosovo crisis the current surplus of services in 1999 covered only 50% of the current account deficit in commodity trade. In the following years, with envisaged better tourism performance, the current surplus of services will cover a considerably higher percentage of current account deficit in commodity trade. Given the expected tourism revival in 2000, a significant growth of that percentage may be expected.

In December 1999, in comparison with December 1998, the Croatian National Bank's gross international reserves increased by 7.4%, reaching US\$ 3,025 million.

Table 1.11: Indicators of Indebtedness

	1995	1996	1997	1998	1999
Share of External Debt in GDP	20.25	26.71	37.06	44.08	50.11
Export of Goods and Services/External Debt	185.98	147.76	110.33	89.37	82.75
Short Term Debt/External Debt	5.91	7.75	7.23	7.57	6.60

Source: Croatian National Bank

In 1999 the total foreign debt increased by US\$ 175.5 million in comparison with 1998. Public foreign debt grew by US\$ 583.9 million. In the total debt, the short-term debt remains at a satisfactory low level. Specifically, its share has been below 7% for four years in a row.

II CENTRAL GOVERNMENT BUDGET IN 1999

The decline in economic activities commenced in the last quarter of 1998 and continued until the third quarter of 1999, resulted in a decline in fiscal revenues in real terms, but also in a growing need for state interventions. The basic characteristics of fiscal policy in 1999 were difficulties with collecting tax revenues which had been planned by the budget, and a growing need for budget expenditures, which resulted in fiscal policy expansion. A lack of public expenditure management caused an excessive growth of some budget beneficiaries expenses. Because of that the Central Government budget deficit was increased from the originally planned balanced budget to HRK 2.5 billion, i.e., about HRK 6 billion, given the government outstanding liabilities for current procurement and capital expenditures.

The decline in economic activities that after the end of 1998 continued in 1999, as well as certain changes of the tax system, influenced the considerable weaker outturn of Central Government budget current revenues in comparison with the planned figures. On the other hand, a strong increase in transfers to extra-budgetary funds, expenditures related to the problems in the banking sector, wage bill expenses, as well as capital expenditures, created a pressure on the budget expenditure side. Such trends on the budget income and expenditure side resulted in July revision of 1999 budget, and in the long run with a considerably worse fiscal position in comparison to last year.

2.1. REVISION OF THE 1999 BUDGET

In July 1999 the formerly adopted budget for that year was revised. The revision was a result of a weaker outturn of tax revenues than the planned ones, and because of the necessity to increase transfers to the Pension Fund and Health Insurance Fund, as well as the payment of insured savings deposits to depositors of the banks under bankruptcy proceedings.

Table 2.1: Changes in central budget's revenue and expenditure due to the revision of the budget

(000 HRK)	Budget 1999	Revised Budget 1999	Index Rev. Budget/Budget
Total revenue and grants	49,047,850	47,908,567	97.68
Total revenue	49,047,850	47,908,567	97.68
Current revenue	44,642,150	42,117,050	94.34
Tax revenue	42,547,792	40,022,692	94.07
Nontax revenue	2,094,358	2,094,358	100.00
Capital revenue	4,405,700	5,791,517	131.46
Grants	0	0	
Total expenditure and lending minus repayments	49,047,850	49,334,032	100.58
Current expenditure	39,225,012	38,179,590	97.33
Expenditures on goods and services	23,245,910	22,509,998	96.83
Interest payments	2,162,797	2,214,216	102.38
Subsidies	2,964,053	2,928,708	98.81
Transfers	10,852,252	10,526,668	97.00
Capital expenditures	8,027,708	10,043,874	125.12
Lending minus repayments	1,795,130	1,110,568	61.87

Tax revenues were reduced by budget revision by HRK 2,525.1 million. The biggest reduction was in revenues from value-added tax, amounting to HRK 1,650.7 million or 7.3%. This reduction was a result of the considerable shortfall of those revenues in the first half of the year, when it was evident that the planned amount would not be achieved. There was a more significant reduction with turnover tax on goods and services (-54.2%), customs taxes and customs duties (-3.9%), and profit tax (-5.7%). Capital revenues grew by HRK 1,385.8 million as a result of the decision by the Government of the Republic of Croatia to sell to the strategic partner, instead of the originally planned 25%, a 35-percent share of Croatian Telecommunications. The total revenues were decreased by HRK 1,139.2 million by such revision of the budget revenue side.

The budget expenditure was increased by the budget revision by HRK 286.2 million. This increase resulted from the reduction of the originally planned expenditures amounting to HRK 3,192.7 and budgeting HRK 3,478.8 million of new expenditures. The originally planned current expenditures were reduced by HRK 1,044.7 million. Those expenditures were mostly reduced on the item other expenditures for goods and services (state expenditure proper) and on current transfers. As far as capital expenditures are concerned, expenditures for fixed capital assets purchase were reduced the most (government investments), amounting to HRK 1,133.5 million. It should be noted that the biggest government budget debts are also accumulated on those items, which indicates the irrationality or non-compliance with the budget parameters prescribed by law.

Lending minus repayment was reduced by HRK 684.5 million, as a consequence of non-withdrawal of a number of foreign loans.

Items which to the greatest extent caused the 1999 budget revision were entered on the capital transfers, which were increased by the budget revision by 3,265.7 million. Those were primarily capital transfers to extra-budgetary funds for the purchase of claims and stocks from their portfolio, as well as transfers to the Bank Rehabilitation Agency. In that way the resources in the amount of HRK 1,503 million were budgeted for the Croatian Pension Insurance Institute, and HRK 721 million for the Croatian Health Insurance Institute. Together with the current transfers to the Pension Fund the revised budget envisages transfer of the total of HRK 6,229.1 million, and HRK 2,585.9 million to the Health Fund. The revised budget earmarked resources amounting to HRK 1,176 million for the Bank Rehabilitation Agency for the purpose of paying the insured savings deposits.

It is evident from the above that the problems in funds and the banking system made it impossible to reduce budget expenditures congruently with the reduction of current revenues. The pressure which was exerted by those expenditures forced the Government to decide to sell an additional 10% of stocks of the Croatian Telecommunications and, in spite of that, from the formerly balanced budget led to a HRK 1,425.5 million deficit in the revised budget, calculated on a cash basis principle.

2.2. CENTRAL GOVERNMENT BUDGET DEFICIT/SURPLUS

Based on the numbers, the total Central Government budget deficit on a cash basis in 1999 amounted to HRK 2,523.3 million, which is about 1.8% of gross domestic product. Nevertheless, if we set privatization proceeds aside from the total revenues, the total deficit amounts to almost 6% of GDP or HRK 8.6 billion. According to deficit on accrual basis, which takes into account all outstanding liabilities accumulated during 1999, the total deficit exceeds 8% of GDP. In 1998 the Central Government budget realized a surplus totaling 0.9% of GDP on the calculated on the cash basis principle or, if we set aside proceeds from privatization, a deficit amounting to 0.13% of GDP.

Table 2.2: Central government budget deficit/surplus indicators

(000 HRK)	1998	1999
Overall deficit/surplus	1,256,677	-2,522,040
as % GDP	0.91	-1.76
Overall deficit/surplus without privatisation revenues	-175,689	-8,600,921
as % GDP	-0.13	-5.99
Overall deficit/surplus on an accrual basis	-	-12,094,689
as % GDP	-	-8.43
Primary deficit/surplus	3,207,960	-422,899
as % GDP	2.32	-0.29
Primary deficit/surplus without privatisation revenues	1,775,594	-6,501,780
as % GDP	1.28	-4.53
Primary deficit/surplus on an accrual basis	-	-9,995,548
as % GDP	-	-6.97

The most worrying fact is the unusually low level of current surplus in 1999. The existence of current surplus indicates that the Government does not finance its current spending from capital revenues, but finances capital expenditures from current revenues. In the last several years Central Government budget constantly realized high savings levels (current surplus), which amounted to roughly 3% of gross domestic product, and in 1998 reached as much as 5.2% of GDP. In 1999 the current surplus totaled HRK 1,532 million, which is just above 1% of GDP. If capital transfers to funds, paid for purchase of claims and the share in companies would be partially entered as current expenditures (which they are by their character), the budget current account would be in deficit. This would definitely be an undesirable occurrence because a negative public spending lowers the level of national savings, which leads to the decline in investments and/or a bigger reliance on foreign savings. In other words, in 1999 the Government did not contribute to aggregate savings with its own savings.

Furthermore, in 1999 the Central Government budget for the first time recorded a primary deficit. The existence of the primary deficit indicates that expenditures for interests are not paid out of revenues, but by borrowing, which contributes to the increase in borrowing. From the fiscal standpoint, the existence of primary deficit is in the long term unsustainable. If the state realizes primary surpluses in the forthcoming periods (years), this year's primary deficit does not necessarily have to have adverse consequences. Nevertheless, the need for higher future primary surpluses implies a

higher tax burden in those periods, due to higher debt servicing cost. It is precisely for this reason, in a situation when the aim in the long term is reducing the tax burden, that the policy of primary surplus should be pursued through the policy of non-interest expenditure reduction.

The 1999 budget deficit was financed by issuing bonds on the international capital markets. More precisely, during 1999 the Republic of Croatia issued bonds denominated in Euro amounting to 300 million, as well as bonds denominated in Japanese yen amounting to 25 million (about US\$ 245 million).

The most important expenditures, about which we can be said that they determined the whole fiscal year and led to the described results, were definitely transfers to extra-budgetary funds, primarily Pension and Health Insurance Funds. In 1999 transfers to the funds totaled HRK 10.3 billion, which was a 71.7% increase compared to 1998. The biggest portion of this amount was paid to Pension Fund (HRK 6.3 billion) and Health Insurance Funds (HRK 2.4 billion). A continuous increase in transfers to those funds to cover the ever-increasing gap in their financial balances (in the period from 1994 to 1999 their revenues grew by 59%, whereas their expenditures at the same time increased by 132%) indicates that extra-budgetary funds are the biggest problem of the government budget. This is corroborated by the fact that the consolidated government budget surplus in 1999 totaled roughly HRK 10.4 billion. This clearly points to the conclusion that the budget expenditure reduction and fiscal consolidation cannot be dealt with without solving the problems in the extra-budgetary funds.

The total outstanding obligations of budgetary beneficiaries and extra-budgetary funds, as of December 31, 1999, amounted to approximately HRK 9.6 billion. The settling of those obligations was envisaged by the 2000 budget in the amount of HRK 3.6 billion by cash payment, whereas the remainder is planned to be settled by tax debt offsetting, as well as issuing bonds for settling the Health Insurance Fund debts.

Table 2.3: Arrears of budget users and extrabudgetary funds on 31. of December 1999

(000 HRK)	Amount
Budget users	3,193,768
of which:	
Ministry of defence	930,700
Ministry of reconstruction	699,208
Ministry of agriculture	359,738
HZZO	3,217,539
HZMO	774,900
Saved deposits	2,400,000
TOTAL	9,586,207

2.3. 1999 CENTRAL GOVERNMENT BUDGET REVENUE OUTTURN

The overall revenues of the Central Government budget in 1999 amount to HRK 46,356.7 million, which is by 3.2% lower than planned or by 5.8% more than in 1998

Table 2.4: Central government budget revenues

	1998 (000 HRK)	1999 (000 HRK)	1998 %	1999 %
Total revenue and grants	43,808,593	46,356,724	31.7	32.4
Tax revenue	40,327,487	38,317,635	29.1	26.8
Nontax revenue	1,691,914	1,728,238	1.2	1.2
Capital revenue	1,789,192	6,310,851	1.3	4.4
Grants	0	0	0	0

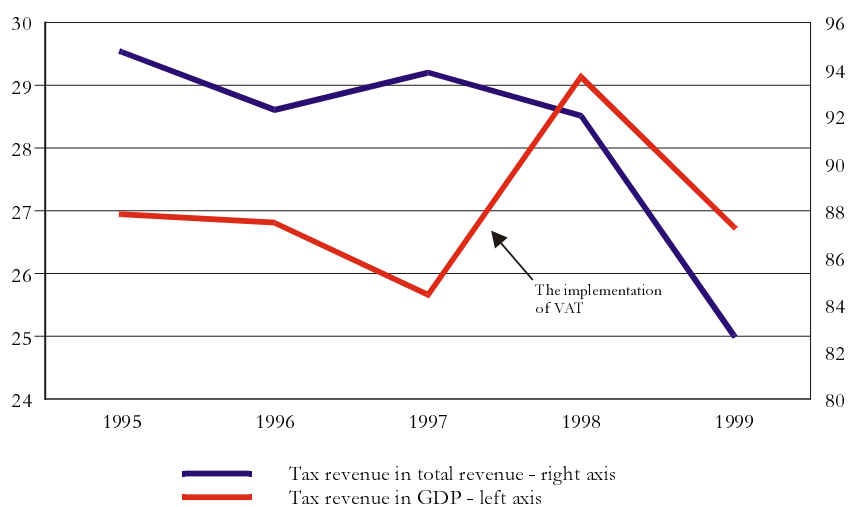
The basic characteristic of the revenue side of the 1999 budget is the considerable change of its structure. The tendency of reduction of the tax revenue portion in the total budget revenues, which commenced in the last several years, was even more evident in the year 1999. The portion of tax revenues in the total budget revenues dropped from 92.1% in 1998 to 82.7% in 1999. This reduction of tax revenue portion was in favor of capital revenues, the portion of which in the total revenues increased significantly.

2.3.1. TAX REVENUES

The share of Central Government budget tax revenues in the gross domestic product in 1999 totaled approximately 26.8%. In comparison with the previous year, it was a reduction of about 2.4 percentage points.

With the introduction of value added tax (VAT) in 1998, the share of tax revenues in GDP in that year significantly increased as a consequence of inclusion of a portion of the so-called “gray economy” in the newly introduced tax. The nominal 5% tax revenues cut in 1999 in relation to 1998 resulted in the drop in their share in GDP to the 1995 level. If we take the share of tax revenues in GDP as a measure of tax burden, it can be said that the 1999 tax burden was reduced. Relieving the tax burden was a result of revenue relief, introduction of zero VAT rate, however, the tax revenue reduction was partially a result of relaxation of tax discipline of a part of tax payers, which was closely connected to the illiquidity problems in the economy.

Figure 2.1: Tax revenue in GDP and in total revenue

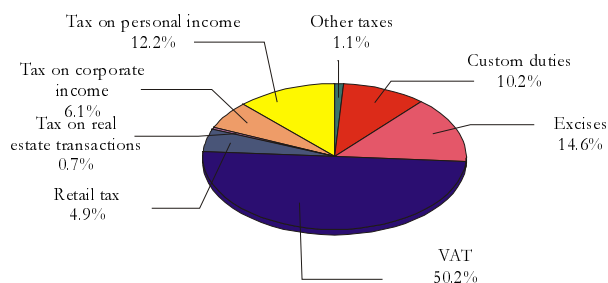


Source: Ministry of Finance and Central Bureau of Statistics for GDP data

Tax incidence trend may be also measured by tax elasticity. For the period 1995 to 1999, the tax elasticity coefficient totals 0.976, which indicates that the gross domestic product in the observed period grew more quickly than the tax. Although it was the taxes collected in the central government, which are not the right measure for observing tax burden (they should be monitored on the level of consolidated general government), it is nevertheless possible to perceive development trend. More specifically, the biggest portion of tax revenues is collected by Central Government budget.

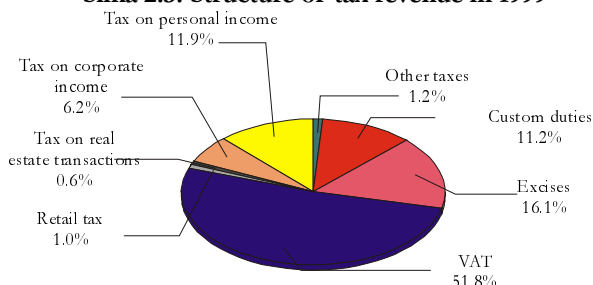
The 1999 tax revenue structure was somewhat changed compared to 1998, which is indicated in the following figures.

Figure 2.2: Structure of tax revenue in 1998



Source: Ministry of Finance

Slika 2.3: Structure of tax revenue in 1999

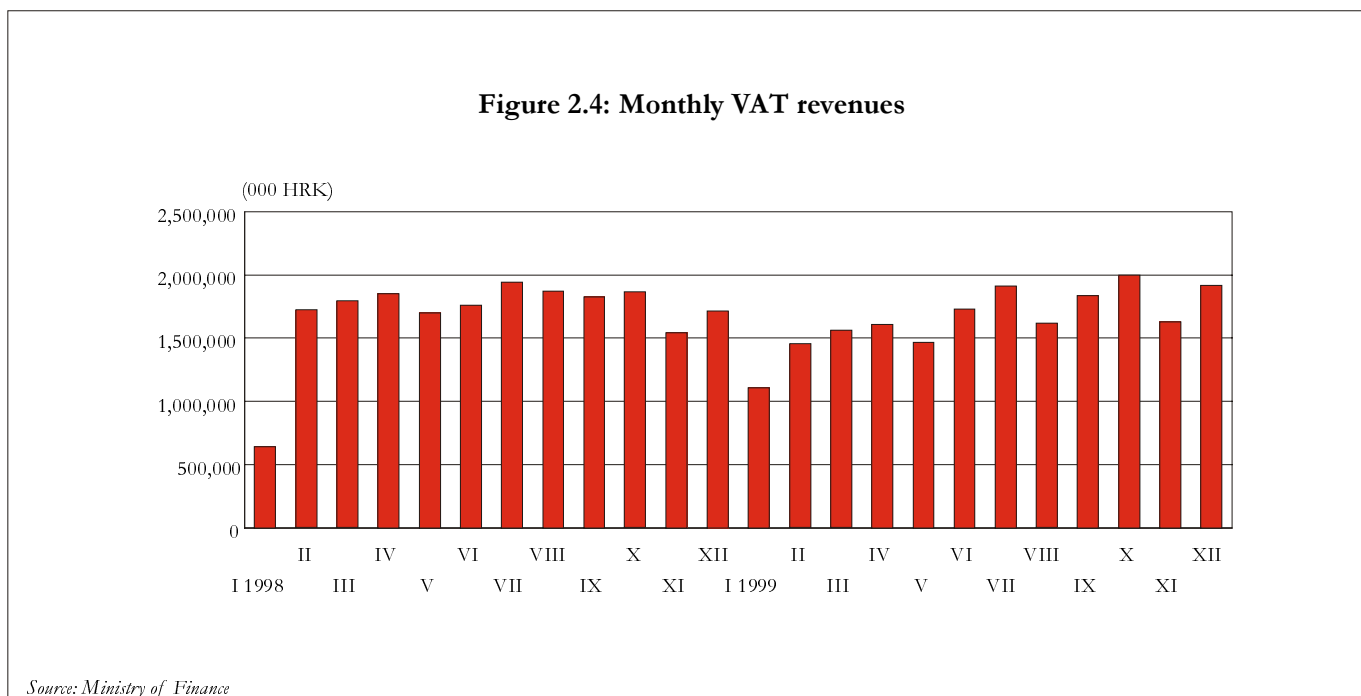


Source: Ministry of Finance

The tax revenue structure change is a logical consequence of the changes in the tax system, which was introduced during 1999. It should be stressed that turnover tax on goods and services, which was replaced by VAT at the beginning of 1998, after a significant inflow in 1998 and the 5-percent share in the overall tax revenues, lost its fiscal importance in 1999.

Value-Added Tax

In 1999, an amount of HRK 19,830 million or 13.8% of GDP was collected from value-added tax. Fiscal importance of the value-added tax is illustrated by the data that in 1999, 51.8% of tax revenues, or 42.8% of the overall budget revenues was collected from it. Fiscal abundance of this tax stems out of a wide tax basis of this tax (a small number of exemptions), payment collection mechanism of this tax that makes tax evasion considerably more difficult, and until November 1999 a unique, comparatively high tax rate.



In relation to 1998, revenues from VAT in 1999 were by 2% lower. Revenue decrease was caused by a declining economic activity, introduction of zero VAT rate in November for staple foodstuffs - bread and milk, books and medications, and also because of the extension of accounting period from 15 to 30 days.

It can be seen from the monthly revenue from value-added tax that in the first months of 1999 there was a lower collection of revenues, which were mainly at the levels lower than the ones in 1998. This lower collection of revenues coincides with the extension of accounting period in January 1999, but also with the decline in economic activities in that period. Alongside with economic recovery, in the second half of the year, revenues from VAT recorded values higher than those in the previous year.

Since the beginning of 1999 the threshold for inclusion into the VAT system was raised from HRK 50,000 to HRK 85,000. Furthermore, the accounting period was extended from 15 to 30 days. This was supposed to improve the liquidity position of business subjects - VAT taxpayers, thus contributing to the increase in the overall economic liquidity. The value-added tax system also experienced changes by the end of 1999, when the single VAT rate system was disturbed. More precisely, starting November 1, 1999 the zero VAT rate was introduced for all kinds of bread and milk, books, and medications from the list of the Croatian Health Insurance Institute. With this a portion of staple foodstuffs ceased to be burdened with VAT, partially alleviated the regressiveness of this tax type. The introduction of zero VAT rate was reflected in prices of the aforementioned group of products. According to the State Bureau of Statistics data, in November retail prices of cereal products were by 6.6% lower than in October 1999, milk prices were lower by 7.8%, teaching aids by 11.9%, and medications by 9.7%. To conclude, despite the cancellation of the 22% rate, retail prices reduction of the products with zero VAT rate recorded only a small percentage, whereas the portion of VAT tax reduction was used for the increase in margins.

Personal Income Tax

The reduction of personal income tax burden by the increase of non-taxable portion of income resulted in the decline of revenues from personal income tax in 1999 by 7% in relation to 1998.

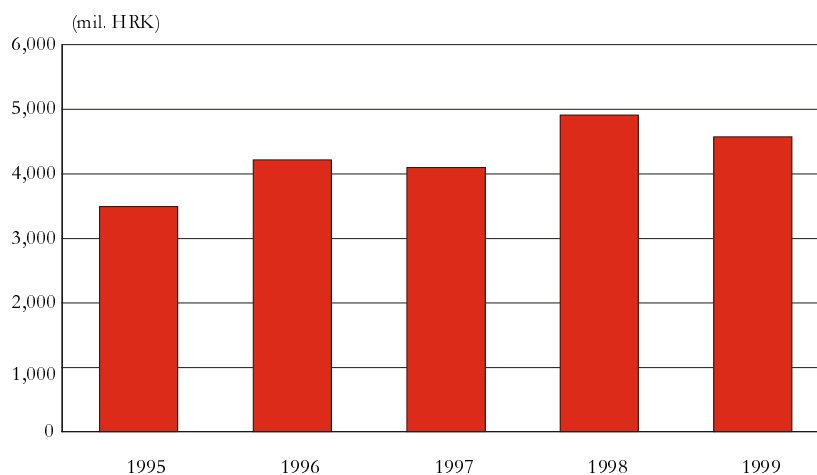
In 1999, HRK 4,571 million was collected from personal income tax, which accounts for 9.9% of budget revenue, or 3.2% of GDP.

The monthly trend of revenues from personal income tax indicates that most revenues from this type of taxes are collected in December and in the summer months, which can be explained by the Christmas bonuses and additional

salaries for summer holidays. Personal income tax is a tax type which, before all, by the increase in the non-taxable income portion, is convenient for reduction of regressive impact of indirect consumption taxes.

With the beginning of 1999 the changes and amendments of the Income Tax Law¹ came into force. The basic idea of the changes and amendments of this Law was reducing the tax burden of lower income levels. In unison with that, starting January 1, 1999, the basic personal tax deduction was increased from HRK 800 to HRK 1,000 kuna per month. For a tax payer with no dependent family members the non-taxable portion of income increased from HRK 9,600 to HRK 12,000 annually, and the taxable base which is taxable with 20% grew from HRK 28,800 to HRK 36,000 annually.

Figure 2.5: Annual revenue from personal income tax



Source: Ministry of Finance

The coefficients for dependents have also been increased, thus increasing the basic personal deduction and reducing taxable base. As of January 1, 1999 a tax payer with one dependent multiplies his/her basic personal deduction by coefficient 1.5 (1,5*1,000) (until then it was 1.3), a tax payer with two dependents by coefficient 2.2, with three dependents 3.2, with four dependents 4.6, with five dependents 6.5, and for any further additional dependent the coefficient is increased progressively. Those changes were aimed at increasing the net salaries, especially of persons with a great number of dependents. Pensioners' personal deduction was increased from HRK 2,000 to 2,500. In concordance with the new Croatian Government, in March 2000 there was further reduction of income tax burden through the increase in non-taxable portion of personal income from HRK 1,000 to HRK 1,250.

Table 2.5: Total Number of Tax Returns

Description	Year			
	1995	1996	1997	1998
Number of tax returns processed	434,629	545,151	551,333	660,203
Additional tax payments according to annual tax returns	428,788,154	450,009,268	429,782,473	427,098,208
Tax refunds according to annual tax returns (in HRK)	213,214,231	341,912,452	380,295,790	359,197,507

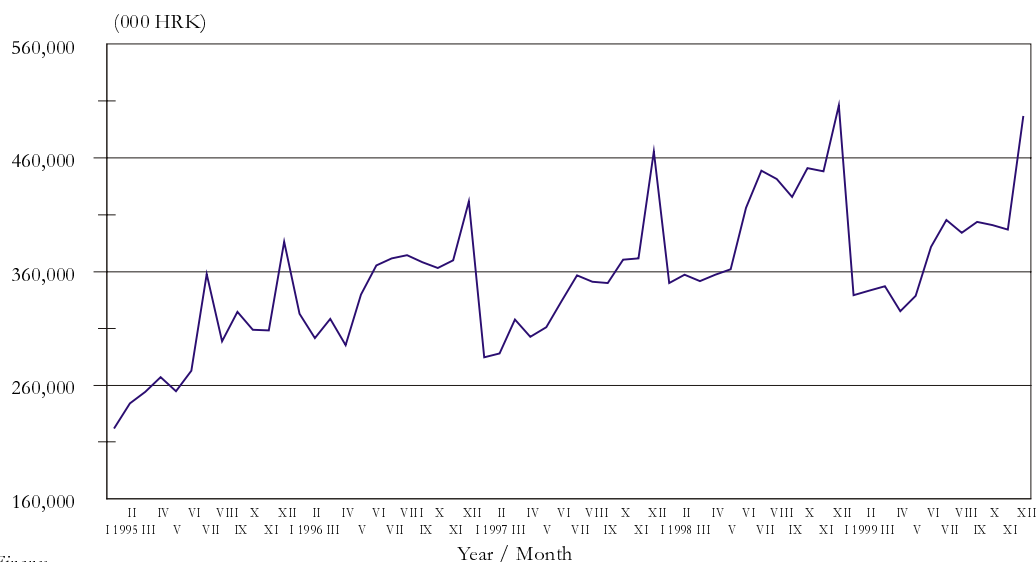
Source: Ministry of Finance

¹ Personal income tax is assessed on the total income generated by each tax payer within a (fiscal) year. The total income may be reduced by losses carried forward, as well as by tax benefits of the tax payer and his/her dependents (personal deduction). Pursuant to effective legislation, the income tax is assessed on any income earned as a result of employment or self-employment, and any income arising from property or property rights. The income tax is not assessed on interests, dividends, capital gains, and various subsidies, meaning that income tax is assessed on expenditures, and tax assessment is avoided on savings. The income taxation scale includes two tax rates. The 20-percent tax rate is applied to tax base up to the level of triple the basic personal deduction (HRK 3,000 per month or HRK 36,000 per annum), whereas the 35-percent rate is applied to any portion of the tax base that exceeds that level. The level of personal deduction depends, apart from the basic personal deduction, on the number of dependents. Accordingly, the basic personal deduction is increased by appropriate coefficients.

Table 2.6: Tax Returns Filed by Small Businesses

Description	Year			
	1995	1996	1997	1998
Number of tax returns by small businesses	97,744	95,688	94,843	99,438
Total income of small businesses (in HRK)	2,668,726,880	2,903,691,525	3,187,225,351	2,966,515,274
Average income of small businesses (in HRK)	37,303	30,345	33,605	29,833

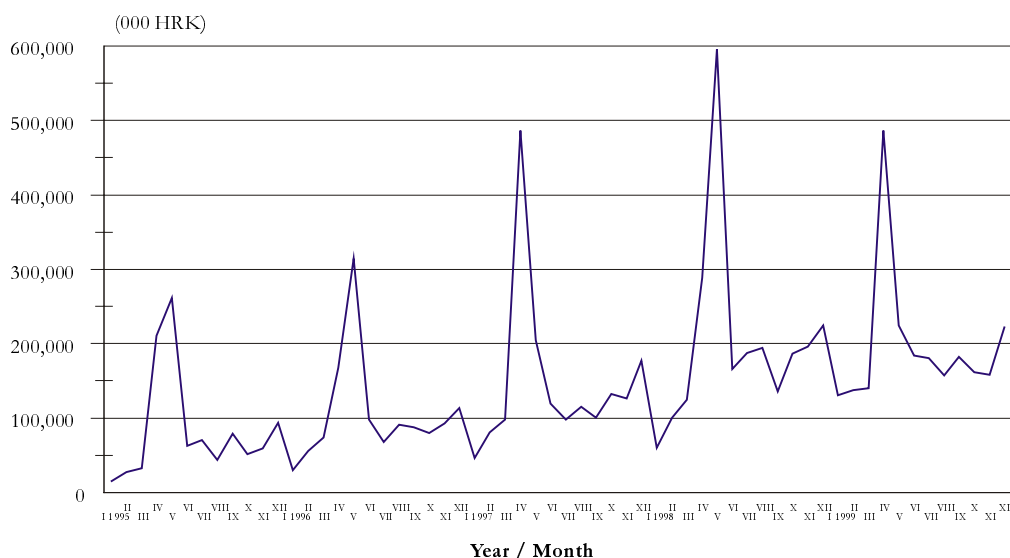
Figure 2.6: Monthly revenue from personal income tax



Source: Ministry of Finance

Profit tax Revenues

Figure 2.7: Monthly revenue from corporate income tax

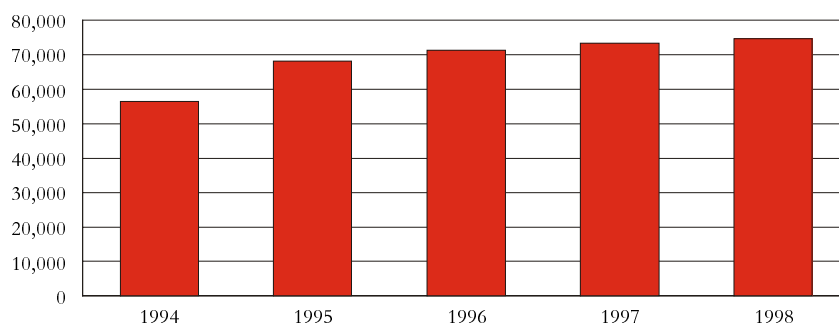


In 1999 profit tax² accounted for the collection of HRK 2,364 million of revenues. In comparison with 1998 that was a decline of 3.9%. As profit tax in the current year is payable on the basis of the previous year business results, the paid

² As of the beginning of 1997, the profit tax has been set at 35%. One of the special features of Croatian profit tax is the existence of protective interest on the company's equity capital. The tax base is reduced by the amount of equity capital. The purpose of the

tax in 1999 is a result of business results in 1998. Since the business result of economy (profit) according to ZAP data in 1998 was considerably worse than the 1997 business result, it is understandable that in 1999 there was a decline of profit tax revenues. Also, it should be noted that corporate profit in 1997 (paid in 1998) was considerably increased on account of higher invoicing by business subjects at the end of the year due to fear of VAT at the beginning of 1998. As profit tax is payable based on an invoiced value, this increased the revenue obtained from this type of tax in 1998, and had an adverse impact on the 1999 revenues. Such a trend could not be alleviated even by the lower protective interest rate for equity capital in 1998, which resulted from a 1.2% decline in producer prices in that year.

Figure 2.8: Number registered profit tax returns



Source: Ministry of Finance

The tradition of granting awards to the best taxpayers, by the Tax Administration of the Ministry of Finance, continued in 1999.

Table 2.7: Best taxpayers in 1998

Tax payers of corporate income tax	Tax payers of personal income tax
Schiedel d.o.o., Novi Golubovac	Marijan Ritoša, Poreč, carpenter
Alfaplan d.o.o., Dubrovnik	Danica Tomić, Split, health professional
Zagrebačka pivovara d.d., Zagreb	Vladimir Raguž, Ivankovo, carpenter
Hempel d.d., Umag	Ilona Mudrinjak, Rijeka, construction
Bjelovarska banka d.d., Bjelovar	Ivo Violić, Orebić, construction
Zagrebačka banka d.d., Zagreb	Miljenko Vinski, Karlovac, metal industry
Cetera IGM d.d., Đakovo	Dragutin Trušček, Križevci, plastics
Comerce braća Pivac d.o.o., Vrgorac	Đuro Bohnec, Ludbreg, dairy
Wienerberger - Ilovac d.d., Karlovac	Mijo Kelečić, Sisak, production of food for animals
Kamen Ingrad d.d., Požega	Ivan Sušec, Sv. Ivan Zelina, cement industry

Excise Tax Revenues

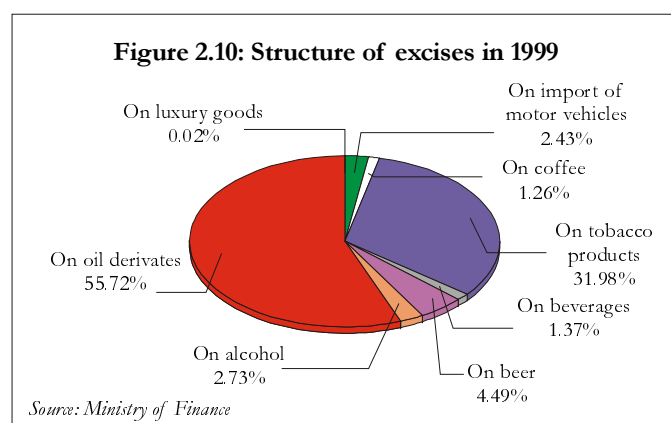
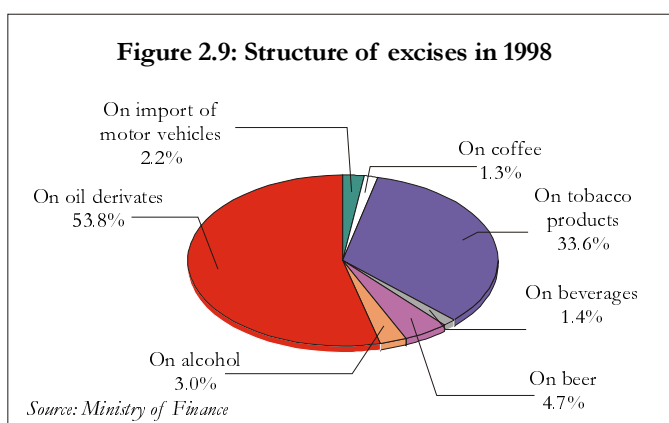
Revenues from special duties or excise taxes are the Central Government budget revenues whose fiscal importance grows every year. Their share in the overall tax revenues grew from 14.6% in 1998 to 16.2% in 1999. It can be said that this is a positive trend in tax revenue structure because special duties are simple to collect and because they increase progressiveness or equity of the taxation system.

protective interest is to ensure tax neutrality of profit tax, i.e., placing the investment into real assets and financial assets on the same level. The protective interest rate has been set at 5% plus the annual growth rate of producer prices. The profit tax is advanced on a monthly basis, pursuant to the tax return for the previous year, whereas the final tax return for the profit tax of the previous year must be submitted by the end of April of the current year at the latest.

Table 2.8: Revenues from Excises

	Outturn					
	1994	1995	1996	1997	1998	1999
Total excises taxes	1,854,815	4,960,440	5,390,785	5,404,837	5,896,787	6,160,719
on oil derivates	670,441	2,559,021	2,691,840	2,728,346	3,169,770	3,432,957
on alcohol	75,140	183,458	197,623	176,681	176,897	168,335
on beer	128,983	266,031	262,080	279,086	277,889	276,782
on beverages	51,208	108,498	108,737	110,255	83,182	84,658
on tobacco products	880,466	1,759,266	2,039,532	1,999,988	1,983,435	1,969,920
on coffee	41,234	67,642	68,704	74,959	76,807	77,648
on import of motor vehicles	7,343	16,524	22,269	35,522	128,806	149,423
on luxury goods	0	0	0	0	0	996

During 1999 the total revenues from excise taxes amounted to HRK 6,011.3, which was a 4.5% increase compared to the previous year. The increase in excise tax revenues was not satisfactory given the increase in excise taxes during last year.

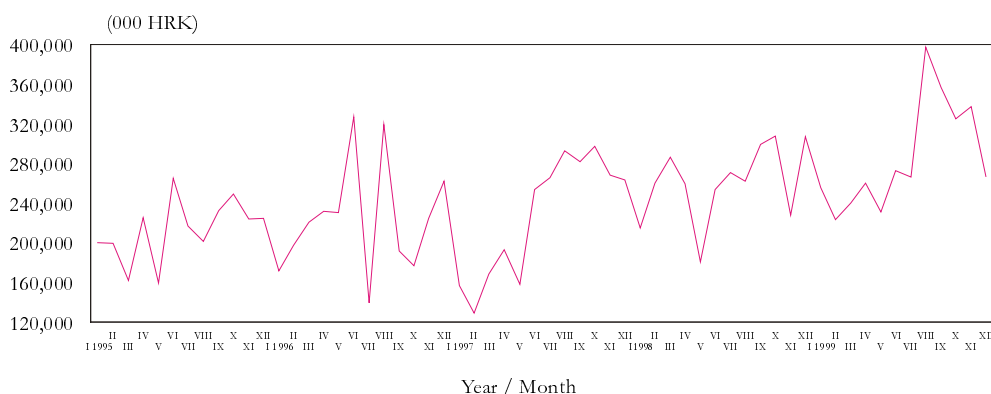


Laws on special duties or excise taxes during 1999 were changed on two occasions. Firstly, in July there was an increase in excise tax on oil and oil products, as well as excise tax on tobacco products. The increase in the aforementioned excise taxes was a consequence of their weaker outturn in the first half of the year. Tax burden of domestic cigarettes³ was changed from HRK 3.50 to HRK 3.90 for soft packs (the so-called popular group), from HRK 4.20 to 4.30 for hard packs (the so-called standard group), and from HRK 5.00 to HRK 7.00 for cigarettes produced on the basis of license with more than 60% domestic tobacco (the so-called extra group). Tax burden of import cigarettes (also in the “extra” group) was reduced from HRK 7.50 to HRK 7.00, which meets the requirements of the World Trade Organization for equal tax treatment of domestic and imported cigarettes. Also, the due date for payment of excise taxes was prolonged from 15 to 30 days following taking over of tax stamps. Special duties on oil products were increased from HRK 1.90 to 2.10 (for motor oil MB 98 and 86), from HRK 1.60 to 1.80 (for motor oil BMB-98, 95 and 91) and from HRK 1.40 to 1.60 for diesel fuel.

Following the increase in July, there was another increase in excise taxes in November, when an increase in excise taxes was meant to compensate for the introduction of the zero VAT rate. This resulted in an increase in excise taxes for tobacco products, import of motor vehicles, and excise taxes were introduced for luxury products (jewelry, watches, fur, weapons, etc.) which are payable at the rate of 30% of the selling price exclusive of VAT. In November excise taxes on cigarettes grew from HRK 3.90 to 4.50 for the so-called popular group, from HRK 4.30 to 4.90 for the so-called standard group, and from HRK 7.00 to HRK 8.10 for the “extra” group.

³ The tax base for this tax is a pack of 20 cigarettes of standard length of up to 120 mm.

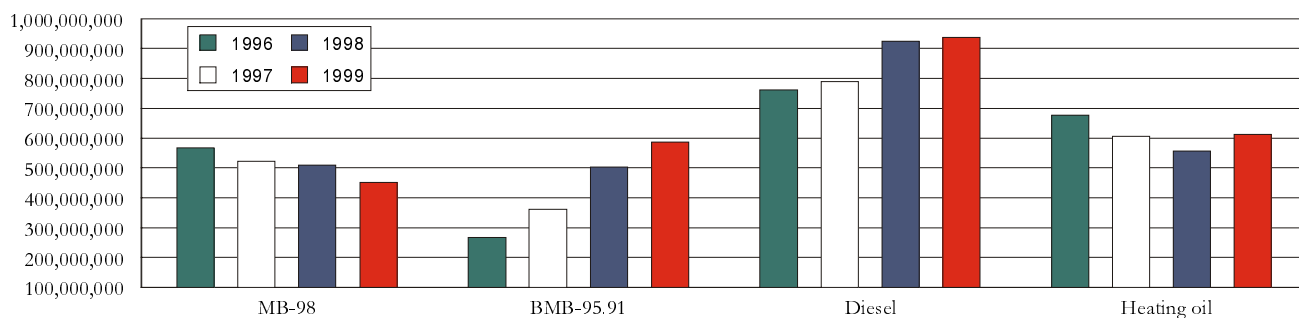
Figure 2.11: Monthly revenue from excises on oil derivatives



Source: Ministry of Finance

The biggest portion of revenues from special duties is collected from special duties on oil and oil products, which in 1999 had an outturn of HRK 3,433 million. The share of this type of special duties in the total revenues from special duties in 1999 was 55.7%. Compared to 1998, those revenues grew by 8.3%. This growth ensued from the increase in excise tax in July and from the 3.8-percent increase in taxable delivered quantities of oil products.

Figure 2.12: Taxable quantities supplied to domestic market



Source: Ministry of Finance

The above figure shows taxable quantities according to oil products categories. It can be seen that, except in the case of motor oil MB-98, which recorded a decline of 11.5%, with all types of oil products an increase in taxable delivered products was recorded.

The second most important in fiscal terms are excise taxes on tobacco products, which resulted in the collection of HRK 1,969.9 million, because their portion in the total revenues from excise taxes in 1999 amounted to 32%. In spite of increase in excise tax on tobacco products on two occasions during 1999, their revenue was 0.7% below their 1998 levels.

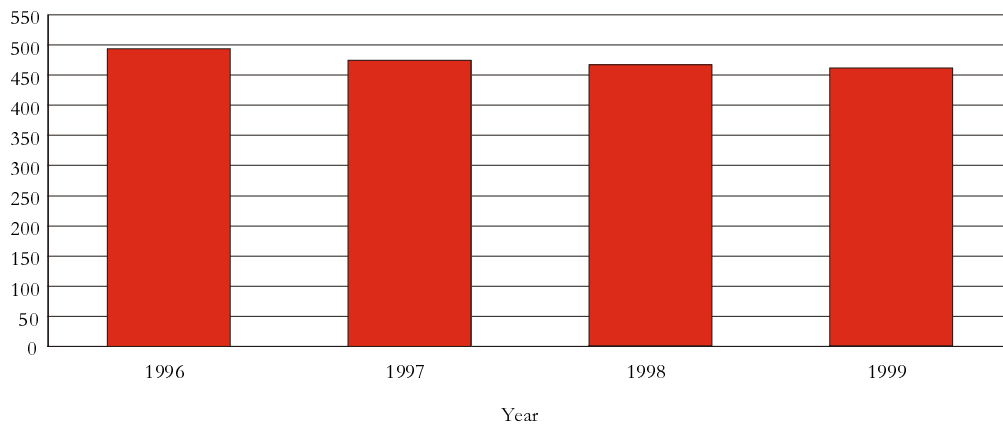
Figure 2.13: Monthly revenue from excises on tobacco products



Source: Ministry of Finance

The total quantity of sold cigarette packs (taxable base) was by 1,1% lower than its 1998 level, which with regard to increase in excise tax on two occasions does not explain a decline in revenues (after an increase in November last year excise taxes were on the average higher by 23.5% than in 1998). One of the reasons why there was still a decline in revenues is the fact that there was a change in the structure of delivered quantities, i.e., cigarette consumption in favor of the cigarettes the excises of which grew less or even declined. Besides, in July the accounting period was extended from 15 to 30 days, whereby there was a loss of income for 15 days on the annual level.

Figure 2.14: Domestic and imported cigarette packages sold (in million of packages)



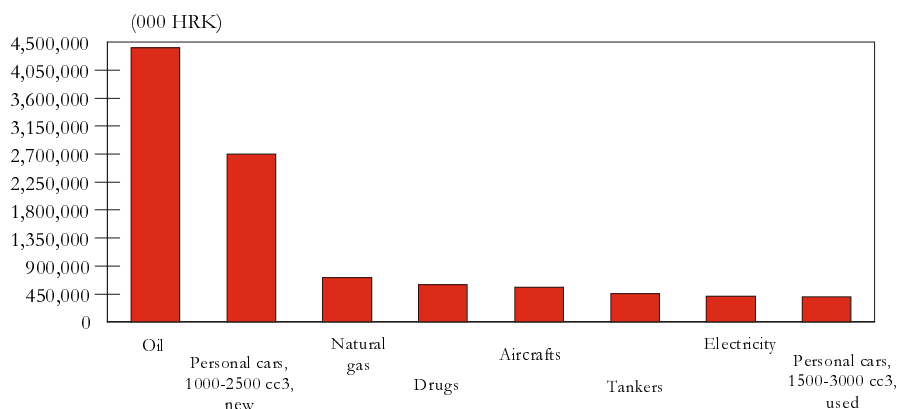
Source: Ministry of Finance

Among other excise taxes, which in 1999 generated 12.3% revenues from excises, more significant in fiscal terms are excise taxes on beer, alcohol and alcoholic beverages, and excise tax on motor vehicle import. Revenues from excise tax on coffee, non-alcoholic beverages and especially excise taxes on luxury products are not very significant for the Central Government budget and it would be necessary to consider revoking some of them. All those types of excise taxes together generated a total of HRK 163 million, i.e., by 2% more than in 1998.

Starting with the beginning of the year, excise tax per liter of absolute alcohol (at 20 degrees centigrade) amounts to HRK 40.0, irrespective of its origin. This is in compliance with the requirements of the World Trade Organization on leveling the tax treatment of domestic and imported products.

Customs Revenues

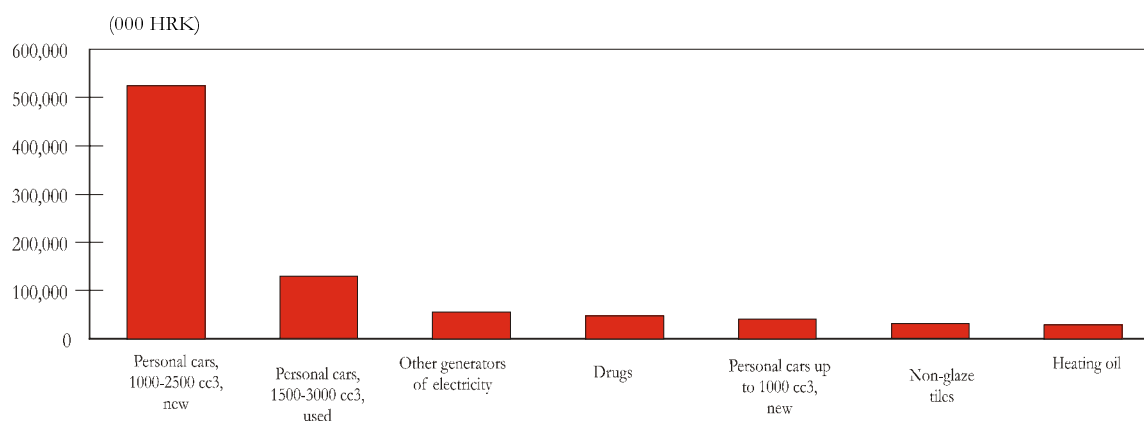
Figure 2.15: Products with the highest value of imports in 1999



Source: Ministry of Finance

Customs revenues are one of the few budget revenues which in 1999 generated more income than had been planned by budget. More specifically, they generated 4.2% more revenues than planned or 3.9% more than in 1998. If we take into account the fact that in 1999 imports declined, such trend of customs revenues can only be explained by increased efforts of the Customs Administration.

Figure 2.16: Product with the highest customs paid in 1999



Source: Ministry of Finance

The figure below illustrates the products with the highest value of imports in 1999. In comparison with 1998 there was a shift at the top, namely, in the previous year new personal cars were products with the highest value of imports. This year it is crude oil. In 1999 there was a total of HRK 5,808.6 million value of imported road vehicles (mostly personal cars – more than HRK 3 billion), amounting to 10.5% of the total imports of merchandise, and those are products with the highest value of collected customs duties.

The following figure illustrates products according to the criterion of the value of collected customs duties.

Starting January 1, 2000 the new Customs Code has been enforced, which has been fully harmonized with the European customs standards. Among other provisions, the Customs Code increases the economy and simplicity of customs procedures and new work and monitoring methods are introduced. The single administrative document (customs declaration) has been introduced, like the one that is being used on the territory of the European Union and in the majority of the neighboring countries. The enforcement of the aforementioned code was a necessary presumption for the accession of the Republic of Croatia into the World Trade Organization, which is expected in the course of 2000, and also as a part of preparations for accession into the European integration. Following the coming into force of the new Customs Code, enactment is underway of the new law on customs tariffs, which will be harmonized with the binding provisions of the WTO norms.

2.3.2. NON-TAX REVENUES

Non-tax revenues in 1999 generated HRK 1,728.2 million (or 1.2% of GDP), which was on the level of nominal outturn in 1998. In relation to the resources that had been earmarked by the budget, the non-tax revenues outturn was lower by almost 18%. Falling short of the planned revenue was a consequence of falling short of the plan with almost all kinds of non-tax revenues, and especially with revenues collected from public enterprise profit, as well as lack of Croatian National Bank profit.

It is evident from the structure of non-tax revenues in 1999 that public enterprise profit is by far the most important source of non-tax revenues. The privatization of public enterprises will weaken the importance of their profit in the non-tax revenue structure. This will also weaken the importance of the overall non-tax revenues for the Central Government budget.

By the end of 1999 a total of 685 agreements were registered in the Concession Agreement Record. The value of concession charges in 1999 according to activities is presented in the table below.

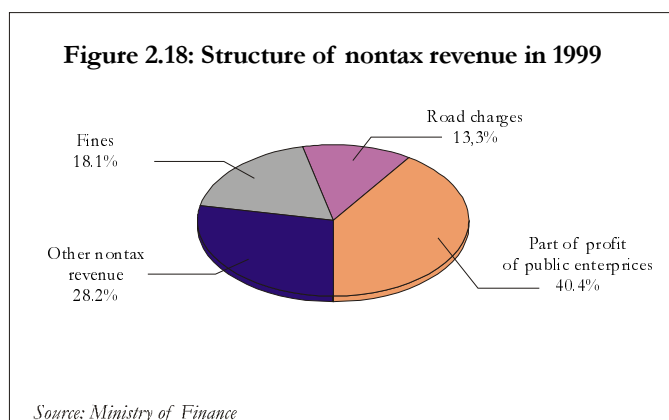
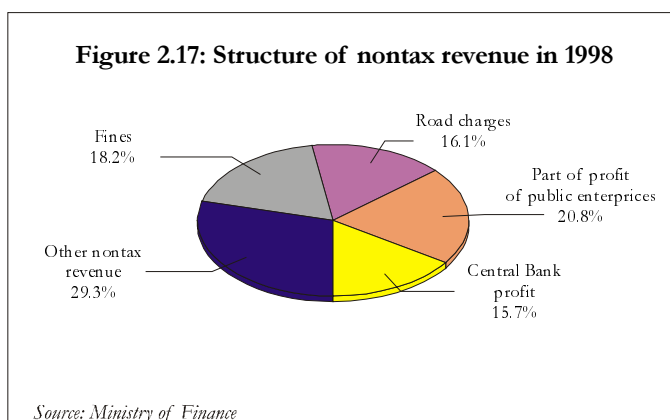


Table 2.9: The Value of Concession Charges in 1999, Breakdown

TYPE OF CONCESSIONS	Charges (000 HRK)
Concession for public water	21,313
Concession for sea water	3,135
Concession for duty-free shops	2,448
Concession for public television and radio frequency licences	113,249
Concession for fishing licences	2,824
Concession for gambling licences	9,022
TOTAL	151,990

2.3.3. CAPITAL REVENUES

Capital revenues have become increasingly important in fiscal terms in the last several years (13.6% of budget revenues in 1999). They have been mostly influenced by privatization proceeds. Out of HRK 6,310.8 million from capital revenues, which exceeds the planned amount by 9%, HRK 6,078.9 million are privatization proceeds, or 10.8% above the planned amount.

This year's privatization proceeds include receipts from the sale of a share of Croatian Telecommunications. More precisely, an agreement was concluded in September between the Government of the Republic of Croatia and Deutsche Telekom, as a strategic partner. The agreement provided for the sale of a 35%-share in Croatian Telecommunications. By means of this transaction Croatian Telecommunications entered into partnership with the biggest telecommunications company in Europe. The agreement also marked the biggest single foreign investment in the Republic of Croatia, which will contribute to creation of a positive environment for future privatization projects. The implementation of this transaction made a precondition for a successful implementation of the second phase of Croatian Telecommunications privatization by means of an international public offering in 2000.

Although Croatia intends to start with privatization of the remaining public enterprises, reliance on capital revenues should be reduced. Developed countries enter those proceeds as receipts from financing, due to the fact that they are one-off. Uncertainty as to the amount and time frame of acquiring those revenues makes maintaining the fiscal policy on the budget expenditure side more difficult. Therefore, those revenues should be tied to one-off expenditures (such as insured foreign currency deposits). In a situation lacking an adequate public expenditure management, disappearance of such important revenues will lead to high deficit and state borrowing.

2.4. 1999 CENTRAL GOVERNMENT BUDGET EXPENDITURE OUTTURN

The total expenditures and net lending of the Central Government Budget in 1999 accounted for HRK 48,878.8 million or 34.1% of GDP. In comparison Central Government Budget with 1998, budget expenditures grew by 14.9%, whereas they were by 0.9% lower than the planned level. The structure of budget expenditures indicates that in 1999, in comparison with 1998, the share of current transfers and capital expenditures accounted for a considerable increase in total expenditures, while the share of expenditures for purchase of goods and services (Government expenditures proper) was considerably lower.

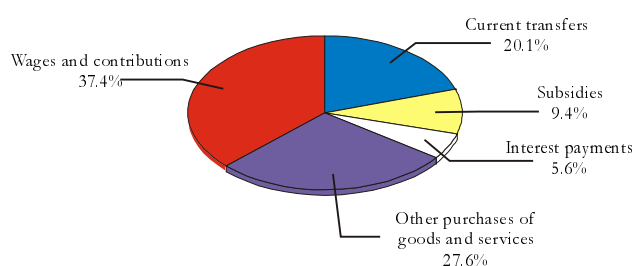
Table 2.10: Central government budget expenditure

(000 HRK)	Budget 1999	Revised Budget 1999	Outturn 1999	Outturn Structure	Outturn as % GDP
Total expenditure and lending minus repayments	49,047,850	49,334,032	48,878,764	100.0	34.1
Expenditures on goods and services	23,245,910	22,511,853	22,090,857	45.2	15.4
Interest payments	2,162,797	2,214,216	2,099,141	4.3	1.5
Subsidies	2,964,053	2,957,208	3,418,897	7.0	2.4
Transfers	10,852,252	10,796,639	10,867,189	22.2	7.6
Capital expenditures	8,027,708	9,743,548	8,903,502	18.2	6.2
Lending minus repayments	1,795,130	1,110,568	1,499,178	3.1	1.0

2.4.1. CURRENT EXPENSES

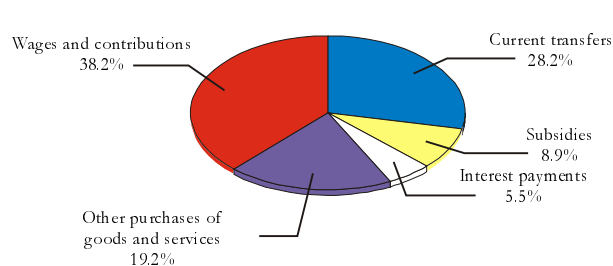
In 1999 current expenses amounted to HRK 38,476.1 million, which was a 10.3-percent increase compared to 1998. The share of current expenses in total expenditures was reduced by more than 3 percentage points.

Figure 2.19: Structure of current expenditures in 1998



Source: Ministry of Finance

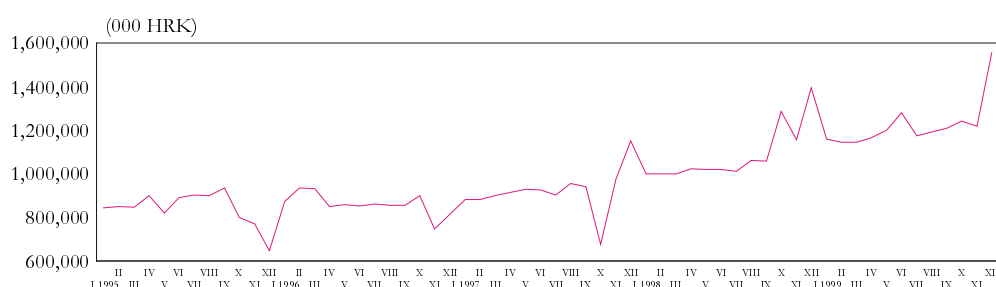
Figure 2.20: Structure of current expenditures in 1999



Source: Ministry of Finance

Increases in salaries of budget beneficiaries on two occasions during 1999 (a 5-percent in August and a 12-percent increase in December) resulted in a 12.8-percent raise in outlays for gross salaries in comparison with 1998. Salaries were raised after the Government concluded an agreement with the representatives of the unions of public servants with a view to reducing differences between salaries of the employees in the public sector and the salaries of the employees in other sectors. This was a continuation of leveling salaries that had commenced in 1998, when the salaries of budget beneficiaries were raised on three occasions (approximately by 27%). Outlays for gross salaries of budget beneficiaries in 1999 totaled HRK 14,695 million, which was a 33-percent increase in comparison with 1997.

Figure 2.21: Gross wages of the budget users

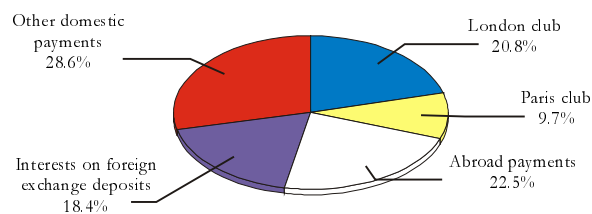


Source: Ministry of Finance

Those outlays accounted for 38.2% in the aggregate current expenses in 1999, which was a 0.8-percentage points increase in comparison with 1998.

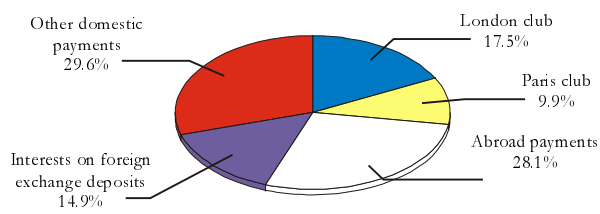
Last year the outlays for purchases of goods and services amounted to HRK 7,395.8 million, which is a decline of 23.1% in comparison with 1998, or by 6.6% lower than the planned level. The biggest decline in relation to 1998 were recorded by current expenses for defense, which were cut by HRK 1,770 million (a 45-percent decline), and expenses for public safety, which were reduced by HRK 360 million or 40%. In spite of the above-mentioned cuts, the share of current expenses for defense in aggregate expenses for purchases of goods and services (29% in 1999) indicates that the current expenses for defense still was the biggest portion of the standard Government expenditures. The share of current expenses for education totaled 7.3%, for police 7.5%, and for science 6.4%.

Figure 2.22: Structure of interests payments in 1998



Source: Ministry of Finance

Figure 2.23: Structure of interests payments in 1999

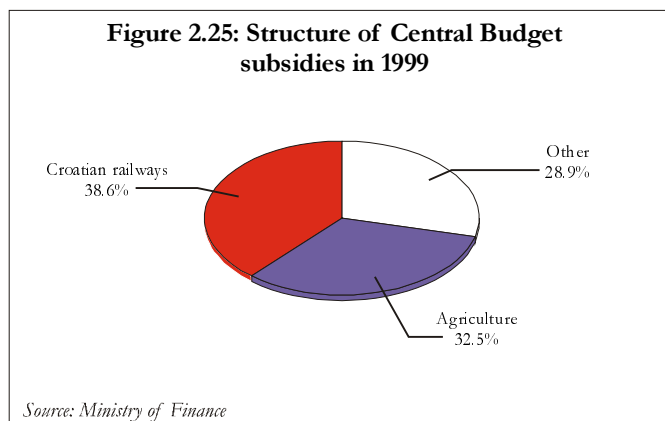
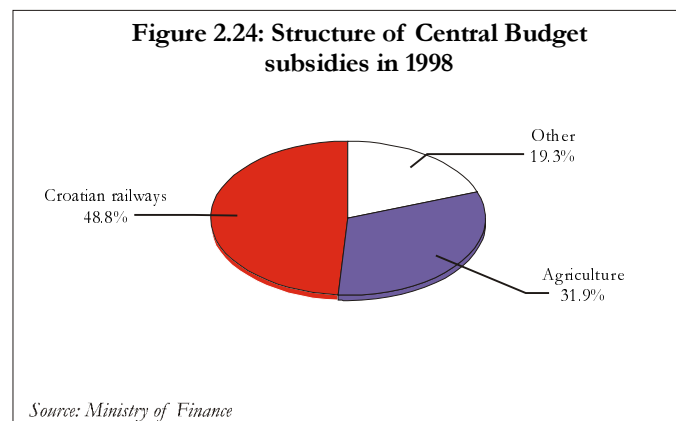


Source: Ministry of Finance

It should be taken into account that those data are on a cash basis, which disturb the real analysis. The total outstanding obligations for defense were HRK 930 million, which increased the total expenses for defense (on a cash basis) by the indicated amount.

Costs of interests payment in 1999 grew by 7.6% in comparison to 1998. A higher growth was recorded with interests that were paid to foreign creditors, which increased by 12,8%. Given the trend and structure of public debt, such tendencies with interest expenses are expected in the following years as well.

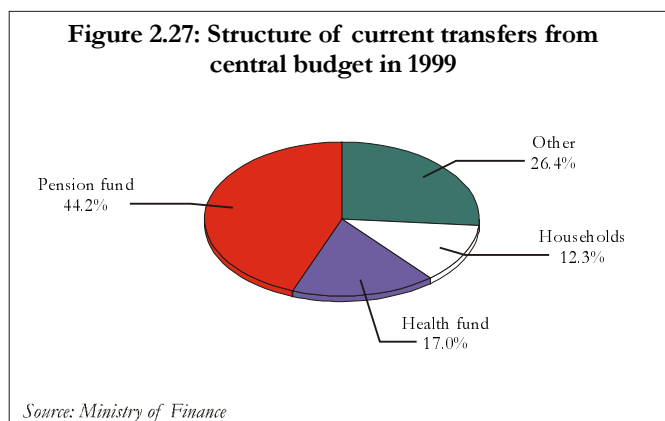
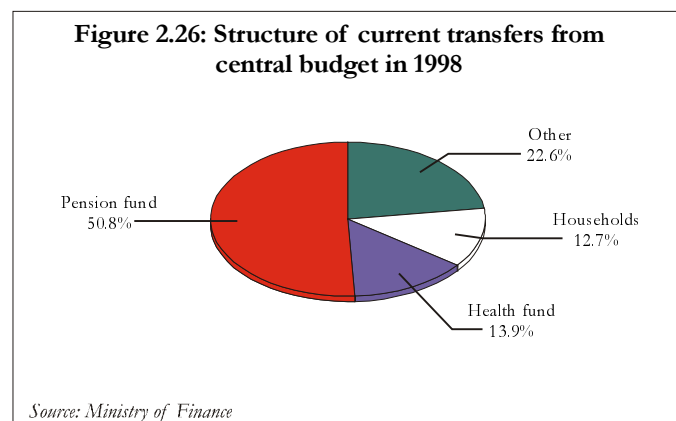
During 1999 HRK 3,419 million were spent for payment of subsidies. The biggest share of this amount was used for subsidies to Croatian Railway Company (HRK 1,319 million) and agriculture (HRK 1,110 million). Among other subsidies, a considerable amount (HRK 512 million) was paid in subsidies for restructuring of economy (rehabilitation), subsidies to tourism amounting to HRK 184.7 million, and various subsidies to Croatian ports, amounting to HRK 78 million.



The item within current expenses, which grew most quickly in 1999, was current transfers, which increased by 55,1%. The biggest pressure on current transfer increase was exerted by extra-budgetary funds. Current transfers to Croatian Pension Insurance Institute (HZMO) in 1999 amounted to HRK 4,803.5 million, which was a 35-percent increase compared to 1998. Adding the transfers to Croatian Pension Insurance Institute, which were entered as capital transfers, the total transfers to this fund in 1999 amount to HRK 6,312.9 million, which was a year-on-year increase of 71.7%.

The situation was similar with Croatian Health Insurance Institute (HZZO), which in 1999 received HRK 1,848.8 million of current transfers, or 90% more than in the previous year. Adding the capital transfers of HRK 571.7 million, the total transfer to Croatian Health Insurance Institute amounted to HRK 2,420.5 million, which was a year-on-year increase of 54,5%. Capital transfers are actually return of debt by the state to the funds for rehabilitation of certain companies by means of decisions on exemption of payment of contributions for a four- year period. Shipbuilding sector, in the majority Government ownership accounted for the highest percentage.

Since during 1998, with a view to reducing the tax burden of labor and increasing net salaries, children's allowance amounting to 2.2% was abolished, during 1999 it was necessary to transfer more funds to the Children's Allowance Fund from the budget. A total of HRK 1,132 million was transferred to the Children's Allowance Fund, which is an increase of 124% in comparison with 1998. For similar reasons (abolishing water tax contribution during 1998) HRK 253 million was transferred to the public Water Company to make up for the water tax contribution.



Transfers to the households in 1999 totaled HRK 1,340.6 million. The biggest portion of that amount, HRK 1,130.7 million, was paid out as support for Homeland War veterans. Transfers abroad amounted to HRK 645.8 million, out of

which HRK 462 million was transferred to the Federation of Bosnia-Herzegovina on the basis of the Agreement, and HRK 150 million was transferred to war victims in Federation of Bosnia-Herzegovina.

2.4.2. CAPITAL EXPENDITURES

Table 2.11: Capital expenditures of central budget

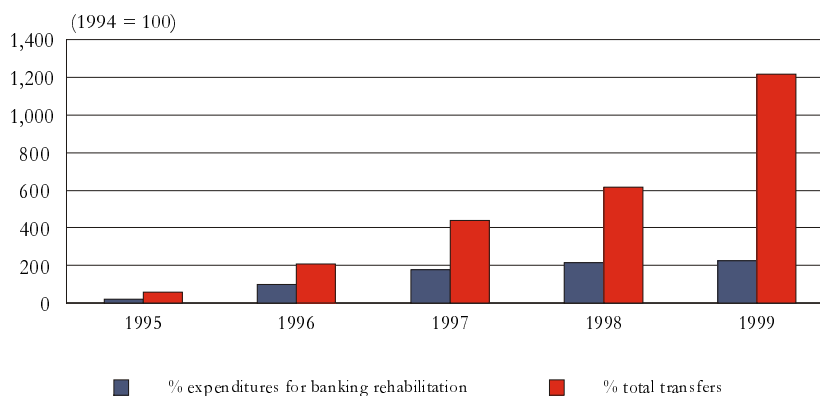
	Outturn (000HRK)		Structure (%)		as % GDP	
	1998	1999	1998	1999	1998	1999
Road construction and maintenance	1,200,913	2,330,662	18.2	26.2	0.9	1.6
Reconstruction of war damages	1,394,401	1,308,222	21.2	14.7	1.0	0.9
Capital transfer to Pension fund	0	1,509,415	0.0	17.0	0.0	1.1
Capital transfer to Health fund	593,000	562,190	9.0	6.3	0.4	0.4
Capital transfer to the Agency for banks rehabilitation (savings deposits)	0	485,000	0.0	5.4	0.0	0.3
Other	3,401,827	2,708,013	51.6	30.4	2.5	1.9
TOTAL	6,590,141	8,903,502	100.0	100.0	4.8	6.2

The portion of capital expenditures in the total government budget increased from 15.3% in 1998 to 18.2% in 1999. Capital expenditures year-on-year increase amounted to 36.8%.

Out of total capital expenditures that in 1999 amounted to 8,903.5 million, HRK 4,093.3 million was used for the purchase of fixed capital assets, and HRK 4,531.9 million for capital transfers. The biggest portion of resources for the purchase of fixed capital assets was spent for road construction and related expenses that in 1999 amounted to HRK 2,330.6 million.

The most significant portion of resources within capital transfers was used for the already mentioned transfers to extra-budgetary funds. HRK 1,509.4 million was transferred to the Pension Fund, and HRK 562.2 million to the Health Fund, whereas HRK 132.7 million was transferred to Croatian Water Management Administration. Last year HRK 1,308.2 million was spent for the reconstruction of war-damaged areas, or by 6.2% less than in 1998.

Figure 2.28: Growth of total transfers and banking rehabilitation expenditures



Source: Ministry of Finance

The Bank Rehabilitation Agency received HRK 485 million from the Central Government budget for the payment of insured savings deposits to depositors of bankrupt banks. The figure below illustrates the trend of Central Government budget expenses related to the banking system in the last several years. Payments include repayment of bonds issued for bank rehabilitation, payment of interests on those bonds, as well as direct payments from the budget related to bank rehabilitation. The figure indicates the increase in the burden for the Central Government budget that results from payments related to the banking system. A dramatic increase in current transfers is also visible from the figure (the 1999 data also includes capital transfers to Croatian Pension Insurance Institute and Croatian Health Insurance Institute because they are in the group of current transfers) - as much as 1,217%. This increase, of course, was due to the dominant influence of transfers to the Pension and Health Fund.

2.4.3. LENDING MINUS REPAYMENT

Net lending in 1999 amounted to HRK 1,499.2 million. The most significant portion of those resources amounting to HRK 687.7 million was paid out to financial institutions according to Government guarantees issued. HRK 275 million was paid out for the initial capital of the Croatian Bank for Reconstruction and Development. Other more significant items were housing loans for Croatian disabled war veterans amounting to HRK 181.7 million, resources for the Agriculture Development Fund amounting to HRK 102.2 million, and Forest Reconstruction Loan (a World Bank loan) totaling HRK 204.5 million.

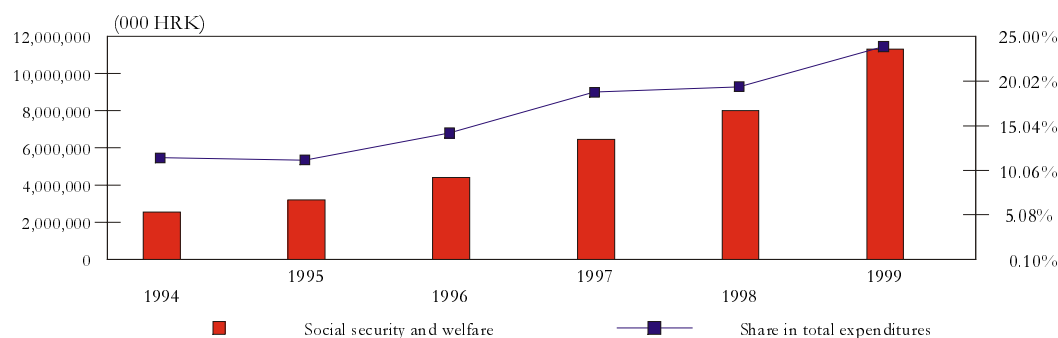
2.5. FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURE

Functional classification of Government expenditure enables analyzing the allocation of Central Government budget funds. This classification also enables international comparability of certain expenditure categories because it removes organizational differences among countries.

Table 2.12: Budgetary Central Government Expenditure by Function

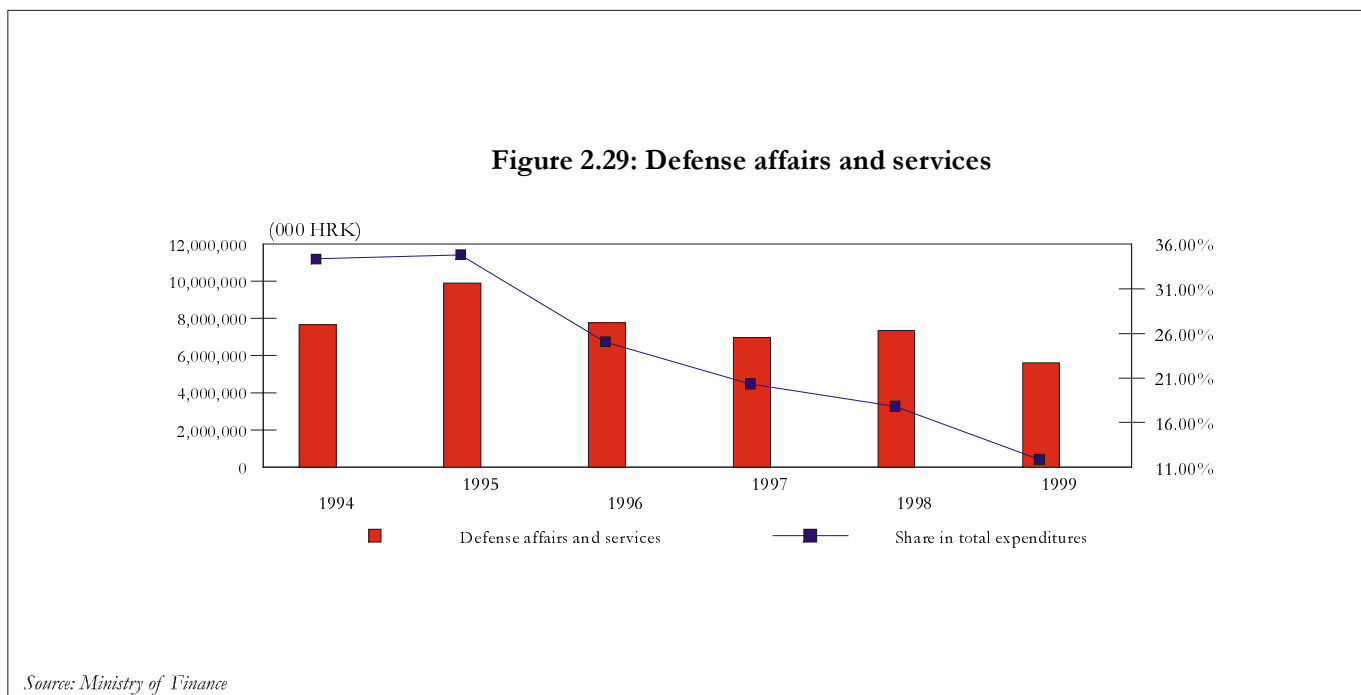
	Outturn		as % GDP	
	1998	1999	1998	1999
I. Total expenditure	100	100	29.9	33.1
1. General public services	8.2	6.4	2.4	2.1
2. Defense affairs and services	17.8	11.9	5.3	3.9
3. Public order and safety affairs	10.3	9.8	3.1	3.2
4. Education affairs and services	11.3	12.1	3.4	4.0
5. Health affairs and services	2.0	1.0	0.6	0.3
6. Social security and welfare affairs and services	19.4	23.9	5.8	7.9
7. Housing and community amenity affairs and services	6.3	4.3	1.9	1.4
8. Recreational, cultural and religious affairs	1.4	1.8	0.4	0.6
9. Fuel and energy related affairs and services	-	0.0	-	0.0
10. Agriculture, forestry, fishing, hunting affairs	2.7	2.6	0.8	0.9
11. Mining, manufacturing, construction affairs	1.8	6.0	0.5	2.0
12. Transport and communication affairs and services	9.8	11.2	2.9	3.7
13. Other economic affairs and services	1.3	1.4	0.4	0.5
14. Expenditures not classified by major group	7.8	7.8	2.3	2.6

Figure 2.30: Social security and welfare



Source: Ministry of Finance

The table illustrates the significant changes in Government expenditures during 1999. It can be said that there are certain positive trends in Central Government budget restructuring which continued in 1999. This refers to cuts of expenditures for defense affairs and services in the first place (although the previously mentioned cash basis principle disturbs the analysis), as well as increase in expenses for education affairs and services, and also transport and communications services, which are considered to have a positive impact on economic growth. Furthermore, there is a visible increase in expenditures on the item mining, manufacturing, and construction, which is a consequence of purchase of claims and shares of the Croatian Pension Insurance Institute and Croatian Health Insurance Institute portfolios, or, more precisely, capital transfers to the aforementioned funds.

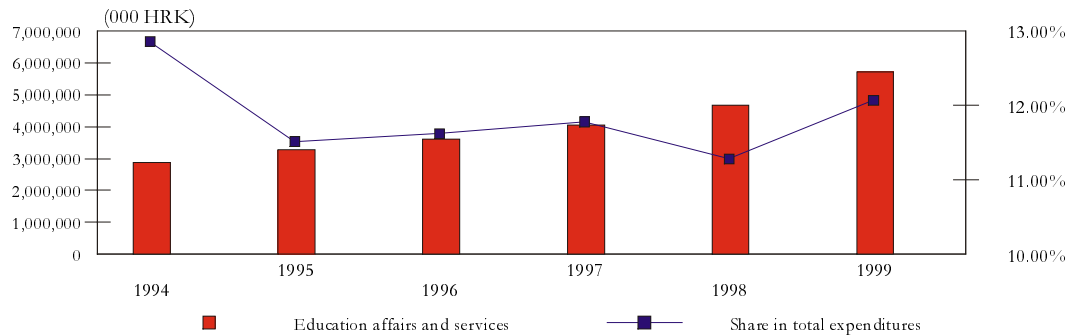


Expenditures for defense affairs in 1999 in the overall expenditures account for 11.69%, which is a decrease in comparison with 1998, when this share amounted to 17.8%. This decrease is also visible if we monitor the share of those expenditures in gross domestic product, which dropped from 5.3% in 1998 to 3.9% in 1999 (i.e., 4.6% of GDP if the difference in defense debts in 1998 and 1999 is taken into account). It should be noted that the share of defense spending in GDP in 1995 amounted to 10.1%. This information and the figure show that defense spending in the overall Government spending is diminishing and converging toward the defense-spending portion in GDP in developed countries.

Outlays for social insurance and welfare services are the ones which were growing most in 1999 and which have shown such tendency for a number of years. This clearly indicates what problems there are in social insurance funds, i.e., pension and health funds, which result in increased transfers from the Central Government budget. The share of outlays for social insurance (which are earmarked in the Central Government budget) in gross domestic product in 1999 amounts to 7.9%, whereas this share in 1994 amounted to 2.9%. This clearly indicates the importance of pension and health system reforms for decrease in budget expenditures as well as their restructuring in favor of those that stimulate economic growth. This primarily refers to education affairs and infrastructure construction.

Outlays for education affairs and services in 1999 increased by 22.5% in comparison with 1998. In terms of the portion of GDP, the outlays for education grew from 3.4 to 4%. This is definitely a positive trend which should continue in the following years in order for education to receive a fiscal importance which, being a productive expenditure or investment, it has in developed countries.

Figure 2.31: Education affairs and services



Source: Ministry of Finance

With transport and communications spending there was also a more significant increase in the share in overall expenditure structure. Last year they increased by 30.2%. Their share in GDP thus grew from 2.9% to 3.7%. Within this item the most significant share is spent for road construction and subsidies to Croatian Railways. Although those expenditures are investments which should stimulate economic growth, the issue of efficacy of their use remains unresolved, given the status quo situation in Croatian Railways in terms of their restructuring, but also in terms of reduction and insufficient investment into maintenance of existing roads at the expense of unprofitable, expensive investment into new roads.

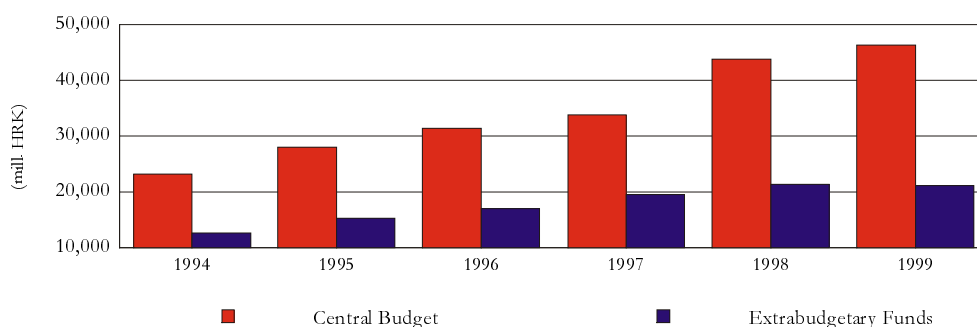
III CONSOLIDATED CENTRAL GOVERNMENT

3.1. CONSOLIDATED CENTRAL GOVERNMENT

Consolidated Central Government is used as one of the measures of the size of the public sector, which encompasses consolidated transactions between the central budget and extra-budgetary funds. The following two levels of consolidation are needed in order to determine the size of the consolidated Central Government:

- Consolidation among the extra-budgetary funds, which means the elimination of transactions among certain funds, and
- Consolidation of transactions between the state budget and extra-budgetary funds.

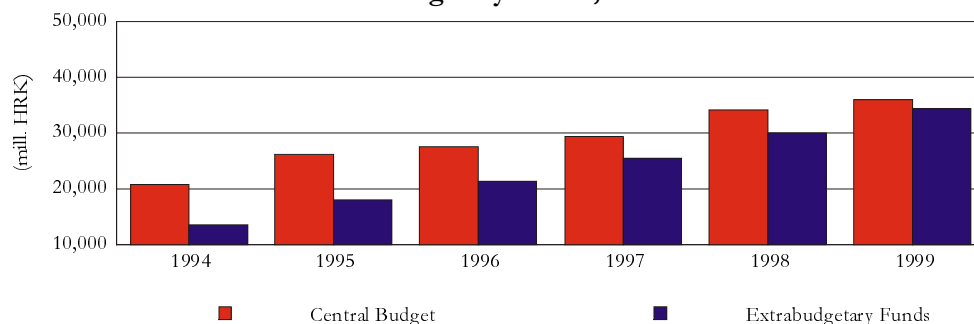
Figure 3.1: Consolidated revenues of Central Budget and Extrabudgetary Funds, 1994 - 1999



Source: Ministry of Finance

Consolidated Central Government amounts to around 49% of GDP, measured by consolidated expenditure. The tax burden of consolidated Central Government totals around 40% of GDP. The most important source of tax revenues on the Central Government level are the VAT and extra-budgetary funds' contributions, which, jointly, add up to 60% of total revenues of the consolidated Central Government. The share of the contributions in the GDP is almost the same as the share of the VAT (around 14% of GDP), thus significantly contributing to the overall tax burden. However, the revenues collected by the contributions are not sufficient for the financing of pensions and health services.

Figure 3.2: Consolidated expenditures of Central Budget and Extrabudgetary Funds, 1994 - 1999

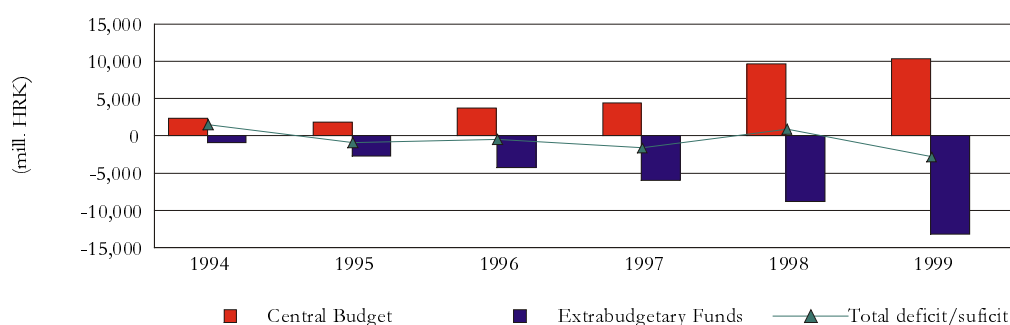


Source: Ministry of Finance

During the last several years the central budget revenues have been growing at much faster pace than the revenues of the extra-budgetary funds. Namely, while the budget revenues in 1994 amounted to 26.5% of GDP, in 1999 they reached 32.4% of the GDP. In the same time the extra-budgetary funds' revenues have oscillated between 14 and 15% of the GDP.

In the meantime, consolidated expenditure of the state budget, i.e. the expenditure excluding central budget transfers to extra-budgetary funds, have increased from 23.7% in 1994 to 25.1% of GDP in 1999, while the expenditures of extra-budgetary funds have escalated from 15.5% to 23.9% of the GDP. It is obvious, therefore, that the outlays of extra-budgetary funds have almost reached the expenditure of the consolidated central budget.

Figure 3.3: Deficit/surplus of consolidated Central Budget and Extrabudgetary Funds, 1994 - 1999



Source: Ministry of Finance

Consolidated Central Government's surplus has increased from HRK 2.4 billion in 1994 (2.8% of GDP) to HRK 10.4 billion in 1999 (7.2% of GDP). Consolidated deficit of extra-budgetary funds has in the meantime risen from HRK 908 million to HRK 13.2 billion in 1999. If observed separately, the Croatian Pension Insurance Institute recorded the largest consolidated deficit in 1999 in the amount of HRK 8.2 billion, and was followed by the Croatian Health Insurance Institute, with a deficit of HRK 3.2 billion. These particular deficits point at the problem of extra-budgetary funds and the pressure they induce on the Central Government budget, particularly the pension and health funds, emphasizing the need for the soonest possible beginning of the announced reforms of both pension and health insurance systems.

If the tax burden (on the consolidated government level) in Croatia is compared to the tax burden of other countries in transition, it can be noticed that Croatia is among the countries with the highest tax burden.

Table 3.1: Consolidated Central Government tax revenue (as % of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	Average 91-93	Average 97-98	Difference
Bulgaria	31.0	27.5	25.1	29.9	27.6	24.3	25.2	-	27.2	25.2	-2.0
Croatia	31.9	31.6	33.7	40.3	41.4	41.1	39.6	42.4	37.1	41.0	3.9
Czech Rep.	35.7	35.7	35.7	34.3	33.1	33.2	32.7	-	35.7	32.7	-3.0
Hungary	39.6	38.8	39.2	37.6	35.9	34.0	34.0	-	37.0	34.0	-3.0
Poland	37.6	37.6	37.6	37.6	36.6	50.1	35.2	-	44.2	35.2	-9.0
Romania	32.9	33.0	29.6	26.4	26.2	24.4	24.4	-	31.8	24.4	-7.4
Slovenia	-	20.7	21.2	22.1	22.5	22.9	23.2	23.5	20.9	23.4	2.4

Source: Government Finance Statistics, IMF

A trend of public sector expansion in Croatia has dominated in last nine years, becoming a “unique characteristic” of Croatia in comparisons with other countries in transition. To be precise, the most of these countries have decreased the size of their public sectors.

Table 3.2: Consolidated Central Government total expenditure and net lending (as % of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	Average 91-93	Average 97-98	Difference
Bulgaria	41.3	40.7	45.5	44.5	41.1	48.2	31.0	33.1	42.5	32.1	-10.5
Croatia	37.6	38.2	37.1	39.2	44.9	45.3	44.0	46.4	37.6	45.2	7.6
Czech Rep.	...	...	36.0	36.3	35.7	35.0	35.1	...	36.0	35.1	-0.9
Hungary	51.1	52.5	51.4	52.0	46.0	40.0	40.5	41.2	51.7	40.9	-10.8
Poland	...	...	...	44.2	42.8	42.0	40.2	...	44.2	40.2	-4.0
Romania	...	41.2	32.4	32.4	32.5	31.9	31.3	29.4	36.8	30.4	-6.5
Slovenia	...	45.6	46.7	46.1	45.7	44.9	45.7	...	46.2	45.7	-0.5

Source: *Government Finance Statistics, IMF*

3.2. EXTRA-BUDGETARY FUNDS

Extra-budgetary fund is a legal person established in accordance with the Law on Institutions⁴, financed from the contributions and/or non-tax revenues. Extra-budgetary funds in the Republic of Croatia are the Croatian Pension Insurance Institute, Croatian Health Insurance Institute, Croatian Employment Bureau, Child allowance Fund and Croatian Water Management Fund.

An authorized body of an extra-budgetary fund decides on the fund’s financial plan, whereas the fund’s budget is adopted according to the procedure determined in the Budget Law⁵.

3.2.1. Croatian Pension Insurance Institute

Croatian Pension Insurance Institute was established in accordance with the provisions of the Law on Pension Insurance⁶, which has been in power since January 1st 1999, when the existence of the Fund for Pension and Disability Insurance of Workers, Fund for Pension and Disability Insurance of Independent Craftsmen and Fund for Pension and Disability Insurance of Individual Farmers has been ceased. Croatian Pension Insurance Institute was established as a legal successor of earlier funds with a purpose of exercising the rights of employees, farmers, craftsmen and other insured persons arising from the compulsory pension insurance based on the “generation solidarity” (pay-as-you-go system).

The generation solidarity system is based on the so-called *pay-as-you-go* principle, meaning that the currently active insured persons are financing the pensions of current pensioners with the contributions they pay. Because of such a pensioner “dependency” on active insured persons, i.e. the employed persons who finance the payment of pensions by paying their own contributions, the changes in a number of pensioners/number of employed persons ratio are of crucial importance for the sustainable functioning of this system.

A highly negative trend in changes of a number of pensioners has been occurring in the Republic of Croatia in the last decade. Namely, while at the end of 1989 there were 613 thousand pensioners, that number has almost doubled by 1999. Such changes in the number of pensioners indicate a global trend of aging of the population, which can particularly be seen when taking a deeper look at the old age dependency ratio, which measures the share of the number of population over 65 (so-called standard retirement age) in active population (between age of 15 and 64). According to the data of the Central Bureau of Statistics, which is based on the last five censuses, the ratio has significantly changed between 1953, when there were 100 active persons on slightly more than 10 persons of retiring age, and 1991, when the last census took place. Namely, according to the last census, there were almost 20 persons of a standard retirement age on 100 active-age persons. Apart from the demographic changes, among the factors which have contributed to the increase in the number of retired persons, is a relatively low legal age-limit for retirement, which until December 31st 1998 was 60 years of age for men and 55 years for women, while the early retirement could have been achieved at the age of 55 for men and 50 for women. The consequence of that is a fact that an average age of a Croatian pensioner is 61, which puts Croatian pensioners among the youngest in Europe. Moreover, at the end of 1998, 46,8% of pensioners

⁴ Law on Institutions, Official Gazette 76/1993.

⁵ The Budget Law, Official Gazette 92/1994.

⁶ Law on Pension Insurance, Official Gazette 102/1998.

were younger than 64 years of age. In this context it is important to mention that the practice of early retirement has often been used as a means of resolving of the problem of redundant labor in the process of an economic restructuring of a company, as well as that a portion of an increase in the number of beneficiaries of disability and survivors' pension can be directly attributed to the war. The new Pension Insurance Law⁷ sets the age limit for old-age retirement at 65 years for men and 60 for women, and 60 for men and 55 for women in the case of early retirement, which should slow down the trend of the increase of the number of pensioners in the next years.

Table 3.3: Number of pensioners which realised or lost their pension benefit in particular year

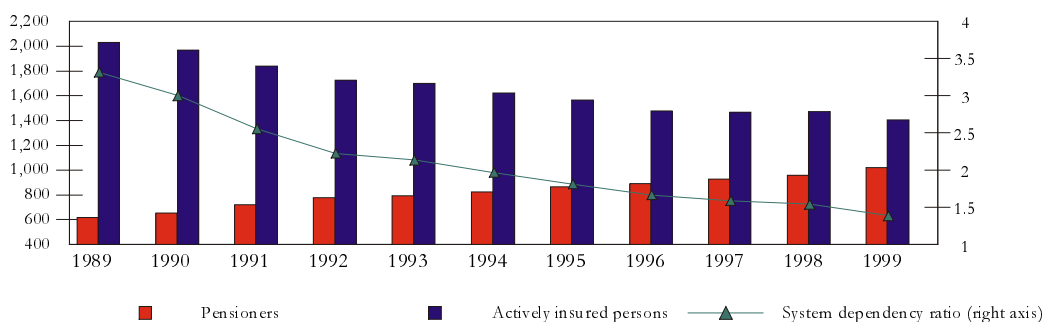
	1990	1991	1992	1993	1994	1995*	1996	1997	1998
Old-age pensioners which has realised their pension benefit for the first time									
Number of beneficiaries	44,759.0	65,456.0	41,729.0	34,498.0	22,156.0	29,241.0	20,517.0	21,411.0	30,686.0
Average working age	34.0	34.0	34.0	34.0	34.0	27.0	28.0	30.0	32.0
Invalid pensioners which has realised their pension benefit for the first time									
Number of beneficiaries	8,477.0	10,429.0	7,713.0	9,541.0	12,022.0	20,349.0	13,147.0	8,177.0	14,798.0
Average working age	24.0	26.0	25.0	25.0	25.0	21.0	22.0	23.0	25.0
All beneficiaries of pensions which lost the right on pension benefit in particular year									
Number of beneficiaries	19,662.0	24,752.0	25,481.0	22,770.0	21,445.0	26,088.0			
Average usages of pension (years)	15.8	14.6	14.1	14.5	15.8	16.3			
Beneficiaries of old-age pension which lost the right on pension benefit in particular year									
Number of beneficiaries	8,360.0	9,558.0	8,779.0	7,733.0	9,233.0	12,425.0	10,926.0	11,618.0	12,850.0
Average usage of pension (years)	16.0	14.0	13.0	14.0	15.0	16.0	16.0	16.0	14.0

*since 1995 beneficiaries of all pension and disability funds as well as Croatian Army and Croatian Defenders pension beneficiaries have been included

Source: "Statistical Annual Report", Central Bureau of Statistics, Pension Fund

Although the old age dependency highlights the problem of the aging of the population, as well as the long term difficulties which the pension systems based exclusively on a pay as you go system are facing, a system dependency ratio, which measures the share of the total number of pension beneficiaries, no matter of their age, in the total number of active insured persons who finance the pensions with the contributions they pay, is used as a more operative

Figure 3.4: Number of pensioners and actively insured persons, in 000



Source: Ministry of Finance

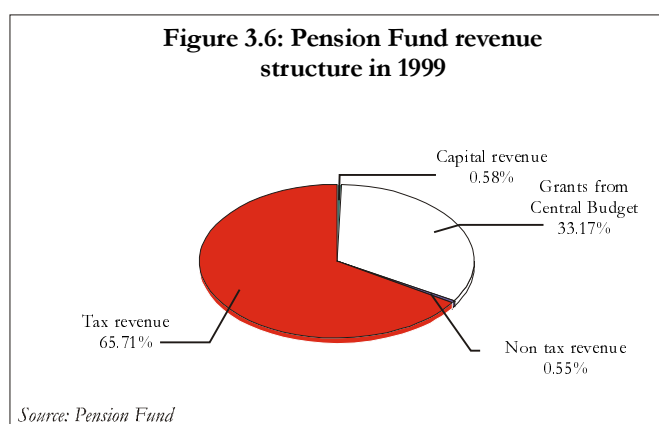
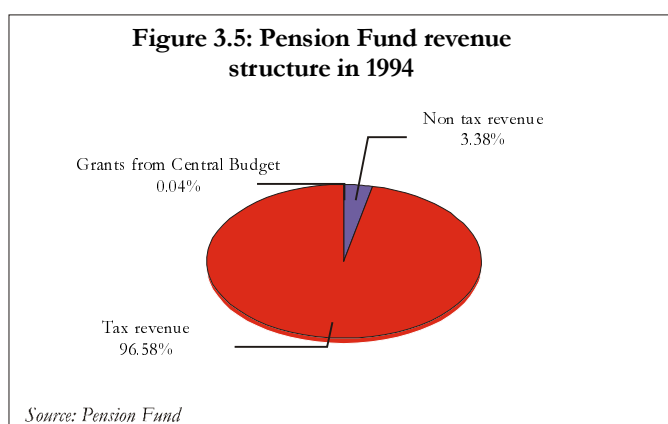
⁷ See ⁶

measure of sustainability of the system. This ratio points at all the complexity and unsustainability of the current pension system in Croatia.

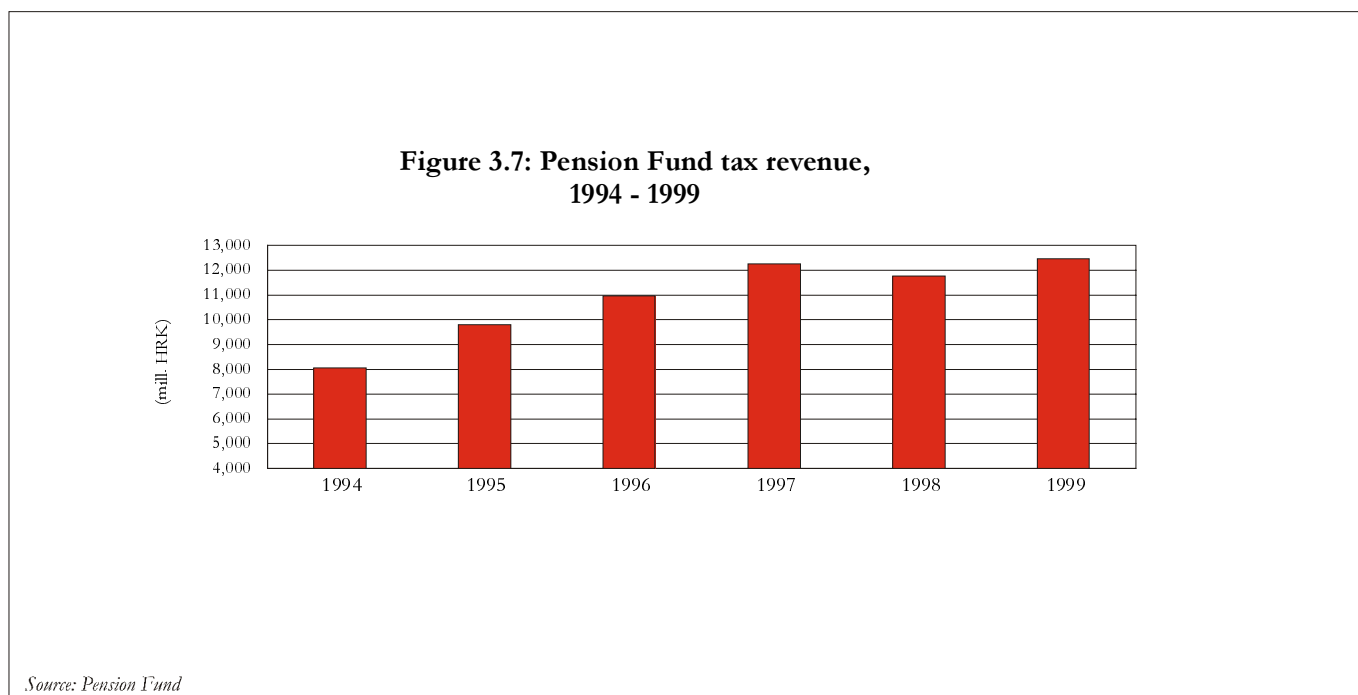
When compared to the 1991 data, the number of active insured persons has decreased by 433.2 thousand, while the number of pensioners increased by 296.7 thousand, which means that a system dependency ratio has deteriorated. While there were 100 active insured persons coming on 40 pension beneficiaries in 1994, by the end of 1999 that number increased to 72 pensioners. In other words, 1.4 active insured persons financed one pension.

Previously described trends in the numbers of pensioners and active insured persons have strongly influenced the financial developments of the Croatian Pension Insurance Institute in the last several years. Institute's revenues consist of tax revenues (contributions), transfers from state budget, non-tax revenues (interest and dividend income, other non-tax revenues) and capital revenue (the sale of shares). Expenditures are comprised of employee's gross salaries, purchases of other goods and services, transfers to households (i.e. the pension payments) and capital expenditures.

In the period between 1994 and 1999, pension institute's total revenue increased by 127.6%, from HRK 8,324.9 million in 1994, to HRK 18,946.3 million in 1999. At the same time expenditures grew by 138.0%, i.e. from HRK 8,001.9 million to HRK 19,046.5 million. As it can be seen in the figures, there is a trend of a decreasing share of total tax revenues and an increasing share of grants from the state budget in the overall revenues of the pension fund.



In line with the principles of the generation solidarity system, the main part of pension fund's revenue comes from tax revenues, i.e. the revenues from the contributions which are paid both from the salary (employee's contribution) and on the salary (employer's contribution). The contribution rate for pension insurance has been changed in several occasion throughout last several years. Namely, in 1993 the contribution rate amounted to 22%⁸, in 1994, as the health care



⁸ Law on Payment of Contributions for Pension and Disability Insurance of Workers in 1993, Official Gazette 91/1992

contribution on pensions⁹ was introduced, the rate was increased to 27%¹⁰, while already in 1995, as a result of an extension of the tax base (holiday cash grant, company-subsidized hot meal and other receipts were integrated in the salary), the rate was decreased to 25.5%¹¹. Since 1998, the contribution rate amounts to 21.5%¹², of which 10.75% is employer's contribution (paid on the gross salary), and remaining 10.75% is employee's contribution (paid from the gross salary). Revenue coming from contributions totaled at HRK 12,448.9 million in 1999, which is 54.8% more than in 1994. In the same time, the contributions covered in average 68.09% of outlays for pensions in 1999.

Among the factors which have contributed to the low collection of contributions were a difficult economic situation, insolvency, which was an inescapable problem of every economic entity in the country, and the lack of tax discipline. According to the available data, contribution collection rate in 1998 was at around 80%. A significant number of contribution payers decided not to pay contributions, or was paying them as of the lowest contribution base (in 1998 it was HRK 1,370.0, while the average gross wage, according the data of the Central Bureau of Statistics, reached HRK 4,131). In 1998, therefore, only around 82% of employers were paying contributions calculated from the base higher than the minimum base, which is determined by the law. With regard to the remaining employees, the contributions were either not paid at all, or were calculated and paid in the amount lower than the minimum set by the Law. It is mainly the physical and legal persons with a lower number of employees, which than pay their salaries in many different ways: by means of travel allowances, payments in cash, etc. However, there are also examples of larger legal persons with more than 1000 employees, which did not pay for the contributions because they did not pay out the salaries to their employees. The lowest base for the calculation of contributions, as stipulated by the Law, amounted to HRK 1,500 in 1999, whereas the average monthly gross wage, according to the data from the Central Bureau of Statistics, grossed at HRK 4,551.0. The base of HRK 1,500.0 was sufficient for a monthly pension of HRK 300, while the 1999 minimum pension of the pensioners who were retired in accordance with the old Pension Law, amounted to HRK 1,398.54. According to the new Pension Law the minimum pension is determined in the amount of 0.825 % of the average gross salary in 1998 of all employed persons in the Republic of Croatia for every year of pension insurance, according to the data of the Central Bureau of Statistics.

At the same time, expenditures for pensions expanded by 189.5% (from HRK 6,300.7 million in 1994 to HRK 18,239.3 million in 1999). Such a disproportion in the fluctuations of pension revenues and expenditures, which has in last several years caused a strong increase of grants from the state budget to the pension, is a consequence of the already mentioned unfavorable fluctuations in the numbers of active insured persons and pension beneficiaries, a wide range of merit pensions and other pensions, as well as the trends in pensions. In 1999, only 50.3% of retired persons were old-age pension beneficiaries, whereas as many as 22.9% of them were receiving a disability pension. In the period between 1992 and 1999, an average old-age pension has increased by 72.1% in real terms, while the 1999 average old-age pension, in comparison to the 1998 one, grew by 4.5% in real terms, and 9.2% nominally.

Table 3.4: Average pensions 1997 - 1999

Average pensions (end of period)	1997	1998	1999
Old-age pension	1,165.8	1,251.5	1,515.9
Invalid pension	1,190.9	1,286.3	1,213.9
Survivor's pension	1,002.4	1,137.7	1,154.5

**Average pension for 1997 and 1998 has been calculated as weighed average of three pension funds existed up to 1999*

Source: Central Bureau of Statistics

It is important to stress out that, in line with the Decision of the Constitutional Court of the Republic of Croatia¹³, a new Law on Transferring of State Budget Funds to the Funds of Pension and Disability Insurance and Pensions Adjustments¹⁴ was passed. This Law determines the method and deadlines for pension supplement payments, which are paid from the state budget. Starting from November 1st 1998, the pension supplement has been paid out as a

⁹ This contribution was paid to the Pension Insurance Fund, which was transferring it to the Health Insurance Fund

¹⁰ Law on Payment of Contributions for Pension and Disability Insurance of Workers in 1994, Official Gazette 117/1993.

¹¹ Law on Payment of Contributions for Pension and Disability Insurance of Workers in 1995, Official Gazette 95/1994.

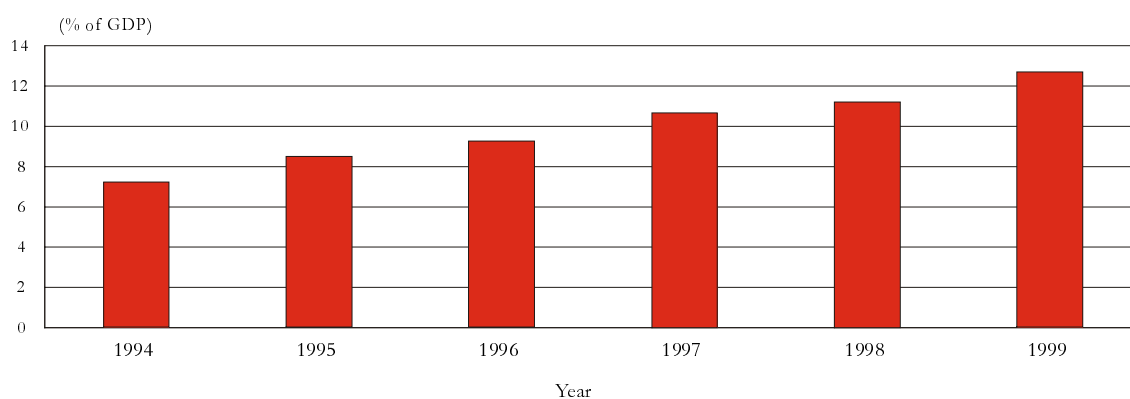
¹² Law on Payment of Contributions for Pension Insurance in 1999, Official Gazette 164/1998.

¹³ Decision of the Constitutional Court of the Republic of Croatia from May 12th, 1998, Official Gazette 69/98.

¹⁴ Law on Transferring of State Budget Funds to the Funds of Pension and Disability Insurance and Pensions Adjustments (so-called "small pension law"), Official Gazette 102/98.

supplement of HRK 100.0 plus 6% of a pension paid for June 1998, until December 31st 2002. In a section of the Law which deals with pension adjustments it is determined that the pension adjustments are mandatory, starting with June 1st 1998, for every six months, at the rate which is calculated as half of a sum of the change in the rate of average costs of living index for the previous six months and the change of average gross salary of all employees in the Republic of Croatia in the last six months, compared to the preceding six months, based on the official data of the Central Bureau of Statistics on the changes in costs of living and average gross salaries. A June 1998 pension serves as a base for the adjustments of pensions. In 1999, pensions for March, which were paid out in April (adjusted from January 1st 1999), were increased by 3.9%, while the August pensions, which were paid out in September (adjusted from July 1st 1999) grew by 3.85%.

Figure 3.8: Expenditure on pension, as % of GDP

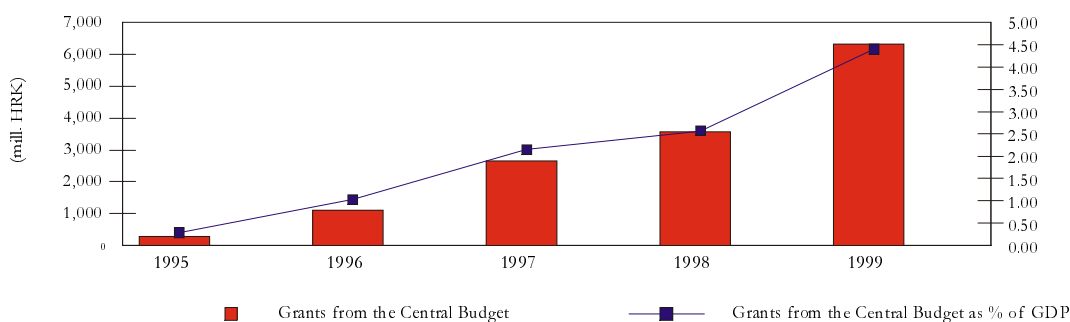


Source: Ministry of Finance and Pension Fund

The average pension paid out in December 1999, which included the pension supplement, amounted to HRK 1,363.67.

When looking at the total pension expenditures, which are as high as 13.2% of GDP, Croatia is placed among the countries with the largest share of pension expenditures in GDP, which points at the unsustainability of the current system and the need of an urgent slow down of a new pensioners inflow. Consequently, the volume of transfers from

Figure 3.9: Grants to Pension Fund from Central Budget, 1995 - 1999



Source: Ministry of Finance and Pension Fund

the central budget to the Croatian Pension Insurance Institute has, especially in last three years, rapidly increased. State budget transfers to the Pension Fund amounted to HRK 4.5 million in 1994, while the transfers in 1999 reached HRK 6,312.9 million, or 48.3% of the overall transfers of the state budget. State budget transfers to the Croatian Pension Insurance Institute in 1999 were HRK 2,753.4 million, or 77.4% higher than in 1998.

The Law¹⁵ stipulates that the pension fund's revenues, which are paid from the state budget, represent the revenues which are used for the financing of pensions acquired under more favorable conditions (for a pension, or a part of the pension which results from different privileges which are not covered by contributions). In this way the state budget provides funds for the pensions of Homeland War defenders, Croatian Homeland Army members, Liberation War participants, former political prisoners, members of Croatian Academy of Science and Arts (HAZU), Croatian Parliament representatives, employees of internal affairs and administration of justice, Croatian army members, members of former Yugoslav National Army, pension payments taken over from other republics of former Yugoslavia, and other cases as stipulated by the law. There were 196,373 pensioners receiving these kinds of pensions in 1999, and the funds spent on their pensions amounted to HRK 3.11 billion, or 2.2% of GDP. In last several years central budget funds have been used for the financing of different pension supplements (previously amounting to HRK 50.0, HRK 100.0, and, since July 1998, HRK 100.0 plus 6% of the pension). State budget funds were similarly used for the contribution payments, which was in accordance with the Rehabilitation Act, of certain companies which were undergoing the rehabilitation process financed from the state budget.

Table 3.5: Transfers from the Central Budget

(000 HRK)	1994	1995	1996	1997	1998	1999
Transfers for insurance of independent artists	3,152	5,150	8,300	10,000	8,800	11,500
Transfers for insurance of farmers and priests	-	-	-	-	-	399,732
Transfers for disability and families' pensions	-	-	-	1,028,319	1,341,283	1,196,633
Transfers for merit pensions	-	280,000	1,100,000	1,619,130	1,617,413	1,368,270
Reconciliation of pensions	-	-	-	-	591,997	1,750,000
Capital transfe - buying out PF portfolio	-	-	-	-	-	1,503,000
TOTAL	3,152	285,150	1,108,300	2,657,449	3,559,493	6,229,135
As % of GDP	0.0	0.3	1.0	2.1	2.6	4.3

Because of the previously described state of the pension system in the Republic of Croatia, and the impact it has had on the central state budget, the issue of the implementation of the pension reform has become one of the most important concerns which have to be addressed in the process of formulation of both budgetary and economic strategies of the country. The new Law on Pension Insurance stipulates that the so-called "second pillar" of the pension system, i.e. the compulsory pension insurance based on the individual capitalized savings, will encompass insured persons below the age of 40, with an option given to insured persons between the age of 40 and 50 to join the second pillar on a voluntary basis. According to the provisions of the Law, the contributions will be earmarked to the second pillar at the rate of 5%, while the remaining 16.5% will continue to be allocated to the first pillar, i.e. the already existing pay as you go system. The pension reform also predicted the creation of a so-called third pillar, which is a voluntary pension insurance based on the individual capitalized savings. Law on Compulsory and Voluntary Pension Funds¹⁶ regulates the creation of compulsory and voluntary pension funds, creation and operations of pension companies for managing pension funds, as well as the creation of the Central Registry of Insured Persons and the Agency for Supervision of Pension Funds. The continuation of the pension reform by the introduction of the second pillar, which was planned to commence in July 1st 2000, will again be postponed until the next year. Every additional postponement of the reform increases the costs of it, while the already high level of unsustainability of the system converges towards its own entropy.

¹⁵ Law on Pension Insurance, Official Gazette 102/98.

¹⁶ Law on Compulsory and Voluntary Pension Fund, Official Gazette 49/99.

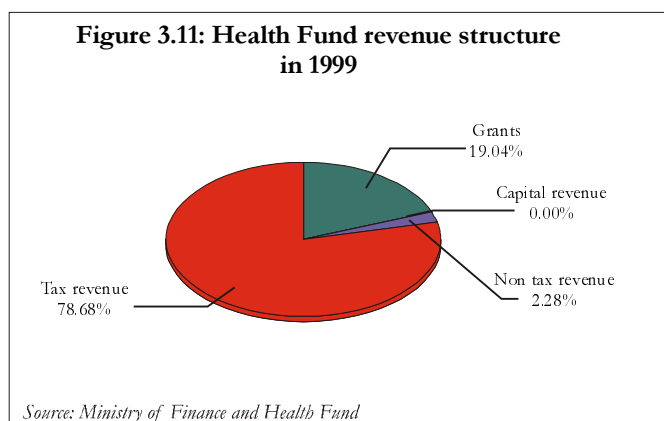
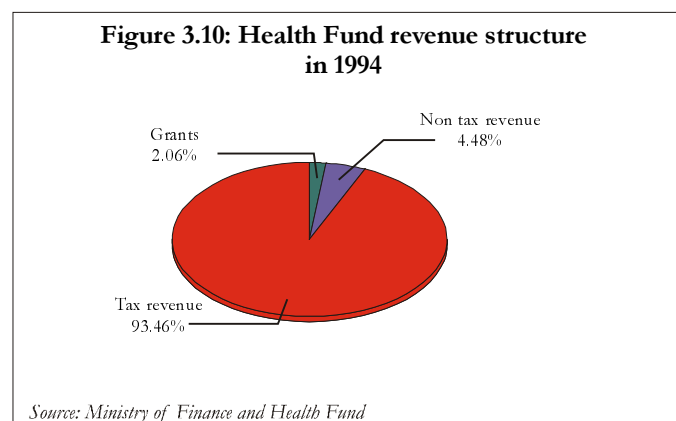
3.2.2. Croatian Health Insurance Institute

According to the provisions of the Law on Health Insurance¹⁷, compulsory health insurance in the Republic of Croatia is carried out by the Croatian Health Insurance Institute. Funds needed for the financing of the compulsory health insurance are provided from the following sources:

- Tax revenues (contributions “from” and “on” the employees’ salaries);
- Transfers from State budget;
- Participation of insured persons in covering of the portion of health care costs - so called participation fees;
- Revenues from interests, dividends, etc.

As it is the case with pension insurance, the contributions have the highest stake in the revenue structure of the health insurance. However, as already described in the case of pension fund, a trend of decreasing share of tax revenues, i.e. the revenues from contributions, in the overall revenues of the Institute for Health Insurance can be recognized.

Contribution rate for health insurance has been changed several times in last several years. Namely, contributions for health insurance were paid in 1994 at the rate of 15%¹⁸, i.e. 7.5% on the gross wage, and 7.5% from the gross wage. The new rate of 14%¹⁹ was, however, introduced already by the end of 1994, and was in power since 1995. This rate remained unchanged until February 1st 1998, when the new rate of 18%²⁰ was introduced and which has not changed since. During 1997 the health contribution rate for pensions was initially decreased from 25 to 18%, and, starting from February 1st, was completely abandoned, whereupon the standard contribution rate was increased from 14 to 18%. Although the rate paid by active insured persons was simultaneously increased, such a step didn’t come even close to compensating for decreased revenues which resulted from a given ratio of the number of pensioners and other health-care beneficiaries on one side and active insured persons on the other.



An important distinctiveness of this system is an enormously high share of compensation payment exemptions, as well as participation fees, which are sometimes of a symbolic amount (a visit to primary health care doctor costs HRK 5.0). Participation fees, which are an important source of revenues (7 – 10% of health fund revenues) in other countries, contribute less than 1 % to total revenues. At the moment some 20% of population pays for participation fees, while the share of population which pays health care contributions is around 30%. Pensioners, war veterans, disabled victims of the Homeland war and their family members, refugees, returnees, unemployed persons, children and students are exempted from both contributions and participation fee payments.

As it can be seen in the figures, a decrease in the share of tax revenues in the overall revenues of the Croatian Health Insurance Institute was followed by an increasing share of state budget subsidies. Namely, while the subsidies amounted to HRK 122.4 million in 1994, more than HRK 2,420.0 million was transferred from the state budget in 1999, which is 54.6% more than in 1998. Although the Law²¹ regulates that the funds from the budget of the Republic of Croatia are used for maternity leave compensations, measures of increased health care for the population over 65 and children under 15, health education, allowances for newly-born child’s necessities, health insurance of unemployed

¹⁷ Law on Health Insurance (updated text), Official Gazette 1/1997.

¹⁸ Law on Contribution Rates for Health Insurance, Official Gazette 117/1993.

¹⁹ Law on Modifications and Amendments to the Law on Contribution Rates for Health Insurance, Official Gazette 95/1994

²⁰ Law on Modifications of the Law on Contribution Rates for Health Insurance, Official Gazette 13/1998

²¹ See ¹⁵

persons, independent artists, uninsured persons etc., the state budget had to ensure additional funds in 1998 and 1999 intended to cover Institute's debts towards suppliers.

Table 3.6: Structure of insured persons

	1997	Structure	1998	Structure	1999	Structure
Actively insured	1,443,913	31.16	1,312,892	32.22	1,300,762	31.21
Pensioners	850,052	18.34	931,169	22.85	963,728	23.12
Unemployed	189,844	4.10	192,148	4.72	251,833	6.04
Family members	1,824,114	39.36	1,319,571	32.38	1,360,635	32.65
Farmers	160,982	3.47	117,757	2.89	115,855	2.78
Other	165,237	3.57	201,689	4.95	174,779	4.19
TOTAL	4,634,142	100.00	4,075,226	100.00	4,167,592	100.00

Source: Health Insurance Institute

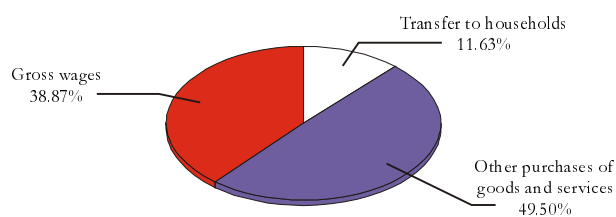
According to the Croatian Health Insurance Institute's data, the outstanding obligations, as of December 31st 1998, totaled at HRK 3,761.2 million, of which HRK 3,505.8 million were short-term, and HRK 255.4 million long-term liabilities. Some 67.03% of the liabilities represented contractual obligations towards polyclinics, hospitals and for medicines, while 7.5% stood for the liabilities for the sick-leave salary payment compensations. On December 31st 1999 the outstanding obligations of the Institute reached around HRK 4.39 billion.

Table 3.7: Transfers from the Central Budget

(000 HRK)	1994	1995	1996	1997	1998	1999
Transfers for insurance of independent artists	1,620	2,850	3,463	6,000	5,400	7,000
Transfers by Health Insurance Law	...	...	...	...	12,609	124,578
Health insurance for unemployed	...	...	...	...	66,567	245,520
Health insurance of old households and uninsured persons	...	...	...	...	...	180,000
Funds for debt settlement towards suppliers	...	...	...	...	...	200,000
Expenses of equipment for new-born children	4,921	54,278	55,728	64,341	77,398	69,300
Additional maternity benefits	115,822	291,857	549,832	712,082	810,911	750,405
Capital transfer for redemption of HF claims & shares	...	...	...	...	...	721,000
Capital transfer to Health Fund	...	...	...	...	593,000	288,168
TOTAL	122,363	348,985	609,023	782,423	1,565,885	2,585,971
As % of GDP	0.14	0.35	0.56	0.63	1.13	1.80

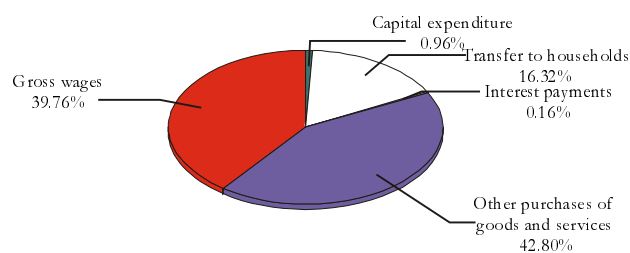
However, if we take a look at the structure of the expenditures of the Croatian Health Insurance Institute, it is evident that 39.8% of the total expenditures in 1999 were expenditures for wages and salaries of employees. It is appealing that the expenditures on gross wages, if compared to the 1994 figures, have increased by 132.1%, while the expenditures on other purchases of goods and services have in the same time grown by 96.2%, and that their share in total expenditures decreased from 49.5% in 1994 to 42.8% in 1999.

Figure 3.12: Health Fund expenditure structure in 1994



Source: Health Insurance Institute

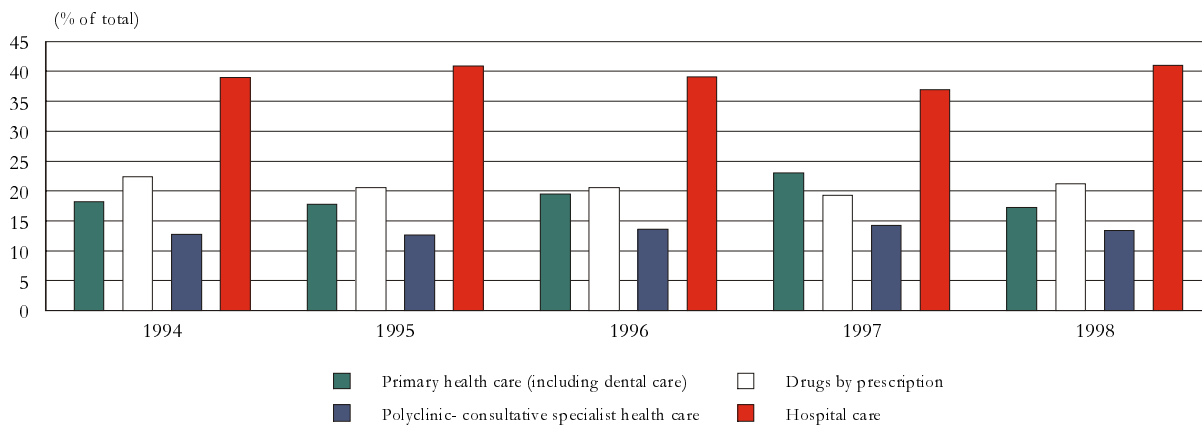
Figure 3.13: Health Fund expenditure structure in 1999



Source: Health Insurance Institute

A trend of growth in hospital health care, which amounts to 40% of overall health-care expenditures, can be noticed throughout last several years. This trend is highly negative because such means of health protection is by far the most expensive (an average day spent in hospital costs around HRK 583.0).

Figure 3.14: Structure of core health expenditures



Source: Health Insurance Institute

An additional problem of the health care system is the issue of sick-leave. That is to say that after first 42 days of sick-leave (which are paid by an employer), the beneficiaries are entitled to one year of a sick-leave paid by the Croatian Health Insurance Institute. The amount of sick-leave compensation is calculated on the basis of an average salary for the last six months, totaling at 80% of the average salary for the first six months of sick-leave, 90% for the second six months or until the termination, or 100% in some cases. According to the available data from the Croatian Health Insurance Institute, 53,992 persons, or 4.01% of active working population (or 9.63% more than in 1997), were daily absent from work due to an illness in the Republic of Croatia in 1998. In 1999, 47,261 persons were absent from work every day.

Table 3.8: Sick leaves - quantitative indicators

	1997	1998	1999	1999/1998
Sick leave rate*				
- total	3.35	4.01	3.63	90.52
- employer	0.96	1.41	1.26	89.36
- Health fund	2.39	2.60	2.37	91.15
Average in days				
- total	27.56	27.01	25.96	96.11
- employer	10.70	12.42	11.64	93.72
- Health fund	40.02	37.67	37.11	98.51
Number of employees on sick leave (daily average)				
- total	48,336	52,992	47,261	89.19
- employer	13,884	18,544	16,446	88.69
- Health fund	34,452	34,048	30,815	90.50

* percentage of employees on sick leave in number of total active employees

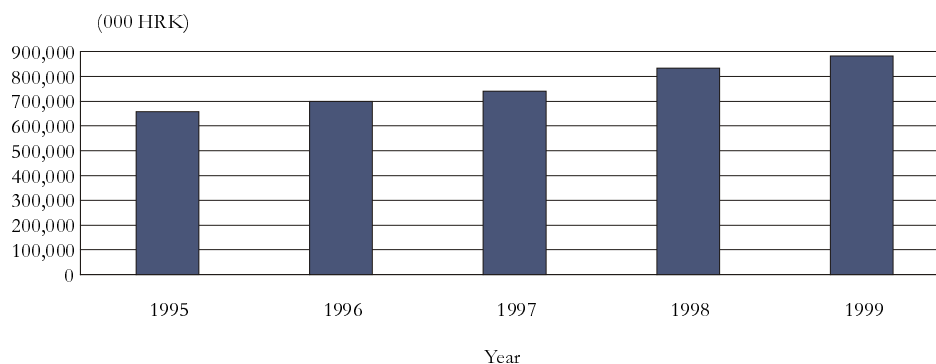
Source: Health Fund

Although the plans for a reform of the system were started two years ago, changes and improvements are inadequate. In order to alleviate the current situation in the fund, the Government introduced a zero VAT rate on medicines, which should decrease the Institute's costs by HRK 900 million annually.

3.2.3. Croatian Employment Bureau

Croatian Employment Bureau was founded according to the provisions of the Employment Act²² as a public institution owned by the Republic of Croatia by reason of carrying out employment intermediation, professional orientation, education of unemployed persons, unemployment insurance, measures and activities which are to be undertaken in order to maintain the current level of employment, and give incentives to new employment.

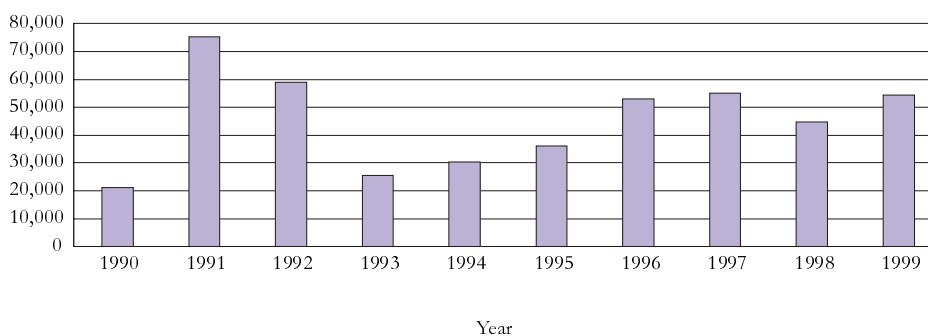
**Figure 3.15: Employment Fund Tax Revenues
1995 - 1999**



Source: Employment Fund

Employment activities are funded from contributions for employment, while the salaries of employees and material costs of the Bureau are financed from the state budget. Contributions for employment are paid both “on” and “from” the salary, in the amounts of 0.85%.

Figure 3.16: Average number of unemployment beneficiaries



Source: Employment Fund

Every unemployed person is entitled to receiving a financial compensation for unemployment if, at the moment of termination of employment, has been employed either for 9 continuous months or 12 months during the period of last 18 months. The average monthly net salary for the period of last 3 months prior to the termination of employment serves as the basis for the calculation of the amount of financial compensation. The amount of financial compensation is determined in the amount of 80% of the basis during the first 78 days of receiving of the compensation, after which a

²² Employment Act, Official Gazette 59/96.

person receives 60% of the basis. The financial compensation cannot be lower than 20% of the average wage paid out in the Republic of Croatia. The lowest financial compensation for unemployment was HRK 652.4 at the end of 1999 (HRK 587.0 at the end of 1998), while the highest compensation reached HRK 900.0. The right on financial compensation may be exercised from the minimum of 78 days (if the person had been employed for 9 continuous months, or 12 months during the period of last 18 months) to the maximum of 312 days in case that a person had been employed for more than 10 years. As an exception, unemployed persons who had been employed for 30 years (men), or 25 years (women) are entitled to receive the financial compensation until the new employment.

Active employment policy represents measures undertaken by the Bureau in order to improve the labor market, employment, self-employment, maintain the present level of employment, facilitate the employment of certain groups or individuals, and decrease the level of unemployment. Active employment policy encompasses various educational programs, programs which support the new job openings, programs of retraining of certain categories of the population, individual programs of self-employment of unemployed persons, research projects associated with the labor market etc.

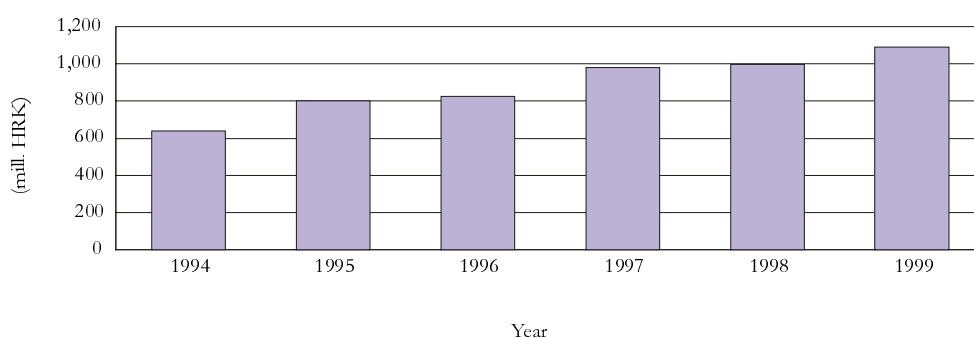
The Republic of Croatia currently spends around 0.4% of GDP on unemployment, while the average of the OECD countries is around 1.7% of GDP.

3.2.4. Child Allowance Fund

Child Allowance Fund was funded from the contributions from wages until July 1st 1998. The contribution rate was changed several times: the rate of 1.4%²³ was applied in 1991; while in 1993 and 1994 the rate of 2.5%²⁴ was applied. Starting from January 1st 1995, the contribution rate for child allowance was decreased to 2.2%²⁵, and remained unchanged until July 1st 1998. By coming into force of the Law on Child Allowance Fund²⁶ on July 1st 1998, funds for the financing of the child allowance are fully provided from the state budget.

According to the provisions of the Law on child allowance²⁷, child allowances are paid out until the child completes the age of 15, upon which the payment continues if a child is enrolled in the regular education (up until it is 19), or if it is incapable of an independent living and work, subject to special regulations. A child allowance beneficiary is entitled to receiving the benefit under condition that the total monthly income per household member does not exceed HRK 1,202.16 (income census) and that he or she lives in the same household as the child. Income census is determined annually in proportion to the last year's increase in the average salary of all persons employed in the Republic of Croatia, whereas the amount of the benefit is adjusted in accordance with the increase in the cost of life in the previous year.

Figure 3.17: Child Benefit transfer to households



Source: Pension Fund

²³ Law on Payment of Contributions for Child allowance in 1991, Official Gazette 58/90.

²⁴ Law on Payment of Contributions for Child allowance in 1993, Official Gazette 91/92.

²⁵ Law on Payment of Contributions for Child allowance in 1994, Official Gazette 117/93.

²⁶ Law on Child allowance Fund, Official Gazette 88/98.

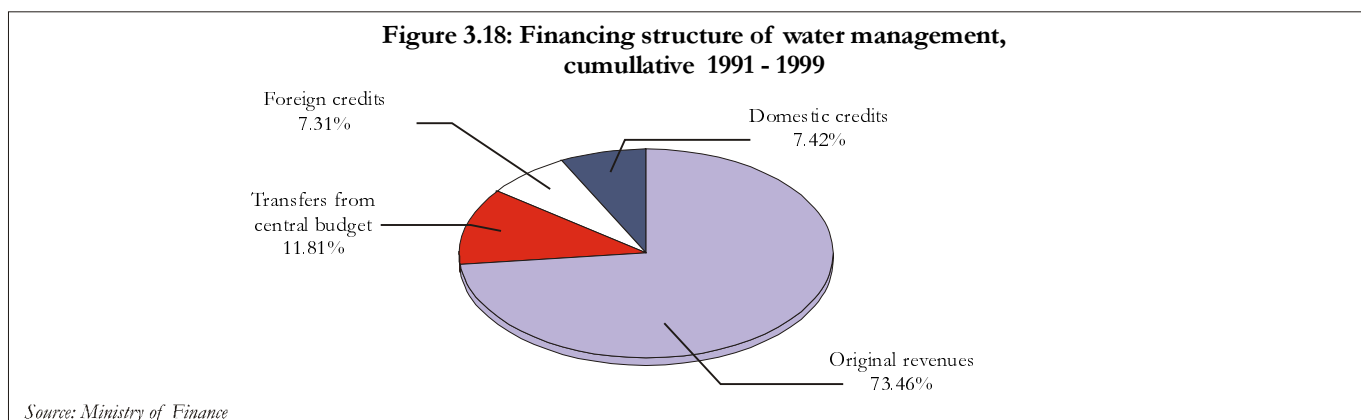
Table 3.9: Child Benefit, 31 December

	1994	1995	1996	1997	1998	1999
Number of beneficiaries	204,975	199,775	196,962	201,853	203,690	204,769
Number of children	378,434	370,150	365,202	377,651	384,547	384,476

Source: Pension Fund

3.2.5. Croatian Water Management Fund

By coming into force of the Law on Modifications and Amendments to the Law on Financing of Water Management²⁸, the concept of water management contributions²⁹, the purpose of which was to finance the facilities for the protection from the detrimental effects of waters (flood protection on the state waters), was abandoned. The same Law stipulated that the missing funds are ensured from the state budget of the Republic or Croatia. These funds are used for the financing of the regular maintenance of protective water management facilities, their renewal and reconstruction, study papers, research and project activities associated with water management, as well as expertise, administrative and other activities of the water management system.



Water utilization fee, which was introduced in accordance with the provisions of the Law on Water Resources³⁰, is one of the revenue sources of the Croatian Water Management Fund. Since 1996, the budget of the Republic of Croatia has been ensuring funds for capital programs of water supply in order to speed up the reconstruction process. In like manner, the Croatian Water Management Fund has been utilizing credit sources of the Croatian Bank for Reconstruction and Development and foreign banks since 1992. Based on the investment programs developed by Croatian Water Management Fund, Croatian Bank for Reconstruction and Development grants loans in the amount of 70% of the total investment, while the remaining 30 % is covered by the Fund and the ultimate beneficiary, either by commodity credits or with their own funds.

²⁷ Law on Child allowance, Official Gazette 77/99.

²⁸ Law on Modifications and Amendments to the Law on Financing of Water Management, Official Gazette 88/98.

²⁹ The abolished water management contribution amounted to 0.8% and was paid on the gross wages, meaning that the cost of labor for employers was decreased by its abolition.

³⁰ Law on Water Resources, Official Gazette 53/90 and 8/91.

IV CONSOLIDATED GENERAL GOVERNMENT

The balance of consolidated revenues and expenditures gives the real picture of the public sector size, because it contains all Government levels. Consolidation cancels all mutual transactions among Central Government budget, extra-budgetary funds and local government and self-government units. The consolidation process has been made according to the internationally comparable methodology (IMF, Government Financial Statistics), which has been defined by the International Monetary Fund.

4.1. CONSOLIDATED GENERAL GOVERNMENT - ECONOMIC CLASSIFICATION

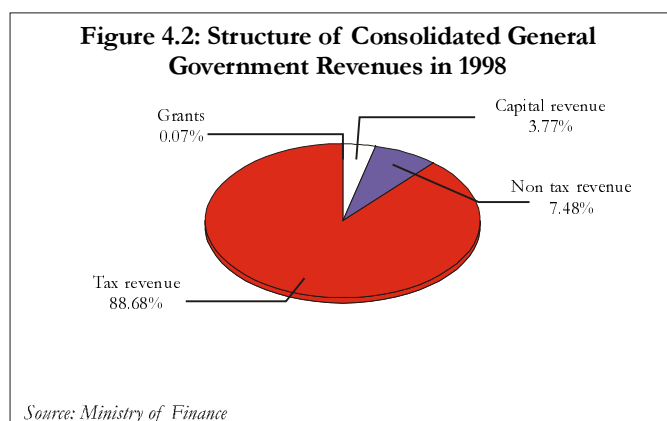
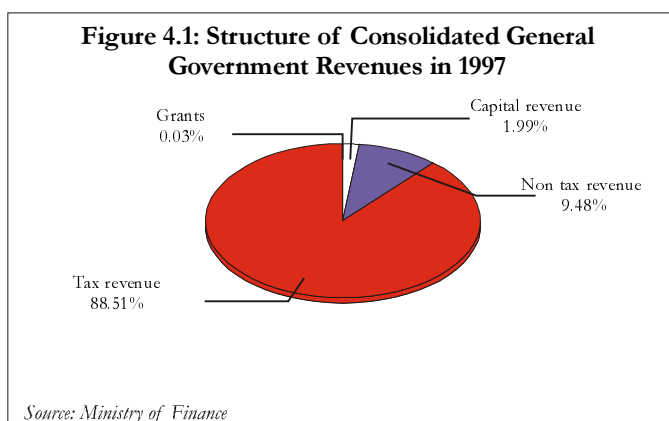
Table 4.1: Consolidated General Government Revenues and Expenditures in 1995 - 1998, percentage of GDP

	Percentage of GDP			
	1995	1996	1997	1998
TOTAL REVENUES AND GRANTS	48.22	50.37	48.62	52.56
I. Total Revenues	48.21	50.35	48.61	52.52
1. Current Revenues	47.22	48.88	47.64	50.54
- Tax Revenues	44.40	44.42	43.04	46.61
- Nontax Revenues	2.82	4.46	4.61	3.93
2. Capital Revenues	1.00	1.48	0.97	1.98
II. Grants	0.01	0.01	0.01	0.04
TOTAL EXPENDITURES AND NET LENDING	48.93	50.74	49.83	52.07
III. Total Expenditures	48.67	50.28	49.32	51.21
1. Current Expenditures	44.12	43.47	43.30	44.32
2. Capital Expenditures	4.55	6.81	6.02	6.89
3. Lending minus repayments	0.26	0.45	0.52	0.86

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

The table 4.1 shows the basic aggregates of consolidated General Government balance according to NCEA (National Classification of Economic Activities). It is evident that the trend of increase in overall public expenditures, which had a mild stop in 1997, continued vehemently again in 1998. Besides, according to the 1999 data on the consolidated General Government balance (Central Government budget and extra-budgetary funds) it is possible to conclude that the public sector growth, shown as consolidated General Government, will be continued in 1999. A detailed overview is attached of General Government consolidated balance and the pertaining unconsolidated balance of Central Government budget, extra-budgetary funds and local government and self-government.

The consolidated General Government total revenues grew by 20.8% nominally in 1998 in relation to the previous year. This was mostly a consequence of an increase in subsidies (180.6%), capital revenues (129.3%) and tax revenues (21.1%), whereas at the same time non-tax revenues decreased by 4.6%. Year-on-year trend of revenue categories reflected on the total revenue structure, which can be seen in the below figures.

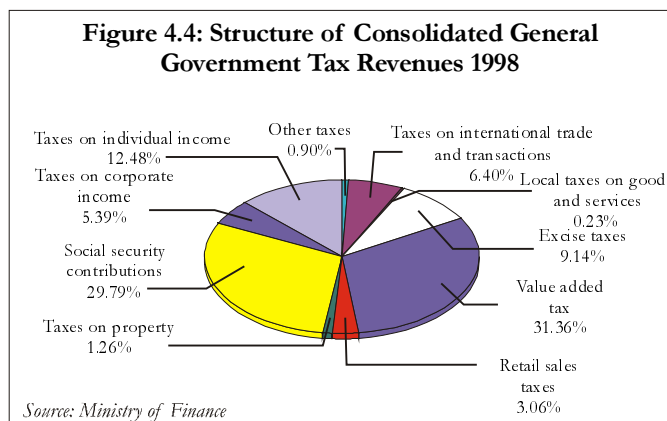
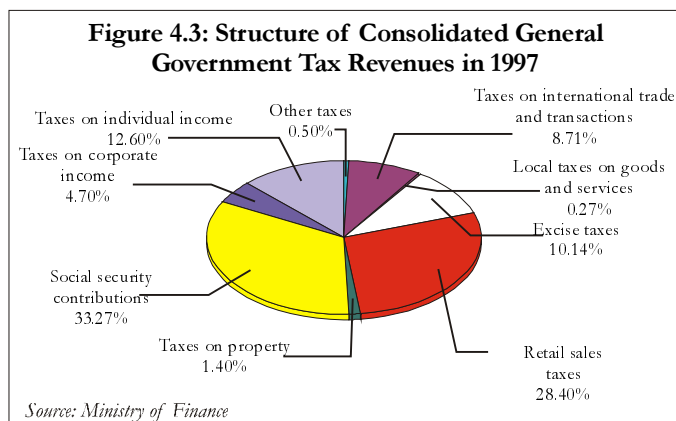


Tax revenue trend and the increase in their share in the total revenues were influenced by the changes in the tax system. More precisely, in January 1998 instead of turnover tax on goods and services, the value-added tax

was introduced with a single rate of 22%. In that way, by means of collection revenues from value-added tax and arrears on turnover tax on goods and services, the consumption tax outturn was by 46.7% higher than in 1997. The profit interest rate increased as well, from 25% to 35%, whereby the revenues collected from this type of tax grew by 38.8%.

In June 1998 the water tax contribution on salaries was abolished (0.8%), as well as children's allowance contribution from salaries of 2.2%, but with increased collection of the total of other contributions for social insurance (pension and health insurance, as well as unemployment benefit) there still was a year-on-year increase of 8.4%. The decrease in the overall rate influenced the increase in taxable base for the calculation of income tax, which, along with strengthening of tax discipline of taxpayers, led to an increase in revenues by 19.9% in relation to 1997. This, among other factors, influenced the revenues of local government and self-government units, because 25% of personal income tax goes to local government and self-government units. In the local government revenue structure approximately 40% of their revenues are income tax and surtax on income tax, as the original, i.e., municipal revenues; however, it can not be shown separately from income tax due to methodology of reporting and monitoring in some local government and self-government units. Other local taxes on goods and services in 1998 had an outturn in revenues by 0.3% lower than in the previous year.

The changes in internal structure of tax revenues are visible by comparison of diagrams in Figures 4.3 and 4.4. It is evident that social insurance indirect taxes and contributions are the most important individual source of tax revenues, and that the portion of indirect taxes in the total tax revenues is growing, whereas the portion of social insurance contributions is decreasing



The 1998 changes in the tax system, together with the increase in fiscal discipline, which was primarily a result of introduction of value-added tax, increased the total tax burden. In 1998 the total tax revenues grew almost twice as fast (21.1%) as the increase in nominal GDP (11.8%), and thus, measured by the portion of consolidated tax revenues of General Government in GDP, the total tax burden in 1998 was by 3.6 percentage points higher than in 1997. It is expected that the total tax burden in 1999 will be reduced by approximately 2 percentage points, given that the new changes in the tax system which came into force during 1999 were mainly directed toward the reduction of tax burden and the increase in tax discipline. This is corroborated by preliminary, although incomplete, data for 1999.

The total expenditures of consolidated General Government in the observed period indicate both nominal and real growth. However, since 1995 this was the first time that total revenues grew faster than total expenditures. This resulted in the total surplus amounting to 0.49% of GDP. When analyzing this data, it should be taken into consideration that the data was derived on a cash basis and that the Government's outstanding liabilities are not included into the total expenditure amount.

The changes in consolidated General Government total expenditure structure are illustrated by Figures 4.5 and 4.6. In the structure of total expenditures there is a noticeable tendency of an increase in capital expenditures and a decrease in current expenses. At the same time, the overall drop in the portion of current expenses is a result of a drop in the portion of transfers and an increase in subsidies and outlays for goods and services in total expenditures. Such trends are expected and represent a logical consequence of a decrease in transfers with nonprofit-making institutions by more than 40% and an increase in subsidies to financial

institutions (bank rehabilitation) and other enterprises, as well as an increase in outlays related to road reconstruction and construction (capital expenditures).

Table 4.2 illustrates the trend of the most important components of current expenses. It can be noticed that the reduction trend of amount of expenditures for goods and services was stopped in 1997 and that it started growing in 1998.

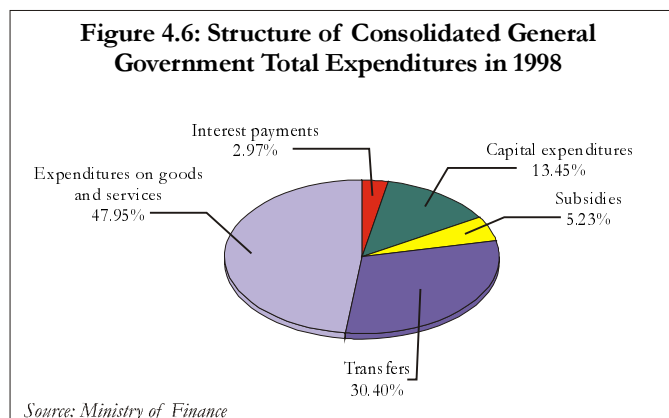
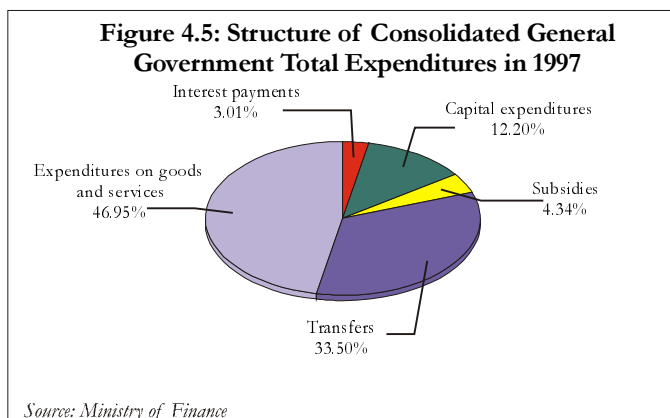


Table 4.2: Trends in Consolidated General Government Current Expenditures

	Percentage of GDP			
	1995	1996	1997	1998
Expenditures on goods and services	27.82	25.15	23.15	24.56
- Wages and salaries	11.93	11.16	10.97	11.81
- Other purchases of goods and services	15.89	13.99	12.19	12.74
Interest payments	1.45	1.15	1.49	1.52
Subsidies and other current transfers	14.86	17.17	18.66	18.25

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

The biggest generator of current expenses growth are expenses for wages and salaries of the employees in the public sector, which grew by 20.4% in comparison with 1997. The salaries of the state budget beneficiaries were increased on three occasions during 1998, in order to reduce a difference between salaries of civil servants and officials and employees in other sectors. The first increase in salaries occurred in January, by 7%, then in August by a further 8%, and in November by another 10%. Besides that, in December the state budget beneficiaries received the "Christmas bonuses" amounting to HRK 1,000, and a gift in money for the children in the amount of HRK 400. In 1999 an agreement was signed with the Union of Civil Servants about a further increase in salaries of the public sector employees of 17% on two occasions (5% in August and 12% in December), as well as payment of "Christmas bonus" and gifts for children, which initiated a further current expenses growth.

Outlays for subsidies and current transfers record a faster growth year by year. In 1998, primarily due to solving of the banking crisis and rehabilitation of state-owned companies, subsidies grew by 40% in comparison with 1997, thus increasing their portion in general Government total transfers to 5.2% of total expenditures in 1998. Also, transfers recorded a year-on-year increase of 5.3%, which was mostly generated by the increase in transfers to citizens of 13.4% (pensions, health insurance, maternity leave, children's allowance, etc.). Transfers to population account for 27.8% of total consolidated public expenditures. Therefore, it is evident that a big increase in current transfers, without a more significant reduction of other General Government expenditure items, is a basic determinant of a fast growth of the Government sector. Maintenance of such trends in transfers becomes a primary source of fiscal imbalance and jeopardizing macroeconomic stability in 1999 and in the following years. Therefore, it is necessary to carry out the pension system reform, but also a reform of the health system, as soon as possible, as the only way of efficient total public expenditures reduction.

4.2. CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVELS

Table 4.3 illustrates the trends in the General Government consolidated balance shown according to the Government levels. It is evident that a high growth of consolidated General Government public expenditure is primarily a result of a fast real growth of extra-budgetary expenditures, and to a lesser extent a result of the increase in expenditures of the local government and self-government units.

In the structure of total revenues of consolidated General Government in 1998, in comparison with 1997, the state budget revenues portion increased by 4.0%, whereas the revenues of extra-budgetary funds and local government and self-government reduced their portion by 3.2% and 0.8%, respectively. On the expenditure side exactly the opposite happened, namely, the portion of state budget expenditures decreased, whereas the portion of expenditures of extra-budgetary funds and local government and self-government increased (by 0.4% and 0.2%, respectively). The year-on-year comparison shows that extra-budgetary fund and local government and self-government expenditures increased faster than the expenditures of the Central Government. The structure of consolidated General Government revenues and expenditures in 1998 is shown in Figures 4.7 and 4.8.

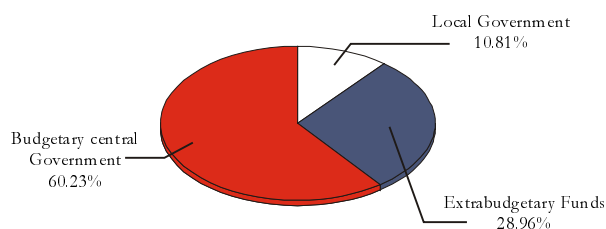
Table 4.3: Consolidated General Government according to Government Level

	Percentage of GDP			
	1995	1996	1997	1998
Total revenue and grants	48.22	50.37	48.62	52.56
Budgetary central Government	28.34	29.05	27.34	31.66
Extrabudgetary Funds	15.44	15.65	15.62	15.22
1. Pension fund	8.79	8.80	8.83	7.65
2. Health fund	4.59	4.77	4.66	5.90
3. Employment fund	0.70	0.62	0.51	0.51
4. Child Benefit fund	0.79	0.81	0.79	0.39
5. Croatian Water Management fund	0.56	0.64	0.84	0.76
Local Government	4.44	5.67	5.66	5.68
Total expenditure and net lending	48.93	50.74	49.83	52.07
Budgetary central Government	26.46	25.35	23.52	24.28
Extrabudgetary Funds	18.27	19.71	20.61	21.75
1. Pension fund	9.01	9.69	11.14	11.68
2. Health fund	7.20	7.74	7.06	7.79
3. Employment fund	0.45	0.63	0.58	0.41
4. Child Benefit fund	0.83	0.79	0.81	0.75
5. Croatian Water Management fund	0.78	0.87	1.02	1.12
Local Government	4.20	5.67	5.69	6.04
Total deficit (-)/surplus (+)	-0.71	-0.37	-1.21	0.49

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

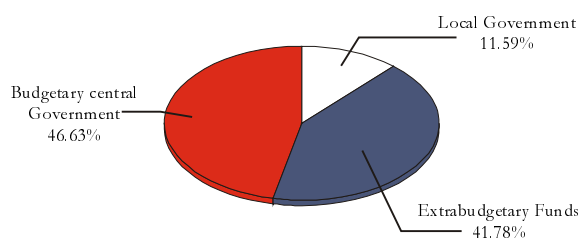
General Government consolidated balance indicates that in 1998 for the first time since 1995 a consolidated total surplus was generated. The reason for this is only a faster growth of consolidated revenues over expenditures of the state budget, which in the previous years generated a continuous consolidated surplus. However, the trends in consolidated revenues and expenditures of extra-budgetary funds and local government and self-government shows without doubt that in this sphere there is a source of fiscal problems and public expenditure increase, which is illustrated by Table 4.4.

Figure 4.7: Structure of Consolidated General Government Revenues according to Government Level in 1998



Source: Ministry of Finance

Figure 4.8: Structure of Consolidated General Government Expenditures according to Government Level in 1998



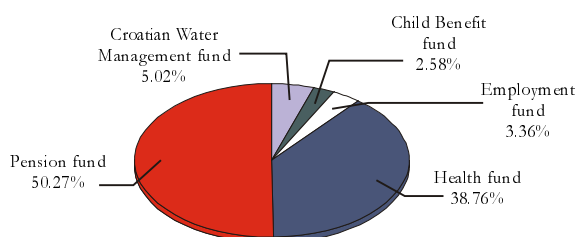
Source: Ministry of Finance

Table 4.4: Total deficit/surplus of Consolidated General Government according to Government Level

	Percentage of GDP			
	1995	1996	1997	1998
Total deficit (-)/surplus (+) of Central Budget	1.88	3.70	3.81	7.37
Total deficit (-)/surplus (+) of Extrabudgetary Funds	-2.83	-4.06	-4.99	-6.53
Total deficit (-)/surplus (+) of Local Government	0.24	0.00	-0.03	-0.36
Total deficit (-)/surplus (+) of Consolidated General Government	-0.71	-0.37	-1.21	0.49

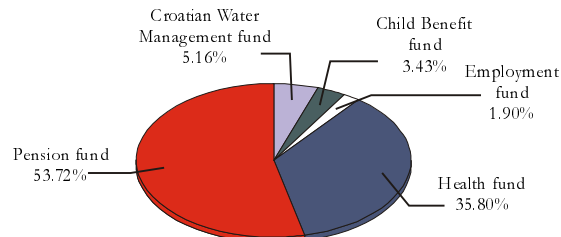
Source: Ministry of Finance and Central Bureau of Statistics for GDP data

Figure 4.9: Structure of Consolidated Extrabudgetary Funds Revenues in 1998



Source: Ministry of Finance

Figure 4.10: Structure of Consolidated Extrabudgetary Funds Expenditures in 1998



Source: Ministry of Finance

A continuous and strong growth of extra-budgetary funds deficit both in 1998 and in 1999 (according to the preliminary data on consolidated General Government), and will probably continue in 2000. An additional expansion of gap between consolidated revenues and expenditures of extra-budgetary funds, with the existing mode of deficit financing, indicates that it is precisely the extra-budgetary funds (and primarily Croatian Pension Insurance Institute and Croatian Health Insurance Institute) that are the basic generator of public expenditure growing trend. Figures 4.9 and 4.10 illustrate the structure of extra-budgetary funds revenues and expenditures, indicating the size of the problems in the pension and health system insurance.

Table 4.5: Consolidated General Government Total Expenditures by country

	Percentage of GDP				Difference
	1995	1996	1997	1998	1998 - 1995
EUROPEAN UNION					
Austria	55.2	54.7	51.9	51.1	-4.1
Belgium	53.9	53.2	52.3	51.4	-2.5
Denmark	61.5	60.3	58.8	58.1	-3.4
Finland	59.5	59.4	55.8	53.2	-6.3
France	54.8	55.2	54.5	54.3	-0.5
Germany	50.1	49.4	48.1	47.1	-3.0
Greece	49.1	46.3	43.4	42.7	-6.4
Ireland	36.2	34.0	32.5	30.8	-5.4
Italy	53.5	53.3	51.0	49.6	-3.9
Netherlands	52.8	50.6	49.9	48.3	-4.5
Portugal	43.8	43.3	43.2	43.7	-0.1
Spain	45.7	44.0	42.6	42.1	-3.6
Sweden	65.9	65.7	63.4	62.7	-3.2
United Kingdom	45.7	44.2	41.9	40.1	-5.6
AVERAGE EU	51.5	50.8	49.0	47.9	-3.6
TRANSITION COUNTRIES					
Czech Republic ¹⁾	41.5	40.6	40.6	40.3	-1.2
Hungary ²⁾	54.4	49.3	49.7	49.5	-4.9
Poland ³⁾	45.0	44.7	43.6	42.2	-2.8
Slovak Republic ⁴⁾	46.1	47.6	46.2	43.8	-2.3
Slovenia ⁵⁾	43.1	42.4	43.2	43.8	0.7
Croatia ⁶⁾	48.9	50.7	49.8	52.1	3.2
AVERAGE EXCLUDING CROATIA	46.0	44.9	44.7	43.9	-2.1
AVERAGE INCLUDING CROATIA	46.5	45.9	45.5	45.3	-1.2

Source: European Commission, Directorate - General for Economic and Financial Affairs, *European Economy*, No. 68, 1999

¹⁾ Source: Ministry of Finance of Czech Republic

²⁾ Source: Ministry of Finance of Hungary

³⁾ Source: Ministry of Finance of Poland

⁴⁾ Source: Center for Economic and Social Analysis MESA10, Slovak Republic

⁵⁾ Source: Slovenian Economic Mirror, No. 7, July 1999.

⁶⁾ Source: Croatian Ministry of Finance and Central Bureau of Statistics for GDP data

In other words, in the previous periods the consolidated General Government managed to keep the deficit at a low level, and in 1998 even to achieve surplus only thanks to a high state budget consolidated surplus. It is, therefore, important to keep in mind that the strategic objective of curbing further public sector growth and the beginning of the process of its reduction in the following periods, in concordance with the achieved economic growth level, is not possible to achieve without an adequate and soon reform of the pension and health systems.

Table 4.5 illustrates clearly that Croatia has a big public sector (measured by the portion of General Government in GDP), in comparison with EU and transition countries. The continual growth trend of public sector stock which is seen in Croatia is totally opposite to the decreasing trends in developed countries and advanced transition countries in the last several years. More precisely, while the majority of European countries, including advanced transition countries, managed to decrease the portion of the public sector in GDP, only Croatia in the same period increased the portion by approximately 3% of GDP. Such public expenditure growth in the long term reduces the competitiveness of Croatian economy because it implies tax burden growth or debt growth.

4.3. CONSOLIDATED GENERAL GOVERNMENT SURPLUS/DEFICIT

In the last three years the consolidated General Government continuously generated a total deficit, which was at the approximate level of 0.8% GDP. For the first time since 1995 the total revenues of consolidated General Government grew considerably faster than the expenditures, which in the long run, in 1998, resulted in total surplus of HRK 678.2 million, or 0.49% of GDP. The trend of General Government total surplus/deficit is illustrated by Table 4.6.

Table 4.6: Consolidated General Government deficit/surplus and Financing

	Percentage of GDP			
	1995	1996	1997	1998
Current deficit (-)/surplus (+)	3.09	5.41	4.34	6.22
Total deficit (-)/surplus (+)	-0.71	-0.37	-1.21	0.49
Total deficit (-)/surplus (+) without privatization receipts	-1.68	-1.76	-2.12	-1.43
Total financing	0.71	0.37	1.21	-0.49
Domestic financing	-0.06	-0.49	-1.31	-0.57
External financing	0.77	0.86	2.52	0.08

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

If total deficit is calculated according to the conventional calculation of total deficit, i.e., by taking into consideration privatization proceeds as a financing item, the total deficit in 1998 accounted for 1.4% of GDP.

At the same time, consolidated General Government current expenditures reduced their portion in total expenditures at the expense of capital expenditures, but to a lesser extent than current revenues reduced their portion in total revenues in favor of capital revenues. In spite of that, a faster growth of current revenues over current expenditures in 1998, in relation to the previous year, ensured a further strong growth of consolidated current surplus of General Government or Government savings. Regrettably, according to the available data for consolidated Central Government in 1999 it is evident that such a growth trend did not continue. The consolidated General Government current surplus trend is illustrated by Table 4.7.

Table 4.7: Consolidated General Government Current Surplus and Coverage degree of Capital Expenditures

Year	Current Surplus (000 HRK)	Percentage of GDP	Capital Expenditures (000 HRK)	Coverage degree (%)
1995	3,042,053	3.09	4,472,752	68.01
1996	5,837,658	5.41	7,356,213	79.36
1997	5,378,633	4.34	7,449,672	72.20
1998	8,604,728	6.22	9,529,559	90.30

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

The savings of the General Government, shown as a difference between current revenues and current expenses, is the most important financing source of Government capital expenditures. The amount of savings in 1998 increased by 6.2% on the year-on-year level covered 90.3% of capital expenditures of General Government consolidated budget.

V PUBLIC DEBT OF THE REPUBLIC OF
CROATIA 1999

The overall public debt of the Republic of Croatia, on the consolidated central government level, amounts to HRK 46.2 billion, out of which HRK 29.4 billion accounts for external public debt, and internal debt amounts to HRK 16.7 billion. The overall public debt as the share of GDP amounts to 32.2%, which together with debt guaranteed by the state (active financial and performance guarantees at the end of 1999 accounted for HRK 21.5 billion) totals 47% of GDP and according to the Maastricht criterion, the overall public debt and debt guaranteed by the state should not exceed 60% GDP and according to this indicator, the Republic of Croatia is still within moderate indebtedness, although the growing borrowing trend in the last three years is disturbing.

Table 5.1: Total Public Debt of the Republic of Croatia

(in mill. USD)	1994	1995	1996	1997	1998	1999
I. Internal Public Debt	18,674.1	17,741.2	17,274.8	15,541.2	15,048.1	16,782.2
II. External Public Debt*	754.2	1,279.6	13,477.8	18,314.9	20,636.0	29,482.2
III. Guaranteed Public Debt	-	-	970.6	4,448.7	13,909.1	21,532.5
Total Public Debt (I.+II.)	19,428.3	19,020.8	30,752.6	33,856.1	35,684.1	46,264.4
as percentage of GDP	22.2	19.3	28.5	27.3	25.8	32.2
Total Public and Guaranteed Debt	19,428.3	19,020.8	31,723.2	38,304.8	49,593.2	67,796.9
(I.+ II.+ III.) as percentage of GDP	22.2	19.3	29.4	30.9	35.8	47.2

* Paris and London Club included since 1996

Source: CNB, Ministry of Finance

5.1. CREDIT RATING OF THE REPUBLIC OF CROATIA

So far, four leading credit rating agencies have evaluated the credit rating of the Republic of Croatia: Moody's Investors Service, Standard & Poor's Corporation, Fitch IBCA and R&I.

All those agencies conduct their regular credit verification of the given credit rating. Such verification in 1999 resulted in confirmation of the investment credit rating by the agencies Moody's Investors Service, Standard & Poor's Corporation and the Japanese rating agency R&I, whereas the British rating agency Fitch IBCA placed the Republic of Croatia into the group of countries with lower credit ratings, among the speculative credit ratings.

Table 5.2: Review of the credit ratings of the Republic of Croatia

	Long-term credit rating Foreign currency	Long-term credit rating Domestic currency	Short-term credit rating Foreign currency
Mood's Investors Service	Baa3	Baa1	P-3
Standard & Poors	BBB-	BBB+	A-3
Fitch IBCA	BB+	BBB	B
R & I	BBB		

Presently, the Republic of Croatia has the lowest credit rating among developed transition countries.

Table 5.3: Comparison of the credit ratings by countries

Country	Mood's Investors Service	Standard & Poors
Czech Republic	Baa1	A-
Croatia	Baa3	BBB-
Hungary	Baa1	BBB
Poland	Baa1	BBB
Slovak Republic	Ba1	BB+
Slovenia	A3	A

5.2. INTERNAL DEBT OF THE CENTRAL GOVERNMENT BUDGET IN 1999

5.2.1. Bonds Issued in the Bank Rehabilitation Process

A detailed description of the internal debt categories is shown in the former annual reports of the Ministry of Finance. Now we are going to point out only the newly developed debt categories of 1999. Almost all categories of internal debt are tied to the foreign currency clause on the German mark exchange rate (i.e., Euro), meaning that the comparison of the conditions at the need of 1998 and at the end of 1999 contains the effect of exchange rate depreciation. The public internal debt structure is illustrated in Table 5.4. Amortisation program for public internal debt is illustrated in table 5.5, whereas table 5.6 shows the status of internal debt resulting from the amortization program.

The overall public internal debt at the end of 1999 amounted to HRK 14,497.48 million. Frozen foreign currency deposits still make up the biggest individual debt (40.7% of the total debt). BRA bonds were issued on several occasions in the bank rehabilitation process. The new category of public internal debt which emerged during 1999 were the bonds issued by the State Agency for Bank Rehabilitation in the process of rehabilitation and restructuring of Croatia Bank d.d. Zagreb – BRA VI CRB³¹.

The BRA VI CRB bonds were issued in the amount of HRK 553.5 million, with an interest rate of 7.5% and maturity April 20, 2000. The amount of HRK 336.5 million was intended to cover losses resulting from banking operations, which could not be charged off on gross equity capital or special reserves for unidentified losses, and those doubtful and contested claims were transferred to the Agency for Deposit Insurance and Bank Rehabilitation, whereas the amount of HRK 217 million were the funds necessary for initial recapitalization of Croatia banka d.d. Those bonds were redeemed early on March 30, 2000.

Table 5.4: Internal Public Debt of the Republic of Croatia (000 HRK)

Debt item:	31 December 1998	31 December 1999	Maturity:	Interest rate:
Frozen foreign exchange deposits	6,424,805	5,681,429	2005	5.00%
Big Bonds - Series I	1,463,408	1,307,060	2011	
Big Bonds - Series II	746,047	755,600	2011	7.20%
Big Bonds - Series III	736,385	739,306	2012	7.20%
Big Bonds - Series IV	433,774	160,739	2000	12.00%
JDA Bonds	95,799	0	1999	12.00%
JDB Bonds	183,370	0	1999	8.00%
Reconstruction Bonds	22,818	22,818	2003	7-10%
BRA Bonds I	1,064,173	1,020,384	2007	6.00%
BRA Bonds II	300,681	298,816	2012	5.00%
BRA Bonds III	747,327	748,622	2012	7.20%
BRA Bonds IV	411,585	409,032	2012	5.00%
BRA Bonds V-A	405,680	445,296	2008	6.00%
BRA Bonds V-B		1,578,131	2008	7.00%
BRA Bonds VI CRB		553,500	2000	7.50%
Medium and long-term debt	13,035,852	13,720,733		
Treasury Bills	565,800	776,746		
Other short-term debt	0	0		
Short-term debt	565,800	776,746		
Total debt	13,601,652	14,497,479		

³¹ Decision on the Rehabilitation and Restructuring of Croatia banka d.d., Zagreb, the Official Gazette No.98/99.

Table 5.5: Internal Debt amortisation (mill. HRK)

	1999	2000	2001	2002	2003	2004	2005
Amortisation of principal	2,131.55	2,285.54	1,599.68	1,629.95	1,662.24	1,696.74	1,221.62
Frozen foreign exchange deposits	1,032.21	1,032.21	1,032.21	1,032.21	1,032.21	1,032.21	520.38
Big Bonds - Series I	110.96	110.96	110.96	110.96	110.96	110.96	110.96
Big Bonds - Series II	37.94	41.69	44.69	47.91	51.36	55.07	59.01
Big Bonds - Series III	34.16	36.67	39.35	42.24	45.33	48.66	52.22
Big Bonds - Series IV	294.66	160.74	0.00				
JDA Bonds	100.59	0.00					
JDB Bonds	192.54	0.00					
BRA Bonds I	96.86	102.75	109.03	115.67	122.69	130.19	138.08
BRA Bonds II	16.43	17.26	18.14	19.06	20.03	21.04	22.10
BRA Bonds III	35.39	37.99	40.77	43.76	46.97	50.41	54.11
BRA Bonds IV	22.95	24.12	25.33	26.62	27.97	29.39	30.87
BRA Bonds Va	36.91	39.18	41.54	44.09	46.76	49.63	52.65
BRA Bonds Vb	119.95	128.47	137.65	147.43	157.95	169.18	181.23
BRA Bonds VI CRB	0.00	553.50	0.00				
Interest payments	849.11	695.44	570.83	488.50	404.56	317.34	228.52
Frozen foreign exchange deposits	325.02	272.89	220.76	168.63	116.51	64.38	12.25
Big Bonds - Series II	55.46	52.67	49.66	46.44	43.00	39.30	35.32
Big Bonds - Series III	53.04	50.52	47.83	44.95	41.85	38.53	34.97
Big Bonds - Series IV	46.05	9.66	0.00				
JDA Bonds	32.00	0.00					
JDB Bonds	41.03	0.00					
BRA Bonds I	65.57	59.68	53.44	46.80	40.28	32.23	24.34
BRA Bonds II	15.18	14.35	13.48	12.56	11.59	10.58	9.52
BRA Bonds III	54.96	52.35	49.57	46.59	43.38	39.93	36.24
BRA Bonds IV	21.20	20.04	18.81	17.54	16.19	14.77	13.29
BRA Bonds Va	25.01	22.73	20.38	17.86	15.16	12.29	9.27
BRA Bonds Vb	114.61	106.09	96.90	87.12	76.60	65.33	53.32
BRA Bonds VI CRB	0.00	34.46					
Debt Service Total	2,980.66	2,980.98	2,170.51	2,118.45	2,066.79	2,014.09	1,450.15

Table 5.6: Internal Debt stock (mill. HRK)

Stock (end of year)	1999	2000	2001	2002	2003	2004	2005
Frozen foreign exchange deposits	5,681.43	4,649.22	3,617.01	2,584.80	1,552.59	520.38	0.00
Big Bonds - Series I	1,307.06	1,196.10	1,085.14	974.17	863.21	752.25	641.29
Big Bonds - Series II	755.60	713.91	669.22	621.31	569.95	514.89	455.87
Big Bonds - Series III	739.31	702.64	663.29	621.05	575.72	527.06	474.84
Big Bonds - Series IV	160.74	0.00					
JDA Bonds	0.00						
JDB Bonds	0.00						
BRA Bonds I	1,020.38	917.63	808.60	692.94	570.24	440.05	301.97
BRA Bonds II	298.82	281.56	263.41	244.36	224.33	203.29	181.18
BRA Bonds III	748.62	710.63	669.86	626.09	579.12	528.71	474.60
BRA Bonds IV	409.03	384.91	359.58	332.96	304.99	275.60	244.73
BRA Bonds Va	445.30	406.11	364.57	320.48	273.72	224.09	171.44
BRA Bonds Vb	1,578.13	1,449.67	1,312.01	1,164.58	1,006.63	837.45	656.22
BRA Bonds VI CRB	553.50	0.00					
TOTAL	13,697.92	11,412.37	9,812.69	8,182.74	6,520.51	4,823.76	3,602.14

5.2.2. Treasury Bills

Treasury bills are short-term securities issued by the Ministry of Finance. They are issued at a unified disposal price realized at an auction. The planned issue amount is determined by the Ministry of Finance, by an invitation for bids. The collected bids are ranked in accordance with the offered price. When the amount of the bids ranked in such a way reaches the planned issue amount, the Ministry of Finance determines the unified disposal price in accordance with the threshold bill, i.e., the last ranking bid whereby the planned issue amount has been reached. The bids with a lower price are automatically rejected.

37 auctions of treasury bills were conducted during 1999. The total amount of the issued treasury bills on December 31, 1999 accounted for HRK 776.7 million, whereas at the end of 1998 unredeemed bills amounted to HRK 565.8 million. The liability trend in treasury bills is shown in Figure 5.1.

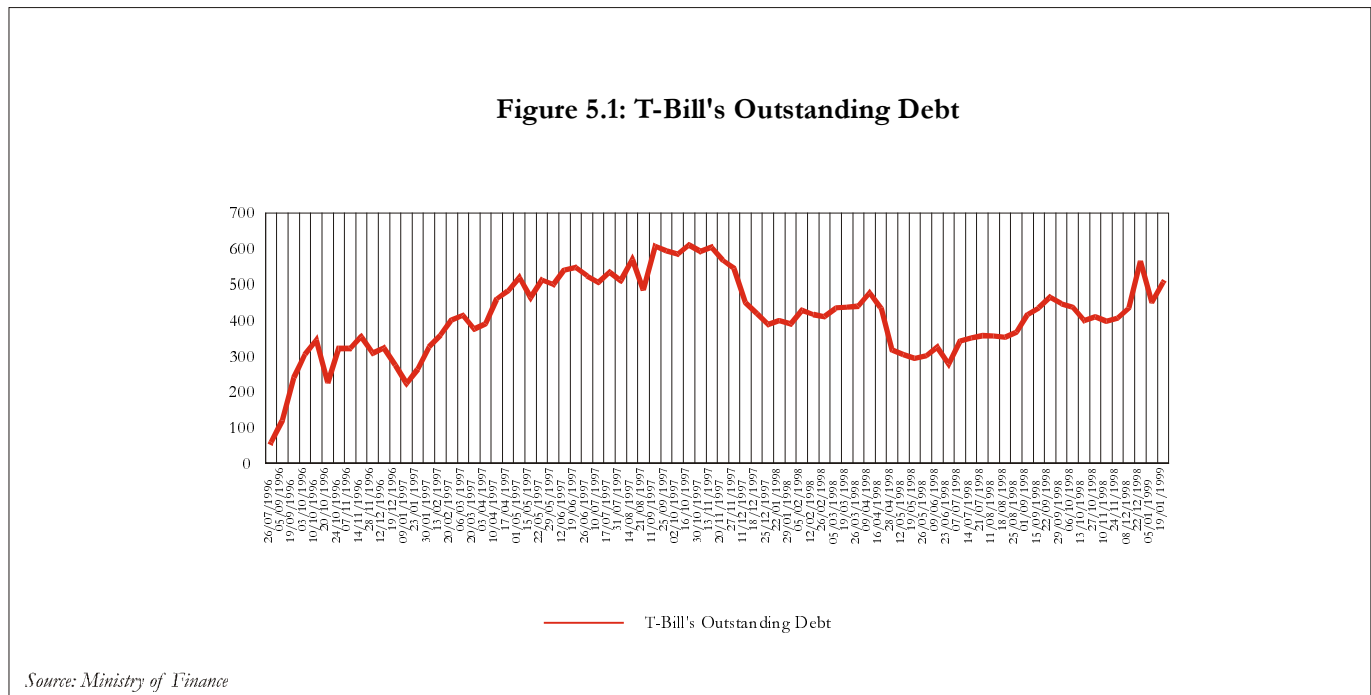
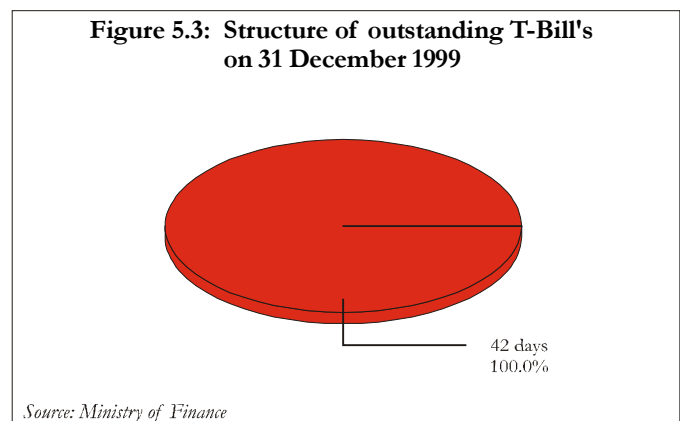
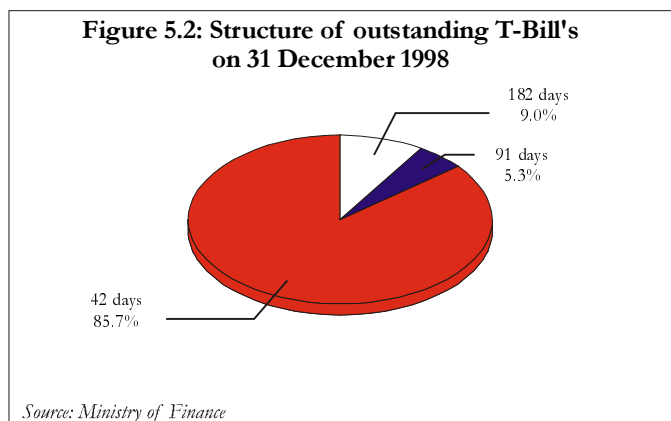
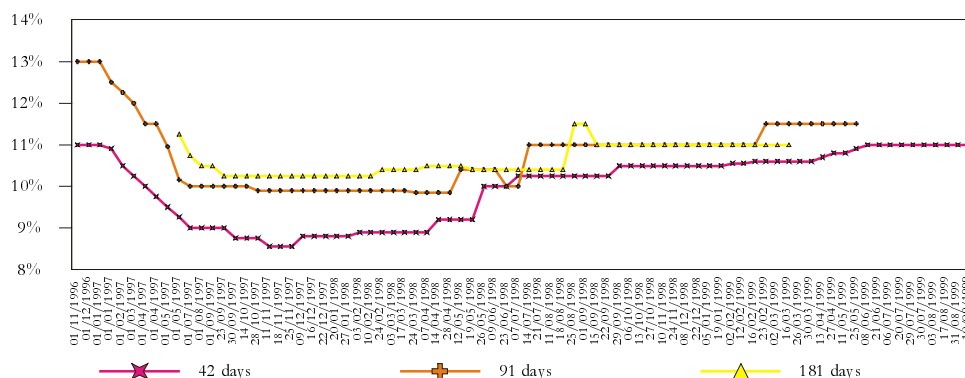


Figure 5.2 presents the structure of issued treasury bills according to maturity date on December 31, 1998, whereas Figure 5.3 shows the structure of treasury bills on December 31, 1999. It is evident that during 1999 there was a change in the maturity structure as to the treasury bills with a shorter maturity date, so that at the end of 1999 there were treasury bills entered only with a 42-day maturity. Although treasury bills may be used as collaterals for obtaining Lombard loans at the same percentage as treasury notes of the Croatian National Bank, their denomination in kuna was not attractive enough in comparison with treasury notes in foreign currency. However, as the banking crisis was subsiding and the exchange rate was stabilizing, in 2000 treasury bills with longer maturity were issued.



As presented in Figure 5.4, the treasury bills interest rate in the first five months of 1999 was constantly growing, reaching 11% in May (for the 42-day maturity) and stayed at that level until the end of the year.

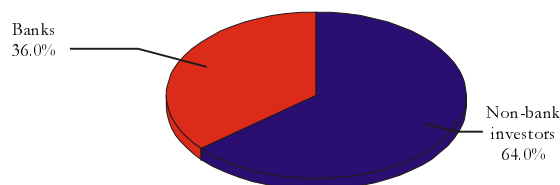
Figure 5.4: Annual yield on T-Bills



Source: Ministry of Finance

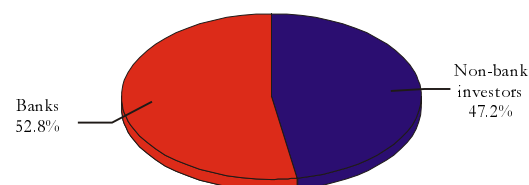
During 1999 the structure of buyers also changed. As shown by Figures 5.5 and 5.6, in 1998 the most important treasury bills buyers were investors from the non-banking sector (64%), which changed in 1999. At the end of 1999 the ratio of banking and non-banking investors was approximately on the equal level

Figure 5.5: Structure of bids accepted according to buyers on 31 December 1998



Source: Ministry of Finance

Figure 5.6: Structure of bids accepted according to buyers on 31 December 1999



Source: Ministry of Finance

5.3. FOREIGN DEBT OF THE REPUBLIC OF CROATIA

At the end of 1999 the total foreign debt amounted to US\$ 3,925.3 million, which was by US\$ 592.5 million more than at the end of 1998. The debt taken over by the London Club Agreement totaled US\$ 1,380.9 million, and the debt taken over by the Paris Club Agreement totaled US\$ 770.8 million, which was 54.9% of the total foreign debt. Following receiving of the investment credit rating, the Republic of Croatia in 1997 started issuing bonds on the international financial market. The total debt against bonds at the end of 1999 amounted to US\$ 1,173 million.

Table 5.7: External Public Debt of the Republic of Croatia on 31 December 1999

(mill. USD)	Amount
Bond issues	1,173.10
London Club*	1,380.90
Paris Club*	770.80
International Financial Organisations	585.22
IBRD	395.47
EBRD	80.55
CEB	15.36
EIB	93.83
Other	15.28
TOTAL	3,925.30

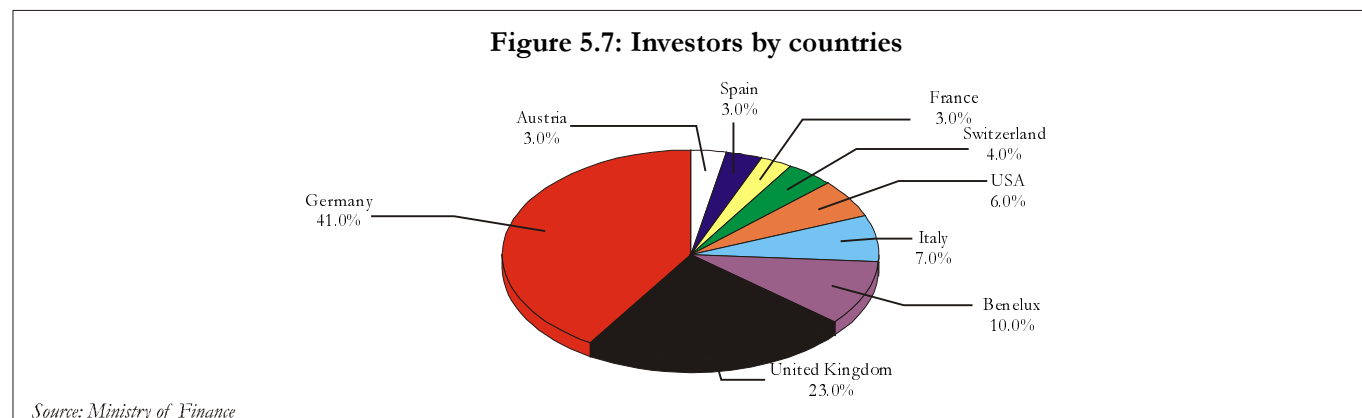
* Total Debt (allocated and non-allocated)

Source: CNB, Ministry of Finance

5.3.1. The Republic of Croatia Bonds Denominated in Euros

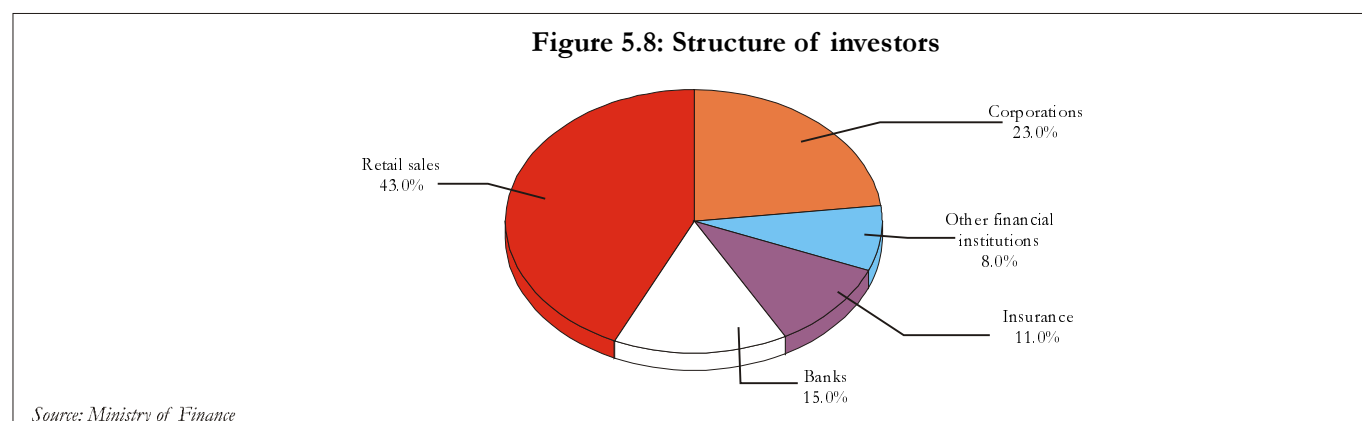
In February 1999, the Republic of Croatia issued Euro-bonds denominated in Euro, in the amount of EUR 300 million, with maturity in 2006 and an annual interest warrant of 7.375%, i.e., against a premium of 3.75% above the corresponding seven-year German bonds.

The principal coordinators of the issue were Credit Suisse First Boston and Dresdner Kleinwort Benson, and the issue was monitored by a syndicate of fourteen banks.



5.3.2. The Republic of Croatia Bonds Denominated in Japanese Yens

In December 1999 the Republic of Croatia issued Samurai bonds in the amount of JPY 25 billion, with maturity in 2004 and an annual interest warrant of 4%, which is by 310 b.p. above relevant bonds of the Japanese Government.



The principal coordinator of the issue was Daiwa SBCM, and the issue was monitored by a syndicate of six banks. The investor structure according to type is shown in Figure 5.8.

5.3.3. The Republic of Croatia Bonds Denominated in Euros

In March 2000, the Republic of Croatia issued Euro-bonds denominated in Euro, in the amount of EUR 500 million, with maturity in 2005 and an annual interest warrant of 7%, i.e., against a premium of 2.1% above the corresponding five-year German bonds.

The principal coordinator of the issue was Dresdner Kleinwort Benson, and the issue was monitored by a syndicate of twelve banks. The structure of investors by country is shown in Figure 5.9.

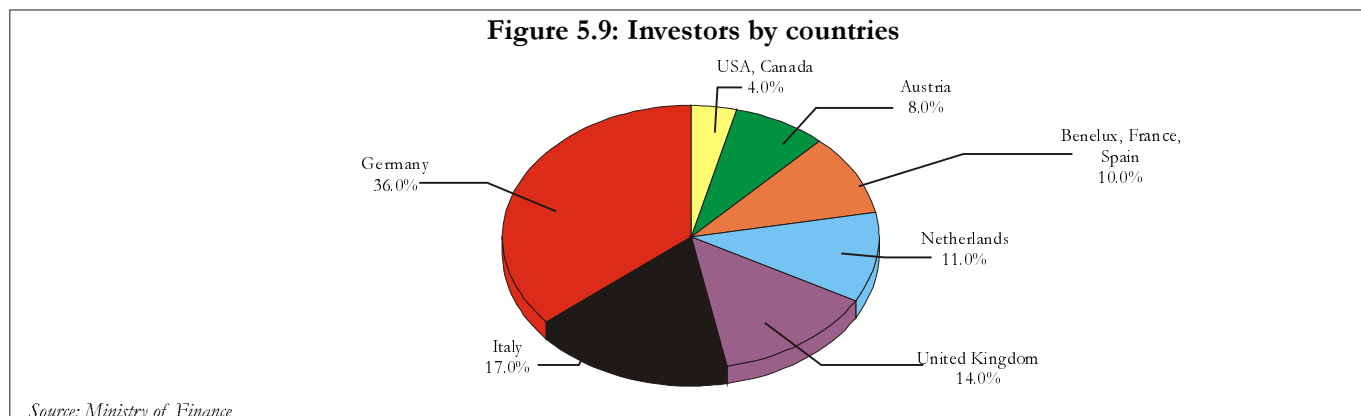


Table 5.8: Review of International Bonds issued by the Republic of Croatia

<p>London Club Series A: US\$ 857,796,000 3 year grace period, 11 year repayment period US\$ 6 month LIBOR+81,25 bp Listing: Luxembourg Issued: 31 July 1996 Maturity: 31 July 2010</p>	<p>London Club Series B: US\$ 604,426,000 10 year repayment period US\$ 6 month LIBOR+81,25 bp Listing: Luxembourg Issued: 31 July 1996 Maturity: 31 July 2006</p>
<p>Euro-dollar Bonds: US\$ 300 million 5 years, bullet 7% coupon (80 bp above 5 year Treasury Bill yield) Led by Merrill Lynch and UBS Listing: Luxembourg Issued: 6 February 1997 Maturity: 27 February 2002</p>	<p>Euro-DEM Bonds: DEM 300 million 7 years, bullet 6.125% coupon (95 bp above relevant Bund) Led by Credit Suisse and Deutsche Morgan Grenfell Listing: Frankfurt Issued: 1 July 1997 Maturity: 16 July 2004.</p>
<p>Matador Bonds: ESP 15 billion 3 years, bullet 6.5 % coupon (225 bp above relevant Spanish Bond yield) Led by Santander Investment Listing: Madrid Issued: 4 March 1998 Maturity: 26 March 2001</p>	<p>Euro-EUR Bonds: EUR 300 million 7 years, bullet 7.375 % coupon (375 bp above 7 year German Bund) Led by Credit Suisse and Dresdner Kleinwort Benson Listing: Luxembourg Issued: 23 February 1999 Maturity: 10 March 2006</p>
<p>Samurai Bonds: JPY 25 billion 5 year, bullet 4% coupon (310 bp above relevant Japanese Bond yield) Led by Daiwa securities SB Signed: December 1999 Listing: Tokyo Issued: 14 December 1999</p>	<p>Euro-EUR Bonds: EUR 500 million 5 year, bullet 7 % coupon (210 bp above 5 year German Bund) Led by Dresdner Kleinwort Benson Signed: March 2000 Listing: Luxembourg Issued: 28 March 2000</p>

Table 5.9: International bonds issued by the Republic of Croatia

	Cur - rency	Amount issued in original currency	Amount USD*	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
London Club Series A - coupon: 6m LB+13/16	USD	857,796,000	857,796,000	0	77,981,455	77,981,455	77,981,455	77,981,455	77,981,455	77,981,455	77,981,454	77,981,454	77,981,454	77,981,454	77,981,454
London Club Series B - coupon: 6m LB+13/16	USD	604,426,000	604,426,000	23,777,040	47,554,080	71,331,120	71,331,120	83,219,640	83,219,640	83,219,640	83,219,640	0	0	0	0
EuroUSD - coupon: 7%	USD	300,000,000	300,000,000	0	0	0	300,000,000	0	0	0	0	0	0	0	0
EuroDEM - coupon: 6.125 %	DEM	300,000,000	146,669,211	0	0	0	0	0	146,669,211	0	0	0	0	0	0
Matador - coupon: 6.50%	ESP	15,000,000,000	86,203,172	0	0	86,203,172	0	0	0	0	0	0	0	0	0
EURO bond - coupon: 7.375%	EUR	300,000,000	286,860,008	0	0	0	0	0	0	0	286,860,008	0	0	0	0
Samurai bond - coupon: 4%	JPY	25,000,000,000	237,778,203	0	0	0	0	0	237,778,203	0	0	0	0	0	0
EURO bond - coupon: 7%	EUR	500,000,000	478,100,014	0	0	0	0	0	0	478,100,014	0	0	0	0	0
Amortisation	USD			23,777,040	125,535,535	235,515,747	449,312,575	161,201,095	545,648,509	639,301,109	448,061,102	77,981,454	77,981,454	77,981,454	77,981,454
Interest payments	USD			121,271,438	149,630,297	180,199,544	154,419,888	133,831,026	123,151,454	93,977,264	49,830,691	19,373,518	14,207,246	9,040,975	3,874,704
Total Debt Service	USD			145,048,478	275,165,832	415,715,291	603,732,463	295,032,121	668,799,963	733,278,372	497,891,793	97,354,972	92,188,700	87,022,429	81,856,158
Stock (end of year)	USD			2,438,401,474	2,790,965,953	2,555,450,206	2,106,137,631	1,944,936,536	1,399,288,027	759,986,918	311,925,816	233,944,362	155,962,908	77,981,454	0

*exchange rates on 31 March 2000

5.4. THE RELATIONS OF THE REPUBLIC OF CROATIA WITH INTERNATIONAL FINANCIAL INSTITUTIONS

5.4.1. The International Bank for Reconstruction and Development (IBRD)

In the first half of 1999 the co-operation of the Republic of Croatia with the International Bank for Reconstruction and Development was following the program document “Country Assistance Strategy” laid out in 1995, which, after the termination of the stabilization program, strongly supported the preservation of macroeconomic stability and the commenced reforms in the real sector and the financial sectors, restructuring and privatization of public enterprises and banks, growth of public sector and entrepreneurship in the economy, as well as reconstruction financing and infrastructure development. The Bank started preparing the new *Country Assistance Strategy*, together with the Government of the Republic of Croatia, during 1998, and the Strategy was adopted by the Bank’s Board of Executive Directors on June 3, 1999. This new Strategy contains the financial assistance program for four fiscal years (1999 - 2002). The Strategy also stresses the importance of the preservation of macroeconomic and fiscal stability. It advocates the following:

- preparation and implementation of programs of further structural reforms with a view to reducing public expenditures (by means of implementation of reforms in the public sector, and especially in the pension system, the health system and judiciary),
- introducing new budget techniques and establishing a system of management and control of budget spending,
- progress in the sphere of public enterprise restructuring and privatization, as well as in the sphere of the commenced reforms of the banking sector with an improved monitoring and supervision of banking operations and financial institutions, and
- more rational investments into infrastructure.

New Loans and Grants Arranged in 1999

In 1999 IBRD’s financial support to financing projects in Croatia by means of new long-term loans and grants totaled US\$ 38.44 million and EUR 85.4 million. During 1999 Croatia arranged with the International Bank for Reconstruction three new loans (for financing railways reconstruction and restructuring, technical assistance for private sector development and health system improvement), as well as a loan advance for investment into the pension system reform totaling US\$ 36.3 million and EUR 85.4 million, and also seven new grants with the total value of US\$ 2.14 million.

Loans

The first new loan arranged with IBRD in 1999 amounting to EUR 85.4 million³² is intended for financing of the Railways Modernization and Restructuring Project. The preparations for his Project commenced in 1995, when IBRD supported the restructuring of Croatian Railways by a grant amounting to JPY 58.8 million. Within the comprehensive Program³³, support had been earlier given (at the end of 1998) also by the European Bank for Reconstruction and Development (EBRD) by means of a loan totaling US\$ 35 million, for reconstruction and modernization of diesel and electrical locomotives.

The Project includes the reconstruction and maintenance of 220 kilometers of gage, reconstruction of locomotives, passenger and freight cars and purchase of equipment and spare parts. The Project objective is restructuring, gradual privatization and commercialization of Croatian Railways, through reducing the number of unprofitable railway lines, services and the number of employees, and also the application of financial reforms including tariff adjustments, property re-valuation and control of revenues and expenditures. Significant resources of the Loan (EUR 28.2 million) were earmarked for severance pays. Loan closure is expected by December 31, 2002. The Loan became effective at the beginning of June 1999, and at the beginning of August the first resources were withdrawn for the purpose of

³² The Loan Agreement between the Republic of Croatia and International Bank for Reconstruction and Development, as well as the Agreement on the Project between the International Bank for Reconstruction and Development and Croatian Railways were signed on January 20, 1999. The Act on the Confirmation of the Loan Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development for the Railway Modernization and Restructuring Project was published in the “Official Gazette - International Agreements” (“Narodne novine - Međunarodni ugovori”, No. 4/1999).

³³ The Program includes: priority investments, reducing the number of employees, regulatory system reform, improvement of management and economic and financial restructuring with a view to improving the financial situation in the Croatian Railways and accomplish its transformation into a commercially sustainable company.

retroactive financing of severance pays. By the end of the year a total of EUR 4.9 million was withdrawn, out of which 3.28 million were used for severance pays.

IBRD planned to support the pension system reform by means of a US\$ 20 million loan (the so-called PSIL - Pension System Investment Loan). Within the reform, the Ministry of Labor and Social Welfare is preparing Pension System Investment Project. In February 1999 an agreement was made on the advance payment of this loan, amounting to US\$ 1,760,100.00. During 1999 the Project preparation activities commenced. Until the end of the year an amount of US\$ 583,202.61 from the Loan advance was spent for consulting services, operational expenses, equipment purchase and staff training.

In May 1999³⁴, by means of a Loan amounting to US\$ 7.3 million, the Bank supported creating such a business environment which will enable a faster private sector growth in Croatia. More precisely, the financing of the Technical Assistance Project for institutional and legislative changes aimed at private sector development (the so-called Technical Assistance Project II) is an extension of technical assistance program agreed in 1996 and financed by a US\$ 5 million loan. The objectives of the loan were: (1) establishing of legislative and institutional framework for public services (through establishing a special Agency for Legislative and Legal Regulation of Public Services, training of experts and extending assistance to the Office for Economics and Restructuring of Public Enterprises), (2) strengthening of the Agency for Protection of Market Competition, (3) expert training and institutional development of Securities Commission and Central Depository Agency, (4) support to cadaster system reform for the purpose of bringing it into line with the European system, (5) strengthening of State Bureau of Statistics (preparation of methodology and introduction of a system for monitoring of consumer prices), (6) support to the State Agency for Deposit Insurance and Bank Rehabilitation and (7) establishment of Project management and financial management system, as well as accounting and audit of Project accounts within the Project Implementation Unit, established within the Ministry of Finance. This Loan became effective at the beginning of August 1999, and in the period until December 31, 1999 an amount of US\$ 673,000 was withdrawn for Project implementation.

On October 7, 1999³⁵ IBRD approved a Loan for the Reform and Promotion of the Croatian Health System within the framework of the Health System Project. The loan amount totals US\$ 29 million. The Republic of Croatia committed itself to allocate from the Central Government budget, in the period from 2000 to 2003, the resources with the equivalent value of US\$ 10.9 million in kuna. The Project objectives are the following: (1) improve accomplishment of a more efficient, more successful and financially more sustainable health system in the medium term, (2) computerize the information system of the Croatian Health Insurance Institute, (3) improve the quality of rendering health services by procurement of diagnostic and medical equipment, as well as training of medical staff in primary health care centers, hospitals and emergency service, (4) pharmaceutical rejects disposal and (5) promotion of health condition of general population by supporting health promotion programs. The Japanese Government approved a grant amounting to US\$ 418,260 for the Project preparation in 1998.

The Project implementation is under the jurisdiction of the Ministry of Health, and so is the fulfillment of the Loan effectiveness terms and conditions laid out by the Agreement (establishment of Project Management Unit, which will maintain the financial management system, select independent auditors acceptable to the Bank and open the Project Account in a commercial bank). The Loan will finance equipment (US\$ 13.53 million), consultant services (US\$ 7.22 million), technical services for disposal of unusable drugs (US\$ 2.82 million) and works (US\$ 2.51 million), whereas US\$ 2.6 million is left for a subsequent distribution during Project implementation. In the course of 1999 financial transactions were not carried out, given the fact that the loan was not operational, and it is expected that the conditions for its effectiveness will be met by the end of March 2000.

Those new loans have been arranged under IBRD's standard financial conditions ³⁶ prescribed for group II of countries, which The Republic of Croatia belongs to.

³⁴ Act on the Confirmation of the Loan Agreement between the Republic of Croatia and the International Bank for Reconstruction and Agreement for the Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development (the "Official Gazette - International Agreements" - "Narodne novine - Međunarodni ugovori", No. 7/1999).

³⁵ Act on the Confirmation of the Loan Agreement between the Republic of Croatia and the International Bank for Reconstruction and Agreement for the Health System Project (the "Official Gazette - International Agreements" - "Narodne novine-Međunarodni ugovori", No. 14/1999).

³⁶ In concordance with IBRD policy of granting loans to borrowers under conditions related to economic power of member countries, the Republic of Croatia has been placed into group II of countries comprised of member countries in which GNP per capita is realized on the level of US\$ 3,031 to 5,280.

The conditions are the following: loan duration at least 15 years, grace period 5 years, interest rate LIBOR which is applied to six-month deposits in loan currencies (US\$, EUR) increased by a 0.50-percent margin and with a 0.75-percent commitment fee, as well as front-end fee amounting to 1% of the loan amount which is included in the loan, payable on the day of loan effectiveness³⁷.

Grants

During 1999 the Bank awarded seven new grants to the Republic of Croatia – non-repayable resources amounting to the total of US\$ 2,144,530. A grant amounting to US \$80,000 was received for the Y2K problem, four grants worth US\$ 1.47 million were obtained for environmental protection, conservation of natural parks and eco-systems, out of which the one with the highest amount of donated funds was the grant for the Kopački Rit national park (US\$ 750,000). A grant amounting to US\$ 253,700 was awarded for assistance to Croatian judiciary adjustment (Bankruptcy Act); also, an amount of US\$ 337,500 was obtained for the support of transport infrastructure as part of Rijeka Port modernization.

Preparation of Projects and Activities for Arrangements for Other New Loans

In 1999 the preparations for the following loans were carried out:

- A US\$ 5 million technical assistance loan for the Bankruptcy Procedure Administration and a US\$ 5 million loan for Cadaster Modernization Technical Assistance Project,
- Under the auspices of SECI Initiative, preparation for Border Crossing Construction Project for the border crossings with Bosnia - Herzegovina and computerization of border crossings with a view to facilitation of trade and transport with neighboring countries, which the Bank plans to finance with a US\$ 10.5 million loan,
- Preparations have been started for the loan for pension system investment and reform amounting to US\$ 20 million,
- Support for preparation and implementation of measures for fiscal sustainability by means of a new Public Sector Structural Adjustment Loan (SAL), amounting to US\$ 200 million,
- The assessment has been carried out for Cultural Heritage Conservation Project in Split, Solin and Trogir, for which a loan amounting to US\$ 18.3 million was planned and
- Activities related to projects of energy sector restructuring, modernization of judiciary, preparation of social welfare program, environmental protection program at Plitvice Lakes, privatization and modernization of Rijeka Port and other projects which will be financed by loans in the period until 2002.

Review of Loans and Debt to IBRD

In the period from 1994 to 1999, the International Bank for Reconstruction and Development granted sixteen long-term loans for the financing of programs and projects in the Republic of Croatia. The Republic of Croatia concluded thirteen loans directly with IBRD (public loans), whereas the other two loans were concluded by Croatian banks with the state guarantees³⁸. All those loans, together with advances for investments into the pension system and the taken over old loan for Istria Water Supply Project (awarded in 1990, taken over in 1994 with guarantees of the Republic of Croatia³⁹, on the basis of which resources are still being withdrawn) make up the total loan portfolio which are being used, totaling US\$ 378.06 million, DEM 516.1 million and EUR 85.4 million. In the period from 1994 to 1999, within this loan portfolio, the following total amount of resources have been utilized: US\$ 294.9 million (78% of the total value of agreed loans in US\$), DEM 222.34 million (43% of the total value of agreed loans in DEM) and EUR 4.9 million (5,8% of the total value of the agreed loan in EUR).

³⁷ According to the decision of IBRD's Board of Executive Directors, in fiscal year 1999 a decrease of 0.5% in commitment fee was approved. Therefore, in FY 1999 the annual rate of 0.25% was used despite the agreed rate of 0.75%. A new mandatory, 1-percent front-end fee was introduced, which is included in the loan. On the effectiveness date of the loan IBRD pays out to itself the front-end fee amount from the proceeds of the loan. The Interest Waiver Rate, which in previous years amounted to 0.25%, in fiscal year 1999 was reduced by 0.20%, i.e., the 0.05-percent rate was used.

³⁸ For the financing of Investment Recovery Project a total of DEM 52 million to four banks was allocated (Varaždinska banka d.d. DEM 13.9 million, Dalmatics banka d.d. DEM 15.6 million, Slavonska banka d.d. DEM 17.3 million, and Alpe Jadran banka d.d. DEM 5.2 million), which concluded loans with the guarantees of the Republic of Croatia. HBOR (Croatian Bank for Reconstruction and Development) also, with the guarantees of the Republic of Croatia, concluded a loan amounting to DEM 65 million for the Local Infrastructure Financing Program.

³⁹ The Act on Confirmation (Ratification) of the Agreement on Guarantees between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement on taking over the loan between the Republic of Croatia and the International Bank for Reconstruction and Development, signed on February 25, 1993 ("the Official Gazette - International Agreements" - "Narodne novine-Međunarodni ugovori", No. 7/1994).

The overall status of unwithdrawn resources of the portfolio amounts to US\$ 83.14 million, DEM 293.75 million and EUR 89.44 million. Those loan resources will be used for the financing of programs and projects according to the agreed time frame, i.e., in the period from 2000 to 2006.

The debt status of the Republic of Croatia, either as a debtor or guarantor, against IBRD in terms of loans concluded in the period from 1994 to 1999, on December 31, 1999 totaled US\$ 268.13 million, DEM 222.34 million and EUR 4,9 million. However, the remaining overtaken debt amounting to US\$ 11.96 million⁴⁰ should be added to this debt, so that the overall debt against all loan categories on December 31, 1999 in dollar equivalent and against mid foreign currency rate of the Croatian National Bank totaled US\$ 395.47 million.

All matured obligations toward IBRD against the inherited and new loans were paid regularly and in a timely manner. The state budget resources were used for repayment of obligations arising from ten public operative loans (mostly interests and commitment fees, as the principal repayment was due only for Emergency Reconstruction Project). Repayment obligations against Health Project were paid by the Croatian Health Insurance Institute. Due interests and fees for the loans against Investment Recovery Project and Local Infrastructure and Environmental Protection Financing Program, obtained with the guarantee of the Republic of Croatia, were met by four commercial banks and HBOR (the Croatian Bank for Reconstruction and Development - Borrowers).

The interests on loans in German marks were paid at the annual rate, with the margin from 2.78 % to 3.71%, whereas for loans in American dollars the interest rate was paid according to interest rates of 5.31% to 5.16% for single currency loans and 6.18% and 6.03% for the currency pool loans. A 0,5-percent margin was included in the used interest rates.

Commitment fees for unused principals of the loans were calculated and charged at the annual rate of 0.25%.

Due to regular and timely payment of due obligations and respecting IBRD's strict rules of financial discipline, in the period from July 1, 1998 to June 30, 1999 (IBRD's fiscal year), savings were made based on interest rate partial waiver for loans utilized by the Republic of Croatia in the total amount of US\$ 419,394.43⁴¹.

The State budget resources were used in 1999 for the payment of obligations on the basis of four inherited loans used for financing of railways, roads and water supply system. The funds for meeting those obligations were earmarked in the State budget⁴².

Based on the Republic of Croatia guarantees, the debt of Varaždinka d.d., Varaždin, was also paid, as it did not meet its payment obligations toward IBRD due to illiquidity.

During 1999, a total of US\$ 51.78 million, DEM 66.05 million and EUR 4.95 million EUR were withdrawn from the available IBRD loan resources (public loans and loans guaranteed by the Government). The implementation of concluded projects and programs, with certain delays in withdrawal of some loan resources, were carried out in concordance with dynamics of works, procurement procedures, and domestic source financing possibilities.

⁴⁰ The Republic of Croatia, within the framework of becoming a member country of IBRD (on February 25, 1993 it became a full member country) took over 7.6% of unrepaid loans of the Former Yugoslavia against IBRD on the basis of 17 loans of Croatian beneficiaries. During 1999 the last installments were repaid of the taken over loan amounting to US\$ 12.27 million, used for railways modernization. From 1994 until 1999 twelve taken over loans were repaid in full, and 5 more remained. The remaining debt against those inherited loans on December 31, 1999 totaled US\$ 11.96 million.

⁴¹ IBRD approves a reduced interest rate only to borrowers which regularly and correctly meet their repayment obligations (within 30 calendar days following loan maturity). During fiscal year 1999 IBRD approved Interest Partial Waiver of 0.05% annually.

⁴² The State budget of the Republic of Croatia for 1999 and the Act on the Execution of the Republic of Croatia State Budget for 1999 ("the Official Gazette", No. 167/1998, 17/1999 and 70/1999).

Table 5.10: IBRD Loans

No.	Name of the Project	Signed at:	Currency	Amount Agreed	Undisbursed balance as at 31. 12. 1999.	Closing Date	Loans	Principal Repayment Dates	
							Outstanding as at 31. 12. 1999.	First	Last
I. Public Loans									
1.	Emergency reconstruction loan	27. 06. 1994.	000 USD	128,000.00	0.00	31. 12. 1999.	118,545.00	15. 12. 1998.	15. 06. 2011.
2.	Loan Agreement - Health Project	8. 03. 1995.	000 USD	40,000.00	3,207.65	30. 04. 2000.	36,792.35	15. 06. 2000.	15. 12. 2011.
3.	Roads Reconstruction Project	27. 04. 1995.	000 USD	80,000.00	7,652.71	31. 12. 2000.	70,422.29	15. 12. 1999.	16. 06. 2012.
4.	Capital Market Development Project	23. 04. 1996.	000 DEM	14,200.00	0.00	30. 06. 1999.	14,200.00	15. 10. 2001	15. 04. 2013.
5.	Private Farmer Support Project	23. 04. 1996.	000 USD	17,000.00	11,538.16	30. 06. 2001.	5,461.84	01. 03. 2001.	1. 09. 2012.
6.	Technical Assistance Project	23. 04. 1996.	000 USD	5,000.00	190.46	31. 12. 1999.	4,809.54	15. 10. 2001.	15. 04. 2013.
7.	Emergency Transport and Mine Clearing Project	04. 12. 1996.	000 DEM	150,900.00	43,955.79	30. 06. 2000.	106,944.21	15. 07. 2002.	15. 01. 2012.
8.	Coastal Forest Reconstruction and Protection Project	31. 01. 1997.	000 USD	42,000.00	14,898.46	30. 06. 2002.	27,101.54	15. 06. 2002.	15. 12. 2013.
9.	Enterprises and Financial Sector Adjustment Project	4. 06. 1997.	000 DEM	160,000.00	80,000.00	30. 06. 2000.	80,000.00	15. 12. 2002.	15. 06. 2012.
10.	Reconstruction of Eastern Slavonia	08. 09. 1998	000 DEM	74,000.00	68,465.92	30. 06. 2003.	5,534.08	15. 01. 2004.	15. 07. 2013.
11.	Railway Modernization and Reconstruction Project	20. 01. 1999.	000 EUR	85,400.00	80,446.05	30. 06. 2003.	4,953.95	15. 09. 2003.	15. 03. 2014.
12.	Advance for Preparation of Pension System Investment Project (Letter - Agreement No.P358-0 HR)	01. 02. 1999.	000 USD	1,760.10	1,176.90		583.20		
13.	Technical Assistance Project for Regulatory Reform for Private Sector Development	12. 05. 1999.	000 USD	7,300.00	6,627.00	30. 06. 2003.	673.00	15. 10. 2004.	15. 04. 2014.
14.	Health System Project	07. 10. 1999.	000 USD	29,000.00	29,000.00	30. 06. 2004.	0.00	15. 06. 2005.	15. 12. 2014.
TOTAL I:			USD	350,060.10	74,291.33		264,388.77		
			DEM	399,100.00	192,421.71		206,678.29		
			EUR	85,400.00	80,446.05		4,953.95		
II. Guarantee Agreements									
1.	Investment Recovery Project	04. 12. 1997.	000 DEM	52,000.00	38,559.55	31. 12. 2001.	13,440.45	15. 03. 2003.	15. 09. 2012.
2.	Local Infrastructure and Environment Protection Project	25. 09. 1998.	000 DEM	65,000.00	62,776.75	30. 06. 2006.	2,223.25	15. 11. 2003.	15. 05. 2013.
TOTAL II:			DEM	117,000.00	101,336.30		15,663.70		
III. Inherited Loans But Not Fully Repaid (Assumed by the Guarantee of The RC)									
1.	Oil and Gas Research Project (Molve)	13. 12. 1985.	USD	55,000.00	0.00		2,308.48		
2.	Construction of Roads Project (XII. Loan)	27. 02. 1987.	USD	33,378.00	0.00		4,188.00	01. 10. 1989.	01. 04. 2001.
3.	II Sectoral Loan for Construction of Roads	30. 09. 1988.	USD	5,900.00	0.00		1,468.99	15. 03. 1991.	15. 09. 2001.
4.	Environment Protection and Energy Savings Project (Varaždinka)	30. 09. 1988.	USD	1,303.49	0.00		244.40	15. 08. 1993.	15. 02. 2004.
5.	Water- Supply System Construction in Istria	01. 02. 1990.	USD	28,000.00	8,848.87	30. 06. 2006.	3,751.13	15. 10. 1994.	15. 02. 2004.
TOTAL III:			USD	123,581.49	8,848.87		11,961.00		
TOTAL (I+II+III)			USD	473,641.59	83,140.20		276,349.77		
			DEM	516,100.00	293,758.01		222,341.99		
			EUR	85,400.00	80,446.05		4,953.95		
TOTAL*:			USD	824,351.26	314,727.87		395,471.77		

* average exchange rate, CNB 31. 12. 1999.

Table 5.11: IBRD loans disbursement in 1999

No.	Operation No.	Name of the Project	Effective date	Currency	Amount Agreed	Total disbursement at 31. 12. 1998.	Disbursement in 1999	Total disbursement until 31. 12. 1999.
1	2	3	4	5	6	7	8	9 (7+8)
I. PUBLIC LOANS								
1.	37600-HR	Emergency reconstruction loan	19. 08. 1994.	USD	128,000,000.00	126,297,041.04	1,702,958.96	128,000,000.00
2.	38430-HR	Health Project	17. 08. 1995.	USD	40,000,000.00	36,156,192.27	636,157.55	36,792,349.82
3.	38690-HR	Roads Reconstruction Project	26. 07. 1995.	USD	80,000,000.00	58,722,959.24	13,624,332.91	72,347,292.15
4.	39990-HR	Capital Market Development Project	22. 06. 1996.	DEM	14,200,000.00	11,926,251.40	2,273,748.60	14,200,000.00
5.	39880-HR	Private Farmer Support Project	22. 07. 1996.	USD	17,000,000.00	3,829,988.10	1,631,856.78	5,461,844.88
6.	39890-HR	Technical Assistance Project	22. 07. 1996.	USD	5,000,000.00	3,164,630.83	1,644,913.75	4,809,544.58
7.	41040-HR	Emergency Transport and Mine Clearing project	04. 03.1997.	DEM	150,900,000.00	62,128,837.15	44,815,373.51	106,944,210.66
8.	41190-HR	Coastal Forest Reconstruction and Protection Project	31. 07. 1997.	USD	42,000,000.00	853,491.14	26,248,047.97	27,101,539.11
9.	41590-HR EFSAL	Enterprises and Financial Sector Adjustment Project	15. 11. 1997.	DEM	160,000,000.00	80,000,000.00	0.00	80,000,000.00
10.	43510-HR	Reconstruction of Eastern Slavonia	06. 01. 1999.	DEM	74,000,000.00	0.00	5,534,079.54	5,534,079.54
11.	44330-HR	Railway Modernization and Reconstruction Project	09. 06. 1999.	EUR	85,400,000.00	0.00	4,953,946.51	4,953,946.51
12.	44600-HR	Technical Assistance Project for Regulatory Reform for Private Sector Development	03.08. 1999.	USD	7,300,000.00	0.00	673,000.00	673,000.00
13.	35800-HR Avance loan	Pension System Project	01. 02. 1999.	USD	1,760,100.00	0.00	583,202.61	583,202.61
14.	45130-HR	Health System Project	not effective	USD	29,000,000.00	0.00	0.00	0.00
Total I:				USD	350,060,100.00	229,024,302.62	46,744,470.53	275,768,773.15
				DEM	399,100,000.00	154,055,088.55	52,623,201.65	206,678,290.20
				EUR	85,400,000.00	0	4,953,946.51	4,953,946.51
II. Loans guaranteed by the Republic of Croatia								
1.	30690-HR	Water-Supply System Construction in Istria	01. 02. 1990. (assumed 25. 02. 93.)	USD	28,000,000.00	14,109,479.44	5,041,654.09	19,151,133.53
2.	4246-4249 HR (4 loans)	Investment Recovery Project	04. 03. 1998.	DEM	52,000,000.00	2,230,000.00	11,210,450.01	13,440,450.01
3.	43520-HR	Local Infrastructure and Environment Protection Project	28. 06. 1999.	DEM	65,000,000.00	0.00	2,223,250.65	2,223,250.65
Total II.:				USD	28,000,000.00	14,109,479.44	5,041,654.09	19,151,133.53
				DEM	117,000,000.00	2,230,000.00	13,433,700.66	15,663,700.66
TOTAL (I.+II.):				USD	378,060,100.00	243,133,782.06	51,786,124.62	294,919,906.68
				DEM	516,100,000.00	156,285,088.55	66,056,902.31	222,341,990.86
				EUR	85,400,000.00	0.00	4,953,946.51	4,953,946.51

The remaining funds of two loans were fully utilized:

- a DEM 14.2 million loan for Capital Market Development Project, with the agreed final date September 30, 1999 (DEM 2.27 million was withdrawn), and
- Emergency Reconstruction Loan amounting to US\$ 128 million, with agreed withdrawal until the end of 1999 (in the period from April to October 22, 1999 inclusive, the remaining US\$ 1.70 million was withdrawn).

In 1999, the majority of resources were invested into reconstruction and demining. For example, for the financing of Transport Infrastructure Emergency Reconstruction and Demining Project an amount of DEM 44.81 million was utilized, for Coastal Forest Reconstruction and Fire Protection Project US\$ 26.24 million, and for Eastern Slavonia Reconstruction Project 5,53 million DEM. Furthermore, there follow Highway financing with investments of US\$ 13.62 million, construction of Istria Water Supply System amounting to more than US\$5 million, and solving the problems of Railway Restructuring and Modernization with EUR 4.9 million. More significant funds amounting to DEM 11.2 from the loan intended for Investment Recovery were also invested by commercial banks into private companies investment projects.

For agriculture sector investments an amount of US\$ 1.63 million was withdrawn, from technical assistance loans US\$ 1.64 million (the first TA loan) and US\$ 673,000 (TAL II), whereas during 1999 the smallest amount (US\$ 636,157) was withdrawn from the unutilized funds of the 1995 First Health System Loan and from Pension System Investment advance (US\$ 583,202).

An amount of DEM 80 million (II tranche) remained unutilized out of the proceeds of the EFSAL loan (Enterprise and Financial Sector Adjustment Loan), which amounted to DEM 160 million. The implementation of this program includes the banking system rehabilitation and privatization, a faster privatization of socially-owned companies which were a part of the Croatian Privatization Fund portfolio, as well as for public enterprise restructuring and privatization and promotion of banking management. In 1999 there were no withdrawals of loan proceeds. Due to a halt in the implementation of the agreed criteria for the second loan tranche withdrawal (enforcement of the general legislative regulations on energy sector organization and establishment of the Agency for energy supply and telecommunications, the preparation and implementation of HEP (State Electricity Utility) action plan for the commencement of its restructuring and privatization, the preparation of the Government Plan of the restructuring and privatization of 11 state-owned companies).

Review of Grants

Table 5.12: Review of obtained donation by IBRD (31. 12. 1999)

No.	Signed at:	Project	Currency	Amount	Not disbursed as at December 31, 1999
1.	1995.	IDF Grant for Procurement	USD	148,000.00	0.00
2.	1995.	Private farmer support	JPY	56,600,000.00	0.00
3.	1995.	Coastal forest reconstruction and protection	JPY	21,200,000.00	146,615.00
4.	1995.	Public sector adjustment	JPY	75,600,000.00	5,411,786.00
5.	1995.	Agriculture adjustment	JPY	29,400,000.00	24,096,291.00
6.	1995.	Croatian railways reconstruction	JPY	58,800,000.00	0.00
7.	1996.	Infrastructure of city environment	USD	500,000.00	436.40
8.	1996.	Transport infrastructure in Zagreb	USD	800,000.00	0.00
9.	1997.	Strategy of biological diversity	USD	102,000.00	0.00
10.	1997.	Private sector development	USD	398,000.00	240,533.81
11.	1997.	Public finance management	USD	314,000.00	130,485.40
12.	1998.	Eastern Slavonia Flood Control	USD	200,000.00	0.00
13.	1998.	Health modernization	USD	418,260.00	100,035.00
14.	1998.	Sava River Flood Control Component	USD	476,150.00	319,099.23
15.	1999.	Year 2000 info problem	USD	80,000.00	80,000.00
16.	1999.	Environment protection	USD	276,490.00	246,490.00
17.	1999.	Natural Resort "Kopacki rit" management	USD	750,000.00	680,000.00
18.	1999.	Comunal ecologic infrastructure	USD	216,840.00	216,840.00
19.	1999.	Bancruptcy Law Adjustment Project	USD	253,700.00	253,700.00
20.	1999.	Preservation of karst nature	USD	230,000.00	230,000.00
21.	1999.	Harbour Rijeka modernization	USD	337,500.00	253,700.00
Total:			USD	5,500,940.00	2,751,319.84
			JPY	241,600,000.00	29,654,692.00

In the period from 1995 to 1999, IBRD awarded 21 grants to the Republic of Croatia. Those non-repayable funds are mostly being used for payment of consulting services and preparation of studies necessary for project preparation, which are reported to the Bank for loan financing following completion of feasibility studies. Sixteen grants were agreed in American dollars in the total amount of US\$ 5.5 million, out of which on December 31, 1999 an amount of US\$ 2.75 million was unutilized, and also 5 grants in Japanese yens in the total amount of JPY 241.6 million, out of which JPY 29.65 million remained unutilized.

5.4.2. European Bank for Reconstruction and Development (EBRD)

Business operations in 1999

In concordance with its mandate⁴³ and set priorities in its 1999 business operations⁴⁴, EBRD extended a direct support to private sector development in Croatia by strengthening the financial sector through granting loans to private banks with a view to fostering development of small and medium-sized enterprises, direct capital investments insurance companies and issued bank guarantees. The Bank also supported by credits the development of telecommunication and water resource management infrastructure.

During 1999 EBRD financed six new projects in the Republic of Croatia with a total of EUR 43.78 million. It awarded four new direct loans to banks and enterprises in the total amount of EUR 41.17 million without state guarantees and invested EUR 2.61 million into establishing two new insurance companies. EBRD supported private sector and enterprise strengthening by means of loans to private banks: EUR 3.6 million to Trgovačka banka and EUR 7.7 million to Bjelovarska banka.

Within the framework of the economic recovery assistance strategy, and with a view to fostering liberalization of telecommunications sector and telecommunication infrastructure development, in October 1999 EBRD approved to VIP-Net a loan amounting EUR 22.37 million for the GSM 900 mobile phone network project. EBRD strongly supported that project and together with Creditanstalt AG prepared a syndicated loan amounting to EUR 77.6 million, with the participation of Nordic Investment Bank in the parallel financing with EUR 20 million. Thanks to such engagement VIP-Net received a total of EUR 120 million of foreign loans.

The project of the City of Rijeka sewerage system construction, elaborated according to environmental protections standards of the Republic of Croatia and the European Union standards, which includes the main wastewater collector and 9 pumping stations, EBRD finances by a loan amounting to EUR 7.5 million granted to VIK, Rijeka in December 1999.

Apart from the aforementioned loans, EBRD invested EUR 2.61 million (equity) into development of insurance sector by recapitalizing two insurance companies (Austria Insurance d.d. and Erste Pension Fond), and concluded a special guarantee agreement for various payment instruments with Međimurska banka, whereby it supported the financing of trade within the Trade Facilitation Program (TFP).

In 1999 the Republic of Croatia did not conclude any new public loan agreements with EBRD. The previously concluded available loans with EBRD were withdrawn. In 1999 a total of DEM 7 million and US\$ 1.77 million out of effective public loans and loans obtained with state guarantees.

In 1999 an amount of US\$ 1.37 million was invested into the implementation of the Air Traffic Project. The Project includes: signal instruments reconstruction, landing system equipment for the Zagreb, Pula, and Dubrovnik airports, as well as reconstruction of the regional radar facility near Split.

The agreed term for withdrawal of EBRD loan proceeds in the amount of US\$ 20 million (the loan granted in 1994) is June 30, 2000. According to the status on December 31, 1999, there is a non-withdrawn amount of US\$ 1.42 million, and a total of US\$ 18.57 million was utilized.

Highway Reconstruction Project (improvement of main road routes, finalization of Oštrovica-Delnice highway, maintenance of high priority road routes, equipment purchase) was financed by EBRD loan amounting to DEM 70.9 million, with agreed closing date of February 28, 1999, when the loan was closed down. At the beginning of 1999 an

⁴³ EBRD was founded and operates with a special mandate to finance projects which support and speed up the process of transition to market economies, and also the development of private and entrepreneurial initiative in the Central and Eastern European countries committed to implementation of multi-party democracy, pluralism and market economy principles.

⁴⁴The Bank directed its banking operations in 1999 toward constructive and creative partnership with member countries, clients and other international financial institutions with a view to fostering mobilization of capital and co-financing the development of inter-regional infrastructure and trade. As a priority, it financed private sector projects, strengthened the financial sector in terms of opening new business perspectives on market principles, encouraged enterprise and bank restructuring, small and medium-sized enterprise establishment and growth, and commercialization of the public sector and infrastructure.

amount of DEM 1.87 million was withdrawn from the loan, and the unwithdrawn amount of DEM 107,019.78 was canceled.

A DEM 33.5 million loan was concluded in 1997 for the purpose of Wholesale Market Project. Construction of wholesale market network of fruit, vegetable and flower wholesale markets was envisaged, at six selected locations in Zagreb, Osijek, Rijeka/Matulji, Benkovac, Split, and Metković. The loan became operative in September 1998, however, due to numerous unresolved property rights issues, assessment of cost and the very concept of wholesale markets construction at the designated locations, the loan proceeds for Project implementation were not withdrawn. The decision on reducing of the Project loan volume, i.e., cancellation of a part of the loan, is pending.

In 1999 the State Electricity Utility (HEP) withdrew an amount of DEM 2.92 million from the loan intended for the reconstruction of power supply and distribution network, Croatian Bank for Reconstruction and Development withdrew DEM 2.27 million for construction of water supply infrastructure within the Local Infrastructure and Environmental Protection Program, whereas the Croatian Railways withdrew an amount of US\$ 397.9 thousand for Locomotive Reconstruction Project.

The amount stipulated by the agreement of DEM 105 million, awarded to the Croatian Bank for Reconstruction and Development for the Local Infrastructure and Environmental Protection Program (which included infrastructure for wastewater and reconstruction and extension of water supply infrastructure in Split, Solin, Kaštela, Trogir, Pula, and Rijeka) was reduced in November 1999 by DEM 6.5 million due to abandoning the City of Rijeka investment program, so that the loan totals DEM 98.44 million.

The Central Government budget of the Republic of Croatia for 1999 resources was used to repay all due liabilities against public loans and against the public loan granted to Croatian Railways with the state guarantee⁴⁵. During 1999 the State Electricity Utility and the Croatian Bank for Reconstruction and Development repaid the liabilities against EBRD payment calls a timely manner, therefore the guarantees of the Republic of Croatia for those loans were not activated.

The Bank is interested in further investment into Croatia, and especially into small and medium-size banks, tourism, highway construction (Zagreb-Rijeka), telecommunications, electric-power industry, support to small and medium-size enterprises and exports, and also in continuing investing into profitable companies (Pliva and Podravka), so new projects are being developed in those sectors.

Overview of Loans

Among 26 EBRD-supported transition countries, Croatia is at the sixth place in terms of the number of projects (32) and in terms of the overall invested EBRD resources. Croatia, with EUR 565 million (out of which EUR 325.61 million are invested into 25 private sector projects through loans and direct investments, and EUR 239.47 million in 7 public sector projects) is behind the Russian Federation, Romania, Poland, Hungary, and Ukraine. In terms of the criterion of the overall amounts of granted loans for public sector financing and the criterion of utilization of approved funds for the private and public sector financing, Croatia also, on a comparable scale, takes up the sixth position. In terms of EBRD activities on fostering economic recovery, direct investments into the private sector, financing of infrastructure and regional trade in South-East Europe, Croatia is in the second position according to the number of projects and investment size (after Romania), and is followed by Bulgaria, Macedonia, Bosnia-Herzegovina and Albania.

The overall EBRD loans granted to the Republic of Croatia or awarded with the state guarantees, as of December 31, 1999, amount to US\$ 55 million and DEM 315.84 million.

In the period between 1994 and 1999, the Republic of Croatia concluded with EBRD three loan agreements amounting to DEM 104.4 million and US\$ 20 million, and four guarantee agreements totaling DEM 211.44 million and US\$ 35 million.

As of December 31, 1999, on the basis of three public loans, the following total amount of funds was withdrawn: US\$ 18.57 million (92.86%) and DEM 71.15 million (68.16%). An amount of US\$ 1.42 million (7.4%) and DEM 33.13 million (31.74%) remained unutilized.

⁴⁵ The 1999 Central Government budget of the Republic of Croatia ("The Official Gazette" Nos. 167/1998, 17/1999, and 70/1999) earmarked the funds for repayment obligations toward EBRD. During 1999 EBRD was repaid a total of DEM 8,705,649.75 and US\$ 3,593,464.72 against payment call: (1) against the US\$ 20 million loan, intended for construction of air traffic system, a total of US\$ 3,304,838.14 (against the principal 2,500,000.00 + interests 787,314.96 + fees 17,523.18); (2) against a DEM 70.9 million loan, intended for highway reconstruction, a total of DEM 537,553.40 (against the principal 5,898,604.28 + interests and fees 2,638,949.28); (3) against the loan totaling DEM 33.5 million for wholesale market project, the commitment fee amounting to DEM 168,096.35 and (4) against the loan amounting to US\$ 35 million for railway locomotive reconstruction a total of US\$ 288,626.58 US\$ (9,073.80 for interests + 279,552.78 commitment fees).

At the end of 1999 debt toward EBRD on account of direct public loans totaled US\$ 9.83 million and DEM 59.35 million, whereas the debt against guaranteed loans totaled DEM 77.64 million and US\$ 397.9 thousand.

5.4.3. Council of Europe Social Development Bank (CEB)

The official name of The Council of Europe Social Development Fund (CEF), which Croatia joined on June 24, 1997⁴⁶, changed into The Council of Europe Social Development Bank (CEB) by Decision of the Fund Management Board dated June 28, 1999, which came into force on November 1, 1999. Hereinafter the new official name is being used also when reference is made to agreements concluded prior to coming of the new name into force.

Utilization of Loans in 1999

In 1998 the Republic of Croatia concluded the first two long-term basic loan agreements with CEB, amounting to HRK 240,112,129.00 for financing the Projects of Health Infrastructure and Schools Reconstruction in Eastern Slavonia, with a view to fostering reintegration and creating the necessary conditions for quicker return of refugees.

During 1999 a total of HRK 110,869,974 was withdrawn from those basic agreements. The debt of the Republic of Croatia owed to CEB in terms of utilized tranches of revolving loan on December 31, 1999 total an amount of US\$ 7,485,000 and EUR 7,600,000. A detailed overview of utilization of loans, agreed financial terms and conditions for each tranche withdrawal and the debt status is shown in Table 5.14.

⁴⁶ The Act on Accession of the Republic of Croatia to the Council of Europe Social Development Fund and Confirmation of the Charter of the Council of Europe Social Development Fund dated June 8, 1993 ("The Official Gazette - International Agreements", No. 8/1997).

Table 5.13: EBRD loans as at 31. 12. 1999.

No.	Project Name	Operation No.	Signed at:	Currency	Loan Amount	Disbursed	Not-Disbursed	Final Date for Disbursement	Repayment Dates First/Last	Amount Outstanding
1	2	3	4	5	6	7	8 (6-7)	9	11	12
I. PUBLIC LOANS										
1.	Air Navigation System Project	231	21. 09. 1994.	USD	20,000,000.00	18,572,207.67	1,427,792.33	30. 06. 2000.	21. 09. 1996./21. 03. 2004.	9,822,207.67
2.	Highway Reconstruction Project*	286	17. 01. 1995.	DEM	70,900,000.00	70,792,980.22	0.00	28. 02. 1999.	10. 04. 1998./10. 12. 2009.	58,986,042.74
3.	Wholesale Markets Project	627	08. 12. 1997.	DEM	33,500,000.00	365,823.61	33,134,176.39	24. 11. 2001.	24. 05. 2002./24. 11. 2011.	365,823.61
TOTAL I.				USD	20,000,000.00	18,572,207.67	1,427,792.33			9,822,207.67
				DEM	104,400,000.00	71,158,803.83	33,134,176.39			59,351,866.35
II. LOANS WITH GUARANTEE OF REPUBLIC OF CROATIA										
1.	Electricity Network Reconstruction Project	283	02. 02. 1995.	DEM	63,000,000.00	58,410,877.65	4,589,122.35	31. 03. 2000.	10. 03. 1998./10. 03. 2005.	41,610,877.65
2.	Credit Line for Tourism	443	26. 06. 1996.	DEM	50,000,000.00	50,000,000.00	0.00	01. 05. 1998.	23. 12. 1998./23. 12. 2002.	33,332,000.00
3.	Municipal Environmental Infrastructure Investment (MEIP) **	494	09. 12. 1996.	DEM	98,440,000.00	2,697,163.56	95,742,836.44	31. 03. 2001.	10. 04. 2001./10. 10. 2011.	2,697,163.56
4.	Railways Locomotiv Rehabilitation Project	733	08. 12. 1998.	USD	35,000,000.00	397,903.00	34,602,097.00	31. 03. 2002.	20. 05. 2002./20. 11. 2013.	397,903.00
Total II.				DEM	211,440,000.00	111,108,041.21	100,331,958.79			77,640,041.21
				USD	35,000,000.00	397,903.00	34,602,097.00			397,903.00
Total I. + II.				USD	55,000,000.00	18,970,110.67	36,029,889.33			10,220,110.67
				DEM	315,840,000.00	182,266,845.04	133,466,135.18			136,991,907.56

* 28. 02. 1999 undisbursed amount cancelled DEM 107.019,78

** 23. 11. 1999 agreed amount of DEM 105 mill. reduced to DEM 98.44 mill.

Table 5.14: CEB Loans Disbursed in 1999 and Loans Outstanding as at the end of 1999

No.	Project	Framework Loan Amount in Equivalent to HRK	Instolment (date)	Disbursed in Equivalent to HRK	Currency	Loans Outstanding as at 31. 12. 1999.	Fixed Rate per Annum	Grace Period for Principal	Principal Due Date	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
1.	Project 1278 (1988) Rehabilitation of Health infrastructures in Eastern Slavonia	172,744,129	I. (15. 03. 1999.)	35,396,328	USD	5,075,000	5,71%	5 Years.	17. 03. 2005.	17. 03. 2009.
			II. (02. 11. 1999.)	34,884,521	EUR	4,500,000	5,38%	5. Years.	02. 11. 2005.	02. 11. 2009.
			Total 1. (I.+II.):	70,280,849						
2.	Project 1279 (1998) Rehabilitation and (re)construction of schools in Eastern Slavonia	67,368,000	I. (15. 03. 1999.)	16,842,000	USD	2,410,000	5,71%	5. Years.	17. 03. 2005.	17. 03. 2009.
			II. (23. 11. 1999.)	23,774,125	EUR	3,100,000	5,04%	5. Years.	29. 11. 2005.	29. 11. 2009.
			Total 2. (I.+II.):	40,616,125						
	Total Framework Loans (1.+2.):	240,112,129	Total Disbursed in 1999.	110,896,974	Total: USD EUR	7,485,000 7,600,000				

A revolving loan for Health System Infrastructure in Eastern Slavonia Project⁴⁷ amounting to HRK 172,744,129.00 will be used to finance 44% of the total of HRK 388,800,650.00, the estimated amount of costs of primary and secondary health care systems reconstruction and construction (reconstruction/construction of 18 primary health care centers and three hospitals, construction of 48 apartments for medical staff and purchase of medical equipment).

In 1999 two additional agreements were concluded for withdrawal of two tranches of revolving loan and the amount of HRK 70,280,849 was utilized for Project implementation.

The School Reconstruction Project in Eastern Slavonia⁴⁸ was financed by the Council of Europe Social Development Bank by means of a loan amounting to HRK 67,368,000.00 (50% of the total of HRK 134,736,000, the estimated amount of costs of repairs and reconstruction of 33 elementary schools and 1 secondary school covered by the Project). In 1999 an amount totaling HRK 23,774,125 out of loan proceeds was invested by withdrawal of two tranches on the basis of additional agreements concluded.

Matured interests against utilized tranches of revolving loans were paid out of the state budget for 1999, amounting to US\$ 213,696.75 (on the basis of the revolving loan for Health Reconstruction Project, US\$ 144,891.25 US\$ + on the basis of the revolving loan for School Reconstruction Project US\$ 68,805.50).

At the end of 1999 new projects were proposed to the Council of Europe Social Development Bank, for the reconstruction of health infrastructure and schools in the Republic of Croatia, as an extension of the projects which were already being implemented. Besides, the following were being prepared:

- pilot project of financing the general needs of refugees and displaced persons in several places in Croatia,
- project of reconstruction of a library and other cultural heritage objects within the Franciscan monastery of “Mala braća (Little Brethren)” order in Dubrovnik and

⁴⁷ The Act on Confirmation of the Basic Agreement between the Council of Europe Social Development Fund and the Republic of Croatia for Project 1278 (1998) - Health Infrastructure Reconstruction in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).

⁴⁸ The Act on Confirmation of the Basic Agreement between the Council of Europe Social Development Fund and the Republic of Croatia for Project 1279 (1998.) - School Reconstruction Table 5.14. CEB Loans Disbursed in 1999 and Loans Outstanding as at the end of 1999 n in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).

- possibilities were considered for new employment projects and support to small and medium-sized enterprises

Repayment of Inherited Loans and Debt toward CEB

Based on the prevailing legislation⁴⁹ and according to repayment plans during 1999, CEB was paid out of the Central Government budget a total of DEM 175,488.83 (on principal 164,161.67 and 11,327.16 for interest), and thereby the total debt on the inherited loans was settled in full.

Commercial banks (creditors) settled the matured liabilities in a timely manner, so that the Republic of Croatia guarantees for those loans were not activated. According to the data as of December 31, 1999 the banks' debt from 1998 was reduced from DEM 1.74 million to DEM 537,603.40.

Table 5.15 shows detailed data on the amount of the remaining debts taken over in 1996 and the remaining debt as of December 31, 1999.

Financial Obligations of the Republic of Croatia toward CEB

By accepting membership in CEB, the Republic of Croatia also accepted the financial terms of the membership as follows:

- capital share in the amount of EUR 5,534,000.00
- payment of one part of subscribed capital amounting to EUR 611,000.00 and contribution payment to reserves amounting to EUR 250,000.00.

It was agreed that the payments of one part of subscribed capital and contribution to reserves amounting to EUR 861,000.00 are due in four annual installments. In the period from 1997 until 1999 three matured installments were settled from the Central Government budget (EUR 645,750), and the fourth installment amounting to EUR 215,250 needs to be paid in 2000.

According to Resolution 321 (1999) CEB subscribed capital is increased within the fifth capital increase by EUR 1,847 million. The Republic of Croatia has an opportunity, by subscribing EUR 7,296,899 within the prescribed period until March 31, 2001, to keep the existing 0.4-percent share in CEB rights of vote and capital.

No liabilities of cash payment will emerge for the Republic of Croatia based on the participation in capital increase, as a part of capital amounting to EUR 805,578, which is being paid, will be settled from the CEB reserve account.

⁴⁹ The Act on Confirmation of the Agreement between the Council of Europe Social Development Fund and the Republic of Croatia, the Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia, and the Loan Agreements between the Council of Europe Social Development Fund and Dalmatinska banka, Privredna banka, Riječka banka, Slavonska banka, Splitska banka and Zagrebačka banka, concluded with the guarantee of the Republic of Croatia ("The Official Gazette - International Agreements", No. 3/1997)

Table 5.15: Inherited CEB Loans as at 1996 and Debt Stock at the end of 1999

No.	Loan Beneficiaries	Original Loan Amount (000 DEM)	Tranche	Borrowers	Arrears taken over (000 DEM)			Debt taken over (000 DEM)	Debt stock 31. 12. 1998. (000 DEM)	Debt stock 31.12. 1999. (000 DEM)	Last repayments
					Interest	Principal	Total				
I. According Loan Agreement between CEB and Republic of Croatia as at 22. 07. 1996.											
1.	Čaraparija, Čakovec	1,011.43	B	Republic of Croatia	123.39	449.52	572.92	224.76	0.00	0.00	14. 04. 1998.
2.	Velebit, Karlovac	1,311.38	B	Republic of Croatia	159.99	582.84	742.82	291.42	0.00	0.00	14. 04. 1998.
3.	Pamučna predionica, Glina	2,373.99	B	Republic of Croatia	345.94	1,318.89	1,664.83	527.55	0.00	0.00	14. 04. 1998.
4.	Agrodelta, Ploče	1,477.45	C	Republic of Croatia	317.16	656.65	973.81	656.65	164.16	0.00	20. 08. 1999.
Total I. (1-4):		6,174.25			946.49	3,007.89	3,954.38	1,700.38	164.16	0.00	
II. According Loan Agreements between CEB and croatian banks and guarantie of the Republic of Croatia as at 22. 07. 1996.											
1.	Vlado Bagat, Zadar	1,927.31	B	Dalmatinska banka, Zadar	280.85	1,070.73	1,351.58	428.29	0.00	0.00	14. 04. 1998.
2.	Zdenka (1), V. Zdenci	577.79	C	Privredna banka, Zagreb	0.00	0.00	0.00	256.79	181.98	0.00	20. 08. 1999.
3.	Ličanka, Srb	1,548.32	C	Privredna banka, Zagreb	0.00	0.00	0.00	688.14	172.04	0.00	20. 08. 1999.
4.	RIZ, Slunj	1,949.96	D	Privredna banka, Zagreb	0.00	0.00	0.00	1,083.31	433.32	216.66	30. 07. 2000.
5.	Zdenka (2), Veliki Zdenci	818.90	D	Privredna banka, Zagreb	0.00	0.00	0.00	454.94	64.20	90.99	30. 07. 2000.
6.	Torpedo, Rijeka	3,007.08	A	Riječka banka, Rijeka	358.31	1,656.64	2,014.95	334.12	0.00	0.00	12. 02. 1997.
7.	Opeka, Dakovo	1,462.84	C	Slavonska banka, Osijek	0.00	0.00	0.00	650.15	162.54	0.00	20. 08. 1999.
8.	Trnovača, Sinj	1,133.49	D	Splitska banka, Split	378.62	503.77	882.39	629.71	251.89	125.94	30. 07. 2000.
9.	Kordun (1), Karlovac	1,190.00	B	Zagrebačka banka, Zagreb	0.00	0.00	0.00	264.44	0.00	0.00	14. 04. 1998.
10.	Kordun (2), Karlovac	1,019.55	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	453.13	113.28	0.00	20. 08. 1999.
11.	Bor, Novi Marof	942.86	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	419.05	104.76	0.00	20. 08. 1999.
12.	Suvremena žena, Zagreb	451.99	C	Zagrebačka banka, Zagreb	0.00	0.00	0.00	200.88	50.22	0.00	20. 08. 1999.
13.	Virovitičanka (1), Virovitica	586.09	D	Zagrebačka banka, Zagreb	0.00	0.00	0.00	325.61	130.24	65.12	30. 07. 2000.
14.	Virovitičanka (2), Virovitica	350.00	D	Zagrebačka banka, Zagreb	0.00	0.00	0.00	194.44	77.78	38.89	30. 07. 2000.
Tota II (1.-14.):		16,966.17			1,017.78	3,231.14	4,248.92	6,383.03	1,742.25	537.60	
TOTAL I.+II.		23,140.42			1,964.27	6,239.03	8,203.30	8,083.41	1,906.41	537.60	

5.4.4. European Investment Bank (EIB)

The inherited long-term loans⁵⁰ were also settled in 1999 according to the prevailing regulations⁵¹ and according to repayment schedules in different currencies.

The overview of European Investment Bank taken over debts and the debt stock at the end of 1999 is shown in Table 5.16.

Table 5.16: EIB Loans and Debt Stock as at the end of 1999.

No.	EIB Loan Number	New Debtors According to Letter of Agreement	Guarantor by Letters of Agreement	Loan Amount in EUR	Currency	Outstanding balance as at 31. 12. 1999.
1.	16275 EEMS-HE CRO	HEP d.d. Zagreb L / A No. 0297	Republic of Croatia	10,552,500.00	GRD	59,037,730.00
					ITL	1,670,718,520.00
					GBP	793,666.20
2.	16279 TYH-II-HC CRO	Republic of Croatia L / A No. 0298		16,000,000.00	GRD	208,205,299.00
					DEM	2,783,331.66
					USD	3,971,279.44
3.	16284 TYR-I-HZ CRO	Croatian Railways L / A No. 0296	Republic of Croatia	29,190,000.00	FRF	20,045,159.93
					DEM	10,275,755.88
					DKK	19,687,922.18
					USD	1,512,891.16
					GBP	539,498.69
GRD	63,133,039.00					
4.	16289 TYH-III-HC CRO	Republic of Croatia L / A No. 0298		15,250,000.00	DEM	519,374.50
					FRF	11,217,116.69
					GBP	1,332,792.78
					ITL	1,903,209,783.00
					DKK	8,022,061.05
					USD	1,833,850.18
CHF	320,446.11					
5.	13554 TYH-IV-HC CRO	Republic of Croatia L / A No. 0298		60,000,000.00	GBP	1,358,766.50
					NLG	14,269,033.34
					JPY	2,249,209,969.00
					BEF	124,062,663.00
					DEM	12,034,830.11
					CHF	13,618,031.92
6.	14090 TYR-IIB-HZ CRO	Croatian Railways L / A No. 0296	Republic of Croatia	18,000,000.00	DEM	7,708,285.49
					CHF	5,118,872.92
					USD	1,854,592.50
					FRF	21,175,483.54
					GBP	1,802,208.58
TOTAL:				148,992,500.00	EUR	36,427,365.39
					USD	9,172,613.28
					GRD	330,376,068.00
					GBP	5,826,932.75
					DKK	27,710,053.23
					CHF	190,577,350.95
					JPY	2,249,209,969.00
HRK	717,596,544.15					

* according to average exchange rate CNB 31. 12. 1999

⁵⁰ Distribution of loans granted to the Former SFRY was carried out in 1994 based on the partial succession principle and observing the so-called territorial principle. The remaining unrepaid long-term loans of beneficiaries with the seat in the Republic of Croatia were taken over, denominated in ECU, with repayment obligations in different currencies.

Mature liabilities due to Luxembourg-based European Investment Bank, on the loans utilized for road and railway financing were settled using 1999 Central Government Budget funds, whereas Hrvatska elektroprivreda (State Electricity Utility) settled its liabilities using its own resources. Following settlement of all payments with maturity in 1999, the debt due to EIB, expressed in EUR and six different currencies, amounted to HRK 717,596,544.15 according to the medium rate of Croatian National Bank on December 31, 1999.

5.5. THE GUARANTEES OF THE REPUBLIC OF CROATIA

The overall public debt according to internationally acceptable standards should include the stock of the overall approved Government guarantees. Therefore, for the first time, we are publishing the stock of issued guarantees, as well as an overview of active guarantees at the end of 1999.

The Republic of Croatia started the practice of issuing guarantees as early as 1996. However, a more active guarantee issuing started after receiving investment credit rating at the beginning of 1997. The Republic of Croatia thereby opened the door of the international capital market not only to the public debt, but also to public enterprises and the private sector. Regardless of the credibility of investment projects of enterprises with majority ownership of the state, foreign investors mostly demanded an additional collateral for bigger investments - a state guarantee. By the end of 1999 a total of HRK 15.7 billion of financial guarantees (10.9% of GDP) was issued, out of which approximately two-thirds to foreign creditors, and approximately HRK 9.6 billion of performance guarantees.

Table 5.17: Guarantees issued by the Republic of Croatia

(HRK)	1996	1997	1998	1999	Total
Financial	840,206,007	2,024,403,935	7,005,569,219	5,830,974,053	15,701,153,213
- domestic creditor	720,244,091	1,251,244,724	2,056,706,780	1,226,212,415	5,254,408,009
- foreign creditor	119,961,916	773,159,211	4,948,862,439	4,604,761,638	10,446,745,204
Performance	1,278,858,919	2,966,149,051	3,519,875,936	1,798,268,017	9,563,151,924
Total guarantees	2,119,064,926	7,109,617,912	17,635,063,067	25,264,305,137	

* including guarantees to HBOR

Out of the total amount of issued financial and performance guarantees (HRK 25.3 billion), the amount of active, unclosed guarantees in December 1999 accounted for HRK 21.5 billion. The difference between the two amounts accounts for loans repaid by ultimate debtors or, in some cases, the state budget. In the last two years the Ministry of Finance paid HRK 781.9 million for the activated guarantees, and ultimate debtors subsequently returned HRK 47.4 million to the state budget. Out of that amount, 63.0% of activated guarantees was related to agriculture sector, 19.2% to transport sector, 5.2% to tourism sector, whereas 12.6% of paid guarantees was related to other sectors.

Table 5.18: Active guarantess issued by the Republic of Croatia

(HRK)	1996	1997	1998	1999	Total
Financial	588,189,309	1,813,373,931	6,030,248,223	5,825,076,455	14,256,887,918
- domestic creditor	515,656,785	1,131,353,099	2,001,917,753	1,223,294,762	4,872,222,399
- foreign creditor	72,532,524	682,020,832	4,028,330,470	4,601,781,693	9,384,665,519
Performance	382,446,448	1,664,671,330	3,430,187,756	1,798,268,017	7,275,573,551
Total guarantees	970,635,757	4,448,681,018	13,909,116,997	21,532,461,469	

* including guarantees to HBOR

Performance guarantees have mostly been approved to shipbuilding sector, whereas financial guarantees were mostly used for bigger investments in public enterprises, such as *HEP*, *INA*, *Croatia Airlines* and *Hrvatske željeznice (Croatian Railways)*, and for a number of companies in agriculture and tourism sectors, as well as enterprises which underwent rehabilitation process and were of higher regional importance. The Government of the Republic of Croatia also issued guarantees on behalf of the Republic of Croatia to the Croatian Bank for Reconstruction and Development, with a view

⁵¹ The Act on Confirmation of Guarantee Agreement between the Republic of Croatia and the European Investment Bank and the Letter of Agreement No. 0298, signed on January 12, 1995 in Luxembourg and on February 10 in Zagreb ("The Official Gazette - International Agreements " No. 6/1995).

to using the guarantees for granting loans for crafters' development projects, as well as privately-owned small and medium-size enterprises.

Since the inception of practice of issuing state guarantees, the legal framework for issuing guarantees was defined for each current year in the Budget Execution Act for the respective year. All Government decisions on borrowing and issuing of state guarantees are published in "The Official Gazette".

Guarantees in 1996 - Pursuant to 1996 Budget Execution Act, the Government of the Republic of Croatia was given approval to issue guarantees on behalf of the Republic of Croatia to enterprises in the majority ownership of the state and to counties up to the amount of HRK 2.5 billion. The Government of the Republic of Croatia had an obligation to inform the Parliament of the Republic of Croatia about the issued guarantees once every three months. Also, in the same year the following guarantees were approved: issuing financial guarantees to the Croatian Bank for Reconstruction and Development for foreign borrowing up to the amount of HRK 750 million for approving loans for development projects of crafters, as well as privately-owned small and medium-size enterprises. A total of approximately HRK 2.1 billion of guarantees was issued in 1996. The 1996 Budget does not make a difference between performance guarantees and financial guarantees.

Guarantees in 1997 - In the course of 1997 issuing guarantees was extended to issuing guarantees to domestic and foreign creditors for company liabilities with majority ownership of the state, units of local self-government and government, and extra-budgetary funds up to the total amount of HRK 3 billion. The amount of issuing guarantees to the Croatian Bank for Reconstruction and Development was limited for foreign borrowing up to the amount of HRK 1,5 billion, under the condition that 50% of those resources be used exclusively for granting loans to development projects of crafters, as well as privately-owned small and medium-size enterprises. In 1997 a total of approximately HRK 5 billion of guarantees was issued.

Guarantees in 1998 - According to the Government Budget Execution Act for 1998, when the state guarantees were also separated by definition for the first time, financial state guarantee means a guarantee whereby a regular and timely repayment of loan obligation is guaranteed unless the original debtor carries it out. The financial state guarantee may be issued to legal entities with a majority state ownership, local government and self-government, as well as extra-budgetary funds for borrowing in the country and abroad.

Guarantee reserve is also defined for the first time. More specifically, for all issued financial guarantees, the Ministry of Finance should allocate from the state budget 6% of guarantee amount into guarantee reserve. Guarantee reserve resources are paid into a special account in Croatian kuna with the Croatian National Bank.

Performance state guarantees, according to this Law, in 1998 could be issued on the basis of received downpayments in money or in property for shipbuilding until delivery, purchase of airplanes on the basis of a long-term lease agreement and for infrastructure projects (transport and communications, energy, environmental protection), which are performed on the basis of concessions of joint ventures. For the issued performance guarantees there is no commitment for allocating funds of the state budget into guarantee reserve, and neither is the annual amount of issued guarantees limited.

The request for issuing a state guarantee is submitted to the Ministry of Finance for opinion, with a detailed overview of financial and economic justifiability of the suggested debt, the overview of total debt, and the opinion of the respective Ministry. The Ministry of Finance is obliged to suggest to the Government the acceptance or refusal of such a request within 60 days.

For 1998 financial state guarantees in the total amount of HRK 1.75 billion was planned, whereas the total amount of issued financial guarantees in that year exceeded HRK 7 billion. Additionally an amount of HRK 3.5 billion of performance guarantees was issued.

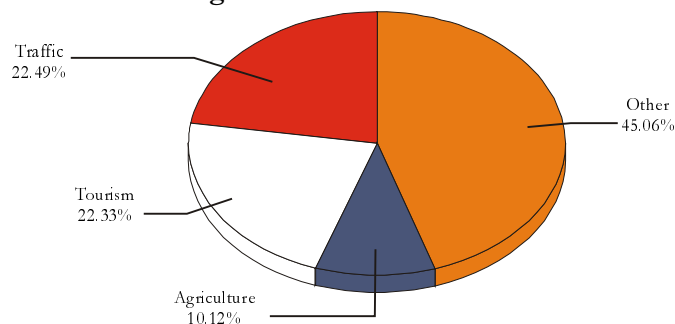
Guarantees in 1999 - During 1999 Government Budget Execution Act laid out the criteria for issuing state guarantees according to which guarantees may be issued only for the following:

- development programs in areas of state concern,
- development programs for reconstruction of local self-government units and local government and self-government units, and
- incentives for new production, employment and technology.

Guarantees for legal entities with majority private property may be submitted only after receiving bianco signed bill of exchange in favor of the Republic of Croatia and certified statements of members of Management Board and Supervisory Board for regular debt repayment. With a view to sharing credit, or guarantee risk, the Government, banks and other legal entities may give to super-guarantees, counter-guarantees or guarantees with mutually shared risk.

In 1999 the planned amount of issued financial Government guarantees was up to the total amount of HRK 3 billion, whereas the framework for Croatian Bank for Reconstruction and Development was an additional HRK 750 million. A total of HRK 5,8 billion of financial guarantees and HRK 1.8 billion of performance guarantees were issued.

Figure 5.10: Structure of guarantees issued by sectors, active guarantees at the end of 1999



Source: Ministry of Finance

VI THE ORGANIZATIONAL STRUCTURE OF THE MINISTRY OF FINANCE

The organizational scheme of the Ministry of Finance is shown in diagram 1. The head of the Ministry of Finance is Minister of Finance. The Minister of Finance has one Deputy. As shown in the organizational scheme for the performance of tasks within the scope of the Ministry of Finance, the Ministry of Finance is divided among fifteen organizational units.

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 and European Integration Department
- Economic Affairs Department
- Financial System and Capital Market 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, analyzing and surveying the application of tax laws proposing the tax policy measures as well as the functioning of the tax system. 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 lawfulness of accounting and payments of government revenues as well as local government and extra-budgetary 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 extra-budgetary 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 and Consolidation 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.

Budget Preparation and Consolidation Department, Budget Execution and Consolidation Department, Cash and Debt Management Department and Government Accounting Department make up the Government Treasury System.

International Financial Relations and European Integration Department and is responsible for the preparation of legal regulations, which are related to international financial relations, performance of tasks related to negotiations on foreign loans, performing tasks of the Ministry of Finance related to accession of the Republic of Croatia to European integration, 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.

Financial System and Capital Market is responsible for the participation in developing legal regulations related to banking and foreign exchange systems, insurance and payment 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.

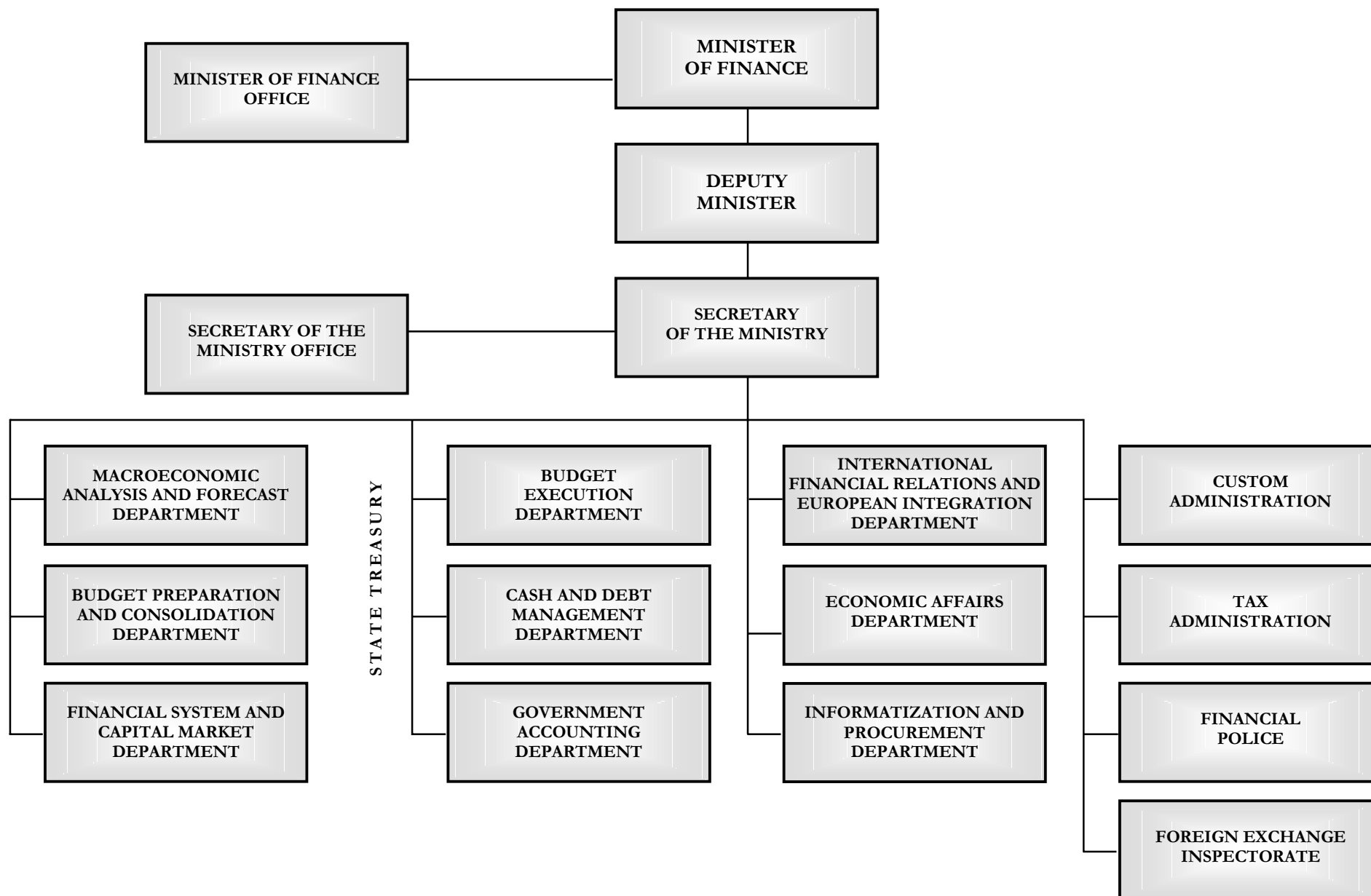
Information Technology and Procurement Department is responsible for the performance of tasks related to the building and maintenance of the Ministry's computer network, public procurements, as well as for the performance of general administrative tasks and other tasks as requested by the Minister. The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

The Cabinet of the Minister is responsible for the performance of protocol-related 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.

At the end of 1999, the total number of employees in the Ministry of Finance amounted to 7,699 employed persons, out of which 14 civil servants, 6,969 officials and 716 employees.

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



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

Prof. MARIJAN HANŽEKVIĆ, Ph.D.

July 27, 1990 – August 3, 1991

JOZO MARTINOVIĆ, M.S.

August 4, 1991 – August 11, 1992

Prof. ZORAN JAŠIĆ, Ph.D.

August 12, 1992 – July 6, 1994

BOŽO PRKA, M.S.

July 7, 1994 – July 11, 1997.

BORISLAV ŠKEGRO, M.S.

September 11, 1997 – January 27, 2000

APPENDICES

Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	Outturn				
	1995	1996	1997	1998	1999
GDP, current prices (mill. HRK)	98,382.0	107,980.6	123,810.7	138,391.7	143,500.0
GDP growth rate (%)	6.8	5.9	6.8	2.5	-0.3
GDP, current prices (mill. USD)	18,811.1	19,872.0	20,108.6	21,751.8	20,154.5
GDP, per capita (USD)	4,028.9	4,421.9	4,398.2	4,832.7	4,478.8
Retail prices, period average (%)	2.0	3.5	3.6	5.7	4.2
Producer's prices, period average (%)	0.7	1.4	2.3	-1.2	2.5
Cost of living, period average (%)	4.0	4.3	4.1	6.4	3.5
Exchange rate HRK/USD, period average	5.23	5.43	6.16	6.36	7.12
Exchange rate HRK/DEM, period average	3.65	3.61	3.56	3.62	3.88
Trade Balance (mill. USD)	-2,877.0	-3,276.0	-4,933.0	-3,842.0	-3,497.0
Trade Balance, as percentage of GDP	-15.3	-16.5	-24.5	-17.7	-17.4
Exports (mill. USD)	4,633.0	4,512.0	4,171.0	4,541.0	4,279.7
Imports (mill. USD)	7,510.0	7,788.0	9,104.0	8,383.0	7,777.4
Current Account Balance (mill. USD)	-1,451.5	-1,147.5	-2,344.0	-1,549.7	-1,468.5
Current Account Balance, as percentage of GDP	-7.7	-5.8	-11.7	-7.1	-7.3
International reserves of CNB, end of period (mill. USD)	1,895.2	2,314.0	2,539.0	2,815.6	3,024.8
CNB discount rate, on annual basis (%)	8.5	6.5	5.9	5.9	7.9
Money market interest rates, on daily market, on annual basis (%)	27.2	10.4	9.4	15.8	12.7
Total outstanding external debt, end of period (mill. USD)	3,809.1	5,307.6	7,451.6	9,588.2	9,924.6
External public debt, end of period (mill.USD)	-	2,397.3	2,905.7	3,332.8	3,925.3
Internal public debt, end of period (mill. HRK)	16,405.4	16,533.7	14,608.7	13,697.5	13,943.98
Deficit(-)/Surplus(+) - Consolidated Central Government (mill. HRK)	-883.0	-477.4	-1,586.7	882.1	-2,802.1
Deficit(-)/Surplus(+) - Consolidated General Government (mill. HRK)	-699.7	-399.5	-1,497.1	678.2	-
Unemployment rate, percentage of labour force	14.5	16.4	17.5	18.6	20.8
Unemployment rate - ILO comparable (%)*	-	10.0	9.9	11.4	12.6
Number of unemployed persons (000)	240.6	261.0	277.7	287.8	341.7
Average monthly net wages and salaries, growth rate (%)	45.8	11.8	16.9	12.8	13.9
Average monthly gross wages and salaries, growth rate (%)	34.0	12.3	13.1	12.6	10.2
Average monthly pension, growth rate (%)	27.3	11.7	19.9	12.4	14.7
Number of pension beneficiaries	865,769	888,738	925,520	953,271	1,016,601
Total volume of industrial production, growth rate (%)	0.3	3.1	6.8	3.7	-1.4
Industrial productivity, growth rate (%)	6.6	11.4	12.7	8.9	4.0
Nights spent by tourists, growth rate (%)	-35.6	66.5	41.3	3.2	-15.0
Retail sales turnover, nominal growth rate (%)	16.5	6.0	18.1	3.7	-0.7
Total volume of construction projects, growth rate (%)	-	9.0	16.7	0.7	-7.7
Area (square km)	56,538	56,538	56,538	56,538	56,538
Population, mid-year (mill.)	4.7	4.5	4.6	4.5	4.5

*- CBS data from Labor Force Survey (for 1999 data are for first half of the year)

Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance, Pension Fund (for number of pension beneficiaries)

Appendix 2: Budgetary Central Government Revenue and Grants

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	27,980,779	31,367,481	33,846,123	43,808,593	46,356,724	47,030,110
II.	Total revenue	27,880,779	31,367,481	33,846,123	43,808,593	46,356,724	47,030,110
III.	Current revenue	27,287,119	30,244,343	33,384,987	42,019,401	40,045,873	38,563,499
IV.	Tax revenue	26,512,473	28,949,845	31,775,491	40,327,487	38,317,635	37,123,934
1.	Taxes on individual income	3,497,588	4,216,938	4,102,217	4,915,096	4,571,102	3,368,364
2.	Taxes on corporate income	1,009,073	1,271,183	1,785,259	2,461,149	2,365,955	2,015,342
3.	Taxes on real estate transactions	141,756	171,776	242,702	270,925	246,854	260,604
4.1.	General sales tax	12,802,257	13,504,368	15,133,172	1,972,045	387,922	200,000
4.2.	Value added tax	0	0	0	20,228,226	19,829,971	19,934,500
5.	Excises	4,960,440	5,390,785	5,404,837	5,896,787	6,160,719	6,978,874
	a) on oil products	2,559,021	2,691,840	2,728,346	3,169,771	3,432,957	3,773,445
	b) on alcohol	183,458	197,623	176,681	176,897	168,335	174,465
	c) on beer	266,031	262,080	279,086	277,889	276,782	285,824
	d) on beverage	108,498	108,737	110,255	83,182	84,658	89,038
	e) on tobacco products	1,759,266	2,039,532	1,999,988	1,983,435	1,969,920	2,384,479
	f) on coffee	67,642	68,704	74,959	76,807	77,648	81,213
	g) on imports of motor vehicles	16,524	22,269	35,522	128,806	149,423	180,410
	h) on luxury goods	0	0	0	0	996	10,000
6.	Taxes on international trade and transactions	3,922,481	3,942,438	4,639,995	4,127,523	4,287,890	3,859,101
6.1.	Custom duties	3,920,774	3,942,438	4,639,995	4,127,523	4,287,890	3,859,101
6.2.	Other imports charges	1,707	0	0	0	0	0
7.	Other taxes	178,878	452,357	467,309	455,736	467,222	507,149
V.	Nontax revenue	774,646	1,294,498	1,609,496	1,691,914	1,728,238	1,439,565
8.	Central bank profits	165,889	82,255	129,207	265,043	0	100,000
9.	Part of profits of public enterprises	142,812	134,866	329,842	351,134	698,792	348,792
10.	Revenue from interests	7,580	3,038	1,421	2,161	1,265	1,000
11.	Other property income	25,200	114,406	82,082	247,997	237,730	224,487
12.	Administrative fees and charges	54,814	109,086	146,399	125,092	112,273	121,657
13.	State administration bodies' revenue	57,610	246,098	286,830	115,994	130,311	78,500
14.	Roads' charges	106,200	367,580	347,086	271,762	229,810	240,000
15.	Fines and forfeits	187,584	228,547	281,011	308,147	313,080	318,081
16.	Other nontax revenue	26,957	8,623	5,618	4,583	4,977	7,048
VI.	Capital revenue	593,660	1,123,138	461,137	1,789,192	6,310,851	8,466,611
17.	Sales of public flats	54,740	166,683	159,420	155,169	111,719	120,000
18.	Sales of army's flats	43,210	401,931	157,940	201,448	113,027	140,000
19.	Revenue from privatization	495,710	554,524	143,777	1,432,366	6,078,881	8,200,000
20.	Other capital revenue	0	0	0	209	7,224	6,611
VII.	Grants	100,000	0	0	0	0	0

Appendix 3: Budgetary Central Government Expenditure and Net Lending by Economic Categories

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total expenditure and lending minus repayments	28,696,186	31,501,501	35,006,314	42,551,916	48,878,764	48,300,000
II.	Total expenditure	28,475,583	30,972,816	34,395,182	41,473,167	47,379,586	47,705,205
III.	Current expenditure	25,495,182	25,930,068	29,579,721	34,883,026	38,476,084	41,763,128
1.	Expenditures on goods and services	20,734,529	19,623,107	20,263,325	22,648,712	22,090,857	24,913,735
1.1.	Wages and salaries	8,393,597	8,365,211	9,147,512	10,851,793	12,080,454	12,484,376
1.2.	Employer contributions	1,716,123	1,966,383	1,892,364	2,178,503	2,614,559	2,643,245
1.3.	Other purchases of goods and services	10,624,809	9,291,513	9,223,449	9,618,416	7,395,844	9,786,114
2.	Interest payments	1,392,084	1,217,618	1,737,016	1,951,283	2,099,141	2,510,192
2.2.	Domestic payments	911,473	949,879	775,007	,917,305	933,117	935,366
2.3.	Payments abroad	480,611	267,739	962,009	1,033,978	1,166,024	1,574,826
3.	Subsidies and other current transfers	3,368,569	5,089,343	7,579,380	10,283,031	14,286,086	14,339,201
3.1.	Subsidies	1,809,780	2,076,847	2,307,071	3,274,689	3,418,897	3,592,977
3.1.1.	To nonfinancial public enterprises	1,766,074	1,995,594	2,085,988	2,847,858	2,590,594	3,225,406
3.1.2.	To financial institutions	0	1,684	1,281	0	0	0
3.1.3.	To other enterprises	43,706	79,569	219,802	426,831	828,303	367,571
3.2.	Transfers to other levels of Government	842,135	1,933,068	4,041,503	5,733,307	8,458,296	8,628,470
3.3.	Transfers to nonprofit institutions	216,148	275,224	314,696	355,667	422,470	472,794
3.4.	Transfers to households	477,387	774,412	878,006	889,161	1,340,618	1,186,227
3.5.	Transfers abroad	23,119	29,792	38,104	30,207	645,805	458,733
IV.	Capital expenditure	2,980,401	5,042,748	4,815,461	6,590,141	8,903,502	5,942,077
4.	Acquisition of fixed capital assets	1,634,158	2,216,434	1,977,534	2,790,788	4,093,290	3,336,137
5.	Purchases of stocks	0	0	0	0	0	0
6.	Purchases of land and intangible assets	0	194,214	238,691	290,985	278,271	536,728
7.	Capital transfers	1,346,243	2,632,100	2,599,236	3,508,368	4,531,941	2,069,212
7.1.	To other levels of national government	0	100,000	113,000	770,983	2,279,726	210,404
7.2.	To nonfinancial public enterprises	194,674	270,000	434,713	597,933	240,749	484,035
7.3.	To financial institutions	0	0	0	0	486,284	18,000
7.4.	To other enterprises	0	1,480	3,100	20,642	116,822	269,025
7.5.	Other domestic capital transfers	1,144,169	2,245,820	2,036,583	2,103,810	1,398,360	1,083,630
7.6.	Capital transfers abroad	7,400	14,800	11,840	15,000	10,000	4,118
V.	Lending minus repayments	220,603	528,685	611,132	1,078,749	1,499,178	594,795
8.	To other levels of national government	1,141	0	43,587	12,709	45,352	40,000
9.	To nonfinancial public enterprises	40,675	0	-263,142	4,400	0	147,100
10.	To financial institutions	78,631	147,506	603,948	934,929	962,721	412,181
11.	Other domestic lending minus repayments	81,095	367,841	205,734	100,978	480,409	-15,986
12.	Net lending abroad	19,061	13,338	21,005	25,733	10,696	11,500

Appendix 4: Budgetary Central Government Expenditure by Function

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I	Total expenditure	28,475,583	30,972,816	34,395,182	41,473,168	47,379,587	47,705,205
1.	General public services	1,911,166	1,911,595	2,182,768	3,411,394	3,047,060	2,572,216
2.	Defense affairs and services	9,910,927	7,760,190	6,990,659	7,373,239	5,617,308	4,786,388
3.	Public order and safety affairs	3,351,489	3,714,158	4,169,881	4,251,480	4,628,086	4,845,590
4.	Education affairs and services	3,277,776	3,599,830	4,050,800	4,668,772	5,718,179	6,501,107
5.	Health affairs and services	78,167	151,619	184,758	816,772	476,605	466,780
6.	Social security and welfare affairs and services	3,185,789	4,408,288	6,451,998	8,024,614	11,300,663	11,818,291
7.	Housing and community amenity affairs and services	1,343,216	2,602,722	2,069,451	2,620,402	2,025,698	1,550,575
8.	Recreational, cultural and religious affairs	430,115	410,711	539,479	576,615	842,026	898,027
9.	Recreational, cultural and religious affairs	-	-	-	-	764	380
10.	Agriculture, forestry, fishing, hunting affairs	511,479	550,976	616,317	1,103,215	1,245,740	1,520,713
11.	Mining, manufacturing, construction affairs	255,352	381,307	692,771	728,932	2,819,543	626,459
12.	Transport and communication affairs and services	2,232,489	3,404,954	3,433,519	4,126,923	5,304,002	4,558,447
13.	Other economic affairs and services	226,887	305,008	648,405	548,438	659,235	753,282
14.	Expenditures not classified by major group	1,760,731	1,771,458	2,364,376	3,222,372	3,694,678	6,806,950

Appendix 5: Financing by Type of Debt Holder

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I	Total financing	715,407	134,020	1,160,191	-1,256,677	2,522,040	1,269,890
II	Domestic financing	29,402	-669,912	-1,825,749	-1,247,563	-2,093,076	-2,901,160
1.	From other general government	0	0	0	190,000	-87,000	0
2.	From monetary authorities	395,967	-152,745	-354,848	112,392	748	0
2.1.	NCB - net borrowing	126,186	-233,834	-241,340	0	0	0
2.2.	Changes in deposits	269,781	81,089	-113,508	112,392	748	0
3.	From deposit money banks	1	-308,357	-1,357,298	-1,638,606	-1,859,376	-2,241,980
4.	Other domestic financing	-366,566	-208,810	-113,603	88,651	-147,448	-659,180
4.1.	From other financial institutions	25,000	10,000	-12,303	-6,860	-3,519	-460,988
4.2.	From nonfinancial public enterprises	0	0	0	0	0	0
4.3.	From nonfinancial private sector	0	0	0	0	0	0
4.4.	Other domestic financing n.e.c.	-391,566	-218,810	-101,300	95,511	-143,929	-198,192
III	Financing abroad	686,005	803,932	2,985,940	-9,114	4,615,116	4,171,050
5.	From international development institutions	63,540	482,028	470,073	379,921	404,557	862,652
5.1.	Drawings	124,483	581,243	557,570	504,185	589,995	1,103,952
5.2.	Amortization	-60,943	-99,215	-87,497	-124,264	-185,438	-241,300
6.	From foreign governments	29,570	-364,330	-502,829	-525,161	-197,253	-732,338
6.1.	Drawings	29,570	0	0	0	110,897	125,596
6.2.	Amortization	0	-364,330	-502,829	-525,161	-308,150	-857,934
7.	Other borrowing abroad	592,895	686,234	3,018,696	136,126	4,407,812	4,040,736
7.1.	Other borrowing abroad	592,895	686,234	-3,749	-11,809	350,160	-2,637,662
7.2.	Supplier credits	0	0	0	0	0	0
7.3.	Other borrowing abroad n.e.c.	0	0	3,022,445	147,935	4,057,652	6,678,398
8.	Changes in cash, deposits and securities	0	0	0	0	0	0

Appendix 6: Financing by Type of Debt Instrument

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I	Total financing	715,407	134,020	1,160,191	-1,256,677	2,522,040	1,269,890
II	Domestic financing	29,402	-669,912	-1,825,749	-1,247,563	-2,093,076	-2,901,160
1.	Long-term bonds	-303,255	-712,116	-1,572,385	-1,956,403	-2,164,050	-2,421,172
1.1.	Issues	554,551	545,138	146,250	0	0	0
1.2.	Amortization	-857,806	-1,257,254	-1,718,635	-1,956,403	-2,164,050	-2,421,172
2.	Short-term bonds and bills	0	268,824	113,970	182,103	178,889	-420,000
3.	Long-term loans n.e.c.	79,376	-292,922	-240,642	-10,375	-21,663	-59,988
3.1.	Drawings	340,465	0	0	0	0	0
3.2.	Amortization	-261,089	-292,922	-240,642	-10,375	-21,663	-59,988
4.	Short-term loans n.e.c.	25,000	10,000	0	190,000	-87,000	0
5.	Other liabilities	0	-855	-183	234,720	0	0
6.	Changes in cash, deposits, and securities	228,281	57,157	-126,509	112,392	748	0
III	Financing abroad	686,005	803,932	2,985,940	-9,114	4,615,116	4,171,050
7.	Long-term bonds	0	0	3,022,445	147,935	4,057,652	6,528,398
7.1.	Issues	0	0	3,022,445	447,935	4,057,652	6,528,398
7.2.	Amortization	0	0	0	-300,000	0	0
8.	Short-term bonds and bills	0	0	0	0	0	0
9.	Long-term loans n.e.c.	154,885	830,811	-36,505	363,854	904,085	-2,507,348
9.1.	Drawings	215,828	1,294,356	557,570	1,769,361	1,848,405	1,229,548
9.2.	Amortization	-60,943	-463,545	-594,075	-1,405,507	-944,320	-3,736,896
10.	Short-term loans n.e.c.	531,120	-26,879	0	-520,903	-346,621	150,000
11.	Other liabilities	0	0	0	0	0	0
12.	Changes in cash, deposits and securities	0	0	0	0	0	0

Appendix 7: Consolidated Central Government

(000 HRK)	Outturn					Budget
	1995	1996	1997	1998	1999	2000
Total revenue and grants	43,283,059	48,396,602	53,345,263	65,110,652	67,542,226	71,243,191
Budgetary central government	27,980,779	31,367,481	33,846,123	43,808,593	46,356,724	47,030,110
Extrabudgetary funds	15,302,280	17,029,121	19,499,140	21,302,059	21,185,502	24,213,081
1. Pension fund	8,720,426	9,584,721	11,022,237	10,713,387	10,799,810	12,906,983
2. Health insurance fund	4,558,053	5,196,313	5,824,150	8,269,030	8,686,397	9,518,551
3. Employment fund	691,171	676,112	638,330	718,195	760,620	823,047
4. Child benefit fund	782,087	878,500	976,695	542,849	9,079	1,500
5. Public water-management fund	550,543	693,475	1,037,728	1,058,598	929,596	963,000
Total expenditure and lending minus repayments	44,166,098	48,874,039	54,931,935	64,228,568	70,343,017	73,643,381
Budgetary central government	26,189,262	27,591,903	29,409,442	34,125,447	35,979,076	37,192,029
Extrabudgetary funds	17,976,836	21,282,136	25,522,493	30,103,121	34,363,941	36,451,352
1. Pension fund	8,860,687	10,459,776	13,795,119	16,170,417	18,998,533	20,726,676
2. Health insurance fund	7,083,073	8,357,507	8,742,813	10,776,029	11,919,552	11,992,145
3. Employment fund	445,942	676,184	714,077	571,227	824,914	1,124,437
4. Child benefit fund	820,581	853,165	1,003,702	1,032,129	1,136,161	1,133,500
5. Public water-management fund	766,553	935,504	1,266,782	1,553,319	1,484,781	1,474,594
Total deficit/surplus	- 883,039	- 477,437	- 1,586,672	882,084	- 2,800,791	-2,400,190
Total financing	883,039	477,437	1,586,672	- 882,084	2,800,791	2,400,190
1. Financing from abroad	755,158	931,093	3,111,719	86,825	4,631,957	5,190,050
2. Domestic financing	127,881	- 453,656	- 1,525,047	- 968,909	- 1,831,166	- 2,789,860
2.1. From other general government	0	0	0	0	0	0
2.2. From monetary authorities	395,967	- 152,745	- 354,848	112,392	748	0
2.3. From deposit money banks	278,214	- 89,067	- 1,056,596	- 1,169,952	- 1,684,466	- 2,130,680
2.4. Other domestic financing	- 546,300	- 211,844	- 113,603	88,651	- 147,448	- 659,180

Appendix 8: Revenues and Expenditures of the Pension Fund

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	10,524,558	12,407,222	15,299,580	16,136,761	18,946,291	19,910,108
II.	Total revenue	10,192,283	11,246,813	12,675,281	12,337,577	12,662,199	14,809,708
III.	Current revenue	10,030,464	11,105,745	12,439,164	11,907,022	12,553,233	14,708,008
IV.	Tax revenue	9,807,001	10,951,042	12,243,659	11,766,916	12,448,917	14,599,708
1.	Social security contributions	9,807,001	10,951,042	12,243,659	11,766,916	12,448,917	14,599,708
1.1.	From employees	4,710,925	5,266,590	5,918,109	5,715,002	6,012,091	7,069,354
1.2.	From employers	4,710,925	5,266,590	5,918,109	5,715,002	6,012,091	7,069,354
1.3.	From self-employed or unemployed	236,817	293,213	343,041	327,209	418,909	450,000
1.4.	Unallocable social security contributions	148,334	124,649	64,400	9,703	5,826	11,000
V.	Nontax revenue	223,463	154,703	195,505	140,106	104,316	108,300
2.	Income from dividends and interests	223,463	154,703	195,505	65,146	46,082	52,300
3.	Other nontax revenue	0	0	0	74,960	58,234	56,000
VI.	Capital revenue	161,819	141,068	236,117	430,555	108,966	101,700
4.	Sales of shares and public flats	161,819	141,068	236,117	430,555	108,966	101,700
VII.	Grants	332,275	1,160,409	2,624,299	3,799,184	6,284,092	5,100,400
5.	From other levels of national government	332,275	1,160,409	2,624,299	3,799,184	6,284,092	5,100,400
5.1.	Current grants	332,275	1,160,409	2,624,299	3,799,184	4,781,092	5,100,400
5.2.	Capital grants	0	0	0	0	1,503,000	0
I.	Total expenditure and net lending	10,667,302	12,411,104	15,547,850	16,554,799	19,046,509	20,783,408
II.	Total expenditure	10,667,302	12,411,104	15,547,850	16,554,799	19,046,509	20,783,408
III.	Current expenditure	10,651,243	12,393,518	15,532,570	16,520,781	19,029,138	20,750,400
1.	Expenditures on goods and services	477,785	427,870	534,291	593,119	672,323	799,820
1.1.	Wages and salaries	132,769	142,824	163,699	223,433	255,126	293,118
1.2.	Employer contributions	24,129	26,626	30,742	41,504	47,976	56,732
1.3.	Other purchases of goods and services	320,887	258,420	339,850	328,182	369,221	449,970
2.	Interest payments	2,270	884	13,736	27,517	60,652	63,780
2.1.	Domestic payments	2,270	884	13,736	27,517	60,652	63,780
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	10,171,188	11,964,764	14,984,543	15,900,145	18,296,163	19,886,800
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	1,782,486	1,924,702	1,721,990	344,453	0	0
3.4.	Transfers to households	8,355,121	10,002,364	13,217,390	15,500,163	18,239,288	19,827,100
3.5.	Transfers abroad	33,581	37,698	45,163	55,529	56,875	59,700
IV.	Capital expenditure	16,059	17,586	15,280	34,018	17,371	33,008
4.	Acquisition of fixed capital assets	16,059	17,586	15,280	34,018	17,371	33,008
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	-288,504	-127,364	-469,107	-814,575	-1,694,813	-941,992
	Total deficit/surplus	-142,744	-3,882	-248,270	-418,038	-100,218	-873,300
VI.	Total financing	142,744	3,882	248,270	418,038	100,218	873,300
1.	Financing from abroad	0	0	0	0	0	873,300
2.	Domestic financing	142,744	3,882	248,270	418,038	100,218	0
2.1.	From deposit money banks	142,744	3,882	248,270	418,038	100,218	0
2.2.	Other domestic financing	0	0	0	0	0	0

Appendix 9: Revenues and Expenditures of the Health Insurance Fund

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	7,601,890	8,750,894	9,342,902	11,552,049	12,649,766	12,889,145
II.	Total revenue	7,252,905	8,134,192	8,560,479	9,988,481	10,240,976	11,103,150
III.	Current revenue	7,252,905	8,134,192	8,535,594	9,912,379	10,240,707	11,102,900
IV.	Tax revenue	6,959,719	7,778,910	8,417,942	9,780,995	9,952,541	10,852,162
1.	Social security contributions	6,959,719	7,778,910	8,417,942	9,780,995	9,952,541	10,852,162
1.1.	From employees	2,396,100	2,712,698	3,082,123	4,411,445	4,747,281	5,134,984
1.2.	From employers	2,396,100	2,712,698	3,082,123	4,411,445	4,747,281	5,134,984
1.3.	From self-employed or unemployed	271,173	308,199	325,535	376,625	398,875	526,598
1.4.	Unallocable social security contributions	1,896,346	2,045,315	1,928,161	581,480	59,104	55,596
V.	Nontax revenue	293,186	355,282	117,652	131,384	288,166	250,738
2.	Income from dividends and interests	0	0	0	2,882	3,744	5,550
3.	Other nontax revenue	293,186	355,282	117,652	128,502	284,422	245,188
VI.	Capital revenue	0	0	24,885	76,102	269	250
4.	Sales of shares and public flats	0	0	24,885	76,102	269	250
VII.	Grants	348,985	616,702	782,423	1,563,568	2,408,790	1,785,995
5.	From other levels of national government Current grants	348,985	616,702	782,423	1,563,568	2,408,790	1,785,995
5.1.	Current grants	348,985	616,702	782,423	1,563,568	1,847,955	1,783,435
5.2.	Capital grants	0	0	0	0	560,835	2,560
I.	Total expenditure and net lending	7,592,694	8,924,017	9,433,605	11,570,688	12,788,163	12,889,145
II.	Total expenditure	7,592,694	8,924,017	9,433,605	11,570,688	12,788,163	12,889,145
III.	Current expenditure	7,528,432	8,736,628	9,176,087	11,401,107	12,665,930	12,823,504
1.	Expenditures on goods and services	6,398,022	7,102,801	7,211,883	9,323,307	10,558,007	10,447,777
1.1.	Wages and salaries	2,580,362	2,806,889	3,353,355	3,857,567	4,216,558	4,354,369
1.2.	Employer contributions	509,621	566,510	690,792	794,659	868,611	897,000
1.3.	Other purchases of goods and services	3,308,039	3,729,402	3,167,736	4,671,081	5,472,838	5,196,408
2.	Interest payments	0	0	15,163	12,318	20,536	31,000
2.1.	Domestic payments	0	0	15,163	12,318	20,536	31,000
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	1,130,410	1,633,827	1,949,041	2,065,482	2,087,387	2,344,727
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	0	0	0	0	0	0
3.4.	Transfers to households	1,130,410	1,633,827	1,949,041	2,065,482	2,087,387	2,344,727
IV.	Capital expenditure	64,262	187,389	257,518	169,581	122,233	65,641
4.	Acquisition of fixed capital assets	64,262	187,389	257,518	169,581	122,233	65,641
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	73,458	14,266	141,930	74,840	-577,268	62,831
	Total deficit/surplus	9,196	-173,123	-90,703	-18,639	-138,397	0
VI.	Total financing	-9,196	173,123	90,703	18,639	138,397	0
1.	Financing from abroad	1,653	84,073	70,903	37,332	134	0
2.	Domestic financing	-10,849	89,050	19,800	-18,693	138,263	0
2.1.	From deposit money banks	0	89,050	19,800	-18,693	138,263	0
2.2.	Other domestic financing	-10,849	0	0	0	0	0

Appendix 10: Revenues and Expenditures of the Employment Fund

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	747,171	722,042	874,645	886,375	928,178	990,337
II.	Total revenue	691,171	722,042	746,867	843,343	907,478	972,700
III.	Current revenue	691,171	722,042	746,867	843,343	907,460	972,700
IV.	Tax revenue	657,284	699,785	740,466	831,446	880,920	960,200
1.	Social security contributions	657,284	699,785	740,466	831,446	880,920	960,200
1.1.	From employees	657,284	699,785	370,233	415,723	440,460	480,100
1.2.	From employers	0	0	370,233	415,723	440,460	480,100
V.	Nontax revenue	33,887	22,257	6,401	11,897	26,540	12,500
2.	Entrepreneurial and property income	0	0	0	0	12,799	5,000
3.	Fines and forfeits	0	0	844	5,466	625	2,000
4.	Other nontax revenue	33,887	22,257	5,557	6,431	13,116	5,500
VI.	Capital revenue	0	0	0	0	18	0
VII.	Grants	56,000	0	127,778	43,032	20,700	17,637
5.	From other levels of national government	56,000	0	127,778	43,032	20,700	17,637
5.1.	Current grants	56,000	0	127,778	43,032	20,700	17,637
5.2.	Capital grants	0	0	0	0	0	0
I.	Total expenditure and net lending	582,591	832,968	883,743	673,458	843,957	1,150,337
II.	Total expenditure	582,591	832,968	883,743	673,458	843,957	1,150,337
III.	Current expenditure	582,591	803,181	868,319	651,898	817,151	1,121,597
1.	Expenditures on goods and services	195,032	219,414	175,002	113,509	267,530	410,960
1.1.	Wages and salaries	0	0	34,838	47,228	67,582	80,000
1.2.	Employer contributions	0	0	7,111	9,635	13,790	15,900
1.3.	Other purchases of goods and services	195,032	219,414	133,053	56,646	186,158	315,060
2.	Interest payments	0	0	0	0	0	0
2.1.	Domestic payments	0	0	0	0	0	0
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	387,559	583,767	693,317	538,389	549,621	710,637
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	136,649	156,784	162,555	92,596	5,253	10,000
3.4.	Transfers to households	250,910	426,983	530,762	445,793	544,368	700,637
3.5.	Transfers abroad	0	0	0	0	0	0
IV.	Capital expenditure	0	29,787	15,424	21,560	26,806	28,740
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	164,580	-81,139	6,326	234,477	111,009	-131,260
	Total deficit/surplus	164,580	-110,926	-9,098	212,917	84,221	-160,000
VI.	Total financing	-164,580	110,926	9,098	-212,917	-84,221	160,000
1.	Financing from abroad	0	0	0	0	0	160,000
2.	Domestic financing	-164,580	110,926	9,098	-212,917	-84,221	0
2.1.	From other general government	0	0	0	-190,000	87,000	0
2.2.	From monetary authorities	0	0	0	0	0	0
2.3.	From deposit money banks	0	110,926	9,098	-22,917	-171,221	0
2.4.	Other domestic financing	-164,580	0	0	0	0	0

Appendix 11: Revenues and Expenditures of the Child Benefit Fund

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	782,087	878,500	1,013,473	1,027,033	1,131,524	1,133,500
II.	Total revenue	782,087	878,500	993,473	551,833	9,079	1,500
III.	Current revenue	782,087	878,500	993,473	551,833	9,079	1,500
IV.	Tax revenue	773,444	877,429	992,289	550,639	8,098	0
1.	Social security contributions	773,444	877,429	992,289	550,639	8,098	0
1.1.	From employees	773,444	877,429	975,511	541,633	8,098	0
1.4.	Unallocable social security contributions	0	0	16,778	9,006	0	0
V.	Nontax revenue	8,643	1,071	1,184	1,194	981	1,500
3.	Other nontax revenue	8,643	1,071	1,184	1,194	981	1,500
VI.	Capital revenue	0	0	0	0	0	0
VII.	Grants	0	0	20,000	475,200	1,122,445	1,132,000
4.	From other levels of national government	0	0	20,000	475,200	1,122,445	1,132,000
4.1.	Current grants	0	0	20,000	475,200	1,122,445	1,132,000
4.2.	Capital grants	0	0	0	0	0	0
I.	Total expenditure and net lending	820,581	853,165	1,003,702	1,032,107	1,136,161	1,133,500
II.	Total expenditure	820,581	853,165	1,003,702	1,032,107	1,136,161	1,133,500
III.	Current expenditure	820,581	853,165	1,003,702	1,032,107	1,136,161	1,133,500
1.	Expenditures on goods and services	19,041	27,916	24,432	34,078	45,221	42,500
1.1.	Wages and salaries	0	0	0	0	0	0
1.2.	Employer contributions	0	0	0	0	0	0
1.3.	Other purchases of goods and services	19,041	27,916	24,432	34,078	45,221	42,500
2.	Interest payments	0	0	0	0	0	0
3.	Subsidies and other current transfers	801,540	825,249	979,270	998,029	1,090,940	1,091,000
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers to other levels of Government	0	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	0	0	0	0	0	0
3.4.	Transfers to households	801,540	825,249	979,270	998,029	1,090,940	1,091,000
IV.	Capital expenditure	0	0	0	0	0	0
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	-38,494	25,335	9,771	-5,074	-4,637	0
	Total deficit/surplus	-38,494	25,335	9,771	-5,074	-4,637	0
VI.	Total financing	38,494	-25,335	-9,771	5,074	4,637	0
1.	Financing from abroad	0	0	0	0	0	0
2.	Domestic financing	38,494	-25,335	-9,771	5,074	4,637	0
2.1.	From other general government	0	0	0	0	0	0
2.2.	From monetary authorities	0	0	0	0	0	0
2.3.	From deposit money banks	38,494	-25,335	-9,771	5,074	4,637	0
2.4.	Other domestic financing	0	0	0	0	0	0

Appendix 12: Revenues and Expenditures of the Water Management Fund

(000 HRK)		Outturn					Budget
		1995	1996	1997	1998	1999	2000
I.	Total revenue and grants	608,093	797,575	1,146,762	1,376,980	1,338,797	1,351,694
II.	Total revenue	550,543	688,051	1,037,728	1,058,598	929,596	963,000
III.	Current revenue	550,450	687,357	1,037,205	1,058,282	929,294	962,700
IV.	Tax revenue	172,664	197,002	224,510	125,077	0	0
1.	Other tax revenues	172,664	197,002	224,510	125,077	0	0
V.	Nontax revenue	377,786	490,355	812,695	933,205	929,294	962,700
2.	Income from dividends and interests	6,928	5,073	10,718	6,448	3,412	4000
3.	Administrative fees and charges	346,982	454,460	731,366	838,638	775,235	803,000
4.	Other nontax revenues	23,876	30,822	70,611	88,119	150,647	155,700
VI.	Capital revenue	93	694	523	316	302	300
5.	Sales of shares and public flats	93	694	523	316	302	300
VII.	Grants	57,550	109,524	109,034	318,382	409,201	388,694
6.	From other levels of national government	57,550	109,524	109,034	318,382	409,201	388,694
6.1.	Current grants	57,550	109,524	0	0	252,990	277,000
6.2.	Capital grants	0	0	109,034	318,382	156,211	111,694
I.	Total expenditure and net lending	769,404	940,400	1,275,917	1,565,308	1,498,418	1,488,694
II.	Total expenditure	769,404	940,400	1,275,917	1,565,308	1,498,418	1,488,694
III.	Current expenditure	266,123	377,775	580,213	694,534	722,462	794,000
1.	Expenditures on goods and services	260,303	361,792	555,224	659,578	675,390	751,000
1.1.	Wages and salaries	14,926	25,243	44,671	58,323	66,437	71,900
1.2.	Employer contributions	2,851	4,896	9,135	11,989	13,637	14,100
1.3.	Other purchases of goods and services	242,526	331,653	501,418	589,266	595,316	665,000
2.	Interest payments	5,820	15,983	24,989	34,956	47,072	43,000
2.1.	Domestic payments	5,820	15,983	24,989	34,956	47,072	43,000
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	0	0	0	0	0	0
IV.	Capital expenditure	503,281	562,625	695,704	870,774	775,956	694,694
4.	Acquisition of fixed capital assets	262,353	303,788	396,559	465,314	448,826	358,694
5.	Acquisition of land and intangible assets	1,961	2,227	6,294	9,171	8,942	8,000
6.	Capital transfers to nonfinancial public enterprises	238,967	256,610	292,851	396,289	318,188	328,000
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	341,877	419,106	456,992	363,748	459,822	445,700
	Total deficit/surplus	-161,311	-142,825	-129,155	-188,328	-159,621	-137,000
VI.	Total financing	161,311	142,825	129,155	188,278	159,621	137,000
1.	Financing from abroad	67,500	43,088	54,876	58,607	16,707	-14,300
2.	Domestic financing	93,811	99,737	74,279	129,671	142,914	151,300
2.1.	From other general government	1,141	62,004	40,974	12,333	39,901	40,000
2.2.	From monetary authorities	0	0	0	0	0	0
2.3.	From deposit money banks	96,975	40,767	33,305	117,338	103,013	111,300
2.4.	Other domestic financing	-4,305	-3,034	0	0	0	0

Appendix 13: Outturn of Local Government Budget

(000 HRK)	Outturn 1997				Outturn 1998				Budget 1999			
	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total
Total revenue and grants	1,061,523	5,769,410	742,705	7,573,638	1,238,005	6,466,910	944,084	8,649,000	1,550,512	7,509,725	1,081,461	10,141,697
Total revenue	865,692	5,588,755	536,713	6,991,159	977,633	6,229,182	603,596	7,810,411	1,194,426	7,237,577	677,852	9,109,855
Current revenue	781,579	5,203,880	533,089	6,518,548	893,145	5,874,497	600,215	7,367,856	1,058,117	6,664,188	664,607	8,386,911
Tax revenue	349,411	3,256,037	388,905	3,994,353	423,292	3,960,980	453,678	4,837,950	444,724	4,321,064	490,551	5,256,339
Taxes and surtaxes on personal income	232,700	2,174,664	204,448	2,611,812	282,980	2,607,574	245,589	3,136,143	284,714	2,815,533	257,911	3,358,157
Taxes on corporate income	23,851	585,211	109,806	718,868	34,061	833,247	148,343	1,015,651	41,295	914,586	164,430	1,120,311
Taxes on property	77,787	411,039	16,215	505,040	92,021	441,496	5,908	539,425	98,262	487,739	6,860	592,862
Domestic taxes on goods and services	14,059	81,443	50,363	145,865	12,890	78,663	53,838	145,391	17,490	95,227	61,340	174,057
Other tax revenues	1,015	3,680	8,073	12,768	1,339	0	0	1,339	2,963	7,979	10	10,951
Nontax revenues	432,168	1,947,842	144,184	2,524,195	469,853	1,913,516	146,537	2,529,906	613,393	2,343,124	174,056	3,130,572
Capital revenues	84,113	384,875	3,623	472,611	84,489	354,685	3,381	442,555	136,309	573,389	13,245	722,943
Grants	195,831	180,655	205,993	582,479	260,371	237,729	340,489	838,589	356,086	272,148	403,609	1,031,843
Total expenditure and lending minus repayments	1,056,124	5,682,548	740,597	7,479,270	1,241,138	6,672,018	941,358	8,854,513	1,575,605	7,839,028	1,122,694	10,537,327
Total expenditure	1,043,637	5,654,356	716,771	7,414,763	1,219,598	6,598,614	913,070	8,731,282	1,556,570	7,816,873	1,061,531	10,434,974
Current expenditure	626,015	3,759,691	556,060	4,941,766	747,234	4,371,765	682,137	5,801,137	896,216	5,036,004	770,065	6,702,285
Wages and salaries	118,373	937,858	67,159	1,123,390	146,050	1,086,659	80,276	1,312,986	166,298	1,022,972	103,664	1,292,934
Employer contributions	21,497	164,443	10,223	196,163	26,283	195,906	12,154	234,343	31,972	177,576	13,851	223,399
Other purchases of goods and services	318,433	1,509,466	198,641	2,026,540	369,254	1,760,560	230,486	2,360,301	426,406	1,875,341	250,057	2,551,803
Interest payments	2,997	41,074	3,751	47,822	4,402	68,962	5,876	79,240	8,353	16,208	5,021	129,581
Subsidies and current transfers	164,715	1,106,849	276,287	1,547,851	201,245	1,259,678	353,345	1,814,267	263,188	1,843,908	397,472	2,504,568
Capital expenditure	417,621	1,894,665	160,710	2,472,997	472,364	2,226,849	230,933	2,930,145	660,354	2,780,869	291,466	3,732,689
Lending minus repayments	12,488	28,192	23,827	64,507	21,539	73,404	28,288	123,231	19,036	22,155	61,163	102,353
Current deficit/surplus without grants	155,564	1,444,189	-22,971	1,576,782	145,910	1,502,731	-81,922	1,566,720	161,901	1,628,184	-105,459	1,684,626
Total deficit/surplus	5,399	86,862	2,108	94,368	-3,133	-205,107	2,726	-205,514	-25,093	-329,303	-41,233	-395,630

Appendix 14: Consolidated General Government Revenue and Grants

(000 HRK)		Outturn			
		1995	1996	1997	1998
I.	Total revenue and grants	47,440,127	54,385,153	60,200,150	72,737,584
II.	Total revenue	47,430,146	54,371,483	60,182,023	72,686,720
III.	Current revenue	46,451,138	52,778,745	58,986,750	69,946,535
IV.	Tax revenue	43,677,476	47,962,322	53,282,305	64,505,755
1.	Taxes on individual income	5,731,844	6,915,910	6,714,029	8,051,239
2.	Taxes on corporate income	1,400,964	1,772,121	2,504,127	3,476,800
3.	Social security contributions	13,919,768	15,533,703	17,725,269	19,215,241
4.	Taxes on property	475,848	551,049	747,742	810,350
5.	General sales tax	12,802,257	13,504,368	15,133,172	1,972,045
6.	Value added tax	-	-	-	20,228,226
7.	Excises	4,960,440	5,390,785	5,404,837	5,896,787
8.	Local taxes on goods and services	114,160	115,927	145,865	145,391
9.	Taxes on international trade and transactions	3,922,481	3,942,438	4,639,995	4,127,523
10.	Other tax revenues	349,715	236,022	267,269	582,153
V.	Nontax revenues	2,773,661	4,816,423	5,704,445	5,440,780
11.	Profits of departmental enterprises	2,954	1,306	2,593	2,160
12.	Central bank's profit	165,889	82,255	129,207	265,043
13.	Part of profits of public enterprises	143,328	134,955	331,319	366,041
14.	Revenue from interests	50,987	76,909	49,274	56,079
15.	Revenue from dividends	230,391	228,718	255,808	112,902
16.	Other property income	266,657	375,135	440,970	742,932
17.	Administrative fees and charges	794,938	2,220,703	2,895,430	2,388,677
18.	State administration bodies' revenue	70,030	340,720	326,053	158,309
19.	Roads' charges	176,556	217,178	360,679	337,087
20.	Revenue under the special regulations	190,984	231,064	284,226	315,960
21.	Other nontax revenue	680,948	907,479	628,887	695,590
VI.	Capital revenue	979,009	1,592,738	1,195,273	2,740,185
22.	Sales of fixed capital assets	949,759	1,505,029	1,121,985	2,659,060
23.	Sales of stocks	0	0	0	0
24.	Sales of land and intangible assets	15,087	47,771	32,983	45,331
25.	Capital transfers from nongovernment sources	14,163	39,938	40,305	35,794
VII.	Grants	9,981	13,670	18,126	50,864
26.	Grants from abroad	9,981	13,671	18,127	50,864
26.1.	Current grants	6,718	8,695	9,153	21,952
26.2.	Capital grants	3,262	4,976	8,974	28,912
27.	From other levels of national Government	0	0	0	0
27.1.	Current grants	0	0	0	0
27.2.	Capital grants	0	0	0	0

Appendix 15: Consolidated General Government Expenditure and Net Lending

(000 HRK)		Outturn			
		1995	1996	1997	1998
I.	Total expenditure and lending minus repayments	48,139,844	54,784,640	61,697,267	72,059,343
II.	Total expenditure	47,881,837	54,297,299	61,057,789	70,871,366
III.	Current expenditure	43,409,085	46,941,087	53,608,116	61,341,807
1.	Expenditure for goods and services	27,369,895	27,160,325	28,666,685	33,985,093
1.1.	Wages and salaries	11,739,444	12,051,216	13,577,429	16,349,815
1.2.	Employer contributions	0	0	0	0
1.3.	Other purchases of goods and services	15,630,450	15,109,109	15,089,256	17,635,278
2.	Interest payments	1,423,033	1,243,318	1,838,626	2,104,497
2.1.	Domestic interest payments	942,422	975,566	876,332	1,068,354
2.2.	Interest payments abroad	480,611	267,752	962,294	1,036,143
3.	Subsidies and current transfers	14,616,157	18,537,443	23,102,805	25,252,217
3.1.	Subsidies	2,042,674	2,345,459	2,646,925	3,705,834
3.2.	Transfers to other levels of national Government	0	0	0	0
3.3.	Transfers to nonprofit institutions	1,466,871	2,399,271	2,728,045	1,453,504
3.4.	Transfers to households	11,049,809	13,722,957	17,644,373	20,007,127
3.5.	Transfers abroad	56,802	69,757	83,462	85,752
IV.	Capital expenditures	4,472,752	7,356,212	7,449,672	9,529,559
4.	Acquisition of fixed capital assets	2,502,140	3,752,841	3,814,520	5,519,129
5.	Purchases of stocks	135	8,076	8,795	117
6.	Purchases of land and intangible assets	37,728	314,622	369,303	430,106
7.	Capital transfers	1,932,749	3,280,674	3,257,054	3,580,207
V.	Lending minus repayments	258,007	487,341	639,478	1,187,977
8.	Domestic net lending	238,946	473,976	618,174	1,162,244
9.	Net lending abroad	19,061	13,366	21,304	25,733
Current deficit/surplus		3,048,771	5,846,352	5,387,786	8,604,728
Total deficit/surplus		-699,717	-399,487	-1,497,118	678,241

Appendix 16: Consolidated General Government Financing by Type of Debt Holder

(000 HRK)		Outturn			
		1995	1996	1997	1998
I	Total financing	699,717	399,487	1,497,117	-678,241
II	Domestic financing	-56,811	-530,293	-1,619,392	-792,358
1.	From other general government	0	0	0	0
2.	From monetary authorities	395,967	-152,745	-354,848	112,392
3.	From deposit money banks	96,484	-172,258	-1,127,563	-994,435
4.	Other domestic financing	-549,262	-205,289	-136,981	89,685
4.1.	From other financial institutions	27,515	11,985	13,154	-9,145
4.2.	From nonfinancial public enterprises	0	3,239	5,057	-17
4.3.	From nonfinancial private sector	-2,950	-348	-52,707	-6,499
4.4.	Other domestic financing - n.e.c.	-573,828	-220,166	-102,485	105,346
III	Financing abroad	756,528	929,780	3,116,509	114,117
5.	From international development institutions	132,693	609,189	595,852	475,860
6.	From foreign governments	29,570	-364,330	-502,829	-525,161
7.	Other borrowing abroad	592,895	686,234	3,025,705	162,573
8.	Changes in cash, deposits and securities	1,370	-1,313	-2,219	845

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