



REPUBLIC OF CROATIA

MINISTRY OF FINANCE

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

OF THE MINISTRY OF FINANCE

2000

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A Word from the Minister of Finance



In line with the priorities laid out in the Work Program of the Government of the Republic of Croatia for the period 2000–2004, during 2000 the Ministry of Finance embarked on a number of changes in public finance. Completion of the 2000 Government budget set off reform processes encompassing tax policy, budget expenditures, and comprehensive public finance management, especially central Government budget and extra-budgetary funds.

The above mentioned 2000 budget for the first time brought about a nominal reduction in budget expenditures, which clearly indicated the stance of the Government of the Republic of Croatia toward the public expenditure level. In line with its program the Government started the process of reducing public expenditure level and bringing it into sustainable framework. The overall public expenditures in terms of expenditures of consolidated central Government was thus reduced from 49.3% of GDP in 1999 to 47.4% in 2000. A further decrease of the share of public expenditures has been planned in the three-year budget to start as early as in 2001 (44% of GDP).

During 2000, a reduction of the overall tax burden in the country was undertaken besides public expenditure reduction. In the very beginning of 2000 the period for value-added tax payment was extended from 15 to 30 days, which directly influenced an increase in the liquidity of economic subjects. The non-taxable portion of personal income was increased from HRK 1,000 to HRK 1,250, whereby the citizens' net wages were increased and the social status of citizens was improved. In the middle of the year the pension and health insurance contributions on wages and salaries were reduced, i.e., the cost of labor was decreased in an attempt to improve competitiveness of Croatian manufacturers on the European and world markets.

The end of the year saw a "small tax reform" which changed the profit tax and personal income tax systems. More precisely, in line with the indisputable need for foreign direct investments and attempts at making the Croatian tax system transparent and competitive to the neighboring transition countries, the profit tax rate was

decreased from 35% to 20% and a number of tax incentives for foreign and domestic investors were introduced. The third and lowest, 15-percent personal income tax rate was introduced into the personal income tax system, thus increasing net wages and salaries in a manner similar to the above mentioned increase in non-taxable portion of income at the beginning of 2000.

With a view to solving the illiquidity problem, which in the previous years had been contributed to by the state as well, and in order to increase state finance transparency, the issue of arrears was tackled during 2000. At the end of 1999 the level of outstanding liabilities of budget beneficiaries and extra-budgetary funds totaled HRK 9.58 billion. A total of HRK 4.1 billion of liabilities from the previous years was paid from the central Government budget. HRK 1.7 billion of health system debts were covered by issuing bonds of Croatian Health Insurance Institute, whereas Bank Rehabilitation Agency bonds covered the value of HRK 2.4 billion of insured savings deposits of failed banks and savings banks. It needs to be underscored that 2000 saw a more intense work on the State Treasury System. This enabled the System to become fully functional on January 1, 2001 and an extensive fiscal decentralization process commenced.

All the aforementioned measures, which were either implemented or which commenced during 2000, resulted in quite measurable accomplishments, such as successful issue of state bonds on the European and Japanese financial markets, an improved country's credit rating, joining the World Trade Organization, and accelerated negotiations on the Stabilization and Association Agreement with the European Union. An important proof of seriousness and perseverance of the Government of the Republic of Croatia in the implementation of structural measures and sustainable fiscal and monetary policies in 2000 were intensive negotiations with the International Monetary Fund on the approval of a new Stand-by Arrangement, which was concluded in the middle of March 2001, and negotiations with the World Bank on the Structural Adjustment Loan.

Looking forward to further successful implementation of the planned reforms, I would like to thank all my associates and all the workers of the Ministry of Finance for their dedicated work and enthusiasm throughout the year.

In Zagreb, March 25, 2001

Mato Crkvenac Ph.D.



Minister of finance
of the Republic of Croatia

I MACROECONOMIC TRENDS IN 2000

1.1. EXTERNAL SITUATION

Following the January parliamentary elections, the position of the Republic of Croatia on the international financial and other markets improved significantly in comparison with the previous years. More precisely, at the same time Croatia's political isolation prior to the elections had manifested itself as economic isolation. Croatia had been neither a member of CEFTA nor of the World Trade Organization, and consequently had not enjoyed a preferential trade status with the European Union.

During 2000 negotiations were successfully concluded and Croatia became a member of the World Trade Organization, and free trade agreements were concluded with Slovenia, Bosnia-Herzegovina and Hungary in February 2001. In line with signing of the free trade agreements between Croatia and CEFTA member countries, Croatia is going to request membership in this organization. It is also expected that in mid-2001 the negotiations on free trade agreements with EFTA member countries will be concluded. In the course of 2000 negotiations with the European Union were especially intensified. Consequently, the signing of the Stabilization and Association Agreement is expected in the middle of 2001.

A favorable position of the country on the world financial markets was reflected mostly in favorable issuance of Government bonds on the European and Japanese markets during 2000 and at the beginning of 2001. Expensive loans from the previous years were refinanced from the above mentioned issuance of Government bonds.

Table 1.1: Basic macroeconomic indicators in selected Transition Countries

	GDP real growth (%)		Inflation (as CPI %)		Current Account balance (as % of GDP)	
	1999	2000	1999	2000	1999	2000
Czech Republic	-0.8	3.1	2.1	3.9	-3.0	-4.8
Hungary	4.5	5.2	10.0	9.8	-4.4	-3.9
Poland	4.1	4.1	7.4	10.1	-7.5	-6.2
Slovakia	1.9	2.2	10.6	12.0	-5.8	-3.7
Bulgaria	2.4	5.0	2.6	10.4	-5.2	-5.6
Romania	-3.2	1.8	45.8	48.4	-3.8	-2.5
Slovenia	5.2	4.8	6.1	8.9	-3.9	-3.3
Croatia	-0.4	3.7	4.2	6.2	-7.6	-2.8

Source: Newton Holding, a.s., Country Report, April 2001

1.2. THE REAL SECTOR

2000 saw a revival of economic activities, resulting in a 3.7-percent increase in the gross domestic product. A stronger economic activity in 2000 was supported by a stable macroeconomic environment which was visible in maintaining price stability, foreign exchange stability, and a stable and liquid banking system. Besides that, a restrictive fiscal policy created the possibility for leading a somewhat more relaxed monetary policy. This was indicated by the recovery of monetary aggregates and the overall loan volume, i.e., activating of the banking sector loan business. The stable internal environment in 2000 was supported by a favorable international environment, Croatia's entry into the World Trade Organization and opening of international markets to Croatian commodities.

From 1994 to 1998 Croatian economy recorded an economic growth mainly based on an increase in expenditures. A decline in economic activities and the entry of Croatian economy into recession commenced in the last quarter of 1998 and continued until the last quarter of 1999. Such developments in the economy resulted in a 0.4-percent drop in the gross domestic product in 1999. In the last quarter of 1999, after six quarters of decline, personal consumption (which accounts for approximately 57% of GDP) recorded an increase which was followed by intensifying of Government spending and exports, the result of which was a quarterly increase of 1.5% in the gross domestic product.

Trends at the end of 1999 continued in 2000, resulting in the above mentioned GDP growth of 3.7%. In terms of the final consumption of GDP, growth in 2000 was determined by a 4.1-percent rise in personal consumption and an 8.7-percent export growth, whereas Government spending and investments in 2000 recorded a decline. An increase in personal consumption was induced by the tourist season, net wage increase, a rise in loans to households, and payment

of secured savings deposits to households. Besides the above, the post-election psychological effect of reducing uncertainty had certain effects on an increased personal consumption, especially in the first two quarters. Foreign demand for domestic goods and services contributed significantly to an increase in GDP in 2000, especially in the third quarter. The continuation of the drop in investments in 2000 is disturbing. More specifically, capital investments have been dropping since as early as the last quarter of 1998. However, it is expected that those negative trends in investments might be discontinued in 2001.

As far as supply is concerned, trade, transport and communications, hotels and restaurants, and also industrial output have provided highest contributions to GDP growth in 2000.

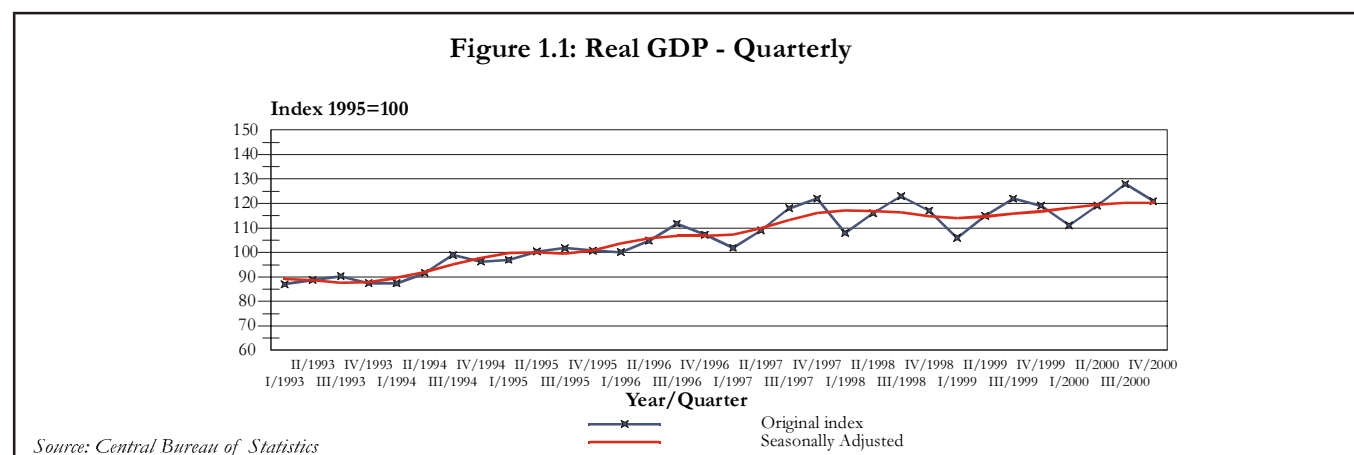


Table 1.2: GDP by Expenditure Method and Growth Rates of Individual Sectors (Prices 1997=100)

	Personal Consumption	Public Consumption	Capital Investments	Exports of Goods and Services	Imports of Goods and Services
Structure					
1998	76,551	32,911	30,692	52,847	66,925
1999	74,484	33,171	30,354	53,211	65,101
2000	77,515	32,940	29,297	57,839	67,821
Growth rates					
1998	-0.6	2.3	2.5	3.9	-4.9
1999	-2.7	0.8	-1.1	0.7	-2.7
2000	4.1	-0.7	-3.5	8.7	4.2

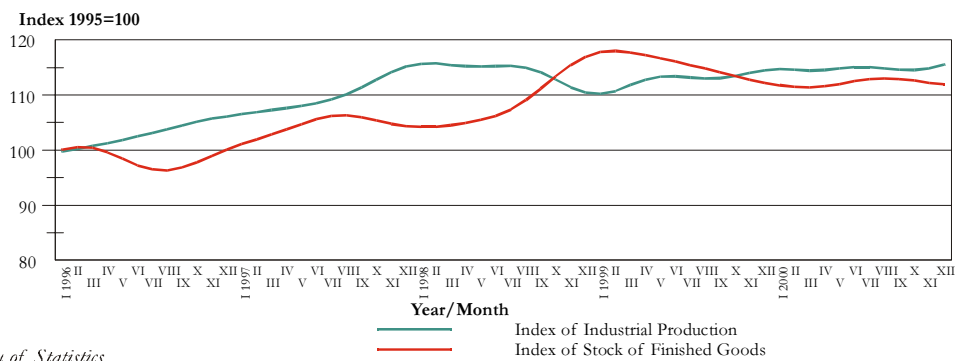
Source: State Bureau of Statistics

1.2.1. Industrial Production

Following a real drop of 1.4% in 1999, industrial production rose by 1.7% in 2000. This moderate rise was a result of both a 2.9-percent increase in manufacturing and a 1.8-percent increase in mining and extraction, but also of a 4.8-percent drop in supply of electric energy, natural gas, and water supply.

Out of the five main branches of industrial production, in 2000 an increase was realized in the production of intermediary products (3.6%), capital products (7.2%) and non-durable consumer goods (1.1%). The production of energy and the production of durable consumer goods were reduced by 2.4% and 3.8%, respectively.

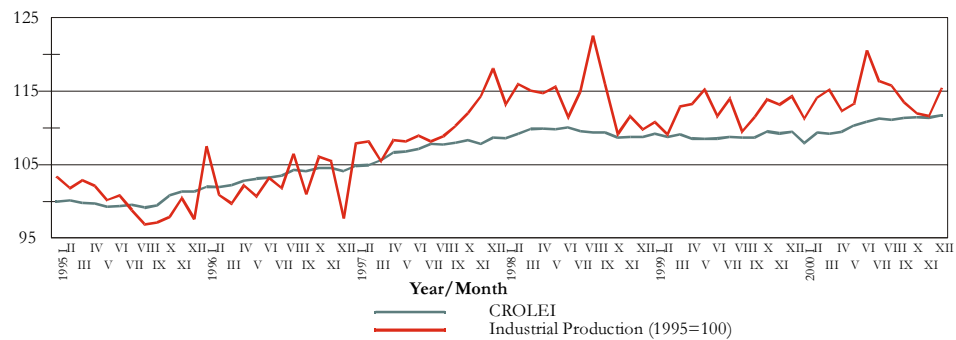
Figure 1.2: Industrial Production and Stocks - Trend



Source: Central Bureau of Statistics

In the industrial output trends during 2000 it was definitely unusual that the influences of the recorded increase in consumption and a strong tourist season were not felt. Namely, in the first three quarters of 2000 personal consumption recorded a real growth of more than 4%, retail trade had a real growth of as much as 14.4%, exports grew by 2.6%, imports grew by only 1.7%, and stocks were reduced by somewhat less than 3%.

Figure 1.3: CROLEI Index - Leading Indicator of Economic Activity



Source: Central Bureau of Statistics, Institute of Economics Zagreb

CROLEI index, which is regularly published by the Ministry of Finance and the Institute of Economics Zagreb in the Monthly Statistical Bulletin of the Ministry of Finance, is a significant indicator of future industrial production trends.

Table 1.3: Indicators of Industrial Output, Stocks, and Exports (Growth Rates in 2000)

(in %)	Industrial Output	Stocks of Finished Products	Export of Goods in US\$
INDUSTRIAL OUTPUT TOTAL	1.7	-2.9	2.0
Mining and Extraction	1.8	2.8	141.3
Supply of Electrical Energy, Natural Gas, and Water Supply	-4.8	-	-54.8
Manufacturing Industry	2.9	-3.2	0.9
Production of Food and Drinks	0.3	0.8	-21.1
Production of Tobacco Products	-0.1	-36.1	70.4
Production of Chemicals and Chemical Products	9.7	-1.7	7.6
Production of Paper Products	2.0	-0.2	31.8
Production of Petroleum Products	5.4	-5.5	37.5
Production of Electrical Machinery and Appliances	-10.5	-1.3	-1.6
Production of Motor Vehicles	24.6	-3.0	-21.3
Production of Other Means of Transport	-9.3	1.3	-11.2

Source: State Bureau of Statistics

1.2.2. Construction Industry

A drop in construction industry activities, which started in 1999, when a 7.7-percent decrease was recorded in terms of the physical volume of construction works, continued in 2000, in which the index of physical volume of construction works recorded a 9.1-percent drop. Such a trend was a consequence of generally reduced investments and especially of reduced budgetary expenditures for road reconstruction and construction in comparison with the previous years.

According to the structure of hours worked on construction sites in 2000, other buildings accounted for the majority of construction working hours (55.1%), and new buildings in the first place (55.4%), whereas reconstruction, repairs, and maintenance of existing buildings accounted for 44.6% of hours worked. In comparison with 1999 the value of net orders decreased by 12.3%, and the value of works carried out by 12.1%.

It can be expected that in construction activities will enhance to a certain point in 2001, partially due to conducting of a project aimed at construction of apartments for socially vulnerable categories of population, which has been induced by the Ministry of Public Works, Reconstruction and Construction. More precisely, in the 2001 budget HRK 90 million has been allocated for this purpose. This amount, together with the resources earmarked for construction, acquiring, and adaptation of houses and apartments for disabled veterans of the Homeland War (HRK 150 million) makes up HRK 240 million earmarked for housing construction. A further HRK 772 million will be allocated for construction of capital objects, out of which the housing unit reconstruction project accounts for HRK 536 million.

1.2.3. Tourism

Following nine subsequent years of almost drastical reduction in the number of tourist arrivals, during 2000 Croatia was visited by 6.619,684 tourists, which was a 39-percent increase in comparison with 1999. Although this figure was a mere 77.9% of the tourist arrivals realized in the last real tourist season in 1990, it is nevertheless indicative of Croatia's return on the tourist scene, and especially given the number of foreign arrivals, which recorded a 55%-percent year-on-year increase, i.e., for the first time after 1990 it significantly exceeded four million arrivals. A total of 38.405,930 room-nights was recorded during the year, out of which foreign tourists accounted for 86.7%.

The majority of room-nights was made by tourists from countries traditionally "faithful" to Croatia, namely Germany (22.8%), Slovenia (14.9%), the Czech Republic (14.2%), Italy (13.1%), Austria (9.5%), Poland (5.4%), Hungary (4.2%), Slovakia (3.7%), and Bosnia-Herzegovina (2.7%). Interestingly, 22.6% of tourists stayed in camps (45% more than in 1999), 18.3% tourists stayed in private accommodation (77% more than in 1999), whereas 42.5% stayed in hotels (29% more than in 1999).

The above described increase in the tourism sector was one-off and it is difficult to expect such high increases in the number of tourist visits in the next years. Therefore, the efforts aimed at keeping the current tourist arrivals and attracting new ones should necessarily be accompanied by an improved range of services offered to tourists; cooperation among hotels, tourist complexes, local tourist workers, units of local self-government, and tour-operators should be intensified and modernized. It is important to continue restructuring and modernization of hotels and other types of accommodations in order to improve the quality of the range of services offered to tourists. In line with the efforts to use the high tourist potential as the engine of economic growth and one of the ways to increase job creation during 2000, both a considerable financial and physical rehabilitation of hotels were carried out. Also, concrete tax changes were made, such as introduction of a zero VAT rate on organized tourist arrivals as of January 1, 2001.

1.2.4. Retail trade

In 2000 the overall retail trade increased by 21.8% in nominal terms, whereas the real growth was 14.4%. Such trend in the retail trade, due to its significant share in the gross domestic product structure, greatly contributed to the gross domestic product growth in 2000.

There are several reasons for the recorded increase in retail trade in 2000. However, it is difficult to assess which one of them contributed mostly to the overall growth, and consequently their order does not necessarily mean the order of their contribution to the increase in turnover. First of all, it should be pointed out that after the January elections, due to the general decline in uncertainty, there came a period of increased personal consumption. Consumption was additionally stimulated by arrival of large foreign trade centers, which attracted Croatian customers with their prices. More competitive prices on the domestic market reduced the number of Croatian citizens' shopping tours in the neighboring countries. Besides the above, an increase in trade turnover was also influenced by the increase in the loans to households in 2000 (exceeding 20%), the payments of secured savings deposits, and also growing purchases of cars at the end of last year, which were caused by the rising excise tax on personal vehicles at the beginning of 2001.

1.3. PRICES AND EXCHANGE RATE

1.3.1. Prices

In 2000 prices, in terms of index of retail prices, grew by 6.2%. In December retail prices grew by 7.4% with regard to the comparable month in 1999. During the year the prices which grew most were the prices of liquid fuels and lubricants (35.9%), tobacco products (20.3%), and beverages (11.0%). In the comparable period the cost of living grew by 5.3%, and producer prices by 9.7%. Such price trends were mostly a consequence of the trend in petroleum products and tobacco products. The prices of petroleum products, which in December 2000 were higher by 61.3% than in the comparable month in 1999, were mostly influenced by an increase in excise tax, a strong exchange rate of the US dollar, and the trends in the price of oil barrel on the world market (the highest level of oil price was recorded in September and October 2000, when it amounted to a little over US\$ 30 per barrel).

Table 1.4: Prices and the Cost of Living

	1996	1997	1998	1999	2000
Retail Prices, Average, %	3.5	3.6	5.7	4.2	6.2
Producer Prices, Average, %	1.4	2.3	-1.2	2.5	9.7
Cost of Living, Average, %	4.3	4.1	6.4	3.5	5.3

Source: State Bureau of Statistics

Evidently, the price increase in 2000 was to a large extent caused by an external factor – an increase in price of oil on the world market. This is definitely corroborated by the information provided by Croatian National Bank according to which basic inflation, i.e., inflation measured as the trend of retail price index, excluding the price of agricultural products and administratively regulated prices (among others the price of energy), reduced from the average of 4.2% in 1999 to 4% in 2000.

1.3.2. Exchange Rate

In 2000 the kuna appreciated in nominal terms by 1.5% against the German mark, whereas it depreciated against the US dollar by 6.6%. The kuna exchange rate against the Euro was around the average value of HRK/EUR 7.632, and the end of the year saw the level of HRK/EUR 7.598, weakening by 0.4% in comparison with the end of November 2000. At the end of the year there was an additional pressure on the increase in the demand for foreign currency as a consequence of the kuna liquidity growth of the population due to the payment of secured deposits. A reduction of the difference between the interest rate levels in the Euro zone and in the United States, as well as the signs of slowing down of economic growth in the USA accompanied by European Central Bank interventions contributed to a noticeable recovery of the Euro on the world foreign currency markets at the end of the year.

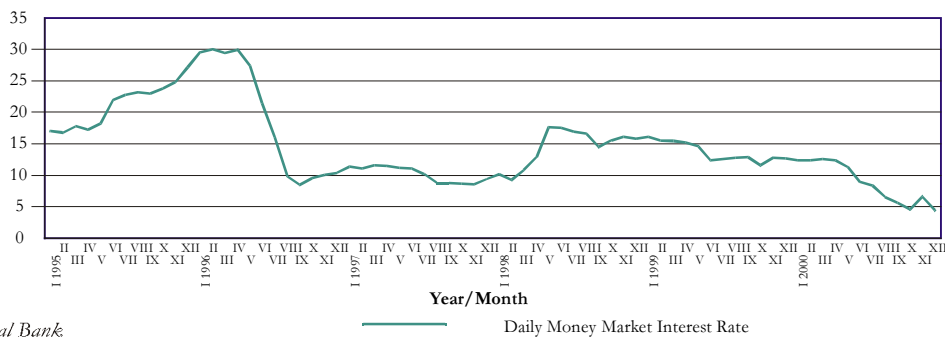
The real effective kuna exchange rate with the producers, judging by the December 2000 data, appreciated by 1.26% in comparison with the previous month and 2.35% compared to the comparable month in 1999. This indicates that the price competitiveness of domestic exporters deteriorated.

1.4. MONETARY TRENDS

From the monetary policy point of view, we can consider last year as a year of recovery of monetary aggregates and the real sector activities, as well as a year of a more significant banking sector consolidation and restructuring.

In relation with 1999, granting loans was accelerated, with almost all recovery in the last trimester of 2000, as a very mild increase in loans to the corporate sector and a somewhat speedier increase in loans to households. Nevertheless, even with such a careful and mild recovery there is no doubt that the decline in loan-granting activities was stopped, and it can be expected that this trend will continue at the beginning of 2001. At the end of the year loan volume amounted to HRK 60,893.1 million, which was a 2.71-percent increase in comparison with November.

Figure 1.4: Daily Money Market Interest Rate (%)

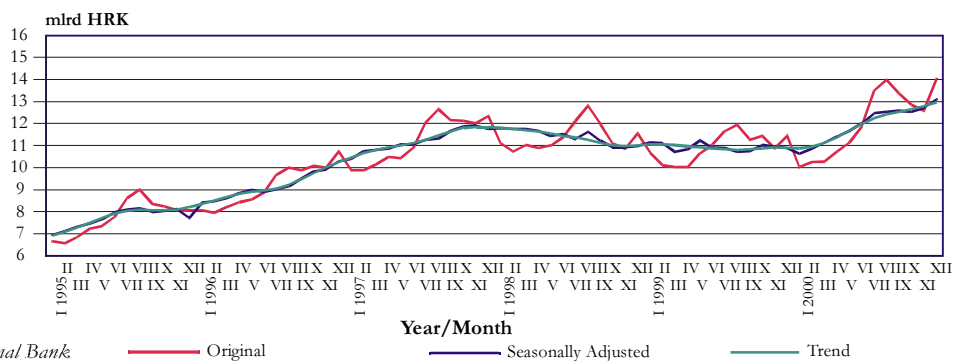


Source: Croatian National Bank

Following the year 1999, which was marked by credit restrictions, in the course of 2000 an increase in loans was recorded both in the household sector (21.03%) and in the corporate sector, in which the increase was 1.9% compared to a 7-percent reduction in 1999.

The end of the year was marked by a very strong increase in all the four components of the total liquid assets. Money supply M1 grew by 30.1% in comparison with December 1999, and the total liquid assets M4 were HRK 73,312.6 million. Such a high growth was mostly influenced by the payment of secured savings deposits, which the depositors mainly left in the foreign currency accounts. More precisely, at the end of the year the volume of foreign currency deposits with commercial banks was HRK 46,891.7 million (i.e., by 26.85% more than in December 1999); savings and time deposits of households accounted for HRK 41,128.4 million (87.7% of the total foreign currency deposits with commercial banks). In comparison with the end of 1999, savings deposits and foreign currency time deposits grew by 23.8%. In the course of the year an increase in the corporate sector foreign exchange volume was recorded as well. It grew from HRK 4,695.6 million in December 1999 to HRK 7,088.6 million in December 2000. In the middle of the year the corporate sector deposits grew under the influence of shrinking Government liabilities due, whereas the end of the year saw an autonomous growth.

**Figure 1.5: Real Money Supply M1
1995 = 100**



Source: Croatian National Bank

The banks's claims from the central Government grew significantly at the end of 2000, due to the fact that banks hold in their portfolio the bonds of the Bank Rehabilitation Agency (DAB) for payment of secured deposits, but also due to an increased debt of Pension Fund with commercial banks. Claims in kuna terms from the Republic of Croatia in the form of securities and loans increased by HRK 1.9 billion. Claims in kuna terms from the Republic funds also rose by approximately HRK 887.2 million. Foreign currency claims from the Republic of Croatia grew by HRK 571.3 million, whereas foreign currency claims from the Republic funds grew by HRK 153.2 million.

Table 1.5: Monetary and Credit Aggregates

(HRK Millions, End-of-Year)	1998	1999	Growth Rate 1999/1998	2000	Growth Rate 2000/1999
Primary Money	9,954.2	10,310.0	3.6	11,717.3	13.6
Money Supply M1	13,531.4	13,858.9	2.4	18,031.2	30.1
Broad Money Supply M4	57,340.3	56,698.6	-1.1	73,312.6	29.3
Domestic Credits	59,792.0	55,875.1	-6.6	60,893.1	8.9
Net Domestic Assets	44,626.8	40,003.8	-10.4	44,032.7	10.1

Source: Croatian National Bank

Monetary trends in 2000 were also marked by the discontinuation of borrowing by central Government budget from the Croatian National Bank; banks have not requested Lombard loans for a long time due to good liquidity, liquidity loans have been fully repaid, and directed credits were cancelled as an instrument after not being requested for a long time.

In the conditions of a restrictive fiscal policy, the Croatian National Bank had an opportunity to conduct a somewhat more expansive monetary policy, which resulted in a drop of commercial banks active interest rates. Thus, interest rates on the overnight money market saw the end of the year at 2.39% (in January they were 10.0%), and interest rates on loans in kuna without a currency clause (with relative portion of those loans at 47.8%) were 10.45% (15.33% in January). A drop in commercial banks active interest rates was accompanied by a drop in passive interests rates. The active interest rate on kuna deposits thus decreased from 4.32% in January to 3.40% in December 2000; a decrease in interest rates on foreign currency deposits was somewhat milder and brought about a decrease from 4.18% to 3.47%. A higher absolute reduction of active interest rates leads to a drop in the difference between active and passive interest rates according to the level of approximately 7 percentage points.

1.5. LABOR MARKET TRENDS

1.5.1. Employment and Unemployment

According to the data of the Croatian Employment Service, at the end of 2000 there were 378,544 registered unemployed persons (a monthly average of 357,872 unemployed persons), thus making the year 2000 the year of an infamous record in the number of unemployed persons. In relation to end 1999, the number of unemployed persons went up by 10.8%, and in relation with the average number of registered unemployed persons in 1999 (321,866) it went up by 11.2%. Thus, unemployment rate grew from 20.8% in December 1999 to 22.6% in December 2000.

Table 1.6: Measures of Employment and Unemployment

	1995	1996	1997	1998	1999	2000
Total Employment						
- State Bureau of Statistics	1,417,427	1,329,547	1,310,918	1,384,841	1,364,495	1,299,748*
- Health Insurance Institute	1,588,344	1,599,226	1,604,895	1,430,649	1,416,617	1,403,474
Unemployment						
- Croatian Employment Service	240,601	261,022	277,691	287,762	321,866	378,544*
- Health Insurance Institute	158,164	174,123	189,844	192,148	251,833	303,430
Unemployment Rate						
- State Bureau of Statistics	14.5	16.4	17.5	17.2	20.8	22.6*
- Health Insurance Institute	9.1	9.8	10.6	11.8	14.9	18.1

* = end period

Sources: State Bureau of Statistics, Croatian Health Insurance Institute, Croatian Employment Service

Labor force survey, conducted on a semi-annual basis by the State Bureau of Statistics, indicates a considerably lower unemployment rate than the one registered at the Croatian Employment Service, but it also shows an upward trend. It should be noted that in the first six months of 2000 a new sample was used for the survey, covering the whole territory of Croatia. For that reason, when comparing the results of the survey for the first six months of 2000 and the results of the previous surveys, it should be taken into consideration that the changes in the data, especially those pertaining to

the basic population categories, are a result not only of the changes in the labor market, but also of the influence of an expanded framework for the sample selection.

Table 1.7: Unemployment According to Labor Force Survey

	Currently Active Population	Total Employment	Employment - Private Sector	Employment - Public Sector and Privatized 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%
July – December 1999	1,730,040	1,478,905	-	-	251,134	14.50%
January – June 2000	1,806,359	1,533,614	-	-	272,745	15.10%

Sources: State Bureau of Statistics

Despite different unemployment rates which are a result of the two described sources, an upward unemployment trend in Croatia is evident, whereby unemployment has reached its peak in the last several years. In order to solve this problem a harmonized action is required of both economic incentives and implementation of active employment policy measures through re-training, stimulating self-employment, and education system. In line with that, the Government of the Republic of Croatia has embarked on the preparation of the Employment Increasing Policy and Program in the period 2001-2003, which is envisaged to influence the reduction of unemployment and job creation.

1.5.2. Wages and Pensions

In the course of 2000 the average net wage in Croatia rose by 8.9% nominally and by 3.4% in real terms. In comparison with 1999, when the nominal increase of net wage was 13.9% (9.9% in real terms), there has been a visible slowing down of wage increase. A slowed-down growth of net wages indicates that the influence of a 5-percent decrease of wages of civil servants and employees was greater than the influence which the April increase in personal tax deduction had on the increase in net wages. The average gross salary in 2000 was HRK 4,869, i.e., in nominal terms it was by 6.96% higher than in 1999.

Table 1.8: Wages and Pensions

(in HRK)	1996	1997	1998	1999	2000
Average Monthly Net Wage	2,033	2,377	2,681	3,055	3,326
(real growth rate, %)	7.0	12.2	5.9	10.1	3.4
Average Monthly Gross Wages	3,243	3,668	4,131	4,551	4,869
(real growth rate, %)	7.5	7.9	5.5	6.5	1.6
Average Monthly Pension	1,015	1,179	1,314	1,325	1,409
(real growth rate, %)	5.4	11.5	4.7	5.3	0.7

Sources: State Bureau of Statistics

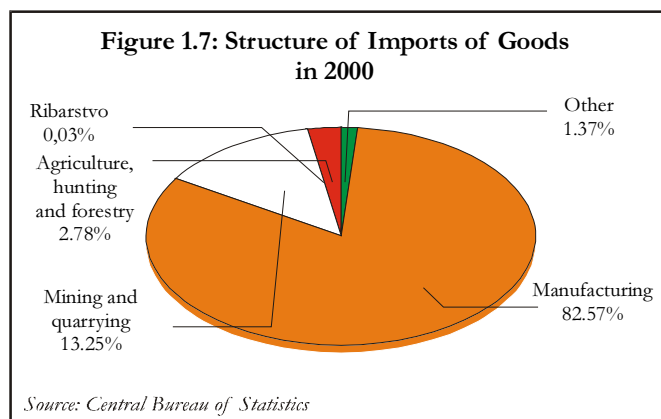
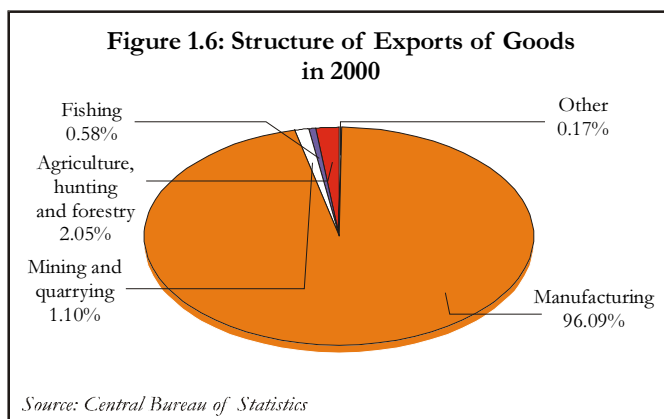
In 2000 the average old-age pension grew by 6.4% in nominal terms, and by 0.7% in real terms. In the course of the year pensions were adjusted on two occasions, namely, by 2.55% the pensions paid out in April (adjustment as of January 1, 2000) and by 3.5% the pensions paid out in September (adjustment as of July 1, 2000).

In the last several years salaries grew more quickly than productivity, which significantly influenced the increase in production costs, and thus the price increase. The growth of net wages in real terms was especially inadequate in 1999 (10.1%) under the circumstances when the real GDP recorded a 0.4-percent drop, the number of the unemployed went up by 11.9%, and productivity rose by 1.3% only. The overall increase in the general wage level in the last three years (1997 - 1999) was also contributed to by trends of wages of civil servants and employees, which were used in the attempt to make up for a relative lagging of wages in the public and civil services behind the wages in the private sector. Subsequent increases in the wages of salaries of civil and public servants and employees in the period indicated amply made up for the lagging behind the salaries in the private sector, and the so-called gap from the beginning of the nineties turned in favor of the wages in civil and public service.

1.6. ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

1.6.1. Foreign Trade

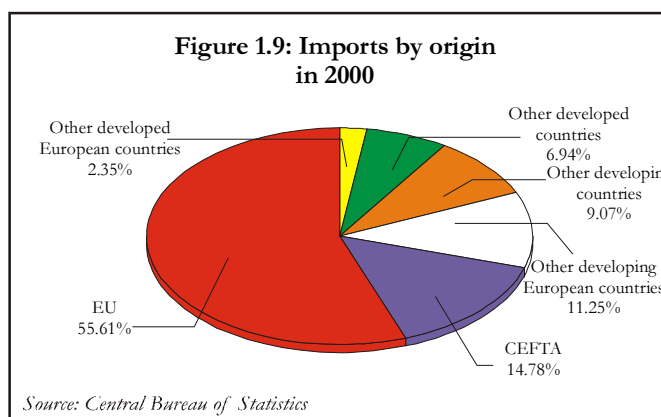
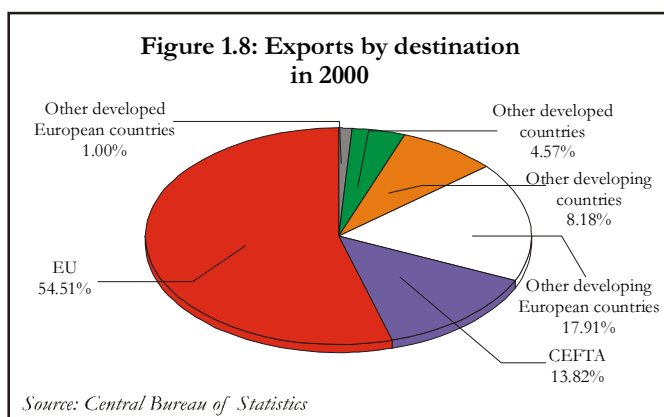
Effective January 1, 2000 a new Customs Law has been in force in the Republic of Croatia, which has been harmonized with European standards. This Law prescribes the use of the Single Administrative Document in customs procedures, which brought about a completely new approach in data processing in the State Bureau of Statistics. In order for the results to be published on time, processing is carried out with minimum control and all data are considered as preliminary.



In 2000 the total amount of exports amounted to US\$ 4,431.69 million, which was by 3% more than in 1999. In the same period imports of goods amounted to US\$ 7,922.67 million, or by 1.6% more than in the previous year. As a result of the above the overall merchandise trade deficit totaled US\$ 3,490.98 million.

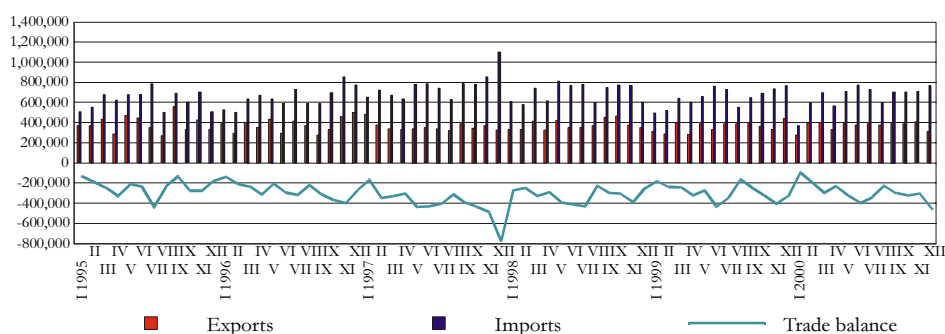
Manufacturing industry accounted for the majority of exports (96.1%), recording a 1.9-percent exports increase in the course of the year. The highest values of exports were recorded in the production of other means of transport, i.e., shipbuilding (US\$ 640.1 million), production of chemicals (US\$ 534.6 million), coke and petroleum products (US\$ 453.9 million) and clothing (US\$ 393.5 million). The highest import levels were recorded with oil and natural gas (US\$ 971.2 million), chemicals (US\$ 964.3 million), motor vehicles (US\$ 855.9 million), and machines (US\$ 712.1 million).

The European Union countries have traditionally been and still are the largest Croatia's foreign trade partners. More precisely, 54.46% of the overall exports are intended for the EU market, and 55.6% of the overall Croatian imports come from the EU. Croatian trade has been most extensive with Italy, Germany, Slovenia, and Bosnia-Herzegovina.



In 2000 the export/import ratio totaled 55.9% and was somewhat more favorable than in 1999, when it was 55.2%, and especially in comparison with 1998, when the coverage of imports by exports totaled 54.1%.

Figure 1.10: Monthly Import and Export of Goods in 000 USD



Source: Central Bureau of Statistics

1.6.2. Balance of Payments

Preliminary data on the balance of payments indicate that the current account deficit in 2000 amounted to US\$ 531 million. Compared to 1999, when the current account deficit totaled US\$ 1,522.6 million, this was a 65-percent drop. In terms of the deficit as a share of the gross domestic product, it dropped from 7.6% in 1999 to 2.8% in 2000. It can be assumed that, in terms of foreign economic relations, Croatia has finally overcome the period of high current account deficits, which implied a distinct external imbalance and a risk for foreign investors.

The shrinking current account deficit was mostly a result of the reduction of commodities and services account deficit, which decreased by almost US\$ 700 million or 41.5% compared with 1999. In that amount a reduction of commodity trade deficit accounts for approximately US\$ 60 million, whereas the increase of the surplus on the services account accounts for the rest. In comparison with 1999 the surplus on the services account increased by approximately US\$ 630 million, mostly thanks to an exceptionally good tourist season, whereas transportation services account for the rest of that result. The current transfers account contributed significantly to the decrease in the balance-of-payments current deficit, which recorded the surplus increase of US\$ 260 million or almost 52% in comparison with 1999. An increase in transfers from foreign countries was a result of the increase in foreign remittances, due to restoration of confidence in the banking sector, and due to a better tourist season.

Another positive trend recorded in the balance-of-payments structure in the last several years has been a change in the source of financing the current account deficit. Until 1998 those were mostly foreign borrowings, whereas after that the current account deficit has been mainly financed through foreign direct investments. Such a trend has continued in 2000 as well, 2000 being the first year in which foreign direct investments have exceeded the level of the current account deficit.

In 2000 the Croatian National Bank foreign currency reserves increased by US\$ 582 million, reaching US\$ 3,524.8 million by the end of the year.

Table 1.9: Balance of Payments 1995 - 2000

(in US\$ Million)	1995	1996	1997	1998	1999	2000*
Goods, f.o.b.	-3,259.3	-3,623.5	-5,196.2	-4,147.4	-3,298.6	-3,237.4
Services	1,044.3	1,579.7	2,024.2	2,074.8	1,625.2	2,257.1
Income	-28.8	-69.9	-22.4	-163.8	-349.5	-309.6
Current Transfers	802.3	1,022.4	869.4	706.0	500.3	758.9
Current transactions	-1,441.5	-1,091.3	-2,325.0	-1,530.4	-1,522.6	-531.0
Direct Investments	109.7	481.7	346.7	834.9	1,444.6	827.9
Portfolio Investments	4.9	628.3	577.0	14.9	574.0	732.5
Other Investments	1,425.1	1,397.6	2,134.4	751.7	-130.8	-661.0
Financial Transactions (without CNB International Reserves)	1,539.7	2,507.6	3,058.1	1,601.5	1,887.8	899.4
CNB International Reserves	-443.1	-533.3	-428.0	-151.5	-428.5	-582.1
Net Errors and Omissions	344.9	-899.2	323.5	95.9	109.1	193.1

* Preliminary Data

Source: Croatian National Bank

Table 1.10: Indicators of Indebtedness

(in %)	1996	1997	1998	1999	2000
Share of External Debt in GDP	20.25	26.71	37.06	44.33	49.23
Export of Goods and Services/External Debt	185.98	147.76	110.33	89.37	82.23
Short-Term Debt/External Debt	5.91	7.75	7.23	7.57	6.53

Source: Croatian National Bank

In 2000 the overall external debt increased by US\$ 925 million in comparison with 1999, which was a 9.4-percent increase. The public external debt grew by US\$ 776 million or 19.5%. The increase in public external debt in 2000 was influenced by issuance of Eurobonds and Samurai bonds, as well as taking the so-called bridging loan because of Croatian Telecom was not privatized. In the total external debt, the share of public debt increased from 40.2% in 1999 to 44% in 2000. The short-term debt keeps staying at a satisfactorily low level. More specifically, its portion has been below 7% for four years in a row.

II. CENTRAL GOVERNMENT BUDGET IN 2000

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Vesna Brkić and Vlatka Plečko, Department for Budget Preparation and Consolidation

In 2000 the area of public finance was an area in which greatest efforts and most significant reforms within the framework of overall economic reforms were undertaken.

The key objective of the undertaken fiscal reforms was a reduction of public expenditures, their share in the gross domestic product, a decrease in tax burden in the economy, a reduction in the budget deficit, and payment of Government outstanding liabilities and introduction of the practice of regular payment of current Government liabilities.

The above mentioned reforms are aimed at revitalization of economic activities, an increase in investments, exports, and employment, and commencement of solving the illiquidity problem.

The commencement of reforms was evident from the 2000 Government budget which the Government had to pass in a very short time following its coming to power (in the first three months temporary financing was in force, which had been enacted by the former Government). The 2000 budget was adopted in March 2000.

By the 2000 budget, expenditures were nominally reduced by approximately HRK 600 million in comparison with 1999. Given that the budget envisaged repayment of Government debts from the previous years in the value of HRK 3.6 billion, the nominal decline compared to 1999 was approximately HRK 4.2 billion, i.e., approximately 8.5%. The reductions mostly pertained to classical Government spending (purchase of goods and services), and a reduced Government investment role. Wages of high-ranking state officials declined by approximately 20%, whereas wages of civil servants and employees were reduced by 5%. Those reductions indicated the wish and determination of the Government to conduct fiscal reforms. The changes on the expenditure side of the budget were followed by changes on the revenue side, i.e., changes of the tax system.

More specifically, in parallel with budget preparation, by increasing the non-taxable portion of income, personal income tax burden decreased and net wages grew. In the following period further relieving the tax burden followed. A 4-percentage points reduction of wage contributions reduced the cost of labor, contributing to an increase in domestic competitiveness. In addition to that, the period of payment of VAT was extended, and tax benefits were introduced in order to increase employment and investments. At the end of 2000 amendments to the personal income tax and profit tax systems were enacted which relieved lower income levels, and profit tax burden was reduced. Also, as of the beginning of 2001 a zero VAT-rate has been used for tourist services paid by foreign remittances.

In an attempt to increase tax system progressiveness and make up for the reduction of budget revenues on account of direct tax reduction, in the course of 2000 the Government raised excise tax on oil, tobacco, alcohol, and coffee.

A revived economic activity and a significant rise in personal consumption, primarily because of a strong tourist season, and partially an increase in excise taxes resulted in a significantly better collection of tax revenues in comparison to the originally planned tax revenues. A better outturn of tax revenues, absence of planned revenues from privatization of Croatian Telekom, and, on the other hand, an increased need for transfers to extra-budgetary funds (to Pension and Health Funds in the first place) resulted in Government budget revision in November 2000.

The efforts undertaken in the area of public finance in the course of 2000 in the long run resulted in a considerably better fiscal position than in 1999. An improved fiscal position is best seen from the reduction of the share of budget expenditures and tax revenues in the gross domestic product, and especially from the decline in budget deficit on an accrual basis. The Government indicated its commitment to continuation of fiscal reforms and establishment of a viable and consistent fiscal policy by adopting a three-year budget plan.

All the above mentioned laid a foundation for the beginning of negotiations with the International Monetary Fund on concluding a *Stand-by* arrangement, which was concluded in March 2001. This arrangement was extremely important for stabilization and improvement of Croatia's position on the international financial market. Besides, as a proof of macroeconomic stability and economic policy consistency, it will significantly influence attracting foreign investments and revival of economic activities.

2.1. REVISION OF THE 2000 BUDGET

Due to the need for additional transfers to extra-budgetary funds, the absence of the planned privatization revenues, and a better tax revenue outturn than the one formerly planned, the originally adopted budget for 2000 was revised in November 2000.

The total budget revenues were reduced by HRK 3,012.4 million by means of the budget revision. The reduction of total revenues was a result of reduction of capital revenues by approximately HRK 5 billion, and an increase in current revenues by almost HRK 2 billion. A postponed privatization of Croatian Telecommunications resulted in a decline of capital revenues. Tax revenues grew by HRK 1,794.5 million, whereas non-tax revenues grew by HRK 152.6 million. The revenues which saw the highest increase by revision were the value-added tax revenues as they grew by HRK 794 million, followed by personal income tax (a HRK 774 million increase), and revenues from excise tax by HRK 697 million. Revenues from profit tax were reduced by budget revision by HRK 302 million.

Central Government budget expenditures were increased by HRK 2,363.7 million by budget revision. Current transfers recorded the highest increase – they grew by HRK 2,425.9 million. Current transfer to Croatian Pension Fund was increased by budget revision from HRK 5,114.01 million to HRK 6,649.0 million, whereas current transfer to Croatian Health Fund was increased by budget revision from HRK 1,738.9 million to HRK 2,694.1 million. Those increases were mostly a result of making up for the lost revenues to the above mentioned funds due to a decline in their contributions by two percentage points each starting in mid-2000, but also due to a difficult financial situation in those funds calling for growing resources from the central Government budget. Gross wage bill was increased by budget revision by HRK 292 million, whereas expenditures for interest rates were increased by HRK 70 million.

Items which were reduced by budget revision were other purchases of goods and services, which decreased by HRK 574.7 million, and capital expenditures, which decreased by HRK 143.3 million.

Table 2.1: Changes in Central Government Budget Revenues and Expenditures Adopted by Budget Revision

(HRK 000)	Budget 2000	Budget Revision 2000	Budget/Budget Revision Index
Total revenues and grants	47,030,110	44,017,722	93.59
Total revenues	47,030,110	44,017,722	93.59
Current revenues	38,563,499	40,510,614	105.05
Tax revenues	37,123,934	38,918,480	104.83
Non-tax revenues	1,439,565	1,592,134	110.60
Capital revenues	8,466,611	3,507,108	41.42
Grants	0	0	
Total expenditures and lending minus repayment	48,300,000	50,663,667	104.89
Current expenditures	41,763,128	44,131,747	105.67
Expenditures for goods and services	24,913,735	24,631,081	98.87
Interest payments	2,510,192	2,580,687	102.81
Subsidies	3,592,977	3,747,837	104.31
Transfers	10,746,224	13,172,142	122.57
Capital expenditures	5,942,077	5,798,782	97.59
Lending minus repayments	594,795	733,138	123.26

Source: Ministry of Finance

2.2. CENTRAL GOVERNMENT BUDGET DEFICIT/SURPLUS

In 2000, the overall Central Government budget deficit on a cash basis was HRK 6,127.9 million, or 3.9% of the gross domestic product. This deficit which was higher than the originally planned one (0.81% of GDP) was a result of the absence of the planned privatization revenues, as well as expenditures which were increased in comparison with the ones originally planned. In 2000 cash deficit was considerably higher than the cash deficit in 1999. However, in terms of accrual basis in calculation of the budget deficit (which also takes into consideration Government arrears cumulated during the budget year, and subtracts privatization proceed from overall revenues), the picture of the deficit is quite different.

More specifically, in 1999 budget deficit on an accrual basis amounted to almost 8.5% of the gross domestic product (together with liabilities toward secured savings deposits from the failed banks).

In 2000 current deficit amounted to HRK 2,702.4 million or 1.7% of the gross domestic product. In terms of conducting a sustainable fiscal policy, one can not be happy with the existence of a current budget deficit (the current deficit is the difference between current revenues and current expenditures). Current deficit really poses a great problem. Nevertheless, it is a consequence of the current structure of budget revenues and budget expenditures, which it is impossible to change in a short period of time. Still, transfer into the current surplus zone will be one of the basic fiscal policy aims in the following years. It is envisaged that this important aim will be implemented in 2003.

Table 2.2: Central Government Budget Deficit/Suficit Trends

(HRK 000)	1999	2000
Overall deficit /suficit	-2 522 040	-6 107 853
as % of GDP	-1,77	-3,88
Overall deficit /suficit without privatization receipts	-8 600 921	-8 974 829
as % of GDP	-6,03	-5,70
Overall deficit /suficit on an accrual basis	-9 694 689	-6 614 461
as % of GDP	-6,79	-4,20
Primary deficit /suficit	-422 899	-3 508 567
as % of GDP	-0,30	-2,23
Primary deficit/suficit without privatization receipts	-6 501 780	-6 375 543
as % of GDP	-4,56	-4,05
Primary deficit /suficit on an accrual basis	-7 595 548	-4 015 175
as % of GDP	-5,32	-2,55

* *Stocks of the arrears at the end of the 2000 was determined according to the definition used in Stand-by arrangement with IMF by which arrears include all overdue payments by more than 90 days*

Source: Ministry of Finance

2.3. CENTRAL GOVERNMENT BUDGET REVENUE OUTTURN IN U 2000

The overall central Government budget outturn in 2000 amounted to HRK 44,635.7 million, which was by 3.7% lower than in 1999. A decline in the overall revenues was a result of a decrease in capital revenues, i.e., privatization revenues. Due to the same reason there was a significant change in the overall revenue structure in favor of an increase in the share of tax revenues. More precisely, in 1999 tax revenues as a share of the overall budget revenues accounted for 82.7%, whereas in 2000 their share went up to 89.5%. It should be underscored that such trends in the budget revenue structure are desirable. The Government needs to rely as much as possible on its direct revenue and fixed revenues, and less on privatization proceeds, which are sporadic. Fiscal problems, i.e., high and unsustainable budget deficits, may emerge as an outcome of the loss or greater reduction of privatization proceeds, due to a steady downward trend in budget expenditures.

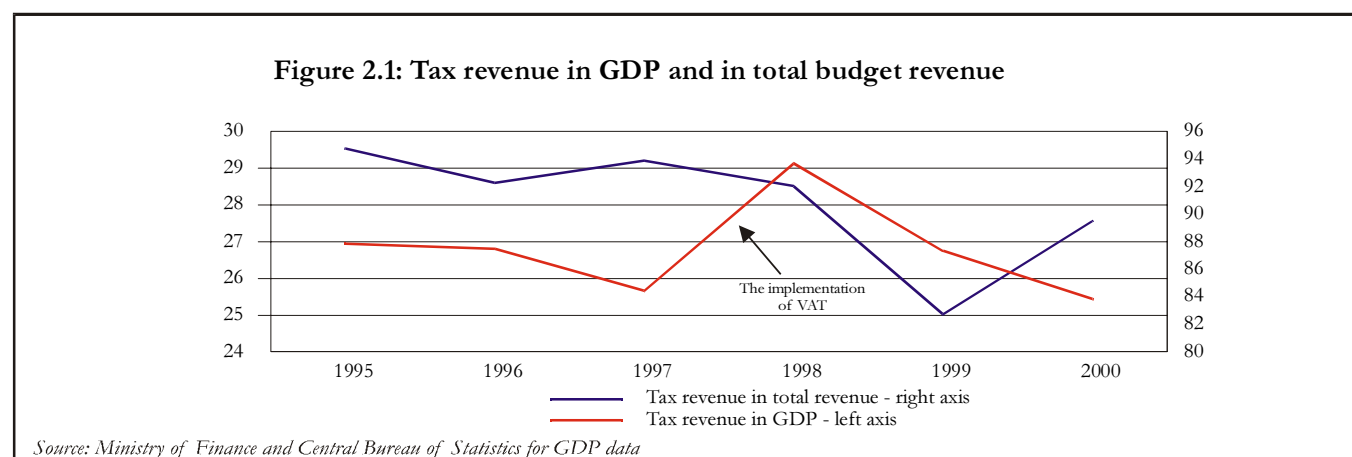
Table 2.3: Central Government Budget Revenue Outturn and its Portion in GDP

	1999 (HRK 000)	2000 (HRK 000)	1999 %	2000 %
Total revenues and grants	46,356,724	44,635,673	32.5	28.4
Tax revenues	38,317,635	39,939,019	26.9	25.4
Non-tax revenues	1,728,238	1,595,938	1.2	1.0
Capital revenues	6,310,851	3,100,716	4.4	2.0
Grants	0	0	0	0

Source: Ministry of Finance

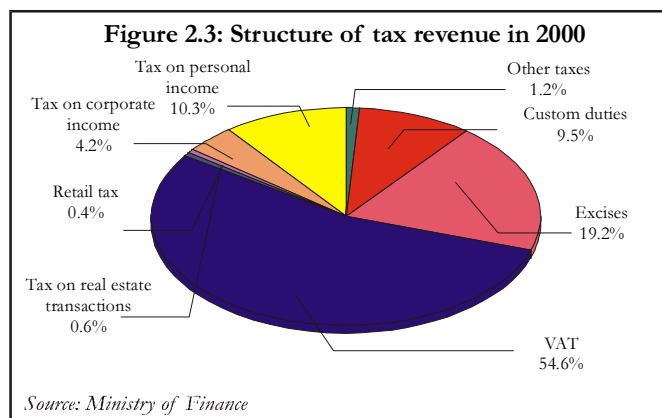
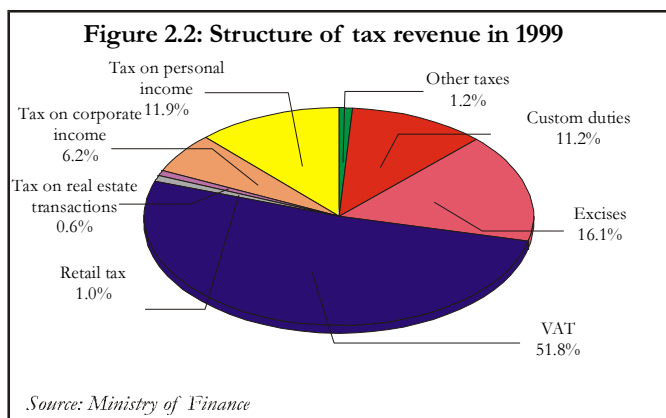
2.3.1. Tax revenues

Despite the growth of increase tax revenues as a share of the overall budget revenues, their share in the gross domestic product shrank from 26.9% in 1999 to 25.4% in 2000. This was a continuation of the trend which commenced in 1999, when the tax revenue share in the gross domestic product declined by 2.4% percentage points. The difference, however, is in the fact that tax revenues in 1999 - due to declining economic activities - also declined by 5% in nominal terms in comparison with 1998, whereas in 2000 a tax revenue increase was recorded, which was, however, slower than the gross domestic product growth.



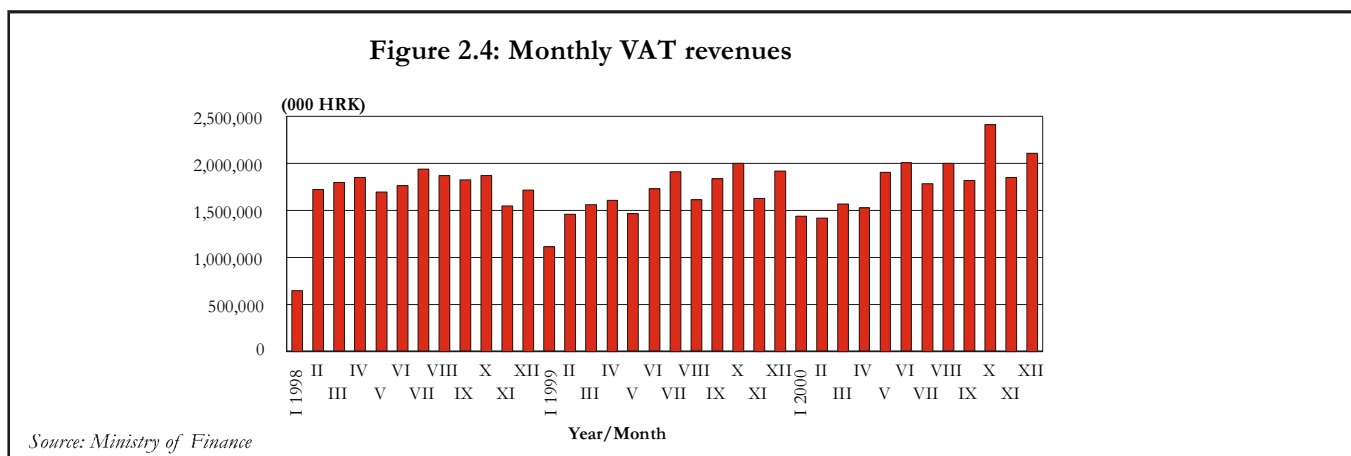
In 2000 relieving the tax burden was an outcome of personal income tax, profit tax, and international trade tax. Revenues from value-added tax in 2000 maintained a share in GDP identical to the share in GDP in 1999; excise tax revenues increased their share in GDP, which was expected, given the increase in excise tax at the end of 1999 and in 2000.

The reduction of tax incidence of the economy is also reflected in the tax elasticity coefficient, which was 0.85 for the period from 1995 to 2000 (for the period from 1995 to 1999 it was 0.976). This indicates that tax revenues in the observed period grew more slowly than the gross domestic product. Such developments are expected in the following years as well, when a further tax relief of the economy is expected.



Fiscal importance of certain kinds of taxes changes in line with the changes in taxes. 2000 tax revenue structure indicates a decrease in fiscal importance - in comparison with 1999 - of personal income tax, profit tax, and international trade tax. Special taxes, i.e., excise taxes, and value-added tax gained more importance for the Government budget. The last couple of years saw a re-distribution of fiscal importance from direct taxes to indirect taxes. As the illustration of this it should be noted that the share of revenues from personal income tax in the overall revenues in 1996 accounted for 14.6%, whereas their share in the overall revenues in 2000 was 10.3%. Given the latest amendments to the Personal Income Tax Law and Profit Tax Law, a continuation of such trends may be expected.

Value-Added Tax



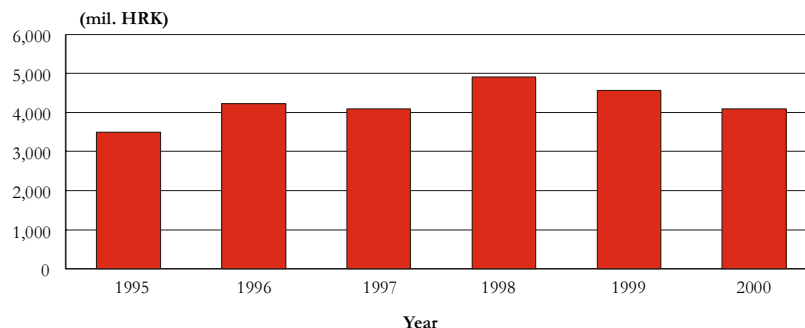
A HRK 21,825 million was collected through value-added tax in 2000, which was 10.1% more than was collected in 1999. In the overall tax revenue structure, VAT revenues in 2000 accounted for 50%, which is indicative of the significance of this tax for the Government budget. A good outturn of VAT revenues in 2000 was a result of the recorded economic growth, and especially of personal consumption as the tax base of value-added tax. An exceptional tourist season, in other words, tourist consumption, greatly contributed to the growth of revenues from VAT. Because of that, October 2000 saw a so-far unprecedented monthly revenue from VAT amounting to HRK 2,412 million. This level of revenue was contributed to by revenues collected from tax payers who pay their tax obligations regarding this tax on a quarterly basis. Those liable to quarterly statement of accounts and VAT tax payment are tax payers whose delivery of goods and services does not exceed HRK 85,000 per annum. In other words, those were craftsmen and other small entrepreneurs who collected higher revenues during the tourist season.

The year 2000 saw certain changes in the value-added tax system. Specifically, at the end of May 2000 the period for VAT payment was extended from the tenth to the thirtieth day of the month for the previous month. This measure was planned to improve the financial position of business entities, thus enhancing their liquidity and the liquidity of the

overall economy. Further changes in VAT occurred in July 2000, when the zero VAT rate was introduced for public film release services, as well as services of organized visits which are paid for by foreign remittances. The latter changes came into force on January 1, 2001.

Personal Income Tax

Figure 2.5: Annual revenue from personal income tax



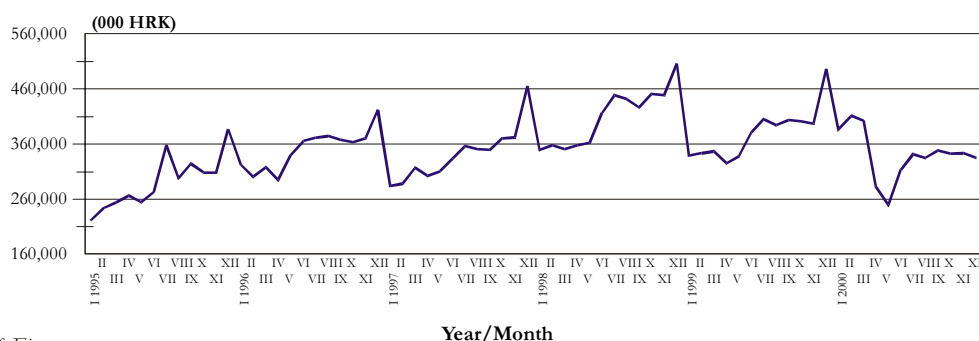
Source: Ministry of Finance

In 2000, an amount of HRK 4,095 million was collected in the central Government budget by personal income tax. In comparison with 1999 this was a 10.5-percent decline of revenues from this tax. The decrease in revenues was a result of certain changes which occurred in 2000 in the personal income tax.

More precisely, personal income tax is a kind of tax which can be used most efficiently to improve the social status and tax relief of population, and to increase the tax system progressiveness. This is especially important for Croatian tax system, in which indirect taxes have an extremely important role, and it is known that they have a regressive effect. In line with that, in order to reduce the regressiveness of the tax system and relieve incomes in terms of taxes, and also in order to increase net wages, starting April 1, 2000 the basic personal deduction of tax payers was increased from HRK 1,000 to HRK 1,250.

Furthermore, personal income tax revenues are split between the central Government budget and local self-government units. The revenues of the local self-government units from personal income tax are reduced with the increase of the non-taxable portion of income. In order for this not to happen, and in order not to endanger the financial position of the local self-government, at the same time when the basic personal deduction was increased, the portion of personal income tax collected by the local self-government units was increased as well. Both those operations (increasing basic personal deduction and re-allocation of revenues) were conducive to the reduction of the central Government budget personal income tax revenues.

Figure 2.6: Monthly revenue from personal income tax



Source: Ministry of Finance

At the beginning of 2001 the amendments to the Personal Income Tax Law were enacted. Those amendments were aimed at further relief of income tax burden, as well as placing a stronger accent on the tax system equity and equality principles. The number of tax rates was increased with that purpose, namely, the two-rate system (20% and 35%) was

changed into a three-rate system. Starting on January 1, 2001 the 15-percent tax rate has been assessed on personal income up to twice the basic personal deduction. A 25-percent tax rate is assessed on the difference between the tax base between twice and five times the basic personal deduction. A 35-percent tax rate is assessed on the tax base above five times the amount of basic personal deduction.

Another novelty in the Croatian personal income tax system as of January 1, 2001 is taxation of investment income. In light of this Law, investment income is understood as receipts from dividends, shares of the profit on the basis of share of capital and interest collected in the taxation period. Personal income tax on dividends and revenues from share of the profit on the basis of equity share is calculated and paid at the 15-percent rate. If the dividends and shares of the profit are used to increase capital stock of the company, those amounts are not considered as investment income and taxation is not assessed on them. The following will also not be considered as income in terms of this Law: receipts from interest rates on kuna and foreign currency deposits, deposits on accounts collected from banks, savings banks, and savings and loans banks, income from interest rates on securities, and receipts from alienation of financial assets unless it is an activity of the tax payer. Those exemptions are aimed at stimulating savings and investments, as well as retaining profits in companies and increasing companies' capital stocks.

Special tax benefits are extended to tradesmen for new employment (an additional decrease in tax base by the wages of the newly employed), those employed in the areas of special state concern (a higher basic personal deduction and lower interest rates), for disabled Croatian war veterans, and physical persons engaged in artistic and cultural activities.

Table 2.4: Total Number of Tax Returns

Description	Year			
	1996	1997	1998	1999
Number of processed tax returns	545,151	551,333	660,203	586,566
Additional tax payments according to annual tax return (in HRK)	450,009,268	429,782,473	427,098,208	293,894,894
Tax refund based on annual tax return (in HRK)	341,912,452	380,295,790	359,197,507	456,582,746

Source: Ministry of Finance

Table 2.5: Tax Returns Filed by Small Businesses

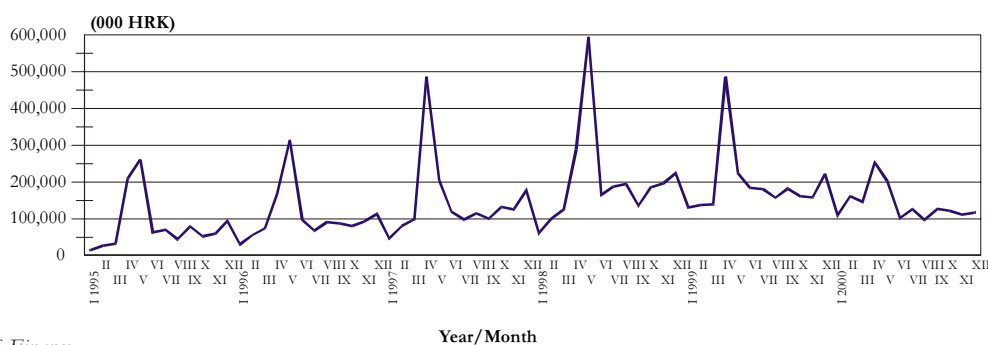
Description	Year			
	1996	1997	1998	1999
Number of tax returns of small businesses	95,688	94,843	99,438	99,637
Total revenue of small business (in HRK)	2,903,691,525	3,187,225,351	2,966,515,274	3,478,944,504
Average income of small businesses (in HRK)	30,345	33,605	29,833	34,916

Source: Ministry of Finance

Profit Tax Revenues

Due to relatively weak financial results of entrepreneurs in 1999 (profit tax in the current year is paid on the basis of business results from the previous year), and due to high protective interest rates for that year, almost 30 % less revenues were collected in 2000 than in 1999.

Figure 2.7: Monthly revenue from profit tax



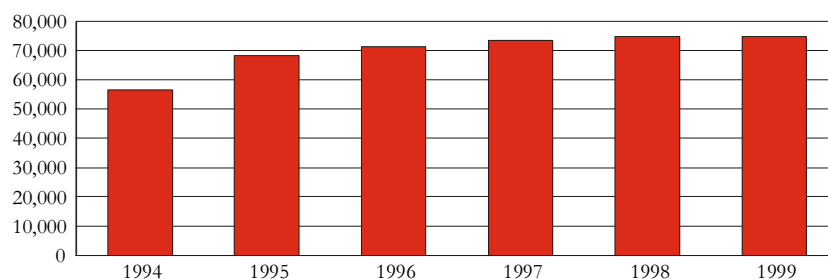
Source: Ministry of Finance

Together with the amendments to Personal Income Tax Law, at the end of 2000 profit tax system was changed as well, and those two types of tax were mutually adjusted. The new Law would be implemented as of January 1, 2001, and profit tax for profit made in 2000 will be assessed and paid according to the old Law.

According to the new Law, the institution of protective interest is abolished, and profit tax rate is reduced from 35% to 20%; if a dividend is paid, it is taxed with an additional 15% like a physical person's income. At the moment the 20-percent rate is among the lowest profit tax rates among all transition and European countries. Besides the changes in the taxation rate, the way of establishing the tax base for the profit tax was changed as well. According to the old Law profit was defined as the amount of the difference between own capital at the end and at the beginning of the period. Unlike that, according to the new Law the profit is defined as the difference between income and expenditures in the taxation period, which is much closer to the way it is defined in other market economies.

The amendments to the Profit Tax Law were a result of the attempts to make Croatian tax system as transparent, as simple and competitive as possible. This was, among other things, one of the measures aimed at attracting foreign investors, stimulating investments and employment. It was for this purpose that, besides the decrease in tax rate, other significant tax benefits were granted. Like in the case of tax on income from self-employment, in case of profit tax the tax base is further decreased by the amount of wages paid to the newly employed. Also, the Law allows a momentary write-off of new equipment and facilities procured for entrepreneurial purposes, and also the possibility to show losses on that basis which may be made up for in the next five years. Special tax benefits have been granted for areas of special state concern, where tax rate is decreased depending on the group in which a particular area is situated (for the area of Group I the tax rate is 25% of the prescribed tax rate). In order to stimulate investment, depending on investment level and the number of employees, the tax rate is decreased for a period of 10 years (for the profit made from a HRK 60 million investment, a tax payer will be exempt from paying the profit tax for a 10-year period if he/she employs at least 75 employees in that period).

Figure 2.8: Number registered profit tax returns



Source: Ministry of Finance

Excise Tax Revenues

In 2000 revenues from special duties or excise taxes amounted to HRK 7,673.7 million, or by 24.6% more than in 1999. Their importance for the overall tax revenues is becoming bigger and bigger. The share of revenues from special duties in the overall tax returns increased from 14.6% in 1998 to 19.2% in 2000. Such a trend will most probably continue in 2001. Those trends are desirable for the Croatian tax system because special duties are simple to collect and enhance the tax system progressiveness, i.e., equity. Namely, it can be presumed that the groups of products covered by special duties are more bought by citizens with higher income.

Table 2.6: Trends in Excise Tax Revenues

	Outturn					
	1995	1996	1997	1998	1999	2000
Total excise taxes	4,960,440	5,390,785	5,404,837	5,896,787	6,160,719	7,673,256
On oil derivatives	2,559,021	2,691,840	2,728,346	3,169,770	3,432,957	4,632,799
On alcohol and alcoholic beverages	183,458	197,623	176,681	176,897	168,335	256,120
On beer	266,031	262,080	279,086	277,889	276,782	417,177
On beverages	108,498	108,737	110,255	83,182	84,658	86,499
On tobacco products	1,759,266	2,039,532	1,999,988	1,983,435	1,969,920	2,073,693
On coffee	67,642	68,704	74,959	76,807	77,648	92,545
On motor vehicle import	16,524	22,269	35,522	128,806	149,423	101,186
On luxury products	0	0	0	0	996	13,237

Source: Ministry of Finance

In the excise tax structure, excise taxes on oil derivatives have the most significant role. HRK 4,632.8 million was collected through those taxes in 2000, accounting for more than 60% of excise tax revenues. In relation with 1999 revenues from excise taxes on oil grew by 35%. This increase in revenues was mostly a part of the increase in excise taxes which, from the beginning of June, increased on the average (in terms of quantities) by approximately 51% after After the June rise, in October excise taxes dropped on average by approximately 15.6%, but they still remained by approximately 28% higher than those which were valid until June 2000. Through this drop of excise taxes in October the central Government budget gave up on a portion of revenues collected before that for purpose of financial consolidation of INA (state-owned domestic oil company), which used the decrease in excise taxes to increase its prices.

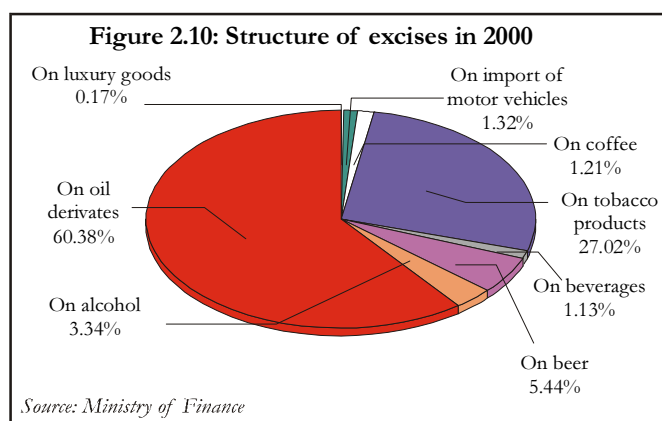
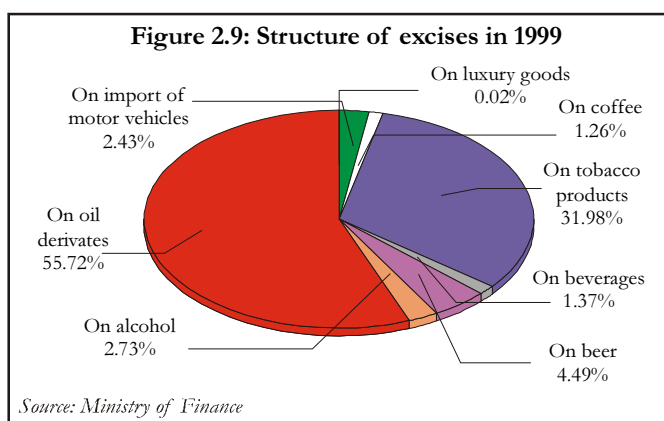
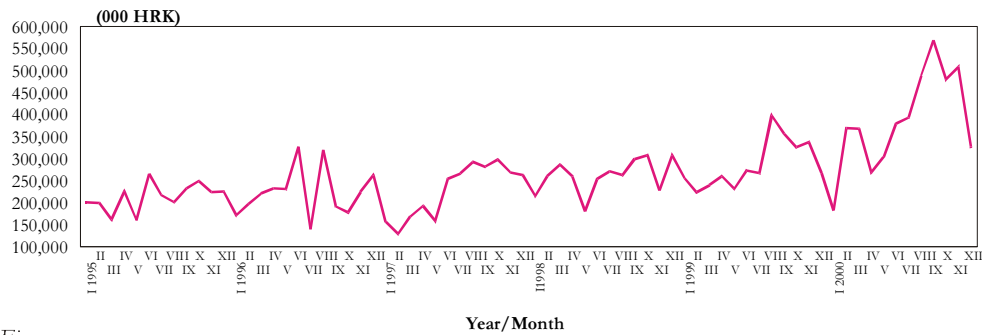


Table 2.7. Trends in Excise Taxes on Oil Derivatives

In HRK per liter of oil derivative	MB 98	BMB 95	DIESEL	HEATING OIL
Until May 31, 2000	2,10	1,80	1,60	0,30
Since June 1, 2000	3,50	3,00	2,10	0,30
Since October 15, 2000	2,90	2,40	1,50	0,30

Source: Ministry of Finance

Figure 2.11: Monthly revenue from excises on oil derivatives

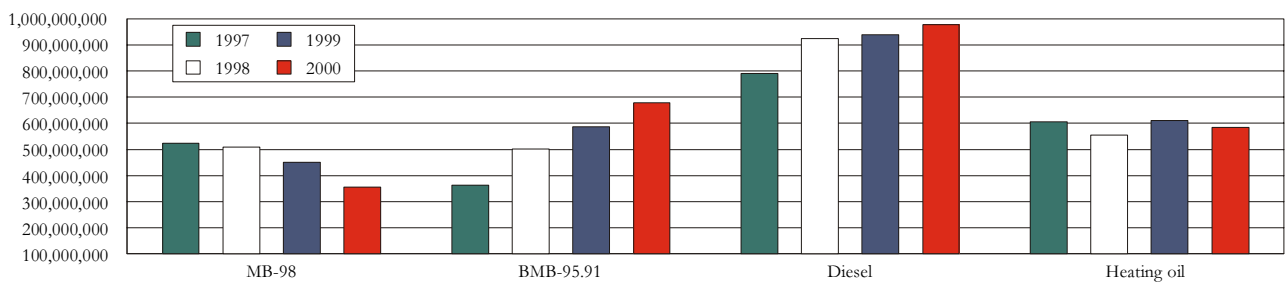


Source: Ministry of Finance

Besides the increase in excise taxes, increased revenues during 2000 were influenced by growing of delivered taxable quantities of two oil derivatives (unleaded fuel and diesel fuel) having the highest share in the taxable quantity structure. Such a trend in oil derivatives taxable quantities was a continuation of the trend from the previous years. More specifically, from one year to another the delivered quantities of diesel and unleaded fuel (BMB-95.91) were increasing, whereas the quantities of motor oil (MB-98) were decreasing.

The most important excise taxes for Government budget revenues after the excise tax on oil derivatives are excise taxes on tobacco products. HRK 2,073.7 million of budget revenues were collected from those excise taxes in 2000. In comparison with 1999 revenues from those types of excise taxes were increased by 5.3%. However, with regard to the fact that excise taxes on tobacco products at the end of 1999 grew on average by almost 19%, and again from July 1, 2000 by an additional 10.5% (on average), this increase in revenues was definitely below all expectations. The answer to such a poor collection of revenues is in the fact that the number of taxable cigarette packets in 2000 dropped by almost 20% in comparison with 1999. This decrease cannot be justified by the decrease in the number of smokers or reduced smoking in Croatia. The reason for such decrease in taxed cigarette quantities is for the largest part the increase in the informal cigarette market. The damage done to the Government budget as a result of the informal cigarette market is really high. This problem calls for efforts and coordination of various Government services for fighting it successfully.

Figure 2.12: Taxable quantities supplied to domestic market



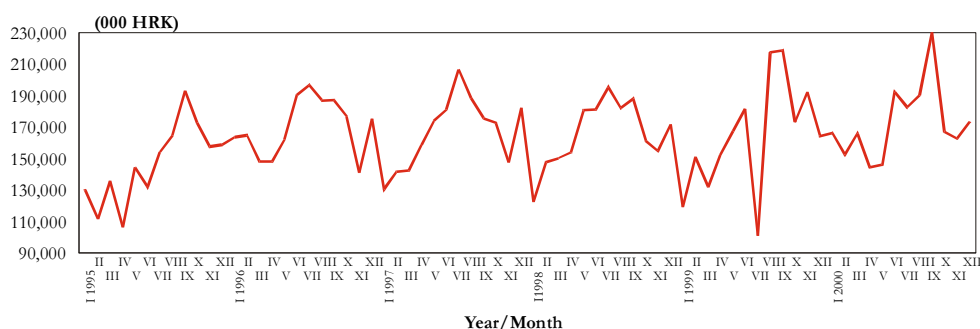
Source: Ministry of Finance

Table 2.8. Trends in Excise Tax on Tobacco Products

In HRK per cigarette packet	Group A	Group B	Group C
Until October 31, 2000	3.90	4.30	7.00
Since November 1, 2000	4.50	4.90	8.10
Since July 1, 2000	5.00	5.40	8.90

Source: Ministry of Finance

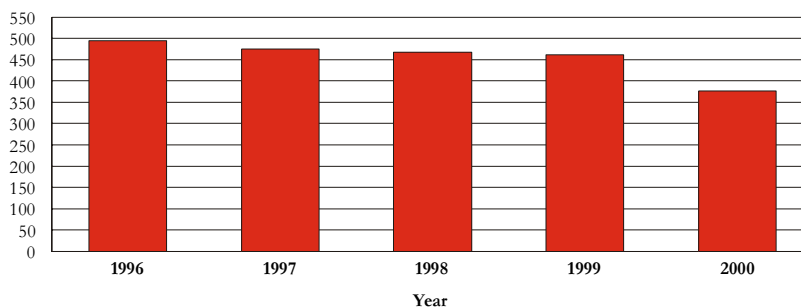
Figure 2.13: Monthly revenue from excises on tobacco products



Source: Ministry of Finance

In 2000 HRK 966.8 million was collected through other excise taxes, accounting for approximately 2.5% of total tax revenues. A significant increase in revenues was recorded with excise tax on alcohol and beer. Tax revenue increase on both those excise taxes was more than 50%. An increase in tax revenues was mostly a result of the increase in excise taxes starting June 1, 2000. Namely, excise tax on alcohol rose from HRK 40 per liter of absolute alcohol to HRK 60. Excise tax on beer was raised from HRK 80 to HRK 120 per hectoliter of alcoholic beer, and from HRK 40 to HRK 60 per hectoliter of non-alcoholic beer. The increase in revenues was also contributed to by an increase in taxable quantities, which was greatly influenced by a good tourist season.

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



Source: Ministry of Finance

Revenues from excise tax on coffee in 2000 grew by 19%, which is also a result of the increase in excise tax on coffee as of June 1, 2000.

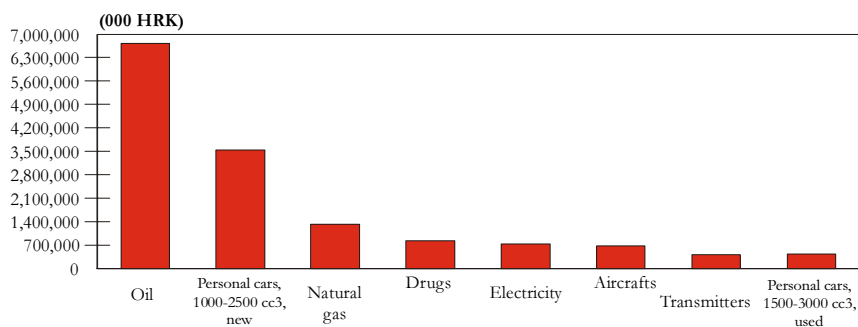
The only drop in excise tax revenues in 2000 was recorded with excise taxes on cars. More specifically, revenues from those taxes, despite the fact that the value of imported cars grew by 27%, were reduced by approximately 32%. An explanation of such reduction in revenues was the fact a large number of cars was imported with a tax benefit, as well as the change in excise taxes on cars starting on June 1, 2000. This change brought about payment of excise tax according to the car value, and not, as was previously the case, according to engine power. Given that it is mostly smaller cars of lower value that are imported into Croatia, this change affected a reduction of revenues from excise tax on cars. In order to stop this trend in 2001, excise taxes on cars were changed again as of January 1, 2001. Excise taxes are still paid according to car value, but they have been increased.

Customs Revenues

Customs revenues in 2000 amounted to HRK 3,795.3 million. Despite the fact that the value of imports, on which either a full customs duty is paid or a partial exemption from customs duties is applied, increased in 2000 in comparison with 1999 by 18.7%, customs revenues decreased by 11.5%. The decrease in customs revenues was a result of the decrease in tariff burden on imports. More precisely, in 1999 the average tariff rate (on imports for which customs duties are paid – full or partial) was 9.4%, whereas the average tariff rate in 2000 was 7.0%, accounting for a decrease of over 25%. The average tariff rate in December 2000 amounted to 5.1%. Those reductions of tariff burdens, i.e., reductions of tariff rates, are in line with the Republic of Croatia preparations for and joining the World Trade

Organization. On this basis tariffs were decreased in July (tariffs on industrial products) and November 2000 (on agricultural products). Further reductions in tariff rates followed as of January 1, 2001. Besides, free trade agreements with the Republic of Slovenia and Bosnia-Herzegovina came into force on January 1, 2001. Also, a free trade agreement was signed with Hungary, which came into force on April 1, 2001, and agreements with other countries are being prepared. For this reason customs revenues will keep losing more and more their fiscal importance.

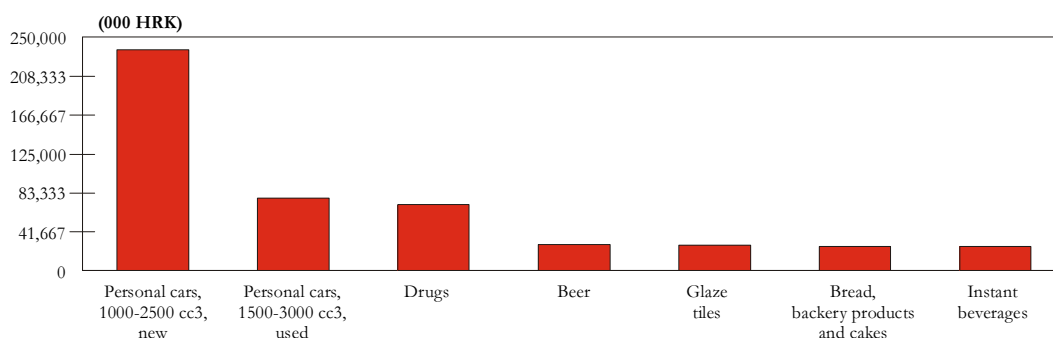
Figure 2.15: Products with highest value of import in 2000



Source: Ministry of Finance

In terms of import value, in 2000 crude oil was in the first place (in the free trade regime), and immediately after it are personal cars with the value of import of almost HRK 4 billion. Out of ten top-ranking products according to the value of import in 2000, five of them are in the free trade regime.

Figure 2.16: Products with the highest customs paid in 2000



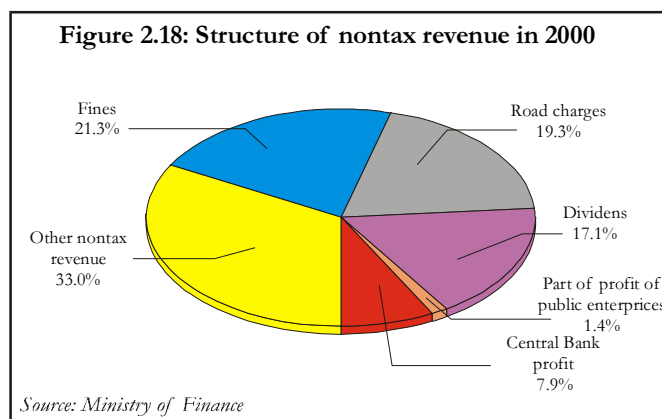
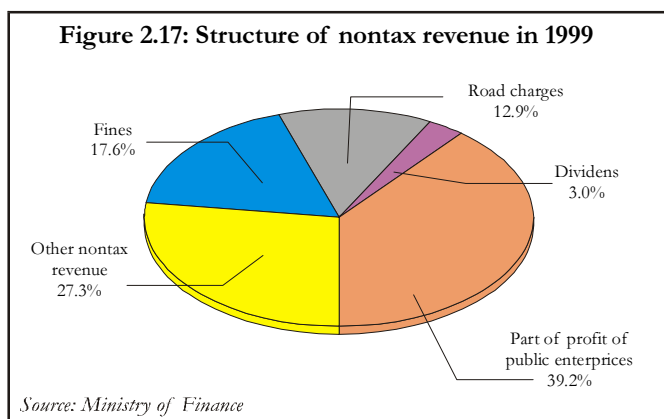
Source: Ministry of Finance

In line with the import value in 2000, personal cars are also products which the highest amount of customs duties was collected from in 2000. In comparison with 1999, new products in this category were beer, bread, rolls and cookies, as well as instant preparations for refreshment beverages.

2.3.2. Non-tax revenues

In 2000 non-tax revenues totaled HRK 1,595.9 million, which was a 7.5-percent decrease in comparison with 1999. Specifically, most significant non-tax revenue in 2000 were fines, which accounted for 21.3% of non-tax revenues. Revenues collected from public enterprise profits, which in 1999 accounted for in excess of 40% non-tax revenues, amounted to only HRK 22 million or 3.1% of non-tax revenues. This was mostly the cause of the overall decrease in non-tax revenues. HRK 308.6 million was collected from road tax, which was a 34-percent increase in comparison with 1999. Income from dividends in 2000 accounted for HRK 273 million, four times as much as the one in 1999. This increase was a result of the Government decision that public enterprises should pay out the dividend instead of profit. This decision, of course, affected lower profits paid out in 2000. However, the amount of dividends wasn't increased nearly as much as profits decreased in comparison with the previous year.

It is certain that in the future non-tax revenues will keep losing fiscal importance. Due to privatization of public and state-owned enterprises the most abundant source of non-tax revenues will become exhausted.



2.3.3. Capital revenues

In the overall Government budget revenues outturn, capital revenues in 2000 accounted for 6.9%. That was a significant decrease of the importance of capital revenues in comparison with 1999, when they amounted to HRK 6,311 million or 13.6% of the total revenues in that year. Capital revenue outturn in 2000 in the amount of HRK 3,101 million was considerably lower than the originally planned amount of HRK 8,467 million. The shortage of the planned privatization receipts, due to the fact that the planned privatization of Croatian Telekom did not take place, resulted in a lower total capital revenues than planned. HT privatization was postponed for 2001 due to objective reasons, i.e., due to unfavorable trend on foreign telecommunication company markets.

Privatization revenue outturn was a result of privatization of Privredna Banka Zagreb, as well as privatization of Splitska and Riječka Banka.

Since privatization revenues are not of permanent nature, in leading a stable fiscal policy it is not good to rely on them as sources of revenues. According to international standards (*GFS Manual*) of conducting public finance policy, they are not even treated as budget revenues, but as one of the sources of deficit financing. Temporary nature of privatization revenues creates danger that due to their disappearance the expenditure side will not be able to adjust in the short term to the decrease on the revenue side. This entails large deficits, increases indebtedness, and leads to all other negative consequence which result from it. Due to all the above, and also due to the fact that in the last couple of years Croatia has very much relied on this kind of revenues, in the next years significant efforts will be made toward a reduction of public expenditures in order to balance them with budget revenues (without privatization revenues).

2.4. CENTRAL GOVERNMENT BUDGET EXPENDITURE OUTTURN IN 2000

The total expenditures and lending minus repayment of the central Government budget in 2000 amounted to HRK 50,743.5 million. In comparison with 1999, budget expenditures were nominally increased by 3.8%, however, as a share of gross domestic product they shrank from 34.3% in 1999 to 32.3% in 2000. Setting aside from the overall budget expenditures for 2000 an amount of HRK 4,105.7 million which was used to pay for the outstanding liabilities from the previous years, the reduction of expenditures in nominal terms was 4.6%, whereas the share portion of expenditures in GDP accounts for 29.7%. This indicates a definite stopping of the trend of Government spending increase, which will be continued in subsequent years.

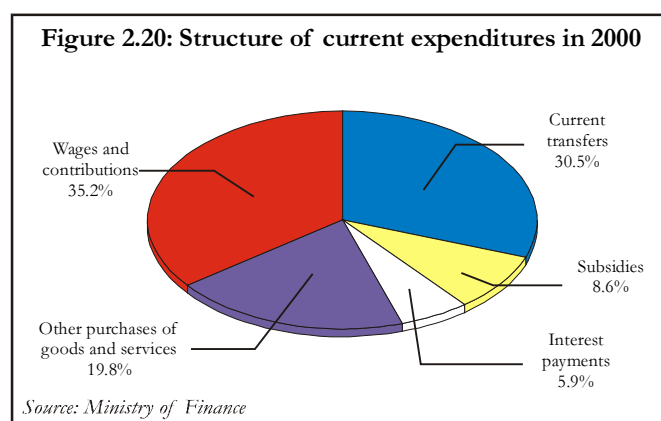
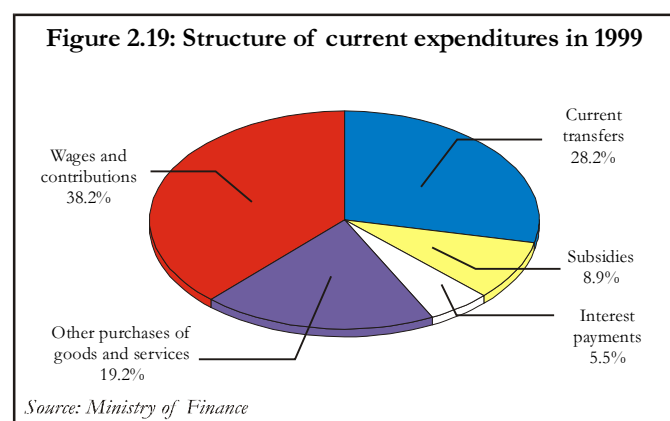
Table 2.9: Central Government Budget Expenditures

(HRK 000)	Budget 2000	Budget Revision 2000	Outturn 2000	Outturn (structure)	Outturn Share of GDP
Total expenditures and lending minus repayment	48 300 000	50 663 667	50 743 526	100.0	32.3
Expenditures for goods and services	24 913 735	24 631 081	24 324 284	47.9	15.5
Interest payment	2 510 192	2 580 687	2 599 286	5.1	1.7
Subvencije	3 592 977	3 747 837	3 802 763	7.5	2.4
Transferi	10 746 224	13 172 142	13 511 064	26.6	8.6
Kapitalni rashodi	5 942 077	5 798 782	5 330 060	10.5	3.4
Posudbe umanjene za otplate	594 795	733 138	1 176 069	2.3	0.7

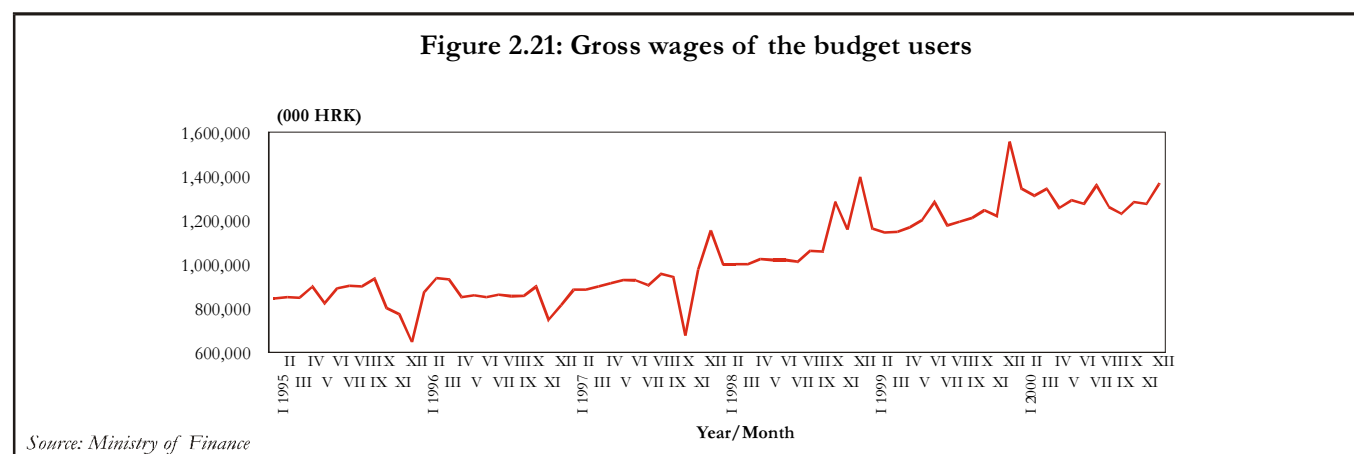
Izvor: Ministarstvo financija

2.4.1. Current expenses

Current expenses in 2000 accounted for HRK 4,237.4 million, which was a 15.0-percent increase in comparison with 1999. In the overall structure, current expenses in 2000 accounted for almost 95%, whereas their share in 1999 amounted to 78.7%. Obviously, the reduction in public expenditures was mostly at the expense of capital expenditures. Besides, it should be noted that in 1999 HRK 2,072 million of transfers to Pension and Health Funds were recorded on capital transfers. In 2000 HRK 3,290 million was paid out of current expenses for old outstanding liabilities.



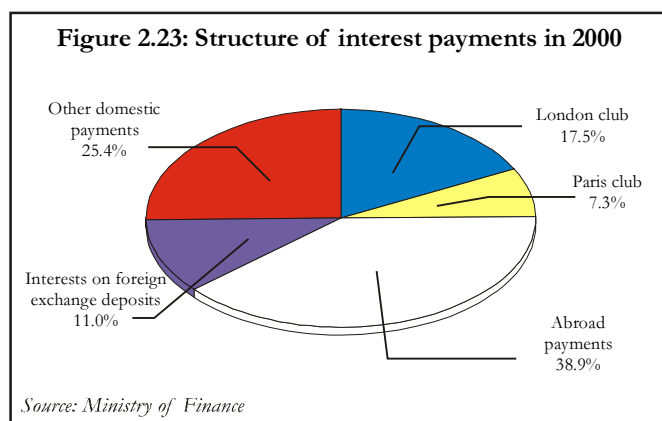
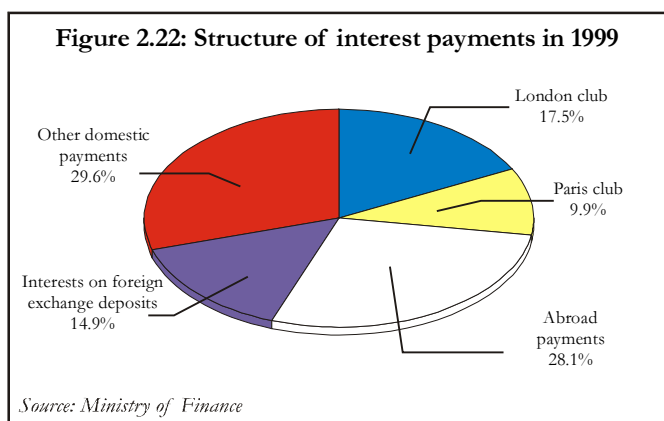
The biggest item in current expenses were outlays for wages of budget beneficiaries. In 2000, 33.4% of total budget expenditures were spent on them. The total budget beneficiaries wage bill in 2000 was HRK 15,573.7 million, or by 6% more than in 1999. The wage bill increase resulted in wage increase on two occasions during 1999, namely, 5% in August and 12% in December. The 1999 wage increase was partially alleviated by a 5-percent wage decrease in April 2000. A decrease in wage contributions by 4 percentage points in June 2000 partially functioned as a shock absorber to a higher increase in wage bill.



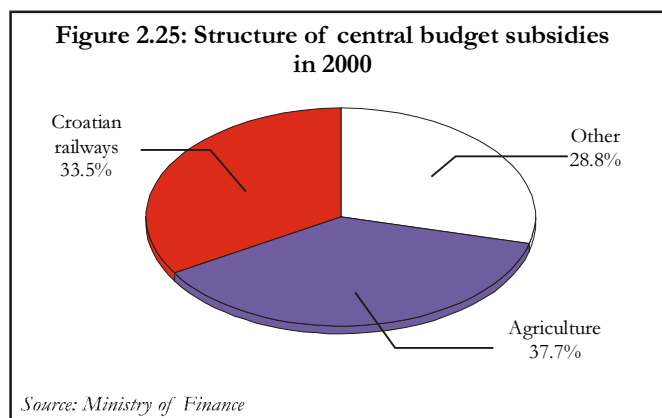
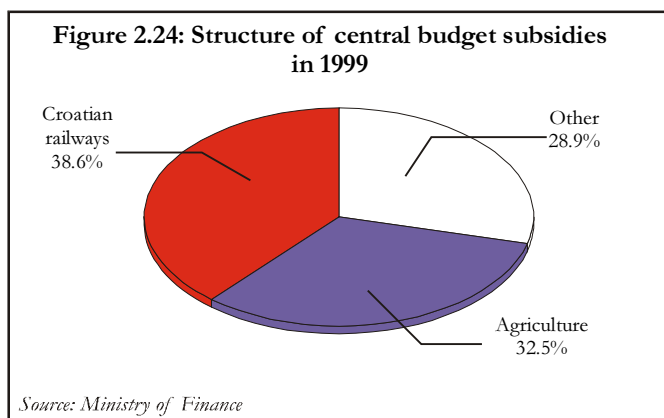
Outlays for purchases of goods and services in 2000 on a cash basis amounted to HRK 8,750.6 million, which was a

18.3-percent increase in comparison with 1999. In the current expenses structure their share portion increased slightly. Outlays for purchases of goods and services in 2000 include HRK 1,972.1 million of the already mentioned outstanding liabilities from previous years. Disregarding the above mentioned outlays for 2000, one can claim that in 2000 the classical Government spending was reduced by 8.5%. The greatest reduction was recorded with current expenses for defense, as much as 43%. The following outlays were reduced as well: Government vehicle fleet maintenance by 27%, resources for care for refugees and displaced persons by 21%, compensation for confiscated church property was reduced by 16%, whereas current budget reserves were decreased by 57%. The highest increases were recorded on some items which could be called 'production expenditures', such as outlays for higher education institutions, which in 2000 were increased by 48%, and outlays for science programs, which grew by 14%.

The overall expenses for payment of interest rates in 2000 in comparison with 1999 rose by as much as 23.8%. Domestic payments of interest rates remained on almost the same level as in 1999, but the structure of paid domestic interest rates was somewhat changed. More precisely, interest rates on 'frozen' foreign currency deposits, which are the highest domestic repayment item, decreased by 8.5%, but payments for interest rates on bonds for financial rehabilitation of Dubrovačka Banka were increased, and especially outlays for interest rates on issued treasury notes, which were increased by 188%. The issued treasury notes on December 31, 1999 totaled HRK 776.7 million, whereas a year later, i.e., on December 31, 2000 they amounted to HRK 2,564.6 million.



Foreign interest rate payments in 2000 increased by almost 42%. The depreciation of the kuna against the American dollar significantly contributed to that increase. During 2000 the kuna depreciated on average by 16.3% against the dollar, which made payment of interest rates to all types of obligations denominated in American dollars more expensive. Besides that, during 2000 the obligations of paying interest rates matured on the so-called Samurai bonds amounting to HRK 76.7 million, as well as Euro bonds denominated in EUR amounting to HRK 172.5 million.

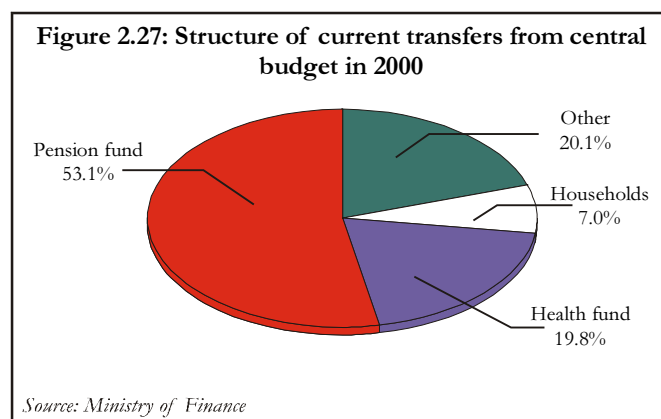
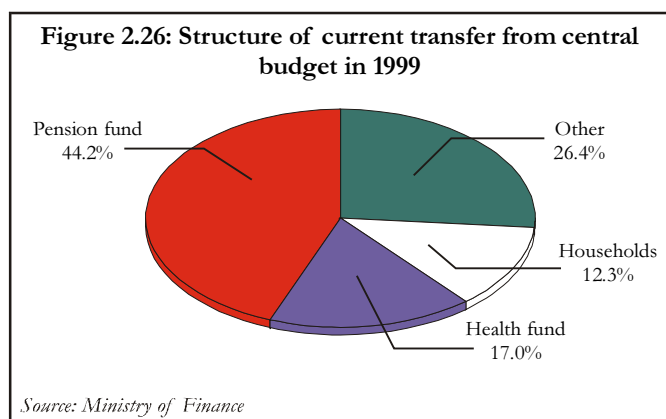


Subsidies from the central Government budget during 2000 totaled HRK 3,802.8 million or by 11.2% more than in 1999. As much as 37.7% of the above mentioned amount was paid for the subsidies to agriculture, which is 29% more than in 1999, whereas tourist sector received HRK 266.4 million. Croatian Railways received subsidies amounting to HRK 1,275.6 million, and shipyards received HRK 163 million. In 2000 shippers received from the Government

budget HRK 208.2 million in subsidies, out of which HRK 165.7 million was paid to 'Jadrolinija'. HRK 285 million was used for subsidies for construction of the 'Istrian Y' and Primorsko-Goranska county motorway in 2000.

Current transfers was an item which recorded high growth rates in all the previous years, and so it did in 2000. Their increase in 2000 in comparison with 1999 was 24.3%. The greatest pressure on such a strong increase in current transfers comes from extra-budgetary funds. This primarily refers to Croatian Pension Fund and Croatian Health Fund, whose difficult financial position demanded increasingly growing transfers from the central Government budget. An aggregate amount of HRK 7,177.1 million current transfers was provided to Croatian Pension Fund in 2000, or by 49.4% more than in 1999. Since in 1999 Pension Fund received, besides current transfers, HRK 1,509 million of capital transfers, which was not the case in 2000, one can claim that Croatian Pension Fund in 2000 received by 13.8% more aggregate transfers from the state budget than in 1999. Croatian Health Fund recorded similar trends. Current transfers to this Fund in 2000 totaled HRK 2,669.2 million or by 44.4% more than in 1999. By adding HRK 562 million of capital transfers to the current transfers in 1999, it is evident that aggregate transfers to Croatian Health Fund in 2000 increased by 10.7%. This increase was partially caused by the 4-percentage-points reduction in wage contributions for pension and health insurance, and the decision was made that this should be made up to the Funds from the central Government budget. In 2000 transfers for Children's Allowance Fund totaled HRK 1,251.4 million or by 10.6% more than in 1999. This increase is a consequence of the extension of coverage of entitlement to children's allowance since November 2000.

Transfers to households in 2000 totaled HRK 948.9 million. Out of that amount, HRK 812.9 million accounts for assistance to the Homeland War victims.



The aggregate transfer to Federation of Bosnia-Herzegovina in 2000 amounted to HRK 418.8 million, which was by 32% less than in 1999. HRK 300 million of that amount was paid on the basis of an Agreement, and HRK 118.8 million was paid for the war victims in Bosnia-Herzegovina.

2.4.2. Capital expenditures

Table 2.10: Central Government Budget Capital Expenditures

	Outturn (HRK 000)		Structure (%)		Share of GDP (%)	
	1999	2000	1999	2000	1999	2000
Road construction and maintenance	2,330,662	1,264,501	26.2	23.7	1.6	0.8
Reconstruction of war-affected areas	1,308,222	1,155,500	14.7	21.7	0.9	0.7
Capital transfer to Pension Fund	1,509,415	0	17.0	0.0	1.1	0.0
Capital transfer to Health Fund	562,190	2,560	6.3	0.0	0.4	0.0
Capital transfer to Bank Rehabilitation Agency	485,000	0	5.4	0.0	0.3	0.0
Other	2,708,013	2,907,499	30.4	54.5	1.9	1.9
Capital expenditures – total	8,903,502	5,330,060	100.0	100.0	6.2	3.4

Source: Ministry of Finance

Central Government budget capital expenditures in 2000 amounted to HRK 5,330.1 million, which was a 40-percent reduction in comparison with 1999. The overall decrease was primarily the result of the Government policy of decreasing the overall Government expenditures, and decreasing of the investment role of the state. Pursuant to that,

purchase of fixed capital assets was decreased from HRK 4,093.3 million in 1999 to HRK 2,705.3 million in 2000. Significant reductions were recorded in almost all important items on capital expenditures, such as road construction, reconstruction, construction and reconstruction of schools, investment maintenance, procurement of building structures, etc. Outlays for road construction and maintenance in 2000 were reduced by more than HRK 1 billion, whereas outlays for reconstruction of war-affected areas were reduced by approximately HRK 150 million. In 2000 there were no capital transfers to Croatian Pension Fund, Croatian Health Fund, and Bank Rehabilitation Agency. A reduction in capital expenditures also reduced their portion in the overall expenditures from 18.2% in 1999 to 11.4% in 2000.

2.4.3. Lending minus repayment

In 2000 lending minus repayment totaled HRK 1,160.9 million. The most important portion of those resources was paid out based on issued Government guarantees, i.e., HRK 782.0 million. An amount of HRK 200.0 million was paid for Croatian Bank for Reconstruction and Development original capital. Other more significant items were housing loans for Croatian Homeland War disabled veterans amounting to HRK 115.0 million, resources for Agriculture Development Fund amounting to HRK 63.0 million, and Forest Reconstruction Project Loan (a World Bank loan) amounting to 40.8 million.

2.5. FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURE

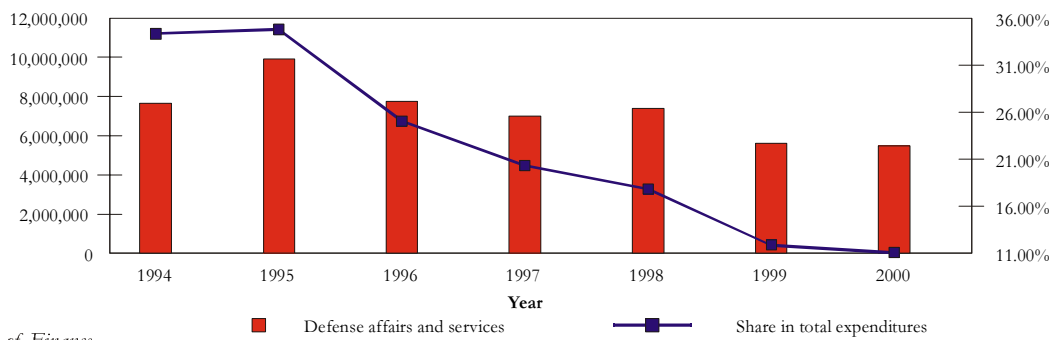
Functional classification of Government expenditures enables analyzing of the purpose of public spending individual categories. This classification at the same time enables international comparability of individual expenditure categories because it eliminates organizational differences among countries.

Table 2.11: Central Government Budget Expenditures Functional Classification as Share of Total Expenditures

(%)		Outturn		Share of GDP	
		1999	2000	1999	2000
I	Total expenditure	100.0	100.0	33.2	31.5
1.	General public services	6.4	5.9	2.1	1.9
2.	Defense affairs and services	11.9	11.1	3.9	3.5
3.	Public order and security affairs	9.8	10.5	3.2	3.3
4.	Education affairs and services	12.1	13.3	4.0	4.2
5.	Health affairs and services	1.0	0.7	0.3	0.2
6.	Social security and welfare	23.9	30.2	7.9	9.5
7.	Housing and public utility affairs and services	4.3	3.6	1.4	1.1
8.	Recreation, cultural and religious affairs and services	1.8	1.8	0.6	0.6
9.	Fuel and energy-related affairs and services	-	-	-	-
10.	Agriculture, forestry, fishery and hunting	2.6	3.5	0.9	1.1
11.	Mining, industry, and construction industry	6.0	1.3	2.0	0.4
12.	Transport and communications affairs and services	11.2	10.0	3.7	3.1
13.	Other economic affairs and services	1.4	1.6	0.5	0.5
14.	Expenditures not classified by major groups	7.8	6.6	2.6	2.1

Source: Ministry of Finance

Figure 2.28: Defense affairs and services

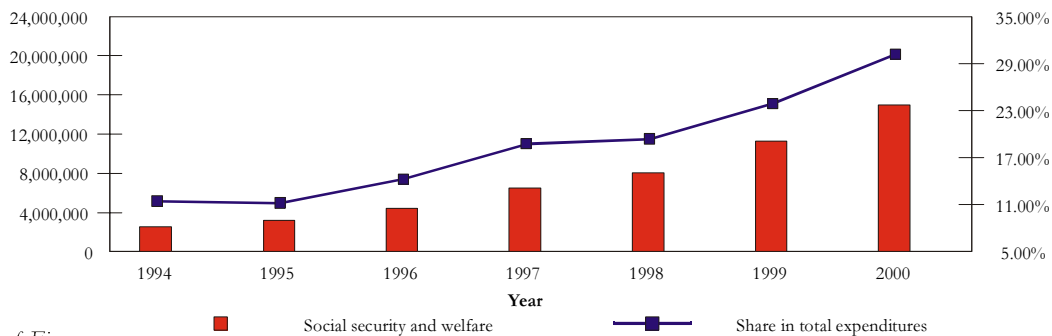


Source: Ministry of Finance

During 2000 there continued trends which had commenced in previous years - trends in expenditures for individual Government functions. This primarily refers to outlays for defense affairs and services. Their share of more than 30% in 1994 and 1995 dropped to 11.1% in 2000. Such a trend is understandable because the defense system of a country must be adjusted to peace-time conditions. Therefore, such trends in defense expenditures will continue in the following years. In the previous years similar trends were recorded in general public services. Their share in overall expenditures is decreased from one year to another, just like their share in the gross domestic product. By creating a small and efficient state administration, which is an aim of the state administration restructuring, expenditures for its functioning will be further reduced. Expenditures for public order and security affairs in 2000 were increased in comparison with 1999 by approximately 12%, and their share in the overall expenditures was increased. Such a trend is not in line with the commenced and desirable trends. More precisely, like outlays for defense, outlays for public order and security affairs must lose their importance. Their increase in 2000 was a result of a wage increase, which was not accompanied by sufficient decrease in material expenses, as was the case with outlays for defense affairs.

Their share portion in the total expenditures reached 30%, whereas their share in the gross domestic product increased from 7.9% in 1999 to 9.5% in 2000. Obviously, various social programs and protection of vulnerable categories of population such as the unemployed, persons with low wages, refugees and displaced persons, and other war victims increasingly burden the state budget. Higher and higher transfers to Pension Fund, Health Fund, and Children's Allowance Fund are a special burden for the state budget. The need for comprehensive reforms in Croatia ensues exactly from the above mentioned. This refers in the first place to pension and health system reforms which are underway. Besides, restructuring of the economy and stimulating economic growth, production and exports must be undertaken in order to increase employment and social welfare. It is the only way to reduce the burden which social programs and transfers impose on the central Government budget.

Figure 2.29: Social security and welfare

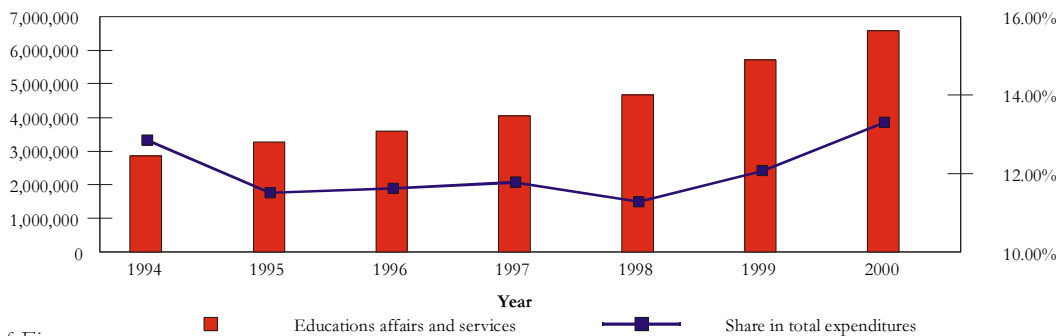


Source: Ministry of Finance

Positive trends have been recorded with outlays for education affairs and services. Their share in the overall expenditures increased from 12.7% in 1999 to 13.3% in 2000. The increase in importance of this type of expenditures is desirable from the point of view of the future economic growth.

Expenditures for agriculture, forestry, and fishery increased their share in total expenditures. This was primarily a result of increased subsidies to agriculture. On the other hand, due to reduced outlays for road construction, outlays for transportation and services in 2000 were decreased. In general, it can be said that in 2000, besides the increase in expenditures for public order and security – which were a one-time increase – positive trends were recorded in public spending restructuring. Such trends will continue in the following years. The Government will increase outlays for education, science, culture, technology, and other production expenditures which will have positive effects on the future economic development.

Figure 2.30: Educations affairs and services



Source: Ministry of Finance

III. CONSOLIDATED CENTRAL GOVERNMENT

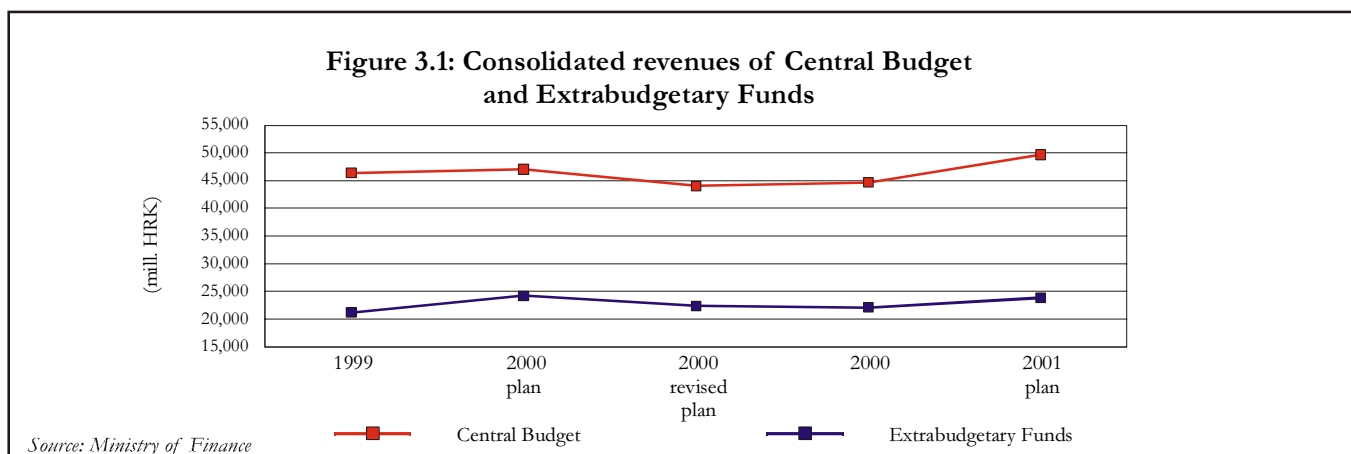
*Prepared by: Ivanka Kukin, Department for Budget Preparation and Consolidation
Ivana Pleše, Bureau for Macroeconomic Analysis and Planing*

3.1. CONSOLIDATED CENTRAL GOVERNMENT

Between 1991 and 1993 the size of the public sector in the Republic of Croatia, measured by consolidated central Government expenditures, totaled on the average 37.6% of the gross domestic product, whereas in the period from 1997 to 1999 it amounted to 46.6% of GDP. Namely, during the last several years consolidated central Government expenditures as the share of the gross domestic product have been constantly on the rise, reaching the level of 49.3% of GDP in 1999.

In line with the state budget for 2000 and extra-budgetary funds' financial plans for 2000, total revenues of consolidated central Government were planned at HRK 71,213.2 million, out of which consolidated revenues of the central budget accounted for 66.04%, and consolidated revenues of extra-budgetary funds accounted for the remaining 33.96%. Consolidated central Government expenditures were planned at HRK 73,613.4 million and implied a drop in the share of total expenditures and net lending of consolidated central Government in the gross domestic product from 49.3% of GDP in 1999 to the planned 46.8% in 2000.

However, in the course of the year, as a result of a decrease in wage contribution rates for pension and health insurance and postponement of further privatization of Croatian Telekom, revision of central budget and extra-budgetary funds financial plans was developed (the reasons for Government budget revision are explained in greater detail in Chapter II). Budget revision decreased total revenues of consolidated central Government by HRK 4,809.9 million, i.e., to the amount of HRK 66,403.2 million, whereas total expenditures grew by HRK 178.2 million, i.e., to the amount of HRK 73,791.6 million.

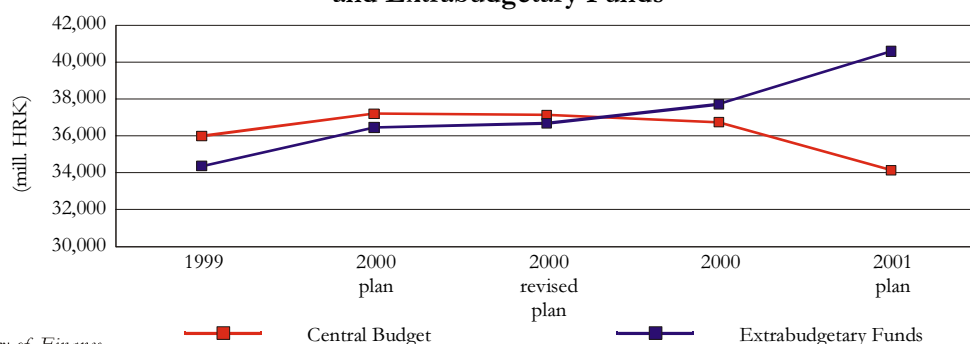


Total collected consolidated central Government revenues in 2000 amounted to HRK 66,734.9 million or 42.5% as the share of GDP. Total expenditures and net lending accounted for HRK 74,432.3 million or 47.4% as the share of GDP. In other words, in comparison with the originally planned HRK 73,613.4 million of central Government expenditures, the realization of budget year 2000 increased by HRK 782.8 million. However, the share of total expenditures in the gross domestic product (47.4%) was further reduced in comparison with 1999, when it accounted for 49.3%. Thus the year 2000 was the first year in which the public sector volume was reduced in terms of the coverage with consolidated central Government.

The trend of an accelerated increase in central budget consolidated revenues continued in 2000 in comparison with extra-budgetary funds revenues. Namely, consolidated revenues of the state budget in 2000 reached the level of 28.4% of GDP, whereas the extra-budgetary fund revenues stayed at the level of approximately 14% of GDP.

However, if the expenditure side of consolidated central Government is looked at, it is evident that the growth of central Government expenditures slowed down and that expenditures of extra-budgetary funds grew more quickly. More precisely, in 2000 consolidated expenditures of extra-budgetary funds (HRK 37,701.4 million) exceeded central Government budget expenditures (HRK 36,730.8 million). Such a trend of growing extra-budgetary funds expenditures, which increasingly relied on central budget transfers, is indicative of the necessity to carry out structural reforms both in pension insurance and health insurance.

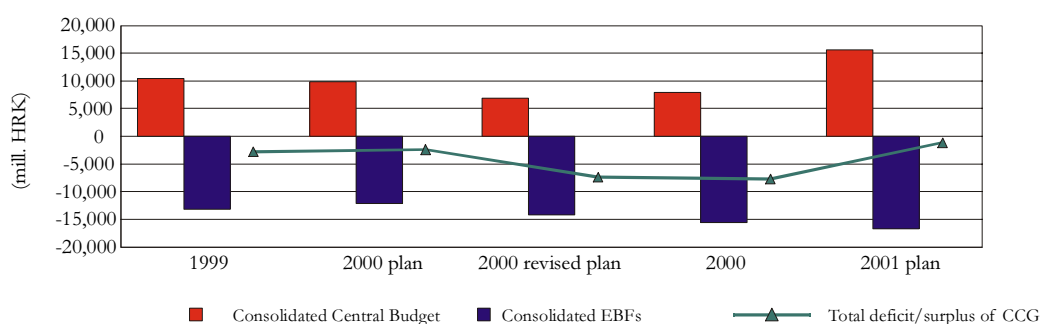
Figure 3.2: Consolidated expenditures of Central Budget and Extrabudgetary Funds



Source: Ministry of Finance

The total consolidated central Government deficit in 2000 amounted to HRK 7,697.3 million (4.9% of GDP), whereas in 1999 it amounted to HRK 2,800.7 million (1.9% of GDP). The trend of generating consolidated surplus of central budget continued. In 2000 it accounted for HRK 7,904.8 million (5.0% of GDP). Extra-budgetary funds, however, continued generating consolidated deficit, which amounted to HRK 15,602.1 million (9.9% of GDP) in 2000 or approximately HRK 2,423.7 million more than in 1999. On the individual level, the highest deficit of HRK 8,926.6 million was generated by Croatian Pension Insurance Fund and Croatian Health Insurance Fund (HRK 4,950.6 million).

Figure 3.3: Deficit/surplus of consolidated Central Budget, Extrabudgetary Funds and Consolidated Central Government



Source: Ministry of Finance

In terms of economic classification, the most significant consolidated central Government revenues still were revenues from value-added tax and obligatory contributions for pension and health insurance and unemployment benefit. In 2000 an amount of HRK 42,375.04 million was collected from those kinds of revenues, or 70.6% of overall tax revenues (or 63.5% of overall revenues) of consolidated central Government. The share of contributions in GDP was almost identical to the share of VAT (between 13 and 14%), which is indicative of the fact that contributions accounted for a significant portion of the overall tax burden. Namely, although in 2000 the tax burden was reduced from 40.3% of GDP in 1999 to 38.2% of GDP, Croatia continues to be a country with a high tax burden in comparison with other transition countries.

Table 3.1: Consolidated Central Government Tax Revenues (% of GDP)

	1994	1995	1996	1997	1998	1999	2000
Tax revenues	40.1	41.4	41.5	40.3	43.5	40.7	38.5
Direct taxes	17.8	19.0	19.7	19.4	19.7	18.9	16.9
Personal income tax	3.7	3.6	3.9	3.3	3.6	3.2	2.6
Contributions	13.3	14.3	14.5	14.4	14.1	13.8	13.1
Profit tax	0.7	1.0	1.2	1.4	1.8	1.7	1.1
Capital transfer tax	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Indirect taxes	22.4	22.4	21.8	20.9	23.8	21.8	21.6
Turnover tax	15.1	13.0	12.5	12.2	1.4	0.3	0.1
VAT	...	...	...	...	14.7	13.9	13.9
Excise taxes	3.1	5.0	5.0	4.3	4.2	4.2	4.8
International trade duty	4.0	4.0	3.7	3.8	3.1	3.1	2.5
Other taxes	0.2	0.3	0.6	0.6	0.4	0.3	0.3

Source: the Ministry of Finance for Government Finance Statistics, IMF

Expenditures of consolidated central Government in terms of economic classification indicate that 35.7% of overall expenditures refer to current transfers, which mostly include transfers of extra-budgetary funds to households, current transfers of central budget to other Government levels, non-profit institutions, and households, as well as transfers to foreign countries (exclusive of transfers to extra-budgetary funds, which are eliminated in the consolidation process). Two other largest expenditure items of consolidated central Government are wage outlays (24.6% of total outlays) and other purchases of good and services (22.6% of total outlays).

Table 3.2: Consolidated Central Government Total Expenditures (% of GDP)

	1994	1995	1996	1997	1998	1999	2000
Total expenditures	40.2	44.7	44.8	43.9	45.8	48.3	46.6
Current expenditures	37.3	41.1	39.5	39.3	41.0	42.9	42.9
Salaries and wages	9.7	11.3	10.5	10.3	10.9	11.7	11.5
Other purchases of goods and services	14.5	14.9	12.8	10.8	11.1	9.9	10.6
Interest payment	1.3	1.4	1.1	1.4	1.5	1.6	1.8
Subsidies	2.0	1.8	1.9	1.9	2.4	2.4	2.4
Current transfers	9.7	11.6	13.2	14.9	15.2	17.4	16.7
Capital expenditures	2.9	3.6	5.3	4.6	4.8	5.4	3.8

Source: the Ministry of Finance for Government Finance Statistics, IMF

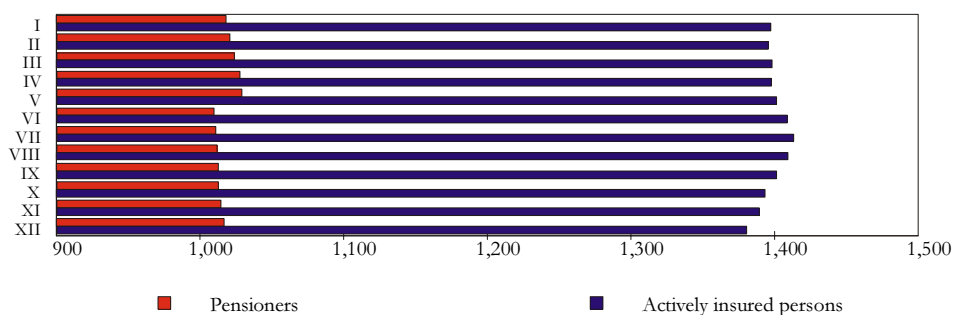
3.2. EXTRA-BUDGETARY FUNDS

The fiscal year 2000 in Croatian Pension Insurance Fund and Croatian Health Insurance Fund was mostly marked by a reduction in the obligatory wage contributions, settling debts to suppliers, i.e., commencement of those funds' financial consolidation. However, as it was already mentioned in the previous chapter, 2000 was also a year in which extra-budgetary funds' consolidated expenditures exceeded consolidated expenditures of the central budget by approximately HRK 970.6 million, totaling HRK 37,701.4 million. Non-consolidated expenditures of all extra-budgetary funds in 2000 totaled HRK 38,602.2 million, whereas total revenues amounted to HRK 36,985.5 million. In other words, during the observed year extra-budgetary funds generated a total non-consolidated deficit of HRK 1,616.7 million.

3.2.1. Croatian Pension Insurance Fund

A negative trend of system dependency ratio continued in 2000, so at the end of the year one pensioner was financed by contributions of 1.36 active insured persons. On average, there were 1,017,224 pensioners in 2000, whereas in December the number of pensioners totaled 1,016,698. The average number of active insured persons in the course of the year amounted to 1,398,767, reaching 1,380,510 at the end of December. The drop in the number of active insured persons was a consequence of both the transfer of a part of active insured persons into the pensioners' category and the transfer from the working category into the unemployed category.

Figure 3.4: Number of pensioners and actively insured persons in 2000, in 000



Source: Pension Fund

In terms of pension type, old age pensions account for the highest number of pensioners (51.6%), disability pensions account for 23.1%, and survivors' pensions for approximately 20.7%. Nevertheless, out of 1,016,698 pensioners in December 2000, a total of 178,524 were beneficiaries of pensions acquired under more favorable terms (the so-called merit pensions), for which the commitment of the state is levied. In comparison with 1999, the number of beneficiaries of this kind of pensions decreased by 17,849, and this decrease was mostly a consequence of payment discontinuation of pensions to the beneficiaries who have realized their pensions in the Federation of Bosnia-Herzegovina. More specifically, on the basis of a Conclusion of the Government of the Republic of Croatia¹, as of April 30, 2000 payment of pensions to the beneficiaries who have realized their pensions in the Federation of Bosnia-Herzegovina was discontinued, thus decreasing the number of beneficiaries by approximately 20,560. At the same time, the number of retired Croatian defenders grew by 2,441 in comparison with December 1999, and the number of retired Ministry of Internal Affairs employees rose by 863.

Table 3.3: The Number of Beneficiaries of Pensions Acquired under More Favorable Terms, End of Period

	1998	1999	2000
Fighters of the People's Liberation War	76,636	73,466	72,382
Pensions of employees of the Ministry of Internal Affairs	12,791	12,816	13,679
Pension of the former Parliament Executive Council	144	126	125
Pensions of Croatian Academy of Sciences and Arts	87	79	81
Pensions of Croatian Homeland Army	35,614	34,090	33,932
Ex-Yugoslav Army members	16,667	16,217	15,784
Former political prisoners	3,972	5,668	5,976
Parliament representatives	119	112	119
Croatian Army	2,237	2,364	2,769
Croatian defenders	22,612	26,110	28,551
Beneficiaries of pensions realized in the former Yugoslavian republics	26,959	25,325	5,126
TOTAL	197,838	196,373	178,524

Source: Pension Fund

As has already been mentioned, the most significant characteristic of the fiscal year in Croatian Pension Fund was the reduction of the contribution rates paid on the salaries (employers' contributions) as of June 1, 2000 from 10.75% to 8.75%². The overall pension insurance contribution rate was thus decreased from 21.50% to 19.50%, which influenced the change in the structure of Pension Fund revenues. Namely, although as of April 1 the lowest base for calculation and payment of contributions was increased from HRK 1,500.00³ to HRK 1,700.00⁴, the share of tax revenues, i.e., revenues from contributions, was reduced from 67.7% in 1999 to 63.6% in 2000. Of course, this was also a

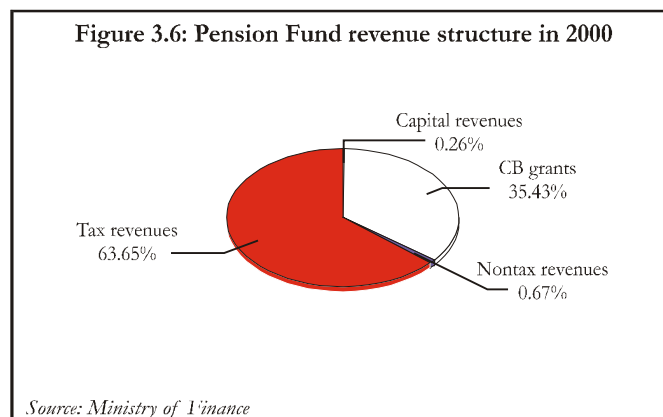
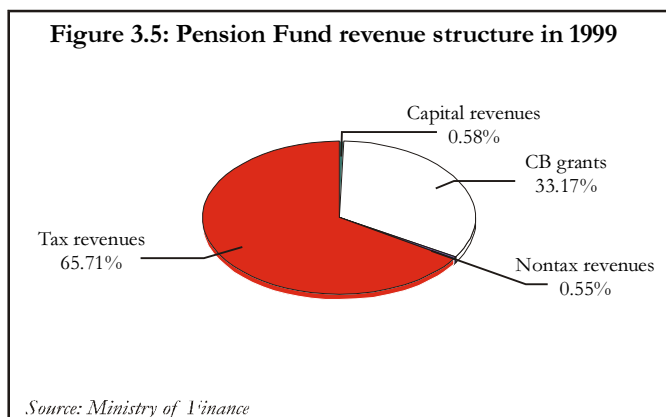
¹ Conclusion of the Government of the Republic of Croatia dated April 13, 2000.

² The Law on Payment of Pension Insurance Contributions from June 1 to December 31, 2000, the Official Gazette No. 54/2000.

³ The Official Gazette 14/1999.

⁴ The Official Gazette 40/2000.

consequence of the above mentioned decrease in the number of active insured persons and the usual non-payment of salaries for months in certain economic subjects, but also a wide-spread evasion of registering of workers, i.e., black labor.



However, given that as of July 1 the Tax Administration of the Ministry of Finance has taken over the payment collection of contributions, the 3.5-percent year-on-year increase in revenues from contributions in the circumstances of a reduced contribution rate of 2 percentage points still indicates a certain improvement in collection of contributions. More precisely, in the first five months of 2000 the amount of collected contributions was on average higher by 8% in comparison with the comparable period in 1999 (which is in line with the average increase in gross wages of approximately 8.6% in the same period), whereas in the remaining part of the year collection of contributions was kept on the previous year's level.

The total revenues of Croatian Pension Fund had originally been planned at HRK 19,910.1 million, and were brought up to HRK 19,995.9 million by budget revision. Although the revision did not lead to a higher increase in total revenues, their structure was changed in favor of the increase in subsidies from the central Government budget. According to the data on revenue collection in 2000, budget subsidies accounted for 35.4% of total revenues, whereas in 1999 their share was 33.1%. Evidently, the multiple-year trend of an increase in transfers from the central Government budget to Pension Fund continued – this transfer in 2000 reached an amount of HRK 7,154.9 million or 4.6% of the gross domestic product.

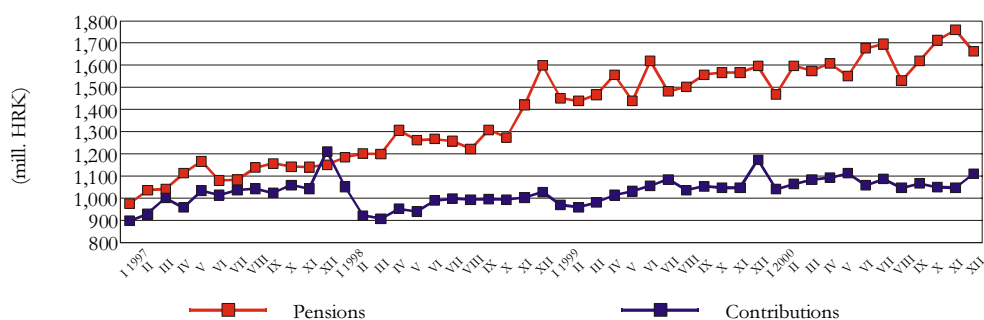
Table 3.4: Transfers of the Central Government Budget to Pension Fund, 1995 - 2000

(in HRK 000)	1995	1996	1997	1998	1999	2000
Transfers for insurance of free-lance artists	5,150	8,300	10,000	8,800	10,280	22,178
Transfers for insurance of farmers and priests	...	...	...	...	471,305	494,822
Transfers for disability and survivors' pensions	...	...	1,028,319	1,341,283	1,196,633	1,367,000
Transfers for merit pensions	280,000	1,100,000	1,619,130	1,617,413	1,375,270	1,466,400
Transfers for pension adjustment	...	...	...	591,997	1,750,000	1,750,000
Capital transfer – redemption of Pension Fund shares	...	...	...	...	1,509,415	...
Transfers for compensation of contribution rate reduction	...	...	...	...	...	760,000
Transfers for loan repayment and payment of pensions	...	...	...	...	...	1,294,570
TOTAL	285,150	1,108,300	2,657,449	3,559,493	6,312,903	7,154,970
as % of GDP	0.3	1.0	2.1	2.6	4.4	4.6

Source: Ministry of Finance

Besides the transfers based on legally prescribed liabilities of the central Government budget (disability and survivors' pensions, pensions acquired under favorable terms (merit pensions), pensions in the republics of the former SFRY, liabilities according to the "Small Law") in the course of 2000 Pension Fund received from the state budget the resources for compensation for contribution rate reduction (HRK 760 million), liabilities from Ledger II of the budget (HRK 774.9 million) and additional resources for payment of pensions and pension benefits (HRK 519.6 million).

Figure 3.7: Expenditures on pensions and contribution revenues, 1997- 2000



Source: Pension Fund

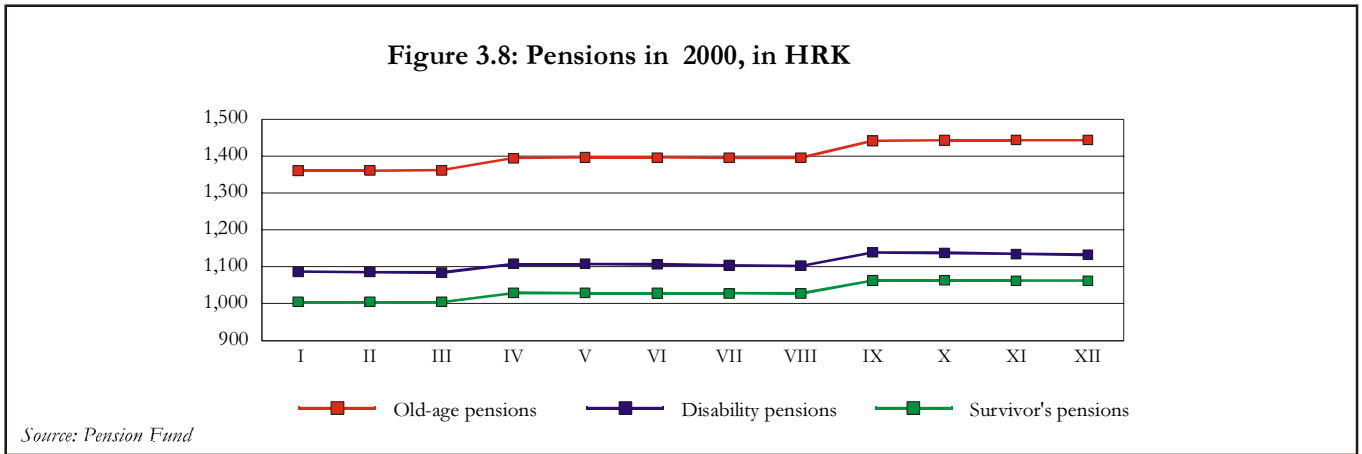
Total outlays for pensions in 2000 amounted to HRK 19,470.3 million or 12.4% of GDP. In comparison with 1999 the outlays increased by 6.7%. The average coverage of total outlays for pensions and pension benefits by contributions in 2000 totaled 66.07%, whereas in the comparable period in 1999 they amounted to 68.25%. The drop in the coverage of pensions by contributions was a result of a negative insured persons /pension beneficiaries ratio, and the already explained contribution rate reduction.

A pension increase for the month of March (adjustment since January 1, 2000) paid out in April amounted to 2.55%, and the pension increase for the month of August (adjustment as of July 1, 2000) paid out in September amounted to 3.5%. An average pension (without HRK 100.00 and 6%) in 2000 totaled HRK 1,238.75 for an average of 986,952 beneficiaries (exclusive of beneficiaries from the Croatian Army and Croatian defenders). 7.45% of beneficiaries received a HRK 500.00 pension, 15.07% beneficiaries received pensions between HRK 500.01 and 1,000.00, 39.35% beneficiaries received pensions between HRK 1,000.01 and 1,500.00, 23.36% beneficiaries received pensions between HRK 1,500.01 and 2,000.00, 14.19% beneficiaries received pensions between HRK 2,001.01 and 4,000.00, 0.57% beneficiaries received pensions between HRK 4,000.01 and HRK 8,000.00, and 0.01% beneficiaries received pensions exceeding HRK 8,000.00. The average old-age pension in 2000 amounted to HRK 1,592.6, the average disability pension amounted to HRK 1,249.5, and the average survivors' pension amounted to HRK 1,209.2.

In order to execute the decision of the Constitutional Court of the Republic of Croatia⁵ (of May 12, 1998) at the end of 2000 the Law on Pension Increase to Compensate for the Differences in Pensions Realized in Various Periods⁶ was approved by Parliament. On the basis of this Law, pensions realized until the end of 1994 will be increased by 20%, and pensions realized in the period from 1995 until 1998 will be increased depending on the year of realization of pension entitlement and the year taken into account when salaries and insurance bases were taken into consideration for the pension base calculation. The percentage of the increase in those pensions will be in the range from 0.5% to 20%. The overall costs of the Law implementation in the next ten years (from 2001 to 2010) will be approximately HRK 23 billion. In 2001 the implementation costs will be approximately HRK 2,143.0 million. However, on December 31, 2002 the implementation of the Law on Transfer of Funds from the State Budget to Pension and Disability Insurance Funds and Pension Adjustment (the so-called Small Pension Law) will be abolished. On the basis of that Law, pensioners who realized their pensions until June 30, 1998 were receiving a 6-percent supplement and HRK 100.00 on top of the pension (annual transfer from the state budget according to this Law totaled HRK 1,750.0 million).

⁵ The Official Gazette No. 69/1998

⁶ The Official Gazette No. 127/2000

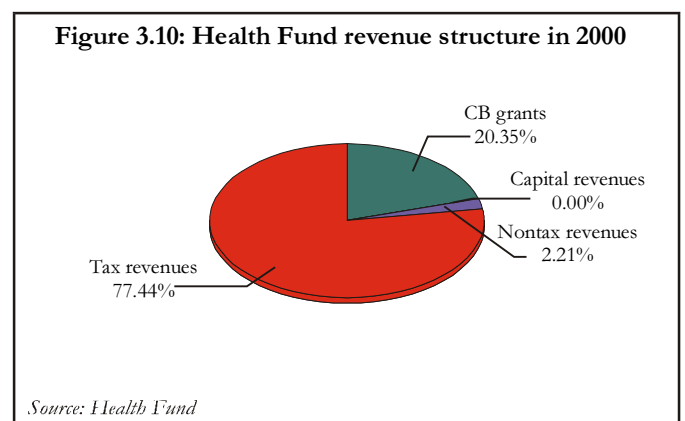
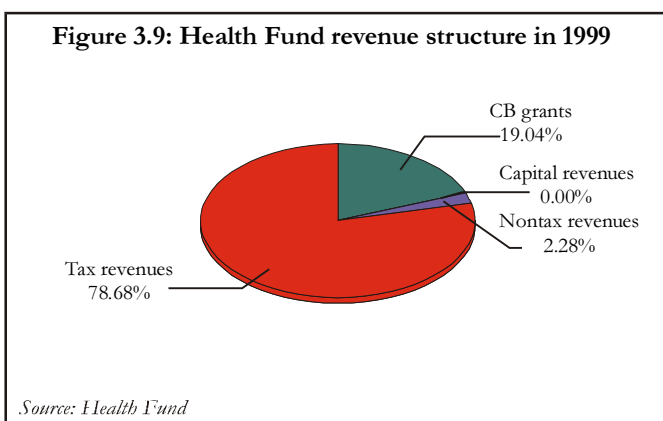


Due to the above described state in the Republic of Croatia pension system and the way it reflects on the central Government budget, the issue of conducting the pension reform became one of the most important issues in terms of formulating both the budget strategy and the economic strategy of the country. The planned beginning of the pension insurance second pillar operation (obligatory individual capitalized saving) is January 1, 2002. Estimates indicate that between 800,000 and 900,000 insured persons will be included in the second pillar. During 2000 the Central Registry of Affiliates (REGOS) was established. Currently the system is becoming operational. The beginning of 2001 saw the establishment of the Agency for Supervision of Pension Funds and Insurance. It is envisaged that mid-2001 will see the beginning of the operation of the pension insurance third pillar (voluntary pension insurance based on individual capitalized savings).

3.2.2. Croatian Health Insurance Fund

Like the Pension Insurance Fund, fiscal year of the Croatian Health Insurance Fund was marked by a reduction in the contribution rate from 9% to 7%. The overall contribution for health insurance was thus decreased from 18% to 16%.

Due to the above mentioned, during 2000 the Health Fund's financial plan was revised and the planned revenues from contributions were reduced from the originally planned HRK 10,852.2 million to HRK 10,152.2 million. During the year a total of HRK 10,135.7 million was collected through contributions. A decrease in revenues from contributions was set off, like in the case of Pension Fund, by an increased transfer from the central Government budget. Thus, instead of the originally planned HRK 1,785.9 million, i.e., the HRK 2,705.9 million envisaged by the budget revision, HRK 2,663.6 million was transferred to Croatian Health Insurance Fund. Transfer for the compensation of the contribution rate reduction amounted to HRK 699.4 million.



In other words, there was a noticeable rising trend in transfers from the central Government budget, which in comparison with 1999 grew by 10.2%, i.e., from HRK 2,420.5 million in 1999 to HRK 2,669.2 million in 2000. According to the central Government budget plan and the financial plan of Croatian Health Insurance Fund for 2001, this transfer was supposed to drop to HR 2,348.2 million.

Table 3.5: Transfers of Central Government Budget to Croatian Health Insurance Fund

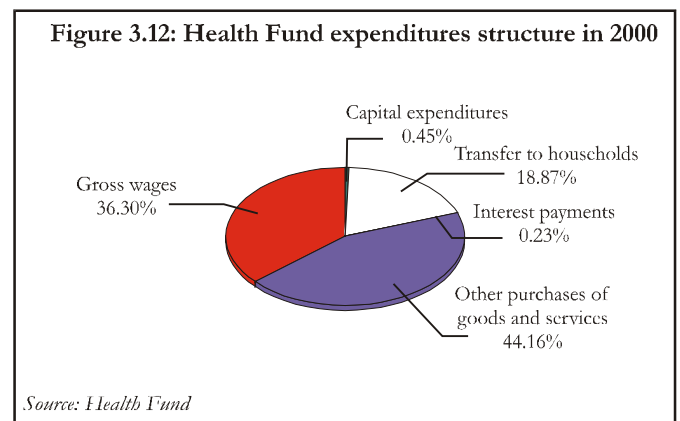
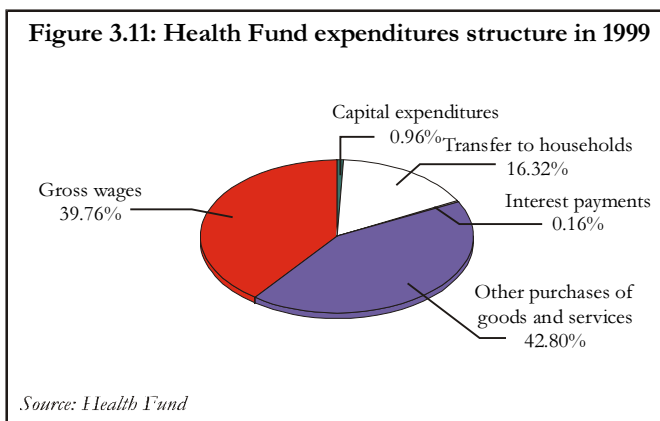
(HRK 000)	1995	1996	1997	1998	1999	2000
Insurance of free-lance artists	2,850	3,463	6,000	5,400	7,000	10,622
Transfer according to Health Insurance Law	...	...	...	12,609	293,715	299,912
Health insurance of the unemployed	...	...	...	66,567	227,487	256,922
Health insurance of old households and uninsured persons	...	...	...	...	171,427	193,144
Funds for settling debts to suppliers	...	...	...	...	200,000	30,000
New-born children's necessities	54,278	55,728	64,341	77,398	61,094	58,810
Additional maternity leave	291,857	549,832	712,082	810,911	888,053	864,244
Capital transfer – redemption of Health Fund shares	...	...	...	...	562,190	
Capital transfer	...	...	...	593,000	9,540	2,560
Transfer for compens. of contribution rate reduction						699,443
Salary compensation to Croatian defenders						41,423
Salaries in the areas of special state concern						20,000
Debt settlement and salary compensation						192,095
TOTAL	348,985	609,023	782,423	,565,885	2,420,506	2,669,175
as % of GDP	0.35	0.56	0.63	1.14	1.70	1.70

Source: Ministry of Finance

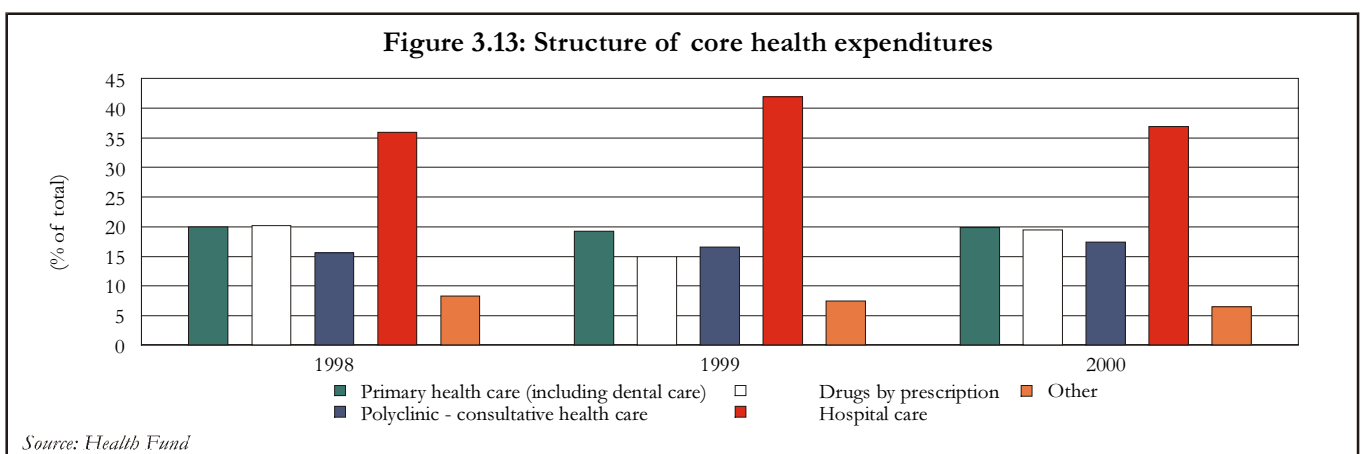
In 2000 the expenditure side of Health Fund financial plan was mostly marked by payment of outstanding obligations. More precisely, at the end of 1999 the total outstanding liabilities amounted to HRK 4,089.3 million, with short-term liabilities amounting to HRK 3,635.5 million, and long-term liabilities to HRK 453.8 million. However, out of the short-term liabilities as of December 31, 1999, arrears totaled HRK 1,519.4 million, whereas undue commitments amounted to HRK 2,116.1 million. In line with the contracts entered into with health institutions, the agreed payment term is 90 days, and the term for refund of compensations paid to physical and legal persons is 45 days. According to accounting data of Croatian Health Fund, an amount of HRK 3,259.1 million of commitments rolled over from 1999 was paid, and also partially of commitments rolled over from 1998 and 2000 in the order of payment and resources available. Out of commitments rolled over from previous years, an amount of HRK 2,689.6 million was paid for health care, HRK 476.7 million of sick-leave compensations, and HRK 92.8 million of other commitments. As of December 31, 2000, according to Health Fund accounting records, total commitments accounted for HRK 4,793.2 million, out of which short-term commitments accounted for HRK 2,713.6 million (out of which HRK 108.8 million of arrears and HRK 2,604.8 million undue commitments), whereas long-term financial commitments amounted to HRK 2,079.6 million. Specifically, Health Fund collected resources for repayment of debts to Croatian Health Fund creditors by issuing bonds on July 17, 2000 in the amount of EUR 222 million (with maturity date July 19, 2004) subscribed by a syndicate of eight Croatian banks (with Zagrebačka banka as lead manager and bond issuance agent). The bonds were admitted to Zagreb Stock Exchange tier on July 21, 2000 and in the second half of the year trading of Croatian Health Fund bonds on the secondary market accounted on average for 50% of overall dealing on the Zagreb Stock Exchange. Croatian Health Fund bonds were the first classical bonds on the Croatian market issued in line with the international practise, denominated in EUR, and with an 8.50-percent annual interest rate on principal, which is paid out on a semi-annual basis. The first bond coupon is due on January 17, 2001. On that date a 4.25-percent interest rate will be paid out. The next coupon is due on July 17, 2001.

In 2000 the overall Croatian Health Fund expenditures amounted to HRK 14,745.5 million or by 15.3% more than in 1999. In terms of economic classification, in comparison with 1999 an increase in transfers to households is noticeable, as well as expenditures for other purchases of goods and services. Besides expenditures for good and services, which account for 44.2% of total expenditures, gross wages make up the biggest portion of overall Croatian Health Fund expenditures (36.3%). In comparison with 1999, expenditures for gross wages grew by 5.3% and amounted to HRK 5,352.4 million.

In terms of type of expenses, the hospital health care accounted for most expenses (HRK 4,245.4 million), whereas approximately equal amounts were spent on primary health care with dental services (HRK 2,278.7 million) and prescription drugs (HRK 2,238.3 million). In 2000 overall compensations and assistance amounted to HRK 1,858.9 million.



In 2000 the share of hospital care was reduced and the share of primary health care increased. The reduction of hospital care is a positive trend because hospital care is by far the most expensive form of health care (the cost of an average day of hospital care in 2000 was approximately HRK 571), whereas an average paid expense per service in primary health care amounted to approximately HRK 33, and an average paid expense in polyclinic-consultative specialist health service about HRK 38. In 2000 total outlays for health care reached the level of 9.4% of GDP, out of which 1.7% of GDP was financed by transfers from the state budget, and the remaining portion through Croatian Health Fund's original receipts. The level of outlays for health care in Croatia is far above the level of outlays for those purposes in other European countries (4% of GDP on average).



According to Croatian Health Fund, in 2000 there were, on average, 48,106 persons on sick leave per day (or approximately by 1.8% more than during 1999). Out of that figure, there were 14,685 persons on sick leave at the employers' expense, and 33,420 at the expense of Croatian Health Fund. In 2000 a total of HRK 915.9 million was spent for sick-leave compensations. Although this amount includes the late 1999 refunds, it is almost twice as high as in 1999.

Croatian health system is entering a reform process the aim of which is to enhance health care quality and curb health care costs. The proponent of the reform is the Ministry of Health of the Republic of Croatia, and the reform will deal with all important elements of the health system: health administration organization, health care financing, and health services delivery and monitoring system. Operational aims of the reform are the following: financial stabilization of the system, curbing growth of health care costs and establishment of financial stability of the system, introduction of planning and management into health system, reorganization of the system of financing and payment for health care services, promotion of efficiency and quality in health care services delivery, as well as strengthening of preventive and primary health care. Health system reform is a long-term process which will be conducted in several phases. Introduction of emergency measures has already begun, namely: clearing debts of Croatian Health Fund and the health system, check-up and adoption of a new drug list, commencement of the work on the pilot-project "A New Direction in Health Policy" financed by World Bank resources, etc. The above mentioned measures will be followed by the first reform phase through the following projects: institutional reform, upgrading of health care structural organization, reorganization of health system financing and payments, defining the basic health services package, improvement of

health care services payment collection, planning of health service capacities, state hospitals reform, introduction of clinical guidelines, advancement of preventive health care, national drug policy project, upgrading of health information system, strengthening of international cooperation, and professional development policy in medicine and health reform.

Table 3.6: Overview of Temporary Disability – Sick Leave Incidence

	1997	1998	1999	2000	2000/1999
Sick leave rate*					
- total	3.35	4.01	3.63	3.71	102.20
- at the employers' expense	0.96	1.41	1.26	1.13	89.68
- at the expense of Cr. Health Fund	2.39	2.60	2.37	2.58	108.86
Average duration in days					
- total	27.56	27.01	25.96	29.99	115.52
- at the employers' expense	10.70	12.42	11.64	12.23	105.07
- at the expense of Cr. Health Fund	40.02	37.67	37.11	41.57	112.02
Number of employees on sick leave (average per day)					
- total	48,336	52,992	47,261	48,106	101.79
- at the employers' expense	13,884	18,544	16,446	14,685	89.29
- at the expense of Cr. Health Fund	34,452	34,048	30,815	33,420	108.45

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

Source: Croatian Health Fund

3.2.3. Croatian Employment Service

The annual average of registered unemployment increased from 321,866 in 1999 to 357,872 in 2000, i.e., it grew by 36,000 persons or 11.2%. The average registered unemployment rate during 2000 amounted to 21.4%, and in December it was 22.6%.

In the course of 2000 Croatian Employment Service performed mediation services for a total of 118,032 registered persons (11.7% more than in 1999). In performing an employment analysis of various categories of job seekers, employment rate can be used (= employed / (registered unemployed at the beginning of the period + newly registered unemployed), which indicates what portion of the total number of job seekers in a year was employed during the year. According to the 2000 data, the highest employment rate was with the job seekers with college education.

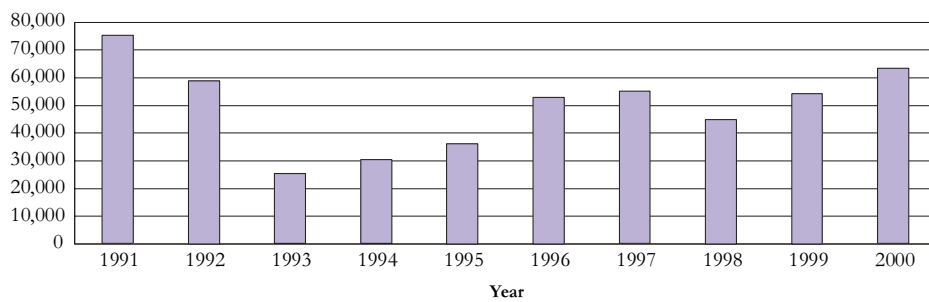
Table 3.7: Employment Rate According to Educational Background in 2000

Educational Background	Unemployed	Newly Registered	Employed	Employment Level
Unskilled workers	67,170	39,310	11,657	10.9
Semi-skilled w., lower educational background	48,482	31,702	12,059	15.0
Skilled workers, highly skilled workers	119,819	99,960	48,255	22.0
Secondary school qualifications	82,263	64,754	29,718	20.2
Two-year postsecondary school qualifications	10,604	10,476	6,263	29.7
College education	13,392	15,704	10,080	34.6

Source: Croatian Employment Service

Based on National Employment Policy of 1998, Croatian Employment Service conducted five programs, with a view to reducing unemployment, stimulating job creation, assistance at economic restructuring, and reduction of disharmony between labor market supply and demand. The implementation of those programs was temporarily discontinued on March 15, 2000, however, the Service continued realization of the applications submitted prior to that day for use of individual programs. Realization of the already started programs was continued as well. By the end of the year the development of Policy and Program of Intensifying Employment in the Period 2001-2003 was continued.

Figure 3.14: Average number of unemployment beneficiaries



Source: Employment Fund

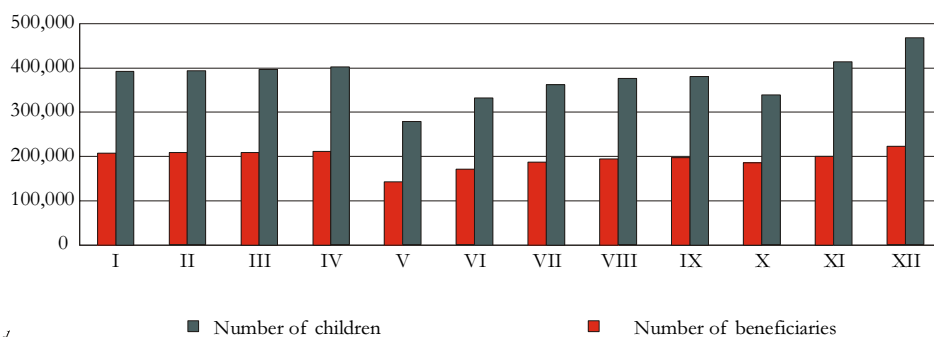
In 2000 an average number of 63,396 beneficiaries per month were receiving unemployment benefit provided by Croatian Employment Service. In terms of percentage this was 17.7% of the total number of unemployed persons. The total funds used for unemployment benefit amounted to HRK 649.26 million. In comparison with the previous year, the number of unemployment benefit recipients was increased significantly (by 16.8%), due to increased inflow of the unemployed by the persons who stopped working because of termination of work of the employer or for another reason which enables an unemployed person to acquire entitlement to unemployment benefit.

Croatian Employment Service total revenues in 2000 amounted to HRK 993.9 million, whereas the total expenditures amounted to HRK 1,011.2 million. The Service generated a total deficit of HRK 17.26 million.

3.2.4. Child Allowance Fund

Until October 1, 2000 the provisions of the old Child Allowance Act were valid, prescribing that the level of income census (means test) whereby acquiring entitlement to child allowance is conditioned should be adjusted at the beginning of each calendar year in proportion with the increase in the average net salary in the Republic of Croatia; it also prescribed that the child allowance amount is adjusted proportionally with the increase in the average costs of living in the previous year. In line with that, on March 28, 2000 Croatian Pension Fund Management Council passed a Decision on Adjustment of Child Allowance and Income Census as a condition for acquiring the entitlement to child allowance in 2000. The Decision gives the following provisions: if employment-based monthly income per household member amounts up to HRK 837.77, child allowance is HRK 235.09; for income between HRK 837.77 to 1,061.13 child allowance amounts to HRK 142.92, and for income between HRK 1,061.13 to 1,324.78 child allowance amounts to HRK 127.57.

Figure 3.15: Number of child benefit beneficiaries in 2000



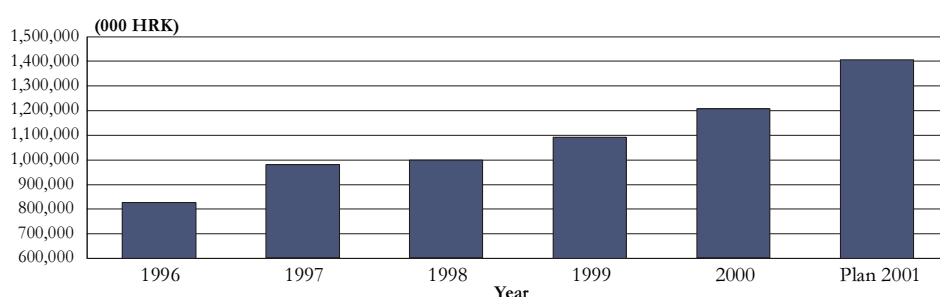
Source: Pension Fund

According to the provisions of the new Child Allowance Act⁷ the entitlement to child allowance has been extended to children of unemployed parents, craftsmen and farmers. Also, the mode of establishing the entitlement to child allowance has been changed. More precisely, child allowance beneficiary acquires the right to child allowance if the total

⁷ Child Allowance Act, the Official Gazette No. 77/99.

monthly income per household member does not exceed a certain determined percentage of the average net salary in the Republic of Croatia in the previous calendar year (percentage determined by the Government of the Republic of Croatia decree). A beneficiary, if his/her total monthly income per household member does not exceed a lower percentage of the average net salary, is entitled to child allowance amounting to 9% of the average net salary per child (and for the third and each subsequent child allowance is increased by a further 5% of the average net salary). If the total monthly income per household member is between the lower and higher percentage of the average net salary, the beneficiary has a right to child allowance in the amount of 5% of the average net salary per child (for the third and every subsequent child allowance is increased by 4% of the average net salary). The provisions of this Act came into force on October 1, 2000, at the same time as the Decree of the Government of the Republic of Croatia⁸ whereby a lower percentage of income census for acquiring the entitlement to child allowance is set at 27.5% of the average net salary, and a higher percentage to the amount of 50% of the average net salary in the Republic of Croatia in 1999. The average net salary amounted to HRK 3,055.42.

Figure 3.16.: Child Benefit expenditures



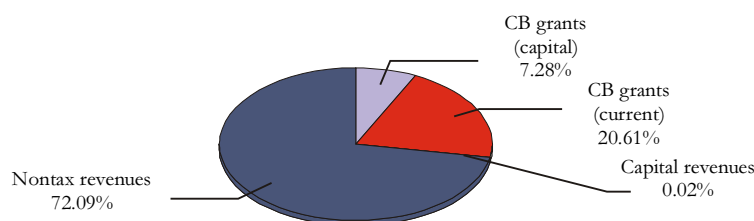
Source: Pension Fund

In 2000 the outlays for child allowance amounted to HRK 1,208.0 million or 10.7% more than in 1999. The 2001 plan envisages child allowance outlays in the amount of HRK 1,405.4 million (16.3% more than executed in 2000). Such an increasing trend was a consequence of the above mentioned extension of coverage of beneficiaries by application of the new Child Allowance Act, the application of which started on October 1, 2000.

3.2.5. Croatian Water Management Fund ("Hrvatske vode" Public Enterprise)

The overall revenues of the "Hrvatske vode" public enterprise (Croatian Water Management Fund) in 2000 amounted to HRK 1,436.2 million, and consisted mostly of non-tax revenues (water utilization fees) and transfers from the central Government budget amounting to HRK 400.7 million. The total expenditures amounted to HRK 1,369.8 million or 8.6% less than in 1999.

Figure 3.17: Water Management Fund revenues structure in 2000



Source: Ministry of Finance

⁸ Decree on Setting the percentage on which entitlement of child allowance depends, the Official Gazette No. 83/00.

IV. FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT

Amendments to the Constitution of the Republic of Croatia⁹ stipulate that cities and municipalities are local self-government units, whereas counties are regional self-government units. The areas of municipalities, cities, and counties are specified in the manner prescribed by the law.

Local self-government units perform activities in local jurisdiction whereby the needs of citizens are satisfied in a direct way, and specifically activities relating to arrangement of settlements and housing, physical and urban planning, municipal services, child care, social welfare, primary health care, upbringing and primary education, culture, physical culture and sports, consumer protection, environmental protection and advancement, fire-fighting and civil defense.

Regional self-government units perform activities on the regional level, and especially activities relating to education system, health, physical and urban planning, economic development, transport and transport infrastructure, as well as planning and development of a network of educational, health, social, and cultural institutions.

The Law and amendments to the Law on the Territories of Counties, Cities, and Municipalities in the Republic of Croatia¹⁰ changed the territorial organization of local units, so that now Croatia has 423 municipalities and 123 cities. The number of counties has been fixed to 20 counties and the City of Zagreb, which has a status of both a city and a county.

Local self-government and regional self-government system were organized by the Law on Local Self-Government and Administration¹¹ regulating, in principle, the area of financing, i.e., it was prescribed that local units have their revenues which they manage freely.

One of the essential indicators of the size and importance of local and regional self-government is a share of municipality, city, and county revenues in the gross domestic product and in the total Government budget revenues. In 1999 the share of budget of municipalities, cities, and counties in the gross domestic product of the Republic of Croatia amounted to approximately 6%, whereas the share of budget in the total budget revenues amounted to 10.32%.

4.1. SOURCES OF FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

The financing system is regulated in detail by the Law on Financing of Local Self-Government and Administration Units¹². This Law prescribes the financing sources (of own taxes, joint taxes, subsidies from the state budget and from county budget), as well as the mode of financing of activities within the self-government jurisdiction of municipalities, cities, and counties. The types of taxes are defined, as well as their redistribution among local and regional self-government levels, the tax base, the tax payers and tax rates are defined (i.e., the bottom and top thresholds between which taxes are assessed), and calculation and mode of tax payment.

As far as municipalities and cities are concerned, there are no differences in types of revenues, but only in their levels. It is for this reason that nowadays their jurisdictions are basically not different.

In the Republic of Croatia, like in some other European countries, the basic characteristic of local units financing is law-provisioned redistribution of joint revenues between the state local authorities, as well as affiliation of the types of revenues (own tax revenues and non-tax revenues) according to local and regional self-government unit levels.

The joint tax revenues are personal income tax, profit tax, taxes on gambling and betting games, and real estate transaction tax, which are shared among the Government, the county, cities and municipalities in the manner indicted below:

⁹ The Constitution of the Republic of Croatia, the Official Gazette Nos 56/90 and 113/2000.

¹⁰ The Law on the Territories of Counties, Cities, and Municipalities in the Republic of Croatia; the Official Gazette Nos 10/97, 124/97, 88/98, 22/99, 44/00, and 129/2000.

¹¹ The Law on Local Self-Government and Administration, the Official Gazette No. 90/92.

¹² The Law on Financing, the Official Gazette Nos 117/93, 69/97, 33/00, and 73/00.

Revenue Type	Municipalities/Cities	Counties	Government
Personal income tax	32%	8%	60%
Profit tax	20%	10%	70%
Taxes on gambling and betting games	50%	-	50%
Real estate transaction tax	60%	-	40%

Source: Ministry of Finance

Such a redistribution of personal income tax has been implemented since April 2000 (until that time the shares of municipalities and cities were 25% and the shares of counties 5%).

In the case of the City of Zagreb, the redistribution of joint taxes is different because it has the status of both a city and a county. The share of the City of Zagreb in personal income tax is 45%, whereas the remaining 55% of revenues collected from personal income tax in the area of the City of Zagreb is paid into the Government budget.

Cities with more than 40,000 inhabitants have a lawful right to levy surtax on personal income tax, specifically on the share of tax which they are entitled to on the basis of the above mentioned lawful redistribution of that revenue. Surtax on personal income tax belongs on to the local self-government unit on whose territory the tax payer resides.

The importance of surtax in the total revenue structure is illustrated by the example of the City of Zagreb. In 1999 it collected HRK 435 million from the surtax on personal income tax, which was 19.39% of the City tax revenues, and the planned collection of that tax in 2000 was HRK 469 million.

The latest amendments of the Law on the Areas of Special State Concern prescribe that "tax revenues from personal income tax and profit tax collected in the areas of special state concern and which belong to the Government budget in the 5-year period since the coming into force of this Law are the revenues of local self-government units (municipalities and cities) in the areas of special state concern".

This provision provides for ceding a portion of joint taxes belonging to the state for reason of facilitating public needs at the lower levels and as an incentive for development of the areas which used to be occupied or devastated due to war activities, namely:

- Redistribution of a portion of personal income tax (60% belonging to the state) in favor of the areas of special state concern (municipalities and cities) amounting to 92%.
- Redistribution of profit tax (70% belonging to the state) in favor of the areas of special state concern (municipalities and cities) amounting to 90%.

The effects of the application of the above mentioned Law are already present, however, real results are expected in the next period.

4.2. THE TREND OF REVENUES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS IN THE PERIOD 1999 - 2000

The section illustrates budget revenue collection of counties, cities, and municipalities in 1999 and revenue budget plan for 2000.

The total collected budget revenues of municipalities, cities, and counties in 1999 amounted to HRK 8.3 billion, whereas the plan for 2000 envisages HRK 9.4 billion, with dominating current revenues which have been collected in the amount of HRK 7.1 billion and account for 85% of total revenues in the revenue structure. From one year to another, capital revenues indicate a growth tendency. In comparison with 1998 they grew by 25%, as well as their share in total revenues which in 1999 accounted for 7%, unlike grants, whose share recorded a drop in comparison with 1998 and in the total revenue structure in 1999 accounted for 8%, like in the plan for 2000.

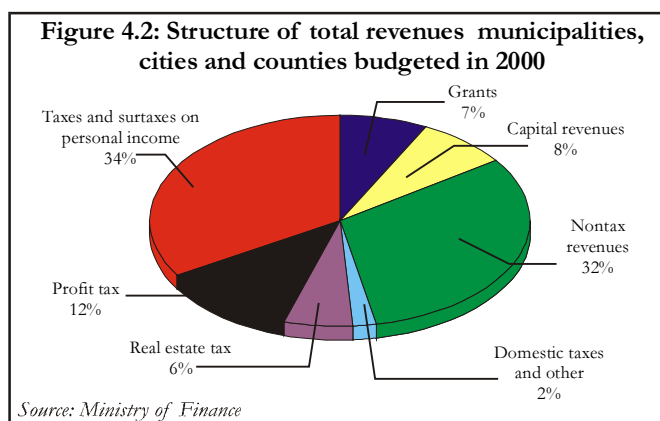
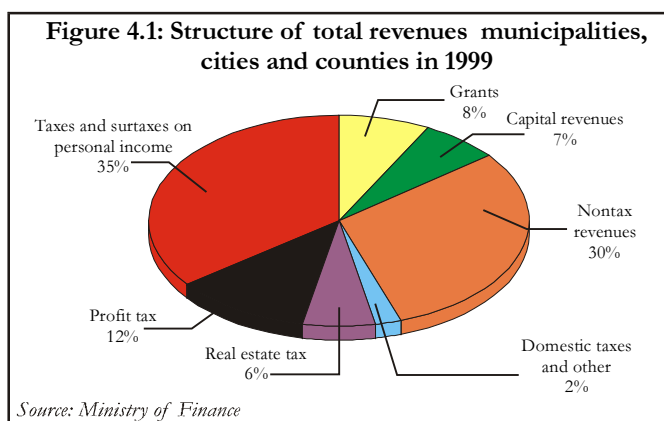
4.2.1. Tax revenues

As illustrated by Figures 4.1 and 4.2, taxes are, without doubt, the most abundant local unit budget revenue. In 1999 the share of tax revenues in the total revenues accounted for 55%, whereas the planned amount in 2000 accounted for 53%. However, in comparison with 1998, the collected tax revenues were by 4% lower.

Simultaneously with the drop in tax revenues, non-tax revenues grew by 1% in relation with 1998, whereas in year 2000 a 17-percent growth is expected. In parallel with that, the share of non-tax revenues in the total revenues grew. In 1999 the share amounted to 30%, and the budget plan for 2000 envisaged 32%.

The highest share of local and regional self-government unit tax revenues is collected from joint taxes (personal income tax and profit tax), which accounted for collection of 47% of total local revenues. It should be stressed that personal income tax includes surtax on personal income tax. Surtax is the own revenue of cities, however, due to the statement and monitoring methodology it cannot be shown separately from personal income tax. In 1999 a total of HRK 486 million of surtax was collected, or 12% of total tax revenues.

In the monitored period there is a drop in the share of personal income tax and surtax. The decrease in this kind of revenues is a consequence of the changes in the income tax system which were aimed at increasing the non-taxable portion of income. In 1999 the share of personal income tax and surtax in tax revenues accounted for 64%, and such a share is also planned for 2000.

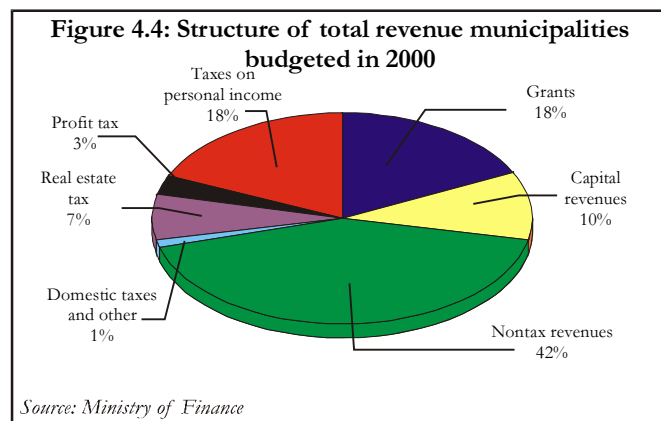
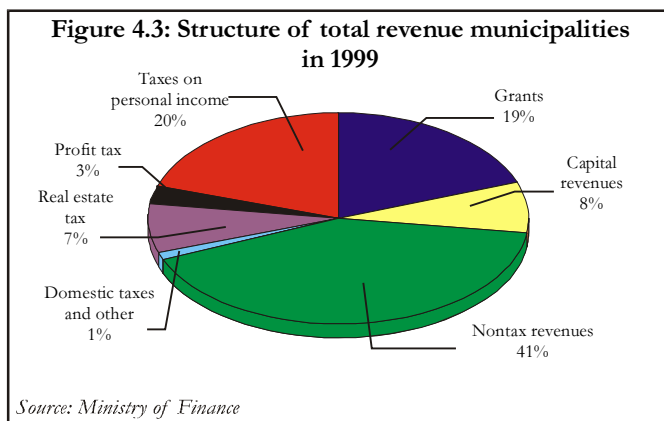


In parallel with the reduction in the share of personal income tax and surtax, in 1999 the share of profit tax in the total revenues of county, city and municipality budgets declined. Such a reduction is explained by a decline in economic activities in 1999, as well as by amendments of the Law on Profit Tax¹³ (investment incentives, new employment stimulation, tax benefits for tax payers from the areas of special state concern, tax benefits and tax relief for tax payers in the area of the City of Vukovar, and for tax payers who do business in free trade zones). In 1999 the share of profit tax accounted for 21% of tax revenues and 12% of total revenues, respectively.

The above described trends, which are characteristic for the overall local and regional self-government system, are also visible in the total municipality revenues. In 1999, HRK 1.2 billion was collected on the municipality level, and the plan for 2000 envisages collection of HRK 14 billion.

Figures 4.3 and 4.4 illustrate the total municipality revenue structure. The share of tax revenues in the total municipality revenues in 1999 accounted for 31%, whereas the plan for 2000 envisages a 2-percent share reduction. Personal income tax and profit tax together account for 73% of tax revenues, real estate tax accounts for 24%, and taxes for goods and services account for 3%.

¹³ Law on Profit Taxu. The Official Gazette No 127/2000.

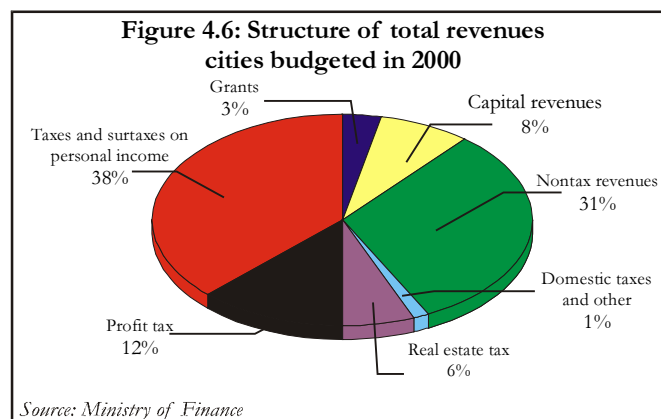
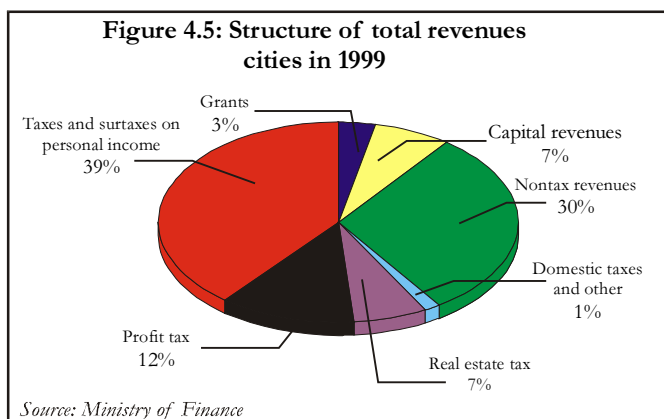


According to IMF methodology, real estate taxes contain revenues from company tax, vacation house tax, and tax on use of public areas. Domestic taxes on goods and services contain tax on advertising, consumption tax, as well as revenues from other types of taxes.

The share of non-tax revenues grows from one year to another in total revenues, from 42% in 1999 to 43% in the plan for 2000. Capital revenues were increased by 13% in comparison with the previous year. The share of capital revenues shows a rising trend in the structure, from 8% in 1999 to 10% in the plan for 2000. The share of grants in total municipal revenues in 1999 amounted to 19%, and it is planned that they will be decreased to 18% in 2000. On the city level HRK 6.3 billion was collected, and the plan for 2000 is HRK 7.1 billion.

On the city level, personal tax and surtax and profit tax account for a more significant share of tax revenues. Together they account for 87% of city tax revenues. Real estate taxes have by far smaller share of only 11%, whereas taxes on goods and services make up only 2% of city tax revenues.

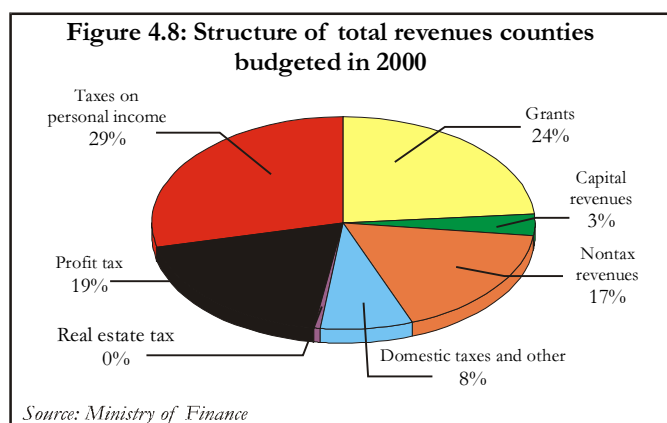
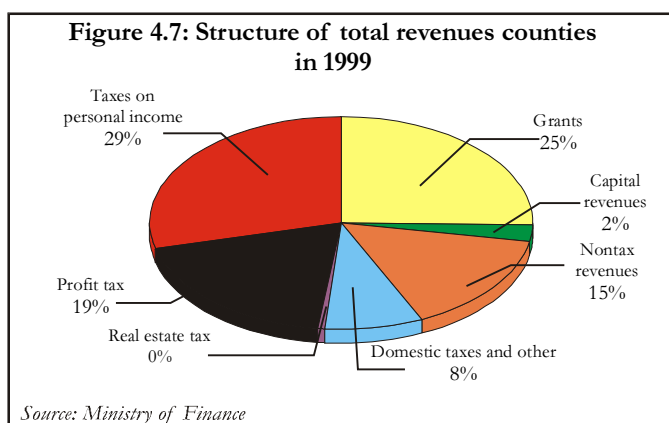
As indicated by Figures 4.5 and 4.6, in the city revenue structure there is also a downward trend of the importance of tax revenues in favor of an increase in the importance of non-tax revenues. Grants have a somewhat lower importance in city budgets than in municipal budgets. In 1999 grants accounted for 3% of total revenues, and their share in the 2000 plan was on the same level as in 1999. On the county level, HRK 775 million was collected, and the plan for 2000 is HRK 858 million, or, like in the case of cities, the same share in total budget revenues.



As far as county tax revenues are concerned, revenues collected by personal income tax and profit tax also have a significant portion, jointly making up 84% of county tax revenues, with real estate tax and taxes on goods and services and other county taxes accounting for 16%. Among those taxes are motor vehicle duties, vessel taxes, and other kinds of taxes.

Tax revenues, as is indicated by Figures 4.7 and 4.8, also dominate in the structure of county budgets, but, unlike municipal and city budgets in which tax revenues have a downward trend, in counties the share of tax revenues is growing. In 1999 their share in the total revenue accounted for 57%, whereas in the 2000 budget they are expected to drop by 1%. In county revenues grants have a great importance besides tax revenues. However, as indicated by figures,

their significance is decreasing because in 1998 grants accounted for 36% of total revenues, whereas in the 2000 budget they account for only 24% of total county budget revenues.



When separate analyses are made of individual levels of local and regional self-government, different importance of various taxes is noticed in their budgets. Cities and municipalities collect the greatest part of their revenues from joint taxes and own non-tax revenues in comparison with counties which depend on joint taxes and grants. That is a consequence of the way of distribution of joint taxes and also of difference in bases to which taxation rate is applied. However, it is characteristic for all levels of local and regional self-government that a very small portion of revenues is collected from local taxes.

The analysis of the share of 1999 tax revenues on the local and regional self-government level illustrates the economic situation in the Republic of Croatia: budgets of local units in the area of Splitsko-Dalmatinska county in the total tax revenues of all budgets in the areas of all counties (except for the City of Zagreb) collected 15%, units of Primorsko-Goranska county 14%, in the area of Istarska county 11%, whereas budgets in the area of Požeško-Slavonska and Virovitičko-Podravaska counties have a share of only 1% in the total tax revenues.

4.2.2. Non-Tax and Capital Revenues of Municipalities, Cities and Counties

In line with special laws, counties, cities, and municipalities are entitled to fees and duties collected on the basis of those laws and which are contained in non-tax revenues of their budgets.

Non-tax revenues (see Figures 4.1 to 4.8) record growth in cities, municipalities and county budgets. However, it should be noted that those are earmarked revenues which can be used only for activities for which they were introduced. Those are fees and duties in municipal services, the utilization of maritime demesne, exploitation of mineral raw materials, use of power unit areas, use of public areas, hunting rental fees, tourist taxes, taxes from sale of government stamps, etc.

The second biggest source of local unit revenues are non-tax revenues which can overall be divided into four groups, namely: 1) revenues from entrepreneurial activities, 2) administrative fees, 3) communal fees, 4) communal duties.

The increase in the importance of non-tax revenues was also contributed to by an increase in communal and administrative fees, so that their share in total revenues increased from 30% in 1999 to 32% in the 2000 plan.

Among non-tax revenues in county, city, and municipal budgets administrative fees have the most significant share of 65%, followed by revenues from entrepreneurial revenues and revenues from real estate with 25% and other non-tax revenues with the share of approximately 10%. As far as municipal and city budgets are concerned, among the above mentioned revenues the share of communal fees and duties is the most important.

The importance of those revenues in some units (except for the areas of special state concern) and the purpose for which they are used can be seen from the example of the Municipality of Kostrena, in which, out of HRK 34 million of total collected revenues in 1999, non-tax revenues account for 85%, revenues collected from communal fees and duties account for 60%, unlike the City of Zagreb, which made approximately HRK 3 billion in total revenues, in the structure of which non-tax revenues account for 22%, and communal fees and duties 11%.

Capital revenues have a relatively small importance for local units. Capital revenues include revenues from sale of socially-owned apartments, sale of state-owned agricultural land, as well as revenues collected from immoveable and moveable items owned by local units which are managed on economic and market principles of acquiring revenues for financing their tasks.

Besides the above, the state budget also provides for resources for a large portion of capital projects on the level of local self-government which are not included in obligatory financing from the budget. Counties, depending on their possibilities, also provide support and assistance to municipalities and cities on their area, either directly or by co-financing of capital and current expenditures.

The share of revenues that units collect from property is different and depends on the property value. It can be significant to the extent of accounting for over 20 % of total budget revenues in individual units.

In line with the Budget Law, a unit may, for the realization of capital projects, also realize receipts from borrowing according to the conditions prescribed by the law. In line with the Law on Execution of the State Budget and the Instruction of the Minister of Finance, a local and regional self-government unit may conclude loan agreements on domestic and foreign capital markets only for purposes of financing the reconstruction and development programs and projects, however, the total annual liability for a loan may amount to not more than 20% of collected revenues in the year preceding the year in which the borrowing is effected.

4.2.3. Grants

The Law on Financing Local and regional Self-Government Units stipulates the criteria for determining grants to counties from the State budget. However, in practise those grants are realized in such a way that, in line with the possibilities of the State budget, grants are provided to counties, but also they are directly provided to municipalities and cities of special state concern.

Due to a complex situation in several years (following direct influence of war activities on one-third of the territory – occupation), the State budget provides for subsidies for areas of special state concern which are transferred directly to local self-government units. From the State budget for 1999 subsidies - current transfers were effected in the amount of HRK 263,796,207, whereas for 2000 a significantly smaller amount of was planned – a total of HRK 179,174,200.

Although those are not earmarked grants (transfers), it is expected that those funds will mostly be utilized for investment, and less for current expenditures.

In case of local self-government units in the Croatian Danube region, which prior to 2000 had not had a clearly defined status (of belonging either to the first or second group of areas of special state concern), resources were provided for and transferred through county budget (Osječko-Baranjska and Vukovarsko-Srijemska counties), and for some cities resources were transferred directly from the state budget.

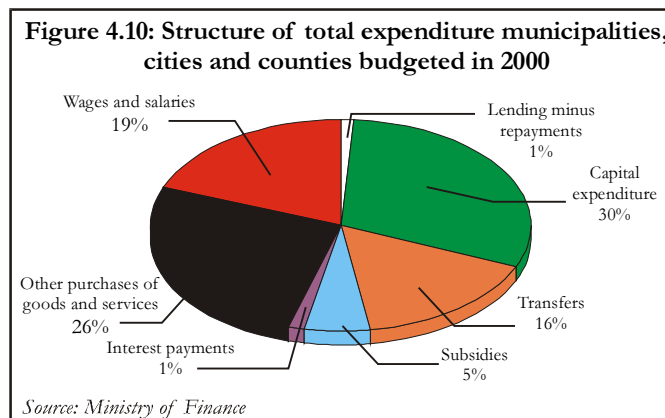
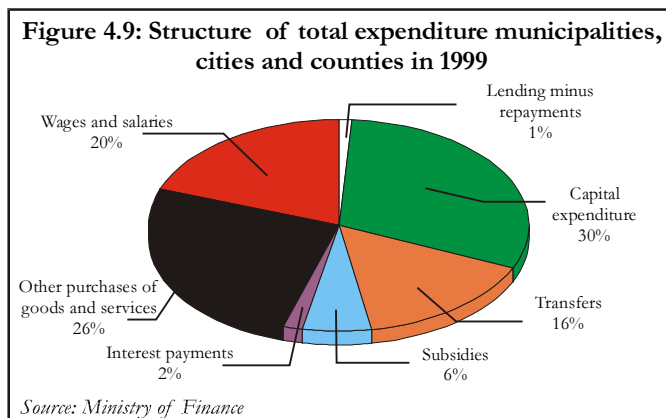
Those units have received current and capital subsidies from the State budget, county budget, as well as from other subjects.

From a general point of view at the public needs financing system, it can be concluded that it is designed in such a way that inter-budgetary transfers are used as means of support to financially less well off units, and not as resources which might be used to finance a certain level of public needs in all local units.

Depending on their possibilities, counties directly provide for support and grants to municipalities and cities in their area, either through grants (a smaller portion are non-earmarked ones) or through co-financing of capital expenditures (a greater portion).

4.3. BUDGET EXPENDITURES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

In 1999 local unit expenditures accounted for a total of HRK 8.7 billion, whereas the plan for 2000 envisaged HRK 9.7 billion or, in terms of levels, municipalities' expenditures accounted for HRK 1.2 billion, cities' expenditures for HRK 6.7 billion, and counties for HRK 821 million. The structure of municipality, city, and county expenditures is illustrated in Figures 4.9 and 4.10. It indicates that current expenditures account for approximately 69% of total local expenditures, whereas the rest accounts for capital expenditures and net lending.



Analyzing particular levels of local and regional self-government, it can be noted that there is a particularly great share of current expenditures in total city budget expenditures. In 1999 the share of current expenditures of municipal budgets accounted for 63%, of city budgets for 69%, and of county budgets for 68%. At the same time, the planned capital expenditure rate for 2000 was by 11% higher than the one in 1999 and indicates a growing tendency of strengthening the investment role of local units. Such an increase in capital expenditures is also enabled by the fact that in the last several years the Government of the Republic of Croatia has issued a considerable number of consents for entrusting local units with a view to financing, in the first place, reconstruction and construction of communal infrastructure.

Current expenditures (outlays for salaries, obligatory salary contributions, outlays for material used, energy, and other services etc.) are planned in county, city, and municipality budgets for employees and officials based on decisions by their responsible bodies. There are no legal regulations stipulating limitations on the employee salary level except for the officials' salaries of and payment of contributions.

In 1999 current expenditures grew at the 3-percent rate, whereas current revenue rate decreased by 3%, indicating a need for current expenditure control. The 2000 budget plans for an increase in this type of expenditures at the 11-percent rate, the same rate as is planned for an increase in revenues.

The highest share in current revenues in 1999, as well as in the 2000 plan, account for outlays for purchase of goods and services (outlays for used material and current maintenance), accounting to 38% of current expenditures, followed by subsidies and other current transfers (31%), and outlays for the employees and contributions account for 29% of current expenditures. Transfers to local units are earmarked for non-profit institutions and associations such as kindergartens, theaters, technical culture and sports, as well as communal enterprises.

The majority of those indirect transfers were specific-purpose subsidies, mostly capital ones. Some subsidies, and especially those relating to investments, depend on the readiness of units to participate in specific projects with their own revenues.

In terms of the types of local functions, expenditures can be grouped into 12 basic groups. On the local level it is visible that the functions of housing and communal activities in the total expenditure structure amount to 25% (clearly indicating that the main priority is the development of municipalities and cities, and thus the county as a whole), expenditures for general public services account for 22% (salaries, material expenses etc.), services to the society (education, health services, social security and social welfare) for 15%. Figures 4.11 and 4.12 illustrate the share of specific functions in the total city, municipality, and county expenditures.

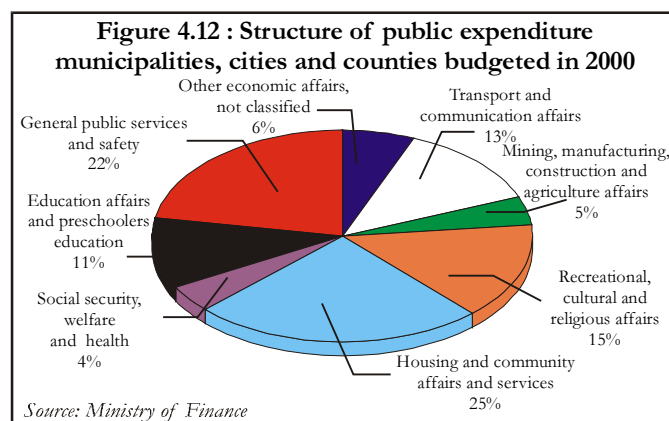
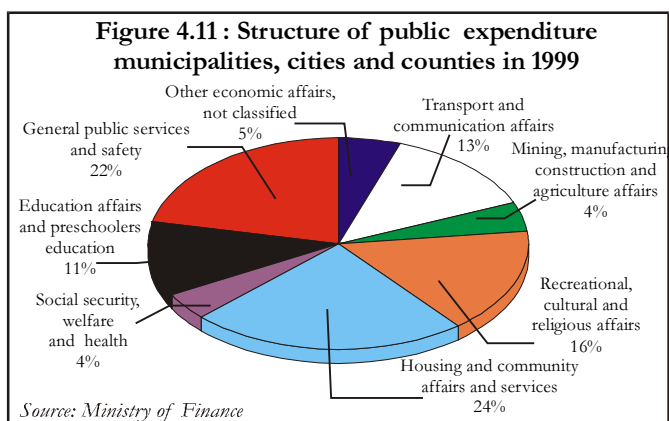


Table 4.1: Functional Classification of Public Expenditures of Municipalities, Cities, and Counties in the Republic of Croatia, in the period 1998 - 2000

	1998	1999	Plan for 2000
Total expenditures per functions	8,731,281,995	8,602,041,199	9,597,290,047
1. General public services	1,763,341,132	1,832,016,423	2,024,121,460
2. Public order and security activities	39,792,546	40,996,838	96,469,871
3. Affairs and services of education and pre-school education	967,913,965	977,415,186	1,054,850,897
4. Health affairs and services	88,605,477	94,240,524	78,221,831
5. Social security and social welfare	291,626,679	265,960,429	305,849,625
6. Housing and communal affairs and services	2,220,916,866	2,022,827,258	2,392,026,961
7. Recreation, cultural, and religious affairs	1,209,049,984	1,391,459,828	1,399,532,950
8. Agriculture, forestry, hunting, and fishery	59,236,018	61,282,414	82,520,715
9. Mining, industry, and construction industry	393,721,321	317,743,473	358,270,085
10. Transport and communications	1,178,076,591	1,139,183,100	1,216,565,505
11. Other economic affairs and services	420,234,588	305,677,016	407,808,423
12. Expenditures not grouped in main groups	98,766,828	153,238,710	181,051,724

Source: Ministry of Finance

V. CONSOLIDATED GENERAL GOVERNMENT IN 1999

*Prepared by: Srebrenka Gudan, Bureau for Macroeconomic Analysis and Planning
Ivanka Kukin, Department for Budget Preparation and Consolidation*

The balance of general Government consolidated revenues and expenditures gives the real picture of the public sector volume of a country, because it contains all Government levels. The levels of Government in Croatia are central Government, extra-budgetary funds (Croatian Pension Insurance Fund, Croatian Health Insurance Fund, Croatian Employment Service, Child Allowance Fund, Public Enterprise 'Hrvatske vode' - Croatian Water Management Fund), and local Government and self-Government units (municipalities, cities, and counties). Since the final data on trends in revenues and expenditures of consolidated general Government in 2000 will not be available before summer of 2001, because local Government and self-Government units have a legal obligation to deliver their annual reports by the end of April, this Chapter will give a review of outturn in 1999.

5.1. CONSOLIDATED GENERAL GOVERNMENT – ECONOMIC CLASSIFICATION

Table 5.1: Revenues and Expenditures of Consolidated General Government from 1996 to 1999, % of GDP

	Share of GDP (%)			
	1996	1997	1998	1999
TOTAL REVENUES AND GRANTS	50.37	48.62	52.86	52.56
I. Total revenues	50.35	48.61	52.82	52.56
1. Current revenues	48.88	47.64	50.83	47.67
- Tax revenues	44.42	43.03	46.88	43.72
- Non-tax revenues	4.46	4.61	3.95	3.95
2. Capital revenues	1.48	0.97	1.99	4.89
II. Grants	0.01	0.01	0.04	0.00
TOTAL EXPENDITURES AND NET LENDING	50.74	49.83	52.37	54.76
III. Total expenditures	50.28	49.31	51.50	53.66
1. Current expenditures	43.47	43.30	44.58	46.59
2. Capital expenditures	6.81	6.02	6.93	7.07
3. Lending minus repayment	0.45	0.52	0.86	1.10

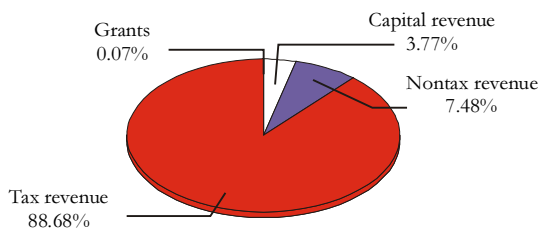
Source: Ministry of Finance and State Bureau of Statistics for GDP data

An overview of basic aggregates of revenues and expenditures of the consolidated general Government classified by economic categories, and expressed as a share of the gross domestic product, indicates that a public expenditure growth trend, which had a mild stop in 1997 (49.8% of GDP), has had a strong rising trend again in the last two years. In 1999 it grew to as much as 54.8% of GDP. According to the consolidated general Government budget for 2000, the total public expenditure volume should be restored to the 1998 level. Also, the data on consolidated central Government outturn (central Government budget and extra-budgetary funds) in 2000 indicate a reduction of the public sector in 2000. A detailed overview of general Government consolidated revenues and expenditures is attached, as well as the pertaining non-consolidated revenues and expenditures of central Government budget, extra-budgetary funds, and local Government and self-government.

In 1999 total revenues of consolidated general Government grew by 3.1% in nominal terms in comparison with the previous year. The reason for that was, in the first place, the 154.6-percent growth of capital revenues and a 3.5-percent growth of non-tax revenues, but also a 3.3-percent reduction in tax revenues and reduction of grants by 83%. Capital revenues recorded such a high growth thanks to the sale of 35% of Croatian Telekom to Deutsche Telekom in September 1999. Although, due to the fact that privatization receipts should be entered in the books as financing receipts because they are one-off and uncertain, many transition countries, including the Republic of Croatia, regard them as capital revenues due to their volume. Such year-on-year trend in revenue categories reflected in the structure of total revenues. This is illustrated by the following figures.

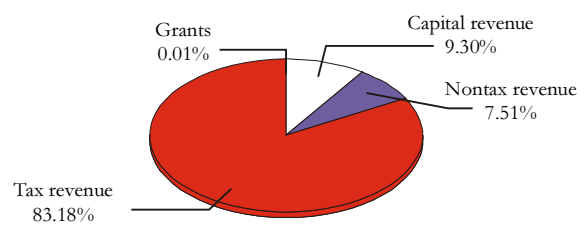
Tax burden on the consolidated general Government level, measured by the share of tax revenues in GDP, decreased from 46.9% in 1998 to 43.7% of GDP in 1999. Tax relief was partially a result of tax changes during the year and partially a result of relaxation of tax discipline of a portion of tax payers due to economic illiquidity problems, and a generally deteriorated state of the economy. More precisely, the trend of weakening of economic activity at the end of 1998 continued in 1999 and was stopped at the end of the year.

Figure 5.1: Structure of Consolidated General Government Revenues in 1998



Source: Ministry of Finance

Figure 5.2: Structure of Consolidated General Government Revenues in 1999



Source: Ministry of Finance

As a result of that, revenues collected from value-added tax as the most important consumption revenue tax were reduced by 2% on an annual level. It should be noted that during the year the VAT tax system was changed significantly, making an important impact on collection of this kind of Government revenues. From the beginning of the year the value level for entry into the VAT system was changed from HRK 50,000 to HRK 85,000 and the accounting period was extended from 15 to 30 days. The primary aim was to assist economic subjects to improve their liquidity and thus the liquidity of the economy as a whole. Following that, in November, a zero VAT rate was introduced to all kinds of bread and milk, books, and drugs on the list of Croatian Health Fund. In that way a portion of staple foods was no longer burdened with value-added tax, thus partially alleviating the regressiveness of that kind of tax. After the tax on turnover of goods and services was replaced by VAT in 1998, revenues from that kind of tax lost their fiscal importance. Revenues from local taxes on goods and services, despite a weaker economic situation, generated an 8.9% growth the annual level.

Another important category of consumption tax are special duties or excise taxes, which in 1999 increased their share in the total structure of tax revenues by 0.8 percentage points. The increase in the share of excise taxes in the total tax revenues is assessed as very good because in that way the equitableness of the tax system is increased. However, it is also assessed that the increase in revenues from excise taxes on the annual level might be significantly higher than the collected 4.2%, given the amendments of the Law on Excise Taxes which were effected during the year. Firstly, in July excise taxes on oil, oil products, and tobacco products were increased and the term of payment for excise tax on tobacco was extended from 15 to 30 days after taking over of stamps. This was aimed at compensating a weaker outturn of those revenues in the first part of the year. Following that, November saw a new increase in excise tax on tobacco products and motor vehicles, vessels, and aircraft, and a new excise tax was introduced on the so-called luxury products (jewelry, watches, fur, arms, etc.) paid at a 30-percent rate on the selling price without VAT. This increase of former excise taxes and the introduction of new excise taxes were aimed at making up for revenues lost by the introduction of the zero VAT rate. The largest portion of revenues from excise tax was collected from excise taxes on oil and oil derivatives (55.7%), and from excise tax on tobacco products (32%). Excise taxes on oil and oil derivatives in 1999 brought revenues by 8.3% higher than the ones in 1998. At the same time, excise taxes on tobacco, in spite of a double increase in the course of the year, collected by 0.7% lower revenues primarily because of the increase of the black market of those products.

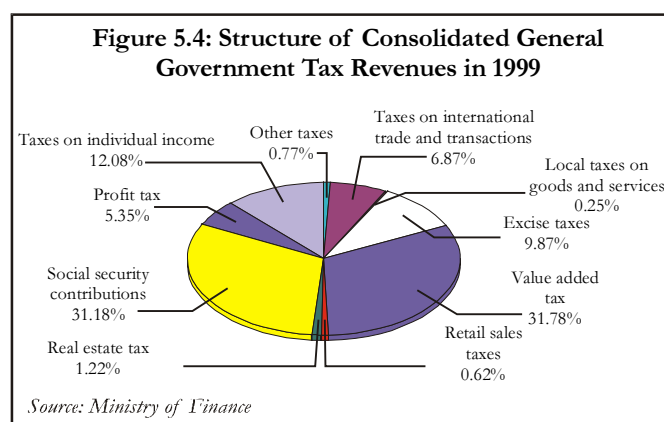
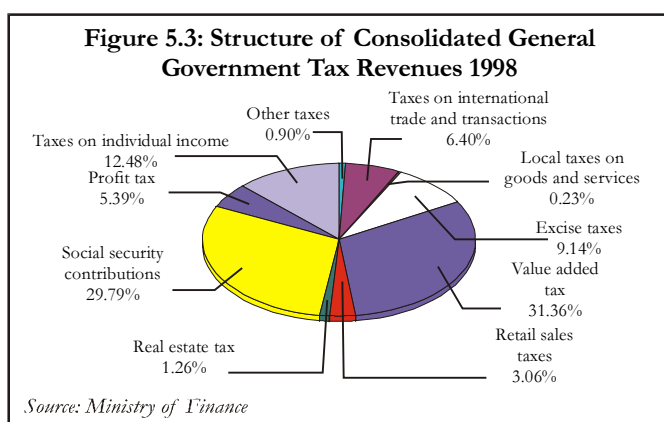
Revenues collected from customs duties in 1999 exceed 4.3% those of the previous year, which, taking into consideration the fact that during the year there was a drop in imports, can only be explained by increased efforts of the Customs Administration.

Since according to the Law on Corporate Profit Tax the base for tax assessment in a current year is the outturn of business results in the previous year, a weaker economic activity in 1998 was reflected in the outturn of revenues from profit tax in 1999. On an annual level, those revenues dropped by 3.1%, i.e., they amounted to 2.3% of GDP.

Revenues from citizens personal income tax decreased in nominal terms on an annual level by 6.4% as a result of the overall economic situation, but also as a result of the changes in the tax system during the year, which were aimed at a decrease in the regressive effect of indirect consumption tax. The amendments in the Law on Personal Income Tax in 1999 were primarily aimed at tax relief of lower income levels, and this policy was continued in 2000. Thus, at the beginning of 1999 personal tax deduction for workers was increased from HRK 800 to HRK 1,000, and for pensioners

from HRK 2,000 to HRK 2,500 per month. Besides, coefficients were increased for dependent family members (0.5 for the first one, 0.7 for the second, 1.0 for the third, 1.4 for the fourth, 1.9 for the fifth one, and it is increased progressively for each subsequent dependent family member), whereby the basic personal deduction is multiplied, thus reducing the tax base. All of the above mentioned changes in the long run increased net salary, and especially of the persons with a great number of dependent family members. Besides, those changes affected the outturn of revenues of local Government and self-Government units. Specifically, 25% of the overall collected revenues from personal income tax went to local Government and self-Government units, and 75% to the central Government budget. Revenues from personal income tax and surtax on personal income tax, as own cities' revenues, in 1999 accounted for 35.4% of local Government and self-Government unit total revenues, and on the annual level recorded a 5.4% drop.

The average monthly gross salary in 1999 was by 10.2% higher in comparison with the previous year. This led to a 1.2-percent higher collection of total contributions for social insurance in comparison with 1998. The importance of this growth is even higher taking into consideration the fact that contributions for social insurance until June 1998, besides contributions for pension insurance, health insurance, and unemployment benefits, also included child allowance contributions (2.2% of the salary) and water supply tax (0.8% on the salary) which were abolished in June, so the base for comparison was significantly higher.

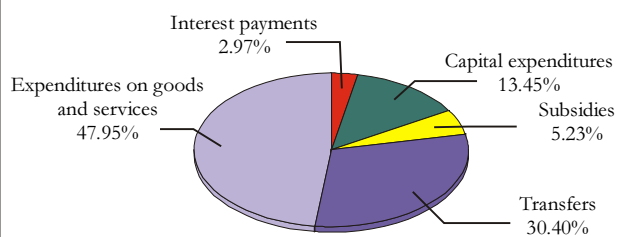


The changes in the internal structure of tax revenues are visible from the comparison of diagrams in Figures 5.3. and 5.4. It is obvious that the changes in the tax system in 1999 were directed at a more equitable distribution of tax burden in the society, i.e., the decrease in the overall reduction of tax burden, but also the increase in tax discipline. Since the total tax revenues in 1999 were nominally lower by 3.3% than in 1998, whereas the nominal growth of the gross domestic product amounted to 3.7%, thus, measured by the share of consolidated tax revenues of general Government in GDP, the overall tax burden was reduced by 3.2 percentage points in comparison with the previous year. The consolidated general Government budget and preliminary data for 2000, as well as the tax reforms during the year indicate that the trend of reduction of tax burden (by approximately 2 percentage points in 2000) as the main determinants of the fiscal policy will continue in the following years.

The continuity of the growth of consolidated general Government total expenditures, both nominally and in real terms, continued in 1999, and it seems that it will continue in the following years. Total expenditures grew by 8.4% in nominal terms and in real terms by 2.4 of percentage points of GDP in comparison with 1998. The public sector growth illustrated in this way (balance on a cash basis) gains more weight given the outstanding liabilities of the Government until the end of the year (balance on an accrual basis).

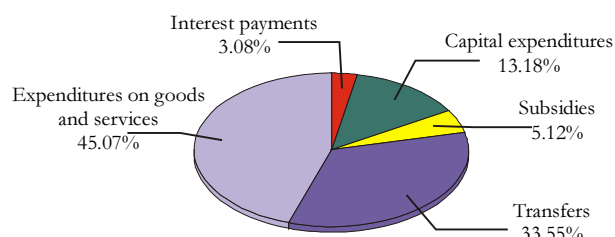
The changes in the structure of consolidated general Government total expenditures are illustrated by Figures 5.5. and 5.6. The structure of total expenditures was changed in favor of current expenditures, and at the expense of capital expenditures. Capital expenditures grew by 5.9% in nominal terms on an annual level, whereas current expenditures grew by 8.4%. Among the capital expenditures, most resources were spent on the reconstruction of war-devastated areas and road betterment and construction.

Figure 5.5: Structure of Consolidated General Government Total Expenditures in 1998



Source: Ministry of Finance

Figure 5.6: Structure of Consolidated General Government Total Expenditure in 1999



Source: Ministry of Finance

The nominal 8.4-percent growth of current expenditures was initiated by a higher growth (by 10.8%) of expenditures for budget beneficiaries' salaries, 11.9% higher outlays for interest payment, and by 17.3% higher subsidies and current transfers. Table 5.2. indicates the trend in the most important components of current expenditures.

Table 5.2: Trends in Consolidated General Government Current Expenditures

	Share of GDP (%)			
	1996	1997	1998	1999
Expenditures on goods and services	25.15	23.15	24.70	24.19
- Wages and salaries of the employees	11.16	10.97	11.88	12.70
- Other purchases of goods and services	13.99	12.19	12.82	11.49
Interest payments	1.15	1.49	1.53	1.65
Subsidies and other current transfers	17.17	18.66	18.35	18.65

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

The volume of expenditures for goods and services was somewhat stabilized at 24.2% of GDP, but their structure was changed significantly in favor of wages and salaries of the employees in the public sector. Whereas other purchases of goods and services continued to decrease (from 28.7% of current expenditures in 1998 to 24.6% in 1999), wages and salaries of employees increased (from 26.7% in 1998 to 27.3% of current expenditures in 1999). Gross salaries of state budget beneficiaries are one of the most important generators of current expenditure growth, and thus of the total public spending in the country. Namely, as the continuation of the policy of reducing the difference between salaries of civil servants and employees and the employees in other sectors in 1998, during 1999 the salaries of the beneficiaries of the state budget increased on two occasions. The first increase (5%) took place in August, and the second one (12%) in December. Besides that, Christmas bonuses, amounting to HRK 1,000, and gifts for children (HRK 400) were paid out again in December, which further increased current expenditures. In 2000 this trend was stopped because the Government, in order to curb Government spending, reduced Government officials' salaries by approximately 20%, and by 5% gross salaries of civil servants and employees, and abolished payment of Christmas bonuses and gifts for children. This dropped gross salary wage bill in the consolidated general Government budget for 2000 to 12.2% of GDP. Furthermore, the Government - in the budget for 2001 - decreased by 10% nominally the gross salary wage bill of state budget beneficiaries, which should contribute to a further drop in public expenditures.

Outlays for subsidies and current transfers keep recording a fast growth. On an annual level, subsidies grew in nominal terms by 5.8%, primarily because of financial rehabilitation of state-owned companies, and partially because of the extension of financial rehabilitation of the banking system. At the same time, the increase in transfers was definitely the most important cause of the increase in general Government current expenditures, and thus of total public spending. Total transfers in 1999 nominally grew by 19.2% in comparison with the previous year, reaching a record 18% of GDP. Economic problems specially reflected in the increase in transfers to households (early retirement, workers' dismissals, etc.). Transfers to households (pensions, health insurance, maternity leave, child allowance, social assistance, etc.) in 1999 recorded a 17.1-percent growth, i.e., they accounted for 30% of total consolidated public expenditures. Since other expenditure items of the consolidated general Government did not change significantly, it is clear that the basic generator of the fast public sector growth actually is a strong increase in current transfers, primarily transfers to households. This indicates the problem of unsustainability of the existing system of pension and health insurance, as well as the need for their reform as the only long-term way of efficient reduction of total public expenditures. Since the

implementation of both reforms will not commence before 2002 (pension system), such adverse current expenditure trends will continue in the following years, further contributing to fiscal imbalance and thus to macroeconomic instability.

5.2. CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVELS

Consolidated revenues and expenditures of general Government according to Government levels (central Government budget, extra-budgetary funds, local Government and self-Government units) indicate that a strong growth of public spending is primarily a result of a fast growth of extra-budgetary funds expenditures. Table 5.3. illustrates trends within consolidated balance of general Government shown according to Government levels.

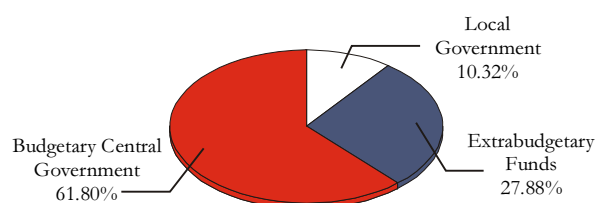
The basic characteristic of consolidated general Government shown like this in 1999 was an extension of a trend of a faster year-on-year growth of extra-budgetary funds expenditures (14.2%) than expenditures of central Government (5.7%) and local Government and self-government units (-4.4%), but also of a weaker revenue outturn of revenues of those funds (-0.7%). Exactly such trend of extra-budgetary funds' expenditures has been the main generator of fiscal imbalance and disturbance of macroeconomic stability in the last several years. In the structure of general Government total revenues, the share of revenues of central Government budget is still increasing (from 60.2% in 1998 to 61.8% in 1999), whereas the share of extra-budgetary funds' revenues and local Government and self-government units is decreasing. At the same time, on the expenditure side the trends are exactly the opposite, more precisely, the share of central Government budget and local Government and self-Government units in total public spending is decreasing, whereas the share of extra-budgetary funds is increasing (from 41.8% in 1998 to 44% in 1999). The structure of consolidated general Government revenues and expenditures in 1998 is illustrated in Figures 5.7 and 5.8.

Table 5.3: Consolidated General Government According to Government Levels

	Share of GDP (%)			
	1996	1997	1998	1999
Total revenues and subsidies	50.37	48.62	52.86	52.56
Government budget	29.05	27.34	31.84	32.49
Extra-budgetary funds	15.65	15.62	15.31	14.65
1. Croatian Pension and Disability Insurance Fund	8.80	8.83	7.70	7.47
2. Health Insurance Fund	4.77	4.66	5.93	6.00
3. Croatian Employment Service	0.62	0.51	0.51	0.53
4. Child Allowance Fund	0.81	0.79	0.39	0.01
5. Croatian Water Management Fund	0.64	0.84	0.77	0.65
Local Government and self-Government	5.67	5.66	5.71	5.42
Total expenditures and lending minus repayment	50.74	49.83	52.37	54.76
Government budget	25.35	23.52	24.42	24.89
Extra-budgetary funds	19.71	20.61	21.88	24.08
1. Croatian Pension and Disability Insurance Fund	9.69	11.14	11.75	13.31
2. Health Insurance Fund	7.74	7.06	7.83	8.35
3. Croatian Employment Service	0.63	0.58	0.42	0.58
4. Child Allowance Fund	0.79	0.81	0.75	0.80
5. Croatian Water Management Fund	0.87	1.02	1.13	1.04
Local Government and self-Government	5.67	5.69	6.07	5.79
Total surplus (+)/deficit (-)	-0.37	-1.21	0.49	-2.19

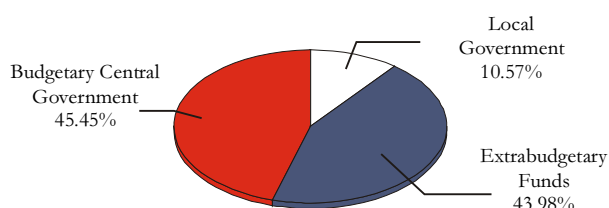
Source: Ministry of Finance and State Bureau of Statistics for GDP data

Figure 5.7: Structure of Consolidated General Government Revenues according to Government Level in 1999



Source: Ministry of Finance

Figure 5.8: Structure of Consolidated General Government Expenditures according to Government Level in 1999



Source: Ministry of Finance

Such a trend of revenues and expenditures in 1999 again, after generating a surplus in 1998, brought the consolidated general Government into the deficit zone of 2.2% of GDP. In terms of Government levels it is obvious that such a level of total deficit was generated primarily because of a great deficit in extra-budgetary funds, as is indicated by Table 5.4. Although in 1999 central Government budget also generated a great surplus, its level was not sufficient to cover the deficit generated on other Government levels (primarily in extra-budgetary funds). No doubt, the core of fiscal problems and the basic reason for an increase in public spending is exactly in the disproportional growth of revenues and expenditures of extra-budgetary funds (especially pension and health insurance funds).

Table 5.4: Total Surplus/Deficit of Consolidated General Government According to Government Levels

	Share of GDP (%)			
	1996	1997	1998	1999
Total surplus (+) / deficit (-) of Government budget	3.70	3.81	7.42	7.60
Total surplus (+) / deficit (-) of extra-budgetary funds	-4.06	-4.99	-6.57	-9.43
Total surplus (+) / deficit (-) of local Government and self-Government	0.00	-0.03	-0.36	-0.37
Total surplus (+) / deficit (-) of consolidated general Government	-0.37	-1.21	0.49	-2.19

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

In other words, only a high consolidated surplus of central Government budget enabled maintaining of a relatively low consolidated general Government deficit in the last years. In the next two years a significant change of trends in extra-budgetary funds' revenues and expenditures is not expected (pension system reform is expected on January 1, 2002); therefore, it is necessary that the efforts in Government policy aimed at decreasing of Government spending be sufficient to bear the consequences of fiscal policy measures which were aimed at further reduction of tax burden.

The real volume of public sector in Croatia (measured as a share of general Government in GDP) in comparison with foreign countries is illustrated in Table 5.5. Besides the public expenditure volume, what excludes Croatia from developed European countries and advanced transition countries is the trend direction. More specifically, in the last couple of years, and especially in the last two years, Croatia has seen a continuous growth of the public sector volume, unlike downward trends present in countries with which we often compare ourselves. Besides that, a majority of developed countries and advanced transition countries in the last two years has managed to reduce the general Government deficit, and in that period only Croatia passed from the surplus zone in 1998 into a deficit zone in 1999. Such a trend in Government spending, despite a decrease in tax burden, in the long run hurts Croatia's competitiveness because it implies growth of indebtedness.

Table 5.5: Consolidated General Government - International Comparison

Share of GDP (%)	Total Expenditures		Total Surplus(+)/Deficit(-)	
	1998	1999	1998	1999
DEVELOPED COUNTRIES				
The European Union	46.2	45.9	-1.6	-0.8
European Monetary Union	47.1	46.8	-2.2	-1.3
OECD	37.7	37.5	-1.2	-0.8
AVERAGE	43.7	43.4	-1.7	-1.0
TRANSITION COUNTRIES				
The Czech Republic ¹⁾	40.8	42.1	-2.6	-0.6
Hungary ²⁾	46.4	46.9	-4.6	-4.5
Poland ³⁾	42.2	41.8	-3.0	-1.0
Slovakia ⁴⁾	41.8	42.6	-4.6	-3.6
Slovenia ⁵⁾	43.8	44.3	-0.8	-0.6
Croatia ⁶⁾	52.4	54.8	0.5	-2.2
AVERAGE EXCLUDING CROATIA	43.0	42.7	-3.1	-2.1
AVERAGE INCLUDING CROATIA	44.6	45.1	-2.5	-2.1

Source: OECD Economic Outlook, No. 68, December 2000

¹⁾ Source: Ministry of Finance of the Czech Republic

²⁾ Source: Ministry of Finance of the Republic of Hungary

³⁾ Source: Ministry of Finance of the Republic of Poland

⁴⁾ Source: Ministry of Finance of the Republic of Slovakia

⁵⁾ Source: Slovenian Economic Mirror, No. 1, January 2001

⁶⁾ Source: Ministry of Finance of the Republic of Croatia, State Bureau of Statistics for GDP data

5.3. CONSOLIDATED GENERAL GOVERNMENT SURPLUS/DEFICIT

Following 1998, in which consolidated general Government generated a total surplus, expenditures have been on the rise again much faster than revenues, which in 1999 finally resulted in total deficit outturn of HRK 3,129.9 million. In other words, a strong growth of public sector volume, with the previously described reduction of tax burden, led to a total deficit of consolidated general Government of 2.2% of the gross domestic product, which was the greatest recorded deficit in the last five years. However, the real insight into the state of general Government is obtained when outstanding liabilities of the Government until the end of the year (balance on an accrual principle) are added to the total amount of expenditures, whereby consolidated general Government deficit in 1999 reaches almost 8% of GDP. The trend of the total consolidated general Government surplus/deficit (on an accrual basis) is indicated in Table 5.6.

Table 5.6: Surplus/Deficit and Financing of Consolidated General Government

	Share of GDP (%)			
	1996	1997	1998	1999
Current surplus (+) / deficit (-)	5.41	4.34	6.25	1.08
Total surplus (+) / deficit (-)	-0.37	-1.21	0.49	-2.19
Total surplus (+) / deficit (-) excluding privatization revenues	-1.76	-2.12	-1.44	-7.00
Total financing	0.37	1.21	-0.49	2.19
Domestic financing	-0.49	-1.31	-0.58	-1.29
Foreign financing	0.86	2.52	0.08	3.48

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

If IMF standards of entry of privatization revenues in financing are applied, the total deficit of consolidated general Government in 1999 rises to 7% of GDP.

Despite a 27-percent reduction of current revenues on an annual level, and the simultaneous vehement current expenditures growth in 1999 (8.4%), the consolidated general Government managed to meet its current obligations by the amount of current revenues. Accordingly, current surplus or savings of the consolidated general Government, shown as a difference between current revenues and current expenditures, amounted to HRK 1,542.9 million or 1.1% of GDP. General Government savings usually represent the most important financing source of capital expenditures of

the Government, and in 1999 it reached the level of only 17.9% of savings in 1998, thereby covering only 15.3% of capital expenditures. As a matter of fact, the situation in 1999 was not so bad from that point of view because significant privatization revenues were collected which covered the rest of capital expenditures. However, the picture would be significantly different if privatization revenues were entered in financing, according to the provisions of international accounting standards, and not in capital revenues. More precisely, the one-off character and uncertainty of collection of those revenues, like the uncertainty of the very amount of privatization revenues, indicate the reasons for their expression in financing items. For instance, when the budget for 2000 was prepared, a significant amount of privatization revenues was envisaged. Regretfully, this did not happen due to objective reasons, and the generated expenditures had to be covered by the so-called "short-term bridging loan". The trend in consolidated general Government current surplus is illustrated in Table 5.7.

Table 5.7: Consolidated General Government Current Surplus and the Degree of Coverage of Capital Expenditures by Savings

Year	Savings Amount (HRK 000)	Share of GDP (%)	Capital Expenditures (HRK 000)	Coverage Degree (%)
1996	5,846,352	5.41	7,356,213	79.48
1997	5,387,786	4.35	7,449,672	72.32
1998	8,604,728	6.25	9,529,559	90.30
1999	1,542,902	1.08	10,089,747	15.29

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

VI. PUBLIC DEBT OF THE REPUBLIC OF CROATIA IN 2000

*Prepared by: Darija Radovanić and Branka Grabovac, Cash and Debt management Department and
Dušanka Franičević – Grubić, International financial relations and European integration Department*

In 2000 the total public debt of the Republic of Croatia on the consolidated central Government level amounted to HRK 59.6 billion, out of which internal public debt accounted for HRK 21.4 billion, and external public debt for HRK 38.2 billion. In comparison with 1999 internal debt increased by HRK 4.6 billion, out of which HRK 1.8 billion was an increase in debt based on treasury bills of the Ministry of Finance, and HRK 1.7 billion an increase due to issuance of bonds of the Croatian Health Insurance Fund, whereas the rest is related to the rise in liabilities of central budget and extra-budgetary funds toward commercial banks. External public debt trend was marked by issuing of bonds of the Republic of Croatia on the European and Japanese financial markets.

Table 6.1: Total Public Debt of the Republic of Croatia on the Consolidated Central Government Level

(in HRK million)	1995	1996	1997	1998	1999	2000
I. Internal public debt	17,741.2	17,274.8	15,541.2	15,048.1	16,782.2	21,379.7
II. External public debt*	1,279.6	13,477.8	18,314.9	21,049.7	29,962.5	38,245.5
III. Guaranteed public debt	-	775.0	3,243.0	9,272.9	16,167.4	25,860.7
Total public debt (I + II)	19,020.8	30,752.6	33,856.1	36,097.8	46,744.7	59,625.2
as % of GDP	19.3	28.5	27.3	26.2	32.8	37.9
Total public and guaranteed debt	19,020.8	31,527.6	37,099.1	45,370.7	62,912.1	85,485.9
(I + II + III) as % of GDP	19.3	29.2	30.0	33.0	44.1	54.3

* since 1996 included in the Paris and London clubs

Source: CNB, Ministry of Finance

6.1. CREDIT RATING OF THE REPUBLIC OF CROATIA

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

Following the verification of the awarded credit rating in 2000, the agencies Moody's Investors Service, Standard & Poor's Corporation, and the Japanese rating agency R&I confirmed the investment credit rating. The British rating agency Fitch IBCA left the Republic of Croatia in the group of countries with the highest speculative credit rating, changing the stable "outlook" into positive one, which envisages the future improvement of credit rating.

Table 6.2: An Overview of the Republic of Croatia Credit Ratings

	Long-term Credit Rating Foreign Currency	Long-term Credit Rating Domestic Currency	Short-term Credit Rating Foreign Currency
Moody's Investors Service	Baal	Baal	P-3
Standard & Poor's	BBB-	BBB+	A-3
Fitch IBCA	BB+	BBB	B
R & I	BBB		

Source: Ministry of Finance

The improvement of the overall state of the economy, as well as advancement of balance-of-payments indicators resulted, besides the confirmation of investment credit rating, in the change in the "outlook" from the negative to the stable one by a leading international rating agency Standard & Poor's Corporation. The former negative sign warned potential foreign investors that it was possible to lower the credit rating, so that the present increase to the stable credit rating sends signals to foreign investors that it is safer to invest into the Republic of Croatia.

Table 6.3: Comparison of Credit Ratings by Countries

Country	Moody's Investors Service	Standard & Poor's
The Czech Republic	Baal	A-
Croatia	Baal	BBB-
Hungary	A3	A-
Poland	Baal	BBB+
Slovakia	Ba1	BB+
Slovenia	A2	A

Source: Ministry of Finance

6.2. INTERNAL DEBT OF THE GOVERNMENT BUDGET IN 2000

6.2.1. Internal Debt Categories

A detailed description of internal debt categories is provided in previous annual reports of the Ministry of Finance, and this one will only highlight the changes in internal debt categories in 2000. The internal public debt structure is illustrated in Table 6.4. Internal public debt redemption schedule is indicated in Table 6.5, whereas Table 6.6. shows the status of internal debt at the end of the year, which is a result of redemption schedule.

At the end of 2000 the overall internal public debt was HRK 14,549.76 million, out of which 79.6% accounted for medium-term and long-term debt, and 20.6% for short-term debt, whereas in 1999 short-term debt accounted for only 5.4% of the total internal debt. In other words, in comparison with 1999 the debt structure in terms of maturity changed in favor of short-term debt. More precisely, the short-debt amount grew from HRK 776.75 million (December 31, 1999) to HRK 2,974.67 million (December 31, 2000), which was primarily the result of an increase in the Ministry of Finance treasury bills subscription.

In April 2000 the Government passed a Decision on Issuance of Replacement Bonds for Restructuring of the Economy, as direct assistance to the banking system. Replacement bonds (they replace the existing bonds issued in 1991 on which, due to the instruction of the Minister of Finance in 1992, interests were not accrued) with a 5-percent interest will increase solvency of 15 banks. Replacement bonds for economic restructuring were issued with maturity in 2011¹⁴.

Table 6.4: Internal Debt of the Republic of Croatia in HRK 000

Debt Item:	December 31, 1999	December 31, 2000	Maturity:	Interest:
Frozen foreign currency savings	5,681,429	4,848,438	2005	5.00%
Big bonds I	1,307,060	1,574,092	2011	5.00%
Big bonds II	755,600	706,403	2011	7.20%
Big bonds III	739,306	695,254	2012	7.20%
Big bonds IV	160,739	0	2000	12.00%
JDA bonds	0	0	1999	12.00%
JDB bonds	0	0	1999	8.00%
Reconstruction Bonds	22,818	22,818	2003	7-10%
BRA bonds - Series I	1,020,384	907,994	2007	6.00%
BRA bonds - Series II	298,816	279,290	2012	5.00%
BRA bonds - Series III	748,622	720,428	2012	7.20%
BRA bonds - Series IV	409,032	390,089	2012	5.00%
BRA bonds - Series V-A	445,296	26,572	2008	6.00%
BRA bonds - Series V-B	1,578,131	1,403,701	2008	7.00%
BRA bonds - Series VI CRB	553,500	0	2000	7.50%
Medium-term and long-term debt	13,720,733	11,575,085		
Treasury bills	776,746	2,564,645		
Other short-term debt	0	410,026		
Short-term debt	776,746	2,974,671		
Total debt	14,497,479	14,549,756		

Source: Ministry of Finance

In order to develop domestic capital market, as well as to solve the accumulated liabilities of the health system and pay debts for secured deposits in failed banks, the Government of the Republic of Croatia passed decisions on issuance of Government guarantees for placement of bonds issued by Croatian Health Insurance Fund and State Agency for Insurance of Deposits and Bank Rehabilitation.

¹⁴ Decision Government of the Republic of Croatia, April 6, 2000 (Class: 451-01/00-03/01, Reg. No.: 5030105-00-1)

Croatian Health Insurance Fund issued bonds amounting to EUR 222 million with an 8.5-percent interest rate and maturity in 2004¹⁵. State Agency for Insurance of Deposits and Bank Rehabilitation issued bonds amounting to EUR 105 million with an 8-percent annual interest rate and maturity in 2003, and also bonds amounting to EUR 225 million with an 8.375-percent annual interest rate and maturity in 2005¹⁶.

A more detailed description of issuance of the above mentioned bonds is provided in Chapter 6.5: Guarantees of the Republic of Croatia.

Table 6.5: Internal Debt Redemption (in HRK Million)

	2000	2001	2002	2003	2004	2005
Redemption of Principal	2,526.79	1,477.16	1,505.13	1,534.91	1,566.81	1,225.37
Frozen foreign currency savings	1,058.55	1,058.55	1,058.55	1,058.55	1,058.55	683.20
Big bonds I	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	41.82	44.83	48.06	51.52	55.24	59.20
Big bonds III	36.79	39.48	42.37	45.47	48.81	52.39
Big bonds IV	161.25	0.00	0.00	0.00	0.00	0.00
JDA bonds	0.00	0.00	0.00	0.00	0.00	0.00
JDB bonds	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series I	103.07	109.38	116.03	123.08	130.61	138.52
BRA bonds - Series II	17.31	18.20	19.12	20.09	21.11	22.17
BRA bonds - Series III	38.11	40.90	43.90	47.12	50.57	54.28
BRA bonds - Series IV	24.20	25.41	26.71	28.06	29.48	30.97
BRA bonds - Series Va	363.30	2.32	2.44	2.56	2.68	2.80
BRA bonds - Series Vb	128.87	138.09	147.94	158.45	169.76	181.85
BRA bonds - Series VI CRB	553.50	0.00				
Interest payments	778.24	642.33	562.16	480.58	395.83	309.63
Frozen foreign currency savings	273.75	229.27	177.00	124.70	72.39	20.13
Big bonds I	80.70	80.70	80.70	80.70	80.70	80.70
Big bonds II	52.84	49.82	46.59	43.14	39.42	35.44
Big bonds III	50.68	47.98	45.10	41.99	38.66	35.08
Big bonds IV	9.69	0.00	0.00	0.00	0.00	0.00
Bonds JDA	0.00	0.00	0.00	0.00	0.00	0.00
Bonds JDB	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series I	59.87	53.61	46.95	40.41	32.34	24.42
BRA bonds - Series II	14.39	13.52	12.60	11.63	10.61	9.55
BRA bonds - Series III	52.52	49.73	46.73	43.51	40.06	36.36
BRA bonds - Series IV	20.10	18.87	17.59	16.24	14.81	13.33
BRA bonds - Series V	22.80	1.61	1.50	1.38	1.26	1.14
BRA bonds - Series Vb	106.42	97.21	87.40	76.88	65.58	53.49
BRA bonds - Series VI CRB	34.46	0.00	0.00	0.00	0.00	0.00
Total debt service	3,305.02	2,119.49	2,067.29	2,015.49	1,962.65	1,535.01

Exchange rate: March 15, 2001

Source: Ministry of Finance

¹⁵ Decision Government of the Republic of Croatia, May 25, 2000 (Class: 450-08/00-01/56, Reg. No.: 513-09/00-4)

¹⁶ Decision of the Government of the Republic of Croatia, December 14, 2000 (Class: 451-01/00-03/06, Reg. No.: 5030120-00-1)

Table 6.6: Internal Debt Stock, End of Year (in HRK Million)

Status (End of Year)	2000	2001	2002	2003	2004	2005
Frozen foreign currency savings	4,848.44	3,789.89	2,731.33	1,672.78	614.22	0,00
Big bonds I	1,574.09	1,574.09	1,574.09	1,574.09	1,574.09	1,574.09
Big bonds II	706.40	661.57	613.51	561.99	506.75	447.54
Big bonds III	695.25	655.77	613.40	567.93	519.12	466.73
Big bonds IV	0.00					
JDA bonds						
JDB bonds						
BRA bonds - Series I	907.99	798.61	682.58	559.50	428.89	290.37
BRA bonds - Series II	279.29	261.09	241.97	221.88	200.77	178.60
BRA bonds - Series III	720.43	679.53	635.63	588.51	537.94	483.66
BRA bonds - Series IV	390.09	364.68	337.97	309.91	280.43	249.46
BRA bonds - Series Va	26.57	24.25	21.80	19.24	16.57	13.77
BRA bonds - Series Vb	1,403.71	1,265.62	1,117.68	959.23	789.48	607.63
BRA bonds - Series VI CRB	0.00					
Total	11,552.26	10,075.10	8,569.96	7 035,06	5,468.26	4,311.85

Exchange rate: March 15, 2001

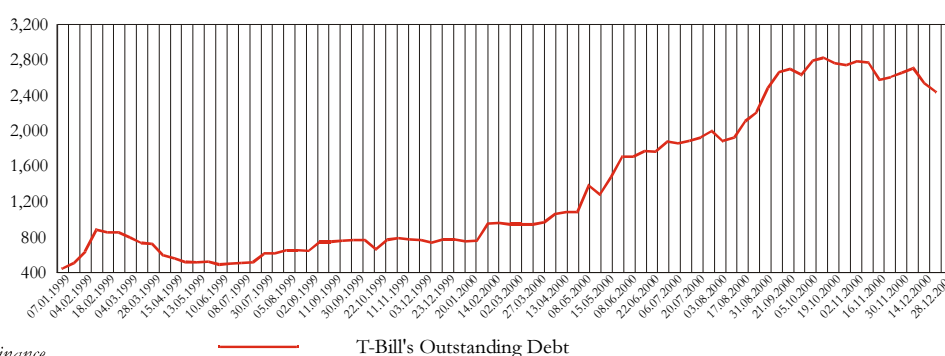
Source: Ministry of Finance

6.2.2. 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, and the Ministry of Finance determines the planned issue amount by an invitation to bids. The collected bids are ranked according to the offered price. When the amount of bids ranked in that 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 ranked bid whereby the planned issue amount has been reached. The bids with a lower price are rejected automatically.

In 2000, 38 treasury bill auctions were conducted. The total amount of issued treasury bills as of December 31, 2000 was HRK 2,564.6 million, whereas at the end of 1999 unredeemed bills amounted to HRK 776.7 million.

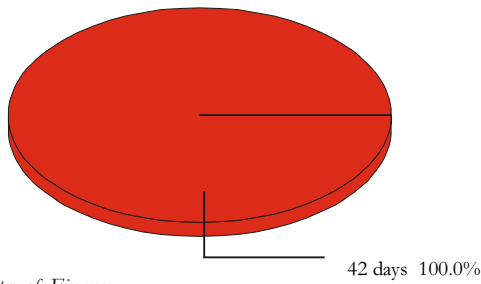
Figure 6.1: T-Bill's Outstanding Debt



Source: Ministry of Finance

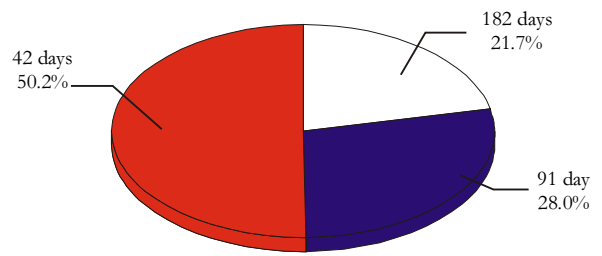
Interestingly, during 2000 the structure of maturity was changed as to the treasury bills with a longer maturity date. At the end of 1999 there were treasury bills entered only with a 42-day maturity, whereas the structure of entered treasury bills in terms of maturity as of December 31, 2000 was as follows: 50% - a 42-day maturity, 28% - a 91-day maturity, and 22% - a 182-day maturity.

Figure 6.2: Structure of outstanding T-Bill's on 31, December 1999



Source: Ministry of Finance

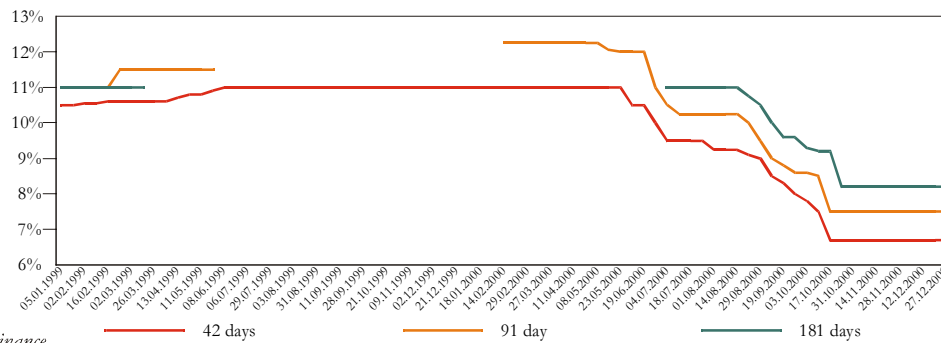
Figure 6.3: Structure of outstanding T-Bill's on 31, December 2000



Source: Ministry of Finance

As illustrated by Figure 6.4, interest rate was constantly dropping. At the end of 2000 it dropped to 6.7% (for a 42-day maturity), 7.5% (for a 91-day maturity), and 8.2% (for a 182-day maturity).

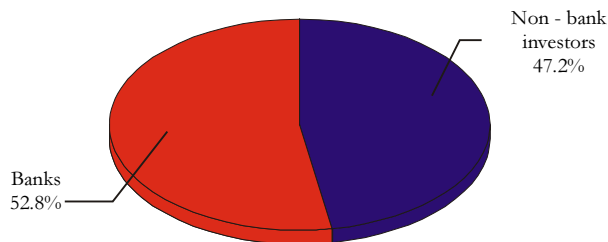
Figure 6.4: Annual yield on T-Bills



Source: Ministry of Finance

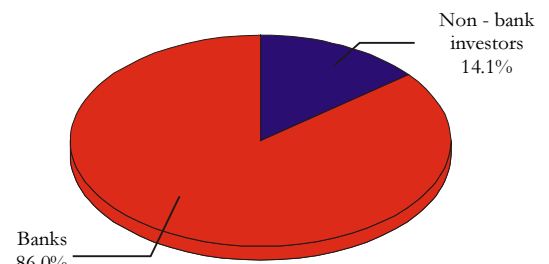
During 2000 the structure of buyers changed. As illustrated by Figure 6.5, in 1999 the number of investors from the banking sector and investors from the non-banking sector were approximately the same, whereas in 2000, 86% of treasury bills buyers were banks (Figure 6.6).

Figure 6.5: Structure of bids accepted according to buyers on 31, December 1999



Source: Ministry of Finance

Figure 6.6: Structure of bids accepted according to buyers on 31, December 2000



Source: Ministry of Finance

An increase in the entry of treasury bills in 2000, especially by the banking sector, with a constant decrease in the interest rate, was a consequence of high liquidity in the system which was evident from the beginning of last year and which continued in the first months of 2001. A high level of liquidity in the system was a result of growing confidence in the banking system, as well as a consequence of a significant release of statutory reserves funds, which followed the introduction of a unified system of bank statutory reserves in kuna and foreign currency deposits.

6.3. EXTERNAL PUBLIC DEBT OF THE REPUBLIC OF CROATIA

The total external debt of the Republic of Croatia at the end of 2000 amounted to US\$ 4,749.10 million, i.e., approximately by US\$ 776 million more than at the end of 1999. Structure-wise, 40.8% of total external public debt accounted for the debt taken over by the London and Paris Clubs Agreements, 39.7% for debt on issued bonds, whereas the remainder accounted for debts toward international financial institutions (IBRD, EBRD, CEB, and EIB) and other creditors. The relations of the Republic of Croatia with international financial institutions are described in more detail in Chapter 6.4.

Table 6.7: External Public Debt of the Republic of Croatia, End-of-the Year Status

(In US\$ Million)	December 31, 1999	December 31, 2000
Bond issues	1,173.10	1,885.80
London Club*	1,380.90	1,255.40
Paris Club*	770.80	686.40
International financial organizations	584.74	566.78
IBRD	395.00	407.70
EBRD	80.55	69.51
CEB	15.36	23.98
EIB	93.83	65.60
Other	63.46	354.72
TOTAL	3,973.00	4,749.10

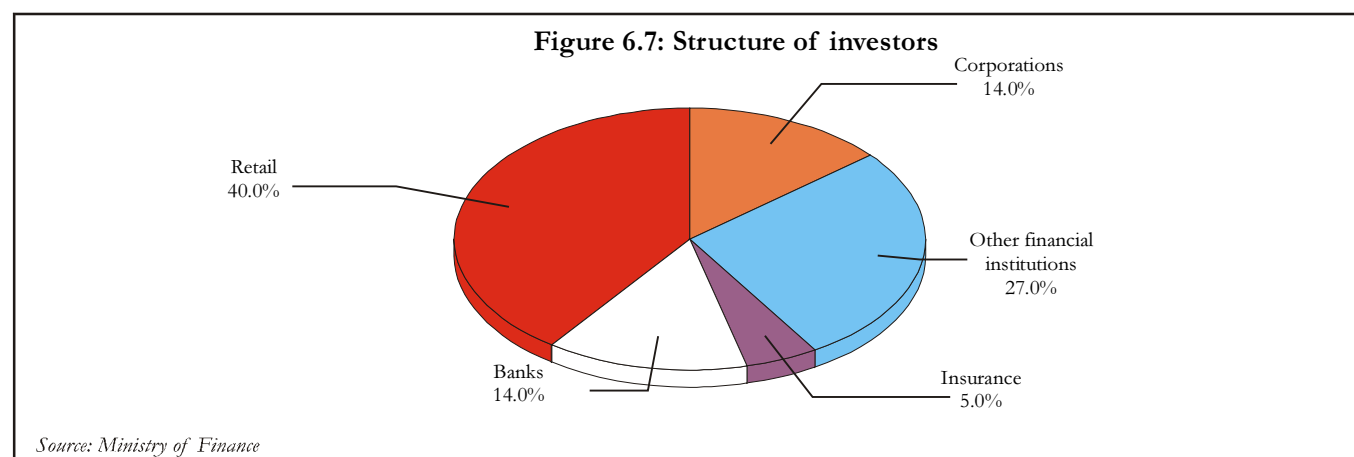
* total debt (allocated and non-allocated debt)

Source: CNB, Ministry of Finance

6.3.1. Bonds of the Republic of Croatia Denominated in Japanese Yens (July 2000)

In July 2000 the Republic of Croatia issued bonds denominated in Japanese Yens (the so-called Samurai bonds). The nominal value of those bonds was JPY40 billion, with maturity in 2007, with an annual interest warrant (coupon) of 3%, which was 135 b.p. above a seven-year YEN LIBOR.

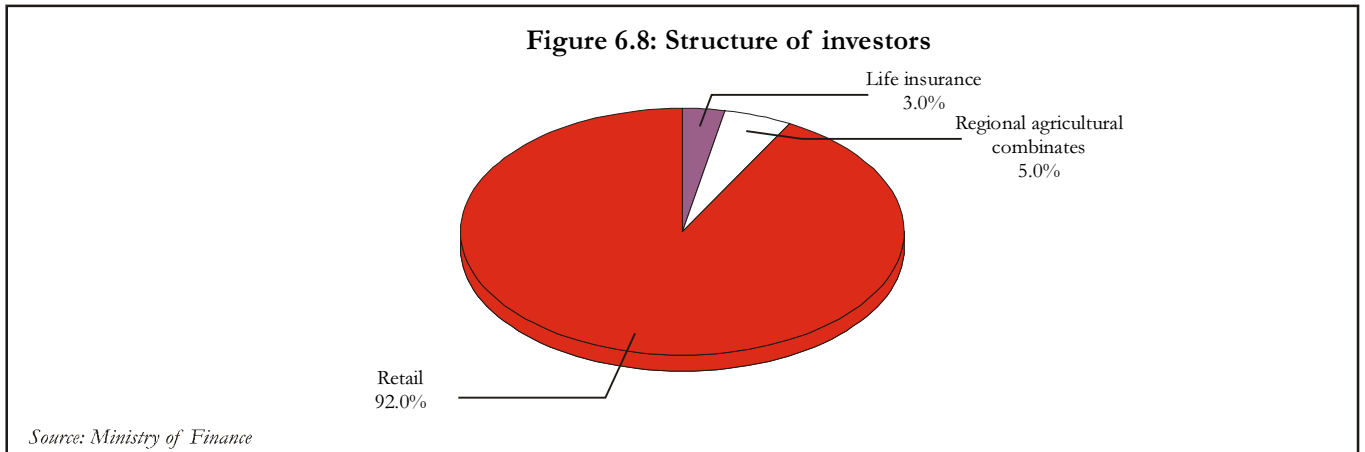
Principal coordinator of the issue was Daiwa SBCM, and a syndicate of eight banks monitored the issue.



6.3.2. Bonds of the Republic of Croatia Denominated in Japanese Yens (February 2001)

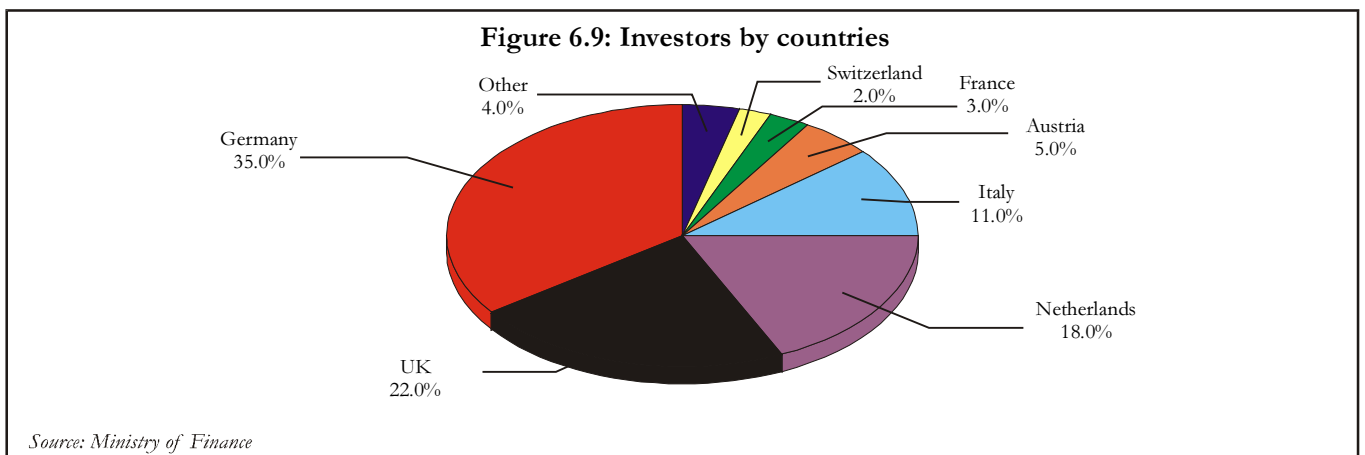
In February 2001 the Republic of Croatia issued the third series of Samurai bonds amounting to JPY25 billion, with maturity in 2006 and an annual interest warrant of 2.5%, which is 152 b.p. above the five-year YEN LIBOR.

Principal coordinator of the issue was Daiwa SBCM, and a syndicate of five banks monitored the issue. The issue structure according to the type of investor is shown in Figure 6.8.



6.3.3. Bonds of the Republic of Croatia Denominated in EUR (March 2001)

In March 2001 the Republic of Croatia issued Euro-bonds denominated in EUR, amounting to EUR 500 million, with maturity in 2011 and an annual interest warrant (coupon) of 6.75%, i.e., with a 2.15-percent premium above the corresponding ten-year German bonds.



Principal coordinators of the issue were J.P. Morgan and Deutsche Bank, and a syndicate of 10 banks monitored the issue. Figure 6.9 illustrates the investor structure by countries.

Table 6.8: An Overview of International Bonds Issued by the Republic of Croatia

<p>London Club Series A: US\$ 857,796,000 3-year grace, 11-year repayment period US\$ 6-month LIBOR+81.25 b.p. Listing: Luxembourg Date of issue: July 31, 1996 Maturity date: July 31, 2010</p>	<p>London Club Series B: US\$ 604,426,000 10-year repayment period US\$ 6-month LIBOR+81.25 b.p. Listing: Luxembourg Date of issue: July 31, 1996 Date of issue: July 31, 2006</p>
<p>Euro-dollar bonds: US\$ 300 million 5 years, bullet 7% coupon (80 b.p. above 5-year Treasuries) Led by: Merrill Lynch and UBS Listing: Luxembourg Date of issue: February 6, 1997 Maturity date: February 27, 2002</p>	<p>Euro-DEM bonds: DEM 300 million 7 years, bullet 6.125% coupon (95 b.p. above relevant Bund) Led by: Credit Suisse and Deutsche Morgan Grenfell Listing: Frankfurt Date of issue: July 1, 1997 Maturity date: July 16, 2004</p>
<p>Matador Bonds: ESP15 billion 3-year, bullet 6.5 % coupon (225 b.p. above relevant Spanish bonds) Led by: Santander Investment Listing: Madrid Date of issue: March 4, 1998 Maturity: March 26, 2001</p>	<p>Euro-EUR bonds: EUR 300 million 7 year, bullet 7.375 % coupon (375 b.p. above seven-year German Bund) Led by: Credit Suisse and Dresden Kenilworth Benson Listing: Luxembourg Date of issue: February 23, 1999 Maturity: March 10, 2006</p>
<p>Samurai bond / I: JPY25 billion 5 year, bullet 4% coupon (310 b.p. above 5-year Yen LIBOR-a) Led by: Daiwa securities SB Listing: Tokyo Date of issue: December 14, 1999 Maturity: December 14, 2004</p>	<p>Euro-EUR bonds: EUR 500 million 5 year, bullet 7 % coupon (210 b.p. above 5-year German Bund) Led by: Dresden Kenilworth Benson Listing: Luxembourg Date of issue: March 28, 2000 Maturity: March 28, 2005</p>
<p>Samurai bond / II: JPY 40 billion 7 year, bullet 3% coupon (135 b.p. above 7-year Yen LIBOR-a) Led by: Daiwa securities SB Listing: Tokyo Date of issue: July 11, 2000 Maturity: July 11, 2007</p>	<p>Samurai bond / III: JPY 25 billion 5 year, bullet 2.5% coupon (152 b.p. above 5-year Yen LIBOR) Led by: Daiwa securities SB Listing: Tokyo Date of issue: February 23, 2001 Maturity: February 23, 2006</p>
<p>Euro-EUR bonds: EUR 500 million 10 year, bullet 6.75 % coupon (215 b.p. above 10-year German Bund) Led by: JP Morgan and Deutsche Bank Listing: Luxembourg Date of issue: March 14, 2001 Maturity: March 14, 2011</p>	

Source: Ministry of Finance

Table 6.9: International Bonds Issued by the Republic of Croatia

	Cur.	Amount issued in original currency	Amount in US\$*	2000	2001	2002	2003	2004	2005	2006	2007	2009	2009	2010	2011
London Club Series A	US\$	857,796,000	857,796,000	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	0
- coupon: 6m LB+13/16				51,467,760	53,368,558	42,646,108	37,772,267	32,898,426	28,024,585	23,150,744	18,276,903	13,403,062	8,529,222	3,655,381	0
London Club Series B	US\$	604,426,000	604,426,000	47,554,080	71,331,120	71,331,120	83,219,640	83,219,640	83,219,640	83,219,640					
- coupon: 6m LB+13/16				31,908,788	32,173,307	24,148,556	19,504,603	14,303,376	9,102,148	3,900,921					
Euro US\$	US\$	300,000,000	300,000,000	0	0	300,000,000									
- coupon: 7%				21,000,000	21,000,000	10,500,000									
Euro DM	DM	300,000,000	140,533,691	0	0	0	0	140,533,691							
- coupon: 6.125 %				8,607,689	8,607,689	8,607,689	8,607,689	8,607,689							
Matador	ESP	15,000,000,000	82,597,092	0	82,597,092										
- coupon: 6.50%				5,368,811	5,368,811										
EURO bond	EUR	300,000,000	274,859,995	0	0	0	0	0	0	274,859,995					
- coupon: 7.375%				20,270,925	20,270,925	20,270,925	20,270,925	20,270,925	20,270,925	20,270,925					
Samurai bond / I	JPY	25,000,000,000	208,682,567	0	0	0	0	208,682,567							
- coupon: 4%				8,347,303	8,347,303	8,347,303	8,347,303	8,347,303							
EURO bond	EUR	500,000,000	458,099,992	0	0	0	0	0	458,099,992						
- coupon: 7%					32,066,999	32,066,999	32,066,999	32,066,999	32,066,999						
Samurai bond / II	JPY	40,000,000,000	333,892,107	0	0	0	0	0	0	0	333,892,107				
- coupon: 3%					10,016,763	10,016,763	10,016,763	10,016,763	10,016,763	10,016,763	10,016,763				
Samurai bond / III	JPY	25,000,000,000	208,682,567	0	0	0	0	0	0	208,682,567					
- coupon: 2,5%				0	2,608,532	5,217,064	5,217,064	5,217,064	5,217,064	2,608,532					
EURO bond	EUR	500,000,000	458,099,992	0	0	0	0	0	0	0	0	0	0	0	458,099,992
- coupon: 6,75%						30,921,749	30,921,749	30,921,749	30,921,749	30,921,749	30,921,749	30,921,749	30,921,749	30,921,749	30,921,749
Redemption	US\$			125,535,535	231,909,667	449,312,575	161,201,095	510,417,353	619,301,087	644,743,656	411,873,561	77,981,454	77,981,454	77,981,454	458,099,992
Interest payments	US\$			146,971,275	193,828,887	192,743,156	172,725,362	162,650,294	135,620,234	90,869,634	59,215,416	44,324,812	39,450,971	34,577,130	30,921,749
Total debt service	US\$			272,506,810	425,738,554	642,055,731	333,926,457	673,067,647	754,921,321	735,613,291	471,088,977	122,306,266	117,432,425	112,558,584	489,021,742
Stock (end of year)	US\$			3,054,020,790	3,488,893,682	3,039,581,107	2,878,380,012	2,367,962,659	1,748,661,572	1,103,917,915	692,044,354	614,062,900	536,081,446	458,099,992	0

Exchange rate: March 15, 2001

Source: Ministry of Finance

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

6.4.1. International Bank for Reconstruction and Development (IBRD)

The framework and directions of cooperation of the Republic of Croatia with the International Bank for Reconstruction and Development have been mostly determined by the Work Program of the Government of the Republic of Croatia (February 2000) and the programmatic document *Country Assistance Strategy-CAS*¹⁷. The Work Program of the Government of the Republic of Croatia for the period from 2000 to 2004 sets as key objectives the establishment of full parliamentary democracy, implementation of a consistent system of division of power in which independence and division of legislative, judiciary, and executive authorities will be respected, strengthening of democracy, establishment of civil society and market economy integrated into European and global economy. The Government laid out as its priority economic objectives the activities aimed at preservation of macroeconomic stability and preparation and implementation of structural reforms in the real, financial, and public sectors in order to reduce public expenditures. The Government also pleaded for a faster restructuring and privatization of public enterprises and banks, empowerment of the private sector and entrepreneurship in the economy, as well as financing of development and infrastructure. This Government Program has confirmed the continuity of cooperation with the International Bank for Reconstruction and Development, which had earlier been defined by CAS, including financial assistance program for four fiscal years (1999 – 2002) and initiated activities on the development of a new Strategy of cooperation with the World Bank to cover the period from 2001 to 2004¹⁸. As part of technical and advisory assistance extended to the Government of the Republic of Croatia in preparation and implementation of the reforms, in 2000 the World Bank developed the following: (1) A Policy Agenda for Reform and Growth (February 2000) and (2) Croatia - Economic Vulnerability and Social Welfare Study (June 2000). Those studies received lots of attention by professional circles and the general public. The development of analysis of public expenditures mechanisms and structure (Public Expenditure and Institutional Review) is underway. Also, there are plans to conduct studies on export incentives, health financing, public administration reforms, anti-corruption, and others.

New Loans and Grants Approved in 2000

For purpose of implementation of projects in Croatia in 2000 the International Bank for Reconstruction and Development approved a new long-term loan amounting to EUR 14.8 million, four new grants the total value of which is US\$ 1.926 million and five small grants amounting to a total of US\$ 25.000 under Small Grants Program¹⁹. In 2000 a Loan Agreement amounting to EUR 14.8 million was concluded for the Trade and Transport Facilitation in Southeast Europe Project, as well as Grant Agreement on US\$ 400,000.00 for Capacity Building for Social and Economic Communications Project, whereas until the end of 2000 the agreements were still not concluded on the approved grants for financing the following: (1) Coastal Water Pollution Protection Project (US\$ 325,000.00) and (2) Social Protection Project (US\$ 201,000.00). A US\$ 1 million grant (Post-Conflict Grant) was approved for the implementation of a project assisting refugee return in the area of Zadarska and Šibensko-kninska counties managed by the Ministry of Public Works, Reconstruction, and Construction, to be realized through non-governmental organizations²⁰.

¹⁷ In 1998 IBRD started preparing CAS together with the Government of the Republic of Croatia, and the Bank's Board of Executive Directors adopted it on June 3, 1999. This Strategy stresses the importance of preserving macroeconomic and fiscal stability. It promotes the following: (1) setting and implementation of the program of further structural reforms with a view to reducing public expenditures (through implementation of reforms in the public sector, and especially in the pension, health, and judicial systems); (2) introducing new budget techniques and establishment of a system of better management and control of budget resources spending; (3) an advancement in the sphere of restructuring and privatization of public enterprises and the undertaken banking sector reforms with a better control and supervision of banking operations and operations of financial institutions, and (4) more rational infrastructure investments.

¹⁸ The amendment of the Strategy is expected to be finalized by May 2001.

¹⁹ The World Bank Small Grants Program finances activities of non-governmental and non-profit organizations related to social issues, environmental protection, and private sector development. It supports conferences, seminars, costs of issuing various publications and other promotional materials which small organizations can not finance out of their regular budgets.

²⁰ The Government of the Republic of Croatia is not going to use the resources of those grants directly, so grant agreement is not subject to signing.

Loan for Trade and Transport Facilitation in Southeast Europe

A new loan amounting to EUR 14.8 million allocated for financing of Trade and Transport Facilitation in Southeast Europe Project did not become fully operative²¹. Preparations for this Project began in 1999²². On February 14, 1999 the Republic of Croatia signed a Memorandum of Understanding in Skopje together with five other countries (Bosnia-Herzegovina, Macedonia, Albania, Bulgaria and Romania) included in the regional Trade and Transport Facilitation in Southeast Europe Program. Those countries also concluded special agreements with IBRD or IDA on loans for financing their projects²³. Negotiations with IBRD on financing Croatian Project were conducted in July 2000, and the agreement was signed after the development of the Customs Reform Strategy – an important component of the Project implementation operational plan.

The Project includes five components: 1. customs procedures institutional reforms, 2. technical assistance aimed at trade facilitation, 3. investment into integrated customs information system, 4. construction, improvement, and equipping of four border crossings (Slavonski Brod, Gunja, Maljevac, and Šamac), and 5. support to project implementation unit. The total project value is US\$ 21.5 million. It will be financed by an IBRD loan in the equivalent of US\$ 13.9 million (EUR 14.8 million), grant of the Government of the United States of America amounting to US\$ 1.9 million and through US\$ 6 million budget resources of the Republic of Croatia to be provided in the period from 2001 through 2003. The IBRD Loan was approved under the standard financial conditions²⁴: 15-year maturity, 5-year grace period, LIBOR interest rate on EUR which is applied on six-month deposits in EUR increased by spread of 0.41% annually, the 1-percent loan front-end fee payable from the loan on the loan effective date and a 0.75-percent commitment fee²⁵. The Loan closing date has been set at March 31, 2004.

Grant for Capacity Building for Social and Economic Communications

The International Bank for Reconstruction and Development has approved financial assistance in the form of a grant amounting to US\$ 400,000.00 to the Republic of Croatia, i.e., to the Government of the Republic of Croatia as the final beneficiary, with a view to strengthening communication skills of the Government of the Republic of Croatia and provide technical assistance for a public awareness campaign for the Croatian society on the Government's social and economic policy in the next two-year period. The Grant Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development was signed in Zagreb on October 27, 2000²⁶. According to the Agreement, the grant is provided for financing consultant services (US\$ 80,000.00), trainings, and seminars (US\$ 195,000.00), as well as for procurement of goods and equipment (US\$ 25,000.00), i.e., for implementation of defined activities²⁷. It can be utilized within two years since the signing date.

²¹ The Loan Agreement between the Republic of Croatia and the International Bank for the Trade and Transport Facilitation in Southeast Europe was signed on October 27, 2000, and the Loan did not become operational because the conditions for its effectiveness have not been met (the Law on Verification of the Loan Agreement is in the process of being enacted).

²² The Croatian project is a part of a regional project to be financed within South-east Europe Cooperation Initiative (SECI) including six countries: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, and Romania. The program objective for each of those countries is to implement special projects aimed at upgrading of infrastructure, facilities, and management on border crossings customs offices and accomplish faster and cheaper traffic, an increase in trade and a more effective fight against corruption and smuggling. The program implementation will promote regional economic cooperation, reduce trade costs, and increase efficiency of customs and other services throughout the region.

²³ The Project will be financed by IBRD loans (in Croatia EUR14.8 million, in Bulgaria EUR7.73 million, and Romania US\$ 17.1 million), and also by IDA loans (in Albania US\$ 10.6 million, Bosnia-Herzegovina US\$ 11 million, and Macedonia US\$ 9.3 million), USA Government and EU grants, and by Government budget resources.

²⁴ In line with the IBRD policy to grant loans to borrowers under conditions tied to economic power of member countries, the Republic of Croatia has been placed into group II of countries encompassing member countries whose BNP per capita is on the level between US\$ 3,031 and 5,280.

²⁵ The effective commitment fee of the loan will amount to 0.25% because the executive directors of the International Bank for Reconstruction and Development approved the reduction of that fee by 0.5% during the current fiscal year.

²⁶ The Decree on the publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development for the Capacity Building for Social and Economic Communications Project («The Official Gazette» - International Agreements», No. 3/2001)

²⁷ The following activities were agreed: (1) strengthening communication capacities of the Government of the Republic of Croatia through: providing assistance in communication strategy preparation and implementation, training of civil servants and easier flow of information inside the Government agencies/ministries and between the Government of the Republic of Croatia and the Croatian parliament; (2) Technical assistance to a program of activities for consensus building of all parts of the society in the next two years through carrying out of regular public opinion surveys with regard to future reforms, establishment of an advisory group to oversight public opinion surveys results, and conducting a campaign on economic development specific problems.

Loan Preparations and Activities Related to the Preparation of Projects for Financing through Other New Loans

In 2000 the following preparations were carried out:

- Defining of loan components for the Structural Adjustment Loan for the public sector (SAL)
- For the Pension System Investment Loan (PSIL) for pension system investments and reforms
- Bankruptcy Administration Loan, for technical assistance targeting implementation of bankruptcy proceedings
- Cadastre and Land Registry Modernization Loan
- Activities were carried out with regard to energy sector restructuring project (electric power supply and gas production and supply), preparation of a social protection project, environmental protection in national parks, Port of Rijeka privatization and modernization, road maintenance and betterment, reconstruction of cultural heritage in Kaštela Bay, flood protection in the Sava river basin, investment in coastal municipal water supply systems, agricultural structural adjustment program (ASAL), and other projects to be financed by loans in the period through 2004.

A Review of Loans and Debt to the International Bank for Reconstruction and Development (IBRD)

In the period from 1994 to 2000, IBRD granted nineteen short-term loans for financing programs and projects in the Republic of Croatia. The Republic of Croatia concluded 14 loans directly with IBRD (public loans)²⁸, whereas Croatian banks concluded 6 loans with Government guarantees for financing of two projects²⁹. All those loans, together with the Project Preparation Facility for pension system investments and the taken over old loan for Istria Water Supply Project (granted in 1990, taken over in 1994 with the guarantee of the Republic of Croatia³⁰, on the basis of which funds were still withdrawn in 2000) together make up the total loan portfolio amounting to US\$ 376.98 million, DEM 514.19 million, and EUR 100.2 million³¹. In the period from 1994 to 2000 a total of US\$ 321.96 million was utilized within this loan portfolio (85.4% of the total amount of agreed loans in US\$), DEM 264.11 million (51.36% of the total amount of agreed loans in DEM), and EUR 14.24 million (16.68% of the agreed loans in EUR). The total amount of undisbursed portfolio funds amounts to US\$ 55.02 million, DEM 250 million, and EUR 85.95 million. Those loan funds will be used for financing projects and programs according to the agreed time frame, i.e., in the period between 2001 and 2006.

On December 31, 2000 the debt status of the Republic of Croatia, either as a debtor or guarantor, toward IBRD based on loans concluded in the period from 1994 to 2000, amounted to US\$ 169.86 million, DEM 264.11 million, and EUR 14.24 million. However, the remaining overtaken debt proceeding from “inherited” loans (US\$ 10.13 million) should be added to this debt³², so that the overall debt in all loan categories amounted to US\$ 179.95 million, DEM 264.11 million, and EUR 14.24 million, i.e., in terms of the dollar equivalent against mid foreign currency rate of Croatian National Bank, it totaled US\$ 319.08 million.

All matured obligations toward IBRD against the inherited loans (5 loans) and against new loans (15 loans) were paid regularly and in a timely manner³³. The Government budget provided resources for direct payment of obligations against 11 public new loans (mostly interests and commitment fees, because principal repayment became due only in two loans – for Emergency Reconstruction Project and for Road Reconstruction Project), as well as obligations against 3 inherited loans for financing railways, roads, and water supply. The repayment of those obligations was secured by the

²⁸ Out of fourteen concluded loans, four were utilized and closed (loans for financing the following: Emergency Reconstruction Project, Health Project, Capital Market Development Project, and Technical Assistance Project), nine loans + a Project Preparation Facility are effective and may be used, whereas the last concluded loan for Trade and Transport Facilitation in Southeast Europe Project has not become operational yet.

²⁹ For the financing of Investment Recovery Project, a total of DEM52 million was approved for the borrowers – the banks (Varaždinska Bank d.d. DEM13.9 million, Dalmatinska Bank d.d. DEM15.6 million, Slavonska Bank d.d. DEM17.3 million and Alpe Jadran Bank d.d. DEM5.2 million), which concluded loans with a guarantee of the Republic of Croatia. Alpe Jadran Bank cancelled DEM1,901,123.00 in July 2000, i.e., it utilized a total of DEM3,298,877.00, so that the loan now totals DEM50,098,877.00.

HBOR, also with the guarantee of the Republic of Croatia, concluded a DEM65 million loan for financing Municipal Infrastructure Program.

³⁰ The Law on Verification (Ratification) of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement of the Takeover of the Loan between the Republic of Croatia and the IBRD concluded on February 25, 1993 (the Official Gazette – International Agreements, No. 7/1994).

³¹ The resources amounting to EUR14.8 million approved in October 2000 for the implementation of the Trade and Transport Facilitation in Southeast Europe Project were not operational during 2000.

³² The Republic of Croatia, as part of procedure for obtaining membership in IBRD (it became a full member on February 25, 1993), took over 7.6% of unrepaid debts of the former Yugoslavia toward IBRD against 17 loans of Croatian beneficiaries. In 2000 INA repaid the last installments of a US\$ 55 million loan used for the Oil and Gas Research Project (Molve). From 1994 to 2000, thirteen taken over loans were repaid fully, and another four remained to be repaid. The remained debt against those inherited loans on December 31, 2000 amounted to US\$ 10.13 million.

³³ According to the received IBRD's requests for payment and agreed repayment schedules for all concluded loans, during 2000 the following total payment was made to IBRD: DEM589,367.48 (interest and fees), US\$ 23,366,597.69 (principals + interests + fees) and EUR18,304,431.24 (principals + interests + fees). Out of the total paid amounts, Government budget provided funds for payment of liabilities against 11 new public loans and 3 inherited loan in the total as follows: US\$ 16,232,660.11 (principals + interests+ fees) and EUR18,081,413.42 (principals +interests + fees).

Government budget funds³⁴. On the basis of a guarantee of the Republic of Croatia, a due installment of Varaždinka d.d., Varaždin was repaid amounting to US\$ 81,938.33 because the loan beneficiary had not paid for the due obligation against IBRD.

Croatian Health Insurance Fund paid loan commitments against Health Project Loan³⁵. The due interests and loan fees against loans for Investment Recovery Project³⁶ and Municipal Infrastructure and Environmental Protection Program³⁷, obtained with the guarantees of the Republic of Croatia, were repaid by four commercial banks and HBOR (borrowers). The last installment against the inherited loan used for oil and gas research was paid for by INA³⁸.

Interests on loans in German marks were paid at an annual rate ranging from 3.01% to 4.9 %. Interests on loans granted in US dollars were paid at a rate of 5.59% and 5.21% for currency pool loans, whereas for single currency loans interests were paid in the range from 5.97% up to 7.30%. Interests at the annual rates of 3.51% and 4.38% were paid against loan agreements in EUR.

Commitment fees on unutilized principals of the loans are accrued and collected at an annual rate of 0.25%.

Due to regular and timely payment of due obligations and respecting IBRD's strict financial discipline rules, in the period between July 1, 1999 and June 30, 2000 (IBRD fiscal year), savings were made based on interest partial waiver on public loans in the total amount of US\$ 178,776.50³⁹.

During 2000 a total of US\$ 27.04 million, DEM 41.77 million, and EUR 9.29 million were withdrawn from the available resources of IBRD loans (public loans and loans guaranteed by the Government). Implementation of the agreed projects and programs, with certain delays in withdrawal of some loan resources (in the agriculture, health, and railways sectors), was performed in concordance with dynamics of works, procurement procedures, and possibilities of financing from domestic sources.

In 2000 the implementation of two projects was terminated: (1) Technical Assistance Project, and (2) Health Project, financed through IBRD loans. In other words, the following two loans were closed:

1. A US\$ 5 million loan, concluded on April 23, 1996 for financing of a Technical Assistance Project aimed at preparations and implementation of the reform program in public enterprises (privatization of the former socially-owned enterprises, and restructuring and privatization of public enterprises) and in banks (rehabilitation and privatization of Riječka Bank d.d., Splitska Bank d.d., and Privredna Bank d.d., as well as preparation of projects in other commercial banks). After the last withdrawal of remaining resources amounting to US\$ 190,455.23 at the beginning of May 2000, the Loan was closed. The Loan provided financing for professional assistance and engaging consultants for preparation of special sectoral studies and training of staff (US\$ 4.18 million) and preparation of the privatization projects (US\$ 0.82 million).

2. The Loan signed on March 8, 1995 amounting to US\$ 40 million for a Health Project, withdrawn in the amount of US\$ 38,925,496.46 within the agreed period. After the termination of the Project implementation, on June 22, 2000 the IBRD canceled the non-withdrawn portion of the Loan amounting to US\$ 1,074,503.54, and delivered new repayment schedule for the utilized portion of the Loan. The resources of this Loan were utilized as support to improvement of primary health care system, procurement of diagnostic equipment, emergency equipment, primary, intensive care, and perinatal care, procurement of ambulances and upgrade of telephone links with emergency medical care service, computerization of health insurance and training of doctors and nurses. Procurement of equipment was paid US\$ 36.13 million, consultant services US\$ 2.44 million, and project preparations US\$ 0.34 million.

In 2000, IBRD loans were mostly invested into reconstruction and construction of transport infrastructure and demining, and private sector investment recovery. For instance, DEM 16.47 million was used for financing of the implementation of emergency reconstruction of roads and demining, US\$ 7.29 million was used for road construction, EUR 9.28 million for solving the problems of railways restructuring and modernization, and DEM 6.9 million for reconstruction of Eastern Slavonia. DEM 6.9 million was used through HBOR for the implementation of Municipal Infrastructure and Environmental Protection Project. US\$ 6.7 million was withdrawn for Istria Water Supply Project.

³⁴ Government budget of the Republic of Croatia for 2000 and the Law on Execution of the Government Budget of the Republic of Croatia for 2000 ("The Official Gazette", Nos 33/2000 and 118/200).

³⁵ In 2000 Croatian Health Insurance Fund paid a total of US\$ 4,648,422.58 (principal + interests) against a US\$ 38.92 million loan for the Health Project.

³⁶ In 2000 four commercial banks paid a total of DEM267,601.91 and EUR223,017.82 for payment of interest and fees due against loans for Investment Recovery Project.

³⁷ In 2000 the Croatian Bank for Reconstruction and Development (HBOR) paid DEM 321,765.57 (interests + fees) against a DEM65 million loan agreement for financing the program of Municipal Infrastructure and Environmental Protection Project.

³⁸ INA paid US\$ 2,393,625.56.

³⁹ IBRD approves a reduced interest only to debtors who repay their obligations regularly and in a timely manner (at the latest within 30 calendar days following debt maturity). During fiscal year 2000 IBRD accrued Interest Partial Waiver of 0.05% on an annual basis.

In the agriculture and forestry sectors, for US\$ 6.58 million was invested in coastal forest protection and US\$ 2.96 million in farmer support services. Considerable resources amounting to DEM 11.45 million from the loan intended for investment recovery were invested through four commercial banks into private companies' investments projects. More than US\$ 2.7 million were utilized out of loans earmarked for health system project. An amount of US\$ 700,599.64 was withdrawn for implementation of technical assistance project (US\$ 190,455.42 outstanding from the first loan and US\$ 510,144.22 from the second loan), whereas the smallest amount was withdrawn from Project Preparation Facility for pension system investment (US\$ 63,994.60).

During 2000 there were no withdrawals of resources of the second loan tranche amounting to DEM 80 million against the granted DEM 160 million loan for Enterprise and Financial Sector Adjustment Program (EFSAL) due to a standstill in the implementation of agreed criteria for withdrawal of the second tranche (enactment of general legislative regulations for public services and establishment of the required regulatory agencies in the energy and telecommunications sectors, preparation and implementation of restructuring and privatization of HEP and INA, as well as Croatian Railways restructuring, privatization or liquidation of 13 selected companies, especially shipyards and Sisak Steel Works). Closing date for using the second tranche of EFSAL loan has been extended through June 30, 2001.

Table 6.10: Review of IBRD Loans

No.	Project	Signed on	Currency	Loan Amount	Undisbursed as of Dec. 31, 2000	Closing date	Debt Outstand. Dec. 31, 2000	Principal Repayment Dates	
								First	Last
I. Public Loans									
1.	Emergency Reconstruction Project	27. 06. 1994.	000 US\$	128,000.00	0.00	31. 12. 1999.	111,655.00	15. 12. 1998.	15. 06. 2011.
2.	Health Project *	08. 03. 1995.	000 US\$	38,925.45	0.00	30. 04. 2000.	35,595.45	15. 06. 2000.	15. 12. 2011.
3.	Road Reconstruction Project	27. 04. 1995.	000 US\$	80,000.00	356.09	31. 12. 2000.	73,568.91	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.	Farmer Support Services Project	23. 04. 1996.	000 US\$	17,000.00	8,572.84	30. 06. 2001.	8,427.16	01. 09. 2001.	01. 03. 2013.
6.	Technical Assistance Project	23. 04. 1996.	000 US\$	5,000.00	0.00	31. 12. 1999.	5,000.00	15. 10. 2001.	15. 04. 2013.
7.	Emergency Transport and Mine Clearing Project	04. 12. 1996.	000 DEM	150,900.00	27,484.42	30. 06. 2000.	123,415.58	15. 07. 2002.	15. 01. 2012.
8.	Coastal Forest Reconstruction Project	31.01.1997.	000 US\$	42,000.00	8,312.07	30. 06. 2002.	33,687.93	15. 06. 2002.	15. 12. 2013.
9.	Enterprise and Financial Sector Adjustment Project	04. 06. 1997.	000 DEM	160,000.00	80,000.00	30. 06. 2000.	80,000.00	15. 12. 2002.	15. 06. 2012.
10.	Reconstruct. Project for Eastern Slavonia and Western Srijem	08. 09. 1998	000 DEM	74,000.00	61,526.76	30. 06. 2003.	12,473.24	15. 01. 2004.	15. 07. 2013.
11.	Railway Modernization and Restructuring Project	20. 01. 1999.	000 EUR	85,400.00	71,156.07	30. 06. 2003.	14,243.93	15. 09. 2003.	15. 03. 2014.
12.	PPF for Pension System Investment Project (Letter of Agreement No. P3658-0 HR)	01. 02. 1999.	000 US\$	1,760.10	1,112.90		647.19		
13.	Technical Assistance Project for institutional and legislative changes for private sector development	12. 05. 1999.	000 US\$	7,300.00	6,116.85	30. 06. 2003.	1,183.14	15. 10. 2004.	15. 04. 2014.
14.	Health System Project	07. 10. 1999.	000 US\$	29,000.00	28,410.00	30. 06. 2004.	590.00	15. 06. 2005.	15. 12. 2014.
15.	Trade and Transport Facilitation in Southeast Europe Project **	27.10. 2000.	000 EUR	14,800.00	14,800.00	31.03. 2004.	0.00	15.05. 2006.	15.11. 2015.
TOTAL I:			000 US\$	348,985.55	52,880.75		169,864.78		
			000 DEM	399,100.00	169,011.18		230,088.82		
			000 EUR	100,200.00	85,956.07		14,243.93		
II: Loans with GoC Guarantees									
1.	Investment Recovery Project ***	04. 12. 1997.	000 DEM	50,098.87	25,199.40	31. 12. 2001.	24,899.47	15. 03. 2003.	15. 09. 2012
2.	Municipal Infrastructure and Environmental Protection Project	25. 09. 1998.	000 DEM	65,000.00	55,879.37	30. 06. 2006.	9,129.62	15. 11. 2003.	15. 05. 2013.
TOTAL II:			000 DEM	115,098.87	81,078.77		34,029.09		
III. Inherited Unrepaid Loans (taken over with guarantees of RC)									
1.	Oil and Gas Research Projects (Molve)	13. 12. 1985.	000 US\$	55,000.00	0.00		0.00	1.11. 1988.	01.05. 2000.
2.	Road Construction Project (XII Loan)	27. 02. 1987.	000 US\$	33,378.00	0.00		1,408.00	01. 10. 1989.	01. 04. 2001.
3.	II Sectoral Road Constr. Loan	30. 09. 1988.	000 US\$	5,900.00	0.00		985.92	15. 03. 1991.	15. 09. 2002.
4.	Environmental Protection and Energy Savings Project (Varaždinka)	30. 09. 1988.	000 US\$	1,303.49	0.00		81.46	15. 08. 1993.	15. 02. 2001.
5.	Istria Water Supply Project	01. 02. 1990.	000 US\$	28,000.00	5,144.21	30. 06. 2000.	7,655.78	15. 10. 1994.	15. 02. 2004.
TOTAL III:			000 US\$	123,581.49	5,144.21		10,131.16		
TOTAL (I+II+III):			000 US\$	472,567.04	57,024.96		179,955.94		
			000 DEM	514,198.87	250,089.95		264,117.91		
			000 EUR	100,200.00	85,965.07		14,243.93		
GRAND TOTAL****:			000 US\$	810,872.59	256,245.73		319,085.01		

* A Loan Agreement amounting to US\$ 40 million was concluded for financing of Health Project, however, after the implementation of the Project and expiration of the closing date, IBRD canceled the remaining amount of US\$ 1,074,503.54, so that the Loan amounts to US\$ 38,925,496.46.

** The Loan Agreement has been concluded, but it is not operational yet; the Law on Ratification of the Loan is in procedure.

*** Four loans have been agreed amounting to a total of DEM 52 million for financing Investment Recovery Project (Varaždinska Bank d.d. DEM 13.9 million, Dalmatinska Bank d.d. DEM 15.6 million, Slavonska Bank d.d. DEM 17.3 million and Alpe Jadran d.d. DEM 5.2 million). However, in July 2000 Alpe Jadran Bank, Split canceled DEM 1,901,123.00, so the Loan amounts to DEM 50,098,877.00.

**** Against mid foreign currency rate of CNB as of December 30, 2000.

Table 6.11: IBRD Loans Disbursement in 2000

No.	Operation No.	Name of Project	Effective Date	Currency	Loan Amount	Total Disbursement as of Dec. 31, 1999	Disbursement in 2000	Total Disbursement until Dec. 31, 2000
1	2	3	4	5	6	7	8	9 (7+8)
I. PUBLIC LOANS								
1.	37600-HR	Emergency Reconstruction Project *	19. 08. 1994.	US\$	128,000,000.00	128,000,000.00	0.00	128,000,000.00
2.	38430-HR	Health Project*	17. 08. 1995.	US\$	38,925,496.46	36,792,349.82	2,133,146.64	38,925,496.46
3.	38690-HR	Road Reconstruction Project	26. 07. 1995.	US\$	80,000,000.00	72,347,292.15	7,296,614.50	79,643,906.65
4.	39990-HR	Capital Market Development Project *	22. 06. 1996.	DEM	14,200,000.00	14,200,000.00	0.00	14,200,000.00
5.	39880-HR	Farmer Support Services Project	22. 07. 1996.	US\$	17,000,000.00	5,461,844.88	2,965,317.23	8,427,162.11
6.	39890-HR	Technical Assistance Project *	22. 07. 1996.	US\$	5,000,000.00	4,809,544.58	190,455.42	5,000,000.00
7.	41040-HR	Emergency Transport and Mine Clearing Project	04. 03. 1997.	DEM	150,900,000.00	106,944,201.66	16,471,370.65	123,415,581.31
8.	41190-HR	Coastal Forest Reconstruction Project	31. 07. 1997.	US\$	42,000,000.00	27,101,539.11	6,586,390.07	33,687,929.18
9.	41590-HR EFSAL	Enterprise and Financial Sector Adjustment Program	15. 11. 1997.	DEM	160,000,000.00	80,000,000.00	0.00	80,000,000.00
10.	43510-HR	Reconstruct. Project for Eastern Slavonia and Western Srijem	06. 01. 1999.	DEM	74,000,000.00	5,534,079.54	6,939,159.54	12,473,239.08
11.	44330-HR	Railway Modernization and Restructuring Project	09. 06. 1999.	EUR	85,400,000.00	4,953,946.51	9,289,979.74	14,243,926.25
12.	44600-HR	Technical Assistance Project for institutional and legislative changes for private sector development	03. 08. 1999.	US\$	7,300,000.00	673,000.00	510,144.22	1,183,144.22
13.	35800-HR PPF	Pension System Investment	01. 02. 1999.	US\$	1,760,100.00	583,202.61	63,994.60	647,197.21
14.	45130-HR	Health System Project	28.03. 2000.	US\$	29,000,000.00	0.00	590,000.00	590,000.00
15.	45820-HR	Trade and Transport Facilitation in Southeast Europe Project**	Not effective	EUR	14,800,000.00	0.00	0.00	0,00
Total I:				US\$	348,985,596.46	275,768,773.15	20,336,062.68	296,104,835.83
				DEM	399,100,000.00	206,678,290.20	23,410,530.19	230,088,820.39
				EUR	100,200,000.00	4,953,946.51	9,289,979.74	14,243,926.25
II. LOANS OBTAINED WITH GUARANTEES OF RC								
1.	30690-HR	Istria Water Supply Project	01. 02. 1990. (taken over on 25. 02. 1993.)	US\$	28,000,000.00	19,151,133.53	6,704,652.78	25,855,786.31
2.	4246-4249 HR (4 loan)	Investment Recovery Project ***	04. 03. 1998.	DEM	50,098,877.00	13,440,327.01	11,459,145.67	24,899,472.68
3.	43520-HR	Municipal Infrastructure and Environmental Protection Project	28. 06. 1999.	DEM	65,000,000.00	2,223,250.65	6,906,373.00	9,129,623.65
Total II:				US\$	28,000,000.00	19,151,133.53	6,704,652.78	25,855,786.31
				DEM	115,098,877.00	15,663,577.66	18,565,518.67	34,029,096.33
Total (I+II):				US\$	376,985,596.46	243,133,782.06	51,786,124.62	294,919,906.68
				DEM	514,198,877.00	222,341,867.86	41,776,048.86	264,117,916.72
				EUR	100,200,000.00	4,953,946.51	9,289,979.74	14,243,926.25

*Closed loans

** Loan was concluded on October 27, 2000, but it did not become effective (the Law on Ratification of the Loan Agreement is in procedure)

*** A total of DEM 52 million was agreed for the Investment Recovery Project; after the cancellation of a part of the Loan granted to Alpe Jadran Bank the Loan amounts to DEM 50,098,877.

A Review of Grants

Table 6.12: A Review of Grants (Status as of December 31, 2000)

No.	Year when signed	Grant Number	Grant Purpose: Implementation Projects	Currency	Grant Amount	Not disbursed as of December 31, 2000
1.	1995	28851	Preparation of Procurement Law	US\$	148,000.00	0.00
2.	1995	29116	Farmer Support Services	JPY	56,600,000.00	0.00
3.	1995	29117	Coastal Forest Reconstruction and Protection Project	JPY	21,053,385.00	0.00
4.	1995	29314	Public Sector Adjustment Loan -PSAL	JPY	75,600,000.00	5,504,815.00
5.	1995	29315	Agriculture Adjustment	JPY	29,400,000.00	24,096,291.00
6.	1995	29316	Croatian Railway Restructuring	JPY	58,800,000.00	0.00
7.	1996	29486	Investment into Municipal Environment Infrastructure	US\$	500,000.00	0.00
8.	1996	29674	Reconstruction of Transport Infrastructure of the City of Zagreb	US\$	800,000.00	0.00
9.	1997	28360	Biodiversity Strategy	US\$	102,000.00	0.00
10.	1997	27098	Private Sector Development	US\$	398,000.00	216,246.71
11.	1997	25539	Public Finance Management	US\$	183,514.60	0.00
12.	1998	27099	Eastern Slavonia Flood Control	US\$	200,000.00	0.00
13.	1998	25193	Health Modernization	US\$	418,260.00	2,164.80
14.	1998	25597	Sava River Flood Control Component	US\$	476,150.00	0.00
15.	1999		Y2000 ("Millennium Bug")	US\$	80,000.00	0.00
16.	1999	27259	Environmental Protection and Strengthening of Management Systems	US\$	276,490.00	181,940.57
17.	1999.	22644	Managing Marshland of Kopački Rit Nature Park	US\$	750,000.00	538,429.52
18.	1999	25799	Communal Ecologic Infrastructure Project	US\$	216,840.00	216,840.00
19.	1999	26113	Bankruptcy Law Adjustment	US\$	253,700.00	115,343.69
20.	1999	23163	Preservation of Karst Eco-systems	US\$	230,000.00	188,934.43
21.	1999	26112	Port of Rijeka Modernization	US\$	337,500.00	281,120.00
22.	2000	27386	Capacity Building for Social and Economic Communications	US\$	400 000,00	400,000.00
Total:				US\$	5,770,454.60	2,141,019.72
				JPY	241,453,385.00	5,504,815.00

In the period from 1995 to 2000 IBRD awarded 22 grants to the Republic of Croatia. Those non-repayable funds are mainly used for payment of consulting services and preparation of studies necessary for as good project preparation as possible, which are reported to the Bank for loan financing following the completion of the feasibility studies. Seventeen grants were agreed in American dollars amounting to US\$ 5.77 million, out of which 8 grants have been utilized, whereas within 9 grants on December 31, 2000 an amount of US\$ 2.14 million remained unutilized. Five grants in Japanese yens were approved, amounting to a total of JPY241.45 million, out of which 4 grants were fully utilized for implementation of projects in agriculture and forestry, as well as railway restructuring. An amount of JPY5.5 million remained unutilized (as of December 31, 2000) on basis of grants earmarked for public sector adjustment (PSAL).

6.4.2. European Bank for Reconstruction and Development (EBRD)

Business Operations in 2000

In line with its mandate⁴⁰ and set priorities of its operations⁴¹, and trusting that positive changes were brought about in the Republic of Croatia following parliamentary and presidential elections, in terms of the state policy toward regional and international integration through implementation of further economic reforms and attracting private capital with a view to economic recovery and sustainable development, but with a reduced role of the state in the economy, EBRD provided direct support to private sector development in Croatia by empowering: (1) financial sector, by granting medium-term loans to banks with the aim of faster development of small and medium entrepreneurship, and (2) enterprise sector, by helping arranging foreign syndicated loans and by financing new investments through long-term loans.

In 2000 EBRD arranged a EUR 252-million of syndicated foreign loans to private Croatian companies without state guarantees. Agrokor received a syndicated loan amounting to a total of EUR 170 million (in which EBRD participated with a EUR 70 million loan) intended for financial restructuring of the balance and new investments in the agriculture sector and food production, which will have a significant impact on an increase in employment. Pliva, with the assistance of a syndicated loan of EUR 82 million (with participation of commercial banks, IFC, and EBRD) will finance a new investment estimated at EUR 123 million.

EBRD finances private sector projects by direct new loans amounting to a total of EUR 146.9 million.

Table 6.13: New Loans EBRD Approved for the Private Sector

Loan Beneficiary	Project Description	Amount in EUR
Slavonska Banka d.d., Osijek	Financing small and medium enterprises	20,000,000.00
Agrokor d.d., Zagreb	Investments in production of ice-cream, cooking oil, mineral water, and retail outlets, especially in Bosnia-Herzegovina	70,000,000.00
Pliva d.d., Zagreb	Construction of and institute for research and development of new pharmaceuticals	26,900,000.00
Našice Cement d.d., Našice	A project of reducing production costs and strengthening competition by switching from the use of gas to coal (it is expected to be implemented with parallel financing with loans of Croatian banks amounting to EUR 5 million)	20,000,000.00
Bank Austria Creditanstalt Croatia	Regional Cooperation Project	10,000,000.00

Within the framework of the Stability Pact, EBRD was given a mandate to assess priority projects important for long-term economic development of the private sector in South-East European countries. EBRD developed a program of incentives to cross-border trade and also investments into small and medium entrepreneurship development program. The financing of projects in the area of transport, energy, and water management will depend on their adjustment to regional programs and strategic studies. EBRD has been entrusted with the preparation of guidelines for strategic studies in the water supply and water protection sector. Croatia has nominated the financing of the Project to improve sewage system of the City of Rijeka by a EUR 8-million loan as part of this EBRD mandata.

EBRD provides basic financial support to projects within the framework of Central-European Initiative (CEI). CEI and EBRD started the Program of Subsidies to Small and Medium Enterprises by providing 50% costs of consulting

⁴⁰ EBRD was established and operates with a special mandate to finance projects which support and accelerate the process of transition to market economies, as well as private and entrepreneurial initiative development in Central and Eastern European countries which opted for the application of the principle of multi-party democracy, pluralism, and market economy.

⁴¹ The Bank directed its operations in 2000 to a more constructive and more creative partnership with member countries, clients, and other international financial institutions with a view to increasing capital mobilization and co-financing of inter-regional infrastructure and trade development. As a priority, it financed projects in the private sector, strengthened the financial sector in terms of opening new business prospects on market principles, encouraged enterprise and bank restructuring, foundation and growth of small and medium enterprises, as well as commercialization of the public sector and infrastructure.

services in the area of market research, seeking business partners, equipment selection and evaluation, development of business plans, improvement in accounting, information and management systems. The amount of one-off subsidy is limited to EUR 9.000. This program is realized in Croatia through the CEI-BAS office (Central European Initiative – Business Advisory Service), opened in Zagreb (August 2000).

A new plan of EBRD activities in Croatia in the period through 2002 was established by a document «Strategy for Croatia», published on November 9, 2000. The new strategy includes the following priority areas :

- support to privatization process and direct foreign investments in all sectors, and especially in those developing new production processes and technologies and improve levels of management, know-how, and ability to work,
- financing infrastructure, including encouraging commercialization, liberalization, and privatization of infrastructure services,
- strengthening of the financial sector through support to consolidation and privatization of the banking sector and development of other financial structures and new products,
- continuation of efforts at increasing financial sources for development of small and medium enterprises through credit lines and co-financing with other international financial institutions and investors, and
- encouraging cross-border projects for the purpose of further development of regional cooperation.

During 2000, preparations commenced for several projects for the implementation of which EBRD financing is expected in the amount higher than ECU100 million.

Table 6.14: A Review of Projects in the Pipeline

Beneficiary of Funds	Projects in the Pipeline	Amount in EUR
Croatian Bank for Reconstruction and Development (HBOR), Zagreb	Credit line for financing small and medium enterprises (with CEB co-financing through an EUR 8-million loan)	12,000,000.00
INA Oil Industry Zagreb d.d.	Environmental protection improvement through upgrading of wastewater purification system, for purpose of protection of underground waters and soils in the coastal area against pollution	36,000,000.00
Leclerc, Retail Chain	Project of building 5 hyper-markets in Croatia and Slovenia (investment value is EUR 150.0 million)	35,600,000.00
ZET, Zagreb (City Transport Enterprise)	Consulting services for program of restructuring and procurement of 70 new trams	130,000.00
The City of Rijeka	Upgrade of sewage system (within projects related to the Stability Pact)	8,000,000.00
Zagreb-Rijeka Highway	Environmental impact assessment at the sections: Kupjak-Vrbosko-Bosiljevo and Karlovac-Bosiljevo	

The Bank is interested in further investments in Croatia, especially in infrastructure – highway construction (such as the Zagreb – Rijeka highway) and railway and electric power company restructuring; it intends to extend support to public enterprise privatization (INA, HEP, shipyards) and further privatization of telecommunications and banks (Dubrovačka Bank and Croatia Bank), restructuring and privatization of the tourist sector, small and medium enterprises development and exports. It also plans to continue investments into profitable enterprises which spread outside Croatian borders, therefore, new projects are being prepared in those sectors for the period through 2002.

Disbursement of Public Loans in 2000

In 2000 the Republic of Croatia did not conclude any new public loans with EBRD. Available loan funds of the five loans concluded earlier were disbursed. In 2000 a total of DEM 17.38 million and US\$ 351.7 thousand was disbursed. Resources of three operational loans received in DEM for the implementation of the following: (1) Project for reconstruction of power supply and distribution network amounting to DEM 4.58 million, (2) Program of investment

into local infrastructure and environmental protection amounting to DEM 11.1 million, and (3) Wholesale Market Project, amounting to DEM 1.69 million. Amounts totaling US\$ 307,038.36 for the air traffic system project and US\$ 44,678.43 for railway locomotive reconstruction were withdrawn from resources of effective two dollar loans. Proceeds of the loan amounting to DEM 63 million, concluded in 1995 for the reconstruction of power supply and distribution network, were fully utilized within the agreed time frame (up to June 30, 2000). More precisely, in 2000 Croatian Electric Power Company withdrew the remaining DEM 4.58 million and the Loan was closed.

In 2000 only US\$ 307,038.36 was utilized for the implementation of the Air Traffic System Project. This Project includes the following: reconstruction of signal instruments, landing system equipment for the airports of Zagreb, Pula, and Dubrovnik, as well as the reconstruction of regional radar facility near Split. The agreed time frame for withdrawal of EBRD loan amounting to US\$ 20 million, obtained in 1994, was prolonged until June 30, 2001. According to the status as of December 31, 2000, an amount of US\$ 1.12 million (5.6%) remained unwithdrawn, whereas a total of US\$ 18.87 million was utilized (94.4%).

Highway Reconstruction Project (includes upgrading of main road transport routes, finalization of Oštrovica - Delnice highway, maintenance of high priority road routes, procurement of equipment, etc.) was financed by an EBRD loan amounting to DEM 70.9 million with an agreed time frame through February 28, 1999. This Loan was utilized in the total amount of DEM 70,792,980.22, and the remaining amount of DEM 107,019.78 was cancelled in 1999, when the loan was closed down.

A DEM 33.5 million Loan was concluded with EBRD in 1997 for the implementation of the Wholesale Markets Project in Croatia. It was envisaged that the Loan would finance construction of a network of fruit, vegetables, and flower market at six approved locations in Zagreb, Osijek, Rijeka/Matulji, Benkovac, Split, and Metković. The Loan became operational in September 1998, however, due to numerous unresolved property-rights issues, the cost estimate, business plans development and the very concept of construction of wholesale markets at the designated locations, the Loan resources earmarked for the Project implementation were not withdrawn during 1998 and 1999. The DEM 350,000 front-end fee was paid out of the Loan proceeds (front-end fee =1% of the agreed Loan amount), as well as interests due (according to the Loan Agreement, the interests are capitalized) for the period from 1998 to 2000, totaling DEM 75,579.49. On the basis of a conclusion of the Government of the Republic of Croatia of June 1, 2000, a portion of this Loan amounting to DEM 9 million has been cancelled. The Loan now amounts to DEM 24.5 million. In 2000 an amount of DEM 1.44 million was utilized for the construction of the regional wholesale market of Rijeka – Matulji, and an amount of DEM 463,616.34 for the construction of the regional wholesale market of Osijek. The amount of DEM 22.43 million (91.58%) remained unutilized in the period up to November 24, 2001.

In 2000 an amount of DEM 11.1 million was invested through the Croatian Bank for Reconstruction and Development for the construction of water supply infrastructure within the Program of Investment into Local Infrastructure and Environmental Protection, financed by EBRD through a DEM 98.44 million loan. An amount of DEM 84.6 million remained to be utilized within the agreed time frame (up to March 31, 2001), so the term will probably have to be extended.

Railway Locomotive Reconstruction Project is financed by a loan amounting to US\$ 35 million. Croatian Railways have withdrawn only US\$ 442,581.43 during the two years of loan effectiveness, out of which only US\$ 44,678.43 was withdrawn in 2000.

The Central Government Budget of the Republic of Croatia for 2000 provided resources for payment of all due liabilities against public loans and against the loan extended to Croatian Railways with the state guarantee⁴². In 2000 Croatian Electric Power Company and the Croatian Bank for Reconstruction and Development repaid their liabilities in

42 The Central Government Budget of the Republic of Croatia for 2000 and the Law on Execution of the Government Budget of the Republic of Croatia for 2000 ("The Official Gazette", Nos 33/2000 and 118/200) provided resources for repayment obligations toward EBRD. During 2000 EBRD was repaid against payment calls: (1) against a US\$ 20 million loan, for air traffic system project, a total of US\$ 3,223,346.82 (against the principal 2,500,000.00 + interests 710,898.20 + fees 12,448.62). Croatian Flight Control d.o.o. repaid those funds to the Government budget in November 2000; (2) against a DEM 70.9 million loan for highway reconstruction, a total of DEM 8,632,134.65 (against the principal 5,898,604.28 + interests 2,733,530.37); (3) against a DEM 24.5 million loan for wholesale market project, a total of DEM 418,746.75 was paid, out of which: (a) a fee amounting to 262,004.20 for reservation of resources due to cancellation of a loan portion amounting to DEM 9 million and (b) commitment fee for unwithdrawn resources amounting to DEM 156,742.55 DEM and (4) against a US\$ 35 million, for a loan for reconstruction of railway locomotives, a total of US\$ 206,795.19 (interest payment 31,937.21 + commitment fees 174,857.98).

a timely manner against EBRD payment calls, therefore, guarantees of the Republic of Croatia for those loans were not called.

An Overview of Loans

Among the 26 EBRD-supported transition countries, Croatia is in the seventh place in terms of the number of projects and the volume of invested EBRD resources. Given the EBRD activities at accelerating economic recovery, direct investments in the private sector, financing of infrastructure and regional trade in South-East Europe, Croatia, in terms of approved resources, is the leading country in the region, i.e., in South-East Europe. According to EBRD classification of countries in terms of their implementation of programs of transition toward the market economy, Croatia has been listed among advanced transition countries, together with the Czech Republic, Hungary, Poland, Estonia, Lithuania, Latvia, Slovakia, and Slovenia.

In the period from 1994 to 2000, EBRD financed 33 projects in Croatia with a total amount of resources of EUR 571.48 million (according to the data indicated in EUR in October 2000). It invested a total of EUR 322.78 million (56.5%) in private sector projects, as follows: (1) through loans without state guarantees, EUR 231.1 million and (2) direct capital investments into profitable enterprises and banks, EUR 91.6 million. Public sector projects were supported by long-term favorable loans amounting to the total of EUR 248.7 million (43.5% of the total invested funds).

EBRD loans granted to the Republic of Croatia or obtained with state guarantees (seven loans), shown in loan currencies, according to the status as of December 31, 2000, amount to US\$ 55 million and DEM 306.73 million. In the period from 1994 to 2000, on the cumulative basis, US\$ 19.32 million (35.13%) was utilized against the use of two loans concluded in US\$ and DEM 199.65 million (65.07%) on the basis of five loans obtained in DEM. According to agreed time frames, until March 31, 2002 there remained to be withdrawn US\$ 35.67 million (64.87%) and DEM 107.08 million (34.9%).

The Republic of Croatia concluded three loan agreements with EBRD in the period from 1994 to 2000 in the total amount of DEM 95.29 million and US\$ 20 million, as well as four guarantee agreements in the total amount of DEM 211.44 million and US\$ 35 million.

A total amount of US\$ 18.87 million (94.4%) and DEM 72.85 million (76.45%) was withdrawn against all the three loans as of December 31, 2000. An amount of US\$ 1.12 million (5.6 %) and DEM 22.43 million (23.55%) remained undisbursed.

At the end of 2000 debt toward EBRD against direct public loans amounted to US\$ 7.62 million and DEM 55.14 million, whereas debt against guaranteed loans amounted to DEM 73.81 million and US\$ 442.58 thousand.

Table 6.15 indicates detailed data on direct public loans and loans obtained with state guarantees.

Table 6.15: An Overview of Loans Obtained from EBRD (as of December 31, 2000)

No.	Project Name	Loan No.	Date of Conclusion of Agreement	Currency	Loan Amount	Utilized	Remained to be Utilized	Closing Date	Maturity of Principal first/last	Debt
1	2	3	4	5	6	7	8 (6-7)	9	11	12
I. PUBLIC LOANS										
1.	Air Traffic System Project	231	21. 09. 1994.	US\$	20,000,000.00	18 879 246,03	1,120,753,97	30. 06. 2001.	21. 09. 1996./ 21. 03. 2004.	7,629,246.03
2.	Highway Reconstr. Project *	286	17. 01. 1995.	DEM	70,792,980.22	70 792 980,22	0,00	28. 02. 1999.	10. 04. 1998./ 10. 12. 2009.	53,087,438.46
3.	Wholesale Market Project **	627	08. 12. 1997.	DEM	24,500,000.00	2 061 723,93	22,438,276,07	24. 11. 2001.	24. 05. 2002./ 24. 11. 2011.	2,061,723.93
Total I.				US\$	20,000,000.00	18,879,246.03	1,120,753,97			7,629,246.03
				DEM	95,292,980.22	72,854,704.15	22,438,276,07			55,149,162.39
II. LOANS OBTAINED WITH GUARANTEE OF RC										
1.	Power Supply and Distr. Network Reconstr. Project	283	02. 02. 1995.	DEM	63,000,000.00	63,000,000.00	0.00	30. 06. 2000.	10. 03. 1998./10. 03. 2005.	37,800,000.00
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.	22,220,000.00
3.	Program of Investment into Local Infrastr. and Environ. Protect**	494	09. 12. 1996.	DEM	98,440,000.00	13,797,163.56	84,642,836.44	31. 03. 2001.	10. 04. 2001./10. 10. 2011.	13,797,163.56
4.	Railway Locomotive Reconstr. Project	733	08. 12. 1998.	US\$	35,000,000.00	442,581.43	34,557,418.57	31. 03. 2002.	20. 05. 2002./20. 11. 2013.	442,581.43
Total II.				DEM	211,440,000.00	126,797,163.56	84,642,836.44			73,817,163.56
				US\$	35,000,000.00	442,581.43	34,557,418.57			442,581.43
TOTAL I+ II				US\$	55,000,000.00	19,321,827.46	35,678,172.54			8,071,827.46
				DEM	306,732,980.22	199,651,867.71	107,081,112.51			128,966,325.95

*A DEM 70.9 million loan was agreed; on February 28, 1999 the non-withdrawn amount was cancelled of DEM 107,019.78, so that the loan amounts to DEM 70,792,980.22.

** On September 1, 1999 the agreed loan amounting to DEM 33.5 million was reduced by DEM 9 million. The loan now amounts to DEM 24.5 million.

** On November 23, 1999 the agreed loan amounting to DEM 105 million was reduced by DEM 6.56 million. The loan now amounts to DEM 98.44 million.

6.4.3. The Council of Europe Social Development Bank (CEB)

During 2000 the Council of Europe Social Development Bank approved to the Republic of Croatia two long-term favorable loans amounting to a total of HRK 330.68 million earmarked for reconstruction of schools and providing housing for refugees and displaced persons in the war-affected areas. Loans were prepared for reconstruction of health infrastructure and cultural heritage in the total amount of HRK 197.15 million and a EUR 8 - million loan for financing small and medium enterprises through the Croatian Bank for Reconstruction and Development (HBOR)⁴³, with guarantees of the Republic of Croatia.

New Loans Approved in 2000

In July 2000 the CEB Administrative Council⁴⁴ adopted the financing of the School Reconstruction Project in the Republic of Croatia by a loan amounting to HRK 98,682,000.00⁴⁵, which is 50% of the total of HRK 197,364,000.00 of Project net costs⁴⁶. The Project objective is to reconstruct and /or build 41 schools in the war-affected areas of 8 counties: Sisačko-Moslavačka (3), Karlovačka (4), Ličko-Senjska (4), Brodsko-Posavska (5), Zadarska (4), Osječko-Baranjska (9), Šibensko-Kninska (4), and Vukovarsko-Srijemska (8). This new Project has been prepared by the Ministry of Public Works, Reconstruction and Construction as an extension of the School Reconstruction Project in Eastern Slavonia which it conducts successfully and which is financed by the Council of Europe Social Development Bank loan amounting to HRK 67,368,000.00, received in 1998.

The proceeds of the newly approved loan will be used (after signing of the framework loan agreement and passing of the Law on its verification) in 2001 and in the following two years, when the Project should be fully completed.

On July 3, 2000 the Government of the Republic of Croatia forwarded the Project of restoration of providing of housing for refugees and displaced persons in the Republic of Croatia, also prepared by the Ministry of Public Works, Reconstruction, and Construction, for review of the Secretary General of the Council of Europe and to the Governor and Director of the Council of Europe Social Development Bank. CEB Administrative Council, at the session held in September 2000, decided to finance the Project by a loan amounting to HRK 232,000,000.00⁴⁷ (50% of HRK 464 million of project net costs).

The Project includes solving the problems of providing housing for refugees and displaced persons through restitution of property to owners and providing for alternative housing for 2,243 temporary beneficiaries, organized reconstruction of devastated and destroyed 1,153 family houses owned by the refugees, and reconstruction of utility infrastructure (water supply, sewage, electrical energy supply, roads etc. in the war-affected areas of the following counties: Vukovarsko-Srijemska, Osječko-Baranjska, Sisačko-Moslavačka, Karlovačka, Ličko-Senjska, Požeško-Slavonska, Brodsko-Posavska, Šibensko-Kninska, and Zadarska).

It is expected that this Loan will be fully utilized in 2001, when the Project should be closed. The utilization of Loan proceeds will commence as soon as the Framework Agreement on the loan and enforcement of the Law on Verification are signed.

The new loans have been approved with a 10-year repayment period, 5-year grace period for principal repayment, and a favorable LIBOR-base interest which will be agreed for each Loan tranche separately at the time of withdrawal, decreased by the CEB 0.50-percent annual subsidy and with interest on arrears which will be accrued by increasing the interest rate by 2.5% annually.

⁴³ Development of small and medium enterprises in the Republic of Croatia is supported by co-financing through a CEB loan amounting to EUR8 million and EBRD loan of EUR12 million.

⁴⁴ Pursuant to Resolution 1424/1997 which envisages that CEB, among other things, finances social projects related to education, and building or rehabilitation of public and private schools, CEB Administrative Council adopted financing of the Project assessing that it was well prepared and supported by the highest bodies of the Council of Europe.

⁴⁵ Framework Loan Agreement No. F/P 1352 for rehabilitation of schools between the Republic of Croatia and the Council of Europe Social Development Bank amounting to HRK98,682,000.00 was not signed until the end of 2000. It is expected that the signing and enactment of the Law on Verification will take place at the beginning of 2001.

⁴⁶ CEB finances 50% of Project net costs (excluding taxes and customs duties), meaning that the state budget resources finance 50% of net costs + taxes and duties.

⁴⁷ Framework Loan Agreement 1378 (2000) for reconstruction and provision of housing for refugees and displaced persons in the Republic of Croatia, between the Republic of Croatia and the Council of Europe Social Development Bank was not concluded until the end of 2000. Signing and enactment of the Law on Verification is expected to take place in 2001.

Stand-by Loans and Guarantees

During 2000 preparations for new loans were carried out: (1) a loan amounting to HRK 186.8 million for Health Infrastructure Reconstruction which is envisaged to finance reconstruction and rehabilitation of primary and secondary health care, (2) loan amounting to HRK 10.32 million for cultural heritage restoration – the Mala Braća (“Little Brethren”) Franciscan monastery in Dubrovnik which was damaged during the war, (3) loan for development of social infrastructure and reintegration of return into multi-ethnic community in the city of Glina, and (4) guarantees to the Croatian Bank for Reconstruction and Development for a CEB loan amounting to EUR 8 million earmarked for providing loans to small and medium entrepreneurs.

Loan Disbursement in 2000

In 1998 the Republic of Croatia and the Council of Europe Social Development Bank concluded the first two framework agreements on long-term loan amounting to the total of HRK 240,112,129.00 for financing of projects of reconstruction of health infrastructure and schools in Eastern Slavonia with a view to accelerating reintegration and creating new preconditions for quicker return of refugees.

In 2000 a total amount of HRK 77,132,350.00 was withdrawn from those framework loans. On December 31, 2000 the debt of the Republic of Croatia toward the Council of Europe Social Development Bank against withdrawn tranches of framework loans amounted to US\$ 7,485,000.00 and EUR 17,700,000.00. Table 6.14 shows a detailed review of loan disbursement/utilization, the agreed financial conditions for every disbursement of tranches, as well as debt status.

Table 6.16: A Review of CEB Loans Disbursement and Debt Status as of End 2000

No.	Project	Framework Loan Amount (HRK)	Tranche	Disbursed HRK*	Currency	Debt in Currency Dec.31, 2000.	Int. rate Fixed	Grace Period for Princ.	Principal Date Due	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
1.	Project 1278 (1998) Reconstruction of Health Infrastructure in Eastern Slavonia (Ministry of Health)	172,744,129	I. (15. 03. 1999.)	35,078,800	US\$	5,075,000	5.71%	5 y.	17. 03. 2005.	17. 03. 2009.
			II. (02. 11. 1999.)	34,288,200	EUR	4,500,000	5.38%	5 y.	02. 11. 2005.	02. 11. 2009.
			III. (22.02. 2000.)	26,329,600	EUR	3,400,000	5.56%	5 y.	02.02. 2006.	22.02. 2010.
			IV. (29.11. 2000.)	36,396,000	EUR	4,800,000	5.54%	5 y.	29.11. 2006.	29.11. 2010.
			Total 1 (I+II+ III +IV):	132,092,600						
2.	Project 1279 (1998) School Reconstruction in Eastern Slavonia (Ministry of Public Works, Reconstruction, and Construction)	67,368,000	I. (15. 03. 1999.)	16,658,110	US\$	2,410,000	5.71%	5 y.	17. 03. 2005.	17. 03. 2009.
			II. (23. 11. 1999.)	23,715,310	EUR	3,100,000	5.04%	5 y.	29. 11. 2005.	29. 11. 2009.
			III. (29.11. 2000.)	14,406,750	EUR	1,900,000	5.53%	5 y.	29.11. 2006.	29.11. 2010.
			Total 2 (I+II):	54,780,170						
	Total framework loans (1.+2.):	240,112,129	Total disbursed (status as of Dec. 31, 2000):	186,872,770	Total: US\$ EUR	7,485,000 17,700,000				

* data in HRK against CEB exchange rate on the day of disbursement of individual tranches

Resources of the Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia⁴⁸ amounting to HRK 172,744,129.00 finance 44% of total HRK 388,800,650.00 of the estimated net costs of reconstruction and renovation of the primary and secondary health care system (reconstruction/building of 18 primary health care centers and 3 hospitals, building of 48 apartments for health workers and procurement of medical equipment).

In 2000 two additional agreements for disbursement of two framework loan tranches were concluded, and a total amount of HRK 62,725,600.00 was utilized in February and November 2000 for Project implementation. According to the status as of December 31, 2000, an amount of HRK 132,092,600.00 was disbursed from the Framework Loan, and a total of HRK 40.651.529,00 remained undisbursed.

The School Reconstruction Project in Eastern Slavonia⁴⁹ was financed by CEB by means of a framework loan amounting to HRK 67,368,000.00 (50% of the total of HRK 134,736,000.00, which was the estimated net costs of repairs and reconstruction of 33 elementary schools and 1 secondary school included in the Project). In 2000 an amount of HRK 14,406,750.00 out of Loan resources was invested by withdrawing of a new tranche pursuant to the additional agreements concluded. The disbursement of Framework Loan as of December 31, 2000 amounted to HRK 54,780,170.00. An amount of HRK 12,587,830.00 remained unwithdrawn.

Due interests against disbursed tranches of framework loans were paid for out of the central Government budget for 2000 in the total amount of US\$ 427,393.50 and EUR 492,860.00.

Repayment of Inherited Loans

Based on the legislation⁵⁰, the debt amounting to DEM 1.70 million was taken over by the Loan Agreement between CEB and the Republic of Croatia, whereas debt of DEM 6.38 million was taken over on the basis of the Loan Agreement between CEB and Croatian commercial banks, with guarantees of the Republic of Croatia. In other words, on July 22, 1996 the overall debt taken over amounted to DEM 8.08 million. All the outstanding obligations (in installments: August 30 and October 14, 1996) arising in the period 1991 to 1996 were paid, amounting to DEM 8.2 million. The debt taken over, amounting to DEM 8.08 million, was repaid on a regular basis according to the agreed repayment schedule in the period 1997 through July 30, 2000. In that way the debt taken over on December 31, 1998 was reduced to DEM 1.9 million, and to DEM 537,603.40 as of December 31, 1999.

During 2000, commercial banks (debtors: Privredna Banka, Zagrebačka Banka, and Splitska Banka) repaid their outstanding debt against the principal amounting to DEM 537,603.40 and paid for the interests due a total of DEM 49,728.32, so that the guarantees of the Republic of Croatia for those loans were not activated. The outstanding unrepaid debt of DEM 537,603.40 against CEB was repaid on July 30, 2000. Thus the debt taken over against old inherited debts was paid in full and reduced to zero.

Financial Obligations of the Republic of Croatia against CEB

By accepting membership in the Council of Europe Social Development Bank⁵¹, the Republic of Croatia accepted the repayment of the following financial obligations:

- capital share in the amount of EUR 5,534,000.00, and
- 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 the total of EUR 861,000.00 are due in four annual installments. In the period from 1997 to July 24, 2000 all the four installments

⁴⁸ The Law on Verification of Framework Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1278 (1998) – Reconstruction of Health Infrastructure in Eastern Slavonia (the Official Gazette – International agreements, Nr. 13/1998).

⁴⁹ The Law on Verification of Framework Loan Agreement on a loan between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1279 (1998) - School Reconstruction in Eastern Slavonia (the Official Gazette – International Agreements, No. 13/1998).

⁵⁰ The Law on Verification of an Agreement between the Council of Europe Social Development Fund and the Government of the Republic of Croatia, Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia, and Loan Agreements between the Council of Europe Social Development Fund and Dalmatinska Banka, Privredna Banka, Riječka Banka, Slavonska Banka, Splitska Banka and Zagrebačka Banka, concluded with a guarantee of the Republic of Croatia (the Official Gazette – International Agreements, No. 3/1997)

⁵¹ The Law on Accession of the Republic of Croatia to the Council of Europe Social Development Fund and verification of the Statute of the Council of Europe Social Development Fund dated June 8, 1993 (the Official Gazette – International Agreements, No.8/1997).

were settled from the central Government budget. Thus the financial obligations against CEB based on the membership of the Republic of Croatia were met.

According to the Resolution 321 (1999) of CEB Management Board, subscribed capital of CEB is increased within the Fifth Capital Increase from the current EUR 1,400,693,215 to EUR 3,247,588,215. The aims of capital increase are strengthening of its financial structure, improvement of debt/equity ratio and improvement of the bank's position on the international financial markets.

The Republic of Croatia participates in the Fifth Capital Increase of CEB-a⁵² by subscription of equity share amounting to EUR 7,296,899, consisting of called capital amounting to EUR 805,578 and uncalled capital amounting to EUR 6,491,321. Based on participation in the Fifth Capital Increase, no new direct financial obligations emerge for the Republic of Croatia to repay capital in cash, because a share of capital amounting to EUR 805,578 (called capital, which is paid according to CEB business rules) will be settled from the CEB reserves account. The Republic of Croatia accepted the new potential financial obligation by guarantee for uncalled capital amounting to EUR 6,491,321, for which, however, according to CEB business rules, payment is not requested.

After the Fifth Capital Increase came into force⁵³, the total subscribed capital of the Republic of Croatia in the CEB capital will amount to EUR 12,830,899 (the currently subscribed capital amounting to 5,534,000 + subscribed capital amounting to 7,296,899 on the basis of a share of capital increase) and will consist of the following: (1) called capital amounting to EUR 1,416,578 (current capital amounting to EUR 611,000 + called capital amounting to EUR 805,578 based on a share of capital increase), and (2) uncalled capital amounting to EUR 11,414,321 (the current uncalled capital amounting to EUR 4,932,000 + uncalled capital amounting to EUR 6,491,321 based on a share of capital increase). The Republic of Croatia has an opportunity, by subscribing new capital, to have a 0.46-percent share in the total capital and voting rights in CEB management.

6.4.4. The European Investment Bank (EIB)

Establishment of Institutional Relations

Following the establishment of diplomatic relations with the-then European Community, the Republic of Croatia started cooperating directly with the European Investment Bank in 1992. During 1994 the outstanding debts was divided based on the loans or portions of loans granted to the former SFRY on principles of piece-meal succession. The Republic of Croatia arranged the legal and financial relations with EIB in terms of the inherited debt in 1995 by concluding a Guarantee Agreement and a Letter of Agreement No. 0298⁵⁴.

Activities on the establishment of institutional relations of the Republic of Croatia with the European Investment Bank which started in 1995⁵⁵ and discontinued after Croatian actions in liberation of occupied areas in August 1995, were continued at the invitation of EIB in the middle of 2000. At that time the preparations of two Croatian projects were discussed, namely: (1.) construction of Breznički Hum-Varaždin highway (23.2 km)⁵⁶ and (2) modernization and electrifying the railway line Beli Manastir-Vrpolje-Ploče, nominated and accepted as the so-called "quick-start" projects within the Stability Pact. The establishment of institutional relations with EIB which, as part of the Stability Pact (i.e., 'Working Table' on economic reconstruction, development, and cooperation) received a mandate to coordinate activities and selection of priority infrastructure projects important for short-term development of the region, became a key to the commencement of the implementation of selected projects.

⁵² Based on the Decision on the Official Use of the new name of Council of Europe Social Development Fund – «Council of Europe Social Development Bank» (CEB) and adoption of the Fifth Capital Increase of the Council of Europe Social Development Bank («The Official Gazette», No. 59/2000).

⁵³ The Fifth Capital Increase will be considered effective when 66.66% of capital is subscribed by member countries prior to March 31, 2001.

⁵⁴ The Law on Verification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank and the Letter of Agreement No. 0298, signed on January 12, 1995 in Luxembourg and February 10, in Zagreb (the Official Gazette – International Agreements No. 6/1995), became effective on May 23, 1995.

⁵⁵ As part of the preparations for the Draft Trade and Cooperation Agreement between the Republic of Croatia and the European Union, the Draft Protocol on Financial Cooperation with the European Union was prepared which was envisaged to assist EIB in financing projects in Croatia.

⁵⁶ This Project was suspended later until confirmation of harmonization with implementation criteria.

After the Decision of the EU Council of Ministers of November 7, 2000⁵⁷, EIB prepared a draft of a standard Framework Agreement between the Republic of Croatia and the European Investment Bank, and on November 13, 2000 submitted it to the Ministry of Finance for review. The Framework Agreement was signed on December 13, 2000, but has not come into effect yet⁵⁸. This Framework Agreement regulates EIB's activities in the Republic of Croatia and enables it to finance by favorable long-term loans projects in line with Croatian development priorities.

Loans and Projects in the Pipeline

The European Investment Bank, in line with the EU policy, the mandate received within the Stability Pact, framework of its business policy and based on the concluded Framework Agreement with the Republic of Croatia, intends to support through favorable long-term individual and global loans the financing of large infrastructure projects, stimulate development projects in tourism, small and medium enterprises, and ecology projects. In 2000 the preparations for the following loans and projects commenced:

(1) Loan for financing of a Project for reconstruction of infrastructure and modernization of signalization and telecommunications at sections of Croatian Railways of the Pan-European Corridor Vc, amounting to EUR 40 million. The Project includes reconstruction of 123 km of a single-track of Corridor Vc at the following sections: (1) Beli Manastir-Osijek (31.2 km), (2) Osijek-Strizivojna /Vrpolje (46.8 km), (3) Strizivojna/Vrpolje-Slavonski Šamac (21.7 km), and (4) Metković-Ploče (22.7 km). By means of this loan the EIB will finance 41.40% of EUR 96.62 million net costs of the Project (exclusive of taxes and customs duties). It is planned that the remaining portion of 58.60% (EUR 56.62 million) will be financed from the Government budget in the period up to 2005. The Loan negotiations are planned for March 2001.

(2) The Global Loan amounting to EUR 10 million for financing of utility infrastructure, stimulating tourism and development of small and medium enterprises, which EIB plans to approve to HBOR with a Government guarantee. It is envisaged that the Project appraisal and negotiations for concluding a financial agreement will be concluded by the summer of 2001.

(3) It is expected that the negotiations for a loan amounting to EUR 110 million for the Road Maintenance and Reconstruction Project, presented to the Bank by the Ministry of Maritime Affairs, Transport, and Communications will also, after Project appraisal, be held during the summer of 2001.

(4) A loan to HEP (with a Government guarantee) for construction of Ernestinovo transformer station and a project of power grid reconstruction, envisaged at EUR 65 million. The projects will be reviewed, after the preparation of all the necessary technical documents and feasibility studies, during March/April 2001.

(5) The following projects are currently undergoing different preparation phases: Rijeka-Zagreb Highway Construction Project, Project of Construction of a New Passenger Terminal of Zagreb Airport, projects for investments into infrastructure of Port of (Rijeka and /or Ploče) and environmental protection (Adriatic Master Plan project has been included into "quick start" projects. It is expected that EIB will provide an EUR 1 million loan).

Repayment of Inherited Loans

Inherited long-term loans granted in the period 1982 to 1989⁵⁹ were also repaid in 2000 pursuant to legislation and according to repayment schedules in different currencies. Table 6.16. shows a review of inherited EIB loans and debt stock as of end 2000.

The liabilities due toward the European Investment Bank against loans used for financing of roads and railways were paid for from the Government budget for 2000, whereas Croatian Power Utility paid for its liabilities by their own resources. After all the liabilities due in 2000 have been met, the outstanding debt against EIB, expressed in EUR and six different currencies and converted into kuna against the mid exchange rate of the Croatian National Bank on December 30, 2000, totaled HRK 629,671,522.40 .

⁵⁷The Decision was published in the EU official gazette - «Official Journal of the European Communities», No. L285/20 dated October 11, 2000. This Decision amended the earlier Decision of the EU Council of Ministers Council from December 1999, which stated that EIB should continue its activities of providing support to investment projects in countries of Central and Eastern Europe, by inviting EIB to extend its activities to investment projects in Croatia.

⁵⁸ Framework Agreement will come into force after enactment and coming into force of a Law on Verification of the Framework Agreement between the Republic of Croatia and European Investment Bank.

⁵⁹ Based on the piece-meal succession principle and based on respecting the so-called territorial principle, six remaining outstanding long-term loans of beneficiaries with the seat in the Republic of Croatia were taken over (Croatian Power Utility, Croatian Road Authority, and Croatian Railways), denominated in ECU, with repayment obligation in different currencies. The total debt taken over, expressed in 11 currencies of payment on December 31, 1994 amounted to HRK877,147,661.94.

Table 6.17: An Overview of Inherited EIB Loans and Debt Stock

No.	EIB Loan No.	New Borrowers according to Letters of Agreement	Guarantor by Letters of Agreement	Loan Amount in EUR	Currency	Outstanding Balance December 31, 2000
1.	16275 EEMS-HE CRO	HEP d.d. Zagreb Letter of Agreement No.: 0297	The Republic of Croatia	10,552,500.00	GRD ITL GBP	31,102,022.00 880,161,285.00 611,009.82
2.	16279 TYH-II-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		16,000,000.00	GRD DEM US\$	163,828,768.00 2,190,096.99 3,124,847.55
3.	16284 TYR-I-HZ CRO	Croatian Railways Letter of Agreement No.: 0296	The Republic of Croatia	29,190,000.00	FRF DEM DKK US\$ GBP GRD	16,386,678.41 8,391,096.46 16,077,018.79 1,235,411.88 440,549.27 51,553,812.00
4.	16289 TYH-III-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		15,250,000.00	DEM FRF GBP ITL DKK US\$ CHF	435,154.37 9,398,184.66 1,116,671.34 1,594,591,329.00 6,721,229.11 1,536,478.86 268,483.58
5.	13554 TYH-IV-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		60,000,000.00	GBP NLG JPY BEF DEM CHF	1,249,055.93 13,116,911.95 2,067,602,508.00 114,045,499.00 11,063,104.49 12,518,474.19
6.	14090 TYR-IIB-HZ CRO	Croatian Railways Letter of Agreement No.: 0296	The Republic of Croatia	18,000,000.00	DEM CHF US\$ FRF GBP	7,145,053.82 4,744,845.35 1,719,080.50 19,628,225.98 1,670,524.19
	TOTAL:			148,992,500.00	EUR US\$ GRD GBP DKK CHF JPY HRK*	31,920,101.70 7,615,818.79 246,484,602.00 5,087,810.55 22,798,247.90 17,531,803.12 2,067,602,508.00 629,671,522.40

* against CNB mid exchange rate on December 30, 2000

6.5. THE GUARANTEES OF THE REPUBLIC OF CROATIA

Pursuant to the Law on the Execution of the Government budget of the Republic of Croatia for 2000, the Government of the Republic of Croatia is authorized to issue financial and performance guarantees at the proposal of the Ministry of Finance. A guarantee fund is allocated in the Government budget amounting to HRK 212,180,548.00. Guarantee applicants and the relevant bank are obliged to obtain a prior consent of the Ministry of Finance regarding the purpose of issuing the guarantee, and substantiate the requests by a request for credit rating and effects of the new borrowing on the business operations of the applicant taking into consideration the level of the existing indebtedness. The relevant Ministry of the applicant is obliged to submit its opinion within 15 days to the Ministry of Finance on developmental changes and restructuring of the applicant's company, as well as the assessment of loan repayment capacities. The Ministry of Finance is obliged to forward to the Government the opinion within 40 days following the receipt of the request for prior approval. The Croatian Bank for Reconstruction and Development (hereinafter: HBOR) and the Croatian Guarantee Agency will, through credits and guarantees, stimulate and secure production, exports, and small enterprises, and will condition issuance of guarantees by securing payment collection on the basis of collateral of the credit applicant, or by other instruments of security. The Government charges a commission for issued guarantees amounting to 0.5% of the guarantee value, which is collected at issuance of the guarantee to the guarantee holder. This commission is central Government budget revenue. Performance guarantees may be issued on the basis of received advance payments in money or property for ship construction until their handover, for procurement of aircraft based on a long-term lease agreement and for infrastructure projects (transport and communications, energy, environmental protection), carried out on basis of concessions or joint ventures. In case of guarantees which are activated (called), the Ministry of Finance may issue an order to the Payment Transactions Bureau to freeze the debtor's account, with the proviso that this order has priority in comparison with the debtor's other liabilities.

Until the end of 2000 a total of HRK 20.32 billion of financial guarantees was issued (13% of GDP). In that figure guarantees to domestic creditors accounted for HRK 8.87 billion and guarantees to foreign creditors for HRK 11.45 billion, whereas performance guarantees accounted for HRK 13.80 billion of issued guarantees.

Table 6.17: An Overview of Issued Guarantees of the Republic of Croatia

(HRK)	1996	1997	1998	1999	2000
Financial	829,781,227	3,159,378,905	5,075,732,565	5,909,603,028	5,348,827,335
- Domestic creditors	121,706,065	1,379,074,727	1,244,583,653	1,154,356,624	4,971,002,254
- Foreign creditors	708,075,162	1,780,304,178	3,831,148,912	4,755,246,404	377,825,081
Performance	1,361,241,544	2,966,149,051	3,350,612,436	1,786,553,653	4,344,473,804
Total guarantees	2,191,022,771	8,316,550,727	16,742,895,728	24,439,052,409	34,132,353,548

**The table includes guarantees issued to HBOR*

129 guarantees were issued in 2000, amounting to the total of HRK 9,701,804,958.68, out of which 91 were financial guarantees, amounting to HRK 5,348,827,335.02 and 38 performance guarantees, amounting to HRK 4,352,977,623.67. In comparison with 1999, the number of issued guarantees was by 125 guarantees lower, but the value of issued guarantees increased by HRK 2,072,562,888.74 or by 27.2%, because of the increase in the value of issued performance guarantees. The structure of the issued financial guarantees was also changed in comparison with the previous year.

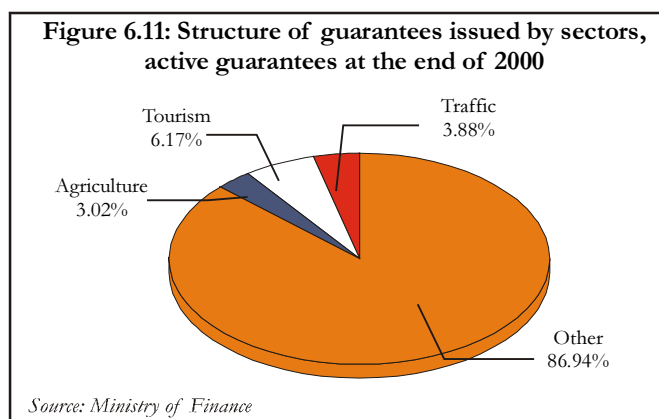
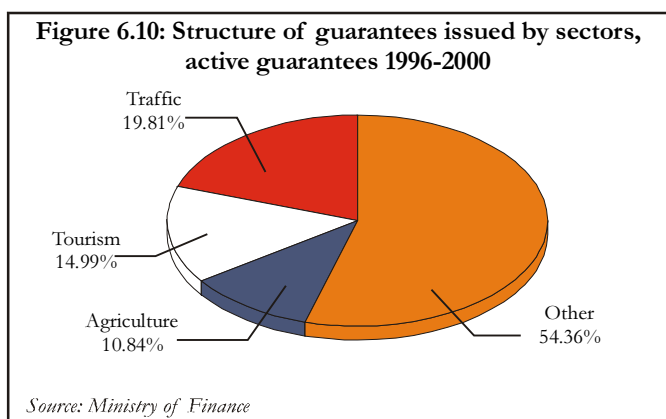
During 2000 financial guarantees were issued for the State Agency for Deposit Insurance and Bank Rehabilitation (BRA)⁶⁰ amounting to HRK 2,505,312,480.00, for Croatian Health Insurance Fund amounting to HRK 1,692,035,382.00, to HBOR amounting to HRK 631,846,361.20, and for other beneficiaries HRK 519,633,111.82. In terms of purposes, those guarantees refer to issuance of bonds for repayment of secured deposits of failed banks and savings banks (HRK 2,505,312,480.00) and debt of Croatian Health Insurance Fund (HRK 1,692,035,382.00), as well as for tourism (HRK 521,119,468.00), transport (HRK 207,406,107.91), agriculture (HRK 161,268,568.39) and for other purposes (water supply system construction and reconstruction, assistance to failed enterprises for repayment of rehabilitation loans, refinancing of commitments, bridging illiquidity, and current operations) amounting to HRK 261,685,328.72.

⁶⁰ The Law on Granting Bond Issue Authority to BRA (the Official Gazzette No. 117/2000.), BRA is given authority to issue bonds amounting to HRK2.5 billion in order to secure means for repayment of insured savings deposits in failed banks and savings banks.

Guarantees for issuance of BRA's bonds in the total amount of EUR 330,000,000.00 were issued in favor of two domestic commercial banks (Privredna Banka d.d. Zagreb, and Zagrebačka Banka d.d. Zagreb) as issuance agent and lead manager of the overall bond issue, namely: a guarantee amounting to EUR 105,000,000.00 with an 8.0-percent annual interest rate and a 3-year principal maturity following the issue (December 2003), and guarantees amounting to EUR 225,000,000.00 with an 8.375-percent annual interest rate and principal maturity in 5 years after issuance (December 2005). The guarantee for bond issue of Croatian Health Insurance Fund up to the above mentioned amount was issued in favor of a domestic commercial bank (Zagrebačka Bank d.d. Zagreb), with an annual interest rate of 8.5% and principal maturity in 4 years.

At the end of May 2000 the Government of the Republic of Croatia passed a decision on issuance of HBOR guarantees in line with credit programs for the preparation of the tourist season 2000. Loans amounting to HRK 329,999,818.00 were approved for program preparation, and included 70 beneficiaries. The Ministry of Finance issued individual guarantees for loan beneficiaries. In terms of purposes, loans were granted for investments into capital assets and working capital, reconstruction of facilities in which refugees were staying, payment of salaries, liabilities to suppliers, repayment of loan commitments, etc. In order to promote tourist industry in 2000 and support tourism by reprogramming the loans so far approved by HBOR from the above mentioned loan, the Government passed a decision on issuing approval to HBOR for additional borrowing abroad amounting to EUR 25,000,000.00 and issuing guarantees. The loan was approved for a 10.5-year period including a 3-year grace period, with a EURIBOR interest rate increased by 125 b.p. by a 0.5-percent one-off front-end fee and a 0.25-percent commitment fee.

During 2000 the Government of the Republic of Croatia passed a package of measures establishing a new position of shipbuilding and terms of doing business in the transition period up to its privatization, which was envisaged by end of 2003. In line with that there was a significant increase of 142.1% in the amount of issued performance guarantees in comparison with 1999. Out of the total amount of HRK 4,344,473,804 of issued performance guarantees, the largest number of guarantees was issued to HBOR (25), amounting to HRK 2,651,082,257. Guarantees were issued for shipbuilding in domestic shipyards for foreign clients.



Out of the total amount of HRK 34.13 billion of financial and performance guarantees issued in the period 1996 to 2000, the amount of active, unclosed guarantees at the end of December 2000 totaled HRK 25.86 billion. The difference between those two amounts accounted for repaid loans.

Table 6.18: An Overview of Active Guarantees of the Republic of Croatia

(HRK)	1996	1997	1998	1999	2000
Financial	774,979,102	1,657,060,014	3,736,446,094	5,548,759,646	5,348,827,335
- Domestic creditors	82,324,341	673,149,721	1,057,692,038	1,153,565,593	4,971,002,254
- Foreign creditors	692,654,762	983,910,293	2,678,754,056	4,395,194,053	377,825,081
Performance	0.00	810,951,486	2,293,451,097	1,345,730,911	4,344,473,804
Total guarantees	774,979,102	3,242,990,602	9,272,887,793	16,167,378,349	25,860,679,488

*Table includes guarantees issued to HBOR

VII. INTERNAL ORGANIZATIONAL STRUCTURE OF THE MINISTRY OF FINANCE

The internal organizational structure of the Ministry of Finance regulated by the Decree on Internal Organizational structure of the Ministry of Finance (the “Official Gazette”, Nos 65/00 and 115/00), and is shown in the organizational chart attached.

Four administrative units and 13 other internal organizational units have been established for the purpose of performing the activities in the Ministry’s scope. The work of the Ministry of Finance is headed by the Minister of Finance, who has a Deputy.

The administrative units within the Ministry of Finance are as follows:

- Customs Administration
- Foreign Exchange Inspectorate
- Financial Police
- Tax Administration

The other internal organizational units within the Ministry are the following:

- Macroeconomic Analysis and Forecasts Bureau
- Budget Preparation and Consolidation Department
- State Treasury
- Budget Execution Department
- Government Accounting Department
- Cash and Debt Management Department
- International Financial Relations and European Integration Department
- Department for EU Assistance Programs and Projects Financing
- Economic Affairs Department
- Financial System and Capital Market Department
- Procurement Department
- Cabinet of the Minister
- Office of the Secretary of the Ministry of Finance

Customs Administration is responsible for preparing and proposing system solutions and current economic policy measures in the area of the customs system, customs and extra-customs protection, and the establishment of free trade zones, organizes the activities of the customs offices, performs customs supervision and customs clearing, controls assessment and collection of customs duties, excise taxes, and other duties which are assessed at customs clearing, performs control in the international passenger traffic, conducts offense procedures in customs cases, and performs other tasks as requested by the Minister. The Head of Customs Administration is Assistant 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 other tasks requested by the Minister. The Head of Foreign Exchange Inspectorate is General Foreign Exchange Inspector who is also Assistant 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, and it is also responsible for the performance of other tasks as requested by the Minister. The Head of Financial Police is General Financial Police Inspector who is also Assistant Minister.

Tax Administration Department is responsible for organizing, coordinating and supervising the collection of taxes, duties, and other Government budget revenues, analyzing and surveying the application of tax laws and the functioning of the tax system, and proposing the tax policy measures. The Head of Tax Department is Assistant Minister.

Macroeconomic Analysis and Forecasts Institute 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.

Budget Preparation and Consolidation Department is responsible for the development and preparation of Government budget and budgets of extra-budgetary funds, for budget consolidation, development of public revenues and expenditure trends reports, proposing laws related to the financing of local Government and self-Government, and other tasks as requested by the Minister.

The State Treasury is responsible for performing tasks related to execution of the Government budget, Government accounting and cash and public debt management.

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, as well as other tasks as requested by the Minister.

Government Accounting Department is responsible for Treasury Ledger, determination of Government accounting standards and other tasks as requested by the 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, performs activities related to bilateral financial cooperation with foreign Governments, financial institutions and commercial banks, prepares proposals of decrees on issuance of Government guarantees, supervises their issuance, prepares and keeps records of state securities issuance, and performs other tasks at Minister's request.

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

Department for EU Assistance Programs and Projects Financing performs activities related to financing, procurement, payment, supervision, and auditing of implementation of all programs and projects of EU assistance to the Republic of Croatia.

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.

Financial System and Capital Market Department participates 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.

Procurement Department supervises the Government administration bodies and other state authorities bodies, bodies of local Government and self-Government units which perform procurement pursuant to the Law on Procurement of Goods, Services, and Cession of Works, as well as other tasks as requested by the Minister.

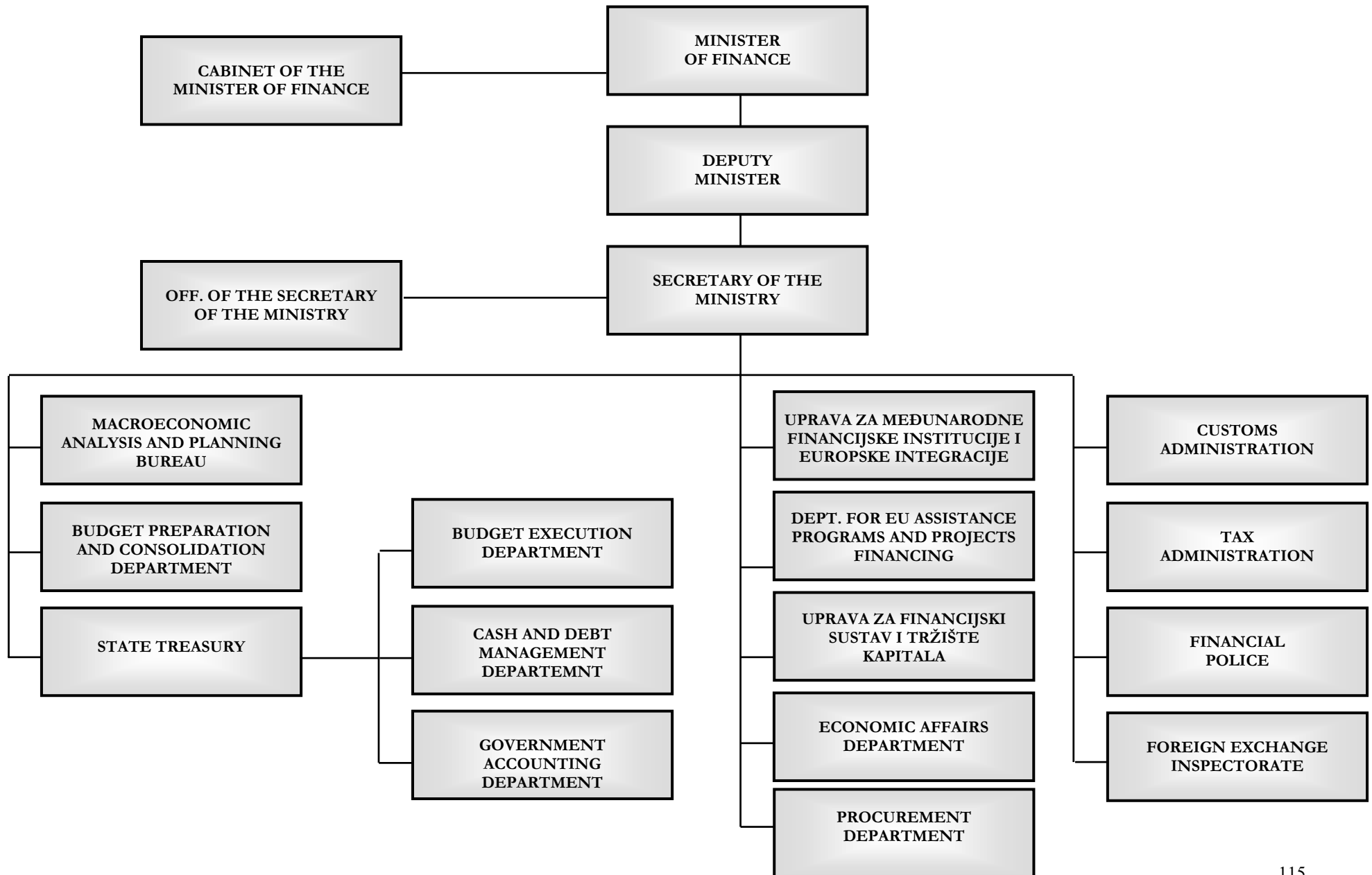
The Cabinet of the Minister is responsible for the performance of protocol-related tasks on behalf of the Minister and his Deputy, public relations, administrative tasks related to the communication with the Government and the Croatian Parliament, as well as other tasks as requested by the Minister of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

The Office of the Secretary of the Ministry of Finance is responsible for providing coordination of operations of internal organizational units and administrative units in the Ministry. It coordinates preparation of draft bills and other regulations within the scope of the Ministry of Finance, and for the performance of human resources management, and other tasks as requested by the Minister.

The State Treasury is headed by the Treasurer, the Office of the Secretary of the Ministry of Finance is headed by the Secretary of the Ministry, and the institutes and departments are headed by Assistant Ministers.

At the end of 2000, the total number of employees in the Ministry of Finance amounted to 7,864 employed persons, out of which 18 Government officials, 7,193 civil servants, and 653 employees.

ORGANIZATIONAL CHART 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 – September 11, 1997

BORISLAV ŠKEGRO, M.S.

September 11, 1997 – January 27, 2000

Prof. MATO CRKVENAC, Ph.D.

January 27, 2000 -

APPENDICES

Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	Outturn				
	1996	1997	1998	1999	2000
GDP, current prices (mill. HRK)	107,980.6	123,810.7	138,391.7	142,700.0	157,511.0
GDP growth rate (%)	5.9	6.8	2.5	-0.4	3.7
GDP, current prices (mill. US\$)	19,872.0	20,108.6	21,751.8	20,053.8	19,031.0
GDP, per capita (US\$)	4,421.9	4,398.2	4,832.7	4,456.4	4,229.1
Retail prices, period average (%)	3.5	3.6	5.7	4.2	6.2
Producer's prices, period average (%)	1.4	2.3	-1.2	2.5	9.7
Cost of living, period average (%)	4.3	4.1	6.4	3.5	5.3
Exchange rate HRK/US\$, period average	5.43	6.16	6.36	7.12	8.28
Exchange rate HRK/DEM, period average	3.61	3.56	3.62	3.88	3.9
Trade Balance (mill. US\$)	-3,276.0	-4,933.0	-3,842.0	-3,496.1	-3,491.0
Trade Balance, as percentage of GDP	-16.5	-24.5	-17.7	-17.4	-18.3
Exports (mill. US\$)	4,512.0	4,171.0	4,541.0	4,302.5	4,431.7
Imports (mill. US\$)	7,788.0	9,104.0	8,383.0	7,798.6	7,922.7
Current Account Balance (mill. US\$)	-1,091.3	-2,325.1	-1,530.6	-1,522.6	-531.0
Current Account Balance, as percentage of GDP	-5.5	-11.6	-7.1	-7.6	-2.8
International reserves of CNB, end of period (mill. US\$)	2,314.0	2,539.0	2,815.6	3,024.8	3,524.8
CNB discount rate, on annual basis (%)	6.5	5.9	5.9	7.9	5.9
Money market interest rates, on daily market, on annual basis (%)	10.4	9.4	15.8	12.7	4.5
Total outstanding external debt, end of period (mill. US\$)	5,307.6	7,451.6	9,586.2	9,872.3	10,840.1
External public debt, end of period (mill. US\$)	2,397.3	2,905.7	3,395.3	3,973.0	4,752.7
Internal public debt, end of period (mill. HRK)	16,533.7	14,608.7	13,697.5	13,944.0	14,549.8
Deficit(-)/Surplus(+) - Consolidated Central Government (mill. HRK)	-477.4	-1,586.7	882.1	-2,802.1	-7,697.3
Deficit(-)/Surplus(+) - Consolidated General Government (mill. HRK)	-399.5	-1,497.1	678.2	-3,129.9	-
Unemployment rate, percentage of labour force	16.4	17.5	17.2	19.1	21.1
Unemployment rate - ILO comparable (%)*	10.0	9.9	11.6	14.5	15.1
Number of unemployed persons (000)	261.0	277.7	287.8	321.9	357.9
Average monthly net wages and salaries, growth rate (%)	11.8	16.9	12.8	13.9	8.9
Average monthly gross wages and salaries, growth rate (%)	12.3	13.1	12.6	10.2	7.0
Average monthly pension, growth rate (%)	11.7	19.9	12.4	14.7	6.8
Number of pension beneficiaries	888,738	925,520	953,271	1,016,601	1,016,698
Total volume of industrial production, growth rate (%)	3.1	6.8	3.7	-1.4	1.7
Industrial productivity, growth rate (%)	11.4	12.7	8.9	4.0	4.2
Nights spent by tourists, growth rate (%)	66.5	41.3	3.2	-15.0	45.0
Retail sales turnover, nominal growth rate (%)	6.0	18.1	3.7	-0.7	21.8
Total volume of construction projects, growth rate (%)	9.0	16.7	0.7	-7.7	-9.1
Area (square km)	56,538	56,538	56,538	56,538	56,538
Population, mid-year (mill.)	4.5	4.6	4.5	4.5	4.5

*- CBS data from Labor Force Survey (for 1998 and 1999 data are for second half of the year and for 2000 for first half of the year)

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

Appendix 2: Budgetary Central Government Revenue and Grants

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	31,367,481	33,846,123	43,808,593	46,356,724	44,635,673	49,679,912
II.	Total revenue	31,367,481	33,846,123	43,808,593	46,356,724	44,635,673	49,679,912
III.	Current revenue	30,244,343	33,384,987	42,019,401	40,045,873	41,534,957	40,908,912
IV.	Tax revenue	28,949,845	31,775,491	40,327,487	38,317,635	39,939,019	39,307,405
1.	Taxes on individual income	4,216,938	4,102,217	4,915,096	4,571,102	4,094,638	3,279,370
2.	Taxes on corporate income	1,271,183	1,785,259	2,461,149	2,365,955	1,673,753	1,581,374
3.	Taxes on real estate transactions	171,776	242,702	270,925	246,854	258,533	263,942
4.1.	General sales tax	13,504,368	15,133,172	1,972,045	387,922	153,158	75,000
4.2.	Value added tax	0	0	20,228,226	19,829,971	21,825,284	22,415,801
5.	Excises	5,390,785	5,404,837	5,896,787	6,160,719	7,673,255	8,141,434
	a) on oil products	2,691,840	2,728,346	3,169,771	3,432,957	4,632,799	4,487,368
	b) on alcohol	197,623	176,681	176,897	168,335	256,120	302,818
	c) on beer	262,080	279,086	277,889	276,782	417,177	449,202
	d) on beverage	108,737	110,255	83,182	84,658	86,499	94,610
	e) on tobacco products	2,039,532	1,999,988	1,983,435	1,969,920	2,073,693	2,409,245
	f) on coffee	68,704	74,959	76,807	77,648	92,545	115,645
	g) on imports of motor vehicles	22,269	35,522	128,806	149,423	101,186	270,546
	h) on luxury goods	0	0	0	996	13,237	12,000
6.	Taxes on international trade and transactions	3,942,438	4,639,995	4,127,523	4,287,890	3,795,288	3,025,153
6.1.	Custom duties	3,942,438	4,639,995	4,127,523	4,287,890	3,795,288	3,025,153
6.2.	Other imports charges	0	0	0	0	0	0
7.	Other taxes	452,357	467,309	455,736	467,222	465,110	525,331
V.	Nontax revenue	1,294,498	1,609,496	1,691,914	1,728,238	1,595,938	1,601,507
8.	Central bank profits	82,255	129,207	265,043	0	126,092	250,000
9.	Part of profits of public enterprises	134,866	329,842	351,134	698,792	21,893	40,000
10.	Revenue from interests	3,038	1,421	2,161	1,265	13,692	1,000
11.	Other property income	114,406	82,082	247,997	237,730	496,878	438,721
12.	Administrative fees and charges	109,086	146,399	125,092	112,273	110,986	126,528
13.	State administration bodies' revenue	246,098	286,830	115,994	130,311	167,886	80,000
14.	Roads' charges	367,580	347,086	271,762	229,810	308,603	307,284
15.	Fines and forfeits	228,547	281,011	308,147	313,080	340,306	352,974
16.	Other nontax revenue	8,623	5,618	4,583	4,977	9,603	5,000
VI.	Capital revenue	1,123,138	461,137	1,789,192	6,310,851	3,100,716	8,771,000
17.	Sales of public flats	166,683	159,420	155,169	111,719	128,887	120,000
18.	Sales of army's flats	401,931	157,940	201,448	113,027	96,808	140,000
19.	Revenue from privatization	554,524	143,777	1,432,366	6,078,881	2,866,976	8,500,000
20.	Other capital revenue	0	0	209	7,224	8,045	11,000
VII.	Grants	0	0	0	0	0	0

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

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I.	Total expenditure and lending minus repayments	31,501,501	35,006,314	42,551,916	48,878,764	50,743,526	49,679,912
II.	Total expenditure	30,972,816	34,395,182	41,473,167	47,379,586	49,567,457	48,849,812
III.	Current expenditure	25,930,068	29,579,721	34,883,026	38,476,084	44,237,397	43,913,811
1.	Expenditures on goods and services	19,623,107	20,263,325	22,648,712	22,090,857	24,324,284	21,386,427
1.1.	Wages and salaries	8,365,211	9,147,512	10,851,793	12,080,454	13,072,713	11,473,002
1.2.	Employer contributions	1,966,383	1,892,364	2,178,503	2,614,559	2,500,977	2,233,967
1.3.	Other purchases of goods and services	9,291,513	9,223,449	9,618,416	7,395,844	8,750,594	7,679,458
2.	Interest payments	1,217,618	1,737,016	1,951,283	2,099,141	2,599,286	3,330,826
2.2.	Domestic payments	949,879	775,007	,917,305	933,117	945,130	986,482
2.3.	Payments abroad	267,739	962,009	1,033,978	1,166,024	1,654,156	2,344,344
3.	Subsidies and other current transfers	5,089,343	7,579,380	10,283,031	14,286,086	17,313,827	19,196,558
3.1.	Subsidies	2,076,847	2,307,071	3,274,689	3,418,897	3,802,763	3,807,155
3.1.1.	To nonfinancial public enterprises	1,995,594	2,085,988	2,847,858	2,590,594	3,080,263	2,906,293
3.1.2.	To financial institutions	1,684	1,281	0	0	0	0
3.1.3.	To other enterprises	79,569	219,802	426,831	828,303	722,500	900,862
3.2.	Transfers to other levels of Government	1,933,068	4,041,503	5,733,307	8,458,296	11,679,017	13,477,478
3.3.	Transfers to nonprofit institutions	275,224	314,696	355,667	422,470	432,691	680,575
3.4.	Transfers to households	774,412	878,006	889,161	1,340,618	948,856	1,029,341
3.5.	Transfers abroad	29,792	38,104	30,207	645,805	450,500	202,009
IV.	Capital expenditure	5,042,748	4,815,461	6,590,141	8,903,502	5,330,060	4,936,001
4.	Acquisition of fixed capital assets	2,216,434	1,977,534	2,790,788	4,093,290	2,705,316	2,017,126
5.	Purchases of stocks	0	0	0	0	0	0
6.	Purchases of land and intangible assets	194,214	238,691	290,985	278,271	514,144	443,739
7.	Capital transfers	2,632,100	2,599,236	3,508,368	4,531,941	2,110,601	2,475,136
7.1.	To other levels of national government	100,000	113,000	770,983	2,279,726	181,347	265,000
7.2.	To nonfinancial public enterprises	270,000	434,713	597,933	240,749	449,469	438,657
7.3.	To financial institutions	0	0	0	486,284	11,352	163,360
7.4.	To other enterprises	1,480	3,100	20,642	116,822	179,675	246,929
7.5.	Other domestic capital transfers	2,245,820	2,036,583	2,103,810	1,398,360	1,284,711	1,361,189
7.6.	Capital transfers abroad	14,800	11,840	15,000	10,000	4,047	0
V.	Lending minus repayments	528,685	611,132	1,078,749	1,499,178	1,176,069	830,100
8.	To other levels of national government	0	43,587	12,709	45,352	13,325	93,000
9.	To nonfinancial public enterprises	0	-263,142	4,400	0	0	317,000
10.	To financial institutions	147,506	603,948	934,929	962,721	981,969	296,000
11.	Other domestic lending minus repayments	367,841	205,734	100,978	480,409	165,604	106,100
12.	Net lending abroad	13,338	21,005	25,733	10,696	15,171	18,000

Appendix 4: Budgetary Central Government Expenditure by Function

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I	Total expenditure	30,972,816	34,395,182	41,473,168	47,379,586	49,567,457	48,849,812
1.	General public services	1,911,595	2,182,768	3,411,394	3,047,060	2,933,184	3,160,554
2.	Defense affairs and services	7,760,190	6,990,659	7,373,239	5,617,308	5,479,453	4,268,177
3.	Public order and safety affairs	3,714,158	4,169,881	4,251,480	4,628,086	5,185,272	4,784,364
4.	Education affairs and services	3,599,830	4,050,800	4,668,772	5,718,179	6,576,016	6,137,718
5.	Health affairs and services	151,619	184,758	816,772	476,605	332,403	474,697
6.	Social security and welfare affairs and services	4,408,288	6,451,998	8,024,614	11,300,663	14,947,339	16,796,203
7.	Housing and community amenity affairs and services	2,602,722	2,069,451	2,620,402	2,025,698	1,803,294	1,747,063
8.	Recreational, cultural and religious affairs	410,711	539,479	576,615	842,026	904,118	955,468
9.	Recreational, cultural and religious affairs	-	-	-	764	342	18,350
10.	Agriculture, forestry, fishing, hunting affairs	550,976	616,317	1,103,215	1,245,740	1,723,802	1,655,891
11.	Mining, manufacturing, construction affairs	381,307	692,771	728,932	2,819,543	624,081	544,181
12.	Transport and communication affairs and services	3,404,954	3,433,519	4,126,923	5,304,002	4,953,217	3,461,141
13.	Other economic affairs and services	305,008	648,405	548,438	659,235	813,162	932,199
14.	Expenditures not classified by major group	1,771,458	2,364,376	3,222,372	3,694,678	3,291,774	3,913,808

Appendix 5: Financing by Type of Debt Holder

	(000 HRK)	Outturn					Budget
		1996	1997	1998	1999	2000	2001
I	Total financing	134,020	1,160,191	-1,256,677	2,522,040	6,107,853	0
II	Domestic financing	-669,912	-1,825,749	-1,247,563	-2,093,076	-813,598	-1,741,932
1.	From other general government	0	0	190,000	-87,000	-92,000	0
2.	From monetary authorities	-152,745	-354,848	112,392	748	-12,486	0
2.1.	NCB - net borrowing	-233,834	-241,340	0	0	0	0
2.2.	Changes in deposits	81,089	-113,508	112,392	748	-12,486	0
3.	From deposit money banks	-308,357	-1,357,298	-1,638,606	-1,859,376	-288,830	-1,571,236
4.	Other domestic financing	-208,810	-113,603	88,651	-147,448	-420,282	-170,696
4.1.	From other financial institutions	10,000	-12,303	-6,860	-3,519	-245,773	-41,000
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.	-218,810	-101,300	95,511	-143,929	-174,509	-129,696
III	Financing abroad	803,932	2,985,940	-9,114	4,615,116	6,921,451	1,741,932
5.	From international development institutions	482,028	470,073	379,921	404,557	23,086	938,005
5.1.	Drawings	581,243	557,570	504,185	589,995	250,003	1,216,155
5.2.	Amortization	-99,215	-87,497	-124,264	-185,438	-226,917	-278,150
6.	From foreign governments	-364,330	-502,829	-525,161	-197,253	-800,125	-932,772
6.1.	Drawings	0	0	0	110,897	77,132	211,586
6.2.	Amortization	-364,330	-502,829	-525,161	-308,150	-877,257	-1,144,358
7.	Other borrowing abroad	686,234	3,018,696	136,126	4,407,812	7,698,490	1,736,699
7.1.	Other borrowing abroad	686,234	-3,749	-11,809	350,160	1,055,055	-4,013,648
7.2.	Supplier credits	0	0	0	0	0	0
7.3.	Other borrowing abroad n.e.c.	0	3,022,445	147,935	4,057,652	6,643,435	5,750,347
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
		1996	1997	1998	1999	2000	2001
I	Total financing	134,020	1,160,191	-1,256,677	2,522,040	6,107,853	0
II	Domestic financing	-669,912	-1,825,749	-1,247,563	-2,093,076	-813,598	-1,741,932
1.	Long-term bonds	-712,116	-1,572,385	-1,956,403	-2,164,050	-2,627,910	-1,678,750
1.1.	Issues	545,138	146,250	0	0	0	0
1.2.	Amortization	-1,257,254	-1,718,635	-1,956,403	-2,164,050	-2,627,910	-1,678,750
2.	Short-term bonds and bills	268,824	113,970	182,103	178,889	1,552,411	0
3.	Long-term loans n.e.c.	-292,922	-240,642	-10,375	-21,663	-51,384	-63,182
3.1.	Drawings	0	0	0	0	0	0
3.2.	Amortization	-292,922	-240,642	-10,375	-21,663	-51,384	-63,182
4.	Short-term loans n.e.c.	10,000	0	190,000	-87,000	325,770	0
5.	Other liabilities	-855	-183	234,720	0	0	0
6.	Changes in cash, deposits and securities	57,157	-126,509	112,392	748	-12,486	0
III	Financing abroad	803,932	2,985,940	-9,114	4,615,116	6,921,451	1,741,932
7.	Long-term bonds	0	3,022,445	147,935	4,057,652	6,643,435	6,361,079
7.1.	Issues	0	3,022,445	447,935	4,057,652	6,643,435	6,361,079
7.2.	Amortization	0	0	-300,000	0	0	0
8.	Short-term bonds and bills	0	0	0	0	0	-730,732
9.	Long-term loans n.e.c.	830,811	-36,505	363,854	904,085	-3,129,717	-4,008,415
9.1.	Drawings	1,294,356	557,570	1,769,361	1,848,405	548,126	1,427,741
9.2.	Amortization	-463,545	-594,075	-1,405,507	-944,320	-3,677,843	-5,436,156
10.	Short-term loans n.e.c.	-26,879	0	-520,903	-346,621	3,407,734	120,000
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
	1996	1997	1998	1999	2000	2001
Total revenue and grants	48,396,602	53,345,263	65,110,652	67,542,226	66,734,998	73,526,989
Budgetary central government	31,367,481	33,846,123	43,808,593	46,356,724	44,635,673	49,679,912
Extrabudgetary funds	17,029,121	19,499,140	21,302,059	21,185,502	22,099,325	23,847,077
1. Pension fund	9,584,721	11,022,237	10,713,387	10,799,810	11,254,157	12,346,717
2. Health insurance fund	5,196,313	5,824,150	8,269,030	8,686,397	8,967,447	9,576,806
3. Employment fund	676,112	638,330	718,195	760,620	822,395	920,554
4. Child benefit fund	878,500	976,695	542,849	9,079	7,130	0
5. Public water-management fund	693,475	1,037,728	1,058,598	929,596	1,048,196	1,003,000
Total expenditure and lending minus repayments	48,874,039	54,931,935	64,228,568	70,343,017	74,432,276	74,715,160
Budgetary central government	27,591,903	29,409,442	34,125,447	35,979,076	36,730,834	34,134,895
Extrabudgetary funds	21,282,136	25,522,493	30,103,121	34,363,941	37,701,442	40,580,265
1. Pension fund	10,459,776	13,795,119	16,170,417	18,998,533	20,180,821	23,873,270
2. Health insurance fund	8,357,507	8,742,813	10,776,029	11,919,552	13,918,076	12,710,667
3. Employment fund	676,184	714,077	571,227	824,914	995,513	1,193,428
4. Child benefit fund	853,165	1,003,702	1,032,129	1,136,161	1,250,588	1,450,000
5. Public water-management fund	935,504	1,266,782	1,553,319	1,484,781	1,356,444	1,352,900
Total deficit/surplus	- 477,437	- 1,586,672	882,084	- 2,800,791	-7,697,278	-1,188,171
Total financing	477,437	1,586,672	- 882,084	2,800,791	7,697,278	1,188,171
1. Financing from abroad	931,093	3,111,719	86,825	4,631,957	6,859,891	2,185,132
2. Domestic financing	- 453,656	- 1,525,047	- 968,909	- 1,831,166	837,387	-996,961
2.1. From other general government	0	0	0	0	0	0
2.2. From monetary authorities	- 152,745	- 354,848	112,392	748	-12,486	0
2.3. From deposit money banks	- 89,067	- 1,056,596	- 1,169,952	- 1,684,466	1,270,155	-826,265
2.4. Other domestic financing	- 211,844	- 113,603	88,651	- 147,448	-420,282	-170,696

Appendix 8: Revenues and Expenditures of the Pension Fund

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	12,407,222	15,299,580	16,136,761	18,946,291	20,194,968	23,079,340
II.	Total revenue	11,246,813	12,675,281	12,337,577	12,662,199	13,039,998	13,982,840
III.	Current revenue	11,105,745	12,439,164	11,907,022	12,553,233	12,988,412	13,881,140
IV.	Tax revenue	10,951,042	12,243,659	11,766,916	12,448,917	12,854,087	13,735,840
1.	Social security contributions	10,951,042	12,243,659	11,766,916	12,448,917	12,854,087	13,735,840
1.1.	From employees	5,266,590	5,918,109	5,715,002	6,012,091	6,575,054	7,350,155
1.2.	From employers	5,266,590	5,918,109	5,715,002	6,012,091	5,837,511	5,982,685
1.3.	From self-employed or unemployed	293,213	343,041	327,209	418,909	438,535	400,000
1.4.	Unallocable social security contributions	124,649	64,400	9,703	5,826	2,987	3,000
V.	Nontax revenue	154,703	195,505	140,106	104,316	134,325	145,300
2.	Income from dividends and interests	154,703	195,505	65,146	46,082	66,648	52,300
3.	Other nontax revenue	0	0	74,960	58,234	67,677	93,000
VI.	Capital revenue	141,068	236,117	430,555	108,966	51,586	101,700
4.	Sales of shares and public flats	141,068	236,117	430,555	108,966	51,586	101,700
VII.	Grants	1,160,409	2,624,299	3,799,184	6,284,092	7,154,970	9,096,500
5.	From other levels of national government	1,160,409	2,624,299	3,799,184	6,284,092	7,154,970	9,096,500
5.1.	Current grants	1,160,409	2,624,299	3,799,184	4,781,092	7,154,970	9,096,500
5.2.	Capital grants	0	0	0	1,503,000	0	0
I.	Total expenditure and net lending	12,411,104	15,547,850	16,554,799	19,046,509	20,225,124	23,913,770
II.	Total expenditure	12,411,104	15,547,850	16,554,799	19,046,509	20,225,124	23,913,770
III.	Current expenditure	12,393,518	15,532,570	16,520,781	19,029,138	20,223,524	23,880,766
1.	Expenditures on goods and services	427,870	534,291	593,119	672,323	675,112	1,044,146
1.1.	Wages and salaries	142,824	163,699	223,433	255,126	258,591	271,500
1.2.	Employer contributions	26,626	30,742	41,504	47,976	44,303	40,500
1.3.	Other purchases of goods and services	258,420	339,850	328,182	369,221	372,218	732,146
2.	Interest payments	884	13,736	27,517	60,652	78,094	78,780
2.1.	Domestic payments	884	13,736	27,517	60,652	78,094	78,780
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	11,964,764	14,984,543	15,900,145	18,296,163	19,470,318	22,757,840
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	1,924,702	1,721,990	344,453	0	0	0
3.4.	Transfers to households	10,002,364	13,217,390	15,500,163	18,239,288	19,392,096	22,682,840
3.5.	Transfers abroad	37,698	45,163	55,529	56,875	78,222	75,000
IV.	Capital expenditure	17,586	15,280	34,018	17,371	1,600	33,004
4.	Acquisition of fixed capital assets	17,586	15,280	34,018	17,371	1,600	33,004
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	-127,364	-469,107	-814,575	-1,694,813	-80,142	-903,126
	Total deficit/surplus	-3,882	-248,270	-418,038	-100,218	-30,156	-834,430
VI.	Total financing	3,882	248,270	418,038	100,218	30,156	834,430
1.	Financing from abroad	0	0	0	0	0	360,000
2.	Domestic financing	3,882	248,270	418,038	100,218	30,156	474,430
2.1.	From deposit money banks	3,882	248,270	418,038	100,218	30,156	474,430
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
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	8,750,894	9,342,902	11,552,049	12,649,766	13,088,504	13,231,546
II.	Total revenue	8,134,192	8,560,479	9,988,481	10,240,976	10,424,885	10,883,304
III.	Current revenue	8,134,192	8,535,594	9,912,379	10,240,707	10,424,448	10,883,014
IV.	Tax revenue	7,778,910	8,417,942	9,780,995	9,952,541	10,135,774	10,621,052
1.	Social security contributions	7,778,910	8,417,942	9,780,995	9,952,541	10,135,774	10,621,052
1.1.	From employees	2,712,698	3,082,123	4,411,445	4,747,281	5,118,502	5,625,350
1.2.	From employers	2,712,698	3,082,123	4,411,445	4,747,281	4,434,093	4,375,272
1.3.	From self-employed or unemployed	308,199	325,535	376,625	398,875	501,462	545,730
1.4.	Unallocable social security contributions	2,045,315	1,928,161	581,480	59,104	81,717	74,700
V.	Nontax revenue	355,282	117,652	131,384	288,166	288,674	261,962
2.	Income from dividends and interests	0	0	2,882	3,744	7,043	8,800
3.	Other nontax revenue	355,282	117,652	128,502	284,422	281,631	253,162
VI.	Capital revenue	0	24,885	76,102	269	437	290
4.	Sales of shares and public flats	0	24,885	76,102	269	437	290
VII.	Grants	616,702	782,423	1,563,568	2,408,790	2,663,619	2,348,242
5.	From other levels of national government						
	Current grants	616,702	782,423	1,563,568	2,408,790	2,663,619	2,348,242
5.1.	Current grants	616,702	782,423	1,563,568	1,847,955	2,661,059	2,348,242
5.2.	Capital grants	0	0	0	560,835	2,560	0
I.	Total expenditure and net lending	8,924,017	9,433,605	11,570,688	12,788,163	14,745,463	13,508,867
II.	Total expenditure	8,924,017	9,433,605	11,570,688	12,788,163	14,745,463	13,508,867
III.	Current expenditure	8,736,628	9,176,087	11,401,107	12,665,930	14,678,763	13,442,867
1.	Expenditures on goods and services	7,102,801	7,211,883	9,323,307	10,558,007	11,863,346	11,105,824
1.1.	Wages and salaries	2,806,889	3,353,355	3,857,567	4,216,558	4,525,025	4,808,557
1.2.	Employer contributions	566,510	690,792	794,659	868,611	827,387	798,200
1.3.	Other purchases of goods and services	3,729,402	3,167,736	4,671,081	5,472,838	6,510,934	5,499,067
2.	Interest payments	0	15,163	12,318	20,536	33,654	174,000
2.1.	Domestic payments	0	15,163	12,318	20,536	33,654	174,000
2.2.	Payments abroad	0	0	0	0	0	0
3.	Subsidies and other current transfers	1,633,827	1,949,041	2,065,482	2,087,387	2,781,763	2,163,043
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	1,633,827	1,949,041	2,065,482	2,087,387	2,781,763	2,163,043
IV.	Capital expenditure	187,389	257,518	169,581	122,233	66,700	66,000
4.	Acquisition of fixed capital assets	187,389	257,518	169,581	122,233	66,700	66,000
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	14,266	141,930	74,840	-577,268	-1,593,256	-211,611
	Total deficit/surplus	-173,123	-90,703	-18,639	-138,397	-1,656,959	-277,321
VI.	Total financing	173,123	90,703	18,639	138,397	1,656,959	277,321
1.	Financing from abroad	84,073	70,903	37,332	134	-11,750	-29,000
2.	Domestic financing	89,050	19,800	-18,693	138,263	1,668,709	306,321
2.1.	From deposit money banks	89,050	19,800	-18,693	138,263	1,668,709	306,321
2.2.	Other domestic financing	0	0	0	0	0	0

Appendix 10: Revenues and Expenditures of the Employment Fund

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	722,042	874,645	886,375	928,178	994,598	1,104,108
II.	Total revenue	722,042	746,867	843,343	907,478	980,850	1,079,200
III.	Current revenue	722,042	746,867	843,343	907,460	974,729	1,079,200
IV.	Tax revenue	699,785	740,466	831,446	880,920	954,807	1,057,000
1.	Social security contributions	699,785	740,466	831,446	880,920	954,807	1,057,000
1.1.	From employees	699,785	370,233	415,723	440,460	477,404	528,500
1.2.	From employers	0	370,233	415,723	440,460	477,404	528,500
V.	Nontax revenue	22,257	6,401	11,897	26,540	19,922	22,200
2.	Entrepreneurial and property income	0	0	0	12,799	8,266	15,000
3.	Fines and forfeits	0	844	5,466	625	218	200
4.	Other nontax revenue	22,257	5,557	6,431	13,116	11,438	7,000
VI.	Capital revenue	0	0	0	18	6,121	0
VII.	Grants	0	127,778	43,032	20,700	13,748	24,908
5.	From other levels of national government	0	127,778	43,032	20,700	13,748	24,908
5.1.	Current grants	0	127,778	43,032	20,700	13,748	24,908
5.2.	Capital grants	0	0	0	0	0	0
I.	Total expenditure and net lending	832,968	883,743	673,458	843,957	1,011,214	1,209,328
II.	Total expenditure	832,968	883,743	673,458	843,957	1,011,214	1,209,328
III.	Current expenditure	803,181	868,319	651,898	817,151	983,159	1,177,714
1.	Expenditures on goods and services	219,414	175,002	113,509	267,530	331,845	376,594
1.1.	Wages and salaries	0	34,838	47,228	67,582	79,496	80,600
1.2.	Employer contributions	0	7,111	9,635	13,790	13,656	12,900
1.3.	Other purchases of goods and services	219,414	133,053	56,646	186,158	238,693	283,094
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	583,767	693,317	538,389	549,621	651,314	801,120
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	156,784	162,555	92,596	5,253	2,045	3,000
3.4.	Transfers to households	426,983	530,762	445,793	544,368	649,269	798,120
3.5.	Transfers abroad	0	0	0	0	0	0
IV.	Capital expenditure	29,787	15,424	21,560	26,806	28,055	31,614
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	-81,139	6,326	234,477	111,009	5,318	-73,606
	Total deficit/surplus	-110,926	-9,098	212,917	84,221	-16,616	-105,220
VI.	Total financing	110,926	9,098	-212,917	-84,221	16,616	105,220
1.	Financing from abroad	0	0	0	0	0	160,000
2.	Domestic financing	110,926	9,098	-212,917	-84,221	16,616	-54,780
2.1.	From other general government	0	0	-190,000	87,000	92,000	0
2.2.	From monetary authorities	0	0	0	0	0	0
2.3.	From deposit money banks	110,926	9,098	-22,917	-171,221	-75,384	-54,780
2.4.	Other domestic financing	0	0	0	0	0	0

Appendix 11: Revenues and Expenditures of the Child Benefit Fund

(000 HRK)		Outturn					Budget
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	878,500	1,013,473	1,027,033	1,131,524	1,258,517	1,450,000
II.	Total revenue	878,500	993,473	551,833	9,079	7,130	0
III.	Current revenue	878,500	993,473	551,833	9,079	7,130	0
IV.	Tax revenue	877,429	992,289	550,639	8,098	6,144	0
1.	Social security contributions	877,429	992,289	550,639	8,098	6,144	0
1.1.	From employees	877,429	975,511	541,633	8,098	6,144	0
1.4.	Unallocable social security contributions	0	16,778	9,006	0	0	0
V.	Nontax revenue	1,071	1,184	1,194	981	986	0
3.	Other nontax revenue	1,071	1,184	1,194	981	986	0
VI.	Capital revenue	0	0	0	0	0	0
VII.	Grants	0	20,000	475,200	1,122,445	1,251,387	1,450,000
4.	From other levels of national government	0	20,000	475,200	1,122,445	1,251,387	1,450,000
4.1.	Current grants	0	20,000	475,200	1,122,445	1,251,387	1,450,000
4.2.	Capital grants	0	0	0	0	0	0
I.	Total expenditure and net lending	853,165	1,003,702	1,032,107	1,136,161	1,250,588	1,450,000
II.	Total expenditure	853,165	1,003,702	1,032,107	1,136,161	1,250,588	1,450,000
III.	Current expenditure	853,165	1,003,702	1,032,107	1,136,161	1,250,588	1,450,000
1.	Expenditures on goods and services	27,916	24,432	34,078	45,221	42,581	44,600
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	27,916	24,432	34,078	45,221	42,581	44,600
2.	Interest payments	0	0	0	0	0	0
3.	Subsidies and other current transfers	825,249	979,270	998,029	1,090,940	1,208,007	1,405,400
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	825,249	979,270	998,029	1,090,940	1,208,007	1,405,400
IV.	Capital expenditure	0	0	0	0	0	0
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	25,335	9,771	-5,074	-4,637	7,929	0
	Total deficit/surplus	25,335	9,771	-5,074	-4,637	7,929	0
VI.	Total financing	-25,335	-9,771	5,074	4,637	-7,929	0
1.	Financing from abroad	0	0	0	0	0	0
2.	Domestic financing	-25,335	-9,771	5,074	4,637	-7,929	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	-25,335	-9,771	5,074	4,637	-7,929	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
		1996	1997	1998	1999	2000	2001
I.	Total revenue and grants	797,575	1,146,762	1,376,980	1,338,797	1,448,966	1,301,400
II.	Total revenue	688,051	1,037,728	1,058,598	929,596	1,048,196	1,003,000
III.	Current revenue	687,357	1,037,205	1,058,282	929,294	1,047,932	1,002,700
IV.	Tax revenue	197,002	224,510	125,077	0	0	0
1.	Other tax revenues	197,002	224,510	125,077	0	0	0
V.	Nontax revenue	490,355	812,695	933,205	929,294	1,047,932	1,002,700
2.	Income from dividends and interests	5,073	10,718	6,448	3,412	4,435	4,500
3.	Administrative fees and charges	454,460	731,366	838,638	775,235	830,645	803,000
4.	Other nontax revenues	30,822	70,611	88,119	150,647	212,852	195,200
VI.	Capital revenue	694	523	316	302	264	300
5.	Sales of shares and public flats	694	523	316	302	264	300
VII.	Grants	109,524	109,034	318,382	409,201	400,770	298,400
6.	From other levels of national government	109,524	109,034	318,382	409,201	400,770	298,400
6.1.	Current grants	109,524	0	0	252,990	280,845	205,000
6.2.	Capital grants	0	109,034	318,382	156,211	119,925	93,400
I.	Total expenditure and net lending	940,400	1,275,917	1,565,308	1,498,418	1,369,810	1,365,600
II.	Total expenditure	940,400	1,275,917	1,565,308	1,498,418	1,369,810	1,365,600
III.	Current expenditure	377,775	580,213	694,534	722,462	847,455	769,600
1.	Expenditures on goods and services	361,792	555,224	659,578	675,390	794,954	708,600
1.1.	Wages and salaries	25,243	44,671	58,323	66,437	73,433	75,600
1.2.	Employer contributions	4,896	9,135	11,989	13,637	13,366	12,700
1.3.	Other purchases of goods and services	331,653	501,418	589,266	595,316	708,155	620,300
2.	Interest payments	15,983	24,989	34,956	47,072	52,501	61,000
2.1.	Domestic payments	15,983	24,989	34,956	47,072	52,501	61,000
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	562,625	695,704	870,774	775,956	522,355	596,000
4.	Acquisition of fixed capital assets	303,788	396,559	465,314	448,826	225,026	290,000
5.	Acquisition of land and intangible assets	2,227	6,294	9,171	8,942	5,629	6,000
6.	Capital transfers to nonfinancial public enterprises	256,610	292,851	396,289	318,188	291,700	300,000
V.	Lending minus repayments	0	0	0	0	0	0
	Current deficit/surplus with grants	419,106	456,992	363,748	459,822	481,322	438,100
	Total deficit/surplus	-142,825	-129,155	-188,328	-159,621	79,156	-64,200
VI.	Total financing	142,825	129,155	188,278	159,621	-79,156	64,200
1.	Financing from abroad	43,088	54,876	58,607	16,707	-49,810	-47,800
2.	Domestic financing	99,737	74,279	129,671	142,914	-29,346	112,000
2.1.	From other general government	62,004	40,974	12,333	39,901	27,221	93,000
2.2.	From monetary authorities	0	0	0	0	0	0
2.3.	From deposit money banks	40,767	33,305	117,338	103,013	-56,567	19,000
2.4.	Other domestic financing	-3,034	0	0	0	0	0

Appendix 13: Outturn of Local Government Budget

(000 HRK)	Outturn 1998				Outturn 1999				Budget 2000			
	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total
Total revenue and grants	1,238,005	6,466,910	944,084	8,649,000	1,210,918	6,392,301	775,365	8,378,584	1,449,657	7,101,800	858,240	9,409,697
Total revenue	977,633	6,229,182	603,596	7,810,411	975,397	6,180,688	578,357	7,734,442	1,191,420	6,864,541	655,734	8,711,694
Current revenue	893,145	5,874,497	600,215	7,367,856	880,365	5,738,345	560,851	7,179,561	1,039,753	6,308,881	627,395	7,976,029
Tax revenue	423,292	3,960,980	453,678	4,837,950	380,365	3,803,096	440,871	4,624,332	426,622	4,090,172	478,676	4,995,471
Taxes and surtaxes on personal income	282,980	2,607,574	245,589	3,136,143	241,609	2,502,459	223,228	2,967,296	265,626	2,665,885	245,474	3,176,985
Taxes on corporate income	34,061	833,247	148,343	1,015,651	35,897	789,905	149,211	975,013	45,103	887,717	162,160	1,094,979
Taxes on property	92,021	441,496	5,908	539,425	89,726	419,595	3,454	512,775	98,508	437,879	3,624	540,012
Domestic taxes on goods and services	12,890	78,663	53,838	145,391	12,457	83,400	62,434	158,291	16,406	92,623	64,768	173,797
Other tax revenues	1,339	0	0	1,339	676	7,737	2,544	10,957	979	6,068	2,650	9,697
Nontax revenues	469,853	1,913,516	146,537	2,529,906	500,000	1,935,249	119,980	2,555,229	613,131	2,218,709	148,719	2,980,559
Capital revenues	84,489	354,685	3,381	442,555	95,032	442,343	17,506	554,881	151,666	555,660	28,338	735,665
Grants	260,371	237,729	340,489	838,589	235,521	211,613	197,008	644,142	258,238	237,259	202,506	698,003
Total expenditure and lending minus repayments	1,241,138	6,672,018	941,358	8,854,513	1,230,726	6,659,043	821,117	8,710,886	1,522,539	7,318,846	866,981	9,708,366
Total expenditure	1,219,598	6,598,614	913,070	8,731,282	1,219,423	6,604,540	778,078	8,602,041	1,470,940	7,318,744	807,606	9,597,290
Current expenditure	747,234	4,371,765	682,137	5,801,137	776,126	4,620,019	559,215	5,955,360	905,422	5,150,075	602,617	6,658,114
Wages and salaries	146,050	1,086,659	80,276	1,312,986	183,664	1,150,013	97,715	1,431,372	203,036	1,252,274	112,541	1,567,851
Employer contributions	26,283	195,906	12,154	234,343	33,474	222,924	17,141	273,539	37,705	246,719	20,912	305,336
Other purchases of goods and services	369,254	1,760,560	230,486	2,360,301	372,875	1,705,365	169,100	2,247,340	420,719	1,934,989	182,649	2,538,357
Interest payments	4,402	68,962	5,876	79,240	7,116	118,068	8,979	134,163	9,263	121,871	12,098	143,231
Subsidies and current transfers	201,245	1,259,678	353,345	1,814,267	179,017	1,423,648	266,280	1,868,945	234,699	1,594,223	274,417	2,103,339
Capital expenditure	472,364	2,226,849	230,933	2,930,145	443,297	1,984,521	218,863	2,646,681	565,518	2,168,669	204,989	2,939,176
Lending minus repayments	21,539	73,404	28,288	123,231	11,303	54,503	43,039	108,845	51,599	102	59,375	111,076
Current deficit/surplus without grants	145,910	1,502,731	-81,922	1,566,720	104,239	1,118,326	1,636	1,224,201	134,331	1,158,806	24,779	1,317,916
Total deficit/surplus	-3,133	-205,107	2,726	-205,514	-19,808	-266,742	-45,752	-332,302	-72,882	-217,046	-8,741	-298,669

Appendix 14: Consolidated General Government Revenue and Grants

(000 HRK)		Outturn				Budget
		1996	1997	1998	1999	2000
I.	Total revenue and grants	54,385,153	60,200,150	72,737,584	75,009,716	74,823,444
II.	Total revenue	54,371,483	60,182,023	72,686,720	75,003,129	74,809,587
III.	Current revenue	52,778,745	58,986,750	69,946,535	68,027,842	70,464,564
IV.	Tax revenue	47,962,322	53,282,305	64,505,755	62,395,078	64,483,634
1.	Taxes on individual income	6,915,910	6,714,029	8,051,239	7,538,398	7,319,002
2.	Taxes on corporate income	1,772,121	2,504,127	3,476,800	3,340,968	2,808,362
3.	Social security contributions	15,533,703	17,725,269	19,215,241	19,453,111	20,569,683
4.	Taxes on property	551,049	747,742	810,350	759,630	783,950
5.	General sales tax	13,504,368	15,133,172	1,972,045	387,922	151,933
6.	Value added tax	-	-	20,228,226	19,829,971	20,728,836
7.	Excises	5,390,785	5,404,837	5,896,787	6,160,719	7,613,985
8.	Local taxes on goods and services	115,927	145,865	145,391	158,291	173,798
9.	Taxes on international trade and transactions	3,942,438	4,639,995	4,127,523	4,287,890	3,833,809
10.	Other tax revenues	236,022	267,269	582,153	478,178	500,276
V.	Nontax revenues	4,816,423	5,704,445	5,440,780	5,632,764	5,980,930
11.	Profits of departmental enterprises	1,306	2,593	2,160	2,320	2,425
12.	Central bank's profit	82,255	129,207	265,043	0	126,092
13.	Part of profits of public enterprises	134,955	331,319	366,041	716,498	68,347
14.	Revenue from interests	76,909	49,274	56,079	55,805	65,116
15.	Revenue from dividends	228,718	255,808	112,902	119,525	340,859
16.	Other property income	375,135	440,970	742,932	761,777	712,423
17.	Administrative fees and charges	2,220,703	2,895,430	2,388,677	2,436,173	2,720,905
18.	State administration bodies' revenue	340,720	326,053	158,309	187,715	264,436
19.	Roads' charges	217,178	360,679	337,087	295,113	345,304
20.	Revenue under the special regulations	231,064	284,226	315,960	316,300	336,766
21.	Other nontax revenue	907,479	628,887	695,590	741,538	843,178
VI.	Capital revenue	1,592,738	1,195,273	2,740,185	6,975,287	4,345,023
22.	Sales of fixed capital assets	1,505,029	1,121,985	2,659,060	6,865,168	4,204,777
23.	Sales of stocks	0	0	0	0	0
24.	Sales of land and intangible assets	47,771	32,983	45,331	36,970	57,103
25.	Capital transfers from nongovernment sources	39,938	40,305	35,794	73,149	83,143
VII.	Grants	13,670	18,126	50,864	6,587	13,857
26.	Grants from abroad	13,671	18,127	50,864	6,587	13,857
26.1.	Current grants	8,695	9,153	21,952	3,061	3,391
26.2.	Capital grants	4,976	8,974	28,912	3,526	10,466
27.	From other levels of national Government	0	0	0	0	0
27.1.	Current grants	0	0	0	0	0
27.2.	Capital grants	0	0	0	0	0

Appendix 15: Consolidated General Government Expenditure and Net Lending

(000 HRK)		Outturn				Budget
		1996	1997	1998	1999	2000
I.	Total expenditure and lending minus repayments	54,784,640	61,697,267	72,059,343	78,139,599	82,507,571
II.	Total expenditure	54,297,299	61,057,789	70,871,366	76,574,687	81,696,244
III.	Current expenditure	46,941,087	53,608,116	61,341,807	66,484,940	72,401,655
1.	Expenditure for goods and services	27,160,325	28,666,685	33,985,093	34,515,513	37,569,815
1.1.	Wages and salaries	12,051,216	13,577,429	16,349,815	18,117,529	19,248,575
1.2.	Employer contributions	0	0	0	0	0
1.3.	Other purchases of goods and services	15,109,109	15,089,256	17,635,278	16,397,984	18,321,240
2.	Interest payments	1,243,318	1,838,626	2,104,497	2,355,843	2,872,135
2.1.	Domestic interest payments	975,566	876,332	1,068,354	1,175,770	1,204,297
2.2.	Interest payments abroad	267,752	962,294	1,036,143	1,180,073	1,667,838
3.	Subsidies and current transfers	18,537,443	23,102,805	25,252,217	29,613,584	31,959,705
3.1.	Subsidies	2,345,459	2,646,925	3,705,834	3,921,769	4,280,293
3.2.	Transfers to other levels of national Government	0	0	0	0	0
3.3.	Transfers to nonprofit institutions	2,399,271	2,728,045	1,453,504	1,561,707	1,685,470
3.4.	Transfers to households	13,722,957	17,644,373	20,007,127	23,426,974	25,464,827
3.5.	Transfers abroad	69,757	83,462	85,752	703,134	529,115
IV.	Capital expenditures	7,356,212	7,449,672	9,529,559	10,089,747	9,294,589
4.	Acquisition of fixed capital assets	3,752,841	3,814,520	5,519,129	6,772,016	5,821,981
5.	Purchases of stocks	8,076	8,795	117	401	4,114
6.	Purchases of land and intangible assets	314,622	369,303	430,106	394,572	709,029
7.	Capital transfers	3,280,674	3,257,054	3,580,207	2,922,758	2,759,465
V.	Lending minus repayments	487,341	639,478	1,187,977	1,564,912	811,327
8.	Domestic net lending	473,976	618,174	1,162,244	1,554,216	793,768
9.	Net lending abroad	13,366	21,304	25,733	10,696	17,559
Current deficit/surplus		5,846,352	5,387,786	8,604,728	1,542,902	-1,937,091
Total deficit/surplus		5,846,352	-1,497,118	678,241	-3,129,883	-7,684,127

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

(000 HRK)		Outturn				Budget
		1996	1997	1998	1999	2000
I	Total financing	399,487	1,497,117	-678,241	3,129,883	7,684,127
II	Domestic financing	-530,293	-1,619,392	-792,358	-1,837,341	-1,835,623
1.	From other general government	0	0	0	0	0
2.	From monetary authorities	-152,745	-354,848	112,392	748	0
3.	From deposit money banks	-172,258	-1,127,563	-994,435	-1,702,173	-1,453,374
4.	Other domestic financing	-205,289	-136,981	89,685	-135,916	-382,249
4.1.	From other financial institutions	11,985	13,154	-9,145	20,089	-168,791
4.2.	From nonfinancial public enterprises	3,239	5,057	-17	-920	2,762
4.3.	From nonfinancial private sector	-348	-52,707	-6,499	-16,282	1,430
4.4.	Other domestic financing - n.e.c.	-220,166	-102,485	105,346	-138,803	-217,650
III	Financing abroad	929,780	3,116,509	114,117	4,967,224	9,519,750
5.	From international development institutions	609,189	595,852	475,860	421,398	186,107
6.	From foreign governments	-364,330	-502,829	-525,161	-197,253	-777,539
7.	Other borrowing abroad	686,234	3,025,705	162,573	4,753,489	10,110,843
8.	Changes in cash, deposits and securities	-1,313	-2,219	845	-10,410	340

PUBLISHER:

Ministry of Finance of the Republic of Croatia
Katančičeva 5, Zagreb

Editors:

Damir Kuštrak, M.S.

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Design and Printing:

HIT ART - Zagreb

Edition:

1 200 copies

ISSN 1331 - 6192

**THOSE USING DATA FROM THE ANNUAL REPORT ARE REQUESTED TO CITE THE
SOURCE**

Available on Internet:

www.mfin.hr/annual

Zagreb, 25. March 2001