



**REPUBLIC OF CROATIA**

**MINISTRY OF FINANCE**

**ANNUAL REPORT**

**OF THE MINISTRY OF FINANCE**

**2001**



# CONTENTS

<i>Foreword</i> .....	5
I. MACROECONOMIC TRENDS IN 2001.....	7
1.1. EXTERNAL SITUATION.....	9
1.2. THE REAL SECTOR.....	9
1.2.1. Industrial Output.....	10
1.2.2. Construction Industry.....	11
1.2.3. Tourism.....	11
1.2.4. Retail Trade.....	12
1.3. PRICES AND EXCHANGE RATE.....	12
1.3.1. Prices.....	12
1.3.2. Exchange Rate.....	12
1.4. MONETARY TRENDS.....	13
1.5. LABOR MARKET TRENDS.....	14
1.5.1. Employment and unemployment.....	14
1.5.2. Salaries and Pensions.....	14
1.6. ECONOMIC RELATIONS WITH FOREIGN COUNTRIES.....	15
1.6.1. Foreign Trade.....	15
1.6.2. Balance of Payments.....	16
II. CENTRAL GOVERNMENT BUDGET IN 2001.....	19
2.1. REVISION OF THE 2001 BUDGET.....	22
2.2. CENTRAL GOVERNMENT BUDGET DEFICIT/SURPLUS.....	23
2.2.1. Arrears (Due Outstanding Liabilities).....	24
2.3. CENTRAL GOVERNMENT BUDGET OUTTURN IN 2001.....	25
2.3.1. TAX REVENUES.....	25
Value-Added Tax.....	26
Personal Income Tax.....	27
Profit Tax.....	29
Excise Tax Revenues.....	29
Customs Revenues.....	32
2.3.2. NON-TAX REVENUES.....	32
2.3.3. CAPITAL REVENUES.....	33
2.4. CENTRAL GOVERNMENT BUDGET EXPENDITURES IN 2001.....	33
2.4.1. CURRENT EXPENDITURES.....	34
2.4.2. CAPITAL EXPENDITURES.....	36
2.4.3. LENDING MINUS REPAYMENT.....	36
2.5. FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURES.....	37
III. CONSOLIDATED CENTRAL GOVERNMENT.....	39
3.1. CONSOLIDATED CENTRAL GOVERNMENT.....	41
3.2. EXTRA-BUDGETARY FUNDS.....	43
3.2.1. Pension Fund.....	43
3.2.2. Health Insurance Fund.....	47
3.2.3. Employment Fund.....	49
3.2.4. Child Benefit Fund.....	51
3.2.5. "Hrvatske Vode" (Public Water Management Fund).....	52
IV. FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT IN 2001.....	53
4.1. SOURCES OF FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS.....	57
4.2. THE TREND OF REVENUES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS IN 2001.....	59
4.2.1. Tax Revenues.....	60
4.2.2. Non-Tax Revenues of Cities and Counties.....	61
4.2.3. Capital Revenues and Borrowing of Municipalities, Cities, and Counties.....	61
4.2.4. Grants.....	61
4.3. BUDGET EXPENDITURES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS.....	62
V. CONSOLIDATED GENERAL GOVERNMENT IN 2001.....	65

5.1. CONSOLIDATED GENERAL GOVERNMENT – ECONOMIC CLASSIFICATION .....	67
5.2. CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVELS .....	70
5.3. SURPLUS/DEFICIT OF CONSOLIDATED GENERAL GOVERNMENT .....	72
VI. PUBLIC DEBT OF THE REPUBLIC OF CROATIA IN 2001 .....	73
6.1. CREDIT RATING OF THE REPUBLIC OF CROATIA .....	75
6.2. INTERNAL DEBT OF THE GOVERNMENT BUDGET IN 2001 .....	76
6.2.1. Internal Debt Categories .....	76
6.2.2. Treasury Bills .....	77
6.3. EXTERNAL PUBLIC DEBT OF THE REPUBLIC OF CROATIA .....	78
6.3. EXTERNAL PUBLIC DEBT OF THE REPUBLIC OF CROATIA .....	79
6.3.1. International Bonds of the Republic of Croatia .....	79
6.4. RELATIONS OF THE REPUBLIC OF CROATIA WITH INTERNATIONAL FINANCIAL INSTITUTIONS .....	83
6.4.1. International Bank for Reconstruction and Development (IBRD) .....	83
New Loans and Grants Approved in 2001 .....	83
Loan for Bankruptcy Administration Project (No.: 46130-HR) .....	83
Structural Adjustment Loan (SAL-No. 46410-HR) .....	84
Social Protection Project Grants .....	84
Environmental Protection Grant .....	85
Loan Preparation and Activities Related to the Preparation of Projects for Financing through Other New Loans .....	85
A Review of Loans and Debt to the International Bank for Reconstruction and Development (IBRD) .....	85
A Review of Grants .....	90
6.4.2. European Bank for Reconstruction and Development (EBRD) .....	91
Business Operations in 2001 .....	91
Disbursement of Public Loans in 2001 .....	92
Overview of Loans .....	94
6.4.3. The Council of Europe Development Bank (CEB) .....	96
New Loans Agreed in 2001 .....	96
Loans under Preparation .....	97
Utilization of Loans in 2001 .....	97
6.4.4. The European Investment Bank (EIB) .....	99
Establishment of Institutional Relations .....	99
Loans Concluded in 2001 .....	99
Preparation of New Projects for Financing by EIB Loans .....	100
Repayment of Inherited Loans .....	101
6.5. THE GUARANTEES OF THE REPUBLIC OF CROATIA IN 2001 .....	102
VII. INTERNAL ORGANIZATIONAL STRUCTURE OF THE MINISTRY OF FINANCE .....	105
THE SCOPE OF AUTHORITIES OF THE INTERNAL ORGANIZATIONAL UNITS OF THE MINISTRY OF FINANCE .....	107
APPENDICES .....	113
APPENDIX 1: Basic Macroeconomic Indicators of Croatian Economy .....	115
APPENDIX 2: Budgetary Central Government Revenue and Grants .....	116
APPENDIX 3: Budgetary Central Government Expenditure and Net Lending by Economic Categories .....	117
APPENDIX 4: Budgetary Central Government Expenditure by Function .....	118
APPENDIX 5: Financing by Type of Debt Holder .....	119
APPENDIX 6: Financing by Type of Debt Instrument .....	119
APPENDIX 7: Consolidated Central Government .....	120
APPENDIX 8: Revenues and Expenditures of Pension Fund .....	121
APPENDIX 9: Revenues and Expenditures of Health Insurance Fund .....	122
APPENDIX 10: Revenues and Expenditures of Employment Fund .....	123
APPENDIX 11: Revenues and Expenditures of Child Benefit Fund .....	124
APPENDIX 12: Revenues and Expenditures of the Public Water Management Fund (“Hrvatske Vode”) .....	125
APPENDIX 13: Outturn of Local Government Budget .....	126
APPENDIX 14: Consolidated General Government Revenues .....	127
APPENDIX 15: Consolidated General Government Expenditures .....	128

# *Foreword*

*First of all, we owe all our distinguished partners and readers an apology for the delay in the publishing of the 2001 Annual Report of the Ministry of Finance. Although we are already well into fiscal year 2004, we trust that these data for 2001, published with delay, will definitely fill the gap. We are keen on compensating this in an adequate manner and will, consequently, soon publish the 2002 Annual Report.*

*Namely, the concept of this Annual Report does not differ from the one of the latest published Report – the one for 2000. The first part reflects on the basic macroeconomic trends in 2001, both in the real and the monetary sectors.*

*The second part analyses the revenues and expenditures of the Central Government budget in terms of key economic categories. Among other things, it provides an overview of the budget revision in 2001.*

*The third part describes the developments at the level of the Consolidated General Government, which includes budgets of the extra-budgetary funds in 2001.*

*The fourth part pertains to the budget and the financing of the local and regional self-government units. It should be noted that the analysis of 2001 revenues and expenditures includes, according to the methodology of the IMF, budget outturns for a total of 53 units (32 cities, 20 counties, and the City of Zagreb) which have taken over the financing of the decentralized functions.*

*The fifth part provides data for the Consolidated General Government for 2000 and 2001. More precisely, the last Annual Report, the one for 2000, provided the data on the trends in the revenues and expenditures of the general government as of 1999.*

*The sixth part elaborates on the Public Debt of the Republic of Croatia and also includes the analysis of issued government guarantees, as well as the relations with international financial institutions during 2001.*

*The seventh part provides the description of changes in the internal organization of the Ministry of Finance in 2001 and the organizational structure chart.*

*The final part of the Report provides the Appendices in the table format, with data for the period from 1997 through 2001.*

*We would like to thank all those who have engaged in the preparation of the Annual Report and hope that their work and efforts will be useful and to the satisfaction of our distinguished readers.*

*Editorial Board*

*Zagreb, January 2004*



# I. MACROECONOMIC TRENDS IN 2001



## 1.1. EXTERNAL SITUATION

With a view to furthering the development of a democratic and market oriented society, one of the top priorities of the Republic of Croatia is a gradual integration into the circle of developed economies, including the accession to the European Union, promoting regional cooperation, and development of good-neighborly relations. It is necessary to create a transparent Croatian economy and trade legislation, and also to include Croatia into international flows based on free trade.

Croatia became a member of the WTO in 2000. During 2001 a number of free trade agreements were concluded - with Hungary, the Czech Republic, the Slovak Republic, Poland, Bulgaria, and EFTA member states. In addition, negotiations were intensified on the conclusion of bilateral agreements with Albania, Romania, and Yugoslavia, as well as free trade agreements with Lithuania, Latvia, and Estonia. Croatia's candidacy for CEFTA membership was adopted in October 2001. Also, the Stabilization and Association Agreement was signed, which significantly improved the relations between Croatia and the EU.

Besides, 2001 was marked by the Stand-by arrangement with the International Monetary Fund. In line with this, many structural and other reforms in the economy were commenced and continued, and they received a positive rating by the IMF, together with all other economic trends and criteria referred to in the Arrangement.

**Table 1.1: Basic Macroeconomic Indicators in Selected Countries**

%	Real GDP (%)		Inflation (Annual Average)		Balance-of-Payments Current Account (% of GDP)	
	2000	2001	2000	2001	2000	2001
Austria	3.5	0.7	2.0	2.3	-2.7	-2.1
France	3.8	1.8	1.8	1.8	1.4	1.9
Ireland	10.0	5.7	5.3	4.0	-0.6	-0.6
Germany	2.9	0.6	1.5	2.1	-1.0	0.5
The Czech Republic	3.2	3.3	3.9	4.7	-5.6	-4.7
Estonia	7.1	5.0	3.9	5.8	-6.4	-6.5
Hungary	5.2	3.7	9.8	9.2	-2.9	-2.2
Poland	4.0	1.1	10.1	5.5	-6.3	-4.0
Slovenia	4.6	2.9	8.9	8.4	-3.4	0.2
Croatia	2.9	3.8	6.2	4.9	-2.5	-3.7

Source: Eurostat, European Commission, BS, MF, SORS, WIW, IMF

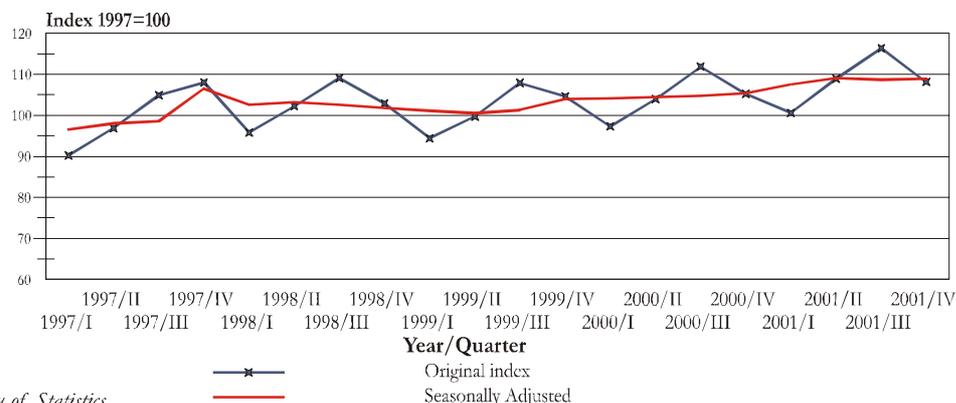
## 1.2. THE REAL SECTOR

Increased economic activity which started in 2000 continued in 2001, and was supported by macroeconomic stability. The highest growth rate since 1997 was realized, as well as the lowest inflation since 1994 (observed at the end of the period). Growth was recorded in almost all areas of the real economy. In addition, restrictive fiscal policy was continued, which was evident in the decrease in state expenditures and a decrease in budget deficit. Such a trend in the fiscal policy, as well as a stronger investment activity and personal consumption, were accompanied by a significant growth of all monetary aggregates and credits, and also by a decline in interest rates. This was particularly evident in the last quarter, when the banking system recorded a strong increase in deposits due to the conversion of currencies of the EU countries.

According to the preliminary data of the Croatian Bureau of Statistics, in 2001 the gross domestic product had a growth of 3.8% in real terms. The increase in investments is particularly encouraging, with recorded increase in all quarters in 2001. Investment growth in 2001 totaled 9.7% (16.7% in the last quarter). Besides the increase in investments, factors which significantly contributed to growth included, again, personal consumption (a 4.6-percent increase) and exports (an 8.7-percent increase). By its decrease, Government expenditure, for the second subsequent year, gave a negative contribution to the GDP growth. In 2001 a drop of Government expenditures amounted to 4.3%. Such development led to decrease of Government expenditures as a share of GDP from 27.8% in 1999 to 23.6% in 2001.

Monitoring according to the output method, it can be said that all sectors in 2001 had a positive impact on the total increase in gross value added. The increase in gross value added in industry amounted to 4.8%, in trade 10.6%, in catering industry 5.7%, transport 6.9%, financial mediation 4.0%, construction industry 2.3%, and in agriculture 0.7%.

Figure 1.1: Real GDP - Quarterly



Source: Croatian Bureau of Statistics

Table 1.2: GDP by Expenditure Method and Growth Rate of Selected Categories (1997 Prices = 100)

	Personal Expenditures	Government Expenditures	Investment into Capital	Export of Goods and Services	Import of Goods and Services
<b>Structure</b>					
1998	76,551	32,911	30,692	52,847	66,925
1999	74,334	33,844	29,495	53,204	64,587
2000	77,451	33,329	28,362	59,566	66,975
2001*	81,009	31,904	31,108	64,727	73,224
<b>Growth Rates</b>					
1998	-0.6	2.3	2.5	3.9	-4.9
1999	-2.9	2.8	-3.9	0.7	-3.5
2000	4.2	-1.5	-3.8	12.0	3.7
2001*	4.6	-4.3	9.7	8.7	9.3

\*Preliminary data

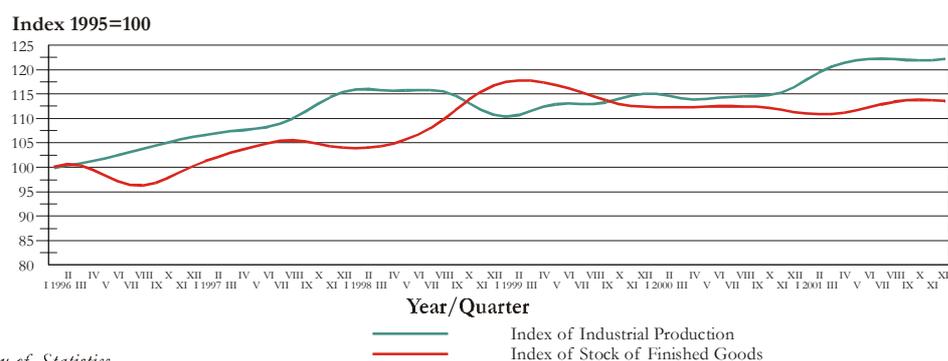
Source: Croatian Bureau of Statistics

### 1.2.1. Industrial Output

The 2000 industrial output growth was intensified in 2001 as well. In 2001 the physical volume of industrial output increased by 6.0%, which significantly contributed to the overall economic growth.

Manufacturing (6.4%), mining and extraction (2.0%), as well as supply of electrical energy, gas, and water (4.8 %) contributed most significantly to economic growth.

Figure 1.2: Industrial Production and Stocks - Trend

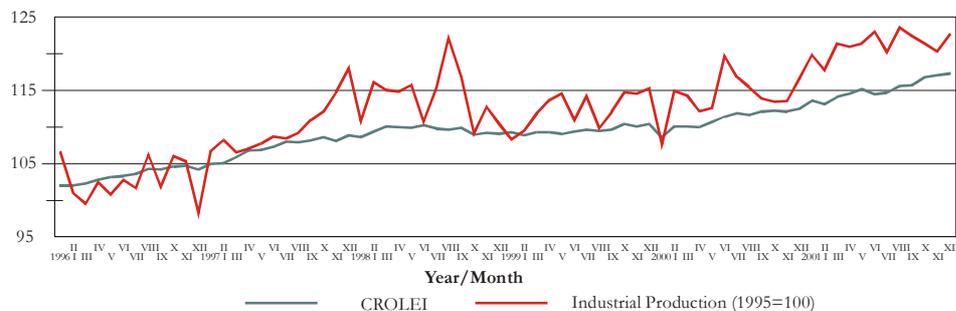


Source: Croatian Bureau of Statistics

Out of the five main branches of industrial production, in 2001 an increase was realized in the production of intermediary products, except for energy (4.2%), capital products (15.1%), and non-durable consumer goods (7.6%). The energy output also recorded growth of 3.0%, whereas durable consumer goods decreased by 4.9%.

Industrial output was instigated first by domestic, but also by foreign demand, which is visible from the data on the turnover in retail trade (increased by 10.0% in real terms), as well as commodity export, which recorded a 5.1-percent increase in real terms in 2001.

**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 in the Ministry's monthly bulletin, is an important indicator of trends in industrial output.

**Table 1.3: Indicators of Industrial Output, Stocks, and Exports (Growth Rates in 2001)**

(in %)	Industrial Output	Stocks of Finished Products	Commodity Export in US\$
<b>INDUSTRIAL OUTPUT TOTAL</b>	<b>6.0</b>	<b>1.5</b>	<b>5.3</b>
Mining and Extraction	2.0	-7.9	93.7
Supply of Electrical Energy, Gas, and Water	4.8	-	83.2
<b>Manufacturing Industry</b>	<b>6.4</b>	<b>1.9</b>	<b>3.7</b>
Production of Food and Beverages	5.8	2.4	13.7
Production of Tobacco Products	11.8	49.1	21.9
Production of Chemicals and Chemical Products	-6.6	7.5	-11.8
Production of Paper Products	23.2	16.6	-7.9
Production of Oil products	-5.5	-21.1	-12.6
Production of Electrical Machinery and Appliances	19.0	-2.8	0.0
Production of Motor Vehicles	35.4	36.4	22.9
Production of Other Means of Transport	36.2	-33.8	13.8

Source: Croatian Bureau of Statistics

### 1.2.2. Construction Industry

The physical volume of construction works in 2001 recorded a 3.6-percent growth, after a 7.7-percent and 9.1-percent drops were recorded in 1999 and 2000. Such a trend was a result of the recovery of investment activity, especially due to the implementation of the housing construction project for vulnerable categories conducted by the Ministry of Public Works, Reconstruction, and Construction. It can be expected that this trend, both in private and state investments, will be additionally strengthened in 2002.

According to the structure of hours worked at construction sites in 2001, other buildings were built the most (56.1%), primarily new buildings (56.5%). 43.5% of hours worked were used for reconstructions, improvement of existing buildings, repairs, and maintenance. In comparison with 2000, the value of net orders increased by 22.7%, the value of conducted works by 23.2% and the number of completed apartments by 19.2%.

### 1.2.3. Tourism

In 2001, 7,859,757 tourist arrivals in Croatia were registered, which was a 10.0-percent increase in comparison with 2000. 43,404,354 room-nights were recorded, which was an 11.0-percent increase in comparison with the previous year. The number of room-nights of foreign tourists grew by 13.0%, whereas the room-nights of domestic tourists dropped by 2.0%. Such trends of tourist arrivals and room-nights of foreign tourists are definitely desirable and indicate that foreign tourists have returned to the Adriatic. However, the drop in the room-nights of domestic tourists may possibly indicate their insufficient economic strength or finding alternative accommodation, which remain unrecorded statistically.

German tourists accounted for the most numerous group of tourists (25.0% of the total number of foreign tourists). The number of their tourist arrivals and room-nights grew by 24.0% in comparison with 2000. In the group of countries traditionally "faithful" to Croatia, most foreign room-nights were realized by tourists from the following countries: Slovenia (13.3%), the Czech Republic (12.8%), Italy (12.3%), Austria (9.4%), Poland (6.6%), Slovakia (3.5%),

Hungary (4.0%), and the Netherlands (2.8%). It is also interesting that 21.9% tourists stayed in camps (13.0% more than last year), 17.4% tourists stayed in private accommodation (a 13.0-percent increase compared to last year), whereas 39.0% stayed in hotels (9.0% more than last year).

Besides the favorable indicators of the trend in the number of room-nights, tourism revenues recorded even better indicators, as they were collected at US\$ 2.7 billion. In 2001 foreign currency revenues collected from tourist travels amounted to US\$ 3.3 billion. This was an increase of more than 20.9% in nominal terms in comparison with the previous year, which indicates that those guests are of higher purchasing power.

#### 1.2.4. Retail Trade

In 2001 retail trade turnover increased by 14.4% in nominal terms, and by 10.0% in real terms. Such intensive growth contributed most significantly to the growth of the gross domestic product in 2001.

The trend in retail trade indicates an increased domestic demand, which is definitely useful for the domestic industrial output and aggregate supply. In addition to increased demand, the increase in the retail trade turnover is also a result of some other trends which should be pointed out. First of all, the impact of large chain stores on the increase in trade turnover should be stressed. With strengthening of competition on the domestic retail market, as well as the reduction in tariffs, domestic prices became much more competitive in comparison with retail prices of the neighboring countries. This led to the decrease in shopping abroad and increase in domestic turnover. The increase in turnover is partially a result of better statistical coverage of large chain stores than of small traders. Also, big chain stores contributed to the decrease in the gray economy in this segment of economy, and now turnovers are presented more realistically.

The increase in retail trade was also supported by Government transfers to households (return of pensioners' debt, child allowance), as well as the increase in credits to households (29.3%).

### 1.3. PRICES AND EXCHANGE RATE

#### 1.3.1. Prices

In 2001 average inflation, measured by the retail price index, amounted to 4.9%, whereas in 2000 it was 6.2%. The slowing down of the increase in inflation in 2001 may be attributed to significant decrease in the contribution of commodity prices to aggregate inflation. Under the influence of the drop in the price of crude oil in the world market, the decrease in the direct contribution of retail prices of oil products to the aggregate inflation rate was significant.

Monitored at the end of the period, retail prices in December 2001 were only 2.6% above those in December 2000 (which was the lowest end-of-year inflation since 1994). During the year the prices which grew the most were the prices of teaching aids (13.6%), electrical energy and lighting (13.3%), and liquid fuels and lubricants (9.6%). In the same period the cost of living grew by 4.8%. After a 9.7-percent increase in 2000, producer prices in 2001 recorded an increase of only 3.6%. At the end of the period, producer prices in December 2001 recorded a 3.1-percent drop in comparison with December 2000.

**Table 1.4: Prices and the Cost of Living**

	1996	1997	1998	1999	2000	2001
<b>Retail Prices, Average, %</b>	3.5	3.6	5.7	4.2	6.2	4.9
<b>Producer Prices, Average, %</b>	1.4	2.3	-1.2	2.5	9.7	3.6
<b>Cost of Living, Average, %</b>	4.3	4.1	6.4	3.5	5.3	4.8

*Source: Croatian Bureau of Statistics*

Stabilization of prices in 2001, in addition to being influenced by global economic policies, was also positively affected by the reduction of tariffs, and also by further strengthening of competition in the domestic market.

#### 1.3.2. Exchange Rate

The basic characteristic of the trend in kuna to Euro exchange rate in 2001 was stronger fluctuation. More precisely, following the pressures for depreciation of the kuna exchange rate at the beginning of the year, at the beginning of the summer the Croatian National Bank (CNB) stopped the appreciation of the kuna exchange rate. However, as early as August CNB invested great efforts to stop the depreciation of the kuna exchange rate, which it succeeded to do by introducing additional measures in September.

Monitoring the average annual kuna exchange rate, one can maintain that it was stable in comparison with important international currencies, namely, in 2001 the kuna, appreciated by 2.2% to the Euro, whereas it depreciated by 0.8% to the US dollar.

In 2001 the real effective exchange rate of the kuna, measured by producer prices, appreciated by 1.5% according to the CNB data. This has a somewhat adverse impact on the competitiveness of Croatian products.

## 1.4. MONETARY TRENDS

The growth of economic activity commenced in 2000 intensified increasingly in 2001. It was accompanied by a significant rise of all monetary aggregates and credit volume of commercial banks.

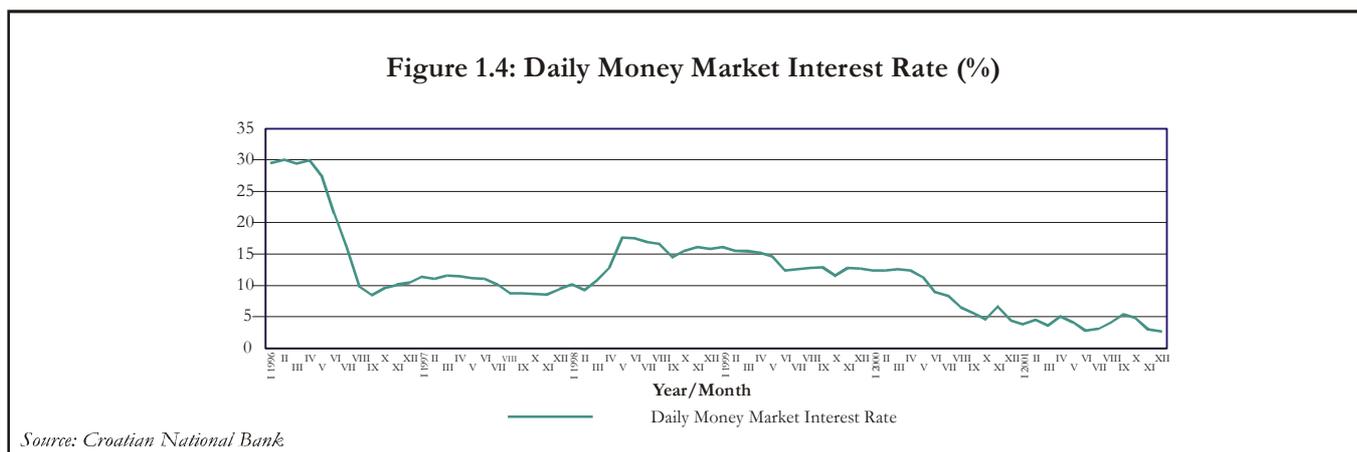
In 2001 credits of commercial banks to corporate sector enterprises increased by 21.3%, which indicates the strengthening of the trend started in 2000. At the same time, credits to households rose by 29.3%.

**Table 1.5: Monetary and Credit Aggregates**

(HRK Million, End of Year)	1998	1999	Growth Rate 1999/1998	2000	Growth Rate 2000/1999	2001	Growth Rate 2001/2000
<b>Primary Money</b>	9,954	10,310	3.6	11,717	13.6	17,803	51.9
<b>Money Supply M1</b>	13,531	13,859	2.4	18,030	30.1	23,704	31.5
<b>Broad Money Supply M4</b>	57,340	56,659	-1.2	73,061	28.9	106,071	45.2
<b>Domestic Credits</b>	59,792	55,876	-6.5	60,883	9.0	74,965	23.1
<b>Net Domestic Assets</b>	44,627	40,004	-10.4	44,044	10.1	57,410	30.3

Source: Croatian National Bank

In December 2001 money supply M1 amounted to HRK 23,704 million, which was by 31.5% more than in December 2000, whereas M4 (broad money supply) in the same period grew by 45.2%. In the same period total credit volume of monetary institutions amounted to HRK 74,965 million, which indicates a 23.1-percent increase. In December 2001 the year-on-year increase in currency deposits in commercial banks grew by 53.2%.



Thanks, among other things, to tightened fiscal policy of the Government of the Republic of Croatia during 2000 and 2001, we witnessed positive monetary trends. Tightened fiscal policy allowed for the Croatian National Bank to maintain a somewhat more expansive monetary policy.

This policy resulted in the trends of monetary and credit aggregates described above, as well as a significant drop in active interest rates. In December 2000 interest rates on the overnight monetary market were 2.39% in comparison with 10.0% in January of the same year. The overnight interest rate remained on this level the larger part of 2001. In August and September 2001 it grew to 3.88% and 4.75%, respectively, mostly due to the introduction of the obligation for banks to set aside a portion of mandatory currency reserve in kuna. In December it was reduced again to 3.56%. Interest rate on the daily money market was reduced from 12.72% in December 1999 to 2.67% in December 2001.

Besides the interest rates in the interbank market, a significant drop was also recorded in active interest rates of the banking sector. Interest rates on short-term kuna credits without the currency clause dropped from 13.52% in December 1999 to 10.45% and 9.49% in December 2001, respectively. For long-term kuna credits without the currency clause, the interest rate dropped from 15.14% at the end of 1999 to 11.42% in December 2001. In the same period the interest rate on short-term credits with the currency clause was reduced from 13.66% to 9.45%, whereas the interest rate on long-term credits was reduced to a lesser extent, namely, from 10.81% to 9.20%. The same and even more robust trends are expected in 2002 as well.

It is clear what impact cheaper capital has on the trend in investments and competitiveness of the Croatian economy.

## 1.5. LABOR MARKET TRENDS

### 1.5.1. Employment and unemployment

According to the data of the Croatian Bureau of Statistics in 2001, the average number of employed persons amounted to 1,348.3 thousand, which was higher by 0.5% than the average in 2000. At the same time, the number of the unemployed on average was higher by 6.2%, which resulted in the average unemployment rate of 22.0% in 2001.

**Table 1.6: Measures of Employment and Unemployment**

	1996.	1997.	1998.	1999.	2000.	2001.
<b>Total Employment</b>						
– Croatian Bureau of Statistics	1,329,547	1,310,918	1,384,841	1,364,495	1,299,748*	1,316,844*
– Health Insurance Fund	1,599,226	1,604,895	1,430,649	1,416,617	1,403,474	1,405,587
<b>Unemployment</b>						
– Employment Fund	261,022	277,691	287,762	321,866	378,544*	395,141*
– Health Insurance Fund	174,123	189,844	192,148	251,833	303,430	341,817
<b>Unemployment Rate</b>						
– Croatian Bureau of Statistics	16.4	17.5	17.2	20.8	22.6*	23.1*
– Health Insurance Fund	9.8	10.6	11.8	14.9	18.1	19.6

\* = end of period

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

According to the data in the Labor Force Survey, which measures employment according to the methodology of the International Labor Organization (ILO), the average number of the unemployed in the first half of 2001 amounted to 264 thousand, which is an 18.0-percent reduction in comparison with the average number of the unemployed in the second half of 2000, when it totaled 322 thousand. In view of the above, the unemployment rate in the observed period was reduced from 17.0% to 15.3%. This was for the first time since the commencement of the Survey that the unemployment rate is on the decline in comparison with the previous six months. However, in the second half of 2001 the average number of the unemployed increased by 25 thousand and consequently the unemployment rate grew to 16.3%.

**Table 1.7: Unemployment According to the Labor Force Survey**

	Currently Active Population	Total Employment	Employment – Private Sector	Employment – Public Sector and Privatized Sector	Unemployment	Unemployment Rate (%)
November 1996	1,711	1,540	789	751	170	10.00%
June 1997	1,768	1,593	818	775	175	9.90%
January - June 1998	1,732	1,538	-	-	194	11.20%
July – December 1998	1,753	1,549	-	-	204	11.60%
January – June 1999	1,721	1,504	-	-	217	12.60%
July – December 1999	1,730	1,479	-	-	251	14.50%
January – June 2000	1,806	1,534	-	-	273	15.10%
July – December 2000	1,894	1,572	-	-	322	17.00%
January – June 2001	1,724	1,460	-	-	264	15.30%
July - December 2001	1,767	1,478	-	-	289	16.30%

Source: Croatian Bureau of Statistics

2001 saw the continuation of the divergence between the rate of the registered unemployment and unemployment indicated by the Survey. It was not only a consequence of trends in the labor market, but partially due to the change of scope of the Survey and the new population data.

Unemployment is still one of the biggest problems facing the Croatian economy. For this reason a number of employment encouragement programs have been envisaged in the forthcoming period, and the Employment Fund was established. In the forthcoming period an active government policy in the area of employment, together with the increase in the general economic activity and economic restructuring should yield positive results in this area as well.

### 1.5.2. Salaries and Pensions

Average net salary in 2001 totaled HRK 3,541. In comparison with 2000, this was a nominal increase of 6.5%, whereas the increase in real terms amounted to 1.6%. Salary increase in 2001 was partially a consequence of changes in the tax system, i.e., the introduction of the third income tax rate affected the increase in net salaries.

In 2001 the average gross salary amounted to HRK 5,061, i.e., it rose by 3.9% in nominal terms. In the conditions of the increase in retail prices described above, this caused a real drop in the average gross salary in 2001 by 0.8%. Such trends in the average gross salary will necessarily lead to the increase in domestic competitiveness. Also, in 2001 the increase in productivity of work in industry amounted to 9.3%.

**Table 1.8: Average Salaries**

(in HRK)	1997	1998	1999	2000	2001
<b>Average Monthly Net Salary</b>	<b>2,377</b>	<b>2,681</b>	<b>3,055</b>	<b>3,326</b>	<b>3,541</b>
(Real Growth Rate, %)	12.2	5.9	10.1	3.4	1.6
<b>Average Monthly Gross Salary</b>	<b>3,668</b>	<b>4,131</b>	<b>4,551</b>	<b>4,869</b>	<b>5,061</b>
(Real Growth Rate, %)	7.9	5.5	6.5	1.6	-0.8

Source: Croatian Bureau of Statistics

**Table 1.9: Average Pension Amounts**

(in HRK)	1999	2000	2001
Average pension which does not include pension supplement of HRK 100.00 and 6 %	1,159	1,239	1,455
Average pension which includes pension supplement of HRK 100.00 and 6 %	1,309	1,382	1,592

Note: With the coming into force of the Law of Pension Insurance (January 1, 1999), pension beneficiaries and average pensions of the Croatian Army and Croatian war veterans are not included into this review

Source: Pension Fund

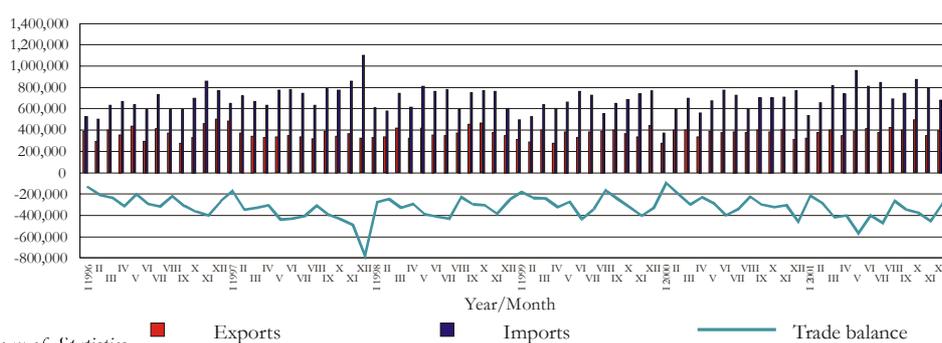
In 2001 the average old-age pension amounted to HRK 1,649, which, in comparison with 2000, was an increase of almost 17.6% in nominal terms, whereas the real growth amounted to 12.8%. This growth was the result of “return of pensioners’ debt” or, more precisely, increase in pensions in order to remove the differences between pensions accrued in various periods.

## 1.6. ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

### 1.6.1. Foreign Trade

In 2001 Croatian exports amounted to US\$ 4,666 million. In comparison with 2000 this was a 5.3-percent increase. At the same time, imports amounted to US\$ 9,147 million, which was a 16.0-percent increase. Such commodity imports and exports trend in the period from January to December 2001 resulted in a foreign trade deficit of US\$ 4,481 million, or 29.7% higher deficit than in the comparable period in 2000. The consequence of such trends was export-import ratio of 51.0%.

**Figure 1.5: Monthly Import and Export of Goods in 000 USD**

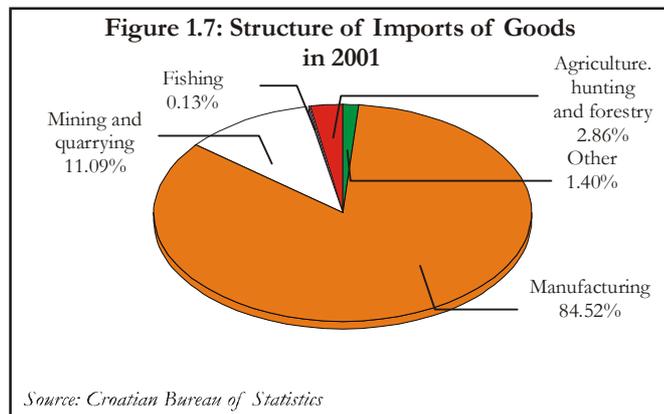
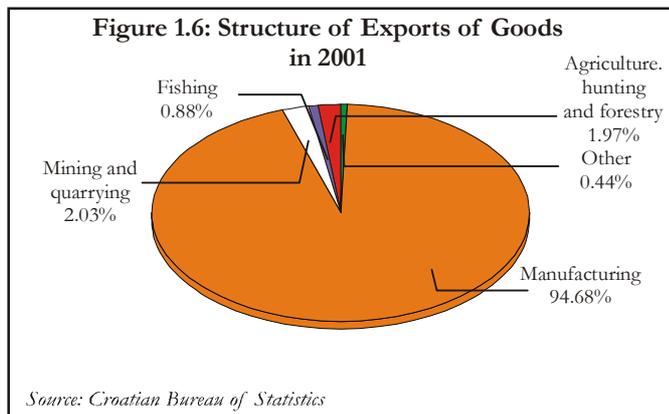


Source: Central Bureau of Statistics

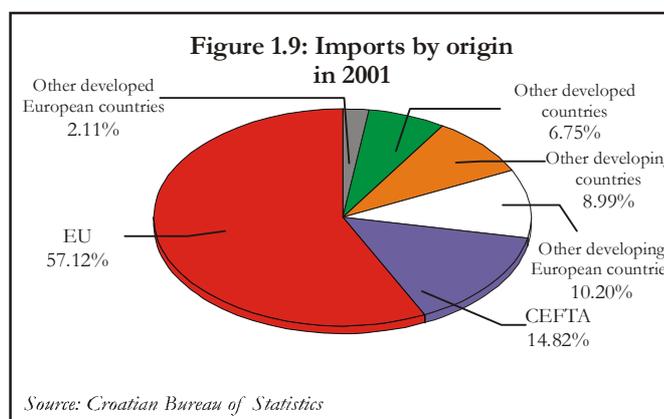
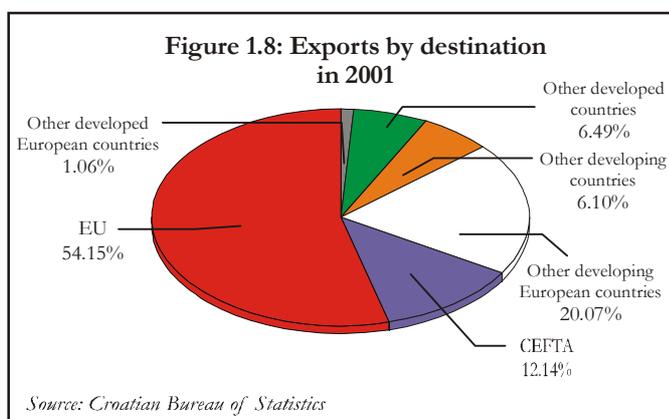
Manufacturing industry accounted for the largest portion of exports (94.68%) recording a 3.7-percent increase in the course of the year. The highest values of exports were recorded in the production of other means of transport (US\$ 728.7 million), production of chemicals (US\$ 471.7 million), coke and oil products (US\$ 396.6 million) and clothing (US\$ 394.1 million).

The increase in trade deficit was, obviously, primarily a consequence of a strong increase in imports. Such increase in imports was significantly influenced by a strong increase in the import of motor vehicles, which in 2001 amounted to US\$ 942 million, as a consequence of lifting certain benefits for the veterans, as well as more and more favorable terms of crediting purchase of cars. However, in addition to motor vehicles, a strong increase in imports was also affected by

investment activity of domestic economy. Namely, the value of imported capital products amounted to US\$ 2,800 million or by 20.4% more than in 2000.



The main Croatia's foreign trade partners in 2001 were Austria, Germany, and Italy. Namely, 54.15% of the total exports were realized in the European Union market, whereas 57.12% of the imports comes from the European Union countries. In the markets of developing countries Croatia has realized approximately 32.2% of its overall exports, mainly trading with the CEFTA and former Yugoslavia countries.



### 1.6.2. Balance of Payments

In 2001 balance-of-payments current account deficit amounted to US\$ 725 million, which equals the value of 3.71% of GDP. In comparison with 2000, when it amounted to 2.49% of GDP, this is a worsening, but with regard to the causes of its worsening it may be considered a temporary situation. More precisely, the worsening of the current account deficit in 2001 was mostly the outcome of the strong increase in exports described above (cars and capital goods).

The increase in trade deficit amounts to approximately US\$ 897 million in comparison with 2000, whereas the services account recorded a surplus of roughly US\$ 659 million, which was primarily a result of the good tourist season. The comparison of data on tourist arrivals (including arrivals in nautical tourism for 1998, 1999, 2000, and 2001) may lead to the conclusion that the tourist season expanded to the month of June in 2000 and 2001. In 2001 net tourism revenue totaled US\$ 2.7 billion or by 24.6% more than in the comparable period in 2000. Clearly, foreign currency revenue from tourism in 2001 grew much more quickly than the number of room-nights of foreign tourists, which would definitely be a desirable and necessary trend in the future as well. It can be argued that the stabilization and shrinking of the balance-of-payment current account deficit within the limits described above (with shrinking budget deficit) is one of the most positive trends recorded in the last two years.

Also, the current transfers account recorded a surplus of approximately US\$ 82 million. Accelerating growth of the Government's foreign debt and growth of direct investments into Croatia from 1997 to 2001 considerably increased the deficit on the revenue account. This was a consequence of the revenue drain due to foreign debt servicing and return of retained profit of foreign investors. The deficit on the revenue account in 2001 amounted to US\$ 516 million.

After 1998, the balance-of-payments current account deficit has been mostly financed by foreign direct investments. Such a trend continued in 2001 as well.

In 2001 the Croatian National Bank's international reserves increased by US\$ 1.3 billion due to net purchases of foreign exchange from commercial banks and the Ministry of Finance, net increase of subscribed foreign currency treasury

bills, the increase in mandatory reserve, inflow from the succession of assets of the former Yugoslavia, as well as net revenue assets on the basis of investment of the Croatian National Bank's international reserves.

**Table 1.10: Balance of Payments 1997 – 2001**

(US\$ Millions)	1997	1998	1999	2000	2001
Goods, f.o.b.	-5,383.2	-4,071.5	-3,298.6	-3,203.8	-4,101.3
Services	2,024.2	2,076.7	1,625.2	2,267.9	2,927.0
Income	-22.4	-164.0	-356.3	-406.7	-516.5
Current Transfers	869.4	706.0	632.5	883.2	965.7
<b>Current Transactions</b>	<b>-2,512.0</b>	<b>-1,452.8</b>	<b>-1,397.2</b>	<b>-459.4</b>	<b>-725.1</b>
Direct Investments	346.7	834.9	1,420.0	1,084.8	1,406.7
Portfolio Investments	577.0	14.9	532.4	707.6	600.7
Other Investments	2,134.4	751.7	347.2	108.3	489.5
<b>Financial Transactions (without CNB International Reserves)</b>	<b>3,058.1</b>	<b>1,601.5</b>	<b>2,299.6</b>	<b>1,900.7</b>	<b>2,496.9</b>
<b>International CNB Reserves</b>	<b>-428.0</b>	<b>-151.5</b>	<b>-378.5</b>	<b>-582.1</b>	<b>-1,313.1</b>
<b>Net Errors and Omissions</b>	<b>-139.5</b>	<b>-16.2</b>	<b>-548.8</b>	<b>-880.0</b>	<b>-591.8</b>

Source: Croatian National Bank

**Table 1.11: Indicators of Indebtedness**

in %	1996	1997	1998	1999	2000	2001
Share of External Debt in GDP	26.70	37.06	44.77	50.15	59.99	57.93
Export of Goods and Services/Ext. Debt	147.76	110.33	88.49	81.36	78.37	85.13
Short-Term Debt/External Debt	7.75	7.23	4.86	4.27	5.98	1.61

Source: Croatian National Bank

The overall external debt of the Republic of Croatia at the end of 2001 amounted to US\$ 11.316 billion or 57.9% of the value of GDP, which is lower than at the end of the previous year. Public external debt grew by US\$ 304 million or 6.3%.

In 2001 the net public external debt increased by US\$ 261 million in comparison with year 2000. By issuing bonds abroad during 2001, the Government mostly financed due liabilities arising from external debt. The structure of external debt, in terms of the debtor sector, indicates that the Government still accounts for the largest share in the overall external debt.

Short-term debt is still at a satisfactory low level. More precisely, its share in 2001 was below 2%. After a continual decrease since 1995, the share of export of goods and services in the external debt in 2001 recorded growth and amounted to 85.13%.



## II. CENTRAL GOVERNMENT BUDGET IN 2001

*Prepared by: Dragica Smilaj, Bureau for Macroeconomic Analysis and Planning*

*Vesna Brkić and Željka Papež, Budget Preparation and Consolidation Department*

In 2001, as part of comprehensive economic reforms, greatest efforts were invested in the area of public finance and most important reforms were conducted. Fiscal consolidation was the pivotal part of the Government's economic program in 2001. It was planned that its implementation would be carried out by more intensive reduction in the share of Government expenditures than the reduction of the share of tax revenues in GDP. The basic objective of the commenced fiscal reforms was the reduction of Government expenditures, their share in the gross domestic product, a decrease in tax burden on the economy, a reduction of budget deficit, as well as settlement of outstanding Government liabilities and the introduction of the practice of regular payments of current Government liabilities. The reforms were aimed at revitalization of economic activity, investment growth, an increase in exports and employment, as well as at the commencement of resolving the illiquidity problem.

January 2001 saw the implementation of the Stand-by Arrangement with the IMF, which contained a number of quantitative and structural measures. The Arrangement is extremely important for the stabilization and improvement of the position of Croatia in the international financial market. In addition, as a proof of macroeconomic stability and consistency of economic policy, it will largely influence attracting foreign investments and revitalization of economic activities.

In 2001 the Government Treasury became operational and the Single Treasury Account was introduced for the central Government, which improved the oversight and management of public finance. Further decentralization of state authorities from the central to the local levels was effected, starting with the second half of 2001 (the Official Gazette No. 59/01). Thereby the changes of the financing of Local Government were defined, as well as the ensuing obligations. Croatian Motorways (Hrvatske Autoceste - HAC) and Croatian Road Authority (Hrvatske Ceste) were taken off the budget. As of 2002 they will dispose of their own revenue, which is mainly collected from tolls and a part of excise tax on oil products.

In the 2001 budget expenditures were reduced nominally, in comparison with 2000, by approximately HRK 1,063.6 million. However, the overall expenditures were subsequently increased by budget revision by 8,458.3 million. This increase was primarily a result of the commenced decentralization process and inclusion of pension outlays from the Pension Fund into the Government Treasury system. In the 2002 budget other extra-budgetary funds were almost fully integrated into the Government budget, and at the same time two new funds were established: the Development and Employment Fund, and the Regional Development Fund.

The changes on the expenditure side of the budget were accompanied by the changes on the revenue side, i.e., by the changes in the tax system. In line with the changes of selected taxes, their fiscal impact changed as well. The structure of 2001 tax revenues indicates that the fiscal impact of the income tax, international trade tax, and excise taxes in comparison with 2000 were reduced. Namely, in parallel with the adoption of the budget, by the increase in the non-taxable part of revenue, the tax burden of revenues was reduced and the net salary grew. Tax breaks were introduced for employment and investments. The end of 2000 saw the changes in the income tax and profit tax systems, whereby the lower levels of revenue were disburdened, and tax burden on profit was lowered. As of the beginning of 2001 the zero VAT rate has been applied to tourist services which are paid for by foreign remittances.

The problems of the budget on the expenditure side were evident in high transfers to extra-budgetary funds, a lag in the implementation of the introduction of the reduced salary basis and new salary coefficients of civil servants, as well as a slower dynamics of rationalization of the civil service employees than the planned one. The biggest transfers were made to the Pension and Health Funds, but also Child Benefit Fund. Transfers to the Child Benefit Fund in 2001 were twice as high as the planned ones.

In 2001 the problems of the budget on the revenue side consisted in overrated privatization revenues. The lack of privatization revenues was made up for by alternative sources of financing the deficit in the domestic and foreign financial markets. The envisaged privatization revenues were revised in the June budget revision from HRK 8.5 billion to HRK 6.5 billion. By the second revision in October the envisaged privatization revenues were further decreased to HRK 5.4 billion. Collected privatization revenues in 2001 amounted to HRK 4.3 billion. Within the revenues, as of the beginning of June 2001 tax privileges were revoked for the import of cars to disabled war veterans. This, among other things, resulted in sky-rocketing of state revenues collected from international foreign trade in the second quarter of 2001 and a strong increase in the value of imports in the first half of the year.

## 2.1. REVISION OF THE 2001 BUDGET

2001 saw two budget revisions – the first one in June, and the second one in October. The problems of budget revenues in 2001 were reflected in overrated privatization revenues. The lack of those revenues was made up for by alternative sources of financing in the domestic and foreign financial markets.

Due to the commencement of the functioning of the Government Treasury and the consolidation of the Pension Funds into the Government Treasury system, and also due to the decentralization of specific state functions, in June 2001 the technical budget revision was commenced. The decentralization primarily pertains to expenditures for primary and secondary schools, health centers, and retirement homes. The fiscal decentralization process came into force on July 1, 2001. Fiscal decentralization required securing HRK 605 million on the item of equalization grants for taking over of new functions of local government units, in line with the provisions of the Amendments to the Law on Financing Local Government Units. On the other hand, the Pension Fund (HZMO) consolidated into the Central Government budget as of July 1, 2001. The consolidation of Pension Fund implies that the payments of pension insurance contributions, as well as payment of all pensions (except for foreign ones) since July 1 are effected through the Single Treasury Account.

For the reasons mentioned above the June budget revision increased the total budget revenues by HRK 5,623.9 million. Such an increase in total revenues was a result of the increase in tax revenues by HRK 7,623.9 million, and also of the reduction of privatization revenues by approximately HRK 2 billion. The drop in privatization revenues was primarily the consequence of deferred privatization of Croatian Telecommunications, and due to more difficult objective circumstances in the international capital market. However, the outturn of expected privatization revenues in the second part of the year was factored in, with envisaged intensifying of privatization processes. In this technical budget revision the non-tax revenues remained on the level of the planned ones. The revision increased the revenues from income tax (by HRK 505 million) and profit tax (by HRK 100 million), and contributions for social insurance were introduced (HRK 7,018.9 million).

The expenditures of the Central Government budget were increased by budget revision by HRK 8,458.3 million. The highest increase was recorded in transfers, which were increased by HRK 8,098.3 million, whereas capital expenditures increased by HRK 360 million. The expenditure items for goods and services, payment of interest rates, and subsidies remained on the same level by this technical revision.

The second budget revision was done in October 2001. The established framework of the 2001 Government budget was exceeded in the area of outlays for employees (salaries), outlays for child allowance, and pension outlays. For this reason it was important to harmonize the monthly dynamics of payment of salaries of budget beneficiaries in pay policy with resources which are allocated in the state budget for the payment of salaries until the end of the year. For beneficiaries whose salaries increased in the pay system, so the planned resources were insufficient by the end of the year (the Ministry of Education and Sports, and the Ministry of Science), it was necessary to secure those resources by savings from other budget beneficiaries, reallocation of resources in other budget items, and by using a portion of own resources of budget beneficiaries. Furthermore, it was necessary to revise social rights (child allowance, maternity benefits, privileged pensions, etc.) and adjust the level of transfers for the purposes mentioned above with the budget allocations and constraints in 2001. Also, activities in the implementation of pension reform were undertaken, resulting in the introduction of the second pillar of pension insurance as of January 1, 2002. Along with this reform, health reform activities were increased and the reform was accelerated. The reform was indispensable due to unsustainable financial situation in the health system, such as accumulating arrears and losses of hospitals.

The October budget revision reduced the total budget revenues by HRK 1,090 million. Such reduction of total revenues was a result of additional decrease in privatization revenues, from HRK 6,500 million to HRK 5,410 million. Non-tax revenues remained on the level of the planned revenues in this revision as well.

Total Central Government budget expenditures were not changed by the October budget revision in comparison with the June 2001 budget revision, but only reallocated among certain budget items. Current expenditures increased by HRK 1,053 million – expenditures for goods and services grew by 3.5%, transfers by 2.3%, whereas subsidies dropped by 3.2%, and payment of interest rates by 3.0%. Although capital expenditures were increased by the first budget revision, they were reduced by the latter revision HRK 945 million, and lending minus repayments were lower by HRK 107 million in comparison with the June 2001 revision.

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

(HRK 000)	2001 Budget	2001 Revision	2001 Revision II	Budget Revision / Budget Index	Budget Revision II/Budget Index
<b>Total Revenues and Grants</b>	49,679,912	55,303,812	54,213,812	111.32	98.03
<b>Total Revenues</b>	49,679,912	55,303,812	54,213,812	111.32	98.03
<b>Current Revenues</b>	40,908,912	48,532,812	48,532,812	118.64	100.00
Tax Revenues	39,307,405	46,931,305	46,931,305	119.40	100.00
Non-tax Revenues	1,601,507	1,601,507	1,601,507	100.00	100.00
<b>Capital Revenues</b>	8,771,000	6,771,000	5,681,000	77.20	83.90
<b>Grants</b>	0	0	0		
<b>Total Expenditures and Lending minus Repayments</b>	49,679,912	58,138,242	58,138,242	117.03	100.00
<b>Current Expenditures</b>	43,913,811	52,012,141	53,064,644	118.44	102.02
Expenditures for goods and services	21,386,427	21,386,427	22,129,774	100.00	103.48
Payment of Interest Rates	3,330,826	3,330,826	3,231,354	100.00	97.01
Grants <sup>7</sup>	3,807,155	3,807,155	3,684,805	100.00	96.79
Transfers	15,389,403	23,487,733	24,018,712	152.62	102.26
<b>Capital Expenditures</b>	4,936,001	5,296,001	4,350,596	107.29	82.15
<b>Lending minus Repayments</b>	830,100	830,100	723,002	100.00	87.10

Source: The Ministry of Finance

## 2.2. CENTRAL GOVERNMENT BUDGET DEFICIT/SURPLUS

In 2001, the overall Central Government budget deficit on the cash basis was HRK 4,309.1 million, or 2.7% of the gross domestic product. Thereby the planned deficit cut was effected as the 2000 deficit totaled 4.0% of GDP. With this lower deficit level the key criterion of the IMF agreement for 2001 was met. However, in structural terms slashing of the deficit was different from the planned one, as it was mostly accomplished by the reduction of capital expenditures instead of current expenditures. For instance, expenditures on the salaries item were higher than the planned ones, primarily because of lagging and insufficient public service reform, and also expenditures for transfers exceeded the planned ones. At the same time, this loss was made up for by decreasing the expenditures on the items of other purchases of goods and services, subsidies, and capital expenditures.

However, in terms of accrual basis, in the calculation of budget deficit (which also takes into consideration Government arrears cumulated over the budget year, and subtracts privatization proceeds from overall revenues), the picture of the deficit is quite different. Namely, in 2001 budget deficit on the accrual basis 2001 accounted to almost 5.1% of the gross domestic product. The arrears at the end of 2001 amounted to HRK 0.5 billion. The repayment of arrears was effected in the conditions of reduced tax burden (income tax rates of 25 and 35% were replaced by 15, 20, and 35-percent rates, profit tax was reduced from 35 to 20%, and also the zero VAT rate was introduced on organized tourist trips from foreign countries).

Primary deficit in 2001 amounted to HRK 1,293.8 million or 0.8% of the gross domestic product. Leading a sustainable fiscal policy can in no way be consistent with the existence of a primary budget deficit (primary deficit is the difference between total revenues and total expenditures, decreased by payment of interest rates). Primary deficit is a great problem. It is, however, a consequence of the current structure of budget revenues and expenditures (without liabilities generated in previous periods), which is impossible to change in such a short period of time despite of all efforts. In 2001 the primary deficit in terms of accrual basis accounted for 3.2% of GDP.

**Table 2.2: Central Government Budget Deficit/ Surplus Trends**

(HRK 000)	2000	2001
<b>Total Deficit/Surplus</b>	<b>-6,107,853</b>	<b>-4,309,149</b>
As % of GDP	-4.00	-2.65
<b>Total Deficit/Surplus without Privatization Receipts</b>	<b>-8,974,829</b>	<b>-8,550,175</b>
as % of GDP	-5.88	-5.25
<b>Total Deficit/Surplus on an Accrual Basis*</b>	<b>-6,614,461</b>	<b>-8,223,159</b>
as % of GDP	-4.34	-5.05
<b>Primary Deficit/Surplus</b>	<b>-3,508,567</b>	<b>-1,293,840</b>
as % of GDP	-2.30	-0.79
<b>Primary deficit/Surplus without Privatization Revenues</b>	<b>-6,375,543</b>	<b>-5,534,866</b>
as % of GDP	-4.18	-3.40
<b>Primary Deficit/Surplus on the Accrual Basis</b>	<b>-4,015,175</b>	<b>-5,207,850</b>
as % of GDP	-2.63	-3.20

\* Stock of the arrears at the end of 2000 was determined according to the definition used in the Stand-by Arrangement with the IMF by which arrears include all payments overdue by 90 days

Source: The Ministry of Finance

### 2.2.1. Arrears (Due Outstanding Liabilities)

By signing of the Stand-by Arrangement with the International Monetary Fund, the Government of the Republic of Croatia has taken over the commitment to report on the due unsettled liabilities of the Central Government budget (arrears). Certain criteria need to be met for a liability to be considered an arrear:

- A liability is established in case of a transaction or an event which creates a liability for payment, where payment has not been effected yet,
- A liability is recognized when it is probable that there will be an outflow of resources for the current liability in which the amount can be measured with reliability,
- A liability becomes an arrear if it has not been settled after the date marked as the date of the currency of the payment (until 2001, 90 days following the currency date).

The first report on due outstanding liabilities (arrears) was submitted for 1999. The level of liabilities as of December 31, 1999 was established on the basis of data which the Government Accounting Department collected from all the budget beneficiaries and extra-budgetary funds.

The source for this data was the BIL forms of Government budget beneficiaries. The data presented are not reported according to the structure of liabilities, but as overall outstanding liabilities per specific budget beneficiary. At the end of 1999 the outstanding liabilities totaled HRK 3,193,768,000.00 and were entered into Book II (Debt Ledger II) as the amount planned to be settled out of resources allocated in the 2000 Government budget. During 2000 the balance of those liabilities was gradually reduced by their payment.

The level of outstanding liabilities as of December 31, 2000 was established on the basis of data collected again by the Government Accounting Department. The data source were again the Balances of budget beneficiaries on the BIL forms of financial statements.

The basis for establishment of arrears was the maturity of a liability. Until 2001 arrears included all liabilities which were not settled within 90 days since the date of the currency of payment reported on every invoice.

Given that it is impossible to see the maturity of an obligation from the Balance as financial statement (the Balance shows the total stock of liabilities on a certain date), budget beneficiaries were requested to submit data on all confirmed liabilities prior to September 1, 2000 which were not paid before December 31, 2000. Those liabilities included all outstanding liabilities from the Debt Ledger, as well as those accrued during 2000.

On December 31, 2000 the amount of due outstanding liabilities (arrears) established in the manner described above totaled HRK 833,399,000.00.

The beginning of 2001 saw the commencement of the monitoring of arrears on a quarterly basis. All liabilities which are due but not paid until the date of the currency of payment are considered arrears.

The status of due outstanding liabilities (arrears) as of March 31, 2001 was established by dividing the outstanding liabilities into the liabilities rolled over from December 31, 2000 and liabilities accrued during the first quarter of 2001. The structure of liabilities is still not monitored, but the data are presented as the aggregate amount of outstanding due liabilities (arrears).

The establishment of the status in the first half of 2001 was based on the data from OBV-1 and OBV-M forms, which were collected from the Government Budget beneficiaries.

Since June 2001 the Government Accounting Department has introduced the obligation of monthly reporting on arrears of the Government Budget beneficiaries on the OBV-Ms form.

The OBV-Ms form for the first time monitors due outstanding liabilities in terms of maturity, but also in terms of structure.

Data on arrears from previous years and due liabilities of the current year are collected separately, according to the terms of exceeding the maturity date:

- 1 - 30 days, 31 - 60 days, 61 - 90 days, and more than 90 days.

According to the structure the liabilities are divided into:

- liabilities toward the suppliers
  - external and
  - inter-budgetary
- liabilities toward citizens/households

The first monthly report on the OBV-Ms form was submitted by budget beneficiaries for the liabilities as of June 30, 2001. For the first time individual data were obtained on due liabilities for 41 Government Budget beneficiaries and 3 extra-budgetary funds (Health Insurance Fund, Pension Fund, Employment Fund) according to maturity dates and the structure indicated above. Until the end of the year budget beneficiaries submitted the OBV-Ms form for each individual month.

The data received through from the OBV-Ms form for December 2001 indicates the balance of due outstanding liabilities of budget beneficiaries as of December 31, 2001, which amounted to HRK 506,384,190.00.

### 2.3. CENTRAL GOVERNMENT BUDGET OUTTURN IN 2001

The overall Government Budget outturn in 2001 amounted to HRK 53,503.6 million, which was by 19.9% more than in 2000. The increase in overall revenues was primarily the result of increased capital revenues, i.e., privatization revenues, which increased by 48.3% in comparison with 2000; it was also a result of the increase in tax revenues, which grew by 18.4% in comparison with the previous year. Due to the same reason there was a change in the overall revenue structure in favor of an increase in the share of capital revenues, i.e., privatization revenues by approximately 1.6 percentage points, with a reduction in the share of non-tax revenues (1.5 percentage points) and tax revenues (1.1 percentage points). Namely, tax revenues in 2000 accounted for 89.5% of the total budget revenues, whereas in 2001 their share shrunk to 88.4%. In 2000 the share of privatization revenues in overall revenues accounted for 6.9%, and in 2001 for 8.6%, respectively. It should be underscored that such trends in the structure of the budget revenues are undesirable because the Government should rely as much as possible on its direct revenue and fixed revenue, and less on privatization proceeds, which are sporadic. Fiscal problems, i.e., high and unsustainable budget deficits, may emerge as an outcome of the reduction or loss of privatization proceeds.

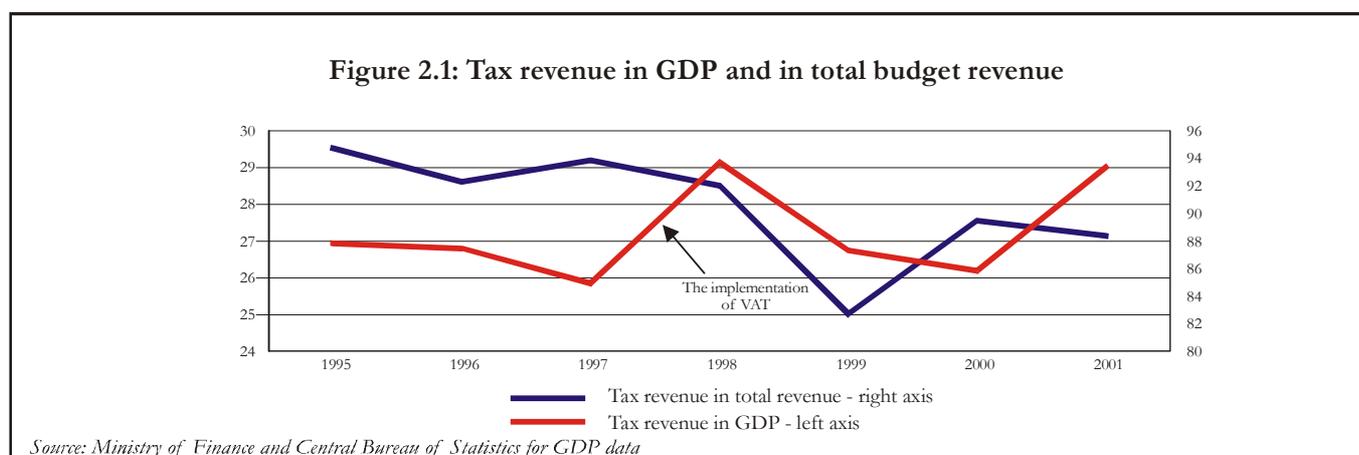
**Table 2.3: Central Government Budget Outturn and Its Share in GDP**

	2000 (HRK 000)	2001 (HRK 000)	2000 % in GDP	2001 % in GDP
<b>Total Revenues and Grants</b>	<b>44,635,673</b>	<b>53,503,615</b>	<b>29.3</b>	<b>32.8</b>
Tax Revenues	39,939,019	47,274,031	26.2	29.0
Non-Tax Revenues	1,595,938	1,632,279	1.0	1.0
Capital Revenues	3,100,716	4,597,305	2.0	2.8
Grants	0	0	0	0

Source: The Ministry of Finance

#### 2.3.1. TAX REVENUES

Despite the reduction of the share of tax revenues in the overall budget revenues, their share in the gross domestic product went up from 26.2% in 2000 to 29.0% in 2001. It is a fact that tax revenues in 2001, due to increased economic activity, rose by 18.4% in comparison with 2000. In 2001 the share of overall revenues in GDP amounted to 32.8%, which was a 3.6-percent increase in percentage points in comparison with 2000, when this share was 29.3%.



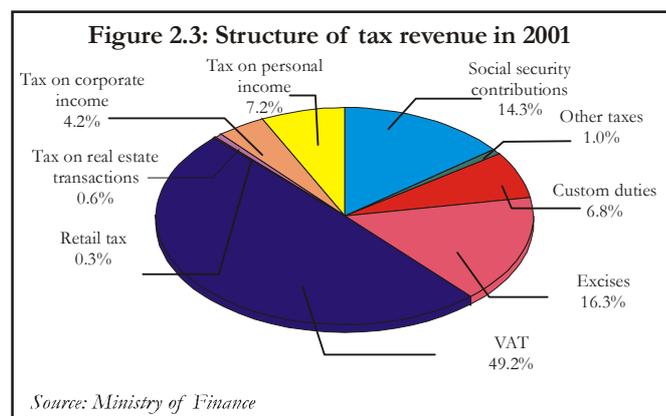
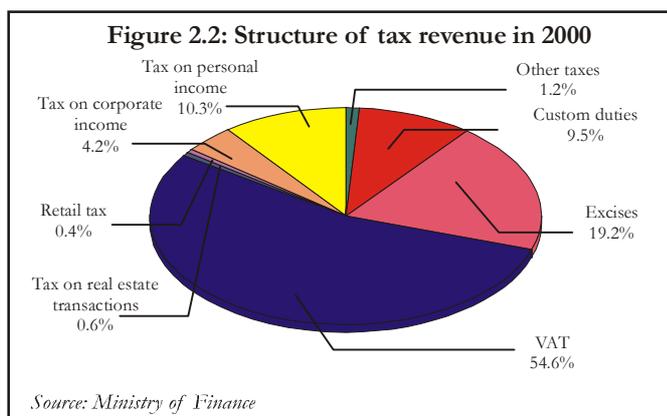
The changes in the Croatian tax system in 2001 were an outcome of the activities of the Government of the Republic of Croatia and the Croatian Parliament, which were evident in the passage of new tax laws and amendments of valid tax laws.

Those activities were significant in the changes of the tax system because four new laws were enacted, and amendments to eight laws were executed.

In December 2000 the Croatian Parliament passed a new Law on Personal Income Tax, the Law on Profit Tax, the Law on Tax Counseling, as well as the new “umbrella” general tax law, which have been implemented as of January 1, 2001.

Croatian Parliament has, in the second half of 2000 and in 2001, passed the amendments of eight tax laws, which have been implemented as of 2001. Those laws are: the Law on the Amendments to the Law on Financing of Local and Regional Self-Government, the Law on the Amendments to the Value-Added Tax, the Law on the Amendments to the Law on Excise Tax on Oil Products, the Law on the Amendments to the Law on Excise Tax on Cars, Other Motor Vehicles, Vessels, and Aircraft, the Law on the Amendments to the Law on Excise Tax on Coffee, the Law on the Amendments to the Law on Excise Tax on Beer, the Law on the Amendments to the Law on Excise Tax on Alcohol, and the Law on the Amendments to the Law on Excise Tax on Tobacco Products.

The basic components of those regulations, the significant changes and differences in comparison with the former regulations, will be presented hereinafter. The passage of the new Law on Profit Tax and the Law on Personal Income Tax, and especially the Law on Tax Counseling and the General Tax Law completed the tax reform and a transparent Croatian tax system aligned with the tax system of the majority of European countries was established.



In line with the changes in certain taxes, their fiscal importance changed as well. The structure of tax revenues in 2001 indicates that, in comparison with 2000, the fiscal impact of personal income tax is diminished, as well as the international trade tax and excise taxes. Profit tax, value-added tax, and Taxes on real estate transactions have increased their importance for the Government budget. With regard to the amendments to the Law on Personal Income Tax and the Law on Profit Tax, it can be expected that similar trends will continue.

### **Value-Added Tax**

In 2001 the overall outturn of revenues collected from the value-added tax amounted to HRK 23,266.9 million. In comparison with 2000, when those revenues totaled HRK 21,825.3 million, this was a 6.6-percent rise in the revenues collected from VAT, which was almost on the level of nominal increase in the gross domestic product (approximately 6.8%) in 2001. With this in mind, it seems that the VAT revenues in 2001 were collected in the volume in which they were supposed to be collected according to the growth of economic activity.

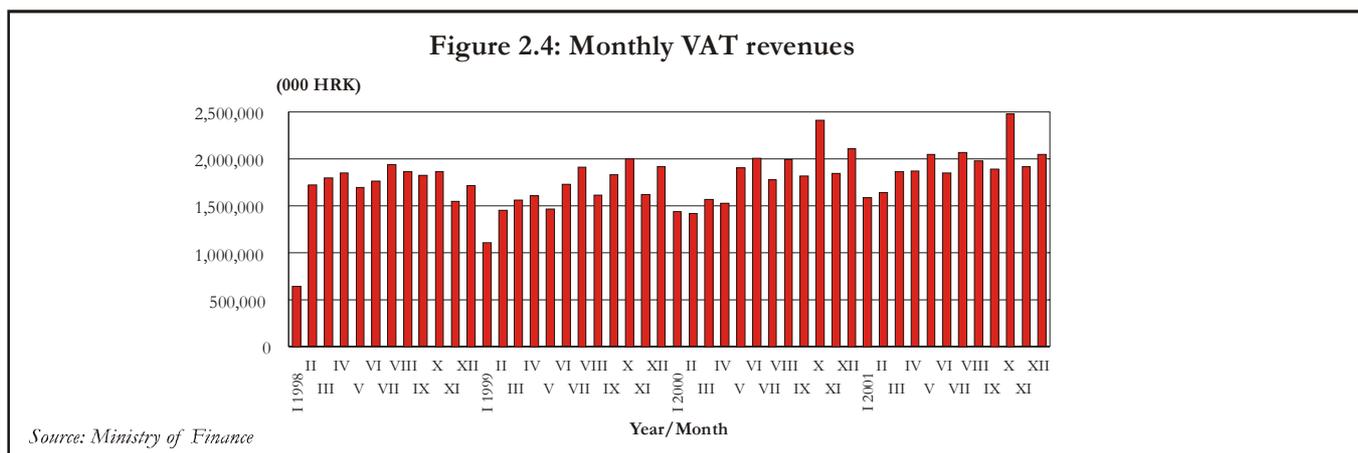
A good outturn of VAT revenues in 2001 was an outcome of the recorded economic growth, especially personal consumption as the tax base of the value-added tax. Good tourist season, i.e., tourist spending, also significantly contributed to the increase in VAT revenues.

It is worth mentioning that 2001 saw a drop in tariffs, which implied a certain reduction of the tax base of the value-added tax. In 2001 imports did grow at the 15.9-percent rate, but the largest portion of the increase in imports relates to cars imported by utilizing benefits (Homeland War veterans), and also on the import of capital goods, in which the value-added tax is returned as tax advance. With this in mind, the outturn of revenues from the collection of the value-added tax is satisfactory under the given circumstances. However, no doubt, suppression of the gray economy in the area of collection of revenues from excise taxes on tobacco products and oil products would significantly increase revenue from this tax.

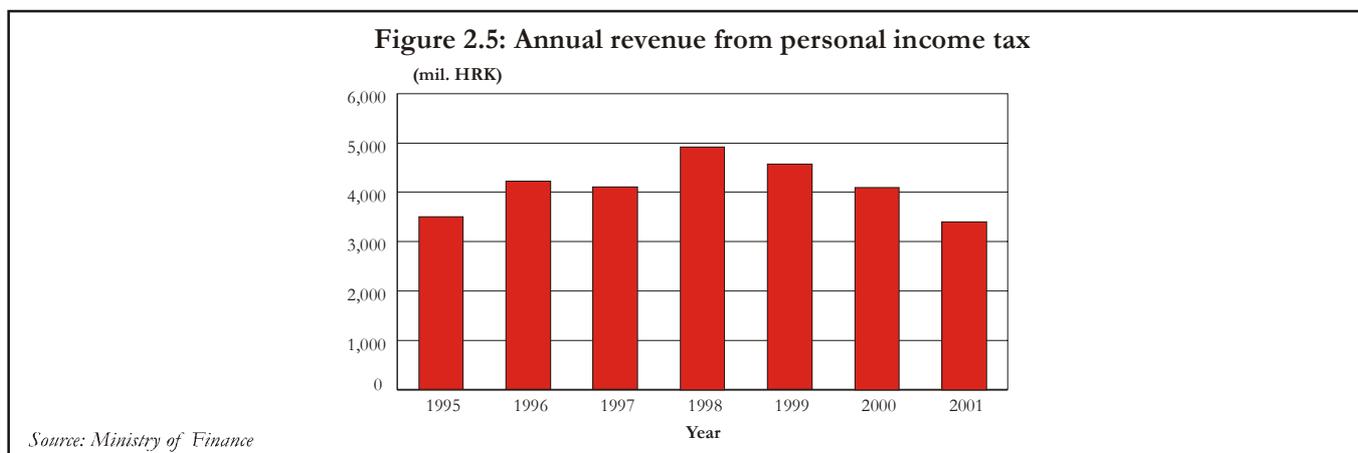
2001 saw certain changes in the value-added tax system, as well as in the Law on the Value-Added Tax, which was amended during 2000 as well. The amendments were published in the “Official Gazette”, Nos. 54/00 and 73/00. Changes partially cover a part of 2000, and also 2001. The Law on the Amendments to the Law on the Value-Added Tax was published in the “Official Gazette”, No. 73/00 – to come into force as of September 1, 2000 (except for the

provision on the application of the zero VAT rate for services of organized tourist visits, whose implementation began on January 1, 2001), prescribes as follows:

- tax exemption in Article 11 of the Law (without the right to deduction of tax advance) for organizing special games of fortune in gambling rooms and game machine clubs, as well as betting, and also for services of public film release services, and delivery of goods and services of free lance artists and art organizations,
- new tax exemptions have been prescribed for import of goods, which mostly relate to the harmonization of the tax treatment of import of specific objects under tariffs, and the same exemptions are also prescribed by the EU Directive Six (e.g., import of postal packages, import of goods by returnees to Croatia, import of own products from agricultural land in the border area of the neighboring countries, etc.). This is, actually, import which, from the taxation point of view, does not represent delivery for final user. Among relevant exemptions related to taxation, prescribed exemptions include exemption on import of donations to humanitarian organizations and other institutions (health, educational, cultural, etc.) and when the same recipients import goods paid from received foreign cash donations,
- the zero VAT rate was introduced as of June 1, 2000 for scientific magazines,
- tax exemption has been prescribed with the right to deduction of tax advance for deliveries to free zones and for delivery of goods and services to humanitarian organizations and specific institutions and state administrations bodies when those purchases are financed from received foreign cash donations (Article 13 of the Law),
- the obligation to pay VAT has been moved from the 10<sup>th</sup> day in the current month to the last day in the current month following the expiration of accrual period,
- as of September 1, 2000, instead tax exemption without the right to deduction of tax advance (Article 11 of the Law), the zero VAT rate was introduced for public film release services,
- as of January 1, 2001, the zero VAT rate was introduced for organized visits paid for by foreign remittances (accommodation, bed and breakfast, half board or full board in all types of commercial catering facilities, agency fee services for the services mentioned above, tours, bus and vessel transfers).



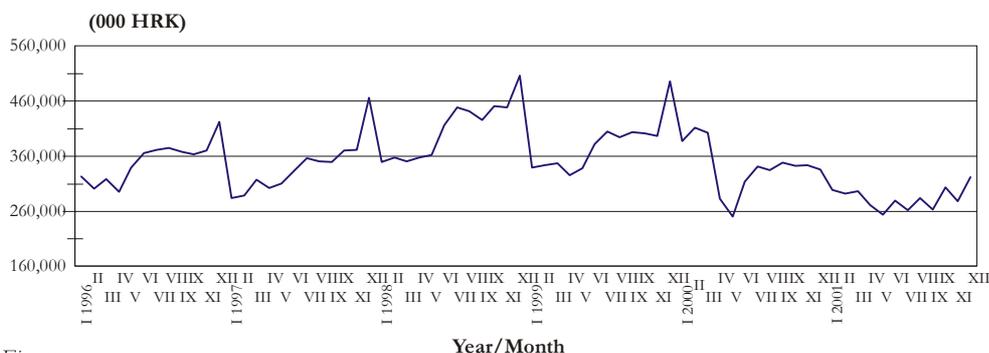
### Personal Income Tax



In 2001 HRK 3,404.4 million of revenue was collected in the Central Government budget from personal income tax. In comparison with 2000, this was a 16.9-percent reduction of revenues from this tax. The reduction of revenue was the result of specific amendments to the Law on Personal Income Tax which were enacted in 2001.

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 progressiveness of the tax system in general. In order to reduce the regressiveness of the tax system and disburden income in terms of taxation and also to increase net salaries, since April 1, 2000 the basic personal deduction of a taxpayer was increased from HRK 1,000 to HRK 1,250. The revenues of the local self-government units from personal income tax are reduced with the increase in the non-taxable portion of income since the revenues from the personal income tax are divided between the Central Government budget and the local self-government units. In order for this not to happen, and in order not to endanger the financial position of the local self-government units, 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. All the above affected the reduction of revenues from personal income tax of the Central Government budget.

**Figure 2.6: Monthly revenue from personal income tax**



Source: Ministry of Finance

Starting with January 1, 2001, the new Law on Personal Income Tax has come into force, which was published in the “Official Gazette” No. 127/00. Those amendments were aimed at further relief of the income tax burden, as well as placing a stronger accent on the principles of equity and equality of the tax system.

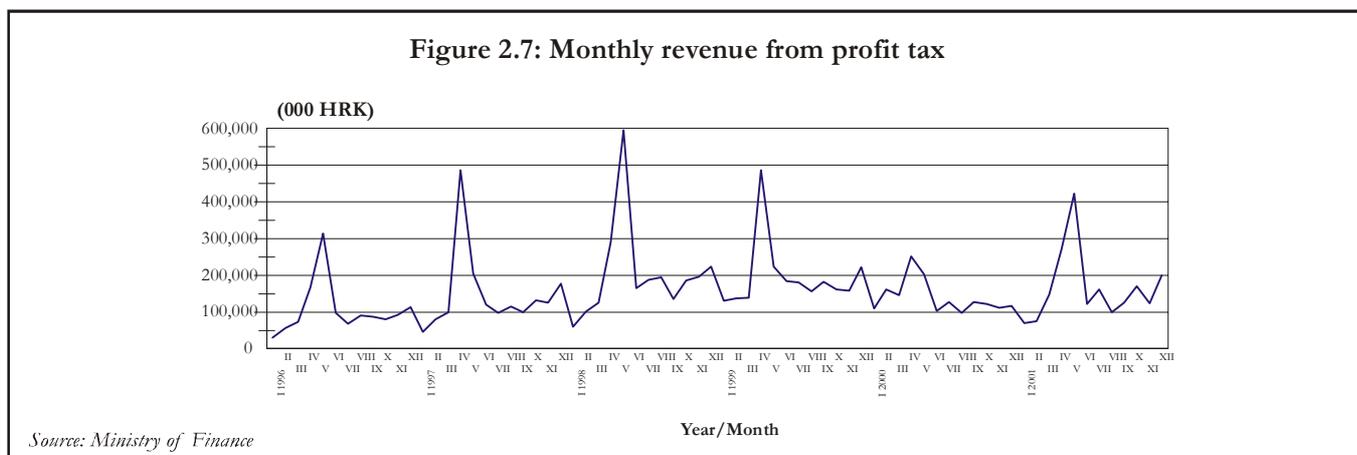
The basic components of the Law on Personal Income Tax and essential changes in comparison with the Law on Personal Income Tax which was in effect until December 31, 2000 were the following:

- the introduction of a new type of income – income from capital and income from insurance. Capital income, in light of this Law, includes receipts from dividends, as well as share of the profit on the basis of share in capital and interest rates, collected in the taxation period. The tax on personal income from dividends and income from the share of the profit on the basis of share in capital is assessed and paid at the rate of 15%. If the dividends and shares of the profit are used for increasing the company stock capital, those amounts are not considered income from capital and they are not taxable. Income in terms of this Law does not include receipts from interest rates on kuna and foreign exchange savings, deposits in accounts collected from banks, savings banks, and savings-and-loan banks, receipts from interest rates on securities, and receipts from alienation of financial assets if it is not an activity of the taxpayer. Those exemptions are aimed at savings and investments, as well as retaining profit in enterprises and increasing the stock capital of the company,
- the change of tax rates and the range of tax base for the implementation of the prescribed tax rates of 15%, 25%, and 35%. The 15-percent tax rate is assessed on income up to the level of twice the basic personal deduction. The 25-percent rate is assessed on the difference of the tax base between twice and five times the basic personal deduction. For the tax base above the amount of the five times the basic personal deduction the tax rate is 35%,
- the basic personal deduction has been increased to HRK 1,250.00,
- the abolishment of the protective interest as expenditure which was tax deductible for entrepreneurs – physical persons,
- provision of the possibility of a one-time write-off of newly procured goods of fixed assets for entrepreneurs – physical persons,
- granting/recognizing new types of expenditures for all taxpayers of the personal income tax – based on paid insurance premiums and based on gifts for specified purposes and to specified persons,
- prescribing the recognition of representation expenditures at the level of 30% real expenditures to entrepreneurs – physical persons,
- prescribing additional tax benefits and tax exemptions – on the basis of employment of new employees, paid awards to students during practical work and apprenticeship, and in the areas of special state concern,
- prescribing of simplification and taxation of property income collected by physical persons by renting real estate to lessees for business purposes,

- the change of the form and content of the annual tax return, required attachments and reports, as well as the change in all income forms.

### ***Profit Tax***

In 2001 HRK 1,987.2 million was collected from profit tax, which was an 18.7-percent increase in comparison with 2000. This can be accounted for by good business results of Croatian companies in 2000, given that profit tax in a current year is paid on the basis of business results of the previous year. The share of profit tax of a company in total taxes in 2001 remained on the same level as the previous year (4.2%).



Amendments to the Law on Personal Income Tax were accompanied by the change in the profit tax system, and the two taxes were mutually adjusted. The amendments to the Law on Profit Tax were the result of the attempts to make the Croatian tax system as transparent, as simple, and as competitive as possible. This was, among other things, one of the measures aimed at attracting foreign investors, stimulating investments and employment. Starting January 1, 2001, the new Law on Profit Tax has been implemented, which was published in the Official Gazette No. 127/00.

The basic components, i.e., essential changes and differences in taxation of profits in comparison with the regulations which had been in force until 31 December 2000 were the following:

- the reduced tax rate from 35% to 20%. The 20-percent tax rate is one of the lowest profit tax rates among all transition and European countries. In addition to changes in the tax rate, the mode of establishment of the tax base of 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. As opposed to this, according to the new Law 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,
- there is the option of a one-time write-off of equipment and business premises procured in the taxation period,
- special tax benefits have been granted to the areas of special state concern, where the tax rate is decreased depending on the group in which a particular area is situated,
- gifts (donations) for specific purposes and specific users are recognized as tax expenditure up to the level of 2% from the income which the donor made in the previous year, and can be a larger amount for a special program,
- 30% of representation expenditures is tax deductible,
- tax is paid with a 15-percent deduction rate for fees that a domestic taxpayer pays for specific costs, and on payment of dividends and share of the profit, as well as interest (except for interests on bank and commodity credits),
- tax benefit is granted for the amounts of salaries of new employees, and incentives and tax benefits prescribed in other regulations are both included in the new Law,
- protective interest is abolished.

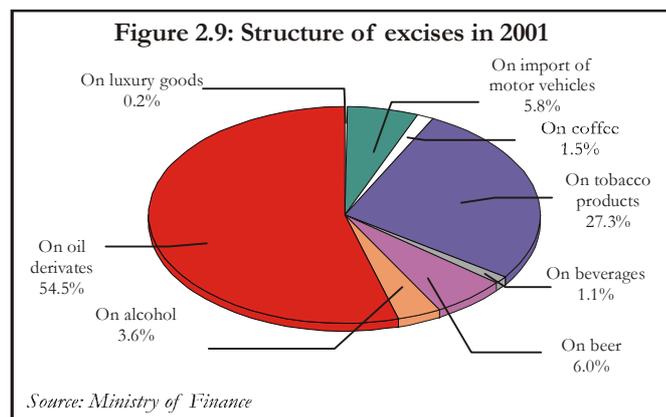
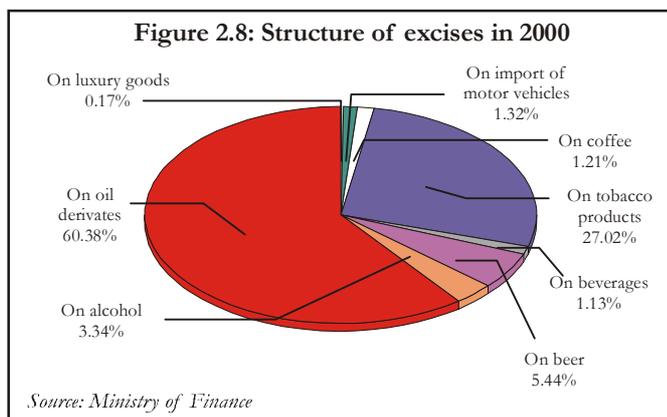
### ***Excise Tax Revenues***

In 2001 revenues from special duties or excise taxes amounted to HRK 7,698.9 million, which was on approximately the same level as last year. Thereby their importance for overall budget revenues remained approximately the same. The share of revenue from special duties in the total tax revenues dropped from 19.2% in 2000 to 16.3% in 2001. Special duties are simple to collect and enhance the tax system progressiveness, i.e., equity. Namely, it can be presumed that groups of products covered by special duties are bought to a greater extent by citizens with higher income.

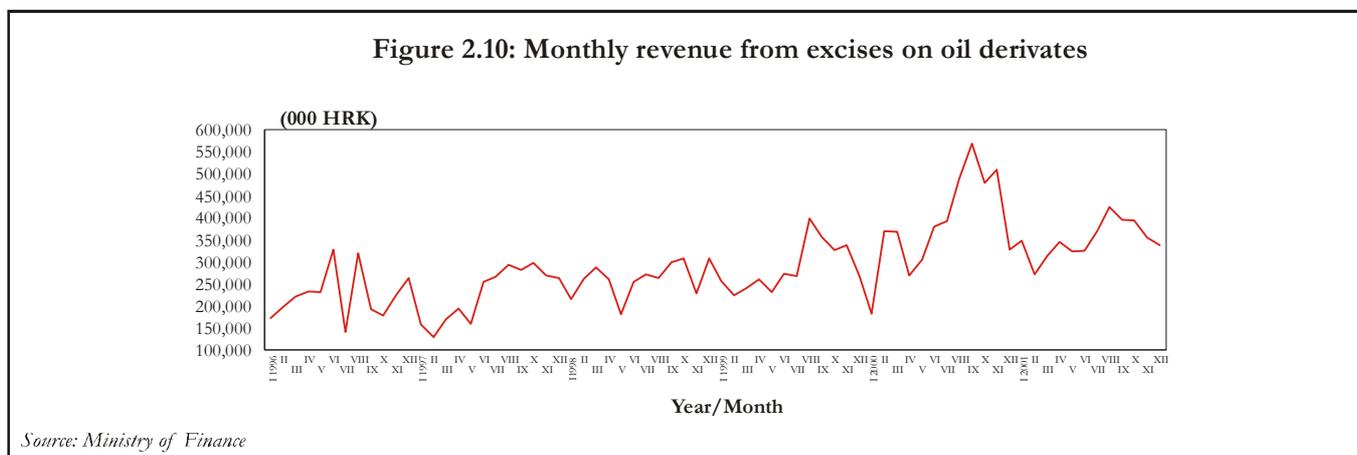
**Table 2.4: Trends in Excise Tax Revenues**

(HRK 000)	Outturn					
	1996	1997	1998	1999	2000	2001
<b>Total Excise Tax</b>	<b>5,390,785</b>	<b>5,404,837</b>	<b>5,896,787</b>	<b>6,160,719</b>	<b>7,673,256</b>	<b>7,698,897</b>
On Oil Products	2,691,840	2,728,346	3,169,770	3,432,957	4,632,799	4,194,437
On Alcohol and Alcoholic Drinks	197,623	176,681	176,897	168,335	256,120	275,916
On Beer	262,080	279,086	277,889	276,782	417,177	464,630
On Beverages	108,737	110,255	83,182	84,658	86,499	87,751
On Tobacco Products	2,039,532	1,999,988	1,983,435	1,969,920	2,073,693	2,098,557
On Coffee	68,704	74,959	76,807	77,648	92,545	115,691
On Motor Vehicle Import	22,269	35,522	128,806	149,423	101,186	446,584
On Luxury Products	0	0	0	996	13,237	15,331

Source: The Ministry of Finance



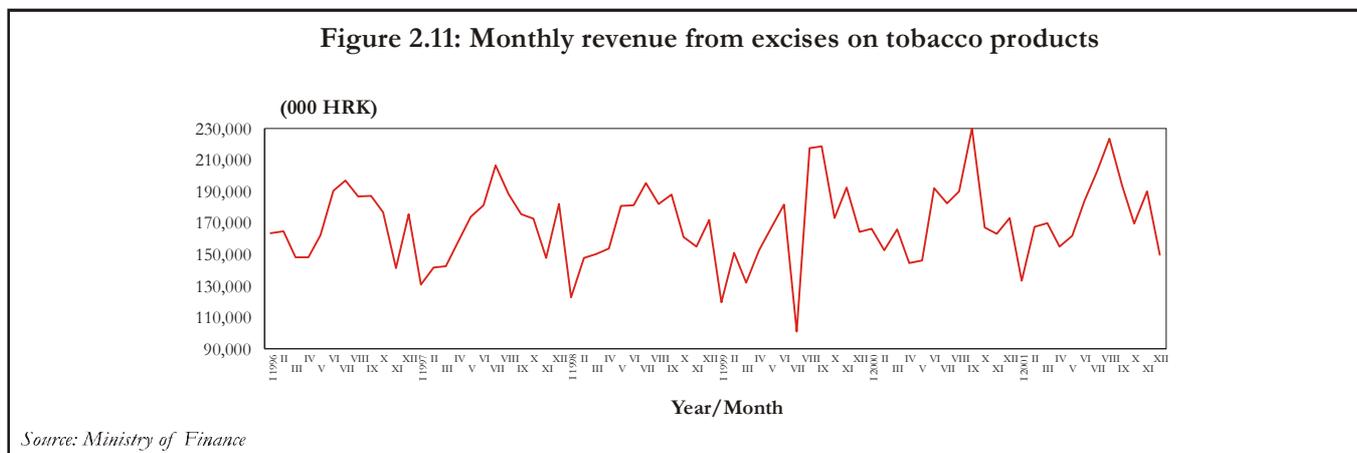
In the excise tax structure, excise taxes on oil products have the most significant role. HRK 4,194.4 million was collected through those taxes in 2001, or more than 54% of excise tax revenues. Compared to 2000, revenues from excise tax on oil were reduced by 9.5%. The share of other excise taxes in overall excise taxes remained at the approximately same level as the previous year, except for excise taxes on import of motor vehicles, whose share grew by 4.5 percentage points.



The Law on Excise Tax on Oil Products, published in the “Official Gazette” No. 55/00, which has been implemented as of July 1, 2000, prescribes greater amounts of excise tax per liter of oil and diesel fuels (whereas the amount of excise tax for other oil products remained unchanged), as well as tax benefits for diesel fuel (euro diesel) used by farmers and fishermen according to special regulations. It has been prescribed that only euro diesel fuel colored blue, to which indicators (markers) have been added, may be imported. Euro diesel-diesel fuel colored blue may be sold only to persons whom the county office in charge of agricultural affairs, or the Ministry of Agriculture and Forestry, has issued an approval for performing economic fishing at sea, on which basis they issue a form for the control of consumption of eurodiesel-diesel fuel. The right to use euro diesel-diesel fuel colored blue may be exercised by farmers for operating agricultural machines which do not have to be in their ownership.

The Law on the Amendments to the Law on Excise Tax on Oil Products, published in the Official Gazette No. 101/00 regulates, since October 21, 2000, the terms and conditions of the sale of eurodiesel-diesel fuel colored blue and heating oil (EL and LS).

The most significant excise tax for the Government budget revenues after the excise tax on oil products is the excise tax on tobacco products. In 2001 HRK 2,098.6 million of budget revenues has been collected from those excise taxes. Compared to 2000, the revenues from those excise taxes grew by 1.2%. The share of excise tax on tobacco in overall excise taxes in 2001 amounted to 27.3% and was at approximately the same level as in the previous year, when it amounted to 27.0%. However, the informal cigarette market is still developed, which has resulted in great damage for the Government budget.



The Law on the Amendments to the Law on Excise Tax on Tobacco Products, published in the Official Gazette No. 55/00, prescribes greater amounts of excise tax on cigarettes, whereas the amounts of the excise tax on other tobacco products (smoking tobacco, cigars, cigarillos) did not change.

HRK 1,405.9 million was collected from other excise taxes in 2001, which was approximately 18.3% of the overall excise taxes. This constituted an increase of 45.4% of other excise taxes in 2001 compared to 2000.

The share of excise tax on the import of motor vehicles in overall excise taxes increased from 1.3% in 2000 to 5.8% in 2001. The reason for this was partially the fact that, at the beginning of June 2001, benefits for import of cars for disabled Homeland War veterans were abolished, which resulted in sky-rocketing import of cars in the first half of 2001. This, among other things, resulted in a jump of Government revenues from excise tax on import of motor vehicles and a strong increase, in general, in the value of imports in the first half of 2001.

The most significant change in the Law on Excise Taxes on Cars, Other Motor Vehicles, Vessels, and Aircraft (the Official Gazette No. 55/00), which has been in force as of June 1, 2000, consists in a new mode of establishing the tax base and the amount of excise tax on cars and motorcycles. Prior to those amendments, excise tax on cars and motorcycles was prescribed in the absolute amount depending on engine power, measured in kilowatts. Pursuant to the amendments to the Law, the basis for the calculation of excise tax is the price of the car or motorcycle. The amount of the excise tax decreased significantly for vehicles with lower price and higher engine power.

Since January 1, 2001, the Law on the Amendments to the Law on Excise Taxes on Cars, Other Motor Vehicles, Vessels, and Aircraft (the Official Gazette No. 127/00) introduced a new mode of taxation of used cars and motorcycles, i.e., a new table has been prescribed for the taxation of cars and motorcycles.

The Law on the Amendments to the Law on Excise Tax (the Official Gazette No. 55/00) prescribed a higher amount of excise tax on coffee and coffee products from June 1, 2000.

The Law on the Amendments to the Law on Excise Tax on Beer (the Official Gazette No. 55/00) prescribed a higher amount of excise tax on beer and non-alcoholic beer from June 1, 2000.

The Law on the Amendments to the Law on Excise Tax on Alcohol (the Official Gazette No. 55/00) from June 1, 2000 prescribed a higher amount of excise tax on alcohol.

Starting August 1, 2001 the Law on the Amendments to the Law on Excise Tax on Alcohol (the Official Gazette No. 67/01) reduced the amount of excise tax on alcohol and alcoholic beverages per liter of content of absolute alcohol. In addition, excise tax on alcoholic beverages is not paid for deliveries to faculties, institutes, and other scientific institutions which use alcohol in teaching and scientific activities. Excise tax on alcohol or alcoholic beverages is not

paid either on deliveries of domestic and imported alcohol and alcoholic beverages into supply warehouses for warehousing of goods intended for supply of ships or other means of transport pursuant to customs regulations.

Producers of alcohol and alcoholic beverages (except for physical persons – owners of agricultural land, if they produce from their own substance for their own needs less than 40 liters of absolute alcohol per annum, per agricultural household) are required to report to the Tax Directorate, within 8 days prior to the commencement of the production, the activity of production of alcohol and alcoholic beverages, as well as facilities for their production.

### ***Customs Revenues***

During 2001 customs revenues amounted to HRK 3,215.4 million. Customs revenues dropped in 2001 by 15.3% in comparison with 2000. The drop in customs revenues was a result of the reduction in customs burden on imports. Tariffs were reduced in July (on industrial products) and November (on agricultural products) 2000. Further cuts in customs rates followed on January 1, 2001. Starting with January 1, 2001, free trade agreements with the Republic of Slovenia and Bosnia-Herzegovina came into force. Also, a free trade agreement with Hungary came into force on April 1, 2001. Pursuant to this, customs revenues will continue losing their fiscal impact in the future. The share of customs revenues in total tax revenues dropped from 9.5% in 2000 to 6.8% in 2001.

In addition to the amendments to the tax laws, 2001 saw the amendments to the General Tax Law, as well as the Law on the Financing of Local and Regional Self-Government Units.

Starting January 1, the General Tax Law has been in force (the Official Gazette No. 127/00). The Generic Tax Law is a novelty in Croatian legal and tax system and represents codifying of Croatian tax law. The principle of codifying of the tax law is adopted by many positive legal systems of the European Union countries, and the Republic of Croatia follows their model, for purpose of legal security of taxpayers and the legal regulation of procedures employed by taxation bodies.

The General Tax Law regulates the tax-law relations in the Republic of Croatia in a unique manner. More precisely, it regulates the rights and obligations of a taxation body and the taxpayer in the taxation procedure. The General Tax Law for the first time regulates in legal terms the procedure of external supervision as a part of tax-law relations, and regulates the execution procedure and the procedure against legal remedies.

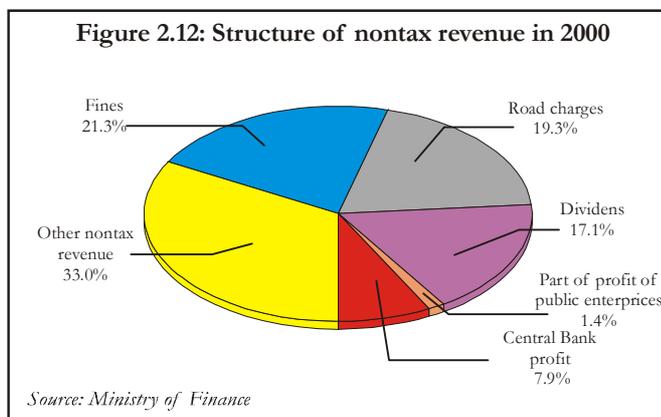
The Law on the Financing of Local and Regional Self-Government Units was changed twice during 2001. The amendments to that law were published in the Official Gazette, Nos.: 59/01 and 107/01. New provisions have brought the following basic changes:

- funds are provided for specific functions which have been transferred by special laws pertaining to the area of primary education, health, and social welfare into the competence of local and regional self-government units,
- the allocation of joint taxes among the state, county, cities, and municipalities is regulated, with the difference of the shortage of funds being provided from the equalization grants,
- fiscal capacity of local and regional self-government units is expanded by increasing specific taxation types forms on the local level, and providing for the possibility of introduction of new types of taxes, such as the tax on unfarmed arable agricultural land, tax on unused business real property, as well as tax on undeveloped construction land,
- tax on advertisements is abolished, as well as tax on organizing amusement and sports events, but tax on game machines was introduced,
- some of the existing taxes (tax on road motor vehicles and vessels, inheritance and gift tax, company tax) are regulated in a somewhat different manner,
- all municipalities and cities are given an opportunity to introduce surtax on personal income tax.

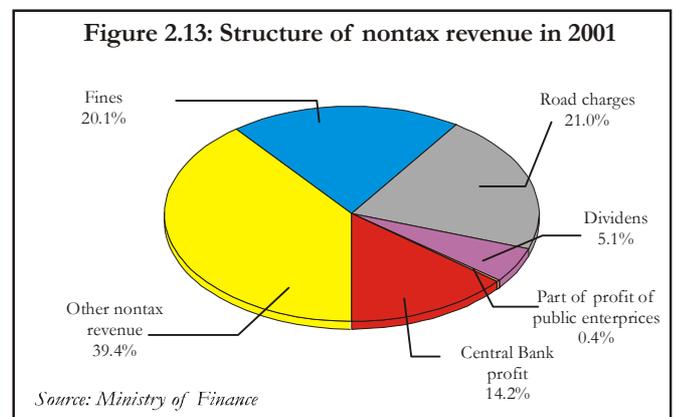
### **2.3.2. NON-TAX REVENUES**

In 2001 non-tax revenues amounted to HRK 1,632.3 million, which was a 2.3-percent increase in comparison with 2000. The most significant individual non-tax revenue in 2001 was the revenue from road taxes, which accounted for 21.1% of total non-tax revenues, and fines, which accounted for 20.2% of non-tax revenues. HRK 344.7 million was collected from road tax, or 11.7% more than the previous year. Surplus of revenues over expenditures of the Croatian National Bank in 2001 compared to 2000 grew by 85%. Revenues from profits of public enterprises, which are negative, were mostly the reason for the overall reduction in non-tax revenues. Income from dividends in 2001 was HRK 83.4 million, which was a reduction of no less than 3.3 times in comparison with 2000. In the future non-tax revenues will certainly keep losing fiscal importance, and with the privatization of public and state-owned enterprises the most abundant source of non-tax revenue will become exhausted.

**Figure 2.12: Structure of nontax revenue in 2000**



**Figure 2.13: Structure of nontax revenue in 2001**



### 2.3.3. CAPITAL REVENUES

In the overall Government budget outturn, capital revenues in 2001 accounted for 8.6%, which was 1.6 percentage points more than in 2000. Therefore, the importance of capital revenues in the Government budget grew in comparison with 2000. Capital revenues outturn in 2001, which amounted to HRK 4,597.3 million, were significantly below the originally planned amount of HRK 8,771 million, which means that capital revenues were at the level of only 52.4% of the originally planned ones. The first budget revision cut this amount to HRK 6,771 million, and the second to HRK 5,681 million. In that way 80.9% of the amount planned by the second budget revision in October 2001 was collected. The collected capital revenues in 2001 accounted for 2.8% of GDP. The most part of the privatization revenues refers to the sale of 16% of HT, worth EUR 500 million, with additionally released funds worth USD 46 million, which had been tied since 1999 by the previously concluded agreement between the Government and DT. The shortage of planned privatization revenues was bridged by a HRK 1.3 billion issue of bonds on the domestic market, borrowing from foreign banks (HRK 200 million), and subscription of treasury bills (HRK 300 million).

According to international standards (GFS Manual) of keeping statistics of public finance, privatization revenues are not treated as budget revenues, but as one of the sources of financing the deficit. Privatization revenues are not of permanent nature, and their temporary nature creates a danger that, with the disappearance of those revenues, the expenditure side will not be able to adjust in a short term to the reduction on the revenue side. This entails large deficits, increases debt, and leads to all other negative consequences which result from it. Therefore, it is not good to rely on this type of revenues. Due to the fact that in the last couple of years Croatia has nevertheless significantly relied on this type of revenues, efforts should be made to reduce public expenditures in order to balance them with budget revenues (without privatization revenues).

### 2.4. CENTRAL GOVERNMENT BUDGET EXPENDITURES IN 2001

In 2001 the total Central Government budget expenditures and lending minus repayment amounted to HRK 57,812.8 million, which was by approximately 0.6% less than the amount planned by the second budget revision. In comparison with 2000, budget expenditures increased by 13.9% in nominal terms. As the share of the gross domestic product, they grew from 32.3% in 2000 to 35.5% in 2001.

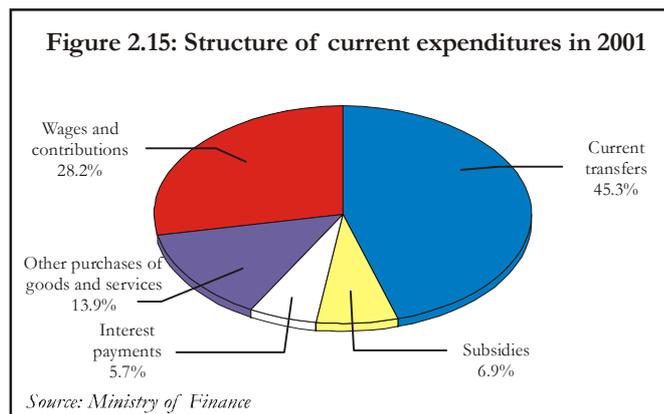
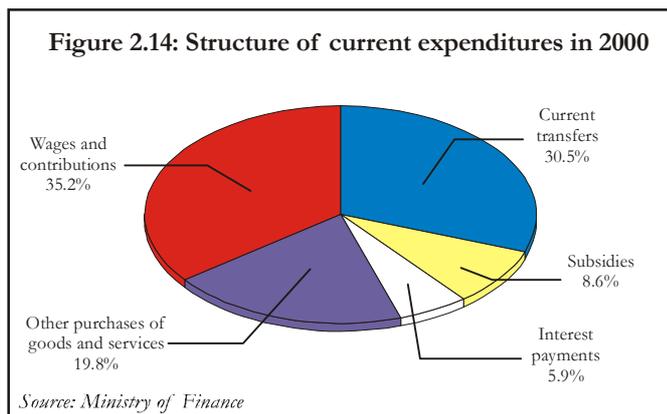
**Table 2.5: Central Government Budget Expenditures**

(HRK 000)	Budget 2001	Revision 2001	Revision II 2001	Outturn 2001	Outturn (structure)	Outturn Share of GDP
<b>Total Expenditures and Lending Minus Repayment</b>	<b>49,679,912</b>	<b>58,138,242</b>	<b>58,138,242</b>	<b>57,812,764</b>	<b>100.0</b>	<b>35.5</b>
Expenditures for Goods and Services	21,386,427	21,386,427	22,129,774	22,220,759	38.4	13.6
Interest Payment	3,330,826	3,330,826	3,231,354	3,015,312	5.2	1.9
Subsidies	3,807,155	3,807,155	3,684,805	3,656,037	6.3	2.2
Transfers	15,389,403	23,487,733	24,018,712	23,927,112	41.4	14.7
<b>Capital Expenditures</b>	<b>4,936,001</b>	<b>5,296,001</b>	<b>4,350,596</b>	<b>3,904,056</b>	<b>6.8</b>	<b>2.4</b>
<b>Lending Minus Repayment</b>	<b>830,100</b>	<b>830,100</b>	<b>723,002</b>	<b>1,089,489</b>	<b>1.9</b>	<b>0.7</b>

Source: The Ministry of Finance

## 2.4.1. CURRENT EXPENDITURES

Current expenditures amounted to HRK 52,819.2 million in 2001, which was a 19.4-percent increase in comparison with 2000. In the total structure of expenditures, the Current expenditures in 2001 accounted for 91.4%, whereas their share in 2000 accounted for 87.2%. Obviously, the share of Current expenditures in the total expenditures increased.



Current transfers were the largest item in the overall Current expenditures in 2001. By the 2001 budget current transfers grew significantly, by 77.1%. This primarily happened due to increased transfers to pension fund, which grew by 37%. This was mostly a result of the enactment of the Law on Pension Increase. By means of this Law the decision of the Constitutional Court of May 12, 1998 was partially executed. Most importantly, pursuant to this Law the receipts of the elderly and socially most vulnerable categories of population increased and partially the return was effected of what they should have received earlier pursuant to the Law on Pension and Disability Insurance.

The next item in Current expenditures was outlays for goods and services, for which 38.4% of total budget expenditures in 2001 were used. Within those outlays, the wages of budget beneficiaries accounted for the majority of outlays. In early 2001 the Government decided to implement one of essential measures for cutting expenditures, namely, rationalization of wages in state administration. The total wage bill of budget beneficiaries in 2001 accounted for HRK 14,877.9, which is by 4.5% less than in 2000. However, wages of budget beneficiaries in 2001 were above those planned by the second revision of approximately 1.0%. A HRK 150 million overrun was mostly the result of payment of Christmas bonus and gifts for children in December 2001. In parallel with the reduction of the wage bill, the Government began the rationalization of the number of employees in state administration in the Ministry of Internal Affairs.

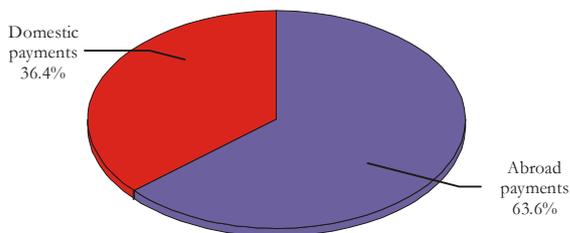


HRK 7,342.8 million was spent for purchases of other goods and services in 2001. This was by 0.8% less than the amount planned by the second revision or by 16.1% less than in 2000. The decrease in the two items is the best indicator of the undertaken measures of saving and cutting state expenditures.

The outlays for payment of interest rates totaled HRK 3,015.3 million, which was a 16.0% increase in comparison with the previous year. Domestic payments of interest rates grew by 10.4% in comparison with 2000 and amounted to HRK 1,043.1 million in 2001.

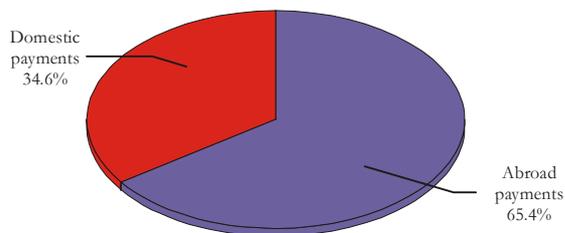
Foreign interest rate payments in 2001 rose by 19.2%. In 2001 foreign interest rate payments totaled HRK 1,972.2 million, and in 2000 HRK 1,654.2 million.

**Figure 2.17: Structure of interest payments in 2000**



Source: Ministry of Finance

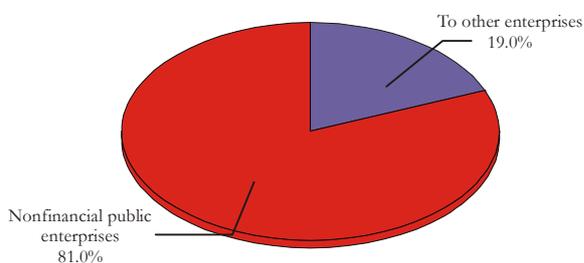
**Figure 2.18: Structure of interest payments in 2001**



Source: Ministry of Finance

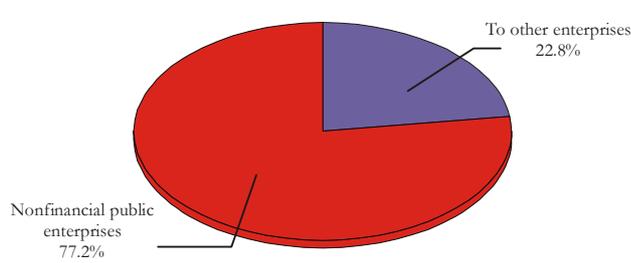
During 2001 subsidies from the Central Government budget amounted to HRK 3,656.0 million, or by 3.9% less than in 2000. In 2001 subsidies to non-financial public enterprises were reduced, specifically, by 8.4% and amounted to 2,822.1 million, whereas the subsidies to other enterprises grew by 15.4% and were at the level of HRK 833.9 million in 2001. This cut in subsidies to non-financial public enterprises was mostly the outcome of the cut in subsidies to Croatian Railways, as well as tourism. Agricultural subsidies in 2001 amounted to HRK 2,231.8 million, which was on the level of the planned amount for 2001.

**Figure 2.19: Structure of central budget subsidies in 2000**



Source: Ministry of Finance

**Figure 2.20: Structure of central budget subsidies in 2001**

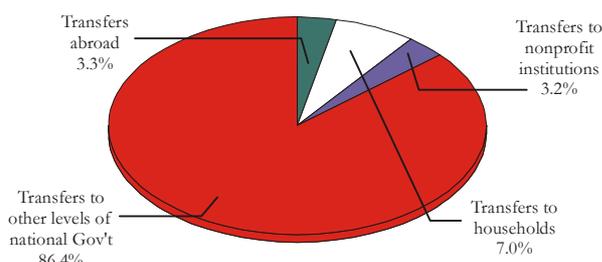


Source: Ministry of Finance

The item which recorded high growth rates in all previous years, including 2001, were current transfers. Their growth in 2001 in comparison with 2000 amounted to no less than 77.1%. The biggest pressure to such a strong increase in current transfers comes from extra-budgetary funds. This primarily refers to Pension Fund and Health Insurance Fund, whose difficult financial position in previous years required increasingly growing transfers from the Central Government budget. At the same time it was also the result of inclusion of the Pension Fund into the Government Treasury system as of mid 2001, but also the increase in pension outlays due to the return of pensioners' debt. Total transfers amounted to HRK 23,927.1 million. In addition to pensions, a strong increase in transfers was also affected by outlays for child allowance, which grew from HRK 1,251.4 million in 2000 to HRK 2,463.6 million – an increase of almost 100%. The increase in those transfers increased the available income of the households, which had a positive effect on the increase in personal consumption. All of the above resulted in an increase in transfers to households, which totaled HRK 11,833.1 million in 2001. They were more than 12 times as high as those in 2000 (when they amounted to HRK 948.9 million). An increase was also recorded in transfers to non-profit institutions – by 53.3%.

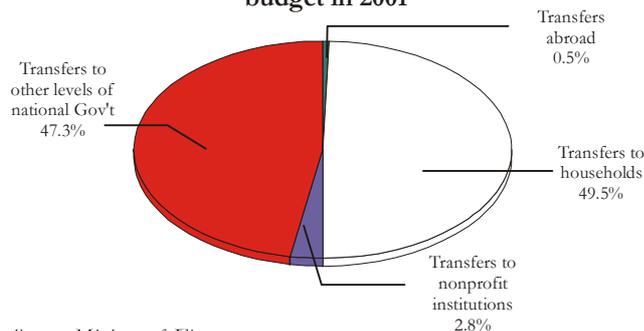
Transfers to other levels of the National Government in 2001 declined by 3.1% in comparison with the previous year

**Figure 2.21: Structure of current transfers from central budget in 2000**



Source: Ministry of Finance

**Figure 2.22: Structure of current transfers from central budget in 2001**



Source: Ministry of Finance

and amounted to HRK 11,318.1 million. A drop was also recorded in transfers to foreign countries, which amounted to HRK 112.4 million in 2001 and represented a 75.1-percent drop in comparison with the previous year.

## 2.4.2. CAPITAL EXPENDITURES

**Table 2.6: Central Government Budget Capital Expenditures**

	Outturn (HRK 000)		Structure (%)		The share of GDP (%)	
	2000	2001	2000	2001	2000	2001
Purchase of Fixed Capital Assets	2,705,316	1,495,464	50.8	38.3	1.8	0.9
Purchase of Reserves	0	0	0.0	0.0	0.0	0.0
Purchase of Land and Intangible Assets	514,144	282,892	9.6	7.2	0.3	0.2
Capital Transfers	2,110,600	2,125,700	39.6	54.4	1.4	1.3
<b>Capital Expenditures – Total</b>	<b>5,330,060</b>	<b>3,904,056</b>	<b>100.0</b>	<b>100.0</b>	<b>3.5</b>	<b>2.4</b>

*Source: The Ministry of Finance*

In 2001 capital expenditures of the Central Government budget totaled HRK 3,904.1 million, which was a 26.8-percent drop in comparison with 2000. The overall reduction was primarily the result of the Government's policy of cutting total Government expenditures, as well as the shrinking of the investment role of the state. Further to this, purchase of fixed capital assets declined from HRK 2,705.3 million in 2000 to HRK 1,495.5 million in 2001, which was a 44.7-percent drop. Significant reduction was recorded in almost all important items on capital expenditures, such as road building, reconstruction, construction and reconstruction of schools, investment maintenance, purchase of building structures, etc. Significant reduction (by 45.0%) was also recorded in the purchase of land and intangible assets. Capital transfers remained at approximately the same level as in 2000, amounting to HRK 2,125.7 million, whereas in the previous year they amounted to HRK 2,110.6 million. The structure of capital expenditures in 2001 was somewhat changed in comparison with 2000. For instance, the share of purchase of fixed capital assets in overall capital expenditures declined from 50.8% in 2000 to 38.3% in 2001. Capital transfers increased their share in total transfers from 39.6% in 2000 to 54.4% in 2001. Capital expenditures were one of the items of overall expenditures at which significant savings were made in 2001.

## 2.4.3. LENDING MINUS REPAYMENT

In 2001 lending minus repayment amounted to HRK 1,089.5 million, which was by 50.7% more than had been envisaged by the second revision. In comparison with 2000 this item was lower by 7.4%. Lending minus repayment had the lowest portion in the structure of overall expenditures (1.9%).

## 2.5. FUNCTIONAL CLASSIFICATION OF GOVERNMENT EXPENDITURES

The functional classification of budget expenditures enables analyzing of the purpose of specific categories of public expenditures. This classification also enables international comparability of specific categories of expenditures by eliminating organizational differences among countries. In general, one can maintain that in 2001, in addition to the reduction in outlays for education and culture, which was definitely a one-time reduction, positive trends were recorded in the restructuring of public expenditures. Such trends will, with minor changes, continue in the following years. The state will allocate more resources for education, science, culture, technology, and other production expenditures which will have positive effects on the future economic development, and less on defense affairs and services, as well as public order and security, which is in line with the rationalization of Government expenditures.

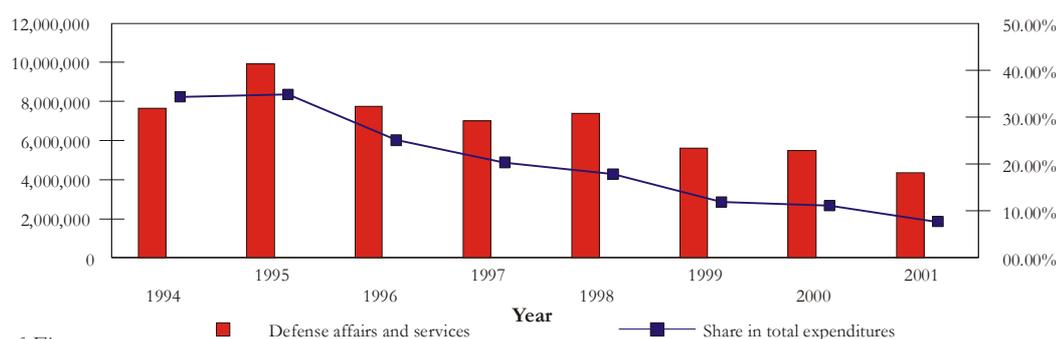
**Table 2.7: Functional Classification of Central Government Budget Expenditures as the Share of Total Expenditures**

(%)		Outturn		The Share of GDP	
		2000	2001	2000	2001
<b>I.</b>	<b>Total Expenditures</b>	<b>100</b>	<b>100</b>	<b>32.5</b>	<b>34.8</b>
1.	General Public Services	5.9	5.3	1.9	1.8
2.	Defense Affairs and Services	11.1	7.6	3.6	2.7
3.	Public Order and Security Affairs	10.5	8.4	3.4	2.9
4.	Education Affairs and Services	13.3	11.6	4.3	4.0
5.	Health Affairs and Services	0.7	0.5	0.2	0.2
6.	Social Security and Welfare	30.2	44.3	9.8	15.4
7.	Housing and Public Utility Affairs and Services	3.6	3.0	1.2	1.0
8.	Recreation, Cultural, and Religious Affairs and Services	1.8	1.7	0.6	0.6
9.	Fuel and Energy-Related Affairs and Services	-	-	-	-
10.	Agriculture, Forestry, Fishery, and Hunting	3.5	2.9	1.1	1.0
11.	Mining, Industry, and Construction Industry	1.3	0.8	0.4	0.3
12.	Transport and Communications Affairs and Services	10.0	5.5	3.2	1.9
13.	Other Economic Affairs and Services	1.6	1.5	0.5	0.5
14.	Expenditures not Classified in Main Groups	6.6	7.0	2.2	2.4

Source: The Ministry of Finance

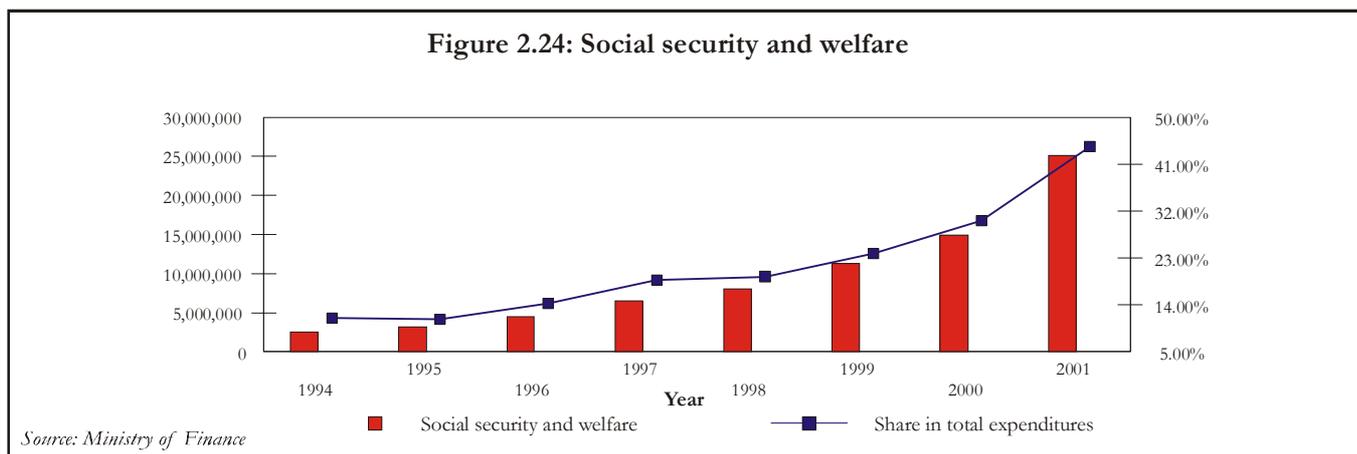
2001 saw the continuation of trends which had commenced in previous years – trends in expenditures for specific Government functions. This primarily refers to outlays for defense affairs and services. Their share was reduced from 11.1% in 2000 to 7.6% in 2001. Such a trend is understandable because there is a tendency to reduce the defense expenditures in the Republic of Croatia to the level of expenditures in developed countries. Therefore, such trends in defense expenditures will continue in the following years. Similar trends in previous years were also recorded in expenditures for general public services. Their share in overall expenditures, as well as in the gross domestic product, is on the decline from one year to another. Creating a small but efficient state administration, which is the goal of the restructuring of state administration, will lead to a further decrease in expenditures for its functioning. Expenditures for public order and security affairs in 2001 were also reduced (by 8.2%) in comparison with 2000, and their share in overall expenditures shrank as well, which is also a positive trend.

**Figure 2.23: Defense affairs and services**

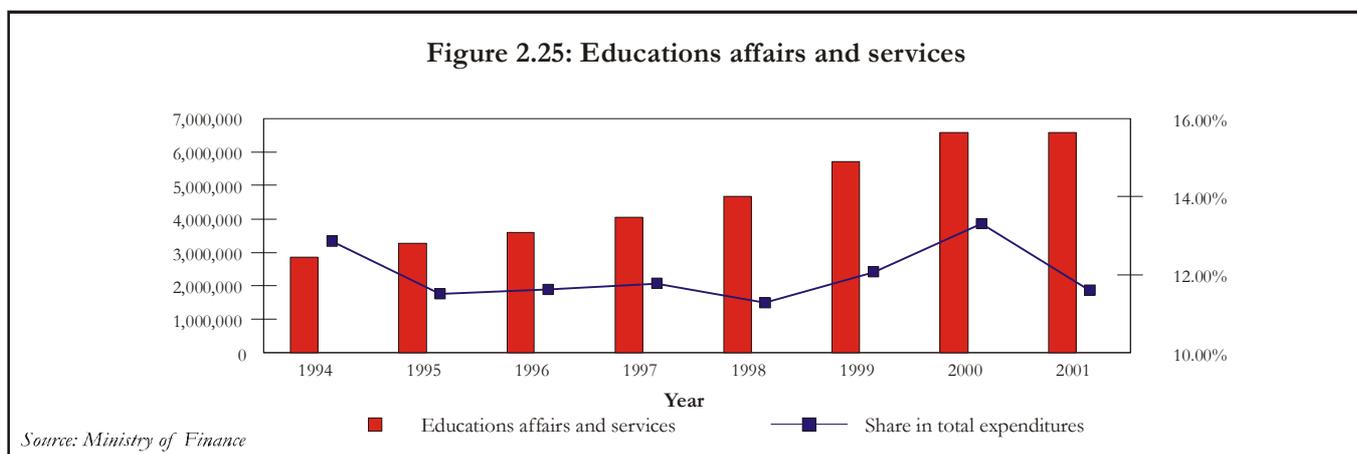


Source: Ministry of Finance

Trends commenced in previous years were also continued by expenditures for social security and welfare. Their share in overall expenditures has been on the increase from one year to another, reaching 44.3% in 2001. This was an increase of 14.1 percentage points in comparison with 2000. The share of those expenditures in the gross domestic product rose from 9.8% in 2000 to 15.4% in 2001. Obviously, various social programs and protection of vulnerable categories of population such as the unemployed, persons with low income, and refugees and displaced persons, increasingly burden the state budget. Higher and higher transfers to the Pension Fund, Health Insurance Fund, and Child Benefit Fund are a special burden for the state budget. It is specifically for those reasons that it is necessary to implement a comprehensive reform in Croatia. The share of health affairs and services in overall expenditures remained at the approximately the same level as in 2000, so their share in GDP remained on the same level. Restructuring of the economy, and encouragement of economic growth, production, and exports should be aimed at employment and welfare growth, and related to that, reducing unemployment and socially vulnerable categories of population, who need various social transfers. This is the only way to reduce the burden which the social programs and transfers represent for the Government budget.



Negative trends were recorded in expenditures for education affairs and services. Their share in overall expenditures shrank from 13.3% in 2000 to 11.6% in 2001. Such a trend of expenditures for education is not desirable, but the increased significance of this type of expenditures from the aspect of future economic growth is necessary. The share of those expenditures also dropped in the percentage of GDP, from 4.3% in 2000 to 4.0% in 2001. This trend is contrary to trends in education expenditures in developed countries.



Expenditures for housing and public utility affairs, for recreational, cultural, and religious affairs and services, for agriculture, forestry, fishery, and hunting, for industry, mining, and construction industry, transport and communications affairs and services, as well as other economic affairs and service, are also decreasing their share in overall expenditures, which further results in the decline of their share in GDP. Cutting the expenditures for agriculture, forestry, and fishery was a consequence of reduced agricultural subsidies. Costs which are not classified primarily include expenditures for domestic and foreign interest rates (this type of expenditures increases with the increase in borrowing), as well as expenditures related to issuing of securities and growth of borrowing, and also transfers of general nature among various state levels.

### III. CONSOLIDATED CENTRAL GOVERNMENT

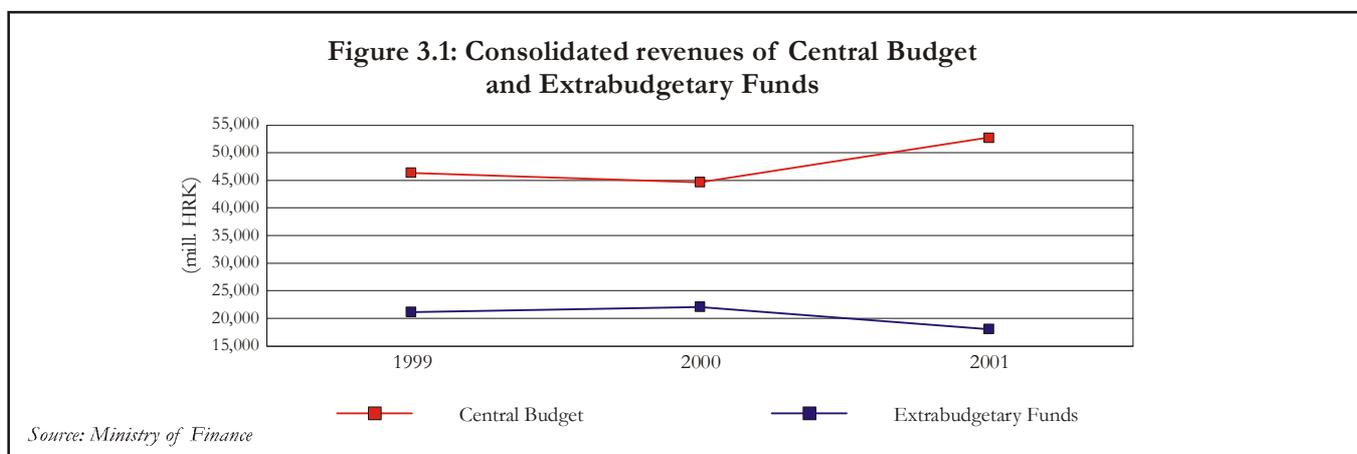
*Prepared by: Stanko Kršlović, Bureau for Macroeconomic Analysis and Planning  
Ivanka Kukin, Budget Preparation and Consolidation Department*

### 3.1. CONSOLIDATED CENTRAL GOVERNMENT

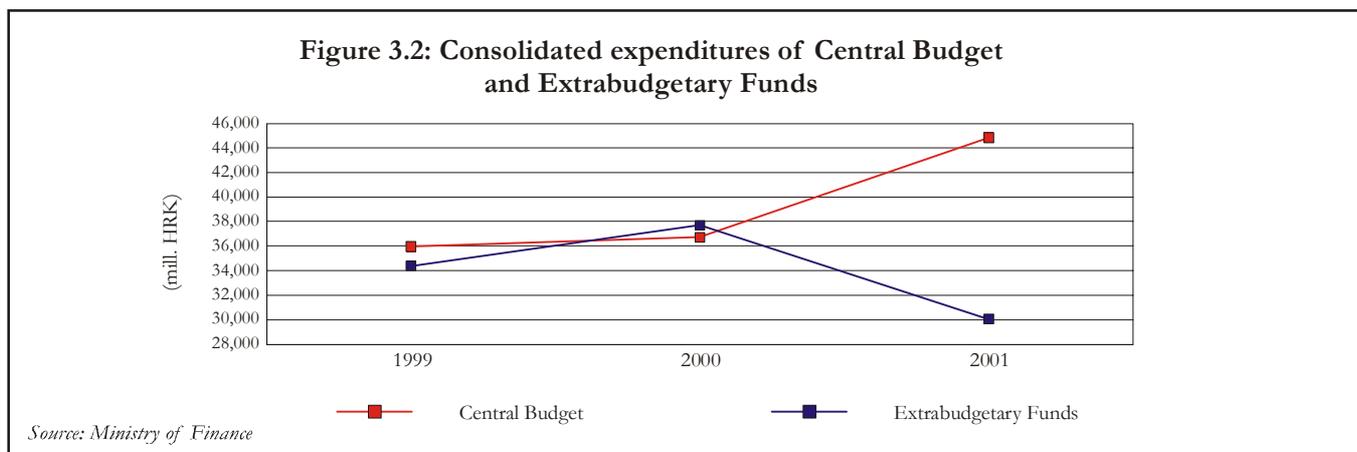
Measured by expenditures of the consolidated central Government, in the period from 1991 to 1993 the size of the public sector in the Republic of Croatia on average accounted for 37.6% of the gross domestic product, whereas in the period from 1997 to 1999 it accounted for 46.6%. As early as 1999, the share of expenditures of the consolidated central Government in the gross domestic product accounted for 49.3% of the gross domestic product. In 2000 the share of expenditures of the consolidated central Government in GDP dropped to 48.8%, as well as in 2001, when it totaled 46%, as the result of the restrictive fiscal policy.

In line with the Government budget and financial plans of extra-budgetary funds for 2001, the total revenues of the consolidated central Government were originally planned at HRK 73,526.9 million. The share of consolidated revenues of the central budget in total planned revenues of the consolidated central Government accounted for 67.5%, whereas the consolidated revenues of extra-budgetary funds accounted for the remaining 32.5 %. During the year the original plan was changed twice due to the implemented amendments to the Government budget. According to the new plan at the end of 2001, the overall revenues were planned at HRK 70,835.6 million, out of which 75.5% was the share of the central budget, and 24.5% of extra-budgetary funds.

According to the new plan at the end of 2001 the overall expenditures of the consolidated central Government were planned at HRK 75,116.5 million, out of which 60.2% accounted for the share of consolidated expenditures central budget, whereas 39.8% was the share of consolidated expenditures of extra-budgetary funds.



Total collected revenues of the consolidated central Government in 2001 amounted to HRK 70,845.6 million, which was execution by 0.1% higher than the planned amount. The share of total revenues of the consolidated central Government in the gross domestic product totaled 43.48% (in the previous year this share was 42.5%). The overall expenditures of the consolidated central Government were collected at HRK 74,889.1 million, which accounted for 99.7% of the amount planned for 2001. The year 2001 was the second consecutive one in which the share of expenditures of the consolidated central Government in the gross domestic product decreased (it accounted for 46%).

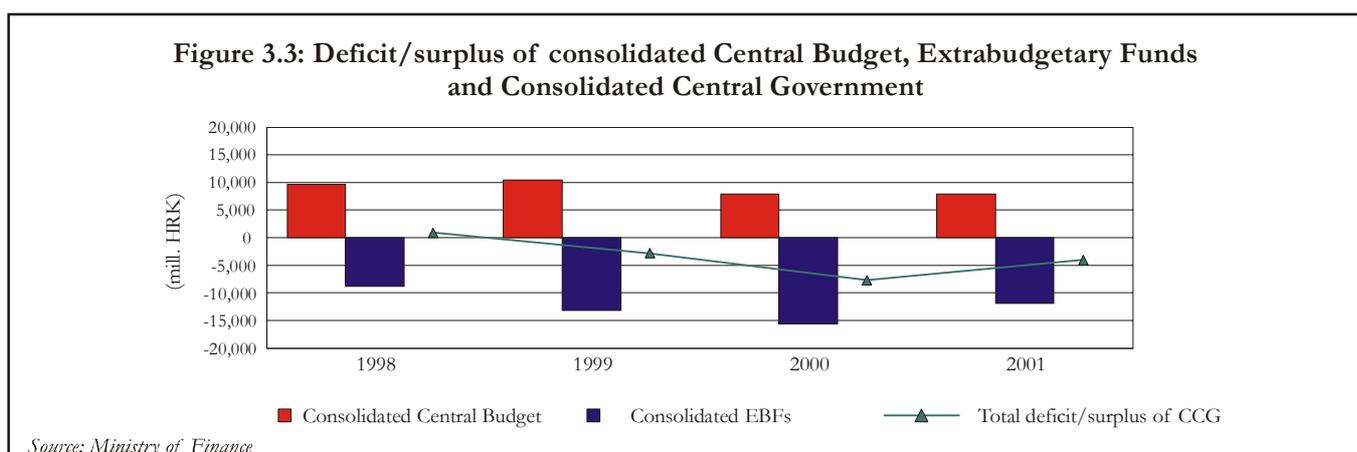


In 2001 as well the trend of a fast increase in consolidated revenues of the central budget in comparison with the consolidated revenues of the extra-budgetary funds continued, primarily due to the inclusion of the pension insurance contribution into the Government Treasury. Consolidated revenues of the Government budget reached the level of

32.37% (28.4% in 2000), whereas the revenues of extra-budgetary funds reached the level of 11.1% (14% in 2000) of the gross domestic product.

In 2000 the consolidated expenditures of the extra-budgetary funds were collected at the level which exceeded the amount of the consolidated expenditures of the central budget as a consequence of increasingly greater reliance of the extra-budgetary funds on the transfers from the central budget. Due to the structural changes undertaken in 2001, this ratio changed, and the share of the consolidated expenditures of the central budget in the gross domestic product in 2001 accounted for 27.5%, whereas the share of consolidated revenues of the extra-budgetary funds accounted for 18.5%.

The total deficit of the consolidated central Government in 2001 amounted to HRK 4,043.5 million (2.48% of GDP), whereas in 2000 the deficit amounted to HRK 7,697.3 million, or 4.9% of GDP. There continued the trend of collection of consolidated surplus of the central budget, which in 2001 totaled HRK 7,902.9 million, or 4.85% of the gross domestic product. The extra-budgetary funds continue having a consolidated deficit, and in 2001 this deficit totaled HRK 11,946.4 million (7.33% of GDP), which was by HRK 3,655.6 million less than in 2000. Individually, the Pension Fund had the greatest deficit, which amounted to HRK 6,318.5 million. The Health Insurance Fund followed with HRK 2,878.2 million, as well as the Child Benefit Funds with a HRK 2,461.9 million deficit (consolidated review).



The most significant revenues of the consolidated central Government continued to be the value-added tax, revenues from obligatory pension and health insurance contributions, as well as unemployment benefits. In 2001 a total of HRK 45,801 million was collected from those kinds of revenues, which amounted to no less than 72.6% tax revenues, or 64% of overall revenues of the consolidated central Government. The tax burden in the Republic of Croatia was still comparatively high in comparison with other transition countries and totaled almost 39% of the gross domestic product.

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

	1994	1995	1996	1997	1998	1999	2000	2001
<b>Tax Revenues</b>	<b>40.1</b>	<b>41.4</b>	<b>41.5</b>	<b>40.3</b>	<b>43.5</b>	<b>41.0</b>	<b>39.7</b>	<b>38.7</b>
<b>Direct Taxes</b>	<b>17.8</b>	<b>19.0</b>	<b>19.7</b>	<b>19.4</b>	<b>19.7</b>	<b>19.0</b>	<b>17.4</b>	<b>17.3</b>
Personal Income Tax	3.7	3.6	3.9	3.3	3.6	3.2	2.7	2.1
Contributions	13.3	14.3	14.5	14.4	14.1	13.9	13.5	13.8
Profit Tax	0.7	1.0	1.2	1.4	1.8	1.7	1.1	1.2
Taxes on real estate transactions	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
<b>Indirect Taxes</b>	<b>22.4</b>	<b>22.4</b>	<b>21.8</b>	<b>20.9</b>	<b>23.8</b>	<b>22.0</b>	<b>22.2</b>	<b>21.4</b>
Turnover Tax	15.1	13.0	12.5	12.2	1.4	0.3	0.1	0.1
VAT	...	...	...	...	14.7	14.0	14.3	14.3
Excise Taxes	3.1	5.0	5.0	4.3	4.2	4.2	5.0	4.7
International Trade Duty	4.0	4.0	3.7	3.8	3.1	3.1	2.6	2.0
Other Taxes	0.2	0.3	0.6	0.6	0.4	0.3	0.3	0.3

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

In terms of economic classification, the most significant expenditures of the consolidated central Government still were on the item of transfers to households – as much as 39% of total expenditures of the consolidated central Government. They were followed by expenditures for salaries and wages with 24% and expenditures for other purchases of goods

and services with a 20-percent share in total expenditures of the consolidated central Government. Those three items together accounted for no less than 83% of total expenditures of the consolidated central Government.

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

	1994	1995	1996	1997	1998	1999	2000	2001
<b>Total Expenditures</b>	<b>40.2</b>	<b>44.7</b>	<b>44.8</b>	<b>43.9</b>	<b>45.8</b>	<b>48.7</b>	<b>48.0</b>	<b>45.3</b>
<b>Current Expenditures</b>	<b>37.3</b>	<b>41.1</b>	<b>39.5</b>	<b>39.3</b>	<b>41.0</b>	<b>43.3</b>	<b>44.1</b>	<b>42.6</b>
Salaries and Wages	9.7	11.3	10.5	10.3	10.9	11.8	11.8	10.8
Other Purchases of Goods and Services	14.5	14.9	12.8	10.8	11.1	9.9	10.9	9.0
Interest Payments	1.3	1.4	1.1	1.4	1.5	1.6	1.8	2.0
Subsidies	2.0	1.8	1.9	1.9	2.4	2.4	2.5	2.2
Current Transfers	9.7	11.6	13.2	14.9	15.2	17.6	17.1	18.5
<b>Capital Expenditures</b>	<b>2.9</b>	<b>3.6</b>	<b>5.3</b>	<b>4.6</b>	<b>4.8</b>	<b>5.4</b>	<b>3.9</b>	<b>2.7</b>

Source: Ministry of Finance for Government Finance Statistics, IMF

## 3.2. EXTRA-BUDGETARY FUNDS

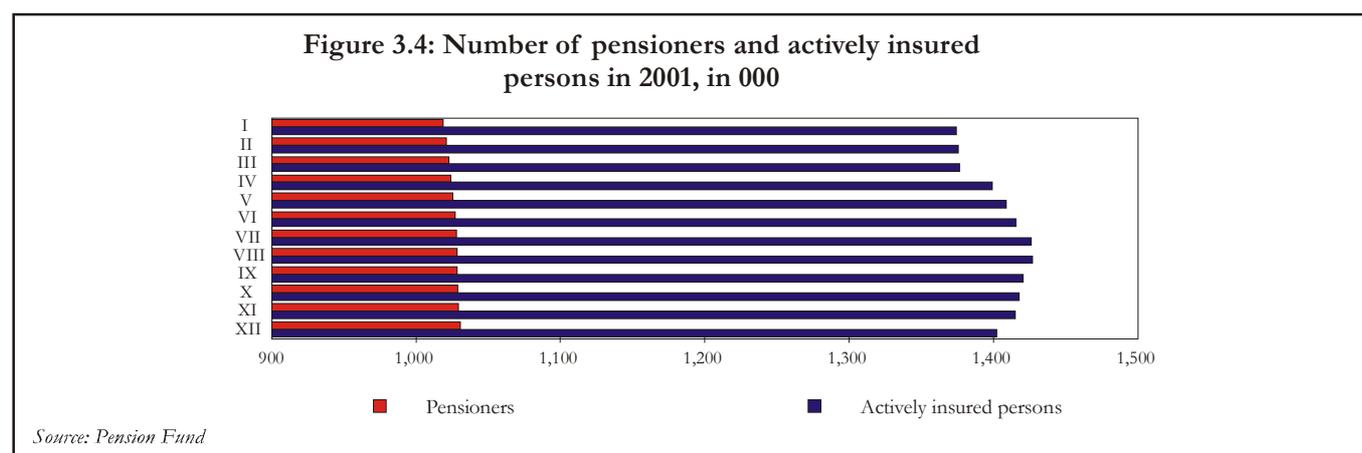
In 2001 the extra-budgetary funds were also under the influence of a complex overall economic situation, which reflected in all segments of the economy. Due to increasing unemployment (which reduced the revenues from contributions), the lagging of tax revenues (budget), difficulties in the inflow of liquid assets and payments, and also due to the reduction of the base for the calculation of salaries of civil servants, the execution of commitments of the extra-budgetary funds was significantly more difficult. Numerous changes were adopted within specific extra-budgetary funds.

In 2001 total revenues of all extra-budgetary funds were collected at the level of HRK 31,106.9 million, whereas in the same period expenditures totaled HRK 30,837.06 million. In other words, in the observed year the extra-budgetary funds collected a surplus of HRK 269.8 million (unconsolidated). The most significant event in 2001 was the inclusion of the pension insurance contributions into the Government Treasury system.

### 3.2.1. Pension Fund

A negative trend of system dependency ratio continued in 2001, so that at the end of the year one pensioner was financed by contributions of 1.36 active insured persons. In 2001 there was on average 1,026,054 pension beneficiaries, whereas in December this number was 1,030,595. The average number of active insured persons during the year totaled 1,404,754, whereas in December 2001 the number of active insured persons totaled 1,402,102.

The number of pension beneficiaries grew somewhat faster than the number of active insured persons, which was notably the consequence of the increase in the number of unemployed persons during 2001 (the number of the unemployed in 2001 grew by 6% in comparison with 2000).



The average pension in December 2001 totaled HRK 1,494.80. The share of the average pension in net salary of all employees in the Republic of Croatia in December 2001 totaled 41.73%. In the pension structure, old age pensions accounted for the largest share (56.4%), followed by disability pensions (22.8%) and survivors' pensions (20.8%) (data as of 31 December 2001).

The share of pension outlays in the gross domestic product has been constantly on the rise as late back as since 1992. Out of 7.7% at the time, it grew to almost 14% in 2001 (the average of OECD countries was approximately 10% of

GDP). The growing costs of the pension system influence the stability and intensity of the economic growth of the Republic of Croatia.

The total number of new pensioners in 2001 was 41,762, which was a reduction of 5.3% in comparison with the number of pensions acquired in 2000. The amendments of the Law on Pension Insurance implied a change in the definition of disability, so that in 2000 and 2001 the number of disability pensions was reduced.

**Table 3.3: The Number of Pension Beneficiaries of Pensions Acquired under More Favorable terms (Merit Pensions), End of Period**

	1998	1999	2000	2001
Fighters of the People's Liberation War	76,636	73,466	72,382	70,712
Pensions of the Ministry of Internal Affairs	12,791	12,816	13,679	14,257
Pensions of the former Parliament Executive Council	144	126	125	100
Pensions of Croatian Academy of Sciences and Arts	87	79	81	82
Pensions of Croatian Homeland Army	35,614	34,090	33,932	32,672
Ex-Yugoslav Army Members	16,667	16,217	15,784	15,467
Former Political Prisoners	3,972	5,668	5,976	5,893
Parliament Representatives	119	112	119	121
Croatian Army	2,237	2,364	2,769	3,783
Croatian Defenders	22,612	26,110	28,551	29,300
<b>TOTAL</b>	<b>170,879</b>	<b>171,048</b>	<b>173,398</b>	<b>172,387</b>

*Note: Beneficiaries of Pensions Accrued in the former Yugoslav Republics are not Included*

*Source: CIPI*

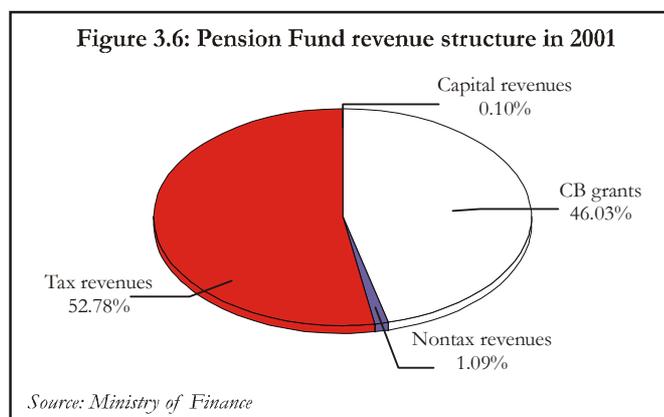
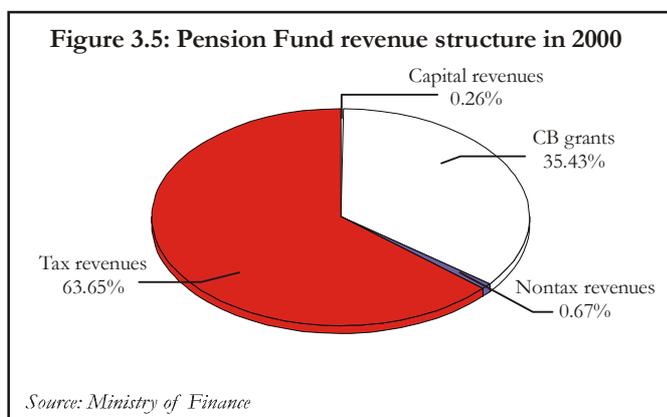
In 2001 beneficiaries of old-age pensions had on average 31 years of service for retirement, beneficiaries of disability pensions had on average 23, whereas beneficiaries of survivors' pensions had on average 26 years of service for retirement.

In 2001 the Average duration of the utilization of pensions totaled 15 years for the category of old-age pensions, 17 for disability pensions, and 14 years on average for the category of survivors' pensions.

The most significant event of the fiscal year 2001 in the Pension Fund was definitely the inclusion of pension insurance contribution into the Government Treasury<sup>1</sup> system as of July 1, 2001.

With the passage of the Ordinance on the Amendments of the Ordinance on the Mode of Payment of Revenues of the Budget and Extra-budgetary Funds and Revenues for the Financing of Other Public Needs in 2001<sup>2</sup>, pension insurance contributions, starting with July 1, 2001 have been paid into the account of the Government budget, and the commitment of the Government Treasury begins to provide resources for the payment of pensions and pension benefits.

Further to the events mentioned above, in 2001 a "technical" revision of Government budget was effected, whereby revenues collected from pension insurance contributions are now presented within the Government budget revenues, i.e., the Institute no longer collects pension insurance contributions. On the contrary, the Institute is still entrusted with the collection of other revenues<sup>3</sup>.



<sup>1</sup> The Government Treasury system is a financial information system which makes operational the management of public expenditures as an organizational unit of the Ministry of Finance.

<sup>2</sup> The Official Gazette Nr. 56/01

<sup>3</sup> Revenues from dividends, revenues from interest, revenues from stocks sold, from services of expert witnesses, etc.

Due to the events mentioned above, the financial operations of the Institute need to be observed in two parts. The first part refers to the period from January 1, 2001 to July 1, 2001, in which it shows only the revenues which have been either collected by or paid out through the account of the Institute; in the second part the largest share of revenues and expenditures of the Institute is included into the Government Treasury system starting July 1, 2001 until December 31, 2001.

Total revenues of the Pension Fund were originally planned at HRK 23,079.34 million. This plan was adopted in line with the organization and functioning of the Institute which was in place until July 1, 2001. The inclusion of pension insurance contributions into the Government Treasury system resulted in the need for a revision. Within the so-called technical budget revision, a new revenue plan was established in the amount of HRK 12,634 million. Due to the revision the plan was changed once again during 2001 – it was envisaged at HRK 12,150 million for revenues and expenditures.

Total revenues of the Pension Fund in 2001 were collected at HRK 12,278.04 million, and they included revenues from contributions, budget revenues, revenues from the sale of stocks and shares, and other revenues.

In 2001 total contributions were collected at HRK 6,480.04 million. This amount included revenues from contributions which were remitted into the account of the Pension Fund until June 30, 2001 amounting to HRK 6,460.8 million, whereas in the remaining part of the year HRK 19.2 million was collected. The total amount of pension insurance contributions collected in the account of the Government Treasury (from July 1 to December 31, 2001) totaled HRK 6,781.2 million. Consequently, the total pension insurance contributions in 2001 were collected at HRK 13,261.25 million. The change in the dynamics of collection of revenues in the accounts of the Institute was evident. It was the result of the inclusion of pension insurance contributions into the Government Treasury system.

The below table indicates total contributions collected through the system of the Institute and the Government Treasury system in 2001.

**Table 3.4A: Revenues from Contributions – Breakdown per Months in 2001**

Month	(in HRK 000)	Pension Fund	Government Treasury	Total
January		1,072,490	-	1,072,490
February		1,035,474	-	1,035,474
March		1,044,005	-	1,044,005
April		1,094,036	-	1,094,036
May		1,085,425	-	1,085,425
June		1,129,420	-	1,129,420
July		3,977	1,093,224	1,097,201
August		3,931	1,112,075	1,116,007
September		3,650	1,116,531	1,120,181
October		1,516	1,108,424	1,109,940
November		1,485	1,115,697	1,117,183
December		4,632	1,235,264	1,239,896
<b>TOTAL</b>		<b>6,480,042</b>	<b>6,781,216</b>	<b>13,261,258</b>

Source: Ministry of Finance, CIPI

Total expenditures of the Pension Fund in 2001 amounted to HRK 12,159.6 million. Those expenditures were expenditures for pensions and pension benefits paid through the Institute system prior to June 30, 2001, amounting to HRK 11,547.8 million, and additionally incurred expenditures amounting to HRK 611 million. In the account of the Government Treasury in the period from July 1 to December 31, 2001, HRK 10,733.5 million was recorded in expenditures for pensions and pension benefits. It turns out that the total expenditures for pensions and pension benefits in 2001 were collected at HRK 22,281.4 million.

The below table presents total expenditures for pensions and pension benefits through the Institute system and the Government Treasury system in 2001.

**Table 3.4B: Expenditures for Pensions and Pension Benefits – Breakdown per Months in 2001**

Month	(in HRK 000)	Pension Fund	Government Treasury	Total
January		1,576,301	-	1,576,301
February		1,882,357	-	1,882,357
March		1,836,721	-	1,836,721
April		1,944,142	-	1,944,142
May		1,867,269	-	1,867,269
June		1,866,084	-	1,866,084
July		78,529	1,787,056	1,865,585
August		81,533	1,777,024	1,858,557
September		87,566	1,858,380	1,945,946
October		88,717	1,707,629	1,796,346
November		86,779	1,435,846	1,522,625
December		151,845	2,167,593	2,319,438
<b>TOTAL</b>		<b>11,547,843</b>	<b>10,733,528</b>	<b>22,281,371</b>

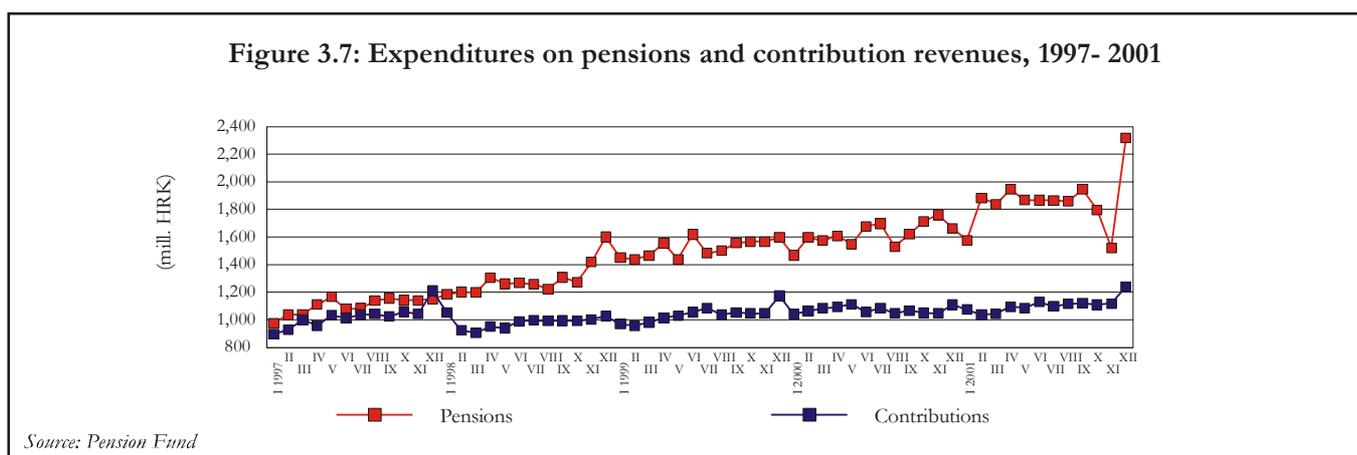
Source: Ministry of Finance, CIPI

Due to the growth of pensions in previous years and the reduction in the pension insurance contribution rate, the number of state transfers to the Institute was increasing. For this reason the ratio between consolidated revenues and expenditures was increasingly unfavorable, i.e., the consolidated deficit was growing from one year to another. The intention to include the largest part of the revenues and expenditures of the Institute into the Government Treasury system was to regulate such trends, i.e., to improve the efficiency and transparency of the system.

The pension insurance contribution rate in 2001 was 19.5%, unlike 21.5% - the rate in 2000. The reason for the reduction was the decisions of the Croatian Parliament of June 1, 2000 on the reduction of contributions on the salary from 10.75% to 8.75%, whereas the rate of the contributions from the salary remained unchanged.

The average coverage of outlays for pension contributions shrank in 2001 primarily because of the negative ratio of the number of insured persons and pension beneficiaries and because of inefficient collection of contributions, which was on the level of 83.5% from physical persons and legal entities.

The pension increase in 2001 was implemented pursuant to the provisions of the Law on Pension Insurance<sup>4</sup>, namely, by 2.6% (regular adjustment on January 1, 2001) and 2.6%, respectively (regular adjustment on July 1, 2001). Pursuant to the Law on the Transfer of Funds from the Government Budget to the Pension and Disability Insurance Funds, the pension supplement was paid to the pensioners (in addition to pension beneficiaries of the Croatian Army, Homeland War veterans, and Parliament representatives)<sup>5</sup> in the amount of HRK 100 and 6% of the pensions paid for June 1998.



The average pension (without HRK 100 HRK and 6%) in 2001 totaled HRK 1,454.57 for the average 993,858 beneficiaries (without the beneficiaries of members of the Croatian Army and Croatian Homeland War veterans).

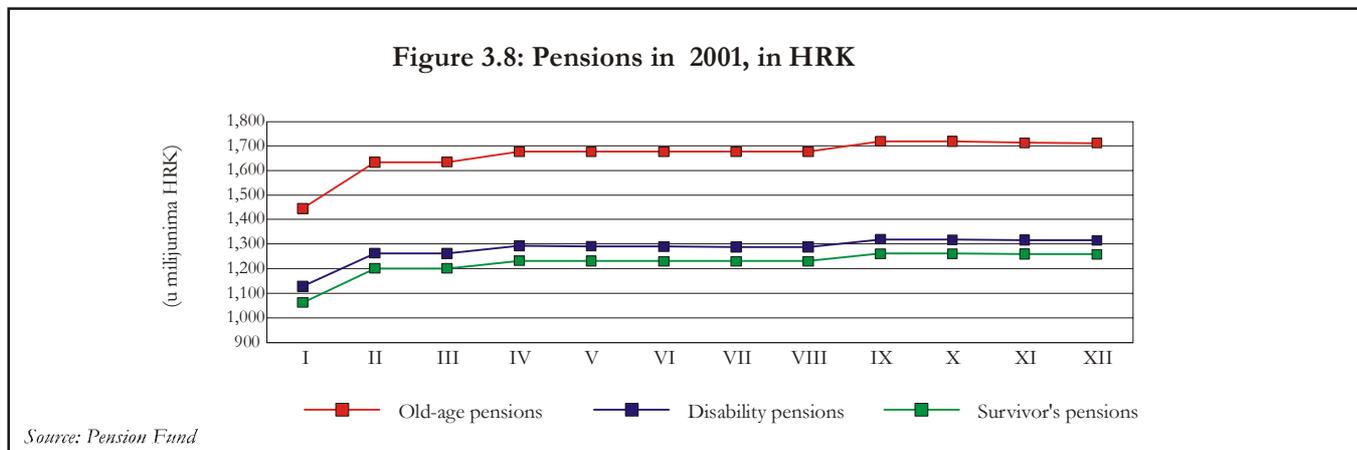
<sup>4</sup> The Official Gazette Nos. 55/00 and 107/01

<sup>5</sup> The Official Gazette Nos. 55/00 and 107/01

The nominal growth of pensions in 2001 in comparison with 2000 amounted to 17.42%. In the same period, according to the data of the Croatian Bureau of Statistics, the cost of living increased by 4.8%. Consequently, the growth of pensions in real terms amounted to 12.04% in 2001.

In December 2001 6.93% of pensioners received pensions (with 100 HRK and 6%) up to HRK 500.00. 12.50% pensioners received pensions between HRK 500.01 and HRK 1,000.00. 30.84% pensioners received pensions between HRK 1,000.01 and HRK 1,500.00. 22.5% pensioners received pensions between HRK 1,500.01 and HRK 2,000.00. 25.81% received pensions between HRK 2,000.01 and HRK 4,000.00. 1.38% pensioners received pensions between HRK 4,000.01 and HRK 8,000.00. 0.01% pensioners received pensions exceeding HRK 8,000.00.

In December 2001 the average old age pension amounted to HRK 1,695, disability pension amounted to HRK 1,309.05, and survivors' pensions amounted to HRK 1,256.65.

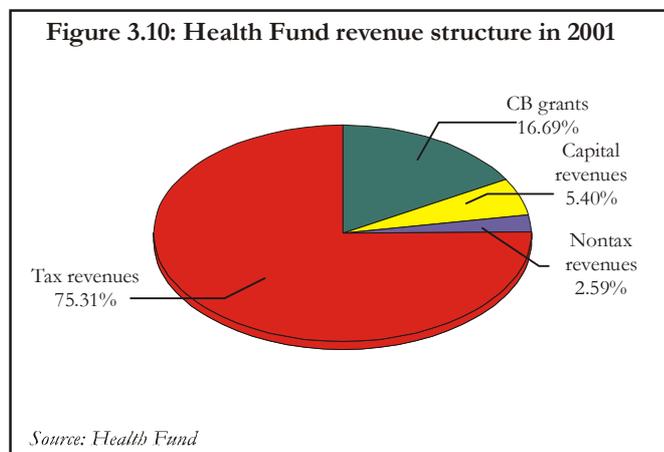
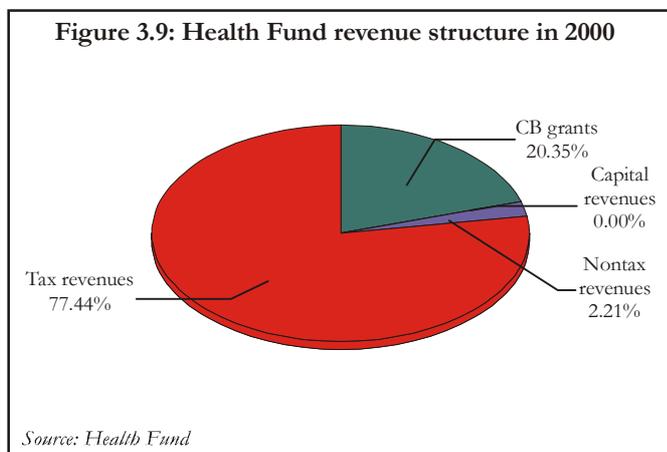


### 3.2.2. Health Insurance Fund

A complex economic situation in the Republic of Croatia in 2001 reflected in all segments of economic activity. The difficulties in business operations did not avoid the Health Insurance Fund either. The Institute's business operations in the monitored period were greatly caused by the inherited situation way back in 1999. More precisely, the unpaid short-term liabilities of the Institute as of December 31, 1999 totaled HRK 3,635.5 million, out of which almost 42% were arrears. Long-term liabilities totaled HRK 454 million.

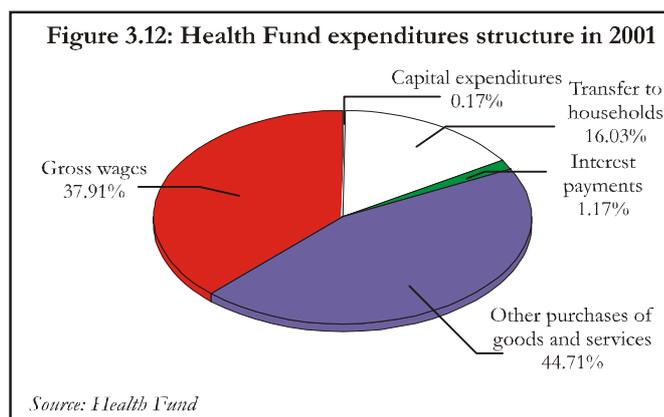
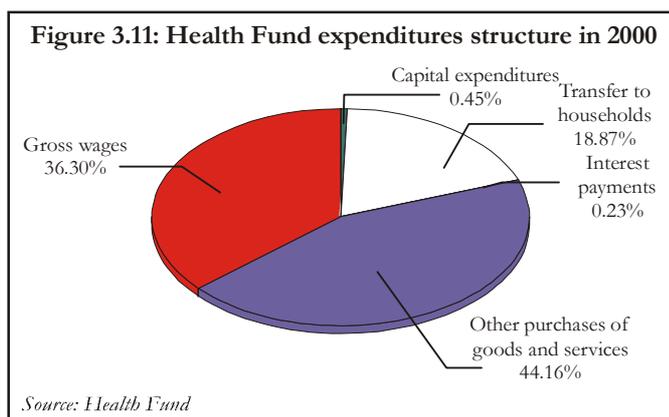
Faced with such a situation, in 2000 and 2001 the Health Insurance Fund carried out the consolidation of the system and in the period indicated had positive business results. In order to accomplish such results, the Institute undertook a number of measures, such as: borrowing by the Institute with the guarantees of the Government of the Republic of Croatia, realization of HRK 192 million from the Ministry of Finance, collection of a portion of debt from the Pension Fund, approval of the Government of the Republic of Croatia for the postponement of the payment of sick leave compensations to beneficiaries of the Government budget of approximately HRK 180 million, etc.

During 2000 and 2001, the Institute operated without any financial losses and with signed contracts with all health institutions, enabling for the health system in 2001 to fulfill its commitments without disturbances in the supply. Positive results of the Institute, unfortunately, was not followed by the overall health system.



Within the plan for 2001, total revenues of the Health Insurance Fund were planned at HRK 13,228.17 million, and were collected at HRK 13,893.2 million, which was higher by 5% than the planned amount.

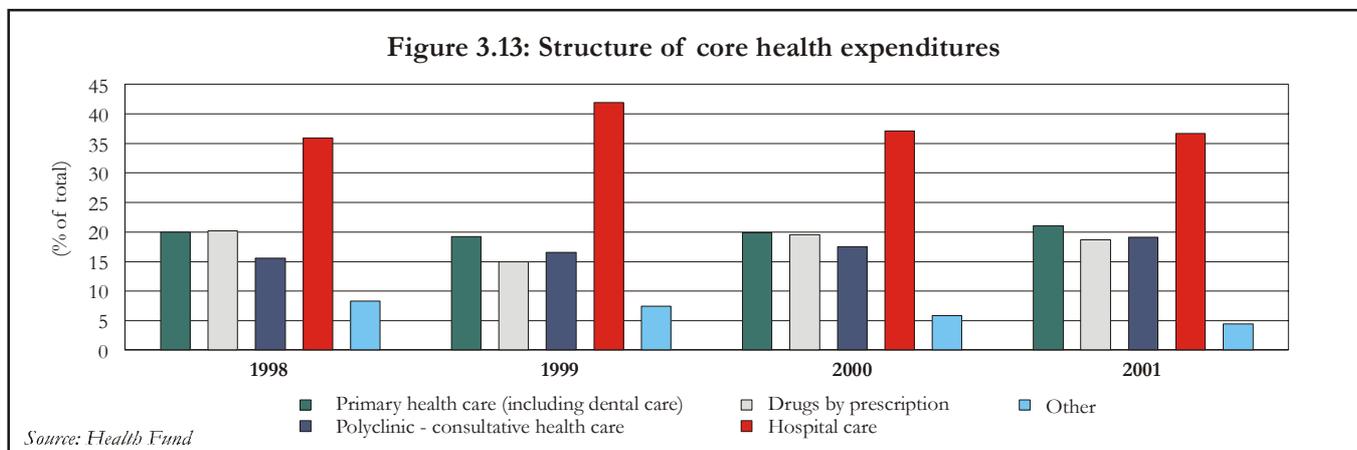
In 2001 total expenditures of the Health Insurance Fund were planned at HRK 13,505.5 million, and were executed at HRK 13,945.47 million, which represents 3.3% higher execution than the planned one. The Institute collected HRK 11,573.8 million from contributions, non-tax revenues and capital revenues and subsidies received from the state amounting to HRK 2,319.4 million. All of those resources were insufficient to cover the total expenditures and the Institute borrowed an additional HRK 52 million.



The above plans reflect new plans of revenues and expenditures of the Health Insurance Fund passed at the end of 2001. Due to two amendments of the Government budget during the same year, the original plan was changed on two occasions. It should be noted that changes were comparatively small.

Grouping the revenues of the Institute into three basic groups, namely: revenues from contributions, budget revenues, and other revenues, it can be noted that revenues from contributions increased in nominal terms by 6.38% in comparison with 2000 (only 1.41% in reality). The lowest growth within the revenues from contributions was realized from the contributions "from" and "on" salaries of nominally 2.75% more than in 2000, or lower by 2.05% in real terms. Such a trend was directly linked with the decrease in salaries in the public sector and problems of payment of salaries to employees.

In the expenditure structure of the Health Insurance Fund, expenditures for health care were the largest, and accounted for 84% in total expenditures 84%. Within health care, the largest increase was recorded in expenditures for specialist health care, whereas 3.38% less resources were spent for hospital health care than in 2000.



Another significant group of expenditures consists of compensations and assistance, which were reduced by 14.3% in 2001 in comparison with the previous year. The largest share in this group (1.32% of the total expenditures) accounts for the category of funds for salaries, taxes, and contributions.

**Table 3.5: Overview of Temporary Disability – Sick Leave Incidence**

	1997	1998	1999	2000	2001	2001/2000
<b>Sick Leave Rate*</b>						
– Total	3.35	4.01	3.63	3.71	3.32	89.49
– At the Employer's Expense	0.96	1.41	1.26	1.13	1.02	90.27
– At the Expense of CIHI	2.39	2.60	2.37	2.58	2.30	89.15
<b>Average Duration in Days</b>						
– Total	27.56	27.01	25.96	29.99	30.58	101.97
– At the Employer's Expense	10.70	12.42	11.64	12.23	12.77	104.42
– At the Expense of CIHI	40.02	37.67	37.11	41.57	41.01	98.65
<b>Number of Employees on Sick Leave</b> (average per day)						
– Total	48,336	52,992	47,261	48,106	43,393	90.20
– At the Employer's Expense	13,884	18,544	16,446	14,685	13,314	90.66
– At the Expense of CIHI	34,452	34,048	30,815	33,420	30,079	90.00

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

Source: CIHI

The category of other expenditures was reduced by as much as 15.42% in 2001 in comparison with 2000.

The number total of insured persons, within the health insurance in 2001, is indicated in the following table:

**Table 3.6: Average Number of Insured Persons under CIHI**

	Average Number		Index 2001/2000
	I – XII 2000	I – XII 2001	
Active Employees	1,296,824	1,305,577	100.67
Active Farmers	106,650	100,010	93.77
Pensioners	978,529	988,719	101.04
Unemployed	303,430	341,817	112.65
Others	129,042	127,554	98.85
Family Members	1,355,696	1,341,877	98.98
Displaced Persons	16,552	11,890	71.83
<b>TOTAL</b>	<b>4,186,723</b>	<b>4,217,444</b>	<b>100.73</b>

Source: CIHI

In the Plan of Revenues and Expenditures of the Government budget for 2002 certain changes in the organization of work of Health Insurance Fund were announced. Namely, HRK 11,477 million is expected on the revenue side, which will be paid into the account of the Government Treasury as of January 1, 2002. The planned expenditures amounting to HRK 12,537 million are kept within the competent Ministry - Ministry of Health.

The Plan of the Institute is divided into two segments. On the revenue side of the Plan of the Institute, there remain only own revenues and revenues from foreign insurance, whereas the expenditure side contains funds for employees' salaries, material costs, payments abroad, and investment funds.

### 3.2.3. Employment Fund

The annual average of registered unemployment in 2001 totaled 380,195 persons. In 2000, for purposes of comparison, the annual average of registered unemployment totaled 357,872 persons. In other words, in 2001 the annual average of unemployment grew by 22.3 thousand persons or as much as 6%. The average registered unemployment rate during 2001 totaled 22%, and in December 2001 it totaled 22.8%.

During 2001, the Employment Fund mediated in employment for a total of 147,460 registered persons, which was 25% more than in 2000. The employment rate shows employment of various categories of job seekers, as it which takes into account employed persons on one hand, and the initial number of the unemployed increased by newly registered persons on the other side. The employment rate indicates a part of the total number of job seekers in the year who became employed in the course of the year. According to 2001 data, as well as in 2000, the highest employment rate was that of job seekers with university qualifications.

**Table 3.7: Employment Rate According to Educational Background in 2001**

Educational background	Unemployed	Newly Employed	Employed	Employment Rate
Unskilled Workers	71,120	39,483	13,943	12.6
Semi-Skilled w. Lower Ed. Background	59,310	37,520	16,057	16.6
Skilled Workers, Highly Skilled Workers	130,484	106,235	61,107	25.8
Secondary School Qualifications	92,211	69,752	36,882	22.8
Two-Year Post Secondary School Qualify.	12,063	11,431	7,704	32.8
College Education	15,007	16,577	11,767	37.3

Source: *Employment Fund*

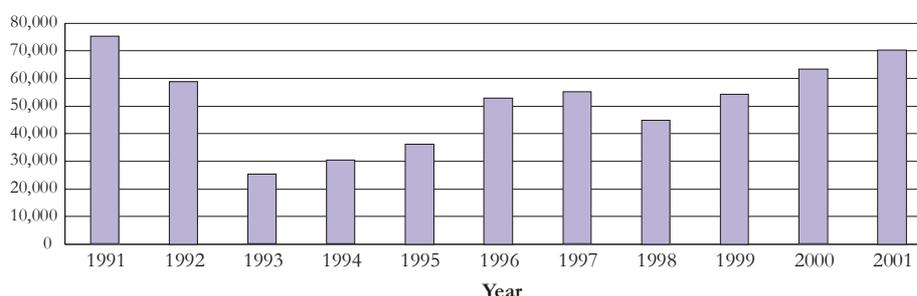
At the end of December 2001 in the Employment Fund there were 395.1 thousand of registered unemployed persons (380.1 thousand average for 2001), i.e., 9.9 thousand (2.6%) more than in the previous month, or by as much as 4.4% more than in December 2000.

Also, in the same period there were 214.7 thousand registered unemployed women, which was as much as 7% more than in December of the previous year.

Persons aged between 20 and 24 had the highest share in registered unemployment in 2001. In terms of educational background, the most frequent ones were skilled workers and highly skilled workers, whereas persons with college education accounted for the lowest share in total unemployment.

Nevertheless, the number of reported vacancies grew by 26.2%, whereas as much as 34% more needs for employees were realized in comparison with 2001.

In 2001, on average 70,369 beneficiaries were receiving the unemployment benefit provided by the Employment Fund, or 18.5% of the total number of the unemployed (17.7% in 2000). Due to the inflow of unemployed persons who stopped working primarily because the employers closed down or another reason which enables to an unemployed person to acquire the right to unemployment benefit, in 2001 the number of beneficiaries of unemployment benefit increased by 11%. In 2000 this increase was no less than 17%.

**Figure 3.14: Average number of unemployment beneficiaries**

Source: *Employment Fund*

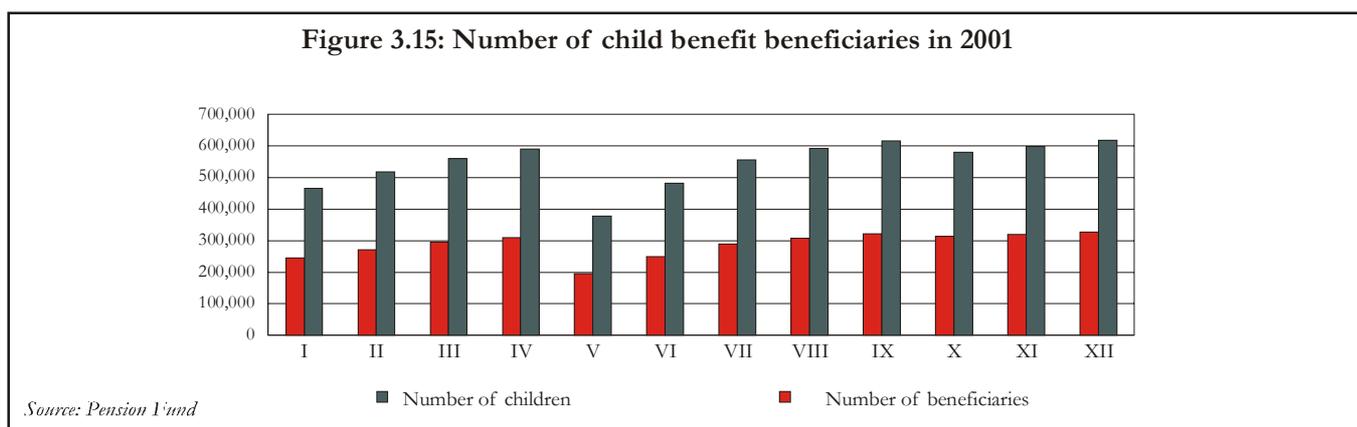
Total revenues of the Employment Fund in 2001 totaled HRK 1,067.7 million, whereas total expenditures were realized at the level of HRK 997.27 million. Consequently, the Institute generated a total surplus of HRK 70.5 million.

### 3.2.4. Child Benefit Fund

Pursuant to the provisions of the Child Allowance Act <sup>6</sup> which has been in force as of October 1, 2000, the right to child allowance was extended to children of unemployed parents as well, as well as children of craftsmen and farmers. Also, the mode of establishing the right to child allowance was changed as well. A beneficiary is entitled to child allowance if the total income per member of the household does not exceed a certain established percentage of the average net salary in the Republic of Croatia in the previous calendar year<sup>7</sup>. If the total income per member of household does not exceed the lower percentage of the average net salary, the beneficiary is entitled to child allowance amounting to 9% of the average net salary per child (for the third and each subsequent child, an additional 5% of the average net salary). If a beneficiary's total income per member of household is between the lower and higher percentage of the average net salary, he is entitled to child allowance amounting to 5% of the average net salary (4% for the third and each subsequent child).

Croatian Institute for the Protection of the Family, Motherhood, and Youth published the amount of the average net salary of all the employed in the Republic of Croatia in the previous calendar year and the child allowances amounts. The lower percentage was established at 27.5%, and the higher at 50% of the average net salary.

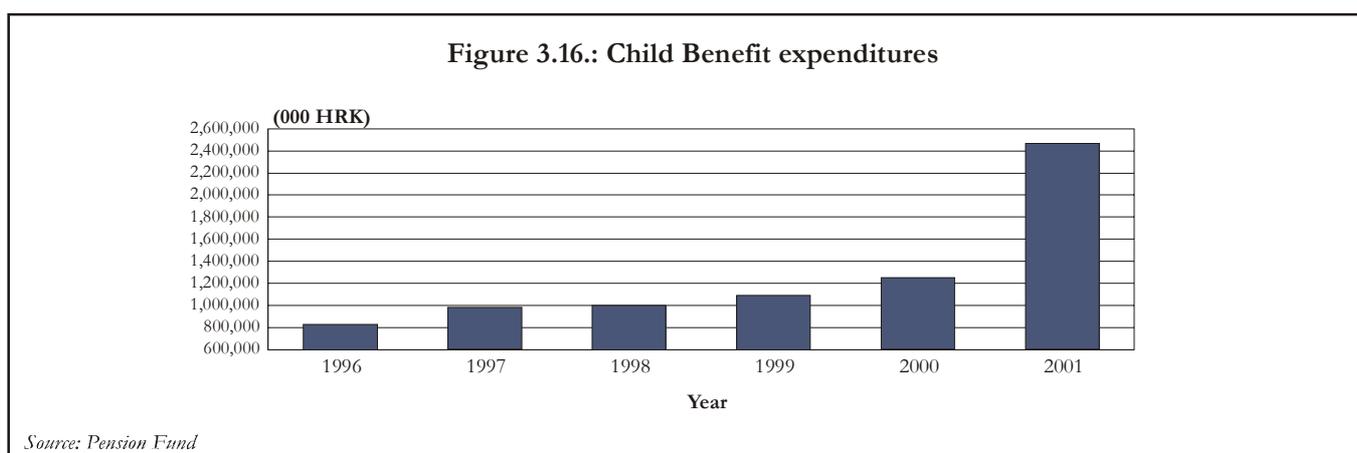
The average number of child allowance beneficiaries in the period from January to December 2001 totaled 286.7 thousand, whereas the average number of children who received child allowance totaled 546.2 thousand.



The average amount of child allowance in the same period was at the level of HRK 369.

Total revenues of the funds for child allowance were collected at HRK 2,468.67 million, out of which budget revenues accounted for as much as 99.8%. The amount of revenues indicated above was an increase of 96.2% in comparison with the previous year, which was a direct consequence of the Child Allowance Act mentioned above, of October 1, 2000.

Total expenditures in 2001 were HRK 2,466.98 million, which was a 97.3 -percent increase in comparison with the comparable period of the previous year. The outlays for child allowance in the overall structure of expenditures are the highest (98%).



With this outturn of revenues and expenditures, Child Benefit Funds generated a surplus of HRK 1,684.6 thousand in 2001.

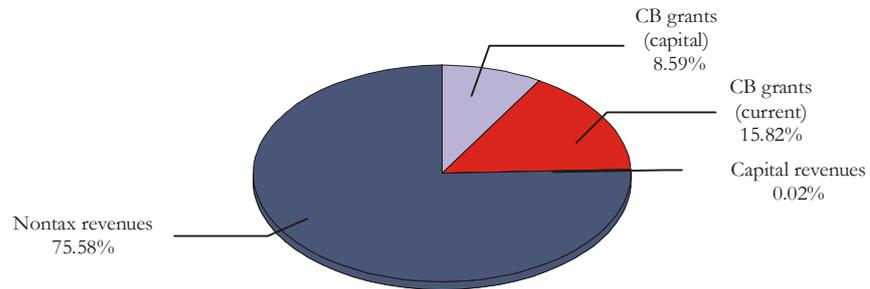
<sup>6</sup> Child Allowance Act (the Official Gazette Nos. 77/99, 14/99, 25/00, 41/00, and 64/00) was amended as of January 1, 2002 (the Official Gazette No. 94/01), the rights were reduced, and there was a significantly lower realization in 2002.

<sup>7</sup> The percentage of the average net salary is determined by a Decree of the Government of the Republic of Croatia

### 3.2.5. "Hrvatske Vode" (Public Water Management Fund)

Total revenues of Hrvatske Vode in 2001 amounted to HRK 1,403.4 million (3% less than in 2000), and were mostly composed of non-tax revenues (water utilization fee) and transfers from the central Government budget. Total expenditures were realized at HRK 1,287.7 million, which was a reduction of almost 6% in comparison with 2000.

Figure 3.17: Public Water Management Fund revenues structure in 2001



Source: Ministry of Finance

IV. FINANCING OF LOCAL AND REGIONAL  
SELF-GOVERNMENT  
IN 2001

*Prepared by: Mira Mastelić, Budget Preparation and Consolidation Department  
Ivana Jakir-Bajo, Government Treasury*

According to the latest census of population, households, and housing units in 2001, the Republic of Croatia has 4.4 million inhabitants living in an area of approximately 56.5 thousand square kilometers. The territory of the Republic of Croatia is divided, pursuant to the provisions of the Law on the Territories of Counties, Cities, and Municipalities in 2001<sup>8</sup>, on:

- 424 municipalities,
- 122 cities,
- 20 counties and
- the City of Zagreb, which has the status of both a city and a county.

With a view to accomplishing a more equal development of all municipalities and cities, alleviating the consequence of the war, and faster return of population, the areas of special state concern have been defined. For a total of 111 municipalities/cities in the area which used to be under occupation, current subsidies have been provided from the Government budget of the Republic of Croatia.

In order to perform activities in their scope of authority, municipalities, cities, and counties allocate revenues in their budgets. The budget is an enactment of a local and regional self-government unit whereby revenues and receipts are assessed and expenditures and outlays of a local unit for a specific year are established. Budget revenues and receipts have to be balanced with expenditures and outlays. Planning of local budgets is based on macroeconomic indicators, guidelines for the preparation of the budget, and estimates of growth of economic activity on the local self-government level.

Year 2001 saw a change in the legislative framework which regulates the scope, organization, financing, and other issues of importance for the work of local self-government units and regional self-government units. The reason for this was the implementation of the decentralization process – the transfer of authorities, resources, but also the responsibilities from the state level to the local level. This would also bring decision-making in issues essential for the overall development closer to the citizens.

Fiscal decentralization was one of the 19 strategies comprising the development project “Croatian in the 21<sup>st</sup> Century” launched by the Government of the Republic of Croatia. Decentralization represents a multi-year process implemented in a number of phases. In the first phase the priorities are the functions of elementary and secondary education, health, and social welfare. The basic benefits of the decentralization process are supposed to be reflected in a better quality of delivery of services in education, health, and social welfare.

The precondition for the implementation of the decentralization process were the necessary amendments to the Constitution of the Republic of Croatia<sup>9</sup>, by introducing the term of regional self-government, and the Law on Local and Regional Self-Government<sup>10</sup>, which extended the scope of authority of the units. The county was a Local Government unit, whereas with the amendments to the Constitution it became a regional self-government unit. Municipalities and cities are local self-government units.

A county is a unit whose area represents a natural, historical, transport, economic, social, and self-government whole, and is organized for purpose of performing activities of regional interest, especially the activities related to education, health, physical and urban planning, economic development, transport and transport infrastructure, planning, and development of a network of educational, health, social, and cultural institutions.

Cities and municipalities perform activities of local significance which meet the needs of the citizens, activities related to regulation of settlements and housing, physical and urban planning, utility management, child care, social welfare, primary health care, upbringing and elementary education, culture, physical culture and sport, consumer protection, environmental protection and advancement, and firefighting and civil defense.

In line with the functions indicated above, but also with the level of development of municipalities, cities, and counties it was necessary to find sources of financing which would meet the growing needs and attain higher standard of living of the populations. This is feasible if sufficient own sources of financing are provided. In 2000 the reallocation of tax revenues was performed by the amendments to the Law on Financing by ceding to the cities/municipalities 32% instead of the previous 25%, and to the counties 8% instead of the previous 5%. In addition, in 2001, with the introduction of the decentralization process, cities which have taken over the financing of decentralized functions were also granted 2.9% of income tax revenues, whereas counties which have taken over the financing of primary and secondary education, social welfare, and health received 7.8%. Those amendments increased the share of local revenues in GDP from 5.6% in 2000 to 6.1% in 2001.

---

<sup>8</sup> The Law on the Territories of Counties, Cities, and Municipalities in the Republic of Croatia. (The Official Gazette Nos. 10/97., 124/97., 50/98., 88/98., 22/99., 117/99., 128/99., 44/00., 127/00, and 92/01.).

<sup>9</sup> The Constitution of the Republic of Croatia, (The Official Gazette Nos. 113/00 and 41/01.).

<sup>10</sup> The law on local and regional self-government (The Official Gazette Nos. 33/01 and 60/01.).

Decentralization, ie., transfer of funds and functions from the state level to the local level was aimed at, besides having the existing territorial organization, building an efficient public sector closer to the citizens and their needs, but also to strengthen the accountability of local government for implementation of activities in their scope of responsibility. This should result in greater participation of citizens in decision making.

In the middle of 2001 the parliament of the Republic of Croatia adopted the amendments to the laws on primary and secondary education, health, and social welfare, whereby certain functions and pertinent expenditures are transferred from the state level to cities counties. Primary education was transferred to the level of cities, whereas secondary education, health care, and social welfare were transferred to the level of counties and city of Zagreb. Financing of outlays of primary education of cities which could not execute them given their fiscal capacity and expertise were taken over by counties.

For each of the functions mentioned above the Government passed Decisions on the Criteria and Benchmarks for Providing the Minimum Financial Standard in 2001 and a Decree on the Mode of Calculation of Amount of Equalization Grants for Decentralized Functions for the period from July 1 to December 31, 2001<sup>11</sup>. The Amendments to the Law on Financing Local and Regional Self-Government Units<sup>12</sup> provides for additional shares for each specific decentralized function. In case that the funds from the additional share are not sufficient for financing the expenditures of decentralized functions, established by Decisions, the amount up to the overall transferred commitment is settled from the item of equalization grants. The Decree regulates the procedure of calculating equalization grants for those functions.

The criteria for the selection of cities which, besides the counties and the City of Zagreb, take over financing of decentralized expenditures for primary education, were the following:

- that cities have more than 10,000 inhabitants or that they are centers of counties,
- person income tax per capita in 1999 higher than HRK 400.

The insight into the fiscal capacity of municipalities, cities, and counties, in terms of the network of institutions, it was concluded that due to uneven development of local and regional self-government decentralized functions are transferred to the level of counties (21) and (32) cities, respectively. The following cities have taken over the financing: Samobor, Velika Gorica, Vrbovec, Zaprešić, Krapina, Kutina, Sisak, Karlovac, Varaždin, Koprivnica, Bjelovar, Crikvenica, Opatija, Rijeka, Gospić, Virovitica, Požega, Slavonski Brod, Zadar, Osijek, Šibenik, Vinkovci, Makarska, Split, Labin, Pazin, Poreč, Pula, Rovinj, Umag, Dubrovnik, and Čakovec.

The Law provided for the possibility that a municipality or city with more than 8,000 inhabitants or a number of municipalities or cities which together have at least 8,000 inhabitants may merge and finance primary education pursuant to the Decree of the Government.

Financial resources allocated to each of the decentralized functions have been determined on the basis of real expenditures in the previous year and estimates of the minimum standards for each function.

As stated previously, the Law on Financing prescribes the minimum additional shares in the personal income tax for each function, whereas the difference to the amount of transferred commitment are established by the Decisions on Minimum Financial Standard and Decree for 2001 is financed from the equalization grants item (item 131652 “Outlays for Equalization Grants for Decentralized Functions”). It should be stressed that the state budget ceded its share of personal income tax, both for the additional share for each function and for equalization grants.

With additional sources of financing, cities and counties, bearers of decentralized functions, took over the commitment of regular remittance of funds to final users and their utilization for envisaged purposes.

**Table 1: Additional Shares of Personal Income Tax Allocated for Decentralized Functions**

Education	Social welfare	Health
Primary education 2.9%,	Centers for social welfare 0.4%,	Health-Investment Maintenance of Health Institutions 2.5%.
Secondary education 2.0%,		

Source: Ministry of Finance

<sup>11</sup>Decree on the Mode of Calculation of Equalization Grants for Decentralized Functions (the Official Gazette No. 75/01)

<sup>12</sup>The Law on Financing of Local Government Regional Self-Government Units (the Official Gazette Nos. 117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01).

Such a mode of financing manages to fully execute the financing of decentralized functions on the level of standard in 2001, whereas the mode of division of funds and the appearance and content of the equalization grant application are described in detail by the Decree. Each year the Government of the Republic of Croatia establishes the criteria and benchmarks for providing a minimum financial standard.

Before the decentralization process started, all funds were provided in the state budget, and decisions on their allocation and spending were passed by line ministries. The amendments to the Law, which regulated the areas of primary and secondary education, health care and social welfare, provided for the execution of decentralization of governance and financing.

**Table 2: Financing of Decentralized Functions**

<b>Decentralized Functions in 2001</b>	<b>Counties, Cities (32), and the City Zagreb</b>	<b>State Budget</b>
<b>Primary Education</b>	material expenses, investment maintenance of space, equipment, provision of aids, school equipment, teaching aids, transport of students, capital construction according to standards and norms established by the Minister	Salaries and transport of employees, compensations, professional improvement, informatization, equipping libraries, capital construction projects envisaged for 2001 and agreed commitments for capital projects
<b>Secondary Education</b>	Material expenditures, transport of employees, co-financing of accommodation and meals of students in dormitories, investment maintenance of facilities, equipment, provision of school equipment, teaching materials and aids, capital construction according to standards and norms established by the Minister	Salaries of employees, compensations, professional improvement, education of students in languages of national minorities, student with special needs, programs with gifted students, informatization of schools, equipping of libraries, co-financing of private education programs, capital construction projects established for 2001 and contractual commitments for capital projects
<b>Social Welfare</b>	Expenditures for material, power, maintenance and other current expenditures, covering 50% of heating costs	Outstanding commitments at the level of 50% of heating costs planned by the State budget
<b>Health</b>	Investment maintenance of facilities and equipping health institutions owned by counties and the City of Zagreb	Expenditures for employees, professional improvement of employees, procurement of capital assets

*Source: Ministry of Finance*

Although there were doubts as to the very process of implementation, it turned out that administrative bodies of local units perform transferred activities in an expert and professional manner.

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

Financing of local units is regulated by the Law on Financing which was amended in 2001, among other things, to in order to provide funds for transferred functions. Although the Constitution and the Law on Regional Self-Government establish that units have their own revenues whereby they finance expenditures by those amendments, cities and municipalities are given the option to introduce new taxes within the limits provided for by the Law.

Local units may collect revenues from their own sources (own revenues), from joint taxes and from subsidies from the state and county budgets.

Own sources of revenues of counties are the following: revenues from own assets, county taxes (1. inheritance and gift tax, 2. tax on motor vehicles and vessels, 3. tax on vessels, 4. taxes on gambling machines), and other revenues established by special law.

Own sources of revenues of municipalities/cities are the following: revenues from own assets, taxes (1. surtax on personal income tax, 2. consumption tax, 3. tax on vacation houses, 4. tax on unused arable agricultural land, 5. tax on unused entrepreneurs' real estate, 6. tax on undeveloped building land, 7. company or company name tax, 8. tax on use of public areas), administrative fees, tourist taxes, utility and other charges, other revenues established by a special law.

The amendments to the Law on Financing of June 2001 extended the circle of municipalities /cities which were given the possibility to introduce the surtax on personal income tax, namely: municipalities at the rate of up to 10%, cities under 30,000 inhabitants up to 12%, cities above 30,000 inhabitants up to 15%, and the City of Zagreb at the rate of up to 30%. The Law provided for the upper limit of the surtax, whereas the very level is prescribed by the municipality or city through its decisions. The surtax belongs to the municipality or city in whose area the taxpayer has residence.

Table 3 presents the overview of distribution of joint tax revenues of personal tax revenues, profit tax and Taxes on real estate transactions between the state, municipalities/cities and counties. It should be stressed that the changes mentioned above have decreased the share of the state in personal income tax from 60% to 31.2 %.

**Table 3: The Distribution of Joint Tax revenues among the State, Municipalities/Cities, and Counties**

	State Budget	Counties	Municipalities/Cities
<b>Personal income tax</b>	31.2%.	8% increased by (7.8%) share for transferred functions	32%, increased by (2.9%), which finances transferred functions
	Share of equalization item 21%.		
<b>Profit tax</b>	70%	10%	20%,
<b>Taxes on real estate transactions</b>	40%	-	60%,

*Note: The share of the City of Zagreb accounts for 45% increased by the share of transferred functions of 7.8%.*

*Source: Ministry of Finance*

At the end of 2001, in addition to functions of health, education, and social welfare, a portion of functions of public order and security was transferred to local units. By the amendments to the Law on Firefighting<sup>13</sup> the regular activity of public firefighting squad is transferred to municipalities and cities. Financing is regulated by the Law on Financing in such a way that in the area of municipalities and cities, which are the founders of firefighting squads and which finance regular activity of employees in public firefighting squads, the share of municipalities and cities in personal income tax was increased:

- in 2002 by 2%,
- in 2003 by 4%,
- in 2004 by 6%,
- in 2005 by 8% of personal income,

and in the same percentage the share of the state in the distribution of personal income tax in the area of those municipalities and cities.

In addition, the state will cede, pursuant to the provisions of the Law on Islands<sup>14</sup>, the Law on Financing and the Instruction on the Mode and Terms of Using a Portion of Personal Income Tax Ceded to Municipalities and Cities on Islands, and its share of personal income tax to the municipalities and cities in the area of islands which conclude an agreement on financing capital projects of water supply, physical planning, improvement of transport infrastructure, and creating preconditions for island development. During 2001 concluding of an agreement was not implemented, which means that there was no commitment of ceding a portion of personal income tax by the state.

Given that in the period from 2000 to 2005 pursuant to the Law on Amendments to the Law on the Areas of Special State Concern the state ceded its portion of joint taxes (personal income tax and profit tax) due to financing of public needs and as an incentive for the development of areas which used to be occupied, for decentralized functions from the areas of special state concern resources were allocated to the equalization item, whereas commitments for financing were transferred to the level of counties.

It can be concluded from the amendments to the Law on Financing that 2000 saw an increase in the portion of personal income tax and profit tax to the municipalities and cities in the areas of special state concern. The share of personal income tax accounted for 92% in favor of cities/municipalities, the share of counties 8%, and the share of profit tax accounted for 90% in favor of cities/municipalities and 10% in favor of counties.

<sup>13</sup>The Law on Firefighting (the Official Gazette Nos. 106/99 and 117/01)

<sup>14</sup>The Law on Islands (the Official Gazette Nos. 34/99 and 119/01.)

## 4.2. THE TREND OF REVENUES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS IN 2001

Unlike 2000, in which local units were independently fulfilling statistical forms according to the IMF methodology, in 2001, financial reports of local units were used as a basis for the preparation of statistics. The deviations in the statement of revenues and expenditures of local and regional self-government units are possible due to non-existence of analyses on certain items within financial reports.

The analysis of revenues and expenditures for 2001 included, according to the IMF methodology, the budget outturn for a total of 53 units (32 cities, 20 counties, and the City of Zagreb) which took over the financing of decentralized functions.

Table 4 below shows the outturn of revenues of local units for 2001 and the plan for 2002.

**Table 4: Outturn of Revenues in 2001 and the Plan for 2002 of Local Units which Have Taken over Decentralized Functions**

(HRK 000)	Outturn	Structure	Plan	Structure	Index
Revenues and Grants	2001	2001	2002	2002	2002/2001
<b>Total Revenues and Grants</b>	<b>7,473,795</b>	<b>100.00</b>	<b>9,670,013</b>	<b>100.00</b>	<b>129.39</b>
Current Revenues (I+II)	6,351,382	84.98	7,814,997	80.82	123.04
I. Tax Revenues	4,363,163	58.38	5,334,682	55.17	122.27
II. Non-tax Revenues	1,988,219	26.60	2,480,314	25.65	124.75
Capital Revenues	480,931	6.43	594,089	6.14	123.53
Grants	641,482	8.58	1,260,928	13.04	196.56

Note: According to GFS Methodology 1986

Source: Ministry of Finance

In 2001 revenues and grants of cities and counties amounted to HRK 7.5 billion. The structure of revenues is dominated by current revenues, which account for HRK 6.4 billion or 85% total revenues and grants. Capital revenues totaled HRK 480.9 million, accounting for 6% of total revenues. An increase in revenues of local units in 2001, especially taxes and grants, was partially a result of collection of additional revenues on the basis of granted decentralized functions. Grants account for of 9% total revenues, and in the plan for 2002 they account for 13%.

**Table 5: Financing of Decentralized Functions in 2001**

(000 HRK) Name of Function	Counties and the City of Zagreb	Cities (32)	Total
Primary Education	160,204	59,317	219,521
Secondary Education	107,376		107,376
Health	192,299		192,299
Social Welfare	36,054		36,054
<b>Overall Commitments</b>	<b>495,933</b>	<b>59,317</b>	<b>555,250</b>
<b>Collected on the Basis of Additional Share</b>	<b>231,556</b>	<b>37,159</b>	<b>268,715</b>
<b>Remitted from the Equalization Grants</b>	<b>264,377</b>	<b>22,158</b>	<b>286,535</b>

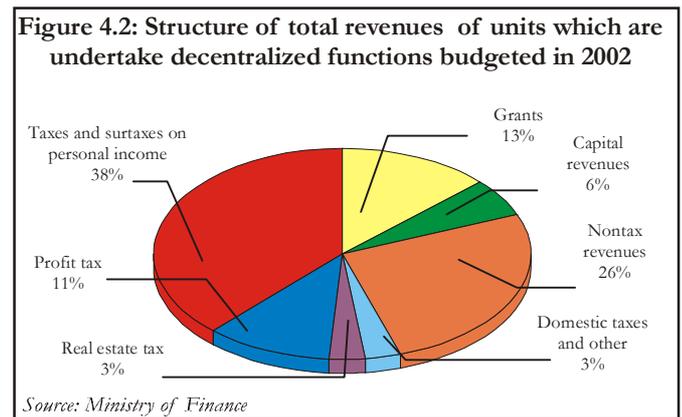
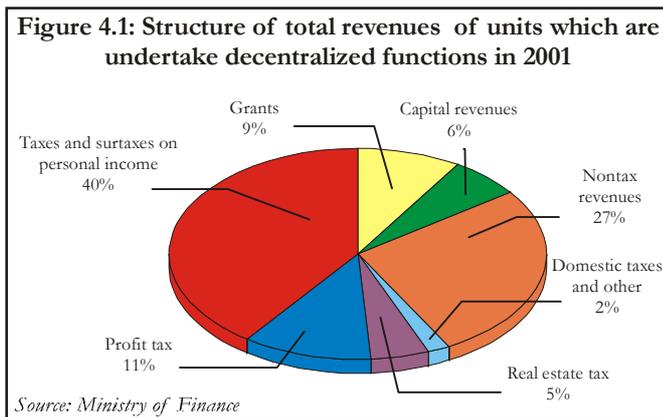
Source: Ministry of Finance

Additional revenues totaled HRK 555.2 million, out of which the outturn on the city level was HRK 59.3 million, and on the level of counties and the City of Zagreb HRK 495.9 million. In 2001 HRK 268.7 million was collected on the basis of additional share of personal income tax (which was sufficient for financing 48% of total transferred expenditures) and HRK 286.5 million from equalization grants (whereby 52% of transferred expenditures was financed). In 2001, with the exception of the cities of Rijeka, Opatija, Rovinj, and the City of Zagreb, all counties and cities were beneficiaries of equalization grants.

As far as counties are concerned, in the structure of collection of revenues from the additional share the personal income tax, most revenues was collected by units of Splitsko-Dalmatinska counties (14%), Primorsko-Goranska (approximately 14%), Zagrebačka county (10%), Istarska county (approximately 9.6%), Osječko-baranjska county (approximately 6.5%), whereas in the areas of all other counties less than 5.2% was collected.

## 4.2.1. Tax Revenues

As illustrated by figures 4.1 and 4.2, tax revenues were the most significant revenues in the structure of total budget revenues of local units. In 2001 HRK 4.4 billion was collected in tax revenues, which accounted for 58% of total revenues. A high share of taxes in total revenues was a consequence of the share in joint tax revenues, primarily personal income tax. It should be pointed out that the personal income tax also contains the surtax on personal income tax. Surtax, although it is the revenue which belongs only to local budgets, due to specific mode of collection, is monitored together with personal income tax. Tax and surtax on income in the structure of total revenues was remained at the level of 40% of total revenues. Although in the middle of 2000 the share of cities increased from 25% to 32% in personal income tax, in 2001 there was no more significant increase in the share due to benefits which reflected in the decrease in collected tax. As a consequence of the changes in the income taxation system which were aimed at an increase in non-taxable portion of income, in 2001 a decrease in personal income tax was planned at 2%. However, there followed a nominal increase in by HRK 268 million, which was collected on the basis of additional share for transferred functions and collected surtax.



Until July 2001 all cities with more than 40,000 inhabitants could introduce surtax on personal income tax. This opportunity was used by 12 cities, with the surtax rate in the range from 6 to 7.5%. The City of Zagreb is an exception with 18%. In the second half of 2001 all local units obtained the possibility to introduce surtax on personal income tax, which was done by 80 municipalities and cities. In 2001 a total of HRK 539 million was collected in surtax. Out of that amount, only the surtax of the City of Zagreb amounted to HRK 443 million. In specific local units surtax has a significant influence on the structure of revenues. The impact of those revenues will be visible in the following years.

In 2001 the share of profit tax in total revenues accounted to 11% (as in the plan for 2002). This was a result of the amendments to the Law on Profit Tax<sup>15</sup> (investment incentives, employment incentives, tax breaks for taxpayers from the areas of special state concern, tax breaks and tax exemptions for taxpayers in the areas of the City of Vukovar and taxpayers doing business in free zones). Economic growth will have a positive impact on the increase in revenues from profit tax, so its significant growth is expected in the forthcoming years.

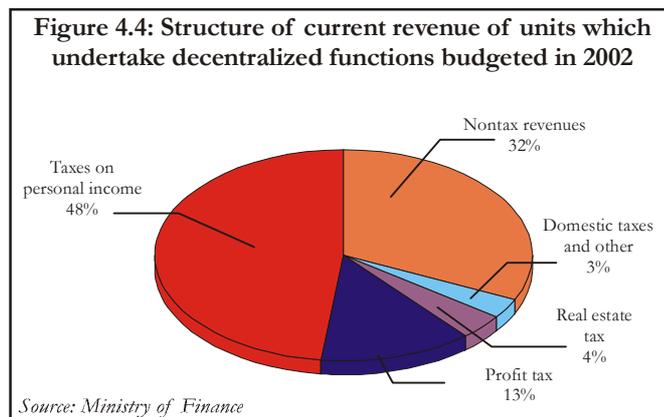
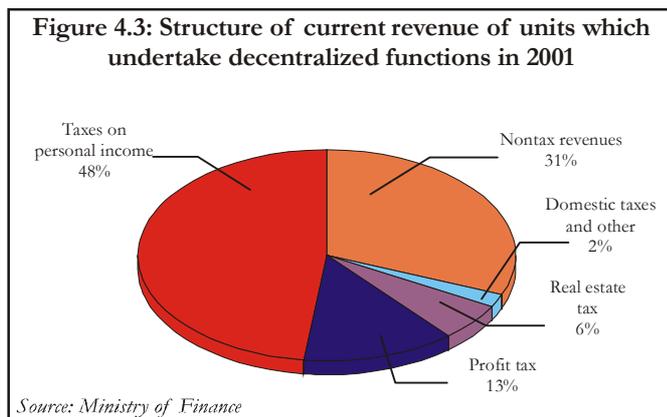
Joint taxes (personal income tax, profit tax, and Taxes on real estate transactions) which are distributed on the state level or between two countries, municipalities, cities, and counties are most abundant budget revenues. As opposed to this, revenues collected from local taxes (local units collect revenues themselves or entrust the collection to tax administration) have a smaller share in the overall structure of tax revenues.

Own tax revenues are classified according to the GFS methodology as a part of real property tax (revenues from company tax, tax on vacation houses, and taxes on use of public space, on unused arable agricultural land, on unused entrepreneurs' real estate, and on undeveloped building land, Taxes on real estate transactions), as well as in domestic tax on goods and services (consumption tax, tax on vessels and road motor vehicles) and in other taxes. Taxes on real property and domestic and other taxes have a share of only 7% of total revenues.

<sup>15</sup> The Law on Profit Tax (the Official Gazette No. 127/00.)

## 4.2.2. Non-Tax Revenues of Cities and Counties

Unlike the tax revenues which the units dispose of independently, non-tax revenues mostly have a pre-defined purpose. The size of non-tax revenues depends on economic power of units or efficiency of governance and disposal of own assets. This group of revenues consists of fees and duties for utility services, concessions, maritime demesne, interests, revenues from immovable and movable property owned by the units regulated by special laws, and revenues regulated by special regulations – specific-purpose revenues.



In 2001 the share of non-tax revenues in total revenues (figures from 4.1 to 4.4) retained a high level in total revenues (27%). This is the second largest source of revenues of local units. Within budget non-tax revenues, administrative fees have the most significant share with 72% (revenues from sale of government stamps, communal fees, contributions and other fees), revenues from entrepreneurial revenue and revenues from real estate with 27% and other non-tax revenues with the share of approximately 1%.

## 4.2.3. Capital Revenues and Borrowing of Municipalities, Cities, and Counties

Capital revenues collected at HRK 480.9 million in 2001 did not represent a significant source of revenues for local budgets. Their share accounted for only 6% of total revenues. Capital revenues are collected through sale of assets, and their size depends on the value of the assets. Although those may be more significant amounts collected by sale of assets, they should be looked at in the context of occasional budget sources.

In case of a lack of capital and other revenues for financing capital expenditures, which have a high share in the structure of the budgets of municipalities, cities, and counties, units reallocate a portion of current revenues for financing capital projects. In addition to the mode indicated above, local units may also finance capital investments by borrowing, i.e., collecting receipts from borrowing, according to conditions prescribed by the law. Pursuant to the Budget Law, The Law on Execution of the State Budget, and Instruction of the Minister of Finance, local and regional self-government units may conclude loan agreements only for financing of reconstruction and development projects, with the proviso that the total annual commitment for the loan may not exceed 20% of collected revenues in the year preceding the year in which the loan is taken.

## 4.2.4. Grants

In order to provide public service delivery more evenly in the whole territory of the republic of Croatia, and due to the shortage current budget revenues, grants are provided to local units from the state and county budgets. In practice those grants are realized by providing grants, in line with the available funds of the state budget and legal provisions, to counties, but also directly to municipalities and cities in the areas of special state concern (I and II group). The Law on the Execution of State Budget of the Republic of Croatia for 2001 provides for the basic criteria for the calculation of grants. Criteria are applied for all units in the areas of special state concern. The criteria for the counties are the following: population, the average revenues of the county budget per capita on the national level and revenues of county budget per capita of the counties, the average expenditures for capital programs from the county budget per capita on the national level and expenditure for capital programs from the county budget per capita. The criteria for the calculation of grants to municipalities and cities in the areas of special state concern are: population in the areas of special state concern, budget revenues per capita, the average revenue per capita of the municipality and city on the level of counties, expenditures for non-financial assets, rationalization source of expenditures for employees, and funds for the coverage of functions of cities with population under 30,000. On the basis of financial or statistical reports on local and regional self-government units it is established if a specific unit meets the set criteria for obtaining a grant.

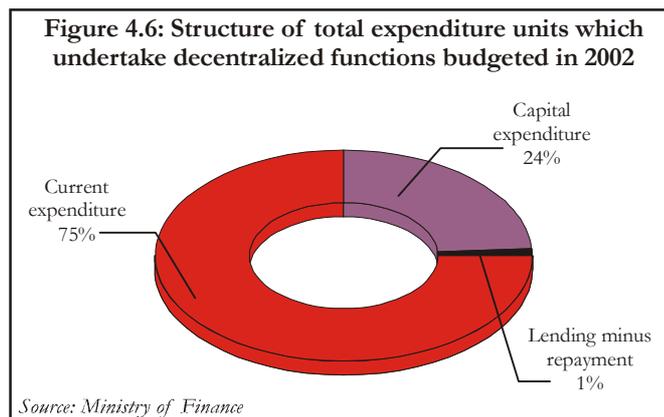
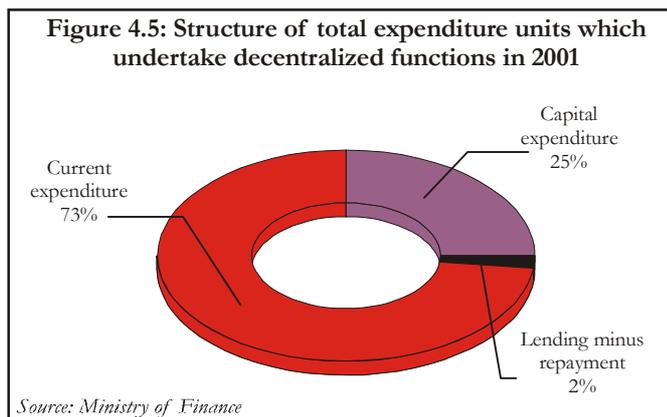
In 2001 grants in the state budget amounted to HRK 189.4 million. In addition to grants from the state budget, counties also provided grants to units in their areas from their budget funds, whether directly or by co-financing of capital expenditures.

Besides such a direct remittance of resources, resources for development of local units are planned within the framework of specific line ministries, Croatian Waters and others. Those are mainly co-financing of developmental programs. The resources are provided through current and capital grants and subsidies.

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

Financing of expenditures of local and regional self-government units is executed from the planned budget revenues in line with the Decision on Budget Execution. Budget expenditures are executed according to established purposes. Expenditures which are not planned may not be executed.

Table 6 illustrates the total executed expenditures in 2001 at HRK 7.4 billion. The structure of expenditures is also indicated in figures 4.5. and 4.6.



**Table 6: Execution of expenditures in 2001 and plan for 2002 for local units which have taken over decentralized Functions**

(HRK 000)	Outturn 2001	Structure 2001	Plan 2002	Structure 2002	Index 2002/2001
<b>Total Expenditures and Lending minus Repayments</b>					
<b>Total Expenditures and Lending minus Repayments</b>	<b>7,385,148</b>	<b>100.00</b>	<b>9,921,429</b>	<b>100.00</b>	<b>134.34</b>
Total Expenditures	7,235,724	97.98	9,777,343	98.55	135.13
Current Expenditures	5,389,842	72.98	7,384,718	74.43	137.01
Capital Expenditures	1,845,882	24.99	2,392,625	24.12	129.62
Lending minus Repayments	149,424	2.02	144,086	1.45	96.43
Surplus on Current Accounts without Subsidies	961,540		430,279		
Total Deficit /Surplus	88,647		-251,416		

Note: According to GFS Methodology 1986

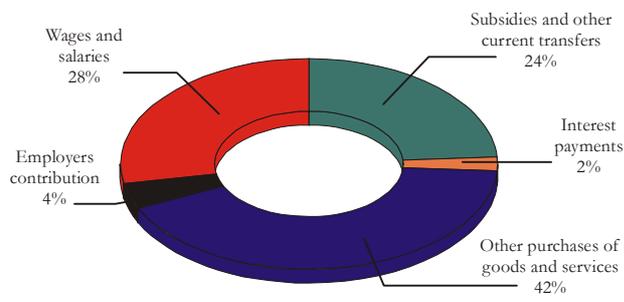
Source: Ministry of Finance

According to the type, expenditures may be divided into current, capital, and net lending.

In 2001 current expenditures accounted for 73% of total expenditures (figures 4.5 through 4.8), whereas the capital expenditures and net lending accounted for the remaining portion (25% and 2%, respectively). In the structure of current expenditures (which consist of expenditures for employees, material costs, subsidies, and current transfers) expenditures for employees and contributions accounted for 32%, subsidies and other current transfer for 24%, whereas expenditures for goods and services accounted for 42%. 2001 also saw a high share of expenditures for goods and services in current and total expenditures due to transfers of expenditures for decentralized functions on the level of local units. Thereby the expenditures for regular functioning (expendable material, power, regular and investment maintenance, communal and other services, etc.) were increased in the structure.

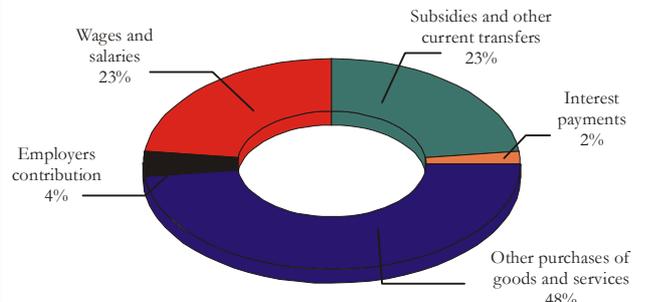
Subsidies and other current transfers are mostly earmarked for non-profit institutions (kindergartens, theaters, technical culture and sports, as well as associations), municipal companies and educational, health, and social welfare institutions, whose functions are financed in a decentralized manner.

**Figure 4.7: Structure of current expenditure units which undertake decentralized functions in 2001**



Source: Ministry of Finance

**Figure 4.8: Structure of current expenditure units which undertake decentralized functions budgeted in 2002**



Source: Ministry of Finance

In 2001 capital expenditures accounted for 25% of the structure of total expenditures, which indicates that there were increased investments of local units in comparison with capital revenues. In total capital expenditures the majority of expenditures was used for procurement of permanent capital assets (health and educational public institutions, construction of communal infrastructure, business zones, road reconstruction and construction, sports and recreation centers, procurement of equipment, etc.), which accounted for 65% of total capital expenditures.

Capital transfers accounted for 30% of total capital expenditures, and were intended mainly for companies owned by local units and non-financial public enterprises for procurement of non-financial assets.

Increased capital expenditures and transfers was a result not only an increase in capital revenues in 2001 and borrowing (pursuant to the Law on Execution of the State budget borrowing is approved, with prescribed constraints, for purpose of capital investments), but also of directing of a portion of current revenues into capital expenditures.

The overall surplus of revenues over expenditures in 2001 amounted to HRK 88.647 million. A comparison of the current portion of the budget with the capital budget indicates that capital expenditures were partially financed from the surplus of the outturn of current revenues, and partially from receipts from borrowing.

**Table 7: Budget Outturn and Plan of 32 Cities, Counties, and the City of Zagreb**

(HRK 000)	Outturn 2001	Plan 2002
<b>Total Revenues and Grants</b>	<b>7,473,795</b>	<b>9,670,013</b>
Total Revenues	6,832,313	8,409,085
Current Revenues	6,351,382	7,814,997
Tax Revenues	4,363,163	5,334,682
Tax and Surtax on Personal Income Tax	3,041,189	3,747,814
Profit Tax	802,038	1,022,013
Real Property Taxes	379,140	321,209
Domestic and Other Taxes	140,796	243,646
Non-Tax Revenues	1,988,219	2,480,314
Capital Revenues	480,931	594,089
Grants	641,482	1,260,928
<b>Total Expenditures and Lending minus Repayments</b>	<b>7,385,148</b>	<b>9,921,429</b>
Total Expenditures	7,235,724	9,777,343
Current expenditures	5,389,842	7,384,718
Expenditures for Employees	1,517,902	1,693,229
Contributions of Employers	228,366	260,774
Other Expenditures for Goods and Services	2,233,403	3,614,848
Interest Payment	117,770	113,179
Subsidies and Other Current Transfers	1,292,401	1,702,688
Capital Expenditures	1,845,882	2,392,625
Lending minus Repayments	149,424	144,086
<b>Surplus on Current Accounts without subsidies</b>	<b>961,540</b>	<b>430,279</b>
<b>Total Deficit/Surplus</b>	<b>88,647</b>	<b>-251,416</b>



## V. CONSOLIDATED GENERAL GOVERNMENT IN 2001

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

The last Annual Report for 2000 provided data for the consolidated general Government for 1999. Therefore, this report provides the final data on trends of revenue and expenditures of the consolidated general Government for 2000 and 2001.

Consolidated general Government budget is a result of transactions among all levels of state authorities: central Government budget, budget of extra-budgetary funds (Pension Fund, Health Insurance Fund, Employment Fund, Child Benefit Fund, Public Enterprise "Hrvatske Vode" – Public Water Management Fund), as well as the budget of Local Government units.

## 5.1. CONSOLIDATED GENERAL GOVERNMENT – ECONOMIC CLASSIFICATION

**Table 5.1: Revenues and Expenditures of Consolidated General Government from 1998 to 2001, % of GDP**

	Share of GDP (%)			
	1998	1999	2000	2001
<b>TOTAL REVENUES AND GRANTS</b>	<b>52.86</b>	<b>52.98</b>	<b>48.93</b>	<b>47.54</b>
I. Total Revenues	52.82	52.98	48.92	47.54
1. Current Revenues	50.83	48.05	46.46	43.96
- Tax Revenues	46.88	44.07	42.65	40.76
- Non-Tax Revenues	3.95	3.98	3.81	3.19
2. Capital Revenues	1.99	4.93	2.45	3.59
II. Grants	0.04	0.00	0.01	0.00
<b>TOTAL EXPENDITURES AND NET LENDING</b>	<b>52.37</b>	<b>55.19</b>	<b>53.97</b>	<b>49.96</b>
III. Total Expenditures	51.50	54.09	53.13	49.21
1. Current Expenditures	44.58	46.96	47.98	45.47
2. Capital Expenditures	6.93	7.13	5.15	3.74
3. Lending minus Repayments	0.86	1.11	0.83	0.75

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

Table 5.1 provides an overview of basic aggregates of revenues and expenditures of consolidated general Government classified by economic categories and expressed as a share of the gross domestic product. The rising trend of total public spending was obviously stopped in 2000 – in 1999 it accounted for no less than 55.19% of GDP. The policy of decreasing the share of public expenditures in GDP during 2000 (53.97% of GDP) continued in 2001, so that the share of expenditures of general Government was reduced to the level of 49.96% of GDP. Such a trend of expenditures indicates shrinking of the public sector, which started a process of implementation of structural measures and sustainable fiscal policy. A detailed overview of consolidated revenues and expenditures of the general Government is attached, as well as pertaining non-consolidated revenues and expenditures of central Government budget, extra-budgetary funds, and Local Government units.

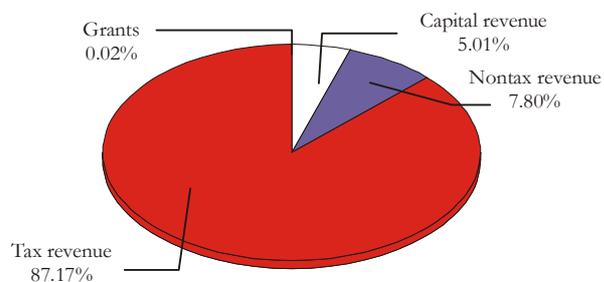
The outturn of total revenues of consolidated general Government in 2000 was somewhat lower than in the previous year, primarily due to weaker collection of capital revenues, whose outturn was at the level of 53.6% of the previous year (the reason for this was a weaker dynamics of privatization process in comparison with 1999). However, as early as 2001 there was a strong recovery on the item of capital revenues of consolidated general Government (a 56.3-percent increase in comparison with 2000), as well as further growth of total tax revenues (2.1% in comparison with 2000), which resulted in a 3.8-percent increase in total revenues of consolidated general Government in comparison with the previous year.

Although due to the fact that privatization revenues were one-off and uncertain they should have been entered as financing receipts, many transition countries, including the Republic of Croatia, consider them as capital revenues due to their size. Such a year-on-year trend in revenue categories reflected in the very structure of total revenues, as illustrated by Figures 5.1 and 5.2.

Tax burden on the consolidated general Government level, measured by the share of tax revenues in GDP, recorded a further drop by 42.7% in 2000, to 40.8% in 2001. Namely, at the end of 2000 Croatian Parliament passed the amendments to eight tax laws which came into effect on January 1, 2001, whereby the tax system reform was completed.

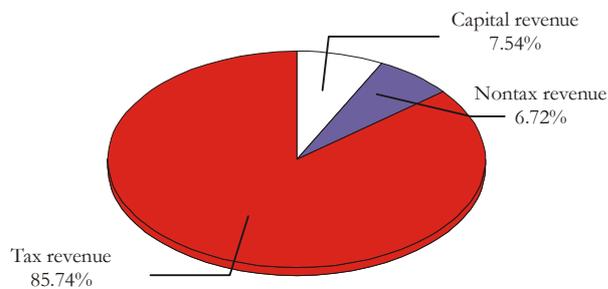
Revenues from value-added tax, despite of coming into force of new benefits for VAT taxpayers (pursuant to the Law on the Amendments to the Value-Added Tax, which was previously explained in Chapter 2) increased their share in total tax revenues of consolidated general Government from 33.5% in 2000 to 35.0% in 2001. In 2000, 10% more revenues from VAT were collected in comparison with 1999, whereas in 2001 a significant increase of 6.6% was realized in comparison with 2000. Such a trend, no doubt, indicates that the economic activity during 2000 and 2001 was stronger.

**Figure 5.1: Structure of Consolidated General Government Revenues in 2000**



Source: Ministry of Finance

**Figure 5.2: Structure of Consolidated General Government Revenues in 2001**



Source: Ministry of Finance

Special duties or excise taxes were the second most significant category of consumption tax. In 2000 the total excise tax revenues grew by 24.5% in comparison with the previous year, and a milder trend also continued in 2001, when a year-on-year increase of 0.3% in comparison with 2000 was recorded. A drop in the share of excise taxes in total tax revenues in 2001 was a result of a change in the structure of tax revenues in comparison with 2000 (Figure 5.4).

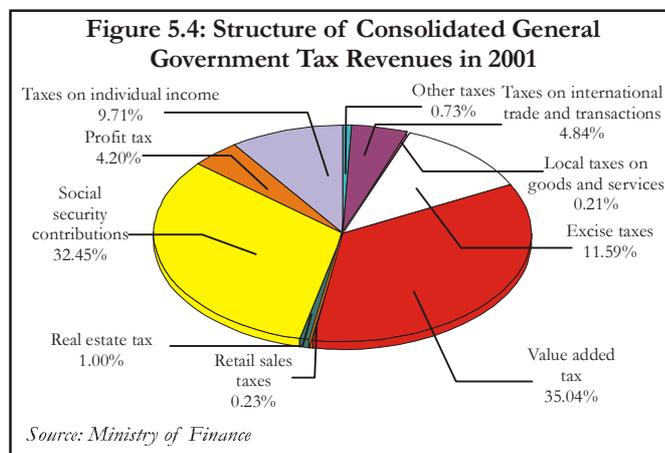
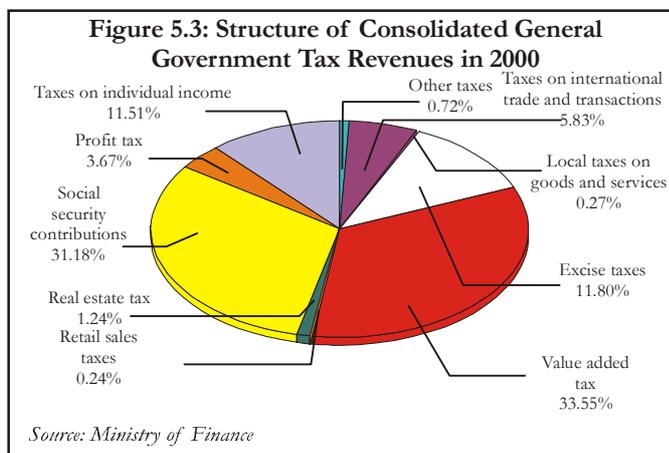
Excise tax on oil and oil products, as well as excise tax on tobacco products, accounted for the largest portion of excise taxes. The Law on Amendments to the Law on Public Roads had a significant implication on collected revenues from those excise taxes (the Official Gazette No. 27/01). In line with that, starting on April 1, 2001 the Croatian Road Administration ceased to be a beneficiary of the state budget, and a portion of excise taxes on oil and oil products was not paid into the state budget, but was allocated to construction of roads and motorways. 13.2% of overall collected excise taxes on oil and oil products in 2001 was set aside for those purposes, and in comparison with 2000 the share of those excise taxes was formally reduced in 2001 by 5.9 percentage points in the overall collected budget revenues from excise taxes. Such a declining trend in this type of excise taxes, therefore, continued in the following period as well, although it was really collected in a significantly higher amount. At the same time the share of revenues from excise taxes on imported motor vehicle increased by 4.5 percentage points in comparison with 2000. Namely, due to a sharp increase in the import of cars (which was encouraged by benefits to Croatian war veterans and due to a strong increase in the supply of favorable bank credits for the purchase of vehicles) in 2001 revenues from those excise taxes recorded a record growth of more than 340% in comparison with 2000. In addition to excise taxes on oil and oil products, which had an shortfall of 9.5% (primarily due to the reasons mentioned above) in comparison with 2000, all other categories of excise taxes realized a year-on-year growth.

Taxes on international trade and transactions in 2000 were subject to significant changes because of concluding of a number of bilateral and multilateral free trade agreements, which resulted in a decrease in the collected customs revenues by as much as 11.5% in 2000 in comparison with the previous year. Due to the reasons indicated above and also due to Croatia's joining the World Trade Organization (WTO), such a trend continued in 2001, when 15.3% less customs revenues was collected than in 2000. Figures 5.3. and 5.4. indicate a significant drop in the share of tax on international trade and transactions in total tax revenues, having in mind that as early as 1999 that share accounted to as much as 6.9%.

A weaker economic activity in 1999 reflected on the outturn of revenues from corporate profit tax in 2000, when the outturn of revenues from corporate profit tax was by as much as 28.5% lower in comparison with the previous year. However, as early as 2001 there followed an obviously positive economic trend, assisted by a decrease in the corporate profit tax rate, which encouraged stronger activity of economic subjects. In 2001, 16.8% more revenues from corporate profit tax was collected in comparison with the previous fiscal year. In that respect, the corporate profit tax increased its share in the structure of total tax revenues from 3.7% in 2000 to 4.2% in 2001.

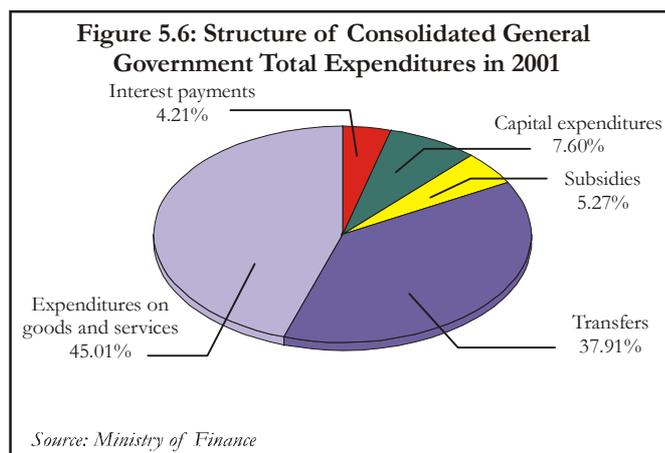
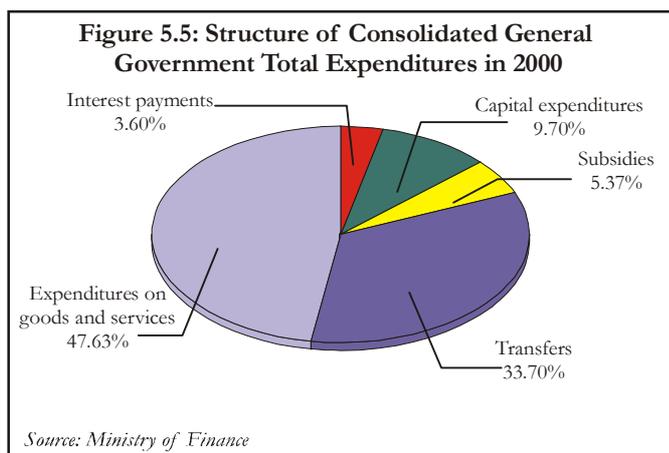
The amendments to the Law on Personal Income Tax in 1999 were primarily aimed at providing tax relief to lower income levels, and the same policy was pursued in 2000. Chapter 2 shows in more detail the amendments to the Law on Personal Income Tax, which came into effect on January 1, 2001, and relate, among other things, to the increase in personal basic deduction from HRK 1,000 to HRK 1,250. All those changes resulted in the increase in net salary on one hand, whereas, on the other hand, budget revenues from this tax declined by 13.9% in 2001 in comparison with the previous year. This reflected in the very structure of total tax revenues, in which the share of personal income tax dropped from 11.5% in 2000 to 9.7% in 2001.

Revenues from social insurance contributions, together with VAT revenues, composed the most significant revenues of the consolidated budget of general Government. 2000 saw a 4.3-percent increase in collected revenues from contributions in comparison with 1999. Also, their growth continued in 2001, when the outturn of revenues from social insurance contributions was higher by 6.3% in comparison with the previous year. In the structure of tax revenues, they recorded growth from 31.2% in 2000 to 32.5% in 2001.



The changes in the internal structure of tax revenues were visible from the comparison of diagrams in figures 5.3. and 5.4. The changes in the tax system in 2001 were aimed at a more equitable distribution of tax burden in the society, i.e., at the reduction in the overall tax burden. Evidently, customs revenues are increasingly losing importance as a significant source of tax revenues, and there is also a characteristic decrease in the share of revenues from personal income tax. On the other hand, the growth of social insurance contributions and abundant VAT revenues provided more than 67% of total tax revenues in 2001. The consolidated general Government budget for 2000 and 2001, as well as tax reforms during 2001, indicate that the trend of reduction of tax burden as the main components of fiscal policy will continue in the following years.

In nominal terms the total expenditures of consolidated general Government grew by 5.3% in 2000 in comparison with 1999, primarily thanks to the increase in the current budget expenditures at the expense of capital expenditures. In the next fiscal year, total expenditures of consolidated general Government in nominal terms were lower by 1.1% in comparison with 2000. Figures 5.5 and 5.6 illustrate the changes in the structure of total expenditures of consolidated general Government.



The nominal growth of current expenditures of 10.1% in 2000 was initiated primarily by expenditures for salaries of budget beneficiaries of 8.1%, 23.8-percent higher expenditures for interest, as well as 6.9-percent higher subsidies and current transfers. Table 5.2 illustrates the trend of the most important components of current expenditures.

**Table 5.2: Trends in Current Expenditures of Consolidated General Government**

	Share of GDP (%)			
	1998	1999	2000	2001
<b>Expenditures of Goods and Services</b>	<b>24.70</b>	<b>24.38</b>	<b>25.31</b>	<b>22.15</b>
- Wages and Salaries of Employees	11.88	12.80	12.84	11.75
- Other Purchases of Goods and Services	12.82	11.58	12.47	10.40
<b>Interest Payments</b>	<b>1.53</b>	<b>1.66</b>	<b>1.91</b>	<b>2.07</b>
<b>Subsidies and Other Current Transfers</b>	<b>18.35</b>	<b>18.80</b>	<b>20.76</b>	<b>21.25</b>

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

The structure of total expenditures in 2001 was characterized by a nominal decrease in capital expenditures by 22.5% in comparison with 2000 and an increase in current expenditures by 1.2% on the annual level. Payroll expenditures were reduced by 2.2% in comparison with the previous year. More precisely, salaries of state budget beneficiaries were, no doubt, one of the most important generators of growth of current expenditures, and thus the overall public spending in

the country. In 2001 the trend of growth of salaries was stopped as part of the Government measures of curbing state expenditures, which contributed to a further drop in total public expenditures.

In 2001 the volume of outlays for goods and services finally showed a smaller share of GDP in comparison with previous years. In addition, in the group of current expenditures, the share of expenditures for other purchases of goods and services was decreased from 12.5% of GDP to 10.4% of GDP in 2001. However, outlays for interest payment were still on the rise (15.8% in comparison with the previous year) and their share in GDP grew from 1.9% in 2000 to 2.1% of GDP in 2001.

Outlays for subsidies and current transfers kept continually recoding fast growth and increased its share in GDP to 21.3% in 2001. On the annual level, subsidies grew by 10.9% in 2000, however, in 2001 they recorded a 3-percent drop in comparison with the previous year. Still, the most significant cause of continuation of growth of expenditures for transfers (which in 2001 grew by no less than 11.3% in comparison with the previous year) were transfers to households, which were the main generator of adverse current expenditure trends. Therefore, the forthcoming period will see a reform of the pension insurance system as the only long-term way of efficient reduction of total public expenditures, which will contribute to fiscal balance and thus the macroeconomic stability.

## 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 and Local Government units) indicate that a strong growth of public expenditures was 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.

**Table 5.3: Consolidated General Government According to Government Levels**

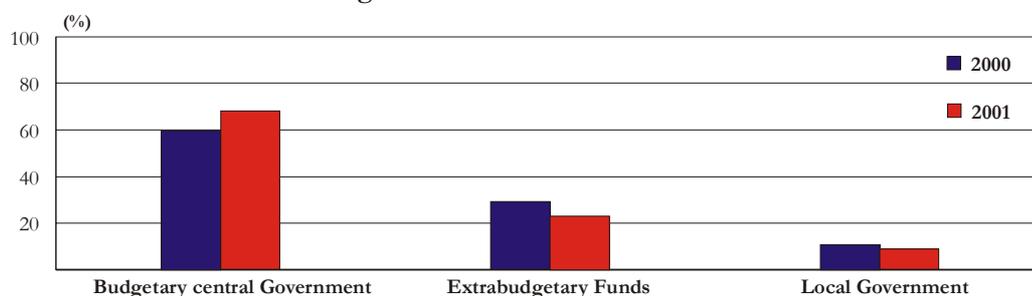
	Share of GDP (%)			
	1998	1999	2000	2001
<b>Total Revenues and Grants</b>	<b>52.86</b>	<b>52.98</b>	<b>48.93</b>	<b>47.54</b>
<b>Government Budget</b>	<b>31.84</b>	<b>32.74</b>	<b>29.27</b>	<b>32.34</b>
<b>Extra-budgetary funds</b>	<b>15.31</b>	<b>14.77</b>	<b>14.31</b>	<b>11.01</b>
1. Pension Fund	7.70	7.53	7.31	3.53
2. Health Insurance Fund	5.93	6.05	5.79	6.27
3. Employment Fund	0.51	0.53	0.53	0.55
4. Child Benefit Fund	0.39	0.01	0.00	0.00
5. Public Water Management Fund ("Hrvatske Vode")	0.77	0.66	0.69	0.65
<b>Local Government</b>	<b>5.71</b>	<b>5.47</b>	<b>5.35</b>	<b>4.19</b>
<b>Total Expenditures and lending Minus Repayments</b>	<b>52.37</b>	<b>55.19</b>	<b>53.97</b>	<b>49.96</b>
<b>Government Budget</b>	<b>24.42</b>	<b>25.08</b>	<b>23.83</b>	<b>27.18</b>
<b>Extra-budgetary funds</b>	<b>21.88</b>	<b>24.27</b>	<b>24.72</b>	<b>18.43</b>
1. Pension Fund	11.75	13.42	13.23	7.44
2. Health Insurance Fund	7.83	8.42	9.13	8.09
3. Employment Fund	0.42	0.58	0.65	0.60
4. Child Benefit Fund	0.75	0.80	0.82	1.51
5. Public Water Management Fund ("Hrvatske Vode")	1.13	1.05	0.89	0.78
<b>Local Government</b>	<b>6.07</b>	<b>5.84</b>	<b>5.42</b>	<b>4.35</b>
<b>Total Surplus (+)/Deficit (-)</b>	<b>0.49</b>	<b>-2.21</b>	<b>-5.04</b>	<b>-2.42</b>

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

The basic characteristic of consolidated general Government in 2000 presented like that was a continuation of the trend of a faster year-on-year growth of expenditures of extra-budgetary funds (9.7%) than the expenditures of central Government (2.3%) and Local Government units, which remained on the approximately same level as in the previous year. It is precisely such a trend of expenditures of extra-budgetary funds which was the main reason for fiscal imbalance and an increase in the deficit of the consolidated general Government in 2000. However, starting with July 1, 2001, payment of pension benefits are included into the central Government budget, and for this reason expenditures of the Pension Fund were formally reduced in 2001 (by 40% in comparison with 2000), and at the expense of the increase in the expenditures of Government budget by 21.8% in comparison with 2000. Other social insurance funds in 2001 recorded a year-on-year drop in expenditures, except for the Child Benefit Fund, which almost doubled its expenditures in comparison with 2000 (in line with the expansion of rights to child allowance pursuant to the Law on Child Allowance, published in the "Official Gazette" No. 94/01).

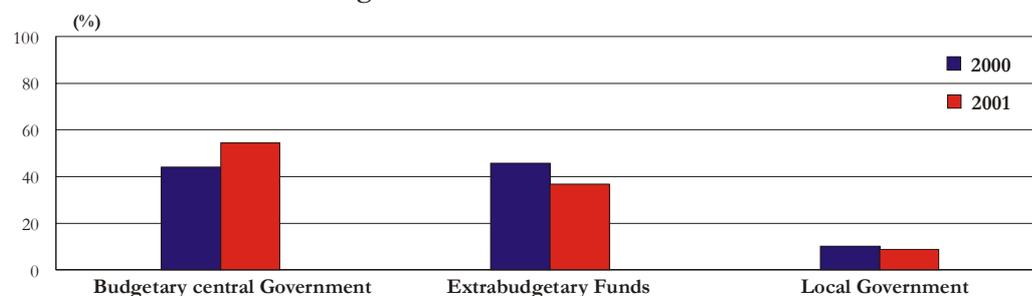
In the structure of total revenues of general Government, the share of revenues of central Government budget grew from 59.8% in 2000 to 68.0% in 2001, whereas the share of revenues of extra-budgetary funds and Local Government units decreased. At the same time, on the expenditure side there was the same trend of an increase in expenditures of the central budget in total expenditures of consolidated general Government, whereas the share of expenditures of extra-budgetary funds and Local Government units decreased. Namely, the share of expenditures of central budget in total expenditures of general Government recorded an increase from 44.2% in 2000 to 54.4% in 2001 thanks primarily to the absorbed expenditures for payment of pension benefits in 2001, as mentioned in the text above. The structure of revenues and expenditures of consolidated General Government in 2000 and 2001 is illustrated in Figures 5.7 and 5.8.

**Figure 5.7: Structure of Consolidated General Government Revenues according to Government Level in 2000 and 2001**



Source: Ministry of Finance

**Figure 5.8: Structure of Consolidated General Government Expenditures according to Government Level in 2000 and 2001**



Source: Ministry of Finance

Such a trend of revenues and expenditures in 2000 produced a deficit of consolidated general Government of 5% of GDP. Monitored in terms of levels of government, it is obvious that such a level of total deficit was realized primarily due to a great deficit of extra-budgetary funds, as indicated by Table 5.4. At the same time the central Government budget in 2000 collected by 3.7% less revenue in comparison with 1999. Besides lower collected revenues, there is no doubt that the focus of fiscal problems and the basic cause of the increase in public expenditures in 2000 lies specifically in a disproportionate growth of revenues and expenditures of extra-budgetary funds (especially pension and health insurance).

2001 saw a fiscal recovery, both on the revenue and the expenditure sides. 3.8% more revenues were collected than in 2000, whereas expenditures were reduced by 1.1% on the year-on-year level. A 18-percent increase in revenues in comparison with 2000 was realized on the level of the central budget, partially due to inclusion of Pension Fund. At the same time, for the same reason, in 2001 expenditures of extra-budgetary funds were reduced by 20.4% in comparison with 2000. Better outturn of revenues and curbing expenditures contributed to the overall reduction in the deficit of consolidated general Government in 2001, which was successfully reduced from 5% of GDP in 2000 to the level of 2.4% of GDP in 2001.

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

	Share of GDP (%)			
	1998	1999	2000	2001
Total Surplus (+) / Deficit (-) of Central Budget	7.42	7.66	5.44	5.16
Total Surplus (+) / Deficit (-) Extra-Budgetary Funds	-6.57	-9.50	-10.40	-7.42
Total Surplus (+) / Deficit (-) Local Government	-0.36	-0.37	-0.07	-0.15
<b>Total Surplus (+) / Deficit (-) Consolidated General Government</b>	<b>0.49</b>	<b>-2.21</b>	<b>-5.04</b>	<b>-2.42</b>

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

Consequently, starting with 1999, the consolidated general Government was in the zone of the deficit which slowed down in 2001, in line with the Government's economic program. Its key objective was fiscal consolidation. The Government Treasury commenced its operations in 2001, as well as the Single Treasury Account for central Government, which improved public finance control and management. The basic problems of budget expenditures were visible in high transfers (mostly to the pension and health funds and the Child Benefit Fund), as well as high payroll expenditures for budget beneficiaries. The Stand-by agreement concluded with the IMF was a big contribution to fiscal consolidation and additionally strengthened Government efforts aimed at the reduction of budget deficit, as well as continuation of fiscal and structural reforms during 2001.

### 5.3. SURPLUS/DEFICIT OF CONSOLIDATED GENERAL GOVERNMENT

1998, in which the consolidated general Government realized a total surplus, was followed by a period of a relatively greater increase in expenditures over revenues. This underpinned the growth of the consolidated general Government deficit during 1999 and 2000. As described above, in 2001 a more stringent fiscal policy was pursued, which resulted in a reduction of total deficit to 2.4% of GDP. This discouraged the growth of the volume of the public sector, with preliminarily described reduction of tax burden. The trend of total surplus/deficit of consolidated general Government (on a cash basis) is illustrated in Table 5.5.

Table 5.5: Surplus/Deficit and Financing of the Consolidated General Government

	Share of GDP (%)			
	1998	1999	2000	2001
Current Surplus (+)/Deficit (-)	6.25	1.09	-1.51	-1.51
Total Surplus (+)/Deficit (-)	0.49	-2.21	-5.04	-2.42
Total surplus (+)/Deficit (-) without Privatization Revenues	-1.44	-7.06	-7.43	-5.97
Total Financing	-0.49	2.21	5.04	2.42
Domestic Financing	-0.58	-1.30	0.53	0.98
Foreign Financing	0.08	3.51	4.51	1.44

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

If the IMF standards (GFS methodology) are applied to entering privatization revenues on the financing account, total deficit of consolidated general Government during the monitored period becomes even more important and gave a more alarming picture of budget deficit trends. Namely, one-off character and uncertainty in the outturn of those revenues, as well as the uncertainty of the very amount of privatization revenues, indicate the reasons for their presentation on the financing items, which directly affects the growth of the deficit, increased by the privatization revenue volume. This effect is illustrated in Table 5.5.

In 1999, consolidated general Government realized a surplus in the current account, which meant that the current expenditures were financed from collected current revenues. However, in 2000 there was a deficit in the current account of consolidated general Government amounting to HRK 2.3 billion, or 1.5% of GDP. Given that in 2000 the planned privatization revenues were lacking (outturn of only HRK 3.6 billion), the generated expenditures had to be covered from the so-called "short-term bridging loan". However, in 2001 consolidated general Government budget also generated a current deficit amounting to HRK 2.5 billion, or 1.5% of GDP. HRK 5.8 billion of privatization revenues was collected, but it was still insufficient to cover the total deficit, which was generated at the level of 2.4% of GDP.

General Government savings usually represent the most important financing source of capital expenditures of the Government. According to the definition, current surplus or savings of consolidated general Government is presented as the difference between the current revenues and current expenditures. Current surplus/deficit trend of consolidated general Government during the monitored period is illustrated in Table 5.6.

The level of coverage of capital expenditures by savings indicates to which extent capital expenditures are covered by surplus on the current account. Evidently, a current account deficit was generated in 2000 and 2001. Therefore, such a status implied financing through borrowing. It was, therefore, important to continue the commenced fiscal system reform, as well as a further reduction of the volume of the public sector through reduced expenditures, primarily in terms of pension reform, which is a pivotal point of fiscal consolidation in the next year.

Table 5.6: Current Surplus of Consolidated General Government and Degree of Coverage of Capital Expenditures by Savings

Year	Savings Amount (HRK 000)	Share of GDP (%)	Capital Expenditures (HRK 000)	Degree of Coverage (%)
1998	8,605	6.25	9,530	90.30
1999	1,543	1.09	10,090	15.29
2000	-2,308	-1.51	7,861	-
2001	-2,464	-1.51	6,090	-

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

## VI. PUBLIC DEBT OF THE REPUBLIC OF CROATIA IN 2001

*Prepared by: Darija Radovanić and Branka Grabovac, Cash and Debt Management Department and  
Dušanka Franičević – Grubić, Department for International Financial Institutions and European Integration*

At the end of 2001 the total public debt of the Republic of Croatia on the level of central Government amounted to HRK 67.32 billion, out of which internal public debt accounted for HRK 24.91 billion, and external public debt for HRK 42.41 billion. In comparison with 2000, internal debt increased by HRK 3.58 billion net. The increase in the internal debt in 2001 was mainly a result of the increased net entry of treasury bills (HRK 2.33 billion) and the issuance of bonds on the domestic capital market (HRK 2.95 billion), whereas the liabilities of frozen foreign currency savings and liabilities for bank rehabilitation decreased by repayments (HRK 1.51 billion). The trend in the external public debt was determined by the issuance of bonds of the Republic of Croatia on the European and Japanese financial markets.

**Table 6.1: Central Government Debt**

(in HRK million)	1998	1999	2000	2001
I. Internal public debt	15,047.8	16,754.6	21,324.2	24,907.3
II. External public debt	21,155.8	29,981.4	38,927.2	42,413.4
<b>Total public debt (I + II)</b>	<b>36,203.6</b>	<b>46,735.9</b>	<b>60,251.4</b>	<b>67,320.8</b>
As % of GDP	26.31	33.01	39.50	41.32

Source: Croatian National Bank

## 6.1. CREDIT RATING OF THE REPUBLIC OF CROATIA

Credit rating of the Republic of Croatia has been evaluated by four leading international credit rating agencies: Moody's Investors Service, Standard & Poor's (S&P), Fitch Ratings, and Rating and Investment Information (R&I).

All those agencies verify on the awarded credit rating an annual level, and in 2001 such verification resulted in an improved credit rating by the Fitch Ratings agency. It transferred the Republic of Croatia from the group of countries with speculative credit rating into the group of countries with investment credit rating with stable "outlook". Investment credit rating provides information to foreign investors on secure investment into the Republic of Croatia, and provides the Republic of Croatia with access to a wider circle of investors, and also enables it to have lower costs of borrowing in comparison with non-investment, i.e., speculative credit rating. This improvement of the credit rating was not only a one-level improvement, but also a leap from the category of speculative to the category of investment credit rating. Namely, the credit rating frequently serves for defining investor's limits, so a specific investor is not interested in the first place in viewing investments into securities of a specific country ranked into the category of speculative credit ratings.

**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
Mood's Investors Service	Baa3	Baa1	P-3
Standard & Poors	BBB-	BBB+	A-3
Fitch Ratings	BBB-	BBB+	F3
R&I	BBB		

Source: The Ministry of Finance

Following the annual verification of the awarded credit rating in 2001, Moody's Investors Service agency and the Japanese rating agency R&I confirmed to the Republic of Croatia their previous investment credit ratings. Standard & Poor's rating agency, in addition to the confirmation of the investment credit rating, improved the "outlook" (assessment of future trends) of the Republic of Croatia from negative to stable.

Table 6.3. provides an overview of the comparison of credit ratings of leading countries in transition according to credit rating agencies Moody's Investors Service and Standard & Poor's.

**Table 6.3: Comparison of Credit Ratings by Countries**

Country	Moody's Investors Service	Standard & Poor's
The Czech Republic	Baa1	A-
Croatia	Baa3	BBB-
Hungary	A3	A-
Poland	Baa1	BBB+
Slovakia	Baa3	BBB-
Slovenia	A2	A

## 6.2. INTERNAL DEBT OF THE GOVERNMENT BUDGET IN 2001

### 6.2.1. Internal Debt Categories

A detailed description of the internal debt categories was provided in previous annual reports of the Ministry of Finance, and this one will only highlight the changes in internal debt categories in 2001. The internal debt structure with status as of end 2000 and 2001 is illustrated in Table 6.4. Table 6.5 illustrates internal debt amortization schedule (repayment of principal and interest) for periods from 2002 to 2007.

At the end of 2001 the overall internal public debt amounted to HRK 17,876.03 million, and with the bonds issued with Government guarantee amounted to HRK 21,944.29 million. The increase in internal debt during 2001 was mostly accomplished by increased net subscription of treasury bills (HRK 2,327.66 million) and issuance of bonds on the domestic capital market (counter value of EUR 400 million).

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

Debt Item:	December 31, 2000	December 31, 2001	Maturity:	Interest:
Frozen foreign currency savings	4,848,438	3,804,940	2005	5.00%
Big bonds I	1,574,092	1,680,772	2011	5.00%
Big bonds II	706,403	642,296	2011	7.20%
Big bonds III	695,254	618,844	2012	7.20%
Bonds – Series 01 D-04		1,474,006	2004	6.50%
Bonds – Series 02 D-08		1,474,006	2008	6.875%
Reconstruction bonds	22,818	22,818	2003	7-10%
BRA bonds - Series I	907,994	776,685	2007	6.00%
BRA bonds - Series II	279,290	251,924	2012	5.00%
BRA bonds - Series III	720,428	641,692	2012	7.20%
BRA bonds - Series IV	390,089	344,845	2012	5.00%
BRA bonds - Series V-A	26,572	21,491	2008	6.00%
BRA bonds - Series V-B	1,403,707	1,229,409	2008	7.00%
<b>Medium-term and long-term debt</b>	<b>11,575,085</b>	<b>12,983,728</b>		
Treasury bills	2,564,645	4,892,304		
Other short-term debt	410,026	0		
<b>Short-term debt</b>	<b>2,974,671</b>	<b>4,892,304</b>		
DAB Bonds for secured deposits I	797,825	773,853	2003	8.00%
DAB bonds for secured deposits II	1,709,625	1,658,257	2005	8.375%
HZZO Bonds	1,686,830	1,636,147	2004	8.50%
<b>Bonds issued with Gov. guarantees</b>	<b>4,194,280</b>	<b>4,068,257</b>		
<b>Total debt</b>	<b>18,744,036</b>	<b>21,944,289</b>		

Source: The Ministry of Finance

In order to develop domestic capital markets and execute tasks provided for by the Law on the Execution of the Government Budget for 2001, the Republic of Croatia, through a syndicate of domestic banks, issued bonds – Series 01 D-04 and Series 02 D-08.

Bonds – Series 01 D-04<sup>16</sup> were issued with placement on the domestic capital market in kuna counter value of EUR 200 million with a 3-year maturity and with fixed annual interest rate of 6.5%. Interest on bonds will be paid semi-annually, starting with March 20, 2002, and the principal will be fully paid upon maturity (September 20, 2004). Bonds were placed through lead managers Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb.

Bonds – Series 02 D-08<sup>17</sup> were also issued through placement on domestic market in kuna counter value amount of EUR 200 million, with a 7-year maturity and with fixed interest rate of 6.875% per annum. Interest will be paid semi-annually, starting with June 14, 2002, and the principal will be fully paid upon maturity (December 15, 2008). Bonds were placed through lead manager: Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb.

<sup>16</sup> The Official Gazette No. 80/01

<sup>17</sup> The Official Gazette No. 112/01

**Table 6.5: Internal Debt Amortization (in HRK Million)**

	2002	2003	2004	2005	2006	2007
<b>Amortization of Principal</b>	<b>1,442.61</b>	<b>2,245.13</b>	<b>4,612.09</b>	<b>2,833.78</b>	<b>556.73</b>	<b>593.66</b>
Frozen foreign currency savings	1,012.72	1,012.72	1,012.72	653.65	0.00	0.00
Big bonds I	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	45.99	49.31	52.84	56.60	60.58	64.78
Big bonds III	41.12	44.15	47.39	50.85	54.61	58.59
BRA bonds - Series I	110.99	117.77	124.92	132.51	140.47	148.80
BRA bonds - Series II	18.79	19.75	20.71	21.74	22.85	24.03
BRA bonds - Series III	42.67	45.77	49.16	52.77	56.60	60.80
BRA bonds - Series IV	25.72	26.97	28.37	29.77	31.32	32.87
BRA bonds - Series Va	3.10	3.24	3.46	3.69	3.91	4.13
BRA bonds - Series Vb	141.50	151.60	162.36	173.93	186.39	199.65
Bonds - Series 01 D-04	0.00	0.00	1,474.01	0.00	0.00	0.00
Bonds - Series 01 D-08	0.00	0.00	0.00	0.00	0.00	0.00
HZZO Bonds	0.00	0.00	1,636.15	0.00	0.00	0.00
DAB bonds for secured deposits I	0.00	773.85	0.00	0.00	0.00	0.00
DAB bonds for secured deposits II	0.00	0.00	0.00	1,658.26	0.00	0.00
<b>Interest payments</b>	<b>1,086.27</b>	<b>1,008.00</b>	<b>864.95</b>	<b>547.15</b>	<b>354.20</b>	<b>317.21</b>
Frozen foreign currency savings	169.36	119.32	69.28	19.24	0.00	0.00
Big bonds I	86.97	86.97	86.97	86.97	86.97	86.97
Big bonds II	44.59	41.27	37.73	33.90	29.85	25.57
Big bonds III	43.85	40.83	37.59	34.12	30.36	26.38
BRA bonds - Series I	44.88	38.69	30.95	23.36	15.40	7.08
BRA bonds - Series II	12.38	11.42	10.39	9.36	8.25	7.08
BRA bonds - Series III	45.47	42.30	38.99	35.38	31.47	27.34
BRA bonds - Series IV	16.95	15.62	14.22	12.82	11.35	9.73
BRA bonds - Series Va	1.25	1.03	0.88	0.66	0.44	0.22
BRA bonds - Series Vb	83.58	73.55	62.87	51.15	38.77	25.50
Bonds - Series 01 D-04	95.81	95.81	95.81	0.00	0.00	0.00
Bonds - Series 01 D-08	101.34	101.34	101.34	101.34	101.34	101.34
HZZO Bonds	139.07	139.07	139.07	0.00	0.00	0.00
DAB bonds for secured deposits I	61.91	61.91	0.00	0.00	0.00	0.00
DAB bonds for secured deposits II	138.85	138.85	138.85	138.85	0.00	0.00
<b>Total repayment</b>	<b>2,528.88</b>	<b>3,253.13</b>	<b>5,477.04</b>	<b>3,380.93</b>	<b>910.94</b>	<b>910.86</b>

Exchange rate: Mean exchange rate of CNB as of December 31, 2001

Source: The Ministry of Finance

## 6.2.2. Treasury Bills

During 2001, 53 treasury bills auctions were held. The total amount of issued treasury bills on December 31, 2001 was HRK 4,892.3 million, whereas at the end of 2000 unredeemed bills amounted to HRK 2,564.6 million. This trend of increased demand for entry of treasury bills for as long maturity as possible with a constant drop in treasury bills, which commenced as early as in 2000 and continued in 2001 was a result of high liquidity in the system and growing trust in a stable domestic currency. The trend of outstanding debt of treasury bills is shown in Figure 6.1.

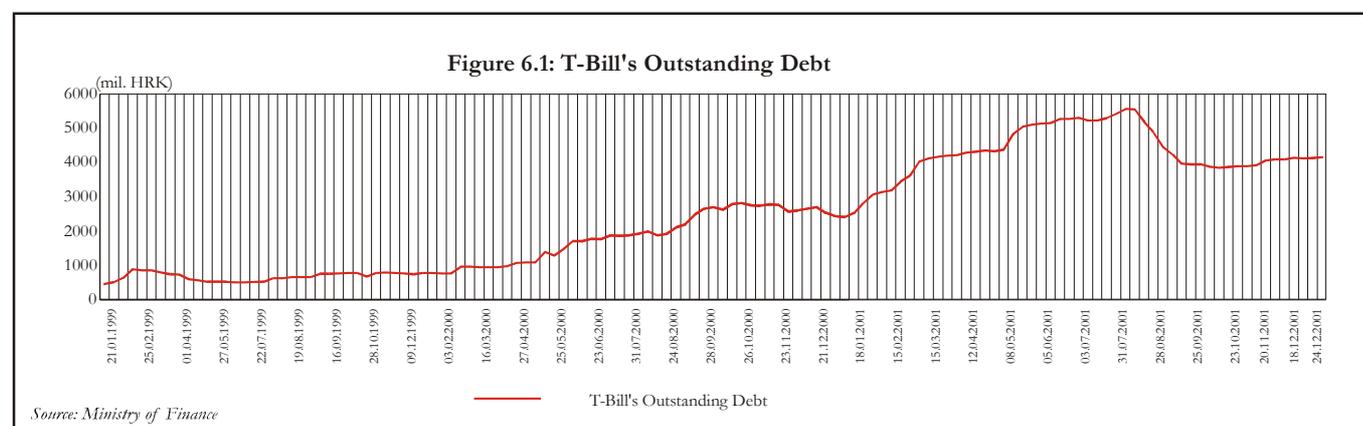
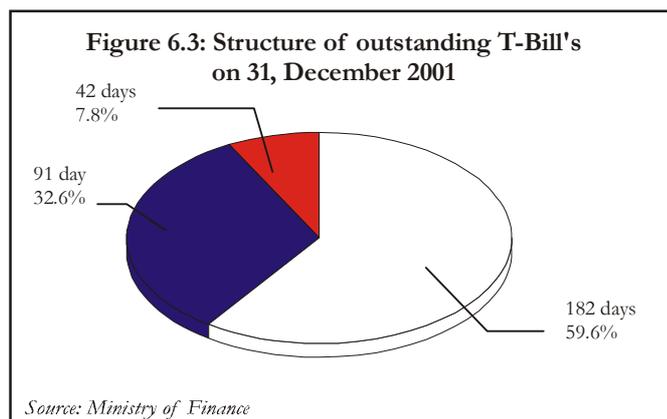
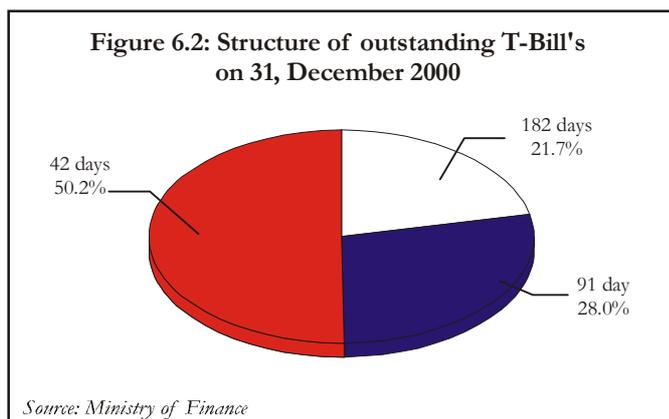
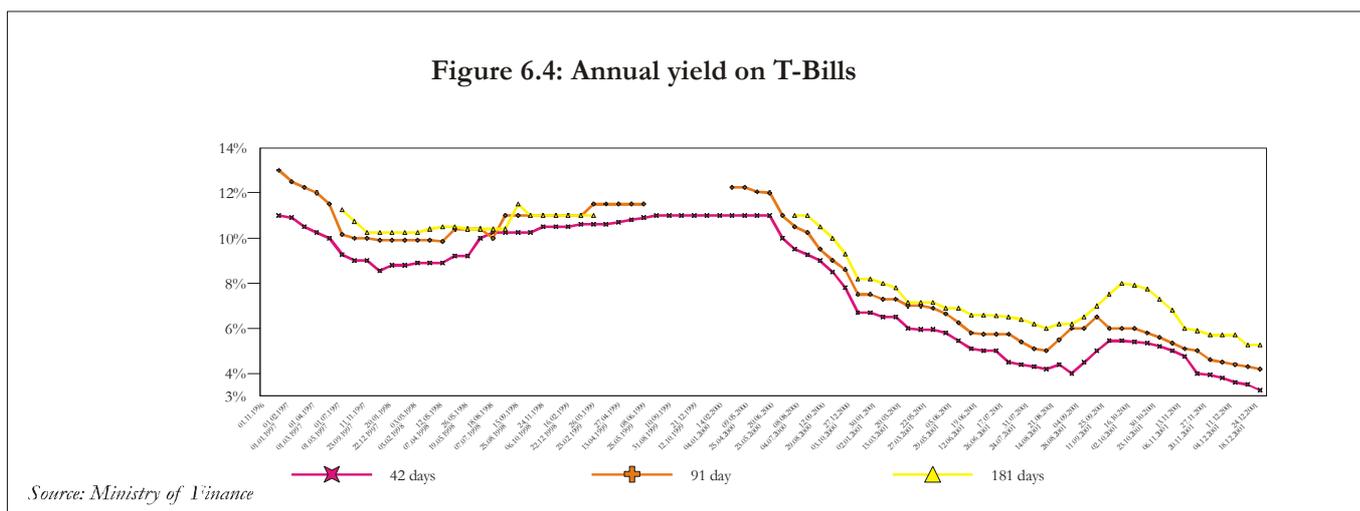


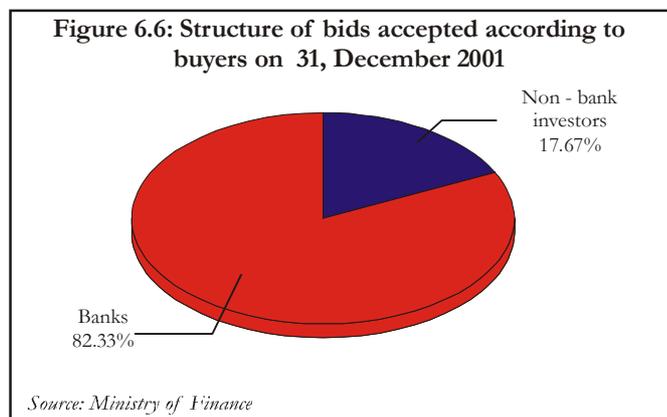
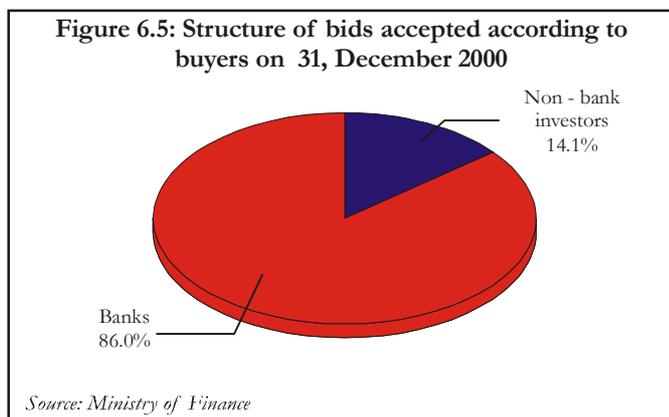
Figure 6.2. presents the structure of outstanding treasury bills on December 31, 2000, whereas Figure 6.3. shows the structure of T-bills on December 31, 2001. During 2001 the structure of maturity was changed as to the treasury bills with longer maturity. At the end of 2000 there were 50% of the total entered treasury bills with 42-day maturity, whereas at the end of 2001 this percentage dropped to 8% of entered treasury bills. At the end of 2001, 59% of the total entered treasury bills were entered with a 182-day maturity, and a year earlier only 22%.



As shown in Figure 6.4., interest rate on treasury bills during 2001 recorded a constant drop (except for a short stoppage in the drop in August and September), whereas at the end of the year it amounted to 3.25% for a 42-day maturity, 4% for a 91-day maturity, and 5% for a 182-day maturity. Compared with the period at the end of 2000 and 2001, the drop in treasury bills was between 320 and 350 basis points, depending on maturity (42, 91, and 182 days). This significant drop in treasury bills was a result of high demand for purchase of treasury bills, which at specific auctions was several times as high as the amount of the issue, which was primarily conditioned by a high kuna liquidity of the banking system.



During 2001 there were no significant changes in the structure of buyers of treasury bills in comparison with 2000, which is visible from Figures 6.5. and 6.6. High liquidity of the banking system throughout the year conditioned that banks accounted for approximately 83% of buyers of treasury bills.



### 6.3. EXTERNAL PUBLIC DEBT OF THE REPUBLIC OF CROATIA

The total external debt of the Republic of Croatia at the end of 2001 amounted to USD 5,132.6 million, or approximately USD 304.2 million more than at the end of 2000 godine. In terms of the structure, 71.64% of the total external public debt was the debt on issued bonds, whereas the remainder was debts towards international financial institutions (IBRD, EBRD, CEB, and EIB) and other creditors. Relations of the Republic of Croatia with international financial institutions are describe din more detail in Chapter 6.4.

**Table 6.6: External Public Debt of the Republic of Croatia, End-of-Year Status**

(in USD million)	December 31, 2000	December 31, 2001
<b>Bonds issues</b>	<b>3,141.2</b>	<b>3,677.1</b>
<b>Bonds</b>	1,885.8	2,571.1
London Club*	1,255.4	1,106.0
<b>Paris Club**</b>	<b>195.9</b>	<b>177.3</b>
<b>International financial organizations</b>	<b>494.2</b>	<b>547.1</b>
IBRD	393.7	446.3
EBRD	34.0	30.0
CEB	24.0	36.0
EIB	42.5	34.8
<b>Other</b>	<b>997.1</b>	<b>731.1</b>
<b>TOTAL</b>	<b>4,828.4</b>	<b>5,132.6</b>

\* total debt (allocated and non-allocated debt)

\*\* non-allocated debt (28.49%)

Source: HNB, The Ministry of Finance

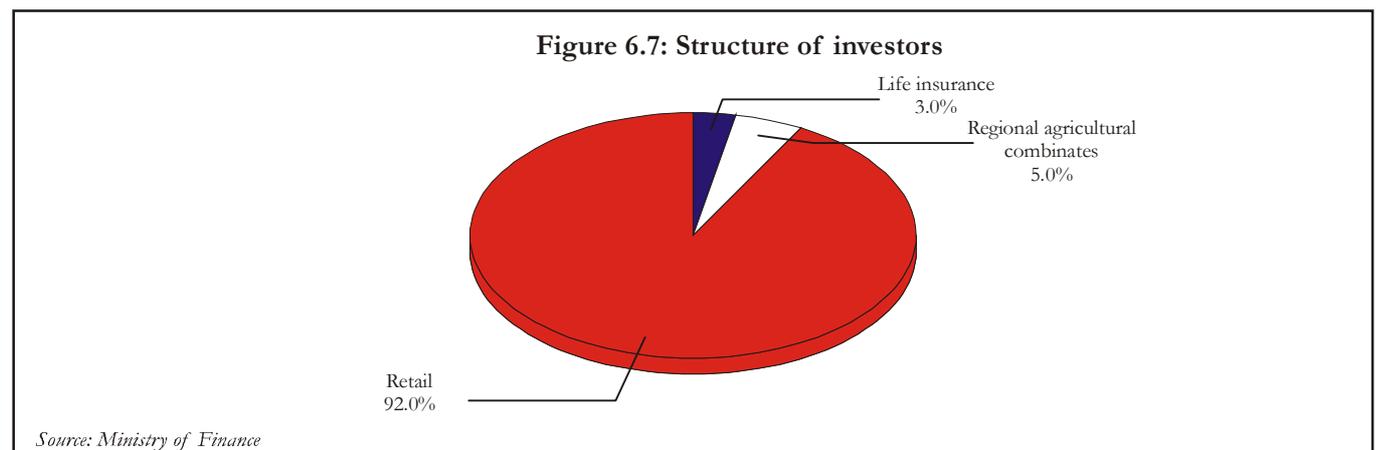
#### 6.3.1. International Bonds of the Republic of Croatia

At the end of 2001 there were a total of 10 bonds issued by the Republic of Croatia in the world markets, and the overall list with terms of issue is shown in table 6.7. The table indicates that every new issue of Croatian bonds has lower interest rate, which means that the Republic of Croatia borrows under more favorable terms in the international market. In 2001 the matured Matador bonds were repaid, which had been issued in March 1998.

Due to the execution of expenditures envisaged by the budget, in 2001 the Republic of Croatia borrowed by issuing Euro-bonds and Samurai bonds. The debt amount was used for current repayments of principals of outstanding credits maturing in 2001.

In February 2001 the third series of Samurai bonds<sup>18</sup> was issued, amounting to JPY 25 billion, with maturity on February 23, 2006 godine. Bonds were issued with an annual interest warrant of 2.5%, which was by 152 b.p. above the five-year YEN-LIBOR-a. Interest on bonds will be paid semi-annually, and the principal will be fully repaid upon maturity.

Principal coordinator of the issue was Daiwa SBCM, and the issue was monitored by a five-bank syndicate. The issue structure according to the type of investor is shown in Figure 6.7.

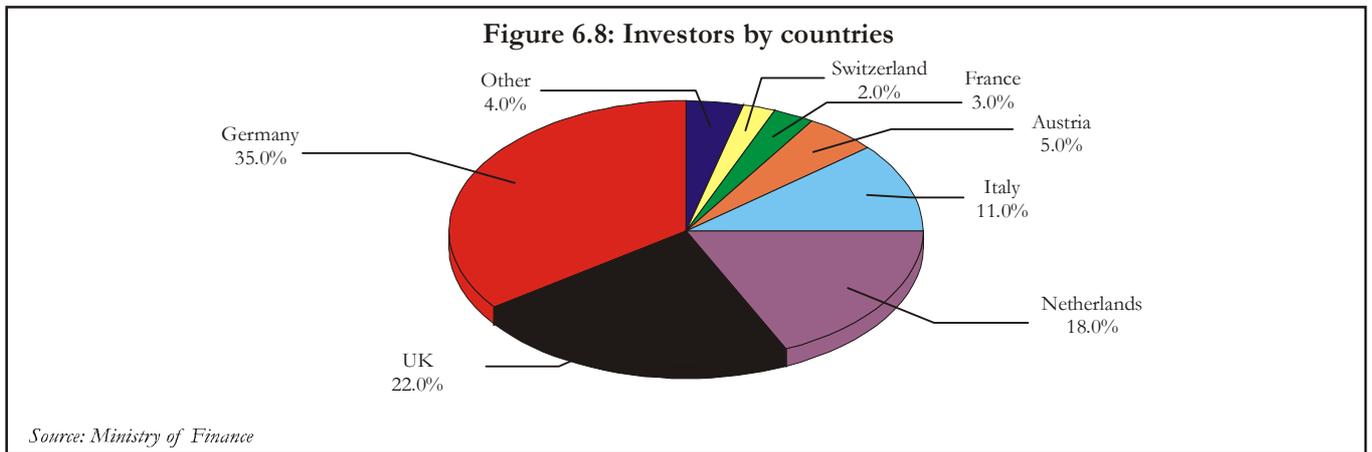


In March 2001 the Republic of Croatia issued Euro-bonds<sup>19</sup>, amounting to EUR 500 million, with maturity on March 14, 2011. Bonds were issued with an interest rate of 6.75% per annum, or with a 2.15-percent premium above the corresponding ten-year German bonds. Interest on bonds will be paid once a year, and the principal will be fully paid upon maturity.

<sup>18</sup> The Official Gazette No. 13/01

<sup>19</sup> The Official Gazette No. 20/01

Principal coordinators of the issue were J.P. Morgan and Deutsche Bank, and the issue was monitored by a syndicate of 10 banks. Figure 6.8 illustrates the structure of investors according to countries.



This very successful issue of Euro-bonds increased in July by issuance of bonds worth EUR 250 million<sup>20</sup>. Bonds were issued at the price of 98.875% of nominal amount, with an annual interest rate of 6.75% and maturity on March 14, 2011.

---

<sup>20</sup> The Official Gazette No. 62/01

**Table 6.7: An Overview of International Bonds Issued by the Republic of Croatia**

<p><b>London Club Series A:</b>                  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: July 31, 2010</p>	<p><b>London Club Series B:</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                  Maturity: July 31, 2006</p>
<p><b>Euro-dollar bonds:</b>                  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: February 27, 2002</p>	<p><b>Euro-DEM bonds:</b>                  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: July 16, 2004</p>
<p><b>Matador Bonds:</b>                  ESP 15 billion                  3 years, 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  <b>These bonds were fully redeemed upon maturity</b></p>	<p><b>Euro-EUR bonds:</b>                  EUR 300 million                  7 years, bullet                  7,375 % coupon                  (375 b.p. above seven-year German Bund)                  Led by: Credit Suisse and Dresdner Kleinwort Benson                  Listing: Luxembourg                  Date of issue: February 23, 1999                  Maturity: March 10, 2006</p>
<p><b>Samurai bond/I:</b>                  JPY 25 billion                  5 years, bullet                  4% coupon                  (310 b.p. above five-year Yen LIBOR)                  Led by: Daiwa securities SB                  Listing: Tokio                  Date of issue: December 14, 1999                  Maturity: December 14, 2004</p>	<p><b>Euro-EUR bonds:</b>                  EUR 500 million                  5 years, bullet                  7 % coupon                  (210 b.p. above five-year German Bund)                  Led by: Dresdner Kleinwort Benson                  Listing: Luxembourg                  Date of issue: March 28, 2000                  Maturity: March 28, 2005</p>
<p><b>Samurai bond/II:</b>                  JPY 40 billion                  7-year, bullet                  3% coupon                  (135 b.p. above seven-year Yen LIBOR)                  Led by: Daiwa securities SB                  Listing: Tokio                  Date of issue: July 11, 2000                  Maturity: July 11, 2007</p>	<p><b>Samurai bond/III:</b>                  JPY 25 billion                  5-year, bullet                  2.5% coupon                  (152 b.p. above five-year Yen LIBOR)                  Led by: Daiwa securities SB                  Listing: Tokio                  Date of issue: February 6, 2001                  Maturity: February 23, 2006</p>
<p><b>Euro-EUR bonds:</b>                  EUR 750 million                  10-year, bullet                  6.75 % coupon                  (215 b.p. above ten-year German Bund)                  Led by: JP Morgan and Deutsche Bank                  Listing: Luxembourg                  Date of issue: March 6, 2001                  Maturity: March 14, 2011</p>	

Source: The Ministry of Finance

**Table 6.8: International Bonds Issued by the Republic of Croatia**

	Cur.	Amount issued in original currency	Amount in USD*	2001	2002	2003	2004	2005	2006	2007	2008	2009.	2010.	2011.
London Club Series A	USD	857,796,000	857,796,000	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				21,288,937	19,105,456	16,921,976	14,738,495	12,555,014	10,371,533	8,188,053	6,004,572	3,821,091	1,637,611	0
London Club Series B	USD	604,426,000	604,426,000	71,331,120	71,331,120	83,219,640	83,219,640	83,219,640	83,219,640					
– coupon: 6m LB+13/16				12,815,825	10,818,553	8,738,062	6,407,912	4,077,762	1,747,612					
EuroUSD	USD	300,000,000	300,000,000	0	300,000,000									
– coupon: 7%				21,000,000	10,500,000									
EuroDM	DM	300,000,000	135,287,851	0	0	0	135,287,851							
– coupon: 6,125 %				8,286,381	8,286,381	8,286,381	8,286,381							
Matador	ESP	15,000,000,000	77,095,762	77,095,762										
– coupon: 6,50%				5,011,225										
EURO bond	EUR	300,000,000	264,600,003	0	0	0	0	0	264,600,003					
– coupon: 7,375%				19,514,250	19,514,250	19,514,250	19,514,250	19,514,250	19,514,250					
Samurai bond/I	JPY	25,000,000,000	190,348,769	0	0	0	190,348,769							
– coupon: 4%				7,613,951	7,613,951	7,613,951	7,613,951							
EURO bond	EUR	500,000,000	441,000,004	0	0	0	0	441,000,004						
– coupon: 7%				30,870,000	30,870,000	30,870,000	30,870,000	30,870,000						
Samurai bond/II	JPY	40,000,000,000	304,558,031	0	0	0	0	0	0	304,558,031				
– coupon: 3%				9,136,741	9,136,741	9,136,741	9,136,741	9,136,741	9,136,741	9,136,741				
Samurai bond/III	JPY	25,000,000,000	190,348,769	0	0	0	0	0	190,348,769					
– coupon: 2,5%				2,379,360	4,758,719	4,758,719	4,758,719	4,758,719	2,379,360					
EURO bond	EUR	500,000,000	661,500,007	0	0	0	0	0	0	0	0	0	0	661,500,007
– coupon: 6,75%					44,651,250	44,651,250	44,651,250	44,651,250	44,651,250	44,651,250	44,651,250	44,651,250	44,651,250	44,651,250
Amortization	USD			226,408,337	449,312,575	161,201,095	486,837,715	602,201,099	616,149,866	382,539,485	77,981,454	77,981,454	77,981,454	661,500,007
Interest payments	USD			137,916,669	165,255,302	150,491,331	145,977,700	125,563,738	87,800,747	61,976,044	50,655,822	48,472,342	46,288,861	44,651,250
Total debt service	USD			364,325,006	614,567,877	311,692,426	632,815,415	727,764,837	703,950,613	444,515,529	128,637,276	126,453,796	124,270,315	706,151,257
Stock (end of year)	USD			3,593,686,204	3,144,373,629	2,983,172,534	2,496,334,819	1,894,133,719	1,277,983,853	895,444,369	817,462,915	739,481,461	661,500,007	0

Exchange rate: December 31, 2001

6m USD LIBOR 1.98 (December 31, 2001)

Source: The 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)

In 2001 the framework and directions of cooperation of the Republic of Croatia with the International Bank for Reconstruction and Development were mostly determined by defining the development policy and deepening the commenced structural reforms. The Government had established its priority economic objectives by the Program of Work of the Government of the Republic of Croatia for the period from 2000 to 2004, namely: (1) preservation of the macroeconomic stability, (2) preparation and implementation of structural reforms in the real, financial, and public sector aimed at cuts in public expenditures, (3) accelerated restructuring and privatization of public enterprises and banks, (4) strengthening of the private sector and entrepreneurship in the economy, (5) financing of development and infrastructure, and (6) increasing the standard of living and employment of population. Cooperation with the IBRD developed on the basis of the Program of Work of the Government and in line with the programmatic document "Country Assistance Strategy-CAS"<sup>21</sup>, which includes the program of financial support for four fiscal years (1999 – 2002). The Government of the Republic of Croatia initiated activities on the development of the amendment to the Country Assistance Strategy – Croatia, which will include the period from 1999 to 2003<sup>22</sup>. On the basis of this amended Strategy, until the end of 2003 IBRD intends to support the structural adjustment program in Croatia by loans totaling USD 282 million. The support to the reform program the World Bank provided technical and advisory assistance. In 2001 it developed four analytical studies on Croatia: 1. Economic Vulnerability and Social Welfare Study (April 2001), 2. Administrative Barriers to Foreign Investments (April 2001), 3. Regaining Fiscal Sustainability and Enhancing Effectiveness: Public Expenditure and Institutional Review (June 2001), and 4. Corporate Governance Assessment for Croatia (July 2001). The studies mentioned above, among other things, contributed for the Government of the Republic of Croatia to opt for faster deepening of second-generation reforms (including: improvements in coordination and developing economic policy, increasing fiscal discipline and financial stability, strengthening market institutions and competitiveness of the economy, increasing the flexibility on the labor market, strengthening the social protection program and environmental sustainability).

#### *New Loans and Grants Approved in 2001*

For purpose of implementation of projects in Croatia in 2001, the International Bank for Reconstruction and Development approved two new long-term loans totaling USD 207 million (a Loan Agreement was concluded for a USD 5 million for the Bankruptcy Administration Project and the Loan Agreement for the Structural Adjustment Loan amounting to USD 202 million), three new grants worth USD 525,000 and GBP 352,800, as well as six small grants amounting to USD 30,000 under the Small Grants Program<sup>23</sup>.

#### *Loan for Bankruptcy Administration Project (No.: 46130-HR)*

A new USD 5 million loan for the financing of the Bankruptcy Administration Project was concluded on July 3, 2001, whereas the Law on the Ratification of the Loan Agreement was enacted on November 28 and published on December 27, 2001<sup>24</sup>. Before the end of the year the Loan did not become operational, nor were the loan proceeds disbursed. The preparations for the Project began in 2000 with the aim of implementation of a long-term program of legal and judicial reform and strengthening the confidence in the Croatian legal system. The Project supports modernization and informatization of the judiciary as support to the establishment of the framework for an efficient protection of ownership and encouraging investments in the economy. The main objective of the Project is to increase the efficiency of commercial courts in the area of bankruptcies in order to create as good conditions as possible for resolving problems of illiquid companies and banks.

The Project is comprised of five components: 1. a commercial court administration and case management model 2. legal information system, 3. regulatory framework for trustees in bankruptcy and bankruptcy administrators, 4. capacity building of commercial court judges and trustees and bankruptcy administrators, and 5. illiquidity and legal services framework. The overall costs of the implementation of the Project are estimated at USD 7 million, to be financed by 1. IBRD Loan amounting to an equivalent of USD 5 million, 2. through technical assistance of the United States Agency for International

<sup>21</sup> IBRD, together with the Government of the Republic of Croatia, started preparing CAS in 1998, and the Board of Executive Directors of the Bank adopted it on June 3, 1999. This Strategy stressed the importance of preservation of macroeconomic and fiscal stability. It advocated: 1. the establishment and implementation of further structural reforms program aimed at reducing public costs (through implementation of reforms in the public sector, particularly in the pension, health, and judicial systems), 2. introduction of new budgetary techniques and setting up of a system of better management and control of spending budgetary resources; 3. progress in the sphere of restructuring and privatization of public enterprises and commenced reforms of the banking sector, with better control and supervision of operations of banks and financial institutions, and 4. more rational investments into infrastructure.

<sup>22</sup> CAS update was completed on August 22, 2001 and reviewed by the Board of Executive Directors of the Bank on September 19, 2001.

<sup>23</sup> The World Bank Small Grants Program finances activities of non-governmental and non-profit organizations and associations of citizens dealing with issues of development, social problems, environmental protection, and private sector development. The Program supports conferences, workshops, seminars, stipends, study programs, costs of publicizing various publications and other promotional materials which small civil society organizations cannot finance from their regular budgets. The maximum amount of awarded IBRD grants is USD 15 thousand, usually USD 3 - 7 thousand.

<sup>24</sup> The Law on the Ratification of the Loan Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development for the Court and Bankruptcy Administration Project (the Official Gazette – International Agreements, No. 14/01).

Development (USAID) of USD 1.25 million, and 3. budgetary resources of the Republic of Croatia of USD 750,000. The Loan was granted under IBRD's standard financial terms<sup>25</sup>: 15-year maturity, 5-year grace period, with a variable LIBOR-based interest rate applied on six-month USD deposits, increased by spread, front-end of 1% loan (amounts: USD 50,000) payable from loan resources on the day of effectiveness of the Loan and a 0.75% commitment fee for undisbursed loan amount<sup>26</sup>. According to agreement it is possible to utilize the Loan resources for the implementation of the Project until July 31, 2005.

### ***Structural Adjustment Loan (SAL-No. 46410-HR)***

The Structural Adjustment Loan - SAL amounting to USD 202 million was concluded between the Republic of Croatia and IBRD in Zagreb on December 5, 2001, following the negotiations with IBRD (June 2001) and signing of the Letter of Development Policy of the Government of the Republic of Croatia (October 2001). This Loan is a financial support to the Government's structural and institutional reform program and a complement to the macroeconomic program supported by the International Monetary Fund with a 14-month Stand-by Arrangement of 200 million SDR - Special Drawing Rights, approved on March 19, 2001.

The primary objective of SAL is a successful implementation of reforms aimed at achieving sustainable development of the Republic of Croatia and strengthening its macroeconomic stability, thus enabling its easier and faster integration into the EU.

IBRD's SAL supports the implementation of the following five areas covered by the Government's reform agenda:

- improvement of coordination and governance in developing the Government's economic policy,
- strengthening fiscal discipline, including improvements in budgetary process (amendments to the Budget Law), reducing direct and elimination of indirect subsidies, defining the criteria for approval of Government guarantees, as well as the improvements in the health and pension systems to achieve stronger fiscal discipline,
- strengthening market institutions and competitiveness of the economy for purpose of increasing the flexibility and efficiency of the economy, and also removing administrative barriers for domestic and foreign direct investors,
- increasing the flexibility of the labor market with a view to resolving unemployment and facilitation of enterprise restructuring, and
- strengthening social protection in order to alleviate social consequences of reform measures envisaged by the Government's structural reform agenda.

SAL has been agreed at 15 year maturity (includes a 5-year grace period), a variable interest rate (LIBOR on six-month USD deposits increased by spread), front-end fee accounting for 1% of the Loan (amounting to USD 2,020,000.00) payable from the loan resources on the day of effectiveness and a 75-percent fee for undisbursed portion of the Loan (commitment fee). The Loan is disbursed through a deposit account opened in the Croatian National Bank in USD, by disbursing two tranches: the first one, amounting to USD 102,000,000.00 (paid after the effectiveness of the Loan Agreement, and the second one, amounting to USD 100,000,000.00 (after meeting a number of conditionalities defined by the Loan Agreement). Originally it was agreed that Loan resources would be disbursed no later than March 31, 2003, i.e., prior to the agreed closing date of the Loan. Resources of this Loan were not withdrawn in 2001, as it was concluded at the beginning of December 2001 and did not become operational before the end of the year.

### ***Social Protection Project Grants***

IBRD, as an administrator of grant funds provided by its developed member countries, approved for Croatia two grants for the preparation of a reform strategy and a new project in the social protection sector.

1. A USD 200,000 Grant Agreement for the preparation of the Social Protection Project was concluded on March 30, 2001 between the Government of the Republic of Croatia and IBRD<sup>27</sup>. The beneficiary of funds of this Japanese grant will be the Ministry of Labor and Social Welfare until March 31, 2002 (the Grant losing date) for the payment of consultant services required for the preparation of the rationalization of the current social assistance system - the main objective of the Project – and creation of a new system of monitoring and evaluation of the impact of social policy on poor persons, and introduction of internationally recognized poverty measuring methodology.

---

<sup>25</sup> In line with the IBRD policy to award loans to borrowers at terms tied to economic power of the member country, the Republic of Croatia was placed into the second group of countries, which includes member countries in which GNP per capita is between USD 3,031 and 5,280.

<sup>26</sup> Effective commitment fee will be 0.25% because the Executive Directors of the International Bank for Reconstruction and Development approved a 5-percent reduction in the fee during the current fiscal year.

<sup>27</sup> Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the Social Protection Project Grant (the Official Gazette-International Agreements, No. 8/01).

2. IBRD also supports the Social Protection Project through a GBP 352,800 Grant provided by the Department for International Development of the United Kingdom of Great Britain and Northern Ireland<sup>28</sup>. The Grant is aimed at providing technical assistance: 1. in the preparation of the strategy of reform of social welfare and social assistance cash benefits, 2. defining of the labor policy and employment (including the recommendations for the former social assistance beneficiaries to return to the labor market), 3. for administrative reforms, development of information technology, and data bases, 4. establishing procedures to be applied in pilot projects, and 5. Project management. The Ministry of Labor and Social Welfare is competent for the implementation of grants and accomplishing of its objectives. Grant funds may be used until June 30, 2003 for payment of consultant services and trainings and workshops under the Project.

### ***Environmental Protection Grant***

IBRD approved financial support to the environmental protection sector – for the preparation of the Coastal Water Pollution Protection Project for the Government of the Republic of Croatia with a Japanese grant amounting to USD 325,000 for the implementation of the Coastal Water Pollution Protection Project<sup>29</sup>. Pursuant to the Grant Agreement concluded on July 9, 2001, the Grant will be used by the State Water Administration until May 31, 2003 for the payment of consultant services under the following activities:

- assessment of the financial and technical capacities of water management companies and regional institutions for wastewater management, establishing priorities for the coastal water pollution protection and monitoring of wastewater discharge,
- preparation of the preliminary Republic of Croatia Coastal Water Pollution Master Plan, and
- preparation of independent financial audits of all activities to be financed by Grant resources.

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

In 2001 the preparations for the following loans were completed:

- loan for Pension System Investments and pension system reform
- loan for Bankruptcy Administration Project
- loan for Cadastre and Land Register Modernization Loan
- activities were completed related to projects of restructuring of the energy sector (electric power supply and gas production and supply), development of a social protection program, 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, investments in coastal municipal water supply systems, structural adjustment program in agriculture (ASAL), as well as other projects proposed to the IBRD to be financed by loans in the period until 2004.

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

In the period from 1994 to 2001 IBRD granted 21 long-term loans for financing of programs and projects in the Republic of Croatia. The Republic of Croatia concluded 16 loans directly with IBRD (public loans)<sup>30</sup>, whereas Croatian banks concluded 5 loans with Government guarantees<sup>31</sup> for the financing of two projects. All those loans, together with the Project Preparation Facility (P-3580-HR of USD 1.76 million) for pension system investments and inherited over old loan for Istria Water Supply Project (approved in 1990, taken over in 1994 with the guarantee of the Republic of Croatia<sup>32</sup>), on the basis of which funds were still withdrawn in the beginning of 2001, together make up a total of over USD 580 million and EUR

---

<sup>28</sup> Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the UK Grant for the Social Protection Project was not published until the end of 2001.

<sup>29</sup> The Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development about the Japanese Grant for the Coastal Water Pollution Protection Project (the Official Gazette- International Agreements, No. 10/2001).

<sup>30</sup> Out of seventeen concluded loans, five loans were utilized and closed (loans for financing the following: Emergency Reconstruction Project, Health Project, Capital Markets Development Project, Technical Assistance Project, and Istria Waterworks Project), nine loans + a Project Preparation Facility are effective and may be used, whereas the last concluded loans for Bankruptcy Administration Project and Structural Adjustment Loan have not become operational before the end of December 2001.

<sup>31</sup> For the financing of Investment Recovery Project a total of DEM 52 million was approved for the borrowers - banks (Varaždinska banka d.d. DEM 13.9 million, Dalmatinska banka d.d. DEM 15.6 million, Slavonska banka d.d. DEM 17.3 million, and Alpe Jadran banka d.d. DEM 5.2 million), which concluded loans with a guarantee of the Republic of Croatia. Alpe Jadran Banka d.d. cancelled DEM 1,901,123.00 in July 2000, whereas Varaždinska banka d.d. cancelled DEM 6,488,486.31 in September 2001. Those loans were converted in EUR on November 30, 2001 and now total EUR 22,297,638.70. HBOR, also with a guarantee of the Republic of Croatia, concluded a loan of DEM 65 million for the Municipal Environmental Infrastructure Program which, after conversion into EUR, totaled EUR 33,233,972.28.

<sup>32</sup> Loan No. 30690-HR, granted in the amount of USD 28 million, was taken over on the basis of the Law on Ratification of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement on the Takeover of the Loan between the Republic of Croatia and the International Bank, concluded on February 25, 1993 (the Official Gazette - International Agreement, No. 7/1994). In January 2001 the undisbursed amount of USD 1,983,710.78 was cancelled and the loan was closed.

359.78 million. In the period from 1994 to 2001<sup>33</sup>, a total of USD 322.10 million was utilized until December 31, 2001 (57.26% of the total amount of loans in USD) and EUR 221.33 million (61.52% of loans in EUR).

On December 31, 2001 the total unwithdrawn loan resources amounted to USD 247.90 million (42.74% of loans in USD) and EUR 138.45 million (38.48% of loans in EUR). Those loan resources will be used for financing of the projects and programs according to agreed time frames, i.e., in the period from 2002 to 2006.

On December 31, 2001 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 2001 amounted to USD 264.61 million and EUR 221.03 million. However, the remaining debt of USD 5,849,849.94 million from inherited loans<sup>34</sup> should be added to this debt, so that the overall debt in all loan categories on December 31, 2001 amounted to USD 270.46 million and EUR 221.03 million.

All matured obligations toward IBRD against the inherited loans (4 loans) and new loans (19 loans) were paid regularly and in a timely manner<sup>35</sup>. The Government budget provided resources for direct payment of obligations against 13 public new loans and obligations against 3 inherited loans used for financing of roads and water supply. The repayment of those obligations was secured from the Government budget<sup>36</sup>. On the basis of a guarantee of the Republic of Croatia, a due interest and fee was paid in the total amount of EUR 83,092.28 against the loan No. 42490-HR (obligation of Alpe Jadran Banka d.d. – under bankruptcy, Split) because the debtor could not pay for them on time.

Obligations against the loan for the Health Project were paid for by the Health Insurance Fund<sup>37</sup>. Due interest and fees for loans for Investment Recovery Project<sup>38</sup> and Municipal Environmental Infrastructure Program<sup>39</sup>, obtained with the guarantee of the Republic of Croatia, were paid for by three commercial banks and HBOR (borrowers).

Interests on loans in German marks were paid for at the annual rate ranging from 3.71% to 4.97 %. Interests on loans obtained in American dollars were paid for at the rate of 5.01 % and 5.21% for currency pool loans, whereas for single currency loans interests were paid in the range from 4.31 % to no more than 6.93 %. Interests at the annual rates of 4.38% to 4.9% were paid against loan agreements in EUR.

Commitment fees for unutilized principals of loans were 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 from July 1, 2000 to June 30, 2001 (IBRD fiscal year), savings were made on the basis of interest partial waiver on public loans amounting to a total of USD 249,487.29 and EUR 180,555.74 <sup>40</sup>.

During 2001 a total of USD 10.14 million and EUR 72.04 million was disbursed from the available IBRD loan resources (public loans and loans guaranteed by the Government). Table 6.10 illustrates the withdrawal of resources of loans for the implementation of projects. Implementation of agreed projects and programs, with certain delays in withdrawal of some loans (in the agriculture and railway sectors and also reconstruction of the Croatian Danube region and investments into local infrastructure and environmental protection), was performed in concordance with capacities of project implementation units, dynamics of works, procurement procedures, possibilities of meeting the agreed conditions for withdrawal of loans and provided domestic financial resources. In 2001 funds were cancelled from three IBRD loans totaling: (1.) USD 3,983,710.78 (USD 2 million from the loan No. 39880-HR for the private sector development in agriculture and USD 1,983,710.78 from the inherited loan No. 30690. HR for Istria Waterworks), as well as (2.) DEM 6,488,486.31 (from loan No. 42460-HR which Varaždinska banka d.d. concluded with the IBRD, with a guarantee of the Government of the Republic of Croatia, for financing private sector investments). Also, deadlines were extended for the completion of the Farmer Support Services

<sup>33</sup> Resources of two approved loans totaling USD 207 million (for the Bankruptcy Administration Project and SAL - Structural Adjustment Loan) were not available for use during 2001.

<sup>34</sup> The Republic of Croatia, as part of the procedure for obtaining membership in the IBRD (February 25, 1993 it became a full member) took over 7.6% of outstanding debts of the former Yugoslavia towards IBRD on the basis of 17 loans of Croatian beneficiaries. From 1994 to 2001, 15 inherited loans were fully repaid. During 2001 the last installments were paid for the two loans: (1.) Varaždinka d.d., Varaždin repaid installments of the loan No. 2790-9 HR of USD 1,303,485.64, concluded in 1998 for the Environmental Protection and Energy Savings Project; (2.) from resources of the Government budget of the Republic of Croatia for 2001 installments were paid for the taken over loan No. 2715-1 HR, concluded in 1987, amounting to USD 33,378,000 for the road construction project. The outstanding debt against two inherited loans amounted to USD 5,849,849.94, with maturity in 2004.

<sup>35</sup> According to the received IBRD's calls for payment and agreed repayment schedules of all concluded loans, during 2001 the following total payment was made to IBRD: DEM 1,146,179.89 (interest and fees), USD 30,122,868.10 (the principal + interest + fees) and EUR 14,039,615.90 (the principal + interest + fees). Out of the total paid amounts, Government budget provided funds for payment of liabilities against 13 new public loans and 3 inherited loans in the total as follows: USD 25,689,514.16 (the principal + interest + fees) and EUR 13,478,019.04 (the principal + interest + fees).

<sup>36</sup> Government budget of the Republic of Croatia for 2001 and the Law on the Execution of the Government Budget of the Republic of Croatia for 2001 (the Official Gazette, Nos.130/00 and 95/01).

<sup>37</sup> In 2001 Health Insurance Fund paid a total of USD 4,355,609.54 (the principal + interest) against the loan of USD 38.92 million for the Health Project.

<sup>38</sup> In 2001 three commercial banks paid a total of DEM 282,530.73 and EUR 364,243.36 for payment of due interest and fees against loans for Investment Recovery Project.

<sup>39</sup> In 2001 the Croatian Bank Reconstruction and Development (HBOR) paid DEM 325,594.16 and EUR 472,985.38 (interest + fees) against a EUR 33.23 million loan (converted loan of DEM 65 million) agreed for financing of the Municipal Environmental Infrastructure Project (MEIP).

<sup>40</sup> IBRD approves a reduced interest only to debtors who repay their obligations regularly and in a timely manner, no later than 30 calendar days following debt maturity. During fiscal year 2001 IBRD accrued Interest Partial Waiver of 0.05% on an annual basis.

Project and for meeting the conditions for withdrawal of the second tranche of the Enterprise and Financial Sector Adjustment Loan – EFSAL.

**The following loans were closed for withdrawal in 2001:**

- Loan No. 30690-HR of USD 28 million, concluded on February 1, 1990, inherited in 1993, obtained for the financing of Istria Waterworks Project. After the expiration of the term for disbursement and cancellation of the amount of USD 1,983,710.78 the loan was closed. IBRD delivered a revised loan repayment schedule utilized in the amount of USD 26,016,289.22. The outstanding debt of USD 5,346,989.22 is repaid by April 15, 2004.
- Loan No. 42460-HR concluded on December 4, 1997 between Varaždinska banka d.d. and IBRD, with a guarantee of the Republic of Croatia, amounting to DEM 13.9 million, after the cancellation of DEM 6,488,486.31, the loan was closed. Converted into EUR it amounted to EUR 3,789,446.78. Loan will be repaid by Varaždinska banka d.d. against a revised repayment schedule in EUR until September 15, 2012.
- Loan No. 41590-HR (EFSAL), agreed on June 4, 1997, amounting to DEM 160 million for the Enterprise and Financial Sector Adjustment Loan program was converted to EUR November 30, 2001 amounted to EUR 81,806,700.99. The outstanding amount of EUR 40,903,350.49 was withdrawn on December 18, 2001 (after meeting the conditions for the withdrawal of the second tranche) and the loan was closed, and is repaid in EUR until June 15, 2012 against a revised repayment schedule.

In 2001 the majority of resources of IBRD loans was invested into su najviše u reconstruction and construction of transport infrastructure and mine clearing (EUR 11.14 million), as well as recovery of private sector investments (EUR 7.25 million) and railway restructuring and modernization (EUR 6.73 million). For the implementation of the Municipal Environmental Infrastructure Project through HBOR, EUR 3.64 million was used, and Eastern Slavonia Reconstruction Project EUR 2.11 million. In the agriculture and forestry sectors USD 1.38 million was used for the implementation of the Coastal Forest Reconstruction Project (for purchase of equipment, construction and forest works, as well as consultant services and training) and USD 4.22 million for Farmer Support Services. USD 3.57 million was utilized out of the loan for the implementation of the Health Project. USD 553,667.15 was withdrawn for technical assistance for private sector development, whereas the least was withdrawn from the loan intended for Trade and Transport Facilitation Project (EUR 248,000) and from Project Preparation Facility for the Pension System Investments (USD 10,000).

**Table 6.9: Overview of IBRD Loans**

No.	Project	Signed on Date	Currency	Loan Amount	Undisbursed as of Dec. 31, 2001	Closing Date	Debt Outstanding Dec. 31, 2001	Principal Repayment Date	
								First	Last
<b>I. Public loans</b>									
1.	Emergency Reconstruction Project (37600-HR)	27. 06. 1994.	USD 000	128,000.00	0.00	31.12.1999.	104,255.00	15.12.1998.	15.06.2011
2.	Health Project (38430-HR)*	08.03. 1995.	USD 000	38,925.49	0.00	30.04.2000	32,363.09	15.06.2000	15.12.2011
3.	Road Reconstruction Project (38690-HR)	27.04. 1995.	USD 000	80,000.00	121.51	31.12.2001	69,548.49	15.12.1999.	16.06.2012
4.	Capital Markets Development Project (39990-HR)**	23.04. 1996.	EUR 000	7,260.34	0.00	30.06.1999.	6,958.68	15.10.2001	15.04.2013.
5.	Farmer Support Services Project (39880-HR)***	23. 04. 1996.	USD 000	15,000.00	2,345.54	02.07.2002	12,028.06	01.03.2001	1.09.2012.
6.	Technical Assistance Project (39890-HR)	23. 04. 1996.	USD 000	5,000.00	0.00	31.12.1999.	4,790.00	15.10.2001	15.04.2013
7.	Emergency Transport and Mine Clearing Project (41040-HR)****	04. 12. 1996.	EUR 000	77,153.94	2,907.74	31.12.2001	74,246.20	15.07.2002	15.01.2012
8.	Coastal Forest Reconstruction Project (41190-HR)	31. 01. 1997.	USD 000	42,000.00	6,930.27	30.06.2002	35,069.73	15.06.2002	15.12.2013
9.	Enterprise and Financial Sector Reconstruction Project (EFSAL-41590-HR) *****	04. 06. 1997.	EUR 000	81,806.70	0.00	31.12.2001	81,806.70	15.12.2002	15.06.2012
10.	Reconstruct. Project for Eastern Slavonia and Western Srijem (43510-HR) *****	08. 09.1998.	000EUR	37,835.60	29,342.88	30.06.2003	8,492.71	15.01.2004	15.07.2013.
11.	Railway Modernization and Restructuring Project (44330-HR)	20. 01. 1999.	000EUR	85,400.00	64,423.02	30.06.2003	20,976.98	15.09.2003	15.03.2014.
12.	PPF for the Preparation of Pension System Investment Project (Letter of Agreement No. P36580-HR)	01. 02. 1999.	USD 000	1,760.10	1,102.90		657.19		
13.	TA Project for institutional and legal changes for private sector development (44600-HR)	05. 05. 1999.	USD 000	7,300.00	5,563.19	30.06.2003	1,736.81	15.10.2004	15.04.2014.
14.	Health System Project (45130-HR)	07. 10. 1999.	USD 000	29,000.00	24,838.36	30.06.2004	4,161.63	15.06.2005	15.12.2014.
15.	Trade and Transport Facilitation in SE Europe Project (45820-HR)	27. 10. 2000	EUR 000	14,800.00	14,552.00	31.03.2004	248.00	15.05.2006	15.11.2015.
16.	Bankruptcy Administration Project (46130-HR)	03. 07. 2001	USD 000	5,000.00	5,000.00	31.07.2005	0.00	15.12.2006	15.06.2016.
17.	Structural Adjustment (46410-HR)	05. 12. 2001	USD 000	202,000.00	202,000.00	31.03.2003	0.00	15.04.2007	15.10.2016.
<b>TOTAL I :</b>			<b>USD 000</b>	<b>553,985.59</b>	<b>247,901.77</b>		<b>264,610.00</b>		
			<b>EUR 000</b>	<b>304,256.58</b>	<b>111,225.64</b>		<b>192,729.27</b>		
<b>II. Loans with GoC Guarantees</b>									
1.	Investment Recovery Project (4 loans) *****	04. 12. 1997.	EUR 000	22,297.64	2,310.15	31.12.2002	19,987.48	15.03.2003	15.09.2012
2.	Municipal Environmental Infrastructure Project (43520-HR)*****	25. 09. 1998.	EUR 000	33,233.97	24,919.75	30.06.2006	8,314.22	15.11.2003	15.05.2013.
<b>TOTAL II :</b>			<b>EUR 000</b>	<b>55,531.61</b>	<b>27,229.90</b>		<b>28,301.70</b>		
<b>III. Inherited Unrepaid Loans (Inherited with Guarantees of RC)</b>									
1.	Second Road Construction Project (2878-1HR)	30. 09. 1988.	USD 000	5,833.87	0.00		503.86	15.03.1991.	15.09.2002
2.	Istria Waterworks Project (30690-HR) *****	01. 02. 1990.	USD 000	26,016.29	0.00	30.06.2000	5,346.99	15.10.1994.	15.04.2004
<b>TOTAL III :</b>			<b>USD 000</b>	<b>31,850.16</b>	<b>0.00</b>		<b>5,850.85</b>		
<b>GRAND TOTAL (I+II+III):</b>			<b>USD 000</b>	<b>585,835.75</b>	<b>247,901.77</b>		<b>270,460.85</b>		
			<b>EUR 000</b>	<b>359,788.19</b>	<b>138,455.54</b>		<b>221,030.97</b>		

**Notes:**

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

\*\* The Loan for Capital Markets Development Project was agreed on DEM 14.2 million. After the conversion to EUR effected on November 30, 2001 the Loan amounts to EUR 7,260,344.71.

\*\*\*For the Farmer Support Services Project a loan of USD 17 million was agreed, but USD 2 million was cancelled at the end of 2000 and the loan amounts to USD 15 million.

\*\*\*\* A loan was agreed of DEM 150.9 million, which after the conversion to EUR amounts to EUR 77,153,944.87.

\*\*\*\*\* EFSAL was agreed in the amount of DEM 160 million and after the conversion to EUR amounts to EUR 81,806,700.99.

\*\*\*\*\* The original loan amounted to DEM 74 million, and after the conversion to EUR amounts to EUR 37,835,599.21.

\*\*\*\*\* 4 loans were agreed in the total amount of DEM 52 million for the financing of the Investment Recovery Project (Varaždinska banka d.d. DEM 13.9 million, Dalmatinska banka d.d. DEM 15.6 million, Slavonska banka d.d. DEM 17.3 million, and Alpe Jadran d.d. DEM 5.2 million.) However, two banks cancelled parts of the loans: Alpe Jadran banka, Split in July 2000 canceled DEM 1,901,123.00 and Varaždinska banka d.d., Varaždin in September 2001 canceled DEM 6,488,486. 31. After conversion of all loans to EUR for the Investment Recovery Project to Varaždinska banka it amounts to EUR 3,789,466.78, Dalmatinska banka EUR 7, 976,153.35, Slavonska banka: EUR 8, 845,349.54 and Alpe Jadran banka EUR 1,686,689.03, or grant total EUR 22,297,638.70.

\*\*\*\*\*A loan was agreed of DEM 65 million which after the conversion to EUR amounted to EUR 33, 233,972.28.

\*\*\*\*\* A loan USD 28 million loan was agreed for the financing of the Istria Waterworks Project, and IBRD canceled the undisbursed amount of USD 1,983,710.78 on January 8, 2001.

**Table 6.10: IBRD Loans Disbursement in 2001**

No.	Operation No.	Project	Effectiveness Date	Currency	Loan Amount	Total Disbursed as of December 31, 2000	Disbursement in 2001	Total Disbursed as of December 31, 2001
1	2	3	4	5	6	7	8	9 (7+8)
<b>I. PUBLIC LOANS</b>								
1.	37600-HR	Emergency Reconstruction Project*	19. 08. 1994.	USD	128,000,000.00	128,000,000.00	0.00	128,000,000.00
2.	38430-HR	Health Project *	17. 08. 1995.	USD	38,925,496.46	38,925,496.46	0.00	38,925,496.46
3.	38690-HR	Road Reconstruction Project	26. 07. 1995.	USD	80,000,000.00	79,643,906.63	234,583.04	79,878,489.69
4.	39990-HR	Capital Markets Development Project (39990-HR)*	22. 06. 1996.	EUR	7,260,344.71	7,260,344.71	0.00	7,260,344.71
5.	39880-HR	Farmer Support Services Project	22. 07. 1996.	USD	15,000,000.00	8,427,162.11	4,227,299.14	12,654,461.25
6.	39890-HR	Technical Assistance Project*	22. 07. 1996.	USD	5,000,000.00	5,000,000.00	0.00	5,000,000.00
7.	41040-HR	Emergency Transport and Mine Clearing Project **	04. 03. 1997.	EUR	77,153,944.87	63,101,384.74	11,144,819.28	74,246,204.02
8.	41190-HR	Coastal Forest Reconstruction Project	31. 07. 1997.	USD	42,000,000.00	33,687,929.18	1,381,802.18	35,069,731.36
9.	41590-HR EFSAL	Enterprise and Financial Sector Reconstruction Project EFSAL**	15. 11. 1997.	EUR	81,806,700.99	40,903,350.50	40,903,350.49	81,806,700.99
10.	43510-HR	Eastern Slavonia Reconstruction Project **	06. 01. 1999.	EUR	37,835,599.21	6,377,465.87	2,115,249.35	8,492,715.22
11.	44330-HR	Railway Modernization and Restructuring Project	09. 06. 1999.	EUR	85,400,000.00	14,243,926.25	6,733,053.56	20,976,979.81
12.	44600-HR	TA Project for institutional and legal changes for private sector development	03. 08. 1999.	USD	7,300,000.00	1,183,144.22	553,667.15	1,736,811.37
13.	35800-HR Predloan	Pension System Investment Project	01. 02. 1999.	USD	1,760,100.00	647,197.21	10,000.00	657,197.21
14.	45130-HR	Health System Project	28. 03. 2000	USD	29,000,000.00	590,000.00	3,571,631.27	4,161,631.27
15.	45820-HR	Trade and Transport Facilitation in SE Europe Project	02. 05. 2001	EUR	14,800,000.00	00.00	248,000.00	248,000.00
16.	46130-HR	Bankruptcy Administration Project	Not effective	USD	5,000,000.00	0.00	0.00	0.00
17.	46410-HR	Structural Adjustment Loan (SAL)	Not effective	USD	202,000,000.00	00.00	0.00	00.00
<b>Total I:</b>				USD	<b>553,985,596.46</b>	<b>296,104,835.83</b>	<b>9 978 982.78</b>	<b>306,083,818.61</b>
				EUR	<b>304,256,589.78</b>	<b>131,886,472.07</b>	<b>61 144 472.68</b>	<b>193,030,944.75</b>
<b>II. LOANS OBTAINED WITH GOC GUARANTEES</b>								
1.	30690-HR	Istria Waterworks Project	01. 02. 1990. (taken over 25. 02. 1993.)	USD	26,016,289.22	25 855 786.31	160 502.91	26 016 289.22
2.	42460, 42470,42480 42490-HR (4 loan)	Investment Recovery Project **	04. 03. 1998.	EUR	22,297,638.70	12 730 888.58	7.256.595.01	19 987 483.59
3.	43520-HR	Municipal Environmental Infrastructure **	28. 06. 1999.	EUR	33,233,972.28	4,667,902.45	3,646,316.69	8 314 219.14
<b>Total II:</b>				USD	<b>26 016 289.22</b>	<b>25,855,786.31</b>	<b>160 502,91</b>	<b>26,016,289.22</b>
				EUR	<b>55,531,610.98</b>	<b>17,398,791.03</b>	<b>10 902 911,70</b>	<b>28,301,702.73</b>
<b>Grand Total (I+II):</b>				USD	<b>580,001,885.68</b>	<b>321,960,622.14</b>	<b>10 139 485,69</b>	<b>332,100,107.83</b>
				EUR	<b>359,788,200.76</b>	<b>149,285,263.,10</b>	<b>72 047 384,38</b>	<b>221,332,647.48</b>

Notes:

\*Closed loans

\*\* Loans agreed in DEM converted into EUR on November 30, 2001.

## A Review of Grants

In the period from 1995 to 2001, 28 grant agreements were concluded for the preparation of a number of projects in the area of the Republic of Croatia, amounting to the total of USD 7,703,934.00, JPY 270,500,000.00, and GBP 352,800.00. The Republic of Croatia concluded with IBRD 26 grant agreements worth USD 6,425,490.00, JPY 270,500,000.00, and GBP 352,800.00, whereas two grants of a total worth of USD 2,277,994.00 were awarded to: 1. Croatia elektroprivreda d.d. – HEP (USD 187,994.00 for the District Heating Project) and 2. non-governmental organizations (USD 1,090,000.00) for the refugee return program in the areas of Zadar, Knin, and Šibenik. The review of grants illustrates the basic data on 26 agreed grants between the Republic of Croatia and IBRD (Table No. 6.11).

Grant funds are mainly used for payment of consultant services and development of studies necessary to prepare projects in the best possible way, which apply to IBRD for loan financing after completion of feasibility studies.

The Republic of Croatia concluded 19 grants in American dollars in the total amount of USD 6,425,490.00, out of which 14 grants were closed, whereas USD 1,648,530.10 remained undisbursed under eight grants as of December 31, 2001. Six grants were agreed in Japanese yens. They have been closed and there are no remaining funds to be utilized, whereas one grant was concluded in British pounds, amounting to GBP 52,800.00, which will be used in the period from 2002 until June 30, 2003.

**Table 6.11: A Review of Grants Between the RC and IBRD (Status as of December 31, 2001)**

No.	Year when Signed	Grant Number	Grant Purpose: Implementation Projects	Currency	Grant Amount	Canceled Amount	Undisbursed Jan. 31, 2001
1.	1995.	28851	Preparation of Procurement Law	USD	148,000.00	101,474.50	0.00
2.	1995.	29116	Farmer Support Services	JPY	56,600,000.00	13,888,305.00	0.00
3.	1995.	29117	Coastal Forest Reconstruction Project	JPY	21,200,000.00	146,615.00	0.00
4.	1995.	29314	Public Sector Adjustment - PSAL	JPY	75,600,000.00	5,504,815.00	0.00
5.	1995.	29315	Agriculture Adjustment	JPY	29,400,000.00	24,096,291.00	0.00
6.	1995.	29316	Croatian Railways Restructuring	JPY	58,800,000.00	5,457,694.00	0.00
7.	1996.	29486	Investment into Municipal Environment Infrastructure	USD	500,000.00	436.40	0.00
8.	1996.	29674	Reconstruction of Transport Infrastructure of the City of Zagreb	USD	800,000.00	0.00	0.00
9.	1997.	28360	Biodiversity Strategy	USD	102,000.00	0.00	0.00
10.	1997.	27098	Private Sector Development	USD	398,000.00	0.00	216,246.71
11.	1997.	25539	Public Finance Management	USD	314,000.00	130,485.40	0.00
12.	1977.	25229	Enterprise and Financial Sector Adjustment Project	JPY	28,900,000.00	21,561,550.00	0.00
13.	1998.	27099	Flood Protection in Eastern Slavonia	USD	200,000.00	0.00	0.00
14.	1998.	25193	Health Modernization	USD	418,260.00	2,164.80	0.00
15.	1998.	25597	Sava River Flood Control Component	USD	476,150.00	0.00	0.00
16.	1999.	20574	Y2K (Millennium Bug)	USD	80,000.00	0.00	0.00
17.	1999.	27259	Environmental Protection and Strengthening of Management System	USD	276,490.00	0.00	9,067.80
18.	1999.	22644	Managing Marshland of Kopački Rit Nature Park	USD	750,000.00	0.00	457,142.90
19.	1999.	25799	Municipal Environmental Infrastructure Project	USD	216,840.00	48.55	0.00
20.	1999.	26113	Bankruptcy Law Adjustment	USD	253,700.00	110,258.89	0.00
21.	1999.	23163	Karst Ecosystem Conservation Project	USD	230,000.00	0.00	0.00
22.	1999.	26112	Port of Rijeka Modernization (Rijeka Gateway)	USD	337,500.00	0.00	91,072.70
23.	2000	27386	Capacity Building for Social and Economic Communications	USD	400,000.00	0.00	350,000.00
24.	2001	26262	Social Protection Project (Japanese Grant)	USD	200,000.00	0.00	200 000.00
25.	2001	26441	Coastal Cities Pollution Protection Project (Adriatic Project)	USD	325,000.00	0.00	325 000.00
26.	2001	29810	Social Protection Project (UK Grant)	GBP	352,800.00	0.00	352 800.00
<b>Total (1-26):</b>				<b>USD</b>	<b>6,425,940.00</b>	<b>344,868.54</b>	<b>1,648,530.11</b>
				<b>JPY</b>	<b>270,500,000.00</b>	<b>70,655,270.00</b>	<b>0.00</b>
				<b>GBP</b>	<b>352,800.00</b>	<b>0.00</b>	<b>352,800.00</b>

## 6.4.2. European Bank for Reconstruction and Development (EBRD)

### *Business Operations in 2001*

EBRD's plan of activities in Croatia for the period until 2002 has been set by the document "Strategy for Croatia", published on November 9, 2000. The Strategy includes the following priority areas:

- support to privatization process and direct foreign investments in all sectors, especially those which develop new production processes and technologies and improve the level of management, knowledge, and working capacities,
- financing infrastructure, including encouragement of commercialization, liberalization, and privatization of infrastructure services,
- strengthening of the financial sector through supporting consolidation and privatization of the banking sector and development of other financial structures and new products,
- continuation of efforts to increase financial sources for development of small and medium-sized enterprises through credit lines and co-financing with other international financial institutions and investors, and
- encouraging the cross-border trade for further development of regional cooperation.

In line with its mandate<sup>41</sup> and set operational priorities<sup>42</sup>, EBRD provided a strong direct support to the development of the private and public sectors in Croatia. EBRD empowered the financial sector by awarding loans to banks (with the aim of faster development of small and medium entrepreneurship and revitalizing housing construction), invested capital into financial institutions (with the aim of faster implementation of pension system and insurance system reforms). It helped financing new corporate projects (investments or loans) and approved short-term loans for financing large infrastructure projects in the area of road construction, water management, environmental protection, and shipbuilding.

In 2001 EBRD approved eight new loans for financing projects in the Republic of Croatia in the total amount of EUR 255,700,000.00, out of which five loans worth EUR 111,700,000.00 were concluded without Government guarantees and three loans worth EUR 138,000,000.00 with Government guarantees.

**Table 6.12: New Loans EBRD Approved in 2001**

Korisnik	Project	Iznos u EUR
<b>I. Loans obtained without GoC guarantees</b>		
Privredna banka Zagreb d.d.	Long-term credits for purchase of private housing	40,000,000.00
VIP NET GSM d.o.o., Zagreb	Investments into telecommunication network	10,000,000.00
Vetropack Straža d.d.	Increase in production and exports to neighboring markets	12,500,000.00
Otpadne vode d.o.o., Zagreb	City of Zagreb wastewater treatment	55,200,000.00
<b>Total I:</b>		<b>117,700,000.00</b>
<b>II. Loans obtained with GoC guarantees</b>		
Croatian Bank for Reconstruction and Development (HBOR)	Financing investments into small and medium enterprises	12,000,000.00
INA-Industrija nafte d.d., Zagreb	Environmental projects in INA – Oil Industry	36,000,000.00
Autocesta Rijeka – Zagreb d.d.	Construction of Zagreb – Rijeka Highway	90,000,000.00
<b>Total II</b>		<b>138,000,000.00</b>
<b>GRAND TOTAL (I+II) :</b>		<b>255,700,000.00</b>

In addition to the loan agreements mentioned above, on December 19, 2001 EBRD concluded with Uljanik shipyard d.d., Pula an agreement on issuance of advance guarantee up to the amount of USD 11,490,000.00 with a guarantee of the Republic of Croatia for purpose of providing a guarantee for repayment of funds on the basis of a shipbuilding agreement (construction of a tanker for oil derivatives), to the buyer Intrigue Shipping Inc., Liberia. EBRD made a direct capital investment of EUR 7.61 million for private sector development (in Erste Pension Fund – EUR 3.97 million, Uniqa Osiguranje d.d., Zagreb – EUR 1.83 million, and Global Netu – EUR 1.80 million) and more than EUR 3 million into projects encouraging regional cooperation and cross-border trade, bringing the overall EBRD investments into projects (of both private and public sectors) in the area of the Republic of Croatia during 2001 to EUR 283,369,000.00.

During 2001 the preparation of several projects commenced, for whose implementation in 2002 EBRD is expected to provide financing over EUR 130 million.

<sup>41</sup> EBRD was established and has been operating with a special mandate to finance projects which support and accelerate the process of transition into market economy and development of private and entrepreneurial initiative in Central and Eastern European countries committed to the implementation of multi-party democracy, pluralism, and market economy.

<sup>42</sup> Since 2000 the Bank has directed its operations toward a constructive and creative partnership with member countries, clients, and other international financial institutions to support mobilization of capital and co-finance development of inter-regional infrastructure and trade. As a priority it financed projects in the private sector, strengthened the financial sector in order to open up new business prospects on market principles, encouraged enterprise and bank restructuring, foundation and growth of small and medium enterprises and commercialization of the public sector and infrastructure.

**Table 6.13: A Review of Projects in the Pipeline**

Beneficiary of Funds	Projects in the Pipeline	Amount in EUR
Zagrebačka banka d.d., Zagreb	Credit line for agriculture financing	25,000,000.00
Raiffeisenbank Austria d.d., Leclerc, retail chain	Financing of SME development Project of construction of five supermarkets in Croatia and Slovenia (investment value EUR 150.0 million)	30,000,000.00 50,000,000.00
Hrvatska kontrola zračne plovidbe d.o.o., Zagreb	Air Control Reconstruction Project in the Republic of Croatia	25,000,000.00
The City of Rijeka	Upgrade of Sewage System (under Stability Pact projects)	8,000,000.00

Under the Stability Pact EBRD was given a mandate to assess priority projects significant 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 investments, as well as a program of SME development. Financing of the projects in the area of transport, energy, and water management will depend on their adjustment to defined regional programs and strategic studies. EBRD has been entrusted with the development of guidelines for strategic studies in the water supply and protection sectors. 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 mandate.

EBRD provides basic financial support to the projects within the framework of Central European Initiative (CEI). CEI and EBRD launched a Program of Subsidies to Small and Medium Enterprises by providing 50% of costs of consultant services in the area of market research, seeking business partners, selection and evaluation of equipment, preparation of business plans, improvements of the accounting, information, and management systems. The amount of the one-off subsidy is limited to EUR 9,000. This program in Croatia is implemented through the CEI-BAS Office (Central European Initiative – Business Advisory Service), opened in Zagreb (August 2000).

EBRD is interested in continuing investing into Croatia, especially into infrastructure (highway construction, air traffic) and providing support to restructuring and privatization of public enterprises (INA, HEP, shipyards) and further restructuring and privatization of the tourist sector, developing small and medium enterprises and exports, and continuing investments into profitable enterprises which spread across Croatian borders. New projects are being developed in those sectors.

#### ***Disbursement of Public Loans in 2001***

In 2001 a total of USD 7.44 million and EUR 8.51 million was disbursed in funds of two active public loans (for financing an Air Traffic System Project and Wholesale Market Network Construction Project) and two loans obtained with a guarantee of the Republic of Croatia (intended for investments into local infrastructure and environmental protection - MEIP and reconstruction of railway engines).

During 2001, as stated above, three new loan agreements were concluded with EBRD, amounting to the total of EUR 138 million, with a guarantee of the Republic of Croatia, however, resources from those new loans had not been withdrawn by December 31, 2001.

USD 2001,856,273.73 was invested into the implementation of the Air Traffic System Project. The Project includes: reconstruction of signal instruments, landing system equipment for the airports of Zagreb, Pula, and Dubrovnik, as well as for the reconstruction of the regional radar facility near Split. The agreed term for withdrawal of EBRD loan of USD 20 million, approved in 1994, was prolonged until December 31, 2001. The outstanding amount is only USD 264,480.24 (1.32%), whereas the overall disbursed funds amounted to USD 19.73 million (98.68%).

A DEM 33.5 million Loan, agreed with the EBRD in 1997, is intended for the implementation of the Wholesale Market Network Construction Project in Croatia, financing of a construction of a wholesale markets network selling fruits, vegetables, and flowers in six approved locations in Zagreb, Osijek, Rijeka/Matulji, Benkovac, Split, and Metković. Due to unresolved property-rights problems, cost estimate, development of business plans, and the very concept of construction of wholesale markets at the envisaged locations, canceled parts of this loan amounted to DEM 9 million (August 16, 2000) and DEM 18,212,026.09 (November 24, 2001), and the loan on December 31, 2001 amounted to DEM 6,287,973.91, or EUR 3,104,323.44. The idea of construction of wholesale markets in Zagreb and Metković was dropped, and during 2001 for construction of regional wholesale markets DEM 3.75 million was used (EUR 1.92 million) and DEM 216,445.00 was reserved (EUR 110,66.57) for financing the construction of wholesale markets in Benkovac in the first quarter of 2002. Loan resources were partially utilized for financing construction works for wholesale markets in Osijek, Rijeka – Matulji, and Split. Wholesale markets started operations in the second half of 2001.

**Table 6.14: Data on Disbursement of EBRD Loans in 2001**

No.	Project Name	Loan No.	Date of Conclusion of Agreement	Currency	Loan Amount	Disbursement as of Dec. 31, 2000	Disbursed in 2001	Total Disburs. As of Dec. 31, 2001	Undisbursed as of Dec. 31, 2001	Closing Date
1	2	3	4	5	6	7	8	9	10	11
<b>I. ACTIVE PUBLIC LOANS</b>										
1.	Air Traffic System Project	231	21. 09. 1994.	USD	20,000,000.00	18,879,246.03	856 273,73	19 735 519,76	264 480,24	31. 12. 2001
2.	Wholesale Market Project (Nacionalne veletržnice d.d.)	627*	08. 12. 1997.	DEM	6,287,973.91	2,314,697.34	3 756 831,57	6 071 528,91	216 445,00	24. 03. 2002
<b>CONVERSION</b>				EUR	3,214,990.01	1,183,485.96	1,920 837.48	3,104,323.44	110,666.57	
<b>Total I</b>				USD	20,000 000.00	18,879,246.03	856,273.73	19,735,519.76	264,480.24	
				EUR	3,214,990.01	1,183,485.95	1,920,837.48	3,104,323.43	110,666.58	
<b>II: ACTIVE LOANS WITH GUARANTEES OF THE REPUBLIC OF CROATIA</b>										
1.	Program of Investment into Local Infrastructure and Environmental Protection (HBOR)	494**	09. 12. 1996.	DEM	80,440,000.00	13,797,163.56	12,899,583.23	26,696,746.79	53,743,253.21	31. 03. 2001
<b>KONVERZIJA</b>				EUR	41 128 318.92	7 054 377.71	6,595 452.18	13 649 829.89	27,478,489.04	
2.	Railway Locomotive Reconstruction Project (HŽ)	733	08. 12. 1998.	USD	35,000,000.00	442,581.43	6,587,657.22	7,030,238.65	27,969,761.35	31. 08. 2003
3.	Financing Investments of Small and Medium Enterprises (HBOR)	923	20. 03. 2001	EUR	12,000,000.00	0.00	0.00	0.00	12,000,000.00	2 god.
4.	Environm. Projects in INA-Industrija nafte d.d.	935	10. 05. 2001	EUR	36,000,000.00	0.00	0.00	0.00	36,000,000.00	30. 06. 2005
5.	Rijeka-Zagreb Motorway	975	22. 10. 2001	EUR	90,000,000.00	0.00	0.00	0.00	90,000,000.00	11. 05. 2005
<b>Total II:</b>				EUR	179,128 318.92	7,054,377.71	6,595,452.18	13,649,829.89	165,478,489.04	
				USD	35,000 000,00	442,581,43	6,587,657,22	7,030,238,65	27,969,761,35	
<b>Grand total I+II:</b>				USD	55,000 000,00	19,321,827,46	7,443,930,95	26,765,758,41	28,234,241,59	
				EUR	182 343 308,93	8,237,863,67	8,516,289,66	16,754,153,32	165,589,155,62	

Notes:

\*Loan No. 627 was agreed at DEM 33.5 million. Loan after cancelled portions (a total of DEM 27,212,026.0 was cancelled until December 31, 2001) amounted to DEM 6,287,973.91, which was EUR 3,214,990.01 converted into EUR.

\*\* Loan No. 494 was agreed to the amount of DEM 105 million, but it was decreased during 1999 and 2001 by a total of DEM 24.56 million and amounts to DEM 80.44 million, or, after conversion, to EUR 41,128,318.92.

During 2001, DEM 12.89 million (EUR 6.59 million) was invested through the Croatian Bank for Reconstruction and Development for betterment of communal water supply and sewage systems under the Program of Investment in Local Infrastructure and Environmental Protection (MEIP), which EBRD finances by a DEM 80.44 million loan (EUR 41.12 million). In April 2001 HBOR concluded with EBRD Annex 3 to the Loan Agreement, concluded on December 9, 1996, with a guarantee of the Republic of Croatia <sup>43</sup>, which cancelled DEM 18 million and agreed a new, prolonged term for withdrawal: March 31, 2002. The Loan was originally concluded on DEM 105 million and was decreased in 1999 by DEM 6.5 million (tranche C intended for investment program for the City of Rijeka was dropped, which amounted to DEM 98.44 million. After the second cancellation amounting to DEM 18 million, the amount of DEM 80.44 million was agreed by Annex 3. The loan schedule in tranches was also changed (tranche amounts for final users were decreased), so that tranche A amounts to DEM 60 million (Waterworks and Utility Company Split), tranche B 19,5 DEM million (Utility Company Pula)

<sup>43</sup> The Law on Verification of the Guarantee Agreement of the Republic of Croatia for the "Program of Investment into Local Infrastructure and Environmental Protection" between the Republic of Croatia and the European Bank for Reconstruction and Development. The Official Gazette-International Agreements, No. 4/1997.

and tranche D of DEM 940,000.00 DEM (Croatian Water Authority). Following the conversion of DEM into EUR, the loan amounts to 41,128,318.92, and tranche A amounts to EUR 30,677,512.87, tranche B EUR 9,970,191.68, and tranche D EUR 480,614.37. According to the situation as of December 31, 2001, a total of EUR 13,649,829.89 was disbursed from the loan (33.2%) and EUR 27,478,489.04 (66.8%) remained to be withdrawn until the end of March 2003.

Railway Locomotive Reconstruction Project is financed by EBRD's USD 135 million loan concluded in December 1998. The Project consists in the reconstruction of diesel engines (financed with USD 22,2 million), overhaul and modernization of diesel-electrical locomotives (USD 9.62 million) and consultant services for project implementation (USD 230,000). The agreed time frame of withdrawal of the loan (until March 31, 2002) was prolonged during 2001 and a new term was established: August 31, 2003. During 2001 the Croatian Railways withdrew USD 6.58 million. In the period from June 1999, when the Loan became effective, until December 31, 2001, a total of USD 7 030 238,65 was disbursed, and under new term the Project should be completed and USD 27,969,761.35 should be withdrawn.

The Government budget of the Republic of Croatia for 2001 provided resources for payment of the due outstanding obligations against public loans and loan granted to Croatian Railways with a state guarantee<sup>44</sup>. Hrvatska elektroprivreda d.d., Croatian Bank for Reconstruction and Development and INA – Industrija nafte d.d. paid in a timely manner during 2001 their liabilities against the EBRD's calls for payment, so the guarantees of the Republic of Croatia for those loans were not called.

### **Overview of Loans**

In the period from 1994 to 2001, EBRD financed 47 projects in Croatia with total resources amounting to EUR 917.27 million. When investments into regional investment projects in the period from 1995 to 2001 in the total amount of EUR 19.48 million are added, the overall EBRD investments amount to EUR 936.76 million (according to EBRD data from December 2001). EBRD invested a total of EUR 580.94 million (62%) into projects of the private sector and supported the projects of the public sector by long-term favorable loans amounting to the total of EUR 355.82 million (38% of the total of invested resources).

EBRD Loans awarded to the Republic of Croatia (3 loans) and loans for which state guarantees were obtained (7 loans), expressed in loan currencies, according to the status as of December 31, 2001, amounted to USD 55 million and EUR 276.31 million. In the period from 1994 to 2001, on the cumulative basis, utilization amounted to USD 26.76 million (48.66%) against the utilization of two loans concluded in USD and EUR 110.67 million (40%) on the basis of five loans converted or concluded in EUR. According to agreed time frames, until June 30, 2005 there remained to be withdrawn USD 28.23 million (51.34%) and EUR 165.64 million (60 %).

In the period from 1994 to 2001 the Republic of Croatia concluded with EBRD three loan agreements in the total amount of EUR 39.41 million and USD 20 million, as well as seven guarantee agreements in the total amount of EUR 236.90 EUR million and USD 35 million, respectively.

According to the status as of December 31, 2001, against three public loans, a total of USD 19.73 million (98.62%) and EUR 39.30 million (99.72%) was disbursed. Only USD 264,480.24 and EUR 110,666.57 remained undisbursed.

#### **The following loans were closed:**

1. Loan No. 286, which was concluded for the Highway Reconstruction Project amounting to DEM 70.9 million, out of which DEM 70.79 million was utilized (DEM 107,019.78 was cancelled), was closed in March 1999. The outstanding debt converted into EUR on December 31, 2001 amounted to EUR 24.12 million. The loan is repaid out of the Government budget.
2. Loan No. 283 of DEM 63 million, concluded with guarantees of the Republic of Croatia, for the Power Supply and Network Reconstruction Project, was fully disbursed within the agreed time frame, and closed in January 2001. The outstanding debt converted into EUR on December 31, 2001 amounted to EUR 15.03 million. The loan is repaid by Hrvatska Elektroprivreda d.d.
3. credit line for tourism (No. 443) concluded by the Croatian Bank for Reconstruction and Development with EBRD, with guarantees of the Republic of Croatia, amounting to DEM 50 million, was closed in 1998. The outstanding debt as of December 31, 2001 converted to EUR amounted to EUR 5.67 million and is repaid by HBOR.

At the end of 2001 overall debt against EBRD in direct public loans amounted to USD 5.98 million and EUR 27.23 million, whereas debt against guaranteed loans amounted to EUR 33.90 million and USD 7.03 million.

Table 6.15 contains detailed data on direct public loans and loans obtained with Government guarantees.

---

<sup>44</sup> The Central Government budget of the Republic of Croatia for 2001 and the Law on Execution of the Government Budget of the Republic of Croatia for 2001 (the Official Gazette Nos. 130/00 and 95/01) provided resources for repayment of obligations against EBRD. During 2001 EBRD was repaid against repayment calls: (1) against a USD 20 million loan, for Air Traffic System Project, a total of USD 3,036,335.48 (against the principal 2,500,000.00 + interests 530,761.99 + fees 5,573.49); (2) against a DEM 70.9 million loan, for Highway Reconstruction, a total of DEM 8,922,113.31 (against the principal 5,898,604.28 + interest 3,023,509.03); (3) against a loan for Wholesale Market Project fees were paid for undisbursed resources and costs amounting to DEM 106,129.03 and fee amounting to EUR 821,134.67 for the cancelled loan amount; (4) against the USD 35 million loan for the Reconstruction of Railway Locomotives a total of USD 306,107.62 (for interest 142,491.99 + fees for unutilized resources 163,615.63).

**Table 6.15: An Overview of Loans Obtained from EBRD (Status as of December 31, 2001)**

No.	Project Name	Loan No.	Date of Conclusion of Agreement	Currency	Loan Amount	Disbursed	Undisbursed	Closing Date	Maturity of Principal First /Last	Debt
1	2	3	4	5	6	7	8 (6-7)	9	11	12
<b>I. PUBLIC LOANS</b>										
1.	Air Traffic System Project *	231	21. 09. 1994.	USD	20,000,000.00	19,735,519.76	264,480.24	31. 12. 2001	21. 09. 1996./ 21. 03. 2004	5,985,519.76
2.	Highway Reconstruction Project **	286 closed	17. 01. 1995.	EUR	36,195,876.03	36,195,876.03	0.00	28. 02. 1999.	10. 04. 1998./ 10. 10. 2009.	24,127,267.80
3.	Wholesale Market Project ***	627	08. 12. 1997.	EUR	3,214,990.01	3,104,323.43	110,666.58	24. 03. 2002.	24. 05. 2002/ 24. 11. 2011.	3,104,323.43
<b>Total I</b>				USD	<b>20 000 000.00</b>	<b>19,735,519.76</b>	<b>264,480.24</b>			<b>5 985 519.76</b>
				EUR	<b>39 410 866.04</b>	<b>39,300,199.46</b>	<b>110,666.58</b>			<b>27 231 591.23</b>
<b>II. LOANS OBTAINED WITH GUARANTEES OF RC</b>										
1.	Power Supply and Distr. Network Reconst. Project	283 closed	02. 02. 1995.	EUR	32,211,388.52	32,211,388.52	0.00	30. 06. 2000	10. 03. 1998./ 10. 03. 2005	15,031,981.31
2.	Credit line for tourism	443 closed	26. 06. 1996.	EUR	25,564,594.06	25,564,594.06	0.00	01. 05. 1998.	23. 12. 1998./ 23. 12. 2002	5,679,430.22
3.	Program of Investment into Local Infrastructure and Environmental Protection****	494	09. 12. 1996.	EUR	41,128,318.92	13,649,829.89	27,478,489.04	31. 03. 2001	10. 04. 2001/ 10. 10. 2011.	13,189,667.20
4.	Railway Locomotive Reconstruction Project	733	08. 12. 1998.	USD	35,000,000.00	7,030,238.65	27,969,761.35	31. 08. 2003.	20. 05. 2002/ 20. 11. 2013.	7,030,238.65
5.	Financing Investments of Small and Medium Enterprises (HBOR)	923	20. 03. 2001	EUR	12,000,000.00	0.00	12,000,000.00	2 years	05. 02. 05. 08. withdrawal	0.00
6.	Environm. projects in INA-oil industry d.d.	935	10. 05. 2001	EUR	36,000,000.00	0.00	36,000,000.00	30. 06. 2005	30. 09. 2001/ 30. 03. 2011.	0.00
7.	Rijeka-Zagreb Highway*****	975	22. 10. 2001	EUR	90,000,000.00	0.00	90,000,000.00	11. 05. 2005	12. 05. 2005/ 12. 11. 2019.	0.00
<b>Total II</b>				EUR	<b>236,904,301.51</b>	<b>71,425,812.46</b>	<b>165,478,489.04</b>			<b>33,901,078.72</b>
				USD	<b>35,000,000.00</b>	<b>7,030,238.65</b>	<b>27,969,761.35</b>			<b>7,030,238.65</b>
<b>Grand total I+ II</b>				USD	<b>55,000,000.00</b>	<b>26,765,758.41</b>	<b>28,234,241.59</b>			<b>13,015,758.41</b>
				EUR	<b>276,315,167.54</b>	<b>110,726,011.93</b>	<b>165,589,155.62</b>			<b>61,132,669.95</b>

Notes:

\* Loan No. 231 for the Air Traffic System Project was agreed at USD 22 million; on May 6, 1996, USD 2 million was canceled so that the loan amounts to USD 20 million.

\*\* Loan No. 286 for Highway Reconstruction Project was agreed at DEM 70.9 million; on February 28, 1999 the undisbursed amount of DEM 107,019.78 was canceled, so that the loan amounted to DEM 70,792,980.22. The outstanding debt as of December 31, 2001 of 47,188,834.18 was converted in EUR and amounted to: EUR 24,127,267.80.

\*\*\* The agreed loan No. 627 for the Wholesale Markets Project amounting to DEM 33.5 million was reduced on September 1, 2000 by DEM 9 million and on November 24, 2001 by another DEM 18,212,026.09. The loan, after the canceled amounts (total: DEM 27,212,026.09) amounts to: DEM 6,287,973.91, which converted in EUR amounts to EUR 3,214,990.01.

\*\*\*\* Agreed Loan No. 494 of DEM 105 million was reduced on November 23, 1999 by DEM 6.56 million and on April 6, 2001 by DEM 18 million (total: DEM 24.56 million). The Loan of DEM 80.44 million was converted in EUR and amounts to EUR 41,128,318.92.

\*\*\*\*\* The Law on the Ratification of the Guarantee Agreement was not passed before December 31, 2001 and the loan did not become operational.

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

#### *New Loans Agreed in 2001*

In 2001 CEB approved five new framework loans for financing projects in the Republic of Croatia amounting to a total of HRK 527,844,485 and EUR 8 million. Four new long-term framework loans in kuna with CEB were concluded by the Republic of Croatia, whereas one framework agreement on the loan in EUR was concluded with CEB by the Croatian Bank for Reconstruction and Development as the beneficiary and the Republic of Croatia as the guarantor.

New loans of the Republic of Croatia were agreed for the implementation of the following projects:

#### **1. School Reconstruction Project in the Republic of Croatia (F/P 1352)**

The School Reconstruction Project includes the reconstruction and/or construction of 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, and (4) Vukovarsko-Srijemska (8). Net costs (exclusive of tax, customs duties, and other local costs) were estimated at HRK 197,364,000.00, and agreement was reached with CEB on financing 50% of net costs of the loan in kuna, whereas the remaining 50% and all local costs will be financed from the Government budget resources. The framework agreement on a HRK 98,682,000 loan was signed on January 19, 2001 in Zagreb and on January 26, 2001 in Paris. Its resources are utilized through withdrawal of a number of tranches pursuant to the Law on Verification of the Framework Agreement on the Loan between the Republic of Croatia and the Council of Europe Development Bank for School Reconstruction (the Official Gazette - International Agreements No. 7/01) and pursuant to concluding additional agreements for each individual tranche at the time of its withdrawal. The competent body for the implementation of the Framework Agreement is the Ministry of Public Works, Reconstruction, and Construction of the Republic of Croatia, which has prepared the Project as a follow-up of the School Reconstruction Project in Eastern Slavonia, financed by the CEB loan of HRK 67,368,00,00 obtained in 1998. godine.

#### **2. Project of Restoration of Housing for Displaced Persons and Refugees in the Republic of Croatia (F/P 1378)**

The Ministry of Public Works, Reconstruction, and Construction also prepared this Project, whereas the Administrative Council of CEB, at a session held in September 2000, decided to finance with a HRK 232,000,000.00 loan 50% of HRK 464 million kuna of Project net costs.

The Project includes solving the problems of providing housing for displaced persons and refugees through restitution of property to owners and providing for alternative accommodation for 2,243 temporary beneficiaries, organized reconstruction of damaged and destroyed 1,153 family houses owned by the displaced persons, as well as reconstruction of communal infrastructure (water supply, sewage, power 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).

The loan framework agreement was signed on February 2, 2001 in Zagreb and February 7, 2001 in Paris. The Law on Verification of the Loan Framework Agreement between the Republic of Croatia and the Council of Europe Development Bank for the return of displaced persons and refugees to the Republic of Croatia – reconstruction and providing housing, was published in the Official Gazette – International Agreements No. 7/01 and after its coming into force there followed the concluding of the Additional Agreement on July 23, 2001, i.e., withdrawal of the first tranche.

#### **3. Reconstruction of the Franciscan Monastery of Mala Braća in Dubrovnik (F/P 1379)**

On the occasion of the 36th Annual Assembly of CEB in Dubrovnik, June 19, 2001, a Framework Agreement was signed on a loan of HRK 10,325,454.00 which, together with the budgetary resources, resources of the Franciscan province whose seat is in Zadar and a grant of the World Monument Watch, finances the reconstruction and rehabilitation of the Franciscan Monastery of Male braće («Little Brethren») in Dubrovnik. The Law on the Verification of the Framework Agreement on the Loan 1379 (2000) for Reconstruction of the Franciscan Monastery of Mala braća in Dubrovnik, between the the Council of Europe Development Bank and the Republic of Croatia (the Official Gazette - International Agreements No. 14/01) came into force on January 5, 2002, and resources of this loan were not withdrawn in 2001

The Project is being implemented by the Monastery itself and the Ministry of Culture of the Republic of Croatia, which envisage withdrawing of the loan resources in the middle of 2002.

#### **4. Project of Reconstruction of Health Infrastructure (F/P 1351)**

This Project is a follow-up of the Project of Reconstruction of Health Infrastructure in Eastern Slavonia, which has been implemented since 1999 by the Ministry of Health of the Republic of Croatia, for whose financing CEB had earlier awarded a long-term loan. The new project was estimated at HRK 373,684,040.00, and its financing by a HRK 186,837,031.00 loan (50% of net costs) was adopted by the CEB Administrative Council in July 2000. The remaining costs and all local costs will be financed from the resources of the Government budget. The Framework Agreement on the loan was signed on October 23 and 30, 2001. However, since subsequently changes were effected in the Project description in Annexes to the Framework Agreement, the Law on Verification of the Framework Agreement was not passed prior to the end of 2001, and nor has the

Loan become operational. The Project includes the reconstruction of the primary and secondary health protection system at specific locations, namely: 4 general hospitals (Pakrac, Dubrovnik, Sisak, and Zadar); 2 clinical hospital centers (Rijeka, Zagreb); 2 clinics; 4 health care centers (Metković, Slunj, Knin, and Dubrovnik), as well as the equipment for 45 surgeries built earlier by means of resources of the Government budget. The Loan will be paid out in a number of tranches, and each tranche will be repaid over a period of no more than 10 years, with a five-year grace period. CEB will subsidize the interest rate at the rate of 0.34% per annum, with the proviso that the maximum amount of the subsidy may not exceed EUR 685,555.00.

#### **5. Project of Financing a Credit Program of Small and Medium Entrepreneurship (F/P 1392)**

In the area of the Republic of Croatia the Project includes financing of the new, as well as the existing, investment projects aimed at job creation in small and medium enterprises. The Project is worth EUR 20 million, out of which CEB finances 40% through a framework credit of EUR 8 million approved to the Croatian Bank for Reconstruction and Development, with Government guarantees, whereas the European Bank for Reconstruction and Development finances 60% of the EUR 12 million worth loan. The Law on Verification of the Framework Agreement on the credit between the Republic of Croatia, Croatian Bank for Reconstruction and Development and the Council of Europe Development Bank, for financing a credit program for small and medium entrepreneurship was published in the Official Gazette - International Agreements No. 9/01. The Framework Agreement on the credit came into force on September 19, 2001<sup>45</sup>. The credit will be utilized in four equal tranches, out of which the first one is limited to no more than 25% of the total credit and has to be utilized no later than 12 months after coming into force of the Framework Agreement. For the remaining three tranches it was agreed that they would be utilized within 18 months following the utilization of each previous tranche. The credit was not utilized prior to the end of 2001, and the withdrawal of the first tranche is envisaged for mid 2002.

New loans have been approved with repayment term of 10 years, 5 years of grace period for repayment of the principal, and a favorable LIBOR-based interest rate which is agreed for each individual tranche at the time of withdrawal, decreased by the CEB subsidy of 0.50% per annum and with default interest which will be accrued by raising the interest rate by 2.5% per annum.

#### ***Loans under Preparation***

During 2001 preparation of new loans commenced: (1) a HRK 21,395,000.00 loan for reconstruction of the “Andrija Štampar” School of Public Health in Zagreb and the “Andrija Štampar” International Center for Health Management in Dubrovnik, (2) loan for the development of social infrastructure and reintegration of return to multi-ethnic community in the City of Glina, (3) the third school reconstruction loan, (4) the second loan for return of displaced persons and refugees, (5) loan for infrastructure and social reconstruction of islands or areas of special state concern, and (6) loan for environmental protection (fire protection).

#### ***Utilization of Loans in 2001***

During 2001 a total of HRK 105,242,000 was withdrawn out of framework loans (EUR 14.6 million, according to CEB exchange rate on the day of the withdrawal of the tranches), i.e., the following tranches were withdrawn: the fifth tranche from the Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia, the fourth tranche from the Framework Loan for the Project of Reconstruction of Schools in Eastern Slavonia, the first tranche from the new Framework Loan for the School Reconstruction Project, as well as the first tranche from the new Framework Loan for the Project of Return of Displaced Persons and Refugees in the Republic of Croatia.

Table 6.16 shows a detailed overview of utilization of the Loan, i.e., withdrawal of individual tranches in the period from 1999 to 2001, agreed financial terms, and the debt status of the Republic of Croatia against CEB.

The Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia<sup>46</sup> amounting to HRK 172,744,129.00 provides financing of 44% of the total of HRK 388,800,650.00 of estimated net costs of reconstruction of the primary and secondary health care system (reconstruction/construction of 18 centers of primary health care and 3 hospitals, construction of 48 apartments for health workers and procurement of medical equipment).

In 2001 an additional agreement was concluded for withdrawal of the fifth tranche of the Framework Loan, and December 2001 HRK 14.77 million was utilized. For the implementation of the Project, according to the status as of December 31, 2001, a total of HRK 146,870,600 was disbursed from the Framework Loan through five tranches (85%), and HRK 25,873,529.00 (15%) remained to be withdrawn.

---

<sup>45</sup> The notice on coming into force of the Framework Agreement on the Credit between the Republic of Croatia, Croatian Bank for Reconstruction and Development, and the Council of Europe Development Bank for the financing of the credit program for small and medium entrepreneurship (the Official Gazette - International Agreements No. 5/02).

<sup>46</sup> The Law on the Verification of Framework Agreement on the Loan between the Council of Europe Development Bank and the Republic of Croatia for Project 1278 (1998) - Reconstruction of Health Infrastructure in Eastern Slavonia (the Official Gazette - International Agreements, No. 13/1998).

**Table 6.16: Review of CEB Loans Disbursement and Debt Status at the End of 2001**

No.	Project	Framework Loan Amount (HRK)	Tranche/Date Withdrawal	Disbursed (HRK*)	Currency	Debt in Currency Dec. 31, 2001	Int. Rate Fixed	Grace Per. For Princ.	Principal date Due	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
1.	Project F/P 1278/1998 Reconstruction of Health Infrastructure in Eastern Slavonia (Beneficiary: Ministry of Health)	172,744,129	I. (17. 03. 1999.)	35,078,800	USD	5,075,000	5.71%	5 annual	17. 03. 2005	17. 03. 2009.
			II. (02. 11. 1999.)	34,288,200	EUR	4,500,000	5.38%	5 ann..	02. 11. 2005	02. 11. 2009.
			III. (22. 02. 2000)	26,329,600	EUR	3,400,000,	5.56%	5 ann.	02. 02. 2006	22. 02. 2010.
			IV. (29. 11. 2000)	36,396,000	EUR,	4,800,000	5.54%	5 ann.	29. 11. 2006	29. 11. 2010.
			V. (21. 12. 2001)	14,778,000	EUR	2,000,000	4.67%	5 ann.	21. 12. 2007	21. 12. 2011.
			<b>Total 1. (I.+II.+ III. +IV+V):</b>	<b>146,870,600</b>	<b>USD, EUR</b>	<b>5,075,000 14,700,000</b>				
2.	Project F/P 1279/1988 School Reconstruction in Eastern Slavonia (beneficiary : Ministry of Public Works, Reconstruction, and Construction)	67,368,000	I. (15. 03. 1999.)	16,658,110	USD	2,410,000	5.71%	5 ann.	17. 03. 2005	17. 03. 2009.
			II. (23. 11. 1999.)	23,715,310	EUR	3,100,000	5.04%	5 ann.	29. 11. 2005	29. 11. 2009.
			III. (29. 11. 2000)	14,406,750,	EUR	1,900,000	5.53%	5 ann.	29. 11. 2006	29. 11. 2010.
			IV. (01. 08. 2001)	7,897,670	EUR	1,100,000	5.06%	5 ann.	01. 08. 2007	01. 08. 2011.
			<b>Total 2. (I.+II.+III.+IV.):</b>	<b>62,677,840</b>	<b>USD EUR</b>	<b>2,410,000 6,100,000</b>				
3.	Project F/P 1352/1999 School Reconstruction (Beneficiary: Ministry of Public Works, Reconstruction, and Construction)	98,682,000	I. (01. 08. 2001)	24,410,980	EUR	3,400,000	5.06%	5 ann.	01. 08. 2007	01. 08. 2011.
4.	Project F/P 1378/2000 Return of Displaced Persons and Refugees to RC (Beneficiary: Ministry of Public Works, Reconstruction, and Construction)	232,000,000	I. (01. 08. 2001)	58,155,579	EUR	8,100,000	5.06%	5 ann.	01. 08. 2007	01. 08. 2011.
5.	Project F/P 1379/2000 Project of Reconstruction of Franciscan Monastery Mala Braća, Dubrovnik	10,325,454,		0	EUR	0				
6.	Project F/P 1351/1999 Reconstruction of Health Infrastructure (Beneficiary: Ministry of Health of RC)	186,837,031		0	EUR	0				
	<b>Total Framework Loans (1.+2.+3.+4.+5.+6):</b>	767,956,614	<b>Total disbursed (status as of: 31. 12. 2001):</b>	<b>292,114,990</b>	<b>Total: USD EUR</b>	<b>7,485,000 32,300,000</b>				
	<b>FRAMEWORK CREDIT WITH GUARANTEE OF RC</b>	<b>Amount in EUR</b>								
7	Project F/P 1392/2000 Financing Credit Program of Small and Medium Entrepreneurship (HBOR)	8,000,000	0		EUR	0				

Note:

\*Data on utilization of loans in kuna shown per exchange rate of CEB for currencies on the day of disbursement of individual tranches

The School Reconstruction Project in Eastern Slavonia<sup>47</sup> is financed by CEB by a Framework Loan of HRK 67,368,000.00 (50% of the total of HRK 134,736,000.00 kuna estimated net costs of repair and reconstruction of 33 primary schools and 1 secondary school covered by the Project). In 2001, HRK 7,897,670.00 from the Loan was invested by withdrawing the fourth tranche on the basis of concluded additional agreement. The status of Framework Loan as of December 31, 2000 is HRK 62,677,840, whereas HRK 4,690,160.00 has been left for withdrawal (7%).

The first tranche from the Framework Loan of HRK 232,000,000.00 for financing the Project of Reconstruction and Providing Housing for Displaced Persons and Refugees in the Republic of Croatia was withdrawn at the beginning of August 2001 at EUR 8.1 million (HRK 58,155,570.00). The undisbursed Loan resources of HRK 173,844,430.00 kuna (75%) are planned to be utilized until the end of 2002.

The first tranche for the implementation of the School Reconstruction Project in the Republic of Croatia from the Framework Loan of HRK 98,682,000.00 was withdrawn at the beginning of August 2001, amounting to EUR 3.4 million (24,410,980.00). The amount remaining to be withdrawn on December 31, 2001 was HRK 74,271,020.00 (75.3%).

The Government budget for 2001 paid for due interest on disbursed tranches of the Framework Loan in the total amount of USD 427,393.50 and EUR 958,431.70.

Debt of the Republic of Croatia against CEB against all withdrawn tranches from concluded and effective Framework Agreements as of December 31, 2001 amounted to USD 7,485,000.00 and EUR 32,300,000.00.

#### **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 to cooperate directly with EIB in 1992. During 1994 the outstanding debt was divided based on loans or portions of loans granted to the former Yugoslavia on principle of piece-meal succession. The Republic of Croatia arranged the legal and financial relations with EIB in terms of the inherited debt by concluding a Guarantee Agreement and Letter of Agreement No. 0298 in 1995<sup>48</sup>.

Activities on the establishment of institutional relations of the Republic of Croatia with EIB-om commenced in 1995<sup>49</sup> and discontinued after Croatian actions in liberation of occupied areas in August 1995, continued at the invitation of EIB in mid 2000. At the time the preparation of two Croatia projects was discussed: (1) construction of Breznički Hum -Varaždin highway (23.2 km)<sup>50</sup> and (2) modernization and electrifying the railway line on Pan-European Corridor Vc., nominated and accepted as the so-called "quick-start" projects under the Stability Pact.

The Council of Ministers of the European Union gave EIB a mandate on November 7, 2000 to finance infrastructure projects and private sector development projects in the Republic of Croatia. A Framework Agreement between the Republic of Croatia and European Investment Bank, signed on December 13, 2000, came into force on October 30, 2001<sup>51</sup>. This Agreement regulates the EIB activities in the Republic of Croatia and enables for the Bank to finance projects in line with Croatia's development priorities through long-term favorable loans. On February 6, 2001, pursuant to the Framework Agreement, EIB Board of Governors approved issuing loans for investment projects in the Republic of Croatia.

##### ***Loans Concluded in 2001***

European Investment Bank, in line with the EU policy, mandate received under the Stability Pact, framework of its business policy, and pursuant to the concluded Framework Agreement with Croatia, favorable long-term individual and global loans, supported financing of large infrastructure projects in the railway and road sectors and development projects for small and medium enterprises in industry, tourism, and other services.

During 2001 EIB approved a total of EUR 146 million for financing projects in Croatia, out of which EUR 100 million is earmarked for big infrastructure projects (railway reconstruction and modernization EUR 40 million and reconstruction of state roads EUR 60 million), as well as EUR 46 million for the development of small and medium enterprises (three global loans were awarded to commercial banks). The Republic of Croatia concluded with EIB one financing agreement and two guarantee agreements (total value EUR 110 million), whereas commercial banks without Government guarantees concluded loans worth EUR 36 million.

---

<sup>47</sup> The Law on the Verification of Framework Agreement on the Loan between the Council of Europe Development Bank and the Republic of Croatia for Project 1279 (1998.) – School Reconstruction in Eastern Slavonia (the Official Gazette - International Agreements, No. 13/1998).

<sup>48</sup> The Law on Verification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank and Letter of Agreement No. 0298, signed on January 12, 1995 in Luxembourg and February 10 in Zagrebu (the Official Gazette - International Agreements No. 6/1995), came into force May 23, 1995.

<sup>49</sup> As part of the preparation of the Draft Trade and Cooperation Agreement between the Republic of Croatia and European Union, the Draft Protocol on Financial Cooperation with European Community was prepared, which was envisaged to assist EIB in financing projects in Croatia.

<sup>50</sup> This project was suspended later until confirmation on harmonization with implementation criteria.

<sup>51</sup> The Law on Verification of the Framework Agreement between the Republic of Croatia and European Investment Bank which regulates the activities of EIB in the Republic of Croatia (the Official Gazette - International Agreements No. 6/01).

**Table 6.17: An Overview of EIB Loans Approved in Line with the Framework Agreement between RC and EIB of December 13, 2000 (Status as of on Dec. 21, 2001)**

No.	Loan Number	Project Name	Beneficiary	Date of Concluding the Agreement	Law Published in the Official Gazette of RC	To Be Withdrawn by	Currency	Loan Amount	Disbursed	Outstanding for Withdrawal
<b>I. PUBLIC LOANS</b>										
1.	FINo. 21.051	Project of Reconstruction of Infrastructure and Modernization of Signalization and Telecommunications System in parts of. Pan European Corridor Vc	Croatian Railways (Hrvatske željeznice d.o.o.)	24. 05. 2001		30. 10. 2005	EUR	40,000,000	0	40,000,000
<b>II. LOANS OBTAINED WITH THE GUARANTEE OF RC</b>										
1.	FINo. 21.262	State Road Reconstruction Project	Hrvatske ceste d.o.o.	29. 10. 2001		26. 05. 2004	EUR	60,000,000	0	60,000,000
2.	FINo 21.316	Global loan za HBOR – small and medium infrastructure projects of local authorities - investment projects of small and medium enterprises in industry, tourism and other services	HBOR	26. 11. 2001		26. 05. 2004	EUR	10,000,000	0	10,000,000
<b>TOTAL II (1-2):</b>							EUR	<b>70,000,000</b>	<b>0</b>	<b>70,000,000</b>
<b>TOTAL (I+II):</b>							EUR	<b>110,000,000</b>	<b>0</b>	<b>110,000 000</b>
<b>III. LOANS OBTAINED WITHOUT GOVERNMENT GUARANTEES</b>										
1.		Global Loan	Privredna banka Zagreb d.d.	18. 10. 2001			EUR	16,000,000.00		
2.		Global Loan	HVB Bank Croatia d.d.	14. 12. 2001			EUR	20,000,000.00		
<b>TOTAL (I.+II.):</b>							EUR	<b>36,000,000.00</b>		

Table 6.17 contains data on long-term loans obtained in line with the 2000 Framework Agreement on the basis of the financing agreement and guarantee agreements concluded between the Republic of Croatia and EIB. Loans have been agreed with repayment time of 15 years and with a 5-year grace period on principal, and with six-month EURIBOR-based interest rate increased by EIB spread. Interest rate is fixed for each individual tranche on the day of withdrawal notice, default interest accrued by increasing the regular interest by 2.5% and payment of fees in case of deferring payment of tranches by 1% per annum to the amount of deferred payment, and in case of cancelation of payment by 0.75% per annum to the amount of undisbursed tranche. Loan resources are used after financing agreement comes into force, however, until the end of 2001 laws on their verification were not passed and loans did not become effective, nor were the loan resources used (via withdrawal of tranches).

In addition to a EUR 10 million global loan for financing small and medium enterprises, approved to HBOR, with Government guarantee, EIB awarded, without Government guarantees, another two global credits in the total amount of EUR 36 million: (1) to Privredna banka Zagreb d.d. EUR 16 million (agreed on October 18, 2001), and (2) HVB Bank Croatia d.d., EUR 20 million (agreed on December 14, 2001).

### ***Preparation of New Projects for Financing by EIB Loans***

New infrastructure projects in the road sector are in different phases of preparation: (1) the Rijeka - Zagreb Highway Construction Project (co-financing of construction of section Vrbovsko-Bosiljevo-Vukova Gorica), (2) ring road construction projects in Rijeka and Split, and (3) rehabilitation of the Bregana-Zagreb-Lipovac highway, projects of investments into infrastructure of airports and sea ports: (1) improvement of security measures on landing in conditions of diminished visibility at Zagreb Airport, (2) projects of investments into infrastructure of Port of Ploče and Zadar and into environmental protection sector (project Adriatic Master Plan has been included into the “quick start” projects).

## Repayment of Inherited Loans

Inherited long-term loans granted in the period from 1982 to 1989<sup>52</sup> were also repaid in 2001 pursuant to the law and according to the different schedules of repayment in different currencies. On December 6, 2001 EIB prepared revised repayment schedules against tranches in currencies used previously (BEF, DEM, FRF, ITL, NLG, and GRD), after conversion is effected of those previous currency payments in EUR at fixed exchange rates.

Table No. 6.18 gives a review of inherited EIB loans and debt stock at the end of 2001.

The liabilities due toward European Investment Bank against loans used for financing roads and railways were paid for from the Government budget for 2001, whereas Croatian Power Utility repaid its due liabilities by their own resources and paid in full the outstanding debt toward EIB. After all the liabilities due in 2001 have been met, the outstanding debt against EIB, expressed in EUR and five various currencies and converted into HRK against the mid exchange rate of the Croatian National Bank as of December 30, 2001, amounted to HRK 513,560,468.10.

**Table 6.18: A Review of Inherited EIB Loans and Debt Stock**

Red. br.	EIB Loan No.	New Borrowers According to Letters of Agreement	Guarantor by Letters of Agreement	Loan Amount in EUR	Currency of Loan Repayment	Outstanding debt Dec. 31, 2001
1.	16275 EEMS-HE CRO	HEP d.d. Zagreb Letter of Agreement No. 0297	Republic of Croatia	10,552,500.00	EUR GBP	0.00 0.00
2.	16279 TYH-II-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		16,000,000.00	EUR USD	1,120,689.90 2,187,964.55
3.	16284 TYR-I-HZ CRO	Hrvatske željeznice Letter of Agreement No.: 0296	Republic of Croatia	29,190,000.00	EUR DKK USD GBP	5,207,850.68 12,069,613.94 927,469.49 330,736.67
4.	16289 TYH-III-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		15,250,000.00	EUR GBP DKK USD CHF	1,948,775.72 877,911.10 5,284,134.63 1,207,957.80 211,077.97
5.	13554 TYH-IV-HC CRO	The Republic of Croatia Letter of Agreement No.: 0298		60,000,000.00	EUR GBP JPY CHF	13,070,616.99 1,130,934.83 1,872,072,838.00 11,334,623.26
6.	14090 TYR-IIB-HZ CRO	Croatian railways Letter of Agreement No.: 0296	The Republic of Croatia	18,000,000.00	EUR CHF USD FRF GBP	6,077,454.99 4,339,257.09 1,572,133.91 19,628,225.98 1,670,524.19
	<b>TOTAL:</b>			<b>148,992,500.00</b>	EUR USD GBP DKK CHF JPY HRK*	27,425,338.28 5,895,525.75 3,867,310.79 17,353,748.57 15,884,958.32 1,872,072,838.00 <b>513,560,468.10</b>

Note:

\* According to mid exchange rate of CNB December 30, 2001

<sup>52</sup> Based on the piece-meal succession principle and based on respecting the so-called territorial principle 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 overall debt taken over expressed in 11 currencies of payment as of December 31, 1994 amounted to HRK 877,147,661.94.

## 6.5. THE GUARANTEES OF THE REPUBLIC OF CROATIA IN 2001

Pursuant to the Law on the Execution of the Government Budget of the Republic of Croatia for 2001, the Government of the Republic of Croatia can exceptionally issue financial and performance guarantees at the proposal of the Ministry of Finance. A guarantee fund is allocated for financial Government guarantees in the Government budget amounting to HRK 150,000,000.00 kuna. The amount mentioned above was increased to HRK 329,312,474.00 by the amendments to the Government budget of the Republic of Croatia for 2001.

Issuing guarantees is conditioned by securing enforcement on the basis of mortgage of property of the loan applicant, or other security instruments.

Guarantee applicants and the relevant bank are required to obtain a prior consent of the Ministry of Finance about the intention to issue Government guarantees and substantiate the request by a request for credit rating and effects of the new borrowing on the business operations of the applicants, taking into consideration the level of the existing indebtedness. Ministries in charge of guarantee applicants are required, within 15 days since submission of the request for consent, to provide an opinion of the Ministry of Finance on developmental changes and restructuring of the company of the applicant, and assessment of the loan payer's repayment capacity. The Ministry of Finance is required to forward to the Government an opinion within 40 days since the receipt of the application for prior consent.

Croatian Bank for Reconstruction and Development and Croatian Guarantee Agency will encourage and secure production, exports, and small enterprises by issuing guarantees.

The Government charges a fee of 0.5% value of the requested guarantee for issued Government guarantees, which is collected at issuance of the guarantee to the guarantee holder. The fee 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, procurement of aircraft based on long-term lease agreement, and for infrastructure projects (transport and communications, energy, environmental protection) conducted on the basis of concessions or joint investments.

In case of guarantees which are activated (called), the Ministry of Finance may give an order to the bank or another financial organization to freeze the debtor's accounts and settle the debt, with the proviso that this order has a priority in comparison with the debtor's other liabilities.

The Government reports to the Parliament about taken measures on a semi-annual basis.

**Table 6.19: An Overview of Issued Guarantees of the Republic of Croatia**

(in HRK)	1996	1997	1998	1999	2000	2001
<b>Financial</b>	<b>829,781,227</b>	<b>3,159,978,905</b>	<b>5,075,732,565</b>	<b>5,909,603,028</b>	<b>5,348,827,335</b>	<b>7,255,348,915</b>
- domestic creditors	121,706,065	1,379,074,727	1,244,583,653	1,154,356,624	4,971,002,254	3,041,398,094
- foreign creditors	708,075,162	1,780,304,178	3,831,148,912	4,755,246,404	377,825,081	4,213,950,821
<b>Performance</b>	<b>1,361,241,544</b>	<b>2,966,149,051</b>	<b>3,350,612,436</b>	<b>1,786,553,653</b>	<b>4,344,473,804</b>	<b>5,893,491,261</b>
<b>Total guarantee amount</b>	<b>2,191,022,771</b>	<b>8,316,550,727</b>	<b>16,742,895,728</b>	<b>24,439,052,409</b>	<b>34,132,353,548</b>	<b>47,281,334,724</b>

Source: The Ministry of Finance

In 2001 a total of 79 guarantees were issued, totaling HRK 13,148,840,176.63, out of which there were 29 financial guarantees amounting to HRK 7,255,348,915.72 and 50 performance guarantees amounting to HRK 5,893,491,260.91.

In comparison with 2000, the number of issued guarantees was lower by 48, but the value of issued guarantees rose by HRK 3,455,539,036.76. The reason for this was the increase in the value of issued financial guarantees and also the increase in the number and value of performance guarantees.

Also, in comparison with the previous year the structure of issued financial guarantees was changed.

During 2001 financial guarantees were issued for the HBOR amounting to HRK 53,303,500.00, other domestic banks amounting to HRK 2,988,094,594.50, and external banks amounting to HRK 4,213,950,821.22 kn.

In terms of intentions, financial guarantees were issued in the transport sector - HRK 4,504,350,651.22, economy (for restructuring and financial strengthening of Croatian Postal Bank d.d.; for the implementation of financial consolidation of Croatian Railways d.o.o. and for the implementation of Croatian Railways and Croatian Power Utility restructuring program; for rehabilitation and reconstruction of distribution network in the areas of special state concern, for financing equipment for the Ministry of Defense; for printing and publishing; production of light metals) HRK 2,697,694,764.50, agriculture (for starting an export program) HRK 29,290,000.0 and tourism HRK 24,013,500.00.

Guarantees issued in the transport sector amounting to HRK 4,504,350,651.22 are related to credits approved to Croatian Motorway Authority amounting to HRK 1,286,790,000.00, Rijeka-Zagreb Motorway HRK 1,624,662,940.00, Croatian Railways HRK 618,328,186.00, Croatian Road Authority HRK 685,951,800.00, and Port of Rijeka HRK 288,617,725.22.

At the end of June 2001 the Government of the Republic of Croatia passed a decision related to the realization of the program of implementation of financial consolidation of business operations of Croatian Railways in 2001. For the

realization of the said program a short-term borrowing was envisaged of the Croatian Privatization Fund from a bank consortium until the end of 2001, and bonds would be issued for repayment of credit. According to the Croatian Privatization Fund, assets of the Croatian Power Utility are insufficient as a basis for repayment of bonds, and assets of Croatian Railways is not known, so repayment sources will be established at a later stage.

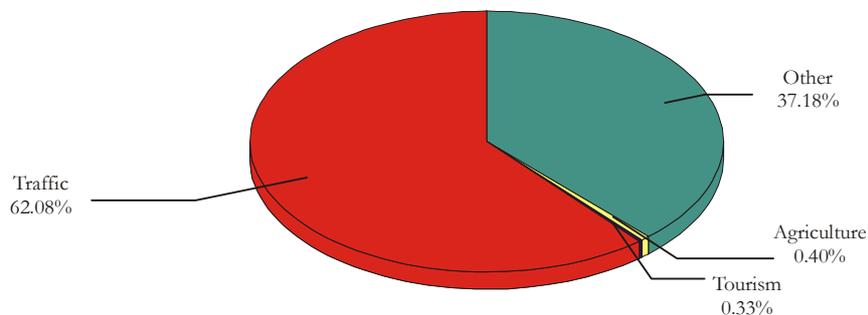
In line with the above and pursuant to a Government decision guarantees were issued for short-term foreign exchange credits which the Croatian Privatization Fund concluded with 5 banks in the total amount of EUR 95,000,000.00 or HRK 723,010,800.00 in order to secure collection of claims according to Restructuring Program of Croatian Railways and Croatian Power utility until issuance of long-term bonds. Credits were concluded for repayment term until end 2001, and then annexes to the Agreement were passed for the extension of term of repayment until the end of June 2002.

Pursuant to a conclusion of the Government from July 2001, with a view to restructuring and financial strengthening of Croatian Postal Bank, the Government committed the Croatian Privatization Fund to conclude with the bank indicated above an agreement on ceding the claims. Pursuant to the agreement the bank will cede its claims for a fee on the basis of risky placements it has toward specific companies amounting to HRK 886,034,000.00, which, at a 20-percent discount, amounts to HRK 708,828,000.00. The Croatian Privatization Fund will pay for the fee for ceded claims to the Bank in 3 annual installments increased by the interest equal to the discount rate of the Croatian National Bank, at the end of March 2002, 2003, and 2004.

During 2000 the Government of the Republic of Croatia passed a package of measures, which establish a new position of shipbuilding and business conditions in the transitional period to its privatization, which is envisaged before the end of 2003. In this respect there has been a significant increase in the amount of issued performance guarantees in comparison with the previous year.

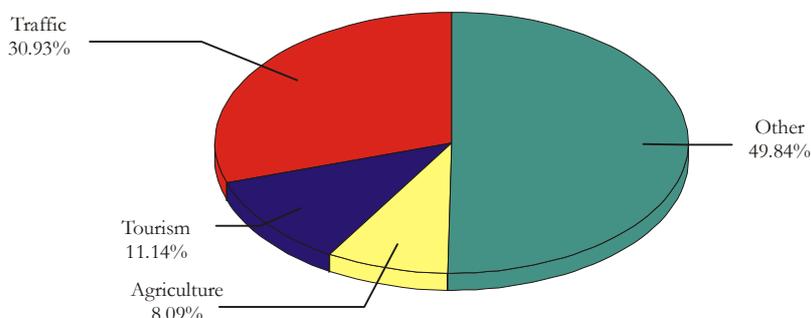
In 2001, the largest portion of issued performance guarantees amounting to HRK 6,182,142,075.45 was the one, in the amount of HRK 5,534,392,723.31, issued for the construction of ships for foreign clients and for bridging the liquidity for: Brodosplit d.o.o., Split amounting to HRK 2,854,442,595.76, 3. maj d.d., Rijeka, amounting to HRK 1,051,751,351.96, Uljanik d.d., Pula amounting to HRK 1,435,890,761.34, Croatian Shipbuilding Trogir d.o.o. amounting to HRK 353,419,386.65 kn, Kraljevicu d.d. amounting to HRK 153,019,166.94, Brodotrogir d.d. amounting to HRK 34,152,622.26 kn, and Viktor Lenac d.d., Rijeka amounting to HRK 10,815,376.00.

**Figure 6.9: Structure of Issued Financial Guarantees by sectors in 2001**



Source: Ministry of Finance

**Figure 6.10: Structure of Issued Financial Guarantees by sectors in 1996 - 2001**



Source: Ministry of Finance



## VII. INTERNAL ORGANIZATIONAL STRUCTURE OF THE MINISTRY OF FINANCE

*Prepared by: Lidija Sršek, The Secretary of the Ministry of Finance of the Republic of Croatia*

The internal organizational structure of the Ministry of Finance is regulated by the Decree on the Internal Organizational Structure of the Ministry of Finance (the Official Gazette No. 70/01), and is shown in the organizational chart attached.

The work of the Ministry of Finance is managed by the Minister of Finance. The Minister of Finance has a Deputy.

The following administrative organizations and other internal organizational units have been established for the performance of the activities in the scope of authority of the Ministry of Finance:

1. Macroeconomic Analysis and Planning Bureau
2. Government Treasury
3. International Financial Relations and European Integration Department
4. Department for EU Assistance Programs and Projects Financing
5. Economic Affairs Department
6. Financial System Department
7. Procurement Department
8. Internal Oversight Department
9. Independent Service for Second-Instance Administration
10. Cabinet of the Minister
11. Office of the Secretary of the Ministry

The administrative organizations within the Ministry and the organizational unit established pursuant to a special law are the following:

1. Tax Administration
2. Customs Administration
3. Foreign Exchange Inspectorate
4. Anti-Money Laundering Office

### ***THE SCOPE OF AUTHORITIES OF THE INTERNAL ORGANIZATIONAL UNITS OF THE MINISTRY OF FINANCE***

The Macroeconomic Analysis and Planning Bureau is responsible for the macroeconomic trends and forecasts analysis, especially analyzing and planning fiscal policy on the level of the state budget, extra-budgetary funds, and Local Government. It analyzes monetary and exchange rate policy, participates in the activities of the state cooperation with international institutions, as well as activities related to the appearance of the Republic of Croatia on the international financial markets, and performs other activities as requested by the Minister.

The Government Treasury performs tasks related to the preparation and consolidation of the budget, execution of the Government budget, Government accounting, and cash and public debt management.

The Government Treasury consists of the following: Government Budget Preparation Division, Government Budget Execution Division, Public Debt Management Division, System Improvement Department, and Budget Oversight Department.

The Government Budget Preparation Division prepares the basis for the planning of financing the public needs on the level of the state, local, and regional self-government and extra-budgetary funds, prepares the Government budget, proposes financial plans of the extra-budgetary funds, performs the consolidation of the general Government (Government budget, extra-budgetary funds, and budgets of the local and regional self-government), prepares legal regulations and subordinate legislation from its scope of authorities, prepares public expenditures reports, and performs other activities as requested by the Minister.

The Government Budget Execution Division develops the draft of the final annual report of the Government budget, the draft final report of the budget reserve, as well as the dynamics plan of Government budget execution, executes the Government budget and performs administrative activities related to the budget execution, regulates the budget accounting system, draws up and submits financial reports and the Government budget annual accounts, and performs other activities as requested by the Minister.

The Public Debt Management Division registers the immediate and conditional public debt liabilities, contracts borrowing and manages securities issues on the domestic and foreign markets, manages the public debt portfolio in terms of sources, maturity, exchange and interest structure, prepares proposals of decisions on the issuance of Government guarantees, records and keeps track of loans issued by the Government.

The System Improvement Department participates in the adjustment of the operational system to the Government Treasury information system, takes care of the Government Treasury information system, and provides support to the beneficiaries of the Government Treasury system.

The Budget Oversight Department performs activities of budgetary oversight with a view to ensuring a legal and purposeful utilization of budgetary resources.

The International Financial Relations and European Integration Department prepares legal regulations pertaining to foreign financial relations, performs activities related to multilateral financial cooperation and obligations ensuing from the membership of the Republic of Croatia in international and regional financial institutions, prepares and monitors financial performance of investment projects and technical assistance through international financial institutions, performs the activities in the scope of authorities of the Ministry of Finance related to the rapprochement of the Republic of Croatia to European integration, and performs other activities as requested by the Minister.

The Department for EU Assistance Programs and Projects Financing is responsible for financing, procurement, payments, oversight, and audit of the implementation of all programs and projects of the European Union to the Republic of Croatia.

The Economic Affairs Department plans and monitors the collection of non-tax and capital revenues, monitors the implementation of economic programs, monitors and analyzes operations of specific companies and public enterprises of state interest, monitors the consequences of natural disasters and war damage, performs activities related to concessions, monitors the state of companies which received Government guarantees, and performs other activities as requested by the Minister.

The Financial System Department participates in the development of legal regulations in the area of the banking and foreign exchange systems, insurance and payment transactions system, money and capital markets, analyzes and proposes measures for the improvement of those systems, performs inspection supervision of certain financial institutions, and performs other activities as requested by the Minister.

The Procurement Department supervises the procurement of state administration bodies and other state administration bodies, Local Government units, legal persons and other entities which perform procurement in line with the Law on the Procurement of Goods, Services, and Cessation of Works, and performs other activities as requested by the Minister.

The Internal Oversight Department is responsible for supervision of implementation of comprehensive tasks and functions of the Ministry, proposes measures for better coordination of operations of the Department, controls the work of all civil servants and employees of the Ministry, takes measures for the detection and suppression of criminal activities of civil servants and employees of the Ministry, supervises contracts, concessions, and other enactments in which the state has granted rights or assumed commitments (guarantees), controls the work of internal organizational units, controls all state revenues from the scope of authority of supervision of the Ministry, and performs other activities as requested by the Minister.

The Independent Service for Second-Instance Administrative Procedure decides on complaints against first-instance decisions of Tax Administration and customs offices, and implements other second-instance procedures in the scope of authority of the Ministry.

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

The Office of the Secretary of the Ministry is responsible for providing coordination of operations of internal organizational units and administrative organizations of the Ministry, coordination of the preparation of draft proposals of laws and other regulations in the scope of authority of the Ministry, and for the performance of human resources management, and performing other activities as requested by the Minister.

The Tax Administration is responsible for organization, coordination, monitoring, and controlling of collection of taxes, fees, and other budget revenues, conducting inspection surveillance, enforcements for purpose of tax collection, monitoring and analyzing the implementation of tax regulations and functioning of the tax system, and proposing solutions in the area of tax policy.

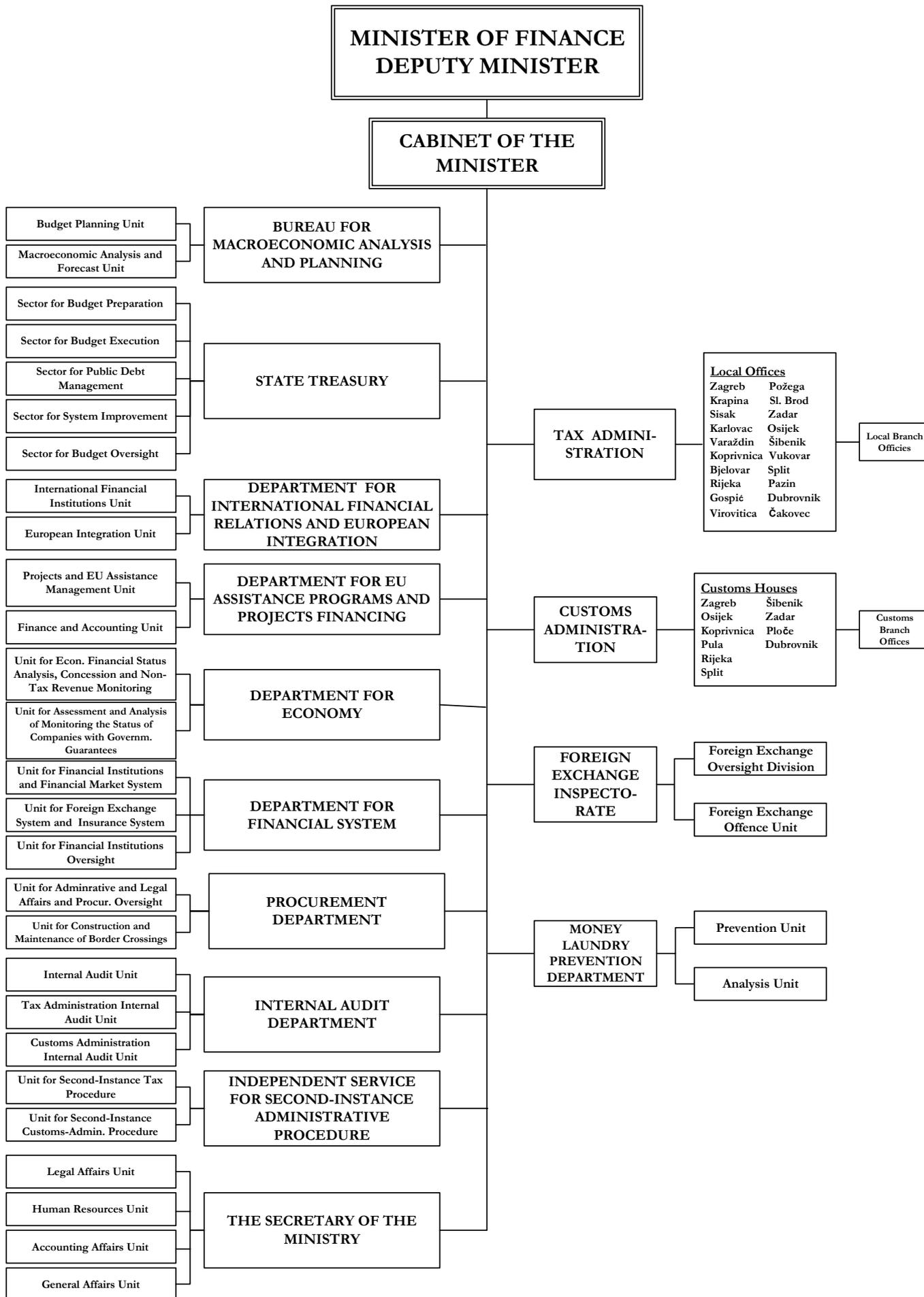
The Customs Administration is responsible for preparation and proposing of systematic solutions and measures of the current economic policy in the area of customs system, customs and extra-customs protection, as well as free zones, organizing and supervision of customs service, performing customs supervision in commodity trade and passenger traffic with foreign countries, performing supervisions and control of assessment and collection of customs duties, excise taxes and other duties which are assessed at customs clearing, conducting administrative and customs offense procedures and offense procedures related to excise taxes, and performing other activities as requested by the Minister.

The Foreign Exchange Inspectorate is responsible for inspection supervision and conducting offense procedure in the first instance in the area of foreign exchange and foreign trade operations, as well as for foreign credit operations, and performing other activities as requested by the Minister.

The Anti-Money Laundering Office is responsible for collection, analyzing, processing, and storing the data on transactions pursuant to the Law on Anti-Money Laundering, performing immediate supervision of persons under obligation over the implementation of the Law, cooperating with relevant bodies and services of specific countries which engage in anti-money laundering, submitting information about suspicious transactions to competent state bodies for further procedure, takes measures, in cooperation with competent bodies, for suppression and revealing of money laundering, and performing other activities as requested by the Minister.

The work of the Government Treasury is managed by the General Treasurer, the work of the Office of the Secretary of the Ministry is managed by the Secretary of the Ministry, the work of the Bureaus and the Departments is managed by Assistant Ministers, the work of the Independent Service for second-instance administrative procedure is managed by the Head of the Independent Service, the work of Tax and Customs Administrations is managed by the Directors – Assistant Ministers, the work of Foreign Exchange Inspectorate is managed by Chief Foreign Exchange Inspector – Assistant Minister, whereas the work of the Anti-Money Laundering Office is managed by the Chief of Staff of the Office.

ORGANIZATIONAL CHART OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA



# THE FORMER MINISTERS OF FINANCE OF THE REPUBLIC OF CROATIA

**Prof. MARIJAN HANŽEKOVIĆ, Ph.D.**

July 27, 1990 – August 3, 1991

**JOZO MARTINOVIĆ, M.Sc.**

August 4, 1991 – August 11, 1992

**Prof. ZORAN JAŠIĆ, Ph.D.**

August 12, 1992 – July 6, 1994

**BOŽO PRKA, M.Sc.**

July 7, 1994 – September 11, 1997

**BORISLAV ŠKEGRO, M.Sc.**

September 11, 1997 – January 27, 2000

**Prof. MATO CRKVENAC, Ph.D.**

January 27, 2000. – December 23, 2003



# APPENDICES

*Prepared by: Ivana Radeljak, Bureau for Macroeconomic Analysis and Planning  
Dragica Smilaj, Bureau for Macroeconomic Analysis and Planning  
Stanko Kršlović, Bureau for Macroeconomic Analysis and Planning  
Mira Mastelić, Budget Preparation and Consolidation Department  
Tomislava Ujević, Bureau for Macroeconomic Analysis and Planning*

**APPENDIX 1: Basic Macroeconomic Indicators of Croatian Economy**

	Outturn				
	1997	1998	1999	2000	2001
GDP, current prices (HRK mil.)	123,812.0	137,604.0	141,579.4	152,519.1	162,909.1
GDP growth rate (%)	6.8	2.5	-0.9	2.9	3.8
GDP, current prices (USD mil.)	20,109.1	21,629.0	19,896.3	18,427.8	19,533.5
GDP, per capita (USD)	4,398.3	4,806.5	4,421.4	4,095.1	4,439.4
Retail prices, average (%)	3.6	5.7	4.2	6.2	4.9
Producer's prices, average (%)	2.3	-1.2	2.5	9.7	3.6
Cost of living, average (%)	4.1	6.4	3.5	5.3	4.8
Exchange rate HRK/USD, average	6.16	6.36	7.12	8.28	8.34
Exchange rate HRK/DEM, average	3.56	3.62	3.88	3.90	3.82
Exchange rate HRK/EUR, average	6.96	7.14	7.58	7.63	7.47
Trade balance (USD mil.)	-4,933.2	-3,841.9	-3,497.7	-3,454.9	-4,481.2
Trade balance, share of GDP (%)	-24.5	-17.8	-17.6	-18.7	-22.9
Exports (USD)	4,170.7	4,541.2	4,279.7	4,431.6	4,665.9
Imports (mil USD)	9,103.9	8,383.1	7,777.4	7,886.5	9,147.1
Current account balance (USD)	-2,325.1	-1,452.8	-1,397.2	-459.4	-725.1
Current account balance, share of GDP (%)	-11.6	-6.7	-7.0	-2.5	-3.7
International reserves of CNB, end of period (USD)	2,539.0	2,815.6	3,024.8	3,524.8	4,704.3
CNB discount rate, on annual basis (%)	5.9	5.9	7.9	5.9	5.9
Money market interest rates, daily market, on annual basis (%)	9.5	15.9	12.8	4.5	2.2
Total outstanding external debt, end of period (USD)	7,451.6	9,683.3	9,977.9	11,054.8	11,316.6
External public debt, end of period (USD)	2,905.7	3,412.3	3,975.3	4,828.4	5,132.6
Internal public debt, end of period (HRK mil.)	14,608.7	13,697.5	13,944.0	14,549.8	21,944.3
Deficit (-)/surplus (+) – consolidated central Government (HRK mil.)	-1,586.7	882.1	-2,802.1	-7,697.3	-4,043.5
Deficit (-)/surplus (+) – consolidated general Government (HRK mil.)	-1,497.1	678.2	-3,129.9	-7,687.6	-3,934.9
Unemployment rate, percentage of labor force (%)	17.5	17.6	19.5	21.4	22.0
Unemployment rate, ILO comparable, (%)*	9.9	11.6	14.5	17.0	16.3
Number of unemployed persons (000)	277.7	302.4	341.7	378.5	395.1
Average monthly net wages and salaries, growth rate (%)	16.9	12.8	13.9	8.9	6.5
Average monthly gross wages and salaries, growth rate (%)	13.1	12.6	10.2	7.0	3.9
Number of pension beneficiaries	925,520	955,352	1,017,801	1,018,504	1,032,120
Total volume of industrial production, growth rate (%)	6.8	3.7	-1.4	1.7	6.0
Industrial productivity, growth rate (%)	12.7	8.9	4.0	4.2	9.3
Nights spent by tourists, growth rate (%)	41.3	3.2	-15.0	45.0	11.0
Retail sales turnover, nominal growth rate (%)	18.1	3.7	-0.7	21.8	14.4
Total volume of construction works, growth rate (%)	16.7	0.7	-7.7	-9.1	3.6
Area (square km)	56,538	56,538	56,538	56,538	56,538
Population, mid-year (mil.)	4.6	4.5	4.5	4.5	4.4

\* CBS data from Labor Force Survey (data for second half of the year)

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

**APPENDIX 2: Budgetary Central Government Revenue and Grants**

(HRK 000)		Outturn					Budget
		1997	1998	1999	2000	2001	2002
<b>I.</b>	<b>Total revenue and grants</b>	<b>33,846,123</b>	<b>43,808,593</b>	<b>46,356,724</b>	<b>44,635,673</b>	<b>53,503,615</b>	<b>70,217,921</b>
<b>II.</b>	<b>Total revenue</b>	<b>33,846,123</b>	<b>43,808,593</b>	<b>46,356,724</b>	<b>44,635,673</b>	<b>53,503,615</b>	<b>70,217,921</b>
<b>III.</b>	<b>Current revenue</b>	<b>33,384,987</b>	<b>42,019,401</b>	<b>40,045,873</b>	<b>41,534,957</b>	<b>48,906,310</b>	<b>69,996,921</b>
<b>IV.</b>	<b>Tax revenue</b>	<b>31,775,491</b>	<b>40,327,487</b>	<b>38,317,635</b>	<b>39,939,019</b>	<b>47,274,030</b>	<b>67,517,300</b>
1.	Personal income tax	4,102,217	4,915,096	4,571,102	4,094,638	3,404,394	3,567,412
2.	Corporate profit tax	1,785,259	2,461,149	2,365,955	1,673,753	1,987,163	2,035,081
3.	Contributions for social insurance	-	-	-	-	6,781,216	25,181,385
4.	Taxes on real estate transactions	242,702	270,925	246,854	258,533	281,882	299,594
5.1.	General sales tax	15,133,172	1,972,045	387,922	153,158	155,448	505,000
5.2.	Value-added tax	0	20,228,226	19,829,971	21,825,284	23,266,859	24,007,182
6.	Excises	5,404,837	5,896,787	6,160,719	7,673,256	7,698,897	7,953,063
	a) on oil products	2,728,346	3,169,771	3,432,957	4,632,799	4,194,437	3,429,361
	b) on alcohol and alcoholic beverages	176,681	176,897	168,335	256,120	275,916	311,902
	c) on beer	279,086	277,889	276,782	417,177	464,630	805,662
	d) on beverages	110,255	83,182	84,658	86,499	87,751	99,341
	e) on tobacco products	1,999,988	1,983,435	1,969,920	2,073,693	2,098,557	2,700,000
	f) on coffee	74,959	76,807	77,648	92,545	115,691	121,428
	g) on import of motor vehicles	35,522	128,806	149,423	101,186	446,584	471,369
	h) on luxury products	0	0	996	13,237	15,331	14,000
7.	Taxes on international trade and transactions	4,639,995	4,127,523	4,287,890	3,795,288	3,215,411	3,456,832
7.1.	Customs duties	4,639,995	4,127,523	4,287,890	3,795,288	3,215,411	3,456,832
7.2.	Customs and other import charges	0	0	0	0	0	0
8.	Other taxes	467,309	455,736	467,222	465,110	482,760	511,751
<b>V.</b>	<b>Non-tax revenues</b>	<b>1,609,496</b>	<b>1,691,914</b>	<b>1,728,238</b>	<b>1,595,938</b>	<b>1,632,279</b>	<b>2,479,621</b>
9.	CNB profits	129,207	265,043	0	126,092	233,226	250,000
10.	Part of profits of public enterprises	329,842	351,134	698,792	21,893	-6,123	40,000
11.	Revenue from interests	1,421	2,161	1,265	13,692	18,873	1,000
12.	Other property income	82,082	247,997	237,730	496,878	111,381	691,520
13.	Administrative and court fees	146,399	125,092	112,273	110,986	122,518	123,213
14.	State administration bodies' revenue	286,830	115,994	130,311	167,886	137,193	999,109
15.	Road charges	347,086	271,762	229,810	308,603	344,729	0
16.	Fines and forfeits	281,011	308,147	313,080	340,306	329,935	364,779
17.	Other non-tax revenues	5,618	4,583	4,977	9,603	340,548	10,000
<b>VI.</b>	<b>Capital revenues</b>	<b>461,137</b>	<b>1,789,192</b>	<b>6,310,851</b>	<b>3,100,716</b>	<b>4,597,305</b>	<b>221,000</b>
18.	Sales of public flats	159,420	155,169	111,719	128,887	161,540	95,000
19.	Sales of army flats	157,940	201,448	113,027	96,808	76,104	110,000
20.	Privatization revenues	143,777	1,432,366	6,078,881	2,866,976	4,241,026	0
21.	Other capital revenues	0	209	7,224	8,045	118,635	16,000
<b>VII.</b>	<b>Grants</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

(HRK 000)		Outturn					Budget
		1997	1998	1999	2000	2001	2002
<b>I.</b>	<b>Total expenditure and lending minus repayments</b>	<b>35,006,314</b>	<b>42,551,916</b>	<b>48,878,764</b>	<b>50,743,526</b>	<b>57,812,764</b>	<b>74,614,094</b>
<b>II.</b>	<b>Total expenditure</b>	<b>34,395,182</b>	<b>41,473,167</b>	<b>47,379,586</b>	<b>49,567,457</b>	<b>56,723,276</b>	<b>73,255,439</b>
<b>III.</b>	<b>Current expenditure</b>	<b>29,579,721</b>	<b>34,883,026</b>	<b>38,476,084</b>	<b>44,237,397</b>	<b>52,819,221</b>	<b>69,329,849</b>
1.	Expenditures for goods and services	20,263,325	22,648,712	22,090,857	24,324,284	22,220,759	30,738,572
1.1.	Wages and salaries	9,147,512	10,851,793	12,080,454	13,072,713	12,727,337	16,619,272
1.2.	Employers' contributions	1,892,364	2,178,503	2,614,559	2,500,977	2,150,612	2,844,939
1.3.	Other purchases of goods and services	9,223,449	9,618,416	7,395,844	8,750,594	7,342,810	11,274,361
2.	Interest payment	1,737,016	1,951,283	2,099,141	2,599,286	3,015,312	3,800,322
2.1.	Domestic payment	775,007	917,305	933,117	945,130	1,043,098	1,587,020
2.2.	Foreign payments	962,009	1,033,978	1,166,024	1,654,156	1,972,214	2,213,302
3.	Subsidies and other current transfers	7,579,380	10,283,031	14,286,086	17,313,827	27,583,150	34,790,954
3.1.	Subsidies	2,307,071	3,274,689	3,418,897	3,802,763	3,656,038	2,264,957
3.1.1.	To non-financial public enterprises	2,085,988	2,847,858	2,590,594	3,080,263	2,822,147	1,768,406
3.1.2.	To financial institutions	1,281	0	0	0	0	7,000
3.1.3.	To other enterprises	219,802	426,831	828,303	722,500	833,891	489,551
3.2.	Transfers to other levels of Government	4,041,503	5,733,307	8,458,296	11,679,017	11,318,140	4,081,438
3.3.	Transfers to non-profit institutions	314,696	355,667	422,470	432,691	663,465	791,590
3.4.	Transfers to households	878,006	889,161	1,340,618	948,856	11,833,132	27,540,326
3.5.	Transfers abroad	38,104	30,207	645,805	450,500	112,375	112,643
<b>IV.</b>	<b>Capital expenditures</b>	<b>4,815,461</b>	<b>6,590,141</b>	<b>8,903,502</b>	<b>5,330,060</b>	<b>3,904,055</b>	<b>3,925,590</b>
4.	Acquisition of fixed capital assets	1,977,534	2,790,788	4,093,290	2,705,316	1,495,464	1,719,411
5.	Purchases of stocks	0	0	0	0	0	72,199
6.	Purchases of land and intangible assets	238,691	290,985	278,271	514,144	282,892	132,611
7.	Capital transfers	2,599,236	3,508,368	4,531,941	2,110,601	2,125,699	2,001,369
7.1.	To other levels of national Government	113,000	770,983	2,279,726	181,347	241,278	386,000
7.2.	To non-financial public enterprises	434,713	597,933	240,749	449,469	299,824	541,600
7.3.	To financial institutions	0	0	486,284	11,352	149,596	90,000
7.4.	To other enterprises	3,100	20,642	116,822	179,675	182,493	139,158
7.5.	Other domestic capital transfers	2,036,583	2,103,810	1,398,360	1,284,711	1,252,508	824,611
7.6.	Capital transfers abroad	11,840	15,000	10,000	4,047	0	20,000
<b>V.</b>	<b>Lending minus repayments</b>	<b>611,132</b>	<b>1,078,749</b>	<b>1,499,178</b>	<b>1,176,069</b>	<b>1,089,488</b>	<b>1,358,655</b>
8.	To other levels of national Government	43,587	12,709	45,352	13,325	-42,929	59,400
9.	To non-financial public enterprises	-263,142	4,400	0	0	105,161	433,300
10.	To financial institutions	603,948	934,929	962,721	981,969	826,052	875,900
11.	Other domestic net lending	205,734	100,978	480,409	165,604	186,676	-29,445
12.	Net lending abroad	21,005	25,733	10,696	15,171	14,528	19,500

**APPENDIX 4: Budgetary Central Government Expenditure by Function**

(HRK 000)		Outturn					Budget
		1997	1998	1999	2000	2001	2002
<b>I.</b>	<b>Total expenditure</b>	<b>34,395,182</b>	<b>41,473,168</b>	<b>47,379,587</b>	<b>49,567,457</b>	<b>56,723,275</b>	<b>73,255,439</b>
1.	General public services	2,182,768	3,411,394	3,047,060	2,933,184	2,978,323	3,193,236
2.	Defense affairs and services	6,990,659	7,373,239	5,617,308	5,479,453	4,338,616	4,354,710
3.	Public order and safety affairs	4,169,881	4,251,480	4,628,086	5,185,272	4,761,176	4,761,465
4.	Education affairs and services	4,050,800	4,668,772	5,718,179	6,576,016	6,581,945	6,060,495
5.	Health affairs and services	184,758	816,772	476,605	332,403	270,273	10,751,498
6.	Social security and welfare affairs and services	6,451,998	8,024,614	11,300,663	14,947,339	25,153,646	32,248,048
7.	Housing and community amenity affairs	2,069,451	2,620,402	2,025,698	1,803,294	1,677,039	982,164
8.	Recreational, cultural, and religious affairs and s.	539,479	576,615	842,026	904,118	955,698	969,019
9.	Fuel and energy affairs and services	-	-	764	342	7,660	8,755
10.	Agriculture, forestry, fishing and hunting	616,317	1,103,215	1,245,740	1,723,802	1,641,576	1,922,423
11.	Mining, manufacturing, and construction	692,771	728,932	2,819,543	624,081	466,388	489,249
12.	Transport and communications affairs and serv.	3,433,519	4,126,923	5,304,002	4,953,217	3,113,118	1,526,795
13.	Other economic affairs and services	648,405	548,438	659,235	813,162	832,231	994,928
14.	Expenditures not classified by major group	2,364,376	3,222,372	3,694,678	3,291,774	3,945,586	4,992,652

**APPENDIX 5: Financing by Type of Debt Holder**

(HRK 000)		Outturn					Budget
		1997	1998	1999	2000	2001	2002
<b>I.</b>	<b>Total financing</b>	<b>1,160,191</b>	<b>-1,256,677</b>	<b>2,522,040</b>	<b>6,107,853</b>	<b>4,309,149</b>	<b>4,396,173</b>
<b>II.</b>	<b>Domestic financing</b>	<b>-1,825,749</b>	<b>-1,247,563</b>	<b>-2,093,076</b>	<b>-813,598</b>	<b>1,977,213</b>	<b>1,812,002</b>
1.	From other general government	0	190,000	-87,000	-92,000	-11,000	0
2.	From monetary authorities	-354,848	112,392	748	-12,486	-389,118	0
2.1.	CNB – net lending	-241,340	0	0	0	0	0
2.2.	Changes in deposits	-113,508	112,392	748	-12,486	-389,118	0
3.	From deposit money banks	-1,357,298	-1,638,606	-1,859,376	-288,830	2,526,773	-372,518
4.	Other domestic financing	-113,603	88,651	-147,448	-420,282	-149,443	2,184,520
4.1.	From other financial institutions	-12,303	-6,860	-3,519	-245,773	-42,901	-43,038
4.2.	From non-financial public enterprises	0	0	0	0	0	0
4.3.	From non-financial private sector	0	0	0	0	0	0
4.4.	Other domestic financing n.e.c.	-101,300	95,511	-143,929	-174,509	-106,542	2,227,558
<b>III.</b>	<b>Foreign financing</b>	<b>2,985,940</b>	<b>-9,114</b>	<b>4,615,116</b>	<b>6,921,451</b>	<b>2,331,935</b>	<b>2,584,171</b>
5.	From international developmental institutions	470,073	379,921	404,557	23,086	414,213	1,149,325
5.1.	Drawings	557,570	504,185	589,995	250,003	633,242	1,546,659
5.2.	Amortization	-87,497	-124,264	-185,438	-226,917	-219,029	-397,335
6.	From foreign governments	-502,829	-525,161	-197,253	-800,125	-891,733	-865,129
6.1.	Drawings	0	0	110,897	77,132	110,041	288,482
6.2.	Amortization	-502,829	-525,161	-308,150	-877,257	-1,001,775	-1,153,611
7.	Other borrowing abroad	3,018,696	136,126	4,407,812	7,698,490	2,809,455	2,299,975
7.1.	Bank loans and advances	-3,749	-11,809	350,160	1,055,055	-3,845,765	-550,292
7.2.	Supplier credits	0	0	0	0	0	0
7.3.	Other borrowing abroad – n.e.c.	3,022,445	147,935	4,057,652	6,643,435	6,655,220	2,850,267
8.	Changes in cash, deposits, and securities	0	0	0	0	0	0

**APPENDIX 6: Financing by Type of Debt Instrument**

(HRK 000)		Outturn					Budget
		1997	1998	1999	2000	2001	2002
<b>I.</b>	<b>Total financing</b>	<b>1,160,191</b>	<b>-1,256,677</b>	<b>2,522,040</b>	<b>6,107,853</b>	<b>4,309,149</b>	<b>4,396,173</b>
<b>II.</b>	<b>Domestic financing</b>	<b>-1,825,749</b>	<b>-1,247,563</b>	<b>-2,093,076</b>	<b>-813,598</b>	<b>1,977,214</b>	<b>1,812,002</b>
1.	Long-term bonds	-1,572,385	-1,956,403	-2,164,050	-2,627,910	1,494,467	-1,916,723
1.1.	Issues	146,250	0	0	0	2,902,107	0
1.2.	Amortization	-1,718,635	-1,956,403	-2,164,050	-2,627,910	-1,407,640	-1,916,723
2.	Short-term bonds and bills	113,970	182,103	178,889	1,552,411	2,094,684	1,455,000
3.	Long-term loans n.e.c.	-240,642	-10,375	-21,663	-51,384	-111,176	-71,025
3.1.	Drawings	0	0	0	0	0	0
3.2.	Amortization	-240,642	-10,375	-21,663	-51,384	-111,176	-71,025
4.	Short loans n.e.c.	0	190,000	-87,000	325,770	-1,079,288	-155,250
5.	Other liabilities	-183	234,720	0	0	0	2,500,000
6.	Changes in cash, deposits, and securities	-126,509	112,392	748	-12,486	-421,475	0
<b>III.</b>	<b>Financing abroad</b>	<b>2,985,940</b>	<b>-9,114</b>	<b>4,615,116</b>	<b>6,921,451</b>	<b>2,331,936</b>	<b>2,584,171</b>
7.	Long-term bonds	3,022,445	147,935	4,057,652	6,643,435	7,347,870	5,574,111
7.1.	Issues	3,022,445	447,935	4,057,652	6,643,435	7,347,870	5,574,111
7.2.	Amortization	0	-300,000	0	0	0	0
8.	Short-term bonds and bills	0	0	0	0	-692,650	-2,700,000
9.	Long-term loans n.e.c.	-36,505	363,854	904,085	-3,129,717	-4,323,284	-285,039
9.1.	Drawings	557,570	1,769,361	1,848,405	548,126	743,285	1,806,441
9.2.	Amortization	-594,075	-1,405,507	-944,320	-3,677,843	-5,066,568	-2,091,481
10.	Short loans n.e.c.	0	-520,903	-346,621	3,407,734	0	-4,900
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**

(HRK 000)	Outturn					
	1996	1997	1998	1999	2000	2001
<b>Total revenues and grants</b>	<b>48,396,602</b>	<b>53,345,263</b>	<b>65,110,652</b>	<b>67,542,226</b>	<b>66,734,998</b>	<b>70,845,637</b>
<b>Budgetary central Government</b>	<b>31,367,481</b>	<b>33,846,123</b>	<b>43,808,593</b>	<b>46,356,724</b>	<b>44,635,673</b>	<b>52,747,430</b>
<b>Extra-budgetary funds</b>	<b>17,029,121</b>	<b>19,499,140</b>	<b>21,302,059</b>	<b>21,185,502</b>	<b>22,099,325</b>	<b>18,098,207</b>
1. Pension Fund	9,584,721	11,022,237	10,713,387	10,799,810	11,254,157	5,806,765
2. Health Insurance Fund	5,196,313	5,824,150	8,269,030	8,686,397	8,967,447	10,314,523
3. Employment Fund	676,112	638,330	718,195	760,620	822,395	910,947
4. Child Benefit Fund	878,500	976,695	542,849	9,079	7,130	5,057
5. Public Water Management Fund (“Hrvatske vode”)	693,475	1,037,728	1,058,598	929,596	1,048,196	1,060,915
<b>Total expenditures and lending minus repayments</b>	<b>48,874,039</b>	<b>54,931,935</b>	<b>64,228,568</b>	<b>70,343,017</b>	<b>74,432,276</b>	<b>74,869,142</b>
<b>Budgetary central Government</b>	<b>27,591,903</b>	<b>29,409,442</b>	<b>34,125,447</b>	<b>35,979,076</b>	<b>36,730,834</b>	<b>44,844,517</b>
<b>Extra-budgetary funds</b>	<b>21,282,136</b>	<b>25,522,493</b>	<b>30,103,121</b>	<b>34,363,941</b>	<b>37,701,442</b>	<b>30,024,625</b>
1. Pension Fund	10,459,776	13,795,119	16,170,417	18,998,533	20,180,821	12,125,317
2. Health Insurance Fund	8,357,507	8,742,813	10,776,029	11,919,552	13,918,076	13,172,742
3. Employment Fund	676,184	714,077	571,227	824,914	995,513	983,435
4. Child Benefit Fund	853,165	1,003,702	1,032,129	1,136,161	1,250,588	2,466,985
5. Public Water Management Fund “H. Vode”	935,504	1,266,782	1,553,319	1,484,781	1,356,444	1,276,146
<b>Total deficit/surplus</b>	<b>-477,437</b>	<b>-1,586,672</b>	<b>882,084</b>	<b>-2,800,791</b>	<b>-7,697,278</b>	<b>-4,023,505</b>
<b>Total financing</b>	<b>477,437</b>	<b>1,586,672</b>	<b>-882,084</b>	<b>2,800,791</b>	<b>7,697,278</b>	<b>4,023,505</b>
<b>1. Foreign financing</b>	<b>931,093</b>	<b>3,111,719</b>	<b>86,825</b>	<b>4,631,957</b>	<b>6,859,891</b>	<b>2,200,046</b>
<b>2. Domestic financing</b>	<b>-453,656</b>	<b>-1,525,047</b>	<b>-968,909</b>	<b>-1,831,166</b>	<b>837,387</b>	<b>1,823,459</b>
Foreign financing	„0	„0	0	0	0	0
Domestic financing	-152,745	-354,848	112,392	748	-12,486	-389,118
From deposit money banks	-89,067	-1,056,596	-1,169,952	-1,684,466	1,270,155	2,362,020
Other domestic financing	-211,844	-113,603	88,651	-147,448	-420,282	-149,443

**APPENDIX 8: Revenues and Expenditures of Pension Fund**

(HRK 000)		Outturn					
		1996	1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>12,407,222</b>	<b>15,299,580</b>	<b>16,136,761</b>	<b>18,946,291</b>	<b>20,194,968</b>	<b>12,273,908</b>
<b>II.</b>	<b>Total revenues</b>	<b>11,246,813</b>	<b>12,675,281</b>	<b>12,337,577</b>	<b>12,662,199</b>	<b>13,039,998</b>	<b>6,626,961</b>
<b>III.</b>	<b>Current revenues</b>	<b>11,105,745</b>	<b>12,439,164</b>	<b>11,907,022</b>	<b>12,553,233</b>	<b>12,988,412</b>	<b>6,614,153</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>10,951,042</b>	<b>12,243,659</b>	<b>11,766,916</b>	<b>12,448,917</b>	<b>12,854,087</b>	<b>6,480,043</b>
1.	Contributions for social insurance	10,951,042	12,243,659	11,766,916	12,448,917	12,854,087	6,480,043
1.1.	From employees	5,266,590	5,918,109	5,715,002	6,012,091	6,575,054	3,463,839
1.2.	From employers	5,266,590	5,918,109	5,715,002	6,012,091	5,837,511	2,819,404
1.3.	From self-employed or unemployed	293,213	343,041	327,209	418,909	438,535	195,730
1.4.	Other unallocable contributions	124,649	64,400	9,703	5,826	2,987	1,070
<b>V.</b>	<b>Non-tax revenues</b>	<b>154,703</b>	<b>195,505</b>	<b>140,106</b>	<b>104,316</b>	<b>134,325</b>	<b>134,110</b>
2.	Income from interest and dividends	154,703	195,505	65,146	46,082	66,648	69,403
3.	Other non-tax revenues	0	0	74,960	58,234	67,677	64,707
<b>VI.</b>	<b>Capital revenues</b>	<b>141,068</b>	<b>236,117</b>	<b>430,555</b>	<b>108,966</b>	<b>51,586</b>	<b>12,808</b>
4.	Sales of shares and public flats	141,068	236,117	430,555	108,966	51,586	12,808
<b>VII.</b>	<b>Grants</b>	<b>1,160,409</b>	<b>2,624,299</b>	<b>3,799,184</b>	<b>6,284,092</b>	<b>7,154,970</b>	<b>5,646,947</b>
5.	From other levels of national Govern.	1,160,409	2,624,299	3,799,184	6,284,092	7,154,970	5,646,947
5.1.	Current	1,160,409	2,624,299	3,799,184	4,781,092	7,154,970	5,646,947
5.2.	Capital	0	0	0	1,503,000	0	0
<b>I.</b>	<b>Total expenditures and net lending</b>	<b>12,411,104</b>	<b>15,547,850</b>	<b>16,554,799</b>	<b>19,046,509</b>	<b>20,225,124</b>	<b>12,159,645</b>
<b>II.</b>	<b>Total expenditures</b>	<b>12,411,104</b>	<b>15,547,850</b>	<b>16,554,799</b>	<b>19,046,509</b>	<b>20,225,124</b>	<b>12,159,645</b>
<b>III.</b>	<b>Current expenditures</b>	<b>12,393,518</b>	<b>15,532,570</b>	<b>16,520,781</b>	<b>19,029,138</b>	<b>20,223,524</b>	<b>12,149,540</b>
1.	Expenditures goods and services	427,870	534,291	593,119	672,323	675,112	573,532
1.1.	Wages and salaries	142,824	163,699	223,433	255,126	258,591	224,730
1.2.	Employer contributions	26,626	30,742	41,504	47,976	44,303	34,328
1.3.	Other purchases goods and services	258,420	339,850	328,182	369,221	372,218	314,474
2.	Interest payment	884	13,736	27,517	60,652	78,094	28,162
2.1.	Other domestic payments	884	13,736	27,517	60,652	78,094	28,162
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	11,547,846
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers other levels of Governm.	0	0	0	0	0	0
3.3.	Transfers non-profit 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	11,233,103
3.5.	Transfers abroad	37,698	45,163	55,529	56,875	78,222	314,743
<b>IV.</b>	<b>Capital expenditures</b>	<b>17,586</b>	<b>15,280</b>	<b>34,018</b>	<b>17,371</b>	<b>1,600</b>	<b>10,105</b>
4.	Acquisition of fixed capital assets	17,586	15,280	34,018	17,371	1,600	10,105
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current deficit/surplus with grants</b>	<b>-127,364</b>	<b>-469,107</b>	<b>-814,575</b>	<b>-1,694,813</b>	<b>-80,142</b>	<b>111,560</b>
	<b>Total deficit/surplus</b>	<b>-3,882</b>	<b>-248,270</b>	<b>-418,038</b>	<b>-100,218</b>	<b>-30,156</b>	<b>114,263</b>
<b>VI.</b>	<b>Total financing</b>	<b>3,882</b>	<b>248,270</b>	<b>418,038</b>	<b>100,218</b>	<b>30,156</b>	<b>-114,263</b>
1.	Foreign financing	0	0	0	0	0	0
2.	Domestic financing	3,882	248,270	418,038	100,218	30,156	-114,263
2.1.	From deposit money banks	3,882	248,270	418,038	100,218	30,156	-114,263
2.2.	Other domestic financing	0	0	0	0	0	0

**APPENDIX 9: Revenues and Expenditures of Health Insurance Fund**

(HRK 000)		Outturn					
		1996	1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>8,750,894</b>	<b>9,342,902</b>	<b>11,552,049</b>	<b>12,649,766</b>	<b>13,088,504</b>	<b>13,893,192</b>
<b>II.</b>	<b>Total revenues</b>	<b>8,134,192</b>	<b>8,560,479</b>	<b>9,988,481</b>	<b>10,240,976</b>	<b>10,424,885</b>	<b>11,573,818</b>
<b>III.</b>	<b>Current revenues</b>	<b>8,134,192</b>	<b>8,535,594</b>	<b>9,912,379</b>	<b>10,240,707</b>	<b>10,424,448</b>	<b>10,823,166</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>7,778,910</b>	<b>8,417,942</b>	<b>9,780,995</b>	<b>9,952,541</b>	<b>10,135,774</b>	<b>10,463,065</b>
1.	Contributions for social insurance	7,778,910	8,417,942	9,780,995	9,952,541	10,135,774	10,463,065
1.1.	From employees	2,712,698	3,082,123	4,411,445	4,747,281	5,118,502	5,527,961
1.2.	From employers	2,712,698	3,082,123	4,411,445	4,747,281	4,434,093	4,299,525
1.3.	From self-employed or unemployed	308,199	325,535	376,625	398,875	501,462	539,995
1.4.	Other unallocable contributions	2,045,315	1,928,161	581,480	59,104	81,717	95,584
<b>V.</b>	<b>Non-tax revenues</b>	<b>355,282</b>	<b>117,652</b>	<b>131,384</b>	<b>288,166</b>	<b>288,674</b>	<b>360,101</b>
2.	Income from interests and dividends	0	0	2,882	3,744	7,043	5,688
3.	Other non-tax revenues	355,282	117,652	128,502	284,422	281,631	354,413
<b>VI.</b>	<b>Capital revenues</b>	<b>0</b>	<b>24,885</b>	<b>76,102</b>	<b>269</b>	<b>437</b>	<b>750,652</b>
4.	Sales of shares and public flats	0	24,885	76,102	269	437	750,652
<b>VII.</b>	<b>Grants</b>	<b>616,702</b>	<b>782,423</b>	<b>1,563,568</b>	<b>2,408,790</b>	<b>2,663,619</b>	<b>2,319,374</b>
5.	From other levels of national Govern.	616,702	782,423	1,563,568	2,408,790	2,663,619	2,319,374
5.1.	Current	616,702	782,423	1,563,568	1,847,955	2,661,059	2,319,374
5.2.	Capital	0	0	0	560,835	2,560	0
<b>I.</b>	<b>Total expenditures and net lending</b>	<b>8,924,017</b>	<b>9,433,605</b>	<b>11,570,688</b>	<b>12,788,163</b>	<b>14,745,463</b>	<b>13,925,471</b>
<b>II.</b>	<b>Total expenditures</b>	<b>8,924,017</b>	<b>9,433,605</b>	<b>11,570,688</b>	<b>12,788,163</b>	<b>14,745,463</b>	<b>13,925,471</b>
<b>III.</b>	<b>Current expenditures</b>	<b>8,736,628</b>	<b>9,176,087</b>	<b>11,401,107</b>	<b>12,665,930</b>	<b>14,678,763</b>	<b>13,901,133</b>
1.	Expenditures for goods and services	7,102,801	7,211,883	9,323,307	10,558,007	11,863,346	11,502,711
1.1.	Wages and salaries	2,806,889	3,353,355	3,857,567	4,216,558	4,525,025	4,534,516
1.2.	Employer contributions	566,510	690,792	794,659	868,611	827,387	752,729
1.3.	Other purchases goods and services	3,729,402	3,167,736	4,671,081	5,472,838	6,510,934	6,215,466
2.	Interest payment	0	15,163	12,318	20,536	33,654	163,587
2.1.	Other domestic payments	0	15,163	12,318	20,536	33,654	163,587
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	2,234,835
3.1.	Subsidies	0	0	0	0	0	0
3.2.	Transfers to other levels of Governm.	0	0	0	0	0	0
3.3.	Transfers to non-profit 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	2,234,835
<b>IV.</b>	<b>Capital expenditures</b>	<b>187,389</b>	<b>257,518</b>	<b>169,581</b>	<b>122,233</b>	<b>66,700</b>	<b>24,338</b>
4.	Acquisition of fixed capital	187,389	257,518	169,581	122,233	66,700	24,338
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current deficit/surplus with grants</b>	<b>14,266</b>	<b>141,930</b>	<b>74,840</b>	<b>-577,268</b>	<b>-1,593,256</b>	<b>-758,593</b>
	<b>Total deficit/surplus</b>	<b>-173,123</b>	<b>-90,703</b>	<b>-18,639</b>	<b>-138,397</b>	<b>-1,656,959</b>	<b>-32,279</b>
<b>VI.</b>	<b>Total financing</b>	<b>173,123</b>	<b>90,703</b>	<b>18,639</b>	<b>138,397</b>	<b>1,656,959</b>	<b>32,279</b>
1.	Foreign financing	84,073	70,903	37,332	134	-11,750	-24,000
2.	Domestic financing	89,050	19,800	-18,693	138,263	1,668,709	56,279
2.1.	From deposit money banks	89,050	19,800	-18,693	138,263	1,668,709	56,279
2.2.	Other domestic financing	0	0	0	0	0	0

**APPENDIX 10: Revenues and Expenditures of Employment Fund**

(HRK 000)		Outturn				
		1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>874,645</b>	<b>886,375</b>	<b>928,178</b>	<b>994,599</b>	<b>1,067,758</b>
<b>II.</b>	<b>Total revenues</b>	<b>746,867</b>	<b>843,343</b>	<b>907,478</b>	<b>980,851</b>	<b>1,062,598</b>
<b>III.</b>	<b>Current revenues</b>	<b>746,867</b>	<b>843,343</b>	<b>907,460</b>	<b>974,730</b>	<b>1,062,598</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>740,466</b>	<b>831,446</b>	<b>880,920</b>	<b>954,808</b>	<b>1,038,092</b>
1.	Contributions for social insurance	740,466	831,446	880,920	954,808	1,038,092
1.1.	From employees	370,233	415,723	440,460	477,404	519,046
1.2.	From employers	370,233	415,723	440,460	477,404	519,046
<b>V.</b>	<b>Non-tax revenues</b>	<b>6,401</b>	<b>11,897</b>	<b>26,540</b>	<b>19,922</b>	<b>24,506</b>
2.1.	Entrepreneurial and property income	0	0	12,799	8,266	13,824
2.2.	Fines and forfeits	844	5,466	625	218	345
2.3.	Other non-tax revenues	5,557	6,431	13,116	11,438	10,337
<b>VI.</b>	<b>Capital revenues</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>6,121</b>	<b>0</b>
<b>VII.</b>	<b>Grants</b>	<b>127,778</b>	<b>43,032</b>	<b>20,700</b>	<b>13,748</b>	<b>5,160</b>
3.	From other levels of national Governm.	127,778	43,032	20,700	13,748	5,160
3.1.	Current	127,778	43,032	20,700	13,748	5,160
3.2.	Capital	0	0	0	0	0
<b>I.</b>	<b>Total expenditures and net lending</b>	<b>883,743</b>	<b>673,458</b>	<b>843,957</b>	<b>1,011,214</b>	<b>997,274</b>
<b>II.</b>	<b>Total expenditures</b>	<b>883,743</b>	<b>673,458</b>	<b>843,957</b>	<b>1,011,214</b>	<b>997,274</b>
<b>III.</b>	<b>Current expenditures</b>	<b>868,319</b>	<b>651,898</b>	<b>817,151</b>	<b>983,159</b>	<b>970,830</b>
1.	Expenditures for goods and services	175,002	113,509	267,530	331,845	238,145
1.1.	Wages and salaries	34,838	47,228	67,582	79,496	73,671
1.2.	Employer contributions	7,111	9,635	13,790	13,656	12,080
1.3.	Other purchases goods and services	133,053	56,646	186,158	238,693	152,394
2.	Interest payment	0	0	0	0	0
2.1.	Other domestic payments	0	0	0	0	0
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	693,317	538,389	549,621	651,314	732,685
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Governm.	0	0	0	0	0
3.3.	Transfers to non-profit institutions	162,555	92,596	5,253	2,045	1,759
3.4.	Transfers to households	530,762	445,793	544,368	649,269	730,926
3.5.	Transfers abroad	0	0	0	0	0
<b>IV.</b>	<b>Capital expenditures</b>	<b>15,424</b>	<b>21,560</b>	<b>26,806</b>	<b>28,055</b>	<b>26,444</b>
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current deficit/surplus with grants</b>	<b>6,326</b>	<b>234,477</b>	<b>111,009</b>	<b>5,319</b>	<b>96,928</b>
	<b>Total deficit/surplus</b>	<b>-9,098</b>	<b>212,917</b>	<b>84,221</b>	<b>-16,615</b>	<b>70,484</b>
<b>VI.</b>	<b>Total financing</b>	<b>9,098</b>	<b>-212,917</b>	<b>-84,221</b>	<b>16,616</b>	<b>-70,484</b>
1.	Financing from abroad	0	0	0	0	0
2.	Domestic financing	9,098	-212,917	-84,221	16,616	-70,484
2.1.	From other general Government	0	-190,000	87,000	92,000	11,000
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	9,098	-22,917	-171,221	-75,384	-81,484
2.4.	Other domestic financing	0	0	0	0	0

**APPENDIX 11: Revenues and Expenditures of Child Benefit Fund**

(HRK 000)		Outturn				
		1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>1,013,473</b>	<b>1,027,033</b>	<b>1,131,524</b>	<b>1,258,517</b>	<b>2,468,670</b>
<b>II.</b>	<b>Total revenues</b>	<b>993,473</b>	<b>551,833</b>	<b>9,079</b>	<b>7,130</b>	<b>5,057</b>
<b>III.</b>	<b>Current revenues</b>	<b>993,473</b>	<b>551,833</b>	<b>9,079</b>	<b>7,130</b>	<b>5,057</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>992,289</b>	<b>550,639</b>	<b>8,098</b>	<b>6,144</b>	<b>3,624</b>
1.	Contributions for social insurance	992,289	550,639	8,098	6,144	3,624
1.1.	From employees	975,511	541,633	8,098	6,144	3,624
1.4.	Other unallocable contributions	16,778	9,006	0	0	0
<b>V.</b>	<b>Non-tax revenues</b>	<b>1,184</b>	<b>1,194</b>	<b>981</b>	<b>986</b>	<b>1,433</b>
2.	Other non-tax revenues	1,184	1,194	981	986	1,433
<b>VI.</b>	<b>Capital revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>VII.</b>	<b>Grants</b>	<b>20,000</b>	<b>475,200</b>	<b>1,122,445</b>	<b>1,251,387</b>	<b>2,463,613</b>
3.	From other levels of national Govern.	20,000	475,200	1,122,445	1,251,387	2,463,613
3.1.	Current	20,000	475,200	1,122,445	1,251,387	2,463,613
3.2.	Capital	0	0	0	0	0
<b>I.</b>	<b>Total expenditures and net lending</b>	<b>1,003,702</b>	<b>1,032,107</b>	<b>1,136,161</b>	<b>1,250,588</b>	<b>2,466,985</b>
<b>II.</b>	<b>Total expenditures</b>	<b>1,003,702</b>	<b>1,032,107</b>	<b>1,136,161</b>	<b>1,250,588</b>	<b>2,466,985</b>
<b>III.</b>	<b>Current expenditures</b>	<b>1,003,702</b>	<b>1,032,107</b>	<b>1,136,161</b>	<b>1,250,588</b>	<b>2,466,985</b>
1.	Expenditures for goods and services	24,432	34,078	45,221	42,581	52,113
1.1.	Wages and salaries	0	0	0	0	0
1.2.	Employer contributions	0	0	0	0	0
1.3.	Other purchases goods and services	24,432	34,078	45,221	42,581	52,113
2.	Interest payment	0	0	0	0	0
3.	Subsidies and other current transfers	979,270	998,029	1,090,940	1,208,007	2,414,872
3.1.	Subsidies	0	0	0	0	0
3.2.	Transfers to other levels of Govern.	0	0	0	0	0
3.3.	Transfers to non-profit institutions	0	0	0	0	0
3.4.	Transfers to households	979,270	998,029	1,090,940	1,208,007	2,414,872
<b>IV.</b>	<b>Capital expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current deficit/surplus with grants</b>	<b>9,771</b>	<b>-5,074</b>	<b>-4,637</b>	<b>7,929</b>	<b>1,685</b>
	<b>Total deficit/surplus</b>	<b>9,771</b>	<b>-5,074</b>	<b>-4,637</b>	<b>7,929</b>	<b>1,685</b>
<b>VI.</b>	<b>Total financing</b>	<b>-9,771</b>	<b>5,074</b>	<b>4,637</b>	<b>-7,929</b>	<b>-1,685</b>
1.	Financing from abroad	0	0	0	0	0
2.	Domestic financing	-9,771	5,074	4,637	-7,929	-1,685
2.1.	From other general Government	0	0	0	0	0
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	-9,771	5,074	4,637	-7,929	-1,685
2.4.	Other domestic financing	0	0	0	0	0

**APPENDIX 12: Revenues and Expenditures of the Public Water Management Fund ("Hrvatske Vode")**

(HRK 000)		Outturn				
		1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>1,146,762</b>	<b>1,376,980</b>	<b>1,338,797</b>	<b>1,448,966</b>	<b>1,403,428</b>
<b>II.</b>	<b>Total revenues</b>	<b>1,037,728</b>	<b>1,058,598</b>	<b>929,596</b>	<b>1,048,196</b>	<b>1,060,915</b>
<b>III.</b>	<b>Current revenues</b>	<b>1,037,205</b>	<b>1,058,282</b>	<b>929,294</b>	<b>1,047,932</b>	<b>1,060,666</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>224,510</b>	<b>125,077</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.	Other tax revenues	224,510	125,077	0	0	0
<b>V.</b>	<b>Non-tax revenues</b>	<b>812,695</b>	<b>933,205</b>	<b>929,294</b>	<b>1,047,932</b>	<b>1,060,666</b>
2.	Income from interest and dividends	10,718	6,448	3,412	4,435	5,453
3.	Administrative fees and charges	731,366	838,638	775,235	830,645	929,936
4.	Other non-tax revenues	70,611	88,119	150,647	212,852	125,277
<b>VI.</b>	<b>Capital revenues</b>	<b>523</b>	<b>316</b>	<b>302</b>	<b>264</b>	<b>249</b>
5.	Sale of stocks and public flats	523	316	302	264	249
<b>VII.</b>	<b>Grants</b>	<b>109,034</b>	<b>318,382</b>	<b>409,201</b>	<b>400,770</b>	<b>342,513</b>
6.	From other levels of national Governm.	109,034	318,382	409,201	400,770	342,513
6.1.	Current	0	0	252,990	280,845	222,000
6.2.	Capital	109,034	318,382	156,211	119,925	120,513
<b>I.</b>	<b>Total expenditures and net lending</b>	<b>1,275,917</b>	<b>1,565,308</b>	<b>1,498,418</b>	<b>1,369,810</b>	<b>1,287,690</b>
<b>II.</b>	<b>Total expenditures</b>	<b>1,275,917</b>	<b>1,565,308</b>	<b>1,498,418</b>	<b>1,369,810</b>	<b>1,287,690</b>
<b>III.</b>	<b>Current expenditures</b>	<b>580,213</b>	<b>694,534</b>	<b>722,462</b>	<b>847,455</b>	<b>758,193</b>
1.	Expenditures for goods and services	555,224	659,578	675,390	794,954	705,346
1.1.	Wages and salaries	44,671	58,323	66,437	73,433	69,574
1.2.	Employer contributions	9,135	11,989	13,637	13,366	11,544
1.3.	Other purchases goods and services	501,418	589,266	595,316	708,155	624,228
2.	Interest payments	24,989	34,956	47,072	52,501	52,847
2.1.	Other domestic payments	24,989	34,956	47,072	52,501	52,847
2.2.	Payments abroad	0	0	0	0	0
3.	Subsidies and other current transfers	0	0	0	0	0
<b>IV.</b>	<b>Capital expenditures</b>	<b>695,704</b>	<b>870,774</b>	<b>775,956</b>	<b>522,355</b>	<b>529,497</b>
4.	Acquisition of fixed capital assets	396,559	465,314	448,826	225,026	200,370
5.	Acquisition of land and intangible assets	6,294	9,171	8,942	5,629	4,022
6.	Capital transfers to non-financial public enterprises	292,851	396,289	318,188	291,700	325,105
<b>V.</b>	<b>Lending minus repayments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Current deficit/surplus with grants</b>	<b>456,992</b>	<b>363,748</b>	<b>459,822</b>	<b>481,322</b>	<b>524,473</b>
	<b>Total deficit/surplus</b>	<b>-129,155</b>	<b>-188,328</b>	<b>-159,621</b>	<b>79,156</b>	<b>115,738</b>
<b>VI.</b>	<b>Total financing</b>	<b>129,155</b>	<b>188,278</b>	<b>159,621</b>	<b>-79,156</b>	<b>-115,738</b>
1.	Financing from abroad	54,876	58,607	16,707	-49,810	-55,532
2.	Domestic financing	74,279	129,671	142,914	-29,346	-60,206
2.1.	From other general Government	40,974	12,333	39,901	27,221	15,753
2.2.	From monetary authorities	0	0	0	0	0
2.3.	From deposit money banks	33,305	117,338	103,013	-56,567	-75,959
2.4.	Other domestic financing	0	0	0	0	0

**APPENDIX 13: Outturn of Local Government Budget**

(HRK 000)	Outturn				Outturn				Budget			
	1999				2000				2001.			
	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total	Municipalities	Cities	Counties	Total
<b>Total revenues and grants</b>	<b>1,210,918</b>	<b>6,392,301</b>	<b>775,365</b>	<b>8,378,584</b>	<b>1,378,746</b>	<b>6,468,009</b>	<b>823,263</b>	<b>8,670,018</b>	<b>1,587,487</b>	<b>7,544,656</b>	<b>811,857</b>	<b>9,944,000</b>
Total revenues	975,397	6,180,688	578,357	7,734,442	1,177,895	6,303,002	655,787	8,136,683	1,355,488	7,315,501	674,847	9,345,836
Current revenues	880,365	5,738,345	560,851	7,179,561	1,035,314	5,877,781	644,696	7,557,791	1,170,988	6,654,577	663,478	8,489,043
Tax revenues	380,365	3,803,096	440,871	4,624,332	469,983	3,848,658	509,856	4,828,497	503,493	4,063,607	516,915	5,084,015
Tax and surtax on personal income	241,609	2,502,459	223,228	2,967,296	312,283	2,758,931	320,904	3,392,119	336,483	2,908,318	342,563	3,587,364
Corporate profit taxes	35,897	789,905	149,211	975,013	41,252	555,094	116,506	712,851	38,544	564,606	96,626	699,776
Real property taxes	89,726	419,595	3,454	512,775	101,265	441,308	2,775	545,348	109,442	485,435	3,426	598,302
Domestic taxes	12,457	83,400	62,434	158,291	14,268	91,227	69,650	175,145	17,589	102,568	73,175	193,332
Other taxes	676	7,737	2,544	10,957	914	2,098	21	3,034	1,435	2,680	1,125	5,240
Non-tax revenues	500,000	1,935,249	119,980	2,555,229	565,331	2,029,122	134,841	2,729,294	667,495	2,590,971	146,563	3,405,029
Capital revenues	95,032	442,343	17,506	554,881	142,581	425,221	11,090	578,893	184,500	660,924	11,369	856,793
Grants	235,521	211,613	197,008	644,142	200,851	165,007	167,476	533,335	231,999	229,154	137,010	598,164
<b>Total expenditures and lending minus repayments</b>	<b>1,230,726</b>	<b>6,659,043</b>	<b>821,117</b>	<b>8,710,886</b>	<b>1,324,733</b>	<b>6,527,594</b>	<b>787,525</b>	<b>8,639,853</b>	<b>1,669,335</b>	<b>7,726,728</b>	<b>843,682</b>	<b>10,239,745</b>
Total expenditures	1,219,423	6,604,540	778,078	8,602,041	1,308,702	6,525,854	716,320	8,550,876	1,629,779	7,730,030	769,079	10,128,888
Current expenditures	776,126	4,620,019	559,215	5,955,360	851,114	4,935,563	531,889	6,318,567	997,551	5,445,292	588,265	7,031,109
Wages and salaries	183,644	1,150,013	97,715	1,431,372	191,034	1,275,667	107,134	1,573,835	207,251	1,347,770	118,073	1,673,094
Employer contributions	33,474	222,924	17,141	273,539	31,560	218,137	17,107	266,804	33,379	216,955	18,695	269,030
Other expenditures for goods and services	372,875	1,705,365	169,100	2,247,340	415,138	1,818,920	157,840	2,391,898	485,266	2,061,506	177,733	2,724,505
Interest payment	7,116	118,068	8,979	134,163	10,342	132,124	9,974	152,441	10,709	138,788	10,391	159,888
Subsidies and other current transfers	179,017	1,423,648	266,280	1,868,945	203,040	1,490,715	239,834	1,933,589	260,947	1,680,272	263,374	2,204,592
Capital expenditures	443,297	1,984,521	218,863	2,646,681	457,588	1,590,290	184,431	2,232,309	632,228	2,284,737	180,814	3,097,779
Lending minus repayments	11,303	54,503	43,039	108,845	16,031	1,741	71,205	88,977	39,555	-3,301	74,603	110,857
<b>Deficit/surplus on current accounts without grants</b>	<b>104,239</b>	<b>1,118,326</b>	<b>1,636</b>	<b>1,224,201</b>	<b>184,200</b>	<b>942,217</b>	<b>112,807</b>	<b>1,239,224</b>	<b>173,436</b>	<b>1,209,285</b>	<b>75,213</b>	<b>1,457,935</b>
<b>Total deficit/surplus</b>	<b>-19,808</b>	<b>-266,742</b>	<b>-45,752</b>	<b>-332,302</b>	<b>54,012</b>	<b>-59,585</b>	<b>35,738</b>	<b>30,165</b>	<b>-81,848</b>	<b>-182,073</b>	<b>-31,825</b>	<b>-295,745</b>

**APPENDIX 14: Consolidated General Government Revenues**

(HRK mil.)		Outturn				
		1997	1998	1999	2000	2001
<b>I.</b>	<b>Total revenues and grants</b>	<b>60,200</b>	<b>72,738</b>	<b>75,010</b>	<b>74,620</b>	<b>77,450</b>
<b>II.</b>	<b>Total revenues</b>	<b>60,182</b>	<b>72,687</b>	<b>75,003</b>	<b>74,605</b>	<b>77,450</b>
<b>III.</b>	<b>Current revenues</b>	<b>58,987</b>	<b>69,947</b>	<b>68,028</b>	<b>70,867</b>	<b>71,608</b>
<b>IV.</b>	<b>Tax revenues</b>	<b>53,282</b>	<b>64,506</b>	<b>62,395</b>	<b>65,049</b>	<b>66,406</b>
1.	Personal income tax	6,714	8,051	7,538	7,486	6,445
2.	Corporate profit tax	2,504	3,477	3,341	2,387	2,789
3.	Contributions for social insurance	17,725	19,215	19,453	20,282	21,550
4.	Property taxes	748	810	760	804	661
5.	General sales tax	15,133	1,972	388	153	155
6.	Value-added tax	-	20,228	19,830	21,826	23,267
7.	Excises	5,405	5,897	6,161	7,673	7,699
8.	Local taxes on goods and services	146	145	158,291	175	140
9.	Taxes on international trade and transactions	4,640	4,128	4,288	3,795	3,215
10.	Other taxes	267	582	478	468	485
<b>V.</b>	<b>Non-tax revenues</b>	<b>5,704</b>	<b>5,441</b>	<b>5,633</b>	<b>5,818</b>	<b>5,202</b>
<b>VI.</b>	<b>Capital revenues</b>	<b>1,195</b>	<b>2,740</b>	<b>6,975</b>	<b>3,738</b>	<b>5,842</b>
22.	Sales of fixed capital assets	1,122	2,659	6,865	3,638	5,798
23.	Sales of stocks	0	0	0	0	0
24.	Sales of land and intangible assets	33	45	37	51	44
25.	Capital transfers from non-Gov. sources	40	36	73	49	0
<b>VII.</b>	<b>Grants</b>	<b>18</b>	<b>51</b>	<b>7</b>	<b>15</b>	<b>0</b>
26.	Grants from abroad	18	51	7	15	0
26.1.	Current	9	22	3	12	0
26.2.	Capital	9	29	4	3	0
27.	From other Government levels	0	0	0	0	0
27.1.	Current	0	0	0	0	0
27.2.	Capital	0	0	0	0	0

**APPENDIX 15: Consolidated General Government Expenditures**

(HRK mil.)		Outturn				
		1997	1998	1999	2000	2001
<b>I.</b>	<b>Total expenditures and lending minus repayments</b>	<b>61,697</b>	<b>72,059</b>	<b>78,140</b>	<b>82,308</b>	<b>81,385</b>
<b>II.</b>	<b>Total expenditures</b>	<b>61,058</b>	<b>70,871</b>	<b>76,575</b>	<b>81,036</b>	<b>80,162</b>
<b>III.</b>	<b>Current expenditures</b>	<b>53,608</b>	<b>61,342</b>	<b>66,485</b>	<b>73,175</b>	<b>74,072</b>
1.	Expenditures for goods and services	28,667	33,985	34,516	38,599	36,083
1.1.	Wages and salaries	13,577	16,350	18,118	19,583	19,148
1.2.	Employer contributions	0	0	0	0	0
1.3.	Other purchases goods and services	15,089	17,635	16,398	19,016	16,935
2.	Interest payment	<b>1,839</b>	<b>2,104</b>	<b>2,356</b>	<b>2,917</b>	<b>3,378</b>
3.	Subsidies and other current transfers	<b>23,103</b>	<b>25,252</b>	<b>29,614</b>	<b>31,659</b>	<b>34,611</b>
3.1.	Subsidies	2,647	3,706	3,922	4,350	4,221
3.2.	Transfers to other levels of national Government	0	0	0	0	197
3.3.	Transfers to non-profit institutions and households	20,372	21,461	24,989	26,780	29,766
3.4.	Transfers abroad	83	86	703	529	427
<b>IV.</b>	<b>Capital expenditures</b>	<b>7,450</b>	<b>9,530</b>	<b>10,090</b>	<b>7,861</b>	<b>6,090</b>
4.	Acquisition of fixed capital assets	3,815	5,519	6,772	4,554	2,916
5.	Purchases of stocks	9	0,1	0	111	0
6.	Purchases of land and intangible assets	369	430	395	637	379
7.	Capital transfers	3,257	3,580	2,923	2,559	2,795
<b>V.</b>	<b>Lending minus repayments</b>	<b>639</b>	<b>1,188</b>	<b>1,565</b>	<b>1,272</b>	<b>1,223</b>
8.	Domestic net lending	618	1,162	1,554	1,257	1,208
9.	Net lending abroad	21	26	11	15	15
<b>Current deficit/surplus</b>		<b>5,379</b>	<b>8,605</b>	<b>1,543</b>	<b>-2,308</b>	<b>-2,464</b>
<b>Total deficit/surplus</b>		<b>-1,497</b>	<b>678</b>	<b>-3,130</b>	<b>-7,688</b>	<b>-3,935</b>

PUBLISHER:

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

*Editor:*

dr. Velimir Rajković

*Prepared by:*

Bureau for Macroeconomic Analysis and Planning  
Budget Preparation and Consolidation department  
Cash and Debt Management and Department  
Department for International Financial Institutions and European Integration

*Language editing:*

Višnja Jukić

*Technical editors:*

Saša Madžarević

Darko Jukić

*Design and printing:*

HIT ART – Zagreb

*Edition:*

1,200 copies

ISSN 1331 – 6125

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

**Available on the Internet:**

**[www.mfin.hr/annual](http://www.mfin.hr/annual)**

**Zagreb, 2004**