

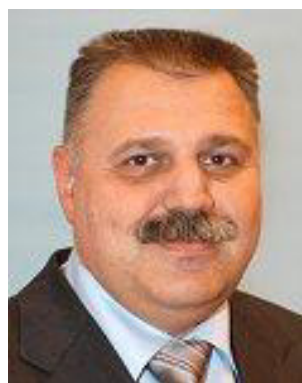
**Annual Report of the Ministry of Finance
for 2002 – 2003 year**

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A Word from the Minister of Finance



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Greater transparency of the fiscal system is one of the leading determinants of the policy of the new Government, which, after the parliamentary elections in November 2003, clearly defined its program during its term of office until 2007.

Particularly, in this context, the main task of the fiscal policy is ensuring macroeconomic stability and starting an upturn in economic activity. Naturally, this will entail a complex package of measures in leading the country's economic policy, with a view to accomplish a higher standard of living and, in the long run, successful accession to Euro-Atlantic integration.

After the positive avis of the European Commission which Croatia received on April 20, 2004, we are facing a period of a number of structural adjustments in terms of economic, institutional, and social reforms. Therefore, the new Croatian Government, notwithstanding all economic and political priorities, will continue with its dynamic international presence, enjoying the support and assistance of the most important international institutions.

On this demanding path of joining developed European countries, the International Monetary Fund issued a positive opinion of the guidelines of Croatian economic policy, approving on August 4, 2004 a new Stand-by Arrangement with Croatia, worth USD141 million. Namely, it is known that 2003 was specifically characterized by failure to meet the criteria agreed under the last Stand-by Arrangement, concluded in February 2003, with special accent on the obstruction of set criteria in terms of conducting fiscal policy. It should be noted that the deficit of the consolidated general government at the end of 2003 accounted for as much as 6.3% of GDP. This represented a serious overspending in terms of the planned deficit of 4.5% of GDP, which had been agreed under the signed Arrangement with the IMF. The intention of the reduction of budget deficit was to ensure further adjustment of the public sector through a reduction of state expenditures. This also has direct implications for the level of public debt, which is a tax burden for the future generations. In 2003 fiscal deficit exceeded HRK 12 billion, and the total public debt reached almost HRK 100 billion or 51.6% of GDP. The results of uncontrolled budget expenditures directly influenced the 2004 budget, from which all arrears from the previous period should be settled.

Nevertheless, despite the total amount of unpaid (or unregistered) commitments in 2003, amounting to almost HRK 2.5 billion, state budget for 2004 (which will also absorb the burden of the outstanding commitments from last year) received a positive assessment of the IMF, with accent on budget transparency, improvement in public expenditure surveillance, and public debt management. The planned 2004 fiscal deficit of 4.5% of GDP represents a truly ambitious adjustment of as much as 1.8 percentage points of GDP in comparison with the previous year. It should be noted that the budget for 2004 includes all the expenditures for

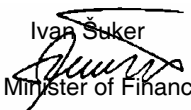
Croatian Railways, Croatian Motorways and Croatian Roads (on an accrual basis). Thereby the Ministry of Finance clearly opted for a more strict and transparent fiscal policy, whose aim is to meet the basic fiscal criteria for joining the European Union (fiscal deficit up to 3% of GDP and public debt below 60% of GDP).

This issue of the Annual Report of the Ministry of Finance has been prepared in this spirit. Dear readers, this is a double issue of the Annual Report for 2002 and 2003, in which we tried to digest all of the important events in the indicated period in the fiscal policy area, including the review of the macroeconomic trends in the country and external circumstances.

After a certain halt and delay in the publication of data on the state budget operations during the last several years, we have tried to compensate for those failures in the best possible manner in this issue of the Annual Report of the Ministry of Finance.

This issue is presented in a graphically upgraded version, which we believe will be more convenient for our readers. However, our primary intention was to offer to the general public high quality information about state expenditures and the overall fiscal policy in the last several years.

Finally, I would like to thank all employees of the Ministry of Finance, who really took an extra step on this issue of the Annual Report, which, I hope, our distinguished readers will find useful and interesting.

Ivan Šuker

Minister of Finance

Zagreb, September 2004

1 | Macroeconomic trends 2002 - 2003



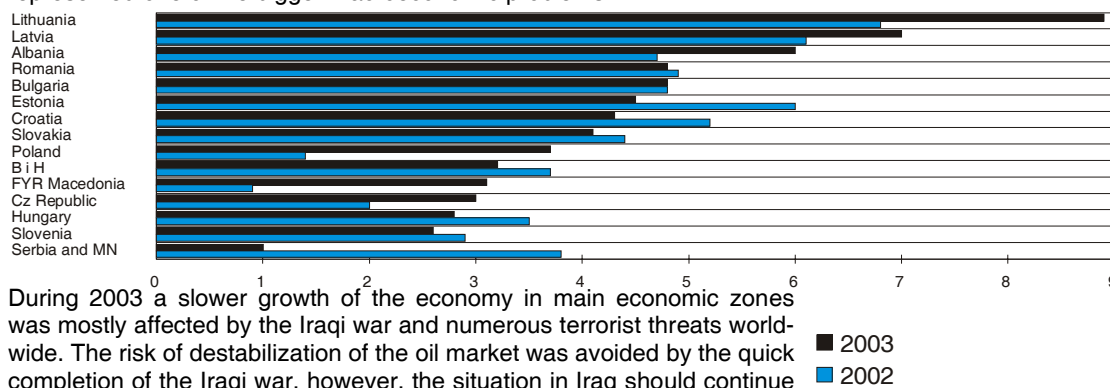
1.1 | External situation

The world economy in 2001 was characterized by a strong deceleration of economic activity. In 2002 the recovery of the world economy was still weak and the prospects uncertain. More precisely, economic trends were marked by the war in Afghanistan and uncertainty in relation to the issue of the commencement of the Iraqi war. The continuation of recession in Japan affected adversely the prospects for a faster economic growth of the south-eastern and eastern Asian countries.

The European Union also showed signs of a very slow economic recovery, with the weakest recorded growth in German economy. In such an unfavorable international environment transition countries, particularly EU candidate countries (the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, and Slovenia) and other south-east European countries, including Croatia, progressed with reforms. They were successful at curbing inflation and in some of them fiscal deficit in 2002 represented one of the bigger macroeconomic problems.

Figure 1.1 | Real GDP growth in Central and Eastern European Transition Countries

Source | EBRD (in %)



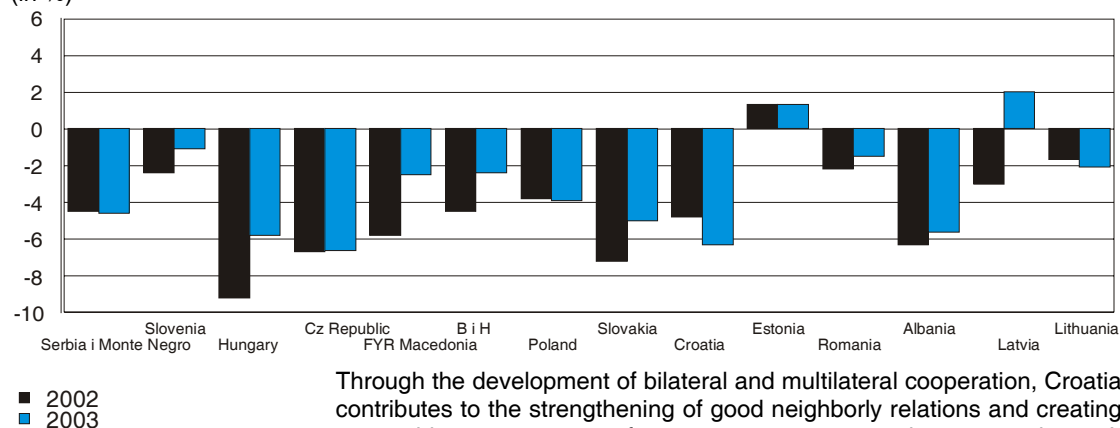
During 2003 a slower growth of the economy in main economic zones was mostly affected by the Iraqi war and numerous terrorist threats worldwide. The risk of destabilization of the oil market was avoided by the quick completion of the Iraqi war, however, the situation in Iraq should continue to stabilize. In 2003 favorable trends were recorded in the American and Japanese economies, and it is expected that the recovery of the world economy will continue in 2004.

The EU economy in 2003 stagnated, i.e., recorded very low growth rates. The high unemployment rate and the poor dynamics of growth were mostly contributed to by the German and French economies. Under the influence of such trends in the main economic zones, transition countries did not have space for dynamics of their growth. This was particularly unfavorable for the countries with significant export orientation (Hungary, the Czech Republic). Therefore, those countries tried to maintain or increase their growth on the basis of the growth of domestic demand, which created a significant fiscal deficit and the deficit of the balance of payment. Croatia also recorded a slowdown of the economy in terms of all economic indicators. External debt, the balance-of-payments deficit, and the fiscal deficit marked the macroeconomic situation in 2003 in Croatia

Figure 1.2 | Deficit of the General Government Budget in Central and Eastern European Transition Countries

Source | IMF

(in %)



After the signing of the Stabilization and Association Agreement in October 2001, Croatia greatly improved its relations with the EU countries and paved the way toward the final EU integration. This created the prerequisites for creating a business environment which will enable further development of the market economy, stimulating private investments, and promotion of international competitiveness.

Through the development of bilateral and multilateral cooperation, Croatia contributes to the strengthening of good neighborly relations and creating an enabling environment for cooperation in its wider surroundings. It became an active member of the Stability Pact (SP), the Central European Initiative (CEI), the Adriatic-Ionian Initiative (AII), the South-East Europe Cooperation Initiative (SECI), the Quadrilateral of the Republic of Croatia -Hungary-Italy-Slovenia, Working Community Alpe – Adria, Working Community of the Danube Regions, the Danube Cooperation Process and the Danube Commission, etc. During 2002 Croatia entered into a number of free trade agreements with Albania, Turkey, Serbia, and Montenegro, as well as with Lithuania, which have been implemented as of 2003. The agreement with Romania was signed on December 5, 2002 as part of the signing of the Agreement with CEFTA. The Agreement on the Accession of the Republic of Croatia to CEFTA has been implemented as of March 1, 2003. Since that date the CEFTA Agreement has replaced all bilateral free trade agreements with the CEFTA countries. In addition, negotiations on free trade agreements with Estonia, Latvia, and Moldavia are underway. The signed Agreement on the Support to the Project of Integration of Oil Pipeline “Družba” and “Adria” should be mentioned, under which additional quantities of oil will be transported to the world markets through oil pipeline systems of the Russian Federation, the Ukraine, Belarus, Hungary, Slovakia, and Croatia, with reloading through the port terminal of Omisalj.

In May 2002 Croatia successfully completed the Stand-by Arrangement with the International Monetary Fund, which was approved in March 2001. Maintaining the macroeconomic stability and strengthening of the foundation for high economic growth are necessary preconditions for strengthening the Croatian accession to Euro-Atlantic integration. In order to achieve this, it was important that Croatia continue the commenced structural and economic reforms. Therefore, in February 2003, as support for those objectives, another Stand-by Arrangement was approved, amounting to 105.9 million of Special Drawing Rights (approximately USD146 million) for a period of 14 months. However, Croatia did not manage to meet some important criteria of this Stand-by Arrangement (the general government deficit, the required level of foreign currency reserve, and net domestic assets). Consequently, the new Government decided not to conclude the existing Stand-by Arrangement because the IMF would have to rate it as unsatisfactory, which would jeopardize the

credit rating of the country and its position in the world markets. In June 2004 a preliminary agreement was reached about a new Stand-by Arrangement for the remaining part of 2004 and the whole of 2005. The objective of the new Stand-by Arrangement was to strengthen Croatia's public finance, i.e., stabilize the level of foreign debt and reduce the share of general government deficit on the level of 4.5% of GDP, which had not been accomplished by the previous Stand-by Arrangement.

1.2 | The Real Sector

The upward economic growth trend which had started in 2000 continued in 2002. A stable macroeconomic environment was maintained, which was evident in preserving the stability of prices, the stability of the exchange rate, and a stable banking system. Commercial banks intensified their lending volume, which was especially evident in increased loans to households and corporate lending. However, domestic financing sources were insufficient for financing of such a strong credit expansion and banks borrowed abroad. This affected the increase in total foreign debt and the increase in imports, which had a negative influence on the balance-of-payments deficit. Therefore, in the beginning of 2003 the Croatian National Bank passed a number of decisions aimed at directing the credit growth toward a sustainable level and reduction of foreign borrowing of the banks. It also introduced a number of restrictive measures with a view to curb the growth of the lending volume and contribute to the stabilization of the deficit on the balance-of-payments current account.

In 2002 the highest growth rate since 1997 was achieved, as well as the lowest inflation rate (end of period) since 1994. According to the preliminary data of the Central Bureau of Statistics, the gross domestic product in 2002 rose by 5.2% in real terms.

Observed according to specific components, personal consumption contributed the most to GDP growth (7.5%). Personal consumption growth was accelerated in the last quarter of 2002, when it was increased by 7.9% in comparison to the comparable period in 2001. The increase in personal consumption was mostly financed by borrowing of households from commercial banks. State expenditures had a downward trend. The decline of state expenditures in 2002 amounted to 1.8% in comparison to the previous year. Thanks to this trend the state expenditures reduced their share in GDP from 22.9% in 2001 to 21.0% in 2002. Investments into capital also gave a significant contribution to the growth of GDP (the annual growth of 12.0%), in which special attention should be given to investment into construction of transport infrastructure. A strong domestic demand also boosted the import of goods and services, which increased by 8.8% in comparison to 2001. The indicator which raises concern is a poor growth of export of goods and services of only 1.3%.

It can be said that all sectors in 2002 had a positive contribution to the total GDP growth GDP. From the aspect of supply, industry (4.0%), construction industry (13.8%), trade (12.7%), catering industry (7.5%), transport (6.8%), financial intermediation (6.4%), and agriculture (2.0%) contributed the most to GDP growth.

In 2003 a deceleration of economic growth was recorded. The real GDP growth rate amounted to 4.3% in comparison to 2002.

The deceleration of GDP growth was mostly a consequence of the slowdown of growth of personal consumption. Namely, after the 7.5-percent growth of personal consumption in 2002, personal consumption in 2003 recorded a 4.1-percent growth, which was mainly a result of the slowdown of lending volume. Investments into capital, led by the state, continued to record high growth rates (16.8%). This was a result of the continuation of intensive investments into the construction of transport



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Table 1.1 | The Structure of Expenditure GDP and Growth Rates of Specific Categories
(Prices in 1997=100)
Source | CBS

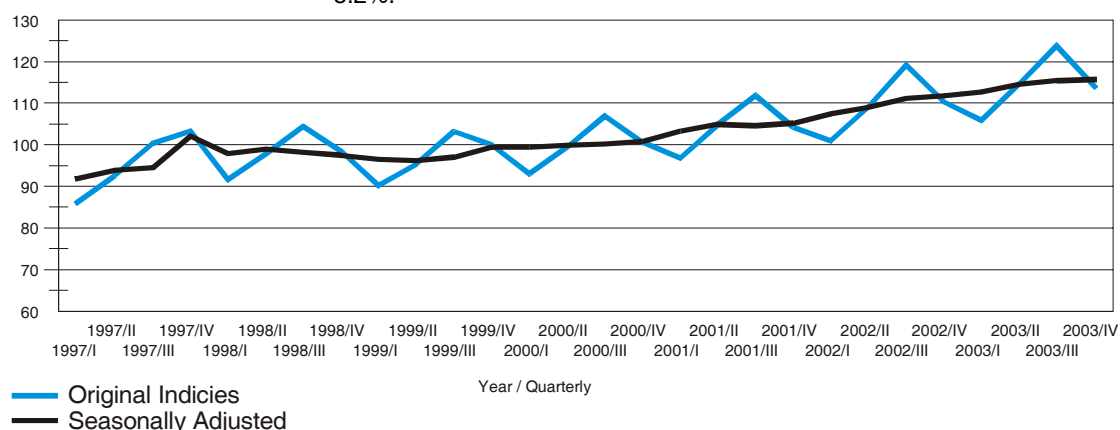
infrastructure, road construction, and housing construction. State expenditures recorded a growth level lower by 0.3% in comparison with the previous year. The negative contribution to the GDP growth GDP was also made by the import of goods and services, which increased by 10.9%. The export of good and services recorded a 10.1-percent growth rate in comparison with 2002.

Stucture	Growth rate	Personal Consumption		Public Consumption		Investment		Exports		Imports	
1998		76,551	-0.6	32,911	2.3	30,692	2.5	52,847	3.9	66,925	-4.9
1999		74,334	-2.9	33,844	2.8	29,495	-3.9	53,204	0.7	64,587	-3.5
2000		77,451	4.2	33,329	-1.5	28,362	-3.8	59,566	12.0	66,975	3.7
2001		80,897	4.5	31,246	-6.2	30,363	7.1	64,397	8.1	73,566	9.8
2002*		86,957	7.5	30,680	-1.8	34,012	12.0	65,203	1.3	80,059	8.8
2003*		90,561	4.1	30,590	-0.3	39,725	16.8	71,802	10.1	88,824	10.9

* preliminary data

Figure 1.3 | Real GDP Index Qutarely
(Index 2000 = 100)
Source | CBS

Observed according to the factor income method, all sectors, except for the agriculture sector, in 2003 gave a positive contribution to the total GDP growth. The highest GDP growth was achieved in activities of the industry (4.5%), construction industry (20.2%), trade (7.1%), catering industry (8.3%), transport (9.2%), and financial intermediation (7.2%). At the same time, the agriculture sector recorded a negative growth rate of 5.2%.



1.2.1 | Industrial Output

In 2002 the physical volume of industrial output grew by 5.4% in comparison with the same period 2001., which significantly contributed to the overall economic growth. According to the areas of the National Classification of Economic Activities, in 2002 the highest growth of production was achieved in the area of mining and extraction – 17.0%, which was a consequence of a significant year-on-year growth of extraction of other minerals and stone (56.3%). The manufacturing recorded a 5.2-percent growth rate. The highest contribution to such growth was the one of the production of food and drinks (6.8%), production of chemicals and chemical products (6.6%), production of paper products (4.4%), as well as the production of electrical machines and appliances (2.5%). A poor increase in the production of only 1.7% was achieved in the supply of electrical energy, gas, and water.

In terms of the main industrial groups, an increase in 2002 was recorded in the production of intermediary products, except for energy (8.2%), non-durable consumer products (5.4%), capital products (4.2%), durable consumer products (4.0%), and in the area of energy (1.7%).

In December 2002 the stocks of finished products in industry achieved a growth of 13.3%. This was mostly contributed to by stocks in mining and extraction industry (43.2%), as well as the increase in stocks of finished products in the manufacturing industry (12.1%).

In 2002 export of goods of the total industrial output was higher by 5.1% than in the same period last year. An increase in the export of goods was recorded in mining and extraction (4.5%) and manufacturing industry (5.2%), whereas the export of electrical energy, gas, and water supply recorded a 57.7-percent decrease.

Table 1.2: Indicators of Industrial Output, Stocks, and Exports (Growth Rates in 2002 and 2003) (in %)
Source | CBS

	Industrial Production		Stock of finished Products ¹		Export of goods (USD)	
	2002	2003	2002	2003	2002	2003*
INDUSTRIAL PRODUCTION TOTAL	5.4	4.1	13.3	-10.2	5.1	25.7
Mining and Extracton	17.0	2.3	43.2	8.2	4.5	30.4
Electrical Energy	1.7	3.3	-	-	-57.7	201.0
Manufacturing	5.2	4.4	12.1	-11.0	5.2	25.4
Food and Beverages	6.8	5.1	19.4	-16.5	22.3	40.0
Tobacco Products	-2.1	4.2	1.9	-52.1	12.0	22.0
Publishing, printing and reproduction of recorded media	19.6	21.7	-25.8	14.7	28.7	30.7
Chemicals and Chemical Products	6.6	-9.2	20.7	-6.1	1.6	18.9
Paper Products	4.4	-2.2	-17.9	4.4	9.9	21.1
Oil Derivatives	1.2	6.1	49.2	-39.6	-4.6	28.2
Manufacture of fabricated metal products, except machinery and equipment	6.7	20.1	6.7	5.4	13.7	25.0
Electrical Machinery and Equipment	2.5	19.4	8.8	-4.1	0.0	45.7
Vehicles, trailers and semi-trailers	1.1	10.6	-13.8	-20.2	6.6	22.1
Other Transport Equipment	0.1	-9.0	123.2	5.5	-14.9	23.1



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¹ = end of period

* preliminary data

In 2003 the index of physical volume of industrial output recorded a lower growth rate (4.1%) in comparison with the previous year, which significantly contributed to the slowdown of economic activity.

In this process the manufacturing industry had the biggest impact on the growth of total industrial output (the manufacturing industry accounted for 83% of total industry), with its 4.4-percent growth in comparison with 2002. Within the manufacturing industry the most significant increase was recorded in publishing and printing industries, as well as reproduction of records (21.7%), production of metal products, except for machines and equipment (20.1%), production of electrical machines and appliances (19.4%), and recycling (18.8%). A weak increase in production of only 2.3% was achieved in the area of mining and extraction. The supply of electrical energy, gas and water recorded growth of 3.3% in comparison with the previous year.

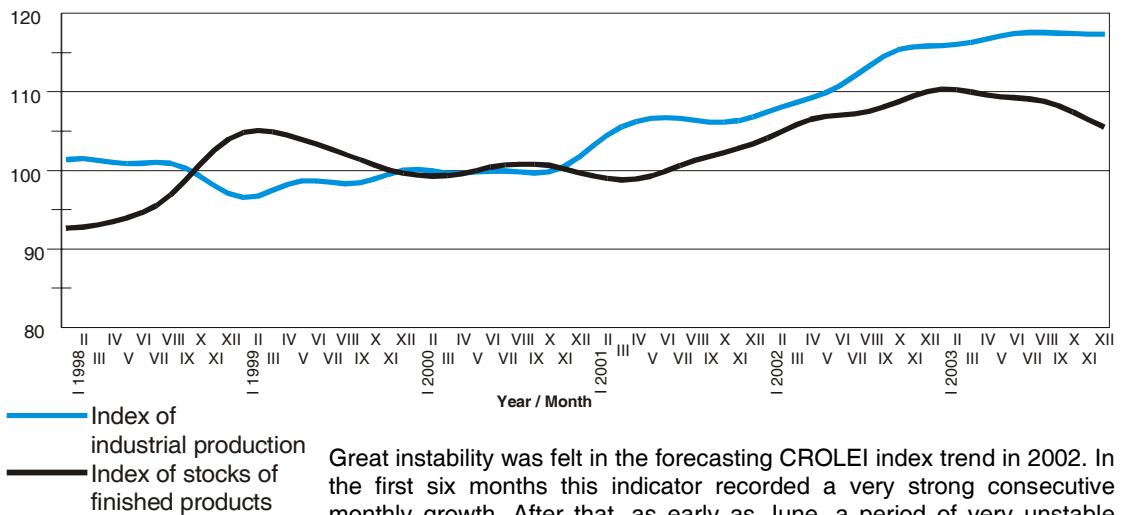
Among the main industrial groups in 2003 growth was recorded in the production of non-durable consumer products (7.0%), durable consumer products (5.3%), intermediary products except for energy (4.1%) and in the area of energy (2.5%).

Inventories with producers in December 2003 were lower by 10.2% in comparison with December 2002. The biggest year-on-year decrease was recorded in the manufacturing industry (11.0%), which is a result of a drop in stocks of finished products in the production of tobacco products, oil products, motor vehicles, trailers and semi-trailers, food and drinks.

In 2003 a significant growth in the export of goods of total industrial production was also achieved - 25.7%. Export of supply of electrical energy, gas, and water was higher by as much as 201.0%. At the same time the export of goods produced by mining and extraction, and the manufacturing industry increased by 30.4% and 25.4%, respectively in comparison with the previous year.

CROLEI index is among the important indicators of industrial output trends. It is based on ten economic indicators which announce the future Croatian economy trends. They are: registered unemployed persons who found jobs in a certain month, reported demand for workers in a month, the total number of night stays of tourists, outturn in retail trade, unconsolidated revenues of the state, county, and municipal budgets, the total wage bill, total financial resources of participants in payment transactions, broad money supply M4, corporate savings and term deposits in commercial banks, and currency placements. Industrial output trend is used as the key reference series in the preparation of the CROLEI index. It is calculated at the Institute of Economics Zagreb on a regular basis, and the Ministry of Finance publishes it in its Monthly Statistical Report of the Ministry of Finance.

Figure 1.4 | industrial output and stocks - trend
Index 2000. = 100
Source | CBS

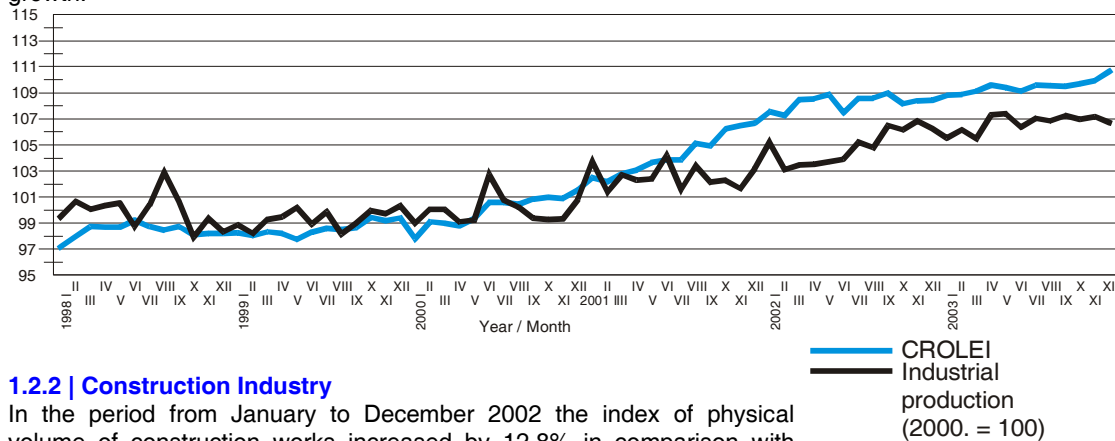


Great instability was felt in the forecasting CROLEI index trend in 2002. In the first six months this indicator recorded a very strong consecutive monthly growth. After that, as early as June, a period of very unstable trend followed. In August and October a drop was also recorded, which was followed by a modest recovery in November and December 2002. However, this was not enough to restore the index to the level of early 2002. In spite of the recovery in specific months, the CROLEI index suffered stagnation during 2002. The value of the diffuse index in the last three months of 2002 did not exceed 50%, which means that the share of indicators in the calculation of the CROLEI indexes which rise was lower or equal to the number of indicators which indicate a drop. Such behavior of the forecast system warned of the possibility for Croatian economy to enter into a phase of a mild recession in mid 2003.

In the first four months of 2003 the CROLEI index indicated consecutive growth. The expectations were in the direction of the rise in the economy at the turn between the second and third quarter of the same year. In the middle of the year the index changed direction and started to fall. After that there followed a period of alternating growth and decline, suggesting the uncertain trend in the economy in the following six to eight months. In July and August the forecast index gradually returned to the level realized in May, when it recorded the highest value, in the last two years. However, in September the period of the unstable trend of forecasting index continued, which was interpreted as an announcement of a

significant slowdown of the growth of economic activity in the second quarter of 2004. In October, November, and December 2003 the CROLEI index recorded growth, mostly under the influence of monetary and fiscal components of this indicator. Given that this is a quarterly consecutive increase in the value of the CROLEI index, the expectations for the second half of 2004 were marked by a mild acceleration of economic growth.

Figure 1.5 | CROLEI – Forecasting Industrial Output Indicator
Source | CBS, Economic Institute Zagreb



1.2.2 | Construction Industry

In the period from January to December 2002 the index of physical volume of construction works increased by 12.8% in comparison with 2001. Such a trend emerged as a result of the increasing investments into transport infrastructure and housing construction. In 2002, 19.6% more apartments were built than in 2001. The value of net orders increased by 48.9%, whereas the value of conducted works increased by 30.9%. All this indicates that the construction industry as an activity grew the most in 2002.

According to the structure of worked hours on construction sites, in 2002 other buildings were built the most (58.3%), mainly new buildings (58.7%), whereas the reconstructions, improvements of existing buildings, repairs, and maintenance accounted for 41.3% of hours worked.

In 2003 construction industry was the activity with the strongest growth. The index of physical volume of construction works increased by 22.8% in comparison with 2002. Thereby for the third subsequent year the growth trend continued after a sharp decline in 1999 and 2000, primarily thanks to the continuation of intensive investment into transport infrastructure, particularly motorways, which was highlighted as a priority in the Government's economic program.

The data of the Central Bureau of Statistics indicate that during 2003, 25.1% more apartments were built than in 2002. Also the values of net orders and the values of executed works increased by 19.7% and 43.8%, respectively, which was a significant increase in comparison with the previous year.

The structure of worked hours at construction sites according to the type of buildings and works indicates that in 2003 other buildings were built as well (62.2%), mostly new buildings (61.7%), which primarily refers to the construction of traffic routes. 38.3% of hours worked were used for reconstructions, improvements of existing buildings, repairs, and maintenance.

It can be expected that the rising trend of growth in the construction industry will be recorded in 2004 as well because the construction of infrastructure facilities, primarily motorways, influences a better tourist season and a greater activity of all economic subjects.

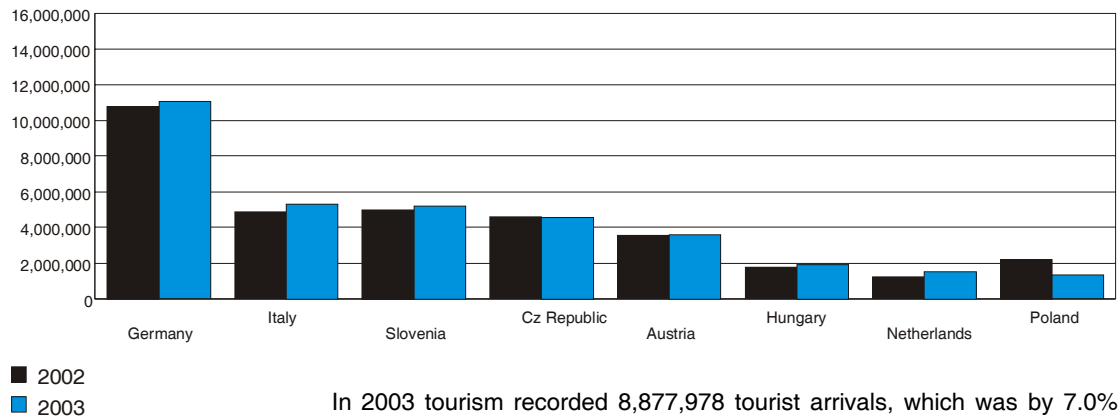
1.2.3 | Tourism

In 2002 Croatia was visited by 8,320,203 tourists, which was a 6.0-percent increase in comparison with 2001. Also, 44,692,456 room-nights were recorded, out of which 11.1% were made by domestic tourists, and 88.9% foreign tourists. The number of room-nights of foreign tourists increased by 3.0%, whereas the nights of domestic tourists dropped by an insignificant 1.0%. Room-nights were especially intensified in the period from February to May and in October, which indicates strengthening of pre-season and after-season.

In the structure of room-nights of foreign tourists, the highest number accounted for the tourists from Germany (27.2%), Slovenia (12.6%), Italy (12.3%), the Czech Republic (11.5%), Austria (8.9%), Poland (5.5%), Hungary (4.4%), Slovakia (3.1%) and the Netherlands (3.0%). It can be concluded that those countries accounted for 88.5% of room-nights, whereas tourists from other countries accounted for 11.5% of room-nights. The data of the Central Bureau of Statistics indicate that 29.2% tourists stayed in hotel accommodation (3.0% more than in the previous year), 26.8% tourists stayed in camps (2.0% more than the previous year), whereas 22.8% stayed in private accommodation (9.0% more than in the previous year).

In 2002 the foreign currency revenue from tourist travels was realized at USD3,811.4 million. In nominal terms this was more by 14.3% than in 2001. However, depreciation of the dollar against the kuna reflected on the dollar value of revenues from tourism, which was particularly noticeable in the second half of the year, when a drop in revenues was recorded in comparison with the comparable period of the previous year considering the exchange rate of the dollar.

Figure 1.6 | The Number of Room-Nights of Foreign Tourists by Country
Source | CBS



In 2003 tourism recorded 8,877,978 tourist arrivals, which was by 7.0% more than in 2002. Tourists made 46,635,139 room-nights, which was by 4.0% more in comparison with the previous year. In the structure of room-nights the most significant year-on-year increase of 11.4% was made by domestic tourists, whereas an increase of 88.6% was made by foreign tourists. In comparison with 2002 the room-nights of domestic tourists were higher by 7.0%, and room-nights of foreign tourists by 4.0%.

The year 2003 saw a strong growth of prices of tourists services, which affected the changes in the structure of guests. Observing the structure of room-nights of foreign tourists indicates that the most room-nights were made by tourists from Germany (26.8%), Italy (12.9%), Slovenia (12.6%), the Czech Republic (11.0%), Austria (8.7%), Hungary (4.6%), and the Netherlands (3.6%), who made up a total of 80.2%. Tourists from other countries accounted for the remaining 19.8% of room-nights. The strongest year-on-year growth of the number of the night-stays of tourists was made by guests who came from less represented countries, such as

Luxemburg, Norway, Island, France, Serbia and Montenegro, Denmark, etc.

Various trends are present in the structure of accommodation facilities. Hotel accommodation recorded a stagnation of the number of room-nights of tourists at the level of 2002, i.e., room-nights were made by 28.2% of tourists, which was only 1.0% more than the previous year. Room-nights of tourists in camps grew by 4.0% in comparison with the previous year. The most significant growth was recorded in room-nights of tourists in private rooms, apartments, and summer houses (10.0%), which was the choice of 24.0% of the total number of tourists. The remaining room-nights were realized in less represented accommodation categories.

Preliminary data of the Croatian National Bank indicate that foreign currency revenue from tourism for 2003 amounted to USD6,376.4 million, which was more by as much as 67.3% than foreign currency revenue in 2002. The reason for this was the improvement in the quality of accommodation, but also an increase in other services and tourist offer which attracted foreign guests with higher purchasing power. Also, higher prices of overall catering services increased the revenue from tourism. It can be concluded that Croatia achieved results above the average in comparison with other Mediterranean and international tourist destinations.



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1.2.4 | Retail Trade

In 2002 retail trade turnover grew by 13.2% in nominal terms, and by 12.5% in real terms in comparison with the same period in 2001. Such a trend is a result of the growth of turnover in the majority of activities, among which the biggest increase (22.3%) was recorded in sales, maintenance, and repairs of motor vehicles, and retail trade of motor fuels and lubricants. On the other hand, retail trade in textiles, clothing, footwear and leather products, as well as retail trade in furniture, lighting equipment, household electrical appliances, radio and TV sets, ironware, paints, and glass recorded a drop in turnover of 4.9% and 1.2%, respectively, in comparison with the same period of the previous year. Due to a significant share of retail trade in the gross domestic product, its trend greatly affected the growth of the gross domestic product.

The dynamics of the trend in retail trade turnover confirms that personal consumption was still strong, which was particularly evident with the arrival of big trade centers and strengthening of competition in the domestic retail trade market. The increased supply influenced a price reduction, and thereby also the increased consumption in domestic shops. This led to a reduction in shopping tours in the neighboring countries.

Retail trade as an important indicator of the trend in economic activities recorded a slowdown in 2003. In 2003 the retail trade growth rate in nominal terms was 5.0%, whereas the real growth was 3.7% in comparison with 2002.

Such a trend in retail trade turnover indicates an accelerated slowdown of trade, which recorded more than two times as slow growth. The restrictive monetary policy had the biggest influence on the downturn of the retail trade, which resulted in lower personal consumption. This was a consequence of the slowdown of credit expansion of banks to households. Nevertheless, a positive influence on a mild growth of retail trade turnover in 2003 was made by activities in retail trade including non-specialized shops selling mostly groceries (food, drinks, and tobacco products – 21.9%), and in retail trade of shops selling pharmaceuticals, medical, cosmetic, and toilet products (19.7%). At the same time, sale, maintenance, and repair of motor vehicles, as well as retail trade of motor

fuels and lubricants recorded a drop in turnover of 1.6% and 3.4%, respectively in comparison with the previous year.

The dynamics of the trend in retail trade turnover confirmed that a slow growth of personal consumption greatly influenced the slower growth of GDP in 2003.

1.3 | Prices and Exchange Rate

1.3.1 | Prices

The consumer price index reflects the changes on the level of prices of goods and services which are, over time, procured, used, or used for payments by reference population for consumption purposes. In 2002 consumer prices rose by 1.7% in comparison with 2001. In the same period the prices of goods grew by 0.3%, and the prices of services by 7.3%. In 2003 the consumer price index recorded a year-on-year growth of 1.8%. Prices of goods grew by 1.6%, and prices of services by 2.5%.

The prices of industrial products with producers are monitored for selected economic subjects for selected industrial products whose largest quantities are sold in the domestic market. In 2002 producer price index decreased by 0.4% in comparison with the previous year, whereas the biggest reduction was recorded in the energy sector (5.5%). In 2003 producer price index recorded a 1.9-percent year-on-year growth. The biggest price rise was recorded in the energy sector, which was 3.9%.

Figure 1.7 | Indices of Consumer and Producer prices

(2001 = 100)
Source | CBS

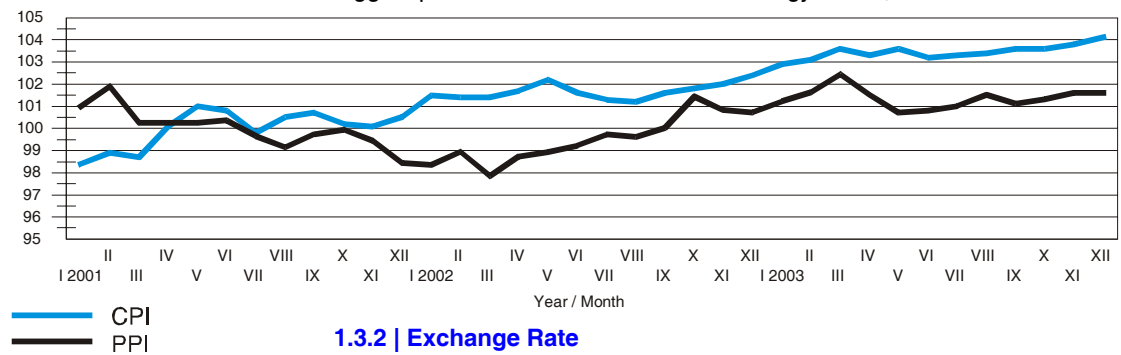
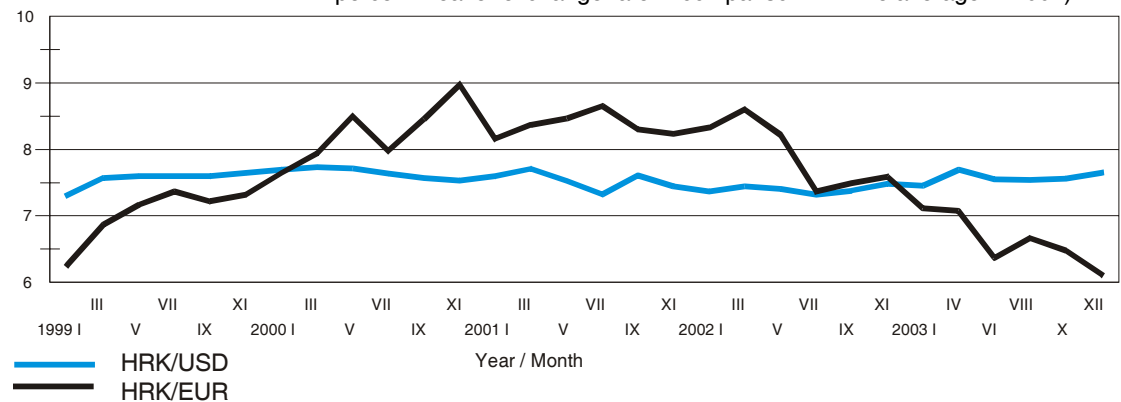


Figure 1.8 | The Mean Daily CNB Exchange Rate of the Kuna Against the Euro and the American Dollar

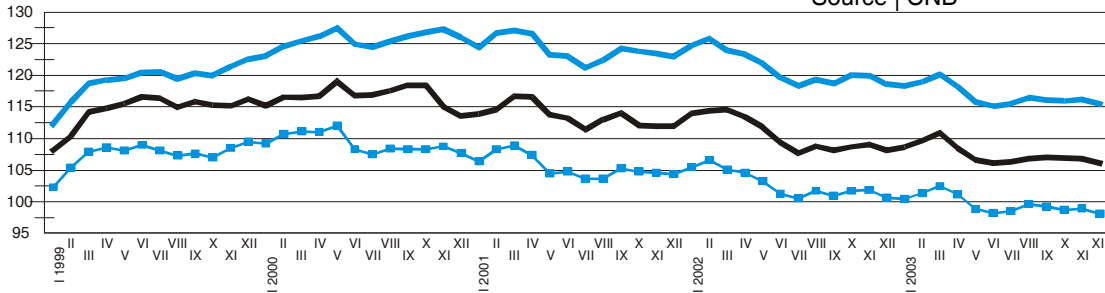
Source | CNB



1.3.2 | Exchange Rate

Average mean daily exchange rate of the kuna against the Euro in 2002 amounted to 7.41 HRK/EUR. In comparison with 2001, when it equaled 7.47 HRK/EUR, it appreciated by 0.83%. The mean exchange rate at the end of the period (December 31, 2002.) totaled 7.44 HRK/EUR. In comparison with the year before it weakened by 0.98%. The lowest daily mean exchange rate in 2002 was recorded at the level of 7.31 HRK/EUR (a 1.4-percent stronger kuna exchange rate in comparison with the average in 2002), and the highest one was at the level of 7.58 HRK/EUR (a 2.3-percent weaker exchange rate in comparison with the average in 2002).

Figure 1.9 | Nominal and Real Effective Kuna Exchange Rate
Source | CNB



The nominal effective kuna exchange rate recorded at the end of 2002 was 118.58 and it was by 3.6% stronger in comparison with the end of 2001, when it amounted to 122.99. In the same period the real effective kuna exchange rate deflated by retail prices amounted to 100.64, which represents a 3.5-percent appreciation in comparison with the year before, whereas the real effective kuna exchange rate deflated by producer prices amounted to 108.13 and grew by 3.4% in a year's period.

- Nominal ef. exch. rate
- Real ef. exch. rate (PPI)
- Real ef. exch. rate (RPI)

In 2002 the central bank intervened sixteen times with foreign exchange auctions. In five interventions EUR220.5 million was sold, whereas in the remaining eleven interventions the Euro was bought, in the amount of EUR694.4 million.

In 2003 the average mean foreign exchange rate of the kuna against the Euro amounted to 7.56 HRK/EUR, which represents a 2.11-percent depreciation of the kuna in comparison with the previous year. Mean foreign exchange rate of the kuna against the Euro at the end of the period amounted to 7.65 HRK/EUR; in comparison with the end of the period in 2002 it weakened by 2.75% the lowest daily mean kuna exchange rate against the Euro in 2003 amounted to 7.44 HRK/EUR, and the highest was 7.71 HRK/EUR.

The nominal effective kuna exchange rate at the end of 2003 appreciated in comparison with the same period of the previous year, which means that in this period the kuna appreciated by 2.66% against the basket of currencies in which Croatia generates the highest volume of foreign trade. The real effective kuna exchange rate appreciated 2.54% by deflated retail prices in the observed period by, and deflated by producer prices it appreciated by 1.82%.

Figure 1.10 | Foreign Currency Interventions of the CNB
Source | CNB



- Midpoint exch. rate of CNB
- CNB purch from banks
- CNB sold to banks

Average mean foreign currency kuna exchange rate against the American dollar in 2002 amounted to 7.86 HRK/USD and in comparison with the previous year appreciated by 5.7%; in 2003 it was 6.7 HRK/USD, which was a 14.78-percent year-on-year appreciation of the kuna against the dollar.

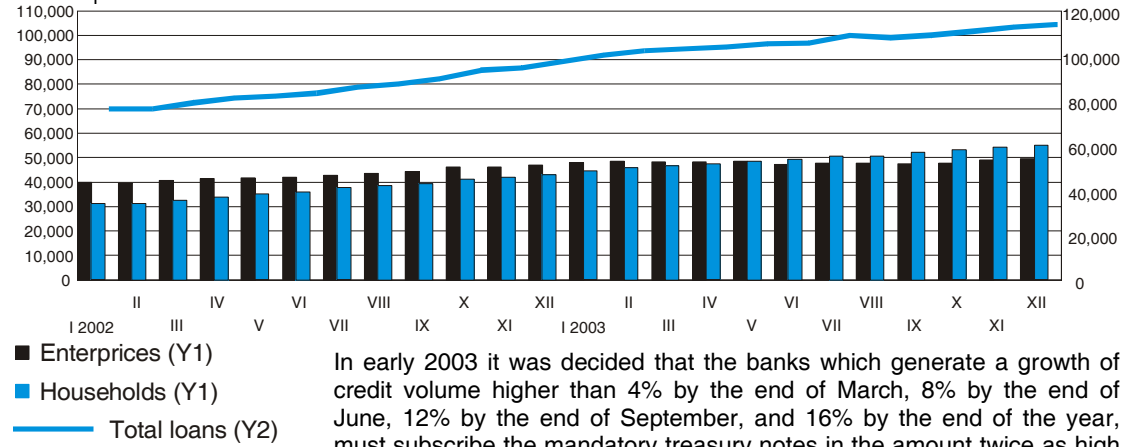
In 2003 the central bank bought EUR84.5 million by foreign currency interventions, and sold EUR438.3 million.

1.4 | Monetary Trends

The Croatian National Bank in 2002 created a net of HRK 4.757 million by foreign currency transactions, and in 2003, HRK 965 million. The most significant changes in the Croatian National Bank instruments in 2002 were the reduction of the Lombard rate from 10% to 9.5% and the abolishment of treasury bills with a 42-day maturity, as well as the introduction of treasury bills of the Ministry of Finance with a 364-day maturity.

Figure 1.11 | Total Kuna and Foreign Currency Credits, Corporate Credits, and Credits to Households (in mil. HRK)

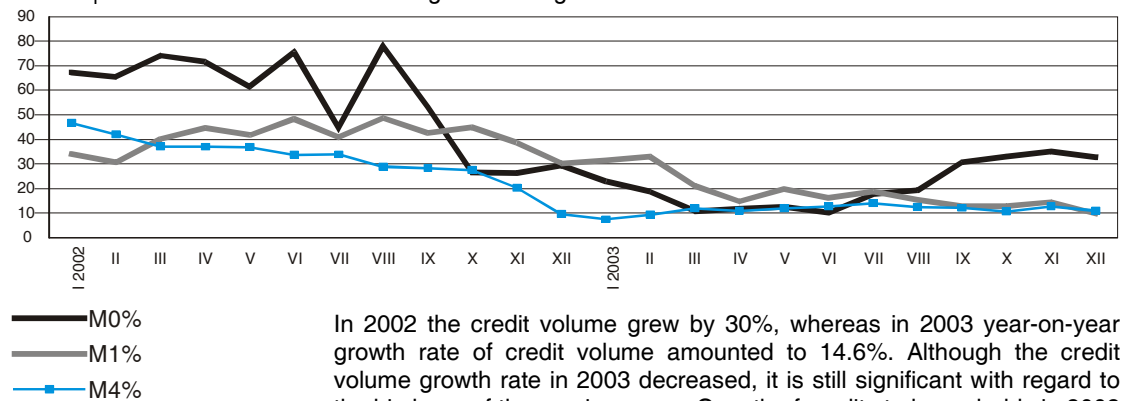
Source | CNB



In early 2003 it was decided that the banks which generate a growth of credit volume higher than 4% by the end of March, 8% by the end of June, 12% by the end of September, and 16% by the end of the year, must subscribe the mandatory treasury notes in the amount twice as high as the amount by which they exceed the rates mentioned above. Namely, according to the estimate of the Croatian National Bank, the annual growth of credit volume (16%) would be big enough to support further economic growth, without excessive pressure on the balance of payments and foreign borrowing.

Figure 1.12: Monetary Aggregates, Year-on-Year Growth Rate

Source | CNB



In 2002 the credit volume grew by 30%, whereas in 2003 year-on-year growth rate of credit volume amounted to 14.6%. Although the credit volume growth rate in 2003 decreased, it is still significant with regard to the big base of the previous year. Growth of credits to households in 2002 amounted to 43%, whereas the growth of corporate credits in the same period amounted to 22.7%. The growth rate of credits was lower in both sectors in 2003, and a faster growth was still recorded in the household sector (27.7%) than in the corporate sector (5.1%).

In 2002 the money supply M1 recorded an annual growth rate of 30.2%, whereas in 2003 this rate decreased to 9.8%. The broad money supply grew by 9.5% and by 11% in 2002 and in 2003, respectively.

The overall turnover on the Money Market Zagreb in 2002 amounted to HRK 17.6 billion, which was a 30-percent decrease in comparison with the previous year. In 2003 the overall turnover amounted to HRK 28.1 billion, which was a 60-percent year-on-year increase. The average monthly interest rate was between the lowest one in January, 1.44%, and the highest in September, 6.5%.

1.5 | Labor Market Trends

1.5.1 | Employment and Unemployment

The 2001 tendency of growth of total employment from continued in 2002. According to the data of the Central Bureau of Statistics, which have been taken over from the Croatian Employment Service, at the end of 2002 the records contained 366.1 thousand unemployed persons. In comparison with the end of 2001, the number of registered unemployed persons was reduced by approximately 29 thousand, or 7.3%. At the end of 2002, a total of 1.351 million of employed persons was recorded, which was more by 0.8% in comparison with the end of 2001. In this number, there were 1.053 million employed people in legal persons, 231.6 thousand in crafts and free professions, and 67.2 thousand of active insured persons – individual farmers. The unemployment rate dropped from 23.1% at the end of 2001 to 21.3 % at the end of 2002.

The data of the Croatian Institute of Health Insurance indicate that, in comparison with 2001, the number of the unemployed rose by 6.9% or by 23.6 thousand persons. The number of active employed persons increased by 16.9 thousand persons, which was by 1.2% more than in 2001. The number of pensioners remained at the level of the number of pensioners in the previous year, whereas the number of insured persons of all other categories dropped in comparison with 2001.

Table 1.3 | Employment and Unemployment Measures
Sources | CBS, HZMO, HZZ

	1999	2000	2001	2002	2003
Total Employment					
- Central Bureau of Statistics (end of period)	1,333,123	1,321,476	1,340,504	1,351,364	1,387,910
- Health Insurance Institute	1,416,617	1,403,474	1,405,587	1,422,506	1,474,728
Unemployment					
- Employment Institute (end of period)	341,730	378,544	395,141	366,162	318,684
- Health Insurance Institute	251,833	303,430	341,817	365,396	375,258
Rate of Unemployment					
- Central Bureau of Statistics (end of period)	20.4	22.6	23.1	21.3	18.7
- Health Insurance Institute	14.9	17.8	19.6	20.4	20.3

The most important characteristic of the labor market trend in 2003 was a significant decrease of the level of registered unemployment. In December 2003 the number of unemployed persons recorded in the Croatian Employment Service was 318.7 thousand, which was less by 13% than in December 2002. The total number of employed persons was higher by 2.7% in comparison with December 2002. The biggest year-on-year increase in employment happened in crafts and free professions, in which at the end of 2003 there were 243.6 thousand employed persons, or by 5.2% than in the previous year. In legal persons employment grew as well, so that in December 2003 records contained 1.085 million persons, which is a 3.1% increase in comparison with the comparable period of 2002. At the same time, the number of insured persons -



individual farmers recorded a year-on-year decrease of 11.9%. The reduction in the unemployment rate recorded in December 2002 continued in December 2003, when it totaled 18.7%.

During 2003, in the category of unemployed persons, the right to health care insurance was exercised by 375.3 thousand persons, which was by 2.7% more than in 2002. The number of active employed persons amounted to 1.475 million, i.e., a 3.7-percent increase was recorded. The number of insured pensioners in 2003 remained almost on the level of pensioners in 2002 (it was increased by a mere 0.2%).

The Labor Force Survey, which measures employment according to the methodology of the International Labor Organization (ILO), and which is conducted by the Central Bureau of Statistics, indicates that the average number of unemployed persons in the first half of 2002 amounted to 273 thousand, which was a 5.5-percent reduction in comparison with the average number of unemployed persons in the second half of 2001, when it amounted to 289 thousand. Consequently, the unemployment rate in the observed period dropped from 16.30% to 15.20%. In the second half of 2002 the average number of unemployed persons dropped by 14 thousand, therefore, the unemployment rate dropped to 14.40%.

In the first half of 2003 the unemployment rate according to the Survey confirmed that the tendency of the reduction of unemployment rate was still present, which was consistent with the trend in administrative employment. The average number of unemployed persons was 253 thousand, or by 2.3% less in comparison with the average number of unemployed persons in the second half of 2002. The unemployment rate was recorded on the level of 14.10%. However, in the second half of 2003 the average number of unemployed persons increased by 6 thousand, i.e., by 2.4% in comparison with the first half of the same year. In line with this, the unemployment rate grew as well to the level of 14.40%. This, even though little increase in unemployment according to the Survey, stopped the trend of the declining of the unemployment rate recorded in the last 3 semi-annual periods.

Table 1.4 | Unemployment According to Labor Force Survey (in 000)
Source | CBS

	Current Active Population	Personos in employment				Unemployed persons	Unemployment Rate (%)
		Total persons in employment	Employees	Self-employed persons	Unpaid family workers		
January - June 1999	1,721	1,504	1,132	289	83	217	12.60%
July - December 1999	1,730	1,479	1,110	283	86	251	14.50%
January - June 2000	1,806	1,534	1,135	312	87	273	15.10%
July - December 2000	1,894	1,572	1,230	277	66	322	17.00%
January - June 2001	1,724	1,460	1,099	289	73	264	15.30%
July - December 2001	1,767	1,478	1,127	284	68	289	16.30%
January - June 2002	1,794	1,521	1,154	294	72	273	15.20%
July - December 2002	1,792	1,534	1,179	286	69	259	14.40%
January - June 2003	1,791	1,538	1,162	313	62	253	14.10%
July - December 2003	1,793	1,535	1,166	314	55	259	14.40%

In spite of different unemployment rates which result from registered unemployment rate and unemployment rate according to the Survey, in 2002 and 2003 a downward trend of unemployment in Croatia was visible (except for according to the Survey in the second half of 2003). Such trends were instigated by economic growth, so the increase in employment was one of the causes of the decrease in registered unemployment, as well as a significant reform of employment mediation. The new Law on Employment Mediation And Entitlements During the

Unemployment Period changed the definition of the unemployed person by attaching to it the requirements of active job search and availability for work. Persons who collect occasional monthly income exceeding HRK 900 are not considered unemployed. Also, there are more and more registered private agencies for employment mediation, and employers use the possibilities of advertising job vacancies in public media, without using the mediation services of the Croatian Employment Service. The decrease in registered unemployment was also affected by deleting the persons who did not meet legal requirements from the records of the Croatian Employment Service.

1.5.2 | Wages and Pensions

Average monthly net wage in 2002 amounted to HRK 3,720, which was by 5.0% more in nominal terms and by 3.1% in real terms more in comparison with the previous year. In the second half of 2002 there was breakdown in the wage restriction policy in public administration, which influenced the increase in average wages. The wages also grew in the defense sector and compulsory social insurance. Also, the real growth of wages in the industry was accelerated, which was primarily encouraged by the stronger economic growth. The increase in productivity of labor in industry amounted to 9.6%.

Average gross wage in 2002 totaled HRK 5,366, which was a nominal increase of 6.0% in comparison with 2001, whereas the real increase totaled 4.1%. A faster growth of gross wages may be attributed to maintaining the same rates of taxes and contributions, and also the same amount of personal deduction as in 2001. In such conditions the nominal growth of the average net wages led to the increase in tax burden on wages and to a faster growth of average gross wages.

Table 1.5 | Average Wages
(in HRK)
Source | CBS

	1999	2000	2001	2002	2003
Average monthly net Wage	3,055	3,326	3,541	3,720	3,940
(real rate of growth, %)	10.1	3.4	1.6	3.1	3.8
Average monthly gross Wage	4,551	4,869	5,061	5,366	5,623
(real rate of growth, %)	6.5	1.6	-0.8	4.1	2.6

The data of the Central Bureau of Statistics indicate that the average net wage in 2003 totaled HRK 3,940, which was a 5.9-percent increase in nominal terms and 3.8-percent in real terms in comparison with 2002. The biggest increase in wages was recorded in the catering industry, transport, the construction industry, fishery, wholesale trade and retail trade, and in public administration and defense.

The average monthly gross wage in 2003 totaled HRK 5,623, which, in comparison with the previous year, was more by 4.8% in nominal terms, and by 2.6% in real terms. A slower growth of nominal gross wages had a decisive role in the slowdown of the real growth of gross wages. Also, the growth of the index of the cost of living in the second half of 2003 had a significant influence on the slower growth of the real gross wages.

The bigger growth of average net wages may also be attributed to the numerous new tax breaks and the increase in the already existing breaks, which have been introduced with the amended Law on Personal Income Tax, which has been implemented as of January 1, 2003. It introduced the fourth tax rate of 45% and a different span of the tax base for the application of other tax rates (15%, 25%, 35%, and 45%). A large number of provisions pertaining to the change of the factor of the basic personal deductions were also amended.

According to the data of the Croatian Institute of Pension Insurance in 2002, the average pension decreased by tax and surtax which does not include the pension supplement of HRK 100 and 6% amounted to HRK 1,516, or



Table 1.6 | Average Pensions
(in HRK)
Source | CIPI

4.2% more than in 2001. The average old-age pension was recorded on the level of HRK 1,706, which was a nominal increase of 3.4% in comparison with the previous year. The average disability pension was HRK 1,317, and the average survivor's pension HRK 1,269.

The average pension decreased by tax and surtax, which included the HRK 100 pension supplement and 6% in 2002 was HRK 1,648. The value of old-age pension was HRK 1,841, the value of disability pension HRK 1,430 and the value of survivor's pension HRK 1,411.

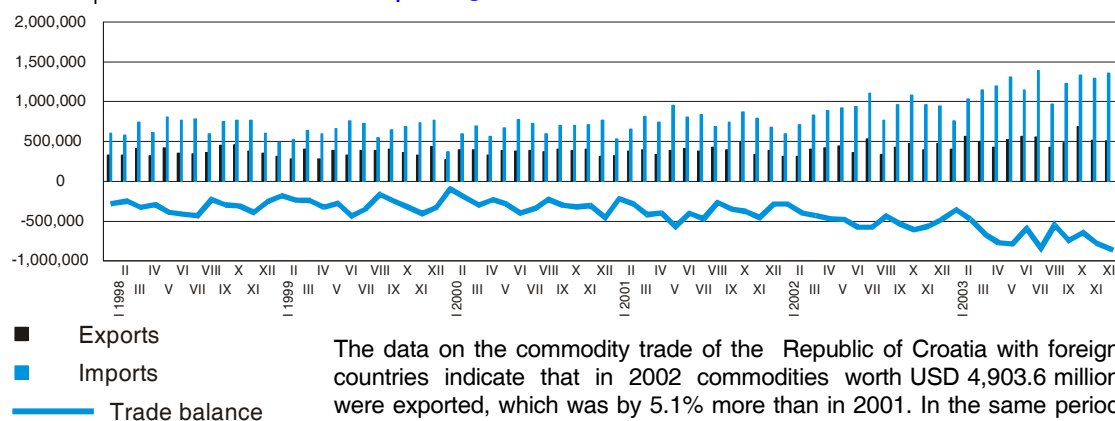
	1999	2000	2001	2002	2003
Average pension (excluding HRK 100,00 and 6%) corrected for tax and surtax	1,159	1,239	1,455	1,516	1,576
Average pension (including HRK 100,00 i 6 %) corrected for tax and surtax	1,309	1,382	1,592	1,648	1,702

Note: Average pensions for former military personnel and veterans are not included

The average pension decreased by tax and surtax exclusive of the HRK 100 pension supplement and 6% in 2003 totaled HRK 1,576. The average old-age pension was HRK 1,760, which represents a 3.2-percent growth in comparison with 2002. In the same period the average disability pension amounted to HRK 1,394 (year-on-year growth of 5.8%), whereas the average survivor's pension was HRK 1,312 (year-on-year growth of 3.4%).

In 2003 the average pension decreased by tax and surtax inclusive of the HRK 100 pension supplement and 6% was recorded at the level of HRK 1,702, which was by 3.3% more in comparison with the previous year. The highest value of HRK 1,888 pertained to the average old pension. At the same time, the average disability pension was HRK 1,502, and the average survivor's pension HRK 1,452.

Figure 1.13 | Monthly Export and Import of Goods
(in 000 US\$)
Source | CBS



1.6 | Foreign Economic Relations

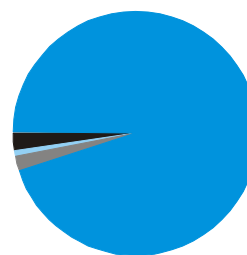
1.6.1 | Foreign Trade

The data on the commodity trade of the Republic of Croatia with foreign countries indicate that in 2002 commodities worth USD 4,903.6 million were exported, which was by 5.1% more than in 2001. In the same period commodities worth USD10,722.0 million were imported, which was a 17.2-percent year-on-year growth. A strong growth of commodity import was supported by a strong credit expansion of commercial banks. As a result, the total deficit of commodity trade amounted to USD5,818.5 million, which was the deficit higher by 29.8% than in the same period of the previous year. The consequence of such trends was the export-import ratio of 45.7%, which is more unfavorable than in 2001, when it amounted to 51.0%, and especially in comparison with 2000, when the export-import ratio was 55.9%.

The value of overall commodity exports in 2003 reached USD6,164.2 million, which is a 25.7-percent increase in comparison with 2002. Such a significant increase indicates a more vibrant access of Croatian products in the international market. Such a trend was also affected by processes of restructuring of domestic companies and the effects of signed bilateral and multilateral foreign-trade agreements. At the same time the overall commodity import was realized at the level of USD14,198.9 million, which means that it increased by USD3.5 billion, i.e., 32.4% in comparison with the same period of the previous year. Such a trend of commodity import and export resulted in the foreign-trade deficit of USD8,034.7 million or a deficit higher by 38.1% than in 2002. The export-import ratio was 43.4%.

Figure 1.14 | Commodity Export Structure According to the National Classification of Activities, In 2002
Source | CBS

	Export	
	2002.	%
Agriculture, Hunting and Forestry	102,212	2.08
Fishing	49,393	1.01
Mining and Extraction	98,896	2.02
Manufacturing	4,645,576	94.74
Other	7,508	0.15

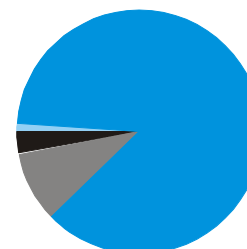


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The manufacturing industry had the biggest share in the structure of commodity export in 2002 (94.7%). In comparison with the previous year, export of goods of the manufacturing industry grew by 5.2%. The biggest values of export were recorded in the production of other means of transport (USD620.3 million), chemicals and chemical products (USD479.4 million), clothing (USD396.1 million), coke, oil products and nuclear fuel (USD378.3 million), and food and drinks (USD367.8 million). Agriculture, hunting, and forestry (2.1%), mining and extraction (2.0%), fishery (1.0%), and other activities (0.2%) accounted for the remaining 5.3% in the overall structure of commodity export.

Figure 1.15 | Commodity Import Structure According to the National Classification of Activities, In 2002
Source | CBS

	Import	
	2002.	%
Agriculture, Hunting and Forestry	306,785	2.86
Fishing	19,757	0.18
Mining and Extraction	994,641	9.28
Manufacturing	9,283,389	86.58
Other	117,474	1.10



In 2002 the share of the manufacturing industry in the commodity import structure totaled 86.6%. The highest values in commodity import were recorded at machines and devices (USD1,218.1 million), chemicals and chemical products (USD1,145.8 million), motor vehicles, trailers, and semi-trailers (USD1,127.8 million), and food and drinks (USD701.1 million). In the area of mining and extraction, whose share in the total commodity import was 9.3%, the import mainly pertained to the services industry related to extraction of oil and gas, except for research. The share of agriculture, hunting, and forestry amounted to 2.9%, fishery 0.2%, whereas the share of other activities in the overall commodity import was 1.1%.

Figure 1.16 | Commodity Export Structure According to the National Classification of Activities, In 2003
Source | CBS

	Export	
	2003.	%
Agriculture, Hunting and Forestry	117,887	1.91
Fishing	81,163	1.32
Mining and Extraction	129,005	2.09
Manufacturing	5,823,575	94.47
Other	12,558	0.20

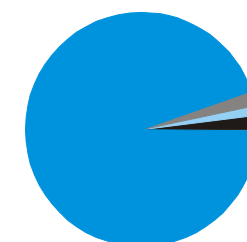


Figure 1.17 | Commodity Import Structure According to the National Classification of Activities, In 2003
Source | CBS

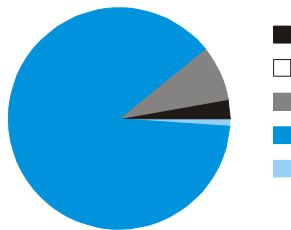
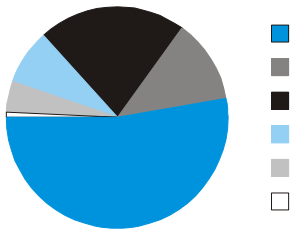


Figure 1.18 | The Trend of Commodity Trade of the Republic of Croatia in 2002
The Structure of Export in 2002
Source | CBS



The structure of commodity export in 2003 did not change more significantly in comparison with 2002. The manufacturing industry continued to maintain the biggest share in the overall commodity export (94.5%). The biggest contribution to the annual growth of the overall commodity export was made by export of electrical machines and appliances and export of other transport equipment. The value of export in the production of electrical machines and devices was recorded at USD288.6 million, and in the production of other means of transport at USD763.3 million. A significant year-on-year increase was also present in the production of food and drinks (40.0%), office machines and computers (44.2%), medical instruments and watches (42.8%), furniture (32.7%), and publishing and printing industry (30.7%).

	Import	
	2003.	%
Agriculture, Hunting and Forestry	376,603	2.65
Fishing	16,920	0.12
Mining and Extraction	1,140,069	8.03
Manufacturing	12,524,961	88.21
Other	140,363	0.99

The structure of commodity import shows that the manufacturing industry increased its share from 86.6% in 2002 to 88.2% in 2003. This was mostly due to import of machines and devices (USD1,625 million), chemicals and chemical products (USD1,463 million) and food and drinks (USD887.7 million). The most significant growth rates in import were recorded in the import of electrical machines and devices (49.4%), other means of transport (134.9%), medical instruments and watches (53.9%), motor vehicles, trailers and semi-trailers (36.8%) etc. The share of mining and extraction accounted for 8.0% in the overall commodity import, the share of mining and extraction was 8.0%, the share of agriculture, hunting, and forestry at the level of 2.6%, and fishery 0.1%.

	Export	
	2002.	%
EU	2,584,492	52.71
CEFTA	606,114	12.36
Other developing European countries	1,062,672	21.67
Other developing countries	385,747	7.87
Other developed countries	226,689	4.62
EFTA	37,870	0.77

The biggest foreign-trade partners of the Republic of Croatia in 2002 were the European Union countries. Namely, 52.7% of the overall Croatian export was earmarked for the EU market. According to the data of the Central Bureau of Statistics, the biggest drop in the value of export was in the commodity trade with Germany, which amounted to 11.3% in comparison with the previous year. Croatia realized approximately 42.0% of its overall export in the markets of the developing countries. Particularly visible were the growth of export of 25.7% to Bosnia and Herzegovina, 45.6% to Hungary, and 15.5% to Serbia and Montenegro in comparison with 2001. Croatia's biggest export partners in 2002 were Italy, Germany, and Austria.

55.8% of the overall Croatian import comes from the EU countries. In 2002 goods worth USD1.850 million were imported from Italy, USD1.743 million from Germany, and USD710.0 million from Austria. Croatia also imported from the developing countries, with which it realized 35.5% of its

overall commodity trade in the observed period. The most significant values of commodity import were recorded in the commodity trade with Slovenia (USD826.5 million) and Hungary (USD317.8 million).

	Import	
	2002.	%
EU	5,983,563	55.81
CEFTA	1,716,615	16.01
Other developing European countries	1,044,755	9.74
Other developing countries	1,040,781	9.71
Other developed countries	725,625	6.77
EFTA	210,706	1.97

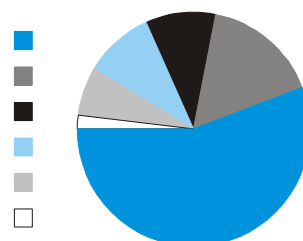
The structure of commodity trade in 2003 indicates that the share of commodity export of the Republic of Croatia into the EU reached 54.6%. The absolute annual increase of export into the EU amounted to 30.1%. The countries into which exports increased the most were Italy (USD1,628.3 million), Germany (733,0 million) and Austria (USD479.5 million). The share of export in the markets of the developing countries amounted to 38.4%. The most important foreign trade partners were Bosnia and Herzegovina, with the annual growth of export of 26.7%, Serbia and Montenegro with 10.8%, and Slovenia with 19.4%. At the same time, a year-on-year decrease of commodity export of 2.9% into Hungary was recorded.

	Export	
	2003.	%
EU	3,362,752	54.55
CEFTA	734,914	11.92
Other developing European countries	1,385,071	22.47
Other developing countries	247,445	4.01
Other developed countries	384,438	6.24
EFTA	49,568	0.80

The share of import of the Republic of Croatia from the EU countries in the overall commodity import accounted for 56.6%. The largest contribution to the increase in the value of commodity import was made by the import from Italy (USD2.580 million), Germany (USD2.219 million), Austria (USD940 million) and France (USD749 million). In the commodity trade with the CEFTA countries in 2003 the Republic of Croatia realized the biggest import with Slovenia, which was worth USD1,051.4 million, i.e., a 27.2-percent increase in comparison with the previous year. The value of import with Hungary totaled USD424.1 million, i.e., it increased by 33.5%.

	Uvoz	
	2003.	%
EU	8,032,205	56.57
CEFTA	2,357,567	16.60
Other developing European countries	1,127,265	7.94
Other developing countries	1,430,396	10.07
Other developed countries	993,722	7.00
EFTA	257,761	1.82

Figure 1.19 | The Trend of Commodity Trade of the Republic of Croatia in 2002
The Structure of Import in 2002
Source | CBS



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Figure 1.20 | The Trend Of Commodity Trade Of The Republic Of Croatia In 2003
The Structure Of Export In 2003
Source | CBS

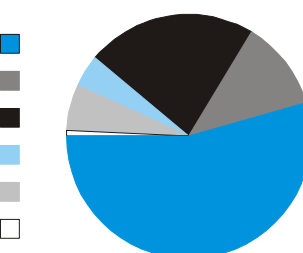
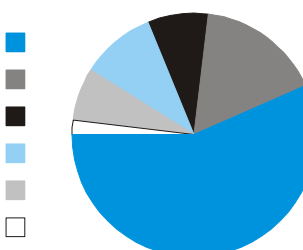


Figure 1.21 | The Trend Of Commodity Trade Of The Republic Of Croatia In 2003
The Structure Of Import In 2003
Source | CBS



1.6.2 | Balance of Payments

The balance-of-payments current account deficit in 2002 amounted to USD1,920.1 million, which accounts for 8.7% of GDP, whereas in 2003 the deficit was USD2,098.6 million, or 7.0% of GDP.

In 2002 the deficit of commodity trade with foreign countries totaled USD5,648.6 million, whereas in 2003 it grew to USD7,921.0 million. The services account recorded a surplus in both years - in 2002 it totaled USD3,154.7 million, whereas in 2003 it grew to USD5,641.6 million. Surplus was also recorded on the current transfers account, which in 2002 totaled USD1,075.9 million, and in 2003 it rose to USD1,393.7 million.

The balance-of-payments current account deficit in 2002 was mostly financed by other investments, and in 2003 by direct investments. In 2002 the foreign currency reserves of the Croatian National Bank grew on the transaction basis by USD0.7 billion, whereas in 2003 they grew by an additional USD1.3 billion.

Table 1.7 | Balance of Payments 1999-2003
(in mil USD)
Source | CNB

	1999.	2000.	2001.	2002.	2003.
CURRENT ACCOUNT	-1,397.2	-460.8	-725.8	-1,920.1	-2,098.6
Goods	-3,298.6	-3,203.8	-4,101.3	-5,648.6	-7,921.0
Services	1,625.2	2,267.9	2,927.4	3,154.7	5,641.6
Income	-356.3	-408.1	-517.6	-502.1	-1,212.9
Current transfers	632.5	883.2	965.7	1,075.9	1,393.7
CAPITAL AND FINANCIAL ACCOUNT	2,528.0	1,237.1	1,304.2	2,702.3	3,305.3
Capital account	24.9	20.9	133.0	443.4	83.6
Financial account, excl. Reserves	2,881.6	1,798.3	2,484.3	2,955.8	4,612.9
Direct investment	1,420.0	1,085.4	1,404.1	591.1	1,875.4
Portfolio investment	532.4	707.6	600.7	-229.7	1,009.5
Other investment	929.2	5.3	479.5	2,594.4	1,728.1
Reserve assets (CNB)	-378.5	-582.1	-1,313.1	-696.9	-1,391.3
NET ERRORS AND OMISSIONS	-1,130.8	-776.3	-578.5	-782.2	-1,206.6

Table 1.8 | Indicators of Indebtedness
(in %)
Source | CNB, CBS, own calculation

The foreign debt of the Republic of Croatia at the end of 2003 amounted to USD23.5 billion (74.4% of GDP), which was an increase of USD8.0 billion in comparison with 2002, when it amounted to USD15.4 billion or 61.4% of GDP.

	1999.	2000.	2001.	2002.	2003.
External debt / GDP	53.9	59.1	57.1	61.4	74.4
Net external debt / GDP	38.6	41.1	33.9	38.0	48.4
Shortterm external debt / GDP	5.2	5.5	4.1	8.4	13.2
External debt / Exports of goods and services	131.7	125.6	117.8	134.3	143.9
Net external debt / Exports of goods and services	94.3	87.2	70.0	83.1	93.7

2 | Central Government Budget in 2002 and 2003

The area of state finance in 2002 was marked by changes of institutional character in the state budget. Roads and motorways construction and maintenance companies were separated from the budget as two special agencies, Croatian Roads (Hrvatske ceste) and Croatian Motorways (Hrvatske autoceste). A part of excise taxes on oil and oil derivatives has now become, in addition to revenues from road tolls, a revenue which those two agencies dispose of. The two agencies were also able to independently borrow on the domestic and foreign markets. As opposed to this, all extra-budgetary funds were consolidated into the State Treasury system, in addition to the pension fund, which had been integrated as early as the middle of 2001. However, since 2003 Croatian Roads and Croatian Motorways have again become monitored within the consolidated central government.

With a view to stimulating a unified regional development of the Republic of Croatia, development of small and medium sized enterprises, development projects, investment programs, extending assistance in employment of workers, as well as other programs which contribute to quality and long-term solutions for economic development and employment, at the end of 2001 two funds were established - the Regional Development Fund of the Republic of Croatia and the Development and Employment Fund. Resources for those two funds were secured in the state budget for 2002. The Rules on the Mode of Utilization of Funds Resources was passed in May 2002, and thereafter the procedure of calling for proposals of projects through a public tender was initiated. The law provided for privatization revenues to become the revenues of the Regional Development Fund, and not as the case had been before, a part of the capital revenues of the central budget.

The revenues of the 2002 budget were planned at HRK 70,217.9 million, and the outturn was HRK 69,869.1 million. Expenditures were planned at HRK 74,434.2 million, and the total expenditures were HRK 73,369.6 million. The overall revenues of the state budget increased in nominal terms by 30.6% in comparison with 2001, whereas the expenditures increased by 26.9%. Such nominal increase in revenues and expenditures of the central budget was a result of fiscal consolidation of extra-budgetary funds into the State Treasury system. State budget expenditures were reduced in real terms, but this decrease was of a somewhat lower intensity than in the previous year.

On the revenue side, the positive impact of the introduction of new taxes should be mentioned, as well as the changes in some excise taxes. Among the new taxes, tax on mandatory car insurance was introduced, as well as tax on supplemental health insurance. In the structure of excise taxes, there were changes in the size of excise taxes on alcohol and alcoholic beverages, i.e., they were reduced by 40%, whereas the excise taxes on beer rose. It should be noted that the share of capital and non-tax revenues in overall revenues dropped, whereas the share of tax reve-



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nues was on the rise. Out of tax revenues, the share of social security contributions grew, whilst the share of other tax revenues was on the decrease; however, regardless of this reduction, the VAT still remained the most significant revenue of the state budget.

On the expenditure side of the budget it is evident that outlays for transfers to households grew significantly, as well as expenditures for goods and services, whereas capital expenditures and subsidies declined. However, the increase in those expenditures can not be compared with 2001 primarily because of the consolidation of extra-budgetary funds in the central government budget. It should be mentioned that during 2002 shipyards were rehabilitated by their debt being taken over, although those expenditures did not burden the state budget for 2002; the impacts of such policy will only be visible in the forthcoming years.

In November 2002 the budget revision was adopted, whereby the overall revenues remained on the same level on which they had been planned originally, whereas the expenditures were reduced by HRK 180 million. The budget revision was necessary primarily because of reallocation of expenditures, given that some budget beneficiaries overspent whilst others had savings. The improved fiscal position is evident from the reduction of the central government budget deficit. By the revision the central government deficit in 2002 was planned at 2.2% of GDP, and the expenditures were lower by approximately HRK 1 billion than the planned ones. Thanks to this, the central government deficit was reduced as well, which was 2.0% of GDP in 2002.

In May 2002 the Stand-by Arrangement, which had been approved in 2001, was successfully completed, amounting to SDR200 mil., i.e., USD255 mil. This Agreement was very significant for the stabilization and improvement of Croatia's position in the international financial market.

In 2003 changes of institutional character in the state budget were continued. Namely, the Regional Development Fund and the Development and Employment Fund, which had been established in the previous year as extra-budgetary funds, were integrated into the Single Treasury Account in 2003. Although those changes were less intensive than those in 2002, they still impacted the management of fiscal policy and the execution of state budget revenues and expenditures. With this change the privatization revenues, which in 2002 became the revenues of the two Funds, by their integration into the state budget again became central government budget revenues. It is specifically because of those changes that the capital expenditures in 2003 are not comparable with 2002. The Republic of Croatia primarily collected privatization revenues in 2003 through privatization of 25% plus 1 share of INA.

It should be stressed that on the revenue side of the budget the overall revenues and subsidies in 2003 originally had been planned in the amount of HRK 77,784.0 million, whereas the revision increased them to HRK 78,534.0 million. The budget revision was adopted in September 2003. This increase in overall revenues of the state budget was a result of the increase in capital revenues, i.e., expected privatization revenues. The overall revenues in 2003 were collected in the amount of HRK 78,275.0 million, or HRK 258.9 million less than the amount planned by the revision. Expenditures in 2003 were primarily planned in the amount of HRK 79,702.1 million, and the revision increased them to HRK 79,762.5 million. They were realized in the amount of HRK 80,441.1 million, which was by 0.9% more than the plan. Given that the outturn of revenues was lower than the plan, and the expenditures exceeded the planned amount, the deficit in 2003 was higher than the planned one. It should be mentioned that the item which increased most on the expenditure side of the budget were subsidies, which almost doubled, and

the largest part of subsidies was given to the Croatian Railways for the modernization of transport infrastructure.

In the structure of overall revenues and overall expenditures of the state budget in 2003 in comparison with 2002, there were no significant changes. The only more prominent change was in the structure of revenues, where the share of capital revenues increased, and the share of tax revenues decreased. However, this increase in the share of capital revenues is a result of the already mentioned integration of the Regional Development Fund and Development and Employment Fund into the State Treasury system, whereby the privatization revenues again became the revenues of the central government. If we compared 2003 with 2001, which would be more precise due to the treatment of privatization revenues, it would be visible that the share of capital revenues in overall revenues of the central government budget was reduced, whereas the share of tax revenues increased. Such a trend is positive because tax revenues are stable budget revenues, whereas capital revenues, including privatization revenues, are temporary.

It is evident from the above that the central government deficit in 2003 was reduced in comparison with 2002, however, it was somewhat higher than planned. This may lead to the conclusion that the fiscal policy was somewhat more expansive than was originally planned.



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2.1 | Budget revision for 2002 and 2003

In the state budget for 2002 a total of HRK 70,217.9 million of overall revenues was planned, whereas the overall expenditures were approved at HRK 74,614.1 million. Due to the need for reallocation of specific types of expenditures in November 2002, the state budget was revised.

By means of the budget revision the overall budget revenues remained on the same level. On the basis of data on the daily and monthly outturn of budget revenues, it was established that the outturn in specific months was consistent with the planned amounts. Although the overall revenues remained on the same level, reallocation in specific groups of revenues was carried out. The tax revenues increased by HRK 566.1 million, and non-tax revenues shrunk by HRK 545.1 million. Capital revenues were also slightly reduced, by HRK 21 million.

Budget expenditures decreased by HRK 180 million, and, in addition to this, reallocation of planned budget expenditures on specific budget items was carried out as well. The intention of the decrease in the share of state expenditures in GDP required planning of restrictive fiscal policy in the three-year period. The analysis of submitted financial reports of budget beneficiaries for the period from January 1 to June 30, 2002 indicated that some beneficiaries were using the planned funds for payment of wages and compensations at a rate faster than the one allowed according to the Law on Execution of the State Budget. On the other hand, on the basis of a detailed analysis of the execution of state budget for the period from January to August, and also on the basis of an assessment of required funds until the end of the year, it was concluded that not all the beneficiaries would be able to utilize their planned budget funds. This enabled for a portion of those funds to be reallocated to beneficiaries with which a shortfall of funds was evident, primarily for expenditures for salaries and other receipts on the basis of concluded collective agreements.

Additional funds were secured by the Ministry of Internal Affairs, the Ministry of SMEs, the Ministry of Education and Sports, the Ministry of Labor and Social Welfare, the Ministry of Health, the Ministry of Science and Technology, and the Ministry of Justice, Administration, and Local Self-Government. The biggest savings were made on the items of the Ministry of Finance, the Ministry of Maritime Affairs, Transport, and

Table 2.1 | Changes of Revenues and Expenditures Adopted by Budget Revision in 2002
Source | Ministry of Finance
(in 000 HRK)

	Budget 2002	Revised Budget 2002	Index Rev. Budget/Budget
Total revenue and grants	70,217,921	70,217,921	100.00
Total revenue	70,217,921	70,217,921	100.00
Current revenue	69,996,921	70,017,928	100.03
Tax revenue	67,517,300	68,083,421	100.84
Nontax revenue	2,479,621	1,934,507	78.02
Capital revenue	221,000	199,993	90.49
Grants	0	0	,
Total expenditure and lending minus repayments	74,614,094	74,434,155	99.76
Current expenditure	69,329,849	69,412,932	100.12
Expenditures on goods and services	30,738,572	31,617,871	102.86
Interest payments	3,800,322	3,423,355	90.08
Subsidies	2,264,957	2,206,511	97.42
Transfers	32,525,997	32,165,194	98.89
Capital expenditures	3,925,590	3,441,485	87.67
Lending minus repayments	1,358,655	1,579,738	116.27

Communications, and the Ministry of Public Works, Reconstruction, and Construction. The structure of expenditures according to economic classification of activities indicates that the biggest savings were made on the items of expenditures for repayment, expenditures for investments, as well as outlays for grants to foreign countries and within the general government. The revision increased the expenditures for goods and services by HRK 880 million, outlays for granted loans, and expenditures for the procurement of intangible assets.

Given that, in addition to this reallocation, there were also HRK 180 million in budget savings in comparison with the planned volume of expenditures, it is evident that budgetary resources in the long run were utilized rationally and sparingly. Savings in the Ministry of Finance pertained mostly to the interests for issued securities and for received loans, as well as for repayments of principals of received loans. Borrowings minus repayments were increased by HRK 221 million.

In the 2003 budget the overall revenues and subsidies were planned in the amount of HRK 77,783.9 million, whereas this amount was increased by the revision to HRK 78,533.9. The basic reason for the increase in overall revenues of the state budget were revenues collected by the privatization of INA. More precisely, capital revenues were originally planned at HRK 2,707 million, and this amount increased to HRK 3,457 million by the revision. Those were the only changes in the plan of the state budget on the revenue side.

As far as expenditures are concerned, they were originally planned in the amount of HRK 79,702.1 million, whereas they were increased by the revision to HRK 79,762.5 million. Also, reallocation of expenditures among specific budget items was carried out. The greatest shortage of funds in 2003 was in the Ministry of Defense, the Ministry Labor and Social Welfare, the Ministry of Education and Sports, the Ministry of Internal Affairs, the Ministry of Finance, the Ministry of Agriculture, and the Development and Employment Fund.

One of the main reasons for the revision of the budget in 2003 on the expenditure side was the draught. A long draught period in 2003 resulted in great damage in agricultural plants, particularly in crops. In such circumstances and pursuant to the Law on Natural Disasters, a natural disaster is declared when damage causes a reduction of yields in crops of more than 30%. In order to alleviate the damage, in July 2003 the Government of the Republic of Croatia passed the Decision on

Extraordinary Measures for the Alleviation of the Consequences of Draught in 2003, as well as the Decision on the Reallocation of Funds Planned in the State Budget of the Republic of Croatia for 2003. A total of HRK 400.0 million was provided pursuant to the two Decisions, out of which HRK 200.0 million was provided by the reallocation of funds in the Ministry of Agriculture and Forestry, whereas HRK 200.0 million was provided from the funds of the state budget of the Republic of Croatia for 2003 by reallocation of funds for material expenditures of the state budget beneficiaries.

Another reason for the reallocation of state budget funds in 2003 was a program of employment promotion for whose realization it was necessary to provide additional funds in the amount of HRK 210.0 million. Also, implementation of the social welfare programs and pension benefits affected the reallocation of the budget expenditures items. Namely, in the state budget of the Republic of Croatia for 2003 funds were planned for support allowance, one-time cash benefit, supplement for assistance and care, personal disability allowance, training for independent work and living, care outside the own family and other benefits and assistance. Additional funds, pursuant to the amendments of the Law on Social Welfare, needed to be provided for those purposes. In 2003 it was also necessary to secure additional funds for the payment of pension benefits and pension receipts until the end of the year, in order to exercise the entitlements from pension insurance of new beneficiaries (members of Croatian Army and Croatian war veterans, new beneficiaries of pensions in foreign countries and for the commencement of payment of pensions in former SFRY republics), as well as for the payments of differences of pensions pursuant to the Law on Entitlements of Croatian War Veterans and Family Members.

Furthermore, in judicial bodies of the Republic of Croatia there are a great number of court disputes related to labor and employment entitlements. Due to a stronger dynamics of resolving of those disputes in 2003, those rulings were executed at the expense of the funds of the beneficiaries of the state budget of the Republic of Croatia for 2003 (the Ministry of Internal Affairs and the Ministry of Defense, the Ministry of Education and Sports, etc.). Due to the execution of those rulings, which had not been planned at the time of passing of the budget for this year, it was necessary to provide additional funds.

Table 2.2 | Changes of Revenues and Expenditures Adopted by Budget Revision in 2003
Source | Ministry of Finance
(in 000 HRK)

	Budget 2003	Revised Budget 2003	Index Rev. Budget/Budget
Total revenue and grants	77,783,960	78,533,960	100.96
Total revenue	77,783,960	78,533,960	100.96
Current revenue	75,076,968	75,076,968	100.00
Tax revenue	72,726,631	72,726,631	100.00
Nontax revenue	2,350,336	2,350,336	100.00
Capital revenue	2,706,992	3,456,992	127.71
Grants	0	0	,
Total expenditure and lending minus repayments	79,702,131	79,762,541	100.08
Current expenditure	73,167,216	73,483,667	100.43
Expenditures on goods and services	31,744,666	32,873,760	103.56
Interest payments	4,035,811	3,493,126	86.55
Subsidies	4,524,080	4,267,688	94.33
Transfers	32,862,659	32,849,093	99.96
Capital expenditures	4,751,627	4,435,176	93.34
Lending minus repayments	1,783,287	1,843,697	103.39



In addition, expenditures for the conducting of parliamentary elections had not been originally planned in the 2003 budget because it was supposed that they would be conducted in 2004. However, since according to political assessments it was expected as early as the middle of the year that elections would be held at the end of 2003, it was necessary to plan those expenditures in the amendments to the budget at HRK 80.0 million.

2.2 | Central government budget deficit /surplus

In 2002 the overall central government budget deficit on a cash basis was HRK 3,500.5 million, or 1.98% of the gross domestic product. The central government budget deficit was lower than the planned one. The deficit was originally planned on the level of 2.42% of GDP, and it was reduced to 2.40% of GDP by the revision. The deficit of 1.95% of GDP, which was also lower than the one planned by the revision, was a result of decreased state expenditures. Namely, overall expenditures and lending minus repayments were executed in the amount lower by HRK 1,064.6 million than the one planned by the revision. Cash shortfall in 2002 was lower than the one in 2001 by HRK 808.6 million. Budget deficit on a cash basis in 2002 in comparison with the previous year was also lower as the share of GDP – by 0.64 percentage points.

In terms of the accrual basis of calculating budget deficit (which also takes into consideration government arrears accumulated during the budget year, and deducts privatization revenues from the overall revenues), then the budget deficit was somewhat higher and totaled HRK 3,558.8 million, or 1.98% of GDP. This was by far lower than in 2001, when the central government budget deficit on the accrual basis amounted to 4.96% of GDP. One of the reasons for this decrease is the fact that privatization revenues in 2002 were not reported as revenues of the central government budget, but as revenues of the newly established funds, the Regional Development Fund and the Development and Employment Fund. Consequently, the impact of the privatization revenues was evident only on the level of consolidated central government, as well as on the level of general government.

Table 2.3: Central Government Budget Deficit/Surplus Trends
Source | Ministry of Finance
(in 000 HRK)

	2001	2002	2003
Overall deficit/surplus	-4,309,149	-3,500,490	-2,166,096
as % GDP-a	-2.60	-1.95	-1.12
Overall deficit/surplus without privatisation revenues	-8,550,175	-3,500,490	-5,521,064
as % GDP-a	-5.16	-1.95	-2.86
Overall deficit/surplus on an accrual basis	-8,223,159	-3,558,766	-5,611,470
as % GDP-a	-4.96	-1.98	-2.91
Primary deficit/surplus	-1,293,840	-239,902	1,421,233
as % GDP-a	-0.78	-0.13	0.74
Primary deficit/surplus without privatisation revenues	-5,534,866	-239,902	-1,933,735
as % GDP-a	-3.34	-0.13	-1.00
Primary deficit/surplus on an accrual basis	-5,207,850	-298,178	-2,024,141
as % GDP-a	-3.14	-0.17	-1.05

*The status of arrears at the end of 2000 was determined on the basis of a definition used in the Stand-by Arrangement with the IMF, according to which arrears are commitments overdue by 90 days or more.

Primary deficit on the cash basis in 2002 amounted to HRK 239.9 million or 0.13% of the gross domestic product. Primary deficit is the difference between overall revenues and overall expenditures, decreased by interest payment. A positive thing is that the primary deficit in 2002 was greatly reduced in comparison with the previous year, when it amounted to 0.78% of GDP. Due to the manner of recording privatization revenues

indicated above, primary deficit on the accrual basis was on the approximately the same level as the level on the cash basis, accounting for 0.17% of GDP.

In 2003 the overall deficit of the state budget amounted to HRK 2,166.1 million, or 1.12% of GDP. This was a decrease in the overall central government budget deficit amounting to HRK 1,334.1 million, or less by 0.8 percentage points in comparison with 2002. Taking into consideration the deficit excluding privatization revenues, it amounted to HRK 5,521.1 million, or 2.9% of GDP, which, in comparison with 2002, was an increase of 0.9 percentage points. However, as mentioned above, there were differences in the treatment of privatization revenues in 2001, 2002, and 2003. Due to those differences it is more precise to compare the deficit on the accrual basis in 2003 with the one in 2001 than the one in 2002.

In 2003 state budget realized a primary surplus amounting to HRK 1,421.2 million, which was 0.7% of GDP on the cash basis. Such a trend is positive for state finance. Nevertheless, looking at the primary deficit/surplus expressed on the accrual basis, it is visible that the deficit amounted to HRK 1,933.7 million, or 1.0% of GDP. Since the deficit expressed like this is not comparable with 2002, it can be said that, in comparison with 2001, the primary deficit in 2003 was reduced by HRK 3,183.9 million, or 2.1% of GDP.



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Outstanding Commitments (Arrears)

The state budget entered into 2002 with HRK 506.4 million of outstanding commitments (arrears) from 2001 and the previous years, namely:

- HRK 146.9 million of commitments rolled over from the previous years, and
- HRK 359.2 million of commitments accrued in 2001.

During 2002 outstanding commitments (arrears) of budget beneficiaries continued to be monitored on a monthly basis by means of OBV-Ms forms. Those obliged to submit OBV-Ms forms were all the Ministries, agencies, state administration (44 budget beneficiaries), as well as Croatian Institute of Health Insurance (CIHI), Croatian Institute of Pension Insurance (CIPI), and Croatian Employment Office (HZZ).

In June 2002 some changes were made to the OBV-Ms form in the structure of commitments and they were monitored as:

- commitments for material and financial expenditures
- commitments for citizens and households, and
- commitments for acquisition of material assets.

This change did not alter the coverage of data from previous reports, and a comparison of the «old» and «new» days on arrears is possible at any moment.

The commitments mentioned above were still monitored according to maturity, i.e., exceeding the maturity dates:

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

The level of arrears at the end of 2002 was HRK 564.7 million. Arrears of the following institutions accounted for the biggest share in this amount:

- CIHI, amounting to HRK 316.1 million, and
- CIPI, amounting to HRK 126.3 million.

The structure of the arrears at the end of 2002 was the following:

- commitments for material expenditures HRK 74.,6 million
- commitments for financial expenditures HRK 3.,9 million
- commitments for compensations to citizens and households HRK 475.6 million
- commitments for acquisition of material assets HRK 10.6 million

It can be said that the status of outstanding commitments did not change significantly during 2002, so the arrears at the end of 2002 were higher by HRK 58.3 million than at the beginning of the same year, and this was the level at the beginning of 2003.

In 2003 arrears totaled HRK 956.6 million, which was an increase of HRK 91.9 million in comparison with 2002. Arrears of Croatian Institute of Health Insurance, amounting to HRK 500.3 million, accounted for the largest amount of arrears in 2003.

2.3 | Central government budget revenue outturn in 2002 and 2003

The overall central government budget outturn in 2002 amounted to HRK 69,869.1 million, which was by 30.6% more than in 2001. The increase in the overall budget outturn was primarily a result of the increase in tax revenues, which grew by 43.8% in comparison with 2001.

Such an increase in tax revenues was influenced by the introduction of new taxes and a change in some excise taxes. The non-tax revenues remained on the approximately the same level as in the previous year. In 2002 capital revenues dropped by HRK 4,379.3 million in comparison with 2001, i.e., capital revenues were on the level of only 4.7% of those collected in 2001. This was a result of the transfer of privatization revenues into the two newly established Funds, and their exclusion from the central government budget. It should be stressed that such trends in the structure of budget revenues were desirable, because the state should rely more and more on its original and constant revenues, and less on privatization revenues. Own revenues of the Ministry were included in the state budget in 2002 for the first time, which were not reported under the State Treasury in previous years.

Looking at the share of specific revenues of the state budget in GDP, it can be concluded that the share of overall revenues as a share of GDP increased from 32.3% in 2001 to 38.9% in 2002. Non-tax revenues remained on the same level, whereas the share of tax revenues increased from 28.5% of GDP in 2001 to 37.9% of GDP in 2002. The share of capital revenues in GDP shrunk from 2.8% in 2001 to only 0.1% in 2002, however, the cause of such decrease was primarily the transfer of privatization revenues from the state budget into the two newly established Funds.

In 2003 the outturn of state budget revenues was HRK 78,275 million, which was by 12.0% more than in 2002. The share of total revenues in GDP in 2003 was 40.5%, which was by 1.6 percentage points more than the year before. Such a large increase in total revenues in 2003 in comparison with 2002 was primarily the result of the inclusion of the Regional Development Fund and the Development and Employment Fund into the Single Treasury Account. Namely, given that the privatization revenues in 2002 became revenues of those two Funds, they were not on the account of the central government, and in 2003 privatization revenues again became revenues of the central government budget. It is specifically for this reason that capital revenues on the central government level in 2002 and 2003 are not comparable, but those in 2003 can be compared with those in 2001. In comparison with 2001, privatization revenues shrank by 21.7%. By far the largest portion of capital revenues in 2003 were revenues from privatization of INA.

Table 2.4 | Central Government Budget Revenue Outturn and Its Share in GDP
Source | Ministry of Finance (in 000 HRK)

	2001	%	2002	%	2003	%
Total revenue and grants	53,503,615	32.3	69,869,112	38.9	78,275,027	40.5
Tax revenue	47,274,031	28.5	67,965,457	37.9	72,698,007	37.7
Nontax revenue	1,632,279	1.0	1,685,619	0.9	1,969,060	1.0
Capital revenue	4,597,305	2.8	218,036	0.1	3,597,553	1.9
Grants	0	0.0	0	0.0	10,406	0.0

Tax revenues were by far the largest item in overall revenues, and in 2003 they grew by 7.0% in comparison with 2002, whereas the share in GDP remained on the approximately same level as in 2002. The share of non-tax revenues in GDP in 2003 also remained on the approximately same level, recording a year-on-year growth of 16.8%.

In comparison with the overall revenues planned by the revision, the outturn of overall revenues was on the level of 99.7%, which was a shortfall in comparison with the planned HRK 258.9 million.

2.3.1 | Tax revenues

The overall tax revenues in 2002 amounted to HRK 67,965.5 million, which was by 43.8% more than in 2001., when they amounted to HRK 47,269.4 million. With this increase in tax revenues in 2002 also grew their share in the gross domestic product in comparison with 2001, by 9.3 percentage points.

As mentioned above, the main cause of such a great increase in tax revenues in 2002 was the introduction of new taxes, as well as changes in specific excise taxes. Tax on obligatory automobile insurance was introduced, as well as tax on supplemental health insurance. In the structure of excise taxes, excise taxes on alcoholic beverages were reduced by 40%. In addition to those reasons, the increase in tax revenues was greatly influenced by a big increase in social security contributions. Those contributions grew by no less than HRK 18,408.4 million, i.e., by 271.5% in comparison with those in the previous year. The reason for this increase was the fact that in early 2002, in addition to the pension fund, which had been integrated back in the middle of 2001, other extra-budgetary funds were included in the state budget. Revenues from corporate profit taxes and social security contributions in 2002 exceeded the expectations, whereas revenues from excise taxes on tobacco products fell short.

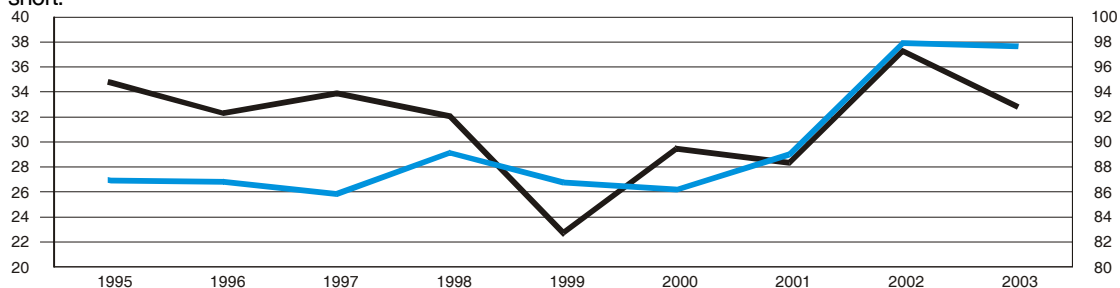


Figure 2.1 | The Share of Tax Revenues in Total Revenues and GDP
Source | Ministry of Finance

At the same time, two new extra-budgetary funds were established (the Regional Development Fund and the Development and Employment Fund), but they also became an integral part of the state budget in 2003.

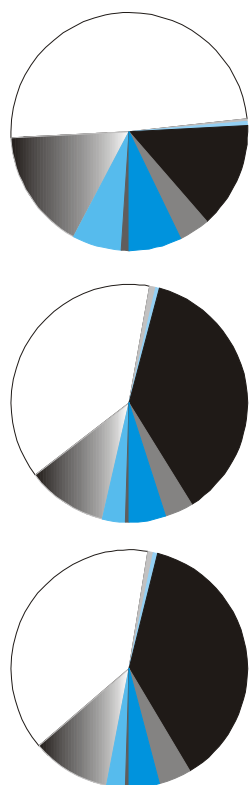
In 2003 tax revenues were collected on the level of HRK 72,698 million, which was by 7.0% more than in 2002. The share of tax revenues in GDP in these two years remained on the approximately same level. In 2002 the share of tax revenues in GDP was 37.9%, and in 2003, 37.7%. Tax revenues had by far the biggest share in total revenues, and in 2003 it accounted for 92.9%. Those revenues in 2003 were realized on the level of the planned revenues. However, it should be noted that in the structure of tax revenues there were some revenues which exceeded the plan, whereas others recorded a significant shortfall. For instance, personal income tax was collected at only 95.8% in comparison with the planned revenues from this tax. This was a shortfall of HRK 137.9 million in comparison with the planned amount. In addition to personal income tax in 2003, there was also a shortfall in property tax, tax on transport of products and services, excise taxes, customs duties, and other taxes. In 2003 contributions were realized as planned, whereas profit tax and the value added tax exceeded the plan (by 8.1% and 2.9%, respectively).

At the end of 2001 and in 2002, the Croatian Parliament enacted three new laws: the Law on Tax on Premiums on Automobile Liability Insurance, the Law on Gambling Games and Games of Fortune and the Law on Contributions for Obligatory Insurance, as well as eight amendments of the tax laws. Personal income tax in 2002 was somewhat lower than in



Figures 2.2 | 2.3 | and 2.4 |
Structure of Tax Revenues
in 2001, 2002, and 2003

Source | Ministry of Finance



	2001	2002	2003
Tax on personal income	3,404,394	3,363,295	3,114,581
Tax on corporate income	1,987,163	2,659,108	3,074,466
Social security contributions	6,781,216	25,189,614	27,416,931
Tax on real estate transactions	281,882	294,556	289,926
Retail tax	155,446	513,114	670,855
VAT	23,266,859	25,952,486	28,129,300
Excises	7,698,897	7,474,168	7,850,993
Custom duties	3,215,411	2,050,624	1,810,866
Other taxes	482,760	468,492	340,089

the previous year. However, the declining trend of revenues from personal income tax in the state budget was a consequence of fiscal decentralization, so the impact on the level of general government budget was completely neutral.

At the end of 2002 and in 2003 the Croatian tax system also saw amendments of some tax laws. For instance, in 2003 amendments were passed on the Law on Personal Income Tax, the Law on Profit Tax, and the Law on Financing of Local and Regional Self-government Units (whereby new changes were introduced to the reallocation of personal income tax) and the Law on Contributions for Obligatory Insurance.

In line with the changes to certain taxes, and the amendments to laws on specific taxes mentioned above, their fiscal importance was changed. The structure of tax revenues in 2002 shows that, in comparison with 2001, fiscal importance of the following taxes was reduced: personal income tax, profit tax, value added tax, revenues from special duties, and tax on international trade. Importance of social security contributions for the state budget was increased. As an illustration of this, it should be noted that the share of revenues from personal income tax in overall tax revenues in 1996 amounted to 14.6%, whereas their share in overall tax revenues in 2002 was a mere 4.9%. Although its significance in overall tax revenues was changed, the biggest share in 2002 was still the one of the value added tax, namely, it accounted for 38.2%. Social security contributions had a very high share in overall tax revenues in 2002 – their share was 37.1%, as opposed to 2001, when it accounted for only 14.3%. This was a consequence of the consolidation of extra-budgetary funds in the state budget. The tax on transport of goods and services, as well as the capital transfer tax had approximately the same significance for the state budget, as was the case in the previous year. In 2003 the share of specific taxes in total tax revenues remained on the level similar to the one in 2002. The value added tax and social insurance contributions accounted for the biggest share in overall tax revenues in 2003 as well (38.7% and 37.7%, respectively).

Value Added Tax

The value added tax is the most important revenue of the state budget. In 2002 HRK 25,952.5 million was collected in revenues from the value added tax (VAT), which was by 11.5% more than in 2001. In the structure of total tax revenues, in 2002 VAT revenues accounted for 38.2%, which indicates a very big significance of this tax for the state budget. A good outturn of VAT revenues in 2002 was a result of recorded economic growth (growth of GDP in 2002 was 5.2%), particularly personal consumption as the tax base of the value added tax. The outturn of VAT revenues in 2002 exceeded the estimate of those revenues projected by budget revision by as much as 8.1%. A very good tourist season contribu-



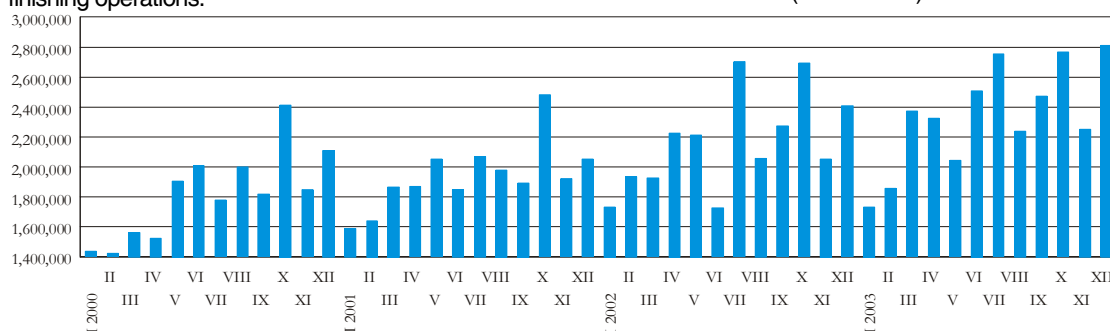
ted a lot to the increase in VAT revenues. The highest monthly revenue from the value added tax was recorded in July (HRK 2,704.5 million) and October (HRK 2,693.6 million). Such a good outturn of the value added tax, as well as the good outturn of revenues from social insurance contributions, managed to neutralize the shortfalls on items of revenues of state administration bodies and excise tax on tobacco products.

In 2003, HRK 28,129.3 million of budget revenues were collected from the value added tax. The share of this revenue in overall tax revenues in 2003 was 38.7%. In comparison with 2002, those revenues grew by 8.4%. During 2003 VAT had an exceptionally good outturn, so that it was by as much as 2.9% higher than planned, and amounted to HRK 804.5 million more. The biggest monthly revenue from VAT in 2003 was recorded again in July (HRK 2,753.7 million), in October (HRK 2,766.2 million) and in December (HRK 2,809.8 million). Such dynamics of monthly VAT revenue outturn in 2002 and 2003 was also contributed to by revenues from tax payers who pay their dues on this tax on a quarterly basis. Tax payers who are liable to quarterly statement of accounts VAT tax payment are those whose deliveries of goods and services exceed HRK 85,000 per annum.

The year 2003 also saw amendments of the Rules on the Value Added Tax. The amendments to the Rules on the Value Added Tax (the Official Gazette 58/03) of April 16, 2003 enabled the application of exemption from payment of the value added tax in cases of domestic entrepreneurs who perform relocation (delivery) of imported goods finished or refined or improved in internal production procedure to another entrepreneur in the country, for finishing operations.

Figure 2.5 | Monthly VAT Revenue Trend

Source | Ministry of Finance
(u 000 HRK)



Social Security Contributions

Revenues from social security contributions in 2002 were HRK 25,189.6 million. Those contributions had a somewhat unexpected growth, which was largely a result of the introduction of supplemental health insurance. The share of those contributions in the gross domestic product in 2002 was 14.0%.

At a session held on November 29, 2002 the Croatian Parliament passed the Law on Contributions for Obligatory Insurance (the Official Gazette, No. 147/02), which has been implemented as of January 1, 2003.

The Law on Contributions for Obligatory Insurance introduced important changes in the system of payment of contributions for obligatory insurance, among which were the following:

- the base for calculation and payment of contributions was extended to receipts not included so far (receipts from other independent activity and receipts from employment outside of employment contract),
- the Law abolished the commitments of the employer to pay for the contributions according to the lowest monthly base for all workers in case he does not pay the salaries, but introduced the commitment to calculate and pay for the contributions also in the case when there are no payments of salaries, on the basis of salaries really earned,

- the mode of calculation of contributions was simplified, so that, essentially, the pension insurance contribution was calculated as the contribution «from the base» (at the expense of the worker), whereas the employment and health insurance contributions were calculated «from the salary» (at the expense of the employer),
- the difference in contribution rates for contributions paid at the expense of the worker in comparison with the rate of contributions paid at the expense of the employers was reduced,
- the provisions of the highest monthly and the highest annual base for payment of contributions were introduced,
- it was explicitly prescribed that entitlements cannot be denied to an insured person in case when the employer fails to pay for the contributions,
- some groups of insured persons are more objectively covered by contributions in comparison with the manner in place before.

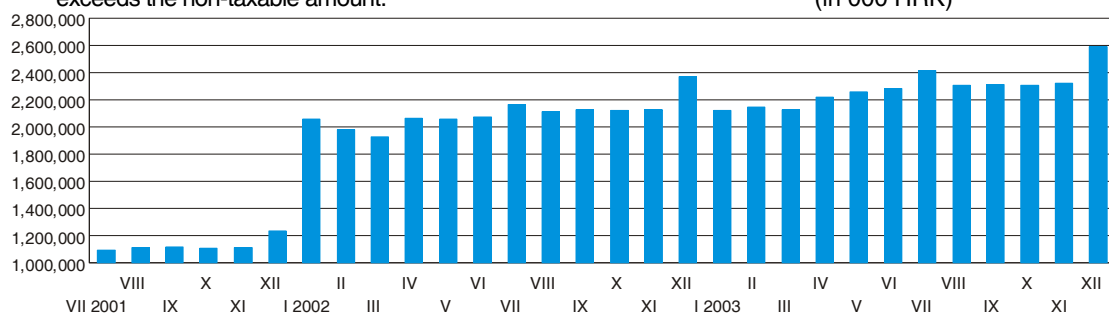
The activities prescribed by the Law are in the competence of Tax Administration, and also, in relation to this, obligatory reorganization of the Tax Administration and public institutions (institutes) was prescribed. In 2003 social insurance contributions were collected in the amount of HRK 27,416.9 million, which accounted for 37.7% of overall tax revenues. Those revenues in 2003 increased by 8.8% in comparison with 2002, which was primarily a result of the amendments to the Law on Contributions for Obligatory Insurance, which has been implemented as of January 1, 2003. This Law extended the base for the calculation and payment of contributions. Nevertheless, despite this, the revenues from social insurance contributions were not collected as planned, but there was a shortfall of HRK 250 million of those revenues in the outturn. Such growth of revenues from social insurance contributions was accompanied by a slight growth of the share of those revenues in GDP, which in 2003 accounted for 14.2%.

The year 2003 also saw the amendments to the Law on Contributions for Obligatory Insurance. In October 2003 the Government of the Republic of Croatia passed a Decree on the Amendments of the Law on Contributions for Obligatory Insurance («the Official Gazette», No. 175/2003), which regulated the following issues:

1. The Decree provided for the changes of the provisions of the Law related to the base for calculation of the contributions of self-employed persons engaging in crafts, free lancing, or agricultural and forestry activities when they perform those activities simultaneously with another basic activity or in parallel with employment or use of property, so that the base is the income earned by performing of those activities established on the basis of business ledgers, in line with the personal income tax regulations (the difference between business receipts and tax deductible expenditures).
2. The base was increased for the calculation of contributions for obligatory insurance for insured persons on the basis of the status of a free lance artist pursuant to the Law on Rights of Free Lance Artists and Stimulating Cultural and Artistic Endeavors for whom funds for payment of contributions are provided by the state budget of the Republic of Croatia. This was done in such a way that the base is the product of the average salary and coefficient 1.2 instead of coefficient 0.36 (which was in force until December 31, 2003).
3. Provisions of the Law were amended as to the exemption of commitments for assessing of contributions for obligatory insurance of receipts such as:
 - Awards to students granted during practical work and apprenticeship,
 - Stipends to secondary school students and post-secondary school students which are paid as a grant for regular education in secondary schools, colleges, and higher schools and faculties, provided that

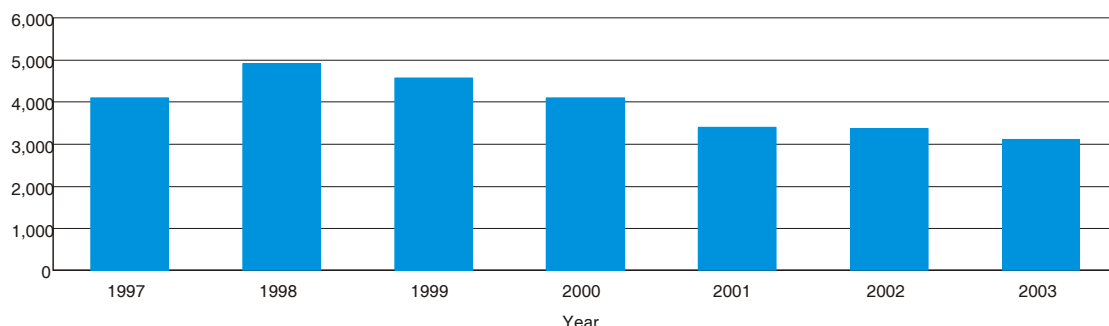
- there is no contractual obligation of work for the providers of stipends,
- Stipends to sportsmen which are paid out as grants for their improvement in sports related to the criteria on categorization of sportsmen according to sports regulations, provided that there is no contractual obligation of work for the providers of stipends,
- Grant paid to the family in case of death of a worker, and
- Education grants for children up to 15 years of age, but not longer than the completion of eight-year education, regardless of the fact that it is possible to assess personal income tax on the portion of those payments which exceeds the non-taxable amount.

Figure 2.6 | Monthly Trend in Revenues from Social Insurance Contributions
Source | Ministry of Finance (in 000 HRK)



Personal Income Tax

Figure 2.7 | Annual Personal Income Tax Revenues - Trend
Source | Ministry of Finance (mil. HRK)



In 2002, HRK 3,363.3 million was collected in the central government budget in revenues from the personal income tax. In comparison with 2001 that was a 1.2-percent reduction in revenues from this tax. Revenue from personal income tax was reduced both in absolute and real terms. This was the fourth consecutive year in which the outturn of revenues from personal income tax in the central government budget had a downward trend, and this was a result of the amendments to the law aimed at reducing the tax burden of citizens. The share of revenues from personal income tax in the gross domestic product in 2001 accounted for 2.1%, and in 2002 it was reduced to 1.9%. In the structure of overall tax revenues, this tax was losing importance and dropped from 7.2% in 2001 to a mere 4.9% in 2002. The decrease in revenues from this tax was a result of impact of a number of factors.

Firstly, it should be noted that in 2002 an impact of the whole year of state administration salaries reform was felt, which had been implemented since the middle of 2001. The reduction of the state administration wage bill was conducted in parallel with the retrenchment of the number of state administration employees. Those changes in 2002 led to the reduction of tax base of personal income tax.

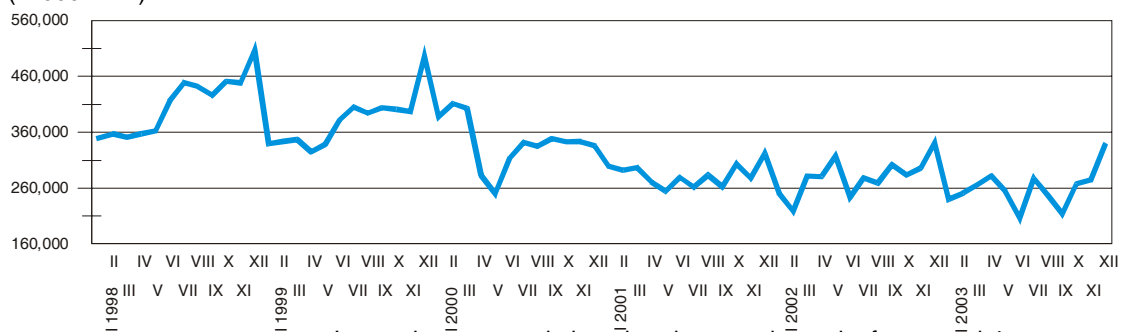
The personal income tax in 2002 was assessed at the rate of 15% of the tax base up to the level of twice the basic personal deduction, at the rate of 25% on the difference of the annual tax base between the twice and five times the basic personal deduction, and at the rate of 35% on the amount of the tax base which exceeds the amount of five times the basic personal deduction. The basic personal deduction for 2002 amounted to HRK 1,250.00.

Revenues from personal income tax are divided between the central government budget and the local self-government units. Another reason for the reduction of revenues from personal income tax is that, due to the fiscal decentralization process, a portion of revenues from personal income tax from the central government budget was transferred to the account of local government and self-government. However, this process is neutral from the standpoint of general government. In the Official Gazette No. 147/03, the Law on the Amendments to the Law on Financing of Local and Regional Self-Government Units was published, which provides for the change of the redistribution (transfer) of personal income tax.

Although the previously mentioned two factors influenced the decrease in personal income tax, it was still not so explicit due to the positive influence of growth of employment during 2002. Namely, in 2002 the number of insured persons of the Croatian Institute of Health Insurance increased by 1.7% in legal persons and crafts. This means that the number of persons who pay for the contributions increased as well, and thereby also increased the personal income tax. In addition, a positive influence on personal income tax was made by the nominal growth of average gross salary of 6.0%.

In 2003, HRK 3,114.6 million was collected from personal income tax, which accounted for only 95.8% in comparison with the planned revenues from this tax. This was a shortfall of HRK 138 million in comparison with the planned amount. In 2003 revenues from personal income tax were lower by 7.4% than in 2002, which was a result of the amendments of the Law on Personal Income Tax, implemented since January 1, 2003. This Law provided for the increase in the tax deduction from HRK 1,250 to HRK 1,500. Also, the fourth personal income tax rate of 45% was introduced. In line with the decrease in the state budget revenues from personal income tax, its importance in the overall tax revenues also decreased. The share of revenues from personal income tax in tax revenues dropped from 4.9% in 2002 to 4.3% in 2003. In parallel, the share of revenues from personal income tax in GDP also shrank slightly, so this share in 2003 was lower by 0.3 percentage points than in 2002.

Figure 2.8 | Monthly Personal Income Tax Revenues - Trend
Source | Ministry of Finance
(in 000 HRK)



It can be expected that the downward trend of personal income tax revenues will continue in the forthcoming years, because in early 2003 additional laws came into force, which affect the reduction of tax burden on citizens. Since the beginning of 2003 an increased personal deduction for all tax payers and pensioners has been in force, an increased personal deduction has been prescribed for all tax payers who have

expenditures for health care, and are not covered from basic, supplemental, and private health insurance, as well as all tax payers who invest into housing needs, inclusive of tenants, and for all the tax payers who give donations to prescribed persons and for prescribed purposes. In addition to the mentioned amendments to the Law on Personal Income Tax as of January 1, 2003 some new regulations have been implemented, namely: the changes of the personal deduction factor for supported immediate family members and children, introduction of a new tax rate of 45%, changes in the scope of tax base for the application of tax rates, prescribing of tax assessment of income from capital which foreign tax payers earn in the Republic of Croatia, the changes in the mode of tax assessment for property income, and prescribing of tax deductible expenditures on the basis of newly introduced contributions from specific kinds of fees.

During 2003 some other amendments to the Law on Personal Income Tax were enacted. Since October (the Official Gazette, No. 163/03) prescribed tax breaks with a view to encourage activities of research and development and education and continuous improvement, according to which the outlays for research and development, as well as education and training of employees of those tax payers as well as are deductible two times.

In addition to the amendments mentioned above, it should be noted that in 2003, an integral text of the Rules on Personal Income Tax were passed (the Official Gazette, No. 140/03), as well as the Rules on Free Lance Activities were prepared and passed. According to it, a flat tax rate may be assessed on free lance activities. Also, the mode of establishment and taxation of flat rate income was passed (the Official Gazette, No. 90/03).

Profit Tax

A strong economic growth in 2001 and 2002 affected the growth of revenues of the state budget from profit tax. In 2002, HRK 2,659.1 million was collected in profit tax, which was a 33.8-percent increase in comparison with 2001. Also grew the share of revenues from profit taxes in the gross domestic product, from 1.2% in 2001 to 1.5% in 2002. However, despite the big increase in revenues from profit tax, the share of this tax in overall tax revenues decreased. Its share in tax revenues dropped from 4.2% in 2001 to 3.9% in 2002.

The originally planned amount of profit tax was HRK 2,035.1 million, which was by 29.4% less than the amount planned by the revision (HRK 2,633.8 million), whereas the outturn of those revenues in 2002 was higher by 1.0% than the amount planned by the revision.

In 2003 an amount of HRK 3,074.5 million was collected from corporate profit tax. The amount of revenues collected from this tax was by 8.1% more than planned, and this also represented an increase in revenues from profit tax by 15.6% in comparison with 2002. Such growth of revenues from profit tax was a result of the increase in industrial output (which in 2003 grew by 4.1%) and the increase in corporate income.

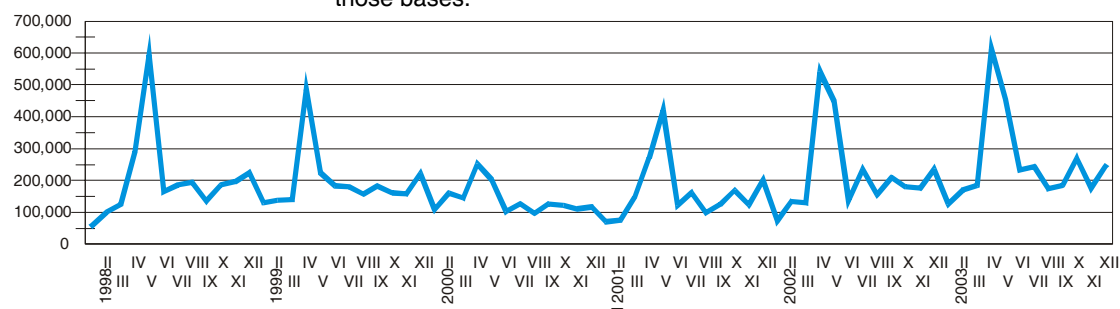
The amendments to the Profit Tax Law, which were implemented as of January 1, 2001 and according to which the profit tax rate was decreased from 35% to 20%, were also applied in 2002 and in 2003. Profit is defined as the difference between revenues and expenditures in the taxation period, whereas the reduction of the taxation rate was aimed at encouraging development of entrepreneurship. It should also be noted that the rate of profit tax of 20% is one of the lowest in all transition countries. As the profit tax revenues grew in the absolute amount, also grew their share in the overall tax revenues. This was confirmed by the fact that the share of profit tax revenues in the overall tax revenues in 2003 grew to 4.2%, which was by 0.3 percentage points more than in 2002. This approximately equalized fiscal importance of profit tax and personal income tax.

2003 saw further amendment to the Profit Tax Law, which were aimed at stimulating investment into training of employees. The Law on the Amendments



Figure 2.9 | Monthly Profit Tax Revenues

Source | Ministry of Finance
(in 000 HRK)



to the Profit Tax Law (the Official Gazette, No. 163/03) passed by the Croatian Parliament on October 2003 provided for tax breaks for encouragement of R&D activities, as well as training and professional improvement of employees. Pursuant to those new provisions of the Profit Tax Law, the tax base of profit tax may be additionally decreased based on costs of research and development and training and professional improvement of employees, by 100% of incurred and reported costs on those bases.

Excise Tax Revenues

Revenues from special duties or excise tax in 2002 amounted to HRK 7,474.2 million, which was by 2.9% less than in the previous year. Those revenues also fell short in comparison with the planned amount. Revenues from special duties envisaged by the revision were HRK 7,666.1 million, i.e., the outturn was 97.5% of the amount planned by the revision. In comparison with the plan, the highest shortfall was in the revenues from excise taxes on alcohol (outturn on the level of 90.7% in comparison with the one planned by the revision), and revenues from excise tax on tobacco products (outturn on the level of 92.3% in comparison with the planned revision). The reason for this shortfall should be sought in poor efficiency of administrative measures for suppression of illegal trade. The planned levels were reached only by revenues from excise tax on luxury products, coffee, and excise tax on motor vehicles. In comparison with 2001, an increase was recorded in revenues from special duties on beer (53.4%), beverages (21.1%), tobacco products (4.5%), coffee (7.2%), luxury products (13.7%), whereas the highest increase was recorded in revenues from excise taxes on import of motor vehicles (68.4%).

The share of excise taxes in overall tax revenues decreased from 16.3% in 2001 to 10.9% in 2002. In the structure of overall excise taxes, the most important ones are excise taxes on oil derivatives and tobacco products. The share of excise taxes in overall budget revenues also dropped, from 14.4% in 2001 to 10.7% in 2002.

Table 2.5 | Trend of Excise Tax Revenues

Source | Ministry of Finance

	Outturn							
	1996	1997	1998	1999	2000	2001	2002	2003
Total excises taxes	5,390,785	5,404,837	5,896,787	6,160,719	7,673,256	7,698,897	7,474,168	7,850,993
on oil derivates	2,691,840	2,728,346	3,169,770	3,432,957	4,632,799	4,194,437	3,329,947	3,345,888
on alcohol	197,623	176,681	176,897	168,335	256,120	275,916	238,734	234,125
on beer	262,080	279,086	277,889	276,782	417,177	464,630	712,671	746,255
on beverages	108,737	110,255	83,182	84,658	86,499	87,751	106,273	131,377
on tobacco products	2,039,532	1,999,988	1,983,435	1,969,920	2,073,693	2,098,557	2,192,991	2,349,410
on coffee	68,704	74,959	76,807	77,648	92,545	115,691	124,063	125,344
on import of motor vehicles	22,269	35,522	128,806	149,423	101,186	446,584	752,051	899,047
on luxury goods	0	0	0	996	13,237	15,331	17,437	19,548



The outturn of revenues from special duties in 2003 was HRK 7,851.0 million. The overall revenues from excise taxes in 2003 recorded a 5-percent growth in comparison with 2002, however, the outturn was not optimal and recorded a shortfall of more than HRK 200 million in comparison with the one planned for 2003. Except for excise tax on motor vehicles (which recorded year-on-year growth of 19.5% and outturn higher by HRK 158 million than the planned one), as well as excise tax on beverages and excise tax on luxury products, all other components of excise taxes recorded a shortfall in comparison with the one planned in 2003. Excise taxes on oil derivatives, which make up the most significant component of overall excise taxes, recorded growth of only 0.5% in comparison with 2002 and had a large shortfall, by almost HRK 200 million in comparison with the plan. The effect of poorly collected revenues from excise taxes was also contributed to by the poor outturn of revenues from excise tax on tobacco products, which fell short by HRK 122 million, although they were collected in the amount higher by 7.1% than in the comparable period in 2002. It can be concluded that the black market of tobacco products is still developed, as well as oil derivatives. Budget tax revenues from special duties could be significantly increased by suppression of this market. The share of excise taxes revenues in overall tax revenues in 2003 was 10.8%.

The share of excise taxes revenues in GDP also declined, and fell from 4.7% in 2001 to 4.2% in 2002, and to 4.1% in 2003.

The share of excise taxes in overall budget revenues should be increased because those taxes are simple to collect and they increase the progressiveness of the tax system.

Figures 2.10 | 2.11 | and 2.12 | Structure of Excise Taxes in 2001, 2002 and 2003

Source | Ministry of Finance

	Outturn					
	2001		2002		2003	
Total excises taxes	7,698,897	100.00	7,474,168	100.00	7,850,993	100.00
on oil derivatives	4,194,437	54.48	3,329,947	44.55	3,345,888	42.62
on alcohol	275,916	3.58	238,734	3.19	234,125	2.98
on beer	464,630	6.04	712,671	9.54	746,255	9.51
on beverages	87,751	1.14	106,273	1.42	131,377	1.67
on tobacco products	2,098,557	27.26	2,192,991	29.34	2,349,410	29.93
on coffee	115,691	1.50	124,063	1.66	125,344	1.60
on import of motor vehicles	446,584	5.80	752,051	10.06	899,047	11.45
on luxury goods	15,331	0.20	17,437	0.23	19,548	0.25

It should be mentioned that as of January 1, 2002 the authority for collection and supervision of excise taxes was transferred from Tax Administration to Customs Administration, and in the Official Gazette No. 107/01 the laws on the amendments to the Law on Excise Tax on the following products were published: cars, other motor vehicles, vessels, and aircraft (except for excise taxes on the transport of used cars, other motor vehicles, vessels, and aircraft when they are acquired by legal or physical persons in the country), tobacco products, coffee, beer, beverages, alcohol and oil derivatives, in which it is prescribed that the application of the law, assessment and payment of taxes is supervised by Customs Administration instead of Tax Administration.

Excise taxes on oil derivatives have the most significant role in the overall excise taxes. The outturn of this tax in 2002 was HRK 3,329.9 million, which accounted for 44.5% of excise tax revenues. Although excise taxes on oil derivatives were the most significant ones in the overall tax revenues, their share dropped dramatically in comparison with 2001, when it totaled 54.5%. In comparison with 2001, revenues from excise taxes on oil dropped by as much as 20.6%. Such a big reduction of revenues from excise taxes on oil was a consequence of the Law on the Amendments of the Law on Excise Tax on Oil Derivatives, which came into effect on January 1, 2002. This Law prescribed lower amounts of excise taxes, in order to cede a certain amount of taxes as a

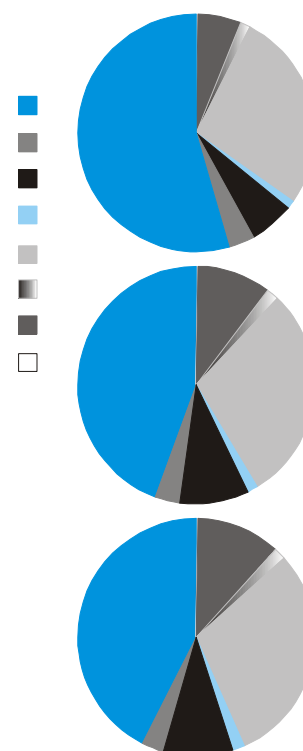
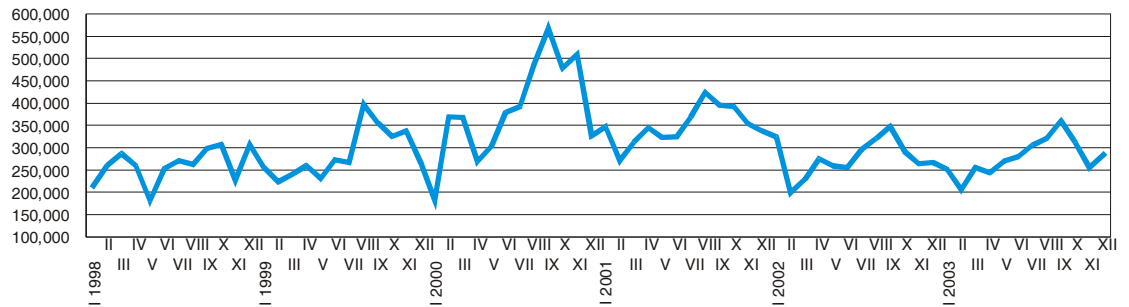
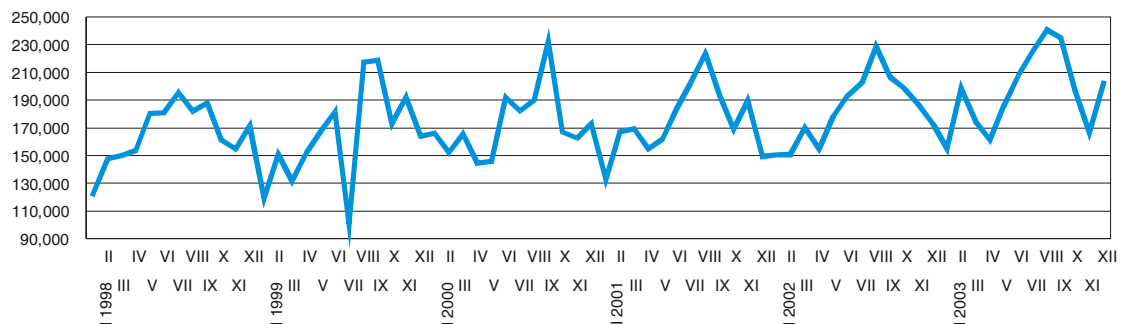


Figure 2.13 | Monthly Trend of Revenues from Excise Taxes on Oil Derivatives
Source | Ministry of Finance (in 000 HRK)



fee for financing of construction and maintenance of public roads, as prescribed by the Law on the Amendments of the Law on Public Roads. Namely, agencies for the construction and maintenance of roads and motorways (Croatian Roads and Croatian Motorways) were separated from the state budget. They dispose of their own tax revenues from the portion of excise tax on oil and oil derivatives.

Figure 2.14 | Monthly Trend of Revenues from Excise Taxes on Tobacco Products
Source | Ministry of Finance (in 000 HRK)



Revenues from excise taxes on oil fell short in comparison with the revenues planned by revision, so the execution of those revenues was on the level of 97.9% of the planned ones.

In 2003, HRK 3,345.9 million was collected in revenues from excise taxes on oil and oil derivatives, which was almost on the level of those collected in 2002, i.e., more by only 0.5%. In comparison with the planned revenues from those taxes established by the revision this was the outturn on the level of 5.6% less than the plan, i.e., the outturn of those revenues fell short by as much as HRK 199.7 million.

In parallel with the poor outturn of revenues from special taxes on oil and oil derivatives, the share of those excise taxes in overall excise taxes was reduced. Thereby their share was reduced to 44.6% in 2002, and in 2003 it dropped by another 1.9 percentage points.

Excise taxes on tobacco products in the structure of overall revenues from excise taxes in 2002 accounted for 29.3%, and were the second most important excise tax. The outturn of those excise taxes in 2002 totaled HRK 2,192.9 million in budget revenues. In comparison with 2001, revenues from those excise taxes rose by 4.5%. The share of excise taxes on tobacco products in overall excise taxes in 2002 grew by two percentage points and accounted for 29.3%, whereas in 2001 it accounted for 27.3%. However, with regard to the fact that excise taxes on tobacco products in 2002 were planned by revision on the level of HRK 2,376.1 million, the outturn was very poor (only at 92.3% of the planned one).

In 2003 excise taxes on tobacco products were collected at HRK 2,349.4 million in budget revenues, which was a 7.1-percent increase in compari-

son with 2002. Due to such outcome also grew the share of those excise taxes in overall excise taxes, to 29.9%. However, it should be noted that in 2003 excise taxes on tobacco products also fell short in the execution in comparison with the planned amount of HRK 2,471.4 million – the shortfall was HRK 121.9 million, or 4.9%.

The reason for such a poor outcome of revenues from excise taxes in comparison with the planned amounts in both years was primarily the growth of the black market of cigarettes. The damage which is incurred for the state budget is a result of the activities in the black market of cigarettes, whose successful suppression calls for efforts and coordination of various state bodies. In 2002 HRK 1,591.2 million was collected in other excise taxes. The share of excise taxes on beverages and excise taxes on coffee in overall excise taxes in 2002 remained on the approximately the same level as in the previous year and accounted for approximately 1.5%. Those excise taxes generated revenues on the level of planned amounts. A significant increase in revenues was recorded in excise taxes on beer, beverages, and import of motor vehicles. The reason for the increase in revenues from taxes on beer was the Law on the Amendments to the Law on Excise Tax on Beer, published in the Official Gazette No. 107/01, which prescribes a larger amount of excise tax on beer as of January 1, 2002. In comparison with the previous year, excise taxes on beer in 2002 increased their share in overall excise taxes by 3.5 percentage points.

Revenues from other excise taxes in 2003 amounted to HRK 2,155.7 million. In comparison with the amount planned by the revision, a majority of revenues fell short in the execution. The only ones to exceed the planned revenues were revenues from excise taxes on beverages by 10.6%, revenues from excise taxes on luxury products by 11.3%, and revenues from excise taxes on cars by as much as 21.3%. The structure of specific excise taxes in overall excise taxes in 2003 remained approximately the same for excise taxes on coffee, luxury products and for excise taxes on beer, whereas the revenues from excise taxes on beverages increased their share by 0.3 percentage points. Excise taxes on beverages in 2003 had the biggest year-on-year growth, by 23.6%.

Excise taxes on alcoholic beverages in 2002 fell short the most in comparison with the amount planned by the revision, and had an outcome of only 90.7% of the one planned. Revenues from excise taxes on alcohol in 2002 were also lower than the ones collected in 2001, by 13.5%. Since January 1, 2002, provisions of the Law on Amendments to the Law on Excise Tax on Alcohol have been applied (the Official Gazette No. 67/01). They prescribed a reduction of the annual non-taxed quantity (to 20 liters) of absolute alcohol contained in alcohol or alcoholic beverages when they are produced or used by producers for their own needs, owners of agricultural land or substances for production of alcohol or alcoholic beverages.

The Law on the Amendments to the Law on Excise Tax on Alcohol (the Official Gazette No. 107/01), of January 1, 2002 changed the provisions on taxation of physical persons - producers of alcoholic beverages, when they produce alcoholic beverages for sale (they are obliged to keep proper records).

In 2003, HRK 234.1 million of budget revenues was collected from this excise tax, which was a reduction of 1.9% in comparison with 2002. In comparison with the planned amount in 2003, excise taxes on alcohol had the biggest shortfall and were collected at only 87.1% of the planned amount.

Excise taxes on import of motor vehicles in 2002 recorded the biggest growth on the year-on-year level. Revenue from excise taxes on import of cars in 2002 amounted to HRK 752.1 million, which was a 68.4-percent growth in comparison with 2001. The share of excise taxes on import of cars in overall excise taxes grew and in 2002 amounted to 10.1%, whereas in 2001 it accounted for 5.8%. The Law on the Amendments to the Law on Excise Tax on Cars, Other Motor Vehicles, Vessels, and Aircraft (the Official Gazette No. 107/01) which has been in force since January 1, 2002 changed the amount and rate of excise tax on



cars and motorcycles (new and second-hand), whereas the rate of excise tax on vessels and aircraft remained unchanged.

In 2003, HRK 889.0 million was collected in revenues from excise taxes on import of cars, which was an increase of 19.5% in comparison with 2002. In parallel with this increase also grew the share of excise taxes on motor vehicles in overall excise taxes, which in 2003 accounted for 11.5%, and thereby also grew the importance of this excise tax in overall budget revenues.

Customs Revenues

In 2002 the revenues collected from taxes on foreign trade and transactions amounted to HRK 2,050.6 million. The outturn from customs revenues in 2002 was on the level of only 53.4% of the amount planned by the revision. Customs revenues were lower by 36.2% in comparison with 2001. Those revenues were reduced in spite of the fact that import in 2002 was high and amounted to USD10,722.1 million, which was more by 17.2% than in 2001. The reason for this decrease was partially a constant decrease in customs duties after Croatia's joining the WTO and signing of bilateral agreements with other countries.

With a view to develop international cooperation, in the period from January 2000 to December 2003 final negotiations were conducted with a dozen countries with regard to concluding the agreement on avoiding double taxation. Also, Croatia entered into numerous free trade agreements, which facilitated import and export, but was also the reason for the decrease in customs revenues.

The share of customs revenues in overall tax revenues in 2002 accounted for 3.0% and in comparison with the one in the previous year, when this share was 6.8%, those revenues were losing significance. A similar trend may be expected in the forthcoming years as well.

Tax on foreign trade in 2003 realized HRK 1,810.9 million in budget revenues, which was a reduction of 11.7% in comparison with 2002. At the same time an annual shortfall was registered on those revenues, amounting to HRK 256 million in comparison with the planned revenues. This year as well the reduction of customs revenues was related to the increased liberalization of foreign trade, however, the effects of liberalization were even bigger than planned. This can be seen in the fact that the outturn of customs revenues in 2003 was only 87.6% of the planned one.

In addition to the previously mentioned amendments to the tax laws, in 2002 and 2003 the following laws were also amended: the Generic Tax Law, the Law on Financing of the Local and Regional Self-government Units, the Law on Capital Transfer Tax, the Law on Organizing the Gambling Games and Games of Fortune, as well as the Law on Tax on Automobile Liability Insurance Premiums.

The Law on the Amendments of the Generic Tax Law (the Official Gazette, No. 150/02) of January 1, 2003 abolished the possibility of allowing payment of tax debt in installments.

The Law on the Amendments to the Law on Financing of the Local and Regional Self-government Units, published in the Official Gazette, No. 107/01, and also the Law on Amendments to the Law on Financing of the Local and Regional Self-government Units published in the Official Gazette, No. 150/02 and the Official Gazette No. 147/03 provided for the distribution of joint revenues among the state budget and municipalities, cities, and counties, in such a way that the local and regional self-government units are provided with sufficient funds for financing the activities in their jurisdiction.

The Law on the Amendments to the Law on the Capital Transfer Tax published in the Official Gazette, No. 153/02 provides for relieval from

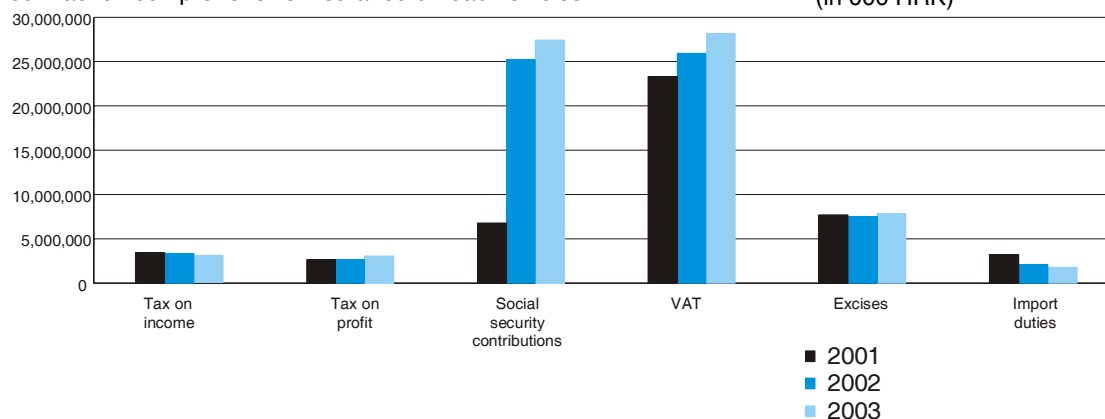


payment of capital transfer tax for the citizens who resolve their housing problem by purchase of their first real estate (an apartment, house, or land). The Law also provides for new provisions aimed at their improvement (cancellation of the contract etc.).

In 2002 the Croatian Parliament enacted the new Law on Organizing the Gambling Games and Games of Fortune published in the Official Gazette, No. 83/02, which came into force on July 24, 2002. This Law regulated the system and terms and conditions of the preparation of the gambling games and games of fortune. The law also provided for detailed terms and conditions for obtaining a concession, the procedure of issuing public tenders for obtaining concessions, the circumstances in which the Government of the Republic of Croatia can strip a company of a concession, technical conditions which providers of the gambling games must meet in casinos, game machine clubs and betting clubs, the conditions and the mode of putting game machines and tables for gambling games into use. The Law provides for the procedure of the surveillance of organizing gambling games and games of fortune, as well as penalty provisions.

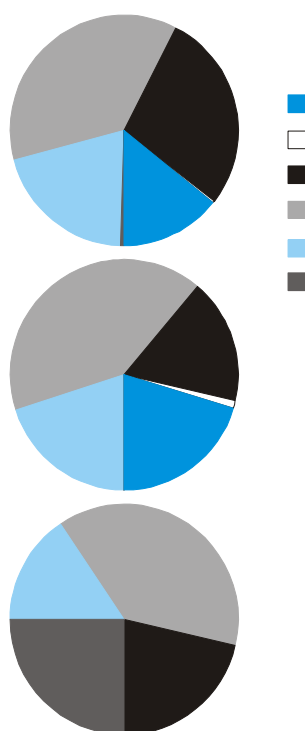
The Law on the Tax on Automobile Liability Insurance Premiums published in the Official Gazette, No.107/01, which has come into force as of January 1, 2002, prescribed payment of tax on automobile liability insurance premiums at the rate of 15% of the contractual automobile liability insurance premium. However, the Law mentioned above became invalid as of December 31, 2002 as the Croatian Parliament enacted a new Law on the Tax on Automobile Liability Insurance Premiums and Comprehensive Insurance Premiums of Road Vehicles, which was published in the Official Gazette, No.150/02, and has been in force as of January 1, 2003. This Law provided for the obligation to pay a special tax at the rate of 15% of the contractual automobile liability insurance premium at the rate of 10% of the contractual comprehensive insurance premium for road vehicles. Those obliged to pay this tax are insurance companies which enter into contracts with legal and physical persons and collect the automobile liability insurance premiums and comprehensive insurance premiums for road vehicles directly or indirectly, through brokers or agents. The tax base for assessment of the taxes on automobile liability insurance premiums is the insurance premium which an insurance company assesses for a legal or physical person upon entering into a contract on obligatory insurance of road motor vehicles. The tax base for assessment of taxes on comprehensive insurance premiums of road vehicles is the insurance premium which an insurance company assesses for a legal or physical person upon entering into a contract on comprehensive insurance of road vehicles.

Figure 2.15 | The Trend of Major Tax Revenues from 2001 to 2003
Source | Ministry of Finance (in 000 HRK)



Figures 2.16 | 2.17 | and 2.18 | Structure of Non-Tax Revenues in 2001, 2002, and 2003

Source | Ministry of Finance (in 000 HRK)



2.3.2 | Non-Tax Revenues

Non-tax revenues in 2002 amounted to HRK 1,685.6 million, which was a 3.3-percent increase in comparison with 2001. On the individual basis, the most significant non-tax revenue in 2002 was the surplus of revenues over expenditures of the Croatian National Bank (CNB), which amounted to HRK 341.5 million, and grew by 46.4% in comparison with 2001. The fines, which made up 19.8% of non-tax revenues, were the second most important non-tax revenue. Road tolls, which had the biggest share in the overall non-tax revenues prior to 2002, now became the revenue of the Croatian Roads and Croatian Motorways agencies, and thereby the central government budget lost revenues on this basis. The non-tax revenues in 2002 fell short in comparison with the planned revision, so their execution was by 12.9% lower than the planned amount. The biggest shortfall was the one of the revenues from dividends, which were executed at only 49.1% in comparison with the amount planned by the revision.

	Outturn		
	2001	2002	2003
Non-Tax Revenues	1,632,279	1,685,619	1,969,060
Central Bank profit	233,226	341,504	0
Part of profit of public enterprises	-6,123	20,446	5
Other property income	460,375	295,302	421,178
Administrative fees and charges	604,439	693,389	748,225
Fines and forfeits	329,935	333,803	307,168
Other nontax revenue	10,426	1,175	492,485

Revenues of state administration bodies also had a big shortfall in comparison with the planned ones. Those revenues amounted to HRK 535.6 million and fell short by 13.1% in comparison with the revision. However, originally those revenues were planned at approximately HRK 1 billion. Revenues from state administration bodies in 2002 for the first time contained own revenues of Ministries, which needed to be recorded through the State Treasury and increase the revenues on this item.

The weakest outturn among non-tax revenues in comparison with the planned ones in 2002 was the one of the revenues collected from entrepreneurship and property, which fell short by as much as HRK 561.9 million.

In 2002 fiscal importance of non-tax revenues was reduced in comparison with 2001. The share of non-tax revenues in the overall budget revenues decreased from 3.1% in 2001 to 2.4% in 2002.

Non-tax revenues in 2003 were collected in the amount of HRK 1,969.1 million and they grew by 16.8% in comparison with the previous year. However, a shortfall of HRK 381.3 million was recorded in comparison with the planned amount, which was an outturn of 83.9% in comparison with the plan for 2003. In the structure of non-tax revenues in 2003, the biggest shortfall was in the revenues collected from profit of CNB. Namely, those revenues were planned in the amount of HRK 355.2 million, and the outturn was zero, as CNB did not make any profit in 2003. Also, in 2003 there was a shortfall of revenues from profit of public enterprises which had been planned at HRK 41.0 million, whose outturn was a mere HRK 5 thousand. Other revenues from property had an outturn of HRK 421.2 million, which was an increase by as much as 42.6% in comparison with 2002. However, in spite of such a big year-on-year increase in other revenues from property, they fell short in comparison with the planned amount and their outturn accounted to 71.8% of the planned amount.

The biggest share in non-tax revenues is the one of administrative fees, which in 2003 were collected at HRK 748.2 million, recording growth of 7.9% in comparison with the previous year. Those revenues in the outturn fell short by HRK 231.5 million in comparison with the planned one.

HRK 307.2 million was collected in fines and penalties in 2003, and in comparison with 2002 this was a reduction of 8.0%. The outturn of other non-tax revenues was HRK 492.5 million, which by far exceeded the planned HRK 10 million.

In 2003 the importance of non-tax revenues for the state budget was at the approximately the same level as in 2002, i.e., it was increased only by 0.1 percentage point.

2.3.3 | Capital revenues

Capital revenues in 2002 amounted to HRK 218 million. Those revenues were collected from the sale of fixed capital assets, sale of state-owned and military apartments, other capital revenues from sale of assets, as well as the sale of land and intangible assets. Privatization revenues were not part of the capital revenues of the central government in 2002, because they became revenues of the newly established funds, the Regional Development Fund and the Development and Employment Fund. Therefore, capital revenues of the central government budget in 2002 are not comparable with capital revenues collected in 2001. Capital revenues are comparable only on the level of general government.

Privatization revenues in 2002 were collected from privatization of Dubrovačka banka, Splitska banka, and Riječka banka, and from the sale of hotels Croatia Cavtat and Anita Vrsar, as well as the sale of the remaining state share in Privredna banka Zagreb.

In the overall budget revenues, in 2002 the central government capital revenues accounted for only 0.3%. This was a significant decrease in the importance of capital revenues in the central government budget. The reduction of the share of capital, i.e., privatization revenues in the overall revenues of central government budget was positive due to their temporary nature, and together with the reduction of their importance also decreased the danger of creating a big deficit with the disappearance of this category of revenues. However, as early as 2003, with the inclusion of the Regional Development Fund and the Development and Employment Fund into the Single Treasury Account, the privatization revenues again became a part of the central government budget.

Capital revenues in 2003 amounted to HRK 3,597.6 million, which was by 4.1% more than planned. The biggest part of capital revenues was a result of privatization of 25% plus 1 share of INA. However, it should be noted that it is impossible to compare capital revenues on the level of central government in 2003 in comparison with 2002. Namely, since January 1, 2003 the Regional Development Fund and the Development and Employment Fund (whose part privatization revenues are) have been included into the scope of the central government budget, whereas in 2002 they were extra-budgetary funds. Due to this fact it correct in terms of methodology to interpret the year-on-year growth of capital revenues only on the level of consolidated central government and general government, and not on the level of the state budget.

On the central government level it would be correct to monitor capital revenues without privatization revenues in order to make a comparison with 2002. Namely, in 2003 capital revenues without privatization receipts amounted to HRK 242.6 million, which was by 11.3% more than in 2002. Capital revenues in 2003 also were mostly collected from sale of fixed capital assets. Revenues from the sale of state apartments were collected in the amount of HRK 124.8 million, revenues from the sale of military apartments HRK 73.9 million, whereas other capital revenues were collected from the sale of assets at HRK 25.1 million. Privatization revenues in 2003 amounted to HRK 3,355.0 million. The outturn from sale of land and intangible assets in 2003 was HRK 18.8 million in budget revenues. The overall capital revenues, as well as specific items in this category, were realized on the level higher than the planned amount.

State budget in 2003 also collected HRK 10.4 million of current grants from abroad, i.e., grants of international organizations.



2.4 | Central government budget expenditure outturn in 2002 and 2003

Overall expenditures and lending minus repayments of central government budget in 2002 amounted to HRK 73,369.6 million. In comparison with 2001, budget expenditures increased by 26.9% in nominal terms. The share of overall state budget expenditures in GDP also increased, from 34.9% in 2001 to 40.9% in 2002. However, the reason for such growth is primarily the change of scope of the state budget, i.e., consolidation of extra-budgetary funds into the State Treasury system. If funds of contributions for pension and disability insurance, health insurance, and employment were excluded from overall expenditures of the state budget, the share of overall expenditures in GDP would show a downward trend, which is consistent with the rationalization of state expenditures. Expenditures for goods and services and transfers to households increased their share in overall expenditures, whereas subsidies, interest repayment, and capital expenditures decreased their share. Lending minus repayments remained on the same level as in the previous year.

Table 2.6 | Central Government Budget Expenditures in 2002
Source | Ministry of Finance
(in 000 HRK)

	Budget 2002	Rev. Budget 2002	Outturn 2002	Outturn Structure	Outturn % of GDP
Total expenditure and lending minus repayments	74,614,094	74,434,155	73,369,602	100.0	40.9
Expenditures on goods and services	30,738,572	31,617,871	31,558,959	43.0	17.6
Interest payments	3,800,322	3,423,355	3,260,588	4.4	1.8
Subsidies	2,264,957	2,206,511	2,190,938	3.0	1.2
Transfers	32,525,997	32,165,194	31,912,986	43.5	17.8
Capital expenditures	3,925,590	3,441,485	3,068,671	4.2	1.7
Lending minus repayments	1,358,655	1,579,738	1,377,458	1.9	0.8

In 2003 overall expenditures and support minus repayments were executed in the amount of HRK 80,441.1 million. Such execution of expenditures represented a 9.6-percent increase in comparison with 2002. In comparison with the planned expenditures, such execution represented an overspending of HRK 678.6 million. The share of overall expenditures in GDP in 2003 accounted for 41.7%. The biggest growth in 2003 was recorded in expenditures for subsidies. Their growth in comparison with 2002 was no less than 199.0%. The 9.6-percent growth of expenditures in 2003 was partially a result of further fiscal consolidation of the state budget, i.e., integration of the Regional Development Fund and Development and Employment Fund into the State Treasury. In 2003 the expenditures for subsidies, and capital expenditures increased their share in overall expenditures, whereas expenditures for interest payment remained on the approximately the same level as in 2002, whereas the share of other categories of expenditures in overall expenditures was reduced.

Table 2.7 | Central Government Budget Expenditures in 2003
Source | Ministry of Finance
(in 000 HRK)

	Budget 2002	Rev. Budget 2002	Outturn 2002	Outturn Structure	Outturn % of GDP
Total expenditure and lending minus repayments	79,702,131	79,762,541	80,441,123	100.0	41.7
Expenditures on goods and services	31,744,666	32,873,760	33,423,457	41.6	17.3
Interest payments	4,035,811	3,493,126	3,587,329	4.5	1.9
Subsidies	4,524,080	4,267,688	4,359,950	5.4	2.3
Transfers	32,862,659	32,849,093	33,688,015	41.9	17.4
Capital expenditures	4,751,627	4,435,176	4,071,725	5.1	2.1
Lending minus repayments	1,783,287	1,843,697	1,310,647	1.6	0.7

2.4.1 | Current expenditures

Current expenditures in 2002 amounted to HRK 68,923.5 million, which was an increase of 30.5% in comparison with 2001. In the overall structure, current expenditures in 2002 accounted for 93.9%, whereas their share in 2001. amounted to 91.4%. In 2002 in comparison with 2001, the biggest increase in the structure of current expenditures was recorded in expenditures for other goods and services (except for salaries), which grew by 58.8%. Such growth of overall current expenditures, as well as the growth of specific categories of expenditures was a consequence of changes of the scope of the state budget. Therefore, those categories in 2002 are not comparable with 2001 on the level of central government, but only on the level of general government.

	2001		2002		2003	
Wages and contributions	14,877,949	28.17	19,896,859	28.87	21,780,405	29.02
Other purch. of goods and serv.	7,342,809	13.90	11,662,100	16.92	11,643,052	15.51
Interest payments	3,015,312	5.71	3,260,588	4.73	3,587,329	4.78
Subsidies	3,656,037	6.92	2,190,938	3.18	4,359,950	5.81
Current transfers	23,927,112	45.30	31,912,986	46.30	33,688,015	44.88

The outturn of current expenditures in 2003 was HRK 75,058.8 million, which was by 1.9% more than the planned amount. Almost all components in the structure of current expenditures recorded overspending of the planned values. This primarily referred to expenditures for transfers to households, which exceeded the plan in the amount of HRK 801.2 million (or 2.8%), and their year-on-year growth accounted for 8.5%. The only two categories of current expenditures which did not exceed the planned values were subsidies to financial institutions, which were realized on the level of 96.2% of the planned amount and transfers abroad, which were realized on the level of 93.8% of the plan for 2003.

The biggest item in current expenditures were current transfers, which in 2002 accounted for 46.3% of the total current expenditures. After the transfers, the most significant expenditures of the central government budget were outlays for salaries of budget beneficiaries. The total wage bill of budget beneficiaries in 2002 amounted to HRK 19,896.9 million, which was more by 33.7% than in the previous year. However, as mentioned above, this expenditure category is comparable with the previous year only on the general government level. The share of wage expenditures in overall current expenditures of the state budget remained on the approximately same level as in 2001. In 2002 the share of outlays for salaries of budget beneficiaries accounted for 28.9%, whereas in 2001 it accounted for 28.2%. Wage expenditures of budget beneficiaries in 2002 were realized on the level planned by the revision, whereas in comparison with the amount planned by the original budget they grew by 2.2%.

In 2003 the structure of current expenditures remained approximately the same as in 2002. Outlays for salaries of budget beneficiaries in 2003 remained the second largest in the structure of current expenditures and accounted for 29.0% of total current expenditures. Outlays for gross salaries amounted to HRK 21,780.4 million, which was a 9.5-percent increase in comparison with 2002. It should be noted that the 9.5-percent increase in comparison with the previous year was partially a result of further fiscal consolidation of the state budget. Those outlays were realized on the level planned by the revision for 2003, i.e., they exceeded the plan by only 0.4%. However, in comparison with the original plan for 2003, outlays for gross salaries exceeded the plan by 7.2%, i.e., as much as HRK 1,470.0 million. Overspending in those expenditures in comparison with the planned ones was primarily a result of the insufficient speed of the

Figures 2.19 | 2.20 | and 2.21 | Structure of Current Budget Expenditures in 2001, 2002, and 2003
Source | Ministry of Finance

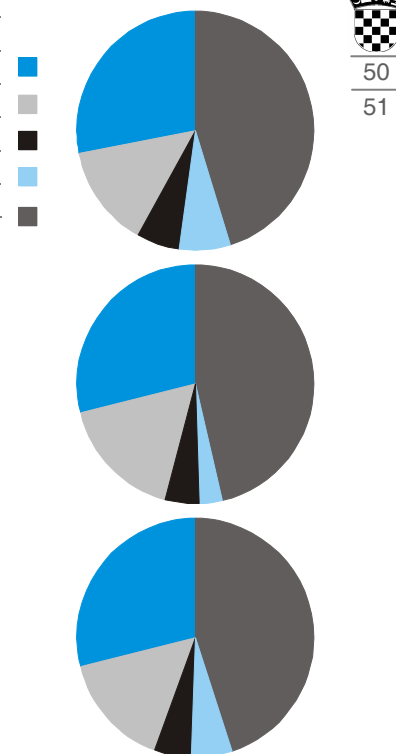
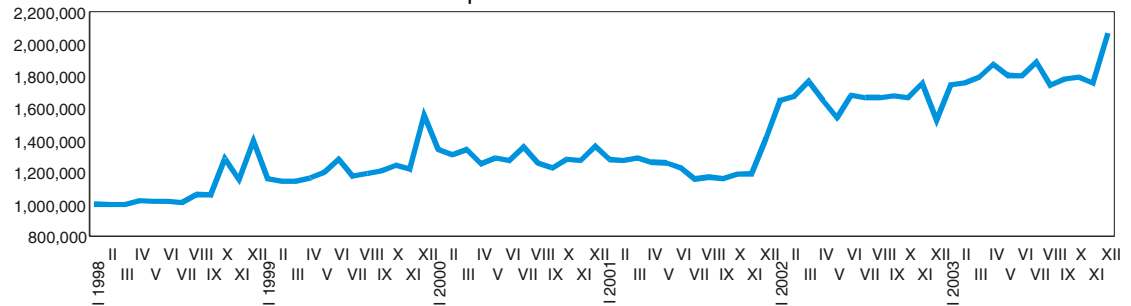


Figure 2.22 | Gross Salaries of Budget Beneficiaries

Source | Ministry of Finance (in 000 HRK)



reform, and also the increase in salaries in the Ministry of Defense. Employers' contributions in 2003 were collected at HRK 3,188.7 million, the recorded year-on-year growth was 11.6%, whereas the salaries and wages were realized at HRK 18,591.7 million, recording an increase of 9.1% in comparison with 2002.

Outlays for purchases of goods and services in 2002, on the cash basis, amounted to HRK 11,662.1 million. The share of outlays for purchases of goods and services in overall current expenditures in 2002 accounted for 16.9%. This was a 3-percentage points increase in comparison with 2001, when this share was 13.9%. The share of those expenditures in GDP accounted for 6.5%. Outlays for purchases of goods and services were executed on the level planned by the revision.

In 2003 outlays for purchases of goods and services amounted to HRK 11,643.1 million, which was almost on the level of the amount of the previous year. The share of those outlays in overall current budget expenditures in 2003 decreased by 1.4 percentage points, whereas the planned amount was exceeded by 2.0%. In parallel with the drop in expenditures for purchase of goods and services in the overall current expenditures, their share in GDP dropped as well, and in 2003 accounted for 6.0%.

Total expenditures for interest payment in 2002 amounted to HRK 3,260.6 million, and in comparison with 2001 grew by 8.1%. The share of expenditures for interest payment in overall current expenditures in 2002 accounted for 4.7% and was lower by one percentage point than in 2001. Domestic interest payments in comparison with the previous year increased by 31.7% and amounted to HRK 1,373.6 million. Foreign interest payments in 2002 amounted to HRK 1,887 million and in comparison with 2001 were decreased by 4.3%. There was a change in the structure in the interest payment category. In 2001 the share of foreign interest payments accounted for 65.4%, while domestic interest payments accounted for 34.6%. In 2002 the share of domestic interest payments in the overall interests increased and accounted for 42.1%, whereas the share of foreign interest payment was reduced to 57.9%.

Outlays for interest payment in 2003 amounted to HRK 3,587.3 million and in comparison with 2002 grew by 10.2%. Those outlays were planned by the revision at HRK 3,448.8 million, and they exceeded that amount by 4.0%. Domestic payment amounted to HRK 1,684.3 million with the outturn of only 0.8% more than the planned amount. Domestic interest payments in comparison with 2002 grew by as much as 22.6%. Foreign interest payment in 2003 amounted to HRK 1,903.0 million, recording a 0.9-percent growth in comparison with the previous year.

In comparison with the planned amount, foreign payments were realized higher by 7.0%. Such outturn additionally changed the structure of overall interests, and in 2003 it increased the share of domestic payments in the overall interest payments to 47.0%, whereas the share of foreign payments recorded a further reduction to 53.0%. In 2003 the biggest item of foreign interests were expenditures for interests on bonds issued abroad, amounting to HRK 1,333.3 million. The remaining amount of foreign interests was used for repayment of interests on loans from foreign

governments (HRK 142.7 million), international organizations (HRK 192.3 million), and the World Bank (HRK 8.4 million). The biggest item of domestic interest payments were interest payments for domestic bonds, amounting to HRK 1,172.3 million. The remaining amount was used for interest payment for issued domestic treasury bills (HRK 183.9 million) and interests for loans received from banks and other financial institutions in the public sector (HRK 95.9 million), and also interests for loans received from banks and other financial institutions outside of the public sector.

	2001		2002		2003	
Interest payments	3,015,312	100.00	3,260,588	100.00	3,587,329	100.00
Other domestic payments	1,043,098	34.59	1,373,579	42.13	1,684,349	46.95
Abroad	1,972,214	65.41	1,887,009	57.87	1,902,980	53.05

In 2002 subsidies were granted to agriculture, the tourist sector, Croatian Railways, shipyards and shippers, as well as for road construction. Subsidies in the central government budget in 2002 amounted to HRK 2,190.9 million, i.e., they were lower by 40.1% than in the previous year. Expenditures for subsidies recorded growth as long as 2001, and this was the first year in which the amount of subsidies declined. The share of subsidies in the overall current central budget expenditures in 2002 accounted for 3.2%, which was a 3.7-percentage point reduction in comparison with 2001. The share of subsidies in GDP in 2002 accounted for 1.2%, which was lower by one percentage point than in the previous year. The structure of state budget subsidies was approximately the same as in 2001. The share of subsidies to non-financial public enterprises in overall subsidies was 78.4%. Those subsidies amounted to HRK 1,717.7 million. In comparison with 2001 they were reduced by 39.1%. In 2002 subsidies were also made to financial institutions in the amount of HRK 6.9 million. Their share in overall subsidies was small and accounted for only 0.3%. Subsidies to other enterprises amounted to HRK 466.2 million, which was a 44.1-percent reduction in comparison with the previous year.

The total amount of subsidies in 2003 was HRK 4,360.0 million, which was almost twice as high as the amount in 2002. Subsidies in 2003 exceeded the planned amount by 1.5%, or HRK 65.7 million. In the structure of total subsidies there was a decline in the share of subsidies to non-financial public enterprises, which in 2003 accounted for 61.7%. The share of subsidies to other enterprises accounted for 37.9%, whereas a very small share, only 0.4%, accounted for subsidies to financial institutions.

In spite of the drop in the share of subsidies to non-financial public enterprises, they continued to have the biggest share in overall subsidies. In 2003 they amounted to HRK 2,688.7 million, which in comparison with the previous year was a 56.5-percent growth. In 2003 the biggest amount of subsidies to public enterprises was also made to Croatian Railways and shipyards.

Subsidies to financial institutions in 2003 amounted to HRK 18.8 million. They were made to banks and other financial institutions (HRK 7.3 million), incentives for the development of the tourist sectors (HRK 6.0 million), exports incentives (HRK 4.5 million), whereas a smaller amount was made to incentives for the development of new technologies and incentives for performance in tourism. In comparison with the amount planned for 2003, subsidies to financial institutions were made by 3.8% less than the planned amount. Subsidies to other enterprises in 2003 recorded the biggest year-on-year growth and amounted to HRK 1,652.5 million, which was growth of as much as 254.4%. However, despite such a big year-on-year growth rate, it should be noted that those subsidies exceeded the planned amount by 4.2%, or only HRK 66.5 million.

Figures 2.23 | 2.24 | and 2.25 | Structure of Paid Interest in 2001, 2002, and 2003

Source | Ministry of Finance (in 000 HRK)

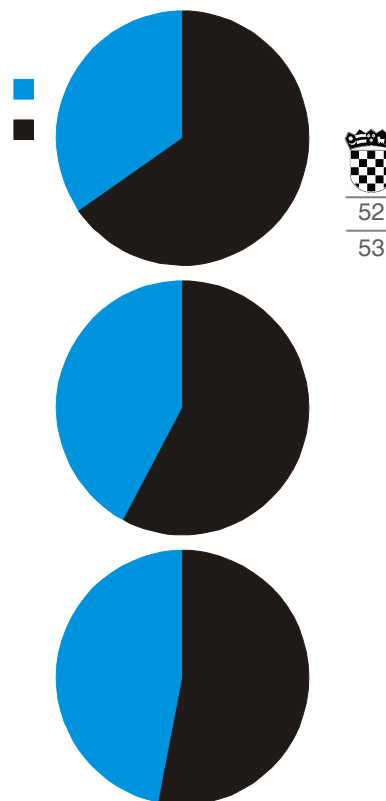
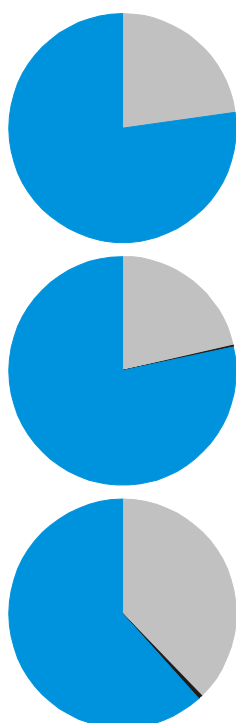


Figure 2.26 | 2.27| and 2.28|
Structure of Central
Government Budget
Subsidies in 2001, 2002,
and 2003
Source | Ministry of Finance
(in 000 HRK)



Subsidies to other enterprises were primarily used for incentives for agricultural production, which accounted for the biggest amount, HRK 1,452.9 million. In addition to agricultural subsidies, this category also included subsidies to craftsmen and small and medium sized enterprises. In 2003 subsidies to other enterprises were used for the incentives to entrepreneurship for entrepreneurs-beginners, additional training, and re-training in crafts, revitalization of SMEs, investment support, rural development, and support for the production of salt. Current transfers in 2002 amounted to HRK 31,912.9 million. As in previous years, this item recorded a high growth rate. In comparison with 2001, current transfers grew by 33.4%. The biggest pressure to such a strong growth of current transfers came from extra-budgetary funds, more precisely, it was caused by their consolidation into the State Treasury system. The share of current transfers in GDP in 2002 was 17.8%, which was a growth of 3.5 percentage points in comparison with the previous year.

	2001		2002		2003	
Subsidies	3,656,037	100.00	2,190,938	100.00	4,359,950	100.00
To nonfinancial public enterprises	2,822,147	77.19	1,717,704	78.40	2,688,728	61.67
To financial institutions	0	0.00	6,987	0.32	18,759	0.43
To other enterprises	833,890	22.81	466,247	21.28	1,652,463	37.90

Transfers to households were by far the most important in overall transfers. The share of transfers to households in overall transfers in 2002 accounted for as much as 85.3%, whereas in 2001 it accounted for 49.5%. Transfers to households amounted to HRK 27,224.9 million. This piece of data on the level of central government is not comparable with 2001 given that in 2002 the full annual effect of increased scope of state budget was visible. In the structure of transfers to households, outlays for pensions were the biggest item.

Transfers to other levels of the national government were the second largest in overall transfers. Those transfers in 2002 amounted to HRK 3,775.8 million. Their share in the overall transfers was 11.8%, which was a significant reduction of their importance for overall transfers in comparison with 2001, when this share accounted for 47.3%. Transfers to non-profit institutions in 2002 amounted to HRK 819.3 million, and their share in overall current transfers was 2.6% and was on the approximately the same level as in the previous year. The lowest item in the overall current transfers were transfers abroad. Those transfers in 2002 amounted to HRK 92.9 million, and the share in overall current transfers was only 0.3%. Transfers abroad in comparison with 2001 were reduced by 17.3%.

Current transfers in 2003 were executed in the amount of HRK 33,688.0 million, which was a growth of 5.6% in comparison with 2002. In the structure of total transfers, transfers to households also increased their share in overall transfers in 2003 and accounted for 87.7%, whereas transfers to other levels of the national government reduced their share by 2.3 percentage points, and their share in 2003 amounted to 9.5%. Other transfers, i.e., transfers to non-profit institutions and foreign transfers, remained on the approximately the same level as in the previous year. Total transfers exceeded the planned amount for 2003 by 2.8%, i.e., HRK 905.5 million.

As already mentioned above, the biggest share in overall transfers was the share of transfers to households, which in 2003 were executed in the amount of HRK 29,532.3 million, or by 8.5% more than in 2002 Those

transfers exceeded the planned amount for 2003 by 2.8%. The biggest share in transfers to households were the outlays for pensions and pension benefits, which in 2003 were executed in the amount of HRK 20,938.7 million and exceeded the planned amount by HRK 845.9 million, or 4.2%. In addition to regular pensions, important part of transfers to households were disability and survivors' pensions, which in 2003 amounted to HRK 1,954.7 million and did not exceed the planned amount. Other outlays for transfers to households, for instance outlays for primary health care, outlays for maternity benefits, and outlays for sick leave benefits were realized on the planned level. Outlays for child allowance amounted to HRK 1,599.9 million and were executed at 2.0% less in comparison with the planned amount. Among significant transfers to households in 2003 were also outlays for permanent entitlements, i.e., personal and family disability allowances (HRK 622.6 million), outlays for support allowance (HRK 505.0 million), benefits for extended maternity leave (HRK 432,1 million), as well as outlays for the protection of civil and military war invalids (HRK 393.9 million). Other transfers to households, which had a small share in overall transfers in 2003, were executed on the level planned by the revision.

Figures 2.29 | 2.30 | and 2.31 | Structure of Current Transfers of Central Government Budget in 2001, 2002, and 2003
Source | Ministry of Finance (in 000 HRK)



	2001		2002		2003	
Current transfers	23,927,112	100.00	31,912,986	100.00	33,688,015	100.00
Transfers to other levels of national Gov't	11,318,140	47.30	3,775,789	11.83	3,198,505	9.49
Transfers to nonprofit institutions	663,465	2.77	819,323	2.57	881,032	2.62
Transfers to households	11,833,132	49.45	27,224,894	85.31	29,532,340	87.66
Transfers abroad	112,375	0.47	92,980	0.29	76,139	0.23

Transfers to other levels of national government in 2003 were executed in the amount of HRK 3,198.5 million, which was a 15.3-percent reduction in comparison with 2003, and also further reduction of their significance for the state budget. Those transfers exceeded the amount planned for 2003 by 2.4%. In the transfers to other levels of national government additional equalization funds for decentralized functions have a prominent place, which in 2003 amounted to HRK 900.0 million. Also, this category included significant funds for employment incentives amounting to HRK 309.0 million, as well as outlays for instigating regional development of infrastructure and economy of the Republic of Croatia amounting to HRK 111.6 million.

Transfers to non-profit institutions in 2003 were realized at HRK 881.0 million, which was a 7.5-percent growth in comparison with 2002. Such an execution was higher by 4.0% than the planned amount. The share of transfers to non-profit institutions in overall transfers in 2003 remained on the level of those in 2002, i.e., 2.6%. In 2003, like in the previous year, the lowest item in the transfers were transfers abroad. They amounted to HRK 76,1 million, and in comparison with 2002 they were reduced by 18.1%. This was the only item among transfers which was executed on levels lower than planned, by 6.2%. The biggest item in transfers abroad was assistance to foreign governments amounting to HRK 43.9 million. The funds were utilized for welfare of refugees and incentives for education and culture in the BH Federation.

2.4.2 | Capital expenditures

Capital expenditures of the central government budget in 2002 amounted to HRK 3,068.7 million, which in comparison with 2001 was a reduction of 21.4%. The share of capital expenditures in GDP in 2002 was 1.7%, which was a reduction of 0.7 percentage points in comparison with 2001. The biggest share in the overall capital expenditures was the one of capital transfers. Capital transfers in 2002 amounted to HRK 1,704.7

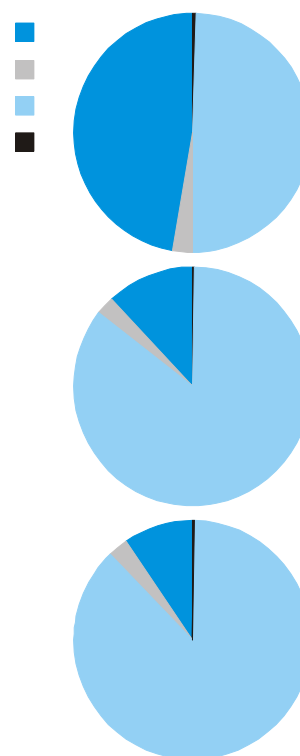


Table 2.8 | Central Government Budget Capital Expenditures
Source | Ministry of Finance

million, and their share in the overall capital expenditures amounted to 55.6%. In addition to capital transfers, an important portion of overall capital expenditures were the expenditures for purchase of fixed capital assets, which in 2002 amounted to HRK 1,181.7 million, i.e., 38.5% of overall capital expenditures. Purchase of fixed capital assets had a small share in capital expenditures (5.9%), and in the absolute amount this item was HRK 182.3 million. The reduction of capital expenditures in 2002 was primarily aimed at the reduction of overall expenditures, and it was a result of the reduced investment role of the state.

	Outturn (000HRK)			Structure (%)			% of GDP		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Acquisition of fixed capital assets	1,495,464	1,181,706	1,951,162	38.3	38.5	47.9	0.9	0.7	1.0
Purchases of stocks	0	7	0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of land and intangible assets	282,892	182,268	66,924	7.2	5.9	1.6	0.2	0.1	0.0
Capital transfers	2,125,700	1,704,690	2,053,640	54.4	55.6	50.4	1.3	1.0	1.1
Capital expenditure - total	3,904,056	3,068,671	4,071,725	100.0	100.0	100.0	2.4	1.7	2.1

In 2003 capital expenditures were realized in the amount of HRK 4,071.7 million, which was an increase of 32.7% in comparison with 2002. As a result of such high year-on-year growth of capital expenditures, also grew their share in GDP, which accounted for 2.1% in 2003. In spite of the year-on-year growth indicated above, capital expenditures in 2003 were realized at HRK 293.9 million less than the planned amount, i.e., on the level of 93.3% of the plan. Capital transfers had the biggest share in overall capital expenditures in this year as well, namely, domestic transfers, which amounted to HRK 2,053.6 million and grew by 20.5% in comparison with 2002. Regardless of this, their share in overall capital expenditures was reduced by 5.1 percentage points and in 2003 accounted for 50.4%. Capital transfers to other levels of the national government accounted for the biggest amount in capital transfers, of HRK 538.2 million. This amount was used for incentives for development of entrepreneurship, instigating local development projects, development of Adriatic islands, construction of infrastructure in the areas of special state concern and numerous other similar projects. Capital transfers to non-financial public enterprises in 2003 amounted to HRK 376.5 million. Their outturn was in line with the planned amount, i.e., lower by 1.6% than planned. They were used mainly as assistance for regional public enterprises, mostly for the construction of water supply system, reconstruction of wastewater treatment facilities, environmental protection, etc. In 2003 HRK 202.3 million was paid in capital transfers to financial institutions, which was actually capital assistance to financial institutions for encouraging housing savings. HRK 130.9 million was spent for capital transfers to other enterprises. This amount was used for incentives for entrepreneurs – beginners, encouraging women entrepreneurs, encouraging participation in fairs, co-financing of entrepreneurs, and development of small and medium sized enterprises in general. Other domestic capital transfers in 2003 were realized at HRK 805.9 million, and were used primarily for capital expenditures for households and non-profit organizations, such as outlays for construction and maintenance of cultural institutions, protection works on cultural monuments, reconstruction of housing units damaged in the war, refugee return programs and similar projects.

Outlays for purchase of fixed capital funds in 2003 amounted to HRK 1,951.21 million, which was an increase of no less than 65.1% in comparison with 2002. Those expenditures also increased their share in the overall capital expenditures by 9.4 percentage points and in 2003 accounted for 47.9% of the total capital expenditures. The planned amount of expenditures for purchase of fixed capital funds in 2003 was HRK 2,175.9 million, and it was executed at HRK 224.7 million less than

the planned amount. Expenditures for purchase of land and intangible assets in 2003 amounted to HRK 66.9 million and in comparison with 2002 were reduced by 63.3%. Their share in the overall capital expenditures continued to decline, and in 2003 amounted to 1.6%.

2.4.3 | Lending minus repayment

In 2002 lending minus repayment amounted to HRK 1,377.5 million, which was by 12.8% less than envisaged by the budget revision. Domestic lending in 2002 amounted to HRK 1,363.9 million, whereas external lending amounted to only HRK 13.5 million. Lending minus repayment in 2002 was higher by 26.4% than in 2001. The share of lending minus repayment in the structure of total budget expenditures amounted to 1.9%, whereas the share of those categories of expenditures in GDP was 0.8%.

In 2003 lending minus repayment amounted to HRK 1,310.6 million. In comparison with 2002 this was a 4.9-percent reduction. A comparison of this category with the plan for 2003 indicates that the lending minus repayment was executed in the amount of HRK 488.1 million lower than the planned amount, i.e., lower by 27.1%. Domestic lending minus repayment in 2003 amounted to HRK 1,300.7 million and accounted for 99.2% of total lending minus repayment. The biggest item was lending to financial institutions, which amounted to HRK 1,107.2 million or 85.1% of total domestic lending. This item was the only one executed in amounts higher than the planned values (by 7.3%). The second largest in terms of the share in domestic lending was lending to non-financial public enterprises, which was executed in 2003 in the amount of HRK 231.0 million. Lending to other levels of the national government were very small and in 2003 amounted to only HRK 35.3 million, with the outturn by 46.0% lower than the planned amount. External lending, i.e., lending to foreign governments and international organizations, was very low and in 2003 amounted to only HRK 9.9 million.

2.5 | Functional classification of government expenditure

Functional classification of expenditures enables international comparability of specific categories of expenditures, as well as an analysis of the purpose of specific categories of public expenditures. In 2002 positive changes were recorded, which were evident in the reduced expenditures for general public services, and affairs of public order and security. However, expenditures for education affairs and services were also reduced, which was a negative trend, and it was also not consistent with the trends in the global economy. There was also a high growth of expenditures for health affairs and services, as well as for social security and welfare, which was a consequence of the consolidation of extra-budgetary funds (concretely, the Croatian Institute of Health Insurance and the Croatian Institute of Pension Insurance) in the State Treasury system. In 2003 this positive trend was somewhat slowed down, given that expenditures in specific sectors mostly increased. A reduction of expenditures in comparison with 2002 was recorded only in defense affairs and services, and also in services related to fuel and energy. Such a trend in expenditures in 2003 was partially a result of the inclusion of the Regional Development Fund and the Development and Employment Fund into the State Treasury system.

Outlays for defense affairs and services in 2002 amounted to HRK 4,353.1 million and were on the approximately the same level as in 2001. However, the share of those expenditures in overall expenditures declined and in 2002 accounted for 6.0%, and in 2001 it accounted for 7.6%. The share of outlays for defense in GDP declined and in 2002 accounted for 2.4%. In 2003 outlays for defense affairs and services



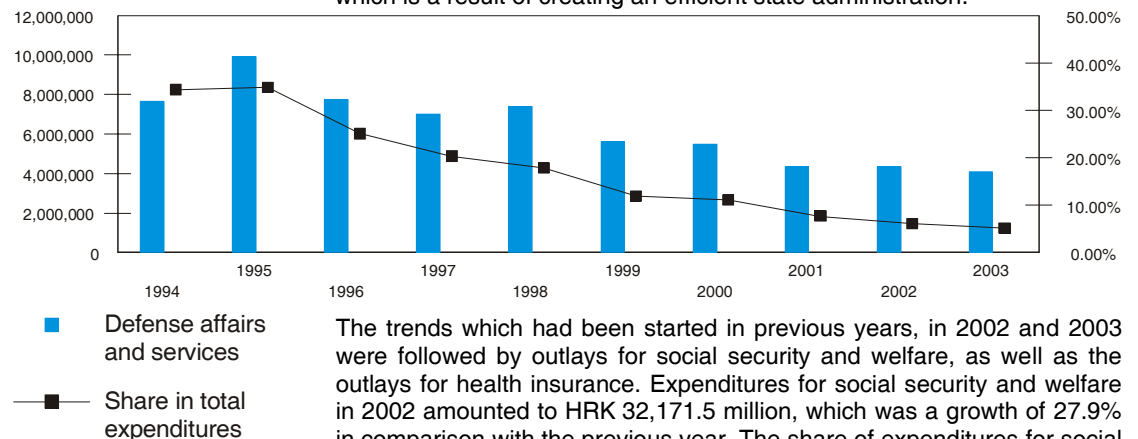
Table 2.9 | Central Government Budget Expenditure Functional Classification - the Share of Total Expenditures
Source | Ministry of Finance

declined by 6.1% in comparison with 2002 and amounted to HRK 4,087.8 million. In line with this reduction also declined the importance of those expenditures in overall expenditures and in GDP. The share of expenditures for defense affairs and services in overall expenditures in 2003 accounted for 5.2%, and their share in GDP accounted for 2.1%. Outlays for public order and security in 2002 amounted to HRK 4,748.2 million and remained on approximately the same level as in 2001, and their significance in overall expenditures was reduced. In 2003 those expenditures grew by 9.0% and amounted to HRK 5,176.0 million.

	Outturn			% of GDP		
	2001	2002	2003	2001	2002	2003
I Total expenditure	100	100	100	34.2	40.1	41.0
1. General public services	5.3	4.0	4.4	1.8	1.6	1.8
2. Defense affairs and services	7.6	6.0	5.2	2.6	2.4	2.1
3. Public order and safety affairs	8.4	6.6	6.5	2.9	2.6	2.7
4. Education affairs and services	11.6	8.6	8.6	4.0	3.4	3.5
5. Health affairs and services	0.5	14.9	14.7	0.2	6.0	6.0
6. Social security and welfare affairs and services	44.3	44.7	42.2	15.2	17.9	17.3
7. Housing and community amenity affairs and services	3.0	1.4	2.7	1.0	0.6	1.1
8. Recreational, cultural and religious affairs	1.7	1.3	1.4	0.6	0.5	0.6
9. Fuel and energy related affairs and services	-	-	0.0	-	-	0.0
10. Agriculture, forestry, fishing, hunting affairs	2.9	2.6	2.9	1.0	1.0	1.2
11. Mining, manufacturing, construction affairs	0.8	0.6	0.8	0.3	0.2	0.3
12. Transport and communication affairs and services	5.5	1.8	2.3	1.9	0.7	0.9
13. Other economic affairs and services	1.5	1.2	1.9	0.5	0.5	0.8
14. Expenditures not classified by major group	7.0	6.4	6.4	2.4	2.6	2.6

Outlays for general public services in 2002 amounted to HRK 2,900.5 million, and their share in overall expenditures decreased and accounted for 4.0, whereas in 2003 the share of those expenditures in overall expenditures rose again and accounted for 4.4%. This was a result of a very high increase in expenditures for general public services in 2003, which was 19.1%. Expenditures for defense, and public order and security affairs should become less and less significant, and their share in overall expenditures in GDP should also be decreased with the aim to adjust to standards of developed countries. However, in 2003 this was only the case with expenditures for defense affairs and services. The share of expenditures for general public services should also be reduced, which is a result of creating an efficient state administration.

Figure 2.32 | Defense Affairs and Services
Source | Ministry of Finance
(in 000 HRK)

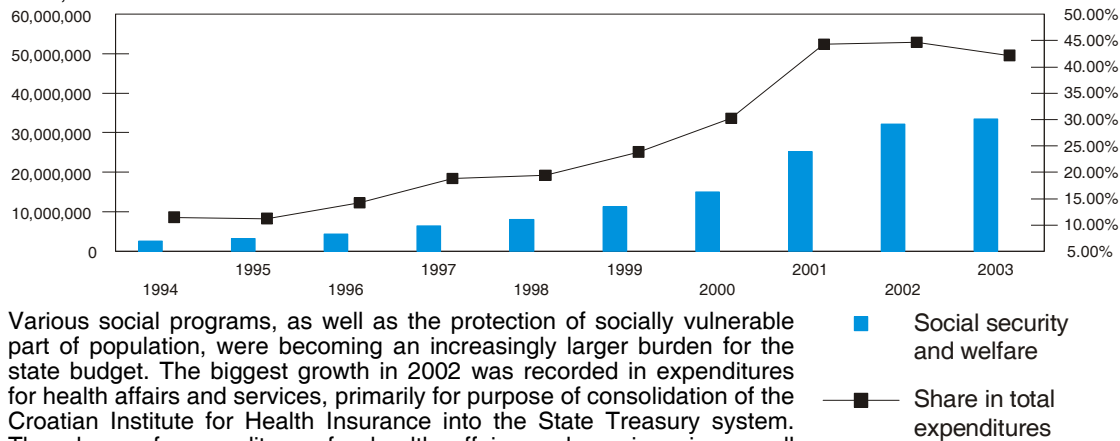


The trends which had been started in previous years, in 2002 and 2003 were followed by outlays for social security and welfare, as well as the outlays for health insurance. Expenditures for social security and welfare in 2002 amounted to HRK 32,171.5 million, which was a growth of 27.9% in comparison with the previous year. The share of expenditures for social security and welfare in overall expenditures reached 44.7%, whereas their

share in the gross domestic product increased from 15.2% in 2001 to 17.9% in 2002. In 2003 expenditures for social security and welfare amounted to HRK 33,390.5 million and in comparison with 2002 grew by 3.8%, however, their share in overall expenditures, as well as the share in GDP, declined.

Figure 2.33 | Social Security and Welfare

Source | Ministry of Finance (in 000 HRK)

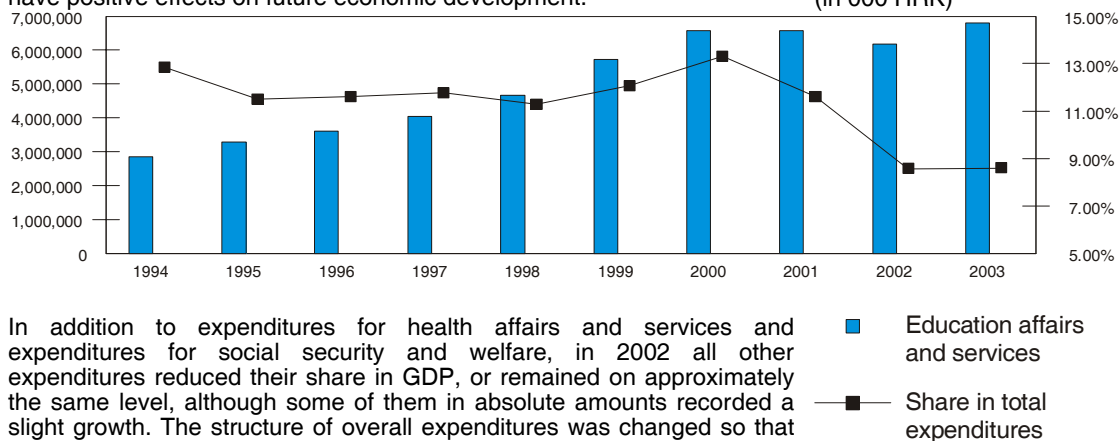


Various social programs, as well as the protection of socially vulnerable part of population, were becoming an increasingly larger burden for the state budget. The biggest growth in 2002 was recorded in expenditures for health affairs and services, primarily for purpose of consolidation of the Croatian Institute for Health Insurance into the State Treasury system. The share of expenditures for health affairs and services in overall expenditures from 0.5% in 2001 grew to 14.9% in 2002. Those expenditures as the share of GDP grew from 0.2% in 2001 to 6.0% in 2002. The growth of expenditures for health affairs and services continued in 2003 at the rate of 8.5%, and their share in overall expenditures in GDP remained on approximately the same level as in 2002. Expenditures for health affairs in 2003 amounted to HRK 11,609.4 million.

Expenditures for education affairs and services in 2002, i.e., the second consecutive year, recorded negative trends. Those expenditures in 2002 amounted to HRK 6,175.7 million, which in comparison with 2001 represented a decline of 6.2%. Their share in overall expenditures was reduced from 11.6% in 2001 to 8.6% in 2002. In line with that also declined the share of education expenditures in GDP. In 2003 education expenditures grew by 10.2% in comparison with 2002 and amounted to HRK 6,806.8 million. The share of education expenditures in overall expenditures and in GDP remained on approximately the same level as in 2002. The increase in expenditures for education affairs and services was positive and in line with international trends of investing into knowledge. Bigger investment of the state is needed into education, science, culture, technology, and other production expenditures which will have positive effects on future economic development.

Figure 2.34 | Education Affairs and Services

Source | Ministry of Finance (in 000 HRK)



In addition to expenditures for health affairs and services and expenditures for social security and welfare, in 2002 all other expenditures reduced their share in GDP, or remained on approximately the same level, although some of them in absolute amounts recorded a slight growth. The structure of overall expenditures was changed so that the expenditures for health affairs and services and social security increased their share in overall expenditures, whereas all other

■ Education affairs and services
■ Share in total expenditures

expenditures reduced their share in line with that. The biggest reduction was in the expenditures for transport and communications affairs and services, which was a result of the reduced subsidies to the transport sector.

In 2003 the drop in the share of expenditures in GDP was recorded only in expenditures for defense affairs and services and expenditures for social security and welfare, whereas other expenditures remained on the same level or recorded a slight growth. In the structure of overall expenditures the biggest share was still the one of expenditures for social security, and for health, and they were followed by expenditures for education, public order and security affairs, and defense affairs, whereas other expenditures were less significant.

However, it should be noted that state budget expenditures according to functional classification in 2002 were not fully comparable with 2001 and 2003. Namely, as already mentioned, in 2002 two new funds were established, the Regional Development Fund and the Development and Employment Fund. Revenues collected by privatization were paid into the accounts of those funds, and were spent for projects of various purposes, such as the construction of the Rijeka – Zagreb motorway, reconstruction of houses, state subsidized housing construction, capital projects in social welfare, higher education, the judiciary, water supply projects, subsidies to the Croatian Railways for salaries and benefits etc. Those funds only in 2002 operated as extra-budgetary funds, and as early as 2003 they were re-integrated into the State Treasury system.

A comparison of expenditures according to functional classification in 2002 with 2001 and 2003 is complete only upon inclusion of expenditures of the two Funds. Therefore, attached is a table of central government budget expenditures. The table for 2002 was expanded by expenditures of the Regional Development Fund and the Development and Employment Fund, and their year-on-year change.

Table 2.10 | Central Government Budget Expenditures According to Functional Classification Expanded by Expenditures of the Regional Development Fund and the Development and Employment Fund and Their Year-on-Year Change
Source | Ministry of Finance (in 000 HRK)

	Outturn			Index	
	2001.	2002.*	2003.	2002./2001.	2003./2002.
I Total expenditure	56,723,275	74,170,855	79,130,477	130.8	106.7
1. General public services	2,978,323	2,957,077	3,454,893	99.3	116.8
2. Defense affairs and services	4,338,616	4,353,086	4,087,774	100.3	93.9
3. Public order and safety affairs	4,761,176	4,791,069	5,176,020	100.6	108.0
4. Education affairs and services	6,581,945	6,314,793	6,806,803	95.9	107.8
5. Health affairs and services	270,273	10,703,958	11,609,419	3,960.4	108.5
6. Social security and welfare affairs and services	25,153,646	32,219,048	33,390,450	128.1	103.6
7. Housing and community amenity affairs and services	1,677,039	1,675,690	2,140,711	99.9	127.8
8. Recreational, cultural and religious affairs	955,698	993,562	1,085,002	104.0	109.2
9. Fuel and energy related affairs and services	7,660	8,093	6,647	105.7	82.1
10. Agriculture, forestry, fishing, hunting affairs	1,641,576	1,893,172	2,320,568	115.3	122.6
11. Mining, manufacturing, construction affairs	466,388	578,159	656,624	124.0	113.6
12. Transport and communication affairs and services	3,113,118	2,104,269	1,789,032	67.6	85.0
13. Other economic affairs and services	832,231	966,725	1,506,772	116.2	155.9
14. Expenditures not classified by major group	3,945,586	4,612,154	5,099,762	116.9	110.6

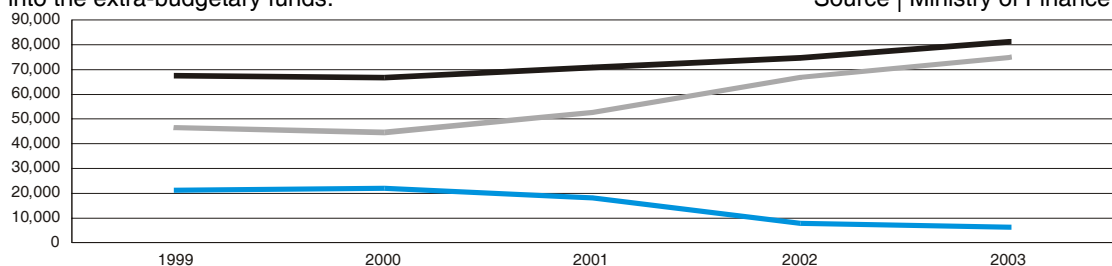
*For purpose of better comparison, expenditures of central government budget for 2002 are presented together with the expenditures of the Regional Development Fund and the Development and Employment Fund

3 | Consolidated Central Government

Consolidated central government budget is the outcome of the consolidation of financial transactions between the central budget and extra-budgetary funds, as well as between extra-budgetary funds.

The size of the public sector in the Republic of Croatia, measured by central government expenditures, on average accounted for 37.6% of the gross domestic product in the period from 1991 to 1993, whereas in the period from 1997 to 1999, on average, it accounted for 46.6%. As early as 1999, the share of expenditures of consolidated central government in the gross domestic product accounted for 49.3% of the gross domestic product. The share of expenditures of consolidated central government in GDP in 2000 dropped to 48.8% and it also dropped to 46% in 2001. Furthermore, in 2002 the share of expenditures of consolidated central government in the gross domestic product additionally declined as a direct consequence of the restrictive fiscal policy and accounted for 44.8% of GDP, whereas the share of expenditures of consolidated central government in the gross domestic product in 2003 accounted for 45.1%. Evidently, the share of expenditures of consolidated central government in the gross domestic product was reduced, and the size of the reduction can not be sufficiently concluded from the previously reported shares for 2002 and 2003; it should be taken into account that in those years the coverage of the consolidated central government was significantly larger than in the previous years. Namely, 2002 and 2003 were reported according to the so-called new coverage ("novi obuhvat"), which included the following state agencies into the extra-budgetary funds: Croatian Motorways, Croatian Roads, Bank Rehabilitation Agency, and the Croatian Privatization Fund. Also, in 2002, the Development and Employment Fund and the Regional Development Fund were included into the extra-budgetary funds.

Figure 3.1 | Consolidated Revenues of Budgetary Central Government and Extra-budgetary Funds (in mil. HRK)
Source | Ministry of Finance



Transactions of the latter two funds became fully a part of the central government budget at the beginning of 2003, and in 2003 they were no longer monitored separately. In line with the State Budget and Financial Plans of Extra-Budgetary Funds for 2002, overall revenues of consolidated central government were planned in the amount of HRK 74,816.09 million (new plan). The share of the planned consolidated central budget revenues in overall planned revenues of consolidated central government accounted for 89.5%, whereas the consolidated

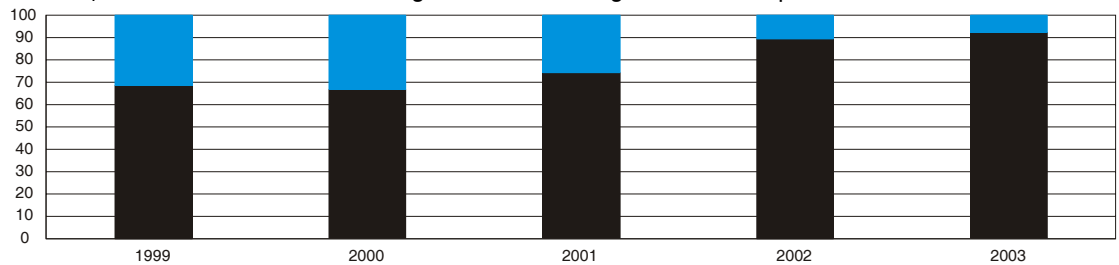
— Consolidated revenues of Budgetary Central Government
 — Consolidated revenues of Extrabudgetary Funds
 — Consolidated Central Government revenues

revenues of extra-budgetary funds accounted for the remaining 10.5%. The reason for this significant increase in the share of consolidated revenues of the central budget in overall consolidated revenues was the inclusion of the major portion of revenues and expenditures of the social insurance funds into the State Treasury system (firstly the Croatian Pension Insurance Fund as of July 1, 2001, and then the inclusion of the major portion of the revenues and expenditures of the Croatian Institute for Health Insurance and the Croatian Employment Office as of January 1, 2002).

In line with the State Budget and Financial Plans of Extra-Budgetary Funds for 2003, overall revenues of consolidated central government were planned in the amount of HRK 81,379.05 million, in which as much as 92.4% accounted for the plan of consolidated revenues of the central budget, and the rest on the plan of consolidated revenues of extra-budgetary funds.

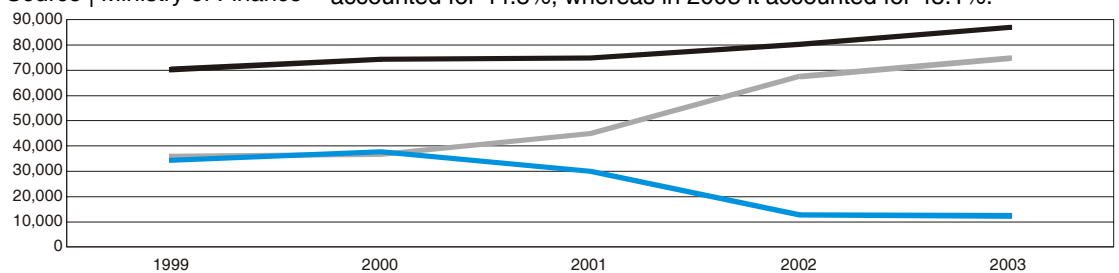
The outturn of the overall consolidated central government revenues in 2002 amounted to HRK 74,755.7 million, which was lower by only 0.08% than the planned amount. The share of overall revenues of consolidated central government in the gross domestic product accounted for 41.7%.

Figure 3.2 | Consolidated Revenues of Budgetary Central Government and Extra-budgetary Funds (in %)
Source | Ministry of Finance



- Consolidated revenues of Budgetary Central Government
- Consolidated revenues of Extrabudgetary Funds

Figure 3.3 | Consolidated Expenditures of Budgetary Central Government and Extra-budgetary Funds (in mill. HRK)
Source | Ministry of Finance



- Consolid. expenditures of Budgetary Central Government
- Consolid. expenditures of Extrabudg. Funds
- Consolidated Central Government expend.

Overall revenues of the consolidated central government in 2003 were collected at the amount of HRK 81,214.6 million, which was the outturn of as much as 99.8% of the planned amount. The share of overall revenues of the consolidated central government in the gross domestic product in 2003 accounted for 42.1%.

In 2002, overall expenditures of consolidated central government were realized in the amount of HRK 80,303.15 million, which represented 98.2% of the planned amount of consolidated expenditures of central government in 2002. In 2003, overall expenditures of consolidated central government were realized at HRK 87,001.4 million, which accounted for 99.9% of the planned outturn. The share of overall expenditures of consolidated central government in the gross domestic product in 2002 accounted for 44.8%, whereas in 2003 it accounted for 45.1%.

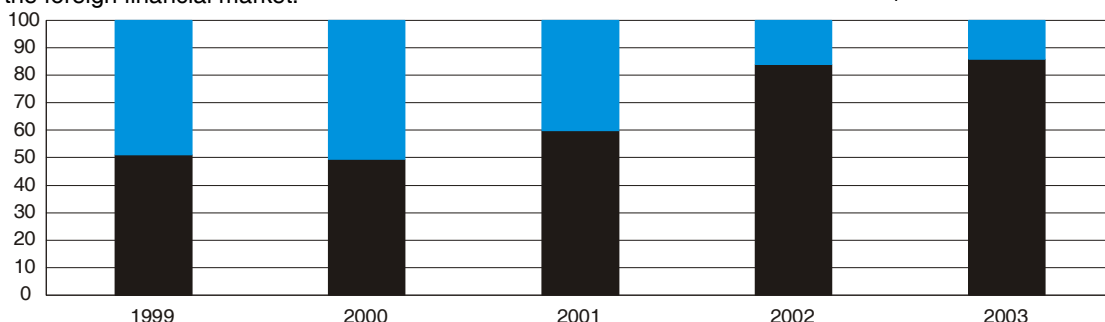
Given that both 2002 and 2003 were reported according to the revised coverage, those two years are comparable with each other in the outturn of the amounts on the revenue and expenditure side. Consequently, overall revenues of consolidated central government in 2003 with its outturn represent an increase of 8.6% in comparison with 2002. Overall expenditures of consolidated central government in the same period recorded a growth of 8.3%.

With regard to such outturn, in 2002 the shortfall of the consolidated central government amounted to HRK 5,547.4 million, or 3.1% of the gross domestic product. Out of the overall amount of the deficit of the consolidated central government in 2002, as much as 88.5% was the deficit of the extra-budgetary funds, whereas the rest of the deficit pertains to the deficit in the state budget.

The highest share portion (almost 90%) of total deficit was financed on the foreign financial market.

Figure 3.4 | Consolidated Expenditures of Budgetary Central Government and Extra-budgetary Funds (in %)

Source | Ministry of Finance



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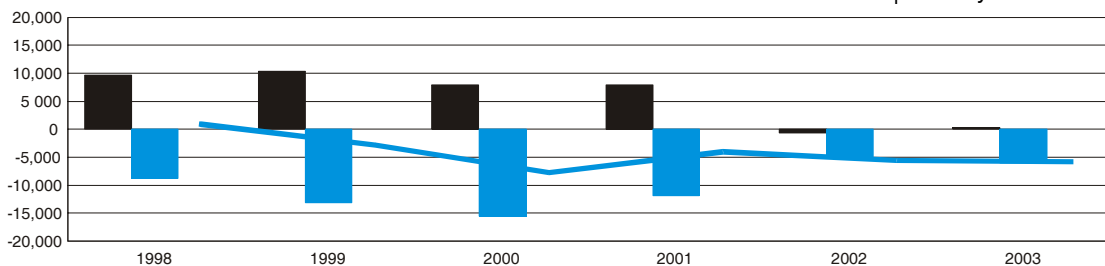
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In 2003, on the level of the consolidated central government, a shortfall of HRK 5,786.7 million was recorded, which was 2.99% of the gross domestic product. The total deficit of the consolidated central government in 2003 was fully the deficit of the extra-budgetary funds, which equaled HRK 6,051 million, whereas at the same time a surplus of consolidated revenues over expenditures of the central budget amounted to HRK 264,9 million. This shortfall was fully financed on the foreign financial market.

Value added tax, revenues from obligatory contributions for pension and health insurance, and employment contributions remained the most significant revenues of the consolidated central government. Out of those kinds of revenues, a total of HRK 48,190.9 million was collected in 2002, which was as much as 71.5% of tax or 64.5% of overall revenues of the consolidated central government. The tax burden in the Republic of Croatia was still relatively high in comparison with other transition countries and accounted for almost 37.6% of the gross domestic product.

Figure 3.5 | Trend of Deficit / Surplus of the Consolidated Central Government Budget, Extra-budgetary Funds, and Consolidated Central Government (in mill. HRK)

Source | Ministry of Finance



In 2003 the most significant revenues remained the value added tax and contributions, which together in 2003 totaled HRK 52,248 million, which was 72.5% of tax revenues or 64.3% of overall revenues of the consolidated central government. Tax burden in 2003 remained relatively high (37.3%).

In terms of economic classification of the consolidated central government expenditures, the largest share of expenditures pertained to the item current transfers, as much as 38.9% of overall consolidated central government expenditures in 2002 and 38.5% in 2003 (without total lending minus repayment). As much as 91.6% of the current transfers item, in both observed years, pertained to transfers to households. The most significant ones, after the expenditures for current transfers, were expenditures for salaries and

Source | Ministry of Finance

Table 3.1 | Overall Consolidated Deficit / Surplus of the Central Government Budget and Extra-budgetary Funds
(in 000 HRK)
Source | Ministry of Finance

employers' contributions with 22.4% in 2002 and 22.6% in 2003, and also expenditures for other purchases of goods and services with 18.5% in 2002 and 17.0% in 2003 of the share in total consolidated central government expenditures. All those three items together accounted for more than 3/4 of total consolidated central government expenditures.

	2002	2003
Central Budget	-636,342	264,953
Extrabudgetary funds	-4,911,075	-6,051,714
Pension fund	-1,428,391	-1,729,166
Health fund	-787,433	-68,173
Employment fund	-211,304	-118,659
Croatian Waters	-311,087	-555,575
Development and Employment Fund	-490,256	,
Regional Development Fund	224,294	,
Croatian motorways	-2,029,707	-3,556,678
Croatian roads	62,149	-184,872
State agency for banks	12,067	331,268
Croatian privatization fund	48,593	-169,859
TOTAL	-5,547,417	-5,786,761

Table 3.2 | Tax Revenues of Consolidated Central Government
(% of GDP)
Source | Ministry of Finance

	1999	2000	2001	2002	2003
Tax revenues	41.0	39.7	38.1	37.6	37.3
Direct taxes	19.0	17.4	17.0	15.9	15.8
Personal income tax	3.2	2.7	2.1	1.9	1.6
Contributions	13.9	13.5	13.6	12.4	12.5
Profit tax	1.7	1.1	1.2	1.5	1.6
Real estate transactions tax	0.2	0.2	0.2	0.2	0.2
Indirect taxes	22.0	22.2	21.0	21.6	21.5
Sales tax	0.3	0.1	0.1	0.3	0.3
VAT	14.0	14.3	14.0	14.5	14.6
Excises	4.2	5.0	4.6	5.5	5.4
International transactions tax	3.1	2.6	1.9	1.1	0.9
Other taxes	0.3	0.3	0.3	0.3	0.2

Table 3.3 | Overall
Consolidated Central
Government Expenditures
(% of GDP)
Source | Ministry of Finance

	1999	2000	2001	2002	2003
Total expenditures	48.7	48.0	46.2	44.0	44.4
Current expenditures	43.3	44.1	42.7	39.1	38.8
Gross wages	11.8	11.8	10.7	9.9	10.0
Other purchases of goods & services	9.9	10.9	9.6	8.1	7.4
Interest payments	1.6	1.8	2.1	2.0	2.0
Subsidies	2.4	2.5	2.1	2.0	2.3
Current transfers	17.6	17.1	18.2	17.1	17.1
Capital expenditures	5.4	3.9	3.5	4.8	5.6



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3.1 | Extra-Budgetary Funds

Due to difficulties in operations in previous periods, more and more explicit lagging behind of tax revenues, and explicit difficulties in payments and inflow of liquid funds, budget funds faced a difficult situation in which execution of their commitments was considerably more difficult, and in some cases even questionable. With a view to react to such a situation properly and in a timely manner, in 2001 and 2002 numerous changes were adopted in the organization of specific extra-budgetary funds in order to achieve their as big as possible efficiency and transparency in their operations. The largest share of revenues and expenditures of the Croatian Institute of Pension Insurance (CIPI) was included into the State Treasury system (as of July 1, 2001). As of January 1, 2002 the State Treasury system also included the major portion of revenues and expenditures of the Croatian Institute for Health Insurance and the Croatian Employment Office. Furthermore, in 2002 two new funds were established, namely: the Development and Employment Fund, and the Regional Development Fund, which took over a portion of activities of the state budget and also revenues from privatization of public enterprises. The Funds were established pursuant to the Law on the Regional Development Fund, and the Law on the Development and Employment Fund from December 2001. Those laws came into force as of January 1, 2002. The extra-budgetary funds in 2002 and 2003 were presented according to the so-called revised coverage, which means that the state agencies (Croatian Motorways, Croatian Roads, Bank Rehabilitation Agency, and Croatian Privatization Fund) were presented within the extra-budgetary funds. In 2003, however, the Regional Development Fund and the Development and Employment Fund were excluded from budget funds and the transactions of those funds were fully included in the central budget as of January 1, 2003.

The total non-consolidated revenues of all extra-budgetary funds in 2002 were realized in the amount of HRK 10,972.9 million (more by 1.57% than the planned amount for 2002), whereas in the same period expenditures totaled HRK 13,088.8 million (by 9.6% less than planned for 2002). On the basis of this outturn it can be noticed that extra-budgetary funds in 2002 had a deficit amounting to HRK 2,115.9 million (non-consolidated overview).

Individually, the biggest non-consolidated deficit was made by Croatian Motorways, while the Development and Employment Fund had the biggest non-consolidated surplus.

Table 3.4 | Non-consolidated Overview of Extra-budgetary Funds
(in 000 HRK)
Source | Ministry of Finance

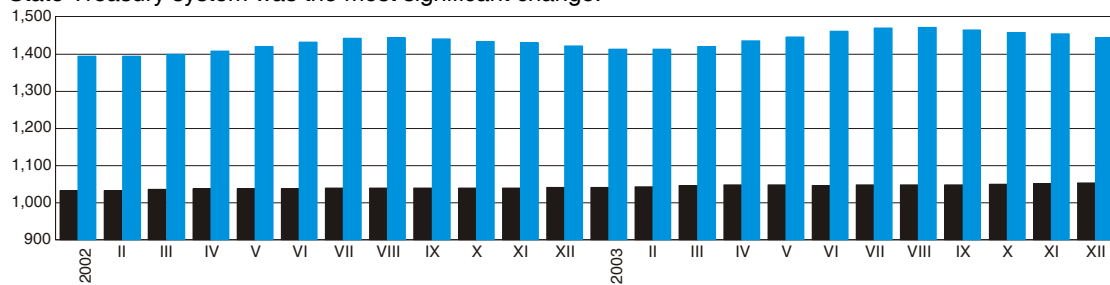
In 2003 total revenues of all extra-budgetary funds were collected in the amount of HRK 8,740.9 million (6.9% more than the planned ones for 2003), whereas in the same period expenditures were realized at HRK 12,413.7 million (by 0.5% more than planned for 2003). On the basis of those outturns it is visible that the extra-budgetary funds in 2003 had a deficit, amounting to HRK 3 672,8 million (non-consolidated overview). Individually the biggest non-consolidated deficit was the one of Croatian Motorways, amounting to HRK 3,578.8 million, whereas the Bank Rehabilitation Agency had the biggest non-consolidated surplus.

	Plan 2002	2002	2002 / Plan 2002	Plan 2003	2003	2003 / Plan 2003
Revenues	10,803,185	10,972,934	101.57	8,177,351	8,740,941	106.89
Pension fund	1,642,390	1,578,081	96.08	1,462,154	1,850,680	126.57
Health fund	664,060	732,016	110.23	1,152,616	1,113,938	96.64
Employment fund	130,000	134,864	103.74	92,000	89,867	97.68
Croatian Waters	1,128,289	1,485,458	131.66	1,361,682	1,544,755	113.44
Development and Employment Fund	2,823,533	2,718,192	96.27	,	,	,
Regional Development Fund	534,000	502,354	94.07	,	,	,
Croatian motorways	1,875,071	1,695,972	90.45	1,714,249	1,927,787	112.46
Croatian roads	1,152,460	1,216,117	105.52	1,356,000	1,386,945	102.28
State agency for banks	600,000	617,914	102.99	885,500	584,489	66.01
Croatian Privatization Fund	253,382	291,966	115.23	153,150	242,480	158.33
Expenditures	14,477,976	13,088,863	90.41	12,350,814	12,413,762	100.51
Pension fund	1,642,390	1,589,921	96.81	2,222,154	1,871,851	84.24
Health fund	1,484,060	1,285,410	86.61	1,152,616	919,341	79.76
Employment fund	130,000	248,870	191.44	149,450	149,448	100.00
Croatian Waters	1,159,689	1,421,405	122.57	1,397,082	1,718,110	122.98
Development and Employment Fund	2,732,533	2,288,055	83.73	,	,	,
Regional Development Fund	534,000	501,610	93.93	,	,	,
Croatian motorways	5,005,649	3,740,528	74.73	5,334,586	5,506,580	103.22
Croatian roads	1,327,000	1,159,402	87.37	1,508,000	1,578,121	104.65
State agency for banks	401,327	606,424	151.10	526,606	253,824	48.20
Croatian Privatization Fund	61,328	247,237	403.14	60,320	416,487	690.46
Overall deficit / surplus	-3,674,791	-2,115,929	57.58	-4,173,463	-3,672,821	88.00
Pension fund	0	-11,840	,	-760,000	-21,171	2.79
Health fund	-820,000	-553,394	67.49	0	194,597	,
Employment fund	0	-114,006	,	-57,450	-59,581	103.71
Croatian Waters	-31,400	64,053	-203.99	-35,400	-173,355	489.70
Development and Employment Fund	91,000	430,137	472.68	0	0	,
Regional Development Fund	0	744	,	0	0	,
Croatian motorways	-3,130,578	-2,044,557	65.31	-3,620,337	-3,578,793	98.85
Croatian roads	-174,540	56,715	-32.49	-152,000	-191,176	125.77
State agency for banks	198,673	11,490	5.78	358,894	330,665	92.13
Croatian Privatization Fund	192,054	44,728	23.29	92,830	-174,007	-187.45

3.1.1 | Croatian Institute of Pension Insurance

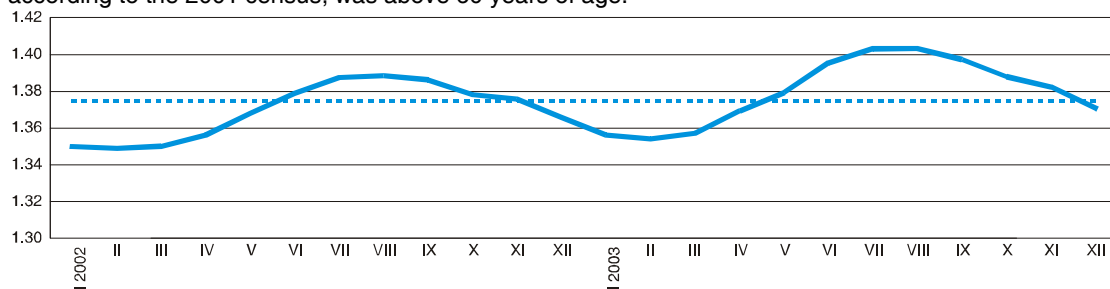
Operations of the Croatian Institute of Pension Insurance in 2002 and 2003 were conducted in line with the financial plans of the Institute for 2002 and 2003 and in line with the changes which were a consequence of the inclusion of the major portion of revenues and expenditures of the Institute into the State Treasury system in the middle of 2001. After the introduction of the three-part (public-private) system based on «generation solidarity» (pay-as-you-go) and on individual capitalized savings as part of the reforms conducted in 1998 and 1999, inclusion of the major portion of revenues and expenditures of the Institute into the State Treasury system was the most significant change.

Figure 3.6 | The Dependency Ratio Trend in 2002 and 2003, in 000
Source | CIPI



On December 31, 2002 the Institute had registered 1,421,981 insured persons, 1,041,113 pension beneficiaries, and 271,949 beneficiaries of child allowance for 513,369 children. On December 31, 2003, however, there were 1,443,995 registered insured persons, 1,053,278 pension beneficiaries, and 258,046 beneficiaries of child allowance for 486,750 children. The dependency ratio (the ratio between the number of active insured persons and pension beneficiaries) still remained very unfavorable and was on the level of 1.37 active insured persons per one pension beneficiary in the observed period in 2002 and 2003. The reason for such an unfavorable dependency ratio were primarily the problems of unemployment from previous periods and an increasingly unfavorable demographic structure of the population of the Republic of Croatia. Namely, more than one-fifth of the population of the Republic of Croatia, according to the 2001 census, was above 60 years of age.

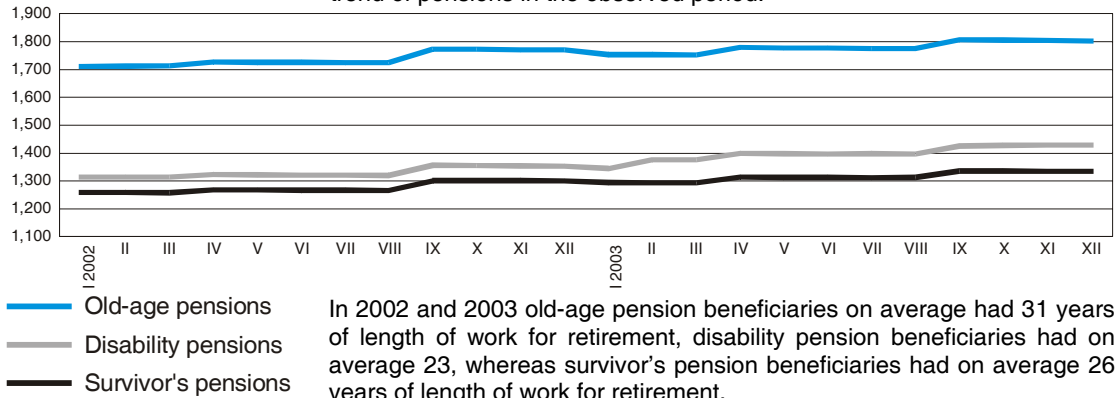
Figure 3.7: Dependency Ratio in 2002 and 2003
Source | CIPI



The average pension in December 2002 totaled HRK 1,544.95 (without HRK 100 and 6%), or HRK 1,674.01 with HRK 100 and 6%. In 2003 the share of the average pension in the net wage of all employed persons in the Republic of Croatia in December 2002 was 40.3% (without HRK 100 and 6%), or 43.6% (with 100 and 6%).

In December 2003 the average pension amounted to HRK 1,596.65 (without HRK 100 and 6%), or HRK 1,719.82 (with HRK 100 and 6%). In December 2003 the share of the average pension in net wage of all employed persons in the Republic of Croatia accounted for 39.5% (without HRK 100 and 6%), or 42.5% (with HRK 100 and 6%). The data presented above indicates a slower growth of pensions in comparison with the growth of net wages.

Figure 3.8 | Pension Trends in 2002 and 2003, in HRK (in mill HRK)
Source | CIPI



In the structure of pensions, according to the data of December 31, 2002, the old-age pensions accounted for the greatest share (54.6%), which were followed by disability pensions (23.5%) and survivor's pensions (21.9%). A similar ratio was kept in 2003. The figure below shows the trend of pensions in the observed period.

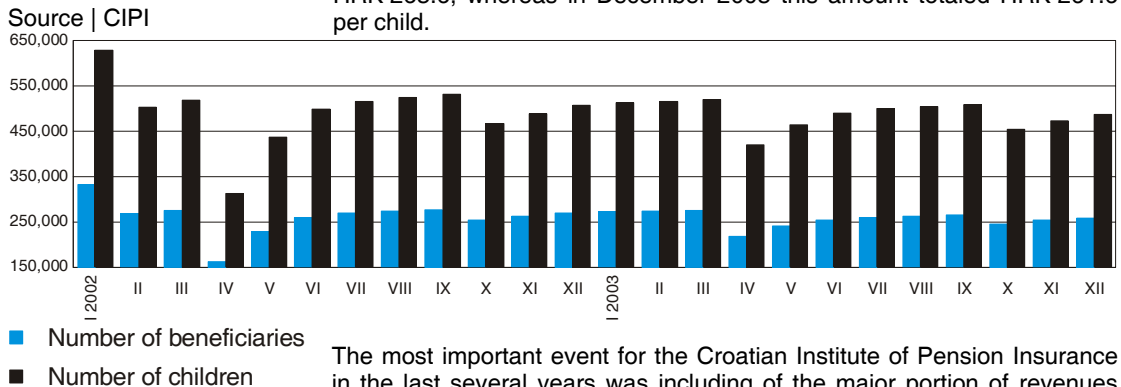
Figure 3.9: The Trend of Child Allowance Beneficiaries in 2002 and 2003
Source | CIPI

In 2002 and 2003 old-age pension beneficiaries on average had 31 years of length of work for retirement, disability pension beneficiaries had on average 23, whereas survivor's pension beneficiaries had on average 26 years of length of work for retirement. The average duration of the utilization of pensions in the observed years totaled 15 years for the old-age pension category, 14 years on average for survivor's pensions, and 17 years on average for disability pensions. In the period from 2000 to 2003 the share of disability pensions in overall pensions was significantly reduced as a result of the changed definition of disability.

Out of the total number of pensioners, as much as 52.6% were old-age pension beneficiaries, whereas the remainder was equally distributed between survivor's and disability pension beneficiaries.

The average age of the old-age pension beneficiaries in the observed years was 65 years (women), and 68 (men), with disability pension beneficiaries 59 (women), and 60 (men), and with survivor's pension beneficiaries 47 (women), and 50 (men).

The Croatian Institute of Pension Insurance, pursuant to the Law on Child Allowance, performed activities related to the child allowance, whereas the supervision over the legality of the work was performed by the State Institute for the Protection of the Family, Motherhood, and Youth. In December 2002, the average amount of the child allowance was HRK 263.6, whereas in December 2003 this amount totaled HRK 261.6 per child.



The most important event for the Croatian Institute of Pension Insurance in the last several years was including of the major portion of revenues and expenditures of the Institute into the State Treasury system as of July 1, 2001. With this inclusion the Institute stopped collecting pension insurance contributions and terminated payment of the major portion of pensions through its account. Further to those changes, financial plans for 2002 and 2003, as well as the one for 2001, should be monitored in two parts, i.e., the portion of revenues collected by the Institute and the

portion of revenues from contributions collected by the State Treasury and expenditures for pensions and pension benefits which are partially paid from the account of the Institute, and mostly from the account of the State Treasury. Overall revenues and expenditures of the Croatian Institute of Pension Insurance in 2002 were originally planned in the same amount, i.e., HRK 1,706.8 million. With the subsequent revision during the year they were changed and set at HRK 1,642.4 million. The reason for the revision was the dynamics of the utilization of the planned funds by individual beneficiaries who used those funds for the payment of salaries and compensations at a dynamics greater than the envisaged one. In line with that, reallocation of funds was carried out on the basis of a detailed analysis. The reallocation reflected on the plan of the Croatian Institute of Pension Insurance.

(%)	2002	2003
Tax revenues	0,66	0,04
Nontax revenues	6,30	5,55
Central Budget grants	91,83	94,12
Capital revenues	1,21	0,28

In 2003, overall revenues of CIPI were originally planned at HRK 2,222.1 million, which was changed to HRK 1,462.1 million by the revision from September 2003. The reason for such an important change of the plan of the revenues of CIPI is that the original plan envisaged HRK 760 million in revenues from the sale of shares. By the revision this amount, instead as a revenue, was reported under financing.¹

Overall revenues of the Institute in 2002 were collected at HRK 1,578.08 million, which was an execution of 93% of the planned amount. Subsidies from the central budget, amounting to HRK 1,448.3 million, accounted for the most significant part of revenues of the Croatian Institute of Pension Insurance. In 2003 overall revenues of the Croatian Institute of Pension Insurance were recorded at HRK 1,850.7 million, which was execution higher by 26.7% than planned. Like in 2002, the biggest portion of the revenues, as much as 94%, pertains to the subsidies from the central budget.

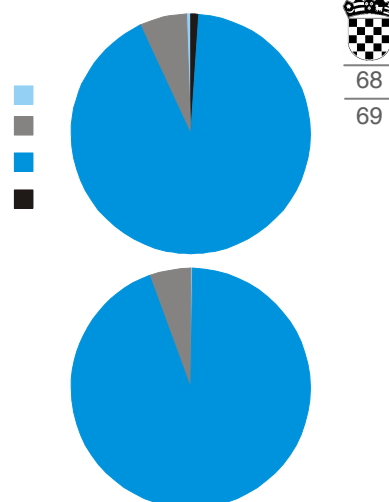
(%)	2002	2003
Expenditure for goods and services	22,80	19,86
Interest payments	0,04	0,00
Subsidies and other current transfers	76,23	78,69
Capital expenditure	0,93	1,45

Overall expenditures of CIPI in 2002 were realized at HRK 1,589.9 million, which accounted for an outturn of 96.7% of the planned amount. Three items accounted for more than 99% of the expenditures of the Croatian Institute of Pension Insurance, namely: expenditures for goods and services, transfers to households, and transfers abroad. In 2003 the outturn of overall expenditures was HRK 1,871.8 million, which represented an execution of 84.2% of the planned amount of expenditures. In the years observed, three items accounted for more than 99% expenditures of the Croatian Institute of Pension Insurance, namely: expenditures for goods and services (23%), transfers to households (44%), and non-domestic transfers (32%).

On the basis of such outturn of revenues and expenditures of the Croatian Institute of Pension Insurance, it is evident that there was a

Figure 3.10 | and 3.11 | The Structure of CIPI Revenues, 2002 and 2003

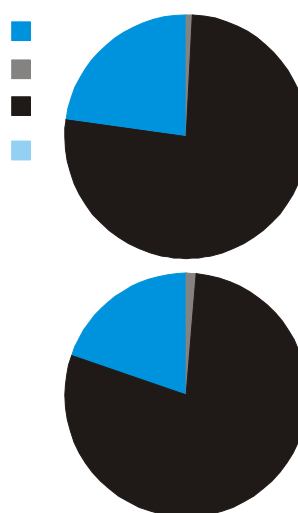
Source | Ministry of Finance



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Figure 3.12 | and 3.13 | The Structure of CIPI Expenditures, 2002 and 2003

Source | Ministry of Finance



¹The Official Gazette, No. 147/03

deficit in both years observed. More precisely, in 2002, CIPI had a deficit amounting to HRK 11.8 million. The total amount of the deficit in 2002 was financed on the domestic financial market. The deficit of CIPI generated in 2003, amounting to HRK 21.2 million, was also fully financed on the domestic financial market.

A review of the revenues of the Pension Institute in 2002 and 2003 indicates that the tax revenues were lagging behind in comparison with the previous years. Namely, the reason for this is the decision from 2001, according to which pension insurance contributions were mostly collected by the State Treasury, whereas a smaller portion of contributions was still collected by the Pension Institute.

On the other hand, a review of the overall revenues and receipts on the basis of pension insurance should also take into account the State Treasury and the Pension Institute itself. Monitored in this way, it can be seen that the revenues from contributions on the State Treasury account were recorded on the level of HRK 12,519.7 million, whereas on the account of the Pension Institute there was an amount of HRK 10.4 million (together HRK 12,530.15 million). In 2003, revenues from contributions on the State Treasury account were collected at HRK 13,849.1 million, and on the Pension Institute account amounted to HRK 0.77 million, which was together an amount of HRK 13,849.9 million.

Table 3.5 | Monthly Revenues from Pension Insurance Contributions in 2002 and 2003

(in 000 HRK)

Source | Ministry of Finance, CIPI

Month	2002			2003		
	CIPI	State Treasury	Total	CIPI	State Treasury	Total
January	2,120	1,099,501	1,101,621	48	1,033,537	1,033,585
February	2,610	988,854	991,464	149	1,087,100	1,087,249
March	681	956,837	957,517	116	1,074,632	1,074,748
April	632	1,029,140	1,029,772	116	1,118,233	1,118,349
May	737	1,020,819	1,021,555	287	1,143,920	1,144,207
June	386	1,025,087	1,025,473	32	1,158,621	1,158,653
July	92	1,071,018	1,071,110	127	1,224,489	1,224,616
August	749	1,035,914	1,036,663	1,116	1,173,438	1,174,554
September	219	1,048,312	1,048,531	52	1,172,752	1,172,804
October	607	1,042,285	1,042,892	31	1,169,301	1,169,332
November	318	1,040,890	1,041,208	-659	1,174,935	1,174,276
December	1,257	1,161,092	1,162,349	-643	1,318,178	1,317,535
TOTAL	10,408	12,519,748	12,530,156	772	13,849,136	13,849,908

Monitored only from the side of the Institute, in 2002 revenues from contributions were collected at HRK 10.4 million, transfer from the budget was recorded at HRK 1,448.3 million, HRK 102.7 million was recorded in other revenues, and HRK 16.7 million in receipts from the sale of shares, equity and others. Adding up the amounts mentioned above, the amount totaled HRK 1,578.08 million, which represented total revenues recorded in 2002 by the Croatian Institute of Pension Insurance.

In 2003 a transfer from the budget HRK 1,741.8 million was recorded, as well as HRK 102.8 million of other revenues, HRK 772 thousand of revenues from contributions, and also HRK 5.2 million from the sale of shares, equity, and others. The total of those amounts was HRK 1,850.7 million, which represented the overall revenues recorded in 2003 by the Croatian Institute of Pension Insurance.

Also, like in the case of revenues, expenditures should be monitored through the system of the Institute and the State Treasury together. In 2002 the recorded expenditures for pensions and pension receipts

amounted to HRK 21,877.9 million on the State Treasury account and HRK 1,212.06 million on the Institute account (HRK 23,089.9 million), whereas in 2003 on the State Treasury account the expenditures for pensions and pension receipts were recorded at HRK 22,893.4 million or HRK 1,472.9 million on the Institute account (HRK 24,366.3 reported together).

Table 3.6 | Monthly Expenditures for Pensions and Pension Receipts in 2002 and 2003

(in 000 HRK)

Source | Ministry of Finance, CIPI

Month	2002			2003		
	CIPI	State Treasury	TOTAL	CIPI	State Treasury	Total
January	97,870	1,767,001	1,864,870	107,360	1,766,661	1,874,021
February	90,044	1,767,644	1,857,688	113,314	1,927,072	2,040,386
March	94,958	1,801,884	1,896,842	112,604	1,662,445	1,775,049
April	99,513	1,841,376	1,940,890	119,041	1,972,187	2,091,228
May	93,234	1,816,930	1,910,165	116,080	1,829,220	1,945,300
June	113,723	1,792,632	1,906,356	122,405	1,651,254	1,773,659
July	97,539	1,811,614	1,909,153	120,796	2,149,344	2,270,140
August	101,117	1,792,758	1,893,875	124,656	2,003,876	2,128,532
September	103,334	1,871,788	1,975,122	130,315	1,970,600	2,100,915
October	107,032	1,858,601	1,965,633	136,845	2,022,165	2,159,010
November	106,993	1,898,673	2,005,666	140,897	2,029,597	2,170,494
December	106,710	1,857,014	1,963,724	128,632	1,908,980	2,037,612
TOTAL	1,212,069	21,877,914	23,089,983	1,472,945	22,893,400	24,366,345



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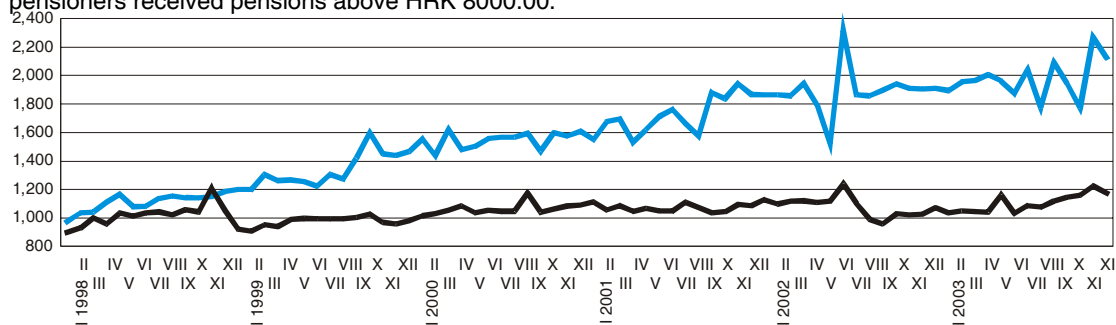
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In December 2002, 6.76% of pensioners received the pension (with HRK 100 and 6%) of up to HRK 500.00; 12.46% of pensioners received pensions of HRK 500.01-1000.00; 29.34% of pensioners received pensions of HRK 1000.01-1500.00; 22.41% received pensions of HRK 1500.01-2000.00; 27.36% received HRK 2000.01-4000.00; 1.64% of pensioners received pensions of HRK 4000.01-8000.00, and 0.01% of pensioners received pensions above HRK 8000.00.

Figure 3.14: Outlays for Pensions and Revenues from Contributions, 1998-2003

(in mill. HRK)

Source | CIPI



Note: A portion of pensions that should have been paid out in November 2001 was paid out in December 2001

In December 2003, 8.3% of pensioners received the pension (with HRK 100 and 6%) of up to HRK 500.00; 11.06% of pensioners received pensions of HRK 500.01-1000.00, 32.9% pensioners received pensions of HRK 1000.01-1500.00, 21.8% received pensions of HRK 1500.01-2000.00, 24% received pensions of HRK 2000.01-4000.00; 1.86% received HRK 4000.01-8000.00 and 0.02% of pensioners received pensions above HRK 8000.00.

The number of beneficiaries who acquired pensions under more favorable terms (merit pensions), at first declined in 2002 (by 0.5%), whereas in 2003, due to the increase in the number of beneficiaries of Croatian defenders and Croatian Army, it grew by 2.8%.

Table 3.7: The Number of Beneficiaries of Pensions Acquired under More Favorable Terms, End of Period

Source | CIPI

	1998	1999	2000	2001	2002	2003
II World War pension beneficiaries	76,636	73,466	72,382	70,712	68,732	68,206
Police	12,791	12,816	13,679	14,257	14,466	16,567
Former SFRJ Government	144	126	125	100	96	524
Science and art Academy	87	79	81	82	85	152
Croatia homeland army	35,614	34,090	33,932	32,672	31,244	30,102
Ex JNA members	16,667	16,217	15,784	15,467	15,034	14,467
Former political prisoners	3,972	5,668	5,976	5,893	5,817	5,765
Parliamentarians	119	112	119	121	124	296
Croatian army	2,237	2,364	2,769	3,783	6,474	7,919
Croatian defenders	22,612	26,110	28,551	29,300	29,417	32,249
TOTAL	170,879	171,048	173,398	172,387	171,489	176,247

Note: Beneficiaries from former SFRY are excluded

3.1.2 | Croatian Institute of Health Insurance

Zavod za zdravstveno osiguranje je, suočen s naslijeđenim problemima, u 2000. i 2001. godini poduzeo niz mjera kako bi poboljšao svoju poziciju. U tom je periodu Zavod izvršio konsolidaciju sustava te je u navedenom razdoblju poslovao s pozitivnim rezultatom. Poslovanje je u tom periodu ostvareno bez financijskih gubitaka i s potpisanim ugovorima sa svim zdravstvenim ustanovama omogućavajući sustavu zdravstva da u 2001. godini izvršava obveze bez poremećaja u opskrbi.

U cilju daljnje racionalizacije poslovanja, različite su mjere poduzete te počele vrijediti s početkom 2002. godine ili su tijekom godine provedene.

The most significant undertaken measure which marked business year 2002 was the inclusion of the major portion of revenues and expenditures of the Croatian Institute of Health Insurance into the State Treasury system² Contributions for basic health insurance are paid into the Single State Treasury account and are a revenue of the State budget. According to the new organization of health insurance, the resources (for work effected for health services) are remitted to hospitals from the budget, whereas for other health care the resources are remitted from the budget, but through the account of the Institute.

Another important measure undertaken under the health insurance system was the introduction of the supplemental health insurance, in the form of voluntary insurance. Supplemental insurance was introduced as of June 1, 2002. Before the end of the year 725,532 contracts of supplemental insurance were made. The resources of the supplemental insurance of the Institute were kept in the special account. Also, the new lowest base for calculating and payment of contributions for basic insurance was set at HRK 1,800. In addition to those measures, a number of measures were undertaken which helped in the consolidation of the health system.

²See State Budget of the Republic of Croatia for 2002 and the Law on the Execution of the State Budget (the Official Gazette Nos. 116/01 and 139/02)

Relatively unfavorable circumstances continued in 2003. Throughout 2003 the problems of the lack of resources made impossible the execution of commitments of the Institute within agreed deadlines, both toward health institutions and toward insured persons.

In the course of the year, general rules and conditions of contracting primary, secondary, and tertiary level of health care were passed and published³ additional funds were approved for special hospitals for medical rehabilitation, and a decision was made to the effect that the surplus of revenues of 2002 from supplemental health insurance would be used to pay the costs of health care in basic health insurance.

Overall revenues of Croatian Institute of Health Insurance were planned at HRK 664 million according to the new plan for 2002. The outturn was HRK 732.02 million, which was an outturn higher by approximately 10% than the planned one.

(%)	2002	2003
Tax revenues	0.00	0.62
Nontax revenues	63.86	73.19
Capital revenues	0.85	0.36
Central Budget grants	35.29	25.84
Total	100.00	100.00

According to the new plan for 2003, overall revenues of Croatian Institute of Health Insurance were planned in the amount of HRK 1,152.6 million, whereas the outturn was HRK 1,113.9 million, which was a shortfall in comparison with the planned amount of 3.4%.

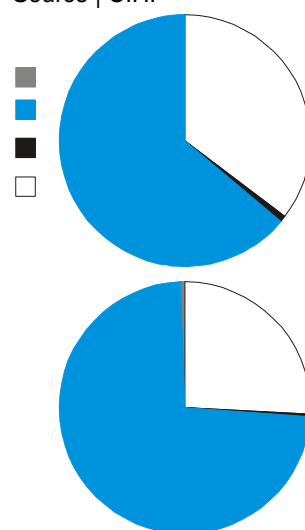
It would be unfounded to compare overall revenues from 2002 and 2003 with those in 2001 given that the health insurance system was organized on an entirely different concept, thanks to the inclusion of the major part of revenues and expenditures of the Health Institute into the State Treasury system. The revenues of the Institute in 2002 and 2003 indicate that those revenues mostly related to non-tax revenues and subsidies from the State budget. Since the contributions for the basic health insurance with the new organization were paid into the State Treasury account, tax revenues indicated the zero value in 2002 and only HRK 6.9 million in 2003, which represented the collection of old claims. For a full picture of the health insurance system in the Republic of Croatia it is necessary to monitor, at the same time, both the Institute and the State Treasury account.

In the course of the year the revenues from contributions for basic health insurance on the State Treasury account amounted to HRK 11,533,280,224. Since June 2002, as a form of the voluntary health insurance, supplemental health insurance was introduced. HRK 291,149,862 was collected from supplemental health insurance in 2002 and HRK 515,148,558 in 2003.

By the end of 2002 the state budget provided additional funds, and a total of revenues recorded on the Treasury account was HRK 12,629,469,881. The Institute in 2002 collected in its account revenues amounting to HRK 732,015,423, which were mostly collected from other non-tax revenues and subsidies. In the course of 2002 a commitment was also registered amounting to HRK 820 million, which pertained to the rehabilitation of the health system (except for pharmacies) carried out at the end of October pursuant to a decision of the Government of the Republic of Croatia. The added amount of receipts from borrowing, budget revenues, and revenues in the account of the Institute amounted to HRK 14,181,485,300. Subtracting the revenues from

Figure 3.15 | and 3.16 | The Structure of CIHI Revenues, 2002 and 2003

Source | CIHI



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³The Official Gazette, No. 54/03

Table 3.8 | Monthly Health Insurance Contribution Revenues in 2002 and 2003
Source | Ministry of Finance

	2001	2002	2003	Index
January	853,290,487	871,983,592	994,519,141	114.05
February	816,667,147	903,103,279	961,991,419	106.52
March	806,605,218	884,259,513	954,289,485	107.92
April	852,497,179	940,972,283	998,409,942	106.10
May	853,539,263	945,784,246	1,012,065,007	107.01
June	869,974,155	955,435,213	1,019,018,011	106.65
July	867,243,566	998,565,057	1,083,289,342	108.48
August	847,308,719	979,232,440	1,030,406,437	105.23
September	869,611,678	982,229,511	1,035,172,849	105.39
October	890,002,097	982,722,465	1,034,221,322	105.24
November	884,169,737	988,418,135	1,040,950,866	105.31
December	1,021,267,731	1,100,574,490	1,158,500,529	105.26
Total	10,432,176,977	11,533,280,224	12,322,834,349	106.85

contributions for supplemental health insurance from this amount gives the amount of HRK 13,890,335,442, which represented total revenues and receipts arising from basic health insurance. Overall expenditures and outlays executed for health insurance in 2002 amounted to HRK 13,856,725,736, out of which expenditures and outlays arising from basic health insurance were HRK 13,710,081,336, and the ones arising from supplemental health insurance amounted to HRK 146,644,400. In 2003, State budget secured additional funds in the Treasury account, and the Institute collected in its account revenues amounting to HRK 1,113,938,000. Also, in the course of the year, receipts from financial assets and borrowing were recorded at HRK 411,185,816. The outturn of overall revenues and receipts arising from basic health insurance was HRK 14,590,281,712, out of which basic health insurance accounted for 96.47%, and supplemental health insurance for 3.53%. Overall expenditures and outlays arising from health insurance in 2003 amounted to HRK 14,717,989,723, out of which expenditures and outlays arising from basic health insurance were executed in the amount of HRK 14,220,019,860, and those arising from supplemental health insurance in the amount of HRK 497,969,863.

On the level of the Institute, in 2002, overall expenditures were planned in the amount of HRK 1,484.06 million, and realized at HRK 1,285.4 million, which was the execution lower by 13.4% than the planned one. In this amount, other purchases of goods and services and employee salaries and wages accounted for the biggest share of those expenditures.

In 2003, on the level of the Institute, overall expenditures were planned in the amount of HRK 1,152.6 million, whereas the actual expenditures were HRK 919.3 million. This was an execution of only 79.8% of the planned amount.

It can be seen from the amount of revenues and expenditures for 2002 and 2003 that the Croatian Institute of Health Insurance incurred an overall deficit of HRK 553.4 million in 2002, and in 2003 it generated an overall surplus of HRK 194.6 million.

Like with revenues, the comprehensive picture of the expenditures of the health insurance system in the Republic of Croatia is seen by observing the account of the Institute and the State Treasury account.

Observing both the account of the Institute and the State Treasury account shows that the overall expenditures amounted to HRK 13,856.7 million kuna in 2002 and HRK 14,220 million in 2003 (as already stated), out of which basic health insurance accounted for as much as 99% of expenditures. Within basic health insurance, health care accounted for as much as approximately 80%.

Compensations were the second largest group of expenditures and represented almost 15% of expenditures for basic health insurance.

(%)	2002	2003
Gross wages	13.42	19.66
Other purchases of goods and services	84.84	76.83
Interest payments	0.00	0.00
Transfer to households	0.00	0.11
Capital expenditures	1.74	3.40
Total	100.00	100.00

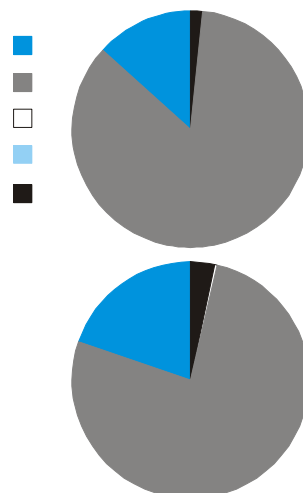
In the course of 2002 there were on average 4,239,110 persons insured in the Croatian Institute of Health Insurance. The biggest share of this number were workers, persons engaged in economic activities or those engaged in self-employed professional activities (31.34%), who were followed by pensioners (23.54%), the unemployed (8.62%), farmers (2.22%), insured persons who are insured under specific circumstances (2.96%), and family members of insured persons (31.11%).

The number of insured persons who exercised the right to health care in the Republic of Croatia in 2002 remained on the approximately same level as in 2001.

In the course of 2003, the structure of insured persons remained more or less the same, with an average of 4,296,955 persons in the Croatian Institute of Health Insurance.

Figure 3.17 | and 3.18 | *The Structure of CIHI Expenditures in 2002 and 2003*

Source | CIPI

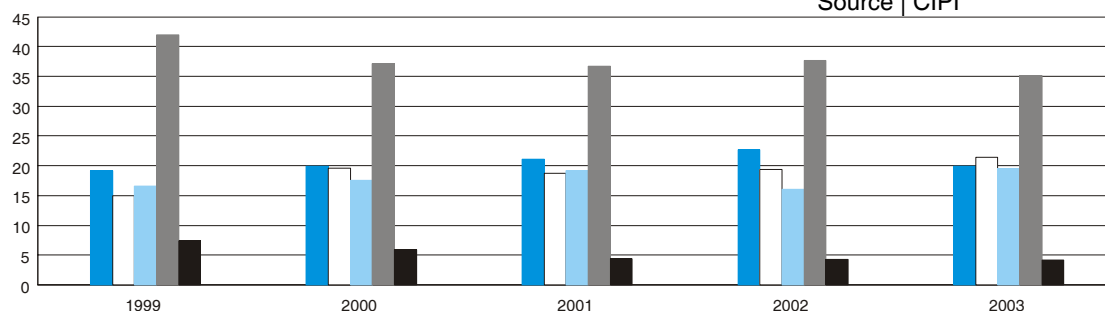


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Figure 3.19 | *The Structure of Core Health Expenditures (% of total expenditure)*

Source | CIPI



3.1.3 | Croatian Employment Office

Like in the case of the Croatian Institute of Health Insurance and the Croatian Institute of Pension Insurance before it, the largest share of revenues and expenditures of the Croatian Employment Office was included in the State Treasury system as of January 1, 2002.

The main source of revenues of the Croatian Employment Office was the contribution rate of 0.75% of the gross salaries which employers pay for their employees. Since January 1, 2002 those contributions have been paid through Regos on the item of the Office in the state budget. Also, the major portion of expenditures was recorded through the State Treasury account, mostly transfers to households.

The annual average of registered unemployment in 2002 was 389,741 persons. In comparison, in 2001 the annual average of registered unemployment was 380,195 persons, i.e., in 2002 the average number of unemployed persons grew by 9.5 thousand persons or 2.5%. A comparison of this growth with the previous year shows a significant slowdown of growth of unemployment. Namely, the annual average of unemployed persons in 2001 grew by 6%. The average registered unemployment rate in the course of 2002 was 22.8%, and in December 2002 it was 21.3%.

- Primary health care
- Drugs by prescription
- Polyclinic -consultative health care
- Hospital care
- Other

In 2003, the average registered unemployment totaled 329,799 persons. A comparison of the number of registered unemployment in the previous year shows a 15.4-percent decrease in the number of unemployed persons. It should be noted that this number was constantly on the increase since 1996, and that 2003 was the first year in that period in which the number of registered unemployed persons dropped. However, the reason for this was not fully the recovery of the labor market, but mainly the more strict criteria according to which persons were registered as unemployed.

In the course of 2002, the Croatian Employment Office mediated in employment of a total of 165,566 registered persons, which was by 12.5% more than in 2001. In 2003, the Office mediated in employment of a total of 145,211 persons, which was by 12.3% less than in 2002. Employment of various categories of job seekers can be seen from the employment rate, which uses the ratio of those employed in the course of the year on one hand and the number of the unemployed in the beginning increased by the newly registered persons on the other hand. The employment rate, consequently, shows a part of the total number of job seekers who became employed in the course of the year. According to the data for 2002 and 2003, the highest employment rate, as in the previous couple of years, was the one for job seekers with college education.

Table 3.9 | Overview of
Temporary Disability – Sick
Leave Incidence
Source | CEO

	1999	2000	2001	2002	2003	2002/ 2001	2003/ 2002
Sick leave rate*							
- total	3,63	3,71	4,05	3,99	3,66	98,52	91,73
- employer	1,26	1,13	1,75	1,67	1,65	95,43	98,80
- Health fund	2,37	2,58	2,30	2,32	2,01	100,87	86,64
Average in days							
- total	25,96	29,99	21,50	21,29	19,08	99,02	89,62
- employer	11,64	12,23	10,96	10,93	10,17	99,73	93,05
- Health fund	37,11	41,57	41,01	42,84	46,32	104,46	108,12
Number of employees on sick leave (daily average)							
- total	47 261	48 106	52 936	53 047	51	100,21	0,10
- employer	16 446	14 685	22 856	22 262	22 942	97,40	103,05
- Health fund	30 815	33 420	30 079	30 786	27 952	102,35	90,79

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

At the end of December 2002 the Croatian Employment Office had 366.2 thousand registered unemployed persons, which was a 1-percent decrease in comparison with the previous month and by as much as 7.3% less of the unemployed in comparison with the same month in 2001. Also, in the same period there were 206,1 thousand registered unemployed women, which was by 4.0% less in comparison with December 2001. The biggest share in registered unemployment in 2002 was the one of persons of 20-24 years of age. The unemployment structure shows that, in terms of educational background, there were most of skilled workers and highly skilled workers, whereas the lowest share in total unemployment was recorded with persons with two-year post secondary school qualifications and college education. At the end of December 2003 the Croatian Employment Office had 318,684 registered persons, which was a 13-percent decrease in comparison with December of the previous year and a 0.6-percent increase in comparison with the previous month in 2003.

The number of registered jobs in 2002 dropped significantly in comparison with 2001 (on average about 46% for all categories of job seekers). The reason for

such a trend were the new legal provisions⁴ pursuant to which employers were no longer obliged to register vacancies.

In 2003, the number of recorded vacancies continued to decline (on average approximately 25% for all categories of job seekers).

Table 3.10 | Average Number of Insured Persons in Croatian Employment Office

Source | CEO

	Average I - XII 2001.	Average I - XII 2002.	Structure	Average I - XII 2003.	Structure	2003 / 2002
Active workers	1,305,577	1,328,356	31.34	1,389,096	32.33	104.57
Active farmers	100,010	94,150	2.22	85,632	1.99	90.95
Pensioners	988,719	997,971	23.54	1,000,408	23.28	100.24
Unemployed persons	341,817	365,396	8.62	375,258	8.73	102.70
Others	127,554	125,334	2.96	139,989	3.26	111.69
Family members	1,341,877	1,318,679	31.11	1,299,407	30.24	98.54
Persons in exile	11,890	9,224	0.22	7,165	0.17	77.68
Total	4,217,444	4,239,110	100.00	4,296,955	100.00	101.36



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In December 2002, 75.4 thousand beneficiaries were receiving the sick leave compensation provided by the Croatian Employment Office, which was 20.6% of the total number of unemployed persons (18.5% in 2001).

Table 3.11 | Employment Rates According to Educational Background in 2002

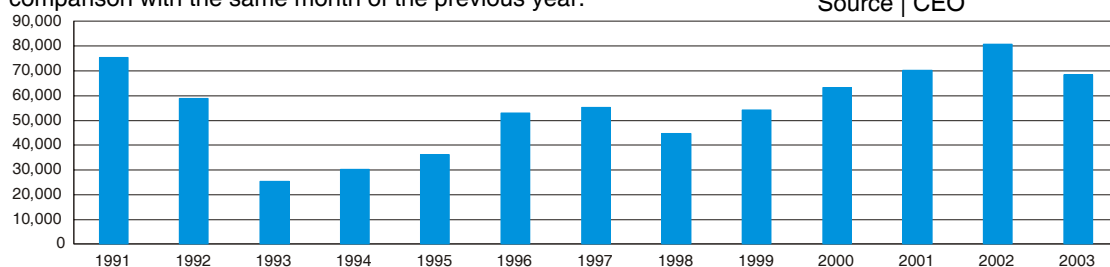
Source | CEO

Education level	Unemployed		Newly registered		Employed		Employment rate	
	2002	2003	2002	2003	2002	2003	2002	2003
Unskilled workers	72,598	60,707	36,820	31,824	15,373	13,320	14.0	14.4
Semi skilled and Primary- school	64,977	59,551	33,663	28,929	18,608	17,124	18.9	19.4
Skilled and Highly- skilled w.	130,941	108,735	97,249	86,756	66,906	57,061	29.3	29.2
Secondary- school level	94,052	78,683	65,085	60,908	43,159	38,976	27.1	27.9
Non- university level	12,333	10,315	10,563	9,669	8,452	7,492	36.9	37.5
University level	14,840	11,808	15,693	13,774	13,068	11,238	42.8	43.9
Total	389,741	329,799	259,073	231,860	165,566	145,211		

The recorded increase in the number of beneficiaries in December 2002 in comparison with the same period 2001 was 2.0%. In 2003, 68.6 thousand beneficiaries were receiving unemployment benefit, or 20.8% of the total number of unemployed persons. Also, a 9-percent decrease in the number of beneficiaries was recorded in December 2003 in comparison with the same month of the previous year.

Figure 3.20 | The Average Number of Unemployment Benefit Recipients

Source | CEO



The overall revenues of the Croatian Employment Office in 2002 amounted to HRK 134.8 million, whereas expenditures were on the level of HRK 248.9 million. The revenues indicate the outturn by 3.7% above the planned one, whereas the executed expenditures exceeded the planned amount by as much as 91%. Consequently, in 2002 the Croatian Employment Office had an overall shortfall amounting to HRK 114 million

⁴The Law on Employment Mediation and Entitlements During Unemployment (the Official Gazette No. 32/02)

(on its account). HRK 1,140.6 million was collected on the State Treasury account in the course of 2002 in revenues from employment contributions.

Table 3.12 | Revenues from Employment Contributions in 2002

Source | Ministry of Finance

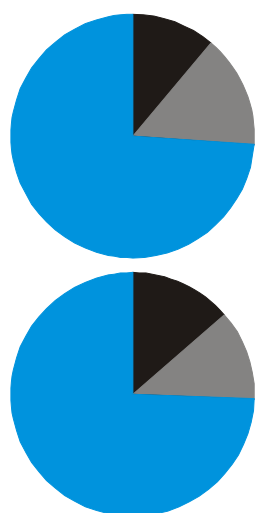
At the same time, expenditures amounting to HRK 783.2 million collected through the State Treasury account were registered. In this figure, HRK 748.2 was collected from unemployment benefit and HRK 34.9 million from other budgetary cash compensations.

	2002	2003	2003 / 2000
January	88,284,900	96,619,676	109.44
February	89,608,509	98,401,081	109.81
March	87,426,303	96,664,181	110.57
April	93,312,906	100,959,699	108.19
May	93,379,481	102,407,623	109.67
June	95,050,932	104,064,487	109.48
July	98,346,683	109,150,908	110.99
August	96,600,512	105,119,572	108.82
September	97,317,791	105,924,582	108.84
October	96,667,833	104,505,106	108.11
November	96,372,504	105,860,285	109.84
December	108,308,873	114,439,652	105.66
Total	1,140,677,227	1,244,116,852	109.07

In 2003, HRK 89.8 million was collected in total revenues of the Croatian Employment Office, whereas expenditures were realized in the amount of HRK 149.4 million. While expenditures were realized according to plan, the revenues fell short by 2.3% of the planned amount. Due to such outturn of revenues and expenditures, an overall deficit was generated in 2003 in the amount of HRK 59.6 million, which was slightly more than the planned HRK 57.5 million.

Figure 3.21 | 3.22 | The Structure of Revenues of Croatian Waters in 2002 and 2003

Source | Ministry of Finance



3.1.4 | Croatian Waters

In 2002 Croatian Waters generated revenues in the amount of HRK 1,485.5 million, which was the outturn by 31.6% higher than the planned one. Namely, the planned revenues of Croatian Waters in 2002 amounted to HRK 1,128.3 million. In the structure of revenues the largest part were non-tax revenues (water utilization fees) which in 2002 were collected in the amount which accounted for 74% of the overall revenues of Croatian Waters, whereas the rest accounted for the subsidies from the central state budget and a smaller portion for capital revenues. In 2003, Croatian Waters planned to collect revenues in the amount of HRK 1,361.7 million, however, the final data indicate that the revenues in 2003 were collected in the amount of HRK 1,544.7 million, which was an outturn of revenues higher by as much as 13.5% than the planned one.

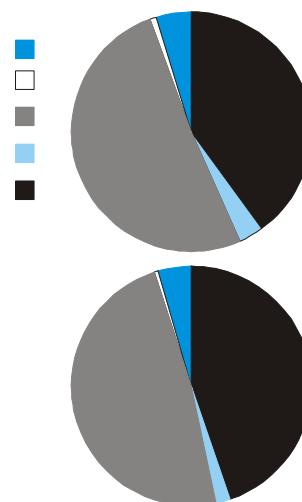
(%)	2002	2003
■ Nontax revenues	73.94	74.47
□ Capital revenues	0.02	0.02
■ Central Budget grants (current)	14.81	11.78
■ Central Budget grants (capital)	11.24	13.73
Total	100.00	100.00

Also, like in the previous years, the largest portion of revenues of Croatian Waters accounted for non-tax revenues, whose share in the overall revenues in 2003 was on the level of 74.5%. The rest of the revenues were from subsidies from the central budget and to a lesser extent from capital revenues.

Figure 3.23 | and 3.24 | The Structure of Revenues of Croatian Waters in 2002 and 2003

Source | Ministry of Finance

(%)	2002	2003
Wages and salaries	4.80	4.42
Employer contributions	0.81	0.69
Other purchases of goods and services	51.00	48.13
Interest payments	3.37	2.16
Capital expenditures	40.01	44.61
Total	100.00	100.00



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Overall expenditures in 2002 were planned in the amount of HRK 1,159.7 million, whereas the outturn was HRK 1,421.4 million. This was the execution of as much as 22.5% above the planned amount of expenditures. The structure of expenditures of Croatian Waters in 2003 was dominated by current expenditures with 60% of the overall expenditures. In the current expenditures items accounting for as much as 94.4% were expenditures for goods and services. Another significant item in the expenditures of Croatian Waters for 2002 were capital expenditures, whose share was 40% of the overall expenditures. In 2003, overall expenditures of Croatian Waters were planned in the amount of HRK 1,397 million, whereas the execution was HRK 1,718.1 million. This was an increase of almost 23% in comparison with the plan. The structure of expenditures did not change significantly in comparison with the previous year, so that 55% of total expenditures accounted for current expenditures, and the remaining amount for capital expenditures. In the structure of current expenditures the most significant item remained the expenditures for goods and services, which accounted for more than 96% of current expenditures.

On the basis of such outturn of revenues and expenditures in 2002, Croatian Waters had an overall surplus of HRK 64 million, whereas in 2003 an overall deficit was recorded amounting to HRK 173.4 million. The planned deficit for 2003 was HRK 35.4 million, however, the deficit was primarily a result of the overspending above the planned amount, while at the same time the outturn of revenues was above the planned one.

3.1.5 | Development and Employment Fund

Croatian Parliament, at the 18th session, by enacting the Law on the Development and Employment Fund of December 2001⁵ passed the Decision on the Establishment of the Development and Employment Fund. The Law regulated the organization of the Fund, its competencies, rights and obligations, as well as sources of financing. The Law came into force on January 1, 2002. The Fund was established with the purpose to encourage development of small and medium enterprises, providing assistance in employment of workers, supporting development projects, investment programs, support in establishment of business centers, development centers, etc., providing assistance in the reconstruction of the war-devastated areas and the return of refugees and displaced persons.

The resources for the Fund are provided from the following sources: sale of state-owned property, a portion of revenues of the Croatian Privatization Fund, from the budget and other sources provided for by the Law.

⁵The Official Gazette, No. 107/01

The bodies of the Fund were the Management Board and the Board, whereas the Fund was responsible for its operations to the Government of the Republic of Croatia.

In 2002 the Fund collected a total of HRK 2,709.6 million in revenues. Capital revenues accounted for the largest portion of this amount (66.13%), whereas the rest almost all accounted for the current and capital grants of other levels of national government. Overall expenditures of the Development and Employment Fund were HRK 2,288.05 million. The expenditures mostly pertained to the subsidies item and other current transfers, and also to the capital expenditures item. Reported together, those two items accounted for 98.42% of the total expenditures of the Development and Employment Fund. The expenditures were mostly used for support to various programs and projects through various Ministries (the Ministry of Public Works, Reconstruction, and Construction, the Ministry of Economy, the Ministry of Culture, the Ministry of Agriculture and Forestry, the Ministry of Maritime Affairs Transport and Communications, the Ministry of Labor and Social Welfare, the Ministry of Tourism, the Ministry of Science and Technology, and the Ministry of Justice, Administration, and Local Self-government). Furthermore, overall expenditures can be divided into expenditures financed from privatization revenues and expenditures financed from the budget revenues. The rationale for the activity of the Development and Employment Fund may also be that it is a tool for more efficient management of privatization revenues, their more efficient utilization in terms of transparent and efficient organization of a portion of the system of state subsidies, which, organized in this way, produce the desired horizontal effects. The transactions of the Development and Employment Fund were fully brought on the central budget as of January 1, 2003.

3.1.6 | The Regional Development Fund

Croatian Parliament, at the 18th session, by enacting the Law on the Regional Development Fund of December 2001⁶ passed a Decision on the Establishment of the Regional Development Fund. The Law regulated the organization of the Fund, its competencies, rights, and obligations, as well as sources of financing. The Law came into force on January 1, 2002. The Fund was established with a view to instigate more even regional development of the Republic of Croatia consistent with the Program of Regional Development of the Republic of Croatia. The activity of the Fund was particularly related to the war-affected areas, depopulated areas, areas of special state concern, islands, mountainous and hilly areas, border areas and areas with structural problems, areas with a lower gross domestic product, and other areas consistent with the Program.

The resources for the Fund were provided from the following sources: sale of state property, the budget, long-term bond issues, loans of financial institutions, bilateral loans, donations, and other sources provided for by the Law.

The bodies of the Fund were the Management Board and the Board, whereas for its operations the Fund was responsible to the Government of the Republic of Croatia.

In 2002 the outturn of revenues of the Fund were HRK 502.3 million. The largest portion of this amount were the capital revenues, which accounted for as much as 99.68% of overall revenues, whereas the rest were mostly current grants of other levels of national government. Overall expenditures of the Regional Development Fund were in the order of HRK 501.6 million, mostly capital expenditures (48.64%) and current

⁶The Official Gazette No. 107/01

expenditures (51.35%). The expenditures were mostly used for support to various programs and projects of the Ministry of Public Works, Reconstruction, and Construction, the Ministry of Crafts and SMEs, and the State Water Administration, and pertained to national development projects, development of Adriatic islands, development and reconstruction of water supply systems, entrepreneurial programs of local self-government units, etc. Like in the Development and Employment Fund, expenditures can be divided into expenditures financed from privatization revenues and expenditures financed from the budget revenues. The activity of the Regional Development Fund, like the one of the Development and Employment Fund, indicated particular horizontality of executed grant providing measures. Transactions of the Regional Development Fund as of January 1, 2003 were fully brought on the central budget.

3.1.7 | Croatian Motorways

Starting in 2002, Croatian Motorways have been presented in the coverage of the consolidated central government. According to final data for 2002, overall revenues of Croatian Motorways amounted to HRK 1.695,9 million, which was an outturn of 90.5% of the planned amount for 2002. In the structure of collected revenues, tax revenues had the lead, which fully accounted for excise taxes. Namely, as a form of financing of the construction of motorways in the Republic of Croatia, a model was adopted for setting aside of a percentage of the amount of excise tax per liter of fuel for this purpose. Revenues from excise taxes in 2002 were collected in the amount of HRK 1,212.4 million, which was 71.5% of total collected revenues for the observed year. The rest of the overall revenues of Croatian Motorways over revenues collected from excise taxes were fully the non-tax revenues, which in 2002 were collected at HRK 483.5 million. In the structure of non-tax revenues there prevailed other non-tax revenues, which accounted for as much as 94% of total collected non-tax revenues and 26.8% of overall revenues of Croatian Motorways.

(%)	2002	2003
Share in excises	71.49	68.15
Income from dividends and interests	1.72	1.86
Other nontax revenue	26.79	30.00
Total	100.00	100.00

In 2003, according to final data, overall revenues of Croatian Motorways amounted to HRK 1,927.8 million (12.5% more than planned). At the same time, the total collected revenues of Croatian Motorways in 2003 increased by 13.7% in comparison with 2002.

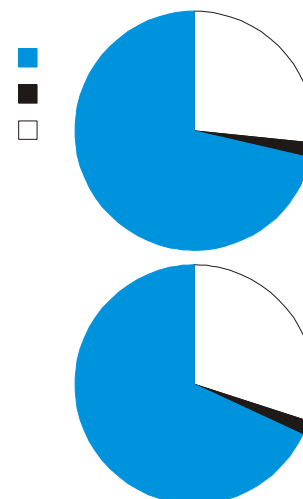
Tax revenues fully pertained to the item of excise taxes, which were collected in the amount of HRK 1,314.7 million kuna in 2003 (0.44% above the planned amount). Non-tax revenues of Croatian Motorways pertained to only two items, namely, "Other income from property" and "Other non-tax revenues". Those two items in 2003 together amounted to HRK 614 million, which was more by 51.1% than the planned amount.

Overall expenditures (together with lending minus repayments) of Croatian Motorways in 2002 were realized in the amount of HRK 3,740.5 million, which was an execution by 25.3% lower than the planned one. The reason for such outturn are current and capital expenditures lower than expected and higher repayments in the lending minus repayment item than the one envisaged by the plan. Current expenditures were HRK 458.9 million, which accounted for 11.4% of overall expenditures (without lending minus repayments), whereas in overall expenditures minus net lending they accounted for 12.3%. In the structure of current



Figure 3.25 | and 3.26 | The Structure of Revenues of Croatian Motorways in 2002 and 2003

Source | Ministry of Finance

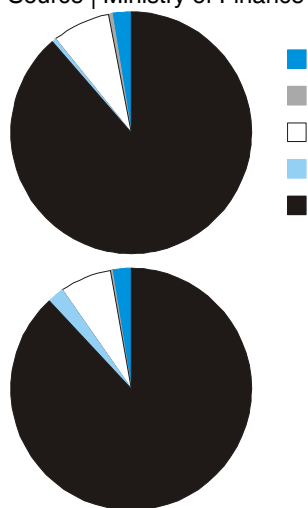


expenditures stands out the amount of expenditures for goods and services, which were realized in the amount of HRK 433.4 million. Expenditures for interest payment were HRK 25.5 million and pertained equally to domestic and foreign payments. The biggest share of overall expenditures pertained to capital expenditures, which totaled HRK 3,560.8 million and represented 88.6% of overall expenditures or 95.2% of overall expenditures minus net lending item. Such execution of capital expenditures was only on the level of 81% of the planned amount for 2002. Lending minus repayment was realized on the level of HRK 279.3 million, whereas they were envisaged in the zero amount by the plan.

In 2003, overall expenditures (together with lending minus repayments) of Croatian Motorways were HRK 5,506.6 million, which was an execution by 3.3% higher than the planned one; this was an increase of 47.2% in comparison with 2002. The structure of expenditures indicated that the most significant ones in terms of their share were capital expenditures, which was in line with the dynamics of capital investments in motorways in the Republic of Croatia. More precisely, in 2003, the share of capital expenditures in overall expenditures of Croatian Motorways (without lending minus repayment) accounted for 88%, whereas in overall expenditures minus net lending it accounted for 92.8%. Capital expenditures of Croatian Motorways in 2003 totaled HRK 5,806.2 million and were by 7% higher than the planned amount. Current expenditures in 2003 amounted to HRK 692.5 million, which was by 37% less than the planned amount for 2003 and by 51% more than the expenditures in 2002. In the structure of this group of expenditures, the amount of expenditures for goods and services stood out, which accounted for as much as 82.3% of current expenditures, and amounted to HRK 569.8 million. The outturn of lending minus repayment was on the level of HRK 299.6 million, whereas it was envisaged by the plan in the amount of HRK-74 million.

Figure 3.27 | and 3.28 | The Structure of Expenditures of Croatian Motorways in 2002 and 2003

Source | Ministry of Finance



(%)	2002	2003
Wages and salaries	2.55	2.43
Employer contributions	0.37	0.38
Other purchases of goods and services	7.86	7.01
Interest payments	0.63	2.11
Capital expenditure	88.58	88.07
Total	100.00	100.00

On the basis of the outturn of revenues and expenditures indicated above, in 2002 the overall non-consolidated deficit (revenues minus expenditures) of Croatian Motorways was HRK 2,044.5 million. This amount of deficit was fully financed in the foreign financial market, and represented 65% of the planned amount of the deficit. In 2003 Croatian Motorways also had an overall non-consolidated deficit, in the amount of HRK 3,578.7 million, which accounted for 98% of the planned amount. At the same time the deficit of Croatian Motorways increased by 75% in comparison with the previous year. 82% of this amount of deficit was financed in the foreign financial market, whereas the rest was financed in the domestic market.

3.1.8 | Croatian Roads

Since 2002, Croatian Roads company has been reported in the coverage of the consolidated central government. According to final data for 2002, overall revenues of Croatian Roads amounted to HRK 1,216.1 million, which was an outturn of revenues higher by 5.5% than the planned amount for 2002. In the structure of collected revenues tax revenues had

the lead, which fully pertained to the excise tax item. Namely, like in Croatian Motorways, as a form of financing construction and reconstruction of roads in the Republic of Croatia, a model of setting aside a percentage of the amount of excise tax per liter of fuel for this purpose was adopted. Revenues from excise taxes in 2002 were collected in the amount of HRK 1,148.7 million, which accounted for 94.5% of total collected revenues for the observed year. The rest of the overall revenues of Croatian Roads over revenues collected from excise taxes were mostly non-tax revenues, whose outturn in 2002 was in the amount of HRK 59.9 million. In the structure of non-tax revenues, other non-tax revenues accounted for the biggest portion, of as much as 93.7% of total collected non-tax revenues and 4.6% of overall revenues of Croatian Roads. The remaining revenues accounted for capital revenues, whose outturn was HRK 7.4 million.

In 2003, according to final data, overall revenues of Croatian Roads amounted to HRK 1,386.9 million (2.3% more than the planned ones). At the same time, the overall collected revenues of Croatian Roads in 2003 increased by 14% in comparison with 2002.

(%)	2002	2003
Share in excises	94.45	94.98
Income from dividends and interests	0.31	0.24
Other nontax revenue	4.62	4.26
Capital revenue	0.61	0.52
Total	100.00	100.00

Tax revenues were fully the revenues from excise taxes item, which were collected in the amount of HRK 1,317.6 million in 2003 (0.72% above those planned). Non-tax revenues of Croatian Roads pertained to only two items, namely, "Other revenues from property" and "Other non-tax revenues". Those two items in 2003 together amounted to HRK 62.4 million, which was by 48.6% more than the planned amount.

Overall expenditures (together with lending minus repayment) of Croatian Roads in 2002 amounted to HRK 1,159.4 million, which was by 12.6% less than planned. The reason for such execution was lower than expected current and capital expenditures and the higher repayments within the items of lending minus repayment than the ones envisaged by the plan. The current expenditures amounted to HRK 721.2 million, on the level of 62.1% of overall expenditures (without lending minus repayment), whereas in the overall expenditures minus net lending they accounted for 62.2%. In the structure of current expenditures, expenditures for goods and services stood out, which were executed in the amount of HRK 719.3 million. Expenditures for interest payment were executed in the amount of HRK 1.8 million and fully pertained to domestic payments. Capital expenditures were executed in the amount of HRK 439.4 million and accounted for 37.8% of overall expenditures, or 37.9% of overall expenditures minus net lending item. Such execution of capital expenditures was only on the level of 90% of the planned amount for 2002. Lending minus repayment was executed on the level of HRK-1.2 million, whereas they were planned in the zero amount.

In 2003, overall expenditures (together with lending minus repayment) of Croatian Roads were HRK 1,578.1 million, which was the execution by 4.6% higher than planned and also a 36.1%-percent increase in comparison with 2002. The structure of expenditures indicates that the most significant in terms of the share were capital expenditures, which was consistent with the dynamics of capital investments into roads in the Republic of Croatia. Namely, in 2003, the share of capital expenditures u overall expenditures of Croatian Roads (without lending minus repayment) was 59.5%, whereas in overall expenditures minus net

Figure 3.29 | and 3.30 | The Structure of Revenues of Croatian Roads in 2002 and 2003

Source | Ministry of Finance

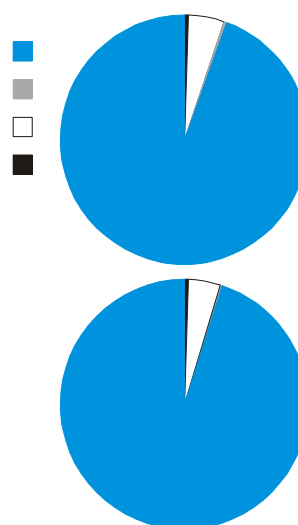
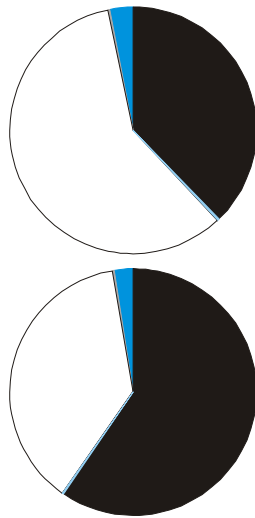


Figure 3.31 | 3.32 | The Structure of Expenditures of Croatian Roads in 2002 and 2003
Source | Ministry of Finance



(%)	2002	2003
■ Wages and salaries	2.97	2.45
■ Employer contributions	0.47	0.40
□ Other purchases of goods and services	58.54	37.54
■ Interest payments	0.16	0.06
■ Capital expenditure	37.86	59.55
Total	100,00	100,00

lending it accounted for 59.6%. Capital expenditures of Croatian Roads in 2003 were HRK 940 million and were by 20% higher than planned. Current expenditures in 2003 were HRK 638.4 million, which was by 11.9% less than the planned amount for 2003. In the structure of this group of expenditures, expenditures for goods and services stood out. They accounted for as much as 99.9% of current expenditures, and amounted to HRK 637.5 million. Lending minus repayment was on the level of HRK 343 thousand, whereas it was planned at the zero amount.

Based on the outturn of revenues and expenditures, in 2002 the overall non-consolidated surplus of Croatian Roads was HRK 56.7 million, whereas the plan envisaged a more considerable deficit. In 2003 the overall deficit of Croatian Roads amounted to HRK 191.2 million, which was by 25% more than the deficit envisaged by the plan for 2003.

3.1.9 | State Agency for Deposit Insurance and Bank Rehabilitation

State Agency for Deposit Insurance and Bank Rehabilitation is a specialized financial institution which secures savings deposits in banks and savings banks, and also implements bank rehabilitation procedures.⁷ Since 2002, the Agency has been reported in the coverage of the consolidated central government.

In 2002, the outturn of overall revenues of the State Agency for Deposit Insurance and Bank Rehabilitation was HRK 617.9 million, which was the outturn higher by 3% than the planned one. The total amount of overall revenues pertains to current non-tax revenues. Within the non-tax revenues (which consist of revenue from interest and dividends and also other non-tax revenues), the non-tax revenues accounted for the largest share, so that their share in overall revenues of the Agency in 2002 accounted for 87%.

According to the final data for 2002, the overall expenditures of the Agency were HRK 606.4 million, which was an execution higher by as much as 51.1% than the planned one. Namely, the plan for 2002 envisaged the expenditures of the Agency at HRK 401.3 million. In the structure of expenditures of the State Agency for Deposit Insurance and Bank Rehabilitation, current expenditures were leading, accounting for 50% of the overall expenditures, whereas within current expenditures the most significant item was interest payment, which was HRK 205.8 million or as much as 33.9% of the overall expenditures of the Agency. They were followed by the capital expenditures with the 2.9-percent share, and lending minus repayment with the 47.3-percent share of overall expenditures.

In 2003, overall revenues State Agency for Deposit Insurance and Bank Rehabilitation were HRK 584.5 million, which was a decrease of 5.4% in comparison with the previous year and the outturn of 66% of the planned amount for 2003. As much as 99.6% of the overall revenues were current non-tax revenues, whose outturn was HRK 581.9 million. Within non-tax revenues (consisting of revenue from interest and dividends and other

⁷The Official Gazette Nos. 44/94, 79/98, 19/99, 35/00

non-tax revenues) other non-tax revenues accounted for the largest share, so that their share in the overall revenues of the Agency in 2003 accounted for 95.6%. The outturn of capital revenues was HRK 2.5 million and accounted for only 0.4% of the overall revenues of the Agency.

According to the final data, the overall expenditures of the Agency were HRK 253.8 million, which was a 20.5-percent decrease in comparison with the previous year and also the execution of 48.2% of the planned amount for 2003. In the structure of expenditures of the State Agency for Deposit Insurance and Bank Rehabilitation, the largest were current expenditures, which accounted for 99% of the overall expenditures, whereas within the current expenditures the most significant item was the interest payment item, amounting to HRK 187.4 million (as much as 73.8% of the overall expenditures of the Agency).

On the basis of the outturn of revenues and expenditures indicated above, in 2002 the overall non-consolidated surplus (revenues minus expenditures) of the State Agency for Deposit Insurance and Bank Rehabilitation amounted to HRK 11.5 million, which was 5.8% of the planned total surplus. In 2003, according to the final data, the overall non-consolidated surplus (revenues minus expenditures) of the State Agency for Deposit Insurance and Bank Rehabilitation was HRK 330.6 million. The planned overall surplus for 2003 was HRK 358.9 million.



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3.1.10 | Croatian Privatization Fund

Croatian Privatization Fund was established pursuant to the Law on the Croatian Privatization Fund⁸ with a view to implement and complete the procedure of privatization of property owned by the Republic of Croatia. Since 2002 we have reported the Fund in the coverage of the consolidated central government.

According to the final data, the Croatian Privatization Fund in 2002 collected overall revenues in the amount of HRK 291.9 million, which was the outturn higher by 15.2% than the new plan. HRK 188.8 million or 64.7% of the overall revenues of the Croatian Privatization Fund was collected in 2002 from non-tax revenues (revenue from interests and dividends), whereas the outturn of capital revenues was HRK 103 million or 35.3% of the overall revenues of the Croatian Privatization Fund.

Overall expenditures of the Fund in 2002 were realized in the amount of HRK 247.2 million, whereas they were envisaged by the new plan at the level of HRK 61.3 million. The leading expenditures in the structure of expenditures were lending minus repayments, which accounted for 50.2% of the overall expenditures. They were followed by current expenditures (which accounted for 48.6%), whereas the rest of the expenditures pertained to capital expenditures.

According to the final data, overall revenues collected by the Croatian Privatization Fund in 2003 were HRK 242.5 million, which was a 17-percent decrease in comparison with the previous year and also by 53.8% better outturn than the planned amount for 2003. HRK 126 million or 52% of overall revenues of the Croatian Privatization Fund were collected from the non-tax revenues (revenue from interests and dividends). Capital revenues were collected in the amount of HRK 116.5 million, and accounted for 48% of the overall revenues of the Croatian Privatization Fund.

The overall expenditures were HRK 416.5 million or 68.5% more than in the previous year. The plan for 2003 envisaged overall expenditures of the Fund in the amount of HRK 60.3 million. Lending minus repayment remained the most significant item, whose outturn in 2003 was in the amount of HRK 361 million, or as much as 86.7% of the overall

⁸The Official Gazette Nos. 84/92, 70/93, 76/93, 52/94, 87/96

expenditures of the Croatian Privatization Fund. The rest of the expenditures were current expenditures, whose outturn was HRK 51.7 million (12.4% of the overall expenditures) and the capital expenditures, which were realized in the amount of HRK 3.8 million. In the structure of current expenditures, the leading ones were expenditures for salaries and wages of employees and expenditures for other purchases of goods and services which, reported together, accounted for 91.8% of current expenditures or 11.4% of the overall expenditures of the Croatian Privatization Fund.

On the basis of the outturn of the above revenues and expenditures, in 2002 the overall non-consolidated surplus (revenues minus expenditures) of the Croatian Privatization Fund was HRK 44.7 million, or 23.3% of the planned total surplus. In 2003, according to the final data, the overall non-consolidated deficit (revenues minus expenditures) of the Croatian Privatization Fund was HRK 174 million. The overall surplus for 2003 was planned at HRK 92.8 million.

4 | Financing Of Local And Regional Self-Government in 2002 and 2003



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Amendments of laws passed in the last two fiscal years have brought about significant changes, both in the structure of revenues collected by units and in the structure of expenditures which the units had. Since the beginning of 2000 until the end of 2003 four new municipalities were established (Pribislavac, Kolan, Kamanje, and Bilice), whereas the Vodnjan municipality changed its status into a City, which contributed to the total number of 426 municipalities, 123 cities, 20 counties, and the City of Zagreb (which has the status of both a city and a county). The overall area of the Republic of Croatia consists of 570 local units.

The Amendments to the Law on the Areas of Special State Concern¹, in addition to the first and second groups, established the third group of the areas of special state concern. The first and second groups consist of the areas which used to be occupied during the Homeland War, whereas the third group includes the areas which lag behind in terms of development and are evaluated on the basis of four criteria: the level of economic development, structural difficulties, demographic, and special criteria. Although the existence of the third group was defined in year 2000, in November 2002 the Government² passed a decision related to municipalities which belong to this group. The procedure of assessment of affiliation to the third group is done each year. A municipality loses its status if for two years in a row it was assessed as being above borderline values. Borderline values are established so that all the three groups may encompass up to 15% of the overall population of the Republic of Croatia. Out of the total number of municipalities/cities, 180 belong to the areas of special state concern (111 municipalities / cities belong to the first and second groups, and 69 municipalities belong to the third group).

Incentives applied since 2000 to the first, second, and third groups of the areas of special state concern have also been applied to the third group since 2002. Namely, a portion of the personal income tax and the profit tax collected in the area of units, which belongs to the state budget, in the period up to 2005 are the revenues of those units. In addition, various tax breaks have been introduced with regard to the capital transfer tax, benefits based on fees for utilization of raw materials, and various other benefits. All of those measures are aimed at the return and stay of the population in those areas. The effects of this Law affected the budgets in 2002 and 2003, and in the forthcoming period their more significant impact is expected.

¹The Law on the Areas of Special State Concern (final draft) ("Official Gazette", No. 26/03).

²The decision on the Confirmation of the Status of Affiliation of Municipalities to the Third Group of the Areas of Special State Concern ("Official Gazette", No. 138/02).

In order to protect the islands and accomplish faster economic and demographic development, the Law on Islands³, based on the principles of the National Development of Islands, regulates the program of the sustainable development of islands. The programs are divided into two groups, and include a total of 49 municipalities/cities. Incentives which make the island development sustainable are diverse, and are related to the improvement of connections of the islands with the mainland, advancement of economic growth (benefits in purchase or lease of agricultural land, water consumption, financing of capital water supply facilities, physical planning, and upgrading of transport infrastructure).

With a view to creating prerequisites for an increase in living standards on hilly and mountainous areas during 2002, the Law on Hilly and Mountainous Areas was passed⁴. In July 2003, pursuant to the amendments to the Law, the status of affiliation (to hilly and mountainous areas) was granted to 45 local self-government units. The hilly and mountainous areas are "areas whose altitude, inclination, and vertical division of the terrain into sections and pedology, climatic, and other natural characteristics which are determined by them represent aggravated conditions for the life and work of inhabitants". Tax breaks (benefits based on personal income tax, profit tax, concessions, fees, and other) for the areas of special state concern are also applied to those areas. Although specific units met the criteria stipulated by the Law, they cannot exercise the status of affiliation to this group if they exercise rights pursuant to the Law on the Areas of Special State Concern and the Law on Islands, if they stretch along the coast and have density higher than 20 inhabitants per square kilometer, if they have density higher than 40 inhabitants per square kilometer and if their budgetary revenues without aid, donations, and revenues from sale of material assets are higher by 50% than the average of the units which meet the criteria.

The areas of special state concern, as well as the hilly and mountainous areas, were defined with the aim of alleviation of the consequences of the war in an accelerated manner, the return of the population which used to abide in those areas, encouraging demographic and economic development, as well as a more even development of all areas.

At the end of 2001, a Law was enacted⁵, which provided for the establishment of the Fund for Encouraging a Unified Regional Development of the Areas of Special State Concern, Islands, Hilly and Mountainous Areas and Other Areas, especially areas with a gross domestic product lower than 65% of the average gross domestic product in the Republic of Croatia. The Fund receives funds from the state budget, privatizations, bonds, loans, donations, and other sources pursuant to the Law. The placement of funds (approximately HRK 112 million in 2003), as well as impact on local units area are visible, however, they will be even more visible in the forthcoming years.

In 2002 the commenced decentralization process was continued. This was the first whole fiscal year in which the process of decentralization of education, health, social welfare, and financing regular activities of public firefighting units was implemented.

Although pursuant to the Amendments to the Law on Social Welfare in 2001 a portion of social welfare functions (homes for elderly and infirm persons – as well as related expenditures) was transferred from the state level to the level of counties, and the Law on Financing⁶ in 2001 provided

³The Law on Islands ("Official Gazette", Nos. 34/99 and 32/02).

⁴The Law on Hilly and Mountainous Areas ("Official Gazette", Nos. 12/02, 32/02, and 117/03).

⁵The Law on the Regional Development Fund of the Republic of Croatia ("Official Gazette", Nos. 107/01.).

⁶The Law on the Financing of Local and Regional Self-government Units ("Official Gazette", Nos. 117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01, 150/02, and 147/03).

for an additional share of the personal income tax of 1.6%, the provisions of the law mentioned above were not applied to the function specified until 2002.

Pursuant to the Law on Firefighting⁷ of 2000 the funds for financing (expenditures for employees and material expenditures) regular activities of employees of public firefighting units were provided from the budget of the municipalities, cities, or the City of Zagreb, with the proviso that prior to 2004 the total amount of funds which had been provided before that in the state budget should be gradually decreased (by 25% in 2002, by 50% in 2003, and by 75% in 2004). However, the Amendments to the Law on Financing stipulated that for municipalities/cities (a total of 86 municipalities/cities) which finance a regular activity of employees of public firefighting units, the share of municipalities and cities in the personal income tax is increased by the additional share in the personal income tax of 1% which is collected in their area. Since September 2003 for settling their commitments they have been entitled to the equalization grants, more precisely, up to the amount of the transferred commitment.

Pursuant to the above, the functions and additional shares were transferred for the following:



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Table 4.1 | Additional Shares of Personal Income Tax Set Aside for Decentralized Functions

Functions	Additional shares
EDUCATION	
Elementary education	2.9%
Secondary education	2.0%
SOCIAL WELFARE	
Centers for social welfare	0.4%
Homes for elderly and infirm persons	1.6%
HEALTH	
Health institutions	2.5%
FIRE-FIGHTING	
Public fire-fighting units	1.0%

Each year decisions⁸ of the Government on the minimum financial standards provide for the criteria and benchmarks for provision of minimum standard for each decentralized function, which is the basis for establishment of transferred commitments of local and regional self-government units.

Pursuant to the Law on Financing, the Government of the Republic of Croatia passes a Decree⁹ each year about the mode of calculation of the amount of equalization grants for decentralized functions of local and regional self-government units which have taken over the financing of decentralized functions. In line with the Law mentioned above, the local and regional self-government units exercise the right to the grant – aid from the state budget if they do not collect enough funds from the additional share in personal income tax up to the amount of minimum standards established in the Decree and the Decisions of the Government on the minimum financial standards for a respective function in a particular year.

In 2001 funds were remitted to the local and regional self-government units only after it was established how much funds had been collected on the basis of the additional share, up to the 20th day in the month for the previous month. Local and regional self-government units did not have an

⁷The Law on Fire-fighting ("Official Gazette", br. 106/99, 117/01, and 96/03).

⁸The Decisions on the Minimum Financial Standards in 2002 and 2003 ("Official Gazette", Nos. 110/01, 115/01,155/02, 4/03, and 154/03)

⁹The Decree on the Mode of Calculating the Amount of Equalization Grants for Decentralized Functions ("Official Gazette", Nos. 118/01, 155/02, and 154/03).

opportunity to reallocate resources. The amendments to the Decree¹⁰ in 2002 regulated advance remittance of equalization grants to beneficiaries, for the current month, whereas the difference per monthly amount was adjusted with the payments for the following month. In 2002 and 2003, local and regional self-government gained more space for independent decision making and the possibility to reallocate funds for functions which are decentralized, with the reallocation of funds being based on the plan published 2 months before the adoption.

Local and regional self-government units which have taken over the financing of decentralized functions are obliged to remit the funds to final users in line with the plan, whereas the final users are obliged to use the funds in question according to earmarked purposes. In addition, local and regional self-government units are obliged to report on a quarterly basis to the line ministry about the amount of outstanding obligations of users from their scope of competence and remitted funds. The oversight over the legality of work of administrative bodies and beneficiary institutions is performed by units which have taken over the decentralized functions, and when necessary it is also performed by the ministry in charge of a specific activity and the Ministry of Finance.

It should be noted that a larger portion of those functions (except for social welfare which is totally decentralized), are still financed from the state budget, however, execution of the transferred commitments is performed in a quality manner. Specific difficulties which appear are resolved mainly on the local level, in cooperation with line ministries.

In the forthcoming period it will be necessary to provide for greater independence of local and regional self-government units in relation to the allocation of resources, with mandatory rationality and efficiency in performing functions and tasks.

4.1 | Financing of Local and Regional Self-Government Units

The legal framework which regulates the system of financing of local units and keeping budget records consists of the following legal documents and subordinate legislation: the Budget Law¹¹, the Law on the Financing of Local and Regional Self-government Units, the Law on the Execution of the State Budget, the Decree on the Mode of Calculation of Equalization Grants for Decentralized Functions, the Decree on Budget Accounting, the Rules on Budget Accounting and Chart of Accounts, the Rules on Financial Reporting in Budget Accounting. In addition, the local units also have to abide by other special regulations which regulate various areas of public spending.

The Law on Financing regulates the revenues of local and regional self-government units, whereas the amendments to the Law on Financing in 2001 gave cities and municipalities a possibility to introduce new taxes, their allocation, and rates, i.e., limits within which they are prescribed.

Local units generate revenues from their own revenues, from joint revenues (taxes and other revenues) which are divided among the state, municipalities/cities and counties, from aid of the state and the county budget. In addition, it is also possible to collect receipts on the basis of borrowing in line with the special law. Joint tax revenues (personal income tax, profit tax, and capital transfer tax) accounted for the major part of revenues of local and regional self-government units, both in terms

¹⁰The Decree on the Amendments of the Decree on the Mode of Calculating the Amount of Equalization Grants for Decentralized Functions of Local and Regional Self-government for 2002 ("Official Gazette", No. 97/02).

¹¹New Budget Law ("Official Gazette", No. 96/03)

of the structure and in terms of the absolute amount. Therefore, specific changes significantly affected the budgets.

A new distribution of personal income tax among the state, municipalities/cities, and counties was made at the end of 2002.¹², whereby the share of other joint tax revenues (see Table 4.2) remained the same as in the previous year:

Table 4.2 | Redistribution of Joint Tax Revenues

	State Budget	Counties	Municipalities /Cities
Personal income tax	25.60% Share of equalization item 21%.	10% increased by share for transferred functions (9.4%)	34%, increased by share for transferred functions
Profit tax	70%	10%	20%,
Capital transfer tax	40%	-	60%,

Note: The share of the City of Zagreb in Personal income tax amounts to 47%, increased by the share for transferred functions (10.4%).



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As indicated above, the share of personal income tax for municipalities and cities amounted to 34% increased by the scope of activities taken over by the units (2.9% share for elementary education and 1% for public fire-fighting units).

The share of the state budget in personal income tax after those changes amounted to 25.6%, whereas the state has fully ceded its share of personal income tax to areas of special state concern, hilly and mountainous areas and islands which finance capital projects.

Namely, the state cedes its share of personal income tax (25.6%) to municipalities and cities on islands, which concluded an agreement on the financing of capital projects of joint interest for the development of islands. Those were mainly water supply and physical planning projects, and upgrading of transport infrastructure.

As already mentioned, for the areas of special state concern and hilly and mountainous areas the state cedes its share of personal income tax collected in the area of those units. In 2002 the state ceded for those areas a total of HRK 109 million, whereas in 2003 it ceded HRK 315 million.

With regard to the above, funds for the item of equalization grants for decentralized functions are not transferred from those areas.

Since the amendments to the Law on Financing in 2001 extended the possibility of the introduction of surtax on personal income tax to all municipalities/cities, until the end of 2003 the number of local self-government units which passed their decisions on the introduction of surtax on personal income tax increased (198 municipalities/cities). This led to an increase in the outturn of surtax from HRK 712 million in 2002 to HRK 783 million in 2003, which was a 10-percent increase.

All amendments to the Law indicated above, whereby an increased share of public revenues was ceded to the municipalities, cities, and counties, increased the share of revenues of local and regional self-government units (570 units) in GDP, from 5.6% in 2000 to 7.4% in 2003. This was a significant growth over a short period. However, a comparison of fiscal viability of counties shows big differences, which is particularly visible from the relation of the outturn of additional shares in personal income tax for decentralized functions and remitted equalization grants.

Accounting changes - With the coming into force of the new Rules on Budget Accounting and Chart of Accounts¹³, a new concept of budget accounting has been implemented in Croatia since 2002.

¹²The share of the state in personal income tax for 2002 accounted for 29.6%, equalization grant items 21%, municipalities/cities 32% increased by the additional share for decentralization, counties 8% increased by the additional share for decentralization and the share of the city of Zagreb 45% increased by the additional share for decentralization ("the Official Gazette", No. 150/02).

¹³The Rules on Budget Accounting and Chart of Accounts ("Official Gazette", Nos. 119/01 and 74/02).

The previous two general ledgers were merged into one, the Chart of Accounts¹⁴ was changed in line with the requirements of economic classification, and the most significant change was the transfer from cash to modified accrual accounting. The accrual principle, in addition to better management of commitments, also creates a more comprehensive picture of costs of activities in a specific period. It connects the cost with the period in which a resource was used in the production of goods and services.

Revenues and expenditures are reported by applying the modified accrual principle, which means that the revenues are taken into account on the basis of inflow of cash in the reported period, whereas the expenditures are taken into account on the basis of modified accrual principle (commitments) also in the reporting period to which it refers, irrespective of payment.

Furthermore, modified principle also means that the expenditure of amortization of material fixed assets are not reported, revenues and expenditures due to change in value of material assets are not reported, expenditures for the expenditure of the current material assets are taken into account at the moment of procurement and on the level of its purchase value (exceptionally in health activities and in performing own trade and producer activity, expenditures for current material assets are reported at the moment of real spending or sale), whereas the donations of fixed assets directly increase/decrease own resources.

The new accounting system also set up a new financial reporting framework, which should be applied, among others, by local and regional self-government units and their budget beneficiaries. The Rules on Financial Reporting in Budget Accounting¹⁵ regulated in detail the types, form, and contents of financial reports, as well as those obliged and the timelines and submission of financial reports.

The financial reports of the budget and budget beneficiaries are the following: the Balance Sheet, the Statement of Revenues and Expenditures, Receipts and Outlays, the Report on Cash Flows, the Report on the Changes in the Value and Volume of Assets and Liabilities, and the Report on Collected Own Revenues and Expenditures. The Notes are an integral part of the Financial Report.

The Balance Sheet is a systematic, value-based reported statement of assets, liabilities, and own resources on a given day.

The Statement of Revenues and Expenditures, Receipts and Outlays is a statement which presents, for the reporting period, data on revenues, expenditures, changes in material assets and changes in financial assets and liabilities.

The Report on Cash Flows indicates the inflow and outflow of money in the reporting period, namely: Inflow and outflow of cash from business activities, from transactions on material assets and financial assets, liabilities, and net changes of cash flows.

The Report on the Changes in the Value and Volume of Assets and Liabilities reports all influences on net value (the difference between assets and liabilities) which are not a result of revenues and expenditures, and are classified as changes in the value or changes in the volume of assets and liabilities.

¹⁴ A clear, unified budget classification (revenues and expenditures, assets and liabilities) of the public sector is the basis for the budget planning and preparation, its execution, and financial reporting. The basic classification which should be the basis for the Chart of Accounts is the economic classification. This was not the case with the existing Chart of Accounts, which became a combination of economic, functional, and organizational classification in an unsatisfactory manner. Such a Chart of Accounts did not provide for obtaining real information on collected revenues and on expenditures during the year. The same case was with financial reports, which had the same structure as the Chart of Accounts.

¹⁵ The Rules on Financial Reporting in Budget Accounting ("Official Gazette", No. 74/02.)

The Report on Collected Own Revenues and Expenditures is a report on revenues collected and expenditures made by performing the activities of the core and other activities on the market, as well as other expenditures of business operations and acquiring of material assets covered from revenues collected by performing activities on the market. Notes are an addendum to the data from Financial Reports/Statements.

4.2 | The Trend of Revenues of Local and Regional Self-Government Units

The analysis includes the budget outturn for 32 cities, 20 counties, and the City of Zagreb, in other words, a total of 53 units which have taken over financing of decentralized functions – according to the 1986 GFS methodology.

Table 4.3 | Budget Outturn in 2002 and 2003 for 53 Units (32 Cities, Counties and the City of Zagreb) (in 000 HRK)
Source | Ministry of Finance



	Outturn		Index	
	2002	2003	2003/2002	
Total revenues and grants	9,595,090	10,554,899	110.00	92
Total revenues	8,328,336	9,008,108	108.16	93
Current revenues	7,830,809	8,527,776	108.90	
Tax revenues	5,477,139	5,906,130	107.83	
Non-tax revenues	2,353,671	2,621,646	111.39	
Capital revenues	497,527	480,332	96.54	
Grants	1,266,754	1,546,792	122.11	

Note: According to methodology GFS 1986

The total revenues and grants to cities and counties in 2003 amounted to HRK 10.6 billion. In comparison with 2002, when the outturn was HRK 9.6 billion, total revenues rose by 10%. A comparison of the outturn per types of revenues indicates a change in the structure of the outturn of revenues, particularly in comparison with the previous years. This was a result of transferred resources for decentralized functions, as well as the increase in own and joint revenues. More precisely, this refers to the increased share in personal income tax by 2% and surtax on personal income tax which in this year was increased significantly on the basis of the legal possibility to introduce surtax, not only for cities above 40,000 inhabitants, but also for other local self-government units.

In the structure of total revenues, the outturn of current revenues accounted for the biggest share, or HRK 7.8 billion in 2002 and HRK 8.5 billion in 2003, respectively. In 2002 current revenues (tax and non-tax revenues) accounted for 82% in the structure of total revenues and grants. However, in 2003 the share of current revenues in the structure was reduced by 1%, but an annual growth of the outturn of those revenues was 9%.

The outturn of capital revenues was HRK 498 million in 2002 and HRK 480 million in 2003, respectively. In the structure of total revenues and grants their share was 5%. The biggest growth of revenues was recorded in grants, by 22% in 2003 in comparison with 2002. This also mostly reflected on their share in the structure. In the structure of revenues grants accounted for 13% of total revenues in 2002, whereas in 2003 their share increased by a further 2% and they accounted for 15%.

The increase in the share the tax revenues and grants in total revenues was not only a result of the outturn of additional revenues for decentralized functions, but also of the increased share in the personal income tax, as well as a portion of remitted grants from the state budget through line ministries.

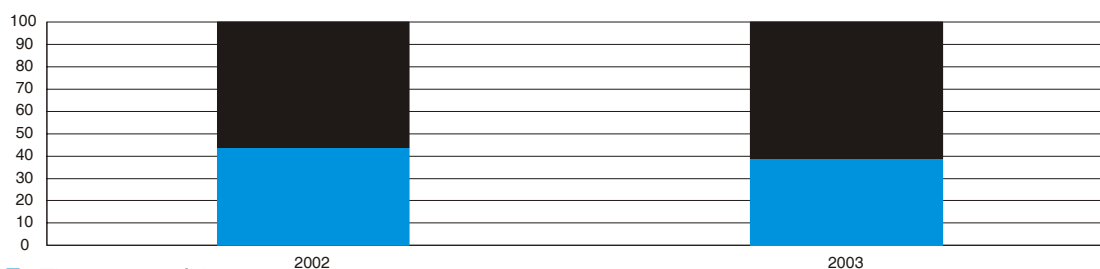
Table 4.4 | Financing of Decentralized Functions in 2002 and 2003 (in 000 HRK)

Functions	2002.			2003.			Total
	Counties and City of Zagreb	Cities (32)	Total	Counties and City of Zagreb	Cities (32)	Cities/Municipalities (53)	
Elementary education	411,422	153,045	564,467	496,883	187,986		684,869
Secondary education	317,296		317,296	383,748			383,748
Health	384,599		384,599	398,060			398,060
Social welfare	244,511		244,511	259,997			259,997
Public firefighting units				12,003	49,961	17,215	79,178
Total commitments	1,357,828	153,045	1,510,873	1,550,690	237,947	17,215	1,805,852

In 2002, total commitments for transferred decentralized functions amounted to HRK 1,511 million. The increase in 2003, when commitments were transferred, was 19% as they amounted to HRK 1,806 million (Table 4.4).

The outturn of the share of personal income tax from the additional share in 2002 (Figure 4.1.) amounted to HRK 665 million, which covered 44% of the execution of expenditures. The rest of the transferred liabilities (or 56%) was settled from equalization grants. In 2003 the outturn of personal income tax from the additional share amounted to HRK 680 million kuna, which covered the execution of 39% of expenditures, whereas the rest (or 61%) was settled from equalization grants. Although more funds were set aside from the equalization grants item, local and regional self-government units obtain more space for independent decision-making in terms of re-distribution of funds for functions which are being decentralized. All counties and cities (except for the city of Opatija in 2002) were using equalization grants in 2002 and 2003.

Figure 4.1 | The Structure of the Outturn of Revenues for Decentralized Functions in 2002 and 2003



- The outturn of the share of personal income tax
- Equalization grants

In terms of counties, in the structure of outturn of revenues from the additional share in personal income tax, the highest outturn was the one of the City of Zagreb with approximately 92%, which was followed by the units of Primorje-Gorski Kotar county and Zagreb, Istria and Split-Dalmatia counties approximately 50%, whereas the rest up to the overall transferred commitments was settled from the state budget – equalization grants. The highest requirements for grants were in the area of Vukovar – Srijem county and Lika - Senj county. The reason for such high demand for equalization grants was an uneven fiscal capacity of local units. It should be noted that the liabilities for decentralized functions were fully settled for the counties, cities, and municipalities.

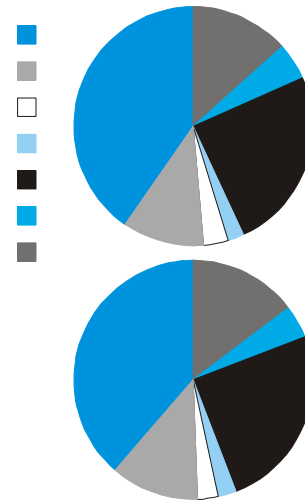
4.2.1 | Tax Revenues

In the structure of revenues of local and regional self-government unit budget, as illustrated in Figures 4.2 and 4.3, the most significant ones were tax revenues, whose outturn in 2002 was HRK 5.5 billion or 57% of total revenues. Tax revenues in 2003 increased in nominal terms by approximately HRK 400 million, but their share decreased to 55%. Units collected tax revenues from own and joint tax revenues. A high share of taxes in total revenues was a result of an increased share in joint tax revenues. Given that in 2003 the share in personal income tax for all local units was increased by another 2%, in addition to the increase in the share of personal income tax for decentralized functions, this resulted in an 8-percent growth of tax revenues in comparison with 2002. Tax and surtax on personal income in the structure of total revenues in 2002 accounted for 41%, whereas in 2003 their share was 38%. The nominal increase in personal income tax due to the decentralization process totaled HRK 665 million in 2002 and HRK 680 million in 2003, i.e., the amount collected on the basis of additional share for transferred functions.

Figures 4.2 | and 4.3 | Structure of Total revenues for 32 Cities, Counties and the City of Zagreb in 2002 and 2003 (in 000 HRK)

Source | Ministry of Finance

	2002		2003	
Personal income tax	3,863,377	40.26	4,083,336	38.69
Corporate income tax	1,055,017	11.00	1,244,040	11.79
Real estate transactions tax	329,418	3.43	315,914	2.99
Other taxes	229,326	2.39	262,839	2.49
Nontax revenues	2,353,671	24.53	2,621,646	24.84
Capital revenues	497,527	5.19	480,332	4.55
Grants	1,266,754	13.20	1,546,792	14.65
Total revenue and Grants	9,595,090	100.00	10,554,899	100.00



The personal income tax also contains the outturn of surtax on personal income tax, which, due to specific tax collection technique, is reported together with personal income tax. In 2002 in the area of all local self-government units HRK 712 million was collected from surtax on personal income tax, whereas in 2003 HRK 783 million of surtax was collected (a 10-percent increase). This amount also contained the surtax of the City of Zagreb, which in 2003 amounted to HRK 521 million, which was a 7-percent increase in comparison with 2002, when HRK 487 million was collected.

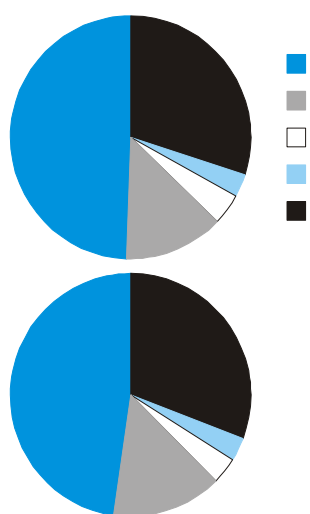
The significance and volume of surtax on personal income tax is illustrated by the fact that the outturn of surtax in 2002 was almost equal to the amount of capital revenues and domestic taxes on goods and services and other taxes of that year for 53 local and regional self-government units.

The structure of current revenues (Figures 4.4 and 4.5) indicates that for 2002 the share of tax and surtax on personal income tax accounted for 50%, of profit tax for 13%, whereas the share of all other taxes (domestic tax on goods and services and other taxes, property tax and non-tax revenues) accounted for 37%. For 2003 the structure of current revenues was somewhat different, namely, the share of tax and surtax on personal income tax was reduced by 3%, whereas the share of profit tax increased by 2%, and the share of non-tax revenues increased by 1%.

The outturn of profit tax in 2003 was HRK 1.24 billion. In nominal terms it increased by approximately HRK 190 million in comparison with the previous year, with the year-on-year growth of 18%. The share of profit tax in 2002 accounted for 11% of total revenues and grants, whereas in 2003 the share accounted for 12%.

In 2002 and 2003 the taxes on property and domestic taxes, which mainly consisted of own tax revenues of local and regional self-government units accounted for only 5% in the structure of total revenues of those units.

Figures 4.4 | and 4.5 |
Structure of Current
Revenues of 32 Cities,
Counties and the City of
Zagreb in 2002 and 2003
(in 000 HRK)
Source | Ministry of Finance



4.2.2 | Non-Tax Revenues

In previous years the non-tax revenues accounted for about 31% in the structure of total revenues and grants. However, the amendments to the laws in the area of elementary and secondary education, health and social welfare and the Law on Financing Local and Regional Self-government Units, resulted in the increase in the share of tax revenues and grants in the structure and the simultaneous decrease in the share non-tax revenues. Non-tax revenues mostly had the purpose determined in advance. This was the second biggest source of revenues of local units. The introduction and level of non-tax revenues were established by units themselves within the legal limits, however, they collect revenues independently.

Although the non-tax revenues in 2003 grew by 11% in comparison with 2002, they kept the share of 25% in total revenues and grants (Figures 4.2 through 4.5).

	2002		2003	
Personal income tax	3,863,377	49.34	4,083,336	47.88
Corporate income tax	1,055,017	13.47	1,244,040	14.59
Real estate transactions tax	329,418	4.21	315,914	3.70
Domestic taxes on goods and services and other taxes	229,326	2.93	262,839	3.08
Nontax revenue	2,353,671	30.06	2,621,646	30.74
Total Current revenue	7,830,809	100.00	8,527,775	100.00

Non-tax revenues of the budget may be divided into basic categories as follows:

1. revenues from entrepreneurs' income and income from (revenues from moveable and immoveable objects, concessions, fees for utilization of the space of power plants, mineral ores, for the use of public areas, etc.) which in the structure of non-tax revenues had a share of 26% in 2002 or 2% less than in 2003;
2. administrative fees with the share of 73% and 76% in 2003, respectively (revenues from sale of duty stamps, tourist taxes, communal fees, contributions, and other fees); and
3. other non-tax revenues with the share of approximately 1%.

Among administrative fees, the most significant share is that of communal fees and communal duty which, among others, finance the construction and maintenance of communal infrastructure and public lighting as one of big expenditures of local budget. HRK 1.34 billion was collected from those revenues in 2003. They accounted for 51% of non-tax revenues.

4.2.3 | Capital Revenues and Borrowing

In 2003 capital revenues were collected at HRK 480 million, but their share in total revenues in both years accounted for only 5%.

Since capital revenues are collected from the sale of assets which are mostly in the ownership of cities and municipalities and to a lesser extent in the ownership of counties, their share in budgets of cities and municipalities was higher as well. In the absence of capital revenues, and with a view to meet the needs financing a capital projects, local and regional self-government units were given the opportunity to borrow in line with the provisions of the Budget Law and the Law on the Execution of the State Budget and the Instruction of the Minister of Finance.

Pursuant to the Law on the Execution of the State Budget for 2002 and 2003, the counties, cities, and municipalities may borrow only in the domestic money and capital market and contractors performing capital projects which are financed from their budget. This is confirmed by the representative body with the preliminary approval of the Government.

For the first time for 2003 restrictive measures were prescribed by the decisions on the execution of the budget which ensure that the operating revenues and revenues from sale of material assets are the same or higher than the operating expenditures and expenditures for acquisition of material assets, and that the Government of the Republic of Croatia may issue approvals for borrowing of local and regional self-government units, no more than 3% of total planned expenditures of all local and regional self-government units reported in the financial report.

The provisions did not pertain to regional self-government units in the areas of special state concern and those which receive loan funds from the Regional Development Fund of the Republic of Croatia, as well as from the Development and Employment Fund.

In addition, the municipalities, cities, and counties may issue guarantees for borrowing to a public institution or company whose founder and majority owner they are. The guarantee mentioned above is included into the annual borrowing of the respective unit. The annual liability for loans, guarantees, and other outstanding commitments (arrears) may account for no more than 20% of the outturn of revenues of units in the year which precedes the year in which the borrowing is effected. The units are also allowed to refinance the previous loan commitments for purpose of more favorable loan conditions, primarily a reduction of interest rates on the capital market. Refinancing is possible for a loan for which the Government of the Republic of Croatia has issued an approval for borrowing under the condition that the refinanced amount is lower than the remaining portion of the debt from the previously passed Decision of the Government. The units were using the legal possibilities mentioned above in line with their possibilities.



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4.2.4 | Grants

In the last several years the grants were mostly provided directly from the State Budget to the units which were devastated by the war on the basis of their requests and financial indicators from the section of the Ministry of Finance, but also through line ministries. In the total outturn of revenues of the local and regional self-government units for 2003 the share of grants was 15%, which was by 2% more than in the previous year. Grants in 2003 amounted to a total of HRK 1,55 billion.

The total amount of grants, in addition to grants (amounting to HRK 201 million in 2002 and HRK 208 million in 2003) for the areas of special state concern, also contains a share of equalization grants from the state budget for decentralized functions, as well as other grants of line ministries, Croatian Waters, Regional Development Fund, and others. In 2002 HRK 855 million was remitted for the financing of decentralized functions from the item of grants - equalization grants from the State budget, whereas for 2003, HRK 1.061 billion was remitted. In addition, in 2003 a total of approximately HRK 112 million was remitted from the Regional Development Fund for capital projects to the areas of local and regional self-government units.

Incentives for the development of municipalities, cities, and counties are planned within the framework funds of individual ministries. This is mainly co-financing of development programs in the area of crafts, agriculture, small and medium sized enterprises, etc.

The Law on the Execution of the State Budget of the Republic of Croatia for 2002 and 2003 provided for the basic criteria for assessment of grants applied for all units in the areas of special state concern.

The following criteria are applied for the counties: the number of inhabitants, the average of revenues of the county budget per capita on the state level and the revenues of the county budget per capita of counties, the average expenditures for capital programs from the county budget per capita on the

state level and the expenditure for capital programs for the county budget per capita.

The legal criteria which are applied for the assessment of grants to municipalities and cities in the areas of special state concern are the following: the population in the areas of special state concern, budget revenues per capita on the state level, the average revenues per capita of municipalities and cities on the county level, expenditures for capital assets, payroll expenditures and funds or the coverage of the function of cities with population below 30,000. On the basis of financial reports of local and regional self-government units, it is established if a specific unit meets the set criteria for obtaining grants and the level of grants is established.

Pursuant to the Law indicated above, at least law 30% of obtained grants of counties are redistributed to municipalities and cities which are not direct beneficiaries of the grants from the state budget. In addition to the grants from the state budget, the counties provide grants to the units in their area or co-finance capital expenditures from their own funds.

4.3 | Budget Expenditures of Local and Regional Self-Government Units

Financing of expenditures is planned on the basis of special laws and decisions of units, whereas execution is ensured by decisions on the execution of the budget, with the obligation of budget beneficiaries to use funds for earmarked purposes, on the basis of revenues planned in the budget. Expenditures of local units pertained to the performing of activities in the competence of local and regional self-government units.

Table 4.5 | Executed Budget Expenditures in 2002 and 2003 for 53 Units (32 cities, Counties and the City of Zagreb) - GFS 1986 (in 000 HRK)

Source | Ministry of Finance

	Outturn		Index
	2002	2003	2003/2002
Total expenditures and lending minus repayments	8,770,288	10,458,376	119.25
Total expenditures	8,680,768	10,296,246	118.61
Current expenditures	6,863,830	7,617,598	110.98
Capital expenditures	1,816,938	2,678,648	147.43
Lending minus repayments	89,520	162,130	181.11

Note: According to 1986 GFS methodology

Total executed expenditures in 2003 amounted to HRK 10.5 billion, and in comparison with 2002, when execution totaled HRK 8.8 billion, they grew by 19%. The structure of expenditures is shown in Figures 4.6 through 4.9. and a detailed overview is provided in the Table attached. The share of current expenditures accounted for 73% of the total of executed expenditures in 2003. This was a 5-percent decrease in comparison with 2002, when it accounted for 78%. The share of capital expenditures grew from 21% to 26% and the share of net lending from 1% to 2%. In comparison with 2001, in the structure of total expenditures capital expenditures were lower by 4%, although in nominal terms they still amounted to HRK 1.8 billion. Total executed capital expenditures in 2003 amounted to HRK 2.7 billion, which was a significant increase.

Faster growth of current expenditures was mostly a result of the decentralization process, whereby commitments of financing of the major part of current operations in the education, social welfare, and firefighting were transferred to a lower level. The situation in 2003 was somewhat different. More precisely, the annual growth of 47% of capital expenditures also changed the structure of total expenditures. Namely, capital expenditures in 2003 were financed not only from capital

revenues, but also from the outturn of current revenues, transferred unutilized funds from the previous year, and receipts from borrowing.

Within current expenditures for 2002, the biggest share of expenditures was the one for employees (28%) and expenditures for goods and services (47%). Payroll expenditures (wages and contributions), in addition to wages of employees in self-government bodies also contained mainly the wages of budget beneficiaries (theaters, museums, libraries, kindergartens, etc.). Expenditures for goods and services contained funds for used material, energy, public lighting, cleaning, public areas, communal and other services for regular needs and expenditures for current maintenance of buildings and equipment. In 2003, payroll expenditures in the structure of current expenditures were reduced by 2%, but at the same time the share of subsidies and other current transfers was increased.

	2002		2003	
Current expenditure	6 863 830	78,26	7 617 598	72,84
Capital expenditure	1 816 938	20,72	2 678 648	25,61
Lending minus repayments	89 520	1,02	162 130	1,55
Total expenditure	8 770 288	100,00	10 458 376	100,00

Subsidies and other current transfers, including donations, were mainly earmarked for companies in the areas of municipal management, institutions whose financing was decentralized (education, health, social welfare, and firefighting), non-profit institutions and organizations. The share of those expenditures in 2003 accounted for 26% of current expenditures, which was a 3-percent increase in comparison with 2002.

Financial expenditures, i.e., interest payment for domestic and foreign loan commitments taken over by the units in previous years had the smallest share (2% and 1% for 2002 and 2003, respectively) in current expenditures. The biggest share in total capital expenditures (78% for 2002 and 75% for 2003) accounted for expenditures for acquisition of fixed material assets (communal infrastructure, school and health institutions, cultural objects, pre-school institutions, business zones, business buildings, reconstruction and construction of roads, sports and recreation centers, furniture and equipment, etc.).

Capital transfers accounted for 19% of transfers in total capital expenditures for 2003 and grew by 4% in comparison with 2002. They were mainly earmarked for non-profit organizations for non-economy investments and procurement of equipment and companies owned by local units for procurement of material assets.

	2002		2003	
Expenditures for Employees	1 646 614	23,99	1 737 470	22,81
Contributions of Employers	254 064	3,70	264 085	3,47
Other Expenditures for Goods and Services	3 270 658	47,65	3 551 369	46,62
Interest Payments	111 620	1,63	75 639	0,99
Subsidies and Other Current Transfers	1 580 874	23,03	1 989 036	26,11
Current expenditures	6 863 830	100,00	7 617 599	100,00

While in 2002 the local and regional self-government units had a surplus of revenues over expenditures of the budget of HRK 824 million, in 2003 the surplus amounted to HRK 96 million. Unutilized funds pertained to funds received at the end of the year, when remittances to beneficiaries were no longer possible and due to uncertainty as to the application of the new accounting concept, primarily reporting expenditures on the accrual principle.

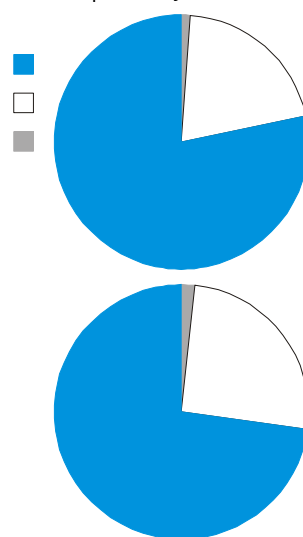
Figures 4.6 | and 4.7 | Structure of Total Expenditure of 32 Cities, Counties and the City of Zagreb in 2002 and 2003 (in 000 HRK)

Source | Ministry of Finance



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Figures 4.8 | and 4.9 | Structure of the Current Expenditure for 32 Cities, Counties and the City of Zagreb in 2002 and 2003 (in 000 HRK)

Source | Ministry of Finance

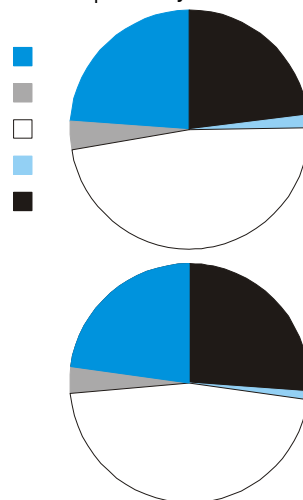


Table 4.6 | Outturn of the Budget in 2002 and 2003 for 53 Units (32 Cities, 20 Counties and the City of Zagreb) - GFS 1986 (in 000 HRK)

Source | Ministry of Finance

	2002		2003		Index 2003/ 2002
	Outturn	Structure	Outturn	Structure	
Total revenues and Grants	9,595,090	100.00	10,554,899	100.00	110.00
Total Revenues	8,328,336	86.80	9,008,108	85.35	108.16
Current Revenues	7,830,809	81.61	8,527,776	80.79	108.90
Tax Revenues	5,477,139	57.08	5,906,130	55.96	107.83
Tax and Surtax on Personal Income	3,863,377	40.26	4,083,336	38.69	105.69
Ptofit Tax	1,055,017	11.00	1,244,040	11.79	117.92
Real estate Tax	329,418	3.43	315,914	2.99	95.90
Domestic and Other Taxes	229,326	2.39	262,839	2.49	114.61
Nontax Revenues	2,353,671	24.53	2,621,646	24.84	111.39
Capital Revenues	497,527	5.19	480,332	4.55	96.54
Grants	1,266,754	13.20	1,546,792	14.65	122.11
Total Expenditure and Landing minus Repayments	8,770,288	100.00	10,458,376	100.00	119.25
Total Expenditure	8,680,768	98.98	10,296,246	98.45	118.61
Current Expenditure	6,863,830	78.26	7,617,598	72.84	110.98
Expenditures for Employees	1,646,614	18.77	1,737,470	16.61	105.52
Contributions of Employers	254,064	2.90	264,085	2.53	103.94
Other Expenditures for Goods and Services	3,270,658	37.29	3,551,369	33.96	108.58
Interest Payment	111,620	1.27	75,639	0.72	67.76
Subsidies and Other Current Transfers	1,580,874	18.03	1,989,036	19.02	125.82
Capital Expenditures	1,816,938	20.72	2,678,648	25.61	147.43
Landing minus Repayments	89,520	1.02	162,130	1.55	181.11
Surplus on Current Accounts without susidies	966,979		910,178		94.13
Total Deficit/Surplus	824,802		96,523		11.70

5 | Consolidated General Government in 2002 and 2003

5.1 | Significant Institutional and Structural Changes

As of July 1, 2001, an important process of integration of operations of extra-budgetary funds into the coverage of the central government budget commenced. It should be noted that at the time the central budget took over the expenditures for the payment of pension benefits from the Croatian Institute of Pension Insurance, the intention being provision of a better control over growing expenditures of extra-budgetary funds. At the same time, revenues from pension insurance contributions (which had previously belonged to the Croatian Institute of Pension Insurance) were included into the revenues of the central budget. Naturally, in terms of the government level aspect, with this event the first significant change in the structure of the consolidated general government budget occurred.

In addition, at the end of 2001 two new extra-budgetary funds were established: Development and Employment Fund and Regional Development Fund, which took over a portion of activities of the state budget, as well as the revenues of privatization of public enterprises. Thereby since January 1, 2002 the coverage of extra-budgetary funds was extended. However, from January 1, 2003 both Funds ceased to be extra-budgetary funds and became a part of the coverage of central budget, as budget funds, i.e., budget beneficiaries.

The process of integration of the most significant portion of operations of extra-budgetary funds into the State Treasury system continued in 2002. As of January 1, 2002, revenues from health insurance contributions and expenditures for health insurance contributions were taken over from the Croatian Institute of Health Insurance and were included into the central government budget through the Treasury system. Also, as of January 1, 2002, revenues from contributions and expenditures for employment contributions were taken over from the Croatian Employment Office and were included into the central budget through the State Treasury system.

Furthermore, since January 1, 2003, in line with the agreement with the IMF, the coverage of extra-budgetary funds included the following state agencies: Croatian Motorways (HAC), Croatian Roads (HC), State Agency for Deposit Insurance and Bank Rehabilitation (DAB), and Croatian Privatization Fund (HFP). Namely, it is known that big capital expenditures for road and motorway construction in the last several years gained momentum, i.e., in this respect Croatian Roads and Croatian Motorways represented an institutional medium through which this big infrastructure process developed. Therefore, in order to gain a more realistic insight into the real state spending and also for purpose of good quality of year-on-year comparison, for the analysis in this Annual Report, the so-called "revised coverage (novi obuhvat)" of consolidated general government for 2001, 2002, and 2003 (which includes all the state agencies mentioned above).

All the changes mentioned above had drastic implications for the ratio of the revenues and expenditures between the central government level and



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extra-budgetary funds. Therefore, the forthcoming analysis will often specifically refer to this section of Chapter V, which provides a summary explanation of all the most important institutional changes over the last several years.

They cause a distortion in relative ratios between specific levels of government, but the definition of the coverage of segments of state government remained the same: central government budget, extra-budgetary funds, and the budget of local and regional self-government. Consolidated general government budget is a result of the transactions among all the three levels of state government.

5.2 | Consolidated General Government - Economic Classification

It should be stressed that all the used reports on the execution of the state budget were reported in line with the methodology of the International Monetary Fund for public finance statistics (Government Finance Statistics; GFS 1986). An exception was made in the classification of revenues from privatization of public enterprises, which were recorded in capital revenues. More precisely, due to their being one-time and uncertain, it is correct to treat privatization revenues as financing receipts. Therefore, depending on those two different approaches, radically different implications are created for the size of the reported budget deficit. In addition to the above, it should be pointed out that the so-called cash principle of recording budget transactions was used, unless stated otherwise.

Table 5.1. indicates basic aggregates of revenues and expenditures of consolidated general government, reported according to economic classification as a share of the gross domestic product.

It can be seen that tax burden, measured by the share of tax revenues of consolidated general government in GDP is still too high, i.e., it is above 40% of GDP during the period from 2001 to 2003. The changes in the tax system (described in more detail in Chapter II) affected the decrease in collected revenues from individual taxes, however, some effects of the new tax measures are often manifested after a certain time lag since the moment of their legal implementation.

Table 5.1 | Consolidated General Government Revenues and Expenditure in 1999 – 2003, % of GDP
Source | Ministry of Finance and CBS for GDP data

	Percentage of GDP (%)				
	1999	2000	2001	2002	2003
TOTAL REVENUES AND GRANTS	52.98	48.93	47.60	46.17	46.59
I. Total Revenues	52.98	48.92	47.60	46.17	46.59
1. Current Revenues	48.05	46.46	43.94	44.42	44.41
-Tax Revenues	44.07	42.65	40.46	40.47	40.23
-Nontax Revenues	3.98	3.81	3.48	3.95	4.18
2. Capital Revenues	4.93	2.45	3.66	1.76	2.18
II. Grants	0.00	0.01	0.00	0.00	0.01
TOTAL EXPENDITURES AND NET LENDING	55.19	53.97	50.75	48.81	49.54
III. Total Expenditures	54.09	53.13	50.01	47.95	48.77
1. Current Expenditures	46.96	47.98	45.52	42.23	41.97
2. Capital Expenditures	7.13	5.15	4.49	5.72	6.80
3. Lending minus repayments	1.11	0.83	0.74	0.85	0.77

Non-tax revenues had a growth tendency from 2001, whereas at the same time capital revenues recorded a strong drop in the share of GDP in 2002, exclusively because of a weaker outturn of privatization revenues. However, in 2003 there was a recovery on capital revenues item, which resulted primarily in better outturn of privatization revenues, out of which



the most poignant example was the sale of 25% + 1 share of INA amounting to USD 505 million.

A larger portion of such receipts from sale of public enterprises was used for financing of budget deficit. Consequently, the category of capital revenues reported in this manner should be analytically observed specifically with this reservation.

On the expenditure side an interesting trend of the decrease of the share of current expenditures in GDP from 2001 onwards can be observed, which was at the expense of the increase in the share of capital expenditures in the same observation period. In this analytical framework, it is very important that all the three observed years (2001, 2002, and 2003) be fully comparable in terms of methodology, given that they are reduced to the same coverage which includes all extra-budgetary funds and state agencies (HAC, HC, DAB, and HFP). Consequently, the largest share of capital expenditures for the development of road infrastructure (which is primarily reflected in the HAC budget) caused a sky rocketing of the share of capital expenditures in GDP during 2002 and 2003.

In general, the size of the public sector, measured by the share of total expenditures (with net lending) in GDP indicates the level of public spending in the Republic of Croatia is still worrisome. The level of public expenditures of almost 50% of GDP, recorded in 2003, indicates the expansiveness of fiscal policy in that year, which followed after the previous multi-year trends of decreasing public expenditures as the share of GDP. The following section provides a more detailed review of the structure of revenues and expenditures of consolidated general government. This also provides an answer to the question why the state spending in 2003 significantly distorted the trends of decreasing state expenditures in GDP during the several previous years.

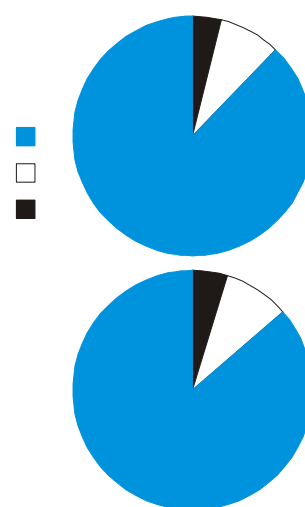
Figures 5.1 | and 5.2 |
Structure of consolidated
General Government
Revenues in 2002 and 2003
(in %)
Source | Ministry of Finance

	2002	2003
TOTAL REVENUES AND GRANTS	100.00	100.00
I. Total Revenues	100.00	99.99
1. Current Revenues	96.19	95.30
Tax Revenues	87.65	86.35
Nontax Revenues	8.55	8.96
2. Capital Revenues	3.80	4.68
II. Grants	0.00	0.01

The decomposition of total revenues of consolidated general government in 2002 and 2003 is illustrated in Figures 5.1. and 5.2. Capital revenues in 2003 had a relatively higher share (4.7%) in total revenues in comparison with the previous fiscal year. As mentioned above, the reason for this is primarily a better outturn of revenues from privatization of public enterprises in 2003. On the other hand, such outturn of capital revenues "crowded out" the share of tax revenues in total revenues from 87.7% in 2002 to 86.4% in 2003. However, a number of tax policy measures during 2002 and 2003 also conditioned a weaker outturn of individual kinds of tax revenues.

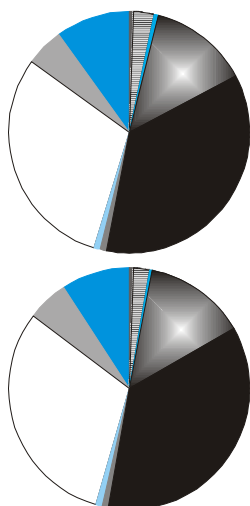
Figures 5.3. and 5.4. indicate the structure of tax revenues of consolidated general government in 2002 and 2003, according to economic classification. Analysis of the outturn of specific kinds of tax revenues stresses those most "abundant" ones, i.e., those with the greatest fiscal importance.

Revenues from VAT were by far the biggest component of tax revenues of consolidated general government, since they increased their share in tax revenues from 35.8% in 2002 to 36.2% in 2003. In 2002 the year-on-year growth of revenues from VAT was a high 11.5%, whereas in 2003



Figures 5.3 | and 5.4 |
Structure of Consolidated
General Government Tax
Revenues in 2002 and 2003
(in %)

Source | Ministry of Finance



HRK 28.1 billion was collected in revenues from VAT, or by 8.4% more in comparison with 2002.

Revenues from social security contributions accounted for more than 30% of total tax revenues with a trend of a moderate increase of the share in 2003 in comparison with the previous year. An outturn of as much as HRK 23.9 billion was collected in revenues from contributions in 2003, which was a year-on-year growth of a record high 8.5%.

	2002	2003
Tax revenue	100.00	100.00
■ Taxes on individual income	9.95	9.27
■ Taxes on corporate income	5.12	5.56
□ Social security contributions	30.28	30.71
■ Taxes on property	0.86	0.78
■ Retail sales taxes	0.71	0.86
■ Value added tax	35.75	36.21
■ Excise taxes	13.55	13.50
■ Local taxes on goods and services	0.31	0.34
■ Taxes on international trade and transactions	2.82	2.33
■ Other taxes	0.65	0.44

A high third place in the structure of tax revenues was held by excise taxes with the share of more than 13%. Namely, in 2002 a year-on-year growth of revenues from excise taxes was as much as 18%, and after that a significant growth was recorded in 2003 as well (6.6%). In other words, in 2003 the outturn of revenues from excise taxes amounted to HRK 10.5 billion, out of which the collected excise taxes on oil derivatives accounted for the highest share. Given that specific components of excise taxes were already described in Chapter II, this part will additionally deal only with the sources of collected excise taxes. Out of the total amount in 2003 (HRK 10.5 billion), central budget collected HRK 7.9 billion, whereas the remaining HRK 2.6 billion was collected by the budgets of HAC and HC. It should be noted that as early as 2001 the law regulated earmarked setting aside of a portion of excise taxes on oil and oil derivatives for construction of roads and motorways, which directly relates to the collected HRK 2.6 billion outside of the central state budget.

Revenues from personal income tax recorded a decrease in the total tax revenues from almost 10% in 2002 to only 9.3% in 2003. The changes in the personal income tax system (described in Chapter II) were related to a lower outturn of revenues from that tax. In 2002, by 12.1% more revenues from personal income tax was collected, whereas the outturn in 2003 showed a year-on-year decline of 0.4%. Obviously, the changes in tax (primarily the change of tax base and tax brackets) were directed toward relieving the burden of the income of an individual whose real income thereby grew, whereas, at the same time, budget revenues on this basis declined.

In 2002 profit tax recorded a truly significant year-on-year growth of 33.2%, which also continued in 2003, when it was collected in the amount of HRK 4.3 billion (i.e., by 16.3% more in comparison with 2002). As an analogy, Figures 5.3. and 5.4. illustrate the increase in the share of profit tax in total tax revenues from 5.1% in 2002 to 5.6% in 2003. Such a trend of revenues from profit tax corresponds with the more robust economic activity of economic subjects during 2001 and 2002, when relatively high economic growth rates were recorded (see Chapter I).

Figures 5.3. and 5.4. illustrate the decline in the share of revenues from tax on international trade and transactions in total tax revenues, from

2.9% in 2002 to 2.3% in 2003. No doubt, this kind of budget revenues is losing its significance from one year to another, and the importance of customs revenues becomes more and more marginalized. This is also confirmed by the following illustration: in 2002 the outturn of customs revenues were by 36.3% lower in comparison with the previous year, and the same trend continued in 2003, when the year-on-year drop was 11.7%. Such decrease in revenues from tax on international trade and transactions practically represented a "cost" of the process of liberalization of foreign trade relations, which manifested primarily through the expansion of multilateral and bilateral agreements of Croatia with third countries.

Total revenues (with grants) on the level of consolidated general government recorded a year-on-year growth of 5.1% in 2002, whereas in 2003 the outturn of budget revenues was by 8.6% higher in comparison with the previous fiscal year. Specifically, in 2003 the outturn of budget revenues was almost HRK 90 billion, whereas total expenditures with net lending amounted to HRK 95.7 billion. The structure of budget expenditures in 2002 and 2003, reported according to economic classification, is provided in Figures 5.5. and 5.6.

	1999	2000	2001	2002	2003
Expenditures on goods and services	45.07	47.63	45.14	43.21	41.39
Transfers	33.55	33.70	36.68	35.57	35.11
Subsidies	5.12	5.37	4.85	4.92	5.29
Capital expenditures	13.18	9.70	8.98	11.93	13.95
Interest payments	3.08	3.60	4.35	4.36	4.26
Total expenditures	100.00	100.00	100.00	100.00	100.00

The expenditures for goods and services were the biggest segment of total expenditures. Their share, however, was reduced from 43.2% in 2002 to 41.4% in 2003. However, after a year-on-year decrease was recorded in two subsequent years, in 2003 expenditures for goods and services were again by 4.9% higher than in 2002. Therefore, the real aspect of looking at their share in total expenditures should be brought into connection with the relative increase in capital expenditures, whose expansion in 2003 "crowded out" a portion of current expenditures in the structure of total expenditures of the general government budget. More specifically, capital expenditures in 2003 were HRK 13.1 billion, whereby they exceeded their amount of the previous year by as much as 28%. Out of this amount, more than HRK 6 billion pertained to expenses outside of the central government budget, i.e., consumption through the budget of state agencies (particularly Croatian Motorways). Capital investments in road infrastructure caused similar megalomaniac surges in 2002 as well, when the year-on-year growth of capital expenditures consolidated general government was almost 38% (in comparison with 2001).

The expansion of capital expenditures was closely related to their relative growth in the total expenditures, from 11.9% in 2002 to almost 14% in 2003.

Expenditures for transfers recorded a decrease of its share in total expenditures (as indicated in Figures 5.5. and 5.6.), however, their year-on-year growth in 2003 was as high as 8%. Namely, this group of expenditures was dominated by expenditures for transfers to households, which accounted for more than 90% of total transfers. The majority of them were expenditures for pension benefits.

In 2003 expenditures for subsidies grew by a high 18% in comparison with the previous year, with an increase in their relative share in total expenditures from 4.9% in 2002 to 5.3% in 2003.

Figures 5.5 | and 5.6 |
Structure of Consolidated
General Government Total
Expenditure in 2002 and
2003
(in %)

Source | Ministry of Finance

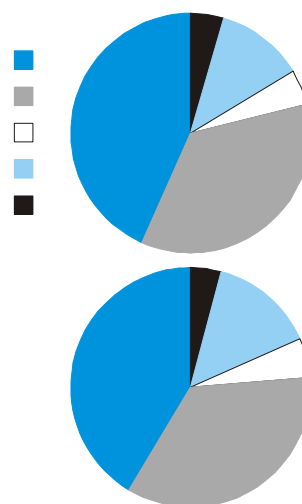


Table 5.2 | Trends in Consolidated General Government Expenditure, % of GDP

Source | Ministry of Finance and CBS for GDP data

The trend of the most significant components of current expenditures of consolidated general government as a share of GDP is illustrated in the table below:

	Percentage of GDP (%)				
	1999	2000	2001	2002	2003
Expenditures on goods and services	24.38	25.31	22.57	20.72	20.19
- Wages and salaries	12.80	12.84	11.64	10.78	10.91
- Other purchases of goods and services	11.58	12.47	10.94	9.94	9.28
Interest payments	1.66	1.91	2.18	2.09	2.08
Subsidies and other current transfers	18.80	20.76	20.77	19.42	19.70

The drop in the share of expenditures for goods and services in GDP for the period from 2001 to 2003 leads to the conclusion that such a trend, primarily positive after all, resulted due to rationalization and better discipline in curbing expenditures for other purchases of goods and services. At the same time, expenditure for wages and salaries in 2003 again reached an unsustainable level of almost 11% of GDP. Namely, in 2003 expenditures for salaries and wages amounted to more than HRK 21 billion, which was by as much as 8.9% more than in the previous year. Overspending for salaries was closely related with the weaker dynamics of the rationalization of the number of employees in the public sector. Consequently, the high share of those expenditures of 11% GDP should be resolved through faster structural reforms of public administration, i.e., through a reduction of administration, i.e., through a reduction of the public sector.

There was also a similar worrisome trend of expenditures for subsidies and current transfers, which in 2003 showed signs of increase of as much as 9.2% in comparison with the previous year. It was specifically such dynamics that determined a high share of those expenditures of almost 20% of GDP in 2003.

Expenditures for interest payment were on the level of approximately 2% of GDP. In 2003 more than HRK 4 billion was paid in domestic and foreign interests, which was by 6.8% more in comparison with 2002. The level of expenditures for payment of interest commitments also determined the level of primary deficit. In other words, the higher the expenditures for interest payments are, the lower are the available funds for current and capital state expenditures. Naturally, this kind of expenditures is directly related to the level of public debt.

The following section deals with the analysis of consolidated general government budget, but from the aspect of the state authorities. An extended methodological coverage which integrates all state agencies into the coverage of extra-budgetary funds, enables a year-on-year comparison.

5.3 | Consolidated General Government According to Government Levels

Table 5.3. indicates the trend of total revenues and expenditures as a share of GDP, for each level of government, with accent on decomposition of the category of extra-budgetary funds. The first part of this Chapter explained the institutional and structural changes which marked the fiscal period from 2001 to 2003. Following is an analysis of how all those changes reflected in terms of figures on the relations between specific levels of government in the observed period.

As early as 2001 there was a reduction of the share of revenues and expenditures of extra-budgetary funds in GDP, whereas at the same time this share increased in relative terms in the central budget. In the middle of the year the central budget took over the expenditures for pension insurance contributions, but also the revenues from those contributions.

Table 5.3 | Consolidated General Government according to Government Level

Source | Ministry of Finance and CBS for GDP data

	Percentage of GDP (%)				
	1999	2000	2001	2002	2003
TOTAL REVENUE AND GRANTS	52.98	48.93	47.60	46.17	46.59
Budgetary Central Government	32.74	29.27	31.64	37.16	38.69
Extrabudgetary Funds	14.77	14.31	11.84	4.37	3.23
1. Pension Fund	7.53	7.31	3.47	0.07	0.06
2. Health Insurance Fund	6.05	5.79	6.16	0.26	0.43
3. Employment Fund	0.53	0.53	0.54	0.01	0.01
4. Croatian Waters	0.66	0.69	0.64	0.61	0.60
5. Child Benefit Fund	0.01	0.00	0.00	-	-
6. Development and Employment Fund	-	-	-	1.00	-
7. Regional Development Fund	-	-	-	0.28	-
8. Croatian Motorways	-	-	0.42	0.95	1.00
9. Croatian Roads	-	-	0.07	0.68	0.72
10. State Agency for banks	-	-	0.36	0.34	0.30
11. Croatian Privatization Fund	-	-	0.17	0.16	0.13
Local Government (53 Units)	5.47	5.35	4.12	4.64	4.67
TOTAL EXPENDITURE AND NET LENDING	55.19	53.97	50.75	48.81	49.54
Budgetary Central Government	25.08	23.83	26.17	37.11	38.01
Extrabudgetary Funds	24.27	24.72	20.31	7.03	6.37
1. Pension Fund	13.42	13.23	7.32	0.87	0.95
2. Health Insurance Fund	8.42	9.13	7.95	0.70	0.46
3. Employment Fund	0.58	0.65	0.59	0.13	0.07
5. Croatian Waters	1.05	0.89	0.77	0.79	0.88
4. Child Benefit Fund	0.80	0.82	1.49	-	-
6. Development and Employment Fund	-	-	-	1.26	-
7. Regional Development Fund	-	-	-	0.09	-
8. Croatian Motorways	-	-	0.76	2.08	2.84
9. Croatian Roads	-	-	0.69	0.64	0.81
10. State Agency for banks	-	-	0.70	0.34	0.13
11. Croatian Privatization Fund	-	-	0.03	0.14	0.21
Local Government (53 Units)	5.84	5.42	4.28	4.67	5.16
Total deficit(-) / surplus(+)	-2.21	-5.04	-3.15	-2.63	-2.95

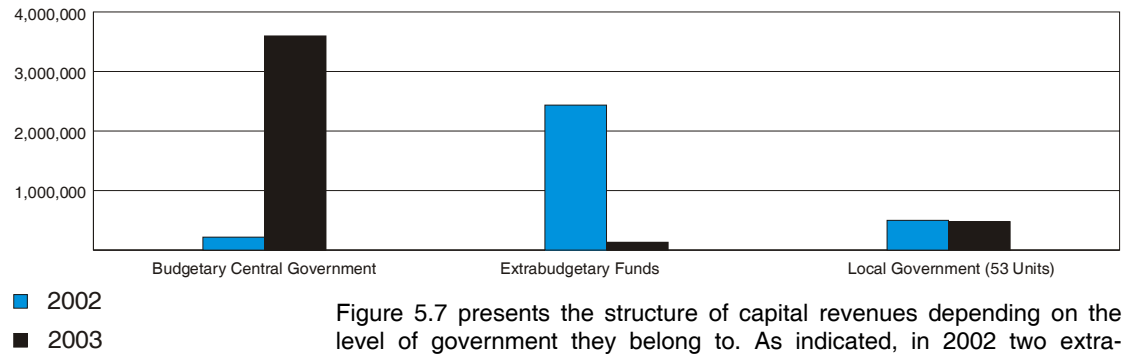


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In 2002, additional integration of revenues and expenditures for health insurance and employment contributions into the State Treasury system drastically changed the relation between the central budget and extra-budgetary funds. It is specifically for this reason that the share of revenues and expenditures of extra-budgetary funds in 2002 intensively decreased, at the expense of their increase on the level of central budget. Total revenues of extra-budgetary funds were reduced from 11.9% of

Figure 5.7 | Structure of Consolidated General Government Capital revenues according to Government Level in 2002 and 2003
(in 000 HRK)

Source | Ministry of Finance



GDP in 2001 to only 4.4% of GDP in 2002. Expenditures of extra-budgetary funds were reduced from 20.3% of GDP in 2001 to only 7% of GDP in 2002. It is important to notice the influence on revenues and expenditures of central budget, which increased their share in GDP, comparing them with the previous year.

In order to calculate the deficit of consolidated general government it is very important to isolate capital revenues from total revenues, given that they mainly consist of privatization revenues whereby budget deficit is financed.

Figure 5.7 presents the structure of capital revenues depending on the level of government they belong to. As indicated, in 2002 two extra-budgetary funds became operational (the Regional Development Fund and the Development and Employment Fund), which were receiving revenues from privatization. However, since January 1, 2003 both funds ceased to operate as extra-budgetary funds and were integrated into the central budget. Therefore the Figure indicates the change in the trend of capital revenues from the segment of extra-budgetary funds in 2002 to the level of central budget in 2003.

Table 5.4. illustrates the difference in the level of deficit of consolidated general government depending on whether capital revenues are placed in the category of total revenues or are treated as receipts for the financing of government deficit.

Depending on the volume of capital revenues, the level of deficit of consolidated general government changed drastically, comparing two different treatments of capital revenues. Consequently, it is correct to treat this kind of revenues by isolating them from the category of budget revenues (due to the reasons mentioned above). In other words, the amount of budget deficit is increased by their amount. Figure 5.8. illustrates the structure of the deficit of consolidated general government according to government levels, excluding capital revenues:

Table 5.4 | Total deficit/surplus of Consolidated General Government According to Government Level
Source | Ministry of Finance and CBS for GDP data

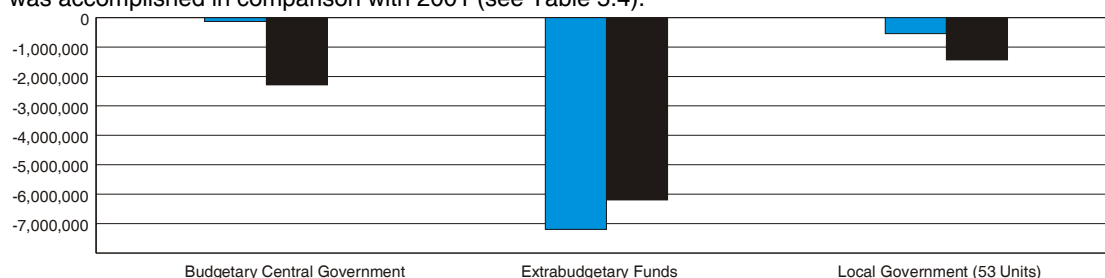
	Percentage of GDP (%)				
	1999	2000	2001	2002	2003
Total deficit(-) / surplus(+) of Central Budget	7.66	5.44	5.47	0.05	0.69
Total deficit(-) / surplus(+) of Extrabudgetary Funds	-9.50	-10.40	-8.47	-2.66	-3.13
Total deficit(-) / surplus(+) of Local Government (53 Units)	-0.37	-0.07	-0.15	-0.02	-0.50
Total deficit(-)/surplus(+) of Consolidated General Government					
- including Capital revenues	-2.21	-5.04	-3.15	-2.63	-2.95
- excluding Capital revenues	-7.14	-7.49	-6.81	-4.39	-5.13

At any rate, such mode of reporting deficit of consolidated general government provides a much more realistic presentation of the trends of budget revenues and expenditures. However, for purpose of easier understanding of the general difference between the two modes of calculation of deficit indicated above, an illustrative review of the trends of the deficit of consolidated general government, reported as a share of GDP (Figure 5.9).

In 2003 fiscal discipline obviously worsened, given that the level of deficit reached 5.1% of GDP, whereas only a year ago a significant adjustment was accomplished in comparison with 2001 (see Table 5.4).

Figure 5.8 | Structure of Consolidated General Government deficit according to Government Level in 2002 and 2003 - excluding Capital revenues (in 000 HRK)

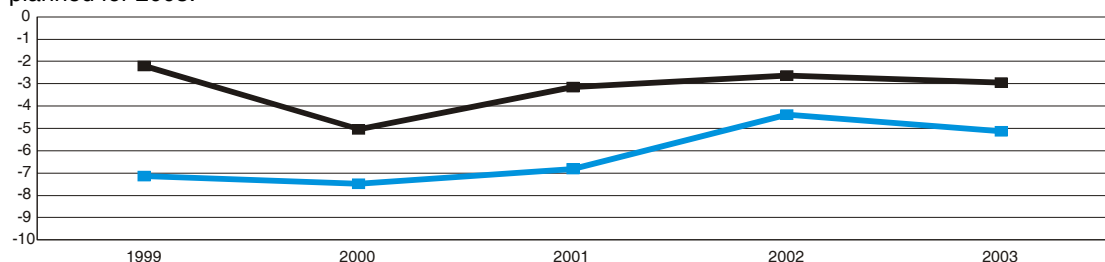
Source | Ministry of Finance



Considerable privatization revenues from the sale of 25% shares of INA in 2003 were mainly used for covering the budget deficit, which exceeded the planned value of the deficit of consolidated general government for 2003 by almost HRK 1 billion. Although the revenues were collected just a little above the planned HRK 89.5 billion, this exceeding was primarily a result of weaker discipline over total expenditures (with net lending), amounting to almost HRK 1.3 billion in comparison with the amount planned for 2003.

Figure 5.9 | Deficit konsolidirane opće države (% of GDP)

Source | Ministry of Finance



5.4 | Consolidated General Government Surplus/Deficit

This section deals with the trend of different volumes of deficit /surplus of consolidated general government, which is the basis for deriving general conclusions on the character of fiscal policy throughout the period observed. Also, the structure of financing budget deficit is presented, with regard to domestic or foreign source of funding from which government deficit is financed.

Current surplus / deficit is the balance between current revenues and current expenditures. Table 5.5. indicates that there was a surplus on the current account in 2002 and 2003. More precisely, this means that current revenues of consolidated general government could cover current expenditures. However, Croatia obviously has an exceptionally high total deficit on the level of consolidated general government, which is greatly instigated by a strong growth of capital expenditures. After the total budget deficit of 4.4% in 2002, fiscal policy in 2003 showed all characteristics of expansiveness. The discrepancies from planned values resulted in the amount of fiscal deficit which was recorded at HRK 9.9 billion or 5.1% of GDP. Figure 5.10. clearly indicates that fiscal measures in 2003 were not sufficiently strong to continue a decrease in budget

- including Capital revenues
- excluding Capital revenues

Table 5.5 | Consolidated General Government deficit/surplus and Financing, % BDP

Source | Ministry of Finance and CBS for GDP data

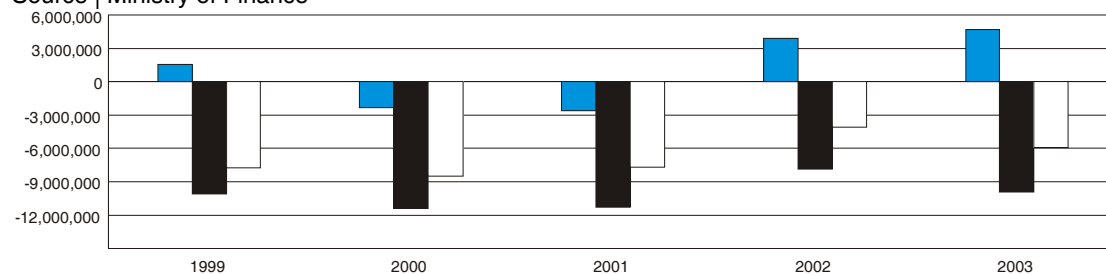
deficit from 2002. The tendency of fiscal consolidation process was disrupted, which caused a number of public and professional discussions on the level of deficit in 2003. Specifically due to the sensitiveness of this problem, the deficit for 2003 is elaborated in the following paragraph and additional methodological explanations are provided.

	Percentage of GDP (%)				
	1999	2000	2001	2002	2003
Current deficit(-)/surplus(+)	1.09	-1.51	-1.59	2.18	2.43
Total deficit(-)/surplus(+)	-2.21	-5.04	-3.15	-2.63	-2.95
Total deficit(-)/surplus(+) without Capital revenues	-7.14	-7.49	-6.81	-4.39	-5.13
Primary deficit(-)/surplus(+)	-5.47	-5.58	-4.64	-2.30	-3.05
Total financing	2.21	5.04	3.15	2.63	2.95
Domestic financing	-1.30	0.53	1.32	-0.10	-0.12
External financing	3.51	4.51	1.83	2.74	3.07

The volume of primary deficit indicates the amount of budget deficit which would have been reached if it had not been for the expenditures for interest payments. Table 5.5. and Figure 5.10. clearly indicate that the burden due to interest payment is exceptionally high because the volumes of total and primary deficit differ by more than two percentage points (as the shares of GDP for 2002 and 2003). Therefore, a significant portion of the amount of budget deficit is essentially a direct consequence of government borrowing which needs to be repaid during that period. It can be concluded that this cycle is closed circularly, given that the borrowing, on the other hand, is generated as a need for financing deficit. Specifically for this reason it is important that there are no such radical discrepancies from the planned values of budget deficit as was the case in 2003.

Figure 5.10 | Measures of Consolidated General Government deficit/surplus (in 000 HRK)

Source | Ministry of Finance



- Current deficit(-)/surplus(+)
- Total deficit(-)/surplus(+)
without Capital revenues
- Primary deficit(-)/surplus(+)

Table 5.5 indicates that the total amount of deficit of consolidated general government in 2002 and 2003 was fully financed on the foreign financial market, mostly by issuance of government bonds, privatization revenues, and, to a lower, extent by loans.

Finally, we present the so-called "degree of coverage" of capital expenditures with potential surplus on the current account which is defined as the difference between current revenues and current expenditures (amount of savings). Table 5.6. indicates that in 2000 and 2001 there was no surplus on the current account, so capital expenditures could not be financed from current savings even in the smallest amount. In 2002 and 2003 this coefficient was a little over 35%. In other words, more than one-third of capital expenditures of the government was covered by the amount of savings on the current account. The remaining part obviously implies the need for financing through borrowing. Characteristically big capital expenditures in 2002 and 2003 reflected the volume of infrastructure projects, primarily investment into motorway

construction. Nevertheless, the degree of coverage is also determined by the level of current expenditures over current revenues. For instance, the forthcoming commitments based on repayment of loans and interest payments could slow down the positive trends of this coefficient if current revenues do not adequately accompany the level of current expenditures.

Table 5.6 | Consolidated General Government Current Surplus and Coverage degree of Capital Expenditures

Source | Ministry of Finance and CBS for GDP data

Year	Current Surplus (mil. HRK)	Percentage of GDP (%)	Capital Expenditures (mil. HRK)	Coverage degree (%)
1999	1,543	1.09	10,090	15.29
2000	-2,308	-1.51	7,861	-
2001	-2,626	-1.59	7,437	-
2002	3,915	2.18	10,261	38.15
2003	4,701	2.43	13,134	35.79



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5.5 | Fiscal Deficit in 2002 and 2003 According to Modified Accrual Principle

Unlike the cash basis of recording budget transactions, the application of modified accrual principle implies recording of all expenditures incurred over a year, regardless of the fact whether they were paid out in the respective year. In other words, this means that the amount of the deficit of consolidated general government, calculated on the cash basis, should be corrected by the part of unpaid expenditures incurred in the fiscal year in question, regardless of the fact that on the cash basis they will be recorded in the next year, i.e., in forthcoming periods. Also, the amount of the deficit reported on modified accrual accounting principle is increased by the amount of all due outstanding obligations (arrears) in the respective year; and is decreased if the amount of arrears was reduced during fiscal year for which the calculation of the deficit is effected.

Table 5.7. illustrates the breakdown of the deficit according to modified accrual principle for 2002 and 2003, in line with the methodology agreed with the International Monetary Fund.

Table 5.7 | Consolidated General Government Deficit in 2002 and 2003, According to Modified Accrual Basis

(mil. HRK)

Source | Ministry of Finance and CBS for GDP data

	2002	2003
1. Overall Consolidated General Government deficit excluding Capital revenue-on the cash basis	-7,873	-9,904
2. Total stock of arrears and non-recorded expenditures	-1,096	-2,439
3. Overall Consolidated General Government deficit - on modified accrual basis	-8,969	-12,343
4. Gross domestic product	179,390	193,067
5. Deficit as a share of GDP, %	-5.0	-6.3

Namely, under the Stand-by Arrangement which the IMF Board of Directors approved for the Republic of Croatia in February 2003 for a period of 14 months (equivalent to SDR 105.88 million), precise agreement was reached, among others, on the quantitative limits of the consolidated general government deficit in 2003, on the level of 4.5% of GDP. It is important to note that under the Stand-by Arrangement, in the Annex to the Memorandum on Economic and Financial Policy, it was agreed that the method of modified accrual accounting would be used for the calculation of budget deficit.

The agreed deficit of 4.5% of GDP for 2003 actually represented the purpose of decreasing budget deficit in comparison with 2002, when the consolidated general government deficit accounted for 5% of GDP, as illustrated in Table 5.7.

Consequently, it can be concluded that total consolidated general government deficit (reported on the modified accrual principle) on the level of 6.3% of GDP in 2003 was a significant discrepancy from the agreed deficit of 4.5% of GDP. This was the reason why the last arrangement with the IMF was not successfully concluded.

It should be stressed that the total amount of outstanding and unrecorded liabilities in 2003, which recoded an amount of almost HRK 2.5 billion, accounted for as much as 1.3% of GDP. With regard to such a considerable volume in the structure of total deficit of consolidated general government, Table 5.8. presents a detailed specification of specific liabilities incurred in 2003, which significantly affected the level of consolidated general government deficit:

Table 5.8 Total stock of arrears and non-recorded expenditures in 2003

(in mil. HRK)

Source | Ministry of Finance

		2003
1.	Projects performed in 2003 under HAC and HC budget	-673
2.	HŽ Guarantees	-900
3.	HBOR reconstruction loans (third tranche)	-577
4.	HFP loan repayment and equity acquisition	-156
5.	Cumulative changes of the stock of arrears	108
6.	Non-recorded loans for modernization of Railways	-241
Total stock of arrears and non-recorded expenditures:		-2,439

The Table above indicates several occurrences in last year. Among them are definitely the problems related to the work of the system of the State Treasury, through which apparently not all required budget transactions in 2003 were recorded. Specifically, the amount of fiscal deficit according to modified accrual accounting should have included the amount of no less than HRK 241 million of government liabilities which were not recorded in the State Treasury system. Furthermore, fiscal indiscipline reflected in several "by-pass" ways of spending budget resources: either through overspending in the budget HAC and HC or through the system of providing government guarantees which are called, or through the activities of HBOR and Croatian Privatization Fund.

Due to all the liabilities indicated above, which, in the long run, had to be included into the calculation of total consolidated general government deficit (in line with the prescribed methodology), the problem of transparency of public finance in Croatia has become especially poignant lately.

It is specifically in this context, after the complete obstruction of the process of fiscal consolidation in terms of the reduction of budget deficit, that it should be mentioned that the intention of the new Croatian Government is to set up as transparent relations as possible in the public finance system. After the last Stand-by Arrangement was not concluded due to non-fulfillment of a number of quantitative criteria and agreed limits in the financial and economic policy, budget for 2004 shows a truly higher level of financial accountability in planning and spending budget resources. Therefore, the consolidated general government deficit reported like this (according to the modified accrual principle) will be fully comparable with the deficit for 2004, given that budget expenditures for 2004 include all the expenditures mentioned for Croatian Railways, works for HAC and HC (on an accrual principle), as well as the changes in arrears in 2004.

Also, there is a clear commitment for a more decisive fiscal policy whose aim is to reduce the consolidated general government deficit from 6.3% in 2003 to the level of 4.5% of GDP in 2004. This can be considered an ambitious undertaking and a relatively great fiscal adjustment which is intended to be accomplished within a year only.

6 | Public Debt of the Republic of Croatia in 2002 and 2003

Persuant to the Budget Law ("The Official Gazette" No. 96/2003), government debt is defined as the debt of consolidated government budget without government guarantees. With added government guarantees, government debt is defined as public debt. Table 6.1 illustrates the trend of public debt of the Republic of Croatia in the period from 1999 to 2003:

Table 6.1 | General Government Debt

(end of period,
in mil. HRK)

Source | Ministry of Finance



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	1999	2000	2001	2002	2003
1. Internal general government debt	17,634.0	22,461.8	26,128.3	29,690.1	32,829.8
1.1 Internal debt of the Republic of Croatia	16,012.1	18,509.7	21,467.9	24,735.0	25,676.2
Treasury bills	776.7	2,564.6	4,892.3	5,632.7	6,548.1
Money market instruments	153.3	14.2	7.4	0.1	-
Bonds	13,720.7	14,082.5	15,415.8	16,021.7	14,937.3
Croatian National Bank credits	24.1	0.0	-	0.5	1.4
Bank credits	1,337.3	1,848.4	1,152.4	3,080.0	4,189.1
1.2 Internal debt of the Republic funds	716.3	2,777.2	3,380.5	3,922.0	6,247.5
Money market instruments	-	-	-	-	-
Bonds	-	1,686.8	1,636.1	1,652.2	3,418.2
Bank credits	716.3	1,090.4	1,744.3	2,269.8	2,829.3
1.3 Internal debt of local government and funds	905.6	1,174.9	1,280.0	1,033.1	906.1
Money market instruments	1.3	5.9	30.5	30.2	16.9
Bonds	-	0.5	1.2	-	-
Bank credits	904.3	1,168.4	1,248.2	1,002.9	889.2
2. Foreign debt of general government	29,147.1	37,402.1	40,220.9	41,774.5	46,958.2
2.1 Foreign debt of the Republic of Croatia	28,617.0	36,845.7	39,656.8	41,296.8	42,221.2
Money market instruments	-	-	-	-	-
Bonds	18,903.3	25,231.2	30,029.0	30,115.3	33,547.8
Credits	9,713.7	11,614.5	9,627.8	11,181.6	8,674.1
2.2 Foreign debt of republic funds	109.7	106.4	89.6	80.0	4,429.7
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Credits	109.7	106.4	89.6	80.0	4,429.7
2.3 Foreign debt of local government and funds	420.3	450.1	474.4	397.6	306.6
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Credits	420.3	450.1	474.4	397.6	306.6
3. Total (1+2)	46,781.1	59,863.9	66,349.2	71,464.6	79,788.0
Addendum: issued guarantees of the Republic of Croatia					
1. Domestic	3,300.0	3,377.0	5,957.8	7,423.8	6,796.5
2. Foreign	8,568.0	9,330.3	8,259.4	7,818.5	8,259.4
3. Total debt of HBOR	1,280.7	2,012.3	2,725.9	3,769.1	4,899.7
Total: issued guarantees of the Republic of Croatia (1+2+3)	13,148.7	14,719.6	16,943.1	19,011.4	19,955.6
GRAND TOTAL:	59,929.8	74,583.6	83,292.4	90,476.0	99,743.6
GDP	141,579.1	152,518.8	165,639.5	179,390.1	193,066.8
TOTAL DEBT OF GENERAL GOVERNMENT (as % in GDP)	42.3	48.9	50.3	50.4	51.7

The content and coverage of data in the table above is defined under the term „general government“ and includes the debt of the following:

1. Central Government and Former Extra-Budgetary Funds
2. Croatian Motorways and Croatian Roads
3. State funds and agencies (BRA, CPF)
4. Debt arising from issued state guarantees to beneficiaries outside the “general government“ sector
5. Debt of 53 local government and self-government bodies
6. Direct debt of Croatian banks for reconstruction and development

This coverage includes the direct debt of HBOR and excludes all state guarantees approved to HBOR. (This was done in order to avoid possible double reporting of debt, because in numerous cases the state guarantees for HBOR's borrowings and placements).

6.1 | Credit Rating of the Republic of Croatia

Four leading international credit rating agencies (Moody's Investors Service, Standard & Poor's (S&P), Fitch Ratings, and Rating and Investment Information (R&I)), whose credit rating the Republic of Croatia has requested so far, usually perform the annual verification of the awarded credit rating.

In 2002 and 2003 this verification resulted in a confirmed investment credit rating of the Republic of Croatia by all the four agencies. In 2002 Moody's Investors Service upgraded its credit rating of the Republic of Croatia by changing the negative “outlook“ into stable. With this rating Moody's rated the Republic of Croatia as stable for investors. During 2003 the credit rating of the Republic of Croatia by Fitch Ratings agency was improved. It changed stable, „outlook“ to positive, thereby giving signals about the possible future increase of the credit rating of the Republic of Croatia.

Table 6.2 | Overview of Credit Ratings of the Republic of Croatia
Source | Ministry of Finance

	Long-term Credit Rating Foreign Currency	Long-term Credit Rating Domestic Currency	Short-term Credit Rating Foreign Currency
Mood's Investors Service	Baa3 / stable „outlook“	Baa1	P-3
Standard & Poors	BBB- / stable „outlook	BBB+	A-3
Fitch Ratings	BBB- / positive „outlook“	BBB+	F3
R & I	BBB		

Table 6.3 provides an illustration of a comparison of credit ratings of leading transition countries. The countries which will become full members of the EU in 2004, at the end of 2002 received from the Moody's agency credit ratings increased by two levels, and thereby their long-term credit rating in domestic and foreign currencies became equal. A significant increase of the rating was recorded by the Slovak Republic, which, according to the rating of the rating agency S&P until October 2001 had the credit rating by one degree lower than Croatia. In October 2001 its rating was equal to Croatian rating (the only difference being the positive “outlook“), and at the end of 2002 it received a rating higher than Croatian, with a positive “outlook“.

Table 6.3 | Comparison of
Credit Ratings
Source: Ministry of Finance

Country	Moody's InvestorsService	Standard & Poors
Czech Republic	A1/ stable "outlook"	A- /stable "outlook"
Croatia	Baa3/stable "outlook"	BBB- / stable "outlook"
Hungary	A1 /stable "outlook"	A- /stable "outlook"
Poland	A2/ stable "outlook"	BBB+ / negative "outlook"
Slovakia	A3 /stable "outlook"	BBB / positive "outlook"
Slovenia	Aa3 /stable "outlook"	A+ / positive "outlook"



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6.2 | Internal Debt of the State Budget in 2002 and 2003

6.2.1 | Internal Debt Categories

The structure of internal debt per categories and with status as of end 2001 and 2002 and 2003 is illustrated in Table 6.4. The internal debt categories are described in detail in the previous Annual Reports of the Ministry of Finance. This section highlights only the changes in internal debt categories in 2002 and 2003. The plan of repayment of the principal and interest rates of internal debt for the period from 2004 to 2010 is illustrated in Table 6.5.

The total amount of internal public debt at the end of 2003 was HRK 26,260.79 million, whereas at the end of 2001 it amounted to HRK 21,944.29 million. The increase in internal debt during 2002 and 2003 was mostly a result of issuing of bonds on the domestic capital market and increased entry of treasury bills.

At the end of 2003, six state bonds were listed on the domestic securities market. The list and terms and conditions are illustrated in Table 6.6.

With a view to develop the domestic capital market and due to increased demand for domestic securities which ensued following the establishment of the pension funds, the Republic of Croatia issued, through a syndicate of domestic banks, Series 03 D-12 bonds.

Bonds – Series 03 D-12 were issued in three tranches, with the total countervalue of EUR 500 million with maturity of 10 years, with a fixed interest rate of 6.875% per annum. Interests on bonds will be paid on a semi-annual basis, whereas the principal will be fully paid upon maturity (May 23, 2012). Bonds were issued on the domestic capital market, with Privredna Banka Zagreb d.d., Zagrebačka Banka d.d. Zagreb, and Raiffeisenbank d.d. Zagreb as lead managers.

The first tranche of Series 03 D-12¹ bonds was issued in kuna countervalue of the amount of EUR 150 million, at the price of 98.40% of the nominal amount, and was paid on May 23, 2002.

The second tranche of Series 03 D-12² bonds was issued in kuna countervalue of the amount of EUR 150 million, at the price of 103.67% of the nominal amount, and was paid on September 20, 2002.

The third tranche of Series 03 D-12³ bonds was issued in kuna countervalue of the amount of EUR 200 million, at the price of 110.31% of the nominal amount, and was paid on January 23, 2003.

¹The Official Gazette" No. 58/2002

²The Official Gazette" No. 111/2002

³The Official Gazette" No. 14/2003

Table 6.4 | Internal Debt of the Republic of Croatia

(in 000 HRK,
Decembar, 31)

Source | Ministry of Finance

In May 2003 the Republic of Croatia issued a state bond denominated in domestic currency. Bonds of the Series 04 D-08⁴ were issued in the amount of HRK 1 billion, at the price of 99.70% of the nominal amount and with fixed interest rate of 6.125% per annum. The bonds were paid on May 28, 2003. Interest on bonds will be paid on a semi-annual basis, whereas the principal will be fully paid upon maturity (on May 28, 2008).

Debt Item:	2001.	2002.	2003.	Maturity:	Interests:
Frozen foreign currency savings	3,804,940	2,537,697	1,566,563	2005	5.00%
Big bonds I	1,680,772	1,689,152	1,722,935	2011	5.00%
Big bonds II	642,296	592,833	558,682	2011	7.20%
Big bonds III	618,844	583,347	553,544	2012	7.20%
Bonds – Series 01 D-04	1,474,006	1,488,458	1,529,382	2004	6.50%
Bonds – Series 02 D-08	1,474,006	1,488,458	1,529,382	2008	6.875%
Bonds – Series 03 D-12		2,232,688	3,823,455	2012	6.875%
Bonds – Series 04 D-8			1,000,000	2008	6.125%
Reconstruction bonds	22,818	2,095	0	2003	7-10%
BRA bonds - Series I	776,685	671,234	567,560	2007	6.00%
BRA bonds - Series II	251,924	235,441	221,461	2012	5.00%
BRA bonds - Series III	641,692	604,885	573,981	2012	7.20%
BRA bonds - Series IV	344,845	322,282	303,146	2012	5.00%
BRA bonds - Series V-A	21,491	18,597	15,725	2008	6.00%
BRA bonds - Series V-B	1,229,409	1,098,544	971,440	2008	7.00%
Mid-term and long-term debt	12,983,728	13,565,711	14,937,256		
Treasury bills	4,892,304	5,632,734	6,548,061		
Other short-term debt	0	290,000	1,357,304		
Short-term debt	4,892,304	5,922,734	7,905,365		
BRA bonds for insured deposits I	773,853	781,441	0	2003	8.00%
BRA bonds for insured deposits II	1,658,257	1,674,516	1,720,555	2005	8.375%
CIHI Bonds	1,636,147	1,652,189	1,697,614	2004	8.50%
Bonds issued with government guarantees	4,068,257	4,108,146	3,418,169		
Total debt	21,944,289	23,596,591	26,260,790		

⁴The Official Gazette" No. 87/2003

Table 6.5 | Overview of Domestic Bonds Issued by the Republic of Croatia or with a Guarantee of the Republic of Croatia
Source | Ministry of Finance



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<p>DAB Bonds for Insured Savings Deposits I Issued by: State Agency for Deposit Insurance and Bank Rehabilitation EUR 105,000,000 3 years, 8% interests Led by: Privredna banka Zagreb d.d. and Zagrebaèka banka d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: December 19, 2000 Maturity date: December 19, 2003 This bond was fully paid upon maturity</p>	<p>DAB Bonds for Insured Savings Deposits II Issued by: State Agency for Deposit Insurance and Bank Rehabilitation EUR 225,000,000 5 years 8.375% interests Led by: Privredna banka Zagreb d.d. and Zagrebaèka banka d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: 19. December 2000. Maturity date: 19. December 2005.</p>
<p>CIHI Bonds Issued by: Croatian Institute of Health Insurance EUR 222,000,000 4 years, 8.5% interests Led by: Zagrebaèka banka d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: July 19, 2000 Maturity date: July 19, 2004</p>	<p>Bonds – Series 01 D-04 Issued by: the Republic of Croatia EUR 200 000 000 3 years 6.5% interests Led by: Privredna banka Zagreb d.d. and Zagrebaèka banka d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: 20. rujna 2001. Maturity date: 20. rujna 2004.</p>
<p>Bonds – Series 02 D-08 Issued by: the Republic of Croatia EUR 200,000,000 7 years 6.875% interests Led by: Privredna banka Zagreb d.d. and Zagrebaèka banka d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: December 14, 2001 Maturity date: December 14, 2008</p>	<p>Bonds – Series 03 D-12 Issued by: the Republic of Croatia EUR 500,000,000 10 years 6.875% interests Led by: Privredna banka Zagreb d.d. and Zagrebaèka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb Listing: Zagreb Stock Exchange Date of issue: May 23, 2002 Maturity date: May 23, 2012</p>
<p>Bonds – Series 04 D-08 Issued by: the Republic of Croatia HRK 1,000,000,000 5 years 6.125% interests Led by: Rijeèka bank d.d. Rijeka and Splitska bank d.d. Split Listing: Zagreb Stock Exchange Date of issue: May 28, 2003 Maturity date: May 28, 2008</p>	

In December 2003 the first series of bonds of the State Agency for Deposit Insurance and Bank Rehabilitation matured, which were issued in December 2000 in the amount of EUR 105 million. The bonds were fully paid upon maturity.

Table 6.6 | Redemption of
Internal Debt
(in mil. HRK,)
Source | Ministry of Finance

	2004	2005	2006	2007	2008	2009	2010
Redemption of Principal	4,785.36	2,767.95	577.65	615.96	3,018.10	284.54	303.28
Frozen foreign currency savings	1,050.76	505.92	0.00	0.00	0.00	0.00	0.00
Big bonds I	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	54.83	58.73	62.86	67.22	71.80	76.62	81.67
Big bonds III	49.17	52.76	56.66	60.79	65.30	70.05	75.17
BRA bonds - Series I	129.62	137.49	145.75	154.39	0.00	0.00	0.00
BRA bonds - Series II	21.49	22.56	23.71	24.93	26.15	27.53	28.91
BRA bonds - Series III	51.00	54.75	58.73	63.09	67.68	72.65	78.00
BRA bonds - Series IV	29.44	30.89	32.50	34.11	35.86	37.70	39.53
BRA bonds - Series Va	3.59	3.82	4.05	4.28	0.00	0.00	0.00
BRA bonds - Series Vb	168.46	180.47	193.39	207.15	221.91	0.00	0.00
Bonds - Series 01 D-04	1,529.38	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 01 D-08	0.00	0.00	0.00	0.00	1,529.38	0.00	0.00
Bonds - Series 03 D-12	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08	0.00	0.00	0.00	0.00	1,000.00	0.00	0.00
CIHI Bonds	1,697.61	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds for insured deposits I	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DAB bonds for insured deposits II	0.00	1,720.55	0.00	0.00	0.00	0.00	0.00
Repayment of interests	1,221.59	891.86	691.66	653.28	614.12	418.36	399.47
Frozen foreign currency savings	71.88	19.96	0.00	0.00	0.00	0.00	0.00
Big bonds I	90.23	90.23	90.23	90.23	90.23	90.23	90.23
Big bonds II	39.15	35.18	30.97	26.53	21.87	16.98	11.85
Big bonds III	39.00	35.41	31.51	27.38	22.86	18.12	13.00
BRA bonds - Series I	32.12	24.24	15.98	7.34	0.00	0.00	0.00
BRA bonds - Series II	10.78	9.71	8.56	7.34	6.12	4.82	3.36
BRA bonds - Series III	40.45	36.71	32.65	28.37	23.71	18.73	13.46
BRA bonds - Series IV	14.76	13.31	11.78	10.09	8.34	6.58	4.66
BRA bonds - Series Va	0.92	0.69	0.46	0.23	0.00	0.00	0.00
BRA bonds - Series Vb	65.23	53.07	40.22	26.46	11.70	0.00	0.00
Bonds - Series 01 D-04	99.41	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 01 D-08	105.14	105.14	105.14	105.14	105.14	0.00	0.00
Bonds - Series 03 D-12	262.90	262.90	262.90	262.90	262.90	262.90	262.90
Bonds - Series 04 D-08	61.25	61.25	61.25	61.25	61.25	0.00	0.00
CIHI Bonds	144.30	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds for insured deposits I	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds for insured deposits II	144.07	144.07	0.00	0.00	0.00	0.00	0.00
Total debt service	6,006.95	3,659.81	1,269.31	1,269.23	3,632.22	702.90	702.75

6.2.2 | Treasury Bills

The status of treasury bills as of December 31, 2003 was HRK 6,548.06 million, whereas at the end of 2002 there was HRK 5,632.73 million of unredeemed T-bills. The trend in commitments on treasury bills is illustrated in Figure 6.1.

Figures 6.1 | The Trend in commitments on Treasury bills (in mill. HRK)
Source | Ministry of Finance

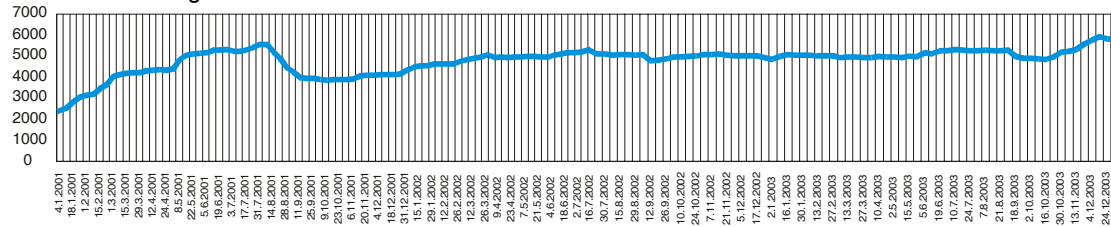


Figure 6.2 indicates the structure of issued treasury bills in terms of maturity as of December 31, 2001, whereas Figures 6.3 and 6.4 illustrate the structure of T-bills as of December 31, 2002 and the structure of T-bills on December 31, 2003. Since September 17, 2002 treasury bills with a 42-day maturity have no longer been issued, and treasury bills with a 364-day maturity have been introduced. At the end of 2003, 63% of total entered treasury bills were entered for the longest term - 364 days, 27% were T-bills were entered for 182 days, and 10% for the term of 91 days.

Figures 6.2 | 6.3 | and 6.4 | The Structure of Treasury Bills according to Maturity as of December 31, 2001, Dec. 31, 2002, and Dec. 31, 2003 (in 000 HRK)
Source | Ministry of Finance

	2001	%	2002	%	2003	%
42 days	324,100,000	7.79	-	-	-	-
91 days	1,356,900,000	32.62	189,800,000	3.85	603,000,000	10.43
182 days	2,478,700,000	59.59	1,548,700,000	31.41	1,565,000,000	27.07
364 days	-	-	3,192,500,000	64.74	3,613,000,000	62.50
Total	4,159,700,000	100.00	4,931,000,000	100.00	5,781,000,000	100.00

The whole of 2002 was marked by a high liquidity of the system, which affected the increased demand for treasury bills of the Ministry of Finance. The demand of the banks was higher than the need for the financing of the state, which resulted in decreased interest rates, which at the end of 2002 reached its bottom level, namely, 1.9% of 91-day maturity, 2.5% for the 182-day maturity and 2.8% for the 364-day maturity. The trend of interest rates on treasury bills is illustrated in Figure 6.5. Restrictive monetary policy of the Croatian National Bank in 2003 led to a lower liquidity of the banking system, and thereby higher interest rates. The increase in interest rates in the money market was influenced by the decision of the Croatian National Bank to increase, in September 2003, the share of mandatory reserves on foreign exchange liabilities of banks which is set aside in kuna, from 25 to 35%, and in November to 42%. The decrease in the kuna liquidity of the banking system and the increased demand for cash money resulted in an abrupt increase in interest rates in the money market. Interest rates on treasury bills followed the trends of interest rates in the money market. They reached the peak in October 2003, when they were between 6% and 7%, with an insignificant difference with regard to the maturity date. Until the end of 2003 there followed a trend of a decline in interest rates, so that at the end of 2003 interests on 91 days amounted to 4%, on 182 days 5%, and on 364 days 6%.

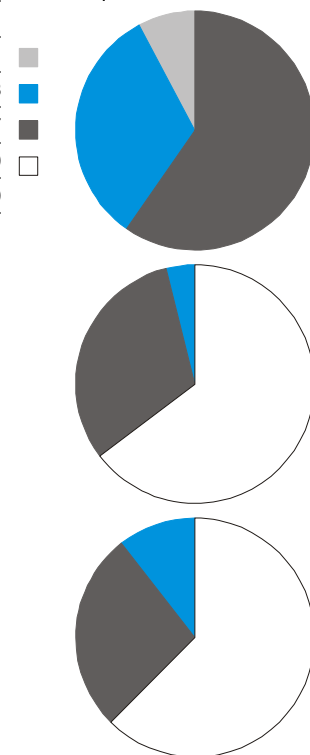
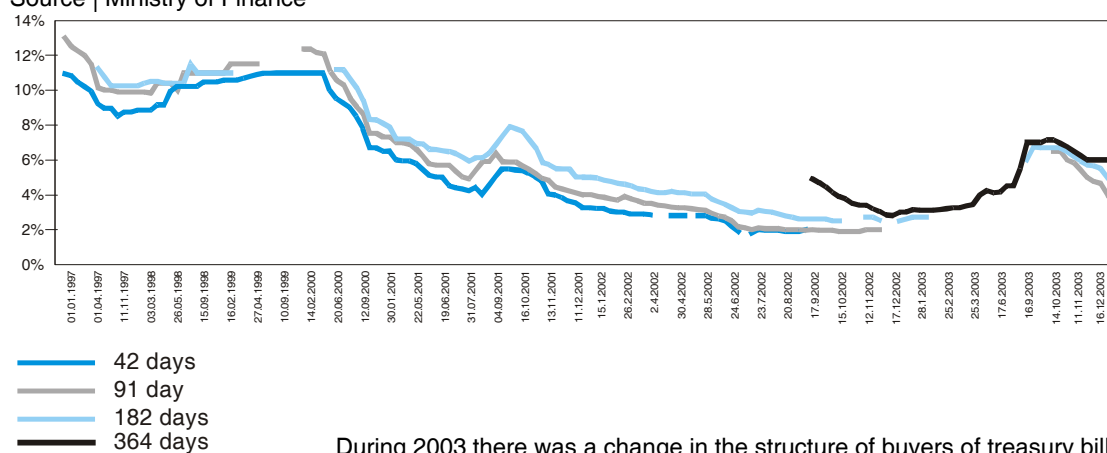


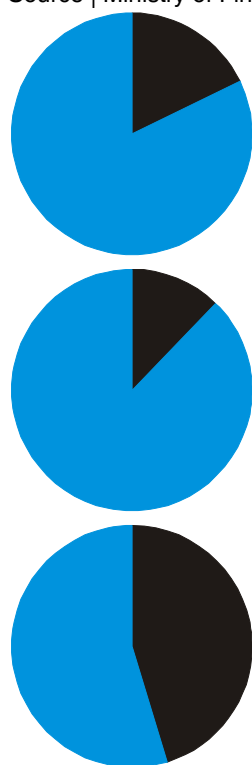
Figure 6.5 | Interest Rates on Treasury Bills

Source | Ministry of Finance



Figures 6.6 | 6.7 | and 6.8 | Structure of Treasury Bills per Buyers, as of December 31, 2001, Dec. 31, 2002, and Dec. 31, 2003

Source | Ministry of Finance



During 2003 there was a change in the structure of buyers of treasury bills in comparison with 2001 and 2002, as illustrated in Figures 6.6, 6.7, and 6.8. Decreased liquidity of the banking system in 2003 affected the drop in the share of the banking system in the purchase of treasury bills from 82% at the end of 2001 and 88% at the end of 2002, respectively, to 55% at the end of 2003.

	2001	%	2002	%	2003	%
Banks	3,424,800,	82.33	4,323,300,	87.68	3,163,900,	54.73
Non-bank investors	734,900,	17.67	607,700,	12.32	2,617,100,	45.27
Total	4,159,700,	100.00	4,931,000,	100.00	5,781,000,	100.00

6.3 | External Debt of the Republic of Croatia

6.3.1 | International Bonds of the Republic of Croatia

At the end of 2003 there were a total 13 bonds issued by the Republic of Croatia on the international markets. The overall list with terms of issue is illustrated in Table 6.8.

In 2002 the matured Euro-dollar bonds issued in February 1997, amounting to USD 300 million, were fully redeemed.

U 2002. godini u cijelosti su otplaćene dospjele Euro-dolarske obveznice koje su izdane u veljači 1997. godine u iznosu 300 milijuna USD.

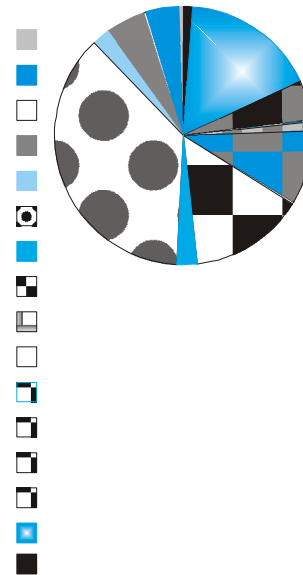
Radi izvršavanja proračunom utvrđenih izdataka Republika Hrvatska se tijekom 2002. i 2003. godine zaduživala izdavanjem euro-obveznica i samuraj obveznica. Iznos zaduženja je korišten za tekuće otplate glavnica kreditnih obaveza koje su dospjevale tijekom 2002. i 2003. godine.

In February 2002 the Republic of Croatia⁵ issued Euro-bonds amounting to EUR 500 million, with maturity on February 11, 2009. The bonds were issued with an interest rate of 6.25%, which was by 158 b.p. above the relevant seven-year German bonds. Interests on bonds were paid once a year, whereas the principal will be fully paid upon maturity. The bonds were issued through the coordinators of the issue, Deutsche Bank and Credit Suisse First Boston. Figure 6.9 illustrates the investor structure per countries.

⁵"The Official Gazette" No. 12/2002

Figure 6.9 | Investors per Countries
Source | Ministry of Finance

Country	Investments in %
Asia	0.60%
Austria	4.17%
Denmark	0.10%
Eastern Europe	5.06%
France	2.41%
Germany	36.79%
Greece	2.62%
Italy	14.49%
Luxemburg	0.20%
Middle East	0.05%
The Netherlands	9.03%
Portugal	1.10%
Spain	0.40%
Switzerland	5.02%
Great Britain	16.86%
SAD	1.10%
Total	100.00%



In June 2002 the Republic of Croatia issued the so-called Samurai bonds⁶, amounting to JPY 25 billion, with maturity on June 26, 2008. The bonds were issued with the annual interest rate of 2.15%, which was by 144 b.p. above the relevant six-year Yen LIBOR. Interests on bonds are paid on a semi-annual basis, whereas the principal will be fully paid upon maturity. Bonds were issued through the lead manager of the issue Daiwa SBCM and Nomura Securities.

In February 2003 the Republic of Croatia⁷ issued Euro-bonds amounting to EUR 500 million, with maturity on February 24, 2010. The bonds were issued with the interest rate of 4.625%, which was by 95 b.p. above the relevant seven-year Euribor. The interests on bonds are paid once a year, whereas the principal will be fully paid upon maturity. Bonds were issued through lead managers Deutsche Bank and Citigroup.

In June 2003 the Republic of Croatia issued the Samurai bonds⁸ amounting to JPY 25 billion, with maturity on June 26, 2009. The bonds were issued with the interest rate of 1.23% per annum, which was 99 b.p. above the relevant six-year Yen LIBOR. Interests on bonds are paid on a semi-annual basis, whereas the principal will be fully paid upon maturity. The bonds were issued through lead managers Daiwa SBCM and Nomura Securities.

⁶"The Official Gazette" No. 64/2002

⁷"The Official Gazette" No. 27/2003

⁸"The Official Gazette" No. 91/2003

Table 6.8 | Overview of
International Bonds Issued
by the Republic of Croatia

Source | Ministry of Finance

<p>London Club Series A: US\$ 857.796.000 3 year grace, 11 year repayment period US\$ 6-month LIBOR+81.25 b.p. Listing: Luxembourg Date of issue: July 31, 1996 Maturity date: July 31, 2010</p>	<p>London Club Series B: US\$ 604 426 000 10 year repayment period US\$ 6-month LIBOR+81,25 b.p. Listing: Luxembourg Date of issue: July 31, 1996 Maturity date: July 31, 2006</p>
<p>Euro-dollar bonds: US\$ 300 million 5 year, bullet 7% coupon (80 b.p. above 5-year Treasuries) Led by: Merrill Lynch and UBS Listing: Luxembourg Date of issue: February 6, 1997 Maturity date: February 27, 2002 Those bonds were fully redeemed upon maturity</p>	<p>Euro-DEM bonds: DEM 300 million 7 year, bullet 6.125% coupon (95 b.p. above relevant Bund) Led by: Credit Suisse and Deutsche Morgan Grenfell Listing: Frankfurt Date of issue: July 1, 1997 Maturity date: July 16, 2004</p>
<p>Matador Bonds: ESP 15 billion 3 year, bullet 6,5 % coupon (225 b.p. above relevant Spanish bonds) Led by: Santander Investment Listing: Madrid Date of issue: March 4, 1998 Maturity date: March 26, 2001 Those bonds were fully redeemed upon maturity</p>	<p>Euro-EUR bonds: EUR 300 million 7 year, bullet 7.375 % coupon (375 b.p. above seven-year German Bund) Led by: Credit Suisse and Dresdner Kleinwort Benson Listing: Luxembourg Date of issue: February 23, 1999 Maturity date: March 10, 2006</p>
<p>Samurai bond / I: JPY 25 billion 5 year, 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 date: December 14, 2004</p>	<p>Euro-EUR bonds: EUR 500 million 5 year, 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 date: March 28, 2005</p>
<p>Samurai bond / II: 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 date: July 11, 2007</p>	<p>Samurai bond / III: 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 date: February 23, 2006</p>
<p>Euro-EUR bonds: EUR 750 million 10 year, bullet 6.75 % coupon (215 b.p. above ten-year German Bund) Led by: JP Morgan i Deutsche Bank Listing: Luxembourg Date of issue: March 6, 2001 Maturity date: March 14, 2011</p>	<p>Euro-EUR bonds: EUR 500 million 7 year, bullet 6.25 % coupon (158 b.p. above seven-year German Bund) Led by: Deutsche Bank and CSFB Listing: Luxembourg Date of issue: January 28, 2002 Maturity date: February 11, 2009</p>

Table - Continued

<p>Samurai bond / IV: JPY 25 billion 6 year, bullet 2,15% coupon (144 b.p. above six-year Yen LIBOR) Led by: Daiwa Securities SMBC and Nomura Securities Date of issue : June 26, 2002 Maturity date: June 26, 2008</p>	<p>Euro-EUR bonds: EUR 500 million 7 year, bullet 4.625 % coupon (95 b.p. above seven-year Euribor) Led by: Deutsche Bank and Citigroup Listing: Luxembourg Date of issue: February 14, 2003 Maturity date: February 24, 2010</p>
<p>Samurai bond / V: JPY 25 billion 6 year, bullet 1.23% coupon (99b.p. above six-year Yen LIBOR) Led by: Daiwa Securities SMBC and Nomura Securities Date of issue : June 26, 2003 Maturity date: June 26, 2009</p>	



**Table 6.9 | International
Bonds Issued by the
Republic of Croatia
Source | Ministry of Finance**

	Val.	Issued in orig. Val.	Amount u USD*	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	77,981,454	77,981,454	77,981,454	77,981,454	77,981,454	0
- coupon: 6m LB+13/16				12,283,541	10,698,568	9,113,595	7,528,622	5,943,649	4,358,676	2,773,703	1,188,730	0
London Club Series B	USD	604,426,000	604,426,000	83,219,640	83,219,640	83,219,640	83,219,640					
- coupon: 6m LB+13/16				6,342,897	4,651,458	2,960,019	1,268,579					
EuroDM	DM	300,000,000	169,082,761		0	169,082,761						
- coupon: 6.125 %				10,356,319	10,356,319							
EURO bond	EUR	300,000,000	374,940,010		0	0	0	374,940,010				
- coupon: 7.375%				27,651,826	27,651,826	27,651,826	27,651,826					
Samurai bond / I	JPY	25,000,000,000	233,712,323		0	233,712,323						
- coupon: 4%				9,348,493	9,348,493							
EURO bond	EUR	500,000,000	624,900,016		0	0	624,900,016					
- coupon: 7%				43,743,001	43,743,001	43,743,001						
Samurai bond / II	JPY	40,000,000,000	373,939,717		0	0	373,939,717					
- coupon: 3%				11,218,191	11,218,191	11,218,191	11,218,191	11,218,191				
Samurai bond / III	JPY	25,000,000,000	233,712,323		0	0	233,712,323					
- coupon: 2.5%				5,842,808	5,842,808	5,842,808	2,921,404					
EURO bond	EUR	750,000,000	937,350,025		0	0	0	0	0	0	0	937,350,025
- coupon: 6.75%				63,271,127	63,271,127	63,271,127	63,271,127	63,271,127	63,271,127	63,271,127	63,271,127	63,271,127
EURO bond	EUR	500,000,000	624,900,016			39,056,251	39,056,251	39,056,251	39,056,251	39,056,251	624,900,016	
- coupon: 6.25%												
Samurai bond / IV	JPY	25,000,000,000	233,712,323			5,024,815	5,024,815	5,024,815	2,512,407	2,512,407		
- coupon: 2.15%												
EURO bond	EUR	500,000,000	624,900,016			28,901,626	28,901,626	28,901,626	28,901,626	28,901,626	624,900,016	
- coupon: 4.625%												
Samurai bond / V	JPY	25,000,000,000	233,712,323			1,437,331	2,874,662	2,874,662	2,874,662	2,874,662	28,901,626	
- coupon: 1.23%												
Amortization	USD					161,201,095	563,996,178	786,101,111	769,853,427	451,921,171	311,693,777	936,593,793
Interest payments	USD					235,576,600	262,699,144	239,657,920	189,717,103	156,290,320	140,974,748	135,440,037
Total debt service	USD					396,777,695	826,635,323	1,025,759,031	959,570,529	608,211,491	452,668,525	1,072,033,830
Stock (end of year)	USD					5,460,390,953	4,896,394,774	4,110,293,663	3,340,440,236	2,888,519,065	1,640,231,495	937,350,025

*Exchange rate 31. 12. 2003. 6m USD LIBOR 1,22 (31. 12. 2003.)

6.4 | Relations of the Republic of Croatia with International Financial Institutions

6.4.1 | Relations of the Republic of Croatia with International Financial Institutions in 2002

International Bank for Reconstruction and Development (IBRD)

In 2002 financial cooperation of the Republic of Croatia with the International Bank for Reconstruction and Development was mostly implemented according to the previously defined economic objectives. The objectives were defined in line with the Program of Work of the Government of the Republic of Croatia for the Period from 2000 to 2004, as well as developmental priorities laid out in the document "Developmental Priorities of the Republic of Croatia from 2002 to 2004", specifically in the following areas: (1) maintaining the macroeconomic stability, (2) preparation and implementation of structural reforms in the real, financial, and the public sector with a view to reduce public costs, (3) faster restructuring and privatization of public enterprises and banks, (4) empowering the private sector and entrepreneurship in the economy, (5) financing the development and infrastructure, and (6) increasing the living standards and employment of the population. The cooperation with IBRD was conducted on the basis of the Program of Work of the Government, defined developmental priorities, and in line with the programmatic document *The Country Assistance Strategy (CAS)*⁹, as well as the update of the Country Assistance Strategy which encompasses the period from 1999 to 2003¹⁰. On the basis of the amended Strategy, the IBRD plans, until the end of 2003, to support the structural adjustment program in Croatia with loans totaling USD 282 million. The World Bank provided technical and advisory assistance in the preparation of the reform program. During 2002 two new analytical studies in the financial area were prepared, encompassing the accounting and audit standards and practice in Croatia (Report on the Observance of Standard and Codes: Accounting and Auditing). The Bank also prepared the financial sector assessment, from macroeconomic environment, through the banks, other financial institutions and capital market, to legal framework (Financial Sector Assessment), developed in cooperation with the International Monetary Fund (December 2002).

The studies, among other things, were instrumental for the Government of the Republic of Croatia to opt for faster deepening of the second generation reforms (which include improvements in coordination and creating economic policy, strengthening fiscal discipline, strengthening market institutions and competitiveness of the economy, increasing the flexibility of the labor market and strengthening the social protection program); and also to embark on analyzing the development of the key sectors and removing barriers in the process of approximation with European standards and accession to European integration.

New Loans and Grants Approved in 2002

In 2002 the International Bank for Reconstruction and Development approved loans for the implementation of projects in Croatia worth USD 28.8 million and EUR 26 million (the Loan Agreement amounting to USD 27.3 million was concluded for the Pension System Investment Project, the Project Preparation Facility for the Rijeka Gateway Project



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⁹IBRD, together with the Government of the Republic of Croatia, started preparing the CAS in 1998, and the Board of Executive Directors of the Bank approved it on June 3, 1999. This Strategy stresses the importance of the preservation of macroeconomic and fiscal stability. It advocates the following: (1) development and implementation of the program of further structural reforms aimed at reducing public expenditures (by implementing the reforms in the public sector, particularly in the pension, health, and judiciary systems), (2) rolling out of new budget techniques and setting up a system of better governance and control of spending budget resources; (3) progress in the sphere of restructuring and privatization of public enterprises, as well as 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.

¹⁰The update of the Strategy was completed on August 22, 2001 and was presented to the Board of Executive Directors on September 19, 2001

amounting to USD 1.5 million, as well as the Loan Agreement for the Land Registry and Cadastre Project of EUR 26 million), two new grants worth SDR 4.1 million and USD 425,360 and seven small grants totaling USD 35,000 under the Small Grants Program¹¹.

Loan for the Pension System Investment Project (No.: 46720-HR)

A Loan amounting to USD 27.3 million, intended for financing the Pension System Investment Project, was concluded on September 17, 2002, whereas the Law on the Ratification of the Loan Agreement was not either adopted or published before the end of the year; consequently, the Loan did not become operational, and neither were the Loan proceeds utilized in 2002. Preparations for the Project commenced in 1999, when the Project Preparation Facility for the Loan was approved in the amount of USD 1,760,100.00 with a view to implement the program of reforms of the pension system and Project preparation. The Project supports the efficiency and transparency of the system of registering and collection of social insurance contributions and personal income tax, and strengthens the management and regulatory capacities of the Agency for the Supervision of Pension Funds and Insurance (HAGENA) and the central Registry of Affiliates (REGOS).

The Project encompasses three components:

1. The reform of public revenues and reform of capitalized pensions,
2. Building of management and regulatory capacities of HAGENA and REGOS,
3. The reform of the Croatian Pension Insurance Institute
4. Project management (providing technical assistance and training to staff of the Project Implementation Unit and financing auditing services).

According to the agreement, utilization of the Loan for the implementation Project has been agreed until December 31, 2006.

The Loan Agreement contains provisions on the repayment of resources of the previously approved and withdrawn Project Preparation Facility from the Loan funds so that IBRD, following the coming of the Loan Agreement into force, closes the account of the Project Preparation Facility, withdraws from the Loan account and pays to itself the previously withdrawn (unrepaid) principal of the Project Preparation Facility and settles unpaid costs, and also cancels the outstanding portion of the rest of the Project Preparation Facility.

Loan for the Land Registry and Cadastre Project (No.: 46740-HR)

Loan Agreement worth EUR 26 million was concluded between the Republic of Croatia and IBRD in Zagreb on September 18, 2002. the Project is aimed at establishing an efficient land registry management system (streamlining and computerization of the land registration process), and also modernization and developing new technical standards and regulations of the cadastre system.

The Loan funds will finance technical services (EUR 10.4 million), procurement of goods (EUR 6.25 million), consulting services (EUR 5.95 million), operational costs (EUR 1.2 million), conducting works (EUR 400,000), as well as other fees and services.

The Project is expected to be completed by March 30, 2008. Its effects should also reflect in the improvement of the functioning of the real property market.

¹¹The World Bank Small Grants Program provides financing for the activities of non-governmental and non-profit organizations and associations of citizens who deal with the issues of development, social problems, environmental protection, and private sector development. The Program supports conferences, workshops, seminars, scholarships, study tours, costs of various publications and other promotional materials which small civil society organizations cannot finance from their regular budgets. The IBRD approves grants in the maximum amount of USD 15 thousand, usually between USD 3 and 7 thousand.

The Loan Funds were not withdrawn in 2002, because the Loan did not become operational by the end of the year.

IBRD has approved those new loans according to the standard financial terms and conditions¹²: 15-year repayment period, 5-year grace on principal repayment, with a floating, LIBOR-based interest rate applied to six-month deposits in USD/EUR increased by the interest margin, front-end fee accounting for 1% of the Loan, payable from the Loan proceeds on the day of the effectiveness of the Loan, and the 0.7-percent commitment fee¹³.

Grant for the Karst Ecosystem Conservation Project

The Grant Agreement amounting to SDR (Special Drawing Rights) 4.1 million for the Karst Ecosystem Conservation Project was signed on June 19, 2002 between the Republic of Croatia and IBRD, and came into force on September 18, 2002¹⁴. IBRD approved the Grant from the funds of the Global Environmental Facility (GEF) in the capacity of the GEF's implementation agency.

The Grants funds will be used until the agreed date, December 31, 2007, through the Ministry of Environmental Protection and Physical Planning, for the following purposes: (a) strengthening national capacities for the conservation of biological diversity and providing support for sustainable utilization of resources, (b) setting up a mechanism in the community for conservation of biological diversity and sustainable utilization of resources in the karst region, and (c) Project management and Project implementation monitoring. The Project area ("the karst area") is defined in the area of the Primorje-Gorski Kotar County, Lika-Senj, and Zadar County. Project implementation will contribute to the protection of natural resources of the Risnjak and Northern Velebit national parks, as well as promoting sustainable tourism development based on the development of the tourism strategy of the karst area, the plan of the management of the selected protected areas and the preparation and carrying out works on the hiking trail in the karst area. The Management Council is composed of the representatives of the Ministry of Environmental Protection and Physical Planning, the Ministry of Agriculture and Forestry, and State Water Directorate will supervise the implementation and accomplishment of the Project goals. The Project is expected to be completed by June 30, 2007.

Grant for the Social and Economic Recovery Project

The IBRD, in the capacity of an administrator of the non-repayable financial support, provided by its developed member countries, approved for Croatia this Grant from the funds of the foundation of the Government of Japan, amounting to USD 425,360.00. The Grant Agreement between the Government of the Republic of Croatia and IBRD was concluded on October 21, 2002 and came into effect on the same day¹⁵. The Grant is provided for the preparation of the Social and Economic Recovery Project, whose aim is to increase social cohesion in the areas of special state concern (war-torn, disadvantaged areas and the islands). The Grant funds will be used by the Ministry of Labor and Social Welfare for



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¹²In line with the IBRD policy of providing loans to Borrowers under terms and conditions related to economic performance of the member countries, the Republic of Croatia with GNP per capita of USD 4,640 in 2002 is ranked among the Group II of countries, which includes member countries in which GNP per capita is at USD 2,936 to USD 5,115 (Source | the World Bank Annual Report 2003 - Volume 2, Financial Statements and Appendixes).

¹³Effective fee for undisbursed loan amount (commitment fee) will be 0.25% because Executive Directors of the International Bank for Reconstruction and Development approved a decrease of that fee by 0.5% during the current fiscal year.

¹⁴The Law on the Ratification of the Agreement on the GEF Grant for the Karst Ecosystem Conservation Project between the Republic of Croatia and the International Bank for Reconstruction and Development in the capacity of the implementation agency of the Global Environmental Facility ("The Official Gazette" - International Agreements Nos. 10 and 13/2002).

¹⁵Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the Grant for the Social and Economic Recovery Project ("The Official Gazette" - International Agreements", No. 1/2003).

performance of the following activities: (a) the assessment of the territorial, social and economic, and institutional indicators in the areas of special state concern, (b) capacity building and regional development workshop, (c) building of capacities for Project management and social and economic recovery fund, (d) providing technical assistance for the preparation of studies which may be identified as necessary in the course of the Project (social, economic, and feasibility study) and (e) financing the audit of grants by specialized domestic companies.

Preparation of Projects to Be Financed by New Loans

2002 saw the commencement of the preparations of the following projects:

- Coastal Cities Pollution Control Project (USD 100 million),
- Social Protection Project (USD 36 million),
- Social and Economic Recovery Project (USD 40 million),
- Karst Ecosystem Conservation Project,
- Energy Efficiency Project (a EUR 4.4 million worth loan and a USD 7 million grant),
- Science and Technology Development Project (USD 34.5 million),
- the Rijeka Gateway Project (USD 156.5 million) and other projects which will be financed by loans in the period up to 2004.

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

In the period from 1994 to 2002 the IBRD granted 23 long-term loans for the financing of the programs and projects in the Republic of Croatia. The Republic of Croatia concluded 18 loans directly with the IBRD (public loans)¹⁶, whereas the Croatian banks concluded 5 loans with state guarantees for the financing of two projects¹⁷. All those loans, together with the Project Preparation Facility (P-3580-HR of USD 1.76 million) for investments into pension system and the Project Preparation Facility (P-391-0HR of USD 1.5 million) for the Rijeka Gateway Project, as well as the taken over old loan for the Istria Water Supply Project (granted in 1990, taken over in 1994 with the guarantee of the Republic of Croatia¹⁸) amount to a total of more than USD 608.68 million and EUR 383.43 million. In the period from 1995 to 2002¹⁹, a total of USD 441.31 million was utilized until December 31, 2002 (72.50% of the total loans in USD) and EUR 248.39 million (64.78% of loans in EUR).

The total status of undisbursed loan funds as of December 31, 2002 was USD 167.36 million (27.50% of loans in USD) and EUR 136.66 million (35.64% of loans in EUR). Those loan funds will be used for the financing

¹⁶Out of eighteen concluded loans, seven loans were utilized and closed (loans for financing of the Emergency Reconstruction Project, the Health Project, the Road Reconstruction Project, the Capital Market Development Project, the Technical Assistance Project, the Emergency Reconstruction and Mine Clearing Project, the Enterprise and Financial Sector Adjustment Project and Istria Water Supply Project), nine loans and two Project Preparation Facilities are effective and may be utilized, whereas the last concluded loans for the Pension System Investment Project and the Land Registry and Cadastre Project did not become fully operational before December 2002.

¹⁷A total of DEM 52 million was approved for Borrowers-banks 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 banka d.d. DEM 5.2 million), which concluded loans with guarantees of the Republic of Croatia. Alpe Jadran Bank d.d. canceled DEM 1,901,123.00 in July 2000, and Varaždinska banka d.d. DEM 6,488,486.31 in September 2001. Those loans were converted to 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 Program of Investment into Local Infrastructure and Environmental Protection, which after the conversion into EUR totals EUR 33,233,972.28.

¹⁸Loan No. 30690-HR was awarded, amounting to USD 28 million, which was taken over pursuant to the Law on the Verification of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement on the Taking over of the Loan between the Republic of Croatia and the International Bank, concluded on February 25, 1993 ("The Official Gazette" - International Agreements, No. 7/1994). In January 2001 the undisbursed amount of USD 1,983,710.78 was canceled and the Loan was closed.

¹⁹The funds of the two approved loans amounting to USD 27.3 million (for the Pension System Investment Project) and EUR 26.0 million (for the Land Registry and Cadastre Project) were not operational for utilization during 2002.

of the projects and programs according to contractual terms, i.e., in the period from 2003 to 2008.

On December 2002 the stock of debt of the Republic of Croatia, whether as debtor or guarantor, to the IBRD based on loans concluded in the period from 1994 to 2002, and the only remaining inherited loan²⁰ totaled USD 356.028 million and EUR 239.54 million.

Table 6.10 | Review of Loans of the International Bank for Reconstruction and Development (IBRD) Concluded from 1994 to 2002

No.	Project	Signed on	Curren.	Loan Amount	Undisbursed until Dec. 31, 2002	Closing Date	Debt Outstand. Dec. 31, 2002	Principal Repayment Date	
								First	Last
I. Public Loans									
1.	Emergency Reconstruction Project (37600-HR)	27.06.1994	000 USD	128,000.00	0.00	31.12.1999	96,305.00	15.12.1998	15.06.2011
2.	Health Project (38430-HR)*	08.03.1995	000 USD	38,925.49	0.00	30.04.2000	29,130.69	15.06.2000	15.12.2011
3.	Road Reconstruction Project (38690-HR)**	27.04.1995	000 USD	79,878.48	0.00	31.12.2001	64,896.62	15.12.1999	16.06.2012
4.	Capital Market Development Project (39990-HR)***	23.04.1996	000 EUR	7,260.34	0.00	30.06.1999	6,355.35	15.10.2001	15.04.2013
5.	Farmer Support Services Project (39880-HR)****	23.04.1996	000 USD	15,000.00	741.25	02.07.2002	12,379.54	01.09.2001	1.03.2013
6.	Technical Assistance Project (39890-HR)	23.04.1996	000 USD	5,000.00	0.00	31.12.1999	4,370.00	15.10.2001	15.04.2013
7.	Emergency Reconstruction and Mine Clearing Project (41040-HR)*****	04.12.1996	000 EUR	74,797.17	0.00	31.12.2001	70,939.47	15.07.2002	15.01.2012
8.	Coastal Forest Reconstruction Project (41190-HR)	31.01.1997	000 USD	42,000.00	5,556.74	30.06.2002	32,943.25	15.06.2002	15.12.2013
9.	Enterprise Financial Structural Adjustment Project (EFSAL-41590-HR)*****	04.06.1997	000 EUR	81,806.70	0.00	31.12.2001	77,716.36	15.12.2002	15.06.2012
10.	Reconstruction Project for Eastern Slavonia, Baranja, and Western Srijem (43510-HR)*****	08.09.1998	000EUR	37,835.59	20,023.97	30.06.2003	17,811.62	15.01.2004	15.07.2013
11.	Railway Modernization and Restructuring Project (44330-HR)	20.01.1999	000EUR	85,400.00	51,508.36	30.06.2003	33,891.63	15.09.2004	15.03.2014
12.	PPF for Pension System Investment Project (P-36580-HR)	01.02.1999	000 USD	1,760.10	1,102.90		657.19		
13.	Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development (44600-HR)	05.05.1999	000 USD	7,300.00	4,700.14	30.06.2003	2,599.85	15.10.2004	15.04.2014
14.	Health System Project (45130-HR)	07.10.1999	000 USD	29,000.00	21,885.98	30.06.2004	7,114.01	15.06.2005	15.12.2014
15.	Trade and Transport Facilitation in Southeast Europe Project (45820-HR)	27.10.2000	000 EUR	14,800.00	14,331.24	31.03.2004	468.75	15.05.2006	15.11.2015
16.	Court and Bankruptcy Administration Project (46130-HR)	03.07.2001	000 USD	5,000.00	4,678.48	31.07.2005	321.51	15.12.2006	15.06.2016
17.	Structural Adjustment Loan (46410-HR)	05.12.2001	000 USD	202,000.00	100,000.00	31.03.2003	102,000.00	15.04.2007	15.10.2016
18.	PPF for Rijeka Gateway Project (P-3910-HR)	28.03.2002	000 USD	1,500.00	1,397.88	15.09.2003	102.11		
19.	Pension System Investment Project (46720-HR)	17.09.2002	000 USD	27,300.00	27,300.00	30.06.2006	0.00	15.11.2007	15.05.2017
20.	Real Property Registration and Cadastre Project (46740-HR)	18.09.2002	000 EUR	26,000.00	26,000.00	30.03.2008			
TOTAL I :			000 USD	582,663.97	167,363.37		352,819.81		
			000 EUR	327,899.46	111,863.57		207,183.18		



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²⁰The Republic of Croatia, as part of the membership procedure for IBRD (it became full member on February 25, 1993) took over 7.6% of the outstanding debt of the former SFRY toward IBRD on the basis of 17 loans of Croatian beneficiaries. From 1994 to 2002, 16 taken over loans were fully repaid. During 2002 the last installments of the IBRD loan No. 2878-1HR were repaid (the second Sectoral Loan for Roads), totaling USD 506,128.74. The only outstanding commitments were those for the IBRD Loan No. 30690-HR obtained for financing Istrian water supply (last maturity: April 14, 2004).

Table - Continued

No.	Project	Signed on	Curren.	Loan Amount	Undisbursed as of Dec. 31, 2002	Closing Date	Debt Dec. 31, 2002	Principal Repayment Date	
								First	Last
II. Loans with GOC Guarantees									
1.	Investment Recovery Project (4 loans: 4246;4247;4248 and 4249 HR)*****	04.12.1997.	000 EUR	22,297.63	981.19	31.12.2002.	21,316.44	15.03.2003	15. 09. 2012
2.	Municipal Environmental Infrastructure Project (MEIP -43520-HR)*****	25.09.1998.	000 EUR	33,233.97	23,817.68	30.06.2006.	11,046.69	15.11.2003	15. 05. 2013
TOTAL II :			000 EUR	55,531.60	24,798.87		32,363.13		
III. Inherited Unrepaid Loans (taken over with GOC guarantees)									
1.	II Sectoral Road Reconstruction Loan (2878- 1HR)	30.09.1988.	000 USD	5,833.87	0.00		0.00	15.03. 1991.	15. 09. 2002
2.	Istria Water Supply Project (30690-HR)*****	01.02.1990.	000 USD	26,016.29	0.00	30.06.2000.	3,208.38	15.10.1994.	15. 04. 2004
TOTAL III :			000 USD	31,850.16	0.00		3,208.38		
TOTAL (I+II+III):			000 USD	614,514.13	167,363.37		356,028.19		
			000 EUR	383,431.06	136,662.44		239,546.31		

Notes:

*For the financing of the Health Project a loan of USD 40 million was agreed; on June 22, 2000 USD 1,074,503.54 was canceled, so that the Loan amounted to USD 38,925,496.46.

**For the Road Reconstruction Project a loan of USD 80 million was agreed; on January 04, 2002 USD 121,510.13 was canceled, so that the loan amounts to USD 79,878,489.69.

***For Capital Market Development Project a loan of DEM 14.2 million was agreed. After conversion to EUR carried out on November 30, 2001, the loan amounts to EUR 7,260,344.71.

****For Farmer Support Services Project a loan of USD 17 million was agreed; on December 21, 2000, USD 2 million was canceled and the loan amounts to USD 15 million.

*****For Emergency Transport and Mine Clearing Project, a loan of DEM 150.9 million was agreed, after the conversion to EUR the Loan amounts to EUR 77,153,944.87; on June 30, 2002 EUR 2,356,771.68 was canceled, so that the Loan now totals EUR 74,797,173.19.

*****For the Enterprise and Financial Sector Adjustment Project a loan of DEM 160 million DEM was agreed, which, after the conversion to EUR, amounts to EUR 81,806,700.99.

***** For Reconstruction Project of Eastern Slavonia, Baranja, and Western Srijem a loan was agreed of DEM 74 million, which after the conversion to EUR amounts to EUR 37,835,599.21.

*****Four 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 banka d.d. DEM 5.2 million). However, two banks canceled the portions of the loans: in July 2000 Alpe Jadran banka, Split canceled DEM 1,901,123.00 and Varaždinska banka d.d., Varaždin in September 2001 DEM 6,488,486.31. After the conversion of all loans to EUR for the Investment Recovery Project the loan to Varaždinska banka amounts to EUR 3,789,466.78, Dalmatinska banka EUR 7,976,153.35, Slavonska banka: 8,845,349.54 and Alpe Jadran banka 1,686,689.03, i.e., total EUR 22,297,638.70.

*****For MEIP a loan of DEM 65 million was agreed, which after the conversion to EUR amounts to EUR 33,233,972.28.

*****For the financing of the Istria Water Supply Project a loan of USD 28 million was agreed; on January 8, 2001 USD 1,983,710.78 was canceled, and the Loan amounts to USD 26,016,289.22.

All due commitments against IBRD arising from inherited loans (2 loans) and the new loans (21 loans) were paid duly and in a timely manner²¹. The State budget provided funds for payment of commitments arising from 15 public new loans and commitments arising from 2 inherited loans used for financing of roads and water supply. Funds for payment of those commitments were provided from the State budget²². Based on the guarantees the Republic of Croatia, due interests were also paid in the to-

²¹ According to received calls of IBRD for payment and agreed plans of repayments of all concluded loans, during 2002 a total was paid to IBRD as follows: USD 24,024,556.41 (principals + interests + fees) and EUR 29,210,610.47 (principals + interests + fees). Out of the total of paid amounts, the following was paid from the State budget funds for commitments arising from new public loans and two inherited loans - total: USD 19,671,674.93 (principals + interests + fees) and EUR 28,069,737.31 (principals + interests + fees).

²² State budget of the Republic of Croatia for 2002 and the Law on the Execution of the State Budget of the Republic of Croatia for 2002 ("The Official Gazette" No.116/2001).

tal amount of EUR 66,582.04 on the basis of the Loan No. 42490-HR (commitments of Alpe Jadran Banka d.d. – under liquidation, Split) due to incapacity of the debtor to repay them on time.

Commitments arising from the Loan for the Health Project were paid by the Croatian Institute of Health Insurance²³. Due interests and fees for loans for the Investment Recovery Project²⁴ and Municipal Environmental Infrastructure Project²⁵, obtained with the guarantees of the Republic of Croatia, were settled by three commercial banks and HBOR (Borrowers). Interests on loans in Euro were paid according to the annual rate spanning between 3.63% and 4.46%. Interests on loans obtained in American dollars were paid at the rates of 5.03% and 5.32% for loans in currency pool, whereas for single currency loans interests were paid at the rates spanning between 2.43% and the maximum of 2.68%.

Fees for unutilized loan principals are calculated and paid at the rate of 0.25% per annum.

Zahvaljujući urednom i pravodobnom plaćanju dospjelih obveza i Thanks to a regular and timely payment of due commitments and observance of the IBRD's strict financial discipline rules, in the period from July 1, 2001 to June 30, 2002 (the IBRD's fiscal year) savings were made on the basis of the Interest Partial Waivers on public loans in the total amount of USD 442,475.87²⁶.



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Withdrawal of Loan Funds in 2002

During 2002 a total of withdrawn available funds of the IBRD loans (public and publicly guaranteed) amounted to USD 109.21 million and EUR 27.06 million. Data on withdrawal of loan funds for the implementation of projects are illustrated in Table 6.11. Implementation of agreed projects and programs, with certain delays in withdrawal of some loans (allocated for the agriculture sector, reconstruction of the Croatian Danube region, and investments into local infrastructure and environmental protection), was performed in line with the status of equipment of projects implementation units, dynamics of works, procurement procedures, possibilities to meet the agreed terms and conditions for withdrawal of loans and secured financial funds from domestic sources. In 2002 funds from the following IBRD loans were canceled: (1) USD 121,510.31 (from Loan No. 38690-HR allocated for the Road Reconstruction Project and (2) EUR 2,356,771.68 (from Loan No. 41040-HR for Emergency Transport Reconstruction and Mine Clearing Project). Those loans were closed and are repaid according to new, changed repayment schedules. Also, extensions were obtained for deadlines for the completion of the Railway Modernization and Restructuring Project (until June 30, 2004) and for fulfilling the conditions for withdrawal of the second tranche of USD 100 million of the Structural Adjustment Loan (SAL) until October 2003.

²³In 2002 HZZO (CIHI) paid a total of USD 4,383,612.68 (principal+ interests) on the basis of the loan of USD 38.92 million for the Health Project.

²⁴During 2002 three commercial banks paid a total of EUR 747,131.13 for payment of due interests and fees on the basis of loans provided for investment recovery.

²⁵In 2002 the Croatian Bank for Reconstruction and Development (HBOR) paid EUR 393,742.03 (interests + fees) against the loan of EUR 33.23 million (converted loan of DEM 65 million DEM) agreed for the Municipal Environmental Infrastructure Program (MEIP).

²⁶The IBRD approves a reduced interest only to debtors who fulfill their commitments in a timely manner and regularly, not later than within 30 calendar days after the debt becomes due. During the fiscal year 2002 the IBRD calculated Interest Partial Waiver of 0.05% per annum.

Table 6.11 | Disbursement
of the IBRD Loans in 2002

No.	Loan	Project	Effective Date	Curren. Loan Amount	Total Disbursement as of Dec. 31, 2001	Disbursement 2002	Total Disburs. until Dec. 31, 2002	
1	2	3	4	5	6	7	8	9 (7+8)
I. PUBLIC LOANS								
1	37600-HR	Emergency Reconstruction Project (closed)	19. 08. 1994	USD	128,000,000.00	128,000,000.00	0.00	128,000,000.00
2	38430-HR	Health Project (closed)	17. 08. 1995	USD	38,925,496.46	38,925,496.46	0.00	38,925,496.46
3	38690-HR	Road Reconstruction Project (closed)	26. 07. 1995	USD	79,878,486.69	79,878,489.69	0.00	79,878,489.69
4	39990-HR	Capital Market Development Project (closed)	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	12,654,461.25	1,604,283.24	14,258,744.49
6	39890-HR	Tehncial Assistance Project (closed)	22. 07. 1996	USD	5,000,000.00	5,000,000.00	0.00	5,000,000.00
7	41040-HR	Emergency Transport Reconstruction and Mien Clearing Project (closed)	04. 03. 1997	EUR	74,797,173.19	74,246,204.02	550,969.17	74,797,173.19
8	41190-HR	Coastal Forest Reconstruction and Protection Project	31. 07. 1997	USD	42,000,000.00	35,069,731.36	1,373,528.30	36,443,259.66
9	41590-HR	Enterprise and Financial Sector Adjustment Loan - EFSAL (closed)	15. 11. 1997	EUR	81,806,700.99	81,806,700.99	0.00	81,806,700.99
10	43510-HR	Reconstruction of Eastern Slavonia, Baranja, and Western Srijem Project	06. 01. 1999	EUR	37,835,599.21	8,492,715.22	9,318,909.81	17,811,625.03
11	44330-HR	Railway Modernization and Restructuring Project	09. 06. 1999	EUR	85,400,000.00	20,976,979.81	12,914,653.12	33,891,632.93
12	44600-HR	Project of Tehncial Assistance to Institutional and Legislative Changes for Private Sector Development	03. 08. 1999	USD	7,300,000.00	1,736,811.37	863,042.56	2,599,853.93
13	P-3580-HR PPF	Pension System Investment Project	01. 02. 1999	USD	1,760,100.00	657,192.21	0.00	657,197.21
14	45130-HR	Health System Project	28. 03. 2000	USD	29,000,000.00	4,161,631.27	2,952,384.19	7,114,015.46
15	45820-HR	Trade and Transport Facilitation in Southeast Europe Project	02. 05. 2001	EUR	14,800,000.00	248,000.00	220,758.33	468,758.33
16	46130-HR	Court and Bankruptcy Administration Project	29. 01. 2002	USD	5,000,000.00	0.00	321,516.00	321,516.00
17	46410-HR	Structural Adjustment Loan (SAL)	08. 02. 2002	USD	202,000,000.00	0.00	102,000,000.00	102,000,000.00
18	P-3910-HR PPF	Rijeka Gateway Project	28. 03. 2002	USD	1,500,000.00	0.00	102,118.50	102,118.50

Table - Continued

No.	Loan	Project	Effective Date	Curre.	Loan Amount	Total Disbursement as of Dec. 31, 2001	Disbursement in 2002	Total Disbursement until 31, 2002
19	46720-HR	Pension System investment Project	Not effective	USD	27,3000,000.00	0.00	0.00	0.00
20	46740-HR	Real Property Registration and Cadastre Project	Not effective	EUR	26,000,000.00	0.00	0,00	0.00
Total I:								
				USD	582,664,086.15	306,083,818.61	109,216,872.79	415,300,691.40
				EUR	372,899,818.10	193,030,944.75	23,005,290.43	216,036,235.18
II. LOANS OBTAINED WITH GOC GUARANTEES								
1.	30690-HR	Istria Water Supply Project (closed)	01. 02. 1990. (taken over on 25. 02. 1993.)	USD	26,016,289.22	26,016,289.22	0.00	26, 016,289.22
2.	42460, 42470, 42480 42490-HR (4 zajma)	Investment Recovery Project	04. 03. 1998.	EUR	22,297,638.70	19,987,483.59	1,328,958.41	21,316,442.00
3.	43520-HR	Municipal Environmental Infrastructure Project	28. 06. 1999.	EUR	33,233,972.28	8,314,219.14	2,732,480.20	11,046,699.34
Total II.:								
				USD	26,016,289.22	26,016,289.22	0.00	26,016,289.22
				EUR	55,531,610.98	28,301,702.73	4,061,438.61	32,363,141.34
Total (I.+II.):								
				USD	608,680,375.37	332,100,107.83	109,216,872.79	441,316,980.62
				EUR	383,431,429.08	221,332,647.48	27,066,729.04	248,399,376.52



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In 2002 the following loans were closed:

- Loan No. 38690-HR was concluded in 1995 for Road Reconstruction Project, amounting to USD 80 million. After the expiration of the deadline for withdrawal of funds, on January 4, 2002 the IBRD canceled the unwithdrawn amount of USD 121,510.13 and closed the Loan. The revised repayment schedule for the amount of USD 79,878,489.69 was submitted on February 12, 2002, according to which the outstanding debt of USD 64,896,629.69 will be repaid up to and including June 15, 2012. The goal of the Project was supporting and accelerating the modernization of the transport sector, particularly the main road network and Croatian Road Administration (HUC). Project implementation is completed and 99.9% of the Loan has been disbursed. The funds were used for works on the rehabilitation and maintenance of approximately 1,600 km of roads (20% of the overall network), procurement of equipment for the installation of the road and bridge management system and preparation of studies, technical assistance, and staff training. The Croatian Railways Restructuring Study, Road Safety Study and Study of the construction of Pier Five of the Port of Ploče were developed under the Project.
- Loan No. 41040-HR was signed in 1997 for the financing of the Emergency Transport Reconstruction and Mine Clearing Project, amounting to DEM 150.9 million. After the conversion on November 30, 2001 to EUR the Loan amounts to EUR 77,153,944.87. On June 30, 2002 the IBRD, following the expiration of the period for withdrawal of Loan funds and completion of the Project, canceled EUR 2,356,771.68, so that the Loan amounts to EUR 74,797,173.19. According to the revised repayment schedule, the outstanding debt of EUR 70,939,475.95 is being repaid until June 16, 2012.

Loan funds were utilized for (1) repair and reconstruction of transport infrastructure – approximately EUR 54 million (roads and bridges, segments of Županja – Orašje bridge, upgrading of access road to Port of Ploče and reconstruction

of piers; reconstruction of tracks on the line liniji Oštarije – Knin - Split/Zadar), (2) mine clearing of areas of high economic priority – over EUR 20 million, and (3) providing technical assistance in mine clearing activities - EUR 166,893.47.

In 2002 the IBRD's loan funds were mostly invested into structural adjustments (USD 102 million), railways restructuring and modernization (EUR 12.9 million), reconstruction of Eastern Slavonia, Baranja, and Western Srijem (EUR 9.31 million), as well as the restructuring of the health system (USD 2.95 million). EUR 2.73 million was used for the implementation of the Municipal Environmental Infrastructure Project through HBOR, whereas EUR 1,32 million was provided for the Investment Recovery Project through commercial banks to small and medium-sized enterprises. In the agriculture and forestry sector, USD 1.37 million was used for the implementation of the Coastal Forest Protection Project (for purchase of equipment, carrying out construction and forest works, and consulting services and training), whereas USD 1.60 million was utilized for the support to family farms. A little over USD 863,000 was used from the loan for the implementation of the Technical Assistance Project for Private Sector Development, whereas the lowest amount was withdrawn from the loan for the Court and Bankruptcy Administration Project (USD 321,516.00) and Trade and Transport Facilitation in Southeast Europe Project (EUR 220,758.33) and from the Project Preparation Facility for investments into Rijeka Gateway Project (USD 102,118.50).

A Review of Grants

In the period between 1995 and 2002, 30 grant agreements were concluded for the preparation of a number of projects in the area of the Republic of Croatia, in the total amount of USD 8,129,294.00, JPY 270,500,000.00, GBP 352,800.00, and SDR 4.1 million. The Republic of Croatia concluded 28 grant agreements with the IBRD in the total amount of USD 6,851,300.00, JPY 270,500,000.00, GBP 352,800.00, and SDR 4.1 million, whereas two grants with a total amount of 2,277,994.00 were provided to: 1. Croatian Power Utility - Hrvatska elektroprivreda d.d. (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 Zadar, Knin, and Šibenik areas.

The basic data on the 28 grants agreed between the Republic of Croatia and the IBRD are presented in the Review of Grants (Table 6.12).

Non-repayable grant funds are mostly used for payment of consulting services and preparation of studies necessary for as good preparation of projects as possible, which, after completion of the feasibility studies, are submitted to the Bank in applications for loan financing.

The Republic of Croatia concluded agreements for 20 grants in American dollars in the total amount of USD 6,851,300.00, out of which 14 grants have been closed. On December 31, 2002 under 7 grants there remained USD 1,436,199.74 to be utilized. Six grants have been concluded in Japanese yens in the total amount of JPY 270.5 million. Out of those grants until December 31, 2002 a total of JPY 199.84 million was utilized, and JPY 70.65 million was canceled and the grants were closed. One grant was concluded in British pounds amounting to GBP 352,800.00, whereas the remaining funds amounting to GBP 190,680.84 will be utilized until June 30, 2003.

Table 6.12 | Review of Grants Concluded between RC and IBRD (Status as of Dec. 31, 2002)

No.	Year when Signed	Grant Number	Grant Purpose	Curren.	Grant Amount	Canceled Amount	Undisbursed as of Dec. 31, 2002
1	1995	28851	Preparation of Public Procurement Act	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 & Prot. Pr.	JPY	21,200,000.00	146,615.00	0.00
4	1995	29314	Public Sector Adjustment Loan - 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	Restructuring of Croatian Railways	JPY	58,800,000.00	5,457,694.00	0.00
7	1996	29486	Municipal Environmental Infrastructure Investment Project	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	216,246.71	0.00
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	Eastern Slavonia Flood Control	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	Y2000 («Millennium Bug»)	USD	80,000.00	0.00	0.00
17	1999	27259	Environmental protection and strengthening of management system	USD	276,490.00	7,666.26	0.00
18	1999	22644	Managing Marshland of Kopački Rit Nature Park	USD	750,000.00	0.00	400,887.66
19	1999	25799	Municipal Environmental Infrastr. 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	107.82
22	1999	26112	Port of Rijeka Modernization	USD	337,500.00	0.00	10.00
23	2000	27386	Building of Efficient Social and Economic Communication	USD	400,000.00	0.00	255,930.52
24	2001	26262	Social Protection Project (Japanese Grant)	USD	200,000.00	0.00	83,542.70
25	2001	26441	Coastal Cities Pollution Control Project	USD	325,000.00	0.00	270,361.04
26	2001	29810	Social Protection Project (British Grant)	GBP	352,800.00	0.00	190,680.84
27	2002	50539	Karst Ecosystem Conservation Project	XRD	4,100,000.00	0.00	3,909,255.99
28	2002	50513	Social and Economic Recovery Project	USD	425,360.00	0.00	425,360.00
Total(1 - 28):				USD	6,851,300.00	568,781.53	1,436,199.74
				JPY	270 500 000,00	70,655,270.00	0.00
				GBP	352.800,00	0.00	190,680.84
				XRD	4,100,000.00	0,00	3,909,255.99



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European Bank for Reconstruction and Development (EBRD)

Business Operations in 2002

The plan of activities of EBRD in Croatia for the period until 2002 was laid out in the document „Strategy for Croatia“, published on November 9, 2000. This strategy includes the following priority areas:

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

In line with its mandate²⁷ and established business operations priorities²⁸, the EBRD provided a strong direct support to the development of the private and public sectors in Croatia. The EBRD strengthened the financial sector by granting credits to banks (aimed at faster development of small and medium entrepreneurship) and also invested capital for purpose of faster implementation of privatization. It supported financing of new corporate projects (investments and/or credits and guarantees) and approved long-term loans for financing large infrastructure projects in the area of road construction and air traffic.

In 2002 the EBRD approved financing of 9 new projects in the Republic of Croatia totaling EUR 317.5 million and USD 11.49 million; out of this amount, loans and investments were worth EUR 246 million without state guarantees and 2 loans worth EUR 71.5 million with the state guarantee, as well as an advance guarantee for the Uljanik Shipyard Project of USD 11.49 million with the state guarantee.

²⁷EBRD was established and operates with a special mandate to finance projects which assist in and accelerate the process of transition into market economies, as well as development of private and entrepreneurial initiative in Central and Eastern European countries committed to the implementation of principles of multi-party democracy, pluralism, and market economy.

²⁸Since 2000 the Bank has focused its operations on constructive and creative partnership with member countries, clients, and other international financial institutions with a view to best possible mobilization of capital and cofinancing of development of inter-regional infrastructure and trade. Its priority was financing the projects in the private sector, strengthening financial sector aimed at opening up new business perspectives based on market principles, encouraged restructuring of enterprises and banks, establishment and growth of small and medium enterprises and commercialization of the public sector and infrastructure.

Table 6.13 | Financing of New Projects in RC with EBRD Funds, Agreed in 2002

BENEFICIARY OF FUNDS	PROJECT	CURR.	AMOUNT
I. Loans/Investments obtained without state guarantees			
Raiffeisenbank Austria d.d., Zagreb	Credit line for financing investments of small and medium enterprises	EUR	30,000,000.00
Erste & Steiermarkische Bank d.d.	Credit line for financing small and medium enterprises	EUR	20,000,000.00
VIP NET GSM d.o.o., Zagreb	Corporate credit for investments into telecommunications network	EUR	26,000,000.00
Zagrebačka banka d.d., Zagreb	Financing of small and medium agriculture enterprises (agribusiness)	EUR	25,000,000.00
Getro d.o.o., Zagreb	Expansion of trade network (agribusiness) Credit EUR 16,000, 000.00 Investment EUR 9,000,000.00	EUR	25,000,000.00
Privredna banka Zagreb d.d., Zagreb	Investment into second phase of privat.	EUR	120,000,000.00
Total I.:		EUR	246,000,000.00
II. Loans/guarantees obtained with guarantees of RC			
Croatia Air Traffic Control d.o.o., Zagreb	Project of Regional Control Center Zagreb	EUR	25,000,000.00
Croatian Motorways d.o.o.	Highway Reconstruction Project in RC (European corridor X- section Zabok-Brodski Stupnik)	EUR	46,500,000.00
Uljanik Shipyard d.d., Pula	Tanker construct. (advance guarantee)	USD	11,490,000.00
Total II.		EUR	71,500,000.00
		USD	11,490,000.00
TOTAL (I.+II.) :		EUR	317,500,000.00
		USD	11,490,000.00



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State guarantees for loans concluded with EBRD in 2002 were agreed for the financing of big and significant infrastructure projects which will contribute to Croatia's economic development and faster integration into European and world economy.

The Regional Control Center Zagreb Project is aimed at increasing security of air traffic and capacity building, and includes procurement and installation of the new system for processing radar data and corresponding controller consoles, as well as building an annex to the existing facility which will host a new operational room. The Project is co-financed by EBRD loan of EUR 25 million and EIB loan of EUR 20 million. The Guarantee Agreement between the Republic of Croatia and EBRD was concluded in September 2002. The Croatian Parliament passed the Law on the Verification of the Guarantee Agreement²⁹ in November 2002, however, the Guarantee Agreement and the Loan Agreement concluded between Croatian Air Traffic Control d.o.o. and EBRD did not come into effect until the end of 2002. Consequently, the Loan did not become operational and funds could not be withdrawn.

Highway Reconstruction Project in the Republic of Croatia includes rehabilitation of European Corridor X, i.e., section Zabok - Brodski Stupnik and financing consulting services in the implementation of the Project. The first component includes rehabilitation of approximately 70 km of road Zabok-Ivanić Grad, including the bridge over the Sava river and rehabilitation of approximately 130 km of the road between Ivanić Grad and Brodski Stupnik, including the Novska bridge. The second component of the Project includes consulting services in the implementation of the Project, supervision, development of management, and adjustment of the financial system to international standards and development strategy for improvement of the

²⁹The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Bank for Reconstruction and Development for the Regional Control Center Zagreb Project, "The Official Gazette" - International Agreements, No. 14/2002.

efficiency of management and maintenance. The Project is financed by loans of EBRD (EUR 46.50 million) and EIB (EUR 50.00 million), and should be completed by December 31, 2005.

The Guarantee Agreement between the Republic of Croatia and EBRD for the financing of the Highway Reconstruction Project in the Republic of Croatia was signed on December 13, 2002. The Law on the Verification of the Guarantee Agreement was not passed before the end of the year, so the Loan of EUR 46.5 million did not become operational for utilization in 2002.

Year 2002 saw the commencement of the preparations of several projects which are expected to receive EBRD's financing for implementation in 2003: (1) Project investments into Croatian Railways (on Corridors Vb and X), (2) reconstruction of Dubrovnik's passenger port in Gruž, (3) beltway around Rijeka and modernization of the Port of Rijeka, (4) construction of gas pipeline network PLINACRO, (5) highway – Corridor X – from Županja to the border with Serbia, (6) program of restructuring and privatization of several hotels in the Adriatic, and (7) financing direct agricultural production (sowing).

Under the Stability Pact EBRD has received the mandate to assess the priority projects important for long-term economic development of the private sector in Southeast European countries. It prepared a program of encouraging cross-border trade and investments, as well as a program of development of small and medium entrepreneurship. Financing of projects in the areas of transport, energy, and water management will be conditional upon concordance with defined regional programs and strategic studies. EBRD has been charged with the development of a strategic study in the water supply and water protection sector. As part of this EBRD's mandate, Croatia nominated financing of the EUR 8-million Project of the City of Rijeka Sewerage System Improvement.

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

The Bank is interested in continuing to invest in Croatia, particularly in infrastructure (investments into big projects: highways, ports, railway traffic, gas networks and investments on the local level: water supply and sewage systems and dumping places), provide support to restructuring and privatization of public enterprises (INA, HEP, shipyards) and further restructuring and privatization of the tourist sector, develop small and medium profitable enterprises which extend beyond Croatian borders and increase export capacities in priority development sectors (shipbuilding, tourism, and agriculture). New projects are being prepared in those sectors.

Withdrawal of Loan Funds in 2002

In 2002 a total of USD 17.64 million and EUR 14.86 million was withdrawn of funds of seven active loans (one direct state loan and six loans obtained with state guarantees).

During 2002, two new loans were agreed with EBRD, in the total amount of EUR 71.5 million, with a guarantee of the Republic of Croatia. However, until December 31, 2002 funds of those loans were not withdrawn because the loans did not become effective.

Table 6.14 | Utilization of EBRD Loans in 2002

No.	Project	Loan	Signed on	Curr.	Loan Amount	Withdr. as of Dec. 31, 2001	Utilized in 2002	Total Utilized as of Dec. 31, 2002	Unutilized as of Dec. 31, 2002	Closing Date
1	2	3	4	5	6	7	8	9	10	11
I: PUBLIC LOANS										
1.	Air Navigation System Project	231* (closed)	21. 09. 1994.	USD	19,735,519.76	19,735,519.76	0.00	19,735,519.76	0.00	31.12. 2001
2.	Highway Reconstruction Project	286 (closed)	17. 01. 1995.	EUR	36,195,876.03	36,195,876.03	0.00	36,195,876.03	0.00	28.02.1999
3.	Wholesale Market Project (Nacionalne veletřnice d.d.)	627* (closed)	08. 12. 1997.	EUR	3,203,558.48	3,104,323.43	99,235.05	3,203,558.48	0.00	24.03.2002
Total I.				USD	19,735,519.76	19,735,519.76	0.00	19,735,519.76	0.00	
				EUR	39,399,434.51	39,300,199.46	99,235.05	39,399,434.51	0.00	
II: LOANS OBTAINED WITH GUARANTEES OF RC										
1.	Croatia Electricity Network Reconstruction Project	283 (closed)	02. 02. 1995.	EUR	32,211,388.52	32,211,388.52	0.00	32,211,388.52	0.00	30.06.2000
2.	Credit Line for Tourism (HBOR)	443 (closed) repaid	26. 06. 1996.	EUR	25,564,594.06	25,564,594.06	0.00	25,564,594.06	0.00	01.05.1998
3.	Municipal Environmental Infrastructure Investment Programme (HBOR)	494*	09. 12. 1996.	EUR	36,128,138.92	13,649,829.89	7,168,794.77	20,818,624.66	15,309,694.26	30.09.2003
4.	Railway Locomotive Reconstr. Project (HŽ)	733	08. 12. 1998.	USD	35,000,000.00	7,030,238.65	16,201,794.68	23,232,033.33	11,767,966.67	05.02.2004
5.	Small and Medium Entrepreneurship Project (HBOR)	923	20. 03. 2001.	EUR	12,000,000.00	0.00	3,000,000.00	3,000,000.00	9,000,000.00	2 year
6.	Environmental Rehabilitation Project – INA d.d.	935	10. 05. 2001.	EUR	36,000,000.00	0.00	4,000,000.00	4,000,000.00	32,000,000.00	30.06.2005
7.	Rijeka-Zagreb Highway	975*	22. 10. 2001.	EUR	60,000,000.00	0.00	600,000.00	600,000.00	59,400,000.00	11.05.2005
8.	Uljanik Shipyard d.d.,Pula – advance guarantee for Tanker Construction	18149	26. 02. 2002.	USD	11,490,000.00	0.00	1,436,250.00	1,436,250.00	10,053,750.00	4 guarantees will be issued until 31.10. 2004
9.	Zagreb Center for Regional Control Project	25800	05. 09. 2002.	EUR	25,000,000.00	0.00	0.00	0.00	25,000,000.00	30. 09. 2005
10.	Highway Reconstruction in Croatia Project	27171	13. 12. 2002.	EUR	46,500,000.00	0.00	0.00	0.00	46,500,000.00	30.04.2006
Total II:				EUR	273,404,301.50	71,425,812.47	14,768,794.77	86,194,607.24	187,209,694.26	
				USD	46,490,000.00	7,030,238.65	17,638,044.68	24,668,283.33	21,821,716.67	
Total I.+II.:				USD	66,225,519.76	26,765,758.41	17,638,044.68	44,403,803.09	21,821,716.67	
				EUR	312,803,736.01	110,726,011. 93	14,868,029.82	125,594,041.75	187,209,694.26	



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Notes:

Loan No. 231 was agreed in the amount of USD 22 million; canceled during 1996 and 2001 total of USD 2,264,480.24 and the Loan was closed on February 14, 2002.

Loan No. 286 was agreed in the amount of DEM 70.9 million, reduced by the non-withdrawn amount of DEM 107,019.78 and converted to EUR.

Loan No. 627 was agreed in the amount of DEM 33.5 million, during 2000/2001 an amount of DEM 27,212,026.09 was canceled; the Loan was converted to EUR and on March 25, 2002 EUR 11,431.53 was canceled.

Loan No. 494 was agreed in the amount of DEM 105 million; during 1999 and 2001 a total of DEM 24.5 million was canceled; converted to EUR and another EUR 5 million was canceled on May 06, 2002.

Loan No. 975 was agreed in the amount of EUR 90 million; EBRD reduced the Loan by 30 million after co-financing with EIB was agreed (a loan of EUR 60 million was granted).

A USD 19,73 million EBRD loan was utilized for the implementation of the Air Traffic System Project. The Project includes the following: reconstruction of signal instruments, landing system equipment for airports of Zagreb, Pula, and Dubrovnik, as well as the reconstruction of regional radar facility near Split. Funds were also utilized for professional improvement and/or improvement of flight controllers and reorganization of air traffic control administration. Until the agreed term of withdrawal of the Loan (December 31, 2001) USD 264,480.24 remained for withdrawal, and EBRD canceled those funds and closed the Loan (on February 14, 2002).

In 1997 EBRD supported the Wholesale Market Network Construction Project in Croatia with the originally agreed DEM 33.5-million loan. The loan was envisaged as financing the construction a network of wholesale markets of fruit, vegetables, and flowers at six approved locations in Zagreb, Osijek, Rijeka/Matulji, Benkovac, Split, and Metković. However, due to a number of unresolved problems related to property rights, cost estimates, preparation of business plans, and the very concept of the construction of wholesale markets at envisaged locations, portions of this Loan were canceled, amounting to DEM 27.21 million (2000 / 2001). The idea of constructing of wholesale markets in Zagreb and Metković was dropped. The Loan was converted to EUR. At the beginning of 2002 the funds were used for the construction of the wholesale market in Benkovac. EUR 11,431.53 remained until the agreed closing date (March 25, 2002), that unutilized amount was canceled and the Loan was closed. Thus the Loan was reduced to EUR 3.2 million.

During 2002, EUR 7.16 million was invested through the Croatian Bank for Reconstruction and Development (HBOR) for upgrading of communal water supply and sewerage systems under the Municipal Environmental Infrastructure Program (MEIP), which EBRD finances with a loan worth EUR 36.12 million. This Loan was originally concluded for DEM 105 million, with a guarantee of the Republic of Croatia³⁰, and in 1999 it was reduced by DEM 6.5 million (tranche C., envisaged for investment program for the City of Rijeka, was dropped) and it totaled DEM 98.44 million. After the second cancelation (amounting to DEM 18 million), on the basis of Annex 3 of the Agreement the Loan amount totaled DEM 80.44 million. After the conversion of DEM to EUR the Loan amounted to EUR 41,128,318.92. In March 2002 HBOR requested another reduction of the Loan by EUR 5 million and the extension of the closing date until March 31, 2003. The Loan was reduced to the amount of EUR 36,128,318.92. Amounts of tranches to final beneficiaries were reduced, so that tranche A amounted to EUR 30,677,512.87 (Water Supply and Municipal Company Split), tranche B amounted to EUR 4,970,191.68 (Municipal Company Pula), whereas tranche D amounted to EUR 480,614.37 (Croatian Waters). According to the status as of December 31, 2002 a total of EUR 20,818,624.66 (57.62%) was withdrawn from the Loan, and EUR 15,309,694.26 remained to be utilized (42.37%) until the end of March 2003.

The Railway Locomotive Reconstruction Project is financed by EBRD Loan amounting to USD 35 million, concluded in December 1998. The Project includes the reconstruction of diesel locomotives (financed with USD 22.2 million), overhaul and modernization of diesel-electrical locomotives (USD 9.62 million), as well as consulting services for the implementation of the Project (USD 230,000). The agreed closing date (March 31, 2002) was extended during 2001, and August 31, 2003 was agreed as the new closing date. During 2002 Croatian Railways withdrew USD 16.20 million. In the period from June 1999, when the Loan became effective, until December 31, 2002 a total of USD 23.23 million (66.37%) was withdrawn, and under the new closing date the Project should be completed and USD 11.76 million (33.62%) should be withdrawn.

³⁰The Law on the Verification of the Agreement on the Guarantee 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.

The State budget of the Republic of Croatia for 2002 provided funds for the settlement of all due obligations arising from public loans and the loan granted to the Croatian Railways with a state guarantee³¹. Croatian power utility (Hrvatska elektroprivreda d.d.), Croatian Bank for Reconstruction and Development, and INA Oil Industry – Industrija nafte d.d. paid in a timely manner during 2002 all its obligations related to calls of EBRD for payment, therefore the guarantees of the Republic of Croatia for those loans were not called.

Review of Loans

In the period from 1994 to 2002 EBRD financed 58 projects in Croatia, in the total amount of more than EUR 1.179 billion (according to the data of EBRD as of December 31, 2002). It invested into private sector projects a total of EUR 777.96 million (66.96%) and supported the public sector projects with long-term favorable loans in the total amount of EUR 383.80 million (33.04%) of total invested funds.

EBRD's loans granted to the Republic of Croatia (3 loans) and obtained with state guarantees (10 loans), presented in loan currencies, according to the status as of December 31, 2002, totaled USD 66.25 million and EUR 312.80 million, respectively. In the period from 1994 to 2002, in cumulative terms, USD 44.40 million (67.05%) was utilized on the basis of use of two loans concluded in USD and EUR 125.59 million (40.15%) on the basis of 8 loans converted or concluded in EUR. According to terms agreed, until April 30, 2006 there has remained for withdrawal USD 21.82 million (32.95%) and EUR 187.20 million (59.85%).

In the period from 1994 to 2002 the Republic of Croatia concluded with EBRD three loan agreements on direct loans in the total amount of EUR 39.39 million and USD 19.73 million, and also 10 guarantee agreements in the total amount of EUR 273.40 million and USD 46.49 million. Within this total of 13 loans, 5 were closed for withdrawing (out of which 4 are being repaid, and one has been fully repaid); 6 loans were operational for withdrawing during 2002, and two new loans were not operational.

The following loans were closed for withdrawal:

1. Loan No. 231, concluded for financing the Air Traffic System Project, agreed in the amount of USD 22 million, total utilized USD 19,735,519.76 (USD 2,264,480.24 canceled). The outstanding debt of USD 3.45 million is being repaid until March 21, 2004.
2. Loan No. 286, concluded for financing the Highway Reconstruction Project, amounting to DEM 70.9 million and utilized in the amount of DEM 70.79 million (DEM 107,019.78 canceled), was closed in March 1999. Converted to EUR, it amounts to EUR 36,195,876.03. The outstanding debt as of December 31, 2002 totaled EUR 21.11 million. The Loan is being repaid from the state budget funds.
3. Loan No. 627 agreed for the Wholemarket Project, after a number of cancelations of Loan funds, EUR 3,203,558.48 was withdrawn, closed in March 2002. Will be repaid, according to repayment schedule, until November 24, 2011. The debt as of December 31, 2002 stood at EUR 2,883,202.64.



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³¹The State budget of the Republic of Croatia for 2002 and the Law on the Execution of the State budget of the Republic of Croatia for 2002 (the Official Gazette No. 154/2002) provided funds for execution of commitments against EBRD. During 2002 the following was paid to EBRD against received calls for payment: (1.) against the loan of USD 19.73 million, for the development of the air traffic system, a total of USD 2,833,863.58 was paid (principal USD 2,500,000.00 + interests and fees USD 33,863.58); (2.) against the loan of EUR 36.19 million, for motorway reconstruction, a total of EUR 4,080,356.06 was paid (principal EUR 3,115,908.48 + interests EUR 1,064,019.39); (3.) against the loan of EUR 3.20 million for Wholesale Market Project, EUR 553,411.58 was paid (principal EUR 320,355.84 + interests and fees EUR 233,055.74); (4.) against the loan of USD 35 million for reconstruction of locomotives, USD 3,592,777.73 was paid (principal USD 2,916,668.00 + interests and fees USD 676,109.73).

4. Loan No. 283 of DEM 63 million, concluded with a guarantee of the Republic of Croatia, for the Power Supply and Distribution Network Reconstruction Project, was fully withdrawn within the agreed term, and the Loan was closed u January 2001. The withdrawn Loan converted to EUR totals EUR 32,211,388.52. The outstanding debt of EUR 10.73 million is being repaid by Hrvatska elektroprivreda d.d.
5. Credit line for tourism (No. 443) concluded by the Croatian Bank for Reconstruction and Development with EBRD, with a guarantee of the Republic of Croatia, amounting to 50 million DEM, was closed in 1998. The withdrawn Loan converted to EUR totaled EUR 25,564,594.06. HBOR fully repaid the credit in December 2002.

Total debt to EBRD against direct public loans at the end of 2002 totaled USD 3.45 million and EUR 23.99 million, whereas the debt against guaranteed loans amounted to EUR 38.24 million and USD 21.75 million. Detailed data on direct public loans and loans obtained with state guarantees are illustrated in Table 6.15.

Table 6.15 | Review of Loans Obtained from EBRD (Status: December 31, 2002)

No.	Project	Loan No.	Date of Concl. of Agreem.	Curr.	Loan Amount	Utilized	Remained to be Utilized	Closing Date	Maturity of Principal First/Last	Debt
1	2	3	4	5	6	7	8 (6-7)	9	11	12
I. PUBLIC LOANS										
1.	Air Navigation System Project *	231 closed	21. 09. 1994.	USD	19,735,519.76	19,735,519.76	0.00	31. 12. 2001.	21. 09. 1996./ 21. 03. 2004.	3,458,519.76
2.	Highway Reconstr. 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.	21,111,359.32
3.	Wholesale Markets Project ****	627 closed	08. 12. 1997.	EUR	3,203,558.48	3,203,558.48	0.00	24.03.2002.	24. 05. 2002./ 24. 11. 2011.	2,883,202.64
Total I.					USD 19,735,519.76	19,735,519.76	0.00			3,458,519.76
					EUR 39,399,434.51	39,399,434.51	0.00			23,994,561.96
II. LOANS OBTAINED WITH GUARANTEE OF RC										
1.	Electricity Network Reconstruction 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.	10,737,129.51
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.	0.00
3.	Municipal Environmental Infrastructure Investment Programme ****	494	09. 12. 1996.	EUR	36,128,318.92	20,818,624.6	15,309,694.26	31. 03. 2003.	10. 04. 2001./ 10. 10. 2011.	19,911,082.72
4.	Railway Locomotive Reconstr. Project	733	08. 12. 1998.	USD	35,000,000.00	23,232,033.33	11,767,966.67	31. 08. 2003..	20. 05. 2002./ 20. 11. 2013.	20,315,356.53
5.	Small and Medium Entrepreneurship Project (HBOR)	923	20. 03. 2001.	EUR	12,000,000.00	3,000,000.00	9,000,000.00	19. 09. 2004.	05. 02. i 05. 08. 2 years after tranches withdrawal	3,000,000.00
6.	Environmental Rehabilitation Projects in - INA d.d.	935	10. 05. 2001.	EUR	36,000,000.00	4,000,000.00	32,000,000.00	30. 06. 2005.	30. 09. 2001./ 30. 03. 2011.	4,000,000.00
7.	Zagreb - Rijeka Motorway Project	975	22. 10. 2001.	EUR	60,000,000.00	600,000.00	59,400,000.00	11. 05. 2005.	12. 05. 2005./ 12. 11. 2019.	600,000.00
8.	Uljanik Shipyard d.d.,Pula-Refund guarantee Facility with guarantee of RC (Construction of Tanker No.450)	18149	26. 02. 2002.	USD	11,490,000.00	1,436,250.00	10,053,750.00	4 guarantees will be issued until Oct. 31. 2004	Term for repayment of guarantees by May 31, 2006	1,436,250.00

Table - Continued

No.	Project	Loan No.	Date of Concl. of Agreem.	Curr.	Loan Amount	Utilized	Remained to be Utilized	Closing Date	Maturity of Principal First/Last	Debt
9.	Zagreb Area Control Center Project	25800	05. 09. 2002.	EUR	25,000,000.00	0.00	25,000,000.00	30.09.2005.	20.11.2006., 20.05.2013.	0.00
10.	Croatian Motorway Rehabilitation Project	27171	13. 12. 2002.	EUR	46,500,000.00	0.00	46,500,000.00	30.04.2006.	20.05.2006. 20.11.2017.	0.00
Total II.				EUR	273,404,301.50	86,194,607.24	187,209,694.26			38,248,212.23
				USD	46,490,000.00	24,668,283.33	21,821,716.67			21,751,615.33
Total I.+ II.				USD	66,225,519.76	44,403,803.09	21,821,716.67			25,210,135.09
				EUR	312,803,736.01	125,594,041.75	187,209,694.26			62,242,774.19



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Notes:

*Loan No. 231. was agreed for USD 22 million; on May 6, 1996 USD 2,264,480.24 was canceled, and the Loan amounts to USD 20 million.

**Loan No. 286 agreed for DEM 70.9 million; on February 28, 1999 the unwithdrawn amount of DEM 107,019.78 was canceled, so that the Loan totals DEM 70,792,980.22. Outstanding debt converted to EUR as of December 31, 2002. amounts to EUR 21,111,359.32.

***Agreed Loan No. 627 amounting to DEM 33.5 million, on September 1, 2000 reduced by DEM 9 million and as of November 24, 2001 by another DEM 18,212,026.09. After the above amounts were canceled (a total of DEM 27,212,026.09) the Loan totals DEM 6,287,973.91, which, converted to EUR, totals EUR 3,214,990.01. The unwithdrawn amount of EUR 11,431.53 was canceled on March 25, 2002.

****Agreed Loan No. 494 of DEM 105 million was reduced on November 23, 1999 by DEM 6.56 million and as of April 6, 2001 by DEM 18 million (total: DEM 24.56 million). Loan of DEM 80.44 million converted to EUR amounts to EUR 41,128,318.93; on May 6, 2002 EUR 5 million canceled.

Council of Europe Development Bank (CEB)

New Loans Agreed in 2002

In 2002 only one new framework agreement was concluded with CEB, amounting to HRK 21,395,000 kuna (F/P 1419/2001) for financing the Project of Reconstruction and Modernization of the School of Public Health "Andrija Štampar" in Zagreb and the International Center for Health Management "Andrija Štampar" in Dubrovnik.

The Project includes reconstruction and adaptation of the existing facilities in Zagreb and Dubrovnik for purpose of creating two facilities for training of staff in the areas of health management and health promotion, as well as training of heads of decentralized administration of relevant sectors. This Project has been ranked among the priorities at the Second Table of the Stability Pact because the School of Public Health "Andrija Štampar" will serve as a regional expert center for health management. The value of the Project amounts to HRK 42,790,000.00, out of which the CEB loan finances 50%, whereas the remaining HRK 21,395,000.00 (50%) is cofinanced from the following sources:

1. State budget of RC	HRK 2,995,300.00	(7%)
2. City of Zagreb	HRK 8,989,900.00	(21%)
3. HZZO/CIHI	HRK 2,139,500.00	(5%)
4. Faculty of Medicine, Zagreb	HRK 7,274,300.00	(17%)

The Framework Loan Agreement was signed on March 29, 2002 in Zagreb and Paris. The Law on the Ratification of the Framework Loan Agreement 1419 (2001) was published on August 13, 2002³² and came into force on August 21, 2002³³. The Loan Funds are used in line with the progress on works, i.e., implementation of the Project, through withdrawing a number of tranches pursuant to the Law and on the basis of concluding additional agreements for each specific tranche at the time of its withdrawal. Each tranche is repaid within no longer than 10 years, with a 5-year grace for payment of principal, whereas all other conditions of the loan are defined by an additional agreement (amount of tranches, interest rate, currency, date of payment, term of repayment). The Agreement stipulated that the first tranche should be withdrawn within 18 months since the approval date of the Loan and accounts for at least 20% of the Loan. Furthermore, 24 months from the date of the approval of the Loan the utilized amount has to account for at least 30% of the Loan and 36 months since the date of the Loan the utilized amount should account for at least 50% of the total amount of the Loan. In case of failing to meet such agreed dynamics of withdrawal of Loan funds, CEB charges, on a quarterly basis, the fee for non-withdrawn funds of 0.5% per annum.

Loans under Preparation

The following new loans are under preparation for financing of: (1) school reconstruction, (2) return of displaced persons and refugees, (3) infrastructure and social reconstruction of the areas of special state concern. Also, discussions are underway about the preparation of three possible projects: (1) housing and communal management of the Roma in Međimurje and Zagreb, (2) reconstruction of the war devastated cultural heritage in Lipik and (3) reconstruction of islands.

Utilization of Loans in 2002

During 2002 from the Framework Loans concluded between the Republic of Croatia and CEB a total of HRK 151,100,050 was withdrawn (EUR 20.43 million according to the CEB exchange rate on the day of withdrawal of the tranches). More specifically, the following tranches were withdrawn: the sixth tranche from the Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia (EUR 1 million), the second tranche from the Framework Loan for the Project of Return of Displaced Persons and Refugees (EUR 13,000,000.00), the first tranche from the Framework Loan for the Project of Reconstruction of the Franciscan Monastery of Male Braće in Dubrovnik (EUR 630,000.00), and the second tranche of the Framework Loan for the School Reconstruction Project (EUR 5,800,000.00).

In addition, in 2002 HBOR used EUR 2 million (the first tranche) from the Framework Loan of EUR 8 million concluded with a guarantee of the Republic of Croatia, for financing a credit program for encouraging small and medium entrepreneurship.

Review of Loans Agreed in the Period from 1998 to 2002

In the period from 1998 to 2002, CEB agreed on financing eight projects in the Republic of Croatia. The Republic of Croatia concluded seven direct loans worth a total of HRK 789,351,614 for financing reconstruction projects. One Framework Credit was entered into by the Croatian Bank for Reconstruction and Development (HBOR), with a guarantee of the Republic of Croatia, worth EUR 8 million, for promotion of small and medium entrepreneurship.

A total of HRK 443,215,040 was disbursed on the basis of five concluded framework direct loans to the Republic of Croatia, whereas from two

³²The Law on Ratification of the Framework Loan Agreement 1419 (2001) for the reconstruction of the School of Public Health "Andrija Štampar" in Zagreb and the International Center for Health Management "Andrija Štampar" in Dubrovnik, between the Council of Europe Development Bank and the Republic of Croatia ("The Official Gazette" – "International agreements, No. 10/2002.)

³³Notification of coming into force of Framework Loan Agreement 1419/2001, "The Official Gazette" – "International Agreements", No. 12/2002).

framework loans funds were not withdrawn, namely: 1. for the Project of Reconstruction of Health Infrastructure Framework Loan No. F/P 1351/1999 the loan of HRK 186,837,031 was not activated because the very substance and purpose of the Project was changed, and 2. for the Project of Reconstruction of School of Public Health „Andrija Štampar“ in Zagreb and the International Center for Health Management “Andrija Štampar“ in Dubrovnik, Framework Loan No. F/P 1419/2001 amounting to HRK 21,395,000.00. There is the outstanding amount of HRK 346,136,574 for investments into projects implementation.

A detailed review of loans concluded with CEB in the period from 1998 to 2002, which contain data on utilization of funds, i.e., withdrawal of individual tranches in the period from 1999 (when the first tranches were withdrawn) until 2002, agreed financial conditions and the status of debt of the Republic of Croatia against CEB is indicated in Table 6.16.

Table 6.16 | Review of CEB Loans and Debt Status as of Dec. 31, 2002



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No.	Project	Frame- work Loan Amount in u HRK	Tranche/Da te of Withdrawal	Utilized in HRK*	Currency	Debt in Currency Dec. 31, 2002	Int. Rate Fix.	Grace for Princ.	Principal Due Date	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
1.	Project F/P 1278/1998 of Reconstruction of Health Infrastructure in Eastern Slavonia (Beneficiary: the Ministry of Health)	172,744,129	I. (17. 03. 1999.)	35,078,800	USD	5,075,000	5.71%	5 years	17. 03. 2005.	17. 03. 2009.
			II. (02. 11. 1999.)	34,288,200	EUR	4,500,000	5.38%	5 y.	02. 11. 2005.	02. 11. 2009.
			III. (22. 02. 2000.)	26,329,600	EUR	3,400,000	5.56%	5 y.	02. 02. 2006.	22. 02. 2010.
			IV. (29. 11. 2000.)	36,396,000	EUR	4,800,000	5.54%	5 y.	29. 11. 2006.	29. 11. 2010.
			V. (21. 12. 2001.)	14,778,000	EUR	2,000,000	4.67%	5 y.	21. 12. 2007.	21. 12. 2011.
			VI. (18. 01. 2002.)	7,551,000	EUR	1,000,000	4.89%	5 y.	18. 01. 2008.	18. 01. 2012.
Total 1. (I.+II.+ III. +IV+V+VI.):				154,421,600	USD EUR	5,075,000 15,700,000				
2.	Project F/P 1279/1988 Reconstruction of Schools in Eastern Slavonia (Beneficiary: The Ministry of Public Works, Reconstruction, and Construction)	67,368,000	I. (15. 03. 1999.)	16,658,110	USD	2,410,000	5.71%	5 y.	17. 03. 2005.	17. 03. 2009.
			II. (23. 11. 1999.)	23,715,310	EUR	3,100,000	5.04%	5 y.	29. 11. 2005.	29. 11. 2009.
			III. (29. 11. 2000.)	14,406,750	EUR	1,900,000	5.53%	5 y.	29. 11. 2006.	29. 11. 2010.
			IV. (01. 08. 2001.)	7,897,670	EUR	1,100,000	5.06%	5 y.	01. 08. 2007.	01. 08. 2011.
			Total 2. (I.+II.+III.+IV.):	62,677,840	USD EUR	2,410,000 6,100,000				
3.	Project F/P 1352/1999 Reconstruction of Schools (Beneficiary: the Ministry of Public Works, Reconstruction, and Construction)	98 682 000	I. (01. 08. 2001.)	24,410,980	EUR	3,400,000	5.06%	5 y.	01. 08. 2007.	01. 08. 2011.
			II. (03. 10. 2002.)	42,841,700	EUR	5,800,000	4.31%	6 y.	17. 04. 2008.	17. 04. 2012.
Total 3. (I.+II.):				67 252 680	EUR	9,200,000				
4.	Project F/P 1378/2000 Project of Return of Displaced Persons and Refugees in RC-Reconstruction and Housing (Beneficiary: the Ministry of Public Works, Reconstruction, and Construction)	232,000,000	I. (01. 08. 2001.)	58,155,579	EUR	8,100,000	5.06%	5 y.	01. 08. 2007.	01. 08. 2011.

Table - Continued

No.	Project	Frame- work Loan Amount in u HRK	Tranche/Da te of Withdrawal	Utilized in HRK*	Currency	Debt in Currency Dec. 31, 2002	Int. Rate Fix.	Grace for Princ.	Principal Due Date	
									First	Last
			II. (17. 04. 2002.)	96 067 400	EUR	13,000,000	5.24%	6 y	17. 04. 2008.	17. 04. 2012.
			Total 4.(I.+II.)	154 22 970	EUR	21,100,000				
5.	Project F/P 1379/2000 Project of Reconstruction of Franciscan Monastery Male Braće, Dubrovnik	10,325,454	I. (08. 08. 2002.)	4,639,950	EUR	630,000	5.32%	6 y	08. 08. 2008.	08. 08. 2012.
6.	Project F/P 1351/1999 Project of Reconstruction of Health Infrastructure (Beneficiary: the Ministry of Health of RC)	186,837,031		0	EUR	0				
7.	Project F/P 1419/2001 Project of Reconstruction of School of Public Health „Andrija Stampar“ Zagreb and MCZZM, Dubrovnik	21,395,000		0	EUR	0				
Total framework loans (1.+2.+3.+4.+5.+6+7):		789,351,614	Total utilized (as of 31. 12. 2001.):	443,215,040	Total: USD EUR	7,485,000 52,730,000				
FRAMEWORK LOAN WOTH RC GUARANTEE		Amount in EUR								
1.	Project F/P 1392/2000 Financing of Credit Program for Small and Medium Entrepreneurship (HBOR)	8000,000	I. (31. 05. 2002.)		EUR	2,000,000	Euribor +0.40 %	26 months	05. 08. 2004.	05. 02. 2010.

Note:

*Data on utilization of the loans in kuna are indicated according to CBD rate for currencies on the day of release of individual tranches

1. Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia (F/P 1278/1998)³⁴ amounting to HRK 172,744,129.00 provides financing for 44% of the total of HRK 388,800,650.00 estimated net costs of reconstruction system of primary and secondary health care (reconstruction/construction of 18 primary health care centers and 3 hospitals, building of 48 apartments for health workes, and procurement of medical equipment).
In 2002 an additional agreement was concluded for the withdrawal of the sixth tranche from the framework loan. In January 2002 HRK 7,551,000 was utilized. For the implementation of the Project, according to the status as of December 31, 2002, a total of HRK 154,421,600 (89.39%) was withdrawn from the Framework Loan through six tranches, whereas HRK 18,322,529.00 (10.60%) remained to be withdrawn.
2. CEB finances Eastern Slavonia School Reconstruction Project³⁵ with a framework loan (F/P 1279/1998) of HRK 67,368,000.00 (50% of the total of HRK 134,736,000.00 of estimated net costs of repairs and reconstruction of 33 primary schools and 1 secondary school included in the Project). The Project is implemented by the Ministry of Public Works, Reconstruction, and Construction as a part of the comprehensive program of reconstruction in the area of Eastern Slavonia. As of December 31, 2002, a total of HRK 62,677,840 was utilized (93%) and HRK 4,690,160.00 remained for withdrawal (7%).

³⁴The Law on the Ratification of the Framework Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1278 (1998) - Reconstruction of Health Infrastructure in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).

³⁵The Law on the Ratification of the Framework Loan Agreement between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1279 (1998) - Reconstruction of Schools in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).



3. For the implementation of the Project of Reconstruction of Schools in the Republic of Croatia, the Framework Loan of HRK 98,682,000.00 (F/P 1352/1999)³⁶ provided financing for the reconstruction of 41 schools in the war affected areas in eight counties. The Project is implemented by the Ministry of Public Works, Reconstruction, and Construction as a part of the comprehensive reconstruction program. In October 2002 the second tranche was withdrawn, amounting to EUR 5.8 million (HRK 42,841,700). On December 31, 2002 HRK 31,429,320.00 (31.85%) remained to be withdrawn, whereas in the period since 2001 the total of HRK 67,252,680.00 was disbursed (68.5%).
4. The Project of Reconstruction and Housing for Displaced Persons and Refugees in the Republic of Croatia is financed by the Framework Loan of HRK 232,000,000.00 (F/P 1378/2000)³⁷ signed on February 2 and 7, 2001. This Loan and budget funds finances resolving the problem of housing of displaced persons and refugees through the restitution of property to owners and provision of alternative accommodation for temporary users, organized reconstruction of damaged and ruined family houses owned by the returnees, as well as the reconstruction of communal infrastructure. The Project is implemented by the Ministry of Public Works, Reconstruction, and Construction as a part of the comprehensive reconstruction program. HRK 154,222,970 was used for the implementation of the Project (66% - those funds were withdrawn through two tranches in the total amount of EUR 21.1 million), whereas HRK 77,777,030.00 remained for withdrawal (34%).
5. The Project of Reconstruction of Franciscan Monastery "Mala Braća" in Dubrovnik is financed by a loan provided by CEB, amounting to HRK 10,325,454.00 (F/P 1379/2000)³⁸ concluded on June 19, 2001 in Dubrovnik, on the occasion of the 36th annual meeting of CEB. The loan, budget funds of the Franciscan province with the seat in Zadar and the World Monument Watch (WMW) grant provide financing of reconstruction and rehabilitation of the Franciscan Monastery "Mala Braća" in Dubrovnik, implemented by the Monastery itself and the Ministry of Culture. The reconstruction of the Monastery commenced with the west wing, with the reconstruction of the old library as a priority, as well as the musical and manuscript archives for which it was necessary to intervene as soon as possible in order to minimize the damage on the extremely valuable holdings, and also in order for the library to be used again for scientific purposes for which it has not been available for a number of years. In 2002 HRK 323,000 was utilized from WMW grant and HRK 4,639,950 (45% loan funds, i.e., the first tranche of EUR 630,000.00 was released). HRK 5,685,504.00 or 55 % remained for withdrawal.
6. The Health Infrastructure Reconstruction Project is financed by a CEB loan in the amount of HRK 186,837,031 (F/P 1351/1999)³⁹, which was signed on October 23 and 30, 2001 and came into force on July 31, 2002. This Loan and budget funds finance construction works or procurement of equipment for 4 general hospitals (Pakrac, Dubrovnik, Sisak i Zadar) 2 clinical-hospital centers (Rijeka, Zagreb), and 4 health care centers (Metković, Slunj, Knin, Dubrovnik), as well as procurement of medical and non-medical equipment for 45 surgeries which have been built earlier by state budget funds.

³⁶The Law on the Ratification of the Framework Loan Agreement between Council of Europe Development Bank and the Republic of Croatia for Reconstruction of Schools ("The Official Gazette - International Agreements", No.7/2001).

³⁷The Law on the Ratification of the Framework Loan Agreement between the Republic of Croatia and the Council of Europe Development Bank for the Project of Return of Displaced Persons and Refugees in the Republic of Croatia - Reconstruction and Housing ("The Official Gazette" - International Agreements", No.7/2001).

³⁸The Law on the Ratification of the Framework Loan Agreement 1379 (2000) for the Reconstruction of the Franciscan Monastery Mala Braće in Dubrovnik, between the Council of Europe Development Bank and the Republic of Croatia ("The Official Gazette - International Agreements", No.14/2001).

³⁹The Law on the Ratification of the Framework Loan Agreement 1351/1999 for health infrastructure reconstruction, between Council of Europe Development Bank and the Republic of Croatia ("The Official Gazette - International agreements", Nos. 9/2002 and 12/2002).

The Project is implemented by the Ministry of Health as part of the comprehensive health reconstruction program.

7. The Project of financing of the credit program for small and medium entrepreneurship is financed by the CEB Loan No. F/P 1392/2000⁴⁰ to Croatian Bank for Reconstruction and Development (HBOR) and was approved with a state guarantee. The total value of the Project amounts to EUR 20 million, out of which the CEB Loan finances EUR 8 million (40%), whereas the rest of EUR 12 million (60%) is financed by the loan of the European Bank for Reconstruction and Development (EBRD). The Framework Credit Agreement was concluded on February 16 in Paris and February 21 and March 15 in Zagreb, where it came into power on September 19, 2001. HBOR withdrew the first tranche of the Loan amounting to EUR 2 million (25%) at the end of May 2002. As of December 31, 2002 the undisbursed amount was EUR 6 million (75%).

The state budget for 2002 provided funds for the payment of due interests on utilized tranches of framework loans totaling USD 427,393.50 and 2,055,599.99.

Debt of the Republic of Croatia to CEB against all withdrawn tranches from concluded Framework Agreements as of December 31, 2002 amounted to: USD 7,485,000.00 and EUR 52,730,000.00, whereas the debt of HBOR to CEB on the basis of Framework Credit Agreement concluded with the guarantee of the Republic of Croatia amounts to EUR 2,000,000.00.

European Investment Bank (EIB)

Establishment of Institutional Relations

Having established diplomatic relations with the then European Community, the Republic of Croatia started working directly with EIB in 1992. In the course of 1994 a distribution was carried out of the outstanding debt arising from loans or parts of loans awarded to the former SFRY based on partial succession principle. Legal and financial relations with EIB in terms of the inherited debt the Republic of Croatia arranged in 1995 by concluding the Guarantee Agreement and the Letter of Agreement No. 0298⁴¹.

The activities on establishing institutional relations of the Republic of Croatia with EIB, commenced in 1995⁴², were terminated after the Croatian actions on the liberation of occupied areas in August 1995, and were continued at the invitation of EIB in mid 2000. Preparations of two Croatian projects were discussed, namely: (1) construction of motorway Breznički Hum-Varaždin (23.2 km)⁴³ and (2) modernization and electrification of railway line on the Paneuropean Corridor Vc, nominated and accepted as the so-called „quick-start“ projects under the Stability Pact.

Council of Ministers of the European Union approved EIB's mandate on November 7, 2000 to finance infrastructure projects and private sector development projects in the Republic of Croatia. Framework Agreement between the Republic of Croatia and European Investment Bank, signed on December 13, 2000, came into force on October 30, 2001⁴⁴. This Agreement regulates EIB activities in the Republic of Croatia and enables the Bank to finance projects in keeping with Croatian development

⁴⁰The Law on the Ratification of the Credit Framework Agreement between the Republic of Croatia, Croatian Bank for Reconstruction and Development, and Council of Europe Development Bank, for the financing of credit program for entrepreneurship ("The Official Gazette - International agreements", No. 9/2001).

⁴¹The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Investment Bank and Letter of Agreement No. 0298, signed on January 12, 1995 in Luxembourg and February 10 in Zagreb ("The Official Gazette - International agreements" No. 6/1995), came into force on May 23, 1995.

⁴²Under the preparation of the Draft Agreement between the Republic of Croatia and the European Union on Trade and Cooperation, the Draft Protocol on Financial Cooperation with European Community was prepared, which was supposed to enable to EIB financing of projects in Croatia.

⁴³This Project was subsequently suspended pending harmonization with implementation criteria.

⁴⁴The Law on the Ratification 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. 6/2001)

priorities with long-term favorable loans. Pursuant to the Framework Agreement, the Board of Governors of EIB approved on February 6, 2001 providing loans for investment projects in the Republic of Croatia.

Loans Concluded in 2002

European Investment Bank, in line with the EU policy, under its mandate obtained within the Stability Pact, in the framework of its operational policy and pursuant to the Framework Agreement concluded with Croatia, by favorable long-term loans worth a total of EUR 130 million, supported financing large infrastructure projects in the road sector (EUR 110 million for the construction and reconstruction of motorways) and air traffic (EUR 20 million).

In the course of 2002 three new agreements on financing those projects with guarantees of the Republic of Croatia were concluded with EIB.

1. Agreement on financing between EIB and Motorway Rijeka – Zagreb d.d., concluded on June 24, 2002 for financing the construction of Motorway Zagreb–Rijeka (sections Vrbovsko - Bosiljevo and Bosiljevo - Vukova Gorica) - a EUR 60,000,000.00 loan⁴⁵.

Total cost of the Project was estimated at EUR 177,000,000.00 (exclusive of taxes and duties). The Project is financed with own funds of Motorway Rijeka - Zagreb d.d. worth EUR 57,000,000.00 (32.20%) and loans of the European Bank for Reconstruction and Development (EBRD) - EUR 60,000,000.00 (33.90%) and European Investment Bank (EIB) - EUR 60,000,000.00 (33.90%). It was agreed that EIB's loan be withdrawn no later than June 30, 2005 in no more than ten tranches, with the lowest amount of each tranche EUR 3 million.

In 2002 the first tranche of EUR 20,000,000.00 was withdrawn, with a variable interest rate, grace period for principal of 5.5 years, and repayment period of 15 years.

2. Agreement on financing between EIB and Croatian Air Traffic Control d.o.o., concluded on September 10/12, 2002, for financing the Air Traffic Control Zagreb Project - Loan of EUR 20,000,000.00⁴⁶.

This Project includes designing, construction, and introduction of improvements of services of air traffic control in Croatia. The estimated value of the Project amounts to EUR 49,000,000.00 (exclusive of taxes and duties). The Project was financed with own funds of EUR 1.9 million (4.05%) and EBRD loans worth EUR 25 million (53.30%), as well as EIB worth EUR 20 million (42.64%).

EIB Loan financed the following: 1. construction of a new building the Regional Control Center, 2. consoles for controllers, 3. improvement of oral communication system, recording system, and reproduction of the voice mail system, and 4. new infrastructure for digital telecommunications.

The Loan is disbursed no later than June 30, 2005, in no more than ten tranches with a minimum amount of EUR 2 million. The first tranche was disbursed on December 9, 2002, in the amount of EUR 2,750,000.00 with a fixed interest rate of 4.99%, grace for principal of 3.5 years, and repayment period of 12 years.

3. Agreement on Financing the Rehabilitation of Motorway between EIB and Croatian Motorways d.o.o., signed on December 13, 2002 - Loan worth EUR 50,000,000.00⁴⁷.



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⁴⁵The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank for Financing of the Construction of Motorway Rijeka-Zagreb ("The Official Gazette - International Agreements", No.10/2002).

⁴⁶The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank for the Project of Air Traffic Control Zagreb ("The Official Gazette - International Agreements", No. 14/2002).

The Motorways Rehabilitation Project (Croatia) includes rehabilitation of some of the existing priority shares on Paneuropean Corridors X and Xa, including the Zabok - Jankomir, Jankomir - Ivanja Reka, and Ivanja Reka - Brodski Stupnik sections.

The Project was estimated at EUR 111.5 million and is financed with own funds – EUR 15 million, EBRD loan of EUR 46.5 million and EIB EUR 50 million. EIB Loan will provide financing for the rehabilitation of shares: 1. Ivanja Reka - Ivanić Grad, 2. Jankomir - Ivanja Reka, 3. the bridge “Sava” Ivanja Reka and a portion of Motorway Zagreb - Macelj (Corridor Xa) - Zaprešić - Zabok. The agreed term for withdrawal of the Loan funds is not later than December 13, 2006, in no more than ten tranches of minimum amounts of EUR 3 million.

In 2002 the EIB loan did not become effective because the Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and EIB, concluded on December 13, 2002 was not enacted before the end of the year. Also, there were no withdrawals of Loan funds for the implementation of the Project.

Review of Loans

Following the coming into force of the Framework Agreement between the Republic of Croatia and EIB, over a two-year period EIB approved eight loans with a total worth of EUR 276,000,00.00. Among those eight loans only one loan of EUR 40,000,000.00 was directly concluded with the Republic of Croatia (Financing Agreement between EIB, the Republic of Croatia, and HŽ d.o.o.) for the Project of Reconstruction of Infrastructure and Modernization of the Signalization and Telecommunications System at sections of Vc Paneuropean Corridors. Five loans worth a total of EUR 200,000,000.00 were concluded with a guarantee of the Republic of Croatia. Also, two global loans were granted with state guarantees to banks for financing small and medium private enterprises, in the total amount of EUR 36,000,000.00.

Within the framework of concluded public and publicly guaranteed loans, a total of EUR 27.25 million was withdrawn, and this is the amount of debt toward EIB. EUR 212.75 million remained to be withdrawn until 2006.

Basic data about the loans are presented in the review of loans (Table 6.17). Those loans were agreed under the following conditions: repayment term 12 - 20 years, grace on principal repayment 3.5 – 5.5 year, fixed and/or fluctuating interest rate based on EURIBOR increased by EIB spread, default interest which is calculated by increasing the agreed interests by 2% or 2.5% (in case fixed interests are agreed), and increasing the agreed interests by 0.25% (in case a fluctuating interest is agreed), as well as payment of fees in case of deferral of releasing the tranches and/or cancelation of releasing of tranches.

⁴⁷The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Investment Bank for the Motorways Rehabilitation Project in the Republic of Croatia was not adopted before the end of 2002 and the Loan did not become effective in 2002.

Table 6.17 | Review of EIB Loans Approved in Line with the Framework Agreement between RC and EIB, Dated December 13, 2000 (as of Dec. 31, 2002)

No.	EIB Loan No.	Name of Project	Benefic.	Date of Concl. Agreement	Law Publ. in Off. Gaz.	Closing Date	Curr.	Loan Amount	Disbursed	To Be Disbursed	DEBT	
I. Public Loans												
1	FI No. 21.051	Project of Reconstruction of Infrastructure and Modernization of Signalization and Telecommunications System at Sections of Vc Paneuropean Corridor	Croatian Railways d.o.o.	24.05.2001.	THE OFF. GAZ. – IA No. 2/2002	30.10.2005.	EUR	40,000,000.00	3,500,000.00	36,500,000.00	3,500,000.00	
II. Loans Obtained with Guarantee of RC												
1	FI No. 21.262	Project Rehabilitation of National Roads	Croatian Roads d.o.o.	29.10.2001.	OFF. GAZ. – IA No. 4/2002	26.05.2004.	EUR	60,000,000.00	1,000,000.00	59,000,000.00	1,000,000.00	
2	FI No. 21.316	Global Loan for HBOR	HBOR	26.11.2001.	OFF. GAZ. – IA No. 4/2002	26.05.2004.	EUR	10,000,000.00	0.00	10,000,000.00	0.00	
3.	FI No. 21.609	Zagreb –Rijeka Motorway Project	Rijeka-Zagreb Motorway d.d.	24.06.2002.	OFF. GAZ. – IA No. 10/2002	30.06.2005.	EUR	60,000,000.00	20,000,000.00	40,000,000.00	20,000,000.00	
4	FI No. 21.677	Project Zagreb Air Traffic Control	Croatian Air Traffic Control d.o.o.	10/12.09.2002.	OFF. GAZ. – IA No. 14/2002	30.06.2006.	EUR	20,000,000.00	2,750,000.00	17,250,000.00	2,750,000.00	
5	FI No. 21.850	Project Rehabilitation of Motorways	Croatian Motorways d.o.o.	13.12.2002.	OFF. GAZ. - IA (under proced.)	Not effective	EUR	50,000,000.00	0.00	50,000,000.00	0.00	
TOTAL II. (1.-5.):								EUR	200,000,000.00	23,750,000.00	176,250,000.00	23,750,000.00
TOTAL (I.+II.):								EUR	240,000,000.00	27,250,000.00	212,750,000.00	27,250,000.00
III. Loans Obtained without State Guarantees												
Loan Type			Beneficiary		Date of Agreement		Amount					
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					
TOTAL (1.+2.):								EUR 36,000,000.00				



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Repayments of Taken Over Loans

Inherited long-term loans granted in the period from 1982 to 1989⁴⁸ were also repaid in 2002 according to the law and according to the repayment schedule in various currencies. On December 6, 2001 EIB prepared revised repayment schedules per tranches of loans disbursement in original currencies (BEF, DEM, FRF, ITL, NLG, and GRD), after effected conversion of those original currencies of payment in EUR at fixed exchange rates.

The review of taken over loans of EIB and debt stock as of end 2002 is illustrated in Table 6.17.

Due liabilities toward European Investment Bank against loans used for financing roads and railways were paid from the State budget funds for 2002. After all due liabilities in 2002 were paid, the outstanding debt toward EIB, indicated in EUR and five different currencies and then converted into kuna, according to the mean rate of the Croatian National Bank as of December 30, 2002, amounted to HRK 414,062,831.71.

⁴⁸On the basis of the principle of partial succession and on the basis of compliance with the so-called territorial principle, six outstanding unrepaid long-term loans of beneficiaries with the seat in the Republic of Croatia were taken over (Croatian Power Utility, Croatian Roads, and Croatian Railways), denominated in ECU, with obligation of repayment in a basket of currencies. The total taken over debt reported in 11 currencies as of December 31, 1994 amounted to HRK 877,147,661.94.

**Table 6.18 | Review of
Taken over Loans of EIB
and Debt Stock**

No.	EIB Loan No.	New Borrowers According to Letters of Agreement	Guarantor by Letters of Agreement	Loan Amount in EUR	Currencies	Outstanding Balance as of December 31, 2002
1.	16275	HEP d.d. Zagreb	Republic of	10,552,500.00	EUR	0.00
	EEMS-HE CRO Repaid	Letter of Agreement No.: 0297	Croatia		GBP	0.00
2.	16279	The Republic of Croatia		16,000,000.00	EUR	589,118.10
	TYH-II-HC CRO	Letter of Agreement No.: 0298			USD	1,150,157.17
3.	16284	Croatian Railways	Republic of	29,190,000.00	EUR	3,287,211.68
	TYR-I-HZ	Letter of Agreement	Croatia		DKK	7,618,378.23
	CRO	No.: 0296			USD	585,421.67
					GBP	208,762.03
4.	16289	The Republic of Croatia		15,250,000.00	EUR	1,362,682.15
	TYH-III-HC	Letter of Agreement			GBP	613,879.66
	CRO	No.: 0298			DKK	3,694,933.12
					USD	844,664.95
					CHF	147,596.34
5.	13554	The Republic of Croatia		60,000,000.00	EUR	11,597,445.48
	TYH-IV-HC	Letter of Agreement			GBP	1,003,468.69
	CRO	No.: 0298			JPY	1,661,074,047.00
					CHF	10,057,113.25
6.	14090	Croatian Railways	Republic	18,000,000.00	EUR	5,462,373.66
	TYR-IIB-HZ	Letter of Agreement	Croatia		CHF	3,900,093.66
	CRO	No.: 0296			USD	1,413,002.86
					FRF	19,628,225.98
					GBP	1,373,113.31
TOTAL:				148,992,500.00	EUR	22,298,831.07
					USD	3,993,266.65
					GBP	3,199,221.69
					DKK	11,313,311.35
					CHF	14,104,803.25
					JPY	1,661,074,047.00
					HRK*	414,062,831.71

*according to CNB mean rate as of December 31, 2002

Preparation of New Projects to be Financed by EIB Loans

The following new infrastructure projects are in various preparation phases: 1. Project of Reconstruction of Communal Infrastructure in the Areas of Special State Concern (EUR 50 million) and 2. Project of Construction and Modernization of Gas Pipeline in Croatia (EUR 96 million), as well as global loans for financing development projects of small and medium enterprises (EUR 30 million).

6.4.2 | Relations of the Republic of Croatia with International Financial Institutions in 2003

International Bank for Reconstruction and Development (IBRD)

Cooperation of the Republic of Croatia with the International Bank for Reconstruction and Development was pursued within the framework of the strategy and policy of the Government of the Republic of Croatia. Its main determinants in 2003 were the extension and preservation of macroeconomic stability and accomplishment of accelerated and sustainable economic growth, as well as fulfilling the conditions for accession to the European Union in line with the measures and activities related to the implementation of the Stabilization and Association Agreement. According to the previously defined economic policy objectives within the framework of the Program of Work of the Government of the Republic of Croatia in the Period from 2000 to 2004, as well as development priorities laid out in the document "Development Priorities of the Republic of Croatia in the Period from 2002 to 2004", the priorities include: (1) preservation of macroeconomic stability, (2) preparation and implementation of structural reforms in the real, financial, and public sectors aimed at reducing public expenditures, (3) faster restructuring and privatization of public enterprises and banks, (4) strengthening of the private sector and entrepreneurship in the economy, (5) financing development and infrastructure, and (6) improving the living standards and employment of the population. Based on the Program of Work of the Government, Defined development priorities, and in line with the programmatic document "*Country Assistance Strategy-CAS*"⁴⁹, and also the update of the Country Assistance Strategy which includes the period between 1999 and 2003⁵⁰, Croatian programs and projects which IBRD finances with loans and grants were implemented. The Government of the Republic of Croatia, with technical and advisory assistance of the World Bank, launched a number of structural and institutional reforms and opted for measures of alleviation of macroeconomic imbalances and removing the structural causes of fiscal imbalances, strengthening market institutions, increasing the flexibility of the labor market, competitiveness of the economy and creating an enabling business environment which will attract investments. In the course of 2003 the World Bank, at the request of the Government of the Republic of Croatia, prepared a new analytical study entitled "Croatia Country Economic Memorandum: A Strategy For Growth Through European Integration" (presented in September 2003 in Bruxelles and Zagreb). This study (CEM) analyses Croatia's economic accomplishments so far, explores the possibilities of economic growth in the framework of European integration, analyses institutional and regulatory issues, macroeconomic and sectoral challenges which Croatia will face during the process of stabilization and EU accession, and offers economic policy options and timeline of reform programs and investments which would promote sustainable growth.



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⁴⁹IBRD, together with the Government of the Republic of Croatia, commenced with CAS preparations in 1998, and the Board of Executive Directors of the Banks approved it on June 3, 1999. This Strategy highlights the importance of preservation of macroeconomic and fiscal stability. It advocates the following: (1) establishment and implementation of a program of further structural reforms aimed at reducing public expenditures (through the implementation of reforms in the public sector, particularly in the pension, health, and judicial systems), (2) introduction of new budget techniques and setting up a system of better management and control of spending budget monies, (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.

⁵⁰The update of Strategy was completed on August 22, 2001 and presented to the Board of Executive Directors on September 19, 2001.

The new Government program - "Program of the Government of the Republic of Croatia in the Mandate Period 2003 - 2007 (drawn up on December 23, 2003)", Country Economic Memorandum (CEM) and the previously prepared studies, reports, and recommendations of the World Bank and other international institutions will serve as the foundations for the preparation of the new Croatia Country Assistance Strategy (CAS) for the period from 2004 to 2007 and commenced preparations for a new IBRD's programmatic loan for structural reforms (Programmatic Adjustment Loan - PAL). The commenced preparations of PAL include the implementation of a number of reforms aimed at creating an enabling investment climate (privatization program, reforms of the energy and agriculture sectors, financial discipline, reducing barriers for firm entry, strengthening market institutions), public administration reforms (decentralization and strengthening the local government functions), legal and judicial reform, reforms in the education and science sectors, as well as reforms of the health and social systems. Sectoral reforms will also be supported by special new IBRD loans whose preparations started in the course of 2003 (in the energy sector, social protection, science and technology, environmental protection). All those reforms, measures, and activities are instrumental for empowering the Republic of Croatia to accelerate the EU integration process. The cooperation with IBRD and its financial, expert, and advisory assistance are important in those efforts for accomplishment of this goal.

New Loans and Grants Approved in 2003

In 2003 the International Bank for Reconstruction and Development approved the following: (a) four new loans for implementation of projects in Croatia worth USD 55.1 million and EUR 96 million (three Loan Agreements were concluded – for the Rijeka Gateway Project with a guarantee of the Republic of Croatia and the loan for the Energy Efficiency Project, also with a guarantee of the Republic of Croatia), (b) seven new grants worth USD 8,563,000 and EUR 4,900,000.00, as well as (c) eight small grants in the total amount of USD 30,000 under the Small Grants Program⁵¹.

Loans for the Rijeka Gateway Project

(Loans: Nos. 47140-HR, 47150-HR, and 47160-HR – Agreed with the Guarantee of the Republic of Croatia)

The Rijeka Gateway Project includes 3 components: (1) restructuring and modernization of the port, which includes the rehabilitation of infrastructure, demolition of old warehouses which restrict port operations, and procurement of modern equipment for manipulating heavy cargo and shipping management, (2) re-development of the interface between the port and the city, including construction of a modern ferry terminal, passenger port, nautical center, various commercial, cultural, and amusement facilities and the connecting road which will link the port with the Rijeka beltway, and (3) upgrading of the international road route (the Rijeka beltway, rehabilitation of the Zagreb-Macelj motorway, rehabilitation of the Krk bridge and removing the "hot spots", system of roadway and bridge management, procurement of equipment and the necessary software). The main goal of the Project is to increase Croatian trade competitiveness through improvements of the international transport

⁵¹The World Bank's Small Grants Program finances the activities of non-governmental and non-profit organizations and associations of citizens which engage in issues of development, social problems, environmental protection, and private sector development. Support is provided for conferences, workshops, seminars, scholarships, study tours, costs of issuing various publications and other promotional materials which small civil society organizations cannot finance from their regular budgets. IBRD approves grants in the maximum amount of USD 15 thousand, usually from USD 3 to 7 thousand. In 2003 grants were provided in the amounts of USD 2 - 5 thousand to the following recipients: Center for Sustainable Development of Rural Areas, Organization Roma for Roma of Croatia, the Croatian Law Center, Croatian Organization of Deaf-Blind Persons "Dodir" (the Touch), Organization for Creative Development "Domestic", Karlovac, Organization for Promotion of Inclusion and the Center for Prevention, Research, and Prevention of Sexual Violence and Women's Sexuality - Ženska soba (Women's Room), Zagreb.



route through Rijeka, i.e., resolving the biggest problems of the Rijeka traffic junction and the Port of Rijeka. Preparation of this complex Project has been ongoing for a number of years. In 1999 a grant was agreed with IBRD, amounting to USD 337,500 for the Rijeka Gateway Project, whereas the Project Preparation Facility for the Rijeka Gateway Project amounting to USD 1.5 million concluded on March 28, 2002. Those funds were used for financing the project designs, the necessary studies, and the business plan. Project costs are estimated at USD 266.1 million. IBRD decided to grant Project loans worth USD 156.5 million. Three Loan Agreements between IBRD and the Croatian beneficiary, with a guarantee of the Republic of Croatia⁵², on July 12, 2003 were concluded, as follows:

1. Loan Agreement No. 47140-HR worth EUR 15,700,000.00 between IBRD and Croatian Motorways d.o.o.,
2. Loan Agreement No. 47150-HR amounting to USD 55,100,000.00 between IBRD and Port Authority Rijeka, as well as the Project Agreement IBRD and Luka Rijeka d.d., and
3. Loan Agreement No. 47160-HR amounting to EUR 76,000,000.00 between IBRD and Croatian Roads d.o.o.

Agreements came into force on October 10, 2003. On the same day the front-end fee was paid (1%), and before the end of 2003 Port Authority Rijeka withdrew funds from the Loan for the implementation of the Project (Table: Withdrawal of Funds in 2003). Completion of the Project is expected on March 31, 2009.

Loan for the Energy Efficiency Project (No.: 71980-HR, Agreed with a Guarantee of RC)

Under the reforms in the energy sector, the Energy Efficiency Project supports the provision of efficient electrical power supply energy in an environmentally acceptable way. The objective of the Project is to establish a new company within the Croatian Power Utility for energy services - ESCO – which will prepare, finance, and implement energy efficiency projects on a commercial basis. The Project consists of four components: (a) investments into energy savings (goods, materials, and works related to ESCO activities), (b) development and financing of HEP ESCO project (costs and preparations for seed investment into first projects), (c) upgrading the credit rating of HEP ESCO, other energy services providers and beneficiaries, and (d) training, dissemination of information related to the market situation, control, and verifications.

A Loan Agreement of EUR 4.4 million was concluded between IBRD and Croatian Power Utility d.d. on November 10, 2003, with a guarantee of the Republic of Croatia. Loan funds were not withdrawn in 2003, because by the end of the year the Loan Agreement and the Guarantee Agreement did not come into force⁵³.

IBRD approved those new loans according to standard financial conditions⁵⁴: a 15-year repayment period, 5-year grace for principal repayment, with a fluctuating, LIBOR-based interest rate which is applied to six-month deposits in USD/EUR increased by the spread, front-end fee of 1% of the Loan payable from Loan funds on the day of effectiveness of the Loan and fee of 0.75% or 0.85% commitment fee for undisbursed amount of the Loan⁵⁵.

⁵²The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development for the Rijeka Gateway Project ("The Official Gazette - International Agreements", Nos. 16 and 18/2003).

⁵³The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development for the Energy Efficiency Project was passed by the Croatian Parliament on April 2, 2004, published in "The Official Gazette - International Agreements", No. 3/2004. Following the confirmation of IBRD that all conditions for effectiveness of the Loan Agreement and Guarantee Agreement were met, the Loan became effective on April 8, 2004.

⁵⁴In line with the IBRD policy to grant loans to Borrowers tied to conditions related to economic strength of the member countries, the Republic of Croatia with GNP per capita of USD 4,640 was ranked in the second group of countries, which includes member countries in which GNP per capita is between USD 2,936 and USD 5,115 (Source: the World Bank Annual Report 2003 - Volume 2, Financial Statements and Appendixes).

⁵⁵Effective fee for undisbursed Loan funds will amount to 0.25%, or 0.35% because Executive Directors of the International Bank for Reconstruction and Development approved a reduction of this fee by 0.50% during the current fiscal year.

Grant for Renewable Energy Resources Project (TF 051107)

IBRD approved the grant amounting to USD 350,000 for the preparation of the Renewable Energy Resources Project in the capacity of the implementation agency of the Global Environment Facility - GEF. Grant Agreement was signed on February 19, 2003⁵⁶ and came into force on the same day. The Grant is intended for providing technical assistance: (1) at estimating expenditures and advantages of generating renewable energy resources in the Republic of Croatia, (2) for the development of policy and regulatory framework of renewable energy, (3) development of financial mechanisms for the implementation of the Project, (4) preparation of programs and development planning on the local level, (5) preparation of the Project implementation plan, monitoring implementation and environmental impact assessment and (6) audit costs. The beneficiary of the Grants - the Ministry of Economy, Labor, and Entrepreneurship, Grant funds will be utilized through the Croatian Bank for Reconstruction and Development (HBOR) until May 30, 2004.

Grant for the Project of Institutional Capacity Building for Monitoring Judicial Efficiency (TF 052014)

IBRD approved the a grant of USD 350,000 from the funds of the Institutional Development Fund – IDF – with a view to assist in institutional capacity building of courts in the Republic of Croatia and enable the Ministry of Justice to collect data on functioning of courts and managing analytical data on courts' legal efficiency. The Grant Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development was concluded on May 30, 2003, and came into force on the same day⁵⁷. The Agreement defined the following activities for which the Grant is provided: (a) developing an automated system for the collection, processing, and keeping the court statistics and monitoring court efficiency indicators, (b) developing modules of work load and other judicial efficiency indicators, monitoring case load and performance of court activities, (c) institutional strengthening of the Supreme Court, judicial councils in county courts, and training of court councils in county courts, and also training of staff of the Ministry of Justice and (d) management of Grant funds, including procurement and financial management.

The Ministry of Justice is competent for execution of the Grant Agreement on the basis of which the Grant funds will be utilized until May 30, 2006, for the following purposes: (1) consulting services, USD 22,484, (2) procurement software and computer equipment in the Ministry of Justice and selected courts USD 70,016, and (3) USD 57,500 for training, including travel costs, per diems, space rental, equipment and materials required for staff training.

Grant for Budget Management Strengthening Project (TF 052062)

The Grant Agreement on USD 368,000 for Budget Management Strengthening Project was signed on May 30, 2003 between the Republic of Croatia and IBRD, and came into force on the same day⁵⁸.

⁵⁶Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the Grant for the Renewable Energy Resources Project ("The Official Gazette - International Agreements", No. 7/2003).

⁵⁷Decree on the Publication of the Agreement between the Government of the Republic of Croatia and International Bank for Reconstruction and Development on the Grant for the Project of Institutional Capacity Building for Monitoring Judicial Efficiency ("The Official Gazette - International Agreements", No. 13/2003).

⁵⁸Decree on the Publication of the Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development on the Grant for Budget Management Strengthening Project (TF 052062) ("The Official Gazette - International Agreements" No. 12 /2003).

Grant funds will be used by the Ministry of Finance until May 31, 2006 year: (a) consulting services USD 255,300.00 and (b) training costs EUR 112,700.00, which include training costs and per diems for participants of the Project, rental of resources and equipment, as well as training materials.

Grant is intended for institutional capacities of the Ministry of Finance in budget preparation and management processes and support to the introduction of modern methods of budget preparation in the Republic of Croatia. The Project includes development of information equipment and budget analysis techniques, execution of budget processes and analytical skills in the Ministry of Finance and other Ministries, training of Government staff included in the preparation of the budget for sectoral analysis and representation of the budget to political bodies and general public.



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EU CARDS Grant for Land Registry and Cadastre Project in the Republic of Croatia (TF051781)

IBRD, in the capacity of the administrator of the grant amounting to EUR 4,900,000, which the European Union approved for Croatia under the CARDS Program, concluded on June 24, 2003 with the Government of the Republic of Croatia a Grant Agreement⁵⁹ with the intention to assist in the financing of the Land Registry and Cadastre Project. IBRD has already granted a EUR 26 million Loan for this Project (in September 2002). Grant funds will be utilized by the Ministry of Justice and the State Geodetic Administration until December 31, 2006 for the performance of the following activities:

- (a) Setting up of a spatial data information system in the State Geodetic Administration,
- (b) Production of digital orthophoto and cadastral maps and procurement of equipment,
- (c) Training and technical assistance in the State Geodetic Administration and Ministry of Justice, land registry departments in Municipal Courts in the areas of information technology, quality control, and specialist topics in the area of registry of real property,
- (d) Technical services and equipment for the implementation of public information campaign in order to increase awareness about cadastre and real property registration systems.

The Grant funds will be used for payment of consulting services - EUR 655,000, training costs - EUR 1,650,000, technical services - EUR 2,090,000.00, equipment - EUR 440,000.00 and operational costs - EUR 65,000.00.

Grant for the Preparation of the City of Zagreb Wastewater Nutrient Reduction Project (TF 052381)

IBRD, acting as the GEF's implementation agency, awarded a grant of USD 350,000 as financial assistance for the preparation of the City of Zagreb Wastewater Nutrient Reduction Project. Grant Agreement was concluded between the Government of the Republic Croatia and the International Bank for Reconstruction and Development on November 4, 2003⁶⁰. Execution of the Agreement is in the competence of the Ministry of Environmental Protection, Physical Planning, and Construction. The Grant is used by the City of Zagreb for payment of consulting services for the performance of the following activities: (a) preparation of the core draft

⁵⁹Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the Grant for the Land Registry and Cadastre Project (TF 051781) ("The Official Gazette - International Agreements", No. 3/2004).

⁶⁰Decree on the Publication of the Agreement between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development on the Grant for the City of Zagreb Wastewater Nutrient Reduction Project (GEF-PPG TF 052381) ("The Official Gazette - International Agreements", No. 2/2004).

of the Project, (b) preparation of the environmental impact study, (c) preparation of all documents for obtaining a location permit, (d) implementation of technical and financial analysis, as well as the analysis of cost increase, (e) preparation of the implementation of public discussion during the preparations and execution of the Project, and (f) preparation of documents for obtaining of construction licence and Project approval.

Grant for the Energy Efficiency Project (TF 052141)

IBRD approved the Grant of USD 7,000,000 as the implementation agency of GEF, at the same time when it approved the Loan for the Energy Efficiency Project. The Grant Agreement was concluded on November 30, 2003 between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development⁶¹. On the same day also were concluded the agreements on the Project between the International Bank for Reconstruction and Development and the Croatian Bank for Reconstruction and Development (HBOR) and between the International Bank for Reconstruction and Development and Croatian Power Utility d.d. (HEP), which will implement the Project and use Grant funds. HEP will use a portion of the Grant in the amount of USD 5,000,000 and will transfer those funds by a sub-grant to HEP ESCO d.o.o. which will finance preparation of the Energy Efficiency Project, preparation of the studies and technical assistance (parts (b) and (d) of the Energy Efficiency Project. HBOR will use USD 2,000,000 for the implementation of part (c) of the Energy Efficiency Project, i.e., for issuing partial guarantees for credits approved to HEP or HEP – ESCO for purpose of co-financing investments into energy savings and issuing partial guarantees for credits approved to final users for purpose of investments into energy savings.

Grant for the Preparation of the Integrated Neretva and Trebišnjica Basin Ecosystem Management Project (TF 052844)

IBRD, acting as the implementation GEF agency, provided a grant amounting to USD 145,000.00 with a view to assist the Republic of Croatia in the preparation of a regional project (for the Republic of Croatia and Bosnia and Herzegovina) which will ensure effective and environmentally sustainable management of water and land resources of the Neretva and Trebišnjica rivers, and also reduce water pollution and increase conservation of biodiversity. The Grant will be used by the Ministry of Environmental Protection, Physical Planning, and Construction, whereas the execution of the Grant Agreement⁶² is in the competence of the Ministry of Environmental Protection, Physical Planning, and Construction, Ministry of Culture and Ministry of Agriculture, Forestry, and Water Management. The Grant Agreement was concluded on December 19, 2003 between the Republic of Croatia and the International Bank for Reconstruction and Development, and it came into force on the same day. Grant funds will be withdrawn until May 31, 2005 for payment of expenditures related to the implementation of the activities defined by the Agreement: 1. consulting services USD 105,000.00, 2. goods, USD 15,000.00, and 3. operational costs of the Project Implementation Unit which will work within the Ministry of Environmental Protection, Physical Planning, and Construction.

⁶¹Decree on the Publication of the Agreement on the Grant of the Global Environmental Facility for the Energy Efficiency Project between the Government of the Republic of Croatia and the International Bank for Reconstruction and Development in the Capacity of the Implementation Agency of the Global Environmental Facility (GEF – PPG TF 052141) ("The Official Gazette - International Agreements", No. 3/ 2004).

⁶²Decree on the Publication of the Grant Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development, for the Preparation of the Integrated Neretva and Trebišnjice Basin Ecosystem Management Project ("The Official Gazette - International Agreements", No. 6/ 2004).

Preparation of Projects to Be Financed by New Loans

In 2003 preparations commenced for six projects for whose financing concluding of agreements on new IBRD loans is expected, worth a total estimated USD 332,00 million and EUR 140 million. Those are the following projects:

1. Coastal Cities Pollution Protection Project (EUR 140 million; EUR 40 million in the first phase),
2. Social Protection Project (USD 36 million),
3. Social and Economic Recovery Project (USD 24 million),
4. Science and Technology Project (USD 42 million),
5. District Heating Project (USD 30 million) and the
6. Programmatic Adjustment Loan (PAL - USD 200 million).



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Review of Loans and Stock of Debt toward the International Bank for Reconstruction and Development (IBRD)

In the period from 1994 to 2003 IBRD granted 27 long-term loans for financing programs and projects in the Republic of Croatia. The Republic of Croatia concluded 18 loans directly with IBRD (public loans)⁶³, whereas 9 loans were concluded with state guarantees⁶⁴. All those loans, together with the loan for the Istria Water Supply Project (granted in 1990, taken over in 1994 with a guarantee of the Republic of Croatia⁶⁵), make up a total of 28 loans worth USD 659.77 million and EUR 479.02 million. In the period from 1995 to 2003, as of December 31, 2003 a total of USD 558.15 million (84.6% of total loans in USD) and EUR 285.45 million (59.59% of loans in EUR).

Total status of undisbursed loan funds as of December 31, 2003 amounted to USD 101.62 million (15.40% of the loans in USD) and EUR 193.57 million (40.41% of loans in EUR). Those credit funds will be used for financing projects and programs according to agreed timelines, i.e., in the period from 2004 to 2010.

The debt stock of the Republic of Croatia, either as a debtor or as a guarantor, toward IBRD against loans concluded in the period from 1994 to 2003 and against the only one outstanding loan on the basis of inherited loans⁶⁶ on December 31, 2003 amounted to USD 448.78 million and EUR 256.33 million.

⁶³Out of eighteen directly concluded loans, nine loans were withdrawn and closed (loans for financing: Emergency Reconstruction Project, Health Project, Highway Sector Project, Capital Market Development Project, Farmer Support Services Project, Technical Assistance Project, Emergency Reconstruction and Mine Clearing Project, Enterprise and Financial Sector Adjustment Loan Project, Structural Adjustment Loan), whereas nine loans are effective and ready to be withdrawn.

⁶⁴For the financing of the Investment Recovery Project, a total of DEM 52 million was approved for 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. canceled DEM 1,901,123.00 in July 2000, Varaždinska banka d.d. DEM 6,488,486.31 in September 2001, and Nova banka d.d., Zadar (Dalmatinska banka) on May 1, 2003. EUR 708,139.97. Those loans were converted to EUR on November 30, 2001 and now total EUR 21,589,498.73. HBOR, also with a guarantee of the Republic of Croatia, concluded a loan of DEM 65 million for the Municipal Environmental Infrastructure Project which after the conversion to EUR amounted to EUR 33,233,972.28. In the course of 2003 three new loans were concluded for financing the Rijeka Gateway Project, with a state guarantee (Croatian Motorways - EUR 15.7 million, Port Authority Rijeka - USD 55.1 million, and Croatian Roads - EUR 76.2 million) and also loan for the Energy Efficiency Project (HEP) EUR 4.4 million, also with a state guarantee.

⁶⁵Loan No. 30690-HR granted in the amount of USD 28 million was taken over pursuant to the Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the International Bank for Reconstruction and Development and the Agreement on Taking over of the Loan between the Republic of Croatia and the International Bank, concluded on February 25, 1993 ("The Official Gazette - International Agreements", No. 7/1994). In January 2001 the undisbursed amount of USD 1,983,710.78 was canceled and Loan was closed.

⁶⁶The Republic of Croatia, in the framework of the membership procedure for IBRD (February 25, 1993 it became full member) took over 7.6% of outstanding debts of the former SFRY towards IBRD on the basis of 17 loans of Croatian beneficiaries. From 1994 to 2002, 16 loans were fully repaid. During 2002 the last installments were repaid for IBRD Loan No. 2878-1HR (The Second Sectoral Highway Loan) in the total amount of USD 506,128.74. The only outstanding commitments were against IBRD Loan No. 30690-HR obtained for financing Istrian Water Supply (last maturity: April 14, 2004).

Table 6.19 | Review of
Loans of the International
Bank for Reconstruction
and Development (IBRD)
Concluded from
1994 to 2003

No.	Project	Signed on	Curren- cy	Loan Amount	Undisbursed as of Dec. 31, 2002	Closing Date	Debt Outst. Dec. 31, 2003	Principal Repayment Date	
								First	Last
I. Public Loans									
1	Emergency Reconstruction Project (37600-HR)	27. 06. 1994.	USD 000	128,000.00	0.00	31.12.1999.	87,765.00	15.12.1998.	15.06.2011.
2	Health Project (38430-HR)*	08. 03. 1995.	USD 000	38,925.49	0.00	30.04.2000.	25,898.29	15.06.2000.	15.12.2011.
3	Highway Sector Project (38690-HR)**	27. 04. 1995.	USD 000	79,878.48	0.00	31.12.2001.	59,905.36	15.12.1999.	16.06.2012.
4	Capital Market Development Project (39990-HR)***	23. 04. 1996.	EUR 000	7,260.34	0.00	30.06.1999.	5,752.03	15.10. 2001	15.04.2013.
5	Farmer Support Services Project (39880-HR)****	23. 04. 1996.	USD 000	14,258.74	0.00	02.07.2002.	11,126.74	01.09.2001.	1.03.2013.
6	Technical Assistance Project (39890-HR)	23. 04. 1996.	USD 000	5,000.00	0.00	31.12.1999.	3,950.00	15.10.2001.	15.04.2013
7	Emergency Reconstruction and Mine Clearing Project (41040-HR)*****	04. 12. 1996.	EUR 000	74,797.17	0.00	31.12.2001.	63,355.08	15.07.2002.	15.01.2012
8	Coastal Forest Reconstruction and Protection Project (41190-HR)	31. 01. 1997.	USD 000	42,000.00	3,410.69	30.06.2002.	31,598.30	15.06.2002.	15.12.2013
9	Enterprise Financial Structural Adjustment Loan (EFSAL-41590-HR)*****	04. 06. 1997.	EUR 000	81,806.70	0.00	31.12.2001.	69,535.69	15.12.2002.	15.06.2012
10	Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem (43510-HR)*****	08. 09. 1998	EUR 000	37,835.59	13,144.33	30.06.2004.	24,691.26	15.01.2004.	15.07.2013.
11	Railway Modernization and Restructuring Project (44330-HR)	20. 01. 1999.	EUR 000	85,400.00	33,162.94	31.12.2004.	52,237.05	15.09.2004.	15.03.2014.
12	Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development (44600-HR)	05. 05. 1999.	USD 000	7,300.00	3,813.95	30.06.2004.	3,486.04	15.10.2004.	15.04.2014.
13	Health System Project (45130-HR)	07. 10. 1999.	USD 000	29,000.00	17,413.16	30.06.2005.	11,586.83	30.06.2005.	15.12.2014.
14	Trade and Transport Facilitation in Southeast Europe Project (45820-HR)	27. 10. 2000.	EUR 000	14,800.00	8,527.27	31.03.2005.	6,272.72	15.05.2006.	15.11.2015.
15	Court and Bankruptcy Administration Project - Technical Assistance (46130-HR)	03. 07. 2001.	USD 000	5,000.00	4,412.62	31.07.2005.	587.37	15.12.2006.	15.06.2016.
16	Structural Adjustment Loan (46410-HR)	05. 12. 2001.	USD 000	202,000.00	0.00	31.10.2003.	202,000.00	15.04.2007.	15.10.2016.
17	Pension System Investments Project (46720-HR)	17. 09. 2002.	USD 000	27,300.00	21,255.73	30.12.2006.	6,044.26	15.1. 2007.	15.05.2017.
20	Real Property Registration and Cadastre Project (46740-HR)	18. 09. 2002.	EUR 000	26,000.00	24,914.14	30.09.2008.	1,085.85	15.05.2008.	15.11.2017.
TOTAL I. :			USD 000	578 662,73	50.306,17		443,939.22		
			EUR 000	327,899.81	79,748.69		222,929.71		

Table - Continued

No.	Project	Signed on	Curren- cy	Loan Amount	Undisbursed as of Dec. 31, 2002	Closing Date	Debt Outst. Dec. 31, 2003	Principal Repayment Date	
								First	Last
II. Loans with Guarantees of RC									
1.	Investment Recovery Project (4 loans: 4246;4247;4248 i 4249 HR)*****	04.12.1997.	EUR 000	21,589.49	0.00	31.12.2002.	19,359.85	15.03.2003.	15.09.2012
2.	Municipal Environmental Infrastructure Project (MEIP 43520-HR)*****	25.09.1998.	EUR 000	33,233.97	18,442.40	30.06.2006.	13,129.87	15.11.2003.	15.05.2013.
3.	Rijeka Gateway Project (47140-HR)-Croatian Motorways	12.07.2003.	EUR 000	15,700.00	15,543.00	09.09.2009.	157.00	15.12.2008.	15.06.2018.
4.	Rijeka Gateway Project (47150-HR)-Port Authority Rijeka	12.07.2003	USD 000	55,100.00	51,321.96	09.09.2009	3,778.03	15.12. 2008	15.06.2018
5.	Rijeka Gateway Project (47160-HR)- Croatian Roads	12.07.2003	EUR 000	76,200.00	75,438.00	09.09.2009	762.00	15.12. 2008	15.06.2018
6.	Energy Efficiency Project (71980-HR)-Croatian Power Utility d.d.	10.11.2003.	EUR 000	4,400.00	4,400.00	30.06.2010.	0.00	15.04.2008.	15.10.2013.
TOTAL II. :			EUR 000	151,123.46	113,823.40		33,408.72		
			USD 000	55,100.00	51,321.96		3,778.03		
III. Outstanding Inherited Unrepaid Loans (taken over with the guarantee of RC)									
1.	Istria Water Supply Project (30690- HR)*****	01.02.1990.	000 USD	26,016.29	0.00	30.06.2000.	1,069.78	15.10.1994.	15.04.2004.
TOTAL (I.+II.+III.):			000 USD	659,779.01	101,628.14		448,787.04		
			000 EUR	479,023.28	193,572.09		256,338.44		



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Notes:

*For financing Health Project a loan was agreed on USD 40 million; USD 1,074,503.54 canceled June 22, 2000 so that the Loan amounts to: USD 38,925,496.46.

**For the Highway Sector Project, a loan was agreed of USD 80 million; USD 121,510.13 canceled January 4, 2002 so that the Loan amounts to: USD 79,878,489.69.

***For Capital Market Development Project a loan was agreed of DEM 14.2 million. After conversion to EUR effected on November 30, 2001, the Loan amounts to EUR 7,260,344.71.

****For Farmer Support Services Project, a loan was agreed of USD 17 million; on December 21, 2000 USD 2 million was canceled and on May 9, 2003 USD 741,255.51 was canceled and the Loan amounts to USD 14,258,744.49.

***** For Emergency Transport Reconstruction and Mine Clearing Project, a loan was agreed of DEM 150.9 million, which after conversion to EUR amounts to: EUR 77,153,944.87; June 30, 2002 EUR 2,356,771.68 was canceled so that the Loan amounts to: EUR 74,797,173.19.

*****For the Enterprise and Financial Sector Adjustment Loan Project a loan was agreed of DEM 160 million which after conversion to EUR amounts to EUR 81,806,700.99.

*****Za Project of Reconstruction of Eastern Slavonia, Baranja, and Western Srijem a loan was agreed of DEM 74 million, which after conversion to EUR amounts to EUR 37,835,599.21.

*****4 loans were agreed in the total amount of DEM 52 million for financing 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, three banks canceled portions of loans: Alpe Jadran bank, Split in July 2000 canceled DEM 1,901,123.00, Varaždinska banka d.d., Varaždin in September 2001 DEM 6,488,486.31 and Nova banka d.d., Zadar (Dalmatinska banka) in May 2003 EUR 798,139.97. After conversion of all loans to EUR and deduction of canceled amounts for the Investment Recovery Project the Loan to Varaždinska banka amounts to: EUR 3,789,466.78, Nova banka d.d., Zadar (Dalmatinska banka): EUR 7,268,013.38, Slavonska banka: EUR 8,845,349.54 and Alpe Jadran banka EUR 1,686,689.03, or total: EUR 21,589,498.73.

*****For MEIP a Loan was agreed of DEM 65 million, which after conversion to EUR amounts to EUR 33,233,972.28.

*****For financing the Istria Water Supply Project a Loan was agreed in the amount of USD 28 million; on January 8, 2001 USD 1,983,710.78 was canceled, and the Loan amounts to: USD 26,016,289.22.

All due liabilities toward IBRD against the inherited loan and against new loans were paid regularly and on time⁶⁷. The State budget provided funds for direct payment of commitments arising from 18 public loans and liabilities arising from the inherited loan used for financing the Istria water supply. Funds for those liabilities were allocated in the state budget⁶⁸. On the basis of guarantees of the Republic of Croatia, due liabilities were also paid in the total amount of EUR 219,550.37 (principal 168,624.06 + interests 50,926.31) against the Loan No. 42490-HR (liabilities of Alpe Jadran Banka d.d.-under liquidation, Split) due to incapability of the debtor to pay them on time.

Liabilities arising from the Loan for the Health Project were paid for by the Croatian Institute of Health Insurance⁶⁹. Due interests and fees against loans for the Investment Recovery Project⁷⁰ and Program of Municipal Environmental Infrastructure Project⁷¹, obtained with a guarantee of the Republic of Croatia, were settled by three commercial banks and HBOR (Borrowers). Due interests and fees against loans obtained for the Rijeka Gateway Project in the total amount of EUR 101,065.91 were settled by the beneficiaries - Croatian Motorways d.o.o., Port Authority Rijeka, and Croatian Roads d.o.o.

Interests on single currency loans in EUR were paid at the annual rate in the range between 3.75% (the highest at the beginning of the year) and the lowest of 2.26 %. Interests on loans obtained in USD were paid at the rate from 5.02% and 4.62% for loans in the currency pool, whereas interests for single currency loans were paid in the range between 3.77% (the highest rate at the beginning of the year) and the lowest one of 1.47% (end of year).

Commitment fees were calculated and charged at the rate of 0.25% per annum.

Thanks to the regular and timely payment of due liabilities and fulfilling IBRD's strict financial discipline rules, in the period from January 1, 2003 to December 31, 2003 savings were generated based on Interest Partial Waiver on loans approved to the Republic of Croatia and with a guarantee of the Republic of Croatia in the total amount of USD 394,942.69 and EUR 198,924.13⁷².

Utilization of Loan Funds in 2003

In the course of 2003 a total of USD 117.59 million and EUR 37.05 million was withdrawn from available funds of IBRD loans (public and publicly guaranteed). Data on utilization of loan funds for implementation of projects are illustrated in Table 6.19 (Utilization of IBRD Loans in 2003). Implementation of agreed projects and programs, with certain delays in disbursement of some loans (intended for the sectors of agriculture, reconstruction of Croatian Danube Region, and investments

⁶⁷ According to received IBRD's calls for payment and agreed repayment schedules of concluded loans (direct loans and loans with state guarantees) during 2003 the total was paid to IBRD as follows: USD 24,057,011.97 (principal + interests + fees) and EUR 39,528,414.81 (principal + interests + fees). Out of those total paid amounts, funds were allocated in the state budget for liabilities arising from public loans and inherited loan for Istria Water Supply Project (loan No. 30690-HR) a total of USD 24,057,011.97 (principal + interests + fees) and EUR 34,705,464.24 (principal + interests + fees).

⁶⁸ State budget of the Republic of Croatia for 2003 and the Law on the Execution of the State Budget of the Republic of Croatia for 2003 ("The Official Gazette" No. 154/2002.), Amendments to the State Budget of the Republic of Croatia for 2003 ("The Official Gazette" No. 147/2003).

⁶⁹ In 2003 HZZO paid a total of USD 4,613,239.67 (principal 3,252,390.55 + interests 1,360,849.12) against the loan of USD 38.92 million for the Health Project.

⁷⁰ In 2003 three commercial banks settled a total of: EUR 2,658,943.16 for payment of principal (EUR 2,061,027.58) and interests (EUR 597,915.58) against loans used for the Investment Recovery Project.

⁷¹ In 2003 Croatian Bank for Reconstruction and Development (HBOR) paid EUR 2,062,941.50 (principal + interests + fees) against a loan of EUR 33.23 million (converted loan of DEM 65 million) agreed on a loan for financing the Program of Municipal Environmental Infrastructure Project (MEIP).

⁷² IBRD approves reduced interest only to debtors which fulfill their obligations regularly and in a timely manner, not later than 30 calendar days after the maturity of the debt. During fiscal year 2003 IBRD calculated the Interest Partial Waiver at the rates of 0.05% and 0.25 % per annum.

into municipal infrastructure and environmental protection, as well as investments into health), was performed in line with the capacity of Project Implementation Units, work dynamics, procurement procedure, possibilities for fulfilling the agreed conditions for withdrawal of loans, and provided financial funds from domestic sources. In 2003 funds from the following IBRD loans were canceled: (1) USD 741,255.51 (from Loan No. 39880-HR) intended for the Farmer Support Services Project, and (2) EUR 798,139.97 (from Loan No. 42470-HR) for Investment Recovery Project. Those loans were closed and are being repaid according to new, amended repayment schedules. Also, closing dates were extended for the completion of the Railway Modernization and Restructuring Project (until December 31, 2004) and the Health System Project (June 30, 2005).

Table 6.20 | Utilization of IBRD Loans in 2003



No.	Loan	Project Name	Effective date	Currencies	Loan Amount	Total Disbursements as of Dec. 31, 2002	Utilization in 2003	Total Disbursements as of Dec. 31, 2003
1	2	3	4	5	6	7	8	9 (7+8)
I. PUBLIC LOANS								
1	37600-HR	Emergency Reconstruction Project (closed)	19. 08. 1994.	USD	128,000,000.00	128,000,000.00	0.00	128,000,000.00
2	38430-HR	Health Project (closed)	17. 08. 1995.	USD	38,925,496.46	38,925,496.46	0.00	38,925,496.46
3	38690-HR	Highway Sector Project (closed)	26. 07. 1995.	USD	79,878,486.69	79,878,489.69	0.00	79,878,489.69
4	39990-HR	Capital Market Development Project (closed)	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 (closed)	22. 07. 1996.	USD	14,258,744.49	14,258,744.49	0.00	14,258,744.49
6	39890-HR	Technical Assistance Project (closed)	22. 07. 1996.	USD	5,000,000.00	5,000,000.00	0.00	5,000,000.00
7	41040-HR	Emergency Transport Reconstruction and Mine Clearing Project (closed)	04. 03. 1997.	EUR	74,797,173.19	74,797,173.19	0.00	74,797,173.19
8	41190-HR	Coastal Forest Reconstruction and Protection Project	31. 07. 1997.	USD	42,000,000.00	36,443,259.66	2,146,049.46	38,589,309.12
9	41590-HR EFSAL	Enterprises Financial Structural Adjustment Loan (closed)	15. 11. 1997.	EUR	81,806,700.99	81,806,700.99	0.00	81,806,700.99
10	43510-HR	Project of Reconstruction of Eastern Slavonia, Baranja, and Western Srijem	06. 01. 1999.	EUR	37,835,599.21	17,811,625.03	6,879,635.39	24,691,260.42
11	44330-HR	Railway Modernization and Restructuring Project	09. 06. 1999.	EUR	85,400,000.00	33,891,623.93	18,345,424.42	52,237,057.35
12	44600-HR	Project of Technical Assistance for Institutional and Legislative Changes for Private Sector Development	03. 08. 1999.	USD	7,300,000.00	2,599,853.93	886,189.93	3,486,043.86
13	45130-HR	Health System Project	28. 03. 2000.	USD	29,000,000.00	7,114,015.46	4,472,818.99	11,586,834.45
14	45820-HR	Trade and Transport Facilitation in Southeast Europe Project	02. 05. 2001.	EUR	14,800,000.00	468,758.33	5,803,970.41	6,272,728.74
15	46130-HR	Court and Bankruptcy Administration Project	29. 01. 2002.	USD	5,000,000.00	321,516.00	265,856.83	587,372.83
16	46410-HR	Structural Adjustment Loan (SAL) closed	08. 02. 2002.	USD	202,000,000.00	102,000,000.00	100,000,000.00	202,000,000.00
17	46720-HR	Pension System Investments Project	20. 02. 2003.	USD	27,300,000.00	0.00	6,044,265.26	6,044,265.26
18	46740-HR	Real Property Registration and Cadastre Project	20. 02. 2003.	EUR	26,000,000.00	0.00	1,085,857.36	1,085,857.36
Total I:					USD 578,662,730.64	414,541,375.69	113,815,180.47	528,356,556.16
					EUR 327,899,818.10	216,036,235.18	32,114,887.58	248,151,122.76

Table - Continued

No.	Loan	Project Name	Effective date	Currencies	Loan Amount	Total Disbursements as of Dec. 31, 2002	Utilization in 2003	Total Disbursements as of Dec. 31, 2003
1	2	3	4	5	6	7	8	9 (7+8)
II. LOANS OBTAINED WITH THE GUARANTEE OF RC								
1	30690-HR	Istria Water Supply Project (closed)	01. 02. 1990. (taken over 25. 02. 1993.)	USD	26,016,289.22	1	0,00	26 016 289,22
2	42460, 42470,42480 42490- HR (4 loans)	Investments Recovery Project	04. 03. 1998.	EUR	21,589,498.73	21,316,442.00	273,056.73	21,589,498.73
3	43520-HR	Municipal Environmental Infrastructure Project	28. 06. 1999.	EUR	33,233,972.28	11,046,699.34	3,744,870.53	14,791,569.87
4	47140 -HR (Croatian Motorways)	Rijeka Gateway Project	12. 07. 2003.	EUR	15,700,000.00	0.00	157,000.00	157,000.00
5	47150-HR (Port Authority Rijeka)	Rijeka Gateway Project	12. 07. 2003.	USD	55,100,000.00	0.00	3,778,030.07	3,778,030.07
6	47160-HR (Croatian Roads)	Rijeka Gateway Project	12. 07. 2003.	EUR	76,200,000.00	0.00	762,000.00	762,000.00
7	71980-HR (Croatian Power Utility)	Energy Efficiency Project	Not effective	EUR	4,400,000.00	0.00	0.00	0.00
Total II.:				USD	81,116,289.22	26,016,289.22	3,778,030.07	29,794,319.29
				EUR	151,123,471.01	32,363,141.34	4,936,927.26	37,300,068.60
Total (I.+II.):				USD	659,779,019.86	440,557,664.91	117,593,210.54	558,150,875.45
				EUR	479,023,289.11	248,399,376.52	37,051,814.84	285,451,191.36

In 2003 two loans were closed: Structural Adjustment Loan (SAL) and Farmer Support Services.

1. Loan No. 46410-HR (SAL), concluded on December 5, 2001 for structural adjustment of Croatian economy, amounting to USD 202 million, was closed after the withdrawal of the second tranche of the Loan of USD 100 million, withdrawn on October 24, 2003. By this Loan IBRD supported the Government of the Republic of Croatia in the implementation of the program of structural and institutional reforms which includes five areas: (1) improvement of coordination and management in developing economic policy, (2) strengthening fiscal discipline, (3) strengthening market institutions, (4) increasing labor market flexibility, and (5) strengthening social protection. The main tenets of the economic reforms policy and activities, measures, and policy of the Government to accomplish structural adjustments are laid out in the Letter of Development Policy addressed to IBRD on October 23, 2001, prior to the conclusion of the Loan Agreement. On the basis of this Letter IBRD decided to grant the Loan in two tranches. The first tranche of USD 102 million was withdrawn immediately after the effectiveness of the Loan (February 13, 2002), whereas the second tranche of USD 100 million was withdrawn after the fulfilment of conditionalities, i.e., on the basis of IBRD's assessment that progress has been achieved in the implementation of the defined structural adjustment program and that the Government has taken all the necessary activities and measures satisfactory for the implementation of the program. Successful implementation of those reforms should ensure sustainable development of the Republic of Croatia and strengthen its macroeconomic stability, and also prepare Croatia for more smooth and faster integration into European structures.

2. Loan br. 39880-HR agreed 23. travnja 1996. year za financing Project development službi za support obiteljskim agriculturam gospodarstvima amounting to USD 17 million. U December 2000. year canceled 2 million USD i izvršena je new alokacija određenih kategorija loan. Nakon isteka roka za utilization funds u svibnjn 2003 canceled USD 741 255,51 te loan iskorišten u svoti USD 14 258 744,49.

According to revised repayment schedule, the outstanding debt of USD 11.12 million has been repaid since March 1, 2004 until it March 1, 2013 in equal semi-annual installments of USD 587,200.00.

With this Loan IBRD supported transition in the agriculture sector aimed at increasing revenue of small farmers and thus strengthening competitiveness of the sector.

Loan funds were used for: (1) development of agricultural extension services, (2) development of applied research in agriculture, (3) development of veterinary services, (4) development of grassland and production of fodder, (5) development of seed production and (6) support to agricultural policy analysis, including setting up a system of information about the market, program of testing and monitoring farms and procurement of equipment and vehicles. The implementation of the Project, in addition to the competent Ministry, included scientific institutions (Faculty of Agriculture, Croatian Institute of Veterinary Medicine, Faculty of Veterinary Medicine Zagreb, Croatian Veterinary Chamber, Croatian Institute for Agriculture Extension Services).

In 2003 IBRD loan funds were mostly invested into structural adjustments (USD 100 million), railway restructuring and modernization (EUR 18.34 million), reconstruction of Eastern Slavonia, Baranja, and Western Srijem (EUR 6.87 million), investments into pension system (USD 6.04 million), development and facilitation of trade and transport (EU 5.8 million), and reconstruction of the health system (USD 4.47 million). For the implementation of the Municipal Environmental Infrastructure Project through HBOR, EUR 3.74 was used, whereas for the Rijeka Gateway Project EUR 3.77 million was used. In the agriculture and forestry sectors, USD 2.14 million was invested for the implementation of the Coastal Forest Reconstruction and Protection Project (for purchase of equipment, performing construction and forest works, as well as consulting services and education). From the Loan for the implementation of the Technical Assistance Project for private sector development somewhat over USD 886,190.00 was utilized, whereas the least was withdrawn from the Court and Bankruptcy Administration Project (USD 256,586.00).

Review of Grants

In the period from 1995 to 2003, for the preparation of a number of projects in the area of the Republic of Croatia, 38 grant agreements were concluded in five different currencies (USD, JPY, XDR, GBP, and EUR), which, presented in USD, amounts to USD 31.40 million. The Republic of Croatia concluded with IBRD 35 grant agreements totaling USD 15,414,300.00; JPY 270,500,000.00, GBP 352,800.00, XDR 4.1 million and EUR 4.9 million, whereas three grants amounting to a total of USD 1,527,994.00 were granted to: 1. Croatian Power Utility d.d. (USD 994.00 for the District Heating Project + USD 350,000.00 for the Energy Efficiency Project) and 2. to non-governmental organizations (USD 1,090,000.00) for the program of return of refugees in the areas of Zadar, Knin, and Šibenik.

The basic data about 35 grants agreed between the Republic of Croatia and IBRD are contained in the Review of IBRD Grants (Table 6.20).

Non-repayable grant funds are mostly used for grant payment of consulting services and preparation of studies necessary for better preparation of projects which, after the completion of the feasibility studies, are submitted to the Bank for loan financing.



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The Republic of Croatia signed agreements for 26 grants in USD in the total amount of USD 15,414,300.00, out of which 16 grants are closed, whereas among 10 active grants as of December 31, 2003 USD 8,859,938.63 remained for withdrawal. Those funds will be withdrawn in the period from 2004 until no later than 2010 according to the agreed timelines of closing dates of closing specific grants. Six grants were agreed in Japanese yens, in the total value of JPY 270.5 million. Until December 31, 2003, from those grants a total of JPY 199.84 million was utilized, whereas JPY 70.65 million was canceled and the grants were closed. In British pounds 1 grant was agreed amounting to GBP 352,800.00, whereas the remaining funds of GBP 27,997.42 will be utilized until March 31, 2004. For the Karst Ecosystem Conservation Project, funds were donated in the amount of XDR 4.1 million from the Global Environmental Facility – GEF and the outstanding amount of XDR 3,429,222.40 will be utilized until December 31, 2007. Funds donated from EU CARDS amounting to EUR 4,9 million for the Land Registry and Cadastre Project will be utilized until December 31, 2006.

Table 6.21 | Review of IBRD Grants (as of December 31, 2003)

No.	Year when Signed	Grant No.	Grant Purpose	Currencies	Grant Amount	Canceled Amount	Outstanding for Utilization as of Dec. 31, 2003
1	1995	28851 (closed)	Preparation of the Procurement Law	USD	148,000.00	101,474.50	0.00
2	1995	29116 (closed)	Farmer Support Services Project	JPY	56,600,000.00	13,888,305.00	0.00
3	1995	29117 (closed)	Coastal Forest Reconstruction and Protection	JPY	21,200,000.00	146,615.00	0.00
4	1995	29314 (closed)	Public Sector Adjustment - PSAL	JPY	75,600,000.00	5,504,815.00	0.00
5	1995	29315 (closed)	Structure Adjustment of Agriculture	JPY	29,400,000.00	24,096,291.00	0.00
6	1995	29316 (closed)	Croatian Railways Restructuring	JPY	58,800,000.00	5,457,694.00	0.00
7	1996	29486 (closed)	Municipal Environmental Infrastructure Investment Project	USD	500,000.00	436.40	0.00
8	1996	29674 (closed)	Reconstruction of Transport Infrastructure of the City of Zagreb	USD	800,000.00	0.00	0.00
9	1997	28360 (closed)	Biodiversity Strategy	USD	102,000.00	0.00	0.00
10	1997	27098 (closed)	Private Sector Development	USD	398,000.00	216,246.71	0.00
11	1997	25539 (closed)	Public Finance Management	USD	314,000.00	130,485.40	0.00
12	1977	25229 (closed)	Enterprise and Financial Sector Adjustment Loan Project	JPY	28,900,000.00	21,561,550.00	0.00
13	1998	27099 (closed)	Eastern Slavonia Flood Control	USD	200,000.00	3,046.31	0.00
14	1998	25193 (closed)	Health Modernization	USD	418,260.00	2,164.80	0.00
15	1998	25597 (closed)	Sava River Flood Component	USD	476,150.00	0.00	0.00
16	1999	20574 (closed)	Y2000 («Millennium Bug»)	USD	80,000.00	0.00	0.00
17	1999	27259 (closed)	Environmental Protection and Strengthening of Management Systems	USD	276,490.00	7,666.26	0.00
18	1999	22644	Managing Marshlands of Kopački Rit Nature Park	USD	750,000.00	0.00	436.02
19	1999	25799 (closed)	Municipal Environmental Infrastructure Project	USD	216,840.00	48.55	0.00

Table - Continued

No.	Year when Signed	Grant No.	Grant Purpose	Currencies	Grant Amount	Canceled Amount	Outstanding for Utilization as of Dec. 31, 2003
20	1999	26113 (closed)	Bankruptcy Law Adjustment	USD	253,700.00	110,258.89	0.00
21	1999	23163 (closed)	Karst Ecosystem Conservation Project	USD	230,000.00	107.82	0.00
22	1999	26112 (closed)	Port of Rijeka Modernization	USD	337,500.00	10.00	0.00
23	2000	27386	Capacity Building for Social and Economic Communications	USD	400,000.00	0.00	53,865.09
24	2001	26262 (closed)	Social Protection Project (Japanese Grant)	USD	200,000.00	0.00	0.00
25	2001	26441	Coastal Cities Pollution Protection Project	USD	325,000.00	0.00	50,109.02
26	2001	29810	Social Protection Project (UK Grant)	GBP	352,800.00	0.00	27,997.42
27	2002	50539	Karst Ecosystem Conservation Project	XRD	4,100,000.00	0.00	3,429,222.40
28	2002	50513	Social and Economic Recovery Project	USD	425,360.00	0.00	350,000.00
29	2003	51107	Renewable Energy Resources Project	USD	350,000.00	0.00	226,897.00
30	2003	52014	Monitoring Judicial Efficiency - Institutional Capacities Building Project	USD	350,000.00	0.00	350,000.00
31	2003	52062	Budget Management Strengthening Project	USD	368,000.00	35,000	333,000.00
32	2003	51781	Land Registry and Cadastre Project	EUR	4,900,000.00	0.00	4,618,008.19
33	2003	52381 (Grad Zagreb)	Preparation of the City of Zagreb Wastewater Nutrient Reduction Project	USD	350,000.00	0.00	350,000.00
34	2003	52141 (HEP USD 5,000,000 + HBOR USD 2,000,000)	Energy Efficiency Project	USD	7,000,000.00	0.00	7,000,000.00
35	2003	52844	Neretva and Trebišnjica Integrated Ecosystem Management Project	USD	145,000.00	0.00	14 000.00
				USD	15,414,300.00	606,946.66	8,859,938.63
				JPY	270,500,000.00	70,655,270.00	0.00
Total(1 - 35):				GBP	352,800.00	0.00	27,997.42
				XRD	4,100,000.00	0.00	3,429,222.40
				EUR	4,900,000.00	0.00	4,618,008.19



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European Bank for Reconstruction and Development (EBRD)

EBRD's plan of activities for Croatia for the period of two years (2003 - 2004) is laid out in the document "Croatia Strategy"⁷³, adopted on November 19, 2002. This document, adopted together with the Government of the Republic of Croatia, is a reflection of development and financial needs of the Republic of Croatia and joint activities of the Government and EBRD in establishing priority directions and possibilities for financing projects with EBRD funds. The new Strategy contains basic guidelines of cooperation and jointly prepared framework of the plan and program of projects to be financed by EBRD in five key areas:

- infrastructure and environmental protection sector**, including fostering commercialization, liberalization, and privatization of infrastructure services (EBRD will continue financing of primarily cost-effective infrastructure projects and will advocate as big as possible participation of local commercial banks and private financial sources, with financing of infrastructure being coordinated with other international financial institutions);
- the enterprise sector** (EBRD will, in cooperation with local banks, encourage the development of small and medium enterprises, particularly those who develop new production processes and technologies and improve the level of management, know-how and

⁷³EBRD – Croatia Strategy, approved by the Board of Directors on November 19, 2002

working capacities, will promote „greenfield“ investments, as well as foreign direct investments, and support development of regional cooperation through financing regional expansion of Croatian companies, not only by financing acquisitions, but also direct equities).

3. **tourist sector**, which is of special importance for the development of the overall Croatian economy (EBRD will encourage privatization and restructuring of hotels, as well as foreign direct investments into construction of new tourist capacities).
4. **the agriculture and food industry sector** (EBRD is ready to expand and introduce new financial instruments aimed at financing agricultural production).
5. **financial sector** (EBRD will keep supporting privatization and consolidation of the banking sector, continue to support strengthening commercial banks who provide credit lines to finance SME projects, promote new financial products in the area of lending to companies and households, and will direct their activities to non-banking financial institutions and promote asset-backed securities, by leasing, etc.

Business Operations in 2003

In line with its mandate⁷⁴ and established operational priorities⁷⁵, as well as the passed „Croatia Strategy“, EBRD provided direct support to the development of the private and public sectors in Croatia. EBRD strengthened the financial sector by granting loans to banks (aimed at faster development of housing construction and fostering agriculture). It helped financing new corporate projects, communal infrastructure in municipalities and cities and approved a long-term loan for financing completion of motorways on the trans-European Corridor X in the Republic of Croatia.

In 2003 EBRD approved 7 new loans for the financing of projects in the Republic of Croatia in the total amount of EUR 146.6 million, out of which 6 loans are worth EUR 101.6 million - agreed without state guarantees and one loan worth EUR 45 million concluded with a state guarantee. The list of new loans is presented in Table 6.22.

⁷⁴EBRD was established and does business with a special mandate to finance projects which assist in and accelerates the process of transition into market economies and development of private and entrepreneurial initiative in the Central and Eastern European countries which are committed to application of the principles of multi-party democracy, pluralism, and market economy.

⁷⁵Since 2000 the Bank focused its operations to the constructive and creative partnership with the member countries, clients, and other international financial institutions aimed at as good as possible mobilization of capital and cofinancing development of inter-regional infrastructure and trade. As a priority it financed projects in the private sector, strengthened the financial sector in the function of opening up new market-based business prospects, encouraged enterprise and bank restructuring, establishing and growth of small and medium enterprises, as well as commercialization of the public sector and infrastructure.

Table 6.22 | New Loans of EBRD Agreed in 2003

BENEFICIARY	PROJECT	CURRENCIES	AMOUNT
I. Loans Obtained without State Guarantees			
City of Rijeka	Wastewater Management Project	EUR	„,600,000.00
HVB Bank Croatia d.d. Zagreb	Financing Purchase or Reconstruction of Apartments or Houses	EUR	15,000,000.00
Našicecement d.d., Našice	Modernization and Expansion of Production Line	EUR	20,000,000.00
ZGOS d.o.o., Zagreb	Communal Waste Management Program - Refinancing	EUR	21,000,000.00
Zagrebačka banka d.d., Zagreb	Warehouse Receipts Program (seasonal credits for agribusiness based on grain and other commodities facility)	EUR	25,000,000.00
Zagrebačka banka d. d, Zagreb	Credit line for Financing Infrastructure of Small and Medium Municipalities	EUR	20,000,000.00
Total I.:		EUR	101,600,000.00
II. Loans Obtained with a Guarantee of the Republic of Croatia			
Croatian Motorways d.o.o.	Project of Completion of Motorway on the Corridor X in the Republic of Croatia (Županja – Lipovac)	EUR	45,000,000.00
TOTAL (I.+II.) :		EUR	146,600,000.00



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EBRD Loans Agreed without State Guarantees

For the City of Rijeka Wastewater Management Project, whose aim is to manage wastewater in line with the EU environmental standards and improve financial and operational work of VIK, Rijeka, EBRD approved an increase of EUR 600,000 on the previously granted loan of EUR 7.5 million, so that EBRD's loan will finance the Project with a total of EUR 8.1 million.

EBRD granted to HVB Bank Croatia d.d., a subsidiary of the Bank Austria Group with the seat in Zagreb, a loan of EUR 15 million for financing housing loans with a 12-year repayment period. The goal of the credit is to enable to HVB granting long-term housing loans to private clients for the purchase or reconstruction of apartments/houses.

EBRD supports the Našicecement Modernization and Expansion Project by a EUR 20-million, which will enable Našicecement new investments into companies in Croatia, Serbia, and B & H.

Zagreb Solid Waste Management Program was previously financed by EBRD by a loan to ZGOS and in 2003 it approved EUR 21 million which will refinance the existing loan and enable completion of the last parts of the Project with the aim to protect the water wells of the City of Zagreb from pollution and alignment with the EU environmental standards.

For the financing of Warehouse Receipts Program, which enables farmers and traders in the agriculture sector to borrow funds from local banks on the basis of grain and other commodities facility, a new arrangement between EBRD-a i Zagrebačka banka d.d., Zagreb was concluded, worth EUR 25 million.

EBRD supports development of Croatian municipalities with EUR 20 million by a credit concluded between EBRD and Zagrebačka banka. This credit will enable long-term financing of infrastructure projects in small and medium-sized municipalities (improvement of district heating system, transport, waste disposal, sewerage, and potable water quality).

Loan for the Project of Completion of Motorway on Corridor X in the Republic of Croatia (br. 31848) Agreed with a Guarantee of the RC

EBRD, together with the European Investment Bank (EIB), during 2003 showed interest in financing the last, unconstructed section of the Zagreb-Lipovac Motorway (state road D-4) from Županja to Lipovac (29.43 km). The Project includes the subsection Županja – Spačva

(15.95 km) an sub-section Spačva – Lipovac (13.48 km) in the European network on trans-European Corridor X. Four lanes will be constructed between Županja and Lipovac, and equipment and traffic signs will be set under the Project. The total value of the construction works and equipping the motorway was estimated at EUR 90 million and will be financed by long-term loans: EBRD's loan amounting to EUR 45 million and EIB loan of EUR 45 million. The commencement of construction works is envisaged in 2004, and the completion and opening motorway for traffic at the end of 2006.

In September 2003 the final discussions were held with EBRD about concluding the Loan Agreement and the Guarantee Agreement. The Agreements were signed in Osijek on November 12, 2003. The Loan Agreement between Croatian Motorways d.o.o. and EBRD defined that the Loan of EUR 45,000,000.00 would be withdrawn in tranches, with each tranche of a minimum of EUR 250,000.00. A 15-year term of repayment of the Loan was agreed, as well as repayment in equal semi-annual installments, interest rate – six-month EURIBOR+1%, default interests 2% and expenses: front-end fee of 1% of the loan amount, commitment fee of 0.5%, and cancellation fee 0.125% of the canceled amount. The terms of withdrawal of the loan is 36 months after coming of the Loan Agreement into effect. Croatian Roads d.o.o. committed to install electronic system of collecting tolls in the motorway network in line with European standards no later than December 31, 2006 and submit to EBRD, no later than March 31, 2005, a report about the options for the introduction of cost-based toll payment on motorways.

The Guarantee Agreement between the Republic of Croatia and EBRD defined that the Republic of Croatia guarantees, as the principal debtor and not only a guarantor, a regular and timely payment of all amount due pursuant to the Loan Agreement and timely settlement of all other commitments of Croatian Motorways d.o.o. in line with the Loan Agreement. In case there is reason for doubting that Croatian Motorways d.o.o. dispose of sufficient funds for the settlement of expenditures required for the implementation of the project, it is the obligation of the Republic of Croatia to undertake, without delay, measures aimed at provision of those funds.

The Law on Ratification of the Guarantee Agreement between the Republic of Croatia and the European Bank for Reconstruction and Development for the Project of Completion of Motorways on Corridor X in the Republic of Croatia was not enacted by the end of the year, and also other conditions for coming of the Loan Agreement into force were not fulfilled. Therefore the Loan did not become operational in 2003.⁷⁶

Projects under Preparation

A total of 17 projects are in different phases of the preparations, which EBRD should finance with more than EUR 466 million. Six of them were proposed for financing loans with state guarantees, 5 projects of communal infrastructure with city guarantees, and 6 projects in the private sector (without state guarantees).

Projects Proposed to Be Financed with State Guarantees (EUR 337 million)

1. Reconstruction of Port of Gruž in Dubrovnik - EUR 15 million;
2. Beltway around Rijeka (eastern part) and modernization of Port of Rijeka - EUR 57 million;
3. Investments into the Railway Project (remote management system on corridors Vb and X) - EUR 60 million;

⁷⁶The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Bank for Reconstruction and Development for the Project of the Completion of Motorways on Corridor X in the Republic of Croatia was passed by the Croatian Parliament at the session held on June 4, 2004 and was published in "the Official Gazette - International Agreements" No. 6/2004.

4. Croatian Motorways - financing construction of the Corridor Vc-EUR 100 million;
5. Modernization of INA Refinery, Rijeka - EUR 80 million;
6. Projects of restructuring and privatization of Adriatic hotels - EUR 25 million.

Communal Infrastructure Projects with City Guarantees (EUR 44 Million)

1. Development and modernization of city transportation (City of Dubrovnik) - EUR 7 million;
2. Road reconstruction (City of Zagreb) - EUR 15 million;
3. Modernization of Water Supply (City of Rijeka) - EUR 7 million;
4. Waste disposals (Cities of Osijek, Dubrovnik, Rijeka) - EUR 20 million and
5. Waste incinerator (City of Zagreb).

Private Sector Projects (EUR 85 Million)

1. LURA - financing regional acquisitions and future development of the company - EUR 30 million;
2. Nova banka, credit line for tourism - EUR 10 million;
3. PBZ leasing - EUR 10 million;
4. Erste and PBZ, local infrastructure - EUR 30 million;
5. HEP, wind turbines - EUR 5 million, and
6. HVB Split, Erste, and RZB, credits for housing construction.

Utilization of Loans in 2003

In 2003 a total of EUR 54.75 million and USD 11.04 million was withdrawn from the funds of seven active loans previously concluded with state guarantees.

In the course of 2003 only one new loan was concluded with EBRD, amounting to EUR 45 million, with a guarantee of the Republic of Croatia. The purpose of the Loan was financing of the Project of Completion of Highways on Corridor X (Županja - Lipovac section), however, funds were not withdrawn from this new Loan until December 31, 2003 because the Loan did not become effective until the end of the year.

Table 6.22, Review of Utilization of EBRD Loan Funds in 2003, contains data on disbursed loan funds for each specific project. The most funds from EBRD loans were invested into the Project of Rijeka - Zagreb Highway Construction (EUR 25.86 million), Railway Locomotive Reconstruction Project (USD 11.04 million), Environmental Projects of INA – Industrija nafte (EUR 9.33 million), Program of Investment into Local Infrastructure and Environmental Protection (EUR 6.3 million), Zagreb Center for Regional Control Project (EUR 5.51 million), and the Highway Reconstruction in Croatia Project (EUR 4.74 million). Through HBOR funds have been placed through the loan intended for financing investments into small and medium enterprises in the amount of EUR 3 million.



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Table 6.23 | Review of
Utilization of EBRD Loan
Funds in 2003

No.	Project Name	Loan No.	Date of Conclusion of Agreement	Currencies	Loan Amount	Utilized as of Dec. 31, 2002	Utilization in 2003	Total Utilized as of Dec. 31, 2003	Non-Utilized as of Dec. 31, 2003	Closing Date
1	2	3	4	5	6	7	8	9	10	11
I. PUBLIC LOANS										
1.	Air Navigaton System Project	231* (closed)	21. 09. 1994.	USD	19,735,519.76	19,735,519.76	0.00	19,735,519.76	0.00	31. 12. 2001.
2.	Highway Reconstruction Project	286* (closed)	17. 01. 1995.	EUR	36,195,876.03	36,195,876.03	0.00	36,195,876.03	0.00	28. 02. 1999.
3.	Wholesale Market Project (Nacionalne veletržnice d.d.)	627* (closed)	08. 12. 1997.	EUR	3,203,558.48	3,203,558.48	0.00	3,203,558.48	0.00	24. 03. 2002.
Total I.				USD	19,735,519.76	19,735,519.76	0.00	19,735,519.76	0.00	
				EUR	39,399,434.51	39,399,434.51	0.00	39,399,434.51	0.00	
II: LOANS OBTAINED WITH GUARANTEE OF RC										
1.	Power Supply and Distribution Network Project (HEP)	283 (closed)	02. 02. 1995.	EUR	32,211,388.52	32,211,388.52	0.00	32,211,388.52	0.00	30. 06. 2000.
2.	Credit Line for Tourism (HBOR)	443 (closed) repaid	26. 06. 1996.	EUR	25,564,594.06	25,564,594.06	0.00	25,564,594.06	0.00	01. 05. 1998.
3.	Program of Investment into Local Infrastructure and Environmental Protection (HBOR)	494*	09. 12. 1996.	EUR	31,575,223.50	20,818,624.76	6,300,000.00	27,118,624.76	4,456,598.74	31. 01. 2004.
4.	Railway Locomotive Reconstruction Project (HZ)	733	08. 12. 1998.	USD	35,000,000.00	23,232,033.33	11,048,363.34	34,280,396.67	719,603.33	05. 02. 2004.
5.	Small and Medium Entrepreneurship Project (HBOR)	923	20. 03. 2001.	EUR	12,000,000.00	3,000,000.00	3,000,000.00	6,000,000.00	6,000,000.00	19. 09. 2004.
6.	Environmental Rehabilitation Project -INA d.d.	935	10. 05. 2001.	EUR	36,000,000.00	4,000,000.00	9,331,711.56	13,331,711.56	22,668,228.44	30. 06. 2005.
7.	Rijeka-Zagreb Motorway	975*	22. 10. 2001.	EUR	60,000,000.00	600,000.00	25,867,191.37	26,467,191.37	33,532,808.63	11. 05. 2005.
8.	Uljanik Shipyard d.d. Pula - Advance Guarantee for Tanker Construction	18149	26. 02. 2002.	USD	11,490,000.00	1,436,250.00	0.00	1,436,250.00	10,053,750.00	31. 10. 2004.
9.	Zagreb Center for Regional Control Project	25800	05. 09. 2002.	EUR	25,000,000.00	0.00	5,513,287.94	5,513,287.94	19,486,712.06	30. 09. 2005.
10.	Highway Reconstruction in Croatia Project	27171	13. 12. 2002.	EUR	46,500,000.00	0.00	4,743,945.25	4,743,945.25	41,756,054.75	30. 04. 2006.
11.	Project of Completion of Highways on Corridor X in RC (Županija-Lipovac)	31848* (not effective)	12. 11. 2003.	EUR	45,000,000.00	0.00	0.00	0.00	45,000,000.00	20. 11. 2006.
Total II (1.-11.):				EUR	313,851,206.08	86,194,607.34	54,756,136.12	140,950,743.46	172,900,462.62	
				USD	46,490,000.00	24,668,283.33	11,048,363.34	35,716,646.67	10,773,353.33	
Total (I.+II.):				EUR	353,250,640.59	125,594,041.85	54,756,136.12	180,350,177.97	172,900,462.62	
				USD	66,225,519.76	44,403,803.09	11,048,363.34	55,542,166.43	10,773,353.33	

Notes:

Loan No. 231 was agreed for USD 22 million; a total of USD 2,264,480,24 was canceled during 1996 and 2001 and the Loan was closed on February 14, 2002.

Loan No. 286 was agreed for DEM 70.9 million, decreased by the non-withdrawn amount of DEM 107,019.78 and converted to EUR.

Loan No. 627 was agreed for DEM 33.5 million, in the course of 2000/2001 DEM 27,212,026.09 was canceled; Loan converted to EUR and on March 25, 2002 EUR 11,431.53 was canceled and the Loan was closed for withdrawal.

Loan No. 494 was agreed for DEM 105 million; during 1999 and 2001 a total of DEM 24,56 million was canceled; converted to EUR; in 2002 EUR 5 million was canceled and on April 10, 2003 another EUR 4,553,095.43 was canceled.

Loan No. 975 was agreed for EUR 90 million; EBRD reduced the Loan by EUR 30 million after co-financing with EIB was agreed EUR 60 million.

Loan No. 31848 was agreed in November 2003 and did not become effective before the end of 2003.

Repayment of Debts to EBRD

All due commitments against public loans and against the loan provided for Croatian Railways with a state guarantee were settled from the State budget of the Republic of Croatia for 2003⁷⁷. The beneficiaries of EBRD's loans were Croatian Power Utility d.d., Croatian Bank for Reconstruction and Development, INA - Industrija nafte d.d., Croatian Air Traffic Control d.o.o., Rijeka - Zagreb Motorway d.d., and Croatian Motorways d.o.o. paid during 2003 in a timely manner all their commitments against EBRD's calls for payment⁷⁸, so the guarantees of the Republic of Croatia for those loans were not activated.

Review of Loans (1994 - 2003)

In the period from 1994 to 2003 EBRD financed 63 projects in Croatia, with total funds amounting to more than EUR 1.44 billion (according to EBRD data). A total of EUR 1.01 billion was invested into private sector projects (70.37%), and the public sector projects were supported by long-term favorable loans and investment capital in the total amount of EUR 429.14 million (20.63%) of the total invested funds.

EBRD loans granted to the Republic of Croatia (3 loans) and obtained with a state guarantee (11 loans), reported in currencies of the loans, according to status as of December 31, 2003 amounted to USD 66.25 million and EUR 353.25 million. In the period from 1994 to 2003 in cumulative terms USD 55.45 million was utilized (83.73%) on the basis of the utilization of loans concluded in USD and EUR 18.35 million (51.05%) on the basis of loans converted or concluded in EUR. According to agreed closing dates, until November 20, 2006 the outstanding undisbursed funds amounted to USD 10.77 million (16.27%) and EUR 172.40 million (48.95%).

Between 1994 and 2003 the Republic of Croatia concluded with EBRD three agreements on direct loans in the total amount of EUR 39.39 million and USD 19.73 million, as well as 11 guarantee agreements in the total amount of EUR 313.85 million and USD 46.49 million. Out of this total of 14 loans, five were closed for withdrawal (out of which four are being repaid and one has been fully repaid), eight loans were operational for withdrawal during 2003, whereas the new Loan for the Project of Completion of Highways on Corridor X was not operational.

The following loans were closed for withdrawal:

1. Loan No. 231 concluded for financing the Air System Traffic Project, agreed in the amount of USD 22 million, total utilized



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⁷⁷The State budget of the Republic of Croatia for 2003 and the Law of the Execution of the State Budget of the Republic of Croatia for 2003 ("The Official Gazette", No. 154/2002) and the Amendments of the State Budget of the Republic of Croatia for 2003 ("The Official Gazette" No. 147/2003) provided the funds for the execution of the commitments toward EBRD. During 2003 EBRD was paid according to received calls for payment: (1) against the loan of USD 19.73 million, intended for the construction of the air traffic system, a total of USD 2,833,863.58 (principal 2,500,000.00 + interests and fees 33,863.58); (2) against the loan of EUR 36.19 million, intended for highway reconstruction, a total of EUR 4,080,356.06 (principal 3,115,908.48 + interests 1,064,019.39); (3) against the loan of EUR 3.20 million for the Wholesale Market Project EUR 528,368.78 was paid (principal 320,355.84 + interests 208,012.94); (4) against the loan of USD 35 million for reconstruction of railway locomotives, a total of USD 3,558,285.78 (principal 2,916,668.00 + interests 593,359.42 and fees 48,258.36).

⁷⁸HEP paid for due commitments against the Loan No. 283 a total amount of EUR 4,674,027.28 (principal EUR 4,294,851.80 + interest EUR 3,79,175.48), HBOR paid due commitments against the Loan No. 494 (MEIP) a total of EUR 4,240,054.52 (principal EUR 3,407,520.18 + interest 773,141.44 + fees 59,392.90) and Loan No. 923 (Financing Investments into Small and Medium Enterprises) a total of EUR 169,261.77 (interests + fees), Croatian Air Traffic Control paid interests and fees of EUR 313,511.45 against the Loan No. 25800, Rijeka - Zagreb Motorway d.d. paid a total of EUR 1,019,180.42 for interests and fees against the Loan No. 975, and Croatian Motorways d.o.o. due interests and fees of EUR 209,096.39 against the Loan No. 27171.

USD 19,735,519.76 (USD 2,264,480.24 canceled). Outstanding debt of USD 958,519.17 is being repaid according to the repayment schedule until March 21, 2004.

2. Loan No. 286 concluded for financing the Highway Reconstruction Project amounting to DEM 70.9 million and utilized in the amount of DEM 70.79 million (DEM 107,019.78 canceled) was closed in March 1999. Converted u EUR it amounts to EUR 36,195,876.03. The outstanding debt of EUR 18.09 million is being repaid until October 10, 2009.
3. Loan No. 627 agreed for the Wholesale Market Project, after a number of cancellations of the Loan funds, EUR 3,203,558.48 withdrawn; closed for withdrawal in March 2002, will be repaid according to repayment schedule until November 24, 2011, debt status as of December 31, 2003 amounts to EUR 2,562,846.64.
4. Loan No. 283 of DEM 63 million DEM, concluded with a guarantee of the Republic of Croatia, for Power Supply and Distribution Network Project, was fully withdrawn within the agreed term and was closed in January 2001. The withdrawn loan converted to EUR amounts to EUR 32,211,388.52. The outstanding debt of EUR 6,444,277.70 is being repaid by Croatian Power Utility d.d.
5. Credit line for tourism (No. 443) concluded by Croatian Bank for Reconstruction and Development with EBRD, with a guarantee of RC, amounting to EUR 50 million, was closed in 1998. The withdrawn loan converted to EUR amounts to EUR 25,564,594.06. HBOR fully repaid the loan in December 2002.

Status of Debt to EBRD December 31, 2003

At the end of 2004 total public debt to EBRD amounted to USD 30.86 million and EUR 105.96 million, out of which debt against direct public loans amounted to USD 958,519.17 and EUR 20,658,297.64, whereas debt against guaranteed loans amounted to USD 29,883,310.67 and EUR 85,301,976.17.

Detailed data on direct public loans and loans obtained with state guarantee are illustrated in Table 6.24.

Table 6.24 | Review of
Loans Obtained from
EBRD (Debt Status:
December 31, 2003)

No.	Project Name	Loan No.	Date of Conclusion of Agreement	Currencies	Loan Amount	Utilized	Remained to Be Utilized	Closing Date	Maturity of Principal First/ Last	Debt
1	2	3	4	5	6	7	8 (6-7)	9	11	12
I. PUBLIC LOANS										
1.	Aif Navigation System Project*	231* closed	21. 09. 1994.	USD	19,735,519.76	19 735 519.76	0.00	31. 12. 2001.	21. 09. 1996 21 03 2004	958,519.76
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	18,095,450.84
3.	Wholesale Market Project ****	627* closed	08. 12. 1997.	EUR	3,203,558.48	3,203,558.48	0.00	24. 03. 2002..	24. 05. 2002 24. 11. 2011	2,562,846.80
Total I.				USD	19,735,519.76	19,735,519.76	0.00			985,519.76
				EUR	39,399,434.51	39,399,434.51	0.00			20,658,297.64
II. LOANS OBTAINED WITH A GUARANTEE OF RC										
1.	Electricity Network Reconstruction 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	6,442,277.70
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	0.00
3.	Program of Investment into Local Infrastructure and Environmental Protection ****	494*	09. 12. 1996.	EUR	31,575,223.50	27,118,624.76	4,456,598.74	31. 01. 2004.	10. 04. 2001 10. 10. 2011	22,803,562.65
4.	Railway Locomotive Reconstruction Project	733	08. 12. 1998.	USD	35,000,000.00	34,280,396.67	719,603.33	05. 02. 2004.	20. 05. 2002 20. 11. 2013	28,447,060.67
5.	Small and Medium Entrepreneurship Project (HBOR)	923	20. 03. 2001.	EUR	12,000,000.00	6,000,000.00	6,000,000.00	19. 09. 2004.	05. 02. i 05.08 2 years after tranches withdrawal	6,000,000.00
6.	Environmental Rehabilitation Project INA-d.d.	935	10. 05. 2001.	EUR	36,000,000.00	13,331,711.56	22,668,288.44	30. 06. 2005.	30. 09. 2001 30. 03. 2011	13,331,711.56
7.	Zagreb – Rijeka Motorway	975*	22. 10. 2001.	EUR	60,000,000.00	26,467,191.37	33,532,808.63	11. 05. 2005.	12. 05. 2005 12. 11. 2019	26,467,191.37
8.	Uljank Shipyard d.d., Pula- Refund Guarantee Facility, with guarantee of RC (Construction of Tanker No. 450)	18149	26. 02. 2002.	USD	11,490,000.00	1,436,250.00	10,053,750.00	4 guarantees will be issued until 31. 10. 2004.	Term for repayment of guarantees by 31. 05. 2006	1,436,250.00
9.	Zagreb Regional Control Project	25800	05. 09. 2002.	EUR	25,000,000.00	5,513,287.94	19,486,712.06	30. 09. 2005.	20. 11. 2006 20. 05. 2013	5,513,287.94
10.	Croatia Motorway Rehabilitation Project	27171	13. 12. 2002.	EUR	46,500,000.00	4,743,945.25	41,756,054.75	30. 04. 2006.	20. 05. 2006 20. 11. 2017	4,743,945.25
11.	Project of Completion of Highways on Corridor X in RC (Županija-Lipovac)	31848 (not effective)	12. 11. 2003.	EUR	45,000,000.00	0.00	45,000,000.00	20. 11. 2006.	20. 05. 2007 20. 11. 2021	0.00
Total II.				EUR	313,851,206.08	140,950,743.46	172,900,462.62			85,301,976.47
				USD	46,490,000.00	35,716,646.67	10,773,353.33			29,883,310.67
Total (I.+ II.):				EUR	66,225,519.76	55,452,166.43	10,773,353.33			30,868,830.43
				EUR	353,250,640.59	180,350,177.97	172,900,462.62			105,960,274.11



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Notes:

*Loan No. 231 was agreed on USD 22 million; on May 6, 1996 USD 2,264,480.24 was canceled, loan amounts to USD 20 million.

**Loan No. 286 agreed in the amount to DEM 70.9 million; on February 28, 1999 the unwithdrawn amount of DEM 107,019.78 was canceled, so that the loan amounted to DEM 70,792,980.22. The outstanding debt converted to EUR amounted on December 31, 2003 amounted to EUR 18,095,450.84.

***Agreed Loan No. 627 amounting to DEM 33.5 million was reduced on September 1, 2000 by DEM 9 million DEM and on November 24, 2001 by another DEM 18,212,026.09. The Loan, after the canceled amounts (total: DEM 27,212,026.09) amounted to: DEM 6,287,973.91, which converted to EUR amounts to: EUR 3,214,990.01. The unwithdrawn amount of EUR 11,431.53 was canceled on March 25, 2002 and the loan amounts to EUR 3,203,558.48.

****Agreed Loan No. 494 of DEM 105 million was reduced on November 23, 1999 by DEM 6.56 million and April 6, 2001 by DEM 18 million (total: DEM 24.56 million). Loan of DEM 80.44 million converted to EUR amounts to EUR 41,128,318.93; on May 6, 2002 EUR 5 million was canceled and on April 10, 2003 another EUR 4,553,095.43 so that the Loan amounts to: EUR 31,575,223.50.

In 1994, for the implementation of the Air Traffic System Project, the first EBRD Loan No. 231 was agreed in the amount of USD 22 million. The purpose of the Loan was financing the procurement and installing of state-of-the-art electronic and radio equipment (destroyed or alienated in the war), professional training and improvement of air traffic controllers and reorganization of the Department of the Air Traffic Control. The Project includes the following: reconstruction of signal instruments, equipment for the landing system for Airports of Zagreb, Pula, and Dubrovnik, as well as the reconstruction of the regional radar facility near Split. In 1996 and 2001 a total of USD 2,264,480.24 was canceled and before the agreed closing date (December 31, 2001) USD 19,735,519.76 was utilized, and after that the Loan was closed. The funds were used for procurement, instalation, and utilization of radar facilities, electronic and radio equipment, as well as training and/or professional improvement of air traffic controllers and reorganization of the air traffic control management.

EBRD financed the Highway Reconstruction Project Loan No. 286 which was agreed at DEM 70.9 million. The Loan financed semi-motorway Oštrovica-Delnice, road betterment program, procurement of equipment for the supervision and management of roads and bridge rehabilitation. It also financed tehcnical assistance required for institutional reform of the network of motorways, tolls, and increasing the efficiency of the transport sector. The Loan was utilized in the amount of DEM 79.79 million and was closed for withdrawal in March 1999. Converted to EUR, it amounts to EUR 36,195,876.03 and is being repaid by October 10, 2009.

In 1997 EBRD supported the Wholesale Market Construction Project in Croatia with the Loan No. 627, originally agreed for DEM 33.5 million. It was envisaged that financing would be provided for the construction of the network of wholesale market selling fruit, vegetables, and flowers at six approved locations in Zagreb, Osijek, Rijeka/Matulji, Benkovac, Split, and Metković. However, due to numerous unresolved property-rights problems, estimated expenditures, development of business plans and the very concept of the construction of wholesale markets on envisaged locations, parts of this Loan were cancelled amounting to DEM 27.21 million (2000/2001). The construction of wholesale markets in Zagreb and Metković was dropped. The Loan was converted to EUR and at the beginning of 2002 funds were utilized for the construction of the wholesale market in Benkovac. By the agreed closing date (March 25, 2002) there was outstanding EUR 11,431.53 and this unutilized amount was canceled, and the Loan was closed. Thus the Loan was reduced to EUR 3.2 million.

The Power Supply and Distribution Network Project included the reconstruction of key parts of the distribution network in the war affected areas, technical cooperation in planning of future investments, review of tariffs and promotion of better financial management and restructuring of the sector aimed at attracting investors. EBRD financed the Project with the Loan No. 283 amounting to DEM 63 million, concluded in 1995. The Loan was utilized, converted to EUR, and is being repaid by Croatian Power Utility.

EBRD financed the Project of Revival of Tourism in the Republic of Croatia with a credit line of DEM 50 million approved to HBOR in 1996, which was utilized before May 1, 1998 for the reconstruction and increasing the standard of hotels destroyed or damaged in the war and repaid in 2002.

In 2003 EUR 6.3 million was invested through the Croatian Bank for Reconstruction and Development for the improvement of communal water supply and sewage systems under the Municipal Environmental Infrastructure Program (MEIP), financed by EBRD through the Loan No. 494 of EUR 31.57 million. This Loan was previously concluded for DEM 105 million, with a guarantee of the Republic of Croatia⁷⁹, and in 1999 it was reduced by DEM 6.5 million (tranche C intended for City of Rijeka

⁷⁹The Law on the Ratification of the agreement o guarantee The Republic of Croatia za «Program investment u local infrastructure i zaštita okoliša» between The Republic of Croatia i European banks za reconstruction and development ""The Official Gazette" No.-International agreements", br. 4/1997.

investment program was dropped) and amounted to DEM 98.44 million after the second cancelation amounting to DEM 18 million. By Annex 3 of the Agreement the amount of the Loan equalled DEM 80.44 million. After the conversion of DEM to EUR the Loan amounted to EUR 41,128,318.92. In March 2002 HBOR requested again a reduction of the Loan by EUR 5 million and extension of the closing date by March 31, 2003 and the Loan was reduced to the amount of EUR 36,128,318.92. Amounts of tranches to end users were reduced, so that the tranche A amounts to EUR 30,677,512.87 (Split Water Supply and Communal Company), tranche B EUR 4,970,191.68 (Pula Communal Company) and tranche D EUR 480,614.37 (Croatian Waters).

In April 2003 HBOR requested the cancellation of a portion of the Loan amounting to USD 4,553,095.43 and a new schedule of tranches to beneficiaries was made, so that tranche A amounts to USD 30,677,512.87 (Split Water Supply and Communal Company), tranche B: USD 897,710.63 (Pula Communal Company), whereas tranche D (Croatian Waters) was cancelled. Closing date was extended until January 31, 2004. According to the status as of December 31, 2003, a total of EUR 27,118,624.76 was withdrawn from the Loan (85.89%) and the outstanding amount for utilization was EUR 4,456,598.74 (14.11%) by the end of January 2004.

Railway Locomotive Reconstruction Project is financed with EBRD Loan No. 733 of USD 35 million concluded in December 1998. The Project includes reconstruction of diesel locomotives (financed with USD 22.2 million), overhaul and modernization of diesel-electrical locomotives (USD 9.62 million) and consulting services for the implementation of the Project (USD 230,000). The agreed closing date of the Loan (March 31, 2002) was extended for the first time during 2001 and a new closing date was agreed: August 31, 2003, as the second time when the final closing date was defined - February 5, 2004. In 2003 Croatian Railways withdrew more than USD 11 million. In the period from June 1999, when the Loan became effective, until December 31, 2003 a total of USD 34,280,396.67 was withdrawn (97.94 %). There remained, within the new closing date, completion of the Project and withdrawal of the remaining USD 719,603.33 (2.06%).

By financing investment projects of small and medium enterprises, EBRD supports Loan No. 923 of EUR 12 million approved for HBOR aimed at faster development of the private sector in the Republic of Croatia. Withdrawal was agreed in four tranches, each of EUR 3 million. The first tranche was withdrawn on May 31, 2002, the second tranche on September 12, 2003, and the remaining two tranches (EUR 6 million) should be withdrawn by the agreed closing date: September 19, 2004.

EBRD finances environmental projects in INA - Industrija nafte d.d. (17 projects) with the Loan No. 935 of EUR 36 million. The Project is implemented for purpose of modernization and improvement of the existing wastewater treatment facilities, rehabilitation of tank for storing oil products, hazardous waste management and increasing the efficiency of refinery facilities in refineries in Rijeka, Sisak and lubricants in Rijeka (Mlaka), as well as installation of facilities in Naftaplin, which will attain better compliance with EU environmental standards. The Project should be implemented by June 15, 2005, and withdrawal of Loan funds was agreed by June 30, 2005. Loan disbursement was agreed per the following categories: 1. equipment EUR 12.34 million, 2. works EUR 17.81 million, 3. consulting services EUR 2.71 million, 4. services EUR 546,000, and unallocated EUR 2,585,000.00. In 2003 a reallocation of funds was done on the services item so that for this purpose funds were increased by EUR 90,000 by the amount they were reduced on the 'unallocated' item. In this manner the originally agreed schedule of the Loan was changed by categories and on December 31, 2003 the schedule per categories was the same for the items equipment, works, and consulting services, whereas the services item amounted to EUR 636,000.00 and the 'unallocated' item was changed to EUR 2,495,000.00. In 2003 INA-Industrija nafte d.d. withdrew EUR 9,331,711.56 from the agreed Loan. In the period from 2002 (when the Loan became effective)



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through December 31, 2003 a total of EUR 13,331,711.56 was withdrawn (this is also the amount of INA's debt to EBRD), and EUR 22,668,288.44 remained to be withdrawn by the agreed date.

Project Zagreb - Rijeka Highway (construction of sections Vrbovsko - Bosiljevo and Bosiljevo - Vukova Gorica) is financed by funds of EBRD Loan No. 975 - EUR 60 million and funds of EIB Loan No. 21.609 - EUR 60 million. EBRD's Loan became effective on December 12, 2002, when the 1%-front end fee was paid out of the Loan. Funds were withdrawn in 2003 in the total amount of EUR 25,867,191.37. The remaining funds amounting to EUR 33,532,808.63 will be utilized until the agreed term: May 11, 2005.

For the Project of Construction of Tanker for Transportation of Oil and Chemicals of 47,400 BRT (No. 450), EBRD concluded with the Uljanik shipyard d.d., Pula an Agreement on the Issuance of the Advance Guarantee on December 19, 2001, amounting to USD 11,490,000.00 (EBRD No. 18149-Advance Guarantee), with the guarantee of the Republic of Croatia (which came into effect on July 23, 2002). Pursuant to the Agreement EBRD issued an advance payment guarantee to Intrigue Shipping Inc. Monrovia, Republic of Liberia (purchaser of the tanker) for Uljanik shipyard d.d., Pula. Issuance of advance guarantee was agreed in four tranches: I. Installment USD 1,436,250.00 no later than May 28, 2002 (implemented on May 28, 2002); II. Installment USD 2,872,500.00 no later than March 31, 2004; III. Installment USD 2,872,500.00 no later than April 30, 2004 and IV. Installment USD 4,308,750.00 no later than October 31, 2004. This enabled the Uljanik shipyard the realization of the agreement on tanker construction, receiving advance payment and helped through EBRD its restructuring, commercialization and final privatization.

Zagreb Center for Regional Control Project is undertaken in order to increase air traffic safety and capacity building. It includes procurement and installation of the new radar data processing system and corresponding control consoles and construction of annex to the existing building in which new operations room will be located. The Project is cofinanced by EBRD Loan No. 25800 amounting to EUR 25 million and EIB Loan No. 21677 of EUR 20 million. The Guarantee Agreement between the Republic of Croatia and EBRD was concluded in September 2002. The Parliament passed the Law on the Ratification of the Guarantee Agreement⁸⁰ in November 2002. The Loan became operational for withdrawal on January 22, 2003, whereas the 1%-front end fee was paid on February 29, 2003 and in 2003 a total of EUR 5,513,287.94 was withdrawn. Pursuant to the Agreement, the remaining Loan funds of EUR 19,486,712.06 (73%) will be disbursed until September 30, 2005.

The Highway Reconstruction in Croatia Project includes the rehabilitation of European Corridor X, i.e., section Zabok-Brodski Stupnik and financing consulting services in the implementation of the project. The first part of the Project includes rehabilitation of approximately 70 km of the road Zabok-Ivanić Grad, including the bridge on the Sava river and rehabilitation of approximately 130 km of the road between Ivanić Grad and Brodski Stupnik, including the Novska bridge. The second part of the Project includes consulting services in the implementation of the Project, supervision, management development, and adjustment of the financial system to international standards, as well as the development of the strategy for the improvement of efficiency of management and maintenance. The Project is financed by loans of EBRD (EUR 46.50 million) and EIB (EUR 50.00 million), and is supposed to be completed by December 31, 2005.

⁸⁰The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Bank for Reconstruction and Development for the Zagreb Regional Control Center Project ("The Official Gazette - International Agreements", No. 14/2002).

The Guarantee Agreement between the Republic of Croatia and EBRD for financing the Highway Reconstruction in Croatia Project was signed on December 13, 2002. The Law on the Ratification of the Guarantee Agreement was published in "The Official Gazette - International Agreements" No. 10/2003, and came into force on July 9, 2003. The 1-percent front end fee was paid out from the Loan funds on July 16, 2003, whereas in September 2003 funds were withdrawn for the implementation of the Project amounting to EUR 4,278,945.25. Undisbursed Loan funds of EUR 41,756,054.75 (55.9%) will be withdrawn by April 30, 2006.

Council of Europe Development Bank (CEB)

Utilization of Loans in 2003

In 2003 no new loans were concluded with CEB, but implementation continued of the projects of reconstruction of schools, health infrastructure, return of displaced persons and refugees and credit program for financing small and medium entrepreneurship, i.e., withdrawal of available funds of framework loans previously concluded with CEB. In 2003 a total of HRK 239,011,135 was withdrawn (EUR 31.32 million, according to the CEB exchange rate on the day of withdrawal of the tranches). More precisely, the following tranches were withdrawn: the seventh tranche from the Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia (EUR 2.4 million), the third tranche from the Framework Loan for the Project of Return of Displaced Persons and Refugees (EUR 10.30 million), the fifth tranche from the Framework Loan for the Project of Reconstruction of Schools in Eastern Slavonia (EUR 490,000.00), the third tranche of the Framework Loan for the Project of Reconstruction of Schools (EUR 2.7 million), the first tranche from the Framework Loan for the Project of Reconstruction and Modernization of School of Public Health "Andrija Štampar", Zagreb and MCZZM Dubrovnik, as well as the first tranche from the Framework Loan for the Project of Reconstruction of Health Infrastructure (EUR 14.578 million).

In addition, in 2003 HBOR used EUR 2 million (the second tranche) from the Framework Credit of EUR 8 million concluded with a guarantee of the Republic of Croatia, for financing a credit program for encouraging small and medium entrepreneurship.

Review of Loans Agreed in the Period from 1998 to 2003

In the period from 1998 to 2002 financing of eight project in the Republic of Croatia was agreed with CEB. The Republic of Croatia concluded seven direct loans worth a total of HRK 789,351,614 for financing reconstruction projects, and one framework credit was concluded by the Croatian Bank for Reconstruction and Development (HBOR), with a guarantee of the Republic of Croatia, worth EUR 8 million for the promotion of small and medium entrepreneurship.

On the basis of the concluded framework direct loans with the Republic of Croatia a total of HRK 682,226,175.00 was withdrawn, whereas HRK 106,138,234.00 remained for investments into implementation of projects. Table 6.25 provides a detailed review of loans concluded with CEB in the period from 1998 to 2003, which contains data on the utilization of the funds, i.e., withdrawal of individual tranches in the period from 1999 (when the first tranches were withdrawn) until 2003, agreed financial conditions, and the status of debt of the Republic of Croatia toward CEB.



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Table 6.25 | Review of CEB
Loans and Debt Status as
of December 31, 2003

No.	Project	Amount of Framework Loan (HRK)	Tranche/Withdrawal Date	Utilized in HRK*	Currencies	Debt in Currency Dec. 31, 2003	Int. Rate Fixed	Grace for Princ.	Principal Date Due	
									First	
1	2	3	4	5	7	8	9	10	11	1
1.	Project F/P 1278/1998 Reconstruction of Health Infrastructure in Eastern Slavonia (Beneficiary: the of Ministry Health)	172,744,129	I. (17. 03. 1999.)	35,078,800	USD	5,075,000	5.71%	5 y.	17. 03. 2005.	1.
	The Loan is closed		II. (02. 11. 1999.)	34,288,200	EUR	4,500,000	5.38%	5 y.	02. 11. 2005.	
			III. (22. 02. 2000.)	26,329,600	EUR	3,400,000	5.56%	5 y.	02. 02. 2006.	
			IV. (29. 11. 2000.)	36,396,000	EUR	4,800,000	5.54%	5 y.	29. 11. 2006.	
			V. (21. 12. 2001.)	14,778,000	EUR	2,000,000	4.67%	5 y.	21. 12. 2007.	
			VI. (18. 01. 2002.)	7,551,000	EUR	1,000,000	4.89%	5 y.	18. 01. 2008.	
			VII. (04. 06. 2003.)	18,322,529	EUR	2,400,000	3.56%	5 y.	04. 06. 2009.	
	Total 1. (I.+II.+ III. +IV+V+VI+VIII.):			172,744,129	USD EUR	5,075,000 18,100,000				
2.	Project F/P 1279/1988 Reconstruction of Schools in Eastern Slavonia (Beneficiary: the Ministry of Public Works, Reconstruction, and Construction)	67,368,000	I. (15. 03. 1999.)	16,658,110	USD	2,410,000	5.71%	5 y.	17. 03. 2005.	2.
	Canceled HRK 987.205 ; Loan is closed		II. (23. 11. 1999.)	23,715,310	EUR	3,100,000	5.04%	5 y.	29. 11. 2005.	
			III. (29. 11. 2000.)	14,406,750	EUR	1,900,000	5.53%	5 y.	29. 11. 2006.	
			IV. (01. 08. 2001.)	7,897,670	EUR	1,100,000	5.06%	5 y.	01. 08. 2007.	
			V. (05. 08. 2003.)	3,702,955	EUR	490,000	3.75%	5 y.	05. 08. 2009.	
	Total 2. (I.+II.+III.+IV.+ V.):			66,380,795	USD EUR	2,410,000 6,590,000				
3.	Project F/P 1352/1999 Reconstruction of Schools (Beneficiary: the Ministry Public Works, Reconstruction, and Construction)	98,682,000	I. (01. 08. 2001.)	24,410,980	EUR	3,400,000	5.06%	5 y.	01. 08. 2007.	3.
			II. (03. 10. 2002.)	42,841,700	EUR	5,800,000	4.31%	6 y.	17. 04. 2008.	
			III. (05. 08. 2003.)	20,404,035	EUR	2,700,000	3.75%	5 y.	05. 08. 2009.	
	Total 3. (I.+II.+III.):			87,656,715	EUR	11,900,000				
4.	Project F/P 1378/2000 Reconstruction and Housing for the Return of Displaced Persons and Refugees in RC - (Beneficiary: the Ministry of Public Works, Reconstruction and Construction)	232,000,000	I. (01. 08. 2001.)	58,155,579	EUR	8,100,000	5.06%	5 y.	01. 08. 2007.	4.
	Loan is closed		II. (17. 04. 2002.)	96,067,400	EUR	13,000,000	5.24%	6 y.	17. 04. 2008.	
			III. (29. 07. 2003.)	77,777,030	EUR	10,300,000				
	Total 4.(I.+II.+III.)			232,000,000	EUR	31,400,000				

Table - Continued

No.	Project	Amount of Framework Loan (HRK)	Tranche/Withdrawal Date	Utilized in HRK*	Currencies	Debt in Currency Dec. 31, 2003	Int. Rate Fixed	Grace for Princ.	Principal Date Due	
									First	1
1	2	3	4	5	7	8	9	10	11	1
5.	Project F/P 1379/2000 Project of Reconstruction of Franciscan Monastery Male braće, Dubrovnik	10,325,454	I. (08. 08. 2002.)	4,639,950	EUR	630,000	5.32%	6 y.	08. 08. 2008.	5.
6.	Project F/P 1351/1999 Project of Reconstruction of Health Infrastructure (Beneficiary: the Ministry of Health of RC)	186,837,031	I. (19. 12. 2003.)	112,328,259	EUR	14,578,000	4.10%	5 y.	19. 12. 2009.	6.
7.	Project F/P 1419/2001 Project of Reconstruction of SNZ „Andrija Stampar“ Zagreb and MCZZM, Dubrovnik	21,395,000	i. (12. 08. 2003.)	6,476,327	EUR	856,725	4.3%	5 y.	12. 08. 2009.	7.
Total framework loans (1.+2.+3.+4.+5.+6.+7):		789,351,614	Total utilized (status as of Dec. 31, 2003):	682,226,175	Total: USD EUR	7,485,000 84,054,725				
FRAMEWORK CREDIT WITH RC GUARANTEE		Amount in EUR								
1.	Project F/P 1392/2000 Financing of Credit Program of Small and Medium Entrepreneurship (HBOR)	8,000,000	I. (31. 05. 2002.)		EUR	2,000,000	Euribor +0.40%	26 months	05. 08. 2004.	1.
			II. (12. 09. 2003.)		EUR	2,000,000	Euribor+ 0.29%	29 months	05. 02. 2006.	
			Total (I.+II.):		EUR	4,000,000				



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Note: Data on utilization of loans in kuna are presented according to the exchange rate of CEB for currencies on the day of payment of individual tranches.

- The Framework Loan for the Project of Reconstruction of Health Infrastructure in Eastern Slavonia (F/P 1278/1998)⁸¹ amounting to HRK 172,744,129.00 provides financing for 44% of the total of HRK 388,800,650.00 estimated net expenditures for reconstruction and construction of the primary and secondary health care system (reconstruction/construction of 18 primary health care centers and 3 hospitals, construction of 48 apartments for health workers, and provision of medical equipment).
In 2003 an additional agreement was concluded for withdrawal of VII tranche from the Framework Loan, and in June 2002 HRK 18,322,529.00 was utilized. For the implementation of the Project, according to the status as of December 31, 2003, a total of HRK 172,744,129.00 (100%) was withdrawn from the Framework Loan through seven tranches and the Loan was closed.
- For the Project of Reconstruction of Schools in Eastern Slavonia⁸² Framework Loan No. F/P 1279/1998 was agreed with CEB of HRK 67,368,000.00 (50% of the total of HRK 134,736,000.00 for estimated net expenditures for repairs and reconstruction of 33 primary schools and one secondary school included in the Project). The Project was implemented by the Ministry of Public Works, Reconstruction, and Construction as a part of the overall reconstruction program in the area of Eastern Slavonia. In 2003 withdrawal of the fifth tranche was agreed amounting to EUR 490,000, which was withdrawn in August 2003 (HRK 3,702,955.00). As of December 31, 2003 a total of HRK 66,380,795.00 was utilized, and the outstanding funds of HRK 987,205.00 were canceled and the Loan was closed.

⁸¹The Law on the Ratification of the Framework Agreement on the Loan between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1278 (1998) - Reconstruction of Health Infrastructure in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).

⁸²The Law on the Ratification of the Framework Agreement on the Loan between the Council of Europe Social Development Fund and the Republic of Croatia for the Project 1279 (1998) - Reconstruction of Schools in Eastern Slavonia ("The Official Gazette - International Agreements", No. 13/1998).

3. For the implementation of the Project of Reconstruction of Schools in the Republic of Croatia from the Framework Loan of HRK 98,682,000.00 (F/P 1352/1999)⁸³ funds are provided for the reconstruction of 41 schools in the war affected areas in eight counties. The Project is implemented by the Ministry of the Sea, Tourism, Transport, and Development as part of the overall reconstruction program. In August 2003 the third tranche was withdrawn, amounting to EUR 2.7 million (HRK 20,404,035.00). The outstanding amount for withdrawal as of December 31, 2003 was HRK 11,025,258.00 (11.17%), whereas in the period from 2001 to 2003 a total of HRK 87,656,715.00 was withdrawn (88.83%).
4. The Project of Reconstruction and Housing of Displaced Persons and Refugees in the Republic of Croatia is financed with the Framework Loan of HRK 232,000,000.00 (F/P 1378/2000)⁸⁴ which was signed on February 2 and 7, 2001. This loan and budget funds financed resolving the problem of providing accommodation of displaced persons and refugees through restitution of property to owners and provision of alternative accommodation for temporary users, organized reconstruction of damaged and destroyed family houses in the ownership of returnees, and through the reconstruction of communal infrastructure. The Project was implemented by the Ministry for Public Works, Reconstruction, and Construction as part of the overall reconstruction program. In July 2003 the last, third tranche was withdrawn amounting to EUR 10.3 million (HRK 77,777,030.00), the Loan is fully utilized and closed.
5. The Project of Reconstruction of Franciscan Monastery Male braće in Dubrovnik is financed with a CEB loan amounting to HRK 10,325,454.00 (F/P 1379/2000)⁸⁵ concluded on June 19, 2001 in Dubrovnik, on the occasion of the 36th anniversary of the CEB assembly. This Loan, budget funds of the Franciscan province with the seat in Zadar, and World Monument Watch (WMW), the Grant finances the reconstruction and rehabilitation of the Franciscan Monastery Male braće in Dubrovnik, implemented by the Monastery itself and the Ministry of Culture. The reconstruction of the Monastery started with the western wing, notably the reconstruction of the old library, and music and manuscript archives for which it was urgent to intervene as soon as possible to control damage on the exceptionally worth archives, and also to have the library used again for scientific purposes for which it has not been available for a number of years. In 2002 HRK 323,000 was used from WMW grants and HRK 4,639,950 (45% loan funds, i.e., the first tranche of EUR 630,000.00 was withdrawn). HRK 5,685,504.00 remained undisbursed or 55 % and those funds will be disbursed in early 2004.
6. The Project of Reconstruction of Health Infrastructure is financed with a CEB loan amounting to HRK 186,837,031 (F/P 1351/1999)⁸⁶, signed on October 23 and 30, 2001 (came into force on July 31, 2002). This loan and budget funds finance construction works or procurement of equipment for 4 general hospitals (Pakrac, Dubrovnik, Sisak, and Zadar), 2 clinical hospital centers (Rijeka, Zagreb) and 4 health care centers (Metković, Slunj, Knin, Dubrovnik), as well as provision of medical and non-medical equipment for 45 clinics which had previously been built with the state budget funds. The Project is implemented by the Ministry of Health

⁸³The Law on the Ratification of Framework Agreement on the Loan between the Council of Europe Development Bank and the Republic of Croatia for Reconstruction of Schools ("The Official Gazette - International Agreements", No.7/2001).

⁸⁴The Law on the Ratification of Framework Agreement on the Loan between the Republic of Croatia and the Council of Europe Development Bank for the Project of Return of Displaced Persons and Refugees in the Republic of Croatia- Reconstruction and Housing ("The Official Gazette - International Agreements", No.7/2001).

⁸⁵The Law on the Ratification of the Framework Agreement on the Loan 1379 (2000) for the Reconstruction of Franciscan Monastery Male braće in Dubrovnik, between the Council of Europe Development Bank and the Republic of Croatia ("The Official Gazette – International Agreements", No.14/2001).

⁸⁶The Law on the Ratification of the Framework Agreement on the Loan 1351 (1999) for the Reconstruction of Health Infrastructure, between the Council of Europe Development Bank and the Republic of Croatia ("The Official Gazette - International Agreements", Nos. 9/2002 and 12/2002).

as part of the overall program of reconstruction of health. In August 2003 the first tranche was withdrawn of EUR 856,725 (HRK 6,476,327.00), and HRK 14,918,673.00 (69.73%) remained for disbursement.

7. Project of Reconstruction of School of Public Health "Andrija Štampar" includes the reconstruction of the existing buildings in Zagreb and Dubrovnik for training of staff in the areas of health management and health promotion. CEB loan was agreed in the amount of HRK 21,395,000⁸⁷. The estimated value of the Project amounts to HRK 42,790,000.00, out of which CEB loan finances 50%, whereas the remaining HRK 21,395,000.00 (50%) is cofinanced from the following sources:

1.	State budget of RC	HRK 2,995,300.00	(7%)
2.	City of Zagreb	HRK 8,989,900.00	(21%)
3.	HZZO	HRK 2,139,500.00	(5%)
4.	Faculty of Medicine, Zagreb	HRK 7,274,300.00	(17%)

In August 2003 the first tranche was withdrawn, amounting to EUR 856,725.00 (HRK 6,476,327.00), or 30.27% of the Loan. As of December 31, 2003 the outstanding amount for withdrawal was HRK 14,918,673.00 (69.73%).

8. The Project of Financing Credit Program of Small and Medium Entrepreneurship is financed by the CEB Loan No. F/P 1392/2000⁸⁸ of Croatian Bank for Reconstruction and Development (HBOR) and was approved with a state guarantee. The total value of the Project amounts to EUR 20 million, out of which the CEB Loan finances EUR 8 million (40%), whereas the rest of EUR 12 million (60%) finances a loan of the European Bank for Reconstruction and Development (EBRD). The Framework Agreement on the credit was concluded with CEB on February 16 in Paris and February 21 and March 15 in Zagreb, which came into force on September 19, 2001. HBOR withdraw the second tranche of the Loan of EUR 2 million in September 2003. The outstanding amount to be withdrawn as of December 31, 2003 was EUR 4 million (50%). The goal of the program of crediting is medium-term and long-term crediting of development of small and medium entrepreneurship aimed at increasing employment. HBOR provides credits to companies and craftsmen who have less than 250 employees and are at least 51% private owned. Credits are used for investments into core assets (business space, equipment), investments into working capital (up to the level of 30% of the amount of the credit), and refinancing of existing financial commitments (provided that the total amount was used for working capital and refinancing does not exceed 30% of the credit amount).

State budget for 2003 provided payment of due interests on disbursed tranches of framework loans totaling USD 427,438.38 and EUR 2,745,787.07. In 2003 HBOR paid due interests in the amount of EUR 70,257.83 against the Framework Credit intended for financing small and medium entrepreneurship, concluded with a guarantee of the Republic of Croatia.

Debt of the Republic of Croatia toward CEB against all disbursed tranches from concluded framework agreements as of December 31, 2003 amounts to: USD 7,485,000.00 and EUR 84,054,725.00, whereas HBOR's debt toward CEB on the basis of the framework credit concluded with a guarantee of the Republic of Croatia amounts to EUR 4,000,000.00.



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⁸⁷The Law on the Ratification of the Framework Agreement on Loan 1419/2001 for Reconstruction of School of Public Health "Andrija Štampar" in Zagreb and the International Center for Health Management "Andrija Štampar" in Dubrovnik ("The Official Gazette - International Agreements", Nos. 10 and 12/2002).

⁸⁸The Law on the Ratification of the Framework Agreement of 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 Entrepreneurship ("The Official Gazette - International Agreements", No.9/2001).

Projects / Loans under Preparation

Six new projects for financing with CEB loans are in different phases of the preparations: (1) sustainable return of displaced persons and refugees and infrastructure reconstruction of the areas of special state concern - HRK 292,351,000.00; (2) construction and reconstruction of schools -HRK 53,084,575.80, (3) housing and communal management of the Roma in Međimurje and in Zagreb, (4) reconstruction of war devastated cultural heritage in Lipik, (5) reconstruction of islands and (6) development of social infrastructure and reintegration of return to multi-ethnic community in the City of Glina.

The European Investment Bank (EIB)

Establishment of Institutional Relations

Following the establishment of diplomatic relations with the-then European Community, the Republic of Croatia started cooperating directly with EIB in 1992. During 1994 the outstanding debt was divided on the basis of loans or portions of loans granted to the former SFRY on principles of piece-meal succession. The Republic of Croatia arranged legal and financial relations with EIB in terms of the inherited debt in 1995 by concluding the Guarantee Agreement and Letter of Agreement No. 0298⁸⁹.

Activities of the establishment of institutional relations of the Republic of Croatia with EIB commenced in 1995⁹⁰ and discontinued after the Croatian actions in liberation of occupied areas in August 1995, were continued at the invitation of EIB in mid 2000. At that time the preparations of two Croatian projects were discussed, namely: (1) construction of Motorway Breznički Hum-Varaždin (23.2 km)⁹¹ and (2) modernization and electrifying the railway line on Pan-European Corridor Vc, nominated and adopted as the so-called "quick-start" project under the Stability Pact.

The Council of Ministers of the European Union approved EIB's mandate on November 7, 2000 to finance infrastructure projects and projects of private sector development in the Republic of Croatia. The Framework Agreement between the Republic of Croatia and the European Investment Bank, signed on December 13, 2000, came into force on October 30, 2001.⁹² This Agreement regulates the activities of EIB in the Republic of Croatia and enables the Bank to finance, through long-term favorable loans, projects in line with Croatia's development priorities. Pursuant to the Framework Agreement, the Board of Governors of EIB approved on February 6, 2001 granting loans for investment projects in the Republic of Croatia.

Loans Concluded in 2003

in 2003 the European Investment Bank, in line with EU policy, framework of its business policy and based on the concluded Framework Agreement with Croatia, granted four new loans totaling EUR 170 million for financing projects in Croatia. With favorable long-term loans worth a total of EUR 140 million it supported financing of two large infrastructure projects:

⁸⁹The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Investment Bank and the Letter of Agreement No. 0298, signed on January 12, 1995 in Luxembourg and February 10 in Zagreb ("The Official Gazette - International Agreements" No. 6/1995), came into force on May 23, 1995.

⁹⁰Within the preparation of Draft Agreement between the Republic of Croatia and the European Union on the Trade and Cooperation, the Draft Protocol was developed on financial cooperation with the European Community which was supposed to enable EIB to finance projects in Croatia.

⁹¹This project was later suspended pending the confirmation of harmonization with implementation criteria.

⁹²The Law on the Ratification of the Framework Agreement between the Republic of Croatia and the European Investment Bank which regulates activities of EIB in the Republic of Croatia ("The Official Gazette - International Agreements", No. 6/2001).

1. Project of Reconstruction of Communal Infrastructure in the Areas of Special State Concern (EUR 50 million), and 2. Project of Construction of Gas Pipeline System in the Republic of Croatia (EUR 90 million EUR). It supported the development of the private sector by global loans approved to Raiffeisen Bank, amounting to EUR 30 million.

The Republic of Croatia concluded with EIB two new agreements on the basis of which the infrastructure projects mentioned above are financed.

1. The Agreement on financing between the Republic of Croatia and EIB for the Project of Reconstruction of Communal Infrastructure in the areas of special state concern, signed on July 30, 2003 and its Annex 1, signed in Luxembourg and Zagreb on September 18, 2003, approved the loan of EUR 50 million⁹³. The Project is aimed at the improvement of the quality of life in the areas of special state concern, creating preconditions for a more massive return of displaced and/or refugee population and regional economic development. The value of the Project was estimated at EUR 100 million, out of which EIB will finance 50%, and the Republic of Croatia 50%. The Loan funds will be utilized until 31. 03. 2006 for financing small and medium projects for reconstruction and supra-construction of communal infrastructure, including local roads, state-backed housing, and other communal facilities in municipalities and counties. The Loan will be disbursed in tranches of minimum amount of EUR 5 million, and will be repaid in semi-annual installments, with grace period for repayment of principal of 5 years, with a 15-year maturity. Interest rate, fixed or variable, will be established when withdrawing tranches.

2. The Guarantee Agreement between the European Investment Bank and the Republic of Croatia for financing the Project of the Construction of Gas Pipeline System in the Republic of Croatia of investor Plinacro d.o.o., signed on December 16, 2003⁹⁴. On the same date also was signed the Agreement on Financing between the European Investment Bank and Plinacro d.o.o., which provides a EUR 90 million loan, with a state guarantee, for partial financing of expenditures of procurement of pipes for the gas pipeline, construction of gas supply, installation of new telecommunications and control system SCADA. The Project includes a part of Plinacro's program of expansion and modernization of gas pipeline system and consists of the design, procurement of pipes, construction, putting into operation and operation of approximately 394 km high-pressure gas pipeline. The main components of the Project are the following: 1. gas pipeline Pula-Karlovac (consists of 198 kms of steel pipes buried and equipped with anti-corrosion; along the gas pipeline five stations will be installed for measuring and reducing the pressure); 2. gas pipeline Zagreb-Slavonski Brod (196 kms of steel pipes buried and equipped with anti-corrosion, equipped with 13 stations for measuring and reduction of pressure) and 3. SCADA (installing of the new system - new microwave telecommunications system, new hardware and software). The estimated value of the Project amounts to EUR 186.6 million. Funds of the EIB loan will finance the construction of the gas pipeline, procurement of pipes at the parts of the sections of the gas pipeline Kutina-Slavonski Brod, Pula-Karlovac, Zagreb east-Kutina, and Lučko Ivanja Reka, installing of



⁹³The Law on the Ratification of the Agreement on Financing between the Republic of Croatia and the European Investment Bank for the Project - Reconstruction of Communal Infrastructure in the Areas of Special State Concern ("The Official Gazette - International Agreements", No. 16/2003).

⁹⁴On October 29, 2003 the Government of the Republic of Croatia gave a consent to Plinacro d.o.o., Zagreb to borrow the amount of EUR 90 million and conclude an agreement on financing with EIB for the Project of Construction of Gas Pipeline System in the RC (Decision on Issuing Consent for Concluding the Agreement on Financing between the European Investment Bank and the Plinacro d.o.o. company, Zagreb, for the Project of Construction of Gas Pipeline System in the Republic of Croatia, published in "The Official Gazette", No. 173/2003). The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the European Investment Bank for Financing the Project of Construction of Gas Pipeline System in the Republic of Croatia, of investor PLINACRO d.o.o., was passed on April 2, 2004 was published in "The Official Gazette - International Agreements", No. 3/2004.

SCADA (turn-key), and supervision. EIB Loan of EUR 90 million will be utilized until December 1, 2007 in ten tranches whose minimum agreed value amounts to EUR 5 million. The agreed maturity is 20 years, including a 5-year grace on the repayment of the principal, fixed or variable interest rate will be determined upon withdrawal of each of the individual tranches of the Loan.

Withdrawal of Loan Funds in 2003

In 2003 a total of EUR 51,428,75.98 was withdrawn from the available six EIB loans approved previously. Detailed data on withdrawn amounts are illustrated in Table 6.26.

For the financing of the Project of Reconstruction of Railways on Vc Pan-European corridor for which Loan No. 21.051 in the amount of EUR 40 million was agreed, on December 2, 2003 the second tranche of the loan amounting to EUR 5 million was withdrawn, with fixed interest rate of 4.79% per annum and repayment of principal within 15 years.

On September 30, 2003 Croatian Roads d.o.o. withdrew the second tranche of the loan amounting to EUR 4 million with an interest rate of 4.88% and repayment of principal within 15 years for the implementation of the Project of Reconstruction of State Roads. For financing of this project Loan No. 21.262 of EUR 60 million was concluded with EIB.

In 2003 HBOR withdrew three tranches totaling EUR 8,428,755.98 (tranches were withdrawn with fixed interest rate of 4.01%, 3.8%, and 4.28% per annum and 8-year repayment was agreed) from EIB's Global Loan No. 21.316 of EUR 10 million.

For financing works in the Rijeka-Zagreb Motorway Project EIB loan was agreed, No. 21.609, amounting to EUR 60 million. EUR 22 million was withdrawn on August 13, 2003 (II. Tranche of the Loan, agreed with a variable interest rate and repayment of principal within 12 years).

In 2003 Croatian Air Traffic Control d.o.o. withdrew a total of EUR 5 million (the second and third tranches of the Loan which were agreed with a 11-year maturity and with fixed interest rates of 4.58% and 4.46%) for financing Zagreb Air Traffic Control Project for which Loan No. 21.677 of EUR 20 million was agreed.

For Highway Reconstruction in the Republic of Croatia Project the first tranche was withdrawn of EUR 7 million with a 10-year maturity and with a fixed interest rate of 4.88% per annum under the EIB Loan No. 21.850 amounting to EUR 50 million.

Table 6.26 | Review of Withdrawals of EIB Loan Funds in 2003, in EUR Thousand

No.	Loan No.	Project Name	Loan Beneficiary	Loan Amount	Withdrawn	Withdrawal	Total	Not	Closing Date
					Dec. 31, 2002	I. - XII. 2003	Withdrawn Dec. 31, 2003	Disbursed Dec. 31, 2003	
1	21.051	Project of Reconstruction of Infrastructure and Modernization of System of Signalization and Telecommunication on Sections of VC Pan-European Corridor	Croatian Railways d.o.o.	40,000.00	3,500.00	5,000.00	8,500.00	31,500.00	30. 10. 2005.
2	21.262.	Project Rehabilitation of National Roads	Croatian Roads d.o.o.	60,000.00	1,000.00	4,000.00	5,000.00	55,000.00	26. 05.2004.
3	21.316.	Global Loan to HBOR	HBOR	10,000.00	0.00	8,428.75	8,428.75	1,571.24	26. 05. 2004.
4	21.609	Rijeka-Zagreb Motorway Project	Rijeka-Zagreb Motorways	60,000.00	20,000.00	22,000.00	42,000.00	18,000.00	30. 06. 2005.
5	21.677	Project Zagreb Air Traffic Control	Croatia Air Traffic Control d.o.o.	20,000.00	2,750.00	5,000.00	7,750.00	12,250.00	30. 06. 2006.
6	21.850	Project Rehabilitation of Motorways	Croatian Motorways	50,000.00	0.00	7,000.00	7,000.00	43,000.00	18. 06. 2003.
TOTAL (1.-6):				380,000.00	27,250.00	51,428.75	78,678.755	301,321.24	

Review of Loans

After coming of the Framework Agreement between RC and EIB into force, EIB approved over the three-year period twelve loans worth a total of EUR 446,000,00.00. Out of the twelve loans two were directly concluded with the state (worth a total of EUR 90 million), six loans were agreed with a state guarantee (worth a total of EUR 290 million), and four global loans without state guarantees were granted to the banks for financing of small and medium private enterprises in the total amount of EUR 66 million.

Under the concluded public and publicly guaranteed loans a total of EUR 78.67 million was withdrawn. This is also the amount of debt toward EIB, whereas EUR 301.32 million remained to be withdrawn until 2007.

The basic data on loans are provided in the Review of Loans (Table 6.27). Those loans were agreed with the following conditions: 8 - 20 year maturity, 3.5 – 5.5 year grace on repayment of principal, fixed and/or fluctuating EURIBOR-based interest rate increased by EIB spread, default interest calculated by increasing the agreed interests by 2% or 2.5% (in case of agreed fixed interests) and by increasing the agreed interests by 0.25% (in case of fluctuating interests) and payment of fees in case of deferral of disbursement of tranches and/or cancelation of disbursement of tranches.



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Table 6.27 | Review of EIB Loans Approved in Line with the Framework Agreement between RC and EIB Dated Dec. 13, 2000 (Status as of Dec. 31, 2003)

No.	Loan	Project Name	Beneficiary	Date of Conclusion of Agreement	Law Published in "THE OFFICIAL GAZETTE"	Maturity	Currency	Loan Amount	Disbursed	Outstanding for Disbursement	DEBT	
I. PUBLIC LOANS												
1	FI No. 21.051	Project of Reconstruction of Infrastructure and Modernization of System of Signalization and Telecommunications on Parts of Vc. Paneuropean Corridor	Croatian Railways d.o.o.	24. 05. 2001.	"THE OFFICIAL GAZETTE" NO.-MU br. 2/2002.	30. 10. 2005.	EUR	40,000,000.00	8,500,000.00	31,500,000.00	8,500,000.00	
2	FINo. 22.165	Project – Reconstruction of Communal Infrastructure in the Areas of Special State Concern	The Ministry of the Sea, Tourism, Transport, and Development	30. 07. 2003.	"THE OFFICIAL GAZETTE" NO.-MU Br. 16/2003	31. 03. 2006.	EUR	50,000,000.00	0.00	50,000,000.00	0.00	
TOTAL I. (1.+2.):								EUR	90,000,000.00	8,500,000.00	81,500,000.00	8,500,000.00
II. LOANS OBTAINED WITH GUARANTEE OF RC												
1	FI No. 21.262	State Roads Reconstruction Project	Croatian ceste d.o.o.	29. 10. 2001.	"THE OFFICIAL GAZETTE" –IA No. 4/2002.	26. 05. 2004.	EUR	60,000,000.00	5,000,000.00	55,000,000.00	5,000,000.00	
2	FI No. 21.316	Global Loan for HBOR	HBOR	26. 11. 2001.	"THE OFFICIAL GAZETTE" –IA No. 4/2002.	26. 05. 2004.	EUR	10,000,000.00	8,428,755.98	1,571,244.02	8,428,755.98	
3	FI No. 21.609	Rijeka-Zagreb Motorway Project	Rijeka-Zagreb Motorway d.d.	24. 06. 2002.	"THE OFFICIAL GAZETTE" –IA No. 10/2002.	30.06. 2005.	EUR	60,000,000.00	42,000,000.00	18,000,000.00	42,000,000.00	
4	FI No. 21.677	Zagreb Air Traffic Control Project	Croatian Air Traffic Control d.o.o.	10./12. 09. 2002.	"THE OFFICIAL GAZETTE" NO.-MU br. 14/2002.	30. 06. 2006.	EUR	20,000,000.00	7,750,000.00	12,250,000.00	7,750,000.00	
5	FI No. 21.850	Motorways Reconstruction Project	Croatian Motorways d.o.o.	13. 12. 2002.	"THE OFFICIAL GAZETTE" –IA No.10/2003	18. 06. 2003.	EUR	50,000,000.00	7,000,000.00	43,000,000.00	7,000,000.00	
6.	FI No.	Project of Construction of Gas Pipeline System in RC	Plinacro d.o.o.	16. 12. 2003.	"THE OFFICIAL GAZETTE" –IA No. 3/2004	01. 12. 2007.	EUR	90,000,000.00	0.00	90,000,000.00	0.00	
TOTAL II. (1.-6.):								EUR	290,000,000.00	70,178,755.98	219,821,244.02	70,178,755.98
TOTAL (I.+II.):								EUR	380,000,000.00	78,678,755.98	301,321,244.02	78,678,755.98

Table – Continued

No.	Project Name	Beneficiary	Date of Conclusion of Agreement	Currency	Loan Amount
III. LOANS OBTAINED WITHOUT STATE GUARANTEES					
1	Global loan	Privredna bank 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
3	Global loan	Raiffeisenbank Austria d.d.	06. 06. 2003.	EUR	20,000,000.00
4	Global loan	Raiffeisenbank Leasing d.d.	06. 06. 2003.	EUR	10,000,000.00
TOTAL (1.+2.):				EUR	66,000,000.00

Repayments of Taken Over Loans

Inherited long-term loans granted in the period from 1982 to 1989⁹⁵ were repaid in 2003 as well pursuant to the law and according to repayment schedules in different currencies. On December 6, 2001 EIB prepared revised repayment schedules per tranches of withdrawal of loans in original currencies (BEF, DEM, FRF, ITL, NLG, and GRD), after the conversion of those original currencies of payment in EUR according to fixed exchange rates.

Review of taken over loans of EIB and debt status at the end of 2003 is illustrated in Table 6.28.

Due commitments toward European Investment Bank against loans used for financing roads and Railways were paid by the funds of the State budget for 2003. After settlement of all due commitments in 2003, the outstanding debt toward EIB, reported in EUR and five different currencies and converted into kuna, according to the mean rate of the Croatian National Bank on December 31, 2003, amounted to HRK 312,271,986.21.

Preparation of New Projects for Financing by EIB Loans

New projects that EIB will finance with loans in the total amount of EUR 285 million are in different preparation phases. For financing infrastructure projects a total of EUR 235 million is envisaged, namely: 1. Coastal Cities Pollution Protection Project (EUR 100 million), 2. Project of Reconstruction of Communal Infrastructure in the Areas of Special State Concern, Borderline, and Hilly and Mountainous Areas (EUR 90 million), and 3. Project of Construction of Motorways on Corridor X Županja-Lipovac (EUR 45 million). For financing private sector development, i.e., small and medium enterprises, global loans are envisaged worth EUR 50 million (global loan to HBOR of EUR 20 million and global loan to Zagrebačka Bank of EUR 30 million).

⁹⁵On the basis of the partial succession, and on the basis of meeting the so-called territorial principle, six outstanding unrepaid long-term loans were taken over of beneficiaries with the seat in the Republic of Croatia (Croatian Power Utility, Croatian Roads, and Croatian Railways), denominated in ECU, with the repayment obligation in different currencies. Total taken over debt reported in 11 currencies of payment as of December 31, 1994 amounts to HRK 877,147,661.94.

Table 6.28 | Review of EIB
Taken Over Loans and Debt
Status

No.	EIB Loan No.	New Borrowers per Letters of Agreement	Guarantor per Letters of Agreement	Amount of Loan in EUR	Currencies of Repayments	Outstanding Debt in Currency of Repayment as of Dec. 31, 2003
1.	16275	HEP d.d. Zagreb	Republic of	10,552,500.00	EUR	0.00
	EEMS-HE	Letter of Agreement	Croatia		GBP	0.00
	CRO (repaid)	No. 0297				
2.	16279	The Republic of Croatia		16,000,000.00	EUR	0.00
	TYH-II-HC	Letter of Agreement			USD	0.00
	CRO (repaid)	No.: 0298				
3.	16284	Croatian Railways d.o.o.	Republika	29,190,000.00	EUR	1,152,755.20
	TYR-I-HZ	Letter of Agreement	Croatia		DKK	2,671,603.23
	CRO	No.: 0296			USD	205,294.93
					GBP	73,208.41
4.	16289	The Republic of Croatia		15,250,000.00	EUR	715,232.82
	TYH-III-HC	Letter of Agreement			GBP	322,207.84
	CRO	No.: 0298			DKK	1,939,364.55
					USD	443,340.44
					CHF	77,469.08
5.	13554	The Republic of Croatia		60,000,000.00	EUR	10,007,629.90
	TYH-IV-HC	Letter of Agreement			GBP	865,909.92
	CRO	No.: 0298			JPY	1,433,368,608.00
					CHF	8,678,451.42
6.	14090	Croatian Railways d.o.o.	Republic of	18,000,000.00	EUR	4,796,505.80
	TYR-IIB-HZ	Letter of Agreement	Croatia		CHF	3,424,669.02
	CRO	No.: 0296			USD	1,205,727.90
					GBP	1,205,727.90
TOTAL:				148,992,500.00	EUR	16,672,123.72
					USD	1,889,409.57
					GBP	2,467,054.07
					DKK	4,610,967.78
					CHF	12,180,589.52
					JPY	1,433,368,608.00.00
					HRK*	312,271,986.21



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* according to the mean rate of CNB as of December 31, 2003

6.5 | The Guarantees of the Republic of Croatia between 2002 and 2003

Pursuant to the Budget Law, the total amount of the new state debt and state guarantees which may be taken over or issued in the course of the year is regulated by the Law on the Execution of the State Budget.

Pursuant to the Law on the Execution of the State Budget of the Republic of Croatia for 2002, the Government of the Republic of Croatia, on an exceptional basis, may issue financial and performance guarantees at the proposal of the Ministry of Finance. Guarantee reserve is also established for financial state guarantees in the state budget, amounting to HRK 400,000,000.00, whereas, by the Amendments to the State Budget of the Republic of Croatia for 2002, the amount indicated is increased to HRK 750,000,000.00.

In 2003 issuing guarantees was prescribed until the end of June, pursuant to the provisions of Articles 31 through 37 of the Budget Law (enacted in 1994), whereas since July, pursuant to the provisions of the section VII. of the new Budget Law (enacted in 2003, Articles 75 through 111) and also provisions of Articles 35 and 36 of the Law on the Execution of the State Budget of the Republic of Croatia for 2003. At the beginning of the year the Government passed a Decision on the Criteria for Issuing State Guarantees ("the Official Gazette", No. 16/03).

The value of the new financial guarantees for 2003 was established in the amount of HRK 5,900,000,000.00 and the guarantee reserve in the amount of HRK 550,000,000.00, which was increased to HRK 620,000,000.00 by the Amendments to the Law.

Issuance of guarantees was conditioned with the insurance of the collection on the basis of a collateral of the applicant for the loan, or other insurance instruments.

Applicants for guarantees and creditors are obliged to request a preliminary approval of the Ministry of Finance of the intention of issuing guarantees and document the request with the credit rating and effect of the new borrowing on business operations of the applicant, taking into consideration the level of the existing debt. The line Ministry of the applicant is obliged, within 15 days, to provide an opinion to the Ministry of Finance on development changes and restructuring of the company of the applicant and the assessment of the possibility of repayment of the credit. The Ministry of Finance is obliged to submit to the Government within 40 days since the receipt of the request for preliminary consent.

The state charges a 0.5-percent commission on the value of guarantees for the issued state guarantees, which is charged before the issuance of guarantees to the guarantee holder, and this commission is the revenue of the state budget.

Performance guarantees may be issued on the basis of the received advance payments in money or property for ship construction until their handover, for procurement of aircraft on the basis of a long-term lease agreement, and for the infrastructure projects (transport and communications, energy, and environmental protection) carried out on the basis of concessions or joint ventures.

For guarantees which are activated (called), the Ministry of Finance may issue an order to the bank or other financial organization to freeze the account of the debtor and settle the debt repayment, with the proviso that this order has priority in terms of the debtor's other liabilities.

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

Table 6.29 | Review of Issued Guarantees of the Republic of Croatia

(in HRK)	Year			
	1996	1997	1998	1999
Financial	829,781,227	3,159,378,905	5,075,732,565	5,909,603,028
- domestic creditors	121,706,065	1,379,074,727	1,244,583,653	1,154,356,624
- foreign creditors	708,075,162	1,780,304,178	3,831,148,912	4,755,246,404
Performance	1,361,241,544	2,966,149,051	3,350,612,436	1,786,553,653
<i>Total amount of guarantees</i>	<i>2,191,022,771</i>	<i>6,125,527,956</i>	<i>8,426,345,001</i>	<i>7,696,156,681</i>
Total guarantees	2,191,022,771	8,316,550,727	16,742,895,728	24,439,052,409

(in HRK)	Year			
	2000	2001	2002	2003
Financial	5,395,462,832	7,255,348,915	6,641,991,384	9,002,788,748
- domestic creditors	5,023,309,174	3,041,398,094	5,687,390,124	5,035,391,130
- foreign creditors	372,153,658	4,213,950,821	954,601,260	3,967,397,618
Performance	4,344,473,804	5,893,491,261	2,856,323,888	2,721,636,074
<i>Total amount of guarantees</i>	<i>9,739,936,636</i>	<i>13,148,840,176</i>	<i>9,498,315,272</i>	<i>11,724,424,822</i>
Total guarantees	34,178,989,045	47,327,829,221	56,826,144,493	68,550,569,315

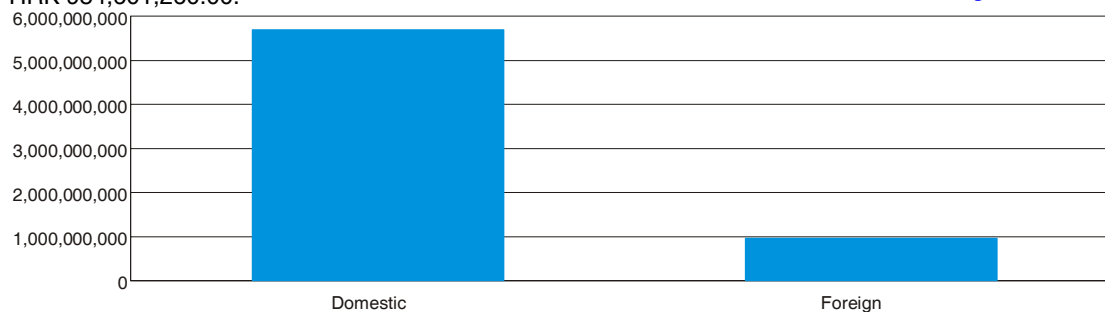


6.5.1 | Financial Guarantees

In 2002 66 guarantees were issued in the total amount of HRK 9,498,315,271.50, out of which there were 34 financial guarantees amounting to HRK 6,641,991,383.68 and 32 performance guarantees amounting to HRK 2,856,323,887.82.

In the course of 2002 the financial guarantees were issued for HBOR in the amount of HRK 852,584,134.65, for other domestic banks in the amount of HRK 4,834,805,989.03, and for foreign banks in the amount of HRK 954,601,260.00.

Figure 6.10 | Total Issued Financial Guarantees in 2002 According to Creditors



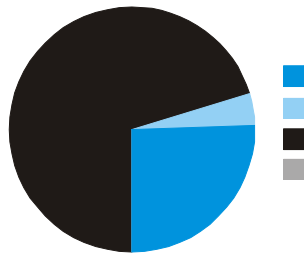
According to the purposes, financial guarantees were issued in the transport sector – HRK 4,668,339,441.20, economy – HRK 1,705,391,778.68 (for the Ministry of Public Works, Reconstruction, and Construction – implementation of the organized reconstruction program; for HZZO – financial rehabilitation of debts of health institutions in the ownership of the Republic of Croatia, county, and City of Zagreb, respectively, except for pharmacies; for “Viktor Lenac” Shipyard for settlement of liabilities toward creditors, for Split Steelworks – completion of investments, modernization, and reconstruction), agriculture HRK 263,260,163.80 (for PIK, Vrbovec – for purpose of refinancing funds for launching an export program; for curing plant Vrpolje – investments into company Sušionica d.o.o. (Curing Plant) for the production and curing of vegetables and fruits, Vrpolje, according to investment study of the company Sušionica d.o.o. for the production and curing of vegetables and fruits, Vrpolje and tourism HRK 5,000,000.00.

Guarantees issued in the transport sector in the amount of HRK 4,668,339,441.20 pertain to loans approved to Croatian Motorways d.o.o. in the amount of HRK 3,040,083,540.00, Rijeka-Zagreb Motorway d.d. in the amount of HRK 440,528,40.0, Croatian Railways d.o.o. HRK 808,014,632.00 (for the implementation of financial consolidation of Croatian Railways d.o.o.), aimed at resolving the problems of maritime shipping due to the crisis of the international maritime market, and having in mind that the maritime shipping, as in the function of overall economic development (multiplication effects on other activities, such as

shipbuilding, port activities, overhaul shipyards, port agencies, forwarders), as well as in the function of social development of the Adriatic islands and the coastal region (regional effect – employment of local population), the Government of the Republic of Croatia approved the state guarantees for Croatian shipping companies - Mare Nostrum: Uljanik plovidba d.d., Lošinjska plovidba d.d., Splitska plovidba d.d., Atlantska plovidba d.d., and Mediteranska plovidba d.d. in the amount of HRK 232,746,709.20.

The three-year investment plan of the Croatian Air Traffic Control for the period 2002 - 2004 defined the needs for total investments into modernization of regional air traffic control Zagreb. The three-year plan is in line with the strategy of the European Organization for Flight Safety, as well as their recommendation that the implementation of the plan should have high priority and that a delay of implementation may cause serious problems, particularly in terms of flight safety. As part of the three-year plan a total of 6 projects would be implemented. For their implementation it is necessary for the Croatian Air Traffic Control to borrow, with 2 credits from banking institutions (EBRD/EIB). After becoming informed about the planned project, EIB expressed willingness to support with a loan the implementation of the program – a part of the project for which the Republic of Croatia issued a guarantee amounting to HRK 146.97 million.

Figure 6.11 | The Structure of Total Issued Financial Guarantees in 2002 According to Sectors



The Structure of Issued Financial Guarantees in 2002 According to Sectors

Purpose	Amount
Economy	1,705,391,778.68
Agriculture	263,260,163.80
Transport	4,668,339,441.20
Tourism	5,000,000.00

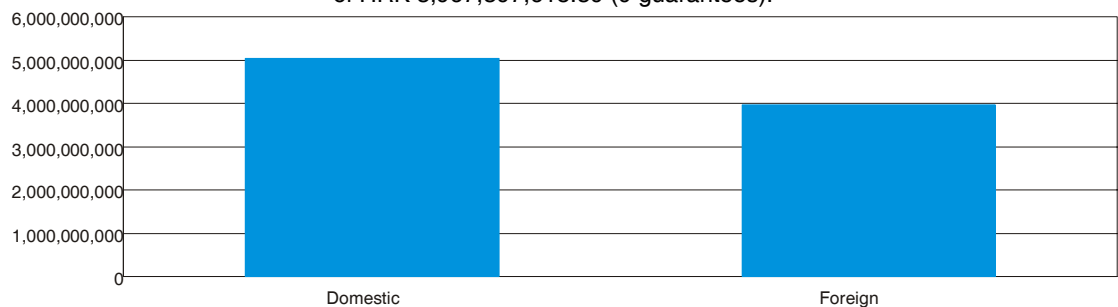
In addition to issued financial guarantees in 2002 amounting to HRK 6,641,991,383.68, pursuant to the decisions of the Government of the Republic of Croatia, in agreement with the banks, rescheduling of the loans approved earlier was carried out and guarantees for those credits, so that more favorable repayment conditions were arranged.

At the end of 2001 and in 2002 rescheduling was carried out of 69 guarantees issued from 1997 to 2000, in the total amount of HRK 1,337,921,876.96. In this amount tourism accounts for HRK 1,057,402,141.79, national parks for HRK 193,284,604.23, and local self-government (cities of Vrbovec, Križevci, Sv. Ivan Zelina, Novska, and Krapina) for HRK 87,235,130.94.

In 2003, 86 guarantees were issued in the total amount of HRK 11,724,424,822, out of which 49 were financial guarantees in the amount of HRK 9,002,788,748.84 and 37 performance guarantees amounting to HRK 2,721,636,074.24.

Figure 6.12 | Total Issued Financial Guarantees in 2003 According to Creditors

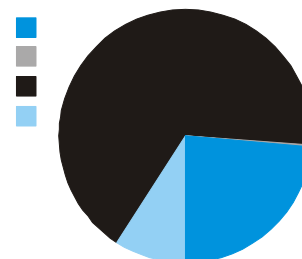
Financial guarantees were issued in favor of HBOR in the amount of HRK 1,979,508,509.56 (29 guarantees), other domestic banks in the amount of HRK 3,055,882,620.90 (11 guarantees) and foreign banks in the amount of HRK 3,967,397,618.39 (9 guarantees).



In terms of purposes, financial guarantees pertain to transport – HRK 6,027,490,165.40, economy HRK 2,125,298,583.44, agriculture HRK 30,000,000.00, and other purposes (HZZO) in the amount of HRK 820,000,000.00 .

Figure 6.13 | The Structure of Total Issued Financial Guarantees in 2003 According to Sectors

Purpose	Amount
Economy	2,125,298,583.44
Agriculture	30,000,000.00
Transport	6,027,490,165.40
Other	820,000,000.00



Out of guarantees issued for transport amounting to HRK 6,027,490,165.40, HRK 3,700,899,634.69 was issued for road transport.

The Government of the Republic of Croatia passed the Program of Construction and Maintenance of Public Roads in the period from 2001 to 2004 (“The Official Gazette” Nos. 19/01, 1/02, 3/02 – correction, 148/02 and 20/03 – correction) in which investments into construction of motorways by June 2005 are planned at HRK 16,767 billion.

In the period indicated the largest value of investments (HRK 12,912 billion) envisaged by the Program was the one for the construction of Motorway Bosiljevo-Split-Ploče.

On the basis of the current Program, Croatian Motorways d.o.o. passed the Plan of Construction, Maintenance, and Rehabilitation of Motorways in 2003, for which the Government of the Republic of Croatia issued consent on March 6, 2003. In line with the annual motorways construction plan, the Government of the Republic of Croatia also approved the Business Plan of Croatian Motorways d.o.o. in 2003.

In the Financial Plan of Croatian Motorways d.o.o., consolidated in the State budget of the Republic of Croatia for 2003 (“The Official Gazette“, Nos. 154/02 and 147/03) due to investments into construction and rehabilitation of motorways (a total of HRK 4,312 billion) a deficit of HRK 3,620 billion was envisaged in this year. The deficit was settled by borrowing in foreign banks, for which the Republic of Croatia, Ministry of Finance issued state guarantees in the amount of HRK 2,747,143,912.70.

For the implementation of the Rijeka Gateway Project (reconstruction of the Rijeka traffic route) guarantees were issued in favor of the World Bank, based on the borrowing of Croatian Roads d.o.o., Port Authority Rijeka, and Croatian Motorways amounting to HRK 1,053,170,879.70. The goal of the Project is to increase competitiveness of Croatian economy by improvement of international traffic through Rijeka, modernization of the port and its road connections, as well as privatization of works in the Port. The completion of the project is envisaged for the end of March 2009.

For the continuation of implementation of financial consolidation, as one of the activities of the process of restructuring of Croatian Railways d.o.o., with the established Strategy of Restructuring and Modernization of HŽ which the Croatian Parliament adopted in November 2002, during 2003 construction of railway infrastructure was planned. Also were planned procurement and modernization of existing transportation capacities, and also short-term credits for current liquidity and coverage of losses in 2001 and 2002). For this purpose guarantees were issued in the amount of HRK 2,326,590,530.71.

Guarantees issued in the economy sector in the total amount of HRK 2,125,298,583.44 were issued for borrowing of the Ministry of Public Works, Reconstruction, and Construction in favor of HBOR for the implementation of the Program of Organized Reconstruction, amounting to HRK 573,823,929.56, according to the debt of the shipyard amounting to HRK 791,416,849.48 for financing of technology reconstruction, development, production programs, debt restructuring, streamlining of business operations, payment of severance pays to surplus labor and for salaries and compensations of employees of the shipyard under

bankruptcy; for the project of development of Clinical Hospital Center (KBC) Zagreb a guarantee was issued amounting to HRK 550,906,974.40; based on debt of TLM d.d., Sibenik for settlement of liabilities to creditors and modernization of casting plant and rolling mill in the amount of HRK 129,140,483, as well as for launching the production of Ironworks Željezara Split d.d. amounting to HRK 57,000,000.00 and rehabilitation of company Đuro Đaković Montaža d.d. in the amount of HRK 23,011,047.00. In line with the conclusions of the Government of the Republic of Croatia of May 22, 2003 which adopted the report on the implementation of measures of financial consolidation of business operations of health institutions for purpose of follow-up of the process of restructuring of health institutions debt was approved for HZZO, and a guarantee was issued into its name amounting to HRK 820,000,000.00.

In the agriculture sector, based on the borrowing of company Sladorana d.d., Županja for construction of silos and replacement of extraction plant a guarantee was issued in the total amount of HRK 30,000,000.00 in favor of HBOR.

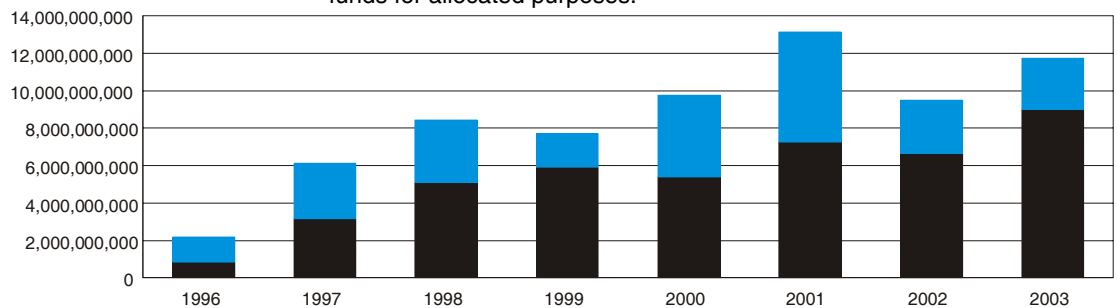
In 2003 for purpose of financing a production program and restructuring debt, restructuring and streamlining of business operations, and technology reconstruction, financial guarantees were issued in the total amount of HRK 791,416,849.48 (3. Maj d.d., Viktor Lenac d.d., Brodotrogir d.d., Brodosplit d.d., Uljanik d.d., and Brodogradilište d.d., Kraljevica).

6.5.2 | Performance Guarantees

All performance guarantees in 2002 and 2003 were issued in connection with ship construction in domestic shipyards.

Decisions on performance guarantees were passed by the Government of the Republic of Croatia at the proposal and with explanation of the Ministry of Economy and approval of the Ministry of Finance. On the basis of the decision of the Government, the Ministry of Finance issued individual performance guarantees which specified the obligations of constructors for the implementation of shipbuilding, organization of financial and payment transactions, and Croatian shipbuilding industry - Jadranbrod d.d. for monitoring readiness of construction and spending funds for allocated purposes.

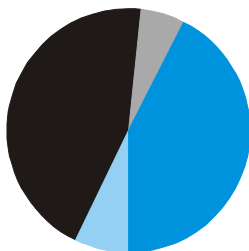
| The Structure of Issued Guarantees in Years from 1996 to 2003



■ Financial

■ Performance

Figure 6.15 | The Structure of Total Issued Financial Guarantees in the Period from 1996 to 2003 per Sectors



In 2002, 32 performance guarantees were issued worth HRK 2,855,894,357.22, which was by 19 percent less than in 2001. In nominal terms it accounts for HRK 3,326,247,718.23 or by 53.8% less performance guarantees.

In 2003, 37 performance guarantees were issued in the amount of HRK 2,721,636,074.24, or by HRK 134,258,282.98 or 4.7% less than in 2002.

Purpose	Amount
Economy and other	42.57%
Agriculture	5.84%
Transport	44.47%
Tourism	7.12%

7 | Internal Organization of the Ministry of Finance

(Decree on the Internal Organizational Structure of the Ministry of Finance - "The Official Gazette" Nos. 70/01, 71/03, and 198/03)

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", Nos. 70/01, 71/03, and 198/03).

The work of the Ministry of Finance is run by the Minister of Finance, who has a Deputy.¹

The following administrative organizations and other internal organizational units² have been set up for the performance of the activities in the scope of the Ministry:

1. Bureau for Macroeconomic Analysis and Planning
2. State Treasury
3. Department for International Financial Institutions and European Integration
4. Department for EU Assistance Programs and Projects Financing
5. Economic Affairs Department
6. Financial System Department
7. Independent Service for the Construction and Maintenance of Border Crossings and Customs Facilities³
8. Internal Audit and Control Department
9. Independent Service for Second-Instance Administrative Procedure
10. Cabinet of the Minister of Finance
11. Secretaria General of the Ministry

Administrative organizations of the Ministry and organizational unit established pursuant to a special act are the following:

1. Tax Administration
2. Customs Administration
3. Foreign Exchange Inspectorate
4. Money Laundry Prevention Office

The Scope of the Internal Organizational Units of the Ministry of Finance

The Macroeconomic Analysis and Planning Bureau performs the activities of macroeconomic trends analyses and forecast. In particular, it analyses and plans fiscal policy on the level of the state budget and extra-budgetary funds, as well as local government and self-government, analyses monetary policy and exchange rate policy, participates in the activities of state cooperation with international institutions and activities related to the appearance of the Republic of Croatia in the international

¹The Law on the Amendments of the Law on the State Administration System ("The Official Gazette" No. 199/03) of December 22, 2003 abolished the position of the Deputy Minister, and introduced the position of the State Secretary

²In 2003 the Ministry also encompassed the Procurement Department, until the commencement of the work of the State Commission for the Control of Public Procurement Procedures And the Office for Public Procurement of the Government of the Republic of Croatia

³The Independent Service for the Construction and Maintenance of Border Crossings and Customs Facilities was established pursuant to the Decree on the Amendments to the Decree on the Internal Organization of the Ministry of Finance ("The Official Gazette" No. 198/03) of December 19, 2003



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financial market and rating agencies providing rating of the Republic of Croatia, prepares the monthly and annual statistic bulletin of the Ministry of Finance, and performs other activities requested by the Minister.

The State Treasury performs the activities related to the budget preparation and consolidation, execution of the state budget, government accounting, and cash and debt management.

The following are organized in the State Treasury: State Budget Preparation Sector, State Budget Execution Sector, Debt Management Sector, System Improvement Unit, Budget Supervision Unit.

The State Budget Preparation Sector prepares the foundation for the planning of the financing of public needs on the level of the state, local, and regional self-government and extra-budgetary funds, prepares the state budget, proposes financial plans of extra-budgetary funds, performs the consolidation of general government (the state budget, extra-budgetary funds, and budgets of the local and regional self-government units), drafts legal regulations and subordinate legislation in its scope of activities, prepares public spending reports, and performs other tasks as requested by the Minister.

The State Budget Execution Sector prepares the draft of the annual financial statement of the state budget, the draft of the annual financial statement of budget reserve, as well as the dynamics plan of the execution of the state budget, executes the state budget, and performs administrative activities related to budget execution, regulates the budget accounting system, draws up and submits financial reports and annual balance sheet of the state budget, and performs other tasks as requested by the Minister.

The Debt Management Sector registers immediate and contingent debt liabilities, contracts borrowing and performs the issuance of securities in the domestic and foreign markets, manages the debt portfolio with regard to sources, maturity, currency, and interest structure, prepares the proposals for the decisions on the issuance of state guarantees, registers and keeps track of the loans issued by the state.

The System Improvement Unit participates in the adjustment of the operating system to the information system of the State Treasury, is in charge of the information system of the State Treasury, and provides support to the beneficiaries of the State Treasury system.

The Budget Supervision Unit performs budget supervision activities for purpose of providing the utilization of budget resources according to the law and for earmarked purposes.

The Department for International Financial Institutions and European Integration prepares legal regulations related to foreign financial relations, performs activities related to multilateral financial cooperation and obligations arising from the membership of the Republic of Croatia in international and regional financial institutions, prepares and monitors financial implementation of investment projects and programs, as well as technical assistance through international financial institutions, performs activities in the scope of the Ministry of Finance related to approximation of the Republic of Croatia to European integration, and also performs other tasks as requested by the Minister.

The Department for EU Assistance Programs and Projects Financing performs activities related to the financing, procurement, payment, supervision, and audit of the implementation of all programs and projects of assistance of the European Union to the Republic of Croatia. It proposes annual and multi-year plans of financing of programs and projects, implements bidding procedures, and concludes contracts on the procurement of services, goods, and works, manages the system of financial monitoring of the implementation of the projects and financial fund flows, and also performs other tasks as requested by the Minister.

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

The Financial System Department participates in the drafting of legal regulations in the areas of the banking and foreign exchange system, insurance system and payment transactions, money market and capital market, analyses and proposes measures for the improvement of those systems, performs inspection supervision of specific financial institutions, and performs other tasks as requested by the Minister.

The Public Procurement Department supervises the public procurement of the state administration bodies and other government bodies, local government and self-government bodies, legal entities, and other entities which perform public procurement pursuant to the Public Procurement Act, and also performs other activities requested by the Minister. The Public Procurement Department used to perform the activities from its scope of competences until the commencement of the work of the State Commission for the Control of Public Procurement Procedures, which was established pursuant to the Law on the Commission for the Control of Public Procurement Procedures ("The Official Gazette", No. 117/03 dated March 27, 2003) and the Office for Public Procurement of the Government of the Republic of Croatia, which was established pursuant to the Decree on the Establishment of the Office for Public Procurement of the Government of the Republic of Croatia ("The Official Gazette", No. 179/03 dated November 12, 2003).

The Independent Service for the Construction and Maintenance of Border Crossings and Customs Facilities has been entrusted with the preparation, construction, reconstruction, and approval for use of the new border crossings, as well as investment and current maintenance of the newly built and existing border crossings and other customs facilities. It implements bidding procedures in line with the public procurement regulations, harmonizes the needs of other Ministries and state administration bodies which perform civil service activities on the border crossings, participates in the work of joint committees and working groups with representatives from the neighboring countries. It also performs other activities related to the management of state assets on border crossings. The Service was established pursuant to the Decree on the Amendments of the Decree on the Internal Organization of the Ministry of Finance ("The Official Gazette", No. 198/03 dated December 19, 2003). It commenced its activities in 2004, following the issuance of the Rules on the Amendments to the Rules on the Internal Order of the Ministry of Finance dated February 26, 2004.

The Internal Audit and Control Department performs permanent and comprehensive supervision of the operations of the Ministry of Finance and other tasks as requested by the Minister.

The Independent Service for Second-Instance Administrative Procedure decides on the complaints of the Tax Department, Customs Department, and county administrative bodies in the area of finance, as well as on extraordinary legal remedies in its scope of competence, performs administrative supervision over the implementation of laws and regulations, as well as the lawfulness of operations and procedures of first-instance body, cooperates in the preparation of the draft proposals of laws and international agreements in the area of taxes and customs duties, and also implements other second-instance procedures from the scope of competences of the Ministry.



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The Cabinet of the Minister of Finance performs protocol-related activities for the Minister and his Deputy, activities related to the submissions and complaints of citizens, public relations, administrative activities related to the communication with the Government and the Croatian Parliament, as well as other tasks as requested by the Minister of Finance.

Secretariat General of the Ministry coordinates the work of the internal organizational units and administrative organizations in the Ministry, coordinates the preparation of draft proposals of laws and regulations in the scope of competence of the Ministry, manages personnel policy, performs professional activities in the area of labor relations, develops the proposal of the plan of professional improvement and training of civil servants and employees, performs activities related to informatization, is in charge of regular and timely use of assets and means of labor, and performs accounting, general, technical, and auxiliary activities, as well as other activities requested by the Minister.

The Tax Administration organizes, coordinates, monitors, and controls tax collection, collection of fees and other budget revenues, carries out inspection supervision, implements executions for purpose of tax collection, monitors and analyses the application of tax regulations and the functioning of the tax system, and proposes the solutions in the area of tax policy.

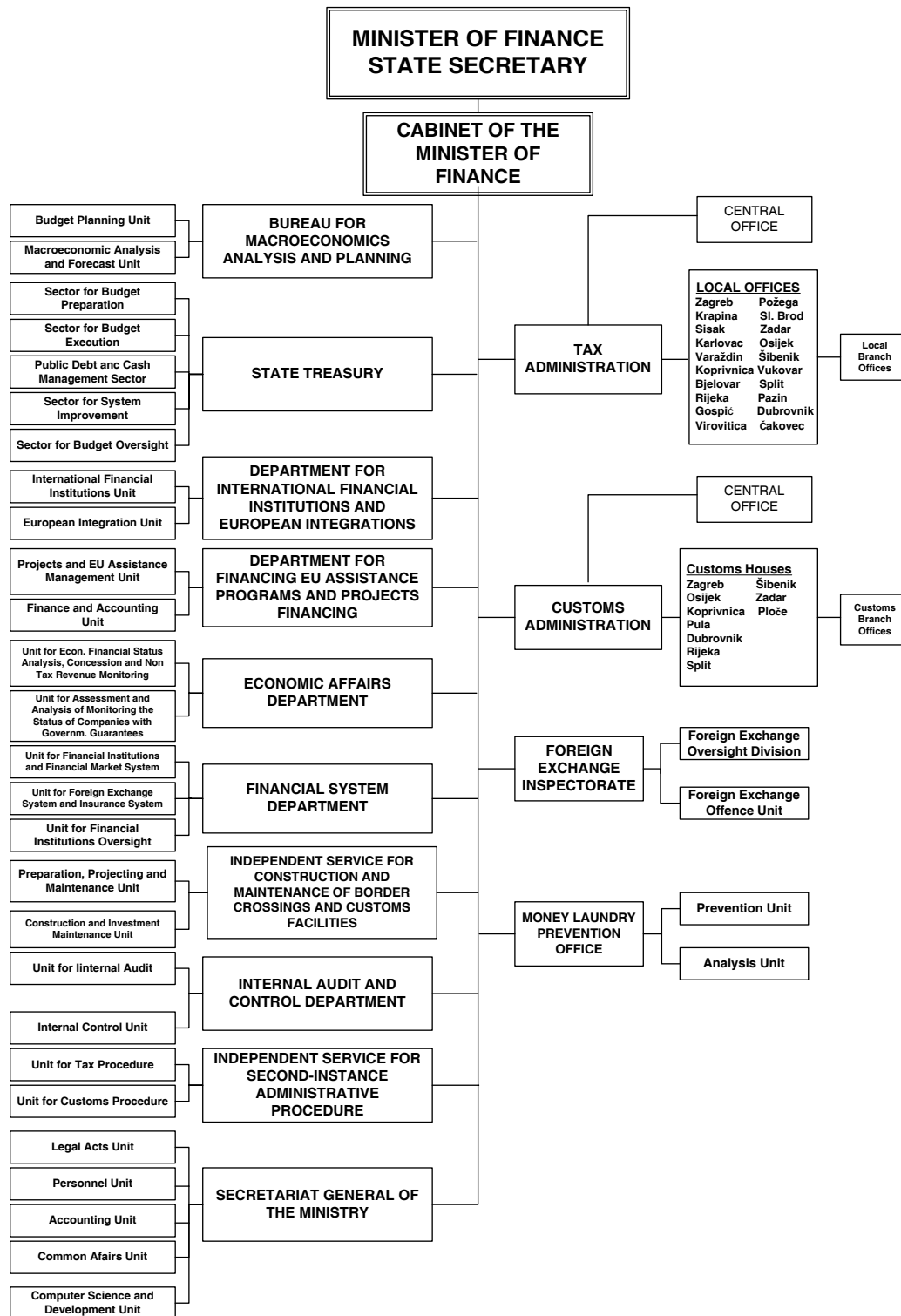
The Customs Administration prepares and proposes systemic solutions and current economic policy measures in the area of customs system, tariff and non-tariff protection systems, and free zones, organizes and supervises the work of customs service, performs customs supervision in commodity trade and passenger traffic with foreign countries, performs supervision and control of assessment and collection of customs duties, excise taxes and other duties which are assessed in determining customs duties on goods, is in charge of the administrative and customs-offence procedure and procedure related to the offenses in excise taxes, and performs other tasks as requested by the Minister.

The Foreign Exchange Inspectorate performs inspection supervision and is in charge of first-instance offence procedure in the area of foreign exchange and foreign trade operations, as well as foreign credit operations, and also other tasks as requested by the Minister.

The Money Laundry Prevention Office collects, analyses, performs analytical processing, and stores transaction data prescribed by the Anti-Money Laundering Act, performs direct supervision of those obliged to implement the Act, cooperates with corresponding bodies and services of specific countries engaged in anti-money laundering; it submits notices on dubious transactions to competent state bodies for further procedure, in cooperation with competent bodies undertakes measures aimed at money laundering suppression and discovering, and performs other tasks as requested by the Minister.

The work of the State Treasury is managed by the Treasurer, the work of the Secretariat General of the Ministry is managed by the Secretary General of the Ministry, the work of the Bureaus and Departments is managed by the Assistant Ministers, the work of the Independent Services is managed by Heads of Independent Services, the work of the Tax and Customs Administrations are managed by Directors – Assistant Ministers, the work of the Foreign Exchange Inspectorate is managed by the Chief Foreign Exchange Inspector - Assistant Minister, whereas the work of the Money Laundry Prevention 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

IVAN ŠUKER, B.Sc. (econ.)

December 23, 2003 -

8 | Appendices

Appendix 1 | Basic
Macroeconomic Indicators
of Croatian Economy
Source: CBS, CNB, Ministry
of Finance

	Outturn				
	1999	2000	2001	2002	2003
GDP, current prices (mill. HRK)	141,579.1	152,518.8	165,639.5	179,390.1	193,066.8
GDP, current prices (mill. USD)	19,906.0	18,427.3	19,863.1	22,823.2	28,815.9
GDP, per capita (USD)	4,371.1	4,206.2	4,476.7	5,136.9	6,485.7
Consumer prices, period average (%)	-	-	-	1.7	1.8
Producer's prices, period average (%)	2.5	9.7	3.6	-0.4	1.9
Unemployed persons, end of period	341,730	378,544	395,141	366,162	318,684
Unemployment rate, percentage end of period	20.4	22.6	23.1	21.3	18.7
Unemployment rate - ILO comparable, period average (%)	13.6	16.1	15.9	14.9	14.3
Average monthly gross wages and salaries, growth rate (%)	10.2	7.0	3.9	6.0	4.8
Average monthly gross wages and salaries paid off in HRK	4,551	4,869	5,061	5,366	5,623
Average monthly net wages and salaries, growth rate (%)	13.9	8.9	6.5	5.0	5.9
Average monthly net wages and salaries paid off in HRK	3,055	3,326	3,541	3,720	3,940
Total volume of industrial production, growth rate (%)	-1.4	1.7	6.0	5.4	4.1
Retail sales turnover, nominal growth rate (%)	-0.7	21.8	14.4	13.2	5.0
Nights spent by tourists, growth rate (%)	-15.0	45.0	11.0	3.0	4.0
Total volume of construction projects, growth rate (%)	-7.7	-9.1	3.6	12.8	22.8
Exchange rate HRK/USD, period average	7.11	8.28	8.34	7.86	6.70
Exchange rate HRK/EUR period average	7.58	7.64	7.47	7.41	7.56
Trade Balance (mill. USD)	-3,496.1	-3,454.9	-4,481.2	-5,818.5	-8,034.7
Exports (mill. USD)	4,302.5	4,431.6	4,665.9	4,903.6	6,164.2
Imports (mill. USD)	7,798.6	7,886.5	9,147.1	10,722.1	14,198.9
Current Account Balance (mill. USD)	-1,397.2	-459.4	-725.1	-1,916.4	-2,038.8
International reserves of CNB, end of period (mill. USD)	2,835.3	3,376.9	4,595.6	5,883.2	8,191.3
Total outstanding external debt, end of period (mill. USD)	9,977.9	11,054.8	11,316.6	15,421.4	23,557.6
Internal public debt, end of period (mill. HRK)	13,944.0	14,549.8	21,944.3	23,596.6	26,260.8
Time and savings deposits with deposit money banks, end of period (mil. HRK)	42,363.5	54,552.7	82,050.0	85,055.8	94,406.0
Interest rates on treasury bills of 91 days maturity, end of period	11.50%	7.50%	4.00%	2.00%	4.00%
ZIBOR (3 m), average	15.30%	11.10%	7.90%	4.60%	5.50%



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Appendix 3 | Budgetary
Central Government
Expenditures and Net
Lending by Economic
Categories
(in 000 HRK)

		Outturn						
		1997	1998	1999	2000	2001	2002	2003
I.	Total expenditures and lending minus repayments (II.+V.)	35,006,314	42,551,916	48,878,764	50,743,526	57,812,764	73,369,602	80,441,123
II.	Total expenditures (III.+IV.)	34,395,182	41,473,167	47,379,586	49,567,457	56,723,276	71,992,143	79,130,477
III.	Current expenditures (1.+...+3.)	29,579,721	34,883,026	38,476,084	44,237,397	52,819,221	68,923,472	75,058,751
1.	Expenditures on goods and services (1.1.+...+1.3.)	20,263,325	22,648,712	22,090,857	24,324,284	22,220,759	31,558,959	33,423,457
1.1.	Wages and salaries	9,147,512	10,851,793	12,080,454	13,072,713	12,727,337	17,039,752	18,591,690
1.2.	Employer contributions	1,892,364	2,178,503	2,614,559	2,500,977	2,150,612	2,857,107	3,188,715
1.3.	Other purchases of goods and services	9,223,449	9,618,416	7,395,844	8,750,594	7,342,810	11,662,100	11,643,052
2.	Interest payments (2.1.+2.2.)	1,737,016	1,951,283	2,099,141	2,599,286	3,015,312	3,260,588	3,587,329
2.1.	Domestic payments	775,007	917,305	933,117	945,130	1,043,098	1,373,579	1,684,349
2.2.	Payments abroad	962,009	1,033,978	1,166,024	1,654,156	1,972,214	1,887,009	1,902,980
3.	Subsidies and other current transfers (3.1.+...+3.5.)	7,579,380	10,283,031	14,286,086	17,313,827	27,583,150	34,103,925	38,047,965
3.1.	Subsidies (3.1.1.+...+3.1.3.)	2,307,071	3,274,689	3,418,897	3,802,763	3,656,038	2,190,938	4,359,950
3.1.1.	To nonfinancial public enterprises	2,085,988	2,847,858	2,590,594	3,080,263	2,822,147	1,717,704	2,688,728
3.1.2.	To financial institutions	1,281	0	0	0	0	6,987	18,759
3.1.3.	To other enterprises	219,802	426,831	828,303	722,500	833,891	466,247	1,652,463
3.2.	Transfers to other levels of Government	4,041,503	5,733,307	8,458,296	11,679,017	11,318,140	3,775,789	3,198,505
3.3.	Transfers to nonprofit institutions	314,696	355,667	422,470	432,691	663,465	819,323	881,032
3.4.	Transfers to households	878,006	889,161	1,340,618	948,856	11,833,132	27,224,894	29,532,340
3.5.	Transfers abroad	38,104	30,207	645,805	450,500	112,375	92,980	76,139
IV.	Capital expenditures (4.+...+7.)	4,815,461	6,590,141	8,903,502	5,330,060	3,904,055	3,068,671	4,071,725
4.	Acquisition of fixed capital assets	1,977,534	2,790,788	4,093,290	2,705,316	1,495,464	1,181,706	1,951,162
5.	Purchases of stocks	0	0	0	0	0	7	0
6.	Purchases of land and intangible assets	238,691	290,985	278,271	514,144	282,892	182,268	66,924
7.	Capital transfers (7.1.+...+7.6.)	2,599,236	3,508,368	4,531,941	2,110,601	2,125,699	1,704,690	2,053,640
7.1.	To other levels of national government	113,000	770,983	2,279,726	181,347	241,278	130,975	538,150
7.2.	To nonfinancial public enterprises	434,713	597,933	240,749	449,469	299,824	581,399	376,479
7.3.	To financial institutions	0	0	486,284	11,352	149,596	141,789	202,268
7.4.	To other enterprises	3,100	20,642	116,822	179,675	182,493	112,956	130,868
7.5.	Other domestic capital transfers	2,036,583	2,103,810	1,398,360	1,284,711	1,252,508	737,572	805,874
7.6.	Capital transfers abroad	11,840	15,000	10,000	4,047	0	0	0
V.	Lending minus repayments (8.+...+12.)	611,132	1,078,749	1,499,178	1,176,069	1,089,488	1,377,458	1,310,647
8.	To other levels of national government	43,587	12,709	45,352	13,325	-42,929	56,755	35,303
9.	To nonfinancial public enterprises	-263,142	4,400	0	0	105,161	245,440	231,026
10.	To financial institutions	603,948	934,929	962,721	981,969	826,052	1,203,137	1,107,361
11.	Other domestic lending minus repayments	205,734	100,978	480,409	165,604	186,676	-141,363	-72,969
12.	Net lending abroad	21,005	25,733	10,696	15,171	14,528	13,489	9,926



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Appendix 4 | Budgetary
Central Government
Expenditures by Function
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I Total expenditures (1.+...+14.)	41,473,168	47,379,587	49,567,457	56,723,275	74,170,855	79,130,477
1. General public services	3,411,394	3,047,060	2,933,184	2,978,323	2,957,077	3,454,893
2. Defense affairs and services	7,373,239	5,617,308	5,479,453	4,338,616	4,353,086	4,087,774
3. Public order and safety affairs	4,251,480	4,628,086	5,185,272	4,761,176	4,791,069	5,176,020
4. Education affairs and services	4,668,772	5,718,179	6,576,016	6,581,945	6,314,793	6,806,803
5. Health affairs and services	816,772	476,605	332,403	270,273	10,703,958	11,609,419
6. Social security and welfare affairs and services	8,024,614	11,300,663	14,947,339	25,153,646	32,219,048	33,390,450
7. Housing and community amenity affairs and services	2,620,402	2,025,698	1,803,294	1,677,039	1,675,690	2,140,711
8. Recreational, cultural and religious affairs	576,615	842,026	904,118	955,698	993,562	1,085,002
9. Fuel and energy related affairs and services	-	764	342	7,660	8,093	6,647
10. Agriculture, forestry, fishing, hunting affairs	1,103,215	1,245,740	1,723,802	1,641,576	1,893,172	2,320,568
11. Mining, manufacturing, construction affairs	728,932	2,819,543	624,081	466,388	578,159	656,624
12. Transport and communication affairs and services	4,126,923	5,304,002	4,953,217	3,113,118	2,104,269	1,789,032
13. Other economic affairs and services	548,438	659,235	813,162	832,231	966,725	1,506,772
14. Expenditures not classified by major group	3,222,372	3,694,678	3,291,774	3,945,586	4,612,154	5,099,762

Appendix 5 | Financing by
Type of Debt Holder
(in 000 HRK)

		Outturn						
		1997	1998	1999	2000	2001	2002	2003
I.	Total financing (II.+III.)	1,160,191	-1,256,677	2,522,040	6,107,853	4,309,149	3,500,490	2,166,096
II.	Domestic financing (1.+...+4.)	-1,825,749	-1,247,563	-2,093,076	-813,598	1,977,213	1,152,735	-883,883
1.	From other general government	0	190,000	-87,000	-92,000	-11,000	0	0
2.	From monetary authorities (2.1.+2.2.)	-354,848	112,392	748	-12,486	-389,118	241,721	-1,184,130
2.1.	NCB - net borrowing	-241,340	0	0	0	0	0	0
2.2.	Changes in deposits	-113,508	112,392	748	-12,486	-389,118	241,721	-1,184,130
3.	From deposit money banks	-1,357,298	-1,638,606	-1,859,376	-288,830	2,526,773	782,904	283,972
4.	Other domestic financing (4.1.+...+4.4.)	-113,603	88,651	-147,448	-420,282	-149,443	128,110	16,275
4.1.	From other financial institutions	-12,303	-6,860	-3,519	-245,773	-42,901	-49,686	-422,802
4.2.	From nonfinancial public enterprises	0	0	0	0	0	0	0
4.3.	From nonfinancial private sector	0	0	0	0	0	0	0
4.4.	Other domestic financing n.e.c.	-101,300	95,511	-143,929	-174,509	-106,542	177,796	439,078
III.	Financing abroad (5.+...+8.)	2,985,940	-9,114	4,615,116	6,921,451	2,331,935	2,347,755	3,049,979
5.	From international development institutions (5.1.+5.2.)	470,073	379,921	404,557	23,086	414,213	577,497	648,571
5.1.	Drawings	557,570	504,185	589,995	250,003	633,242	1,099,657	1,097,100
5.2.	Amortization	-87,497	-124,264	-185,438	-226,917	-219,029	-522,160	-448,529
6.	From foreign governments (6.1.+6.2.)	-502,829	-525,161	-197,253	-800,125	-891,733	-150,689	-53,863
6.1.	Drawings	0	0	110,897	77,132	110,041	151,100	276,105
6.2.	Amortization	-502,829	-525,161	-308,150	-877,257	-1,001,775	-301,789	-329,968
7.	Other borrowing abroad (7.1.+...+7.3.)	3,018,696	136,126	4,407,812	7,698,490	2,809,455	1,920,947	2,455,271
7.1.	Bank loans and advances	-3,749	-11,809	350,160	1,055,055	-3,845,765	-1,103,411	-1,595,838
7.2.	Supplier credits	0	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	3,024,358	4,051,109
8.	Changes in cash, deposits and securities	0	0	0	0	0	0	0



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Appendix 6 | Consolidated
Central Government
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I. Total revenue and grants (II.+III.)	65,110,652	67,542,226	66,734,998	72,238,844	74,755,734	81,214,658
II. Budgetary central government	43,808,593	46,356,724	44,635,673	52,467,100	66,907,474	74,969,461
III. Extrabudgetary funds (1.+...+5.)	21,302,059	21,185,502	22,099,325	19,771,744	7,848,260	6,245,197
1. Pension fund	10,713,387	10,799,810	11,254,157	5,801,308	129,751	108,815
2. Health fund	8,269,030	8,686,397	8,967,447	10,305,795	473,715	826,147
3. Employment fund	718,195	760,620	822,395	909,887	25,386	17,867
4. Child benefit fund	542,849	9,079	7,130	5,057	0	0
5. Croatian Waters	1,058,598	929,596	1,048,196	1,060,915	1,098,812	1,150,667
6. Development and Employment Fund	,	,	,	0,	1,797,771	0
7. Regional Development Fund	,	,	,	0,	500,854	0
8. Croatian motorways	,	,	,	687,587,	1,695,971	1,927,787
9. Croatian roads	,	,	,	116,600,	1,216,117	1,386,945
10. State agency for banks	,	,	,	599,229,	617,914	584,489
11. Croatian privatization fund	,	,	,	285,366,	291,966	242,480
IV. Total expenditure and lending minus repayments (V.+VI.)	64,228,568	70,343,017	74,432,276	77,548,238	80,303,148	87,001,419
V. Budgetary central government	34,125,447	35,979,076	36,730,834	43,912,009	67,543,816	74,704,508
VI. Extrabudgetary funds (6.+...+10.)	30,103,121	34,363,941	37,701,442	33,636,229	12,759,332	12,296,911
8. Pension fund	16,170,417	18,998,533	20,180,821	12,125,317	1,558,142	1,837,981
9. Health fund	10,776,029	11,919,552	13,918,076	13,172,742	1,261,148	894,320
10. Employment fund	571,227	824,914	995,513	983,435	236,690	136,526
11. Child benefit fund	1,032,129	1,136,161	1,250,588	2,466,985	0	0
12. Croatian Waters	1,553,319	1,484,781	1,356,444	1,276,146	1,409,899	1,706,242
13. Development and Employment Fund	,	,	,	0,	2,288,027	0
14. Regional Development Fund	,	,	,	0,	276,560	0
15. Croatian motorways	,	,	,	1,264,005,	3,725,678	5,484,465
16. Croatian roads	,	,	,	1,136,533,	1,153,968	1,571,817
17. State agency for banks	,	,	,	1,162,504,	605,847	253,221
18. Croatian privatization fund	,	,	,	48,562,	243,373	412,339
Total deficit(-)/surplus(+) (I.-IV.)	882,084	-2,800,791	-7,697,278	-5,309,394	-5,547,417	-5,786,761
VII. Total financing (11.+12.)	-882,084	2,800,791	7,697,278	5,309,394	5,547,417	5,786,761
13. Financing from abroad	86,825	4,631,957	6,859,891	2,909,956	4,951,178	6,012,635
14. Domestic financing (12.1.+...+12.4.)	-968,909	-1,831,166	837,387	2,399,438	596,239	-225,874
14.1. From other general government	0	0	0	0	0	0
14.2. From monetary authorities	112,392	748	-12,486	-460,375	241,721	-1,184,130
14.3. From deposit money banks	-1,169,952	-1,684,466	1,270,155	3,009,256	408,407	941,981
14.4. Other domestic financing	88,651	-147,448	-420,282	-149,443	-53,890	16,275

Appendix 7 | Revenues and
Expenditures of the Pension
Fund
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I. Total revenue and grants (II.+VII.)	16,136,761	18,946,291	20,194,968	12,273,908	1,578,081	1,850,680
II. Total revenue (III.+VI.)	12,337,577	12,662,199	13,039,998	6,626,961	129,751	108,815
III. Current revenue (IV.+V.)	11,907,022	12,553,233	12,988,412	6,614,153	110,074	103,579
IV. Tax revenue (1.)	11,766,916	12,448,917	12,854,087	6,480,043	10,408	772
1. Social security contributions (1.1.+...+1.4.)	11,766,916	12,448,917	12,854,087	6,480,043	10,408	772
1.1. From employees	5,715,002	6,012,091	6,575,054	3,463,839	5,738	426
1.2. From employers	5,715,002	6,012,091	5,837,511	2,819,404	4,670	346
1.3. From self-employed or unemployed	327,209	418,909	438,535	195,730	0	0
1.4. Unallocable social security contributions	9,703	5,826	2,987	1,070	0	0
V. Nontax revenue (2.+3.)	140,106	104,316	134,325	134,110	99,666	102,807
2. Income from dividends and interests	65,146	46,082	66,648	69,403	28,614	30,911
3. Other nontax revenue	74,960	58,234	67,677	64,707	71,052	71,896
VI. Capital revenue (4.)	430,555	108,966	51,586	12,808	19,677	5,236
4. Sales of shares and public flats	430,555	108,966	51,586	12,808	19,677	5,236
VII. Grants (5.)	3,799,184	6,284,092	7,154,970	5,646,947	1,448,330	1,741,865
5. From other levels of national government (5.1.+5.2.)	3,799,184	6,284,092	7,154,970	5,646,947	1,448,330	1,741,865
5.1. Current grants	3,799,184	4,781,092	7,154,970	0	1,435,617	1,714,878
5.2. Capital grants	0	1,503,000	0	5,646,947	12,713	26,987
VIII. Total expenditure and net lending (IX.+XII.)	16,554,799	19,046,509	20,225,124	12,159,645	1,589,921	1,871,851
IX. Total expenditure (X.+XI.)	16,554,799	19,046,509	20,225,124	12,159,645	1,589,921	1,871,851
X. Current expenditure (6.+...+8.)	16,520,781	19,029,138	20,223,524	12,149,540	1,575,181	1,844,678
6. Expenditures on goods and services (6.1.+...+6.3.)	593,119	672,323	675,112	573,532	362,446	371,733
6.1. Wages and salaries	223,433	255,126	258,591	224,730	193,157	207,538
6.2. Employer contributions	41,504	47,976	44,303	34,328	31,779	33,870
6.3. Other purchases of goods and services	328,182	369,221	372,218	314,474	137,510	130,325
7. Interest payments (7.1.+7.2.)	27,517	60,652	78,094	28,162	666	0
7.1. Domestic payments	27,517	60,652	78,094	28,162	666	0
7.2. Payments abroad	0	0	0	0	0	0
8. Subsidies and other current transfers (8.1.+...+8.5.)	15,900,145	18,296,163	19,470,318	11,547,846	1,212,069	1,472,945
8.1. Subsidies	0	0	0	0	0	0
8.2. Transfers to other levels of Government	0	0	0	0	0	0
8.3. Transfers to nonprofit institutions	344,453	0	0	0	0	0
8.4. Transfers to households	15,500,163	18,239,288	19,392,096	11,233,103	695,638	880,217
8.5. Transfers abroad	55,529	56,875	78,222	314,743	516,431	592,728
XI. Capital expenditure (9.)	34,018	17,371	1,600	10,105	14,740	27,173
9. Acquisition of fixed capital assets	34,018	17,371	1,600	10,105	14,740	27,173
XII. Lending minus repayments	0	0	0	0	0	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	-814,575	-1,694,813	-80,142	-5,535,387	-29,490	-26,221
Total deficit(-)/surplus(+) (I.-VIII.)	-418,038	-100,218	-30,156	118,403	-11,840	-21,171
XIII. Total financing (10.+11.)	418,038	100,218	30,156	-118,403	11,840	21,171
10. Financing from abroad	0	0	0	0	0	0
11. Domestic financing (11.1.+11.2.)	418,038	100,218	30,156	-118,403	11,840	21,171
11.1. From deposit money banks	418,038	100,218	30,156	-118,403	11,840	21,171
11.2. Other domestic financing	0	0	0	0	0	0



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Appendix 8 | Revenues and
Expenditures of the Health
Fund
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I. Total revenue and grants (II.+VII.)	11,552,049	12,649,766	13,088,504	13,893,192	732,016	1,113,938
II. Total revenue (III.+VI.)	9,988,481	10,240,976	10,424,885	11,573,818	473,718	826,147
III. Current revenue (IV.+V.)	9,912,379	10,240,707	10,424,448	10,823,166	467,497	822,183
IV. Tax revenue (1.)	9,780,995	9,952,541	10,135,774	10,463,065	0	6,905
1. Social security contributions (1.1.+...+1.4.)	9,780,995	9,952,541	10,135,774	10,463,065	0	6,905
1.1. From employees	4,411,445	4,747,281	5,118,502	5,527,961	0	3,884
1.2. From employers	4,411,445	4,747,281	4,434,093	4,299,525	0	3,021
1.3. From self-employed or unemployed	376,625	398,875	501,462	539,995	0	0
1.4. Unallocable social security contributions	581,480	59,104	81,717	95,584	0	0
V. Nontax revenue (2.+3.)	131,384	288,166	288,674	360,101	467,497	815,278
2. Income from dividends and interests	2,882	3,744	7,043	5,688	2,809	3,176
3. Other nontax revenue	128,502	284,422	281,631	354,413	464,688	812,102
VI. Capital revenue (4.)	76,102	269	437	750,652	6,221	3,964
4. Sales of shares and public flats	76,102	269	437	750,652	6,221	3,964
VII. Grants (5.)	1,563,568	2,408,790	2,663,619	2,319,374	258,298	287,791
5. From other levels of national government (5.1.+5.2.)	1,563,568	2,408,790	2,663,619	2,319,374	258,298	287,791
5.1. Current grants	1,563,568	1,847,955	2,661,059	2,319,374	258,298	287,791
5.2. Capital grants	0	560,835	2,560	0	0	0
VIII. Total expenditure and net lending (IX.+XII.)	11,570,688	12,788,163	14,745,463	13,925,471	1,285,410	919,341
IX. Total expenditure (X.+XI.)	11,570,688	12,788,163	14,745,463	13,925,471	1,285,410	919,341
X. Current expenditure (6.+...+8.)	11,401,107	12,665,930	14,678,763	13,901,133	1,263,096	888,105
6. Expenditures on goods and services (6.1.+...+6.3.)	9,323,307	10,558,007	11,863,346	11,502,711	1,263,096	887,100
6.1. Wages and salaries	3,857,567	4,216,558	4,525,025	4,534,516	148,247	155,722
6.2. Employer contributions	794,659	868,611	827,387	752,729	24,262	25,021
6.3. Other purchases of goods and services	4,671,081	5,472,838	6,510,934	6,215,466	1,090,587	706,357
7. Interest payments (7.1.+7.2.)	12,318	20,536	33,654	163,587	0	0
7.1. Domestic payments	12,318	20,536	33,654	163,587	0	0
7.2. Payments abroad	0	0	0	0	0	0
8. Subsidies and other current transfers (8.1.+...+8.4.)	2,065,482	2,087,387	2,781,763	2,234,835	0	1,005
8.1. Subsidies	0	0	0	0	0	0
8.2. Transfers to other levels of Government	0	0	0	0	0	0
8.3. Transfers to nonprofit institutions	0	0	0	0	0	0
8.4. Transfers to households	2,065,482	2,087,387	2,781,763	2,234,835	0	1,005
XI. Capital expenditure (9.)	169,581	122,233	66,700	24,338	22,314	31,236
9. Acquisition of fixed capital assets	169,581	122,233	66,700	24,338	22,314	31,236
XII. Lending minus repayments	0	0	0	0	0	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	74,840	-577,268	-1,593,256	-758,593	-537,301	221,869
Total deficit(-)/surplus(+) (I.-VIII.)	-18,639	-138,397	-1,656,959	-32,279	-553,394	194,597
XIII. Total financing (10.+11.)	18,639	138,397	1,656,959	32,279	553,394	-194,597
10. Financing from abroad	37,332	134	-11,750	-24,000	0	0
11. Domestic financing (11.1.+11.2.)	-18,693	138,263	1,668,709	56,279	553,394	-194,597
11.1. From deposit money banks	-18,693	138,263	1,668,709	56,279	553,394	-194,597
11.2. Other domestic financing	0	0	0	0	0	0

Appendix 9 | Revenues and
Expenditures of the
Employment Fund
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I. Total revenues and grants (II.+VII.)	886,375	928,178	994,599	1,067,758	134,864	89,867
II. Total revenues (III.+VI.)	843,343	907,478	980,851	1,062,598	25,386	17,867
III. Current revenues (IV.+V.)	843,343	907,460	974,730	1,062,598	25,278	17,573
IV. Tax revenues (1.)	831,446	880,920	954,808	1,038,092	0	0
1. Social security contributions (1.1.+1.2.)	831,446	880,920	954,808	1,038,092	0	0
1.1. From employees	415,723	440,460	477,404	519,046	0	0
1.2. From employers	415,723	440,460	477,404	519,046	0	0
V. Nontax revenues (2.+...+4.)	11,897	26,540	19,922	24,506	25,278	17,573
2. Entrepreneurial and property income	0	12,799	8,266	13,824	12,303	9,858
3. Fines and forfeits	5,466	625	218	345	692	541
4. Other nontax revenues	6,431	13,116	11,438	10,337	12,283	7,174
VI. Capital revenues	0	18	6,121	0	108	294
VII. Grants (5.)	43,032	20,700	13,748	5,160	109,478	72,000
5. From other levels of national government (5.1.+5.2.)	43,032	20,700	13,748	5,160	109,478	72,000
5.1. Current grants	43,032	20,700	13,748	5,160	99,728	72,000
5.2. Capital grants	0	0	0	0	9,750	0
VIII. Total expenditures and net lending (IX.+XII.)	673,458	843,957	1,011,214	997,274	248,870	149,448
IX. Total expenditures (X.+XI.)	673,458	843,957	1,011,214	997,274	248,870	149,448
X. Current expenditures (6.+...+8.)	651,898	817,151	983,159	970,830	239,458	140,387
6. Expenditures on goods and services (6.1.+...+6.3.)	113,509	267,530	331,845	238,145	122,227	140,387
6.1. Wages and salaries	47,228	67,582	79,496	73,671	73,206	78,711
6.2. Employer contributions	9,635	13,790	13,656	12,080	12,180	12,922
6.3. Other purchases of goods and services	56,646	186,158	238,693	152,394	36,841	48,754
7. Interest payments (7.1.+7.2.)	0	0	0	0	0	0
7.1. Domestic payments	0	0	0	0	0	0
7.2. Payments abroad	0	0	0	0	0	0
8. Subsidies and other current transfers (8.1.+...+8.5.)	538,389	549,621	651,314	732,685	117,231	0
8.1. Subsidies	0	0	0	0	0	0
8.2. Transfers to other levels of Government	0	0	0	0	0	0
8.3. Transfers to nonprofit institutions	92,596	5,253	2,045	1,759	0	0
8.4. Transfers to households	445,793	544,368	649,269	730,926	117,231	0
8.5. Transfers abroad	0	0	0	0	0	0
XI. Capital expenditure	21,560	26,806	28,055	26,444	9,412	9,061
XII. Lending minus repayments	0	0	0	0	0	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	234,477	111,009	5,319	96,928	-114,452	-50,814
Total deficit(-)/surplus(+) (I.-VIII.)	212,917	84,221	-16,615	70,484	-114,006	-59,581
XIII. Total financing (9.+10.)	-212,917	-84,221	16,616	-70,484	114,006	59,581
9. Financing from abroad	0	0	0	0	0	0
10. Domestic financing (10.1.+...+10.4.)	-212,917	-84,221	16,616	-70,484	114,006	59,581
10.1. From other general government	-190,000	87,000	92,000	11,000	0	0
10.2. From monetary authorities	0	0	0	0	0	0
10.3. From deposit money banks	-22,917	-171,221	-75,384	-81,484	114,006	59,581
10.4. Other domestic financing	0	0	0	0	0	0



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Appendix 10 | Revenues
and Expenditures of
"Croatian Waters"
(in 000 HRK)

	Outturn					
	1998	1999	2000	2001	2002	2003
I. Total revenues and grants (II.+VII.)	1,376,980	1,338,797	1,448,966	1,403,428	1,485,458	1,544,755
II. Total revenues (III.+VI.)	1,058,598	929,596	1,048,196	1,060,915	1,098,522	1,150,667
III. Current revenues (IV.+V.)	1,058,282	929,294	1,047,932	1,060,666	1,098,292	1,150,333
IV. Tax revenues (1.)	125,077	0	0	0	0	0
1. Other tax revenues	125,077	0	0	0	0	0
V. Nontax revenues (2.+...+4.)	933,205	929,294	1,047,932	1,060,666	1,098,292	1,150,333
2. Income from dividends and interests	6,448	3,412	4,435	5,453	6,085	4,957
3. Administrative fees and charges	838,638	775,235	830,645	929,936	958,174	1,019,925
4. Other nontax revenues	88,119	150,647	212,852	125,277	134,033	125,451
VI. Capital revenues (5.)	316	302	264	249	230	334
5. Sales of shares and public flats	316	302	264	249	230	334
VII. Grants (6.)	318,382	409,201	400,770	342,513	386,936	394,088
6.1. From other levels of national government (6.1.+6.2.)	318,382	409,201	400,770	342,513	386,646	394,088
6.1.1. Current grants	0	252,990	280,845	222,000	220,000	182,000
6.1.2. Capital grants	318,382	156,211	119,925	120,513	166,646	212,088
6.2. From abroad	,	,	,	,	290	,
VIII. Total expenditures and net lending (IX.+XII.)	1,565,308	1,498,418	1,369,810	1,287,690	1,421,405	1,718,110
IX. Total expenditures (X.+XI.)	1,565,308	1,498,418	1,369,810	1,287,690	1,421,405	1,718,110
X. Current expenditures (7.+...+9.)	694,534	722,462	847,455	758,193	852,671	951,727
7. Expenditures on goods and services (7.1.+...+7.3.)	659,578	675,390	794,954	705,346	804,745	914,670
7.1. Wages and salaries	58,323	66,437	73,433	69,574	68,267	75,924
7.2. Employer contributions	11,989	13,637	13,366	11,544	11,506	11,868
7.3. Other purchases of goods and services	589,266	595,316	708,155	624,228	724,972	826,878
8. Interest payments (8.1.+8.2.)	34,956	47,072	52,501	52,847	47,926	37,057
8.1. Domestic payments	34,956	47,072	52,501	52,847	47,926	28,015
8.2. Payments abroad	0	0	0	0	0	9,042
9. Subsidies and other current transfers	0	0	0	0	0	0
XI. Capital expenditures (10.+...+12.)	870,774	775,956	522,355	529,497	568,734	766,383
10. Acquisition of fixed capital assets	465,314	448,826	225,026	200,370	288,951	281,576
11. Acquisition of land and intangible assets	9,171	8,942	5,629	4,022	7,267	9,467
12. Capital transfers to nonfinancial public enterprises	396,289	318,188	291,700	325,105	272,516	475,340
XII. Lending minus repayments	0	0	0	0	0	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	363,748	459,822	481,322	524,473	465,621	380,606
Total deficit(-)/surplus(+) (I.-VIII.)	-188,328	-159,621	79,156	115,738	64,053	-173,355
XIII. Total financing (13.+14.)	188,278	159,621	-79,156	-115,738	-64,053	173,355
13. Financing from abroad	58,607	16,707	-49,810	-55,532	-16,294	-3,710
14. Domestic financing (14.1.+...+14.4.)	129,671	142,914	-29,346	-60,206	-47,759	177,065
14.1. From other general government	12,333	39,901	27,221	15,753	69,006	52,156
14.2. From monetary authorities	0	0	0	0	0	0
14.3. From deposit money banks	117,338	103,013	-56,567	-75,959	-116,765	124,909
14.4. Other domestic financing	0	0	0	0	0	0

Appendix 11 | Revenues
and Expenditures of
Development and
Employment Fund
(in 000 HRK)

	New Plan	Outturn
	2002	2002
I. Total revenues and grants (II.+VII.)	2,823,533	2,718,192
II. Total revenues (III.+VI.)	1,862,012	1,797,771
III. Current revenues (IV.+V.)	0	28
IV. Tax revenues (1.)	0	0
V. Nontax revenues (2.)	0	28
2. Income from dividends and interests	0	28
VI. Capital revenues	1,862,012	1,797,743
VII. Grants (3.)	961,521	920,421
3. From other levels of national government (3.1.+3.2.)	961,521	920,421
3.1. Current grants	910,556	886,368
3.2. Capital grants	50,965	34,053
VIII. Total expenditures and net lending (IX.+XII.)	2,732,533	2,288,055
IX. Total expenditures (X.+XI.)	2,732,533	2,288,055
X. Current expenditures (4.+...+6.)	1,866,081	1,525,050
4. Expenditures on goods and services (4.1.+...+4.3.)	16,150	9,026
4.1. Wages and salaries	0	175
4.2. Employer contributions	0	28
4.3. Other purchases of goods and services	16,150	8,823
5. Interest payments	27,000	27,000
6. Subsidies and other current transfers (6.1.+...+6.4.)	1,822,931	1,489,024
6.1. Subsidies	1,770,501	1,436,594
6.2. Transfers to other levels of Government	2,430	2,430
6.3. Transfers to nonprofit institutions	50,000	50,000
6.4. Transfers to households	0	0
XI. Capital expenditure	866,452	763,005
XII. Lending minus repayments	0	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	-904,560	-604,601
Total deficit(-)/surplus(+) (I.-VIII.)	91,000	430,137
XIII. Total financing (7.+8.)	-91,000	-430,137
7. Financing from abroad	0	0
8. Domestic financing (8.1.+...+8.4.)	-91,000	-430,137
8.1. From other general government	0	0
8.2. From monetary authorities	0	0
8.3. From deposit money banks	0	-339,137
8.4. Other domestic financing	-91,000	-91,000



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Appendix 12 | Revenues
and Expenditures of
Regional Development
Fund
(in 000 HRK)

	New Plan 2002	Outturn 2002
I. Total revenues and grants (II.+VII.)	534,000	502,354
II. Total revenues (III.+VI.)	504,000	500,854
III. Current revenues (IV.+V.)	0	83
IV. Tax revenues (1.)	0	0
V. Nontax revenues (2.)	0	83
2. Income from dividends and interests	0	83
VI. Capital revenues	504,000	500,771
VII. Grants (3.)	30,000	1,500
3. From other levels of national government (3.1.+3.2.)	30,000	1,500
3.1. Current grants	0	1,500
3.2. Capital grants	30,000	0
VIII. Total expenditures and net lending (IX.+XII.)	534,000	501,610
IX. Total expenditures (X.+XI.)	534,000	501,610
X. Current expenditures (4.+...+6.)	257,000	257,604
4. Expenditures on goods and services (4.1.+...+4.3.)	0	604
4.1. Wages and salaries	0	298
4.2. Employer contributions	0	50
4.3. Other purchases of goods and services	0	256
5. Interest payments	0	0
6. Subsidies and other current transfers (6.1.+...+6.4.)	257,000	257,000
6.1. Subsidies	22,000	22,000
6.2. Transfers to other levels of Government	10,000	10,000
6.3. Transfers to nonprofit institutions	225,000	225,000
6.4. Transfers to households	0	0
XI. Capital expenditure	277,000	244,006
XII. Lending minus repayments		0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	-227,000	-256,021
Total deficit(-)/surplus(+) (I.-VIII.)	0	744
XIII. Total financing (7.+8.)	0	-744
7. Financing from abroad	0	0
8. Domestic financing (8.1.+...+8.4.)	0	-744
8.1. From other general government	0	0
8.2. From monetary authorities	0	0
8.3. From deposit money banks	0	-744
8.4. Other domestic financing	0	0

Appendix 13 | Revenues
and Expenditures of
Croatian motorways
(u 000 HRK)

	Ostvarenje		
	2001	2002	2003
I. Total revenues and grants (II.+VII.)	687,587	1,695,972	1,927,787
II. Total revenues (III.+VI.)	687,587	1,695,972	1,927,787
III. Current revenues (IV.+V.)	687,587	1,695,972	1,927,787
IV. Tax revenues	563,528	1,212,445	1,313,743
1. Excises	563,528	1,212,445	1,313,743
V. Nontax revenues (2.)	124,059	483,527	614,044
2. Income from dividends and interests	0	29,173	35,773
3. Other nontax revenues	124,059	454,354	578,271
VI. Capital revenues	0	0	0
VII. Grants (3.)	0	0	0
VIII. Total expenditures and net lending (IX.+XII.)	1,272,993	3,740,528	5,506,580
IX. Total expenditures (X.+XI.)	1,272,993	4,019,775	5,806,169
X. Current expenditures (4.+...+6.)	161,003	458,952	692,490
4. Expenditures on goods and services (4.1.+...+4.3.)	140,221	433,437	569,840
4.1. Wages and salaries	55,105	102,594	140,867
4.2. Employer contributions	8,988	14,851	22,115
4.3. Other purchases of goods and services	76,128	315,992	406,858
5. Interest payments	20,782	25,515	122,650
5.1. Other domestic payments	20,782	12,580	4,168
5.2. Abroad	0	12,935	118,482
6. Subsidies and other current transfers (6.1.+...+6.4.)	0	0	0
XI. Capital expenditure	1,111,990	3,560,823	5,113,679
XII. Lending minus repayments	0	-279,246	-299,589
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	526,584	1,237,020	1,235,297
Total deficit(-)/surplus(+) (I.-VIII.)	-585,406	-2,044,557	-3,578,793
XIII. Total financing (7.+8.)	585,406	2,044,557	3,578,793
7. Financing from abroad	549,454	2,603,618	2,936,081
8. Domestic financing (8.1.+...+8.4.)	39,952	-559,061	642,712
8.1. From other general government	0	0	0
8.2. From monetary authorities	0	0	0
8.3. From deposit money banks	39,952	-559,061	642,712
8.4. Other domestic financing	0	0	0



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Appendix 14 | Revenues
and Expenditures of
Croatian roads
(in 000 HRK)

	Outturn		
	2001	2002	2003
I. Total revenues and grants (II.+VII.)	1,049,108	1,216,117	1,386,945
II. Total revenues (III.+VI.)	116,600	1,216,117	1,386,945
III. Current revenues (IV.+V.)	106,656	1,208,654	1,379,782
IV. Tax revenues	71,638	1,148,682	1,317,361
1. Excises	71,638	1,148,682	1,317,361
V. Nontax revenues (2.)	35,018	59,972	62,421
2. Income from dividends and interests	0	3,745	3,354
3. Other nontax revenues	35,018	56,227	59,067
VI. Capital revenues	9,944	7,463	7,163
VII. Grants (3.)	932,508	0	0
VIII. Total expenditures and net lending (IX.+XII.)	1,143,797	1,159,402	1,578,121
IX. Total expenditures (X.+XI.)	1,143,797	1,160,641	1,578,464
X. Current expenditures (4.+...+6.)	508,466	721,223	638,457
4. Expenditures on goods and services (4.1.+...+4.3.)	508,466	719,349	637,529
4.1. Wages and salaries	43,757	34,461	38,733
4.2. Employer contributions	7,264	5,434	6,304
4.3. Other purchases of goods and services	449,965	679,455	592,492
5. Interest payments	7,480	1,874	928
5.1. Other domestic payments	7,480	1,874	928
5.2. Abroad	0	0	0
6. Subsidies and other current transfers (6.1.+...+6.4.)	0	0	0
XI. Capital expenditure	635,331	439,418	940,007
XII. Lending minus repayments		-1,239	-343
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	530,698	487,431	741,325
Total deficit(-)/surplus(+) (I.-VIII.)	-94,689	56,715	-191,176
XIII. Total financing (7.+8.)	94,689	-56,715	191,176
7. Financing from abroad	140,456	16,099	30,285
8. Domestic financing (8.1.+...+8.4.)	-45,767	-72,813	160,891
8.1. From other general government			
8.2. From monetary authorities			
8.3. From deposit money banks	-45,767	-72,813	160,891
8.4. Other domestic financing			

Appendix 15 | Revenues
and Expenditures of State
Agency for Banks
(u 000 HRK)

	Outturn		
	2001	2002	2003
I. Total revenues and grants (II.+VII.)	599,229	617,914	584,489
II. Total revenues (III.+VI.)	599,229	617,914	584,489
III. Current revenues (IV.+V.)	348,746	617,914	581,931
IV. Tax revenues (1.)	0	0	0
V. Nontax revenues (2.)	348,746	617,914	581,931
2. Income from dividends and interests	68,837	80,637	23,175
3. Other nontax revenue	284,909	537,278	558,756
VI. Capital revenues	250,483	0	2,558
VII. Grants (3.)	0	0	0
VIII. Total expenditures and net lending (IX.+XII.)	1,437,872	606,424	253,824
IX. Total expenditures (X.+XI.)	1,437,872	319,489	253,824
X. Current expenditures (4.+...+6.)	1,437,788	301,665	251,360
4. Expenditures on goods and services (4.1.+...+4.3.)	962,157	31,978	12,025
4.1. Wages and salaries	3,113	3,355	3,507
4.2. Employer contributions	492	577	603
4.3. Other purchases of goods and services	958,552	28,046	7,915
5. Interest payments	200,755	205,819	187,360
5.1. Other domestic payments	200,755	205,819	187,360
5.2. Abroad	0	0	0
6. Subsidies and other current transfers (6.1.+...+6.4.)	274,876	63,868	51,975
6.1. Subsidies	0	0	0
6.2. Transfers to other levels of Government	274,876	0	0
6.3. Transfers to nonprofit institutions	0	0	0
6.4. Transfers to households	0	63,868	51,975
XI. Capital expenditure	84	17,824	2,464
XII. Lending minus repayments	0	286,935	0
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	-1,089,042	316,249	330,571
Total deficit(-)/surplus(+) (I.-VIII.)	-838,643	11,490	330,665
XIII. Total financing (7.+8.)	838,643	-11,490	-330,665
7. Financing from abroad	0	0	0
8. Domestic financing (8.1.+...+8.4.)	838,643	-11,490	-330,665
8.1. From other general government	0	0	0
8.2. From monetary authorities	0	0	0
8.3. From deposit money banks	838,643	-11,490	-330,665
8.4. Other domestic financing	0	0	0



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Appendix 16 | Revenues
and Expenditures of
Croatian Privatization Fund
(in 000 HRK)

	Ostvarenje		
	2001	2002	2003
I. Total revenues and grants (II.+VII.)	285,366	291,966	242,480
II. Total revenues (III.+VI.)	285,366	291,966	242,480
III. Current revenues (IV.+V.)	48,262	188,883	125,991
IV. Tax revenues (1.)	0	0	0
V. Nontax revenues (2.)	48,262	188,883	125,991
2. Income from dividends and interests	33,526	178,011	81,812
3. Other nontax revenue	14,736	10,872	44,179
VI. Capital revenues	237,104	103,083	116,489
VII. Grants (3.)	0	0	0
VIII. Total expenditures and net lending (IX.+XII.)	52,517	247,237	416,487
IX. Total expenditures (X.+XI.)	52,517	123,167	55,463
X. Current expenditures (4.+...+6.)	51,115	120,195	51,685
4. Expenditures on goods and services (4.1.+...+4.3.)	51,115	46,293	51,588
4.1. Wages and salaries	23827	23,812	24,794
4.2. Employer contributions	3,955	3,864	4,148
4.3. Other purchases of goods and services	23,333	18,617	22,646
5. Interest payments	0	73,902	97
5.1. Other domestic payments	0	73,902	97
5.2. Abroad	0	0	
6. Subsidies and other current transfers (6.1.+...+6.4.)	0	0	0
XI. Capital expenditure	1,402	2,972	3,778
XII. Lending minus repayments	0	124,070	361,024
Current deficit(-)/surplus(+) with grants (III.+VII.-X.)	-2,853	68,688	74,306
Total deficit(-)/surplus(+) (I.-VIII.)	232,849	44,728	-174,007
XIII. Total financing (7.+8.)	-232,849	-44,728	174,007
7. Financing from abroad	0	0	0
8. Domestic financing (8.1.+...+8.4.)	-232,849	-44,728	174,007
8.1. From other general government	0	0	0
8.2. From monetary authorities	0	0	0
8.3. From deposit money banks	-232,849	-44,728	174,007
8.4. Other domestic financing	0	0	0

Appendix 17 | Consolidated
General Government
Revenue and Grants
(in mil. HRK)

		Outturn				
		1999	2000	2001*	2002*	2003*
I.	Total revenue and grants (II.+VII.)	75,010	74,620	78,843	82,831	89,959
II.	Total revenue (III.+VI.)	75,003	74,605	78,843	82,830	89,948
III.	Current revenue (IV.+V.)	68,028	70,867	72,777	79,679	85,734
IV.	Tax revenue (1.+...+10.)	62,395	65,049	67,019	72,598	77,673
1.	Taxes on individual income	7,538	7,486	6,445	7,227	7,198
2.	Taxes on corporate income	3,341	2,387	2,789	3,714	4,319
3.	Social security contributions	19,453	20,282	21,529	21,984	23,855
4.	Taxes on property	760	804	661	624	606
5.	General sales tax	388	153	155	513	671
6.	Value added tax	19,830	21,826	23,267	25,952	28,129
7.	Excises	6,161	7,673	8,334	9,835	10,482
8.	Local taxes on goods and services	158	175	140	226	262
9.	Taxes on international trade and transactions	4,288	3,795	3,215	2,051	1,811
10.	Other tax revenues	478	468	484	472	341
V.	Nontax revenues (11.+...+21.)	5,633	5,818	5,758	7,080	8,061
VI.	Capital revenue (22.+...+25.)	6,975	3,738	6,066	3,151	4,214
22.	Sales of fixed capital assets	6,865	3,638	6,022	2,977	4,015
23.	Sales of stocks	0	0	0	0	0
24.	Sales of land and intangible assets	37	51	44	174	199
25.	Capital transfers from nongovernment sources	73	49	0	0	0
VII.	Grants (26.+27.)	7	15	0	1	11
26.	Grants from abroad (26.1.+26.2.)	7	15	0	1	11
26.1.	Current grants	3	12	0	0	11
26.2.	Capital grants	4	3	0	1	0
27.	From other levels of national Government (27.1.+27.2.)	0	0	0	0	0
27.1.	Current grants	0	0	0	0	0
27.2.	Capital grants	0	0	0	0	0



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Note: * new coverage (HAC, HC, DAB and HFP included)

Appendix 18 | Consolidated
General Government
Expenditure and Net
Lending
(in mil. HRK)

	Outturn				
	1999	2000	2001*	2002*	2003*
I. Total expenditures and lending minus repayments (II.+V.)	78,140	82,308	84,064	87,554	95,649
II. Total expenditures (III.+IV.)	76,575	81,036	82,841	86,025	94,167
III. Current expenditures (1.+...+3.)	66,485	73,175	75,404	75,764	81,034
1. Expenditures for goods and services (1.1.+...+1.3.)	34,516	38,599	37,392	37,174	38,980
1.1. Wages and salaries	18,118	19,583	19,274	19,334	21,055
1.2. Employer contributions	0	0	0	0	0
1.3. Other purchases of goods and services	16,398	19,016	18,118	17,840	17,925
2. Interest payments (2.1.+2.2.)	2,356	2,917	3,607	3,755	4,011
3. Subsidies and current transfers (3.1.+...+3.4.)	29,614	31,659	34,405	34,835	38,042
3.1. Subsidies	3,922	4,350	4,015	4,232	4,983
3.2. Transfers to other levels of national Government	0	0	197	167	173
3.3. Transfers to nonprofit institutions and households	24,989	26,780	29,766	29,827	32,217
3.4. Transfers abroad	703	529	427	609	669
IV. Capital expenditures (4.+...+7.)	10,090	7,861	7,437	10,261	13,134
4. Acquisition of fixed capital assets	6,772	4,554	4,296	7,259	10,157
5. Purchases of stocks	0	111	0	0	0
6. Purchases of land and intangible assets	395	637	379	322	247
7. Capital transfers	2,923	2,559	2,762	2,680	2,730
V. Lending minus repayments (8.+9.)	1,565	1,272	1,223	1,528	1,482
8. Domestic net lending	1,554	1,257	1,208	1,515	1,472
9. Net lending abroad	11	15	15	13	10
Current deficit(-)/surplus(+)	1,543	-2,308	-2,627	3,915	4,701
Total deficit(-)/surplus(+)	-3,130	-7,688	-5,221	-4,723	-5,690

Note: * new coverage (HAC, HC, DAB and HFP included)



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